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AND THE CARIBBEAN**

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OF LATIN AMERICA
AND THE CARIBBEAN
1990**

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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 amount 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., 1969/1979.

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.

FIRST PART

**THE LATIN AMERICAN AND CARIBBEAN
ECONOMIES IN 1990**

THE LATIN AMERICAN AND CARIBBEAN ECONOMIES IN 1990

I. MAIN TRENDS

In the midst of great difficulties, Latin America and the Caribbean are still trying to overcome, once and for all, the crisis that has burdened them for almost a decade now. They base their hopes on the results of the sweeping and irreversible structural changes taking place in the countries of the region. The recovery of the driving forces behind their development, however, remains an elusive goal. The burden of the debt overhang and the transfer of resources abroad are still excessive; investment processes are taking a long time to renew themselves; the purchasing power of vast segments of the population is depressed; the countries' fiscal structures remain fragile, and the degrees of freedom for economic policy are limited. Stagnation, inflation and the severe cumulative deterioration of living conditions bear witness to the difficulties with which the processes of structural change are proceeding, the time they will require in order to crystallize and the tremendous obstacles they face. These obstacles are rendered more obstinate by an insufficiency of foreign capital, weak markets for major exports and trade restrictions.

The level of activity in the region remained stagnant in 1990. This reduced the long-term growth rate –between 1980 and 1990– to barely 1.2% a year, and per capita output continued to decline, reaching a level 9% below that of the previous decade.

This result was decisively influenced by the location of inflationary pressures and drastic programmes put into effect to control them, which came to the forefront against a background of external financial constraints. Although most of the countries of the region continued to have positive trade balances, part of the impact of the external debt on the balance of payments took the form of a build-up of arrears in its servicing.

Inflationary processes, the curbing of aggregate demand and fiscal adjustments combined, with few exceptions, to heighten the deterioration of real wages, increase open unemployment and exacerbate under-employment.

The processes of hyperinflation that had begun to emerge in some countries during the previous year were successfully contained through stringent stabilization measures. In several of these countries, monthly inflation rates fell to between 5% and 15%. Despite that fact, the average indicator of inflation in the region –already extremely high– rose considerably. Inflationary pressures also increased in 1990 in the other countries of the region, even in the small, export-oriented economies which traditionally have shown relative price stability.

These pressures, which had already made themselves felt in the first half of the year, heightened as a result of the sudden rise in the international price of oil. The impact of this event on the level of domestic prices in September and October in some cases seriously complicated the stabilization processes that were under way.

Due to the Gulf crisis, disturbances in the world oil market raised the value of the region's net exports during the last months of 1990 by more than US\$4 billion, thus warding off a threatened downturn. The rise in income of the oil-exporting countries, especially Mexico and Venezuela, widely surpassed the rise in costs for petroleum imports, which had to be borne mainly by Brazil, Chile and the small non-oil-exporting countries. Thus, the region's exports of goods rose to US\$122 billion. However, since the value of imports was already showing a clear rising trend before the events that disturbed the oil market, the merchandise trade surplus of Latin

Figure 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

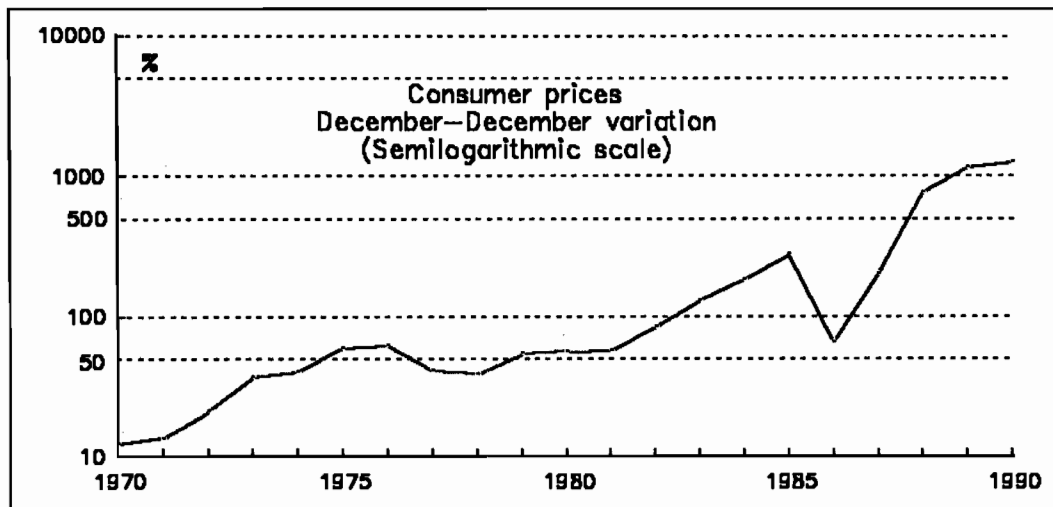
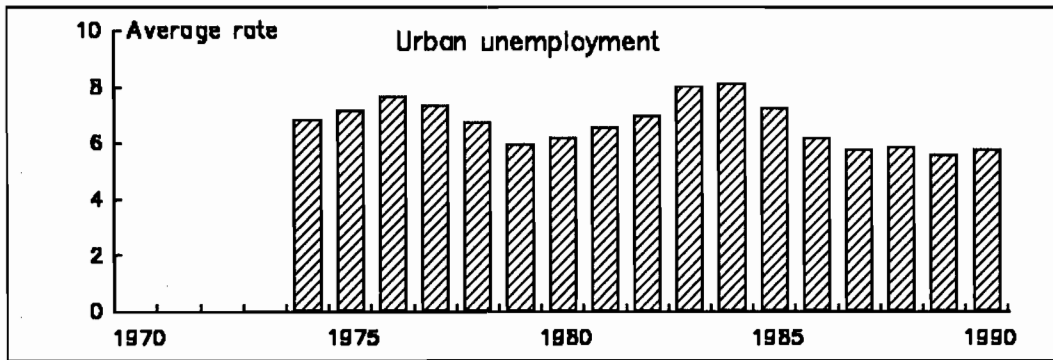
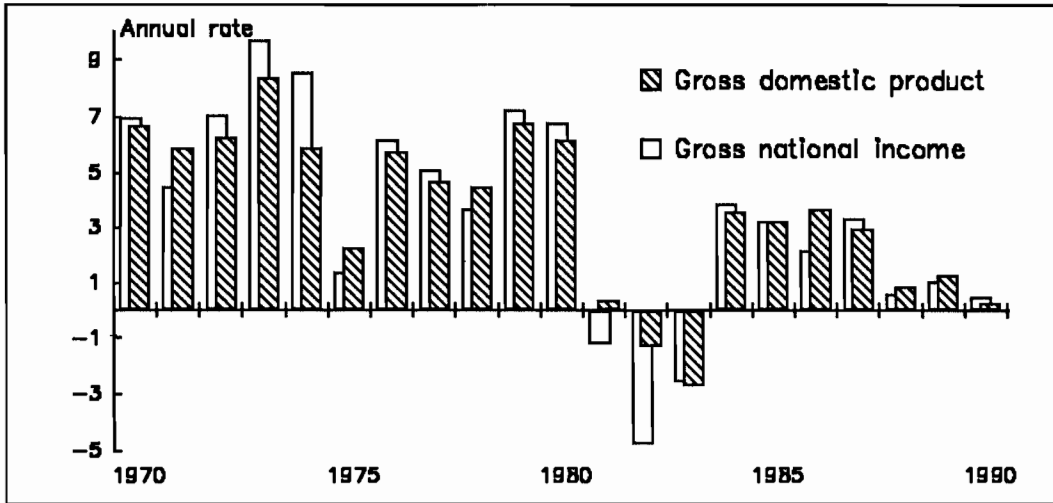
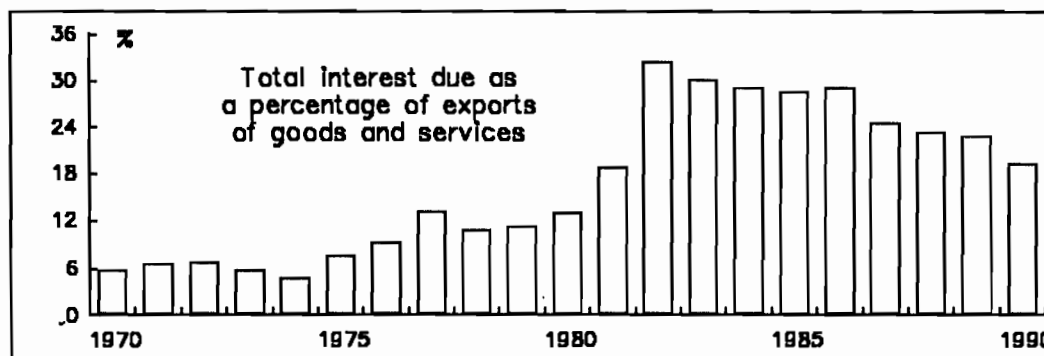
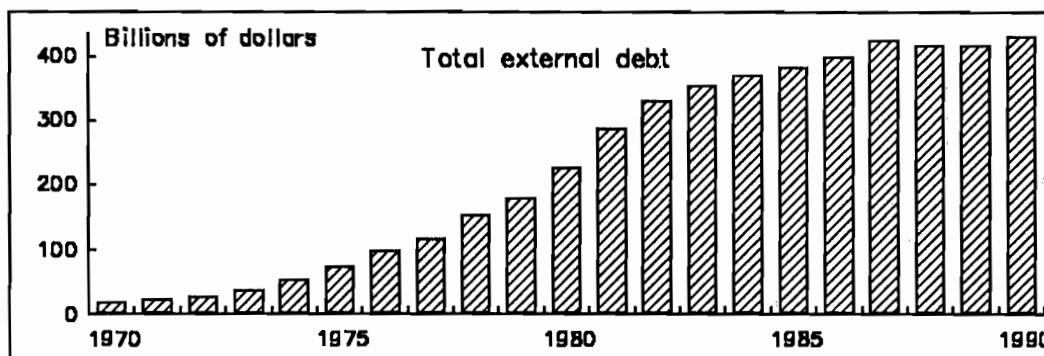
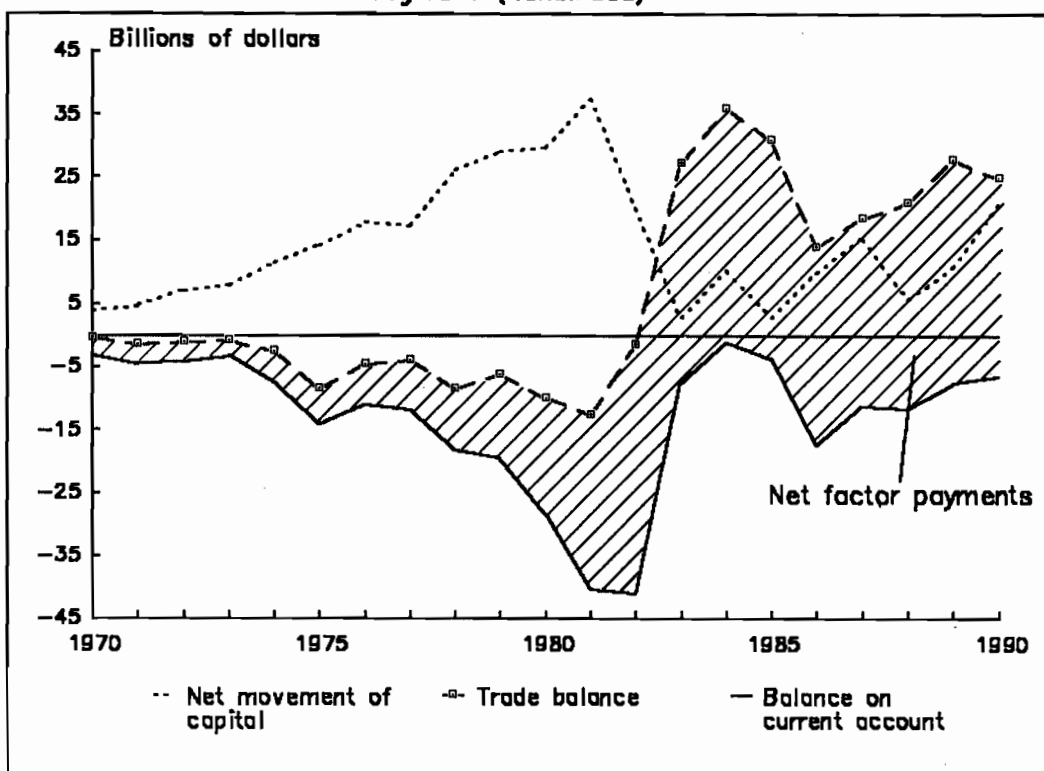


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

America and the Caribbean fell somewhat, to around US\$28.6 billion.

The persistence of large trade surpluses is the other aspect of the serious cause for concern about the functioning and development prospects of the region's economies. Indeed, those surpluses are mostly used to finance the continued transfer of resources to international financial markets. The net transfer of resources abroad declined in 1990, although it remains excessively high (close to US\$16 billion). The reduced net outflow was mostly due to direct investments and short-term capital attracted by a few countries, and to the decline in international interest rates. But it also stems from the fact that arrears on the external debt service of many countries of the region rose in comparison to the previous year. In fact, the net transfer of the region's financial resources would be considerably greater were it not for these arrears, into which most countries have fallen. Arrears-based financing no doubt introduces serious elements of uncertainty in the macroeconomic policy environment, but it is the path that a large number of countries have been obliged to take. It has been impossible for them to service the debt fully, in view of the destabilizing effects that such a policy would produce on their fragile public finances and tight monetary markets, or on their already insufficient inflows of foreign exchange.

The net outward flow of financial resources to which Latin America and the Caribbean have been subjected for almost a decade imposes a two-fold requirement on these economies: to generate permanently large trade surpluses and to create fiscal surpluses to allow them to meet the financial burden of the public external debt. The required trade surpluses have been produced, either through contraction of the level of economic activity or through efforts to expand exports. It has been more difficult to achieve the fiscal adjustments needed to provide States with enough resources beyond their immediate budgetary requirements.

Most of the nations of the region are presently carrying out or consolidating large-scale fiscal adjustments, which involve a profound reorganization of their public structures. Between 1989 and 1990, a considerable number of countries made adjustments in their fiscal

deficits which represented several percentage points of their gross domestic product (GDP). Even though an enormous effort was made, hidden inflationary pressures persist in those cases where macroeconomic stability is resting on shaky ground. This occurs where the financial burden of external and domestic debt on public finances is excessive, and where difficulties exist in covering it by taxing private resources; where there is a recession in economic activity; where the impact of the monetization of huge foreign-exchange surpluses is being felt; or where underlying distortions exist in domestic relative prices.

Generally speaking, it can be said that the countries whose Governments can directly tap domestic resources to finance the transfer abroad (as for example in cases where the State owns major export-oriented activities such as oil production or mining) have advanced more rapidly in the fiscal adjustments required for servicing the external debt. In the countries where that is not the case, however, fiscal adjustment has become much more difficult, since the Government cannot obtain enough domestic resources to acquire the foreign-exchange surplus to be transferred abroad.

Some economies of the region have clearly made more progress than others towards the consolidation of their structural reforms and are on a better footing to initiate sustained growth. It should be noted, however, that current transformation processes, which are aimed at promoting patterns of growth based on a more open and competitive participation in the world economy, are particularly vulnerable at this point, where a number of different factors could undermine the advances that have cost so much to achieve, including a recession in the industrial countries, protectionist pressures, the persistence of the problem of the debt overhang or sudden disturbances in external markets.

Even worse, for many countries of the region, the consolidation of structural changes, the achievement of economic recovery and social progress may seem to be only far-away illusions. Thus, if the public sectors of those countries cannot manage to stabilize their finances to support their social and development policies; if businessmen do not find enough room, in

international markets or at home as a result of domestic recovery, to display their initiative and investment capacity; and if workers do not feel that improvements are being made in their standards of living to make up for the already high social cost of adjustment, then the prolongation of the crisis will delay the achievement of these development goals still further.

In 1990, the gross domestic product of the region as a whole grew slightly in relation to 1989 (0.3%), a year when it had grown by only 1.3%. This caused per capita GDP to decline for the third year running, this time by 1.7%, thus falling back to the levels recorded in both 1977 and 1983.

Two factors were particularly influential in that overall result: the recessions experienced by the four economies which have been suffering from severe macroeconomic instability over the last few years, and the demand-curbing policies applied by other countries in their efforts to control inflationary pressures. The level of activity continued to contract in Nicaragua (-4.4%) and Peru (-4.9%), and entered a recession in Brazil (-4%). Barbados, Guyana, Haiti, Honduras and the Dominican Republic also recorded drops in their output. Elsewhere, the growth rate slowed down (by 2% to 3%) in Bolivia, Chile, Guatemala and Paraguay, as well as in Costa Rica (with a rate of 3.6%) and Jamaica (3.8%). The level of activity recovered only slightly in Argentina (0.4%) and showed modest growth (around 1%) in the economies of Cuba, Trinidad and Tobago and Uruguay. The only counterweights to these performances, which held back regional growth, were the economic trends of the oil-exporting countries that maintained their growth rates such as Colombia (4.1%) and Mexico (3.9%) or that recovered from the recessions of the year before such as Ecuador (1.7%) and Venezuela (5.8%).

The sluggishness of economic activity led to a drop in per capita GDP in 15 countries and its virtual stagnation in five others. On the other hand, Colombia, Costa Rica, Mexico, El Salvador, Jamaica, Panama, Venezuela and the countries of the Organization of Eastern Caribbean States (OECS) registered increases in per capita GDP of 1% or more. In the cases of El Salvador, Panama and Venezuela, the figure only

represented a recovery of the ground lost during the previous year.

This poor performance of the economy of Latin America and the Caribbean was also reflected in a virtual stagnation of the domestic availability of goods and services and in the slight increase in total supply, all of which led to a persistence of the situation that has characterized the regional panorama since 1988 and which continues to deteriorate levels of well-being.

Domestic demand stagnated, on the one hand, because of a decline in gross capital formation (-0.3%), which prolonged the severe shrinkage observed throughout the 1980s, and on the other hand, because of the low growth of consumption (0.4%), which slowed down once again after having recovered slightly the year before.

Those countries that were in economic recessions continued to feel the effects of sharp upswings in inflation and of the stabilization measures applied in order to control them. Cases in which growth rates declined were also, however, related to programmes that were already being implemented or that were launched in 1990 in an attempt to achieve macroeconomic stability. In fact, by the end of the year the great majority of the countries of the region were subject to severe controls on aggregate demand, which in some cases has been held down to extremely depressed levels.

The countries of the region are either making enormous fiscal adjustments or are consolidating those carried out in earlier years, and as part of this effort they are taking thorough-going steps to accomplish the difficult task of restructuring their public sectors. Between 1989 and 1990 a large number of countries made adjustments in their public accounts in an order of magnitude ranging from 3% to 8% of GDP. Especially notable in 1990 were the efforts made by Brazil and Ecuador, which transformed heavy deficits into operational surpluses; by Argentina, Peru and Uruguay, which slashed their fiscal deficits; and by Bolivia, Colombia, Guatemala, Mexico and Venezuela, which struggled to hold their deficits down to the levels they had achieved earlier, while in Chile, the non-financial public sector continued to record a surplus.

The scale of these fiscal adjustments was partially determined by the extent to which the enormous burden of external debt service had

pushed public accounts out of balance. In many cases the adjustments now under way have, despite their magnitude, done nothing more than restore a limited capacity to service the public external debt. The weight of the external debt also led, in some instances, to the accumulation of public domestic debt in various forms. This has not only placed an additional burden on the public accounts, but has also made it difficult to manage liquidity in a way that would be supportive of stabilization efforts. Hence, in certain cases it has become necessary to undertake drastic financial reforms in order to reestablish some manoeuvring room for monetary policy.

The build-up of inflationary pressures was a widespread phenomenon in 1990. While the rate of price increases skyrocketed in those economies where inflation is chronically high, most of the other countries of the region saw their inflation speed up, reaching rates of between 27% and 60%. Thus, the average regional rise in consumer prices, weighted by population, reached a historical high of around 1 300% a year.

Almost all of the economies in which high inflation is a chronic problem were bordering on hyperinflation during the first half of 1990. Monthly rates of consumer price increases peaked at 96% in Argentina and 84% in Brazil (both in March), 126% in Nicaragua (in May) and 397% in Peru (in August) (in the last case, the figure includes the effect of liberalization measures adopted at the beginning of the month). These episodes were the outcome, *inter alia*, of accelerating inflationary trends which were in turn the result of the inability to contain the public deficit (which was exacerbated, in some cases, by the financial burden of the domestic debt) and uncertainty as to the future course of the economy, which in turn sparked a rush to convert assets into hard currencies. By the end of the year, when stabilization measures had already been in place for several months, the 12-month rate of price increases was 1 300% in Argentina, almost 1 800% in Brazil, 13 500% in Nicaragua and 7 600% in Peru. Uruguay did not see inflationary spirals of this magnitude, but the rate of price increases did continue to climb, reaching a peak annual level of 130%.

In those countries which have recently been experiencing high inflation and are implementing stabilization programmes, the rate of price increases remained high, ranging between 30% and 75% annually. In Mexico, an outbreak of inflation raised the annual rate to 30%. The situation was the opposite in Venezuela, where, thanks to the stabilization programme launched the year before, inflation slowed, although the 12-month rate was still over 36%. Ecuador and the Dominican Republic once again registered high rates of inflation. However, whereas the rate was brought down slightly (to 50% annually) in Ecuador, in the Dominican Republic an inflationary surge pushed the annual rate of price increases to a record high of 100%.

Mounting inflationary pressures were also observed in countries which had moderate rates of inflation for a number of years. The annual variation in prices climbed from 26% to 32% in Colombia, from 10% to 27% in Costa Rica, from 21% to 27% in Chile, from 20% to 61% in Guatemala, from 11% to 35% in Honduras, and from 29% to 44% in Paraguay.

The severe recessions experienced by the high-inflation economies had a negative impact on their levels of employment, while the slow-down of growth in other economies of the region prevented employment from expanding more. Wages, also affected in some cases by the acceleration of inflation, continued to decline in most countries. Unemployment increased in almost all the countries, except Argentina and Bolivia, and the weighted average rate of unemployment in urban centres was higher than that of the previous year.

In 1990 the external sector did not act as a constraint on most countries in terms of their effective import capacity, inasmuch as they maintained or expanded their exports, deferred the service on their external debt or received an inflow of capital. Indeed, in some cases the demand for imports remained depressed either because the country was in a recession or because steps had been taken to check the expansion of aggregate demand. In these instances, inflationary trends or domestic adjustments were the main factors bringing about a recession, or a stagnation, of economic activity. Nonetheless, the backdrop for these trends and adjustments was still, in many cases, the external constraint

represented by an import capacity that continues to be restricted by an outward transfer of resources and the instability of short-term capital flows.

In 1990 only a slight decrease was witnessed in the large trade surplus which the region as a whole has maintained since the onset of the crisis. This reduction was limited, owing to the favourable influence, in net terms, exerted during the latter part of the year by trends in the world oil market arising out of the problems in the Gulf.

The sudden, sharp rise in oil prices on the international market, beginning in August, had far-reaching implications for Latin America and the Caribbean. For the region as a whole, in the short term each one-dollar rise in the price of petroleum causes an increase of US\$106 million in the value of its monthly exports and of nearly US\$38 million in the value of its imports.

The value of regional exports in 1990 has risen by US\$5.1 billion, owing to the effect of the higher oil prices recorded as from August, and, to a lesser extent, to increases in export volumes. Venezuela and Mexico have been the principal beneficiaries; the price increase has brought them an additional US\$3.9 billion and US\$2 billion, respectively. In the cases of Colombia and Ecuador, additional income from higher oil prices has been in the neighbourhood of US\$400 million and US\$200 million respectively. The strong rise recorded in Venezuela included an increase in its shipments of more than US\$1 billion.

The crisis in the world oil market also contributed to increasing the value of regional imports by US\$2 billion. Of this total, US\$1.4 billion corresponded to Brazil, US\$280 million to Chile, US\$100 million to the Dominican Republic and US\$200 million to the Central American countries. Although all the oil-importing countries were affected, Nicaragua, Panama, Dominican Republic, Chile, Haiti, Paraguay, Costa Rica, Guatemala, El Salvador and Honduras –in that order– suffered the worst effects in relative terms, owing to the ratio of the value of their oil imports to their gross domestic product.

Given the net positive effects of the situation in the world oil market, the value of merchandise exports from Latin America and the Caribbean rose by almost 10%. Nevertheless, that was less

than the rate of previous years, which had reached an average annual rate of 12% between 1987 and 1989.

In the oil-exporting countries, the expansion of merchandise exports (by almost US\$10 billion) was accompanied by a reduction of US\$1.1 billion in net outflows of profits and interest payments and a US\$2 billion increase in net inflow of capital. Thus their capacity to import, or to accumulate reserves, was increased by some US\$13 billion, an amount equivalent to 32% of the value of their imports the year before.

On the other hand, the value of exports of the non-oil-exporting countries expanded slightly (0.4%), which was essentially due to the contraction recorded in Brazil (-9%), since the exports of the rest of the countries expanded, in several cases by significant proportions. Also, since profit remittances and outstanding interest payments dropped by almost 9%, their ratio to merchandise exports declined from 35% to 32%.

The value of the imports of Latin America and the Caribbean continued to rise, this time by 14%, reaching a total of almost US\$93 billion. More than half of the increase corresponded to Mexico's imports, but in almost all the other countries, the value of imports rose significantly. That reduced the merchandise trade surplus from US\$29.6 billion to US\$28.6 billion. As this reduction was less than the drop recorded in the outflow of profit remittances and interest payments, the surplus in merchandise trade represented 83% of those outflows, as opposed to 76% the year before.

Flows of profit remittances and interest payments from the countries of the region were reduced by more than US\$3 billion, due to the combined effect of lower international interest rates and debt reductions secured by some countries with their creditor banks. On the other hand, since the merchandise trade surplus declined only slightly, the current-account deficit was reduced to less than US\$5 billion.

That deficit was financed through a net capital inflow of US\$18 billion, double the amount of the previous year. The greater part of the increase in the net inflow of capital to the region was attributable to new inflows into Chile and Mexico, as well as the re-entry of short-term private capital to Argentina, Panama and Peru. In Venezuela, on the other hand, the net outflow of

capital increased significantly. A considerable part of the greater net inflow of capital, however, should be attributed to the increase in the amount of arrears which the countries of the region were forced to incur in their external debt servicing in 1990.

Since the net inflow of capital was much greater than the deficit on current account, the reserves of the countries of the region continued to recover, this time by almost US\$13 billion. On the other hand, the increase in the net inflow of capital –coupled with the marginal drop in outflows of profit remittances and interest payments– helped to significantly reduce the net transfer of resources abroad to US\$16.4 billion. Similar declines also took place in the oil-exporting countries, where the transfer still represents 10% of the value of their exports of goods and services, as well as in the non-oil-exporting countries, where the transfer continues to represent 12% of such exports.

The region's nominal external debt rose to US\$435 billion in 1990, after having dropped slightly the year before. The factor which contributed most to the increase in the debt was that most of the countries could not meet their servicing obligations, so that arrears amounting to US\$11 billion were incurred. Other contributing factors included the devaluation of the dollar (raising that part of the debt which is denominated in other currencies) and the fact that a few countries which were able to project an

image of solvency had access to considerable amounts of voluntary capital. Less important were contractionary factors, among them various kinds of operations to reduce the debt and eliminate short-term lines of credit in some countries.

For the region as a whole, the debt/exports ratio declined slightly, to 284%. The interest/exports ratio fell more significantly from 29% to 25%. Even so, this was still high, and far above the levels normally considered acceptable.

In 1990, the fifth round of renegotiations of the external debt continued between the countries of Latin America and the Caribbean and the private banks, mostly within the general context set up by the Brady Plan. Four agreements to reduce the debt were implemented or agreed to in principle –with Mexico, Costa Rica, Venezuela and Uruguay. Chile and Jamaica, in turn, signed more conventional agreements to reschedule their debts. Also, seven official bilateral debt rescheduling exercises were carried out in the framework of the Club of Paris, some of which included new and more favourable terms. Problems of arrears persisted with respect to debt with the multilateral agencies, although in some cases new mechanisms were applied to regularize payments. Even so, international debt strategy continued to show serious deficiencies regarding its final objective of eliminating the problem of debt overhang.

Table 1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS^a

	1983	1984	1985	1986	1987	1988	1989	1990 ^b
Indexes (1980=100)								
Gross domestic product at market prices	96.1	99.7	103.3	106.8	110.0	111.0	112.5	112.8
Gross national income	90.6	94.3	97.5	99.7	103.0	103.6	104.8	105.2
Population (millions of inhabitants)	373.1	381.4	389.8	398.2	406.8	415.4	424.1	432.8
Per capita gross domestic product	89.9	91.1	92.4	93.5	94.3	93.2	92.5	90.9
Per capita gross national income	84.7	86.2	87.2	87.2	88.2	86.9	86.0	84.7
Annual growth rates								
Gross domestic product	-2.9	3.7	3.6	3.4	3.0	1.0	1.3	0.3
Per capita gross domestic product	-5.0	1.4	1.4	1.2	0.8	-1.1	-0.8	-1.8
Per capita gross national income	-5.3	1.8	1.2	0.0	1.2	-1.5	-1.0	-1.6
Urban unemployment rate ^c	8.1	8.2	7.3	6.2	5.8	5.9	5.6	5.8
Consumer prices ^d	130.8	184.8	274.7	64.5	198.3	759.4	1 157.6	1 260.1
Terms of trade (goods and services)	-1.1	4.7	-4.7	-10.7	-0.3	1.0	0.4	-0.5
Current value of exports of goods and services	-0.6	11.1	-4.6	-12.8	14.0	13.8	11.0	10.3
Current value of imports of goods and services	-28.2	3.7	-0.5	3.9	10.7	13.9	6.7	15.5
Billions of dollars								
Exports of goods and services	102.4	113.8	108.6	94.7	108.0	122.8	136.3	150.3
Imports of goods and services	75.3	78.1	77.7	80.8	89.4	101.9	108.6	125.4
Trade balance (goods and services)	27.1	35.7	30.9	13.9	18.5	20.9	27.6	24.9
Net payment of profits and interest	34.6	37.3	35.3	32.5	31.3	34.3	37.3	34.2
Balance on current account	-7.3	-1.0	-3.6	-17.4	-11.1	-11.5	-6.0	-4.7
Net capital inflow	2.8	10.2	3.0	10.0	15.4	5.9	9.3	18.0
Balance-of-payments position	-4.5	9.2	-0.6	-7.4	4.3	-5.7	3.3	13.3
Total disbursed external debt	356.7	373.5	385.1	401.0	427.6	420.9	419.7	434.8

Source: ECLAC, on the basis of official figures.

^a The figures given for the gross domestic product and the population correspond to the countries appearing in table 9 (except Cuba), while those given for consumer prices refer to the countries listed in table 11. The data concerning gross national income and the external sector correspond to the countries shown in table 30. ^b Preliminary figures. ^c Weighted average annual rate for 18 of the 25 largest cities in Latin America. ^d December-to-December variation.

II. LEVEL OF ACTIVITY¹

In 1990 the large majority of the economies of Latin America and the Caribbean were subject to austere internal adjustment processes. For that reason, the performance of the region remained virtually stagnant during the year, and the negative effects on employment and living conditions produced by the sluggishness of the preceding two years increased (see table 2). Per capita product declined once again, by 2%, falling back to its level in 1983, which was itself 10% lower than that recorded in 1980. The modest post-crisis recovery was thus lost (see table 3).

Gross domestic product fell in a considerable number of countries, dropping for the third consecutive year in Peru (-4.9%) and Guyana (-6.9%), and for the seventh year running in Nicaragua (-4%). Declines were also recorded in Brazil (-4.0%), the Dominican Republic (-4.8%), Barbados (-3.1%), Haiti (-0.7%) and Honduras (-2.3%). In another group of countries, economic growth was slower than it had been the preceding year. The most notable case was that of Chile, whose economy grew by only 2.0% after having attained a rate of 10% in 1989; less marked but still significant slow-downs were also observed in Costa Rica, Guatemala, Jamaica and Paraguay. Thus, economies representing around 60% of the regional product experienced negative or slower growth, while Colombia, El Salvador and Mexico increased their growth; Ecuador, Panama, Trinidad and Tobago and Venezuela recovered totally or partially from previous slumps, and Argentina showed a slight rise (0.4%) after two years of decline. Finally, Bolivia, Cuba and Uruguay continued to increase their GDP at the

same modest rates as in previous years (see table 2).

The region's high demographic rates transform the above-mentioned growth rates into poor or negative results in terms of per capita product. Thus, half the countries recorded declines in this indicator of well-being; among the other half, the most growth was shown by Colombia, Mexico and Panama but with increases of only around 2%, and by Venezuela whose rate rose by more than 3%. The poor performance of most of the economies of the region during the 1980s was responsible for the fact that only a small number of countries in 1990 attained per capita product levels above those of 1980. Those countries include Cuba (31% (refers to the total social product)), Colombia (17%) and Chile (12%), while Paraguay returned to practically the same level at which it had stood in 1980. At the other end of the scale, the largest drops in per capita product during the period were recorded in Nicaragua (-40%), Peru (-28%), Bolivia (-25%), Argentina (-22%), Venezuela (-21%), Haiti (-20%), Guatemala (-18%), Honduras (-16%), Panama (-16%) and El Salvador (-15%) (see table 3).

In Argentina, as in the previous year, production contracted as a result of the instability caused by a new episode of hyperinflation recovering once that phenomenon had been dealt with. The result was that GDP grew by only 0.4%, after two years of pronounced decline. Exports were once again the only component of the aggregate demand to show growth in spite of the rapid rise in the real value of the currency from March; that growth was due to the increase in the agricultural supply and the orientation of some

¹This section and the subsequent four sections deal with only the Latin American countries (Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela). Caribbean countries other than those contained in that list are discussed in a later section.

branches of industry towards the exterior. Investment, on the other hand, plummeted again (-14%), bringing the cumulative drop over the past three years to over 50%. Hence, the investment ratio in 1990 was much lower than it had been 10 years earlier and was probably not high enough to cover amortization payments on installations and equipment. As for consumption, it contracted by somewhat more than 2%. The rise in the agricultural product was due to the increase in the areas planted and to favourable weather conditions, the result being high yields for the main crops. The growth shown by manufacturing, on the other hand, declined for the fourth year running, this time by close to 5%. As in the previous year, its growth was irregular. During the first quarter the sector's output was adversely affected by the impact had on domestic demand by the conversion of deposits in the financial system into external bonds, the resurgence of inflation in February and the new attempt at stabilization made in March. In the months which followed efforts were made to bring the level of activity back to normal; in spite of the low levels of output, some signs of reactivation were observed. Towards the end of the year, domestic demand for industrial commodities was greater than at the beginning of the period, and exports of manufactures continued at the same rate in spite of the sharp drop in the real exchange rate. Construction declined for the third consecutive year, and its product was reduced to half the level achieved in 1987 (see tables 4 and 5).

In Brazil, the application of a strict stabilization programme from March on, which involved the freezing of two thirds of the country's financial assets, led to a slump of 4% in its GDP. Production was affected by the economic measures and showed a sharp reduction in growth in April, followed by a brief period of adjustment to the new conditions. Although the economy began to recover slightly in the middle of the year, the restrictive monetary policy adopted to combat the resurgence of inflation kept production levels down. A decline in real wages greatly affected the levels of domestic demand. Enterprises which had accumulated stocks prior to March had to sell them off in order to meet their financial needs, to the detriment of production. At the same time,

fixed-capital formation suffered a drastic contraction (-8%), being cut to the bare minimum in the public sector, while private investment was paralyzed by high interest rates and unfavourable expectations with regard to recovery. The situation in the area of effective demand had its greatest impact in the area of construction and industries producing durable consumer goods, especially automobiles, and capital goods, which weigh heavily in the manufacturing product. In addition, the overvaluation of the national currency during much of the year discouraged exports of manufactures, which were also affected by strikes in the iron and steel and automotive industries and by difficulties in obtaining lines of credit. All those factors were responsible for a decline in manufacturing output of almost 9%. Agricultural production also fell (-3.7%) as did construction (-8%), while the product of the services sector stagnated.

In Peru, domestic demand, which had been persistently low since 1989, fell even lower owing to the initiation of the adjustment programme in August, causing the gross domestic product to decline for the third year running, this time by 4.9%, bringing the cumulative contraction for the triennium to 23%. In the first two quarters, a slight recovery was observed in relation to the extremely low indexes of 1989. This was due to the granting of foreign exchange subsidies in respect of inputs and to some degree of recovery by real wages. However, total production in the third quarter was 18% lower than the same period the preceding year, since the impact of the adjustment programme on domestic demand was so great that economic activity was virtually paralyzed during the first month it was in effect. The wage freeze from October on kept domestic demand depressed so that manufacturing for the domestic market suffered a considerable set-back. The public-sector product fell by 20% during the second half of the year in relation to its performance during the first six months. Agricultural production declined again, this time significantly (-8.6%), owing to a drought, a steep rise in the price of inputs and limited access to farm credit. Growth of the fishery subsector declined because of limits established to conserve ocean resources, while mining

production was affected by labour disputes and subversive activity.

In Colombia, GDP increased again, this time by 4.1%, in spite of the violence unleashed by drug traffickers and guerrillas. Growth in 1990 was mainly attributable to external demand since domestic demand increased only slightly. The physical volume of exports increased by 17%, thanks to the contribution made by some non-traditional products and by mining and coffee. Problems relating to public order discouraged national and foreign investment so that gross capital formation declined again, while the growth rate of private consumption fell to 2.4% owing to the drop in real wages. As in the previous year, mining was the most dynamic sector, thanks to increases in the production of coal, iron and nickel and of petroleum in spite of frequent attacks on pipelines and petroleum installations. Agricultural activity grew by 6.7% –a higher rate than in 1989– thanks especially to coffee production, which recovered after the sharp decline the year before. The industrial product increased by 6.6% –more than double the rate recorded the previous year–, owing to the excellent performance by exports of manufactures. Construction had its worse year in a long time, recording a drop of 6.7%, for which a halt in the building of low-cost housing was partly to blame (see tables 4 and 5).

Mexico's growth (3.9%) was higher than that of the preceding year, owing to the significant expansion of aggregate demand (6%), in which a marked increase (over 13%) in gross fixed capital formation played a leading role. This behaviour on the part of investment –largely foreign investment– was due to the modernization of the production apparatus in order to increase productivity and competitiveness in a context of liberalized foreign trade and a lower real exchange rate. This modernization process benefited from the application of lower interest rates and economic deregulation. Not only did investments increase, but exports, particularly non-petroleum exports, and private consumption expanded, which gave impetus to the growth of aggregate demand. However, part of this expanded demand shifted to imports, which increased by 21%, reaching a level twice as high as that recorded three years previously. The reduction in the transfer of resources to the

exterior gave economic policy more room to manoeuvre, which no doubt lightened the impact of the adjustment programme on consumer demand and the industrial activities related to it. In spite of the insufficiency of installed capacity in certain sectors producing intermediate goods and the effects of the liberalization of trade, industrial output grew by 5%. Although this rate was somewhat lower than that recorded the previous year, industrial growth was characterized by a marked increase in the second half of the year. In-bond assembly plants showed notable growth, increasing their generation of foreign currency by 25%. Construction continued the recovery begun the year before and grew by nearly 8%, thanks to investments in infrastructure and industrial installations. As for agriculture, after two years of decline it expanded moderately owing to better weather conditions but still did not achieve the levels reached in 1987. Mining and the production of petroleum also grew, although the petroleum industry lacked the production capacity it needed in order to take better advantage of the sudden growth of its markets due to events in the Persian Gulf.

Economic activity in Chile slowed down considerably with respect to the growth shown in past years. GDP grew by 2% in the framework of an economic adjustment programme designed to discourage the overexpansion of consumption and thereby reduce the inflationary pressures observed towards the end of 1989. The new Government established a restrictive monetary policy by raising the real interest rate, which quickly slowed down the expansion of consumer demand. The combination of a gradual deceleration of domestic prices and a shrinking money supply prolonged the recessive tendencies shown by the economy, which showed signs of reactivation only towards the end of the year. In this setting, manufacturing stagnated, after having grown by 12% in 1989. Construction also declined sharply, and mining slumped. Fisheries also fell, experiencing a drop of more than 7%, owing to depletion of the resources exploited, while transport, communications and storage continued to show vigorous growth. As regards aggregate demand, although private consumption ceased to grow because of the restrictive monetary policy and stocks decreased, gross fixed investment rose by

7%, bringing the rate of investment close to 18% of GDP, that rate being largely attributable to foreign investors. Exports too remained highly dynamic thanks to non-traditional products (see tables 4 and 5).

Bolivia's gross domestic product again recorded a modest rise, which amounted to 2.6%. This rate was just about equal to the average rate of growth for the years since 1987, when the stabilization programme was put into effect. This performance was partly the result of a decline (-6%) in investment, which has been seriously depressed in recent years, showing a cumulative decrease of 28% since 1980 as reflected in a gross capital formation/GDP ratio of barely 11%. Mining and, to a lesser extent, manufacturing remained the most dynamic production sectors, while construction's contribution to growth declined significantly. The increase of sales to neighbouring countries whose economies were subject to tremendous exchange adjustments, also contributed to the growth of Bolivia's GDP. The agricultural sector recorded a new decline owing to the effects of a prolonged drought in some areas and flooding in others. Although mining was the sector showing the most growth, with a cumulative rate of close to 50% for the period 1988-1990, its output still continued to fall short of the figures obtained early in the 1980s.

Uruguay's gross domestic product grew by only 0.8%, causing its per capita product to remain virtually the same and completing a three-year no-growth period. This situation was largely the result of persistently high transfers of resources to the exterior, an indicator which bordered on 4% of GDP during the triennium in question. A further rise in the physical volume of exports was offset by a drop in domestic demand. The improved competitiveness of Argentina and Brazil, due to the re-evaluation of their respective currencies against the dollar, increased merchandise exports to Brazil and purchases made by tourists from both these neighbouring countries, rapidly reversing the situation in that regard in 1989. On the other hand, the instability of the neighbouring economies and the acceleration of inflation at home affected domestic demand. In circumstances of great uncertainty, gross fixed investment dropped by 4%, causing the gross capital formation/GDP ratio, which had been very low for a number of

years, to fall to under 10%. In addition, a drop in the real wage and a restrictive public spending policy did much to contain private consumption and government expenditure, both current and capital. Manufacturing, construction and commerce were the sectors most affected by the drop in domestic demand. Growth of the fisheries subsector also contracted, owing to a reduction in the biomass exploited and to labour disputes. The remaining sectors compensated for these declines. Financial and personal services, in particular, continued to account for a large share of GDP.

In Venezuela economic activity recovered significantly after the drop experienced in 1989 when a strict adjustment programme was put into effect. The growth achieved (5.8%) was due both to the strong surge in petroleum production after the outbreak of the Persian Gulf crisis and to increased public spending. In keeping with the objective of the Organization of Petroleum Exporting Countries (OPEC) to offset any slack in the world crude oil supply brought on by the Gulf crisis, in September Venezuela began to increase its production gradually. In addition, the non-petroleum component of the economy also revived, especially where tradeable goods were concerned, attaining a growth rate of 3%. Private-sector manufacturing and construction were the branches which recorded the fullest recovery from the decline experienced the previous year, although they still remained below the levels achieved in 1988. Public investment was the main driving force behind domestic demand, expanding by 20% to levels close to those recorded before the recession in spite of a delay in the adoption and application of the Central Government's additional investments plan. The outlays made by the petroleum industry on construction projects and capital goods were of key importance. Private consumption also showed signs of reviving.

In Ecuador the gross domestic product grew by 1.7%, after virtually stagnating in 1989. The oil crisis in the Middle East did not have a significant effect on the extraction of hydrocarbons owing to problems related to production and storage capacity. Agriculture grew by almost 3% thanks to a tremendous increase in export commodities (bananas, coffee and cocoa), while crops for domestic

consumption fell owing to adverse weather conditions, including drought and frost during the first months of the year. The cultivation of shrimps encountered problems caused by insufficient larvae and the presence of bacteria which affected their development. The limited recovery of the growth of industry and construction can be attributed to the continuation of the adjustment and stabilization programme initiated the preceding year, which has contained consumer demand. Construction was also affected by constraints on public investment.

In Paraguay the slowing of growth to 3%, after the rate of 6% reached the year before, was due to a minimal increase in agricultural production, harvests having declined as a result of excessive rainfall and to a reduction in industrial growth under the impact of a decline in the real exchange rate, which made imported substitutes for national commodities more competitive.

Most of the countries in the Central American Common Market (CACM) suffered a loss of dynamism, as a consequence of the decline in the prices of their export products and the negative impact of oil prices. The exception was El Salvador, where the growth rate rose to 3.5%, thanks to a significant increase in crop production. The favourable behaviour of agriculture, which is the most important sector in the economy, compensated for the slower growth of other activities, largely as a result of higher import prices caused by large adjustments in the exchange rate.

Guatemala's growth rate slowed to 3.3%, partly because investment hardly increased at all owing to the uncertainty surrounding the election process and domestic demand was slow. The agricultural sector continued to grow, especially in its export-oriented segments. The manufacturing output continued to expand slowly, although the increase in in-bond assembly plants and exports of wearing apparel, wood and wicker products and processed vegetables was notable.

Although Costa Rica also saw its growth rate fall to 3.6%, its per capita GDP increased for the fifth year running. External demand continued to be an important contributor to growth, while a drop in the terms of trade and a tremendous decrease in financing from multilateral bodies had the opposite effect. The behaviour of the

public sector was expansive during the first half of the year, but the increase in its financial imbalance and the widening of the external gap led to the adoption of adjustment measures which slowed down economic activity in the second half of the year. In any case, domestic demand continued to rise, although at a lower rate than the year before; the vigorous increase in fixed capital formation, in particular, caused investment to grow by 6%, bringing it to 22% of GDP. In this context, the performance of those sectors which concentrate on the international market (export-crop farming, in-bond assembly plants, tourism) was particularly positive. On the other hand, manufacturing grew more slowly, and construction declined.

The new Government in Nicaragua brought a radical change in economic policy; the reforms and stabilization programme deepened the recession, causing GDP to fall for the seventh year in a row, this time by 4.4%. All the production sectors declined notably, with mining and construction recording the steepest drops. A further rise in exports was the only positive demand factor, domestic demand declining as both public expenditure and private consumption shrank.

In Honduras gross domestic product fell by 2.3%. Construction, both public and private, contracted sharply (-25%), while the recession also affected the services sectors. Crop production stagnated, labour disputes having had an adverse effect on the banana harvest as they also did on manufacturing.

The partial recovery of Panama's GDP (4%), after two years of decline, was due to the sustained expansion of private consumption and the resurgence of investment, government expenditure on consumption continuing to contract. Thus, construction experienced a new growth spurt (24%) as a result of reconstruction projects. As for manufacturing, it continued along the path of recovery embarked upon the preceding year, without, however, regaining the levels attained in 1987. Agriculture showed moderate growth, especially with regard to bananas, sugar cane (following the re-establishment of the sugar quota by the United States) and stock raising. Transport stagnated, after two years of highly negative growth, due to the drop in tonnage transported through the Canal

and in the volume conveyed through the trans-isthmus pipeline, while trade grew significantly under the impetus of increased credit availability and the replacement of stocks lost during the events of the preceding year. As for financial services, they began to recover with the normalization of banking activity.

Recession characterized all the Caribbean countries and was basically due to adverse conditions in the international context. One Caribbean country –the Dominican Republic– saw its GDP drop by 4.8%. The impact of the external situation (lower export prices and higher oil prices) was compounded by the effect of a domestic adjustment programme which by raising the exchange rate, prices and rates for public services and controlling wages and fiscal expenditure, caused domestic demand to drop, contributing to a general recession in all sectors.

In Haiti, the GDP fell by close to 1% owing to political events and problems stemming from the drop in the price of coffee and the severe drought

which affected the first growing season. The drop occurred in most of the sectors producing for the domestic market and even affected a number of their export-oriented branches. The activity of in-bond assembly plants plummeted by 12%, owing to stoppages, delays in the filling of orders, problems with electricity supply and the rather unpromising performance of the North American market, the main customer of the subcontractors.

Economic activity in Cuba was affected by the virtual cessation of trade with some countries of Eastern Europe and by difficulties in economic relations with the Soviet Union due to the latter's internal problems. This hindered receipt of supplies of raw materials and spare parts and also petroleum. The total social product grew by only 1%, in a context of the imposition of strict austerity measures designed to increase efficiency in the use of material resources, particularly energy resources. At sectoral level, agriculture and construction sustained the level of GDP, while industry and transport declined.

Table 2
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF TOTAL GROSS DOMESTIC PRODUCT
(Growth rates)

	1984	1985	1986	1987	1988	1989	1990 ^a	Cumulative variation 1981-1990 ^a
Latin America and the Caribbean^b	3.7	3.6	3.4	3.0	1.0	1.3	0.3	12.8
Oil-exporting countries	2.8	2.2	0.3	2.5	2.3	0.0	3.6	14.8
Bolivia	-0.6	-1.0	-2.5	2.6	3.0	2.7	2.6	-1.4
Colombia	3.8	3.8	6.9	5.6	4.2	3.5	4.1	43.7
Ecuador	4.8	4.8	3.4	-9.5	15.4	-0.3	1.7	24.5
Mexico	3.6	2.6	-3.8	1.8	1.4	3.1	3.9	17.1
Peru	4.8	2.2	8.7	8.0	-8.4	-11.4	-4.9	-10.6
Trinidad and Tobago	-2.2	-4.2	-2.1	-5.5	-2.5	-0.2	1.3	-20.0
Venezuela	-0.6	-0.1	6.6	3.8	5.9	-7.8	5.8	4.0
Non-oil-exporting countries^b	4.4	4.7	5.9	3.4	-0.1	2.3	-2.3	11.2
South America	4.7	5.2	6.2	3.3	-0.1	2.3	-2.5	11.0
Argentina	2.4	-4.4	6.0	2.1	-2.8	-4.4	0.4	-11.2
Brazil	5.7	8.7	6.5	3.4	-0.2	3.3	-4.0	16.4
Chile	5.6	2.2	5.7	5.7	7.5	9.8	2.0	32.7
Guyana	2.2	1.1	0.2	0.3	-2.6	-4.9	-6.9	-28.6
Paraguay	3.2	4.0	-0.3	4.5	6.7	5.9	3.0	36.5
Suriname	-1.9	2.0	0.8	-6.2	7.1	2.0	0.2	2.1
Uruguay	-1.7	1.7	8.3	7.9	-0.2	0.6	0.8	0.6
Central America and the Caribbean^b	1.4	0.5	2.5	4.4	0.0	3.2	0.5	13.5
Bahamas	3.0	13.5	3.6	4.9	4.5	4.0	0.2	53.3
Barbados	3.6	0.9	5.2	2.6	3.5	3.5	-3.1	9.4
Belize	2.8	2.4	2.7	13.3	7.1	5.1	0.2	40.4
Cuba ^c	7.2	4.6	1.2	-3.9	2.2	1.0	1.0	43.7
Haiti	0.4	0.4	1.0	0.1	1.3	0.7	-0.7	-2.5
Jamaica	-0.8	-5.4	2.2	6.7	1.1	6.3	3.8	19.3
Panama	-0.4	4.8	3.5	2.0	-16.0	-0.7	4.0	4.2
Dominican Republic	0.3	-1.9	3.0	7.9	1.0	4.5	-4.8	21.7
Central American Common Market	2.2	0.2	1.8	3.3	1.9	2.9	1.8	8.4
Costa Rica	7.8	0.7	5.3	4.5	3.2	5.5	3.6	25.4
El Salvador	2.3	1.8	0.5	2.7	1.5	1.1	3.5	-1.0
Guatemala	0.7	-0.2	0.5	3.7	4.1	4.2	3.3	8.5
Honduras	2.0	2.0	4.1	4.9	5.1	2.3	-2.3	17.7
Nicaragua	-1.6	-4.1	-1.0	-0.7	-10.9	-2.9	-4.4	-16.1
OECS countries^d	6.2	5.7	7.1	6.0	7.2	5.2	4.3	67.3
Antigua and Barbuda	7.4	8.8	9.7	9.0	7.7	5.2	2.7	83.5
Dominica	5.5	1.7	6.8	6.8	8.0	-1.2	6.3	54.3
Grenada	5.5	5.0	5.4	6.0	5.3	5.7	5.3	57.8
Saint Kitts and Nevis	9.1	5.5	6.4	4.8	6.9	12.1	2.6	74.2
Saint Lucia	5.0	6.0	5.8	2.2	6.8	3.5	3.7	49.5
Saint Vincent and the Grenadines	5.5	4.6	7.2	6.4	8.6	7.2	6.6	86.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Preliminary estimates. ^b Excludes Cuba. ^c Refers to total social product. ^d OECS = Organization of Eastern Caribbean States.

Table 3
**LATIN AMERICA AND THE CARIBBEAN: GROWTH OF PER CAPITA
 GROSS DOMESTIC PRODUCT**
(Growth rates)

	1984	1985	1986	1987	1988	1989	1990 ^a	Cumulative variation 1981-1990 ^a
Latin America and the Caribbean^b	1.4	1.4	1.2	0.8	-1.1	-0.8	-1.8	-9.1
Oil-exporting countries	0.4	-0.2	-2.0	0.2	0.1	-2.2	1.4	-8.9
Bolivia	-3.3	-3.6	-5.1	-0.2	0.2	-0.1	-0.2	-24.9
Colombia	1.7	1.7	4.8	3.5	2.2	1.5	2.1	17.3
Ecuador	2.0	2.1	0.7	-11.8	12.5	-2.8	-0.8	-4.4
Mexico	1.2	0.2	-5.9	-0.5	-0.8	0.9	1.7	-6.9
Peru	2.4	0.0	6.4	5.8	-10.3	-13.2	-6.8	-28.3
Trinidad and Tobago	-3.9	-5.8	-3.7	-7.2	-4.2	-1.8	-0.3	-32.5
Venezuela	-3.3	-2.8	3.7	1.1	3.1	-10.1	3.2	-20.8
Non-oil-exporting countries^b	2.3	2.6	3.8	1.3	-2.1	0.3	-4.1	-9.4
South America	2.6	3.1	4.2	1.3	-2.0	0.4	-4.3	-8.9
Argentina	1.0	-5.7	4.6	0.8	-4.1	-5.6	-0.9	-22.4
Brazil	3.4	6.4	4.2	1.2	-2.3	1.2	-5.9	-6.1
Chile	3.8	0.5	4.0	3.9	5.7	8.0	0.3	12.3
Guyana	1.4	0.4	0.0	0.1	-2.6	-4.9	-7.2	-31.9
Paraguay	0.0	0.9	-3.3	1.5	3.6	2.9	0.2	0.4
Suriname	-4.0	0.2	-1.1	-8.1	5.2	0.0	-1.7	-14.6
Uruguay	-2.3	1.1	7.6	7.3	-0.7	0.1	0.2	-5.2
Central America and the Caribbean^b	-1.0	-1.9	0.0	1.9	-2.4	0.8	-1.8	-10.7
Bahamas	0.7	11.6	1.9	2.7	2.4	2.3	-1.0	27.3
Barbados	3.2	0.5	5.2	2.2	3.5	3.1	-3.1	6.8
Belize	0.3	0.0	0.3	10.0	4.2	2.8	-1.4	9.6
Cuba ^c	6.2	3.5	0.2	-4.8	1.1	0.0	0.0	30.4
Haiti	-1.5	-1.5	-1.0	-1.9	-0.8	-1.3	-2.7	-19.6
Jamaica	-2.4	-6.8	0.9	5.4	-0.1	5.1	2.6	3.7
Panama	-2.6	2.6	1.3	-0.1	-17.7	-2.7	1.9	-15.7
Dominican Republic	-2.0	-4.1	0.7	5.5	-1.2	2.3	-6.8	-3.3
Central American Common Market	-0.4	-2.5	-1.0	0.5	-0.9	0.1	-1.0	-17.4
Costa Rica	4.8	-2.1	2.4	1.7	0.5	2.8	1.1	-5.0
El Salvador	1.3	0.5	-1.2	0.8	-0.5	-1.1	1.2	-14.7
Guatemala	-2.1	-3.0	-2.4	0.8	1.1	1.3	0.3	-18.4
Honduras	-1.6	-1.4	0.7	1.5	1.8	-0.9	-5.3	-16.1
Nicaragua	-4.8	-7.3	-4.3	-4.0	-13.9	-6.1	-7.5	-40.0
OECS countries^d	5.0	4.9	6.1	5.2	6.0	4.8	3.7	54.0
Antigua and Barbuda	7.4	8.8	9.7	9.0	7.7	5.2	2.7	81.1
Dominica	2.8	0.5	5.5	6.8	6.6	-1.2	6.3	37.4
Grenada	5.5	6.2	5.4	7.2	5.3	6.9	5.3	67.0
Saint Kitts and Nevis	9.1	5.5	6.4	4.8	6.9	12.1	2.6	74.2
Saint Lucia	3.4	3.7	3.5	0.0	4.6	2.1	2.3	23.6
Saint Vincent and the Grenadines	3.6	3.6	6.2	4.5	6.7	6.2	5.7	65.3

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Preliminary figures. ^b Excludes Cuba. ^c Refers to total social product. ^d OECS = Organization of Eastern Caribbean States.

Table 4
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT,
BY BRANCHES OF ECONOMIC ACTIVITY, AT MARKET PRICES
(Annual growth rates)

	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal goods		Basic services		Other services	
	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a
Latin America and the Caribbean^b	0.6	0.6	1.5	6.1	1.6	-2.7	-2.7	-2.6	0.8	-0.9	3.8	3.0	1.5	0.8
Argentina	-2.4	9.8	3.2	-1.5	-6.9	-4.8	-31.6	-18.8	-7.2	-1.5	-2.5	2.3	-2.6	0.3
Barbados	-7.8	-3.2	-6.9	-1.2	5.2	-3.2	8.0	-3.1	2.0	-3.1	5.1	-3.1	3.8	-3.1
Bolivia	-1.5	-1.5	15.1	9.2	3.5	3.7	6.4	1.7	4.4	2.9	2.6	3.2	0.7	2.4
Brazil	2.9	-3.7	4.0	2.8	2.9	-8.7	3.3	-8.3	2.9	-7.0	6.9	1.7	3.1	-1.4
Colombia	4.5	6.7	12.9	8.0	2.9	6.6	0.4	-6.7	4.6	5.5	4.0	4.1	3.2	3.3
Costa Rica	7.3	3.9	...	...	3.8 ^c	2.9 ^c	12.4	-3.0	6.2	2.8	7.5	6.4	4.6	4.0
Cuba ^d	1.2	...	...	...	0.9	...	9.1	...	2.0	...	0.0 ^e	...	-1.4 ^f	...
Chile	4.4	3.0	8.3	-0.9	12.2	0.2	12.7	2.5	10.0	0.8	11.0	7.9	7.7	2.3
Ecuador	3.0	2.7	-6.4	2.7	-3.8	1.1	-1.2	1.0	-3.1	2.3	4.8	2.3	-3.3	1.4
El Salvador	0.5	7.9	5.7	-8.9	2.5	3.0	3.6	-12.8	1.4	4.4	1.1	6.0	0.7	2.4
Guatemala	3.4	3.5	-14.0	-4.1	2.4	2.4	19.4	-7.4	3.9	2.1	5.4	7.3	4.3	3.3
Guyana	-1.0	-11.0	-20.5	-27.0	-15.4	-16.7	-1.7	3.4	-7.5	-12.5	-4.3	-3.2	-1.9	-0.9
Haiti	1.5	-0.9	-18.2	-16.7	-1.3	-0.8	1.2	-18.4	0.7	-2.9	3.4	-2.2	0.1	2.8
Honduras	2.2	0.2	13.2	-23.2	1.7	0.0	3.4	-25.1	2.5	-2.8	2.8	-2.7	1.9	-1.7
Jamaica	-4.2	3.8	37.9	3.8	7.1	3.8	19.3	3.8	13.2	3.8	5.3	3.8	3.4	3.8
Mexico	-4.6	3.4	-0.7	3.2	7.1	5.2	2.1	7.7	3.2	5.0	5.4	6.1	2.7	2.8
Nicaragua	2.7	-3.4	41.2	-26.3	-7.0	-3.3	-14.9	-9.4	-2.6	-4.1	3.8	-2.3	-4.5	-5.2
Panama	3.1	3.3	-11.1	34.4	5.5	7.2	-29.1	24.2	0.7	6.5	-6.2	0.1	0.6	2.1
Paraguay	7.7	1.7	5.7	5.8	5.9	2.5	2.5	2.8	6.6	2.1	5.3	5.4	5.1	3.8
Peru	-4.9	-8.6	-5.5	-4.2	-17.0	-5.7	-14.7	3.3	-11.0	-5.2	-9.7	-6.5	-10.9	-4.3
Dominican Republic	2.3	-6.2	-0.7	-10.9	2.2	-8.8	13.2	-15.5	4.1	-9.5	4.2	-3.6	5.0	-0.4
Trinidad and Tobago	14.8	15.2	-1.2	1.7	5.6	2.8	-6.5	-4.6	0.0	1.9	-1.1	2.8	-0.4	-1.5
Uruguay	1.5	1.9	0.0	-3.3	-0.2	-1.5	3.3	-6.1	0.6	-0.7	1.7	3.0	2.3	1.4
Venezuela	-5.1	-0.3	-0.2	16.9	-11.8	4.1	-27.1	6.7	-9.2	8.7	-4.6	2.1	-6.0	3.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Preliminary figures. ^b Excluding Cuba. ^c Includes mining and quarrying. ^d Refers to the social product. ^e Refers only to transport and communications. ^f Refers to commerce and other productive activities relating to intangibles.

Table 5
**LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE COMPONENTS
 OF AGGREGATE DEMAND**
(Annual rates of variation)

	Consumption				Gross investment				Domestic demand		Exports of goods and services		Aggregate demand	
	Private		Government		Fixed		Domestic		1989	1990 ^a	1989	1990 ^a	1989	1990 ^a
	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a	1989	1990 ^a						
Latin America and the Caribbean^b	3.0	0.5	-2.2	2.2	-1.8	-0.3	-6.7	-1.8	0.5	0.3	4.8	4.7	1.3	1.1
Argentina	-3.9	-2.5	^c	^c	-27.1	-13.6	-30.6	-6.5	-7.4	-2.9	3.6	12.3	-5.5	0.0
Bolivia	5.1	-0.1	3.7	5.2	3.3	-4.6	-11.0	-5.5	2.8	-0.1	18.5	20.7	5.4	3.7
Brazil	4.2	-1.3	^c	^c	1.2	-8.0			3.7	-2.8	3.8	-6.8	3.7	-3.3
Colombia	3.1	2.4	4.0	4.5	-0.9	-1.1	-6.0	-1.0	1.5	2.0	8.2	16.9	2.6	4.5
Costa Rica	6.0	4.0	3.5	2.5	15.4	13.7	7.6	5.8	6.0	4.2	12.6	7.0	8.3	5.2
Chile	8.3	0.5	0.9	1.6	20.8	6.9	32.5	-2.5	11.6	0.0	14.2	7.0	12.2	1.8
Ecuador	-1.4	0.9	1.1	2.0	-0.5	2.2	2.5	-6.3	-0.4	-0.3	-0.1	3.9	-0.3	0.9
El Salvador	3.3	-0.3	-1.2	-1.4	9.1	-17.3	34.5	-32.4	6.9	-6.2	-18.2	53.4	2.2	2.7
Guatemala	4.0	-1.8	3.5	-1.0	7.8	1.7	2.7	-1.5	3.7	-1.6	12.4	16.1	5.2	1.5
Haiti	-1.4	-2.9	^c	^c	...	...	-3.9	-3.6	-1.8	-3.0	6.9	-3.9	-0.6	-3.2
Honduras	0.9	-3.1	2.1	-6.0	4.3	-11.6	-5.0	4.0	0.2	-2.5	6.3	0.4	1.7	-1.8
Mexico	6.9	5.1	-0.7	1.7	6.5	13.4	5.1	11.1	5.6	5.8	2.6	6.6	5.0	6.0
Nicaragua	3.4	-2.2	-26.1	-5.6	-19.3	-10.2	-8.5	-9.1	-10.9	-4.7	26.8	13.8	-7.5	-2.4
Panama	20.8	10.2	-3.4	-14.8	-14.7	20.9	-58.9	164.5	6.0	10.5	-3.6	7.1	2.6	9.4
Paraguay	0.6	8.3	5.4	2.9	10.7	2.5	10.1	2.2	2.7	6.7	26.3	15.1	6.3	8.2
Peru	-13.8	-3.4	-14.4	-4.5	-19.2	4.3	-33.3	8.1	-18.0	-1.5	19.2	-5.7	-13.1	-2.2
Dominican Republic	7.6	-6.7	1.5	-10.1	9.2	-12.9	8.4	-12.9	7.3	-8.5	3.0	5.9	6.7	-6.3
Uruguay	0.2	-4.4	1.6	4.2	1.4	-4.0	-11.8	-2.7	-1.0	-2.8	5.0	7.5	0.4	-0.3
Venezuela	-9.9	3.4	-2.3	6.9	-25.5	-2.8	-52.6	-8.7	-20.5	2.0	3.8	9.7	-14.1	4.5

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Preliminary figures. ^b Nineteen countries; figures relating to consumption and investment include estimates in the case of some countries for which data were lacking. ^c Government consumption is included under private consumption.

^d Variation in stocks is included under private consumption.

III. TOTAL SUPPLY AND DEMAND

1. Regional trends

In 1990, the overall economy of Latin America and the Caribbean once again performed poorly. This was reflected in the virtual stagnation of the level of activity and of the domestic availability of goods and services, and in the weak growth of total supply, all of which had the effect of maintaining the situation that has characterized the regional panorama since 1988, which continues to erode levels of well-being.

The expansion of total supply slowed down for the fourth year in a row: it grew by slightly more than 1%, whereas in 1986 it attained a rate just above 4% (see table 6). The volume of imports into the region in 1990 increased at a high rate (9%), above that of previous years but still 9% lower than the level of imports in 1980. This outcome was particularly influenced by the considerable increase of imports in Mexico, Panama, Paraguay and Peru, and to a lesser extent, in Bolivia, Brazil and Costa Rica. Imports in other countries, however, such as Argentina, Guatemala, Haiti, the Dominican Republic and Venezuela contracted significantly. The volume of exports increased by nearly 5%, the same as in 1989, but this expansion was still well below the rates recorded for 1987 and 1988. The increase, especially in exports from Argentina (12%), Bolivia (21%) and El Salvador (53%), was widespread, with only four countries showing

decreases, namely, Brazil, Haiti, the Dominican Republic and Venezuela.

Although the real growth of imports was higher than that of exports, the domestic availability of goods and services remained practically unchanged, since output declined slightly and the level of imported supply was markedly lower than that of external demand. Thus it remained 10% above its 1980 level, although in per capita terms it was 18% below that level.

Domestic demand stagnated, owing to a decline in gross capital formation (-0.3), continuing the strong contraction observed throughout the 1980s, and to the slow growth of consumption (0.4%), which decelerated once again after recovering slightly the year before (see table 6).

Net factor payments to the rest of the world plummeted (-15%), which led to a slight rise (0.5%) in real gross national income, despite a negative trend in the terms of trade. Even so, per capita national income fell off again, reaching a level 15% below that of 1980, as a result of an increase in external factor payments and the deterioration of the terms of trade over the last 10 years. National income, in turn, was 9% below GDP as a result of those same phenomena, whereas in 1980 it had been only 3% below (see table 6).

2. Behaviour of demand

Regional output stagnated in 1990 due to the sluggishness of domestic demand, prolonging the stagnation observed since 1988, and to the fact that the trade balance did not affect growth in net terms. Exports of goods and services displayed a certain buoyancy, contributing to an increment of

total supply equivalent to 1% of gross domestic product. However, this impetus was largely offset by a demand-driven increase in imports, which was reflected in a smaller trade surplus and a slightly negative contribution to GDP, unlike in 1989. Consumption barely rose, and did so at a

lower rate than in previous years, thus contributing only 3% of GDP to the increase of total demand, while the steady decline in investment nullified the positive effect of consumption¹ (see table 7).

Underlying the trends at the regional level, however, were important changes affecting the components of demand from country to country, in which different individual trends were observed in 1990. Thus domestic demand, expressed as a percentage of GDP, declined in 12 of the 19 countries for which information was available. The steepest downturns were recorded in the Dominican Republic (-9%), El Salvador (-7%) and Nicaragua (-6%), countries in which both private consumption and gross fixed investment fell. In Argentina, Brazil, Haiti and Uruguay, domestic demand contracted by close to three percentage points of GDP. In these four countries the decline in investment had negative impacts, but except for Brazil, the drop in private consumption had more of an effect on the contraction of domestic demand. Nevertheless, trade balances improved in 10 of the 12 countries in which domestic demand fell off –deficits decreased or surpluses increased– which made it possible to slow down the deterioration of the level of activity and, in some cases, to attain some growth of GDP (Ecuador), and even a considerable expansion in the level of activity (El Salvador and Guatemala). In Brazil and Peru, on

the other hand, not only did domestic demand decline, but their trade balances also worsened, intensifying the sharp drop in GDP in both countries. Chile's domestic demand remained the same, in contrast to its strong expansion in 1989, when it reached almost 11% of GDP. In these circumstances, the positive contribution of the trade balance –buoyed by a slow-down in imports– led to an increase in the level of activity (see table 7).

The most significant increases in domestic demand were recorded in Panama (9%), Paraguay (7%), Mexico (5%) and Costa Rica (4%). In the first two of these countries the expansion was mostly concentrated on private consumption, while in Mexico gross fixed investment also contributed significantly, and in Costa Rica the increase in domestic demand was mainly attributable to investment. In all these countries the domestic demand-led stimulus was reflected in a satisfactory growth of GDP, despite the fact that part of the buoyancy filtered abroad, owing to the decline in trade balances.

The contribution of domestic demand was also positive, though modest, in Colombia and Venezuela. In both cases, the main impetus for growth came from improved trade balances, which led to an increase of buoyancy in Colombia and a strong recovery in Venezuela, following the collapse of the year before (see table 7).

3. Liberalization, transfers abroad and changes in the structure of demand

Adjustment triggered significant changes in the structure of demand in the region in the 1980s, with external demand increasing by almost 6% of GDP. During this time gross capital formation recorded an equivalent downturn and the share of consumption remained virtually stable. The coefficient of exports of goods and services, which stood at an average of 16% of GDP during the 1970s, increased slowly throughout the 1980s, reaching 21.6% in 1990. The cutback and

substitution of imports in that period, however, reduced the import ratio from 15% for the period from 1971 to 1980 to 13.3% in 1990. This share, however, represented a modest recovery in relation to the lowest level (10.7%) recorded in 1985, a process which accelerated considerably in 1990 (see table 8).

The increase in the export ratio was fairly widespread, rising in 13 of the 19 countries for which information was available, including the

¹This analysis of the contributions of the components of demand to growth of GDP does not incorporate the effect of variations in the terms of trade, since it is based on the accounting of real flows. For that same reason, the variations in each of the components of domestic demand also do not reflect the real effect of changes in relative prices, which have acquired importance in the current phase of adjustment processes.

three largest economies of the region, between 1980 and 1990. Costa Rica showed the biggest expansion, equivalent to 20% of GDP, while Argentina, Chile, Ecuador, Mexico, Paraguay and Uruguay recorded increases of around 10 points in their export ratios. Brazil's export share grew by 4% of GDP to a little over 13%, by far the lowest ratio in the region. The export coefficients of most of the Central American and Caribbean countries declined. Of the South American countries, however, only Peru's ratio fell (see figure 2).

Import ratios were reduced during the 1980s in practically all countries, with the exception of Mexico and Paraguay. The largest declines were recorded in Argentina, Ecuador, Honduras, Panama, Uruguay and Venezuela, with reductions of between 7 and 12 percentage points of GDP. Brazil's import coefficient dropped from 11% to less than 7% of GDP between 1980 and 1985, but then recovered to reach 8% in 1990 –still a very low level (see figure 2).

Where import coefficients increased during the decade, the reasons were different from country to country. Mexico's import share declined by 7% between 1980 and 1983, the period when the debt crisis broke out. It then recovered slowly, returning to its 1980 level only in 1989 and surpassing it comfortably in 1990, thanks to trade liberalization, the overvalued exchange rate of the last few years and the substantial easing of external constraints. Paraguay's import coefficient also recorded significant decreases at the beginning of the decade but then expanded rapidly, attaining 31% between 1986 and 1989 and almost 38% of GDP in 1990, owing in part to improved coverage in the recording of imports and in part to the growing importance of sales of imports to visitors from neighbouring countries.

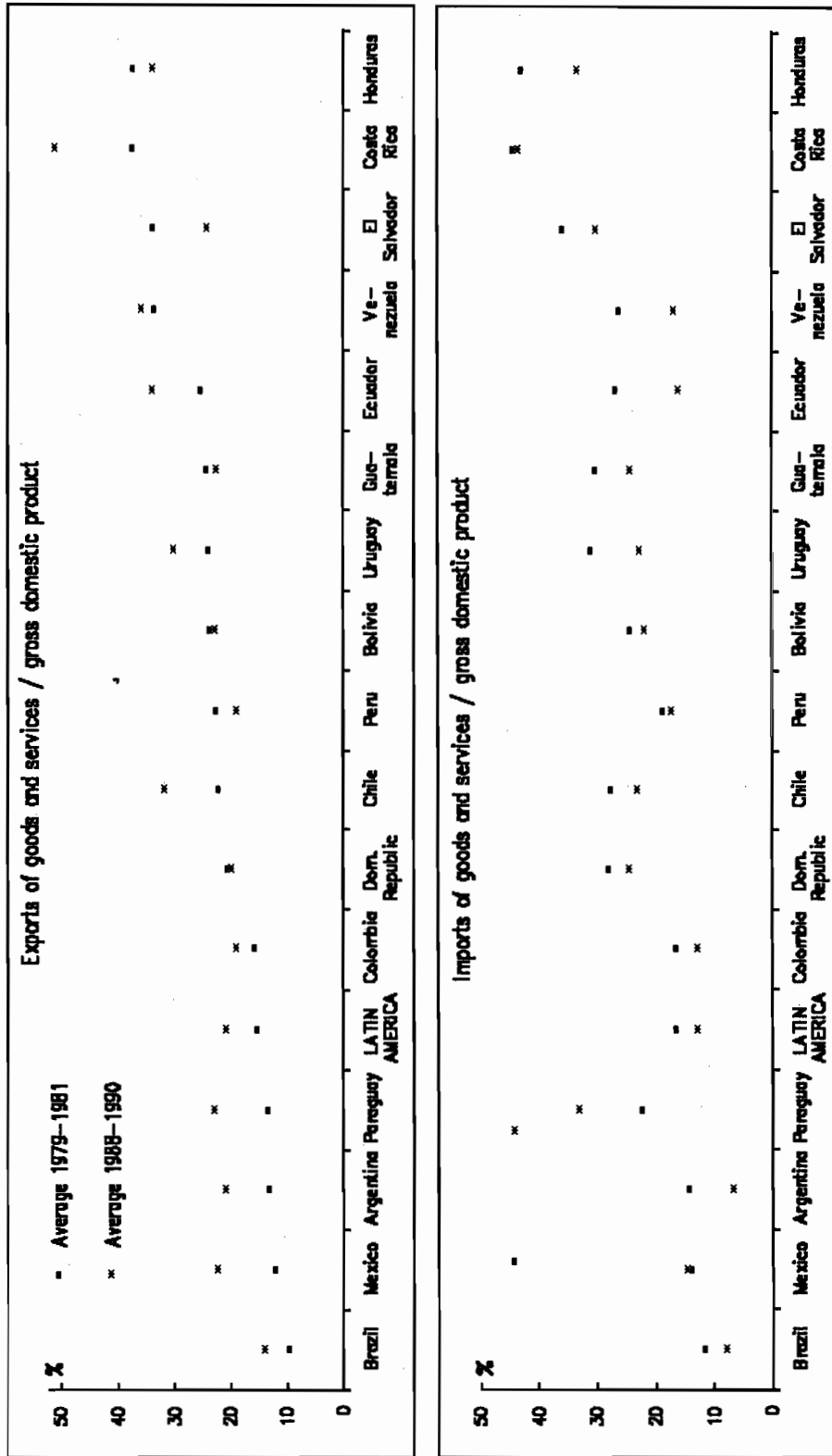
The performance of exports and imports substantially changed the trade balances of the Latin American countries. The region as a whole went from a deficit of 1% of GDP in 1981 to a surplus of 8% in 1990. The greater purchasing power was largely absorbed (more than 5% of GDP) by the deterioration in the terms of trade between 1981 and 1990. Net factor payments to the rest of the world, which in recent years have

remained close to 4% of the regional product, represented another significant portion. This means that the region of Latin America and the Caribbean transferred current resources at 1980 prices equivalent to 9% of GDP as a result of the deterioration of the terms of trade and together with factor payments (mostly interest) to the rest of the world, lowering real gross national income in 1990 to 9% less than real GDP (see table 8).

The huge transfer of current resources abroad was financed mainly by reducing gross capital formation, whose share of GDP fell to less than 16% in 1990, whereas it had been above 22% during the 1970s. The share of consumption, in turn, declined by more than 2% of GDP between 1981 and 1990, thus contributing a lower proportion than investment to financing the transfer of resources. Nevertheless, per capita consumption –which grew by 0.4% in 1990– remained 10% below the 1980 level, due to reductions recorded primarily during the first half of the 1980s (see table 8).

Per capita private consumption improved to any significant extent in only four countries (Costa Rica, Mexico, Panama and Paraguay) in 1990, and barely increased in two others (Colombia and Venezuela). Accordingly, the contraction of per capita private consumption was widespread in the period between 1981 and 1990. It grew considerably in only two of the 19 countries for which information was available (Colombia and Paraguay), although it should be noted that in the case of Paraguay the aggregate known as final private consumption includes sales to visitors from neighbouring countries, a market that has expanded enormously in recent years. Chile and Panama, in turn, succeeded in re-establishing 1980 levels of per capita private consumption. The most pronounced accumulated declines were recorded in Nicaragua (-58%), Argentina (-33%), Haiti, Guatemala, Costa Rica and Venezuela (more than 20%), while per capita private consumption fell by between 10% and 20% in Bolivia, El Salvador, Honduras, Peru, the Dominican Republic and Uruguay. Even though in Brazil it fell by only 4% during 1990, the accumulated decline since 1980 was around 8% (see figure 3).

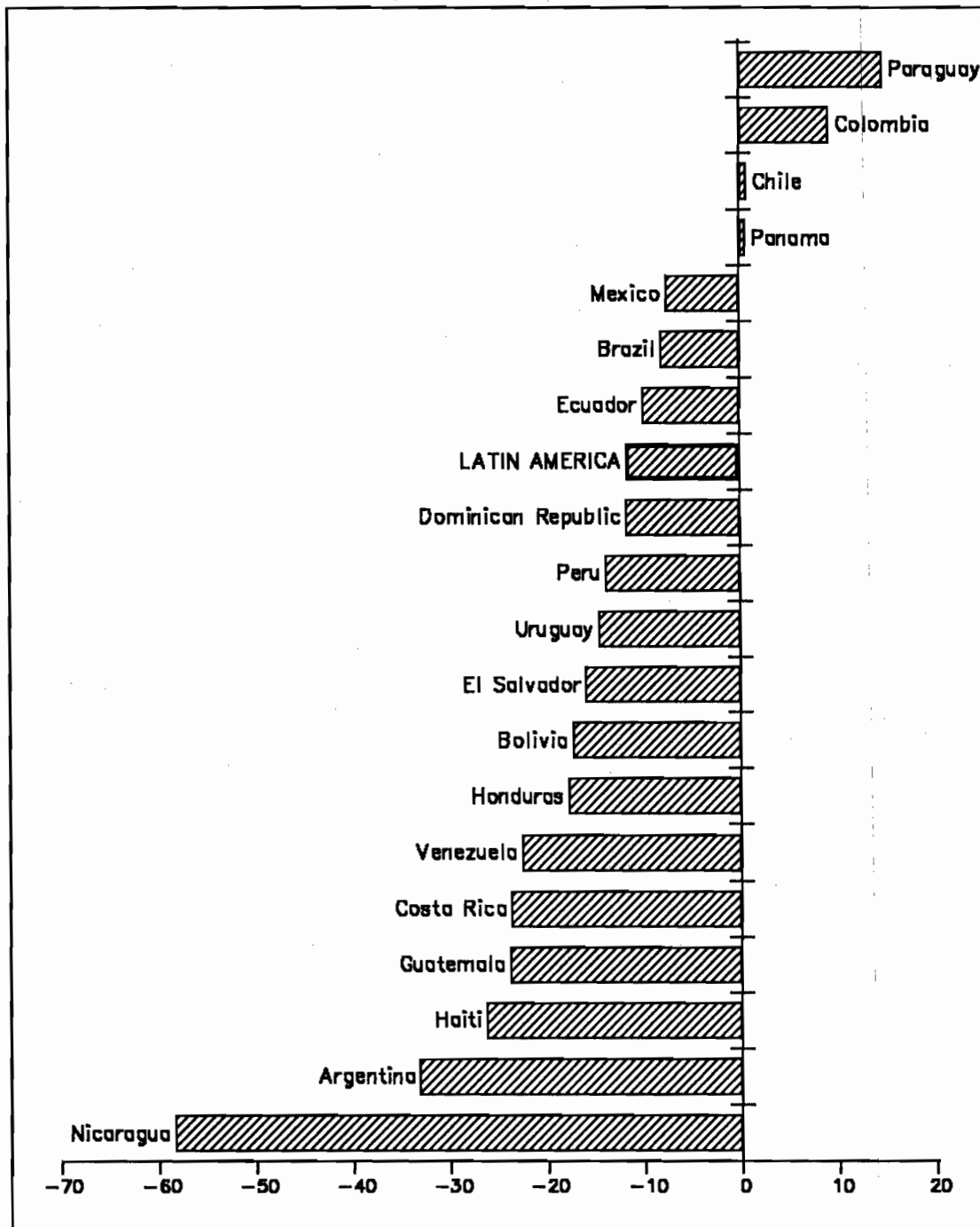
Figure 2
 LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS AS PERCENTAGES OF GROSS DOMESTIC PRODUCT ^a



Source: ECLAC, on the basis of official figures.
^a Countries are listed in the order of their export coefficients for the period 1979-1981.

Figure 3

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA PRIVATE CONSUMPTION
(Cumulative percentage variation 1981-1990)



Source: ECLAC, on the basis of official figures.

4. Investment and its financing

Investment fell again during 1990, reducing the already low regional coefficient of gross capital formation, which had been declining since the early 1980s, to less than 16% of GDP. The investment ratio in most of the countries of the region was lower than that of 1989, dropping in Argentina from 8.7% to 7.5%, Brazil from 16.7% to 16%, El Salvador from 15.8% to 12.6%, Haiti from 18.2% to 14.8% and the Dominican Republic from 27% to 24.7%. In only three countries did the rate of gross capital formation rise: Costa Rica (23.2%), Chile (17.7%) and Mexico (18.9%), countries in which accumulation processes continued to expand during 1990. Panama and Peru, on the other hand, recorded only recoveries from the downturns of the previous year (see table 9).

In this context, the regional investment coefficient for 1988-1989 reached only 16%, considerably below the 22% rate recorded in 1979-1981. The reduction was widespread, although its characteristics differed from country to country in the region. During the most recent triennium, most countries showed average coefficients significantly below those recorded before the crisis, while a small group, after dropping sharply at the beginning of the period, rapidly recovered their investment rates. Thus, between these two periods, investment coefficients in Panama, Argentina and Venezuela plummeted by 15%, 12% and 10% of GDP respectively, while in Brazil, Ecuador, Honduras, Mexico, Paraguay, Peru and Uruguay, the coefficient fell by between 5% and 8% of the product. In Bolivia, Colombia, Costa Rica, El Salvador, Guatemala and Haiti, investment failed to recover the ratios recorded in 1979-1981. The

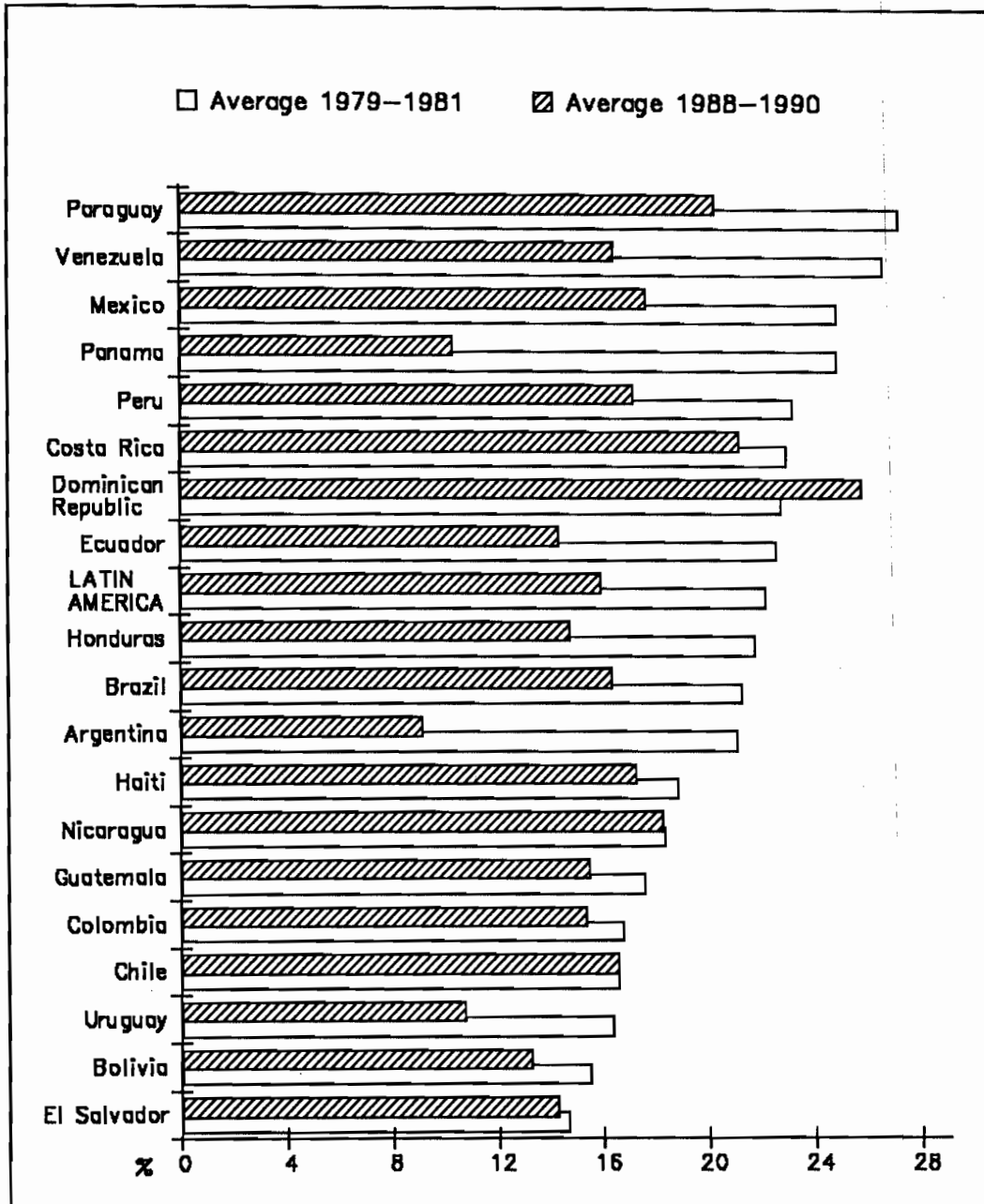
only countries that did so were Chile, Nicaragua and the Dominican Republic, although the latter two countries fell behind somewhat in 1990 (see figure 4).

Domestic savings dropped slightly in relation to the year before –to 24% of GDP in 1990– after rising to 25% in the 1987-1988 period. Even so, they continued to be high, recording eight percentage points of GDP above the investment rate. National savings, on the contrary, remained at somewhat more than 15% of the regional product. External savings, which accounted for less than 1% of GDP in 1989, fell even more, thus contributing less than 3% to the financing of investment (see table 10).

The enormous difference between the rate of domestic savings and the small investment coefficient was due to the loss of income resulting from the gradual deterioration of the terms of trade since 1980 (which worsened in 1990), to net factor payments (mostly interest on the external debt), and to the virtual rationing of net flows of external savings. Indeed, the worsening of the terms of trade compared to 1980, which represents almost 6% of real GDP, absorbs a fourth of domestic savings in real terms. Moreover, the flows of interest and profit remittances abroad –despite a decline in 1990– continue to take up another 15% of gross domestic savings. Since 40% of domestic saving is channelled abroad and foreign capital is scarce, investment levels are inevitably reduced. Thus, the crisis and its consequences, which are still affecting most of the countries of the region, have not only lowered living standards but have also jeopardized future growth.

Figure 4

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT ^a



Source: ECLAC, on the basis of official figures.

^a Countries are listed in the order of their investment coefficients for the period 1979-1981.

Table 6
**LATIN AMERICA AND THE CARIBBEAN: TOTAL SUPPLY, DOMESTIC DEMAND
 AND GROSS NATIONAL INCOME^a**
(Indexes and growth rates)

	Indexes (1980 = 100)			1986	1987	1988	1989	1990 ^b	Cumulative variation
	1988	1989	1990 ^b						1981-1990 ^b
1. Total supply (2 + 3)	107.2	108.6	109.8	3.8	3.3	1.8	1.3	1.1	9.8
2. Gross domestic product at market prices	111.2	112.7	112.9	3.4	3.0	0.9	1.3	0.2	12.9
3. Imports of goods and services	83.0	83.7	91.0	7.1	5.5	9.1	0.8	8.8	-9.0
4. Exports of goods and services	151.2	158.4	165.9	0.4	9.0	7.6	4.8	4.7	65.9
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	100.9	101.4	101.7	4.5	2.2	0.6	0.5	0.3	1.7
6. Final consumer expenditure ^c	107.4	108.4	108.9	3.8	2.1	0.9	1.0	0.4	8.9
7. Gross fixed capital formation	79.0	77.5	77.3	7.7	2.6	-0.8	-1.8	-0.3	-22.7
8. Net factor payments to rest of world	170.5	171.8	147.0	-4.2	-9.4	3.6	0.8	-14.5	47.0
9. Real gross national income (2 - 8) ^d	103.6	104.8	105.2	2.2	3.4	0.6	1.1	0.5	5.2

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Nineteen countries. ^b Preliminary figures. ^c Includes variation in stocks. ^d Includes terms-of-trade effect.

Table 7
**LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTIONS TO
 GROWTH OF GROSS DOMESTIC PRODUCT**
(Annual average percentages)

Country and period	Total demand					Total supply		
	Consumption		Gross fixed investment	Domestic demand	Exports of goods and services	Total	Imports of goods and services	Gross domestic product
	Government	Private ^a						
Latin America and the Caribbean								
1981-1983	0.2	-2.1	-2.4	-4.4	0.9	-3.4	-2.0	-1.3
1984-1987	0.3	2.3	0.6	3.2	0.8	3.9	0.5	3.5
1988	0.3	0.4	-0.1	0.6	1.4	2.0	1.0	0.9
1989	-0.3	1.0	-0.3	0.4	1.0	1.4	0.1	1.3
1990	0.2	0.1	0.0	0.3	1.0	1.3	1.1	0.2
Argentina^b								
1981-1983	-0.3	-4.2	-3.3	-8.1	1.3	-6.6	-2.9	-3.5
1984-1987	0.5	1.6	0.0	2.0	-0.3	1.7	0.3	1.5
1988	0.4	-5.2	-2.1	-6.8	3.0	-3.9	-1.0	-2.8
1989	0.3	-3.8	-3.1	-6.6	0.7	-5.9	-1.5	-4.4
1990	0.0	-1.4	-1.2	-2.5	2.5	0.0	-0.3	0.4
Bolivia								
1981-1983	-0.3	-0.2	-2.0	-2.5	-1.2	-3.7	-1.0	-2.7
1984-1987	-0.2	0.8	1.1	1.6	-0.7	0.9	1.3	-0.4
1988	-0.5	-0.8	0.3	-0.9	0.7	-0.2	-3.2	3.0
1989	0.4	1.9	0.4	2.8	3.6	6.4	3.7	2.7
1990	0.6	-0.1	-0.6	-0.1	4.7	4.6	2.0	2.6
Brazil^b								
1981-1983	0.2	-2.5	-2.5	-4.8	0.9	-3.8	-1.3	-2.4
1984-1987	0.4	3.9	1.4	5.6	0.7	6.2	0.2	6.0
1988	0.4	-1.4	-0.9	-1.9	1.5	-0.4	-0.1	-0.2
1989	-0.6	3.8	0.2	3.4	0.5	3.9	0.7	3.3
1990	0.3	-1.3	-1.3	-2.4	-0.9	-3.3	0.6	-4.0
Colombia								
1981-1983	0.3	2.5	0.6	3.3	-1.4	2.0	0.3	1.7
1984-1987	0.4	1.5	0.2	2.1	2.8	4.8	-0.3	5.0
1988	1.0	3.7	1.6	6.3	-1.1	5.2	1.0	4.2
1989	0.4	1.2	-0.1	1.4	1.4	2.9	-0.6	3.5
1990	0.5	1.6	-0.2	1.9	3.1	5.0	0.9	4.1
Costa Rica								
1981-1983	-0.7	-5.5	-3.4	-10.2	1.9	-7.8	-5.1	-2.4
1984-1987	0.4	2.6	2.3	5.1	2.9	7.6	3.4	4.6
1988	0.5	-0.3	-0.8	-0.6	4.3	3.7	0.4	3.2
1989	0.6	1.9	3.0	5.5	6.1	11.6	6.1	5.5
1990	0.4	0.5	2.9	3.8	3.6	7.5	3.8	3.6
Chile								
1981-1983	-0.3	-4.5	-2.2	-7.3	0.4	-6.8	-3.6	-3.0
1984-1987	-0.1	2.2	1.7	3.7	2.6	6.0	1.4	4.8
1988	0.5	6.5	1.6	8.6	1.7	10.3	2.9	7.5
1989	0.1	7.2	3.2	10.5	4.3	14.8	5.1	9.8
1990	0.1	-1.3	1.2	0.0	2.2	2.2	0.2	2.0

Table 7 (cont.)

Country and period	Total demand					Total	Total supply	
	Consumption		Gross fixed investment	Domestic demand	Exports of goods and services		Imports of goods and services	Gross domestic product
	Government	Private ^a						
Ecuador								
1981-1983	-0.2	-0.1	-2.5	-2.7	0.4	-2.3	-3.6	1.2
1984-1987	-0.2	1.1	0.4	1.3	2.0	3.2	2.5	0.7
1988	-0.7	4.4	-0.4	3.4	6.2	9.5	-5.9	15.4
1989	0.1	-0.4	-0.1	-0.3	0.0	-0.3	0.0	-0.3
1990	0.2	-0.8	0.3	-0.3	1.3	1.0	-0.7	1.7
El Salvador								
1981-1983	0.2	-2.9	-1.2	-3.9	-2.5	-6.7	-1.9	-4.6
1984-1987	0.8	0.6	0.9	2.3	-0.5	1.8	0.0	1.8
1988	0.5	3.3	0.5	4.3	-2.9	1.4	-0.1	1.5
1989	-0.2	6.2	1.3	7.3	-4.4	2.9	1.8	1.1
1990	-0.3	-3.9	-2.7	-6.9	10.4	3.6	0.1	3.5
Guatemala								
1981-1983	0.2	-1.8	-2.5	-4.2	-1.7	-6.2	-3.4	-2.6
1984-1987	0.4	1.0	1.1	2.5	-0.2	2.3	1.2	1.2
1988	1.0	2.5	0.5	3.9	1.1	4.9	0.9	4.1
1989	0.4	2.3	1.2	3.9	2.5	6.4	2.2	4.2
1990	-0.1	-1.8	0.3	-1.7	3.6	1.9	-1.4	3.3
Haiti^c								
1981-1983	0.2	-4.0	0.1	-3.7	1.1	-2.5	-0.6	-1.9
1984-1987	0.3	1.3	0.2	1.7	-2.0	-0.1	-0.6	0.5
1988	0.0	0.6	0.0	0.6	-1.4	-0.9	-2.1	1.3
1989	0.0	-1.5	-0.5	-2.0	1.2	-0.8	-1.5	0.7
1990	-0.2	0.3	-3.4	-3.3	-0.7	-4.0	-3.4	-0.7
Honduras								
1981-1983	0.0	-0.1	-2.2	-2.3	-1.4	-3.7	-3.3	-0.4
1984-1987	1.1	1.8	-0.3	2.7	1.5	4.0	0.9	3.2
1988	0.6	4.7	0.9	6.2	-1.0	5.3	0.2	5.1
1989	0.3	-0.8	0.6	0.2	2.1	2.3	0.0	2.3
1990	-0.9	0.2	-1.8	-2.5	0.1	-2.4	-0.1	-2.3
Mexico								
1981-1983	0.5	-1.6	-2.6	-3.7	2.5	-1.0	-2.3	1.2
1984-1987	0.2	0.4	0.0	0.7	0.9	1.5	0.5	1.0
1988	-0.1	3.1	0.9	4.0	0.9	4.9	3.5	1.4
1989	-0.1	4.0	1.1	5.0	0.6	5.6	2.5	3.1
1990	0.2	2.9	2.3	5.4	1.5	6.9	3.0	3.9
Nicaragua								
1981-1983	5.1	-6.5	1.7	1.0	1.4	2.4	-0.6	3.0
1984-1987	2.9	-1.6	-0.1	1.4	-3.2	-1.6	0.2	-1.9
1988	-0.5	-9.1	-0.3	-9.9	-3.2	-13.1	-2.2	-10.9
1989	-14.0	3.7	-4.1	-14.4	3.5	-10.9	-8.0	-2.9
1990	-2.3	-1.6	-1.8	-5.6	2.4	-3.3	1.1	-4.4

Table 7 (concl.)

Country and period	Total demand					Total supply		
	Consumption		Gross fixed investment	Domestic demand	Exports of goods and services	Total	Imports of goods and services	Gross domestic product
	Government	Private ^a						
Panama								
1981-1983	1.3	0.3	-0.7	0.9	0.6	1.5	-1.5	2.9
1984-1987	0.9	1.1	0.5	2.4	0.3	2.7	0.3	2.5
1988	-4.2	-12.5	-11.0	-27.8	-1.1	-28.9	-12.9	-16.0
1989	-0.7	7.4	-1.6	5.0	-1.7	3.3	4.0	-0.7
1990	-3.1	10.5	2.0	9.3	3.2	12.6	8.6	4.0
Paraguay								
1981-1983	0.5	2.4	-1.9	1.1	-0.6	0.5	-1.1	1.6
1984-1987	0.2	3.8	0.6	4.4	2.6	6.8	4.2	2.9
1988	0.2	6.6	0.8	7.6	0.8	8.3	1.6	6.7
1989	0.4	0.5	2.1	3.0	5.2	8.2	2.3	5.9
1990	0.2	6.5	0.5	7.2	3.5	10.7	7.7	3.0
Peru								
1981-1983	0.1	-0.5	-1.6	-2.1	-1.2	-3.3	-0.5	-2.7
1984-1987	0.3	5.9	0.8	6.8	-0.1	6.7	1.0	5.9
1988	-1.7	-4.2	-2.6	-8.5	-2.1	-10.6	-2.2	-8.4
1989	-1.4	-13.6	-3.4	-18.4	3.0	-15.4	-4.0	-11.4
1990	-0.4	-1.7	0.7	-1.4	-1.2	-2.6	2.3	-4.9
Dominican Republic								
1981-1983	0.8	2.4	-1.6	1.7	-0.3	1.4	-2.1	3.4
1984-1987	-0.2	1.1	2.1	2.9	0.4	3.3	1.1	2.3
1988	0.7	-4.3	2.5	-1.1	2.2	1.2	0.2	1.0
1989	0.1	5.1	2.4	7.6	0.6	8.2	3.7	4.5
1990	-0.8	-4.8	-3.5	-9.1	1.1	-8.0	-3.2	-4.8
Uruguay								
1981-1983	0.1	-8.3	-3.2	-12.1	1.4	-10.3	-4.5	-5.2
1984-1987	0.6	4.7	-0.4	5.0	0.0	5.0	1.1	4.0
1988	-0.4	-1.7	0.5	-1.6	1.4	-0.2	-0.1	-0.2
1989	0.2	-1.3	0.2	-0.9	1.4	0.5	-0.1	0.6
1990	0.6	-2.8	-0.4	-2.6	2.3	-0.3	-1.1	0.8
Venezuela								
1981-1983	0.1	-1.7	-2.7	-4.4	-1.7	-6.3	-3.2	-2.9
1984-1987	0.3	2.6	-0.6	2.3	1.0	3.2	0.9	2.4
1988	1.4	5.0	1.7	8.1	3.0	11.1	5.2	5.9
1989	-0.3	-13.3	-5.0	-18.5	1.2	-17.3	-9.5	-7.8
1990	1.0	1.1	-0.4	1.6	3.6	5.1	-0.7	5.8

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Includes variation in stocks. ^b Government consumption was estimated on the basis of incomplete information.

^c Government consumption and variation in stocks were estimated on the basis of incomplete information.

Table 8
**LATIN AMERICA AND THE CARIBBEAN: RELATIVE SHARES OF
 COMPONENTS OF GROSS DOMESTIC PRODUCT AND OF
 GROSS NATIONAL INCOME, AT MARKET PRICES^a**
(GDP = 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
1971-1980	76.7	22.4	99.1	16.0	15.1	-2.3	2.2	95.7
1981	78.2	22.9	101.1	15.7	16.8	-0.8	3.9	95.4
1982	77.3	20.3	97.5	16.4	13.9	-2.7	5.3	92.0
1983	76.0	16.8	92.8	18.1	11.0	-3.1	5.2	91.8
1984	76.2	16.0	92.2	18.9	11.1	-2.6	5.5	92.1
1985	76.2	16.2	92.4	18.3	10.7	-3.2	5.0	91.9
1986	76.5	16.8	93.3	17.8	11.1	-4.7	4.7	90.9
1987	75.8	16.8	92.6	18.8	11.4	-5.0	4.1	91.2
1988	75.8	16.5	92.3	20.0	12.3	-5.2	4.2	90.9
1989 ^c	75.6	16.0	91.5	20.7	12.2	-5.4	4.2	90.9
1990 ^c	75.7	15.9	91.6	21.6	13.3	-5.8	3.6	91.2

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Nineteen countries. ^b Includes variation in stocks. ^c Preliminary figures.

Table 9
LATIN AMERICA AND THE CARIBBEAN: INVESTMENT COEFFICIENTS
(Gross fixed investment as a percentage of gross domestic product)

	1980	1982	1984	1985	1986	1987	1988	1989	1990 ^a
Latin America and the Caribbean	23.2	20.3	16.0	16.2	16.8	16.8	16.5	16.0	15.9
Argentina	22.2	15.1	12.4	11.5	11.8	13.1	11.4	8.7	7.5
Bolivia	14.2	10.2	10.2	12.4	13.4	13.7	13.6	13.7	12.7
Brazil	22.9	19.5	16.2	16.2	18.7	17.9	17.0	16.7	16.0
Colombia	16.8	17.8	17.2	15.7	15.8	15.1	16.1	15.4	14.6
Costa Rica	23.9	14.3	17.7	18.5	19.6	20.7	19.3	21.1	23.2
Chile	16.6	13.0	12.4	13.4	13.5	14.9	15.3	16.9	17.7
Ecuador	23.6	21.0	14.3	14.6	14.7	17.0	14.4	14.4	14.4
El Salvador	13.6	12.6	11.6	12.6	13.4	14.3	14.6	15.8	12.6
Guatemala	18.0	16.5	10.3	10.1	11.8	15.4	15.2	15.8	15.5
Haiti	17.2	18.5	19.2	21.1	18.6	19.0	18.8	18.2	14.8
Honduras	24.3	15.6	22.4	20.1	16.7	14.9	15.0	15.3	13.9
Mexico	24.8	22.2	17.0	17.9	16.4	16.1	16.8	17.3	18.9
Nicaragua	14.6	18.0	18.7	19.8	18.7	19.1	21.0	17.5	16.4
Panama	24.3	26.3	19.0	19.4	20.6	20.2	10.9	9.4	10.9
Paraguay	27.2	24.3	20.1	19.4	20.0	20.4	19.8	20.7	20.6
Peru	23.5	25.5	18.1	15.7	17.1	18.8	17.7	16.1	17.7
Dominican Republic	23.9	16.2	18.8	18.0	18.1	23.6	25.8	27.0	24.7
Uruguay	21.0	19.1	10.8	8.5	8.8	10.4	10.9	11.0	10.5
Venezuela	29.2	28.7	17.9	19.1	19.6	18.9	19.4	15.7	14.4

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Preliminary figures.

Table 10
LATIN AMERICA AND THE CARIBBEAN: FINANCING
OF GROSS CAPITAL FORMATION^a

	1971- 1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^b
Coefficients in respect of gross domestic product											
1. Gross domestic savings	24.6	23.0	23.4	23.0	23.8	24.7	23.9	25.0	25.2	24.6	24.1
2. Net external factor payments	2.2	3.9	5.3	5.2	5.5	5.0	4.7	4.1	4.2	4.2	3.6
3. Unrequited private external transfer payments	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.5	0.5
4. Terms-of-trade effect	-2.3	-0.8	-2.7	-3.1	-2.6	-3.2	-4.7	-5.0	-5.2	-5.4	-5.8
5. Gross national savings (1 - 2 + 3 + 4)	20.3	18.4	15.4	14.8	15.9	16.7	14.7	16.2	16.1	15.4	15.3
6. External savings	3.4	5.7	5.5	1.0	0.1	0.5	2.5	1.4	1.4	0.6	0.4
7. Gross capital formation (5 + 6)	23.7	24.1	20.9	15.8	16.1	17.2	17.2	17.6	17.5	16.1	15.7
Other coefficients											
Domestic savings/gross capital formation	103.8	95.4	111.7	145.5	148.3	144.2	138.8	142.2	144.4	152.8	153.2
Deterioration in terms of trade/domestic savings	-9.1	-3.4	-11.4	-13.3	-10.8	-13.0	-19.8	-20.0	-20.6	-22.0	-24.0
Net external factor payments/domestic savings	-8.8	-17.0	-22.9	-22.8	-23.0	-20.3	-19.5	-16.4	-16.7	-17.0	-14.8

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

^a Nineteen countries. ^b Preliminary figures.

IV. INFLATION

A widespread increase in inflation was seen in 1990, and some countries found themselves on the brink of hyperinflation. In response, stringent stabilization policies were re-introduced in most of the countries in the region. Indeed, the only exceptions to the above were Barbados, Bolivia, Panama, Trinidad and Tobago and the smaller States of the Caribbean, which recorded moderate rates of inflation (i.e., annual rates below 20%). Owing to the above and, in particular, to the influence of those countries which were edging towards hyperinflation during the first half of the year, the average consumer price index for the region as a whole rose for the fourth year in a row, climbing from 1 160% in 1989 to 1 260% in 1990 (see table 11). It should be noted, however, that this overall figure was the net result of quite different trends from country to country and from one part of the year to another. In fact, the measures adopted by the countries experiencing the most severe inflation led to such a sharp slowdown in the rate of price increases that inflation for the region as a whole fell to an annual rate of less than 200% in the final quarter. However, during this same period a number of countries which have traditionally had low inflation or which had carried out successful adjustments in recent years exhibited a considerable increase in inflation.

Almost all the economies which suffer from chronically high inflation either verged on hyperinflation or actually experienced it in 1990, with the cumulative 12-month increase in the consumer price index peaking at 20 000% in Argentina (March), 6 600% in Brazil (April), 13 500% in Nicaragua (December) and 12 400% in Peru (August), although in the case of Peru, this rate incorporates the effect of a policy package designed to administer shock treatment to the economy. Although the rate of price increases was on the rise in Uruguay as well, its peak level (an annualized rate of 130% in November) was

still well below that of the above-mentioned countries.

Although trends varied, the annual rate of price increases remained high at levels of between 30% and 70% in all but one of the economies in which high inflation is a relatively recent phenomenon. Despite Mexico's earlier success in lowering inflation, an upsurge in 1990 raised the annual rate to 30%. In contrast, the severe stabilization programme implemented by Venezuela in 1989 slowed its rate of inflation, although the level for 1990 was still 36%. Both Ecuador and the Dominican Republic continued to suffer from high inflation, as they have since 1988, but whereas Ecuador managed to reduce its rate by a slight amount to 50% annually, the Dominican Republic experienced a flare-up which caused domestic prices to jump by 100%. The exception within this group of countries was Bolivia, where annual inflation was held below 20%.

This upward trend was also seen in countries where the rate of inflation has been moderate for a number of years. The annual rate climbed from 26% to 32% in Colombia, from 10% to 27% in Costa Rica, from 21% to 27% in Chile, from 20% to 60% in Guatemala, from 11% to 24% in Haiti, from 11% to 35% in Honduras, and from 29% to 44% in Paraguay.

Inflation was low in very few countries; whereas Trinidad and Tobago saw a price rise of over 10%, Panama's inflation remained at the extremely low levels it has exhibited since 1984 and prices in Barbados rose by only 3%.

Hence, the countries of the region can be said to fall into one of two groups in terms of inflation trends. On the one hand, there were economies which managed to ease their more acute inflationary pressures, although their monthly rates of inflation were still high. On the other hand, there were many countries in which inflation was substantially higher than usual.

However, in some of these countries it is unlikely that inflation will continue to accelerate as sharply as it has in the recent past. Particularly in Central America, most of the steep price increases seen in 1990 may well have been due to an isolated inflationary surge (caused, primarily, by exchange corrections that were made after many years of immobile exchange rates or by the rise in oil prices) and may therefore not necessarily signal a permanent shift towards a pattern of higher inflation. Meanwhile, the steep drop in the rate of price increases observed in the high-inflation countries during the closing months of 1990 (even though their monthly rates were still extremely elevated in some cases) coincided with quite serious recessions and a significant decrease in the real exchange rate. In these cases, a very marked degree of monetary restraint (and, hence, high real interest rates), the relaxation of foreign exchange controls and short-run inertial inflation have pushed up the value of the local currency; although it is true that this has helped to dampen inflation, it has also tended to weaken these countries' export strategies.

Another factor was that the decline in the real exchange rates of some large countries hindered their smaller neighbours' efforts to curb inflation by diverting demand to the latter. This was the case in Bolivia, Paraguay and Uruguay, which experienced a sharp rise in purchases by Argentine, Brazilian and Peruvian tourists during the second half of the year.

The increase in inflation prompted the authorities to implement or intensify stringent fiscal adjustment measures. Heavier tax burdens, widespread hikes in the prices of public goods and services, stricter controls on tax collection mechanisms, and public spending cuts enabled many countries to reduce their public sectors' financial deficits and, consequently, their

demand for bank credit. Moreover, in those countries which experienced hyperinflationary episodes, fiscal management came to be based on a cash-flow perspective whereby expenditures were limited to the sum of monthly revenues in an effort to dissociate the expansion of the money supply from the public sector's financing requirements. This strategy was coupled with arrears in service payments on both domestic and external debts, which constitute a form of involuntary lending by creditors and hence add to the public sector's already high levels of indebtedness. However, the inflationary pressures associated with a money supply that had outstripped public demand persisted in these cases due to the fact that the conversion into local currency of the private sector's large external trade surpluses led to a steep rise in the small real monetary base which is left in the wake of an acute inflationary process and which, by virtue of its smallness, stifles the private sector's demand for goods. On the one hand, if a central bank buys up all the foreign currency which the private sector is willing to exchange, it will produce an expansion of the money supply that will bolster inertial inflation and thereby create a situation in which the real demand for money and non-tradables is manifested at higher price levels; this, in turn, may lead to another burst of inflation. On the other hand, if a central bank withdraws from the market, the real exchange rate will tend to fall below the level needed to stimulate export flows. Thus, owing to these circumstances, the considerable external and fiscal adjustments that have already been made –and which have been accompanied by clearly recessionary conditions– have not sufficed to solve the problems of price instability experienced by most of the Latin American countries.

1. Stabilization efforts in high-inflation countries

New outbreaks of hyperinflation prompted the implementation of drastic stabilization programmes in the countries which are chronic sufferers of high inflation. The monthly rate of price increases in Argentina plunged from nearly 100% in March to slightly over 10% from April; it then levelled off at around that rate until

October, when it began to decline even further, reaching 5% in December. Brazil's monthly rate of inflation dropped from 84% in March to 8% in May, but it then began to rise gradually once again and by December it amounted to 18%. In Peru monthly inflation fell steeply from September onward, after having totalled 400% in

August owing to the effects of the stabilization measures adopted in that country, but then jumped to 24% in December. In Uruguay the monthly variation in prices declined from 15% in September to 5% in November and December. In contrast, Nicaragua exhibited a different price pattern from the above four countries, since its rate of inflation rebounded to the extremely high levels of earlier years when the country's new government introduced sweeping economic policy reforms (see figure 5).

In **Argentina**, prices soared by somewhat more than 1,300% during 1990, but towards the end of the year inflation was clearly on the decline. Whereas the average variation in the consumer price index approached a monthly rate of 80% during the first quarter, the rise in this index averaged 6% per month during the final quarter of the year. The switch from a hyperinflationary spiral to lower (although still high) rates was made possible by a decision to take a harder line in the area of fiscal and monetary policy and was accompanied by sharp movements in relative prices. The real exchange rate, in particular, dropped steeply, and the corollary to this was a rapid escalation of the relative prices of private services.

In late 1989 capital flight had intensified as domestic assets were rapidly converted into foreign currency, thereby setting a trend which marked the end of the previous stabilization programme. The government's response was to convert fixed-term deposits above a certain amount into long-term, dollar-denominated government securities. As a result of this measure, the public sector sharply reduced its short-term callable debts, especially in terms of interest-earning reserves on deposits; at the same time, the volume of financial claims denominated in the local currency plummeted. This sparked the sudden appearance of an excess supply of foreign exchange which, in its turn, gave rise to a considerable drop in the exchange rate. Inflation eased for several weeks and liquidity was rapidly regained. Early in February, however, a large increase in public rates and charges, the growth of the money supply and mounting inflationary expectations exerted pressure on the exchange rate. Once again, patterns typical of hyperinflation were observed; prices were expressed in dollars, the supply of

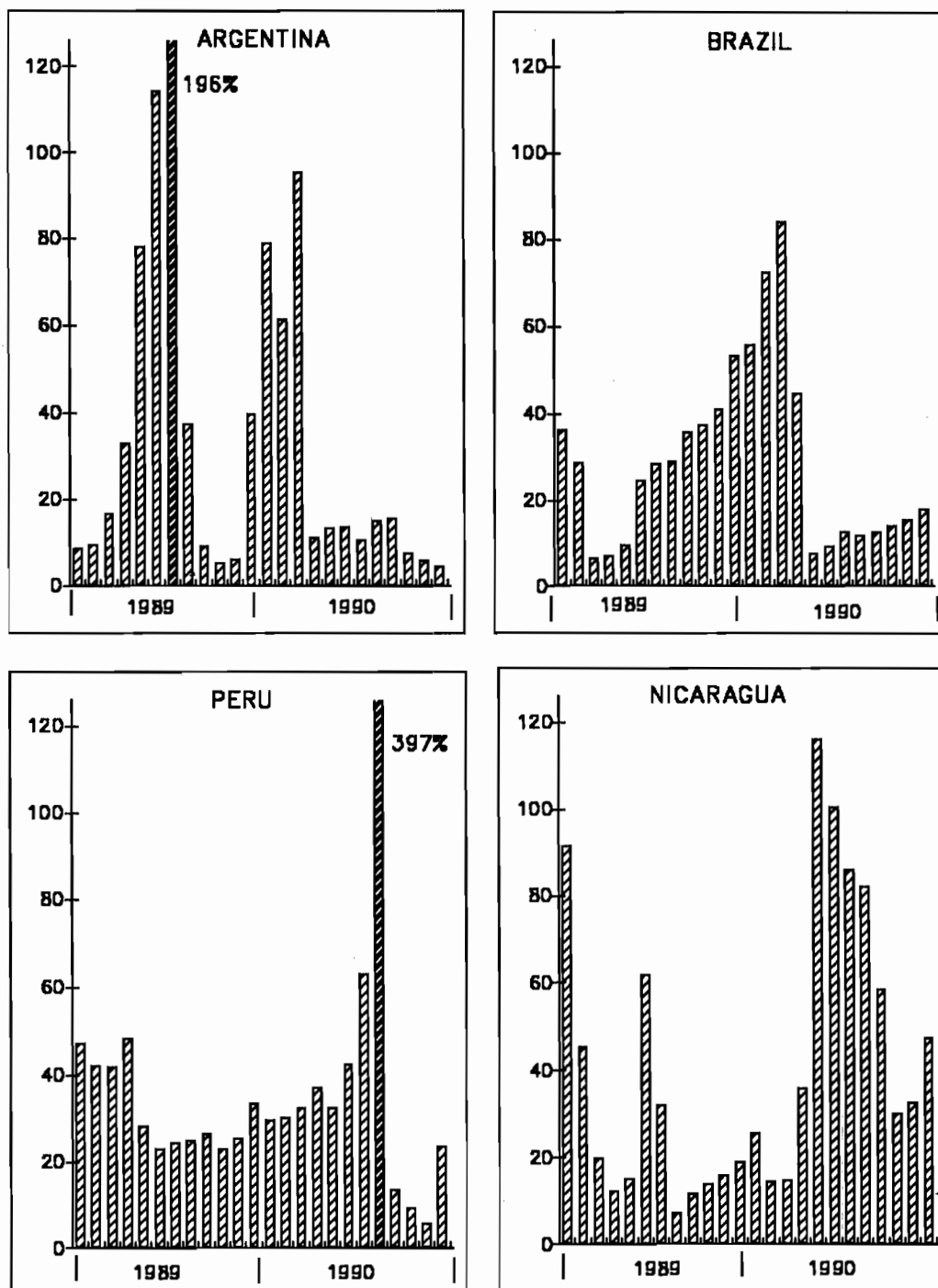
merchandise was restricted, and real money holdings decreased markedly. Faced with this new flare-up, the authorities took steps to strengthen the Treasury's management and to curb the growth of the money supply. These measures included the management of public enterprises' finances through a single account under the supervision of the Ministry of Economic Affairs, the suspension of purchases from and payments to suppliers, cuts in subsidies and a reduction of rediscounting. The announcement of these measures proved to be an effective means of halting the flight of local currency; the price of the dollar fell and price increases slowed. Despite the relatively low level of public-sector income, the Treasury recorded primary surpluses in the second and third quarters. Up to June, an increase was seen in what had previously been the very weak demand for money, and this decompressed the foreign exchange market. The Central Bank bought up a large amount of foreign currency, thereby bolstering its reserves, while the exchange rate exhibited a slight upturn. Although price rises slowed, the average monthly rate of inflation for the second quarter of the year was still 13%.

In August, inflation topped 15% as a result of sharper increases in public rates and charges and of the upward trend in the exchange rate, which was compounded by a decrease in the Treasury's primary surplus and flagging demand for real money balances. The government responded to this situation by adopting additional measures for refinancing the State's debts and for ensuring a more stringent form of cash management in the public sector, especially in State firms. A significant increase in the prices of public-sector goods and services was also announced, as was a strict monetary programme. As had occurred in the past as well, the decline in the money supply had an influence on the exchange rate, which fell by 10% in nominal terms between August and November. Prices continued to climb fairly rapidly for a time, but inflation then slid back to 7.5% in October, to 6% in November and to less than 5% in December.

The differing trends observed in domestic prices and in the exchange rate led to sharp swings in the real exchange rate. Many transactions were dollarized during the hyperinflationary episodes of 1989 and early

Figure 5

MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEXES OF ARGENTINA, BRAZIL, NICARAGUA AND PERU (Percentages)



Source: ECLAC, on the basis of official figures.

1990 but, on the whole, domestic prices displayed more movement than foreign exchange values did and exhibited notably less downward flexibility. Thus, whereas the real value of the dollar (in relation to the consumer price index) was high during the first quarter, in November it slipped below the lower limit of the range of variation seen in recent years. Real wages, for their part, decreased considerably early in the year but later recovered; consequently, towards the end of 1990 real wages in industry were below their historical averages but were above the low levels observed during the country's bouts with hyperinflation.

In **Brazil**, inflation amounted to 1 800% for the year, which was similar to the figure for 1989. Nonetheless, this overall figure tells us little about the enormous changes which occurred during 1990. In the first quarter the economy was on the verge of hyperinflation as the monthly rate of price increases reached 84% in March, indexation came into very widespread use, and the hefty fiscal deficit was being covered by new government bond issues that paid increasingly high nominal interest rates, which meant that the public sector's financing requirements were continually on the rise. The new administration, which took office in March, immediately embarked upon a Draconian stabilization plan whose chief components were a freeze on two-thirds of financial claims, the creation of a new currency (the cruzeiro) and the restructuring of public finances. In addition, prices and wages were frozen, the exchange rate was allowed to float, and indexation was eliminated. The freeze which was placed on government bonds—whereby their redemption was deferred for 18 months—and on the compounding of their interest immediately reduced the public sector's financing requirements. Other measures that also helped to lower its borrowing needs were the creation of new taxes (including a special tax on currency conversions), the raising of existing taxes, the discontinuation of tax incentives and subsidies, and a more determined effort to clamp down on tax evasion. In order to reduce public expenditure, the government proceeded to eliminate a number of official agencies and announced staff cuts. All these measures were aimed at sharply reducing the fiscal deficit (in fact, a surplus in public-sector accounts was

expected) and quelling inertial inflation by prompting a turnaround in expectations.

The results of the plan were both immediate and striking. Inflation dropped steeply in April owing to the economy's extreme illiquidity. At the same time, production activities ground to a halt as economic agents adapted to the new liquidity conditions, and this led to an increase in unemployment and a decrease in real wages. In view of the severity of the recession, the country's economic authorities decided to provide greater opportunities for the conversion of financial assets into cruzeiros, especially for the payment of taxes and wages. These measures, in conjunction with the Central Bank's large-scale purchase of dollars, caused the monetary base to expand by over 150%.

The greater amount of liquidity and the uncertainty which prevailed in respect of financial assets prompted an upturn in consumer spending, but they also sparked a new burst of inflation, which reached a monthly rate of 10% in June. In response, the authorities removed price controls, re-instituted open wage negotiations, and introduced new, unindexed government bonds at the same time that they began to put together a stringent monetary policy and continued to allow the exchange rate to float. Given the country's large trade surplus, the currency float resulted in an appreciation of the cruzeiro; although the Central Bank's purchase of dollars slowed the cruzeiro's ascent, it also made the management of monetary policy more complicated.

During the second half of the year, the struggle to bring down inflation became more difficult. The rate of inflation crept upward, and by the end of the year it had reached a monthly figure of over 18% and was still on the rise. Much of the difficulty of lowering inflation stemmed from the oligopolistic structure of a number of markets for manufactures, which made it possible to maintain large profit margins; in addition, the recent steps to liberalize trade had not yet helped to narrow intermediation spreads. The Central Bank tried to maintain the severity of its monetary policy with the same severity as before, but major policy swings were nonetheless to be observed, and this was reflected in sharp fluctuations in interest rates. The authorities' anti-inflation policy ran into problems due to the weakness of the

financial system, which made it necessary for the Central Bank to intervene in order to support some banking institutions. At this point the recession was also beginning to affect tax revenues. The further rise in inflation prompted the reintroduction of indexation on an unofficial basis, especially in the case of private-sector wages and financial transactions; this form of indexation was facilitated by Argentine firms' and banks' wealth of experience with such mechanisms. Nevertheless, the average real wage paid in the manufacturing sector apparently fell by over 10%. Meanwhile, the exchange rate skyrocketed in October and November as a consequence of the sharp drop in trade balances. Although this steep devaluation put Argentina in a more competitive position, it also helped to spur inflation, particularly because of the increasingly widespread use of indexation mechanisms (see figure 6).

Hyperinflation and efforts to bring it under control dominated the economic scene in 1990 in Peru as well. The change of government which took place midway through the year marked off the dividing line between two very different periods; whereas the annualized rate of inflation for the first seven months of the year verged on 5 000%, the severe adjustment programme which was implemented by the new administration succeeded –after its strong initial impact– in lowering the annualized rate to 200% during the period from September to November, although inflation was up again in December. The net result was a 7 650% increase in prices during 1990, which was three times as high as the already high 1989 rate.

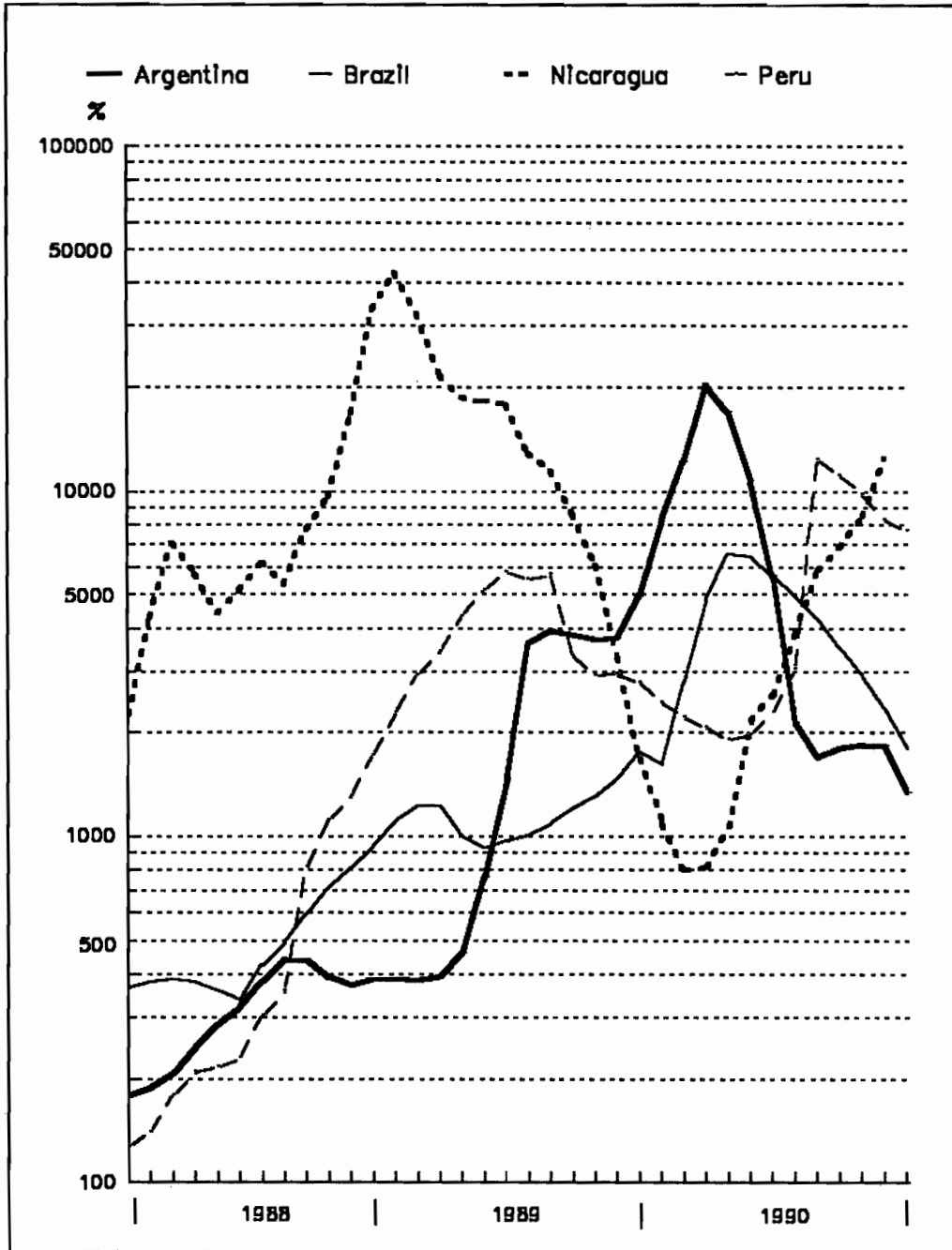
Up to July, persistent fiscal imbalances –which sparked a rapid increase in the money supply– and distortions in relative prices (particularly the low levels of the exchange rate and of controlled rates and prices) fueled unfavourable expectations and an upward trend in inflation which brought its monthly rate up to an average of 38%. Under these circumstances, production remained sluggish while international reserves fell owing to the fact that the exchange incentives which had favoured imports since 1989 were maintained. In April, however, this policy was modified, and thereafter the devaluation of the currency was more rapid, with

the exchange rate nearly doubling each month. As a result, the situation was turned around and the trade balance began to show a surplus.

In August, the new administration began to implement a severe stabilization and internal adjustment policy. Price controls were lifted, whereupon prices jumped by between 200% and 300%, while the price of gasoline soared by 3 000% and the rates charged for public services were raised by between 1 000% and 2 000%. In the fiscal area, tax exemptions were eliminated, the sales tax was lowered –in an effort to increase revenues by reducing tax evasion, which was rampant– and a cash-on-hand criterion was applied to spending. In addition, tariffs were lowered, the multiple exchange rate system was done away with, and the exchange rate was allowed to float; the immediate effect of this latter step was that the exchange rate shot up in the early part of August, but thereafter declined. The Central Bank then stepped into the exchange market in order to prevent the value of the inti from being pushed up by the increased supply of foreign exchange that was entering the economy as a result of the trade surplus and the inputs of private external capital which were being drawn in by the high interest rate on inti-denominated deposits. As a consequence of these measures, the consumer price index climbed by 397% in August, but its monthly rate of increase dropped to less than 10% in the following months. However, another rise in fuel prices then pushed the consumer price index up by 23% in December. The authorities' wage policy was intended to mitigate the drop in real income during the initial months of the adjustment, but they later announced that the minimum wage would be frozen in order to curb inflationary pressures; nonetheless, bilateral negotiations did take place between wage-earners and employers. Be that as it may, as of December real average wages were still lower than they had been during the first half of the year. The harshness of the adjustment dampened the demand for credit in both the public and private sectors, and from August onward the growth of the money supply was therefore chiefly a result of the exceedingly large increase in reserves; indeed, in the first three months of the programme, the Central Bank added US\$ 700 million to its international reserves (see figure 6).

Figure 6

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



Source: ECLAC, on the basis of official figures.

Nicaragua has registered extremely high levels of inflation ever since 1985, and in 1990 the rate skyrocketed once again to an annual level of 13 500%. As in the above-mentioned cases, anti-inflation measures were adopted which succeeded in slowing the pace of price increases to a monthly rate of around 30% in October and November, but in December inflation flared up once again, climbing to nearly 50%. The stabilization programme which had been introduced the year before had pulled the country out of its hyperinflationary spiral and had brought the annual rate of inflation down from 33 600% in 1988 to 1 700% in 1989. Then, however, the policy package that was implemented by the new administration in mid-1990 made major reforms in the policy applied by the preceding administration as the country moved from a centrally planned economy to a market economy. The new programme called for the privatization of business enterprises, the modification of the government's fiscal policy and the implementation of monetary reforms. A new currency unit –the gold córdoba– equivalent to one United States dollar was introduced as a unit of account and, the financial system's assets and liabilities were then converted into this new unit. Fiscal policy provided for the reduction of subsidies, the indexation of the rates charged for public services and of taxes (by denominating them in the new currency), changes in the tax system and lower tariffs. Despite these measures, the central government's tax receipts dropped by six percentage points of GDP owing to the rise in inflation, the recession and administrative difficulties stemming from the change-over of government, and the fiscal deficit consequently expanded from 6% to 14% of GDP. This large deficit was almost wholly covered by currency issues, which soared during the second quarter; in fact, the monetary base increased by a factor of 65 during the year. In addition, large devaluations were made as a means of consolidating the foreign exchange system; as a result, the average exchange rate grew by a factor

of 20 between April and September and more than doubled between September and December. Given these circumstances, prices spiralled upward as the monthly rate of inflation jumped from 36% in April to 116% in May, but then slowed to 101% in June. During the second half of the year the rise in domestic prices gradually slackened; however, it remained quite high and rose considerably once again as the year drew to a close (see figure 6).

In **Uruguay**, inflation climbed to an annual rate of 130% despite a successful fiscal adjustment which cut the public sector's global deficit by half (3% of GDP). The combination of a significant increase in fiscal income (10%) and of a decrease in expenditure (-5%) balanced the non-financial public sector's accounts, thereby considerably reducing the money creation derived from the extension of credit to the government. In fact, the level of such credit was actually negative, since foreign-currency financing was obtained through the sale of government bonds. However, the money supply more than doubled during the year, chiefly owing to the demands which interest payments placed on the Central Bank's quasi-fiscal deficit (3% of GDP). The stronger demand generated by tourists from neighbouring countries, due to the appreciation of their currencies, and the impact of rising oil prices also helped to push domestic prices upward. Finally, the widespread use of existing indexation procedures tended to sustain inertial inflation and thus significantly influenced price-makers' expectations. One quite influential factor in this respect was the system for adjusting wages in the private sector. Under this system, adjustments had been made once every four months based on the rate of inflation during the preceding four-month period, but such adjustments then began to be made on a quarterly basis as a trigger clause entered into effect which provided that wages were to be adjusted whenever inflation exceeded a specified level (see figure 7).

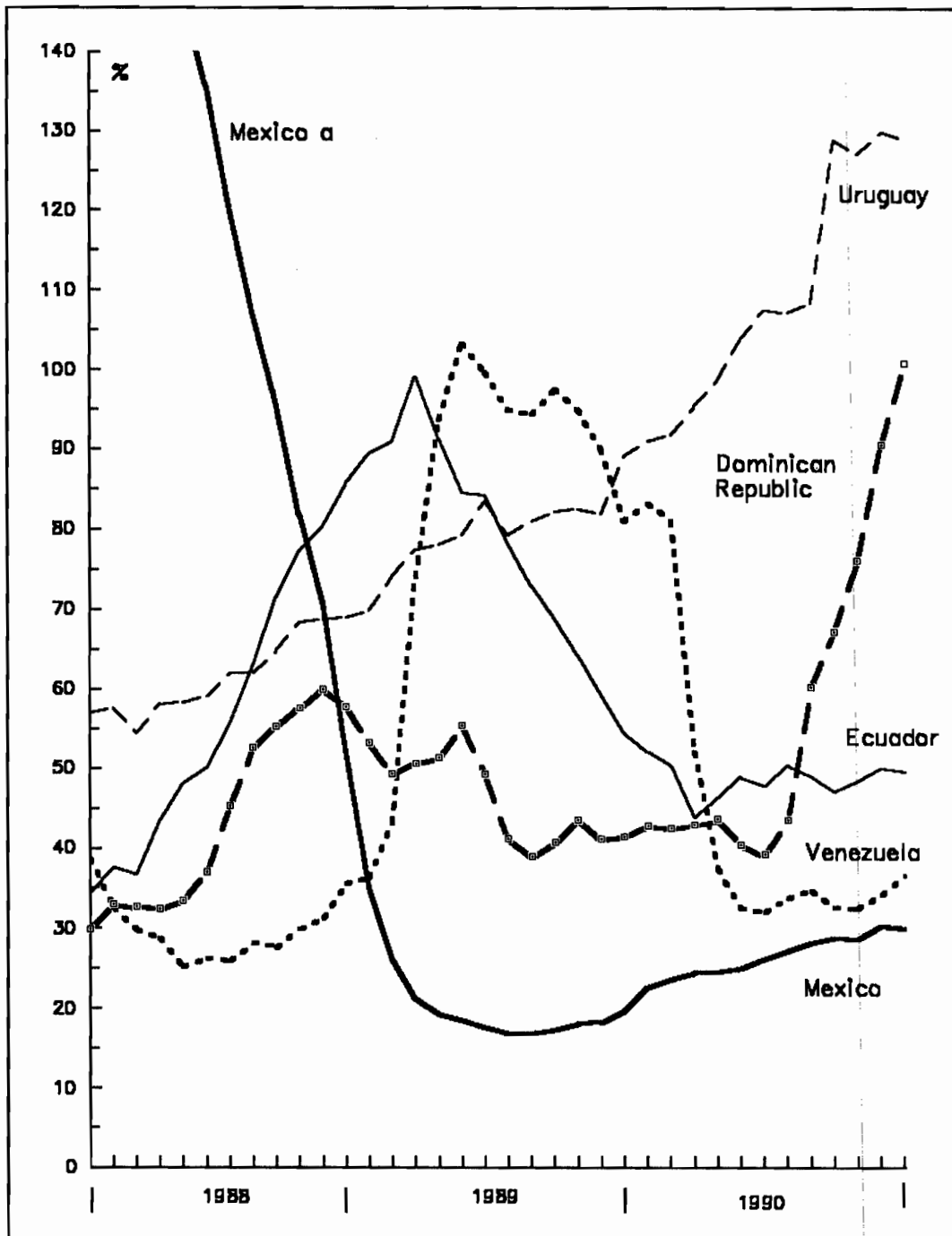
2. Stabilization programmes under way

Most of the countries which have only recently begun to register high levels of inflation continued to pursue the stabilization programmes

which they had initiated in earlier years. The results of these programmes varied. Inflation slowed markedly in Venezuela, dropping from

Figure 7

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



Source: ECLAC, on the basis of official figures.

a Does not cover the period from January to June 1988, during which inflation fell from 176.9 to 135.8%.

81% in 1989 to 37% in 1990, thanks to the stabilization plan which had been launched the year before. In Ecuador, the rate of inflation dipped slightly, but was still about 50% in 1990. Mexico, on the other hand, experienced an upsurge which raised the rate from 20% to 30%. Bolivia's inflation rate rose slightly, but was still below 20%, thereby maintaining the trend of small price increases which has been observed in that country since 1987.

In **Venezuela**, inflation slackened thanks to the progress that was made towards restoring basic macroeconomic balances. The slower rate of increase in the consumer price index –an annual rate of 81% in 1989 versus 37% in 1990– was partly accounted for by an easing of the pressures created by the corrections in relative prices (including the exchange rate) which had raised the rate of inflation to record highs in 1989. The government's financial policy remained a cautious one on the whole, although the recent increase in oil revenues posed some problems in terms of the management of monetary variables. During the early part of the year, the status of fiscal accounts deteriorated somewhat owing to the poor operational performance of some State enterprises in sectors other than oil production and to a delay in raising domestic oil and natural gas prices to their programmed level. Moreover, a substantial portion of the Treasury's losses in connection with the partial exchange guarantee (which was granted for the payment of letters of credit for imports purchased under the former system of multiple exchange rates) had been carried over to the government's 1990 accounts. In order to deal with this situation, in July a decision was taken to raise the price of gasoline by 35%; however, this increase was to be phased in over a period of six months in order to avoid a repetition of the violent protests which had broken out after gasoline prices were raised by 100% in February 1989. In addition, efforts to restructure public enterprises were redoubled and reductions in tariffs (particularly on farm products) which had been scheduled for a later date were brought forward in order to expand supply. In order to prevent the faster growth of monetary aggregates in the early part of the year from fanning inflation and hurting the exchange market, in May and June the authorities took steps to siphon off liquidity from the banking

system by hiking the minimum reserve requirement and offering higher interest rates on its financial instruments. Furthermore, early in July the general discount rate was increased from 33% to 43%. However, the brighter outlook for the external sector from August onward led to an inflow of private capital, and in September the Central Bank allowed the yield of its short-term commercial paper to fall sharply in order to forestall an undesired rise in the value of the local currency in terms of the dollar. A larger inflow of foreign exchange, together with an increase in domestic fiscal expenditure, caused the monetary base and liquidity to expand more than had been foreseen, and this was reflected in a stronger demand for financial instruments denominated in the local currency. During the closing months of the year, public finances improved so much, thanks to higher earnings from oil exports, that the fiscal deficit was practically eliminated. In view of the temporary nature of these higher earnings, the government moved up its plans to retain a large part of this income in a stabilization fund in order to avert an excessive increase in public spending. This relaxation of the government's adjustment policy in response to the improvement in external and fiscal accounts was one of the factors which helped to speed up inflation during the final months of the year; thus, prices rose by a monthly rate of 3% in the last quarter, as compared to the 2% rate recorded during the early months of the year (see figure 7).

In **Ecuador** inflation slowed slightly as the country's fiscal imbalance was eliminated and a policy of wage restraint was pursued. Other factors which also played a part in this reduction included the moderate rise in the exchange rate and the initiation of steps designed to gradually open up the economy to external trade. As a result, inflation –which had been running at an annualized rate of 65% between January and April– dipped to an annual level of 35% between May and August. However, it was difficult to control the growth of the money supply that was caused by the unexpected increase in international reserves as a consequence of higher earnings on oil exports. In order to counteract this expansionary pressure, the bank reserve requirement was raised and tighter controls were imposed on the repayment of the private external debt, which had previously been converted into

local currency. Meanwhile, the jump in oil prices that was triggered by the crisis in the Persian Gulf and the decision to maintain interest payments on the external debt at 30% of the amount due eased the pressure on government accounts. The net result was that inflation in 1990 amounted to 50%, which was slightly less than the year before (see figure 7).

Inflation climbed to an annual rate of 30% in **Mexico**, after having plunged from 159% in 1987 to just 20% in 1989. The rate of increase in domestic prices sped up during the initial months of the year following a number of adjustments in the rates and prices of public services and staple foods, as well as a loosening of monetary policy. The extension of the Pact for Stability and Economic Growth (PECE), which had entered into force the year before (although the use of its instruments was made somewhat more flexible), the decline in the rate of devaluation to an annual pace of 12%, and the continuance of a cautious fiscal policy all helped to lower inflation to a rate only slightly higher than that seen in 1989 between March and October. In November and December, however, an apparently temporary surge in inflation was sparked by adjustments in the administered prices of products included in the staple food basket and in the rates charged for public services, a parallel increase in the prices of private services (as often occurs under these circumstances), and the seasonally higher level of liquidity. These adjustment measures were adopted within the framework of the extension of the PECE up to the end of 1991, as was the establishment of a slower rate of devaluation for the period in question (see figure 7). The fiscal adjustment continued to constitute an important tool in the effort to combat inflation. The public-sector deficit shrank further and a large primary surplus was obtained once again; a

particularly notable decrease was achieved in the central government's financial deficit, which was cut from 5% of GDP in 1989 to less than 3% in 1990. The reduction of the outward transfer of resources that was achieved through the renegotiation of the country's external debt (which, in its turn, improved the authorities' ability to manage the domestic debt) and the favourable situation in the oil market during the final months of the year bolstered public finances and thereby eased the inflationary pressures associated with the public sector's financing requirements. This sector's reduced demand for credit helped to bring down real interest rates while, at the same time, the decrease in government spending on this item freed up resources which were then used to provide subsidies for, among other things, the consumption of staple foods.

Bolivia continued to pursue the exacting stabilization programme which it has been implementing for several years now, with the result being an 18% rate of inflation in 1990, which was just slightly higher than the year before. However, neighbouring countries' low real exchange rates put added pressure on aggregate domestic demand, and this boosted inflation during the second half of the year. Although the authorities continued to follow the principal monetary and fiscal policy lines of earlier years, the country's increased competitiveness with its neighbours –all of whose real exchange rates were declining– heightened the demand for goods and services and therefore pushed up the rate of domestic inflation. Thus, after rising at an annualized rate of 5% during the first five months of the year, domestic prices climbed at an annualized rate of 40% in the last quarter of 1990 (see figure 8).

3. Steeper price increases in moderate-inflation countries

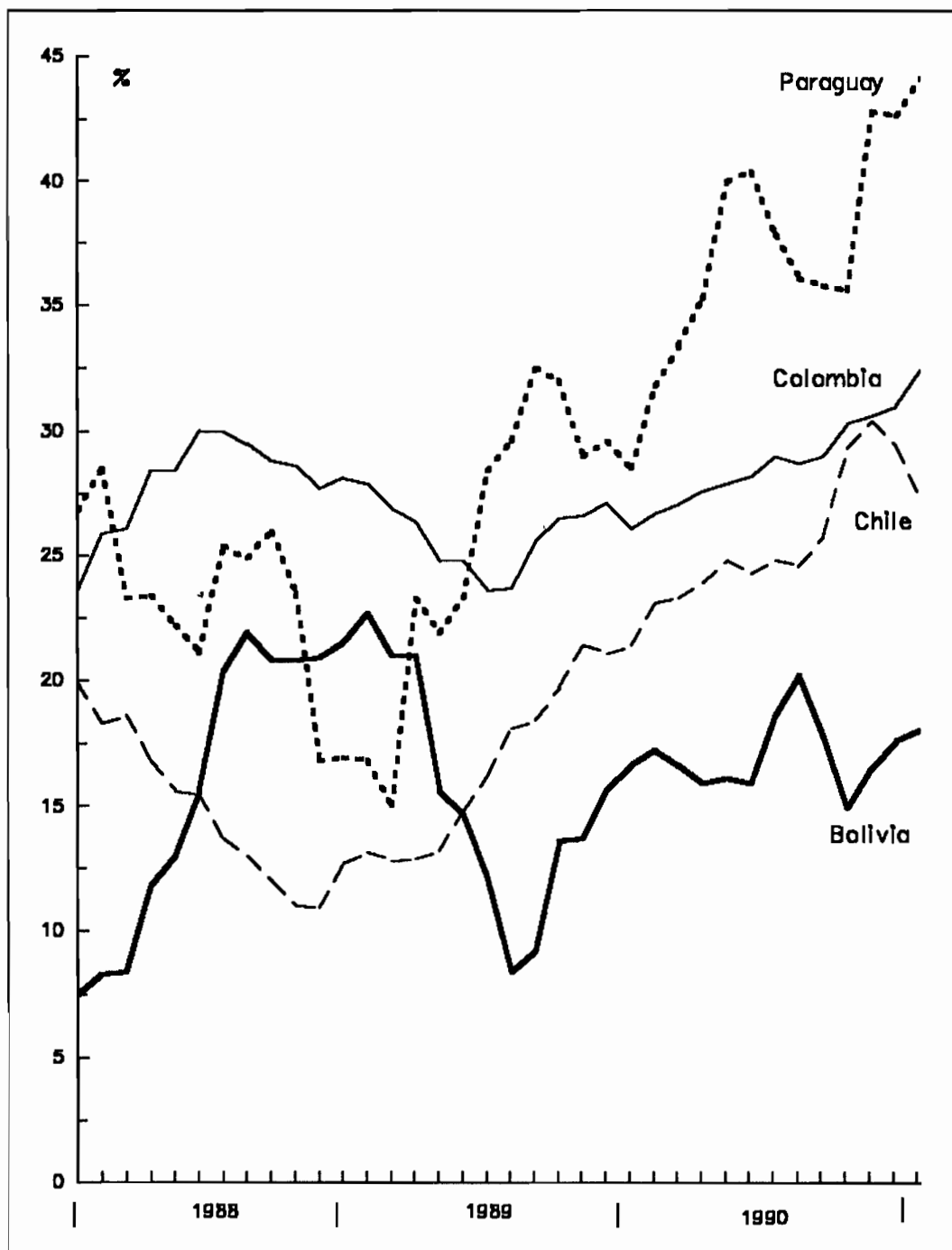
Eight countries in which inflation has been moderate in past years saw their rate of domestic price increases speed up, in some cases very sharply, in 1990. In five of these countries (Chile, Colombia, Costa Rica, Haiti and Honduras) inflation ranged between 25% and 35% in 1990, while it reached 44% in Paraguay, 60% in Guatemala and 100% in the Dominican

Republic. Inflation rose unusually steeply in most of the Central American countries. In addition to the specific circumstances which fueled inflation in each of these economies, the increase in oil prices added to inflationary pressures in all of them.

In **Colombia** prices climbed by slightly more than 32%. This was a somewhat higher figure

Figure 8

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



Source: ECLAC, on the basis of official figures.

than those recorded for the three preceding years, when inflation had averaged about 26%. This upward trend coincided with an increase of a similar magnitude in the growth rate of the money supply owing, for the most part, to the build-up of international reserves; fiscal accounts had less to do with its expansion, since the authorities managed to reduce the fiscal deficit. The local currency's rate of devaluation outstripped inflation, and the real exchange rate therefore rose steadily, while urban wage levels generally kept pace with the increase in domestic prices (see figure 8).

Chile's annual inflation rate rose to 27% despite the fact that fiscal accounts were balanced and a tight monetary policy was adopted that quickly checked the excessive domestic demand which had pushed up the rate of price increases significantly towards the end of 1989. Nonetheless, the inertial inflation entailed in the indexation of certain types of contracts and the cost-push pressures exerted by high interest rates, an increase in the value added tax, rising minimum wages and, then, the jump in oil prices all worked against a reduction of inflation. In the early months of the year, the Central Bank hiked real interest rates –which were already around 12% annually– in an effort to dampen the rapid growth of domestic demand, which had expanded by 13% in 1989. The payment of higher real interest rates (which reached a high of 16.5% per annum in March) restored the Central Bank's ability to place the paper it issued –particularly long-term instruments– in the market and thus allowed it to improve the maturity profile of its liabilities. This boosted the amount of foreign exchange flowing into the country via currency swaps (i.e., purchases of foreign currency involving a buyback clause), which in turn led to a steady increase in international reserves and exerted downward pressure on the real exchange rate. The resulting expansion of the money supply prompted the authorities to make successive reductions in domestic credit in an effort to maintain the constrictive effect of their monetary policy. Meanwhile, the Central Bank modified the regulations governing such swaps, as well as the interest rates and procedures for the sale of its securities. By the second quarter of the year these measures had stanching the inflow of currency; they also contributed to the decline in

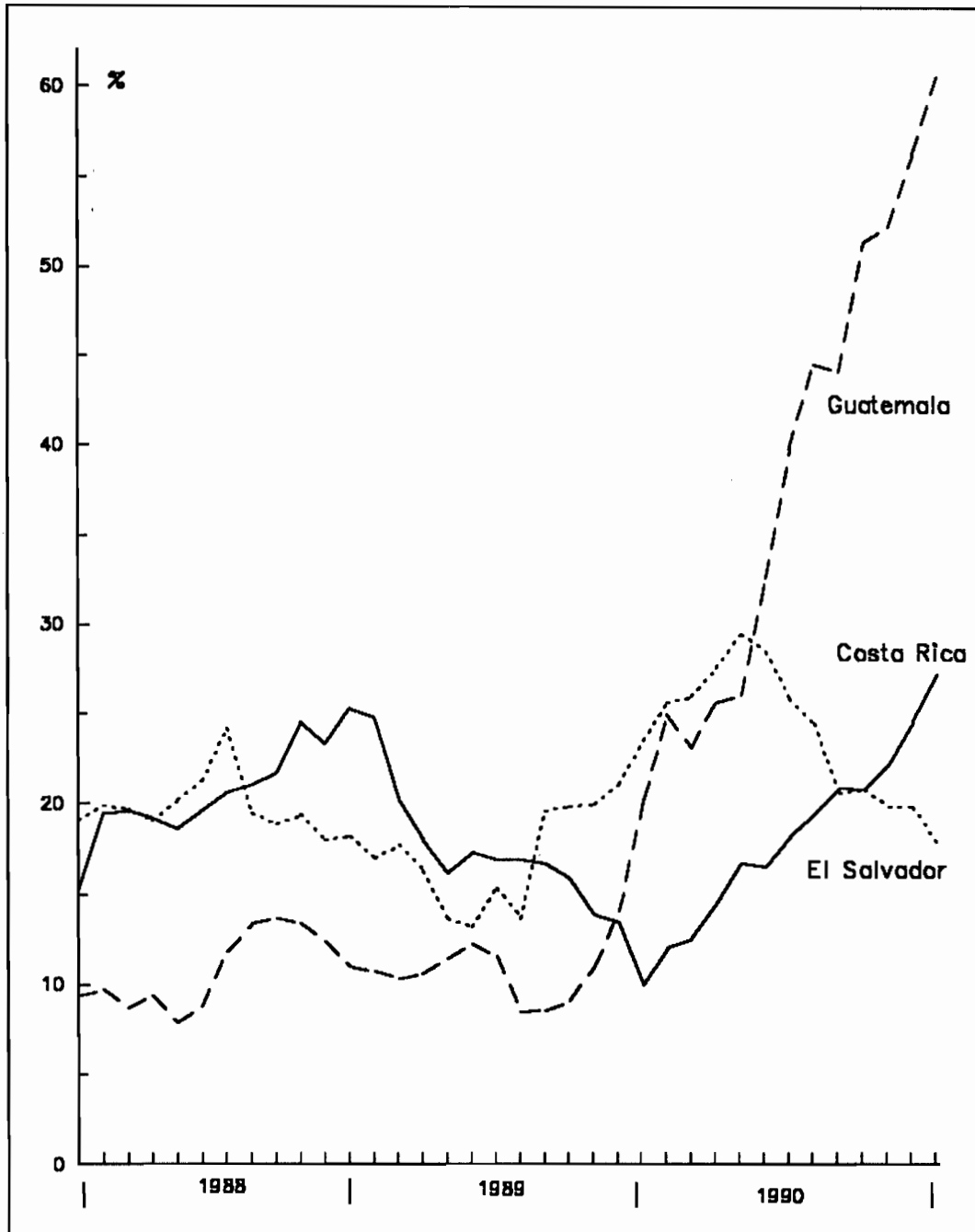
interest rates seen from October onward. Nevertheless, the high real interest rates paid out until that time, together with the massive inflow of short-term capital, held down the price of the dollar for most of the year and spurred a rapid increase in international reserves. The public sector supported the adjustment of domestic demand by reducing its real expenditure and by paying off a much larger share of its debt with the Central Bank than was required by law. Although tax receipts shrank, the relatively high price of copper on the international market allowed the authorities to achieve a fiscal balance. However, even though the tight monetary policy and high interest rates quickly put a stop to the expansion of aggregate demand, inflation proved to be more intractable than expected. Due, in particular, to inertial inflation and the impact of the rise in oil prices (which added around five percentage points to the consumer price index), the rate of price increases did not begin to decline until late in the year (see figure 8).

Costa Rica's rate of inflation had been reduced significantly the year before (from 25% to 10%), but in 1990 it rebounded to 27%. The larger fiscal deficit produced by a steeper increase in expenditure than in income, the more rapid rate of devaluation within the context of a weaker balance of payments position, and the effects of the jump in oil prices all played a part in boosting domestic inflation, which hovered around 2% per month (see figure 9).

Inflation accelerated in Paraguay (from an annual rate of 29% to 44%), mainly owing to the growth of the money supply brought about by the larger flow of credit to the private sector and the significant increase seen in international reserves. One factor that had a great deal to do with the rise in the level of reserves during the second half of the year was the upward movement in the exchange rate in both Argentina and Brazil, since this motivated tourists from these countries to buy more in Paraguay and thereby strengthened demand-pull pressures. This also had an impact on the exchange rate, which did not exhibit any major variations. The stability of the local currency thus helped to mitigate the pressure which the expansion of the money supply exerted on domestic prices. In mid-October steps were taken to limit rediscounting and to raise the discount rate; the

Figure 9

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



Source: ECLAC, on the basis of official figures.

bank interest rate was also liberalized (see figure 8).

In **Haiti**, the price index rose at the unusually rapid rate of 24%, in contrast to the 11% increase recorded in 1989. This upsurge in inflation coincided with a steep depreciation of the local currency against the dollar on the parallel market, where the rate climbed to a level 45% above the official exchange rate.

Domestic prices climbed at an annual rate of 35% in **Honduras**. This, too, was a record high and constituted a sharp increase from the 11% level seen in 1989. Contributing factors included the modifications that were made in the exchange system, which involved the elimination of the fixed rate of two lempiras to the dollar that had been in effect for decades, and the creation of an inter-bank market. As in the other Central American countries, the jump in oil prices was another influential factor in the uncustomarily high rate of price increases observed in 1990.

Guatemala's rate of inflation skyrocketed in 1990, with consumer prices climbing by more than 60%. This was the highest annual rate ever recorded in this country and stood out in sharp contrast to the 20% rate registered in 1989. Within a setting influenced by the national elections that were held in mid-November, the instability of the exchange market (which caused the local currency to fall by over 50% against the dollar), the growth of the money supply as a result of a larger fiscal deficit, and the impact of the rise in oil prices all fueled inflation, which was continuing upward towards the end of the year. In fact, during the final quarter of the year the annualized rate of inflation amounted to almost 90%.

An inflationary surge was observed in the **Dominican Republic**, where the rate of price increases hit 100% in 1990 after having declined from 58% to 42% in 1989. During the early part

of the year prices rose at a pace similar to that of 1989, but beginning in August the monthly rate of inflation moved into the double-digit range, and the cumulative rate for the second half of the year therefore totalled nearly 80%. This enormous increase was closely related to the devaluation of the currency and the jump in oil prices, as well as to the currency issues that were used to finance the public sector. Increases in fuel prices, which ranged from 80% to 110%, had a strong impact on the general price index, and their cost effect was magnified by the energy crisis. The series of devaluations implemented during the year pushed up the official rate for the dollar by about 80%. The shortage of essential goods (owing to speculative purchasing) and the price adjustments resulting from changes in the policy on government subsidies were also factors which, at various points in time during the year, contributed to the steep rise in inflation (see figure 7).

Unlike the situation in the other Central American countries, in **El Salvador** the inflation rate, which had stood at 24% in 1989, dropped back to below 20%. The implementation of a tight monetary and credit policy beginning in the second quarter and an improvement in public finances contributed to this slowdown in the rate of price increases during the second half of the year. The establishment of a free foreign exchange market furthered the shift towards an increasing formalization of external transactions, as well as promoting the dollarization of imports that had previously been purchased on the basis of informal arrangements with neighbouring countries, which had the effect of raising domestic prices. The price effect of the 20% increase in the nominal exchange rate was partly counteracted by the continuation of the tariff reduction programme, under which the maximum tariff was lowered from 55% to 35%.

Table 11
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variations from December to December)

	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Latin America and the Caribbean	130.8	184.8	274.7	64.5	198.3	759.4	1 157.6	1 260.1
Netherlands Antilles	...	...	...	...	2.4	3.3	4.0	3.2
Argentina	433.7	688.0	385.4	81.9	174.8	387.7	4 923.8	1 343.9
Aruba	...	...	3.6	1.8	3.5	3.9	4.3	...
Bahamas	3.5	4.5	4.8	5.4	5.8	4.5	5.3	4.7
Barbados	5.5	5.1	2.4	1.3	3.4	4.8	6.2	3.1
Belize	...	5.8	-0.6	3.3	2.0	2.9	2.2	4.0
Bolivia	328.5	2 177.2	8 170.5	66.0	10.7	21.5	16.6	18.0
Brazil	179.2	203.3	228.0	58.4	366.0	933.6	1 779.1	1 794.8
Colombia	16.7	18.3	22.7	20.7	24.6	28.3	26.1	32.4
Costa Rica	10.7	17.3	11.1	15.4	16.4	25.3	10.0	27.3
Chile	23.6	23.0	26.4	17.4	21.5	12.7	21.4	27.3
Ecuador	52.5	25.1	24.4	27.3	32.5	85.7	54.2	49.5
El Salvador	15.5	9.8	30.8	30.3	20.1	18.2	23.5	17.9
Guatemala	15.4	5.2	31.5	25.7	8.6	11.0	20.2	60.6
Guyana	9.6	13.3	25.2	8.2	29.4	43.1	61.3	...
Haiti	11.2	5.4	17.4	-11.4	-4.1	8.6	10.9	26.1
Honduras	7.2	3.7	4.2	3.2	2.9	6.7	11.4	35.2
Jamaica	16.7	31.2	23.9	14.8	6.7	8.3	14.3	22.0
Mexico	80.8	59.2	63.7	105.7	159.2	51.7	19.7	29.9
Nicaragua	32.9	50.2	334.3	747.4	1 347.3	33 602.6	1 689.9	13 490.1
Panama	2.0	0.9	0.4	0.4	0.9	0.4	0.1	1.2
Paraguay	14.1	29.8	23.1	24.1	32.0	16.9	28.7	44.1
Peru	125.1	111.5	158.3	62.9	114.5	1 722.3	2 775.8	7 649.7
Dominican Republic	7.7	38.1	28.4	6.5	25.0	57.6	41.2	100.7
Suriname	4.2	4.5	15.6	30.2	52.2	7.3	...	...
Trinidad and Tobago	15.4	14.1	6.6	7.1	10.8	7.8	11.3	11.4
Uruguay	51.5	66.1	83.0	76.4	57.3	69.0	89.2	129.0
Venezuela	7.0	18.3	5.7	12.3	40.3	35.5	81.0	36.5

Source: International Monetary Fund, International Financial Statistics and data provided by the countries.

^a Preliminary figures.

V. EMPLOYMENT AND WAGES

1. Changes in the labour market during the 1980s¹

The adjustment process, a rise in macroeconomic instability and the structural changes underlying the Latin American economies during the 1980s led to major changes in the basic way in which the labour market operates and to greater structural variety. That contributed to higher rates of underemployment and more precarious working conditions.

The deterioration in the labour market during the decade of the crisis was reflected in a drop in the quality of the jobs available, a rise in unemployment at the beginning of the decade and an across-the-board decrease in wages and salaries. The result of this was that while total employment during the period 1980/1989 expanded by an average of 3% a year, real earned income declined at an average annual rate of 3.8%. This caused the wage bill to shrink in real terms at a rate of 0.6% a year and GDP to increase by 1.2% a year in the countries included in this study.² These meager results can be ascribed to the significant decline in the rate of job creation in medium-sized and large enterprises during the 1980s while the whole labour picture became more unstable. The percentage of the population engaged in informal activities or unemployed rose from 31% in 1980 to 35% towards the end of the decade, causing an increase in underemployment. These changes in the labour market were the result of the dynamics of labour supply, a restructuring of urban employment and the behaviour of rural employment. The drop in real wages affected the modern sector but was greater in the small business sector and in informal activities.

a) Trends in the supply of labour

During the 1980s, the growth rate of the economically active population (EAP) slowed to 2.8% a year (after having recorded an annual rate of 3.1% during the previous decade) as a consequence of the demographic effects of the slower growth rate of the working-age population—a process that began during the 1970s—which more than offset the increase in the labour force participation ratio. As for the composition of the labour force, it changed appreciably, with the share of women rising from 32% in 1980 to 38% in 1988.

Since the decline in the share of young people in the population observed in previous decades continued, the pressure exerted by them on the labour market also decreased. These trends were primarily due to the continued decline in the labour force participation ratios of the 15-19 year group while those of the 20-24 year group continued to rise because the increase in labour-force participation by women compensated for the decrease in the participation of men.

There were also significant shifts in the location of employment. The non-agricultural economically active population continued to show vigorous growth throughout the 1980s (3.7% a year), whereas the growth of the agricultural economically active population became even slower (0.7% a year). Because of these trends, by the end of the 1980s 74% of the region's labour force was engaged in non-agricultural activities and 26% in agriculture (see table 12).

¹This section is based on analyses and estimates contained in the PREALC document entitled *Empleo y equidad: desafío de los 90*, Santiago, Chile, October 1990.

²During the same period the region as a whole grew at an annual rate of 1.4%.

b) Restructuring of urban employment

During the 1980s, urban employment was extensively restructured owing to the low absorption capacity of the modern sectors. Modern employment, in the strict sense of the term (public sector and medium-sized and large enterprises in the private sector), grew by an average of around 1% a year – a growth rate which was notably lower than that of the non-agricultural economically active population – which caused the share of those employed in the modern sector in the total non-agricultural EAP to fall from 55% in 1980 to 44% at the end of the decade. Moreover, medium-sized and large private sector enterprises, which represented 40% of the non-agricultural EAP in 1980, expanded by only 0.5% a year, with the result that their share in the non-agricultural EAP was down to 30% in 1989 (see table 13). Decisive factors behind the low labour-force-absorption rate recorded by the private modern sector included the sharp drop in the growth of the economy at the beginning of the crisis, long period of slower growth which ensued and the extensive restructuring of the production apparatus in the individual countries. The low absorption rate also caused the cumulative rate of unemployment to rise and was reflected in the concentration of new urban jobs in low-productivity sectors (small enterprises and informal activities), with the result that the downward trend in the rate of underemployment recorded over the preceding three decades was reversed.

According to the principles on which most adjustment policies were based, the modern labour market was expected to play a central role in the reallocation of employment from non-commercial to commercial production sectors and in the reduction of real wages in order to bring them into line with the new external situation. The modern sector did not, however, respond in a uniform manner. The severe

recessions unleashed by the crisis and the adjustment programmes adopted caused employment in medium-sized and large enterprises to drop by more than 2% a year between 1980 and 1983. That, together with the erosion in real wages, allowed the enterprises to offset much of the effect of the increase in financial costs caused by the recession and the rise in interest rates. On the other hand, during this recessive phase, public employment behaved in a decidedly counter-cyclical manner, expanding by more than 4% a year (see table 13).

Later, during the period 1984/1986, as a result of the economic recovery, employment in large and medium-sized private enterprises bounced back, to an annual growth rate of 3.2%, which was only half a point lower than that of the non-agricultural product (3.8%). At the end of the decade, the growth rate of employment tended to be slow (less than 1%), coinciding with the stagnation of the non-agricultural product, with respect to which it retained a relatively high degree of elasticity, however. Thus, the growth rate of employment in the private modern sector averaged only 0.5% a year during the 1980s. In the public sector, stress was laid on the adjustment policy, causing government employment to rise by nearly 5% a year between 1984 and 1986. At the end of the decade, however, owing to the need to reduce the public deficit and because the restructuring of the State apparatus in the countries, the public sector's capacity to absorb employment contracted noticeably (by 2% a year). Even so, employment in the public sector increased by 3.7% a year between 1980 and 1989, which helped to attenuate unfavourable employment trends in the private sector of the formal economy (see table 13).

In a situation in which growth of the modern sector was sluggish, if the increase in the labour force in urban areas had not been absorbed by a rise in employment in sectors where productivity is lower, i.e., in small enterprises³ and informal

³Small urban enterprises have been defined by PREALC as being production units large enough to employ up to 10 people, which combine characteristics of the modern and the informal sectors. The level of productivity of employees in this intermediate segment of the labour market is higher than that of those in the informal sector and lower than that of wage-earners in the modern sector of the urban economy. Household surveys in some countries of the region have established that 30% of employment in this segment is generated by small enterprises linked to the modern sector, while the remaining 70% corresponds to jobs in micro-enterprises employing no more than five persons, whose levels of productivity and income are closer to those found in the traditional urban informal sector.

activities, the rate of open unemployment would have been even higher.

Employment in small enterprises grew vigorously in the early 1980s only to slacken off later on, the end result being that its share in the economically active population rose from 15% in 1980 to 21% in 1989, with this sector generating 40% of the total number of jobs created in the urban area during this period. Although the contribution of small enterprises to job creation was significant during the crisis, it is difficult to tell whether or not this constituted a structural trend since it was due to various kinds of phenomena, including changes in the size of medium- and large-scale enterprises and the tendency in the modern sector companies to farm work out to small enterprises instead of hiring their own labour.

Informal activities played an even greater role in the adjustment of the urban labour market, absorbing 45% of those employed for the first time during the decade. Most of the workers in informal activities⁴ are engaged in the tertiary sector (80%), the remainder being employed in low-productivity and income jobs in manufacturing (10%) and construction (10%). The extent of the increase in the urban informal sector is shown by the rise in its share in the urban labour force, which climbed from 24% to 30% during the 1980s (see table 13).

Up to 1980, rates of unemployment were low since adjustments in the labour market took the form of changes in the structure of employment rather than in the number of unemployed as normally happens in the developed countries. The crisis brought a change in this behaviour, however, and unemployment rose significantly. What happened was that during the period of recession (1981-1983), the simultaneous rise in labour-force participation ratios and the fall in employment in the modern private sector could not be totally offset by the rapid expansion of employment in sectors with the lowest productivity. Thus, the labour market's response to the adjustment could not be confined to an increase in underemployment as in the past but also included a rise in unemployment, which went from 7% to 9% of the economically active

population in only three years. Open unemployment gradually shrank as a result of the economic recovery begun in 1984, but it took six years for the average rate of unemployment to return to pre-crisis levels (see table 13).

The unemployment profile also changed greatly. Early in the 1980s the share of heads of household, men and workers in the most active age group (24 to 44 years old), in the total number of unemployed rose. In addition, the increase in the share of manual workers with low levels of education in the total work of unemployed shows that unemployment basically affected unskilled labourers. Efforts to absorb open unemployment from 1984 onward brought down unemployment rates for heads of household, but they remained high for women and youth.

c) Trends in rural employment

During the crisis decade, agricultural employment in the region increased by 0.6% annually as a result of the growth shown in the agricultural sector, which was higher than that in non-agricultural activities.

The structure of agricultural employment in the region made some contribution to stability in the labour market. Sixty per cent of those employed in agriculture in Latin America are small producers and their families, who own small amounts of land most of which is used for the production of subsistence crops and crops for the domestic market. This occupational group is not, of course, subject to short-term fluctuations in labour demand. In some countries the peasant sector even absorbed labour during the decade; however, it is not known whether this labour was absorbed productively in every case since the phenomenon occurred in the small-farm sectors where productivity is low and underemployment is common (see table 12).

The situation of landless workers and permanent and temporary wage-earners worsened, however, as the crisis began to affect labour markets. These workers suffered more by reason of income than from any contraction of the demand for labour, real minimum wages in

⁴This segment includes non-professional people working on their own account, unpaid family workers and persons employed in domestic service.

agriculture declining by an average of 20% in the region as a whole during the decade.

d) Wage adjustments and reductions in earned income

The impact of the external crisis and domestic adjustment policies on labour markets as highly segmented as those of the region, had negative and differentiated effects on earned incomes, which took the form of a reduction in real wages in the modern sector, accompanied by an even greater drop in average earnings from small enterprises and informal activities (see table 14).

In the modern private sector (composed of medium-sized and large enterprises), the effect of wage adjustments was to reduce real average wages by an average of 7% and to increase intersectoral dispersion. The acceleration of inflation in most cases resulted in a struggle as to distribution among the different agents of production, in which modern sector workers did not have the institutional mechanisms (apart from the wage indexing practised in some countries during certain periods) needed to keep nominal wages in step with price increases. Generally speaking, the increase in open unemployment and in underemployment weakened the bargaining power of organized workers.

In addition, minimum wage policies contributed to wage deterioration during the period. Real minimum wages experienced an

accumulated reduction of 24% over the course of the decade, which made them less important as a mechanism for regulating the income of workers with few skills and no bargaining power. Minimum wages fell considerably more than industrial wages, which might indicate that the gap between the incomes of the higher strata of wage-earners and those of the less-skilled workers widened. The disparity within the formal sector also increased in that real average wages in small enterprises tended to experience much more significant drops than those in medium-sized and large enterprises (see table 14).

Unlike what happened in the modern private sector, wage adjustments in the public sector resulted from the public-employment policies adopted in a context of growing budgetary constraints. Thus, the expansion of public employment was accompanied by an equivalent decline in real wages (-4% annually) over the course of the decade.

Since informal sector income is usually made up primarily of income from independent work, its behaviour is closely linked to that of domestic demand and, in particular, of private consumption. Thus, in the best of cases, total income from informal activities might have experienced moderate growth; however, since employment in these activities showed notable growth during the decade, the average incomes derived from them declined significantly.

2. Trends in employment and wages in 1990

The severe recessions experienced by the high-inflation economies have had a negative effect on employment, while the slow-down in growth in other economies of the region has put constraints on the expansion of employment. Wages, which in some cases were also affected by the acceleration of inflation, continued to decline in most countries of the region.

Urban unemployment increased considerably during the first half of the year, although the situation improved somewhat during the second half. Even so, the weighted average rate for the 20 largest cities of the region was higher than that recorded the previous year. Average rates of urban unemployment rose in almost all the

countries, the sole exceptions being Argentina and Bolivia (see tables 15 and 16).

During the 1980s, industrial employment fell or stagnated in a large number of countries. The only upward trends recorded were in Cuba, Panama, Guatemala and Venezuela and in the inbond assembly industry in Mexico. In Chile and Costa Rica, manufacturing employment increased in the third quarter of 1990 after having experienced sharp drops early in the decade. In 1990 the downward trend became more marked in Argentina, Brazil, Nicaragua and Peru, in all of which industrial activity fell drastically, resulting in loss of jobs. Despite the industrial recovery in Venezuela, the number of jobs

decreased for the second year in a row, returning to 1987 levels. As for Costa Rica and Chile, they recorded rises in industrial employment of 1.6% and 1.7%, respectively, which were lower than the growth rate of the labour force. The inbond assembly industry in Mexico continued to absorb a large amount of manpower, although at a slower rate than in previous years, causing the number of people employed to increase by 7%, although in manufacturing (excluding the inbond assembly industry), employment stayed at the same level as the year before. The number of people employed in industry in Guatemala and Panama increased by 2% and 3%, respectively (see table 17).

The erosion of average real wages was widespread in practically all the countries of the region for which information is available, with the sole exceptions of Costa Rica and Chile, which had real increases of less than 2%. Thus, the crisis which affected Latin America in the 1980s and was directly reflected in trends in salaries and wages was responsible for a "lost decade" in terms of improvements in income levels. In most of the countries, in 1990 those levels were the same as or lower than those recorded the previous year, with Colombia, Chile and the industrial sector of So Paulo constituting exceptions. Real minimum wages rose significantly only in Chile and Haiti, while in Costa Rica the minimum wage increased by less than 1%. The minimum wage declined in the other countries by less than 3% in Panama and Colombia; by between 3% and 10% in Paraguay, Peru and El Salvador; by between 10% and 20% in Mexico, Uruguay, Ecuador and the Dominican Republic and by over 20% in Venezuela, Brazil and Argentina. This presumably caused an increase in the wage gap in these countries and in the gap between the wages paid in different segments of large and small enterprises. During 1990, the minimum wage in several countries recorded real values equivalent to less than half of what they had been at the beginning of the decade, while, only three countries (Colombia, Costa Rica and Paraguay) recorded real values above those of 1980 (see tables 18 and 19 and figure 10).

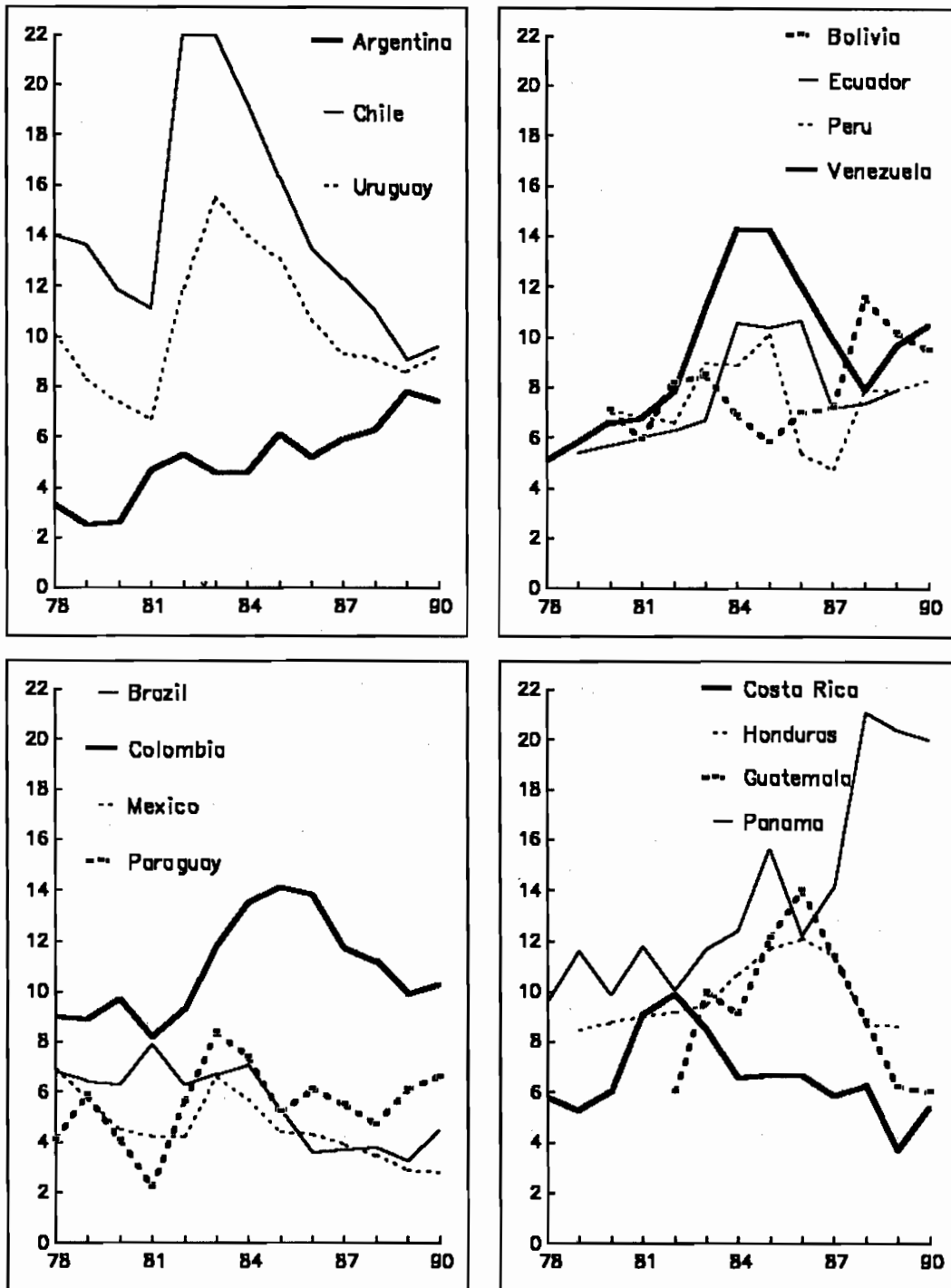
Argentina experienced unprecedented levels of unemployment and underemployment during the first half of the year as a reflection of the

instability in the country's economic activity. However, in the second half open unemployment figures returned to the same level as the year before. This decline in the rate of unemployment was in part probably due to the fact that in view of the situation in the formal labour market a certain percentage of the labour force, sought alternatives in the informal sector, thus increasing underemployment. The most affected area of Argentina was Greater Buenos Aires, where the drop in the rate of activity was greater than in the rest of the country. Industrial employment declined by close to 6%, continuing the downward trend experienced throughout most of the decade. Wild fluctuations in the inflation rate led to sharp swings in real wages, which plummeted as a result of the surge in inflation during the first quarter. On the other hand, the wage negotiations held at the end of the first quarter were based on a smaller drop in the rate of inflation than that which actually occurred, so that real wages rose. Since this phenomenon continued—in the context of a restructuring of demand—even after inflation accelerated in the third quarter, real wages continued to recover until close to the end of the year. If, however, nominal wages had been deflated on the basis of the price index for the same period, real wages would have fallen by more than 5%. On the other hand, they would have risen somewhat if nominal wages had been deflated on the basis of an estimation of the price index at the end of each month. Public-sector wages stagnated because of severe budgetary constraints, with the result that their real level continued to deteriorate. The minimum wage remained unchanged till September, when it was raised by 260%. Nevertheless, since prices had risen by close to 800% during the period between adjustments, it no longer had any value as an indicator of wages.

The large drop in **Brazil's** production, especially in manufacturing, brought on by the economic measures adopted in March and the sharp decline in the level of activity in April, caused a drastic reduction in the level of employment recorded for the first half of the year. During the second half it began to recover although the average rate of unemployment for the metropolitan areas was higher than those for the preceding four years. Brazil's persistent

Figure 10

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
URBAN UNEMPLOYMENT
(Average annual rates)



Source: ECLAC, on the basis of official figures.

inflation caused a gradual reduction in real wages, which quickened during the last two months of the year, since the recessive scenario caused enterprises to suspend advances on the wage adjustments when collective bargaining took place. Thus, the average real wage for 1990 was 15% below that of the year before in the industrial sector of So Paulo and close to 20% short of the 1989 figure in the industries of Rio de Janeiro. As for minimum wages, they fell by 26% in real terms.

In **Colombia**, a slight rise in unemployment accompanied by a higher labour force participation ratio were recorded, causing the employment situation to remain stable in relation to the previous year. Although virtually every sector evolved satisfactorily, the sharp drop in construction kept employment from performing better than it did. For its part, inflation rose beyond the 26% on the basis of which minimum wages were adjusted, thereby causing them to decline in real terms. Since minimum wages are often used as an indicator in formal sector negotiations, average remunerations fell by close to 3%.

In **Chile**, the process of adjusting domestic demand at a time when labour rights were being re-established slowed down the growth rate of employment (which was less than 2% in industry), so much so that in the end it was lower than the growth rate of the economically active population. In Greater Santiago, the rise in open unemployment, which began in the last quarter of 1989, was reversed in the fourth quarter of 1990. With regard to wages, the new Government reached an agreement with employers and workers to recover some of the minimum wage loss built up since 1983. The result was a real increase of close to 10%, which made it possible to protect low-income sectors from the effects of the adjustment. Average wages in non-agricultural activities rose by 1.6%.

The rate of open unemployment in **Costa Rica** increased in relation to that of 1989 – a year in which it had declined sharply – owing to a slow-down of growth and to measures adopted to reduce the size of the State apparatus. However, the creation of a moderate number of new jobs in industry and other sectors enabled unemployment to remain below the rate recorded in previous years. In spite of the stringent

adjustment put into effect at mid-year, real wages rose by close to 2%, thanks to rises above that rate granted by the private sector. As for the minimum wage, it increased by 1% in real terms.

In **Mexico** the level of employment continued to rise slowly so that open unemployment remained in the downward trend embarked upon in 1984. Job creation was bolstered by the momentum of the inbond assembly industry and the good performance of other activities. The growth of construction under the impetus of investments in infrastructure and in the expansion of industries also had a good effect. This was the second year of growth in this respect in spite of the stagnation recorded in industrial employment. The resurgence of inflation, in the absence of automatic indexation mechanisms, brought with it a decrease in real average wages of close to 4%, while minimum wages dropped by more than 10%.

Modest growth of production in **Panama** following two years of contraction and an increase in the labour force participation ratio combined to keep the level of open unemployment high, especially in the metropolitan region, where figures in the neighbourhood of 20% were recorded. Although employment increased in commerce, industry and construction, the number of people looking for jobs also increased. This was due partly to the return of people to the city and partly to a reduction in public-sector employment. The economic crisis and the high indexes of urban unemployment resulted in the adoption of new approaches to hiring, in which nominal salaries and wages were reduced to the point where, their real value fell by more than 6%. Nominal minimum wages remained constant, declining by 1.2% in real terms.⁵⁷

The decline in agricultural production in **Paraguay** caused workers to emigrate to the metropolitan area, causing open unemployment to rise to 6%. Moreover, the rise of inflation within a minimum-wage indexing system caused the real value of the minimum wage to drop by more than 4%, while average wages (which are not indexed) fell by close to 6%, returning to 1988 levels.

The economic recession experienced by **Peru** during the preceding three years seriously affected employment levels, causing a mass

movement of workers towards informal activities. Unemployment in metropolitan Lima continued to increase, rising to over 8%, and underemployment, reached levels even higher than those recorded the previous year. Industrial employment, also declined by 2.6%, bringing the cumulative reduction recorded for the past three years to close to 15%. At the same time, the purchasing power of wages and salaries was eroded for the third consecutive year. The policy of adjusting wages monthly to keep up with the inflation of the previous month continued during the first half of the year; however, the new administration deregulated wage negotiations so that only the minimum wage was still set by Government. The price rise caused by the implementation of the adjustment programme and by the inflation to which it gave rise outstripped the nominal wage adjustments; the end result of this was a drop of 50% in real average wages in the private sector, bringing that average for 1990 down to the equivalent of 40% of their level in 1980. Average wages in the public sector experienced even greater deterioration, while the minimum living wage fell by close to 7%, accumulating a reduction of more than 75% during the decade.

In **Uruguay**, the steady decline of unemployment from the high levels reached during the crisis of the early 1980s was reversed, the average rate rising from 8.6% in 1989 to 9.3% in 1990. The drop in domestic demand in the Uruguayan economy mainly affected construction and manufacturing, with the inevitable repercussions on employment. The change introduced in the incomes policy relating to the de-indexing of wages worked in combination with the acceleration of price rises to bring about the first decrease in five years (one of 8%) in real average wages, while minimum wages accumulated a loss of purchasing power of more than 11%.

Although the recovery of economic activity in Venezuela resulted in an increase in the number of jobs available, that increase did not apply to industry, where employment declined, nor was it sufficient to avoid a new increase in urban unemployment. The average rate of

unemployment for the country as a whole rose from 9.7% in 1989 to 10.5% in 1990. The rise in unemployment occurred during the first half of the year, the consequences of the economic recession of the year before being felt just at the time when the decree on job tenure applied in 1989 went out of effect. The second half of the year saw a reversal of this trend, and unemployment rates declined notably. Unemployment in metropolitan Caracas behaved similarly to that at national level, although the rates were lower than those nationwide. The rise of 25% in salaries and wages at the beginning of the year was insufficient to prevent another drop in real terms, and a decline of close to 5% was added to the 43% accumulated in the period 1987/1989. Real average wages fell to less than half of their level in 1980, while the minimum wage declined by 22% in real terms, which brought it down to about half of its 1980 value.

Although it proved possible to slow inflation down in Ecuador, the restrictive wage policy caused the real minimum wage to fall again this time by more than 18%, in continuation of the trend embarked upon in 1981 and broken only in 1986. Thus, the real level of the minimum wage in 1990 was equivalent to 39% of its 1980 level.

The economic crisis in the **Dominican Republic** had severe repercussions on wages, and although minimum wages in nominal terms were adjusted towards the end of the year, that was not enough to counteract inflationary pressure, and a drop of 16% in real terms occurred. Also in **Guatemala**, a speed-up of inflation caused real wages to decline by 18%, although the level of employment rose by 2%. In **El Salvador** the minimum wage continued to decline, accumulating a real reduction of 65% during the decade.

The real average wage increased in **Nicaragua**, although by less than the year before. Nevertheless, in spite of having recorded a cumulative increase of over 200% in the 1989/1990 biennium, the average real wage is still more than 70% below its 1985 level. Finally, in **Haiti**, the adjustment of the basic industrial wage towards the end of the 1989 fiscal year enabled it to recover in real terms.

Table 12
LATIN AMERICA: ESTIMATED TRENDS IN THE STRUCTURE OF EMPLOYMENT, 1980-1989
(Percentages)

	Composition				Annual rates of variation 1980-1989
	1980	1989			
Total population					2.2
Working-age population					2.6
Economically active population (EAP)	100		100		2.8
Non agricultural EAP	68		74		3.7
Non-agricultural employment	63	100	70	100	3.9
Informal sector	47	75	48	69	3.0
Formal sector	16	25	22	31	6.7
Non-agricultural unemployment	5		4		
Agricultural EAP	32		26		0.7
Agricultural employment	31	100	25	100	0.6
Modern sector	13	42	10	40	0.5
Peasant sector	18	58	15	60	0.6
Unemployment in the agriculture sector	1		1		
Indicators of underutilization					
Rate of unemployment	6		5		
Urban	7		5		
Rural	2		3		
Rate of underemployment (Traditional sectors/EAP)	34		37		

Source: Regional Employment Programme for Latin America and the Caribbean (PREALC), *Empleo y equidad: desafío de los 90*, Santiago, Chile, October 1990.

Table 13
LATIN AMERICA: ESTIMATED TRENDS IN THE STRUCTURE OF EMPLOYMENT, 1980-1989
(Percentages)

Urban area	Composition				Annual rates of variation				1989 index (1980=100)
	1980	1983	1986	1989	1980-1983	1983-1986	1986-1989	1980-1989	
Population					2.2	2.2	2.1	2.2	121.6
Working-age population					3.6	3.6	3.4	3.5	136.3
Total economically active population	100	100	100	100	4.1	3.7	3.4	3.7	139.1
Employed	93	91	93	95	3.3	4.7	3.8	3.9	141.5
Public sector	15	15	15	14	4.3	4.8	2.0	3.7	138.4
Private formal sector	55	50	50	51	1.1	4.1	3.4	2.9	128.8
Medium-sized and large enterprises	40	33	32	30	-2.1	3.2	0.9	0.5	104.9
Small enterprises ^a	15	17	18	21	8.6	6.4	7.4	7.5	191.6
Informal sector	24	26	28	30	7.1	6.3	6.6	6.7	172.4
Unemployed	7	9	7	5	14.4	7.7	-3.0	0.8	107.5

Source: Regional Employment Programme for Latin America and the Caribbean (PREALC), *Empleo y equidad: desafío de los 90*, Santiago, Chile, October 1990.

^a Enterprises employing up to 10 workers.

Table 14
**LATIN AMERICA: TRENDS IN REAL AVERAGE WAGES AND INCOMES BY BRANCHES
 OF ECONOMIC ACTIVITY AND SEGMENTS OF THE LABOUR MARKET**
(Percentages)

	Annual rates of variation				1989 index
	1980- 1983	1983- 1986	1986- 1989	1980- 1989	(1980=100)
Branches of economic activity					
Agriculture ^a	-4.3	0.4	-3.3	-2.4	80
Manufacturing	-1.8	0.6	-0.6	-0.6	95
Construction	-2.1	-2.7	2.5	-0.8	93
Segments of labour market					
Private formal sector					
Medium-sized and large enterprises	-4.5	4.8	-2.4	-0.8	93
Small enterprises ^b	-3.1	-3.4	-5.1	-3.9	70
Public sector	-6.4	-1.9	-3.5	-3.9	70
Informal sector	-10.3	-0.3	-6.5	-5.9	58
Minimum wages					
Urban minimum wages	-3.4	-2.0	-3.7	-3.0	76

Source: Regional Employment Programme for Latin America and the Caribbean (PREALC), *Empleo y equidad: desafío de los 90*, Santiago, Chile, October 1990.

^a Trends in minimum agricultural wages in most of the countries. ^b Enterprises employing up to 10 workers.

Table 15
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Latin America and the Caribbean^b	7.0	8.1	8.2	7.3	6.2	5.8	5.9	5.6	5.8
Argentina ^c	5.3	4.6	4.6	6.1	5.2	5.9	6.3	7.8	7.4
Bolivia ^d	8.2	8.5	6.9	5.8	7.0	7.2	11.6	10.2	9.5
Brazil ^e	6.3	6.7	7.1	5.3	3.6	3.7	3.8	3.3	4.5
Colombia ^f	9.3	11.8	13.5	14.1	13.8	11.8	11.2	9.9	10.3
Costa Rica ^g	9.9	8.5	6.6	6.7	6.7	5.9	6.3	3.7	5.4
Chile ^h	22.1	22.2	19.3	16.3	13.5	12.3	11.0	9.1	9.6
Ecuador ⁱ	6.3	6.7	10.6	10.4	10.7	7.2	7.4	7.9	...
El Salvador ^j	...	...	...	...	...	...	9.4	8.4	10.0
Guatemala ^k	6.0	10.0	9.1	12.1	14.0	11.4	8.8	6.2	6.0
Honduras ^l	9.2	9.5	10.7	11.7	12.1	11.4	8.7	8.6	...
Mexico ^m	4.2	6.6	5.7	4.4	4.3	3.9	3.5	2.9	2.8
Panama ⁿ	10.1	11.7	12.4	15.6	12.6	14.1	21.1	20.4	20.0
Paraguay ^o	5.6	8.4	7.4	5.2	6.1	5.5	4.7	6.1	6.6
Peru ^p	6.6	9.0	8.9	10.1	5.4	4.8	...	7.9	8.3
Uruguay ^q	11.9	15.5	14.0	13.1	10.7	9.3	9.1	8.6	9.3
Venezuela ^r	7.8	11.2	14.3	14.3	12.1	9.9	7.9	9.7	10.5

Source: Estimates by ECLAC and Regional Employment Programme for Latin America and the Caribbean (PREALC), on the basis of official figures.

- ^a Preliminary figures. ^b Weighted average for 20 of the 25 most populous cities in Latin America. ^c Nationwide urban rate, April-October average; 1986: October only. ^d Nationwide urban rate; estimates by the Economic Policies Unit (UDAPE). From 1987 onward, the data are based on the Permanent household survey conducted by the National Institute of Statistics. ^e Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife: twelve-month average. ^f 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. ^g Nationwide urban rate: average for March, July and November; 1984: average for March and November; 1986: average for March and July; from 1987 onward: July. ^h Greater Santiago: four-quarter average. From August 1984 onward, figures refer to the Santiago Metropolitan Region; from October 1985 onward, the figures are not entirely comparable to those for preceding periods due to changes in the design and size of the sample. ⁱ Nationwide, according to official estimates; from 1986 onward, household surveys in Quito, Guayaquil and Cuenca. ^j Nationwide urban rate, 1988 and 1990: January to April; 1989: October 1988 to February 1989. ^k Nationwide, according to General Secretariat of the National Council for Economic Planning (SEGEPLAN) estimates. ^l Nationwide, according to official estimates; from 1986 onward, the data are based on the Urban Labour Force Survey; 1987: March, central district. ^m Up to 1982, metropolitan areas of Mexico City, Guadalajara and Monterrey; from 1983 onward, average for 16 cities. Four-quarter average. ⁿ Metropolitan area, August of each year; 1990: estimates. ^o Asunción, Fernando de la Mora, Lambaré, and urban areas of Luque and San Lorenzo; 1982 first quarter; 1983: average for September, October and November; 1984: average for August, September and October; 1985: average for November and December. ^p Metropolitan Lima. ^q Montevideo: four-quarter average. ^r Nationwide urban rate: average for the two halves of the year; 1986: second half of the year.

Table 16
LATIN AMERICA AND THE CARIBBEAN: UNEMPLOYMENT RATES IN MAJOR CITIES

	1985	1986	1987	1988	1989	1990	1989				1990 ^a			
							I	II	III	IV	I	II	III	IV
Latin America and the Caribbean ^b	7.3	6.2	5.8	5.9	5.6	5.8	6.0	6.1	5.3	4.9	5.5	6.4	5.7	5.5
Argentina ^c														
Buenos Aires	5.3	4.6	5.3	6.0	7.4	7.4	...	7.6	...	7.0	...	8.8	...	6.0
Córdoba	5.0	5.8	5.2	5.5	8.1	5.8	...	8.8	...	7.3	...	7.4	...	4.2
Greater Mendoza	3.7	4.2	3.4	4.4	4.3	5.9	...	4.4	...	4.1	...	6.0	...	5.8
Greater Rosario	10.7	7.0	7.8	7.6	10.8	8.5	...	14.2	...	7.3	...	10.4	...	6.5
Brazil ^d														
Rio de Janeiro	4.9	3.7	3.3	3.1	2.8	3.5	3.0	2.8	2.6	2.6	3.2	4.0	3.4	3.4
São Paulo	5.0	3.3	3.8	4.0	3.5	4.6	4.6	3.8	3.2	2.3	3.6	5.3	4.8	4.6
Recife	7.2	4.6	5.2	5.6	5.3	5.7	6.1	5.4	5.6	4.2	5.3	6.6	5.9	5.1
Porto Alegre	5.4	4.4	3.9	3.7	2.6	3.7	3.3	2.8	2.3	2.0	2.8	4.3	3.9	3.8
Colombia ^e														
Bogotá	12.8	13.2	11.1	10.5	8.0	9.4	9.7	8.5	7.4	6.3	7.9	10.1	8.8	10.9
Barranquilla	15.7	16.4	13.0	11.4	11.7	11.0	13.9	11.2	11.5	10.2	12.1	11.8	10.4	9.8
Medellín	16.0	15.2	12.2	12.9	12.4	12.5	12.7	12.2	11.8	12.8	11.5	12.4	13.7	12.5
Cali	14.4	12.7	12.4	11.3	10.3	9.5	10.5	11.3	7.6	11.7	10.9	9.9	8.3	8.7
Costa Rica ^f														
San José	6.5	6.1	4.8	6.7	2.7	...	...	...	2.7	...	...	...	...	...
Chile ^g														
Santiago ^h	16.3	13.5	12.3	11.0	9.1	9.6	9.9	9.3	8.3	9.0	9.5	9.7	9.9	9.3
Mexico ^b														
Mexico City	4.9	5.1	4.1	4.4	3.7	3.2	4.0	3.9	4.0	3.0	2.9	3.5	3.6	2.9
Guadalajara	3.4	3.2	3.1	2.6	1.7	1.5	1.6	1.7	2.0	1.5	1.2	1.4	1.9	1.6
Monterrey	5.4	5.4	5.5	4.1	3.1	3.6	4.0	2.0	3.7	2.6	3.3	3.1	4.1	3.7
Paraguay ⁱ														
Asunción	5.2	6.1	5.5	4.7	6.1	6.6	...	...	6.1	...	...	...	6.6	...
Peru ^j														
Lima	10.1	5.4	4.8	...	7.9	8.3	...	7.9	...	...	...	8.3	...	...
Uruguay ^k														
Montevideo	13.1	10.7	9.3	9.1	8.6	9.3	8.5	8.5	9.2	8.0	9.3	8.6	9.6	9.7
Venezuela ^l														
Caracas	13.2	9.6	7.9	5.8	7.3	8.3	...	7.4	...	7.1	...	8.9	...	7.7

Source : ECLAC, on the basis of official figures.

^a Preliminary figures. ^b Weighted average for 20 of the most populous cities in Latin America. ^c Figures for April and October.

^d Twelve-month average. ^e Figures for March, June, September and December; 1985: March, July, September and December; 1986: April, June, September and December. ^f Metropolitan area. Figures for March, July and November; 1988 and 1989: July. ^g Greater Santiago. Figures for March, June, September and December. ^h Quarterly averages.

ⁱ Includes Fernando de La Mora, Lambaré and the urban areas of Luque and San Fernando. ^j Metropolitan Lima; 1985: official estimates; 1987: June. ^k Four-quarter average. ^l Caracas metropolitan area. Average for two half-years; 1985: first half-year.

Table 17
LATIN AMERICA AND THE CARIBBEAN: INDICATORS OF EMPLOYMENT IN
MANUFACTURING

	1982	1983	1984	1985	1986	1987	1988	1989	1990
(Indexes 1980=100)									
Argentina ^a	82.8	85.5	88.0	84.7	81.3	81.0	72.1	66.6	62.9
Brazil									
Metropolitan areas	85.3	79.0	78.1	79.1	86.9	89.7	88.2	90.6	87.7
Rio de Janeiro	93.2	89.1	89.0	93.4	99.5	103.3	101.5	103.8	100.7
São Paulo ^b	88.5	81.6	81.5	91.7	100.9	103.0	101.0	103.1	99.9
Colombia ^c	90.4	84.4	83.4	81.6	81.3	83.8	86.1	85.7	...
Costa Rica	92.7	96.2	99.3	99.8	100.4	97.7	104.4	105.0	106.7
Cuba	109.9	115.6	125.3	129.9	133.0	133.2	136.1	140.7	...
Chile	71.3	74.3	81.8	86.6	93.1	100.3	111.2	114.9	116.9
Guatemala ^d	89.0	93.7	83.7	94.1	94.2	94.4	124.5	121.9	124.4
Mexico ^e	103.0	93.1	92.2	94.3	93.4	93.4	93.5	95.2	95.4
Mexico ^f	122.0	151.0	167.0	177.3	207.6	254.0	310.1	361.6	387.6
Nicaragua	88.7	92.8	92.8	87.6	87.6	88.7	92.8	86.6	78.4
Panama ^g	...	...	113.4	114.6	121.4	133.6	117.0	123.1	126.7
Peru ^h	99.7	94.3	84.4	83.4	88.4	95.9	92.4	83.5	81.3
Venezuela ⁱ	102.0	100.3	98.9	99.9	102.6	110.7	119.3	116.1	111.7
Percentage variation (Percentages)									
Argentina	-5.3	3.3	2.9	-3.8	-4.0	-0.4	-11.0	-7.6	-5.6
Brazil									
Metropolitan areas	-6.0	-7.4	-1.1	1.3	9.9	3.2	-1.7	2.7	-3.2
Rio de Janeiro	-3.2	-4.4	-0.1	4.9	6.5	3.8	-1.7	2.3	-3.0
São Paulo	-4.9	-7.8	-0.1	12.5	10.0	2.1	-2.0	2.1	-3.1
Colombia	-5.2	-6.6	-1.2	-2.1	-0.5	3.1	2.7	-0.5	...
Costa Rica	-2.0	3.8	3.2	0.5	0.6	-2.7	6.9	0.5	1.6
Cuba	4.2	5.2	8.4	3.7	2.4	0.1	2.2	3.4	...
Chile	-27.6	4.2	10.1	5.9	7.5	7.7	10.9	3.3	1.7
Guatemala	-3.7	5.3	-10.7	12.5	0.1	0.2	31.9	-2.1	2.1
Mexico	-2.5	-9.6	-1.0	2.3	-1.0	0.0	0.1	1.8	0.2
Mexico	-6.2	23.8	10.6	6.2	17.1	22.4	22.1	16.6	7.2
Nicaragua	-14.0	4.7	-	-5.6	0.0	1.2	4.7	-6.7	-9.5
Panama	...	...	...	1.0	5.9	10.1	-12.4	5.2	2.9
Peru	-1.4	-5.4	-10.5	-1.2	6.0	8.4	-3.6	-9.7	-2.6
Venezuela	2.0	-1.7	-1.4	1.0	2.7	7.9	7.8	-2.7	-3.8

Source: ECLAC, on the basis of official figures.

^a Manual workers employed in manufacturing. ^b Data supplied by the Brazilian Geographical and Statistical Institute (IBGE). ^c Manual workers in industry, except that of coffee hulling. ^d Number of persons paying into the social security system. ^e Persons employed in manufacturing; does not include the inbond assembly industry. ^f Persons employed in the inbond assembly industry (*maquiladoras*). ^g Employment in manufacturing production activities according to household surveys. ^h Persons employed in manufacturing in the the Lima metropolitan area. ⁱ Figures from the industrial Survey conducted by the Central Statistics and Information Office (OCEI) (indexes 1981=100).

Table 18
LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Average manual indexes (1980 = 100)									
Argentina ^b	80.1	100.5	127.1	107.8	109.5	103.0	97.3	83.3	78.7
Brazil									
Rio de Janeiro ^c	121.6	112.7	105.1	112.7	121.8	102.4	107.1	107.2	86.2
São Paulo ^d	107.2	94.0	96.7	120.4	150.7	143.2	152.1	165.2	140.0
Colombia ^e	104.7	110.1	118.1	114.6	120.1	119.2	117.7	119.4	115.9
Costa Rica ^f	70.8	78.5	84.7	92.2	97.8	89.2	85.2	85.7	87.2
Chile ^g	108.6	97.1	97.2	93.5	95.1	94.7	101.0	102.9	104.8
Guatemala ^h	124.7	126.2	114.8	99.2	81.0	86.5	91.0	95.8	78.5
Mexico ⁱ	102.2	80.7	75.4	76.6	72.3	72.8	72.1	75.4	72.5
Nicaragua ^j	95.8	83.4	78.5	55.0	19.8	13.6	4.8	9.2	14.8
Panama ^k	99.7	100.8	105.0	105.6	108.4	109.9	101.2	108.9	102.1
Paraguay ^l	102.4	95.2	91.8	89.8	85.9	96.5	103.9	109.8	103.5
Peru ^m	110.2	93.4	87.2	77.6	97.5	101.3	76.1	41.5	39.4
Uruguay ⁿ	106.5	84.5	71.1	68.1	71.9	75.4	76.3	76.3	70.0
Venezuela ^o	100.0	98.4	93.5	84.2	85.4	74.5	66.0	48.4	46.2
Percentage variation^p									
Argentina	-10.4	25.5	26.4	-15.2	1.6	-5.9	-5.5	-14.4	-5.5
Brazil									
Rio de Janeiro	12.1	-7.3	-6.7	7.1	8.1	-16.0	4.6	0.1	-19.6
São Paulo	2.4	-12.3	2.9	24.4	25.2	-5.0	6.2	8.6	-15.3
Colombia	3.4	5.2	7.3	-3.0	4.8	-0.7	-1.3	1.4	-2.9
Costa Rica	-19.8	10.9	7.8	9.1	6.1	-9.7	-4.5	0.6	1.7
Chile	-0.2	-10.7	0.1	-3.8	1.7	-0.3	6.6	1.9	1.8
Guatemala	6.0	-1.2	-9.0	-13.6	-18.3	6.8	5.2	5.3	-18.1
Mexico	0.9	-22.7	-6.6	1.6	-5.6	0.7	0.9	4.6	-3.8
Nicaragua	-5.2	-12.9	-5.9	-30.0	-63.9	-31.3	-64.9	92.0	61.1
Panama	2.9	1.1	4.2	0.6	2.6	1.4	-7.9	7.6	-6.2
Paraguay	-2.8	-7.0	-3.6	-2.2	-4.3	12.3	7.7	5.7	-5.7
Peru	8.3	-15.2	-6.6	-11.0	25.6	3.9	-24.9	-45.5	-5.1
Uruguay	-0.6	-20.7	-15.9	-4.2	5.6	4.9	1.2	0.0	-8.3
Venezuela	...	-1.6	-5.0	-9.9	1.4	-12.8	-11.4	-26.7	-4.6

Source : ECLAC, on the basis of official figures.

^a Preliminary figures. ^b Average total monthly wages in the manufacturing industry. ^c Average wages in basic industry, deflated by the consumer price index for Rio de Janeiro. ^d Average wages in the manufacturing industry in the State of São Paulo deflated by the cost-of-living index for São Paulo. ^e Wages of manual workers in the manufacturing industry. ^f Average remunerations of persons enrolled in the social security system. ^g Average remunerations of wage earners in non-agricultural sectors. ^h Average wages of persons enrolled in the social security system. ⁱ Average wages in the manufacturing industry. ^j Average wages of persons enrolled in the social security system, deflated by the price index implicit in the gross domestic product. ^k Average industrial wages in Panama City. ^l Wage of manual workers in Asunción; average for June and December. ^m Wages of private-sector manual workers in Metropolitan Lima. ⁿ Real average wage index. ^o Average income per urban worker, deflated by the variation in consumer prices in the Caracas Metropolitan area. ^p In comparison to the same period of the preceding year.

Table 19
LATIN AMERICA AND THE CARIBBEAN: REAL URBAN MINIMUM WAGE

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Average annual indexes (1980 = 100)									
Argentina ^b	97.8	136.9	167.7	117.1	111.1	122.3	95.6	69.9	...
Brazil ^c	106.8	95.9	87.4	88.9	89.0	72.6	68.7	72.1	53.4
Colombia ^d	103.6	107.9	113.5	109.4	114.2	113.0	109.9	110.8	107.9
Costa Rica ^e	85.9	99.3	104.4	112.2	118.7	117.9	114.6	119.4	120.5
Chile ^f	117.2	94.2	80.7	76.4	73.6	69.1	73.9	79.8	87.5
Ecuador ^g	75.9	63.6	62.8	60.4	65.0	61.4	53.4	47.3	38.6
El Salvador ^h	86.6	76.5	76.8	66.2	57.5	46.0	43.6	37.0	34.8
Guatemala ⁱ	120.7	115.3	111.4	94.0	61.1	78.5	...	...	...
Haiti ^j	100.8	94.0	87.1	91.3	84.8	94.7	94.8	95.7	99.7
Honduras ^k	104.5	96.5	92.1	89.1	85.3	83.3	79.7	72.6	...
Mexico ^l	92.7	76.6	72.3	71.1	64.9	61.5	54.2	50.8	45.5
Nicaragua ^m	74.4	56.7	63.6	45.1	...	...	...	...	...
Panama ⁿ	89.6	103.7	102.1	101.0	101.1	100.1	99.7	99.9	98.7
Paraguay ^o	101.9	94.2	93.8	99.6	108.3	122.6	135.2	137.5	131.6
Peru ^p	79.6	80.6	62.3	54.4	56.4	59.7	52.0	25.1	23.4
Dominican Republic ^q	86.4	80.8	82.2	80.2	86.0	84.1	87.4	77.7	65.2
Uruguay ^r	103.9	88.6	88.8	93.2	88.5	90.3	84.5	78.0	69.1
Venezuela ^s	78.5	73.9	66.5	96.8	90.4	108.7	89.5	64.6	50.7
Percentage variation^t									
Argentina	0.0	40.0	22.5	-30.2	-5.1	10.1	-21.8	-26.9	...
Brazil	0.8	-10.2	-8.9	1.7	0.1	-18.4	-5.4	5.0	-26.0
Colombia	4.8	4.2	5.2	-3.6	4.4	-1.1	-2.7	0.8	-2.6
Costa Rica	-5.0	15.6	5.1	7.5	5.8	-0.7	-2.8	4.2	0.9
Chile	1.3	-19.6	-14.3	-5.3	-3.7	-6.1	6.9	8.0	9.6
Ecuador	-11.9	-16.2	-1.3	-3.8	7.6	-5.6	-13.0	-11.4	-18.4
El Salvador	-10.5	-11.7	0.4	-13.8	-13.2	-19.9	-5.3	-15.1	-5.9
Guatemala	-0.2	-4.5	-3.4	-15.6	-35.0	28.5	...	...	...
Haiti	4.7	-6.7	-7.3	4.8	-7.1	11.7	0.1	0.9	4.3
Honduras	-1.0	-7.7	-4.5	-3.3	-4.2	-2.4	-4.3	-8.9	...
Mexico	-9.0	-17.4	-5.6	-1.7	-8.7	-5.6	-11.8	-6.3	-10.4
Nicaragua	-17.5	-23.8	12.2	-29.1	...	...	...	...	...
Panama	-4.0	15.8	-1.6	-1.0	0.1	-1.0	-0.4	0.2	-1.2
Paraguay	-1.9	-7.6	-0.4	6.2	8.7	13.2	10.3	1.7	-4.3
Peru	-6.4	1.3	-22.7	-12.7	3.7	5.9	-12.9	-51.7	-6.8
Dominican Republic	-7.1	-6.5	1.7	-2.4	7.2	-2.2	3.9	-11.1	-16.1
Uruguay	1.6	-14.7	0.2	5.0	-5.0	2.0	-6.4	-7.7	-11.4
Venezuela	-8.9	-5.9	-10.0	45.6	-6.6	20.2	-17.7	-27.8	-21.6

Source: ECLAC, on the basis of official figures.

- ^a Preliminary figures. ^b National minimum wage. ^c Minimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. ^d Minimum wage for upper urban sectors. ^e National minimum wage. ^f Minimum income. ^g Minimum overall living wage, calculated on the basis of the annual minimum living wage and legal supplementary benefits. ^h Minimum wage for non-agricultural activities in San Salvador. ⁱ National minimum wage. ^j Minimum daily wage paid in industrial firms. ^k Minimum wage in the manufacturing sector in the Central District and San Pedro Sula. ^l Minimum wage in Mexico City, deflated by the corresponding consumer price index. ^m Minimum wage for industrial workers in the Department of Managua. ⁿ Minimum wage applying to all activities except construction and domestic service. ^o Minimum wage in Asunción and Ciudad del Este. ^p Minimum wage in Metropolitan Lima for non-agricultural activities. ^q National minimum wage. ^r National minimum wage for workers over 18 years of age. ^s National minimum wage for non-agricultural activities deflated by the consumer price index corresponding to the lowest income quartile. ^t In comparison to the same period of the preceding year.

VI. THE EXTERNAL SECTOR

In 1990 the economies of Latin America and the Caribbean were strongly affected by events in the international economy which had an impact both on the region's export markets and on the cost and volume of external financing.

One factor was that the growth rate of the developed market economies declined for the second year running, falling to 2.4% as compared to rates of 3.3% in 1989 and 4.3% in 1988. Although, thanks to the growth of Germany's and Japan's economies, the performance of the developed countries as a whole was not as poor as had been forecasted, in relative terms the region was worse off because most of the slowdown in economic activity occurred in the important North American market; indeed, the United States and Canada saw the growth rates of their economies slacken from 2.5% and nearly 3% in 1989, respectively, to only 1% in 1990 (see table 1 of Part Two).

As was to be expected, world trade was affected by the sluggishness of the industrialized economies; and commodity prices, in particular, registered quite widespread declines.¹ As far as the region's export products were concerned, the average prices for coffee, wheat, maize, soybeans, wool, copper, tin and zinc dropped considerably in 1990 while those of sugar, bananas, cotton, iron ore and lead increased (see table 26). Overall, the average price index for commodities other than petroleum showed a decrease of 6%, whereas the prices of manufactures exported by the developed countries rose significantly. The average prices of hydrocarbons exported by the region went up by 22% in 1990 due to the Persian Gulf crisis (see figure 11).

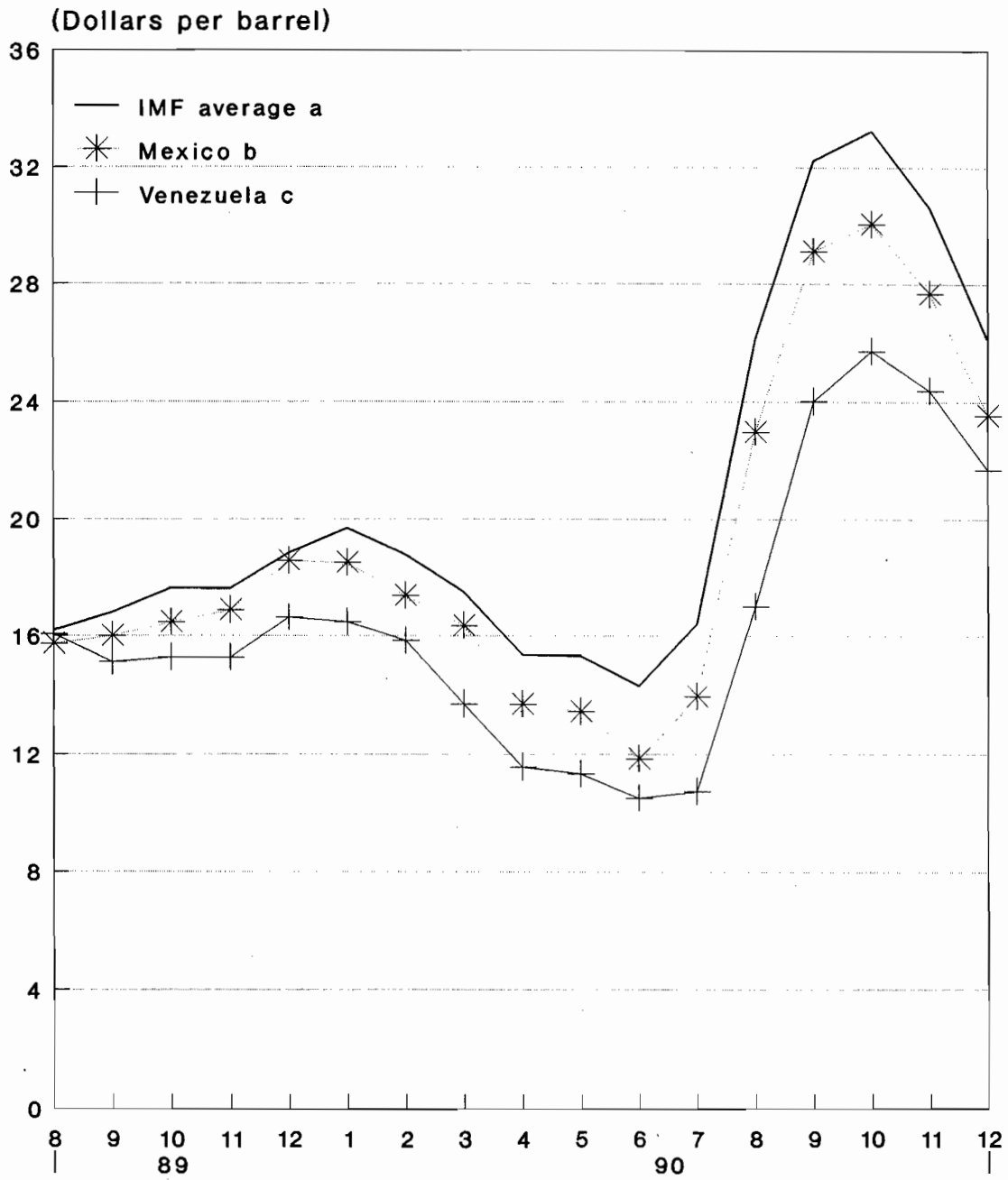
Most of the developed countries continued to apply restrictive monetary policies and raised their interest rates in order to contain inflation. One of the exceptions was the United States,

which maintained an expansionary policy that brought down dollar interest rates by an average of 1% (see figure 13). Since over half of the region's debt is subject to floating interest rates and since most of it is denominated in dollars, the decline in the cost of credit in United States dollars provided some debt relief for the region. However, the region's efforts to renegotiate its debt and to secure fresh resources have been hampered by the serious financial difficulties experienced by commercial banks in the United States and, to a lesser extent, in Japan and the United Kingdom due to the large numbers of bad loans granted in their home markets.

The status of the external sector did not, however, affect the effective import capacity of most of the Latin American and Caribbean countries in 1990, since the majority of them maintained or increased their exports, deferred the servicing of their external debt or benefited from capital inflows. The fall in the prices of their commodity exports other than oil undermined the export effort of most of the countries and led to a decline in their terms of trade. Thus, in 1990, the large trade surplus that the region as a whole has enjoyed since the beginning of the crisis shrank once again despite the favourable net effect produced by developments in the oil market as a result of the Gulf crisis. Owing to low international interest rates and debt reduction agreements signed between some countries and their creditor banks, the flow of profits and accrued interest declined considerably. Consequently, despite the smaller trade surplus, the current account deficit was reduced. Since the inflow of capital (including the involuntary capitalization of interest arrears) outstripped the deficit on current account, the region as a whole was able to post a surplus of US\$14.2 billion in its global balance.

¹For further details, see Part Two.

Figure 11
CRUDE OIL PRICES
 (Monthly averages)



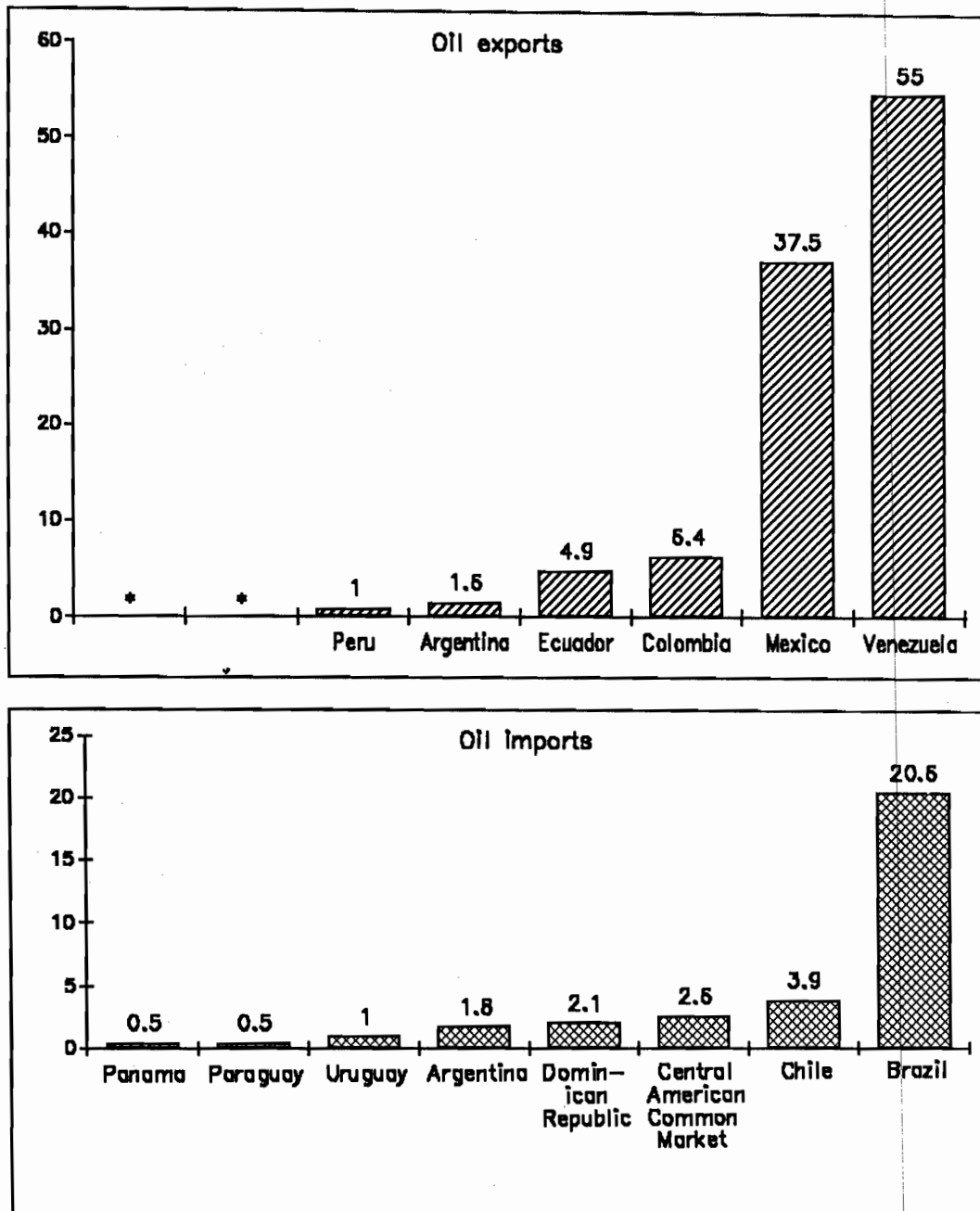
Source: ECLAC, based on data from the International Monetary Fund and Petroleum Market Intelligence.

a "Dubai", "Brent" (United Kingdom) and "Alaskan N. Slope". b "Isthmus 34" and "Maya 22". c "Tfa Juana 22".

Figure 12

LATIN AMERICA: ESTIMATE OF THE MONTHLY EFFECT OF A ONE-DOLLAR INCREASE IN THE PRICE OF A BARREL OF OIL ^a

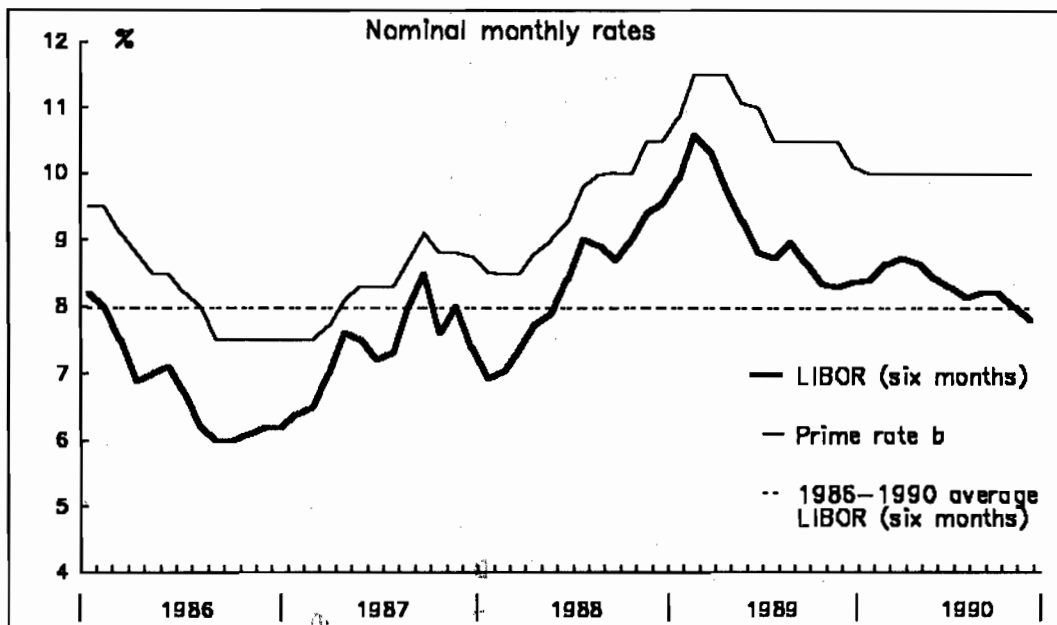
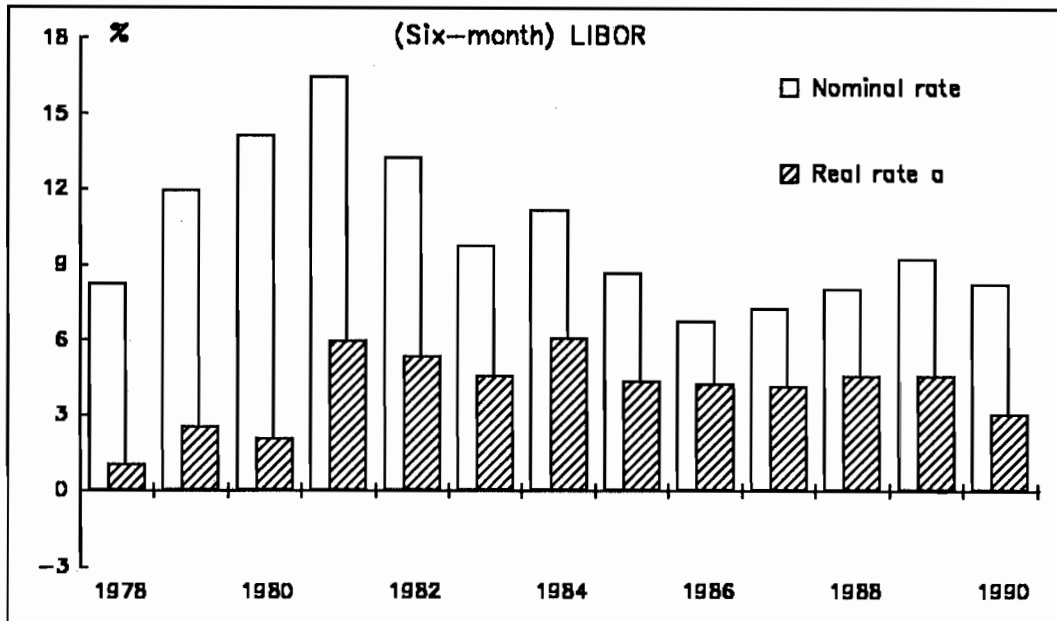
(Millions of dollars)



Source: ECLAC, on the basis of official figures and figures taken from Petroleum Market Intelligence.

^a It is assumed that the 1989 volumes remained the same in 1990.

Figure 13
INTERNATIONAL INTEREST RATES
(Percentages)



Source: ECLAC, on the basis of figures provided by the International Monetary Fund.

a Nominal rate deflated by the consumer price index for industrialized countries. b The prime rate is a preferential rate which is offered by United States banks to their best clients.

1. The impact of the Persian Gulf crisis on Latin America's trade balance

The outbreak of the Persian Gulf crisis in August 1990 seriously disrupted the international oil market. As a result, average oil prices shot up in August and then continued to climb during the following two months until reaching nearly US\$40 per barrel on some days in October. They subsequently began to fall as oil production was increased to feel the gap left by the cessation of shipments from Kuwait and Iraq.²

Thus, in 1990 average oil prices were 27% higher than in 1989; nonetheless this mean price was a reflection of wide price swings during the year, since in the first seven months of 1990 average prices were somewhat lower than the preceding year's average price level, whereas in the last five months they were 70% higher. Similar trends, although they varied in certain respects, were seen in the prices of the types of hydrocarbons that are most representative of the region. In the case of Venezuela, where the heavier crudes play a crucial role and where marketing is based on contracts in which prices are determined by the State oil company, there was also a spectacular increase in prices from August onward, but the average increase in 1990 over those of 1989 was lower, since between January and July prices had fallen more than the average decrease on the world market (see figure 11).

The sudden, substantial increase in international oil prices from August onward had far-reaching repercussions on the trade performance of Latin America and the Caribbean. For the region as a whole, in the short run the value of monthly exports rose by US\$106 million for each US\$1.00 increase in the price of oil, while the value of imports rose by nearly US\$38 million. The following countries benefited the most from the oil price increases: Venezuela (US\$55 million per month for each US\$1.00 increase in oil prices), Mexico (US\$38 million), Colombia (US\$6 million), and Ecuador (US\$5 million). The non-exporting countries, however, felt the full adverse impact of the rise in oil prices. Among these countries, the worst hit

were Brazil, whose monthly oil imports bill jumped by US\$21 million for each US\$1.00 increase in oil prices, Chile (US\$4 million), Uruguay (US\$1 million) and the Central American countries as a group, whose imports climbed by nearly US\$3 million per month for each US\$1.00 rise in price. The trade balances of Argentina and Peru were not greatly affected in the short run, since both countries are nearly self-sufficient in oil and export very little of it. Bolivia, on the other hand, is a major exporter of natural gas, but it takes some time before changes in oil prices are reflected in natural gas prices, since Bolivia sells its natural gas to Argentina via pipeline (see figure 12).

The value of the region's net oil exports soared by 40% from US\$12.7 billion in 1989 to US\$17.8 billion in 1990. The oil-exporting countries as a group increased their net exports of hydrocarbons by US\$6.5 billion, which was equivalent to 11% of their exports of goods and to nearly 2% of their gross domestic product. In contrast, the non-oil-exporting countries, taken as a whole, recorded a US\$1.4 billion increase in their net imports of hydrocarbons, which represented 2% of their merchandise exports (see table 23).

The country which reaped the greatest benefits from this new situation was Venezuela, whose net oil exports climbed by US\$4 billion; this represented an increase of 23% in its merchandise exports and was equivalent to 9% of GDP. The country benefited from both higher prices and an increase in the volume exported. Mexico's net oil exports rose in value by US\$2 billion, which was equivalent to over 7% of its exports. Ecuador and Colombia saw the value of their oil exports grow by nearly 9% and 6% of their merchandise exports, respectively.

Among the net oil-importing countries of South America, Brazil augmented the value of its hydrocarbon imports by US\$1.4 billion, which absorbed over 4% of the total value of its merchandise exports. Chile and Paraguay had to cover increases in their oil imports equivalent to about 4% of their merchandise exports, while

²For further details, see Part Two.

Uruguay was able to offset the rise in oil prices with sharp cutbacks in the volume of hydrocarbon imports. The Central American and Caribbean countries were severely affected by the changed situation in the world oil market. Their more costly imports of hydrocarbons represented significant percentages of the value of their merchandise exports: in the case of Haiti, the figure was 9%; for El Salvador and Guatemala, it was 5%; and for Costa Rica, Honduras and Panama, the percentage was about 2%. The most seriously affected country in this respect was the Dominican Republic, where increased oil imports represented 14% of the value of its merchandise exports in 1990 and 1.5% of GDP. In the case of Nicaragua, the higher cost of its oil imports amounted to 10% of the country's scant exports and nearly 3% of its GDP (see table 23).

2. Foreign trade and the terms of trade

a) Exports

The value of the merchandise exports of Latin America and the Caribbean climbed by a little less than 10% to US\$121.5 billion. This represented a slight decline in the growth rate, since between 1987 and 1989 the rate had averaged 12% per annum. The expansion of exports in 1990 was mainly the result of an increase in volume (nearly 6%), since their unit value rose by less than 4% (see table 20).

The rise in exports was quite widespread, with 14 countries recording an increase and only five countries (Brazil, Dominican Republic, Haiti, Honduras and Peru) showing a decline in their external sales. The oil-exporting countries increased the value of their exports by 20%, thanks mainly to higher fuel prices. The unit value of this group of countries' exports rose by 10% while their volume expanded by about 9%. In contrast, the value of the non-oil-exporting countries' exports showed no more than a small increase (1.5%); this was the result of a rise in volume, since the unit value fell slightly. However, the scantiness of the increase was mainly attributable to the sharp decrease seen in Brazil's exports, since the majority of the other

On the other hand, the closure of the Iraqi and Kuwaiti markets had little impact on Latin American exports. The largest exporter to those markets is Brazil, but in recent years such sales have only amounted to about 2% of its total exports. Over 3% of Guatemala's exports are sold to Kuwait and Iraq, but the other Latin American countries' exports to these markets are negligible and in some cases amount to no more than sporadic transactions.

Brazil is the only country in the region which buys any significant amount of imports from these Middle Eastern countries; indeed, in the past few years such imports have represented over 10% of its total imports. However, these purchases have been made up almost entirely of crude oil (amounting to one-third of the country's oil imports), and Brazil was able to replace them with other sources of supply.

countries in this group recorded significant growth (see table 21).

The value of exports from the oil-exporting countries swelled to US\$58 billion. **Venezuela** achieved the greatest expansion in its external sales (33%) as it boosted its receipts from US\$13 billion in 1989 to US\$17.3 billion in 1990. In view of the increase in oil prices and the suspension of the quota system formerly employed by the Organization of Petroleum Exporting Countries (OPEC), the country decided to increase its oil shipments by as much as 500 000 barrels a day; this objective was nearly achieved towards the end of the year thanks to Venezuela's efforts to make the fullest possible use of existing production capacity. As a result, average monthly exports of hydrocarbons soared from US\$810 million in 1989 (US\$850 million in January-July 1990) to over US\$1.6 billion in the last five months of the year.

The value of the merchandise exported by Colombia, Ecuador and Mexico also rose significantly (by between 15% and 18%); in all three cases, the rise in earnings was due to higher oil prices, since an expansion of the volumes of hydrocarbons exported by the three countries was largely precluded by their relative inability to expand production in the short term. In **Colombia**, the value of oil exports climbed by

36%, but the value of non-oil exports also rose sharply owing to the country's strong performance in terms of external sales of coal and other non-major export products, as well as to the fact that the volume of coffee exports leaped by 38%, thereby helping to offset the decline in its price. In Mexico, the Persian Gulf crisis had the effect of reversing the downward trend in merchandise exports. The growth rate of this category of exports had slowed markedly during the first seven months of the year to an annual rate of only 2% due to a decrease in the value of Mexico's oil exports which was, in turn, a consequence of the continuing decline in fuel prices. From August onward, however, the situation changed completely as exports of petroleum and petroleum products climbed from US\$600 million per month between January and July to US\$1.1 billion per month in the last five months, yielding an annual total of US\$10 billion (28% more than in 1989). Non-oil exports, including both traditional and non-traditional products, grew by 12%. In Ecuador, petroleum sales accounted for the bulk its export growth, although its sales of bananas (27%) and cocoa (34%) also rose. Other export products did badly, however; in the case of coffee, this was due to a drop in prices, while in the case of marine products, the poor results were a consequence of problems in connection with the availability of resources. After a three-year downturn, a slight increase was seen in shrimp exports, however.

Bolivia's exports also expanded, thanks to its non-traditional exports, which were spurred by special benefits, and exports of hydrocarbons. The rise in oil prices was reflected in its sales of natural gas –the main component of Bolivia's hydrocarbon exports– as a result of the increase in price agreed upon with Argentina. Exports of minerals declined slightly as a consequence of the drop in international prices, especially of tin, but this decrease was largely offset by larger export volumes. The value of Peru's exports fell by 7.5% owing to a drop both in export volumes and in unit values. Most of the decrease was accounted for by traditional products (fishmeal, cotton, coffee, copper, silver, lead and zinc). The value of oil exports rose significantly thanks to higher prices, while volumes increased only slightly. Meanwhile, non-traditional exports

were sluggish owing to the low level of the real exchange rate (see table 29).

Among the South American non-oil-exporting countries, the most outstanding performance was turned in by Argentina, whose merchandise exports jumped by nearly 30% to the unprecedented figure of US\$12.3 billion. This expansion was attributable to the greater volume of exports, since their average unit value fell by 1%, and, more specifically, was chiefly a consequence of larger volumes of agricultural exports, although the value of the external sales made by the livestock and non-traditional manufacturing sectors also rose significantly. The low level of domestic activity and the increasingly export-oriented focus of industry in recent years once again prompted an increase in exports of manufactures, which brought in US\$3.8 billion in foreign exchange earnings. The value of hydrocarbon exports was noteworthy as well (US\$1 billion). Paraguay's exports also rose considerably (11%) due to the larger volume of exports, since unit values slipped by 3%. There was a notable rise in external sales of meat products, while there was a substantial drop in soybean exports.

In contrast, Chile's and Uruguay's exports grew more slowly. The less than 3% increase in Chile's external sales constituted a considerably lower growth rate than in previous years. The slowdown was largely due to a decrease in the value of copper exports (-6%) owing to lower international copper prices, which canceled out most of the increase in non-traditional exports. Non-traditional exports continued to grow (20%) despite the fall in the real exchange rate, which was very sharp against the dollar but much less so in relation to a basket of its main buyers' currencies (see table 29). The fastest-growing export industries were the fruit and fishery sectors, whose external sales rose by 35%, while a 20% drop was recorded in fishmeal exports as a consequence of a decline in volume. Uruguay's exports grew by 6% owing to an increase in the physical volume of sales, since prices fell by nearly 4%. The value of external sales of non-traditional products once again rose at a faster pace than that of traditional products, whose growth rate was hurt by the further decline in wool prices. The improvement in Uruguay's competitive position contributed to the upturn in

its exports to Brazil (as did the latter's import liberalization process), which rose by 14% and accounted for 30% of the Uruguay's total exports in 1990.

The substantial drop (by nearly 9%) in **Brazil's** exports was the result of a sharp decline in export volumes (-8%) and a slight decrease in unit value. The country's export performance was undoubtedly affected by both the slack international markets for some products and the low levels reached by the real exchange rate in the past few years, as well as by industrial activities' loss of competitiveness owing to lower levels of investment (see table 29). External sales of all the country's main export commodities except for sugar cane and orange juice declined in volume in 1990. Furthermore, decreases of between 6% and 22% were seen in the value of exports of major industrial product lines such as transport equipment, machinery and mechanical equipment, electrical appliances and steel products.

There was a significant rise (9%) in the value of the exports of those Central American and Caribbean countries for which information was available, despite the downturn in coffee prices, one of the most important export items for these countries. The only exceptions in this otherwise bright picture were the Dominican Republic, Haiti and Honduras, whose sales declined. **El Salvador** was able to increase its exports by 17% thanks to a jump (of over 50%) in the volume of its coffee exports which more than made up for the drop in its price, to an almost twofold increase in the value of sugar sales and, especially, to the considerable expansion of non-traditional exports. **Guatemala** also increased its exports appreciably (8%). This was chiefly a result of the larger volume of sugar exports (42%), but sales of other non-major export products (which were spurred by the sharp devaluation of the currency during the year) also played a part in the overall result (see table 29). **Nicaragua** and **Panama** both managed to expand their exports thanks to the fact that the United States lifted the embargoes it had placed on them in response to political changes in the two countries. In **Nicaragua**, exports rose significantly (11%) but were still far below the levels recorded in the late 1970s. In **Panama**, exports expanded by nearly 30% to a level far above that registered prior to

the 1987-1989 crisis; banana and sugar exports and re-exports from the Colón Free Zone. In **Costa Rica** the growth rate of external sales was quite slow (about 2%) due to the adverse impact of the fall in coffee prices on the international market. Other exports, however, performed well.

Honduras posted a slight decline in its exports (-2.5%) since, in addition to the downturn in coffee prices, there was also a decline in the volume of bananas exported as a result of labour disputes. In **Haiti**, the value of exports fell by 6% owing both to lower international prices and to a decrease in the volume of exports. Most of this decline was due to the 48% drop in the value of coffee exports. The steep drop (-20%) in the Dominican Republic's exports was mainly a consequence of the slump in ferronickel prices, although its external sales of other major products such as coffee, sugar and non-traditional exports also fell.

b) Imports

The value of Latin American and Caribbean merchandise imports rose by 14% to US\$93 billion, thanks to an increase of nearly 9% in volume and of 5% in unit values. Although half of this increase corresponded to the upswing in Mexico's imports, it was nonetheless quite widespread; indeed, Argentina, Guatemala, the Dominican Republic, Haiti and Venezuela were the only five countries that purchased less abroad than the year before (see table 22).

Although the imports of the oil-exporting countries rose by 18%, this increase was attributable to a variety of factors. **Peru**, for its part, recorded the largest increase (35%), chiefly due to the fact that the official exchange rate for imports was subsidized during the early months of the year and to expectations that the new administration, which was to take office at the end of July, would alter the exchange rate policy in view of the quickening pace of inflation. The remaining quasi-tariff restrictions were lifted in August and a gradual reduction of tariffs was initiated. However, this move to open up the economy to trade did not lead to a significant additional increase in imports due to the severe recession affecting the country. In **Mexico** there was also a strong upsurge in imports (27%) as a result of the appreciation of the national currency

and of recent measures aimed at opening up the economy; this expansion of imports was fueled by the inflow of foreign exchange received as a consequence of the higher value of oil exports and an inflow of private capital. Thus, the expansionary trend observed since 1987 continued. Consumer and capital goods showed the most growth (nearly 45%), while imports of intermediate goods increased by 18%. The considerable upswing in imports of capital goods was spurred by efforts to modernize the country's production sectors and by a preference for foreign machinery and equipment. In **Colombia**, imports increased by 12% primarily as a result of the nearly 20% rise in imports of capital goods. Imports of consumer and intermediate goods grew less rapidly despite the economic liberalization process initiated midway through the year and the manufacturing sector's strong recovery (a growth rate of nearly 7%). **Bolivia's** imports swelled by 15%, mainly as a result of the sharp increase in the purchase of capital goods from abroad (31%), including, in particular, machinery and equipment for industry and transport equipment. The increase in **Ecuador's** imports, on the other hand, was much smaller (1%), and the physical volume of imports actually decreased by 4%.

Venezuela's situation was markedly different, as its imports continued to decline (-8% in 1990) in spite of an upswing in economic activity and the continued progress of the trade liberalization process. This continued decrease was occasioned by a further decline in stocks and by a particularly steep drop in purchases of capital goods; the fact that the decrease in capital goods purchases was larger than those seen in the other categories of imports was largely attributable to the depressed level of fixed capital formation in the private sector. Thus, over the past two years there has been a cumulative decrease of more than 45% in merchandise imports (in 1989 imports of goods had plummeted as a consequence of the implementation of an adjustment and stabilization plan).

Among the non-oil-exporting countries of South America, there was a striking increase (13%) in the value of **Brazil's** imports despite the severe economic recession affecting that country. This upturn was mainly caused by the rise in oil

prices, which accounted for 60% of the increase. The low real exchange rate was also a factor, however, although its impact on the demand for imports was softened by a tendency to reduce stocks in response to high interest rates and to the greater liquidity preference displayed by economic agents following the implementation of a severe adjustment plan in March. Finally, the trade liberalization measures adopted in 1990 may have had some impact, although not enough time had passed for them to have exerted a very strong influence. There was a striking increase (24%) in **Paraguay's** imports, but the bulk of this rise was made up of re-exports to neighbouring countries (mainly via direct sales to visitors from those countries). In **Chile** and **Uruguay**, imports were up by 8% and 11%, respectively. In Chile, the Government's efforts to hold demand in check partly offset the expansionary effect of the decline in the real price of the dollar, the impact of the demand for imported capital goods and the effect of the increase in oil prices during the second half of the year. The increase in oil prices also played a part in accelerating the slow growth rate of Uruguay's imports. In **Argentina**, the sluggishness of economic activity (for the third year running) and the very low level of investment continued to curb the demand for imports, which slackened by a little over 2% and thereby perpetuated the sharp downtrend that has been in evidence ever since 1988 (see table 22).

In the Central American and Caribbean countries for which information was available, imports grew by 10%, chiefly as a result of the rise in oil prices. In **Nicaragua** and **Panama**, the increase was associated with a change in the political situation which permitted the normalization of economic ties with the United States and prompted it to grant economic assistance which enabled these countries to raise their levels of imports. In Panama, another factor was that import activities had begun to return to normal after the serious disturbances experienced in earlier years. In **Costa Rica**, imports grew rapidly (18%) for the second year in a row. Apart from the rise in oil prices, other contributing factors were trade liberalization measures consisting of tariff cuts and the elimination of advance deposit requirements, as well as a sharp increase in both public and private investment. In **Guatemala**, imports fell as a result, in particular,

of a substantial devaluation of the country's currency in real terms during the year. The decline in the value of the **Dominican Republic's** purchases from other countries was the consequence of a steep drop in volume which more than offset the increase in the value of fuel imports. The decrease in non-oil imports was attributable to the slump in economic activity and to a shortage of foreign exchange (see table 22).

c) Terms of trade and purchasing power of exports

Since average unit values rose somewhat more for imports than for exports, the terms of trade for the region as a whole declined by a little over 1% in 1990. This further deterioration, when added to earlier declines (particularly the sharp decreases recorded in 1981-1982 and 1986) brought the terms of trade for Latin America and the Caribbean to a level 23% below that of 1980 (see table 24).

This occurred despite the higher oil prices seen during the closing months of the year. As the increase in oil prices far outstripped the rise in the prices of imported manufactures, the terms of trade of the oil-exporting countries improved by nearly 5%. In the non-oil-exporting countries, on the other hand, the terms of trade deteriorated as a result of the combined effect of lower international prices for most of the commodities they export, higher prices for imported manufactures and a sharp jump in the price of oil imports. Thus, the terms of trade for both the South American and Central American non-oil-exporting countries slid back to the average level for 1982-1983 (see figure 14).

In any event, the only oil-exporting countries to see an improvement in their terms of trade were Ecuador, Mexico and Venezuela.

Colombia's terms of trade continued to follow the downward trend which has been in evidence since 1987, while the terms of trade for Bolivia and Peru worsened abruptly. Furthermore, the deterioration in the terms of trade was quite widespread among the non-oil-exporting countries, although the declines experienced by Costa Rica, El Salvador, the Dominican Republic and Uruguay were especially notable by virtue of their severity (see table 25).

The purchasing power of exports for the region as a whole grew by 4%. However, this increase was the net result of opposing trends in the oil-exporting and non-oil-exporting countries. The purchasing power of the oil-exporting countries rose by nearly 15% owing to the steep real rise in international oil prices, the increased volume of shipments of Venezuelan crude oil and a greater volume of non-traditional exports by the other countries in this group (see table 27). Venezuela posted a 31% increase, while the purchasing power of the other oil-exporting countries climbed by between 9% and 12%, with the exception of Peru, whose purchasing power dropped by 18%. In contrast, the non-oil-exporting countries saw the purchasing power of their exports fall by over 4%, chiefly as a consequence of the deterioration in their terms of trade, but also due to the scantiness of the increase in export volumes, which was in turn primarily a result of the reduction in shipments from Brazil (-13%). Substantial decreases were also seen in the exports of Haiti (-11%) and the Dominican Republic (-24%), while Uruguay's exports dropped slightly (-2%). In sharp contrast, the purchasing power of Argentina's and Panama's exports rose by 20% and 26%, respectively, while Paraguay's climbed by 11%, El Salvador's by 7%, and Nicaragua's by 5% (see table 28).

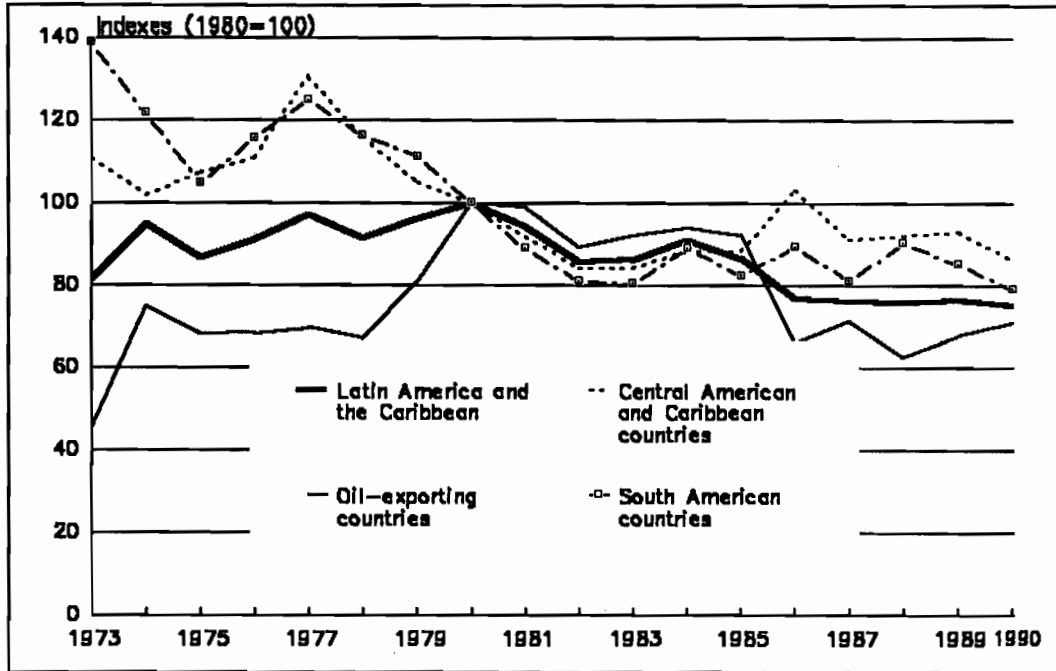
3. The balance-of-payments current account

Since imports increased in value much more than exports did, the region's merchandise trade surplus shrank after having expanded rapidly during the three preceding years. Indeed, after it had risen from US\$18.6 billion in 1986 to US\$29.6 billion in 1989, it fell to US\$28.6 billion in 1990 (see table 30).

This decline in the region's merchandise trade surplus was due primarily to the sharp decrease in Brazil's trade surplus—which dropped from US\$16.1 billion in 1989 to US\$10.8 billion in 1990— and, secondarily, to the reduction in the surpluses of Peru (from US\$1.4 billion to US\$400 million) and Chile. Another factor in this respect was the expansion of the deficits recorded

Figure 14

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE (GOODS)



Source: ECLAC, on the basis of official figures.

by Mexico (an increase of US\$2.4 billion), Costa Rica, Honduras (which had posted a small surplus in 1989) Panama and Paraguay. The only countries which managed to increase their surpluses by any substantial amount –thereby helping to counteract the declines in the surpluses of the rest of the region–were Argentina (US\$2.9 billion), Colombia (US\$540 million), Ecuador (US\$340 million) and Venezuela (nearly US\$5 billion) (see table 30).

The region's surplus from trade in goods and services shrank by a greater amount than its merchandise trade surplus, falling from US\$27.4 billion to US\$24.6 billion. This was due to the considerable increase in net payments for non-factor services, which nearly doubled (from US\$2.1 billion in 1989 to US\$4 billion in 1990), thus surpassing the US\$3.6 billion figure recorded in 1988. This increase, in turn, was largely attributable to the higher level of the net payments made by Argentina, Brazil, Colombia and Venezuela and by a reduction in Mexico's net inflow (see table 30).

In 1990 the region's net outlays in the forms of profit remittances and accrued interest payments totalled US\$34.3 billion, (US\$3.1 billion less than the year before). Most of the decrease was accounted for by Brazil (a reduction of US\$1.7 billion), Venezuela (US\$1 million less), Mexico (a decrease of US\$300 million) and Argentina (US\$200 million less), but there were smaller declines in nine other countries as well. On the other hand, larger payments were made under these headings by Colombia, Peru, Honduras, Nicaragua, Panama and the Dominican Republic (see table 31).

Thanks to the decline in the net level of profit remittances and interest payments, the region's merchandise trade surplus covered 83% of its net factor payments, whereas it had covered only 79% the year before.

The reduction in the net payments of profits and interest by the oil-exporting countries as a group was partly due to the fact that, since floating-rate bank debt represents a large percentage of the total external debt of most of

these countries, they benefited from the 1% reduction in LIBOR. In addition, under the terms of an agreement reached within the framework of the Brady Plan, the interest rate applying to Mexico's bank debt was lowered. Yet another factor was that, thanks to the steep rise in the international reserves of almost all the oil-exporting countries, their foreign-exchange income from accrued interest earnings on those reserves also increased.

Those non-oil-exporting countries for which floating-rate bank debt represents a substantial share of total debt also benefited from the decline in international interest rates. Moreover, in Brazil the profits transferred abroad by transnational corporations diminished from US\$2.6 billion to US\$1.6 billion; this was mainly due to the domestic recession in that country, as well as to the fact that the difference between the commercial and parallel exchange rates was such that it provided less of an incentive for such transfers. For their part, Argentina and Chile also saw an increase in their interest earnings as a consequence of the sharp rise in their international reserves. The significant decline (-22%) in Costa Rica's net factor payments was chiefly a consequence of the implementation of its new agreement under the Brady Plan, which reduced the service on its bank debt. On the other hand, the net payments of profits and interest of various Central American and Caribbean countries were higher than the year before because their external debt was subject to fixed interest rates and they were therefore unable to

benefit from the drop in international interest rates.

Since the reduction in payments of profits and interest was larger than the decrease in the trade surplus was, the region's deficit on current account declined from US\$6 billion to US\$4.7 billion, thereby bringing the cumulative decrease during the past two years to nearly US\$7 billion. Thus, the current account deficit was equivalent to 3.2% of the value of the region's exports of goods and services in 1990, as compared to 9.4% in 1988 and 4.4% in 1989 (see tables 30 and 31).

This improvement in the region's current account position was the net result of widely differing trends. Among the oil-exporting countries, Mexico and Peru significantly increased their deficits (to US\$6.5 billion and US\$1.6 billion, respectively). Venezuela, on the other hand, more than trebled its previous year's surplus to US\$8 billion (nearly one-half the value of its merchandise exports), Colombia expanded its surplus and Ecuador narrowed its deficit. The current account deficit of the non-oil-exporting countries for which data are available rose from US\$3.2 billion in 1989 to US\$4.3 billion in 1990. This was basically due to the fact that Brazil went from a surplus of US\$1.6 billion to a deficit of US\$2 billion and that the Central American and Caribbean countries saw their deficits grow by US\$400 million; only Argentina managed to turn a deficit on current account (of US\$1.3 billion) into a surplus (of US\$1.75 billion), thanks to a remarkable increase in its trade surplus (see table 31).

4. Capital flows and international reserves

The region's capital account yielded a surplus of US\$18 billion, which was nearly twice as much as in 1989. However, this increase was the outcome of a number of dissimilar country trends. On the one hand, Mexico and Chile received considerable inflows of voluntary medium-term capital. On the other hand, many other countries' apparent inflows actually corresponded to the accounting entries for interest arrears on their external debt (involuntary capital inflows), since these countries' inflows of voluntary capital have been virtually nil. In addition, substantial inflows of short-term capital were received by Mexico and

Chile, as well as by some other countries that were in arrears. Finally, Venezuela's capital outflow increased considerably.

Mexico recorded a surplus on capital account of US\$8.8 billion; this was double the 1989 figure, which was already extremely high for a country in Latin America and the Caribbean. The increase was due to the repatriation of a large amount of capital, a sizeable inflow of short-term credits, considerable portfolio investment, US\$2.6 billion worth of foreign direct investment, and issues of bonds and other securities amounting to nearly US\$2 billion which were sold—often with special guarantees—

on international capital markets. Chile, for its part, also benefited from a substantial inflow of short-term capital and about US\$600 million worth of direct investment. Panama and Peru were recipients of significant inflows of returning private short-term capital. Brazil, on the other hand, saw a considerable rise in income (US\$2.6 billion), mainly as a result of interest arrears on its external debt. The inflow of capital to Argentina was the net result of the computation of arrears in its interest payments on the external debt, portfolio investments in connection with the privatization of public enterprises, and outflows of short-term capital. Venezuela's deficit on capital account widened considerably as a consequence of capital outlays made in order to guarantee commitments undertaken as part of the debt reduction agreement signed under the Brady Plan, the elimination of short-term lines of credit and transactions in connection with oil sales.

Since the net inflow of capital was about three times greater than the deficit on current account,

the region's global balance-of-payments surplus came to US\$13.3 billion, which was more than four times the preceding year's surplus. Although net inflows of short-term capital were the predominant factor in many countries, it should be noted that Mexico, Venezuela and Chile also managed to secure renewed access to voluntary medium-term credit on international capital markets. This was particularly true of Mexico, which issued over US\$2 billion in securities for placement on international markets. Consequently, the international reserves of the majority of the countries of the region rose. The largest increase in reserves was registered by Argentina (US\$3.4 billion), while Chile, Mexico and Venezuela recorded increases of over US\$2 billion and Brazil boosted its reserves by US\$1.6 billion. In contrast, a number of Central American and Caribbean countries experienced substantial declines in their reserves (see table 31).

5. The transfer of resources abroad

The net sum of financial resources transferred out of the region declined substantially in 1990 to US\$16.4 billion. Moreover, the ratio between the total outward transfer of resources and the value of the region's exports of goods and services fell sharply from 21% to a little over 11%, the lowest percentage since 1982 (see table 33).

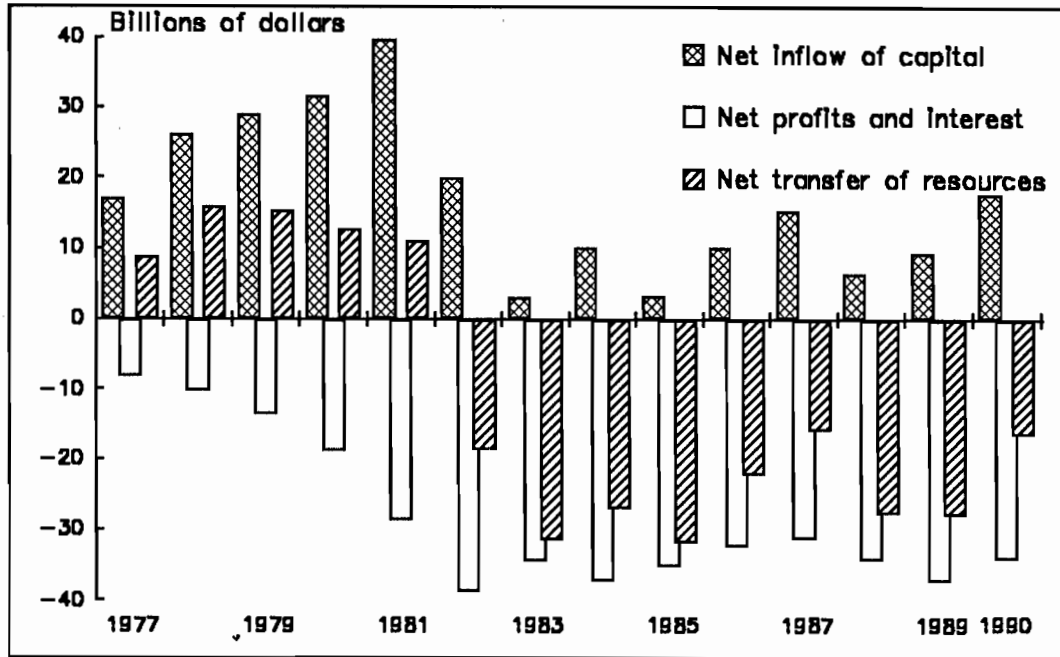
This was primarily due to the larger inflow of capital and, to a lesser extent, to the decrease in payments of interest and profits. Transfers abroad declined in both oil-exporting and non-oil-exporting countries. In the former group of countries, the outward transfer of resources dropped from 18% to 11% of exports of goods and services, with the outflows of capital from Venezuela offsetting a considerable portion of Mexico's sizeable capital inflows. In the non-oil-exporting countries, the decrease in this ratio was somewhat larger, with the result that outward transfers accounted for 12% of the value of exports of goods and services in 1990 as compared with 24% in 1989. However, this was partly due to the fact that the arrears accumulated by these countries in the servicing of their debt in 1990 were higher than in 1989 and, consequently,

the amount of unpaid interest (calculated as inflows of short-term capital) was also higher. Another major factor was the inflow of actual short-term capital, which, however, could easily reverse itself. Nevertheless, it should be noted that six countries –the five Central American countries and Haiti– continued to receive net transfers of financial resources and that, even though the net flow of such resources remained negative in the case of the Dominican Republic, this country's outward transfer amounted to less than 1% of the value of its exports of goods and services. Finally, it should be noted that net resource transfers by multilateral lending agencies were very small or even negative in 1990 (see table 34).

Be that as it may, 1990 was the ninth straight year in which substantial amounts of resources were transferred out of Latin America and the Caribbean. In fact, the region has transferred a total of US\$220 billion abroad since the outbreak of the crisis, which is equivalent to 50% of its current external debt (see table 34 and figure 15). From another standpoint, the annual transfer of resources out of the region during this period

Figure 15

LATIN AMERICA AND THE CARIBBEAN: NET INFLOW OF CAPITAL AND NET TRANSFER OF RESOURCES



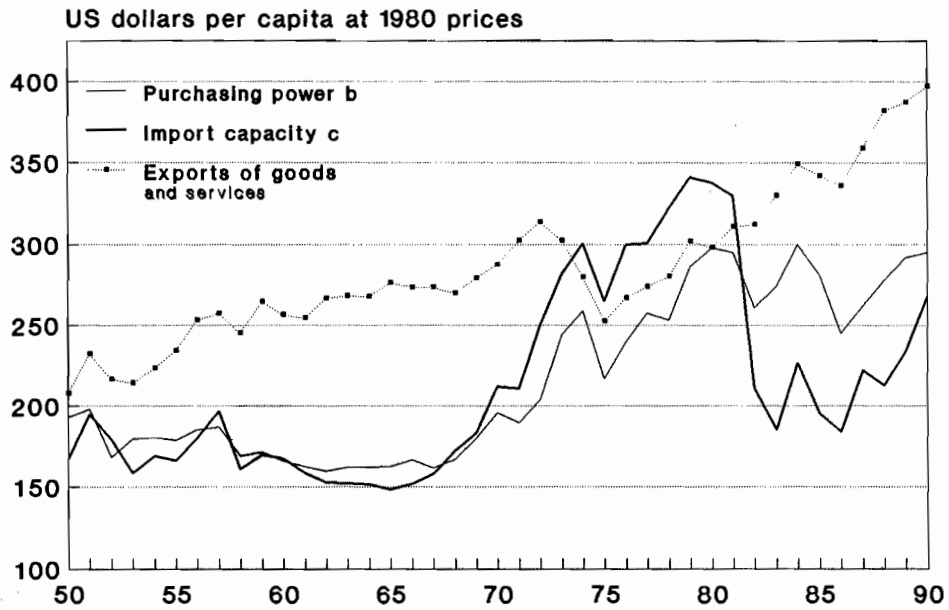
Source: ECLAC, on the basis of data from the International Monetary Fund.

represented 3.5% of the regional product, in sharp contrast to the pre-crisis situation, when the region received transfers from abroad equivalent to about 2.5% of its gross domestic product. This turnaround of six percentage points of GDP in the net transfer of resources has severely restricted the region's economic growth, as is clearly evidenced by the fact that it has been almost exactly equal in magnitude to the decrease in the coefficient of gross capital formation (see table 9).

Furthermore, the turnaround in the net transfer of financial resources, together with the deterioration of the terms of trade, sharply diminished the region's import capacity during the 1980s. Consequently, the sustained expansion which has been observed in the

volume of the region's exports of goods and services since 1975 was undermined during the whole of the 1980s both by the transfer of real resources implicit in the deterioration of the region's terms of trade and by its net outward transfer of financial resources. As a result of these two types of transfers, and despite the nearly 70% increase in the volume of exports seen between 1980 and 1990, the region's import capacity in 1990 was similar, in real terms, to what it was at the beginning of the decade, while its per capita import capacity was 8% lower. Indeed, even the sharp upturn in import capacity registered in 1990 (20%) was chiefly a result of the rise in oil prices and the computation of involuntary capital inflows in the form of arrears in interest payments on the external debt (see figure 16).

Figure 16
LATIN AMERICA AND THE CARIBBEAN a:
FORMATION OF IMPORT CAPACITY



OIL-EXPORTING COUNTRIES d

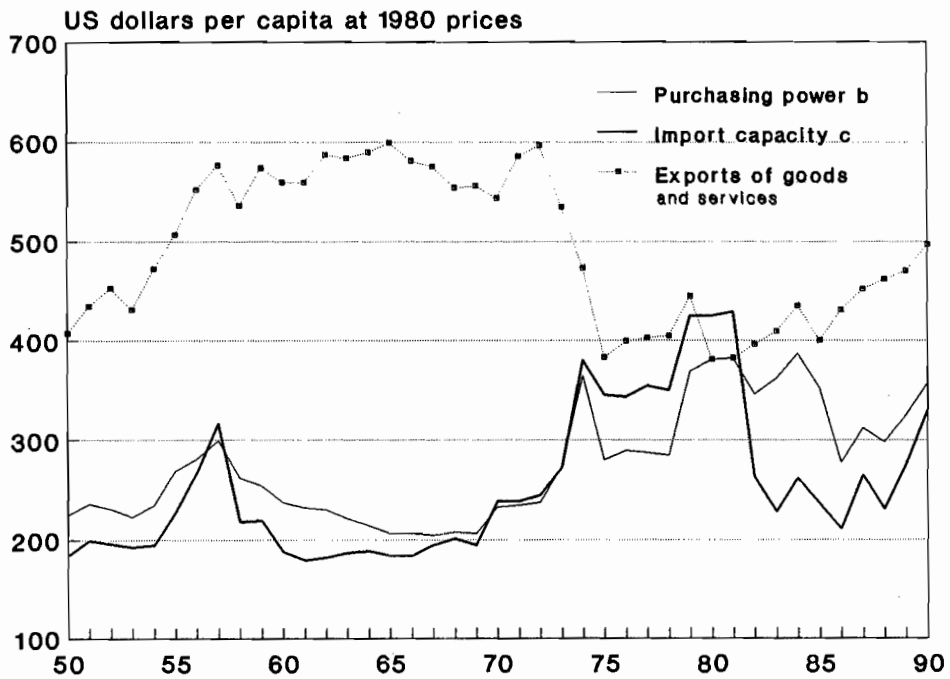
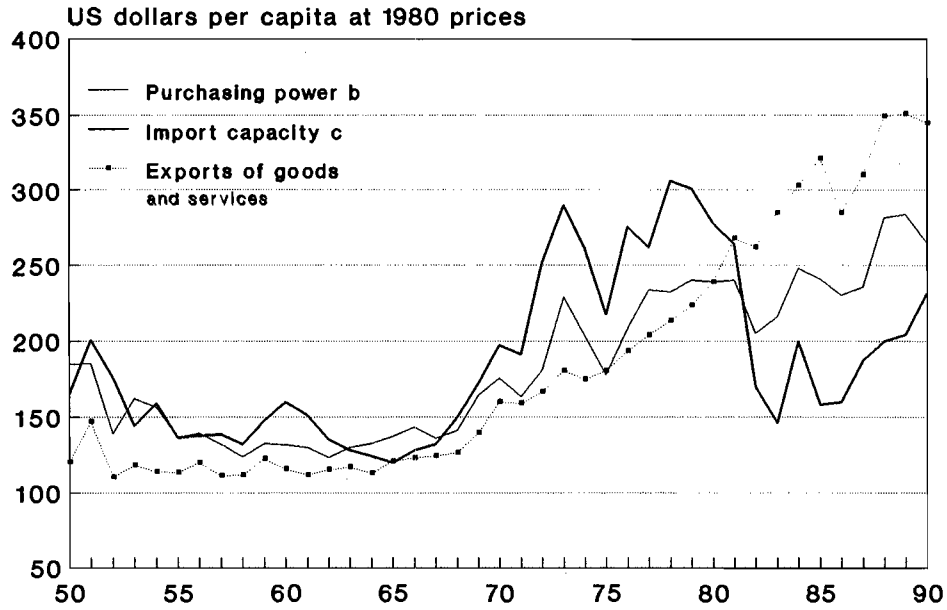
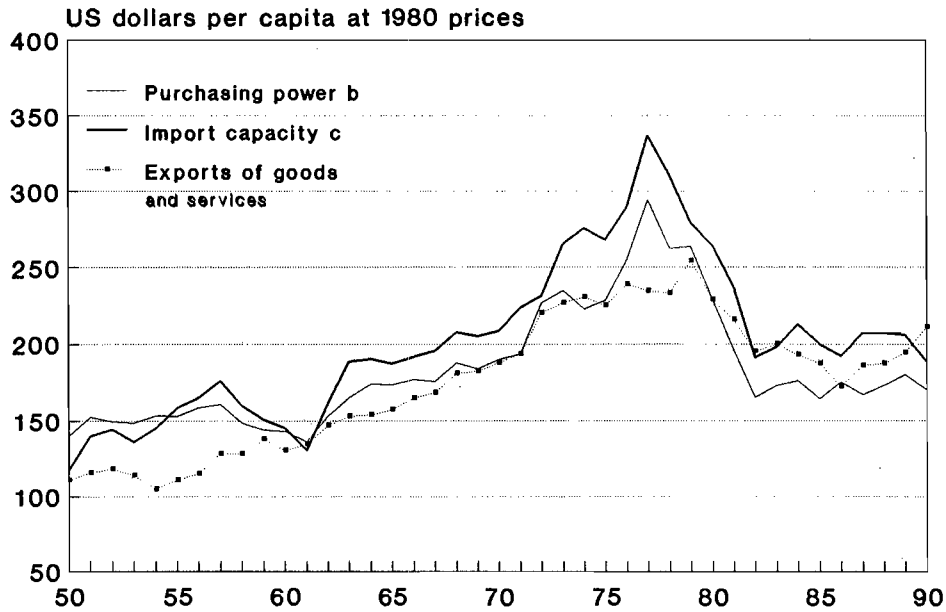


Figure 16 (concluded)
SOUTH AMERICAN NON-OIL-
EXPORTING COUNTRIES e



CENTRAL AMERICAN AND CARIBBEAN
NON-OIL-EXPORTING COUNTRIES f



Source: ECLAC, on the basis of official data and data from the International Monetary Fund.
a Eighteen countries. b Purchasing power of exports of goods and services. c Equivalent to the purchasing power of exports (including the terms-of-trade effect) plus net transfers of resources. d Bolivia, Colombia (since 1980), Ecuador, Mexico, Peru and Venezuela. e Argentina, Brazil, Colombia (up to 1979), Chile, Paraguay and Uruguay. f Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and the Dominican Republic.

Table 20
LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS
(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America and the Caribbean						
1980	31.4	5.5	24.5	35.0	11.9	20.6
1981	8.4	9.2	-0.7	8.0	2.7	5.1
1982	-8.9	1.5	-10.3	-19.8	-18.6	-1.4
1983	0.1	8.6	-7.9	-28.5	-21.5	-9.0
1984	11.5	8.9	2.6	3.9	7.9	-3.7
1985	-5.7	-0.2	-5.7	0.2	1.3	-1.1
1986	-15.7	-1.0	-14.9	2.5	7.3	-4.3
1987	14.5	8.8	5.2	12.9	6.4	6.1
1988	13.8	8.8	4.6	14.0	8.6	4.8
1989	9.8	3.5	6.2	6.1	0.6	5.7
1990 ^a	9.5	5.7	3.5	14.1	8.5	5.2
Oil-exporting countries^b						
1980	37.9	1.8	35.5	33.7	18.5	12.7
1981	8.7	5.0	3.5	19.6	14.7	4.2
1982	-5.6	5.4	-10.4	-16.8	-16.0	-1.0
1983	-2.4	7.0	-8.8	-39.5	-30.7	-12.7
1984	10.6	10.0	0.5	10.8	13.3	-2.2
1985	-9.3	-6.7	-2.7	6.0	7.0	-0.9
1986	-23.7	8.1	-29.5	-2.5	-0.7	-1.8
1987	19.3	6.5	12.2	11.8	8.1	3.4
1988	-1.3	6.0	-6.9	31.6	23.5	6.5
1989	16.9	4.0	12.3	-2.1	-5.9	4.0
1990 ^a	19.7	8.6	10.2	18.2	12.2	5.4
Non-oil-exporting countries (South America)^c						
1980	22.2	7.8	13.5	34.2	4.9	27.9
1981	10.4	17.1	-5.7	-1.9	-7.3	5.8
1982	-12.5	-2.4	-10.4	-24.8	-23.8	-1.1
1983	5.7	13.8	-7.1	-20.1	-15.2	-5.9
1984	14.3	9.1	4.7	-4.2	2.3	-6.2
1985	-2.1	7.7	-9.0	-7.6	-5.4	-2.5
1986	-10.5	-9.9	-0.8	10.9	21.4	-8.7
1987	13.0	12.3	0.8	14.0	3.8	9.9
1988	31.7	13.7	15.6	0.2	-3.7	4.1
1989	4.9	2.8	2.0	16.5	7.1	8.6
1990 ^a	0.4	1.9	-1.5	10.4	5.0	5.1
Non-oil-exporting countries (Central America and the Caribbean)^d						
1980	38.3	19.5	15.7	42.9	16.3	23.0
1981	-0.9	0.1	-1.0	1.4	-4.8	6.5
1982	-13.2	-3.3	-10.2	-15.1	-10.8	-4.8
1983	-9.4	-6.9	-2.7	-7.8	-2.5	-5.4
1984	4.2	-1.2	5.4	7.4	7.6	-0.2
1985	-1.0	2.0	-3.0	2.2	-0.3	2.5
1986	9.3	-6.6	17.2	-0.8	-0.9	0.1
1987	-1.5	7.2	-8.1	13.1	8.7	4.1
1988	2.5	-3.0	5.7	-3.9	-6.8	3.1
1989	6.4	4.0	2.3	11.9	9.8	2.0
1990 ^a	9.4	10.9	-1.3	10.0	3.9	5.9

Source: ECLAC, on the basis of official figures.

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

Table 21
LATIN AMERICA AND THE CARIBBEAN: 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		
		1990 ^a	1988	1989		1990 ^a	1988	1989		1990 ^a	1990 ^a	1988	1989	1990^{a}
Latin America and the Caribbean	137	13.8	9.8	9.5	82	4.6	6.2	3.5	168	8.8	3.5	5.7
Oil-exporting countries	126	-1.3	16.9	19.7	75	-6.9	12.3	10.2	168	6.0	4.0	8.6
Bolivia	88	4.6	33.4	14.3	82	-0.7	10.7	-7.8	107	5.4	20.5	23.9
Colombia	178	-5.6	12.8	17.8	88	4.5	1.1	-1.0	203	-9.7	11.6	19.1
Ecuador	108	9.0	6.9	15.3	62	-9.4	8.7	9.6	175	20.3	-1.6	5.2
Mexico	173	-0.4	10.7	17.6	72	-6.8	9.1	9.6	239	6.8	1.4	7.3
Peru	84	1.1	31.6	-7.5	94	19.7	1.8	-2.6	90	-15.5	29.3	-5.0
Venezuela	91	-3.4	28.9	33.0	76	-13.6	24.8	21.2	120	11.9	3.3	9.8
Non-oil-exporting countries	149	27.1	5.1	1.5	89	14.0	1.9	-1.2	168	11.7	3.0	2.9
South America	160	31.7	4.9	0.4	87	15.6	2.0	-1.5	184	13.7	2.8	1.9
Argentina	154	43.6	4.8	28.9	84	14.5	12.2	-1.1	183	25.4	-6.6	30.3
Brazil	156	28.9	1.8	-8.7	86	14.5	-1.4	-1.3	181	12.5	3.2	-7.5
Chile	177	35.0	14.6	2.8	90	28.1	1.8	-1.9	196	5.4	12.6	4.8
Paraguay	303	23.8	31.9	10.5	103	12.3	4.1	-2.9	294	10.2	26.7	13.8
Uruguay	160	18.8	13.8	5.9	101	9.7	7.3	-3.7	159	8.3	6.1	10.0
Central America and the Caribbean	103	2.5	6.4	9.4	102	5.7	2.3	-1.3	102	-3.0	4.0	10.9
Costa Rica	136	6.7	12.9	1.8	77	2.4	-0.9	-5.2	176	4.2	13.9	7.4
El Salvador	54	3.6	-18.6	16.7	69	15.8	-2.7	-28.0	78	-10.6	-16.3	62.1
Guatemala	80	9.8	4.9	7.5	86	6.2	-1.6	-2.9	93	3.4	6.6	10.8
Haiti	79	-14.1	0.5	-6.2	91	-8.6	-7.0	-3.0	86	-6.1	8.1	-3.4
Honduras	111	5.8	8.3	-2.5	99	8.4	0.7	-3.2	112	-2.5	7.5	0.8
Nicaragua	71	-20.1	23.0	10.7	91	1.9	-3.1	-2.9	78	-21.6	27.0	14.0
Panama	147	-5.8	9.3	29.2	157	6.3	7.9	12.4	93	-11.4	1.3	14.9
Dominican Republic	76	25.1	3.9	-20.5	84	14.4	9.9	-14.7	91	9.3	-5.5	-6.9

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 22
LATIN AMERICA AND THE CARIBBEAN: 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			
		1990 ^a	1988		1989	1990 ^a	1988		1989	1990 ^a	1990 ^a	1988	1989	1990^{a}
Latin America and the Caribbean	103	14.0	6.1	14.1	106	4.8	5.7	5.2	97	8.6	0.6	8.5
Oil-exporting countries	117	31.6	-2.1	18.2	103	6.5	4.0	5.4	114	23.5	-5.9	12.2
Bolivia	146	-8.6	23.5	15.1	100	6.8	1.8	4.5	146	-14.4	21.3	10.2
Colombia	119	19.1	0.7	11.9	107	5.2	5.6	5.7	111	13.2	-4.7	5.9
Ecuador	76	-21.4	4.9	1.1	95	6.9	4.6	5.7	81	-26.5	0.3	-4.4
Mexico	158	54.6	23.9	27.3	104	7.5	3.3	5.5	152	43.9	20.0	20.7
Peru	93	-12.3	-23.3	34.8	115	2.7	7.2	13.2	81	-14.6	-28.4	19.1
Venezuela	60	36.2	-40.9	-8.3	98	5.8	3.8	0.6	62	28.7	-43.1	-8.8
Non-oil-exporting countries	91	-1.0	15.3	10.3	109	3.8	6.9	5.2	84	-4.5	7.8	4.8
South America	85	0.2	16.5	10.4	107	4.1	8.6	5.1	79	-3.7	7.1	5.0
Argentina	40	-9.1	-21.1	-2.4	126	8.5	5.9	5.3	32	-16.2	-25.5	-7.3
Brazil	90	-3.0	25.0	12.8	109	2.9	13.3	5.1	83	-5.7	10.4	7.3
Chile	129	21.0	34.5	8.2	104	5.9	6.0	7.5	123	14.2	27.0	0.6
Paraguay	216	11.1	6.6	24.2	79	6.1	-1.5	-0.7	273	4.7	8.2	25.1
Uruguay	76	3.0	2.2	11.5	99	2.9	6.8	7.7	77	0.1	-4.3	3.6
Central America and the Caribbean	116	-3.9	11.9	10.0	114	3.1	2.0	5.9	102	-6.8	9.8	3.9
Costa Rica	133	2.7	21.3	18.1	105	2.0	4.1	8.2	126	0.7	16.5	9.1
El Salvador	124	3.0	5.6	8.7	131	7.6	-7.0	9.2	94	-4.3	13.6	-0.4
Guatemala	97	6.0	5.0	-3.8	99	3.6	-3.2	5.3	98	2.3	8.5	-8.7
Haiti	81	-8.8	-0.7	-8.8	111	0.0	2.7	4.9	73	-8.8	-3.3	-13.1
Honduras	106	2.6	5.2	5.2	118	1.7	5.0	5.1	90	0.8	0.2	0.1
Nicaragua	74	-2.2	-23.8	8.2	93	1.0	-7.1	5.0	80	-3.2	-18.0	3.1
Panama	131	-17.2	21.0	28.5	125	7.1	5.1	2.1	105	-22.7	15.2	25.9
Dominican Republic	118	1.0	22.1	-8.7	111	0.9	4.7	5.0	106	0.1	16.7	-13.1

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 23
**LATIN AMERICA AND THE CARIBBEAN: NET EXPORTS OF OIL
 AND OIL PRODUCTS, FOB**

	Net exports of oil and oil products, FOB ^a (millions of dollars)			Ratio of increase in net exports of oil and oil products	
	1989	1990	Absolute variation	Exports of goods ^b	GDP ^b
Latin America and the Caribbean	12 698	17 779	5 081	4.2	0.6
Oil-exporting countries	19 234	25 721	6 487	11.1	1.8
Bolivia	-	-	-	-	-
Colombia	1 189	1 597	408	5.8	0.9
Ecuador	1 081	1 315	234	8.6	2.0
Mexico	7 063	9 042	1 979	7.4	0.9
Peru	62	-17	-79	-2.4	-0.2
Venezuela	9 839	13 785	3 946	22.6	8.7
Non-oil-exporting countries	-6 535	-7 942	-1 407	-2.2	-0.3
South America	-5 429	-6 473	-1 044	-1.9	-0.2
Argentina	-15	654	669	5.5	0.7
Brazil	-4 394	-5 780	-1 386	-4.4	-0.4
Chile	-727	-1 008	-281	-3.4	-1.0
Paraguay	-105	-146	-41	-4.3	-0.9
Uruguay	-188	-193	-5	-0.3	-0.1
Central America and the Caribbean	-1 107	-1 469	-363	-4.2	-0.9
Costa Rica	-159	-194	-35	-2.6	-0.6
El Salvador	-78	-110	-32	-5.4	-0.5
Guatemala	-108	-168	-61	-5.0	-0.6
Haiti	-49	-62	-13	-9.3	-0.9
Honduras	-133	-147	-14	-1.5	-0.3
Nicaragua	-85	-117	-32	-9.9	-2.6
Panama	-89	-162	-73	-2.2	-1.5
Dominican Republic	-405	-509	-104	-14.1	-1.5

Source: ECLAC, on the basis of official figures.

^a Exports of oil and oil products, FOB, minus imports of oil and oil products, FOB. Minus sign (-) indicates net imports of oil and oil products, FOB. ^b 1990.

Table 24
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE IN GOODS
(FOB/FOB)
(Indexes 1980 = 100)

Year	Latin America and the Caribbean		Oil-exporting countries ^a		Non-oil-exporting countries			
					South America ^b		Central America and the Caribbean ^c	
	Index	Variation	Index	Variation	Index	Variation	Index	Variation
1980	100.0	3.3	100.0	20.2	100.0	-11.3	100.0	5.8
1981	94.5	-5.5	99.3	-0.7	89.1	-10.9	92.9	-7.1
1982	86.0	-9.0	89.7	-9.7	80.8	-9.3	87.6	-5.7
1983	87.1	1.3	93.7	4.5	79.7	-1.4	90.2	3.0
1984	92.7	6.4	96.4	2.9	89.1	11.8	95.3	5.7
1985	88.4	-4.6	94.5	-2.0	83.0	-6.8	90.2	-5.4
1986	78.7	-11.0	68.0	-28.0	90.3	8.8	105.6	17.1
1987	78.1	-0.8	73.7	8.4	82.8	-8.3	93.2	-11.7
1988	77.9	-0.3	64.4	-12.6	92.1	11.2	95.5	2.5
1989	78.3	0.5	69.5	7.9	86.4	-6.2	95.8	0.3
1990 ^d	77.1	-1.5	72.8	4.7	81.0	-6.3	89.9	-6.8

Source: ECLAC, on the basis of official figures.

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

Table 25
**LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
 IN GOODS FOB/CIF**
(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1985	1986	1987	1988	1989	1990 ^a	1987	1988	1989	1990 ^a
Latin America and the Caribbean	87	77	76	76	76	75	-0.8	-0.4	0.7	-1.6
Oil-exporting countries	92	66	72	63	68	71	8.3	-12.6	8.3	4.7
Bolivia	97	88	85	79	86	75	-3.2	-7.4	8.1	-11.8
Colombia	90	116	90	89	85	80	-23.0	-0.7	-4.0	-6.2
Ecuador	93	70	69	58	61	63	-1.1	-15.8	4.3	3.7
Mexico	86	64	72	62	66	68	11.9	-13.3	5.6	3.9
Peru	88	78	83	96	92	79	6.1	16.1	-4.9	-13.7
Venezuela	107	52	63	51	62	74	21.3	-18.6	-21.3	19.4
Non-oil-exporting countries	81	89	81	89	85	79	-8.5	9.4	-4.5	-6.4
South America	82	89	81	90	85	79	-8.1	10.8	-6.2	-6.3
Argentina	80	72	63	66	70	65	-13.2	5.0	6.0	-7.8
Brazil	83	96	86	95	82	78	-10.8	10.9	-12.7	-5.8
Chile	71	75	80	96	92	84	6.7	20.7	-4.4	-8.7
Paraguay	113	111	111	118	124	121	0.3	5.6	5.3	-2.6
Uruguay	87	100	104	111	111	99	3.5	6.4	0.6	-10.6
Central America and the Caribbean	88	103	91	92	93	86	-11.9	2.1	0.3	-6.9
Costa Rica	85	102	84	84	80	70	-17.8	0.1	-4.8	-12.2
El Salvador	76	107	70	75	78	52	-34.5	7.6	3.9	-33.9
Guatemala	78	101	87	88	89	81	-13.9	1.6	1.1	-9.6
Haiti	82	94	102	92	83	77	7.7	-9.7	-9.6	-7.5
Honduras	80	99	86	92	88	81	-12.3	6.1	-4.1	-7.9
Nicaragua	94	100	97	97	101	94	-2.9	0.4	4.2	-7.6
Panama	107	114	110	110	113	124	-3.8	-0.3	2.8	9.7
Dominican Republic	78	83	76	85	89	73	-9.2	12.8	4.7	-18.4

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 26
**LATIN AMERICA AND THE CARIBBEAN: PRICES OF MAIN
EXPORT PRODUCTS**
(Dollars at current prices)

	Annual averages					Growth rates				Cumulative variation
	1970	1985	1988	1989	1990	1987	1988	1989	1990	1990/ 1980
Unrefined sugar ^a	3.7	4.1	10.2	12.8	12.6	11.5	50.0	25.5	-1.6	-56.1
Coffee (mild) ^a	52.0	145.6	135.1	107.0	89.2	-41.7	20.3	-20.8	-16.6	-50.1
Cocoa ^a	30.6	102.3	72.1	56.5	57.7	-3.4	-20.4	-21.6	2.1	-51.1
Bananas ^a	7.9	18.4	24.6	20.4	29.5	19.9	-7.2	-17.0	44.6	56.2
Wheat ^b	55.0	138.0	146.0	170.0	137.0	-	27.0	16.4	-19.4	-22.8
Maize ^b	66.2	126.6	126.2	133.5	126.9	-9.9	37.5	5.8	-4.9	-39.7
Beef ^a	59.2	97.7	114.2	116.5	115.4	13.9	5.5	2.0	-0.9	-8.3
Fish meal ^b	197.0	280.0	544.0	408.0	412.0	19.3	42.0	-25.0	1.0	-18.3
Soya beans ^b	121.0	225.0	304.0	275.0	247.0	3.8	40.7	-9.5	-10.2	-16.6
Cotton ^a	30.7	61.7	63.4	75.9	82.1	43.9	-16.7	19.7	8.2	-12.8
Wool ^a	54.5	141.0	207.5	191.5	155.0	23.8	13.4	-7.7	-19.1	-20.3
Copper ^a	64.3	64.4	118.0	129.2	120.9	29.7	46.0	9.5	-6.4	22.7
Tin ^c	1.7	5.4	3.3	3.9	2.8	19.2	6.5	19.4	-29.8	-63.6
Iron ore ^b	12.5	22.0	22.3	24.3	26.1	2.3	0.9	9.0	7.4	-9.7
Lead ^a	13.8	17.8	29.7	30.5	36.8	47.3	9.6	2.7	20.8	-10.4
Zinc ^a	15.3	40.4	60.2	82.0	74.6	11.6	42.0	36.2	-9.0	115.6
Crude oil ^d										
Saudi Arabia	1.3	25.8	12.8	16.2	21.2	30.4	-21.5	26.6	30.9	-26.1
Ecuador	-	26.6	15.2	17.8	22.2	20.0	-15.6	17.1	24.7	-36.4
Mexico	-	24.1	12.9	15.2	17.6	27.7	-22.3	17.8	15.8	-41.3
Venezuela	1.7	25.9	12.3	15.7	16.9	29.6	-24.1	27.6	7.6	-38.8
Brent	-	27.3	15.0	18.2	24.0	29.6	-18.4	21.3	31.9	-

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplements, 1960-1984 and; International Monetary Fund, *International Financial Statistics*, Yearbooks, 1981 and January 1991; *Petroleum Intelligence Weekly*, 1984-1991, various issues; and ECLAC, on the basis of official figures.

Note: **Unrefined sugar**, FOB, Caribbean ports, for export to the free market. **Coffee, mild arabica**, *ex-dock* New York. **Cocoa beans**, average of daily prices (futures), New York/London. **Central American bananas**, CIF North Sea ports. **Cotton**, Mexican M 1-3/32", CIF Northern Europe. **Wool**, clean, combed, 48"s quality, United Kingdom. **Beef**, frozen, boneless, all sources, United States ports. **Fish meal**, all sources, 64-65% protein, CIF, Hamburg. **Wheat**, FOB, United States, No. 2, Hard Red Winter. **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. **Oil**: Saudi Arabia Heavy-27 (Gulf Coast, United States); Ecuador, Oriente-30 (Gulf Coast, United States); Mexico, Maya Heavy-22 (Gulf Coast, United States); Venezuela, Tía Juana-22 (Caribbean). United Kingdom: Brent Blend 38 API, FOB United Kingdom ports.

^a US cents per pound. ^b Dollars per metric ton. ^c Dollars per pound. ^d Dollars per barrel.

Table 27
LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS
(1980 = 100)

	Latin America and the Caribbean		Oil-exporting countries ^a		Non-oil-exporting countries			
					South America ^b		Central America and the Caribbean ^c	
	Index	Variation	Index	Variation	Index	Variation	Index	Variation
1980	100.0	10.0	100.0	21.7	100.0	-3.1	100.0	13.0
1981	102.9	2.9	104.2	4.2	103.6	3.6	92.6	-7.4
1982	94.9	-7.8	98.8	-5.2	92.5	-10.7	83.6	-9.7
1983	105.3	11.1	111.4	12.8	103.4	11.8	79.9	-4.4
1984	119.4	13.4	123.1	10.5	123.4	19.3	82.2	2.9
1985	113.9	-4.6	112.8	-8.4	123.8	0.3	79.4	-3.4
1986	100.3	-11.9	86.9	-23.0	121.5	-1.9	87.0	9.6
1987	108.4	8.1	100.1	15.2	125.8	3.5	82.2	-5.5
1988	117.0	7.9	92.8	-7.3	158.1	25.7	81.1	-1.3
1989	120.4	2.9	104.5	12.6	150.4	-4.9	84.6	4.3
1990 ^d	125.3	4.1	119.7	14.5	142.0	-5.6	87.4	3.3

Source: ECLAC, on the basis of official figures.

^a Includes Bolivia, Colombia, Ecuador, Mexico, Peru and Venezuela.

^b Includes Argentina, Brazil, Chile, Paraguay and

Uruguay. ^c Includes Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama and the Dominican Republic.

^d Preliminary figures.

Table 28
LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS
(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1985	1986	1987	1988	1989	1990 ^a	1987	1988	1989	1990 ^a
Latin America and the Caribbean	114	100	108	117	120	125	8.1	7.9	2.9	4.1
Oil-exporting countries	113	87	100	93	105	120	15.2	-7.3	12.6	14.5
Bolivia	67	61	58	57	74	81	-4.4	-2.4	30.4	9.2
Colombia	94	149	151	136	145	162	1.4	-10.3	7.1	11.6
Ecuador	136	108	97	98	101	110	-10.4	1.3	2.6	9.0
Mexico	155	117	147	136	146	163	25.3	-7.3	7.1	11.5
Peru	90	72	72	70	86	71	0.0	-1.8	22.9	-18.1
Venezuela	86	51	60	54	68	89	17.6	-8.9	25.3	31.1
Non-oil-exporting countries	115	115	117	143	138	131	2.3	22.0	-3.9	-4.4
South America	124	122	126	158	150	142	3.5	25.7	-4.9	-5.6
Argentina	115	91	76	100	99	118	-16.9	31.8	-0.1	20.0
Brazil	135	135	144	180	162	141	6.9	24.9	-9.9	-12.9
Chile	97	109	126	160	172	165	15.8	27.2	7.7	-4.4
Paraguay	165	194	206	240	320	355	16.4	16.4	33.5	10.9
Uruguay	90	130	131	151	161	158	0.4	15.3	6.7	-1.7
Central America and the Caribbean	79	87	82	81	85	87	-5.5	-1.3	4.3	3.3
Costa Rica	96	116	116	121	131	123	-0.1	4.3	8.4	-5.7
El Salvador	55	60	45	43	38	40	-25.7	-4.0	-13.0	7.2
Guatemala	69	74	66	70	75	75	-9.8	5.0	7.8	0.1
Haiti	101	84	89	76	74	66	6.8	-15.1	-2.2	-10.7
Honduras	83	100	92	95	98	91	-12.3	6.1	-4.0	-8.0
Nicaragua	71	62	67	53	69	73	7.2	-21.3	32.4	-5.3
Panama	92	101	99	88	91	115	-2.1	-11.8	4.1	26.1
Dominican Republic	74	75	71	88	87	66	-5.3	23.3	-1.1	-24.0

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 29
**LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE
INDEXES FOR EXPORTS^a**
Indexes (1985=100)

	1970- 1979	1980- 1984	1986- 1990	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina ^b	86	92	139	80	90	102	99	92	100	121	153	144	137	138
Bolivia ^c	147	114	133	143	101	143	91	92	100	125	122	134	129	157
Brazil ^b	85	101	91	114	93	89	108	100	100	104	107	98	80	68
Colombia ^b	108	90	146	101	92	85	84	89	100	128	143	145	144	168
Costa Rica ^b	89	104	116	89	126	115	96	96	100	105	115	123	118	122
Chile ^d	68	71	124	72	59	67	79	81	100	117	124	130	122	126
Ecuador ^c	92	83	128	80	74	77	77	104	100	103	115	136	143	144
El Salvador ^c	208	155	134	197	169	152	135	121	100	160	138	121	114	139
Guatemala ^c	113	120	175	130	118	120	118	116	100	137	177	178	177	207
Haiti ^{ce}	140	126	126	140	135	127	117	111	100	97	115	136	140	141
Honduras ^c	125	119	120	138	128	117	108	104	100	103	108	109	101	177
Mexico ^{b f}	96	92	102	75	67	100	126	92	100	115	115	96	93	93
Nicaragua ^c	* ...	228	110	360	280	217	164	118	100	37	10	147	194	161
Paraguay ^{c f}	67	68	112	60	53	64	82	82	100	105	110	114	116	112
Peru ^c	73	84	66	95	82	74	85	84	100	84	74	84	52	38
Dominican Republic ^c	76	91	94	79	79	85	89	122	100	86	102	119	88	77
Uruguay ^b	97	90	112	82	77	83	109	100	100	101	101	113	114	130
Venezuela ^g	118	99	146	106	96	89	97	107	100	113	140	146	156	178

Source: ECLAC, on the basis of figures compiled by the International Monetary Fund.

^a Corresponds to the average (official indexes of the real exchange rate between the currency of each country and the currencies of its main trading partners weighted by the relative participation of each of those countries in the exports of the country under analysis. From 1970 to 1980, these weightings correspond to the average for the period 1975-1979, and from 1981 on, to the average for the period 1983-1987. For the methodology and sources used, see the Statistical Appendix of the *Economic Survey of Latin America and the Caribbean*. ^b Deflated by the wholesale price index. ^c Deflated by the consumer price index.

^d Deflated by J. Yañez corrected consumer price index for the period 1970-1975, by R. Cortázar and J. Marshall's corrected consumer price index for 1975-1978 and by the consumer price index prepared by the National Statistical Institute for the years 1979 on. ^e From 1988 on the commercial exchange rate was used. ^f Free exchange rate used.

Table 30
LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE
(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments ^a			Trade balance		
	1988	1989	1990	1988	1989	1990	1988	1989	1990	1988	1989	1990	1988	1989	1990
Latin America and the Caribbean	101 034	111 020	121 547	76 756	81 467	92 956	24 278	29 553	28 591	3 636	2 110	3 976	20 642	27 443	24 615
Oil-exporting countries	41 427	48 406	57 973	40 489	39 655	46 866	938	8 751	11 107	238	-765	566	700	9 516	10 541
Bolivia	543	724	827	591	730	840	-48	-6	-13	127	160	182	-175	-166	-195
Colombia	5 343	6 029	7 105	4 516	4 548	5 088	827	1 481	2 017	201	350	459	626	1 131	1 558
Ecuador	2 202	2 354	2 714	1 614	1 693	1 711	588	661	1 003	222	162	184	366	499	819
Mexico	20 566	22 765	26 773	18 898	23 410	29 799	1 668	-645	-3 026	-2 584	-2 695	-2 067	4 252	2 050	-959
Peru	2 691	3 542	3 276	2 790	2 140	2 885	-99	1 402	391	371	386	610	-470	1 016	-219
Venezuela	10 082	12 992	17 278	12 080	7 134	6 543	-1 998	5 858	10 735	1 901	872	1 198	-3 899	4 986	9 537
Non-oil-exporting countries	59 607	62 614	63 574	36 267	41 812	46 090	23 340	20 802	17 484	3 398	2 875	3 410	19 942	17 927	14 074
South America	52 196	54 732	54 944	26 549	30 936	34 128	25 647	23 796	20 816	4 477	4 060	4 630	21 170	19 736	16 186
Argentina	9 134	9 573	12 339	4 900	3 864	3 771	4 234	5 709	8 568	722	587	686	3 512	5 122	7 882
Brazil	33 773	34 383	31 390	14 605	18 263	20 598	19 168	16 120	10 792	3 019	2 817	3 474	16 149	13 303	7 318
Chile	7 052	8 080	8 310	4 833	6 502	7 037	2 219	1 578	1 273	644	634	451	1 575	944	822
Paraguay	832	1 097	1 212	1 099	1 171	1 455	-267	-74	-243	112	54	131	-379	-128	-374
Uruguay	1 405	1 599	1 693	1 112	1 136	1 267	293	463	426	-20	-32	-112	313	495	538
Central America and the Caribbean	7 411	7 882	8 630	9 718	10 876	11 962	-2 307	-2 994	-3 332	-1 079	-1 185	-1 220	-1 228	-1 809	-2 112
Costa Rica	1 181	1 333	1 358	1 279	1 551	1 832	-98	-218	-474	-15	-35	-37	-83	-183	-437
El Salvador	611	497	580	967	1 021	1 110	-356	-524	-530	0	-17	42	-356	-507	-572
Guatemala	1 073	1 126	1 211	1 413	1 485	1 428	-340	-359	-217	121	68	123	-461	-427	-340
Haiti	180	181	170	284	282	257	-104	-101	-87	102	102	87	-206	-203	-174
Honduras	893	967	943	917	964	1 014	-24	3	-71	79	84	85	-103	-81	-156
Nicaragua	236	290	321	718	547	592	-482	-257	-271	100	62	65	-582	-319	-336
Panama	2 347	2 564	3 312	2 532	3 062	3 936	-185	-498	-624	-857	-761	-755	672	263	131
Dominican Republic	890	924	735	1 608	1 964	1 793	-718	-1 040	-1 058	-609	-688	-830	-109	-352	-228

Source: ECLAC, on the basis of official figures.
^a Excluding net payments of profits and interest.

Table 31
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Trade balance			Net payments of profits and interest ^a			Balance on current account ^b			Balance on capital account ^c			Total balance ^d		
	1988	1989	1990	1988	1989	1990	1988	1989	1990	1988	1989	1990	1988	1989	1990
Latin America and the Caribbean	20 642	27 443	24 615	34 336	37 340	34 282	-11 546	-5 982	-4 739	5 856	9 268	18 010	-5 690	3 286	13 271
Oil-exporting countries	700	9 516	10 541	13 313	15 105	13 958	-11 352	-2 789	-420	1 104	4 093	6 127	-10 248	1 304	5 707
Bolivia	-175	-166	-195	264	254	244	-427	-399	-422	384	295	418	-43	-104	-4
Colombia	626	1 131	1 558	1 790	2 117	2 166	-189	42	391	382	352	250	193	394	641
Ecuador	366	499	819	999	1 068	1 053	-633	-569	-224	646	762	531	13	193	307
Mexico	4 252	2 050	-959	7 262	8 083	7 765	-2 613	-4 111	-6 517	-4 025	4 289	8 821	-6 638	178	2 304
Peru	-470	1 016	-219	1 235	1 280	1 411	-1 705	-264	-1 630	1 715	858	1 776	10	594	146
Venezuela	-3 899	4 986	9 537	1 763	2 303	1 319	-5 785	2 512	7 982	2 002	-2 463	-5 669	-3 783	49	2 313
Non-oil-exporting countries	19 942	17 927	14 074	21 023	22 235	20 324	-194	-3 193	-4 319	4 752	5 175	11 883	4 558	1 982	7 564
South America	21 170	19 736	16 186	19 562	20 749	18 649	1 779	-703	-1 407	2 499	2 693	9 145	4 278	1 990	7 738
Argentina	3 512	5 122	7 882	5 127	6 422	6 203	-1 615	-1 292	1 750	3 473	-56	1 627	1 858	-1 348	3 377
Brazil	16 149	13 303	7 318	12 084	11 983	10 279	4 172	1 564	-2 032	-2 461	951	3 611	1 711	2 515	1 579
Chile	1 575	944	822	1 919	1 926	1 811	-281	-924	-935	1 107	1 492	3 266	826	568	2 331
Paraguay	-379	-128	-374	108	69	34	-485	-196	-406	349	335	563	-136	139	157
Uruguay	313	495	538	324	349	322	-12	145	216	31	-29	78	19	116	294
Central America and the Caribbean	-1 228	-1 809	-2 112	1 461	1 486	1 675	-1 973	-2 490	-2 912	2 253	2 482	2 738	280	-8	-174
Costa Rica	-83	-183	-437	352	391	306	-394	-533	-700	636	679	418	242	146	-282
El Salvador	-356	-507	-572	118	141	138	-273	-406	-364	253	344	481	-20	-62	117
Guatemala	-461	-427	-340	177	191	171	-497	-438	-371	355	510	302	-142	72	-69
Haiti	-206	-203	-174	27	26	25	-170	-169	-153	195	171	129	25	2	-24
Honduras	-103	-81	-156	262	266	387	-347	-331	-523	361	302	506	14	-29	-17
Nicaragua	-582	-319	-336	262	205	236	-845	-524	-572	889	456	353	44	-68	-219
Panama	672	263	131	-8	34	109	640	194	-13	-645	-143	256	-5	51	243
Dominican Republic	-109	-352	-228	271	232	303	-87	-283	-216	209	163	293	122	-120	77

Source: ECLAC, on the basis of official figures.

^a Excluding labour and ownership.

^b Including net unrequited private transfers.

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

^d Equal to variation in international reserves (of opposite sign) plus counterpart items.

Table 32
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF THE BALANCE-OF-PAYMENTS
 DEFICIT ON CURRENT ACCOUNT TO THE VALUE OF EXPORTS OF GOODS AND SERVICES^a**
 (Percentages)

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^b
Latin America and the Caribbean	39.8	7.1	0.9	3.3	18.4	10.3	9.4	4.4	3.2
Oil-exporting countries	30.3	-9.9	-10.8	-2.8	13.7	2.0	21.1	4.5	0.6
Bolivia	22.2	23.8	29.4	47.6	69.9	80.9	63.7	46.1	43.4
Colombia	69.0	79.9	27.3	40.5	-6.2	-5.0	2.8	-0.6	-4.5
Ecuador	44.8	5.9	9.8	-1.0	22.3	51.4	23.9	19.8	6.9
Mexico	24.5	-19.7	-13.7	-1.7	8.2	-13.4	9.0	12.5	17.0
Peru	43.6	29.3	11.5	3.4	42.1	54.6	46.2	5.8	38.4
Venezuela	24.0	-28.1	-27.9	-21.9	23.5	12.0	52.3	-17.8	-43.0
Non-oil-exporting countries	51.0	26.1	13.6	9.6	22.5	18.1	0.3	4.3	5.7
South America	57.1	27.3	11.3	6.7	24.3	16.0	-3.1	1.1	2.2
Argentina	25.6	26.2	26.0	9.5	33.9	52.1	14.6	11.0	11.7
Brazil	74.3	29.0	-0.1	1.0	21.9	5.0	-11.6	-4.2	5.8
Chile	51.0	25.1	50.3	30.0	23.1	13.8	3.4	9.6	9.2
Paraguay	61.4	54.4	42.0	33.7	50.1	61.8	48.0	15.0	28.4
Uruguay	15.9	5.0	10.8	10.4	-1.3	10.7	0.7	-7.3	-10.2
Central America and the Caribbean	26.4	21.1	24.4	23.5	15.7	27.2	18.2	21.7	23.2
Costa Rica	24.4	28.8	20.4	24.8	13.9	30.6	24.3	28.8	36.1
El Salvador	29.2	22.6	27.2	26.8	11.4	24.5	28.9	51.7	42.3
Guatemala	31.3	19.2	30.8	21.3	3.6	47.0	39.1	30.8	23.4
Haiti	58.4	60.4	56.7	56.7	49.6	45.6	61.8	63.2	60.2
Honduras	32.5	31.7	45.6	37.3	29.0	35.1	34.1	30.3	48.8
Nicaragua	124.8	117.1	148.6	243.6	279.4	250.8	309.3	151.0	149.0
Panama	4.2	-10.5	-2.5	-4.4	-6.3	-2.4	-18.2	-5.3	0.3
Dominican Republic	40.1	35.3	16.3	16.8	17.5	27.0	4.6	13.6	10.8

Source: ECLAC, on the basis of official figures.

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

^b Preliminary figures.

Table 33
**LATIN AMERICA AND THE CARIBBEAN: NET INFLOW OF CAPITAL AND
TRANSFER OF RESOURCES^a**
(Billions of dollars and percentages)

	Effective net inflow of capi- tal ^b (1)	Unre- gistered trans- actions ^c (2)	Net inflow of capital (1 + 2) (3)	2/1 (4)	Net pay- ments of profits and in- terest (5)	Transfer of resources		Exports of goods and services (8)	6/8 (9)	7/8 (10)
						(1-5) (6)	(3-5) (7)			
1980	33.6	-2.0	31.6	-6.0	18.8	14.8	12.8	101.5	14.6	12.6
1981	51.6	-11.7	39.9	-22.7	28.8	22.8	11.1	109.5	20.8	10.1
1982	31.9	-11.9	20.0	-37.3	38.8	-6.9	-18.8	99.5	-6.9	-18.9
1983	5.5	-2.3	3.2	-41.8	34.6	-29.2	-31.4	99.4	-29.4	-31.6
1984	12.7	-2.4	10.3	-18.9	37.3	-24.6	-27.0	110.8	-22.2	-24.4
1985	6.9	-3.6	3.3	-52.2	35.3	-28.4	-32.0	105.3	-27.0	-30.4
1986	11.0	-0.8	10.2	-7.3	32.5	-21.5	-22.3	91.0	-23.6	-24.5
1987	14.8	0.7	15.5	4.7	31.3	-16.5	-15.8	104.2	-15.8	-15.2
1988	8.0	-1.5	6.5	-18.8	34.3	-26.3	-27.8	119.3	-22.0	-23.3
1989	...	...	9.4	...	37.3	...	-27.9	132.6	...	-21.0
1990 ^d	...	...	17.8	...	34.2	...	-16.4	145.9	...	-11.2

Source: 1980-1987: ECLAC on the basis of data from the International Monetary Fund (IMF); 1989 and 1990. ECLAC, on the basis of figures from the IMF and national sources.

^a Covers 16 Spanish-speaking countries (Cuba and Panama excluded), plus Brazil and Haiti. ^b Equivalent to net inflow of capital minus unregistered transactions. ^c Corresponds to balance-of-payments item "errors and omissions".

^d Preliminary estimates.

Table 34

LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES^a

	Net transfer of resources (millions of dollars)										Ratio of net transfer of resources to exports of goods and services				
	1985	1986	1987	1988	1989	1990 ^b	1982- 1990 ^b	1985	1986	1987	1988	1989	1990 ^b		
Latin America and the Caribbean	-32 021	-22 325	-15 793	-27 843	-27 913	-16 417	-223 545	-30.4	-24.5	-15.2	-23.3	-21.0	-11.3		
Oil-exporting countries	-17 915	-10 750	-8 103	-12 209	-11 031	-7 831	-123 895	-32.6	-24.2	-15.4	-22.7	-17.6	-10.6		
Bolivia	-66	274	201	120	40	174	389	-9.1	41.1	30.8	17.8	4.6	17.9		
Colombia	387	-847	-1 916	-1 408	-1 765	-1 916	-6 698	8.6	-13.2	-28.0	-20.9	-24.0	-23.4		
Ecuador	-956	-470	253	-353	-307	-522	-3 690	-29.0	-17.9	10.3	-13.3	-10.7	-16.2		
Mexico	-12 178	-6 127	-5 325	-11 287	-3 794	1 056	-75 761	-44.4	-28.0	-19.3	-38.8	-11.5	2.8		
Peru	-816	113	275	480	-440	365	28	-21.5	3.4	7.7	13.0	-9.7	8.6		
Venezuela	-4 286	-3 693	-1 597	239	-4 765	-6 988	-38 163	-28.1	-38.9	-14.0	2.2	-33.8	-37.7		
Non-oil-exporting countries	-14 106	-11 575	-7 690	-15 634	-16 882	-8 586	-99 650	-28.0	-22.4	-14.9	-23.9	-24.1	-11.9		
South America	-15 441	-12 214	-9 233	-17 063	-18 056	-9 502	-110 320	-35.0	-30.5	-20.5	-29.3	-29.0	-14.9		
Argentina	-3 321	-2 448	-2 162	-1 654	-6 478	-4 576	-32 151	-33.1	-29.0	-26.6	-14.9	-55.0	-30.6		
Brazil	-11 414	-9 056	-6 747	-14 545	-11 032	-6 668	-74 036	-41.2	-37.5	-24.0	-40.4	-29.4	-19.0		
Chile	-661	-958	-696	-812	-434	1 455	-3 871	-14.8	-18.7	-11.0	-9.8	-4.5	14.3		
Paraguay	109	272	426	241	266	530	1 844	16.5	35.0	50.5	23.8	20.4	37.1		
Uruguay	-154	-24	-54	-293	-378	-243	-2 106	-12.3	-1.6	-3.5	-16.6	-18.9	-11.5		
Central America and the Caribbean	1 335	639	1 543	1 429	1 174	916	10 670	-21.6	9.7	23.1	19.6	15.0	11.3		
Costa Rica	80	11	184	284	288	112	917	6.5	0.8	12.7	17.6	15.6	5.8		
El Salvador	153	41	194	135	203	343	1 371	16.9	3.9	21.3	14.3	25.9	39.9		
Guatemala	193	-54	310	178	319	131	1 665	16.6	-4.6	27.3	14.0	22.4	8.3		
Haiti	177	154	131	168	145	104	1 281	52.4	52.7	40.9	61.1	54.3	40.9		
Honduras	113	99	166	99	36	119	1 409	12.4	9.8	17.1	9.8	3.3	11.5		
Nicaragua	581	338	577	627	251	117	3 961	169.0	111.8	177.6	229.4	72.3	30.5		
Dominican Republic	38	50	-19	-62	-68	-10	66	2.9	3.5	-1.2	-3.2	-3.3	-0.5		

Source: 1985-1988: ECLAC, on the basis of data from the International Monetary Fund (IMF); 1989 and 1990: ECLAC, on the basis of figures from IMF and national sources.

^a The net inward transfer of resources is equal to net capital inflow (official transfer payments, short- and long-term capital, and errors and omissions) minus net payments of profits and interest, which include both interest actually paid and interest due but not paid. In this table, negative figures indicates transfers of resources to the exterior.

^b Preliminary figures.

Table 35
LATIN AMERICA AND THE CARIBBEAN: A TRANSFER OF CREDIT^a

	Credit transfers (millions of dollars)										Ratio of credit transfers to exports of goods and services				
	1985	1986	1987	1988	1989	1990 ^b	1982- 1989 ^b	1985	1986	1987	1988	1989	1990 ^b		
Latin America and the Caribbean	-25 171	-22 211	-17 340	-29 576	...	...	-139 521	-23.9	-24.4	-16.6	-24.8	...	...
Oil-exporting countries	-11 820	-10 235	-10 032	-14 374	-12 981	...	-70 025	-21.5	-23.0	-19.1	-26.4	-20.7	...		
Bolivia	-323	-38	24	-9	98	...	-703	-44.9	-5.7	3.7	-1.3	11.3	...		
Colombia	149	-645	-1 602	-300	-1 330	...	-2 477	3.3	-10.0	-23.5	-4.5	-18.1	...		
Ecuador	-426	606	1	-473	-765	-1 388	-2 025	-12.9	23.0	0.0	-17.9	-26.6	-43.0		
Mexico	-8 245	-7 245	-5 972	-11 208	...	...	-43 437 ^c	-30.1	-33.1	-21.6	-38.0	...	...
Peru	-252	-204	-428	21	-671	...	-898	-6.6	-6.1	-11.9	0.6	-14.8	...		
Venezuela	-2 723	-2 709	-2 055	-2 405	-1 770	...	-15 595	-17.8	-28.5	-18.0	-21.8	-12.5	...		
Non-oil-exporting countries	-13 351	-11 976	-7 308	-15 202	...	...	-69 496	...	...	...	...	...	...
South America	-13 437	-11 653	-7 292	-15 118	...	...	-71 472	-30.4	-29.1	-16.2	-26.0	...	...
Argentina	-2 774	-2 801	-914	-768	-3 328	...	-19 874	-27.6	-33.2	-11.2	-6.9	-28.3	...		
Brazil	-9 326	-7 223	-5 006	-12 917	...	...	-44 004 ^c	-33.7	-29.9	-17.8	-35.8	...	...
Chile	-967	-1 422	-1 110	-1 199	-1 969	-433	-7 885	-21.6	-27.8	-17.6	-14.5	-20.5	4.3		
Paraguay	33	80	-203	-185	-35	...	578	5.0	10.3	-24.1	-18.3	-2.7	...		
Uruguay	-403	-287	-59	-49	-230	-255	-287	-32.2	-19.1	-3.8	-2.8	-11.5	-12.0		
Central America and the Caribbean	86	-323	-16	-84	...	...	1 976	1.4	-4.9	-0.2	-1.2	...	...
Costa Rica	-163	-220	-226	-191	-159	...	-1 032	-13.4	-15.8	-15.6	-11.8	-8.6	...		
El Salvador	-56	-27	-140	-36	30	...	-135	-6.2	-2.6	-15.4	-3.8	3.8	...		
Guatemala	-257	-279	-64	-111	60	...	-335	-22.1	-23.9	-5.6	-8.7	4.2	...		
Haiti	33	32	34	61	41	...	449	9.8	11.0	10.6	22.2	15.3	...		
Honduras	95	-41	42	-21	32	...	322	10.5	-4.1	4.3	-2.1	-2.9	...		
Nicaragua	702	420	532	458	278	...	3 814	204.1	146.3	163.7	167.8	80.1	...		
Dominican Republic	-268	-208	-194	-244	...	...	-1 107 ^c	-20.3	-14.8	-12.4	-12.9	...	...

Source: 1985-1988: ECLAC, on the basis of figures provided by the International Monetary Fund (IMF); 1989 and 1990: ECLAC, on the basis of figures provided by IMF and national sources.
^a The transfer of credit is equal to the net in flow of long-term capital (except investment capital) and of short-term capital from official sources and commercial banks (thus capital from other sectors is excluded) minus net payments of interest, which include both the interest actually paid and interest due but not paid. In this table, negative figures indicate transfers of resources abroad.
^b Preliminary figures. ^c 1982-1988.

VII. THE EXTERNAL DEBT

1. Major trends

After having declined slightly the year before, the external debt of Latin America and the Caribbean rose by 3.6% in 1990 to a total of US\$435 billion (see table 36). This increase in the region's external obligations –which was, in any event, negative in real terms– was the result of a variety of factors. One was that the external debt load of many countries was so overwhelming that they were unable to service their obligations, with the result that they marked up US\$11 billion in arrears, thereby bringing the region's total debt servicing arrears up to nearly US\$30 billion. Another factor was that the few countries which did manage to project an image of solvency were given access to a significant amount of voluntary financing on international credit markets. Yet another contributing factor to this increase –and one which had a major impact on some countries– was the sharp devaluation of the United States dollar on international markets, since this boosted the dollar value of debts denominated in yen and European currencies. On the other hand, several contractive factors also made their effect felt during the year; these factors included various type of debt reduction operations and, in some countries, the elimination of short-term lines of credit.

Arrears were the chief cause of the increase (between 5% and 7% in most cases) in the total debt stock of Argentina, Brazil, Paraguay, Guatemala, Honduras, Nicaragua, Panama, Peru, Ecuador and the Dominican Republic (see table 36). Brazil, for its part, was also one of the countries that was the most severely affected by the devaluation of the United States dollar in international markets. In Brazil's case, however, these expansionary factors were partly offset by a number of informal debt redemption arrangements and by the loss of commercial lines of credit. It should also be noted that Argentina's

external debt would actually have decreased if the accounts for 1990 had reflected the US\$7 billion debt-equity swap that was recently carried out as part of the privatization of ENTEL (the national telecommunications company) and Aerolíneas Argentinas (the State-owned airline).

The growth of Mexico's external debt (3.3%) was partly a reflection of a relatively recent and encouraging development in the region –i.e., the recovery of access to voluntary loans in private international financial markets– which more than offset the effect of some debt reduction operations. As mentioned earlier, Mexico was quite successful in attracting foreign financial resources in 1990, as attested to by its sale of about US\$2 billion in bonds and other securities. In the case of Chile, the country's newly contracted debt –which more than outweighed the US\$1 billion reduction achieved by means of the conversion of debts into assets denominated in the local currency– included the first voluntary loan (of US\$20 million) to be granted by a private bank since 1982. In addition to private lending, during the first nine months of the year both countries, but especially Mexico, were the recipients of a positive net flow of disbursements from international lending agencies.

Mention should also be made of the Mexican Government's purchase of over US\$3 billion in zero coupon bonds from the United States Treasury for use as collateral against the future payment of the US\$35 billion principal of the 30-year bonds into which the country's bank debt was converted under the Brady Plan.

Costa Rica was the only country that managed to make a substantial reduction in its stock of debt in 1990. This 18% decrease was the result of a bank debt buyback operation (which will be discussed in greater detail below) that was carried out under the Brady Plan (see table 36).

Venezuela –which also floated bonds on international markets in 1990– did, however, reduce its total debt by a slight amount as a consequence of the elimination of short-term lines of credit.

For the region as a whole, the coefficient which measures the total amount of interest payments and interest due as a percentage of exports of goods and services decreased for the second year running, from 29% in 1989 to 25% in 1990 (see table 38 and figure 17). The drop in this regional coefficient was partly a consequence of an increase in exports of goods and services and partly a result of a drop in the amount of interest payable on the debt. Although this ratio has exhibited an unmistakable downward trend over the years, it is still quite high and is far above what is considered acceptable.

This trend in the overall coefficient is the result of reductions in the debt of both oil-exporting and non-oil-exporting countries, although the decreases have been sharper in the former. The considerable increase in the external sales of oil-exporting countries, coupled with a slight decline in the amount of interest that fell due, drove down the coefficient for this group of countries from 28% to 23%. As a consequence of events in the world oil market, all the countries in this category contributed to the drop in the above coefficient except Peru, whose ratio climbed from 29% to 35% as the amount of interest it owed rose and its exports slackened off.

As for the non-oil-exporting countries, the coefficient dropped from 30% to 27%, with the largest individual decreases being seen in Argentina and Costa Rica (see table 38). Although Argentina's interest bill was somewhat smaller, it was mainly the steep growth of its exports that lowered the coefficient by almost 13 percentage points. Even so, Argentina continues to be burdened with an extremely heavy interest load, and this was reflected in the fact that its coefficient was still 39%, which was the second highest in the region (Nicaragua's coefficient was the highest). The drop in Costa Rica's coefficient from 22% to 17% was the result of its strong export performance and the reduction in its interest payments which was achieved under the terms of the Brady Plan. The fact that Brazil was able to lower its coefficient by more than one

percentage point was entirely a consequence of a steep drop in the amount of interest falling due, since its exports of goods and services were off sharply. Chile, Paraguay and Uruguay managed to reduce their coefficients by moderate amounts.

Declining exports and rising interest charges caused both Honduras' and the Dominican Republic's coefficients to rise by a significant amount (by 12% and by 5%, respectively). In contrast, El Salvador and Guatemala were able to reduce their coefficients slightly, while Haiti's held steady and Nicaragua's remained at the high level seen in earlier years (somewhat more than 60%).

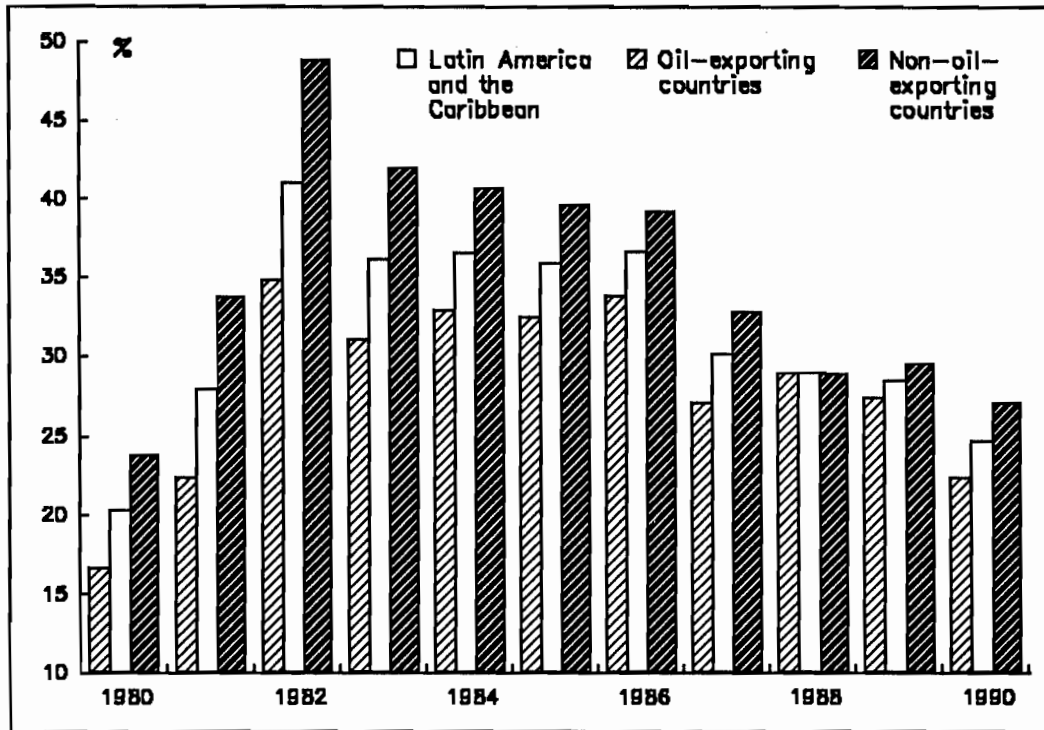
The other indicator of the external debt load –the debt/exports coefficient– fell slightly in 1990, from 302% to 284% (see table 39). This decline in the regional coefficient was the net result of opposing trends in the oil-exporting and non-oil-exporting countries. In the oil-exporting countries, taken as a group, a sharp increase in exports, coupled with a moderate expansion of their debt (except in the case of Venezuela), caused this coefficient to fall from 280% to 244%. Venezuela's coefficient dropped below 180% for the first time since the start of the crisis, whereas Peru's debt/exports ratio was above 400% once again (see table 39).

This coefficient held more or less steady in the non-oil-exporting countries. Divergent trends were to be observed within this group, however. Brazil's coefficient climbed from 307% in 1989 to 347% in 1990 owing to the combined effect of an increase in its debt and a sharp drop in its exports. Haiti, Honduras and the Dominican Republic also saw an increase in their debt/exports coefficients. On the other hand, the coefficients of the rest of the countries in this group declined somewhat. The steepest drop was recorded by Costa Rica, which brought its coefficient down from 244% to 191% thanks to the reduction of its bank debt under the Brady Plan and to an expansion of its exports. In addition to Costa Rica, four other non-oil-exporting countries registered coefficients of less than 200% in 1990: Panama, Paraguay, Guatemala and Chile (see table 39).

Although indicators of the region's external debt burden have improved in recent years, in the majority of the countries they remained above what are generally regarded as acceptable levels.

Figure 17

LATIN AMERICA AND THE CARIBBEAN: INTEREST PAYMENTS DUE AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES



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

2. Renegotiation of the debt

a) Commercial bank debt

The fifth round of external debt renegotiations with private banks, most of which were pursued within the general framework of the Brady Plan, continued in 1990. Mexico, which had started off this round in July 1989 with an agreement in principle concerning the reduction of its debt and service payments, signed a definitive agreement in January 1990. Costa Rica (which had signed an agreement in principle with its creditor banks in October 1989) and Venezuela (which had reached a working agreement in March 1990) also concluded final agreements concerning debt reduction programmes in May and December 1990, respectively. Finally, in October the Government of Uruguay and its bank steering committee jointly announced a Brady-style programme which they then began to implement

before the end of the year. Two other countries signed debt restructuring agreements in 1990 which were outside the scope of the Brady Plan. Chile decided to negotiate a conventional rescheduling agreement as part of a new money package which it signed with its commercial bank creditors in December. Jamaica, too, reached a conventional type of debt rescheduling agreement with its creditor banks in September.

Mexico's agreement with its creditor banks covered US\$48 billion of medium-term debt. Under this agreement, creditors could choose from among three options: 1) to exchange their loans at par for 30-year single-maturity bonds carrying a fixed interest rate of 6.25%; 2) to exchange them, at a 35% discount, for 30-year single-maturity bonds carrying a floating interest rate of 0.81% over LIBOR; or 3) to reschedule the principal over 15 years at an interest rate of

0.81% over LIBOR, together with new money amounting to 25% of the rescheduled debt, to be disbursed over a period of three years, with a 15-year amortization period and an interest rate of 0.81% over LIBOR (see table 41).

The discount and par bonds carried special guarantees covering 100% of the principal and 18 months of interest (renewable); the mechanisms used to provide these guarantees were the purchase of a 30-year United States Treasury zero-coupon bond and the creation of blocked deposits, respectively. The Mexican securities also included a clawback, or recapture, clause which provides for an increase in the bond yield up to a ceiling of 3% annually beginning in 1996 in the event that oil export prices exceed US\$14 per barrel in real terms.

The banks responded to the Mexican offer by converting 47% of the eligible debt into bonds at par and 41% into discount bonds; the new money package was chosen in the case of 12% of this debt, and the country will therefore receive US\$1.2 billion in new money over the next three years (see table 41). This distribution was very different from what the steering committee had initially expected, as it had projected that 20% of the debt would be exchanged for discount bonds, 60% would be exchanged for bonds at par, and 20% would be rescheduled under the terms of the new money option. This gap between theory and practice reflected the great reluctance of the banks to add to their exposure in Latin America. The most recent interpretations of accounting and tax regulations in the banks' home countries also were a factor, since they had the effect of making the discount bonds more attractive for some institutions.

Approximately US\$7 billion was required to finance the special guarantees called for by this agreement. Of this amount, US\$1.3 billion was drawn from Mexico's international reserves while the rest was provided by loans from the International Monetary Fund (IMF), the World Bank and the Government of Japan (see table 41).

The second agreement to be concluded under the Brady Plan was that signed by Costa Rica and was quite different from the Mexican agreement. Costa Rica had maintained a *de facto* moratorium since 1986 and its negotiations with the banks were conducted against the backdrop of a very high level of accumulated interest arrears. The

agreement provided for the restructuring of US\$1.6 billion of debt (US\$1.2 billion of debt principal and US\$400 million in arrears).

It was agreed that the chief debt reduction mechanism to be used in this case would be the direct repurchase of debt on the secondary market by the Government at a price of US\$0.16 on the dollar. The remaining debt and the corresponding arrears were to be converted into bonds using a formula intended to encourage banks to participate in these debt retirement operations. According to this formula, banks willing to sell 60% or more of their overdue loans would be able to exchange the remainder for 20-year bonds carrying a fixed 6.25% rate of interest and a special renewable guarantee on 12 months of interest (the guarantee took the form of the creation of blocked deposits); no special guarantee on the principal was provided, however. Banks selling less than 60% of their claims, on the other hand, would not be provided with a special guarantee on the interest and would receive bonds that had a longer maturity (25 years) while carrying the same fixed interest rate of 6.25% (see table 41).

A special means of dealing with the conversion of arrears on the unredeemed debt was devised because overdue interest payments were a particularly difficult issue for the negotiators. In other buyback arrangements, such as the one involving Bolivia in 1988, the banks had forgiven the arrears on the retired debt. Indeed, this had been a quite common practice in dealing with debt servicing problems. However, as more and more countries had fallen into arrears on their interest payments, and in view of the emergence of the Brady Plan, the banks now took care not to set any precedents that would be unfavourable to them.

Thus, Costa Rica's creditors insisted that its arrears should be incorporated into the agreement and that a special formula should be applied to the balance that was not repurchased. Accordingly, the agreement stipulated that a 20% share of the interest arrears that were not repurchased would be paid in cash while the remainder would be converted into 15-year bonds having no grace period and a market interest rate of 0.81% over LIBOR. Incentives similar to those mentioned earlier were also provided, with only those banks that sold 60% or

more of their claims receiving a special renewable guarantee on three years' worth of the interest due on the bonds (see table 41).

Although the terms applying to interest arrears are relatively harsher, it should be noted that this agreement may nonetheless entail an implicit forgiveness of a portion of this debt. Normally, voluntary buybacks are made at a price equal to or higher than the going price for the debt on the secondary market. In the case of Costa Rica, however, the agreed price of US\$0.16 on the dollar was lower than the market price, which fluctuated between US\$0.18 and US\$0.19 during the course of the negotiations.

Costa Rica followed the Mexican agreement's example by including a clawback clause in the bond terms. In this case, the country committed itself to increasing its payments once its GDP was 20% over that of 1989. The additional annual yield is subject to a 4% ceiling until the bonds corresponding to interest arrears have matured; thereafter, the additional service may not exceed 2% annually.

The banks' response to the Costa Rican offer was quite good, with about 62% of the bank debt being retired through buybacks. The remaining debt was exchanged for bonds, roughly half of which carried special guarantees on the interest and half of which did not. The agreement cost Costa Rica around US\$230 million. External financing for the agreement was obtained from a wide range of sources that do not usually participate in Brady Plan agreements, such as the United States Agency for International Development (USAID), the Chinese province of Taiwan, Canada and the Netherlands, as well as from the World Bank and the IMF (see table 41).

The agreement ran into some last-minute problems owing to the difficulties that arose with the International Monetary Fund when the country, which was midway through an election year, was unable to meet the fiscal targets set out in the adjustment programme on which it had agreed with the Fund. Consequently, the Fund decided to hold back the resources that it was to provide to help finance the debt reduction agreement. This triggered cross-conditionality provisions and thus halted the disbursements of the World Bank and of some bilateral sources. The agreement with the banks was finally concluded, but it would not have been possible if

it had not been for emergency loans from the Venezuelan and Mexican Governments.

Venezuela's agreement with the banks was notable for the large number of options it offered. As differences among the banks regarding their ability and willingness to reduce debt service mounted, a split apparently occurred in the steering committee during the negotiations, and the member banks met in a number of separate groups to discuss what options would fit in the best with their particular loan strategies. The result was the design of five main options for dealing with US\$19.9 billion of medium-term debt.

The first option was to exchange old debt at a 30% discount for 30-year single-maturity bonds carrying an interest rate of 0.81% over LIBOR. The second was to exchange debt at par for 30-year single-maturity bonds paying a fixed interest rate of 6.25%. The third was to exchange it at par for a bond with a 17-year amortization period and a below-market interest rate for the first five years. The fourth involved a direct repurchase of debt on the secondary market at US\$0.45 on the dollar. The final option was a rescheduling of debt over a period of 17 years at an interest rate of LIBOR plus 0.875% together with new lending amounting to 20% of the rescheduled debt (see table 41).

The par and discount bonds were covered by a special guarantee on 100% of the principal and 14 months of interest (renewable). The bonds providing for a reduced interest rate during a limited time period offered a special renewable guarantee on only 12 months of interest. In addition, the par and discount bonds also included a clawback clause that will enter into effect starting in 1996 whereby bond holders will receive increased payments (up to a maximum additional yield of 3% annually) if the price of exported oil exceeds US\$20.50 per barrel in real terms.

The options that the banks found most attractive were the bonds at par—which were chosen in the case of 38% of the eligible debt—and the new money package, which accounted for another 30%. On the other hand, the options involving a direct reduction of debt principal were used for only 16% of eligible claims (see table 41).

The agreement called for about US\$2.3 billion in financing. Although the plan concerning its financing is not yet entirely in final form, it is likely that the necessary funding will come from loans from the World Bank, the IMF and the Japanese Government, as well as from the country's international reserves.

Uruguay's Brady Plan debt reduction scheme entails the following options: 1) direct buybacks at US\$0.56 on the dollar; 2) an offer of single-maturity 30-year bonds at par carrying a fixed interest rate of 6.75%; and 3) a rescheduling of debt principal coupled with new lending equivalent to 20% of the claims assigned to this third option.

As in the cases of Mexico and Venezuela, the par bonds carry special guarantees on 100% of the principal and on 18 months of interest (the guarantee covering the interest on the bonds is renewable). A clawback clause involving the prices of various Uruguayan exports (adjusted for price movements of imported oil) may give the bonds a higher yield beginning in 1996.

The banks' selection of these options was as follows:¹ 38% of the eligible debt was assigned to the buyback option; 32% to the exchange for bonds at par; and 30% to the rescheduling of maturities. In addition, almost US\$90 million in new loans were mobilized. Around US\$460 million was needed to finance this agreement. Although international agencies are expected to disburse loans eventually, for the moment the operation was paid for with funds drawn from the country's own reserves (see table 41).

Chile, for its part, decided to conclude an agreement outside the bounds of the Brady Plan. Instead, the country opted for a more conventional rescheduling of amortization payments coupled with new lending. One of its reasons for choosing this course of action was its desire to obtain rapid relief from its debt servicing obligations and thereby avoid the uncertainties associated with protracted, complex negotiations concerning debt reduction options and their financing.

This rescheduling agreement provides for the restructuring of US\$4.6 billion in bank debt over a new amortization period averaging 13 years in

length (see table 37). The interest rates on the claims in question remain unchanged. It is estimated that the new payment schedule will save Chile US\$1.9 billion in amortization payments for 1991-1994.

The agreement also included a new money component. To this end, Chile issued a US\$320 million bond that was underwritten by a "club" of creditor banks interested in maintaining a long-term relationship with the country.² This club loan represents an innovative departure from the usual procedure for requesting new money as part of a rescheduling agreement in that the new money was not prorated among all the creditor banks participating in the debt restructuring. Because the nature of this bond issue approached that of a market operation, the lending terms were relatively harsher than is usual in a rescheduling agreement (a repayment period of 5 years and an interest rate of 1.5% over LIBOR).

The Chilean agreement also extended the retiming provisions that had been worked out during earlier rounds of debt negotiations. According to the agreement, interest payments are to be made annually rather than every six months, as had previously been customary. It is estimated that this retiming of interest payments will allow Chile to postpone slightly more than US\$200 million in interest payments in 1991-1993. Finally, the Chilean agreement opens up the possibility of relaxing some of the restrictions contained in loan contracts. This will, among other things, give the country more opportunities to repurchase its discounted debt paper on the secondary market.

Jamaica also opted for a traditional type of agreement, under which it rescheduled US\$48 million in payments corresponding to the next two years. It did not request any new money, but the interest rate on the total medium-term debt overhang was lowered from 1.25% to 0.81% over LIBOR.

Brazil entered into negotiations concerning the reduction of its bank debt load during 1990 as well. The Government's framework for these negotiations was novel in several respects; one of its chief innovations was an attempt to define its

¹Their selection was completed during the first quarter of 1991.

²The loan was signed in early 1991.

capacity to pay in terms of the public sector's available funds, taking into account the severe fiscal constraints affecting the country, rather than—as had been customary until then—in terms of the country's relatively comfortable balance-of-payments position, which might, after all, prove to be transitory. Talks with the country's bankers did run into some difficulties, however, when a disagreement arose as to how to go about clearing Brazil's interest arrears of over US\$8 billion on its bank debt prior to the implementation of debt reduction arrangements.

Another country that had difficulties in its negotiations with the banks was Bolivia. In 1988-1989 the Government had repurchased US\$470 million of its bank debt (i.e., almost 70% of the total) at US\$0.11 on the dollar. The funds needed to finance two buyback operations came from grants provided by other Governments. In order to retire the remaining US\$226 million, the country offered to buy back debt from 70 different banks at US\$0.11 on the dollar or to exchange the debt for bonds, but these creditors remained very reluctant to sell off their portfolio of overdue Bolivian loans.

A number of major events occurred in 1990 with respect to national programmes for converting debt into local currency. Chile, which has pioneered initiatives of this type, converted about US\$1 billion (US\$600 million under Chapter XIX and US\$400 million under Chapter XVIII of the International Exchange Code) in 1990 as compared to US\$2.4 billion in 1989. Mexico reactivated its debt capitalization programme, and in two separate auctions it converted US\$3.5 billion of bank debt, most of which was in the form of Brady bonds that had been issued as part of the debt reduction operation. Venezuela, for its part, is estimated to have converted US\$700 million of its debt in this way. Finally, Argentina swapped capital stock for about US\$7 billion of debt as part of its privatization of ENTEL and Aerolíneas Argentinas.

b) Official bilateral debt

Significant events as regards official bilateral debt also occurred during the year. The Paris Club carried out seven debt reschedulings in Latin America and the Caribbean in 1990, and

two of these agreements (with Bolivia and Guyana) marked the first instances in which the Toronto terms were applied to debtor countries in the region. These special conditions, which are reserved for low-income countries, provide creditors with three options. Two of these options involve an actual reduction of the amount of debt, either through a write-off of one-third of the debt service due during the consolidation period or by way of a reduced interest rate. The third option is a rescheduling of the eligible debt over a longer repayment period (25 years) (see table 42).

Another two countries (Honduras and El Salvador) benefitted from the new conditions known as the Houston terms, which were agreed to in July 1990 by the G-7 governments (see table 42). These terms, which are intended for lower-middle-income countries, include the rescheduling of debt principal over a longer-than-usual period (20 years for concessional debt and 15 years for non-concessional obligations). The new terms also open up the possibility of converting debt into local currency by means of debt-for-nature swaps, debt-equity swaps, "debt-for-education" swaps, etc.

Another new development in respect of official bilateral debt is the possibility—as set forth in President Bush's Enterprise for the Americas initiative, which was announced in June 1990—of reducing and rescheduling debts owed by the countries of Latin America and the Caribbean to the United States Government, as well as the possibility of paying a portion of the service on that debt in local currency. Part of this programme (Agricultural project PL-480 debt reduction) was approved by the United States Congress in October of this year. President Bush's initiative follows upon the proposal sponsored by Canada to forgive the official debt owed to it by Governments of English-speaking Caribbean countries. While it is true that official debt with the United States amounts to no more than a very small fraction (3%) of the region's total debt, such obligations do represent a significant portion of the commitments of such countries as El Salvador (35%), Dominican Republic (24%), Jamaica (20%), Haiti (19%), Bolivia (15%), Honduras (14%) and Costa Rica (13%).

The efforts made by Governments of Latin American countries to reduce their debts with neighbouring countries were also noteworthy. Early in the year Brazil and Bolivia concluded an agreement which allowed Bolivia to buy Brazilian external debt on the secondary market (which was selling for US\$0.25 on the dollar as of November) and exchange it at its face value for Bolivian debt held by Brazil. This agreement would therefore permit Bolivia to redeem its US\$300 million of debt with Brazil at a cost of just US\$75 million, and the Bolivian Government has already retired over US\$100 million of debt by this means. A similar agreement between Brazil and Paraguay made it possible for Paraguay to reduce its debt by over US\$100 million in 1990.

c) Multilateral debt

The severe problem posed by the accumulation of arrears in the servicing of debts owed to multilateral agencies persisted in 1990. By the end of the year, in Latin America alone there were two countries which had fallen seriously behind on their payments to the IMF, five countries were in the same situation with the World Bank, and four with the Inter-American Development Bank (see table 43).

A number of innovative means of clearing arrears with these institutions have been developed. In June, Guyana managed to eliminate its arrears with multilateral lending agencies thanks to the formation of a "support group" made up of 10 donor countries (Canada, France, Germany, Italy, Japan, Sweden, Trinidad and Tobago, United Kingdom, United States and Venezuela). This group came up with about US\$150 million for Guyana, allowing the country to bring its payments up to date with the IMF, the World Bank and the Caribbean Development Bank. Once it had cleared these arrears, the country was able to sign up for multilateral adjustment programmes as well as to regain access to further disbursements from these agencies, and this, in turn, allowed it to service the bilateral commitments it had taken on in the course of its debt reduction operation. Honduras embarked upon a similar undertaking in June as well, when Mexico, Venezuela, Japan and the United States arranged a US\$246 bridging loan

that enabled the country to begin eliminating its arrears with the IMF and the World Bank.

Another important development in 1990 was the "rights approach" that was introduced by the International Monetary Fund in May. This programme provides a mechanism whereby countries which have been in arrears with the Fund for a protracted period of time may gradually refinance those arrears. To this end, the country would have to arrange for a "shadow" adjustment programme with the Fund—one of whose conditions would be a resumption of debt servicing to the IMF and the World Bank—before the Spring (northern hemisphere) of 1991. This would make the debtor eligible to accumulate IMF refinancing "rights" so long as it continued to meet the quarterly targets contained in its informal adjustment programme. Such rights could continue to be accumulated for a period of three years. Once the country had completely fulfilled the requisites of such a programme, the country could eliminate its arrears with the IMF by means of a bridging loan from a group of interested Governments. At that point its accumulated rights with the Fund would be translated into a disbursement of resources which would constitute an integral part of the first tranche of the formal adjustment programme that would be agreed upon with the Fund at that time. This would permit the country to repay the bridging loan. One Latin American candidate for the Fund's new rights approach is Peru, which resumed the servicing of its debts with the Fund (as well as with the World Bank and IDB) and embarked upon negotiations with IMF regarding an informal adjustment programme.

d) Strengths and weaknesses of the renegotiation process

In 1990 some headway was made in the management of the official debt of Latin America in several areas: a significant number of new accords were concluded within the framework of the Brady Plan, the Toronto terms and the Houston terms began to play a part in Paris Club reschedulings, the debt reduction programme was unveiled as part of the Enterprise for the Americas initiative, and mechanisms were devised for dealing with the countries' arrears in the servicing of multilateral debt. However,

despite these valuable initiatives, the current strategy in this area has serious shortcomings which call its effectiveness into question.

The Brady Plan has been implemented with such frugality that there is a great deal of uncertainty as to its ability to help put the finances of the most of the countries in the region on a sound footing. Indeed, the factor that exerted the greatest influence on the debt problem in 1990 –the rise in oil prices– was an exogenous phenomenon. This may provide an unexpected inflow of funds to Mexico and Venezuela to supplement the relatively modest measure of relief they obtained from their Brady-Plan agreements but, on the other hand, the deterioration of non-oil-exporting countries' terms of trade may strengthen their arguments for a more significant reduction of the debt or its service.

Of the countries that have concluded agreements to date, only Costa Rica has managed to obtain a significant reduction in the face value of its debt (equivalent to 19% of its total external obligations). Although the agreements reached by Mexico, Venezuela and Uruguay included options that lowered the face value of their bank debt (by US\$7 billion, US\$2 billion and US\$600 million, respectively), the impact on their total balances was minimal because, firstly, some banks decided to stave off losses by granting fresh loans and, secondly, new official credits had to be obtained in order to finance the guarantees on the interest and principal of the new instruments which were exchanged for old bank debt. The estimated net savings in interest payments on the external debt to be derived from the two agreements was also quite modest –about 10% of the total remittances under this heading that had originally been scheduled. The

agreement reached with Costa Rica was broader in this regard, since it enabled the country to realize net savings equal to one-third of the total interest payments that had been scheduled prior to the agreement.

These agreements' effect on foreign-exchange cash flows was also moderate. In Mexico it is estimated that the improvement in the cash flow will amount to about US\$1 billion per year (one-half a point of GDP) for the first five years that the Brady accord is in effect.³ In Venezuela, it is estimated that the effect on the country's cash holdings will average some US\$400 million annually over the next five years, or about 0.8% of GDP (see table 44). As for Uruguay, its Brady agreement is expected to provide it with US\$20 million in cash relief annually, which is around 0.2% of GDP (see table 45). The Costa Rican agreement actually caused the country to take on a greater financial burden than it had borne under its structural adjustment programme and unilateral restriction of debt service payments.⁴

The limited scope of the bank debt reduction programme was not a consequence of any failing on the part of debtor countries. On the contrary, within the voluntary framework established by the Brady Plan, each country negotiated the best agreement it could, given its available stock of public financing for debt retirement operations and the present extent of the pressure that international institutions are bringing to bear on the banks to cancel their claims. Indeed, the foregoing highlights the main shortcomings of the Plan: i) the extremely small volume of public resources allocated to debt reduction; and ii) the scant extent to which international institutions are pressuring the banks to reduce the debt.

³See ECLAC, *Economic Survey of Latin America and the Caribbean* (LC/G.1541-P), Santiago, Chile, 1988. United Nations publication, Sales No: E.88.II.G.14.

⁴For a more in-depth analysis, see ECLAC, *Latin America and the Caribbean: Options to Reduce the Debt Burden* (LC/G.1605-P), Santiago, Chile, 1990. United Nations publication, Sales No: E.90.II.G.7.

Table 36
LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT^a

	End-of-year balance in millions of dollars						Annual growth rates				
	1985	1986	1987	1988	1989	1990 ^b	1979-1981	1982-1983	1984-1988	1989	1990 ^b
Latin America and the Caribbean	385 106	400 958	427 611	420 877	419 731	434 800	22.9	11.3	3.3	-0.3	3.6
Oil-exporting countries	173 053	178 317	184 812	185 176	177 381	182 376	24.7	10.7	2.4	-4.2	2.8
Bolivia ^c	3 294	3 536	4 162	4 066	3 492	3 774	14.3	9.4	5.1	-14.1	8.1
Colombia	14 063	14 987	15 663	16 434	16 013	16 703	28.0	16.0	7.5	-2.6	4.3
Ecuador	8 110	9 080	10 299	10 587	10 658	11 241	21.0	18.3	7.5	0.7	5.5
Mexico	97 800	100 500	102 400	100 900	95 100	98 200	30.2	11.9	1.5	-5.7	3.3
Peru	13 721	14 477	15 373	16 493	16 827	17 347	1.0	13.8	5.8	2.0	3.1
Trinidad and Tobago	1 763	1 898	2 082	2 012	2 097	2 102	29.3	16.9	6.9	4.2	0.2
Venezuela ^d	34 302	33 839	34 833	34 684	33 194	33 009	24.7	4.0	0.0	-4.3	-0.6
Non-oil-exporting countries	212 053	222 641	242 799	235 701	242 350	252 424	21.5	11.8	4.1	2.8	4.2
South America	182 835	191 818	209 825	201 342	206 752	216 750	21.9	11.1	3.7	2.7	4.8
Argentina	49 326	51 422	58 324	58 803	63 314	65 000	41.9	12.4	5.5	7.7	2.7
Brazil ^e	105 126	111 045	121 174	113 469	115 096	122 200	14.4	10.5	3.0	1.4	6.2
Chile	20 403	20 716	20 660	18 960	17 520	18 602	30.5	7.6	1.0	-7.6	6.2
Guyana	1 308	1 542	1 736	1 778	1 801	1 802	28.1	17.8	13.0	1.3	0.1
Paraguay	1 772	1 855	2 043	2 002	2 027	1 763	12.3	24.5	6.4	1.2	-13.0
Uruguay	4 900	5 238	5 888	6 330	6 994	7 383	35.9	21.2	6.7	10.5	5.6
Central America and the Caribbean	29 218	30 823	32 974	34 359	35 598	35 674	18.7	16.9	6.5	3.6	0.2
Costa Rica	4 140	4 079	4 384	4 471	4 513	3 700	12.8	20.2	2.9	0.9	-18.0
El Salvador	1 980	1 928	1 880	1 913	2 169	2 226	17.7	8.4	0.2	13.4	2.6
Guatemala	2 694	2 674	2 700	2 599	2 731	2 602	19.0	24.8	3.8	5.1	-4.7
Haiti ^c	600	696	752	778	803	861	21.0	21.7	7.1	3.2	7.2
Honduras	3 034	3 366	3 773	3 810	3 374	3 480	17.5	16.7	12.0	-11.4	3.1
Jamaica	3 355	3 575	4 014	4 002	4 039	4 152	22.6	14.9	6.5	0.9	2.8
Nicaragua ^c	4 936	5 760	6 270	7 220	8 079	8 653	27.1	21.5	13.8	11.9	7.1
Panama ^f	4 759	4 933	5 302	5 683	5 800	5 700	13.3	14.2	5.3	2.1	-1.7
Dominican Republic	3 720	3 812	3 899	3 883	4 090	4 300	24.2	14.0	3.2	5.3	5.1

Source: ECLAC, on the basis of official figures.

^a Includes debt owed to the International Monetary Fund (IMF). ^b Preliminary figures. ^c Public debt. ^d Total debt according to official figures and data from international financial agencies. ^e Up to 1984, corresponds to World Bank data. ^f World Bank figures.

Table 37
**LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES
 WITH MULTILATERAL LENDING AGENCIES**
(Billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
Total	7.5	5.2	2.5	1.1	-2.3	-2.9	-2.6	-0.2
International Monetary Fund	5.7	2.7	0.6	-0.8	-1.7	-2.1	-1.7	- ^a
World Bank	0.8	1.1	0.7	1.4	-0.5	-0.7	-1.1	0.4
Inter-American Development Bank	1.0	1.4	1.2	0.5	-0.1	-0.1	0.2	-0.6

Source: ECLAC, on the basis of official figures.

^a In 1990, net disbursements by the IMF amounted to US\$1.2 billion. It is estimated that interest payments on the debt overhang with the Fund totalled a similar amount and that the net transfer was therefore close to zero.

Table 38
**LATIN AMERICA AND THE CARIBBEAN: TOTAL INTEREST AS A PERCENTAGE
 OF EXPORTS OF GOODS AND SERVICES^a**

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Latin America and the Caribbean	41.1	36.2	36.6	36.0	36.7	30.3	29.1	28.6	24.8
Oil-exporting countries	34.9	31.2	33.0	32.6	33.9	27.2	29.1	27.5	22.5
Bolivia	43.4	39.8	49.5	46.8	42.1	38.4	41.0	30.2	25.1
Colombia	25.9	26.7	22.8	28.9	20.5	20.5	20.9	21.7	19.2
Ecuador	30.3	30.0	33.3	25.7	29.7	32.2	33.2	33.8	29.4
Mexico	47.6	37.5	39.2	37.2	38.3	29.7	29.9	28.6	23.7
Peru	25.1	29.8	34.8	31.4	31.7	29.1	33.2	29.5	34.6
Venezuela	21.0	21.6	23.9	26.4	34.2	25.9	29.0	25.9	17.5
Non-oil-exporting countries	48.9	42.1	40.8	39.7	39.3	32.9	29.0	29.7	27.2
South America	53.2	45.4	43.8	42.4	42.4	34.8	30.3	31.2	28.3
Argentina	53.6	58.4	57.6	51.1	50.9	51.0	42.3	51.2	38.6
Brazil	57.1	43.5	39.7	40.0	42.4	33.1	29.3	29.1	27.8
Chile	49.5	38.9	50.1	43.5	37.9	26.4	21.7	18.5	18.0
Paraguay	13.6	14.4	10.2	16.2	15.1	19.1	13.7	8.6	6.9
Uruguay	22.4	24.8	34.8	34.2	24.7	24.8	23.8	27.7	27.3
Central America and the Caribbean	21.0	20.6	19.8	20.3	20.4	19.8	19.0	17.5	18.7
Costa Rica	36.1	33.1	26.6	24.9	21.8	21.3	22.0	22.3	17.2
El Salvador	12.0	11.9	12.3	11.1	10.1	10.9	9.5	15.8	15.1
Guatemala	7.8	8.7	12.3	14.9	17.4	13.6	13.9	11.3	10.0
Haiti	2.4	2.4	5.2	5.4	5.1	6.0	8.2	8.4	8.4
Honduras	22.4	16.3	15.9	16.1	19.5	18.3	19.6	18.5	30.0
Nicaragua	41.7	43.5	57.9	78.3	88.5	75.6	96.7	61.1	61.5
Dominican Republic	22.7	24.5	18.0	18.7	18.9	20.4	14.7	11.6	15.7

Source: ECLAC, on the basis of data from the International Monetary Fund (IMF) and from national agencies.

^a Includes interest payments actually made and interest due but not paid. Services do not include factor services.

^b Preliminary figures.

Table 39
**LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED
EXTERNAL DEBT AS A PERCENTAGE OF EXPORTS OF
GOODS AND SERVICES**

	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Latin America and the Caribbean	318	344	324	349	416	389	336	302	284
Oil-exporting countries	269	302	281	312	397	348	340	280	244
Bolivia	308	370	392	458	531	640	606	403	388
Colombia	232	303	239	314	233	230	244	218	195
Ecuador	198	277	261	246	345	419	400	371	348
Mexico	337	346	322	357	459	371	347	289	256
Peru	281	334	349	362	430	428	447	372	408
Venezuela	183	219	202	225	357	305	314	235	178
Non-oil-exporting countries	376	391	371	387	433	428	333	321	323
South America	419	424	394	411	476	463	343	329	337
Argentina	475	485	481	491	610	717	531	538	435
Brazil	423	415	363	379	460	430	315	307	347
Chile	370	390	455	457	405	327	229	182	183
Paraguay	195	316	214	268	239	242	198	156	125
Uruguay	276	324	362	391	349	381	359	351	348
Central America and the Caribbean	203	246	256	272	266	278	281	275	251
Costa Rica	286	343	308	339	292	302	276	244	191
El Salvador	208	211	218	219	188	207	203	276	259
Guatemala	144	184	203	232	229	238	205	192	165
Haiti	149	190	190	178	238	235	283	300	340
Honduras	259	270	318	336	334	385	315	309	325
Nicaragua	703	761	947	1 433	2 004	1 932	2 642	2 328	2 253
Panama	110	149	148	144	134	142	162	159	127
Dominican Republic	260	267	258	281	271	250	205	197	214

Source: ECLAC, on the basis of data from the International Monetary Fund (IMF) and from national agencies.

^a Preliminary figures.

Table 40
**LATIN AMERICA AND THE CARIBBEAN: TOTAL EXTERNAL DEBT AS A
 PERCENTAGE OF GROSS DOMESTIC PRODUCT^a**

	1980- 1981	1982- 1983	1984- 1985	1986- 1987	1988- 1989	1990 ^b
Latin America and the Caribbean	30	51	56	58	48	46
Oil-exporting countries	31	54	55	68	56	50
Bolivia ^c	64	111	70	117	85	71
Colombia	22	29	36	42	40	38
Ecuador	38	54	67	89	106	98
Mexico	26	61	55	76	53	45
Peru	43	55	76	52	52	51
Venezuela	49	51	55	67	72	72
Non-oil- exporting countries	29	49	58	52	44	44
South America	28	47	56	50	41	42
Argentina	25	68	67	69	69	70
Brazil	28	39	47	40	31	32
Chile	47	83	122	117	77	68
Paraguay	20	25	38	56	50	40
Uruguay	24	59	91	78	81	83
Central America and the Caribbean	48	65	78	80	84	76
Costa Rica	74	128	105	94	89	63
El Salvador	40	49	48	43	35	34
Guatemala	15	22	35	37	32	27
Haiti ^c	35	46	43	47	55	59
Honduras	55	69	83	88	75	66
Nicaragua ^c	96	134	187	238	617	688
Panama	85	96	96	98	126	115
Dominican Republic	43	58	88	70	70	64

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

^a Estimates of gross domestic product in current dollars were arrived at on the basis of GDP data expressed in local currency and the exchange rate applying to exports of goods and services. ^b Preliminary estimates. ^c External public debt as a percentage of gross domestic product.

Table 41

**LATIN AMERICA AND THE CARIBBEAN: FIFTH ROUND OF EXTERNAL DEBT
RENEGOTIATIONS WITH COMMERCIAL BANKS
(1989/1990)**

1. MEXICO

Eligible bank debt: US\$48 billion.

Terms of the fourth round of rescheduling:

- Interest rate: 0.81% over LIBOR
- Amortization period: 20 years
- Grace period: 7 years.

CONVERSION OPTIONS AND THEIR DISTRIBUTION

Available options	Effective distribution of eligible debt (billions of dollars)	Terms and conditions	Face value of new claims (billions of dollars)
a) Discount bonds	19.7	Discount: 35% Repayment period: 30 years Grace: 29 years Interest: 0.81% over LIBOR Clawback: to begin in 1996 ^a	12.8
b) Par bonds	22.6	Discount: 0% Repayment period: 30 years Grace: 29 years Interest: 6.25% fixed Clawback: to begin in 1996 ^a	22.6
c) Rescheduling of debt principal together with	5.8	Repayment period: 15 years Grace: 8 years Interest: 0.81% over LIBOR	5.8
new lending ^b	1.4	Repayment period: 15 years Grace: 7 years Interest: 0.81% over LIBOR	1.4 (First year: 0.75) (Second year: 0.346) (Third year: 0.346)

FINANCING OF AGREEMENT

Coverage	Cost (billions of dollars)	Financing (billions of dollars)
Par and discount bonds: guarantee on 100% of the principal and 18 months of interest, renewable, through the purchase of a zero-coupon bond and the creation of blocked deposits, respectively	7.3	3.7 in World Bank and IMF loans 2.1 in loans from the Government of Japan 1.3 Mexican international reserves 0.2 from other sources

2. COSTA RICA

Eligible debt:^c US\$1.2 billion of principal
US\$0.4 billion of interest arrears

Terms of the third round of rescheduling:^d

- Interest rate: 1.63% over LIBOR
- Amortization period: 10 years
- Grace period: 3 years

CONVERSION OPTIONS AND THEIR DISTRIBUTION

Available options	Effective distribution of eligible debt (billions of dollars)	Terms and conditions	Face value of new claims (billions of dollars)
a) Direct buybacks	1.0	16 cents on the dollar	-
b) "A" bonds ^e	0.29 ^f		0.29
i) Principal	0.24	Repayment period: 20 years Grace: 10 years Interest: 6.25% fixed Clawback: to begin once GDP is 20% greater than 1989 GDP ^g	
ii) Arrears	0.05	20% in cash, with the balance payable in: Period: 15 years Grace: - Interest: 0.81% over LIBOR	
c) "B" bonds ^h	0.29 ^f		0.29
i) Principal	0.23	Repayment period: 25 years Grace: 15 years Interest: 6.25% fixed Clawback: to begin once GDP is 20% greater than 1989 GDP ^g	
ii) Arrears	0.06	20% in cash, with the balance payable in: Period: 15 years Grace: - Interest: 0.81% over LIBOR	

FINANCING OF AGREEMENT

Coverage	Cost (billions of dollars)	Financing ^j (billions of dollars)
Buyback of US\$1.0 billion at 16 cents on the dollar "A" bonds, special guarantees provided through the creation of blocked deposits: Principal: 12 months of interest, renewable	0.23	0.06 in World Bank and IMF loans 0.06 from United States (USAID) 0.04 from Chinese province of Taiwan 0.07 from other sources
Arrears: 36 months of interest, renewable		

3. VENEZUELA^j

Eligible bank debt: 19.7 billion^k

Terms of the fourth round of rescheduling:

-Interest rate: 0.88% over LIBOR

-Amortization period: 14 years

-Grace period: -

CONVERSION OPTIONS AND THEIR DISTRIBUTION

Available options	Effective distribution of eligible debt (billions of dollars)	Terms and conditions	Face value of new claims (billions of dollars)
a) Discount bonds	1.8	Discount: 30% Repayment period: 30 years Grace: 29 years Interest: 0.81% over LIBOR Clawback: to begin in 1996	1.3
b) Par bonds	7.5	Repayment period: 30 years Grace: 29 years Interest: 6.75% fixed Clawback: to begin in 1996	7.4
c) Bonds with reduction of interest charges for a limited period	3.0	Repayment period: 17 years Grace: 7 years Interest: 5%, fixed: years 1-2 6%, fixed: years 3-4 7%, fixed: year 5 0.875% over LIBOR: years 6-17	2.9
d) Direct buybacks	1.4	45 cents on the dollar	-
e) Rescheduling of principal, ^m together with new money bonds ⁿ	6.0	Repayment period: 17 years Grace: 7 years Interest: 0.875% over LIBOR	6.0
	1.2	Repayment period: 15 years Grace: 7 years Interest: 0.935% over LIBOR	1.2 (0.6 in 1990) (0.3 in 1991) (0.3 in 1992)

FINANCING OF AGREEMENT

Coverage	Cost (billions of dollars)	Financing (billions of dollars) ^p
Direct buyback of US\$1.4 billion at 45 cents on the dollar	2.2	0.9 in IMF loans 0.45 in World Bank loans 0.60 from bilateral sources, including Japan 0.3 Venezuelan international reserves
<p>Par and discount bonds: guarantee on 100% of the principal and 14 months of interest, renewable, through the purchase of a zero-coupon bond and the creation of blocked deposits, respectively</p> <p>Bonds with a reduction of interest charges for a limited period: 12 months of interest, renewable up to year 6, through the creation of blocked deposits</p>		

4. URUGUAY^j

Eligible bank debt: US\$1.7 billion

Terms of the fourth round of rescheduling:

- Interest rate: 0.88% over LIBOR
- Amortization period : 17 years
- Grace period: 3 years

CONVERSION OPTIONS AND THEIR DISTRIBUTION^j

Available options	Effective distribution of eligible debt (billions of dollars)	Terms and conditions	Face value of new claims (billions of dollars)
a) Direct buybacks	0.63	56 cents on the dollar	...
b) Par bonds	0.54	Repayment period: 30 years Grace: 29 years Interest: 6.75% fixed Clawback: to begin in 1996 ^q	0.54
c) Rescheduling of principal, together with	0.50	Repayment period: 16 years Grace: 7 years Interest: 0.875% over LIBOR	0.50
new lending ^r	0.09	Repayment period: 15 years Grace: 7 years Interest: 1% over LIBOR	0.09

FINANCING OF AGREEMENT

Coverage	Cost (billions of dollars)	Financing (billions of dollars) ^p
Buyback at 56 cents on the dollar	0.35	0.07 in World Bank loans
Par bonds; guarantee on 100% of the principal and 18 months of interest, renewable through the purchase of a zero-coupon bond and the creation of blocked deposits respectively	0.11	0.04 in IMF loans 0.13 in IDB loans 0.22 Uruguayan international reserves

5. CHILE

Eligible bank debt: US\$4.6 billion

Terms of the fourth round of rescheduling:

- Interest rate: 0.81% over LIBOR
- Amortization period: 17 years
- Grace period: 9 years

RESCHEDULING AND NEW MONEY⁸

Component	Amount (billions of dollars)	Terms
Rescheduling of debt principal	4.6	Repayment period: ^t 13 years Grace: ^t 5 years Interest: ^t 0.83% over LIBOR
New money		
a) Bonds	0.3 ^u (0.2 in 1991) (0.1 in 1992)	Repayment period: 5 years Grace: 2 years Interest: 1.5% over LIBOR
b) Retiming	0.2 ^v	

6. JAMAICA

Eligible bank debt: US\$0.3 billion
 Terms of the fourth round of rescheduling:
 - Interest rate: 1.25% over LIBOR
 - Amortization period: 9.9 years
 - Grace period: 4 years

RESCHEDULING AND REDUCTION OF INTEREST RATE

Component	Amount (billions of dollars)	Terms
Rescheduling of principal	0.05	Repayment period: ... Grace: ... Interest : 0.81% over LIBOR
Reduction of interest rate	0.25	Interest : 0.81% over LIBOR

Source: ECLAC, on the basis of official figures.

^a The agreement contains a clawback clause which provides bond holders with higher payments if the price of oil exports rises above US\$14 per barrel in real terms. The readjustment is, however, subject to an annual ceiling of 3% of the value of the bonds.

^b New lending is equivalent to 25% of the eligible debt assigned to this option.

^c The eligible debt originally totalled US\$1.8 billion. However, informal repurchasing of promissory notes on the secondary market in 1989/1990 reduced the available stock of debt to only US\$1.6 billion.

^d Costa Rica did not take part in the fourth round of debt renegotiations and continued its moratorium on the servicing of bank debt.

^e For banks which bought back 60% or more of their claims on the eligible debt outstanding, the balance is converted into "A" bonds.

^f Corresponds to the balance of eligible debt that was not repurchased.

^g The clawback clause will enter into effect when Costa Rica's GDP rises to a level 20% above that of its 1989 GDP. The annual readjustment may not, however, exceed 4% of the outstanding value of the bonds. Upon the maturity of the bonds involved in the refinancing of arrears, the ceiling will drop to 2% annually.

^h For banks which bought back less than 60% of their claims on the eligible debt outstanding, the balance is converted into "B" bonds.

ⁱ Due to difficulties in reaching the targets of the IMF adjustment programme, the Fund, the World Bank and some governments did not release the funds pledged for the financing of the agreement. The Government of Costa Rica was able to finalize the agreement thanks to the mobilization of emergency bridging loans by Mexico and Venezuela.

^j Preliminary data.

^k The amount of eligible debt originally announced was US\$20.5 billion, but due to informal buybacks and other conversions, the effective eligible debt ultimately amounted to US\$19.7 billion.

^l Refers to a clause which permits bond holders to receive a higher debt service from 1996 on. The clause enters into force when the price of Venezuelan oil rises above US\$26 per barrel in real terms. The increased payments may not, however, exceed 3% per year.

^m The principal is rescheduled via its transformation into a debt conversion bond.

ⁿ Equivalent to 20% of the rescheduled debt.

^o Weighted average of two interest rates applying to new money bonds: 1% over LIBOR (40%) and 0.875% over LIBOR (60%).

^p Proposed financing scheme. Until such time as the corresponding loan agreements are signed, the Government must use international reserves to finance the rescheduling agreement.

^q The clawback clause provides for larger debt service payments to bond holders from 1996 onward when and if the terms of trade for certain commodities (exports: beef, wool, rice; imports: oil) rise above 110 (base year: 1990). The increased payments may not, however, exceed 3% per year.

^r New lending will be equivalent to 20% of the rescheduled debt.

^s Chile's debts did not enter into a Brady-style reduction scheme, and the programme therefore involved a rescheduling of debt principal plus new lending. Chile also made its contracts more flexible in order to facilitate and streamline the management of its debt; these modifications included provisions designed to increase the possibility of repurchasing debt in the secondary market.

^t Weighted average of obligations having different repayment terms and conditions.

^u This is a club loan; in other words, the new money is being lent on a voluntary basis, mainly by a small group of creditor banks interested in participating in the Chilean bond issue.

^v Provides for annual rather than semi-annual interest payments. This measure thereby postpones US\$205 million of disbursements by Chile in the years 1991-1993.

Table 42
**LATIN AMERICA AND THE CARIBBEAN: FIFTH ROUND OF EXTERNAL DEBT
 RESCHEDULINGS WITH THE PARIS CLUB (1989/1990)**

Country	Date	Restructured maturities		Percentage of service restructured		Terms ^a (years)	
		Months	Amount (millions of dollars)	Inter-est	Prin-cipal	Amorti-zation	Grace
Trinidad and Tobago	1/89	14	209	-	100	9.4	4.9
Guyana	5/89	14	195	100	100	19.4	9.9
Costa Rica	5/89	14	182	100	100	9.4	4.9
Mexico	5/89	10	2 400	100	100	9.6	6.1
Ecuador	10/89	14	397	100	100	9.4	5.9
Argentina	12/89	15	2 450	100	100	9.3	5.8
Bolivia	3/90	24	276	100	100	Toronto terms ^b	
Jamaica	4/90	18	179	100	100	9.3	4.8
Trinidad and Tobago	4/90	13	110	-	100	9.5	5.0
Guyana	9/90	35	-	100	100	Toronto terms ^b	
Honduras	9/90	11	-	100	100	14.6 ^c	8.0
El Salvador	9/90	13	-	100	100	14.4 ^c	7.9
Panama	11/90	17	-	100	100	9.25	4.8

Source: 1989: ECLAC, on the basis of official figures; 1990: UNCTAD, Money, Financing and Banking Division.

^a Interest rates were renegotiated bilaterally.

^b Under an agreement reached among creditor countries at the Toronto summit meeting of June 1988, special terms and conditions are to be granted to low-income developing countries. In these cases, the creditor country may choose among three options: i) forgiveness of one-third of the debt subject to restructuring and the rescheduling of the remainder over a 14-year period with 8 years of grace; ii) the rescheduling of the eligible debt over a 25-year period with 14 years of grace; and iii) the reduction of the interest rate by 3.5 points or 50%, whichever is less, and the rescheduling of debt over a 14-year period with 8 years of grace. For further information see UNCTAD, *Trade & Development Report, 1989*, Geneva, 1989.

^c The longer repayment periods are a reflection of what are known as the "Houston terms" for lower middle-income countries, which were agreed upon at the Houston summit meeting in 1990.

Table 43
**LATIN AMERICA AND THE CARIBBEAN: ARREARS WITH MULTILATERAL
 CREDITORS AS OF THE END OF 1990 (SELECTED COUNTRIES)^a**

	World Bank	Inter-American Development Bank	International Monetary Fund
Total (Billions of dollars)	1.4	0.5	1.0
Countries	Guatemala Nicaragua Panama Peru Honduras	Guatemala Nicaragua Panama Peru	Panama Peru

Source: ECLAC, on the basis of official figures.

^a Arrears of six months or more with respect to amortization and/or interest payments.

Table 44
**VENEZUELA: ESTIMATED FINANCIAL EFFECTS OF THE AGREEMENT REACHED
 UNDER THE BRADY PLAN**
 (Millions of dollars)

	Average 1990-1994	1990	1991	1992	1993	1994	1995
1. Gross savings on interest ^a	549	573	573	543	543	513	427
Bonds at discount	54	54	54	54	54	54	54
Bonds at par	235	235	235	235	235	235	235
Bonds carrying a temporarily reduced interest rate	122	146	146	116	116	86	-
Buyback	138	238	138	138	138	138	138
2. Savings or deferral of amortization	1 420	1 000	1 400	1 400	1 600	1 700	1 900
3. Total gross savings on debt service (1+2)	1 969	...	...	..	...	...	...
4. New bank money	240	600	300	300	-	-	-
5. Interest on new bank money ^a	101	60	89	119	119	119	119
6. Official disbursements of balance-of-payments loans allocated for debt reduction ^b	195	...	...	...	...	...	...
7. Guarantees financed by country ^c	100	100	...	...	...	...	...
8. Cash flow, including effect of amortization savings or deferral (3+4-5-7-8)	1 813	...	...	...	...	...	...
9. Cash flow, excluding effect of amortization savings or deferral (8-2)	393	...	...	...	...	...	...

Source: ECLAC, on the basis of official figures.

^a Assumes a LIBOR rate of 9% on commercial bank loans.

^b Based on the financial plan. It is assumed that one-half of the bilateral loans were originally granted as balance-of-payments financing.

^c Includes US\$200 million of reserves used to fulfil legal provisions requiring similar guarantees for other outstanding bonds of the Government of Venezuela.

Table 45
**URUGUAY: ESTIMATED FINANCIAL EFFECTS OF THE AGREEMENT REACHED
 UNDER THE BRADY PLAN**
(Millions of dollars)

	Average 1990-1994	1990	1991	1992	1993	1994	1995
1. Gross savings on interest ^a	77	77	77	77	77	77	77
Buyback	61	61	61	61	61	61	61
Bonds at par	16	16	16	16	16	16	16
2. Savings or deferral of amortization	...	...	...	...	...	...	...
3. Total gross savings on debt service (1+2)	...	...	...	...	...	...	...
4. New bank money	18	90	-	-	-	-	-
5. Interest on new bank money	10	10	10	10	10	10	10
6. Official disbursements of balance-of-payments loans allocated for debt reduction ^b	24	...	...	...	...	...	...
7. Guarantees financed by country ^c	42	210	-	-	-	-	-
8. Cash flow, including effect of amortization savings or deferral (3+4-5-7-8)	...	...	...	...	...	...	...
9. Cash flow, excluding effect of amortization savings or deferral (1+4-5-6-7)	19	...	...	...	...	...	...

Source: ECLAC, on the basis of official figures.

^a Assumes a LIBOR rate of 9% on bank loans.

^b Based on the financial plan for the debt reduction operation. It is assumed that one-half of the bilateral loans were originally granted as balance-of-payments financing.

^c Based on the financial plan for the debt reduction operation.

Table 46
**LATIN AMERICA AND THE CARIBBEAN: PRICES OF EXTERNAL DEBT PAPER
ON THE SECONDARY MARKET**
(As a percentage of face value)

	1988			1989			1990		
	January	June	December	January	June	December	January	June	December
Argentina	32	25	21	20	13	13	12	13	20
Bolivia	11	11	10	10	11	11	11	...	...
Brazil	46	51	41	37	31	22	25	24	25
Colombia	65	65	57	56	57	64	60	64	63
Costa Rica	15	11	12	13	14	17	18	36	34
Chile	61	60	56	60	61	59	62	65	74
Ecuador	35	27	13	13	12	14	14	16	20
Honduras	22	22	22	22	17	20	21	...	...
Jamaica	33	38	40	40	41	40	40	44	...
Mexico	50	51	43	40	40	36	37	45	46
Nicaragua	4	2	2	2	1	1	1	...	...
Panama	39	24	21	19	10	12	19	12	13
Peru	7	6	5	5	3	6	6	4	4
Dominican Republic	23	20	22	22	22	13	13	17	...
Uruguay	59	60	60	60	57	50	50	49	55
Venezuela	55	55	41	38	37	34	35	46	50
Average^a	45.1	45.4	37.7	35.2	31.9	28.0	29.5	32.5	35

Source: United Nations, Department of International Economic and Social Affairs, on the basis of asked prices compiled by the High Yield Department of Salomon Brothers.

^a Weighted by the amount of bank debt.

VIII. ECONOMIC TRENDS IN THE CARIBBEAN IN 1990

1. Main trends

The English-speaking countries of the Caribbean subregion¹ once again showed only a modest growth rate (1%) in 1990, leading to about a slight downturn in the per capita domestic product and a prolongation of the declining trend observed in the 1980s (see table 47). As a result, the gross domestic product (GDP) of the subregion as a whole was 5% lower than in 1980, representing a contraction of about 20% in per capita terms. Although no natural disasters occurred such as those which devastated the Caribbean in 1988 and 1989, the aftereffects of these phenomena continued to have a negative impact on economic performance, since when they occurred they damaged crops, buildings and the economic infrastructure, causing great losses of physical capital and affecting not only the GDP for those years but also future land capability. In 1990, new external factors, especially stemming from the Gulf crisis, had a heavy impact on the Caribbean economies: on the one hand, the sharp rise in oil prices had varying impacts on the countries of the subregion, and on the other, tourism was affected by the conflict and by the recession in the United States. Agriculture was the best-performing sector, showing a vigorous recovery after two years of natural disasters. Construction –in part stimulated by various reconstruction projects– also registered a favourable growth rate. However, the expansion rate of tourism, a highly important sector in most countries of the

subregion, suffered a setback because of the above-mentioned problems.

The economic performance of the countries of the subregion in 1990 was mixed. Most countries of the Caribbean Community (CARICOM)² showed some growth, although at a pace that has been slowing since 1988. Particularly noteworthy was the upward trend in Jamaica, whose GDP rose by 3.8%, and that of the countries members of the Organization of Eastern Caribbean States (OECS), which registered a total expansion of 4.3%. Of these countries, Dominica stood out the most, exceptionally recovering from the contraction it had suffered following the 1989 hurricane. In Barbados, however, a drop of more than 3% was registered after seven years of steady growth, and Guyana's GDP shrank for the third successive year. The economy of Trinidad and Tobago, which had been in decline for six years, began to show signs of recovery, favoured by the high prices of oil.

Rather unexpectedly, agriculture was the fastest-growing sector in many countries of the subregion. Output of agricultural goods rose, both for domestic consumption and for export, although in the export subsector growth was led by the robust performance of the banana industry, where good prices were accompanied by a 12% increase in output (see table 48). This provided a stimulus for the two countries that registered the fastest rise in GDP in the subregion, namely, Saint Vincent and the Grenadines and Dominica, and

¹The expression "English-speaking countries of the Caribbean" refers to the following countries in the subregion for which data were available: Antigua and Barbuda, Bahamas, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago. Also included are some Dutch-speaking countries such as Aruba, Netherlands Antilles and Suriname. Countries for which insufficient information was available have been excluded.

²Composed of Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago and the countries of the Organization of Eastern Caribbean States, namely, Antigua and Barbuda, Dominica, Grenada, British Virgin Islands, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

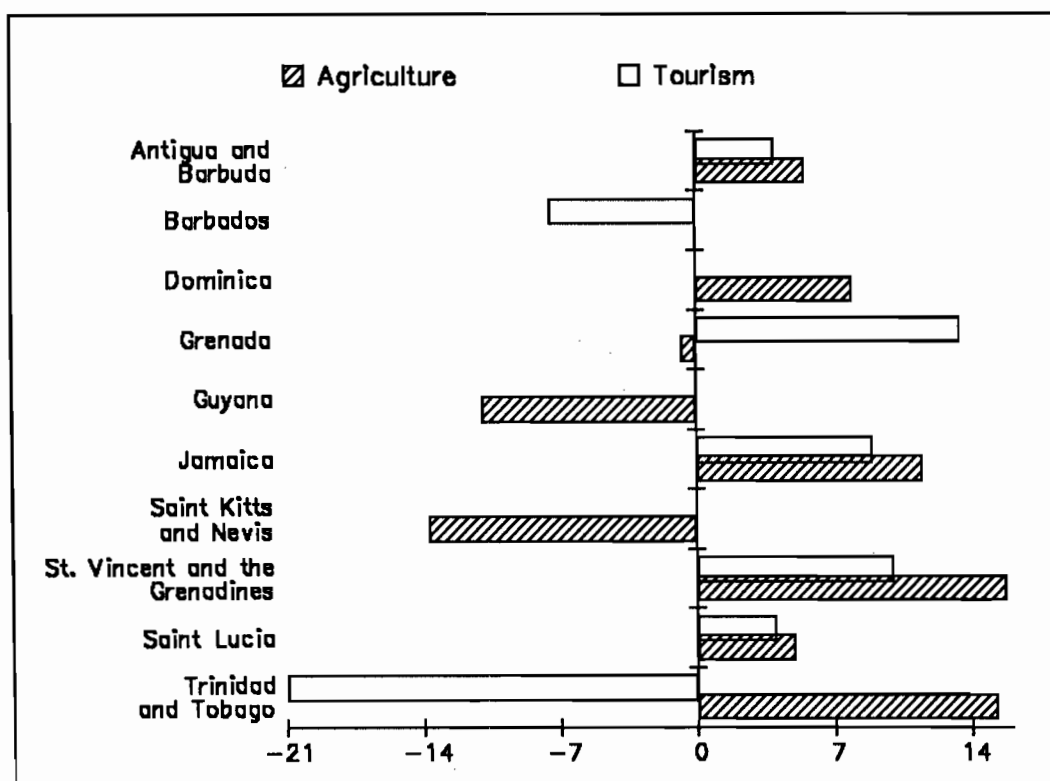
it accounted for the expansion of the sector in Saint Lucia. In Jamaica, export agriculture showed an increase over the previous year, owing to the rise in sugar and banana exports, but the bulk of the sizeable expansion of the sector was contributed by domestic agriculture. The buoyancy of domestic farm output was also noteworthy in Trinidad and Tobago, where it grew by 18% (see figure 18).

Sugar production stagnated in the CARICOM countries, although earnings were up by 12%. The decline in performance of the economy of Saint Kitts and Nevis was due to the downward trend in the sugar industry, which shrank by 33%, leading to an overall contraction of 14% in the

farm sector. In Guyana, agriculture suffered from a number of setbacks, leading to a drop in output in both domestic and export sectors.

Tourism, the other main source of export earnings, recorded a mixed performance in the subregion. In Dominica a significant upturn (from a low base) was registered in this sector; in Grenada, Jamaica and Saint Vincent and the Grenadines, expansion rates vacillated around 10%; and in Barbados and Trinidad and Tobago, a contraction occurred.³ Tourism experienced slower growth than in previous years, owing to the twin effects of Gulf hostilities and recession in the markets of the United States and the United Kingdom. However, the trend was better than

Figure 18
CARIBBEAN SUBREGION: SECTORAL PRODUCT
(Growth rate in 1990)



Source: ECLAC, on the basis of official figures.

³This might also apply to the Bahamas, although no up-to-date GDP measurements are available.

expected, although these factors were still having a negative impact on the sector in early 1991 (see figure 18).

The manufacturing sector's performance remained desultory, since in most countries it is neither sufficiently linked to other domestic activities nor well integrated into export markets outside the region. Consequently, it is particularly susceptible to adverse regional economic downturns, in that its surplus production cannot be exported and is vulnerable to external competition, in the case either of import liberalization or in that of imports by the informal sector.

Trinidad and Tobago and Jamaica are two good examples of the above-mentioned phenomenon. Output declined in the assembly industries of the former because of contracting domestic demand, and many of them could not withstand foreign competition. In Jamaica, the domestic credit policies also squeezed demand, while the steps taken to liberalize the import sector are subjecting local products to increased competition. In Barbados, the subsectors that suffered the most serious setbacks were those of garments and electronic components.

Manufacturing in the countries members of OECS contributed little to GDP—hence the changes recorded were from a relatively small base—, but reduced demand in the CARICOM market impacted negatively on many of these countries (see figure 19).

Construction usually provides a direct link between export earnings and domestic economic expansion. It is therefore in a procyclical relationship to export earnings, since part of these usually filter through to private housing construction. At the same time, the sector serves as a stimulus to economic expansion, in cases where infrastructure is being renovated or expanded, or where investments are being made in tourist facilities. In some of the smaller countries, construction is also lumpy in that it requires relatively big outlays over short periods of time. Accordingly, the completion of a large-scale project in one year may be reflected negatively the following year as a decline, as occurred in Antigua and Barbuda in 1990, where the sector fell off by 10%.

The downward trend in Barbados was due to a number of different factors, including the

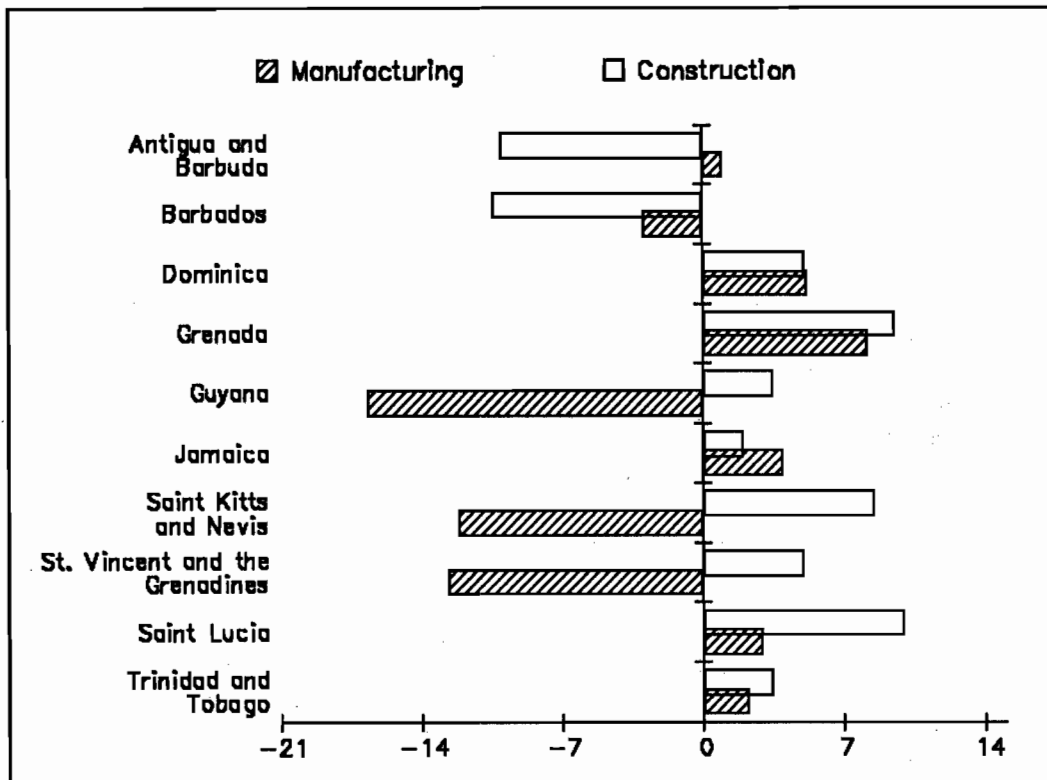
completion of some projects and the postponement of new ones in the face of tight monetary policy, which led to the deferment of commercial building projects and a 30% cut in new construction of residential housing. Construction in Grenada and Saint Lucia gained its impetus mainly from activities relating to improved or expanded infrastructure. Similar trends were observed in the Bahamas, where construction was sustained by a few large-scale government projects, while commercial and residential construction slackened (see figure 19).

The mining sector experienced vigorous growth in the larger countries of the subregion. Trinidad and Tobago benefited from a slight increase in crude output and the oil price rises in the second half of the year; both factors worked together to augment the oil sector's contribution by 2.6%. In Barbados, the higher oil prices triggered a rise in domestic production, which grew by 16% and was able to satisfy 40% of domestic needs. In Jamaica, the mining sector expanded by 17.6%, benefiting from the greater production and sales of alumina.

In most of the Caribbean countries, macroeconomic policy is intended to adjust their economic structures to enhance their competitiveness. These policies, which are being applied under agreements with the International Monetary Fund (IMF) or independently, rest on two basic pillars. One is constituted by fiscal policies, which are designed to eliminate public-sector deficits, for the dual purpose of channelling credit into directly productive activities and of reducing excess demand and containing pressures on the balance of payments. The other pillar is related to balance-of-payments policies aimed at expanding earnings from exports of goods and services and curtailing expenditures by means of a variety of measures to restrain demand and stimulate efficient import substitution. These policies are being implemented in the context of progressive deregulation, to ensure that the system is more responsive to shocks, whether external or domestic in origin.

In previous years, most countries of the Caribbean subregion had already begun to adjust their policies along these lines, although with varying degrees of success and in the presence of

Figure 19
CARIBBEAN SUBREGION: SECTORAL PRODUCT
(Growth rate in 1990)



Source: ECLAC, on the basis of official figures.

sometimes contradictory policies. In 1990 policy implementation was simplified by the increase in the prices of some of the major exports and by the rise in exportable output, which helped to offset the slowing growth of tourism and, in the case of oil importers, the higher prices in the last quarter of 1990. Credit was restrained, in general, and merchandise imports whose value rose at a much slower rate than that of prices, were contained. As a result, the deficit in the balance of merchandise trade and the current-account deficit were both reduced. For the most part disciplined fiscal policy also achieved improvements in current accounts.

However, exceptions were noted in a number of cases in which GDP declined steeply and economic imbalances either appeared or widened considerably. In Barbados, the fiscal deficit increased from 2.7% of gross domestic product

in the fiscal year 1989/1990 to 7.8% in the fiscal year 1990/1991. The drop in export earnings exerted severe pressures on external accounts, and international reserves shrank. Payments on the external debt for 1990 augmented the debt service/export ratio from 14.6% in 1989 to 25% in 1990.

In Guyana, where renewed efforts were made to adjust the economy, and renewed IMF financial assistance was obtained under a structural adjustment agreement, the outcome for 1990 was for the most part below the targets established. The current fiscal deficit increased nearly fivefold in 1990, and the total fiscal deficit is estimated to be 56% of GDP. The merchandise trade deficit widened by 129%, owing to reduced output and a rise in domestic demand for imports, the latter of which was due in part to the worsening of the fiscal deficit as administrative

controls on imports were being dismantled. The exchange rate accordingly experienced a severe depreciation, in an effort to establish a market determined rate after a prolonged period of

controls. Inflation rose considerably over the previous year's 61%, and may have reached triple-digit rates in 1990.

2. Growth of the main sectors⁴

Bananas

Banana production continues to be relatively profitable for CARICOM producers; output increased by 12% and earnings rose even faster (29%), owing to favourable wholesale prices for green bananas and exchange-rate movements.

Jamaica recorded the biggest increase in export volumes, which were up by 45%. This followed a 50% rise in 1989 and is part of a production increase which is targeted to reach 100 000 tons by 1993. Fruit quality, which caused some concern in 1989, improved somewhat in 1990; the effect of prices and the exchange rate, combined with the expansion of shipments, doubled export earnings in this sector. Saint Vincent and the Grenadines and Dominica recorded increases in their export volumes of 21% and 14%, respectively. In Saint Vincent and the Grenadines, the expansion of output was achieved at the expense of some loss in fruit quality and productivity, since marginal lands were put into cultivation to take advantage of near-term price rises. In the case of Dominica, favourable weather conditions and a steady inflow of investments allowed the industry to recover quickly, while price increases also served as a stimulus to increased output.

Performance was not, however, positive in all countries: in Belize and Grenada, output and earnings contracted. In the former, this was due to a combination of unfavourable weather conditions (winter frosts and then unseasonably heavy rains), compounded by the appearance of plant disease, which reduced the value of exports by 27%, a reversal after a number of years of steady growth. In Grenada, the drop in exports was due to substandard fruit, owing to crop disease and to a shift in land use away from banana cultivation (see table 48).

The CARICOM banana industry still faces an uncertain future, in view of the impending European single market. If the hopes for retaining preferential access are realized, more time will be available for rationalizing banana production and trimming it to an optimal size. However, recent price rises seem to have produced the opposite effect, modifying the direction of change away from more intensive cultivation of the most productive land.

Sugar

For the CARICOM countries, the results for 1990 seemed to represent a pause in the steady contraction of the sugar industry, as export volumes for the region as a whole remained roughly the same as the previous year. Export earnings increased by 12% in the CARICOM countries as a whole and in most countries which sold their surpluses to Europe, thanks to the strengthening of the pound sterling and the European currency unit against the dollar. A closer observation of individual country trends shows fairly substantial expansion in three producer countries (Barbados, Belize and Jamaica), with concomitant declines in production in Guyana (-24%), a country which is currently undergoing a restructuring exercise, and Saint Kitts and Nevis (-37%).

The contraction in sugar production and exports in Guyana has been rapid, as seen in the fact that in 1990 sugar exports represented nearly half the total volume exported in 1981. Export volumes contracted by 24% in 1989-1990 alone, owing to managerial and labour-related problems in the sector. Guyana was therefore unable to meet its sugar quotas with the European Economic Community and the United States for the second consecutive year. However, pricing

⁴This analysis includes Cuba, Dominican Republic and Haiti, together with Guadeloupe, Martinique and Puerto Rico, to complete the panorama of the main sectors common to the economies of the Caribbean.

and marketing arrangements were able to contain the decline in earnings to 4%.

The longstanding decline in sugar production in Saint Kitts and Nevis was accelerated by hurricane damage to plantations in 1989, which resulted in a steep downturn (37%) in output from the 1990 crop. This drop in output, amounting to about half the break-even point for the industry, has dealt a severe blow to its long-term survival in that country.

While land under cultivation continued to decline in Barbados, sugar output and earnings rose because of exchange rate movements and domestic measures to improve efficiency and yields from the land under cultivation. In Jamaica, export volumes expanded by about 11%, and export values rose by about 32%. This performance, although modest, reflected the continued recovery of land planted with cane sugar after Hurricane Gilbert; however, Jamaica was unable to meet the established target owing to mechanical difficulties in the refinery and poor weather conditions, which reduced sucrose content. In Belize, output was up by 22%, although earnings lagged behind, since incremental increases had to be sold in the less lucrative world market. In Trinidad and Tobago, output also increased, although earnings declined (see table 49).

Minerals and petroleum

Jamaica's production and exports of bauxite rose by 14% and 16% respectively in 1990, representing the best performance since 1981. Sales of bauxite ore fell by 7% in volume and 18% in value, owing to shipments and payments difficulties with the market of the Soviet Union and poor weather conditions which led to a cutback in mining activities. The deficit in bauxite output was more than offset by alumina production, which rose by 35% in volume and 42% in value, breaking the previous record set in 1974.

In Guyana bauxite output expanded by 5%, although it fell short of the target set for the year (see table 50). Output was impeded by labour conflicts and depleting capital stock, while bauxite earnings were further depressed by low prices on the world market.

Bauxite mining, which is highly sensitive to oil prices, was accordingly apprehensive about this activity in view of the sharp price increases in the second half of the year. As a result, steps were taken to contain unit costs, an effort which are likely to be beneficial in future. However, it is expected that the situation will be less favourable in 1991 than in 1990, owing to the existence of large global inventories and slowing global output in general, factors which are likely to depress prices even further.

Crude petroleum production increased in Trinidad and Tobago by about 1%, as did the manufacture of refined products, mainly gasoline, diesel oil and kerosene, while fertilizer output also rose slightly. The performance of this sector was mainly affected, however, by the petroleum price increases in the latter months of 1990, which raised earnings significantly. In Barbados, rising petroleum prices stimulated enough additional production of crude to meet 40% of domestic needs.

Tourism

Tourism continued to grow steadily in 1990, although the rates of increase in arrivals and expenditure were somewhat slower than those of the previous year. Tourism rose in the main non-CARICOM destinations, such as Puerto Rico, the Netherlands Antilles, the United States Virgin Islands and Aruba. In all these cases, earnings from tourism rose more rapidly than arrivals.

In the CARICOM countries, the number of tourist arrivals continued to increase (3% for stopovers and 6% for cruise-ship passengers). In the former category, growth was less than half that of the previous year, but was somewhat better than expected, based on the sector's poor performance in the first quarter and fears concerning the unknown impact of the Gulf conflict on fourth-quarter arrivals. These fears turned out to be well-founded, since growth slowed considerably in December, although it was too late for this to have a material effect on the outcome for 1990.

Despite the overall picture of growth, the individual countries' performance varied quite widely. The number of stopovers declined in the British Virgin Islands (-9%), the Bahamas (nearly -1%), Barbados (-6%) and Martinique

and Trinidad and Tobago. On the other hand, double-digit growth rates were recorded in Aruba (25%), Dominica (13%), Grenada (19%), Jamaica (18%) and the Netherlands Antilles (11%), while other countries registered a more moderate expansion (see table 51).

Preliminary data indicate that arrivals from the United States to the Caribbean region as a whole continued to rise at a rate of about 4%. The main beneficiaries of the expanded market were Grenada, which recorded an increase of 72%—thanks to new, direct air links via Puerto Rico—, Jamaica (18%) and Saint Lucia (12%). Arrivals from the United States dropped in Barbados (-7%) and the Bahamas, and even fewer arrivals came from this source towards the end of the year, owing to the combined effects of recession and the Gulf crisis.

Arrivals from Canada seem not to have grown much: only Grenada made significant gains, while Barbados and Saint Lucia received fewer Canadian visitors (12% and 2%, respectively). At the same time, arrivals from Western Europe

show robust growth although the rate of increase was not as fast as that of the previous year. Jamaica (25%), Grenada (16%) and Trinidad and Tobago (14%) were the leading countries in this respect, while Saint Lucia and Barbados showed losses (-11% and -8%, respectively). In the long run, the European market is likely to soften further, since Europeans are tending to take fewer long travel trips.

The number of cruise-ship passengers arriving at CARICOM ports rose by 6%, almost double the growth rate for stopovers. The main beneficiaries of this increase were Trinidad and Tobago, Grenada and the Bahamas. However Jamaica, Saint Kitts and Nevis and Saint Vincent and the Grenadines received fewer cruise passengers than in 1989. The increase in this type of tourism is thought to be due to aggressive marketing and pricing. The gains made in 1990 are likely to be retained in 1991, since the winter cruises normally scheduled for the Mediterranean may be diverted to the Caribbean because of the Gulf conflict (see table 52).

3. External trade and balance of payments

In the countries of the subregion as a whole, external trade performance in the period in question improved over the year before. Merchandise exports rose faster than imports, narrowing the trade deficit in goods. In turn, the steady increase in earnings from services allowed for a reduction in the current-account deficit.

The major single factor in this transformation was the performance of Trinidad and Tobago, whose trade represents nearly half of the subregion's merchandise exports and one fifth of its goods imports. Of the countries outside CARICOM, the Netherlands Antilles registered a weak merchandise performance, but its buoyant earnings from services helped to mitigate the impact on the current account.

The region's exports experienced wide fluctuations. It is estimated that exports rose by 23% in the countries of the subregion as a whole; Trinidad and Tobago recorded the most notable performance, mainly as a result of petroleum price increases, since output rose only marginally.

Given the positive growth trend in bananas and alumina, some countries' exports were able

to perform satisfactorily. Thus, Dominica registered a 26% rise in export earnings from the sale of bananas and certain processed goods, while the 14% expansion in Jamaica benefited from bigger sales of alumina, bananas and sugar, and the 17% upturn in Saint Lucia was exclusively due to banana exports. Conversely, earnings in Saint Kitts and Nevis dropped as a result of reduced sugar exports, and Grenada experienced a contraction in banana, nutmeg and mace exports, this last-mentioned because of problems concerning marketing arrangements with Indonesia. Exports of fresh fruits and vegetables from Grenada also declined. Moreover, in Barbados there was a marked downturn in earnings, owing to reduced exports of electrical components and garments. The decline in exports from the Netherlands Antilles was primarily due, on the other hand, to the decrease in petroleum re-exports (see table 53).

Imports by CARICOM countries expanded by nearly 2.5%, a much more moderate figure than that of previous years and also more modest than the export growth rate. However, marked increases in imports were recorded in Montserrat,

in the throes of reconstruction after hurricane devastation, and to a lesser extent in Dominica, for the same reason. In the other countries in general, the increase in the value of imports was lower than inflation rates, a fact that was particularly noteworthy in the energy-dependent countries, in view of the rise in energy prices in the latter part of the year.

Although the merchandise trade deficit persisted in most countries, it was reduced in many of them, while the surplus doubled in Trinidad and Tobago. As a result, the merchandise trade deficit of the CARICOM countries, if treated as a single economy, would have been narrowed by 25% (see table 54).

The current-account deficit, which provides a better indicator of external performance for the predominantly service-oriented countries of the subregion fell by a greater amount than the trade balance in goods. However, a notable increase took place in the current deficit in the major

tourist destinations, such as the Bahamas and Barbados, whose performance in this sector was poor. In Jamaica, the widening of the deficit was due not to a decline in the travel account (into which payments increased by 22%) but to lower reinsurance payments than in the previous two years and increased outflows of dividends, primarily generated by the mining companies (see table 55).

A comparison of trends in merchandise exports and tourism earnings shows a steady advance in the latter, as against wide fluctuations in the value of goods exports. Moreover, by 1989 merchandise earnings for the region were about to be overtaken by earnings from tourism in 1989. This fact, and the changes in the composition of the gross domestic product (GDP), together demonstrate the degree to which Caribbean economies, even some of the larger ones, have become service-oriented (see figure 20).

4. External debt

The external debt of the CARICOM countries grew by approximately 2.6%, a rate slightly below that of the previous year. In cases where it rose considerably, it was a clear expression of the lumpiness of large infrastructural outlays by small economies. The Bahamas and Dominica registered a significant growth in their debt, owing to the financing of investments in the electricity, water and sewerage sectors in the former country, and to electricity and port expansion in the latter. In Grenada the increase stemmed from a bilateral loan to back the capital budget, whose expenditures were focused mainly on infrastructure. The debt rose in Barbados, primarily in response to the widening of the current fiscal deficit, caused in part by wage increases in the public service. This moved the external debt of Barbados from 26% to 28% of

GDP, while the debt service/export ratio rose from 15% to 25% (see table 56).

Debt service continued to be a major problem for some countries, especially Guyana and Jamaica. Guyana eliminated the arrears in multilateral debt servicing which had been accumulating for many years, so that it could again apply for structural adjustment loans. In Jamaica, debt was rescheduled twice, and the bilateral debt with Canada was cancelled in line with the debt extended by Canada to the region as a whole. As a result, Jamaica's debt service/export ratio stood at 26.5% by the end of 1990, representing a marked drop compared to 1987, when it was 47.5%. In Antigua and Barbuda, and also in Grenada, minor debt rescheduling operations were carried out.

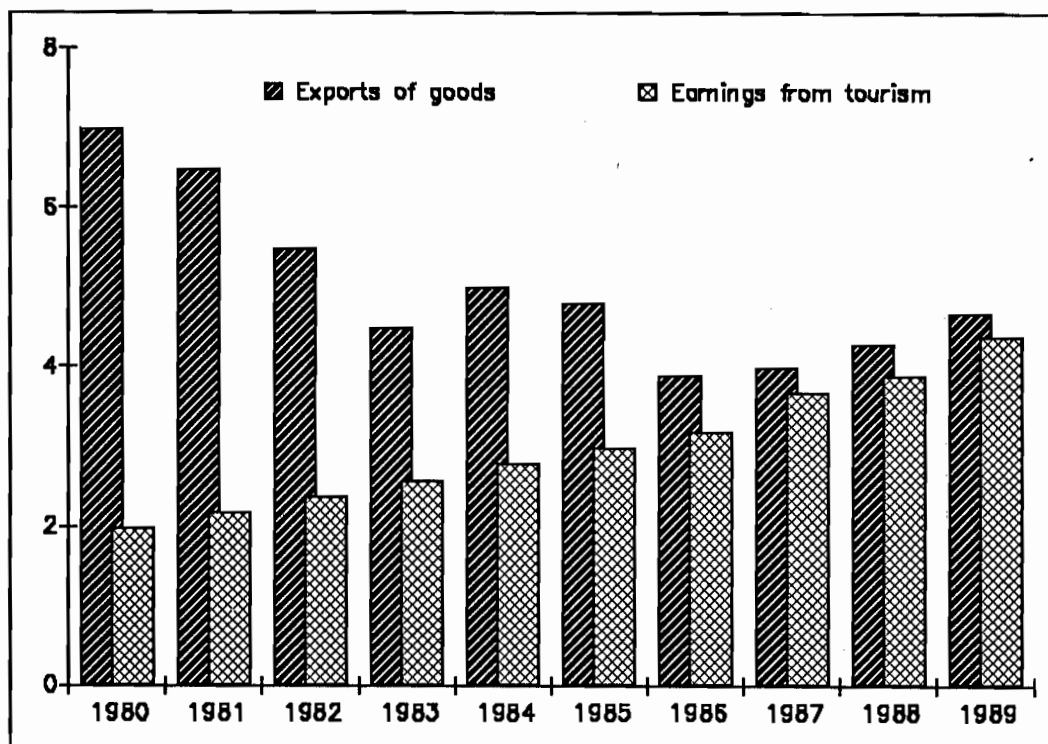
5. The fiscal situation

After a decade of efforts to establish greater fiscal discipline in the region, significant results have been achieved, although some countries are still

experiencing difficulties. Although the fiscal accounts of some of these countries improved, trends in public finances in 1990 were uneven,

Figure 20
**CARIBBEAN SUBREGION: EXPORTS OF GOODS
 AND EARNINGS FROM TOURISM**

(Billions of dollars)



Source: ECLAC, on the basis of official figures.

since the situation deteriorated in other countries, especially in Guyana, whose deficit more than quadrupled in 1990. In that country, fiscal revenues rose by 65% –in nominal terms–, a figure that was outstripped by expenditures, which expanded by 105%. The deficit also increased considerably in Barbados, owing in part to the increase in public-sector salaries and wages; revenues also fell, by more than 3%, except in the case of income and property taxes. In Grenada the deficit was cut significantly, mainly owing to increased revenues from import duties and the value-added tax. Trinidad and Tobago, the only other country still showing a

deficit, was able to reduce this deficit by nearly 40%, continuing a trend that began in 1988.

Antigua and Barbuda, together with the Bahamas, both had fiscal surpluses in 1990 after recording deficits in 1989, owing to constraints on current spending and a faster rise in revenues; in the case of Antigua and Barbuda, income tax revenues were up, and in the Bahamas, stamp, property and other service taxes and other levies on rose. In Saint Lucia, the current surplus increased by 20%, also as a result of a spending cut, especially in salaries and wages, and greater revenues from income taxes and service charges on imports (see table 57).

6. Prices

In 1990, the subregion as a whole was affected by the rising international inflation –to which the

inflation rates in the smaller countries were linked– and, beginning in the third quarter, by the

increasing price of imported petroleum. Some countries which had begun rebuilding after hurricane damage also recorded higher phases of inflation, since they had to cope with certain capacity bottlenecks. In the larger countries, however, inflation stemmed mainly from domestic policies.

As usual, the biggest increases in prices occurred in Jamaica, where they rose by 22% and Guyana, where signs point to even bigger increments. In both cases, the depreciation in the

exchange rate and the rise in petroleum prices were significant factors. In Jamaica, an additional factor was the deregulation of energy prices, which had a one-time effect on these prices, which had been suppressed below their true market level. In Guyana, a number of supply dislocations also had a significant impact. Other countries with high inflation levels were Dominica and Montserrat, owing to supply bottlenecks as a result of reconstruction projects (see table 58).

7. Employment

The employment rate rose slightly in Barbados, partly as a result of the decline in tourism and manufacturing. Unemployment fell in Jamaica, on the one hand owing to a shrinkage of the labour force—a trend evident since 1988—and on the other because of an increase in the number of jobs in all sectors except agriculture. However, the expansion of employment was more evident in commerce and other services sectors, especially for female employment. Indeed, two thirds of new employment in Jamaica went to women, while more than half the new jobs were

taken by young people under age 25. Even so, in both Jamaica and Barbados, the number of women unemployed was nearly double that of men.

It is estimated that unemployment declined slightly in Trinidad and Tobago, despite the increase in the labour force. The rise in employment occurred in transport, storage and commerce, but declined in the sugar and petroleum industries, agriculture, assembly industries and personal services (see table 59).

Table 47
CARIBBEAN SUBREGION: GROWTH OF TOTAL GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1986	1987	1988	1989	1990 ^a
Total, subregion	0.9	0.2	1.1	2.6	1.2
Antigua and Barbuda	9.7	9.0	7.7	5.2	2.7
Bahamas	3.6	4.9	4.5	4.0	...
Barbados	5.2	2.6	3.5	3.5	-3.1
Belize	2.7	13.3	7.1	5.1	...
Dominica	6.8	6.8	8.0	-1.2	6.3
Grenada	5.4	6.0	5.3	5.7	5.3
Guyana	0.2	0.3	-2.6	-4.9	-6.9
Jamaica	2.2	6.7	1.1	6.3	3.8
Saint Kitts and Nevis	6.4	4.8	6.9	12.1	2.6
Saint Lucia	5.8	2.2	6.8	3.5	3.7
Saint Vincent and the Grenadines	7.2	6.4	8.6	7.2	6.6
Trinidad and Tobago	-2.1	-5.5	-2.5	-0.2	1.3

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 48
CARIBBEAN SUBREGION: BANANA EXPORTS

	Value (millions of dollars)					Volume (thousands of tons)				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Belize	5	7	8	12	9	13	21	26	31	23
Dominica	25	32	37	24	30	51	61	72	50	57
Grenada	4	4	5	4	4	8	8	9	9	8
Jamaica	9	19	16	19	38	20	34	28	42	61
Saint Vincent and the Grenadines	18	18	31	30	41	38	35	62	66	80
Saint Lucia	53	42	66	58	69	112	85	128	126	134

Source: World Bank and estimates by ECLAC, on the basis of official figures.

Table 49
CARIBBEAN SUBREGION: SUGAR EXPORTS

	Value (millions of dollars)					Volume (thousands of tons)				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Barbados	31	36	34	26	34	99	70	68	52	66
Belize	32	31	33	36	43	99	79	75	77	95
Cuba ^a	4 069	3 987	4 087	3 914	...	6 697	6 479	6 975	7 119	...
Guyana	83	80	68	73	70	214	205	171	170	129
Haiti	4	5	3	1	1	11	7	7	7	4
Jamaica	62	74	92	65	86	143	133	153	132	146
Dominican Republic	134	127	123	157	145	449	553	514	491	365
Saint Kitts and Nevis	9	11	12	12	9	26	23	23	22	14
Trinidad and Tobago	23	21	27	31	30	58	50	55	57	62

Source: World Bank and estimates by ECLAC, on the basis of official figures.

^a Cuban pesos.

Table 50
CARIBBEAN SUBREGION: BAUXITE AND ALUMINA EXPORTS

	Value (millions of dollars)					Volume (thousands of tons)				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Bauxite										
Guyana	82	84	80	77	71	1 402	1 410	1 274	1 317	1 387
Jamaica	97	116	105	126	103	2 900	3 711	3 494	4 190	3 886
Dominican Republic	0	4	2	1	1	0	328	207	...	...
Alumina										
Jamaica	205	221	307	432	611	1 600	1 572	1 575	2 145	2 889

Source: ECLAC, on the basis of official figures.

Table 51
CARIBBEAN SUBREGION: NUMBER OF ARRIVALS
(Thousands)

	1986	1987	1988	1989	1990 ^a
Antigua and Barbuda	166	177	195	198	206
Bahamas	1 375	1 480	1 475	1 575	1 562
Barbados	370	422	452	461	432
Belize	94	99	164	220	222
Cuba	282	293	309	310	....
Dominica	24	27	32	35	45
Grenada	57	57	62	69	82
Guyana	47	60	71	67	...
Haiti	112	122	122	122	...
Jamaica	664	739	649	715	841
Dominican Republic	785	911	1 116	1 300	...
Saint Kitts and Nevis	55	65	70	72	76
Saint Vincent and the Grenadines	42	46	47	50	54
Saint Lucia	112	112	125	133	138
Suriname	29	27	21	21	...
Trinidad and Tobago	191	202	188	194	172
Netherlands Antilles	567	632	685	751	832
Aruba	181	232	278	344	433
Guadeloupe	246	293	329	255	...
British Virgin Islands	146	173	176	176	161
United States Virgin Islands	470	555	543	493	523
Martinique	183	234	280	312	281
Montserrat	16	17	18	17	17

Source: Caribbean Tourism Organization (CTO).

^a Preliminary figures.

Table 52
CARIBBEAN SUBREGION: NUMBER OF CRUISE-SHIP PASSENGERS
(Thousands)

	1986	1987	1988	1989	1990
Antigua and Barbuda	122	153	199	208	227
Bahamas	1 496	1 434	1 505	1 645	1 854
Barbados	145	229	295	337	363
Grenada	114	127	134	121	183
Jamaica	278	292	368	444	386
Saint Kitts and Nevis	27	31	54	37	34
Saint Vincent and the Grenadines	38	66	59	75	...
Saint Lucia	59	84	78	104	102
Trinidad and Tobago	19	16	12	16	28
Montserrat	9	10	11	...	...

Source: Caribbean Tourism Organization (CTO).

Table 53
CARIBBEAN SUBREGION: EXPORTS OF GOODS
(Millions of dollars)

	1986	1987	1988	1989	1990
Antigua and Barbuda	30.9	29.0	30.1	31.6	33.2
Bahamas ^a	293.7	273.1	273.6	259.2	300.9
Barbados	290.7	161.3	177.1	187.2	147.5
Belize	74.5	86.9	95.1	94.0	104.1
Dominica	44.6	49.3	57.0	46.3	58.2
Grenada	28.7	31.6	32.8	28.4	26.6
Guyana	210.4	240.6	211.4	184.0	209.8
Jamaica	589.7	709.2	822.0	999.7	1 140.2
Saint Kitts and Nevis	25.1	28.0	27.4	28.9	19.0
Saint Vincent and the Grenadines	63.9	52.3	85.3	74.6	78.7
Saint Lucia	82.9	77.3	119.1	109.1	127.3
Trinidad and Tobago	1 368.0	1 414.7	1 470.0	1 550.1	2 022.5
Netherlands Antilles	85.1	106.8	153.5	257.5	213.4
Montserrat	2.3	3.5	2.3	1.6	1.8

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

^a Does not include petroleum exports.

Table 54
CARIBBEAN SUBREGION: BALANCE OF TRADE IN GOODS
(Millions of dollars)

	1986	1987	1988	1989	1990
Antigua and Barbuda	-281.7	-245.8	-280.5	-316.2	-325.0
Bahamas ^a	-607.0	-743.8	-664.4	-809.0	-735.7
Barbados	-311.9	-356.7	-404.9	-490.0	-556.0
Belize	-35.7	-41.4	-64.1	-96.7	83.6
Dominica	-11.1	-17.4	-30.5	-60.8	-59.6
Grenada	-52.2	-57.5	-59.4	-72.5	-82.9
Guyana	-49.6	-21.5	-1.2	-27.6	-63.3
Jamaica	-383.6	-525.1	-622.2	-821.1	-710.5
Saint Kitts and Nevis	-37.7	-51.5	-65.3	-73.0	-83.0
Saint Vincent and the Grenadines	-23.3	-46.3	-37.0	-52.9	-59.1
Saint Lucia	-71.9	-100.8	-101.9	-164.6	-144.0
Trinidad and Tobago	-115.9	254.2	283.9	347.5	794.0
Netherlands Antilles	-655.1	-754.9	-823.1	-842.1	-1 019.8
Montserrat	-18.3	-21.7	-24.3	-29.4	-40.7

Source: ECLAC, on the basis of official figures.

^a Does not include petroleum trading.

Table 55
CARIBBEAN SUBREGION: BALANCE ON CURRENT ACCOUNT
(Millions of dollars)

	1986	1987	1988	1989	1990
Antigua and Barbuda	-128.1	-70.7	-55.8	-68.4	-58.3
Bahamas	-24.3	-68.5	-128.3	-160.6	-184.6
Barbados	-16.4	-11.0	2.4	-43.5	-44.5
Belize	-5.9	-18.4	...	-30.0	-10.9
Dominica	5.4	3.0	-3.9	-37.0	-28.8
Grenada	-1.6	-27.7	-23.6	-33.8	-35.9
Guyana	-152.3	-138.9	-86.7	-35.4	...
Jamaica	-214.4	-162.6	73.1	-256.9	-313.5
Saint Kitts and Nevis	-2.0	-2.3	-2.0	9.3	-17.4
Saint Vincent and the Grenadines	5.9	-15.4	-2.7	-18.1	-8.4
Saint Lucia	1.7	-5.3	0.9	-47.8	-21.4
Trinidad and Tobago	-603.7	-270.8	-151.5	-66.8	404.4
Netherlands Antilles	40.4	-50.5	26.7	-43.5	-89.4

Source: ECLAC, on the basis of official figures.

Table 56
CARIBBEAN SUBREGION: EXTERNAL DEBT^a
(Millions of dollars)

	1986	1987	1988	1989	1990
Antigua and Barbuda ^b	180.7	231.8	243.2	255.5	264.7
Bahamas	215.5	192.7	171.3	219.7	269.6
Barbados	291.3	353.4	394.9	383.6	418.0
Belize	97.7	113.1	124.1	128.4	133.0
Dominica	56.6	65.1	64.8	70.6	83.1
Grenada	54.2	66.9	69.4	69.3	83.0
Guyana ^b	1 542.3	1 735.9	1 777.9	1 801.1	1 801.9
Jamaica	3 575.0	4 013.6	4 001.7	4 038.9	4 152.4
Saint Kitts and Nevis	19.3	21.3	26.9	31.9	35.2
Saint Vincent and the Grenadines	29.6	37.8	44.9	50.4	54.5
Saint Lucia	31.5	27.9	41.3	51.7	58.4
Trinidad and Tobago	1 897.7	2 082.2	2 011.8	2 097.4	2 102.1
Montserrat	3.0	3.4	3.5	3.4	2.7

Source: ECLAC, on the basis of official figures.

^a Government or government-guaranteed debt. ^b Includes arrears.

Table 57
CARIBBEAN SUBREGION: FISCAL BALANCE ON CURRENT ACCOUNT
(Millions of units of local currency)

	1986	1987	1988	1989	1990
Antigua and Barbuda	27	24	18	-1	20
Bahamas	12	-9	-5	23	15
Barbados	43	-21	13	-21	-90
Belize	6	10	22	16	15
Dominica	8	14	22	16	10
Grenada	-8	-15	10	-41	-12
Guyana	-111	-913	-426	-501	-2 266
Jamaica	655	1 590	958	2 172	2 169
Saint Kitts and Nevis	5	4	4	12	11
Saint Lucia	22	33	65	52	62
Saint Vincent	15	13	13	11	24
Trinidad and Tobago	-135	234	-397	-365	-235
Montserrat	1	1	1	4	6
Netherlands Antilles	172	81	16	20	3

Source: ECLAC, on the basis of official figures.

Table 58
CARIBBEAN SUBREGION: CONSUMER PRICES
(Variations in 12 months)

	1986	1987	1988	1989	1990
Antigua and Barbuda	2.0	...	3.4	5.3	6.9
Bahamas	5.4	5.8	4.5	5.3	4.7
Barbados	1.3	3.4	4.8	6.2	3.1
Belize	3.3	2.0	2.9	2.2	4.0
Dominica	3.0	2.9	5.7	6.3	10.9
Grenada	1.4	-0.9	6.5	4.6	3.7
Guyana	8.2	29.4	43.1	61.3	...
Jamaica	14.8	6.7	8.3	14.3	22.0
Saint Kitts and Nevis	0.4	2.6	0.2	6.6	3.7
Saint Lucia	2.2	7.0	0.8	4.3	5.0
Saint Vincent and the Grenadines	1.2	2.0	2.1	5.7	9.2
Suriname	30.2	52.2	7.3	...	...
Trinidad and Tobago	7.1	10.8	7.8	11.3	11.4
Netherlands Antilles ^a	...	2.4	3.3	4.0	3.2
British Virgin Islands	1.8	0.1	4.7	4.8	...
Montserrat	0.2	2.7	3.6	1.8	6.8

Source: ECLAC, on the basis of official figures.

^a Data on Netherlands Antilles refer to Curaçao and Bonaire.

Table 59
CARIBBEAN SUBREGION: UNEMPLOYMENT RATES
(Percentages)

	1986	1987	1988	1989	1990
Barbados	19.0	18.9	17.3	15.7	14.7
Belize	15.1	15.0	...	...	...
Curaçao	...	...	24.4	21.1	19.8
Jamaica	23.7	21.0	18.9	18.0	15.3
Trinidad and Tobago	17.2	22.3	21.9	22.0	20.1
Puerto Rico	20.5	17.7	15.9	14.4	14.3

Source: ECLAC, on the basis of official figures.

SECOND PART

THE INTERNATIONAL ECONOMY

THE INTERNATIONAL ECONOMY¹

In 1990 economic activity slowed down in all parts of the world, but not for any one dominant reason. In spite of globalization and growing interdependence, different forces were at work in the various regions of the world.

As in 1989, unexpected political developments in 1990 produced severe economic shocks and also seemed to alter many of the premises for future development. The political reform efforts in Eastern Europe, the German unification, and the turmoil in the Soviet Union produced considerable economic disarray and sharp drops in output.

Iraq's invasion of Kuwait at the beginning of August sent a shock-wave through the world economy, as oil prices soared, but order in oil markets was soon restored. The crisis in the Gulf affected the region itself quite profoundly and the economic partners of Iraq and Kuwait suffered losses of different kinds, but the impact on the world

economy seems in the end to have been smaller than feared.

In the industrialized countries the recession deepened and growth slowed, except in Japan and Germany. In several countries industrial output actually declined. In Latin America some reform programmes seemed to hold while others collapsed, but for the continent as a whole there was a slight decline in output. In Africa output grew about as fast as population, which was better than in the past, but recovery and genuine development seemed as remote as before. Yet in many parts of Asia, growth was vigorous and sustained.

The combined effect of these changes was to slow down the growth of global output abruptly—from 3% in 1989 to 1% in 1990. World population in 1990 was estimated at 5.3 billion and was growing at 1.8% per year, so world economic output last year fell short of population growth.

1. Trends in global output and policies

Political changes and military conflicts, of which the Gulf crisis was the most spectacular example, affected growth of output in many countries in 1990. In some countries, the impact of the Gulf crisis was direct and devastating. For many others, it increased their economic difficulties, reduced the growth and dimmed growth prospects. For the world economy the immediate impact of the crisis was minor but it was a grim reminder of the vulnerability of the economy to external shocks. In Eastern Europe and the Soviet Union the dramatic political changes that began in 1989 had an overwhelming impact on the growth of output in 1990. In a number of

countries in Africa civil wars and famines made the goal of economic growth largely irrelevant.

In West Asia, the Gulf crisis took a large toll in human life and well-being already in 1990, and output in Iraq, Jordan and Kuwait was about halved in the second half of the year. The crisis also resulted in the loss of livelihood for hundreds of thousands of migrant workers from other, much poorer, regions which also lost billions of dollars in foreign exchange earnings from worker's remittances.

The political upheavals in Eastern Europe in 1989 set in motion a transition from central planning towards a market-oriented economy.

¹Taken from chapters I, II, III, IV and V of the *World Economic Survey 1991* (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

But with the machinery of central planning dismantled, and the institutional and legal framework of a market economy not yet in place, output has stagnated or declined, in some cases sharply. In the Soviet Union, ethnic tension and the redistribution of power between the central government and the republics have aggravated the problems of transition and contributed to economic decline.

For a large number of people in other regions of the world, the goal of economic growth was not within reach. Civil wars and famines made economic survival rather than national growth the overriding objective in at least half a dozen countries, mostly in Africa.

Nonetheless, a significant number of countries, both developed and developing, continued to grow in 1990, largely unhindered by the Gulf crisis and political turmoil. Some of the largest developed market economies maintained their high rates of growth of 1989. In a number of Asian countries, output increased as fast as before, in some cases near record rates. In other countries stagnation and decline were

rooted in failures of policies and structural weaknesses.

The Gulf crisis erupted when the world economy was already showing signs of weakening, and its direct impact on the growth of the global economy in 1990 is difficult to separate from other influences. The loss of output in Iraq and Kuwait and some of the other countries with strong economic links with them was large but did not make much of a dent in world output. Higher oil prices reduced real income in oil importing countries, while their inflationary potential led most developed market economies to persist with restrictive monetary policies in the face of weakening economic growth. The rise in oil prices was, however, relatively modest and its short-term effect was probably to reduce the growth of world output by no more than 0.2 percentage points. The indirect impact of the Gulf crisis was probably more important; the prospect of a prolonged and destructive war contributed to increased uncertainty about the future and wakened consumer and business confidence.

Growth of world output: pervasive decline and diversity of experience

The growth of world output slowed in 1990 to only about 1%. It was the second consecutive year of decline from 3.0% in 1989 and 4.3% in 1988 (see table 1). The slow-down was particularly sharp in the second half of 1990, and further worsening is forecast for 1991.

In all major country groups output in 1990 increased more slowly than before or declined absolutely. The number of people in countries, other than the developed market economies, where per capita income declined, rose from around 700 million in 1989 to 1 000 million in 1990, or nearly a fifth of world population. With the slow-down of growth, unemployment increased almost everywhere. Substantial unemployment began to characterize the economies of Eastern Europe and the Soviet Union, and in many developing countries, especially in Latin America, unemployment and underemployment worsened as output stagnated or declined.

Rates of growth as well as the causes of slow-down differed widely. Among the major developed market economies the slow-down in 1990 was most pronounced in Canada, the United Kingdom and the United States. Germany and Japan grew faster than in 1989. Almost all major economies were in or near recession by the end of the year but their growth paths differed, which imparted a degree of stability to the international economy. While the United States economy was already slowing down sharply in the second half of 1989, the German and the Japanese economies had been growing vigorously and did not show any sign of a slow-down until late 1990.

South and East Asia continued to grow as fast as in 1989, though at a significantly slower pace than in 1988; this remained the fastest growing region in the world. Within the region the rate of growth varied between 2.5% and nearly 10%. In China, where a sharp deceleration had been brought about in 1989 because the economy was growing too fast, output increased by 5% as in the

previous year. In Latin America, on the other hand, output declined after having barely grown in 1989. Much of the decline was due to the contraction in Argentina and Brazil but growth slowed down in most other economies as well, partly as a result of stabilization policies and partly owing to the slow-down in North America. Country experiences varied from a rate of growth of 4.5% to a decline of 5.5%. In Africa, the rate of growth improved somewhat but was barely enough to keep per capita output from falling. Among the Mediterranean countries, output declined sharply in Yugoslavia but increased in Turkey.

In Eastern Europe output in Poland and Romania fell by over 15%, while in Czechoslovakia and Hungary the decline was around 3%. The Soviet Union, sharing some of the problems of Eastern Europe but differing significantly in other respects, experienced a 4% fall in output according to official data.

a) The developed market economies

The slide toward recession

The growth of the developed market economies slowed in 1990 by one percentage point to 2.4%. Most of that growth, however, occurred in the beginning of the year (see table 2).² By the fourth quarter, the aggregate output of the seven major developed market economies –the Group of Seven– was actually falling for the first time since 1982. Their unemployment rate was beginning to rise, especially in Canada, the United Kingdom and the United States. Some economies fared markedly worse than others. Among the Group of Seven, Canada, France, the United Kingdom and the United States ended 1990 with output declining, while Germany³ and

Japan continued to grow, albeit at much reduced rates.

The smaller economies slowed down more in 1990 than the larger ones, especially Australia, New Zealand, Finland, Greece and Sweden. In other small economies, however, GDP grew by 3% or more, namely in Austria, Belgium, Ireland, the Netherlands, Portugal and Spain.

The difference in growth performance among the developed market economies was greater than in recent years, mainly due to divergences in monetary management, the unification of Germany, a trend of fiscal consolidation and, as will be noted below, a wave of investment in Japan.

Inflation in developed market economies as a group rose by more than half a percentage point to 5.5% in 1990, partly because of the surge in oil prices following the start of the Gulf crisis. Between the end of July and the end of August of last year, world average spot prices for crude petroleum jumped by over 60% and by the end of September, the peak month, they had risen by another 35%. However, the effect of this was mitigated in countries where exchange rates rose relative to the dollar, notably Japan and the countries in the Exchange Rate Mechanism (ERM) of the European Monetary System.⁴ The average inflation rate among the Group of Seven in the second quarter of 1990 was 4.4% (see table 2). In the three months leading up to September, before the effect of higher oil prices had worked its way through the price structure, the rate of inflation rose above 5%. In the fourth quarter it exceeded 5.5%.

Monetary policy did not accommodate the price shock, i.e., the money supply was not expanded to permit the same level of real expenditure to be undertaken at the higher prices, which put pressure on output. With so much uncertainty about the duration and severity of the

²In particular, the first quarter growth of Germany was a remarkable 15 % expressed at an annual rate (the rate of growth that would result if the one-quarter change had continued for a full year). The growth was caused by a very large surge in consumer and investment demand, stimulated mainly by the rapid influx of large numbers of immigrants and ethnic Germans (see *Monthly Report of the Deutsche Bundesbank*, June 1990, pp. 27-30).

³Through accession of the German Democratic Republic to the Federal Republic of Germany with effect from 3 October 1990, the two German States united to form one sovereign State. Since they were separate entities for most of the year, however, the two German economies in 1990 are discussed separately in this Survey. Information on the former German Democratic Republic is included in the section "Economies in transition" below. In the present section, "Germany" refers to the former Federal Republic.

⁴With the entry of the United Kingdom in October 1990, the ERM now comprises all member countries of the European Community except Greece and Portugal. Other countries whose currencies tend to follow those of the ERM include Austria and Switzerland, not to mention the francophone African countries whose currencies are linked to the French franc.

"oil shock" and with the suddenness of its onset, appropriate counter-cyclical policy was difficult to design. Central banks were left to manoeuvre between weakening production sectors, rising prices and speculative currency swings. The oil price shock thus reduced the scope for loosening monetary policy as a way to respond to the economic slow-down that was already in its early stages (see figure 1).

Indeed, the United States economy, for one, might not have actually slipped into recession in 1990 if the Gulf crisis had not erupted. By mid-year, United States economic growth was almost nil. The stock market turned bearish, reflecting a negative business sentiment, and financial capital in general became more difficult to raise as banks turned increasingly cautious in lending. The financial-service sector had not fully recovered from the consequences of the stock market crash in October 1987 and a series of scandals and bankruptcies affected investment banks, savings and loan institutions and commercial banks. In a wakened state, a cautious lending attitude seemed prudent, especially in the light of the softening property market in which banks were heavily invested. Pockets of recession thus appeared on the eastern and western coasts of the United States.

Manufacturing and agriculture in the geographical middle of the country continued to show strength, encouraged for a time by accelerated export growth. Still, declining values of property and equity shares in 1990 has produced the first decline in the level of personal wealth in the United States since 1981 and consumer spending would not have been strong even without the Gulf crisis. As it was, consumer expectations were severely shaken, which sharply reduced spending on consumer durables and housing construction and brought about the decline in economic activity in the fourth quarter of the year.

In contrast, two economies maintained a significant if declining growth throughout the year, namely Germany and Japan. Their key sources of growth were the unification of the two German republics and the restructuring of the capital stock in Japan.

The German economy received a large injection of consumer spending from the currency union on 1 July 1990. Retail sales in the three months following currency union rose by 33% over the previous quarter, as residents of the eastern Länder spent their windfall from the conversion of the ostmark to the deutsche mark. Although the spending boom was short, stronger long-term expectations stimulated new investment demand as the economy had little excess capacity. Furthermore, additional official expenditures engendered by the political union pushed the Bonn government in a more expansionary fiscal direction. The central government budgetary balance, which had been in surplus at an average level of 1% of GNP in the second half of the 1980s, dropped in 1990 to a deficit of about 2.5% of GNP.⁵ Thus, increased consumer spending, government spending and investment spending produced an annual rate of growth of almost 5% in 1990 despite a tight monetary situation.

In Japan, fixed capital formation has been the main source of growth; the investment ratio has been the highest of the major developed countries. The reason for the high rate of capital formation is that the Japanese industrial sector is in the midst of a major restructuring of the capital stock.

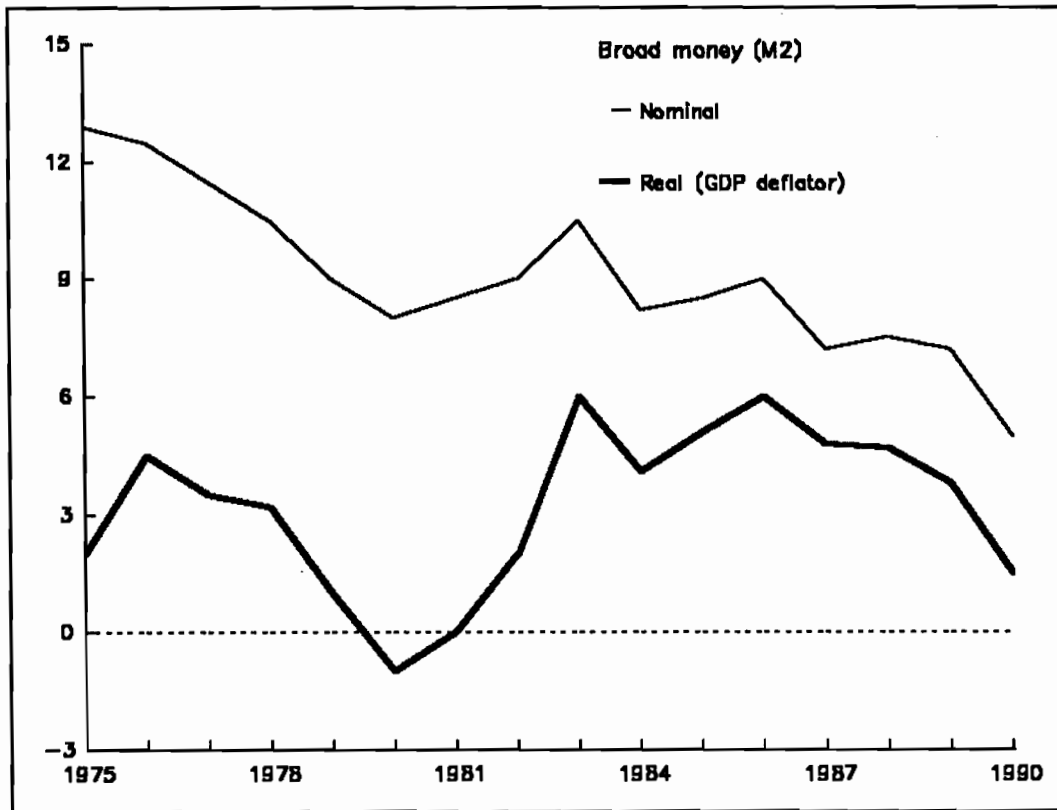
The restructuring has been brought about by three developments. First, the tightening Japanese labour market is inducing firms to seek more labour-saving technologies. Second, the pace of technological innovation is so rapid in Japan that new investment is being driven more by comparative forces than by physical obsolescence. Finally, Japanese firms are pursuing *Joho-ka*, a "computer communication network" revolution, which aims at comprehensive computerized information and control systems, computer-assisted design in manufacturing and computerized distribution services (e.g., retail purchases through computer terminals).

Japan's investment level was not greatly affected by the rise in the cost of credit, partly

⁵The central government budget of Germany excludes social security funds and extrabudgetary accounts that are generally in substantial deficit (data of International Monetary Fund, *Government Finance Statistics* and *International Finance Statistics*).

Figure 1

MONEY SUPPLY OF THE GROUP OF SEVEN
(Percentage change year-end to year-end)



Source: United Nations, World Economic Survey 1991 (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

owing to the high liquidity of Japanese firms. However, the duration of the investment cycle is uncertain.

Germany and Japan have thus provided a certain offset to the weakness in the other countries. German imports, in particular, grew considerably faster than exports last year and helped to sustain areas of growth in Europe, notably in Austria and the Netherlands.

However, in both small and large European economies, the growth in aggregate demand last year was more domestic in origin than in previous years. In the case of France and Italy, which sent, respectively, 16 and 18% of their exports to Germany, the surge in German demand and imports helped temper a slow-down in other exports. The major

impetus to growth, however, was domestic demand. Indeed, the decline in the GDP of France in the fourth quarter of last year was mainly due to a Gulf-related fall in confidence and the discouragement given to spending by a tight monetary policy. The same negative factors operated in the fourth quarter in Japan where growth was sustained, however, by Japan's own exports, particularly to the dynamic developing countries of Asia.

b) Economies in transition

The momentous political transformations in Eastern Europe and the Soviet Union will shape the political and economic development of the region for generations to come. In 1990 the costs of transition were much in evidence.

Production and productivity

The drop in economic activity in the region in 1990 was the worst since the period of stabilization after the Second World War.⁶ Measured in net material product (NMP), the traditional output measure used in Eastern Europe, output contracted 11% in Eastern Europe and at least 4% in the Soviet Union. In Czechoslovakia the contraction was mild, but in Poland and Bulgaria the recession has been on the order of 13% (see figure 2). Romania's gross output declined by almost 11% and that of Hungary by over 5%. In the former German Democratic Republic, the decline was estimated at over 13%.⁷

Along with the production decline, there was a severe disruption of the distribution system. In spite of a bumper grain harvest, the USSR requested food aid from foreign donors. Empty shelves in shops, rationing and long queues were common throughout the year, particularly in Bulgaria, Romania and the Soviet Union. Unemployment, which was not measured in years past, has reached levels comparable to those of Western Europe.⁸

Recovery will require a high rate of investment, but in 1990, gross investment contracted by about 13% in the Eastern European economies and by 4% in the Soviet Union, according to ECE estimates. The biggest cut-backs were reported in Romania (35 per cent), in Bulgaria (14%) and in Poland (8%).

In the USSR, in particular, financing of investments shifted from mostly budgetary to enterprise financing,⁹ but this did not improve

investment efficiency owing to rigidities remaining in the procurement of investment goods and the administrative controls over investment activity. Central authorities have sought, none the less, to improve investment productivity by abandoning excessively capital-intensive projects in heavy industry, mostly in metallurgy and the fuel and energy sectors.

Although some private, small-scale enterprises have begun to thrive in some areas of Eastern Europe, there is little evidence yet of success in restructuring large, inefficient, State-owned enterprises.

In the USSR, the installation of new production capacity fell far short of intentions. Fulfilment of State construction contracts was an unusually low 31%, and 43% of industrial construction projects that were not completed in 1989 as planned were still under construction at the end of 1990. Two thirds of the facilities commissioned over the last two years were working at less than half their potential.

Industrial production was especially hard hit. It contracted in Eastern Europe as a whole by almost 20%. Worst affected were the German Democratic Republic (down 28%), Poland (23%), Romania (20%), and Bulgaria (14%). Industrial production in Hungary declined by about 5%, whereas in Czechoslovakia output fell 4%. Industrial production fell by 1.2% in the Soviet Union, based on official data. Several experts, however, argue that the decline was much greater than that.¹⁰

⁶Quantitative economic indicators for the region must be interpreted with extreme caution. Numerous official revelations of serious problems in the statistical data have been published in several –though not all– countries, touching all areas of reporting, from physical indicators to complex measures of aggregate output and its expenditure components. While more accurate data will be published in due course, it is believed that existing data provide broad indications of the direction and orders of magnitude of current developments.

⁷As the union of the German Democratic Republic with the Federal Republic of Germany took effect on 3 October 1990, the two are treated as separate economies for analytical purposes through 1990. Forecasts and policy discussions concerning 1991 and subsequent years pertain to the unified country only, under the designation "Germany". The estimated output decline in 1990 was in terms of GDP, which usually fluctuates less than net material product, and thus may underestimate the extent of the decline last year.

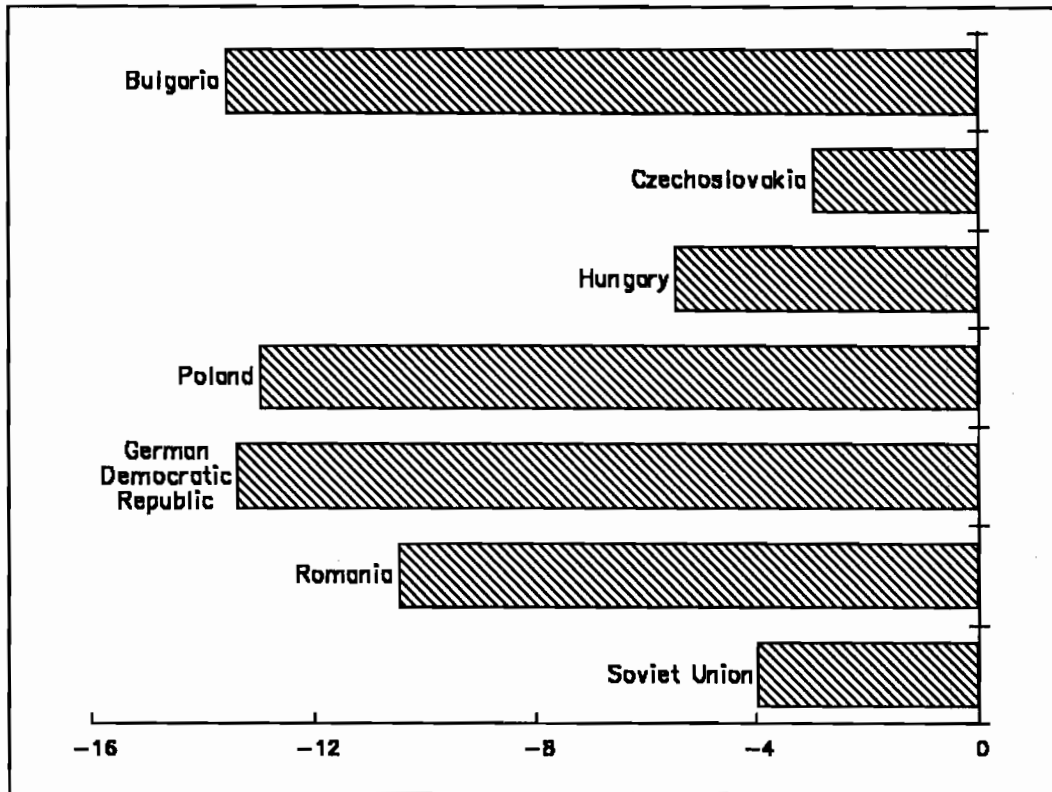
⁸Measured unemployment in the German Democratic Republic, which excluded involuntary short-time working, rose from less than half a per cent of the labour force in March 1990 to 8.6% by January 1991 measured unemployment in Poland rose from 0.1% at the end of December 1989 to 6.5% by January of this year (see Economic Commission for Europe, *Economic Survey of Europe in 1990-1991*, United Nations publication, Sales No. E.91.II.E.1, p. 62).

⁹Investment financed directly from the central budget declined 19%, but those financed out of the accounts of enterprises grew 10% (USSR State Committee on Statistics, *Ekonomika SSSR v 1990 godu* (Moscow), January 1991, p. 2).

¹⁰For a discussion of limitations in Soviet output statistics, see Economic Commission for Europe, *Economic Survey of Europe in 1988-1989* (United Nations publication, Sales No. E.89.II.E.1), pp. 120-122.

Figure 2

OUTPUT CONTRACTION IN THE ECONOMIES IN TRANSITION, 1990
(Percentage change in net material product)



Source: United Nations, World Economic Survey 1991 (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

The sharp deceleration of industrial output had several causes. First, was the economic transformation process itself.

Changes in the governmental management system, reorganization of State-owned enterprises, controversies about privatization, and repeated changes in forms of enterprise management could not but disrupt industrial growth. This came on top of already low levels of labour productivity associated with inefficient use of labour and capital—remnant of central planning. Second, stabilization policies reduced the overall level of demand for domestic products and regional imports. Third, restructuring policies required substantial cuts in subsidies, raising costs and discouraging purchases from regional suppliers, especially for the output of

heavy industrial enterprises. Fourth, the collapse of the trade and payments system used for transactions among the Eastern European countries, and with the USSR, severed traditional links between buyers and sellers. Fifth, bottlenecks in Soviet oil and raw material deliveries exacerbated an already precarious situation. Soviet coal and coke stocks reached historically low levels, sometimes enough for only a couple of days. Oil deliveries to Eastern Europe under long-term agreements were cut by about 30%.

Crude oil and condensate extraction in the Soviet Union decreased 6%, to 570 million tons, which was the production level of 1978. Coal production fell 5% to 703 million tons. Extraction of natural gas grew by only 2%,

which was not enough to compensate for the decline in other types of fuel. The reasons for this were technical and logistical: a decaying production and transportation base, problems with supplies, maintenance and repairs, delays in commissioning new equipment and production facilities, as well as production losses due to strikes.¹¹

Overall, industrial production is being disrupted in the Soviet Union by a widespread decline in "contract discipline". Many enterprises change their production programmes or customers in order to maximize their short-term financial gains, which are then almost universally converted into increases in wages and salaries. In 1990 the volume of defaulted supply contracts in the USSR was 17.7 billion roubles, which is almost twice that of the preceding year. Every fourth enterprise defaulted on a contract. Enterprises also hoard stocks of almost everything that can be used in their production programmes, in construction, or for barter with other enterprises. Officially stocks in excess of normal inventory needs are estimated at 220 billion roubles, which is almost one quarter of aggregate industrial production last year.¹²

Although detrimental to overall industrial performance, this conduct is understandable from the point of view of individual enterprises, given the general disarray in the economy. Traditional centralized planning and supply channels were rigid, but also fairly reliable. Now, enterprises routinely find themselves in a situation where even supplies absolutely necessary for fulfilling their obligatory State orders –to say nothing about their own production programmes– were not allotted.¹³ And, with only a small number of enterprises producing, for example, a particular type of machinery, if one of those firms alters its production programme or customers, it will be very disruptive to other firms that lacked alternative sources of supply.

Difficulties in the agricultural sector mirrored those in industry. In the region as a whole, output fell more than 4%. The drop was most substantial in the former German Democratic Republic (30%); but output fell in all countries, especially in Bulgaria and Hungary, where a drought in the summer of 1990 caused great damage.

Soviet agricultural production fell 2.3%. Despite a grain harvest of 218 million tons, which was 11% higher than in 1989, State grain procurement was 18 million tons short of the contractual volume, necessitating an increase in food imports and requests for emergency assistance. The persistently low level of agricultural productivity and the vast amounts lost in the field, during transportation, during storage in grain elevators and in the trade network, especially when set against additions to demand for purposes of hoarding, created the serious imbalances in the domestic food markets.

Macroeconomics of economies in transition

The disruption outlined above represents only one side of the adjustment problem of the economies in transition. The other side entails macroeconomic disequilibrium. Under central planning, most production and distribution decisions are taken administratively, but consumers pay for goods and services with money, incomes are received in money and saving are stored in money. In a market economy, when "too much money chases too few goods", sellers raise prices. In a centrally planned economy, disappointed buyers have to hoard cash, or buy precious metals or goods with resale or barter value, or add to savings deposits. If a parallel market economy is allowed to emerge, funds leak into that market, pushing up prices there and possibly stimulating a supply response, but rarely to a large enough degree to eliminate the "monetary overhang".

¹¹USSR State Committee on Statistics..., pp. 25-26.

¹²*Izvestia* (Moscow), 5 December 1990.

¹³The number of centrally allocated supply items was cut during 1987-1989 from more than 13 000 to only 618. However the aggregate value of centrally allocated supplies declined in a far smaller proportion –from 290 billion roubles to 195 billion roubles. Even if allowance is made for price increases for items which remain centrally allocated, the discrepancy in the decreases points to the fact that the declared gradual dismantling of the system of centralized supply allocation was in fact mainly a consolidation of supply items under new, more comprehensive headings. This could hardly make the centralized supply system more effective and sensitive to the needs of enterprises (see *Kommunist* (Moscow), No. 14 (1990), p. 61).

The chronic shortages that were a predominant feature of central planning gave rise to substantial monetary overhangs in these economies.¹⁴ When the transition to a market economy begins, it releases a burst of inflation and considerable social antipathy as incomes are redistributed by prices and wages rising at different rates.¹⁵

The initial stages of this inflationary process have been visible recently in the USSR, which is at a relatively early phase of its transition. In a situation of chronic deficits of food and almost all other consumer goods, fixed State prices and worrisome prospects for the future, there was a growing tendency to hoard whatever goods were available at the moment and, by default, to accumulate savings. The total amount of saving in deposits at the State savings bank increased 43 billion roubles in 1990 to 381 billion roubles. During the last year monetary income of the population increased 17%, while expenditures on goods and services increased 15%. This represents both a continued acceleration in the growth of money incomes and a narrowing of the gap between the growth rates of money income and of expenditure, the latter apparently explained primarily by a rapid increase in consumer expenditures in "panic buying" or "hoarding".¹⁶

But cash forms only one tenth of the amount of money and credit in the Soviet economy.¹⁷ The stronger inflationary impetus has to do with how credit is used in the enterprise sector. The primary source of its liquidity is traceable to deficit State financing, in the form of indiscriminate and non-secured low-interest loans for investment in excessive inventories and long-term capital projects that would not be economically viable at market prices and in any event take excessive time to complete. Indeed, a system of financial bonuses and incentives meant to create stimuli for enterprises to produce more

consumer goods, improve quality of production, and adhere to contract schedules has had a perverse effect. Under that system, a 1% growth in the value of output of an enterprise created 1.15% growth of wages and salaries of its employees.¹⁸ In short, households continue to build up excess monetary balances (involuntary savings), while enterprise losses are covered by the fiscal budget and money creation.

At the end of December 1990, the overall retail price index was 14% higher than at the beginning of the year.¹⁹ Prices in the free ("farmers") market grew even more rapidly: in the first half of 1990, those prices increased by 18% over the corresponding period of 1989; during the third quarter of the year they rose by 30%, in the fourth quarter by 44%, and in December alone prices increased 150%. The farmers market is small –accounting for 3% of sales nationally– but it is indicative of the unresolved demand pressures. The Soviet price situation thus appears unstable. It has also been highly contentious. The plan to begin a controlled increase in Soviet prices foundered in the summer of 1990 in the face of a public outcry over a proposed jump in the price of bread.

c) Developing countries

The rate of economic growth in the developing countries slowed for the third year in a row to around 3% in 1990, compared with 3.4% in 1989 and 5.0% in 1988 (see table 1). The decline was largely concentrated in countries of high growth. The number of countries that grew at a rate of 5 to 7.5% declined, while the number of countries with growth under 5% increased. The proportion of population living in countries with stagnating or falling per capita output declined but remained large.

¹⁴See János Kornai, *Economics of Shortage* (Amsterdam, North Holland, 1980).

¹⁵For a more detailed analysis of general principles and concrete experiences of inflation in centrally planned and transition economies, see *World Economic Survey 1990* United Nations publication, Sales No. E.90.II.C.1, chap. VI.

¹⁶A recent survey showed that consumers consider that their household stocks substantially exceed rational volumes: 1.8 times for tea, 2.5 times for sugar, 1.4 times for meat, 1.9 times for canned meat products, 1.8 times for canned fish products (see *Ekonomika i zhizn* (Moscow), No. 51 (December 1990), annex, p. 8).

¹⁷See statement of the Deputy Chairman of Gosbank, *Izvestia* (Moscow), 1 December 1990.

¹⁸*Izvestia* (Moscow), 23 October 1990.

¹⁹This notwithstanding, most prices were not free to rise and according to a government study, prices would have risen not least 19% had they been free (see *Ekonomika i zhizn* (Moscow), No. 6, February 1991, p. 16).

For the developing countries two major events characterized the year: the recession in North America and a number of other developed market economies that had been largely predicted, and the Gulf crisis that could not have been foreseen. The slow-down in the developed market economies tended to slow the growth of exports and output in the developing countries but its impact varied widely among countries. A great number of countries continued to expand their exports and output almost as vigorously as before and, where the growth of exports slowed, the domestic impulses to expansion of output often continued and, in some cases, strengthened. Similarly, for a number of countries the impact of the Gulf crisis was devastating, for a number of others it was serious, while for yet others it was of limited consequence, especially in terms of economic growth foregone.

South and East Asia, despite some deceleration, remained by far the fastest growing region, Africa managed to grow only a little faster than the increase in population, and Latin America as a whole declined. The shocks of 1990 appear to have done little to change the regional pattern of growth. Many of the longer-term issues of growth and development remained important. A heavy external debt and a large outflow of resources continue to be a major constraint to investment and growth in many countries. In a large number of countries, policies of structural reform and stabilization remain critically important and the battle against inflation is still to be won.

Africa: asymmetries from drought and oil

The growth in output in Africa during 1990 is estimated at 3.4%, just over population growth and not much different from the rate of the previous year. In sub-Saharan Africa, excluding Nigeria, output increased by around 2%. But the averages hide an important asymmetry of performance between oil exporters and oil importers during the second half of the year. The average for Africa is misleading also in that it conceals the virtual stagnation of agricultural and food production in 1990.

Given the absence of Kuwaiti and Iraqi exports and the lifting of OPEC quotas, almost all oil-producing countries in Africa increased their oil output considerably. The total output of oil on the continent increased by about 13% from around 268 million tons in 1989 to almost 302 million tons in 1990. Several of the oil exporting countries attained a GDP growth of 4 to 5%, as in Algeria, Angola, Gabon and Nigeria, or even higher, as in the Libyan Arab Jamahiriya.²⁰

However, not all net oil-exporting countries in Africa increased their GDP through higher oil output. In Cameroon oil production resumed the downward trend that began in 1986, was interrupted only in 1989 and decreased 5% in 1990. In Congo, despite higher oil output, GDP increased only slightly because agriculture was stagnant. Among the oil-exporting countries in North Africa, oil production expanded rapidly in Algeria but much less so in Egypt (2%), while it declined in Tunisia. In Algeria expansion of oil production translated in 1990 into an improvement in growth performance compared to recent years, while in Egypt where the oil sector is small, GDP grew by only 1.5%. In Tunisia, growth of other sectors outweighed the decline in oil output, and GDP increased by 5%.

The very low or negative growth performance in a large number of countries of sub-Saharan Africa resulted from less abundant crops than had been earlier estimated. The large majority of African countries continue to be highly dependent on agriculture. In 1990, the weather was not favourable for Africa. Droughts or insufficient rainfall curtailed agricultural output in northern and eastern Ethiopia, northern Sudan, parts of the Sahel, in central Mozambique and some other areas in Southern Africa. The fragile agricultural recovery of 1989 thus appears to have been interrupted in 1990. According to recent estimates, agricultural production for the whole of Africa, having grown by 2.8% in 1989, was virtually stagnant during 1990. Total food production increased very little,

²⁰Oil production increased almost 14% in Algeria, 6% in Angola, 36% in Gabon, 24% in the Libyan Arab Jamahiriya and 13% in Nigeria.

perhaps less than half a percentage point.²¹ For poor countries with chronic balance-of-payments difficulties, sudden shortfalls in food production cannot readily be met by imports. During 1990 moreover, food imports had to compete with a sharply increased oil bill in most countries in Africa.

At the same time, prices of the major non-oil commodities exported by Africa declined. Africa, despite being a net oil exporter, suffered a 1% decline in terms of trade in 1990. The terms of trade losses of the net oil-importing countries of the continent were around 7%. After years of import cuts, many countries found it difficult to adjust to the sudden increase in import prices. Further reduction in the import of intermediate inputs, energy, capital goods could only dampen output growth. Preliminary estimates indicate that the volume of imports in Africa was virtually stagnant in 1990, with imports actually declining in sub-Saharan Africa.

Imports continue to compete with the debt service in the allocation of scarce foreign exchange. Total debt in sub-Saharan Africa (excluding Nigeria) is now higher than the aggregate GDP. The total debt service to exports ratio had improved in 1989 thanks mainly to an increase in exports. In 1990 the debt service probably absorbed about one quarter of export earnings in sub-Saharan Africa. For the whole of Africa, this proportion was higher, at close to 30% in 1989, but probably declined in 1990 given the oil induced rise in exports.

West Asia: devastation and a lost windfall

The Iraqi occupation of Kuwait and a devastating war caused immense human suffering in West Asia in 1990. Tens of thousands lost their lives and hundreds of thousands suffered loss of livelihood, with the vulnerable, especially poor women and children, suffering the most. The long-term damage to the environment, still awaiting proper assessment, has no parallel in modern history. The human and environmental dimensions of the Gulf crisis loom larger than its short-term economic consequences.

The economic impact of the Gulf crisis on most West Asian countries has, nevertheless, been direct and large. The loss of output in Iraq, Kuwait and Jordan was catastrophic. In other countries, with new investment plans postponed, construction projects delayed, banking activities dampened, consumer manufacturing industries depressed and private consumption reduced, the non-oil sectors growth was only marginal in 1990. Oil output, on the other hand, expanded rapidly and helped most countries to achieve high real GDP growth. This was, however, barely enough to compensate the loss of output elsewhere and the region's aggregate GDP remained unchanged in 1990.

OPEC production quotas were suspended in response to the embargoed Iraqi and Kuwaiti oil. This allowed major countries in the region and other OPEC members to increase their oil production to fill the gap left by the loss of Iraqi and Kuwaiti exports. The non-OPEC member countries of the region also expanded their production. Oil prices increased by about 27% over their 1989 level, despite an adequate global supply, and export revenues of the energy exporting countries of the region rose more than proportionately to the rise in oil prices. Their windfall gain was the largest since the 1980s.

Outside Iraq and Kuwait, the region's oil and gas-based industries also expanded output. The cost of production in most petrochemical industries outside the region rose sharply, increasing the competitiveness of the region's petrochemical industry. Production of fertilizer also rose.

While construction projects already in the pipeline continued in most countries, uncertainty resulting from the Gulf crisis caused many large projects scheduled to start in the second half of 1990 to be frozen, and new investments were postponed. This restricted the region's construction sector, which was just recovering from a long recession. Much more important has been the destruction of economic infrastructure in early 1991. The damage to oil facilities and roads, bridges, and power supply network in Kuwait and Iraq will cost tens of billions of dollars to repair and replace.

²¹According to FAO index numbers of agricultural production, in: Food and Agriculture Organization of the United Nations, *Yearbook 1990: Production (forthcoming)*.

Uncertainty resulting from the Gulf crisis also discouraged foreign investment. This was a serious threat to the region's ambitious industrial and infrastructural expansion programme, based on joint ventures with foreign interests. The end of the war saw a resurgence of interest of foreign firms in the region mostly for reconstruction of oil facilities and infrastructure, while prospects of long-term new investment remain uncertain.

South and East Asia: the strength of domestic demand

In South and East Asia, the pace of growth picked up slightly in 1990, to just above 6%, after having gone through a rather sharp deceleration in 1989. This improved performance can be largely ascribed to the Republic of Korea, where strong domestic demand fueled growth, and to Malaysia, but a number of other countries also improved their growth performance. The region was adversely affected by the Gulf crisis. Its aggregate current account moved from surplus into deficit and in virtually all countries higher oil prices combined with domestic factors to push up inflation. But despite the disruptions brought on by the war, and despite some deceleration in the growth of export, it remained the fastest growing in the world. Investment, both private and public, especially in East Asia, grew faster than in other regions.

The four newly industrializing economies of the region – Hong Kong, Republic of Korea, Singapore and the Taiwan Province of China –

together grew by 6.5%, improving on last year's rate just below 6%. Other East Asia – Indonesia, Malaysia, the Philippines and Thailand – together grew by over 7%. The South Asian economies – the Indian subcontinent, Myanmar and Sri Lanka – as a whole performed somewhat better in 1990 than in 1989, with GDP growing by around 5%. The difference between East Asia and South Asia was even higher on a per capita basis, given the differences in population growth: in East Asia per capita growth was near 6%, while in South Asia it was only half that rate.

Malaysia and Thailand achieved close to double-digit growth rates, while the Republic of Korea and Singapore achieved around 8.5%. At the low end, growth in Myanmar, Nepal and the Philippines did not exceed 3%. There was a narrowing of the growth differential between the "first generation" of the four newly-industrializing economies and the "second generation" of manufactures and semi-manufactures exporters of the region in 1990. But the results confirm a recent trend, suggesting that the latter are beginning to replace or supplement the original four export-oriented economies as the engine of growth in the region. This partly reflects changing comparative advantages in the region, characterized by a shift of labour-intensive manufactures from Japan and the newly-industrializing countries to South-East and South Asia.

2. International trade

Trends

The volume of world merchandise trade grew roughly 4.0% in 1990 – which marked a significant slow-down from the 8.4 and 6.8% recorded in 1988 and 1989, respectively. None the less, this rate of expansion represented the sixth consecutive year in which the increase in world trade exceeded the growth of world output, so that trade could once again be seen as one of the more dynamic elements in the world economy (see figure 3).

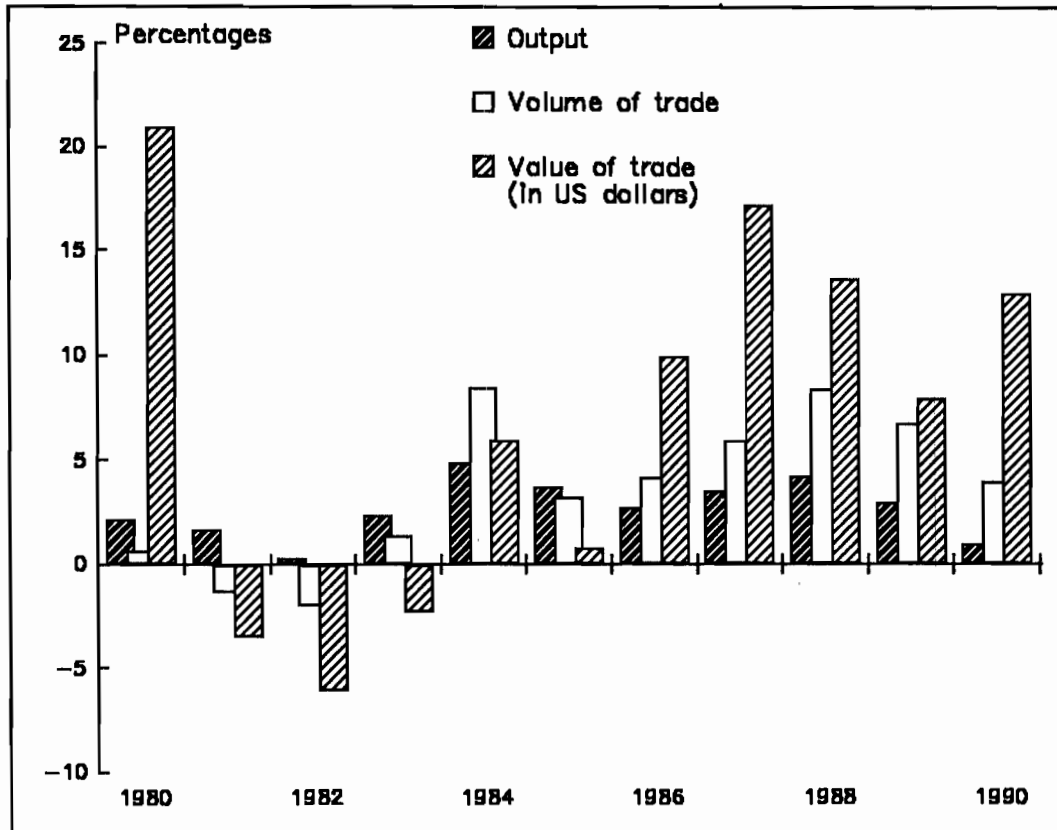
In respect of policies, there were both subtle and not-so-subtle changes in the international trade environment in 1990. Few of these

developments bode well for the future of the liberal and multilateral trading system. A primary concern must be the eventual outcome of the Uruguay Round of multilateral trade negotiations, which failed to reach a widely expected agreement last December.

Protectionist tendencies strengthened in individual countries, accompanying the widespread economic slow-down. Also of concern is the continued call for "managed trade" or "result-oriented" trade policy and the tendency to substitute unilateral action for multilateral approaches to resolving trade problems. Yet another source of worry is the increased resort

Figure 3

**WORLD TRADE AND OUTPUT, 1980-1990:
CHANGE OVER PRECEDING YEAR**



Source: United Nations, World Economic Survey 1991 (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

to bilateral and regional trade arrangements. These divide the world trading system into blocs, divert trade flows and diminish the multilateral approach to trade policy which has served the world economy so well in the period following the Second World War.

Some of the slow-down in world trade in 1990 was due to the great disruption and transition of economic and trade structures in Eastern Europe and the Soviet Union, where export volumes dropped by almost 10% and 13%, respectively. The export volumes of developed market economies and developing countries grew by some 5.5% in 1990.

In terms of value in dollars, world trade increased to a record nominal value of

US\$3.53 trillion in 1990, up 13% from the previous year. Much of this was due to the 8.5% rise in the unit value of exports, mostly as a result of the depreciation of the dollar in 1990.

Price movements varied greatly. A sharp increase in energy prices boosted export unit values of the group of net energy exporters by over 15% in 1990, compared to less than 10% the previous year. On the other hand, for a number of developing countries, weak or declining commodity prices compounded the problem of sluggish volume growth. The same held true for a number of Eastern European countries, though the Soviet Union saw an increase in the unit value of its exports, chiefly due to increase in oil prices.

Sources of resilience

When compared to the substantial deceleration of world output, the expansion of trade in 1990 was remarkable. The driving force behind the relative vigour of world trade was the rapid increase in the import volume of Germany and other large economies of Western Europe (Belgium, France, Italy, Netherlands, Spain and United Kingdom of Great Britain and Northern Ireland), several developing economies in Asia (Hong Kong, Indonesia, India, Malaysia, Singapore, Republic of Korea and Thailand), some African economies (Algeria, Morocco, Nigeria) and a few Latin American economies (Peru and Mexico). The rate of growth in the volume of imports of Japan remained somewhat above the average for the world, as it has been since 1986. In Saudi Arabia and some of the other oil exporters in the Gulf area, the large increases in oil export revenues did not lead to a spurt in import demand as in the past. The additional funds were partly used as financial contribution to the coalition forces.

On the export side, there was a rapid expansion in the export volume of the United States and the United Kingdom among the large industrial economies. The depreciation of the dollar helped exports of the United States whose volume grew by about 8%. Japan, France and the Netherlands also increased its exports at a higher rate than world average: between 5.5 and 6.5%. Among large developing economies, only Argentina, China, India, Malaysia and Thailand recorded export increases of 10% or above.

World trade decelerated in the second half of the year as the United States economy entered into recession and other large developed economies weakened, economic sanctions affected import demand from Iraq and Kuwait, and the decline or sluggishness of import of Eastern European countries and the USSR became more pronounced.

The Uruguay Round

The Uruguay Round of multilateral trade negotiations resumed last February after being

suspended in December 1990. After four years of bargaining, the talks had ended partly because farm-exporting nations, led by the United States and the Cairns Group,²² clashed with the European Community over reforming agricultural policies. However, in this complex negotiation, new sectors and issues have been added to the traditional ones and will have to enter into the bargain. It is now hoped that agreement will be reached before the end of 1991, but this cannot be taken for granted.

As world output growth slows and competition from emerging exporters grows, some domestic producers in developed market economies seem to have become increasingly wary of trade liberalization measures and to be inclined to fight for protection under a variety of trade laws which provide relief from import competition. Such tendencies make far more difficult the task of renewing and strengthening the General Agreement on Tariffs and Trade (GATT) system. The current recession in several countries and slow-down in others complicate the ability of the negotiating authorities to conclude multilateral trade negotiations.

Trends in trade in manufactures

In the latter part of the 1980s, manufactured exports have dominated the growth of world merchandise trade. World manufactured exports have increased much faster than world manufacturing production.

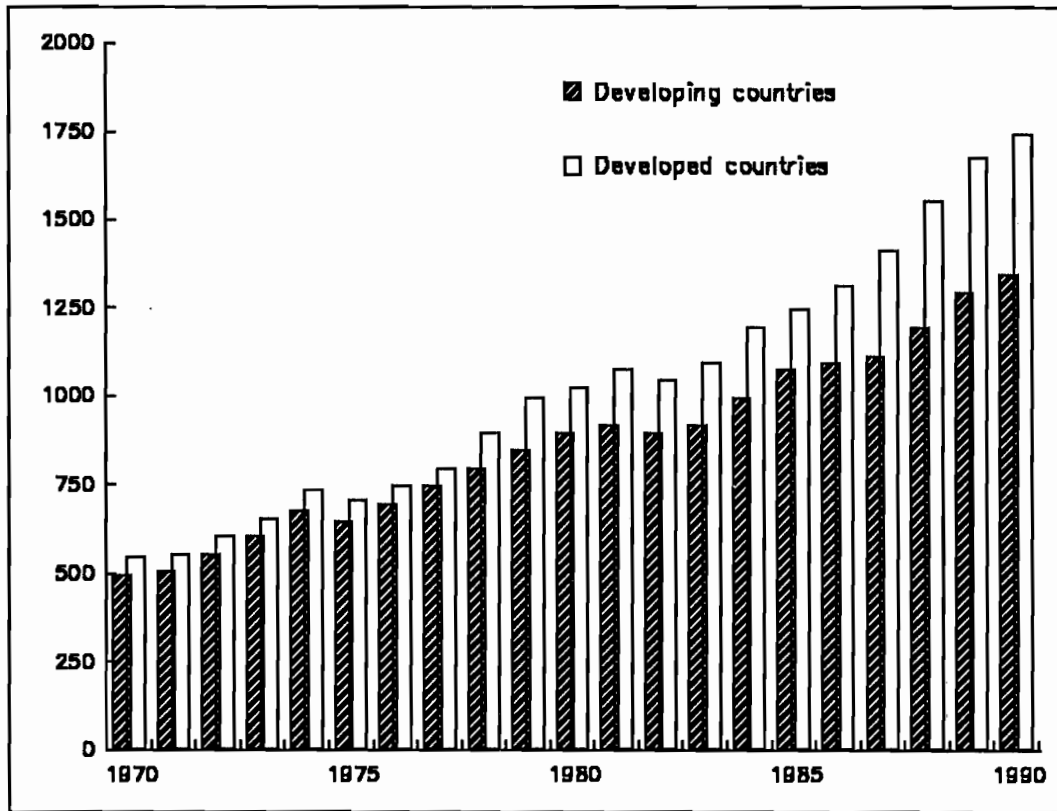
Developing countries as a whole have been extremely successful in exporting manufactures, with a trend rate exceeding that of the developed countries (see figure 4). In the 1970s, the volume of exports of manufactures from these countries more than tripled, and in the 1980s it grew at similar rates.

The upshot has been that for the world as a whole, between 1980 and 1988, the share of manufactures in total export value increased from 54 to 70%. For developing countries, the comparable shift was from 19% to 52%, almost a threefold increase. Thus, manufactures now account for more than half of total developing country exports.

²²The Cairns Group consists of 14 mostly developing countries, coordinated by Australia, which together account for about one quarter of the world's agricultural trade. The members are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, Uruguay.

Figure 4

EXPORTS OF MANUFACTURED GOODS
(Billions of US dollars at 1980 prices)



Source: United Nations, World Economic Survey 1991 (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

The developing country growth in manufactured exports has been across the spectrum of industries. By the end of the 1980s, these countries accounted for almost half of world textile exports, owing particularly to the strength of exports from South and East Asia, which alone accounted for one third of the world total. The developing country share of exported machinery and transport equipment doubled in the 1980s and became a factor in the world market, again principally on the strength of exports from Asia. In the case of other metal manufacturers, Latin American exports as well as those of Asian countries doubled their share of the world total. In several industries,

developing country brand names on national imprints are increasingly familiar in industrial country markets.

In contrast, the developing countries have just maintained their share of world exports in other sectors, including food and ores and metals (about 30% or less); or their share declined, most prominently in fuels, which dropped from almost three quarters in 1990 to little over half in 1988, a trend that is not expected to be maintained in the 1990s.

Many developing countries or areas are moving from exports of agro-industrial products, processed minerals and textiles and clothing to chemicals and machinery and transport equipment. Today, for example, Brazil, Hong

Kong, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Yugoslavia have exports of machinery and transport and other equipment that well exceed 20% of their total exports, while other countries are expanding into industries formerly occupied by other developing countries.

Commodities

Primary commodities continue to be the mainstay of a large number of developing countries. Despite the sharp reduction in their share over the last two decades, by the end of the 1980s non-fuel commodities accounted for over 40% of the total exports of developing countries other than the fuel exporters and the major exporters of manufactures.²³ The volume of exports of these commodities continued to increase fairly rapidly in the second half of the 1980s, partly in response to higher demand in the industrial economies, which was not, however, high enough to lift commodity prices of the United Nations Conference on Trade and Development (UNCTAD), significantly from the record low they had fallen to by mid-decade. The ineffectiveness of most commodity agreements, continuing over-supply of some products, and the ongoing fall in the materials intensity of output in industrial countries contributed to the persistent weakness of commodity prices.

After a sharp increase in 1988 from the historic lows of the mid-1980s, commodity prices reached a plateau in 1989, but declined once again last year. The combined dollar price index on non-fuel commodity exports of developing countries declined by about 6% in 1990. Since the dollar depreciated against other major currencies in 1990, this understates the fall in commodity prices even in nominal terms. The combined SDR index of prices declined by some 11%. In real terms, i.e., in terms of manufactures they would buy, commodity prices declined even more sharply, by about 15%. This was one of the steepest falls in recent years, which brought down the average real prices of non-fuel commodities close to the level of 1987, the lowest since the 1930s. There was

little sign of recovery in 1991. In the first quarter of the year nominal prices were 4% lower in dollar terms and about 10% lower in SDR terms.

The decline in commodity prices in 1990 was fairly pervasive. About 60% of the commodities in the index of commodity prices of the United Nations Conference on Trade and Development (UNCTAD), including some of the major exports of developing countries, showed a decline. Among the five major categories of exports in the index, only agricultural raw materials registered an increase in prices (see figure 5).

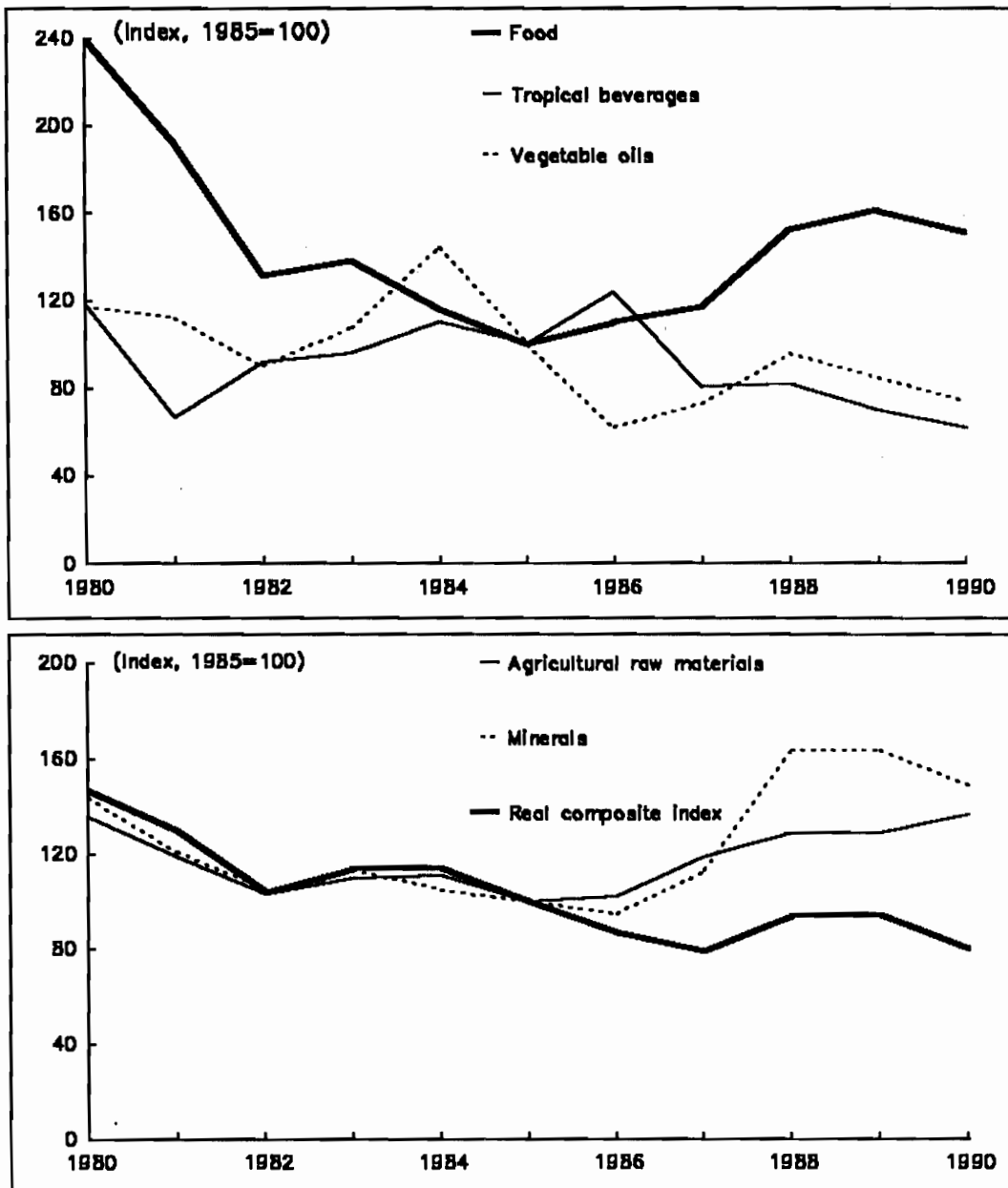
Among the food items, rice prices declined by some 10% while prices of sugar remained practically unchanged. Prices of tropical beverages fell further. Prices of coffee, which is the largest single item of non-fuel primary exports of the developing countries, declined by over 20% on the average to the lowest level since 1986. Prices of cocoa, the second most important item in the group, barely increased in dollar terms from their record low level of 1989.

Mineral and metal prices showed some diversity of trends, but declined on average. Prices of copper, the most important commodity in the group, declined, though only modestly, for the year as a whole after a significant increase in 1988 and 1989. Aluminium prices declined by some 15%, while iron ore and manganese prices rose, the latter substantially.

In contrast to non-fuel prices, oil prices increased sharply in 1990, as a consequence of the Gulf conflict. Prices, on average, rose by about 27% over their 1989 level. Although this was modest in comparison with quadrupling of prices in 1973/1974, and a doubling in 1979/1980, it represented, at least temporarily, the largest improvement in the terms of trade of the oil-exporting-developing countries since 1981, and involved a considerable transfer of real income to them from the rest of the world. Oil prices fell in the first quarter of 1991; yet they have remained above prices in 1989 or the first half of 1990.

²³United Nations Conference on Trade and Development (UNCTAD), *Commodity situation and outlook 1990 (TD/B/C.1/309, 31 August 1990)*.

Figure 5
NON-FUEL COMMODITY PRICE INDEXES, 1980-1990



Source: United Nations, World Economic Survey 1991 (E/1991/75; ST/ESA/222), New York, 1991. United Nations publication, Sales No. E.91.II.C.1.

3. Net transfer of resources among countries

One concern regarding the international consequences of policies undertaken in various parts of the world is their effect on the transfer of financial resources among countries. Attention may be directed to the prospective transfer among States in a European Monetary Union or the implications of financial commitments to Eastern Europe and the Soviet Union or the transfers out of the heavily indebted developing countries. In all cases the heart of the concern is that total investment in a country is limited by its domestic saving plus the resources that are transferred from abroad or minus the resources that it transfers overseas.²⁴

Net transfer of resources from developing countries

Perhaps the most striking observation about net transfer is that, since the early 1980s, most groups of developing countries have been net providers of financial resources to the rest of the world, rather than recipients. In 1990, the developing world as a whole transferred US\$39 billion abroad (see table 4).

About US\$7 billion of this was accounted for by mainly Middle Eastern petroleum-exporting countries that were capital exporters for most of the 1970s and the early 1980s. This notwithstanding, most of the developing world's net foreign transfer in 1990 originated in other countries. Those denoted in table 4 as the "long-term capital importers" transferred about US\$32 billion overseas in 1990, compared to US\$40 billion in 1989. However, a significant portion of the funds transferred in 1990 were used to build up official reserve holdings, so that while sacrificing funds for imports and investments, the purchases increased the security of the countries adding the reserves.

For a sample of 93 capital-importing developing countries on which somewhat more detailed information is available, reserves thereby rose to three months' expenditure on imports of goods and services (including interest payments).²⁵

In years past, a large source of the net outward transfer was the group of four rapidly growing exporters of manufactures in Asia, the "Four Tigers".²⁶ These economies made net transfers from a position of economic strength. They are now in a period of consolidation, however, and their outward transfer in 1990 was only about 40% of what it was at its peak in 1988. On the other hand, China switched from being a net absorber of foreign resources in 1989 to a net supplier in 1990, as it boosted its exports and curtailed imports, building up its foreign assets in the process.

One grouping of countries in table 4 experienced a strong improvement in its net transfer, namely, the energy-importing countries, excluding the "Four Tigers". This group of countries saw a significantly positive net transfer for the first time since 1983, but the improved net financial transfer did not translate into an improvement in real terms, i.e., it was not accompanied by a surge in investment or imports, but rather served to finance the higher import bill mainly arising from the rise in oil prices. Indeed, the volume of their imports barely grew.

Among the countries with clearly defined financial and economic weaknesses, one region has experienced a consistent net transfer of foreign resources, namely, sub-Saharan Africa.²⁷ While the transfer is small in dollar terms, the economies of the region are themselves relatively small and the transfer has been significant for some individual economies. The countries are, however, generally oil importers and primary commodity exporters. In 1990 they suffered a

²⁴Many differences exist in the definition and measurement of the net resource transfer. The discussion here is in terms of what in earlier *World Economic Surveys* was called the "net transfer on an expenditure basis" and includes the net effect of all financial flows in and out of a country, including central bank purchase or sale of foreign exchange reserves and all interest and profit flows (the measure is derived from national income accounting concepts in *World Economic Survey, 1986* (United Nations publication, Sales No. E.86.II.C.1), pp. 163-164). Measurement of the net transfer using the different concept employed in various international organizations and different sources of data were compared in *World Economic Survey, 1990* (United Nations publication, Sales No. E.90.II.C.1 and corrigenda), pp. 79-81 (see also the comparison in OECD, *Financing and External Debt of Developing Countries, 1989 Survey* (Paris, 1990), pp. 75-77).

²⁵Progress was not uniform; in particular, sub-Saharan Africa (excluding Nigeria) saw its reserves and reserve cover fall.

²⁶Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

²⁷Defined here to exclude Nigeria.

terms-of-trade decline of about 6%, which more than offset the estimated US\$3 billion improvement in their net transfer and thus the volume of their imports fell 2%.

The other economically weak economies comprise the mainly middle-income countries in foreign debt crisis, and they continued to make large transfers abroad in 1990. A familiar sample of 15 of these countries transferred about US\$30 billion.²⁸ The transfer was somewhat smaller than the year before owing to partially offsetting inflows of official credits (some related to enhancements in debt reduction agreements) and a smaller outflow to private banks. The latter was the result of some reduction in the debt outstanding in preceding years and growing arrears on interest payments.

Large-scale net financial transfer to the United States

If the developing countries as a group are transferring financial resources abroad, it is the industrial countries as a group that are receiving them. The economies of Eastern Europe and the Soviet Union taken together, including the former German Democratic Republic, neither made nor received transfers on a net basis in hard currency in 1990, although they had been providers of such resources to the rest of the world in previous years.²⁹ The net absorption of resources was by the developed market economies and especially by the United States.³⁰

The largest national providers of financial resources to the United States were Japan and, most likely, Germany, as in previous years (see table 5). Western Europe as a whole, however, is no longer transferring financial resources to the United States, and the transfer from Germany *per*

se is diminishing, both because Germany's overall transfer is falling and because more of it is being used within Europe.

The developing countries continue to supply the United States with large resource transfers, totalling over US\$60 billion in 1990, mainly from countries that are accumulating reserves and other foreign assets in dollar investments that are paid for out of dollar trade surpluses. As Latin America's net transfer to the United States highlights, however, some of the transfer also arises from the servicing of United States financial claims on developing countries, most especially as regards debt owed to banks domiciled in the United States.

Net transfer to the United States were made in 1990 primarily in the form of short-term financial flows, most of which, however, cannot be identified and are classified as errors and omissions in United States balance-of-payments data.³¹ Among traditional forms of financing, foreign direct investment in the United States plummeted from US\$72 billion in 1989 to US\$26 billion in 1990, the lowest level since 1985, while United States direct investment abroad –US\$36 billion– was only slightly more than in 1989. Foreign lending to United States banks also dropped sharply in 1990 and the inflow of funds to the United States for stock purchases –over US\$8 billion from March to September 1989– became instead a large and steady outflow that came to US\$16.5 billion from the fourth quarter of 1989 to the end of 1990. This was one side-effect of the large-scale drop in stock prices that took place on all the major stock exchanges of the world and that seems to have brought about a degree of repatriation of overseas equity investments in several countries.

²⁸These are the countries that were the initial target of the strategy proposed by the United States in 1985 for resolving the developing country debt problem, namely, Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

²⁹This had been mainly on the strength of net foreign asset accumulation by the Soviet Union and debt-servicing payments, especially by Poland and Romania.

³⁰The US\$23 billion net transfer to the United Kingdom was the third successive year of transfers on that scale and was the balance-of-payments counterpart to the credit-fed surge in demand. The transfer has taken the form, in particular, of short-term capital inflows, although last year's transfer was also abetted by the virtual absence of new direct investment outflows by British firms, compared to about £12.5 billion in each of the previous two years (data of United Kingdom Central Statistical Office, release CSO(91)36, 13 March 1991).

³¹The statistical discrepancy in the United States balance of payments is thought to arise mainly from partial recording of capital flows and the income on such flows, although there may also be a significant underreporting of United States merchandise exports. The US\$73 billion error term in 1990 was unprecedented and might reflect a much greater use of new portfolio instruments outside the conventional financial channels which are not adequately surveyed in preparation of the United States balance of payments (see United States Department of Commerce, *Survey of Current Business* (March 1991), p. 35).

4. The international oil market

Extreme volatility of oil prices

World prices strengthened significantly in 1989, declined sharply during the first half of 1990 and then surged in the second half of the year to levels not seen since 1980. Prices began to decline in the early months of 1990, largely in response to the over-production of OPEC during a period of unusually mild weather and weak oil demand. Average oil prices fell by nearly 30% from US\$19.30 in January to US\$13.50 per barrel in June. By the end of July, prices had moved up to about US\$17 per barrel, on expectation that production rates in Kuwait and the United Arab Emirates would be cut back to their quotas. Market expectations were in fact realized at the Conference of OPEC on 27 July 1990 when it was decided to increase the target price of oil to US\$21 from US\$18 a barrel which was felt to be achievable at a combined output of all OPEC member countries of 22 491 million barrels per day as compared to the actual production of 23.6 million barrels per day during the first seven months of 1990.

Within a few days of the OPEC Conference, Iraq invaded Kuwait and prices started to rise uncontrollably as trade sanctions were imposed on Iraq and occupied Kuwait and the military build up gave sufficient cause for widespread panic and fears of a regional war. After a few weeks of confusion and uncertainty, the OPEC Ministerial Monitoring Committee met in Vienna on 29 August and decided to increase output as swiftly as possible in order to compensate for the lost supplies from Iraq and Kuwait. Prices went down for a while as replacement volumes of crude particularly from Saudi Arabia, United Arab Emirates and Venezuela began to appear in the market. But threats of war and uncertainty as to the magnitude of spare production capacities heightened market worries and pushed the price of key benchmark crudes to the highest level in a decade reaching US\$40 a barrel by the end of September. By then, OPEC member countries were able to make up some two-thirds of embargoed Iraqi and Kuwaiti

oil, adding 2.7 mbd to the market, with total OPEC output nearing 23.5 million barrels per day.³²

Despite the steady recovery in supplies not only from OPEC but also from non-OPEC sources, principally the North Sea, Australia and several other producers, spot prices of major crude oils continued to show large swings in October oscillating between US\$30 and US\$41 per barrel in response to daily speculation and rumors and due to the absence of a safety margin of spare production capacity. Prices surged on the threat of war, but they also dropped as supply increased and markets adjusted. Oil prices eased slightly in November and December, with less volatility than before ranging between US\$25 and US\$30 a barrel. The softening was prompted by increased confidence on the supply side combined with a decline in demand growth and to some extent by more careful speculation with regard to the outcome of the crisis.

In the last five months of 1990, the average spot price of OPEC basket of seven crudes was US\$29.70 a barrel as compared to US\$16.80 a barrel in the first seven months of the year. For the whole year, the average price is estimated at US\$22.20 a barrel, representing an increase of 27% over that of 1989.

Impact of the Gulf crisis

The Gulf crisis during 1990 caused an additional oil import outlay of about US\$53 billion –US\$41 billion from the developed market economies, US\$2 billion from the countries of Eastern Europe and US\$10 billion from the oil-importing developing countries. Because of their high dependence on oil for their overall energy requirements, low per capita income, foreign indebtedness and lack of foreign exchange, the impact was particularly severe in many countries of Eastern Europe and the developing world. Loans and credits from the International Monetary Fund and other multilateral arrangements, as well as ad hoc bilateral assistance from oil-exporting developing countries, helped to mitigate the

³²*Petroleum Economist*, October 1990, p. 42.

impact. In many countries, however, this did not prevent shortages, rationing and loss of output.

Incremental oil revenues benefited oil-exporting countries –US\$39 billion for the member countries of OPEC, US\$8 billion for non-OPEC oil-exporting developing countries and US\$6 billion for Canada, Norway, the United Kingdom and the Soviet Union.

A marked slow-down in the world economy was apparent prior to the Gulf crisis, with reduced growth rates in the developed market economies and the developing world and deep recession in Central and Eastern Europe and the Soviet Union. The overall effect of the Gulf crisis has been estimated to have reduced world output by 0.2%.

Slower growth in oil consumption

In the three years following the oil price collapse of early 1986, world oil consumption had increased to 65.7 million barrels per day, at an average annual rate of 2.2%. However, in 1990, demand for oil remained stagnant. This stagnation was partly due to lower economic growth in all regions, higher oil prices, mild weather conditions and, in some cases, shortage of supplies, particularly in the oil-importing developing countries and Eastern Europe.

Shifts in production

Oil production patterns during 1990 brought to the fore once again the crucial importance of production capacities in the member countries of OPEC. Since the oil price collapse of 1986, OPEC member countries have been able to expand their output from readily available production capacities in order to meet growing oil demand at a time when non-OPEC production has been in a state of stagnation caused by sizeable reduction in oil output in the United States and more recently by a significant drop in the Soviet Union.

Since 1985, OPEC oil production has risen by 7.1 million barrels per day, or 44%. Consequently, the OPEC share of the market has improved to 38.5% in 1990, as compared to 30.2% at the beginning of the period.

During 1990, the crude oil production of OPEC averaged 23.2 million barrels per day. For the first half of 1990, OPEC crude oil quotas, which had been set at 20.5 million barrels per day for the fourth quarter of 1989, were increased to 22 086 million barrels per day in an effort to match the growing demand and support a price close to the target of US\$18 per barrel. However, persistent overproduction, mainly by Kuwait and the United Arab Emirates, eroded the newly found stability of 1989. During that period, average OPEC crude oil output was estimated at 23.6 million barrels per day, exceeding the total ceiling by 7% (see table 7).

Stagnation in non-OPEC supplies

The substantial increases in production from non-OPEC countries during the 1970s and the 1980s were the results of significant oil discoveries in Alaska, China, Mexico, the North Sea and the Soviet Union. The price increases of 1973/1974 and 1979/1980 accelerated the developments of those discoveries and resulted in new discoveries in a large number of other countries as well. Between 1973 and 1985, total non-OPEC production increased by an annual average rate of more than a million barrels per day.

Since 1985, however non-OPEC production has remained almost stagnant owing to the lack of major new discoveries and the gradual depletion of ageing major oil fields. The moderate growth in supplies from the non-OPEC developing countries has compensated for the decline in production in the developed market economies and the Soviet Union.

Table 1
GROWTH OF POPULATION AND GDP, BY REGION, 1981-1990

	Population 1990 (millions)	Population growth rate (annual per- centage)	Gross domestic product 1985 (billions of 1980 U.S.dollars)	Rates of change of gross domestic product (annual percentage)			
				1981- 1987	1988	1989	1990 ^a
World	5 292	1.8	...	2.6	4.3	3.0	1.0
Developed market economies	813	0.6	7 640	2.4	4.3	3.3	2.4
North America	276	0.8	2 866	2.8	4.4	2.5	1.0
Western Europe	358	0.2	3 467	1.8	3.8	3.4	2.7
Developed Asia	144	0.5	1 060	3.8	5.4	4.6	5.0
Eastern Europe and the Soviet Union ^b	405	0.6	...	2.7	3.7	1.4	-6.3
Developing countries	4 074	2.1	2 780	3.0	5.0	3.4	2.9
Western hemisphere	432	2.1	815	1.2	0.8	1.1	-0.7
Africa	606	3.1	336	1.2	2.1	3.3	3.4
West Asia	130	3.0	357	-1.6	1.1	2.4	0.0
South and East Asia	1 686	2.2	662	5.3	8.7	6.0	6.1
China ^b	1 139	1.5	470	10.0	11.3	3.3	4.8
Mediterranean	81	1.5	141	3.2	1.4	1.1	-0.7
Memorandum items:							
Heavily indebted countries	612	2.3	...	1.0	1.2	1.5	-0.8
Sub-Saharan Africa ^c	383	3.2	...	1.4	3.0	2.7	1.9

Source: United Nations/Department of International Economic and Social Affairs. Data on population and population growth rates are those published by the Department in *World Population Prospects, 1990* (United Nations publication, Sales No. E.91.XIII.4).

^a Preliminary estimates.

^b Net material product; data for 1981-1989 are government estimates.

^c Excluding Nigeria.

Table 2
**GDP, UNEMPLOYMENT AND INFLATION IN THE SEVEN LARGEST
INDUSTRIAL ECONOMIES, 1989-1990**

	Quarter								Year	
	1989				1990				1989	1990
	I	II	III	IV	I	II	III	IV ^a		
Growth of gross domestic product^b										
Germany ^c	9.5	0.7	-1.4	4.0	15.4	-3.4	6.7	2.2	3.9	4.6
Canada	5.0	1.4	3.2	2.1	2.1	-1.0	-1.0	-4.0	2.9	0.9
United States ^c	3.6	1.4	1.8	0.4	1.8	0.3	1.4	-1.6	2.5	1.0
France	5.6	3.3	2.2	2.9	3.2	0.3	5.0	-1.6	3.6	2.4
Italy	3.3	3.2	2.5	2.8	3.5	-1.7	2.8	..	3.2	2.2
Japan ^c	4.6	0.0	9.9	5.4	6.4	5.6	4.2	2.1	4.7	5.6
United Kingdom	2.1	0.0	2.1	2.4	2.8	2.4	-5.0	-3.6	2.1	1.0
Total	4.7	1.1	3.6	1.7	4.6	0.7	1.8	-0.5	3.2	2.5
Unemployment^d										
Germany	5.7	5.7	5.5	5.5	5.3	5.2	5.1	4.8	5.6	5.1
Canada	7.5	7.5	7.4	7.6	7.5	7.4	8.1	9.0	7.5	8.1
United States	5.1	5.2	5.2	5.3	5.2	5.2	5.5	5.8	5.2	5.5
France	9.6	9.5	9.4	9.2	9.0	8.9	8.9	8.9	9.4	8.9
Italy	11.0	11.0	11.1	10.6	10.1	9.7	9.8	9.8	10.9	9.9
Japan	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.3	2.1
United Kingdom	7.5	7.1	6.7	6.4	6.2	6.2	6.3	6.8	6.9	6.4
Total	5.8	5.7	5.7	5.6	5.4	5.4	5.6	5.7	5.7	5.6
Consumer price increases^e										
Germany	2.5	2.9	2.8	2.9	2.7	2.3	2.7	3.1	2.8	2.7
Canada	4.5	5.0	5.3	5.1	5.3	4.6	4.2	5.0	5.0	4.8
United States	4.8	5.2	4.7	4.7	5.2	4.6	5.5	6.2	4.8	5.4
France	3.5	3.6	3.4	3.6	3.3	3.1	3.5	3.6	3.5	3.4
Italy	5.9	6.5	6.4	6.3	6.4	6.1	6.5	6.8	6.3	6.4
Japan	1.1	2.8	2.7	2.6	3.3	2.4	2.8	3.9	2.3	3.2
United Kingdom	7.8	8.2	7.7	7.8	7.8	9.6	10.4	9.9	7.8	9.5
Total	4.2	4.8	4.5	4.5	4.8	4.4	5.1	5.7	4.4	5.0

Source: United Nations/Department of International Economic and Social Affairs, on the basis of data from IMF, OECD and national agencies.

^a Partly estimated. ^b Percentage change in seasonally adjusted data for the preceding quarter, expressed as an annual rate.
^c Gross national product. ^d Percentage of total labour force; data adjusted seasonally in accordance with the OECD standard procedure. ^e Percentage change in average consumer prices index for each quarter relative to same quarter of preceding year.

Table 3
WORLD TRADE, 1980-1990: ANNUAL CHANGE
(Percentage)

	1980-1985	1986	1987	1988	1989	1990 ^a
Volume of world trade	2.4	4.2	6.0	8.4	6.8	4.0
Exports	2.4	4.8	6.4	8.0	6.6	4.3
Imports	2.4	3.5	5.6	8.7	6.9	3.9
Value of world trade						
Exports	-0.7	10.1	17.4	13.3	7.7	13.1
Imports	-0.9	9.8	16.9	14.0	8.2	12.9
Value of exports						
World	-0.7	10.1	17.4	13.3	7.7	13.1
Developed countries	0.1	16.7	17.0	14.0	7.2	15.3
Developing countries (including China)	-3.2	-7.3	22.1	14.6	12.8	13.2
Eastern Europe and USSR	2.2	10.2	9.7	3.7	-2.4	-9.2
Eastern Europe	1.9	8.8	8.5	4.8	-3.5	-13.4
USSR	2.6	11.7	10.9	2.7	-1.3	-5.1

Source: United Nations/Department of International Economic and Social Affairs.

^a Preliminary calculations.

Table 4
**NET TRANSFER OF FINANCIAL RESOURCES BY GROUPS
 OF DEVELOPING COUNTRIES, 1980-1990^a**
(Billions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^b
Long-term capital importers, including:	33.1	49.1	31.5	-5.6	-33.4	-24.5	-16.0	-47.8	-40.1	-39.8	-32
Energy-deficit exporters	-16.6	9.3	10.0	-12.1	-24.1	-22.0	0.3	-18.7	-6.5	-17.3	-23
Energy-importing countries	47.4	42.0	27.0	9.7	-8.5	-14.8	-23.5	-28.6	-37.3	-27.2	-3
Recent surplus economies ^c	6.3	3.4	-0.7	-4.3	-8.9	-11.9	-23.9	-31.0	-26.5	-20.6	-11
Other energy importers	41.1	38.6	27.7	14.0	0.4	-3.0	0.4	2.4	-10.8	-6.6	8
China	2.3	-2.2	-5.5	-3.3	-0.8	12.3	7.1	-0.5	3.6	4.7	-5
Surplus-energy exporters	-92.9	-46.2	0.5	22.1	14.0	9.2	27.2	13.7	15.7	6.1	-7
All developing countries	-59.8	2.9	32.0	16.5	-19.4	-15.3	11.2	-34.1	-24.4	-33.7	-39
Memorandum items											
15 heavily indebted countries ^d	8.7	20.4	9.4	-23.8	-40.6	-40.6	-22.1	-28.4	-31.0	-36.2	-30
Sub-Saharan Africa ^e	7.9	9.2	7.4	5.5	2.3	-3.2	5.4	6.2	7.5	6.1	9

Source: United Nations/Department of International Economic and Social Affairs, on the basis of data from IMF, official country data and data from other sources.

^a Calculated on the basis of expenditure (negative for balance of payments on goods, services and private transfers, excluding investment income). ^b Preliminary estimate. ^c Hong Kong, Republic of Korea, Singapore and Taiwan. ^d Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, the Philippines, Morocco, Mexico, Nigeria, Peru, Uruguay, Venezuela and Yugoslavia. ^e Excluding Nigeria.

Table 5
**NET RESOURCE TRANSFERS TO THE UNITED STATES,
 BY REGION, 1980-1990**
(Billions of dollars)

Countries	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^a
Canada	-0.5	0.3	7.1	9.0	12.3	13.1	10.2	8.0	7.1	5.1	4.0
Japan	9.5	14.5	15.5	24.6	42.1	51.3	52.1	53.4	46.3	41.5	32.6
Western Europe including:	-16.7	-9.0	-2.7	5.4	21.4	31.1	34.8	32.2	18.7	1.7	-1.8
Germany	2.4	2.9	5.3	8.3	13.2	15.9	20.0	21.4	18.1	13.8	...
United Kingdom	-2.2	1.1	2.9	2.8	3.0	5.3	5.6	4.7	...	-4.1	-3.9
Latin America and the Caribbean including:	-2.2	-6.3	4.7	18.0	20.6	16.6	12.7	15.3	10.2	10.7	10.7
Mexico	-2.7	-5.5	4.2	10.1	7.9	7.5	7.3	8.3	5.6	5.2	...
Major oil exporters of Africa and Asia ^b	36.7	24.9	5.8	0.8	5.2	3.1	2.3	7.2	5.7	11.3	14.8
Other developing countries	-4.7	-0.6	1.1	9.4	21.3	22.1	31.6	42.1	34.7	35.6	35.6
Eastern Europe and USSR	-2.7	-2.9	-2.8	-1.7	-2.1	-1.4	...	-0.2	-1.6	-3.5	-2.2
Other countries ^c	-0.1	-4.7	-4.4	-8.0	-11.0	-12.9	-3.4	-4.9	-6.6	-7.8	-8.0
Total	19.4	16.1	24.3	57.6	109.8	123.0	140.4	153.1	115.5	94.4	85.8

Source: United Nations/Department of International Economic and Social Affairs, on the basis of data from the Department of Commerce, *Survey of Current Business*.

^a Preliminary estimate; full breakdown by country not yet available. ^b Includes OPEC member countries, excluding Ecuador and Venezuela. ^c Including net transactions with international organizations and unallocated amounts.

Table 6
WORLD OIL DEMAND^a 1986-1991
(Millions of barrels per day)

Countries	1986	1987	1988	1989	1990	1991 ^b	1986-1990 Change	
							Absolute	Percentage
Developed market economies	35.4	36.0	37.2	37.5	37.5	37.5	2.1	5.9
North America	18.0	18.5	19.2	19.2	18.9	18.6	0.9	5.0
Western Europe	12.2	12.3	12.5	12.5	12.6	12.9	0.4	3.3
Pacific	5.2	5.2	5.5	5.8	6.0	6.0	0.8	15.4
Eastern Europe and USSR	11.0	11.1	11.0	10.8	10.3	9.8	-0.7	-6.4
USSR ^c	9.0	9.0	8.9	8.8	8.4	8.0	-0.6	-6.7
Eastern Europe	2.0	2.1	2.1	2.0	1.9	1.8	-0.1	-5.0
Developing countries	15.2	15.8	16.5	17.5	18.0	18.6	2.8	18.4
Africa	1.8	1.9	1.9	2.0	2.1	2.1	0.3	16.7
Latin America	4.7	4.8	4.9	5.1	5.1	5.1	0.4	8.5
Asia	3.8	4.0	4.5	4.9	5.3	5.7	1.5	39.5
China ^c	2.0	2.1	2.2	2.4	2.3	2.4	0.3	15.0
Middle East	2.9	3.0	3.0	3.1	3.2	3.3	0.3	10.3
World total^d	61.6	62.9	64.7	65.7	65.7	65.8	4.1	6.7

Source: United Nations/Department of International Economic and Social Affairs, on the basis of data from the International Energy Agency, *Monthly Oil Market Report*, April 1991.

^a Includes deliveries from refineries and primary stocks, marine bunkers, refinery fuel and non-conventional sources. ^b Estimate.
^c Based on estimates of domestic demand derived from official production figures and quarterly trade data. ^d Totals may not add up because of rounding.

Table 7
OPEC CRUDE OIL PRODUCTION AND QUOTAS
(Thousands of barrels per day)

Country	First seven months of 1990			Last five months of 1990		
	Production	Quotas	Percentage deviation from quotas	Production	Quotas ^a	Percentage deviation from quotas
Saudi Arabia	5 564	5 380	3.4	7 563	5 380	40.6
Algeria	774	827	-6.4	800	827	-3.3
Ecuador	280	273	2.6	288	273	5.5
United Arab Emirates	2 010	1 095	83.6	2 141	1 500	42.7
Gabon	256	197	29.9	294	197	49.2
Indonesia	256	1 374	-8.6	1 330	1 374	-3.2
Iran	2 961	3 140	-5.7	3 316	3 140	5.6
Iraq	3 140	3 140	0.0	500	3 140	-84.1
Libyan Arab Jamahiriya	1 321	1 233	7.1	1 496	1 233	21.3
Kuwait	1 942	1 500	29.5	239	1 500	-84.0
Nigeria	1 766	1 611	9.6	1 874	1 611	16.3
Qatar	370	371	0.0	400	371	7.8
Venezuela	1 993	1 945	2.5	2 240	1 945	15.2
Total	23 633	22 086	7.0	22 481	22 491	-

Source: United Nations/Department of International Economic and Social Affairs.

^a Quotas set at OPEC Conference in July 1990.

PART THREE

**PUBLIC FINANCES IN LATIN AMERICA
IN THE EIGHTIES**

PUBLIC FINANCES IN LATIN AMERICA IN THE 1980s

The crisis in the public finances of most Latin American and Caribbean countries was one of the main features of the economic plight of the region in the 1980s. It played a central role in the serious budgetary constraints on the public sector, which stemmed from high deficits –exacerbated by recessions and the debt burden– and the sharp drop in external financing. This situation led to the creation of various combinations of inflationary financing, suspension of debt servicing payments and fiscal adjustments in government economic policies during the decade. Structurally speaking, however, the financial crisis of the public sector revealed the weakness of financial structures in the face of external shocks and domestic pressures, and their growing inability to finance public policies designed to promote stability, growth and equity.

The 1980s witnessed a bleak economic performance by the countries of Latin America and the Caribbean: in 1990, per capita output had fallen to 1983 levels, which in turn were similar to those of 1977. The economic crisis, which was triggered by the interruption of external financing, led to recessions and, ultimately, to economic stagnation, sluggish investment, lower living standards, spiralling inflation and, in many countries, outright hyperinflation. On the other hand, by the end of the decade, the balance-of-payments problem remained unsolved, especially in the most highly indebted countries. In 1990, net resource transfers abroad still exceeded US\$16 billion, and the regional foreign debt reached US\$435 billion.

In this complex scenario of stagnation, inflation and external vulnerability, fiscal imbalances and overall public-sector behaviour in the countries of the region were noteworthy aspects of the difficult 1980s.

The relationship between economic performance and fiscal policy was a two-way street. On the one hand, public finances had a

direct effect on the basic macroeconomic balance-of-payments deficits, on the domestic absorption of resources and on inflation. On the other hand, protracted macroeconomic instability and severe adjustments in response to external shocks had negative repercussions on public-sector economic and financial behaviour. As the adjustment process tightened, the financing of the public deficit grew more complex. Likewise, trends in the public sector and fiscal deficits in Latin America reflect the interaction between an active financial policy and the decisions taken by fiscal authorities, with fiscal results that the authorities cannot control but which nevertheless affect public-sector management.

Budgetary policies have been a crucial factor, both in creating the foreign indebtedness that began in the late 1970s and in the obstacles posed by the subsequent adjustment process. In periods of abundant international liquidity, countries such as Mexico and Brazil financed their domestic overspending –spurred by increasing public expenditures– with loans from abroad. In other cases –Argentina being a prime example– government guarantees on loans contracted by various public-sector institutions (public enterprises and parastatal agencies), and even by the private sector itself, were enough to obtain funds, which were often not used for investment purposes, but rather for the financing of public-sector deficits and even of private consumption. In those cases, the currency thus obtained also helped to keep the real exchange rate down, for anti-inflationary purposes. Demand encouraged domestic economic activities, and the implementation of corrective fiscal-policy measures took too long. As these policies became more entrenched, both in scope and in duration, they began to have side-effects: in particular, a sharp increase in real interest rates, with the subsequent need to adjust the real

exchange rate. In view of these effects and the expectations they created, the external resources that had at one time been obtained by the public sector ultimately financed a mass exodus of capital. This sort of shift, when it reached the private sector, had negative repercussions on both foreign and fiscal accounts. As capital flight became irreversible, the profitability of external assets did not help to ease the foreign currency squeeze; moreover, in the fiscal arena, these profits also failed to generate taxable revenues.

This climate of uncertainty and capital flight in which many Latin American economies found themselves also fostered the growth of a black market, further reducing the tax base. On the other hand, the subsequent incorporation of the private debt into public accounts, given the private sector's inability to repay it, became an inherited burden on government budgets which persists to this day. It should be stressed that in almost every highly indebted country in the region, the private sector has carried out rescue operations. The transfer mechanisms deployed to subsidize the debt have been either the public budget or various monetary instruments (rediscounts, exchange risk insurance) implemented by the central banks, which tended to strongly increase the treasuries' quasi-fiscal deficits.

As opposed to the previous illustration, some Latin American economies were in a relatively healthy financial position before the interruption of foreign financing brought about a turnaround in resource transfers. Chile exemplifies this situation. Here, public-sector borrowing had been used neither as the cornerstone of an investment programme nor as a remedy to finance the balance of payments. At its inception, borrowing was linked to a drop in the terms of trade, although in this case the public sector's subsequent absorption of private debt also took on enormous proportions, becoming a heavy extra burden on the budget. Chile's public sector had recorded a healthy surplus during the pre-crisis years, which partly accounts for its subsequent trend, and also for its less traumatic adjustment process (*vis-à-vis* other countries), in which the strategic funding received from multilateral institutions was also instrumental.

Towards the end of the 1970s, Latin American economies found themselves in a more complex

situation than in past periods: weak and more open financial systems, vulnerable exchange rate policies, decreasing terms of trade, etc. These factors weigh heavily not only in looking back on the foreign indebtedness situation with respect to the financial crisis, but also in order to understand the effects of foreign debt on public finances and consequently on domestic macroeconomic equilibrium, especially starting from the moment when the countries in the region became subject to foreign credit rationing programmes (1981-1982).

At the outset of the crisis, the recession pushed fiscal revenues down, and taxation measures had to be taken in order to counterbalance its effects. Likewise, public service rates generally lagged behind during inflation periods, thus aggravating the financial plight of public enterprises. Conversely, current expenditures tended to rise, partly due to interest payments on public debt. The financial burden of the foreign debt grew heavier early in the decade as a result of the increase in real exchange rates –one of the main tools used to adjust external accounts– as well as higher international interest rates. Afterwards, domestic debt costs grew significantly as a result of soaring interest rates. In the presence of snowballing fiscal deficits, resource allocations to the least essential sectors were cut, but at a very high social cost: public investment and social spending.

The financial crisis had been maturing for a long time because of the structural frailty of public institutions, owing to faltering revenues and fixed expenditures. Nevertheless, in the 1970s, it had been masked by the ample availability of foreign resources, which made possible the postponement of essential fiscal adjustments. When the situation turned around in the early 1980s, with the drying up of foreign credit inflows, particularly commercial bank loans, and also owing to other factors, such as the increase in international interest rates, high indebtedness in the countries of the region and the drop in export commodity prices, an economic crisis quickly ensued, the likes of which had not occurred since the Great Depression of the 1930s. Owing to the combined effects of these factors, the cash flow, which had been positive for the region during the 1970s, turned negative. The economic recession which

occurred as a result of attempts to adjust external accounts, exacerbated the crisis. It had negative repercussions on fiscal revenues, thus significantly expanding the public deficit.

On the other hand, the reversal in the flow of net resource transfers not only gave rise to drastic adjustments in external accounts, but, in most countries, it also meant an abrupt change in public sector financing; this sector, having received the largest percentage of those resources, became the main culprit for the net remittances due.

Since governments had to assume a sizeable amount of the private sector's foreign debt through various mechanisms, the foreign debt crisis had an additional negative impact on public accounts. The interruption of foreign credit flows was a hard blow for debtors and financial agents with high foreign currency liabilities, due to the sudden cessation of automatic loan rollovers. The debtors were unable to meet the payments by their due dates; thus, most of them defaulted on their loans. The problem was exacerbated by domestic recessions and by considerable increases in real exchange rates. In view of this widespread lack of creditworthiness, central banks in many countries had to come to the rescue by means of subsidies and debt reschedulings, so as to prevent the collapse of the financial system.

In the following pages, the series of maladjustments and adjustments undergone by public finances during the 1980s will be studied based on data that was gathered for the purpose of analysing fiscal policies, a task undertaken by the ECLAC/UNDP Regional Project on Fiscal Policies.¹

In order to cope with the severe financial crisis, Latin American countries had to implement many large-scale fiscal adjustment processes in the 1980s. The most far-reaching ones affected 14 of the 19 countries for which data are available. Many of those adjustments failed, while others achieved some success, albeit quite small; thus, they were unable to return to the situation, as it had been in the late 1970s. For the most part, the crisis can be explained by each country's particular circumstances, but there are many features common to them all, among which are the following: high fiscal deficits; constraints on taxation policies; lags in rates and the lack of funding for public enterprises; new commitments that had to be taken up by the States; the turnaround in net foreign resource transfers; obstacles to financing the fiscal deficit; and finally, the profound deterioration of the civil service, which in some cases has practically meant the collapse of the State.

1. Trends in public spending

a) Aggregate spending

Public spending dropped considerably, in real terms, in most countries in the region throughout the 1980s, as a result of the adjustment processes undertaken since the outbreak of the debt crisis. For the region as a whole, aggregate fiscal spending² dropped by 8% between 1982 and 1984. It then experienced a recovery, exceeding in 1986 and 1987 the level recorded for 1982. From 1988 onwards, a new slowdown took place, as a result of which the aggregate regional spending for 1989 barely exceeded the figures for 1982. Although in a somewhat irregular fashion, some countries gradually reduced their level of

actual public spending throughout the decade. Outstanding among them is Peru, whose 1989 spending was only 36% of that recorded for 1982. Public spending also decreased greatly in Venezuela (-32%, between 1982 and 1989), Argentina (-23%, between 1981 and 1989), Bolivia (-20%, between 1980 and 1987) and Ecuador (-26%, between 1986 –when it had recovered its 1981 level– and 1989) (see table 1 and figure 1).

After the initial adjustment, some countries began regaining their previous public spending levels. Such is the case of Costa Rica, which, after reducing its spending by 25% in the 1981-1982 period, began to recover it progressively, until in

¹ UNDP/ECLAC Project RLA 87/003. See annex for a list of the surveys prepared by the Project.

² Aggregate spending is defined as the amount of overall recurrent spending by the government plus the capital spending of the non-financial public sector, which includes both overall investment by the government and that of public enterprises.

Figure 1
**LATIN AMERICA: TRENDS IN PUBLIC-SECTOR INCOME
 AND EXPENDITURE IN SELECTED COUNTRIES^a**

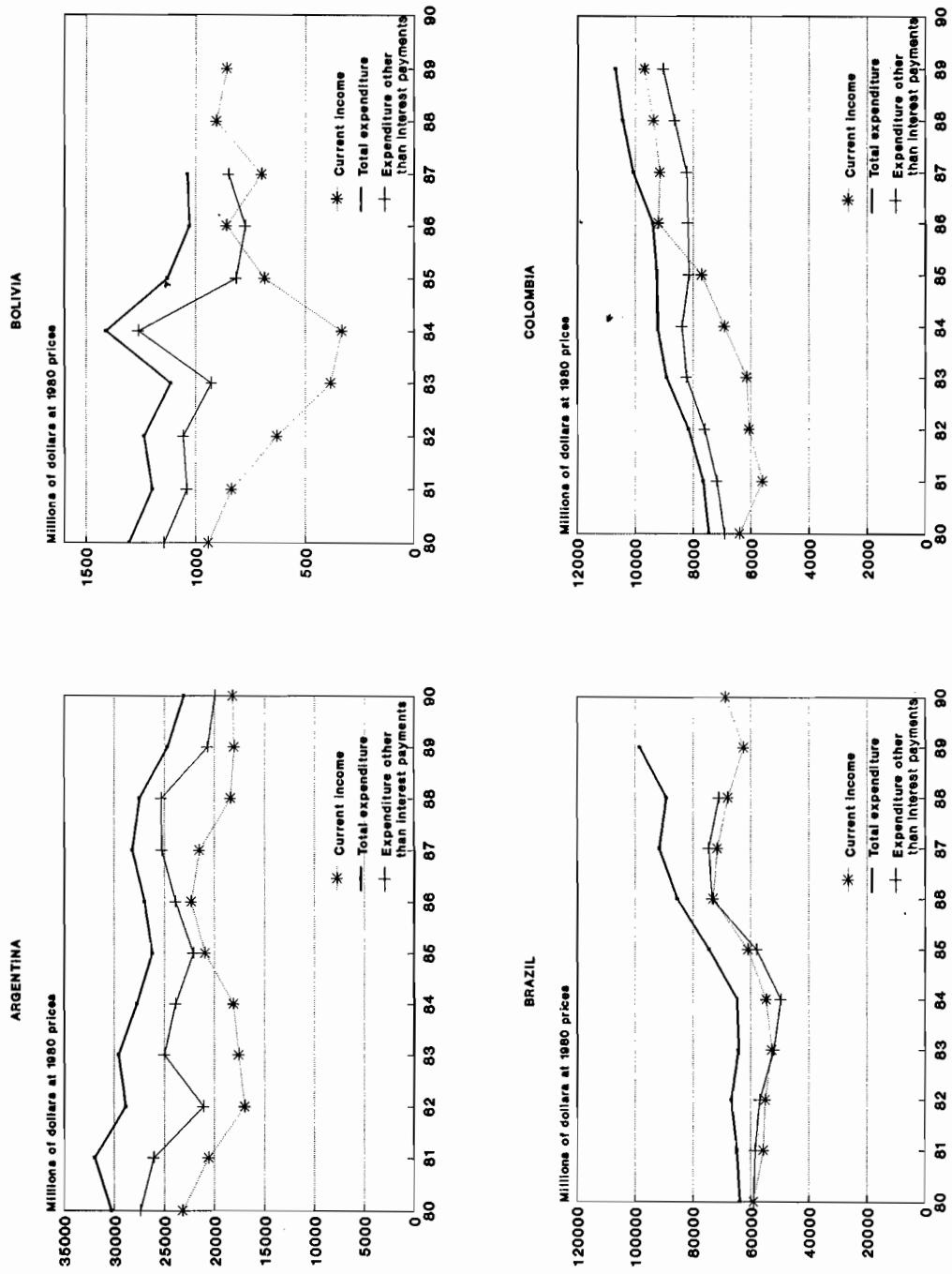


Figure 1 (continued)

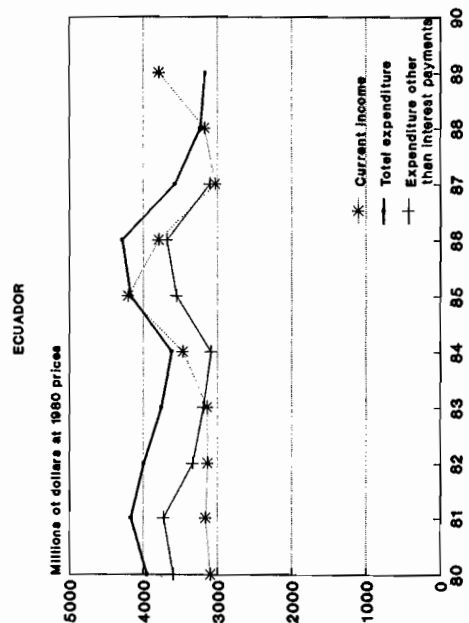
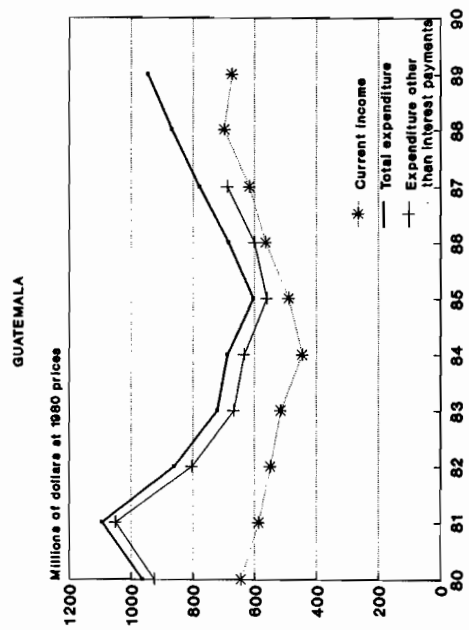
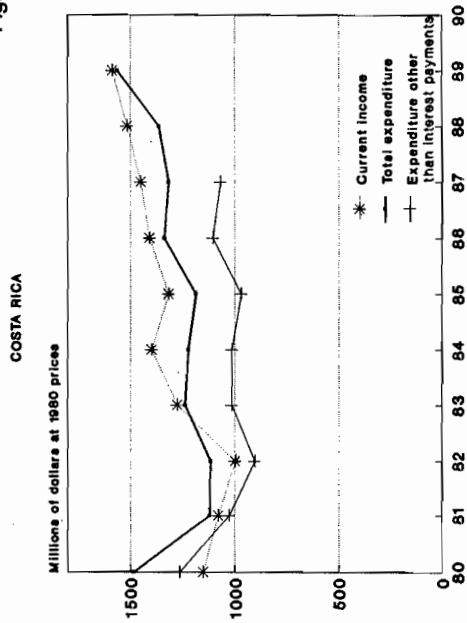
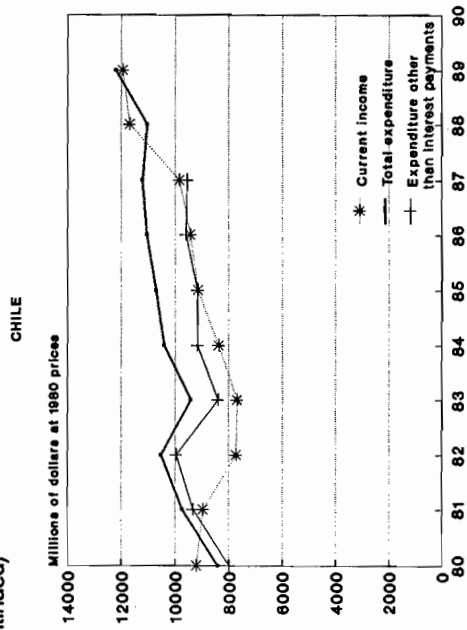
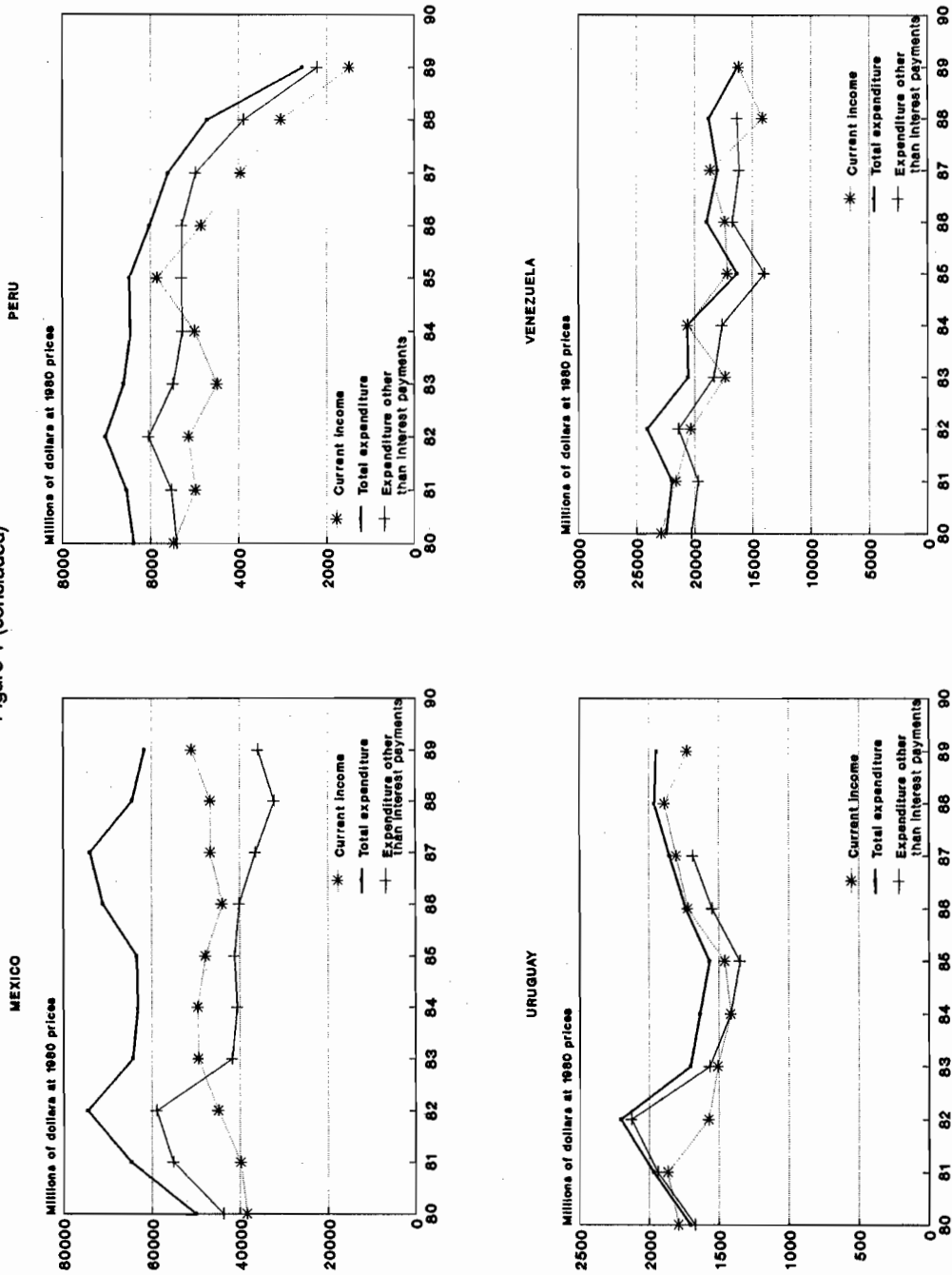


Figure 1 (concluded)



Source: ECLAC, on the basis of figures provided by official sources and by the ECLA/UNDP Regional Project on Fiscal Policies.
 a The definitions used for this table are as follows: Total current income of the non-financial public sector equals the sum of the general government's current income and the current savings of public enterprises; total expenditure is the sum of the general government's current expenditure plus the non-financial sector's capital expenditure, which includes investment by both the general government and public enterprises.

1989 it attained a figure 5% higher than in 1980. A similar trend can be seen in Uruguay, where, after aggregate spending dropped by almost 30% between 1982 and 1985, by 1988 it reached levels only 11% lower than those for 1982 (and, in any case, higher than those for 1980). Likewise, in Guatemala, after real levels of public spending fell in 1985 to almost half of what they had been in 1981, it recovered until, in 1989, it was only 13% lower than in that year, and almost equal to the 1980 level (see table 1). Also Mexico, which had expanded its aggregate public spending by almost 50% between 1980 and 1982, suffered a 14% drop in 1983, which persisted during the 1984-1985 period, recovering the previous level of real spending between 1985 and 1987. In this case, however, a new adjustment of public spending was put into effect (-17%) in the 1988-1989 period, even though the process accrued an increase of 23% in real spending levels in relation to 1980.

Chile entered the crisis decade after already having experienced significant growth, and in the aftermath of a drastic adjustment in public spending. In the 1971-1973 period, the actual level of aggregate spending had increased by more than 70% in relation to the average recorded for the previous five-year period. The adjustment implemented in 1975-1976 reduced spending by more than 30% of that maximum, bringing it down to its lowest level in the decade. Afterwards, there was a gradual expansion that reached its peak in 1982, with a real level almost 37% higher than the 1975-1976 average. This expansion was briefly interrupted by the crisis, resuming its upward trend in 1984. It peaked in 1989, with a public spending level 16% higher than in 1982, practically the same as in the early 1970s, although naturally lower in per capita terms.

A number of countries, however, tended to follow an expansion-oriented policy for public spending during the decade. Colombia increased such spending steadily; in 1989, it reached a real level that was 43% higher than in 1980. Brazil, with only brief interruptions during the 1983-1984 period and in 1988, spent 54% more in 1989 than in 1980. Paraguay, in 1984, reached a 47% higher level of spending than in 1980; after carrying out an adjustment during the 1985-1986 period, aggregate spending began to recover in

1987, although it fell short of attaining the previous peak (see figure 1).

b) The effects of the debt burden on government budgets

The level of foreign indebtedness of the Latin American governments at the outbreak of the foreign financial crisis, coupled with the increase in international interest rates and exacerbated in some cases by the governments' assumption of private foreign debts, substantially increased the proportion of public spending being deployed to make interest payments on the foreign debt at the beginning of the decade. Afterwards, the moratoria on debt servicing declared by Argentina, Bolivia, Costa Rica, Peru, and –later on– Brazil and Ecuador, somewhat decreased that proportion in these countries. However, the public debt's financial burden loomed ever larger in the budgets of those countries that continued to meet their external obligations.

The financial burden of the consolidated public sector is made up of two large components: the interest on debt contracted by the non-financial public sector, and the interest paid by the financial public sector. The former are recorded with the rest of the public sector's traditional accounts. The latter, however, arise in different situations and they are registered in various ways. One portion corresponds to interest paid on deposits attracted by the usual activities of public financial institutions, which is why they should not be considered as a financial burden on the public sector. Another part stems from the financing of public activities, as in the case where the Central Bank assumes the responsibility of paying the foreign interest of the non-financial public sector or the costs of monetary take-over operations (interest-bearing cash reserves and bonds, for example), in order to offset the marked expansion of the monetary base.

The servicing cost of the public debt –both domestic and foreign– of the non-financial public sector increased substantially, especially during the first years of the decade. Thus, in Argentina, interest-related expenses rose from almost 3% of gross domestic product (GDP) at the end of the previous decade to more than 10% in 1982; in Costa Rica, from 5% to almost 7% in 1983; in Ecuador, from less than 3% to 5.5% of GDP in

1982; in Peru, from 4.5% to more than 6% in 1983; in Uruguay, from less than 1% to 4% of GDP in 1984. In Brazil, real interest payments³ grew from 2% of GDP in 1980 to more than 4% in 1982, and to more than 6% in 1984; in Mexico, from 3.5% to more than 12% of the product in 1983, and to almost 20% in 1987. In Chile, they increased from 1.4% of GDP in 1980 to more than 3% in 1985, while in Colombia they increased from approximately 1% at the end of the previous decade to more than 4% in 1987. In countries like Guatemala and Paraguay, where interest accounted for approximately 0.5% of GDP in 1980, it increased to 1.5% in 1987. Only Venezuela has stabilized (at around 4% of GDP) the net interest burden on the public sector (see table 2).

The interest paid by the central banks, which in some countries reached extremely high levels in certain years of the decade, comprise another part of the financial burden. Thus, for example, in Chile, interest payments amounted to 5% of GDP in 1985, but decreased later on; in Mexico, they amounted to approximately 5% of GDP in 1986 and 1987; and in Uruguay they amounted to 3% of GDP in the 1983-1989 period. These payments by the central banks were, in some cases, offshoots from the transfer of private foreign debt to the public financial system, although in other cases they were due to the increased indebtedness of the banking authority, as a result of new loans.

The large amounts of interest payments on public debt ultimately represented a heavy load on most countries' fiscal resources, becoming even more burdensome during the crisis phases when they actually shrank in real terms. In some countries, the financial burden has used up such a large proportion of current resources that it has either cast doubt on the management of essential, current, and investment-type fiscal activities or has forced the implementation of inflationary financing schemes or various types of default on public debt repayment.

Thus, in Argentina, 46% of current revenues of the public sector were committed to interest payments in 1982, decreasing after the moratorium on the foreign debt was declared in

1983; accordingly, during the 1986-1987 period they amounted to almost 13% of revenues. Likewise, in Bolivia, the interest on public debt amounted to 45% of current revenues in 1985, subsequently dropping to 30% as a result of the moratorium on the repayment of the foreign debt (see table 4). In Mexico, the State kept up its foreign debt servicing throughout the decade, increasingly having to resort to domestic borrowing; as inflation accelerated, nominal interest payments on the domestic debt soared. Thus, the total financial burden ultimately absorbed 80% of the public sector's current revenues during 1987, declining only after prices gradually stabilized. A similar phenomenon took place in Brazil, though in this case the data in table 3 only record the "real" component of public debt interest (thus excluding the indexation component that is part of nominal interest) which, however, used up approximately one fourth of current revenues during the 1984-1985 period, and again in 1988. In Peru, accrued interest—which already represented 21% of public sector revenues before the crisis—increased to 27% in 1988, although the actual burden was still approximately one half of the amount due, on account of the suspension of foreign debt payments as from 1984. In both Chile and Ecuador, interests have amounted to between 15% and 20% of current revenues throughout the decade of the crisis. In Venezuela, net interest payments on public debt have fluctuated between 9% and 17% of revenues. In Costa Rica, the interest burden has risen from 18% to 21% of public revenues, while it rose from 6% to 15% in Guatemala; meanwhile, in Uruguay it grew from less than 2% in the 1980-1981 period to more than 15% in 1984, later dropping to 9%. Also, in Colombia, the public financial burden rose from 8% at the beginning of the decade to 20% in 1987. In Paraguay, however, it was not until 1987 that it exceeded 10% of the public sector's current revenues (see table 4).

i) *Interest on public foreign debt.* Interest on public foreign debt had a particularly strong influence on the sharp increase in interest-related spending. At the end of the 1970s, the amount of

³In this case, the data in table 2 refer only to the "real" component of nominal interest, thus excluding the indexation component of the principal.

interest corresponding to the total public foreign debt –both of the non-financial public sector and of the financial sector–, in 11 countries of the region,⁴ was equal to US\$6 billion per annum, or 1.2% of GDP, which had already meant a substantial increase with respect to the levels recorded at the beginning of that decade. The rise in these expenditures grew sharper from 1980 onwards, amounting to US\$21.6 billion in 1983 (3.2% of GDP). The amount of these payments subsequently dropped, owing mainly to the fact that many countries fell into arrears; thus, in 1989, US\$17 billion in interest were paid (2.1% of GDP). On the other hand, the amount of accumulated interest continued to increase slightly, reaching an average of US\$24.5 billion during the 1988-1989 period; nevertheless, it represents a drop, in relation to GDP, from 3.4% in 1987 to 2.9% in 1989. This decrease was due to the fall in interest rates and to the virtual stabilization of the amount of the region's foreign debt in recent years (see table 5).

Costa Rica was the country where the accumulated interest on public foreign debt increased the most with respect to GDP: from less than 2% in the 1977-1979 period to 11% in 1982. From 1984 onwards, these amounts started to decrease, owing to the drop in interest rates on the international market. This downward trend grew sharper during 1988 and 1989, as a consequence of the debt reduction programme agreed to with the banks within the context of the Brady Plan. In addition, starting in 1986, the actual burden decreased more rapidly than the amount due, as a consequence of the suspension of foreign debt payments (see table 5).

More modest increases took place in other countries of the region, with a slow decline in recent years. Thus, in Mexico, interest rates on the foreign debt rose from almost 2% in 1980 to 4.8% in 1983 as a proportion of GDP, remaining approximately at this level until 1987, and dropping by more than one percentage point in 1988. In Brazil, they rose from 1% to 2.7% of GDP between the end of the 1970s and 1987, then decreasing to less than 2% in 1989. In Chile, the ratio between interest payments on public foreign

debt and GDP increased from almost 2% in 1980 to 7.4% in 1987, and then it progressively fell to 3.6% in 1989. Similar trends were observed in Bolivia, Peru, and Uruguay; in the first two countries, the reduction of the real burden was considerably greater (down to 2% and 0.2% of GDP, respectively), owing to their respective moratoriums.

Throughout the 1980s, Argentina, Ecuador and Venezuela recorded increases, albeit irregular, in the aforementioned ratio; thus, in 1989, the interest payments accumulated by these countries on their public foreign debt ranged from 5% (Argentina and Venezuela) to 8% (Ecuador) of GDP. Nevertheless, Argentina's suspension of payments reduced its financial burden to 1.5% of GDP in 1989, while Ecuador, from 1987 onwards, kept the ratio down to less than 4% of the product. In Colombia, interest payments on public foreign debt rose slowly; starting in 1985, however, that increase accelerated, reaching 3% of GDP in 1989 (see table 5).

The fiscal effort entailed in repaying the public foreign debt was even more arduous for those States that were forced to assume a sizeable amount of the private foreign debt that had originally been contracted without government guarantees. The additional fiscal effort of actually taking responsibility for private debt depended on various factors, such as the financial standing of the banks and private enterprises whose debt was assumed, the domestic commitments of the private sector whose debt was converted and the degree of preferential exchange-rate subsidizing that was granted for the repayment operations. In the worst-case scenario (where the public sector assumes the private debt with no counterpart private resources whatsoever), it could have meant an additional fiscal effort of 40% in Argentina, Chile and Venezuela, and of approximately 20% in Ecuador, Mexico and Uruguay.⁵

ii) *Interest payments on public domestic debt.* In many cases, domestic borrowing by the public sector led to difficulties in balancing public accounts, a situation which was aggravated by

⁴ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela.

⁵ See ECLAC, "The Transfer of Resources and Inflation", *Economic Survey of Latin America and the Caribbean, 1988* (LC/G.1577-P), chap. X, Santiago, Chile, November 1989, United Nations publication, Sales No. E.89.II.G.2.

the burden of the public foreign debt in a setting of rationed foreign capital inflows.

In countries with relatively advanced financial markets –such as Argentina, Brazil, Chile and Mexico– it was possible to fund public deficits through domestic borrowing (at least in an initial phase), especially if initial levels of domestic debt were low.

Nevertheless, the funding of sizeable portions of the public deficit through domestic borrowing is a process that can only go so far. As the domestic debt mounts, interest rates tend to rise; these, in turn, are usually pushed further upward by higher international interest rates and by the need to prevent or curb capital flight. All this tends to increase the burden of servicing the debt. Moreover, the need to attract additional net resources in order to fund either the primary deficit or the servicing of the foreign debt makes it necessary to accelerate the domestic debt's growth rate. This accounts for the increasing difficulty of selling public securities in most countries, except at very high real interest rates, which tend to push the deficit upwards, as has happened in Mexico, or with very short maturities, as in Argentina and especially in Brazil.

On the other hand, almost every country –but particularly those without a sufficiently developed financial market– has, by various means, forced the financial system to lend funds to the public sector. However, depending on the specific method used, the financial burden of the non-financial public sector or of the Central Bank increases. Thus, the sale of treasury, public-enterprise or government bonds has an impact on the financial burden of the non-financial public sector, as shown in table 2. Conversely, the banking authority has to deal with the interest payments on its own bonds that it has placed in the banking system –although for the purpose of funding loans to the national treasury–, and also with the cost of paying for

reserve requirements or other operations aimed at preventing any undesired expansion of the monetary base; these financial burdens are part of the quasi-fiscal deficit borne by the Central Bank. Lastly, in some instances (such as in Uruguay, for example, and more recently in Argentina) the raising of capital to finance the public sector was carried out through foreign-currency securities, and the interests owed on them were recorded as foreign.⁶

The nominal interest on public domestic debt is usually distorted by high rates of inflation, a situation which makes it difficult to interpret the economic significance of the fiscal deficit.⁷ When the real value of financial assets drops as a result of the increase in domestic prices, the economic agents seek a higher price for those assets, in order to compensate for depreciation. This has led to a systematic increase in nominal interest rates in local currency during the upsurges of inflation that have taken place in some countries of the region. Under these circumstances, the interest paid by the government for its operations on the domestic financial market cover two components: one is the earnings on capital –real interest– and the other represents the updating of the actual value of debt principal, which is eroded by inflation.⁸ In these cases, therefore, the public sector has had to make ever-increasing interest payments on the funding obtained through operations in local currency; however, a large proportion of these higher expenses have in fact been retirements of outstanding debt principal, in an amount equal to the inflation-caused depreciation of the domestic debt. Indexation mechanisms were adopted in some countries, through which the principal of the debt is periodically adjusted to reflect domestic price fluctuations; hence, the interest paid is only “real” interest. In these cases, the amount resulting from the readjustment is added to the capital, thus increasing the outstanding nominal debt.

⁶ In the absence of possibilities of attracting capital from the private sector, the governments' only domestic funding source has been the banking authority's financing help, spawning a vigorous expansion of the monetary base. Those loans generally do not accrue interest because it is understood that they are only a way for the government to appropriate the inflation tax.

⁷ This can also apply to interests in foreign currencies, in view of the fact that domestic inflation has had a similar effect on foreign loans, although to a much lesser extent than on the domestic debt.

⁸ Strictly speaking, it is the first component that should be entered –as is done in our database in the case of Brazil– in the government's current account, while the monetary updating component is really a disbursement from the capital account, due to the fact that it is a depreciation of the real value of the original debt.

In Mexico, interest payments in domestic currency rose substantially throughout the 1980s, amounting to 15% of GDP in 1987 as a result of sharp increases in nominal interest rates. Nevertheless, if the inflation element is not taken into consideration, the amount paid in interest was obviously lower and, in some years, even negative in real terms. Nominal interest rates kept pace with price fluctuations, although in 1987 they lagged behind due to the strong upsurge of inflation, which amounted to 150% during that year. From 1988 onwards, interest rates linked to the public domestic debt started to decrease as inflation slackened; thus, the financial burden of the public sector was noticeably alleviated.

In Brazil, the public sector has achieved a substantial portion of its funding through the sale of indexed securities on the domestic financial market, although it has also used non-indexed securities with nominal interest rates that implicitly incorporated the indexation effect. The elimination of the indexing mechanisms was attempted on a number of occasions, but it soon became necessary to readopt them because of the problems they posed in terms of public financing. The financial burden of the public domestic debt (including indexation costs) rapidly swelled as the decade evolved, owing to spiralling inflation, and ultimately amounted to almost 80% of GDP in 1989. If the inflationary effect on the domestic debt is not taken into account, interest-related expenditures were remarkably lower; however, short-term commitments were numerous and thus generated considerable uncertainty in the country, practically sending it on a hyperinflationary course in early 1990. Accordingly, the government declared an 18-month freeze on most financial assets in March, hoping to prevent new increases in interest rates and the collapse of public funding. What really happened was that most of the deposits in the banking system were assigned to cover the public-sector's huge deficits. Although the frozen funds were still being corrected for inflation, they lost real value when the freeze was declared. Likewise, from 1990 onwards, nominal interests fell as a result of lower inflation; moreover, in 1990, the fiscal deficit was drastically reduced owing to a drop in real interests.

In Argentina, interest payments on the public domestic debt amounted to almost 6% of GDP in 1982, but then fell sharply because the interest rates on the public debt were not indexed to inflation; hence, the level of domestic indebtedness also shrank. In the following years, the Central Bank acted as a conduit for domestic financing; thus, the impact of the latter was not reflected in the interest payments from fiscal accounts. However, its macroeconomic effect was quite strong because minimum reserve requirements were instituted so as to absorb the excess money supply that was generated by the financing of the public sector. These deposits were attracted at high real interest rates, with seven-day maturities, which led to an explosive situation. This made it imperative to take drastic steps to transform these securities issued by the Central Bank into long-term, foreign debt bonds with interest rates similar to those on the international market.

The interest on Chile's public domestic debt rose substantially, starting in 1983, as a result of its financial crisis. The interest paid by the non-financial public sector, which in the 1980-1982 period accounted for 0.2% of GDP, rose to 3% in 1985. Likewise, interest payments by the Central Bank in local currency, which had been practically non-existent at the beginning of the decade, became quite high from 1985 onwards; thus, halfway through the decade, local-currency interest expenditures by the public sector as a whole rose to almost 5% of GDP. This trend in interest payments illustrated the strong expansion of the public domestic debt, which rose from less than US\$2 billion in the 1981-1982 period to more than US\$8 billion in 1986-1987.

In Costa Rica, interest payments in local currency have been relatively significant. At the beginning of the decade, they amounted to 3% of GDP, but they then increased to 6% during the 1985-1987 period. In Colombia, interest payments on the public domestic debt have been of minimal importance: between 1978 and 1984 they amounted to 0.6% of GDP; later on, they increased, but only to slightly more than 1%. In Venezuela, during the first years of the decade, the interest paid in local currency by the non-financial public sector amounted to slightly less than 2%, decreasing in the following years

to less than 1%. In Uruguay, the interest paid in local currency by the non-financial public sector has been practically nil because all financing is carried out in foreign currency, even through the sale of securities among residents. The Central Bank, however, has paid significant amounts of interest in local currency, but that is accounted for by high nominal interest rates, which reveal the accelerated pace of inflation of recent years.

c) Trends in basic expenditures

The growing interest burden within a context of external and domestic financial restrictions for the public sector had more of a dampening effect on basic expenditures –recurrent and capital– than on aggregate expenditures, or, in other words, it tended to slow the growth of the former compared to the latter. That downward pressure on basic expenditures was temporarily eased by moratoriums on foreign debt interest payments, in those countries and time periods in which such moratoriums were declared. Nevertheless, interest payments were very seldom reduced by these means;⁹ generally speaking, the financial constraints that had forced the public sector to default on its foreign debt payments were so severe that it also had no alternative but to reduce its basic expenditures. In Argentina, Bolivia, Costa Rica, Ecuador and Peru –countries that at one time or another during this decade defaulted on their foreign debt payments– basic expenditures ultimately tended to sink lower than aggregate expenditures did. Likewise, in Brazil, basic expenditures fell –in real terms– by 16% between 1980 and 1984; they subsequently rose again, but to a much lesser degree than aggregate expenditures (see table 6 and figure 1).

In those countries that avoided defaulting on their interest payments, basic expenditures were clearly crowded out by those payments. Both in Chile and in Uruguay, basic expenditures recovered at a slower pace than aggregate public expenditures. In Colombia, their growth rate was

slower than that of aggregate expenditures, being 30% higher in 1989 than in 1980. In Guatemala and in Venezuela, they dropped by a greater proportion than aggregate public expenditures. In Mexico, the remarkable increase in public debt interest payments (fueled, during the 1986-1987 period, by the unprecedented buildup of domestic debt) forced basic expenditures downwards; in 1989, they were 18% lower –in real terms– than in 1980, contrasting with the already mentioned increase in aggregate expenditures during that period (see table 6 and figure 1).

i) *Public consumption expenditures.* In the face of financial constraints, the proportion of public spending allocated for consumption expenditure –salaries, wages and current purchases relating to the management and delivery of governmental services– showed a higher relative elasticity. Against a background trend towards a reduction of the real level of public spending, and after a widespread drop during the first years of the crisis, the structural inertia of consumption expenditures led to the total or partial recovery (depending on the case) of their relative weight in aggregate expenditure. Only in some countries (such as Costa Rica and Uruguay) did new adjustments –towards the end of the decade– once again reduce the ratio of consumption spending to aggregate public expenditures. Conversely, in Chile, Mexico and Venezuela, the trend towards the reduction of consumption spending triggered by the crisis remained unchanged throughout the decade (see table 2).

Aggregate public consumption expenditure fell substantially in 13 Latin American countries between 1981 and 1984, in real terms.¹⁰ They later experienced a recovery, however, ultimately reaching, in 1989, a level 12% higher than that recorded for 1981 (see table 7). Nevertheless, this trend in aggregate regional consumption expenditure has been strongly influenced by Brazil's outlays, which behaved differently from those in the rest of the region. If

⁹ Total expenditures, excluding interest payments, grew in real terms only in 1986 in Costa Rica (out of the following default periods with the commercial banks: 1982, 1984, and 1986-1989); in Peru, also in 1986 (during the 1984-1989 default period); and, in Bolivia, only in 1984 and 1987.

¹⁰ The series in table 7, which were compiled especially for this study, were obtained by deflating aggregate governmental consumption expenditures at current prices –like the other items in public accounts– with the GDP deflator. Thus, those series do not progress in the same manner as the government consumption series included in national accounts; these are generally obtained from quantum indexes that represent either government employees or the population that presumably receives government services.

Brazil is excluded from the calculation, consumption expenditures show a downward trend throughout the decade, albeit with considerable fluctuation. These trends were due to the decline both in civil servant remunerations and in the purchase of goods and services.

The most dramatic drop in public consumption expenditures took place in Peru, where it contracted sharply from 1984 onwards; it experienced only a partial recovery during the 1986-1987 period and plummeted in 1988, owing to the severe macroeconomic imbalance; as a result, by the end of the decade the real level of expenditures was one third of that recorded for 1980, and one fourth of the peak attained in 1982. The decline in the public sector's real wages by more than half during the crisis years also accounted for this collapse of expenditures. A considerable contraction also took place in Chile, where by 1983 consumption expenditures in real terms had fallen by 25% with respect to the average level of the 1977-1980 period; it was only during the 1988-1990 period that an 8% recovery occurred. Venezuela also experienced a sizeable drop (47%) between 1982 and 1985; after a modest recovery, the new adjustment in 1989-1990 brought down the actual level of consumption expenditures to less than half that prevailing before the crisis (see table 7).

In Ecuador, consumption spending decreased throughout the decade, albeit unevenly, so that in 1990 they were 20% lower than in 1980. In Guatemala, the downward trend was somewhat steeper; thus, in 1990, expenditures were only 70% of those recorded for 1980. Uruguay underwent a deep slump between 1982 and 1985, a slight recovery during the 1986-1988 period, and a new downturn at the end of the decade; thus, in 1990, consumption expenditures were 20% lower than in 1980. In Mexico, consumption expenditures soared in 1981, then fell during the following two years (-20% in 1983). They recovered their 1980 levels in 1984-1985, subsequently dropping by 14% in 1988; finally, in 1990, they recovered their 1980 level, in real terms, amounting to only 87% of that recorded for the 1981-1982 period. In Bolivia, government consumption expenditures shrank by almost 40% between 1980 and 1983; they partially recovered, with ups and downs, during the following years until, in 1990, they reached a level 6% below the

one recorded a decade before. In Costa Rica, the initial adjustment also brought down the real level of expenditures in 1982 to a level 30% lower than that recorded for 1980; the subsequent steady recovery peaked in 1990 at a level similar to that of 1980. In Argentina, consumption expenditures nosedived in 1981 and 1982 (-27% in all), but they recovered most of this loss in 1983; until 1988, levels were, on average, similar to those recorded during the 1980-1981 period; they later fell (-16%) as a result of hyperinflation and of adjustment measures taken to deal with the crisis (see table 7).

Brazil, Colombia and Paraguay, on the other hand, substantially expanded their public consumption expenditures, although with widely differing paths. In Brazil, they remained relatively stable between 1980 and 1982, declining somewhat during 1983 and 1984; however, after the change of government, consumption expenditures shot up from 1985 onwards. Thus, even after the 1990 adjustment, they were nearly 50% higher than at the beginning of the decade. On the other hand, in Colombia, consumption spending increased steadily between 1978 and 1983; it fell slightly during the following two years, owing to the adjustment measures taken at that time, and lastly it resumed its upward trend until, in 1989, it almost doubled the figures recorded for 1978. Paraguay witnessed a vigorous expansion in its consumption expenditures; after a considerable slump, between 1984 and 1988, they experienced a recovery at the end of the decade, surpassing the 1980 levels by more than 30% (see table 7).

Beyond the specific behaviours of the real levels of aggregate public consumption expenditure in each country throughout the crisis decade, there was a widespread drop (with a couple of exceptions) in per capita public consumption expenditure. The countries that had recorded the highest per capita expenditure levels at the beginning of the decade (Venezuela, Argentina, Uruguay, Mexico, Chile and Costa Rica) found them drastically diminished at its close. But countries that had recorded substantially lower per capita expenditure levels before the crisis, such as Bolivia, Peru and Guatemala, also saw them severely reduced by the end of the decade; in the last two cases, they plummeted to ridiculously low levels. Only

Brazil and Colombia managed to end the decade with higher real public consumption expenditures, on average, than those of the 1980-1981 period (see figure 2).

The drop in consumption expenditure had a negative effect on the coverage, regularity and quality of social services, especially in those countries where they were extensively provided by the State and had a firm, decades-long tradition. The quality of those services was markedly affected by the lack of resources, both in administrative areas as well as in education, health and social welfare. This deterioration aggravated distributive effects of the adjustment process which the countries in the region have had to cope with in the past decade, since for a large segment of the population the loss in real income was exacerbated by the reduced coverage and lower quality of essential public services. The higher-income segments of the population sought protection in private services that had previously been the State's exclusive domain; meanwhile, worsening quality notwithstanding, the hard-hit middle class defended its share of access to available public services. Under these circumstances, it became increasingly difficult for public policy to provide assistance to the most destitute and poverty-stricken sectors which, in turn, were expanding considerably as a result of the severe crisis.

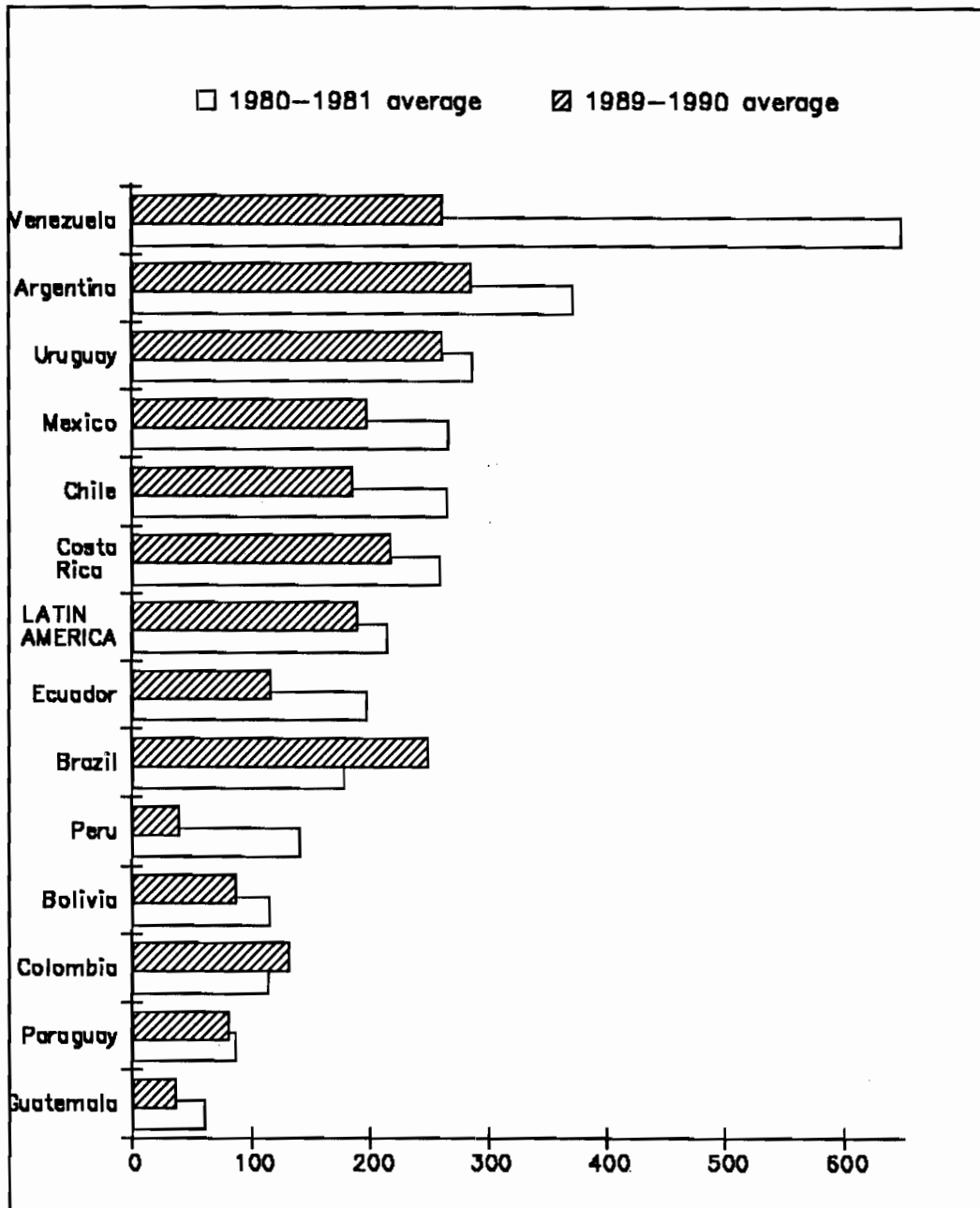
ii) *Transfers to the private sector.* Generally speaking, government transfers to the private sector include subsidies, social security benefits, and other transfer payments, covering widely varying expenditure flows in every country. Thus, these outlays have developed in a particular way in each of them throughout the decade, depending on the role they played in the fiscal adjustment process. On the other hand, the relevance of these expenditures differs widely from one country to another. Thus, Chile had the highest level of transfers, in GDP terms (amounting to almost 14% during the 1980-1981 period), given the considerable amount of social security spending and of subsidies for private education. Uruguay also recorded a high proportion (more than 10%) at the beginning of the decade, as a result of the substantial outlays for its social security system. Argentina also had high transfer levels (approximately 10% of GDP), although its social security expenditures are

slightly lower than in the above-mentioned cases. In Brazil, transfers to the private sector amounted to almost 8% of GDP at the beginning of the decade, two thirds of which correspond to social security outlays. Peru, in turn, recorded heavy transfer payments in the first half of the decade (almost 7% of GDP during the 1980-1981 period, and 10% in 1985), which consisted mainly of food subsidies; nevertheless, social security expenditures were low. In the other countries of the region, transfer-related expenditures were markedly lower during the 1980-1981 period: slightly more than 4% of GDP in Colombia, 3.5% in Costa Rica, 2.5% in Bolivia, and between 1% and 2% of GDP in Guatemala, Mexico, Paraguay and Venezuela (see table 2).

In the aftermath of the crisis decade, the real value of transfers to the private sector has increased in some countries. In Chile, social security spending grew noticeably from 1982 onwards, amounting to 50% of aggregate fiscal expenditure. This was mainly as a result of the sweeping reform of the social security system, through which the State assumed the old system's commitments; meanwhile, the new system became independent from the State. The other transfers to the private sector were also important, owing to the substantial growth of subsidies for private education as a proportion of GDP until 1982, even though they later fell. To sum up, in 1987 the Chilean Government had increased the value of its transfers to the private sector by 20%, amounting to more than 14 percentage points of GDP. In Uruguay, a legislative reform enacted at the end of the previous decade brought about a sharp increase in social security expenditures between 1980 and 1982. As a result of the adjustment measures that were taken afterwards, these expenditures fell in 1983-1985; however, starting in 1986, they rose once again as a result of political changes the previous year. Thus, transfers amounted to more than 40% of aggregate expenditure and 12% of GDP, exceeding the real average for the 1980-1982 period. In Colombia, transfers, representing one fourth of aggregate spending, became less significant as the latter increased, but the average of transfers in 1987-1989 was 13% higher—in real terms— than for 1980-1981. Likewise, in Brazil, the share of transfers in the growing amount of expenditure decreased

Figure 2

LATIN AMERICA: GENERAL GOVERNMENT
CONSUMPTION IN PER CAPITA TERMS ^a
(1980 dollars)



Source: ECLAC, on the basis of official figures.

^a Countries are ranked according to the 1980-1981 figures.

systematically and dropped by one percentage point as a proportion of GDP. Nevertheless, the real level of transfers to the private sector was somewhat higher than at the beginning of the decade, although, within this aggregate, social security benefits decreased (see tables 2 and 3).

One group of countries, where transfers represented a small proportion of public expenditures and of GDP before the crisis, was able to increase the percentage of resources allocated to them. Guatemala, Paraguay and Venezuela managed to augment the amount of transfers to the private sector substantially, thereby considerably increasing their real value. Ecuador, in turn, during the second adjustment of its fiscal expenditures in this decade, was able to maintain its level of transfers somewhat above that of the 1980-1981 period (see figure 3.)

Other States, however, were forced to reduce the percentage of resources transferred to the private sector—social security and other types—and especially to reduce them in real terms. In Argentina, only in 1987, after the 1982-1985 adjustments, did transfers regain their average real level for 1980-1981; the subsequent hyperinflationary periods, and the adjustments which they triggered, pushed the real level of these expenditures down to 14% below that average, even though they still amounted to more than 9% of GDP. In Bolivia, where repeated adjustments brought the real level of transfers down to 30% of the pre-crisis average. Likewise, in Costa Rica in 1987, after two adjustment periods—with an intermediate period of partial recovery—, transfers to the private sector represented a substantially reduced share of public expenditures, shrinking to 2.5% of GDP, with a real level 22% lower than in 1980-1981.

In Peru, the relative weight of transfers increased halfway through the decade as a result of expanded food subsidies, while social security spending continued to represent relatively smaller proportion. Transfers subsequently plummeted, owing to the public financing crisis and to the rapid acceleration of inflation; thus, they fell to much lower levels than those recorded for the previous decade.

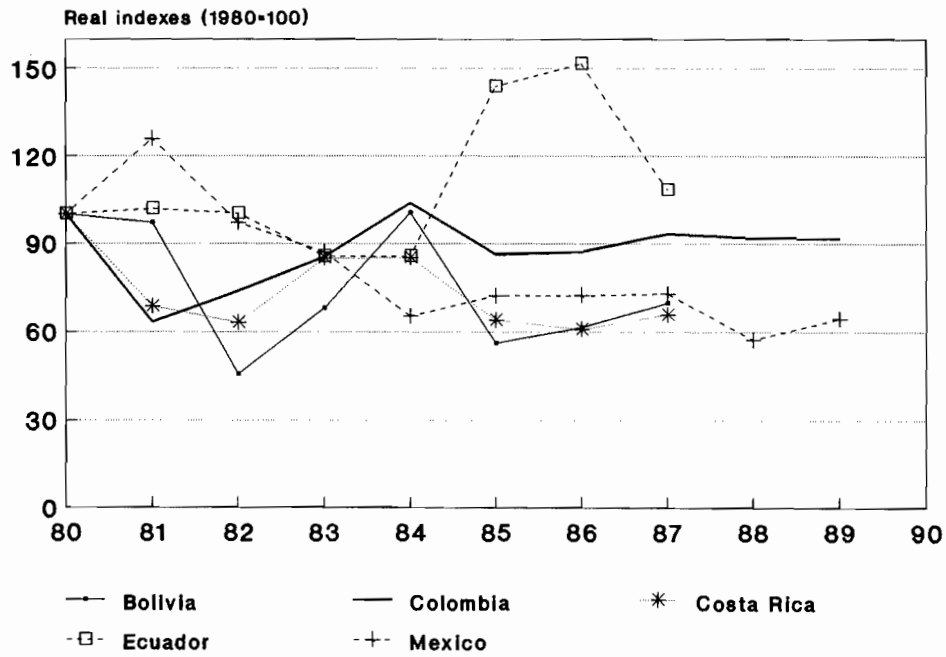
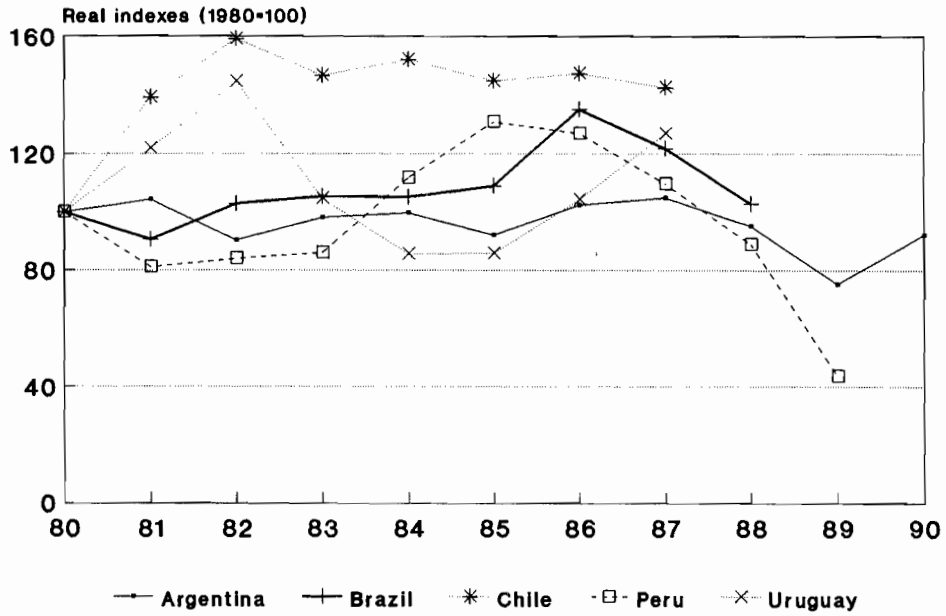
Transfer outlays also decreased in Mexico, from 8.3% in 1981 to 5.1% in 1988. These reductions were mainly due to subsidies for the

private sector because, for the most part, social security expenditures remained consistently low.

The reduction in transfer expenditures tended to aggravate the constraints on social security, which is a very serious problem in almost every Latin American country. The wide-ranging coverage of social security, backed by State policies since the 1950s, has dramatically regressed in recent years, with dire consequences for large segments of the population. The adjustment has tended to have a severe impact on the real value of pensions, since very few countries put away the savings generated by the social insurance system during its expansion. Legislation has become obsolete in the current financial situation; however, not even the attempts at reforming it have come up with a solution in terms of entitlements for the currently retired population. Moreover, many activities to which the public sector allocated large amounts of subsidies by way of credits (such as low-income housing subsidies) were severely affected by budgetary constraints and others imposed by the adverse macroeconomic environment.

iii) *Public investment.* The percentage of capital expenditures in the aggregate expenditure of the non-financial public sector dropped significantly in almost every country in the region; it was without doubt the item most affected by the spending slowdown. By the end of the decade, only a few countries (Bolivia, Costa Rica, Paraguay and Venezuela) were able to recover or even exceed (as did Chile) the percentage of public expenditure allotted to investment prior to the foreign credit squeeze (see table 3). Still, owing to the widespread downward trend in aggregate public expenditure, only a small number of countries (Brazil, Colombia, Chile and Paraguay) recorded higher real levels of public investment in the 1987-1989 period than those prevailing at the beginning of the decade. During this period, the most substantial drops in real public investment took place in Peru, Mexico, Argentina, Bolivia, Costa Rica, Guatemala, Uruguay and Venezuela. In Ecuador, despite the fact that investment suffered considerable decreases, it later recovered its 1980 level. As far as the region as a whole is concerned, public-sector real investment dropped by around 10% in the same period (see table 8).

Figure 3
LATIN AMERICA: SOCIAL BENEFITS AND TRANSFERS IN SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

In Peru, real public investment experienced a vigorous upturn during the 1981-1982 period (33% on average with respect to 1980) but later contracted to 40% of that average. In Venezuela, the level of public investment was quite substantial at the beginning of the 1980s (16% of GDP), owing to high oil revenues and easy access to international financial markets; it subsequently began to decline, and by 1985 had fallen to half its 1980 level. It then recovered partially, falling again in 1989 as a result of the adjustment and stabilization programme. In Mexico, after soaring by 25% in 1981, owing to extensive oil profits and capital inflows from abroad, real public investment decreased steadily during the rest of the decade; thus, 1989 levels were less than half those recorded for 1980. A similar phenomenon took place in Uruguay, where public investment declined between 1983 and 1987, to 10% lower than in 1980. Argentina's real investment decreased steadily during the first half of the decade; after a partial recovery in 1986-1988, it plunged spectacularly until, in 1989, it was 40% lower than in 1980. In Costa Rica, public investment levels also fell until, in 1987, they amounted to slightly more than 60% of those recorded for 1980. In Guatemala, the drop in investment by the central government was even larger. In Bolivia, it decreased by more than half between 1980 and 1983, but it experienced a partial improvement in the following years.

Chile is an outstanding example of the States that were able to increase their real investment by the end of the decade. In 1986-1987, it managed to double its 1980-1981 levels.¹¹ Likewise, Paraguay's investment, in 1987-1988, was 40% higher, on average, than in 1980-1981. Colombia, in 1987-1989, also managed to attain a real investment level that was 26% higher than at the beginning of the decade. In Brazil, after the slump between 1982 and 1985, public investment surpassed, in 1987-1988, the level that prevailed at the beginning of the decade. In Ecuador, however, the 1986-1987 recovery only managed to restore that level (see table 8).

The decline in public investment was not offset by an equivalent increase in private investment that could have filled the vacuum; this was due, on the one hand, to the instability generated by the crisis and its aftershocks, and, on the other hand, to the complementary relationship between public and private investment because, in many instances, the latter is encouraged by the former. Under these circumstances, the private investment projects carried out during the period were usually those that offered a higher private profitability and, even in the most unstable situations, profit margins that guaranteed a quick return on investment. As a result of these factors, the downward trend in public investment has played a crucial role in the reduction of the gross capital formation ratio in the region, from 23% of GDP in 1980 to 16% in 1990. In many countries (Brazil, Costa Rica, Ecuador, Guatemala, Mexico, Peru and Venezuela), the drop in the public investment/GDP ratio amounts to 50% or more of the decrease in the coefficient of gross fixed capital formation in the economy that took place between 1980-1981 and 1986-1989. In others (Argentina, Bolivia and Uruguay), the drop in the public investment ratio that occurred between both periods was overshadowed by substantially greater decreases in private investment. In Chile, on the other hand, the public investment/GDP ratio rose over five points, far outweighing the severe slump in private investment. Something similar took place in Paraguay, although the moderate increase in the public investment ratio served only as a minor counterpoise to the drop in private investment. In Colombia, the rise of nearly one point in the gross fixed investment ratio was entirely due to private investment, public investment having retained its share in the product without variation (see table 9).

This downward trend in investment rates has clearly jeopardized future economic growth. Public infrastructure areas, of considerable importance to private investment and social welfare, were hit the hardest, because investment programmes almost came to a halt due to the drastic tightening of medium-term credit.

¹¹ It should be noted, however, that this level was 15% lower than the 1977-1979 average, and less than half of the maximum attained in 1971-1972.

2. Trends in fiscal revenues

a) Aggregate current revenues of the non-financial public sector¹²

During the 1980s, current revenues of the public sector in the countries of the region evolved in different ways, although in almost every case they underwent severe reductions; at the end of the crisis decade, real levels in some countries were lower than at the beginning, while others had achieved considerable increases. The substantial drops in revenue, when they took place, were mainly linked to the economic slump, to worsening export prices and to upsurges of inflation. The widespread crisis at the beginning of the decade reduced fiscal revenues in the region as a whole; only in 1985 did they manage to surpass the real level attained in 1980, and they remained—with fluctuations—6% higher than that level between 1986 and 1989 (see table 10).

The most pronounced slump took place in Peru, where fiscal revenues fell so sharply that, in 1989, they amounted to only one fourth of the level recorded for 1980 and 1985. In Venezuela, the trend was also negative; thus, in 1989, receipts were only 70% of what they had been in 1980. In Argentina, the decline between 1981 and 1984 was followed by a recovery from 1985 to 1987; however, after the subsequent drop, revenues were 20% below the level achieved in 1980. Uruguay's fiscal revenues also dwindled between 1981 and 1984; afterwards, they experienced an upturn until, in 1988, they equalled their 1981 levels, although they declined once again in 1989 (see figure 1 and table 10).

In Chile, fiscal revenues fell drastically during the economic recession (1982-1983), but from 1984 onwards they gradually recovered and in 1989 were 30% higher than 1980 levels, the pre-crisis maximum. In Guatemala, the trend was negative until 1984, but it improved between that year and 1988, declining afterwards once more. In Bolivia, revenues plummeted during the 1982-1984 period, as a result of the country's runaway inflation during those years;

nevertheless, they experienced a remarkable recovery, albeit with fluctuations, ending the decade at a level 9% lower than in 1980. In Ecuador, revenues increased steadily until 1985-1986; then, after a sharp decline, they recovered until they exceeded 1980 levels by 22%.

In other countries, however, there were more definite trends towards real expansion of fiscal revenues, and they had achieved substantial increases by the end of the decade. Until 1984, Mexico's revenues rose progressively. They dropped in the following years, recovering once more from 1987 onwards; thus, the highest levels for the decade were attained in 1989 (32% higher than in 1980). Colombia, Costa Rica and Paraguay overcame the slumps of the early crisis years and afterwards increased their revenues until they surpassed 1980 levels by 52%, 38% and 20%, respectively. In Brazil, current public-sector revenues rose—after the decrease that took place at the beginning of the decade—until, between 1986 and 1987, they attained levels 23% higher than in 1980; however, after a subsequent drop, they ended the decade at a level only 16% higher than in 1980 (see figure 1 and table 10).

A careful look at the trends in overall fiscal capacity (tax and non-tax) in the countries of the region throughout the decade, beyond the fluctuations mentioned, reveals different patterns of structural change. On the one hand, certain States in which fund-raising by borrowing had amounted to a substantial percentage of GDP before the crisis, ultimately raised the real level of their revenues, in part owing to the increase in GDP and in part because that percentage grew. These were Mexico (from 21% to almost 25% of GDP in 1987-1989), Colombia (from more than 18% to almost 22%) and Costa Rica (from 32% to 37%). Chile also augmented its already large tax receipts (from more than 34% in 1980-1981 to 36% in 1987-1989), thus adding to the effect of growth on real receipts.

¹² Non-financial public-sector aggregate current revenues are defined here as the sum of government current revenue plus the current savings of State enterprises. In turn, these savings belong to the operational balance (current revenues minus the operational expenditures of those enterprises), not including interest payments in these costs.

A second group of countries obtained more real resources between 1987 and 1989 than at the beginning of the decade, basically owing to their higher level of economic activity, since the fiscal revenue/GDP ratio remained mostly unchanged: around 24% in Brazil, and above 12% in Paraguay. On the other hand, Ecuador's fiscal capacity decreased (from 27% to 25% of GDP), in spite of which its fiscal resources increased as a result of its heightened level of activities towards the end of the decade.

In a third group of countries, the fiscal capacity/GDP ratio remained unchanged, but fiscal revenues did not increase. Uruguay maintained it at slightly more than 27%, but general economic stagnation meant that its percentage of fiscal revenues also remain at a standstill. Bolivia also ended the decade with a current revenue/GDP ratio similar to the one prevailing before the crisis, but the recession brought real revenues down to below pre-crisis levels (see table 11).

Argentina is one of the countries where fiscal revenues fell markedly, in its case due to the combined effects of a declining level of activity and a drop in the fiscal capacity/GDP ratio (from approximately 27% to less than 25%). In Peru, the significant decrease in this coefficient (from 25% in 1980-1981 to less than 13% in 1987-1989), owing both to the descent in tax receipts and to the reduction in the non-tax revenues/GDP ratio, further reduced the level of activities –especially in 1989–, triggering a sharp drop in public sector revenues. In Venezuela, fiscal receipts also nosedived, both in real terms and as a percentage of the product (from 37% in 1980-1981 to 26% in 1987-1989), but that was mainly due to the drop in oil revenues (see table 11).

These changes were brought about by sizeable fluctuations in the fiscal capacity/GDP ratio during the 1980s. The sharpest fluctuations were recorded in Bolivia, Peru, Costa Rica and Venezuela, where the difference between the minimum and maximum values of that ratio exceeded 10 percentage points. In the first two cases, this was attributable to dipping tax revenues and savings by State enterprises, due to the runaway inflation faced by both countries. In Costa Rica, as the 1970s drew to a close, the public sector's current revenues were in a slump,

but they later recovered when inflation was brought under control and the situation of foreign payments was restored; the increase in revenues –owing both to higher tax receipts and to greater savings by State enterprises– was of almost 12 percentage points, in GDP terms. In Venezuela, however, fiscal revenues dwindled due to the sharp drop in oil prices, after the high price levels that prevailed at the beginning of the 1980s. In this period, almost all the other countries recorded fluctuations that ranged from five to seven percentage points of the product between their minimum and maximum levels of fiscal capacity. Paraguay and Uruguay are the only countries where the variations in the fiscal revenues/GDP ratio were less pronounced (see table 12).

The sharp fluctuations in fiscal revenues were due to the trends in tax receipts and non-tax receipts. States with high revenues from export products (oil and copper) have gone through severe variations in their fiscal receipts, since profits have been affected by the instability in the prices for these products on the international markets. Other substantial fluctuations were generated by the drop in tax receipts, which was set off by the upsurge of hyperinflation in certain countries –Bolivia, Peru, and, to a lesser extent, Argentina–, or by the severe recessions that took place in most of the economies in the region.

b) Origins of the variation in fiscal capacity

The fluctuations in fiscal capacity witnessed during this decade were attributable to positive and negative changes of various dimensions in each one of its components, with substantial differences among the countries of the region. Thus, most of those that were able to increase their fiscal capacity between the 1980-1981 and 1987-1989 periods managed to do so mainly due to increased savings by State enterprises (with respect to GDP), while, in a fourth country, the increase stemmed from higher tax receipts. In Costa Rica, more than half of the 5% increase in fiscal capacity (in GDP terms) came from savings by State enterprises, 40% from higher tax receipts, and almost one sixth from the relative rise in contributions to the social security system; meanwhile, the proportion of non-tax revenues decreased. In turn, the higher tax revenues are

exclusively accounted for by the 4% increase in the proportion of GDP represented by foreign-trade tax receipts. In Colombia, the 3% rise in fiscal capacity (in GDP terms) was due to higher savings by State enterprises and to an increase in non-tax revenues; meanwhile, the share of higher tax receipts (mainly from direct and foreign-trade taxes) was minimal. In Chile, however, the growth in fiscal capacity (of 2% in GDP terms) between the two periods was solely based on a higher level of savings by State enterprises, which amounted to 5% of GDP, and on copper taxes (almost 2%), since social security contributions dropped by more than 3%, in GDP terms, and direct tax receipts (aside from the ones related to copper) declined. Conversely, in Mexico, the growth in fiscal capacity (of 3.5% in GDP terms) was the result of higher tax receipts, especially those from excise taxes, since the share in GDP of savings by State enterprises as a whole remained stable, despite of the fact that those corresponding to the oil sector dropped due to the decrease in international crude oil prices (see table 13).

In the countries where fiscal capacity remained relatively stable, or where it underwent a slight decline during the decade, its various components also experienced minimal fluctuations. In Uruguay, the somewhat higher than 0.5% growth was mainly due to the increase in social security contributions. In Guatemala, fiscal capacity remained practically unchanged, as did each one of its components. In Brazil, the slight drop in the current revenue/GDP ratio was a result of a modest decrease in tax receipts and in State enterprise savings, as well as of a greater contraction (almost 1% of GDP) in social security contributions; meanwhile, non-tax receipts increased by almost 1%, in GDP terms. In turn, the drop in tax revenues was due to a decrease in excise and foreign-trade tax receipts; however, it was partially offset by higher direct tax receipts. In Paraguay, the slight reduction in fiscal capacity resulted from a 1% drop in tax receipts, in GDP terms, which was partially counterbalanced by a moderate increase in State-enterprise savings.

The 2% decrease of fiscal capacity in Argentina, in GDP terms, was due to a drop in tax receipts and in non-tax revenues. In Ecuador, the almost 2% decline in fiscal capacity came mainly

as a result of the almost 4% decrease in direct tax receipts and, to a lesser extent, as a consequence of lower social security contributions, non-tax revenues, and State enterprise savings; nevertheless, it was partially lessened by the more than 3% increase in excise-tax receipts (see table 13).

In the two countries where fiscal capacity fell sharply throughout the decade, the causal factors were different. In Peru, the decrease (12% of GDP) was widespread, since all of the components dropped significantly, especially tax receipts (almost 7% of GDP) and State-enterprise savings (almost 4%). In Venezuela, the decrease in fiscal capacity was similar, but it was mainly a consequence of the drop in direct taxes paid by the oil sector (11%), owing to the downward trend in oil prices on the international market. This drop was minimally offset by higher non-tax revenues, while contributions for social security also diminished (see table 13).

c) Tax receipts

The tax yield in Latin American countries underwent sharp fluctuations throughout the 1980s. During the first years of the decade, at the height of the economic crisis, real tax revenues fell in almost every country of the region; only Mexico maintained an upward trend until 1985. The most substantial reductions took place in Bolivia (67% in 1982-1984), Venezuela (49% in 1982-1986), Guatemala (43% in 1981-1984), Peru (37% in 1981-1983), Uruguay (35% in 1982-1984), Argentina (22% in 1981-1984) and Chile (17% in 1982-1983).

Real tax yields also diminished in Colombia, Ecuador and Paraguay (between 10% and 15%), while, in Brazil and Costa Rica, decreases of only 3% took place in the first half of the decade (see figure 4 and table 15).

Starting in 1985, tax yields began recovering their levels in real terms in many of those countries; in 1990, some (Bolivia, Colombia, Costa Rica, Ecuador and Mexico) even managed to exceed their 1980 levels by about 40%, in real terms. In Brazil and Chile, the accumulated increases in tax receipts during the decade amounted to 22% and 17%, respectively; meanwhile, revenues in Paraguay and Uruguay only returned to their pre-crisis levels. On the

other hand, tax yields in Guatemala and Venezuela only partially improved; thus, by 1990, they were still 15% and 22% lower, respectively, than in 1980. In Argentina, real tax yields experienced a partial recovery starting in 1985, but they dropped again at the end of the decade, reaching their lowest level in 1990 (28% less than in 1980). In Peru, after a relative recovery experienced during 1984 and 1985, tax receipts plummeted in the second half of the decade; thus, in 1990, they amounted to one third of what they were in 1980 (see figure 4).

As a consequence of these widely varying developments, real tax receipts for the region as a whole decreased by more than 5% in 1982, later recovering gradually until 1986, when they attained a level 8% higher than in 1981. In the following years, they stood at a level slightly lower than that maximum, reaching it once more in 1990, as a result of which the real increase in accumulated tax receipts during the decade was similar to the growth in GDP (see table 15).

The shrinking of the tax base and accelerated inflation account for the drop in tax receipts during the first half of the decade. The reduction of the tax base, in turn, was brought about by recession, the drop in imports, and capital flight, which had a negative impact on a number of kinds of taxes. This downward trend was also aggravated by the increase in tax evasion, which was spurred, in turn, by the financial constraints faced by the private sector, the "dollarization" that took place in some countries and the impairment of the central government's administrative efficiency, especially in those instances when across-the-board cuts in public expenditures were put into effect. On the other hand, the growing informalization of certain economies further compounded the drop in tax revenues.

During the 1980s, many countries underwent a substantial slowdown in activities. Argentina, Nicaragua and Peru recorded an accumulated decrease in GDP of 13%, 17% and 10%, respectively, between 1981 and 1990. Other countries experienced significant drops in certain periods, such as Bolivia, Costa Rica, Chile and Uruguay in the first years of the decade, and, more recently, Brazil and Panama. The decrease in imports was also substantial; they fell by 60% in Argentina, by approximately 25% in Ecuador

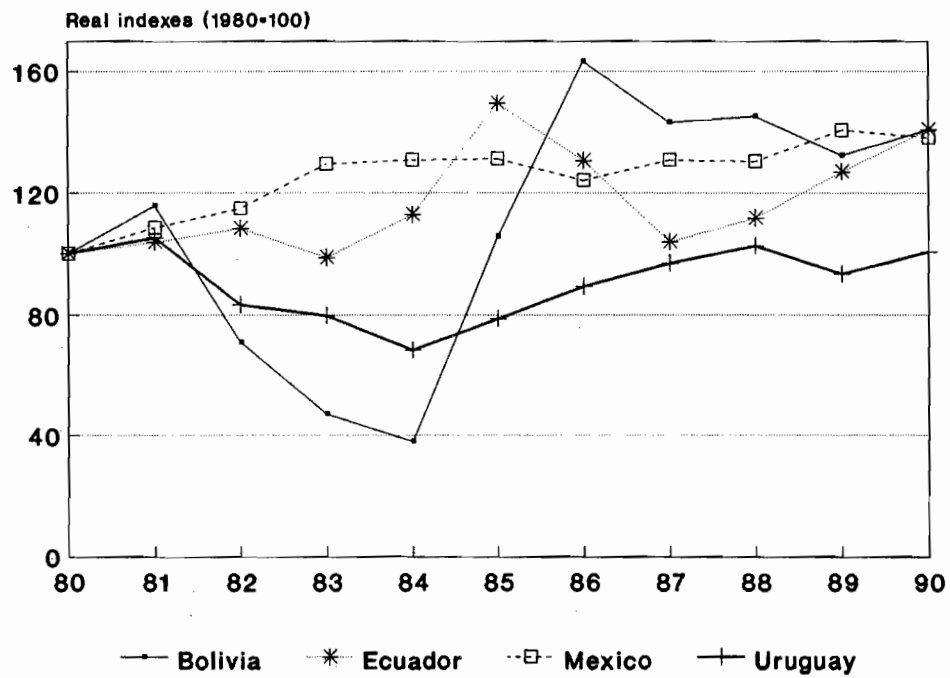
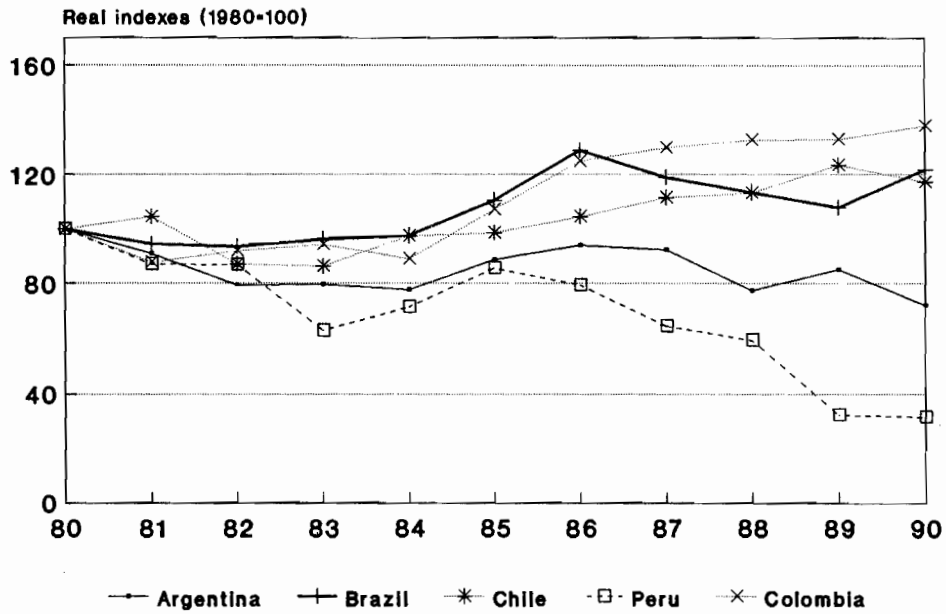
Uruguay, and Venezuela, and by 13% in Brazil. This contraction in foreign purchases reduced the tax base of a number of activities that, in some of those countries, had been an important source of public-sector resources.

In turn, worsening inflation pushed down the real tax yield, as a result of the time lag between the moment when taxable income is generated and its real collection by the State (the so-called *Olivera-Tanzi effect*). It should be especially kept in mind that five countries –Argentina, Bolivia, Brazil, Nicaragua and Peru– underwent periods of hyperinflation, during which fiscal revenues appreciably decreased in real terms, although they later recovered when the rate of price increases slowed down. Other countries also faced vigorous upsurges of inflation, such as Uruguay between 1983 and 1985 and then between 1988 and 1990, Costa Rica in 1981 and 1982, Ecuador in 1988, Mexico in 1982 and the 1986-1987 two-year period, Guatemala, Honduras, Paraguay and the Dominican Republic in 1990, and Venezuela in 1989. The consequences were harsher in those countries without a tradition of inflation, since the acceleration of price increases triggered an immediate drop in real yields, due to the absence of indexing mechanisms for taxable income or for the receipts from various taxes.

In order to make up for the drop in fiscal revenues and the increase in fiscal expenditures throughout the 1980s, most of the countries reformed their tax systems, although frequently with disappointing results, whether as a result of the meager increase in yields or due to their short-lived effects.

Generally speaking, tax revenue adjustments for budget-balancing purposes were minimal. Among the main exceptions to this are Bolivia, where tax receipts between 1988 and 1990 surpassed 1980-1981 levels by 4%, in GDP terms, and Mexico, where at the end of the decade tax receipts were 3% higher, in GDP terms, than 1980-1981 levels; meanwhile, in Costa Rica, they grew by 1.5% of GDP during the same period. Colombia has periodically carried out tax reforms that have enabled it to keep tax revenues at approximately 13% of GDP. In Chile's case, tax receipts at the beginning of the decade (slightly over 20%, in GDP terms) were lower than the maximum level recorded for 1975, but slightly

Figure 4
LATIN AMERICA: GENERAL
GOVERNMENT TAX REVENUES



Source: ECLAC, on the basis of official figures.

higher than the one prevailing in 1970. It remained stable throughout the decade and then fell by almost 1.5% of GDP, as a result of the 1989 reform. In other countries, the negative impact of the macroeconomic environment on tax receipts was just barely mitigated. Thus Argentina, owing to the introduction of special taxes and to constant adjustments to national and provincial taxes, was able to abate the fall in tax receipts that was triggered by instability and runaway inflation; nevertheless, they still fell by 2% of GDP between 1988 and 1990. Brazil also resorted to special taxes and to modifications of its revenue system, such as the shorting of terms, in order to keep tax receipts at approximately 14% of GDP (see table 16).

d) The structure of tax revenues

In spite of the short-term swings in tax revenues in most Latin American countries, the relative weight of the various types of taxes remained basically unaltered. Excise taxes clearly prevailed, except in oil-exporting countries. In these, the share of the various taxes on oil activities is considerable, but it is subject to sharp fluctuations that are linked to developments in oil exports. In Ecuador, this type of revenue amounted to 50% of tax receipts in 1985, and its lowest share was 33%, in 1987. In Mexico, the proportion of oil-related taxes reached its maximum level (36%) in 1985 and its minimum (22%) in 1988. In Venezuela, it ranged from 72% in 1981 to 41% in 1986-1987. In Chile, copper-related revenues are also of high significance, but not as much as those yielded by oil in the aforementioned countries. In 1988, with the increase in copper prices, these taxes amounted to 24% of the total, but throughout the decade they fluctuated between 1% and 10% (see table 14).

Prior to the financial adjustment processes of the 1980s, direct taxes –save for those cases already mentioned– amounted to 36% of tax receipts in Mexico, 26% in Chile, Paraguay and Peru, 22% in Brazil, Colombia (of those received by the central government) and Costa Rica, 21% in Ecuador and about 15% of the total in Bolivia, Guatemala and Venezuela. In Argentina and Uruguay, direct tax collections by the central government also amounted to 15%, but in those

cases the direct component of local taxes had to be added (see table 14).

Only in a few instances did tax reforms –of various types, dimensions, scopes, and duration– produce radical changes in the structure of tax revenues, although they lowered the percentage of revenues contingent upon direct taxes. In Bolivia those taxes amounted only to 5% of the total. In Chile and Ecuador, the percentage share of direct taxes (excluding those on copper and oil, respectively) fell to 15% or less. However, it only dropped to 19% in Costa Rica and to slightly more than 20% in Paraguay. During the first years of the crisis, the proportion of direct taxes also fell in Mexico, to a level between 22% and 25% (excluding those on oil); however, starting in 1988, it started to rise and eventually amounted to 30%.

Nevertheless, other reforms have yielded an increase in the relative contribution of direct taxes, especially after the recessions that took place during the first years of the crisis. Thus, their percentage share in the total was almost 30% in Brazil, 28% in Peru (until 1988), 26% in Colombia (in relation to the central government's tax receipts), 20% in Venezuela (excluding direct taxes on oil), 19% in Guatemala and 17% in Argentina and Uruguay (see table 14).

Taxes on foreign trade are a source of considerable income only in certain countries. In Costa Rica, Colombia and Chile, the dismantling of trade barriers has helped to raise the percentage share of these taxes to 50%, over 20% and 16% of the total, respectively. Likewise, in Guatemala and Peru, they maintained a high percentage share in total receipts (30% and 20%, respectively) (see table 14).

e) Social security contributions

During the 1980s, the percentage of social security revenues in relation to GDP decreased in most countries of the region. The largest drop took place in Chile, where this type of fiscal revenue fell from over 6% of GDP in 1980 to less than 2% in 1988, that is, an accumulated 63% decrease in real revenue. This severe downturn was a result of the reform of the social insurance system which had been carried out at the beginning of the decade, leading the bulk of the labour force to shift from the public system to the

new, privately-owned one. In Argentina, social security revenues, which had undergone numerous changes throughout the decade, also fell. They plummeted in 1981 (by more than 50%), as a result of the modifications to the tax system, since payroll-based employers' contributions were replaced by excise taxes on merchandise transactions, which led to the drop in the system's revenues from 5% to slightly more than 2% of GDP. Subsequently, when the old employer-contribution mechanism was reinstated, contributions to social security grew to 4% of GDP. However, real revenues were not able to regain their 1980 levels, owing to the lower yields resulting from high inflation and economic recession. In Peru, contributions to social security also decreased substantially in the 1982-1983 period, but they later experienced a sizeable recovery until 1987, when they surpassed 1980 levels by almost 30%. In 1988 and 1989, however, these contributions decreased significantly because of the economic crisis, which led to an almost 60% drop; thus, 1989 levels were only half of those of 1980. In Bolivia, social security contributions also shrank noticeably, but they experienced a partial recovery in 1986 and 1987. Brazil and Mexico recorded relatively steady trends in social security contributions which, despite pronounced fluctuations throughout the decade, enabled them to maintain their levels at over 4% and 1% of the product, respectively (see tables 12 and 13).

Costa Rica and Uruguay were the only countries that registered substantial growth in social security receipts (approximately 1% of GDP). In the former case, it led to a significant expansion (28%) of real revenues. In Uruguay, given the stagnation of the product, it meant only a modest increase (10%). Paraguay and Colombia recorded a slight increase in social security contributions, stemming from the upturn in the economy; however, the percentage share of this item in the non-financial public-sector's current revenues was still limited (see table 13).

f) Non-tax revenues¹³

The heterogeneous array of non-tax revenues of the central government usually ranges from 2% to 3% of GDP in most countries of the region, although it almost reached 5% in some instances and amounted to less than 1% in others. Broadly speaking, during the 1980s levels of non-tax revenues have undergone important changes, whether positive or negative, which were closely linked to fluctuations in corporate income taxes.

In Argentina, non-tax revenues amounted to approximately 4% of GDP during the 1980-1981 period, while in the 1987-1989 period they equalled less than 3%; considering the drop in GDP, it means that the level had fallen to almost half of what it had been in 1980. In Costa Rica, the ratio between non-tax revenues and GDP also decreased (from 3% to 2%) during the decade, but with very irregular patterns, since it dropped abruptly in 1981 and 1982 and then recovered, albeit partially; thus, real revenues in 1987 were half of what they had been in 1980. In Ecuador, the ratio between these revenues and GDP declined from almost 5% to less than 4%, but only during 1987 –since earthquake-related damages to oil production negatively affected the remittance of profits to the government–, since in previous years its trend had been towards growth. There was also a decline in Peru (from over 2% to less than 1%), concomitant with the drop in other current revenue items, as a result of the deep crisis that affected the country during the 1980s. Likewise, in Bolivia and Uruguay, the ratio between non-tax revenues and GDP remained practically stable between 1980-1981 and 1987, but experienced pronounced fluctuations throughout the decade (see table 13).

In Colombia, however, the ratio between non-tax revenues and GDP rose by more than 1% between the 1980-1981 and 1987-1989 periods; during that time segment, real revenues under this heading much more than doubled as a result of an economic upturn. Mexico's real non-tax revenues also displayed an upward trend and, despite some ups and downs, the level recorded

¹³ This heading includes a series of revenues collected by the central government through user fees and the sale of goods and services by institutions associated with the central administration or local governments. Nevertheless, some of the user fees are more similar to taxes than to the sale of services and thus take on an almost tax-like character. The heading of non-tax revenues also covers the following: partial transfers of earned surpluses or of public-enterprise profits; and interest earned on the sale of securities by government institutions on the financial markets.

from 1987 to 1989 was 50% higher than when the decade started. In Chile, these revenues fell between 1981 and 1983, but a subsequent recovery enabled them, in 1987 and 1988, to surpass 1980-1981 levels by 25%. In Brazil, non-tax revenues increased until 1988, but it then declined as a result of the severe dislocation suffered by the Brazilian economy in recent years. In Venezuela, the share of non-tax revenues in GDP increased by almost two percentage points; this made possible a 40% rise in real revenues, owing to exchange premiums that largely offset the decrease in oil-related contributions. In Guatemala and Paraguay, these revenues grew substantially throughout the decade (more than 30%), but they still amount to only slightly more than 1% of GDP (see table 12).

g) Savings by government enterprises¹⁴

In those instances where the bulk of public-sector enterprises deal with the tapping of mining or energy resources, the production of primary industrial inputs or the rendering of essential services in monopolistic markets, their spending trends have been mainly determined by the performance of their export markets, the setting of their sales prices (in the case of industrial firms) and the regulation of their rates. The streamlining programmes carried out within these enterprises have had an impact only in some cases. Nevertheless, a portion of their net revenues can be appropriated by the government through diverse procedures; it is therefore possible that the amount of saving may be substantially reduced thereby not reflecting the total amount of contributions from these activities to public-sector financing.

In those countries where public enterprise revenues mainly originate from exports of natural resources, the developments in those sectors are closely linked to the international prices for the products. That accounts for the trend in this type of revenue in the oil-exporting countries, where

they shrank significantly due to the fall in crude oil prices. In Venezuela, state enterprise savings amounted to 7.5% of GDP in 1980 (25% if direct taxes paid by the oil sector are added), but it was negative in 1981 (-1%), when a modification to the tax system allowed the government to tap the huge surplus. Savings by enterprises rose in the 1982-1983 period as a result of a tax cut on the oil sector's gross revenues, even though these revenues decreased. During the following years it remained approximately at 4%, falling to 2% in 1987 owing to the pronounced drop in oil prices on the international market. This situation prevailed until 1990, when hydrocarbon prices experienced a noticeable recovery and the volume exported grew as a result of the Persian Gulf crisis. In Ecuador, state enterprise savings have fluctuated, together with oil prices, between 1.5% and 2.5% of GDP (see table 17). In Mexico, the savings of *Petróleos Mexicanos* (PEMEX), which had grown to 5% of GDP in 1983, subsequently dwindled, partly because the drop in oil revenues was not reflected in the tax receipts coming from that sector, which remained approximately at 6% of GDP. The non-oil state enterprises, however, whose savings had amounted to less than 1% of the product at the beginning of the decade, progressively increased them until they exceeded 2% of GDP between 1987 and 1989 (see table 12).

In Chile, state-enterprise savings are determined by the trends in copper earnings; therefore, it decreased in real terms until 1982 but subsequently recovered, growing substantially in 1988 as a result of higher copper prices on the international market. Thus, aggregate savings of state enterprises, which in 1980 and 1981 had amounted to 6% of GDP, were now equal to 10% in 1985 and 1986, and to 14% in 1988. In Colombia, state enterprise savings fell, in real terms, during the first years of the decade—when they amounted to approximately 3% of GDP—, but they then showed a clearly upward trend, owing to the large increase in oil and coal exports by the

¹⁴ Savings by government enterprises are estimated before the payment of interest, that is, subtracting operational costs and taxes paid from operational revenues. Therefore, the amount of savings greatly depends on what mechanisms are used by the government to attract revenues from state enterprises. In some countries certain taxes absorb a sizeable amount of the surplus from state enterprises; in others, taxes are low, thus enabling enterprises to increase their savings, which are subsequently transferred to the government as profit remittances. Likewise, the approach of calculating savings prior to the payment of interest is consistent with including the full amount of interest under expenditures in order to determine the financing requirements of the public sector.

respective state enterprises, thus raising overall savings to 5% of GDP. In Bolivia, savings by state enterprises, which amounted to 7% of GDP in 1980, decreased steadily throughout the decade, turning negative in 1987; this was due to the substantial drop in the value of tin and natural gas exports, the main revenue sources for Bolivian state enterprises (see table 17).

In the countries where state enterprise revenues are generated by the rendering of public services, their real savings were for the most part small, and even negative in some years. In Peru, their real level in 1989 amounted to only 16% of the levels recorded for 1980, mostly due to the fact that service rates were not adjusted correctly to the spiralling of inflation. In Brazil and Uruguay, the real value of state enterprise savings dropped sharply until 1983; it then recovered, albeit irregularly, returning by the end of the decade to levels slightly higher than those for 1980. In the former, the value fluctuated between 3% and 4% of GDP and, in the latter, between 2% and 3%. In Argentina, state enterprise savings have maintained their reduced share in public-sector revenues, since, during the decade, they never attained 2% of GDP. On the other hand, they were subject to strong fluctuations, and their coefficient was even negative in 1983. However, in Costa Rica and Paraguay, state-enterprise savings grew throughout the decade, although their path was not steady. In Costa Rica, the contribution of these savings to the public-sector's current revenues and to the product have been very large, since in this case they include state commercial banks, whose involvement in financial activities is quite extensive (see table 17).

The time lags in the value of public rates during certain periods are the result of their role as instruments of anti-inflationary policy. Nevertheless, after the upsurges of inflation that resulted from their heavy budget deficits, the countries affected were compelled to substantially adjust rates so as to eliminate state enterprise losses and in certain cases, as in that of fuels, efforts were made to obtain a significant resource surplus that would be an effective means of financing for the central government.¹⁵ Thus,

in Peru, the value of public rates increased many times in 1990 in order to generate a surplus that would aid in reducing the shortfall in tax revenue. Argentina and Brazil have frequently adjusted their public rates so as to eliminate state enterprise deficits, but inflation has been so uncontrollable that in a short span of time they were lagging behind once again. The lack of financing that affected state enterprises in many countries of the region, whether due to time lags in their rates or as a result of the need to transfer greater amounts of their surpluses to the central government, had a negative impact on the services rendered. Specifically, this was very detrimental to investment in this sector, since it was already constrained by the foreign credit squeeze. That not only curbed growth opportunities, but also reduced replenishment investments and upkeeping expenditures.

h) International comparison of the fiscal capacity of Latin American countries

The fiscal capacity of Latin American countries is remarkably lower than that of developed countries, where it amounts to more than 30% of GDP, and in certain cases (Sweden), to more than 50%. In most of the countries in the region, however, aggregate fiscal revenues amount to between 21% and 25% of GDP, but in some cases (such as Bolivia) it does not even reach 20%, and in others (such as Paraguay, Peru and Guatemala) it barely approaches 10% (see table 18). The reduced Latin American fiscal capacity is due to the fact that tax receipts and social security contributions are substantially lower, while very large revenues from non-tax sources are collected, which, in the case of countries that export natural resources, include part of the revenues from those exports.

The highest amount of tax receipts in the region has been collected in Chile, approximately 20% of GDP. Those of a large group of countries (Argentina, Bolivia, Costa Rica, Ecuador, Mexico, Uruguay and Venezuela) fluctuate between 16% and 18%, while Brazil's tax receipts amount to 14%, and those of Colombia to 13% of the product. There are also others

¹⁵In some countries, these extra revenues were obtained through higher rates in special purpose taxes on the domestic consumption of hydrocarbons, which had the same effect but was not reflected in the volume of state enterprise savings.

(Guatemala, Paraguay and most of the Central American and Caribbean countries) where tax receipts have traditionally been minimal –less than 10% of GDP.

The developed countries, however, have recorded tax efforts in recent years that exceeded 20% of GDP. Hence, they currently amount to 21% in the United States; 21% in Spain, with an upward trend; approximately 25% in Germany, France, and Italy; in the United Kingdom 30%; and, in Sweden 42% of GDP. As a result of these higher tax receipts, as well as greater development in those countries, their per capita tax burden is several times larger than in Latin America. However, there are no major differences between the tax efforts of the region and those of Southeast Asian countries (see table 18).

Some of the largest tax efforts in the region are based mainly on high receipts from direct taxes on the export of natural resources, as in the case of oil-exporting countries (Ecuador, Mexico and Venezuela) and of Chile, due to foreign copper sales. If these revenues are excluded, direct tax receipts in Latin American countries amount to between 2% and 4% of GDP, reaching 5% only in Mexico. This differs from the situation in other regions. Direct tax receipts are remarkably higher in developed countries, in most of which they exceed 10% of GDP (in Sweden they amount to 24%). The make-up of tax revenues also differs in relation to the countries of Southeast Asia; in

these, direct taxes play a major role and their ratio *vis-à-vis* the product doubles or trebles that of Latin America (see table 18).

In the countries of the region, social security revenues are relatively low (between 1% and 4% of GDP); it amounts to 7% of GDP only in Costa Rica and Uruguay. In the developed countries, these contributions are remarkably higher, highlighting the fact that the relative disparity between these countries and those of Latin America is greater in this case than in that of tax revenues. In fact, the lowest levels of social security contributions among the members of the Organization for Economic Cooperation and Development (OECD) are found in the United Kingdom (7% of the product) and in the United States (9%), while they amount to 12% in Spain and Italy, 14% in Germany and 16% in France. Accordingly, in the developed countries, per capita social security receipts are several times as high as in Latin American countries, given the differences in per capita GDP. This alone accounts for the enormous disparities between social security systems in Latin America and in those countries, especially with regard to the scope and quality of the services rendered. On the other hand, when comparing social security receipts to those of Southeast Asian countries –where they amount to less than 1% of GDP–, their various institutional systems designed to look after the workers' social welfare should be taken into account.

3. The extent of the fiscal deficit

During the 1980s, the combined effect of declining fiscal revenues, the pressure of the debt burden of state budgets and the relative inflexibility of expenditures brought about a substantial increase in the nominal deficits of the non-financial public sector which, in the countries of the region, were extremely large. Likewise, in many instances, Central Bank accounts displayed quite considerable negative balances, as a result of numerous fiscal expenditures that these institutions had to take upon themselves; thus, in some periods, the aggregate deficit of the public sector reached unprecedented levels in Latin American economies. These imbalances in public finances produced instability and have had a

negative impact on the macroeconomic environment.

In many cases, the large deficits were augmented by the effect of inflation on interest payments on the public debt contracted in local currency. Accelerated inflation brings about –among other consequences– severe distortions in the estimation of public-sector deficits, as nominal deficits mount owing to the effects of higher interest payments on the domestic debt; they increase in nominal terms in order to cover not only the earnings on capital (the “real” element), but also the implicit indexation of the real value of the debt principal (a component which is tantamount to an “indexation” of the debt), equal to an real anticipated redemption of

the debt. In order to correct this distortion, the "public-sector's operational deficit" concept is used, which consists of deducting, from the nominal deficit, the inflation-caused increase in the interests on public debt contracted in local currency.¹⁶

In any case, the high financial costs entailed by interest payments on foreign debt and, in some instances, that of interests (and even of the "real" element) on the growing domestic debt in local currency, sparked off severe imbalances in public finances. The financial authorities were not capable of exerting enough influence on those financial costs which were, essentially, out of their control. Therefore, the governments' margin for financial action was limited to the other expenditures, as well as to revenues. The end result of their changes over time is reflected in what is called the "primary" deficit or, in other terms, the nominal deficit minus the financial expenditures on public debt interests. This primary deficit decreased in many countries and, in some cases, it even turned negative, thus achieving substantial surpluses. This trend clearly illustrates the financial adjustment efforts carried out in the region to confront the crisis (see figure 5).

Brazil recorded the highest nominal deficit throughout the 1980s. This deficit rapidly started to increase from the beginning of the decade onwards, slowing down in 1986, until it amounted to 83% of GDP in 1989.¹⁷ On the other hand, the operational deficit of the non-financial public sector—which excludes an estimate of the effects of inflation on nominal interest payments—was remarkably lower, although still substantial and it tended to rise: from 2% of GDP in 1980 to 5% between 1982 and 1983, where it remained stable practically until 1987, when it grew to 7%. It should be noted that this growth of the deficit took place despite the elimination (towards 1986) of the state-enterprise deficits. Still, during the decade, Brazil's fiscal accounts

recorded moderate primary deficits (around 1% of GDP) and even primary surpluses (between 1983 and 1986), illustrating the fact that the public sector's many financing needs were, for the most part, generated by high interest payments. Even though a sizeable amount of the nominal deficit was caused by high domestic interest rates, its large volume sparked off, in any case, substantial macroeconomic instability, since the government constantly had to refinance its domestic debt by marketing new state securities at ever-increasing interest rates. That almost explosive situation forced the authorities to freeze most financial assets in March 1990 (see table 19).

In Bolivia, the nominal deficit grew rapidly during the first half of the decade—in a process of mutual feedback with the upsurge of inflation—until it amounted to 26% of the product in 1984; afterwards, it dropped to 3% in 1986 due to the harsh adjustment programme put into effect from the second half of 1985 onwards. Nevertheless, in 1987 the deficit once again rose to almost 8%, mainly on account of the financial imbalance of state enterprises; however, that did not pose significant problems, since the interests on public foreign debt (which amounted to almost 5% of GDP) had been defaulted on.¹⁸ Subsequently, the deficit decreased substantially as a consequence of the agreements on debt reduction, which led to a sizeable drop in the commitments with the international commercial banking system.

In Mexico, the non-financial public-sector's nominal deficit also burgeoned. It soared during the first years of the decade, until it amounted to 16% of GDP in 1982. Afterwards, it dropped to approximately half that amount; however, it started increasing once more from 1985 onwards and it exceeded 14% in the 1986-1987 period. The public-sector's nominal deficit fell in 1989 to slightly more than 5%, due to the stabilization programme introduced in 1987, which made it possible to significantly reduce inflation. A

¹⁶ During periods of accelerating inflation, however, and as the maturities on Treasury bonds sold on the market get shorter, nominal interest payments are almost immediately payable on demand; therefore, they are usually financed through new bond issues designed to compound almost the full amount of interests due.

¹⁷ See, Bernardino H. M. Queiroz and Márcia Nabao (consultants): "O déficit quase-fiscal brasileiro na década de 80"; Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, document submitted to the Second ECLAC/UNDP Regional Seminar on Fiscal Policy, Santiago, Chile, 20-22 August 1990.

¹⁸ The interest due on the public debt is recorded in the sequences used here. Therefore, if the State falls into arrears, this is reflected in an appropriate amount of non-voluntary funding, but it does not affect the amount of the nominal deficit.

Figure 5
**LATIN AMERICA: INTEREST ON THE PUBLIC DEBT AND THE
 PRIMARY BALANCE IN SELECTED COUNTRIES ^a**

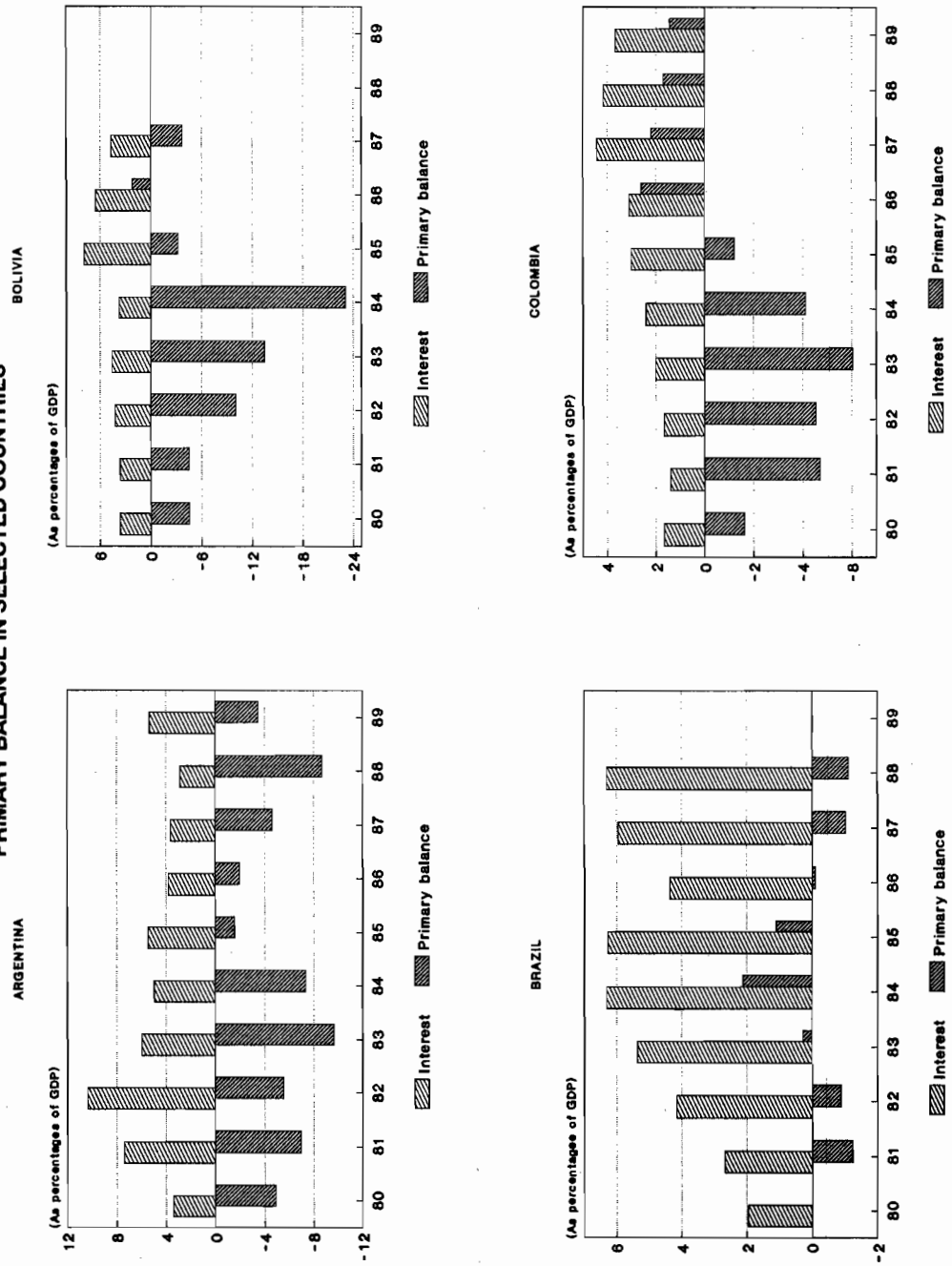


Figure 5 (continued)

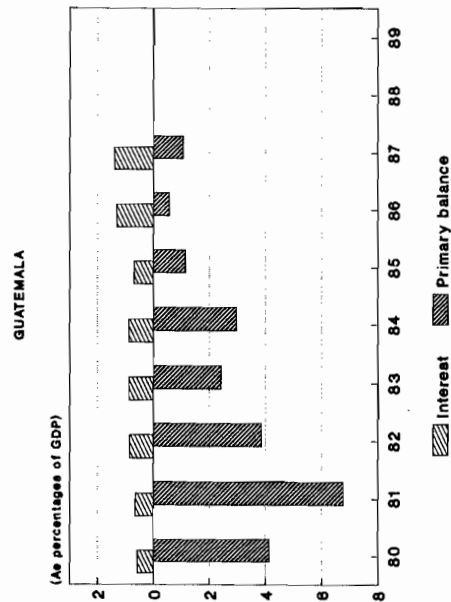
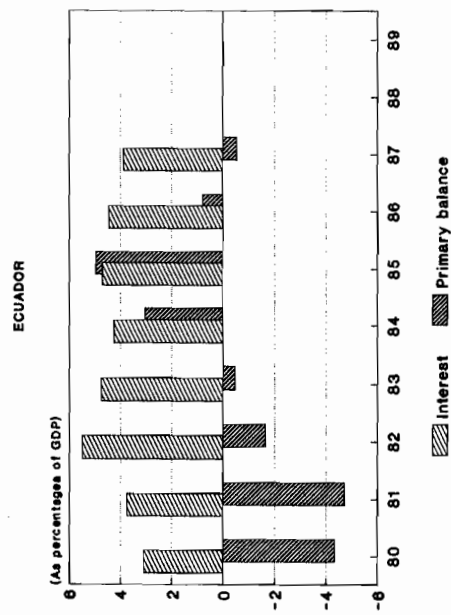
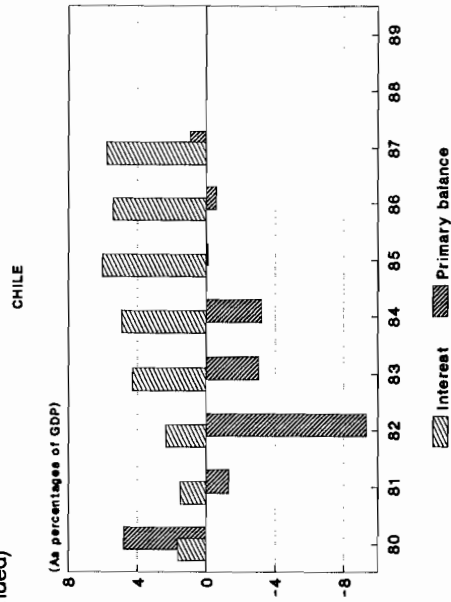
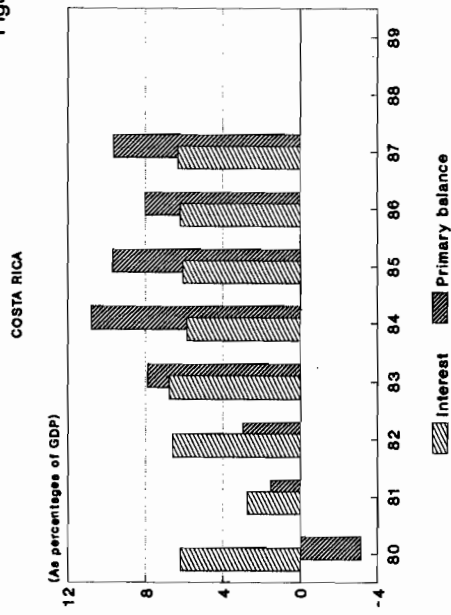
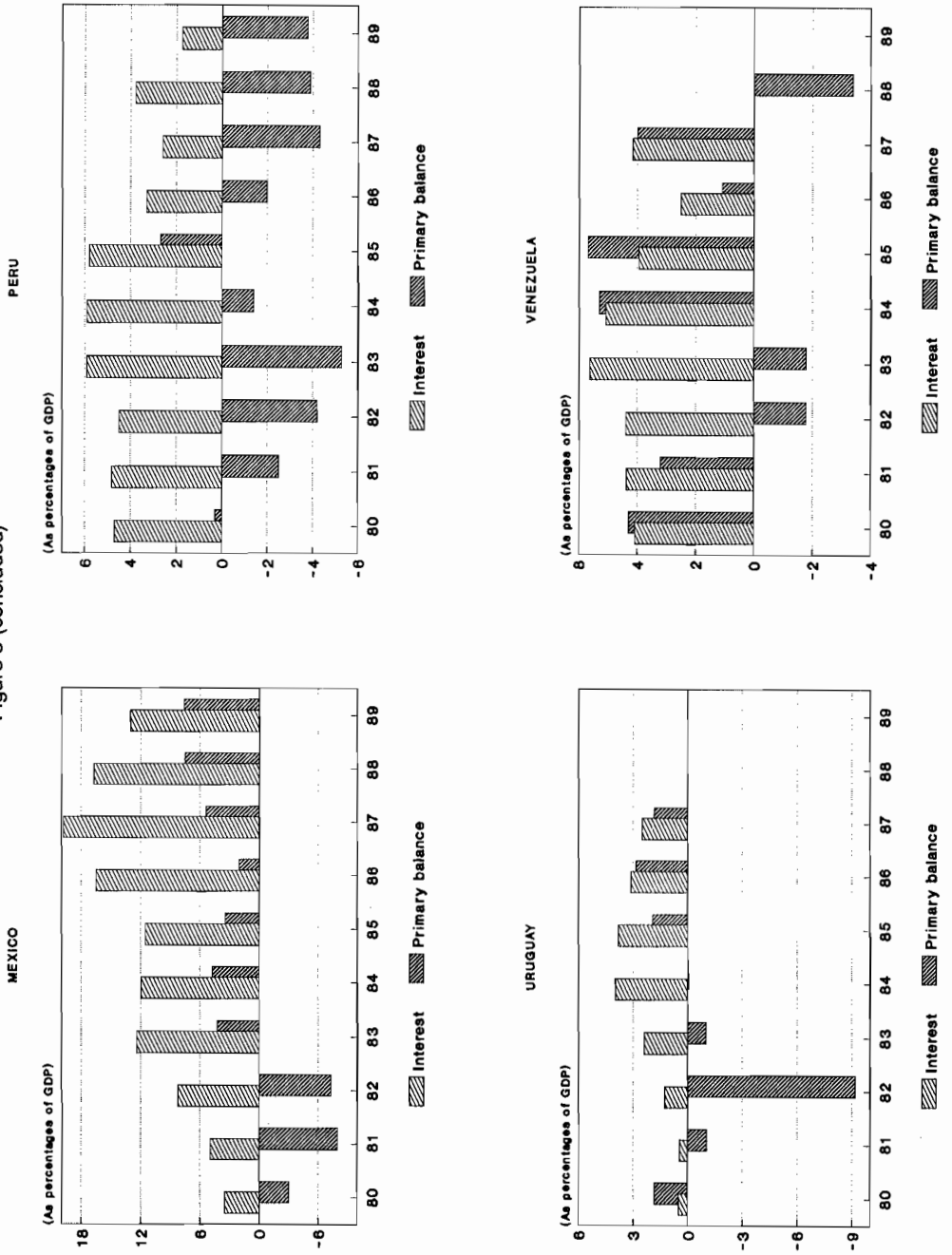


Figure 5 (concluded)



Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

*The primary balance is equivalent to the difference between current income and total expenditure, as defined in figure 1.

central feature of these developments in the imbalance of the non-financial public sector was the growing interest burden of the public debt, which amounted to almost 20% of GDP in 1987. In contrast, starting in 1983 public enterprises generated surpluses or only small deficits. The ballooning of the deficit during the two aforementioned periods was—as in Brazil's case—largely due to the effect of inflation on domestic debt servicing and to the resulting need for greater borrowing, although their consequences were significantly less relevant in Mexico. In fact, the operational deficit was much lower than the nominal, even though it still attained substantial levels, as in 1981, when it amounted to 10% of GDP. It dropped noticeably in 1982 as a result of the high inflation rate recorded that year and it kept declining up to 1984. Subsequently, it rose once again until it exceeded 5% of GDP in 1986; however, in 1987 it began to decline, although with fluctuations, until it amounted to less than 1% of GDP in 1989. The financial adjustment effort is made more obvious through the developments in the primary balance, since the approximately 8% deficit of 1981 and 1982, starting the following year, became a surplus that amounted to almost 8% of GDP in 1989¹⁹ (see table 19 and figure 5).

Argentina also recorded strong increases in its nominal deficit during the first years of the decade; it amounted to 15% of the product in 1982 and 1983; however, it subsequently began falling, helped by the significant reduction, in real terms, of interests on the public domestic debt and by the decrease in the deficits of state enterprises. Thus, the nominal deficit of the non-financial public sector dropped to less than 5% of the product in 1986. In 1987 and 1988 the deficit grew again, to 11% and 9% of GDP, respectively, basically owing to the fact that the ratio between revenues and the product fell once more. Starting in 1989, the nominal deficit

experienced a new decline on account of hyperinflation; thus, inflationary forms of financing disappeared and expenditures were limited to revenue collections. The primary deficit, in turn, which had risen from 5% of GDP in 1980 to almost 10% in 1983, subsequently underwent a major decrease, until it equalled less than 2% of the product in 1985 and 1986; in 1988, it rose to almost 9%, dropping to 2% of the product in 1990, owing to periods of hyperinflation and to the subsequent adjustment (see figure 5). Nevertheless, the aggregate deficit of the public sector was more pronounced than that of the non-financial public sector; this is due to the fact that the considerable expenditures carried out by the Central Bank—in various periods—, in order to absorb the high liquidity which had been generated by the financial aid for the government, also must be taken into account. The fiscal-like deficit that ensued from these operations and from others of a similar nature, progressively grew until it exceeded 5% of GDP in 1984, hovering around the 3% mark between 1985 and 1987.²⁰

In Uruguay, the nominal deficit of the non-financial public sector²¹ shot up in 1982, when it equalled more than 10% of GDP, but then it dropped ostensibly, until it amounted to less than 1% of the product in 1986 and 1987, owing to the fiscal adjustment that had been put into effect; this, in turn, enabled state enterprises to obtain surpluses starting in 1983 (which amounted to 2.6% of GDP in 1984), also turning the previous primary deficit into a surplus ranging from two to three points of the product, from 1985 onwards. The reduction of the interest burden, from 4% of GDP to 2.5% (see figure 5 and table 19), was also a contributing factor. Nevertheless, the Central Bank deficit has remained at approximately 3% of GDP since 1983, making up the bulk of the financing needs of the public sector as a whole. In 1988 and 1989,

¹⁹ Concerning the quasi-fiscal deficit of the central bank (Banco de México), it took on substantial proportions (over 3% of GDP) in 1986-1987. (See, Carlos M. Urzúa (consultant), *El déficit del sector público y la política fiscal en México, 1980-1989* (LC/L.622), Política Fiscal series, No. 10, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991.)

²⁰ Luis Giorgio and Ricardo Rivera (consultants), "Déficit cuasifiscal: el caso argentino (1977-1989)", Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, document submitted to the Second ECLAC/UNDP Regional Seminar on Fiscal Policy, Santiago, Chile, 20-22 August 1990.

²¹ In Uruguay there are no major differences between the nominal deficit and the operational deficit, since the public debt in local currency is quite minimal.

there was a new increase in the nominal deficit of the non-financial public sector, making it necessary to carry out a new fiscal adjustment in 1990.

In Peru, the deficit surged, amounting to 10% of the product in 1983. It decreased considerably during the following years, due to the steps taken by the authorities; thus, it amounted to less than 3% of GDP in 1985. Between 1986 and 1988, the public-sector deficit rose once again, to more than 7% of the product, as a result of the expansion-oriented policies, in connection with spending, of the new government that had taken office in late July 1985; moreover, there was also the effect of the extensive exchange subsidies administered by the National Reserve Bank of Peru, whose quasi-fiscal operations produced deficits that grew from 1.5% of the product in 1985 to almost 7% in 1988. In 1989, the nominal deficit underwent a substantial decline, owing to the fact that the vigorous surge of inflation drastically reduced real expenditures. Therefore, in spite of a significant drop in receipts, the deficit decreased because the government did not have at its disposal any financing source –not even the inflation tax– for additional spending.

In Costa Rica, the public-sector deficit grew considerably in 1980 (to more than 9% of GDP), but it later fell drastically owing to the adjustment programme that was put into effect. This led to the reduction in the financing needs of the non-financial public sector and, starting in 1983, to the generation of a surplus that amounted to almost 5% of GDP in 1984 and to more than 3% in 1987. This situation came about in spite of heavy deficits run by state enterprises (around 9% of the product) and the interest burden (more than 6% of GDP) and also owing to the increased fiscal effort and to the stabilization of the ratio between public spending and the product. Colombia recorded a substantial increase in its non-financial public-sector's deficit, which amounted to almost 8% of GDP in 1983;

subsequently, however, largely owing to a tax reform that increased the fiscal effort, as well as to expenditure-curling measures, the deficit fell sharply, standing at approximately 2% of the product during the 1987-1989 period. The adjustment carried out by state enterprises, the deficit (around 4% of GDP until 1985) of which dropped to insignificant proportions, was a contributing factor in this development (see figure 5 and table 19).

Ecuador's non-financial public sector ran a large nominal deficit between 1980 and 1982 (around 8% of the product), which later decreased until it disappeared in 1985, when a surplus amounting to 5% of GDP was generated. The deficit grew again, over the following years, mainly as a result of the decrease in revenues from the oil sector, which dropped to 4% of GDP. The deficit of the financial public sector remained very high, reaching a maximum of 23% of GDP in 1983 and then gradually declining until it amounted to 9% in 1987.²² In Paraguay, the non-financial public-sector's deficit climbed to 5% of GDP in 1984, but it subsequently dropped to less than one percentage point of the product due to expenditure cuts.²³ A similar trend could be seen in Guatemala, where the deficit of the central government rose sharply during the first half of the decade (to approximately 4% of GDP) and decreased substantially (to less than 2%) during the second half.

In Chile, the consolidated public sector enjoyed a large surplus (close to 5% of GDP) towards the end of the 1970s and at the beginning of the 1980s, owing to the tax reform carried out in the mid-1970s.²⁴ Nevertheless, as happened in other countries of the region, the financial situation entered a crisis period as a result of the combined effect of rising interest payments on the debt lower copper revenues and the growth (by more than 3% of GDP) in the social-security deficit following the reform of the system. Thus, the surplus of the state enterprises

²² See, G. Abril, S. Urbano, and R. Urriola (consultants), *Determinante del déficit y política fiscal en el Ecuador (1979-1987)* (LC/L.624), Política Fiscal series, No. 11, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991.

²³ The deficit of the state enterprises, which amounted to 3% of GDP in 1984, has fluctuated between zero and 2% since then.

²⁴ See Felipe Larraín, "Public sector behavior in a highly indebted country: The contrasting Chilean experience, 1970-1985", *The Public Sector and the Latin American Crisis*, Felipe Larraín and M. Selowsky (editors), San Francisco, California ICS Press, 1990, and Manuel Marfán, "La política fiscal macroeconómica", *Políticas macroeconómicas: una perspectiva latinoamericana*, René Cortázar (editor), Buenos Aires, Grupo Editor Latinoamericano (GEL), 1988.

notwithstanding (which exceeded 4% of GDP in most of those years), a 4% deficit in the non-financial public sector was created. If the 3% deficit (in GDP terms) in the Central Bank accounts is taken into consideration, the total deficit amounted to 7%. The following years witnessed a stabilization in the deficit of the non-financial public sector, while the deficit of the Central Bank climbed; this was mainly due to the large proportion of financial expenditures that it had to pay out, particularly the assumption of the private debt, as a result of the banking crisis of those years.²⁵ Starting in 1985, the financial situation began to improve; the deficit of the non-financial public sector fell, almost disappearing in 1987 thanks to the phasing out of the primary deficit brought about by restraint in public spending. In turn, despite the decrease in

the Central Bank deficit, it still remained quite large (see table 19).

Venezuela's public finances were also severely upset, in spite of the substantial surplus which they had enjoyed at the beginning of the decade, owing to the additional revenues generated by the oil-producing sector—collected through direct taxes and state-enterprise saving. With the drop in oil prices and the large governmental spending commitments—encouraged by the prosperity of previous years—the 1982 and 1983 surpluses were notably smaller. In 1984 and 1985, the rise in revenues once more made it possible to generate ample surpluses, but the drop that took place afterwards even led to heavy deficits from 1988 onwards, compelling the authorities to introduce a harsh stabilization programme (see table 19).

4. The financing of the public sector and the “inflation tax”

The effect of the fiscal deficit on macroeconomic stability was exacerbated by the sudden changes in its financing. In fact, the foreign debt crisis that began in the early 1980s and the resulting loss of foreign financing meant that, simultaneously and in almost every country of the region, the public sector was deprived of a major credit source. Towards the end of the 1970s, shortly before the crisis, the net transfer of resources from abroad to the public sectors of Latin American countries amounted to 2% of regional GDP, which made it possible not only to pay the interest on the public foreign debt, but also to have enough resources at their disposal to finance primary deficits equivalent to that proportion. Later on, when the direction of transfers reversed, the public sectors of the region began to remit funds abroad that amounted to approximately 2% of GDP, since they stopped receiving resources and the governments had to keep honouring previously contracted foreign debt commitments. During the second half of the decade, net outflows reached peaks of 4% of GDP in Costa Rica (from 1984 to 1988), Chile (1989), Mexico (1985 and 1986), Uruguay (1985) and Venezuela (from 1985 to 1989) (see table 20).

The turnaround in external transfers of public resources was quite impressive in relation to the States' abilities to receive revenues, since, in most countries, it amounted to between 20% and 30% of governmental receipts. It implied that, in this new setting, the public sector would have to begin adjusting its accounts, either through increased revenues, reduced spending, or additional funding—from internal or, in the long run, other foreign sources—for an amount equivalent to one fourth of their revenues. This, as it was already mentioned in the *Economic Survey of Latin America and the Caribbean* of recent years, was a major contributing factor—but by no means the only one—to the negative developments in the regional economy during the past decade (see table 21).

Starting with the so-called foreign debt crisis, the raising of resources in the rest of the globe was often laborious. Many countries, besides the loss of funding from the international commercial banks, were affected by the reduction in external credit from official sources and, in some instances, there even was a net flow abroad. This phenomenon was not widespread, since some States of the region kept receiving

²⁵See Osvaldo Larrañaga (consultant), *El déficit del sector público y la política fiscal en Chile, 1978-1987* (LC/L.563), Política Fiscal series, No. 4, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1990.

enormous amounts of foreign resources. The countries that most profited from this situation were those of Central America and the Caribbean, which received large amounts of credit in very favourable conditions, mostly from the United States, enabling them to finance a relatively higher level of public expenditures than the rest of the region (see table 21).

Owing to the turnaround in net credit transfers and in spite of the strict adjustment programmes put into effect in many countries of the region, most of them were unable to repay their foreign loans when faced with the additional problems posed by the drop in export prices. Shortly after the outbreak of the debt crisis, the governments began interrupting the repayment of their international bank loans, either unilaterally or through negotiations with their creditors. These steps soon proved to be insufficient, since interest payments were extremely high; therefore, the moratorium also spread to them in the case of debts with other creditors, such as the Paris Club and sometimes even to the interests on loans contracted with multilateral creditors. The State met its interest payments on the foreign debt, in a normal fashion, in only four Latin American countries: Colombia, Chile, Mexico and Uruguay. Meanwhile, the rest defaulted on their debt, although their moratoria differed in duration and scope. Nicaragua interrupted almost all its payments in 1982; this situation remained unchanged throughout the rest of the decade. In Peru's case, the moratorium was also all-encompassing, since it included all creditors and was very protracted. Unpaid interests due amounted to almost 3% of GDP in 1985 and, in 1989, only 15% of the amount due was paid. In Costa Rica, the moratorium spanned the decade from beginning to end, but it promoted agreements that helped to regularize the situation, although only temporarily and partially. In 1982, unpaid interests amounted to almost 8% of GDP, but most of those arrears were written off during the following year. Subsequently, in 1987, it defaulted once again, this time on an amount equal to 5% of GDP. It was not until 1989 that Costa Rica regularized its situation, as a result of the debt-reduction programme fostered by the Brady Plan. Argentina defaulted on its payments during 1983, 1984 and, later, from 1988 onwards; meanwhile,

Brazil has been in interest payment arrears since 1987. These events sent shock waves through international circles, given both countries' high level of indebtedness.

Initially, these moratoria averted catastrophic situations, such as a mayor recession or hyperinflation. However, the full dimension of structural problems remained unscathed, so the road to overcoming financial maladjustments was still paved with obstacles. Costa Rica may be considered as an exception, since, in its case, the moratorium enabled it to correct the deficit in the public accounts, to push inflation down and to resume its economic growth in a satisfactory manner.

As the needs of fiscal financing shifted to the domestic scene, new problems emerged. Firstly, it became necessary to service the public foreign debt in foreign currency (the "external transfer"), which meant that it was not only necessary to secure funds to service interest payments, but that those resources also had to be converted into foreign currency. In this new scenario of growing difficulties in financing the fiscal deficit, public and private trade surpluses became a crucial factor in the performance of public finances in the various countries. In point of fact, in those countries whose public sectors are in charge of the main export activities (Bolivia, Chile, Ecuador, Mexico and Venezuela), there is a direct link between the public sector's financing ability and the economy's capability to carry out external transfers. However, there exists a structurally different situation in those countries whose main export sources are privately owned (Argentina, Brazil, Paraguay and Uruguay), since more favourable external conditions do not necessarily lead to a financial improvement: a public deficit can coexist with a foreign exchange surplus on the private sector's side. Under these conditions, the State must rely on an appropriate device to attract the private sector's foreign exchange, a situation that gives rise to the "domestic transfer" problem. If the cost of this purchase is not passed on to the whole of society, the State will be unable to carry out a domestic transfer of physical resources of equal size as the foreign one, unless it resorts to domestic borrowing or inflationary forms of financing. Therefore, the possibility of carrying out and maintaining a real fiscal adjustment of

approximately four percentage points of the product –the average proportion resulting from the turnaround in loan transfers– not only depends on the government’s intentions, but also on the degree to which society as a whole and, particularly, the segments that must withstand the additional taxes or the spending cuts will agree to do so.

Very few countries with moderately developed financial markets (Argentina, Brazil, Mexico and, to a lesser extent, Colombia and Chile) had access to real domestic resources, but that led to high real interest rates which became a new destabilization factor in public finances. In turn, the indexing of relative prices, especially the increase in the real exchange rate –in order to generate a sufficiently large foreign trade surplus so as to finance the external transfer– accelerated inflation and added to the burden of foreign interest payments on the budget; meanwhile, the real tax ratio gradually dwindled as a result of runaway inflation. In order to remedy this situation, the adjustment of public service rates was used as a deficit-reduction tool for state enterprises and, on many occasions, to generate surpluses that could be procured by the Treasury.

In these scenarios of repeated exchange rate crises, where fear prevailed as a result of the unreliability of financial remedies and climbing inflation rates, the margin of manoeuvre for the monetary funding of the fiscal deficits narrowed. Attempts were made at selling government or Central Bank securities, but, in view of the reduced amount of funds attracted by these means, a policy of cash holdings was favoured. Both alternatives resulted in an increase in real domestic interest rates, which, aside from its negative repercussions on the economy, was also instrumental in adding to the financial burden of the public sector. Likewise, on account of the fact that the payback periods for the domestic resources being attracted were very short, the financial situation became extremely vulnerable, as was mainly illustrated in Argentina and Brazil. Thus, in those instances when short-term domestic borrowing was massively resorted to, as it happened in Brazil, government bonds gradually became quasi-money that generated an extremely serious monetary problem.

In that difficult position, the regional governments’ only remaining hope was Central Bank funding. This meant resorting to money issue, whose negative impact on macroeconomic equilibria could only partially be brought under control by means of monetary instruments, such as higher marginal cash reserve requirements and liquidity-absorbing sales of securities. Given the precariousness of those situations, the monetary expansion resulting from public financing triggered sharp increases in domestic prices. Therefore, governments were able to fund themselves through the so-called “inflation tax”, which in some countries collected over 10% of GDP. Nevertheless, drawing upon this mechanism, in addition to its negative effects, can only go so far. In point of fact, “inflation tax” receipts depend on two factors: the tax base and the tax rate. The tax base is, in this case, the monetary base, that is, the central bank’s non-interest-bearing demand deposits. The tax rate is, in turn, the inflation rate. In view of the fact that the inflation rate drives real wages down, it is easy to foresee that “inflation tax” revenues will rapidly reach an unsurpassable point as prices rise. This is made worse by the introduction of interest-bearing currency liabilities (interest payments on Central Bank cash reserves), which further encumbers the monetary authority’s task of attracting this type of resources.

In many countries, “inflation tax” receipts were quite substantial throughout the 1980s. The highest level was attained in Peru in 1988, at 11% of GDP, which subsequently dropped sharply as money demand plummeted due to runaway inflation. These revenues were also significant in Argentina (approximately 8% in 1984 and 1989), Bolivia (9% in 1985), Brazil (around 4% between 1987 and 1989), Ecuador (5% in 1988) and Mexico (6% in 1984). In Uruguay, “inflation tax” revenues were more modest and they did not exceed 3% because the country’s tradition of inflation encouraged the dollarization process, which brought about a definite shrinkage of the monetary base. Lastly, in Colombia, Costa Rica and Chile, the “inflation tax” has generally recorded low, albeit stable levels (approximately 1% of GDP), since price increases have been much more moderate in those countries than in the rest of the region; this implies that the Treasury has

had this type of funding available, to the extent that it has avoided the inflation outbreaks (see table 23).

It can be concluded, from the aforementioned data, that there have been two widely differing patterns in so far as the use of the “inflation tax” as part of fiscal policy is concerned. On the one hand, those countries with high and unstable inflation rates have been able to collect large sums from this tax, but in a setting of widespread financial weakness and large macroeconomic imbalances. On the other hand, countries with

less inflation-ridden economies have been able to rely on –among their financing sources– revenues that are modest, but foreseeable and stable, without noticeably upsetting the aggregate macroeconomic performance.

Moreover, the “inflation tax” originally collected by the Central Bank has been a resource with which to finance the hidden quasi-fiscal deficits in the Treasury’s accounts. As a matter of fact, the subsidies implicit in interest rates and in preferential-status exchange rates have usually been offset by an based revenue that has not been entered on public accounts.

Table 1
**LATIN AMERICA: TOTAL EXPENDITURE OF THE NON-FINANCIAL
 PUBLIC SECTOR, IN REAL TERMS^{a,b}**

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^c	1989 ^d
Indexes (1980 = 100)										
Argentina	100.0	105.4	95.2	97.6	91.7	86.5	89.0	93.1	90.8	81.6
Bolivia	100.0	91.9	94.7	85.4	108.1	86.5	78.8	79.5	...	...
Brazil	100.0	101.6	104.7	100.8	101.4	116.6	133.8	143.6	139.7	154.2
Colombia	100.0	102.4	109.3	119.5	123.7	124.0	125.9	134.9	139.9	143.3
Costa Rica	100.0	75.6	75.2	83.4	82.4	79.9	90.2	88.8	92.0	105.2
Chile	100.0	115.8	125.2	111.9	123.6	127.3	131.3	133.3	131.1	145.1
Ecuador	100.0	105.6	101.2	95.1	91.7	105.6	108.5	90.5	81.9	80.3
Guatemala	100.0	113.5	89.2	74.9	71.5	62.7	71.0	80.8	90.1	98.2
Mexico	100.0	129.4	149.1	128.6	126.2	126.8	142.1	147.9	128.7	123.4
Paraguay	100.0	123.1	132.6	141.9	146.7	129.5	113.8	126.5	137.4	...
Peru	100.0	102.7	110.0	103.6	101.1	101.5	94.4	87.8	73.9	40.1
Uruguay	100.0	115.5	129.5	99.9	96.1	91.9	102.0	108.7	115.1	114.3
Venezuela	100.0	97.8	107.2	91.6	91.9	72.7	84.3	80.4	83.6	72.8
Latin America	100.0	109.5	115.8	107.2	106.5	108.7	120.0	124.8	118.3	118.7
Percentage variation										
Argentina		5.4	-9.7	2.4	-6.0	-5.6	2.9	4.6	-2.4	-10.2
Bolivia		-8.1	3.1	-9.8	26.5	-20.0	-8.8	0.9	...	...
Brazil		1.6	3.1	-3.7	0.6	15.0	14.8	7.3	-2.7	10.4
Colombia		2.4	6.7	9.3	3.6	0.2	1.5	7.1	3.7	2.4
Costa Rica		-24.4	-0.5	10.9	-1.3	-2.9	12.8	-1.5	3.6	14.4
Chile		15.8	8.1	-10.6	10.5	3.0	3.2	1.5	-1.6	10.7
Ecuador		5.6	-4.2	-6.0	-3.7	15.2	2.8	-16.6	-9.5	-2.0
Guatemala		13.5	-21.4	-16.1	-4.5	-12.3	13.2	13.9	11.5	9.0
Mexico		29.4	15.3	-13.8	-1.8	0.5	12.0	4.1	-13.0	-4.2
Paraguay		23.1	7.7	7.0	3.4	-11.7	-12.2	11.2	8.6	...
Peru		2.7	7.2	-5.8	-2.4	0.4	-6.9	-7.0	-15.8	-45.8
Uruguay		15.5	12.0	-22.8	-3.8	-4.4	11.0	6.5	6.0	-0.7
Venezuela		-2.2	9.6	-14.5	0.3	-20.9	15.9	-4.6	4.0	-13.0
Latin America		9.5	5.8	-7.5	-0.6	2.1	10.3	4.0	-5.2	0.4

Source: ECLAC, on the basis of official figures and figures provided by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Including general government expenditure and capital and interest expenditure of non-financial public enterprises.

^b Calculated on the basis of figures in constant 1980 dollars.

^c According to ECLAC estimates for the following countries: Chile, Costa Rica, Ecuador, Guatemala, Uruguay and Venezuela.

^d According to ECLAC estimates for the following countries: Brazil, Chile, Costa Rica, Ecuador, Guatemala, Paraguay, Uruguay and Venezuela.

Table 2
LATIN AMERICA: TOTAL PUBLIC EXPENDITURE BY TYPE^a
(Percentages of gross domestic product)

Country and item	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina												
Total expenditure	34.5	35.7	40.2	39.8	39.5	36.5	35.4	34.4	35.4	34.5	32.7	31.0
Current expenditure	22.4	26.2	30.6	31.3	29.8	28.7	28.3	27.0	27.2	25.9	26.2	25.7
Consumption expenditure	10.9	13.3	12.6	11.1	13.5	13.4	13.0	12.7	13.1	13.3	12.8	11.7
Interest payments	2.7	3.4	7.4	10.4	6.0	5.0	5.5	3.9	3.6	2.8	5.3	4.1
Transfers and social security benefits	8.8	9.5	10.6	9.8	10.3	10.3	9.9	10.4	10.4	9.8	8.1	9.9
Capital expenditure	12.1	9.5	9.6	8.6	9.7	7.8	7.1	7.5	8.2	8.6	6.5	5.3
Real investment	11.1	9.1	8.5	8.1	9.0	7.2	6.6	7.1	7.6	8.0	5.9	4.4
Other capital expenditure	1.0	0.5	1.2	0.5	0.7	0.6	0.5	0.4	0.6	...	...	...
Bolivia												
Total expenditure	...	29.8	27.1	29.2	27.6	35.1	28.4	26.5	26.1	...	...	...
Current expenditure	...	22.5	19.7	15.8	16.4	20.6	21.2	20.6	19.5	...	...	...
Consumption	...	16.3	13.6	10.3	9.9	14.1	11.8	12.3	12.8	...	...	...
Interest payments	...	2.6	2.5	1.2	1.9	2.8	1.6	1.8	2.0	...	...	...
Transfers and social security benefits	...	3.6	3.6	4.2	4.6	3.7	7.8	6.5	4.7	...	...	...
Capital expenditure	...	7.3	6.2	5.9	4.5	4.8	4.6	5.9	6.6	...	...	...
Real investment	...	7.3	6.1	5.9	3.6	4.2	4.3	5.9	6.5	...	...	...
Other capital expenditure	...	-0.0	0.1	0.0	0.8	0.6	0.4	0.0	0.1	...	...	...
Unidentified expenditure	...	0.0	1.3	7.5	6.7	9.7	2.5	0.0	0.0	...	...	...
Brazil												
Total expenditure	...	27.5	29.1	30.6	30.3	29.0	30.9	33.3	34.5	33.4	...	...
Current expenditure	...	18.7	19.2	22.4	23.6	22.7	23.9	24.0	25.9	25.6	...	...
Consumption expenditure ^b	...	9.2	9.4	10.1	9.6	8.3	9.9	10.7	12.2	12.6	14.3	...
Interest payments ^c	...	2.0	2.7	4.2	5.4	6.3	6.3	4.4	6.0	6.3	...	...
Social security ^d	...	5.6	5.3	6.0	5.5	4.9	4.6	4.7	4.5	4.2	...	...
Other transfers	...	2.0	1.9	2.1	3.1	3.2	3.1	4.3	3.3	2.4	...	...
Capital expenditure	...	8.8	9.9	8.3	6.8	6.3	7.1	9.3	8.6	7.9	...	...
Real investment	...	7.7	8.9	7.7	6.1	5.7	6.2	7.0	7.7	7.0	...	...
Other capital expenditure	...	1.1	1.0	0.6	0.6	0.6	0.9	2.4	0.8	0.9	...	...
Colombia												
Total expenditure	21.1	23.0	23.0	24.3	26.1	26.0	25.1	23.9	24.2	24.1	23.8	...
Current expenditure	14.4	15.9	14.7	15.6	16.8	16.4	16.4	16.0	17.0	16.6	16.7	...
Consumption	7.6	9.1	10.1	10.3	10.6	9.2	9.5	9.2	8.8	9.0	9.7	...
Interest payments	1.4	1.7	1.4	1.7	2.0	2.4	3.0	3.1	4.4	4.2	3.7	...
Current transfers	5.3	5.1	3.2	3.6	4.1	4.8	3.9	3.7	3.7	3.5	3.4	...
Capital expenditure	6.7	7.1	8.4	8.7	9.3	9.6	8.7	7.9	7.2	7.5	7.1	...
Real investment	6.3	6.0	7.0	7.2	8.4	8.8	7.8	6.7	6.0	6.2	6.5	...
Other capital expenditure	0.5	1.1	1.3	1.5	0.9	0.8	1.0	1.2	1.2	1.2	0.6	...
Costa Rica												
Total expenditure	38.8	41.8	32.4	34.8	37.6	34.4	33.1	35.5	33.5	...	...	...
Current expenditure	26.3	28.9	21.7	23.9	26.2	24.5	23.6	23.1	22.9	...	...	...
Consumption	17.3	18.5	16.0	14.3	15.6	15.1	14.9	14.5	14.1	...	...	...
Interest payments	5.0	6.2	2.8	6.6	6.8	5.9	6.1	6.2	6.3	...	...	...
Transfers	4.0	4.2	2.9	2.9	3.8	3.5	2.6	2.4	2.5	...	...	...
Capital expenditure	12.5	13.0	10.7	10.9	11.4	9.9	9.5	12.4	10.6	...	...	...
Real investment	6.5	8.1	8.2	6.6	6.1	6.3	6.3	5.9	4.6	...	...	...
Other capital expenditure	6.0	4.9	2.5	4.3	5.3	3.6	3.3	6.4	6.0	...	...	...

Table 2 (cont. 1)

Country and item	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Chile												
Total expenditure	33.4	31.8	34.6	42.3	37.4	39.2	39.2	38.0	36.5	...	...	...
Current expenditure	25.7	24.5	26.6	31.9	30.5	30.7	29.5	27.3	26.2	23.4	...	...
Consumption	13.4	11.9	10.7	11.1	9.9	9.8	9.1	8.3	8.1	7.1	...	...
Interest payments	1.4	0.8	0.4	0.6	1.8	2.4	3.2	2.4	2.9	3.1	...	...
Social security	6.9	7.1	8.2	10.8	9.7	10.1	9.0	8.7	8.0	7.2	...	...
Transfers to the private sector	4.0	4.7	7.3	9.5	9.2	8.4	8.3	7.9	7.2	6.0	...	...
Capital expenditure	7.6	7.3	7.9	10.4	6.9	8.5	9.7	10.7	10.3	...	...	...
Real investment	5.9	5.2	5.1	4.7	4.8	6.0	7.1	10.7	10.3	...	...	...
Other capital expenditure	1.7	2.0	2.9	5.7	2.1	2.5	2.6	...	...	...	...	...
Ecuador												
Total expenditure	28.5	35.4	36.9	34.8	32.2	29.2	32.4	32.3	29.4	...	...	...
Current expenditure	15.3	20.3	20.8	22.2	19.5	18.7	19.9	20.4	19.0	...	...	...
Consumption expenditure	12.5	14.0	14.0	13.7	12.2	12.0	11.2	11.9	11.9	...	...	...
Interest payments	2.8	3.1	3.8	5.5	4.7	4.2	4.7	4.5	3.9	...	...	...
Transfers to the private sector	2.4	3.2	3.1	3.0	2.6	2.5	4.0	4.1	3.2	...	...	...
Capital expenditure	13.2	15.1	16.0	12.6	12.6	10.5	12.5	11.9	10.5	...	...	...
Real investment	9.0	9.3	10.4	9.5	7.8	6.3	6.5	8.8	8.7	...	...	...
Other capital expenditure	4.2	5.8	5.6	3.1	4.9	4.2	6.0	3.0	1.8	...	...	...
Guatemala^c												
Total expenditure	11.8	14.2	16.0	13.1	11.5	10.9	9.6	10.8	11.8	...	...	...
Current expenditure	7.6	8.6	8.8	8.1	8.0	8.1	7.5	8.9	9.7	...	...	...
Consumption expenditure	5.7	6.4	6.4	5.8	5.6	5.7	5.3	5.5	5.8	...	...	...
Interest payments	0.6	0.6	0.7	0.9	0.9	0.9	0.7	1.3	1.4	...	...	...
Transfers	1.3	1.7	1.8	1.5	1.5	1.5	1.5	2.0	2.5	...	...	...
Capital expenditure	4.2	5.6	7.2	5.0	3.5	2.8	2.1	1.9	2.1	...	...	...
Real investment	3.6	4.8	6.7	4.7	3.3	2.7	2.0	1.8	1.8	...	...	...
Other capital expenditure	0.6	0.7	0.5	0.3	0.2	0.1	0.1	0.0	0.3	...	...	...
Mexico												
Total expenditure	...	28.4	33.8	39.2	35.3	33.4	32.7	38.1	39.0	33.5	31.1	...
Current expenditure	...	20.5	24.7	31.4	30.0	28.4	28.1	33.5	34.7	29.7	27.8	...
Consumption ^b	...	10.0	10.8	10.5	8.8	9.2	9.2	9.1	8.5	8.4	8.7	...
Interest payments on debt	...	3.5	5.0	8.2	12.4	11.9	11.5	16.6	19.7	16.7	13.0	...
Social security transfers	...	0.6	0.6	0.6	0.5	0.5	0.7	0.7	0.6	0.6	0.8	...
Other transfers	...	5.0	5.8	4.3	4.1	2.8	3.0	3.1	3.1	2.3	2.4	...
Other expenditure ^f	...	1.4	2.5	7.8	4.1	3.9	3.8	4.1	2.7	1.7	3.0	...
Capital expenditure	...	...	...	...	...	...	...	...	...	...	...	...
Real investment	...	7.9	9.1	7.8	5.3	5.0	4.7	4.6	4.3	3.8	3.3	...
Paraguay												
Total expenditure	...	13.3	15.1	16.3	18.0	18.0	15.3	13.5	14.4	14.6	...	...
Current expenditure	...	8.2	8.9	10.8	11.1	9.6	8.8	8.3	8.6	7.9	...	...
Consumption	...	6.3	7.0	7.2	7.3	5.5	5.6	5.4	5.1	4.6	...	...
Interest payments on debt	...	0.5	0.5	1.0	0.9	1.0	0.9	0.9	1.5	1.4	...	...
Transfers	...	1.3	1.4	2.7	2.9	3.1	2.4	2.0	2.0	1.9	...	...
Capital expenditure	...	5.1	6.2	5.5	6.9	8.4	6.5	5.2	5.8	6.7	...	...
Real investment	...	4.5	4.3	5.0	6.5	7.4	5.9	4.5	4.8	6.1	...	...
Other capital expenditure	...	0.7	1.8	0.5	0.5	1.0	0.6	0.7	1.0	0.6	...	...
Peru												
Total expenditure	26.3	31.0	30.5	32.6	34.9	32.5	31.9	27.3	23.5	21.6	13.2	...
Current expenditure	20.8	24.0	22.6	23.9	26.2	24.4	25.5	21.8	19.1	17.6	10.6	...
Consumption	11.4	11.7	11.9	13.3	13.2	9.7	9.6	9.5	9.3	7.5	5.3	...
Interests payments and commissions	4.5	4.7	4.8	4.5	5.9	5.9	5.8	3.3	2.6	3.8	1.7	...
Transfers	4.9	7.6	5.9	6.1	7.1	8.8	10.1	9.0	7.2	6.4	3.5	...
Capital expenditure	5.6	7.0	7.9	8.7	8.7	8.1	6.4	5.5	4.4	4.0	2.7	...
Real investment	5.1	6.0	7.3	8.5	8.6	7.8	6.3	5.1	4.0	3.4	2.5	...
Other capital expenditure	0.5	1.0	0.6	0.2	0.1	0.3	0.1	0.4	0.4	0.6	0.2	...

Table 2 (concl.)

Country and item	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Uruguay												
Total expenditure	25.3	25.6	29.3	36.4	30.1	29.4	27.7	28.4	28.0	...	...	...
Current expenditure	20.8	21.9	24.9	29.6	26.2	25.2	24.4	24.9	24.7	...	...	...
Consumption	11.5	12.0	13.1	13.5	12.3	11.6	11.1	11.1	10.2	...	...	...
Interest payments on debt	0.8	0.5	0.5	1.3	2.4	4.0	3.8	3.1	2.5	...	...	...
Transfers to the private sector	8.5	9.4	11.3	14.9	11.5	9.6	9.5	10.6	12.0	...	...	...
Capital expenditure	4.5	3.7	4.4	6.7	3.8	4.2	3.3	3.5	3.3	...	...	...
Real investment	4.1	3.8	4.3	5.4	4.4	3.7	3.2	3.0	3.5	...	...	...
Other capital expenditure	0.4	0.1	0.1	0.0	0.0	0.8	0.5	0.0	0.0	...	...	...
Venezuela												
Total expenditure	...	36.9	36.7	40.8	36.9	37.2	29.5	32.1	29.5	29.0	...	...
Current expenditure	...	20.5	22.0	24.3	23.0	25.7	20.8	20.1	19.0	16.9	...	...
Consumption	...	16.2	17.3	19.1	15.3	13.2	10.9	11.7	10.2	10.9	...	...
Interest payments and financial expenses	...	3.5	3.8	4.6	4.0	5.4	4.2	3.7	3.1	3.8	...	...
Social security benefits	...	0.3	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.4	...	...
Transfers to the private sector	...	0.5	0.5	0.4	3.5	6.7	5.4	4.3	5.4	1.8	...	...
Capital expenditure	...	16.4	14.8	16.5	13.9	11.5	8.7	12.0	10.5	12.1	...	...
Real investment	...	13.8	12.6	12.7	13.2	10.3	7.9	9.5	8.5	11.9	...	...
Other capital expenditure	...	2.6	2.2	3.8	0.6	1.2	0.8	2.5	2.0	0.2	...	...

Source: **Argentina:** 1977-1987, Angel Peña (consultant), *El déficit del sector público y la política fiscal en Argentina, 1978-1987* (LC/L.625), Política fiscal series, No. 12, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991; 1988-1990, ECLAC, on the basis of official figures. **Bolivia:** Unit for Economic Policy Analysis (UDAPE) (consultant), *Determinantes del déficit del sector público en Bolivia (período 1980-1987)* (LC/L.582 and LC/L.582/Add.1), Política fiscal series, No. 9, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, August 1990. **Brazil:** Fabio Barbosa and others (consultants), *O déficit do setor público e a política fiscal no Brasil, 1980-1988* (LC/L.636), Política fiscal series, No. 14, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, September 1991. **Colombia:** Eduardo Sarmiento (consultant), *La política fiscal en Colombia* (LC/L.642), Política fiscal series, No. 16, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, October 1991. **Chile:** Osvaldo Larrañaga (consultant), *El déficit del sector público y la política fiscal en Chile, 1978-1987* (LC/L.563), Política fiscal series, No. 4, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1990; and Osvaldo Larrañaga and Jorge Marshall (consultants), *Ajuste macroeconómico y finanzas públicas. Chile: 1982-1988* (LC/L.566), Política fiscal series, No. 6, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1990. **Ecuador:** G. Abril, S. Urbano and R. Urriola (consultants), *Determinantes del déficit y política fiscal en el Ecuador (1979-1987)* (LC/L.624 and LC/L.624/Add.1), Política fiscal series, No. 11, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991. **Guatemala:** ECLAC, on the basis of official figures. **Mexico:** Carlos Urzúa (consultant), *El déficit del sector público y la política fiscal en México, 1980-1989* (LC/L.622), Política fiscal series, No. 10, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991. **Paraguay:** ECLAC, based on official figures. **Peru:** ECLAC, based on official figures. **Uruguay:** Jorge E. Roldós (consultant), *El déficit del sector público y la política fiscal en Uruguay (período 1978-1987)* (LC/L.579), Política fiscal series, No. 8, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, August 1990. **Venezuela:** Efraín J. Velázquez (consultant), *El déficit público y la política fiscal en Venezuela (1980-1990)* (LC/L.635), Política fiscal series, No. 13, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1991.

^a Including general government expenditure and investment by non-financial public enterprises. ^b Information from national accounts. ^c Excluding the inflation component. ^d Including medical care. ^e Central Government. ^f Including capital expenditure, using federal Government resources, of decentralized agencies and associated entities.

Table 3
LATIN AMERICA: BREAKDOWN OF TOTAL PUBLIC EXPENDITURE BY TYPE^a
(Percentages of public expenditure)

Country and item	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina												
Current expenditure	64.9	73.4	76.0	78.5	75.5	78.6	80.0	78.3	76.9	73.9	78.6	81.7
Consumption expenditure	31.6	37.3	31.2	27.9	34.3	36.8	36.6	36.9	37.1	40.4	42.1	40.4
Interest payments	7.9	9.6	18.4	26.0	15.1	13.6	15.4	11.2	10.2	8.6	17.6	14.1
Transfers and social security benefits	25.4	26.5	26.4	24.5	26.1	28.1	28.0	30.2	29.5	29.7	26.5	34.1
Capital expenditure	35.1	26.6	24.0	21.5	24.5	21.4	20.0	21.7	23.1	26.1	21.4	18.3
Bolivia												
Current expenditure	...	75.6	72.7	54.0	59.5	58.7	74.9	77.8	74.7	...	...	...
Consumption	...	54.6	50.2	35.4	36.0	40.0	41.6	46.3	49.1	...	...	...
Interest payments	...	8.7	9.2	4.2	6.9	8.1	5.6	6.8	7.6	...	...	...
Transfers and social security benefits	...	12.2	13.3	14.4	16.5	10.6	27.7	24.7	18.0	...	...	...
Capital expenditure	...	24.4	22.7	20.3	16.2	13.7	16.3	22.2	25.3	...	...	...
Unidentified expenditure	...	0.0	4.6	25.7	24.3	27.6	8.8	0.0	0.0	...	...	...
Brazil												
Current expenditure	...	68.1	66.0	73.0	77.7	78.3	77.1	72.1	75.2	76.4	...	...
Consumption expenditure ^b	...	33.5	32.2	33.0	31.8	28.6	31.9	32.0	35.3	37.7	...	...
Interest payments ^c	...	7.1	9.2	13.6	17.7	21.8	20.3	13.1	17.2	18.9	...	...
Social security ^d	...	20.4	18.2	19.5	18.0	16.7	14.8	14.2	13.1	12.5	...	...
Other transfers	...	7.1	6.4	7.0	10.2	11.2	10.1	12.8	9.6	7.3	...	...
Capital expenditure	...	31.9	34.0	27.0	22.3	21.7	22.9	27.9	24.8	23.6	...	...
Chile												
Current expenditure	77.2	77.1	77.0	75.5	81.7	78.4	75.3	71.8	71.8	...	...	...
Consumption	40.2	37.5	31.0	26.3	26.5	25.1	23.1	21.8	22.2	...	...	...
Interest payments	4.2	2.6	1.2	1.3	4.8	6.1	8.2	6.3	7.9	...	...	...
Transfers and social security benefits	32.8	37.0	44.8	47.8	50.5	47.2	44.0	43.7	41.7	...	...	...
Capital expenditure	22.8	22.9	23.0	24.5	18.3	21.6	24.7	28.2	28.2	...	...	...
Colombia												
Current expenditure	68.3	69.1	63.7	64.2	64.3	63.1	65.2	67.0	70.2	69.0	70.2	...
Consumption	36.1	39.7	44.0	42.3	40.7	35.2	37.8	38.6	36.5	37.2	40.7	...
Interest payments	6.8	7.3	6.0	6.9	7.8	9.2	12.0	13.0	18.3	17.3	15.4	...
Transfers and social security benefits	25.4	22.2	13.7	15.0	15.8	18.6	15.4	15.3	15.3	14.6	14.2	...
Capital expenditure	31.7	30.9	36.3	35.8	35.7	36.9	34.8	33.0	29.8	31.0	29.8	...
Costa Rica												
Current expenditure	67.9	69.0	66.9	68.6	69.7	71.3	71.3	65.1	68.3	...	...	...
Consumption expenditure	44.7	44.2	49.3	41.3	41.5	44.0	45.1	40.9	42.1	...	...	...
Interest payments	12.9	14.8	8.5	19.0	18.1	17.0	18.3	17.5	18.8	...	...	...
Transfers and social security benefits	10.3	10.0	9.1	8.4	10.1	10.3	8.0	6.7	7.4	...	...	...
Capital expenditure	32.1	31.0	33.1	31.4	30.3	28.7	28.7	34.9	31.7	...	...	...
Ecuador												
Current expenditure	57.4	57.3	56.5	63.9	60.7	64.1	61.5	63.3	64.5	...	...	...
Consumption expenditure	40.4	39.6	37.9	39.3	37.8	41.0	34.5	36.8	40.4	...	...	...
Interest payments	9.1	8.7	10.2	15.8	14.7	14.5	14.6	13.8	13.2	...	...	...
Transfers and social security benefits	7.8	8.9	8.4	8.7	8.1	8.5	12.4	12.6	10.9	...	...	...
Capital expenditure	42.6	42.7	43.5	36.1	39.3	35.9	38.5	36.7	35.5	...	...	...

Table 3 (concl.)

Country and item	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Guatemala^e												
Current expenditure	64.5	60.7	55.0	62.2	69.5	74.4	78.4	82.5	81.9	...	...	...
Consumption expenditure	48.6	44.9	39.7	44.1	48.8	52.8	55.3	51.4	48.7	...	...	...
Interest payments	5.0	4.0	4.1	6.5	7.6	8.0	7.2	12.2	11.7	...	...	...
Transfers	11.0	11.8	11.2	11.5	13.1	13.6	15.9	18.9	21.5	...	...	...
Capital expenditure	35.5	39.3	45.0	37.8	30.5	25.6	21.6	17.5	18.1	...	...	...
Mexico												
Current expenditure	...	72.0	73.0	80.1	84.9	84.9	85.8	87.8	89.0	88.7	89.5	...
Consumption ^b	...	35.3	31.9	26.7	24.9	27.6	28.2	23.8	21.9	25.1	28.0	...
Interest on debt	...	12.4	14.7	21.0	35.1	35.6	35.1	43.4	50.6	49.9	41.9	...
Social security transfers	...	2.0	1.8	1.6	1.5	1.6	2.0	1.9	1.6	1.8	2.5	...
Other transfers	...	17.4	17.2	11.1	11.6	8.4	9.0	8.0	8.0	6.9	7.6	...
Other expenditure ^f	...	4.9	7.4	19.8	11.7	11.6	11.5	10.8	6.9	5.1	9.5	...
Capital expenditure	...	28.0	27.0	19.9	15.1	15.1	14.2	12.2	11.0	11.3	10.5	...
Paraguay												
Current expenditure	...	61.4	59.2	66.3	61.5	53.4	57.5	61.7	59.6	53.9	...	...
Consumption expenditure	...	47.3	46.3	43.8	40.7	30.6	36.4	39.7	35.6	31.7	...	...
Interest payments	...	4.0	3.5	6.0	5.0	5.5	5.8	7.0	10.3	9.6	...	...
Transfers	...	10.0	9.3	16.4	15.8	17.3	15.3	15.0	13.6	12.7	...	...
Capital expenditure	...	38.6	40.8	33.7	38.5	46.6	42.5	38.3	40.4	46.1	...	...
Peru												
Current expenditure	78.9	77.4	74.1	73.3	75.1	75.1	79.9	79.9	81.3	81.7	79.8	...
Consumption expenditure	43.2	37.7	39.0	40.8	37.8	29.8	30.1	34.8	39.6	34.6	39.9	...
Interest payments	17.2	15.2	15.7	13.8	16.9	18.2	18.2	12.1	11.1	17.6	13.2	...
Transfers	18.5	24.5	19.3	18.7	20.3	27.1	31.7	33.0	30.6	29.5	26.7	...
Capital expenditure	21.1	22.6	25.9	26.7	24.9	24.9	20.1	20.1	18.7	18.3	20.2	...
Uruguay												
Current expenditure	82.3	85.6	85.0	81.5	87.3	85.7	88.2	87.7	88.2	...	...	...
Consumption expenditure	45.3	47.0	44.8	37.1	41.0	39.6	40.2	39.2	36.4	...	...	...
Interest payments	3.3	2.0	1.5	3.4	7.9	13.5	13.7	11.0	8.9	...	...	...
Transfers and social security benefits	33.6	36.7	38.7	41.0	38.4	32.6	34.2	37.5	42.9	...	...	...
Capital expenditure	17.7	14.4	15.0	18.5	12.7	14.3	11.8	12.3	11.8	...	...	...
Venezuela												
Current expenditure	...	55.6	59.8	59.5	62.4	69.1	70.6	62.7	64.4	58.3	...	...
Consumption expenditure	...	44.0	47.0	46.7	41.5	35.6	36.9	36.4	34.5	37.8	...	...
Interest payments	...	9.5	10.4	11.2	10.8	14.4	14.3	11.6	10.4	13.0	...	...
Social security ^c	...	0.7	1.0	0.6	0.8	1.1	1.2	1.2	1.3	1.3	...	...
Other transfers	...	1.4	1.4	1.0	9.4	18.0	18.2	13.5	18.2	6.3	...	...
Capital expenditure	...	44.4	40.2	40.5	37.6	30.9	29.4	37.3	35.6	41.7	...	...

Source: ECLAC, on the basis of official figures and figures provided by the ECLAC/UNDP Regional Project on Fiscal Policies.
^aIncluding general government expenditures and investment by non-financial public enterprises. ^bInformation from national accounts. ^cExcluding the inflation component. ^dIncluding medical care. ^eCentral Government. ^fIncluding capital expenditures, using federal Government resources, of decentralized agencies and associated entities.

Table 4
**LATIN AMERICA: RATIO OF INTEREST ON THE PUBLIC
DEBT TO CURRENT PUBLIC-SECTOR INCOME**
(Percentages of current income)

Country	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Argentina	10.3	12.6	28.5	45.6	25.9	21.5	19.5	13.7	13.6	12.1	22.3
Bolivia	...	16.9	19.0	28.2	48.1	44.8	45.5	29.5	26.7	...	...
Brazil ^a	...	8.1	11.2	17.7	23.0	27.6	26.8	16.5	23.8	26.6	...
Colombia	7.1	8.5	8.2	9.2	11.3	12.3	14.4	13.3	20.2	19.2	17.0
Costa Rica	18.0	19.1	8.9	21.2	17.6	14.9	16.5	16.6	17.1	...	...
Chile	6.6	4.6	4.6	7.3	13.1	14.6	16.8	15.4	16.8	...	...
Ecuador	10.3	11.5	14.1	21.1	18.0	15.2	14.7	15.9	15.6	...	...
Guatemala	5.9	6.0	7.6	10.2	10.6	12.4	8.9	14.8	14.8	...	...
Mexico	...	16.1	23.9	34.7	45.6	45.3	46.5	70.0	80.2	68.9	50.7
Paraguay	...	4.0	4.4	7.2	7.1	8.6	7.0	8.2	12.0	11.5	...
Peru ^b	21.3	17.7	20.7	18.8	24.9	23.4	20.1	15.0	15.7	27.3	22.7
Uruguay	3.3	1.9	1.6	4.8	8.9	15.6	14.7	11.1	9.1	...	...
Venezuela	...	9.3	10.6	13.3	12.8	14.4	13.6	12.7	10.1	17.2	...

Source: ECLAC, on the basis of official figures and figures provided by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Corresponds only to the "real" component of return to capital, excluding the monetary adjustment of principal component, which is part of interest payments at the nominal rate. ^b Corresponds to accrued interest.

Table 5
**LATIN AMERICA: INTEREST PAID AND ACCRUED ON EXTERNAL
 PUBLIC DEBT**
 (Percentages of GDP)

Country and item	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Argentina											
Interest paid	0.7	0.6	0.9	1.9	2.3	2.7	5.2	4.0	4.1	2.9	1.5
Interest accrued	0.7	0.6	0.9	1.9	3.4	4.0	3.8	3.7	3.9	4.9	5.3
Bolivia											
Interest paid	2.7	4.0	4.5	7.0	6.6	3.2	2.6	1.6	2.3	2.3	1.9
Interest accrued	2.7	4.0	4.5	8.8	7.0	4.7	6.2	3.0	3.9	3.1	2.7
Brazil											
Interest paid	1.0	1.6	1.8	2.1	2.6	2.6	2.5	1.8	1.7	2.9	0.9
Interest accrued	1.0	1.6	1.8	2.1	2.6	2.6	2.5	1.8	2.7	2.2	1.7
Colombia											
Interest paid and accrued	0.7	0.9	1.1	1.4	1.4	1.3	2.4	2.5	3.0	2.7	3.0
Costa Rica											
Interest paid	1.7	2.9	4.3	3.2	16.3	6.0	8.3	4.4	2.7	3.4	3.0
Interest accrued	1.7	2.9	4.3	11.1	10.4	7.4	7.0	6.1	7.4	5.3	3.6
Chile											
Interest paid and accrued	1.8	1.8	1.6	2.3	2.8	5.1	6.5	7.4	6.1	3.9	4.3
Ecuador											
Interest paid	1.4	2.5	3.3	4.4	3.3	7.2	5.8	5.9	2.5	3.1	3.7
Interest accrued	1.4	2.5	3.3	4.4	3.3	7.2	5.8	5.9	6.9	8.1	8.0
Mexico											
Interest paid and accrued	1.9	1.8	1.8	3.8	4.8	4.3	4.2	4.8	4.5	3.8	3.5
Peru											
Interest paid	2.5	2.6	2.2	2.2	3.4	1.7	1.7	0.9	0.6	0.2	0.2
Interest accrued	2.5	2.6	2.2	2.2	3.4	4.2	4.5	2.5	1.5	1.7	1.3
Uruguay											
Interest paid and accrued	1.2	1.2	1.1	1.4	3.6	5.4	5.4	3.9	3.5	3.2	3.2
Venezuela											
Interest paid and accrued	1.0	2.1	1.9	2.4	2.9	2.5	2.3	3.4	3.2	3.7	4.8
Total 11 countries											
Interest paid	1.2	1.5	1.7	2.5	3.2	3.1	3.5	3.1	2.8	3.1	2.1
Interest accrued	1.1	1.5	1.6	2.5	3.3	3.4	3.4	3.1	3.4	3.1	2.9

Source: Interest paid: World Bank, *World Debt Tables, 1988-1989 Edition*, Washington, D.C., 1989, and *World Debt Tables, 1990-1991*, Washington, D.C., 1990; interest accrued: ECLAC estimates.

Table 6
**LATIN AMERICA: TOTAL EXPENDITURE OF THE NON-FINANCIAL PUBLIC SECTOR
 IN REAL TERMS, EXCLUDING INTEREST ON PUBLIC DEBT^{a b}**

Country	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Indexes (1980 = 100)											
Argentina	88.6	100.0	95.3	77.1	91.3	87.2	80.8	87.3	92.3	92.4	75.6
Bolivia	...	100.0	90.8	92.4	81.2	110.1	71.3	67.7	74.3	...	...
Brazil	...	100.0	99.2	96.7	88.4	84.0	98.3	124.2	126.4	120.4	.....
Colombia	86.5	100.0	103.8	109.8	118.8	121.1	117.7	118.1	118.8	124.8	130.7
Costa Rica	92.2	100.0	81.2	71.5	80.2	80.2	76.7	87.4	84.7	...	...
Chile	92.5	100.0	116.8	124.9	105.2	114.9	114.9	120.2	119.8	...	...
Ecuador	83.6	100.0	103.6	92.8	88.9	86.0	98.9	102.5	86.3	...	...
Guatemala	81.3	100.0	113.4	86.9	72.1	68.5	60.6	64.9	74.4	...	...
Mexico	...	100.0	125.9	134.6	95.3	92.8	94.0	91.8	83.3	73.6	81.8
Paraguay	...	100.0	123.8	129.9	140.4	144.3	127.2	110.2	118.2	129.5	...
Peru	76.0	100.0	102.0	111.8	101.5	97.5	97.9	97.9	92.0	71.8	41.0
Uruguay	89.4	100.0	116.0	127.5	93.9	84.8	80.9	92.7	101.0	...	...
Venezuela	...	100.0	96.9	105.2	90.3	86.9	68.9	82.3	79.6	80.5	...
Latin America	...	100.0	106.1	106.1	93.1	90.5	92.2	103.1	101.9	...	...
Percentage variation											
Argentina		10.7	-4.7	-19.0	18.4	-4.5	-7.4	8.1	5.7	0.1	-18.1
Bolivia		...	-9.2	1.7	-12.1	35.5	-35.2	-5.1	9.8	...	...
Brazil		...	-0.8	-2.6	-8.6	-4.9	17.0	26.3	1.8	-4.7	...
Colombia		7.3	3.8	5.8	8.2	1.9	-2.8	0.4	0.6	5.0	4.7
Costa Rica		1.8	-18.8	-11.9	12.2	0.0	-4.4	13.9	-3.1	...	...
Chile		10.0	16.8	6.9	-15.7	9.2	0.0	4.6	-0.3	...	...
Ecuador		19.7	3.6	-10.5	-4.2	-3.2	15.0	3.6	-15.8	...	...
Guatemala		23.0	13.4	-23.4	-17.0	-5.0	-11.5	7.1	14.5	...	...
Mexico		...	25.9	6.8	-29.2	-2.7	1.3	-2.4	-9.2	-11.7	11.2
Paraguay		...	23.8	4.9	8.1	2.8	-11.9	-13.4	7.3	9.6	...
Peru		33.3	2.0	9.6	-9.2	-3.9	0.3	0.0	-5.9	-22.0	-42.9
Uruguay		16.9	16.0	9.9	-26.4	-9.7	-4.6	14.6	9.0	...	...
Venezuela		...	-3.1	8.6	-14.1	-3.8	-20.7	19.5	-3.3	1.0	...
Latin America		...	6.1	0.0	-12.3	-2.8	1.9	11.8	-1.2	...	...

Source: ECLAC, on the basis of official figures and figures provided by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Including general government expenditures and capital and interest expenditures of non-financial public enterprises.

^b Calculated on the basis of figures in constant 1980 dollars.

Table 7
**LATIN AMERICA: GENERAL GOVERNMENT CONSUMPTION EXPENDITURE
 IN REAL TERMS^a**

Country	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 ^b
Indexes (1980 = 100)												
Argentina	77.8	100.0	87.9	73.3	91.5	93.0	85.7	89.2	94.0	92.6	85.1	77.8
Bolivia	...	100.0	84.7	61.4	61.0	82.8	67.9	67.1	71.8	75.0	84.5	93.8
Brazil	...	100.0	97.6	105.6	97.4	88.6	114.6	132.0	155.5	160.8	187.2	146.0
Colombia	78.0	100.0	113.5	116.6	122.5	109.9	118.2	122.5	124.1	131.1	146.9	147.0
Costa Rica	91.0	100.0	84.4	70.2	78.3	82.0	81.5	83.5	84.6	89.4	98.8	100.0
Chile	100.8	100.0	95.4	86.5	75.9	79.8	75.0	72.8	75.1	84.6	77.5	82.0
Ecuador	85.3	100.0	103.4	102.3	89.9	92.8	90.7	99.7	90.1	81.1	74.7	78.9
Guatemala	88.9	100.0	100.5	87.7	81.4	84.0	77.4	81.3	87.8	83.0	84.1	71.3
Mexico	...	100.0	116.7	112.7	90.8	98.7	101.2	95.6	91.6	91.4	97.7	99.5
Paraguay	...	100.0	120.5	122.8	121.9	94.7	99.6	95.3	95.2	92.0	135.2	133.9
Peru	88.8	100.0	106.1	118.9	103.8	80.0	80.9	87.1	92.1	67.8	42.4	27.8
Uruguay	87.5	100.0	110.3	102.2	87.3	81.0	78.7	85.2	84.2	87.8	84.1	79.9
Venezuela	...	100.0	104.5	113.9	86.4	74.3	60.9	69.8	63.1	71.8	50.7	53.2
Latin America	...	100.0	102.5	102.7	93.0	89.9	95.4	101.6	107.7	110.0	115.2	102.2
Percentage variation												
Argentina			-12.1	-16.6	24.9	1.6	-7.9	4.1	5.3	-1.5	-8.0	-8.6
Bolivia			-15.3	-27.6	-0.7	35.7	-18.0	-1.2	7.0	4.4	12.7	11.0
Brazil			-2.4	8.2	-7.7	-9.1	29.4	15.2	17.8	3.4	16.4	-22.0
Colombia			13.5	2.7	5.1	-10.3	7.6	3.6	1.3	5.6	12.0	0.1
Costa Rica			-15.6	-16.8	11.5	4.7	-0.5	2.5	1.3	5.7	10.5	1.2
Chile			-4.6	-9.3	-12.2	5.1	-6.0	-3.0	3.2	12.7	-8.4	5.8
Ecuador			3.4	-1.1	-12.1	3.3	-2.3	10.0	-9.6	-10.1	-7.8	5.6
Guatemala			0.5	-12.7	-7.2	3.3	-8.0	5.1	8.0	-5.4	1.2	-15.2
Mexico			16.7	-3.4	-19.5	8.7	2.5	-5.5	-4.3	-0.2	6.9	1.9
Paraguay			20.5	1.9	-0.7	-22.3	5.1	-4.3	-0.2	-3.4	47.1	-1.0
Peru			6.1	12.1	-12.7	-23.0	1.2	7.6	5.7	-26.4	-37.4	-34.6
Uruguay			10.3	-7.3	-14.6	-7.2	-2.8	8.3	-1.2	4.2	-4.2	-5.0
Venezuela			4.5	9.0	-24.2	-14.0	-18.0	14.5	-9.6	13.9	-29.5	5.0
Latin America			2.5	0.1	-9.4	-3.4	6.1	6.5	6.0	2.1	4.7	-11.3

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Calculated on the basis of figures expressed in dollars at constant 1980 prices.

^b ECLAC estimates, except in the case of Argentina.

Table 8
LATIN AMERICA: REAL PUBLIC INVESTMENT^{a b}

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Indexes (1980 = 100)										
Argentina	100.0	87.2	78.1	89.0	73.6	64.0	73.4	79.8	81.9	57.7
Bolivia	100.0	84.7	78.7	46.2	52.6	53.1	71.2	81.7	...	...
Brazil	100.0	111.0	96.5	74.2	71.9	84.8	102.6	117.9	106.1	...
Colombia	100.0	120.4	124.7	147.3	160.4	147.3	135.0	128.7	139.2	150.1
Costa Rica	100.0	98.8	73.5	69.7	77.7	78.0	77.9	62.8	...	...
Chile	100.0	102.5	82.6	81.9	109.1	131.4	210.0	212.1	...	...
Ecuador	100.0	115.6	107.0	86.2	73.5	79.5	111.4	98.8	...	...
Guatemala	100.0	138.9	93.2	62.5	51.9	38.0	35.6	36.9	...	...
Mexico	100.0	125.1	106.0	69.5	68.1	64.4	61.8	58.2	51.7	46.1
Paraguay	100.0	105.8	120.2	151.4	178.2	149.4	112.4	125.1	170.2	...
Peru	100.0	126.9	148.2	131.9	125.4	103.5	91.1	77.2	60.2	39.0
Uruguay	100.0	113.9	129.7	97.7	81.2	71.7	71.8	89.9	...	...
Venezuela	100.0	89.8	89.5	87.9	68.1	51.9	66.5	62.0	91.7	...
Latin America	100.0	108.6	97.3	81.5	76.0	75.2	85.7	89.6	...	...
Percentage variation										
Argentina		-12.8	-10.4	14.0	-17.3	-13.0	14.5	8.9	2.5	-29.5
Bolivia		-15.3	-7.0	-41.4	13.9	0.9	34.2	14.7	...	...
Brazil		11.0	-13.1	-23.1	-3.1	17.9	20.9	14.9	-9.9	...
Colombia		20.4	3.6	18.1	8.9	-8.2	-8.4	-4.7	8.2	7.8
Costa Rica		-1.2	-25.6	-5.1	11.4	0.4	-0.1	-19.5	...	...
Chile		2.5	-19.5	-0.8	33.2	20.4	59.9	1.0	...	...
Ecuador		15.6	-7.4	-19.4	-14.7	8.1	40.2	-11.3	...	...
Guatemala		38.9	-32.9	-32.9	-16.9	-26.7	-6.3	3.5	...	...
Mexico		25.1	-15.2	-34.5	-2.1	-5.3	-4.1	-5.8	-11.1	-10.9
Paraguay		5.8	13.6	26.0	17.7	-16.2	-24.8	11.4	36.0	...
Peru		26.9	16.8	-11.0	-5.0	-17.4	-12.0	-15.3	-22.1	-35.1
Uruguay		13.9	13.9	-24.7	-16.9	-11.6	0.1	25.2	...	...
Venezuela		-10.2	-0.3	-1.7	-22.6	-23.8	28.1	-6.7	47.9	...
Latin America	8.6	-10.4	-16.2	-6.7	-1.1	14.1	4.5	...	...	...

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Includes capital expenditure in non-financial assets. ^b Calculated on the basis of figures expressed in dollars at constant 1980 prices.

Table 9
LATIN AMERICA: GROSS FIXED INVESTMENT AND REAL PUBLIC INVESTMENT
(Coefficients expressed in terms of GDP)^a

Country	Gross fixed investment			Real public investment		
	1980-1981 (1)	1986-1989 (2)	(2)-(1)	1980-1981 (3)	1986-1989 (4)	(3)-(4)
Argentina	20.5 20.9 ^b	... 11.3 ^b	... -9.6	8.8	7.1	-1.7
Bolivia	14.1	11.1 ^c	-3.0	6.7	6.2 ^c	-0.5
Brazil	22.9	21.4 ^d	-1.5	8.3	7.2 ^d	-1.1
Colombia	17.3	18.2	1.0	6.5	6.4	-0.1
Costa Rica	24.0	19.3 ^c	-4.7	8.2	5.3 ^c	-2.9
Chile	17.5	15.3 ^c	-2.2	5.2	7.7 ^c	2.6
Ecuador	23.0	20.8 ^c	-2.2	9.9	8.7 ^c	-1.2
Guatemala	18.6	14.8 ^c	-3.8	5.8	1.8 ^c	-4.0
Mexico	25.6	19.0	-6.6	8.5	4.0	-4.5
Paraguay	27.3	23.4 ^d	-3.9	4.4	5.1 ^d	0.7
Peru	26.6	21.7	-4.9	6.7	3.7	-3.0
Uruguay	16.2	10.8 ^c	-5.4	4.1	3.3 ^c	-0.8
Venezuela	24.9	19.3 ^d	-5.6	13.2	9.0 ^d	-4.2

Source: ECLAC, on the basis of official figures.

^a Calculated on the basis of figures expressed in the local currencies at current prices.
expressed in dollars at constant 1980 prices.

^b Calculated on the basis of figures

^c 1986-1987. ^d 1986-1988.

Table 10
**LATIN AMERICA: CURRENT INCOME OF NON-FINANCIAL
PUBLIC SECTOR IN REAL TERMS^a**

Country	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Indexes (1980 = 100)											
Argentina	91.8	100.0	88.8	73.2	75.9	78.0	90.3	96.3	92.8	79.5	77.9
Bolivia	...	100.0	88.8	66.7	40.6	35.4	72.7	91.2	74.1	96.2	91.1
Brazil	...	100.0	94.4	93.3	89.6	92.6	103.2	123.8	121.4	115.1	106.0
Colombia	96.3	100.0	87.8	94.9	96.2	108.1	120.3	143.9	142.9	146.6	151.5
Costa Rica	83.0	100.0	93.6	86.7	110.5	121.2	114.2	122.1	125.8	131.5	137.5
Chile	88.8	100.0	97.3	83.9	83.3	90.9	99.3	102.4	106.7	126.9	129.6
Ecuador	97.7	100.0	102.2	101.2	101.3	112.1	135.7	122.4	98.0	102.6	122.2
Guatemala	103.3	100.0	91.1	85.3	79.9	69.2	75.9	87.5	95.8	108.4	104.6
Mexico	...	100.0	103.4	116.8	128.5	128.9	124.3	114.4	121.3	121.3	132.3
Paraguay	...	100.0	98.0	109.7	98.7	93.5	106.2	97.3	107.8	113.5	119.7
Peru	73.8	100.0	91.0	94.0	82.0	91.4	106.8	88.7	72.3	55.5	27.2
Uruguay	86.9	100.0	104.2	87.7	84.2	78.8	81.4	96.0	100.8	105.4	96.4
Venezuela	...	100.0	94.2	88.6	75.7	89.9	74.9	75.9	81.3	61.8	70.6
Latin America	...	100.0	95.6	94.7	94.3	98.8	103.1	109.4	109.7	104.2	104.2
Percentage variation											
Argentina		8.7	-11.2	-17.6	3.7	2.8	15.8	6.6	-3.6	-14.4	-2.0
Bolivia		...	-11.2	-24.8	-39.1	-13.0	105.6	25.5	-18.8	29.8	-5.2
Brazil		...	-5.6	-1.2	-3.9	3.4	11.4	19.9	-1.9	-5.2	-7.9
Colombia		-0.7	-12.2	8.1	1.3	12.4	11.3	19.5	-0.7	2.5	3.4
Costa Rica		18.4	-6.4	-7.4	27.5	9.7	-5.8	6.9	3.0	4.6	4.5
Chile		11.8	-2.7	-13.8	-0.7	9.0	9.3	3.2	4.1	19.0	2.2
Ecuador		2.3	2.2	-0.9	0.1	10.6	21.1	-9.8	-19.9	4.7	19.1
Guatemala		-3.2	-8.9	-6.4	-6.3	-13.5	9.7	15.4	9.4	13.2	-3.5
Mexico		...	3.4	13.0	10.0	0.4	-3.6	-8.0	6.0	0.0	9.1
Paraguay		...	-2.0	11.9	-10.0	-5.3	13.6	-8.4	10.8	5.2	5.5
Peru		12.0	-9.0	3.3	-12.8	11.4	16.9	-16.9	-18.5	-23.2	-51.0
Uruguay		15.4	4.2	-15.8	-4.0	-6.4	3.3	18.0	5.0	4.5	-8.5
Venezuela		...	-5.8	-5.9	-14.6	18.7	-16.7	1.4	7.1	-24.0	14.3
Latin America		...	-4.4	-1.0	-0.5	4.8	4.4	6.1	0.2	-5.0	-

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Calculated on the basis of figures expressed in dollars at constant 1980 prices.

Table 11
**LATIN AMERICA: FISCAL CAPACITY, FISCAL INCOME AND
 GROSS DOMESTIC PRODUCT IN REAL TERMS^a**

Country	Fiscal capacity ^b (as a percentage of GDP)			Real fiscal income ^b (index: 1980=100)	Gross domestic product (index: 1980=100)
	1980-1981 (1)	1987-1989 (2)	(2)-(1)	1987-1989	1987-1989
Argentina	26.6	24.6	-2.0	88.4	95.5
Bolivia	20.2	20.0	-0.2	92.3	93.0
Brazil	24.1	23.3	-0.7	117.5	121.4
Colombia	18.3	21.7	3.4	156.6	131.7
Costa Rica	31.8	37.0	5.2	135.9	117.0
Chile	34.3	36.1	1.8	122.7	116.2
Ecuador	26.7	24.7	-2.0	106.4	115.1
Guatemala ^c	9.0	9.7	0.6	107.7	100.8
Mexico	21.3	24.8	3.5	122.9	105.4
Paraguay	12.8	12.2	-0.5	114.8	119.7
Peru	24.9	12.7	-12.2	54.1	103.1
Uruguay	27.4	27.3	-0.1	98.8	99.1
Venezuela	36.9	26.4	-10.5	73.4	102.8

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/PNUD Regional Project on Fiscal Policies.

^a Calculated on the basis of figures expressed in dollars at constant 1980 prices. ^b Includes current income of general government and savings of public enterprises. ^c Central government only.

Table 12
**LATIN AMERICA: CURRENT INCOME OF THE NON-FINANCIAL
PUBLIC SECTOR, BY TYPE OF INCOME**
(As a percentage of GDP)

Country and category	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina												
Current income	26.4	27.3	26.0	22.7	23.0	23.1	28.0	28.1	26.5	23.4	24.0	24.2
Tax revenues	16.1	18.3	17.8	16.6	16.2	15.4	18.4	18.4	17.7	15.3	17.6	14.9
Direct taxes ^a	2.6	2.4	2.6	2.5	2.0	1.7	2.4	2.8	3.1	...	...	...
Indirect taxes	8.4	9.8	10.1	9.1	9.3	9.3	10.9	9.8	9.6	...	...	...
Taxes on foreign trade	1.7	1.9	1.6	1.5	2.3	1.4	1.9	2.3	1.7	...	...	...
Local government taxes	3.4	4.2	3.5	3.5	2.6	3.1	3.3	3.5	3.3	...	...	...
Social security	4.2	5.0	2.5	2.1	2.2	2.8	3.6	4.0	3.9	4.7	3.3	5.1
Non-tax revenues	4.1	3.7	4.1	3.8	4.7	4.3	4.9	3.8	3.1	2.4	2.2	2.6
Savings of public enterprises	2.2	0.4	1.6	0.2	-0.1	0.6	1.0	1.9	1.8	1.0	0.9	1.6
Bolivia												
Current income	...	21.5	18.9	14.9	9.5	8.3	17.2	22.2	17.6	...	...	...
Tax revenues	...	10.0	11.5	7.4	5.1	4.1	11.7	18.4	15.8	...	...	...
Direct taxes	...	1.7	1.7	1.2	0.9	0.3	0.3	1.0	0.8	...	...	...
Indirect taxes	...	8.3	9.8	6.2	4.3	3.9	11.3	17.4	15.0	...	...	...
Social security	...	3.1	2.7	1.6	1.3	3.0	1.8	2.6	2.5	...	...	...
Non-tax revenues	...	1.5	2.1	2.2	1.3	0.7	2.2	0.5	1.8	...	...	...
Savings of public enterprises	...	7.0	2.7	3.7	1.8	0.6	1.7	0.7	-2.5	...	...	...
Brazil												
Current income	...	24.2	23.9	23.5	23.3	22.8	23.4	26.4	25.0	23.8	21.2	24.3
Tax revenues	...	14.1	13.9	13.7	14.6	14.0	14.6	16.0	14.2	13.6	12.6	14.7
Direct taxes	...	3.0	3.2	3.3	3.8	4.1	4.4	4.5	3.8	4.0	3.9	3.9
Indirect taxes	...	10.2	10.1	9.9	10.2	9.4	9.6	11.0	10.1	9.2	8.3	10.4
Taxes on foreign trade	...	0.9	0.6	0.5	0.6	0.5	0.6	0.5	0.4	0.4	0.4	0.4
Social security	...	4.8	4.9	5.7	5.0	4.9	4.5	4.9	4.4	3.8	4.0	4.2
Non-tax revenues	...	1.5	1.4	1.5	0.8	0.8	1.2	1.9	2.6	2.8	1.5	1.7
Savings of public enterprises	...	3.8	3.6	2.6	3.0	3.2	3.2	3.6	3.7	3.6	3.2	3.7
Colombia												
Current income	20.3	19.7	16.9	18.1	18.0	19.5	20.9	23.4	22.0	21.6	21.6	...
Tax revenues	13.9	13.5	11.6	12.0	12.1	11.0	12.7	13.9	13.7	13.4	13.0	...
Direct taxes ^a	3.0	2.8	2.5	2.5	3.0	3.0	3.2	3.2	3.5	3.5	3.3	...
Indirect taxes	2.8	3.0	3.1	3.1	3.0	2.5	2.9	2.8	2.7	2.6	2.4	...
Taxes on foreign trade	2.0	2.3	1.9	2.0	1.4	1.8	2.4	2.9	3.2	3.3	2.7	...
Local government taxes	5.9	5.4	4.1	4.4	4.7	3.6	4.2	4.9	4.3	4.0	4.7	...
Social security	1.5	1.5	1.4	1.0	1.4	1.5	1.4	1.2	1.2	1.2	1.1	...
Non-tax revenues	1.7	1.5	1.4	2.1	1.9	3.4	2.9	2.9	3.0	2.8	2.3	...
Savings of public enterprises	3.2	3.4	2.5	3.0	2.6	3.7	3.8	5.4	4.1	4.2	5.1	...
Costa Rica												
Current income	27.8	32.5	31.2	31.1	38.7	39.3	36.8	37.3	36.8	...	...	...
Tax revenues	14.6	13.7	14.4	14.7	17.4	17.3	16.2	15.1	16.1	...	...	...
Direct taxes	3.5	3.0	3.1	3.4	4.1	3.7	3.2	3.0	3.0	...	...	...
Indirect taxes	7.4	7.3	6.3	6.0	8.4	8.7	8.2	4.6	5.0	...	...	...
Taxes on foreign trade	3.7	3.4	5.0	5.3	4.9	5.0	4.8	7.6	8.2	...	...	...
Social security	5.8	6.6	5.8	5.4	7.1	6.8	6.8	6.8	7.1	...	...	...
Non-tax revenues	4.4	4.5	1.6	1.2	1.6	1.8	2.3	2.0	2.1	...	...	...
Savings of public enterprises	3.0	7.7	9.3	9.9	12.6	13.4	11.5	13.4	11.4	...	...	...

Table 12 (cont. 1)

Country and category	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Chile												
Current income	35.4	35.7	32.8	32.4	32.6	33.6	35.9	35.0	34.5	38.2	...	...
Tax revenues	21.1	20.8	20.5	19.5	19.6	21.0	20.7	20.8	21.0	19.8	...	...
Direct taxes	7.6	7.3	5.8	5.7	5.0	4.7	3.7	3.9	4.4	6.9	...	...
Copper sector	2.4	1.9	0.2	1.0	1.9	1.3	0.5	0.6	1.1	4.7	...	...
Other direct taxes	5.3	5.4	5.5	4.8	3.1	3.4	3.1	3.3	3.3	2.2	...	...
Indirect taxes	11.5	11.5	12.5	12.3	12.3	13.0	13.4	14.1	13.4	9.7	...	...
Taxes on foreign trade	2.0	2.0	2.3	1.4	2.3	3.3	3.6	2.8	3.2	3.2	...	...
Social security	4.5	5.6	4.7	3.3	2.8	2.8	2.4	2.2	2.0	1.7	...	...
Non-tax revenues	2.8	2.5	2.2	2.4	2.2	2.5	2.7	2.7	2.7	2.5	...	...
Savings of public enterprises ^f	6.9	6.9	5.4	7.2	7.9	7.4	10.1	9.4	8.9	14.2	...	...
Ecuador												
Current income	27.5	27.0	26.5	26.0	26.3	27.8	32.1	28.1	24.8	...	...	...
Tax revenues	16.0	16.8	16.8	17.4	16.0	17.5	22.1	18.7	16.4	...	...	...
Direct taxes	7.3	7.6	6.6	7.9	7.3	8.6	8.4	5.1	3.5	...	...	...
Petroleum sector	3.7	4.5	3.0	4.4	3.7	5.0	4.9	2.4	1.1	...	...	...
Indirect taxes	8.8	9.2	10.3	9.5	8.7	8.9	13.7	13.6	12.9	...	...	...
Petroleum sector	0.8	1.6	3.6	3.5	2.8	2.2	6.2	4.9	4.4	...	...	...
Social security	3.2	3.5	3.4	3.3	3.4	3.0	2.9	3.0	2.8	...	...	...
Non-tax revenues	4.9	4.4	4.7	4.7	5.2	4.8	4.7	4.3	3.8	...	...	...
Petroleum sector	1.5	1.1	1.3	1.6	2.4	2.1	1.1	0.6	0.6	...	...	...
Savings of public enterprises	3.3	2.3	1.6	0.6	1.7	2.6	2.5	2.0	1.8	...	...	...
Guatemala^c												
Current income	9.9	9.5	8.6	8.4	8.2	7.0	7.7	8.9	9.4	...	...	...
Tax revenues	9.2	8.6	7.6	7.2	6.3	5.3	6.1	7.0	8.1	...	...	...
Direct taxes ^a	1.6	1.3	1.3	1.2	1.5	0.9	1.1	1.2	1.5	...	...	...
Indirect taxes	4.1	4.0	4.3	4.5	3.7	3.2	4.2	3.6	4.1	...	...	...
Taxes on foreign trade	3.5	3.3	2.0	1.4	1.2	1.1	0.8	2.2	2.4	...	...	...
Non-tax revenues	0.7	0.9	1.0	1.2	1.9	1.8	1.7	1.9	1.3	...	...	...
Mexico												
Current income	...	21.9	20.8	23.6	27.1	26.3	24.7	23.6	24.6	24.3	25.7	...
Tax revenues	...	14.9	14.9	15.8	18.6	18.2	17.8	17.4	18.1	17.8	18.6	...
Direct taxes	...	9.2	9.3	9.4	10.6	9.9	9.8	8.0	9.2	8.3	9.2	...
Petroleum sector	...	3.7	3.8	4.7	6.5	5.8	5.8	3.8	5.3	3.4	3.6	...
Indirect taxes	...	4.7	4.4	5.5	7.5	7.8	7.3	8.6	8.1	9.0	8.6	...
Petroleum sector	...	0.4	0.4	1.2	1.8	2.0	1.8	2.4	2.1	2.4	2.2	...
Taxes on foreign trade	...	1.0	1.1	0.9	0.5	0.5	0.6	0.9	0.8	0.4	0.8	...
Social security	...	2.3	2.3	2.4	2.0	2.0	2.1	2.1	1.8	2.0	2.2	...
Non-tax revenues	...	1.4	1.5	1.7	1.6	1.1	1.1	1.2	1.5	1.7	2.9	...
Savings of public enterprises	...	3.3	2.2	3.7	5.0	5.1	3.7	2.8	3.2	2.9	2.1	...
Petroleum sector	...	2.0	1.8	2.8	4.7	4.0	2.3	1.1	1.1	0.7	0.0	...
Paraguay												
Current income	...	13.4	12.1	13.6	12.7	11.6	12.7	11.6	12.3	12.2	...	...
Tax revenues	...	9.0	8.1	8.5	6.8	7.1	7.2	7.1	7.5	7.6	...	...
Direct taxes	...	2.0	2.0	2.2	1.7	1.4	1.6	1.6	1.8	1.6	...	...
Indirect taxes	...	3.2	2.9	3.7	3.2	3.8	3.9	3.9	3.9	4.0	...	...
Taxes on foreign trade	...	3.1	2.5	2.1	1.4	1.3	1.3	1.2	1.3	1.3	...	...
Local government taxes	...	0.8	0.7	0.4	0.5	0.6	0.4	0.4	0.5	0.7	...	...
Social security	...	1.5	1.5	2.0	2.2	1.4	1.5	1.6	1.7	1.4	...	...
Non-tax revenues	...	1.0	1.0	1.2	1.7	1.4	1.1	1.1	1.1	1.1	...	...
Savings of public enterprises	...	1.9	1.5	1.9	2.0	1.6	2.9	1.8	2.1	2.1	...	...

Cuadro 12 (concl.)

Country and category	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Peru												
Current income	21.3	26.6	23.2	23.9	23.7	25.2	28.8	22.0	16.6	13.9	7.7	...
Tax revenues	13.0	15.8	13.2	13.1	10.8	11.7	13.7	11.7	8.8	8.9	5.4	...
Social security	1.9	1.8	2.0	1.8	1.6	1.6	1.7	1.9	2.0	1.3	1.0	...
Non-tax revenues	1.7	2.2	2.2	2.2	2.0	3.1	2.5	1.8	1.1	1.4	0.2	...
Savings of public enterprises	4.7	6.8	5.8	6.8	9.3	8.8	10.9	6.6	4.7	2.3	1.1	...
Uruguay												
Current income	25.5	26.9	27.8	25.9	26.7	25.4	25.8	28.1	27.3	28.6	...	...
Tax revenues	15.4	17.0	17.8	15.6	16.0	13.9	15.8	16.5	16.6	17.6	...	...
Direct taxes	2.7	3.2	2.6	2.2	2.9	1.9	2.5	2.8	2.8	3.0	...	...
Indirect taxes	11.1	12.3	13.5	11.4	11.1	10.6	11.7	12.0	12.0	12.6	...	...
Local government tax	1.6	1.6	1.7	2.0	1.9	1.4	1.6	1.7	1.9	2.0	...	...
Social security	6.8	5.6	6.1	5.9	5.5	4.9	5.5	6.5	6.4	6.6	...	...
Non-tax revenues	1.7	1.9	2.2	2.5	2.7	2.0	1.6	1.6	2.1	1.9	...	...
Savings of public enterprises	1.6	2.4	1.9	2.0	2.5	4.5	2.9	3.4	2.2	2.5	...	...
Venezuela												
Current income	...	37.7	36.1	34.5	31.1	37.2	31.0	29.5	30.4	21.8	...	...
Tax revenues	...	23.2	30.9	24.2	19.8	22.1	19.1	16.1	16.1	13.9	...	...
Direct taxes	...	17.7	25.6	17.8	15.2	17.8	15.2	10.3	10.5	11.0	...	...
Petroleum sector	...	14.8	22.2	14.6	11.7	14.8	11.5	6.6	6.6	8.0	...	...
Indirect taxes	...	3.7	3.4	3.9	3.4	3.0	2.5	4.0	3.4	1.7	...	...
Taxes on foreign trade	...	1.8	1.9	2.4	1.2	1.3	1.3	1.8	2.2	1.2	...	...
Social security	...	1.7	1.5	1.6	1.2	1.0	0.8	0.9	0.8	0.8	...	...
Non-tax revenues	...	5.0	4.7	5.9	8.6	9.4	7.3	8.4	8.3	4.7	...	...
Foreign exchange profits	...	0.0	0.0	0.0	3.5	4.1	2.4	3.4	3.4	0.0	...	...
Savings of public enterprises	...	7.5	-1.2	2.4	1.0	4.3	3.5	3.8	4.4	2.4	...	...

Source: **Argentina:** 1977-1987, Angel Peña (consultant), *El déficit del sector público y la política fiscal en Argentina, 1978-1987* (LC/L.625), Política fiscal series, No. 12, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP, Regional Project on Fiscal Policies, June 1991; 1988-1990, ECLAC, on the basis of official figures. **Bolivia:** Economic Policy Analysis Unit (UDAPE) (consultant), *Determinantes del déficit del sector público en Bolivia (período 1980-1987)* (LC/L.582 and LC/L.582/Add.1), Política fiscal series, No. 9, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, August 1990. **Brazil:** Fabio Barbosa et al. (consultants), *O déficit do setor público e a política fiscal no Brasil, 1980-1988* (LC/L.636), Política fiscal series, No. 14, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, September 1991. **Colombia:** Eduardo Sarmiento (consultant), *La política fiscal en Colombia* (LC/L.642), Política fiscal series, No. 16, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, October 1991. **Chile:** Osvaldo Larrañaga (consultant), *El déficit del sector público y la política fiscal en Chile, 1978-1987* (LC/L.563), Política fiscal series, No. 4, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, October 1991. Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1990; and Osvaldo Larrañaga and Jorge Marshall (consultants), *Ajuste macroeconómico y finanzas públicas. Chile: 1982-1988* (LC/L.566), Política fiscal series, No. 6, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1990. **Ecuador:** G. Abril, S. Urbano and R. Urriola (consultants), *Determinantes del déficit y política fiscal en el Ecuador (1979-1987)* (LC/L.624 and LC/L.624/Add.1), Política fiscal series, No. 11, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991. **Guatemala:** ECLAC, on the basis of official figures. **Mexico:** Carlos Urzúa (consultant), *El déficit del sector público y la política fiscal en México, 1980-1989* (LC/L.622), Política fiscal series, No. 10, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, June 1991. **Paraguay:** ECLAC, on the basis of official figures. **Peru:** ECLAC, on the basis of official figures. **Uruguay:** Jorge E. Roldós (consultant), *El déficit del sector público y la política fiscal en Uruguay (período 1978-1987)* (LC/L.579), Política fiscal series, No. 8, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, August 1990. **Venezuela:** Efraín J. Velázquez (consultant), *El déficit público y la política fiscal en Venezuela (1980-1990)* (LC/L.635), Política fiscal series, No. 13, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), ECLAC/UNDP Regional Project on Fiscal Policies, July 1991.

^a Central government.

^b Includes earnings transferred over to central government.

^c Central government.

Table 13
**LATIN AMERICA: CURRENT INCOME OF THE NON-FINANCIAL
PUBLIC SECTOR, BY TYPE OF INCOME**

Country and category	Percentages of GDP			Real income (indexes 1980=100)
	1980-1981 (1)	1987-1989 (2)	(2)-(1)	
Argentina				
Current income	26.6	24.6	-2.0	88.4
Tax revenues	18.1	16.9	-1.2	89.1
Direct taxes ^a	2.5	3.1	0.6	122.1
Indirect taxes	9.9	9.6	-0.4	95.2
Taxes on foreign trade	1.8	1.7	0.0	96.5
Local government taxes	3.9	3.3	-0.5	85.2
Social security	3.7	3.9	0.2	100.1
Non-tax revenues	3.9	2.6	-1.3	64.0
Savings of public enterprises	1.0	1.2	0.3	125.1
Bolivia				
Current income	20.2	17.6	-2.7	78.5
Tax revenues	10.7	15.8	5.1	132.9
Direct taxes	1.7	0.8	-0.9	43.7
Indirect taxes	9.0	15.0	5.9	149.6
Social security	2.9	2.5	-0.4	77.1
Non-tax revenues	1.8	1.8	0.0	91.6
Savings of public enterprises	4.8	-2.5	-7.3	...
Brazil				
Current income	24.1	23.3	-0.7	117.5
Tax revenues	14.0	13.5	-0.5	116.6
Direct taxes	3.1	3.9	0.8	151.9
Indirect taxes	10.2	9.2	-1.0	109.7
Taxes on foreign trade	0.7	0.4	-0.3	64.4
Social security	4.9	4.1	-0.8	101.6
Non-tax revenues	1.5	2.3	0.8	187.1
Savings of public enterprises	3.7	3.5	-0.2	113.4
Colombia				
Current income	18.3	21.7	3.4	156.6
Tax revenues	12.5	13.4	0.8	140.6
Direct taxes ^a	2.7	3.4	0.8	169.7
Indirect taxes	3.0	2.6	-0.5	111.2
Taxes on foreign trade	2.1	3.1	1.0	195.6
Local government taxes	4.8	4.3	-0.5	119.1
Social security	1.4	1.2	-0.3	107.0
Non-tax revenues	1.5	2.7	1.2	242.0
Savings of public enterprises	2.9	4.5	1.5	201.5
Costa Rica				
Current income	31.8	36.8	5.0	129.9
Tax revenues	14.1	16.1	2.1	129.2
Direct taxes	3.1	3.0	-0.1	109.5
Indirect taxes	6.8	5.0	-1.8	82.3
Taxes on foreign trade	4.2	8.2	4.0	219.0
Social security	6.2	7.1	0.9	127.7
Non-tax revenues	3.0	2.1	-0.9	79.0
Savings of public enterprises	8.5	11.4	2.9	151.0

Table 13 (continued)

Country and category	Percentages of GDP			Real income (indexes 1980=100)
	1980-1981 (1)	1987-1989 (2)	(2)-(1)	
Chile				
Current income	34.3	36.4	2.1	118.4
Tax revenues	20.6	20.4	-0.2	109.8
Direct taxes	6.5	5.6	-0.9	96.9
Copper sector	1.1	2.9	1.8	310.6
Other direct taxes	5.5	2.7	-2.7	55.3
Indirect taxes	12.0	11.6	-0.4	106.7
Taxes on foreign trade	2.1	3.2	1.1	167.1
Social security	5.1	1.8	-3.3	39.7
Non-tax revenues	2.3	2.6	0.3	124.6
Savings of public enterprises ^b	6.2	11.5	5.4	210.4
Ecuador				
Current income	26.7	24.8	-1.9	96.9
Tax revenues	16.8	16.4	-0.4	102.0
Direct taxes	7.1	3.5	-3.6	52.3
Petroleum sector	3.8	1.1	-2.7	30.0
Indirect taxes	9.7	12.9	3.1	138.2
Petroleum sector	2.6	4.4	1.8	173.3
Social security	3.4	2.8	-0.6	86.5
Non-tax revenues	4.6	3.8	-0.8	86.4
Petroleum sector	1.2	0.6	-0.7	47.5
Savings of public enterprises	2.0	1.8	-0.2	96.4
Guatemala^c				
Current income	9.0	9.4	0.3	100.2
Tax revenues	8.1	8.1	0.0	96.6
Direct taxes ^a	1.3	1.5	0.3	116.4
Indirect taxes	4.2	4.1	0.0	96.1
Taxes on foreign trade	2.6	2.4	-0.2	87.8
Non-tax revenues	1.0	1.3	0.3	131.2
Mexico				
Current income	21.3	24.8	3.5	122.9
Tax revenues	14.9	18.1	3.3	128.5
Direct taxes	9.3	8.9	-0.4	101.1
Petroleum sector	3.7	4.1	0.4	115.1
Indirect taxes	4.5	8.6	4.0	199.1
Petroleum sector	0.4	2.2	1.8	563.2
Taxes on foreign trade	1.1	0.7	-0.4	65.9
Social security	2.3	2.0	-0.3	90.6
Non-tax revenues	1.4	2.0	0.6	149.0
Savings of public enterprises	2.7	2.7	0.0	105.6
Petroleum sector	1.9	0.6	-1.3	33.4
Paraguay				
Current income	12.8	12.3	-0.5	111.8
Tax revenues	8.6	7.5	-1.0	102.2
Direct taxes	2.0	1.7	-0.3	97.1
Indirect taxes	3.0	4.0	0.9	152.0
Taxes on foreign trade	2.8	1.3	-1.5	54.1
Local government taxes	0.8	0.6	-0.2	92.2
Social security	1.5	1.5	0.0	116.2
Non-tax revenues	1.0	1.1	0.1	132.9
Savings of public enterprises	1.7	2.1	0.4	144.2

Table 13 (conclusion)

Country and category	Percentages of GDP			Real income (indexes 1980=100)
	1980-1981 (1)	1987-1989 (2)	(2)-(1)	
Peru				
Current income	24.9	12.7	-12.2	54.1
Tax revenues	14.5	7.7	-6.8	55.7
Social security	1.9	1.4	-0.5	79.2
Non-tax revenues	2.2	0.9	-1.3	43.9
Savings of public enterprises	6.3	2.7	-3.6	46.4
Uruguay				
Current income	27.4	28.0	0.6	101.0
Tax-revenues	17.4	17.1	-0.3	97.3
Direct taxes ^a	2.9	2.9	0.0	99.0
Indirect taxes	12.9	12.3	-0.6	94.5
Local government taxes	1.6	1.9	0.3	116.5
Social security	5.8	6.5	0.7	110.4
Non-tax revenues	2.0	2.0	0.0	97.0
Savings of public enterprises	2.1	2.3	0.2	109.3
Venezuela				
Current income	36.9	26.1	-10.8	73.7
Tax revenues	27.1	15.0	-12.1	57.8
Direct taxes	21.7	10.7	-11.0	51.8
Petroleum sector	18.5	7.3	-11.2	41.3
Indirect taxes	3.6	2.6	-1.0	74.7
Taxes on foreign trade	1.9	1.7	-0.1	95.7
Social security	1.6	0.8	-0.8	52.2
Non-tax revenues	4.9	6.5	1.6	138.6
Petroleum sector	0.0	1.7	1.7	...
Savings of public enterprises	3.1	3.4	0.2	110.3

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Central government only. ^b Includes earnings transferred over to central government. ^c Central government.

Table 14
LATIN AMERICA: BREAKDOWN OF TAX REVENUES
(As a percentage of total income)

Country and category	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina												
Direct taxes ^a	16.0	13.2	14.5	14.9	12.1	10.8	12.9	15.3	17.4	...	...	...
Indirect taxes	52.3	53.4	56.8	54.9	57.7	60.1	59.3	53.0	54.0	...	...	...
Taxes on foreign trade	10.6	10.5	9.0	9.2	14.2	8.9	10.1	12.7	9.8	...	...	...
Local government taxes	21.2	23.0	19.7	21.0	16.0	20.3	17.7	19.0	18.8	...	...	...
Bolivia												
Direct taxes	...	17.0	14.7	15.8	16.8	6.8	2.9	5.6	5.2	...	...	...
Indirect taxes	...	83.0	85.3	84.2	83.2	93.2	97.1	94.4	94.8	...	...	...
Brazil												
Direct taxes	...	21.6	22.8	24.2	26.0	29.3	30.3	28.3	26.5	29.2	31.0	26.4
Indirect taxes	...	72.3	72.8	72.4	69.9	67.1	65.7	68.6	70.7	67.9	65.8	70.8
Taxes on foreign trade	...	6.2	4.5	3.4	4.1	3.6	4.0	3.1	2.8	2.9	3.2	2.7
Colombia												
Direct taxes ^a	21.9	20.6	21.8	20.6	24.9	27.7	24.8	23.2	25.8	25.7	25.1	...
Indirect taxes	20.3	21.9	26.8	25.6	24.5	23.2	23.0	20.2	19.7	19.6	18.1	...
Taxes on foreign trade	14.8	17.1	16.0	16.7	11.9	16.5	19.0	21.0	23.4	24.8	21.0	...
Local government taxes	43.0	40.3	35.6	36.6	38.6	32.6	33.2	35.6	31.1	29.9	35.8	...
Costa Rica												
Direct taxes	24.2	22.0	21.7	23.0	23.8	21.2	19.8	19.5	18.5	...	...	...
Indirect taxes	50.4	53.1	43.3	41.0	48.2	50.1	50.3	30.4	30.7	...	...	...
Taxes on foreign trade	25.5	24.9	35.0	35.9	27.9	28.7	29.8	50.0	50.8	...	...	...
Chile												
Direct taxes	36.0	35.3	28.0	29.4	25.4	22.2	17.7	18.5	20.8	34.9	...	...
Copper sector	11.2	9.3	1.2	5.0	9.6	6.0	2.6	2.9	5.2	23.7	...	...
Other direct taxes	24.9	26.0	26.9	24.4	15.8	16.2	15.1	15.7	15.5	11.1	...	...
Indirect taxes	54.5	55.3	60.9	63.2	62.7	62.1	64.7	67.8	64.0	49.1	...	...
Taxes on foreign trade	9.5	9.4	11.1	7.4	11.9	15.7	17.6	13.7	15.2	16.1	...	...
Ecuador												
Direct taxes	45.3	45.4	39.0	45.5	45.8	49.0	38.0	27.1	21.6	...	...	...
Petroleum sector	23.1	26.9	17.8	25.4	22.8	28.5	22.2	13.0	6.6	...	...	...
Indirect taxes	54.7	54.6	61.0	54.5	54.2	51.0	62.0	72.9	78.4	...	...	...
Petroleum sector	5.2	9.5	21.6	20.2	17.7	12.3	28.1	26.2	26.6	...	...	...

Table 14 (concl.)

Country and category	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Guatemala^c												
Direct taxes ^a	16.9	14.9	16.9	17.2	23.4	17.2	18.6	16.7	19.1	...	...	...
Indirect taxes	44.8	46.9	56.8	62.9	58.1	61.4	68.4	51.8	51.3	...	...	...
Taxes on foreign trade	38.2	38.2	26.2	19.9	18.4	21.5	13.0	31.4	29.6	...	...	...
Mexico												
Direct taxes	...	61.7	62.9	59.5	57.0	54.6	55.4	46.0	51.0	46.8	49.3	...
Petroleum sector	...	24.6	25.7	29.5	35.1	31.9	32.6	21.6	29.1	19.1	19.6	...
Indirect taxes	...	31.4	29.7	35.0	40.5	42.7	41.0	49.1	44.8	50.7	46.5	...
Petroleum sector	...	2.9	2.7	7.7	9.8	11.3	10.1	13.6	11.8	13.4	11.6	...
Taxes on foreign trade	...	6.9	7.4	5.4	2.6	2.7	3.6	4.9	4.3	2.5	4.2	...
Paraguay												
Direct taxes	...	22.0	24.3	25.8	25.6	19.6	22.2	22.0	23.5	20.6	...	...
Indirect taxes	...	35.4	35.6	44.1	46.8	53.5	54.6	55.0	52.5	53.0	...	...
Taxes on foreign trade	...	34.0	31.0	24.9	20.5	18.6	17.7	17.7	17.4	17.0	...	...
Local government taxes	...	8.6	9.1	5.2	7.1	8.4	5.5	5.3	6.5	9.4	...	...
Peru												
Direct taxes	25.8	35.4	26.5	26.0	23.1	21.4	16.8	28.2	25.0	28.2	20.3	...
Indirect taxes	42.3	33.5	35.6	40.5	48.1	53.0	58.4	51.3	56.8	56.1	61.3	...
Taxes on foreign trade	31.8	31.0	37.9	33.6	28.7	25.6	24.8	20.5	18.2	15.8	18.5	...
Uruguay												
Direct taxes ^a	17.5	18.8	14.6	14.1	18.2	13.7	15.8	17.0	16.8	17.0	...	...
Indirect taxes	71.8	72.0	75.9	72.9	69.8	76.4	74.2	72.6	72.0	71.7	...	...
Local government taxes	10.6	9.2	9.5	13.0	12.1	9.9	9.9	10.4	11.1	11.3	...	...
Venezuela												
Direct taxes	...	76.4	82.7	73.7	76.8	80.6	79.8	64.0	65.1	78.9	...	...
Petroleum sector	...	64.0	71.6	60.4	59.1	67.1	60.1	40.9	41.0	57.4	...	...
Indirect taxes	...	16.0	11.0	16.3	17.1	13.7	13.2	25.0	21.4	12.2	...	...
Taxes on foreign trade	...	7.6	6.3	10.0	6.2	5.7	7.0	11.0	13.6	8.9	...	...

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Central government only.

^b Includes earnings transferred over to central government.

^c Central government.

Table 15
LATIN AMERICA: GENERAL GOVERNMENT TAX REVENUES, IN REAL TERMS^a

Country	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Indexes (1980 = 100)												
Argentina	83.1	100.0	90.8	79.4	79.7	77.8	88.6	93.9	92.4	77.5	85.1	72.2
Bolivia	...	100.0	115.7	71.0	47.1	37.9	105.8	163.1	143.3	145.2	132.3	140.9
Brazil	...	100.0	94.3	93.5	96.1	97.6	110.6	128.9	118.8	113.3	108.0	121.7
Colombia	96.6	100.0	87.7	91.8	94.3	88.9	107.1	124.8	130.0	132.7	133.1	138.1
Costa Rica	103.6	100.0	102.9	97.4	118.1	126.7	119.5	117.3	131.1	133.0	139.1	138.7
Chile	91.2	100.0	104.5	86.9	86.4	97.4	98.6	104.6	111.4	113.2	123.3	117.1
Ecuador	91.4	100.0	103.8	108.3	98.8	112.8	149.6	130.6	103.9	111.7	127.0	140.8
Guatemala	105.5	100.0	88.2	80.5	68.0	56.9	65.6	76.1	90.9	102.9	94.9	85.5
Mexico	...	100.0	108.5	114.8	129.5	130.8	131.3	124.1	130.8	130.4	140.6	138.1
Paraguay	...	100.0	98.2	101.9	78.9	85.9	89.6	87.9	97.6	104.9	104.9	100.2
Peru	75.9	100.0	87.2	86.7	62.9	71.4	85.5	79.4	64.5	59.6	32.2	31.5
Uruguay	83.0	100.0	105.2	83.3	79.8	68.3	78.8	89.3	97.0	102.6	93.6	100.8
Venezuela	...	100.0	131.2	101.2	78.3	86.6	74.9	67.2	69.8	63.8	64.0	77.6
Latin America	...	100.0	102.5	97.1	97.5	99.8	106.4	111.1	109.4	105.0	106.7	110.6
Percentage variation												
Argentina		17.6	-9.2	-12.5	0.3	-2.4	13.9	5.9	-1.6	-16.1	9.8	-15.2
Bolivia		...	15.7	-38.6	-33.7	-19.7	179.4	54.3	-12.2	1.3	-8.9	6.5
Brazil		...	-5.7	-0.9	2.8	1.6	13.3	16.5	-7.8	-4.6	-4.7	12.7
Colombia		3.2	-12.3	4.7	2.7	-5.7	20.5	16.5	4.2	2.1	0.3	3.8
Costa Rica		-2.6	2.9	-5.3	21.3	7.3	-5.7	-1.9	11.8	1.5	4.5	-0.3
Chile		9.0	4.5	-16.8	-0.6	12.7	1.2	6.1	6.5	1.6	9.0	-5.0
Ecuador		9.4	3.8	4.4	-8.8	14.2	32.6	-12.7	-20.4	7.5	13.7	10.9
Guatemala		-5.2	-11.8	-8.7	-15.6	-16.3	15.3	16.0	19.4	13.2	-7.8	-9.9
Mexico		...	8.5	5.8	12.8	1.0	0.4	-5.5	5.4	-0.3	7.8	-1.7
Paraguay		...	-1.8	3.8	-22.5	8.8	4.4	-1.9	11.0	7.5	0.0	-4.5
Peru		15.4	-12.8	-0.5	-27.5	13.5	19.7	-7.1	-18.8	-7.6	-45.9	-2.3
Uruguay		18.5	5.2	-20.8	-4.2	-14.5	15.4	13.3	8.7	5.7	-8.8	7.7
Venezuela		...	31.2	-22.9	-22.6	10.7	-13.5	-10.3	3.9	-8.5	0.3	21.3
Latin America		...	2.5	-5.3	0.5	2.4	6.6	4.4	-1.5	-4.0	1.6	3.6

Source: ECLAC, on the basis of figures provided by official sources and by ECLAC/UNDP Regional Project on Fiscal Policies.
^a Calculated on the basis of figures expressed in dollars at constant 1980 prices.

Table 16
**LATIN AMERICA: TAX BURDEN, TAX REVENUES AND
 GROSS DOMESTIC PRODUCT^a**

Country	Tax burden (percentage of GDP)			Real fiscal income ^b (index: 1980=100)	Gross domestic product (index: 1980=100)
	1980-1981 (1)	1988-1990 (2)	(2-1)	1988-1990	1988-1990
Argentina	18.1	15.9	-2.1	78.3	89.9
Bolivia	10.7	14.5	3.8	139.4	96.0
Brazil	14.5	14.3	-0.1	120.2	118.3
Colombia	12.5	13.1	0.6	134.6	138.4
Costa Rica	14.1	15.6	1.5	136.9	120.4
Chile	20.6	19.3	-1.4	117.9	127.1
Ecuador	16.8	17.2	0.4	126.5	123.3
Guatemala ^b	8.1	7.8	-0.3	94.4	104.8
Mexico	14.9	18.0	3.1	136.4	113.1
Paraguay	8.6	7.1	-1.5	103.4	131.3
Peru	14.5	6.6	-7.9	41.1	96.5
Uruguay	17.4	16.9	-0.5	99.0	99.9
Venezuela	27.1	15.4	-11.6	68.5	103.0
Latin America	16.0	15.2	-0.9	107.4	112.4

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.
^a Calculated on the basis of figures expressed in dollars at constant 1980 prices. ^b Central government only.

Table 17
**LATIN AMERICA: SAVINGS OF PUBLIC ENTERPRISES,
 IN REAL TERMS^a**

Country	1977- 1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Percentage of GDP											
Argentina	2.2	0.4	1.6	0.2	-0.1	0.6	1.0	1.9	1.8	1.0	0.9
Bolivia	...	7.0	2.7	3.7	1.8	0.6	1.7	0.7	-2.5	...	...
Brazil	...	3.8	3.6	2.6	3.0	3.2	3.2	3.6	3.7	3.6	3.2
Colombia	3.2	3.4	2.5	3.0	2.6	3.7	3.8	5.4	4.1	4.2	5.1
Costa Rica	3.0	7.7	9.3	9.9	12.6	13.4	11.5	13.4	11.4	...	...
Chile	6.9	6.9	5.4	7.2	7.9	7.4	10.1	9.4	8.9	14.2	...
Ecuador	3.3	2.3	1.6	0.6	1.7	2.6	2.5	2.0	1.8	...	...
Mexico	...	3.3	2.2	3.7	5.0	5.1	3.7	2.8	3.2	2.9	2.1
Paraguay	...	1.9	1.5	1.9	2.0	1.6	2.9	1.8	2.1	2.1	...
Peru	4.7	6.8	5.8	6.8	9.3	8.8	10.9	6.6	4.7	2.3	1.1
Uruguay	1.6	2.4	1.9	2.0	2.5	4.5	2.9	3.4	2.2	2.5	...
Venezuela	...	7.5	-1.2	2.4	1.0	4.3	3.5	3.8	4.4	2.4	...
Indexes (1980 = 100)											
Argentina	584.5	100.0	428.0	55.1	-28.3	152.7	254.2	514.8	501.2	264.6	225.1
Bolivia	...	100.0	38.7	51.0	24.0	7.5	21.5	8.4	-32.6	...	...
Brazil	...	100.0	90.6	66.2	72.8	82.1	88.7	108.1	113.6	109.7	101.1
Colombia	89.3	100.0	76.6	91.0	82.0	119.0	130.0	193.6	155.9	166.9	211.0
Costa Rica	37.6	100.0	118.1	115.5	151.6	174.1	150.8	185.1	164.6	...	...
Chile	88.9	100.0	82.4	95.6	103.8	102.4	143.8	140.8	141.9	241.8	...
Ecuador	137.9	100.0	73.3	27.8	75.9	123.4	122.7	104.9	83.5	...	...
Mexico	...	100.0	72.1	122.2	156.8	166.2	123.0	92.1	106.1	95.6	71.1
Paraguay	...	100.0	85.2	109.9	110.2	91.3	171.9	108.7	129.3	137.8	...
Peru	63.6	100.0	89.0	104.6	125.9	124.8	158.1	104.1	80.1	35.9	15.6
Uruguay	59.2	100.0	77.7	76.7	88.6	156.4	101.0	130.0	91.9	102.3	...
Venezuela	...	100.0	-16.1	30.4	12.3	52.6	42.5	49.0	59.0	...	...

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

^a Calculated on the basis of figures expressed in dollars at constant 1980 prices.

Table 18
**LATIN AMERICA: TAX BURDEN AS COMPARED TO THOSE OF
 COUNTRIES IN OTHER REGIONS, 1987-1989 AVERAGES**
(Coefficients in relation to GDP)

	Total fiscal burden	Social security tax burden	Tax burden ^a	Direct tax burden ^b
OECD				
Sweden	56	14	42	24
France	44	19	25	8
Germany	38	14	24	13
Italy	37	12	25	13
United Kingdom	37	7	30	14
Spain	33	12	22	10
United States	30	9	21	13
South-East Asia				
Singapore	9	-	15	8 ^c
Malaysia	25	-	17	8
Republic of Korea	19	1	16	6
Indonesia	18	-	15	10 ^c
Thailand	17	-	15	4
Philippines	13	-	12	3 ^c
Latin America				
Chile	25	2	20	3
Costa Rica	25	7	16	3 ^d
Uruguay	25	7	16	3 ^d
Argentina	23	4	17	3 ^d
Ecuador	23	3	16	3 ^d
Venezuela	23	1	15	3 ^c
Mexico	22	2	18	5
Colombia	22	1	13	4
Brazil	21	4	14	4 ^d
Bolivia	19	3	16	1 ^d
Paraguay	10	2	8	2
Peru	9 ^c	1	8	2 ^d
Guatemala	9	...	8	2 ^d

Source: OECD countries: Organization for Economic Cooperation and Development (OECD), *Revenue Statistics of OECD Countries, 1965-1990*, Paris, 1991; Latin American countries: ECLAC/UNDP Regional Project on Fiscal Policies; South-East Asian countries: International Monetary Fund (IMF), *Government Financial Statistics Yearbook, 1990*, Washington, D.C., 1990.

^a Does not include social security or non-tax revenues. ^b For OECD countries, includes personal and corporate income taxes. For Latin American countries, includes all direct taxes except those paid by public enterprises. ^c 1987-1988 average. ^d 1987.

Table 19
**LATIN AMERICA: SAVINGS AND FINANCING NEEDS OF
NON-FINANCIAL PUBLIC SECTOR**
(As percentages of GDP)

Country and category	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina											
Savings	1.2	-4.7	-7.4	-6.0	-4.5	0.1	1.6	-0.1	-2.9	-2.3	-1.2
Capital income	0.9	1.1	0.8	0.5	0.4	1.0	1.1	0.7	...	...	...
Capital expenditure	9.5	9.6	8.6	9.7	7.8	7.1	7.5	8.2	8.6	6.5	5.3
Financing needs	7.5	13.2	15.1	15.2	11.9	6.0	4.7	7.6	11.5	8.8	6.5
- General government	4.2	11.4	11.9	11.2	8.9	4.1	3.9	5.8	...	...	...
Social security	0.0	0.0	0.0	0.1	0.0	-1.1	-1.3	-0.9	...	...	...
- Enterprises	3.2	1.9	3.2	4.0	3.0	1.9	0.8	1.8	...	...	...
Bolivia											
Savings	-1.0	-0.8	-0.9	-6.9	-12.3	-4.0	1.6	-1.9	...	...	...
Capital income	0.4	0.6	0.1	0.2	0.2	0.2	1.3	0.2	...	...	...
Capital expenditure	7.3	6.2	5.9	4.5	4.8	4.6	5.9	6.6	...	...	...
Unspecified expenditure	0.0	1.3	7.5	6.7	9.7	2.5	0.0	0.0	...	...	...
Financing needs	7.8	7.6	14.2	17.9	26.6	10.9	3.1	8.3	...	...	...
- General government	10.2	6.7	13.5	16.9	24.3	10.8	1.5	0.7	...	...	...
Social security	0.0	0.0	0.0	0.0	0.5	0.1	0.2	0.6	...	...	...
- Enterprises	-2.4	0.8	0.7	1.1	1.8	0.0	1.3	7.0	...	...	...
Brazil											
Savings	7.0	6.2	2.9	1.6	1.9	1.6	4.6	1.3	0.3	...	...
Capital income	...	...	...	...	...	...	...	...	...	...	...
Capital expenditure	9.0	10.2	7.9	6.6	6.1	6.8	9.0	8.2	7.8	...	...
Financing needs	2.0	3.9	5.0	5.1	4.2	5.2	4.5	7.0	7.4	...	...
- General government	0.4	1.5	2.4	3.8	3.5	4.5	4.6	6.9	7.4	...	...
Social security	0.8	0.4	0.3	0.5	0.0	0.1	-0.2	0.2	0.5	...	...
- Enterprises	1.6	2.4	2.6	1.2	0.7	0.7	-0.2	0.1	0.0	...	...
Colombia											
Savings	3.8	2.2	2.5	1.2	3.1	4.5	7.4	5.0	5.0	4.9	...
Capital income	0.7	0.8	0.2	0.5	0.2	0.2	0.2	0.3	0.3	0.3	...
Capital expenditure	7.1	8.4	8.7	9.3	9.6	8.7	7.9	7.2	7.5	7.1	...
Financing needs	2.6	5.3	6.0	7.6	6.3	4.0	0.3	1.9	2.2	1.9	...
- General government	0.9	2.0	3.0	3.4	2.9	0.3	0.5	1.7	1.8	...	...
Social security	0.6	0.9	1.6	1.2	1.1	0.9	0.9	0.8	0.0	...	...
- Enterprises	1.7	3.3	3.0	4.2	3.4	3.7	-0.2	0.2	0.4	...	...
Costa Rica											
Savings	3.6	9.5	7.3	12.5	14.8	13.2	14.2	13.9	...	...	...
Capital income	...	...	...	...	...	...	...	...	...	...	...
Capital expenditure	13.0	10.7	10.9	11.4	9.9	9.5	12.4	10.6	...	...	...
Financing needs	9.3	1.2	3.6	-1.1	-4.9	-3.6	-1.8	-3.3	...	...	...
- General government	13.6	5.8	9.4	8.0	5.4	4.8	8.0	5.3	...	...	...
Social security	1.2	0.9	1.0	-0.2	-0.4	-0.3	-0.3	-0.6	...	...	...
- Enterprises	-4.3	-4.6	-5.7	-9.1	-10.4	-8.5	-9.8	-8.7	...	...	...
Chile											
Savings	10.4	5.1	-1.3	-0.5	0.3	3.6	4.8	5.4	...	...	...
Capital income	2.2	3.2	7.8	3.9	3.5	3.3	3.9	4.5	...	...	...
Capital expenditure	7.3	7.9	10.4	6.9	8.5	9.7	10.7	10.3	...	...	...
Financing needs	-5.4	-0.4	3.9	3.5	4.6	2.9	2.0	0.3	...	...	...
- General government	-1.1	2.5	8.5	8.7	8.2	9.0	6.7	5.3	...	...	...
Social security	1.9	3.7	5.1	5.2	6.2	6.1	5.9	5.7	5.3	...	...
- Enterprises	-4.3	-2.8	-4.6	-5.2	-3.6	-6.1	-4.7	-5.0	...	...	...

Table 19 (concl.)

Country and category	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Ecuador											
Savings	6.7	5.7	3.8	6.8	9.1	12.2	7.6	5.8	...	...	...
Capital income	...	...	...	...	...	...	...	...	...	...	...
Capital expenditure	14.1	14.2	11.0	12.0	10.3	12.0	11.3	10.3	...	...	...
Financing needs	7.4	8.5	7.2	5.2	1.2	-0.2	3.7	4.4	...	...	...
- General government	6.5	7.3	4.3	3.9	1.7	0.4	2.3	3.2	...	...	...
Social security	-1.2	-1.2	-1.2	-1.2	-1.0	-1.0	-1.4	-1.3	...	...	...
- Enterprises	0.9	1.1	2.8	1.3	-0.4	-0.7	1.4	1.2	...	...	...
Guatemala^d											
Savings	0.9	-0.2	0.2	0.2	-1.1	0.2	0.0	-0.3	...	...	...
Capital income	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.1	...	...	...
Capital expenditure	5.6	7.2	5.0	3.5	2.8	2.1	1.9	2.1	...	...	...
Financing needs	4.7	7.4	4.7	3.3	3.8	1.8	1.5	1.3	...	...	...
- Central government	4.7	7.4	4.7	3.3	3.8	1.8	1.5	1.3	...	...	...
Mexico											
Savings	1.4	-3.9	-7.8	-2.8	-2.1	-3.4	-9.9	-10.1	-5.4	-2.2	...
Capital income	...	...	...	...	...	...	...	...	...	...	...
Capital expenditure	7.9	9.1	7.8	5.3	5.0	4.7	4.6	4.3	3.8	3.3	...
Financing needs	6.5	13.0	15.6	8.1	7.1	8.0	14.5	14.4	9.2	5.4	...
- General government	4.5	9.0	14.1	9.4	8.9	8.7	14.4	14.9	9.4	5.2	...
Social security	0.8	0.5	0.6	0.2	0.1	0.2	0.2	0.1	-0.1	0.2	...
- Enterprises	2.1	4.0	1.4	-1.2	-1.7	-0.7	0.1	-0.5	-0.2	0.2	...
Paraguay											
Savings	5.3	3.2	2.8	1.6	2.0	3.9	3.3	3.8	4.3	...	...
Capital income	1.2	0.9	2.6	1.4	1.5	1.1	0.9	1.6	1.5	...	...
Capital expenditure	5.1	6.2	5.5	6.9	8.4	6.5	5.2	5.8	6.7	...	...
Financing needs	-1.3	2.1	0.1	4.0	4.9	1.5	21.09	0.4	0.9	...	...
- General government	-1.5	1.7	-0.6	1.5	1.9	0.9	-1.2	0.1	-1.2	...	...
Social security	-0.4	-0.3	-0.2	-0.3	-0.1	-0.1	-0.2	-0.2	-0.1	...	...
- Enterprises	0.2	0.4	0.7	2.5	3.0	0.6	2.1	0.3	2.2	...	...
Peru											
Savings	2.6	0.6	0.0	-2.5	0.8	3.3	0.2	-2.5	-3.7	-2.9	...
Capital income	0.5	0.7	1.2	0.9	0.6	0.5	0.3	0.3	0.4	0.0	...
Capital expenditure	7.0	7.9	8.7	8.7	8.1	6.4	5.5	4.4	4.0	2.7	...
Financing needs	3.9	6.6	7.5	10.3	6.7	2.6	5.0	6.6	7.3	5.5	...
- General government	7.7	9.0	9.4	14.3	10.9	10.1	9.4	9.6	7.6	5.7	...
Social security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...
- Enterprises	-3.8	-2.4	-1.9	-4.0	-4.2	-7.5	-4.4	-3.0	-0.3	-0.2	...
Uruguay											
Savings	5.0	2.9	-3.7	0.4	0.2	1.4	3.2	2.7	...	...	...
Capital income	...	...	...	...	...	...	...	...	...	...	...
Capital expenditure	3.7	4.4	6.7	3.8	4.2	3.3	3.5	3.3	...	...	...
Financing needs	-1.3	1.5	10.4	3.4	4.0	1.9	0.3	0.7	...	...	...
- General government	-0.6	1.2	8.4	4.5	6.7	3.1	1.6	1.5	...	...	...
Social security	2.7	3.9	6.3	4.7	3.7	2.6	2.3	3.1	...	...	...
- Enterprises	-0.8	0.3	2.1	-1.1	-2.6	-1.2	-1.3	-0.8	...	...	...
Venezuela											
Savings	17.2	14.2	10.2	8.1	11.5	10.2	9.4	11.4	5.0	...	...
Capital income	6.5	8.7	7.8	7.3	6.9	3.5	3.7	0.5	1.6	...	...
Capital expenditure	16.4	14.8	16.5	13.9	11.5	8.7	12.0	10.5	12.1	...	...
Financing needs	-7.3	-8.1	-1.4	-1.6	-6.9	-5.0	-1.1	-1.5	5.5	...	...
- General government	-5.8	-11.5	-3.0	-3.9	-5.2	-5.1	-0.6	-1.7	0.9	...	...
Social security	-0.1	-0.1	-0.2	0.2	0.1	0.1	0.3	0.0	0.0	...	...
- Enterprises	-1.4	3.6	1.8	2.1	-1.8	0.0	-0.8	0.2	4.6	...	...

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

Table 20
**LATIN AMERICA: NET TRANSFER OF EXTERNAL CREDIT-RELATED
RESOURCES TO THE PUBLIC SECTOR**

Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Millions of dollars													
Argentina	139	941	1 662	852	-246	2 428	-115	-2 054	-681	-2 312	-1 672	-2 057	-1 753
Bolivia	291	177	65	151	92	-45	-139	-93	-112	171	92	80	92
Brazil	2 758	5 084	3 136	196	943	493	572	1 873	-4 540	-4 122	-5 405	-7 430	-4 694
Colombia	62	-93	342	487	641	358	442	656	432	739	-1 155	-530	-826
Costa Rica	149	56	134	226	112	35	-175	-90	-146	-213	-96	-196	-164
Chile	-215	256	93	-517	-566	278	876	365	133	-517	-626	-231	-980
Ecuador	460	325	138	415	647	-830	-265	-170	-307	158	82	32	-77
Mexico	3 214	2 228	575	1 241	4 775	2 500	-4 236	-6 139	-6 640	-5 347	-1 705	-5 413	-6 664
Peru	651	86	192	-259	-386	597	760	878	51	28	141	127	201
Uruguay	-18	-11	65	76	114	207	198	-221	-187	-130	-139	-229	-135
Venezuela	1 201	1 755	2 313	-84	-311	-928	-260	-2 015	-2 058	-2 660	-2 274	-1 516	-1 326
Total	8 692	10 804	8 715	2 784	5 815	5 093	-2 342	-7 010	-14 055	-14 205	-12 757	-17 363	-16 326
Percentages of GDP													
Argentina	0.3	1.5	1.6	0.6	-0.2	3.6	-0.2	-2.6	-1.0	-2.9	-2.1	-2.3	-2.0
Bolivia	9.3	5.7	1.8	3.7	2.4	-1.7	-5.0	-1.6	-2.9	5.2	2.8	1.9	1.9
Brazil	1.5	2.6	1.4	0.1	0.3	0.2	0.3	0.9	-2.0	-1.5	-1.8	-2.1	-1.2
Colombia	0.3	-0.4	1.1	1.5	1.8	0.9	1.2	1.5	1.3	2.1	-3.1	-1.3	-2.0
Costa Rica	4.8	1.6	3.3	5.0	4.1	1.4	-5.7	-2.4	-3.7	-4.8	-2.1	-4.1	-3.0
Chile	-1.7	1.8	0.5	-2.0	-1.9	1.2	4.6	2.1	0.9	-3.1	-3.3	-1.0	-3.9
Ecuador	7.2	4.1	1.5	3.6	4.8	-6.5	-2.4	-1.5	-2.5	1.4	0.8	0.3	-0.7
Mexico	4.3	2.2	0.4	0.6	1.8	1.5	-3.1	-3.5	-3.7	-4.2	-1.2	-3.1	-3.3
Peru	4.8	0.7	1.3	-1.2	-1.6	2.4	4.0	4.4	0.3	0.1	0.4	0.4	0.6
Uruguay	-0.4	-0.2	0.9	0.7	1.0	1.9	3.4	-4.2	-3.6	-2.0	-1.8	-2.9	-1.6
Venezuela	3.3	4.4	4.8	-0.1	-0.5	-1.4	-0.4	-3.3	-3.3	-5.2	-4.5	-2.8	-3.2
Total	2.1	2.3	1.4	0.4	0.7	0.7	-0.4	-1.1	-2.2	-2.2	-1.8	-2.2	-1.9

Source: World Bank, *World Debt Tables, 1988-1989 Edition*, Washington, D.C., 1989, and *World Debt Tables, 1990-1991 Edition*, Washington, D.C., 1990.

Table 21
LATIN AMERICA: NET TRANSFER OF EXTERNAL RESOURCES
TO THE PUBLIC SECTOR ^a AS A PROPORTION
OF CURRENT PUBLIC INCOME ^b
(Percentages)

Country	Before crisis		During crisis	
	Period	Annual average	Period	Annual average
Argentina	80-82	7	83-87	-7
Bolivia	80-81	16	82-85 86-87	-28 19
Brazil	80-82	1	83-84 85-88	3 -8
Costa Rica	80-82	12	83-87	-11
Ecuador	80-81	24	82-85 86-87	-20 6
Peru	80-81	-8	82-84 85-89	21 4
Colombia	80-82	8	83-86 87-89	8 -10
Chile	80-81	-5	82-84 85-87	7 -5
Mexico	80-82	6	83-86 87-89	-15 -11
Uruguay	80-83	6	84-87	-11
Venezuela	80-83	-2	84-87	-14

Source: ECLAC, on the basis of figures provided by official sources and the World Bank.

^a Interest and amortization payments by the public sector less disbursements received by the public sector.

^b Includes total income of general government plus the surplus or deficit recorded by public enterprises.

Table 22
LATIN AMERICA: FINANCING OF GENERAL GOVERNMENT'S DEFICIT
(As percentages of GDP)

Country and category	1977-1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina												
Deficit or surplus	-5.9	-7.5	-13.2	-15.3	-15.2	-11.9	-6.0	-4.7	-7.2	-9.0	-7.7	-5.4
External financing	1.7	1.9	4.3	1.4	0.6	-0.9	1.0	1.1	3.2	2.1	-2.8	2.6
Internal financing	4.2	5.6	8.9	14.0	14.6	12.8	5.1	3.7	4.1	6.9	10.5	2.8
Bolivia												
Deficit or surplus	...	-8.4	-8.2	-13.2	-18.0	-23.6	-10.9	-3.0	-8.2	...	...	...
External financing	...	5.3	3.9	0.7	-1.4	2.8	4.9	7.0	2.7	...	...	...
Internal financing	...	2.5	3.6	13.6	19.3	23.7	5.9	-4.0	5.6	...	...	...
Brazil												
Deficit or surplus	...	1.2	2.1	3.2	2.5	2.2	2.1	0.2	-0.4	-0.1	...	...
External financing	...	0.9	1.6	1.9	0.7	1.9	0.0	-1.0	-1.4	-1.1	...	...
Internal financing	...	0.4	0.5	1.3	1.8	0.2	2.2	1.2	1.0	1.0	...	...
Colombia												
Deficit or surplus	-0.5	-2.6	-5.3	-6.0	-7.6	-6.3	-4.0	-0.3	-1.9	-2.2	-1.9	...
External financing	1.1	1.9	2.8	2.4	2.4	1.9	2.3	2.1	-0.7	2.3	0.5	...
Internal financing	-0.5	0.7	2.5	3.6	5.2	4.4	1.7	-1.8	2.6	-0.1	1.4	...
Costa Rica												
Deficit or surplus	-14.0	-12.7	-4.6	-6.9	-0.9	-0.2	-0.8	-2.0	-0.4	...	...	...
External financing	9.8	5.9	2.7	0.3	0.3	2.9	-31.4	5.9	1.7	...	...	...
Internal financing	4.2	6.8	1.9	6.6	0.5	-2.7	32.2	-3.9	-1.3	...	...	...
Ecuador												
Deficit or surplus	-1.1	-1.2	-0.1	-2.5	-1.3	0.0	0.2	-2.1	-1.4	...	...	...
External financing	0.0	1.0	-0.1	0.0	-0.8	0.9	0.4	2.4	0.0	...	...	...
Internal financing	1.1	0.2	0.1	2.5	2.1	-0.9	-0.5	-0.3	1.4	...	...	...
Guatemala												
Deficit or surplus	-1.8	-4.7	-7.4	-4.7	-3.3	-3.8	-1.8	-1.5	-1.3	...	...	...
External financing	0.9	1.4	1.1	1.1	0.9	0.2	0.7	0.6	0.5	...	...	...
Internal financing	1.6	3.4	6.1	5.5	2.2	1.3	2.5	2.4	1.8	...	...	...
Paraguay												
Deficit or surplus	...	0.4	-2.7	-0.9	-4.6	-5.4	-2.0	-1.4	-0.9	-1.4	...	...
External financing	...	0.5	0.9	1.0	3.5	4.2	0.9	2.7	0.5	2.3	...	...
Internal financing	...	-0.8	1.8	-0.1	1.0	1.2	1.1	-1.3	0.4	-0.9	...	...
Peru												
Deficit or surplus	-4.9	-3.9	-6.7	-7.6	-10.2	-6.6	-2.7	-5.1	-6.6	-7.5	-5.5	...
External financing	2.8	0.8	1.7	6.0	5.7	4.8	4.2	2.5	1.4	2.1	1.5	...
Internal financing	2.1	3.1	5.0	1.6	4.5	1.8	-1.5	2.6	5.2	5.4	4.0	...
Uruguay												
Deficit or surplus	-0.5	1.1	-1.8	-11.1	-4.0	-4.5	-2.3	-0.5	-0.7	...	...	...
External financing	1.1	0.6	1.8	3.1	-0.4	0.6	3.7	0.9	2.3	...	...	...
Internal financing	-0.6	-1.7	0.0	8.0	4.4	3.9	-1.4	-0.4	-1.6	...	...	...

Source: ECLAC, on the basis of figures provided by official sources and by the ECLAC/UNDP Regional Project on Fiscal Policies.

Table 23
LATIN AMERICA: INFLATION TAX^a
(As percentages of GDP)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Argentina ^b	5.7	7.3	11.0	10.3	5.3	4.0	4.6	5.3	9.6	5.3
Bolivia	2.0	13.7	13.6	20.8	10.5	1.7	0.5	1.3	1.2	1.4
Brazil	2.0	1.9	2.4	2.5	3.0	1.4	5.3	4.6	4.9	5.5
Chile ^b	0.5	1.1	1.1	1.0	1.0	0.7	0.9	0.6	1.0	0.0
Colombia	2.1	1.9	1.3	1.3	1.5	1.4	1.6	1.9	1.6	1.9
Costa Rica	8.2	8.9	1.2	2.1	1.5	2.5	2.6	4.0	1.8	4.4
Ecuador	1.6	1.9	3.0	1.5	1.1	1.7	2.3	4.4	2.7	2.6
El Salvador	0.6	1.2	2.0	1.2	3.5	2.8	1.6	1.5	1.8	1.3
Guatemala	0.6	-0.2	0.7	0.4	2.4	1.9	1.0	0.9	1.7	3.6
Haiti	2.3	0.7	1.4	0.7	2.1	-1.9	-0.4	1.3	1.9	0.2
Honduras	0.6	0.6	0.5	0.2	0.3	0.2	0.2	0.4	0.8	2.4
Mexico	3.5	10.5	8.2	5.7	5.0	5.4	4.8	1.5	0.7	0.9
Nicaragua ^b	3.9	3.5	5.0	10.0	30.1	21.8	13.7	12.2	2.6	5.9
Paraguay	0.9	1.0	1.7	3.4	2.5	2.4	3.4	1.9	3.1	4.1
Peru	3.0	2.5	2.9	2.3	3.2	4.1	5.2	11.1	5.6	4.8
Dominican Republic	0.6	0.6	0.7	2.8	1.9	0.7	2.1	4.2	3.3	5.5
Uruguay ^b	1.9	1.4	2.8	2.8	3.5	3.1	2.5	3.0	3.3	0.0
Venezuela	0.8	0.6	0.7	1.8	1.1	1.2	2.6	1.8	2.9	1.9

Source: ECLAC, on the basis of official figures.

^a Calculated with reference to the monetary base except where indicated otherwise. ^b Calculated with reference to M₁, either because other information was unavailable or because financial institutions' interest-bearing deposits in the Central Bank were included.



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