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AND THE CARIBBEAN

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CONTENTS

First Part

ECONOMIC TRENDS IN LATIN AMERICA AND THE CARIBBEAN IN 1992

Page

I. MAIN TRENDS . . . 9

II. MACROECONOMIC POLICY AND INFLATION . . . 19
1. Main aspects of macroeconomic policy . . . 19
2. Inflation . . . 21
3. Notable progress in the stabilization of chronically high-inflation countries 25
4. Persistently high inflation in countries in a situation of "controlled instability" . . 32
5. Reinforcement of the stabilization process in moderate-inflation countries 37

III. LEVEL OF ACTIVITY . . . 47

IV. TOTAL SUPPLY AND DEMAND . . . 61
1. Regional trends . . . 61
2. Demand . . . 62
3. Liberalization, transfers abroad and changes in the demand structure . . . 63
4. Investment and its financing . . . 66

V. EMPLOYMENT AND WAGES . . . 77

VI. PUBLIC FINANCES . . . 91
1. A trend towards fiscal equilibrium . . . 91
2. Fiscal policy in 1992: a further reduction of public deficits . . . 94
3. Trends in fiscal revenues . . . 103
4. Public expenditure . . . 112
5. Financing of the deficit . . . 114

VII. THE EXTERNAL SECTOR . . . 127
1. Foreign trade . . . 128
2. Export prices and the terms of trade . . . 138
3. The balance-of-payments current account . . . 140
4. International interest rates . . . 142
5. Capital flows and international reserves . . . 142
6. External resource transfers . . . 144
7. Import trade reforms and reciprocal trade liberalization . . . 146

VIII. THE EXTERNAL DEBT 165
1. Main trends 165
2. The debt burden 168
3. Debt renegotiations 170

IX. ECONOMIC TRENDS IN THE CARIBBEAN IN 1992 185
1. Main trends 185
2. Sectoral trends 191
3. Foreign trade and the balance of payments 194
4. External debt 194
5. Fiscal policy 195
6. Prices 197
7. Employment 197

Second Part

THE WORLD ECONOMY

1. Recent trends and policies 205
2. International trade 222
3. The international oil market 231
4. Saving, investment and the international transfer of financial resources 234

Third Part

EXTERNAL CAPITAL MOVEMENTS IN LATIN AMERICA AND THE CARIBBEAN

1. The flow of external capital to Latin America in the 1980s 253
2. Capital movements from a historical perspective 254
3. Capital movements in 1990-1993 259

FIRST PART

ECONOMIC TRENDS IN LATIN AMERICA AND THE CARIBBEAN IN 1992

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 neccessarily add up to the corresponding totals, because of rounding.

I. MAIN TRENDS

For the most part, Latin America and the Caribbean witnessed a continuation of the preceding year's main economic trends: an increase in the level of activity that outpaced population growth, and declining inflation. Greater differences than before were to be seen, however, among the results achieved by the various economies; a particularly important factor in this regard was that the performance of Brazil's economy -which exerts a decisive influence over regional aggregates- differed from that of most of the other countries.

As the year proceeded, the progress made in carrying out the adjustment process was consolidated in a growing number of countries in the region. Nevertheless, the continued decline in the world economy and an apparent slackening of capital inflows during the second half of 1992 raised some questions which had not been in evidence at the start of the year.

The gross domestic product (GDP) of the region as a whole grew by 3%, as compared to 3.8% in 1991. If Brazil is factored out of the calculations, then it becomes evident that the rest of the Latin American and Caribbean economies' GDP expanded by nearly 5% on average, which was slightly less than the year before. Moreover, eight countries recorded growth rates of over 6%, whereas just three countries had managed to do soin 1991. Consequently, per capita GDP climbed by 1%, but the figure rises to 2.8% when Brazil is excluded.

Meanwhile, inflation continued to fall off sharply; only eight countries experienced higher inflation than the year before, and triple-digit inflation persisted in just one (Brazil). In contrast, in many countries inflation approached levels only slightly higher than international rates.

The countries' growth, against a backdrop of increasing price stability, is an even more significant achievement when it is viewed within the context of an international economy marked by recessionary trends and uncertainty. The slow growth rate registered for world trade in 1992 was reflected in a sustained deterioration in all the countries' terms of trade for goods, and this process was especially serious in the Central American subregion. As a counterbalance, a considerable number of countries (including Brazil, Chile, Costa Rica and Honduras) were successful in boosting their export volumes.

The rapid rise in imports seen in 1991 continued in 1992 and in some cases even accelerated. As a result of this trend -which was bolstered by tariff reductions and low real exchange rates- the region recorded a merchandise trade deficit for the first time in many years. Given these circumstances, the deficit on current account was also substantially larger.

The growth of domestic demand outstripped that of GDP. Investment, whose recovery proceeded at a faster pace, played a more important role in bringing this about than it had the year before.

The factor which made this trend sustainable and which, at the same time, contributed to the success of stabilization efforts was the considerable net inflow of financial resources received by the region (over US$ 60 billion in 1992) for the second year running. In fact, this inflow has been the most salient aspect of the economic environment during the past two years.

Contributing factors have included the widening differentials between the real interest rates offered on the Latin American and United States markets, as well as the opportunities for windfall profits opened up by the economic recovery and privatization operations. Signs of increasing stability and continuity in economic policy have also played a part in this respect.

New capital inflows have financed imports, investments and speculative operations, have

helped to cover fiscal deficits (by permitting the acquisition of bonds and government companies), have fueled a non-inflationary expansion of credit for private-sector investment and consumption, and have added to the region's international reserves.

This sudden relative abundance of external resources paved the way for economic growth without jeopardizing the countries' stabilization efforts. These net capital flows also far outweighed the adverse effects of the region's deteriorating terms of trade. On the domestic front, these flows have quickly been channeled in such a way as to stimulate private-sector demand. Be that as it may, in some countries these capital inflows drove down exchange rates and, in a few instances, hampered the management of monetary policy. In addition, in those cases where short-term capital movements accounted for a significant portion of these inflows, they introduced a factor of relative volatility into the economic picture.

Currency appreciations have checked price increases for tradable goods. Generally speaking, however, they have not anchored the prices of private services to the same extent. Rate increases for public services made in connection with fiscal adjustment or privatization programmes have also contributed to a rise in these prices. Taken together, these changes in relative prices have tended to steer resource allocation towards non-tradables and, in particular, away from export sectors.

The major fiscal adjustment efforts made over the past three years have been carried forward and have become even more thorough-going in most of the countries. Furthermore, in the last few years these efforts have been focused on reducing, or even eliminating, the use of domestic credit to finance the public sector, even in countries that can usually count on having external resources available for this purpose. This has, of course, contributed to the success of stabilization programmes both because of its direct effect on the growth of the money supply and because of its positive influence in terms of private agents' confidence in the continuity of economic policy.

In addition, in most cases the burden placed on fiscal budgets by interest payments on public-sector debt has been stabilized, although at levels ranging between 1 % and 4% of GDP. Elements contributing to this advance include negotiations aimed at regularizing external debt service payments, the drop in international interest rates and the fiscal adjustment itself, which, within a framework of monetary restraint, has sharply reduced both the need for and the possibility of domestic borrowing.

The fiscal adjustments made during the past two years have chiefly been based on an increase in tax receipts; in some cases, these revenues have been supplemented by the non-recurring income obtained from privatization operations. Nevertheless, few countries can as yet be regarded as having structurally balanced fiscal budgets, if this term is understood to mean that their current income is solidly backed up by a stable tax base and is, moreover, in keeping with a sufficient level of current expenditure to permit the government service to function properly and basic social services to be provided, as well as to finance the necessary public investment to maintain and develop the infrastructure needed for economic growth and social advancement.

The policy package required to arrive at such a point has been based on institutional reforms designed to reinforce the economies' export orientation and openness to trade, to liberalize the price system, to consolidate their fiscal equilibrium and to ensure a more prudent form of monetary-policy management. The downside of these measures, however, has been that most of the countries have still not managed to reduce their backlog of unmet social needs to any appreciable extent.

The apparent slow-down in external capital inflows starting midway through the year, in conjunction with a persistently recessionary climate in the world economy, prompted some uneasiness towards the end of 1992. That uncertainty has been manifested in a more cautious attitude in general, as well as being reflected in the expectations of economic agents and the behaviour of stock markets. It has also reduced the amount of manoeuvering room available for macroeconomic policy management aimed at maintaining rising

economic growth rates within a framework of progressively greater financial stability.

Given the above, it is clear that, after devoting so many years of effort to diversifying its export mix, the Latin American and Caribbean region is in vital need of external conditions conducive to a harmonious expansion of world trade, both as regards the macroeconomic management of the world's main developed economies and in respect of the institutional structure that will govern trade in goods and services. Intraregional trade should also be promoted within the framework provided by the reciprocal agreements concluded in recent years.

In addition, the fact that the region has become a net importer of financial resources is unquestionably a positive development, and efforts must therefore be made to maintain and consolidate the progress made in this connection. Everything points to the need to ensure that external capital flows not only maintain their present overall level, but also become a stable source of financing for productive investment.

To achieve this end, the region needs to find a more suitable mix of sources of finance; such a mix would include larger proportions of bank capital, inputs from multilateral agencies and institutional portfolio investment in order to prevent any excess of short-term capital movements from introducing an element of instability into external finance. Recipient countries, for their part, should expand their incipient capital markets and strengthen their arrangements for regulating the financial system. At the same time, fiscal policy has a particularly important role to play in maintaining an appropriate, flexible balance in order to forestall uncertainty on the part of private agents regarding the stability of economic policy and sudden pressures on the financial system and in order to provide more manoeuvering room for monetary and exchange policy.

In 1992, the region's total GDP climbed by 3%, which means that the economic reactivation observed the year before, when GDP expanded by 3.8%, was continuing, although at a somewhat slower pace. This showing translated into a slight increase in per capita GDP (1%). The slower rise in the level of regional economic activity was largely due to the worsening recession in Brazil since, if that country is excluded from the calculations, we then see that the GDP for the rest of the Latin American and Caribbean economies swelled by almost 5%, as compared to rates of slightly over 5% in 1991 and nearly 3% in 1990.

Many countries registered substantial growth rates, although they did so under varying circumstances and at differing stages of development. One quite notable case was that of the Chilean economy, which was in its fourth year of growth (over 10%) as it made its way along a long-term growth path just two years after making an adjustment (in 1990) in order to gain control over incipient inflationary pressures. Seven countries recorded growth rates of between 6% and 9%: Argentina, where the upturn that began in 1991 continued in 1992 under the favourable influence of the stabilization programme and an inflow of foreign capital; Costa Rica, which resumed a brisk rate of expansion after a more modest increase in 1991; Panama, in its third straight year of growth, with the 1988-1989 crisis now a thing of the past; Uruguay, which, despite its fiscal austerity policy, has emerged from its virtual standstill of recent years with the help of the recovery being made by its neighbour, Argentina; Venezuela, whose economy continued to expand rapidly, although at the cost of a growing fiscal deficit; the Dominican Republic, which has embarked on a strong recovery; and Guyana, which was able to boost its level of economic activity significantly for the second year running, following three years of decline.

Another group of countries grew at rates in the 3%-5% range; in most cases, these growth rates were higher than these same countries' 1991 rates, either because the pace of economic activity has stepped up (as in the cases of Colombia, El Salvador and Guatemala) or because they have managed to consolidate their recovery (Honduras). In contrast, the momentum built up previously by Bolivia and Ecuador waned somewhat.

In Mexico, GDP was up by 2.5% but, even so, this indicated a slowing of its rather moderate, yet sustained, growth rates of previous years. Meanwhile, Paraguay's level of economic activity edged upward by less than 2%, which

constituted a continuing decline -for the fourth year in a row- of its once vigorous growth rate.

In Nicaragua, where GDP climbed slightly, and in Peru, where it fell by nearly 3%, the recession -now in its fifth year- persisted despite the obvious headway made by the two countries in the area of price stabilization.

Brazil's GDP dropped by almost 2% after a slight upturn the year before, thereby continuing the predominantly recessionary situation which, in conjunction with persistently high inflation, has afflicted the country since 1988. Haiti's now chronic recession also deepened, with an 8% decrease in GDP. Barbados, too, experienced a slump (of 4%) in economic activity for the third consecutive year. For its part, Cuba's economic decline grew even more serious as a consequence of the complete breakdown of its once favourable trade relations with the Eastern European countries and the now disbanded Union of Soviet Socialist Republics, as well as of a stiffening of the embargo imposed by the United States.

Price-stabilization efforts proceeded -and achievements in this regard were consolidated- in most of the region. Only Brazil, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Paraguay, and Trinidad and Tobago experienced inflationary surges. If the figures for Brazil are factored out, since its rate of inflation causes the weighted average for the region to more than double, we then see that the average increase in consumer prices for the rest of the countries slowed from 49% in 1991 to 22% in 1992. Furthermore, for the first time in many years, countries having annual inflation rates under 20% were in the majority.

Marked progress was also made by high-inflation economies that just two years earlier had slipped over the edge into hyperinflation. Following steep drops in their inflation rates, Argentina and Nicaragua stabilized their annual rates of consumer price increases at under 18% and 2%, respectively. In Peru, which had also managed to pull itself out of a bout of hyperinflation the year before, the annual rate of increase was lowered to less than 60%; this was similar to the level achieved by Uruguay, which had previously been troubled by a high rate of inflation. These advances stood out in sharp contrast to the situation in Brazil, which experienced an inflationary spurt that brought its annual rate of price increases to nearly 1,200%.

A sizeable group of moderate-inflation countries continued, for the second year running, to move closer to their goal of reducing inflation still further: the rate of price increases slowed from 15% in 1991 to 10% in 1992 for Bolivia; from 25% to 17% for Costa Rica; from 19% to 13% and 12%, respectively, for Chile and Mexico; and from 25% to slightly over 6% for Honduras. The Dominican Republic also held its inflation rate to less than 7%, while Jamaica managed to lower its rate from 77% to 40%.

However, some other countries* encountered greater difficulties in their efforts to bring down their rates of inflation. In Colombia, the annual rate only slipped from 27% to 25%. In Guatemala, it rose from 10% to 14%. The fiscal and exchange measures instituted by Ecuador during the second half of the year drove up the annual inflation rate, which jumped from 49% to 60%. Paraguay's rate of inflation also climbed, from 12% to 18% for the year. Much the same thing happened in El Salvador, where it doubled, jumping from 10% to 20%. In Venezuela, the annual rate of price increases was once again slightly over 30%, despite the decision to slow down the process of updating the prices charged by public firms and services.

In sum, a large number of countries in the region recorded steady growth for what was at least the third year in a row as well as achieving relative price stability and satisfactory production-capacity use rates. Countries which have managed to maintain such a state of affairs for a number of years now include Chile, which continues to grow at a swift pace thanks to the momentum generated by its export strategy; the Colombian and Costa Rican economies, on the other hand, saw an upturn in 1992 after activity had slackened the year before, whereas Paraguay's once vigorous expansion continued to lose steam. In other countries where the situation has improved more recently (e.g., Bolivia, El Salvador, Guatemala, Mexico and Panama), steady growth was also recorded,

along with relative price stability, although in some cases their macroeconomic balances were heavily dependent upon the continuation of a substantial inflow of external capital.

Yet another group of countries (Ecuador, Uruguay and Venezuela) were just recently achieving a full utilization of their production capacity thanks, at least in the case of the latter two, to rapid growth rates. All three of these economies function within a context of controlled price instability, although they have chosen different sorts of stabilization strategies. In Ecuador, a harsh adjustment and stabilization programme was implemented during the second half of the year; in Uruguay, efforts to cut its high inflation rate continued; in Venezuela, on the other hand, inflation held at its existing level while the fiscal deficit grew.

Argentina's and Honduras' economic recoveries also gathered strength, while the Dominican Republic embarked upon a vigorous upturn. In the First two cases, fast-moving stabilization processes resulted in long periods of relatively constant price levels. The Dominican Republic, for its part, just completed its own stabilization programme in 1992. Meanwhile, Nicaragua and Peru have achieved relative price stability as well, but, for the fifth consecutive year, both of their economies remained bogged down in deep recessions marked by low levels of activity and high levels of idle capacity.

Brazil also completed its fifth year of steep economic decline, although this downturn was interspersed with short-lived upswings in the level of activity; its rate of inflation remained high.

In 1992 another large increase in the import capacity of Latin America and the Caribbean was seen; this was the result of the expansion of net capital flows to the region, since the value of the region's exports rose by no more than a moderate amount and net payments of profits and interest were down only slightly. As a consequence of this phenomenon, the widespread boom in imports continued throughout the region; in many cases, other contributing factors included the predominance of low real exchange rates and the continuation or intensification of import reforms designed to open up the countries' economies.

As a result, the region's once hefty trade surplus turned into a deficit. What is more, only a few of the countries -the most important one, by virtue of the size of its surplus, being Brazil- maintained a positive merchandise trade balance. One of the main reasons for the upsurge in Brazil's exports was its trade with Argentina under the terms of free trade agreements.

Moreover, the region's terms of trade worsened once again in 1992 (this time by over 3%), thereby adding to the almost uninterrupted deterioration recorded in this variable since 1984, which in cumulative terms amounts to 23%. This time, oil-exporting countries were as seriously affected as the rest. In consequence, the purchasing power of the region's exports of goods edged up by just 4% despite a significant rise in export volumes.

The value of the Latin American and Caribbean region's exports of goods continued to rise by a moderate sum (5%), bringing the total to US$ 126 billion. The fairly slow pace of this increase was due to a drop in unit values, since export volumes were up by 8%, although fewer than one half of the countries managed to achieve higher export growth rates than the rate recorded for world trade overall. The value of the oil-exporting countries' exports weakened slightly owing to the decrease in unit values, although in some of them this was offset by a larger volume of external sales. However, thanks to a slight increase in capital inflows, they were able to maintain their capacity to import or to add to their reserves. The value of exports from the non-oil-exporting countries of South America were up, and in the cases of Brazil and Chile, the rise was an exceedingly steep one (15% and 12%, respectively). This accomplishment, in conjunction with a marked increase in net capital flows to Brazil, Argentina and, to a lesser extent, Chile, greatly strengthened this group's import capacity. Among the Central American and Caribbean countries, Costa Rica and Panama succeeded in boosting the value of their exports significantly, and Guatemala and Honduras also did so by a somewhat more moderate amount, despite the sharp downswing in unit values, which led to a drop in total export values for the other countries.

The value of merchandise imports by Latin America and the Caribbean amounted to US$ 137 billion, which represented a 20% increase and thus maintained, for the third year in a row, its strong upward trend. The rise was even more widespread than it had been in 1991, although the change in the regional aggregate was heavily influenced by the jump in imports by Mexico (an increase of US$ 10 billion), Argentina (US$ 6.2 billion), Venezuela (US$ 2.3 billion) and Chile (US$1.9 billion).

The region's 1991 merchandise trade surplus of US$ 9 billion gave way to a US$ 5.5 billion deficit in 1992. Net payments for non-factor services continued to climb, reaching US$ 5.7 billion.

The net flow of profits and interest payments continued to move downward, falling to US$ 28.4 billion in 1992. This result was primarily attributable to a drop in interest rates, although its effects were partly offset by higher profit remittances. None the less, the deficit on the current account of the region's balance of payments widened once again in 1992 (to nearly US$ 37 billion) as a consequence of the downturn in the region's trade balance.

The region's net capital inflows -which amounted to US$ 61 billion and were thus well above the US$ 40 billion figure recorded for 1991- were more than enough to finance the larger deficit on current account. Although the expansion of capital flows was quite widespread, the US$ 21 billion net increase in the regional total was accounted for by just a few countries. The main such country was Brazil, which took in US$ 8.5 billion as compared to slightly less than US$ 1 billion in 1991. Argentina, too, registered a substantial increase (US$ 7.6 billion) in net capital inflows, which totalled US$ 13.1 billion in 1992. Incoming capital flows to Mexico exceeded US$ 24 billion, which was US$ 2 billion more than the year before. The larger volume of external resources received by Venezuela (US$ 1.9 billion) and Chile (US$ 2.1 billion) also made a significant contribution to the rise in the region's capital inflows.

Capital inflows in 1992 continued to come primarily from private, non-bank sources and consisted of investments of various sorts. The largest proportion was made up of financial investments and short-term credit. A substantial share was also accounted for by stock purchases (especially in Mexico, although the level of such operations was also considerable in Argentina, Brazil and Venezuela). Foreign direct investment, which was appreciable, tended to be concentrated in Mexico and, to a lesser extent, in Brazil, Argentina, Chile and Venezuela. These same countries also floated public or private bond issues overseas for substantial sums.

Since the new inflow of capital was far larger than the deficit on current account, most of the countries in the region added to their international reserves for the fourth year in a row. More than one half of the increase in the regional aggregate was, however, accounted for by Brazil, whose reserves swelled by over US$ 15 billion.

The jump in net capital inflows, in combination with the fact that profit remittances and interest payments declined, caused the region's net transfer of financial resources (which, after having remained negative for an entire decade, had not become positive until 1991) to soar from US$ 9 billion to US$ 32 billion. Most of this increase stemmed from the fact that Brazil's, Argentina's and Chile's previously negative transfers turned positive, and significantly so, in 1992.

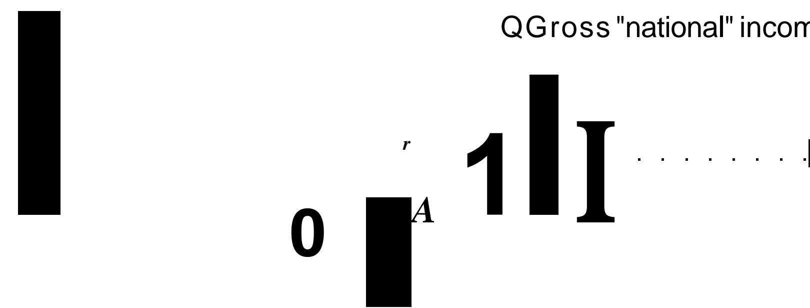
The region's external debt rose by almost 2%, to US$ 450 billion. This expansion was attributable in part to overseas sales of new bond issues, disbursements of official loans, an increase in short-term credit operations and the build-up of arrears in some countries. Working in the opposite direction, contractive factors included the recent rise in the dollar's value against other hard currencies, which reduced the dollar-value of debts denominated in those currencies, and the various debt-reduction mechanisms being used by many countries in the region.

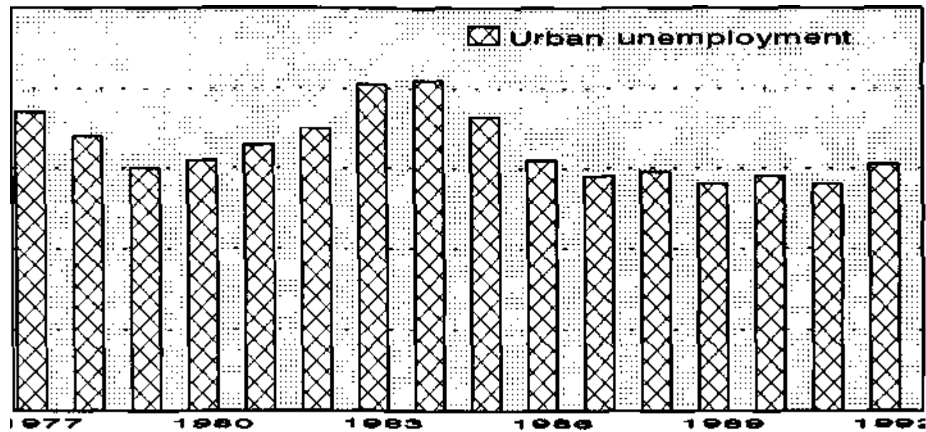
In 1992 indicators of the region's external debt burden continued to move lower, thereby reaffirming the downward trend seen in recent years. A decrease was observed in the interest due/exports ratio for the sixth year running as it fell to 19%, the lowest figure to be recorded since

1980. This positive trend was chiefly a result of a decrease in the gross flow of interest payments. For the region as a whole, the debt/exports ratio was down slightly, remaining below the 280%-mark. Nevertheless, in 1992 only five countries had coefficients below the critical threshold of 200%.

Figure 1-1
LATIN AMERICA: MAIN ECONOMIC INDICATORS

Annual rates





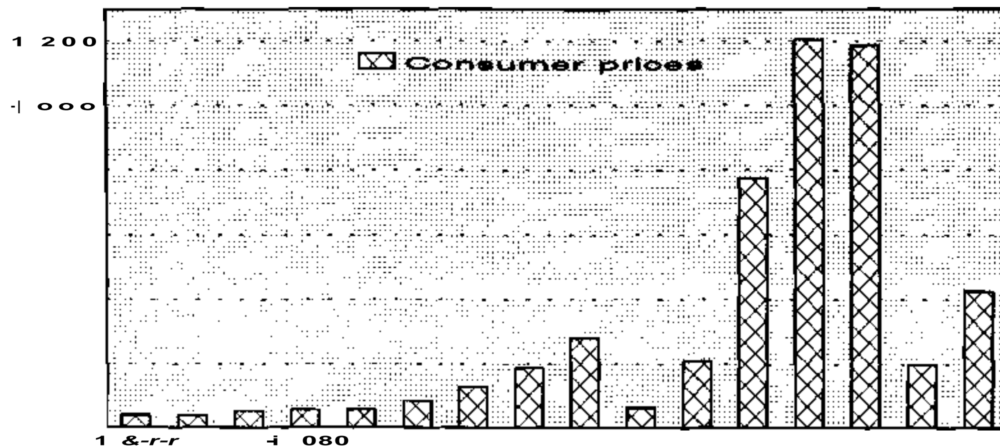
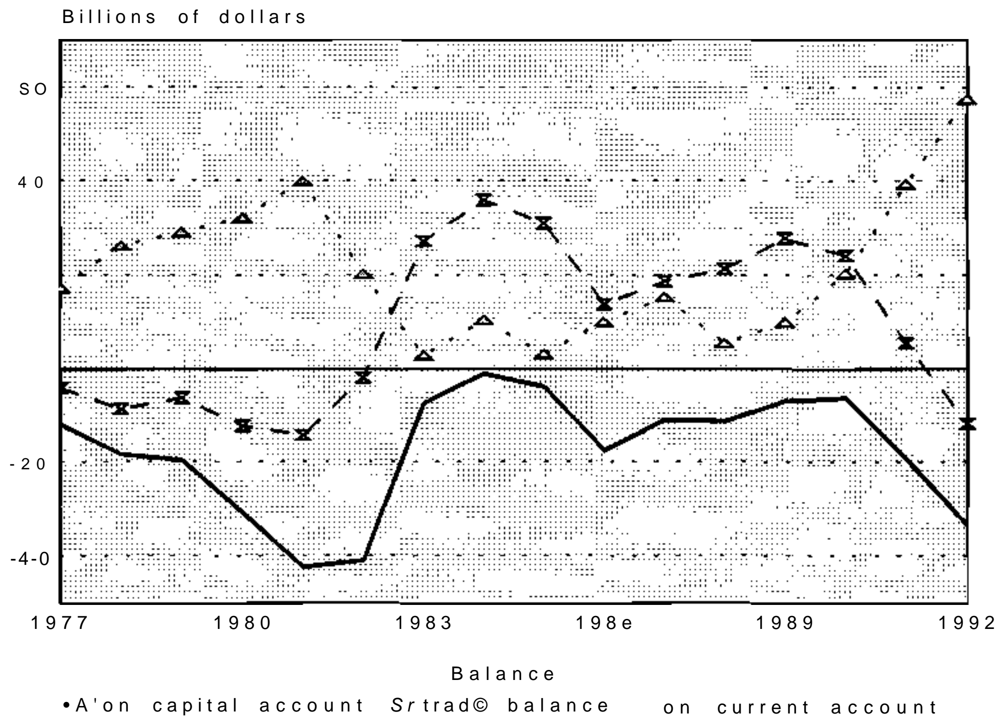
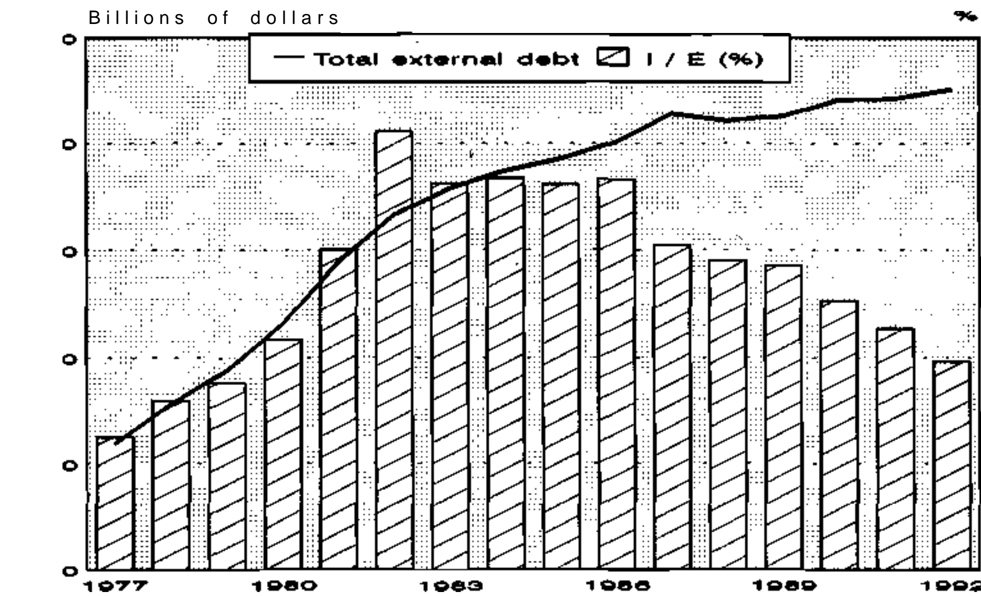


Figure 1-1 (conclusion)





Sourcs: ECLAC, on **thiA** basis of official flguroB.
K«»y: I = Total **Intsrsst** dus. E = Exports of goods and esrvlcsa.

Table I-1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS[a]

	1985	1986	1987	1988	1989	1990	1991	1992[b]
	Indexes (1980=100)							
Gross domestic product at market prices	102.4	106.7	110.1	111.0	112.0	112.3	116.6	120.1
Gross national income	97.1	100.1	103.7	104.2	105.0	105.4	110.1	113.6
Population (millions of inhabitants)	385.2	393.3	401.4	409.5	417.6	425.7	433.8	442.0
Per capita gross domestic product	91.7	93.5	94.6	93.5	92.5	91.0	92.7	93.7
Per capita gross national income	86.8	87.7	89.1	87.7	86.7	85.3	87.4	88.5
	Ratios (percentages)							
Urban unemployment rate	7.3	6.2	5.8	5.5	5.2	5.5	5.4	5.4
	Annual growth rates							
Gross domestic product	2.6	4.2	3.2	0.8	0.9	0.3	3.8	3.0
Per capita gross domestic product	0.4	2.0	1.2	-1.2	-1.0	-1.6	1.8	1.1
Per capita gross national income	0.3	1.0	1.5	-1.5	-1.2	-1.6	2.5	1.3
Consumer prices	280.1	63.8	209.4	773.7	1 205.7	1185.2	199.7	424.8
Current value of exports of goods and services	-4.4	-12.7	13.8	14.0	10.9	10.4	0.6	6.2
Current value of imports of goods and services	-0.1	4.1	10.3	14.0	6.7	16.0	16.3	19.8
Terms of trade (goods and services)	-4.7	-10.8	-0.3	1.2	1.1	-1.3	-2.0	-1.4
	Billions of dollars							
External sector								
Trade balance (goods and services)	30.8	13.8	18.6	21.2	27.8	24.5	4.9	-14.8
Net payments of profits and interest	35.3	32.4	31.1	33.8	37.6	34.8	30.6	28.4
Balance on current account	-3.6	-17.3	-10.7	-10.7	-6.5	-6.3	-19.8	-36.8
Balance on capital account	3.0	9.8	15.0	5.0	9.5	21.4	39.9	60.8
Balance-of-payments position	-0.6	-7.5	4.3	-5.7	3.0	15.1	20.0	24.0
Total disbursed external debt	384.0	399.8	426.1	418.6	422.7	439.9	441.3	449.8

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 III-1 (except Cuba), while those given for consumer prices refer to the countries listed in table II-1. The data concerning gross national income and the external sector correspond to the countries shown in table VII-10. Preliminary figures. [c] Weighted average annual rate for 18 of the 25 largest cities in Latin America. [d] December-to-December variation.

II. MACROECONOMIC POLICY AND INFLATION

1. Main aspects of macroeconomic policy

The macroeconomic policies applied by most of the countries in the region were similar to those of previous years, with domestic price stabilization being the main objective. Accordingly, the countries continued to place priority on attaining a financial balance in the public sector, maintained prudent monetary policies and watched closely over the exchange rate in an attempt to keep it in line with their inflation-reduction goals. The large volume of incoming capital flows contributed to a considerable appreciation of their currencies and hampered the implementation of their monetary policies, however, and this led some countries to take steps to regulate the inflow of financial resources, especially short-term funds. Tariff liberalization drives and programmes aimed at opening up the economy to foreign trade, which often coincided with a rise in the value of the local currency, also helped to dampen inflation, since a larger volume of imports, at lower domestic prices, tended to promote an expansion of total supply.

Brazil was the exception in this regional picture; its policies and macroeconomic status were strikingly different from those of the other countries, primarily owing to its current monthly indexation system, which introduces a strong element of inertia into the inflationary process, to the deterioration of its fiscal policy and to heavy domestic borrowing by the public sector. Monetary policy thus became the authorities' only tool for combating inflation, which led to high real interest rates and a drop in output. Under these circumstances, Brazil found itself in the difficult position of having to cope with high inflation and a recessionary process at one and the same time.

In 1992, the public finances of most of the Latin American countries were once again fairly well balanced, following the considerable progress made in this area in 1991. This achievement was made possible, in particular, by the fiscal adjustment processes initiated in past years and the increased prevalence of budgetary control measures, which were adopted to deal with the serious problems with respect to public-sector finance caused by the large deficits recorded throughout the 1980s and the sudden cut-off of external financing. Between 1989 and 1991, most of the countries in the region implemented far-reaching fiscal adjustment programmes which involved a sweeping reorganization of the public-sector apparatus. In 1991 it had already become apparent that in many cases the financing needs of the public sector were being held down to levels that did not generate serious inflationary pressures. This state of affairs persisted, in general, throughout 1992 and the fiscal standing of a number of countries therefore continued to improve, while others at least maintained the balances attained in earlier years. In addition, privatization programmes continued to forge ahead in some countries of the region, which facilitated government financing and even, in some instances, made it possible to reduce the public-sector debt.

In contrast, in some small economies (e.g., Bolivia, Honduras and Nicaragua), considerable fiscal deficits remained or even widened; this did not have any major impact in terms of inflation, however, because an ample supply of external finance, much of which came from official grants and donations, was available to these Governments. In other cases (Ecuador, El Salvador, Guatemala, Paraguay and Venezuela), however, the deterioration of the fiscal situation triggered incipient spurts of inflation, along with some signs of price repression in countries that lagged behind in their correction of public-sector

prices and charges. Brazil's fiscal imbalance worsened owing to a drop in fiscal revenues and the impossibility of reducing public expenditure any further, since it had already been cut to exceedingly low levels.

Exchange policy continued to be an important tool in combating inflation, and its use as such has become typical of a growing number of countries in the region since the end of the 1980s. As a consequence of the external debt crisis of the early 1980s, exchange policy was fashioned into a basic instrument for supporting the balance of payments, since this permitted real exchange rates to increase significantly, which in turn paved the way for a sharp rise in exports during that period. However, due to the high inflation experienced by some countries, the orientation of exchange policy changed, and it began to be used for purposes of stabilization. In particular, the exchange rate was used as an "anchor" for price formation in the stabilization programmes of Argentina, Dominican Republic, Guatemala, Honduras, Mexico, Nicaragua, Uruguay and Venezuela. Other countries chose to adopt flexible exchange rates, with differing degrees of intervention by the monetary authority, as they proceeded to liberalize their foreign exchange markets.

The massive inflow of capital from abroad, which began at the start of the 1990s and increased further in 1992 (after a decade of extremely meagre flows), tended to drive up the value of the countries' currencies; this facilitated stabilization efforts, but the ensuing increase in international reserves hampered the management of monetary policy. In a number of countries the central bank had to step in to avert steep decreases in the real exchange rate, but in order to do so it had to buy up large quantities of foreign exchange, and the resulting expansion of the monetary base then had to be neutralized via open-market operations or higher reserve requirements. In some cases measures were also taken to regulate the entry of foreign capital; in Colombia, Chile and Paraguay, restrictions and cash reserve requirements were instituted to discourage the entry of short-term credit.

In a few cases (Guatemala, Honduras and Paraguay), the reduction of the inflow of short-term external capital broke the monetary growth cycle generated by purchases of foreign exchange and simultaneous increases in domestic interest rates, thanks to the neutralization of the excess money supply. In Venezuela, the drop in foreign-exchange inflows, which was brought about primarily by sagging oil sales, drove down the level of international reserves; this relieved the problems that were affecting the implementation of monetary policy, which had already been rendered much less manageable by the country's large fiscal deficit.

In 1992 the real effective exchange rate for exports declined in relation to its average level for 1991 in 10 countries of the region (see table II-1), but it was lower than it had been in 1985 in only three countries (Argentina, Mexico and Peru). In another four countries, the real exchange rate remained virtually constant, and in three of them (El Salvador, Guatemala and Honduras), it remained substantially higher than its average level for the preceding decade. In the other five countries, however, real devaluations were observed, although they occurred within widely varying contexts. In Brazil, the large inflow of external financial resources made it necessary for the Central Bank to buy up large amounts of foreign exchange in order to ward off a revaluation of the local currency. This was so effective that the real exchange rate actually rose, but it was still well below its level for the period 1983-1988. In Bolivia, a nominal devaluation was instituted that matched the increase in prices, but the real exchange rate climbed as a result of the rise in the Bolivian currency's parity with that of Argentina and, to a lesser extent, with that of the European Economic Community. In Nicaragua and Paraguay, the average nominal exchange rate moved upward in 1992, although in the case of Nicaragua, the change was entirely concentrated in the second quarter, when the rate more than doubled as compared to its level during the preceding quarter. In Haiti, on the other hand, the devaluation was a direct consequence of the suspension of external financing.

The method used to calculate real exchange rates is in Note *a/* of table II-1.

Reforms in import regulations and procedures continued in 1992, although less energetically than in 1990 and 1991. For the most part, the countries complied with the timetables for reductions in import duties that they had set up in earlier years, and their economies' openness to imports was therefore reinforced. This reform process had been rather lackadaisical until the mid-1980s; in fact, the only earlier experiment with such reforms had been the liberalization programme launched by Chile in the 1970s, which, by the end of that decade, had transformed its economy, leaving it wide open to foreign trade. In the closing years of the 1980s the countries of the region made sweeping changes in their development strategies as they began to lower their import barriers after more than half a century of predominantly protectionist policies. This trend has strengthened in the 1990s, and virtually all the countries of Latin America and the Caribbean have now undertaken ambitious import reform programmes. Another element that makes Chile stand out from the pack is that it is the only country which has established a uniform tariff (11 % for all goods, with practically no exceptions); all the others still have differentiated tariff rates, although their rate spreads have narrowed, their ceiling rates are substantially lower than before, and the tariff rates applying to capital goods are either at zero or a negligible level.

In 1992 new trade agreements were concluded for the purpose of promoting trade among Latin American countries. Integration processes also moved forward. These developments contributed to a considerable expansion of reciprocal trade while at the same time pointing up the need to coordinate the relevant countries' macroeconomic policies in order to continue strengthening their trade links.

2. **Inflation**

With some exceptions, inflation continued to ease in Latin America and the Caribbean during 1992; however, because Brazil's monthly inflation rate remained above 20%, the weighted regional average more than doubled, rising to an annual level of 425%. If Brazil is not counted, then the index falls to just 22%, which is less than one half the 1991 figure and far below the level of nearly 1,000% registered just two years ago (see table II-2). Although cross-country differences were less marked than previously, five major groups of countries could clearly be distinguished. First there was Brazil, whose annual inflation of 1,200% (a sustained monthly rate of 23%) was far higher than all the rest. A second group, made up of Ecuador, Peru and Uruguay, had annual inflation rates of around 60%. Then came Colombia and Venezuela, with annual rates of about 30%. The fourth and largest group, with yearly rates of between 10% and 20%, was composed of Argentina, Bolivia, Chile, Costa Rica, El Salvador, Guatemala, Haiti, Mexico and Paraguay. Finally, with annual rates of inflation below 10%, were the Dominican Republic, Honduras, Nicaragua and Panama (see figures II-l through II-3).

Among the English-speaking Caribbean countries, Jamaica registered an inflation rate of 40%, but this was lower than the year before. Trinidad and Tobago again had a low level of inflation (8.5%) after marking up a rate of only 2% in 1991. In Barbados, the pace of price increases was just slightly more than 3%, following a rate of nearly 8% in 1991, which signified a return to the country's traditionally low levels of inflation.

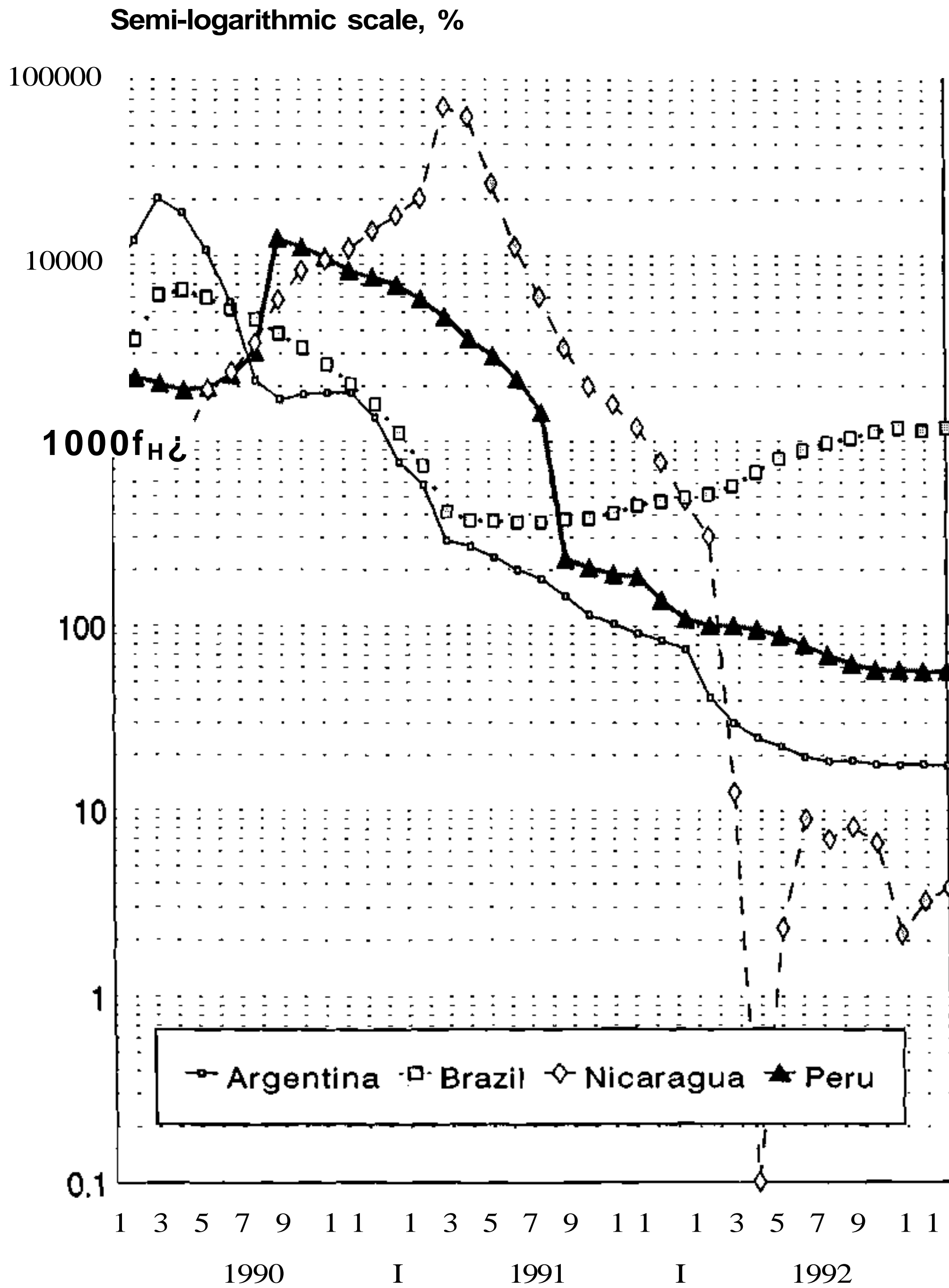
It was generally the case that consumer prices rose much more than wholesale prices did. One of the main reasons for this was the faster pace of price increases for non-tradables in the countries' increasingly segmented markets as private demand swelled and public services were cut back.

Stabilization efforts were particularly successful in Argentina and Nicaragua, which, in the space of just two years, not only put an end to

[2] This and the next six sections will deal only with the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. The Caribbean countries not included in the above list will be discussed in detail in chapter DC.

Figure 11-1

UTIN AMERICA: 12-MONTH VARIATION IN CONSUMER PRICE INDEXES OF SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

Figure II-2
LATIN AMERICA: 12-MONTH VARIATIONS IN CONSUMER PRICE INDEXES OF SELECTED COUNTRIES

%

* Bolivia * Colombia "Chile +Ecuador "* Mexico * Uruguay ± Venezuela

110
100
90
80
70
60
50
40
30
20
10
0

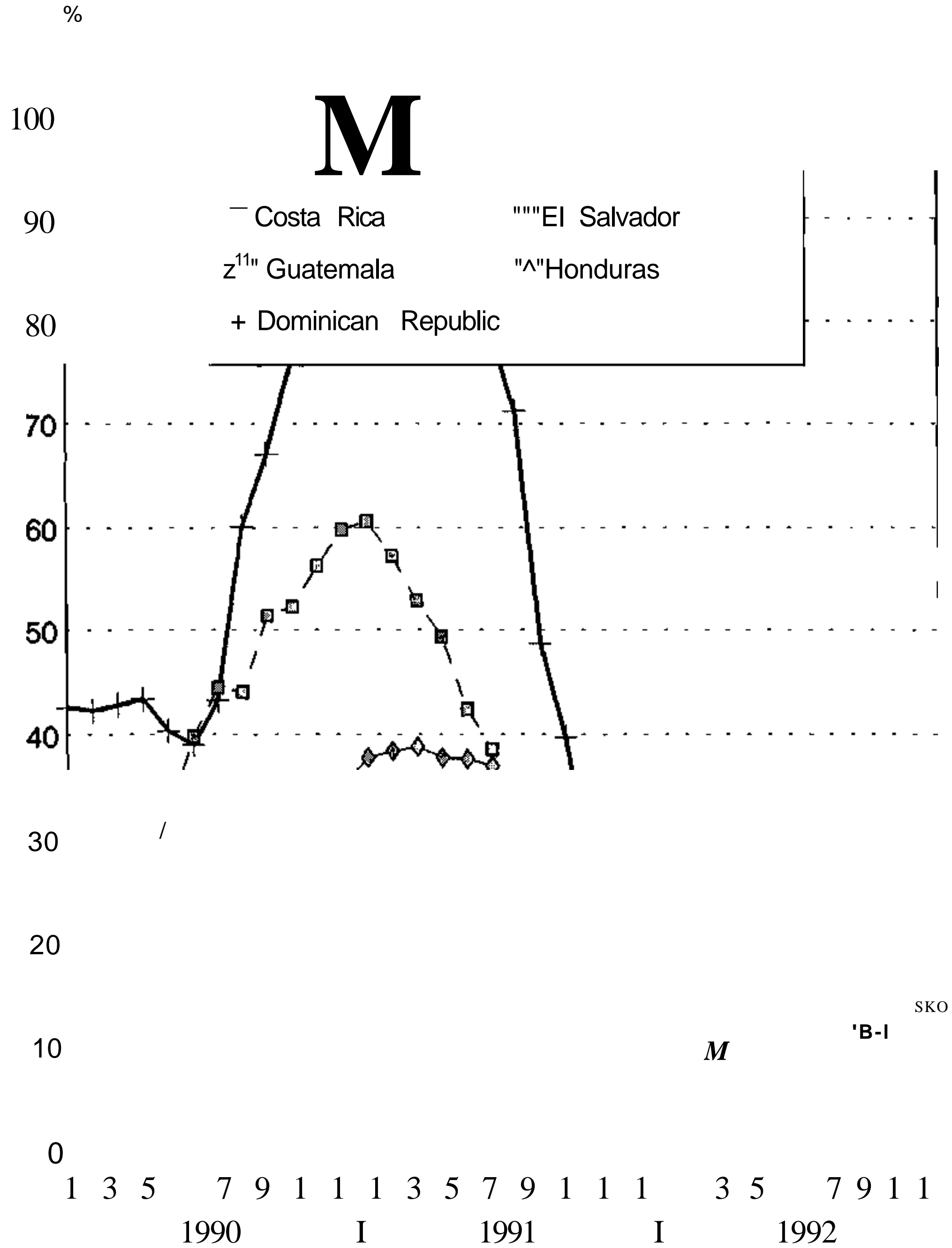
1 3 5 7 9 11 1 3 5 7 9 11 1 3 5 7 9 11

1990 | 1991 | 1992

Source: ECLAC, on the basis of official figures.

Figure II-3

LATIN AMERICA: 12-MONTH VARIATIONS IN CONSUMER PRICE INDEXES OF SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

hyperinflation but actually lowered their consumer price increases to annual rates of 18% and only 2%, respectively. In both countries, this stability was founded upon the establishment of a fixed parity against the dollar in situations marked by an abundant supply of external finance and a well-controlled form of fiscal management; Argentina achieved equilibrium and Nicaragua's deficit was covered by external resources (see table VI-1). Also in both cases, a slow but persistent rise in the relative prices of non-tradable goods and services had the effect of adding to the deficit on the balance-of-payments current account. Stabilization was coupled with a considerable upturn in production in Argentina, but Nicaragua's adjustment, stabilization and restructuring programme has kept its economy in recession.

In contrast, other countries which had also been faced with high inflation in past years continued having difficulty in combating it. Peru made great strides with its stabilization programme and was thus able to consolidate its defeat over the hyperinflation that had afflicted the country in the three-year period 1988-1990, but the reduction of inflation from 140% in 1991 to less than 60% in 1992 was carried out on a recessionary basis. Inertial aspects of inflation continued to be an important factor in Uruguay and this, in combination with fairly strong external demand (largely because of a spillover of Argentine domestic demand), slowed inflation's rate of descent; none the less, the rate did drop from slightly over 80% in 1991 to under 60% in 1992. Ecuador -the final member of the four-country group having the highest inflation indexes in 1992- was a different sort of case in that the new administration's fiscal adjustments and exchange corrections pushed prices upward during the second half of the year, causing the rate to climb to 60% in 1992 after having remained at a constant 50% for the past three years. The high inflation seen in Ecuador and Uruguay was, however, taking place within steadily expanding economies.

With lower rates of inflation of around 30% annually, Colombia and Venezuela have also been faced with strong opposing forces as they strive to lower their rates of price increases. Inflation was down only slightly in Colombia, which loosened up its fiscal and monetary policies during the year, and held nearly steady in Venezuela (rising by just one point) against the backdrop of a worsening fiscal imbalance. Be that as it may, both countries continued to experience sustained growth, and in the case of Venezuela, the pace of that growth was particularly rapid.

Countries which, having completed the structural adjustment of their economies, had succeeded in quelling inflationary surges during the preceding year were able to consolidate their progress in the area of stabilization within a context of sustained growth. This process was particularly successful in Chile, where the annual inflation rate was lowered from 19% to 13% as total demand burgeoned. Bolivia and Mexico also managed to reduce their rates of domestic price variations to 10.5% and 12%, respectively, while at the same time sustaining GDP growth, although its rate of expansion was slower. Only Paraguay lost ground, with inflation rising from 12% to 18%.

Stabilization processes were consolidated in various Central American and Caribbean countries. Only three of them -Costa Rica, El Salvador and Haiti- had annual inflation rates above 15%, while all the rest held theirs to under 10%. Despite these low levels, inflationary spurts were seen in the Dominican Republic, El Salvador, Guatemala and Haiti.

3. **Notable progress in the stabilization of chronically high-inflation countries**

Following the outbreaks of hyperinflation seen in 1989 and 1990, chronically high-inflation countries implemented rigorous adjustment plans which have, in every case except Brazil, helped to lower inflation since 1991; as a result of this trend, which strengthened in 1992, some of these countries' inflation indexes were among the lowest in the region. In Brazil, on the other hand, where inflation had been slowing ever since March 1990, the rate rebounded to monthly

levels of over 20% and exhibited an upward trend which had boosted it to nearly 30% by the end of 1992. The most spectacular results were achieved in Argentina and Nicaragua, which, beginning in the closing months of 1991, had not only conquered hyperinflation but were well on their way to establishing a pattern of moderate inflation. In Peru, for its part, inflation continued heading downward, but the rate was still quite high within the country's fragile macroeconomic context.

In **Argentina,** considerable progress was made in bringing the country's prolonged inflationary process under control. In fact, its 17.5% rate of consumer price increases (as compared to 84% in 1991) was the lowest recorded since 1969. Moreover, the wholesale price index (WPi) was just 3% and the exchange rate remained fixed under the terms of the Convertibility Act, which entered into force in April 1991.

As during the preceding year, macroeconomic policy was implemented within the framework of the monetary scheme established by the Convertibility Act, which requires the Central Bank to sell dollars, should it become necessary, at the set price of one peso and to maintain reserves at a level not less than that of the monetary base; meanwhile, fiscal policy makers focused their efforts on eliminating the administration's financial deficit. Indeed, once the capital gains from privatizations -which amounted to 1.4% of GDP- were entered on the books, the financing needs of the nation's public sector turned out to be negligible; this was clearly an improvement over the 1991 deficit, which had been equal to 1.6% of GDP. Although the central government's level of expenditure was considerably higher -especially as a consequence of the expansion of the pension system's disbursements and the transfers made to the provinces through the country's tax-sharing mechanism- its revenues rose even more. The increase in tax receipts was partly due to a modification of the tax structure which concentrated the load in types of levies that have a broad tax base and reduced the share of taxes on banking debits and various public services. A particularly important factor was the increase in collections from the value added tax (VAT), which thus became a central component of the new tax scheme. This increase stemmed in part from the upturn in economic activity and the 18% rate hike established at the start of the year, but the main reason was probably the stricter enforcement of tax provisions.

Two aspects of fiscal policy which also drew attention were the relationship between the central government and the provinces, and the design and workings of the social security system. With regard to the first aspect, in 1992 the provinces had taken charge of a variety of health and education services which had previously been provided by the federal government. Furthermore, under the terms of the modifications which the government had agreed to make in the system for allocating tax revenues, the central government was to transfer a given amount of such receipts to the provinces and to allocate more funds for the payment of retirement pensions. As for the social security system, the government utilized bonds to consolidate its debts with the pension system, whose assets had been liquidated for sums below the legally-prescribed minimums. In addition, a pension-system reform bill was submitted to Congress.

There was a great deal of activity in connection with the privatization of public-sector companies. Early in 1992, the Government put shares of a telephone company on offer in the market just at the moment when demand was at a peak. In addition, the sale of a number of State-owned iron and steel concerns, including the sector's largest, Sociedad Mixta Siderúrgica Argentina (SOMISA), was also concluded. Natural-gas generation and distribution companies serving the entire country were also sold, as were drinking water supply services and some of the firms responsible for generating and distributing electricity in the capital city. One specific exception to the Government's general tendency to divest itself of corporate assets was its decision to increase its stock holdings in Aerolíneas Argentinas, an enterprise which had already been privatized but was experiencing operational difficulties.

Owing to the application of the convertibility scheme and the fact that the financing received by the Government did not act as a source of money creation, monetary conditions were determined mainly by the balance of payments

and, in particular, by the behaviour of financial flows. The extraordinarily high levels of capital inflows received in 1992, which were far greater than ever before, were the result of extraordinary international conditions, the execution of the privatization programme and a more positive perception of the degree of risk involved in holding assets within the country. This was also reflected in a steep rise in dollar-denominated deposits in local banks.

Monetary aggregates expanded more slowly than in 1991, but their rate of increase remained substantially higher than that of prices. The recovery of liquidity coefficients therefore proceeded, although they were still lower than those recorded in the early 1980s, when inflation was higher. This seems to suggest that the tendency towards divestiture of local-currency assets which is seen during times of economic turbulence is to some extent irreversible. In any event, the volume of credit processed by banks rose considerably in 1992 as a result not only of the increase in peso-denominated deposits and a slight reduction in bank reserves, but also of an expansion of dollar-denominated deposits. In fact, towards the end of the year these deposits were equal to about two thirds of M2 in local currency; hard-currency loans also appear to have accounted for a significant percentage of the total.

Early in the year, trends in the financial market were much the same as they had been in late 1991. Interest rates on local-currency deposits were less than 1% per month and, although interest rate spreads were still very large, lending rates were moving downward. Meanwhile, demand remained strong in the stock market, thus driving prices up. This trend was later reversed, however, and stock quotations plunged so sharply that by early December prices had fallen below the levels of July 1991. In addition to some profit-taking, this reaction was probably a reflection of a change in what had previously been highly optimistic expectations and, perhaps, of a smaller inflow of external funds. Bond prices on the domestic market also slipped, although much less sharply.

Independently of the vagaries of financial markets, a sizeable flow of resources from abroad continued, as did sales of foreign exchange to the Central Bank -until November, when the exchange market experienced a short-lived, but very sudden, shock. Despite the high level of reserves, the fact that the Central Bank had to intervene in the market in order to cope with excess demand for foreign currency caused some fear among economic agents. The authorities assured them, however, that incidental variations in the level of reserves should not be regarded as cause for alarm. At the same time, they adopted financial measures designed to reinforce the view that the convertibility scheme would remain unchanged. To this end, the banks were authorized to use foreign currency as reserves and to open up dollar checking accounts. The purpose of these announcements was to allay the fears of agents holding local-currency assets by reaffirming the Central Bank's commitment to convert, with no strings attached, Argentine pesos into hard currency. After this episode, which only lasted a few days, the steady flow of foreign-exchange sales to the Central Bank resumed, and total foreign-currency transactions for the month of November thus declined by only 230 million pesos. Bank interest rates, which had shown no appreciable variation until that time, began to climb, however. Thus, although the incident was a brief one and fell far short of posing any serious threat to reserves, interest rates ended up at a higher level.

The behaviour of consumer prices was mixed, especially in the cases of services and non-tradable foods. Although the rise in the consumer price index (CPI) was quite moderate in terms of the country's historical patterns, it was not negligible. During the first quarter, the average monthly increase in the aggregate index was 2.4%, which was considerably higher than the rates registered for the closing months of 1991. A number of factors played a part in this result: an increase in food prices (which had reflected seasonal decreases in November and December 1991), temporary (also seasonal) rises in the cost of some services, and the effect of the higher VAT rate, in addition to the upward trend in such items as rents. These trends did not spread in such a way as to prolong this spurt of inflation, however. Although demand remained stable, thereby facilitating a gradual upward adjustment in the prices of services, the behaviour of flexibly-priced goods helped to temper the rise in

the CPI during the second quarter, when it amounted to a monthly rate of less than 1%. In the following months, prices climbed somewhat more; finally, in November, seasonal declines in food prices brought about another significant decrease in the rate.

As a result, relative prices behaved quite peculiarly, in that consumer prices -starting from already high levels- rose more than wholesale prices did, and much the same sort of trend was observed for services *vis-à-vis* goods. This was reflected in the indicators for the real exchange rate, which was low in relation to the CPI but not in relation to the wholesale price index (WPI). In any event, the relative decline in the cost of tradable goods was an important factor in the swift expansion of imports, which jumped by around 80% after already having doubled in 1991. Thus, although exports were up by a small amount, the trade balance showed a considerable deficit, as did the balance-of-payments current account. This gap was more than covered by the country's voluminous capital inflows, a portion of which came from privatizations. Despite the large volume of incoming capital, the country managed to lower its external financial debt thanks to the rate reductions agreed upon with the commercial banking system under the terms of the Brady Plan, as well as the retirement of financial debt instruments made possible by the sale of government assets. At the end of October, the Government announced the implementation of an export drawback scheme and the modification of import duties, along with an increase (from 3% to 10%) in the statistical surcharge levied on all imports, including those coming from MERCOSUR member countries. These measures implied an increase in the effective exchange rates for foreign-trade operations.

Generally speaking, in 1992 economic agents appeared to be adapting to operating under conditions of moderate inflation. Independently of the fluctuations caused by incidental factors, the rate of inflation appeared to exhibit a gradual downward trend. None the less, the country did not manage to bring domestic inflation clearly into line with the international rate, and domestic prices did show a significant increase despite the firm anchor supplied by the exchange rate. However, although the economic turmoil of the past continued to be reflected in the behaviour or economic agents, it became apparent that short-term price trends had ceased to be a critical concern of those agents. Apart from the inputs provided by the sale of government assets during this transitional period and from the pressure still being exerted upon fiscal policy, the Government's ability to manage the public sector's finances had clearly been strengthened.

Brazil constituted an isolated case of chronically high inflation in 1992, registering an annual rate of around 1,200%. Moreover, it made little headway in its attempts to strike basic macroeconomic balances. This brought the average annual inflation rate for the past five-year period to over 1,100% (a monthly average of 23%), despite the implementation of three stabilization plans during that period. One of those programmes -the first Collor Plan- made use of unusual sorts of instruments which had a heavy impact on the country's economic affairs, as, for example, when many kinds of financial assets were frozen. The persistence of a high monthly rate of inflation, which gradually edged upward in the course of the year, was chiefly due to uncertainty about the possible adoption of reforms aimed at balancing government accounts and the difficulties encountered in the management of monetary policy in Brazil's highly indexed economy. During the year various attempts were made to introduce fiscal reforms with a view to putting the public sector's accounts in order and creating non-inflationary sources of finance, but it proved impossible to win congressional approval for any of these reform bills in 1992. As a result of this postponement of measures designed to bring public-sector income and outlays into line with one another, together with a rise in real interest rates, the public sector registered an operating deficit of over 2% of GDP after having marked up small surpluses for the preceding two years.

Economic policy makers continued to apply the measures adopted during the final quarter of 1991, which included plans for decontrolling most prices, curbs on public-sector expenditure and an increase in domestic interest rates with a view to clamping down on monetary liquidity.

Achievement of this last goal was hampered by the considerable increase in international reserves, however, which was largely a consequence of the exchange policy's focus on sustaining a competitive real exchange rate. In addition, the tariff reduction programme and the privatization of government firms proceeded, and steps were taken to cut down on the indexation mechanisms included in wage adjustment agreements.

Despite these measures, the monthly rate of inflation remained above 20%. The rate of increase for consumer prices slowed somewhat during the first half of the year, but the political events leading up to the President's departure from office generated unfavourable expectations which pushed inflation upward, with the rate reaching 28% by December. The underlying cause of this situation was the wide-ranging system of indexation that governs price formation and the public-sector's high level of domestic indebtedness -which made it necessary to maintain high positive real interest rates in order to ensure that holders of financial assets would not opt for greater liquidity; another factor was the Central Bank's purchase of large amounts of surplus foreign exchange in the private sector, since the public sector's domestic surplus was not large enough to finance these transactions. The above circumstances were compounded by the restitution of most of the financial assets that had been frozen in 1990 and a voluminous inflow of external capital.

The discontinuation of the freeze on assets established by the first Collor Plan entailed a monthly increase of US$ 1.5 billion in the money supply; although around 40% of the total remained in special deposits with the Central Bank, thanks to the incentive of high interest rates, the remainder exerted pressure on the monetary base. The expansion of the money supply occasioned by the build-up of international reserves was yet another factor. In order to avert an undue increase in liquidity, the Central Bank undertook to sop up the excess through the sale of federal government securities, and the volume of these transactions with the general public climbed from 1.7% to 4.7% of GDP between December 1991 and December 1992. These circumstances led to a tenfold increase in both the monetary base and the money supply in 1992, while consumer prices shot up by more than a factor of 12; accordingly, real interest rates for open-market operations ranged between 2% and 4% per month.

The fiscal adjustment was hindered by a 4% drop in real terms in the total pool of resources represented by the federal government's current income, social security contributions and receipts from the tax on the circulation of merchandise. Although in January steps were taken to institute the indexation of tax payments, the legality of some taxes was challenged in the courts and taxpayers withheld payment as they waited for the matter to be settled. In order to cope with the shortfall caused by this delay and by a decline in the level of economic activity, bearing in mind the payment schedule to which the country had committed with multilateral and bilateral agencies, the decision was taken to cut both current and capital public expenditure. Government wages were raised by less than the rate of inflation, with the result that they decreased in real terms by over 10% during the first part of the year. In September, the Government came under mounting pressure to even out wage levels in the three branches of the State administration and, in response, special bonus payments began to be made. Despite these bonuses, however, the wage bill paid by the federal government in 1992 decreased by over 7% in real terms. In contrast, interest payments rose as a result of the high cost of domestic borrowing and the servicing of the external debt under the terms of agreements signed with the country's creditor banks, multilateral lending agencies and the Paris Club. As the remaining items of current and capital expenditure were cut by about 26%, the federal government's real expenditure was reduced significantly (-6%). This enabled it to maintain a positive cash balance until October, but during the final months of the year, the above-mentioned wage adjustments and the erosion, in real terms, of the prices and rates charged by State enterprises caused the public sector to record an operating deficit (which excludes the monetary-correction component of interest rates) equivalent to 2.3% of GDP after having marked up a small surplus the year before.

The unsound nature of the country's public accounts prompted the submission to Congress of a fiscal reform bill in July providing for a revamping of the tax structure, a levy on financial transactions, the elimination of payroll taxes, changes in the social security system and in the distribution of transfers within the public sector, and measures for increasing the occupational mobility of civil servants. These proposals were not passed, however. Meanwhile, the privatization of State firms continued, with 14 companies being sold for a total of over US$ 4 billion between September 1991 and October 1992.

Agreements reached with regard to the external debt buoyed up expectations, and this paved the way for the inflow of a large quantity of external capital to the private sector and to such State enterprises as Petróleo Brazileiro (PETROBRAS) and Companhia Vale do Rio Doce, especially during the first half of the year. From July on, the political crisis affected capital inflows and even the stock market saw a new outflow of around US$ 350 million after having recorded an increase of US$ 1.5 billion during the first six months of the year. There were a number of reasons for the large increase in the flow of external capital. First of all, the high domestic interest rates being offered were extremely attractive, as were the rates of return to be had in the stock market; between January and May, the Sao Paulo stock exchange index (calculated in local currency) jumped by 52% in real terms, although it later fell sharply enough to produce a real loss for the January-December period. Second, the country's large external trade surplus and its exchange policy helped to keep the real exchange rate fairly stable. Finally, the economic authorities greatly relaxed restrictions pertaining to external financial transactions, although near the end of the first semester the Central Bank established minimum time periods for national firms' acceptance of external funds and set the minimum term for bond issues and commercial paper at 30 months.

The extraordinarily large flow of resources hampered the implementation of the authorities' price stabilization strategy, which was based on a policy of monetary restraint, since it entailed an attempt to neutralize the expansion of the primary money supply generated by the purchase of foreign exchange via the sale of securities at attractive interest rates. This gave rise to a process of mutual reinforcement between interest rates and liquidity, boosted domestic indebtedness and thus increased the financial requirements of the public sector.

Nicaragua was another country that took great strides towards stabilization, as it managed to slash its rate of inflation from 776% in 1991 to just 4% in 1992. The control it had gained over hyperinflation the year before was reaffirmed in 1992 by means of an economic programme that placed top priority on price stability. The external financing -including grants and donations- of the country's sizeable fiscal deficit and the establishment of a fixed exchange rate for the dollar were the main tools used to this end. The exchange rate did in fact remain constant, at five córdobas to the dollar, even though this created difficulties in regard to external payments and opened up a gap of almost 10% between the official rate for the dollar and its price on the parallel market. Fiscal policy continued to be governed by the objective of maintaining a balanced current account, which was defined as meaning that current expenditure could not exceed income, while investment programmes had to be financed with external resources. Although in February the general sales tax was lowered from 15% to 10% in an effort to spur a reactivation of the private sector of the economy, the reduction was rescinded in September; furthermore, the tax was extended to include previously exempt items (electricity and telephone service). In any event, owing, in particular, to the Olivera-Tanzi effect, tax receipts rose in real terms, thereby raising current income to 22.5% of GDP, which was nearly two percentage points more than the year before. Meanwhile, current expenditure was down by a small amount -from 25% to 24.4% of GDP- thanks to a reduction in purchases of goods and services, smaller subsidies and a lower level of compensatory payments to civil servants and military personnel, which had been of some consequence in 1991 when retirement and job retraining programmes were starting up. In contrast, wage-earners saw an improvement in their remunerations, and the burden represented by the external debt service increased (2.8% of

GDP). The central government's capital outlays climbed substantially, from 4% to 6% of GDP. The volume of external financing channeled to the public sector was appreciable (14% of GDP), and these resources were more than enough to cover the deficit (8% of GDP); thus, a large amount was left over, and this was used to amortize a considerable portion of the domestic debt owed to the Central Bank as part of the effort being made to put public finances on a sound footing. The flow of official external grants and donations fell to less than half its 1991 level, but even so it was significant, since it amounted to nearly 5.5% of GDP. Even though the central government did not make use of bank credit, the general public's replenishment of monetary balances, following the severe inflation experienced in past years, triggered a 12% increase in the money supply in real terms. The high interest rates offered by the financial system, which were even more attractive than their dollar equivalents thanks to the stability of the nominal exchange rate, sparked a significant increase in local-currency time deposits. Dollar-denominated deposits, which are relatively larger, also expanded. The greater supply of financing was channeled primarily to commerce, particularly imports. This trend was partially attributable to the activities of new private commercial banks. Certain agricultural activities, such as stock-raising and some crops, particularly sorghum, also benefited. The practice of tying credit to technological packages also increased in frequency; this system has the effect of excluding the smaller agricultural producers, as in the case of coffee growers.

In Peru, which was still having difficulties in striking basic economic balances, inflation dropped off sharply once again, falling from 139% in 1991 to 57% in 1992. This decrease -which is all the more impressive when compared with the peak rate of 7,650% recorded in 1990- was, however, accompanied by set-backs in domestic production, a deterioration of the trade balance and a financial crisis.

In the early months of 1992, economic policy continued to be based on a harsh programme of monetary restraint which was reflected in high domestic interest rates. At the same time, this situation prompted a larger inflow of external capital (chiefly attracted by the differential between domestic and international interest rates in real terms), a worsening of the real exchange rate and a shrinkage of the domestic market. The above circumstances were compounded by a crisis in the financial system which, in the course of the year, brought on State intervention or liquidation of 19 private, non-banking firms, and the closure of four State development banks.

The political uncertainty generated by the institutional rupture that came in April triggered withdrawals of bank deposits on a mass scale and a steep decline in international reserves during the next two months. The ensuing increase in demand for foreign currencies exerted upward pressure on the exchange rate. Once this political uncertainty had dissipated, the flow of external resources was resumed. In order to deal with the consequences of this new situation, the Central Bank stepped into the exchange market to shore up the minimum quotation for the dollar. With the help of these measures, the real exchange rate made a recovery, rising above its December 1991 level by the end of the year. The Government's intervention in the exchange market also enabled it to add nearly US$ 475 million to its international reserves in 1992. Nevertheless, the real exchange rate is still much lower than it was during the 1980s.

The increase in reserves was the main component of primary money creation. The expansion of domestic credit from the Central Bank was quite small since, although credit to the private sector (particularly to the banking system) doubled, most of this increase was offset by the drop in credit granted to the public sector. The reduction of reserve requirements for local-currency deposits from 23 % to 21 % and the elimination of the 5% marginal cash reserve requirement were contributing factors in the 62% growth of the money supply, which was somewhat higher than the rate of inflation. Since foreign-currency deposits also rose considerably, total liquidity was up by about 90%. The money market continued to exhibit a huge spread between borrowing and lending rates; during the second half of the year, interest rates on deposits reached an annual level of around 3% in real terms, whereas real interest rates on loans were

over 65% per year. The difference between the two was a reflection of the high risk premium that the banking system was applying to its loans to protect itself against the possibility of devaluations and delinquency.

The expansion of the money supply and the increase in the main factors of cost formation had the effect of slowing the drop in inflation, and this was reflected in the rates recorded during the closing months of the year, which were still fluctuating around monthly levels of between 3% and 4%. Influential factors with respect to costs included high interest rates on loans, the policy of making monthly readjustments in fuel prices and in public utility rates, electricity rate increases (which, because they were announced in advance, also influenced expectations), and increases in the exchange rate for the dollar during the second half of the year.

Monthly corrections in public utility rates and prices were not large enough, however, to maintain their levels in real terms, and this affected the managementof State enterprises. For its part, the central government's deficit was similar to what it had been in 1991 (nearly 2% of GDP), since its income was equivalent to 10% of GDP and its current and capital expenditures amounted to 10% and 2% of GDP, respectively. Tax revenues (9% of GDP) climbed by about 15% in real terms, thanks mainly to the sales tax (whose rate was raised from 16% to 18% during the year) and income tax, as well as the effect of the slow-down in inflation.

4. Persistently high inflation in countries in a situation of "controlled instability"

The countries which, in recent years, have opted for what might be described as a system of "controlled instability" -i.e., their rates of inflation are high but are not approaching the threshold of hyperinflation- made little progress in carrying forward their stabilization policies. Uruguay, which has a long history of inflation but not of rates as high as those characteristic of the countries discussed in the preceding section, managed to lower its inflation, although, at nearly 60%, the rate was still high. In Ecuador, on the other hand, inflation climbed to 60% as a consequence of the adjustment measures adopted during the second half of the year. Venezuela's rate of inflation edged up to around 32% as its fiscal deficit deepened. In Costa Rica, whose economy can also be described as functioning under a system of controlled instability, although its rates of inflation are lower than those of the other countries mentioned here, the decline in the rate of price increases which had begun during the second half of 1991 continued.

Uruguay's rate of inflation dropped from 82% in 1991 to 59% in 1992. This was not only the lowest level recorded in the last five years and substantially less than the 1990 figure of 129%, but it was also accompanied by the largest increase in GDP in the past five years. Uruguay's inflation has a large inertial component; in 1992 it was, in addition, influenced by an increase in demand originating in Argentina. On the positive side, the public sector's overall financial equilibrium, including the quasi-fiscal expenditures of the Central Bank, did not create pressure for increased money creation, and the combination of a declining real exchange rate and tariff reductions helped to bring down costs. On the negative side, however, heavy demand from the Argentine market, which led to a build-up of international reserves, and the indexation mechanisms included in private contracts, which continued to take past inflation into account, militated against a sharper downturn in the rate of increase for consumer prices.

As in 1991, the finances of the consolidated public sector remained in virtual equilibrium as a result of a surplus of around 2% of GDP in the non-financial public sector and an approximately equal deficit in quasi-fiscal expenditure. Both the central government and public-sector enterprises marked up surpluses. In the first case, income rose again in real terms; this was due, in particular, to a higher level of receipts from taxes on domestic transactions, since taxes on foreign trade were down despite a substantial increase in

imports. In fact, income rose faster than expenditure did, since larger outlays for wages, social security and non-personal expenses offset the reduction in interest payments and investment. Public-sector firms continued to run up surpluses thanks to the fact that, even though rate adjustments lagged behind price trends in the private sector, wage and exchange-rate adjustments -two of the main variables influencing their costs- did so as well. Finally, a decrease in both external and domestic indebtedness and a drop in the corresponding interest rates led to a further reduction of quasi-fiscal expenditure.

Surpluses were also registered on the current and capital accounts of the balance of payments. As a result, an increase -of US$ 150 million- was seen in the monetary authority's international reserves for the eighth year in a row, and the monetary base thus expanded to 56% in 1992. The heavier, demand for money gave rise to a sizeable real increase in the money supply, however. And since domestic interest rates were negative in real terms, local-currency time deposits rose more slowly. Dollar deposits (whose volume is considerably greater) continued to grow, reaching over US$ 5 billion.

Under these circumstances, the main inflationary factors were the indexation mechanisms that have been incorporated into domestic price formation processes and the increase in total demand, much of which was covered by a higher level of imports. Based on this analysis of the situation, the authorities persevered in their efforts to change the basis for these indexation mechanisms from past inflation to the targeted rate of inflation. To this end, the programme for 1992 provided for a drop in the rate of price variations set by the Government, which is intended to serve as a point of reference for private-sector price formation.

Both external and internal transactions are subject to very few restrictions in the Uruguayan economy, and the only prices controlled by the Government are those relating directly to the management of the public sector (i.e., wages paid to government employees and the prices of government-supplied goods and services) and the floor price at which the Central Bank will buy dollars within the currency band it has established.

The price variation guidelines established in April under the terms of a programme arranged with the International Monetary Fund (IMF) were 40% per year for public rates and charges and for the exchange rate and 35% for public-sector wages. In addition, it was suggested that the private sector should use this latter percentage as a point of reference for future collective bargaining agreements if it wished to win government approval of those agreements. The aim of this measure was to rule out the possibility of falling back on government guarantees regarding compliance with wage adjustment guidelines for each occupational sector every time the 35% annual limit was exceeded. Thus, in a sense, this measure was a step towards making employment contracts more flexible on a company-by-company basis, up to the maximum level compatible with government targets. In practice, and even without government approval, wage adjustments in the private sector exceeded government guidelines.

Although the public sector complied with this programme, private-sector price formation was heavily influenced by the rate of inflation for the preceding period (usually four months). As a result, the rate of consumer price increases declined slowly but steadily. The smaller fluctuation'in the rate for the dollar (41%) helped to moderate the increase in the prices of tradables, and wholesale prices thus rose by only 47% in 1992. However, a decrease was also seen in the real effective exchange rate as calculated on the basis of those prices, although it was smaller than the decline in the rate based on consumer prices.

Inflation hit 60% in Ecuador after having held at a steady 50% for the past three years. The assumption of office by a new administration in August marked the dividing line between two strikingly different periods. During the first part of the year, within a pre-electoral environment that presaged changes in economic policy, the main factors underlying the steady contraction of international reserves were a large fiscal deficit (much of which was financed with bank credit) and the use of a crawling peg in which the weekly devaluations were less than the rate of domestic inflation. Thus, after having risen during the first

quarter, the Central Bank's net international assets had plummeted from US$ 700 million to just US$ 225 million by August. Concern -sparked by expectations of a major devaluation- about buying imports ahead of time was the chief cause of the sizeable trade deficit recorded for this period. A secondary factor was the completion of the tariff reform programme undertaken by the outgoing administration, which cut the tariff on imports of capital goods, inputs and raw materials to 2%, reduced tariffs on other intermediate goods to rates of between 7% and 12%, and lowered the tariff on consumer goods to 17% (with the exception of automobiles, on which a 37% tariff was levied).

The incoming administration took steps to reduce the fiscal and external deficits. First of all, it replaced the crawling peg with a fixed exchange rate and devalued the currency by approximately 35%. The new mechanism split the exchange market in two by differentiating between the buy and sell rates for hard currencies. Under this system, private-sector export transactions were made on the regulated market at an exchange rate of 2,000 sucres to the dollar, of which 15% was paid for witha 180-day locally-negotiable credit instrument; meanwhile, importers were authorized to purchase foreign exchange on the open market. In November the liberalization of the exchange market was carried further as exporters were allowed to sell their foreign exchange on the open market. A floor rate of 1,700 sucres to the dollar was established, however, in order to forestall any erosion of the country's external competitiveness.

The new programme included such fiscal adjustment measures as cuts in central government spending, the early retirement of civil servants and the suspension of new hirings, as well as an appreciable increase in domestic petroleum prices and electricity rates. A bill was also submitted to Congress in which a tax on corporate assets was proposed. Monetary policy, for its part, provided greater leeway in setting interest rates by eliminating the compulsory spread that had existed between borrowing and lending rates. Although the programme called for a tighter monetary policy, in September the minimum reserve requirement was lowered by two points to 32%.

In conjunction with these measures, a social emergency plan was put into effect which provided for a freeze on public transportation fares and electricity rates for users consuming less than 150 kW per month, a bonus wage allowance of 10,000 sucres, and new health, education and microenterprise-support programmes. In the area of structural reform, plans to modernize the State and to set up an economic stabilization fund were announced. The most immediate result of the adjustments made in the exchange rate, prices and rates was a jump in consumer prices (11% in September and 6% in October). Later, inflation receded to levels closer to the rates seen prior to the new economic programme's initiation. The fiscal measures that were adopted, especially the readjustment of energy prices, made a substantial improvement in public accounts. Thus, the consolidated public sector's gaping .financial deficit, which was around 7% of GDP during the first six months of 1992, had narrowed to less than 5% by year's end. The combination of high domestic interest rates, a devaluation and a slow-down in imports greatly improved the situation with respect to international reserves, which climbed sharply during the first two months of the new programme's implementation. In October they topped the US$ 700 million mark reached near the end of the first quarter, occasioning a significant expansion of the money supply in the closing months of the year.

The wage hikes granted by the outgoing administration early in 1992 and then again at midyear, together with the increases instituted by the new administration as part of its macroeconomic stabilization programme, maintained the purchasing power of wages despite the upswing in inflation.

In Venezuela, whose economy is in that hazy area of transition from high inflation to a pattern of moderate inflation rates, the pace of price increases sped up slightly, to 32%. Economic policy continued to follow along the same lines as in previous years, but was accompanied by greater uncertainty than before. Political disturbances (there were two aborted *coup d'état* attempts during the year) were compounded by a weakening market for petroleum -the country's main source of tax revenues. This made it

Figure II-4
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDEXES [a] [b]

(Percentage variations since 1985)

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

[a] The consumer price index was used for all the countries.

[b] For more information, see table II-1 in this chapter.

necessary to implement a tight monetary policy to counteract the shaky fiscal situation created by the combination of fluctuations in oil revenues and a high degree of rigidity in respect of public expenditure. The Government's exchange policy, meanwhile, enabled it to hold the nominal exchange rate steady until October. This dulled inflationary pressures but generated uncertainty

among exporters and contributed to a deterioration in the balance of payments, which showed a deficit on current account for the first time since 1988.

Even though no significant change was seen in the rate of increase in consumer prices, the possibility of an upturn in inflation remained a threat. The persistent fiscal crisis continued to be the most critical problem facing the country, however, within the particular framework of Venezuela's public finances, which are extremely dependent upon external earnings. In 1992, the public sector's current income fell by over six points of GDP owing to the steep drop in oil revenues, while total expenditure decreased by less than four points; the result was a deficit equal to 6% of GDP.

This hefty public-sector financial deficit -which was partly counteracted by the authorities' tight monetary policy- and the prevailing political uncertainty were the main factors driving prices upward in 1992. On the other side of the coin, the stability of the nominal exchange rate within a framework of broad-ranging trade liberalization measures helped to ease those pressures.

Faced with a mounting fiscal deficit, the authorities strove to reactivate the adjustment programme which had been put on hold in the second half of 1990, when oil revenues had soared as a result of the Persian Gulf crisis. As part of this initiative, budget cuts and reductions in expenditures by Petróleos de Venezuela, S.A. (PDVSA) were announced in the early months of the year. Nevertheless, the drop in earnings from oil exports substantially increased the public sector's deficit; more than two thirds of that deficit corresponded to the central government, whose income slipped by 18% in real terms while its expenditures rose by 3%. The sharpest downturn in income was in tax receipts from oil profits, which shrank from 18% of GDP to less than 12%; this decrease was not offset by an easing of expenditure, which was lowered from 24% to 23% of GDP. Government enterprises' financial balance also took a turn for the worse owing to a progressively greater lag in their prices and rates. Meanwhile, the structural reform process moved ahead, but the privatization programme lost momentum. In March a free trade agreement with Colombia entered into force which has bolstered bilateral trade.

In order to prevent the effort to finance the fiscal deficit with domestic funds from generating an overexpansion of the money supply, the Central Bank neutralized the excess liquidity by means of open-market operations at real annual interest rates of around 6%. This has prompted many firms to repatriate capital they had invested overseas. The monetary authority continued to float long-term zero-coupon bonds, which it supplemented midway through the year with short-term Treasury bills. Another aspect of the tight monetary policy was an increase in the reserve requirement for public and private deposits, although the rate was lowered again towards the end of the year.

In Costa Rica, inflation fell from 25% in 1991 to 17% in 1992 within the context of the major changes in economic policy that accompanied the strategy employed by the Central American countries during the preceding two years. Indeed, the liberalization of the exchange rate in February, the reduction of tariffs and the elimination of advance deposit requirements and surcharges on imports radically changed the country's foreign trade policy. The authorities' tight monetary policy, which was aimed at slowing the pace of inflation, led to high interest rates, and the resulting spread between Costa Rica's rates and declining international rates of interest attracted a considerable amount of external resources. Since a floating exchange rate was in effect, the inflow of external capital set the stage for a revaluation of the local currency; this might very well have contributed to the reduction in inflation, but it also detracted from the country's ability to compete in the market. In order to stave off a significant erosion of the real exchange rate, the Central Bank decided to buy up foreign exchange, thus raising its international reserves by US$ 150 million in 1992. This triggered an increase in the money supply that was out of line with the country's targeted inflation rate, however, so the Central Bank took steps to neutralize this excess liquidity by engaging in open-market operations and raising reserve requirements on deposits. Be that as it may, the money supply swelled by 36%. The

Government's fiscal policy supported its stabilization efforts by cutting the central-government deficit to less than 2% of GDP (starting from a level of slightly over 3% in 1991). This improvement was based on higher tax revenues, largely as a result of stricter controls on evasion, the elimination of a series of exemptions and the modernization of the customs duties collection system -all of which more than made up for the lowering of the sales tax from 13% to 12%. Despite the adoption of various provisions aimed at significantly reducing public spending, such as the Voluntary Labour Mobility Plan (which instituted incentives designed to reduce the number of civil servants), and the laws providing for a streamlining of the pension system and for the placement of caps on export subsidies, the Government was less successful in controlling its expenditures.

5. Reinforcement of the stabilization process in moderate-inflation countries

For the most part, the stabilization process was strengthened in the economies registering moderate levels of inflation, even those in which outbreaks of inflation had been observed just a few years ago. In fact, cases in which appreciable price increases were recorded were exceptions to the genera! rule in 1992, and even they did not represent serious set-backs. The group of moderate-inflation countries now also includes economies that have been structurally adjusted following severe bouts of inflation. The rest of the countries in this group have either never had very high inflation or have only experienced short-lived spurts of inflation as a direct result of external problems.

The highest rate of inflation registered within this group of countries was in **Colombia,** whose quite stable index inched down to an annual level of 25% for the first time since 1988. Changes in monetary policy and the effects of tariff reductions the year before were the chief differences between the economic situation of the country in 1992 and in 1991. Although the fiscal deficit grew during the first half of the year, the tax measures adopted at midyear made it possible to hold the deficit to 0.6% of GDP.

In 1991 the authorities had applied a very tight monetary policy in an effort to counteract the expansionary effects of a large inflow of foreign exchange. Given the low level of international rates, the resulting increase in domestic interest rates put a damper on economic activity and spurred on the inflow of external capital. In 1992, the Banco de la República's efforts focused on curbing the inflow of short-term capital (much of which enters the country in the form of private transfers) by lowering domestic interest rates. Nevertheless, the monetary authority's reserves continued to grow, leading to a larger increase in the money supply than was compatible with the goal of bringing inflation down to 22%. The combined effect of tariff reductions, trade liberalization and the erosion of the exchange rate between the Colombian peso and the United States dollar put downward pressure on consumer prices, however, which offset the upward pressure exerted by the expansion of the money supply.

Tariff reductions, a decline in sales of electricity owing to a severe drought and the adverse impact on public accounts of the drop in international coffee prices and of the increased expenses associated with the country's internal armed conflict all greatly added to the fiscal deficit during the first half of the year. In June, tax provisions were modified in an effort to reduce that deficit; one of the principal changes was an across-the-board application of the value added tax (VAT) at a rate of 12%. Although some of these measures did not enter into effect until January 1993, the public sector's deficit contracted during the second half of 1992 after having climbed to 2% of GDP during the first half.

In Chile's burgeoning economy, inflation was reduced from 19% in 1991 to 13% in 1992. Balanced fiscal accounts and a monetary/exchange policy designed to prevent the high level of domestic demand from affecting prices, together with readily accessible external finance, were the stabilization policy's main tools. The

existing foreign exchange system provides for a crawling peg within a set currency band; when the exchange rate moves out of that band, the Central Bank must intervene in the foreign exchange market. Hence, monetary policy is exogenous within the currency band and endogenous outside of it, and the stabilization policy is thus based on a combination of the two policy instruments.

A significant improvement has been seen in the country's balance-of-payments position in recent years. In order to safeguard the economy's ability to compete in the world market, the monetary authority has avoided any substantial revaluation of the currency; to this end, innovations have been made in the exchange system that have generated uncertainty about the potential returns on short-term flows and selective measures have been adopted in relation to the capital account. In this latter area, an attempt has been made to stimulate demand for foreign exchange by relaxing the regulations pertaining to remittances and authorizing overseas investment of a limited percentage of private pension funds; at the same time, in order to check the supply of hard currencies, external credit has been made more expensive by means of higher rates and longer terms for minimum cash reserves. None the less, in January the Central Bank revalued the peso by 5% and widened the currency band from 5% to 10% for the negotiated dollar rate (the basis of the band). In addition, the 20% minimum reserve requirement that had previously applied only to external credits was extended to foreign-currency bank deposits in order to plug a leak that had been limiting its effectiveness. This heightened the exchange risk involved in short-term operations and reduced the money creation associated with exchange operations during the first quarter; this trend was reversed during the second quarter, however.

The market continued to exert downward pressure on the dollar owing to the differential between external and domestic interest rates and strong expectations of a revaluation. In March, a "dirty float" was instituted within the currency band to moderate fluctuations in the price of the dollar. Then, in early July, the exchange standard was changed, with the peso being pegged to a basket of currencies weighted according to the relative importance of the corresponding monetary areas in Chile's foreign trade. This increased uncertainty about the exchange rate, since the negotiated dollar rate and the corresponding currency band were calculated daily on the basis of international quotations for selected currencies. As it turned out, this change had a variety of consequences, including the elimination of an implicit form of exchange insurance which the Central Bank had maintained to protect itself from fluctuations in the dollar against the German mark and the Japanese yen, and a dampening of the private sector's mounting propensity to engage in external borrowing (26% in the first half of the year). In August and September, capital inflows did decrease, thus narrowing the spread between the going rate and the negotiated rate for the dollar during those months to a range of 3%-5%. In the first half of November, however, the spread lengthened to nearly 9%, which was just 1% above the floor of the currency band.

The main concerns of economic policy makers have revolved around managing the macroeconomic aspects of the economic boom in such a way as to keep the economy from overheating and attempting to maintain the real exchange rate at a level in keeping with an intensification of the country's export strategy. At the close of the third quarter, there were clear signs that spending -whose rate of increase had already reached 15%-wasrisingtoo rapidly. The interest rate hikes put into effect by the Central Bank in March and August had proved ineffective in holding the growth rate of expenditure to a pace in line with the goal of further reducing inflation. Accordingly, late in October the rates were adjusted again, with the rate applying to 90-day readjustable certificates rising from 5.7% to 6.5%. The Central Bank tried, at the same time, to neutralize the arbitrage spread between domestic and international interest rates by raising the financial cost of incoming capital. As the dollar strengthened on international markets, the nominal exchange rate began to climb. In effect, the new exchange system causes any revaluation of the dollar on international markets to be manifested within the country as an increase in the negotiated dollar

rate and an upward movement in the entire currency band. Thus, the floor of the currency band is the rate closest to the going rate for the dollar on the market even if the latter has not undergone any variations.

The management of the public sector backed up the Government's stabilization efforts. Fiscal accounts showed increases of over 10% in income and of 5% in current expenditure in real terms, permitting a level of current savings equivalent to 6% of GDP. Capital expenditure was up by 6%. The total public-sector surplus thus rose from 1.7% of GDP in 1991 to 2.8% in 1992 and was used primarily to reduce the sector's debt with the Central Bank. Thanks to the extraordinary buoyancy of economic activity, the increase in local-currency tax receipts was large enough to offset the drop in earnings from copper exports, which were hurt by a slump in international copper prices. The 1993 budget passed by Congress included a provision designed to maintain fiscal discipline; under the terms of this provision, given the economy's favourable growth prospects, the public sector will have to save (or will require a special law in order to spend) any additional funds received once budgeted income has been exceeded by 10%.

In 1992, Mexico was again able to cut its inflation rate, this time from 19% to 12%, within the framework of the Pact for Stability and Economic Growth (PECE) which entered into effect three years ago. Fiscal, monetary and credit discipline and the restrained progression of the exchange rate in an economy which was receiving large external capital inflows and building up its international reserves, in conjunction with a sustained effort to reconcile price and wage levels, helped to speed the inflation rate's descent. Thus, although wage adjustments and the increase of energy prices in November 1991 boosted the monthly rate of increase for consumer prices to 2.4%, this index dropped to less than 1% per month starting in April 1992.

Fiscal policy continued to play an important role in combating inflation. The financial balance yielded a surplus for the second year in a row owing to the maintenance of policies aimed at boosting income and cutting expenditure, and the consolidated public sector's surplus thus swelled from 1.8% of GDP in 1991 to 3.4% in 1992. If the non-recurring income from the sale of government-owned enterprises is excluded, then the financial surplus amounted to 0.5% of GDP as compared to a deficit of 1.5% the year before.

The public sector's current income continued to mount, thanks to an increase in economic activity and the expansion of the tax base (by 4% in real terms). The upward trend in this variable, although slower than before, was maintained despite the fact that the reduction of the value added tax rate from 15% to 10%, which had been approved in November 1991, entered into full effect in 1992. This was possible because the effect of the rate reduction was counteracted by a higher level of receipts from income taxes and import duties and by the rise in tax revenues afforded by the increase in gasoline prices.

The consolidated public sector's net expenditure was reduced by 1.6% in real terms; the sharpest decrease was in federal government outlays (-4.5%) and was due to the fact that interest payments on the public-sector debt were cut by one fourth in real terms from their level of the preceding year as a result of the renegotiation of the external debt, a drop in international interest rates and a decrease in the balance of the domestic debt. Within this context of public-expenditure cuts and restructuring, social development spending was on the rise in 1992. The amount of funds channeled through the National Solidarity Programme climbed to 6.8% of budgetable expenditure. Programmes aimed at raising the level of well-being of the population in the fields of education, health and nutrition, in particular, were reinforced. The economic and institutional reform of the public sector continued in 1992 without interruption. Some of the more notable measures were the divestiture of State enterprises, especially commercial banks, and the conversion of the Petróleos Mexicanos (PEMEX) complex into a corporate body and four subsidiaries. The privatization of commercial banks yielded nearly US$ 12 billion in income. A second block of shares in Teléfonos de México was also sold, and title to other companies was transferred as well. The non-recurring income obtained from these privatizations was used to reduce the public-sector debt further.

As in preceding years, the supply of imported goods has helped to alleviate inflationary pressures, since the prices of tradables have risen less than the prices of non-tradables; in 1992, the former increased by 8% whereas the latter were up by 16%. The slow climb of the nominal exchange rate -at a pace of only 20 centavos per day up to October 1992 (equivalent to an annual rate of around 2%) was a factor in these results.

Meanwhile, a copious inflow of external resources continued to bolster Mexico's stabilization and economic growth programme. During the year, however, fluctuations were observed in some financial flows. The steady and rapid ascent of the local-currency index for the Mexican stock market (IPYC) began to falter in March, and its 30% drop in the second four months of the year left it at a level 7% below the nominal figure recorded as of 31 December 1991. The renewal of the PECE in October and the reaffirmation of the Government's commitment to focusing fiscal andexchange policy on the goal of reducing inflation helped to reverse the downturn in the stock market, and by the close of the year the IPYC was 23% above its nominal level for the end of December 1991, which represented a real increase of nearly 10%.

Starting in March, monetary policy was tightened up further in an effort to restrain inflationary pressures and mitigate the adverse effects of the instability exhibited by some external capital flows. To this end, a 10% cap was placed on the proportion of foreign-currency deposits that could be accepted by commercial banks. Interest rates were also raised; as a result, the rate applying to 28-day treasury bills (CETES) -which had slipped by over four points in March, was back up to 17.5% in September and had reached 19.4% by the end of October. The conclusion of a new version of the PECE helped to stabilize the money market and interest rates thus declined slightly; from that time on, the rate of return on 28-day CETES steadily dwindled, falling to 16.8% by the end of December.

The real increase in the money supply was on the order of 4.5%, while money balances outside banks grew by almost 5%, also in real terms, in comparison to 11 % in 1991. This rather moderate expansion of monetary aggregates was in keeping with the remonetization of an economy making a transition to a lower level of inflation. Financial savings (M4) showed a real increase of 7% in 1992 as compared to one of 10% in 1991. This somewhat slower growth rate was partly attributable to the limits placed on the attraction of such funds through external agencies. The distribution of domestic financial-savings recipients also shifted, since in 1991 banking institutions absorbed 95% of the flow of M4 but received only about 75% in 1992. Conversely, the amount of such funds taken in by non-bank intermediaries climbed from 5% to 12% from one year to the next. In 1992 domestic credit also rose by 7% in real terms, after having expanded by 3% in 1991. As in the preceding year, its structure reflected the fact that public finances yielded a considerable financial surplus. As a result, credit to the private sector jumped by 34%, whereas public-sector credit fell by 42%.

In October a new version of the PECE was signed in which it was agreed that fiscal restraint would be reinforced without increasing the tax load, gradual adjustments would be made in public-sector prices and rates up to a maximum of 10% in 12 months, and the maximum range of variation for the selling rate for the dollar would be increased for 20 to 40 centavos per day. Another recommendation set forth in the Pact was that nominal minimum wages should be raised by 7.5% starting in January 1993. In 1992 the reform of economic institutions was also intensified. In addition to the process of privatizing public-sector firms and restructuring the State-owned Petróleos Mexicanos (PEMEX), agrarian laws were reformulated and the pension system for workers was modified. These modifications were made in February, when the Retirement Savings System (SAR) went into operation. Under this system it became mandatory for employers to pay the equivalent of 2% of the taxable base wage per month into bank accounts opened by the corresponding workers; such accounts have to pay a rate of at least 2% in real terms per year. By the endof 1992,5.5 billion new pesos had been paid into SAR, which was equivalent to 7% of total savings expressed in M4.

In Paraguay, inflation accelerated to an annual rate of 18% (as opposed to 12% in 1991). During the preceding year, the stability of the

nominal exchange rate -thanks to the large inflow of foreign exchange- had done a great deal to help stifle the rapid increase in consumer prices, which had totalled 44% in 1990. In 1992, a decline in domestic interest rates and the uncertainty created by the bankruptcy of a number of financial institutions slowed the inflow of short-term capital. Unlike what had occurred the year before, however, the shrinking supply of foreign exchange contributed to a depreciation of the currency amounting to around 18%, which drove up the rate of inflation. Meanwhile, the non-financial public sector's surplus (which had equalled 1.5% of GDP the year before) virtually disappeared in 1992. In contrast, the central government's income rose by around 4% in real terms, and even though plans for reducing and streamlining the country's tariffs had entered into effect in June, tax receipts were up, in large part owing to the establishment of a more comprehensive 10% value added tax to take the place of the general sales tax. However, current expenditure rose more than income did, and this was compounded by a contraction of public enterprises' net profits owing to the freeze placed on their prices and rates.

In August the authorities unveiled a financial assistance programme for the agricultural sector (which had been hurt by poor weather conditions and a drop in external prices) based on the granting of rediscounts at low interest rates; this system entered into operation in October and, as a consequence, monetary policy, which had been quite restrictive up to that time, became expansionary, with the monetary base growing by 31%. This upward trend was weakened when the Central Bank decided to step in on the supply side of the foreign exchange market in order to prevent the depreciation of the local currency from accelerating, as well as when the interbank interest rate was boosted from an annual level of 24% to 36%. The monetary authority also sought to restrict the inflow of short-term external capital in order to keep monetary policy under tighter control. To that end, towards the end of April it raised the required level of interest-bearing reserves on foreign-currency deposits from 25% to 30%. Shortly before that time, the banks had been authorized to make foreign-currency loans in line with their supply of external credit and the volume of foreign-currency deposits they attracted.

In 1992, with its stabilization programme in its seventh year of operation, **Bolivia** managed to reduce its rate of inflation to 10.5%, the lowest in many years. This achievement was made possible by a tight monetary policy during the first half of the year and an abundant flow of external resources, which provided the financing for the non-financial public sector's deficit of around 4.5% of GDP and for the deficit on the current account of the balance of payments. In order to reduce this imbalance in public accounts, a 13% increase in fuel prices was instituted and the value added tax was raised from 10% to 13%. Following monthly averages of around 2.5% for the first two months of the year, inflation plunged to less than 1% due to a slackening of domestic demand brought on by a credit squeeze and fiscal spending cuts. In the second half of the year, a turnaround was seen in the management of monetary and fiscal variables, inasmuch as domestic credit and government expenditure both increased; their impact was absorbed by an expansion of imports, however, which took off some of the pressure on prices. The most striking decline was seen in food prices, whose rate of increase for 1992 was only 8%. Even though liquidity grew greater as the year progressed, the interest rate on loans climbed steadily, reaching an annual level of 46% by the fourth quarter, thus widening the spread in respect of the interest rate on deposits, which stood at 20%. The rate paid on foreign-currency time deposits held at an annual level of 11% throughout 1992. The slow rise in quotations for the dollar -9% for the year- within a context of mounting international reserves contributed to the stability of domestic prices; the real effective exchange rate for trade, however, rose again due to the increase in the exchange rate for the Argentine peso.

In Honduras, the price stability observed during the second half of 1991 was reaffirmed during 1992. Annual inflation fell from 21% to just 6% as a result of a form of fiscal management which did not resort to the use of bank credit, a very small increase in the money supply, a fairly stable nominal exchange rate, the maintenance of domestic petroleum price levels and a sufficient

supply of staple grains, thanks to which food prices climbed by less than 6%. The central government's deficit grew slightly, rising to over 5% of GDP. The increase in this deficit was attributable to an expansion of capital expenditures, which was chiefly due to the implementation of a road resurfacing programme, since current government saving was also higher. This was possible because current income rose less slowly than expenditures even though taxes on exports were repealed and the tax base for customs duties was not adjusted in line with the change in the exchange rate. Nevertheless, the surplus marked up by State enterprises enabled the non-financial public sector to cut its deficit to less than 3% of GDP. Moreover, the growth of the central government's deficit did not drive up the money supply because sufficient donations and external financing were obtained to cover the fiscal shortfall. The interest on the Central Bank's discounted lines of credit was raised to 13% in order to bring it closer to the market rate. This measure eliminated the implicit subsidy for the production and marketing of staple grains, which was a great stride forward in terms of the suppression of quasi-fiscal expenditure. The reduction of credit to the public sector permitted a 17% expansion, in real terms, in loans to the private sector. Given these factors, the effective growth of the money supply was less than 5%. Meanwhile, savings and time deposits were up by one third, thanks to the stimulus provided by positive real interest rates on deposits; these positive levels were achieved within the framework of the move to deregulate interest rates which began in 1990. Average interest rates on loans slipped by over four points during the second half of the year to an annual rate of around 21 % by the end of the 1992.

El Salvador experienced another bout of inflation during the second half of 1992. On the heels of a successful stabilization policy that nearly halved the country's rate of price increases in 1991 (10%), inflation doubled in 1992, thereby returning to the levels seen in the late 1980s. Although this was triggered by a readjustment of public rates and charges and the implementation of a new law regarding the value added tax during the second half of the year, the outbreak of inflation was prolonged by a persistent fiscal deficit on the order of 5% of GDP, even though a large part of the financial gap was covered with external resources; another factor was the faster growth of the money supply despite a mounting degree of intervention by the authorities of the sector, first through open-market operations and then with more aggressive measures, such as mandatory bond sales. The inflow of external resources continued to have a major influence in terms of the expansion of the money supply and the financing of private consumption expenditure; thus, in a sense, households received a level of unrequited private transfer payments from abroad which exceeded total merchandise exports. Finally, in March 1992 the process of deregulating interest rates was completed, but with the upswing in inflation, interest rates on loans once again turned negative in real terms, while the rates on local-currency deposits gradually declined in attractiveness as the pace of devaluation accelerated.

In Guatemala, inflation rose by a moderate amount, from 10% to 14%. The achievement of this greater degree of price stability for the second year in a row, following the high 1990 figure of 60%, continued to be backed up by a fairly steady nominal exchange rate -under a system employing a crawling peg in combination with a currency band- and sound fiscal management, which resulted in a very small deficit (0.5% of GDP). However, a drop in the prices of the country ' s main export products, the vigorous growth of imports and a looser monetary policy -resulting in a downward movement in interest rates- fueled a strong demand for foreign exchange that led to a US$ 53 million decrease in international reserves. At the start of the year, the monetary authority announced its decision to maintain a fixed exchange rate for the dollar within a 4% currency band. As the persistent demand for foreign exchange put pressure on the exchange rate, the Central Bank increased the supply of dollars from US$ 4 million to US$ 11 million per day in the last two months of 1992. Fiscal policy also proved to be more expansionary than it had

been in 1991, when a virtual state of equilibrium had been achieved. Even though current income was up to 10.1% of GDP -more than one percentage point higher than the year before- and thus marked up its fastest growth rate in the past seven years, spending expanded even more rapidly, jumping from 9% to 10.6% of GDP. Public-sector wage hikes had a great deal to do with this, as did capital expenditure, which rose considerably. During the year fiscal reforms aimed at broadening the application of the value added tax were authorized, and a law regarding the consolidation of tariffs within the Central American subregion was passed.

In the **Dominican Republic,** the price stabilization achieved the year before was reaffirmed in 1992. Inflation amounted to 7%, which was a relatively small increase over the 4% level recorded in 1991 and a far cry from the 100% rate seen just two years before. Monthly inflation rates were negative in the first quarter and less than 1 % throughout most of the year. The foundation for this domestic price stability continued to be the Government's tight fiscal and monetary policies and the slow pace of variation in the nominal exchange rate. The central government was able to enlarge its surplus to around 3% of GDP thanks to soaring tax receipts. In the case of domestic activity, this jump in revenues was attributable to an increase from 6% to 8% in the sales tax, which in turn stemmed from a substantial rise in the tax on petroleum; in addition, the average effective tariff on imports rose appreciably as a result of an increase in appraised values for customs purposes. Meanwhile, there was a considerable increase in capital expenditures and a more moderate one in current spending.

The monetary latitude afforded by the central government's surplus made it possible to expand credit to the private sector, much of which was channeled to agricultural production and commercial activities. Unlike the situation in 1991, the flow of international reserves, although positive, did not put much pressure on monetary policy. The local currency was gradually devalued during the first half of 1992, but the price of the dollar at year's end was close to what it had been at the end of 1991.

Inflation in **Panama** was again below the international rate as prices remained virtually constant. In Panama City, consumer prices were up by 1.8%, but some items registered above-average increases, including food, clothing and footwear, and medical and health services. Fiscal policy makers again focused their efforts on reorganizing and controlling public finances and on regularizing external payments. Current income climbed by 17%, while the increase in total expenditure was much smaller; in particular, investment outlays were down by nearly 50% from the preceding year's level. The central government's fiscal deficit totalled slightly over 1% of GDP, and external capital inflows amounted to US$ 100 million. However, the level of debt accumulated in past years saddled the country with over US$ 600 million in amortization payments in 1992, nearly US$ 400 million of which went to international lending agencies to cover debt payments that had fallen due prior to 1989.

Haiti's rate of inflation rose from 7% in 1991 to 18% in 1992, causing it to lose the ground it had gained the year before, when it had managed to reduce its rate of price increases significantly. Increases in food prices and transportation charges, a sharp devaluation of the local currency -as of the end of 1992 the commercial exchange rate was verging on 10 gourdes to the dollar, as compared to 7.5 to the dollar at the close of 1991- and the monetization of the fiscal deficit were responsible for the upturn in inflation. The deterioration of the economy was a direct result of the political crisis that swept over the country following the fall of the constitutional Government in September 1991. The *de fact* government that took its place was not recognized by the international community, which suspended the flow of international financial aid to the country (grants, donations and soft loans) and imposed an embargo on its foreign trade. This state of affairs caused GDP to plummet and greatly constricted Haiti's international trade flows. Meanwhile, government operations were seriously jeopardized by a steep dive in tax revenues and, hence, in expenditure, which virtually put an end to all public investment. In turn, the Central Bank's financing of the fiscal deficit not only

drove up inflation but placed mounting pressure on the local currency in foreign exchange markets, threw the balance of payments further out of kilter and led to a steep decrease in credit to the private sector. In addition, the financial standing of commercial banks grew shakier as the quality of their loan portfolios deteriorated.

Table II-1

LATIN AMERICA AND THE CARIBBEAN: INDEXES OF REAL EFFECTIVE EXCHANGE RATES FOR EXPORTS [a]

Indexes (1985=100)

Country	Deflator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
							Oil-exporting countries									
Bolivia	CPI	143	144	155	112	144	88	88	100	136	139	147	135	191	215	236
Colombia	CPI	94	92	90	**81**	77	79	86	100	132	147	150	153	173	168	155
	WPI	100	97	97	90	84	83	89	100	125	138	139	139	160	155	150
Ecuador	CPI	74	75	75	**70**	74	74	102	100	110	125	146	150	159	151	149
Mexico	CPI	95	91	82	**72**	108	115	101	100	139	145	118	110	108	98	91
	WPI	101	97	88	**80**	118	121	101	100	131	133	112	107	107	96	89
Peru	CPI	108	104	94	**82**	73	84	83	100	89	81	84	52	43	35	34
Venezuela	CPI	97	96	88	**80**	76	86	99	100	121	161	156	184	192	179	170
	WPI	110	112	103	95	88	97	106	100	111	136	142	153	170	168	163
							Non-oil-exporting countries									
South America																
Argentina	CPI	101	75	61	70	108	108	95	100	107	131	137	144	113	86	81
	WPI	108	88	81	90	101	99	91	100	122	155	138	131	134	139	154
Brazil	CPI	65	73	90	74	69	92	97	100	106	104	94	72	65	76	85
	WPI	95	105	114	93	89	108	100	100	105	109	98	75	70	88	98
Chile	CPI	82	82	71	58	66	78	80	100	123	134	141	133	140	138	132
	WPI	105	93	79	70	82	87	87	100	115	122	140	134	142	134	128
Paraguay [c]	CPI	88	75	64	60	72	84	81	100	107	115	120	125	125	108	111
Uruguay	CPI	107	95	74	64	65	96	97	100	99	103	111	111	129	111	102
	WPI	107	88	80	76	84	108	100	100	102	103	116	121	137	116	111
Central America and the Caribbean																
Costa Rica	CPI	70	72	73	124	126	102	98	100	107	112	117	110	112	121	115
	WPI	95	93	91	127	116	97	96	100	107	118	126	121	126	134	130
El Salvador	CPI	204	199	187	159	143	130	117	100	162	139	122	105	141	135	136
Guatemala	CPI	123	123	125	111	114	114	113	100	142	185	186	188	220	193	192
Haiti [d]	CPI	136	135	129	123	120	111	107	100	103	123	123	150	156	145	162
Honduras	CPI	136	135	127	118	110	104	101	100	109	117	118	109	195	199	200
Nicaragua	CPI	407	408	352	267	210	162	117	100	38	10	184	220	169	161	168
Dominican Republic	CPI	75	75	74	73	81	86	118	100	92	113	131	95	85	87	88

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

[3] Corresponds to the average of the indexes of the (main official) real exchange rates between each country's currency and the currencies of its main trading partners, weighted by the share of that country's total exports represented by exports to those trading partners. These weightings correspond to the averages for the period 1986-1990. For further information about the methodology and sources used, see ECLAC. *Economic Survey of Latin America, 1981* (E/CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.U.G.2. [b] The exchange rate used here is a follows: Up to July 1982, the mean of the average buying and selling rates as reported to the Banco de México by the main commercial banks; August-November 1982, preferential 1982, preferential rate for essential imports; after Novermber 1982, the mean of the buying and selling rates on the regulated market. [c] The unregulated or parallel exchange rate was used. From 1987 on, the commercial exchange rate was used.

Table II-2

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES

(Variations from December to December)

	1984	1985	1986	1987	1988	1989	1990	1991	1992
Latin America and the Caribbean	**188.2**	**280.1**	**63.8**	**209.4**	**773.7**	**1205.7**	**1185.2**	**199.7**	**424.8**
Argentina	688.0	385.4	81.9	174.8	387.7	4923.3	1 343.9	84.0	17.5
Barbados	5.1	2.4	(0.5)	6.3	4.4	6.6	3.4	8.1	3.3
Bolivia	2 177.2	8 170.5	66.0	10.7	21.5	16.6	18.0	14.6	10.4
Brazil	209.1	239.1	58.6	394.6	993.3	1 863.6	1 585.4	475.8	1 172.0
Colombia	18.3	22.3	21.0	24.0	28.2	26.1	32.4	26.8	25.1
Costa Rica	17.3	11.1	15.4	16.4	25.3	10.0	27.3	25.4	17.0
Chile	23.0	26.4	17.4	21.4	12.7	21.4	27.3	18.7	12.7
Ecuador	25.1	24.4	27.3	32.5	85.7	54.3	49.5	49.0	60.2
El Salvador	9.8	31.9	30.3	19.6	18.2	23.5	19.3	9.8	20.2
Guatemala	7.2	27.9	21.4	9.3	12.3	20.2	59.8	10.0	14.3
Haiti	5.4	17.4	(11.4)	(4.1)	8.6	10.9	26.1	6.6	18.0
Honduras	2.4	4.2	3.2	2.9	6.6	11.4	35.2	24.5	6.5
Jamaica	31.2	23.3	10.4	8.4	8.9	17.2	29.7	76.7	40.2
Mexico	59.2	63.7	105.7	159.2	51.7	19.7	29.9	18.9	11.9
Nicaragua	47.3	334.3	747.4	1 347.2	33 547.6	1 689.1	13 490.2	775.8	3.9
Panama	0.9	0.4	0.4	0.9	0.3	(0.2)	1.2	2.4	1.6
Paraguay	29.8	23.1	24.1	32.0	16.9	28.5	44.1	11.8	17.8
Peru	111.5	158.3	62.9	114.5	1 722.6	2 775.3	7 649.6	139.2	56.7
Dominican Republic	38.1	28.3	6.5	25.0	57.6	41.2	100.7	3.9	6.7
Trinidad and Tobago	14.1	6.5	9.9	8.3	12.1	9.3	9.5	2.3	8.5
Uruguay	66.0	83.2	70.6	57.3	69.0	89.2	129.0	81.5	58.9
Venezuela	18.3	7.3	12.7	40.3	35.5	81.0	36.5	31.0	31.9

Source: ECLAC, on the basis of official figures.

III. LEVEL OF ACTIVITY[1]

The level of economic activity in Latin America and the Caribbean rose by 3% in 1992, thereby carrying forward -if somewhat more slowly- the recovery which had begun the year before with an increase of 3.8%. Per capita GDP therefore expanded once again, this time by slightly more than 1%. However, since the regional GDP for 1992 was only 20% higher than the pre-crisis 1980 figure, per capita GDP was 6% below its 1980 level and equal to that of 1978.

The moderate pace of the increase in regional GDP was largely a result of the deepening recession in Brazil. If Brazil is not included in the calculations, then regional GDP growth was nearly 5%, which was slightly lower than in 1991 but considerably higher than the average for the period since 1980.

The expansion of GDP was quite widespread, although notable differences were to be observed from one country to another. Chile's growth rate was slightly over 10%, which was the highest to be recorded in the last two decades and enabled the country to continue its steady expansion for the ninth year in a row; as a result, its GDP was over 50% larger than in 1980. In Argentina, Costa Rica, the Dominican Republic, Guyana, Panama, Uruguay and Venezuela, the level of activity was up by between 6% and 9%. In three countries -El Salvador, Guatemala and Honduras- GDP grew by between 4% and 5%, while in another four -Bolivia, Colombia, Ecuador and Mexico- it climbed by around 3%; in three others -Bahamas, Jamaica and Paraguay- it rose by between 1% and 2%. In Nicaragua and Suriname, GDP stagnated or grew very little; in Barbados, Brazil, Haiti, Peru and Trinidad and Tobago, the level of activity declined; and in Cuba, the severe contraction of economic activity worsened even further for the third year running. Thus, 11 countries recorded a higher level of activity than in 1991 and in eight countries the growth rate either held steady or was only slightly slower than the year before; in another eight, however, economic activity slackened or remained flat. The small countries of the Organization of Eastern Caribbean States (OECS) maintained their upward trend of recent years and marked up an average growth rate of about 3%, which was an improvement over the figure for 1991 (see table III-1).

The differences among the various countries' growth rates were linked to the differing stages reached by their economies. The countries recording higher rates of expansion were Argentina, Guyana and Panama, which continued their economic recoveries; the Dominican Republic, which embarked on a recovery of its own; Chile, Costa Rica and Uruguay, whose growth accelerated; and Venezuela, which maintained its already elevated rate. Growth was also appreciably faster in Colombia, El Salvador, Guatemala and Honduras. In contrast, the lower rates of increase were due to the slowing of growth in Bolivia, Ecuador, Mexico and Paraguay, while decreases in the level of economic activity were associated with ongoing recessions in Brazil, Barbados, Cuba, Haiti, Peru and Trinidad and Tobago.

Even though population growth rates remained fairly high in many countries of the region, the figures for per capita GDP were positive for the most part. In eight countries -Argentina, Chile, Costa Rica, Dominican Republic, Guyana, Panama, Uruguay and Venezuela- this indicator of well-being climbed by over 3%, while another four registered

[1] More detailed information on the English-speaking subregion is presented in chapter IX.

moderate increases of between 1 % and 3%. In the remaining 15 countries, however, there was either very little improvement or an actual decrease. If the poor performance of the region's economies during the past decade is also taken into account, we then see that per capita GDP in 1992 was higher than in 1980 in only a few countries: Chile (27%), Colombia (20%), Belize (29%), Jamaica (10%), Uruguay (4%), Bahamas (2%) and the OECS countries as a group (67%). At the opposite extreme, the sharpest downturns in per capita GDP were in Nicaragua (-39%), Peru (-32%), Trinidad and Tobago (-30%), Haiti (-28%), Guyana, Bolivia and Suriname (-19%), Guatemala (-16%) and El Salvador and Honduras (-11%) (see table III-2).

Chile again exhibited rapid growth. In fact, its rate of slightly over 10% was higher than the already high 1991 rate, indicating that the country is going through an unprecedented stage of growth. Furthermore, its per capita GDP was 27% higher than the 1980 figure. The country's swift expansion in 1992 was based on burgeoning gross fixed investment (20%) and export volumes (12%), as well as on a sharper increase in consumption. The upturn in expenditure was concentrated in the private sector since, although public-sector expenditure was up by 5%, the private sector's rose by 10%. This expansion was primarily attributable to a positive structural change in the balance of payments, which was marked by a hefty trade surplus, a steady increase in foreign investment, virtual re-entry into the voluntary external credit market, a build-up in net international reserves equivalent to over one year's worth of imports, the maintenance of fiscal discipline and a considerable reduction in the external debt burden in relative terms. The country's rapid growth has sparked concern, however, about the possibility of the economy overheating and of the increasing difficulty of further intensifying its export strategy. In order to avert an excessive expansion of domestic demand, the interest rates on Central Bank securities were raised three different times in 1992.

In **Venezuela,** the level of economic activity has continued to soar since the country pulled itself out of its 1989 recession. The 7% GDP growth rate was slightly lower than the 1991 figure but was still exceedingly high in comparison with historical averages. This expansion was concentrated in private activities, since the petroleum sector's activity slackened by nearly 2% and the public sector's growth was quite modest. The boom in commercial activities was particularly notable, inasmuch as the 16% growth rate for this variable was double that of the year before, thanks to an expansion of domestic demand and to the stimulus for imports provided by an exchange-rate lag and the country's trade liberalization programme. Construction also continued to expand rapidly (17%), although its growth rate represented a slow-down from the 31% pace registered a year earlier. Unlike the situation in 1991, when the petroleum industry had been the engine driving forward the growth of this sector, in 1992 its buoyancy was chiefly attributable to private construction. Manufacturing (excluding the petroleum industry) grew considerably (12%) as it responded positively to the marked expansion of domestic demand. Even the automobile industry boosted its output once again, despite the trade reforms which reduced the protection provided for this activity. The agricultural sector continued to make a recovery (2.4%), although more slowly than in 1991, in response to the stimulus generated by the partial elimination of subsidies and price controls. The petroleum industry's output declined as the international oil market returned to normal in the aftermath of the Persian Gulf war, which led to a reduction of the production quotas set by the Organization of Petroleum Exporting Countries (OPEC). With a reduction in investment in the offing, the petroleum industry's potential output of crude oil as of the end of 1992 was slightly over 2,800,000 barrels per day, which was similar to the 1991 level.

In **Uruguay,** GDP climbed by over 7% -the highest rate in the last five years- and per capita GDP reached an all-time high as it edged past the level recorded in the 1980-1981 biennium. This was partly due to a strong increase in domestic demand (12%), which was spurred by the expansion of subregional imports and steep upturns in private capital formation and private-sector consumption. The vigorous growth of GDP was also buttressed by the

expansion of agriculture (11%), construction (13%), electricity, gas and water services (20%) and commerce (15%). Manufacturing and the other services saw no more than a slight increase, and in the case of manufacturing, this followed upon a three-year downswing. The higher level of agricultural output was the result of the recovery of crops that had been hurt by bad weather conditions the year before, a higher number of cattle slaughtered and the replenishment of livestock herds. The reduction of interest rates on dollar deposits -which led to a change in holdings and stimulated the acquisition of real estate- and foreign direct investment from Argentina (mainly in the form of the purchase of vacation homes) fueled a strong recovery in construction, although the level of activity was still low. The appreciable increase in the electricity, gas and water services subsector was due to greater domestic demand and, especially, the sharp upswing in sales to Argentina. The growth of the commerce, restaurants and hotels subsector was primarily a consequence of the sale of imported products and incoming tourism, mainly from Argentina.

The level of economic activity in **Argentina** rose considerably once again (by almost 9%) as the strong recovery which had begun the year before forged ahead within a clearly more stable macroeconomic environment than the country has enjoyed in the recent past. As a result, GDP surpassed the levels recorded prior to the recession of the early 1980s. As in 1991, domestic expenditure was up substantially, this time by 14%, for an increase of over 30% for the biennium; the volume of exports, however, grew by no more than a very small amount. Although the index for capital formation did not regain the level recorded during earlier periods of rapid accumulation, investment did climb by over 30% in real terms, and the cumulative increase over the past two years thus amounted to 65%. The strong upswing in investment encompassed both construction and capital goods, and in the case of the latter, a marked increase in the incorporation of imported goods was observed. At the same time, consumption expanded by nearly 11%. Household demand was spurred by the reactivation of the economy, the continued expansion of the credit supply and a drop in the relative prices of consumer durables, which in some cases even decreased in nominal terms. The growth of demand was met by a steep increase in imports (63%) as well as a considerable expansion of domestic production. For the 1991-1992 biennium, the growth of imports represented nearly one third of the increase in total supply, whose cumulative expansion amounted to 25%. The upward trend in production took in almost all the sectors, but the construction industry stood out from the rest, with its growth rate of over 20% and a cumulative increase of almost 50% in 1991-1992. Nevertheless, given this industry's initially low level of activity, it was the only major area of activity (aside from personal and government services) whose output did not reach record-breaking levels. With the exception of some activities such as the iron and steel industry, especially those linked to external markets, manufacturing expanded significantly (by over 7%) in response to higher domestic sales, although more slowly than the year before. None the less, the increase was very marked in some parts of the metal and metal manufactures industry. Be all this as it may, the effects of the normalization of the country's macroeconomic situation and the expansion of credit, which had driven this strong recovery forward, seemed to lose steam midway through the year, and there were some signs that the growth of domestic expenditure was approaching its limit, while exports failed to exhibit any vitality. Consequently, manufacturing demand ebbed. In any event, the greater demand for manufactures over the course of the year as a whole elicited an elastic production response, and the rise in prices was therefore very moderate. Meanwhile, the level of agricultural production was virtually stationary, after having climbed significantly for two years running. As a result, goods-producing sectors expanded by 7.6%. Basic services showed an increase of over 9%, much of which was accounted for by the transportation, storage and communications subsector. Because of the country's fast-moving privatization programme, which has been applied to practically all areas of public-sector activity, a substantial proportion of the services formerly rendered by State entities

began to be provided by privately-owned or privately-controlled companies.

Mexico's growth slowed in 1992 to a rate of just 2.6%. Investment remained vigorous, but was not enough to offset the adverse effects of weaker external demand, a tightening up of monetary policy and the intensive adjustment of the production apparatus brought about by trade liberalization measures. All this was compounded by bad weather, which caused the agricultural sector to perform poorly. Nevertheless, GDP growth outdistanced population growth for the fourth consecutive year. In addition, significant increases were seen in construction (8%) and basic services (7%) thanks to the stimulus provided by activity in the transportation and communications sector. In contrast, the manufacturing sector felt the effects of the contraction of external demand and the displacement of production activities by imports, all of which played a part in slowing its rate of expansion to slightly less than 2%, following growth rates of 6% and 4% in 1990 and 1991, respectively. Meanwhile, the domestic market's sweeping reorganization continued as a result of trade liberalization measures and the privatization of State companies. At the same time, manufacturing activity ran up against a number of problems in the area of exports and was adversely influenced by an oversupply of certain imported manufactures which were being sold at exceptionally low prices. The *maquila* (transborder inbond assembly) industry, on the other hand, witnessed a steep upturn in the number of business establishments and workers (more than 8%), in contrast to the downward slide seen in 1991. Commerce expanded satisfactorily, thanks to the sale of imported products. However, the performance of financial, community and personal services, among others, was in keeping with the general slow-down of the economy.

In Colombia, GDP rose by 3.6%, which was more than a full point higher than in 1991, despite poor weather conditions early in the year. This increase was largely accounted for by gross fixed investment (18%), particularly in the private sector, and exports (7%). Final consumption climbed slightly faster than GDP (5%), but much of this rise was diverted to the external market, since imports jumped by 29%. Coffee processing, which was up by 24%, and construction (especially residential building), with an increase of over 11%, were important contributing factors in this higher level of economic activity. The rest of the manufacturing sector recorded a sluggish growth rate (under 2%). The situation was quite similar in the agricultural sector, which, owing to the severe drought caused by the "El Niño" phenomenon, registered a 1% decrease in output, in contrast to an average annual increase of over 5% for the three preceding years. The drought not only resulted in a smaller harvest; it also led to such a substantial drop in water levels in the reservoirs that the supply of electricity to the entire country had to be strictly rationed. Consequently, the level of activity in the electricity, gas and water subsector fell by nearly 7% in 1992. Mining also turned in a weak performance, growing by only 1% as a result of the trouble in the oil industry caused by guerrilla attacks on the pipeline. Services, for their part, expanded moderately, but at a slower pace than total GDP.

Ecuador's GDP grew by somewhat more than 3%, which was slightly less than in 1991. The greatest stimulus came from the petroleum sector and agricultural production for the domestic market, along with a sharp rise in private investment. Public-sector capital expenditure also performed well, since it expanded for the first time following five consecutive years of decreases. Oil drilling was up by 6% as new oil fields were tapped. Thanks to this expansion, Ecuador exceeded the quota set for it by OPEC, and this was undoubtedly one of the main reasons for its decision to withdraw from that organization. The growth rate for agriculture and for forestry, hunting and fisheries was similar to the figure for 1991 (6%), but the production results of the various subsectors varied a great deal. The harvests of bananas, coffee and cocoa, which had been the fastest-growing crops, rose at a much slower pace in 1992. Fisheries again marked up a notable growth rate (10%), but not as high as the year before. The production of goods for the domestic market expanded more rapidly, however, with particularly sharp increases being seen in the output of potatoes (33%) and rice (21%). The recovery on which the manufacturing sector had embarked in 1991

weakened in 1992 with a growth rate of somewhat more than 2%. The construction sector expanded slightly following two years of declines, while electricity, gas and water services climbed by only 2%, which was quite a bit less than the year before, due to the bad weather conditions experienced at the start of the year.

Bolivia's growth rate, which had been 4.6% in 1991, dipped to 2.8%, but its per capita GDP continued to rise for the sixth year running. The economy's performance in terms of the level of activity was the net result of two opposing trends: the volume of exports fell by 6%, while domestic demand swelled by nearly 7%, particularly as a consequence of the growth of gross fixed investment and the variation in stocks, although part of this expansion was diverted to the external market due to an increase of nearly 10% in the volume of imports. The higher level of gross fixed capital formation was attributable to both public and private investment, with public-sector investment being channeled to infrastructure works, the State hydrocarbons company and social projects, while private-sector investment -especially foreign investment, which accounted for one half of the total- went primarily to the mining and hydrocarbons sectors. Construction was up sharply (15%) and basic services also exhibited a great deal of vitality (8%). Manufacturing production rose by 4% thanks to lower interest rates and an increase in consumption. Mining was off by 3%, however, chiefly as a result of a steep drop in the output of the Corporación Minera de Bolivia, a State company undergoing a reorganization and privatization process. Agricultural output slipped by more than 4% due to poor weather conditions, as heavy rain in the eastern part of the country had a devastating effect, especially on sugar-cane and soybean crops.

In Paraguay economic activity slowed in 1992 (1.7%) for the fourth year in a row; as a result, per capita GDP, which had already declined in 1991, continued to shrink. This was primarily due to the decrease in the volume of exports of goods and services caused by problems in the crop-farming sector, where output was down by over 1% owing to a lack of rain early in the year and flooding in May, along with a shortage of credit and low international prices for Paraguay's main export items in recent years. The most severely affected harvests were of cotton (-47%), soybeans (-15%), tobacco (-32%), beans (-7%) and rice (-5%). On the other hand, output of sugar cane and cassava remained stable, and the maize harvest was 9% larger. The decline in the crop-farming subsector was partly offset by increased livestock and forestry production, however. Manufacturing output hardly increased at all owing to drastic cut-backs in the production of textiles and wearing apparel in response to the loss of external markets and the contraction of the domestic market. In contrast, the pace of construction activity accelerated (5%) thanks to the continued construction of low-cost housing, a number of infrastructure works in the public sector and private residential building. Moreover, the services sectors grew by nearly 3% overall, while the increase in electrical power production was much greater (13%) owing primarily to the expansion of rural electrification programmes.

Brazil's economy remained mired in recession, with its level of activity slipping by almost 1% and inflation persistently remaining above 20% per month against a backdrop of major political changes in the second half of the year. This led to a 2.5% drop in per capita GDP, which was thus 8% lower than it had been in 1980. After a severe recession in 1990 and a feeble, short-lived recovery in the first half of 1991, the level of activity climbed again during the first six months of 1992 as a result of bumper harvests and a boom in exports of manufactures. This growth trend vanished during the second half of the year, however, and the country lapsed back into recession -the fourth in less than three years. This recession was in large part caused by the political crisis that engulfed the country in August, but it was also compounded by a slackening of domestic demand, which had been strong during the first half of the year but then began to dwindle in September. Domestic demand had been fueled by an ongoing expansion of liquidity due to the release each month of previously frozen financial assets, but when the release process was completed in August, this stimulus was cut off and recessionary trends reemerged; in addition, these trends were exacerbated by high real interest rates and a smaller inflow of external capital.

Manufacturing activity slumped (-5%) because of a steep drop in domestic demand which was only partly offset by the 19% increase in exports of manufactures. As a result, manufacturing output fell below its 1980 level. Given this recession in all sectors of production for the domestic market, some industries (including the automobile industry) sold their surpluses on overseas markets and thereby maintained or even raised their production levels in the course of the year. The sector that was hurt the most by the crisis was the capital goods sector, which shrank by over 12% owing to low levels of investment. This situation also accounted for the poor performance of the construction industry, where activity declined markedly. A similar trend was observed in commerce, whose level of activity was 5% lower. In contrast, the agricultural sector grew by 6% thanks to excellent harvests during the early months of the year, and this sector's multiplier effects helped to mitigate the downturn in the economy's overall level of activity. Nevertheless, even though the crop-farming sector was able to produce a satisfactory volume of supply, the population's purchasing power was too meagre to boost demand. Consequently, agricultural producer prices dropped substantially and the downward trend in the value of the sector's output continued. This did, however, permit the replenishment of agricultural stocks, which had been depleted following a drop in production, and allowed the country to save a considerable amount of foreign exchange, since there was no need to import food for domestic consumption.

In Peru, GDP relapsed (-2.7%) following a weak upswing in 1991 in the aftermath of five years of severe recession and a cumulative decrease in the level of activity amounting to 24%. Furthermore, per capita GDP slid by nearly 5%, which brought it to a level 32% below the 1980 figure. The decline in economic activity was caused by a drop in the volume of exports and consumption, although the adverse impact of this trend was partly neutralized by an increase of almost 8% in fixed capital formation, with both public and private investment contributing to the rise. A larger proportion of the country's limited domestic demand was diverted to external markets, resulting in an appreciable increase in the volume of imports of goods and services (8%), which were stimulated by an exchange-rate lag and tariff reductions. Production was once again dampened by a credit squeeze whose effects were heightened by bankruptcies in the financial system and inordinately high interest rates. This situation was compounded by the "El Niño" phenomenon, which reduced the size of anchoveta catches and brought on a drought that hurt agriculture and the generation of electricity, which, in turn, had an adverse impact on manufacturing. The nearly 10% drop in crop-farming output was evident in all the country's crops except rice and coffee, while a slight upswing was observed in livestock production. The decrease in fishery production amounted to approximately 5% and affected both food processing and the production of fishmeal. Mining output was off by more than 3%, mainly because of considerable downswings in iron, copper, silver and zinc. Manufacturing activity was hurt by the recession, as well as by the exchange-rate lag and the tariff-reduction policy launched in 1990, but the largest decreases were seen in commodity-processing industries. Construction, on the other hand, expanded by 4%, thus carrying forward the recovery begun by the sector in 1991 following a steep downward slide that had lasted several years.

The member countries of the Central American Common Market (CACM) had an overall growth rate of nearly 5%, which was the highest rate recorded since the beginning of the recession of the 1980s. The expansion was quite evenly distributed, since the rates for all of the countries except Nicaragua -whose economy grew at a measured pace- accelerated.

Costa **Rica** marked up a growth rate of over 7%, following a small increase in economic activity the year before, thanks to a strong recovery by manufacturing and an exceedingly buoyant services sector. Contributing factors included a marked rise in external and domestic demand for both investment and consumption, although a significant portion of the latter was diverted to the external market, causing imports to soar. The fastest-growing sectors were service activities, where the boom in tourism had a particularly positive impact on transportation and communications, among others. The steep rise in

imports spurred commerce, while the liberalization of the financial market, the inflow of external resources and the economy's considerable liquidity gave a boost to financial services. The opening of a new hydroelectric plant and stronger industrial demand were reflected in a significant expansion of electricity service. The manufacturing sector experienced a strong upturn (10%) after several years of slow growth due to the reactivation of the domestic market and, to a lesser extent, the recovery made by the Central American Common Market, although the impact of these factors on the different branches of industry varied. The manufacturing sector's extraordinary growth was also partly attributable to the re-opening of the Refinadora Costarricense de Petróleo (RECOPE), which had closed down its operations in 1991 because of the earthquake. The performance of the construction industry, which saw virtually no growth whatsoever, constituted a continuation of the downward trend observed during the preceding two years. Agricultural output was up by only 3%, in contrast to slightly less than 6% in 1991, mainly because of the drop in international coffee prices and a smaller harvest of staple grains for domestic consumption. Banana production maintained its upward trend of recent years as new areas were placed under cultivation and international prices remained fairly high. Livestock production stagnated, chiefly as a consequence of the drought affecting various parts of the country.

El Salvador's GDP growth rate was quite high (4.5%). The surge in economic activity was evenly felt in all sectors and was particularly strong in the production of goods, whose 6.4% growth rate outstripped that of services. This dynamism stemmed from the stimulus that the pacification process gave to production activity and demand as well as by good weather conditions for agriculture and the solution of the problems that had led to the rationing of electricity in the second half of the year. Investment was the fastest-growing item of total demand. Private investment was concentrated in the construction industry and specifically in the expansion for large companies, while public investment, which displayed vigorous growth, was channelled towards the construction of major infrastructure works, social services and the upgrading of electrical power generation capacity. Private consumption benefited from, *inter alia,* the consolidation of the economic recovery and an increase in remittances from emigrants. Construction grew the most, as it had in 1991 as well, and the agricultural sector made a comeback after its lackluster performance of the year before, while manufacturing managed to maintain the rate of increase it had registered during the second half of 1991.

In **Guatemala,** the growth rate for GDP was the highest in 13 years (nearly 5%) and per capita GDP thus rose for the sixth year running. Investment was once again the most dynamic component of total demand as it jumped by 30%, with both the public and private sectors playing a part in this result. In addition, the increase in consumption, which was boosted by wage hikes in the public and private sectors, was the largest to be recorded in the last four years. The volume of exports also expanded by a significant amount (8%) but, since the increase in imports outdistanced it by a wide margin (rising 38%), much of the increase in total demand was channeled to the external market. For the second year in a row, construction was the sector that expanded the most. In contrast, the growth of agricultural output was again rather modest (3%) owing, in part, to low price levels for export products and the delayed effect of the 1991 drought on the production of staple grains. The growth rate for manufacturing output surpassed the 1991 figure (3%) thanks to higher real wages, lower interest rates and burgeoning exports to the countries of the Central American Common Market. The *maquila* industry, which over the past five years has become an important source of foreign exchange and jobs, expanded considerably once again. However, during 1992 a number of companies suspended their plans for expansion and cancelled their orders from the United States due to uncertainty as to whether they would continue to have access to that market.

The increase in GDP in **Honduras** (nearly 4%) was larger than the year before and led to an expansion of around 1% in per capita GDP; this enabled the country to begin consolidating its recovery following a three-year adjustment

process. The main driving force behind demand was exports, whose volume climbed by 11 %. The moderate growth rate registered for domestic demand following its upturn in 1991 was the net result of the stimulus provided by the 25% expansion of public investment and the mitigating forces of more modest increases in private investment and consumption. The level of activity in most sectors of the economy rose, with the rapid growth of the construction industry being particularly notable. Manufacturing expanded by almost 4% after two years of stagnation owing to the stimulus afforded by domestic demand for building materials and by exports, particularly the sharp upturn in sawdust and wood products. In the services sector, financial services figured prominently with a growth rate of 7%. The agricultural sector's rate of increase slowed, however. None the less, all of this sector's components did expand, albeit more slowly than in 1991 ; even forestry managed to turn around the downward trend it had exhibited for numerous years.

The increase of slightly more than 1% in **Nicaragua**'s GDP put an end to the downturn in this variable but none the less led to a further decrease in per capita GDP (3%) that marked this indicator's ninth consecutive year of decline, for a cumulative reduction approaching 40%. Domestic demand expanded by somewhat over 4% both for consumption and gross fixed investment, which climbed for the first time in many years, but most of this expansion was channelled to the external market, thereby resulting in a significant increase in imports. This protracted recession is a reflection of a very limited production capacity, the controversy relating to ownership rights, technological backwardness and a shortage of capital goods and human resources, all of which is a consequence of the armed conflict that afflicted the country. Moreover, the conditions in foreign markets for Nicaragua's main export products were highly unfavourable in 1992, and the drop in their prices only compounded the deterioration seen in the preceding two years. In addition, the priority placed on fiscal restraint, which was regarded as a key factor in price stability, contributed to the sluggishness of the economy. This set of factors had a particularly strong influence on certain agricultural products (especially cotton) and on most manufacturing industries. Two natural disasters -the eruption of the Cerro Negro volcano and a tidal wave on the Pacific coast- exacerbated this state of affairs. The agricultural sector forged ahead, despite a series of problems that hurt the cotton crop, thanks to larger harvests of maize, beans and rice and the growth of poultry-raising activity, even though fisheries experienced a downturn as a consequence of the tidal wave. Manufacturing output slipped by over 3% after an exceptionally large increase in 1991, thereby resuming the regressive trend of earlier years. An upturn was seen, however, in the generation of electricity, especially as regards thermal energy, and this made it possible to reduce the frequency of blackouts considerably. Construction boomed with an increase of 6%, which came on the heels of various years of decreases, owing to the execution of public infrastructure maintenance and repair programmes and the rebuilding made necessary by the two above-mentioned natural disasters.

The rapid growth rate (8%) recorded for **Panama's** economic activity in 1992 carried it past the record level achieved in 1987. Both private investment and private-sector consumption contributed to a notable rise in domestic demand, and external demand, too, expanded by a significant amount, as was reflected, in particular, in a larger volume of exports from the Colón Free Zone. Construction continued to be the most buoyant sector of all as building skyrocketed by more than 60% after having doubled in 1991. Services, which are a pivotal component of Panama's economy, generally moved towards a recovery of the levels of activity seen before the recession of the late 1980s. Commerce, particularly in the Free Zone, was up thanks to the reestablishment of lines of credit. The Panamanian banking system outperformed international banks as financial institutions once again began to compete to attract funds. In contrast, transport dipped slightly in the Canal zone and more severely in the corridor along the pipeline that crosses the Central American isthmus. The manufacturing sector's growth was slightly slower than that of total GDP and was primarily oriented towards the domestic market, except in the case of a few

industries that have made greater inroads in the international market, such as the clothing industry. Meanwhile, the rate of expansion registered for the agricultural sector was quite satisfactory, especially in view of the fact that traditional export products such as coffee and sugar continued to feel the impact of the serious recession brought on by adverse conditions in international markets.

Economic activity in the Caribbean countries was quite sluggish overall. The only exception was the **Dominican Republic,** whose GDP, after having shrunk in each of the preceding two years, swelled by 7.6% thanks to an increase in domestic demand and in exports of services. Public investment rose faster than private investment did, but private-sector consumption outpaced government consumption. This recovery was fostered by more stable macroeconomic conditions, including a stable exchange rate and a slow-down in inflation. The level of activity in the mining sector slackened for the fifth consecutive year owing to a downswing in ferronickel production brought on by low international prices and a reduction in the output of gold and silver. This was the only sector of the economy that contracted; construction was the sector that expanded the most, chiefly as a result of higher public investment in infrastructure works, housing and other projects connected with the celebration of the quincentennial of the discovery of the Americas. The expansion of the agricultural sector picked up its pace, and much the same can be said of the manufacturing sector, which, after having turned in a weak performance during the two preceding years, grew considerably even though the growth rate of its largest subsector -the sugar industry- stalled as a result of bad weather conditions that interfered with the harvest and a reduction in the country ' s quota on the United States' preferential market. Commerce, meanwhile, saw an upturn as a direct consequence of the steps taken to open up the economy to international trade, since these measures paved the way for a significant increase in imports of consumer goods.

In **Haiti,** the trade embargo imposed by the Organization of American States (OAS) in response to the overthrow of the constitutional Government, in combination with the suspension of external credit (which had generally been granted on very easy terms) drove down the level of economic activity by 8% and per capita GDP by 10%. Output was down in almost all sectors of activity, which pushed unemployment levels ever higher in the formal sector of the economy. Agriculture was hurt by a drought as well as a shortage of inputs and, because their international prices were so low, the production of the country's main export products (coffee and cocoa) was cut back. The segment of the manufacturing sector which produces for the domestic market felt the effects of the lack of imported intermediate goods, while subcontracting export firms ' shipments out of the country during the first half of 1992 plunged to one fourth of what they had been during the first six months of 1991 as a consequence of the international embargo. The generation of electricity was cut by one half owing to the difficulty of importing fuel and to the drought, which limited the operation of hydroelectric plants. Construction slackened markedly because of the lack of imported inputs, while the suspension of externally-financed investment projects held back the maintenance of infrastructure works.

Cuba's economic crisis deepened in 1992 as GDP again shrank and imports of goods and services diminished further owing to the termination of the preferential trade links that Cuba once enjoyed with the countries of Eastern Europe, especially the former Soviet Union. This situation was compounded as the economic embargo imposed by the United States Government was tightened. Although the embargo has been in place for three decades, its impact was heightened in 1992 by the absence of what had once been large trade flows with the Soviet Union and other Eastern European countries, since these flows had counteracted its effects. Import capacity tumbled to one fourth its 1989 level, and this was reflected in shortages of raw and other materials, replacement parts, capital goods, food and -above all- fuel, which seriously hindered domestic production. As a result of all these factors, total supply plummeted. Meanwhile, both the demand for merchandise exports and domestic demand were down sharply as demand sources were forced to adapt to a much

smaller supply of goods. The decrease in output and the loss of traditional markets accounted for the downward slide in merchandise exports; in contrast, exports of services rose owing to a notable quantitative and qualitative improvement in tourism services and to the incipient activity of providing services to foreigners in the fields of sports, culture, education and health. The widespread deterioration of the economy played a part in the steep drop in gross fixed investment, despite the rapid pace of investment in tourism services and in joint ventures in other sectors. Thanks to the country's adjustment programme, efforts to promote foreign direct investment led to the conclusion of 80 economic agreements, chiefly in the areas of tourism, heavy industry, iron and steel, metal and metal manufactures, construction materials and agriculture. Spain, Canada and Mexico were the main sources of these investments. Total consumption contracted due, in particular, to the decline in private consumption. Public-sector consumption, on the other hand, slipped much more slowly thanks to the high priority placed on the provision of basic services (education and health services, among others) to the population and to the high level of defence spending. At the sectoral level, notable developments included upswings in agriculture and mining; downturns were recorded in manufacturing, construction and transport, however.

Table III-1

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS DOMESTIC PRODUCT

(Growth rates)

	1986	1987	1988	1989	1990	1991	1992[a]	Cumulative variation 1981-1992"
Latin America and the Caribbean	**4.2**	**3.2**	**0.8**	0.9	**0.3**	**3.8**	**3.0**	**20.1**
Oil-exporting countries	**0.3**	**2.7**	**2.0**	**0.1**	**4.1**	4.5	**3.3**	**24.3**
Bolivia	-2.6	2.6	3.0	3.2	4.6	4.6	2.8	8.8
Colombia	6.9	5.6	4.2	3.5	4.0	1.9	3.6	51.6
Ecuador	2.8	-4.8	8.8	0.2	2.0	4.7	3.3	30.2
Mexico	-3.8	1.9	1.2	3.3	4.4	3.6	2.6	25.4
Peru	8.7	8.0	-8.4	-11.5	-5.6	2.1	-2.7	-12.0
Trinidad and Tobago	-2.2	-4.6	-3.3	-0.5	2.2	1.8	-0.6	-18.7
Venezuela	6.6	3.8	5.9	-7.8	6.8	10.2	6.9	22.8
Non-oil-exporting countries	**7.1**	**3.6**	**0.0**	1.5	-2.4	**3.2**	**2.8**	**17.0**
South America	7.5	3.5	**0.0**	**1.3**	-2.7	**3.3**	**2.6**	**16.6**
Argentina	7.6	2.7	-2.1	-6.2	-0.1	8.9	8.6	8.0
Brazil	7.9	3.6	-0.1	3.3	-4.4	0.9	-0.9	16.5
Chile	5.7	5.7	7.5	9.8	2.0	5.8	10.3	54.8
Guyana	0.2	1.1	-2.3	-4.5	-2.7	5.5	7.7	-14.0
Paraguay	-0.3	4.5	6.7	5.9	3.1	2.3	1.7	42.2
Suriname	0.7	-6.2	8.2	4.2	-1.7	-2.5	0.0	0.8
Uruguay	8.4	8.0	-0.1	1.5	0.9	2.9	7.4	12.0
Central America and the Caribbean	**2.2**	**4.4**	**0.0**	**3.4**	**1.2**	1.9	**4.6**	**21.2**
Bahamas	1.4	4.6	2.3	2.0	4.8	-3.2	1.0	28.3
Barbados	5.1	2.6	3.5	3.6	-3.5	-4.3	-4.0	-0.5
Belize	2.2	12.5	6.4	13.1	9.4	4.1	5.3	74.7
Cuba[c]	1.2	-3.9	2.2	1.0				
Haiti	0.0	-0.7	0.9	1.0	-0.2	-0.3	-8.4	-12.1
Jamaica	3.5	6.5	2.2	7.4	5.3	1.5	1.8	26.7
Panama	3.4	2.2	-15.9	-0.2	5.2	9.1	8.0	25.2
Dominican Republic	3.0	8.4	1.5	4.1	-5.5	-1.0	7.6	29.2
Central American Common Market	**1.4**	**3.3**	**1.7**	**3.3**	**2.3**	**2.7**	**4.8**	**18.0**
Costa Rica	5.3	4.5	3.2	5.5	3.4	2.1	7.2	37.0
El Salvador	0.5	2.7	1.5	1.1	3.4	3.3	4.5	6.7
Guatemala	0.3	3.6	4.0	3.7	2.9	3.5	4.7	18.0
Honduras	2.3	4.9	4.9	4.7	-0.5	2.2	3.9	33.3
Nicaragua	-1.0	-0.7	-13.6	-1.7	-0.2	-0.4	0.8	-13.7
OECS **countries**	**6.8**	**6.1**	**8.7**	**4.8**	4.5	2.5	**3.3**	**78.4**
Antigua and Barbuda	8.4	8.7	7.7	5.2	2.8	1.6	1.7	84.9
Dominica	6.9	6.8	7.9	-1.1	6.6	2.1	2.6	62.1
Grenada	5.5	6.0	5.8	5.7	5.2	2.9	0.6	64.1
Saint Kitts and Nevis	6.3	7.4	9.8	6.7	3.0	3.7	3.6	88.3
Saint Lucia	5.8	2.2	12.1	4.6	3.9	1.6	6.6	72.2
Saint Vincent and the Grenadines	7.3	5.8	8.6	7.2	7.1	4.6	4.7	103.5

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

[1] Preliminary estimates. Excludes Cuba. ' Refers to total social product. OECS = Organization of Eastern Caribbean States.

Table III-2

LATIN AMERICA AND THE CARIBBEAN: GROWTH OF PER CAPITA GROSS DOMESTIC PRODUCT

(Growth rates)

	1986	1987	1988	1989	1990	1991	1992[a]	Cumulative variation 1981-1992[a]
Latin America and the Caribbean	2.0	1.2	-1.2	-1.0	-1.6	1.8	**1.1**	**-6.3**
Oil-exporting countries	-2.0	0.5	-0.2	-2.0	1.9	2.4	1.2	**-5.0**
Bolivia	-5.0	0.1	0.5	0.7	2.1	2.1	0.4	-19.3
Colombia	4.9	3.7	2.3	1.7	2.2	0.2	1.8	20.3
Ecuador	0.2	-7.2	6.1	-2.3	-0.4	2.3	0.9	-4.3
Mexico	-5.9	-0.4	-1.0	1.1	2.2	1.4	0.5	-4.6
Peru	6.4	5.8	-10.3	-13.3	-7.5	0.0	-4.7	-32.2
Trinidad and Tobago	-3.5	-5.9	-4.5	-1.8	1.0	0.6	-1.7	-30.4
Venezuela	4.0	1.3	3.4	-9.9	4.4	7.8	4.6	-8.6
Non-oil-exporting countries	5.0	**1.6**	-1.9	-0.4	-4.1	**1.4**	1.0	**-7.3**
South America	5.5	1.7	-1.8	-0.4	-4.3	**1.6**	1.0	**-6.6**
Argentina	6.2	1.3	-3.3	-7.4	-1.3	7.6	7.4	-7.9
Brazil	5.7	1.6	-2.0	1.4	-6.1	-0.8	-2.5	-8.3
Chile	4.0	3.9	5.7	8.0	0.3	4.1	8.5	26.8
Guyana	-0.1	1.1	-2.3	-4.6	-3.1	4.8	6.8	-19.2
Paraguay	-3.3	1.4	3.6	2.9	0.2	-0.5	-1.0	-1.0
Suriname	-1.1	-8.0	6.1	2.2	-3.6	-4.3	-1.9	-19.1
Uruguay	7.8	7.4	-0.6	0.9	0.3	2.3	6.8	4.3
Central America and the Caribbean	-0.2	2.0	-2.3	1.0	-1.2	-0.5	2.1	**-8.4**
Bahamas	-0.5	2.7	0.5	0.2	3.0	-4.9	-0.7	2.1
Barbados	4.8	2.3	3.1	3.3	-3.8	-4.6	-4.3	-4.1
Belize	-0.4	9.5	3.6	10.2	6.8	1.8	3.2	29.3
Cuba[0]	0.2	-4.8	1.1	-				
Haiti	-1.9	-2.6	-1.1	-1.0	-2.2	-2.3	-10.2	-30.4
Jamaica	2.3	5.5	1.3	6.5	4.4	0.5	0.8	9.5
Panama	1.2	0.1	-17.6	-2.2	3.1	7.0	5.9	-2.6
Dominican Republic	0.7	6.0	-0.7	1.8	-7.5	-3.1	5.4	-1.5
Central American Common Market	-1.2	0.7	-1.0	0.6	-0.4	-0.2	1.8	**-14.1**
Costa Rica	2.3	1.6	0.4	2.6	0.7	-0.4	4.6	-1.9
El Salvador	-1.0	1.0	-0.3	-0.8	1.4	1.2	2.2	-10.5
Guatemala	-2.6	0.7	1.0	0.8	0.0	0.6	1.8	-16.2
Honduras	-1.1	1.6	1.6	1.5	-3.5	-0.9	0.8	-10.6
Nicaragua	-3.5	-3.0	-15.6	-4.3	-3.2	-3.9	-3.0	-38.9
OECS countries	6.2	5.4	8.0	4.2	3.9	1.9	2.7	**66.6**
Antigua and Barbuda	7.8	8.1	7.1	4.5	2.1	0.7	0.7	70.5
Dominica	7.3	7.1	8.1	-0.9	6.9	2.4	2.9	69.9
Grenada	5.3	5.8	5.6	5.5	5.0	2.7	0.4	59.9
Saint Kitts and Nevis	6.8	7.9	10.3	7.2	3.5	4.2	4.2	99.4
Saint Lucia	4.3	0.7	10.5	3.2	2.5	0.3	5.2	45.1
Saint Vincent and the Grenadines	6.3	4.8	7.5	6.2	6.1	3.6	3.7	83.0

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
Preliminary figures. Excludes Cuba. Refers to total social product. OECS = Organization of Eastern Caribbean States.

Table III-3

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY, AT MARKET PRICES

(Annual growth rates)

	Agriculture		Mining and quarrying		Manufac-Wring		Construction		Subtotal goods		Basic services		Other services	
	1991	1992'	1991	1992'	1991	1992'	1991	1992[a]	1991	1992'	1991	1992'	1991	1992[a]
Latin America and the Caribbean	2.8	2.3	3.6	*12*	3.6	0.8	4.3	*12*	3.5	2.0	6.4	5.5	2.8	2.3
Argentina	3.9	0.1	-5.8	8.2	11.9	7.3	21.3	21.7	10.8	7.8	3.7	9.4	7.0	7.2
Barbados	-3.4	-2.5	-6.1	-2.5	-4.0	-2.5	-11.0	-2.5	-5.7	-2.5	-1.9	-2.5	-4.1	-2.5
Bolivia	10.5	-4.3	1.7	-3.0	7.1	4.3	2.6	15.3	6.6	-0.7	3.7	8.2	2.1	6.7
Brazil	2.6	5.8	1.3	-0.2	-0.7	-5.0	-4.0	-4.4	-0.2	-2.0	7.7	3.0	-0.8	-2.5
Colombia	5.4	-1.0	0.7	1.0	0.8	4.8	-0.7	11.5	2.3	2.7	3.4	1.3	3.0	4.3
Costa Rica	6.2	3.0			2.1	10.5[b]	-7.5	0.3	3.0	6.0	3.5	10.9	1.1	7.7
Chile	1.8	3.7	4.8	1.1	5.5	12.2	4.7	14.1	4.6	8.6	10.7	13.0	5.5	9.5
Ecuador	6.0	4.7	5.5	6.1	4.6	2.3	-0.5	0.7	4.8	4.1	5.7	5.1	4.2	0.9
El Salvador	-0.1	6.7	11.1	12.0	4.9	6.0	10.1	8.0	2.4	6.6	7.1	6.1 .	3.7	2.3
Guatemala	3.1	3.0	8.2	29.3	2.4	3.1	15	21.5	2.8	4.4	5.4	9.4	4.0	4.4
Guyana	12.2	3.0	21.0	3.0	10.6	3.0	2.0	3.0	11.8	3.0	0.0	3.0	-0.4	3.0
Haiti	2.5	-2.0	4.0	-14.3	-17.0	-15.0	3.0	-5.0	-2.7	-5.4	-7.9	-19.1	2.3	-11.4
Honduras	5.4	2.9	9.9	20.5	1.4	3.0	5.5	15.0	4.0	4.8	2.4	4.3	0.2	2.9
Jamaica	0.4	1.6	5.8	2.0	-4.5	2.2	0.2	2.0	-0.2	2.0	1.7	2.0	3.0	2.0
Mexico	1.0	-1.4	0.8	1.3	4.0	1.8	2.4	7.8	2.9	1.9	5.3	7.0	4.0	2.6
Nicaragua	-3.9	3.1	-1.4	17.1	6.4	-5.2	-10.9	6.3	0.2	-0.4	2.9	3.2	-1.7	1.8
Panama	6.6	5.7	65.0	30.3	8.8	7.6	117.0	61.6	16.7	14.9	10.3	5.2	6.9	7.1
Paraguay	-0.6	0.1	5.0	5.0	1.1	0.4	3.0	5.0	0.3	0.7	6.9	6.3	4.1	2.1
Peru	0.9	-5.5	-2.4	-3.2	5.3	-6.9	-1.8	4.1	1.5	-4.4	5.4	-0.9	1.8	-1.2
Dominican Republic	2.4	5.2	-4.4	-18.5	-0.7	12.3	-12.3	24.7	-2.0	8.6	2.7	14.5	-0.6	6.0
Trinidad and Tobago	-7.7	6.2	-3.2	-2.5	11.6	5.9	9.8	1.0	0.6	0.1	3.4	0.9	3.6	-0.6
Uruguay	1.9	11.0	0.3	13.1	-0.5	1.5	4.1	13.1	0.6	5.6	7.2	8.8	1.2	4.6
Venezuela	3.2	2.4	8.8	4.1	11.4	4.0	30.8	16.8	11.6	5.4	8.1	8.6	6.9	8.2

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
' Preliminary figures. Includes mining and quarrying.

Table III-4

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE COMPONENTS OF AGGREGATE DEMAND

(Annual rates)

	Consumption				Gross investment				Domestic demand		Exports		Total demand	
	Private		Government		Fixed		Domestic							
	1991	1992[a]	1991	1992[a]	1991	1992[a]	1991	1992[a]	1991	1992[a]	1991	1992[a]	1991	1992[a]
Latin America and the Caribbean	4.7	3.4	*42*	4.1	7.6	**11.1**	**11.9**	**10.5**	5.8	4.7	2.4	5.2	5.2	**4.8**
Argentina	13.5	10.6	c	c			25.1	30.9	15.3	14.0	-8.3	0.6	11.3	12.1
Bolivia	3.9	3.0	0.9	5.5	10.8	6.1	77.1	28.7	9.5	6.7	1.6	-6.3	7.8	4.0
Brazil	1.4	-3.7	c	c	-4.1	-5.5	5.1	-4.5	1.9	-3.9	-0.9	18.3	1.6	-1.2
Colombia	0.9	3.4	2.3	12.4	-8.8	18.3	-0.9	15.7	0.8	6.4	3.5	6.7	1.2	6.4
Costa Rica	-6.3	6.7	-0.9	3.0	-12.8	19.2	-13.7	22.8	-7.2	9.8	7.7	15.6	-1.7	12.2
Chile	4.5	9.8	3.6	4.8	-1.0	20.2	1.9	27.2	3.9	12.7	12.9	12.3	6.3	12.6
Ecuador	-0.3	1.4	-1.4	-6.4	9.7	8.5	28.9	3.4	4.4	0.8	10.4	7.3	6.3	3.0
El Salvador	2.1	3.6	4.4	2.0	18.9	27.3	22.5	28.5	5.0	6.9	-1.4	8.5	3.6	7.2
Guatemala	3.8	8.3	1.7	5.8	3.7	28.3	22.6	30.1	5.9	11.2	-4.9	8.3	4.2	10.8
Haiti	2.9	-0.2	c	c			8.9	-58.8	3.9	-10.4	-1.7	-40.0	3.2	-14.2
Honduras	-0.4	1.0	-10.2	0.4	8.5	10.1	23.6	10.1	3.3	3.1	-0.4	11.0	2.5	4.9
Mexico	5.2	7.0	3.9	2.2	8.1	13.9	7.3	8.6	5.4	6.8	5.4	0.3	5.4	5.6
Nicaragua	27.8	8.8	-34.8	-4.0	-8.9	4.8	10.4	-8.8	7.5	4.4	-14.6	-15.7	4.2	1.9
Panama	19.1	10.5	1.8	4.6	64.3	43.7	2.9	10.7	12.6	9.5	19.0	15.5	14.6	11.5
Paraguay	6.0	2.4	20.0	7.8	5.8	-6.4	8.6	-6.5	7.6	0.7	-11.5	-9.7	2.5	-1.7
Peru	0.8	-2.0	1.1	2.5	7.8	7.6	18.0	1.5	4.3	-0.8	-1.5	-1.5	3.4	-0.9
Dominican Republic	3.5	6.7	-8.8	32.9	-14.5	17.8	-13.8	18.1	-0.9	10.6	-1.0	11.6	-0.9	10.8
Uruguay	7.5	14.4	1.1	5.2	17.2	16.1	22.3	9.8	8.1	12.3	-0.8	5.3	5.7	10.5
Venezuela	11.2	13.1	9.5	4.7	34.2	21.9	81.5	35.8	19.2	15.8	5.0	-5.9	14.2	8.9

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

* Preliminary figures. [b] Nineteen countries; figures on private consumption and investment include estimates in the case of some countries for which data were lacking. [c] Government consumption is included under private consumption.

IV. TOTAL SUPPLY AND DEMAND

1. Regional trends

In 1992 the Latin American and Caribbean economies as a group continued to strengthen at much the same moderate pace as the year before. This was reflected in upturns in the levels of economic activity, total supply and the domestic supply of goods and services in response to a notable reactivation of investment and, secondarily, an expansion of exports and consumption. Despite the steady rise in gross capital formation, however, this variable had not yet regained the levels registered prior to the deep recession that hit the region in the early 1980s and undermined its population's well-being. Indeed, neither the domestic supply of goods and services nor real national income had returned to their pre-recession per capita levels by 1992.

Total supply climbed by 4.8%, which was only slightly less than in 1991, when the highest rate since 1981 had been recorded. This consolidated the recovery begun the year before, following four years of disappointing results (see table IV-1). The volume of the region's imports swelled by 17%, which was an even sharper increase than in 1991. This trend was largely attributable to the expansion in the volume of imports made by Argentina (63%), Guatemala (38%), Colombia (29%), Chile, Costa Rica, Dominican Republic, Mexico, Uruguay and Venezuela (all between 20% and 24%), El Salvador and Nicaragua (between 16% and 18%) and, to a lesser extent, Bolivia, Honduras, Nicaragua and Peru. Ecuador's external purchases were up only slightly, and three countries registered a drop in their import volumes; the steepest decrease was in Haiti (-34%), while the decline amounted to 10% in Paraguay and to somewhat over 4% in Brazil. The rise in the value of merchandise imports nearly matched the increase in their volume, since unit values did not change significantly. The bulk of this rise corresponded to imports of consumer goods, followed by capital goods, whose growth rate for 1992 outstripped the rate for imports of intermediate goods, while fuel purchases exhibited only a slight upward movement. In turn, the increase in imports of intermediate goods represented 40% of the expansion in the region's total imports, while capital goods imports accounted for one third and consumer goods purchases one fourth of the total increase.

The volume of exports grew by slightly over 5%, which was close to the mean annual rate for the period 1981-1991 and more than double the 1991 figure. This increase in the regional total was primarily attributable to the strong upturn recorded in Brazil (18%), however, although the volume of exports also expanded appreciably in Chile, (12%), Costa Rica (16%), Dominican Republic (12%), Honduras (11%) and Panama (16%). In contrast, sharp decreases were seen in Haiti (-40%), Nicaragua (-16%) and Paraguay (-10%) and a somewhat smaller one in Venezuela (-6%).

Because of the gap between the real growth rates for exports and imports, the region's surplus from trade in goods and services shrank by a considerable amount once again (-23%), and the domestic supply of goods was therefore significantly larger (4.7 %). This increase boosted supply to a point 13% above the 1980 level, but in per capita terms it was still 12% below that year's figure (see table IV-1).

The expansion of domestic demand stemmed from a sharp rise in gross capital formation and, to a lesser extent, in consumption. Fixed investment climbed by 11%, thereby strengthening the upward trend that had begun in 1991 following a three-year slump. This raised regional investment to its highest level since

1982, although it was still 9% below the 1980 figure. Consumption rose more slowly than the year before, since it grew by just slightly more than 3% after having reached a level of nearly 6% in 1991. This increase was, nevertheless, substantially higher than the annual average for the period 1981-1990. Thus, final consumption expenditure was 19% greater than in 1980 in real terms, although its rate of increase was, in any event, much slower than the population growth rate for the same period (see table IV-1).

A notable reduction was again recorded for net factor payments to the rest of the world (-7%), and this was enough to offset the deterioration in the region's terms of trade. Consequently, gross per capita national income rose for the second year in a row by slightly more than GDP; the further slight increase in this variable was clearly an improvement over the sagging levels recorded in 1988-1990, but even so per capita national income was still 6% lower than it had been in 1980 (see table IV-1).

2. Demand

The growth of the region's GDP in 1992 was a result -as during 1991- of the buoyancy of domestic demand. The effect of this segment of demand on the level of economic activity was weakened, however, by what proved to be, on balance, the adverse influence of foreign trade, even though the volume of exports expanded moderately and thereby contributed to an increase in total demand equivalent to 1 % of GDP (twice as much as in 1991). Be that as it may, this improvement was more than offset, as had also been true the year before, by the channeling of a portion of demand amounting to over 2.5% of regional GDP to increased imports, which was once again reflected in a narrowing of the trade surplus and in a negative contribution -for the second year in a row- to the growth of GDP. Domestic demand, on the other hand, expanded considerably, although at a slower rate than in 1991. The growth of consumption -particularly in the private sector- made a contribution equivalent to over 2 points of GDP to the increase in total demand (as compared to nearly four points the year before). Meanwhile, fixed investment again made a significantly positive contribution (equivalent to nearly 2% of GDP), in contrast to its results in the 1980s, when its contribution had clearly been negative in character (see table IV-2).

This regional trend of rapidly rising investment and imports and a slower expansion of private consumption was shared by a good number of individual countries, although the size of the contributions made by the various components of demand varied from one country to the next. In fact, domestic demand climbed substantially in 14 of the 19 countries for which information was available. Furthermore, in six of those countries (Argentina, Chile, Dominican Republic, Guatemala, Uruguay and Venezuela) the increases were quite large, ranging from 11 to 13 points of GDP. Domestic demand also swelled in Costa Rica and Panama (where it moved up by about 8 percentage points of GDP), Bolivia, El Salvador and Mexico (7 points), Colombia and Nicaragua (6 points) and Honduras (3 points). In Ecuador and Paraguay, however, domestic demand was flat, edging upward by less than 1% in each case.

In most of the countries the expansion of domestic demand was attributable to increases in both private consumption and fixed investment, although the relative sizes of these two variables' contributions differed a great deal from country to country. In Argentina, Bolivia, Chile, Dominican Republic, Guatemala, Mexico, Nicaragua, Uruguay and Venezuela, far more than half the increase in domestic demand came from private consumption. In Colombia and Costa Rica, the

This figure includes variations in stocks.

[2] It should be noted that this analysis of the contributions made by the different components of demand to changes in GDP does not incorporate the impact of variations in the terms of trade, since it is based on accounts reflecting real flows. By the same token, the discussion of variations in each of the components of domestic demand does not reflect the real impact of changes in relati ve prices, which have come to be of considerable importance in the countries' recent adjustment processes.

two components' contributions were fairly even, while in El Salvador, Honduras and Panama, most of the increase was generated by investment (see table IV-2).

Because of the net effect of a sizeable increase in imports and a more moderate rise in exports, in many cases a substantial portion of the growth in domestic demand was diverted to the external market, and the expansion of GDP was therefore a good deal less marked than it would otherwise have been. Even so, in Argentina, Chile, Dominican Republic, El Salvador, Guatemala, Panama, Uruguay and Venezuela the momentum generated by domestic demand was reflected in relatively high growth rates. In Colombia, on the other hand, most of the increase in domestic demand was shunted to the external market, slowing the rise in its level of economic activity. In Bolivia and Mexico, the majority of the expansion in demand was channeled to the external market, and GDP growth was therefore limited. In Nicaragua, the effect of the considerable deterioration in the country's external trade position was more or less matched by the rise in domestic demand, with the result that GDP grew very little. The increase in the trade balances of Costa Rica, Ecuador, Honduras and Paraguay, on the other hand, made it possible for GDP growth to outdistance the expansion of domestic demand.

Domestic demand shrank only in Brazil (-4 points of GDP), Haiti (-13 points) and Peru, where the decrease was very small. In all these cases, private consumption declined, and this accounted for the bulk of the downturn in domestic demand (except in Haiti, where the investment crunch was the most influential factor in the decrease). In Brazil, the growth of the trade surplus helped to mitigate the adverse impact on GDP of an almost 4-point drop in domestic demand. In Haiti, the reduction of the trade deficit -as a result of a steep drop-off in imports (equivalent to 10 points of GDP) which more than offset the marked decrease in exports- to some extent counteracted the severe contraction of domestic demand and cushioned its impact on GDP, which even so was down sharply. In Peru, the combination of a worsening trade balance and a slight weakening of domestic demand led to a slump in economic activity.

Despite the above, in some countries exports continued to act as the main driving force of economic activity. In Chile, Costa Rica, Ecuador, Honduras and Panama, the increase in exports contributed between 3 and 9 points of GDP, while in Colombia, Dominican Republic, El Salvador, Guatemala and Uruguay, their contribution amounted to between 1 and 2 points (see table IV-2).

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

Adjustment processes sparked major changes in the region's demand structure during the 1980s, as was demonstrated by an expansion of external demand equivalent to nearly six points of GDP and a matching decrease in gross capital formation. The coefficient for exports of goods and services, which had represented an average of slightly over 15% of GDP in the 1970s, gradually climbed during the 1980s, reaching 21% by 1992. The coefficient for imports, on the other hand, diminished during the first half of the 1980s as some imports were limited and others were replaced by substitutes, slipping from 16% in 1981 to slightly more than 10% in 1985. It then began to recover -initially at a moderate pace and then, beginning in 1990, more rapidly- until, in 1992, the region's coefficient for imports of goods and services reached 16.4% of GDP, thus surpassing the 1981 mark (see table IV-3).

The increase in the coefficient for exports was very widespread, inasmuch as between 1979-1981 and 1990-1992 it climbed in 13 of the 19 countries for which information was available, including the region's three largest economies. Costa Rica and Paraguay marked up the largest increases (around 20 points of GDP) while Chile and Ecuador boosted their coefficients by between 13 and 15 points. In Mexico and Panama, the rise was about 10 percentage points, while in Argentina, Colombia, Uruguay and Venezuela this indicator moved up by between 4 and 6 points of GDP. It also climbed

by 5 points in Brazil, but even so the average coefficient for the three-year period from 1990 to 1992 stood at slightly over 14% -by far the lowest in the region. In Bolivia and the Dominican Republic, export coefficients rose slightly during this same period, but in Guatemala they edged downward. In other Central American and Caribbean countries (El Salvador, Haiti, Honduras, Nicaragua) this indicator fell by between 6 and 13 points of GDP and in Peru it dropped by 4 points (see figure IV-1).

The average coefficient for imports as a percentage of GDP was lower for the period 1990-1992 than for 1979-1981 in 13 of the 19 countries in the region for which information was available. The sharpest decreases were seen in Ecuador, Haiti, Honduras and Venezuela, where they amounted to around 10 points of GDP, but even in countries such as Argentina, Chile, Dominican Republic and Uruguay, whose import regulations have been liberalized, these coefficients had not returned to their pre-crisis levels. In Brazil, this ratio fell from 11.5% to less than 7% of GDP between 1980 and 1985, whereupon it began to move back up, with the result that between 1991 and 1992 it was verging on 9%, which is, however, still very low (see figure IV-1).

In Mexico, the import coefficient climbed from 14% to 19% of GDP between 1979-1981 and 1990-1992, while Paraguay's coefficient shot up by 17 points. These two increases had quite different causes, however. In the first case, the coefficient had fallen by 8 points in 1982 and 1983, with the outbreak of the debt crisis. Later, it recovered slowly, but did not surpass its 1981 level again until 1990; its upward pace quickened at the start of the 1990s, bringing it to 22% of GDP by 1992. The notable rise in this coefficient was attributable to the implementation of a trade liberalization policy, a tendency towards overvaluation in recent years and a substantial reduction in external constraints. In Paraguay, the ratio between imports and GDP also decreased quite sharply at the start of the 1980s, but it then climbed steeply, to around 29% between 1986 and 1988 and to 42% in 1991, although it then fell back to 37% in 1992. The considerable magnitude of this coefficient in recent years has been due to refinements in the system of import documentation and to the rising level of sales of imported products to visitors from neighbouring countries.

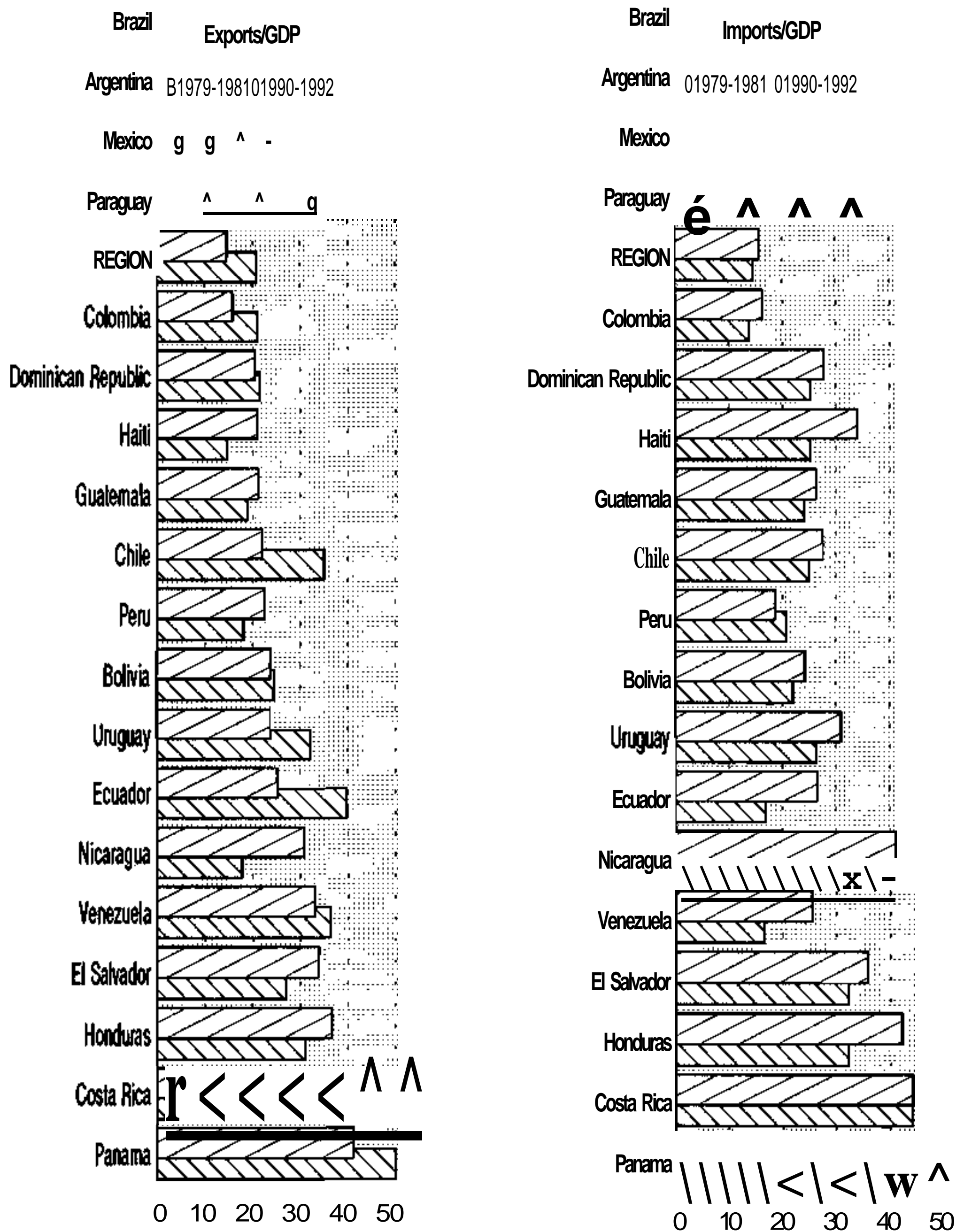
Variations in exports and imports were reflected in substantial changes in the Latin American countries' trade balances. The region as a whole went from a deficit of slightly over 1 % of GDP in 1980-1981 to an 8% surplus between 1988 and 1990; this figure then began to dwindle and was just slightly over 5% in 1992. However, almost the whole of this surplus was absorbed by the deterioration in the terms of trade as compared to their 1981 level. A fairly large portion also went to net factor payments to the rest of the world -an item which has diminished in recent years but still amounted to nearly 3% of the region's GDP. This means that Latin America transferred current resources, at 1980 prices, equivalent to 8% of GDP as a consequence of the decline in the region's terms of trade and its still sizeable factor payments (mostly interest) to the rest of the world. Accordingly, real gross national income in 1992 was 8% lower than real GDP (see table IV-3).

The large outward transfers of current resources that had to be made during the 1980s were mainly financed through a reduction in gross capital formation, whose share of GDP shrank from almost 23% in the 1970s to less than 17% in 1984, whereupon it hovered around that level until 1990. Starting in 1991 gross capital formation made somewhat of a recovery, and in 1992 it reached nearly 18% of GDP, although this was still far below its past levels. Consumption's share, for its part, slipped by over 2 points of GDP between 1981 and 1989, but by 1992 its subsequent improvement had almost returned it to the levels seen in the early 1980s. Because of this trend, consumption made a much smaller contribution than investment did to the transfer of resources. Nevertheless, the level of per capita consumption -which jumped by 3.4% in 1992- was still 7% lower than the 1980 figure, chiefly because of the decreases recorded during the first half of the 1980s (see table IV-3).

In 1992, per capita private consumption in Argentina, Chile, Panama, Uruguay and Venezuela swelled by between 8% and 14%, and in another five countries (Costa Rica, Dominican

Figure IV-1

LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS AND SERVICES AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT [a]



Source: ECLAC, on the basis of official figures.

"Countries are listed In the order of their export coefficients for the period 1979-1981.

Republic, Guatemala, Mexico and Nicaragua) the increase was on the order of 4% or 5%. In three countries (Bolivia, Colombia and El Salvador) per capita private consumption was up very slightly or held steady, and in three others (Ecuador, Honduras and Paraguay) it was down by a moderate amount. In Brazil, Haiti and Peru, on the other hand, the slide was a steep one (about -4%). Thus, per capita consumption declined in only one fourth of the countries of the region, which is an improvement over the situation in the 1980s, when reductions in this indicator of well-being were widespread. None the less, the upswing seen in 1991 and 1992 constituted no more than a very incomplete recovery from the downturn in this variable that occurred between 1981 and 1990. Indeed, per capita private consumption was higher in 1992 than it had been at the start of the 1980s in only six of the 19 countries for which information was available. In three of those six, (Chile, Colombia and Panama), the cumulative rise ranged from 12% to 16%, while in another two (Paraguay and Uruguay) it was only 4% and in Mexico it barely edged past its 1980 level. Be that as it may, the increases in this indicator in Mexico and Uruguay were due to a sharp upturn in private consumption -starting in 1988 in Mexico and in 1991 in Uruguay- which more than outweighed the deterioration of the mid-1980s. In Paraguay, however, the aggregate figure for private final consumption includes sales to visitors from neighbouring countries, which have skyrocketed in recent years. The largest cumulative decreases in per capita private consumption were in Costa Rica, Haiti and Nicaragua (between 27% and 30%), followed by Ecuador, Honduras and Peru (between 17% and 19%), while in Argentina, Bolivia, Brazil, El Salvador and Guatemala, this indicator still stands at between 8% and 13% below its 1981 levels (see figure IV-2).

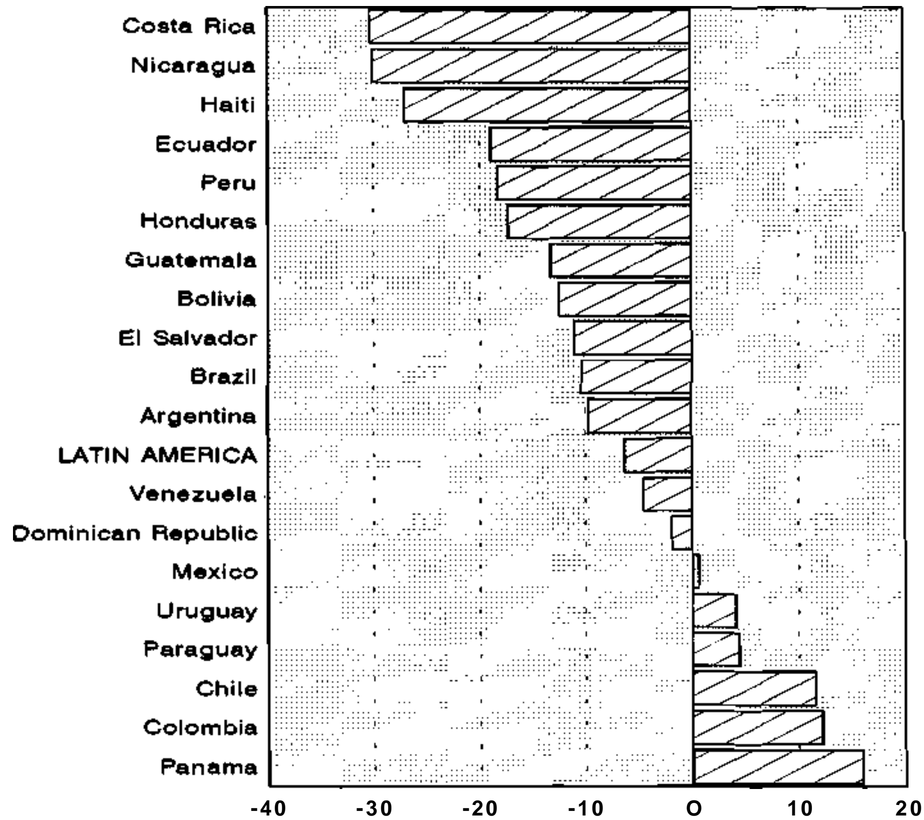
4. **Investment and its financing**

The upturn in investment that had begun in 1991 strengthened in 1992, raising the regional coefficient of gross capital formation to nearly 18% of GDP, although this was still below the levels recorded until 1981. Investment coefficients, for their part, rose in almost all countries of the region, with particularly notable increases being registered in Argentina (from 17.4% to 19.3%), Chile (from 16.7% to 20.1%), Costa Rica (from 20% to 24.1%), Dominican Republic (from 17.2% to 20.2%), El Salvador (from 14.5% to 18.5%), Guatemala (from 12.9% to 16.5%), Panama (from 16.8% to 24.2%) and Venezuela (from 18.2% to 22.2%). The steepest decline in the coefficient for gross capital formation was in Haiti, where it fell by over 7 points of GDP, while in Brazil and Paraguay the reduction bordered on one percentage point (see table IV-4). The improvement in gross capital formation was reflected in a considerable expansion of imports of capital goods, whose value climbed by 28%; especially large increases were observed in the cases of Argentina (an 85% rise), Guatemala (77%), Venezuela (49%), Costa Rica (41%), Chile (37%), Mexico (35%), El Salvador (31%), Colombia and Panama (30%). In contrast, Brazil's imports of capital goods fell by over 4% as a result of sluggish investment and the recession affecting the entire country.

Despite the upward trend in gross capital formation in 1991 and 1992, the regional coefficient of gross fixed investment for the period 1990-1992 was somewhat less than 17%, which is considerably less than the 23% figure registered for the period 1979-1981. This decline was widespread, although its characteristics were not the same in all the countries of the region. During the most recent three-year period, most of the countries recorded significantly lower average coefficients than they had prior to the crisis of the early 1980s; in a few countries, however, investment rates plunged but then rapidly recovered. Thus, between the above two periods the investment coefficient slipped by around 10 points of GDP in Argentina, Uruguay

It may be supposed that the volume of capital goods imports tended to grow at much the same pace as their value, since the unit prices of imports of manufactures remained virtually constant in 1992.

Figure IV-2
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA PRIVATE CONSUMPTION
(Cumulative percentage variation 1981-1992)



Source: ECLAC, on the basis of official figures.

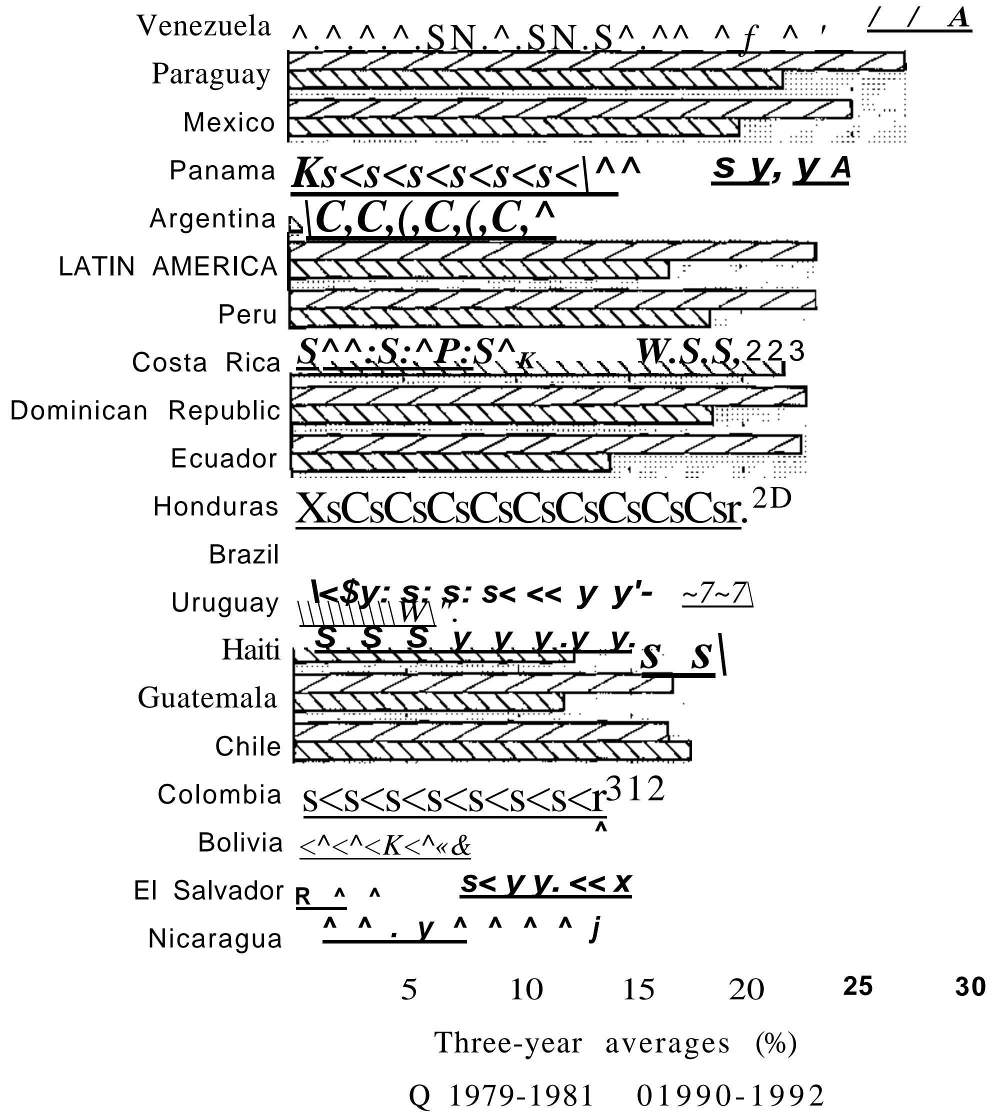
and Venezuela and by between 4 and 8 points of GDP in Brazil, Ecuador, Haiti, Honduras, Mexico, Panama, Paraguay and Peru. Bolivia, Colombia, Costa Rica and Guatemala were not successful in bringing their investment levels back up to the percentages of GDP they had reached in 1979-1981 either. The only countries that managed to do so were Chile, Dominican Republic, El Salvador and Nicaragua, and in almost all of these countries an extraordinarily sharp increase in investment was observed in 1992 (see figure IV-3).

Domestic saving sagged once again -this time quite moderately- for the fourth year running, although it was still above 22% of GDP, after having reached 25% in 1987-1988; even so, it remained high, inasmuch as it was nearly 5 points of GDP higher than the investment coefficient. National saving also slipped slightly, to a little more than 14% of regional GDP. External saving, which had been below 2% in 1991 after having descended to less than 1% in 1989 and 1990, was up sharply, to over 3% of GDP, and thus contributed almost 20% of total investment finance (see table IV-5).

Under these circumstances, the appreciable gap between the domestic saving rate and the still low investment coefficient narrowed from 6.4 to 5.3 points of regional GDP. Although the lost income attributable to the progressive deterioration of the terms of trade since 1980 -which sharpened in 1992- and to net factor

Figure IV-3

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



Source: EC LAC, on the basis of official figures.

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

service payments -which were lower- resulted in a low level of gross national saving, the contribution made by net flows of external savings has become significant once again. Given the headlong growth of capital flows since 1991, the contribution of external savings (which include net capital income from the build-up of international reserves) in 1992 was at its highest level since 1983, but even so was one third lower than it had been in 1980-1982. The deterioration of the terms of trade as compared to 1980, which was equivalent to 6% of real GDP, absorbed over 25% of domestic savings in real terms. In addition, outbound flows of profits and interest payments still took up almost another 13% of gross domestic savings, even though they have gradually diminished since 1990. Thus, since nearly 40% of domestic savings appear to flow out of the region via these two routes and since the inflow of external capital to the region, although large, is not large enough to offset this, then as long as the conditions persist in the world economy that drive down commodity prices and, hence, the region's terms of trade, the region will have to make a greater domestic saving effort if it is to boost its investment levels. Furthermore, once the world economy picks up again, the momentum of the trend, which will continue to push the terms of trade downward, will still have to be counteracted with increases in domestic saving or a higher marginal efficiency of capital until changes in the region's production patterns shift the export mix more towards goods whose markets do not display a tendency to weaken.

Table IV-1

LATIN AMERICA AND THE CARIBBEAN: TOTAL SUPPLY, DOMESTIC DEMAND AND GROSS NATIONAL INCOME [a]

(Indexes and growth rates)

	Indexes (1980 = 100)			1988	1989	1990	1991	1992[b]	Cumulative vanatiotl
	1990	1991	1992"						1981-1992[b]
1. Total supply (2 + 3)	109.8	115.5	121.1	1.6	1.0	1.2	5.2	4.8	21.1
2. Gross domestic product at market prices	112.5	116.8	120.4	0.8	0.9	0.3	3.8	3.0	20.4
3. Imports of goods and services	92.3	107.1	125.5	9.3	2.0	9.2	16.0	17.2	25.5
4. Exports of goods and services	167.2	171.2	180.1	7.7	5.1	5.0	2.4	5.2	80.1
5. Domestic availability of goods and services (2 + 3-4) =	101.8	107.8	112.9	0.4	0.2	0.4	5.8	4.7	12.9
domestic demand (6 + 7)	101.8	107.8	112.9	0.4	0.2	0.4	5.8	4.7	12.9
6. Final consumer expenditure [c]	109.3	115.5	119.4	0.5	1.1	0.8	5.7	3.4	19.4
7. Gross fixed capital formation	77.1	82.2	91.2	0.0	-3.9	-1.6	6.6	10.9	-8.8
8. Net factor payments to rest of world	157.9	138.2	128.1	3.0	5.8	-11.0	-12.5	-7.3	28.1
9. Real gross national income (2 - 8)	105.4	110.1	113.6	0.5	0.8	0.3	4.5	3.2	13.6

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. Includes unrequited private transfers and terms-of-ttade effect.

Table IV-2

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTIONS TO GROWTH OF GROSS DOMESTIC PRODUCT

(Average annual 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 HnmpQtip product
	Government	Private [a]						
Latin America and the Caribbean								
1981-1983	0.2	-1.8	-2.3	-4.0	0.9	-3.1	-1.9	-1.1
1984-1987	0.3	2.2	0.6	3.1	0.8	3.8	0.5	3.3
1988-1990	0.2	0.4	-0.3	0.3	1.1	1.4	0.8	0.6
1991	0.6	3.7	1.1	5.4	0.5	5.9	2.1	3.8
1992	0.4	2.2	1.8	4.4	1.1	5.5	2.5	3.0
Argentina								
1981-1983	-0.2	-2.1	-2.6	-5.1	1.0	-4.0	-2.1	-1.8
1984-1987	0.4	1.0	0.2	1.6	-0.2	1.4	0.2	1.2
1988-1990	0.7	-4.1	-2.0	-5.4	1.8	-3.4	-0.6	-2.8
1991	1.6	7.8	3.9	13.3	-1.5	11.8	2.9	8.9
1992	1.6	6.6	4.7	12.8	0.1	12.9	4.3	8.6
Bolivia								
1981-1983	-0.3	-0.1	-2.0	-2.4	-1.2	-3.6	-1.0	-2.5
1984-1987	-0.2	0.7	1.1	1.5	-0.7	0.9	1.3	-0.4
1988-1990	0.3	-0.2	0.0	-3.2	3.0	3.0	-0.6	3.6
1991	0.1	7.4	1.3	8.9	0.4	9.3	4.7	4.6
1992	0.6	5.1	0.8	6.5	-1.6	5.0	2.2	2.8
Brazil [b]								
1981-1983	0.2	-2.5	-2.5	-4.8	0.9	-3.8	-1.3	-2.4
1984-1987	0.4	4.1	1.4	5.7	0.7	6.3	0.2	6.1
1988-1990	0.0	0.4	-0.7	-0.3	0.3	0.0	0.5	-0.5
1991	0.4	2.1	-0.7	1.8	-0.1	1.7	0.8	0.9
1992	-0.1	-2.8	-0.8	-3.7	2.4	-1.3	-0.4	-0.9
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	2.9	4.8	-0.3	5.0
1988-1990	0.6	2.7	0.1	3.4	1.2	4.5	0.7	3.9
1991	0.2	1.7	-1.2	0.7	0.7	1.4	-0.5	1.9
1992	1.3	2.3	2.2	5.8	1.4	7.2	3.7	3.6
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
1988-1990	0.5	0.1	1.8	2.4	4.9	7.1	3.3	4.0
1991	-0.1	-3.5	-3.0	-6.6	4.2	-2.4	-4.6	2.1
1992	0.5	3.8	3.8	8.1	8.9	17.0	9.8	7.2
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
1988-1990	0.3	4.0	2.1	6.2	2.9	8.8	2.7	6.3
1991	0.3	3.4	-0.2	3.5	4.3	7.8	2.0	5.8
1992	0.4	7.5	3.4	11.3	4.4	15.6	5.4	10.3

Table IV-2 (cont.)

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*						
Ecuador								
1981-1983	-0.2	-0.3	-2.5	-3.0	0.4	-2.5	-3.5	1.0
1984-1987	-0.2	1.7	0.4	1.9	1.9	3.7	2.5	1.3
1988-1990	0.0	-1.2	-0.6	-1.8	3.2	1.5	-2.2	3.6
1991	-0.2	2.3	1.3	3.4	3.9	7.3	2.6	4.7
1992	-0.7	0.1	1.2	0.6	2.9	3.5	0.2	3.3
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
1988-1990	0.1	2.5	-0.3	2.3	0.6	2.9	0.9	2.0
1991	0.8	2.0	2.4	5.1	-0.4	4.8	1.4	3.3
1992	0.4	2.9	4.0	7.2	2.2	9.5	5.0	4.5
Guatemala								
1981-1983	0.1	-1.5	-1.7	-3.2	-1.5	-4.8	-2.9	-1.7
1984-1987	0.3	1.6	0.1	2.0	-0.2	1.8	1.0	0.8
1988-1990	0.4	2.3	0.3	2.9	1.5	4.3	0.9	3.5
1991	0.2	5.4	0.4	6.0	-1.0	5.0	1.5	3.5
1992	0.5	7.8	3.3	11.6	1.5	13.1	8.4	4.7
Haiti[0]								
1981-1983	0.2	-4.0	0.1	-3.7	1.1	-2.5	-0.6	-1.9
1984-1987	0.3	0.7	0.2	1.2	-1.7	-0.4	-0.5	0.0
1988-1990	-0.1	0.8	-1.6	-0.9	-1.3	-2.2	-2.8	0.6
1991	-0.2	3.1	1.3	4.2	-0.3	4.0	4.3	-0.3
1992	1.1	-5.4	-9.2	-13.4	-6.6	-18.3	-9.9	-8.4
Honduras								
1981-1983	-0.2	1.0	-2.5	-1.6	-1.4	-3.1	-3.2	0.2
1984-1987	0.8	1.4	-0.2	2.0	1.3	3.2	-0.2	3.4
1988-1990	-0.1	2.8	1.8	4.4	0.0	4.4	1.4	3.0
1991	-1.2	3.1	1.5	3.4	-0.1	3.2	1.0	2.2
1992	0.0	1.2	1.9	3.2	3.3	6.5	2.6	3.9
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
1988-1990	0.1	3.6	1.4	5.0	0.8	5.8	2.9	3.0
1991	0.4	3.2	1.5	5.2	1.2	6.3	2.7	3.6
1992	0.2	3.6	2.7	6.5	0.1	6.6	3.9	2.6
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	-3.1	-1.6	0.2	-1.9
1988-1990	-7.0	-0.7	-2.4	-10.6	0.8	-9.6	-3.7	-5.4
1991	-11.8	21.8	-1.3	8.7	-3.0	5.7	6.1	-0.4
1992	-0.9	5.8	0.6	5.5	-2.8	2.8	1.9	0.8

Table IV-2 (concl.)

Country and period	Total demand						Total supply	
	Consumption		Gross fixed invest-ment	Domestic demand	Exports of goods and services	Total	Imports of goods and services	Gross domestic product
	Govern-ment	Private [a]						
Panama								
1981-1983	1.3	0.4	-0.7	1.0	0.6	1.6	-1.5	3.0
1984-1987	0.9	1.1	0.5	2.4	0.3	2.7	0.3	2.5
1988-1990	-1.8	1.9	-3.5	-3.4	0.2	-3.2	0.8	-4.1
1991	0.3	5.1	7.1	12.5	8.7	21.2	12.1	9.1
1992	0.8	1.6	7.3	9.7	7.8	17.5	9.5	8.0
Paraguay								
1981-1983	0.5	2.4	-1.9	1.1	-0.6	0.5	-1.1	1.6
1984-1987	0.2	3.7	0.6	4.3	2.2	6.3	3.7	2.9
1988-1990	0.3	1.2	1.8	3.2	8.0	10.8	6.1	5.2
1991	1.4	5.1	1.3	7.9	-4.4	3.5	1.2	2.3
1992	0.6	1.6	-1.5	0.8	-3.2	-2.4	-4.1	1.7
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	0.0	6.7	1.0	5.9
1988-1990	-1.1	-5.9	-1.9	-9.2	-0.7	-10.1	-1.3	-8.5
1991	0.1	2.9	1.3	4.3	-0.3	4.0	2.0	2.1
1992	0.2	-2.5	1.4	-0.8	-0.3	-1.1	1.6	-2.7
Dominican Republic								
1981-1983	0.8	2.2	-1.6	1.5	-0.1	1.4	-2.1	3.4
1984-1987	-0.5	0.3	3.1	3.0	0.4	3.4	1.1	2.4
1988-1990	0.6	0.9	-2.7	-1.1	1.2	0.1	0.2	-0.1
1991	-0.7	2.8	-2.9	-0.9	-0.2	-1.1	0.0	-1.0
1992	2.6	5.3	3.1	10.9	2.5	13.4	5.8	7.6
Uruguay								
1981-1983	0.1	-8.4	-3.2	-12.2	1.4	-10.5	-4.5	-5.4
1984-1987	0.6	4.6	-0.4	4.9	0.2	5.1	1.2	4.0
1988-1990	0.1	-1.1	-0.3	-1.3	1.9	0.7	-0.1	0.7
1991	0.2	5.4	1.6	7.3	-0.3	7.0	4.1	2.9
1992	0.8	9.1	1.7	11.6	1.7	13.3	5.9	7.4
Venezuela								
1981-1983	0.0	-1.0	-2.7	-3.7	-1.7	-5.5	-3.2	-2.2
1984-1987	0.2	1.7	-0.3	1.6	1.0	2.5	0.9	1.7
1988-1990	0.6	-2.6	-1.6	-3.7	3.1	-0.4	-1.8	1.4
1991	1.2	7.9	5.0	14.1	2.0	16.1	5.9	10.2
1992	0.6	8.1	3.9	12.6	-2.2	10.4	3.5	6.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
[a] Includes variation in stocks. 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 IV-3

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. expenditure	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	76.3	22.9	99.1	15.3	14.5	-2.2	2.1	95.8
1981	78.0	23.1	101.1	15.0	16.1	-0.8	3.7	95.6
1982	77.0	20.7	97.7	15.6	13.2	-2.6	5.1	92.4
1983	75.9	17.2	93.2	17.2	10.4	-2.9	5.0	92.3
1984	76.0	16.6	92.6	18.0	10.6	-2.5	5.2	92.5
1985	76.1	16.6	92.7	17.6	10.3	-3.1	4.8	92.3
1986	76.3	17.3	93.6	17.0	10.6	-4.5	4.4	91.3
1987	75.6	17.3	92.9	17.9	10.8	-4.8	3.9	91.6
1988	75.4	17.2	92.6	19.1	11.7	-5.0	3.9	91.3
1989	75.5	16.4	91.9	19.9	11.8	-5.1	4.1	91.2
1990	75.9	16.1	92.0	20.9	12.9	-5.6	3.7	91.3
1991	77.3	16.5	93.8	20.6	14.4	-5.7	3.1	91.9
1992°	77.5	17.8	95.3	21.0	16.4	-5.9	2.8	92.0

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
″ Nineteen countries. Includes variation in stocks. [c] Preliminary figures.

Table IV-4

LATIN AMERICA AND THE CARIBBEAN: INVESTMENT COEFFICIENTS

(Gross fixed investment as a percentage ofGDP)

	1980	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
Latin America and the Caribbean	**23.5**	**16.6**	**16.6**	**17.3**	**17.3**	**17.2**	**16.4**	**16.1**	**16.5**	**17.8**
Argentina	24.5	16.9	14.8	15.9	17.8	17.9	14.4	13.0	15.6	18.6
Bolivia	14.2	10.1	12.3	13.3	13.6	13.6	12.7	12.1	12.9	13.3
Brazil	22.9	16.2	16.4	18.6	17.8	17.0	16.6	16.0	15.2	14.5
Colombia	16.8	17.2	15.7	15.8	15.1	16.1	14.7	13.7	12.2	14.0
Costa Rica	23.9	17.7	18.5	19.6	20.7	19.3	21.2	23.4	20.0	22.2
ChUe	16.6	12.5	13.5	13.7	15.0	15.5	17.0	17.9	16.7	18.2
Ecuador	23.6	14.6	15.0	15.3	16.7	14.6	14.5	13.5	14.1	14.8
El Salvador	13.6	11.6	12.6	13.4	14.3	14.6	15.8	12.6	14.5	17.7
Guatemala	16.4	10.9	10.3	10.7	12.0	13.0	13.3	11.6	11.6	14.2
Haiti	17.2	19.2	21.2	18.8	19.3	19.2	18.2	14.3	15.6	8.8[b]
Honduras	24.5	18.6	17.5	14.0	14.2	15.3	19.0	17.9	19.0	20.1
Mexico	24.8	17.0	17.9	16.4	16.1	16.8	17.3	18.7	19.5	21.7
Nicaragua	14.6	18.7	19.8	18.7	19.1	19.4	16.2	14.4	13.1	13.7
Panama	24.1	18.8	19.2	20.4	20.0	10.8	8.8	11.0	16.6	22.1
Paraguay	27.2	20.1	19.4	20.0	20.4	19.8	20.7	22.1	22.9	21.0
Peru	23.5	18.1	15.7	17.1	18.8	17.7	16.1	17.3	18.3	20.2
Dominican Republic	23.9	18.8	19.0	21.8	27.7	25.5	26.5	19.9	17.2	18.9
Uruguay	21.0	10.8	8.5	8.9	10.4	10.9	10.7	9.5	10.8	11.7
Venezuela	29.0	19.0	20.3	20.7	20.1	20.6	16.7	14.7	17.9	20.4

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

″ Preliminary figures. Refers to gross domestic investment.

Table IV-5

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS CAPITAL FORMATION [a]

	l^J}'	1980	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
	Percentages of gross domestic product										
1. Gross domestic savings	24.0	23.0	23.8	24.6	23.3	24.9	25.1	24.7	23.4	22.8	22.4
2. Net external factor payments	2.0	2.6	5.2	4.8	4.4	3.9	3.9	4.1	3.7	3.1	2.8
3. Unrequited private external transfer payments	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.6	0.7
4. Terms-of-trade effect	-2.5	0.0	-2.5	-3.1	-4.5	-4.8	-5.0	-5.1	-5.6	-5.7	-5.9
5. Gross national savings (1-2 + 3+4)	19.6	20.5	16.3	16.8	14.6	16.6	16.4	15.9	14.6	14.6	14.4
6. External savings	3.2	4.2	0.1	0.5	2.3	1.3	1.2	0.7	0.7	1.9	3.3
7. Gross capital formation (5 + 6)	22.8	24.7	16.4	17.3	16.9	17.8	17.6	16.6	15.4	16.6	17.7
	Other coefficients										
Domestic savings/gross capital formation	105.4	93.3	145.1	142.2	137.6	139.8	142.2	148.8	152.1	137.5	126.3
Terms-of trade effect/ domestic savings	-10.3	0.0	-10.4	-12.6	-19.4	-19.2	-19.8	-20.5	-23.8	-24.9	-26.2
Net external factor payments/domestic savings	-8.3	-11.4	-22.0	-19.7	-18.9	-15.5	-15.7	-16.8	-15.7	-13.6	-12.4

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

[a] Nineteen countries [b] Preliminary figures.

V. EMPLOYMENT AND WAGES

The economic growth achieved by the Latin American and Caribbean countries within a context of price stability led to an improvement in the overall employment situation due, in particular, to an upturn in real wages. Employment rose in the formal sector, although the urban unemployment rate held steady at over 5% of the labour force. Nevertheless, the trend in formal-sector employment was quite mixed owing to the unevenness of economic growth rates, which were low in some cases and were actually negative in three countries. The situation was quite similar to what it had been during the 1980s in that a sizeable rise in employment was observed in some countries, while in others employment levels were lower. On the other hand, there was a widespread increase in wages -something that had not been seen since the crisis of the early 1980s- thanks to the region's economic growth and, in particular, the significant decrease in inflation.

The average rate of open unemployment in Latin America's 20 largest cities was the same as in 1991 (5.4%), thus remaining in the 5.2%-5.8% range within which it had fluctuated for the four preceding years as well. In contrast, in the early 1980s when the crisis was at its peak, the rate had been above 8%. In 1992, open unemployment declined in six of the 15 countries for which information was available; moreover, in four of those countries (Bolivia, Costa Rica, Panama and Venezuela), the decreases were greater than 1.5% of the labour force. Furthermore, where unemployment levels did rise, the increase was small (less than 1 % of the labour force) except in the cases of Brazil, Peru and Nicaragua (see tables V-l and V-2).

Despite this improvement in the open unemployment rate, there was no significant change in terms of the instability of employment in the region in 1992 owing to the high level of underemployment, which was a more important factor than the open unemployment rate in urban areas. The informal sector expanded swiftly during the 1980s and then leveled out at around 25% of the urban labour force late in that decade. The absorption capacity displayed by the informal sector forestalled a much larger increase in open unemployment, but it did so through the expansion of low-productivity activities which leave workers without social security coverage. The expansion of the informal sector has varied from one country to another, and it may even have grown smaller in some countries thanks to the significant economic growth of the last two years; be that as it may, the level of employment in these activities remained above its 1980 levels except in the case of Chile, where it has been sharply reduced.

In Brazil, on the other hand, informal activities had decreased in proportional terms in the late 1980s but have been on the rise again since 1990 due to the serious recession in that country, which has been particularly severe in the industrial sector.

Chile's remarkable economic growth led to a significant increase in formal employment and a drop in unemployment. High growth rates in Costa Rica, Panama and Venezuela also contributed to a steep reduction in unemployment rates. In Bolivia and, to a lesser extent, in Guatemala, unemployment levels were also down thanks, in particular, to the notable expansion of the construction industry, since other economic activities were less robust. In

See the Regional Employment Programme for Latin An ica and the Caribbean (PREALC), "El empleo urbano: diagnóstico y desafío de los noventa", PREALC Informa, No. 29, Santiago, lile, April 1992.

Colombia, the level of unemployment was fairly stable while the employment rate rose; this was especially the case in the construction sector, where the increase was extremely sharp and thus offset the contraction observed in other sectors. In contrast, the upturn in Argentina's level of activity did not lower unemployment levels because the labour supply expanded faster than the population did and because the level of output per employed person increased considerably. GDP growth did not bring down unemployment levels in Uruguay either because the economic activities that experienced substantial growth, such as commerce, generally chose to extend existing employees' working hours rather than to hire additional personnel. Mexico's slackening growth rate and the restructuring of its production apparatus led to a decrease in manpower strength in the manufacturing sector, but the number of workers in the *maquila* industry soared. Even so, open urban unemployment climbed slightly to a bit less than 3% of the economically active population. In El Salvador, the unemployment rate was up, but the rate of underemployment has fallen substantially in the past two years owing to an upswing in the level of activity. In Ecuador, too, urban unemployment was higher despite an expansion of activity in all sectors except construction. The persistence of the recession in Brazil, Nicaragua and Peru continued to have a negative impact on formal-sector employment trends in those countries. However, the expansion of the informal sector in Brazil warded off a marked rise in the open unemployment rate, although labour instability was exacerbated as a result. In Peru, the slight improvement in employment levels in 1991 was wiped out in 1992 as the recession deepened. Nicaragua's adjustment programme and its institutional reorganization continued to have a dampening effect on employment, and the rate of open unemployment therefore rose appreciably (see tables V-l and V-3).

As a consequence of the above trends, most of the countries' unemployment rates remained higher than they had been immediately prior to the outbreak of the economic crisis that hit the region in the early 1980s; the exceptions were Brazil, Chile, Costa Rica, Honduras, Mexico and Peru. Moreover, in a number of countries the level of employment in the manufacturing sector remained below its 1980 level. During the preceding decade employment in manufacturing had diminished or remained at a standstill in many countries and had followed an upward trend only in Cuba, Panama, Guatemala and Venezuela. Chile witnessed a steady recovery of the level of employment in the manufacturing sector after it had plummeted by nearly 30% in 1981-1982, with the result that this rate has climbed by 32% between 1980 and 1992. In Brazil, on the other hand, employment in manufacturing fell by 24% during the same period. In Peru the number of persons employed in manufacturing was 31 % lower than it had been in 1980, but most of this contraction (28%) occurred in the past five years. In Mexico, manufacturing employment was slightly higher than in 1980 thanks to the creation of 380,000 jobs in the *maquila* industry, which cancelled out the 10% decrease observed in the rest of the sector (see table V-3).

A widespread increase in the average real wage was seen in the region thanks to the strong economic growth of some countries and the marked slow-down in price increases registered in countries which had previously suffered from high inflation. In Chile and Mexico, average wages again climbed considerably, thereby deepening the upward trend of recent years, and the recoveries which Peru and Uruguay had embarked upon in 1991 continued in 1992. After having fallen in past years, real wages rose in Brazil, Costa Rica, Guatemala and Venezuela; in Panama they held steady and in Argentina they declined slightly owing to a slowing of the rate of nominal wage hikes. In Paraguay, on the other hand, real wages were off sharply (-3.4%) due to a more rapid rate of inflation.

Despite this widespread upturn, real average wages for 1992 were still below their 1980 levels in most countries of the region because of the steep decrease in wages that occurred during the 1980s. Very few countries escaped this trend, but one of those few was Chile, where real wages have been steadily rising for the past five years, marking up a cumulative increase of 24% that has boosted them to record highs. Real average wages in Brazil, Colombia and Panama were also above the figures for 1980, but have not yet

bested the highest levels reached during that decade. In Brazil, thanks to the upswing in wages seen in 1992, real wages in the city of Sao Paulo were more than 20% higher than in 1980, although they were 19% lower than their 1989 level. In Colombia real wages rose after having declined for two years, with the result being that 1992 wages were slightly below their 1986 level, which was a record high for the country. In Panama real wages remained at a standstill in 1992 after having climbed in 1991 in response to the normalization of economic activity, but in Paraguay they fell once again, this time to a level slightly below that of 1980 after having remained above that level for four years running. In Costa Rica, Guatemala, Mexico, Nicaragua, Peru, Uruguay and Venezuela, the increase in average real wages led to a partial recovery (although in some cases the improvement was very small indeed) of purchasing power that had been lost as a result of the economic crisis and the adjustment processes of the 1980s. In Nicaragua, real wages were significantly higher for the fourth year in a row, but even so they were very low -less than one fifth of what they had been in 1980- owing to the steep drop-off in wages seen in the 1980s. In Peru, real wages were less than 40% of the 1980 level. The situation was much the same in Venezuela, where, despite a substantial increase in 1992, real wages remained less than one half of what they had been in 1980, and in Argentina, where real wages remained 20% below their 1980 level.

The minimum wage -a social policy tool and instrument of macroeconomic regulation- underwent a further decline in real terms in seven countries and rose in only four (Chile, Dominican Republic, Honduras and Venezuela) in relation to the preceding year while still remaining below their 1980 levels. The real minimum wage was higher than it had been in 1980 in only three countries for which information was available (Colombia, Costa Rica and Paraguay), whereas in another eight countries it remained considerably below that figure, ranging from between 15% and 60% of its 1980 value (see table V-5).

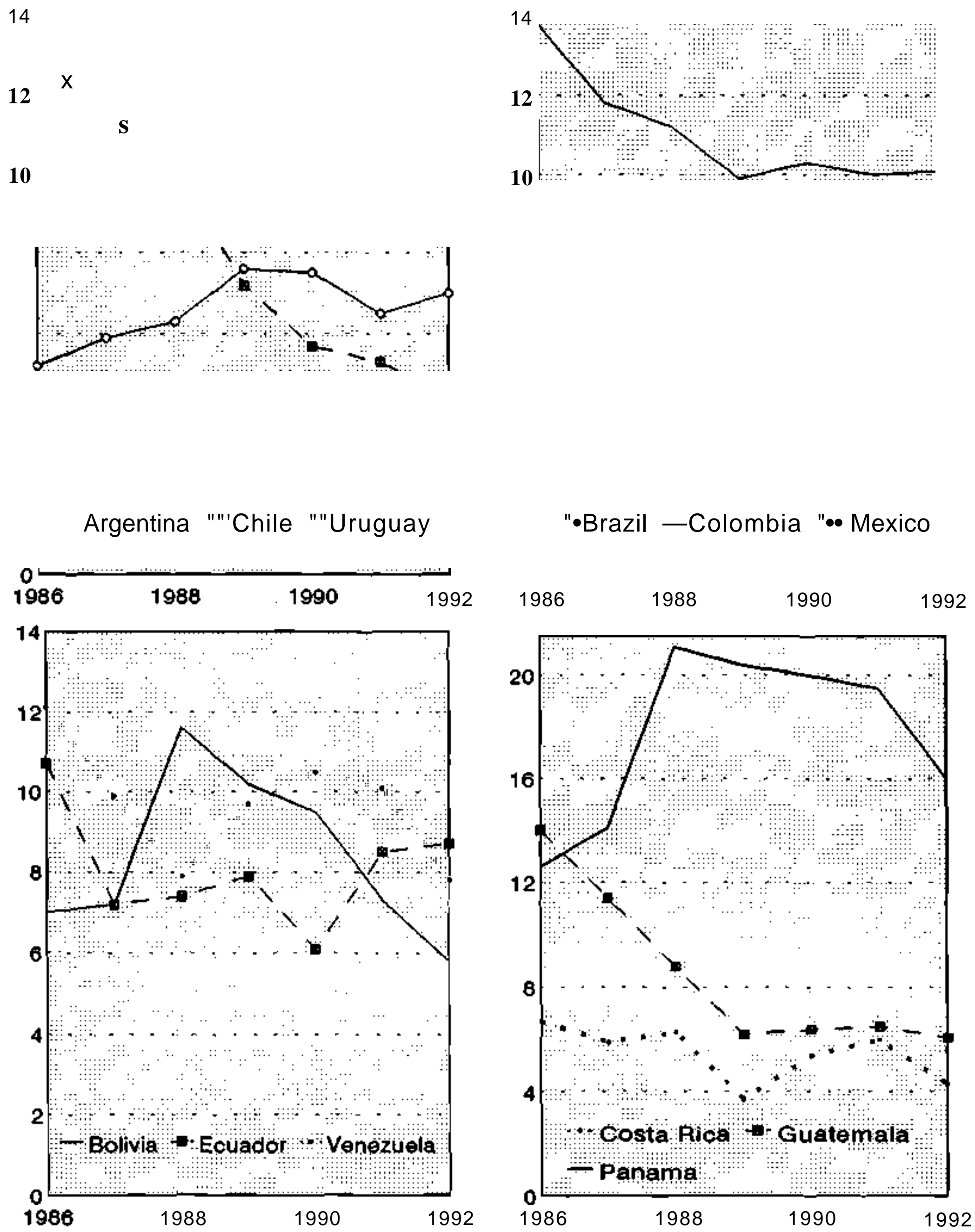
In Argentina, urban employment climbed by 2.1% between October 1991 and October 1992, which was faster than the population's growth rate. This increase came mainly from the construction industry and from private services; at the same time, however, the demand for labour in the public sector and in manufacturing declined and the supply of labour rose at a rate that outstripped the natural population growth rate. Thus, since the urban labour force expanded from 39.5% to 40.2%, its increase outdistanced new job creation, and the open urban unemployment rate therefore moved up from an average of 6.5% to 7%, although the rate varied significantly among the major cities: in Buenos Aires unemployment climbed by over 1%, in Córdoba it rose slightly and in Mendoza it held steady, while in Rosario it descended from 10% in 1991 to 9% in 1992. The rate of increase in nominal wages slowed in comparison to its pace of the year before, resulting in a slight reduction in wages in real terms. Average industrial wages therefore remained around 20% below their 1980 level and the real minimum wage continued to slip, falling to less than one half the 1980 legal minimum wage. Collective bargaining agreements remained in effect in 1992, but were prohibited by the Convertibility Act from including any explicit wage indexation provisions in employment contracts as well as being required to limit wage adjustments to the amount dictated by increases in productivity. The overall objectives of the country's labour policy in 1992 were to reduce the non-wage components of labour costs and to make hiring systems more flexible.

Urban unemployment rose in **Brazil** in 1992 to nearly 6% of the labour force. Employment levels also declined in the manufacturing sector (-6.2%) and in construction, and the downward trend of recent years therefore continued. This was primarily due to the persistence of a severe economic recession and to spiraling inflation (with monthly rates of up to 30%) within an atmosphere of mounting uncertainty caused by the political crisis that broke out midway through the year and by the failure of repeated stabilization efforts. The decline in employment in the manufacturing sector was largely a consequence of the fact that the production apparatus is currently undergoing a restructuring process. As a result of this process, more and more companies' manning tables have been

Figure V-1

UTIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): URBAN UNEMPLOYMENT

(Average annua/ rafes)



Source: ECLAC, on the basis of official figures.

reduced to a minimum in accordance with new parameters of industrial organization. It is also true, however, that this process has contributed to the growth of the informal sector, as a constellation of small and medium-sized satellite firms have grown up around major enterprises; a large percentage of the manpower used by these satellite firms are own-account workers and personnel who work without benefit of employment contracts, and these members of the workforce are therefore not covered by any sort of social insurance system whatsoever.

Wage trends differed markedly in the various sectors of the economy. Whereas wages for employees of the federal government dropped sharply (by around 7%), wages in manufacturing rose considerably following large reductions in earlier years. There was no sign of a matching recovery, however, in the wage levels of the vast majority of urban workers who are concentrated in small and medium-scale businesses and in informal activities. The increase in the manufacturing sector's wages was chiefly due to wage hikes in large companies and has been based on the higher level of efficiency to which the country's industrial modernization and reorganization effort has given rise. For quite some time now these firms have been operating on the basis of their own rules, which are much less restrictive than those laid down by official wage policy, and have thus been making monthly adjustments in keeping with the inflation rate and awarding large pay raises in real terms during yearly wage negotiations. The substantial increase registered in 1992 was partly due to the fact that real wages had fallen sharply in 1991 as the inflation rate picked up speed at a time when monthly adjustments were still infrequent. It should be noted that legislation relating to wages, whose chief aim is to limit automatic indexation, has generally affected unskilled workers who are usually employed by small firms. In response to the notable decrease in the remunerations of this category of wage-earners, a new wage act was passed in late December which called for more frequent readjustments at rates increasingly closer to the variation in consumer price indexes in order to mitigate the loss of purchasing power of workers' incomes occasioned by high inflation.

In addition, the minimum wage continued to be adjusted once every four months and fell by 4% in real terms in the course of the year, in contrast to the significant recovery seen in 1991 thanks in part to legal provisions adopted to help boost the purchasing power of the lowest-income groups. The real average minimum wage remained far below its 1980 level, and the acceleration of inflation prevented it from making a recovery; because of this situation, the new wage act passed at the close of 1992 extended the system of bimonthly advances to include minimum wages (see table V-5).

In Colombia, the employment situation did not change to any great degree from what it had been in 1991. The number of employed persons rose, but since the participation rate was higher as well, unemployment remained at around 10% of the labour force. Unemployment did tend to decline somewhat up to September but this trend reversed itself in the final quarter, and the rate for December was therefore 0.5% higher than at the end of 1991. Employment was up slightly in the manufacturing sector and climbed more steeply in the construction industry due to this activity's considerable expansion. Real average wages increased by 6%, which offset the decreases of the two preceding years and returned this wage level to a point 20% above the 1980 figure. The minimum wage fell, however, for the third consecutive year and was thus only 2% higher than its 1980 level.

In **Chile,** the labour market did very well, and all the employment and wage indicators exhibited major improvements as a consequence of the appreciable rise in the level of economic activity following a number of years of steady growth; this was reflected particularly clearly in the construction industry, manufacturing and services, as well as in the consolidation of the country's stabilization process and in a further slowing of the inflation rate. The average annual rate of urban unemployment dropped from 5.3% in 1991 to 4.9% in 1992, but the level fell more sharply in the second half of the year, with the result that it stood at just 4.4% for the fourth quarter. Employment in manufacturing jumped by 8%, for a 32% increase over the 1980 figure. Average remunerations swelled by nearly 7% in real terms thanks to higher productivity and

lower inflation. The real minimum wage increased for the fifth year in a row, which, as in past years, was made possible by the tripartite agreement signed by the Government and the main trade-union and employers' associations. This upswing boosted the minimum wage back up to its 1980 average for the first time since the crisis of the early 1980s (see tables **V-4** and V-5).

In **Mexico,** employment in the formal sector of the economy weakened throughout the year and there was a small increase in the size of the unemployed population, but the problems troubling the agricultural sector led to an actual decrease in the number of persons employed in productive jobs in rural areas. In manufacturing, the adjustment and the slow-down of the economy cut the employed workforce by another 4% following a drop of about 2% in 1991. Much the same thing occurred in extractive industries owing, in particular, to the reorganization of the petroleum industry. The privatization of the banking system also led to large staff cuts. In some sectors an upward trend in employment levels was evident, however. An especially notable increase was seen in the construction and *maquila* industries; in the latter, whose payrolls include one-half million workers, the employment level jumped by over 8%. This development notwithstanding, open urban employment rose slightly, from 2.6% to 2.9% of the economically active population, between 1991 and 1992. The number of persons covered by the Mexican Social Security Institute increased by 2.6% in 1992 owing both to the entry of new members and the steps taken to ensure employers' compliance with legal requirements. Nevertheless, the expansion of informal-sector employment led to a polarization of the labour market, which thus came to be composed, on the one hand, of a fairly stable segment of workers employed in formal activities and, on the other, of a growing number of workers who lack coverage under existing social security systems.

Wage policy was governed by the Pact for Stability and Economic Growth (PECE), under whose provisions adjustments in the nominal minimum wage were suspended in 1992. Given these circumstances, wage trends were uneven in the various sectors of activity and the different occupational categories. Large companies having collective labour contracts awarded the largestwagehikes, with increases averaging 15% during the first half of the year but decreasing during the second half as the projected rate of inflation declined. In the manufacturing sector, average wages mounted by almost 10% in real terms in 1992 as the employment level descended. The retooling of production and administrative systems, improvements in efficiency and a shortage of skilled personnel in some industrial activities were also influential factors. The formal sector of the construction industry raised wages by over 3% in real terms, while in May the public sector awarded a nominal increase of 20% (which was more than average wage adjustments in other sectors) to teachers as part of its plan for improving the wages of instructional staff. Moreover, the real minimum wage dropped by over 3%, thereby prolonging the long-standing downturn that has lowered this wage to a level close to 60% of the 1980 figure. The proportion of the population employed in minimum-wage jobs did shrink, however.

In **Peru** employment decreased and the rate of unemployment increased accordingly, owing to an economy-wide slump in production which was mirrored in the downward movement of sectoral employment indexes : an 11 % drop in the manufacturing sector, 16% in commerce and 11% in services. The level of industrial employment was therefore 30% below the 1980 figure, reflecting the long downward slide that has lasted more than a decade, with only a brief respite in 1986 and 1987. Wages showed a moderate increase, however, after having risen appreciably the year before. Even so, at less than 40% of the level reached in the early 1980s, industrial wages were still very low. The real minimum wage remained at a standstill and thus continued to represent no more than 16% of its 1980 level.

The expansion of economic activity in **Venezuela** boosted both employment and wages. The rate of unemployment was reduced by more than 2% of the labour force, which brought it down to less than 8%, the lowest level in at least the past 10 years. Employment rose at a slightly faster pace in the secondary sector than it did in the primary and services sectors, and the latter's

share of total employment shrank as a consequence of migration from rural areas to the cities, in the case of agriculture, and of the relatively slower growth of the mining and hydrocarbons industry. Unemployment decreased to 7% in the manufacturing sector thanks to the steep rise in its level of activity and dropped considerably in the construction industry, although it was still very high in comparison to other sectors. Wages increased so sharply (10%) that average income rose in both urban and rural areas for the first time in years. The real minimum wage was also higher, climbing by 10% in urban areas and by 18% in rural zones. The Government contributed to this positive trend in wages by raising the level of remunerations for civil servants. An increase in the transportation subsidy received by wage-earners and e mployees of the public and private sectors was another factor (see tables V-4 and V-5).

The employment situation in **Bolivia** improved thanks to the increase in output, especially in construction; consequently, the open unemployment rate dropped by 1.5 % of the labour force to less than 6%. In addition, real remunerations in the private sector climbed by more than 4%. The increase was the most marked in the country's burgeoning construction industry, and in the mining sector it amounted to 11%, but the rise in the manufacturing sector was a meagre 2%. This upward trend in wages was also evident in the public sector, where average remunerations jumped by 10%.

In **Ecuador,** the rate of open urban unemployment edged upward to 8.7%, while the rate of underemployment increased from 48% to 53% of the labour force. Even though the minimum wage was raised to 60,000 sucres, in June its annual average in real terms dropped by 3 %, which pu t the real minimu m wage at no more than about one third its 1980 level. The special allowances that supplement the minimum wage were also raised, and it was stipulated that a fifteenth monthly wage should be paid each year starting in December 1992 for the private sector and January 1993 for the public sector.

In Paraguay unemployment rose slightly in urban areas as economic activity slackened and increased further in rural areas owing to a decrease in agricultural output. The minimum wage was raised by 10% inJune 1992 in response to the quickening pace of inflation, but its real annual average slipped by over 8% none the less. The real average wage for manual workers remained more or less constant even though real remunerations in the construction industry and in the transport, storage and communications sector increased significantly (see tables V-1, V-4 and V-5).

Uruguay's unemployment rate was slightly higher than the year before despite the buoyancy of economic activity. As a result, both the annual average and the rate recorded at the close of 1992 were around 9% -a coefficient that has remained virtually unchanged for the past six years. The sluggishness of the manufacturing sector was one of the main reasons for this situation, which towards the end of 1992 was reflected in a higher unemployment rate than had been registered one year earlier, although there was an increase in the number of hours worked. In commerce a tendency to lengthen the workday rather than hiring additional staff was also observed. In fact, construction was the only sector to exhibit a strong correlation between the trend of activity and hiring, since it is a labour-intensive industry. The influence of inertial factors in the determination of private-sector wages continued to be felt and, as a result, these wages jumped by 62% in nominal terms in 1992, which translated into a 4% increase in the annual average in real terms. The increase in the remunerations of civil servants was smaller (50%) and these workers' wages therefore slipped by nearly 2% in real terms. Consequently, for the period 1985-1992, private wages increased by 25% in real terms whereas public-sector wages fell by 10%. As part of the strategy for quelling inflation, another attempt was made to delink wage adjustments from past inflation, but without much success. Indeed, most private wage contracts continued to use past inflation as their main point of reference. Some export firms included a clause to limit this mechanism in their contracts which enters into effect whenever the rate for the dollar is lower than the consumer price index. The adjustments scheduled every four months for public-sector employees, however, were kept more closely in line with the sector's pre-established wage guidelines.

In Central America and the Caribbean, economic trends were not uniform. **In Costa Rica,** thanks to a strong economic recovery, the unemployment rate reached one of its lowest levels since 1980 as it fell from 6% in 1991 to a little over 4% in 1992, which was just slightly higher than the 1989 rate. An increase was seen in real wages, although it was not large enough to offset the decrease of 1991 entirely and was confined to the private sector, since civil servants' real wages were down by nearly 2%. Trends in the lower- and upper-tier minimum wages continued to diverge; the trend in the latter was highly favourable, with an increase of 6% in real terms, whereas the former remained at a virtual standstill.

In **El Salvador,** the open unemployment rate climbed by almost 1% in 1992, thus returning to the 8% average around which it had hovered in past years. In contrast, the rate of underemployment was significantly reduced between 1990 and 1992, from 47% to 37%; in turn, total employment was strengthened by the decrease in the percentage of the labour force employed in the informal sector. Starting in June, the minimum wages applying to the manufacturing and services sectors rose by 15% in the capital city and by 16% in the rest of the country and by between 18% and 29% in various seasonal agribusiness activities. For the workers in question, the above increases led to an upturn in real wages, which, nevertheless, remained far below their pre-crisis levels, since they amounted to only one third of the 1980 figure. As for the public sector, the pay raise for civil servants was postponed until 1993.

In **Guatemala,** open unemployment was reduced from 6,5% to 6.1% of the labour force as a result of an 8,800-job expansion of employment in the formal sector, despite large-scale lay-offs by the National Electrification Institute (INDE). Real average remunerations rose substantially, with a 15% upturn that was the largest in the past seven years, although it was still not enough to make up for the cumulative reduction of 1990 and 1991. This increase was largely a consequence of the adjustment of public-sector employees' wages, whichhadbeen seriously undermined and distorted by the crisis of the 1980s as well as by drastic wage adjustments in the private sector. In addition, the passage of a law providing for an annual bonus for private- and public-sector workers meant that from 1992 on, each June workers will be paid an annual bonus equivalent to one regular monthly wage or salary.

In Honduras, the open unemployment rate was approximately 10% of the economically active population, while around 35% of the labour force was underemployed. This situation was the result of the lethargic pace of economic activity, which was compounded by the harsh adjustment programmes of recent years and the considerable growth of the labour force. Job creation was fairly active only in the country's northern industrial zones. In 1992, minimum wages were raised at a rate that exceeded price increases, and this boosted the real remunerations of the lowest-income workers. Consequently, the real minimum wage for 1992 was only 3% below the 1980 figure. Moreover, in March teachers were given a pay raise and in April an increase was granted to all government employees. Workers employed in very low-productivity activities, many of whom perform domestic tasks, earned a higher income by finding jobs in the *maquila* industry and engaging in activities involving a higher level of value added.

A sluggish economy and a rapidly expanding labour force pushed **Nicaragua's** open unemployment rate up from nearly 14% at the close of 1991 to over 16% midway through 1992. Seasonal agricultural activities and, in particular, commerce absorbed a portion of the manpower that was left unemployed by large-scale lay-offs in industrial, artisanal and services sectors, however. Meanwhile, real wages continued to rebound, for the fourth year in a row, from the lows they had reached during the 1980s. In 1992 they showed a real increase of nearly 20%, but the resulting figure was still no more than a slight improvement over the level recorded 10 years earlier. The reclassification of jobs in the public sector gave rise to a substantial increase in remunerations as well as having a spillover effect in the rest of the economy by prompting wage adjustments that benefited workers in other sectors.

In Panama, the level of unemployment dropped significantly for the first time since 1989, falling to 16%. As in earlier years,

unemployment was more severe in the metropolitan area than in the rest of the country. The increase in job creation, which was concentrated in the private sector, amounted to over 10%, but the rapid growth of the economically active population cancelled out its effect on the unemployment rate. Wages were stagnant and exhibited a tendency to move downward, but in December there was a substantial increase in average wages in the private .sector, with a particularly sharp rise in manufacturing. The nominal minimum wage remained virtually unchanged until the end of the year, when it was raised -by 21.5%- for the first time since 1983.

In the **Dominican Republic** employment exhibited a tendency to rise, although at a slower rate than the level of activity, in both the private and public sectors. Nevertheless, almost 15% of the economically active population was unemployed. Be that as it may, the real minimum wage increased by 21% thanks to the nominal minimum wage hike of December 1991 and the low level of inflation recorded during the year. Although the minimum wage was still no higher than it had been in the mid-1980s, its continued stability contributed to a steadier rise in buying power.

In **Haiti,** the severe deterioration of economic activity prompted a considerable contraction of the formal economy, with the result that informal activities expanded even further and the traditional process of migration from rural zones was reversed as large numbers of people temporarily moved out to the smaller cities and rural areas. Illegal emigration to other countries also increased.

Table V-l

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
Latin America	8.2	7.3	6.2	5.8	5.5	5.2	5.5	5.4	**5.4**
Argentina [c]	4.6	6.1	5.2	5.9	6.3	7.8	7.5	6.5	7.0
Bolivia [d]	6.9	5.8	7.0	7.2	11.6	10.2	9.5	7.3	5.8
Brazil[e]	7.1	5.3	3.6	3.7	3.8	3.3	4.3	4.8	5.8
Colombia	13.5	14.1	13.8	11.8	11.2	9.8	10.3	10.0	10.1
Costa Rica [g]	6.6	6.7	6.7	5.9	6.3	3.7	5.4	6.0	4.3
Chile[11]	18.5	17.2	13.1	11.9	10.2	7.2	5.7	5.3	**4.4**
Ecuador'	10.6	10.4	10.7	7.2	7.4	7.9	6.1	8.5	8.7
El Salvador[j]					9.4	8.4	10.0	7.1	7.9
Guatemala	9.1	12.1	14.0	11.4	8.8	6.2	6.4	6.5	6.1
Honduras	10.7	11.7	12.1	11.4	8.7	7.2	6.9	7.6	
Mexico™	5.7	4.4	4.3	3.9	3.5	2.9	2.8	2.6	2.9
Panama [n]	12.4	15.6	12.6	14.1	21.1	20.4	20.0	19.5	16.0
Paraguay [o]	7.4	5.2	6.1	5.5	4.7	6.1	6.6	5.1	5.3
Peru[p]	8.9	10.1	5.4	4.8		7.9	8.3	5.9	
Uruguay [q]	14.0	13.1	10.7	9.3	9.1	8.6	9.3	8.9	9.1
Venezuela[r]	14.3	14.3	12.1	9.9	7.9	9.7	11.0	10.1	7.8

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

″ Preliminary figures. Weighted average for 20 of the 25 most populous cities in Latin America. [c] Nationwide urban rate, April-October average; 1986: October. Nationwide urban rate; estimates by the Economic Policies Unit (UDAPE). From 1987 onward permanent household survey conducted by the National Institute of Statistics. [e] Metropolitan areas of Rio de Janeiro, Sâo Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife: 12-month average. Bogota, Barranquilla, Cali and Medellin: 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. National Institute of Statistics (INE), Santiago Metropolitan Region, four-quarter moving 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. ' 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. Nationwide, according to General Secretariat of the National Council for Economic Planning (SEGEPLAN) estimates. Nationwide, according to official estimates; from 1986 onward, Urban Labour Force Survey; 1987: March, central district. [m] Average for 16 cities. Four-quarter average. " Metropolitan area, August of each year; 1990: estimates. [o] Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo; 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. ′ Nationwide urban rate two-semester average; 1986: second half of the year.

Table V-2
LATIN AMERICA AND THE CARIBBEAN: UNEMPLOYMENT RATES IN MAJOR CITIES

	1988	1989	1990	1991	1992 [a]	1991				1992[a]			
						I	n	UI	IV	I	n	m	IV
Latin America	5.5	5.2	5.5	5.4	5.4	5.7	5.6	5.1	5.0	5.8	**5.2**	5.0	5.5
Argentina [c]													
Buenos Aires	6.0	7.4	7.4	5.9	6.7		6.4		5.3		6.6		6.7
Córdoba	5.5	8.1	5.8	4.8	5.1		4.1		5.4		4.8		5.3
Greater Mendoza	4.4	4.3	5.9	4.3	4.3		4.2		4.4		4.1		4.4
Greater Rosario	7.6	10.8	8.5	10.2	9.3		10.9		9.4		10.1		8.5
Brazil[d]													
Rio de Janeiro	3.1	2.8	3.5	3.6	3.4	4.1	4.1	2.9	3.2	4.0	2.9	2.6	3.9
São Paulo	4.0	3.5	4.6	5.5	5.4	6.5	6.3	4.4	4.8	6.8	4.5	4.4	5.9
Belo Horizonte	4.0	3.4	4.1	4.1	4.8	5.0	4.5	3.5	3.5	5.0	5.6	4.4	4.3
Porto Alegre	3.7	2.6	3.7	4.4	4.0	5.1	4.8	3.7	3.9	5.1	4.0	2.2	4.7
Salvador	4.6	4.4	5.4	5.9	6.8	5.5	6.2	5.5	5.4	6.4	6.6	6.2	7.6
Recife	5.6	5.3	5.7	5.9	7.1	6.3	6.1	5.8	5.5	7.7	6.5	6.0	8.0
Colombia [e]													
Bogotá	10.5	8.0	9.4	8.6	8.4	9.2	8.9	8.1	8.1	8.4	9.3	7.3	8.6
Barranquilla	11.4	11.7	10.9	9.7	10.9	9.6	10.9	10.4	7.8	12.5	10.7	10.5	9.9
Medellin	12.9	12.4	12.5	13.8	14.0	13.8	14.8	13.6	13.1	15.2	15.3	12.7	12.9
Cali	11.3	10.3	9.6	9.4	9.8	10.6	9.1	9.1	8.9	9.5	11.7	9.1	8.8
Costa Rica													
San José	6.3	3.7	5.4	6.0	4.3			6.0				4.3	
Chile [g]													
Santiago	10.2	7.2	6.5	7.3	4.9	7.4	8.1	8.3	5.5	4.8	4.7	5.6	4.5
Mexico													
Mexico City	4.4	3.7	3.2	3.0	3.4	2.9	2.7	3.3	3.0	3.4	3.3	3.3	3.4
Guadalajara	2.6	1.7	1.5	2.5	3.0	2.1	1.8	3.0	3.0	3.1	3.1	3.2	2.6
Monterrey	4.1	3.1	3.6	3.6	3.2	3.8	3.2	3.7	3.6	3.1	3.1	3.6	3.0
Paraguay '													
Asunción	4.7	6.1	6.6	5.1	5.3			5.1				5.3	
Peru[J]													
Lima	7.1	7.9	8.3	5.9			5.9						
Uruguay													
Montevideo	9.1	8.6	9.3	9.0	9.1	9.9	9.4	8.2	8.3	11.3	8.1	8.4	8.7
Venezuela													
Caracas	5.8	7.3	8.3	8.3	6.7		9.3		7.3		6.7		

Source: ECLAC, on the basis of official figures.
* Preliminary figures. [b] Weighted average for 20 of the 25 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. Nationwide urban rate, July. [g] Greater Santiago. Figures for March, June, September and December. Quarterly averages. ' Includes Fernando de La Mora, Lambaré and the urban areas of Luque and San Fernando. [J] Metropolitan Lima; 1985: official estimate; 1987: June.
[k] Four-quarter average. Caracas metropolitan area; two-semester average. 1985: first half of year.

Table V-3

LATIN AMERICA AND THE CARIBBEAN: INDICATORS OF EMPLOYMENT IN MANUFACTURING

	1984	1985	1986	1987	1988	1989	1990	1991	1992
					(Indexes 1980=100)				
Argentina [a]	88.0	84.8	81.3	80.5	81.3	74.5	71.0		
Brazil [b]									
Metropolitan areas	78.1	79.1	86.9	89.7	88.2	90.1	87.3	81.3	76.4
São Paulo	81.5	91.7	101.5	103.8	101.5	103.0	99.8	92.5	86.0
Rio de Janeiro	89.0	93.4	99.5	103.3	101.5	103.8	100.7	94.9	88.4
Colombia [c]	83.4	81.6	81.2	83.8	86.1	85.9	86.0	87.1	88.0
Costa Rica	99.3	99.8	100.4	97.7	104.4	105.0	106.7	102.7	
Cuba	125.3	129.9	133.0	133.2	136.1	140.7			
Chile	81.8	86.6	93.1	100.3	111.2	114.9	116.9	121.8	131.6
Guatemala	83.7	94.1	94.2	94.4	124.5	121.9	124.4	138.7	152.6
Mexico [e]	92.2	94.3	93.4	93.4	93.5	95.2	95.4	93.9	90.4
Mexico	167.0	177.3	207.6	254.0	310.1	361.6	387.6	393.8	426.5
Nicaragua	92.8	87.6	87.6	88.7	92.8	86.6	78.4	62.9	55.7
Panama [g]	113.4	114.6	121.4	133.6	117.0	123.1	126.7	128.9	
Peru"	84.4	83.4	88.4	95.9	92.4	83.5	81.3	77.2	68.7
Venezuela '	98.9	99.9	102.6	114.3	124.0	120.8	113.7	125.1	
					Percentage variation				
Argentina	2.9	-3.6	-4.1	-1.0	1.0	-8.4	-4.7		
Brazil									
Metropolitan areas	-1.1	1.3	9.9	3.2	-1.7	2.1	-3.1	-6.8	-6.1
São Paulo	-0.1	12.5	10.7	2.3	-2.3	1.5	-3.1	-7.3	-7.0
Rio de Janeiro	-0.1	4.9	6.5	3.8	-1.7	2.3	-3.0	-5.8	-6.8
Colombia	-1.2	-2.1	-0.5	3.2	2.7	-0.2	0.1	1.3	1.0
Costa Rica	3.2	0.5	0.6	-2.7	6.9	0.5	1.6	-3.7	
Cuba	8.4	3.7	2.4	0.1	2.2	3.4			...
Chile	10.1	5.9	7.5	7.7	10.9	3.3	1.7	4.2	8.1
Guatemala	-10.7	12.5	0.1	0.2	31.9	-2.1	2.1	11.5	10.0
Mexico	-1.0	2.3	-1.0	0.0	0.1	1.8	0.2	-1.6	-3.7
Mexico	10.6	6.2	17.1	22.4	22.1	16.6	7.2	1.6	8.3
Nicaragua	-	-5.6	0.0	1.2	4.7	-6.7	-9.5	-19.8	-11.4
Panama		1.0	5.9	10.1	-12.4	5.2	2.9	1.8	
Peru	-10.5	-1.2	6.0	8.4	-3.6	-9.7	-2.6	-5.1	-11.0
Venezuela	-1.4	1.0	2.7	11.4	8.5	-2.6	-5.9	10.1	

Source: ECLAC, on the basis of official figures.

" Manual workers employed in manufacturing. Source: 1984 and 1985: Brazilian Geographical and Statistical Institute (IBGE); 1986 onward: Ministry of Labour, General Registry of Employed and Unemployed (Act 4923). [c] Manual workers employed in industry, except in the coffee harvest. Number of persons paying into the social security system. [e] Persons employed in manufacturing: does not include the inbond assembly industry *(maquiladoras).* Persons employed in the inbond assembly industry *(maquiladoras).* [g] Employment in manufacturing activities according to household surveys. Persons employed in manufacturing in the Lima Metropolitan area. ' Source: Industrial survey conducted by the Central Statistics and Information Office (OCEI) (indexes 1981=100).

Table **V-4**

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
				Average manual indexes (1980 = 100)					
Argentina	127.1	107.8	109.5	103.0	97.3	83.3	78.7	81.8	81.4
Brazil									
Rio de Janeiro[c]	105.1	111.8	121.5	105.4	103.2	102.3	87.6	87.8	109.4
São Paulo[d]	96.7	120.4	150.7	143.2	152.1	165.2	142.1	125.4	134.4
Colombia[e]	118.1	114.6	120.1	119.2	117.7	119.4	115.9	112.4	119.1
Costa Rica	84.7	92.2	97.8	89.2	85.2	85.7	87.2	83.1	88.5
Chile[g]	97.2	93.5	95.1	94.7	101.0	102.9	104.8	109.9	117.3
Guatemala	114.8	99.2	81.0	86.5	91.0	95.8	78.5	74.5	85.6
Mexico '	74.8	75.9	71.5	71.3	71.7	75.2	77.9	83.0	91.0
Nicaragua[J]	78.5	55.0	19.8	13.6	4.8	9.2	14.8	15.3	17.7
Panama	105.0	105.6	108.4	109.9	101.2	108.9	102.1	106.0	106.0
Paraguay	91.8	89.8	85.9	96.5	103.9	109.8	103.5	102.3	98.8
Peru[1"]	87.2	77.6	97.5	101.3	76.1	41.5	36.5	39.3	40.4
Uruguay[n]	72.2	67.3	71.9	75.2	76.3	76.1	70.6	73.2	74.8
Venezuela °	93.5	84.2	85.4	74.5	66.0	48.4	46.2	42.4	46.8
				Percentage variation[p]					
Argentina	26.4	-15.2	1.6	-5.9	-5.5	-14.4	-5.5	4.0	-0.5
Brazil									
Rio de Janeiro	-6.7	6.4	8.7	-13.3	-2.1	-0.9	-14.4	0.2	24.6
São Paulo	2.9	24.4	25.2	-5.0	6.2	8.6	-14.0	-11.8	7.2
Colombia	7.3	-3.0	4.8	-0.7	-1.3	1.4	-2.9	-3.0	6.0
Costa Rica	7.8	9.1	6.1	-9.7	-4.5	0.6	1.7	-4.6	6.4
Chile	0.1	-3.8	1.7	-0.3	6.6	1.9	1.8	4.9	6.7
Guatemala	-9.0	-13.6	-18.3	6.8	5.2	5.3	-18.1	-5.0	14.9
Mexico	-6.6	1.5	-5.8	-0.3	0.6	4.9	3.6	6.5	9.7
Nicaragua	-5.9	-30.0	-63.9	-31.3	-64.9	92.0	61.5	3.2	15.6
Panama	4.2	0.6	2.6	1.4	-7.9	7.6	-6.2	3.8	-
Paraguay	-3.6	-2.2	-4.3	12.3	7.7	5.7	-5.7	-1.2	-3.4
Peru	-6.6	-11.0	25.6	3.9	-24.9	-45.5	-12.1	7.9	2.7
Uruguay	-14.8	-6.8	6.8	4.6	1.5	-0.3	-7.2	3.7	2.2
Venezuela	-5.0	-9.9	1.4	-12.8	-11.4	-26.7	-4.6	-8.2	10.4

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. Average total monthly wages in the manufacturing industry. [c] Average wages in basic industry, deflated by the consumer price index for Rio de Janeiro. 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. Average wages reported by persons enrolled in the social security system. [E] Average remunerations of wage-earners in non-agricultural sectors. . Average wages of persons enrolled in the social security system. ' Average wages in the manufacturing industry. ' Average wages of persons enrolled in the social security system, deflated by the price index implicit in the gross domestic product. Average industrial wages in Panama City. Wage of manual workers in Asunción; average for June and December. [m] Wages of private-sector manual workers in Metropolitan Lima. " Real average wage index. ° 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 V-5

LATIN AMERICA AND THE CARIBBEAN: REAL URBAN MINIMUM WAGE

	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
	Average annual indexes (1980 = 100)								
Argentina	167.5	113.1	110.0	120.8	93.5	42.1	40.2	56.0	48.0
Bolivia [c]	45.6	18.4	17.1	19.8	20.9	18.7	17.3	26.6	
Brazil[d]	87.4	88.9	89.0	72.6	68.7	72.1	53.4	59.9	57.3
Colombia [e]	113.5	109.4	114.2	113.0	109.9	110.8	107.9	104.3	101.6
Costa Rica	104.4	112.2	118.7	117.9	114.6	119.4	120.5	111.8	111.5
Chile [g]	80.7	76.4	73.6	69.1	73.9	79.8	87.5	95.6	99.8
Ecuador	62.8	60.4	65.0	61.4	53.4	47.3	39.6	33.5	32.5
El Salvador[1]	76.8	66.2	57.5	46.0	43.6	37.0	34.8	34.1	35.2
Guatemala[J]	111.4	94.0	68.6	61.1	75.9	68.1	48.2	38.9	35.0
Haiti [k]	87.1	91.3	84.8	94.7	94.8	95.7	99.7		
Honduras	92.1	89.1	85.3	83.3	79.7	72.6	87.1	84.4	97.0
Mexico[1"]	72.3	71.1	64.9	61.5	54.2	50.8	45.5	43.6	42.1
Nicaragua"	63.6	45.1							
Panama °	102.1	101.0	101.1	100.1	99.7	99.9	99.3	97.7	96.0
Paraguay [p]	93.8	99.6	108.3	122.6	135.2	137.5	131.6	125.8	115.5
Peru[q]	62.3	54.4	56.4	59.7	52.0	25.4	23.4	15.9	15.9
Dominican Republic [r]	82.2	80.2	86.0	84.1	87.4	77.7	65.2	66.2	80.2
Uruguay[3]	88.8	93.2	88.5	90.3	84.5	78.0	69.1	62.0	60.0
Venezuela '	66.5	96.8	90.4	108.7	89.5	72.9	59.3	55.1	60.7
	Percentage variation [u]								
Argentina	9.5	-32.5	-2.7	9.8	-22.6	-55.0	-4.5	39.3	-14.4
Bolivia	-17.7	-59.6	-7.1	15.8	5.6	-10.5	-7.5	53.8	
Brazil	-8.9	1.7	0.1	-18.4	-5.4	4.9	-25.9	12.2	-4.3
Colombia	5.2	-3.6	4.4	-1.1	-2.7	0.8	-2.6	-3.3	-2.6
Costa Rica	5.1	7.5	5.8	-0.7	-2.8	4.2	0.9	-7.2	-0.3
Chile	-14.3	-5.3	-3.7	-6.1	6.9	8.0	9.6	9.3	4.4
Ecuador	-1.3	-3.8	7.6	-5.6	-13.0	-11.4	-16.3	-15.5	-3.0
El Salvador	0.4	-13.8	-13.2	-19.9	-5.3	-15.1	-5.9	-2.2	3.4
Guatemala	-3.4	-15.6	-27.0	-10.9	24.2	-10.3	-29.2	-19.3	-10.1
Haiti	-7.3	4.8	-7.1	11.7	0.1	0.9	4.3		
Honduras	-4.5	-3.3	-4.2	-2.4	-4.3	-8.9	20.0	-3.1	14.9
Mexico	-5.6	-1.7	-8.7	-5.5	-12.0	-6.7	-10.2	-4.2	-4.2
Nicaragua	12.2	-29.1							
Panama	-1.6	-1.0	0.1	-1.0	-0.4	0.2	-0.6	-1.6	-1.8
Paraguay	-0.4	6.2	8.7	13.2	10.3	1.7	-4.3	-4.4	-8.2
Peru	-22.7	-12.7	3.7	5.9	-12.9	-51.2	-7.9	-32.1	0.0
Dominican Republic	1.7	-2.4	7.2	-2.2	3.9	-11.1	-16.1	1.5	21.1
Uruguay	0.2	5.0	-5.0	2.0	-6.4	-7.7	-11.4	-10.3	-3.2
Venezuela	-10.0	45.6	-6.6	20.2	-17.7	-18.5	-18.7	-7.1	10.2

Source: ECLAC, on the basis of official figures.

" Preliminary figures. National minimum wage. [c] National minimum wage. Minimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. ° Minimum wage for upper-level urban sectors. National minimum wage. [e] Minimum income. Minimum overall living wage, calculated on the basis of the annual minimum living wage and legal supplementary benefits. ' Minimum wage for non-agricultural activities in San Salvador. [J] National minimum wage. Minimum daily wage paid in manufacturing. Minimum wage in the manufacturing sector in the Central District and San Pedro Sula. [m] Minimum wage in Mexico City, deflated by the corresponding consumer price index. " Minimun wage for industrial workers in the Department of Managua. ° Minimun wage applying to all acvitivies except construction and domestic service. [p] Minimun wage in Asunción and Puerto Stroessner. [q] Minimun wage in Metropolitan Lima for non-agricultural activities. ' National minimum wage. [s] National minimum wage for workers over 18 years of age. ' National minimun wage for non-agricultural activities deflated by the consumer price index corresponding to the lowest income quartile. [u] In comparison to the same period of the preceding year.

VI. PUBLIC FINANCES

In 1992 the public finances of most of the Latin American countries remained relatively under control, and the trend towards the consolidation of the notable progress made since 1989 continued to be observed. Particularly important contributing factors in this respect were the fiscal adjustment processes initiated in past years and the growing prevalence of budgetary control measures such as those adopted to deal with the serious problems of public-sector financing created by the large deficits registered throughout the 1980s -and aggravated by the recession's impact on income and the debt burden- and by the sharp drop in external financing. Privatization programmes, which continued to be vigorously pursued in some countries of the region, generated huge sums of non-recurring income which were especially helpful in reestablishing a fiscal balance.

The programmes launched towards the end of the 1980s in an effort to bring about an adjustment in public finances were consolidated in 1992 without it becoming necessary to adopt such Draconian measures as those taken in recent years, since these imbalances had already been greatly reduced in most of the countries. In the closing years of the 1980s a number of economies in the region were faced with serious problems in connection with their fiscal accounts, and this state of affairs no doubt contributed on many occasions to the acceleration of inflation seen during that period -and which in some countries culminated in bouts of hyperinflation- and was, in turn, exacerbated by those surges. The magnitude of those disequilibria, which in some cases were clear signs of a lack of fiscal control, made it necessary to implement drastic adjustment programmes in order to put public-sector financing on a sound footing and to restore agents' confidence in the future of existing economic policy.

Between 1989 and 1991, the majority of the countries in the region undertook far-reaching fiscal adjustment efforts that involved a thorough-going reorganization of the government apparatus; starting in 1991, a tendency to consolidate the progress made in this regard was observed, and this tendency continued in 1992, as was demonstrated by the fact that a number of countries continued to improve their fiscal standing or at least maintained the equilibrium they had achieved in earlier years. There were very few cases in which the public sector's performance as regards fiscal accounts clearly took a turn for the worse.

1. A trend towards fiscal equilibrium

The severe fiscal crisis observed in most of the countries in the region during the 1980s obliged their Governments to undertake very strict fiscal control programmes which were closely related to the adjustment of external accounts, particularly as regards the debt problem, and with stabilization programmes. The results of many of these initiatives were fleeting, however, and the public sector's difficulties in respect of financing therefore reappeared. Furthermore, the few countries that had managed to make progress in terms of their fiscal adjustment efforts during the

[1] For further information on the fiscal adjustment programmes implemented by the countries of the region, see ECLAC, *Economic Survey of Latin America andthe Caribbean, 1991* (LC/G.1741-P), vol. I, First Part, chapter VI, Santiago, Chile, September 1992. United Nations publication, Sales No: E.92.II.G.2.

1970s ran up against formidable obstacles when the debt crisis supervened. In the course of the 1980s, promising signs began to be seen regarding some countries' ability to manage their fiscal accounts, although the improvements were chiefly based on deep spending cuts, particularly in wages, investment and budget items earmarked for social programmes, which had an extremely adverse effect on public services. It was not until the late 1980s and early 1990s that fiscal adjustment programmes capable of producing lasting results became widespread. Accordingly, the countries can be divided into four groups based on the thoroughness and results of their fiscal adjustment programmes.

The first category is formed by the countries that had already put their fiscal accounts on a fairly sound footing as of the late 1980s; some had eliminated their public deficits while others had shortfalls of a size that could be financed without resorting to Central Bank credit. This group includes only Chile, Colombia and Paraguay, whose adjustment programmes were launched in the 1970s, although later on they did suffer the effects -to varying degrees- of the debt crisis, which made it necessary to adopt further adjustment measures to cope with its impact on public finances. Chile's non-financial public sector has shown a surplus since 1987, and this has made up for a large part of the Central Bank's quasi-fiscal deficit. For its part, Colombia has recorded only very small deficits in its public-sector accounts in recent years. Finally, Paraguay has had its public accounts under control since 1986, after having experienced some imbalances during the period 1983-1985, and has actually registered surpluses in the past few years, although in 1992 the non-financial public sector's standing deteriorated in relative terms and the central government recorded a small deficit.

The second group is made up of countries whose public finances, until recently, exhibited ongoing maladjustments which were reflected in high inflation and, in some cases, hyperinflationary episodes that virtually eliminated all traces of public financing. All these countries made several attempts to implement adjustment programmes during the 1980s,but they either failed entirely or made very little headway. It was not until the late 1980s and early 1990s that they undertook broad-ranging -and extraordinarily successful- fiscal adjustment initiatives. The Governments' efforts were chiefly aimed at boosting fiscal income because cost-cutting opportunities were quite limited, since their real levels of expenditure were already very low owing to high inflation and the spending reductions made earlier with a view to economic stabilization. Thanks to those adjustments, inflationary spurts were brought under control and financing for the public sector was reinstated. In any event, it is still too early to say that these processes have been consolidated, since the countries' accomplishments in this regard are very recent and are based on tax structures and patterns of expenditure that have not yet stabilized.

Within this group, Mexico has made great inroads with its fiscal adjustment programme. In 1987 and 1988, the public sector's deficit had been very large (over 10% of GDP) but the programme launched during that period reduced it significantly, and this, in combination with the plan for privatizing State companies, had transformed the deficit into a surplus by 1991. In 1992, a large portion of these non-recurring revenues were used to reduce the public sector's debt. Meanwhile, Argentina, whose non-financial public sector had recorded hefty deficits on its accounts during the 1980s, managed to narrow them substantially in 1989 and, with the introduction of thorough-going adjustments, from 1991 on its negative balance began to shrink steadily until it disappeared altogether in 1992. The non-recurring revenues obtained from privatizations, which amounted to over 1% of GDP, also played a role in this achievement. In Nicaragua, a huge improvement was made in terms of the imbalance in public-sector accounts. In the 1980s, the deficit had reached nearly 30% of GDP and had to be financed through money creation. In 1991 and 1992, however, even though the Government's deficit was still around 8% of GDP, it was able to cover the whole of that financial gap with concessional external resources. In Peru, the central government's negative balance -which had averaged more than 4% of GDP for the period 1987-1989 and had been financed through

currency issues- was cut to less than 2% of GDP in 1991 and 1992 and was covered primarily with external resources. In Uruguay, where the consolidated public-sector deficit had also spiraled upward, reaching 6% of GDP in 1989, the deñcit was reduced so swiftly that by 1992 it had given way to a surplus equivalent to one-half point of GDP. Until the end of the 1970s, Costa Rica had financed a large share of its fiscal deficits with external credit, but the debt crisis reversed the direction of these flows and prompted a drastic adjustment which, in its turn, virtually eliminated the deficit. Following a shortfall in 1989-1990, when the central government registered a deñcit of over 4% of GDP, in 1991 and 1992 a further adjustment was made which enabled the non-financial public sector to achieve a surplus amounting to almost **1% of GDP.**

A third group is composed of countries -almost all of them being in Central America- that have had fiscal deficits totalling several points of GDP on an ongoing basis (even before the debt crisis) but have been able to finance those deficits almost entirely with external resources. Following a number of failed attempts to introduce adjustment measures, however, they were able to make substantial progress during the late 1980s and early 1990s. One of these countries is Guatemala, where the central government's deficit was on the rise until 1989 but was reduced thereafter, falling to 0.5% of GDP by 1992. In Honduras, the central government's deficit, which had swollen to 7% of GDP by 1989, was narrowed to 5% of GDP in 1991 and 1992. This adjustment was based on a decision to forswear domestic credit as a means of financing, with the fiscal imbalance being covered with external funds, concessional credits and grants and donations from 1990 on. The status of El Salvador's public finances was closely related to the financing requirements associated with the armed conflict that raged in that country throughout the 1980s. In the past few years, the deficit has ranged between 4% and 5% of GDP, but since much of this was accounted for by military spending, it was financed wholly with concessional external resources. Bolivia's situation from 1987 on has been quite similar to that of the above-mentioned Central American countries. Its fiscal deficit has hovered around 6% of GDP but has been financed completely with external funds obtained, in particular, from soft loans or grants and donations. This state of affairs stands out in sharp contrast to the situation up until 1985, when the country's deficits were huge -up to 25% of GDP- and were covered almost entirely through money creation.

Two countries experienced only temporary fiscal imbalances which were later put right with the help of adjustment measures. The Dominican Republic's central-government accounts showed a deficit of about 2% of GDP in 1987-1988, but in 1989 its efforts to rectify this situation eliminated the negative balance and went on to produce a mounting surplus, which was totalling nearly 3% of GDP by 1992. Panama's fiscal deficit was almost entirely attributable to the political conflict in that country from 1987 to 1989, when the deficit grew to over 7% of GDP. Once the embargo imposed by the United States was lifted, the political and economic situation rapidly returned to normal, as did the country's fiscal accounts, and this was reflected in a contraction of the central government's financial deficit to just 1% in 1992.

The fourth and final group includes those countries still suffering from a public-sector deficit. The adjustment programmes implemented by these countries thus far, although they vary substantially in nature, have not achieved their goals. Some of these countries, too, undertook ambitious programmes aimed at balancing public-sector finances and some of them even met with success initially, but these initiatives later faltered because they were unsustainable over time. Despite these set-backs and the reappearance of large public-sector deficits, however, the situation in almost all of these countries is no more serious than it was before. In Brazil, the non-financial public sector's operating deficit (which does not include the monetary-correction component in interest rates) had reached nearly 7% of GDP; in 1990, the first Collor Plan was so successful in reducing this gap that it actually generated a surplus, but the adjustment proved to be largely untenable, since the deficit reappeared and then grew to over 2% in 1992. Ecuador had been troubled by severe imbalances during the preceding decade due to

the fact that, in addition to the debt problem, the country had been hit by an earthquake that disrupted oil exports for a lengthy period. As a result, the non-financial public sector found itself saddled with a deficit equivalent to nearly 10% of GDP. A series of adjustment programmes put an end to this crisis in 1989 and 1990, but the financial imbalance then re-emerged and in 1992 the deficit amounted to 1.5% of GDP; if the quasi-fiscal deficit is added in, then the total deficit would verge on 4% of GDP. In Venezuela, severe imbalances were registered during the second half of the 1980s, owing chiefly to the drop in international oil prices, and the non-financial public sector's deficit soared to almost 9% of GDP in 1988. The adjustment programme put into effect in early 1989 cut the shortfall to slightly over 1% and later transformed it into a surplus when earnings from oil sales increased temporarily as a consequence of the Persian Gulf war. However, the petroleum market's return to normal and the forward momentum of expenditures led to a reappearance of the fiscal deficit, which totalled *6%* of GDP in 1992. Finally, Haiti's chronically deficit-ridden public finances suffered a collapse as a result of the crisis sparked by the deposition of the country's constitutional Government and the international community's reaction to that event, which included a suspension of external financial aid.

2. **Fiscal policy in 1992: a further reduction of public deficits**

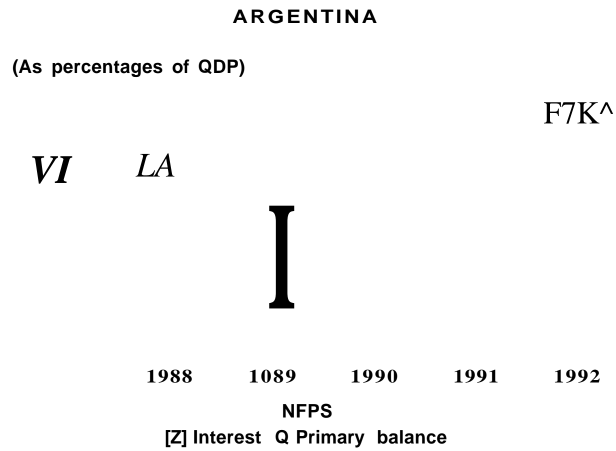
Fiscal adjustment processes were stepped up in 1992 in Argentina, Costa Rica, Dominican Republic, Mexico and Panama, all of which managed to cut their public deficits or increase their surpluses. Chile's surplus also expanded, thus attesting to the fact that in terms of its fiscal accounts the country remains in the comfortable position it has occupied since it launched its adjustment programme in the first half of the 1980s. Uruguay's public accounts, which had been balanced in 1991, actually yielded a slight surplus both for the central government and for the consolidated public sector. Bolivia, El Salvador, Honduras and Nicaragua recorded large deficits, but were able to finance them with external resources obtained from concessional sources. Peru, meanwhile, registered a slight deficit, similar in size to that of the year before, at the close of a biennium in which the country's previously sizeable fiscal deficit had been sharply reduced. In contrast, Colombia, Guatemala and Paraguay relapsed into deficit positions once again. Public-sector accounts deteriorated even more strikingly in Brazil, Venezuela and, to a lesser extent, Ecuador, but did not become as severely unbalanced as they had been in the late 1980s. In Haiti, the status of the public sector's finances became critical as the contraction of both income and expenditure assumed enormous proportions (see table VI-1 and figure VI-1).

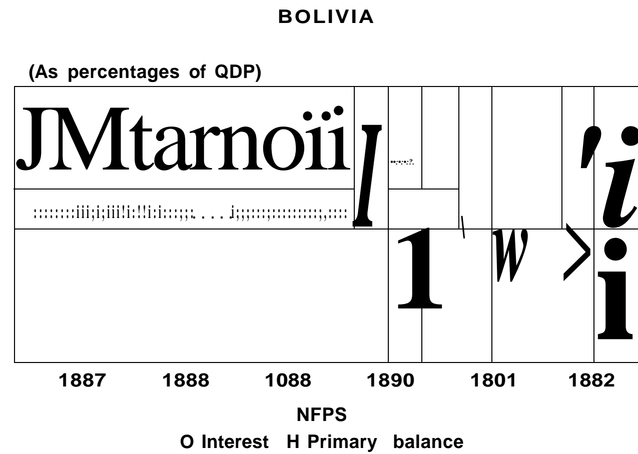
In Chile, the real increase in income topped 11% while the real growth of expenditure amounted to 7%, resulting in current savings of 5.6% of GDP. Capital expenditure climbed by 6% in real terms, boosting the non-financial public sector's surplus to 2.8% of GDP, most of which was used to amortize the central government's debt. The 1993 budget which was passed towards the end of 1992, included an additional provision designed to maintain a policy of fiscal restraint. In view of the country's promising growth prospects for 1993, the public sector will have to save -or can spend only if authorization is received under a special law- any receipts over 10% more than budgeted income. In addition, the authorities began to consider the possibility of using taxation as an expedient for controlling private expenditure, without allowing public expenditure to take its place. To this end, indirect taxes would be modified in such a way as to make them more flexible and surplus receipts would be sterilized as a means of easing the burden placed on interest rates as a tool for controlling inflationary pressures.

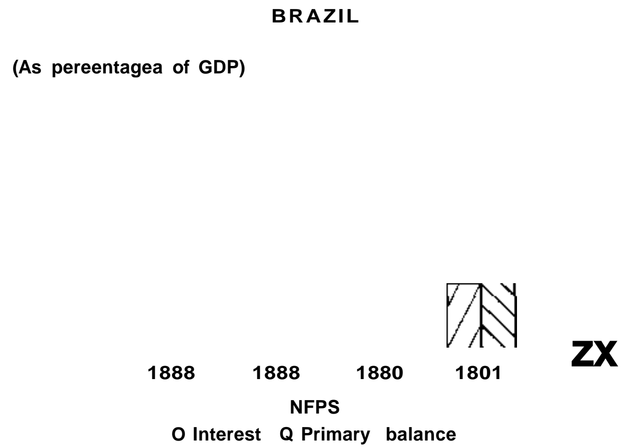
In Mexico, the top priority of fiscal policy continued to be price stabilization by means of measures aimed at shoring up public finances and

Figure VI-1

LATIN AMERICA AND THE CARIBBEAN: INTEREST ON THE DEBT AND THE PRIMARY BALANCE







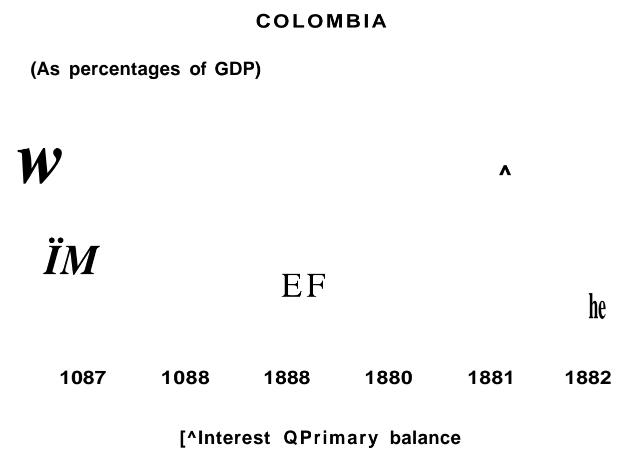
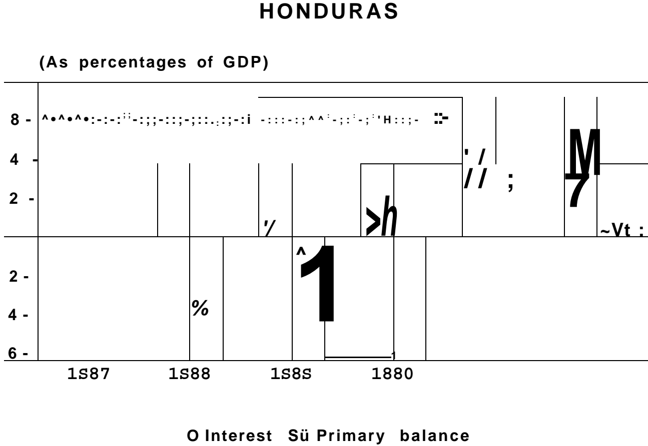
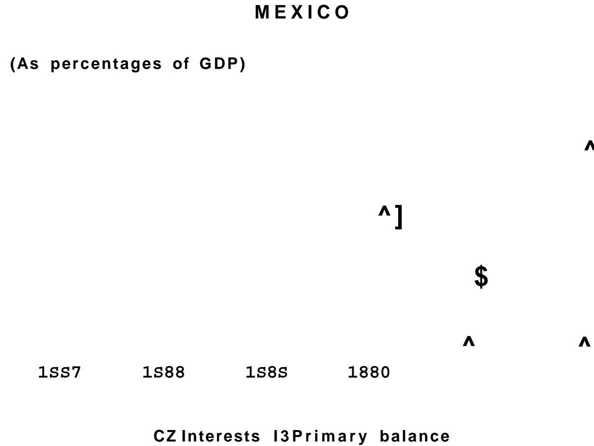
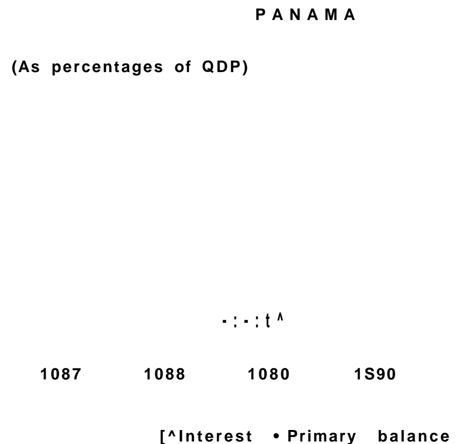


Figure VI-1 (cont. 2)







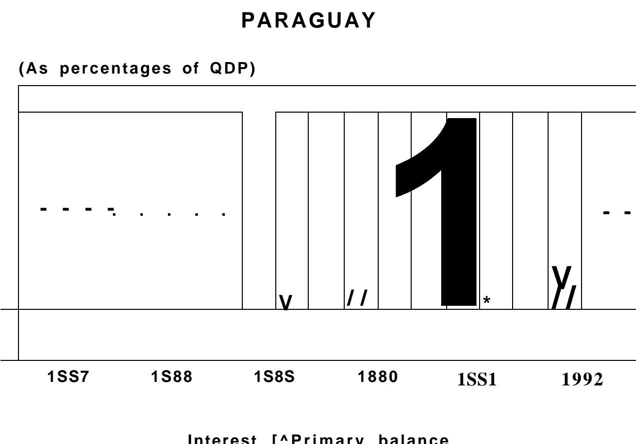
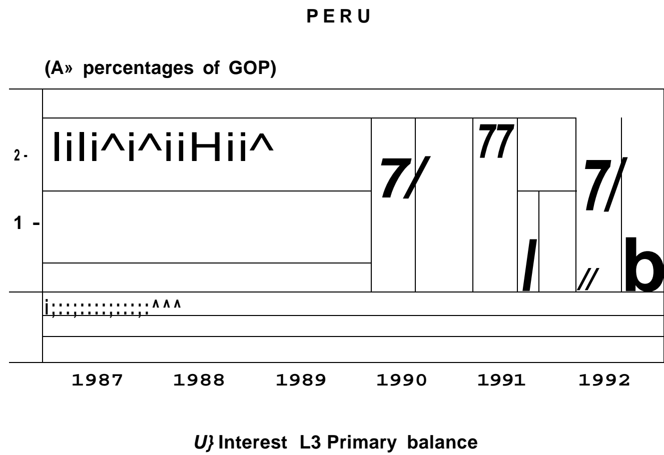
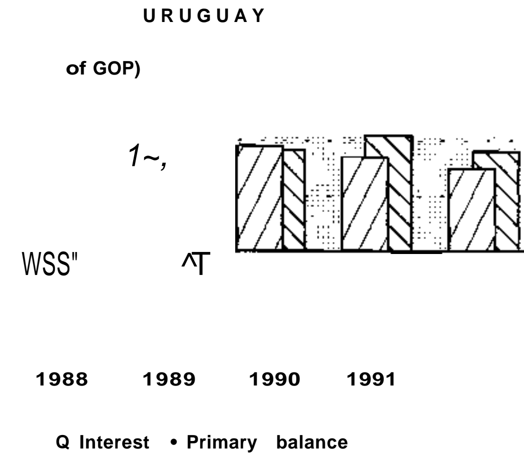
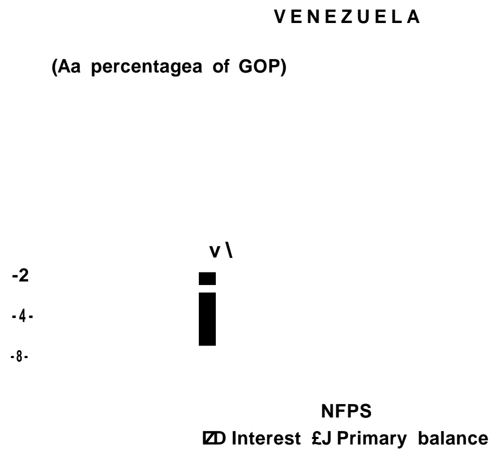


Figure VI-1 (concl.)







Source: ECLAC, on the basis of official figures.
CG : Central Government; NFPS : Non-financial public sector.
a The primary balance is equivalent to the difference between current income and total expenditure.

reducing the Government's debt. Thanks to a strong financial performance, both by the federal government and by State companies and agencies as a group, a fiscal surplus was achieved for the second year in a row (3.4% of GDP, which compares favourably with the 1.8% surplus marked up in 1991). If the non-recurrent income derived from the sale of State companies is subtracted from this sum, then the surplus would still amount of 0.5% of GDP, as compared to a deficit of 1.5% the year before. Once disbursements in the form of external debt payments are deducted, then the public sector's primary balance totalled slightly over 8% of GDP -a notable achievement that the country has managed to repeat for five years running. The effort to put fiscal accounts on a solid footing continued to be bolstered by an increase in income and, to a lesser extent than during 1991, by spending cuts. The financial improvement seen in the public sector was chiefly based on the results of the federal government's accounts, which yielded a substantial surplus for the second consecutive year both on its financial balance and in its primary operations.

Argentina continued the efforts to strengthen its public finances which it had initiated the year before in response to the severe crisis that had swept over the country during the late 1980s, when it had suffered from two hyperinflationary surges and public-sector financing had reached a crisis point. In 1992, the public sector's deficit amounted to 1.5% of GDP, whereas it had been 2.8% in 1991 and about 4% in each of the two preceding years. Furthermore, in 1992 the shortfall was covered almost entirely with the proceeds from sales of State assets, with the result that the public sector's net use of credit was virtually negligible. This improved management of fiscal accounts was attained despite a sharp increase in transfers to local governments and a somewhat more gradual rise in other expenditures because these outlays were more than offset by a steep upturn in tax receipts.

Costa Rica's economic policy proved successful with respect to fiscal matters. The central government's deficit was less than 2% of GDP, in contrast to somewhat more than 3% the year before, although its primary surplus was smaller than in 1991. The consolidated non-financial public sector registered a surplus (in 1991 it had a small deficit) but the Central Bank of Costa Rica again recorded a loss, this time of around 1.8% of GDP. For the most part, this was attributable to the open-market operations in which the Bank had to engage and to its intervention in the foreign exchange market. The consolidated deficit of the public sector as a whole (including the financial sector) totalled 2%, whereas a level of 1% had been agreed upon with the IMF in April 1992.

In Panama, fiscal policy again placed priority on reorganizing public finances and bringing them under control and on regularizing the country's external payments position. The central government's deficit was slightly over 1% of GDP, which was less than one-half the 1991 figure. The public sector was still in a shaky financial situation, however, owing to the debt service arrears it had built up during the crisis years of 1987-1989. Progress was made in regularizing the public sector's payment commitments thanks to the settlement of overdue payments to international financial agencies corresponding to the period 1987-1990 as well as of obligations with the Paris Club, for which purpose resources were made available by multilateral and governmental bodies. In spite of the considerable expansion of public expenditure, the Dominican Republic's central-government surplus swelled to 3% of GDP thanks to a spectacular rise in tax revenues.

Uruguay's fiscal adjustment continued to serve as the main instrument of its stabilization policy. The results achieved on its consolidated public accounts surpassed the governmental authorities' expectations, marking up a surplus equivalent to half a point of GDP. This improvement was attributable to the non-financial segment of the public sector, which achieved a surplus amounting to 2.5% of GDP, since the quasi-fiscal deficit totalled 2%. Government-owned enterprises generated a financial surplus of over one percentage point of GDP, while the central government's positive balance bordered on 1.4% of GDP despite the large deficit run up by the social security system.

In Colombia, the central government registered a deficit of 1.6% of GDP in 1992, after having practically balanced its accounts the year

before; it should be noted, however, that the non-financial public sector's deficit was quite small. The widening of this financial gap can be attributed to a number of causes, including the central government's obligation to transfer more funds to sub-national levels of government under the provisions of the new Constitution, a drop in fiscal revenues due to the reduction of tariff levels, a steep decrease in the State electricity company's sales owing to a severe drought, the negative impact on public accounts of sagging coffee prices on international markets, an increase in the amount of resources absorbed by the country's internal armed conflict and the financial difficulties affecting the subway system in Medellin. The nation's Congress passed a package of tax provisions in an effort to rectify this imbalance, which had been in existence since the start of the year, but this package did not provide an immediate boost for fiscal accounts, since most of the reforms it contained were not to enter into effect until 1993.

Guatemala's fiscal policy was also more expansionary than it had been the year before, when a point of virtual equilibrium had been attained, despite the fact that current income rose by more than one point of GDP as a result of a new tax reform measure designed, in particular, to broaden the application of the value added tax.

In Paraguay the central government's accounts (which had been balanced in 1991) showed a deficit of 1% of GDP because the increase in current expenditure outdistanced the rise in income. This situation was compounded by a drop in government enterprises' net profits as a consequence of the freeze placed on their prices and rates, which almost wiped out the non-financial public sector's previous surplus.

In 1992 Peru continued to pursue its fiscal adjustment policy, which focused on augmenting income, cutting spending and eliminating State companies' deficits by raising their prices and by selling some of them to the private sector. Nevertheless, public-sector expenditure expanded significantly because of the need to undertake long-postponed investments and, secondarily, due to rising wages; in addition, rate adjustments were delayed. The combination of all these factors yielded a deficit equivalent to 1.8% of GDP, which was much the same as in 1991 but was substantially smaller than the negative balances of earlier years.

In an attempt to adjust its fiscal accounts, Bolivia'raised the rate of its value added tax. This boosted effective taxation despite the decline in State firms' export earnings, especially from sales of natural gas to Argentina. The increase in income was not great enough to stop the fiscal deficit from expanding to 6.8% of GDP, however, which was nearly two percentage points more than the year before. In any event, most of this gap was covered with external resources which, moreover, took the form of soft loans, the forgiveness of interest payments on the country's external debt, and grants and donations.

In spite of El Salvador's tax reforms and the readjustment of the rates charged by State companies in 1992, the non-financial public sector's deficit grew to 5.6% of GDP. This deterioration in the financial situation was almost entirely attributable to a continuing sharp rise in capital expenditure (43% in real terms), since income levels continued to mount and current expenditure held virtually steady.

In Honduras, public finances have taken a turn for the better thanks to the effort made since 1990 to boost income levels, which succeeded in raising them by over 30% -in real terms- over a three-year period; as a result, they stood at over 18% of GDP in 1992. The deficit remained at around 5% of GDP, however, because of an extraordinarily sharp increase in capital expenditure, although external financing for the shortfall was forthcoming.

In 1992 Nicaragua continued to pursue the fiscal austerity policy which since 1991 has been one of the pillars of its stabilization effort and of its plans for bringing about structural change in the economy; with the help of this policy, it seeks to downsize the State and put its finances into better shape. Thus, the public-sector and central-government deficits, which had already been reduced the year before (to over 9% of GDP and to almost 8% of GDP, respectively) were held down to their existing levels. These deficits were mainly due to an increase in investment expenditure since, as in 1991, the authorities strove to balance out current income and expenditure -a basic principle of their stabilization programme- and they were

financed, also as in 1991, with external resources obtained on concessional terms.

In Brazil, fiscal accounts showed a deficit after having been balanced for the preceding two years. The operating deficit was 2.4% of GDP, whereas the year before a small surplus had been recorded (0.3%). Primary accounts (discounting interest) again yielded a surplus (2%), but the nominal deficit, which had held at about 27% of GDP during the two preceding fiscal years, was pushed up to 45% in 1992 by an upsurge in inflation, although even so it was lower than it had been during the 1988-1989 biennium. The emergency tax reform approved in 1991 did not produce the expected results, which made the possibility of a more flexible management of fiscal policy more remote than before. The amount of funding transferred to the country's states and municipalities was increased further when the annual readjustment of revenue-sharing percentages was carried out and, as a result, the National Treasury's disposable income fell by over 3% in real terms in 1992. Under these circumstances, the Treasury's chances of showing a surplus on its accounts would be determined by the extent to which non-financial expenditures (both current and investment) could be restricted. The federal government's supply of financial resources was also reduced by the steep drop in the Central Bank's profits (-70%) occasioned by the costliness of sterilizing the large increase in international reserves.

The series of teams that undertook to lead the economy in 1992 proposed fiscal reforms to Congress that were designed to modify the tax structure and rationalize public spending. The year came to a close without these proposals coming to a vote, however, and an adjustment that is essential for the stabilization of the economy was therefore postponed. In the face of the political troubles arising out of the crisis caused by the President's departure from office, together with the protracted debate surrounding the constitutional amendments regarding fiscal matters that are to be introduced in 1993, the Government applied strict cost-control measures, took specific steps to improve tax collection and carried forward its privatization programme. Although a small operating deficit reemerged, the results were nearing the targets set by the Government in its negotiations with the International Monetary Fund (IMF).

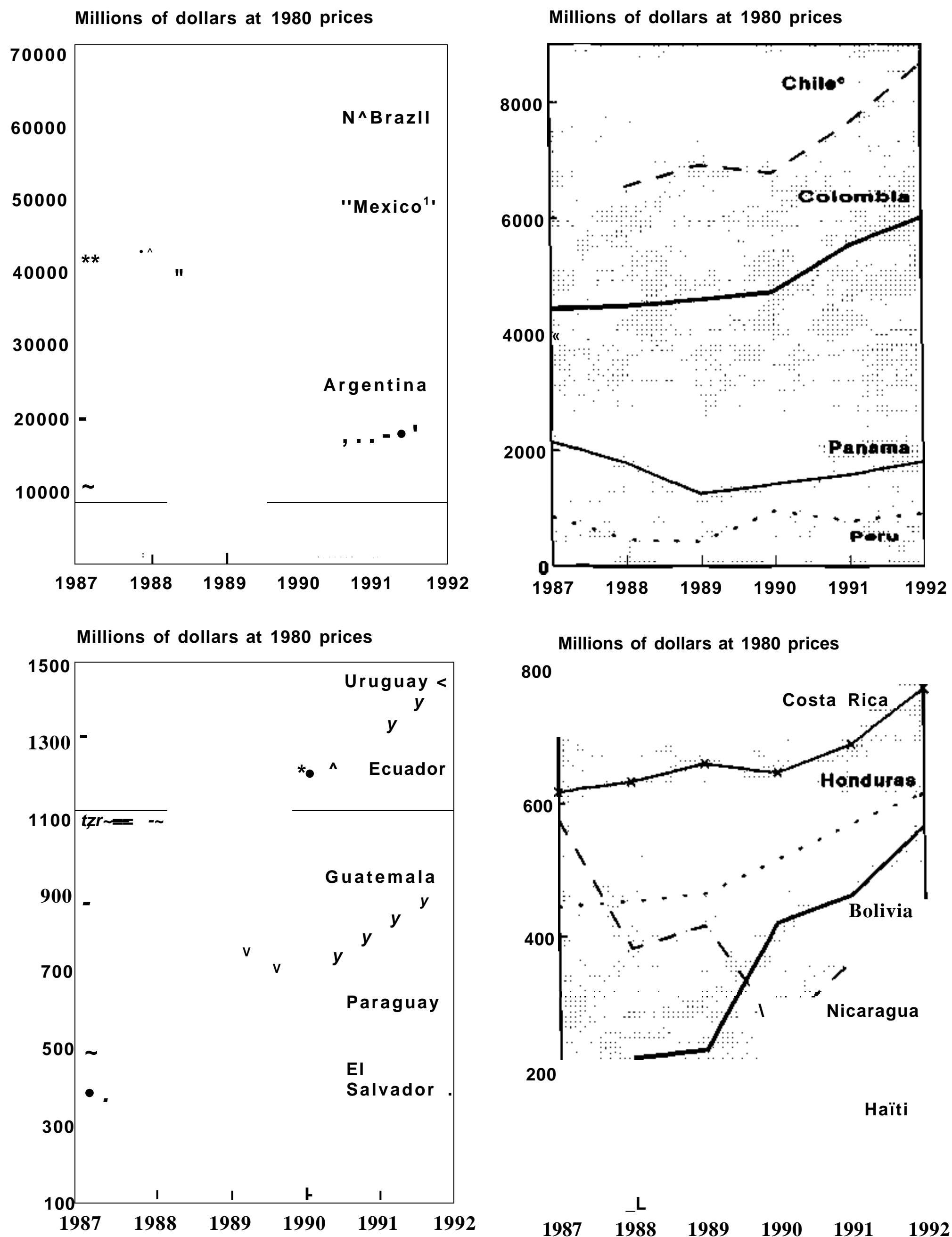
In Ecuador, the non-financial public sector's deficit widened to 1.5% of GDP in 1992 owing to the fact that the steep rise in expenditure (nearly 8% in real terms) was not entirely offset by the increase in revenues (6%). The financial position of the consolidated public sector was even worse since, in addition, the Central Bank's accounts exhibited a large deficit on its quasi-fiscal operations. This prompted the new administration that took office in August 1992 to adopt a drastic adjustment programme.

During 1992 Venezuela continued its efforts to stabilize its public finances by limiting investment in the petroleum sector, reducing current spending and boosting tax receipts. To that end, various bills were submitted to Congress whose purposes were to raise revenues and streamline the tax structure. These bills were not passed, however, and the progress of administrative reforms was slow. Moreover, earnings from oil sales were down sharply. Expenditure, meanwhile, continued to climb because, even though a tight fiscal policy was supposed to be in place, its own institutional rigidities prevented it from working. Given these circumstances, the central government recorded a deficit of over 4% of GDP and the non-financial public sector's financial gap broadened to 6%; in contrast, public accounts had yielded a surplus the year before, although the non-recurrent income from privatizations had played a major role in that outcome, since without it those accounts would have shown a deficit of about 3% of GDP.

Haiti's public finances deteriorated severely during 1992 due to the steep drop in tax revenues and the suspension of all external financing as a consequence of the political crisis triggered by the overthrow of the country's constitutional Government. In any event, the financial shortfall amounted to only 2% of GDP, which was quite small compared to the deficit of nearly 4% registered in 1991. This result was chiefly due to the cancellation of virtually all public investment because of the discontinuation of external economic assistance programmes.

Figure VI-2

LATIN AMERICA AND THE CARIBBEAN: CURRENT INCOME OF CENTRAL GOVERNMENT [a]



Source: ECLAC, on the basis of official figures.

[a] For Argentina, Chile, Mexico and Venezuela, the current income shown is that of the non-financial public sector. [b] Does not include income from petroleum. [c] Does not include income from copper.

3. Trends in fiscal revenues

As was also the case the year before, in 1992 fiscal revenues rose in almost all the countries of the region; in fact, they fell in only four: Brazil, Colombia, Haiti and Venezuela. This increase was the result of the consolidation of a process which, in most cases, has raised the income of the non-financial public sector to levels significantly above those recorded five years ago (see figure VI-2). The upswing in fiscal revenues was due both to higher tax receipts within an expanding economy and to larger profits for State companies, along with, in some cases, non- recurrent income from privatization operations. Government-owned firms' export earnings, especially from petroleum and metals, were hurt, however, by the drop in the prices brought by those exports on international markets. Nevertheless, some of the countries affected by this price decline (e.g., Bolivia, Chile and Mexico) were able to increase their tax revenues so much that they far outweighed the decrease in external income. Ecuador, meanwhile, succeeded in raising its level of fiscal income mainly by expanding its oil exports (see tables VI-2 and VI-3).

In Brazil, the general government's income shrank by 3% in real terms in 1992 after having fallen by 14% the year before; this was chiefly because of a downturn in tax revenues, although towards the end of the year public enterprises' incomes also contracted as their prices and rates lagged behind inflation. In Colombia, the non-financial public sector's current income slipped by 2% in real terms due to problems in the electricity sector occasioned by a severe drought which made it necessary to ration the use of electrical power. In Haiti, the Government's tax revenues were halved as a consequence of the fiscal crisis there. In Venezuela, the non-financial public sector's current income plunged (-13%) owing to a steep drop in petroleum earnings which an increase in tax revenues failed to offset.

a) A widespread increase in tax revenues

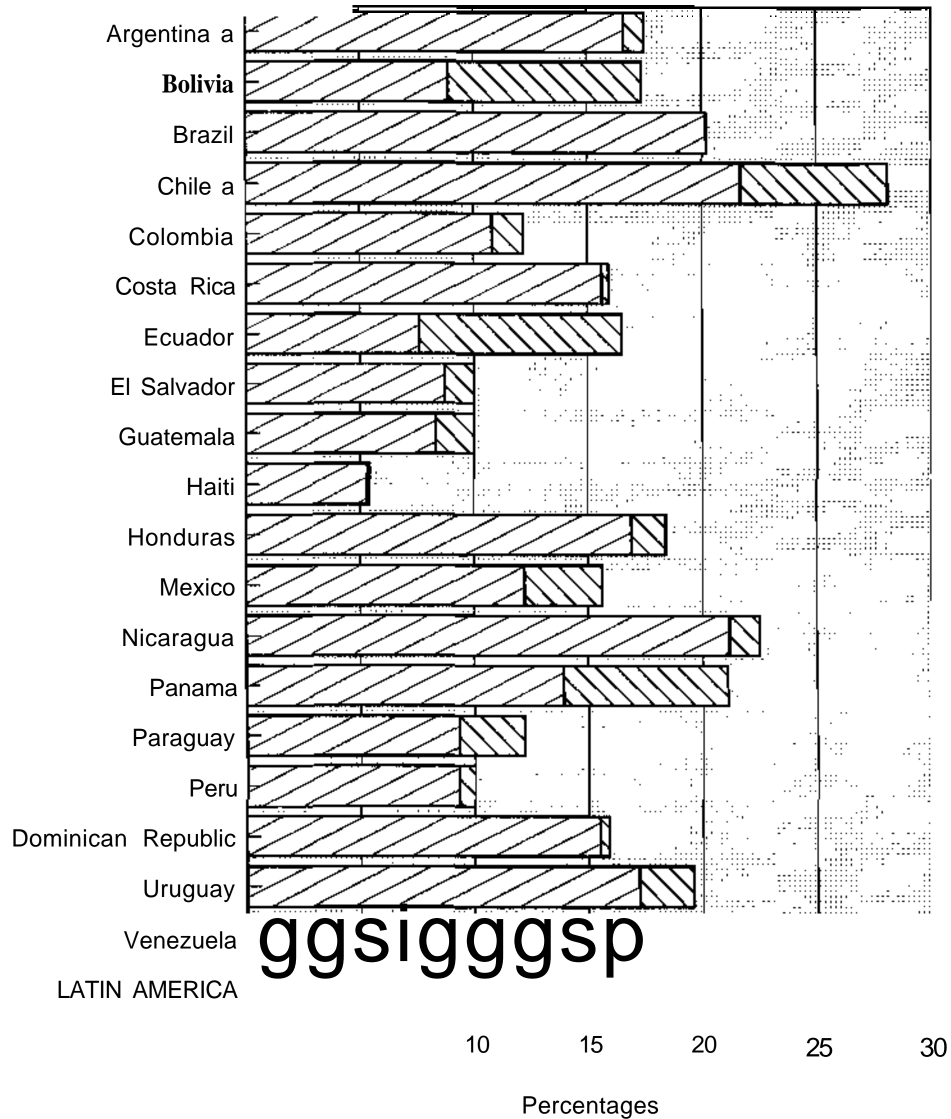
As was also true in 1991, the increase in tax revenues was widespread and was attributable to a series of factors: a slow-down in inflation, an expansion of economic activity and of imports, tax reforms, increased efficiency on the part of collection agencies and the general mood of confidence that has spread to various countries of the region. In Brazil, however, tax revenues diminished due to higher inflation, the recession and legal problems in connection with the collection of some taxes. In Haiti, much the same thing occurred, largely because of the severe deterioration of the formal sector of the economy as a result of the political crisis that engulfed the country.

Despite these advances, the crisis of the 1980s continued to have some ramifications in the area of tax collections, which again reflected the consequences of rampant tax evasion prompted by the declining administrative efficiency of collection agencies and by the growing importance of the informal sector in the region's economies. This was clearly illustrated in Peru, where the tax burden continues to be much lighter than it was before the current recession. In Brazil, after a short-lived recovery in 1990, the tax load amounted to approximately 20% in 1991-1992, which was from two to four points lower than it had been during the 1980s (see table VI-2).

The further strides taken in 1992 in controlling the rate of price increases in a number of countries which had suffered from runaway inflation in earlier years was once again a contributing factor in the substantial expansion seen in tax revenues. In practically all those countries, tax receipts had declined as a consequence of accelerating inflation, since there is inevitably a time lag between the moment in which a tax obligation is incurred and the time when it is actually paid to the State. The slow-down in inflation that began in 1991 had the opposite effect, since it reduced the amount by which the value of tax payments declined during that time period. This effect was more marked in countries without a history of inflation, such as Nicaragua and Peru, because their notable price increases severely limited their fiscal income due to the lack of mechanisms for indexing taxable sums or the amounts owed on taxes. In countries with a history of high inflation, however, such as Argentina or Uruguay, where mechanisms for preventing inflationary surges from reducing tax receipts were already in place, the effect was less

Figure VI-3
LATIN AMERICA AND THE CARIBBEAN: CURRENT INCOME OF CENTRAL GOVERNMENT, 1992

(As a percentage of GDP)



Source: EC LAC, on the basis of official figures.

* Income of non-financial public sector. [b] Does not include receipts from taxes on natural resources.[c] Includes non-tax income plus receipts from taxes of natural resources.

marked since tax collections did not diminish as sharply, except during relatively brief periods when particularly steep inflationary spikes were registered. Slackening inflation also had this effect in Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Mexico.

Another factor that contributed to the increase in tax revenues was the reactivation of production, which broadened the tax base in most of the countries of the region due to the high elasticity of such revenues in relation to output. The considerable expansion of imports seen in most of the countries was yet another important contributing factor, since imports are heavily taxed, being subject not only to tariffs but also to specific duties as well as the VAT and other similar taxes that are levied once the products have been cleared through customs. The import liberalization policy implemented in various countries during recent years has also been conducive to an increase in tax revenues (despite the consequent reduction of tariffs, which in many cases had restrictive effects) because it has led to higher imports.

This trend in tax receipts first became evident in 1991 and strengthened in 1992 in a wide range of countries: Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Panama, Uruguay and Venezuela. These countries witnessed a simultaneous expansion of activity and of imports, and the increase in tax revenues -except in the case of receipts from exports- was considerably greater than the growth of GDP (see figure VI-4). In Ecuador tax revenues from sources other than petroleum were higher, but this was due entirely to the expansion of output, since imports were lower. Paraguay's tax revenues also rose, and in Nicaragua and Peru tax receipts were up substantially -even though these two countries were in a recession- thanks to a sharp deceleration of inflation and a notable rise in imports. Brazil and Haiti were the only countries in the region whose tax income diminished in real terms; in fact, the reductions were even sharper than the decrease in the level of activity.

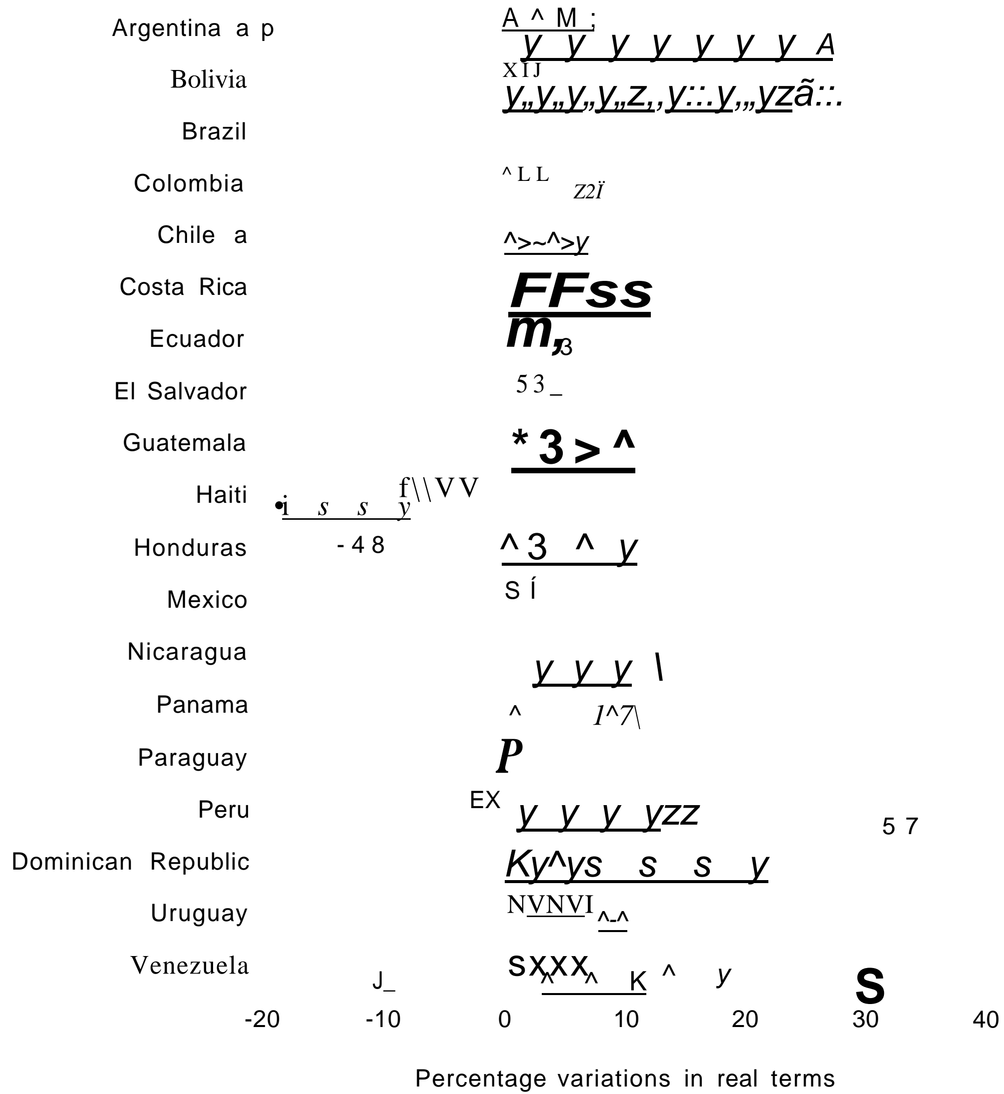
Tax reforms implemented in 1992, in combination with those of earlier years, undoubtedly contributed to the increase in tax receipts. In 12 countries of the region (Argentina, Bolivia, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru) major tax provisions were adopted, most of which consisted of an increase in taxation rates, a broadening of the tax base and modifications in collection mechanisms. In practically all of these countries (the exception being Colombia, whose accounts were relatively balanced), the aim of the reforms was to correct the disequilibrium in public finances, although in some cases a tendency to streamline the tax system was also to be observed. Towards the close of 1991 emergency tax measures had been adopted in Brazil, the most important one being the re-indexation of taxes; this helped to curb the decline in receipts within a context of high inflation and recession -the difficulties that arose with regard to the collection of some taxes notwithstanding. In Ecuador, the new administration proposed a tax reform whose effects would not become evident until 1993. In Chile and Uruguay no major reforms were undertaken in 1992 but the effects of the 1990 reforms continued to be felt.

In a number of the countries, the efficiency of tax collection agencies also improved noticeably and taxpayers fulfilled their commitments more readily; both of these factors played a pivotal role in the expansion of tax revenues. The high elasticity (over 2) of tax revenues in relation to variations in GDP in Argentina, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Venezuela appeared to indicate that the increased efficiency of tax collection systems and the greater confidence elicited by the countries' fiscal policies have made a significant contribution to the marked rise in tax receipts. Even Peru recorded a sharp increase in tax revenues despite its slump in economic activity. In most of the other countries tax revenues also climbed, as in 1991, and exhibited an elasticity greater than 1, which would seem to suggest that the effectiveness of tax system administration and taxpayers' confidence were steadily on the rise in almost all the countries of Latin America.

One of the most salient traits of public finances in the region was the fact that in 11 countries (Argentina, Chile, Costa Rica,

Figure VI-4

UT IN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX RECEIPTS AND GROSS DOMESTIC PRODUCT, 1992



H Gross domestic product LJTax receipts

Source: ECLAC, on the basis of official figures.

* Tax receipts of public sector.

Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Peru) tax revenues jumped by over 10% in real terms -in some cases for the second year in a row. Venezuela's tax receipts from sources other than petroleum skyrocketed by 32%, which was even more than the year before. In another five countries (Bolivia, Colombia, Mexico, Paraguay and Uruguay) the growth rate for this type of income ranged from 4% to 10% (see table VI-4).

b) **Tax policy**

In **Argentina,** tax revenues swelled by 29% in real terms as a result of the combined effect of all the factors mentioned above. The level of activity continued to climb at a significant pace as imports boomed and the economy's price stability was consolidated; in addition, tax compliance rates were up. As had also occurred in 1991, both the tax system's administration and the tax structure underwent major changes. One such change was a marked rise in receipts from the value added tax (VAT), which totalled slightly less than 40% of the funds collected by the National Treasury. In contrast, the income from all the various excise taxes -including the fuel tax and various taxes levied by the central government- diminished. Although tariff revenues rose because of the expansion of imports, they accounted for a much smaller share of total revenues than in 1991. As a general rule, fiscal policy sought to concentrate on broad-based taxes, and this was reflected in the reduction or elimination of a series of levies, including the tax that had been applied to banking debits.

In **Bolivia,** tax revenues shot up by 40% in real terms, thereby boosting the tax load to 10% of GDP. This increase was largely due to the fact that the VAT rate was raised from 10% to 13%. In addition, reforms were initiated in the Customs Administration and managerial control over the Bureau of Internal Revenue was upgraded with a view to a continued increase in tax collection.

In **Brazil,** the federal government's current income slipped again in real terms (-3%) after having fallen by 14% in 1991. Receipts from the tax on the circulation of merchandise and services (a tax levied by the various states) were down even more sharply, particularly in the more industrialized states, and social security contributions saw zero growth in real terms. The decline in federal tax revenues was basically a result of the serious legal difficulties involved in collecting the COFINS (the tax that took the place of the former FINSOCIAL), which cut these receipts by 23% in real terms. The trend in all the other federal taxes was a favourable one, however, thanks to the advance payment of corporate income taxes and the re-indexation of taxes from January 1992 on, for which purpose a standard tax unit (the UFIR) was created and readjusted each day based on the consumer price index. As a result of these measures, corporate income taxes rose by around 70% in real terms, while the tax on manufactures showed real positive growth despite the sagging level of industrial activity.

In Colombia, the central government's income climbed by 9% inreal terms, which raised it to 12% of GDP. In addition, in order to boost tax revenues and thus head off an incipient fiscal deficit, the government submitted a tax reform bill to Congress which, after some important amendments were made, was passed in July 1992. This reform -the fifth undertaken in Colombia in the past eight years- consisted primarily of the following measures: i) an increase from 12% to 14% in the general rate of the VAT; ii) an increase in the tax on purchases of luxury motor vehicles; iii) the application of the VAT to various services and the exemption of some mass consumption articles and some agricultural inputs and machinery; iv) an increase in the special taxes levied on the production of petroleum, natural gas, coal and ferronickel; v) authorization for the Government to impose a withholding tax of up to 30% on foreign exchange earnings from various exports (under the terms of this provision, a 10% withholding tax was actually established); and vi) a variety of measures designed to increase the efficiency of tax collection systems and reduce tax evasion. These reforms also stipulated that large and mid-sized taxpayers had to purchase a total of approximately US$ 430 million worth of social development and internal security bonds; these bonds do not bear interest and may be used within five years to make tax payments. Despite all these measures, however, tax revenues in 1992 did not change to any significant degree because most of

the reform provisions, particularly those relating to the VAT, were not to enter into force until 1993.

In Costa Rica, the authorities took a variety of steps to restructure the tax system and its administration and made modifications in some procedures that helped to increase tax revenues from foreign trade. Specifically, numerous exemptions were eliminated and harsher penalties for tax evasion were established. These provisions played an important role in boosting receipts, as did an increase in the tax on banana exports (from US$ 0.28 to US$ 0.50 per crate) and the higher tariff revenues made possible by the expansion of imports. In the administrative sphere, taxpayer rolls were improved, the procedure for collecting taxes by court action was streamlined and, in general, measures were adopted to speed up the collection of taxes by decentralizing the collection process and tax administration functions. The real increase in income tax revenues was also a reflection of the positive impact of the slow-down in inflation. The combination of all these factors far outweighed the adverse effects of the elimination of surcharges on imports, lower tariff levels and the reduction of the general sales tax from a 13% rate to 12%; the net result was that the tax burden increased by one percentage point of GDP, to slightly less than 16%.

Thanks to the notable expansion of economic activity in Chile, net local-currency tax revenues climbed by 13% in real terms even though no further changes were made in the tax structure. This more than offset the reduction of net earnings from copper and led to a real 11 % increase in the non-financial public sector's current income.

In Ecuador, the administration that took office in August 1992 adopted a variety of measures to raise tax receipts, including a one-time tax on real corporate assets and a broadening of the tax base for the VAT.

In El Salvador, major fiscal reforms were introduced in order to alter the Government's income pattern. The crux of these reforms was the establishment of a value added tax, which entered into effect in September at a rate of 10%. Changes were also made in the tariff structure and in income tax provisions in order to simplify the tax system, lower marginal taxation rates and cut down on tax evasion. The Government's receipts reflected a faster rate of growth in indirect taxes, especially import duties.

In **Guatemala,** the growth rate for current income was one of the highest in recent years, as revenues climbed by over one point of GDP to a 10% level. In 1992 a fiscal reform measure was approved under which the value added tax became generally applicable. **In Haiti,** tax revenues were halved as a result of the severe crisis in that country which has been marked, *inter alia,* by a contraction of economic activity and of foreign trade. Moreover, tax evasion has increased dramatically, and it is estimated that only 25% of import duties were actually collected. In **Honduras,** the central government's tax revenues rose by 11 % in real terms, which meant that the tax burden grew by over one point of GDP, to 17%. Factors contributing to this increase included the reforms initiated in 1990, the modernization of the administrative process, slackening inflation and a more rapid expansion of production activity and imports. A marked increase was seen in the income tax and in indirect taxes. The tax rate applying to petroleum products was raised, and this took the place of the fiscal revenues that had been derived from the spread between external and domestic oil prices. In 1992 the tariff rollback process was brought to completion, the 10% surcharge on imports was reduced and the surcharge on imports from other Central American countries was discontinued. These measures, along with the expiration of the tax on windfall profits from exports, resulted in a zero growth rate in real terms for tax revenues from foreign trade.

In Mexico, the federal government's tax revenues were up by less than 3% in real terms, even if the non-recurrent income from the divestiture of State enterprises is figured into the total. This was partly due to the reduction of some taxes in late 1991 ; one of those taxes was the VAT, whose rates were lowered from 20% and 15% to 10%, which cut the receipts from that tax by more than 20% in real terms. Real income tax receipts, on the other hand, rose by 11 % as a consequence of a higher level of economic activity, a broader tax base and stricter enforcement. In addition, receipts from special taxes applying to production and services jumped by 34% due, in particular, to fuel price hikes in late 1991. The collection of import duties was also up, although

the increase was quite small in relation to the high levels recorded for the preceding three years.

In Nicaragua, tax revenues continued to climb thanks to the fact that the decrease in the inflation rate reduced the effect of the lag in tax collections. Early in the year the general sales tax was reduced from 15% to 10% and some public rates and prices were lowered in an effort to energize the reactivation of the economy and external competitiveness. Financial problems in the public sector stemming from the United States' decision to withhold some of its aid led to the reestablishment of the 15% rate in September and the extension of the tax to services to which it had previously not applied. Along with measures designed to broaden the tax base, preferential rates were established for mass consumption goods and services.

Panama's current income rose by 16% due to an increase in the country's principal taxes. The adoption of new tax measures and the trade liberalization process also contributed to a slight increase in tax revenues. Midway through the year a profits tax reform was instituted which reduced the rates applying to corporate profits to a uniform level of 30% in an effort to attract transnational corporations to the country and to forestall tax evasion. Two special tax exemptions were later introduced for the country's export processing zones (EPZs) and the Colón "free port".

In Paraguay, the central government's revenues grew by around 5% in real terms; receipts were up, despite the reduction and streamlining of tariff rates in June, thanks, in large part, to the adoption of a 10% value added tax whose coverage was broader than that of the general sales tax which it replaced. In **Peru,** tax revenues climbed by 15% in real terms, which boosted them to over 9% of GDP; this was still, however, a low figure in historical terms. Towards the end of February a package of tax measures was approved that raised the general sales tax from 16% to 18%, which contributed to the above-mentioned increase in receipts.

In the **Dominican Republic,** tax revenues swelled from 11 % to 16% of GDP, mainly because of an increase in indirect taxes. Contributing factors included the growth of the economy and an expansion of imports, the delayed effect of a slow-down in inflation and a series of tax measures. Taxes on foreign trade were raised, as were the value added tax and the tax on petroleum. In the first case, the appraised values for customs purposes, which serve as the basis for the computation of import duties, were increased; in the second case, the VAT rates were hiked from 6% to 8% and the tax's coverage was extended to include all imports. In the case of the tax on hydrocarbons and hydrocarbon products, receipts were higher due to the reactivation of the economy, and this tax consequently became an important component of fiscal revenues.

In Uruguay, tax revenues rose again in real terms, this time by 13%. The high level of domestic economic activity raised the taxable base for both indirect and direct taxes, which climbed by 7% and 35%, respectively, in real terms. In contrast, receipts from taxes on foreign trade continued to slip in real terms because the marked increase in imports was not enough to counteract the adverse impact of tariff reductions, which included a temporary exemption for capital goods, and the lower level of the real exchange rate.

In Venezuela, tax revenues from sources other than petroleum were more than 30% higher in real terms than in 1991, but these receipts were not large enough to make up for the steep drop in petroleum revenues. Notable developments within this context included the increased level of receipts from income taxes, despite a reduction in the corporate rate and the virtual elimination of personal income taxes; the higher level of customs revenues in spite of the fact that the average tariff rate was lowered to less than 10%; and the rise in income from excise taxes (on liquor, cigarettes, stamps, etc.).

c) **Income of public-sector enterprises**

Income trends for public-sector enterprises were mixed in 1992. Receipts were down in all the countries (with the exception of Ecuador) where this category of fiscal revenue is largely drawn from natural-resource exports. In some countries, including El Salvador and Uruguay, earnings on sales of goods and services in the domestic market held at 1991 levels or rose thanks to rate adjustments that eliminated the lag in public-sector charges *vis-à-vis* general price levels. In the case of Uruguay, the high level of

earnings from exports of electrical power was also an important factor. In Brazil, similar adjustments were made at the start of 1992, but price lags reappeared towards the end of the year. In Bolivia and Peru, the situation was much the same, since the suspension of the rate adjustment process led to a decline in non-tax income in real terms. In Colombia, public-sector firms' incomes diminished due to problems affecting the State-run electricity and oil companies. Finally, in some countries non-tax revenues are declining substantially because of the privatization of selected public-sector companies; this process has assumed considerable proportions in Argentina, Mexico and Venezuela in recent years, but has not had any major repercussions in Brazil or Peru, since their privatization programmes are just beginning.

In Colombia, public-sector firms' gross income declined, falling from nearly 14% of GDP in 1991 to slightly over 12% in 1992, which was equivalent to an 8% drop in real terms. The State electricity company had to ration consumption owing to a drought, and the State petroleum company's earnings fell as the value of its exports stagnated after already having decreased the year before; in addition, oil exports continued to be hurt by frequent guerilla attacks on the pipeline that carries crude oil to port for shipment.

In Chile, sagging copper prices cut into the profits realized by the Corporación Nacional del Cobre de Chile (CODELCO) and this, in turn, reduced CODELCO's transfers to the central government. As a result, non-tax income rose by just 7% in real terms, which was less than the increase in tax revenues. In Mexico, the income of Petróleos Mexicanos (PEMEX) was down by around 5% in real terms due to a decrease in the value of its oil exports.

In Venezuela, the central government's oil revenues plummeted by about 30%, which lowered both the operating balance of Petróleos de Venezuela, S.A. (PDVSA) and receipts from the income taxes paid by the petroleum sector. This contraction amounted to over six percentage points of GDP and was the result of weakening petroleum prices on the international market and smaller export volumes.

In Ecuador, on the other hand, non-tax income increased considerably as the surplus run up by public-sector enterprises climbed by 7% in real terms, mainly as a result of a rapid expansion of activity in the petroleum sector. Consequently, more than one half of the public sector's income in 1992 was composed of non-tax revenues. This growth was partly due to the fact that a larger volume of oil exports more than made up for the decline in international prices for hydrocarbons. In addition, in August the new administration instituted a substantial increase in public-sector companies' rates and prices, especially for fuels and electricity service, in order to reduce the large deficit recorded on public accounts.

In Argentina, saving by State enterprises was virtually nil. In Bolivia, non-tax income grew very haltingly (by less than 3%), especially because of the downswing in the price brought by natural gas exports to Argentina. Fuel prices were hiked by 13% early in the year in an effort to narrow the deficit in public accounts, but even so State firms' earnings from domestic sales declined in real terms. Brazil's economic programme provided for an adjustment of State enterprises' rates and prices throughout the year, but scheduled readjustments in the final quarter were postponed. The real decline in these firms' incomes caused by this deferral added to the public sector's operating deficit.

In the second half of the year the rates and prices charged by El Salvador's public-sector firms (particularly those providing telephone, water and electricity services) were raised by an average of 30%, a rate which far outpaced inflation. In Honduras, non-tax revenues slipped as a consequence of the fact than an increase in the tax on petroleum products from 7% to 15% was substituted for the income derived from the spread between domestic and international oil prices.

In April Peru began to readjust the prices of public services on a monthly basis, with the result that during the second half of the year the rates for telephone and electricity services regained their former real value. None the less, subsequent lags in these rate adjustments cut into the income of public-sector enterprises. In Uruguay, government firms' surplus grew by over 1% of GDP, mainly because of the substantial financial surplus recorded by the company in charge of providing electricity service. This firm significantly increased its sales to Argentina and

achieved a high marginal rate of productivity, thanks in large measure to its performance in terms of the generation of hydropower.

d) **Capital gains from the sale of public** assets

In 1992 some countries in the region again received large amounts of capital income from the sale of companies and other public assets. In 1991, this source of income had become an important element in public finances, whereas prior to that time, with the exception of Chile, privatization operations has been sporadic and of limited scope. The sale of public assets to the private sector took place on a particularly large scale in a number of countries, including the larger nations of the region, and came to represent a temporary but significant source of income for the public sector.

In Mexico and Argentina, the amount of income derived from privatizations was extraordinarily large in 1992, as had also been the case in 1991, and thus helped to finance the public sector. In Mexico, these receipts actually exceeded the sector's needs, and it was therefore possible to build up a surplus in fiscal accounts. The final stage in the process of privatizing the country's nationalized commercial banks produced, in 1992, around US$ 12 billion in income, which was slightly less than 3% of GDP. In addition, the second block of shares in Teléfonos de México was put up for sale and a number of other firms were transferred over to the private sector. Thanks to the high level of non-recurrent income obtained in the course of the privatization process, the public-sector continued to whittle away at its debt. In Argentina, privatization operations proceeded apace; the State sold 30% of its block of shares in one of the two telephone companies, transferred title to various electricity plants, as well as to power distribution services for the metropolitan area and waterworks, and put the right to operate various railroad lines on offer. A number of manufacturing enterprises were also transferred to the private sector, including the largest iron and steel mill. On the other side of the coin, the Government added to its stockholdings in Aerolíneas Argentinas owing to the difficulties involved in amassing the necessary capital. Meanwhile, private firms continued to move into the exploration and development of oil fields on the basis of oil leases and partnership contracts, and preparatory steps were taken for the sale of a large percentage of the stock in the State's petroleum company in 1993. In contrast, Venezuela slowed down its privatization programme because of the climate of political uncertainty in the country, after having forged ahead at a spectacular pace the year before, when the national telecommunications company, the country's international airline and other smaller firms had all been sold. In 1992, the only sales to be finalized were of a number of hotels and three sugar mills, for a total of around US$ 30 million.

In Brazil the privatization process also moved ahead, with 14 companies being sold for over US$ 4 billion between September 1991 and December 1992. Although more income was obtained from privatizations than the year before, it was not an important factor in the financing of the public sector because much of it took the form of external debt paper. The privatization process was also carried forward in Peru, where 12 firms were sold for a total sum of US$ 260 million. The sale price for Hierroperú was three times the original price; other major enterprises sold in 1992 included Petróleos de Perú, the Aeroperú airline and the mining companies Enatruperu and Empresa Pública de Comercialización de Productos Mineros.

By the end of the year 29 companies in the tourism and forestry sectors and in the cement industry, among others, had been sold in Honduras. The purchase of the cement plant by the Military Insurance Institute was an especially significant event. In Nicaragua the privatization programme launched in 1990 proceeded, but at a slower pace. In Bolivia, the privatization process is just beginning; the Corporación Minera de Bolivia is being restructured so that it can be converted into a holding company formed by independent enterprises entering into joint ventures with foreign firms, and it is hoped that this will enable the company to regain its earlier levels of output, which fell sharply in 1992. In the Dominican Republic, the authorities announced that the Government would begin to privatize those companies that were running up the largest deficits. Finally, the implementation of

Uruguay's privatization policy was suspended after a measure to authorize, *inter alia,* the sale of a portion of the telephone company was voted down in a referendum held for that purpose. Privatizations will therefore proceed only in those instances in which the corresponding legal provisions have not been repealed, as in the case of the State airline.

4. **Public expenditure**

In 1992, public expenditure rose in real terms in almost all the countries of the region. Indeed, an increase in spending was recorded in 16 of the countries for which information was available -although the size of those increases varied a great deal, as did their causes- while expenditure declined in only three countries: Haiti, Mexico and Venezuela. The sharpest upturns in total spending (between 11% and 40%) were seen in Argentina, Bolivia, Dominican Republic, Guatemala, Honduras, Paraguay, Peru and Uruguay. Expenditure also climbed substantially (by between 5% and 10%) in Brazil, Chile, Costa Rica, Ecuador, El Salvador, Nicaragua and Panama, and rose more moderately in Colombia (3%). In contrast, a slight drop in spending was registered in Mexico and a more sizeable decrease (-5%) took place in Venezuela. In Haiti, the downward slide in expenditure that had begun two years earlier picked up speed, as spending fell to just about one-half its 1991 level (see table VI-5). Hence, overall, public expenditure rose in most of the countries of the region -in some cases for the third year in a row- with the result that total spending neared the level attained in 1987-1988 (see figure VI-5).

Trends in the various components of total expenditure were mixed, since although both current and capital spending expanded in most of the countries -albeit at differing rates- in some countries they moved in opposite directions. In 10 of the countries whose expenditures rose in real terms (Argentina, Bolivia, Chile, Dominican Republic, Ecuador, Guatemala, Honduras, Paraguay, Peru and Uruguay), increases were registered in both current and capital outlays. In another four countries (Colombia, Costa Rica, El Salvador and Nicaragua), a real increase was seen only in capital expenditure, while current disbursements either diminished or held virtually steady. On the other hand, the rise in spending recorded in Brazil and Panama was due to higher current expenditures, while capital outlays were down significantly. Among the countries in which total expenditure declined, Haiti reduced both its current and capital disbursements, while Mexico exhibited a slight expansion in investment. In Venezuela the situation was just the reverse, since current expenditure climbed, but not sharply enough to offset the steep drop in pubic investment.

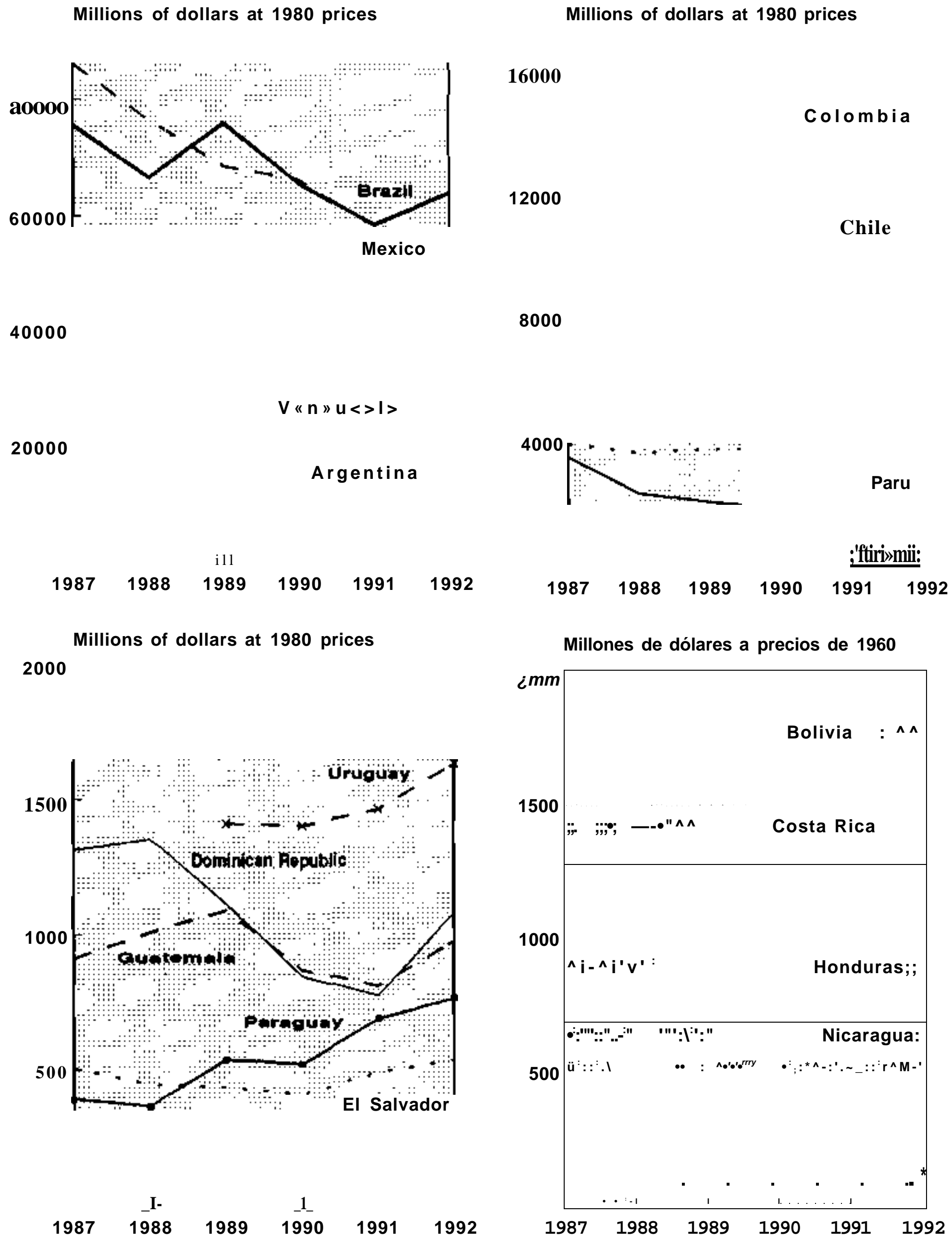
Current expenditure was higher in real terms in 13 countries and was lower or stable in six. The largest increases (of between 10% and 45%) occurred in Argentina, Bolivia, Brazil, Dominican Republic, Ecuador, Panama, Paraguay, Uruguay and Venezuela; an expansion of between 6% and 7% was recorded in another three countries (Chile, Guatemala and Peru) and a slight rise was seen in Honduras. In those countries where this variable was lower, the decrease was quite small (less than 2%), except in the case of Haiti. This was clearly a departure from the trend seen in current expenditure in 1991, when it fell in many of the countries as a consequence of their adjustment policies. In most cases, the upswing in spending was attributable to the elimination of certain budgetary restrictions, which made it possible for expenditure to return to its former levels in areas previously subject to budget cuts. The exceptions to this trend were Brazil, where the increase was due to a steep rise in interest payments, and Uruguay, where the central government's social security contributions continued to mount at a considerable pace as a result of the automatic indexation of retirement and other pensions pursuant to the 1989 constitutional amendments.

Interest payments on external and domestic debts were smaller in most of the countries of the

In many of the 19 countries for which up-to-date information on public finances was available, the data on expenditures referred to the central government (and generally included transfers to local governments, although not their total expenditures). Information on the total expenditure of the non-financial public sector was available only for a limited number of countries.

Figure VI-5

LATIN AMERICA AND THE CARIBBEAN: TOTAL EXPENDITURE OF NON-FINANCIAL PUBLIC SECTOR [a]



Source: ECLAC, on the basis of official figures.

[a] For Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama and Peru, the total expenditure shown corresponds to the central government only.

region for different reasons. In the case of the external debt, this decrease was a consequence of declining international interest rates and, in some instances, of a reduction in the size of the debt principal, mainly as aresultof agreements signed under the terms of the Brady Plan. In the case of the domestic debt, interest payments were lower in some countries owing to a drop in nominal interest rates linked, for the most part, to a slow-down in inflation, but the decrease in real terms was much smaller. In some countries, the decline in domestic interest rates was also a result of the downturn in international rates. Interest payments rose, however, in Argentina Bolivia, Brazil, Panama and Venezuela. In Brazil, a significant real increase in interest payments was registered because real interest rates moved upward in response to the use of monetary instruments to control inflationary surges and the return of funds frozen in March 1990 under the first Collor Plan. Another factor in this regard was the large increase in the country's international reserves, which made it necessary to raise interest rates in order to counteract the considerable expansion of the money supply generated by that increase (see table VI-5).

In a departure from earlier years, consumption expenditure rose in most of the countries of the region owing to the easing of budgetary restrictions and the increase in real remunerations resulting from the decline in inflation rates. The increase was a large one in the cases of Argentina, Bolivia, Chile, Dominican Republic, Ecuador, Guatemala, Panama, Paraguay, Peru, Uruguay and Venezuela. In almost all of these countries, this increase marked the first reversal of the downward trend observed in recent years. In other countries, however, consumption expenditure stagnated or slipped slightly as adjustment measures continued to be applied, especially in the area of wages, in an effort to correct imbalances in government accounts. In Uruguay, personnel expenditures fell in real terms, while in Brazil consumption expenditure was limited in order to reduce the fiscal deficit In Haiti, this item of expenditure plummeted.

Capital expenditure climbed in 15 countries, and in seven of those countries the increase was particularly sharp (40% or more). This was generally due to a more abundant supply of external resources, although the reduction of budgetary restrictions, which helped to soften the effects of earlier adjustments, was also a factor. Investment expenditure was down, however, in five countries; the decrease was a huge one in the case of Haiti, in which there was virtually no public investment in 1992 as a consequence of the suspension of external financing. Panama also witnessed a sizeable decrease in investment following a strong upturn in 1991, while Brazil and Venezuela reduced their public investments substantially, since this was the area in which they concentrated their fiscal adjustment efforts (see table VI-5).

Consequently, a large number of countries reached or maintained levels of public investment that were higher than those recorded in 1987. Countries in which real capital expenditure was below the figure for that year included Argentina and Mexico (whose public investment requirements diminished, in any event, as a consequence of privatizations), Brazil, Costa Rica, Dominican Republic and Peru.

5. **Financing of the deficit**

Since most of the countries' fiscal deficits were further reduced in 1992, the problems that had arisen in the past with regard to the financing of those deficits continued to lessen. In 1991 significant progress had been made in this connection, and these advances were reinforced in 1992, except in the cases of Brazil, Haiti and Venezuela, whose fiscal deficits all widened, for various reasons.

During the 1980s, imbalances in public accounts, in conjunction with a very sharp decrease in external financing, had created serious problems in terms of the management of monetary and fiscal policy, since various Governments had found it necessary to resort to issuing currency in order to cover their deficits. Major changes began to be observed in the public-sector financing mix at the start of the 1990s, however, as the proportion of domestic

financing shrank and, in some cases, actually became negative. The reduced need for financing led to a decrease in the amount of central-bank credit granted to the Governments of the region, a flow which had been the main -and, at times, the only- source of financing for Governments of the region in the 1980s. The level of resources obtained from the sale of public-sector debt paper or from other forms of private-sector borrowing was quite low in most of the countries, except for a few that have more highly developed capital markets or financial systems. None the less, the level of domestic debt actually fell in some countries, especially Mexico, which paid off a portion of its debt with the one-time earnings from privatizations. On the other hand, the flow of external resources remained meagre for many countries, apart from the involuntary financing represented by interest arrears; the only economies 10 escape from this general trend were some of the smaller ones, particularly those of the Central American countries. In a number of countries that did receive external financing, such as Colombia and Chile, this source was used less than in the past and in some countries, such as Mexico, part of the Government's fiscal effort was actually directed towards external debt reduction.

The surpluses marked up on the public accounts of some countries allowed them to reduce their hefty external and domestic debts. Among these countries, a particularly outstanding case in this respect was, once again, Chile, which had already completed the adjustment of its public finances some years ago. In 1992, Chile's non-financial public sector ran up a surplus of 2.5% of GDP and used this to amortize the debt owed by the Government to the Central Bank, thereby helping to reduce the quasi-fiscal deficit. In Mexico, the non-recurrent income from the divestiture of public-sector enterprises was used to lower the public debt. This was an important step towards consolidating the fiscal adjustment process initiated in 1988, since it cut down on the high cost of debt servicing. By the end of 1992, the balance of the gross external debt amounted to US$ 75.8 billion, which was 5.3% less than it had been in December 1991, and the federal government's net domestic debt totalled 123 billion pesos, which was 26.5% less in real terms than at year's end in 1991. Consequently, the total net debt (both domestic and external) of the consolidated public sector, including the Banco de México, represented 27% of GDP, as compared to 36% at the close of 1991. Some headway was also made in Uruguay, whose public accounts yielded a surplus that enabled the non-financial public sector to reduce its net debt to around 2% of GDP while at the same time improving the structure of its official external debt. Thanks to the surplus recorded by Costa Rica's non-financial public sector, a considerable net inflow of external finance for the second year running (equivalent to 1.5% of GDP in 1992) permitted a reduction of the domestic debt despite the fact that 70% of the central government's deficit was covered with domestic funds obtained from the sale of securities. In the Dominican Republic, the central government's surplus of slightly over 3% of GDP made it possible to reduce the country ' s domestic and external debts.

Argentina also experienced a major change, although it was of a different magnitude and had other characteristics. For the first time in many years, the non-financial public sector did not find it necessary to seek domestic financing because its deficit was almost wholly financed with non-recurrent income derived from the sale of public assets. Colombia's small 1992 deficit was covered with domestic credit, which was easily absorbed by the financial system. The sterilization of the addition to the money supply generated by the substantial build-up of international reserves posed greater difficulties, however. Furthermore, net external financing declined, since amortization payments exceeded the income from new loans received by the public sector. The situation with respect to the financing of Panama's fiscal deficit also took a favourable turn, and the reinstatement of public financing on a regular basis, following the severe 1987-1989 crisis, was consolidated. The central government's deficit was quite small and was financed entirely with domestic funds from financial institutions located within the country, whose activities have returned to normal. Nevertheless, some problems were posed by the high level of amortization payments on the public debt and the regularization of arrears with

international lending agencies (which amounted to about 7% of GDP). The funds needed to meet these obligations were mainly supplied by the United States, and the donations and special funds that it provided were supplemented by loans from other Governments and multilateral organizations. Guatemala registered a very small deficit, which was financed with domestic credit, whereas Paraguay covered its deficit with external credit and reduced its domestic debt. Finally, Peru ran up a larger deficit than these countries (nearly 2% of GDP) and financed it with both external and domestic funds.

A number of countries whose fiscal accounts showed sizeable deficits in 1992 were able to draw upon external financing; these countries therefore had almost no need to resort to domestic credit, and some of them were even able to reduce their Governments' debt with the corresponding central bank. Bolivia's large deficit (7% of GDP) was financed with soft external loans, unpaid interest and grants and donations, and the public sector thus made little use of domestic credit. Ecuador's deficit of 1.5% of GDP was almost completely covered with external credits. In El Salvador, most of the deficit was financed with external resources from grants or donations and fresh loans; the small net amount of domestic financing to be used came from the Central Bank, while the debt owed to other domestic lenders was reduced. Honduras also covered its deficit entirely with external resources, and the Government's demand for domestic credit was therefore stabilized at the preceding year's level. In Nicaragua, external financing amounted to 17% of GDP, which was substantially more than the public-sector deficit, thereby enabling the country to amortize a significant percentage of the debt owed by the Government to the Central Bank as part of its effort to put public finances on a sounder footing.

Among those countries whose deficit were financed primarily with domestic credit, Brazil was once more an outstanding case by virtue of the magnitude of its financing requirements. Nearly all of its operating deficit of over 2% of GDP had to be covered with domestic funds because the Government had no external financing to draw upon. This was reflected in an increase in the amount of federal and state government securities in circulation outside the Central Bank from slightly under 3% of GDP at the end of 1991 to somewhat more than 6% in December 1992. Furthermore, the release of the funds frozen under the first Collor Plan added the equivalent of another US$ 1.5 billion per month to the money supply; around 40% of these resources were attracted to special deposits with the Central Bank thanks to the high interest rates it offered. Federal and state banks also heavily pressured the Central Bank to extend credit to them so that they could cope with the problems caused by the arrears run up by the country's states and municipalities, which have made almost no payments since late 1991. These problems were compounded by the pressure exerted upon the monetary base by the Central Bank's rapid accumulation of international reserves (equivalent to 3% of GDP). Venezuela's large deficit was financed chiefly with external resources supplied by Petróleos de Venezuela, S.A. (PDVSA) and, secondarily, with funds from multilateral agencies and international financial markets. Government receipts from privatizations, which had covered most of the deficit the year before, were reduced to a minimum, however, and the public sector's financing requirements therefore obliged the Central Bank to apply a policy designed to cut down on liquidity and keep interest rates high. Haiti, most of whose public-sector financing used to come from external resources, was faced with a suspension of virtually all external financing as a result of its political crisis. Consequently, the whole of the central government's deficit, which amounted to 2% of GDP, had to be covered with domestic credit from the Central Bank (i.e., new currency issues).

Table VI-1

LATIN AMERICA AND THE CARIBBEAN: PUBLIC SECTOR DEFICIT (-) OR SURPLUS AT CURRENT PRICES [a]

(Percentage O/GDP)

	Coverage	1987	1988	1989	1990	1991	1992[b]
Argentina	NNFPS	-4.6	-6.0	-3.8	-3.8	-1.6	-0.1
Bolivia	NFPS	-8.1	-6.6	-6.6	-5.8	-4.9	-6.8
	CG		-1.5	-1.9	0.3	2.1	0.2
Brazil	NFPS	-15.1	-20.7	-27.5	-16.7		
	Nominal CPS[c]	-32.3	-53.0	-83.1	-26.9	-27.5	-45.0
	Operational CPS[c]	-5.7	-4.8	-6.9	1.2	0.3	-2.3
Colombia	NFPS[d]	1.9	-2.5	-2.4	-0.3	0.1	-0.6
	CG	-0.5	-1.4	-1.6	-0.9	-0.1	-1.6
Costa Rica	NFPS	-0.2	0.1	-2.5	-2.5	-0.1	0.7
	CG	-2.0	-2.5	-4.1	-4.4	-3.2	-1.9
Chile	NFPS	2.6	3.9	5.5	1.5	1.7	2.8
Ecuador	NFPS	-9.6	-5.3	-1.4	0.1	-1.0	-1.5
	CG	-6.2	-2.1	0.4	3.6	1.3	
	GG	-7.7	-3.4	-0.7	0.2	-0.1	-1.5
El Salvador	CG	-3.8	-3.2	-4.9	-3.2	-4.6	-4.5
	NFPS			-5.8	-2.5	-4.4	-5.6
Guatemala	CG	-2.5	-2.5	-3.8	-2.3	-0.1	-0.5
Haiti	CG	-7.0	-5.2	-6.6	-5.9	-3.8	-2.1
Honduras	CG	-6.6	-6.9	-7.3	-6.3	-4.8	-5.0
Mexico	CPS	-15.5	-12.5	-5.7	-4.0	1.8	3.4
	CG	-14.3	-9.7	-5.1	-2.8	3.2	4.5
Nicaragua	CG	-16.6	-26.6	-6.7	-17.2	-8.0	-7.9
	CPS				-17.2	-8.6	-9.3
Panama	CG	-4.6	-5.4	-7.1	6.8	-2.7	-1.2
	NFPS	-5.1	-5.2	-7.8	1.3		
Paraguay	NFPS				3.4	1.5	0.2
	CG	-0.1	0.7	1.5	3.0	-0.2	-1.0
Peru	CG	-5.7	-2.5	-4.2	-2.5	-1.6	-1.7
	NFPS					-1.5	-1.8
Dominican Republic	CG	-2.2	-1.6	-0.1	0.3	0.8	2.9
Uruguay	CPS		-4.5	-6.1	-2.5	-	0.5
	CG	-1.3	-2.0	-3.4	-0.1	0.4	0.3
Venezuela	NFPS	-4.4	-8.6	-1.3	1.0	0.6	-5.7
	CG	-0.6	-2.0	-1.2	-1.2	2.7	-3.6

Source: ECLAC, based on official figures.

Key: CG= Central Government. NFPS= Non-financial public sector, NNFPS = National non-financial public sector, excluding provinces and municipalities. CPS= Consolidated public sector.

[a] Calculated on the basis of figures in local currency at current prices. Preliminary figures. [c] Estimates based on finance requirements of consolidated public sector. Does not include transfers.

Table VI-2

LATIN AMERICA AND THE CARIBBEAN: FISCAL INCOME AT CURRENT PRICES

(Percentages of GDP)

Country	Coverage	Item	1987	1988	1989	1990	1991	1992[b]
Argentina	NNFPS	Current income [c]	13.9	13.1	13.8	13.3	15.2	17.5
	NNFPS	Tax receipts	12.4	11.8	12.9	12.4	14.2	16.6
	NNFPS	Capital income	0.2	0.3	0.4	0.2	1.2	1.4
	NNFPS	Total income	14.1	13.4	14.4	13.5	16.4	18.9
Bolivia	NFPS	Current income	26.4	26.8	28.8	31.0	29.6	30.6
	NFPS	Tax receipts	5.4	7.1	6.8	7.3	7.4	10.1
	NFPS	Capital income	0.2	0.9	0.1	0.2	0.4	0.4
	NFPS	Total income	26.6	27.7	28.9	31.2	30.0	31.0
	CG	Current income		12.1	11.5	16.2	17.1	17.4
	CG	Tax receipts		4.9	4.7	6.9	7.1	8.9
	CG	Hydrocarbon income		6.7	6.0	6.7	7.1	5.5
	CG	Capital income		-	0.3	0.3	0.9	1.2
	CG	Total income		12.1	11.8	16.5	18.0	18.6
Brazil	NFPS	Current income	27.5	26.9	27.3	33.5		
	NFPS	Tax receipts	23.4	21.9	21.9	27.4		
	GG[e]	Current income	20.6	18.4	18.7	24.3	20.7	20.2
Chile	NFPS	Current income	30.6	30.9	30.1	26.7	27.8	28.1
	NFPS	Tax receipts [g]	21.0	19.8	19.3	17.8	19.3	20.0
	NFPS	Operating income	5.0	6.2	6.6	5.0	3.9	
	NFPS	Capital income	3.4	3.7	3.1	1.6	1.8	1.6
	NFPS	Total income	33.9	34.6	33.2	28.3	29.6	29.8
Colombia	CG	Current income	10.6	10.3	10.2	10.1	11.6	12.2
	CG	Tax receipts	9.5	9.4	9.3	9.1	10.3	10.8
	NFPS[h]	Total income	31.9	32.5	32.7	32.0	33.6	31.7
	NFPS[h]	Tax receipts	14.4	14.2	14.2	14.2	15.5	15.6
Costa Rica	CG	Current income	15.7	15.6	15.4	14.6	15.2	15.9
	CG	Tax receipts	14.5	14.5	14.5	14.0	14.7	15.6
	NFPS	Current income	26.0	26.9	26.9	26.2	28.3	28.7
	NFPS	Capital income	0.1	0.1	0.1	-	0.2	-
	NFPS	Total income	26.1	27.0	27.0	26.2	28.4	28.7
Ecuador	NFPS	Current income	21.9	21.6	26.3	27.4	25.9	26.6
	NFPS	Petroleum income	6.0	7.7	9.4	11.6	8.9	9.9
	NFPS	Non-petroleum income	14.3	12.8	14.8	13.3	13.9	13.6
	CG	Current income	13.9	15.1	16.0	17.8	14.9	16.5
	CG	Petroleum income	4.9	6.9	7.4	9.7	7.0	8.5
	CG	Non-petroleum income	9.0	8.2	8.7	8.1	7.8	8.0
	CG	Tax receipts	8.5	7.8	8.1	7.8	7.3	7.6
El Salvador	CG	Current income	11.7	10.3	8.2	8.7	9.2	10.0
	CG	Tax receipts	10.9	9.3	7.6	8.1	8.5	8.7
	NFPS	Current income			10.3	11.1	11.6	12.3
	NFPS	Tax receipts		...	7.6	8.1	8.5	8.7
Guatemala	CG	Current income	9.4	10.2	9.5	7.9	9.1	10.0
	CG	Tax receipts	8.1	8.8	7.8	6.8	7.3	8.3
Haiti	CG	Current income	11.7	11.8	12.1	9.7	9.8	5.4
	CG	Tax receipts	11.1	11.4	11.6	9.2	9.4	5.3

Table VI-2(concl.)

Country	Coverage	Item	1987	1988	1989	1990	1991	1992[b]
Honduras	CG	Current income	15.4	15.0	14.7	16.4	17.7	18.4
	CG	Tax receipts	13.4	12.8	12.5	14.8	15.8	16.9
Mexico	CG	Current income	16.1	15.6	15.7	15.3	15.6	15.6
	CG	Tax receipts, excluding PEMEX	10.8	12.2	12.1	11.5	12.0	12.2
	CG	PEMEX earnings	5.3	3.5	3.6	3.8	3.6	3.4
	CG	Capital income	1.1	1.2	2.3	1.8	4.9	5.1
	CG	Total income	17.2	16.8	17.9	17.1	20.5	20.7
	NFPS	Current income	30.9	30.5	29.6	29.6	30.0	30.4
	NFPS	PEMEX earnings	9.9	7.7	6.9	7.5	6.5	6.0
Nicaragua	CG	Current income	27.5	21.1	23.4	14.9	20.6	22.5
	CG	Tax receipts	25.0	19.2	21.7	13.5	18.9	21.2
	CPS	Current income				19.3	27.6	31.3
	CPS	Capital income				-	0.3	0.2
	CPS	Total income				19.3	27.9	31.5
Panama	CG	Current income	20.5	13.4	12.1	25.9	19.6	21.1
	CG	Tax receipts	14.9	9.8	8.8	12.5	13.3	13.9
Paraguay	CG	Current income	8.1	7.9	11.4	12.4	11.8	12.2
	CG	Tax receipts	7.0	6.9	8.8	10.2	9.5	9.3
	CG	Total income	8.1	7.9	11.4	12.4	11.9	12.2
	NFPS	Current income				15.2	15.0	15.8
	NFPS	Capital income				0.5	0.3	0.2
	NFPS	Total income		...		15.7	15.3	16.0
Peru	CG	Current income	9.0	8.2	6.5	7.8	8.5	10.0
	CG	Tax receipts	8.4	7.6	6.2	7.5	7.8	9.3
Dominican	CG	Current income	14.6	15.5	13.5	11.1	10.9	15.9
Republic	CG	Tax receipts	13.1	13.7	12.5	10.5	10.6	15.5
Uruguay	CG	Current income	16.3	16.8	15.6	17.8	18.8	19.6
	CG	Tax receipts	15.0	15.4	14.3	16.1	16.4	17.2
	CPS	Total income		30.2	28.6	32.7	33.9	33.1
Venezuela	CG	Current income	18.1	18.2	20.4	23.8	23.3	17.6
	CG	Petroleum income	9.5	10.5	14.9	18.7	18.3	11.6
	CG	Tax receipts	8.6	7.7	4.8	4.1	4.7	5.9
	CG	Total income	21.7	18.4	20.4	23.8	27.4	17.6
	NFPS	Current income	27.1	23.8	29.9	33.8	29.9	24.3
	NFPS	PDVSA earnings	13.6	11.4	20.2	25.8	21.2	15.6
	NFPS	Non-petroleum income	13.5	12.4	9.7	8.0	8.7	8.7
	NFPS	Capital income	0.4	0.1	0.0	0.2	4.5	0.2
	NFPS	Total income	27.5	23.9	29.9	34.0	34.4	24.5

Source: ECLAC, on the basis of official figures.

Key: CO = Central Government, oo = General Government, PEMEX = Mexican National Oil Corporation. PVDSA= Venezuelan National Oil Corporation, CPS = Consolidated public sector, NFPS = Non-financial public sector, NNFPS = National non-financial public sector, excluding provinces and municipalities.

* Calculated on the basis of figures in local currency at current prices. Preliminary figures. [c] Includes savings of public enterprises. [d] Includes income from sales of public enterprises and autonomous agencies. [e] Includes Treasury, taxes on the circulation of merchandise and services, and social security contributions. Includes taxes and operating income from public enterprises, but not their saving after transfers. [g] Does not include taxes on copper or social security contributions. Does not include transfers.

Table VI-3

LATIN AMERICA AND THE CARIBBEAN: CURRENT PUBLIC-SECTOR INCOME

Country	Coverage	Index 1987 = 100					Percentage of annual variation				
		1988	1989	1990	1991	1992[b]	1988	1989	1990	1991	1992[b]
Argentina	NNFPS	92.3	91.2	87.8	109.3	136.7	-7.7	-1.2	-3.7	24.5	25.1
Bolivia	NFPS	104.5	115.8	130.5	130.3	138.5	4.5	10.8	12.7	-0.2	6.3
	CG	100.0	98.0	144.5	159.5	166.8		-2.0	47.4	10.4	4.6
Brazil	NFPS	97.8	102.4	120.6			-2.2	4.7	17.8		
	GG[c]	89.2	93.7	116.4	100.1	96.8	-10.8	5.0	24.2	-14.0	-3.3
Chile	NFPS	108.5	116.0	105.0	115.6	128.8	8.5	6.9	-9.5	10.1	11.4
Colombia	CG	101.2	103.8	106.9	125.1	136.3	1.2	2.6	3.0	17.0	9.0
	NFPS[d]	106.2	110.6	112.5	120.4	117.6	6.2	4.1	1.7	7.0	-2.3
Costa Rica	CG	102.6	106.8	104.7	111.3	124.9	2.6	4.1	-2.0	6.3	12.2
	NFPS	106.8	112.6	113.5	125.2	136.1	6.8	5.4	0.8	10.3	8.7
Ecuador	NFPS	107.3	130.8	139.1	137.7	146.1	7.3	21.9	6.3	-1.0	6.1
	CG	118.2	125.4	142.3	124.8	142.8	18.2	6.1	13.5	-12.3	14.4
El Salvador	CG	89.3	71.9	78.8	86.1	97.8	-10.7	-19.5	9.6	9.3	13.6
	NFPS		100.0	111.4	120.3	133.2			11.4	8.0	10.7
Guatemala	CG	112.8	109.0	93.3	111.2	128.0	12.8	-3.3	-14.4	19.2	15.1
Haiti	CG	101.7	105.4	84.4	85.0	42.9	1.7	3.6	-19.9	0.7	-49.5
Honduras	CG	102.1	104.8	116.4	128.4	138.8	2.1	2.6	11.1	10.3	8.1
Mexico	CG	98.1	102.0	103.9	109.7	112.6	-1.9	4.0	1.9	5.6	2.6
	NFPS	99.9	100.2	104.7	109.9	114.4	-0.1	0.3	4.5	5.0	4.1
Nicaragua	CG	66.3	72.3	45.9	63.2	69.6	-33.7	9.0	-36.5	37.7	10.1
	CPS			100.0	142.4	162.8				42.4	14.3
Panama	CG	55.0	49.5	111.5	92.0	107.0	-45.0	-10.0	125.3	-17.5	16.3
Paraguay	CG	104.0	159.0	178.3	173.6	182.7	4.0	52.9	12.1	-2.6	5.2
	NFPS			100.0	101.0	108.2				1.0	7.1
Peru	CG	83.4	58.5	66.3	73.7	84.4	-16.6	-29.9	13.3	11.2	14.5
Dominican Republic	CG	107.8	97.7	75.9	73.8	115.8	7.8	-9.4	-22.3	-2.8	56.9
Uruguay	CG	103.0	97.0	111.7	121.3	135.8	3.0	-5.9	15.2	8.6	12.0
Venezuela	CG	106.4	110.0	137.1	147.8	119.4	6.4	3.4	24.6	7.8	-19.2
	NFPS	93.0	107.7	130.0	126.7	110.1	-7.0	15.8	20.7	-2.5	-13.1

Source: ECLAC, based on official figures.

Key: CG = Central Government, GG = General Government, NFPS = Non-financial public sector, NNFPS: = National non-financial public sector, excluding provinces and municipalities, CPS = Consolidated public sector.

″ Calculated on the basis of figures in local currency at constant 1980 prices. Preliminary figures [c] Includes Treasury, taxes on the circulation of merchandise and services, and social security contributions. Does not include transfers.

Table VI-4
LATIN AMERICA AND THE CARIBBEAN: TAX RECEIPTS IN REAL TERMS [a]

Country	Coverage	Index 1987 == 100					Percentage of annual variation				
		1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Argentina	NNFPS	93.2	95.5	91.8	114.4	145.3	-7.6	2.5	-3.9	24.6	27.0
Bolivia	NFPS	135.4	133.7	150.2	159.2	223.4	35.4	-1.3	12.3	6.0	40.3
	CG	100.0	98.9	152.0	163.5	210.7		-1.1	53.7	7.6	28.9
Brazil	NFPS	93.7	97.0	116.4			-6.3	3.5	20.0		
	GG [c]	89.2	93.7	116.4	100.1	96.8	-10.8	5.0	24.2	-14.0	-3.3
Chile	NFPS	101.3	108.4	102.0	116.9	133.6	1.3	7.0	-5.9	14.6	14.3
Colombia	CG	103.1	105.6	107.4	124.0	134.6	3.1	2.4	1.7	15.5	8.5
	NFPS [d]	102.7	106.4	110.6	123.1	128.3	2.7	3.6	3.9	11.3	4.2
Costa Rica	CG	103.2	108.9	108.7	116.6	132.7	3.2	5.5	-0.2	7.3	13.8
Ecuador	CG	99.8	103.8	102.0	100.0	107.5	-0.2	4.0	-1.7	-2.0	7.5
El Salvador	CG	86.6	71.5	78.8	85.4	91.3	-13.4	-17.4	10.2	8.4	6.9
Guatemala	CG	112.9	103.8	93.2	103.6	123.3	12.9	-8.1	-10.2	11.2	19.0
Haiti	CG	103.6	106.5	84.3	85.9	44.4	3.6	2.8	-20.8	1.9	-48.3
Honduras	CG	100.2	102.4	120.7	131.8	146.5	0.2	2.2	17.9	9.2	11.2
Mexico	CG	114.4	117.2	116.4	125.8	131.3	14.4	2.4	-0.7	8.1	4.4
Nicaragua	CG	66.4	73.7	45.7	63.8	72.1	-33.6	11.0	-38.0	39.6	13.0
Panama	CG	55.3	49.6	74.0	85.9	97.0	-44.7	-10.3	49.2	16.1	12.9
Paraguay	CG	105.1	142.0	169.7	161.8	161.1	5.2	35.1	19.5	-4.7	-0.4
Peru	CG	82.9	59.9	68.3	72.5	84.1	-17.1	-27.7	14.0	6.1	16.0
Dominican Republic	CG	106.2	100.8	80.0	79.9	125.8	6.2	-5.1	-20.6	-0.1	57.4
Uruguay	CG	102.6	96.6	109.7	115.0	129.5	2.6	-5.8	13.6	4.8	12.6
Venezuela	CG	94.8	54.5	49.7	62.8	84.2	-5.2	-42.5	-8.8	26.4	34.1

Source: ECLAC, based on official figures.
Key: CG = Central Government. GG = General Government. NFPS = Non-financial public sector, NNFPS = National non-financial public sector, excluding provinces and municipalities.
[a] Calculated on the basis of figures in constant 1980 dollars. [b] Preliminary figures. [c] Includes Treasury, taxes on the circulation of merchandise and services, and social security contributions. Does not include transfers.

Table VI-5 (cont.)

Country	Coverage	Item	Index 1987=100"				Percentage of annual variation"				Percentage of GDP					
			1989	1990	1991	1992[c]	1989	1990	1991	1992[e]	1987	1988	1989	1990	1991	1992°
Ecuador	NFPS	Total expenditure	96.1	96.6	99.7	107.6	3.3	0.5	3.2	7.9	31.4	26.8	27.7	27.3	26.9	28.1
	NFPS	Current expenditures	90.6	90.1	90.5	99.0	-5.4	-0.6	0.4	9.4	24.3	21.4	20.2	19.7	18.9	20.0
	NFPS	Capital expenditures	115.7	119.6	131.9	138.0	39.1	3.4	10.3	4.6	7.1	5.4	7.5	7.6	8.0	8.1
	CG	Total expenditure	85.1	78.5	86.3	98.7	-8.6	-7.7	9.9	14.4	20.1	17.2	15.7	14.2	14.9	16.5
	CG	Current expenditures	89.7	75.8	80.8	96.9	-5.3	-15.5	6.6	19.9	17.0	14.8	14.0	11.6	11.8	13.7
	CG	Capital expenditures	59.7	93.2	67.6	108.6	-29.1	56.1	-27.5	60.6	3.1	2.4	1.7	2.6	1.8	2.8
El Salvador	CG	Total expenditure	86.7	81.3	97.5	106.3	-1.9	-6.2	19.9	9.0	15.5	13.5	13.1	11.9	13.8	14.4
	CG	Current expenditures	90.5	89.9	99.6	99.9	-4.5	-0.7	10.8	0.3	11.9	11.1	10.5	10.1	10.8	10.4
	CG	Capital expenditures	74.3	52.9	91.5	130.7	10.9	-28.8	73.0	42.8	3.6	2.4	2.6	1.8	3.0	4.1
	NFPS	Public investment	137.0	82.4	127.5	196.0	27.2	-39.9	54.7	53.7	2.9	3.1	3.9	2.3	3.4	5.0
	NFPS	Total expenditure	100.0	87.3	106.1	124.7	-	-12.7	21.5	17.7			16.1	13.6	16.0	18.0
	NFPS	Current expenditures	100.0	99.9	111.3	112.5 .	-	-0.1	11.4	1.2			11.8	11.4	12.3	11.9
	NFPS	Capital expenditures	100.0	52.9	91.9	155.6	-	-47.1	73.7	69.6			4.3	2.2	3.7	6.0
Guatemala	CG	Total expenditure	119.8	.95.3	88.8	107.2	8.0	-20.5	-6.8	20.7	11.9	12.7	13.2	10.2	9.2	10.6
	CG	Current expenditures	113.0	98.0	90.9	96.4	2.5	-13.3	-7.2	6.1	9.6	10.2	10.1	8.5	7.6	7.7
	CG	Capital expenditures	146.0	84.3	75.3	152.4	28.2	-42.3	-10.7	102.4	2.3	2.5	3.1	1.7	1.5	2.9
	NFPS	Public investment	121.8	108.9	115.6		6.5	-10.6	6.2		2.5	2.7	2.8	2.4	2.5	
Haiti	CG	Total expenditure	101.9	84.9	73.8	37.8	11.1	-16.7	-13.1	-48.8	18.7	17.0	18.7	15.6	13.6	7.6
	CG	Current expenditures	106.3	89.1	80.0	54.2	10.4	-16.2	-10.2	-32.3	12.7	12.1	13.2	11.1	10.0	7.4
	CG	Capital expenditures	92.8	76.1	60.7	3.1	13.3	-18.0	-20.2	-94.9	6.0	4.9	5.5	4.5	3.6	0.2
Honduras	CG	Total expenditure	110.1	113.1	114.1	126.5	5.5	2.7	0.9	10.9	22.0	21.9	22.1	22.8	22.5	24.0
	CG	Current expenditures	110.6	106.0	117.2	119.1	7.3	-4.2	10.6	1.6	17.7	17.5	17.9	17.2	18.6	18.2
	CG	Capital expenditures	107.8	142.6	103.9	156.7	-1.7	32.3	-27.1	50.8	4.3	4.5	4.2	5.6	4.0	5.8
	NFPS	Public investment	118.1	83.8	110.3		12.6	-29.0	31.6		5.1	5.1	5.4	3.9	5.0	
Mexico	NFPS	Total expenditure	79.6	76.8	67.4	66.4	-10.4	-3.5	-12.2	-1.5	45.4	39.8	34.5	31.9	27.0	25.9
	CG	Total expenditure	77.4	69.0	60.4	59.4	-11.7	-10.9	-12.5	-1.7	31.5	27.3	23.3	19.9	16.8	16.1
	CG	Current expenditures	78.9	66.8	58.5	56.7	-13.2	-15.3	-12.4	-3.1	28.3	25.4	21.3	17.3	14.6	13.8
	CG	Capital expenditures	63.6	90.7	79.7	82.5	5.0	42.6	-12.1	3.5	3.2	1.9	2.0	2.7	2.3	2.3
Nicaragua	CG	Total expenditure	58.0	61.7	55.1	58.8	-38.0	6.4	-10.7	6.7	44.1	47.7	30.1	32.1	28.8	30.5
	CG	Current expenditures	57.6	66.0	53.5	52.7	-36.4	14.6	-18.9	-1.5	39.4	41.3	26.7	30.7	25.0	24.4
	CG	Capital expenditures	61.3	25.2	68.1	108.3	-47.8	-58.9	170.2	59.0	4.7	6.4	3.4	1.4	3.8	6.0
	CPS	Total expenditure		100.0	99.6	112.2		-	-0.4	12.6				36.5	36.5	40.8
	CPS	Current expenditures		100.0	87.7	85.5		-	-12.3	-2.5				34.4	30.3	29.3
	CPS	Capital expenditures		100.0	294.0	545.0		-	194.0	85.4				2.1	6.2	11.4

Table VI-5 (concl.)

Country	Coverage	Item	Index 1987=100[a]				Percentage of annual variation"				Percentage of GDP					
			1989	1990	1991	1992[c]	1989	1990	1991	1992[c]	1987	1988	1989	1990	1991	1992[c]
Panama	**NFPS**	**Total expenditure**	**79.9**	**72.5**			**5.7**	**-9.3**			**39.7**	**35.7**	**37.8**	**32.6**		
	NFPS	**Current expenditures**	**81.8**	**75.1**			**7.6**	**-8.2**			**36.9**	**33.3**	**36.0**	**31.4**		
	NFPS	**Capital expenditures**	**53.9**	**37.3**	**99.7**		**-24.1**	**-30.8**	**167.3**		**2.8**	**2.3**	**1.8**	**1.2**	**2.9**	
	CG	**Total expenditure**	**64.2**	**67.1**	**85.5**	**92.3**	**2.4**	**4.5**	**27.4**	**8.0**	**25.1**	**18.7**	**19.2**	**19.1**	**22.3**	**22.3**
	CG	**Current expenditures**	**64.7**	**69.5**	**68.5**	**85.8**	**0.5**	**7.4**	**-1.4**	**25.3**	**23.8**	**18.2**	**18.3**	**18.7**	**16.9**	**19.6**
	CG	**Capital expenditures**	**57.8**	**26.1**	**387.2**	**215.6**	**75.2**	**-54.8**	**1 383.5**	**-44.3**	**1.4**	**0.5**	**0.9**	**0.4**	**5.4**	**2.8**
Paraguay	**NFPS**	**Total expenditure**		**100.0**	**115.0**	**133.7**		**-**	**15.0**	**16.3**				**12.3**	**13.8**	**15.8**
	NFPS	**Current expenditures**		**100.0**	**116.8**	**141.4**		**-**	**16.8**	**21.1**				**9.2**	**10.5**	**12.5**
	NFPS	**Capital expenditures**		**100.0**	**108.9**	**110.8**		**-**	**8.9**	**1.7**				**3.1**	**3.3**	**3.3**
	CG	**Total expenditure**	**137.8**	**133.5**	**175.9**	**195.2**	**46.8**	**-3.1**	**31.8**	**11.0**	**8.2**	**7.2**	**10.0**	**9.4**	**12.1**	**13.2**
	CG	**Current expenditures**	**156.2**	**140.9**	**175.5**	**212.5**	**59.2**	**-9.8**	**24.6**	**21.1**	**6.5**	**5.9**	**8.9**	**7.8**	**9.5**	**11.3**
	CG	**Capital expenditures**	**67.0**	**113.6**	**187.6**	**142.2**	**-15.9**	**69.6**	**65.1**	**-24.2**	**1.6**	**1.2**	**1.0**	**1.6**	**2.6**	**1.9**
Peru	**CG**	**Total expenditure**	**59.1**	**53.8**	**53.8**	**60.7**	**-11.3**	**-9.0**	**0.0**	**12.8**	**14.7**	**10.7**	**10.7**	**10.3**	**10.1**	**11.7**
	CG	**Current expenditures**	**56.3**	**56.5**	**55.7**	**59.7**	**-18.2**	**0.4**	**-1.4**	**7.2**	**12.3**	**9.3**	**8.6**	**9.1**	**8.8**	**9.7**
	CG	**Capital expenditures**	**73.7**	**39.4**	**45.6**	**65.8**	**33.8**	**-46.5**	**15.7**	**44.3**	**2.3**	**1.4**	**2.1**	**1.2**	**1.4**	**2.0**
Dominican Republic	**CG**	**Total expenditure**	**84.9**	**64.2**	**58.8**	**82.3**	**-17.8**	**-24.4**	**-8.4**	**40.0**	**16.8**	**17.1**	**13.5**	**10.8**	**10.0**	**13.0**
	CG	**Current expenditures**	**95.3**	**77.2**	**73.4**	**93.0**	**-5.4**	**-19.0**	**-4.9**	**26.7**	**7.5**	**7.5**	**6.8**	**5.8**	**5.6**	**6.6**
	CG	**Capital expenditures**	**77.2**	**53.6**	**46.9**	**75.8**	**-26.1**	**-30.6**	**-12.5**	**61.6**	**9.3**	**9.5**	**6.8**	**5.0**	**4.4**	**6.6**
Uruguay	**NFPS**	**Total expenditure**	**106.7**	**108.7**	**113.9**	**118.2**	**3.7**	**1.9**	**4.8**	**3.8**	**30.3**	**31.2**	**31.9**	**32.2**	**32.8**	**31.7**
	NFPS	**Current expenditures**	**105.9**	**110.4**	**112.7**	**119.4**	**2.9**	**4.2**	**2.1**	**5.9**	**26.3**	**27.1**	**27.5**	**28.4**	**28.2**	**27.8**
	NFPS	**Capital expenditures**	**110.5**	**97.1**	**121.0**	**110.1**	**9.3**	**-12.1**	**24.6**	**-9.0**	**4.0**	**4.1**	**4.4**	**3.8**	**4.6**	**3.9**
	CG	**Total expenditure**	**109.2**	**104.0**	**110.0**	**123.9**	**2.6**	**-4.8**	**5.8**	**12.6**	**17.6**	**18.7**	**19.0**	**17.9**	**18.4**	**19.3**
	CG	**Current expenditures**	**107.3**	**103.3**	**110.9**	**125.6**	**1.5**	**-3.7**	**7.4**	**13.3**	**15.7**	**16.7**	**16.7**	**15.9**	**16.6**	**17.5**
	CG	**Capital expenditures**	**124.8**	**104.4**	**96.1**	**109.3**	**11.7**	**-16.3**	**-8.0**	**13.7**	**1.9**	**2.1**	**2.3**	**1.9**	**1.7**	**1.8**
	NFPS[a]	**Total expenditure**	**100.0**	**99.4**	**103.8**	**115.7**	**-**	**-0.6**	**4.4**	**11.5**			**21.1**	**20.8**	**21.1**	**21.9**
	NFPS[a]	**Current expenditures**	**100.0**	**96.9**	**100.8**	**113.3**	**-**	**-3.1**	**4.0**	**12.4**			**17.7**	**17.0**	**17.2**	**18.0**
	NFPS[a]	**Capital expenditures**	**100.0**	**109.5**	**115.6**	**124.2**	**-**	**9.5**	**5.6**	**7.4**			**3.5**	**3.8**	**3.9**	**3.9**
Venezuela	**NFPS**	**Total expenditure**	**95.4**	**107.5**	**121.3**	**116.3**	**-11.3**	**12.7**	**12.8**	**-4.1**	**32.0**	**32.5**	**31.3**	**33.0**	**33.8**	**30.3**
	NFPS	**Current expenditures**	**102.7**	**112.5**	**119.7**	**118.3**	**-7.0**	**9.5**	**6.4**	**-1.2**	**19.0**	**19.8**	**20.0**	**20.5**	**19.8**	**18.3**
	NFPS	**Capital expenditures**	**85.0**	**100.5**	**124.2**	**113.6**	**-17.6**	**18.2**	**23.6**	**-8.5**	**13.0**	**12.6**	**11.3**	**12.5**	**14.0**	**12.0**
	CG	**Total expenditure**	**94.9**	**115.5**	**127.8**	**117.3**	**-2.5**	**21.7**	**10.6**	**-8.2**	**22.2**	**20.4**	**21.6**	**24.6**	**24.7**	**21.2**
	CG	**Current expenditures**	**113.9**	**123.7**	**129.8**	**121.3**	**21.2**	**8.6**	**4.9**	**-6.5**	**16.1**	**14.3**	**18.8**	**19.1**	**18.2**	**15.9**
	CG	**Capital expenditures**	**44.8**	**94.0**	**122.4**	**106.7**	**-57.7**	**109.8**	**30.2**	**-12.8**	**6.1**	**6.1**	**2.8**	**5.5**	**6.5**	**5.3**

Source: ECLAC, based on official figures.

Key: CG = Central Government, NFPS = Non-financial public sector, NNFPS = National non-financial public sector, excluding provinces and municipalities, CPS : Consolidated public sector.
Calculated on the basis of figures in constant 1980 dollars, Calculated on the basis of figures in currency at current prices. ' Preliminary figures. Includes operating costs of public enterprises and autonomous agencies.

Table VI-6
LATIN AMERICA AND THE CARIBBEAN: FINANCING NEEDS AT CURRENT PRICES ″
(Percentages of GDP)

Country	Coverage		1987	1988	1989	1990	1991	1992[o]
Argentina	NFPS	Total	4.6	6.0	3.8	3.8	1.6	0.1
		Domestic	2.4	4.5	5.3	2.0	1.8	-
		Externa!	2.2	1.5	-1.5	1.8	-0.2	-
Bolivia	NFPS	Total	8.1	6.6	6.6	5.8	4.9	6.8
		Domestic			3.1	1.5	0.2	0.4
		External			3.4	4.3	4.7	6.4
		Unpaid interest				1.8	1.5	-
Brazil	CPS	Total	32.3	53.0	83.1	26.9	27.5	45.0
		Domestic	34.8	55.8	82.8	26.5	28.3	49.0
		External	-2.5	-2.8	0.3	0.4	-0.8	-4.0
Colombia	NFPS	Total		2.1	1.9	0.4	-0.1	0.4
		Domestic		0.7	1.1	0.9	0.6	1.6
		External		1.5	0.7	-0.5	-0.7	-1.2
	NFPS[a]	Total	1.9	2.5	2.4	0.3	-0.1	0.6
Costa Rica	NFPS	Total	0.2	-0.1	2.5	2.5	0.1	-0.7
		Domestic	-0.5	0.1	2.1	2.2	-1.6	-2.2
		External	0.7	-0.2	0.4	0.3	1.8	1.6
Chile	NFPS	Total	-2.5	-3.9	-5.5	-1.5	-1.7	-2.8
		Domestic	-4.4	-6.1	-5.9	-1.9	-2.3	-3.0
		External	1.9	2.2	0.4	0.5	0.6	0.2
Ecuador	NFPS	Total	9.6	5.2	3.0	-1.1	1.1	1.5
		Domestic	1.8	2.2	-2.9	-3.6	-1.0	0.1
		External	7.8	3.0	5.9	2.5	2.1	1.4
El Salvador	CG	Total	3.8	3.2	4.9	3.2	4.6	4.5
		Domestic	0.2	0.2	2.6	-0.1	1.4	0.5
		External	3.6	3.0	2.2	3.3	3.3	4.0
	NFPS	Total			5.8	2.5	4.4	5.6
		Domestic			2.6	-1.0	0.7	0.5
		External			3.2	3.5	3.7	5.2
Guatemala	CG	Total	2.5	2.5	3.8	2.3	0.1	0.5
		Domestic	0.8	1.2	1.2	0.8	0.5	-0.1
		External	0.5	0.8	0.4	0.4	0.2	-0.1
		Other sources	1.2	0.5	2.1	1.2	-0.6	0.8
Haiti	CG	Total	7.0	5.2	6.6	5.9	3.8	2.1
		Domestic	0.6	1.6	1.6	1.9	0.8	2.1
		External	6.5	3.6	5.0	4.0	3.0	-
Honduras	CG	Total	6.6	6.9	7.4	6.4	4.8	5.1
		Domestic	3.9	3.2	5.4	-1.2	-1.0	-3.1
		External	2.8	3.7	2.0	7.5	5.9	8.2

Table VI-6 (concl.)

Country	Coverage		1987	1988	1989	1990	1991	1992[b]
Mexico	CPS	Total	15.5	12.5	5.7	4.0	-1.8	-3.4
		Domestic	14.1	13.7	6.2	3.8	-0.4	-2.0
		External	1.5	-1.2	-0.5	0.1	-1.5	-1.4
Nicaragua	CG	Total	16.6	26.6	6.7	17.2	8.0	7.9
		Domestic	16.1	24.6	3.4	-5.1	-4.9	-5.8
		External	0.1	2.0	3.3	22.3	12.9	13.7
	NFPS	Total				17.2	8.6	9.3
		Domestic				-5.4	-4.7	-7.4
		External				22.6	13.3	16.6
Panama	CG	Total	4.6	5.4	7.1	-6.8	2.7	1.2
		Domestic	13.2	5.8	7.1	-3.1	0.1	1.5
		External	-8.6	-0.4	0.0	-3.6	2.6	-0.3
Paraguay	CG	Total	0.1	-0.7	-1.5	-3.0	0.1	0.9
		Domestic				-1.1		
		External				-1.9		0.9
	CPS	Total				-3.4	-2.0	-0.2
		Domestic				-2.9	-3.0	-0.4
		External				-0.4	1.0	0.2
Peru	CG	Total	5.7	2.5	4.2	2.5	1.6	1.7
	NFPS	Total					1.5	1.8
		Domestic					-0.6	0.9
		External					2.1	- 0.9
Dominican Republic	CG	Total	2.2	1.6	0.1	-0.3	-0.8	-2.8
		Domestic	1.2	0.3	0.1	-0.2	-0.1	-1.4
		External	1.0	1.3	0.0	0.0	-0.7	-1.5
Uruguay	CG	Total	1.3	2.0	3.4	0.1	-0.4	-0.3
		Domestic	1.1	1.8	3.3	0.1	-0.3	-0.3
		External	0.2	0.2	0.1	0.0	-0.1	0.0
Venezuela	CG	Total	0.6	2.0	1.2	1.2	-2.7	3.6
	NFPS	Total	4.4	8.6	1.3	-1.0	-0.6	5.7

Source: ECLAC, based on official figures.

Key: co = Central Government, NPFS = Non-financial public sector, NNFPS = National non-financial public sector, excluding provinces and municipalities, CPS = Consolidated public sector.

'Calculated on the basis of figures in local currency at current prices. Preliminary estimates. [c] Does not include transfers.

VII. THE EXTERNAL SECTOR

In 1992 the Latin American and Caribbean economies were influenced, as in 1991, by international events that had differing impacts on their exports products and on outbound and incoming transfers of financial resources.

The industrialized countries' economies exhibited similar rates, reflecting sluggish growth or an actual slow-down in activity, which, when taken together, indicated a lethargic, hesitant recovery of the economy, following a slump in 1991, when almost all these economies were either in recession or were growing very haltingly. In fact, only the United States and Canada showed signs of an incipient recovery, while the growth of most of the rest of the developed economies flagged. Meanwhile, a number of disquieting events were taking place on the international scene, such as the tumult seen in European exchange markets, the downward spiral of the Japanese stock exchange, the tension surrounding GATT negotiations on agricultural products and the increasingly rapid weakening of the economies of Eastern Europe and the former Soviet Union.

As a result of this situation, the Latin American and Caribbean countries' export markets suffered the effects of the slackening demand for commodities noted in 1991; in addition, commodity prices dipped further and the demand for manufactures softened as well. There were, however, also a number of factors that benefited the region again in 1992: a further decline in international dollar interest rates, a constant inflow of foreign capital, and the low level of the dollar on international markets throughout most of the year.

The industrialized economies' growth rate was moderate (1.5%), inasmuch as it was nearly one full percentage point higher than the year before, but lower than the average for the period 1984-1990 (3.5%). This upturn was primarily due to the performance of the United States economy, which expanded by almost 2% after having shrunk by 1% in 1991 and exhibited an upward trend in the third quarter. Japan's economic slow-down worsened, however, with GDP growing by only 2% in the first half of the year -i.e., two and one-half points less than the year before and far less than in earlier years; furthermore, the slump was even more marked in the third quarter. Germany's growth rate, which had peaked early in 1991, began to falter owing to the harsh monetary policy implemented in order to counter inflationary pressures stemming from the country's large fiscal deficit and rising wages. These problems in the German economy affected other European countries as well, with the result being that the growth rate for the European Economic Community as a whole was just 1.2%.

The volume of world trade expanded by nearly 5%. This was an improvement over the 4% figure registered in 1991, but was still substantially below the 1987-1989 average of over 7% per year. World supply of some agricultural products was quite plentiful in comparison to the limited demand for these items, and the downward trend in commodity prices seen in recent years therefore continued. The prices brought by cotton, bananas, cocoa, coffee, meat, copper, iron and lead all fell, in some cases steeply. Wheat, tin and zinc prices rose, however, and oil prices fluctuated around an average similar to 1991 price levels (see table VII-6).

In most of the industrialized countries, both short- and long-term interest rates tended to move downward in response to the low level of economic activity, low inflation rates and expectations of a reduction in the fiscal deficit. Interest rates continued to fall in the United States due to the monetary policy applied to bring the

country out of its recession. Consequently, dollar-denominated rates were at one of the lowest levels seen in the past 30 years. In Germany and Italy, on the other hand, monetary policy measures aimed at curbing inflationary pressures caused interest rates to climb considerably. The six-month LIBOR slipped from an average of 6.1% in 1991 to one of 3.9% in 1992, which was only 0.5% in real terms (see figure VII-4).

During the second half of the year tensions arose in connection with European monetary and financial affairs as a result of the difficulties experienced by the countries of the European Monetary System (EMS) in harmonizing their inflation and interest rates. The extreme volatility of exchange markets that resulted from this situation obliged Italy and the United Kingdom to pull out of the EMS temporarily, led to a devaluation of the Spanish peseta and the Portuguese escudo, and put a great deal of pressure on the French franc; these problems were ultimately overcome, however, thanks to the drastic action taken by German and French monetary authorities.

As had occurred in 1991 as well, despite the sluggishness of exports, the situation in the external sector did not stifle the import capacity of the majority of Latin American and Caribbean countries in 1992, owing, above all, to their large inflows of private capital. Although the sagging prices of the region's commodity exports continued to undermine its export effort and led to a further deterioration of its terms of trade, imports continued to expand at a notable pace; as a result, the trade balance was unfavourable for the first time since the start of the crisis of the 1980s. The flow of profits and interest payments diminished once again, thanks to the drop in international interest rates. An increase in profit remittances weakened this trend somewhat, but even so the deficit on current account widened further. Be that as it may, the increase in the region's already sizeable capital inflows more than made up for this deficit, facilitated the expansion of imports and even boosted the region's total balance-of-payments surplus to US$ 24 billion, which allowed most of the countries to add to their international reserves.

1. **Foreign trade**

a) **Exports**

The value of the region's merchandise exports was up by slightly over 5%,to US$ 127 billion, which denoted somewhat of a reactivation after the stagnation of this variable the year before. Nevertheless, the increase seen in 1992 was quite small in comparison to the growth rates for the 1987-1990 period, when exports had mounted at an average annual rate of 12%. This increase was entirely attributable to the expansion of the volume of exports by around 8%, since unit values declined by more than 2% due to the adverse conditions found in external markets (see table VIM).

Export trends in the region were quite mixed. In four countries -Brazil, Chile, Costa Rica and Panama- the rate of increase was considerable (between 12% and 20%); in six -Ecuador, Guatemala, Honduras, Mexico, Peru and Uruguay- it was moderate; in two -Argentina and El Salvador- the value of exports stagnated; and in the other seven countries for which information was available -Bolivia, Colombia, Dominican Republic, Haiti, Nicaragua, Paraguay and Venezuela- it shrank, and in four of these seven the decrease ranged from 15% to 55%. The value of exports from the oil-exporting countries was down slightly (-0.6%) due to a 1.5% drop in unit values that was chiefly the net result of a decline in the average price of hydrocarbons and an increase in volume of slightly over 1%. In contrast, the value of exports from non-oil-exporting countries was up by 10%. This was attributable to a larger volume of exports, since their unit value dipped by nearly 3% (see table VII-2).

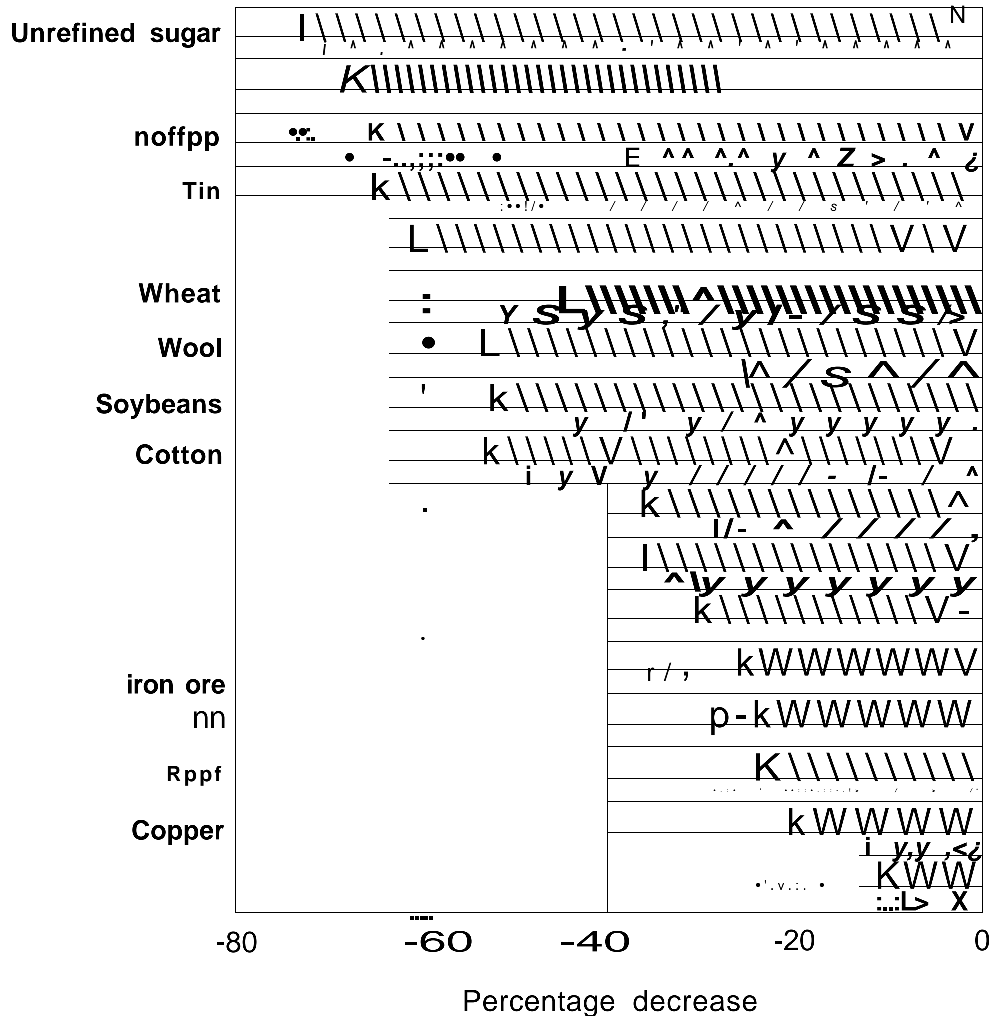
The value of the oil-exporting countries' external sales fell from US$ 56.2 billion in 1991 to US$ 55.9 billion in 1992. In the case of **Venezuela,** the decrease amounted to 6% due to both a lower unit value for petroleum (as a somewhat delayed reflection of the drop in international oil prices) and smaller export

Figure VIM

LATIN AMERICA AND THE CARIBBEAN: REAL EXPORT PRICES

(Percentage variations from 1975-1975 average)

Averages of:
H1990-1992 • 1987-1989



Source: ECLAC, on the basis of figures from table VII-7.

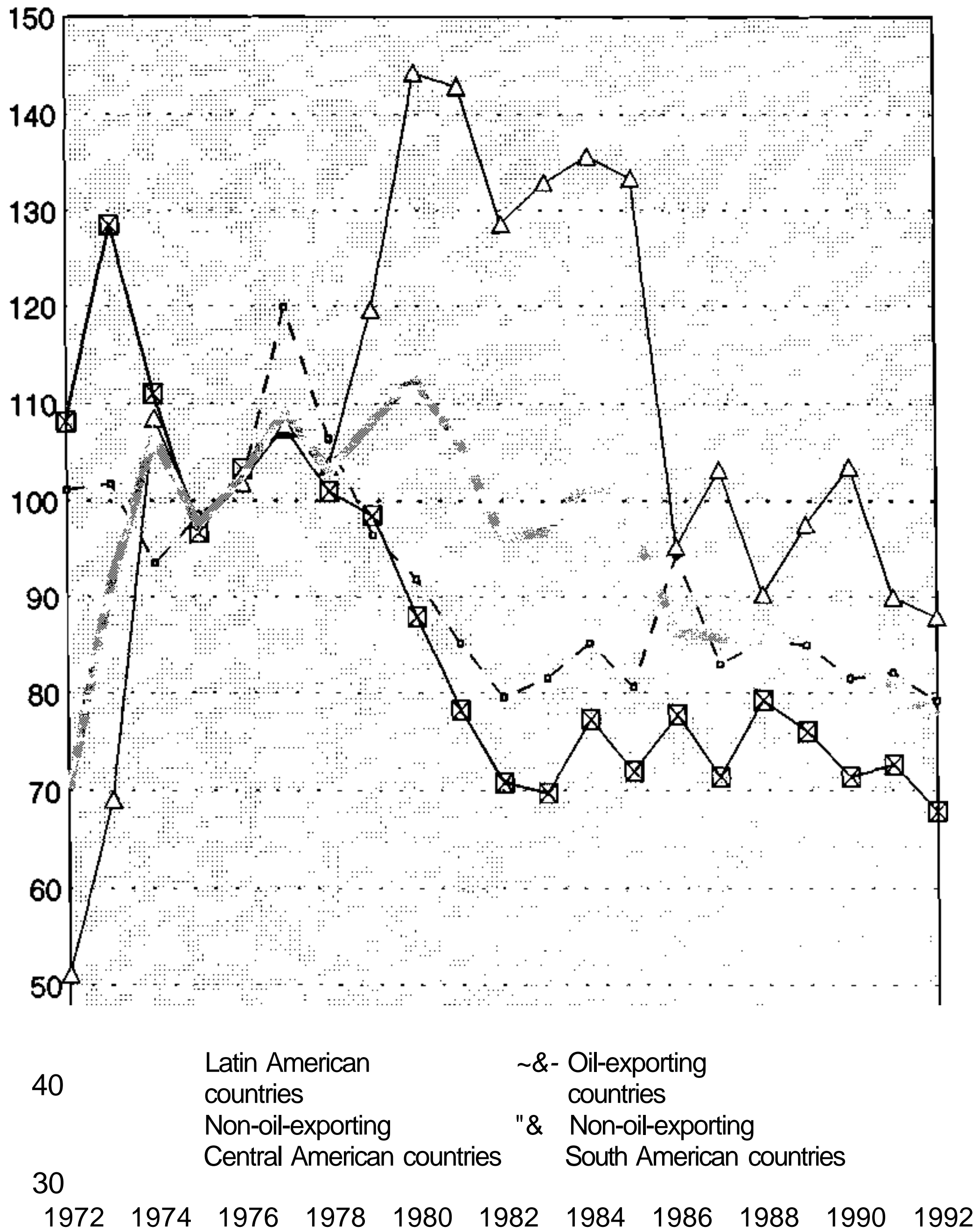
• Nominal prices deflated by the unit values of exports of manufactures by developed market economies.

volume. This was a direct consequence of the international hydrocarbons market's gradual return to normal after the end of the Persian Gulf war and the recession in the industrialized countries. Exports of other products (18% of the total) showed zero growth as a result of the reduction of tax incentives, a reorientation of proouction towards the country's growing

Figure VI1-2

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

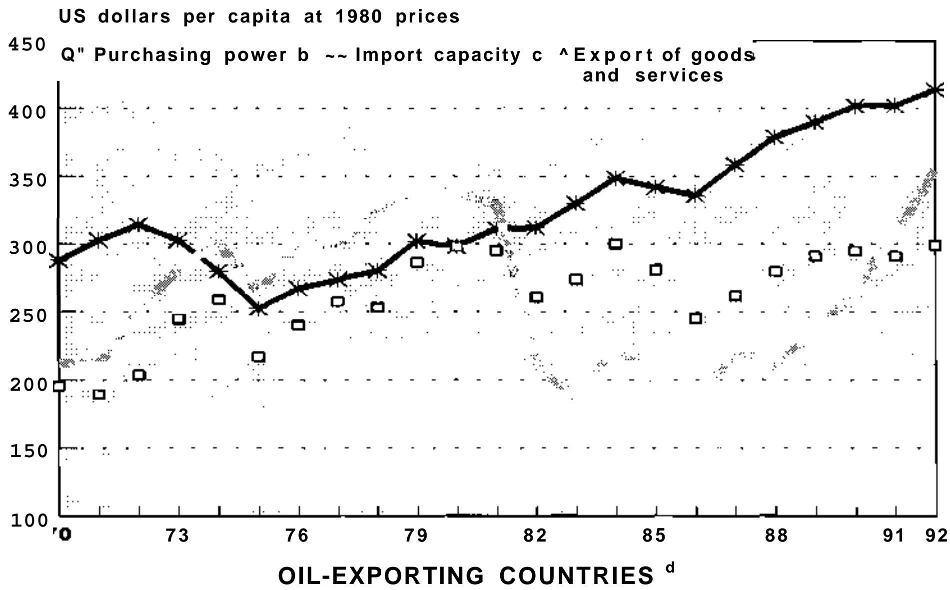
Indexes (1975-1976=100)



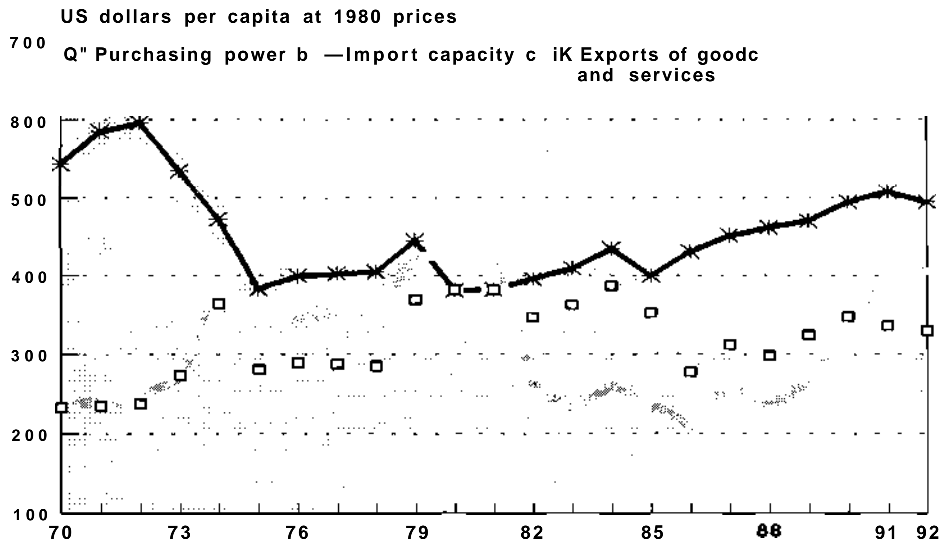
Source: ECLAC, on the basis of official figures.

Figure VII-3
LATIN AMERICA AND THE CARIBBEAN:[3]
FORMATION OF IMPORT CAPACITY

LATIN AMERICA AND THE CARIBBEAN

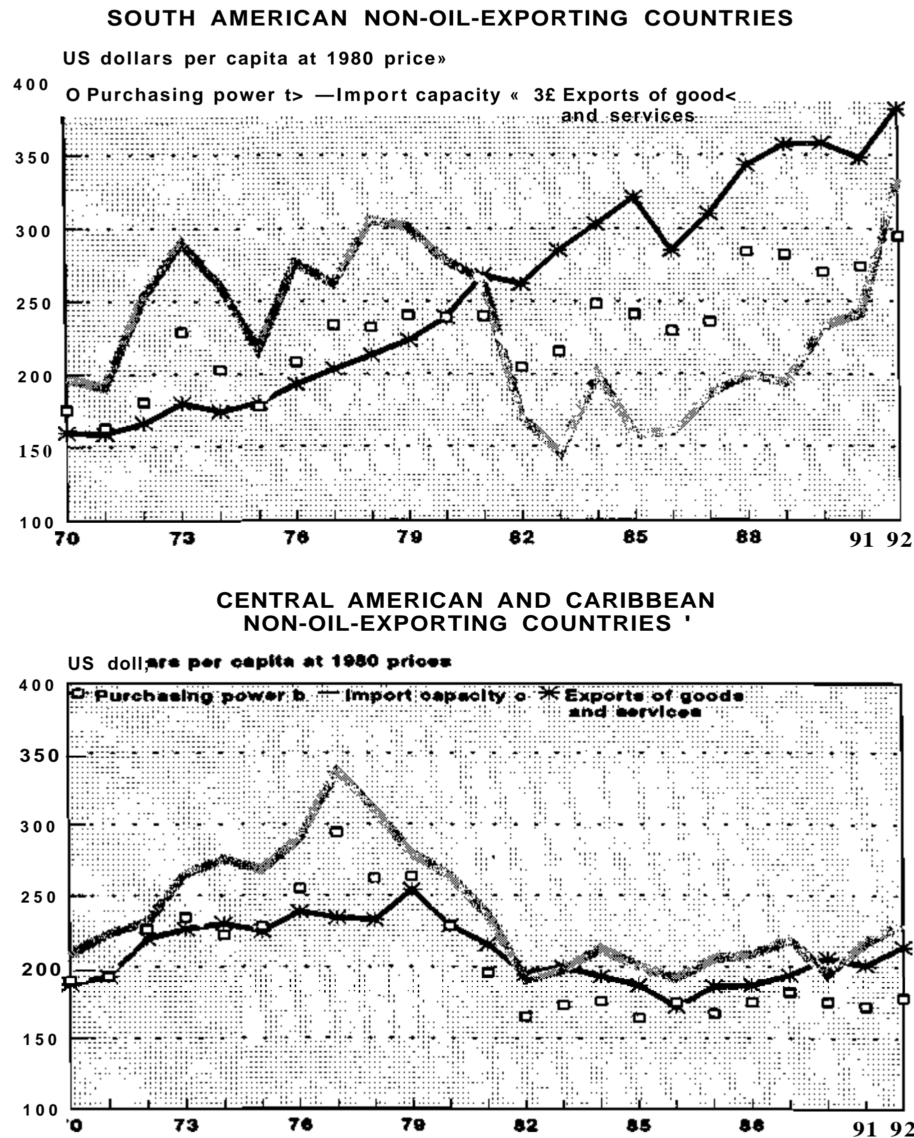


OIL-EXPORTING COUNTRIES [d]



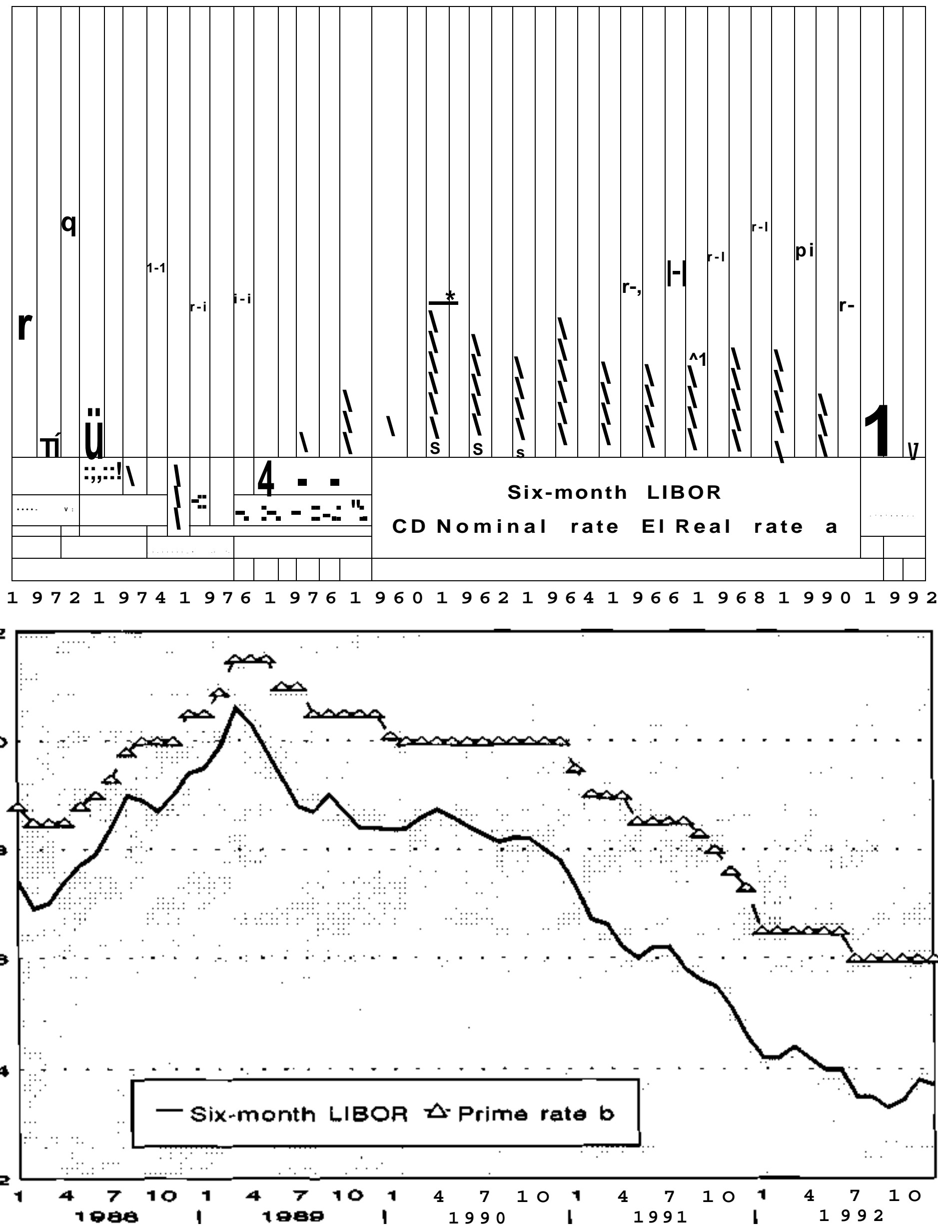
domestic market and a decline in the real exchange rate. In **Mexico,** the value of exports grew by a rather modest amount (2.5%) owing to the torpor of the United States economy, a gradual overvaluation of the peso, the stagnation of petroleum exports, and various problems in connection with exports of other primary products. External sales of items other than petroleum grew by less than 3% after having swelled by 13% in 1991; the case of manufactures was particularly notable, in that this category of exports expanded by 6% in comparison to 11% in 1991. Adverse weather conditions caused agricultural exports to fall by

Figure VII-3 (concl.)



Source: ECLAC, on the basis of official figures and data from the International Monetary Fund (IMF).
[a] 17 countries. Purchasing power of exports of goods and services. ° Equivalent to the purchasing power of exports (including the terms-of-trade effect) plus net transfers of resources. Bolivia, Colombia (since 1980), Ecuador, Mexico, Peru and Venezuela. [e] Argentina, Brazil, Chile, Colombia (up to 1979), Paraguay and Uruguay. ' Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Nicaragua.

Figure VII-4
INTERNATIONAL INTEREST RATES
(Percentages)



Source: ECLAC, on the basis of figures from IMF.
a Nominal rate deflated by the consumer price index for industrialized countries.
b The prime rate is the preferential rate offered by United States banks to their best clients.

11%, while persistently low prices were a major factor in the steep decrease (-35%) in the sales made by extractive industries. Colombia's exports shrank by 3% because of difficulties in the coffee market and problems in connection with most of its export products. The decline in the value of exports was a general phenomenon. External coffee sales were down by 4%, despite

an increase in volume (32%), as a consequence of a further decrease in international coffee prices. Petroleum exports shrank by a small amount, partly because of numerous guerrilla attacks on the oil pipeline, and exports of coal, ferronickel and gold diminished due to weakening international prices. Non-traditional exports, which had been extremely buoyant for a number of years, stagnated in 1992; this was, no doubt, caused by the elimination of subsidies for such exports, a 5% decrease in the real exchange rate and lower international prices for some important products, such as cotton and bananas. The value of **Peru's** exports swung upward by nearly 5%, despite a low exchange rate and the effects of poor weather conditions on agricultural and fishery exports. This expansion was chiefly a reflection of the growth observed in metallic mineral exports and, secondarily, in non-traditional products. In **Ecuador,** exports climbed by 5.5% thanks to a strong increase in oil sales. Exports of processed marine products expanded significantly, although this category's growth was curbed somewhat by the results for shrimp sales, which had burgeoned in past years but were hurt by bad weather. Exports of bananas, cocoa and coffee were all down. The total value of **Bolivia's** exports plummeted (-20%) as a result of a drop in both unit value and export volumes. The decrease in exports of natural gas exports to Argentina (-47%) and of tungsten and gold were very sharp, and non-traditional exports were off by 18% due to the poor weather conditions that affected soybean, sugar and coffee production. On the other hand, an expansion was seen in tin and zinc exports -two of the country's most important products- with the rise being particularly notable in the case of zinc, whose sales jumped by 24%. This improvement partly offset the sharp contraction registered in other export products (see table VII-2).

The value of exports from the non-oil-exporting South American countries rose by 10% despite a drop of around 3% in unit values. In **Brazil,** external sales swelled by nearly 15%, rising to US$ 36.2 billion, which was an all-time high for the country and made up for the declines recorded for the preceding two years. This expansion was mainly attributable to a sharp increase in exports to the countries of the Latin American Integration Association (ALADI) (over 50%) and, in particular, to the sales made to Argentina, whose expansion was due to that country's liberalization policies, the preferences agreed upon within the framework of MERCOSUR and favourable exchange rates for the Argentine peso. **Chile's** exports grew more than the year before, marking up a 12% increase that was attributable to an expansion of 11% in external sales of copper and of 16% in sales of other products. The sustained buoyancy of non-copper exports is significant in view of the fact that the real exchange rate fell by 4% in 1992 and by 6% in 1991. Copper exports were affected by a further drop in the international price, but this was far outweighed by the increase in export volumes. In **Argentina,** the value of exports stagnated despite a strong increase in wheat and maize sales in terms of both volume and unit value because of the poor showing of most other export items; external sales of oilseeds were lower and the remaining agricultural items were down sharply. In addition, exports of manufactures grew by no more than a small amount, except in the case of motor vehicle sales to Brazil. Nevertheless, the stability exhibited by export volumes within the context of a reactivation of domestic demand and an appreciating currency gives reason to believe that the upward trend observed in recent years will not easily be reversed. **In Uruguay,** exports grew by 6% thanks to the partial recovery made by traditional products (especially meat and wool), whose value climbed by 9% after having plunged by 25% in 1990. The growth rate for non-traditional exports slowed, despite the positive influence of electricity sales and a favourable exchange rate for the Argentine peso. In addition, as a consequence of the increase in exports to Argentina (74%) and the decrease in exports to Brazil (-25%), Argentina edged Brazil out of its position as Uruguay's largest trading partner. In **Paraguay,** exports slid by 6.5% owing to a sharp decrease in cotton sales (slightly less than 60%), which were affected by a drop in international cotton prices and a smaller harvest. Exports of soybean seed expanded significantly and those of soybean oil and meal hit record levels.

The Central American and Caribbean countries for which information was available registered an increase of almost 10% in the value of their exports, although the figure drops to just 2% if Panamanian re-exports from the Colón Free Zone are not included. The small size of this increase was attributable, in particular, to a further decline in the price of coffee, one of the main exports from this area, and to problems affecting cotton exports. **In Costa Rica,** the value of merchandise exports rose by 16% thanks to a remarkable expansion of non-traditional exports (especially of melons and wearing apparel), of such traditional products as bananas, which were not yet feeling the effects of the new trade barriers erected by the European Economic Community, and of the inbond assembly *(maquila)* industry. A contributing factor was the substantial real devaluation of the colón in 1991. Coffee exports, on the other hand, plummeted by 23% owing to the combined effect of decreases in international coffee prices and in the volume exported. Meat exports were also down sharply, not only because of supply problems and sagging international prices but also because domestic consumption increased. In contrast, **Guatemala's** exports climbed by over 4% despite lower prices for its main products. The value of coffee exports decreased by 10%, since the price drop offset the higher volume of external sales, and much the same thing happened in the case of sugar. The value of cardamom, cotton and meat sales -all traditional export products- was hurt by a contraction of export volumes and a simultaneous price decline. Bananas were the only product for which a considerable increase in sales volumes was recorded. The value of non-traditional exports rose as well, in contrast to the downturn in external sales of traditional products. Exports (mainly manufactures) to other Central American countries continued to soar (22%). In **El Salvador,** the value of total exports showed no growth as a result of mixed trends in the various product lines. Commodity sales were hurt by low coffee prices, but non-traditional exports, especially to the Central American market, exhibited a much more positive trend. The decline in coffee prices occasioned a loss of over US$ 120 million, in addition to the effects of a reduction in the volume sold. In contrast, the volume of sugar exports regained the levels attained prior to the armed conflict in that country, and this more than made up for the deterioration in the average price registered for sugar sales, a larger portion of which had to be channeled to the international market because of a reduction in the country's preferential quota in the United States market. Shrimp exports lost some ground as a consequence of supply problems and fiercer competition in international markets. The most salient factor with regard to non-traditional exports was the trend in sales to Central America, which jumped by 28%. The growth of exports to the rest of the world was at a virtual standstill, however, partly because the overvaluation of the real exchange rate made them less competitive. Merchandise exports by **Honduras** climbed by almost 4% thanks to a 13% increase in export volumes that more than outweighed a steep drop in prices. A downward trend in international banana prices counteracted the positive effects of an increase in the volume of exports, which showed an upturn after four years of steady declines, with the net result being a decrease of over 6% in the value of these exports. The volume of coffee exports skyrocketed (34%), but coffee prices suffered a proportionally greater decrease. Shrimp sales, which were up by 16%, continued to burgeon; meat exports increased by 8%, while external timber sales partly rebounded from their sharp contraction of previous years. **In Nicaragua,** the value of exports fell by 19% as a result of a marked deterioration in the prices of its main export products. In addition, weak external demand discouraged the production of some goods, while others were affected by a variety of domestic problems. The only products to exhibit an increase in export volume were coffee and meat. **In Panama,** total exports climbed by nearly 20%, but this was mainly accounted for by re-exports from the Colón Free Zone, particularly consumer electronics. In contrast, exports of Panamanian products -one of the main ones being bananas- grew only moderately, and no major changes were observed in the export mix. The value of the **Dominican Republic'**s exports diminished once again (-15%) owing to a slump in sales of almost all its traditional products, especially ferronickel and raw sugar. The

saturation of the world nickel market depressed prices, and this also contributed to the shrinkage of the volume of such exports, while the value of raw sugar exports dropped again because of a decrease in external prices, since their volume expanded. The lower value of exports of coffee, furfural, gold and silver were a reflection of decreases in both the volume of external sales and international prices. The expansion of the volume of cocoa exports, on the other hand, boosted the value of those exports despite a decline in prices, but the notable rise in international leaf tobacco prices was countered by a decrease in the volume of exports, with the result that the value of sales stagnated, as was also the case with molasses. **In Haiti,** exports were more than halved by the trade embargo.

b) **Imports**

The value of Latin American and Caribbean merchandise imports showed a strong increase for the third year in a row (22%), climbing to US$ 136.6 billion. This notable rise, to which a voluminous inflow of capital contributed, was widespread as well. The increase in imports amounted to 24% in the oil-exporting countries and to 21% in the others. In both cases the expansion reflected an upturn in volume, since the unit values of export products changed very little (by around 1%). Imports were up in 15 of the 19 countries for which information is available and fell in only four: Brazil, Ecuador, Haiti and Paraguay. None the less, two thirds of the regional increase was accounted for by just two countries: Mexico, which imported US$ 10 billion more than in 1991 (equivalent to 40% of the increase in the regional figure), and Argentina, whose imports jumped by US$ 6.2 billion (over 25 % of the expansion in the region's total imports). Chile and Venezuela, whose imports grew by some US$ 2 billion, also made a significant contribution to the increase in the region's imports, but in the other 11 countries that expanded their imports, the increases ranged from 15% to 40% (see table VII-3).

Imports by the oil-exporting countries climbed from US$ 59.3 billion to US$ 73.5 billion. Mexico's imports continued to spiral upward (26%) for the fifth year running, reaching US$ 48 billion (as compared to US$ 12 billion in 1987). Particularly notable components within this total figure included the sharp rise (almost 40%) in imports of capital and consumer goods. During the second half of the year, however, imports was seen to be slowing somewhat as the growth rate of economic activity declined and administrative steps were taken to prevent unfair trading practices and to enforce national quality standards. In **Venezuela,** imports again climbed sharply (23%), arriving at a level of US$ 12.4 billion. Factors playing a role in this expansion included a notable upswing in economic activity, a low real exchange rate and the reduction of tariffs called for by the trade liberalization programme launched in 1989, which entered its third stage in May 1991 when the tariff ceiling was lowered from 50% to 40%. **In Colombia,** imports swelled to US$ 5.85 billion -an increase of US$ 1.3 billion- thanks to a policy line aimed at opening up the economy and the intensification of that policy's implementation during 1991. Capital goods imports grew faster (30%), while consumer goods purchases were up by 20% and those of intermediate goods by 26%. In spite of its recession, **Peru's** imports rose by 16% as a consequence of the steps taken to open up the economy and of its low real exchange rate; during the first quarter, imports had truly skyrocketed (45%) owing to expectations of a devaluation. Starting in the second quarter and as the real exchange rate began to climb, the growth rate for imports slowed. Imports of consumer goods showed the steepest rise, but the increases registered for the other categories of merchandise were also significant. In **Bolivia** imports were up by 18% despite a real devaluation of almost 9%, which was instituted for the specific purpose of curbing imports. This increase was due, in particular, to the demand for intermediate goods on the part of the manufacturing sector (50%) and construction (69%), while -unlike what had occurred in 1991- capital goods imports shrank by 5%. In contrast, **Ecuador'**s imports decreased by over 8% as a result of the adjustment programme implemented by the incoming administration. Until August, a significant increase in imports (12%) was registered, especially in consumer durables, industrial capital goods and transport equipment. As was to

be expected, however, imports fell off steeply as soon as the new economic programme (which, among other things, hiked the official exchange rate by 35%) entered into effect.

In the non-oil-exporting South American countries, merchandise imports rose from US$ 39 billion to just under US$ 47 billion. In **Argentina,** a sharp increase in domestic demand, the authorities' policy aimed at opening up the economy and a progressive erosion of the real exchange rate sparked another spectacular rise (84%) in all categories of goods. The policy on imports was modified somewhat in October, when drawbacks for exporters were increased and the statistical surcharge applying to all imported merchandise was raised from 3% to 10%, which boosted effective exchange rates but did not have a strong enough effect to be reflected in the performance of imports. In **Chile,** the expansion of imports was quite vigorous (26%) due to the rapid growth of the economy, a gradual decline in the real exchange rate and an abundant inflow of capital. This buoyancy was reflected, in particular, in imports of consumer and capital goods, which were up by around 30%. In **Uruguay,** strong domestic demand (especially, for consumer durables), capital-deepening investments and the lower costs resulting from the appreciation of the currency and tariff reductions made it possible for the value of imports to continue its headlong advance in 1992 (26%); the increase was especially notable in the case of consumer goods (73%) and capital goods (25%). The swift expansion of imports of consumer goods may have been attributable to the fact that a large number of motor vehicles, as well as articles intended for sale to Argentine tourists, were brought into the country. **Brazil's** imports declined by slightly over 2% as a result of the severe recession there, which is having an especially serious effect on industrial activity, and of an increase in the real exchange rate. In **Paraguay,** too, the value of imports was down (-8.6%) because of an increase in the real exchange rate, a decrease in the inflow of capital and a lower level of re-exports to neighbouring countries. An intensification of the process of opening up the economy, which involved a reduction and streamlining of tariffs in July, had no major effect on imports.

In the Central American and Caribbean countries for which information was available, the value of imports jumped by 22%. With the exception of Haiti, which was the object of an international trade embargo, all the countries in this group expanded their imports significantly. **Guatemala's** imports shot up by 39%, with the increase being concentrated in capital goods (77%) and consumer goods (44%). The move to open up the economy, which was begun in 1990 and was carried forward in 1991 with the elimination of some import licensing requirements, contributed to this increase, as did the recovery made by the manufacturing sector and the dynamic growth of construction. **In Costa Rica,** imports expanded at a very swift pace (30%) thanks to liberalization measures, whose implementation was stepped up in 1992 with the award of drawbacks, the elimination of surcharges and advance deposit requirements, rapid economic growth, the lifting of exchange controls and a reduction of the real exchange rate. Imports of consumer goods showed the steepest rise (around 50%), and this was especially true of durable goods (130%), particularly automobiles. El Salvador's imports were also up sharply (23%), partly because of a strong increase in domestic demand; the country's liberalization policy played an important role in this regard as well. In 1992 further progress was made in the implementation of this policy with the reduction of the maximum tariff from 30% to 20% (with the exception of selected products that continued to receive a higher level of protection) and the discontinuation of the tariff that had applied to trade in food products among the countries of the region. This expansion of external purchases was primarily concentrated in capital goods for transport and construction and in consumer goods. In **Honduras,** merchandise imports grew by 19%, with much of the increase being accounted for by imports of raw materials for the construction and manufacturing sectors and of capital goods for the manufacturing and transport sectors. In this case, too, the way was paved for an expansion of imports by a policy aimed at reducing tariffs and opening up the economy to foreign trade, particularly within Central America. The value of imports of fuels and lubricants declined, however, due to a drop in the

prices of these products. In **Nicaragua,** imports also rose, although less markedly (7%). The fastest-growing category was non-durable consumer goods (food, wearing apparel); these items were imported to make up, at least in part, for domestic supply shortages, although in many cases they displaced national products. There was also a considerable upturn in imports of inputs for manufacturing and construction, as well as of machinery for use in manufacturing and, to a lesser extent, for the agricultural sector. **Panama's** imports for the domestic market were up by nearly 19%, which indicates a resumption of growth after the 1987-1989 crisis. This expansion was the result of an increase in domestic consumption and investment demand and was facilitated by a larger supply of credit. Imports of capital goods again grew rapidly, and imports of consumer goods rose by 26%; the most important factor in this expansion was the increase in purchases of automobiles (35%), which was attributable, in particular, to the easy terms offered by banks for personal loans for the purchase of motor vehicles. Crude petroleum oil was another product whose import figures rose considerably, owing to the greater demand generated by ships passing through the Canal. Imports into the Colón Free Zone (for re-export) outpaced imports for the domestic market, although their growth rate was slower than it had been in 1991, when a sizeable increase had been recorded. In the **Dominican Republic,** the reactivation of the economy and trade liberalization led to a considerable expansion of merchandise imports (26%), which was facilitated by an abundant inflow of capital. Imports of industrial inputs exhibited a great deal of vitality, but consumer goods also climbed considerably. Since petroleum imports were increased to meet the greater demand for electricity, their total value increased despite lower prices for hydrocarbons on the international market. Imports of coal and wheat flour were also higher. In contrast, **Haiti's** imports plunged by one third of their former total as a consequence of the political crisis in that country and of the trade embargo and loss of international financial aid to which it led.

2. Export prices and the terms of trade

a) The long-term deterioration of export prices and the terms of trade

The prices brought by the region's main commodity exports continued on their downward path in 1992 for the third year in a row. In the early 1980s, which was the last time that the world economy was passing through a recessionary phase, a similar situation had arisen. That downturn had later been followed by a significant rebound (although in many cases it was not a full one) in the dollar-denominated prices of exports, which took place at a time -1987-1989 in particular- when the value of the dollar was declining. During the world economy's present recessionary phase, which began three years ago, these prices have undergone a progressively greater deterioration as the developed countries' level of economic activity has fallen.

Over the past two decades, trends in the prices of the region's main export products have been strongly influenced by fluctuations in the international economy although, of course, the extent of that influence varies depending on the characteristics of each market. Between 1975 and 1980, the prices of the region's main commodity exports were subject to a succession of significant increases. The largest such increase was undoubtedly in oil prices, which more than trebled in the space of those five years. This trend reversed itself in 1980-1985, when an across-the-board price decline was observed; the only major exceptions were bananas and zinc, whose prices fluctuated during that period but at above-1980 levels. Despite this downturn, however, the prices of most of these products were higher than they had been in 1975; the only prices that were not were those of sugar, maize, wheat and lead. During the next five years most

See figure 2 in the second part of this volume.

prices rose substantially, but those of some major products (e.g., cocoa, coffee, tin and petroleum) fell quite sharply. With very few exceptions, the prices of Latin American and Caribbean export products have dropped again during the latest slump in the world's industrialized economies, which began in 1990 (see table VII-6).

Trends in real commodity prices -i.e., in the relationship between nominal commodity prices and the unit value of the manufactures produced by developed countries- have clearly been unfavourable for the region; this is true both of long-term trends and of the decline seen in recent years. The unit value of the manufactures exported by industrialized countries more than doubled between 1975 and 1992, thanks to significant upturns in 1975-1980 and 1985-1990, and the decrease in the prices of manufactures registered between 1980 and 1985 was much smaller than the decline in the prices brought by the region's commodity exports. In the past two years, this real decrease has become more marked, since commodity prices have fallen considerably while the unit value of manufactures has remained fairly constant.

During the present downturn in the world economy (1990-1992), real average commodity prices have deteriorated with respect to the average for the preceding period (1987-1989); this medium-term trend is part of a longer-term decline, as becomes evident when we look back to the average for the period 1975-1976 (see table VII-7). As a consequence of this trend, in 1990-1992 the ratio between the real prices of the region's commodity exports and the unit value of the manufactures exported by the industrialized countries was the lowest it had been since 1975-1976. The most dramatic cases were sugar, cocoa, coffee and tin, whose prices during this latest three-year period were only one third as much as their average level for that earlier period. A considerable deterioration was also observed in the prices of cotton, wool, maize, soybeans and wheat, all of which dropped by over 50%, and, to a lesser although still significant extent, in the prices of beef, fishmeal, lead and zinc. Over the past 15 years, the real prices of bananas, copper and iron ore decreased somewhat less sharply (see figure VII-1). Oil prices also were down by a sizeable amount, as were the prices of other commodities, but the trends in these values were different inasmuch as they reached a much higher level in 1979-1985 than in 1975-1976, but then began to fall off steeply in 1986.

In 1992 the prices of most of the region's commodity exports fell once again; declines in coffee and cotton prices were the sharpest, while the decreases were somewhat less steep in the case of beef and iron prices. Tin, wheat and zinc prices all rose, but not enough to offset the decreases observed during the preceding two years. Therefore, in 1992 almost all real commodity prices were below their 1990-1991 levels, which had already been quite low; the only exceptions were fishmeal, maize, wheat and tin.

As a result of the downturn in the main commodities exported by the region and the increase in the prices of the manufactures exported by industrialized countries between 1975 and 1992, the Latin American countries' terms of trade clearly deteriorated during this period. In the non-oil-exporting countries, the decline was steeper due to the sharp decrease in prices occurring between 1979 and 1982; thereafter, prices remained at the low levels recorded during that period except for sporadic upturns that were followed by renewed decreases. In the case of the oil-exporting countries, the terms of trade were clearly on an upward path until 1980 and then dropped slightly during the subsequent five-year period; beginning in 1986, however, they began to fall off sharply owing to the combined effect of the abrupt descent of hydrocarbons prices and a considerable rise in the prices of the manufactures exported by industrialized countries.

b) **Terms of trade and the purchasing power of exports in 1992**

The region's terms of trade slipped by over 3% in 1992; this was mainly because of a decrease in the unit value of its export products, since the unit value of its imports increased by slightly less than 1%. This decline only added to the deterioration already seen in this variable as a result, in particular, of sharp decreases in 1981-1982 and 1985-1986. Consequently, the terms of trade for Latin America and the Caribbean exhibited a

cumulative reduction of 29% since 1980 (see table VII-4).

Although this turn for the worse affected all the economies of the region, the decrease was very slight in Mexico and Uruguay. In the oil-exporting countries, the reduction in the terms of trade was slightly more than 2%, but the drop was even sharper in Bolivia, Colombia and Venezuela.

In the case of the non-oil-exporting countries of South America, the terms of trade fell by nearly 7%. As a consequence, in particular, of the drop in cotton prices, Paraguay witnessed a 9% reduction, whereas Chile's terms of trade fell by over 4% due to sagging copper prices. In Brazil, the downturn in this ratio (-4.5%) was entirely attributable to its export products' lower price levels but, in Argentina, higher wheat prices slowed the decline.

In the Central American and Caribbean countries, the trend in this indicator was extremely unfavourable, since they all recorded sizeable decreases. The reduction was on the order of 9% in the cases of El Salvador and Honduras, and was in large part due to weakening prices for these countries' main export products; the declines were especially serious in the cases of coffee, cotton and ferronickel (see table VII-5).

The purchasing power of the region's merchandise exports -defined as the volume of exports following this figure's adjustment on the basis of the terms of trade- climbed by 4%, which was slightly more than one half of the increase in volume. The rise in purchasing power was not any larger than this because of the deterioration (of differing degrees of severity) in the terms of trade for all the countries of the region (see table VII-8). In the oil-exporting countries, lower petroleum prices caused the purchasing power of their exports to fall by 1.6%. In Venezuela, the reduction amounted to 7% because of a decrease in the volume of exports due to constraints affecting the oil market and a considerable deterioration in the country's terms of trade. The purchasing power of Colombia's exports was significantly lower primarily because of a drop in coffee prices and a contraction in the volume of non-traditional exports. Bolivia sustained a decrease of 21% as a result of notable declines in both export volumes and prices. The 4% improvement seen in Peru was a consequence of a substantial jump in the volume of exports, which more than outweighed the downturn in the terms of trade. In contrast, the 1.5% rise in the purchasing power of Mexico's exports was due to slight increases in both export volumes and the terms of trade. The purchasing power of Ecuador's exports was up by over 4% thanks to the increased volume of oil exports, which more than made up for the reduction in its terms of trade (see table VII-9).

Among the non-oil-exporting countries, the figures for Brazil, Costa Rica and Chile were especially noteworthy, inasmuch as their exports' purchasing power climbed by 13%, 15% and 10%, respectively, entirely as a result of larger export volumes. In contrast, the purchasing power of exports worsened a great deal in the Dominican Republic, Haiti, Nicaragua and Paraguay because the deterioration in these countries' terms of trade was compounded by notably smaller export volumes in practically all cases.

3. **The balance-of-payments current account**

Since the value of the region's imports was considerably higher but the increase in the value of its exports was only moderate, the merchandise trade balance yielded a negative figure which represented a US$ 19 billion turnaround from the results for 1991. The region's merchandise trade balance had been positive ever since 1983 and from that year on had been on the rise, mounting to over US$ 27 billion per year in 1989 and 1990. Then, due to a sharp increase in imports and the stagnation of exports, in 1991 the region's surplus had dropped to one-third its former level. In 1992, the continuation of this trend not only wiped out the remaining surplus but gave way to a US$ 9.5 billion deficit as well. This reversal was mainly attributable to the increase of over US$ 9 billion in Mexico's deficit, to the turnabout in

Argentina's trade balance (which went from a US$ 4.6 billion surplus to a deficit of US$ 1.7 billion) and to a decrease of around US$ 3.2 billion in Venezuela's surplus. Reductions were also seen in the surpluses of Colombia (US$ 1.5 billion) and Chile (US$ 800 million), while a US$ 300 million about-face in Uruguay's results transformed its small surplus into a deficit. Larger deficits were also recorded by Costa Rica (US$ 270 million), Dominican Republic (US$ 550 million), El Salvador (US$ 290 million), Guatemala (US$ 600 million), Honduras (US$ 140 million), Nicaragua (US$ 100 million), Panama (US$ 130 million) and Peru (US$ 400 million). In contrast, larger trade surpluses were registered by Brazil (US$ 5 billion) and Ecuador (US$ 340 million), and Paraguay managed to cut its trade deficit by US$ 70 million (see table VII-10).

The trade balance for goods and services reflected a reversal similar to that of the merchandise trade balance. After having marked up a surplus of nearly US$ 4.5 billion in 1991, the region recorded a deficit of over US$ 15 billion in 1992. This was a result of the fact that net payments for non-factor services continued their rather rapid upward climb, rising from US$ 4.8 to US$ 5.7 billion. This increase was chiefly due to the higher level of net payments made by Argentina, Venezuela and, to a lesser degree, Colombia and Peru, which more than offset the increase in net earnings from services on the part of Mexico, Chile and the Dominican Republic and the decrease in net payments by Brazil (see table VII-10).

Net receipts under the heading of unrequited private transfers rose by US$ 550 million to slightly less than US$7 billion. This increase was primarily due to the higher levels recorded by Brazil, El Salvador and, to a lesser extent, Mexico, which far outweighed the reduction in these receipts recorded by Colombia and Guatemala and the higher net outlays of Venezuela. The large increase registered by Brazil was basically attributable to the inflow of hard currencies to that portion of the exchange market subject to a floating rate; it is therefore possible that a significant part of this increase came from the repatriation of capital by Brazilians residing abroad.

The region's net payments of profits and interest were down to US$ 28.4 billion. This reduction, which amounted to nearly US$ 2.2 billion, benefited Argentina (US$ 1.3 billion), Brazil (US$ 1.3 billion), Colombia (US$ 350 million), Panama (US$ 200 million), Ecuador (US$ 150 million), Peru (US$ 100 million), Uruguay (US$ 50 million) and Bolivia (US$ 30 million). The payments made by Costa Rica, Nicaragua, Paraguay and Venezuela rose, however (see table VII-11).

The lower level of net payments for factor services made by Latin America and the Caribbean was a reflection of opposing trends. On the one hand, interest payments on the external debt were down in nearly all the countries, primarily owing to a decline in international interest rates in dollars. On the other hand, remittances of profits from foreign direct investments were significantly higher, and this offset part of the reduction in total interest payments.

Since the turnaround in the trade balance was much larger than the reduction in net payments of profits and interest, the deficit on current account swelled for the second year in a row, climbing from US$ 19.8 billion to US$ 36.8 billion. Moreover, if Brazil -which ran up a large surplus in 1992- is not included in the figures, we then see that the deficit for the rest of the region's economies more than doubled, jumping from US$ 18.8 billion to US$ 43.4 billion (see table VII-11).

The increase in the deficit on current account and the reduction of the surplus were the result of similar trends in most of the countries in the region. The deficits recorded by all the oil-exporting countries except Ecuador rose considerably, and the total deficit for this group of countries thus climbed from US$ 12.8 billion to US$ 28.9 billion. Mexico's deficit again expanded substantially, from US$ 13.9 billion to US$ 23 billion. Venezuela ran up a US$ 3.7 billion deficit in 1992 after having seen its surplus shrink to US$ 1.7 billion in 1991. In Colombia, a US$ 2.4 billion surplus dwindled to just slightly more than US$ 900 million, While Bolivia's deficit rose by US$ 300 million and Peru's expanded by US$ 400 million. Ecuador was thus the only country whose deficit was lower

(US$ 450 million). The non-oil-exporting countries of South America saw their deficit on current account narrow from US$ 4.5 billion to US$ 3.6 billion, but this was due almost entirely to a major turnaround in Brazil's current account results, since larger deficits were recorded in almost all the other countries in this category. Particularly noteworthy cases included Argentina, whose deficit grew by US$ 5.7 billion; Chile, where it soared from US$ 160 million to nearly US$ 1 billion; and Uruguay, whose small surplus turned into a deficit of US$ 230 million. In contrast, a marked increase in the merchandise trade surplus and a decrease in net payments of profits and interest allowed Brazil to change its US$ 1 billion deficit on current account into a hefty surplus of US$ 6.5 billion. Finally, Paraguay's deficit was cut by US$ 70 million. In the Central American and Caribbean countries, the deficit was US$ 1 billion larger, but it shrank by US$ 70 million in Haiti and Panama.

4. **International interest rates**

International interest rates on operations in dollars continued to move downward quite rapidly, falling to their lowest level since the Second World War. This benefited the Latin American and Caribbean countries, since most of their external debts are denominated in dollars. The 180-day LIBOR for dollar loans fluctuated between 3.5% and 3.8% during the second half of 1992, which made the average annual rate 2.1 points lower than it had been the year before and less than half its 1989 level.

This steep decline was mainly due to the steady descent of short-term interest rates in the United States, which was, in turn, partly a result of the monetary policy being applied to pull the country out of its recession. The United States Federal Reserve Bank continued to lower its discount rate, which thus moved downward from its already quite low end-1991 level of 3.5% to just 3% in December 1992 -the lowest rate in the last 30 years. During the same period, the interbank lending rate (an indicator of the cost of short-term credit) also continued to exhibit a downward trend, and this trend actually strengthened even further, since the rate slid from 5.7% to 3.5%. Long-term rates, on the other hand, declined at a much slower pace, as a result of which the spread between short-term and long-term rates widened considerably -from 0.5% in late 1990 to 2.2% in December 1991 and 3.5% in December 1992. This is yet another indication that the interbank rate continues to have a large cyclical component (see table VII-15).

Unlike the situation in the United States, European interbank rates tended to hold steady or even to climb. Germany's monetary policy, in particular, was designed to dampen inflationary pressures associated with the country's unification, and interest rates were therefore raised above the already high rate reached at the end of 1991. In Germany the Bundesbank hiked its discount rate from 8% in late 1991 to 8.3% in December 1992. This meant that the other countries of the European Economic Community -which, with the exception of the United Kingdom and, starting in September, Italy, share a common exchange rate mechanism, had little room in which to lower their domestic interest rates despite the recessionary conditions existing in their economies. In contrast, both short-term and its long-term interest rates were lower in Japan owing to a further reduction in the Central Bank's discount rate aimed at helping to re-energize that country's economy.

5. **Capital flows and international** reserves

The region's capital account once again yielded a large surplus. In 1992, that surplus amounted to US$ 61 billion, which was over 50% more than the already high figure registered in 1991. The increase was made possible primarily by Argentina and Brazil, whose capital inflows expanded by slightly more than US$ 7 billion, and, secondarily, by the greater capital inflows recorded by Chile, Mexico and Venezuela. The oil-exporting countries' capital surplus, which

had been quite high in 1991 (almost US$ 27 billion), expanded by another US$ 3.8 billion in 1992. Three fourths of this capital flow corresponded to Mexico, which took in US$ 24.2 billion, as compared to over US$ 22.1 billion in 1991. In the other oil-exporting countries, with the exception of Peru, the inflow expanded sharply; in fact, in the case of Colombia, the increase was so large that the deficit registered by that country in 1991 gave way to a surplus in 1992. Capital inflows to the non-oil-exporting South American countries were double what they had been the year before. Special mention should be made of the heavy inflow of capital to Argentina, which soared from US$ 5.5 billion to US$ 13.1 billion, Brazil (from US$ 1.2 billion in 1991 to US$ 8.5 billion in 1992), and Chile, where the inflow jumped from US$ 1.4 billion to US$ 3.5 billion. In Paraguay, on the other hand, this flow decreased a great deal. The inflow of capital to the countries of Central America and the Caribbean was also sizeable (US$ 4.5 billion) and represented a 10% increase over the 1991 figure.

In Argentina, the low level of international interest rates on dollar operations and the country's domestic stability continued to help attract an abundant inflow of capital, which included the repatriation of funds that had been placed in other financial marketplaces; the outcome was a positive balance on capital account that was more than double the size of the preceding year's very large surplus. The inflow of capital to Brazil skyrocketed by a factor of seven as a consequence of the widening spread between external and domestic interest rates in 1992, which in real terms was as much as 5% per month. Capital was also attracted to the country by the progress made in negotiations concerning Brazil's external debt. These funds were channeled through lines of credit extended for foreign trade operations, particularly exports; bonds and other short- and medium-term commercial paper issued by Brazilian firms; and stock investments made by foreign investment funds via the Sao Paulo and Rio de Janeiro stock exchanges. From July on, the political crisis caused capital inflows to dwindle, and there was even a net outflow of the funds channeled through the stock exchanges. As a consequence of this situation, capital inflows during the second half of the year were negligible, in contrast to receipts of over US$ 8 billion during the first six months. Involuntary lending in the form of interest arrears on the public external debt also continued to constitute a considerable portion of capital flows (US$ 1.8 billion).

Mexico's capital account reflected a substantial inflow of external resources for the fourth year running, although the pace of this flow was slower than in 1991 and fluctuated widely in the course of the year. About 60% of these funds were in the form of portfolio investment (stocks and bonds) and one fifth of the total was direct investment. In addition, the country's rating was upgraded and it was readmitted to some segments of the international capital market, while the federal government and some State agencies and firms took in over US$ 2.1 billion from bond sales in United States and European markets. External borrowing by the private sector, meanwhile, continued to mount; in particular, some companies arranged to sell shares in foreign stock markets, although the perception of some signs of saturation acted as a curb on offerings and led to increased yields on these instruments. In Chile, the level of the net capital inflow not only remained high but was actually more than double the 1991 figure despite the adoption of restrictive measures during the year in an effort to staunch the inflow of short-term capital, which was placing constraints on the implementation of the authorities' monetary policy and generating pressure for a revaluation of the local currency. The increase in capital inflows to Venezuela was a result of more borrowing by Petróleos de Venezuela S.A. (PDVSA), the State oil company. The inflow of private investment capital, on the other hand, diminished -particularly during the second half of the year (from US$ 1.4 billion in 1991 to only US$ 100 million in 1992). This was due to the virtual suspension of the privatization process and to uncertainty regarding the Government's economic policy.

Since net capital inflows were two thirds greater than the deficit on current account, the balance of payments for Latin America and the Caribbean showed a surplus of US$ 24 billion,

which was 20% more than the already quite large 1991 surplus. Consequently, the international reserves of most of the countries in the region expanded significantly. Nevertheless, the bulk of this increase was accounted for by the US$ 15.1 billion addition to Brazil's reserves, which marked a clear departure from the meagre level of accumulation seen in 1991. International reserves were up by US$ 4.6 billion in Argentina, by US$ 2.5 billion in Chile, and by around US$ 1.2 billion in Colombia and Mexico. In Mexico, the build-up of reserves slowed markedly, with the increase being just one seventh of what it had been the year before. Reserves also rose considerably in Peru (by US$ 500 million), Costa Rica and Uruguay (US$ 150 million), the Dominican Republic (US$ 130 million) and Bolivia, El Salvador and Panama (US$ 60 million). In contrast, Venezuela's international reserves were drawn down by US$ 1.1 billion, but the level of reserves was satisfactory none the less, since they were still equivalent to more than 10 months worth of imports. Paraguay's reserves were down by nearly US$ 400 million and Guatemala and Honduras experienced declines of US$ 50 million and slightly over US$ 70 million, respectively.

6. **External resource transfers**

The net transfer of financial resources to Latin America and the Caribbean was positive for the second year in a row, following nine years of large net outflows of remittances. Furthermore, this net inbound transfer of financial resources was three times as large as it had been in 1991 and was equivalent to 21% of the value of the region's exports of goods and services (see table VII-13). This substantial increase in net transfers was chiefly due to the larger flow of capital into the region and, to a much smaller extent, to a reduction in the outflow of profits and interest payments. Unlike the situation in 1991, when just three countries accounted for almost all of the increase, in 1992 a net positive flow of resources was recorded by a larger number of countries. Among the oil-exporting countries, the positive transfer (as in 1991) equalled 25% of the value of exports of goods and services, and only Colombia and Ecuador continued to have a negative net transfer of resources. Among the non-oil-exporting countries, whose net transfers had been negative until 1991, the turnaround was quite remarkable, in that a net outflow of slightly less than 8% of the value of their exports of goods and services gave way to a positive net transfer of resources amounting to around 17% of that value. This change in direction was particularly marked in Brazil, whose negative US$ 8 billion net transfer turned into a positive US$ 500 million flow; in Argentina, which went from a negative net transfer of US$ 200 million to a positive one of US$ 8.7 billion; and in Chile, which registered a . positive transfer of US$ 1.6 billion after having paid out a net amount of US$ 400 million in 1991. In the Central American and Caribbean countries, which have traditionally been recipients of net transfers from abroad, the level of those transfers climbed from US$ 2.2 billion in 1991 to US$ 2^7 billion in 1992 (see table VII-14 and figure VII-5).

As in 1991, this improvement in the situation for most of the countries was primarily attributable to voluntary non-credit-related capital inflows made up of foreign investments and financial operations. The level of debt service arrears, which, until 1990, had comprised a considerable percentage of the region's capital inflows, was not very high.

The notable expansion of the positive net transfer of financial resources generated a huge increase in import capacity (20%) for the fourth year running (see figure VII-3). The volume of exports was substantially greater, but this variable's contribution to the growth of import capacity was neutralized by a further decline in the terms of trade. In any event, this was the first time that import capacity had regained the real level recorded in the early 1980s. The region's import capacity had progressively diminished during much of the 1980s owing to the real resource transfers entailed by the deterioration in the terms of trade

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and to its net outbound transfer of financial resources, which had far outweighed the significant increase in export volumes observed between 1982 and 1990.

7. Import trade n ms and reciprocal trade til ilization

The reform of import trade regimes proceeded in 1992, although in some cases this process was subject to interruptions or adjustments. For the most part, the programmes for reducing the level of import duties which had been set up in past years were implemented on schedule, and many of the region's economies were therefore able to consolidate the liberalization of their import trade regimes. With theexception of Chile, which undertook a liberalization effort in the 1970s and had established a very open economy by the end of that decade, reform measures had been quite tentative until the mid-1980s. In the closing years of that decade, however, the countries of the region made some radical changes in their development strategies and began to lower their import barriers after having pursued protectionist policies for more than half a century. This trend has grown even stronger in the 1990s, and at this point virtually all the countries of the region have undertaken sweeping reforms of their import trade regimes.

In nine countries (Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Paraguay, Uruguay and Venezuela), the main advances made in the import trade reform process consisted of further tariff reductions. The remaining countries in the region did not modify their current regimes, but this was because almost all of them had already implemented major reforms in past years.

In keeping with the trend established in 1990, in 1992 the Latin American countries arrived at further trade liberalization and promotion agreements. They also continued to take steps towards multilateral integration, which contributed to a significant expansion of trade among these countries and underscored the importance of coordinating their macroeconomic policies more closely in order to facilitate the formation of stronger trade links. The tariff reductions called for by MERCOSUR proceeded as planned, and agreements were signed for the purpose of broadening the integration of the Andean Pact countries; one such agreement that merits special mention is the customs union agreement signed by Colombia and Venezuela. The negotiations being pursued by Mexico, Canada and the United States regarding a free trade agreement were also brought to their conclusion.

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In Argentina, trade policy continued along the same lines that had been defined in 1990, which call for the liberalization of imports through a reduction in the average level of tariffs and in the tariff spread, together with the elimination of most non-tariff barriers. In 1991 the reform process had been reinforced by the establishment of tariffs for just four categories of products plus a 35% tariff on some electronics. With the exception of the provisions adopted in respect of the automobile industry, in 1992 no quantitative restrictions were placed on imports, which continued to be subject to moderate tariff rates. Furthermore, even though the substantial increase in imports from other MERCOSUR countries did prompt some controversy as to the future of the regional agenda, the tariff reduction timetable was ratified in its existing form, the reciprocal trade preference margin was broadened to 68% by the end of the year and the Government reaffirmed its intention to eliminate trade barriers by 1995. Be that as it may, in November the Government raised the statistical rate applied to imports from 3% to 10% in an effort to arrest their growth. This rate hike was tantamount to an across-the-board increase in the duties on all goods coming from any country whatsoever, including imports from other MERCOSUR countries. Holdbacks and other

For more detailed information concerning this reform cess, see ECLAC, *Economic Survey of Latin America and the Caribbean, 1991* (LC/G.1741-P), vol. I, first part, chapter VII, :iago, Chile, September 1992. United Nations publication, Sales NO.E.92.II.G.2.

export taxes were also discontinued, and rebates were augmented. These measures were adopted as part of the effort to align the effective exchange rates for exports and imports of certain items.

Bolivia completed the process of reforming its import trade regime in 1990, when it reduced its tariff on capital goods to 5% and its tariff on all other products to 10%. In 1992, it actively pursued the negotiation of free trade treaties. In March, Bolivia signed a free trade agreement with Colombia and Venezuela. It also set up a free trade area with Peru, which had temporarily withdrawn from participation in the above agreement. Under the terms of these agreements, the tariffs on all products (with the exception of soybean and sunflower oil) included in the Andean Pact tariff schedule are to be eliminated.

In **Brazil,** the reform of the import trade regime began in 1988, but it was not until 1990 that significant progress was made in doing away with most administrative controls and adopting a tariff reduction timetable that would bring this process to completion in 1994. Then, early in 1991, a new timetable for tariff rollbacks was instituted which called for the establishment of an average tariff level of 14% in 1994. In 1992, net foreign exchange receipts from exports and capital inflows made it possible to adopt new measures designed to speed up the reduction of import duties and to carry forward the MERCOSUR tariff reduction programme. The Government moved the tariff review planned for January 1993 up to October 1992 and brought forward the one planned for January 1994 to July 1993;asaresult, the average tariff rate dropped from 21% in January to 17% in October 1992.

The import liberalization process in **Colombia** entered into full swing in 1992. The phase of that process involving the reduction of restrictions had been completed in August 1992, when a decision was taken to go ahead with the immediate adoption of the tariff structure which was to have entered into force in 1994. The establishment of a new import trade regime entailed the suppression of a number of macroeconomic and sectoral economic policy tools. In addition, a four-tier tariff structure was put in place in which the ceiling rate was 15%, except for private motor vehicles, on which the tariff remained at 75%. There was also a great deal of activity in 1992 in connection with the negotiation of trade agreements, and the agreements arranged for with Venezuela and Ecuador entered into effect. A commitment was made to promote regional integration within the Andean Group, and progress was made in the talks being undertaken with a view to the conclusion of bilateral agreements with Mexico and Chile.

In line with the economic policy being followed by the current administration, the import liberalization process was pursued more actively with a view to raising the efficiency of production, slowing inflation and mitigating the macroeconomic impact of the inflow of foreign exchange. This trade liberalization effort provided for the elimination of licenses, surcharges and advance deposits and for an accelerated reduction of tariffs. In April a programme was launched which consisted of six quarter-long stages; this programme's goal was to bring the highest tariffs down from 40% to 20% (with the exception of those applying to footwear, textiles and wearing apparel). In addition, during the first quarter of 1992 temporary import surcharges were discontinued, advance deposits on imports were eliminated, and the sale and purchase of foreign exchange by importers and exporters were deregulated.

In **Chile,** import policy has not been changed in any major way since June 1991, when the uniform tariff was lowered from 15% to 11%. Chile not only embarked upon the process of reforming its import trade regime nearly two decades ago, but it is also the only country to have established a uniform tariff rate. In recent years it has, however, begun to resort to the frequent use of anti-dumping measures and countervailing duties to protect its economy from unfair trading practices. To that end, duties were raised to a maximum level of 35% (the level to which Chile committed itself within the framework of GATT in 1979) on imports which the country could prove were being subsidized or dumped. In addition, a system of price bands was instituted for three categories of agricultural products (wheat, sugar and oilseeds) -and this too represented a departure from the uniform tariff-which may vary in line with international price trends for the items concerned. In 1992, progress

was also made in the implementation of the Economic Complementarity Agreement (ACE) entered into with Argentina (signed in August 1991), the tariff reduction programme provided for in the ACE signed with Mexico was launched, and negotiations concerning the conclusion of an ACE with Venezuela proceeded.

Trade reforms in **Ecuador** were initiated in 1990; in November 1991, a second phase was begun with the reduction of the tariff ceiling to 35%, except in the case of motor vehicles, and the surcharges that had been levied on imports for purposes of monetary stabilization were lifted. In 1992, the principal measures adopted in the area of foreign trade had to do with the liberalization of the exchange market. Progress was also made towards arriving at a free trade agreement within the framework of the Andean Pact -in which Ecuador takes part along with Bolivia, Colombia and Venezuela- and near the end of the year an agreement was signed with Peru in order to uphold the trade liberalization measures arranged for with that country.

In El Salvador, the process of reforming the import trade regime began in 1988, and the authorities have been gradually reducing import duties ever since. Early in 1992, the tariff ceiling was lowered from 30% to 20%, except for selected products (especially textiles and footwear) that continued to be provided with a higher level of protection. In addition, the tariff on trade in food products with other countries in the Central American subregion was eliminated.

In March 1990, **Guatemala** reduced the duty levied on the majority of imported products and set up six levels of tariffs. In 1991, a variety of import licensing requirements were discontinued, and in 1992 the authorities proceeded with the process of reducing tariffs and eliminating trade restrictions, although some quite drastic adjustments had to be made in a number of sectors due to various problems affecting local producers. The Government's goal was to set a tariff ceiling of 20% in 1993, in accordance with the agreements reached among the countries of the Central American Common Market regarding a common external tariff.

In Honduras, too, progress was made in the liberalization of the exchange market as the tariff reduction programme launched in 1990 was carried forward with the elimination of some surcharges on imports and the establishment of an open market for goods coming from the other Central American countries. In December, a protocol providing for Honduras' accession to the General Central American Tariffs and Customs Agreement and to its complementary agreements was approved with a view to consolidating its integration in the area of trade.

The bulk of Mexico's import liberalization programme was carried out between 1985 and 1987, and this process culminated with the adoption of a five-tier tariff structure with rates ranging from 0% to 20%. Since that time, marginal adjustments have been made in that structure and some quantitative controls have been eliminated. In 1992, trade policy focused on the negotiation of trade agreements that would provide access to new markets and do away with some of the barriers standing in the way of Mexican exports. A trade agreement with Chile entered into force, and headway was made in negotiating similar agreements with the Central American countries and with the other members of what has come to be known as the Group of Three (i.e., Mexico, Colombia and Venezuela). Finally, in the last quarter of 1992, Mexico's negotiations with the United States and Canada regarding a free trade agreement were concluded.

Paraguay adopted a number of measures for the purpose of further reducing the protection provided for nationally-produced goods, and the structure of import duties was revised. Negotiations concerning Paraguay's prospective membership in GATT were virtually completed, and implementation of the automatic tariff reduction programme provided for within MERCOSUR moved ahead; as part of this programme, tariffs on imports from other member countries (except for a list of exempted products) were lowered by 68% at the end of the year.

In Peru, the administration that took office in July 1990 embarked upon a drastic import liberalization programme under which it did away with all import bans, discontinued various specific import duties, suspended import licensing requirements and restructured the tariff system. In March 1991 the tariff rollback process was carried further with the establishment of just

two tariff rates (15% and 25%). In 1992, no major new steps were taken in the implementation of the liberalization programme, however; what is more, due to a number of domestic and external problems, in August 1992 the country suspended its participation in the Andean Group's multilateral trade agreements until the end of 1993.

In the **Dominican Republic,** the import liberalization process was carried forward with the reduction of exchange restrictions. Nevertheless, import duties rose due to the increase in the average effective tariff which resulted from the use of higher appraised values for customs purposes.

Uruguay initiated its import liberalization programme in the 1970s but this process later stalled, and ground was then lost as a consequence of the crisis that hit the region in the early 1980s. In fact, this initiative was not reactivated until 1990, when both the tariff spread and the average tariff rate were reduced. In 1992 the country continued to move ahead with its tariff rollback programme, reducing the general rate for final goods from 30% to 24% and the rate for intermediate goods from 20% to 17%; raw materials remained subject to a 10% tariff. Uruguay also fulfilled the obligations it had assumed within the framework of MERCOSUR, with the result that by the end of the year the maximum duty on imports from other member countries had been lowered to less than 8%.

In 1989, the Government of **Venezuela** launched a trade reform effort that put an end to the country's system of differentiated exchange rates, did away with most non-tariff barriers and reduced tariff levels. In May 1992, a further reduction brought the maximum tariff down to 20%; the resulting tariff structure was composed of four rates (5%, 10%, 15% and 20%), with the average rate being less than 10% (in 1988 it had been 40%, with rates ranging from 0% to 800%). At the start of the year, the last remaining quantitative restrictions were discontinued. The only significant delay in the trade liberalization programme's implementation was the postponement of the reform's extension to the agricultural sector, which had been scheduled to take place in 1992. The Government's policy of pursuing the negotiation of bilateral trade agreements remained in force, however. In January a free trade agreement was signed with Colombia, and negotiations with the other members of the Andean Pact and Mexico were moving forward. In June, tariffs on products from the countries of the Caribbean Community (CARICOM) were eliminated, and negotiations aimed at the signing of a free trade agreement with Chile were brought to a successful conclusion.

Table VIM

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	-5.8	-0.3	-5.6	0.2	1.1	-1.1
1986	-15.7	-0.9	-15.0	2.5	7.4	-4.5
1987	14.5	8.8	5.2	12.6	6.0	6.2
1988	13.9	8.8	4.6	14.0	8.8	4.7
1989	9.9	3.7	5.9	6.5	1.8	4.7
1990	9.6	5.9	3.6	15.7	11.1	4.2
1991	-0.8	3.5	-4.2	18.1	15.8	2.1
1992 [a]	5.2	7.6	-2.2	22.5	21.2	1.1
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	-6.9	-2.6	6.0	7.0	-0.9
1986	-23.7	8.2	-29.6	-2.5	-0.6	-1.8
1987	19.3	6.5	12.2	11.8	8.0	3.4
1988	-1.3	6.1	-6.9	31.4	23.5	6.5
1989	16.5	3.8	12.2	-1.2	-5.2	4.2
1990	20.5	8.1	11.6	21.5	15.8	4.9
1991	-3.3	6.9	-9.6	22.2	17.3	4.1
1992 [a]	-0.6	0.9	-1.5	23.8	22.6	1.0
South American non-oil-éxporting countries [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	-2.2	7.5	-9.1	-7.8	-5.5	-2.4
1986	-10.5	-9.8	-0.7	10.9	21.6	-8.9
1987	12.9	12.1	0.7	13.7	3.4	10.0
1988	32.0	14.0	15.8	0.3	-3.7	4.1
1989	5.1	3.7	1.4	16.2	10.3	5.4
1990	0.5	2.9	-2.4	11.1	6.7	4.0
1991	0.1	-0.5	0.7	14.1	15.9	-1.5
1992 [a]	10.3	13.2	-2.6	20.3	18.8	1.3
Central American and Caribbean non-oil-exporting countries [d]						
1980	38.3	19.5	15.7	43.1	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	-0.8	0.0
1987	-1.6	7.1	-8.1	12.1	7.4	4.5
1988	2.4	-3.1	5.7	-3.5	-5.6	2.2
1989	7.1	4.1	2.8	12.0	8.4	3.3
1990	7.8	9.5	-1.4	7.9	4.9	2.9
1991	10.0	4.8	4.9	13.2	8.5	4.4
1992 [a]	9.6	14.1	-3.9	22.3	20.8	1.2

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

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

Table VII-2

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1992[a]	1990	1991	1992[a]	1992[a]	1990	1991	1992[a]	1992[a]	1990	1991	1992[a]
Latin America and the Caribbean	**144**	**9.6**	-0.8	**5.2**	**77**	**3.6**	-4.2	-2.2	**186**	**5.9**	**3.5**	**7.6**
Oil-exporting countries	**122**	**20.5**	•*33*	-0.6	**68**	**11.6**	-9.6	.L5	**179**	**8.1**	**6.9**	**0.9**
Bolivia	65	14.8	-8.5	-20.0	65	-4.9	-10.5	-10.0	99	20.8	2.3	-11.1
Colombia	184	17.4	6.0	-3.0	82	-1.0	-3.4	-4.0	224	18.6	9.8	1.1
Ecuador	119	15.3	5.0	5.5	55	3.4	-3.8	-2.0	217	11.5	9.2	7.6
Mexico	177	17.9	0.1	2.5	69	12.8	-7.4	0.5	257	4.5	8.1	1.9
Peru	89	-7.4	3.0	4.7	116	17.7	4.0	-1.3	77	-21.3	-0.9	6.0
Venezuela	74	35.1	-14.6	-5.9	58	18.1	-18.3	-3.5	127	14.4	4.5	-2.5
Non-oil-exporting countries	**167**	**1.4**	**1.5**	**10.2**	**87**	-2.1	**1.4**	-2.8	**193**	**3.6**	**0.1**	**13.4**
South America	**177**	**0.5**	**0.1**	**10.3**	**84**	-2.4	**0.7**	-2.6	**211**	**2.9**	-0.5	**13.2**
Argentina	149	29.1	-3.1	-0.1	77	-4.0	-2.0	0.0	194	34.5	-1.1	-0.1
Brazil	180	-8.6	0.7	14.5	85	-1.3	2.1	-3.5	212	-7.4	-1.4	18.7
Chile	212	2.8	7.4	11.8	89	-1.9	0.2	-2.0	240	4.8	7.2	14.1
Paraguay	259	10.8	-19.6	-6.5	94	-2.9	-1.1	-8.0	276	14.1	-18.8	1.7
Uruguay	161	5.9	-5.2	6.1	99	-3.7	-0.8	-0.5	162	10.0	-4.5	6.7
Central America and the Caribbean	**123**	**7.8**	**10.0**	**9.6**	**104**	-1.4	**4.9**	-3.9	**118**	**9.5**	**4.8**	**14.1**
Costa Rica	173	1.6	10.1	15.9	76	-5.2	4.8	-6.0	227	7.1	5.0	23.3
El Salvador	55	16.6	1.3	-0.2	69	-28.0	1.8	-9.0	80	61.9	-0.4	9.7
Guatemala	85	7.6	1.5	4.4	85	-2.9	5.4	-6.0	100	10.8	-3.6	11.0
Haiti	34	8.1	1.6	-55.2	85	-3.0	1.6	-8.0	40	-11.4	0.0	-51.3
Honduras	99	-4.0	-4.7	3.7	88	-3.2	-0.1	-8.5	113	-0.8	-4.6	13.3
Nicaragua	48	4.3	-19.3	-18.9	83	-2.9	-5.6	-4.1	59	7.4	-14.6	-15.4
Panama	220	23.7	26.1	19.5	157	12.4	1.0	-1.0	141	10.1	24.8	20.7
Dominican Republic	58	-20.5	-10.4	-14.6	76	-14.7	-3.7	-6.5	77	-6.9	-6.9	-8.7

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

" Preliminary figures.

Table **VII-3**

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1992[a]	1990	1991	1992[a]	:1992[a]	1990	1991	1992[a]	1992[a]	1990	1991	1992[a]
Latin America and the Caribbean	**151**	**15.7**	**18.1**	**22.5**	**109**	**4.2**	**2.1**	1.1	**139**	**11.1**	**15.8**	***212***
Oil-exporting countries	**184**	**21.5**	**22.2**	**23.8**	**109**	**4.9**	**4.1**	**1.0**	**169**	**15.8**	**173**	**22.6**
Bolivia	165	6.3	3.7	18.1	97	10.8	-16.8	0.9	171	-4.0	24.7	17.0
Colombia	137	12.1	-11.0	28.7	111	5.8	2.1	1.5	123	5.9	-12.8	26.8
Ecuador	90	1.1	29.0	-8.2	98	0.6	7.5	0.9	93	0.5	20.0	-8.9
Mexico	255	33.6	22.1	26.2	110	5.3	5.0	1.0	232	26.9	16.3	25.0
Peru	131	26.2	20.9	15.9	126	12.3	10.4	0.4	104	12.4	9.5	15.5
Venezuela	114	-6.5	48.4	22.8	101	0.2	3.2	1.0	113	-6.3	43.9	21.5
Non-oil-exporting countries	**125**	**10.2**	**13.9**	**20.8**	**109**	**3.6**	-0.1	**1.2**	**115**	**63**	**14.1**	**19.4**
South America	**117**	**11.1**	**14.1**	**203**	**106**	**4.0**	-1.5	**13**	**110**	**6.7**	**15.9**	**18.8**
Argentina	145	-3.6	98.6	84.4	132	-0.5	9.0	2.1	110	-3.1	82.2	80.7
Brazil	89	13.1	1.8	-2.4	97	4.8	-6.7	1.0	92	8.0	9.1	-3.3
Chile	169	8.2	4.5	25.6	105	8.2	-1.5	1.5	161	0.0	6.1	23.8
Paraguay	226	45.0	13.3	-8.6	80	-3.6	3.1	1.1	283	50.5	9.9	-9.5
Uruguay	116	11.5	21.8	25.7	99	6.0	2.8	-1.3	118	5.2	18.6	27.4
Central America and the Caribbean	**157**	**7.9**	**13.2**	**223**	**117**	**2.9**	**4.4**	**1.2**	**134**	**4.9**	**8.5**	**20.8**
Costa Rica	161	14.3	-5.5	30.1	112	8.2	5.6	0.3	144	5.6	-10.5	29.7
El Salvador	177	8.3	9.7	22.6	138	-15.7	5.4	0.0	128	28.4	4.0	22.6
Guatemala	158	-3.8	17.2	39.2	103	-3.3	12.4	1.0	153	-0.5	4.3	37.7
Haiti	62	-4.6	21.5	-34.4	109	5.9	-2.8	0.8	57	-9.9	25.0	-34.9
Honduras	108	4.2	-0.7	19.3	101	7.7	-2.4	0.9	106	-3.3	1.7	18.2
Nicaragua	92	4.1	20.8	6.9	98	8.2	4.1	-1.7	94	-3.8	16.0	8.8
Panama	198	23.4	31.0	18.9	130	2.1	2.4	1.5	152	20.8	27.9	17.1
Dominican Republic	143	-8.7	-3.6	26.0	111	5.0	-0.3	0.3	129	-13.1	-3.3	25.5

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF) and national sources.
* Preliminary figures.

Table **VII-4**

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

(Indexes: 1980 = 100 and growth rates)

Year	Latin America and the Caribbean		Oil-exporting countries [a]		Non-oil-exporting countries			
					South America		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	94.7	-1.8	83.0	-6.8	90.2	-5.4
1986	78.8	-10.9	68.0	-28.0	90.4	8.9	105.7	17.2
1987	78.1	-0.9	73.7	8.4	82.8	-8.4	93.0	-12.0
1988	77.9	-0.1	64.4	-12.6	92.1	11.2	96.1	3.3
1989	78.9	1.3	69.4	7.8	88.5	-4.0	95.6	-0.5
1990	78.4	-0.6	73.7	6.2	83.0	-6.2	91.6	-4.2
1991	73.6	-6.1	64.1	-13.0	84.8	2.2	92.1	0.5
1992[d]	71.1	-3.4	62.6	-2.3	79.3	-6.5	89.1	-3.3

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

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

Table VII-5

LATIN AMERICA AND THE CARD3BEAN: TERMS OF TRADE IN GOODS FOB/CIF

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1987	1988	1989	1990	1991		1989	1990	1991	1992[a]
Latin America and the Caribbean	76	76	77	76	72	69	1.5	-0.8	-6.3	-3.4
Oil-exporting countries	72	63	68	72	62	61	8.2	6.1	-13.1	-2.2
Bolivia	85	76	76	65	70	62	0.5	-13.8	6.5	-11.3
Colombia	90	89	85	80	76	72	-4.0	-6.2	-5.5	-5.4
Ecuador	69	58	61	62	56	54	4.3	2.3	-10.2	-3.4
Mexico	72	62	66	70	62	62	5.6	6.9	-11.7	-0.3
Peru	83	96	92	96	90	89	-4.9	4.3	-5.7	-1.8
Venezuela	63	51	62	73	57	55	21.3	16.8	-21.2	-4.6
Non-oil-exporting countries	81	89	86	81	82	77	-3.2	-5.6	-1.2	-6.0
South America	81	90	87	81	83	77	-4.0	-6.1	1.7	-6.7
Argentina	63	66	68	65	58	56	2.2	-3.9	-11.1	-2.1
Brazil	86	95	87	82	90	86	-8.1	-5.8	9.2	-4.5
Chile	80	96	92	84	85	82	-4.4	-8.7	1.5	-3.5
Paraguay	111	118	124	124	120	109	5.3	0.5	-3.6	-9.3
Uruguay	104	111	111	99	97	97	0.6	-10.6	-2.1	-0.5
Central America and the Caribbean	90	93	92	89	89	86	-0.4	-4.1	0.7	-3.5
Costa Rica	84	84	80	70	70	65	-4.8	-12.2	-0.6	-6.5
El Salvador	70	75	66	55	53	48	-12.5	-15.8	-3.8	-9.5
Guatemala	87	88	89	90	84	79	1.1	0.2	-6.1	-6.4
Haiti	102	92	83	77	81	73	-9.6	-7.5	5.0	-8.8
Honduras	83	97	99	89	91	83	2.0	-10.2	2.1	-8.9
Nicaragua	97	97	101	91	84	79	4.2	-10.1	-7.9	-5.7
Panama	110	110	113	124	122	119	2.8	9.7	-1.2	-2.4
Dominican Republic	76	85	89	73	70	65	4.7	-18.4	-3.7	-7.0

Source: ECLAC, on the basis of figures the International Monetary Fund (IMF) national sources.

[a] Preliminary figures.

Table VII-6

LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

(Dollars at current prices and growth rates)

	Annual average price						Annual growth rates				Cumulative variation
	1975	1980	1985	1990	1991	1992[a]	1989	1990	1991	1992[a]	1992/1976
Unrefined sugar [b]	20.4	28.7	4.1	12.6	9.0	9.1	25.5	-1.6	-28.8	1.0	-55.7
Bananas [b]	12.9	18.9	18.4	29.5	25.0	23.6	-17.0	44.6	-15.3	-5.7	83.6
Cocoa [b]	56.5	118.1	102.3	57.7	54.2	49.8	-21.6	2.1	-6.1	-8.1	-11.8
Coffe (mild)[b]	65.4	154.2	145.6	89.2	85.0	63.6	-20.8	-16.6	-4.7	-25.2	-2.8
Beef[b]	60.2	125.9	97.7	115.4	120.8	111.3	2.0	-0.9	4.7	-7.9	84.9
Fish meal[c]	245.0	504.0	280.0	412.0	478.0	487.0	-25.0	1.0	16.0	1.9	98.8
Maize [c]	154.1	210.3	135.3	119.9	140.1	136.7	3.8	-14.8	16.8	-2.4	-11.3
Soybeans [c]	220.0	296.0	225.0	247.0	240.0	236.0	-9.5	-10.2	-2.8	-1.7	7.3
Wheat[c]	151.0	176.0	138.0	137.0	129.0	151.0	16.4	-19.4	-5.8	17.1	0.0
Cotton [b]	55.9	94.2	61.7	82.1	74.6	62.8	19.7	8.2	-9.2	-15.8	12.3
Wool[b]	106.6	194.9	141.0	155.0	119.2	123.5	-7.7	-19.1	-23.1	3.6	15.8
Copper[6]	56.1	98.8	64.4	120.9	106.3	103.7	9.5	-6.4	-12.1	-2.4	84.9
Tin*	3.1	7.6	5.4	2.8	2.5	2.7	19.4	-29.8	-10.6	10.8	-12.3
Iron ore [c]	18.7	26.8	26.6	30.8	33.3	31.6	13.0	16.0	8.0	-5.0	68.6
Lead[b]	18.9	41.2	17.8	36.8	25.4	24.6	2.7	20.8	-31.2	-2.9	30.1
Zinc[b]	38.9	37.4	40.4	74.6	52.8	58.4	36.2	-9.0	-29.2	10.6	50.1
Crude oil[e]											
IMF average	10.6	35.9	27.0	22.0	18.3	18.2	21.1	27.9	-16.8	-0.5	71.9
Colombia				22.5	19.2	18.6		23.0	-14.9	-2.9	
Ecuador			26.6	22.2	18.6	18.2	17.1	24.7	-16.2	-2.2	
Mexico			24.1	17.6	13.1	13.3	17.8	15.8	-25.7	1.8	
Venezuela	10.9	27.6	25.9	16.9	14.2	14.8	27.6	7.6	-15.8	4.0	35.8

Source: United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin. Supplement 1970-1989* (TD/B/C.1/CPB/L.101/Add.1), November 1989; and *Monthly Commodity Price Bulletin* (TD/B/C.1/CPB/L.5), vol.13, No. 5/6, May-June 1993, and *Petroleum Market Intelligence,* London, several issues.

Note: Unrefined sugar, FOB, Caribbean ports, for export to the open market. Central American Bananas, CIF North Sea ports. **Cocoa beans,** average of daily prices (futures), New York/London. **Coffee,** mild arabica, *ex-dock* New York. **Beef,** frozen and de-boned, all sources, United States ports. **Fish meal,** all sources, 64%-6S% protein, CIF Hamburg. Maize, Argentina, CIF North Sea ports. **Soybeans,** United States, No. 2, yellow, in bulk, CIF Rotterdam. **Wheat,** FOB United States, No. 2, Hard Red Winter. **Cotton,** Mexican M1 -3/32", CIF northern Europe. **Wool,** clean, combed, 48"squality, United Kingdom. **Copper, tin, lead and zinc,** spot prices on the London Metal Exchange. **Iron ore,** Brazil to Europe, C. 64.5% Fe, FOB. **Oil: IMF average,** average of spot prices for Dubai, Brent (United Kingdom) and Alaskan North Slope oil, which reflects a fairly balanced mix of medium, light and heavy crude worldwide; **Colombia,** C. Limón 30 (Gulf Coast, United States); **Ecuador,** Oriente-30 (Gulf Coast Unites States); Mexico, Maya Heavy-22 (Gulf Coast United States); **Venezuela,** Tfa Juana-22 (Caribbean).

[a] Preliminary figures. [b] US cents per pound. [c] Dollars per metric ton. Dollars per pound. [e] Dollars per barrel.

Table VII-7

LATIN AMERICA AND THE CARIBBEAN: REAL PRICES OF MAIN EXPORT PRODUCTS '

(Indexes: 1975-1976 average = 100)

	1977-1978	1979-1981	1982-1984	1985-1986	1987-1989	1990-1991	1992	1975-1992
Unrefined sugar	41.2	69.1	29.5	19.2	29.7	29.2	23.7	43.8
Bananas	91.6	87.1	98.7	98.0	91.3	94.0	78.7	93.2
Cocoa	184.0	100.5	82.8	81.8	47.8	32.9	28.3	84.4
Coffe (mild)[b]	161.7	90.1	86.3	99.1	54.9	36.5	25.8	84.1
Beef[b]	102.8	114.7	105.0	90.1	82.6	78.0	71.1	95.5
Fish meal[c]	116.4	89.8	82.0	59.3	69.1	62.5	66.1	81.4
Maize[c]	69.6	75.8	68.7	52.5	42.2	38.6	39.2	62.3
Soybeans[c]	101.2	80.1	77.4	59.3	56.5	47.0	44.0	72.3
Wheat[c]	67.9	73.8	71.1	54.8	48.3	40.5	44.4	63.9
Cotton [b]	90.4	77.6	75.9	52.6	51.4	50.5	39.1	68.9
Wool[b]	102.8	91.7	75.3	70.4	74.2	47.4	41.2	78.1
Copper	84.2	87.4	72.7	65.2	87.7	82.6	72.9	82.2
Tin*	135.3	131.3	113.1	77.5	50.6	34.7	35.1	89.7
Iron ore[c]	84.0	80.0	81.5	87.3	64.4	74.9	71.4	80.1
Lead[b]	122.8	135.5	70.4	56.7	71.5	69.0	52.8	87.9
Zinc[b]	71.5	63.9	72.6	63.3	77.2	72.5	64.3	73.3
Crude oil[e]								
IMF average	95.5	167.2	168.9	115.7	71.1	78.7	68.8	115.0
Venezuela	92.9	139.7	168.6	109.6	64.2	61.0	56.1	105.6

Source: United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin. Supplement 1970-1989* (TD/B/C.1/CPB/L.101/Add.1), November 1989; and *Monthly Commodity Price Bulletin* (TD/B/C.1/CPB/L.5), vol.13, No. 5/6, May-June 1993, and *Petroleum Market Intelligence,* London, several issues.

Note: Unrefined sugar, FOB, Caribbean ports, for export to the open market. Central American Bananas, CIF North Sea ports. **Cocoa beans,** average of daily prices (futures), New York/London. **Coffee,** mild arabica, *ex-dock* New York. **Beef,** frozen and de-boned, all sources, United States ports. **Fish meal,** all sources, 64%-65% protein, CIF Hamburg. **Maize,** Argentina, CIF North Sea ports. **Soybeans,** United States, No. 2, yel low, in bulk, CIF Rotterdam. **Wheat,** FOB United States, No. 2, Hard Red Winter. **Cotton,** Mexican M1 -3/32", CIF northern Europe. **Wool,** clean, combed, 48"s quality, United Kingdom. **Copper, tin, lead and zinc,** spot prices on the London Metal Exchange. **Iron ore,** Brazil to Europe, C. 64.5% Fe, FOB. **Oil: IMF average,** average of spot prices for Dubai, Brent (United Kingdom) and Alaskan North Slope oil, which reflects a fairly balanced mix of medium, light and heavy crude worldwide; **Colombia,** C. Limón 30 (Gulf Coast, United States); **Ecuador,** Oriente-30 (Gulf Coast Unites States); **Mexico,** Maya Heavy-22 (Gulf Coast United States); **Venezuela,** Tía Juana-22 (Caribbean).

Nominal prices deflated by unit values of developed-country exports of manufactures. US cents per pound. Dollars per metric ton. Dollars per pound. [e] Dollars per barrel.

Table **VII-8**

LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

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	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	11.0	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	123.7	0.2	79.4	-3.4
1986	100.3	-11.9	86.9	-23.0	121.4	-1.9	87.0	9.6
1987	108.3	8.0	100.1	15.2	125.6	3.5	81.7	-6.1
1988	117.1	8.1	92.8	-7.3	158.3	26.0	81.5	-0.2
1989	122.4	4.5	104.1	12.2	155.9	-1.5	85.4	4.8
1990	128.6	5.1	120.3	15.6	149.3	-4.2	89.0	4.2
1991	125.8	-2.2	111.4	-7.4	153.0	2.5	93.5	5.1
1992 [d]	131.0	4.1	109.6	-1.6	166.5	8.8	101.3	8.3

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

[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 VII-9

LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1987	1988	1989	1990	1991	1992[a]	1989	1990	1991	1992[a]
Latin America and the Caribbean	**108**	**117**	**122**	**129**	**126**	**131**	**4.5**	**5.1**	-2.2	**4.1**
Oil-exporting countries	**100**	**93**	**104**	**120**	**111**	**110**	**12.2**	**15.6**	-7.4	-1.6
Bolivia	58	57	69	71	78	61	21.2	4.1	8.8	-20.7
Colombia	151	136	145	162	168	160	7.1	11.2	3.8	-4.4
Ecuador	97	98	101	115	113	117	2.6	14.1	-2.0	4.5
Mexico	147	136	146	163	156	158	7.1	11.8	-4.5	1.5
Peru	72	70	85	70	65	68	21.1	-17.9	-6.6	4.3
Venezuela	60	54	68	90	74	69	24.5	33.6	-17.7	-6.8
Non-oil-exporting countries	**117**	**143**	**142**	**138**	**141**	**154**	-0.8	-3.2	**2.8**	**8.9**
South America	**126**	**158**	**156**	**149**	**153**	**167**	-1.5	-4.2	**2.5**	**8.8**
Argentina	76	100	99	127	112	109	-1.0	29.3	-12.1	-2.2
Brazil	144	180	171	149	160	181	-5.1	-12.8	7.7	13.4
Chile	126	160	172	165	179	198	7.7	-4.4	8.8	10.1
Paraguay	183	251	362	415	325	300	44.3	14.6	-21.7	-7.5
Uruguay	131	151	161	158	148	157	6.7	-1.7	-6.4	7.5
Central America and the Caribbean	**82**	**82**	**85**	**89**	**94**	**101**	**4.8**	**4.2**	**5.1**	**8.3**
Costa Rica	116	121	131	123	128	148	8.4	-6.0	4.4	15.5
El Salvador	45	43	30	40	39	38	-31.6	36.3	-4.2	-0.2
Guatemala	66	70	75	83	75	78	7.8	11.1	-9.5	3.4
Haiti	89	76	61	62	66	29	-17.9	3.1	5.0	-55.6
Honduras	87	99	104	93	90	93	5.7	-10.9	-2.6	2.8
Nicaragua	67	53	76	74	58	46	45.3	-3.4	-21.3	-17.5
Panama	99	88	95	115	142	167	8.9	20.8	23.3	17.7
Dominican Republic	71	88	87	66	59	50	-1.1	-24.0	-10.5	-14.9

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

[a] Preliminary figures.

Table vn-10
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		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Latín America and the Caribbean	**121811**	**120813**	**127 091**	**94418**	**111575**	**136558**	**27 393**	**9238**	**-9467**	**3789**	**4771**	**5687**	**23 607**	**4467**	**-15154**
Oil-exporting countries	**58134**	**56194**	**55 909**	**48564**	**59338**	**73473**	**9570**	**-3144**	**-17 564**	**795**	**1192**	**2 506**	**8 778**	**-4336**	**-20 070**
Bolivia	831	760	608	776	804	950	55	-44	-342	169	159	194	-114	-203	-536
Colombia	7 079	7 507	7 285	5 108	4 548	5 852	1971	2 959	1433	186	308	420	1785	2 651	1013
Ecuador	2 714	2 851	3 008	1711	2 207	2 027	1003	644	981	223	271	305	780	373	676
Mexico	26 835	26 855	27 516	31271	38 184	48 193	-4436	-11329	-20 677	-1758	-2427	-2531	-2 675	-8 902	-18 146
Peru	3 231	3 329	3 484	2 891	3 494	4 051	340	-165	-567	665	724	850	-325	-889	-1417
Venezuela	17 444	14 892	14 008	6 807	10101	12400	10 637	4791	1608	1310	2157	3 268	9 327	2 634	-1660
Non-oil-exporting countries	**63677**	**64 619**	**71182**	**45 854**	**52 237**	**63085**	**17 823**	**12 382**	**8097**	**2994**	**3579**	**3181**	**14 829**	**8 803**	**4916**
South America	**55141**	**55 232**	**60 896**	**34164**	**39008**	**46895**	**20977**	**16224**	**14001**	**4543**	**5307**	**5151**	**16434**	**10 917**	**8850**
Argentina	12 354	11972	11965	3 726	7400	13 649	8 628	4 572	-1684	674	1799	2 472	7 954	2 773	-4 156
Brazil	31408	31620	36 207	20 661	21041	20 542	10747	10 579	15 665	3 756	3 891	3 108	6991	6 688	12 557
Chile	8 310	8 929	9 986	7 037	7 354	9 237	1273	1575	749	260	-36	-97	1013	1611	846
Paraguay	1 376	1 106	1035	1473	1669	1526	-97	-563	-491	-89	-110	-142	-8	-453	-349
Uruguay	1693	1605	1703	1267	1544	1941	426	61	-238	-58	-237	-190	484	298	-48
Central America and the Caribbean	**8 536**	**9387**	**10286**	**11690**	**13 229**	**16190**	**-3154**	**-3842**	**-5904**	**-1549**	**-1728**	**-1970**	**-1605**	**-2114**	**-3934**
Costa Rica	1 354	1491	1727	1797	1698	2 209	-443	-207	-482	-71	-156	-176	-372	-51	-306
El Salvador	580	588	587	1 180	1294	1587	-600	-706	-1000	-19	6	21	-581	-712	-1021
Guatemala	1211	1230	1284	1428	1673	2 328	-217	-443	-1044	19	-140	-109	-236	-303	-935
Haiti	160	163	73	247	300	197	-87	-137	-124	93	97	36	-180	-235	-160
Honduras	848	808	838	870	864	1030	-22	-56	-192	68	65	26	-90	-120	-218
Nicaragua	332	268	218	570	688	736	-238	-420	-518	52	66	71	-290	-486	-589
Panama	3 316	4 181	4 997	3 805	4 983	5 925	-489	-802	-928	-861	-823	-829	372	21	-99
Dominican Republic	735	658	562	1793	1729	2 178	-1058	-1071	-1616	-830	-843	-1010	-228	-228	-606

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

[a] Excluding net payments of profits and interest.

Table Vn-11

LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS

(Millions of dollars)

	Private transfers			Net payments of profits and interest[8]			Balance on current account[5]			Balance on capital account[0]			Total balance[d]		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Latin America and the Caribbean	**4875**	**6286**	**6793**	**34796**	**30597**	**28 424**	**-6314**	**-19844**	**-36785**	**21376**	**39856**	**60786**	**15 062**	**20012**	**24 001**
Oil-exporting countries	**2972**	**3480**	**3393**	**13 250**	**11903**	**12268**	**-1500**	**-12759**	**-28 945**	**-8863**	**26720**	**30 812**	**7 363**	**13 961**	**1867**
Bolivia	21	23	25	244	242	213	-337	^22	-724	355	444	781	18	22	57
Colombia	1041	1712	1550	2269	2000	1650	557	2 363	913	53	-527	303	610	1836	1216
Ecuador	0	0	0	1053	950	802	-273	-577	-126	549	741	147	276	164	21
Mexico	2167	2055	2193	7 905	7 072	7 047	-8413	-13 919	-23 000	11643	22112	24174	3 230	8193	1 174
Peru	0	0	0	1014	1011	910	-1339	-1900	**-2** 327	1624	3 276	2 845	285	1376	518
Venezuela	-257	-310	-375	765	628	1646	8 305	1696	**-3** 681	-5 361	674	2 562	2 944	2 370	-1 119
Non-oil-exporting countries	**1903**	**2806**	**3400**	**21546**	**18694**	**16156**	**-4814**	**-7085**	**-7840**	**12513**	**13136**	**29974**	**7 699**	**6051**	**22134**
South America	**945**	**1627**	**2076**	**19 911**	**17 020**	**14524**	**-2532**	**-4476**	**-3598**	**9988**	**9025**	**25510**	**7 456**	**4549**	**21912**
Argentina	71	29	-32	6 122	5 634	4 359	1903	-2 832	**-8** 547	**1476**	5 462	13 098	3 379	**2** 630	**4** 551
Brazil	813	1556	**2** 056	11613	9 286	8 023	-3 809	-1042	**6** 590	**5** 054	1263	**8** 486	1245	221	15 076
Chile	54	40	50	1811	1809	1860	-744	-158	-964	**3** 075	1404	**3** 463	2 331	1246	**2** 499
Paraguay	7	2	**2**	43	58	95	-44	-509	-442	263	815	75	219	306	-367
Uruguay	0	0	**0**	322	233	187	162	65	-235	120	81	388	282	146	153
Central America and the Caribbean	**958**	**1179**	**1324**	**1635**	**1674**	**1632**	**-2282**	**-2609**	**-4242**	**2525**	**4111**	**4464**	**243**	**1502**	**222**
Costa Rica	56	51	54	245	165	204	-561	-165	^56	364	513	606	-197	348	150
El Salvador	324	470	702	124	127	104	-381	-369	^23	535	299	482	154	-70	59
Guatemala	206	257	180	205	140	152	-235	-186	-907	205	740	854	-30	554	-53
Haiti	53	86	44	25	27	9	-152	-176	-125	179	154	76	27	-22	*-49*
Honduras	26	9	14	253	257	268	-317	-368	^72	341	434	399	24	66	-73
Nicaragua	0	0	10	217	363	495	-507	-849	-1074	467	935	1076	-40	86	**2**
Panama	-21	-24	-27	415	378	183	-64	-381	-309	362	579	369	298	198	60
Dominican Republic	314	330	347	151	217	217	-65	-115	***-A16***	72	457	602	7	342	126

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

Excluding labour and ownership. Including net unrequited private transfers. ' Including long- and short-term capital, unrequited official transfers, and errors and omissions.

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

Table VII-12

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)

	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
Latin America and the Caribbean	**0.8**	**3.4**	**18.2**	**9.9**	**8.7**	**4.7**	**4.2**	**13.1**	**22.9**
Oil-exporting countries	**-10.9**	-3.0	**13.4**	**1.5**	**203**	**5.2**	**2.0**	**17.4**	**38.7**
Bolivia	29.4	47.5	69.9	80.9	63.7	46.1	34.4	46.0	93.5
Colombia	27.3	40.5	-6.2	-5.0	3.0	2.6	-6.4	-26.0	9.9
Ecuador	10.1	-0.1	24.0	51.4	23.9	21.3	8.4	16.9	3.5
Mexico	-13.7	-1.7	8.2	-13.4	9.0	12.5	21.9	35.1	55.6
Peru	11.5	3.3	42.0	54.6	46.4	3.2	33.0	45.6	54.4
Venezuela	-27.9	-21.9	23.5	12.0	52.3	-15.5	-44.1	-10.4	23.8
Non-oil-exporting countries	**13.7**	**9.9**	**22.6**	**17.9**	**-03**	**4.3**	**6.3**	**9.1**	**9.1**
South America	**13.4**	**6.9**	**24.4**	**16.0**	-3.6	**1.3**	**4.0**	**7.0**	**5.1**
Argentina	26.0	9.5	33.9	52.0	14.1	11.1	-12.8	19.8	59.1
Brazil	-0.1	1.0	21.9	5.0	-11.6	-2.7	11.0	3.0	16.5
Chile	50.3	31.9	23.7	13.8	3.4	9.6	7.2	1.4	7.7
Paraguay	56.7	41.7	49.4	66.9	22.1	-18.1	2.3	30.5	27.1
Uruguay	10.8	10.4	-1.3	8.9	0.7	-7.3	-7.5	-3.0	10.1
Central America and and the Caribbean	**24.4**	**23.5**	**15.6**	**26.5**	**17.6**	**20.9**	**18.1**	**19.0**	**27.9**
Costa Rica	20.4	24.8	13.9	30.6	24.3	30.8	28.4	7.6	17.9
El Salvador	27.2	26.8	11.4	24.5	28.9	62.7	43.3	40.9	48.0
Guatemala	30.8	21.3	3.6	47.1	39.1	30.8	15.0	11.0	47.1
Haiti	56.7	56.7	49.6	45.6	61.8	75.0	62.4	70.4	99.2
Honduras	45.6	37.3	29.0	27.6	29.3	25.0	32.2	39.0	44.6
Nicaragua	148.6	243.6	279.4	250.8	309.5	155.7	129.2	251.0	353.3
Panama	-2.5	-4.4	-6.3	-2.4	-18.6	-9.0	1.4	7.0	4.9
Dominican Republic	16.3	16.8	17.3	27.0	4.4	13.6	3.2	5.8	22.1

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

[a] Negative figures indicate a surplus on the balance-of-payments current account. [b] Preliminary figures.

Table VII-13

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOW AND RESOURCE TRANSFERS [a]

(Billions of dollars and percentages)

	Effective net inflow of capital	Unre-gistered trans-actions[0]	Net inflow of capital (1+2)		Net pay-ments of profits and interest	Resource transfer		Export of goods and services	6/8	7/8
						(1-5)	(3-5)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1980	33.6	-2.0	31.6	-6.0	18.8	14.8	12.8	101.6	14.6	12.6
1981	51.5	-11.7	39.8	-22.7	28.8	22.7	11.0	109.5	20.7	10.0
1982	32.5	-12.5	20.0	-38.5	38.8	-6.3	-18.8	99.4	-6.3	-18.9
1983	5.1	-1.9	3.2	-37.3	34.6	-29.5	-31.4	99.4	-29.7	-31.6
1984	12.5	-1.9	10.6	-15.2	37.3	-24.8	-26.7	110.6	-22.4	-24.1
1985	7.1	-3.7	3.4	-52.1	35.4	-28.3	-32.0	105.3	-26.9	-30.4
1986	10.2	0.0	10.2	–	32.5	-21.3	-22.3	91.1	-23.6	-24.5
1987	13.9	1.5	15.4	10.8	31.3	-17.4	-15.9	104.2	-16.7	-15.3
1988	7.7	-1.5	6.2	-19.5	34.3	-26.6	-28.1	119.5	-18.9	-23.5
1989	7.0	2.8	9.8	40.0	37.6	-30.6	-27.8	132.6	-23.1	-21.0
1990	19.3	1.6	20.9	8.3	34.3	-15.0	-13.4	146.0	-10.3	-9.2
1991	41.3	-2.0	39.3	-5.1	30.2	11.1	9.1	146.0	7.6	6.2
1992[a]			60.4		28.2		32.2	154.6		20.8

Source: 1980-1989: ECLAC, on the basis of figures from the International Monetary Fund (IMF); 1990-1992: ECLAC, on the basis of figures from the IMF and national sources.

[a] Covers 16 Spanish-speaking countries (Cuba and Panama are not included), plus Brazil and Haiti. Equivalent to net inflow of capital minus unregistered transactions. [c] Corresponds to the errors and omissions entry on the balance of payments. Preliminary estimates.

Table Vn-14
LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES

	Net transfer of'resources (millions of dollars)								Ratio of net transfer of resources to exports of goods and services (%)				
	1987	1988	1989	1990	1991	1992[b]	1982-1990	1991-1992[b]	1988	1989	1990	1991	1992[b]
Latin America and the Caribbean	**-15911**	**-28079**	**-27 798**	-13 **366**	**9056**	**32176**	**-216278**	**41232**	**-23.5**	**-20.9**	-9.2	**6.2**	**20.8**
Oil-exporting countries	**-8100**	**-12 058**	**-10191**	-4 **387**	**14 816**	**18544**	**-115123**	**33360**	**-22.4**	**-16.3**	-5.9	**20.1**	**24.8**
Bolivia	201	120	40	111	201	568	326	769	17.8	4.7	11.3	22.0	73.3
Colombia	-1910	-1344	-1670	-2 216	**-2** 527	-1347	**-6** 840	-3 874	-19.9	-22.9	-25.6	-27.9	-14.6
Ecuador	256	-323	-268	-504	-209	-655	**-3** 543	-864	-12.2	-9.4	-15.5	-6.1	-18.2
Mexico	-5 325	-11287	-3 693	3738	15 040	17127	-68 584	32167	-38.8	-11.2	9.7	36.4	41.4
Peru	275	485	-187	610	**2** 265	1935	138	**4** 200	13.2	-4.3	15.0	54.4	44.7
Venezuela	-1597	291	-4413	-6126	46	916	-36 620	962	2.6	-31.5	-32.6	0.3	5.9
Non-oil-exporting countries	**-7811**	**-16 021**	**-17 607**	**-8979**	**-5760**	13 **632**	**-101155**	**7872**	**-24.4**	**-25.1**	**-12.5**	-7.9	**17.1**
South America	**-9268**	**-17 401**	**-19 344**	**-9923**	**-7995**	**10986**	**-111743**	**2991**	**-29.8**	**-30.9**	**-15.5**	**-12.4**	**15.5**
Argentina	-2166	-1697	-6 465	-4 646	-172	8739	-32 255	8 567	-15.2	-55.8	-31.4	-1.2	60.4
Brazil	-6747	-14 545	-11854	-6 559	**-8** 023	463	-74749	-7 560	-40.4	-31.6	-18.9	-23.1	1.2
Chile	-696	-811	-432	1264	-405	1603	-4 059	1 198	-9.8	-4.5	12.3	-3.6	12.9
Paraguay	419	-30	-213	220	757	-20	1378	737	-2.7	-13.0	11.8	45.4	-1.2
Uruguay	-78	-318	-380	-202	-152	201	-2 058	49	-17.8	-19.0	-9.4	-7.1	8.6
Central America and the Caribbean	**1457**	**1380**	**1737**	**944**	**2235**	2 **646**	**10588**	**4 881**	**18.9**	**22.4**	**11.7**	**27.0**	**29.4**
Costa Rica	184	284	333	119	348	402	967	750	17.5	18.1	6.0	16.0	15.7
El Salvador	194	135	519	411	172	378	1755	550	14.3	63.7	46.7	19.1	42.9
Guatemala	310	178	319	-	600	702	1535	1302	14.0	22.4	-	35.6	36.4
Haiti	131	168	153	154	127	67	1340	194	61.1	64.9	63.0	50.9	53.2
Honduras	92	65	-26	88	176	131	676	307	6.4	-2.6	9.0	18.7	12.4
Nicaragua	577	627	390	251	572	581	4 239	1 153	229.7	114.4	64.0	169.0	191.1
Dominican Republic	-31	-77	49	-79	240	385	76	625	-4.0	2.4	-3.9	12.1	17.9

Source: 1987-1990: ECLAC, on the basis of figures from the International Monetary Fund (IMF); 1991-1992: ECLAC, on the basis of figures from IMF and national sources.
[a] The net transfer of resources is equal to the net capital inflow (unrequited 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 indicate outward transfers of resources. Preliminary figures.

Table VII-15

INTEREST RATES IN INDUSTRIALIZED-COUNTRY MARKETS

(Year-end)

	1980	1985	1986	1987	1988	1989	1990	1991	1992
				Discount rates					
Germany	7.5	4.0	3.5	2.5	3.5	6.0	6.0	8.0	8.3
Canada	17.3	9.5	8.5	8.7	11.2	12.5	11.8	8.0	7.0
United States	13.0	7.5	5.5	6.0	6.5	7.0	6.5	3.5	3.0
France	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Italy	16.5	5.0	12.0	12.0	12.5	13.5	12.5	12.0	12.0
Japan	7.3	5.0	3.0	2.5	2.5	4.3	6.0	4.5	3.3
Netherlands	8.0	0.7	4.5	3.8	4.5	7.0	7.3	8.5	7.8
				Short-term financial market rates					
Germany	9.1	**5.2**	4.6	3.7	4.0	6.6	7.9	8.8	9.4
Canada	19.0	**9.6**	8.2	8.5	10.4	12.1	11.6	7.4	6.8
United States	13.4	8.1	6.8	6.7	7.6	9.2	8.1	5.7	3.5
France	11.9	9.9	7.7	8.0	7.5	9.1	9.9	9.5	10.4
Italy	17.2	15.3	13.4	11.5	11.3	12.7	12.4	12.2	14.0
Japan	10.9	**6.5**	4.8	3.5	3.6	4.9	7.2	7.5	4.6
Netherlands	10.1	**6.3**	5.8	5.2	4.5	7.0	8.3	9.0	9.3
United Kingdom	15.6	10.8	10.7	9.7	10.3	13.9	14.7	11.8	9.6
				Long-term financial market rates					
Germany	8.5	6.9	5.9	5.8	6.1	7.1	8.9	8.6	8.0
Canada	12.5	11.0	9.5	10.0	10.2	9.9	10.9	9.8	8.8
United States	11.5	10.6	7.7	8.4	8.9	8.5	8.6	7.9	7.0
France	13.0	10.9	8.6	9.4	9.1	8.8	10.0	9.1	8.6
Italy	16.1	13.0	10.5	9.7	10.2	10.7	11.5	10.1	
Japan	9.2	6.3	4.9	4.2	4.3	5.1	7.4	6.5	4.9
Netherlands	10.2	7.3	6.4	6.4	6.3	7.2	8.9	8.7	8.1
United Kingdom	13.8	10.6	9.9	9.5	9.4	9.6	11.1	9.9	9.2

Source: International Monetary Fund, *International Financial Statistics,* Washington, D.C. (various issues).

VIII. THE EXTERNAL DEBT

1. Main trends

After having held steady in 1991, the region's external debt rose by nearly 2% in 1992, totalling US$ 450 billion by the end of the year (see table VIII-1). A number of factors contributed to the expansion of the debt, including new overseas bond sales (which added up to US$ 10 billion at year's end), the disbursement of official loans, an increase in short-term credit operations and the accumulation of interest arrears. On the other side of the coin, the two main factors that helped to limit the debt's growth were the upward trend of the dollar on international currency markets in the closing months of the year -which reduced the dollar value of debts denominated in other currencies- and the various debt reduction schemes used by many countries in the region. To some extent, the growth of the debt was also curbed by the rapid increase in the movement of non-debt-related capital, especially foreign direct and indirect (corporate equity) investment, and by the flow of funds into short-term deposits in the banking systems of the region, part of which was made up of repatriated capital.

Interest arrears decreased significantly as large-scale operations were undertaken in order to regularize overdue service payments. As a result, arrears amounted to slightly over US$ 11 billion at the end of 1992, which was substantially less than the US$ 27 billion figure recorded at year's end in 1991.

In 1992, eight countries in the region managed to reduce their debt, whereas 14 countries had been able to boast of absolute decreases in the total amount of their external debts in 1991 (see table VIII-1). The reductions achieved in 1992 were made possible by the negotiation of agreements to write off debt and by means of unilateral policies regarding the payment of sums owed to some creditors; Mexico was one of the countries that opted for this system. As in 1991, some debts were also forgiven by the United States, Canada, the United Kingdom, the Russian Federation and the Paris Club; the beneficiary countries in this instance were the Dominican Republic, El Salvador, Honduras and Nicaragua.

Since the region's international reserves increased substantially in 1992, its total net external debt shrank by more than US$ 17 billion. The largest decreases were in Mexico and Argentina, whose net external debts were reduced by US$ 7 billion and US$ 4.5 billion, respectively, as the result of a decline in gross debt plus a significant increase in international reserves. Brazil's net debt also contracted (by over US$ 4 billion) thanks to a very large increase in its international reserves, which more than offset the steep rise in the country's debt balance. Considerable decreases in net external obligations were also registered by Colombia, Chile, the Dominican Republic, Panama and Costa Rica owing to sharp upswings in some of these countries' international reserves and, secondarily, to a reduction of gross debt levels. In contrast, Venezuela's and Honduras' net debts expanded as a result both of increased loan disbursements and of declining reserves, while in Nicaragua the rise was entirely due to an increase in gross debt, since its reserves remained stable.

Mexico recorded a reduction of nearly 6% in its total external debt thanks to the fact that the steep decline in the public sector's obligations more than offset the increase in private-sector debt. The non-recurrent income from the privatization of State companies was used to pay off part of the public debt, and this resulted in a net decrease in external obligations of about US$ 7.2 billion, or nearly 11% of the public sector's net external debt as of the end of 1991. On the other hand, however, both the federal government and State agencies and firms added

to the sum of their external obligations by taking in over US$ 2.1 billion from the sale of bonds in United States and European markets. Meanwhile, one of the factors contributing to the increase in private-sector debt was the fact that some firms sold blocks of shares on foreign stock exchanges.

Argentina's total external debt remained at US$ 60 billion for the third consecutive year, thanks to a significant decrease in public-sector obligations that counterbalanced an increase in private debt. The reduction in the nominal level of the Government's external liabilities was a result of the withdrawal of external debt paper from the secondary market for use as a means of payment in a number of large-scale operations involved in the privatization of public-sector companies. Another contributing factor was the downscaling of bank debt principal occasioned by the use of the discount-bond rescheduling option provided for under the country's Brady Plan agreement. There were other factors, however, that had the effect of adding to the debt, such as Argentina's consolidation of its access to the international capital market through the sale of US$ 1.5 billion in bonds on foreign markets.

The rescheduling of the Government's commercial bank debt (as of the end of 1991 the principal amounted to around US$ 23 billion and accumulated interest arrears totalled somewhat less than US$ 8 billion) under the terms of the Brady Plan was one of the main events to take place in the country in 1992. This exercise was preceded by the conclusion of a three-year extended Fund facility agreement with the International Monetary Fund (IMF). These reschedulings, in which a variety of methods were used, enabled the country to eliminate its interest arrears (by converting them into 12-year bonds) and to exchange debt principal for 30-year bonds, with debt remission and a floating rate, or at nominal values with fixed interest rates, to be paid in a lump sum upon maturity and guaranteed with deposits of United States Treasury bonds. To provide the guarantee, the Government planned to use its own funds and resources contributed by IMF, World Bank, IDB and Japan's EXIMBANK.

The marked reduction (-23%) in Paraguay's external debt balance was primarily due to the fact that the Government eliminated some of its debt service arrears. Through bilateral agreements with a number of Paris Club creditors, it undertook to resume its servicing of the debt and to make substantial cash payments to cover arrears. Accordingly, Paraguay's arrears shrank from US$ 330 million in 1991 to just slightly over US$ 30 million in 1992. In addition, virtually all overdue payments to commercial creditors were eliminated via the purchase of debt paper, payments and refinancing.

In Panama, the public external debt contracted by 4% owing to a variety of causes. Arrears with international lending agencies corresponding to the period 1987-1990 were settled and overdue Paris Club debts were paid off. In order to make this regularization possible, however, new external obligations had to be assumed, and the decrease in the Government's total external debt for 1992 was therefore negligible. On the other hand, the decentralized sector's external debt was down by 26%. Meanwhile, arrears with private lenders, which are owed nearly US$ 3 billion, persisted.

The Dominican Republic's outstanding debt diminished by somewhat more than 3% as a consequence of the settlement of public-sector obligations. The country's multilateral debt increased slightly, but its bilateral debt was down sharply thanks to debt buybacks carried out with the Central Bank of Venezuela, using zero-coupon bonds of varying terms, at a 67% discount. The country's debts with its principal creditors -the United States and Spain- expanded, but it did regularize the servicing of its obligations with the Paris Club Governments, commercial banks and international agencies.

In Colombia, the stock of external debt decreased by 1%, thanks to the fact that amortization payments by the public sector far outstripped loan disbursements, while the private sector's net receipts were positive by only a small margin. In Ecuador, the external debt was reduced for the first time in many years (by somewhat more than 1%), with the balance descending to US$ 12.1 billion even though service arrears continued to build up. No headway was made in renegotiating the debts owed to international creditors, however; in fact, the only step to be taken was the signing of

debt-guarantee agreements in December to forestall a declaration of nonpayment.

Among those countries whose external debts increased in 1992, the case of Brazil, whose debt swelled by nearly 9%, was particularly notable. The expansion was attributable to an increase in corporate debt, which climbed to US$ 110 billion after having declined during the last three years, and was only partially offset by a US$ 6 billion decrease in non-corporate debt (see table VIII-1). The upswing in corporate debt was due, *inter alia,* to public- and private-sector firms' active involvement in international bond markets (with sales of US$ 3 billion worth of securities). The expansion of short-term lines of credit (especially for exports) was also a major factor, as was the accumulation of further interest arrears (US$ 1.8 billion) on private bank debt.

In Chile a 9% increase was seen in the stock of external debt, which amounted to nearly US$ 19 billion as of the end of 1992. This was in large part a reflection of an expansion of short-term trade-related credit operations. Of this increase in the debt, 75% corresponded to bank obligations and 25% to non-financial enterprises, while the public sector's external obligations showed practically no change.

Uruguay's external debt grew by over 7% as a result of more private-sector borrowing, while the public sector's level of commitments remained constant. The composition of this debt did change, however, since liabilities connected with operations conducted by the Central Bank in the first half of the 1980s to backstop the financial system were transferred over to the central government. Because a large part of the dollar-denominated deposits made by non-residents, which are recorded as part of the country's external debt, were used to build up international reserves, the net debt (which excludes such reserves) was slightly lower. The outcome was that the country's net level of debt in 1992 was roughly equal to its exports of goods and services.

El Salvador's external debt jumped by almost 11% as it began to borrow from other Governments again, after seeing a downswing in the level of this type of debt in net terms in 1991. These increased disbursements far outweighed the effect of such contractive factors as the elimination of debt servicing arrears and the renegotiation of bilateral debt starting in 1990. Near the end of the year, the United States Government announced its decision to forgive US$ 460 million of debt owed by the country.

In Honduras, the external debt balance had climbed to over US$ 3.5 billion by the end of 1992, which was a 12% increase over the 1991 figure. This was a consequence of large loan disbursements from multilateral agencies (most of these funds were used to finance public investments), which were more than enough to counteract the effects of the renegotiation of the country's external debt in 1992. In October, the Government arranged for special treatment from the Paris Club under what are known as the "extended" Toronto terms; this arrangement paved the way for the cancellation of up to 50% of overdue payments on interest and principal, while another US$ 189 million in debt was rescheduled over a 33-year term with a three-year grace period. In addition, US$ 165 million in debt was refinanced with Mexico, the United Kingdom, the Central American Bank for Economic Integration (CABEI) and the Central American Monetary Stabilization Fund (FOCEM). The total amount of external debt to be refinanced was thus US$ 354 million. Furthermore, US$ 128 million in debt was forgiven by the Paris Club, Canada and the United Kingdom.

Nicaragua's external debt expanded by almost 5%, which brought it up to US$ 10.8 billion by the end of 1992. This increase was due to the receipt of fresh official loans and the accumulation of interest arrears on debts owed to some Governments and private banks, but was partially offset by the mounting level of payments on interest and debt principal which were actually made (around US$ 100 million) under the terms of ongoing negotiations with creditors. A number of agreements were reached with Paris Club countries that provided for refinancing, buybacks and the cancellation of some debt, and these operations afforded approximately US$ 300 million in debt relief. Meanwhile, Nicaragua also continued to engage in talks regarding its large debt with the Russian Federation as well as the considerable level of its debt with the Central American subregion.

Venezuela's external liabilities were up by over 2%, primarily because the State oil company's level of indebtedness rose by more than US$ 2 billion, partly owing to bond sales on the international market.

As of the end of 1992, Peru's external debt totalled US$ 21.3 billion, which was a US$ 600 million increase over its 1991 level. In the course of the year US$ 750 million in amortization and interest payments were made to international agencies, the Paris Club and Latin American Governments (which, in turn, disbursed nearly US$ 400 million in fresh funds) and US$ 550 million in debt was refinanced. In the case of Bolivia, the external debt expanded by 4%, thus returning to its 1990 level, as a result of the net financing received from international lending agencies for investment projects. Guatemala's external liabilities rose slightly (by less than 1% in respect of the 1991 figure) due to an increase of over US$ 130 million in private debt, which more than offset the reduction of public-sector obligations. Meanwhile, Costa Rica's external debt balance at the end of 1992 was much the same as it had been the year before. No further debt renegotiations took place, and the only steps taken in this connection were the fulfilment of some commitments entered into in 1991 with a view to regularizing interest arrears.

2. **The debt burden**

Indicators of the region's external debt load continued to decline in 1992, thereby attesting to a heightening of the downward trend observed throughout recent years. Thus, interest payments on the external debt, measured as a percentage of the region's total exports of goods and services, decreased for the sixth year in a row, falling to 19%, which was the lowest figure since 1980 and was slightly less than one half the peak level registered in 1982, when the external payments crunch had begun (see table VIII-3). Even after such a large reduction, however, interest payments still took up an excessively large percentage of the region's foreign exchange resources, which demonstrated the need for the region's to continue its efforts to have them lowered.

The decline in the region's interest/exports ratio in 1992 was mainly a result of a 7% reduction in the amount of interest falling due; the contribution made by the increase in exports was somewhat smaller, since external sales only expanded by slightly more than 5%. The contraction of interest payments -from US$ 30.6 billion in 1991 to US$28.4 billion in 1992-was, in turn, partly due to the reduction of bank and official debts, but was basically a reflection of the steep downturn in international interest rates in dollars, especially in the case of short-term rates; for example, as of the end of 1992 LIBOR had dropped to under 4%, as compared to 6% one year earlier and over 8% in 1990.

Two factors worked against the positive impact of this sharp decrease in international interest rates in terms of the region's interest payments, however. One was the conversion at par of US$ 34 billion in bank debt at floating interest rates into bonds at fixed -and currently above-market- interest rates within the framework of the Brady Plan; the other was the region's growing multilateral debt load, since this debt carries adjustable interest rates that are fairly inelastic in the short term in respect of trends in dollar-denominated variables in the credit market.

In 1992, the ratio between interest payments and exports of goods and services decreased in all but five of the countries of the region (see table VIII-3). The lower level of interest falling due on the debt was the chief reason for this decline except in the cases of Brazil, Chile and Costa Rica, where a steep increase in the value of exports was also a contributing factor. In Haiti, on the other hand, the decrease in this coefficient was attributable to the fact that the sharp fall in interest payments outpaced the contraction of exports by a wide margin. In Venezuela, Paraguay and Nicaragua, this ratio rose as a result of the combined effect of an increase in the amount of interest falling due and a lower level of exports. Bolivia registered no change in this coefficient, despite a declining interest bill, because exports, too, were down sharply.

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Practically all the countries of the region continued to exhibit interest/exports coefficients of over 10%. The lowest ratios were those of Paraguay (6%), Guatemala and Haiti (7%), Costa Rica (9%), El Salvador and the Dominican Republic (11%) and Chile (12%), while the highest corresponded to Nicaragua (161%), Argentina and Bolivia (27%), Peru (23%), Brazil (21%) and Ecuador (20%) (see table VIII-3).

Although the trend in the interest/exports coefficient has been quite promising in recent years, the ratio between the total debt and exports -a more structural indicator of debt load- has diminished relatively little during the same period. In 1992, this ratio stood at 276% for the region as a whole, as compared to 288% in 1990-1991 and 306% in 1989 (see table VIII-4). The 1992 figure, although still extremely high, was 35% lower than the 415% peak figure recorded in 1986. Furthermore, this coefficient does not reflect the improvement in the structure of debt payments afforded by the longer terms negotiated in the course of the various official restructuring exercises.

In 1992 the total debt/exports ratio dropped in almost all the oil-exporting countries. The only exceptions were Bolivia and Venezuela, where it rose due to a steep downturn in the value of exports in combination with a higher level of external indebtedness (see table VIII-4). This coefficient also fell in all the non-oil-exporting countries except Nicaragua, Haiti and El Salvador, where it again rose considerably. For the most part, the improvement reflected the small magnitude of the expansion -and, in a few cases, an actual decline- in external debt; the only exceptions to this rule were Chile, Brazil, Honduras and Costa Rica, where higher exports were the main reason. The majority of the countries still have debt/export ratios in excess of the 200% critical threshold. The lowest coefficients were registered by Paraguay (78%), Guatemala (134%), Chile (152%), Costa Rica (157%) and Colombia (182%), while the highest were those of Nicaragua (3,555%), Haiti (650%), Peru (492%), Bolivia (488%), Argentina (415%) and Ecuador (338%).

The debt/GDP ratio, which is another structural indicator of the external debt burden, fell to 37% in 1991 (see table VIII-5). This was still quite high, however, in comparison to the region's 29% coefficient prior to the debt crisis, which may be regarded as the highest acceptable level. This ratio was down by significant amounts in Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Paraguay and Venezuela. The debt/GDP coefficient rose only in El Salvador, Honduras and Nicaragua, due to an increase in liabilities and, in the last case, to a sagging level of activity. The countries with the lowest coefficients in 1992 were Paraguay (18%), Argentina and Guatemala (26%), Brazil (31%) and Colombia (34%), while the highest ratios corresponded to Nicaragua (703%), Panama (116%) and Honduras (106%).

The average price of the region's bank debt on the secondary market was up slightly, from US$ 0.45 on the dollar in December 1991 to US$ 0.48 in December 1992 (see table VIII-7). The upward trend observed in the case of some countries that are in arrears, such as Ecuador, Paraguay or Peru, was chiefly a reflection of improved expectations in the marketplace, where it is felt that the authorities are in a better position to renegotiate their bank debt. The increase in the value of Argentina's debt paper was quite marked, as it jumped from US$ 0 36 (starting from US$ 0.20 in 1990) on the dollar to US$ 0.45 in December 1992. The price of Costa Rican debt also rose -from US$ 0.50 to US$ 0.60 on the dollar- during the same period, while the prices of Chile's and Mexico's debt paper continued to climb at an almost negligible rate.

3. **Debt renegotiations**

In 1992, in what constituted the reinforcement of a trend that had emerged in 1991, more delinquent debtor countries found ways of regularizing their debt service. This led to a reversal of the build-up in arrears which had begun in Latin America in 1987 and had pushed the balance of interest arrears up to over US$ 27 billion by 1991. The regularizations carried out during 1992 are estimated to have reduced that total to between US$ 11 billion and US$ 12 billion.

In June, **Argentina** announced that it had reached agreement with its commercial bank creditors on the terms of a Brady scheme for reducing the US$ 23 billion in principal that had already fallen due and for regularizing US$ 8.6 billion in interest arrears. The terms of the agreement are notable for their relative simplicity, in that the Government offered the banks just two options for the conversion of debt principal. The first consisted of exchanging old debt, at a 35% discount, for a single-maturity 30-year bond carrying an interest rate of 0.81 % over LIBOR. The second option provided for the conversion of debt into single-maturity 30-year bonds at par, but with an escalating interest rate that would start out at 4% the first year and could rise as far as 6% by the seventh year. Unlike the majority of Brady agreements, Argentina did not offer the banks any option that would include fresh loans (see table VIII-6).

Both types of bonds carried special cash guarantees. The Argentine Government would back up the whole of the principal through the purchase of an equivalent amount of United States Treasury 30-year zero-coupon bonds. On the interest, a renewable cash guarantee was offered that would cover 12 months of payments. The banks were not, however, offered the "clawback" clause found in most agreements of this type, which provides for an increase in the bond yield in the event that the debtor country's terms of trade show an appreciable improvement.

The arrangements for dealing with the US$ 8.6 billion in interest arrears proved to be less attractive. Argentina agreed to pay US$ 400 million in cash, to convert US$ 300 million of debt into zero-coupon bonds with terms ranging from four to six years, and to convert the balance into 12-year bonds (with a three-year grace period) at an interest rate of 0.81 % over LIBOR.

At first the banks appeared to prefer the par bond option, and it was therefore projected that the split on the two options would be 40%/60%. Nevertheless, the second option became increasingly attractive as international interest rates continued to head downward. Thus, the actual distribution of the selections made among the two options was ultimately 13%/87%. This unexpected increase in the banks' preference for the par bonds could have occasioned a serious departure from the original calculations that would significantly raise the cost of the guarantees and, hence, the amount of funding needed by Argentina to make good its offer. Fortunately, however, with the backing of multilateral agencies that had committed themselves to financing the guarantees, Argentina was able to persuade the banks to shift their preferences around and thus to arrive at a final split among the two options of 35%/65%. The agreement was finalized in December, making Argentina the fifth country (the others being Mexico, Venezuela, Costa Rica and Uruguay) in the region to have signed Brady Plan accords.

In July, the Argentine Government was also able to reach agreement with the Paris Club on the rescheduling of around US$ 3 billion in payments (one third of its total debt with the Club); a 15-year payback period, with a one-year grace period, was agreed upon (see table VIII-6).

Brazil, too, arrived at an agreement in July with its commercial creditor banks on the terms of reference for a Brady scheme covering US$ 44 billion in principal and approximately US$ 3 billion in interest arrears from 1991. The agreement also provided for the activation of a plan drawn up the year before by Brazil and private banks to regularize US$ 7 billion in interest arrears dating back to 1989-1990.

Unlike the Argentine agreement, in the Brazilian scheme the Government offered a large number of options (six) to the banks for restructuring the debt principal (see table VIII-6). The first two options provided for discount and par bonds, respectively, with the terms and conditions being similar to those set out in the Argentine plan. The third option proposed a 15-year bond (with a nine-year grace period) at an interest rate that would gradually escalate from 4% to 5% over the first six years and would then, in the seventh year, be converted into a floating rate of 0.81% over LIBOR. The fourth option was to reschedule the principal over 18 years (with a 10-year grace period) at an interest rate of 0.88% over LIBOR together with a commitment from the banks to grant fresh loans equivalent to 18% of the rescheduled principal. The fifth option was to reschedule the debt over 20 years (with 10 years of grace) at an interest

rate of 0.81 % over LIBOR; in addition, it provided that during the first six years interest payments would be capitalized if they exceeded the stipulated levels (4% for the first two years and then gradually rising to 5% in the fifth and sixth years). The last option consisted of a 20-year bond (with a 10-year grace period) carrying a fixed 8% interest rate; in this case too, as in the fifth option, interest payments would be capitalized during the first six years if they exceeded stipulated levels (see table VIII-6).

The cash guarantees for the first two options were set at 100% for the principal and at 12 months (but renewable) of interest payments. The only other option under which a special guarantee was offered was the third, which set up a guarantee on 12 months of interest payments (see table VIII-6). The Brazilian agreement did not include a clawback clause either. Furthermore, in contrast to other Brady agreements, it provided that the special guarantees would be phased in over a period of two years. Finally, the Government retained the right to cancel the agreement if the distribution of the banks' selection of conversion mechanisms proved inexpedient.

The arrangements for dealing with the arrears accumulated during the 1991-1992 biennium (which amounted to around US$ 3 billion) provided for their conversion into 12-year bonds carrying an interest rate of 0.81% over LIBOR. In addition, the accord set out the terms and conditions for the finalization of an agreement negotiated with the banks in 1991 for the regularization of interest arrears corresponding to the period between 1989 and 1991. This pact was one of the banks' prerequisites for negotiating a Brady agreement; it called for an immediate cash payment of US$ 2 billion and for the conversion of the balance (US$ 7.2 billion) into bonds once the terms and conditions of a Brady debt reduction scheme had been agreed upon. These seven-year bonds, carrying an interest rate that will eventually arrive at a level of 0.81% over LIBOR, were issued in November 1992 (see table VIII-6). It is important to note that this Brady agreement must be approved by the Brazilian Congress before it can enter into effect.

Brazil also signed a rescheduling agreement covering one half of its total debt with the Paris Club: US$ 11 billion to be rescheduled over 13 years, including two years of grace. The payments which Brazil agreed to make to the Club in 1992 and 1993 were fairly burdensome, since they totalled over US$ 4 billion. In addition, the Brazilian Government agreed to deposit 180 million special drawing rights (SDRs) in the Bank for International Settlements in Switzerland as a guarantee for the interest payments stipulated in this plan (see table VIII-6).

In July, Bolivia reached an agreement in principle for the regularization of the payment terms applying to US$ 185 million in bank debt. These obligations had fallen into arrears after some lenders refused to take part in two large-scale debt buybacks initiated by the Bolivian Government in years past. As part of this new attempt at regularization, three options were offered: i) a direct buyback at US$ 0.16 on the dollar, to be financed with grants and donations (including grants from the World Bank's International Development Association (IDA)); ii) a 30-year bond whose yield is pegged to international tin prices; and iii) a domestic social and environmental policy providing for various types of debt swaps.

In January 1992 the Bolivian Government became the second one in the region to benefit from the new "extended" Toronto terms established by the Paris Club for the poorest countries. These terms allow for a 50% reduction in the current value of the debt during the agreement's consolidation period. In this instance, the accord covered US$ 216 million over an 18-month consolidation period (see table VIII-6).

A number of other countries made varying amounts of progress towards regularizing their relations with their creditors. One example is Paraguay, which owes overdue payments to the members of the Paris Club and to commercial banks. At the present time, the negotiation of a plan for restructuring that debt is being seriously hampered by the lack of an agreement with the International Monetary Fund (IMF). Nevertheless, in 1992 the Government resumed the servicing of its debts with those creditors at the same time that it also proceeded to seek out formulas for

regularizing its arrears. As part of this effort it used Central Bank reserves to settle some of its outstanding balances with the Paris Club as well as buying back some of its bank debt on the secondary market. As of the end of 1992, a balance of around US$ 350 million in arrears remained, with about one third of that sum corresponding to interest arrears.

At the start of the year, **Panama** owed nearly US$ 1 billion in interest arrears to the banks and US$ 700 million in arrears to multilateral agencies; the latter were paid off in January using a bridging loan obtained from other Governments. With regard to its bank debt, the country was in the process of exploring the possibility of negotiating an agreement under the terms of the Brady Plan. For its part, **Guatemala** cleared up its arrears with the World Bank using a bridging loan granted by the United States Agency for International Development (USAID), and it was expected that Guatemala's arrears with the Paris Club Governments might soon be regularized, since the country was looking forward to the conclusion of a restructuring agreement in January 1993. Meanwhile, **Nicaragua** was able to eliminate US$ 2.4 billion in overdue payments thanks to the Russian Federation's cancellation of that debt.

Peru was apparently on the verge of obtaining the refinancing needed to eliminate its arrears with IMF and the World Bank. At the same time, its Government had entered into talks with the banks with a view to regularizing its payments, including over US$ 3.5 billion in interest arrears. **Ecuador,** whose interest arrears on its bank debt are in excess of US$ 2 billion, also began talks with the banks in an attempt to find a solution for this problem. In January, the Government rescheduled its debt with the Paris Club in accordance with the Houston terms, which were designed by the members of the Club for use by lower-middle-income countries. The agreement covers US$ 350 million in debt corresponding to a 12-month consolidation period and provides that creditors grant an amortization period of 15 years, with an eight-year grace period. The Houston terms also open up the possibility of undertaking debt reduction operations, but only in respect of a quite limited sum (see table VIII-6).

In 1992 a significant number of countries engaged in various sorts of bilateral debt reduction operations; these transactions were based on such mechanisms as buybacks on the secondary market, debt-equity swaps (including some that were conducted as part of the privatization of public assets), and debt-for-nature swaps or swaps involving other types of development programmes. The largest-scale operation of this sort was undoubtedly the one undertaken by Mexico, whose Government acknowledged having quietly proceeded to repurchase about US$ 7 billion in bank debt (nearly 10% of the country's total public external debt) on the secondary market over a span of several months.

Table VIII-**1**

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT [a]

(Millions of dollars and growth rates)

	Year-end balances						Annual growth rates				
	1987	1988	1989	1990	1991	1992[b]	1979~1981	1982~1983	1984~1990	1991	1992[b]
Latin America and the Caribbean	**426 061**	**418 629**	**422 748**	**439 938**	**441 306**	**449 789**	**22.9**	**11.3**	**3.1**	**0.3**	**1.9**
Oil-exporting countries	**184 833**	**185 170**	**180 749**	**191 273**	**194 576**	**189 603**	**24.7**	**10.7**	**2.2**	**1.7**	-2.6
Bolivia °	4 162	4 066	3 492	3 779	3 628	3 774	14.3	9.4	2.5	-4.0	4.0
Colombia	15 663	16 434	17 007	17 556	16 975	16 779	28.0	16.0	6.3	-3.3	-1.2
Ecuador	10 320	10 581	11322	11856	12 271	12 122	21.0	18.3	7.0	3.5	-1.2
Mexico	102 400	100 900	95 100	101900	104 800	98 900	30.2	11.9	1.2	2.8	-5.6
Peru	15 373	16 493	18 536	19 762	20 735	21333	1.0	13.8	6.8	4.9	2.9
Trinidad and Tobago	2 082	2012	2 097	2 520	2 433	2 195	29.3	16.3	8.5	-3.5	-9.8
Venezuela	34 833	34 684	33 195	33 900	33 734	34 500	24.7	4.0	-0.3	-0.5	2.3
Non-oil-exporting countries	**241 228**	**233 459**	**241 999**	**248 665**	**246 730**	**260 186**	**21.5**	**11.7**	**3.8**	-0.8	**5.5**
South America	**209 825**	**201 012**	**206 752**	**212 611**	**211 498**	**224 292**	**21.9**	**11.1**	**3.4**	-0.5	**6.0**
Argentina	58 324	58 473	63 314	60 973	60 000	60 000	41.9	12.4	4.4	-1.6	0.0
Brazil	121 174	113 469	115 096	122 200	123 232	134 200	14.4	10.6	3.2	0.8	8.9
Chile	20 660	18 960	17 520	18 576	17 371	18 926	30.5	7.6	0.4	-6.5	9.0
Guyana	1736	1778	1801	1784	2 063	2 190	28.1	17.8	9.2	15.6	6.2
Paraguay	2 043	2 002	2 027	1695	1666	1279	12.3	24.5	2.1	-1.7	-23.2
Uruguay	5 888	6 330	6 994	7 383	7 166	7 697	35.9	21.2	7.1	-2.9	7.4
Central America and the Caribbean	**31403**	**32 447**	**35 247**	**36054**	**35 232**	**35 894**	**18.7**	**16.1**	**6.3**	-2.3	**1.9**
Costa Rica	4 384	4 471	4 487	3 874	4015	4 021	12.8	14.7	1.3	3.6	0.1
El Salvador	1880	1913	2 169	2 226	2216	2 450	17.7	8.4	2.4	-0.4	10.6
Guatemala	2 700	2 599	2 731	2 602	2 561	2 585	19.0	24.8	2.7	-1.6	0.9
Haiti [c]	752	778	803	841	809	820	21.0	21.7	6.2	-3.8	1.4
Honduras	3 773	3 810	3 374	3 547	3 174	3 538	17.5	16.7	7.3	-10.5	11.5
Jamaica	4014	4 002	4 038	4 152	3 874	3 700	22.6	14.9	5.2	-6.7	-4.5
Nicaragua[0]	6 270	7 220	9 741	10 616	10 312	10 806	27.1	21.5	15.9	-2.9	4.8
Panama [c]	3 731	3 771	3 814	3 714	3 699	3 548	9.0	13.8	2.4	-0.4	-4.1
Dominican Republic	3 899	3 883	4 090	4 482	4 572	4 426	24.2	14.0	4.4	2.0	-3.2

Source: ECLAC, on the basis of official figures.

[a] Includes debt owed to the International Monetary Fund (IMF). Preliminary figures. [:] Public debt. Total debt according to official figures and data from international financial agencies.

Table Vni-2
LATIN AMERICA AND THE CARIBBEAN: FIFTH ROUND OF EXTERNAL DEBT RESCHEDULINGS WITH THE PARIS CLUB (1989-1992)

Country	Oifr» UdlC	Restructured maturities		Percentage of service restructured		Terms (years)	
		Months	Amount (millions of dollars)	Interest	Principal	Amortization	Grace
Trinidad and Tobago	January 1989	14	209	-	100	9.4	4.9
Guyana	May 1989	14	195	100	100	19.4	9.9
Costa Rica	May 1989	14	182	100	100	9.4	4.9
Mexico	May 1989	10	2 400	100	100	9.6	6.1
Ecuador	October[6] 1989	14	397	100	100	9.4	5.9
Argentina	December[e] 1989	15	2 450	100	100	9.3	5.8
Bolivia	March 1990	24	276	100	100	Toronto terms	
Jamaica	April 1990	18	179	100	100	9.3	4.8
Trinidad and Tobago	April 1990	13	110	-	100	9.5	5
Guyana	September[6] 1990	35	123	100	100	Toronto terms	
Honduras	September[6] 1990	11	280	100	100	14.6 °	8
El Salvador	September[6] 1990	13	143	100	100	14.4°	7.9
Panama	November[6] 1990	17	100	100	100	9.3	4.8
Jamaica	July 1991	13	97	100	100	14.5°	5.1
Costa Rica	July 1991	9	125	100	100	9.6	5
Peru	September[6] 1991	14	5 900	100[d]	100	14.5°	7.1
Argentina	September[6] 1991	9	1700	100	100	10 6	
Dominican Republic	November[6] 1991	18	780	100	100	14.3°	6.1
Nicaragua[e]	December[6] 1991	15	730	100[6]	100	"Extended" Toronto terms	
Ecuador	January 1992	12	350	100	100	14.5°	8.0
Bolivia	January 1992	18	216	100	100	"Extended" Toronto terms[f]	
Brazil	February 1992	20	11000	100	100	13.4	1.8
Argentina	July 1992	33		100	100	14.8	1.2
Honduras	October[6] 1992	34		100	100	"Extended" Toronto terms	

Source: 1989: ECLAC, on the basis of official figures; 1990 and 1992: UNCTAD, Money, Finance and Development Division.

[a] Interest rates were renegotiated bilaterally. 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 eligible debt and the rescheduling of the remainder over a 14-year period with eight years of grace; ii) the rescheduling of the eligible debt over a 25-year period with 14 years of grace; or iii) the reduction of the interest rate by 3.5 points or 50%, whichever is less, and the rescheduling of the debt over a 14-year period with eight years of grace. For further information see UNCTAD, *Trade and Development Report, 1989,* Geneva, 1989. United Nations publication, Sales No. E.89.II.D.14. [c] The longer repayment periods are a reflection of the new terms for lower middle-income countries which were agreed upon at the Economic Summit of Industrialized Nations held at Houston in 1990. These conditions, known as the "Houston terms", provide for rescheduling the principal over longer terms than usual (20 years for concessional debt and 15 years for non-concessional debt). Creditors also have the option of engaging inswaps involving up to 100% of the concessional debt and 10%orUS$ lOmillion, whichever is less, of the non-concessional debt. [d] Includes 70% of interest arrears. [e] Includes 50% of interest arrears. [f] The new terms providefor three options: i) reducing obligations by 50% and rescheduling the balance over a repayment period of 23 years (with a six-year grace period); ii) lowering interest rates to a point where the amount of relief is equivalent to that provided by the first option in terms of discounted values, together with a rescheduling of the debt over a 23-year term (with no grace period), and iii) rescheduling over 23 years (with a six-year grace period) at a below-market interest rate along with cost-free capitalization of interest payments during the grace period. In the case of concessional debt, maturities corresponding to the consolidation period are to be reprogrammed over a 30-year repayment period with a 22-year grace period.

Table VIII-3

LATIN AMERICA AND THE CARIBBEAN: TOTAL INTEREST AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1984	1985	1986	1987	1988	1989	1990	1991	1992 [b]
Latin America and the Caribbean	**36.7**	**36.1**	**36.6**	**30.4**	**29.0**	**28.3**	**25.1**	**22.5**	**19.0**
Oil-exporting countries	**33.0**	**32.6**	**33.9**	**27.8**	**29.1**	**27.0**	**22.1**	**20.0**	**18.4**
Bolivia	49.8	46.8	42.1	38.4	41.0	30.2	25.0	26.9	26.9
Colombia	22.8	28.9	20.5	20.5	20.7	21.7	19.0	16.4	13.0
Ecuador	33.3	25.7	29.7	32.5	32.5	33.7	29.3	25.0	19.6
Mexico	39.2	37.2	38.3	29.7	29.9	28.3	24.1	21.6	18.9
Peru	34.8	31.3	31.7	29.1	33.6	22.5	26.5	26.3	22.8
Venezuela	23.9	26.4	34.2	25.9	29.0	26.6	17.0	15.6	18.1
Non-oil-exporting countries	**41.0**	**40.0**	**39.2**	**32.9**	**28.9**	**29.5**	**28.3**	**25.0**	**19.7**
South America	**44.0**	**42.8**	**42.3**	**34.9**	**30.2**	**31.0**	**30.0**	**26.3**	**20.2**
Argentina	57.6	51.1	50.9	51.0	42.0	51.2	39.0	36.3	27.3
Brazil	39.6	40.0	42.4	33.1	29.4	29.2	31.4	27.2	21.0
Chile	50.1	46.4	37.1	26.4	21.7	18.5	17.8	14.6	11.8
Paraguay	13.7	17.3	15.4	21.0	12.5	6.9	5.3	6.0	6.1
Uruguay	34.8	34.2	24.7	24.1	23.5	27.6	26.9	21.7	17.6
Central America and the Caribbean	**19.8**	**20.3**	**20.4**	**19.8**	**18.8**	**17.2**	**14.8**	**15.4**	**15.6**
Costa Rica	26.6	24.9	21.8	21.3	22.0	23.6	15.4	9.9	9.3
El Salvador	12.3	11.1	10.1	10.9	9.5	8.8	13.0	12.5	11.2
Guatemala	12.3	14.9	17.4	13.6	13.9	11.3	11.2	7.1	6.6
Haiti	5.2	5.4	5.1	6.0	8.2	9.5	8.7	9.7	7.1
Honduras	15.9	16.0	19.5	18.5	18.0	18.5	18.9	20.6	19.2
Nicaragua	57.9	78.3	88.5	75.6	96.7	62.1	58.3	110.3	161.2
Dominican Republic	18.0	18.7	18.8	20.3	14.7	11.6	8.1	11.8	10.9

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

* Includes interest payments actually made and interest due but not paid. Services do not include factor services. ' Preliminary figures.

Table VIII-4
LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES
(Percentages)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
Latin America and the Caribbean	**344**	**324**	**349**	**415**	**389**	**336**	**306**	**289**	**288**	**276**
Oil-exporting countries	**302**	**281**	**312**	**397**	**348**	**340**	**287**	**255**	**262**	**251**
Bolivia	370	392	458	530	640	606	403	387	396	488
Colombia	303	239	314	233	230	244	233	203	187	182
Ecuador	277	261	246	345	422	400	394	364	360	338
Mexico	346	322	357	459	371	347	289	266	265	239
Peru	334	349	362	430	428	447	423	486	498	492
Venezuela	219	202	225	357	305	314	237	180	208	223
Non-oil-exporting countries	**391**	**372**	**387**	**432**	**429**	**333**	**323**	**322**	**313**	**297**
South America	**425**	**397**	**411**	**475**	**463**	**341**	**328**	**330**	**326**	**311**
Argentina	485	481	491	610	717	525	538	412	419	415
Brazil	416	364	379	460	430	315	307	353	353	336
Chile	390	456	454	396	327	229	182	180	155	152
Paraguay	317	289	287	244	265	182	124	90	100	78
Uruguay	324	362	391	349	369	354	350	342	332	329
Central America and the Caribbean	**242**	**253**	**272**	**265**	**281**	**284**	**292**	**277**	**252**	**234**
Costa Rica	312	308	339	292	302	276	245	196	185	157
El Salvador	211	218	219	188	207	203	266	253	245	278
Guatemala	184	203	232	229	238	205	192	166	152	134
Haiti	190	190	178	238	235	283	339	345	324	650
Honduras	270	282	336	334	393	380	333	362	336	334
Nicaragua	761	946	1433	2005	1932	2645	2859	2708	3 051	3 555
Panama	149	148	144	133	151	172	165	147	127	112
Dominican Republic	267	258	281	269	249	204	197	223	231	206

Source: ECLAC, on the basis of figures from lhe International Monetary Fund (IMF) and from national agencies.
*** Preliminary figures.**

Table Vm-5

LATIN AMERICA AND THE CARIBBEAN: TOTAL EXTERNAL DEBT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT[a]

(Percentages)

	1980-1981	1982-1983	1984-1985	1986-1987	1988-1989	1990	1991	1992
Latin America and the Caribbean	29	48	54	57	47	40	40	37
Oil-exporting countries	31	53	55	67	56	50	47	41
Bolivia[0]	61	119	133	155	128	113	107	108
Colombia	22	29	36	41	41	42	39	34
Ecuador	38	54	67	90	115	117	111	103
Mexico	25	58	55	76	53	43	41	35
Peru	43	52	69	46	51	51	47	47
Venezuela	49	51	56	69	73	72	64	58
Non-oil-exporting countries	27	**45**	**53**	**50**	**42**	**34**	36	**34**
South America	26	43	51	48	38	31	32	31
Argentina	18	44	47	53	60	43	32	26
Brazil	30	40	48	41	30	25	30	31
Chile	47	85	119	117	77	67	56	52
Paraguay	20	25	54	66	56	32	24	18
Uruguay	24	59	82	87	87	93	78	72
Central America and the Caribbean	48	64	77	81	88	93	87	83
Costa Rica	74	121	105	94	90	68	72	64
El Salvador	40	49	48	43	32	41	36	38
Guatemala	15	23	35	37	33	33	27	26
Haiti[0]	35	46	43	47	59	54	59	59
Honduras	54	68	75	86	94	121	102	106
Nicaragua[0]	97	134	184	242	714	678	668	703
' Panamá	85,	96	96	100	133	133	126	116
Dominican Republic	43	58	88	72	69	62	62	55

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

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

Table VUI-6

LATIN AMERICA AND THE CARIBBEAN: FIFTH ROUND OF EXTERNAL DEBT RENEGOTIATION WITH COMMERCIAL BANKS "
(1989/1992)

ARGENTINA"

Eligible debt: US$ 23 billion in principal
US$ 8.6 billion in interest arrears
Terms of the fourth round of rescheduling:
- Interest: 0.81 % over LIBOR
- Amortization period: 19 years
- Grace: 7 years.

1. DEBT PRINCIPAL CONVERSION OPTIONS AND THEIR DISTRIBUTION

Available options	Distribution of elegible debt principal (in millions of dollars)	Terms and conditions for conversion	Face value of new claims (in millions of dollars)
a) Discount bonds	8 050	Discount: 35% Repayment period: 30 years Grace: 30 years Interest: LIBOR + 0.81%	5 233
b) Par bonds	14950	Discount: 0% Repayment period: 30 years Grace: 30 years Interest: 4.0%, year 1 4.3%, year 2 5.0%, year 3 5.3%, year 4 5.5%, year 5 5.8%, year 6 6%, years 7-30	14950

2. TERMS FOR CONVERSION OF INTEREST ARREARS

a) Cash payment of US$ 400 millions

b) Conversion of US$ 300 million in interest arrears into 4-6 year zero-coupon bonds

c) The balance of interest arrears to be swapped for 12-years bonds (with a 3-year grace period) at an interest rate of 0.81 % over LIBOR

Table VIII-6 (continued **1)**

3. FINANCING OF AGREEMENT

Guarantees	Estimated (millions of dollars)	Financing (millions of dollars)
a) Par and discount bonds: guarantee on 100% of the principal and 12 month of interest, renewable, through the purchase of a zero-coupon bonds and the creation of blocked deposits, respectively	3600	World Bank IMF IDB Government Japan Government of Argentina
b) The 4-6 year zero-coupon bonds that are to be swapped for interest arrears carry a full guarantee		

BRAZIL[0]

Eligible bank debt: US$ 44 billion of principal
US$ 3 000 billion of interest arrears

Terms of the third round of rescheduling:[e]
- Interest rate: 1.13% over LIBOR
- Amortization period: 12 years
- Grace period: 5 years

1. CONVERSION OPTIONS AND THEIR DISTRIBUTION

Available options	Distribution of elegible debt principal (in millions of dollars)	Terms and conditions for conversion	Face value of new claims (in millions of dollars)
a) Discount bonds		Discount: 35% Repayment period: 30 years Grace: 30 years Interest: 0.81% over LIBOR	
b) Par bonds		Discount: 0% Repayment period: 30 years Grace: 30 years Interest: 4.0%, year 1 4.3%, year 2 5.0%, year 3 5.3%, year 4 5.5%, year 5 5.8%, year 6 6%, years 7-30	

Table VIII-6 (continued 2)

Available options	Distribution of elegible debt principal (in millions of dollars)	Terms and conditions for conversion	Face value of new claims (in millions of dollars)
c) Bonds together with temporary interest relief		Discount: 0% Repayment period: 15 years Grace: 9 years Interest: 4.0%, years 1-2 4.5%, years 3-4 5.0%, years 5-6 0.81% over LIBOR, years 7-15	
d) Restructuring of principal via its conversion into bonds, in conjuction with:		Discount: 0% Repayment period: 18 years Grace: 10 years Interest: 0.88% over LIBOR	
new lending equivalent to 18% rescheduled amount		Repayment period: 15 years Grace: 7 years Interest: 0.88% over LIBOR	
e) Rescheduling of principal together with temporary interest relief		Repayment period: 20 years Grace: 10 years Interest: 0.81% over LIBOR; in years 1-6, the difference to be capitalized if this rate proves to be than the following: 4.0%, years 1-2 4.5%, years 3-4 5.0%, years 5-6	
f) Bonds carrying a fixed rate of interest and temporary capitalization of interest		Discount: 0% Repayment period: 20 years Grace: 10 years Interest: 8%; in years 1-6, the difference between this and the following rates is to be capitalized: 4%, years 1-2 4.5%, years 3-4 5.0%, years 5-6	

2. TERMS FOR CONVERSION OF INTEREST ARREARS '

Consolidation of arrears in 12-year bonds (3 years of grace) at an interest rate of 0.81% over LIBOR

Table VHI-6 (concluded)

3. **FINANCING OF AGREEMENT**

Guarantees	, ,iEStím?Hd,, x (millions of dollars)	, •,rnanCífnIn x (millions of dollars)
a) Discount and par bonds: guarantee on 100% of the principal and 12 months of interest, renewable, through the purchase of United States Treasury zero-coupon bonds and the creation of blocked deposits, respectively		
b) The bonds combined with temporary interest relief carry a guarantee on 12 months of interest, renewable, through the creation of blocked deposits		

Source: ECLAC, on the basis of official figures.

[a] Prior to 1992, Brady Plan agreements were concluded by Mexico, Venezuela, Costa Rica and Uruguay.

The agreement was finalized in December 1992.

[c] This is an agreement in principle only.

Estimate. As a pre-condition for the conclusion of a Brady agreements, the banks demanded that Brazil should agree to eliminate the arrears that had accumulated in 1989 and 1990, which totalled US$ 9 billion. Accordingly, in 1991 the parties agreed that Brazil would make an inmediate cash payment of US$ 2 billion in interest arrears to its commercial bank creditors and that the US$ 7 billion balance would be converted into 10-year bonds as soon as a Brady Plan agreement had been negotiated. These bonds were issued by Brazil in November 1992. Their payback period was 7 years (1 year of grace). Two interest-rate options are offered. The first provides for a rate of 8.38% in 1992, 8.75% in 1993, and a rate of 0.81% over LIBOR thereafter until the bond's maturity. The second option is a rate of 0.81% over LIBOR with a 6% floor for LIBOR until 1995 and a ceiling of 7.7% in 1992 which would then rise to 8.2% until 1995.

[e] Brazil did not take part in the fourth round of rescheduling because it was in a partial moratorium at the time.

See note d.

[g] The cost of the guarantees cannot be determined until the banks officially make their final selections among the available options. Brazil is allowed to finance its guarantees in stages over a 2-year period.

Table Vm-7

LATIN AMERICA: PRICES OF EXTERNAL DEBT PAPER ON THE SECONDARY MARKET

(As a percentage of face value)

	1990			1991			1992		
	January	June	December	January	June	December	January	June	December
Argentina	12	13	20	19	25	36	39	50	45
Bolivia	11						13	12	16
Brazil	25	24	25	23	33	30	32	37	28
Colombia	60	64	63	64	73	81	75	75	75
Costa Rica	18	36	34	34	46	50	51	57	60
Chile	62	65	74	75	88	89	89	90	91
Ecuador	14	16	20	20	22	22	24	32	27
Honduras	21						26	27	34
Jamaica	40	44					75	74	67
Mexico	37	45	46	45	55	60	62	65	65
Nicaragua	1						6	9	6
Panama	19	12	13	11	13	21	23	33	29
Peru	6	4	4	3	7	11	14	17	18
Dominican Republic	13	17						33	32
Uruguay	50	49	55				70	70	75
Venezuela	35	46	50	50	60	66	67	61	57
Average[a]	29.5	33.3	35.1	32.5	41.5	45.0	47.6	52.2	47.9

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

[a] Weighted by the amount of bank debt.

IX. ECONOMIC TRENDS IN THE CARIBBEAN IN 1992

1. Main trends

The pace of economic activity in the English-speaking countries of the Caribbean subregion picked up by just 1.3% following a languid performance (0.6%) the year before. As a result, per capita GDP showed almost no change, and the sluggishness displayed throughout the 1980s (except for a brief interruption in 1989-1990) therefore persisted (see table IX-1). The reactivation of the economy was quite widespread, however, in that 11 out of the 14 countries for which information was available did see an increase in GDP, and in five of those countries the rate of that increase was over 5%. None the less, in two of the larger countries the level of activity sagged. Inflation slowed significantly, especially in countries that had experienced steep price increases in the past, while countries that had low rates of inflation in earlier years were able to maintain that favourable pattern. Earnings from exports of goods and services swelled in most of the Caribbean countries, while imports expanded moderately. Public finances improved markedly in almost all the countries of this area, thanks to their efforts to control the deficits that had been mounting at an alarming pace in recent years.

This revitalization of the Caribbean economies was generated primarily by internal factors, while the influence of external factors was mixed. On the domestic front, most of the countries enjoyed good weather, which resulted in more bountiful harvests, and the policies implemented recently have created -or are on their way to creating- conditions that encourage increased investment and production. As regards the influence of external demand, the revival of the United States economy and the continued buoyancy of European economic activity during the first half of the year helped to maintain the influx of tourists to the area. On the other hand, there were also a number of factors that had an adverse effect on the Caribbean countries, including, in particular, low international prices and other stumbling blocks for these countries' main export products.

Given these circumstances, a number of the countries belonging to the Caribbean Community (CARICOM) registered more rapid economic growth in 1992 than they had in 1991. Belize, Guyana, Saint Lucia and Saint Vincent and the Grenadines marked up growth rates of 5% or more. The rates were more moderate in Jamaica and in Saint Kitts and Nevis, and Grenada turned in a lackluster performance. Trinidad and Tobago saw a decline, after having experienced a strong year in 1991, and in Barbados economic activity flagged quite appreciably for the third year in a row. Among those countries that are not members of CARICOM, the growth of the Netherlands Antilles was notable (see table IX-1).

The Organization of Eastern Caribbean States (OECS) improved its overall results, with its

The expression "English-speaking Caribbean countries" is a succinct way of referring to the following countries and territories in the Caribbean subregion for which data were available: Antigua and Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago. A number of Dutch-speaking countries, such as Aruba, Netherlands Antilles and Suriname, are also included. Countries for which sufficient information was not available have been excluded.

2 Members of CARICOM include the Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, and the countries belonging to the Organization of Eastern Caribbean States (OECS).

" The OECS is composed of Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

average growth rate climbing from 1.3% in 1991 to 3.6% in 1992. Although this was certainly progress, the rate was still substantially lower than it had been in 1985-1989, when growth rates had averaged 6% per year. Moreover, the overall figures mask striking differences. The area's economic expansion was driven forward by the strong recovery made by agricultural exports and an upturn in tourism. A slight increase was seen in manufacturing activity, but construction was still bogged down. Exports from this group of countries were up by 36% and imports by only 5% and this result, in combination with the earnings from increased tourism, served to narrow the deficit on the current account of the balance of payments from 17% to 13% of GDP. The fiscal deficit also shrank, falling to 1.4% of GDP for this group of countries as a whole in 1992.

Belize recorded an economic growth rate of over 5%, mainly as a consequence of the expansion of its agricultural exports and tourism, in combination with an upturn in domestic activity, especially in the construction industry. The increase was, however, achieved partly at the cost of a larger fiscal deficit, which rose to 6.5% of GDP, and a more acute disequilibrium on the balance of payments, with the deficit on current account swelling to 10% of GDP.

In **Barbados,** activity was in a deep slump (-4%) for the third year running, as the authorities persevered in their efforts to stabilize the economy by placing harsh controls on demand. This policy did hold down domestic demand, but the manufacturing sector shrank by over 9%, construction by 16% and agriculture by 1% (see figure IX-1). This policy was not, however, successful in shifting production towards exports, or even in boosting activity in existing export sectors. Tourism, meanwhile, was down another 2%. Be all this as it may, the balance of payments yielded a surplus on current account for the first time in three years, thanks to a steep drop in imports, which led to an increase in international reserves and the virtual elimination of the fiscal deficit.

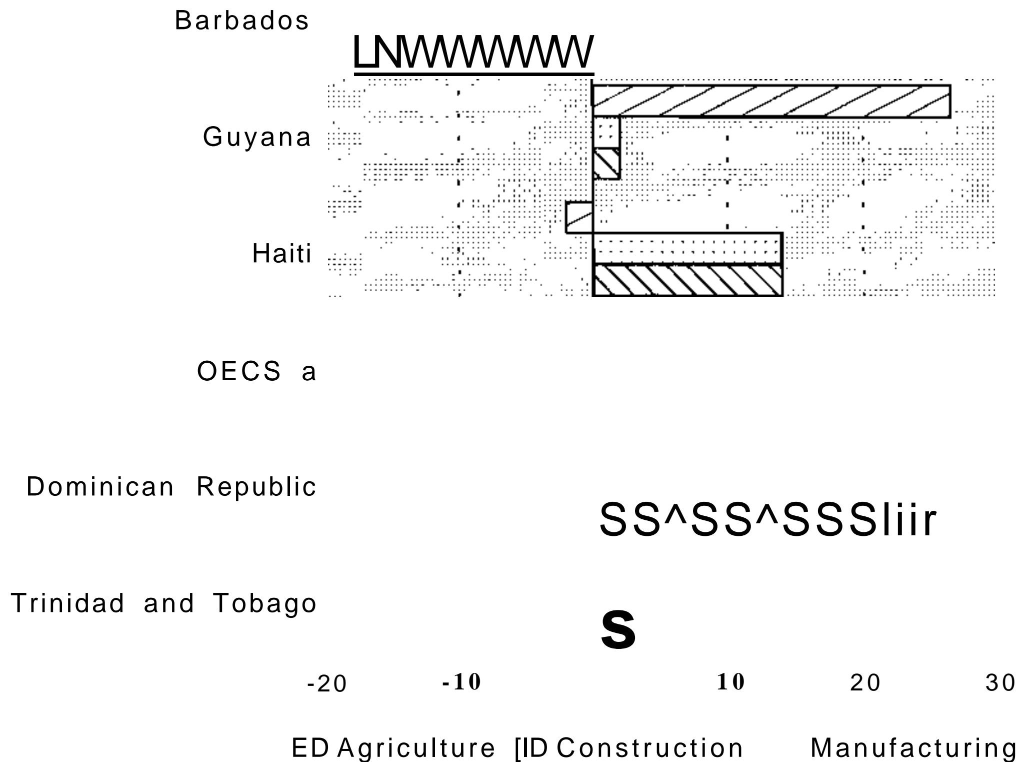
Guyana experienced its second year of swift growth (at a rate of 8% in 1992) despite the uncertainty generated by the electoral process and a change of administration. The economy was able to boast a continued reactivation of the agricultural sector, although, actually, all industries made a good showing except for bauxite, where output was 40% lower. The fiscal deficit narrowed from 32% of GDP in 1991 to 18% in 1992, and inflation descended to 15% from a level of 100% the year before. Relative stability was also achieved in respect of the country's floating exchange rate, which depreciated by 3.3% during 1992.

Preliminary indexes for the economy of **Jamaica** appear to indicate that its growth sped up in 1992, in relation to the 1.5% rate recorded the year before, thanks chiefly to an expansion of tourism. The results turned in by the agricultural sector were mixed; national food production made up, to some extent, for the listless performance oftraditionalexportproducts, while mining activities slumped. The volume of other export products in that category as well as non-traditional exports rose, however. Given these circumstances, exports expanded and imports shrank due to tight credit policies and the effects of a sharp depreciation of the currency. Together with an increase in earnings from tourism, the current account of the balance of payments showed a surplus for the first three quarters, in contrast to the deficit registered for the corresponding period in 1991. Accordingly, international reserves also rose.

Jamaican policy makers' top priorities were to stabilize the exchange rate and reduce inflation. The exchange rate did halt its ascent during the first quarter, thanks to the use of a dirty float which served as an important means of dealing with the high inflation rates experienced since 1991. In fact, the rate of price increases slowed to 40% in 1992, as compared to 80% the year before. Another policy objective was to do away with the fiscal deficit, which did indeed shrink from 1.3% of GDP in the first half of 1991 to 0.4% in the first half of 1992.

In the **Netherlands Antilles,** the growth rate of economic activity stepped up, rising from less than 2% in 1991 to nearly 7%, with the momentum being provided by activities in the free trade zone and the tourism industry. Merchandise exports climbed by almost 7% and income from tourism jumped by 11%, while imports edged upward by only 3%. These changes cut the deficit on current account by 50%

Figure IX-1
CARIBBEAN SUBREGION: SECTORAL PRODUCT
(Growth rate in 1992)



Source: ECLAC, on the basis of official figures.
* OECS = Organization of Eastern Caribbean States.

in respect of its 1991 level. Nevertheless, the fiscal deficit widened from 4% of GDP in 1991 to nearly 6% in 1992.

Trinidad and Tobago's economy showed a slight decline owing to further set-backs in the petroleum sector (the country's main activity), which continued along the downward path observed in recent years. Industries outside the petroleum sector expanded for the second year in a row, with agriculture in the lead; manufacturing output did not remain as buoyant as it had been during the three preceding years however, due to the tight monetary and fiscal policies implemented in 1992. Although these restrictive policies did improve the balance-of-payments current account, the fiscal deficit grew to 3.6% of GDP as a result of the drop in oil revenues.

In most of these countries the **agricultural sector** enjoyed favourable weather conditions and was able to recoup its poor 1991 performance, making a robust recovery in 1992. In Belize, Guyana, Jamaica and Trinidad and Tobago, the sector grew briskly, but in Barbados it contracted. The OECS countries exhibited an 11% upturn in 1992, after a 5% decrease in 1991, thanks primarily to improved weather conditions. The sector was operating under a cloud of uncertainty, however, in respect of both the sugar market and the preferential banana market (see figure IX-1).

Among the OECS countries, the performance of agriculture was uneven: the growth leaders in this sector were Saint Lucia, followed by Montserrat, with 18%, but downturns were observed in Grenada and in Saint Kitts and Nevis; the latter country had to deal with a different set of circumstances than the rest, since it was suffering from a serious drought. The strong growth of agriculture in Saint Lucia was due to a plentiful banana harvest as well as to increases in other crops. In Montserrat, the expansion was accounted for by the sector's return to a normal situation following the destruction caused by a devastating hurricane, while in Saint Vincent and the Grenadines it was in part a reflection of the sector's diversification into activities other than bananas. In Grenada, the long-standing downward trend of agriculture continued; this trend has reduced agriculture's share of GDP from 19% in 1989 to 14% in 1992. The sector's main products are bananas and nutmeg, both of which have been steadily declining, while cocoa production has been unstable. In Dominica, the sector grew slightly after having been at a standstill in 1991, mainly because of the banana harvest and the special care taken in 1992 to ensure good product quality and to increase efficiency in this industry. Other farming activities expanded by 3%; especially strong growth was observed in the output of coconuts, which some growers regard as a future alternative to banana cultivation.

Agriculture grew rapidly in Belize, arriving at the point where it represented 20% of GDP. This strong showing was due to the reactivation, following a weak performance in 1991, of citrus fruit production, which skyrocketed by 150%. In fact, in 1992 citrus fruit was the second largest export product (sugar was in first place). Increases were also recorded in receipts from bananas, forestry and exports of marine products, with the latter displaying a 20% upturn. These higher revenues boosted the sector's export earnings by 17% despite a lower level of income from the sugar industry.

In Barbados, a drop of nearly 18% in sugar production cancelled out increases in other product lines, and the agricultural sector saw a decline for the second consecutive year as a result. Strong growth was observed in fisheries and the processing of dairy products. These developments may herald a diversification of production that would shift it away from sugar, whose production has been steadily deteriorating.

The performance of the agricultural sector was the cornerstone of Guyana's overall economic expansion. Production was up due to the restructuring of the sector, increased operating efficiency and better producer prices. Notable increases were recorded in the output of sugar (52%), rice (12%) and timber (29%).

In Jamaica, the agricultural sector's results were mixed, in that sugar production was down but the volume of banana exports was higher. The increase in export volumes did not, however, produce a proportional rise in earnings due to lower prices. Coffee exports, on the other hand, were considerable and brought good prices, with the result being an upturn of over 20% in the income from this crop during the first half of the year. Output of food crops for domestic consumption was also high.

In Trinidad and Tobago, agriculture oriented towards the domestic market expanded its contribution to GDP by almost 13 % ; this offset the poor showing of export agriculture, which, because of a slump in the production of cocoa and coffee, shrank by more than 15%, despite an improved performance on the part of the sugar industry.

Manufacturing activities exhibited uneven trends which, overall, made for a weak performance. Guyana did experience an expansion of nearly 4%, while Belize and the member countries of the OECS as a group showed slight increases, but the sector's contraction was evident in Barbados, where activity slipped by nearly 10%, and in the Bahamas and Trinidad and Tobago, where small decreases were registered (see figure IX-1). For most of the countries, this sector -which has traditionally operated behind high protective barriers, whether for the domestic market or within the framework of integration systems- found itself at a critical juncture as it faces up to the need to adapt to changes in trade policy that are reducing its levels of protection in the domestic market or within the context of trade alliances. Towards the end of 1992 a new common external tariff structure for the CARICOM countries was agreed upon which provides for a

gradual reduction of tariff rates through 1998. Greater uncertainty was created by the steps taken towards the conclusion of the North American Free Trade Agreement (NAFTA), which would probably nullify the trade preferences granted to most of the Caribbean countries under the Caribbean Basin Initiative. This made it all the more necessary for the Caribbean countries to boost their competitiveness if they hope to maintain and expand their share of trade. Sharp swings in the exchange rate also hurt companies which have thus far managed to survive despite their use of a large percentage of imported inputs.

The steep decline in the manufacturing sector in Barbados reflected the deterioration in the sector's competitive position caused by the reduction of preferences applying to raw-material inputs, prevailing macroeconomic conditions and trade policy reforms affecting the area. The downturn was evident in all product lines within the sector, but especially in wearing apparel and furniture. The production of electronic components was an exception, since this activity had been in a slump ever since the mid-1980s, but it was reactivated in 1992 by stronger external demand which boosted production in this subsector by 45%.

The performance of manufacturing activities in Guyana was mixed, as the sector underwent a restructuring process in response to major changes in the macroeconomic policies being applied in this country. Some of Guyana's manufactures (e.g., clothing, footwear, pharmaceuticals and beverages) expanded thanks to policies which provided them with greater access to imported inputs and encouraged investment. At the same time, the production of other items, such as detergents and edible oils, waned because they could not compete with less expensive imports. Overall, however, the sector seems to have grown.

In the OECS countries, manufacturing activities expanded slightly, with growth being led by agribusiness and light manufactures for the regional market and by exports of clothing and electronics to the United States. This progress needs to be considered within the context of the deterioration seen during the preceding two years, however, when the cumulative decline amounted to more than 3%. Although manufactures continued to be routed primarily to the local and regional markets, there were signs of growth in some activities that produce exports for sale outside the region. In Grenada and in Saint Kitts and Nevis, above-average sectoral growth rates were observed, whereas the rate in Dominica was somewhat below average. In Antigua and B arbuda, the manufacturing sector shrank by 6%.

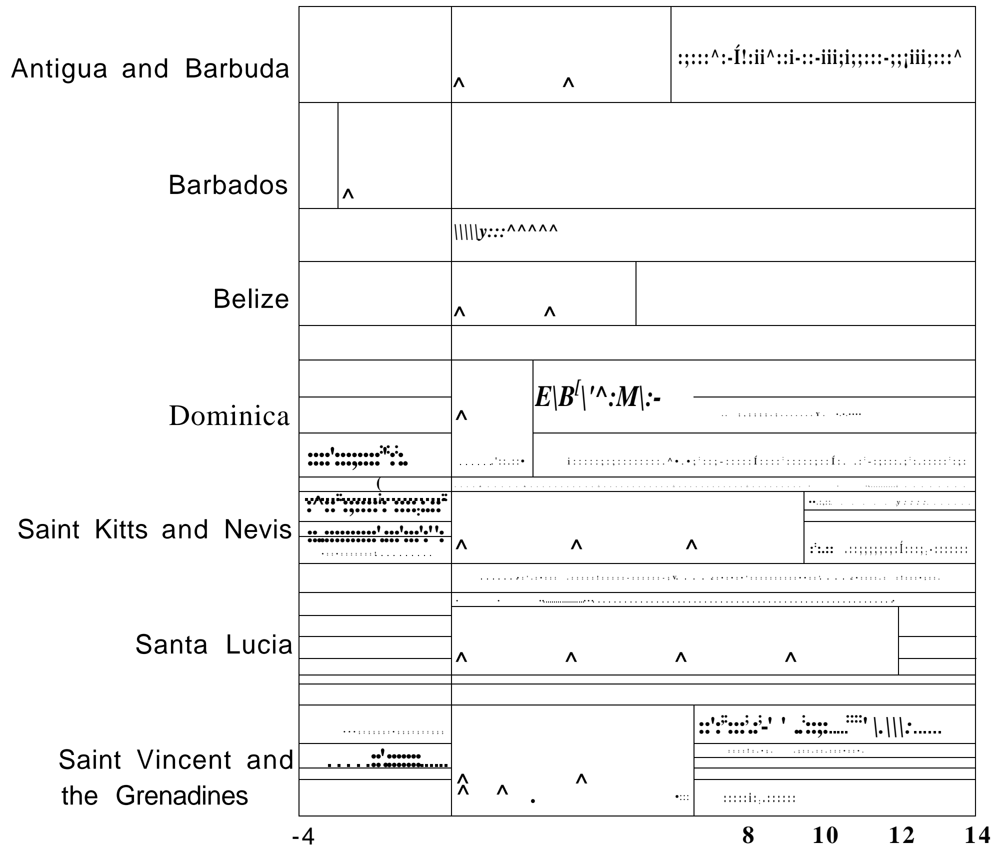
The level of activity in the manufacturing sector of Trinidad and Tobago was lower. Nevertheless, if petroleum products are excluded from the calculations, then it may be seen that the rest of the sector's activities -and especially metal-product assembly industries- expanded despite tight credit policies and the impact of import liberalization measures.

Tourism grew at a moderate overall pace in the area, but the rate of expansion within the OECS was very high, averaging over 8%. In Barbados the sector continued to shrink, as it has ever since it peaked in 1989, while in the Bahamas the number of tourists was down for the third year running. Jamaica saw a continuation of the sector's strong growth, which has partly been the result of the more competitive prices made possible by the depreciation of the currency. The growth of tourism was also quite robust in Aruba and Belize, but was more halting in the Netherlands Antilles (see figure IX-2).

The considerable flow of tourists from Europe continued, thereby upholding the growth trend of recent years, although it seemed to slacken somewhat in the second half of the year due to the recession spreading throughout most of the European continent. The influx of tourists from the United States was marginally greater, while an upswing was seen in the number of tourists from Canada following the downturn registered in recent years. The growth rate in the volume of cruise ship passengers outdistanced the rate for tourists in general, but this was a cause of some concern to the traditional tourism sector, inasmuch as the value added by cruise-ship tourism is limited and its environmental impacts are beginning to spark controversy.

The **construction** sector's showing was uneven. The level of activity was down by a fairly moderate amount in the Bahamas, Dominica and Grenada and by a more substantial one in Barbados. Modest growth was observed in

Figure IX-2
CARIBBEAN SUBREGION: TOURISM
(Sectoral growth rate in 1992)



Source: ECLAC, on the basis of official figures.
[B] OECS = Organization of Eastern Caribbean States.

Belize, Montserrat and Trinidad and Tobago, after a sharp expansion the year before. In contrast, the increase in activity was quite sizeable in Saint Kitts and Nevis and Saint Lucia thanks to the stimulus, in both cases, of increased public expenditure. The severe contraction of this sector in Barbados was accounted for by tight credit policies, high interest rates and the strict public-sector spending controls that were applied in an effort to balance fiscal accounts.

In the OECS countries, the construction industry was in a slump for the second year in a row, mainly because of the declining level of activity in Dominica and Grenada. In the latter case, this contraction -following years of burgeoning activity as a result, in large part, of public works- was occasioned by the need to return to a position of fiscal equilibrium. Residential and private commercial construction diminished, and the moderate pace of hotel construction was not enough to make up for the slackening of construction in other categories. The reduction in this activity in Dominica was chiefly a consequence of a drop-off in private housing construction.

2. Sectoral trends

Bananas

Banana production expanded considerably in 1992, but prices weakened as countries in Africa, the Caribbean and the Pacific basin which are parties to the Lomé Convention shipped a larger volume of banana exports to the United Kingdom and as the pound sterling depreciated against the United States dollar. The increase in output was a result of better weather conditions in the OECS countries, progress in combating plant disease and pests, and improved crop management.

In Belize the volume of exports was up by 36%, thanks in part to the privatization of the activity and to an infusion of capital and technology; the introduction of technologies for dealing with black sigatoka, a serious leaf spot disease which has hurt the banana harvest in the past, played an especially important role. In Jamaica, an increase of over 2% in the volume of exports drove the Jamaican banana industry's strong recovery forward, although earnings fell by 28% owing to the above-mentioned price decline (see table IX-2).

The OECS countries' output of bananas climbed by over 20% in 1992, although this followed upon a disappointing year in which a combination of bad weather, plant disease and some organizational problems had curbed production. Thus, despite the industry's strong showing in 1992, output was not back up to 1990 levels. Be that as it may, all the countries did register significant increases in production except Grenada, where output was down by over 10%, thereby continuing the steady decline that began in 1980. The most rapid growth was seen in Saint Lucia and in Saint Vincent and the Grenadines and the slowest rate was that of Dominica. In the latter country, the 1991 slump had been less severe than in the other OECS countries thanks to the success of incentives designed to benefit the most efficient producers and to boost quality; as a result, Dominica's figures for 1992 surpassed the peak levels of 1990. The upturn in banana industry earnings was less striking than the rise in production, however, since unit prices were down in all the countries of the OECS.

Sugar

The volume of sugar exports from the English-speaking Caribbean countries expanded by 12% in 1992 while their value increased by a somewhat smaller amount. Even so, the overall result was chiefly a reflection of the sharp rise in Guyana's exports. In the other countries, this activity was hurt by the decline of world prices and the even faster pace at which preferences were reduced, since this inevitably pushed earnings lower. In Saint Kitts and Nevis and in Trinidad and Tobago, modest increases were recorded, but export volumes were substantially smaller for Barbados, Belize and Jamaica because of the reduction of their quotas for the United States market and the resulting need to channel a larger portion of their exports to the weakened international market. These problems in the sugar market generated a series of anomalies, especially in the CARICOM countries, where because of quota reductions, for example, the increase in these countries' output did not necessarily translate into a proportional rise in their earnings (see table IX-3).

The striking upturn in Guyana's sugar output (53%) was attributable to the restructuring and reactivation of the industry by its new managers on the basis of revised macroeconomic policies designed to spur production and exports. The resulting expansion of sugar exports (46%) was the cause of serious difficulties for other producers in the area because it enabled Guyana to recover its export quotas, which had been temporarily assigned to other CARICOM countries, as well as reducing the amount of imports needed to meet domestic demand.

In Barbados sugar output continued to decline, falling to the lowest level recorded in the last 70 years. The amount of land under cultivation also continued to diminish as both large- and small-scale growers switched over to other crops or to non-agricultural activities. Export volumes slipped by over 1% but, contrary to the trend observed in the rest of the area, income climbed by over 7% owing to an increase of more than 8% in average export prices.

In the case of Belize, export volumes shrank by 2% and earnings by nearly 10%, as the

proportion of exports eligible for sale on preferential markets fell from 72% to 62%. In Trinidad and Tobago, where output again rose by almost 5%, income was up by only 2%. In Jamaica, export volumes decreased by nearly 8% due to a drop in production occasioned, in part, by labour strikes on the part of sugar industry workers. Export earnings were almost 10% lower.

In Saint Kitts and Nevis, the recovery being made by sugar production suffered a set-back when the sugar-cane harvest proved to be nearly 9% smaller. This turn of events followed upon a 30% increase in 1991, after the hurricane damage sustained by the industry in 1990. The contraction of the harvest in 1992 was the result of a severe drought, but the drought did not significantly affect the sugar content of the cane and this, together with the more efficient operation of sugar mills, allowed sugar production to actually increase by 4%. Export volumes were up by somewhat more than 7% and income by somewhat less than 7%. Saint Kitts and Nevis was the only CARICOM country that was not suffering the consequences of a reduction in its 1993 quota for the United States sugar market.

Minerals

For the most part, income from exports of minerals was lower in the Caribbean countries. In the cases of bauxite and alumina, the decrease was due to weaker world prices, which, in turn, were affected by the slackening of economic activity in importing countries and a higher volume of world output. Given these circumstances, inventories expanded. Oil prices were down and this, in combination with a drop in production in Trinidad and Tobago, lowered the sector's revenues. In contrast, the production of petroleum increased in Barbados, although its volume was still small in relation to domestic demand. Meanwhile, gold production jumped by 34% in Guyana.

In the case of Jamaica, the adverse trend in the world bauxite market was compounded by the collapse of the market in the former Soviet Union. As a result, the volume of bauxite exports was nearly 4% lower and shipments of alumina decreased by more than 4%. Gross income for the first three quarters dropped by 9% with respect to the same period in 1991, and net income fell by over 30%. During this period tax receipts from this sector plunged by 75% and the foreign exchange earnings which it generated were down by over 30% (see table IX-4).

Production in Guyana was also hurt by the situation in the world market, but domestic factors played an important role as well, since the industry was in the process of being restructured with a view to increased efficiency. Despite these efforts, the sector's total output dropped off by 30%. Decreases were recorded in all categories: dry bauxite (-35%), calcined bauxite (-34.9%) and chemical bauxite (-21%). Income from these exports diminished by 30%.

Trinidad and Tobago's petroleum sector continued on its downward slide, with its share of GDP shrinking every year since 1985 with the sole exception of 1990. This trend deepened in 1992, with a further contraction of over 6%. The sector's decline is due to the fact that existing wells have reached their maturity, while exploratory drilling has been halved as a cost-cutting measure. Export volumes of crude oil were down by nearly 13% and average export prices fell by around 5%. The reorganization of the sector and some labour problems may also have hurt production, which dropped to its lowest level since 1965. A series of new incentives were introduced, however, in order to encourage exploration and prospecting. Refinery output was also lower (by nearly 1%) and exports of refined petroleum products shrank by 4% with respect to their 1991 levels. Natural gas output slipped by 1 %, even though both demand and production increased in the petrochemical industry. Production of liquified forms of natural gas and both output and exports of methanol were higher, but the larger volume of methanol exports did not boost foreign exchange earnings because of a drop in their price. Fertilizer production declined by 4% and this, in conjunction with low international prices, caused income from fertilizer exports to diminish by more than 17%.

In Barbados, the output of crude oil climbed by 5%, allowing the country to cover nearly 38% of domestic demand. The substitution of nationally-produced crude drove imports down

by almost 3% following a 17% increase in 1991. Natural gas production was only slightly higher than in 1991.

Tourism

The total number of tourists utilizing lodging accommodations in the area was moderately higher in 1992, but the figures for the individual countries varied widely. The largest increases were seen in Saint Vincent and the Grenadines (nearly 17%), Belize and Saint Lucia (over 11 %), followed by Aruba, Antigua, Jamaica, Trinidad and Tobago, and Saint Kitts and Nevis, where the number of tourists rose by between 5% and 8%. Preliminary estimates indicated that the number of tourists staying over in Grenada climbed by 3%, while the Netherlands Antilles and Dominica recorded growth rates of less than 3%. The exceptions to this bright picture were the Bahamas and Barbados. Income from tourism did not rise any more rapidly than the number of tourists in real terms. The slow growth of revenues may be due to a combination of factors, including increased competition within the industry (and the resulting price reductions offered by countries of destination), shorter stays and lower daily expenditure levels (see tables IX-5 and figure IX-2).

Tourism is highly sensitive to the overall pace of economic activity in the home country, as well as vacation costs in the host country. Accordingly, the number of tourists coming from the United States rose slightly, with the rate of increase picking up speed towards the end of the year as the United States economy began to show signs of recovery. The countries experiencing the sharpest increase in visitors from the United States were Aruba, Trinidad and Tobago, Saint Kitts and Nevis, and Dominica, while the Bahamas and Barbados received fewer tourists from that country.

As a rule, the trend in European tourism has been the opposite of the trend in North American tourism, and this appears to have continued to be the case in 1992. In recent years the flow of tourists from Europe has partly offset the decline in the number of tourists from North America, since the European economies were maintaining their buoyancy. The number of European tourists remained high in the first half of 1992, but the flow tapered off late in the year when Europe began to slip into a recession. Another factor that discouraged Europeans from visiting the Caribbean was the appreciation of the dollar against many European currencies, especially the pound sterling. Nevertheless, the number of European tourists visiting the Caribbean was up by 7%; Jamaica and the OECS countries were the main destinations for these visitors, while Aruba and Curaçao recorded a decline.

Among the main source countries, Canada exhibited the most rapid growth (9%), and this served to make up for the decreases observed in recent years. The number of Canadian tourists staying overnight in Antigua and Barbuda and Saint Maarten rose significantly, while the number of those lodging in Curaçao, Dominica, and Saint Kitts and Nevis decreased.

The number of cruise-ship passengers continued to rise considerably in the area as a whole. Increases of over 30% were recorded in Aruba, Bonaire, Dominica, Jamaica and Saint Kitts and Nevis, but Saint Vincent and the Grenadines saw a drop of more than 20%. Cruise-ship tourism has prospered in recent years among people with limited amounts of disposable income who therefore seek fairly economical vacation packages in which all expenses are included. It is feared, however, that the cruise-ship industry is taking clients away from the traditional market and that it may hold on to that clientele even after economic activity rebounds in the United States by putting more luxurious cruise lines into operation. Another cause of concern is a tendency towards fiercer rivalry between different destinations, which generates huge fluctuations in the tourism industry's annual income. Furthermore, the various destinations have been very slow to offer sufficiently original attractions to win over cruise-ship passengers and have therefore obtained quite limited revenues from these visitors. The issue of waste disposal by cruise ships is generating a new and undesirable cost for these ships' destinations, which are already struggling to deal with the environmental damage caused by ordinary tourism. Above and beyond all these issues, however, the cruise-ship industry is recognized as a new and formidable competitor

for tourists' business, and host countries will therefore have to work to develop their individual cultural features in order to offer a type of service that the cruise ships cannot match.

3. **Foreign trade and the balance of payments**

The majority of the CARICOM countries saw their export earnings rise, although at a quite moderate rate. In contrast, the OECS countries turned in excellent performances, with a 36% increase in their exports. The worst figures were recorded by countries whose agricultural sectors made a poor showing, such as Barbados and Grenada, or, as in the case of Trinidad and Tobago, where oil revenues were down. A particularly striking expansion was observed in the exports of Guyana (especially of sugar and rice), Belize (citrus fruit, bananas and shellfish) and Saint Vincent and the Grenadines and Saint Lucia (bananas). In Saint Kitts and Nevis, income rose as a result of increased sales of sugar and electronics.

Imports also rose at a measured pace in most of the countries; in fact, in many cases their growth rate was lower than that of exports. Nevertheless, the increase in the value of imports in absolute terms outdistanced that of exports, especially in the smaller countries whose income depends primarily on services, since in these cases a rather small rise in imports was enough to offset the swift expansion of exports. In the OECS countries as a group, imports were up by slightly more than 5%, In Guyana, however, imports jumped by over 25% owing to a strong upturn in economic activity, and thus met a segment of demand that had been repressed for many years. The countries that were in the process of restoring their economic equilibrium and of implementing policies designed to restrain demand, such as Barbados, Grenada, and Trinidad and Tobago, imported less than they had the year before.

Some countries were able to improve their trade balances thanks to a good export performance and the containment of imports. Particularly noteworthy cases included those of Trinidad and Tobago, which enlarged its surplus; Guyana, which went from a deficit in 1991 to a surplus in 1992; and Barbados, which made a sizeable reduction in its trade deficit. In contrast, the Bahamas, Belize, Dominica, Netherlands Antilles, Saint Kitts and Nevis, and Saint Lucia recorded larger trade deficits.

In most of the countries, the current account provided an accurate picture of the trends observed in merchandise trade, while their services accounts yielded mounting surpluses. Thus, in general, the countries' deficits on current account were substantially smaller than their trade deficits, except in countries where the tourism industry did poorly. The current account deficit widened in only a few cases, such as Belize, Dominica and Saint Lucia. In Guyana, where tourism is not a major industry, the trend in merchandise trade was so positive that its effects were evident in the current account; this did not occur in the case of Dominica, however (see table IX-6).

4. **External debt**

The external debt of the English-speaking Caribbean countries was a little more than 5% smaller in 1992, even though foreign liabilities expanded slightly in the OECS countries. Despite a gradual improvement in the overall situation, the debt continues to weigh heavily upon some economies, such as those of Guyana and Jamaica. In Antigua and Barbuda, tight fiscal policies continued to limit that country's ability to service its debt, and its arrears therefore continued to build up. In Grenada, debt service arrears also accumulated.

In Trinidad and Tobago, the debt shrank by 10% thanks to an 80% increase in payments on debt principal over the preceding year's level, which was made possible by the expiration of the previously-negotiated moratorium on such payments at the end of August. Debt conversion operations also played a role in this result, as nearly US$ 7 million in external debt was swapped

for local bonds. Another factor that helped to reduce the debt was the appreciation of the dollar, since this lowered the level of liabilities denominated in other currencies (see table IX-7).

The reduction in Barbados' external debt was mainly due to increased payments and to the absence of new loans in 1992. The debt service took up 18% of the value of exports of goods and services. The reduction in the public external debt of Belize reflected the decline in the value of debts denominated in pounds sterling occasioned by that currency's depreciation and the reclassification of the telecommunication company ' s liabilities as private debt as a result of its privatization. In fact, if it had not been for that accounting change in debt classification, the public external debt would have expanded as a consequence of the net inflow of funding for investment projects.

In the Bahamas the external debt grew more slowly in 1992, after having soared by 64% in 1991. The main factor was new debt incurred by private firms, which represented 66% of the debt in 1992. Outlays in the form of debt servicing rose to a level equivalent to 4.5% of the country's exports of goods and services, which was just slightly more than the percentage recorded the year before.

The external debt of the OECS countries as a group expanded by 2%, chiefly as a consequence of the debts contracted by Saint Lucia, which stepped up the pace of its investment programme. The OECS countries' debt amounted to 42% of their total GDP, while servicing was equivalent to 3.4% of their exports of goods and services in 1992.

5. **Fiscal policy**

Overall, the Caribbean countries' public finances took a turn for the better in 1992. This improvement reflected the efforts made by most of the countries with deficits to rectify this situation, as well as the satisfactory performance of their economies. Even so, the fiscal situation deteriorated a great deal in Belize and in Trinidad and Tobago (see figure IX-3).

In Barbados the economic adjustment programme, one of whose objectives was to strike a fiscal balance, appeared to proceed as planned. The deficit was cut from BDS$ 229 million in 1990 to BDS$ 52 million in 1991 and then to less than BDS$ 3 million in 1992. This decrease was achieved despite a drop in current income which made it necessary to make even larger reductions in both current and capital expenditures.

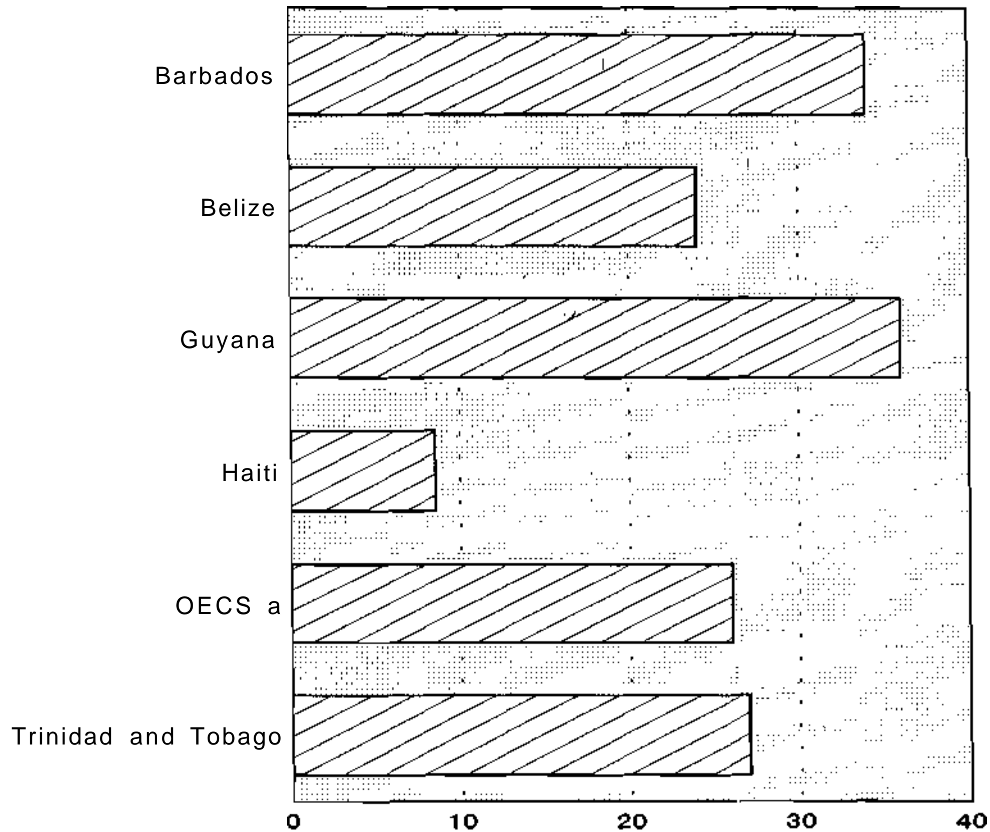
The fiscal deficit widened notably in Belize since the increase in income was outpaced by current expenditure, chiefly as a consequence of wage hikes. As a result, the surplus on current account shrank by one fourth. Higher capital expenditure, most of which was financed by local sources, boosted the fiscal deficit from 6% to 6.5% of GDP.

In Guyana, the central government improved its fiscal performance. Current income climbed by over 40%, thanks to the general dynamism displayed by the economy. The 24% rise in current expenditure was led by increases in employee remunerations, while interest payments contracted. The result was a narrowing of the deficit on current account, and this, in conjunction with the fact that capital expenditure held at more or less the same level as the year before, helped to cut the fiscal deficit from 32% to 18% of GDP.

Efforts to restructure and reorganize public enterprises in Guyana worked out well, and these firms' combined surpluses, before taxes, nearly trebled. Some enterprises, however, such as the electricity company, are still in need of large infusions of capital and further reorganization.

In the OECS countries, current income rose faster than expenditure did, with the result that the current account surplus for this group of countries, taken together, climbed to 2.8% of GDP. Nevertheless, Antigua and Barbuda continued to run a deficit, although it was slightly smaller, and the surpluses of Grenada, Montserrat, and Saint Vincent and the Grenadines were all lower. Capital expenditure declined by 6% more than the year before in the OECS countries as a group, and the decrease was particularly notable in the area of infrastructure, especially with regard to road construction and water

Figure IX-3
CARIBBEAN SUBREGION: TAX REVENUES, 1992
(As a percentage of GDP)



Source: ECLAC, on the basis of official figures.
[a] OECS = Organization of Eastern Caribbean States.

service. In some cases deep cuts were made in capital expenditure in order to improve a country's fiscal accounts. Capital spending plummeted by 56% in Antigua and Barbuda and by 63% in Grenada.

The total deficit for the OECS countries was reduced from 3.8% of GDP in 1991 to 1.4% in 1992. The results recorded by most of the countries fit in with this general trend, but Saint Lucia was clearly an exception, since it had previously run fiscal surpluses and now saw its 1991 surplus of 0.7% of GDP turn into a deficit equivalent to 1.2% of GDP owing to a 44% jump in capital expenditure. Grenada's overall surplus was made possible by the above-mentioned reductions in capital expenditure and the sale of various assets.

The fiscal deficit recorded by Trinidad and Tobago rose to 3.3% of GDP, in contrast to its almost negligible level of the year before. This change was attributable to the country's high level of income in 1991, since for the most part its expenditures did not rise significantly. The current account deficit amounted to 1%. Current expenses climbed by 4.6% as a consequence of increased personnel-related expenditure and interest payments. Transfers and subsidies were held to their 1991 level, and expenditure on goods and services diminished.

6. Prices

Inflation mounted in Dominica, Grenada, Saint Vincent and the Grenadines, and Trinidad and Tobago. As usual, the OECS countries consistently exhibited smaller increases than the other countries. Among the former, cqnsumer prices rose by an average of 3%, as compared to 4.4% in 1991 and nearly 6% in 1990. Variations in consumer prices in these countries were generally in line with world trends, with the exception of Grenada, which registered an increase of 4.6% due to public utility rate hikes, although the prices of personal services and health care also rose (see table IX-8).

In the larger countries, especially those in the midst of economic adjustment processes, inflation slowed, for the most part, but was still above its historical levels. In Guyana and Jamaica, where the exchange rate had fallen sharply in recent years, prices appeared to be returning to more normal levels. The rate of inflation in Guyana dropped from 89% in 1991 to 15% in 1992, thanks to the stabilization of its exchange rate, while in Jamaica it also slowed significantly, falling from 80% in 1991 to just half that figure in 1992. In Barbados, inflation held at around 6%. In Trinidad and Tobago, on the other hand, the rate of price increases accelerated towards the end of the year, thereby driving the average annual rate up from 3.8% in 1991 to 6.5% in 1992. In the case of some food products, these price rises were due to shortages, but increases in the prices of other items reflected the effects of higher income levels and excise taxes.

7. Employment

The available information indicates that unemployment was up in Barbados and in Trinidad and Tobago as a consequence of the economic slump experienced by both countries in 1992 (see table IX-9). In Barbados, the number of unemployed persons climbed by nearly 8,000, rising from 17% to 23% of the economically active population, with the rates amounting to 26% for women and slightly over 20% for men. It is estimated that 41% of the unemployed were between 15 and 29 years of age, 24% were between 30 and 39 years, and 7.7% were over 50. In Trinidad and Tobago, unemployment increased by almost a full point, to nearly 20%, after having declined for the past three years. The unemployed population numbered almost 100,000 people, although this figure is partly a reflection of a nearly 3% expansion of the labour force. Young people continued to have the highest rate of unemployment (44% for persons between 15 and 19 years of age). The rate rose to over 24% for women and 17% for men. Job losses were concentrated in the petroleum and manufacturing sectors.

Table LX-1

CARIBBEAN SUBREGION: TOTAL GROSS DOMESTIC PRODUCT

(Annual growth rates)[a]

	1986	1987	1988	1989	1990	1991	1992[b]	Cumulative variation 1981-1992"
Total subregion	0.7	0.4	1.9	2.9	2.9	0.6	1.3	3.4
Netherlands Antilles			12.1	4.6	3.9	1.6	6.6	
Bahamas	1.4	4.6	2.3	2.0	4.8	-3.2	1.0	28.3
Barbados	5.1	2.6	3.5	3.6	-3.5	-4.3	-4.0	-0.5
Belize	2.2	12.5	6.4	13.1	9.4	4.1	5.3	74.7
Guyana	0.2	1.1	-2.3	-4.5	-2.7	5.5	7.7	-14.0
Jamaica	3.5	6.5	2.2	7.4	5.3	1.5	1.8	26.7
Suriname	0.7	-6.2	8.2	4.2	-1.7	-2.5	-	0.8
Trinidad and Tobago	-2.2	-4.6	-3.3	-0.5	2.2	1.8	-0.6	-18.7
OECS[c]	6.8	6.1	**8.7**	**4.8**	4.5	2.5	3.3	**78.4**
Antigua and Barbuda	8.4	8.7	7.7	5.2	2.8	1.6	1.7	84.9
Dominica	6.9	6.8	7.9	-1.1	6.6	2.1	2.6	62.1
Grenada	5.5	6.0	5.8	5.7	5.2	2.9	0.6	64.1
Saint Kitts and Nevis	6.3	7.4	9.8	6.7	3.0	3.7	3.6	88.3
Saint Lucia	5.8	2.2	12.1	4.6	3.9	1.6	6.6	72.2
Saint Vincent and the Grenadines	7.3	5.8	8.6	7.2	7.1	4.6	4.7	103.5

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

[a] Calculated on the basis of figures in dollars at constant 1980 prices. Preliminary figures. [c] OECS = Organization of Eastern Caribbean States.

Table LX-2

CARIBBEAN SUBREGION: BANANA EXPORTS

	Value (millions of dollars)					Volume (thousands of tons)				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Belize	8	12	8	7	10	26	31	26	23	31
Dominica	37	24	30	30	30	72	50	57	56	58
Grenada	5	4	4	4	3	9	9	7	7	6
Jamaica	16	19	38	45	32	28	42	61	75	77
Saint Lucia	66	58	69	54	68	128	126	134	101	133
Saint Vincent and the Grenadines	31	30	41	33	39	62	66	80	63	77

Source: ECLAC, on the basis of official figures.

Table IX-3
CARIBBEAN SUBREGION: SUGAR EXPORTS

	Value (millions of dollars)					Volume (thousands*i* of tons)				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
Barbados	31	24	32	31	33	68	52	57	53	52
Belize	33	36	43	42	38	75	77	94	94	92
Guyana	68	73	70	95	133	171	170	132	157	230
Jamaica	92	65	86	91	82	153	132	146	151	139
Dominican Republic	123	157	178	167	147	514	491	355	319	335
Saint Kins and Nevis	12	12	9	11	12	23	22	14	18	20
Trinidad and Tobago	27	31	30	31	32	55	57	54	57	59

Source; ECLAC, on the basis of official figures.

Table IX-4
CARIBBEAN SUBREGION: BAUXITE AND ALUMINA EXPORTS

	Value (mil lions of dollars)					Volume (thousands of tons)				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
					Bauxite					
Guyana	80	77	89	92	64	1274	1317	1387	1328	895
Jamaica	105	126	103	112		3 494	4190	3 886	4 261	4100
					Alumina					
Jamaica	307	432	**616**	550		1 575	2145	2889	3032	2900

Source: ECLAC, on the basis of official figures.

Table **IX-5**

CARIBBEAN SUBREGION: NUMBER OF TOURISTS

(Thousands)

	1988	1989	1990	1991	1992
Antigua and Barbuda	195	198	206	182	194
Netherlands Antilles	685	751	832	803	826
Aruba	278	344	433	501	542
Bahamas	1475	1 575	1561	1427	1399
Barbados	452	465	432	394	385
Belize	164	220	230	223	
Dominica	32	35	45	46	47
Grenada	62	69	82	...	88
United States Virgin Islands	543	493	523	682	658
Jamaica	649	715	841	845	909
Puerto Rico	2 281	2 444	2 560	2 613	2 640
Saint Kitts and Nevis	70	71	76	84	88
Saint Lucia	125	133	138	160	177
Saint Vincent and the Grenadines	47	50	54	46	53
Trinidad and Tobago	188	194	194	220	235

Source: Caribbean Tourism Organization **(CTO).**

Table IX-6

CARIBBEAN SUBREGION: BALANCE ON CURRENT ACCOUNT

(Millions of dollars)

	1988	1989	1990	1991	1992
Antigua and Barbuda	-55.8	-79.1	-62.3	-42.1	-9.5
Bahamas	-128.3	-160.6	-173.8	-183.6	-110.3
Barbados	2.4	-2.6	-37.6	-45.7	54.8
Belize	-4.6	-19.0	15.2	-27.2	-36.3
Dominica	-3.9	-32.4	-30.6	-21.1	-24.4
Grenada	-23.6	-33.8	-27.7	-36.6	-27.7
Guyana	-93.0	-113.3	-147.8	-123.0	-106.0
Jamaica	-0.6	-257.8	-340.1	-131.6	
Montserrat	-2.0	9.3	-19.3	-11.4	-10.4
Saint Kitts and Nevis	1.5	-34.3	-44.3	-30.4	-29.9
Saint Lucia	0.9	-56.4	-56.7	-70.1	-70.9
Saint Vincent and the Grenadines	-2.7	-15.0	-5.4	-22.9	-13.6
Trinidad and Tobago	-117.8	-66.8	430.0	-20.8	119.3

Source: ECLAC, on the basis of official figures.

Table IX-7

CARIBBEAN SUBREGION: EXTERNAL DEBT [a]

(Millions of dollars)

	1988	1989	1990	1991	1992
Antigua and Barbuda	243.2	260.6	268.6	264.6	258.0
Bahamas	171.3	219.7	267.7	411.6	437.9
Barbados	394.9	383.6	418.0	385.5	341.8
Belize	116.0	130.6	133.0	150.6	145.6
Dominica	65.7	72.0	86.4	92.1	92.9
Grenada	68.6	70.3	87.1	87.3	85.0
Jamaica	4 001.7	4 038.4	4 152.4	3 874.0	3 700.0
Montserrat	3.5	3.4	3.0	3.4	3.3
Saint Kitts and Nevis	26.6	31.7	36.4	37.1	38.0
Saint Lucia	41.3	51.7	67.6	81.2	97.0
Saint Vincent and the Grenadines	44.9	50.7	55.1	64.0	67.6
Trinidad and Tobago	2 011.8	2097.4	2 519.6	2 432.5	2 195.4

Source: ECLAC, on lhe basis of official figures.

[a] Government or government-guaranteed debt. Includes arrears.

Table IX-8

CARIBBEAN SUBREGION: CONSUMER PRICES

(Average annual variations)

	1988	1989	1990	1991	1992
Antigua and Barbuda	3.4	5.3	7.7	2.1	
Bahamas	4.5	5.3	4.7	7.1	5.7
Barbados	4.8	6.2	3.1	6.3	6.1
Belize	3.2	2.1	3.0	5.6	2.8
Curaçao		3.9	3.7	4.0	1.4
Dominica	5.2	4.3	4.7	2.0	3.9
Grenada	6.5	3.6	3.7	1.0	4.6
Guyana	40.1	89.3	64.9	89.0	15.0
Jamaica	8.3	14.3	22.0	51.0	
Montserrat	3.6	1.8	6.8	9.2	2.8
Saint Kitts and Nevis	0.2	6.6	3.7	4.5	1.5
Saint Lucia	0.8	3.8	5.9	7.3	3.2
Saint Vincent and the Grenadines	2.1	3.5	9.2	2.3	3.1
Trinidad and Tobago	7.8	11.3	11.4	3.8	6.5

Source: ECLAC, on the basis of official figures.

Table IX-9

CARIBBEAN SUBREGION: UNEMPLOYMENT RATES

(Percentages)

	1988	1989	1990	1991	1992
Netherlands Antil les	24.4	21.0	19.8	16.4	14.2
Barbados	17.3	13.7	14.7	17.2	23.0
Jamaica	18.9	18.0	15.3	15.4	
Trinidad and Tobago	21.9	22.0	20.0	18.5	19.7

Source: ECLAC, on the basis of official figures.

SECOND PART

THE WORLD ECONOMY

THE WORLD ECONOMY[1]

The world economy remains listless. World output has been growing well below potential since 1990. Stagnation characterizes the developed market economies and decline continues to be a feature of the economies in transition. On the other hand, the developing countries as a group are growing at a pace not seen since the 1970s. Developing economies in Asia, including the most populous countries, and in the Southern cone of Latin America are expanding rapidly.

The reversal since the late 1980s of both the rapid increases in military budgets and the rise in consumer expenditure associated with the swift increases in stock and real estate prices has contributed to the weakening of growth in developed countries in the 1990s. In the aftermath of the decline in asset values, consumers and investors in some of the largest developed economies are unusually cautious and hesitant, despite a considerable drop in interest rates. Financial consolidation in the banking sector has proceeded apace, but loans to the private sector are still stagnant. The restructuring and reduction of personnel have bolstered corporate profits in many sectors, but confidence that markets will expand remains frail and, consequently, higher profits have not led to a spurt in investment.

Large budget deficits have constrained many developed countries' ability to provide a fiscal boost to aggregate demand. The few actions taken by Governments have appeared to be a hesitant response to accumulated evidence that conditions were deteriorating rather than a conscious effort to anticipate events. The deregulation and globalization of financial markets have been eroding the ability of policy makers to control key parameters, as the turmoil in exchange markets in the second half of 1992 demonstrated.

In the international political sphere, some progress has been made towards resolving conflicts in southern Africa, Central America and the Middle East. However, localized conflicts have assumed major international importance, absorbed the attention of Governments and diverted resources from development needs. As a consequence, much of the optimism about the new opportunities for growth and investment opened up by the termination of the cold war has dissipated.

Nevertheless, there are encouraging features in the current state of affairs. Pressure on prices is abating and inflation has decelerated considerably, giving Governments increased room for action to deal with situations of economic stagnation. Labour productivity is growing again in some developing countries.

1. Recent trends and policies

World output increased by under 1% in 1992 after stagnating in 1991 (see table 1). For the third consecutive year, the increase in world output lagged behind world population growth. This trend is likely to persist in 1993.

Developed market economies, accounting for over 70% of world production, continued to be in serious economic difficulties, with output growing at a bare 1.5% in 1992 and unemployment continuing to rise. There were signs of a turn-about in certain Eastern European

[1] Extract of chapters I, [I, HI, IV, and V of *World Economic Survey 1993.* (E/1993/60; ST/ESA/237), New York, 1993. United Nations publication. Sales No. E.93.II.CI.

economies, but output plummeted in others as well as in the Russian Federation and the other successor States of the former Soviet Union. Output in the economies in transition as a whole is estimated to have declined 17% in 1992, after a 9% fall in 1991. In the developing countries, output increased by some 5%, which was a significant improvement over 1991, but there was a great v ariation in growth rates from country to country.

The number of unemployed in the developed market economies rose by 5.6 million from 1990 to 1992, reaching 28 million. It is projected that almost 30 million people will be unemployed in 1993, despite a second year of economic "recovery". This means that almost 8% of the active labour force is still without work in these economies, in many cases for long periods of time. In Australia, Canada, Denmark, Finland, France, Ireland, Italy, New Zealand, Spain and the United Kingdom of Great Britain and Northern Ireland, at least one in 10 workers was unemployed in 1992 and about the same or a higher proportion is expected in 1993. In Japan, where the unemployment rate has remained under 2.5%, largely because corporate strategies have generally eschewed layoffs during slow periods, several large firms announced layoffs and plant closures early in 1993. Even in the United States of America, where economic growth picked up in the second half of 1992, unemployment remained about 7% and has swollen the number of people collecting food stamps to 26.6 million, which is more than 10% of the population.

The industrialized countries are thus passing through a period of unusual economic difficulties. It has been made even more trying, however, because it comes at the end of a long period when the employment situation improved only very slowly, after the sharp deterioration of the early 1980s. Despite the resumption of GDP growth following the recession of 1982, job growth was held down by the structural adjustment of industry and the slow pace of the expansion of demand, as some developed market economies sought to curb inflation and inflationary expectations. And again, although GDP rose in 1992, the number of employed did not.

Moreover, with a weak labour market, real remunerations per employee in the member countries of the Organization for Economic Cooperation and Development (OECD) grew only 0.8% a year on average in the 1980s. It had averaged 2.1% per year during the period 1974-1979[4]

The difficult situation of workers in the 1980s was notas salient politically as itmightotherwise have been because real consumption levels grew more rapidly than remunerations did. To some degree this was made possible by growing official transfers, including social security payments to the elderly and unemployment benefits, which have been relatively generous in some countries. It was also the result of a major and irreversible social change, i.e., the entry of large numbers of women into the labour force and the increasing number of households with more than one wage-earner. It was also the result, however, of increases in household borrowing, collateralized largely by rising housing values. Now that housing and other asset prices have fallen and future income growth is more uncertain, that borrowing seems to have been excessive. Indeed, one main reason why the current economic situation in the industrialized countries has improved so slowly is that the growth of indebtedness has had to be reduced to a more sustainable level.

This situation of decline and uncertainty, exacerbated by the possibility of years of

This includes only developed market economies that are members of the Organization for Economic Cooperation and Development (the eastern *Lander* of Germany are not included).

" Food stamps are provided under a government programme to subsidize food purchases by the poor. The unemployed in the United States qualify for food stamps only after they have exhausted their savings and have been classified as poor (data supplied by United States Department of Agriculture).

Fol lowing the jump in oil prices, the rate of increase in real remunerations during the 1970s was less than one half the 4.4% rates recorded for the period 1966-1973 (breaking points between periods are set on the basis of economic growth cycles, according to OECD; calculations are based on estimated remunerations per employee in the business sectors of 21 OECD member countries as given in OECD, *Economic Outlook,* No. 52, Paris, OECD, December 1992, and on private consumption deflators taken from the United Nations database of national accounts).

continued high unemployment, have made it less likely that the recovery will strengthen. Households seem to share this assessment, as indicated by consumer confidence surveys. The fall in consumer confidence in Germany and Japan in 1992 as their economies weakened was quite natural, but the bouts of pessimism in 1992 in the economies that went into recession in 1991, particularly in Canada, the United Kingdom and the United States, were more than simple volatility, but instead reflected a continuation of a generally cautious attitude. This is significant, inasmuch as consumer spending makes up over 60% of total expenditure in the developed market economies.

The overall weakness of the developed market economies is also a reflection of the international character of the current business cycle. It is, for example, about as widespread as the previous cycle, but the troughs are far less deep. In the 1982 recession, the economies of five of the seven largest and 10 of the 17 smaller industrialized countries grew by less than 1.5% or declined; in the 1991 episode, again five of the largest but only seven of the smaller economies were in that situation. Because the slow-down was generally sharper in 1982, however, the pace of activity in the developed market economies as a whole exhibited zero growth in 1982, while it grew 0.7% in 1991. By the same token, the growth of output has been far weaker in 1992 than during the 1983 upswing (1.5% versus 2.6%). Growth trends were seen in fewer countries in 1992 -and the domestic momentum in those countries was itself quite weak- and thus there was little mutual reinforcement of growth through trade and financial flows.

As 1992 wore on, government leaders in the major countries increasingly began to look at fiscal and monetary means of stimulating their economies. Inflation fell in the course of the year to relatively low rates in several countries, and monetary restraints were eased. There also seemed to be room for a non-inflationary fiscal stimulus in some countries. Fiscal actions were accordingly taken or announced in 1992 in Japan, the United Kingdom and the United States and at the European Community Summit, but in each case the incentives were modest ones.

a) Trends in the developed economies

The recession in the United States, the world's largest economy, ended in March 1991, according to the committee of the National Bureau of Economic Research, which formally dates United States business cycles. Between that time and the end of 1992, the economy grew at a 2% annual rate, the weakest recovery on record. In contrast, the average annual rate of growth during the first seven quarters of the past five economic recoveries was 4.5%. Moreover, for the first time since the Second World War, the United States has been experiencing a recovery without significant job growth. Indeed, unemployment rose in 1992 in spite of increased production.

The pace of the recovery seems to have been related to a number of developments. First, the reactivation of consumer spending was relatively weak, although residential construction was spurred by sharply lower interest rates. Secondly, government expenditure acted as a curb on the recovery in 1992, as the federal government implemented cut-backs in military spending and as states and localities were forced to reduce their expenditures in the face of recession-induced revenue declines. Thirdly, following the depreciation of the dollar and a resumption of import growth in Latin America, surging United States exports helped ease the recession in 1991 and continued to prop up United States GDP growth in 1992. Prospects, however, are for this impulse to diminish as the European and Japanese economies slacken their pace. Finally, although investment has in general been weak, equipment purchases -especially computers, office technology and communications equipment- have been strong, as there has been a broad push to raise productivity in the business sector.

[5] In the case of the United States, the year-end rebound in confidence was followed by successively lower levels of consumer confidence in January, February and March 1993.

Fiscal policy as a whole, including revenue as well as expenditure effects, was slightly expansionary; i.e., the cyclically adjusted fiscal balance of general government deteriorated by 0.4% of GDP, which was about the same as in 1991 (OECD, *Economic Outlook, op. cit.,* p. 146). The actual 1992 deficit was equivalent to 4.7% of GDP.

More generally, many large United States enterprises have been rethinking corporate strategies and restructuring operations to regain a competitive edge. In an effort to reduce costs, payrolls in some large firms have been cut permanently and older factories have been closed. In the services sector as well as in manufacturing, productivity-consciousness has been on the rise. Indeed, labour productivity grew more rapidly in services in 1992 than in manufacturing, while hiring in services virtually stalled.[7]

If such productivity gains are sustained, there may be an increase in the potential long-term United States growth rate and, consequently, a more rapid improvement in the standard of living in the future. In addition, the small increases in unit labour costs associated with accelerated productivity growth could result in a long-term reduction in inflation. The difficulty at the moment is that with slow income growth, demand for the more efficiently produced goods and services does not grow enough. Thus, the new United States administration has proposed the establishment of a short-term fiscal incentive along with its programme to bring about the necessary medium-term reduction in the federal budget deficit. The appropriate size and timing of the stimulus, however, is still to be legislated.

In Japan, the world's second largest economy, rapid expansion had been so common that annual growth of less than 3 % came to be regarded with concern. However, in 1992 GDP fell for three quarters, leaving Japan in a state of outright recession (see table 2). Thus, although the Japanese economy grew by 1.3% for the year as a whole, it marked the end of one of the longest expansions in the post-war era.

The main source of the slow-down in Japan has been private domestic demand. In fact, private consumption actually fell for two quarters of 1992. Consumer confidence, which has been declining since 1990, hit a 10-year low, reflecting consumers' concern about future income and employment prospects. It also reflected the fall in household wealth owing to the decrease in real estate and stock-market prices and the high level of debt that households were carrying, as discussed below. Employment is being adjusted through such measures as reduction in overtime work, cuts in part-timers and the scaling down of new hiring, thus largely avoiding outright layoffs. Since Japan is facing a long-run labour shortage, while it is also reducing the length of the work week, everything possible will be done to avert layoffs. However, as the need for restructuring became acute, some signs of breaking with the tradition of lifetime contracts in large enterprises began to appear. Since these measures do reduce wage income and raise concern about the future -concern that clearly appears in the consumer confidence index-consumers are indeed restricting their spending.

In addition, investment in equipment, once a major contributor to growth, declined in the fourth quarter of 1992 for the fifth consecutive quarter on a seasonally adjusted basis, and overall investment plans for the first half of 1993 dropped 6% below the level reached in the second half of 1992. Current prospects for the growth of demand indicate that the private sector now has considerable idle capacity.

With the expansion of private consumption and investment thus expected to be tempered for some time, Japan's recovery depends on growth in three sectors: public expenditure, already bolstered by a fiscal incentive in 1992; private residential investment, also partly supported by government incentives; and the external sector. The prospective stimulus from the last factor, however, is not large, as world demand is weak and a ballooning Japanese trade surplus has already caused uneasiness among some policy makers both in Japan and abroad.

Much hinges, in other words, on government policy, which in 1992 was applied with great caution. Monetary policy was eased by means of several steps, albeit modest ones that seemed to follow the downturn in the economy rather than to counter it; but the sources of weakness in private demand do not seem very closely tied to credit conditions. The Government also sought to stem the decline in stock prices through increased purchases by official entities. The concern here

See United States Department of Labor, *Monthly Labor Review,* February 1993.
Economic Planning Agency of Japan, "Hojin kigyo dokochosa", February 1993.

was not only the dampening effect on business and household spending, but also the security of the banking system, which was using as reserves a portion of the capital gains earned on its own stock portfolios. A fiscal stimulus had been incorporated into the 1992/1993 budget, mainly by "front-loading" expenditure on public investment projects; but this served mainly to slow the deceleration in total demand. A supplementary fiscal package totalling over 2% of GDP was announced in August 1992, but it was not fully adopted until the end of the year.

If macroeconomic policy in Japan and the United States has been focused recently on designing a short-term fiscal stimulus, the main concern in Germany has been to bring down the government deficit that had been swollen by the cost of integrating the new *Lander* into the Federal Republic and pulling down the relatively rapid rate of inflation that the integration strategy had set in motion. Indeed, unlike the situation in Japan and the United States, the cyclically adjusted fiscal balance in Germany tightened in 1992[9] The main weapon thus far brought to bear in the battle against Germany's inflation, however, has been monetary tightening. The Deutsche Bundesbank raised its interest rates from February 1991 into the summer of 1992, when they reached the highest levels of the post-war era. Inflation has been slow to abate, but real output was negatively affected (see table 2).[10]

Output in western Germany first ceased to grow and then declined increasingly rapidly during 1992, pulled down by the high cost of borrowing occasioned by a stringent monetary policy. A major indirect circuit by which monetary tightness cut back on output was via a decline in exports -particularly of capital equipment- to weakened European economies that had to keep their own interest rates high to match the German rate moves. In addition, business confidence in partner countries was shaken by a currency crisis that spread across Europe in September.

The currency crisis arose out of the commitments of several European Governments -both fellow members of the European Community (EC) and its Exchange Rate Mechanism and other neighbouring countries- to maintain virtually fixed parities for their currencies against the German mark. Most European countries had entered 1992 with slowly growing or declining economies, high unemployment and descending rates of inflation. Indeed, by the end of the year, inflation in France had fallen to 2%, a 36-year low. With commitments for fiscal consolidation in many countries, monetary easing was the policy of choice to try to raise the level of economic activity. Nevertheless, in order to preserve exchange rate parities against the mark, these countries had to maintain short-term interest rates above those in Germany. The latter had come to set the floor below the interest rates of partner countries as financial markets became convinced that the mark would never be devalued against any of the others.

For a time, financial markets ignored the conflict between growth and employment priorities on the one hand and fixed exchange rates on the other. But by August, it seemed that the persistent recession in the United Kingdom would require a British policy response, and the pound began to fall against the mark. Speculators had begun to bet on a forthcoming devaluation. Italian budgetary difficulties and fears that inflation would ultimately force a lira devaluation also attracted the attention of speculators. By September, there had been several bouts of official intervention to defend the established parities of these currencies as well as statements and international meetings to bolster confidence. On 8 September, Finland floated the markka and speculators began to attack other currencies, in particular the Swedish krona. Sweden's central bank raised its marginal lending rate to 25%, then 75% and later to 500% in a battle that ultimately could not be won.

See OECD, *Economic Outlook, op. cit.,* p. 146.

[10] In eastern Germany, in contrast to the western part of the country, GDP grew in 1992 for the first time since reunification, despite continued weakness in manufacturing that was related in part to the loss of major export markets in Eastern Europe and the former Soviet Union. The 6.8% growth rate was largely a result of a surge in construction and other service sectors (see "The economic scene in Germany in winter 1992-1993", *Deutsche Bundesbank Monthly Report,* vol. 45, No. 2, February 1993).

By the end of September, the pound and the lira were cut free of their link to the mark. Italy was on its way to major budgetary reform and the United Kingdom would develop a fiscal stimulus package as well as reduce interest rates. By the end of January 1993, the Spanish peseta was devalued twice, the Portuguese escudo and Irish punt once, and Norway and Sweden abandoned their policies of pegging their currencies to the European currency unit (ECU), the composite European currency. None of these countries had been able to persuade the markets that high and rising interest rates would be sustained under recession, especially as these countries had to cope with high levels of private debt that had accumulated in the 1980s.

Along with speculative fever, a general business uncertainty seemed to pervade Western Europe. It even unsettled the franc-deutsche mark rate, which most in the market believed had not been fundamentally misaligned. Although that parity was maintained, the Banque de France spent FF 80 billion in one week in September in its defence, and interest rates had to be raised despite a weak economy. In the fourth quarter of 1992, slow economic growth in France turned into shrinking output (see table 2).

The year ended with a summit meeting of the European Community that, *inter alia,* adopted a growth initiative containing a modest EC expenditure package and a reaffirmation of the importance of economic growth. The Bundesbank raised its target growth rate for the German money supply for 1993, and German interest rates have indeed eased, if slightly and slowly, in the early months of the new year. However, the scope for further German interest rate reductions -and international pressures to enact them- clearly still existed.

b) **Difficult transitions to market economies**

The transformation from centrally planned to market economies and from closed to open political systems in eastern Europe and the successor States of the Soviet Union has been under way for several years, at least in some of these countries. All of them have undergone severe economic depressions and most have seen very high inflation and substantial unemployment without an adequate social safety net to cushion the loss of earnings. In 1992, at last, it seems that the corner may have been turned in three relatively swiftly-reforming countries in Eastern Europe: the former Czechoslovakia, Hungary and Poland. For the others, additional economic decline seems to still lie ahead.

Possible turning points in Eastern Europe

Although output decreased about as rapidly in 1992 as in 1991 in Bulgaria and Romania, the decline in output slowed (and on a month-to-month basis ended) in the three faster-reforming economies, giving a sense that their transition processes might soon lead into an expansionary phase. Indeed, the economies of Hungary and Poland are expected to grow in 1993.[12]

Industrial production in Eastern Europe followed a course similar, if more accentuated, to that of total output, while severe drought, policy uncertainties and an inadequate agricultural credit system combined to produce a very poor harvest and the lowest level of agricultural production in a decade across the region. In the faster-reforming countries, construction activity showed signs that the end of the recession might be near. After a long and severe decline associated with falling investment activity, construction expanded in Czechoslovakia and Poland in 1992, and in Hungary the decline in construction activity slowed.

The relatively more successful countries also shared certain features in the structure of the demand for their output in 1992. Thus, while domestic demand continued to drop, export volumes grew. Although Czechoslovakia's trade had earlier been oriented more towards Eastern European and Soviet trade partners, by 1992 its trade structure approached that of Hungary and

Quantitative data on these and other economic areas from several of the economies in transition must be interpreted with great caution as national statistical systems and data collection remain in flux.

[1] Since the division of Czechoslovakia on 1 January 1993, reforms appear to be moving ahead more swiftly in the Czech Republic than in Slovakia. None the less, GDP is expected to shrink in both republics in 1993 owing to the economic turmoil caused by the separation.

Poland, which had earlier built up exports to the developed market economies. In each case, roughly two thirds of shipments are now made to those economies, about half that to the European Community.

Investment still remains depressed throughout the region, however. In Poland, though investment stopped declining in 1992, gross capital formation was still at four fifths of its 1988 peak. In Hungary, the decline in investment had been much steeper; its gross capital formation in 1992 was about three quarters of the 1989 level. Czechoslovakia's recession began only in 1991, but investment experienced an even faster decline, with the level in 1992 at about 70% of the 1990 level. The investment situation was far worse, however, in Romania: after three years of severe contraction, investment dropped an additional 20% in 1992, bringing it to only one third of the published level for 1988.

The degree of social upheaval brought on by the transition is not adequately captured by economic statistics, but they do give an indication of the changes that are under way. Thus, in a region in which unemployment was once quite unusual, millions are unemployed and three Governments are now reporting double-digit unemployment rates (see table 3). One country in which this is not the case is the former Czechoslovakia, where unemployment fell from 6.6% ofthe labour force in 1991 to5.1%inl992, although the low unemployment was restricted to the Czech Republic, which ended the year with a 2.5% rate. In Slovakia, the unemployment rate was 10.2% at that time. Bulgaria had the highest unemployment rate in Eastern Europe in 1992, overtaking Poland, which had the highest rate in 1991.

Unemployment in Poland reached 13.6% in September 1992, which was also the rate at the end of the year, although it is expected to rise again in 1993. In Hungary, 12% of the labour force was unemployed at the end of 1992 and the rate was expected to rise further this year, albeit at a slower rate.

When most of these economies were centrally planned, demand/supply imbalances at the consumer level resulted in various forms of rationing. High inflation was an unusual phenomenon; but it soared everywhere in the region once the transition process began (see table 3).[13]

In all the Eastern European countries except Albania and Romania, however, inflation declined in 1992. In the former Czechoslovakia, after a large price adjustment in early 1991, inflation slowed under the effects of a tight monetary policy. Thus, although consumer prices rose 58% on average in 1991, there was only an 11% increase in 1992. Nevertheless, inflation began to rise again in the early months of 1993 in both successor States, in part as a result of the introduction of a value-added tax and possibly its abuse by companies and traders who raised prices by more than the amount of the tax.

Eastern European experiences in the transition process

The fundamental business of economic transition is introducing and spreading all the necessary institutions of a market economy. The centrepiece is the enterprise -whether farm, factory or service provider- that makes decisions about what to produce, how to produce it and where to sell it, and that negotiates with workers over wages, with financial institutions over credit, with suppliers over inputs and buyers over outputs. The enterprise is responsible for all these decisions and more, and it is normally rewarded with profits if it makes good decisions and with losses -and ultimately bankruptcy- if it makes poor ones. The enterprise needs an appropriate ownership structure, a system of corporate governance and a process for transferring ownership. A market economy also needs an adequate legal system to define and enforce contracts, which are the formalization of all decisions, as well as defining and enforcing property rights themselves. It needs a financial system that can allocate credit appropriately, as

In Eastern Europe consumer prices rose much faster than producer prices did, and a considerable spread has opened up between the two price indexes. The reasons for this differential are the reduction of government subsidies for consumer goods, the introduction of value-added taxes and increases in the supply and selection of consumer goods and of consumer retail sales services.

[14] It is convenient, but not essential, for participation in ownership to be liquid, i.e., for there to be a formal market for share in corporate equity.

well as provide a proper range of credit instruments. It needs a Government that can oversee market activities, define acceptable standards of market behaviour, prevent some abuses and correct others, foster competition and provide public goods. It also needs some intangible factors, such as a presumption of self-reliance and personal initiative and a shared perception that the inequities of society will be limited. Almost all of these institutional requirements of a market economy had to be created anew in Eastern Europe.

As if creating the institutions of a market economy were not difficult enough, the transition process began (or earlier reform efforts ended) with policies that led to rapid inflation and disturbances in government budgets. Institution building had to be done at the same time as economic stabilization.

In a number of cases of very high inflation in market economies, an approach to macroeconomic stabilization known as "shock therapy" was applied, wherein mushrooming budget deficits were sharply cut back, domestic prices and imports liberalized, the exchange rate devalued and interest rates stepped up while the growth of the money supply was quickly reduced. The purpose of the shock was to squeeze inflationary expectations out of the economy, while reducing the economic -as opposed to administrative- ability to raise prices. As far as reducing inflation was concerned, especially in instances where it was very high, the treatment worked. However, it could not by itself address the important social and economic pressures and structural inadequacies that led the Governments to create conditions of high inflation in the first place. Such a shock therapy was vigorously applied in Poland, where near hyperinflationary price increases were halted by 1991; however, inflation was still 43% in 1992, with no growth in output.

The notion of shock therapy was also extended into a strategy for the transition itself, although it focused mainly on changing the ownership structure of property. Perhaps the idea here was to push privatization quickly and keep potential opponents off balance. But it is clearer today that all policies for the main institutional components of transition, let alone stabilization, need to be considered simultaneously and that the requisite policy package might not entail a generalized "shock" approach. Indeed, some forms of privatization usually cannot be done quickly. In particular, if a high level of foreign debt essentially restricts foreign capital inflows to aid or direct investment or if access is sought to advanced technology and management, a Government may seek to sell some State enterprises to foreign investors. Even when market economies do sell State enterprises, the process is generally a lengthy one.

The countries in the midst of transition began their transformation process with differing degrees of market orientation -within their basically planned systems- and different stocks of management skills and entrepreneurial spirit, both at home and in émigré communities that might consider local investment. Hungary, in particular, was in a unique situation on the eve of its transition. As a result of earlier market-oriented reforms, Hungary could opt for a gradualist approach and try to avoid (albeit unsuccessfully) the steep decline in economic activity that was experienced by, say, Poland, which sought to follow a shock-therapy strategy.

Despite all the controversy about shock therapy or a gradualist approach to transition, the pace of the reforms in the three faster-reforming economies has been quite similar. The share of the private sector, for example, is increasing relatively quickly in all three countries. Besides the various privatization programmes, large numbers of small businesses are continually being established.

Poland is the most advanced on this score. Its private sector produced about 45% of GDP in 1992, owing in part to the importance of agriculture, which has traditionally been private, but also as a result of the successful "small privatization" programme under which the Government sold or licensed small-scale retail

Privatization programmes have been progressing in the other Eastern European countries as well. For example, in Romania, large proportions of the retail trade and services sector have been placed in private hands through State asset sales.

trade and a large part of consumer services. Small, foreign-owned companies have also been burgeoning in the country.

In Hungary, the proportion of private-sector output was smaller than in Poland, although Hungary has advanced much further in privatizing medium-sized and large companies. The transformation of agriculture has not been completed and the extent of privatization in retail trade has been slowed by the local government councils that own the land on which State-owned properties that are to be privatized are situated.

In the former Czechoslovakia, the programme to foster small-scale private enterprise was successfully completed, although the firms generally operate on property leased from the State, while ownership reform in agriculture was stalled. The 1992 wave of privatizations, involving almost 1,500 companies, is slated to be completed this year; in other words, corporate shares were priced in 1992 and are to be distributed and to be made available for trading in 1993. In future, privatizations will be conducted separately in the Czech Republic and Slovakia.

It seems from the experience thus far, in other words, that macroeconomic stabilization and institutional transformation are closely linked and that some measures in one area are prerequisites, or that some measures need to be adopted simultaneously in both, in order for policies to be effective in the other. For example, at this point all the transitional economies have learned that tight monetary control will not have the desired effects in terms of inflation reduction if firms can evade controls by in effect creating their own credit instruments in the form of arrears. Hungary was the first transitional economy to experience widespread non-payment on the part of State enterprises after tightening its monetary policy. Non-performing assets may be a general feature of market economies, especially in recessionary periods, but not on the scale seen in the transitional economies. In Hungary, the bankruptcy law that began to be enforced in 1992 brought the first signs that the practice could be curbed, as the stock of unpaid obligations began to decline [19]

Successor states of the Soviet Union: one year later

The Soviet Union had been a highly centralized economy and polity, with most important and even many secondary decisions being made in Moscow. By 1 January 1992, 15 independent successor republics had become fully responsible for their own governance and for designing and implementing their own economic programmes. Some of them -the Russian Federation and the three Baltic States- took substantial, if not always sustained, steps towards a new economic model, while others adopted more gradualist and, in some cases, hesitant approaches. The scope, tempo and sequence of reforms in each country in the more rapidly reforming group were different, as were the degrees of circumspection, reluctance and, in some cases, even retreat in the others.

All the successor States nevertheless shared two important features in 1992: their economies contracted sharply and inflation spiraled out of control. Although quantitative data for some of the republics are extremely patchy and open to interpretation and challenge, it does seem that aggregate output fell in 1992 by as much as 20% or more in a large majority of cases (see table 4). The declines were very steep in the Baltics and the Russian Federation and were the smallest in Belarus, Kazakhstan, Turkmenistan and Uzbekistan, where the Governments retained State control over the economy. It is unclear at this stage whether they have merely postponed sharper declines, or whether they may learn from the more rapid reformers and avoid some of their

See R. Frydman, A. Rapaczyski and J. S. Earle (eds.), *The Privatization Process in Central Europe,* Budapest, Central European University Press, 1993, pp. 201-202; and for the latest data, *Heti Világgazdaság,* Budapest, 13 March 1993.

The plan has three stages: first, the population received vouchers to be used to buy shares in State enterprises that were being privatized; then people (or mutual funds to which they transferred their shares) bid on the firms at a sequence of auctions until share prices were determined; in the third stage, which is yet to be completed, the shares are to be distributed.

[18] For example, the stock of arrears in Czechoslovakia was estimated to have exceeded 25% of GDP (EKONOM, Prague, 23-29 October 1992, citing a study by the Czechoslovak Statistical Office).

[19] See István Abel and Pierre Si klós, "Constraints on Enterprise Liquidity and its Impact on the Monetary Sector in Hungary", Budapest University of Economics, December 1992.

pitfalls. It is clear, however, that the armed regional or ethnic conflicts in Armenia, Azerbaijan, Georgia, Moldova and Tajikistan have been economically costly as well as a tragedy in terms of human life lost.

The 1992 drop in output was quite severe in the Russian Federation, which remains a focus of international attention because of its economic size and strategic importance for global security. The rate of decline was very uneven during the year. Compared to the previous quarter, industrial production fell 5.3% in the first quarter of 1992, and almost 20% in the third quarter, but was almost stable during the second and fourth quarters. Inflation was extraordinarily high: retail prices of consumer goods and services in December 1992 were 26 times higher than those of a year before. In January 1993, the monthly inflation rate was close to 30%.

The decrease in output was spread widely among regions of the country and production sectors in the economy. Output fell by 20% or more for non-ferrous metals, electronics, light industry, chemicals, petrochemicals and petroleum extraction. Production fell 9% in agriculture, with meat and dairy shortfalls holding down output in the food industry as well, and by 37% in construction. Capital investment declined by nearly 50%. Not surprisingly, given the state of confusion and uncertainty about economic output and policy trends that came to characterize 1992, enterprises were mostly unwilling to commit whatever resources they had to new investments.

The steep decrease in output and the surge in inflation were reflected in a drop of more than 50% in average real wages in the 12 months to December 1992, according to official measurements. Real incomes did not fall as much, however, since surveys find that nearly half of the working population of the country now holds more than one job, often in the growing non-State and informal sectors, which are not reported in official data.[21] The fact that people found it imperative to take those extra jobs, however, suggests a high degree of economic dislocation in 1992.

Thepressureon wage-earners was reflected in consumer spending patterns: on average almost 50% of household expenditure was for food in 1992, compared to less than 40% a year earlier. To mitigate such hardships, many employers provided additional income to their personnel in the form of payments in kind, partial reimbursements of the cost of food, transportation, recreation and medicine. This form of support grew substantially from the beginning of 1992 on, and by October was amounting to almost 7% of the average wage. Nevertheless, during 1992 consumption of meat, fish, milk, sugar and fruit fell by between 13% and 19%.

As of November, over 28% of the Russian population was living in households with per capita incomes below the subsistence level that the Ministry of Labour has begun to report.[22]

This may be expected to increase in 1993 since unemployment, which remained below 1% of the labour force in 1992, is certain to grow as new bankruptcy legislation comes into force. It was, in effect, a social policy of the Soviet Union for enterprises to carry excessive staff, including in the skilled and professional categories. This is no longer sustainable. Even now over 11% of industrial workers in Russia are on part-time schedules. Starting in the autumn, the number of job openings was smaller than the total number of unemployed for the first time. Almost 90% of the vacancies were in low-paid menial jobs, while more than half of the unemployed have college or vocational school degrees and over 70% are women.

At least some of the decline in industrial output may be attributed to welcome changes in production structure, with conversion of military facilities to civilian use being a prime example. According to *Goskomstat data,* the military-industrial complex was expected to cut its enterprises' military production in half during 1992, with civilian manufacturing in the same facilities increasing only 9%.

Moreover, real wages in the Soviet Union had risen substantially in the period 1988-1990 without a concomitant increase in living standards. Goods at official prices were in short supply and people spent inordinate amounts of time in queues or paid extra to obtain whatever was available. Thus, the 1992 fall in measurements of real wages overstates the actual decline in living standards (see also David Lipton and Jeffrey D. Sachs, "Prospects for Russia's economic reforms", *Brookings Papers on Economic Activity,* No. *2,* 1992, pp. 213-283).

[22] *O razvitii ekonomicheskikh reform v Rossiyskoy Federatsii,* Moscow, *Goskomstat,* December 1992, p. 29.

Another dramatic indicator of the impact of the difficult situation in the Russian Federation was that for the first time since the end of the Second World War, the size of the population fell. The 1.4% decline was due to an 11% drop in the number of births, as many families postponed child-bearing, and a 5% rise in mortality. Some of the most revealing indicators of this social trauma are the rapidly growing causes of death: for the first 10 months of 1992, the number of murders rose 15% over the comparable period in 1991; deaths from alcohol abuse rose 38%, and from suicide 41 %, according to *Goskomstat.* The crime rate increased 27% in 1992, with almost 60% of all registered crimes being theft of property.

c) **Developing countries: uneven growth**

The average rate of growth of all developing countries, which had stalled at 3.5% during the three previous years, improved to nearly 5% in 1992. Almost half of the population of developing nations was located in countries that grew by more than 5% in 1992. China weighs heavily in this figure, but 26 other countries were also in that grouping. Excluding China, about 26% of the population was in the faster growing range, up from 22% in 1991. On the other hand, about 18% of the population of the developing countries, or 535 million people, were in countries that experienced no growth at all or a fall in output.

The acceleration in growth was the net result of very divergent trends. Three countries (Chile, China and Kuwait) expanded more than 10%, while countries at the other extreme (Somalia, which was weighed down by its made-made disaster, and the former Yugoslavia) declined by more than 10%. Factors that helped to boost the average growth rate of developing countries included the boom in China and the rebuilding of western Asia. The successful Asian exporters of manufactures were not entirely unscathed by the recession in the developed countries: South and East Asia, after the marked deceleration from 6.4% to 5.3% in 1991, reduced its pace again, with growth below 5% in 1992, the slowest in seven years. Pushing the average downward was Latin America, which, after the modest recovery of 1991, decelerated again to 2.2%[23] in 1992, a rate explained mainly by stagflation in Brazil but also by some slow-down in Mexico.

Africa: the decline continues

In Africa, output grew by about 1.5% in 1992 following a similar rate of growth in 1991. Per capita output declined once again, as it has almost every year since the early 1980s. Output in northern Africa is estimated to have grown by 1.6% in 1992 owing mainly to increased oil production, increased tourism and workers' remittances following the end of the Gulf crisis, and a rise in foreign direct investment into oil and gas and tourism. In sub-Saharan Africa, the record was far worse. Affected by drought, political crisis and civil strife, output in the region barely grew while human suffering increased. In Somalia an estimated 300,000 people have died of starvation and diseases caused by it, brought on by civil war. Drought affected eastern and southern Africa and Morocco. Cereal output declined by more than 50% in 1992 in Botswana, Lesotho, Malawi, Mozambique, South Africa, Swaziland and Zambia, and by more than 70% in Namibia and Zimbabwe. Early and massive measures by Governments and the international community have prevented large-scale famine. Nevertheless, severe food shortages existed among refugees and drought-affected and displaced persons in Kenya and Malawi (where the number of refugees has almost reached 1 million), Mozambique, strife-affected Angola, Liberia, Rwanda and Sierra Leone, and drought- and strife-affected Ethiopia and the Sudan, and in urban areas in Zaire. The food situation was tight in Mauritania.

The drought increased pressure on the balance of payments, owing to higher food imports and lower exports, and on fiscal budgets, as a result of the relief programmes implemented. Export crops were in general less affected by the drought

[23] This rate differs from the 3% figure yielded by the regional series calculated by ECLAC due to differences in weighting and to the fact that those series incorporate revisions made after the estimates were prepared.

[24] Although classified by the *World Economic Survey* as a developed market economy, South Africa is discussed as part of the African region. The aggregate figures for Africa do not include data for South Africa, however.

than food crops because export crops are grown in areas that received more rainfall or were irrigated, or because they are more drought-resistant (e.g., cotton and tobacco). Tobacco output increased in Malawi and Zimbabwe, but quality was lower owing to the drought. Moreover, as water became scarce and grazing conditions worsened on many pastures, farmers sold cattle, often at depressed prices, leading to increased beef production, as in Botswana, Namibia and Zimbabwe. Drought hit not only agriculture but also industries processing agricultural products and other manufactures, either because water-generated electricity became more expensive and there was a shortage of water for use in production processes requiring it, or because the lack of water (and food) had a negative effect on the productivity of the labour force. Industry in Zimbabwe was particularly affected by power shortages and a reduction in agricultural inputs.

Drought-induced food scarcity contributed to increased inflation, combined in some cases with price liberalization, changes in taxes, devaluation, wage increases or excessive money creation. The combination was different from country to country, but inflation increased in 1992 in a large number of countries (Algeria, Angola, Botswana, Guinea, Kenya, Malawi, Mauritania, Mozambique, Namibia, Nigeria, Uganda, Zaire, Zambia and Zimbabwe). Inflationary pressure eased in Egypt, Ghana, Mauritius and Tunisia and remained low in members of the franc zone. South Africa's inflation fell to its lowest level in 14 years and is now below 10%.

*The Mediterranean: **war** in the former Yugoslavia*

Despite the acceleration of growth in Turkey to over 5% and high rates of growth in Cyprus and Malta, the region's GDP declined by about 5% in 1992, following the sharp fall of 1991. The reason was the devastation caused by the war in the former Yugoslavia.[25] The economies of the newly independent republics collapsed with the war and the rupture of the trade linkages that existed within the former Yugoslavia.

Domestic output in Croatia fell again, by some 20% in 1992, the unemployment rate rose above 8% and inflation accelerated to about 25% per month in the second half of 1992.

The once prosperous Slovenia has been hit hard by the loss of most of its markets in the former Yugoslavia. Slovenia's trade with Croatia -its biggest single trading partner- fell by 50%, and efforts to revive trade with Serbia were undermined by the war and United Nations sanctions. The Bosnian market has also been mostly lost. Industrial output fell 16% and most industries were operating below capacity owing to shortages of spare parts and raw materials. Unemployment has reached 15% of the labour force. Restrictive monetary policy succeeded in reducing monthly inflation to 1% or 2% during the latter part of 1992, but it was 200% for the year as a whole.

In the Federal Republic of Yugoslavia (i.e., Serbia and Montenegro), prices escalated to hyperinflationary levels (estimated at an annualized rate of about 20,000% by the end of 1992) as government spending on the war was mainly financed by printing money. Perhaps more than 750,000 people are unemployed. Social tension mounted and several strikes occurred during the year. The economy has been seriously damaged, but it is difficult to put a figure on that damage.

The other Mediterranean economies, by contrast, grew vigourously in 1992. Cyprus and Malta benefited from a strong expansion in tourism, contributing to over 6% GDP growth. Turkey, the largest economy in this group, recovered from the aftermath of the Gulf war and near stagnation of 1991. GDP growth of over 5% originated mainly in the manufacturing sector. The country still has not come to grips with high inflation and budget deficits financed by the Central Bank, however. Inflation accelerated to about 70% in 1992. The privatization process, one of whose aims is to

[25] The former Yugoslavia includes the Federal Republic of Yugoslavia (Serbia and Montenegro), Bosnia and Herzegovina, Croatia, Slovenia and the former Yugoslav Republic of Macedonia.

[26] See United Nations, *World Economic Survey, 1992,* (E/1992/40/; ST/ESA/231), New York, 1992, United Nations publication, Sales No. E.90.II.C, p. 45.

ease pressure on the budget, has continued, and fiscal reform has been announced.

West Asia: recovery under way

For the first time in a decade, output in West Asia increased significantly in 1992, with real GDP growth estimated at over 6%. Output increased in almost all countries of the region. Much of the economic revival was due to a sharp increase in oil production in Kuwait after the precipitous decline of previous years, but production also increased in other countries, though at a slower pace than in 1991. Manufacturing output -mainly refining,[27] petrochemicals and aluminium- also rose. The post-war reconstruction programme in Kuwait, together with expanding infrastructural and industrial projects in several countries, brought about a strong recovery in the construction sector. There was also a surge in banking activities.
controlled agencies and corporations have also been allowed to go to the market to raise funds. Preliminary figures indicate that in 1992 most of the banks in the region reported increased profits. Improved weather conditions resulted in record harvests in some countries. The overall economic recovery may, however, turn out to be fragile if the fiscal and balance-of-payments constraints that many of these countries face are not addressed and the political tension that exists in a number of areas is not diffused.

Fiscal policy in 1992 was expansionary in almost all countries in the region. Current spending increased sharply. In most countries, defence expenditure was the fastest growing item and accounted for the lion's share of government outlays.[29] Development spending also rose significantly, in particular investment in infrastructure, including large projects to deal with water shortages. Government revenues, however, rose only moderately, thus contributing to mounting budget deficits in many countries.

Expansionary fiscal policies led to rising inflation, especially in the Islamic Republic of Iran, Iraq and thé Syrian Arab Republic. Consumer prices increased by more than 1,000% in Iraq and about 25% in the Islamic Republic of Iran and in the Syrian Arab Republic. Inflation persisted in the net energy-importing countries of the region.

The private sector in most of the energy-exporting countries continues to rely heavily on foreign labour. The public sector, where nationals prefer to work, is facing increased difficulties in absorbing university graduates and others entering the labour market, and thus unemployment among nationals has been rising. In late 1992 most countries announced new programmes under which private companies are to receive financial compensation for hiring nationals.

The region's current account has been in deficit since 1983, and 1992 was not an exception. The region's oil exports rose only slightly. With almost unchanged prices, there was only a small increase in export earnings. Non-oil exports -mainly aluminium and petrochemicals- continued to decline owing to lower prices. Meanwhile, import demand rose much faster, reflecting higher defence spending and accelerated diversification policies which brought more capital and intermediate goods to the region. Investment income (interest and dividends received) declined with the fall of

Preliminary figures indicate that output of petrochemicals in the Islamic Republic of Iran and Saudi Arabia -the largest producers in the region- increased in real terms by 8% and 6%, respectively.

[2] The rise in banking activities is mainly due to the fact that some countries in the region which had used reserves and external borrowing to finance fiscal deficits turned to local banks in 1992. In addition, for the first time major government-

Defence outlays in Kuwait alone more than quadrupled in 1992 and its share in total government expenditure stood at 43%. The share in Saudi Arabia was 30%, 34% in Oman, 37% in the Islamic Republic of Iran, and between 20% and 30% in the remaining countries. The high defence spending ratio in the region reflects the unprecedented rise of manpower in the armies and increased weapons purchases.

All countries in the region faced fiscal deficits in 1992 and most of them (except Saudi Arabia, Jordan and Yemen) widened those deficits. In the case of Saudi Arabia, the dimension of the deficit is unclear. In 1992, major State ventures in the Kingdom were allowed to raise loans from domestic sources. Since the Government has traditionally funded them directly, there is an argument that the 1992 deficit could be much larger than is indicated by the statistics. The fiscal deficit ratio to GDP was 25% in Kuwait, 7% in Saudi Arabia, 7% in Oman (against a surplus of 6.6% in 1991) and 5% in Qatar (against a 2% surplus in 1991).

It seems that private enterprises prefer the flexibility gained by hiring foreigners, and nationals reject them for lack of social security legislation and other protection or benefits. In 1992, for instance, wage rates in the private sector for many immigrants were reduced by one third.

international interest rates and adversely affected earnings from the large volume of foreign assets held by the major oil-producing countries of the region. Unrequited private transfer outflows (essentially labour remittances) continued to be large in the net energy-exporting countries despite some reduction in wage rates for immigrants.

The sluggish world demand for crude oil and overproduction continue to put pressure on the balance of payments of the region. The trade surplus of the region declined from more than US$ 100 billion in 1980 to US$ 2.7 billion in 1986, with occasional small improvements thereafter, particularly in 1991, when the trade surplus reached about US$ 20 billion. Since services and unrequited transfer accounts (mainly labour remittances) were always in deficit, the erosion of the trade balance led to a persistent current account deficit, which reached US$ 31 billion in 1991, with a smaller deficit in 1992. The large capital-surplus status of the region in the 1970s and early 1980s was dramatically reversed.

South and East Asia: slower expansion

South and East Asia, with its high concentration of successful exporters of manufactures, was not entirely immune to the world recession, even though the deceleration of growth in the region cannot be ascribed directly and entirely to the slight slow-down of its export growth in 1992. On the whole, growth rates of the region slowed down to below 5%, from 5.3% in 1991. The deceleration was concentrated in the first generation of newly industrialized economies (NIEs) -Hong Kong, the Republic of Korea, Singapore and the Chinese province of Taiwan- the four mature "Asian tigers". Together, they lost almost two percentage points, growing at 5.4%, compared with 7.3% in 1991. The second generation of NIEs -Indonesia, Malaysia and Thailand- almost kept up its pace, growing at 7.1%, compared to 7.5% the year before. India made a modest recovery in 1992, after a 2% growth rate in 1991, its lowest since 1979. The rest of the countries in South and East Asia, taken together, kept up an average growth rate near 4%, and have not changed much since 1989. The growth rates varied widely, however, in this last group.

The strongest deceleration occurred in the largest of the NIEs, the Republic of Korea, which experienced its slowest growth in 12 years. It was, however, largely policy-induced, i.e., brought about by restrictive fiscal and monetary policies aimed at reducing double-digit inflation and at containing the rapid expansion of its current account deficit. Permits for residential construction were almost frozen and construction of new commercial buildings was virtually stopped. The policy package brought down inflation to 6% in 1992, half the level of the previous year, and almost halved the current account deficit to US$5 billion. There was virtually no growth in investment, and GDP growth slowed to 4.7% from 8.4% in the previous year. In the Chinese province of Taiwan, economic growth slowed with a decline in export growth that reduced its trade surplus to an eight-year low of US$ 10 billion, while in Singapore limits to growth are being set by constraints in the domestic supply of labour and land, in spite of the relocation of labour-intensive industries to neighbouring countries, in particular Indonesia's Batam Island and the Malaysian State of Johore. The currencies of Hong Kong, the Chinese province of Taiwan and Singapore appreciated against the dollar, which contributed to slower growth of exports. Hong Kong was the exception among the NIEs in 1992, and its growth accelerated by almost one percentage point, to 5%. Its economy benefited from the economic boom in the southern provinces of China, in particular Guangdong, the province closest to it. About two thirds of China's exports to the United States are conducted via Hong Kong, and it is also prospering as the middleman between China and the Chinese province of Taiwan in channelling trade and investment. Such linkages were reflected in its 1992 export performance, since re-exports of goods from Hong Kong increased by about 30%, while domestic exports rose by only 1.5%.

United Nations, *Survey of Economic and Social Developments in the ESCWA Region in the 1980s* (E/ESCWA/DPD/89/5), New York, 1989, table 6.1, p. 98.

[33] The current account has registered a US$ 23 billion change over the past three years in the Republ ic of Korea, from a surplus of US$ 14 billion in 1988 to a deficit of US$ 8.8 billion in 1991.

Continuing a trend observed since 1988, the second generation of Asian NIEs remained at the top of the growth league for the region, with a rate of growth above 7%. Investment ratios have remained high, at above one third of GDP, although the pace at which investment expanded did slow down somewhat in 1991 and 1992. In the last years, these countries have increasingly received capital from the Asian NIEs, in an industrial restructuring process in which the latter, having moved up the industrial ladder towards a mature industrial structure at home, are relocating to the second generation of NIEs (and also to China and the countries of "greater Indochina", and more recently to the Asian republics of the former Soviet Union) industrial activities that are more labour-intensive and often are at the lower end of the technological spectrum. In all three, industry has been the driving force, and it remained so in 1992, with rates of growth that were far higher than those in agriculture or in services. Although foreign direct investment from the United States is still an important component of the accumulated stock, in recent years the largest share of foreign direct investment in Indonesia, Malaysia and Thailand has come from the Asian NIEs.

In this group, too, there was a slight deceleration. Indonesia maintained its 6.5% growth rate despite brakes on monetary expansion and a cautionary fiscal policy that reduced consumer price inflation from almost 10% to 5%. Growth was led by 11% growth in the industrial sector, supported by a 12% increase in manufacture exports, the bulk of which went to Asian markets. Gross domestic investment grew at a slower pace in 1992 (about 5.5%), partly owing to high domestic interest rates. In Malaysia, a slight deceleration to 8%, from 8.8% in 1991, derived mainly from the slow-down in export-oriented industries, in particular machinery, electrical and electronics sectors, partly owing to currency appreciation. The strong expansion in manufacturing (about 13%) was sustained by the domestic-oriented industries. Fiscal and monetary policies were on the cautious side. In Thailand, economic activity slowed down, mainly as the result of stabilization policies in reaction to the acceleration of inflation that accompanied double-digit growth before the Gulf crisis. The May 1992 political crisis delayed some private investment and affected tourism.

The Indian economy recovered in 1992 from the marked slow-down of 1991. GDP growth was about 3%, up from 2% the year before. At the same time, macroeconomic balance was beginning to be restored. A tight fiscal and monetary policy combined with rapid import liberalization and a good monsoon season resulted in a rapid fall in inflation rates. From its peak of a 17% annual rate reached in August 1991, inflation was reduced to an average rate of 9% in 1992, and by the end of the third quarter of 1992 had fallen to an annual rate of less than 7%. At the origin of the acceleration in inflation in 1991 were the balance-of-payments difficulties that had become acute in 1990 in the wake of the Gulf crisis, and a higher oil import bill. Foreign reserves at the end of 1990 had already reached a level insufficient to cover even one month's imports, and they were even lower by the end of the second quarter of 1991. To face the widening balance-of-payments gap, the Government sharply cut imports, which contributed not only to the slow-down but also to rising prices in 1991. To cope with inflation, austerity measures were introduced in the last quarter of 1991 and a process of trade liberalization was started. In 1992, the budget deficit was reduced to 4.9% of GDP because of tax increases, but an even more influential factor was the cuts made in expenditure. Major subsidies were cut by about 16%; fertilizer subsidies were reduced by 30%.

Regulations for industry were relaxed. For example, many of the previous requirements that had to be met to obtain government permission to set up industries were eliminated. Quantitative restrictions to imports were virtually abolished and tariffs were reduced, leading to a degree of import liberalization unprecedented in India. Imports increased almost 20%, not only because of the relaxation of constraints, but also because of the generally higher level of economic activity. Total exports lagged (with only 3% to

In 1991, the four Asian NIES invested over US$ 3 billion in >neôia, Malaysia and Thailand, while United States investment was about US$ 500 million, Europe's was about US$ 1.4 billion Japan's about US$ 1.6 billion (based on Merrill-Lynch, *Asian Economic Commentary,* May 1992).

4% growth), however, as sales to the former Soviet Union, India's largest trading partner, plunged 50% for the second year in a row. Hard currency exports, however, rose 10%, helped by the rupee devaluation. Debt service on the country's US$ 75 billion external debt has, however, begun to consume over 30% of export earnings.

Altogether, the current account deficit, which had been reduced in 1991 with a sharp fall of imports in that year, started to increase again in 1992. Stabilization efforts require an increase in imports to help contain prices in the domestic market, but the trade-off is a worsening of the current account. In support of its balance of payments, India increased its use of IMF credit, through a stand-by facility of US$ 2.2 billion approved in October 1991. Foreign direct investment recovered from the strong decline of 1991. Foreign exchange reserves had recovered by the end of 1992 to a level sufficient to cover four months of imports.

Building on its success in controlling inflation and the strong reduction obtained in the budget deficit in 1992, the Government has proposed an expansion of the budget starting in April 1993. On the one hand, this includes cuts in taxes such as customs and excise duties, tax holidays for new power plants and a reduction in the short-term capital-gains taxes on foreign investors in India's stock markets. On the other hand, public investment is to go up, with emphasis on infrastructure, and spending on anti-poverty programmes is also to increase. The expectation is that a reduction in budget support to State enterprises will keep the budget deficit within limits. A dual exchange rate system was replaced by a unified market-determined single rate for the trade account, which represented a de facto depreciation that is expected to help exports. The sustainability of growth and stabilization hinges on capital inflows sufficient to compensate for the widening trade and current account deficits.

The other economies in South and East Asia had mixed performances but achieved rates between 3% and 6%, with the exception of the Philippines, which has registered barely any growth at all in the past two years. Viet Nam continued to reap good results from its economic reforms (or *doi moi).* In 1992, the national economy grew by 5.3%, up from 4% in 1991. Industry has led the expansion (with a rate of 15%). Despite unfavourable weather conditions, agriculture grew by over 4%, enabling Viet Nam to increase its rice exports by 30% over the level of 1991. This, combined with crude oil exports, helped turn the trade balance into a surplus (of US$ 75 million) for the first time in over 40 years. Although the United States economic embargo remained in place, other countries have started resuming their ties with Viet Nam. Foreign direct investment in the country is estimated to have increased by over 70% during 1992. The Chinese province of Taiwan and Hong Kong are the leading investors, and together with other Asian countries including Japan, account for more than half of total foreign direct investment, suggesting that Viet Nam might become another link in the emerging intra-Asia growth circle.

One typical feature of countries in South and East Asia, in particular the old and the new NIEs, has been a high investment ratio during the 1980s (about or even above 30%), far higher than rates in Latin America or in Africa in the same decade. Another characteristic has been their high share in foreign direct investment flows, and the way in which this investment has moved from one country group to another, helping both to develop and to respond to certain patterns of industrialization, and the corresponding change in their trade structure -a phenomenon that various analysts have described as the formation of a number of regional sub-zones, each one with a centre providing technological, financial and marketing services linked to an area with more abundant and cheaper labour. The sub-zones most commonly identified are the south China zone -consisting of Hong Kong, the southern provinces and the Chinese province of Taiwan- and the "growth triangle" of Singapore together with Malaysia's Johore and Indonesia's Batam islands.

' More recently, other sub-zones have been mentioned, such as the Yellow Sea zone, including the Republic of Korea and the Democratic People's Republic of Korea and north-east China; the Japan Sea zone, which adds Japan and Asiatic Russia to the Yellow Sea zone; and the "greater Indochina" zone, centred on Thailand and including the Yunnan Province of China, the three Indochinese countries and Myanmar (Professor Edward Chen, Director of the Centre of Asian Studies at Hong Kong University, as quoted in Alexander Nicoll, "The challenge facing Asia's growth cycle", *Financial Times,* 24 February 1992).

Beyond these well-known characteristics of investment in the region, another trait typical of countries in South and East Asia, in particular both the old and the new NIEs, is that investment in infrastructure was not abandoned during the 1980s, even though at present severe bottlenecks are being identified after a period of very rapid growth in private investment. With few exceptions, Governments in South and East Asia did not run into the deep and prolonged fiscal crises that caused strong declines in public investment and a deterioration of the infrastructure in several Latin American and African countries during the 1980s. Governments in South and East Asia continued to develop large infrastructure projects, directly, through the private sector, or on a mixed funding basis. In the near future, investment in infrastructure is expected to be even more important as a factor of growth. Public investment has increased in Singapore and in the Chinese province of Taiwan. The Republic of Korea has approved large road and railway projects. In Hong Kong, despite the on-and-off debate over financing of the new airport between the Governments of China and the United Kingdom of Great Britain and Northern Ireland, the construction of components of this project is proceeding. Ports are being expanded in Singapore and Pakistan. Power generation and transmission is being expanded in Indonesia. Malaysia is to implement its large-scale project on the North-South Highway, a new airport at Sepang and an expansion of telecommunications. Thailand is starting large infrastructure investments, in particular to ease transportation bottlenecks in Bangkok.

China: strong growth

China turned in another outstanding economic performance in 1992. GDP growth rate accelerated to 12.8%, the highest in the world. This expansion was brought on largely by a 20% increase in industrial production. Agricultural production increased by about 3%. Investment, both domestic and foreign, increased at a phenomenal rate, while international trade expanded rapidly. Inflation inched up, reaching 5.3% in 1992 (see table 5).

Growth was fostered by a generally liberal macroeconomic policy environment which spurred optimism in the economy. The fourteenth Congress of the Chinese Communist Party, convened in October 1992, reaffirmed the continuation of the policy of economic reform and opening up to the outside world. Such an assurance sent a positive signal to domestic economic agents and foreign investors alike.

Several economic measures were taken as further steps to a more market-oriented economy. More prices were raised or freed; experimentation with corporate reform continued; new rules simplified procedures for foreign investment, opened up more economic sectors to foreign investment and reduced trade barriers; a campaign was launched to adapt China's corporate accounting practice to international standards; commodity exchanges and the experimental stock market were expanded in scope.

The monetary policy was, on a *defacto* basis, relaxed. Defying government directives on credit expansion, banks increased their lending by 20% over 1991, doubling the rate set by the government target. This contributed to a 30% surge in total money supply as total output expanded by 12.8%.

Although the estimated fiscal deficit was about 10% higher than planned, it was still less than 4% of total GDP in 1992. The number of State-owned firms reporting a loss declined. Food price subsidies to urban residents were eliminated. However, the increase in central government revenues has not paralleled that seen in industrial output, owing to the lack of effective tax administration in the fast-growing and profitable non-State sector, which remains the most dynamic component of the national economy.

A favourable policy environment and optimism encouraged a high growth rate of investment. Even considering the fact that China has maintained a relatively high rate of investment, at about 30% of GDP since the 1970s,

[36] Preliminary data show that industrial output of State-owned firms increased by some 13% in 1992, while that of collectives and other ownership forms grew by close to 31 % and 50%, respectively (State Statistical Bureau of China, November 1992).

the increase in both domestic and foreign investment in China was very high during 1992. Total investment in fixed assets was 20% higher in real terms than in 1991. The number of contracted new projects and new investment commitments doubled their 1991 level, reaching over 40,000 projects and US$ 58 billion, respectively. Foreign capital inflows (investment and credit-related) totalled over US$ 16 billion, about 50% higher than in 1991.

Hong Kong remained the largest investor in China, with the Chinese province of Taiwan on its way to catching up by increasing its investment rapidly. Combined with increasing direct and indirect trade (mainly in the case of trade between China and the Chinese province of Taiwan through Hong Kong) among the three economies, investment in China originating from the other two is strengthening the economic ties among them. This linkage is part of the larger picture of increasing intra-Asian trade and investment ties.

General optimism in the Chinese economy is also reflected in consumer spending. Total domestic retail sales increased by 15.7%, after a 13% rise in 1991. This boom in consumption was supported by a 7% increase in urban and a 5% increase in rural real per capita personal income.

The 5.3% rate of inflation (see table 5) is moderate considering that the Government sanctioned retail price hikes for State-rationed grain and its processed products in April 1992, eliminating State subsidies that averaged about 30% on these staples. Prices of industrial raw materials, coal, natural gas, rail freight charges and chemical products were also raised, leading to higher prices for some consumer goods, but excess supply pushed prices of textiles downward. It should be pointed out, however, that the impact of these price reforms is felt more strongly by the urban population. The cost-of-living index compiled for 35 large and medium-sized cities registered an increase of 11%. Such overall price inflation, together with signs of material shortages and unabated bottlenecks in energy, transport and other infrastructure facilities, hints at the possibility that the Chinese economy is overheating again.

As in the past decade or so, export growth in 1992 contributed significantly to GDP growth, even for as large a country as China, where trade as a proportion of GDP is expected to be small. Customs-based data show that the value of exports totalled US$ 81 billion in 1992, representing a 14% increase over 1991. Meanwhile, total imports rose by even more (22% over 1991), reaching US$ 76 billion.

2. International trade

The volume of world exports grew by 4.5% in 1992, compared with around 3.5% in 1991 (see table 6). Growth was modest in comparison with that reflected by the rates of the late 1980s, but it far exceeded the growth of world output, which barely recovered from the recession of the preceding year. There were also no large shocks. Commodity prices in general remained fairly stable, though depressed. With a few exceptions, the pattern of trade flows did not suggest a large change from the trends of the recent past.

Yet there was heightened tension in a number of areas. The stalemate in the Uruguay Round of multilateral trade negotiations, already over two years behind schedule, continued to cast doubts on the future of the multilateral trading system. The preference for unilateralism and for bilateral and regional trading arrangements continued to grow stronger, while faith in the multilateral system appeared to wane. In recent months there has been a greater readiness to yield to protectionist pressures. Frictions between some of the largest trading partners rose after a period of relative calm. In early 1993, trade tensions between the European Community and the United States of America spilled over from the Uruguay Round of multilateral trade negotiations into the issues of trade in steel and government procurement. Japan's trade surplus rose to record levels and aggravated the long-standing tension

[37] In 1992, the estimated growth rate of Tai wanese investment in China was over 75%, pushing total investment to $2.5 billion. This would make the Chinese province of Taiwan the fourth largest investor in China, after Hong Kong, the United States and Japan.

between the country and its major trading partners, especially the United States. Finally, the case for managed trade appeared to gain intellectual support, pitting itself more strongly than before against the traditional advocacy of a liberal trading system.

While concern over the future of the trading system increased, a notable feature of world trade in recent years has been that trade has been growing more rapidly than warranted by the past relationship between the growth of trade and of world output. During the period 1988-1992, the growth of world output slowed sharply, its annual rate decreasing from 4.4% to 0.6%. The growth of world trade also slowed but far less sharply, its annual rate decreasing from around 8% to 4.5%. In other words, the growth of world trade remained more vigorous than that of world output. The decline in the responsiveness of world trade, that is, in its elasticity with respect to the growth of world income in the 1970s and the early 1980s, which had been causing concern, appears to have been reversed. While that elasticity declined from around 1.6% during the period 1951-1970 to 1.3% during the period 1971-1975 and to 1.1% during the period 1981-1985, it rose to around 2.4% during the period 1986-1992. It is too early to suggest, however, that this relatively high responsiveness will continue. Moreover, the growth of both trade and output has slowed down in the recent past, with the association between the growth of output and that of trade remaining an unmistakably close one (see figure 1).

The growth of trade in 1992 in fact closely reflected the regional pattern of the growth of output. The growth of both differed widely among countries and regions. A number of areas of growth and of contraction of world trade stand out First, there was a contraction in Japan's imports as the growth of the economy slowed, coming to a virtual standstill at the endpf the year. The slow-down in the growth of export volumes was also steep, though the trade gap in dollar terms widened as a result of the appreciation of the yen and a continuing shift in Japanese exports to higher-value products, in some cases as a consequence of "voluntary" export restraints. Second, United States imports rose sharply as the domestic economy began to recover from the recession, while the country's exports increased only modestly. Third, the external trade of South and East Asia and China continued to grow strongly, outpacing the growth of trade of all other regions. The volume both of imports and of exports of South and East Asia grew by around 10%. China's exports grew by some 14% and imports by 20%. The external trade of the region remained the most dynamic element of world trade. This was all the more remarkable as the region's exports to Japan virtually stagnated. Fourth, imports by Latin America continued to surge, with those from the United States accounting for a large proportion of the increase. Japan's exports to the region also increased significantly. Fifth, the volume of external trade of the economies in transition continued to decline, but at a slower rate than in 1991, despite the growth of their convertible-currency trade.

Though trade showed some resilience in the face of sluggish world output, threats to its growth remained large. Few trade liberalization measures were taken by the industrial countries, which account for the bulk of world trade. Yet, a considerable number of new trade restrictions have in fact been undertaken, particularly in the form of anti-dumping actions. There was a discernible tendency among policy makers to give way to pressures for protection with respect to specific industries. By contrast, a large number of developing countries continued to adopt more liberal trade regimes.

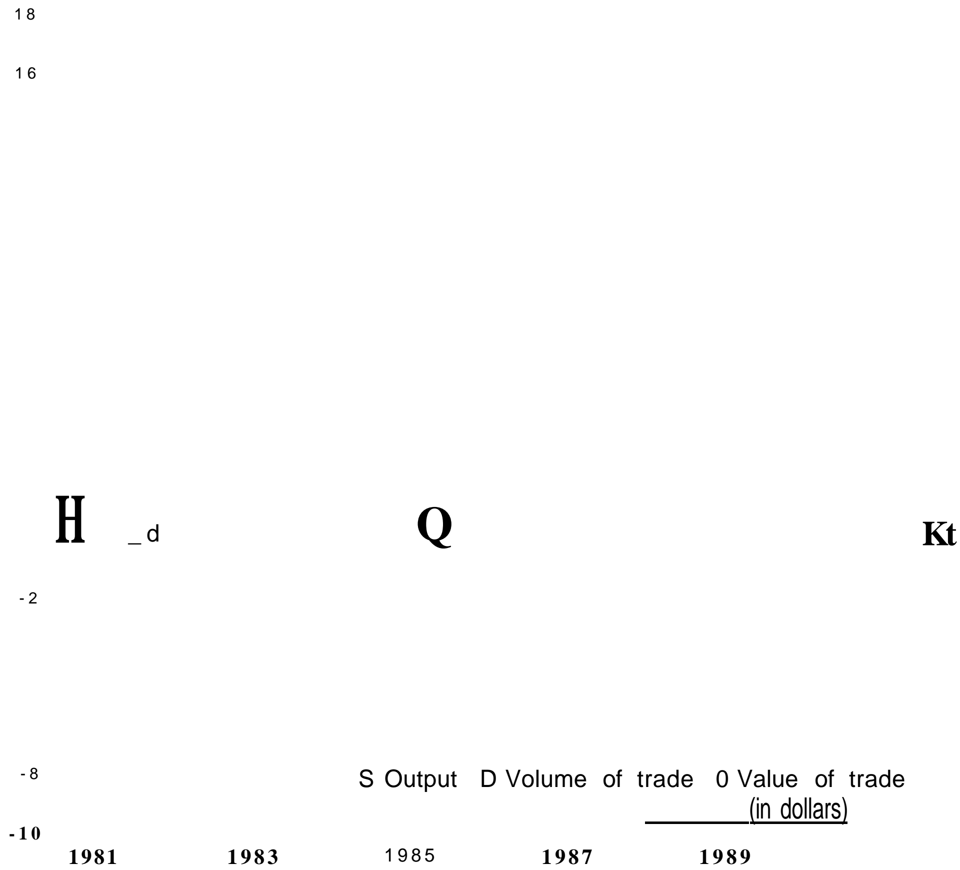
Confidence in the efficacy of the multilateral trading system appeared to erode further. This was partly reflected in the proliferation of regional trade blocs and in efforts to strengthen them, as well as in a growing readiness to manage trade through bilateral deals. The failure of the major trading nations to reach agreements on some of the critical issues on which the successful completion of the Uruguay Round of multilateral trade negotiations depended only contributed to the erosion of confidence in the General

See for example, United Nations, *World Economic t, 1986,* New York, 1986, United Nations publication, Sales No. E.86.II.C.1.

Figure 1

WORLD TRADE AND OUTPUT, 1981-1992

(Percentage variation over preceding year)



Source: United Nations, Department for Economic and Social Information and Policy Analysis.

Agreement on Tariffs and Trade (GATT) system. It also appeared to strengthen both the case for achieving the objective of higher levels of international trade through the alternative routes of regionalism and the arguments for more government intervention in trade in the name of the national interest.

Arguments for "strategic" government intervention to influence the pattern of trade are now being heard more frequently and appear to be gaining support both in the profession of economics, still dominated by proponents of liberal trade, and among policy makers, in some important cases with new intellectual support for intervention. A not-quite-new genre of trade theory has emerged which takes account of imperfect competition and external economies and appears to provide an intellectual underpinning for the new policy. In fact, there has been a certain strengthening of the alliance of policy makers and economists believing in intervention and industrial policy, especially in the United States following the recent change in

government.[39] The nature and future evolution of government action in trade remain unclear, however.

a) **Trade flows in 1992: salient features**

Developed market-economy countries

International policy discussions concerning poles of growth for gross domestic product (GDP) and trade have generally focused on the developed market economies because, taken together, these countries account for over 70% of world trade. However, only one of the larger areas of strong import growth in 1992 involved any developed economies. This was North America, where the volume of imports surged 11%, after two years of almost no import growth at all. The imports of North America, however, account for less than one quarter of the trade of the developed market economies. The other large economic areas within the group experienced very slow import growth on average, and in the case of Japan, there was an outright 1% decline in the volume of imports. As a whole, therefore, the developed market economies gave only a weak impetus to world trade in 1992.

The increase in North American imports in 1992 reflected the economic recovery that began to take hold in the United States and Canada during the year. United States import growth was especially strong, and led by consumer and capital goods, especially computers and semiconductors, surged almost 12%. While all major exporters of capital goods to the United States increased their sales, the growth of imports of consumer goods was dominated by suppliers from the developing countries of Asia, especially China. By the end of 1992, China accounted for 16% of United States imports of consumer goods, the figure being up from 14% in 1991.[41]

The growth of United States exports in 1992 did not quite keep pace with that of previous years, as the major United States markets in Europe and Japan were quite sluggish. The deceleration was especially marked for exports of capital goods, which grew at one half the 1991 pace. The decline in demand in Western Europe and Japan, where investment was very weak, was only partly offset by strong sales to developing countries in Asia and Latin America.

The volume of United States exports nevertheless grew in 1992 by 7%, which was almost twice the global growth rate and represented a continuation of the strong export growth that had begun in the second half of the 1980s. Although those exports had benefited from strong international demand for several years, their continued strength when that demand weakened illustrated the degree of international competitiveness that the United States had regained in recent years. Indeed, the real effective exchange rate of the dollar measured against the currency of industrial trading partners fell for the third consecutive year in 1992. It is now more than 25% below its level in the early 1980s, before the period of overvaluation of the dollar began. The change in 1992 reflected a small fall in the average exchange rate for the dollar, as well as smaller increases in United States wage rates than in those of major trading partners and the country's improving productivity growth.

One particularly sensitive market for United States exports is Japan, with which the United States has had a large and persisting trade deficit that has been a focus of political attention in both countries for several years. Japan imported US$ 52 billion of merchandise from the United States in 1992, a figure representing about the same dollar value as in 1991; but with United States imports from Japan rising, the bilateral Japanese trade surplus reached US$ 44 billion, a

[39] Nevertheless, the Clinton administration has emphasized the need for an open trading system and a successful conclusion of the Uruguay Round.

Trade among the member countries of the European Community (EQ has always been part of international trade. As of 1 January 1993, however, the Community became a single market for goods and services. If intra-EC trade were regarded as domestic instead of international trade, the share of the developed market economies in world trade would drop to about 60% and the total value of world trade in 1992 would fall by some US$ 500 billion, according to estimates of the secretariat of the General Agreement on Tariffs and Trade (see GATT press release 1570,22 March 1993, p. 16).

United States Department of Commerce, *Survey of Current Business,* March 1993.

Canada's export volume grew by a strong 8%, much of it directed to the United States, after three years of export growth averaging only 2.4% annually.

For additional details, see OECD, *Economic Outlook, op. cit.,* pp. 50-55.

figure US$ 5.5 billion greater than that of 1991. Japan's trade surplus with other major trading partners also grew substantially in 1992, reaching record levels *vis-à-vis* the European Community (US$ 31 billion) and Asia (US$ 42 billion), but excluding the Middle East, with which Japan persistently runs a trade deficit owing to its oil imports. In each case, the main reason for the growth of the surplus was the very weak import demand in Japan due to its slowing economy. Imports of intermediate goods in particular fell sharply; for example, steel imports dropped 31 % and petroleum products almost 17%.

If the growth of trade was assisted in 1992 by the surge in the imports of the United States, which is the world's largest trading economy, it was also held back by the sharp curtailment of imports in Germany, the world's second largest trading country. The volume of Germany's imports had grown by double-digit rates in each of the previous two years owing to the Government's programme of support for integrating the eastern *Lander* into the Federal Republic. With the sharply higher levels of demand pushing up the German inflation rate, a policy correction was needed, and the German recession of the period 1992-1993 has been the result. A sharp reduction in German import growth in 1992 followed.

The weakening import demand in Germany and in other European economies during 1992 had important repercussions on their European trading partners. France, for example, had built up considerable gains in export-price competitiveness after four years of relatively slow growth in wage rates, rising labour productivity, low inflation and a propensity of exporting firms for squeezing profit margins to increase market share. France thus entered 1992 with relatively strong export growth; indeed, exports were the most dynamic part of an otherwise sluggish economy, at least for the first four months of the year. With increasingly weak partner-economies, however, exports stagnated. The biggest fall was in exports of passenger motor cars and investment goods, in which France had made substantial gains in market share. Without its export stimulus, the French economy itself weakened and its own imports slackened. The French trade balance turned into a surplus in 1992 of almost US$ 6 billion. It was only the sixth trade surplus in 30 years.

The counterpart of the higher-level competitiveness of French production was the lower-level competitiveness of some partner countries, especially within the European Community, where exchange rates among member countries of the Exchange Rate Mechanism (ERM) had been essentially fixed from 1987 until September 1992. Indeed, the two countries that left the ERM in September, Italy and the United Kingdom of Great Britain and Northern Ireland, experienced particularly sharp deteriorations in their competitive positions.

The United Kingdom had entered the ERM only in October 1990, in part as a means of imposing some external discipline on the increasingly rapid growth of money wages, which it had been argued was having negative consequences for external competitiveness. The United Kingdom's recession in the period 1991-1992, if not the pegging of the pound, slowed the growth of real wages, but the fall in external competitiveness continued. However, British inflation was dropping rapidly in the recession and had fallen below that of Germany. This would have tended to improve competitiveness, but the pound rose against the dollar and the yen because the deutsche mark rose and the pound was held in the ERM grid. British competitiveness thus continued to deteriorate. In the first quarter of 1992 the rise in total imports was greater than the increase in domestic demand and, for the year as a whole, imports grew by 6%. The ERM exchange rates became unsustainable and a currency crisis ensued. The subsequent devaluation of the pound brought the real effective exchange rate against the currency of industrial-country partners down 15% by

Although quantitatively less important in the overall picture, imports of luxury goods also declined sharply, notably gold (down 22% by value) and paintings (down 62%), the decline reflecting the bursting of the financial bubble.

[45] Republic of France, Institut national de la statistique et des études économiques (INSEE), *Une Année en demi-teinte: rapport sur les comptes de la nation, 1991,* Paris, INSEE, 1992, p. 130.

[46] OECD, *Economie Outlook, op. cit.,* p. 54.

November from its August peak. British production of tradable goods should thus regain a degree of competitiveness in 1993 and, although export markets will remain sluggish, the import penetration level may recede and domestic growth prospects improve.

The deterioration in competitiveness in Italy up to September 1992 was also quite marked. In 1991, the volume of exports had stagnated and the dollar value had fallen, the worst export performance since the early 1980s. As in the United Kingdom, wage rates had risen significantly faster than those in competitor countries. Relative unit labour costs in manufacturing rose 10% against those of major trading partners over the period extending from the last ERM realignment in 1987 to the first half of 1992. However, the currency realignment starting in September eliminated this accumulated loss of competitiveness.

Economies in transition

International trade is of critical importance to transitional economies. Since the transition process began in earnest in 1989 with changes of government first in Eastern Europe and then in the Union of Soviet Socialist Republics, international trade has also encompassed the political dimension as one vehicle for integration into the universe of the market economies. First Eastern Europe, then the Baltic States, and then the other States of the former Soviet Union sought to build or strengthen trading bridges to the West and to the South. They abandoned the complicated and inefficient administrative network of trade agreements that they had developed among themselves as centrally planned economies and concentrated on increasing hard-currency earnings. They looked for new sources of supply and new goods to import, as well as new markets for exports, seeking, in particular, to strengthen relations with the European Community (EC). Developments in 1992 marked a continuation and intensification of these trends.

Throughout the group of transitional economies, the net effect of the attempt to redirect their trade has been a sharp decline in exports and imports, as the degree of growth in trade with new partners could not match that of its contraction with old ones. The States of the former Soviet Union entered deeply into this process in 1992, while in Eastern Europe, where the transition started earlier, the overall contraction in trade appears to have ended.[49]

Although the value of intraregional trade continued to decline in 1992, trade between Eastern Europe and the developed market economies burgeoned, and as a result the value of exports of the region grew by more than 5%. Bulgaria and the former Czechoslovakia experienced the largest increases in exports to market economies (61% -albeit from a very low base- and 26%, respectively). Hungary and Poland had shifted most of their exports to market economies by 1991, but still raised the level of those exports by 10% and 14%, respectively. Most encouraging was the fact that the free fall in their trade with other transitional economies ended: exports by Hungary to other transitional economies rose 14% and those of Poland fell only slightly.

The growth of Eastern European exports to market economies occurred despite the recessionary conditions in those economies. Indeed, the value of exports to European developed market economies grew by more than one fifth in 1992, helped by the association agreements of the former Czechoslovakia, Hungary and Poland with the European Community. Signed at the end of 1991, the trade portions of the agreements came into force on 1 March 1992. The growth of exports to the European Community has nevertheless had its

OECD *Economic Surveys: Italy, 1992-1993,* Paris, OECD, December 1992, p. 23.

The transition in trade relations has been monitored in previous *World Economic Surveys* (see the 1992 *Survey,* United Nations publication, Sales No. E.92.II.C. 1 and corrigenda, pp. 52-55 and the 1991 *Survey,* United Nations publication, Sales No. E.91.II.C.1, pp. 54-57); and in more detail in the *Economic Bulletin for Europe,* No. 44, 1992, pp. 47-92, and No. 43,1991, pp. 51-86.

[49] Data on the trade of the transitional economies in 1992 are of extremely uneven quality and, in the case of Poland and several successor States of the former Soviet Union, highly incomplete. Estimates have been made by the United Nations Secretariat in consultation with the Economic Commission for Europe (ECE), as necessary. Although those estimates are believed to be the best that can be produced at the present time, they are of uncertain reliability.

tensions, and in November 1992 the Commission of the European Communities imposed a dumping duty on steel tubes imported from the three above-mentioned Eastern European countries. Moreover, the three major commodity groups in which the Eastern European exporters would be most competitive -agricultural products, steel and textiles- were not given full preferences.

Before the dissolution of the Soviet Union late in 1991, inter-republic trade, as part of a matrix of supply links of State enterprises, was determined centrally. Since decisions on the location of factories in the Soviet Union sought to take advantage of economies of scale and to spread manufacturing around the country, most of the republics became highly dependent on inter-republic supply flows. With the breakup of the Soviet Union, those flows were abruptly transformed into international trade. The newly sovereign countries began restricting the outflow of their goods to other former republics of the Soviet Union early in 1992 in order to increase domestic consumption and boost exports that earned hard currencies. Vital inter-republic supply links thus suffered, and this contributed heavily to the decline in output in all countries of the group. New bilateral agreements were negotiated in order to protect trade flows. They provided for volumes of supplies that were significantly lower than before, but even these were not achieved. By the end of 1992, customs barriers were being established, and new national currencies or their surrogates (for example, currency coupons) were introduced in several countries of the group.

Developing countries

Trade of developing countries, including imports as well as exports, grew faster than the world average, thus continuing a recent trend. The most important force behind that trend was the performance of developing countries in Asia, in particular the successful exporters of manufactures, whose trade expanded at more than double the world average. The growth rate for the trade of developing countries as a whole slowed somewhat in 1992. Nevertheless, with exports growing at 7% and imports at 10%, they contributed significantly to the expansion of world trade.

Imports by developing countries grew faster than exports, and this was true across the subregions, except for Africa, even if by different extents and for different reasons. The largest differential between import growth and export growth was in Latin America and the Caribbean, the smallest in South and East Asia, where the main manufacture exporters expanded imports and exports more or less in tandem. Very few countries -Kuwait, and some newly industrialized economies- expanded exports more rapidly than imports. Trade liberalization in developing countries continued, though it was not the most important cause of growth in imports. In a number of developing countries, especially in Latin America and the Caribbean, appreciation of the currency contributed to a slowing of exports and an accelerating growth of imports.

Reflecting a modest revival of economic growth in the region, trade liberalization measures, progress in regional integration and greater availability of external finance, Latin American trade, and particularly imports, expanded rapidly in 1992. The volume of exports increased by over 6% in 1992, but weak export prices resulted in a lower increase in the value of exports. The increase in export earnings was, however, a significant improvement over the situation of the previous year, when the value of exports had declined by 3%. The overall results for the region reflected, on balance, the rapid expansion of exports by Brazil, Chile and a few of the Central American countries and moderate increases for Argentina, Ecuador, Uruguay and Mexico. Intraregional trade grew much faster than total trade, in particular in the Southern Common Market (MERCOSUR), the subregional trade grouping of Argentina, Brazil, Paraguay and Uruguay, but intraregional trade is not much more than 15% of total trade.

Exports to other republ ics of the former USSR were more than one third of net material product (NMP) in all former republics except Kazakhstan (28%) and Russia (18%); as for Belarus, Moldova and the Baltic republics, the figure exceeded 60% of NMP (see *WorldEconomic Survey, 1992 op. cit.,* pp. 28-29).

Africa's exports, dominated by primary products, increased in volume by only 4%, a figure reflecting a much slower rate of increase than the figure of 7% in 1991. Prices of primary commodities remained depressed and thus the value of exports increased by only 2%, but this was an improvement over the 5% decline in the previous year. Africa's share of international trade has been declining even in the area of primary commodities, which dominate Africa's exports, and this trend continues.

Trade by South and East Asia remained a major growth pole of world trade in 1992, although the growth of both imports and exports slowed after the vigorous expansion in the previous year. There was an increase in the volume of exports of some 11% (a figure representing the most rapid growth in the world after China), compared with an increase of 17% in 1991. The region was able to sustain this vigorous export growth, despite the persistent slump in sales to the European Community and other industrialized economies, because of the offsetting stimulus provided by a substantial expansion of exports to new markets in Latin America, a recovery of demand in the United States -the region's biggest trading partner- and a marked increase in exports to West Asia as post-war reconstruction in that area gathered momentum. Intraregional trade continued to grow vigorously, though exports to Japan slowed sharply.

The Nffis, or newly industrialized economies (the Chinese province of Taiwan, the Republic of Korea, Singapore and Hong Kong), maintained high rates of growth in trade averaging 14% for the year. Exports of Hong Kong and the Republic of Korea expanded moderately compared with those of 1991 (from 20% to 22% and from 9% to 11% respectively), while Singapore's growth slowed to 13 % from 14% and that of the Chinese province of Taiwan decelerated markedly (a 7% increase, compared with a 13% increase in the previous year). Roughly the same results (high growth rates but at a slower pace than in 1991) were obtained for Malaysia (12%, compared with 19%) and Thailand (18%, compared with 24%) among the second-generation Nffis. Growth of Indonesia's exports improved slightly, increasing from 10% to 11%, largely as a result of a surge in non-oil export earnings, which in 1992 surpassed oil receipts as a proportion of total exports for the first time.

China's trade continued to expand vigorously in 1992. The value of its exports grew by some 14% after a 15% increase in 1991. Imports had been increasing even faster, by about 19% in 1991, followed by 22% in 1992. The very rapid growth of the country's exports and imports in recent years is a reflection of the success of its outward-looking development strategy. The country has also been undertaking trade liberalization measures in the context of its application for re-entry into GATT and the easing of trade tensions with the United States.

b) **International commodity prices**

Some of the most critical international prices -interest rates and exchange rates- changed sharply in 1992. The 1992 average London interbank offered rate (LIBOR) on six-month dollar deposits fell by about a third from their 1991 average level. The movement of the rates of exchange of major currencies was also considerable, with the dollar falling to record lows against the Japanese yen and fluctuating widely against the deutsche mark. By comparison, changes in the prices of internationally traded goods were modest.

Export prices of manufactures, which account for around 70% of world exports, increased only moderately. The unit values of the manufactured exports of the developed market economies increased by around 3.8% in dollar terms over their 1991 average. This reflected a further moderation of inflation in those economies and only a small increase in unit labour costs.

Oil prices remained relatively stable, though depressed. The average spot price for OPEC crude was about US$ 18.40, almost the same as the average of US$ 18.70 for 1991. In real terms -in terms of the manufactured imports that oil would buy- oil prices declined by about 4%, which took them to their lowest level since 1988.

Prices of primary commodities other than fuel, which account for a little over 15% of world trade but for a much larger proportion of the exports of many developing countries, declined in 1992 for the third year in a row. The combined index of

nominal dollar prices of the United Nations Conference on Trade and Development (UNCTAD) fell by 3.4%, following decreases of 6% in each of the previous two years. When measured in special drawing rights (SDRs), the fall in the index was a steeper 5.7% because of the depreciation of the dollar *vis-à-vis* the currencies of other major industrial countries. In real terms, the decrease was 6% (see table 7).

The principal reasons for the decline in commodity prices in 1992 were weak demand for raw materials in most industrialized economies; a severe contraction of demand for many commodities in the former Soviet Union and Eastern Europe; high levels of exports of minerals and metals from the former Soviet Union and countries of Eastern Europe; and a chronic excess supply of a wide range of agricultural commodities on world markets.

The adverse repercussions of the disruption of normal economic activity in the transitional economies of the former Soviet Union and Eastern Europe continued to be felt in many commodity markets. Although imports picked up slightly in some Eastern European countries, the reduction in import demand in the economies of the former Soviet Union was as severe as in 1991. Imports of a wide range of commodities were reduced to a fraction of previous levels because of severe foreign exchange shortages; a virtual collapse of industrial activity in many of those economies; and the disruption of trade links with traditional trading partners. At the same time, exports of aluminium, copper and nickel from the former Soviet Union continued at a brisk pace that sent prices plunging to new lows.

The persistent excess supply of a number of agricultural commodities such as tropical beverages and cotton, among others, resulted from several consecutive years of favourable weather conditions and bumper crops, and vigorous export policies in many producing countries. In the absence of demand growth to match the increased supplies, stocks of those commodities accumulated while prices fell to new lows. Combined consumer and producer stocks of coffee, for example, were estimated to be the equivalent of a year's consumption in the major importing countries. In other markets, new competitors emerged with significant exportable surpluses. In 1992, for example, Viet Nam's record rice exports weakened prices in a market that is very sensitive to sudden supply and demand shifts, since only a small percentage of world production is traded. Sugar prices increased only marginally, despite a fall in the exports of Cuba and other traditional developing country exporters, because of increased output in Australia, the European Community and Thailand. In the market for cocoa, West African producers sought to strengthen prices by restraining exports. Indonesia, on the other hand, currently the world's fourth largest producer, steadily increased its exports. Thus the West African producers had to abandon their strategy of export curbs in order to preserve their market shares. Prices continued to slide as supply increased.

Despite the overall decline, there were indications of an incipient recovery in some prices. A resumption of growth in the United States led to increased demand and strengthened prices for some raw materials. Many developing countries, no longer dependent on exports of primary commodities, are themselves becoming important markets for those commodities. Without the continued strong demand of Asian exporters of manufactures and the emergence of China as a large and growing market for industrial raw materials, the erosion of the prices of minerals and metals as well as of agricultural raw materials would have been more severe.

Except for vegetable oils and oilseeds, which registered an increase, average prices for all the major commodity groupings declined in 1992. Prices of tropical beverages fell by 14%, a figure representing double the rate of decline in the previous year. At midyear, robusta coffee prices had plummeted to their lowest level in 22 years. Coffee prices, on average, were 21% lower than in 1991. Cocoa prices declined by around 8%, also to all-time lows. Consumption increased faster than output in 1992 but excess supplies and high stock levels continued to depress prices. Tea prices improved by 8% to reach their highest levels in three years. Shortages caused by drought in Sri Lanka and major producing countries in Africa, and by drought followed by heavy rains in southern India, led to a decline of 6% in global output (output in Sri Lanka and

southern India fell more drastically, by 26% and 15%, respectively). On the other hand, the demand for imports of the Commonwealth of Independent States fell sharply in 1992, and was less than 40% of the 1990 level.

Food prices continued to decline, falling by 2% in 1992 following a decrease of 7% in 1991 and of 6% in 1990. Wheat prices jumped 17% for the year as a consequence of the tighter world supplies resulting from lower output of high-quality crops in Australia, Argentina and Canada and higher-than-anticipated demand in Mexico, the drought-affected countries in southern Africa, Nigeria (after lifting its ban on wheat imports) and several countries in South and East Asia. Prices weakened, however, when the United States and other countries suspended exports to the Russian Federation after that country defaulted on repayments of loans for 1991 grain imports. Maize prices fell by 3% because of record harvests in the United States and increased output and lower import demand in the former Soviet Union. Prices of oilseeds and vegetable oils increased by 7.5%, largely on the strength of significant increases in coconut oil, copra and palm oil prices.

Prices of agricultural raw materials as a whole declined by 3.1 %. Timber prices increased sharply because of the constraints imposed on logging in the United States at about the same time that its housing industry started to recover. Wool prices remain depressed because of lower import demand in the former Soviet Union, Japan and the European Community, but they strengthened slightly as a result of increased Chinese buying. Prices of other major commodities in this group, such as natural rubber, cotton, jute and sisal, declined by between 3% and 25%.

The index of minerals and base metals prices declined by 3%. This followed a decline averaging 9% over the preceding two years. Zinc and tin prices increased, by 11% and 9% respectively, but prices of all other commodities in this group fell. The increases for zinc were largely attributed to suspected market manipulations, while the increases for tin were the result of tighter supplies and lower world stocks due to lower output and exports by Brazil, Malaysia and Bolivia and a slow-down in exports from China. Prices of other commodities weakened as demand remained depressed in most industrialized countries and collapsed in the transitional economies. Nickel suffered the sharpest decline, a 14% decrease, while prices of aluminium, copper, lead, iron ore and manganese ore fell less, by between 2% and 5%.

Exports of aluminium, copper and nickel from the former Soviet Union declined somewhat after their sharp increase of 1991, but still remained high. The effect was felt among the producers of other countries, leading to demands for protection. Aluminium producers in several European Community countries, claiming that 80% of Western Europe's production capacity was idle because of increased imports from the Commonwealth of Independent States (600,000 tons in 1992, as compared to 450,000 tons in 1991 and 82,000 tons in 1990), pressured their Governments to appeal to the Commission of the European Communities for the imposition of a ceiling on those imports.

3. **The international oil market**

For the first time in several years, the international oil market witnessed a period of relative stability throughout most of 1992. Since the end of the Persian Gulf war in early 1991, world oil supply remained closely in line with demand despite the sharp decline in oil output from the former Soviet Union and the continuing embargo on Iraqi oil. The gradual resumption of production in the war-damaged oilfields of Kuwait and the maintenance of production at near full capacity by other OPEC members matched the market's need for oil.

With the increase in the OPEC supply and the near-stagnation of global oil demand, oil prices weakened in the first two months of 1992, falling to about US$ 16 a barrel, or US$ 5 below OPEC's reference price of US$ 21 per barrel. However, in the following months, prices strengthened somewhat as anxiety over the fall in oil exports from the Russian Federation, and increasing doubt regarding the resumption of Iraqi oil

exports, took the place of concerns about the possibility of overproduction by OPEC. Oil prices weakened again in late 1992 owing to mild weather conditions, and remained in the US$ 17 to US$ 19 per barrel range through mid-1993.

In 1992, world oil demand remained relatively weak owing, in large measure, to the sharp drop in consumption in the former Soviet Union and, to a lesser extent, to mild weather conditions in the northern hemisphere in the fourth quarter of the year and stagnation in the industrialized countries. Thus, demand rose by 0.4 million barrels per day, or 0.6%, relative to 1991. Total oil consumption in the industrialized countries increased moderately. The largest increase was in the United States, reflecting the rebound in economic activity in the second half of the year. In Eastern Europe and the successor States of the former Soviet Union, oil consumption continued to decline as the level of economic activity continued to fall. In the developing countries, growth in total oil consumption was relatively strong, especially in the rapidly growing economies of East and South-East Asia.

World oil output edged up slightly, and OPEC production reached its highest level since 1980. Output in the successor States of the former Soviet Union continued to decline sharply. Russian oil output reached its lowest level in almost two decades because of technical and logistic problems as well as the general disorganization of its oil industry. Production in the United States resumed its downward trend after a brief upturn in 1991. Elsewhere, production increased moderately.

An important factor that helped balance supply and demand in the aftermath ofthe loss of exports from Iraq and Kuwait was the ability of OPEC to expand capacity quickly and significantly. While initially this.allayed fears of supply shortfalls, it has since prompted new concerns over oversupply in the short term.

In view ofthe continuing decline of oil output in the United States and the former Soviet Union, most ofthe world is growing increasingly dependent on OPEC for additional supplies. At present, OPEC produces 40% of the world's output and possesses 77% ofthe world's proven reserves of one trillion barrels. By comparison, OPEC's share of the oil market was about 30% in 1985. The Persian Gulf contains two thirds of those reserves and will be the most significant source of incremental supply in the future. Despite such vast oil reserves, however, most of the OPEC countries would need to expand production capacity as the demand for oil increases with the expected resumption of world economic growth. At present, the ability of most ofthe producers of the region to expand capacity on a long-term basis is constrained by domestic financial conditions.

The uncertainty over OPEC's ability to expand capacity in the near future may be partly allayed by the new reintegration of the oil industry, in which the major international oil companies are being offered joint ventures and partnerships in some OPEC countries that had previously nationalized their oil industries. Similarly, producers are expanding investments at the downstream end of consumer markets. These developments appear to signal a new era of cooperation among the principal participants in the energy market. A key objective of such cooperation should be to provide security of supply to consumers and security of markets to producers in a mutually acceptable framework beneficial to all. The crisis in the Persian Gulf once again brought into sharp focus the need for such cooperation and led to preliminary talks and exchanges of views between producing and consuming countries and international oil companies. The continuation of this dialogue will be essential in view of the very large investments, probably exceeding US$ 1 trillion for the rest of the decade, that may be necessary to match increased demand.

Throughout most of 1992, oil prices were generally stable, thanks to a relatively tight balance between supply and demand. The average spot price of the OPEC basket of seven crudes ranged between US$ 16.60 and US$ 20.20 per barrel during the year, increasing from an average of US$ 16.70 a barrel in the first quarter of 1992 to US$ 19.50 a barrel in the third quarter, before declining to US$ 18.60 a barrel in

For more detailed information on the investment ofthe oil industry for the 1990s, see *World Economic Survey, 1992, op. cit.*

the fourth quarter. For the year as a whole, the average stood at US$ 18.40 a barrel, or US$ 2.60 less than the reference price of US$ 21 a barrel set by OPEC in July 1990. It was also lower than the 1991 price, which averaged US$ 18.70 per barrel, and considerably lower than the 1990 price of US$ 22.30 per barrel.

At the last 1992 meeting, OPEC allocated quotas for individual member countries totalling 24 582 mbd for the first quarter of 1993, a level which was considered lower than the one indicated by estimates of the industry's requirements for that period. It was the first time since the Persian Gulf crisis of 1990 that OPEC had formally attempted to apportion production quotas to member countries. This apparently credible output agreement did not, however, firm up prices. As most OPEC members did not cut production, and expectations of strong winter demand failed to materialize, oil prices fell to around US$ 17 a barrel in December, the lowest level in nearly 10 months. Reports of a rise in oil stocks and stabilization of oil exports from the former Soviet Union exerted further downward pressure on prices.

While oil revenues declined in some OPEC countries owing to lower oil prices, they rose in others due to larger oil export volumes. Overall, oil revenues for OPEC are estimated at US$ 135 billion in 1992, as compared with US$ 128 billion in 1991 and US$ 147 billion in 1990. Because of the depreciation of the United States dollar, the decline in OPEC's oil revenues relative to levels in the first half of the 1980s was in real terms quite considerable.

Following its peak in 1979 at 66 mbd, world oil consumption declined steadily in the first half of the 1980s owing to the introduction of energy-efficiency and conservation measures and the substitution for oil of other forms of energy as a consequence of the oil price increases of the 1970s. By contrast, with the collapse of oil prices in 1986, world oil consumption increased significantly in the second half of the 1980s, particularly in developing countries (see table 8). During that period, world oil demand rose by 2.2% per annum to a new peak of about 66.2 mbd. However, since 1990, growth in oil demand has receded to less than 1% per year due to the slow-down in the world economy.

Over the past decade, trends in oil demand have been markedly different in developing and industrialized countries. While in the 1980s demand continued to grow relatively rapidly in developing countries, it declined in the developed market economies and remained almost stagnant in Eastern Europe and the Soviet Union.

Despite the debilitating effects on most energy importers of the two rounds of sharp price increases in the 1970s, oil consumption in the developing countries in general kept rising relatively rapidly. This was due to a number of factors, including high-level population growth, rapid urbanization and increasing industrialization as well as limited possibilities for substitution of other forms of energy for oil. In a large number of developing countries, there are few alternatives to oil because of the high capital requirements for investments in alternative sources of energy. The increase in the demand for oil was reinforced by the precipitous decline in oil prices in 1986. Since then, the demand for oil of the developing countries has risen by one third, or 5 mbd. As a result, the role of developing countries in the global oil market has grown rapidly, with their share in total consumption having risen from 20% in 1980 to 30% in 1992. If these trends continue, it is anticipated that around two thirds of global incremental oil demand is likely to occur in developing countries, with their share rising sharply to over 40% by the turn of the century.

Much of this increase was accounted for by the newly industrializing countries of South-East Asia, where oil consumption nearly doubled over the past six years. By contrast, oil demand in Africa and Latin America grew at considerably lower rates owing to slower economic growth and stagnant incomes.

Between the peak in 1979 and the year 1985, oil consumption in the developed market economies fell by nearly 7.7 mbd, or 19%, owing to a considerable reduction in energy intensity

This total production figures did not include output by Ecuador, which had requested that its membership in OPEC be suspended.

and the replacement of oil by other forms of energy in response to the oil price increases of the 1970s. Low oil prices since 1986 have had the opposite effect. Thus, they have reduced some of the pressure for improving energy efficiency, although energy intensities have continued to decline. Oil demand grew by 3.1 mbd, or 10.2%. Despite this growth, it is still some 10% below the peak level of 1979. Growth in oil demand since 1986 has been particularly strong in the Pacific and moderate-to-weak in North America and Western Europe, mainly in response to the marked economic slow-down of the past few years.

Global oil demand in 1992 was estimated at 67 mbd, which was 0.6% higher than the 1991 figure. However, demand trends differed significantly in various regions and countries. While oil demand declined sharply in Eastern Europe and the former Soviet Union, it continued to grow strongly in developing countries and moderately in the developed market economies. In 1992, total oil consumption is estimated to have risen by 5.2% in developing countries and 1.3% in the developed market economies but to have declined by 13.7% in Eastern Europe and the former Soviet Union. By entirely cancelling out the strong growth taking place in the developing countries, falling demand in Eastern Europe and the former Soviet Union underestimates the strength of the oil market, and it may create a false impression that the economic stagnation being experienced in many industrialized countries is the only cause of the slow growth in global oil demand.

Total world crude oil production remained virtually unchanged in 1992. A decline of nearly 1 mbd in non-OPEC supply was more than offset by increases in OPEC output. The fall in non-OPEC production was entirely due to the sizeable drop in output in the Russian Federation and, to a lesser extent, to the decline in the United States. Production continued to rise in most other oil-exporting developing countries and increased sharply in the Norwegian sector of the North Sea.

Throughout the second half of the 1970s and the first half of the 1980s, higher oil prices resulted in a shift among investments in exploration and development from OPEC to non-OPEC areas. During that period, the level of non-OPEC production of crude oil climbed by nearly 10 mbd, leading to a drastic reduction in the demand for OPEC oil. The growth in non-OPEC production was arrested, however, with the collapse of oil prices in early 1986. This had an immediate impact on exploration and development in high-cost areas, and resulted in a pronounced production shift in favour of OPEC Since then, total crude oil production in OPEC countries has increased by over 8 mbd, or 52%, raising their share of the global oil market from 30% to 40%. This upward trend is expected to continue in the 1990s, with the OPEC supply rising to about 32 mbd by the year 2000, and accounting for just under 50% of total world oil production.

Since the suspension of production quotas in August 1990, the increase in oil production by OPEC has been achieved through the expansion and almost full utilization of production capacity. Nearly two thirds of that increase has been accounted for by Saudi Arabia. This, however, has led to a greater concentration of supply, particularly in the Persian Gulf, with the share of Saudi Arabia in total OPEC output rising from 25% to 35% and that of the Islamic Republic of Iran from 13% to 16%.

With Iraq remaining banned from exporting oil, the other OPEC members continued to produce at close to capacity throughout 1992. Total OPEC crude oil production averaged 24.4 mbd, a figure which was 4.5% above the 1991 level. Partly because of loose production agreements, output quotas were consistently exceeded during most of 1992. A large part of the increase was attributable to the rise in Kuwaiti oil output, which was close to its pre-invasion level by the end of the year.

4. **Saving, investment and the international transfer of financial resources**

If the pattern of international transfers of financial resources in the past two years turns out to be representative of the 1990s, then some of the policy concerns in international forums in this

decade will be very different from those of the 1980s. A central issue in the 1980s was the large net financial transfer from developing to developed countries that was associated with the external debt crisis of the developing countries. In 1991 and 1992, however, the developing countries as a whole were not only net recipients of financial resource transfers for the first time since the debt crisis began in the early 1980s, but the inflows were large. For many developing countries, particularly middle-income countries, the debt of the 1980s is no longer impeding their access to international credit, although for many others the external constraint on reactivating development binds as tightly as ever.

A second defining feature of international resource transfers in the 1980s was the very large absorption of international finance by the United States, the aggregate expenditure of which far exceeded the income and output produced by its domestic economy. The net transfer of financial resources to the United States grew again in 1992, but even so it remained less than a third of its peak level of the 1980s. The outlook is for a further widening of the net transfer in 1993 and 1994, as the United States economic recovery draws in external resources. However, the increase is expected to be moderate and easily financed by other industrialized countries, and the reduction of the net transfer in dollar terms should resume in the second half of the decade, especially as the medium-term programme to reduce the United States fiscal deficit begins to bear fruit.

When the 1990s began, a new development in the global pattern of net transfers emerged. Radical political and economic changes occurred first in Eastern Europe and then in the Soviet Union, and the international community was intent on supporting them. When the German Democratic Republic was reincorporated into the Federal Republic of Germany, a truly large-scale transfer of resources began from "west" to "east", albeit within the borders of a single country. From the beginning it was clear that this was a special case, but large-scale transfers to other "eastern" countries seemed possible. Today this seems less likely. Thus far in the 1990s, the economies in transition in Eastern Europe appear to have continued to make a small net transfer to the rest of the world. Large-scale aid commitments have been made to them and to the successor States of the Soviet Union, and there have been considerable -if smaller- gross flows, but the net absorption of resources during the early stages of transition now appears to have been quite limited.

One additional concern in the realm of international finance is that the potential volatility of the world's finances seems to have increased again, owing to the continuing technological revolution in communications, the greater speed with which the ownership of assets can be transferred internationally, the increasing variety and depth of markets around the globe and the progressive relaxation of policy restrictions on international financial movements. Vast sums are routinely moved into and out of countries and currencies, as corporate financial departments as well as financial institutions actively manage their portfolios of financial assets and liabilities. The players on this field -who come from developed, developing and transitional economies- are well informed, quick to act, and have significant resources at their disposal. Thus, with less of a lag than ever before, the international stability of currencies dependsupon credible policy-making, whether it concerns the Italian lira, the Mexican peso or the Russian ruble.

This potential volatility of financial flows is one reason that the international pattern of resource transfers warrants continuing international scrutiny. In particular, few observers regard the new financial inflows to several middle-income developing countries as fully appropriate or sustainable. The flows come from industrialized countries that have slipped into economic recession and unusually slow recovery. If their economies should strengthen markedly, it is feared that some developing countries would have difficulty competing for financial resources. Certainly, the largest single source of the resource transfers from industrialized countries, Japan, is under considerable international pressure to reduce its trade surplus, which after all

generates the financial resources that make up its transfer.

Moreover, there has been some concern that the external financial requirements of the transitional economies in Eastern Europe and the successor States of the Soviet Union might be met at the expense of the needs of the developing countries. If the net absorption of resources by the transitional economies has not risen significantly, this has mainly been because of private flows. Official commitments for transition economies have been large, although mostly non-concessional. Budgets for official development assistance have been under severe pressure in several countries. Indeed, tight fiscal constraints in donor countries seriously limit the prospects for official assistance for development and transition, let alone for meeting new international commitments for an environmentally sustainable world economy. Thus, with the potential volatility of private flows and the constraints on official ones, the international community will have to continue to focus on the generation of financial resources and their international transfer.[53]

The transfer of resources in 1992

The developed market economies transferred over US$ 50 billion to other countries in 1992, US$ 17 billion more than in 1991, according to preliminary estimates. The developing countries received over US$ 50 billion in transfers in 1992 from other countries, which marked the second year of very large aggregate net inflows (see table 9). Very little can be said about the net financial transfer of the transitional economies in 1992, but a rough estimate is that the Eastern European countries together made a net transfer in hard currency to other countries on the order of US$1 billion.

Receiving financial resources from abroad on a net basis is usually thought of as a positive development, although it also means that the country has a trade deficit, which is thought of negatively if it becomes unsustainably large. That is, when a country receives a net transfer from abroad, the payments for imports of merchandise and a broad range of services exceed the earnings from exports. In such a case, it means total domestic purchases in the country are larger than the value of production. In particular, this allows investment to exceed what could be financed out of domestic savings. By the same token, when a country makes a net transfer abroad, conventionally denoted a "negative transfer" or net outflow of resources, it means that not all its earnings from trade find their way into the purchase of imports.

For most developing countries, the presumption is that the net transfer of resources should be positive, a net inflow, because foreign resources would then help to finance expenditures beyond those that could be undertaken on the basis of domestic income alone. This is precisely what occurred in 1991 and 1992 (see table 9).

In 1991, however, the first year of large-scale net inflows to the developing countries since 1982, all but one eighth of the net transfer went to West Asia, particularly Kuwait and Saudi Arabia, where expenditures soared to pay for the Gulf war and the reconstruction of Kuwait after the war ended. Yet this net transfer was different only in size from the net transfers received by the region as a whole over the past 10 years. Most of the transfers went to the major oil exporters, considerable amounts being consumed in the war between the Islamic Republic of Iran and Iraq.

Not all energy exporters, however, have become net recipients of international resource

The importance of the issue continues to be highlighted by the General Assembly of the United Nations, as in resolution 47/178 of 22 December 1992, in which the Assembly requested, *inter alia,* that the present *Survey* address the main issues in the net transfer of resources between developing and developed countries.

The net transfer is measured here as the balance of payments on goods, non-factor services and labour with its sign reversed. As such, it is derived from balance-of-payments data that are subject to major inconsistencies among countries. In principle, the sum of the net transfers of all countries should be zero, with surpluses exactly offset by deficits. In fact, the sum of identified net transfers is usually positive and often large, in some years over US$ 30 billion. This means that there is some combination of overstated net inflows and understated net outflows in the underlying national data (problems in various components of the data were described in IMF. *Report on the World Current Account Discrepancy,* Washington, D.C., September 1987).

For a formal derivation of the net transfer in terms of national income accounting concepts and its relation to components of the balance of payments, see United Nations, *World Economic Survey, 1986,* New York, United Nations publication, Sales No. E.86.n.C.l, annex IO.

transfers. Algeria, Nigeria and other African oil exporters, in particular, are still making net transfers abroad and Egypt has begun to do so as well, as it reduces its trade deficit as part of its adjustment programme. Indeed, the only geographical region of the developing countries that had a negative transfer in 1992 was Africa. The smaller countries of the sub-Saharan region at least continued to register a modest overall positive transfer of about US$ 10 billion, as had been the case in 1990 and 1991.

The relatively disadvantaged position of Africa was, in fact, worse than is indicated by these calculations in terms of current dollar amounts. Since the economic role of positive net transfers is to allow purchases to exceed income by allowing the dollar value of imports to exceed the earnings from exports, developments in import and export prices matter a great deal. The ratio of export prices to import prices -the terms of trade- fell for most developing country regions in 1992; but for no region did it fall as much as for Africa. In other words, if international prices had not changed, Africa would have been able to purchase an additional US$ 3.5 billion worth of imports with its 1992 merchandise exports than was in fact the case. A positive net transfer of this amount would have offset the loss. The region's negative transfer only accentuated it.

A large net transfer of resources abroad had been an especially salient issue in Latin America and the Caribbean through most of the 1980s. The swing over the past two years in this region's net transfer is thus especially important. From negative transfers of between US$ 20 billion and US$ 30 billion in the late 1980s, the transfer became a net inflow of US$ 7 billion in 1992 (see table 9).

The external financial situation in Latin America had actually improved by much more than the net transfer statistics indicate. Instead of net capital inflows on the order of US$ 10 billion a year, as had been the average from 1985 to 1989, net capital inflows began to rise strongly in 1990 and exceeded US$ 50 billion by 1992. Moreover, with most international interest rates falling since 1990, Latin America's net payments of investment income declined. Thus, considered as the net cash flow of capital and investment income, the net transfer turned from negative to positive in 1991 and totalled US$ 27 billion in 1992.[56] The reason that these transfers financed a net import gap of only US$ 7 billion is that US$ 20 billion were added to official reserves. A similar amount had been added in 1991 and US$15 billion in 1990.

For more than a decade, analysts seemed to have been as encouraged by the economic and financial situation in Asia as they were discouraged by the difficulties and set-backs in Africa and Latin America. Economic growth in the vast region of China and South and East Asia and the Pacific has been very strong overall. Savings and investment are also high and considerable attention is given by policy makers to building and maintaining international competitiveness. As a result, productivity advances are strong. Indeed, earnings from foreign trade came to exceed import needs and savings rose above already high levels of domestic investment. In other words, the region made substantial net transfers abroad, this being an important case in which a "negative transfer" by developing countries did not have a negative connotation.

Of course, what was true for the region as a whole did not apply to every country in the region. The economic gains and net transfers in this case were first concentrated in a grouping that has been called the "four dragons" in the east and the "four tigers" in the west (Hong Kong, the Republic of Korea, Singapore and the Chinese province of Taiwan). At its peak in 1987, the total net foreign transfer of these economies exceeded US$ 30 billion. It was used to build up official reserves, repay external debts and invest in other countries, particularly other Asian economies and the United States. By 1990 they were joined

There are several widely used concepts of the net transfer of resources, of which this *Survey* uses two. The main concept used in this chapter, because it is directly related to national income concepts of investment, domestic savings and trade, is denoted the "net transfer (expenditure basis)" in the statistical annex tables. The concept that is derived as a net cash flow of capital and investment income is denoted the "net transfer (financial basis)". The relationship of these measures to concepts used by OECD and the World Bank was discussed in *World Economic Survey, 1990,* New York, 1990, United Nations publication, Sales No. E.90.JI.Ç.1 and corrigenda, pp. 79-81.

by China. Together they made a net transfer of almost US$ 20 billion in 1992, although more of it was accounted for by China than the others, which were going through or emerging from domestic adjustment processes, as well as coping with the slow growth of major export markets.

In fact, with the smaller transfers abroad by these five economies and with significant international transfers into other countries in Asia and the Pacific, the region as a whole became a net recipient of financial resources in 1991 and 1992. The inflows were spread across a variety of countries, which have been investing larger sums than domestic savings would permit, aimed in particular at relieving infrastructure bottlenecks, as in some countries of South-East Asia, and supporting adjustment-ciim-liberalizationdrives, as in India.

Before the end of the 1990s, some of these latter countries may join the other Asian suppliers of resources to the rest of the world. In the short run, however, they are expected to continue to draw on international finance on a net basis as their investment demand is higher than their generally high savings rate. They enjoy access to international capital markets as for the most part they did not build up foreign debt to levels that became insupportable in the 1980s. Their high growth and investment prospects attract the interest of foreign direct and portfolio investors and as long as international markets remain open to their exports, they will be seen as attractive placements for funds.

Indeed, the developing countries as a whole may be expected to continue to absorb net resource transfers in the next few years. The Philippines and several Latin American countries have regained access to private credit markets, interest rates are not expected to rise strongly, and there is no shortage of private finance at the global level, or even of official credit on commercial terms. Official concessional assistance is another situation entirely, although countries that depend heavily on such flows for positive transfers today will probably not be forced into outright negative transfer situations as a result of limitations on the growth of aid.

A central feature of the net transfer of resources of industrialized countries in the 1980s had been the very large absorption of international resources by the United States. It proved that if a country is large enough and supplies the world's chief currency for international transactions, capital from around the globe will finance unsustainable policies for a long period. As exporters rushed to meet the burgeoning United States demand for imports, foreign creditors and investors -including United States financial institutions that were already operating in overseas markets- stood ready to finance the transactions. Thus, large trade surpluses and the net outflow of resources that corresponded to them were generated in Europe and Japan as the counterpart to the United States trade deficit and net inflow. However, the industrialized countries did not themselves fully meet the United States demand for funds, and thus as a group these countries absorbed resources on a net basis for most of the 1980s.

The United States quickly went from being the country with the largest international net asset position to the world's largest net debtor. The very large United States budget deficit was one central part of the story and, indeed, as foreign purchases of official securities were large for many years, the United States Government has made increasingly large net foreign interest payments. They reached US$ 32 billion in 1992, up US$ 1.5 billion from 1991 despite the large fall in interest rates on government debt in 1992. In 1982, when interest rates on official United States debt were roughly twice as high as last year, the United States Government paid less than half as much in net interest.

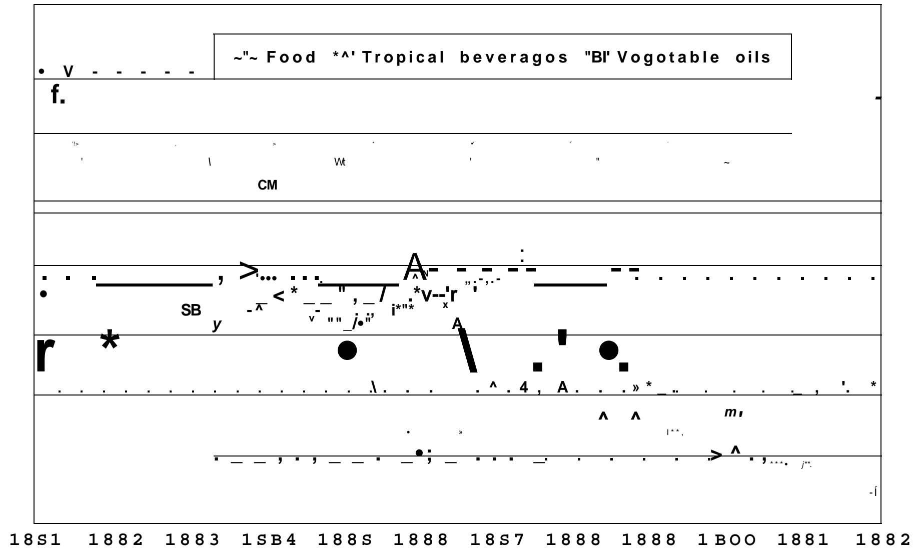
Private debt has also mushroomed in the United States, and, correspondingly, so has net foreign borrowing by the United States private sector. Thus, instead of earning US$ 20 billion to US$ 25 billion a year in interest on a net basis, as had been the case in the first half of the 1980s, the private sector now is a net payer of foreign interest.

Considering all interest and dividend obligations together, the United States has to make increasingly large net foreign payments,

Figure 2

PRICE INDEXES OF COMMODITIES OTHER THAN FUEL, 1981-1992

(Indexes: 1985=100)



Sourco: UNCTAD, *Monthly Commodity friom Bullmtin.*

which reached US$ 23 billion in 1992.[57] This means that the net capital flow into the United States needed to bring about a net transfer of resources has to be enough to also cover the net outflow of dividends and interest. In 1992, in particular, a net capital inflow of US$ 68 billion was needed to bring about a net transfer of US$48 billion.

This notwithstanding, a considerable correction of the United States net transfer problem has taken place. The net transfer was less than 1% of GDP in 1991 and 1992, compared to between 3% and 3.5% from 1984 to 1987. On the other hand, the United States net transfer is expected to grow again, with economic recovery under way in the United States, albeit slowly, while Europe and Japan are in economic stagnation or recession. The net transfer to the United States is likely to exceed US$ 60 billion this year and be over US$ 70 billion in 1994. Both amounts would still be, however, only 1% of United States GDP. In the second half of the decade, as the fiscal adjustment policy of the United States begins to bear fruit, the transfer is expected to again fall in nominal dollar terms, let alone as a share of GDP.[58]

If the reallocation that the United States imposed on international financial flows in the 1980s is thus on a medium-term path to correction, the net transfer of the United States *vis-à-vis* particular groups of countries has already changed significantly. Thus, whereas Latin America and the Caribbean transferred over US$ 20 billion a year to the United States in the mid-1980s, the United States began transferring resources on a net basis to that region in 1992 (see table 10). This was the hemispheric component of the change in the overall net transfer of Latin America noted above. The United States has also increased its transfer to the economies in transition to US$ 4 billion on a net basis, although this was not a significant departure from the net transfers in prior years.

As the table indicates, the geographical pattern of United States net transfers is increasingly a composite of diverse regional inflows and outflows. While certain groups of countries transfer considerable sums to the United States, others receive them from the United States economy on a net basis. Latin America and Europe, western as well as eastern, now draw resources, while Japan and a large grouping of developing countries, mainly comprising large exporters of oil or manufactures, continue to build up dollar reserves and investments in the United States.

One feature of the geographical breakdown of the United States net transfer that has changed relatively little over the years is the net inflow from Japan. Since peaking in 1987, Japan's net transfer to the United States has been slowly out not steadily declining. In 1992, Japan played a rather small role in the increased transfer to the United States; Japan's transfer rose less than US$ 5 billion. This happened, moreover, in a year in which the overall net transfer from Japan rose US$ 27 billion, to a total of US$ 86 billion.

In other words, the net transfer of Japan rose so much in 1992 mainly owing to net resource transfers to countries other than the United States. This follows a pattern that was already visible in 1991, when the US$ 41 billion increase in the net transfer went primarily to the European Community and the developing countries of South-East Asia. The United States accounted for less than 40% of the net transfer of Japan since 1991, compared to about two thirds in 1986-1987 and even higher shares before.

What is quite remarkable, however, is that these large net transfers embody substantially

The sum of net dividends and interest is not quite the same as "net investment income", which is often seen in balance-of-payments data. This also includes reinvested earnings in direct foreign investment. In principle, such earnings should be treated as though they were paid out as income and returned to the enterprise as new investment (see IMF, *Balance of Payments Manual,* fourth edition, Washington, D.C., 1977, pp. 101-102). Since many countries do not capture reinvested earnings in their balance-of-payments data, this *Survey* standardizes its presentation of the data on the financial components of the net transfer of resources by reporting "net dividends and interest" in lieuof net investment income, and direct investment is shown netof reinvested earnings.

The United Kingdom also came to absorb considerable net transfers from abroad in the late 1980s. As in the United States, there had been a rapid build-up of indebtedness and an unsustainable, albeit different, set of macroeconomic policies. After some balance-of-payments correction related to economic recession, the resource transfer to the United Kingdom virtually doubled in 1992 owing to the substantial overvaluation of the pound sterling and the heavy import penetration that resulted, leading to the floating of the pound in September.

larger net capital outflows from Japan, as net receipts of interest and dividends are themselves large and rising. In 1992 the net earnings reached US$ 36 billion and the net capital outflow was US$124 billion.

Japan is supplying far less medium-term and long-term capital to the world than it did in the 1980s. It has not been a net provider of medium-term or long-term loans to the world since 1990. It has continued to be a source of official assistance and direct investment, although in 1992 the latter was about a third of the peak net outflows of 1990. Investment in Europe and the United States was cut back most sharply, although even investments in Asia fell significantly.

In other words, Japan transferred resources to the rest of the world in 1992 not so much by extending new credit as by reducing the short-term foreign debt of its domestic banking system. In essence, the financial system was unwinding a process that had worked in reverse in the second half of the 1980s. In those years Japan acted as an international financial intermediary that "borrowed short" and "lent long". Financed by net short-term inflows into the banking system as well as by its trade surplus, Japan supplied very substantial outflows of direct and portfolio investment from 1986 to 1989. For the time being, those longer-term flows are very much reduced.

Short-term capital has also reversed direction in recent years and caused balance-of-payments complications in Germany. The difficulties, in this case, have involved exchange rate strains among European currencies and a rash of funds into the country. By mid-1992, it had became apparent to the financial markets that several European currencies had become overvalued (or the deutsche mark undervalued). The authorities of all the countries pledged themselves to maintain the existing parities, which had been fixed within a European currency grid or informally tied to one or another currency. Unlike the dollar or the yen, which fluctuated without formal restrictions, speculators saw a European bet they could not lose. At worst they would have to repatriate their funds at the original exchange rate and so funds poured into Germany from each weak-currency country.

Most of the short-term inflow occurred in the second half of 1992, but for the year as a whole, the net inflow of short-term capital to Germany was US$ 58 billion. This was in a country that in most years over the past decade had been a net source of short-term funds. With open capital markets, the only way a Government can prevent an excessive inflow of funds from driving up the exchange rate is for its monetary authorities to buy up the funds with its own currency. This the Bundesbank did, adding US$ 47 billion to its foreign exchange reserves in the year as a whole. Indeed, if changes in reserves are thought of as just another part of international capital, Germany's net capital flow in 1992 was zero. The inflows of short-term and long-term capital exactly offset the outflows of official grants and purchases of reserves.

In this regard, the German economy has come a great distance from its role in the 1980s when it was a major source of capital for the rest of the world. As a result of those capital outflows, Germany became a net recipient of dividend and interest income on the order of US$ 10 billion to US$ 15 billion a year since 1989. Indeed, this investment income, added to the zero net capital flow including reserve changes, as noted above, •meant that Germany was a net recipient of resource transfers from the rest of the world. The US$ 9 billion net transfer in 1992 was small, however, although it represents a large swing from the net outward transfers of US$ 50 billion to US$ 60 billion a year in the second half of the 1980s.

The change in net resource transfers was brought about by the mix of policies the German Government adopted to absorb the eastern Lander into the Federal Republic. Net resource transfers to the *Lander* totalled DM 172 billion in 1991 and DM 195 billion in 1992, about US$ 104 billion and US$ 125 billion, respectively.[59] Virtually all of the resources transferred originated in the western German economy, which thereby absorbed all of Germany's ability to transfer resources to foreign countries.

Data include east Berlin and are based on national income accounts, as per *Wirtschaft und Statistik,* Statistisches Bundesamt, No. 1, January 1993, p. 12. Transfers are defined here more broadly than government financial transfers *per se,* although these, too, were large at DM 132 billion and DM 163 billion in 1991 and 1992, respectively.

Table 1
GROWTH OF GROSS DOMESTIC PRODUCT (GDP) AND POPULATION BY REGION, 1981-1992

	Growth of GDP (annual percentage change)					Memo items: comparative indicators		
	1981-1988	1989	1990	1991	1992[a]	Growth of population 1991-1995 (average annual percentage variation)	Population in 1992 (millions)	GDP in 1992 (percentage of world GDP)
World	**2.9**	**3.2**	**1.6**	**0.2**	**0.6**	**1.7**	**5 479**	**100**
Developed market economies	2.8	3.3	2.3 [c]	0.7	1.5	0.7	847	74
United States	2.8	2.5	0.8	-1.2	2.1	1.0	255	25
European Community	2.1	3.4	2.7 [c]	0.9	1.2	0.3	346	25
Japan	4.0	4.7	4.8	4.0	1.3	0.4	124	16
Economies in transition	3.1	2.1	-6.3 [c]	-9.0	-16.8	0.4	393	8
Developing countries	3.1	3.5	3.4	3.4	4.9	2.0	4 238	18
Latin America and the Caribbean	1.4	1.1	0.1	2.9	2.2	1.8	458	4
Africa	1.8	3.0	2.9	2.0	1.4	2.9	642	2
West Asia	-1.7	3.2	1.9	-0.1	6.6	2.7	142	2
South and East Asia	5.9	6.1	6.4	5.3	4.9	1.9	1726	6
China	9.9	3.6	5.2	7.7	12.8	1.4	1 188	3
Mediterranean countries	2.5	0.3	1.1	-7.9	-5.2	1.5	83	1

Source: United Nations, Department for Economic and Social Information and Policy Analysis. Data on population are those published by the Department in *World Population Prospects, 1992* (to be issued as a United Nations publication).
[a] Preliminary figures. The former Soviet Union and eastern Europe. [c] After 1990, the former German Democratic Republic is included in Germany.

Table 2

OUTPUT, UNEMPLOYMENT AND INFLATION IN THE SEVEN LARGEST INDUSTRIALIZED ECONOMIES, 1991-1992

	Quarter							Year	
	1991				1992				
	i	n	ni	rv	in	in	rv[a]	1991	1992[a]
Growth of gross domestic product									
Germany[0]	10.1	**-2.4**	**-1.9**	**-1.4**	**7.9**	**-0.5**	-2.0	-3.9	3.7	1.5
Canada	**-5.9**	**5.5**	**0.4**	0.0	**0.4**	**0.4**	1.2	3.5	-1.7	0.9
United States	**-2.8**	**1.8**	1.1	**0.7**	**2.9**	**1.4**	3.4	4.7	-1.2	2.1
France	0.0	**2.8**	**3.8**	**0.7**	**3.1**	**1.3**	1.2	-2.0	1.2	1.6
Italy	**1.7**	**2.1**	**0.7**	**2.4**	**2.3**	0.9	-2.4	-3.5	1.6	0.9
Japan	**6.7**	**4.0**	**1.7**	**2.1**	**4.1**	**-0.9**	-2.2	-0.3	4.0	1.3
United Kingdom	**-2.1**	**-3.1**	1.1	**-0.3**	**-2.8**	**-0.7**	0.4	0.4	-2.3	-0.5
Total	**1.4**	**1.8**	**1.1**	**0.9**	**3.2**	**0.4**	0.6	1.1	1.0	1.5
Unemployment										
Germany[0]	**4.3**	**4.3**	**4.4**	**4.3**	**4.5**	4.7	4.8	5.1	**4.4**	4.8
Canada	10.1	10.3	10.3	10.3	10.7	11.2	11.5	**11.5**	10.2	11.2
United States	**6.4**	**6.7**	**6.7**	**6.9**	**7.2**	7.4	7.4	7.2	6.6	7.2
France	9.0	**9.2**	**9.7**	9.9	10.1	10.3	10.3	**10.4**	9.5	10.3
Italy	9.9	10.0	**9.6**	9.9	9.9	9.9	9.9	10.4	9.9	10.1
Japan	**2.0**	**2.1**	**2.1**	**2.1**	**2.0**	2.1	2.2	2.3	2.1	2.2
United Kingdom	**8.2**	**8.7**	9.1	**9.3**	**9.5**	9.7	10.1	10.5	8.7	10.0
Total	**6.1**	**6.3**	**6.4**	**6.5**	**6.6**	**6.8**	**6.9**	**7.0**	**6.3**	**6.8**
(Consumer price increases[6]										
Germany[0]	**2.7**	**3.1**	**4.2**	**4.0**	4.3	4.5	3.4	3.7	3.5	4.1
Canada	**6.4**	**6.2**	**5.7**	**4.1**	1.7	1.4	1.3	1.7	5.6	1.5
United States	**5.3**	**4.8**	**3.8**	3.0	2.9	3.1	3.1	3.0	4.3	3.0
France	**3.5**	**3.2**	**3.0**	**2.9**	3.0	3.1	2.7	2.1	3.1	2.8
Italy	**6.4**	**6.7**	**6.4**	**6.1**	5.8	5.5	5.2	4.8	6.4	5.4
Japan	**3.7**	**3.4**	**3.2**	**2.8**	1.9	2.2	1.8	0.9	3.3	1.7
United Kingdom	**8.6**	**6.0**	**4.8**	**4.1**	4.1	4.2	3.6	3.0	5.9	3.7
Total	**5.0**	**4.6**	**4.0**	**3.4**	**3.1**	**3.2**	**2.9**	**2.6**	**4.2**	**3.0**

Source: United Nations, Department for Economic and Social Information and Policy Analysis, based on data of IMF, OECD and national authorities.

[a] Partly estimated. Percentage change in seasonally adjusted data from preceding quarter, expressed as annual rates (total is weighted average, with weightings being 1991 GDP, valued at 1988 prices and exchange rates). [c] Western Germany only. Gross national product. Percentage of total labour force; seasonally adjusted data as standardized by OECD. [e] Percentage change in average consumer price index in quarter relative to same quarter of preceding year (total is weighted average with weightings being annual consumption calculated on the basis of 1988 prices and exchange rates).

Table 3

UNEMPLOYMENT AND INFLATION IN EASTERN EUROPE, 1990-1992

	Unemployment*			Increase in consumer prices		
	1990	|991	1992	1990	1991	1992
Albania					104. I[e]	249.1[e]
Bulgaria	1.6	11.5	15.9	19.3	338.5	79.3
Czechoslovakia	1.0	6.6	5.1	9.9	57.9	10.8
Hungary	1.7	7.4	12.3	28.9	35.0	23.0
Poland	6.3	11.8	13.6	584.7	70.3	43.0
Romania	1.3	3.0	8.4	5.7	165.5	210.4

Source: United Nations, Economic Commission for Europe and Department of Economic and Social Information and Policy Analysis.

″ Number of unemployed as a percentage of the labour force as of the end of the relevant period. Average annual percentage change in the consumer price index as compared to the preceding year. [c]Over a one-year span (from December to December of the preceding year).

Table 4

ECONOMIC PERFORMANCE FOR 1992 OF THE SUCCESSOR STATES OF THE FORMER SOVIET UNION

(1991 = 100)

	Net material product	Industrial output	Wholesale price index for industry	Retail pnce index*
Commonwealth of Independent States				
Armenia	57.4	47.5	1047	1230
Azerbaija	71.8	76.0	1300	2 180
Belarus	89.0	90.4	2 465	1950
Kazakhstan	85.8	85.2	2 469	1440
Kyrgyzstan	74.0	73.2	1764	1660
Moldova	78.7	78.3	1311	1360
Russia Federation	80.0	81.2	2 049	1650
Tajikistan	69.0	75.7	1423	1350
Turkmenistan		83.3	1094	880
Ukraine	85.0	91.0	2 400	2 080
Uzbekistan	87.1	93.8	1396	740
Other countries				
Georgia	55.0	53.7	...	
Estonia	73.7 [b]	59.4		1520
Latvia	56.1[b]	61.0		1059
Lithuania	67.0 [b]	54.2		436[e]

Source: *Ekonomika Sodruzhestva Nezavisimykh Gosudarstv v 1992 godu,* Moscow, *Goskomstat,* 29 January 1993, for the countries of the cis; data on the Baltic States was obtained from the ECE and IMF.

[a] December 1992/December 1991 ; data on consumer goods only (services are not included). GDP. [c]January-July 1992.

Table 5

CHINA: SELECTED ECONOMIC INDICATORS, 1990-1992

(Annual percentage change)

	1990	1991	1992[a]
Gross domestic product	4.1	7.7	12.8
Manufacturing production	7.8	14.5	20.2
Agricultural production	7.6	3.7	3.0
Gross fixed capital investment	7.5	23.8	33.0
Value of retail sales	2.5	13.4	15.7
Retail price index	2.1	2.9	5.3
Total exports	18.1	15.9	14.3
Total imports	-10.1	19.1	22.0

Source: State Statistical Office of China and IMF, *International Financial Statistics,* several issues.
* Preliminary figures.

Table 6

WORLD TRADE, 1983-1992

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
					Value of exports (billions of dollars)					
World	**1771**	**1874**	**1896**	**2084**	**2437**	**2763**	**2990**	**3412**	**3476**	**3692**
Developed market economies	1 171	1248	1289	1 504	1 759	2 007	2 147	2 476	1 541	2 695
Developing countries	475	501	486	453	546	625	713	812	854	922
Economies in transition	124	124	121	127	132	131	129	124	81	
Eastern Europe	61	62	64	67	69	69	67	65	44	46
Former Soviet Union	64	62	57	60	63	62	62	59	37	
					Volume of exports (annual percentage change)					
World	**1.6**	8.5	**3.8**	**4.1**	5.8	**8.1**	**7.8**	5.1	**3.6**	4.5
Developed market economies	1.8	9.8	5.2	3.4	5.0	8.6	6.7	5.7	2.5	3.9
Developing countries	0.0	6.1	1.3	11.6	9.7	8.0	11.7	7.9	9.7	7.4
Economies in transition	5.9	5.1	-0.8	4.0	2.5	4.5	-1.0	-9.7	-18.0	-
Eastern Europe	8.2	7.2	2.1	-0.7	1.7	4.3	-1.8	-6.5	-7.0	5.0
Former Soviet Union	3.3	2.5	-4.3	10.0	3.4	4.8	0.0	-13.0	-27.7	-

Source: IMF, *International Financial Statistics,* and estimates prepared by the United Nations Department for Economic and Social Information and Policy Analysis.
* Preliminary estimates.

Table 7

INDICES OF PRICES OF NON-FUEL PRIMARY COMMODITIES EXPORTED BY DEVELOPING COUNTRIES, 1982-1992

(7955 = *100)*

	Food	Tro-pical bever-ages	Vegetable oil-seeds and oils	Agri-cultural raw mate-rials	Minerals and metals	Combined index		Prices of manu-fac-tures*	Effective prices of commodi-ties[0]	Memo item: crude petro-leum[0]
						SDRS	Dollars			
1982	131	92	90	103	105	111	102	107	104	121
1983	138	96	107	110	113	118	112	103	114	108
1984	116	110	144	111	105	114	112	100	114	102
1985	100	100	100	100	100	100	100	100	100	100
1986	110	124	62	102	95	104	90	120	87	55
1987	117	81	73	119	113	107	84	135	79	62
1988	152	82	96	129	164	135	102	144	94	49
1989	161	70	85	129	164	135	107	143	94	59
1990	151	62	74	137	149	127	95	158	80	75
1991	141	57	80	129	135	119	88	158	75	62
1992	138	49	86	125	131	115	83	164	71	63
1991										
I	145	61	78	139	142	124	89	166	74	64
II	142	57	76	128	136	119	90	152	78	58
III	138	55	80	125	132	116	88	152	76	62
IV	140	56	85	123	130	116	85	157	74	66
1992										
I	141	50	88	123	129	116	85	160	72	57
II	138	46	88	123	132	116	84	162	72	65
III	143	46	83	128	138	118	83	170	70	65
IV	131	52	83	127	125	112	81	163	69	65

Source: UNCTAD, *Monthly Commodity Price Bulletin,* and United Nations, *Monthly Bulletin of Statistics.*

[a] Unit value of exports of manufactures from developed market economies. The base of the original index has been shifted to 1985. Dollar index deflated by unit values of manufactured exports of developed market economies. [C]OPEC oil price, which is the average spot price of a basket of seven OPEC country crudes (Sanaran Blend, Minas, Bonny Light, Arab Light, Dubai, T. J. Light and Isthmus).

Table 8

WORLD OIL DEMAND, 1986-1992"

(Millions of barrels per day)

	1986	1987	1988	1989	1990	1991	1992	Percentage change between 1986 and 1992
Developed market economies	35.4	36.0	37.5	37.8	37.9	38.0	38.5	10.2
North America	18.0	18.5	19.2	19.3	18.9	18.6	18.8	6.7
Western Europe	12.2	12.3	12.8	12.8	13.0	13.4	13.5	11.5
Paciftc[b]	5.2	5.2	5.5	5.7	6.0	6.1	6.2	21.2
Economies in transition	11.0	11.1	10.8	10.6	10.0	9.5	8.2	-32.7
Easten Europe	2.0	2.1	1.9	1.8	1.6	1.2	1.1	-45.0
Former Soviet Union[0]	9.0	9.0	8.9	8.8	8.4	8.3	7.1	-30.0
Developing countries	15.2	15.8	16.6	17.6	18.4	19.2	20.2	32.9
Africa	1.8	1.9	2.0	2.0	2.1	2.1	2.2	22.2
Latin America	4.7	4.8	4.9	5.0	5.1	5.3	5.4	19.1
Asia	3.8	4.0	4.5	4.9	5.4	5.8	6.3	78.9
China[0]	2.0	2.1	2.2	2.4	2.4	2.5	2.6	35.0
Middle East	2.9	3.0	3.0	3.3	3.4	3.5	3.7	34.5
Total world"	**61.6**	**62.9**	**64.9**	**66.0**	**66.2**	**66.6**	**67.0**	**9.7**

Source: United Nations, Department for Economic and Social Information and Policy Analysis, based on International Energy Agency, *Monthly Oil Market Report,* April 1991, January 1992 and January 1993.

* Including deliveries from refineries/primary stocks, marine bunkers, refinery fuel and non-conventional sources. Australia, Japan and New Zealand. [c]Based on estimates of apparent domestic demand derived from official production figures and quarterly trade data. *The sum of the individual entries may not match the total due to rounding.

Table 9

NET TRANSFER OF FINANCIAL RESOURCES TO GROUPS OF DEVELOPING COUNTRIES, 1982-1992"

(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[b]
All developing countries	**34.3**	**18.3**	**-22.9**	**-10.1**	**18.7**	**-27.9**	**-15.0**	**-24.5**	**-24.7**	**47.3**	**51.9**
Capital-importing countries[0]	26.9	-7.0	-29.3	-17.2	-4.2	-33.8	-31.8	-29.1	-22.4	4.7	20.7
Totals, by region											
Africa	16.2	9.7	3.8	-2.6	7.6	2.1	7.0	4.8	-5.8	0.9	-1.6
Sub-Saharan Africa	8.0	5.9	2.8	3.1	6.1	6.1	7.7	6.4	7.8	11.5	10.0
Latin America and the Caribbean	3.4	-25.7	-34.9	-30.2	-11.4	-17.9	-21.6	-28.9	-26.0	-7.2	6.9
West Asia	2.3	27.1	12.9	20.2	36.7	21.8	25.0	15.0	3.8	41.6	27.2
Rest of Asia	8.6	5.7	-4.6	4.1	-12.3	-30.8	-18.4	-10.4	-5.1	7.3	12.4
Mediterranean countries	3.8	1.4	-0.1	-1.6	-2.0	-3.3	-7.0	-4.9	8.3	4.7	7.0
Totals, by trade category											
Energy exporters	12.0	12.1	-14.5	-7.9	30.3	-4.2	13.0	-5.4	-26.0	28.9	27.1
"Surplus" countries	0.5	22.1	8.6	13.0	32.0	18.1	21.4	15.1	4.3	38.5	22.1
"Deficit" countries	11.5	-10.0	-23.1	-20.9	-1.7	-22.3	-8.4	-20.5	-30.3	-9.6	5.0
Energy importers	22.3	6.2	-8.3	-2.2	-11.6	-23.8	-28.0	-19.1	1.3	18.4	24.9
Four manufactures exporters[6]	-0.5	-4.6	-9.1	-12.1	-23.8	-31.2	-26.5	-21.9	-11.9	-4.1	-7.6
China	-5.5	-3.3	-0.8	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.5	-11.4
Other	28.3	14.0	1.6	-2.5	5.0	8.0	-5.2	-1.9	24.1	35.1	43.9
Memorandum item: 15 heavily-indebted countries	9.4	-23.9	-40.6	-40.5	-22.0	-28.4	-30.9	-37.8	-32.0	-12.8	2.5

Source: United Nations, Department for Economic and Social Information and Policy Analysis, based on data of IMF, official national and other sources.

* Expenditure basis (after deduction of payments for goods, services and private transfers, excluding investment income).

"Preliminary estimates. [c]Sample of 93 countries. [d]Excluding Nigeria. [e] Hong Kong, Republic of Korea, Singapore and the Chinese province of Taiwan. Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Moroco, Nigeria, Peru, Philippines, Uruguay, Venezuela and the former Yugoslavia.

Table 10

NET RESOURCE TRANSFERS TO THE UNITED STATES, BY REGION, 1982-1992

(Billions of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Canada	7.1	9.0	12.3	13.1	10.2	8.0	7.5	3.4	1.4	-1.6	0.1
Japan	15.5	24.6	42.1	51.3	52.1	53.4	47.4	40.8	31.9	32.3	36.8
Western Europe	-2.7	5.4	21.4	31.1	34.8	32.2	18.9	2.1	-2.4	-18.3	-11.4
Germany	5.3	8.3	13.2	15.9	20.0	21.4	18.2	14.3	16.2	10.4	
United kingdom	2.9	2.8	3.0	5.3	5.6	4.7	0.1	-4.2	-3.9	-4.3	-5.4
Latin America and the Caribbean	7.7	21.2	24.1	20.4	16.7	19.7	14.8	13.4	13.1	0.9	-6.5
Major oil exporters of Africa and Asia[a]	5.4	-0.1	4.6	2.7	1.5	7.0	5.9	11.2	16.6	7.1	7.8
Other developing countries	2.8	11.6	23.4	24.1	34.1	44.1	36.8	38.0	35.7	27.0	34.6
Economies in transition	-2.8	-1.7	-2.1	-1.4	0.0	-0.2	-1.6	-3.6	-2.2	-3.3	-3.9
Other countries[b]	-4.6	-8.8	-11.7	-14.0	-5.0	-6.6	-9.0	-8.5	-8.2	-8.5	-9.0
Total	**28.4**	**61.3**	**114.1**	**127.3**	**144.4**	**157.6**	**120.7**	**96.8**	**83.9**	**35.5**	**48.5**

Source: United Nations, Department for Economic and Social Information and Policy Analysis, based on data from the United States Department of Commerce, *Survey of Current Business.*

[a] Includes the member countries of OPEC except Ecuador and Venezuela. Includes net transactions with international organizations and unattributed sums.

THIRD PART

EXTERNAL CAPITAL MOVEMENTS IN LATIN AMERICA AND THE CARIBBEAN

EXTERNAL CAPITAL MOVEMENTS IN LATIN AMERICA AND THE CARIBBEAN

1. The flow of external capital to Latin America in the 1980s

Since the beginning of the 1990s, the Latin American and Caribbean countries have received a large net inflow of external capital. During the first three years of this decade, the flow of capital into the region averaged US$ 41 billion per year, and in 1992 the net inflow amounted to nearly US$ 61 billion (see table 1).

There is no question about the fact that the sizeable capital flows seen in the 1990s constitute a somewhat surprising turn of events. First, they represent an abrupt turn-about from the extremely tight situation in terms of external finance faced by the region throughout virtually the whole of the 1980s as a consequence of the external debt crisis. This turnaround assumed dramatic proportions: between 1983 and 1989, net capital inflows averaged just slightly more than US$ 8 billion annually, as compared to an annual average of US$ 41 billion for the period 1990-1992 (see table 1). Second, the sheer magnitude of this rebound is nothing less than astonishing: the net inflow of capital in 1992 was 50% greater than it had been in 1981, which was the last year before the outbreak of the debt crisis and the resulting evaporation of financial flows. Even when calculated in constant dollars, the inflow of funds in 1992 was 45% higher than it was 11 years earlier. Moreover, as a percentage of the Latin American and Caribbean region's GDP, net capital inflows amounted to almost 6% in 1992, versus 4.6% in 1981 (see table 2).

Although the net capital inflow for 1992 far exceeded the levels registered prior to the 1982 financial crisis, both in absolute terms and as a percentage of GDP, the difference is much smaller if capital flows are measured as a percentage of the region's exports. When measured on this basis, we see that the inflow of capital in 1992 was equivalent to 48% of the value of Latin American and Caribbean exports, as compared to 40% in 1981 (see table 3). This reflects the impact of the structural adjustments made in the 1980s, which enhanced the role of exports in the economies of the region; in point of fact, the region's exports/GDP ratio climbed from 15% in 1981 to 21% in 1992.

Thanks to this voluminous inflow of capital, in combination with a lower level of interest payments on the external debt, the region received a net positive transfer of resources for the first time since the start of the crisis; the net transfer turned positive in 1991, when it totalled US$ 9.1 billion, and then swelled to US$ 32.2 billion in 1992. In terms of the region's GDP, the positive transfers for these two years amounted to 0.9% and 3.1%, respectively, as compared to an average negative transfer equivalent to 3.7% of regional GDP during the period 1983-1989 (see table 4). This positive reversal of the net transfer's direction was, moreover, widespread, with the only countries recording a net outward transfer of resource in 1992 being Colombia, Ecuador and Paraguay.

Although almost all the countries of Latin America and the Caribbean have benefited from a spectacular increase in capital inflows in the 1990s, these flows have been concentrated to some extent in the oil-exporting countries and in the non-oil-exporting countries of South America. Indeed, between 1983-1989 and 1990-1993, the average annual level of capital flows increased by a factor of 41 in the first group (by a factor of 11 if Venezuela is not included in the calculations) and nearly trebled in the second. In contrast, the Central American and Caribbean countries witnessed a much smaller expansion (46%) in average capital flows between these two periods (see table 1). This was partly due to the

fact that this subregion did not experience as steep a reduction in capital flows in the 1980s as most of the Latin American countries did because the Central American and Caribbean economies have had a relatively greater degree of access to official loans, which tend to be a more stable source of external financing.

The turn-about in capital flows was especially notable in certain countries. The most conspicuous case was Mexico, which accounts for one fourth of the regional GDP and absorbed 60% of the increase in the region's incoming capital movements in the years between the two above-mentioned periods. Accordingly, the annual average flow of capital to that country went from a negative balance of US$ 530 million in 1983-1989 to an inflow of over US$ 19 billion between 1990 and 1992. When expressed as a percentage of GDP, the annual flow shifted from a negative 0.4% to a positive 10.8% (see tables 1 and 2). Argentina has also been the recipient of an extremely large flow of capital: between the two periods in question, the annual average flow jumped from US$ 1.75 billion to US$ 6.7 billion (or, as a percentage of GDP, from 2.5% to 9.6%). Brazil, Chile, Peru, Venezuela and Panama have also exhibited exceptionally dynamic capital accounts in the 1990s (see tables 1 and 2).

2. Capital movements from a historical perspective

a) The tight financial environment in the 1950s

During the first decade of the post-war period, Latin America was faced with persistent, severe financial constraints. In fact, between 1950 and 1965 the annual average flow of external resources received by the region amounted to scarcely 1% of its GDP; these inflows were too small to counterbalance the region's outlays for profit remittances and interest payments on external capital, and the region's net resource transfer was therefore negative during that period, averaging 0.6% of GDP (see table 4).

This situation was largely a product of external factors, one of the most important of which was the fact that, in the 1950s, the capital markets of the northern hemisphere were primarily oriented towards domestic finance; this, in turn, was partly because investors remembered the large-scale defaults on international obligations that occurred during the period between the two wars (many of which involved Latin America) and partly due to the controls placed on capital movements by industrialized countries, which were still in the process of rebuilding their economies. During this period most external financing came from foreign direct investment (equivalent to 60% of the total net capital flow) and from medium- and long-term lending (40% of the total net flow), first by suppliers and these firms' respective Governments, and then, beginning in the 1960s, by multilateral financial agencies (see table 5). Private financing played an important, but generally limited, role and was confined to short-term financing for specific, Government-backed projects.

b) The expansionary phase of the cycle from the mid-1960s to the early 1980s

In the mid-1960s the capital accounts of the Latin American and Caribbean economies began to display a greater degree of dynamism; this marked the beginning of an expansionary phase in external finance within an equally expansionary phase of the international financial cycle that was to last until the 1982 debt crisis. The increase in the flows of external financing received by the economies of the region was as large as it was widespread. By the early 1970s capital flows were equivalent to 3% of the region's GDP, on average, and their rate of

During that period Venezuela registered a large net outflow of capital due, in part, to the uncertainty surrounding its petroleum sector, which was in foreign hands at the time. The capital inflows and resource transfers of the countries of the region, excluding Venezuela, were equivalent to 1.4% and 0.4% of GDP, respectively.

See Douglas Hayes, *Bank Lending Policies,* Ann Arbor, Michigan, University of Michigan, School of Business Administration, 1977.

[3] See ECLAC, *External Financing in Latin America* (E/CN. 12/0649/Rev. 1), Santiago, Chile, 1964. United Nations publication, Sales No. E.65.II.G.4.

expansion picked up further during the second half of the 1970s and the early years of the 1980s, when they were representing between 4% and 5 % of regional GDP (see table 2).

This great surge in capital inflows was mainly brought about by external factors. Trends in the banking sector of industrialized countries played a pivotal role in this respect. First, mention should be made of the changeover of generations that took place in banking circles in the 1950s, when a "new" type of banker appeared on the scene who was less deeply marked by the financial crises of the 1930s; this, in combination with the excess liquidity existing in the industrialized countries' financial markets and the contraction of the banks' share in those markets, prompted bank executives to adopt an increasingly aggressive attitude regarding the placement of loan funds.

Their sphere of action was initially confined to domestic markets, but in the course of the 1960s their expansionary strategy began to be carried over into the international sphere. One reason was that bankers felt that their countries' existing banking regulations greatly hindered them from expanding their loan portfolios. A second factor was that as early as the 1960s the "Eurocurrency market" had begun to take shape; the emergence of this market, which was tantamount to an international financial platform unfettered by any sort of regulation whatsoever, allowed banks to sidestep national regulation, including controls on capital movements. The combination of the above factors plus the rising level of international liquidity and the technical innovations being applied in order to reduce the risk involved in international lending activity to a minimum set the scene for the internationalization of private banking, which was in fact what occurred in the 1970s.

During the greater part of the 1960s, the banks had concentrated their efforts to expand the banking system in the more creditworthy markets of the Organization for Economic Cooperation and Development (OECD). However, the fierce competition in those markets and the resulting reduction in profit margins, together with the deep recession into which the OECD economies slipped in 1969-1970, prompted bankers to look for new markets in developing countries. Since North American bankers were the first to explore this new frontier, it is not surprising that the increase in international bank loans was initially concentrated in Latin America.

Although during the period 1966-1981 private international banks were unquestionably the primary engine of growth in the supply of external finance made available to the region, there were also other contributing factors that helped to fuel this huge flow of external capital. The oil crises of 1973-1974 and 1979-1980 provided a forceful stimulus for capital movements; on the one hand, a strong demand arose for funds to finance the current accounts of oil-importing countries; on the other, oil-exporting countries appeared to be on a firmer financial footing and thus became prime targets within private banks' internationalization strategies. The huge sum of petrodollar deposits flowing into the international banking system also spurred the expansion of its lending activities. The OECD Governments, too, contributed to the flow of resources by being extremely lax in their regulation of the banking system. For the part, the Latin American countries had a structural propensity to engage in borrowing due to the progressive exhaustion of their import substitution model and to their Governments' faulty management of the flow of external loans and of their use within the country.[7]

The expansionary phase of the credit cycle continued virtually without interruption from 1966 to 1981, save only for a brief crisis in mid-1974. At that time a small German bank, the Herrstatt Bank, failed after having run up huge losses on speculative operations in European currency markets. Although the failure of

See Douglas Hayes, *op. cit.*

For a detailed analysis of the factors that contributed to the expansion of the banking system, see Robert Devlin, *Debt and Crisis in Latin America: The Supply Side of the Story,* Princeton, Princeton University Press, 1989.

[6] See Oscar Altimir, "Development, crisis and equity", CEPAL Review, No. 40 (LC/G.1613-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 1990.

[7] The only exception was Colombia, which stood out from the pack by virtue of the caution it used in managing the supply of loan funds made available by international financial markets.

Herrstatt was in no way connected with Latin America, it had major implications for the region: as a consequence of the panic set off in banking circles within the Eurocurrency market, towards the close of 1974 the flow of loans to Latin America dried up while the cost of bank loans soared and their payback periods grew notably shorter. All this made servicing the debt and the macroeconomic management of the region's countries much more difficult. Fortunately, the Eurocurrency market stabilized in the second quarter of 1975, and this ushered in a renewed flow of loans to the region.

The main consequence of the banks' implementation of this expansionary strategy throughout the 1970s was a considerable increase in the proportion of medium- and long-term loans in Latin America's external financing mix. Such loans came to account for between 70% and 80% of net capital movements towards the region in the second half of the 1970s and the early 1980s (see table 5), and the bulk of those flows came from private banks (see figure 1). In addition, in the course of that decade the amortization periods offered by the banks were greatly lengthened; in fact, nearly 60% of the syndicated bank loans offered between 1978 and 1980 had terms of between 7 and 10 years, and some had terms of as long as 15 years.

Portfolio investment did increase during the 1970s but it remained a tiny fraction of the total supply of external resources. The percentage represented by foreign direct investment (FDI), meanwhile, diminished to one fifth of total net financing. It is even probable that the abundant supply of bank loans helped to crowd out FDI; in most cases, the largest borrowers were the Governments of the region, and it is likely that they used a portion of these bank loans to make investments that to some extent took the place of what might otherwise have become private investments.

Another result of the expansion of banking activity was the accumulation of a large sum of obligations carrying adjustable interest rates. At the start of the 1980s, Latin America's external debt was already topping US$ 300 billion, and over three fourths of that amount was made up of private bank loans. By then the total value of the region's debt had already exceeded the critical solvency threshold of 200% of export earnings, and the interest payments on that debt began to absorb a full third of the proceeds from exports.

The public sector, as the largest borrower, was the most heavily affected national economic agent: the public external debt amounted to the equivalent of between 100% and 400% of public-sector income, and interest payments took up between 10% and 25% of fiscal receipts.

Moreover, in their rush to grant loans, the banks exposed themselves to an excessive level of risk; indeed, as of the early 1980s, the nine largest United States banks' exposure in Latin America was equivalent to nearly 200% of their capital.

In short, the permissiveness of an unregulated international capital market and the adoption in Latin America of a procyclical public policy regarding the use of this bountiful supply of capital placed the region in a vulnerable position which set the stage for a crisis.

c) **The financial constraints of the 1980s**

As is common knowledge, the debt crisis started in August 1982 when Mexico declared itself incapable of paying the service on its bank debt, which was the second largest in the developing world. In the ensuing months, the negative externalities that usually arise in the course of a financial crisis were exacerbated by the panic that broke out among the banks, most of which were overexposed in Latin America; they responded by suspending virtually all new lending to the Latin American countries -even those, such as Colombia, that had managed their capital income very cautiously. When these loans were not rolled over, the countries of the region

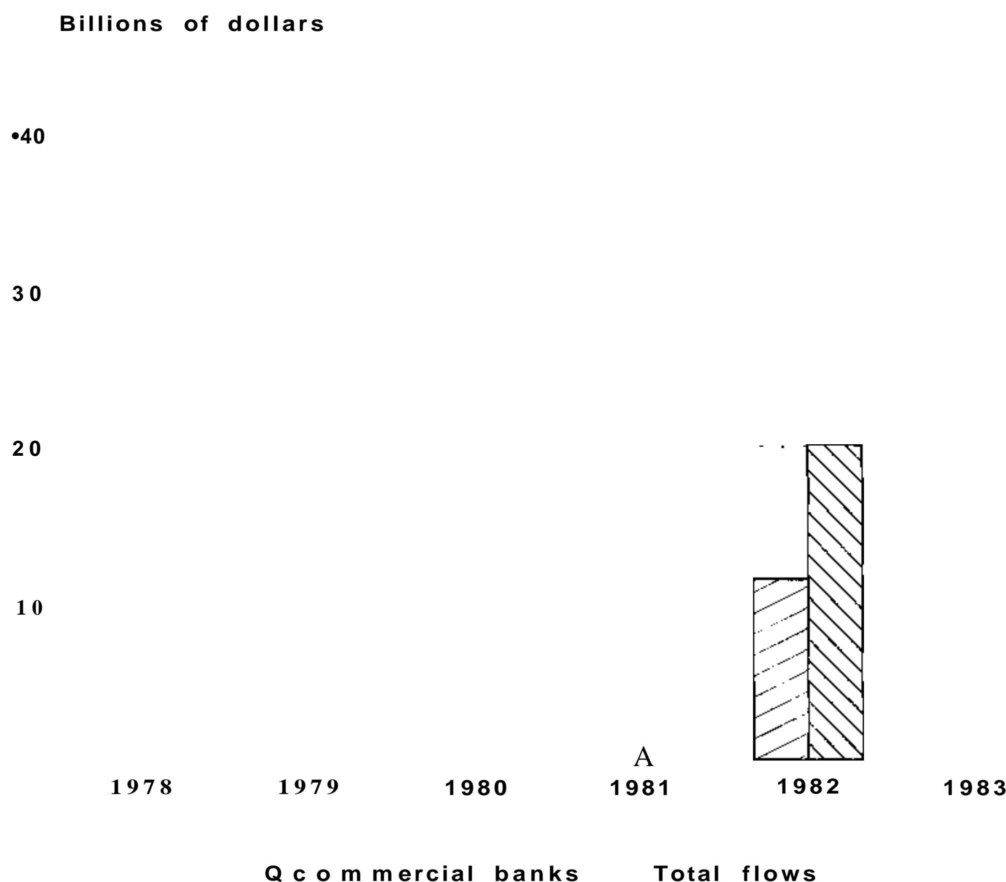
See World Bank, *Borrowing in International Capital Markets,* Washington, D.C., November 1981.

[9] See ECLAC, *Economic Survey of Latin America and the Caribbean, 1987* (LC/G.1541-P), Santiago, Chile, October 1989. United Nations publication, Sales No. E.88.II.G.14.

For a discussion of this phenomenon, see Oscar Altimir and Robert Devlin, *An Overview of Debt Moratoria in Latin America,* Working Paper series, No. 6, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1992.

See ECLAC, *Latin America and the Caribbean: Options to Reduce the Debt Burden* (LC/G. 1605-P), Libros de la CEP AL series, No. 26, Santiago, Chile, March 1990. United Nations publication, Sales No. E.90.II.G.7.

Figure 1
LATIN AMERICA AND THE CARIBBEAN: SHARE OF NET EXTERNAL FINANCING PROVIDED BY PRIVATE BANKS, 1978-1983



Source: ECLAC, on the basis of official figures and data from the Bank for International Settlements.

(with the exception of Colombia) found themselves in *defacto* default on the servicing of their bank debt. *De jure* default was averted only through a coordinated bailout by creditors that enabled the countries to meet their obligations, at least in a formal sense.[12]

Although this bailout forestalled a formal declaration of default, its social cost was enormous. As an integral part of the official bailout package offered by their creditors, the indebted countries had to made adjustments in their economies, in most cases under the terms of a programme agreed upon with the International Monetary Fund (IMF); the aim of the adjustment was to generate a trade surplus large enough to enable the countries to pay a good share of the interest they owed on their bank debt. At the same time, the extremely tight monetary policy being implemented in the United States since the start of the 1980s drove dollar-denominated international interest rates up to record levels, which added to the real burden represented by the

[12] For a detailed analysis of this bailout, see ECLAC, *Políticas de ajuste y renegociación de la deuda externa en América Latina* (LC/G.1332 and LC/G.1332/Con.l), Cuadernos de la CEPAL series, No. 48, Santiago, Chile, December 1984. United Nations publication, Sales No. S.84.II.G.18.

nominal interest rate applied to the external debt. This tight policy, which was instituted by other OECD countries as well, also helped to trigger a worldwide recession, which affected the purchasing power of the Latin American and Caribbean countries' exports.

Against this backdrop, the amount of resources being transferred by Latin America to the rest of the world also climbed to an all-time high. Between 1982 and 1986, this transfer was equivalent to 4% of the region's GDP,[13] which was even higher than the transfers that Germany had to make in the form of reparations to the allies following the First World War. Given the size of this transfer and the short time in which it had to be made, it was to be expected that it could only be accomplished at the cost of a severe recession in the countries of the region.

The flight of a large volume of residents' capital from Latin America aggravated the problem created by this outward resource transfer. This phenomenon was reflected in part in the negative balances recorded under the "errors and omissions" and "short-term capital" headings in the region's capital account during the first half of the 1980s (see table 5). No matter what methodology is used to calculate this outflow of resources, the results show that it reached a significant level between 1980 and 1984 (see table 6). Before the outbreak of the crisis, the trend in capital flight attested to the fact that national agents had seen it coming; after 1982, on the other hand, the level of capital flight was probably related to the Draconian adjustment which debtor countries had to make, under strong pressure from their creditors. As will be discussed below, although the capital of national agents was the first to leave the region, it also seems to have been among the first to return in the 1990s.

The heavy cost which the debt crisis had for Latin America was partly a result of the type of capital received by the region from the 1970s on. Before the crisis, bank debt was not usually bought and sold in financial markets, and the banks therefore had no occasion to read the signals provided by prices (which would have corroborated or indicated the relative financial soundness of their loans in the region) or take them into consideration when deciding whether or not to grant loans. Furthermore, the artificial maintenance of the value of these loans through the rescheduling of payments on the debt principal and fresh "involuntary" bank loans in the 1980s meant that this debt was not subject to a direct appraisal by the market either, and this made it more feasible for the banks to insist that the nominal value of the debt should be respected. In other words, unlike the portfolio investors of the 1930s, the banks were able to isolate themselves from market forces, which would probably have obliged them to take losses on their loans immediately; this, in turn, would have given the debtor countries a better chance of negotiating a reduction of their obligations.

The countries' bank debt had three other characteristics that heightened the crisis' impact on Latin America. First, in contrast to the scattered market for bondholders in the 1930s, the banks were operating within an oligopolistic market that allowed private creditors to create a quasi-cartel for the purpose of bringing effective pressure to bear on debtor countries. Second, a disproportionately large share of these capital flows came from a single investor: the banking system; in fact, the banks were the source of over three fourths of theexternal funds received by the region, and the resulting overconcentration of credit reached such proportions that it became a systemic form of risk for international financial markets. Accordingly, the OECD Governments decided to actively intervene in the crisis; unfortunately, their intervention was not very balanced, since it helped to shift most of the cost associated with the crisis onto the debtors'

' See ECLAC, *Postwar Transfer of Resources Abroad by Latin America* (LC/G. 1657-P), Cuadernos de la CEPAL series, No. 67, Santiago, Chile, July 1992. United Nations publication, Sales No. E.91 .II.G.9.

See ECLAC, *América Latina y el Caribe: opciones para reducir el peso..., op. cit.*

" For a more detailed discussion of the effects of the adjustment, see ECLAC, *Políticas de ajuste..., op. cit.* and *Crisis económica y políticas de ajuste, establización y crecimiento* (LC/G.1408-P), Cuadernos de la CEPAL series, No. 54, Santiago, Chile, 1986. United Nations publication, Sales No. S.86.II.G.12.

The only signal that the banks did take into consideration was that of price trends for their shares in the stock market; this is, however, a rather indirect indicator, since it takes into account factors that are unrelated to loans in developing countries.

See ECLAC, *Políticas de ajuste..., op. cit.* for an analysis of bailout techniques.

shoulders.[18] Third, external debt operations entail a contract signed in accordance with current international law and a set payments schedule; foreign direct investment, on the other hand, is subject to the laws of the recipient country, and the corresponding flow of payments may be affected, at least in theory, by domestic policy measures relating to such matters as assessable profits or even capital controls.

During the second half of the 1980s therewere some novel developments in connection with capital movements. As the debt crisis wore on, a secondary market for external bank debt paper began to take shape; the sizeable discounts at which this paper was traded publicly revealed what many already suspected: that the real value of this bank debt was much lower than its nominal value (see table 7). The emergence of the secondary market had two other important effects. First, from 1985 on the countries took advantage of the discounts offered on the secondary market to initiate programmes under which debt could be swapped for equity in national firms and to facilitate the financing of privatization operations. The implicit subsidy involved in these transactions spurred foreign direct investment, especially from 1987 on; table 8 provides an indication of the scale of external debt swaps undertaken in five Latin American countries.

Second, the development of the secondary market and the deepening discounts offered on that market helped to undermine the credibility of official crisis-management programmes, whose chief aim was to save the banks' from having to record a loss. Consequently, serious difficulties arose regarding coordination among the various creditors; starting in 1987, this, in conjunction with the heavy burden which the external debt service represented for debtor countries, led to the accumulation of a mounting sum of interest arrears (see table 9). For Latin America, these arrears represented large involuntary capital inflows. At the start of the 1990s, arrears totalled over US$ 25 billion (US$ 21 billion of this amount corresponded to bank debt), which was equivalent to about 30% of the net capital flows recorded between 1983 and 1990.[22] Nevertheless, although arrears have served as an "escape valve" for debt pressures, the fact remains that they are a fairly inefficient form of external financing. Fortunately, along with the rise in autonomous capital flows and the decline in international interest rates in recent years, a tendency to arrange for the regularization of payments has been observed; as a result, by the end of 1992 the region's interest arrears had decreased to around US$ 12 billion.

3. **Capital movements in 1990-1993**

As we have seen, in the past 20 years the region has been subject to extremely sudden capital movements which have frequently created "disturbances" in relation to macroeconomic management and growth. While the rationing of finance gave rise to harsh adjustments, the return of capital to the region has obviously been a positive kind of disturbance, since it put an end to the financial crunch that had existed in the region ever since the crisis of 1982. In fact, the economic recovery and greater price stability of recent years have in some ways been directly linked to the more abundant supply of external resources produced by these capital inflows, which has corroborated the view that external financing was a missing ingredient in the official adjustment programmes of the 1980s.

For an analysis of the biased nature of the official handling of thedebt, see ECLAC, *Latin America andthe Caribbean..., op. cit.*

For a detailed analysis of these programmes, see Azizul Islam and Andrew Hilton (consultants), *Debt-Equity Swaps and Development* (ST/CTC/126), New York, United Nations, 1993. United Nations publication, Sales No. E.93.II.A.7.

See Juan Alberto Fuentes, "European Investment in Latin America: an overview", CEPAL Review, No. 48, (LC/G. 1748-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 1992.

For a more detailed discussion of these problems, see ECLAC, *The Evolution of the External Debt Problem in Latin America andthe Caribbean* (LC/G. 1487/Rev. 1 -P), Estudios e Informes de lacEPAL series, No. 72, Santiago, Chile, September 1988. United Nations publication, Sales No. E.88.II.G.10.

For a discussion of arrears, see *An Overview of Debt..., op. cit.*

See ECLAC, *Latin America andthe Caribbean..., op. cit.*

On the other hand, the answer to the question of whether or not these capital flows will have a positive impact in the medium term will depend on how stable they are over time and how effectively economic policy can channel these capital flows in such a way as to meet the demands of macroeconomic stability and international competitiveness.

a) Types **of flows**

Together with the increase in the volume of external resources, the upswing in capital flows in the 1990s has been marked by a major diversification of sources of financing. As noted earlier, from 1970 on commercial banks were the main source of financing for the region. The renewed capital flows of the 1990s, however, reflect a greater diversification of sources of finance; in effect, the banks have, to a great extent, been pushed aside by other large flows, particularly foreign investment (see table 10).

i) *Debt-based financing*

Commercial banks

Net financial flows from private banks are estimated to have totalled US$ 9.5 billion in 1992 as compared to US$ 6.8 billion in 1991 (see table 10). This means that funds from the banking system amounted to about 16% of the total external financing received by the region in 1992. Although the net financing provided by these lenders was approximately 40% greater than in 1991, most of it was short-term credit; this reflects the banks' attitude towards Latin America, which continues to be quite restrained. In 1992, Argentina, Brazil and Chile were very active borrowers in this segment of the market.

The syndicated credit market was not as buoyant. In 1992 the reported gross sum of such bank loans was US$ 3.9 billion, which was similar to the 1991 figure. Chile and Brazil raised US$ 300 million and US$ 400 million, respectively, while Mexico raised US$ 3.2 million (see table 11).

Bonds

Since 1989 Latin America has gained a significant degree of access to international bond markets -a source of financing which the region had not been able to draw upon to any significant degree since before the Great Depression. In 1992, more than US$ 10 billion worth of securities (17% of the net capital flows received by the region) were floated. Issues had totalled US$ 8 billion in 1991, US$ 3.6 billion in 1990 and US$ 900 million in 1989 (see table 10).

Bond issues in 1992 was concentrated in Mexico, Brazil, Argentina and Venezuela (see table 12). Mexico placed US$ 4 billion worth of securities in 1992, which was similar to its 1991 level. Activity was concentrated in the second half of the year due to a change in national firms' preferences regarding the types of instruments used to obtain capital. During the first six months of the year, share offerings on the national stock exchange had been a relatively more attractive source of financing for business enterprises. When stock quotations began to slide midway through the year, however, firms began to take an interest in international bond sales as a financing mechanism.

Unfortunately, the initial response was somewhat problematic owing to a widespread increase in the supply of bonds on the international market and to the reluctance displayed by foreign investors due to the declining yields of the paper being offered by enterprises from Mexico and other countries in the region. In terms of volume, most bond sales were made by Mexican firms in the final quarter of the year. While for 1992 as a whole the average initial yield of these bonds was lower than the year before (9.4% versus 10.7%), the average term was also shortened from 5.6 to 4.9 years. Nevertheless, the conditions applying to these instruments in 1992 were noticeably better than they had been in 1990 (see table 13). It should also be noted that in September 1992, Mexico was the first country in the region to succeed in floating paper on the United States' exacting public bond market (placement in that market involves a complicated process of registration with the United States Securities and Exchange Commission). The offering consisted of a 10-year Mexican Government bond for the sum of US$ 250 million with an initial yield of 8.5%.

Brazil sold most of its new bonds for a total of US$ 3.3 billion during the first half of the year. During the second half, however, the adverse

effects of the serious political problems that arose in the country began to be felt and generated a greater degree of uncertainty. This, along with the problems associated with the high rate of inflation, were part of the reason why Brazil had to cope with the least favourable terms and conditions for this form of indebtedness of all the countries in the region that had access to the bond market: in 1992 the initial yield offered was around 10.3%, for terms of less than three years. Be that as it may, it was still an improvement over the situation in 1991, when the initial yield had been over 12% on a term of around three years (see table 13).

In the case of Argentina, activity was concentrated in the second half of 1992, when the country placed two thirds of the US$ 1.5 billion worth of bonds that it floated during the year. This trend reflected the impact of a sharp drop (32%) in quotations on the national stock exchange during the third quarter, which had a negative effect on foreign investors' expectations as well as encouraging business enterprises to look outside the country for capital. Nevertheless, the supply of Argentine bonds exceeded demand during the second six months of 1992, partly as a consequence of the effort made to reduce the bonds' initial yields. For example, in September the country had difficulty in floating a US$ 200 million government bond that offered an 8.25% nominal interest rate. For 1992 as a whole, the initial yield of all Argentine bonds, taken together, held at around 10.2% overatermof 3.8 years; these were slightly better conditions than those of 1991 (see tables 12 and 13).

Venezuela started out the year with a US$ 600 million bond issue in the first quarter. Activity was very sluggish for the rest of 1992, however, due to the country's political instability.

There were two new entrants into the international bond market in 1992: Uruguay and Trinidad and Tobago. Both countries floated US$ 100 million bond issues (see table 12).

ii) *Foreign investment*

Foreign investments of venture capital have assumed a relatively important role in the region. In 1992 identifiable flows of foreign investment totalled US$ 19.4 billion, which was equivalent to 32% of the net flow of capital received by the region (see table 10).

Foreign direct investment (FDI)

The flow of FDI to the region in 1992 is estimated to have bordered on US$ 15 billion, as compared to US$ 11 billion in 1991 and US$ 6 billion in 1990 (see table 10). As in 1991, the level of FDI in 1992 was high in historical terms, inasmuch as the average flow for 1991-1992 was two and one-half times the average annual level of FDI recorded in 1977-1981 and nearly three times as great as the average flow for 1983-1989. In fact, the share of total capital flows accounted for by FDI was 26% in 1991-1992 versus 17% in 1977-1981 (see table 14).

A substantial increase has been seen in the flow of direct investment, especially in Mexico, Brazil, Argentina, Chile, Costa Rica and the Dominican Republic.

In Mexico, the flow of foreign direct investment in 1992 amounted to around US$ 5.4 billion; this was 13% higher than the 1991 figure, which was itself 80% higher than the 1990 level. Moreover, the flow of foreign direct investment was more than three times as great as the pre-crisis average annual flow (see table 14). This boom in direct investment was in large part linked to the announcement that an accord had been reached to enter into the North American Free Trade Agreement (NAFTA).

Chile has also witnessed a heavy flow of direct investment. The average annual inflow of nearly US$ 600 million in 1991-1992 was 135% higher than the 1990 figure. Direct investment in the last two years has also been much higher than the annual average flow of US$ 143 million received during the crisis and the US$ 200 million per year registered between 1977 and 1981. In addition, it is noteworthy that in 1991-1992 investments were made without benefit of the large subsidies which had been provided between 1985 and 1990, when FDI was spurred by the nation's programme of debt-equity swaps.

In the case of Argentina, the US$ 4.7 billion flow of FDI in 1992 was nearly double the levels recorded in 1991 and 1990, which in turn had been about four times as great as the flows received in 1983-1989 and 1978-1981 (see table 14). Fourth fifths of these investments were

attracted by Argentina's ambitious programme for the privatization of public-sector firms.

The flow of FDI to Venezuela shrank from US$ 1.77 billion in 1991 to US$ 500 million in 1992. One of the reasons for this contraction was the suspension of the privatization process.

American Depository Receipts (ADRs). ADRs are negotiable certificates issued by United States banks which represent a block of shares in foreign companies. ADRs are quoted on United States stock exchanges and confer upon their holders the same rights as those enjoyed by any shareholder. There are also Global Depository Receipts (GDRs), which are a derivative of the ADR and are traded on a number of stock exchanges around the world.

Although these instruments appeared in the market in 1927 and there are currently more than 700 ADR/GDR programmes, developing countries have begun to play an active role in this market only in recent years. In 1992, a number of Latin American firms issued almost US$ 4.4 billion in ADR/GDR (equivalent to slightly less than 7% of the total net flow of external financing received by the region) in order to obtain capital in dollars. This sum may be compared to the US$ 4.3 billion worth of issues observed in 1991 and the US$ 100 million worth of ADRs recorded in 1990, which was the first year that a company in the region issued certificates of this type (see table 10).

Mexico has made greater use of the ADRs/GDRs than any other country. In 1992, it launched 10 new programmes designed to obtain US$ 3.5 billion in fresh capital, which amounted to nearly 80% of the total funds raised by firms in the region using this instrument. Even so, this figure was below the 1991 level, when Mexican enterprises had started up 14 ADR/GDR programmes representing US$ 3.9 billion (see table 15). It should be noted that in 1991 TELEMEX, the Mexican telecommunications firm, initiated the largest ADR programme in the history of the market (US$ 2 billion).

In 1992 two Argentine companies raised nearly US$ 375 million through ADR/GDR issues, which was slightly less than Argentina's sales of these instruments in 1991. Chile, which pioneered the use of ADRs when its privatized telephone company issued the first such certificates in the region, with a value of nearly US$ 100 million, added two new programmes representing the sum of US$ 130 million. Nevertheless, one of those firms -a beer brewery- was able to raise only 75% of the funds planned for the offering. In 1992, companies from Brazil, Colombia and Venezuela also entered into the ADR market (see table 15).

Externalfunds. This financial mechanism was developed in the 1980s to facilitate foreign investment in newly created stock exchanges in developing countries. Such a fund requests permission from the authorities of the relevant developing country to purchase and manage a portfolio of stocks that are traded on the local exchange; the fund is subscribed in dollars and is listed in external stock markets. These funds may be of the open-end (i.e., having the right to add to their initial capital) or closed-end (a single capital offer is made at the time of the fund's establishment) variety. It is estimated that by the end of 1992 there were around 65 external funds operating in different Latin American countries or with regional portfolios (see table 16).

In 1992 the establishment of new closed-end external funds in Latin America generated capital flows totalling about US$ 260 million. This was less than one-half the 1991 figure and, indeed, was the lowest in the last four years. In addition to funds that invest in a number of Latin American countries, there are also funds that specialize in one particular country, such as Chile, Argentina, Brazil or Venezuela (see table 17).

In 1992 the only new closed-end external fund to be limited to a single country was created in Brazil with US$ 56 million in capital. Three new closed-end funds were also set up at the regional level with slightly over US$ 200 million in capital.

iii) *Other flows*

Other capital flows into the region amounted to about US$ 21 million in 1992. Most of these were short-term funds. In 1992 the region is known to have obtained US$ 1.1 billion through the issue of certificates of deposit, as compared to US$ 670 million in 1991, as well as US$ 840 million from commercial paper, in comparison to US$ 1.2billionin 1991 (see table 10). In addition, nearly US$ 9 billion was sent into Mexico in

1992 to purchase peso-denominated Treasury notes (Treasury certificates, adjustable bonds).

It is difficult to calculate the remaining resources, but a large part of these funds (some US$ 10 billion) may be assumed to have been channeled into the region's banking systems in the forrii of short-term interest-bearing deposits or to have been recycled internally in the form of additional working capital for business enterprises or as investments in the stock exchange or reaï estate market.

b) **Causes of the resumption of capital flows**

A varied array of national and international factors help account for the voluminous inflow of capital to the region in the 1990s.

i) *Declining returns on dollar-denominated instruments in the international market*

One very influential external stimulus seems to have been the recession in the United States and the resulting steep decline in international interest rates in dollars, especially for short-term operations, starting in 1990. The annual average for the short-term LIBOR in dollars was 11 % in 1979-1988 and 9% in 1989, but in 1992 it fell to under 4% -the lowest level in the last 30 years. In real terms, the decrease is even more significant, since this rate slipped from annual averages of 4.4% in 1979-1988 and 4.6% in 1989 to just 0.9% in 1992 (see table 18). Long-term interest rats in dollars have also dropped, although less sharply. For example, the yield on long-term United States Government bonds shrank from annual averages of nearly 11 % in 1979-1988 and 8.5% in 1989to7.0%in 1992(see table 18).

The decline of international interest rates has mainly been confined to the "dollar zone" ; in fact, interest rates in Europe and Japan have tended to rise in the 1990s. The short-term LIBOR in marks rose from 7.2% in 1989 to 9.4% in 1992; in real terms the increase was even larger, from 2.6% to 6.2%. During the same period, the long-term rate also climbed from 7.1% to 8% in nominal terms and from 2.5% to 4.8% in real terms (adjusted for inflation) (see table 18). The nominal short-term interest rate in yens moved up from 5.5% in 1989 to 7%-8% in 1990-1991, but then fell to 4.4% in 1992. In real terms, it increased from 1% to 3% between 1989 and 1990-1991 and then fell back to 1% in 1992; nevertheless, this last rate is more than double the annual average for the period 1979-1988. Moreover, the yield of long-term Japanese Government bonds has risen sharply in the 1990s.

After a decade of high real returns on investments in dollars, the sharp decrease in international interest rates for dollar-denominated operations obviously was an incentive for investors to reallocate at least part of their dollar portfolios. This, together with declining returns in real estate markets and sagging corporate profit ratios in the United States, further enhanced the attractiveness of investment opportunities in Latin America, a region that continued to offer extremely high returns on short- and medium-term capital. Furthermore, the risk premium by which investors adjusted those returns probably decreased as the credit standing of countries having dollar-denominated debts improved with the above-mentioned decline in international interest rates and as greater exchange stability reduced the financial-transfer risk.

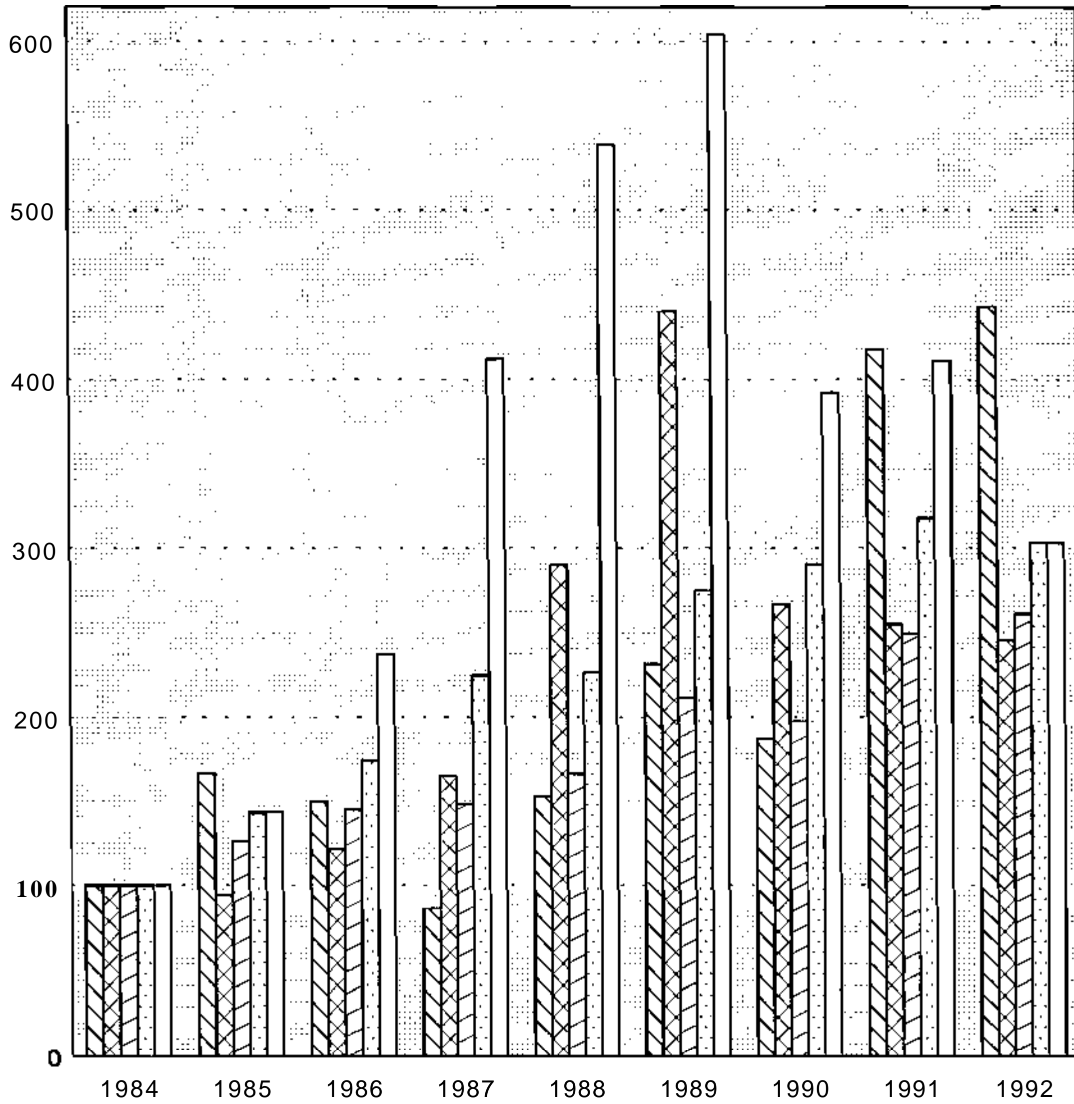
ii) *The persistence of high returns on capital in Latin America*

As mentioned earlier, a large volume of short-term external capital has entered Latin American banking systems. During the 1990s, the *ex post* spread between international interest rates in dollars and the interest rates (i.e., their dollar equivalents) offered in the Latin American countries' capital markets has frequently been extraordinarily large, with the Latin American rates being the higher ones. Although the differential in terms of yields may vary radically from one year to the next, in recent years the rates of return obtained in Brazil, Peru and Guatemala, as well as in Mexico, Costa Rica, Chile and Bolivia, have been particularly high (see table 19).

See G. Calvo, L. Leiderman and C. Reinhart, "Capital inflows and real exchange rate appreciation in Latin America: the role of external factors", IMF Staff Papers, vol. 40, No. 1, March 1993.

Figure 2
REGIONAL STOCK EXCHANGE INDEXES OF SHARE PRICES

(Dollars, 1984 = 100)



Latin America H Asia E2 United States E3 United Kingdom • Japan

Source: International Finance Corporation (IFC).

Although it is difficult to arrive at a precise figure, it is clear that a sizeable amount of external capital took advantage of the spectacular profit-making opportunities to be found in the region's stock exchanges. As may be seen in figure 2, between 1990 and 1992 the stock exchanges of the region, taken together, were extremely bullish: the composite index of dollar-denominated stock quotations rose more in Latin America than it did in Asia, the United States, the United Kingdom and Japan, and even at the end of 1992 was the highest of all of these indexes. This spectacular buoyancy was also quite widespread in the region, with the exception of Brazil. Even though the indexes of stock quotations on the exchanges of Venezuela and Argentina were down sharply in 1992, however, they were still far higher than in the 1980s (see figures 3 and 4).

Privatizations were another incentive to channel capital into the region. Between 1990 and 1992, the value of the State enterprises privatized in Latin America totalled nearly US$ 40 billion (see table 20). Most of the large firms that were privatized, especially those providing non-tradable public services, have been extremely attractive investments due to the potentially high returns offered by captive markets and to their moderate sale prices, in some cases. These factors led foreign companies to become actively involved in direct purchases of public enterprises, and this generated new investments as they expanded and upgraded the goods and services produced by these newly privatized firms. This phenomenon was particularly significant in Argentina and Venezuela.

The Governments also sold stock in privatized companies to the general public, both on local stock exchanges (thereby affecting their behaviour) and to investors holding capital overseas, either directly through ADR/GDR programmes and external funds or indirectly through deposits made in Latin American banks from abroad. In cases were the block of shares put on offer has been very large relative to the size of the national market, overseas sales have sometimes even provided a speedy means of reducing the chances of saturating the market, which would drive down the sale price. For example, in the sale of 160 million shares in the huge Argentine oil company, Yacimientos Petrolíferos Fiscales (YPF), valued at over US$ 3 billion, 75% of the shares were bought by investors in the United States and Europe.

The spread between returns on capital in Latin America and in the industrialized countries also helps to account for the region's ability to float bonds in overseas markets. The yields on quite short-term Latin American bonds have been higher than those of United States Government bonds having terms that are from 4 to 6 times longer (see tables 12 and 18).

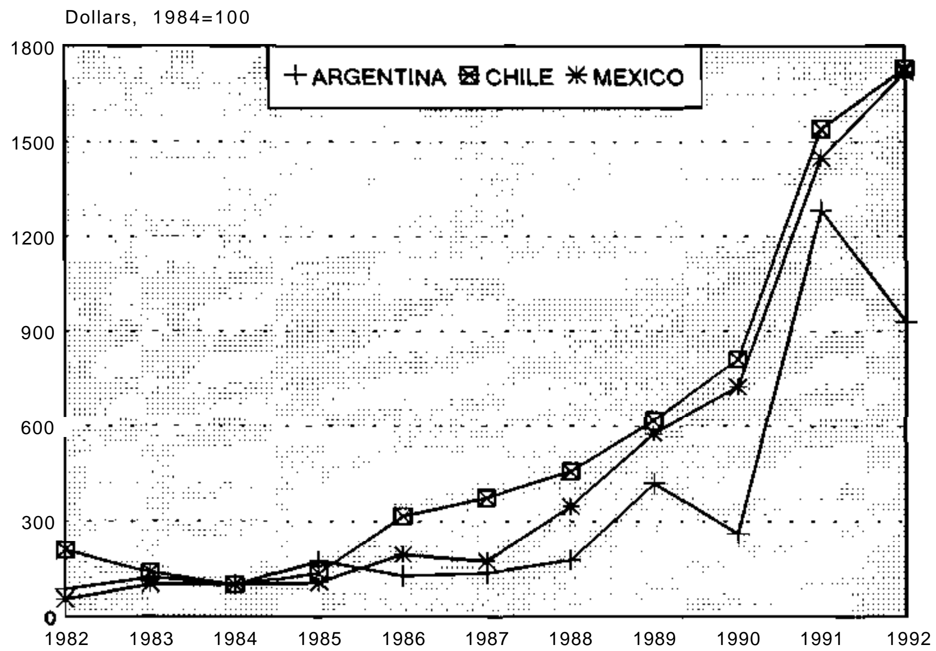
Just as the supply of capital has been stimulated by the relatively high rates of return offered by various types of investments in the countries of the region, the countries' demand for financing has been attracted towards external markets because of the differential in the cost of fresh capital. Lending rates in Latin American capital markets have for the most part been extraordinarily high; for example, in 1992 their dollar equivalents were almost 70% in Peru, 33% in Bolivia, 28% in Costa Rica, 22% in Chile, 19% in Argentina, 15% in Guatemala and 14% in Ecuador and Honduras (see table 21). In fact, the lending rates in Latin American markets have been so-high than in many cases the available capital has been restricted to very short terms or has been rationed by some lenders. In view of these circumstances, it is evident why many firms in the region were moved to look to overseas markets for working capital and medium-term financing.

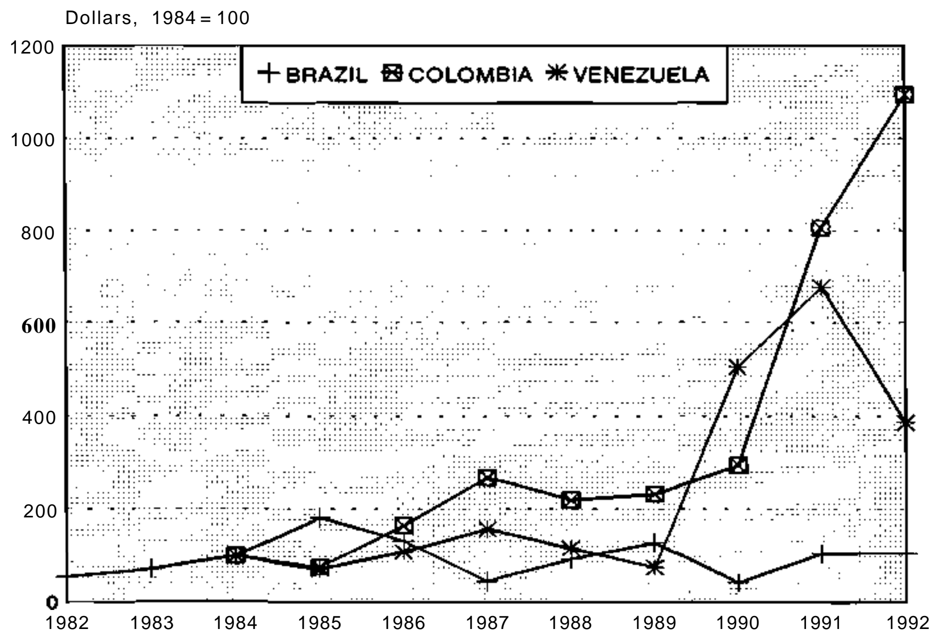
iii) *Institutional innovations in international markets*

Institutional factors at the international level have also contributed to the inflow of capital. Probably the most important such factor was the adoption of rule 144A in April 1990 by the Securities and Exchange Commission of the United States. This rule allows institutional investors accredited in the

[25] There is a substantial amount of evidence of a significant undervaluation of public enterprises put up for sale. See ECLAC, *Social Equity and Changing Production Patterns: an Integrated Approach* (LC/G. 1701/Rev. 1 -P), Santiago, Chile, 1992. United Nations publication, Sales No. E.92.II.G.5.

Figure 3
LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE PRICE INDEXES



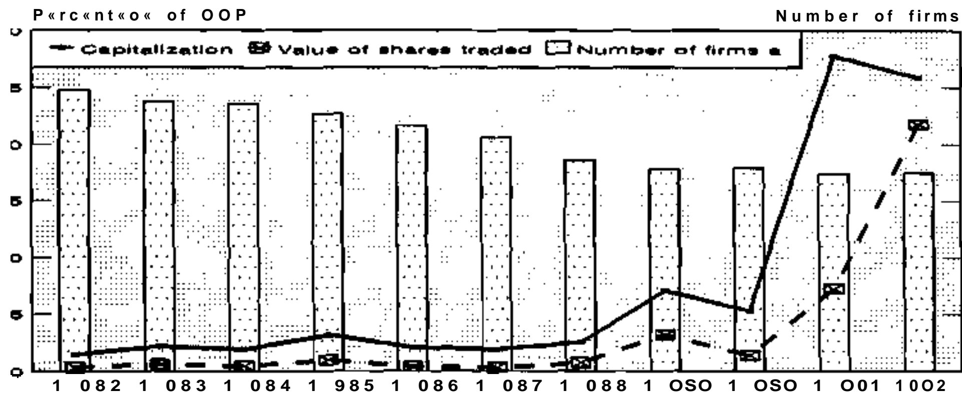


Source: International Finance Corporation (IFC).

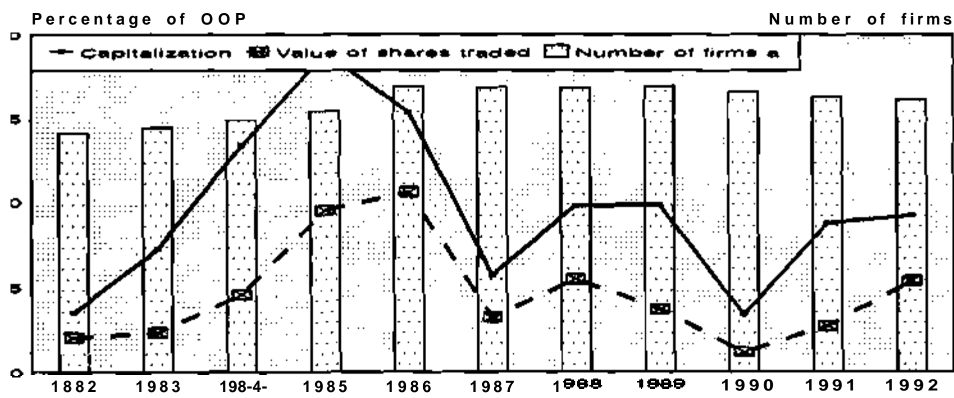
Figure 4

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): STOCK EXCHANGE INDICATORS

ARGENTINA



BRAZIL



COLOMBIA

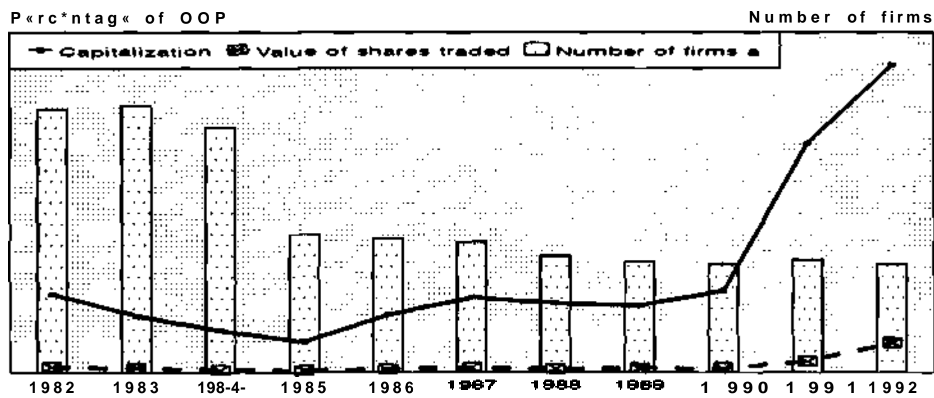
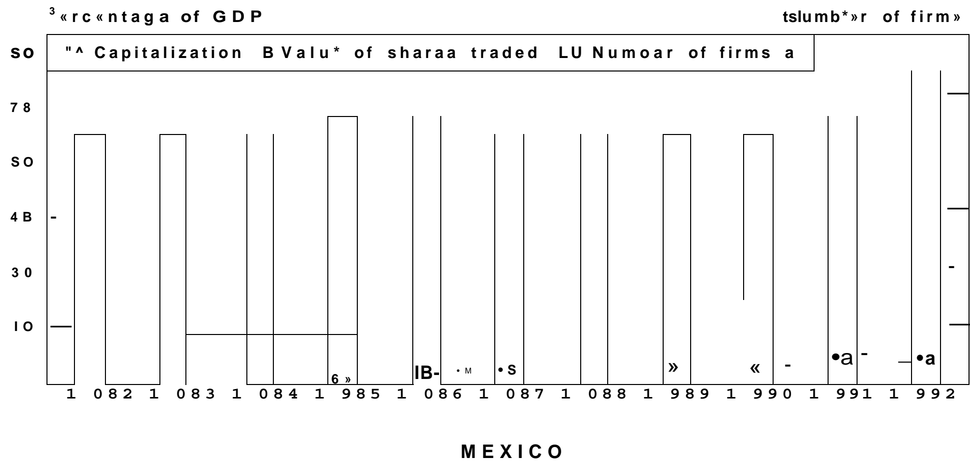
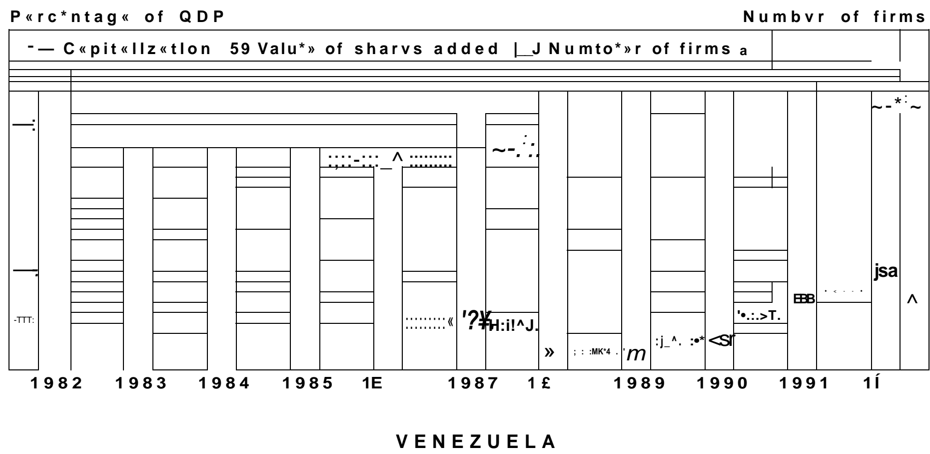


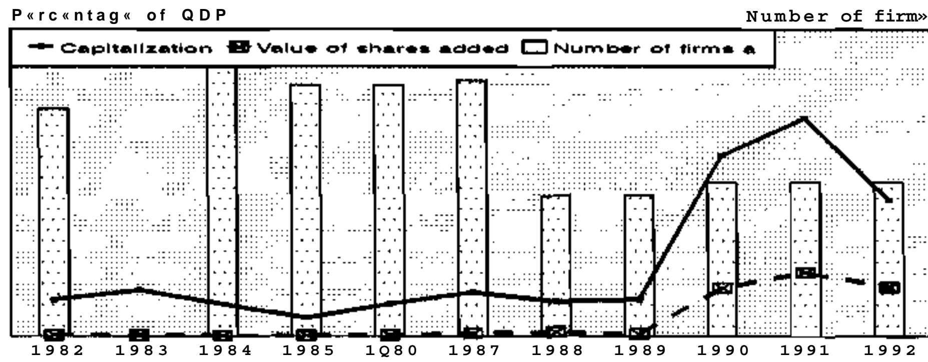
Figure 4 (concl.)



MEXICO



VENEZUELA



Souroa: International Finance Corporation (IFC).
• The right-hand axle Indicates the number of firma whose shares tare traded *on* the stook «xohanae

United States to buy and sell stock not listed with the Commission. This strengthened the "private" unlisted securities market in the United States, thereby making it feasible for Latin American firms to organize an ADR/GDR programme without having to spend the money and time involved in meeting the requirements (e.g., adoption of the United States' accounting system) of the "public market" for listed securities.

Participation in the market under rule 144A no doubt has certain disadvantages, since it is neither very deep nor highly liquid and affords Latin American firms access to a limited number of investors; accordingly, some of the region's companies have explored the possibility of gaining entry to the public securities market. In any event, rule 144A has opened a door to external capital markets and largely accounts for the sizeable increase, as mentioned earlier, in ADR/GDR issues by Latin American companies. The new rule also permits North American institutional investors to buy and sell shares in Eurobonds.

Financial "engineering" has come into fashion in international markets, and this propensity to innovate has benefited Latin America. Firms that are not a major presence in the market have been able to obtain financing thanks to the imaginative technique of organizing special cash guarantees; for example, some Mexican companies were able to issue bonds by using blocked funds financed with future foreign exchange earnings as backing. Another mechanism has been the sale of warrants; the Mexican firm Nacional Financiera S.N.C, recenüy offered a US$ 100 million bond that gave investors the option, after the third year, of swapping these securities for stock in a State company.

The popularity of such financial instruments as the ADRs has also facilitated the inflow of capital to the region by creating a more favourable climate for external investors. First, by receiving dividends in dollars, investors are able to sidestep the exchange risk, the need for future contracts and the need to pay taxes to the relevant Governments and fees to their Latin American agents. Second, ADRs are usually purchased using the least expensive credit available in the Untied States. In addition, all the relevant information and documentation regarding ADRs is in English.

External investment funds also have many of these advantages. The popularity of these funds appears to be waning, however, due to foreign investors' increasing familiarity with how the Latin American stock exchanges operate and to the insufficient analytical capabilities displayed by fund managers in the face of a growing need to evaluate the performance of the various companies whose shares are traded on the region's exchanges.

Bonds also have offered special inducements above and beyond their yields; one example is the widely-held view in the market that debtors would not dare to default on these obligations, which continue to represent only a small percentage of the region's total debt.

iv) *The policies of the Latin American countries*

Finally, the economic policies of the countries of the region have also played a part in this boom in capital flows. Many of the countries have, albeit to differing degrees, carried out a series of sweeping structural reforms in their economies. These reforms have, *inter alia,* stabilized private agents' expectations and boosted the rate of return on private investments, offered foreign investors terms and conditions that are as good or better than those made available to national investors and, through liberalization initiatives (particularly in respect of the capital account), reduced the transaction costs, time periods and risk involved in moving capital between the national and international markets.

These reforms have been recognized by the market, as is demonstrated in the credit ratings issued by Moody ' s and by Standard & Poor (S&P) in the United States (see table 23). Although investments in Chile are the only ones to have been rated as "non-speculative investment" (S&P's BBB rating), the ratings of a number of countries have been upgraded.

These flows have also been stimulated by the "neutral" economic policies implemented by many Governments. In cases where the sterilization of incoming capital has not been very active, these inflows have led to the appreciation of the currency, widening trade

deficits and a greater demand for financing. In addition, the permissive regulatory systems maintained by many Governments with respect to external liabilities have also encouraged capital flows into the region. Chile and Colombia are the countries that have probably made the greatest effort to attenuate international financing's procyclical tendencies, which is why they have remained fairly inactive in some highly popular segments of the market.

The international market is obviously segmented in respect of capital placements. Although practically all the countries of the region have witnessed a resumption of capital inflows, only five -Argentina, Brazil, Chile, Mexico and Venezuela- have gained a significant degree of access to medium- and long-term external capital. Be that as it may, in view of the widespread and synchronized nature of the flow of capital into the region and the fact that only two countries (Chile and Colombia) can be regarded as having consolidated their economic positions, it seems likely that external factors have played a predominant role in the reappearance of these capital flows.

c) **Sources and uses of external capital**

Flows of direct investment obviously come from foreign enterprises. Commercial banks loans, too, originate in foreign financial institutions. A large proportion of external financing takes the form of stocks and securities, however, and this makes the identification of investors difficult. None the less, traders in the international capital market have frequently stated that the first investors to underwrite overseas bond issues and to buy corporate shares offered on the national and international markets were mostly Latin American residents who wished to repatriate capital they had invested outside their home countries during the 1980s. The second largest group has been made up of specialized investment funds, including those of the countries mentioned earlier. It was not until 1992 that institutional investors began to play a relatively greater role. In any event, foreign investors are a major presence in the stock exchanges of the region; for example, it has been said that in 1992 foreigners accounted for 20% and 33% of the stock sold on Mexico's and Argentina's exchanges, respectively. In terms of geographic regions, the boom in capital flows to Latin America coincided with a reversal in the direction of net flows in respect of the United States, which had been receiving a net inflow during the 1980s but has registered a new outflow in the 1990s.[27]

[26] This is the conclusion drawn by Calvo, Leiderman and Reinhart ("Capital inflows...", *op. cit.).* In their econometric study of 10 Latin American countries during the period 1988-1991 they found that external factors -particularly the drop in interest rates- have had a very strong influence on Latin America's capital account and that in at least five countries they have been the most important element of all.

[27] See Calvo, Leiderman and Reinhart, "Capital inflows...", *op. cit.*

Table 1

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL MOVEMENTS '

(Millions of dollars)

	1950-1965	1966-1973	1974	1975	1976	JggJ"	(1981)	1982	j 9 ^ "	1990	1991	1992[b]
Latin America and the Caribbean	**881**	**4334**	**11758**	**14924**	**18185**	**29437**	**40514**	**21107**	**8424**	**21576**	**39906**	**60785**
Latin America and the Caribbean (excluding Venezuela)	**932**	**4224**	**13114**	**14411**	**16159**	**27986**	**44562**	**25045**	**10036**	**26937**	**39232**	**58 223**
Oil-exporting countries	**274**	**1601**	**3187**	**6446**	**6713**	**12297**	**17632**	**3835**	**533**	**8863**	**26720**	**30 812**
Oil-exporting countries (excluding Venezuela)	**325**	**1491**	**4543**	**5933**	**4687**	**10846**	**21680**	**7773**	**2145**	**14224**	**26 046**	**28250**
Bolivia	26	23	-3	104	116	253	493	230	378	355	444	781
Colombia	34	289	296	249	470	956	1941	2182	879	53	-527	303
Ecuador	11	105	88	174	233	705	653	863	503	549	741	147
Mexico	192	924	3014	4 328	2933	8154	17 393	2806	-662	11643	22112	24174
Peru	61	149	1148	1078	936	778	1200	1692	1046	1624	3 276	2845
Venezuela	-51	110	-1356	513	2026	1451	-4048	-3 938	-1612	-5 361	674	2562
Non-oil-exporting countries	**607**	**2733**	**8571**	**8478**	**11472**	**17139**	**22882**	**17272**	**7892**	**12 713**	**13186**	**29973**
South American countries	**438**	**2025**	**6927**	**6603**	**9955**	**14664**	**19757**	13974	**5308**	**9988**	**9025**	**25510**
Argentina	108	92	-43	208	261	1895	1519	1684	1757	1476	5 462	13 098
Brazil	210	1727	6 576	5933	9 223	9 329	12 382	11 113	1991	5 054	1263	**8** 486
Chile	87	169	211	211	200	2627	4942	1033	1260	3 075	1404	**3** 463
Paraguay	7	29	86	115	116	339	420	316	198	263	815	75
Uruguay	24	8	97	136	155	473	494	-172	103	120	81	388
Central American and Caribbean countries	**169**	**709**	**1644**	**1876**	**1516**	**2475**	**3125**	**3299**	**2584**	**2725**	**4161**	**4464**
Barbados	4	36	42	51	54	66	134	44	1	-13	-9	
Costa Rica	17	83	235	204	258	455	360	398	437	364	513	606
El Salvador	3	19	150	125	66	68	224	210	297	535	299	482
Guatemala	21	44	91	169	298	184	273	361	361	205	740	854
Guyana	3	22	56	73	53	76	148	139	54	...	...	...
Haiti	8	15	65	110	145	111	185	141	172	179	154	76
Honduras	8	35	106	178	153	219	250	174	303	341	434	399
Jamaica	25	139	154	246	122	79	122	302	323	550	192	
Nicaragua	10	57	235	238	53	225	735	593	755	468	935	1076
Panama	31	71	235	167	217	235	-50	136	-285	362	579	369
Dominican Republic	4	91	247	105	118	402	438	311	275	72	457	602
Suriname	17	28	27	95	54	83	136	111	-30	10		
Trinidad and Tobago	18	66	4	116	-75	271	171	379	-78	-347	-133	

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

[a] Includes long- and short-term capital, unrequited official transfers, and errors and omissions. [b] Preliminary figures.

Table 2

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL MOVEMENTS

(As a percentage of gross domestic product)

	1965	1973	1974	1975	1976	1981	(1981)	1982	1989	1990	1991	X99^
Latin America and the Caribbean	**1.2**	**2.8**	**3.7**	**4.2**	**4.8**	**4.5**	**4.6**	**2.8**	**1.2**	**2.2**	**4.0**	**5.9**
Latin America and the Caribbean (excluding Venezuela)	**1.4**	**3.0**	**4.4**	**4.4**	**4.7**	**4.6**	5.4	**3.7**	1.5	2.9	**4.1**	5.9
Oil-exporting countries	**1.0**	2.5	2.5	**4.3**	**4.4**	**4.6**	**4.3**	1.2	0.2	2.6	**7.4**	8.2
Oil-exporting countries (excluding Venezuela)	**1.6**	2.8	**4.4**	4.8	**3.9**	5.0	**6.3**	3.2	**0.9**	4.8	8.5	8.9
Bolivia	3.9	2.4	-0.1	4.6	4.2	7.1	13.1	8.8	6.0	10.6	12.7	21.2
Colombia	0.8	4.0	2.3	1.9	2.9	3.4	5.4	5.4	2.3	0.1	-1.2	0.7
Ecuador	1.3	6.1	2.4	4.1	4.2	7.3	4.9	6.8	4.7	5.4	6.7	1.3
Mexico	1.7	2.6	4.2	4.9	3.6	5.1	6.5	1.7	-0.4	5.7	10.4	10.8
Peru	2.4	2.1	9.0	7.1	6.7	4.5	4.9	6.7	4.2	4.8	9.2	8.0
Venezuela	-0.8	0.9	-5.1	1.8	6.4	2.9	-6.1	-5.8	-3.0	-11.3	1.3	4.5
Non-oil-exporting countries	**1.3**	**3.0**	4.5	4.2	5.1	4.5	4.8	**4.0**	**1.9**	2.0	2.0	4.5
South American countries	**1.0**	2.5	**3.9**	3.5	4.8	**4.1**	**4.4**	3.5	**1.4**	**1.7**	1.5	**4.1**
Argentina	0.7	0.4	-0.1	0.5	0.7	2.0	1.3	2.5	2.5	2.4	8.2	18.2
Brazil	1.0	3.6	5.8	4.6	6.0	4.1	4.4	3.8	0.7	1.0	0.3	1.7
Chile	2.0	2.0	1.9	2.9	2.1	12.7	16.2	4.3	6.5	11.0	4.5	9.9
Paraguay	2.7	4.5	6.4	6.8	7.0	10.2	8.5	6.2	5.4	4.4	9.5	0.8
Uruguay	2.1	0.4	2.7	4.0	4.2	6.2	4.3	-1.6	1.7	1.5	1.0	4.3
Central American and Caribbean countries	4.8	8.7	**11.9**	**11.7**	8.0	9.2	**10.3**	**10.6**	**7.6**	**7.3**	**10.4**	**10.4**
Costa Rica	4.0	9.0	14.5	10.3	10.6	12.7	13.3	16.1	10.3	6.4	9.2	10.2
El Salvador	0.5	1.8	9.5	7.0	2.7	2.1	6.5	5.8	6.2	9.8	4.9	7.4
Guatemala	2.2	2.4	2.9	4.7	6.6	2.7	3.2	4.1	4.6	2.6	8.0	8.7
Haiti		4.4	16.5	23.8	24.6	13.5	20.3	15.0	14.1	11.4	9.2	4.7
Honduras	2.3	5.1	10.1	15.7	11.2	9.7	8.8	6.0	8.1	11.6	13.6	11.7
Nicaragua	5.8	7.2	15.7	15.2	2.9	11.0	29.7	21.2	34.4	27.4	57.1	64.1
Panama	7.7	6.9	14.2	9.1	11.1	8.0	-1.3	3.2	-6.0	7.3	10.7	6.2
Dominican Republic	0.6	6.0	8.4	2.9	3.0	7.8	7.7	5.7	5.3	1.0	6.2	7.5

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

[a] Estimates of gross domestic product (GDP) in current dollars have been calculated on the basis of GDP data expressed in local currency and the exchange rate for exports of goods and services implicit in IMF balance-of-payments series. T"reliminary estimates.

Table 3

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL MOVEMENTS

(As a percentage of merchandise exports)

	1965	1973	1974	1975	1976	1981	(1981)	1982	1989	1990	1991	1992[a]
Latin America and the Caribbean	**10.6**	**28.9**	**30.4**	**41.4**	**43.9**	**40.1**	**40.3**	**23.1**	**8.7**	**17.2**	**32.2**	**47.8**
Latin America and the Caribbean (excluding Venezuela)	**15.1**	**35.0**	**47.5**	**53.0**	**50.2**	**47.4**	**55-2**	**33.4**	**11.9**	**24.9**	**36.0**	**51.5**
Oil-exporting countries	**6.8**	**24.6**	**16.9**	**39.6**	**37.0**	**35.7**	*353*	**8.1**	**1.2**	**15.2**	**47.5**	**55.1**
Oil-exporting countries (excluding Venezuela)	**16.8**	**41.5**	**58.4**	**79.8**	**52.6**	**54.0**	**72.4**	**25.2**	6.7	**35.0**	**63.1**	**67.4**
Bolivia	33.1	12.9	-0.5	23.5	20.5	32.6	54.0	27.7	59.8	42.7	58.5	128.4
Colombia	6.4	37.7	19.8	14.8	21.3	29.2	61.5	70.1	18.5	0.7	-7.0	4.2
Ecuador	8.5	38.8	7.1	17.2	17.8	34.8	25.8	37.1	21.2	20.2	26.0	4.9
Mexico	23.7	63.1	100.5	143.9	84.4	73.1	86.5	13.2	-3.1	43.4	82.3	87.9
Peru	15.9	16.4	76.2	83.5	68.8	27.2	36.9	51.4	35.7	50.3	98.4	81.7
Venezuela	-2.4	3.8	-12.2	5.8	21.9	10.1	-20.3	-24.1	-13.0	-30.7	4.5	18.3
Non-oil-exporting countries	**14.3**	**32.2**	43.2	**42.9**	**49.3**	**44.1**	**45.1**	**39.1**	**15.0**	**18.9**	**19.5**	**42.1**
South American countries	**13.7**	**33.4**	**47.9**	**48.5**	**59.4**	**51.2**	**52** *2*	**42.1**	**12.6**	**18.1**	**16.3**	**41.9**
Argentina	9.9	5.0	-1.1	7.0	6.7	25.6	16.6	22.1	21.9	11.9	45.6	109.5
Brazil	14.8	59.4	84.2	69.9	92.6	56.2	53.2	55.1	7.3	16.1	4.0	23.4
Chile	19.2	16.6	9.8	13.3	9.5	77.2	128.8	27.9	24.6	37.0	15.7	34.7
Paraguay	18.5	41.6	49.7	61.5	57.4	90.8	105.4	79.8	31.2	19.1	73.7	7.2
Uruguay	12.8	3.8	25.4	35.2	27.5	54.1	40.1	-13.7	8.8	7.1	5.0	22.8
Central American and Caribbean countries	**16.2**	**29.1**	**30.6**	**30.6**	**23.3**	**24.2**	**24.4**	**29.8**	**25.2**	**22.2**	**33.5**	**43.4**
Costa Rica	19.9	38.8	53.3	41.3	43.6	49.0	35.9	45.8	40.8	26.8	34.4	35.1
El Salvador	2.6	7.7	32.3	23.4	8.8	7.1	28.0	30.0	44.8	92.2	50.9	82.1
Guatemala	18.2	15.4	15.6	26.4	39.2	14.7	21.1	30.9	33.6	16.9	60.2	66.5
Haiti	18.8	46.3	173.4	262.4	145.6	70.0	122.5	79.6	88.7	111.4	94.6	104.1
Honduras	10.4	18.9	35.3	57.6	37.1	30.9	31.9	25.7	37.2	40.2	53.7	47.6
Nicaragua	12.8	30.5	61.7	63.5	9.8	39.4	144.6	146.0	232.2	140.6	348.9	494.6
Panama	68.6	54.9	93.5	50.5	80.7	20.4	-2.0	5.6	-13.1	10.9	13.8	7.4
Dominican Republic	3.3	38.8	38.8	11.7	16.4	44.9	36.9	40.5	34.1	9.9	69.4	107.1
Barbados	39.6	100.0	62.1	53.5	70.8	49.4	82.2	20.9	0.5	-8.5	-6.3	
Guyana	9.3	17.3	20.6	20.7	19.0	24.2	42.6	57.6	61.0			
Jamaica	19.3	43.7	20.4	30.4	18.6	9.1	12.6	39.3	43.9	47.5	16.8	
Suriname	47.8	20.5	10.1	34.1	17.6	19.0	28.6	25.8	-7.8	2.1		
Trinidad and Tobago	12.4	22.5	0.4	11.8	-7.1	14.7	6.5	17.0	-4.6	-18.0	-7.6	

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

[a] Preliminary figures.

Table 4

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS[3]

(As a percentage of gross domestic product)

	1950-1965	1966-1973	1974	1975	1976	1977-1981	(1981)	1982	1983-1989	1990	1991	1992[c]
Latin America and the Caribbean	-0.6	0.7	1.9	2.4	2.9	1.9	1.1	-2.5	**-3.7**	**-1.4**	**0.9**	**3.1**
Latin America and the Caribbean (excluding Venezuela)	0.4	1.2	2.8	2.5	2.5	1.7	1.7	-2.0	**-3.5**	**-0.8**	**1.0**	**3.2**
Oil-exporting countries	-2.2	-0.1	0.3	2.8	2.5	1.9	1.1	-4.3	**-4.7**	**-1.3**	**4.1**	**4.9**
Oil-exporting countries (excluding Venezuela)	0.3	0.8	2.3	2.9	1.2	1.5	2.3	-3.3	-4.3	0.6	4.8	5.5
Bolivia	3.7	0.3	-1.4	4.2	3.0	1.8	3.5	-7.0	0.9	3.3	5.8	15.4
Colombia	-0.2	0.8	0.0	0.0	0.0	1.6	4.0	3.0	-2.2	-5.3	-5.9	-3.0
Ecuador	-0.9	3.4	-3.1	2.5	2.1	3.2	-0.2	0.3	-4.1	-5.0	-1.9	-5.6
Mexico	0.2	0.9	2.2	2.9	0.9	1.6	2.4	-5.9	-5.6	1.8	7.1	7.7
Peru	0.7	0.1	7.6	5.5	4.0	0.0	0.7	2.6	-0.4	1.8	6.3	5.4
Venezuela	-9.5	-4.5	-7.5	2.2	7.0	3.3	-5.2	-8.0	-6.7	-12.9	0.1	1.6
Non-oil-exporting countries	0.4	1.3	3.0	2.2	3.2	1.9	1.2	-1.2	-3.0	-1.4	-0.9	2.1
South American countries	0.4	1.2	2.8	2.0	3.1	1.7	1.0	-1.6	-3.5	-1.7	-1.3	1.8
Argentina	0.4	-0.7	-0.8	-0.5	-0.6	0.4	-1.9	-4.4	-5.1	-7.5	-0.3	12.1
Brazil	0.2	2.5	4.7	3.0	4.3	1.4	0.7	-0.8	-3.3	-1.4	-1.6	0.1
Chile	0.3	-0.1	-0.5	-1.0	-1.3	8.9	11.4	-3.7	-3.3	4.5	-1.3	4.6
Paraguay	2.2	2.9	4.8	4.9	5.3	9.0	8.1	6.7	2.8	3.7	8.8	-0.2
Uruguay	1.5	-0.7	1.5	1.9	2.2	5.2	3.6	-3.4	-3.5	-2.5	-1.8	2.2
Central American and Caribbean countries	0.8	2.6	6.5	4.8	3.7	4.0	5.2	3.8	4.3	2.9	6.4	7.1
Costa Rica	1.9	6.8	12.1	7.2	7.8	7.9	2.0	1.1	2.8	2.1	6.2	6.8
El Salvador	-0.1	0.8	7.3	4.7	1.9	0.0	3.5	3.1	3.7	7.6	2.8	5.8
Guatemala	1.9	0.5	1.4	2.9	5.5	2.0	2.0	2.7	2.3	0.0	6.5	7.1
Haiti		0.8	3.7	4.0	9.3	13.5	23.9	22.6	12.4	9.9	7.6	4.1
Honduras	0.3	1.8	8.8	13.1	6.9	4.7	3.4	-1.0	2.4	3.0	5.5	3.9
Nicaragua	2.8	3.7	11.8	11.7	-0.8	5.8	22.5	14.6	24.2	14.7	34.9	34.6
Dominican Republic	-1.2	3.9	5.4	-0.2	0.2	4.0	2.8	1.0	0.3	-1.1	3.3	4.8

Source: ECLAC, *Postwar Transfer of Resources Abroad by Latin America* (LC/G. 1657-P), Cuadernos de la CEP AL series, No. 67, Santiago, Chile, July lî*92, United Nations publication, Sales No. E.91.II.G.9., and table VII-14 of the First Part of this Survey.

″ The net transfer of resources is equivalent to the net inflow of capital (unrequited official transfers, short- and long-term capital and errors and omissions), less net profits and interest, which include both interest actually paid and interest due but not paid. Negative sums appearing in this table denote outward transfers of resources. "Estimates of gross domestic product (GDP) in current dollars have been calculated on the basis of GDP data expressed in local currency and the exchange rate for exports of goods and services implicit in IMF balance-of-payments series. °Preliminary estimates.

Table 5

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL MOVEMENTS, BY TYPE OF TRANSACTION

(As a percentage of the total)

	1965	1973*	1974	1975	1976	1981	(1981)	1982	1989	199o	1991	199*
Latin America and the Caribbean, total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Long-term capital	106	83	94	91	91	101	129	188	123	18	86	70
Foreign direct investment	63	27	13	21	8	17	19	28	55	30	28	31
Portfolio investment	0	2	-2	1	6	5	6	22	6	86	38	23
Loans	43	55	83	69	76	79	104	138	62	-98	19	13
Short-term capital	10	11	14	17	12	2	-1	-33	-26	58	11	29
Grants and donations	10	4	2	3	2	2	2	4	19	15	7	6
Errors and omissions	-27	1	-9	-11	-5	-5	-30	-59	-16	9	-4	-5

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMP) and country sources.
* Preliminary estimates.

Table 6

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): ESTIMATED CAPITAL FLIGHT[4]

(Millions of dollars)

	1980-1984		
	World Bank[b]	Morgan Guaranty	Cuddington
Argentina	19 200	18 900	16 500
Brazil	10 500	10 000	1300
Mexico	40100	40 300	30 300
Venezuela	27 100	26 700	16 800

Source: World Bank, *Quarterly Review,* March 1989.
* Net inflow of resources less factor payments (interest on the external debt and profit remittances). Tïach estimate has been calculated using a different methodology.

Table 7

LATIN AMERICA AND THE CARIBBEAN: PRICES OF EXTERNAL DEBT PAPER ON SECONDARY MARKET, DECEMBER OF EACH YEAR

(As a percentage of face value)

	1986	1987	1988	1989	1990	1991	1992
Argentina	66	35	21	13	20	36	45
Bolivia	7	11	10	11	...	...	16
Brazil	74	46	41	22	25	30	28
Colombia	86	65	57	64	63	81	75
Costa Rica	35	15	12	17	34	50	60
Chile	67	61	56	59	74	89	91
Ecuador	65	37	13	14	20	22	27
Guatemala	60	77	...	...			...
Honduras	40	22	22	20		...	34
Jamaica	45	33	40	40			67
Mexico	56	51	43	36	46	60	65
Nicaragua	4	4	2	1	...		6
Panama	68	39	21	12	13	21	29
Peru	18	7	5	6	4	11	18
Dominican Republic	45	23	22	13			32
Uruguay	66	60	60	50	55	...	75
Venezuela	74	58	41	34	50	66	57
Average*	64.2	46.5	37.7	28.0	35.1	45.0	47.9

Source: United Nations, Department for Economic and Social Information and Policy Analysis.
* Weighted according to the sum of bank debt.

Table 8

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): FOREIGN DIRECT INVESTMENT (FDI) FLOWS

(Millions of dollars)

	Channels	1985	1986	1987	1988	1989	1990	1991	1992	Total 1985-1991
Argentina[a]	Regular flows of FDI	919.0	354.5	-19.0	807.4	868.9	777.0	465.0	2852.0	4 172.8
	FDI through external debt swaps	0.0	219.5	0.0	339.6	159.1	815.0	0.0	0.0	1 533.2
	FDI through privatizations	0.0	0.0	0.0	0.0	0.0	416.0	1 974.0	1841.0	2 390.0
	Total	**919.0**	**574.0**	**-19.0**	**1147.0**	**1028.0**	**2008.0**	**2439.0**	**4693.0**	**8096.0**
Brazil	Regular flows of FDI	766.0	114.0	882.0	882.0	321.0	618.0	904.2		4487.2
	FDI through external debt swaps	581.2	205.9	343.6	2087.3	945.6	283.0	67.8	95.0	4 514.4
	FDI through privatizations	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
	Total	**1347** 2	**319.9**	1**225.6**	2 **969** J	**1267.0**	**901.0**	**972.0**	**2000.0**	**9001.6**
Chile	Regular flows of FDI	114.3	116.6	228.9	26.7	184.2	248.7	576.0	605.0	1 495.4
	FDI through external debt swaps	30.0	198.9	701.4	886.0	1 321.4	441.9	-36.9	-31.5	3 542.7
	FDI through privatizations	0.0	0.0	0.0	114.0	0.0	0.0	0.0	0.0	114.0
	Total	**144J**	**315.5**	**930.3**	**1026.7**	**1505.6**	**660.6**	**539.1**	**573.5**	5**122.1**
Mexico	Regular flows of FDI	491.0	1160.0	1 796.0	**1** 726.5	2648.0	**1** 686.1	**4** 342.3		13 849.9
	FDI through external debt swaps	0.0	363.2	1449.6	868.1	388.9	84.7	19.2		3 173.7
	FDI through privatizations	0.0	0.0	0.0	0.0	0.0	862.4	400.0		1 262.4
	Total	**491.0**	**1523** 2	**3245.6**	**2594.6**	**3036.9**	2 **633** 2	**4761.5**	**5366.0**	**18086.0**
Venezuela	Regular flows of FDI	68.0	16.0	21.0	39.0	30.0	148.0	230.0	629.0	552.0
	FDI through external debt swaps	0.0	0.0	0.0	50.0	183.0	303.0	256.0		792.0
	FDI through privatizations	0.0	0.0	0.0	0.0	0.0	0.0	1428.0		1 428.0
	Total	**68.0**	**16.0**	**21.0**	**89.0**	**213.0**	**451.0**	**1914.0**	**629.0**	**2772.0**
Total	Regular flows of FDI	2 358.3	1 761.1	2908.9	3 481.6	4052.1	3 477.8	6517.5		24 557.3
	FDI through external debt swaps	611.2	987.5	2494.6	4 231.0	2998.0	1 927.6	306.1		13 556.0
	FDI through privatizations	0.0	0.0	0.0	114.0	0.0	1 278.4	3 802.0		5 194.4
	Total	2 **969.5**	**2748.6**	**5403.5**	**7 826.6**	**7050.5**	**6653.8**	**10 625.6**	**13261.5**	**43 278.1**

Source: Alvaro Calderón, *Tendencias recientes de la inversión extranjera directa en América Latina y el Caribe: Elementos de políticas y resultados,* document presented at the seminar on "Foreign Direct Investment in the Third World: The case of Latin America", organized by the Institute for European-Latin American Relations (IRELA), Segovia, Spain, 10 and 11 June 1993.

* All **the** FDI flows entering Argentina in 1990-1992 via external debt swaps were part of its privatization programme. Tncludes investments made in Chile under its external debt conversion programme (Chapter XIX).

Table 9

LATIN AMERICA AND THE CARIBBEAN: EXTERNAL DEBT INTEREST ARREARS [a]

(Millions of dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Total	**129**	**247**	**916**	**1893**	**-489**	**791**	**4861**	**327**	**8167**	**9120**	-3 **889**
Oil-exporting countries	**12**	**47**	**114**	**419**	**536**	**713**	**1280**	**668**	**766**	**881**	**-464**
Bolivia	12	39	26	95	137	56	48	-306	-58	-44	7
Colombia	0	0	0	**0**	5	-5	**2**	-1	2	25	-8
Ecuador	0	0	0	**0**	9	4	446	341	271	460	570
Mexico	0	0	0	**0**	0	0	**0**	0	0	**0**	0
Peru	0	8	88	324	384	657	782	635	548	446	-1033
Venezuela	0	0	0	**0**	1	1	**2**	-1	3	**-6**	0
Non-oil-exporting countries	**117**	**200**	**802**	**1474**	**-1025**	**78**	**3 581**	**-341**	**7 401**	**8239**	-3 **425**
South American countries	**28**	**29**	**919**	**1270**	**-1118**	**-212**	**2912**	**-1034**	**6 552**	**7 542**	-3 **035**
Argentina	0	0	837	1237	-1297	-291	-135	1777	3 405	1699	1833
Brazil	28	29	74	27	166	54	3 033	-2 838	3 162	5 803	-4 888
Chile	0	0	0	0	0	0	0	0	0	0	0
Paraguay	0	0	8	6	13	25	14	27	-15	40	20
Uruguay	0	0	0	0	0	0	0	0	0	0	0
Central American and Caribbean countries	**89**	**171**	**-117**	**204**	**93**	**290**	**669**	**693**	**849**	**697**	**•390**
Costa Rica	84	145	-214	51	-53	67	140	60	105	-305	-14
Dominican Republic	3	6	4	60	-41	27	89	59	75	224	82
El Salvador	0	0	0	0	2	2	1	4	14	-17	0
Guatemala	0	0	0	10	30	19	24	13	21	81	5
Haiti	0	0	0	9	2	-1	1	5	-1	8	-9
Honduras	2	2	7	19	14	19	44	28	29	-52	-12
Nicaragua	0	18	85	55	139	158	354	229	304	354	-661
Panama	0	0	1	0	0	-1	16	295	302	404	219

Source: Oscar Altimir and Robert Devlin, "An overview of Debt Moratoria in Latin America", Working Paper series No. 6, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1992.

* Cumulative annual amount.

Table 10

LATIN AMERICA AND THE CARIBBEAN: SOME SOURCES OF EXTERNAL FINANCING

(Millions of dollars)

	1989	1990	1991	1992[a]
A. **Debt**				
Bonds[b]	900	3600	7600	10100
Banks[c]	-6 497	8 559	6 800	9 500
Commercial paper	127	-	1210	840
Certificates of deposit	-	-	670	1 100
B. Investment				
Direct[d]	6134	6287	10737	14 717
ADR/GDR [e]	-	100	4 260	4 390
External funds	608	483	771	259

Source: ECLAC, on the basis of official figures.
" Preliminary estimates. Gross value. [c]Net, short- and medium-term. Includes reinvestment of profits. 'For ¡ definition, see the corresponding text. Close-ended funds, initial capital.

Table 11

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): SYNDICATED LOANS BY PRIVATE BANKS[a b]

(Millions of dollars)

	1989	1990	1991	1992
Total	**2300**	**2600**	**4100**	**3900**
Argentina	-	-	100	-
Brazil	200	-	400	300
Chile	-	500	100	400
Colombia	1900	1600	-	
Mexico	200	500	3 500	3 200

/Source: Bank for International Settlements.
[a] Reported. Gross credit.

Table 12

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	1989	1990	1991	1992				
					n	m	IV	Total"
Total	**900**	**3600**	**7600**	**2100**	**2900**	**1600**	**3500**	**10100**
Argentina			800	200	300	600	400	1500
Brazil			1600	900	1700	300	400	3 300
Colombia			200	-	–	-	–	–
Chile			300	-	100	-	–	100
Mexico	600	3 400	4 100	400	600	500	2600	4100
Trinidad and Tobago			–	-	–	-	100	100
Uruguay			–	-	100	-	–	100
Venezuela	300	200	600	600	100	200	—	900

Source: Bank for International Settlements, West Merchant Bank and ECLAC.
[a] Gross financing. Preliminary figures.

Table 13

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): INDICATORS OF TERMS AND CONDITIONS FOR INTERNATIONAL BOND ISSUES*

	1990		1991		1992	
	Yield"	TernT	Yield"	Temf	Yield"	Term'
Argentina			10.6	3.2	10.2	3.8
Brazil			12.2	2.7	10.3	2.8
Chile						
Colombia						
Mexico	13.1	3.7	10.7	5.6	9.4	4.9
Trinidad and Tobago					11.8	5.0
Uruguay					8.6	3.0
Venezuela	14.0	5.0	10.4	4.3	9.6	5.0

Source: West Merchant Bank.
[a] Weighted averages for a very broad sample of bonds. Tnitial yields, in percentages. [c] Terms in years.

Table 14

LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT

(Millions of dollars)

	1977-1981	(1981)	1982	1983-1989	1990	1991	1992[a]
Latin America and the Caribbean	**5 080**	**7 792**	**5 894**	**4 663**	**6 515**	**11054**	**14717**
Latin America and the Caribbean (excluding Venezuela)	**5 002**	**7 608**	**5 641**	**4695**	**6419**	**9 287**	**14209**
Oil-exporting countries	**1866**	**3 508**	**2 364**	**2 263**	**3 362**	**7090**	**5 969**
Oil-exporting countries (excluding Venezuela)	**1788**	**3 324**	**2111**	**2 295**	**3266**	**5 323**	**5 461**
Bolivia	33	76	31	5	26	50	
Colombia	98	228	337	533	484	433	
Ecuador	55	60	40	67	82	85	95
Mexico	1541	2 835	1655	1677	2 633	4 762	5 366
Peru	60	125	48	13	41	-7	
Venezuela	78	184	253	-32	96	1767	508
Non-oil-exporting countries	**3 214**	**4 285**	**3 530**	**2 401**	**3153**	**3 964**	**8748**
South America	**2 798**	**3 721**	**3215**	**2038**	**2 561**	**3 263**	**8220**
Argentina	483	944	257	586	2 008	2 439	4 693
Brazil	1930	2313	2 534	1285	236	170	2 836
Chile	204	383	401	143	249	576	605
Paraguay	31	32	37	5	68	78	86
Uruguay	150	49	-14	19	0	0	0
Central America and the Caribbean	**416**	**564**	**315**	**362**	**591**	**701**	**528**
Barbados	6	7	4	4	10	6	
Costa Rica	53	66	27	75	160	137	195
El Salvador	6	-6	-1	18	2	25	
Guatemala	116	127	77	110	48	91	91
Guyana	0	-2	4	2			
Haiti	10	8	7	7	8	14	
Honduras	11	-4	14	34	44	45	47
Jamaica	-9	-12	-16	11	138	127	
Nicaragua	4	0	0	0	0	0	15
Panama	3	6	3	17	-17	-58	
Dominican Republic	65	80	-1	73	133	145	180
Suriname	2	35	-6	-50	-43		
Trinidad and Tobago	150	258	204	63	109	169	

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF) and by country sources.

[a] Preliminary figures.

Table 15

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): ADR ISSUES FOR THE PURPOSE OF NEW CAPITAL FORMATION[a]

	Number of transactions			In millions of dollars		
	1990	1991	1992	1990	1991	1992
Total		**15**	**19**	**98**	**4 260**	**4390**
Argentina		1	**2**		364	376
Brazil			**1**			133
Chile			**2**	98		130
Colombia			1			27
Mexico		14	10		3 896	3 508
Venezuela			3			216

Source: Sudarshan Gooptu, *Portfolio Investment Flows to Emerging Markets,* Policy Research Working Papers series, No. 1117, Washington, D.C., World Bank, 1993; *Latin Finance,* several issues and ECLAC, Economic Development Division.

[a] Includes GDRS. For a definition, see text.

Table 16

LATIN AMERICA AND THE CARIBBEAN SELECTED COUNTRIES: INVESTMENT FUNDS

(Number)

	End of 1992
Argentina	4
Brazil	9
Chile	6
Colombia	1
Mexico	11
Venezuela	2
Regional	32
Total	**65**

Source: *Latin Finance,* several issues.

Table 17

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): CLOSED-END EXTERNAL INVESTMENT FUNDS [a]

	Number of funds				Initial capital in millions of dollars			
	1989	1990	1991	1992	1989	1990	1991	1992
Total	8		**11**		**608**	**383**	**771**	**259**
Argentina	-		1		-	-	56	-
Brazil	-		1		-	-	43	56
Chile	3				230	180	-	-
Mexico	3		1		192	-	71	-
Venezuela	-		1		-	-	100	-
Regional	2		7		186	203	501	203

Source: Sudarshan Gooptu, *Portfolio Investment Flows to Emerging Markets,* Policy Research Working Papers series, No. 1117, Washington, D.C., World Bank, 1993; and ECLAC, Economic Development Division.

Table 18
INTERNATIONAL INTEREST RATES
(Percentages)

	1972-1978	1979-1988	1989	1990	1991	1992
Dollars						
A. LIBOR (180 days)						
Nominal	7.9	10.9	9.3	8.3	6.1	3.9
Real	-0.8	4.4	4.6	3.2	1.7	0.9
B. United States Government bonds (long term)[a]						
Nominal	7.4	10.7	8.5	8.6	7.9	7.0
Real	-1.2	4.3	3.8	3.4	3.4	3.9
Marks						
A. LIBOR (180 days)						
Nominal		6.6	7.2	8.8	9.4	9.4
Real	...	0.4	2.6	3.6	4.9	6.2
B. Germen Government bonds (long term)[a]						
Nominal	8.0	7.6	7.1	8.9	8.6	8.0
Real	-0.7	1.4	2.5	3.7	4.2	4.8
Yens						
A. LIBOR (180 days)						
Nominal		6.6	5.5	7.9	7.2	4.4
Real		0.4	1.0	2.7	2.7	1.3
B. Japanese Government bonds (long term)[a]						
Nominal	7.8	6.8	5.1	7.4	6.5	4.9
Real	-0.8	0.6	0.5	2.2	2.1	1.9

Source: ECLAC, on the basis of figures from International Monetary Fund (IMF).
•Yield.

Table 19

LATIN AMERICA AND THE CARIBBEAN: SPREAD BETWEEN NATIONAL AND INTERNATIONAL INTEREST RATES [ab]

	1989	1990	1991	1992
Argentina				
Short term	120.1	1 407.6	-20.3	3.7
Long term	120.9	1 407.3	-22.1	0.6
Bolivia				
Short term	-6.4	0.0	6.2	8.5
Long term	-5.7	-0.2	4.4	5.4
Brazil				
Short term	98.8	-1.9	24.1	37.8
Long term	99.6	-2.2	22.3	34.7
Chile				
Short term	-3.3	15.7	4.1	12.6
Long term	-2.5	15.4	2.3	9.5
Colombia				
Short term	-5.6	-4.3	4.2	
Long term	-4.8	-4.6	2.4	
Costa Rica				
Short term	-0.1	-8.7	-8.8	11.2
Long term	0.7	-9.0	-10.6	8.1
Ecuador				
Short term	-13.8	-3.7	-7.9	0.2
Long term	-13.1	-3.9	-9.7	-2.9
El Salvador				
Short term	7.0	-19.7	9.4	-4.8
Long term	7.8	-19.9	7.6	-7.8
Honduras				
Short term	-0.7	-58.5	2.5	1.0
Long term	0.1	-58.7	0.7	-2.1
Guatemala				
Short term	-14.7	-10.0	16.6	2.3
Long term	-13.9	-10.2	14.8	-0.8
Mexico				
Short term	8.9	9.0	6.1	10.2
Long term	9.7	8.7	4.3	7.1
Peru				
Short term	75.8	-42.2	76.9	4.7
Long term	76.5	-42.4	75.1	1.6
Uruguay				
Short term	-4.6	-7.9	4.8	5.2
Long term	-3.8	-8.1	3.0	2.1
Venezuela				
Short term	-29.6	3.2	2.8	2.2
Long term	-28.8	3.0	1.0	-0.9

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

* Equivalents in dollars of national interest rates on deposits, less international interest rates in dollars. Short-term rates are national rates on deposits less LIBOR; long-term rates are national rates on deposits less yields of United States Government bonds.

Table 20

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): PRIVATIZATIONS

	Number of sales 1989-1992	Income" (millions of dollars)				Total 1989-1992
		1989	1990	1991	1992	
Argentina	43 •!	-	2 105	2 592	6 094	10 791
Brazil	17	-	-	1658	2 340	3 998
Colombia	16	52	72	670	82	876
Mexico	130	730	3 205	10 831	7 007	21 773
Peru	14	-	-	3	264	267
Venezuela	13	-	9	2 290	20	2 319
Total	**233**	**782**	**5 391**	**18 044**	**15 807**	**40 024**

Source: ECLAC. Economic Development Division.
* In cases where privatizations have been financed with external debt paper, they have been valued at secondary-market prices.

Table 21

LATIN AMERICA AND THE CARIBBEAN: EQUIVALENT RATES ON LOANS IN NATIONAL CAPITAL MARKETS

(Dollar equivalents)

	1988	1989	1990	1991	1992
Argentina	40.6	1 430.8	273.9[a]	-3.7	18.6
Bolivia		14.2	24.1	28.0	32.6
Brazil					
Chile	16.9	12.8	31.6	15.8	22.2
Colombia	1.1	11.0	10.7	18.3	
Costa Rica	11.4	22.0	9.0	6.2	27.9
Ecuador	-25.3	-11.6	0.2	1.8	13.7
El Salvador	17.0	18.5	-8.9	19.0	3.1
Guatemala	7.1	-2.9	2.4	32.2	15.0
Honduras	15.4	15.4	-46.3	18.8	13.7
Mexico			...		
Peru	...	131.6	29.5	504.9	67.9
Uruguay	31.0	28.8	39.5	60.0	
Venezuela	8.5	-25.3	11.9	7.8	5.2

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).
[a] Does not include the second semester.

Table 22

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): INTERNATIONAL RATING OF CREDIT RISK[a]

Rating	Ratings institutions	
	Moody's	Standard & Poor
Aaa		
Aa		
Baa		Chile (BBB)
Ba	Mexico (Ba2) Trinidad and Tobago (Ba2) Venezuela (Bal)	Mexico (BB+) Trinidad and Tobago (BB) Venezuela (BB)
	Argentina (Bl) Brazil (B2)	

Source: ECLAC, Economic Development Division.
[a] The rating of risk ranges from Aaa (minimum) to B (maximum). Countries representing a higher level of risk are not classified. Thivate institutions.

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