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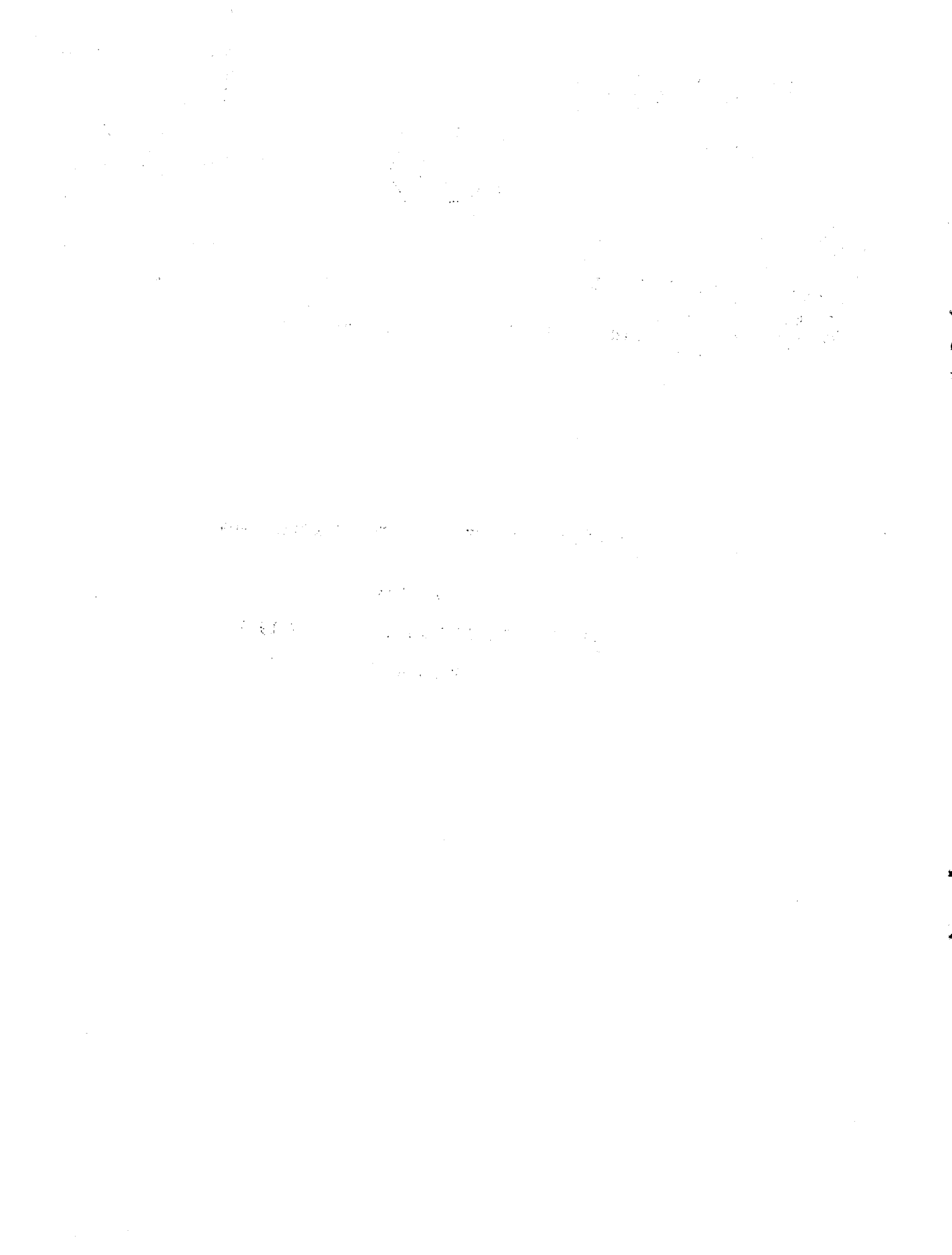
ECONOMIC SURVEY OF LATIN AMERICA, 1974

Part Two

THE LATIN AMERICAN ECONOMY IN 1974

Volume 4

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Section 1

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HAITI

1. Recent economic trends

According to preliminary data, the growth rate of the economy appears once again to have slackened. It is estimated that in 1974 the gross domestic product rose by 3 per cent, which is the lowest rate recorded in the present decade, although double the rate of population growth.

The evolution of the product by sector of economic activity showed marked reductions in the growth rates of manufacturing, mining and services, excluding basic services. In contrast, a slight recovery was observable in agriculture, which accounted for nearly half of the total product, while construction stepped up even further its high rate of growth (see table 1).

Haiti is one of the few Latin American countries that has not benefited from the favourable situation as regards world prices of primary products. The increase in the unit value of exports of 18.9 per cent in 1973 and 32.7 per cent in 1974 was cancelled out in the first of these years and exceeded in the second by the higher prices of imports. This state of affairs, combined with the stagnation in the volume exported in 1974, led to a reduction in the purchasing power of exports (of 14.5 per cent) and the final result was an 8.4 per cent contraction in the volume of imports of goods and services.

The slower growth of total production, combined with the decrease in the volume of imports - and despite the stagnation in the volume of exports - was responsible for reducing the increase in the domestic supply of goods and services from 4.4 per cent to barely 1.6 per cent in 1974. This was reflected, on the demand side, in a decline in the growth of investment, and particularly of consumption, where an increase of only 1.3 per cent was recorded in private consumption, while general government consumption contracted by a similar proportion (see table 2).

Table 1

HAITI: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of gourdes at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1974 _a /	1970- 1972	1973	1974 _a /
Agriculture	1 041.0	1 120.7	1 134.0	50.8	46.6	3.4	0.6	1.2
Mining	35.0	45.9	50.2	1.7	2.1	0.4	30.0	9.4
Manufacturing	201.0	256.4	266.4	9.8	10.9	7.3	10.8	3.9
Construction	47.0	72.7	85.2	2.3	3.5	15.8	15.4	17.2
<u>Subtotal goods</u>	<u>1 324.0</u>	<u>1 495.7</u>	<u>1 535.8</u>	<u>64.6</u>	<u>63.1</u>	<u>4.4</u>	<u>3.6</u>	<u>2.7</u>
Electricity, gas and water	27.0	36.2	38.8	1.3	1.6	14.2	2.8	7.2
Transport and communications	49.0	61.0	63.6	2.4	2.6	9.4	3.9	4.3
<u>Subtotal basic services</u>	<u>76.0</u>	<u>97.2</u>	<u>102.4</u>	<u>3.7</u>	<u>4.2</u>	<u>11.2</u>	<u>3.5</u>	<u>5.3</u>
Commerce and finance	223.0	281.0	291.1	10.9	12.0	8.3	7.4	3.6
Government	95.0	113.3	120.9	4.6	5.0	2.6	13.3	6.7
Ownership of dwellings	204.0	216.9	219.6	10.0	9.0	4.1	2.2	1.2
Miscellaneous services	129.0	159.5	163.9	6.3	6.7	8.0	6.0	2.8
<u>Subtotal other services</u>	<u>651.0</u>	<u>770.7</u>	<u>795.2</u>	<u>31.8</u>	<u>32.7</u>	<u>5.5</u>	<u>6.4</u>	<u>3.2</u>
<u>Gross domestic product, total</u>	<u>2 051.0</u>	<u>2 363.6</u>	<u>2 434.0</u>	<u>100.0</u>	<u>100.0</u>	<u>5.0</u>	<u>4.5</u>	<u>3.0</u>

Sources: 1970-1973: ECLA calculations based on figures supplied by the Haitian Statistical Institute;
1974: ECLA estimates based on data from the same source.

a/ Preliminary figures.

Table 2
HAITI: TOTAL SUPPLY AND DEMAND

	Millions of gourdes at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1974 _a /	1970- 1972	1973	1974 _a /
<u>Total supply</u>	<u>2 603</u>	<u>3 011</u>	<u>3 054</u>	<u>115.4</u>	<u>114.1</u>	<u>5.3</u>	<u>4.4</u>	<u>1.4</u>
Imports b/	348	412	378	15.4	14.1	6.8	3.8	-8.4
Gross domestic product	2 255	2 599	2 676	100.0	100.0	5.0	4.5	3.0
<u>Total demand</u>	<u>2 603</u>	<u>3 011</u>	<u>3 054</u>	<u>115.4</u>	<u>114.1</u>	<u>5.3</u>	<u>4.4</u>	<u>1.4</u>
Exports b/	265	308	309	11.8	11.5	8.0	-0.3	0.3
<u>Domestic demand</u>	<u>2 338</u>	<u>2 703</u>	<u>2 745</u>	<u>103.6</u>	<u>102.6</u>	<u>4.9</u>	<u>5.0</u>	<u>1.6</u>
Gross domestic investment	157	218	233	7.0	8.7	6.2	9.0	6.9
Total consumption	2 181	2 485	2 512	96.6	93.9	4.4	4.6	1.1
General government	188	228	225	8.3	8.4	2.3	15.7	-1.3
Private	1 993	2 257	2 287	90.3	85.5	4.5	3.6	1.3

Sources: 1970-1973, ECLA calculations based on figures supplied by the Haitian Statistical Institute;
1974: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

The growth rate of investment expenditure dropped two points in 1974; however, it remained at the satisfactory level of nearly 7 per cent, which, together with the loss of momentum of the total product, contributed to raising the investment coefficient; this nevertheless, remained at extremely low levels, rising from 7 per cent in 1970 to 8.7 per cent in 1974. Of the latter percentage, only about one-quarter represented public investment, mainly in the construction of roads and the improvement of public services.

Investment by the private sector has increased rapidly since 1972, being used mainly for the construction of tourist infrastructure and the establishment of some light industries. In addition, cement production capacity was increased to 30,000 tons annually and work began on the construction of a steel plant which will use imported scrap and hydroelectric power from the Péligré station.

The slackening in the rate of economic growth in 1974 was accompanied in the second half of the year by a similar trend in domestic prices. Figures up to November indicate that consumer prices rose 18.8 per cent, i.e., inflation remained at around the previous year's rate of 20 per cent, in spite of the repercussions, particularly in 1974, of the rise in import prices (18 per cent in 1973 and 49 per cent in 1974). The unsatisfactory and uncertain results of agricultural production, especially that destined for the domestic market, accentuated the already heavy dependence on food imports and, therefore, the effect of their high prices. Added to this was the rise in the price of fuels.

The impact of external prices was counteracted by curtailing the means of payment, which at the end of September were still at the December 1973 level. The only expansionist factor of monetary liquidity appears to have been domestic credit, which up to September had increased by 30 per cent (27 per cent of which went to the private sector), since at that date international reserves showed a decrease and quasi-money rose by 44 per cent.

2. Foreign trade and the balance of payments

The high world market prices in 1973 favoured only a few of Haiti's export commodities, such as sugar, bauxite and sisal. The price of coffee, which represents about 40 per cent of its total exports, increased much less. This trend was reflected in a rise of about 33 per cent in the unit value and a slightly smaller increase (31 per cent) in the total value of exports, due to the slight reduction estimated in the volume of exports during the year.

The value of imports of goods rose 41 per cent, owing to the prevailing high prices, particularly of foodstuffs - which account for a large proportion of Haiti's imports - and of fuels, which, for the same reason, must have absorbed about 15 per cent of total imports. Thus, the average prices of imports increased 49 per cent, while their volume decreased by about 6 per cent.

As regards the country's main export commodities, coffee sales decreased in volume, so that their value must have varied little with respect to 1973. The value of sugar exports is estimated to have reached 12 million dollars, i.e., over three times the 1973 figure; in addition to the extraordinary increase in sugar prices, another factor seems to have been the recovery of around 20 per cent in the volume exported, following a reduction of one-third in 1973.

Exports of sisal seem to have reached some 3 million dollars - 85 per cent more than in 1973 - about 40 per cent of which is attributable to an increase in volume. Bauxite exports, in contrast, seem to have dropped by about 10 per cent, owing to the smaller volume of sales.

As regards other relatively important products, exports of essential oils and meat appear to have shown little change in volume with respect to 1973.

Exports to the United States of light manufactures produced locally, mainly from imported raw materials, have rapidly become more important in recent years. In 1973 they reached a value of

some 40 million dollars (total exports of goods amounted to 52.5 million dollars that year),^{30/} 33 million of which represented products manufactured with around 29 million dollars' worth of imported inputs.

These exports consisted mainly of articles of clothing, footwear, toys and sports items, electrical apparatus and material, etc. Unfortunately, there are no data available on the trend of these exports in 1974.

The uneven growth of exports and imports during the year resulted in a trade deficit of 34 million dollars, which is 64 per cent higher than the 1973 deficit and nearly four times those recorded at the beginning of the decade. Added to this is the deficit of 14.2 million dollars resulting from the movement of services, which is mainly attributable to the considerable increase in expenditure on freight and insurance, since the net income contributed by tourism rose from 7.7 million dollars in 1973 to 13 million in 1974.

The movement of goods and services described above, added to the net external investment income, but subtracting the large inflows which normally accrue under the head of private transfer payments (22 million dollars) resulted in a final current account deficit of 33 million dollars, which is equivalent to 27.4 million SDR units, or twice that recorded in 1973 (see table 3).

The deficit on current account exceeded the net inflow of non-compensatory capital of 18.7 million SDR units, which was considerably higher than that registered in 1973. It was therefore necessary to use international reserves to a value of 4.8 million SDR units, and 3.9 million dollars provided by the fund created to compensate for balance of payments disequilibria caused by the high prices of liquid fuels.

^{30/} This value relates to the proportion of exports produced from local raw materials and the rest of these exports after subtracting the cost of the imported raw material used in their manufacture, i.e., approximately 7 million dollars in 1973.

Table 3
HAITI: BALANCE OF PAYMENTS
(Millions of SDR units)

	1970	1971	1972	1973	1974
<u>Current account</u>					
Exports of goods and services	52.9	64.3	57.5	61.3	80.1
Goods FOB	39.0	47.1	39.4	43.6	57.4
Services	13.9	17.2	18.1	17.7	22.7
Transport	0.3	1.0	0.9	0.5	0.7
Travel	6.6	8.7	12.4	14.4	17.3
Imports of goods and services	69.5	78.6	79.1	87.3	120.0
Goods FOB	47.7	55.9	56.0	60.7	85.6
Services	21.8	22.7	23.1	26.6	34.4
Transport	9.8	10.7	12.0	13.7	19.1
Travel	4.3	4.5	4.8	5.5	6.5
Net external investment income	-3.6	-3.9	-4.2	-4.6	-6.0
Profits	-3.2	-3.6	-3.8	-4.1	-5.3
Interest	-0.4	-0.3	-0.4	-0.5	-0.7
Net private transfer payments	15.0	13.1	22.2	17.3	18.5
Balance on current account	-5.2	-5.1	-3.6	-13.3	-27.4
<u>Capital account</u>					
Net external financing (a+b+c+d+e)	5.2	5.1	3.6	13.3	27.4
(a) Net external non-compensatory capital	9.8	10.6	16.5	17.3	18.7
Direct investment	2.8	3.4	3.8	7.2	
Long-and medium-term loans	1.2	2.6	10.2	1.6	
Amortization payments	-1.3	-1.3	-2.9	-2.8	
Short-term liabilities	0.2	0.1	1.0	4.1	
Official transfer payments	6.9	5.8	4.4	7.2	
(b) Domestic non-compensatory capital or assets	-2.6	-3.4	-2.5	-5.2	
(c) Errors and omissions	-0.9	3.9	-4.6	0.7	
(d) Allocation of SDR units	2.5	2.0	2.0	-	
(e) Net compensatory financing (increase -)	-3.6	-8.0	-7.8	0.5	8.7
Balance-of-payments loans, arrears, IMF loans and other liabilities of the monetary authorities	0.3	-	0.3	0.2	...
Amortization payments	-2.9	-2.2	-1.2	-	...
Movements of foreign exchange reserves (increase -)	-0.9	-2.8	-4.4	-0.3	...
Movements of gold reserves (increase -)	-	-2.0	-0.6	0.5	...
SDR units (increase -)	-0.1	-1.0	-1.9	0.1	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

HONDURAS

1. Recent economic trends

In 1974 the gross domestic product of Honduras decreased by 0.5 per cent, thus reversing the upward trend of 1973 when it reached 5 per cent (see table 1).

This unfavourable result of economic activity may be attributed to various factors and circumstances; the most important of these were, of course, the consequences of the hurricane which descended on the country in mid-September, and whose repercussions aggravated existing problems and also caused new bottlenecks in the country's economy.^{31/}

Previous to this, there had been other phenomena which played their part in weakening external demand, and through the decrease in employment and income conveyed a downward trend to the rate of growth of total demand. All this took place under circumstances in which the trend in import prices - particularly petroleum and its products - was putting pressure on production costs, and a serious deficit was building up in the balance of payments.

^{31/} Around 8,000 lives lost and about 248,000 persons affected, plus considerable damage in the physical infrastructure, stocks of agricultural and livestock capital and national resources, with their consequences on income, the balance of payments and the financial situation of the public sector, were the immediate results of the disaster. For more details see, Informe sobre los daños y repercusiones del huracán Fifi en la economía hondureña (E/CEPAL/AC.67/2/Rev.1), October 1974, prepared by the Mexico Office in collaboration with SIECA and BCIE.

Table 1
HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of lempiras at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
<u>Total supply</u>	<u>1 914.9</u>	<u>2 065.4</u>	<u>2 120.4</u>	<u>133.9</u>	<u>131.6</u>	<u>0.6</u>	<u>6.6</u>	<u>2.7</u>
Imports ^{b/}	485.3	446.4	509.5	33.9	31.6	-9.7	12.9	14.1
Gross domestic product	1 429.6	1 619.0	1 610.9	100.0	100.0	3.9	5.0	-0.5
<u>Total demand</u>	<u>1 914.9</u>	<u>2 065.4</u>	<u>2 120.4</u>	<u>133.9</u>	<u>131.6</u>	<u>0.6</u>	<u>6.6</u>	<u>2.7</u>
Exports ^{b/}	384.9	442.7	407.4	26.9	25.3	5.0	4.3	-8.0
Domestic demand	1 530.0	1 622.7	1 713.0	107.0	106.3	-0.5	7.2	5.6
Gross domestic investment	312.5	280.2	361.4	21.9	22.4	-13.7	20.5	29.0
Gross fixed investment	273.2	255.6	278.9	19.1	17.3	-8.9	12.8	9.1
Public	94.4	58.0	64.6	6.6	4.0	-27.3	16.2	11.4
Private	178.8	197.6	214.3	12.5	13.3	-0.6	11.8	8.5
Construction	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...
Total consumption	1 217.5	1 342.5	1 351.6	85.1	83.9	2.6	4.8	0.7
General government	166.2	171.1	172.8	11.6	10.7	-0.2	3.3	1.0
Private	1 051.3	1 171.4	1 178.8	73.5	73.2	3.0	5.0	0.6

Sources: 1970-1972: ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1973-1974: ECLA estimates based on data from the same sources.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

^{a/} Preliminary estimates.

^{b/} Goods and services, excluding factor payments.

The effects of the hurricane were particularly disastrous for the country's economy, owing to the fact that floods affected an area which produced around 40 per cent of the agricultural product - particularly banana- growing - contributed substantially to generating employment and external resources, and also had an extensive network of roads, ports and telecommunications.^{32/}

Under these circumstances the current account deficit reached a level of 85.3 million SDRs as a result of the increase of 6.8 per cent in the value of exports of goods and services compared with a growth of 48 per cent in imports. This sizeable increase was the result of a combination of higher international prices - especially of petroleum products - and the additional resources required to replace losses in national output and capital.

The public sector, which at the beginning of the year had undertaken a serious economic and social development effort by formulating the National Plan, had to face up to new problems and requirements as a result of the disaster; these brought a change in immediate priorities as regards expenditure and investment and also affected the amount of expenditure partly as a result of the decline in the collection of tax revenue. Preliminary estimates indicate a decline of 35 million lempiras in current income as a direct result of the hurricane. In brief, the public sector deficit was 45.5 per cent higher than in 1973 and thus made necessary a wider use of external credit, the contribution of which to financing the fiscal deficit in 1974 was 58.3 per cent.

The decrease of 8 per cent in the export quantum had a decisive influence in reducing the growth rate of total demand from 6.6 per cent to 2.7 per cent between 1973 and 1974 (see table 1). Expenditure on consumption also grew less, with a drop in the increase of 4.8 per cent in 1973 to 0.7 per cent in 1974. As regards private consumption, some of the factors which brought it down were the drop

^{32/} Losses in terms of national resources were estimated at 150 million dollars.

in earnings, the effect of price increases ^{33/} and the relative shortage of food products; however, these effects were partly offset by the increase in wages and the price control policy applied to some products of general consumption, and the donations received from abroad to attend to the basic needs of flood victims. As far as public consumption was concerned, the drop in the growth rate may be explained in terms of the policy followed by the public sector to cut down on spending with a view to increasing the capital formation effort. The rate of growth of public investment reached 11.4 per cent, in addition to an increase of 8.5 per cent in private investment.

In 1974 appreciable quantities of stocks were accumulated as a result of the voluntary retention of coffee, the decrease in meat exports, and also a result of stockpiling in commerce and industry.

As far as supply was concerned, imports showed a considerable increase of 14.1 per cent in real terms, enabling the decrease in local supply to be offset at least in part. This was mainly a reflection of the need to replace the losses caused by the disaster, but it was also due to special imports made during the first half of the year in the expectation of new taxes being applied to imports, and this in turn led to the application of restrictive measures to imports of luxury goods.

As regards local output (see table 2), given the relative importance of agricultural production and in particular of banana output in the area affected by the hurricane, losses from these plantations caused the breakdown of a large part of domestic economic activity.

^{33/} With an annual increase of 13 per cent up to October 1974 in the consumer price index, inflation in Honduras was less intensive than in the rest of the Central American countries, although this rate is rather higher than the increase in local prices in October 1973 (4.1 per cent).

Table 2
HONDURAS: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of lempiras at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1974 _a /	1970- 1972	1973	1974 _a /
Agriculture	446.7	510.9	473.1	34.6	32.5	4.6	4.5	-7.4
Mining	29.1	39.3	45.5	2.3	3.1	3.2	26.8	15.8
Manufacturing	180.5	221.9	234.1	14.0	16.1	6.6	8.1	5.5
Construction	64.6	57.2	59.0	5.0	4.0	-8.5	5.7	3.1
<u>Subtotal goods</u>	<u>720.9</u>	<u>829.3</u>	<u>811.7</u>	<u>55.9</u>	<u>55.8</u>	<u>4.0</u>	<u>6.4</u>	<u>-2.1</u>
Electricity, gas and water	17.7	18.6	19.0	1.4	1.3	0.8	3.9	2.4
Transport and communications	85.9	100.6	102.8	6.7	7.1	5.2	5.8	2.2
<u>Subtotal basic services</u>	<u>103.6</u>	<u>119.2</u>	<u>121.8</u>	<u>8.0</u>	<u>8.4</u>	<u>4.4</u>	<u>5.5</u>	<u>2.2</u>
Commerce and finance	208.4	224.3	227.0	16.2	15.6	1.9	2.5	1.2
Government	46.8	50.4	50.9	3.6	3.5	1.5	4.3	1.0
Ownership of dwellings	98.4	114.4	116.3	7.6	8.0	6.1	5.5	1.7
Miscellaneous services <u>b/</u>	112.5	124.0	126.6	6.7	8.7	4.3	1.4	2.1
<u>Subtotal other services</u>	<u>466.1</u>	<u>513.1</u>	<u>520.8</u>	<u>36.1</u>	<u>35.8</u>	<u>3.3</u>	<u>2.6</u>	<u>1.5</u>
<u>Total</u>	<u>1 290.6</u>	<u>1 461.6</u>	<u>1 454.3</u>	<u>100.0</u>	<u>100.0</u>	<u>3.9</u>	<u>5.0</u>	<u>-0.5</u>

Sources: 1970-1972: ECLA calculations based on figures supplied by the Central Bank of Honduras; 1973-1974:
ECLA estimates based on official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does
not correspond exactly with the latter.

a/ Preliminary figures.

Towards the middle of the year prospects were favourable as regards volumes of output, where the difficulties stemming from the application of the new tax on banana exports had been overcome. In addition, as a result of an improvement in prices of basic foodgrains, more funds available from the National Development Bank and the intensive promotion work carried out, the area sown was expanded and the rice, bean and maize harvests promised to be substantially larger than in 1973. Production of sugar cane and other minor crops was also stepped up and fallow land was given over to the promotion of basic foodgrains and to the establishment of rural settlements.

However, because of the floods, the volumes of output of the main crops was substantially reduced as the following figures show: bananas 21.7 per cent; maize 29.2 per cent, sorghum 11.2 per cent and cotton 13.5 per cent. Stock-breeding also suffered from considerable damage, both in dairy and meat production, and the problems facing the sector were aggravated by the reduction of exports of meat to the North American market.

Some crops situated in areas which were not seriously affected by the floods, however, achieved volumes of output higher than those of the previous year. Owing in some cases to the extension of the area under cultivation and in others to improvements in production techniques with the incentive of price levels in the international market the output of coffee increased by 4.1 per cent, sugar cane by 7 per cent, tobacco by 10 per cent and beans by 2.3 per cent, among the main crops.

In the first half of the year, manufacturing received impetus from the growth of sales of foodstuff, beverages, textiles and non-metallic mineral products increasingly directed towards the external market, both in Central America and the United States, and also from readjustments in wages which contributed to increasing local demand. This favourable development was interrupted during the second half of the year by the part-paralyzation of industries situated in the affected area and by the lack of supplies of

agricultural raw materials. All this contributed to an increase of only 5.5 per cent in the industrial product.

The increase in Honduras' exports to the Central American market, however, as a result of the special treatment granted to Honduras by the countries of the region at the end of the year, and also as a result of the simultaneous effort to attend to reconstruction requirements, and to development work figuring in the plan, and the support which the international community has undertaken to provide, could check this trend.^{34/}

Of the other sectors of the economy, construction showed a growth rate of 3.1 per cent, which was down on that of 1973, and was affected by the performance of capital formation analysed above, particularly in the private sector. The finance sector also reduced its growth rate compared with the previous year, like the other sectors of economic activity which in one form or another showed evidence of the bottleneck caused by balance of payments problems and the inflationary tension which appeared in 1974 (see table 2).

2. Balance of payments and external trade

The origin of the current account deficit, which amounted to 85.3 million SDRs in 1974, may be found in the active growth of imports of goods (52.7 per cent at current values and 17.5 per cent at constant prices), while the value of exports of goods only increased by 6.3 per cent and the quantum decreased by 8.4 per cent. Of special importance in this situation was the uneven growth rate of unit prices of imports and exports; while in the case of imports the increase was 30 per cent, this growth was 16 per cent in the case of exports. In the course of the year there were problems in selling meat to the United States with the voluntary retention of sizeable

^{34/} See the Report of the Ninth Extraordinary Session of the Committee of the Whole of the Economic Commission for Latin America (E/CEPAL/AC.67/5). This meeting was convened to analyse the natural disaster which took place in Honduras and to decide on the international co-operation measures required. It was held in New York on 21-22 October 1974.

quantities of coffee and also a reduction in exports of timber. Special mention on account of its size, however, should be made of the drop of 23.8 per cent in the volume of bananas exported and the decrease of 17 per cent in their value. Exports of coffee too decreased by 25.1 per cent in terms of volume and 11.5 per cent in terms of value. Exports of meat decreased by 43.9 per cent in volume and 32.4 per cent in value. Only in the case of timber was there a growth of 17.4 per cent at current values despite a drop of 24.2 per cent in volume.

In the case of imports, however, the increase in prices, especially of petroleum and its products, offset any earnings from the increase in the prices of the exports analysed above.

On top of this adverse situation in the prices of the inputs required for the evolution of economic activity, came imports of capital goods and material for the reconstruction of the physical infrastructure. In addition, imports of goods increased by the 52.7 per cent mentioned above and the trade balance was in deficit by 97 million dollars, following positive balances of around 30 million dollars in the two preceding years. Furthermore, the uncertainty as to whether the entire banana-producing area destroyed could be restored in the medium-term, and the proportions which imports of fuels had come to acquire in the structure of imports, in addition to the capital equipment and raw materials required to re-establish the rate of economic growth, all in all do not offer much encouragement as regards possibilities of reducing this negative balance with any ease in the years to come.

As a result of the bilateral treaties between Honduras and Nicaragua, Guatemala and Costa Rica, ^{35/} Honduras' exports to the region grew substantially, reaching a total between January and September 1974 of 18 million dollars compared with a total of

^{35/} The trade agreement drawn up in 1974 with Panama will show real results as from next year.

5.8 million during the same period of the previous year. For their part, imports from these countries increased more slowly, and Honduras' trade deficit with the region decreased.

At the end of July a series of measures connected with external trade was put into practice, including in particular the reduction of the credit portfolio of the banks for trade and consumption: the extension of a line of rediscounts for exports; the reduction to one year of the maximum deadline for import trade credit; the restriction of the authorization granted to the banks to obtain external medium- and long-term finance to purchases of agricultural or industrial machinery and equipment and in certain cases to financing inputs; lastly, the increase of between 10 and 90 per cent in duties on imports of vehicles.

As regards capital movement, in 1974 there was a net inflow of non-compensatory capital of around 64 million SDRs, which although it was twice the amount of the previous year, was less than the deficit recorded in the current account, thus producing a decrease of 21 million SDRs in the country's net international reserves (see table 3).

3. Money and credit

As regards the external monetization of the economy, liquidity continued to decrease, and this would offer one more explanation of why the general level of prices did not increase more sharply. Money supply followed the same trend: the balance at the end of September 1974 was only 7.3 per cent higher than in September 1973. Private sector deposits also recorded a slight decrease during the same period. It is, however, noteworthy that at the same time as primary liquidity in the hands of the public decreased, savings and term deposits increased, as did holdings of bonds and mortgage bonds in the hands of private persons, all of which contributed to reducing the pressure on prices which could have caused an increase in the growth of the means of payment.

Table 3
HONDURAS: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	196.5	215.6	212.4	236.4	253.3
Goods FOB	178.2	194.8	191.4	214.6	228.7
Services	18.3	20.8	21.0	21.8	24.6
Transport	5.1	6.8	6.0	6.3	7.1
Travel	4.1	4.3	4.5	6.1	6.7
Imports of goods and services	244.3	219.5	203.5	244.2	362.9
Goods FOB	203.4	177.5	162.6	201.9	309.2
Services	40.9	42.0	40.9	42.3	53.7
Transport	20.5	20.6	19.4	21.5	31.2
Travel	11.9	12.2	12.9	12.1	12.5
Net external investment income	-22.6	-23.3	-21.0	-27.5	-2.0
Profits	-20.0	-18.6	-15.8	-20.8	6.7
Interest	-2.6	-4.7	-5.2	-6.7	-8.7
Net private transfer payments	2.9	3.1	3.0	2.9	26.3
Balance on current account	-67.5	-24.1	-9.1	-32.4	-85.3
Capital account					
Net external financing (a+b+c+d+e)	67.5	24.1	9.1	32.4	85.3
(a) Net external non-compensatory capital	57.6	33.0	29.2	38.6	63.9
Direct investment	8.4	7.3	0.6	5.4	
Long- and medium-term loans	38.4	30.9	27.6	29.4	
Amortization payments	-5.6	-7.8	-9.5	-10.8	
Short-term liabilities	12.7	-1.1	7.5	11.8	
Official transfer payments	3.7	3.7	3.0	2.8	
(b) Domestic non-compensatory capital or assets	-2.9	-8.0	-14.0	-8.1	
(c) Errors and omissions	0.9	-1.5	4.0	2.1	
(d) Allocation of SDR units	3.2	2.7	2.6	-	-
(e) Net compensatory financing (increase -)	8.7	-2.1	-12.7	-0.2	21.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	0.0	0.1	0.8	5.5	...
Amortization payments	-0.9	-0.3	-0.8	-	...
Movements of foreign exchange reserves (increase -)	5.1	0.8	-10.1	0.5	...
Movements of gold reserves (increase -)	4.7	-	-	-6.2	...
SDR units (increase -)	-0.2	-2.7	-2.6	-	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/As regards

As regards monetary demand, bank credit only grew moderately, and there was even a net reduction in bank financing utilized by the public sector - this is consistent with the restrictive public spending policy adopted by the Central Government in the course of the year - the net debit balance of which dropped by 25 per cent compared with the previous year. However, credit to the private sector increased by 20.3 per cent, which brought the growth of total credit activity in the banking system to 13.7 per cent, which turned out to be lower than in 1973 (20.8 per cent).

As far as the destination of credit was concerned, the agricultural sector and industry received smaller percentages of total credit during the first half of the year than had traditionally been their lot in the past, while the share of trade increased.

However, the measures adopted in the month of July to protect the situation of the balance of payments, and those aimed at slowing down inflationary pressures, presumably modified the structure of credit according to destination which previously existed, towards the end of 1974.

As regards inflationary pressures the annual rate of increase of the consumer price index up to October had reached a level of 13 per cent, rather higher than that recorded for the period 1972-1973 (4.1 per cent). Trends running counter to each other affected the evolution of local prices. Pressure for an increase, the initial impetus for which was generated in increasing import prices - especially of fuels and inputs for agriculture and industry - was partly controlled by the establishment of BANASUPRO, a state agency set up precisely to regulate and control the prices of basic foodgrains and other products of general consumption. Money and credit policy and the trend of public expenditure took this same direction.

JAMAICA

The impact of world inflation on the Jamaican economy was particularly severe in 1974. Largely dependent as it is on imported supplies, the level of domestic prices directly reflected the inflationary conditions prevailing in the industrialized economies. This situation was aggravated by the fact that Jamaica is a hydrocarbon importing country. Therefore, all the economic variables experienced sharp increases in the current values in which they are usually measured in this country.

Consumer prices in Kingston rose by 26.5 per cent during the year, and by 32.8 per cent in rural areas. In the case of food and beverages, the increase was 33.8 per cent in the Kingston metropolitan area. By the end of the year the rate of price increases diminished, coinciding with a bigger supply of imported goods thanks to the lifting of certain import restrictions.

These conditions create a certain amount of confusion regarding the performance of the economy in 1974. It may be estimated, however, that its growth was fairly sluggish (about 3 per cent), despite the momentum gained by export activities. The activities operating on the basis of domestic demand, on the other hand, remained at a standstill or suffered a decided deterioration in real terms.

1. The product by economic sector

(a) Agriculture

The growth of the agricultural sector was minimal in 1974. The sugar cane harvest, which remained at a depressed level in 1973, recorded a substantial increase which, to judge from the final products manufactured from it, was over 30 per cent.^{36/} Output of citrus fruit and pimentos also increased in volume. In contrast, the production of cocoa, coffee and bananas, among the export crops, declined.

^{36/} It is estimated that the unit yields of saccharose did not change significantly.

With regard to crops for domestic consumption, the supply of tubers and other similar products increased, and no change was noted in that of vegetables in spite of adverse weather conditions. As regards livestock production, there were evident reductions in sales of meat, but poultry sales continued to increase.

(b) Mining

The gross mining product rose by over 10 per cent in real terms. This activity benefited in 1974 from the rapid and, to some extent, persistent increase in world prices.

On the basis of part-year data, it is estimated that the production of bauxite rose by 12 per cent; output of alumina, Jamaica's other main export commodity, increased at a lower rate but still by over 9 per cent (see table 1).

The production of lime, on the other hand, declined owing to the contraction of domestic demand. The same situation arose in quarrying, in connexion with the production of cement.

(c) Manufacturing

The trends of the various branches of manufacturing varied greatly in 1974. Several of them faced difficulties in obtaining imported inputs, and others a weakened demand owing to the increase in prices. Yet others took advantage of the external or domestic market conditions to expand production. The sector as a whole grew by 3 per cent in 1974.

Among the sectors in which there was a drop in real supply are petroleum refining, fats and soaps, detergents, cement, chemical products, flour and animal feeds. There were increases, on the other hand, in products obtained from sugar cane, canned milk, beer, fertilizers, aluminium sulphate and bagasse board. It will be noted that there was no general pattern accounting for these variations.

Table 1
JAMAICA: OUTPUT OF SOME IMPORTANT PRODUCTS

Product	Unit	1972	1973	January- September 1974
Bauxite	Thousands of long tons	12 704	13 276	11 167
Alumina	Thousands of long tons	2 054	2 466	2 033
Gypsum	Thousands of long tons	373	365	130
Petroleum products	Millions of imperial gallons	425	462	343 a/
Sugar	Thousands of tons	373	326	367
Rum and alcohol	Thousands of gallons	3 657	4 034	2 969 b/
Molasses	Thousands of gallons	22 448	19 773	25 711
Beer and stout	Thousands of gallons	11 132	12 474	9 522
Edible oil	Thousands of gallons	2 725	2 664	1 549
Edible fats	Short tons	7 452	6 247	4 781
Soap	Tons	7 960	5 921	3 964
Detergents	Tons	5 716	5 240	3 863
Condensed milk	Thousands of pounds	54 830	56 392	45 700
Textiles	Thousands of square yards	8 885	7 574	9 063 c/
Cement	Thousands of tons	424	413	283
Flour	Thousands of pounds	111 905	97 715	36 955 b/
Sulphuric acid	Tons	13 182	12 615	8 297
Paints	Thousands of imperial gallons	1 571	1 634	506 b/
Steel	Tons	16 747	17 824	...
Tyres	Thousands of pounds	5 089	5 996	...
Bagasse board	Thousands of square feet	12 413	10 190	...
Fertilizers	Tons	44 386	50 003	38 835
Aluminium sulphate	Tons	4 183	4 755	4 874
Salt	Short tons	15 313	13 669	...
Animal feeds	Millions of pounds	354.2	220.2	85.7b/

Sources: National Planning Agency, Economic and Social Survey, 1973; Department of Statistics, Statistical Abstract, 1972; and data in ECLA's possession.

a/ Data for January to October.

b/ Data for January to June.

c/ Data for full year 1974.

/(d) Construction

(d) Construction

There is no real assessment of this activity in Jamaica. Its current value was boosted in 1974 by the rise in the price of construction materials and in wage costs.

On the other hand, building is known to have declined, not only because of the higher prices of the units constructed, but also because the private programme for the construction of hotels and other tourist accommodation was completed at the beginning of the year. This programme has not been continued because the situation in the developed economies, particularly the United States, has discouraged tourism abroad. In Jamaica it has adversely affected the hotel industry, whose indexes of activity are declining steadily.

The factor which has prevented a definite contraction in this activity and, it might be added, in urban employment is the construction programme undertaken by the Government, which has stepped up its activities in connexion with the construction of infrastructure and low-cost housing projects.

2. Evolution of external transactions

Increase of around 60 per cent in the value of exports of bauxite and alumina and of over 90 per cent in that of exports of sugar, rum and molasses largely account (in a proportion of 90 per cent) for the 53 per cent increase in the total value of exports of goods in 1974.

From the moment that international quotations for bauxite and alumina were related to those for aluminium in bars, their prices rose rapidly. Sugar and related products also experienced considerable price increases. Accordingly, it is estimated that the unit value of exports rose by 39 per cent and the volume by 10 per cent, taking the main export commodities, since the volume of banana, cocoa and coffee sales declined.

/The Government

The Government adopted various measures to curb imports, mainly of consumer goods and fuels. As a result, the volume of imports of goods fell slightly and the 37 per cent increase in value was exclusively due to the higher prices. Already in 1973 the volume of imports had contracted somewhat.

Notwithstanding the fact that exports of goods expanded more rapidly than imports, the trade deficit rose slightly. Moreover, the income from tourism, which is an important item in Jamaica since it represents a little over one-quarter of total exports of goods, increased far less than exports (25.7 per cent). In addition, there was a larger net outflow under the head of freight, and remittances of profits and interest abroad were a third higher than in 1972 (see table 2).

This whole movement of current transactions resulted in a deficit of 238.5 million SDR units, or 20 per cent more than in 1973. However, a considerable net inflow of non-compensatory capital, which was double the flow in the previous year, pushed up international reserves by 50 million SDR units.

Table 2
JAMAICA: BALANCE OF PAYMENTS
(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	521.6	545.2	567.4	527.8	755.8
Goods FOB	342.1	345.6	347.8	328.5	503.0
Services	179.5	199.6	219.6	199.3	252.8
Transport	27.6	29.0	31.1	30.1	40.7
Travel	95.5	109.0	124.1	106.5	133.9
Imports of goods and services	598.1	631.5	658.8	639.6	868.9
Goods FOB	449.0	473.1	486.9	476.7	656.9
Services	149.1	158.4	171.9	162.9	212.0
Transport	87.8	88.4	93.7	91.7	124.7
Travel	15.5	16.3	19.0	16.6	19.1
Net external investment income	-98.2	-102.8	-115.5	-115.0	-154.5
Profits	-103.9	-105.9	-113.9	-105.3	-140.6
Interest	5.7	3.1	-1.6	-9.7	-13.9
Net private transfer payments	26.2	26.2	31.9	27.8	29.1
Balance on current account	-148.5	-162.9	-175.0	-199.0	-238.5
Capital account					
Net external financing (a+b+c+d+e)	148.5	162.9	175.0	199.0	238.5
(a) Net external non-compensatory capital	191.0	174.9	147.2	188.3	} 288.4
Direct investment	162.1	174.7	89.8	61.2	
Long-and medium-term loans	14.1	27.5	37.3	129.0	
Amortization payments	-4.3	-8.1	-5.6	-12.6	
Short-term liabilities	23.5	-13.7	31.9	16.9	
Official transfer payments	-4.4	-5.5	-6.2	-6.2	
(b) Domestic non-compensatory capital or assets	-35.1	-7.9	3.9	-23.8	
(c) Errors and omissions	7.4	16.1	-4.7	-18.7	
(d) Allocation of SDRs	6.4	5.7	5.6	-	-
(e) Net compensatory financing (increase -)	-21.2	-25.9	23.0	53.2	-49.9
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	-	13.2	18.8	...
Amortization payments	-	-	-	-5.5	...
Movements of foreign exchange reserves (increase -)	-14.6	-15.7	3.9	39.4	...
Movements of gold reserves (increase -)	-0.2	-3.8	-	-	...
SDRs (increase -)	-6.4	-6.4	5.9	0.5	...

Source: IMF, Balance of Payments Yearbook, vol 26.

^{a/} Estimates based on official statistics.

MEXICO

1. A general appraisal

The growth rate of the Mexican economy was 5.9 per cent in 1974, which compares unfavourably with that of the year before (7.6 per cent), but is higher than the average for the period 1970-1972. On the other hand, the increase in prices accelerated, at rates which are unusually high for what is considered to be one of the most stable economies in Latin America. Lastly, the rate of increase in gross fixed investment dropped in relation to 1973, with a more pronounced decrease in the public than in the private sector.

(a) Imported inflation and its internal links

These data on the evolution of the Mexican economy in 1974 cannot be properly evaluated unless they are considered within the context of the international situation. Imported inflation was a decisive factor in a number of aspects which affected the development of production and, particularly, the social situation. Consequently, government policy was necessarily more concerned with softening or preventing those effects than with pursuing the course and objectives laid down previously.

As in all the other countries of the region, the external situation had a serious impact, through different channels, on the level and system of prices. Up to 1971-1972, Mexico had somehow managed to contain the inflationary pressures generated abroad and its own or related pressures. As from 1973, however, the surge of rising prices was overwhelming and the rates of increase, which had been less than 6 per cent in the above two-year period, doubled in 1973 and redoubled in 1974 (12.2 and 24.2 per cent in the consumer price index). Moreover, as in other countries, but mainly though not exclusively as a result of the evolution of the agricultural sector, food prices rose above the average index in 1973 and 1974. The same situation occurred in the transport and communications sector (an increase of nearly 30 per cent in 1974, which was over 40 per cent for Mexico City), owing to the need to adjust prices in line with the new oil quotations and the financing requirements of the national petroleum enterprise.

/The rise

The rise in imports and exports was the most direct channel of transmission of imported inflation. In the case of imports, suffice it to say that they increased 58 per cent in value and only 23 per cent in volume. As regards exports, compared with an insignificant increase (3.2 per cent) in volume, their value in dollars at current prices rose by approximately 45 per cent.

It will be readily understood that these changes merely reflect the initial or direct impact of the rise in external prices. This was followed by often more intensive repercussions on the wide range of similar, competitive or substitute domestic goods and services, and multiplier effects in other areas (fiscal, monetary, and wages and salaries). Some principal links can be identified on the basis of the available data.

The fiscal projections are obvious. The most visible effect seems to have been the considerable increase in transfer expenditure (40 per cent in 1974) aimed in one way or another at mitigating the social implications of the rise in the prices of essential goods. In 1974, the result was an insignificant increment in fiscal - though not financial - investment, which must also involve compensatory transfers to enterprises with a view to containing increases in their prices and rates.

In the wages area, the developments analysed above caused the Government to decree a general adjustment and to establish the principle of annual reviews, as detailed in the appropriate section.

A study of monetary trends immediately reveals the very moderate rate of expansion of the means of payment (19 per cent), which was very little higher than in 1973 (17 per cent) and the immediately preceding years. This factor may conceivably have been considered as the line of resistance in slowing down the propagation and multiplication of inflationary pressures. On the other hand, there was an evident tendency to alter the distribution of monetary resources in favour of the public sector, to finance the growing deficit incurred in meeting the aforementioned requirements.

/However successful

However successful those specific aims may have been, there is no doubt that this policy created a situation of scarce liquidity vis-à-vis the increases in prices, especially in the private sector. This, however, was in some degree offset by funds from external sources, a greater proportion of which also went to the public sector.

It is not possible to estimate the exact effect of those financial flows on production activity, although it seems obvious that it could not have been encouraging. In any case, if there is any reason to think that the effect was negative, it must be regarded as another unfortunate by-product of the efforts to moderate inflationary pressures.

The shortage of funds in the private sector did not, however, set in motion a vicious circle leading to widespread deterioration. Although many enterprises individually suffered liquidity crises, the leading companies had recourse to the use of private external capital, insofar as other factors made this advisable. It should be recalled here that since the mid-1960s Mexico's economic policy has linked certain financial parameters with those of the leading industrialized market economies. While keeping the rate of the peso to the United States dollar constant, Mexico has participated in a number of swap agreements with those economies. At the same time, the public sector has sold bonds on the international capital market, a resource also used independently and repeatedly by the private sector. Lastly, interest rates have been modified in the past few years, not only in accordance with internal financial parameters, but also with the aim of regulating international capital flows; this is a unique case in the region. Therefore, in Mexico, the concept of liquidity has acquired a broader dimension than it usually has in Latin America, which must be kept in mind in examining the relationships between the financial and material aspects of its economy.

(b) Impact of inflation on the production sector

Viewing the problem from a different standpoint, it is necessary to analyse the reactions of the production sectors to these substantial changes in the levels and system of prices, or in the scale and composition of nominal demand.

/It has

It has, of course, already been observed that the changes and distortions inherent in the situation caused a slight drop in what might be termed Mexico's "historical" rate of growth. A more detailed examination reveals a widely varying spectrum of reactions which shows the strength and versatility of the system as well as its weak points.

As noted in the previous section, the agricultural sector was a particularly weak component of the producer complex. Incidentally, the same situation occurred in several Latin American countries, although it did not affect the other major economies (Argentina and Brazil, and especially the latter). The most important factors here, as shown in detail later in this Survey, are long-standing structural questions, as well as clearly indentified weaknesses of economic policy. Moreover, natural disasters affected the supply of such vital products as maize and beans, counteracting important government promotion measures and leading, in the case of maize, to onerous imports. This also occurred in the case of wheat, in spite of a considerable increase (about 40 per cent) in the crop.

Furthermore, incentives in the shape of higher external prices led to an increase in the proportion of output exported and to a change in the use of available land with this end in view. Thus, while exports of agricultural products rose 4.7 per cent, those destined for the domestic market went up by only 0.5 per cent. In other cases, such as that of sugar, a typical dilemma arising from this situation was brought into focus: the need to guarantee domestic supply at reasonable prices against the possibility of increasing exports at the high prices paid abroad. In placing the emphasis on the former objective, it was found that it was not possible to increase supply owing to the changeover in the use of land to other crops.

Nor was manufacturing able to react flexibly to the new situation, although its rate of expansion (5.8 per cent) conceals many disparities due to different causes. Generally speaking, the traditional consumer industries such as foodstuffs, textiles and clothing grew by less than the average rate. This trend seems to have been due both to the limited supply of agricultural inputs and to the low level of demand, owing no doubt to relatively higher prices of staple food items referred to above.

Some key industries, on the other hand, managed to exceed the average rate, but failed to regain their impetus of the previous year. A conspicuous exception was the performance of transport equipment, which grew by 25 per cent, following an expansion of 18 per cent in 1973. Estimates up to October 1974 put the increase in the number of vehicles sold at 27 per cent. These figures, in addition to others for durable consumer goods, are proof at once of the redistribution of income resulting from the changes in the price system, and the possible transfer to consumption of part of the income not used for private investment.

Lastly, and reaffirming the importance of the demand incentive, it must not be forgotten that the engineering industries maintained high rates of increase for their exports. These had been 50 per cent in 1972 and 57 per cent in 1973, and, according to data for January to October, they reached nearly 71 per cent in 1974, which in absolute figures is a little over 1,200 million dollars, or, it should be noted, nearly 60 per cent of the declared exports of goods in those 10 months. Whatever corrections may be made in these figures, the change that has taken place in the composition of exports of goods and this evidence of the Mexican economy's adjustments to the new patterns of the international division of labour cannot be overlooked.

The potential and flexibility of the system is confirmed by the performance of other major sectors, such as petroleum, petrochemicals and mining. Not only was the growth rates of mining quite satisfactory, but there was an appreciable improvement in the proportion of refined products in total exports of metals. As regards petroleum, although the 1974 transactions meant an onerous increase in the proportion of imports, it is nonetheless true that the discovery of new sources of production opened up for Mexico another promising basis for its economic development.

2. Major sectors of activity

As mentioned above, total production rose at a slower rate (5.9 per cent compared with 7.6 per cent in 1973), owing to the weaker expansion of the manufacturing and construction sectors, as well as the scant increase in agricultural activity. Furthermore, the greater impetus of mining, petroleum and the petrochemical industry was not enough to offset the deceleration of the above-mentioned sectors. Services in general followed the pattern of growth of the goods-producing sectors (see tables 1 and 2).

(a) Agriculture

Because of its slow expansion, the agricultural sector is becoming a bottleneck for the economy, because of its role in the development of other productive activities, the satisfaction of the population's basic consumption needs and the elimination of external disequilibrium. Moreover, approximately half the employed population works in the rural area.

Thus, before reviewing the developments in 1974, it is useful to recall briefly the various factors which have led to the gradual deterioration of agricultural production. Up to the end of the 1950s, its dynamism (5.8 per cent annually) was associated with the combined stimulus of exports and of the support provided by the public sector in the form of financial resources and, in particular, irrigation works. As from the 1960s, however, public investment - especially in irrigation projects - declines (see table 3).

Since the end of the 1960s, the full magnitude of the gradual deterioration of agriculture has been apparent. Since investment in agricultural infrastructure was not sufficiently dynamic, the expansion of production took place on dry farm land, where a heavy dependence on natural phenomena is combined with far less organizational and entrepreneurial capacity than that found in irrigation agriculture.

Table 1
MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
<u>Total supply</u>	<u>459 904</u>	<u>549 341</u>	<u>586 406</u>	<u>109.8</u>	<u>110.8</u>	<u>5.2</u>	<u>8.0</u>	<u>6.7</u>
Imports ^{b/}	41 204	49 611	57 192	9.8	10.8	3.1	13.2	15.3
Gross domestic product	418 700	499 730	529 214	100.0	100.0	5.4	7.6	5.9
<u>Total demand</u>	<u>459 904</u>	<u>549 341</u>	<u>586 406</u>	<u>109.8</u>	<u>110.8</u>	<u>5.2</u>	<u>8.0</u>	<u>6.7</u>
Exports ^{b/}	34 312	45 516	44 248	8.2	8.4	9.4	10.9	-2.8
<u>Domestic demand</u>	<u>425 592</u>	<u>503 825</u>	<u>542 158</u>	<u>101.6</u>	<u>102.4</u>	<u>4.8</u>	<u>7.8</u>	<u>7.6</u>
Gross domestic investment	90 200	113 847	125 188	21.5	23.7	4.2	16.2	10.0
Gross fixed investment	82 200	104 221	114 151	19.6	21.6	4.2	16.7	9.5
Public	31 269	45 955	52 389	7.5	9.9	5.5	32.0	14.0
Private	50 931	58 266	61 762	12.1	11.7	3.4	7.0	6.0
Construction	44 362	...	...	10.6	...	...	...	...
Machinery and equipment	37 838	...	...	9.0	...	...	...	...
Total consumption	335 392	389 978	416 970	80.1	78.8	4.9	5.6	6.9
General government	32 575	41 311	44 203	7.8	8.4	8.9	6.9	7.0
Private	302 817	348 667	372 767	72.3	70.4	4.5	5.4	6.9

Source: 1970-1973: ECLA calculations based on figures supplied by the Banco de México; 1974: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

Table 2
MEXICO: GROSS DOMESTIC PRODUCT AT FACTOR
COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1973	1970- 1972	1973	1974 ^{a/}
Agriculture	47 179.1	48 654.1	49 821.7	11.8	10.2	1.2	0.6	2.4
Mining	16 184.2	18 111.7	20 611.1	4.1	3.8	4.3	3.0	13.8
Manufacturing	93 518.5	113 798.3	120 171.1	23.4	23.9	5.8	8.8	5.6
Construction	21 401.0	28 133.4	29 905.8	5.4	5.9	7.0	14.8	6.3
<u>Subtotal goods</u>	<u>178 282.7</u>	<u>208 697.5</u>	<u>220 509.7</u>	<u>44.7</u>	<u>43.8</u>	<u>4.6</u>	<u>7.0</u>	<u>5.7</u>
Electricity, gas and water	5 452.8	7 124.6	7 872.6	1.4	1.5	8.4	11.2	10.5
Transport and communications	10 363.4	13 721.2	...	2.6	2.9	8.6	12.2	...
<u>Subtotal basic services</u>	<u>15 816.2</u>	<u>20 845.8</u>	...	<u>4.0</u>	<u>4.4</u>	<u>8.5</u>	<u>11.9</u>	...
Commerce and finance	115 248.8	137 801.0	...	28.9	28.9	4.9	8.6	...
Government	25 971.0	35 054.8	...	6.5	7.4	11.2	9.2	...
Ownership of dwellings	30 115.0	34 493.0	...	7.6	7.3	4.0	5.9	...
Miscellaneous services	33 584.1	39 301.8	...	8.4	8.3	5.9	4.4	...
<u>Subtotal other services</u>	<u>204 918.9</u>	<u>246 650.5</u>	...	<u>51.4</u>	<u>51.8</u>	<u>5.8</u>	<u>7.6</u>	...
<u>Subtotal services</u>	<u>220 735.1</u>	<u>267 496.3</u>	<u>283 779.5</u>	<u>55.4</u>	<u>56.2</u>	<u>6.0</u>	<u>7.9</u>	<u>6.1</u>
<u>Total</u>	<u>399 017.9</u>	<u>476 237.9</u>	<u>504 335.8</u>	<u>100.0</u>	<u>100.0</u>	<u>5.4</u>	<u>7.6</u>	<u>5.9</u>

Sources: 1970-1973: ECLA calculations based on figures supplied by the Banco de México; 1974: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^{a/} Preliminary figures.

Table 3
MEXICO: AREA IRRIGATED BY MEANS OF
FEDERAL GOVERNMENT WATER PROJECTS

Year	Hectares	Annual growth rate (percentages)
1946	827 425	
1952	1 452 937	9.8
1958	2 211 037	7.3
1964	2 455 895	1.8
1970	2 849 100	2.5
1972 <u>a/</u>	3 028 590	3.1

Source: Nacional Financiera, S. A., La economía mexicana en cifras, Mexico 1974.

a/ Preliminary figures.

/In addition

In addition, the domestic agricultural price policy became increasingly complex and onerous and, worse still, failed to take duly into account the competition between land used for crops destined for export and for the domestic market. When the prices of export crops dropped, this policy was successful in that the domestic supply of agricultural products increased; but when export prices were favourable - which occurred in some years of the present decade - the magnitude of the resources required to orient sowings and part of the export crops towards the domestic market rendered it inoperative.

In 1974, for the third consecutive year, the performance of agriculture was unsatisfactory, since it grew at very low rates. In addition to the above-mentioned causes, this was due to natural factors which affected the products for domestic consumption. On the other hand, the higher international prices once again stimulated production for the external market.

Thus, export agriculture increased by 4.7 per cent, compared with a negative rate of 2.8 per cent in 1973, while the increase in production for domestic consumption was much smaller.

The favourable evolution of production for the external market was basically due to the bigger output of cotton, strawberries and tomatoes; the coffee crop, on the other hand, declined slightly. As regards cotton - Mexico's main export crop - sowings increased considerably and production rose by about 20 per cent (from 366,000 to 438,000 tons in 1974). The slight decline in coffee production, from 200,000 to 192,000 tons, was due to a reduction in cultivated area as a result of Mexico's undertaking to hold back 10 per cent of the crop.

Maize contributed a good deal to the stagnation of agricultural products for domestic consumption, with a decrease of about 15 per cent in the amount harvested. In spite of the authorities' efforts to increase maize output - in particular by raising the support prices 37/ -

37/ In 1973 they were raised from 900 to 1,200 pesos per ton, and by April 1974 to 1,500 pesos.

large areas were affected by natural phenomena (droughts, floods and frosts),^{38/} so that about 1,115,000 tons had to be imported to satisfy domestic demand. The production of beans, another of the population's staple food items, rose by only 3.1 per cent owing to the adverse effect of those natural phenomena.

The government programmes and higher support prices were the basic factors underlying the increase of about 40 per cent in wheat production.^{39/} This increase was due not only to the expansion of the area sown (from 602,000 to 777,000 hectares), but also to the high average yields, which reached 3,600 kilogrammes per hectare (an increase of 20 per cent). Even so, 823,000 tons had to be imported to meet domestic demand.

As regards raw materials for the manufacture of oils, the production of safflower and soya was affected (the negative rates were 2 and 28 per cent, respectively) by the expansion of land sown to cotton, while output of sesame remained at the same level. This contraction was partly offset by the larger production of cottonseed, which increased from 650,000 to 800,000 tons.

(b) Mining

The higher international prices, the greater demand for intermediate products and the development policy designed to promote production increased the supply of mining products which, without considering petroleum and natural gas output, grew at a rate of about 10 per cent, i.e., faster than in 1973.

Except in the case of precious metals, mining in general grew at an accelerated pace. Output of metals increased far above the levels reached in 1973, and non-metallic minerals pursued their rising trend although not quite so intensively (see table 4).

^{38/} Approximately 1 million tons were lost owing to the late frosts alone.

^{39/} The support price was raised from 1,200 to 1,500 pesos in April 1974.

Table 4
MEXICO: VARIATION IN MINING OUTPUT
(Metal content)

	Growth rate (percentages)			
	1971	1972	1973	1974 ^{a/}
Precious metals	-15.3	1.9	2.5	0.1
Gold	-23.9	-3.2	-9.2	-3.3
Silver	-14.4	2.2	3.4	0.3
Non-ferrous metals for industry	-3.9	7.3	0.1	11.8
Zinc	-0.5	2.5	4.5	5.6
Lead	-11.2	2.9	11.1	27.4
Copper	3.5	24.6	2.2	6.7
Antimony	-24.8	-11.4	-19.8	0.6
Cadmium	-15.5	5.7	-15.9	1.5
Mercury	17.0	-36.4	-74.6	204.2
Bismuth	-0.2	10.4	-7.0	14.6
Tin	-10.1	-26.1	-17.5	102.7
Metals and mineral products for the steel industry	5.4	8.3	5.9	19.4
Coal	-11.0	-14.5	2.8	28.6
Iron	7.9	8.3	2.0	20.6
Manganese	-2.6	10.8	23.2	14.1
Non-metallic mineral products	-1.2	-14.4	32.5	28.2
Sulphur	-14.7	-19.8	70.3	49.2
Fluorite	20.7	-11.8	4.2	2.6
Barite	-12.3	-6.6	-2.3	1.8
Graphite	-8.5	8.2	18.7	-3.9

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.

The production of mercury grew at the fastest rate (204 per cent), followed by output of tin (103 per cent), sulphur (49 per cent), coal (29 per cent), lead (27 per cent), iron (21 per cent), bismuth (15 per cent) and manganese (14 per cent). The external demand for zinc and lead was reflected in a rise in international prices which stimulated exports; together, exports of both these metals amounted to 71 million dollars, representing an increase of 77 per cent over 1973.

The development policy for mining activities resulted in an increase in the proportion of refined products in total exports of metals. In the case of zinc, the entry into operation of the Met-Mex Peñoles plant, with a capacity of 105,000 tons annually, helped to increase the share of refined zinc in external sales from 6 per cent in 1973 to 22 per cent in 1974. The proportion of refined lead exported rose from 87 to 95 per cent. The expansion of the production of copper and of metals and minerals used in the steel industry (11.9 per cent) was linked with the growth of domestic demand. Another factor in the case of the latter products was the increase in the ceiling price of coal (from 325 to 580 pesos per ton) which did much to encourage its production. Lastly, the supply of sulphur responded to the incentive of greater domestic demand and the rise in external prices deriving from the requirements for the production of fertilizers.

(c) Petroleum and petrochemicals

The petroleum industry showed a dynamic trend in 1974, with the production increases of 19.3 per cent for crude and 15.4 per cent for refining. These compare very favourably with the rates of 3.1 and -0.2 per cent recorded in 1973 (see table 5). Two factors had a significant influence on these trends: the increase in the prices to the public put into effect on 8 December 1973 and the development of new producing areas in south-east Mexico.

Table 5

MEXICO: VARIATION IN OUTPUT OF PETROLEUM AND PETROLEUM PRODUCTS

	Growth rate (percentages)			
	1971	1972	1973	1974 _{a/}
Crude petroleum (extraction)	-1.3	3.3	3.1	19.3
Refining b/	2.2	11.0	-0.2	15.4
Natural gas	-3.5	2.8	2.5	11.9
Propane and Pemex gases	3.3	15.2	9.3	11.5
Mexolina	-3.3	-3.8	-10.7	26.7
Supermexolina	5.9	0.5	13.0	...
Gasolmex	-2.8	25.4	-5.5	...
Pemex gasoline 100 octane	14.3	-16.4	0.5	...
Avgas	6.4	-27.7	-31.7	-31.7
"Diáfano" and colourless petroleum	2.7	1.4	-2.5	19.9
Turbosina	5.7	13.9	19.6	52.1
Tractomex	-2.9	4.2	26.4	17.3
Diesel oil	2.1	12.6	9.2	31.0
Fuel oils and residues	-3.6	14.0	-0.6	36.3

Source: Banco de México, S. A.

a/ Estimates.

b/ Input of processed crude and liquids.

In the first case, Petróleos Mexicanos (PEMEX) was able to increase its financial resources and thus facilitate the implementation of investment programmes without incurring loans. In the second case - although the oil reserves of Tabasco and Chiapas have not yet been accurately quantified - conservative estimate indicate that these explorations have raised the country's reserves by 11 per cent, to a total of 3,150 million barrels. The increase in production has strengthened Mexico's external position, converting it into a crude exporter in 1974. However, the value of external purchases of petroleum and petroleum products was far above that of exports, since in the early months of the year it was still necessary to import crude and, in addition, some purchases of petroleum products were made because of the shortage of production capacity. Imports of petroleum and petroleum products rose from 2,370 million pesos in 1973 to 3,671 million in 1974 (figures for January to October), while exports increased from 229 to 709 million.

In 1974, the petrochemical sector grew at a rate of 13.7 per cent, or slightly faster than in 1973 (12 per cent). The increases were basically in the production of vinyl, dichloro-ethane and paraxylene, as a result of the expansion of the existing installed capacity under the investment programme in course of execution. It is hoped that once PEMEX consolidates its financial position this programme will be expedited and Mexico will become self-sufficient in basic petrochemical products within the medium term.

(d) Manufacturing

Manufacturing grew at a rate of 5.6 per cent in 1974, compared with average rates of over 8 per cent in the years 1972-1973. The performance of the various sectors differed widely, since the industries processing paper and products thereof, printing and publishing industries and industries producing transport equipment grew more rapidly than in 1973, while the industries producing textiles, rubber products, wood and cork recorded negative growth rates. The rest of the manufacturing activities grew at lower rates than the previous year (see table 6).

Table 6

MEXICO: VARIATION IN VALUE ADDED IN MANUFACTURING

	Growth rate (percentages)			
	1971	1972	1973	1974
<u>Manufacturing</u>	3.2	8.5	8.8	5.6
Food, beverages and tobacco	1.0	5.5	5.0	4.4
Textiles	5.4	8.2	7.5	-2.8
Footwear and clothing	7.6	8.4	8.3	1.2
Wood and cork products	-5.2	7.2	8.0	-8.2
Paper and paper products	-7.1	5.6	9.5	13.0
Printing and publishing	-1.1	13.1	0.5	13.7
Rubber products	11.0	10.9	10.2	-8.6
Chemical products and plastic material	10.1	14.0	10.2	6.1
Non-metallic mineral products	8.6	11.5	15.5	5.5
Basic metal industries	2.7	12.4	8.1	6.7
Machinery	0.1	6.8	10.7	8.1
Transport equipment	6.6	9.9	18.2	25.1
Other industries a/	-6.5	4.5	9.1	9.8

Source: ECLA, on the basis of official statistics.

a/ Including leather and leather products and metal products.

The evolution of this sector was influenced by the shortage and high prices not only of domestic raw materials - owing to the saturation of installed production capacity - but also, to a lesser degree, of those purchased abroad. On the other hand, the uneven trend of demand stimulated some branches of activity and weakened others. Factors such as increases in costs and the higher cost of credit basically affected the small and medium-scale enterprises, although the first factor also affected industries subject to price controls.

The limited installed capacity of the steel and petrochemical industries resulted in insufficient output, which adversely affected the branches of industry which they supply. This occurred in the case of industries producing fertilizers,^{40/} chemical fibres, detergents, metal manufactures and construction items ^{41/} (see table 7). Installed capacity for the production of aluminium and electrolytic copper products was also insufficient, resulting in bigger imports of the former and the elimination of exports of the latter.^{42/}

The insufficient increase in the supply of agricultural inputs was responsible for a 3.7 per cent drop in the production of oils and fats. Sugar output increased by about 3 per cent, or less than half the 1973 rate. Moreover, the weaker demand basically affected the production of natural fibre textiles and clothing, the output of which fell below the normal levels reached in previous periods.

^{40/} The production of fertilizers grew at a rate of 2.6 per cent in 1974 and at a negative rate of 2.7 per cent in 1973, in contrast with a growth of over 14 per cent in the two years 1971-1972. This deceleration gave rise to a shortage, which should be covered in 1976.

^{41/} Construction activity was also affected by the deceleration of total investment.

^{42/} They were sold only in the form of impure bars.

Table 7
MEXICO: VARIATION IN MANUFACTURING PRODUCTION INDEX

	Growth rate (percentages)			
	1971	1972	1973	1974 ^{a/}
Sugar plants and refineries	2.8	5.1	6.9	2.6
Beer	-12.8	17.4	17.1	15.8
Refreshments and non-alcoholic beverages	-13.8	10.0	11.4	-3.3
Cigarettes and cigars	-0.6	5.4	-9.4	12.0
Artificial fibre yarns and fabrics	27.8	25.1	27.2	1.0
Tyres and inner tubes	10.5	12.3	5.3	0.5
Fertilizers	13.6	15.2	-2.7	2.6
Basic chemical products	8.4	5.3	11.8	11.4
Artificial fibre	25.5	21.9	19.5	8.2
Cement	2.6	16.8	13.8	7.8
Motor cars	12.0	2.8	21.9	24.4
Lorries	2.3	17.6	25.5	24.5
Oils and fats ^{a/}	3.0	9.5	1.0	-3.7

Source: Banco de México, S. A., Indicadores económicos, November 1974.

Note: These indicators represent 23.5 per cent of the total value of manufacturing production in 1970.

^{a/} Estimates.

The industries which continued to grow at a vigorous pace were those producing transport equipment, paper and products thereof, and printing and publishing industries. The bigger expansion of the transport equipment industry (25 per cent in 1974 as against 22 per cent in 1973) was largely due to the increase in expenditure on durable consumer goods.^{43/} Output of paper and products thereof rose by 9.5 per cent in 1973 and 13 per cent in 1974, owing to the greater activity of the printing and publishing sector; the need to increase stocks and the import substitution process.

(e) Cosntruction

The gross domestic product generated by construction activities reflected an unsatisfactory real growth in 1974 (6.3 per cent) compared with the rates in 1972 (17.6 per cent) and 1973 (14.8 per cent). This trend was due to factors which are only too well known in Latin America.

In the first place, the prices of completed dwellings, like those of construction materials, have increased considerably and, as from October 1974, so also have wages and salaries paid by this industry. Therefore, fewer people are in a position to purchase these dwellings. Added to this are the greater financing difficulties, since the system of compulsory cash reserves was extended to the housing financing sector during the year, thereby making the credit it provides more expensive and reducing the resources available for loans.

Secondly, the rest of the public sector's construction activity was affected by the reduction (in real terms) of central government capital expenditure. Although the public works in process of execution were continued, a smaller number seem to have been initiated during the year.

Lastly, the production of cement and steel reached a limit which did not allow construction to expand more rapidly in 1974. Although the necessary investments are being made to eliminate this restriction, it may continue to have considerable influence in the immediate future.

^{43/} This is a typical trend in periods of inflation. When the real rate of interest drops, the non-entrepreneurial private sector increases its purchases of real assets which tend to keep their value.

3. Balance of payments

The deficit on current account continued to increase appreciably, in 1974 reaching about 2,400 million SDR units, or practically double the 1973 figure. On the other hand, net capital inflows again exceeded the previous balance, once again permitting an increase in international reserves (see table 8).

Exports of goods rose by 3.2 per cent in real terms and 41 per cent in unit value. According to available data for the period January-October, sales of agricultural commodities - both primary and processed - rose to 718 million dollars (from 611 million over the same period in 1973), partly owing to deficiencies in domestic production and weaker demand in the second half of the year. In terms of current prices, the export value of primary agricultural commodities dropped 2.9 per cent, while that of processed products rose 23 per cent (see table 9).

In the case of the extractive industries, production increases and higher world prices combined to raise the value of exports from 75 million to 124 million dollars between the first 10 months of 1973 and the same period in 1974. There was a total increase of 27 per cent in volume, consisting mainly of non-metallic minerals (33 per cent) and non-ferrous metals (20 per cent).

The Government's economic policy designed to step up exports of manufactures, together with the improved conditions for processed metals, permitted an increase of about 71 per cent in sales by the engineering industries, which reached 1,220 million dollars in the period January-October 1974 (see table 9).

Table 8
MEXICO: BALANCE OF PAYMENTS
(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	2 868.0	3 106.0	3 441.0	3 918.5	5 167.6
Goods FOB	1 429.0	1 512.0	1 733.0	2 044.2	2 976.7
Services	1 439.0	1 594.0	1 708.0	1 874.3	2 190.9
Transport	47.0	61.0	73.0	71.3	87.3
Travel	1 171.0	1 317.0	1 375.0	1 468.9	1 746.1
Imports of goods and services	3 296.0	3 263.0	3 549.0	4 276.5	6 352.5
Goods FOB	2 259.0	2 181.0	2 407.0	3 109.4	4 916.5
Services	1 037.0	1 082.0	1 142.0	1 167.1	1 436.0
Transport	156.0	155.0	170.0	198.9	296.8
Travel	755.0	785.0	801.0	790.0	931.3
Net external investment income	-695.0	-738.0	-790.0	-954.2	-1 263.9
Profits	-480.0	-494.0	-546.0	-630.0	-789.9
Interest	-215.0	-244.0	-244.0	-324.2	-474.0
Net private transfer payments	48.0	50.0	50.0	53.1	62.4
Balance on current account	-1 075.0	-845.0	-848.0	-1 259.1	-2 386.4
Capital account					
Net external financing (a+b+c+d+e)	1 075.0	845.0	848.0	1 259.1	2 386.4
(a) Net external non-compensatory capital	769.0	810.0	1 115.0	1 769.0	} 2 533.4
Direct investment	323.0	307.0	277.0	309.0	
Long- and medium-term loans	893.0	978.0	1 113.0	1 863.0	
Amortization payments	-573.0	-515.0	-561.0	-563.0	
Short-term liabilities	119.0	33.0	277.0	153.0	
Official transfer payments	7.0	7.0	9.0	7.0	
(b) Domestic non-compensatory capital or assets	-89.0	-55.0	-252.0	-422.0	
(c) Errors and omissions	425.0	232.0	149.0	-35.9	
(d) Allocation of SDR units	45.0	40.0	39.0	-	
(e) Net compensatory financing (increase -)	-75.0	-182.0	-203.0	-52.0	-147.0
Movements of foreign exchange reserves (increase -)	4.0	-171.0	-175.0	-63.0	
Movements of gold reserves (increase -)	-31.0	29.0	11.0	11.0	
SDR units (increase -)	-48.0	-40.0	-39.0	-	

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

^{a/} Estimates based on official statistics.

Table 9
 MEXICO: COMPOSITION OF EXPORTS OF GOODS
 (January - October)

	Millions of dollars		Percentages		In crease
	1973	1974	1973	1974	1974
Declared exports	1 441.3	2 128.8	100.0	100.0	47.7
Agricultural sector	610.5	717.8	42.4	33.7	17.6
Primary agricultural products	118.6	115.2	8.2	5.4	-2.9
Processed agricultural products	491.9	602.6	34.2	28.3	22.5
Extractive industries	75.3	123.8	5.2	5.8	64.4
Engineering industries	715.2	1 220.4	49.6	57.3	70.6
Products not elsewhere classified	40.3	66.8	2.8	3.2	65.8

Sources: Ministry of Industry and Trade, and Statistics Department.

/The increase

The increase in imports from 3,751 million dollars in 1973 to 5,913 million in 1974 was due to the need to maintain stocks of some materials above the normal levels in view of their relative scarcity in the world markets, and to the poor agricultural output, which made it necessary to increase imports of basic grains. In addition, there were bottlenecks in the production capacity of certain key branches of industry.

The deterioration in domestic agricultural production was reflected in the increased share of consumer goods in total imports (from 10.6 to 11.6 per cent, accumulated figures up to October). This increase was due to the more accelerated growth of output of non-durable consumer goods ^{44/} in terms of both volume and value (owing to the significant rise in their prices), since the production of durable goods remained at practically the same level.^{45/}

On the other hand, imports of basic inputs rose by 75 per cent in value at current prices (see table 10), increasing their share of the total from 44 to 49 per cent as a result of the rise in world prices, and possibly also because of buying ahead to forestall a future world shortage. There were bigger imports of oilseeds, paper, plastic materials and products of the steelmaking industry. In certain cases, imports might have been even higher (scrap iron and petrochemical products) had it not been for the shortage on the world markets.

Lastly, apart from durable consumer goods, imports of capital goods constituted the component that showed the lowest rate of growth (27 per cent) owing to the fewer resources devoted to increasing capital assets.

^{44/} Cereals and condensed, and evaporated and powdered milk, among other products.

^{45/} Their share dropped from 2.8 to 1.8 per cent, since their output grew by only 3 per cent.

Table 10
 MEXICO: COMPOSITION OF IMPORTS OF GOODS
 (January-October)

	Millions of dollars		Percentages		Increase
	1973	1974	1973	1974	1974
<u>Total a/</u>	<u>3 029.0</u>	<u>4 829.8</u>	<u>100.0</u>	<u>100.0</u>	<u>59.5</u>
Consumer goods	321.3	557.8	10.6	11.6	73.6
Non-durable	240.0	473.8	7.9	9.8	97.4
Durable	81.3	84.0	2.7	1.8	3.3
Producer goods	2 422.8	3 721.1	80.0	77.0	53.6
Non-durable (raw materials)	1 943.3	2 354.2	44.3	48.7	75.3
Durable (investment goods)	1 079.5	1 366.9	35.7	28.3	26.6
Products no elsewhere classified	284.9	550.9	9.4	11.4	93.4
<u>Maquila</u>	<u>265.4</u>	<u>382.8</u>	-	-	<u>44.2</u>

Sources: Ministry of Industry and Trade, and Statistics Department.

a/ Excluding export industries using imported inputs (maquila).

The effort made by the public sector to maintain the levels of total demand is evident in the greater acceleration of its external purchases compared with those made by private enterprise. According to available data up to November, government activity absorbed about 45 per cent of the total increase in imports. Thus its share in total imports rose from 29 to 34 per cent between 1973 and 1974.

In the current account, factor payments continued to contribute, although in a somewhat lesser degree, to the increasing external disequilibrium. The high level of external indebtedness pushed up these payments to 1,264 million SDR units, which represents an increase of 33 per cent over 1973. In particular, interest payments on official debts rose 46 per cent, as a result of the high levels of public indebtedness (see table 8).

In tourism, which has always contributed greatly towards stabilizing the current account, net income rose to 815 million SDR units. Expenditure grew at much the same rate as income, although the number of tourists, which had increased 10 per cent in 1973, went up by only 4 per cent in 1974. In order to arrest this trend, the Government adopted measures designed to enlarge and improve the tourist infrastructure, increase the funds for its development and establish closer co-ordination between the relevant institutions.

Under the head of border transactions, the foreign exchange obtained rose at the same rate as the year before (approximately 15 per cent).

The capital account reflected the main economic development and trends. Direct external investment (according to data for January to September) remained at lower levels than in 1973 in line with the slower rate of private investment. On the other hand, net external credit to the private sector very probably increased so as to alleviate the liquidity problem it had to face during the year. External credit obtained by the public sector also increased, reaching a total of 1,146 million SDR units compared with 575 million in 1973. The large proportion of external resources obtained by the public sector is evident from the fact that by September 1974 the amount received in 1973 had already been exceeded

4. Prices and wages and salaries

The accelerated increase in prices continued in 1974 for the second consecutive year. The consumer price index at the national level rose by 12.2 per cent in 1973 and 24.2 per cent in 1974. Other indexes also reflect this trend.

A fact of prime significance is that, of the three major lines of consumption which in developing countries usually absorb two-thirds to four-fifths of the expenditure of the lower-income sectors, two registered increases well above the average. The index for food, beverages and tobacco rose 30.6 per cent in 1974; the cost of transport and communications, another indispensable item of consumption, increased by 37.8 per cent; while the index for the third group - articles of clothing - rose by less than the average, i.e., 17.9 per cent (see table 11).

The rise in food prices would have been even greater had it not been for the subsidies accorded by the central government for the main food items. The items which most seriously affect the Mexican family budget are cereals, e.g., maize and wheat. They are both produced locally, but, as explained in the section on agriculture, large amounts had to be imported in 1974. Sales of these imports, as in the case of production, were subsidized. The subsidies partly account for the 40 per cent increase in payments under the head of current transfers effected by the central government between January-September 1973 and the same period in 1974.^{46/} Even so, at the level of the consumer their prices rose considerably.

The impact of the above-mentioned increases on the family budget has been fairly severe. In view of the tradition of price stability in the Mexican economy, the normal practice was to review the general wage and salary contracts every two years. In 1974 the situation changed, and since then they have been reviewed annually.

^{46/} As noted in the country studies included in this Survey, the situation described here is found practically throughout Latin America.

Table 11

MEXICO: VARIATION IN CONSUMER PRICE INDEX

(Percentages)

	1973	1974 ^{a/}
<u>Total</u>	<u>12.2</u>	<u>24.2</u>
Food, beverages and tobacco	15.8	30.6
Clothing	17.1	17.9
Transport and communications	5.7	37.8
Furniture and household goods	11.3	22.2
Health	7.7	13.0
Education and entertainment	8.5	19.6
Other goods and services	9.1	16.7

Source: Banco de México, S.A., Indicadores económicos, vol. III, N° II, 1974.

a/ Annual estimate on the basis of 11 months.

Precisely in September of that year a general increase in wages and salaries was granted. Those below 5,000 pesos (400 dollars) a month were raised 22 per cent, and those over that sum were adjusted by a fixed amount of 1,100 pesos (88 dollars), which represents a diminishing adjustment as the wage scale rises.

In addition to this adjustment, the Government established the National Consumer Fund for Workers (Fondo Nacional del Consumo para los Trabajadores - FONACOT) which is used to guarantee bank credit extended to wage-earners for purchases of consumer goods.

5. Public finance

In 1974, the objectives of the central government expenditure policy changed radically. An austerity policy had been adopted in 1973, since its aim was to contain inflationary pressures that had existed in the economy since the beginning of the year and which made themselves felt intensively in the last three months. This position gradually lost ground in 1974 and, by the middle of the year, had been replaced by more decisive action designed to support and strengthen the country's economic and social development.

This change was necessary, not only to compensate for the slower growth of private investment and demand, but also to raise the fiscal workers' nominal wages in a similar proportion to the loss of purchasing power they had sustained. While the measures adopted in the first case affected public expenditure during the whole of 1974, the latter measure did so mainly in the last quarter, the increase having been granted in September.

Total central government expenditure underwent a sharp increase, reaching a figure estimated at 99,900 million pesos. In relation to 1973, this represents a rise of 31.8 per cent, which, although higher than that recorded in 1973, is still below the 1972 increase of 43 per cent (see table 12).

Table 12

MEXICO: ACTUAL FEDERAL GOVERNMENT EXPENDITURE AND INCOME^{a/}

(Thousands of millions of pesos)

	1970	1971	1972	1973	1974 ^{b/}
Current account					
Expenditure	25.2	28.2	36.9	47.0	65.9
Income	33.0	35.7	41.7	51.3	65.7
Saving	7.8	7.2	4.8	4.3	-0.2
Capital account					
Expenditure	12.3	10.0	17.7	21.0	24.0
Income	0.8	0.8	0.7	0.8	0.8
Deficit	11.5	9.2	17.0	20.2	23.2
Global account					
Expenditure ^{c/}	40.2	41.3	59.1	75.8	99.9
Income	33.9	36.5	42.3	52.1	66.5
Deficit	6.3	4.8	16.8	23.7	33.4

Source: ECLA, on the basis of data supplied by the Banco de México, S.A.

a/ In a consolidated balance sheet for the public sector, total government expenditure amounts to between 40 and 50 per cent of the total.

b/ Estimate on the basis of nine months.

c/ Including expenditure in respect of indebtedness in previous financial periods.

A major factor contributing to the above increase was the rise in the level of current expenditure, which totalled 65,900 million pesos in 1974. Nearly half of this amount (31,000 million) was absorbed by administration expenditure, which rose as a result not only of the higher prices of goods purchased by the central government, but also of the wage and salary adjustments in September. Current transfer expenditure amounted to 25,000 million pesos, which includes the higher subsidies accorded for mass consumption food items. Lastly, the increase in the domestic debt was reflected in a 37.1 per cent increment in the payment of interest and commissions, which totalled 9,500 million pesos in 1974.

Available data up to September 1974 show only a slight increase in capital expenditure. Estimates for the year would seem to indicate that it rose from 21,000 million pesos in 1973 to 24,000 million in 1974. This variation (14.2 per cent) is less than the 24.2 per cent increase in consumer prices.

Income showed less dynamism than expenditure. Although tax reform and inflation in 1974 had the effect of pushing up its various components, there were factors which acted in the opposite sense. These include the relatively slow growth of sales of consumer goods (except motor cars), the increase in the proportion of duty-free imports in total purchases, and the decline in export prices in the second half of the year. These factors caused income to rise by only 27.8 per cent in 1974 to a total of 66,500 million pesos. In view of the variations in the nominal gross domestic product, it is probable that the tax burden may have decreased during the year.

The tax reform led to a sharp rise in revenue under the head of income tax, i.e., 36.7 per cent over the rise in prices. For the first time in the present decade, it represented over half of total income, i.e., 35,000 million pesos. Other components of income showed smaller variations.

In view of the performance of fiscal income and expenditure in 1974, the saving on current account in previous years was swallowed up and, according to provisional data, there was a small deficit of

/approximately 200

approximately 200 million pesos. Although net capital expenditure was very restricted, it nevertheless totalled 23,200 million pesos, resulting in an overall deficit of 33,400 million pesos or the equivalent of 50 per cent of total income.

Already in 1973, the financing of this deficit had repercussions on the distribution of credit available in the domestic financing system. The institutions of this system grouped in the banking system increased their credit to the private sector by 8.2 per cent in 1973 and by 14.7 per cent in the 12 months ending in September of the same year. The increases in credit to the general government were 32.5 and 32.8 per cent, respectively. In the 12 months ending in September 1974, the amount received by the private sector rose by 13.7 per cent, and that received by the general government by 12 per cent (see table 13).

In 1973, the high rates of expansion of credit to the general government were made possible by the banking system's rapid tapping of resources, which increased 17.1 per cent during the year. Another factor was the raising of the level of compulsory cash reserves. The drop in these rates in 1974 is accounted for by the smaller proportion of domestic financial resources tapped, and the fact that during the early months of the year the aforementioned austerity public expenditure policy was maintained.

Table 13

MEXICO: ALLOCATION OF CREDIT GRANTED BY THE BANKING SYSTEM^{a/}

	Millions of pesos		Growth rate				
	balance at December		December			September	
	1970	1973	1971	1972	1973	1973	1974
Total	130 100.2	192 496.0	18.4	12.6	11.0	16.6	13.5
Private enterprises	117 013.0	166 680.2	18.9	10.6	8.2	14.7	13.7
Agriculture, mining, forestry and fishing	18 819.4	28 146.3	20.2	10.1	13.0	11.5	24.9
Crop farming and stock raising	17 710.3	26 165.7	20.1	10.7	11.2	9.8	23.7
Mining	793.3	1 166.8	22.1	-11.5	36.1	18.9	26.2
Other	315.8	813.8	21.7	31.8	60.6	87.2	62.5
Energy	9 913.5	17 760.2	39.1	29.5	-0.6	12.4	-11.0
Petroleum	2 157.3	5 358.5	93.6	44.9	-11.4	-2.5	-16.4
Electric energy	7 756.2	12 401.7	24.0	22.8	5.0	20.8	-8.5
Industries	44 944.9	60 870.4	15.3	9.7	7.1	15.3	20.1
Engineering industries	33 267.0	42 602.7	15.7	3.9	6.6	12.9	23.4
Manufactured products	23 151.1	31 948.6	16.5	9.3	6.4	16.2	23.1
Manufacture of non-metallic mineral products	2 579.7	2 125.8	-6.9	-2.1	-9.5	-4.9	4.1
Steelmaking and metal products	5 305.1	5 989.3	15.0	-10.4	9.5	-2.8	32.0
Manufacture and repair of machinery and electrical appliances	2 231.1	3 139.0	35.0	-10.8	16.8	20.7	25.5
Construction industry	11 677.9	18 267.7	14.2	26.5	8.2	20.9	12.9
Services and other activities	22 994.7	32 042.4	11.4	5.1	19.0	20.4	8.5
Services b/	5 484.1	7 654.1	27.5	-4.8	15.1	26.5	3.8
Transport	5 428.7	7 892.3	15.2	7.2	17.7	22.2	16.4
Communications	17.8	58.2	201.1	5.0	3.4	9.4	27.4
Film and other industries	1 068.6	1 501.0	14.8	15.0	6.4	7.2	26.0
Housing programmes	3 680.1	5 772.9	19.1	10.4	19.3	21.4	10.9
Other activities	7 315.4	9 164.9	-8.2	8.2	26.1	14.8	0.5
Commerce	20 340.5	27 859.9	24.4	8.4	1.6	12.1	11.6
Government c/	13 087.2	25 815.8	13.3	31.5	32.5	32.8	12.0
Federal	10 359.0	20 491.8	9.5	27.0	42.2	35.9	13.2
State and municipal	2 728.2	5 324.0	27.5	46.0	4.8	22.9	7.6

Source: Banco de México, S. A., Indicadores económicos.

a/ In addition to national and private institutions, the suppliers of credit are considered to include credit unions, bonded warehouses and trust funds of the Federal Government. The credit includes that extended by trust departments (on behalf of bailors), and credit from common funds of share certificates in Nacional Financiera S. A. The Banco de México, S. A. is not considered as a direct supplier of credit.

b/ Excluding credit between subsidiary institutions and organizations of the Mexican banking system.

c/ This figure does not coincide with that in the annual report, since the latter does not include portfolio transferred by endorsement, or credit extended on behalf of bailors.

NICARAGUA

1. Overall economic trends

The process of reconstruction consequent upon the damage done by the earthquake at the end of 1972 was in full swing during 1974, both at the public and at the private level, and largely determined the rate of expansion of economic activity in that year.

The growth rate of 7.7 per cent attained by the gross domestic product represented a marked recovery in relation to 1973 (2.2 per cent) and a return to the dynamism that has characterized this rate over the long term (see table 1).

Thus, the activities of the public sector was invigorated by the intensification of the work of rehabilitating the disaster area. Public investment increased by about 30 per cent and general government consumption by 11.5 per cent; private investment, in its turn, again recorded a high rate of growth.

These stimuli of demand, supported by a greater inflow of external capital (returns on private reinsurance in 1973 and official external loans in 1974), as well as by the expansion of domestic credit that took place in 1973 and early in 1974, boosted income, employment and private consumption; and this upswing was combined, moreover, with highly favourable trends in certain basic lines of agricultural production and plenty of response on the part of the manufacturing and construction sectors. All these factors prevented the contractionist effects of the fall in the quantum of exports of goods and services from affecting total demand, but their influence partly accounted for the increase in the external deficit on current account.

The growth rate of the gross internal product was determined mainly by agriculture, industrial production and construction, plus the restoration and expansion of the electricity and piped water services and the increase in general government services (see table 2).

Table 1
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1974 _a /	1970- 1972	1973	1974 _a /
Total supply	7 499.4	8 808.7	9 728.8	126.8	135.9	4.2	8.1	10.4
Imports b/	1 586.9	2 159.5	2 567.6	26.8	35.9	1.6	31.8	18.9
Gross domestic product	5 912.5	6 649.2	7 161.2	100.0	100.0	4.9	2.2	7.7
Total demand	7 499.4	8 808.7	9 728.8	126.8	135.9	4.2	8.1	10.4
Exports b/	1 453.2	1 959.0	1 838.8	24.6	25.7	10.6	10.2	-6.1
Internal demand	6 046.2	6 849.7	7 890.0	102.2	107.6	2.6	7.6	12.5
Gross domestic investment	1 025.1	...	...	17.3	23.4	-11.8	...	...
Gross fixed investment	895.0	1 075.1	1 412.7	15.1	19.7	4.3	31.1	31.4
Public	230.0	321.8	413.3	3.9	5.8	13.3	9.0	28.4
Private	665.0	753.3	999.4	11.2	13.9	-11.2	43.5	32.7
Construction	358.4	...	...	6.1	...	...	...	...
Machinery and equipment	536.6	...	...	9.0	...	...	...	...
Total consumption	5 021.1	5 708.9	6 216.6	84.9	86.8	5.3	2.5	8.9
General government	496.8	521.0	580.9	8.4	8.1	1.1	2.6	11.5
Private	4 524.3	5 187.9	5 635.7	76.5	78.7	5.8	2.5	8.6

Sources: 1970-1972, ECLA calculations based on figures supplied by the Central Bank of Nicaragua;
1973-1974, ECLA estimates based on official data.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Provisional figures.

b/ Goods and services, excluding factor payments.

Table 2

NICARAGUA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTORS OF ECONOMIC ACTIVITY

	Millions of córdobas at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 <u>a/</u>	1970	1974 <u>a/</u>	1970- 1972	1973	1974 <u>a/</u>
Agriculture	1 432.5	1 640.2	1 803.5	26.3	27.3	6.1	1.7	10.0
Mining	33.6	37.6	41.2	0.6	0.6	-0.3	12.6	9.6
Manufacturing	954.3	1 084.9	1 175.0	17.5	17.8	5.7	1.8	8.3
Construction	175.1	209.8	276.9	3.2	4.2	6.2	6.2	32.0
<u>Subtotal goods</u>	<u>2 595.5</u>	<u>2 972.5</u>	<u>3 296.6</u>	<u>47.6</u>	<u>49.9</u>	<u>5.9</u>	<u>2.2</u>	<u>10.9</u>
Electricity, gas and water	121.1	109.7	140.4	2.2	2.1	0.9	-11.0	28.0
Transport and communications	299.2	359.9	379.2	5.5	5.7	6.3	6.4	5.4
<u>Subtotal basic services</u>	<u>420.3</u>	<u>469.6</u>	<u>519.6</u>	<u>7.7</u>	<u>7.9</u>	<u>4.8</u>	<u>1.8</u>	<u>10.6</u>
Commerce and finance	1 062.7	1 275.5	1 344.2	19.5	20.3	4.9	9.1	5.4
Government	407.4	408.2	438.8	7.5	6.6	-1.2	2.6	7.5
Ownership of dwellings	369.6	287.2	291.2	6.8	4.4	2.6	-26.2	1.4
Miscellaneous services	596.8	688.6	716.5	11.0	10.8	4.8	5.0	4.1
<u>Subtotal other services</u>	<u>2 436.5</u>	<u>2 659.5</u>	<u>2 790.7</u>	<u>44.7</u>	<u>42.2</u>	<u>3.6</u>	<u>1.8</u>	<u>4.9</u>
<u>Total gross domestic product</u>	<u>5 452.3</u>	<u>6 130.4</u>	<u>6 606.9</u>	<u>100.0</u>	<u>100.0</u>	<u>4.9</u>	<u>2.2</u>	<u>7.7</u>

Sources: 1970-1971, ECLA calculations based on figures supplied by the Central Bank of Nicaragua; 1972-1974, ECLA estimates based on official data.

Note: As the general method of calculation applied consisted in extrapolating the individual activities and the totals independently, the sum of the former does not correspond exactly with the latter.

a/ Provisional figures

/Diverging significantly

Diverging significantly from the trend followed in the past two years, agriculture expanded by 10 per cent, under the aegis of auspicious weather conditions, policy measures to support specific lines of production, and, in certain cases, favourable world market prices. In particular, cotton production flourished; not only did yields improve, but in addition the areas under cultivation were enlarged, thanks in part to the elimination of the credit restrictions that had been in force for agricultural enterprises whose yields fell short of a given minimum. Levels of production also rose considerably in the case of some of the staple items of domestic consumption, such as rice and beans (15 per cent and 18 per cent). Apart from the fact that weather conditions were more favourable, these trends reflect greater credit facilities and the establishment of remunerative guaranteed prices, which showed increases of almost 70 per cent for best-quality rice and over 50 per cent for beans.

The same was not true of meat production, which underwent a further contraction, owing to the persistence of the adverse effects on stock farming produced by the severe drought of 1972, and the decline of both prices offered by local industry and world market prices, in the second half of the year.

The growth of industrial activity (at a rate of 8.3 per cent) was especially encouraged by the expansion of local and Central American demand, in particular the former, this dynamic impulse being most marked in the case of textiles and clothing, wood manufactures, plastics, chemical products and construction materials. The meagre increase in private consumption in 1973 was succeeded by a phase of buoyancy in expenditure, resultant upon the restoration of employment and income levels. Furthermore, the secondary effects of the boom in construction activities made themselves felt in the manufacturing sector.

The stability of the Nicaraguan economy was exposed to powerful adverse pressures during the year, especially as inflation gathered momentum.^{47/} In the first place, the more rapid rise in prices of imported goods was bound to have profound internal repercussions on an economy as highly dependent upon imports as that of Nicaragua. Influence was also exerted by the increase in the prices of those goods that were produced partly for domestic consumption as well as for exports, and, in addition, by other internal factors deriving from the very process of physical reconstruction, started in 1973 and strengthened in 1974. This brought to the fore, in certain branches of production, inelasticities and bottlenecks which will be difficult to eliminate over the short term.

Various factors acting in opposite directions make their appearance on the future economic scene. On the one hand, it is estimated that the dynamic impulses generated by the rehabilitation of the areas affected by the earthquake will continue to operate, as well as, in general, those stemming from the investment contemplated in the national development plan. These positive factors, however, are offset by the uncertain or unpromising outlook for the principal export products, which might continue to aggravate the country's precarious external payments situation, and also by the prospects deriving from the intensification of inflationary pressures.

^{47/} An indication that prices rose faster than in the preceding year is given by a comparison of the increment in revenue from indirect taxation in 1974 (51.3 per cent) with the increase noted in 1973 (20.6 per cent), the emergency export tax being excluded in both cases. In view of their magnitude, these variations can hardly be attributed to the larger real volume of transactions actually conducted in 1974. Nor were the adjustments of tax rates sufficient to account for the difference observable.

2. Foreign trade and balance of payments

In 1974 the balance-of-payments deficit on current account increased considerably, rising from 34 million SDR units in 1973 to almost 190 million (see table 3). As in the preceding year, the traditional disequilibrium on the services account was combined with an imbalance on the merchandise account, this time of 116 million SDR units - almost four times as large as in 1973 -, while the inflow of transfer payments, which had amounted to a substantial sum in 1973, returned to its normal level during 1974.

Thus, in the past two years, the increase in the value of imports of goods at current prices (58 per cent in the earlier period and 67 per cent in 1974) was much bigger than the rise in the value of exports, and became the decisive factor in the aggravation of the deficit on current transactions.

The noteworthy increase in imports of goods in 1974 is explained not only by certain inelasticities deriving from Nicaragua's structure of production - highly dependent upon inputs and capital goods from foreign sources, and receiving a special stimulus from the role played by public expenditure, in the existing circumstances, as a basic component of demand - but also by the function of expectations in the context of the inflationary process.

Thus, during 1974, imports of crude and partly refined oil were trebled, purchases of construction materials more than doubled, an increase of about 80 per cent was recorded in those of durable consumer goods, and imports of raw materials and intermediate products expanded by approximately 65 per cent.

It has already been pointed out that in the aggregate the volume of external sales of goods and services decreased by 6.1 per cent during 1974, although there were significant increments of 11 per cent in the quantum of exports of goods and of 25.3 per cent in average prices, which raised the value of exports by 39 per cent. Among the staple export items, a substantial increase of 101 per cent took place in the export value of cotton, and a smaller one of 24 per cent in sales of shrimps and lobsters, while the value of exports of meat dropped by 59 per cent, and that of sugar exports fell for the second year in succession, whereas that of coffee sales slightly improved.

Table 3

NICARAGUA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
<u>Current account</u>					
Exports of goods and services	215.2	224.7	267.6	319.1	379.0
Goods FOB	177.8	186.5	228.9	238.4	332.6
Services	37.4	38.2	38.7	80.7	46.4
Transport	9.7	8.2	9.4	8.9	12.5
Travel	13.2	13.3	13.1	9.1	11.9
Imports of goods and services	231.4	242.4	246.8	349.9	535.6
Goods FOB	177.7	189.5	188.8	268.3	449.0
Services	53.7	52.9	58.0	81.6	86.6
Transport	24.2	22.3	23.3	29.8	49.1
Travel	15.1	16.2	15.7	13.9	17.5
Net external investment income	-29.1	-31.6	-33.4	-35.3	-38.7
Profits	-22.9	-22.4	-22.6	-21.5	-23.3
Interest	-6.2	-9.2	-10.8	-13.8	-15.4
Net private transfer payments	2.9	4.0	3.9	32.2	7.5
Balance on current account	-42.4	-45.3	-8.7	-33.9	-187.8
<u>Capital account</u>					
Net external financing (a+b+c+d+e)	42.4	45.3	8.7	33.9	187.8
(a) Net external non-compensatory capital	53.7	50.2	41.4	114.0	228.8
Direct investment	15.0	13.3	9.2	6.7	
Long- and medium-term loans	41.4	53.7	56.5	98.4	
Amortization payments	-10.2	-14.3	-17.7	-16.9	
Short-term liabilities	4.3	-3.5	-9.2	12.2	
Official transfer payments	3.2	1.0	2.6	13.6	
(b) Domestic non-compensatory capital or assets	-2.7	-	-8.5	-55.2	
(c) Errors and omissions	-1.0	-2.8	-5.5	-2.5	
(d) Allocation of SDR units	3.2	2.9	2.9	-	-
(e) Net compensatory financing (increase -)	-10.8	-5.0	-21.6	-22.4	-41.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	10.0	4.2	4.2	15.5	...
Amortization payments	-13.8	-	-6.8	-8.0	...
Movements of foreign exchange reserves (increase -)	-4.0	-6.5	-16.7	-30.2	...
Movements of gold reserves (increase -)	-2.0	-	3.0	-0.2	...
SDR units (increase -)	-1.0	-2.7	-2.6	0.5	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbooks, vol. 26.

^{a/} Estimates based on official statistics.

/The expansion

The expansion of cotton sales was mainly due to a highly significant variation in the average price and a considerable increase in volume, made possible by bumper crops. The stronger upward movement of prices, contrasting with the very modest growth recorded in 1973, was largely attributable to renegotiations of long-range contracts formalized the year before with Japan, the leading purchaser. But recent trends in world quotations, in conjunction with the rise in the production costs of Nicaraguan cotton resulting from increases in the price of inputs, suggests that the outlook for the coming year may not be so bright, especially as the high yields obtained could hardly be surpassed over the short term. On the other hand, sugar export earnings may be expected to rise, if account is taken of the inventories marketed and the expansionist trends shown by the world market.

Coffee sales climbed to a level of more than 46 million dollars (an increase of 4 per cent) despite the smaller volume exported. The higher unit values reflected the more advantageous conditions that have gradually been secured in the process of seeking new markets, initiated as a result of the suspension of the quota system in force under the International Coffee Agreement.

The marked fluctuations in Nicaragua's traditional markets, with their repercussions on domestic production and on the country's foreign exchange income, particularly affected the value of meat exports, which dropped sharply in 1974, plunging from 44.5 million dollars to less than 20 million. This was basically due to a substantial reduction of slaughtering for export as a result of the prevailing uncertainty as to prices. Producers - who had stepped up their investment in view of the previous year's price increases - retained inventories in the hope that prices might be quoted which would counterbalance the heavier costs they had to meet.

The evolution of exports to Central America, unlike that of traditional products, was particularly dynamic. The figures for the first eight months of the year showed an increase of 67 per cent in current values in relation to the same period of 1973, the very high rate of exports to Guatemala and El Salvador being worthy of note.

/This expansion

This expansion became an important factor in the reactivation of Nicaragua's manufacturing sector, especially in the case of the non-traditional branches (chemical products, basically polyvinyl chloride and sodium chloride). Also very significant were Nicaragua's intra-area imports, which expanded on much the same scale as exports.

The special characteristics of growth in 1974 affected the method of financing the balance of payments. In the first place, outstanding importance was acquired by the official capital which flowed in to support and supplement domestic reconstruction efforts; concurrently, non-compensatory movements of private capital, which had represented a drain on the balance of payments in 1973, became positive in 1974. According to estimates, inflows of non-compensatory capital exceeded the amount of the deficit on current account, which mean that international reserves expanded by 41 million Special Drawing Rights units (see again table 3).

3. Public finance

During the year 1974 a sizeable increase of 42 per cent was once again recorded in the Central Government's tax revenue. This improvement was due to a substantial recovery on the part of direct taxation and to the continuation of the upward trend in revenue from indirect taxation.

The most significant increases were to be found in import duties, in consequence of the marked rise in import prices and also of the increase in the volume of imports. Similarly, the revenue from the overall sales tax rose at a rapid rate.

The very intensification of the inflation process likewise determined a significant increase in income tax revenue. On the other hand, export taxes showed a smaller increment owing partly to a slackening in sales of certain products subject to the emergency tax régime established in 1973, and partly to the fact that these exceptional tax contributions were discontinued as from mid-November 1974.

/In the

In the Central Government's current expenditure there was an increase of 40 per cent, slightly higher than the variation in regular income. This reflected the public sector's greater activity in the fields of reconstruction of essential services, wage adjustments granted to public employees, the effects of inflation on purchases of goods and services and the larger transfer payments intended to supplement financing and encourage higher levels of activity on the part of the decentralized public sector.

Savings on current account thus rose by about 30 per cent. Nevertheless, the marked increase in capital expenditure - which was practically doubled - seriously aggravated the overall deficit. To cover this imbalance, the Government had at its disposal external loans mainly - medium- and short-term credits - to an amount of about 700 million córdobas with which it effectively strengthened real direct investment and financial transfers for the investment purposes of other public institutions. At the same time it paid off advances made by the Central Bank in previous fiscal periods, and reduced the volume of new inflows of funds from other internal sources. This method of financing public expenditure gave the national bank system greater flexibility to enable it to meet the needs of the private sector; nevertheless, in view of the predominance of private bank credit from foreign sources, it will be necessary to modify the structure of borrowing in coming years by increasing the participation of financing agencies that grant longer servicing periods.

The tax reform launched in 1974 was complemented by amendments to the Income Tax Act and to the regulations governing taxes on immovables, movables and consumer goods. Apart from a considerable increase in the legal possibilities for tapping resources, in view of the urgent tasks facing the Nicaraguan public sector, the objective pursued was generally speaking, the progressive consolidation of a fiscal structure better adapted to the country's development requirements, specifically as regards the more equitable distribution of the tax burden. Particular emphasis being placed on duties on imports of non-essential goods.

4. Money and credit

In 1974 the monetary authorities adopted various measures to regulate the financial system, with the aim of reducing internal credit pressures, strengthening the tapping of resources in the system, and promoting selectivity in the channelling of funds to encourage the recovery of specific sectors or remedy shortages of certain basic imported supplies.

In this connexion, it should be recalled that at the end of 1972 and during 1973 there was a considerable expansion of money and quasi-money; the money supply increased by about 22 per cent in the first of these years and by more than 50 per cent in the second. In the aggregate, in the two years in question growth rates of 32 per cent and 48 per cent, respectively, were recorded for liquid resources, which outstripped the requirements deriving from the increase in transactions. This expansion basically reflected the combined effects of the strengthening of the bank system's foreign exchange position - caused in its turn by the inflows of reinsurance funds and the vigorous upswing in external loans, mainly in support of the physical reconstruction process undertaken by the public sector -, and of an expansionist credit policy which aimed at buttressing activities that would provide immediate employment opportunities and at facilitating the replacement of inventories and other assets.

Thus, circumstances themselves generated demand pressures which necessitated the amplification of mechanisms and instruments to mitigate their effects on price levels. These levels had already been influenced by the rise in prices of imported goods and by the shortages of various domestically-produced goods and services.

In April 1974 48/ controls to prevent an indiscriminate supply of credit were introduced, together with adjustments in current rates of interest on the monetary market, in order to discourage any possible flight of capital abroad and counteract the deterioration in the real

48/ See resolution C-11B-74 of the Central Bank of Nicaraguan, dated 26 April 1974.

returns of savers. First and foremost, the legal requirements respecting cash reserves for deposits in commercial banks and other intermediary financial institutions were raised and unified - the average rate previously in force was increased by 25 per cent 49/ - and secondly, limits were set to the use of external resources by the commercial banks, such loans being channelled as far as possible into the financing of credits for coffee, cotton, fat-stock rearing, tobacco and exports to markets outside the Central American area.

In addition, ceilings were established for the expansion of private bank credit: commercial loans could not exceed 100 per cent of each bank's capital and reserves, and short-term industrial credits were not to represent more than 25 per cent of the December 1973 balances. This opened up greater possibilities of meeting requests for the financing of other activities.

Furthermore, the Central Bank continued to supply resources applicable to the rehabilitation of commerce in Managua, granted larger rediscount volumes in relation to imports of raw materials needed by the industrial and agricultural sectors, opened up special one-year discount lines for the financing of imports of insecticides, fertilizers and the raw materials for these inputs,50/ and stimulated the use of loans from the Special Development Fund based on resources supplied by the Inter-American Development Bank (IDB) and the Government to support the construction industry and livestock production.

Between October 1973 and October 1974, the net international reserves of the bank system came to play much less part in the creation of means of payment; internal credit, on the other hand,

49/ The private banks were temporarily authorized to make up the increase in average cash reserves with National Reconstruction Bonds.

50/ In this case, the rate of interest charged to banks by the monetary authorities was graded in inverse ratio to the contribution made by each bank out of its own resources.

remained a determining factor in the generation of bank liabilities to the public. In the Central Bank's credit operations, advances to the Government decreased from 215 to 148 million córdobas, as against an increase from 173 to 330 million córdobas in loans to the commercial banks. The growth rate of total internal credit, however, which was 26 per cent between October 1973 and October 1974, was no higher than in the immediately preceding period.

On the other hand, the money supply, which had expanded by 58 per cent between October 1972 and October 1973, increased by only 13.3 per cent in 1974.

Despite the measures adopted, the marked falling-off in the tapping of internal resources by the bank system in 1974 - a situation which apparently became so much more critical in the latter part of the year that net international reserves decreased in the calendar year as a whole - is a clear indication that although the pressures deriving from internal credit were progressively moderated and channelled with relative success, in contrast, the mechanisms capable of selectively controlling expenditure abroad seem to have been inadequate.

PANAMA

1. Inflationary pressures and economic trends

The high rate of growth which the Panamanian economy had been experiencing began losing momentum from 1972 onwards, dropping to its lowest level in 1974. In fact, the growth rate of 4 per cent achieved by the gross domestic product in the past year, compared with the annual growth rate of 7.3 per cent achieved in the period, 1970-1972, and that of 6.5 per cent in 1973, is evidence of this trend. It shows to what extent the economy of this country has been affected by the world recession, and, also, by the international inflationary process, which has an impact on domestic costs through the prices of imported inputs and, therefore, on the prices of goods produced in the country, leading in turn, to a sharp downturn in global demand and a larger deficit in the current account of the balance of payments (see table 1).

The slowing down of external demand contributed to the deterioration of the employment situation and of income levels. In fact, the quantum of exports barely increased by 1.7 per cent, which follows on a similar increase in 1973. The rate of consumption also dropped considerably (3.9 per cent compared with 6.1 per cent in 1973), and, in the case of the public sector this can be attributed to, apart from financial difficulties, the deliberate policy of restraint in current public spending which has been followed in recent years with a view to increasing capital expenditure. In the case of private consumption, the drop in the rate was due to the impact of higher prices. In this connexion, it should be borne in mind that oil imports represent almost 40 per cent of the value of goods purchased abroad, and that the unit value of imports increased by 53.7 per cent. The impact of the generalized rise in prices is reflected, in part, in the wholesale price index and in the consumer price index. The former, shows an increase of 37.9 per cent, underlining the bigger change which occurred in the industrial sector as a result of the greater impact of oil prices. For its part, the

Table 1

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _{a/}	1970	1974 _{a/}	1970- 1972	1973	1974 _{a/}
<u>Total supply</u>	<u>1 470.5</u>	<u>1 766.4</u>	<u>1 837.8</u>	<u>140.6</u>	<u>137.2</u>	<u>7.6</u>	<u>3.7</u>	<u>4.0</u>
Imports <u>b/</u>	424.7	478.2	498.1	40.6	37.2	7.9	-3.3	4.2
Gross domestic product	1 045.8	1 288.2	1 339.7	100.0	100.0	7.5	6.5	4.0
<u>Total demand</u>	<u>1 470.5</u>	<u>1 766.4</u>	<u>1 837.8</u>	<u>140.6</u>	<u>137.2</u>	<u>7.6</u>	<u>3.7</u>	<u>4.0</u>
Exports <u>b/</u>	390.1	426.8	434.2	37.3	32.4	3.8	1.5	1.7
<u>Domestic demand</u>	<u>1 080.4</u>	<u>1 339.6</u>	<u>1 403.6</u>	<u>103.3</u>	<u>104.8</u>	<u>9.0</u>	<u>4.4</u>	<u>4.8</u>
Gross domestic investment	275.9	359.9	385.7	26.4	28.9	14.2	-	7.2
Gross fixed investment	255.6	336.2	360.7	24.5	26.9	14.6	0.2	7.3
Public	67.7	89.4	98.7	6.5	7.4	1.4	28.4	10.4
Private	187.9	246.8	262.0	18.0	19.5	19.0	-7.2	6.2
Construction	127.6	...	...	12.2	...	...	...	...
Machinery and equipment	128.0	...	...	12.3	...	...	...	...
Total consumption	804.5	979.7	1 017.9	76.9	75.9	7.1	6.1	3.9
General government	149.8	193.1	198.9	14.3	14.8	10.3	5.9	3.0
Private	654.7	786.6	819.0	62.6	61.1	6.4	6.2	4.1

Sources: 1970-1972: ECLA calculations based on figures supplied by the Dirección de Estadísticas y Censo; 1973 and 1974: ECLA estimates based on official data.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

/consumer price

consumer price index in Panama City shows, a global increase of 21.5 per cent, and one of 30.6 per cent in respect of foodstuffs and beverages. The inflationary impact on private consumption was partially offset by the Government's policy of reviewing wages periodically, and measures taken to control the prices of staple products. In fact, in March 1974 the Government approved three laws on prices and wages 51/ in an attempt to counter the adverse redistributive effect of the generalized rise in prices. Furthermore, in the Declaration of Boquete 52/ a series of measures are announced for curbing inflation, the favourable effects of which have only just been felt in 1975.

Gross fixed capital investment increased at a much higher rate than the gross domestic product, and one substantially higher than the increase it recorded in 1973. Public investment - continuing a trend which began in 1972 - showed a faster rate of growth than that observed in private investment. This confirms the Government's interest in the development of basic infrastructure works, and the use of the public sector investment budget as an instrument of development and transformation of the productive structure, so that with the backing offered by the development of the tertiary sector funds could be used to meet the needs of the very backward agricultural sector, and a manufacturing sector, which, in spite of the high rate of growth observed in the 1960s, is, so far, unable to widen its range of possibilities owing to the narrowness of the domestic market and limited export prospects.

51/ Under these laws, the wages of public employees and those of the private sector are increased through the operation of a regressive scale based on 1973 wage levels. Increases were 20 per cent for the lowest wage levels, and 15 per cent for the highest levels. The minimum wage was increased, as well as the cash portion of domestic workers, wages, and those of construction workers were increased by 7 per cent.

52/ Meeting of the Consejo General de Estado which was held in Boquete in the province of Chiriquí, in November 1974, to consider the consequences of inflation and propose specific policies and actions.

Public investment has been oriented primarily to assisting the sectors of rural industry, transport, and housing, in accordance with government policy to combat extreme poverty in rural areas. In fact, the importance given to the agricultural sector in the 1973 investment budget, and in 1974, is linked to the decision to promote the development of the most depressed areas of the country, through programmes which aim at improving food production and, with it, the income of rural workers, forming them into groups through which the programmes of technical, economical and social assistance could be channelled.

Among the most important investment allocations made in 1974, mention should be made of the Integrated Development Project at Bayano, almost completed, which combines the generation of electrical energy with the irrigation of 40,000 hectares for implementing labour intensive agricultural projects and establishing a new sugar factory, in addition to the major projects whose implementation the Government plans to accelerate.^{53/}

On the supply side, the drop of 3.3 per cent recorded in 1973 was carried over, for although there was a strong expansion in imports, measured in terms of current prices, there was no change in real terms. This drop was largely due to the deliberate policy of the Government to limit the expansion of imports of goods which were not indispensable for the development of the economy. (See table 1.)

^{53/} Such projects cover the fishing port, the working of the copper mines at Cerro Colorado, the transisthmus pipeline to the new factories, the container port, the expansion of the free zone at Colon, the Convention Centre, the hydroelectric plant at La Fortuna, the Bayano Integrated Project, and the new cement plant.

2. The major sectors of economic activity

The growth of the manufacturing sector shows signs of weakening, attributable not only to the fact that the country has passed the easy stages of import substitution and that the agricultural sector is not producing enough for its industrial transformation, but also to the sluggish growth in global demand during the year. The fact is that the manufacturing sector was growing at relatively high rates up to 1972, whereas in 1973 and 1974, in spite of increase of activity in oil transactions, it began to lose momentum. In 1974 the contraction in the production of construction materials, fish meal and oil, and in other activities such as the manufacture of clothing and footwear, and of containers and articles made of paper and paperboard was a factor which contributed to the downturn. The production of foodstuffs, beverages and tobacco, together with the refining of petroleum offset, on the other hand, the stagnation of other productive activities in the economy, as a result of which the value added generated showed a growth rate of 2.1 per cent, half of that of the previous year. (See table 2.) The sugar industry continued to be a dynamic element, the Victoria sugar factory having been expanded to process the cane harvested on 2,000 additional hectares.

During 1974, on the basis of tenders received, a contract was onwarded for the construction of the factory of Pacora, located in the region covered by the Bayano Project, which will have a grinding capacity of 6,000 tons of cane per day. It is expected to come into operation in 1977. Other studies completed in 1974 were the transisthmus pipeline project which could come into operation in 1977, and the government owned cement plant in the Bayano Area, with a capacity of 300,000 tons per year, which will double present production and make it possible to reduce imports. Moreover, the construction of the rice hulling plant is now at its final stage.

Table 2

PANAMA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of balboas at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
Agriculture	198.8	219.5	227.0	20.7	18.5	3.3	3.4	3.4
Mining	2.5	4.0	3.9	0.3	0.3	8.4	-37.9	-2.5
Manufacturing	152.5	182.7	186.6	15.9	15.2	7.2	4.2	2.1
Construction	60.4	85.3	88.6	6.3	7.2	15.3	6.3	3.9
<u>Subtotal goods</u>	<u>414.2</u>	<u>491.5</u>	<u>506.1</u>	<u>43.1</u>	<u>41.3</u>	<u>6.6</u>	<u>4.4</u>	<u>3.0</u>
Electricity, gas and water	19.0	28.1	31.3	2.0	2.6	14.7	12.4	11.4
Transport and communications	54.3	75.3	85.7	5.6	7.0	11.6	11.3	13.8
<u>Subtotal basic services</u>	<u>73.3</u>	<u>103.4</u>	<u>117.0</u>	<u>7.6</u>	<u>9.6</u>	<u>12.4</u>	<u>11.6</u>	<u>13.2</u>
Commerce and finance	135.1	172.7	185.0	14.0	15.1	7.8	10.0	7.1
Government	29.5	31.3	32.2	3.1	2.6	2.3	1.5	2.6
Ownership of dwellings	57.0	75.5	79.3	5.9	6.5	9.8	10.0	5.0
Miscellaneous services	253.2	305.3	304.8	26.3	24.9	7.5	4.4	-0.2
<u>Subtotal other services</u>	<u>474.8</u>	<u>584.8</u>	<u>601.3</u>	<u>49.3</u>	<u>49.1</u>	<u>7.5</u>	<u>6.5</u>	<u>2.8</u>
<u>Gross domestic product, total</u>	<u>962.3</u>	<u>1 180.7</u>	<u>1 227.9</u>	<u>100.0</u>	<u>100.0</u>	<u>7.3</u>	<u>6.5</u>	<u>4.0</u>

Sources: 1965-1972: ECLA calculations based on figures supplied by the Dirección de Estadísticas y Censo; 1973 and 1974: ECLA estimates based on official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^{a/} Preliminary figures.

/In the

In the Boquete Declaration the Government undertook to set up an industrial Development Bank, the purpose of which would be to attract resources from international banks established in Panama, and to channel them into industry and new projects geared to export activity.

The growth rate of the agricultural sector was 3.4 per cent, a similar rate to that of 1973, in spite of the fact that banana production for the external market dropped by 23 per cent because cutting was suspended in July and August. On the other hand, production for the domestic market showed a high rate of growth, as a result of the price policy and the channelling of technical and financial resources to agricultural areas. Figures for the first harvest show increases of 13.5 per cent for rice, 18 per cent for maize, 100 per cent for beans, and 40 per cent for vegetables, which reflect increases in both the area cultivated and yield. Prospects for the second harvest are also favourable, and it is estimated that production for domestic consumption will increase by 13.6 per cent. (See table 2.)

Public investment has played some part in the previous results, since, on the basis of the diagnosis of depressed areas, action has been taken to increase production and standards of living. One of the measures taken is the setting up of rural workers settlements, providing them with machinery and equipment as well as advisory services so as to integrate them in the modern productive process. Some of these measures include the growing of fruit and vegetables for processing and canning, within the framework of programmes which aim at improving employment conditions.

A fair number of the projects initiated in 1973 began to show results in 1974. Among them mention should be made of the irrigation of 5,000 hectares at Coclé and the improvements introduced in the seed dressing plants at Panama and Chiriquí. Furthermore, the programmes of the Agricultural Development Bank geared towards the financing of small- and medium-sized producer units, have also contributed to the increase in production for domestic consumption.

/In addition,

In addition, mention should be made of the offer made by the Government to subsidise the rates of interest on agricultural loans and to promote the agroindustrial projects for the production of cassava flour, animal feeds, and the establishment of tomato, milk and fertilizers processing plants. There are also plans to introduce crop insurance from 1975.

Stock rearing continues to encounter serious problems which stem, in part, from the 1972 drought and also from structural difficulties. The growth rate of the total number of cattle is continually falling, from 2.3 per cent in 1972 it fell to 1.8 per cent in 1973, and to 1.6 per cent in 1974. The wide fluctuations in foreign demand for beef and its contraction during the greater part of 1974 resulted in a cutback in investment for breeding and fattening cattle. In spite of this, the number of cattle available for slaughter increased by 3.3 per cent.

The total number of pigs fell by 6.7 per cent, compared with 1973, and poultry by almost 1 per cent, which was largely due to the bankruptcy of small farms faced with the impossibility of maintaining suitable profit margins. Perhaps for this same reason, the number of pigs supplied for slaughter increased by 7.5 per cent.

The construction sector was unable to maintain the rate of growth of the previous year owing to the glut in the supply of housing for high income groups of the population, as well as the relative scarcity and the increase in prices, in the international market, of construction materials. The 23.3 per cent reduction in the value of private construction permits reflects this situation. The public sector, on the other hand, increased construction works by 14 per cent, as a result of which the value added by the sector increased by 3.9 per cent.

Construction was begun on the projects at San Joaquín, Patio Pinal and Río Alejandro, the last-mentioned is a joint venture located in Colon in which 13.8 million dollars has been invested. They are expected to provide an additional 1,602 housing units. In

addition, Law 100 of October 1974, provides for tax exemptions for houses or apartment buildings intended for low-income groups.

For middle-income families the Government proposes to obtain from private banking sources additional funds of 20 million dollars for new housing, by means of mortgages.

The growth rate in the electricity, gas and water sector was 11.4 per cent, slightly higher than that of 1973, as a result of the increase in installed capacity in 1972 and 1973. Among ongoing projects, there is the hydroelectric plant at Bayano which will have a capacity of 300 MW, the first two stages, of 75 MW each, are in the process of construction.

3. Public finance

Government financial policy continues to favour capital expenditure and restraint in current expenditure. Ordinary revenue of the central government increased by 25.9 per cent, whereas current expenditure - affected by the increase in the wages of public employees - increased by 22 per cent. This permitted a saving on current account of 23 million balboas, as a result of which capital expenditure was able to maintain its high rate.

With reference to tax revenue, mention should be made of the sharp increase recorded in export taxes, which amounted to 5.2 million dollars, a sum made up almost entirely of revenue on banana exports. Import duties did not, however, reflect the sharp increase in prices of imported goods, for they only increased by 10.6 per cent. This is due to the fact that a large number of custom tariffs are based on specific taxes, and the fact that the major import product whose unit value increased substantially is free from customs tariffs; in addition, public sector imports are tax free.

However, the rate of increase in indirect taxes was lower than that in direct taxes. The increase in income tax was due mainly to adjustments in salaries, for there was, of course, a corresponding increase in the sums collected, these having increased by 25.4 per cent.

/Funds from

Funds from external sources contributed to the financing of four fifths of the global deficit, estimated at 83.7 million dollars, the notable difference being that private sources reduced their share in such financing, being replaced by external official sources.

The strengthening of the international financial centre which has been operating over the last years has been impressive, because of the advantages Panama offers owing to the nature of its monetary system and the free movement of capital. The number of foreign banks established in Panama, is continually growing and their operations cover either bank funds or the funds non-nationals. External deposits increased from 1,107 million dollars at the end of 1972 to 2,604 million in December 1973, and stood at 4,385 million on 30 September 1974.

The support to this system provided to the economy consisted mainly in the supply of funds for some development projects. In fact, loans to the domestic sector which were 967.1 million dollars on 30 September 1973 increased to 1,523.5 million dollars by the same date in 1974, i.e., an increase of 57.5 per cent. On the last-mentioned date, credit granted to the external sector represented a sum 3.6 times higher than that of the previous year.

4. Foreign trade and balance of payments

The increase in international prices had a strong impact on the economy of Panama, for it accentuated the imbalance in the current account which amounted to SDR 237 million, an unprecedented figure, and double that of the previous year in spite of the increase in the inflow of net non-compensatory capital - which also doubled compared with the previous year - thereby making it necessary to have recourse to compensatory loans in the amount of SDR 15.4 million to cover the trade gap resulting from the higher costs of oil imports. (See table 3.)

Table 3

PANAMA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{e/}
<u>Current account</u>					
Exports of goods and services	381.9	421.3	419.8	414.8	561.8
Goods FOB	130.3	137.8	134.6	132.2	192.8
Services	251.6	283.5	285.2	282.6	369.0
Transport	36.0	49.9	56.0	56.6	127.7
Travel	78.2	80.8	76.4	75.5	79.7
Imports of goods and services	421.2	466.3	483.3	483.9	746.0
Goods FOB	331.0	363.9	376.4	307.9	616.5
Services	90.2	102.4	106.9	106.0	129.5
Transport	45.8	54.1	53.7	66.2	69.9
Travel	22.7	24.0	24.4	21.6	28.0
Net external investment income	-26.5	-31.4	-30.7	-37.1	-43.1
Profits	-15.9	-14.5	-8.7	-8.7	-11.6
Interest	-10.6	-16.9	-22.0	-28.4	-31.5
Net private transfer payments	-3.6	-3.5	-3.9	-7.4	-9.7
Balance on current account	-69.4	-79.9	-98.1	-113.6	-237.0
<u>Capital account</u>					
Net external financing (a+b+c+d+e)	69.4	79.9	98.1	113.6	237.0
(a) Net external non-compensatory capital	271.2	280.6	622.5	1 388.3	
Direct investment	33.4	15.7	12.3	9.9	
Long- and medium-term loans	109.2	93.0	119.7	136.9	
Amortization payments	-25.4	-30.5	-30.0	-50.9	221.6
Short-term liabilities	146.6	195.2	512.4	1 284.7	
Official transfer payments	7.4	7.2	8.1	7.7	
(b) Domestic non-compensatory capital or assets	-129.4	-178.8	-452.7	-1 122.1	
(c) Errors and omissions	-70.2	-23.0	-72.0	-152.7	
(d) Allocation of SDR units	4.7	3.9	3.9	-	-
(e) Net compensatory financing (increase -)	-6.9	-2.8	-3.6	0.1	15.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	-	-	-	
Amortization payments	-1.7	-	-	-	
Movements of foreign exchange reserves (increase -)	-	-	-	-	
Movements of gold reserves (increase -)	-2.0	-3.4	-3.6	-	
SDR units (increase -)	-3.2	0.6	-	0.1	

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

^{e/} Estimates based on official statistics.

/The negative

The negative balance in the current account was caused by an extraordinary increase in imports of goods and services, which do not necessarily correspond to an increase in volume imported, but rather to the alarming increase in prices. In fact, the fob value of imported goods increased by 62.7 per cent, whereas, in real terms, these increased by little more than 6 per cent. At current prices, paid services also increased but to a lesser extent (2.2 per cent), which also reflects the same situation. (See table 4.)

The explanation is to be found in the large increase in imports of crude oil for processing, since the value of this product more than tripled, increasing from 88.1 million dollars in 1973 to 271.3 million in 1974. The sharp rise in prices takes on greater importance if it is realized that the imported volume fell meanwhile by 3.7 per cent.

Exports of goods also increased appreciably at current prices, 44.5 per cent, and this made it possible to mitigate the impact of imports on the balance of payment, actually the exported volume also increased by a smaller percentage (4.9 per cent). Bananas, the principal export product of the country, have over the last 20 years established a pattern of inelastic demand and unfavourable prices. In fact, between 1970 and 1973 the unit value of banana exports fell to an average annual rate of 1.1 per cent, whereas the volume exported only increased by 2.4 per cent.

Owing to the low prices for bananas, the Government of Panama together with other Central American countries decided to establish an import tax of one dollar on each case exported, which led to disputes with the banana company, as a result of which there was a limit on exports and a stoppage of exports during the month of August. This led to a drop in banana exports of 23 per cent, and the unit value fell by 2.9 per cent.

Petroleum products helped to offset the drop in banana exports. Its value more than tripled, whereas its volume increased by 52.5 per cent.

Table 4

PANAMA: EXPORTS OF GOODS AND SERVICES

(Millions of dollars)

	1970	1971	1972	1973 ^{a/}	1974 ^{b/}
<u>Total</u>	<u>383.2</u>	<u>421.6</u>	<u>455.7</u>	<u>500.4</u>	<u>675.9</u>
<u>Goods</u>	<u>130.3</u>	<u>137.8</u>	<u>146.2</u>	<u>159.5</u>	<u>231.9</u>
Bananas	60.8	62.9	64.7	63.8	49.1
Petroleum ^{c/}	20.7	24.4	21.5	24.4	80.7
Sugar	4.9	6.3	5.9	8.8	23.0
Shrimp	10.2	12.0	14.6	16.7	17.0
Fish meal	0.8	1.0	1.4	4.0	4.0
Coffee	1.7	1.6	2.2	2.1	* 2.1
Meat	2.2	1.4	3.2	1.6	2.9
Sales to the Canal Zone	22.2	23.0	24.4	24.9	46.4
Miscellaneous, including adjustments	6.8	5.2	8.5	13.2	6.7
<u>Services</u>	<u>252.9</u>	<u>283.8</u>	<u>309.5</u>	<u>340.9</u>	<u>444.0</u>
Transport	35.9	49.9	60.7	68.2	153.4
Travel	78.2	79.7	82.9	91.1	95.9
Canal Zone	37.3	38.6	39.1	39.0	39.9
Other countries	40.9	41.1	43.8	52.1	56.9
Other Services to the Canal Zone	85.2	88.0	90.0	99.3	104.2
Wages and salaries, net	65.6	69.0	71.2	76.9	...
Miscellaneous	19.6	19.0	18.8	22.4	...
Free Zone, Colon (net)	29.7	37.3	37.3	41.2	43.1
Miscellaneous, including adjustments	23.9	28.9	38.6	41.1	47.4

Source: ECLA, on the basis of data provided by the Contraloría General de la República de Panamá, Dirección de Estadísticas y Censo.

^{a/} Preliminary figures.

^{b/} Estimates.

^{c/} Excluding sales to ships using the Panama Canal.

^{d/} Including sales of petroleum products to ships using the Panama Canal.

As a result of the increase in the installed capacity of the factories, sugar exports increased by 24.4 per cent in volume, and 161.4 per cent in value.

The creation of import capacity through current transactions has continued to be based mainly on services, although during 1974 these showed a rate of growth (30.3 per cent) which was somewhat lower than that recorded in exports of goods. The changes which occurred in this branch are due to the flow of income from the transport sector which more than doubled (126 per cent) compared with the corresponding figure for 1973. In this connexion, mention must be made, again, of the influence of the prices of oil sold to ships passing through the Panama Canal. As for the other sectors of the service accounts, changes were relatively modest.

PARAGUAY

1. Economic growth in 1974

Once again, a considerable increase in exports, this time amounting to 33 per cent (as against 50 per cent in 1973) measured in dollars at current prices, fed resources and infused dynamism into Paraguay's economic activity - which is closely linked to its foreign trade - and partly accounted for the fact that the growth rate of total production maintained and even slightly surpassed the previous year's high level, rising from 7.2 per cent in 1973 to about 8 per cent in 1974 (see table 1).

Under the stimulus of continuing high prices on the world market and favourable weather conditions, agricultural production again increased, by 12 per cent. Owing to the relative weight carried by the sector (19 per cent of the total product) and its decisively important linkages with manufacturing industry and other staple activities in Paraguay, this expansion was the basis of the rapid growth of the total product in the past two years.

Stock farming, which is Paraguay's other basic productive activity, increased its product by 6.5 per cent - the highest rate achieved in the course of the decade - although slaughtering for export decreased, because of the contraction in external demand for meat.

It was for this same reason that the product of the manufacturing sector, in which the relative importance of meat processing is considerable, grew by only 5.6 per cent, notwithstanding the notable increases achieved in respect of other industrial export products. In contradistinction to what happened in 1973, when export prices rose by 44 per cent and prices of imports by only 15 per cent, in 1974 the increase in unit values was the same for imports as for exports (33 per cent in both cases), which meant that real availabilities of imported goods expanded only by a little over 4 per cent, whereas in 1973 they had done so by 41 per cent.

Table 1

PARAGUAY: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTORS OF ECONOMIC ACTIVITY

Sector	Millions of guaranies at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
Agriculture	23 804.8	28 556.0	31 325.9	34.3	35.3	4.6	9.7	9.7
Mining	82.8	198.6	238.3	0.1	0.3	53.0	2.4	20.0
Manufacturing	12 004.1	13 864.0	14 640.4	17.3	16.6	4.8	5.2	5.6
Construction	2 075.7	2 824.6	2 982.8	3.0	3.4	8.2	16.3	20.0
<u>Subtotal goods</u>	<u>37 967.4</u>	<u>45 443.2</u>	<u>49 187.4</u>	<u>54.7</u>	<u>55.6</u>	<u>5.0</u>	<u>8.6</u>	<u>8.2</u>
Electricity, gas and water	839.7	1 490.5	1 857.2	1.2	2.1	20.4	22.4	24.6
Transport and communications	2 950.4	3 723.5	4 181.5	4.3	4.7	6.9	10.4	12.3
<u>Subtotal basic services</u>	<u>3 790.1</u>	<u>5 214.0</u>	<u>6 038.7</u>	<u>5.5</u>	<u>6.8</u>	<u>10.1</u>	<u>13.6</u>	<u>15.8</u>
Commerce and finance	13 529.3	16 146.9	17 035.0	19.5	19.3	4.9	8.4	5.5
Government	3 943.0	3 698.2	3 801.7	5.7	4.3	0.8	-7.7	2.8
Ownership of dwellings	2 281.0	2 580.8	2 756.3	3.3	3.1	3.3	5.9	6.8
Miscellaneous services	7 924.7	9 036.8	9 624.2	11.4	10.9	5.1	3.3	6.5
<u>Subtotal other services</u>	<u>27 678.0</u>	<u>31 462.7</u>	<u>33 217.2</u>	<u>39.9</u>	<u>37.6</u>	<u>4.3</u>	<u>4.6</u>	<u>5.6</u>
<u>Total</u>	<u>69 435.5</u>	<u>81 961.2</u>	<u>88 518.1</u>	<u>100.0</u>	<u>100.0</u>	<u>4.9</u>	<u>7.2</u>	<u>8.0</u>

Sources: For 1970-1973, ECLA calculation based on figures supplied by the Central Bank of Paraguay; for 1974, ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^{a/} Provisional figures.

/Internal consumption

Internal consumption and investment resources (domestic supply, plus the balance on imports and exports of goods and services) increased by 10.3 per cent in 1973 and 8.2 per cent in 1974. In these circumstances, gross domestic investment rose by 36.8 per cent in 1973 and 12 per cent in 1974. It was private investment that set the course for this progress; public investment suffered from the effects of the policy of restricting public expenditure. Despite the considerable increase in investment, consumption expanded at fairly satisfactory rates of 6.4 and 7.3 per cent in 1973 and 1974, respectively (see table 2).

Another primary concern of the economic authorities which was reflected in various economic measures was the sharpening of the upward trend of domestic prices. The rate of increase of consumer prices was twice as high as in 1973 (25 per cent as an average for the year, and 22 per cent between December 1973 and December 1974). The odd thing about this upswing, however, was that it occurred exclusively in the first two months of 1974 (23.5 per cent); during the rest of the year prices fluctuated slightly and even fell.

In addition to the various measures adopted from 1973 onwards to counteract the price increases, such as the fixing of ceiling prices and of minimum quotas for exports of staple consumer goods, the most effective lines of action were those aimed at contracting the monetary supply and the excess liquidity brought about by the growth of external income, and those restricting public expenditure. Influence in the same direction was exerted by the liberal supply of agricultural commodities for the home market, which, in the case of meat - a very important item in the customary diet - was enlarged by virtue of the reduction in external demand.

Table 2

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaranies at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
<u>Total supply</u>	<u>86 999.2</u>	<u>103 709.8</u>	<u>111 253.1</u>	<u>116.1</u>	<u>116.4</u>	<u>4.0</u>	<u>10.3</u>	<u>7.3</u>
Imports	12 078.0	15 243.8	15 709.8	16.1	16.4	-2.3	32.2	3.1
Gross domestic product	74 921.2	88 466.0	95 543.3	100.0	100.0	4.9	7.2	8.0
<u>Total demand</u>	<u>86 999.2</u>	<u>103 709.8</u>	<u>111 253.1</u>	<u>116.1</u>	<u>116.4</u>	<u>4.0</u>	<u>10.3</u>	<u>7.3</u>
Exports	11 176.0	11 576.5	11 564.0	14.9	12.1	0.4	2.7	-0.1
<u>Domestic demand</u>	<u>75 823.2</u>	<u>92 133.3</u>	<u>99 689.1</u>	<u>101.2</u>	<u>104.3</u>	<u>4.5</u>	<u>11.3</u>	<u>8.2</u>
Gross domestic investment	11 033.6	18 250.3	20 440.3	14.7	21.4	10.0	36.8	12.0
Gross fixed investment	10 882.6	16 975.8	18 911.0	14.5	19.8	7.3	35.4	11.4
Public	2 954.6	...	...	3.9	...	...	...	...
Private	7 928.2	...	...	10.6	...	...	...	...
Construction	5 462.5	7 445.8	8 935.0	7.3	9.4	8.2	16.5	20.0
Machinery and equipment	5 420.3	9 530.0	9 976.0	7.2	10.4	6.5	55.1	4.7
<u>Total consumption</u>	<u>64 789.6</u>	<u>73 883.0</u>	<u>79 248.8</u>	<u>86.5</u>	<u>82.9</u>	<u>3.5</u>	<u>6.4</u>	<u>7.3</u>
General government	6 748.1	6 419.0	7 182.9	9.0	7.5	1.6	-7.9	11.9
Private	58 041.5	67 464.0	72 065.9	77.5	75.4	3.7	8.0	6.8

Sources: For 1970-1973, ECLA calculations based on figures supplied by the Central Bank of Paraguay; for 1974, ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

^{a/} Provisional figures.

2. Trends in selected sectors of production

Agricultural production expanded by 12 per cent in 1974, having already increased by the same proportion in the preceding year. Generally speaking, however, the branches of production that showed the biggest increases in 1974 were not the same as in 1973, nor were they the most important. Thus, output of manioc, maize, cotton and sugar-cane, which represent approximately one-half of total production, expanded by about 3 per cent, whereas production of wheat rose by 130 per cent, that of tung by 80 per cent, that of soya beans by 20 per cent in 1973 and 58 per cent in 1974, that of rice by 52 per cent etc.

These results were attributable both to the high prices prevailing for many of these products and to favourable weather conditions.

Crop farming contributes 19 per cent of the total product, livestock production a little over 9 per cent, and forestry about 4 per cent. The product of the livestock sector rose by 6.5 per cent, the highest percentage in the decade, although the slaughter of beef cattle for export was reduced by 24 per cent; total slaughtering, however, must have increased, owing to a recovery in slaughter for domestic consumption purposes, which in 1973 had declined by 17 per cent.

Manufacturing industry consists almost entirely in the processing of agricultural products, a large proportion of which are exported. Industrial processing of meat for export (which accounts for about 17 per cent of the manufacturing product decreased by 31 per cent in 1974, owing to the suspension of purchases of frozen meat by the European Common Market countries. Thus, while production of preserved meat increased by 44 per cent, that of frozen beef dropped by 64 per cent.

In contrast, other branches of production expanded: sawn lumber attained an output of 200,000 tons (an increase of 12 per cent); output of edible oils rose by 20 per cent, and that of other vegetable oils at approximate rates ranging from 60 to 80 per cent; production of wheat flour also boomed, increasing from 21,000 tons in 1973 to 50,000 in 1974.

/In short,

In short, the industrial product increased by 5.6 per cent in 1974, a rate slightly higher than the preceding year's, but not reflecting the briskness of recent economic development.

Of the other sectors, construction was the most dynamic, expanding by 16.3 per cent in 1973 and 20 per cent in 1974; next came basic services (with a growth rate of 15.8 per cent in 1974), among which electricity showed an increase of 25 per cent. It should be mentioned that since 1973 electricity is being exported to Argentina and Brazil from the Acaray power station. The growth rate of the other services, which carry a relative weight of 38 per cent in the total, was only 5.6 per cent.

3. Foreign trade and balance of payments

A sudden upswing in exports and imports of goods - 33 per cent and 38 per cent respectively - was the most outstanding economic event in 1974, because of its vital importance for economic activities. In the preceding year exports had already expanded by 50 per cent, so that in 1973 and 1974 their value practically doubled.

The 1974 increase in the value of exports is entirely attributable to the rise in prices, since there was no change in their quantum. The exceptionally high levels reached by world market prices for some commodities were particularly favourable to those comprising the country's export basket, and were reflected in increases in the unit values of exports of 44 per cent in 1973 and 33 per cent in 1974. In contrast to what happened in the first of these years, however, when import prices rose by 14.5 per cent, in 1974 they increased in the same proportion as export prices, cancelling out the 1973 improvement in the terms of trade, which had been 26 per cent.

Meat sales dropped considerably from 32,000 to 15,600 tons (i.e., by 52 per cent) in terms of volume. This downward plunge was mainly due to sales of frozen meat - which were reduced by 64 per cent for the reasons mentioned above - and offset the noteworthy increases in export volumes of other staple products. For example, among oilseeds, 101,000 tons of soya beans were exported, i.e., 88 per cent more than

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in the preceding year - although, inexplicably, their value rose by only 45 per cent, which is not consistent with the world price trend - and the volume of tartago sold was trebled. In addition, tung oil sales expanded by 111 per cent in terms of volume, and 142,700 tons of lumber were exported, one-third as much again as in 1973. The volume of tobacco sales also increased by 37 per cent, and those of sugar were trebled.

In point of fact there were few products that really benefited from the price boom by virtue of a corresponding expansion of their volume. Nevertheless, among staple products, in terms of value, sugar exports increased nine times over; those of lumber and vegetable oils by 117 and 102 per cent respectively; those of oilseeds by 68 per cent; and those of cotton and tobacco by 42 and 53 per cent, respectively.

Furthermore, with reference to less important exports it is worth mentioning the exceptional increases in external sales of cereals (244 per cent), pulses and vegetables (340 per cent), maté (260 per cent), Portland cement (736 per cent), and electric energy (83 per cent).

Imports of goods expanded by 38 per cent, much less than in the preceding year (62 per cent). The increase in the quantum was only 4.4 per cent, whereas in 1973 it had reached 41 per cent. In 1974 the biggest increments were recorded for petroleum and for wheat and wheat products, which virtually trebled in value.

The fact that imports expanded more than exports gave rise to a small trade balance deficit, whereas in the two preceding years surpluses had been shown. This deficit, in combination with the negative balance on services, which were stepped up considerably, in particular freight and insurance (45 per cent), led to a new and greater deterioration in the balance-of-payments position on current account. A larger net inflow of capital, however (estimated at 60 per cent above the 1973 figure), once again permitted an improvement in net international reserves of about 24 million special drawing rights units (SDRs) (see table 3).

Table 3

PARAGUAY: BALANCE OF PAYMENTS

(Millions of SDR Units)

	1970	1971	1972	1973	1974 ^{a/}
<u>Current account</u>					
Exports of goods and services	89.3	89.1	97.1	124.0	164.1
Goods FOB	65.3	66.5	78.8	106.1	141.1
Services	24.0	22.6	18.3	17.9	23.0
Transport	2.5	1.6	1.1	1.2	1.5
Travel	14.2	14.7	10.2	9.4	10.0
Imports of goods and services	101.1	109.1	97.7	133.5	162.4
Goods FOB	76.6	83.0	72.5	105.5	146.3
Services	24.5	26.1	25.2	28.0	36.1
Transport	9.0	10.6	9.5	12.5	17.9
Travel	5.1	5.9	7.2	8.3	9.1
Net external investment income	-9.8	-10.0	-10.3	-8.3	-9.8
Profits	-2.5	-2.3	-2.3	-1.5	-2.1
Interest	-7.3	-7.7	-8.0	-6.8	-7.7
Net private transfer payments	1.9	3.8	2.2	1.7	0.5
Balance on current account	-19.7	-26.2	-8.7	-16.1	-27.6
<u>Capital account</u>					
Net external financing (a+b+c+d+e)	19.7	26.2	8.7	16.1	27.6
(a) Net external non-compensatory capital	32.9	31.1	22.3	36.6	} 51.5
Direct investment	3.8	7.1	2.7	8.1	
Long-and medium-term loans	22.6	26.3	24.2	25.7	
Amortization payments	-6.5	-9.8	-9.9	-9.2	
Short-term liabilities	9.7	3.7	1.5	9.0	
Official transfer payments	3.3	3.8	3.8	3.0	
(b) Domestic non-compensatory capital or assets	-2.3	-3.3	-3.2	-3.4	
(c) Errors and omissions	-5.0	-0.8	-3.6	-1.4	
(d) Allocations of SDRs	2.5	2.0	2.0	-	-
(e) Net compensatory financing (increase -)	-8.4	-2.8	-8.8	-15.7	-23.9
Balance of payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	0.1	-	2.6	...
Amortization payments	-0.6	-0.1	-0.1	-	...
Movements of foreign exchange reserves (increase -)	-4.3	-0.8	-6.7	-18.3	...
Movements of gold reserves (increase -)	-1.0	-	-	-	...
SDRs (increase -)	-2.5	-2.0	-2.0	-	...

Source: IMF, Balance of Payments Yearbook, vol. 26

^{a/} Estimates based on official statistics.

4. Control of inflation

The great extent to which the Paraguayan economy is dependent upon its external trade relations has been reflected in various ways in a sharpening of the upward trend of domestic prices. Consumer prices, which had been relatively stable, increased by 9.2 per cent in 1972, 12.8 per cent in 1973 and 25.2 per cent in 1974 (annual averages). Wholesale prices rose at even higher rates: by 25 per cent in 1973 and 32 per cent in 1974.

This was partly due to the high prices that had to be paid for inputs, fuels and other imported products. The increases in world quotations for export products also forced up prices of the proportion of these goods reserved for the home market. Furthermore, the growth of international reserves and export earnings helped to increase liquidity and to step up pressure on domestic prices.

But the 22 per cent rise in consumer prices between December 1973 and December 1974 had the singular feature of being concentrated in the early part of the year. In January and February prices increased by 23.5 per cent, under the influence of the food component of the index, which rose by 24.8 per cent. In the remaining months there were slight fluctuations, which in the event resulted in the above-mentioned increase of 22 per cent.

Several factors contributed to this stabilization from March onwards. Since 1973 various measures had been adopted, such as the fixing of maximum prices for essential goods, the creation of producers' markets, and maximum export quotas as a means of preventing shortages on the home market. For example, a maximum quota of 220,000 head of beef cattle for export was established, and for the reasons already noted was not filled. In addition, the available supply of crop-farming products expanded (for the second year in succession production increased by 12 per cent), and this was undoubtedly also true of meat, because of the drop in sales abroad.

Furthermore, a restrictive monetary policy was applied which was complemented by another designed to curb Government expenditure. The Central Bank took a firm stand with respect to the regulation of the

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rate of expansion of money and credit. The means of payment increased during the year by 25 per cent (as against 31 per cent in 1973). The main expansionist factor was the 66 per cent rise in international reserve credit, on the other hand, increased by only 8 per cent, that assigned to the private sector rising by 17 per cent, whereas that allocated to the Government dropped by 28 per cent in relation to the preceding year, and the credit granted to the rest of the public sector remained the same.

With the same end in view - that of reducing liquidity in the economy - the regulation fixing cash reserves of banks at 42 per cent was maintained, and so was the prior import deposit requirement.

In the meantime the fiscal budget closed with a surplus on current account of 1,500 million guaraníes, which helped to reduce its pressure on monetary issues, while at the same time official deposits in the Central Bank were increased.

PERU

1. General trends

Economic growth in Peru showed further improvement in 1974. Increases in the gross domestic product, which for the past two years had been around 6 per cent, rose somewhat to an estimated 6.6 per cent (see table 1).

A number of favourable factors were responsible for this acceleration in the growth rates. One of these is the recovery in construction activities, which increased by 17 per cent; another is the 41 per cent increase in fishing; a third is the impact of heavy investment over the last two or three years.

The demand for imports, which amounted to 1,999 thousand million dollars, and a deficit of 850 million dollars in the current account of the balance of payments are directly related to these events. Inflows of capital, however, were larger and permitted, in addition to a considerable build-up in the country's international reserves, the continued implementation of large-scale economic projects and the addition of new ones.

2. Principal guidelines of economic policy

During 1973 and 1974, world inflation, which is discussed in Part I of this Survey, was a highly destabilizing factor for the economy of Peru, as well as other developing economies. It affected the level of domestic prices, those of imports and exports, current and budgeted exchange needs, the relationship between government current income and expenditure, and the economy's liquidity. Moreover, the pressure exercised was not continuous but varied in intensity and impact, forcing those responsible for economic policy to be constantly alert, and to modify their policy on repeated occasions.

Table 1

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 ^{a/}	1970- 1972	1973	1974 ^{a/}
<u>Total supply</u>	<u>274 386</u>	<u>324 666</u>	<u>361 350</u>	<u>116.1</u>	<u>119.8</u>	<u>6.0</u>	<u>5.4</u>	<u>11.3</u>
Imports <u>b/</u>	38 140	41 608	59 610	16.1	19.8	3.8	1.2	43.3
Gross domestic product	236 246	283 058	301 740	100.0	100.0	6.3	6.0	6.6
<u>Total demand</u>	<u>274 386</u>	<u>324 666</u>	<u>361 350</u>	<u>116.1</u>	<u>119.8</u>	<u>6.0</u>	<u>5.4</u>	<u>11.3</u>
Exports <u>b/</u>	48 012	41 779	46 302	20.3	15.3	-0.7	-11.8	10.8
<u>Domestic demand</u>	<u>226 374</u>	<u>282 887</u>	<u>315 048</u>	<u>95.8</u>	<u>104.5</u>	<u>7.3</u>	<u>8.5</u>	<u>11.4</u>
Gross domestic investment	28 800	39 579	48 128	12.2	16.0	10.5	12.6	21.6
Gross fixed investment	29 478	39 961	48 193	12.5	16.0	7.7	16.9	20.6
Public	11 508	...	...	4.9	...	...	...	...
Private	17 970	...	...	7.6	...	...	...	...
Construction	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...
Total consumption	197 574	243 308	266 920	83.6	88.5	6.8	7.9	9.7
General government	28 306	35 406	38 451	12.0	12.0	7.7	7.8	8.6
Private	169 268	207 902	228 469	71.6	76.5	6.7	7.9	9.9

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Peru; 1974: ECLA estimates based on official data.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

/Although the

Although the measures adopted failed to prove fully effective in countering its harmful effects, they made it possible to reconcile, with minor concessions, the permanent objective of economic policy, that of stable domestic prices, with more recently adopted objectives on economic growth which involve heavy investment, but whose effect on the supply of goods will only be felt in the future. In fact, the rate of inflation in 1974 amounted to 16.9 per cent compared to 13.7 per cent in 1973, but investment continued and, as a result of this, the productive capacity of the country will increase in the years ahead.

Among the factors that contributed to the increase in domestic prices, in addition to the growing multiplier effect on the product, which could be ascribed to the expansion in investment, mention should be made of the persistent increase in prices paid for imports; the recognized inelasticity in the supply of agricultural foodstuffs, aggravated by the tendency to replace the crops of the producing areas located in the vicinity of the major cities by export crops; the increase in purchases by the fishing industry; and the increase in urban employment. Countervailing factors were the decline experienced in the second half of 1974 in prices for the major export products, the adequate supply of light industry products, and the economic policy measures introduced.

These measures included the control of bank lending. Investment in national currency ^{54/} by the commercial banking sector increased from 42.4 thousand million soles to 45.8 thousand million between the end of 1973 and the end of 1974, that is to say, by 8 per cent. Furthermore, it accepted deposits and other inflows, in the amount of 4.4 thousand million soles, with the result that in 1974 funds available including cash reserves had increased by 33.5 per cent. These restrictions on commercial lending were offset by the operations of the development financing institutions which prevented a liquidity crisis in the private sector and ensured that the needs of priority

^{54/} That is, excluding investment in foreign currency.

activities took precedence over those for the purchase of durable consumer goods.

For its part, the Central Government maintained its policy of increasing savings in the current account. The 1973-1974 biennial budget was not fully implemented for, under the programme, current income was to exceed current expenditure by 14.1 thousand million soles. However, because of a sharp increase in such expenditure, this figure fell, maintaining, nevertheless, the high level of 11.1 thousand million soles at the end of the biennial. To cover the capital expenditure, which amounted to 35.7 thousand million soles, it was, therefore, necessary to incur a domestic debt of 8.8 thousand million, and to use 11.8 thousand million of foreign reserves. The direct inflationary impact of this capital expenditure was mitigated by the wider use which was made of surplus reserves in the Housing Fund to take up long-term treasury bonds in an amount similar to that of the total deficit of the Central Government, i.e., 3.2 thousand million soles.

Another aspect of economic policy was the direct action taken on the level of domestic prices by fixing price ceilings, and subsidizing certain consumer goods. Since Peru is a sugar exporter, domestic prices of this good did not change during 1974. The production of public enterprises, and fish supplies throughout the country was similarly affected. However, official prices for those goods for which there were a great number of producers were not always respected, with the result that there were either temporary or continuous shortages of these products.

The system of subsidies acquired some importance in 1974 when it was applied to imports of staple items of urban diet. Rice, of which Peru normally produces enough for its needs, and three other products which it has always imported were subsidized. The subsidy on rice, wheat and vegetable oil was equivalent to 40 per cent of the import price, in the case of lard the subsidy was 20 per cent. No accurate information is available on the total amount spent on subsidies in 1974, but estimates put the figure at 8,000 million soles (202 million dollars).

/The effort

The effort to arrest the increase in prices to prevent cost inflation included a wages policy. Certain groups of workers, such as those employed in the petroleum sector, received wage increases which were higher than the increases in prices. In general, however, the wages of the other workers in the private sector fell in real terms. This is also true for public employees, judging from the very moderate readjustments awarded to major groups (master craftsmen, health workers). As regards the second objective of Peruvian economic policy, that of investing with the aim of increasing the future productive capacity of the country, this was achieved not only through the use of domestic resources - as described in previous paragraphs - but also, and in larger amounts, through external borrowing, guaranteed by the Government, in the amount of 1,260 million dollars, 1,020 million of which has been repaid.

These funds, together with direct investment expenditure, played a decisive role in 1974, for, owing to the rise in the prices of foodstuffs, raw materials and fuels, imports of these items absorbed 71 per cent of the value of exports of goods (41 per cent in 1973). Since these goods were indispensable, a strict ceiling was imposed on current investment and on the types of investment mentioned in the previous paragraph.

The Peruvian authorities took advantage of the relatively high liquidity in the international capital market in 1973 and 1974 to attract more external savings, and to improve the position of the foreign debt. Since all barriers to the use of the United States capital market had been removed, a portion of this debt was refinanced, on better terms, by private banks in the United States. AID, the Inter-American Development Bank, and the World Bank Group, also granted loans to Peru, repayments on which began during the year.^{55/}

However, the main financial sources were those that accepted the long list of development projects which the Peruvian authorities had

^{55/} In 1973 net repayments to IDB were 9.8 million dollars. No repayments were made to the United States.

in hand. The United Kingdom, the Federal Republic of Germany, Japan, France and other market economy countries increased the funds which they provided, the same was true of the Soviet Union, Rumania and other COMECON countries. Moreover, during the year, new Latin American sources and sources in other areas were added to the list.

For example the financing of the Selva-Pacific Coast pipeline offers an example of the geographical diversity of sources of external funds in the Peruvian economy. Japan provided 330 million dollars, a part of which was provided jointly with the Federal Republic of Germany. The United Kingdom provided 11 million dollars. Private banks in New York and San Francisco, 100 million, and the USSR seven million. Moreover, Argentina and Venezuela made loans available in the amount of 36 million and a 100 million respectively, and Iran also provided 100 million dollars.

This geographical mosaic begins to attract attention as one looks at the series of projects financed, or those whose financing is at an advanced stage of negotiation. The increase in the sources of funds helped to maintain conditions which were favourable to the economic development policy. The inflow of capital for investment projects increased from 305 million dollars in 1973 to 626 million in 1974; in 1973 this amount was refinanced and 254 million were used to improve the terms of the external debt; this occurred whenever the amount of repayments were high, and 225 million dollars were repaid in 1974 (see table 2). This improvement, in addition to the accumulation of international reserves, which increased from 430 million dollars in 1973 to 702 million in 1974, is highly favourable to the achievement of the objective of economic policy, that of reconciling stability with investment for future growth.

Table 2

PERU: USE OF PUBLIC EXTERNAL DEBT
(Millions of dollars)

	1973	1974
Loans	1 025	1 260
Repayments	672	1 020
For investment	305	626
Refinancing	126	100
Debt substitution	128	115
Other purposes	113	179

Source: Statement of the Minister of Economic Affairs and Finance, published in "El Peruano", 14 February 1975.

3. Trends in the major sectors

The growth rate of 6 per cent in the gross domestic product in 1974, was mainly due to the expansion experienced in the following sectors: fishing, manufacturing, construction and electricity. The primary sectors, agriculture and mining showed a relatively low growth rate, whereas that of services maintained a level similar to that of previous years (see table 3).

(a) Agriculture

The agricultural sector (excluding fishing) continued to restrict the growth of the Peruvian economy. On the basis of available estimates,^{56/} the total area of land under cultivation is 2.7 million hectares, which in relation to the population of 14.5 million gives one of the lowest indexes of the developing world. If the shortcomings in transport and in the agricultural technology applied are added to this constraint, it becomes clear how difficult it is to obtain a continuous increase in agricultural production.

^{56/} See FAO, Production Yearbook 1972, Rome 1973, table 1.

Table 3

PERU: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of soles at 1960 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1973	1970- 1972	1973	1974 ^{a/}
Agriculture	42 455.0	40 808.4	42 589.0	19.8	16.3	-2.4	0.7	4.4
Agriculture (excluding fishing)	36 731.0	38 626.9	39 515.3	17.1	15.4	1.3	2.4	2.3
Fishing	5 724.0	2 181.5	3 073.7	2.7	0.9	-29.8	-22.6	40.9
Mining	19 050.0	19 581.0	20 070.5	8.9	7.8	0.6	1.5	2.5
Manufacturing	35 966.0	45 052.1	48 656.3	16.8	18.0	7.9	7.5	8.0
Construction	12 550.0	16 743.1	19 589.5	5.9	6.7	11.0	8.2	17.0
<u>Subtotal goods</u>	<u>110 021.0</u>	<u>122 184.6</u>	<u>130 905.3</u>	<u>51.4</u>	<u>48.8</u>	<u>3.4</u>	<u>4.3</u>	<u>7.1</u>
Electricity, gas and water	2 831.0	3 412.3	...	1.3	1.4	6.6	6.1	...
Transport and communications	11 340.0	14 607.1	...	5.3	5.8	9.5	7.5	...
<u>Subtotal basic services</u>	<u>14 171.0</u>	<u>18 019.4</u>	<u>...</u>	<u>6.6</u>	<u>7.2</u>	<u>8.9</u>	<u>7.2</u>	<u>...</u>
Commerce and finance	34 162.0	40 931.4	...	16.0	16.4	6.3	6.0	...
Government	18 520.0	22 579.5	...	8.6	9.0	6.7	7.0	...
Ownership of dwellings	10 877.0	12 423.8	...	5.1	5.0	4.5	4.5	...
Miscellaneous services	26 410.0	34 015.4	...	12.3	13.6	9.4	7.5	...
<u>Subtotal other services</u>	<u>39 969.0</u>	<u>109 950.0</u>	<u>...</u>	<u>42.0</u>	<u>44.0</u>	<u>7.1</u>	<u>6.5</u>	<u>...</u>
<u>Subtotal services</u>	<u>104 140.0</u>	<u>127 969.4</u>	<u>135 775.5</u>	<u>48.6</u>	<u>51.2</u>	<u>7.4</u>	<u>6.6</u>	<u>6.1</u>
<u>Gross domestic product, total</u>	<u>214 161.0</u>	<u>256 598.7</u>	<u>273 534.2</u>	<u>100.0</u>	<u>100.0</u>	<u>6.3</u>	<u>6.0</u>	<u>6.6</u>

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Peru; 1974: ECLA estimates based on official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

a/ Preliminary figures.

/According to

According to preliminary estimates, the growth rate in 1974 in the agricultural sector was 2.3 per cent, a rate similar to that of the previous year. The sector was affected by a series of unfavourable circumstances which countered the favourable effects of agrarian reform and a larger inflow of funds. Rainfall was unfavourable, rains were heavier than usual and the season shorter, as a result of which there was drought. Early in the year there were unusual snow-falls in a large area in the south which were detrimental to agricultural production. The temperature in the Andean valleys remained low for a longer than usual period, delaying year end harvests, and resulting in inadequate pasture growth.

Furthermore, a number of essential inputs were either in short supply or prices for them were comparatively high. Among these were chemical fertilizers and pesticides. Furthermore, fodder for milk production and the fattening of cattle, and poultry feeds also increased in price as a result of which selling prices frequently failed to cover costs, thereby creating financial difficulties for the producers.

Cotton production increased by 3 per cent owing to the constant expansion of the area under irrigation in the extreme north, and a reversal of the trend of replacing this crop by food crops in central areas and in areas on the southern coast brought about by the increase in international prices for the fibre, which remained at a high level until the first half of 1974, the sowing season in the areas mentioned. To prevent a greater shortage of food, the Government decided to enforce, in full, regulations which obliged coastal farmers to set aside a certain area of their lands for subsistence crops.

Sugar production increased by 2.5 per cent. On the other hand, there was a contraction in the production of coffee of approximately 17 per cent. The production of cocoa, another export crop, increased slightly. As regards products for domestic consumption, the production of cereals increased, in particular, rice; but the production of other agricultural crops decreased.

The limited supply of land per capita resulted in high priority being given to the irrigation of the coastal area under the agrarian

/policy, while

policy, while safeguarding the continuation of the irrigation projects in the Andean valleys; and those for settlements in the Amazon area. In 1974, three projects were either ongoing or about to be completed, which would probably increase the present 600 thousand hectares available on the coast by 120 thousand hectares. Three further projects were under study which would add a quarter of a million hectares to this area.

As regards the settlements process mentioned, the policy, initiated the year before, of granting lands to the Sociedades Agrícolas de Interés Social (SAIS) in the Amazonian valleys, continued to be followed in 1974.^{57/} This organization, made up of societies of the Andean zone, sends families, equipment and cattle to the lands allocated to them. Although it is premature to make any assessment of the results, several societies have requested lands to establish a similar type of satellite organization. This policy was extended in 1974 to the sugar co-operative whose co-ordinating body is seeking lands suitable for sugar cane cultivation.

(b) Fishing

The production of the fishing sector showed a clear downturn during the current decade. This was due to a decrease each year in the anchoveta catch for fish meal, a product which not so long ago was the main export of Peru. In 1973 this fish reappeared, but production in this particular line did not reach the level expected of it since it was considered necessary to maintain the ban imposed on the fishing of this species. In 1974 conditions were once more favourable and anchoveta fishing was resumed, and the increase in the catch of other species enabled the sectoral product to increase by 41 per cent.

The recovery in anchoveta fishing enabled full use to be made of the equipment which had been installed at the beginning of the decade, but which had remained virtually idle owing to the circumstances described above. The plant was, therefore, able to process the stickwater which still contains high proportions of solid matter and fats. Because of

^{57/} See ECLA, Economic Survey of Latin America, 1973.

this, the yield in fish meal and oil per ton of input improved by approximately 5 per cent. The production of fish meal in 1974 was, therefore, 850 thousand tons, and that of fish oil, also an export product, 300,000 tons.

As regards the rest of the sector, the increase in the catch from ocean fishing is estimated at 5 per cent. However, the major increase occurred in the interior of the country. The supply of lake and river fish supplemented by the fish farms, which are beginning to produce in the Sierra, is rapidly increasing and acquiring importance in the regional diet.

(c) Mining

The domestic product of the mining sector increased by 2.5 per cent in 1974 both as a result of the continuous expansion in the production of the main mining centres, and the temporary working of small mines, the production of which is normally marginal. These mines or some shafts in them were opened when the prices of metals in the international market rose towards the end of 1973, and they were closed in the second half of 1974 when these prices tended to fall.

Production data for major items are still subject to confirmation. Export data, estimated to December 1974, give an indication of expansion in value at current prices, and in physical quantities.

Demand also increased for some products in the national market. In the case of zinc, for use in the iron and steel industry, consumption increased from 6 thousand tons in 1972 to 27 thousand in 1973, and possibly to 34/40 thousand in 1974, this last figure represents almost 10 per cent of production.

Attempts to raise funds for investment in the mining sector, and new investments were stepped up. The plan for the construction of a zinc refinery north of Lima is completed, and construction should begin in 1975. Progress continues to be made in several relatively minor deposits, and a contract has been signed with Japanese investors for the development of Michiquillay. As regards the Cuajone copper project, it is at the construction stage and approximately 60 per cent

/of the

of the physical structure has been completed. In the field of hydrocarbons, the outlook was highly promising in 1974. The production of crude increased by 6 per cent, the Talara Refinery was expanded by the addition of a catalytic cracking plant, and a contract was entered into with the Brazilian State Petroleum Organization for exporting 5,000 barrels per day by the Amazon river.

In October Petroperu stated that no new concessions would be granted to foreign private enterprises. The probable production of the Amazon Basin, the major concession area, is sufficient to make the construction of a pipeline from the Basin to a Pacific port feasible. A pipeline would carry 250 thousand barrels per day, 100 thousand of which would be reserved for exports. The agreement on its route was reached early in 1974, and at the end of the year the tubes and related equipment for its installation began to arrive.

(d) Manufacturing

Available estimates on the growth of the manufacturing sector in 1974 put its growth rate at 8 per cent, which, although comparatively high, probably completely omits or provides only partial information on new high growth production units. It is, therefore, possible that the growth of the manufacturing sector is underestimated.

SIDERPERU which had almost doubled its production of liquid steel 58/ in 1973, increased its production this year by approximately 35 per cent. Although the greater part of the production of this State enterprise is reserved for import substitution, its price margins and delivery dates, among other factors, have stimulated an increase in the supply of steel products. Furthermore, the shipyards of the Pacific coast were working at full capacity to meet foreign orders. Ninety-three fishing vessels are under construction for export. The Servicio Industrial de la Marina (SIMA), which builds large ships, launched one ship of 25,000 tons, and took steps

58/ SIDERPERU calculates its production on the basis of liquid steel, that is to say, measuring it at convertito level. Expressed in bars (crude steel), the resulting tonnage diminishes by no more than 4 per cent.

to increase its capacity to build ships with a displacement tonnage of up to 300,000 tons. The shipyards in Amazonia began production in 1974, building barges and tug boats and, in general, lighters for transporting petroleum and for exporting crude to Brazil. With the increase in the purchases of the mining companies in Peru, and the construction boom, the number of medium-sized enterprises and their production of varied manufactured products have expanded.

Some of the long-established manufacturing branches recorded high increases. The manufacture of fish meal and oil which has depressed industrial production indexes since 1972 recorded an increase of approximately 50 per cent. Although not as high, there were also relatively high rates of growth in other branches, the subsector producing foodstuff, the assembly of motor vehicles, and the construction materials industry. On the other hand, there were moderate rates of growth in the canning industry, excluding fish canning, textiles, footwear and clothing, non-ferrous metal products, and other traditional manufactures.

(e) Construction

The construction sector recovered the high growth rate characteristic of it prior to 1973. In that year its domestic product increased by 8.2 per cent, and in 1974 by 17 per cent.

The higher growth rate was due to the construction of public works and the new arrangements adopted for financing local housing. As regards the former, it should be noted that central government gross fixed investment increased by 42 per cent. That of the municipal governments continued to rise during 1974, the communications systems for which they were responsible, public buildings, and urban works being improved and expanded. For their part public enterprises made a substantial contribution to this activity with investments directed towards expanding their productive capacity.

To a certain extent this sector had lost a great deal of its dynamism with the drop in the number of families eligible for housing loans. This situation remains unchanged since, by September 1974, the main mortgage institution had attracted 2.3 thousand million soles, but the amount of its loans for housing were 1.2 thousand million. Although to a lesser extent, the same imbalance is found in other private institutions which finance housing.

(f) Electricity

The product of the electricity generating sector increased by a little more than 13 per cent in 1974. This rate is higher than that recorded in previous years and is the result of both the increase in installed capacity and the expansion of distribution networks.

1974 was the first year in which the Mantaro power station was in operation, it having come into operation at the end of 1973. In addition to this power station other smaller stations came into operation in various parts of the country, and several of the existing ones increased their installed capacity.

Another factor which played a role in this result was the expansion in the distribution networks and the grid systems introduced in some of them. The production of the power station on the Mantaro river, whose waters flow to the Atlantic, serves an extensive region, including important areas on the southern sector of the central Pacific coast. The grid systems have enabled more efficient use to be made of electricity produced by the power stations in the north.

4. External sector

World inflation and economic policy gave an extraordinary impulse to the external sector of Peru during 1974. Exports of goods increased by 13.8 per cent in volume, and by 21 per cent in unit value compared with 1973, but even so, the increases in the import of goods was more rapid and sustained, as a result of which the positive trade balance of 113 million dollars in 1973, became a negative one of 426 million in 1974. In respect of services, the balance on current account closed with an extraordinarily high deficit of 850 million dollars. For the previous year, the deficit was 165 million.

(a) Exports

The current value of exports of goods increased from 1,142 million dollars in 1973 to 1,573 million in 1974. This change was the result of a general expansion in the volume of the major products exported and, also, of the rise in prices in the international market. On the basis of provisional estimates, the indexes of physical volume and unit value increased by 14 per cent and 21 per cent respectively in 1974.

Exports of fish meal were of considerable importance. In 1973 they amounted to 388,000 metric tons, and in 1974 to 809,000. However, its unit value fell sharply, for its contribution to the current value of exports amounted to only 195 million dollars. Other fishing products provided 77 million more.

The major agricultural products on the whole also showed a favourable growth rate. Their export value increased from 218 million dollars to 351 million. Except for the stagnation observed in zinc production, the volume of exports of the major metals increased substantially. As regards prices, in all cases they were higher than in 1973. (See table 4.)

Table 4

PERU: PRINCIPAL EXPORTS IN 1974
(Percentage variation)

	Volume	Price
Cotton	6.5	39.2
Coffee	-40.2	13.0
Wools	10.1	-2.0
Sugar	2.0	58.2
Copper	12.8	4.9
Lead	4.0	21.7
Zinc	-	43.4
Silver	5.3	55.2

Source: ECLA, on the basis of official data.

Although the exports of the new fields in the eastern zone have not made any substantial difference so far, exports of petroleum and petroleum products increased from 2.6 million barrels to 3 million barrels between 1973 and 1974. As a result of the increase in prices their value in dollars at current prices were 15 and 36.4 million respectively. At the end of the year PETROPERU and PETROBRAS signed a contract for the delivery, by inland waterway, of 5,000 barrels per day at a unit price of more than 12 dollars.

Non-traditional exports also showed a high rate of increase, approximately 50 per cent in current values, as a result of both the increase in world prices and the introduction of new lines in this branch.

(b) Imports of goods

The current FOB value of total imports increased from 1,029 million dollars in 1973 to 1,999 million in 1974, that is to say, by 94.3 per cent.

/Imports of

Imports of consumer goods amounted to 210 million dollars in 1974. Although the volume of some common staple food products increased, this expansion was due mainly to the general rise in international prices. The same could be said of imports of raw materials, intermediate goods, and fuels, the total value of which was 909 million dollars. This increase of 170 per cent on the figure for the previous year was caused partly by the increase in effective demand in the manufacturing and mining sectors, and the increase in stockpiling by enterprises. However, the higher price of fuels was the most important factor, since some 30,000 barrels of crude were imported per day at a price somewhat higher than 12 dollars per barrel. It is common knowledge that this price was approximately 3.5 times higher than in 1973.

The value of imports of capital goods, 612 million dollars, almost doubled in 1974. Such goods include construction materials, the value of which probably dropped compared with 1973, owing to the 37 per cent expansion in the production of the iron and steel industry. A new group which began to acquire importance at the end of the year, when they began arriving at Peruvian ports, were materials and equipment for transporting liquids from the deposits which are coming on stream in the eastern and north eastern zones, and for the pipeline to link them up. The expansion of the manufacturing sector and agricultural mechanization also accounted for a higher share of these imports than in 1973.

(c) Balance of payments

In 1973, there had been a positive trade balance of 113 million dollars. On the other hand, in 1974 there was a negative balance of 426 million dollars. Services taken together also showed a negative balance, in the current account, of 424 million dollars, 53 per cent higher than in the previous year. The items which made the greatest contribution to this deficit were freight, insurance, and other transport costs which increased from -97 million in 1973 to -205 million in 1974, and earnings on investments and interest payments from -135 million to -199 million.

As a result, the balance on current account closed in 1974 with a considerable deficit of 350 million dollars, the equivalent of SDR 707 million, whereas that recorded in 1973 was SDR 137 million. (See table 5.)

The deficit on current account, however, was smaller than the total inflow of capital which amounted to SDR 934 million, which determined a substantial increase of SDR 227 million in net international reserves. One of the certain causes of such an increase was the action taken by the public sector in raising external funds for investment, and improving the terms of the external debt.

Private capital provided SDR 78 million, 76 million of which went into direct investment. Central Bank instructions on the raising of foreign loans by the private sector this year meant an inflow of SDR 2 million, compared with an outflow of 11 million in 1973.

Gross financing obtained by the public sector amounted to SDR 848 million, 83 million of which was only a book entry since it corresponded to refinancing. To improve the terms of the guaranteed external public debt, SDR 96 million was raised, which replaced loans previously obtained at less favourable rates of interest and for shorter periods.

The loans obtained for investment, that is, tied to development projects, amounted to a total of SDR 520 million. The loans for other purposes amounted to SDR 149 million. The greater part consists of short-term debts, which in 1973 added 108 million to the positive flows to capital account.

Short-term loans, which are included in the statistical figures under errors and omissions, recorded a substantial increase for the second year running. From 275 million dollars in 1973, a figure which almost doubled that of 1972, it increased to 358 million in 1974.

Table 5

PERU: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	1 224.0	1 067.0	1 063.0	1 136.0	1 535.1
Goods FOB	1 034.0	889.0	871.0	947.0	1 308.0
Services	190.0	178.0	192.0	189.0	227.1
Transport	69.0	59.0	55.0	63.0	91.5
Travel	52.0	50.0	55.0	57.0	64.5
Imports of goods and services	971.0	1 038.0	1 060.0	1 132.0	2 082.0
Goods FOB	699.0	764.0	774.0	853.0	1 662.1
Services	272.0	274.0	286.0	279.0	419.9
Transport	131.0	144.0	146.0	154.0	261.5
Travel	60.0	38.0	41.0	45.0	49.9
Net external investment income	-133.0	-107.0	-114.0	-145.0	-165.5
Profits	-73.0	-42.0	-48.0	-72.0	-77.5
Interest	-60.0	-65.0	-66.0	-73.0	-88.2
Net private transfer payments	26.0	4.0	7.0	4.0	5.8
Balance on current account	146.0	-74.0	-104.0	-137.0	-706.0
Capital account					
Net external financing (a+b+c+d+e)	-146.0	74.0	104.0	137.0	706.0
(a) Net external non-compensatory capital	-69.0	51.0	139.0	224.0	} 933.0
Direct investment	-70.0	21.0	44.0	54.0	
Long- and medium-term loans	219.0	222.0	294.0	410.0	
Amortization payments	-194.0	-199.0	-187.0	-238.0	
Short-term liabilities	-80.0	-28.0	-42.0	-25.0	
Official transfer payments	56.0	35.0	30.0	23.0	
(b) Domestic non-compensatory capital or assets	230.0	10.0	-12.0	-50.0	
(c) Errors and omissions	-24.0	-45.0	-25.0	-25.0	
(d) Allocation of SDR units	14.0	13.0	13.0	-	
(e) Net compensatory financing (increase -)	-297.0	45.0	-11.0	-12.0	
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	21.0	16.0	30.0	5.0	..
Amortization payments	-27.0	-23.0	-3.0	-27.0	..
Movements of foreign exchange reserves (increase -)	-253.0	66.0	-26.0	24.0	..
Movements of gold reserves (increase -)	-24.0	0.0	1.0	-18.0	..
SDR units (increase -)	-14.0	-14.0	-13.0	4.0	..

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

5. Structural reform: the agro-industrial
sugar complexes

The 1969 Survey reviewed legislation on agrarian reform enacted during the year, and the systems which had been established for its rapid implementation. As regards its objectives it was pointed out that it would have the effect of "forming small-scale and medium-scale farm enterprises to replace the existing latifundia and minifundia"^{59/} except in the case of the agro-industrial sugar-producing complexes which would remain intact. The main reasons for this exception was to maintain the producing capacity of the complexes which could have diminished considerably if broken up.

Since then Peruvian agrarian reform has shown, instead, the opposite tendency. The latifundia which were expropriated maintained their administrative unity, and in almost all cases have been incorporated into larger units, the Sociedades Agrícolas de Interés Social (SAIS), in which they are associated on a co-operative basis with other forms of Peruvian enterprises, that is, rural communities, and, to a lesser extent, minifundia co-operatives or community groups organized for this purpose.^{60/}

As a result of these events the average size of units in Peruvian agriculture continued to increase in 1974. This trend is still obtaining, although in recent months the legal recognition of the immunity of small unincorporated enterprises, no larger than 12 hectares from expropriation has been speeded up. It is probable that such small enterprises number more than 55,000 units, and that there are also an unknown number of minifundia, and a further indeterminate number of rural communities, which, on the whole, employ two thirds of the rural workers which have not been affected by agrarian reform.

^{59/} United Nations, Economic Survey of Latin America, 1969.

^{60/} United Nations, Economic Survey of Latin America, 1973.

At present, the sector affected by the reform is made up of 800 large units. Of these, 630 are co-operatives with an average of 3,700 hectares each, 130 communities with 3,600 hectares on average, and 46 SAIS of 48,000 hectares each. In comparison, all the unincorporated enterprises of the reformed sector work a total of 127,000 hectares.

There are a number of reasons for this aspect of the policy of agrarian reform followed in Peru. One, which is not always clearly understood, is that the supply of agricultural land in the inhabited zones of the country is extremely small. With less than half an hectare per rural inhabitant, an equal distribution of land would have provided highly negative results by creating an agriculture made up exclusively of small holdings. Another reason also difficult to understand, is the traditional community ownership of rural land, as a result of which the rural worker readily accepts co-operative systems.

Thirdly, the agricultural enterprises also have external economies which tend to increase as the techniques they use improve. Some technologies can be broken down to a level suitable for use in the smallest enterprise, for example, the use of improved seeds. This is not true of other technologies, the use of which require equipment which need a minimum of inputs, and whose depreciation requires a gross profit of a certain size.^{61/} This is one of the factors which account for the historical increase in the average size of rural property in the industrialized market economies.

In addition to the three factors mentioned above, there is also the fact that the first latifundia expropriated, namely, the agro-industrial sugar complexes, were not divided up. Formed into co-operatives their operations not only continued along usual lines in spite of the administrative change, but basically increased. Given the important role they had played in moulding indirectly the agrarian reform policy, special attention should be given to them.

^{61/} Thus, for example, a tractor with complete accessories is non-economic for areas below ten hectares.

(a) Organization of the sugar co-operatives

The agro-industrial complexes were expropriated in 1969, a little after the law on agrarian reform was enacted. There were twelve units in all, which form four geographical groups. Eight are in the north, two of which are in the far north, one is in the centre and three in the south. All are located on the Pacific coast which stretches for more than 1,500 kilometres from north to south. The differences in latitude give rise to ecological variations and, therefore, to variations in natural productive capacity and production techniques.

The twelve complexes were owned by ten private enterprises up to 1968, which also owned extensive latifundia which went up deep into the hinterland of the country. In 1969 these were expropriated by the agrarian reform authority, which only replaced the directors of each complex. The authority replaced them with government staff which were not only responsible for running the new enterprises, but also for organizing the present co-operatives in collaboration with its permanent workers.

As was said above in other reformed areas, where the SAIS were organized, technicians continued in their functions since their individual status had not been changed except that they were offered the possibility of becoming members of the co-operatives. Although there were some resignations, the figure was similar to that of staff turnover or, at most, it opened the way for promoting suitably trained national staff. No appreciable changes took place among the skilled workers.

The period between expropriation and the change in the administration, as such, varied in each case. Although the pattern of organization was the same, there were, of course, a series of factors which either accelerated or delayed the formation of the co-operatives and the corresponding take over. However, in practice this period generally covered a maximum of three years.

/Whereas the

Whereas the previous process continued, the organization of the co-operatives took a further step towards horizontal integration. The Central de Cooperativas Azucareras del Perú (CECOOAP) was established. Each one of the co-operatives maintains its identity as an enterprise, its directors being responsible for deciding on their respective operational plans and appointing their representatives in CECOAP.

Although it plays an important part, this organization is not however, a simple spokesman for the industry. It provides services to the co-operatives which include the dissemination of specialized economic information on participation in operative plans, and provides advisory services on the use of the external and internal financial resources of member enterprises. The institutional fluidity characteristic of Peruvian agrarian policy makes it impossible to give a suitable assessment of the evolution of CECOAP. Certain transfers of surplus funds for investment for the benefit of the group of co-operatives, the part they played in studies on sugar potential, and the setting up of a joint co-operative in the Amazon area are the first indications that it is playing a more important role than in the past.

Allowing for exceptions arising from the general trend of Peruvian economic policy, it could be said that there is likely to be an effective or potential merger of the co-operatives into a bigger entity which, should this occur in the private sector, would be equivalent to the formation of an entrepreneurial matrix. The diversification taking place in manufacturing and that planned would give such matrix considerable importance in the Peruvian economic scene. However, since there has been no experience with such a complex co-operative system, it is difficult to give even an approximate evaluation of its future development.

(b) The co-operatives and the production

The recent shortage of potatoes and some staple foods observed in 1974, do not constitute grounds for supposing that the agrarian reform launched in 1968 may have had negative consequences on agricultural production or its marketing. On the contrary, if a look is taken at the performance of the co-operatives grouped in CECOAP it

/will be

will be seen that production improved, that is yield per hectare, and that they have an expansion programme which includes not only extending the areas under cultivation but also diversifying production along vertical lines. A detailed description of these efforts is beyond the scope of this note and, therefore, a summary of the most important aspects is given below.

(c) The importance of the co-operatives

If the figures for the agricultural area subject to agrarian reform are examined, the importance of the sugar co-operatives would diminish. Up to December 1974 the area under irrigation expropriated amounted to 493,000 hectares, approximately a quarter of the total of this type of land in the country. The twelve co-operatives grouped in CECOOAP hold approximately 95,000 irrigated hectares.

In terms of the population employed in agriculture, the proportions are even smaller. The co-operatives employ, with the annual variations stemming from various causes, between 23,000 and 26,000 workers, a small portion of the agricultural labour force of the country or of that of the coastal zone itself.

However, the co-operatives are of considerable economic importance. When they ceased to be private enterprises, they also ceased to be enclaves, tied by their supply needs to the exterior or to national industries which provided their shops with consumer goods. To the extent that national supply is able to do so, they have made some import substitution possible, and although the co-operatives have their own shops, their employees are showing a growing tendency to use the goods and services which neighbouring cities of some importance, Chiclayo and Trujillo, offer.

The production of the co-operatives is of major significance in the domestic supply of goods. They provide all the sugar for direct or indirect consumption at low prices, compared with international ones, which have not changed over a long period. They also supply the domestic market with alcohol for consumption and for industrial purposes, syrups and molasses and other by-products from the refining of sugar cane. They also supply certain meats, fats and hides.

/Export of

Export of raw sugar in 1973, before the sharp increases in prices in the international market, was 407,000 metric tons, equal in value to 70 million dollars. In that year total exports amounted to 1,142 million dollars, and, therefore, the co-operatives contributed under this item only 6.3 per cent of that total. Owing to the considerable diversification of Peruvian exports this is a high percentage, for raw sugar was fifth in line among the important exports in 1973.

As opposed to the pattern established in other sugar producing countries, the contribution of the industry to the economy is not seasonal. In Peru the planting, harvesting and refining of cane is continuous and does not experience any interruptions other than those required periodically, for short periods, for cleaning distilling equipment. The labour force employed, to which reference was made above, is permanent and an additional 6,000 workers approximately are taken on under short-term contracts. The physical and financial flows originated by the co-operatives do not, therefore, follow seasonal cycles of plenty followed by lean periods, for they continue throughout the year.

(d) The technical performance of the co-operatives

In the most recent Statistical Yearbook published by FAO, data is provided on the sugar cane yield per hectare in all producing countries.

The yield of sugar cane per hectare was 144.8 metric tons in 1961-1965, the highest in the world. In 1970, the year in which there was a relative shortage in water, this fell to 141.6 tons. In 1971 it increased to 155.7 tons, a figure which was maintained in 1972. In 1973 it rose to 171.4 tons a level which was maintained in 1974. It is not likely that the sugar yields per ton of crushed cane would have varied greatly, which means that figures for previous yields are valid for the final product of the co-operatives.

The increase experienced in the production per hectare in Peruvian harvests has not been repeated to the same extent in other countries. For example, in the United States a clear decline has been observed.

/In 1971

In 1971-1972 the index in Peru was 107 (1961-1965 = 100) whereas in the United States it was 71.

The larger yields obtained by the co-operatives have come up against the conditions in international markets in which they sell raw sugar. Although consumption has sustained increased production, the same cannot be said of external supply. For this reason the increased yields have made it possible to release approximately 10,000 hectares, of a total of 33,000, for other crops.

The co-operatives did not limit themselves only to improving the production of sugar cane. They also became involved in other lines of production which are of benefit to them, and to the economy of the country in general.

By acting jointly they have been able to make full use of equipment, which formerly remained idle, in the seasons when the demand of the unincorporated units fell. Of course this refers to mobile equipment capable of being transferred from one co-operative to another, e.g., loading cranes, special trucks for transporting them, and machines for farm work. Although there are limits to this type of seasonal transfer, the fact that it takes place implies an improvement in the productivity of capital invested.

In addition to the foregoing, the co-operatives have revised the criteria for declaring equipment obsolescent, which were followed when the private enterprises were acting independently. The replacement of such equipment acquires a new dimension for, since they are complex machines, all their parts do not suffer the same amount of wear. Those which are in a good state of repair may, depending on the case, be transferred between co-operatives. In some cases equipment has been rebuilt using used parts which were previously regarded as scrap.

The co-operatives are also trying to diversify their activities. One of these efforts is the setting up of a pilot plant for the manufacture of proteins from micro-algae, and results have so far been satisfactory. This project in which UNDP is participating will help to produce low-cost proteins for use in the staple diet.

/Their national

Their national operations include both the expansion of sugar production in the Selva zone and the industrialization of the bagasse produced. As regards the former, a study is being completed on the most suitable locations for its cultivation, taking account of the economic aspects. In respect of the industrialization of bagasse, CECOCAP will invest 6,000 million soles (approximately 130 million dollars) in various plants for pulp bleaching, manufacturing agglomerated board, newsprint paper, and furfural.

DOMINICAN REPUBLIC

1. Recent economic trends

In 1974 there was a break in the growth trend of around 11 per cent per year which had been displayed by the economy of the Dominican Republic since the end of the 1960s, although the gross domestic product still grew by the substantial amount of 8.9 per cent.

This loss of dynamism was observed to different extents in most sectors of production of goods and basic services, even though there was substantial additional income during the year (the value of exports rose by 45 per cent) due to the high prices of sugar and other export products, as well as to a bigger inflow of non-compensatory capital, all this being reflected in a considerable expansion of imports of goods and services.

Among the various sectors of production, the slackening in the growth rate was particularly notable in agriculture, where the rate was halved (from 6.6 to 3.2 per cent); in mining, where there was a much bigger drop from 47.4 to 10.1 per cent as a result of the settling-down process after the initial impulse given by the opening of the ferronickel plant; and in electricity, gas and water supply, where the growth rate dropped from 17 to 6.5 per cent between 1973 and 1974 (see table 1).

The growth rates of manufacturing and construction were only slightly less than the year before, thus retaining their traditionally dynamic image, while services, except for basic services, increased their added value by a larger amount than in 1973 because of the recovery shown by Government activity and bigger real income from ownership of dwellings.

Table 1

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^a /	1970	1974 ^a /	1970-1972	1973	1974 ^a /
Agriculture	331.2	385.6	398.1	25.2	20.2	4.5	6.6	3.2
Mining	22.7	110.1	121.2	1.7	6.1	80.0	47.4	10.1
Manufacturing	219.0	309.2	343.9	16.7	17.4	30.0	13.0	11.2
Construction	72.7	136.2	153.4	5.6	7.8	28.0	13.9	12.6
<u>Subtotal goods</u>	<u>645.6</u>	<u>941.1</u>	<u>1 016.6</u>	<u>49.2</u>	<u>51.5</u>	<u>13.4</u>	<u>13.4</u>	<u>8.0</u>
Electricity, gas and water	17.5	26.1	27.8	1.3	1.4	12.7	17.0	6.5
Transport and communications	113.2	146.5	157.1	8.6	8.0	9.8	7.4	7.2
<u>Subtotal basic services</u>	<u>130.7</u>	<u>172.6</u>	<u>184.9</u>	<u>10.0</u>	<u>9.4</u>	<u>10.2</u>	<u>8.8</u>	<u>7.1</u>
Commerce and finance	168.6	241.3	264.2	12.9	13.4	14.0	10.1	9.5
Government	152.1	156.7	163.0	11.6	8.3	1.5	-	4.0
Ownership of dwellings	100.2	128.8	144.8	7.6	7.3	8.2	9.7	12.4
Miscellaneous services	114.8	170.4	193.4	8.7	9.8	13.3	15.6	13.5
<u>Subtotal other services</u>	<u>535.7</u>	<u>697.2</u>	<u>765.4</u>	<u>40.8</u>	<u>38.7</u>	<u>9.4</u>	<u>8.8</u>	<u>9.8</u>
<u>Gross domestic product, total</u>	<u>1 312.0</u>	<u>1 814.7</u>	<u>1 975.5</u>	<u>100.0</u>	<u>100.0</u>	<u>11.5</u>	<u>11.2</u>	<u>8.9</u>

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of the Dominican Republic; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

a/ Preliminary figures.

/During 1974

During 1974, domestic production was supplemented by a considerable increase in imports of goods and services, which rose by 17 per cent in real terms as a result of the favourable situation created by an increase in the country's external payments capacity. As is shown by the relatively high import coefficient, which has fluctuated between 23.9 per cent in 1970 and 22.6 per cent in 1974, the high proportion of imports in the total supply is a characteristic of the Dominican economy. In addition, the internal availability of goods and services expanded faster in the last two years (13 per cent in 1972 and 12 per cent in 1974) as a result of the virtual stagnation of exports in real terms. This increased availability was reflected in a rapid and persistent increase in capital formation and private consumption (see table 2).

Gross fixed investment, which had risen in the first two years of the present decade at the rate of 20.7 per cent as a result of investments in the ferronickel plant and the oil refinery, maintained high growth rates of 18.5 and 15 per cent in 1973 and 1974 respectively, thus bringing about a rapid increase in the investment coefficient, which rose from 16.7 per cent in 1970 to 22 per cent in 1974. The coefficient of public investment increased even more between those years, rising from 5.2 per cent to around 8.8 per cent as a result of an ambitious programme of building up the economic and social infrastructure.

During 1974 there was some slackening in inflationary pressures, which had intensified in 1973. The Dominican economy had shown full price stability up to the beginning of the 1970s, but then prices gradually began to rise, the increase amounting to 7.8 per cent in 1972 and 15.1 per cent in 1973 (comparison of annual averages). In 1974, according to partial information, the increase was 13.8 per cent for the general price index and a little over 16 per cent for the foodstuffs component of this (as against 18.4 per cent for the same component in 1973).

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1974 _a /	1970- 1972	1973	1974 _a /
<u>Total supply</u>	<u>1 824.2</u>	<u>2 464.9</u>	<u>2 718.3</u>	<u>123.9</u>	<u>122.6</u>	<u>10.3</u>	<u>11.1</u>	<u>10.3</u>
Imports <u>b/</u>	352.0	428.7	501.6	23.9	22.6	5.1	10.3	17.0
Gross domestic product	1 472.2	2 036.2	2 216.7	100.0	100.0	11.5	11.2	8.9
<u>Total demand</u>	<u>1 824.2</u>	<u>2 464.9</u>	<u>2 718.3</u>	<u>123.9</u>	<u>122.6</u>	<u>10.3</u>	<u>11.1</u>	<u>10.3</u>
Exports <u>b/</u>	255.9	355.4	351.1	17.4	15.8	17.4	0.7	-1.2
<u>Domestic demand</u>	<u>1 568.3</u>	<u>2 109.5</u>	<u>2 367.2</u>	<u>106.5</u>	<u>106.8</u>	<u>9.1</u>	<u>13.0</u>	<u>12.2</u>
Gross domestic investment	...	...	...	...	...	...	...	...
Gross fixed investment	245.9	424.5	488.5	16.7	22.0	20.7	18.5	15.0
Public	76.1	163.4	196.1	5.2	...	...	...	...
Private	169.8	...	292.4	11.5	...	...	...	...
Construction	147.0	...	...	10.0	...	...	...	...
Machinery and equipment	98.9	...	...	6.7	...	...	...	...
Total consumption <u>c/</u>	1 322.4	1 685.0	1 878.7	89.8	84.8	6.8	11.7	11.5
General government	172.0	158.9	165.3	11.7	7.5	-4.9	2.1	4.0
Private <u>c/</u>	1 150.4	1 526.1	1 713.4	78.1	77.3	8.4	12.8	12.3

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1974: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

c/ Including increases in stocks.

/Domestic price

Domestic price rises slackened in 1974 even though the prices of the imports which have such a strong incidence on domestic costs and are the main channel for the transmission of imported inflation increased by around 30 per cent. Fortunately, there were other factors operating in the opposite direction.

Thus, the means of payment, which expanded by 20 per cent in 1973, were scarcely any higher at the end of October 1974 than in the previous December.

The country's international reserves, which had grown continually since 1971, dropped somewhat in 1974 because part of them was used to help to finance the considerable deficit of 183 million SDR units on the balance-of-payments current account. This reduction of reserves had the effect of a contraction in the means of payment.

Furthermore, the expansion of 34 per cent shown by domestic credit as at October 1974 (22 per cent in 1973) was partially compensated by the increase of 52 per cent recorded over the same period by savings and time deposits, which thus constitutes another form of contraction of monetary liquidity. It may be noted that in 1974 credit to the private sector (70 per cent of domestic credit) rose by October by 39 per cent, while credit to the Government rose by 21 per cent.

In addition, the better supply of imported consumer goods and foodstuffs during the year helped to compensate the rigidity in the domestic supply of some products and the effect that this would have had on prices.

2. Agricultural production in 1974

Agricultural production increased by only a little over 3 per cent in 1974. This is only half the figure for the year before, and it is also lower than the average increase for the period 1970-1972.

This result is explained by the drop in the output of four important products: rice, which dropped by around 15 per cent; maize, which dropped by a third; peanuts, 7 per cent down, and tobacco, which fell by 10 per cent. In addition, there were only slight increases in the output of the remaining agricultural and livestock products.

/The drop

The drop in the output of two such basic elements of domestic consumption as rice and maize, which was due to unfavourable weather conditions, made it necessary to import 63,000 tons of rice and around 70,000 tons of maize, as well as other products which are normally imported such as wheat (around 120,000 tons) and edible oils.

The 1974 production of sugar cane, which is estimated at around 10,500,000 tons, was slightly higher than the harvest of the year before. A contributory factor in this was probably the larger area cultivated under the expansion plan, but even so the increase in production was less than expected because of the drought which affected the eastern part of the country.

The 1973-1974 coffee harvest was a good one, amounting to about 7 per cent more than the season before. The production of cocoa, which rose by 14 per cent, was also good, although it was far from matching the 1971-1972 harvest of 41,500 tons.

As regards livestock production, there was an increase in the commercial production of beef, although beef sales abroad fell by around 10 per cent, thus resulting in a significant increase in domestic consumption. Poultry production also increased, in this case by 9 per cent, as a result of the high prices prevailing.

3. The external sector

In 1974 exports of goods increased by 45.8 per cent, largely as a result of the high prices attained by sugar. Coming as it did on top of the increases recorded in the two previous years, this meant that total exports rose from 243 million dollars in 1971 to 650 million in 1974, this increase being explained by a 110 per cent rise in prices and a 27 per cent increase in volume.

In 1974 the increase in exports was attributable solely to higher prices, since the volume actually showed a slight drop. Most of the increase (about 72 per cent) was due to sugar, sales of which increased in value by around 70 per cent as a result of higher world prices: the actual volume exported is believed to have remained close to a little over one million tons.

/As regards

As regards the other products, the value of exports of cocoa increased by 125 per cent, while that of tobacco exports rose by 28 per cent. Sales of minerals (ferronickel and bauxite) are believed to have increased by approximately 10 per cent, but coffee exports, like those of meat, are believed to have gone down (see table 3). Meat exports dropped by approximately 10 per cent to about 9,000 tons in 1974, and they will continue to go down in 1975, since the United States has allotted the Dominican Republic a quota equivalent to 5,670 tons of deboned meat under its import restrictions programme.

There was a bigger increase in imports of goods in 1974 than in the last year or two, since they rose by 56.7 per cent. In 1972 and 1973 they had increased less than exports, so that the trade balance of 20 million dollars recorded in 1973 turned into a deficit of a similar amount by the end of 1974.

Unlike exports, the volume of imports increased by about 20 per cent, while the unit value rose by 30 per cent.

An important factor in the increase in imports, apart from their higher prices, was the high degree of dependence of Dominican economic activity on imports of raw materials, capital goods, fuel and foodstuffs which is reflected in a high coefficient of elasticity of imports with respect to the product. It is estimated that imports of foodstuffs in 1974 came to some 130 million dollars: food imports by the Instituto de Estabilización de Precios (INESPRE) alone came to 100 million dollars, which was double the figure for 1973.

The 1974 increase in imports was facilitated by the greater availability of foreign exchange coming from exports. Thus, the purchasing power of exports rose by 8.3 per cent as a result of the favourable terms of trade, and a further contribution was made by the increased flow of foreign loans and investments.

The deficit on the trade in goods was aggravated by that on services, which was 66 per cent greater than the year before, and by bigger payments of profits and interest abroad, the total result being a balance of payments current account deficit of 183 million SDR units - 2.2 times higher than in 1973 (see table 4).

Table 3
DOMINICAN REPUBLIC: STRUCTURE OF EXPORTS
(Millions of dollars)

	1971	1972	1973	1974 ^{a/}
Sugar and sugar products	139.2	175.6	205.2	347.9
Ferronickel	0.5	47.0	83.5	92.0
Bauxite	16.0	14.9	14.8	20.4
Coffee	23.8	29.7	46.4	44.8
Tobacco	20.7	28.5	29.5	37.9
Cocoa	12.9	15.9	19.5	44.0
Meat	3.0	6.7	10.1	9.2
Other agricultural products	...	...	9.2	11.8
Other industrial products	...	...	30.0	42.0
<u>Total exports</u>	<u>243.0</u>	<u>347.4</u>	<u>448.2</u>	<u>650.0</u>

Source: Boletín de Comercio Exterior and data from the Dominican Foreign Trade Centre and the Central Bank.

^{a/} Preliminary figures.

Table 4

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	255.9	292.2	378.2	431.2	610.1
Goods FOB	213.2	243.0	320.0	371.6	540.5
Services	42.7	49.2	58.2	59.6	69.6
Transport	9.3	10.5	11.3	11.3	13.7
Travel	16.4	21.4	30.3	31.9	36.1
Imports of goods and services	364.5	406.9	404.1	474.5	725.2
Goods FOB	278.0	311.1	311.0	354.6	557.1
Services	86.5	95.8	93.1	119.9	168.1
Transport	40.7	47.5	47.2	59.5	89.8
Travel	37.0	36.5	34.5	43.4	58.2
Net external investment income	-25.9	-28.8	-43.2	-64.6	-89.7
Profits	-18.4	-19.5	-32.6	-50.4	-73.6
Interest	-7.5	-9.3	-10.6	-14.2	-16.1
Net private transfer payments	8.5	21.1	26.7	24.2	22.0
Balance on current account	-126.0	-122.4	-42.4	-83.7	-182.8
Capital account					
Net external financing (a+b+c+d+e)	126.0	122.4	42.4	83.7	182.8
(a) Net external non-compensatory capital	97.6	118.4	88.3	66.2	} 171.4
Direct investment	58.4	50.0	41.2	28.6	
Long- and medium-term loans	55.0	54.4	71.1	41.1	
Amortization payments	-23.1	-16.6	-17.2	-14.1	
Short-term liabilities	6.5	29.3	-8.3	9.2	
Official transfer payments	0.8	1.3	1.5	1.4	
(b) Domestic non-compensatory capital or assets	20.3	20.0	19.5	10.0	
(c) Errors and omissions	0.9	-6.6	-43.7	23.1	
(d) Allocation of SDR units	5.4	4.6	4.6	-	
(e) Net compensatory financing (increase -)	1.8	-14.0	-26.3	-15.6	11.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	22.7	39.3	31.5	29.0	...
Amortization payments	-23.5	-33.8	-55.1	-21.8	...
Movements of foreign exchange reserves (increase -)	5.4	-19.5	4.2	-12.1	...
Movements of gold reserves (increase -)	-2.8	-	-	-10.7	...
SDR units (increase -)	-	-	-6.9	-	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/During 1974,

During 1974, there was an unusually large flow of non-compensatory capital which left a net balance of 171 million SDR units - 70 per cent more than in 1973, and sufficient to finance imports for more than three months. Even so, this net inflow of capital was less than the current account deficit, and it was therefore necessary to make use of external compensatory financing and draw on international reserves to the extent of 11.4 million SDR units - something which it had not been necessary to do since 1970.

TRINIDAD AND TOBAGO

1. Recent economic trends

The basic event which gave impetus to the country's economic activity in 1974, in particular in connexion with external trade, was the exceptional increase of 208 per cent in the value of exports (which increased from 714 to 2,200 million dollars), and the increase of 139 per cent in imports mainly as a result of the high international prices of petroleum and other export products.

The increase in the gross domestic product was tentatively estimated at around 50 per cent for 1974, expressed in current prices, and would appear to be greater than that of the previous year (19 per cent) since it does not take into account the price increase which took place in the meantime (see table 1). This increase in the product, however, reflects to a large extent the effect of the higher prices used to evaluate production, since although the volume of petroleum produced increased by 12 per cent, in refining there was a drop in the quantity processed; agriculture recorded unsatisfactory results in terms of volume of output (where data is available), while industry did no better. This situation is in line with the information that employment levels showed no change in the course of the year while the unemployment rate, estimated at 17 per cent of the labour force, continues to be a major problem.

Another feature of the evolution of the economy in 1974 was the speed of growth of domestic prices, as a result of the high prices paid for imported goods - which are of considerable importance in expenditure on consumption and investment - and the decrease apparently recorded in the production of some standard consumer goods. As from 1972 the rate of growth of consumer prices may be observed to have increased (9.3 per cent in 1972, 14.8 per cent in 1973 and 32 per cent in 1974), mainly in food items.

/Table 1

Table 1

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT AT FACTOR COST

	Millions of TT dollars (at current prices)			Annual growth rate		
	1971	1973	1974 ^{a/}	1972	1973	1974
Agriculture, forestry, fishing and quarrying	130.0	118.5	179.0	3.4	-11.9	51.1
Mining and refining of petroleum, asphalt and gas	349.0	530.0	1 198.0	10.6	37.3	126.0
Manufacturing	333.0	419.0	487.0	10.8	13.6	16.2
Construction	89.0	124.5	166.0	19.1	17.5	33.3
Transport and commerce	321.0	408.0	539.0	8.1	17.6	32.1
Government	218.0	294.0	400.0	15.5	16.8	36.1
Public utilities	93.5	115.0	543.0	9.6	12.2	17.0
Ownership of dwellings	64.5	349.0		11.6	22.9	
Banking and finance	67.0			22.4		
Other services	111.5			16.6		
<u>Total</u>	<u>1 776.5</u>	<u>2 358.0</u>	<u>3 512.0</u>	<u>11.5</u>	<u>19.0</u>	<u>49.0</u>

Source: Draft Third Five-Year Plan, 1969-1973; Government of Trinidad and Tobago and ECLA estimates.

a/ ECLA provisional estimates.

/In the

In the face of the rise in domestic prices, public sector remunerations were readjusted by between 25 and 35 per cent, and those of some groups of private sector wage earners by even larger percentages. The minimum labourer's wage, however, was only increased by 10 per cent in May 1974.

2. Major sectors of activity

Petroleum production, including refining, increased its relative share of the total product at current prices from 23 per cent in 1973 to 34 per cent. Production of crude increased by around 12 per cent (to 68 million barrels); this increase came exclusively from marine deposits which at present account for 72 per cent of the total, and whose share is increasing. In addition, in 1974 the output of natural gas continued to increase.

Despite the increased output of crude, petroleum brought in for refining decreased by 8 per cent, reflecting the drop of 7.2 per cent in imports of petroleum for refining in Trinidad and Tobago.

Agricultural output, which accounts for slightly over 5 per cent of the total product and which has rapidly been losing importance, had relatively unfavourable results in the course of the year (according to partial data available), and continued to be affected by the serious drought of 1973 and the crop destruction caused by the storms at the end of 1974. In addition, the sugar industry had labour problems at the beginning of the year. In the circumstances, with the exception of output of cocoa and citrus fruit to a major extent (fruit and juices), which recovered from a sharp drop in 1973, other products, generally speaking, recorded decreases or little change. Up to September, sugar-cane had decreased slightly, coffee production (January-June) had decreased by 30 per cent. There were also decreases in meat (beef and pork), eggs, milk, fish, etc. Poultry breeding was one of the few activities in which there was a comeback in 1974.

Partial indicators available for volumes of output of some important manufactures generally speaking showed decreases which in some cases were fairly noteworthy. Up to August, motor-vehicle assembly industries recorded a drop of 42 per cent in output; the production of /gas cookers

gas cookers dropped by 30 per cent while the production of the industries assembling radio and television sets decreased by 16 per cent. During the same period, however, the assembly of refrigerators increased by 8 per cent. On the other hand, fertilizer output dropped by 11 per cent up to August and no increases were recorded in the production of textiles or clothing.

Construction activity also declined in 1974, affected by the high cost of construction due to increases in the prices of materials (around 30 per cent) and the costs of labour in that sector. In addition, there were restrictions on the granting of mortgage loans and the rate of interest increased considerably.

Other indicators of the downturn in this activity may be found in the reduction of the area approved for the construction of buildings (during the period January-September) and in the decrease in production and sales of cement (10 per cent in the case of production and 6 per cent in the case of sales), bricks and other materials.

The total expenditure of the Government sector increased considerably in 1974 (91 per cent). The majority of these resources were directed towards construction projects in progress, although current expenditure also increased, owing to the increase in remunerations paid by the sector.

3. The external sector

The partial data available on external trade operations give an idea of the growth explosion in this sector. Between 1973 and 1974 it is estimated that the value of exports of goods increased from 714 to 2,200 million dollars (United States) while the value of imports increased from 712 to 1,700 million dollars.

In 1973, imports of crude for refining in Trinidad and Tobago and related products accounted for 51 per cent of total imports, while in the case of exports their share was 82 per cent. With the considerable increase in international prices of these products which took place in the meanwhile, the percentage share of imports increased to 71.5 per cent of total imports in the first nine months of 1974,

/although the

although the volume of imported crude decreased, while exports of these commodities increased their value to 90 per cent of the total value of exports during the same period.

The decisive importance of petroleum in both the flows of external transactions and the rapid increase in its price - in addition to that of other goods - go almost all the way to explaining the considerable increase in the value of exports (208 per cent) and of imports (134 per cent) in 1974. There was practically no change in the quantum in the case of exports while the increase in that of imports was only 1.9 per cent.

Petroleum and its associated products dominated the changes which took place in the structure of external trade in 1974. Other goods, mainly foodstuffs, chemicals and manufactures, among imports, and food and chemical products among exports, also recorded important increases in value, although in terms of volume they apparently showed little variation.

The appreciable difference between increases in exports and imports, which showed up during 1974 resulted in a large positive trade balance (of 415 million SDRs); this was much higher than in previous years and despite higher expenditure on freight and insurance and remittances of profits and interests for the first time in the present decade it allowed the current account of the balance of payments to close with a surplus of 291 million SDRs, which in view of a rather smaller outflow of non-compensatory capital, resulted in a substantial increase of 283 million SDRs in net international reserves (see table 2).

Table 2
TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	591.3	652.7	668.2	783.3	2 146.8
Goods FOB	502.0	529.7	548.3	592.1	1 829.2
Services	89.3	123.0	119.9	191.2	317.6
Transport	57.7	79.1	67.6	82.1	182.9
Travel	21.6	32.9	38.6	48.7	59.9
Imports of goods and services	606.9	726.6	751.9	726.0	1 642.1
Goods FOB	486.9	589.0	636.2	590.5	1 413.5
Services	120.0	137.0	115.7	135.5	228.6
Transport	74.0	88.8	86.4	81.7	162.1
Travel	22.9	24.0	25.0	19.5	24.9
Net external investment income	-75.5	-61.1	-61.5	-71.6	-212.0
Profits	-76.7	-62.5	-61.8	-70.5	-225.3
Interest	1.2	1.4	0.3	-1.1	13.3
Net private transfer payments	2.3	2.1	2.1	-1.8	-1.7
Balance on current account	-88.8	-132.9	-143.1	-16.1	291.0
Capital account					
Net external financing (a+b+c+d+e)	88.8	132.9	143.1	16.1	-291.0
(a) Net external non-compensatory capital	60.2	90.5	95.3	53.8	-7.6
Direct investment	75.0	80.1	81.0	26.2	
Long- and medium-term loans	3.8	19.6	22.4	27.7	
Amortization payments	-9.8	-5.6	-3.5	-4.0	
Short-term liabilities	-4.6	2.8	0.9	9.7	
Official transfer payments	-4.2	-6.4	-5.5	-5.8	
(b) Domestic non-compensatory capital or assets	-2.3	5.1	6.8	2.9	
(c) Errors and omissions	12.2	52.4	22.3	-54.1	
(d) Allocation of SDR units	7.4	6.7	6.7	-	
(e) Net compensatory financing (increase -)	11.3	-21.8	12.0	13.5	-283.4
Balance of payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	-	-	-	...
Amortizations payments	-	-	-	-	...
Movements of foreign exchange reserves (increase -)	15.6	-15.1	12.1	6.7	...
Movements of gold reserves (increase -)	-3.8	-	-	6.6	...
SDR units (increase -)	-0.5	-6.7	-0.1	0.2	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/URUGUAY

URUGUAY*

1. General features of recent economic trends

Following a period of virtual stagnation economic activity recovered slightly during 1974. The gross domestic product increased by 1.9 per cent, a rate which although small exceeded the growth rate of the population (estimated at 1.2 per cent), signifying an upturn compared with the 1.2 per cent per year drop in the growth rate which occurred in the period 1970-1972, and the 1 per cent increase in 1973. (See table 1.)

The recovery in manufacturing, construction and in transport services underlie the performance of the global product; on the other hand agricultural production increased by just about 0.8 per cent, the production of beef having remained at the same level as in the previous year.

The overall supply of goods and services increased at a rate higher than that of the GDP, because the volume of imports of goods and services increased by 8.2 per cent. On the global demand side there were increases in the volume of exports of goods and services and increases in consumption. On the other hand, a further drop in capital formation - added to those observed in 1972 and 1973 - resulted in an investment coefficient, with reference to the GDP, of 10.4 per cent a figure which is considerably lower than that usually found in a developing country having a per capita income similar to that of Uruguay. (See table 2.)

In the external sector the situation worsened compared with that of 1973, mainly as a result of the sharp increase in the unit value of imports of goods (57 per cent) which was much higher than the increase in the unit value of exports (7 per cent). There was, therefore, a relatively high deficit in the current account, which had to be financed by foreign loans and international reserves.

* See, in Part One of this Survey, the section dealing with Uruguay in the chapter on inflation.

Table 1

URUGUAY: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of pesos at 1970 prices			Structure (percentages)			Annual growth rate (percentages)		
	1970	1973	1974 _a /	1970	1973	1974 _a /	1970-1972	1973	1974 _a /
Agriculture	67 164.0	66 071.7	66 600.3	12.6	12.6	12.5	-2.3	3.1	0.8
Mining	b/	b/	b/	b/	b/	b/	b/	b/	b/
Manufacturing b/	128 760.0	125 477.6	129 994.8	24.2	24.0	24.4	-1.1	-0.4	3.6
Construction	20 182.0	22 075.2	24 084.0	3.8	4.2	4.5	5.7	-2.0	9.1
<u>Subtotal goods</u>	<u>216 106.0</u>	<u>213 624.6</u>	<u>220 679.1</u>	<u>40.6</u>	<u>40.9</u>	<u>41.5</u>	<u>-0.8</u>	<u>0.5</u>	<u>3.3</u>
Electricity, gas and water	7 919.0	9 122.9	8 748.9	1.5	1.7	1.6	4.6	5.0	-4.1
Transport and communications	45 496.0	44 193.5	45 917.0	8.6	8.5	8.6	-1.8	0.6	3.9
<u>Subtotal basic services</u>	<u>53 415.0</u>	<u>53 316.4</u>	<u>54 665.9</u>	<u>10.1</u>	<u>10.2</u>	<u>10.2</u>	<u>-0.8</u>	<u>1.4</u>	<u>2.5</u>
Commerce and finance	91 603.0	84 952.0	87 201.1	17.2	16.3	16.3	-1.2	1.2	2.6
Government	76 734.0	170 981.6	170 263.1	14.4	32.8	32.0	-1.1	0.7	-0.4
Ownership of dwellings	27 436.0			5.2			1.5		
Miscellaneous services	66 336.0			12.5			0.1		
<u>Subtotal other services</u>	<u>262 108.9</u>	<u>255 933.6</u>	<u>257 464.2</u>	<u>49.3</u>	<u>49.0</u>	<u>48.3</u>	<u>-1.6</u>	<u>0.9</u>	<u>0.6</u>
<u>Gross domestic product, total</u>	<u>531 629.8</u>	<u>524 592.7</u>	<u>534 560.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>-1.2</u>	<u>1.0</u>	<u>1.9</u>

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Uruguay; 1974: ECLA estimates based on official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

a/ Preliminary figures.

b/ Including mining.

Table 2
URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1973	1970- 1972	1973	1974 ^{a/}
<u>Total supply</u>	688 716	670 090	686 958	112.5	110.9	-2.2	1.8	2.5
Imports	76 562	65 974	71 364	12.5	10.9	-11.2	9.4	8.2
Gross domestic product	612 154	604 116	615 594	100.0	100.0	-1.2	1.0	1.9
<u>Total demand</u>	688 716	670 090	686 958	112.5	110.9	-2.2	1.8	2.5
Exports	71 636	59 285	64 547	11.7	9.8	-4.1 ^{b/}	-9.9	8.9
<u>Domestic demand</u>	617 080	610 805	622 411	100.0	101.1	-2.0	3.1	1.9
Gross domestic investment	70 030	64 363	64 041	11.4	10.7	-2.7	-3.0	-0.5
Gross fixed investment	68 478	55 001	...	11.2	9.1	-8.2	-4.6	...
Public	...	...	...	...	...	...	...	...
Private	...	...	...	...	...	...	...	...
Construction	40 416	44 738	...	6.6	7.4	6.7	-2.7	...
Machinery and equipment	28 062	10 263	...	4.6	1.7	-35.4	-12.3	...
<u>Total consumption</u>	547 050	546 442	558 370	89.4	90.4	-1.9	3.8	2.2
General government	92 117	83 461	83 211	15.0	13.8	-6.4	3.4	-0.3
Private	454 933	462 981	475 159	74.4	76.6	-1.0	3.9	2.6

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Uruguay; 1974: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ The figures for 1972 does not include a special sale of non-monetary gold.

/The inflationary

The inflationary process stepped up its pace, for the consumer price index recorded an increase of 107.3 per cent between December 1973 and December 1974 compared with an increase of 77.5 per cent for the previous 12 months. However, the general real wages index showed, between annual averages, a reduction of 1 per cent.

2. Trends in the principal productive sectors

The agricultural sector grew by a little less than 1 per cent as a result of an increase of 3 per cent in agriculture and stagnation in stock raising. Among the agricultural products the best results were shown by wheat, rice, barley and sugar beet, whereas there were reductions in the sunflower, flax, and sorghum cultivation; among animal products there were moderate increases in the production of wool and milk, which were offset by a drop in poultry, eggs, and lamb and mutton production, whereas beef production remained unchanged.

Manufacturing activity increased by 3.5 per cent after three consecutive years in which production had declined. Products which recorded substantial increases were foodstuffs, rubber, chemicals, petroleum, coal, and non-metallic goods. On the other hand, the relative changes in the production of other goods were small, except for metallic products where production fell by 10 per cent. (See table 3.)

The increase in construction activity, a little higher than 9 per cent, was brought about by the strong recovery of this activity in the public sector.

In turn, the improvement recorded in transport and communications was linked to the performance of the goods producing sector which was relatively better than in 1973.

Table 3

URUGUAY: CHANGES IN MANUFACTURING PRODUCTION IN 1974

ISIC	Industry	Percentage variation
20.	Food	7.4
21.	Beverages	0.5
22.	Tobacco	-0.6
23.	Textiles	1.9
24.	Clothing and footwear	2.3
27/28.	Paper, printing, publishing and related industries	-5.6
30.	Rubber	24.7
31.	Chemicals and chemical products	4.4
32.	Petroleum and coal products	4.7
33.	Non-metallic mineral products	7.7
35.	Metal manufactures	-10.5
37.	Manufacture and repair of electrical machinery	-2.3
	<u>Total</u>	<u>3.5</u>

Source: Central Bank of Uruguay.

3. The external sector

Exports of goods and services increased by 13 per cent, expressed in SDR units, mainly as a result of the increase of 5 per cent in the volume of exports of goods, and an increase of 7 per cent in their unit value. The international price of wool fell, and problems were also encountered in finding markets for exportable surpluses. However, the international price of beef rose slightly, but sales to the European Common Market were blocked after the month of July. A considerable part of the surpluses resulting from this was sold to Brazil. Non-traditional exports continued to grow rapidly.

Imports of goods and services increased by 55 per cent and that of goods, taken separately, by 69 per cent. This increase was the result of increases of almost 8 per cent in the volume imported, and of 57 per cent in the unit value of imports. The strong upswing in average prices which had to be paid by the country for its imports reflects the effects caused by the rise in the international prices of oil and oil products, as well as the impact of world inflation on raw materials in general, intermediate products and final products imported into the country.

The shift described in trade, and the trends shown by other items in the current account, resulted in a change in this account from a surplus of SDR 15 million in 1973 to a deficit of 119 million in 1974. This deficit was financed through a net entry of non-compensatory capital of SDR 71 million, and a net use of compensatory reserves - including those obtained from the IMF Oil Facility and the use of international reserves - in the amount of 48 million. (See table 4.)

/Table 4

Table 4

URUGUAY: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 ^{a/}
Current account					
Exports of goods and services	290.0	252.7	286.4	339.8	385.1
Goods FOB	224.1	196.8	222.9	271.6	317.7
Services	65.9	55.9	63.5	68.2	77.4
Transport	8.0	5.1	8.2	9.9	11.8
Travel	42.6	39.9	41.3	36.0	43.2
Imports of goods and services	319.6	302.9	257.5	303.8	470.9
Goods FOB	203.1	203.0	164.6	206.1	348.9
Services	116.5	99.9	92.9	97.7	122.0
Transport	50.2	46.6	38.5	39.1	61.3
Travel	45.0	34.8	37.2	36.6	33.3
Net external investment income	-24.8	-21.6	-21.7	-20.8	-32.8
Profits	-1.7	-	-	-	-
Interest	-23.1	-21.6	-21.7	-20.8	-32.8
Net private transfer payments	-0.9	-0.6	-0.2	-0.1	-
Balance on current account	-55.3	-72.4	7.0	15.1	-118.6
Capital account					
Net external financing (a+b+c+d+e)	55.3	72.4	-7.0	-15.1	118.6
(a) Net external non-compensatory capital	23.7	83.1	62.6	32.3	
Direct investment	-	-	-	-	
Long- and medium-term loans	26.0	57.0	53.8	26.2	
Amortization payments	-17.1	-19.3	-22.5	-39.2	71.0
Short-term liabilities	4.6	36.5	20.7	36.5	
Official transfer payments	10.2	8.9	10.6	15.8	
(b) Domestic non-compensatory capital or assets	17.9	-2.6	0.5	-21.3	
(c) Errors and omissions	-27.5	-44.8	-51.0	-68.4	
(d) Allocation of SDR units	9.2	7.4	7.3	-	
(e) Net compensatory financing (increase -)	32.0	29.3	-26.4	35.3	47.6
Balance-of-payments loans, trade arrears, IIF loans and other liabilities of the monetary authorities	62.0	36.7	56.0	41.0	...
Amortization payments	-42.9	-15.0	-5.6	-70.5	...
Movements of foreign exchange reserves (increase -)	13.1	-6.1	-92.5	54.5	...
Movements of gold reserves (increase -)	-0.1	13.6	23.4	12.3	...
SDR units (increase -)	-0.1	0.1	-7.7	-2.0	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

^{a/} Estimates based on official statistics.

4. Trends in prices and other variables linked with the inflationary process 62/

The acceleration in the rate of price increases, particularly during the second half of the year 63/ was influenced by the import of world inflation, the impact of which was transmitted, in the main, through the increase in the unit value of imports. The import of inflation was made easier by the economic policy of gradually bringing the national prices of goods in line with those prevailing for similar goods in international markets, which has been followed since 1972. Government finances also contributed to the acceleration of inflation since the central government's overall deficit increased by approximately 250 per cent as a result of a more rapid growth in total expenditure, compared with current income. To cover this deficit, Government had to borrow from the monetary authorities the amount of approximately 100,000 million pesos during the year.

In turn, domestic credit in the monetary system expanded by 440,000 million pesos (86 per cent higher than the figure at the end of 1973). This factor exercised a decisive influence on the increase of 62 per cent in the quantity of money, although the net loss of international reserves which occurred during the year acted as a restrictive factor. (See table 5.)

There were also other important factors which had an effect on price trends.

First, a new rent law was introduced in August, establishing a system for the adjustment of contracts of rent, which had lapsed, on the basis of the value of readjustable mortgage units.

62/ In Part One of this Economic Survey a special section deals with the review of Uruguayan inflation.

63/ As was pointed out, consumer prices increased by 107.3 per cent between December 1973 and December 1974, and by 77.5 per cent during the previous 12 months, nevertheless, rises between annual averages show a movement of 77.2 per cent in 1974 and 97 per cent in 1973.

Table 5

URUGUAY: PRICE TRENDS, AND FISCAL AND MONETARY VARIABLES

(Percentages)

	1973		1974 ^{a/}	
	December to december	Annual average	December to december	Annual average
1. <u>Consumer price index</u>	<u>77.5</u>	<u>97.0</u>	<u>107.3</u>	<u>77.2</u>
2. <u>Government Finances</u>				
(a) Current income	-	120.9	-	63.7
(b) Total expenditure	-	103.8	-	80.8
(c) Total deficit	-	13.8	-	255.2
3. <u>Monetary trends</u>				
(a) Money	74.5	-	62.2	-
(b) Domestic credit	51.3	-	86.0	-

Source: ECLA, on the basis of official statistics.

a/ Estimates.

/Secondly, during

Secondly, during the year, the exchange policy of minidevaluations of the national currency, which began in 1972, continued to be applied. Between December 1973 and December 1974 the value of the dollar in pesos applicable to commercial transactions 64/ increased by 70 per cent but the rate of devaluation during the second half of the year was twice as fast as during the first half.

Thirdly, the compensatory readjustments in wages made during the year acted as another means of propagating the upward pressure on prices. Nominal readjustments were 74.6 per cent for the general wage index, which corresponded to 72.6 per cent in the public sector and 76.4 per cent in the private sector. In real terms, this meant - compared with the previous year - reductions of 0.9 per cent in the general index and 2.6 per cent in the public sector, and an increase of 0.6 per cent in the private sector.

64/ Side by side with the so-called commercial market, the financial market continued to operate. In September the latter was expanded and restrictions removed, leaving the prices of foreign currency to be fixed by the free play of supply and demand.

VENEZUELA

1. General trends

Venezuela is one of the major oil-exporting countries in the world and, as a result, since 1973 its economy has been subject to special conditions which differentiate it from the remainder of Latin America. In 1974 its gross domestic product increased by 5.1 per cent, the decision to extend the life of its petroleum reserves by reducing present production exercised a strong influence on this growth rate. For the remainder of the economy rates somewhat better than or similar to those of 1973 prevailed, except in the construction sector, where the growth rate fell considerably.

Needless to say, the external sector performed favourably in 1974. However, it is possible to point out that it increased domestic savings substantially, that there were no geographical restrictions on spending, and that it raised the potential and size of savings to a level which outstripped that of investment possibilities. This imbalance between savings and investment, which also occurs in the other OPEC countries, provides ample scope for an intensive and wide-ranging development policy, as well as one for projecting financial operations beyond its frontiers. These are the general aspects and characteristics of the policy adopted in 1974.

These conditions do not make the Venezuelan economy immune from the impact of world inflation which affects all of Latin America. Domestic prices were also subject to upward pressures due, initially, to the higher unit cost of imported goods and, subsequently, of goods and services produced in the country. The creation of job opportunities is not rapid enough to offset the depressive effect of higher prices on domestic demand, and the reduction of employment in the construction sector. Venezuelan economic policy seeks to correct these imbalances through certain price subsidies and higher investment in low-cost housing (see table 1).

Table 1

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1973	1970- 1972	1973	1974 ^{a/}
Total supply	<u>62 372</u>	<u>71 072</u>	<u>77 369</u>	<u>119.9</u>	<u>120.9</u>	<u>4.1</u>	<u>5.1</u>	<u>8.9</u>
Imports	10 364	12 271	15 569	19.9	20.9	8.2	1.2	26.9
Gross domestic product	52 008	58 801	61 800	100.0	100.0	3.3	5.9	5.1
Total demand	<u>62 372</u>	<u>71 072</u>	<u>77 369</u>	<u>119.9</u>	<u>120.9</u>	<u>4.1</u>	<u>5.1</u>	<u>8.9</u>
Exports	13 115	12 556	11 119	25.2	21.4	-5.1	6.4	-11.4
Domestic demand	<u>49 257</u>	<u>58 516</u>	<u>66 250</u>	<u>94.7</u>	<u>99.5</u>	<u>6.5</u>	<u>4.8</u>	<u>13.2</u>
Gross domestic investment	14 415	19 209	...	27.7	32.7	9.4	11.3	...
Increase in stocks	...	...	...	...	...	...	...	...
Gross fixed investment	11 325	17 014	...	21.8	28.9	14.0	15.5	...
Public	3 013	5 870	...	5.8	10.0	29.3	16.5	...
Private	8 312	11 140	...	16.0	18.9	8.0	15.0	...
Construction	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...
Total consumption	<u>44 842</u>	<u>39 307</u>	<u>...</u>	<u>67.0</u>	<u>66.8</u>	<u>5.2</u>	<u>1.9</u>	<u>...</u>
General government	6 889	7 477	...	13.2	12.7	5.2	-2.0	...
Private	27 953	31 830	...	53.8	54.1	5.2	2.9	...

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Venezuela; 1974: ECLA estimates based on data from CORDIPLAN

^{a/} Preliminary figures.

2. General guidelines of economic policy in 1974

The most outstanding aspects of economic policy adopted in 1974 are related to agricultural development, manufacturing, the nationalization of basic export commodities, and the internal and external financial reorganization of the economy. The latter, of course, includes the modifications that are being introduced in government income and expenditure.

(a) Agricultural development

During 1974 a series of measures were adopted which sought to provide incentives for agricultural development. Efforts were made to correct the imbalances caused in the sector by the previous price policy and, at the same time to exercise a favourable influence on the levels of sectoral employment, the income of farmers and, lastly, national supplies.

The process of rationalizing agricultural prices began, in keeping with a strategy which takes account of the level of wages and employment; tax exemptions were also established for farmers, and a law for the reconversion, consolidation, and remission of their debts was enacted. An important feature of financial policy was the establishment of a fund of 2,000 million bolívares for agricultural development.

(b) Industrial development

In the industrial field the following strategic objectives were set: (a) the optimum use of basic natural resources; (b) the specialized integration of the industrial system as a whole; (c) the improved geographical spread of the sector; and (d) the creation of exporting capacity in manufactured products.

In connexion with the first aspect, emphasis has been placed on the development of basic metal industries and petrochemicals, for which Venezuela has a favourable combination of resources. In the third quarter of 1974 the sheet-rolling mill of the company Siderurgia del Orinoco (SIDOR), which has an annual capacity of 1.5 million metric tons began production. In 1974 SIDOR also accepted the offer to set up two pelletization units with a joint annual capacity of 6 million tons, at

/an investment

an investment cost of 630 million bolivares; and two direct reduction plants, with a joint capacity of 718,000 tons which are being installed at an investment cost of 260 million bolivares. The two reduction plants will probably begin operations towards the end of 1976.

Other projects are also under study, among them the installation in the State of Zulia of an iron and steel plant with a capacity of 5 million tons, to take advantage of the coal in that region; another for special steels, and several others, all of which will be incorporated in the National Iron and Steel Plan which envisages a production of 10 million tons in 1980.

As regards the basic metals industries, the production of aluminium is of some importance. In 1974 the expanded ALCASA plant, with a capacity of 50,000 tons per year, began operations and work has begun to increase its capacity to 120,000 tons. The Industria Venezolana de Aluminio C.A. (VENALUM) was also set up, in which 80 per cent of the capital is held by nationals, and the remainder by Japanese investors. Production capacity will be 280,000 tons and is intended mainly for international markets. Investment cost will amount to some 2,000 million bolivares.

As regards petrochemicals, an attempt is being made to overcome the technical problems which have cropped up in some sections of the El Tablazo Complex. A national petrochemical plan has also been prepared, which provides for the construction of five major industrial complexes located in different areas of the country.

In order to improve the integration of industry as a whole, the second stage of the plan for the development of the automobile industry has been prepared. This is to be launched at the beginning of 1976. The aim is for 70 per cent of the value to be made up of national parts by 1980, the present use of simple parts, which in 1974 already account for a third of the value, being extended to include mechanical units and complex parts. To achieve this it will be necessary to limit the

number of models and types, and set up a centralized smelting works and work shops. Estimates for the implementation of such an ambitious programme put investment costs at approximately 2,500 million bolivares and it will create 30,000 new jobs. The policy for the integration of industry as a whole includes the manufacture of capital goods, such as transport equipment, and equipment for construction, agriculture, mining, and industry.

As far as industrial location is concerned, co-ordinating machinery has been set up for locating new industry in accordance with a decentralization guideline. The installation of new large industries in the metropolitan area has been prohibited; the infrastructure of several centres in the interior of the country has been strengthened and tax holidays have been offered to enterprises which set themselves up in these centres.

(c) Nationalization of primary products

The policy for recovering and conservating basic non-renewable resources has high priority. Hydrocarbons, iron ore, coal, forestry and water resources are included.

The Reversion Committee 65/ is studying the implications of the expected reversion to the state of petroleum concessions, the majority of which expire between 1981 and 1985. This Committee drafted a bill for the nationalization of the petroleum industry, which is being revised prior to submission to the national congress, probably during the first half of 1975. Under this bill, the State is expected to take over the assets of the petroleum companies for the equivalent book value, as in the case of the nationalization of the iron producing enterprises.

At the end of the year Decree Nº 580 was enacted, which on 31 December 1974 cancelled all concessions for the exploitation of iron ore, and the State, through the Corporación Venezolana de Guayana - CVG - took over the assets of two United States enterprises which

65/ Established by Decree Nº 10, of 22 March 1974

were operating in the sector for the equivalent book value, to be paid in quarterly installments over a period of 10 years subject to an annual interest ceiling of 7 per cent.^{66/}

The CVG, under its mandate, entered into operation and technical assistance contracts, as well as contracts to supply iron ore, with the United States enterprises.^{67/}

Separately, the CVG acquired 51 per cent of the registered capital of the reduction plant and the briquette producing plant of the Orinoco mining company, which began operations in 1973 but was unable to use all its installed capacity of 1 million tons per year, owing to technical problems. The nationalization of iron ore and the simultaneous development of the iron and steel industry will enable Venezuela to substitute exports of steel and steel products for its exports of ore. Conditions prevailing in the international market favour this objective.

(d) Financial reorganization

During 1974 financial policy covered aspects as varied as the need to rationalize the use of the abundant resources accruing from the petroleum surpluses, the transformation of the entire financial system, the reform of the Venezuelan Central Bank, the financing of economic development, government financing, and the granting of external financial aid, particularly to the countries of the region.

The financial strategy is based on the rational use of the funds available for accelerating the economic and social development of the country; to ensure the recovery of basic resources to stimulate Latin American integration; and the external recycling of the monetary income which is not being put to immediate use.

^{66/} The net book value as at 30 June 1974 was 409.8 million bolívares (97.6 million dollars) in the case of the Orinoco Mining Company subsidiary of the United States Steel Company and 68.7 million bolívares in the case of the Iron Mines Company of Venezuela a subsidiary of Bethlehem Steel Corporation.

^{67/} The operation and technical assistance contracts shall remain in force until 31 December 1975, and those for the supply of ore until 1979 in the case of Bethlehem Steel, and for a period of 7 years in the case of United Steel.

(i) The Venezuela Investment Fund. The purpose of the Investment Fund is to complement the financing of the expansion and diversification of the economic structure of the country, taking up profitable investments abroad, in assets which are likely to maintain their value, and the development of international financial co-operation programmes.^{68/}

The fund will operate so that it will be able to maintain the purchasing power of its resources while earning a given rate of profit and will gradually inject these resources into the domestic economy, in keeping with its capacity to absorb them productively.

To this end, a budget allocation of 13,000 million bolívares was earmarked for the Fund, an amount which is equal to 50 per cent of special fiscal revenue from the petroleum sector. In subsequent years, a similar contribution will be made from government funds.

(ii) Development financing. Parallely with the Investment Fund, the Agricultural Credit Fund, Industrial Credit Fund, and Urban Development Fund were created, each with a capital of 2,000 million bolívares, to stimulate the corresponding sectors. For industrial financing the Development Corporation for Small and Medium-size industries was also set up, with an initial capital of 400 million bolívares. Measures have also been taken to make financial action more flexible, and to promote the Venezuelan Development Corporation, and additional funds have been granted to Regional Development Corporations.

Attempts have been made to promote non-traditional exports through the enactment of laws which provide export incentives, and the law which set up the Export Finance Fund. Fifty million bolívares were set aside for the latter, and the former received government credit in the amount of 45 million bolívares.

Another noteworthy measure is the co-ordination of the funds set aside under the special budgetary provision, which will make it possible to use public investment funds to greater advantage.

^{68/} Decree Nº 151 of 11 June 1974, Article 22.

The foregoing measures are expected to have a strong impact on production and investment. Of course, this implies the increased mobility of financial resources which could eventually change the present system of sectoral financing.

(iii) International financial co-operation

Recently Venezuela formulated a policy of financial aid to help the countries of the region to develop their natural resources. This policy is aimed mainly at favouring the relatively less developed countries.

In the short term, Venezuelan financial aid attempts to relieve the pressures on the balance of payments which the oil-importing countries suffer, and to recycle the monetary income which is not being put to immediate use in order to reduce the pressures on the economy. In keeping with this policy bonds worth 500 million dollars were purchased from the World Bank, and a contribution of 540 million dollars was made to the Oil Facility of the International Monetary Fund. In addition a grant of 40 million dollars was made to the United Nations Emergency Fund.

In the long term, the intention is to promote Latin American integration and recover for the countries of the continent control of their natural resources. In line with this policy trust funds were set up in integration financial institutions and in the Inter-American Development Bank.^{69/} These funds have been granted to strengthen integration projects and institutions, which offer better conditions to the relatively developed countries and channel credits towards the development of natural resources. They offer the possibility of promoting Latin American multinational enterprises which will serve both to recover the wealth of the region and to ensure the economic integration of the Latin American countries.

^{69/} The following trust funds are planned:
IDB: 600 million dollars, in annual contributions of 100 million;
CAF (Andean Development Corporation): 60 million dollars
Caribbean Bank: 25 million dollars, and
Central American Bank: 40 million dollars.

Venezuela has also undertaken to provide financial assistance to the Central American countries through bilateral agreements entered into with each one of them. The Central Bank in turn approved a loan of 30 million dollars to the Dominican Republic. Venezuela plans to take up a minority holding in the capital of various multinational enterprises operating in different countries of the region.

3. Economic results in 1974

(a) General considerations

In order to assess economic trends in Venezuela it is necessary to differentiate between the export performance of the mining sector - hydrocarbons and iron - which decreased by 8.2 per cent - and that of the other sectors of the domestic economy, which increased by 8.3 per cent compared with the previous year, in which a strong expansion had already been recorded. The gross domestic product grew on the whole by 5.1 per cent, a rate lower than that recorded in the previous year, but slightly higher than that of the previous 5 years (see table 2).

(b) The mining sector

The gross geographical product of the mining sector fell by 8.2 per cent compared with the previous year. The product of the petroleum sector - the extraction of crude, and refining - was reduced by 10 per cent in line with the conservationist policy applied by the Government; mining activity experienced a strong expansion of 19 per cent as a result of a significant increase in the production of iron ore and, to a lesser extent, of diamonds and coal.

(i) Hydrocarbons. A drop in the demand for petroleum in the industrialized countries, and the substantial increase in the prices of this product constituted the background to the introduction by several of the producer countries, of varied policies for conserving their basic resources, either by reducing the rate of growth of production, or cutting back on present levels of production. In 1974, Venezuela cut back its production of crude petroleum by 11.6 per cent compared with that of the previous year.

Table 2

VENEZUELA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of bolívares at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 ^{a/}	1970	1974 _{a/}	1970- 1972	1973	1974 _{a/}
Agriculture	3 738.0	3 997.5	4 265.3	7.6	7.2	0.5	5.8	6.7
Mining (including petroleum)	11 475.0	10 750.8	9 869.3	23.4	16.7	-6.3	6.7	-8.2
Mining (excluding petroleum)	644.0	681.6	810.9	1.4	1.4	-7.6	24.0	19.0
Petroleum ^{b/}	10 831.0	10 069.2	9 058.4	22.0	15.3	-6.2	5.8	-10.0
Manufacturing	5 653.0	7 103.6	7 799.7	11.5	13.2	8.0	7.7	9.8
Construction	1 985.0	3 219.2	3 309.3	4.0	5.6	21.0	10.8	2.8
<u>Subtotal goods</u>	<u>22 851.0</u>	<u>25 071.0</u>	<u>25 243.6</u>	<u>46.5</u>	<u>42.7</u>	<u>1.1</u>	<u>7.4</u>	<u>0.7</u>
Electricity, gas and water	829.0	1 083.6	1 192.0	1.7	2.0	8.6	10.9	10.0
Transport and communications	5 144.0	6 374.5	6 922.7	10.5	11.7	8.5	5.2	8.6
<u>Subtotal basic services</u>	<u>5 973.0</u>	<u>7 458.1</u>	<u>8 114.7</u>	<u>12.2</u>	<u>13.7</u>	<u>8.5</u>	<u>6.0</u>	<u>8.8</u>
Commerce and finance	6 663.0	7 651.6	8 324.9	13.6	14.1	4.6	5.0	8.8
Government	5 769.0	6 765.8	17 499.8	11.7	29.7	6.1	4.2	8.2
Ownership of dwellings	5 181.0	6 094.8		10.5		5.7	5.4	
Miscellaneous services ^{b/}	2 723.0	3 312.9		5.5		5.9	8.6	
<u>Subtotal other services</u>	<u>20 336.0</u>	<u>23 825.1</u>	<u>25 824.7</u>	<u>41.4</u>	<u>43.6</u>	<u>5.5</u>	<u>5.4</u>	<u>8.4</u>
<u>Total</u>	<u>49 160.0</u>	<u>55 581.7</u>	<u>58 416.4</u>	<u>100.0</u>	<u>100.0</u>	<u>3.3</u>	<u>5.2</u>	<u>5.1</u>

Sources: 1970-1973, ECLA calculation based on figures supplied by the Central Bank of Venezuela; 1974, ECLA estimates based on data from CORDIPLAN.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^{a/} Preliminary figures.

^{b/} Including all petroleum activities.

Average daily production fell from 3,260,510 barrels to 2,976,251 barrels, a trend which continued into 1975. The average is expected to fluctuate around 2,800,000 barrels and if necessary to fall to 2,600,000 barrels.^{70/} The production of petroleum products and natural gas also experienced a drop of 7.1 and 5.5 per cent respectively.

Another important aspect of the petroleum industry is the policy aimed at modifying the refining patterns which have so far been designed mainly to produce heavy products which are used to complement United States production, which is geared mainly to the production of light fuels. In 1974 the proportion of such fuels from refineries in Venezuela amounted to 15.6 per cent.

On the other hand, during 1974 better use was made of natural gas, the volume flared off being reduced from 14,619 million cubic metres in 1973 to 9,974 million cubic metres in 1974, 21.4 per cent of total production. The Ministry of Mines and Hydrocarbons has decided to make full use in the years ahead of up to 98 per cent of economically recoverable gas, thereby reaffirming the policy of conserving this natural non-renewable resource and using it for industrial purposes, particularly for the production of petrochemical products.

Government income from royalties increased from 3,653 million bolívares to 9,787 million (167.9 per cent), and taxes on petroleum companies' earnings increased from 9,341 million bolívares to 23,730 million (207.6 per cent). (See table 3.)

In 1974, net earnings of petroleum companies amounted to 2,269 million bolívares, a figure 15 per cent lower than that of 1973. This was the result of the effects of Decree No 440 of 1 October 1974, which increased the rate of taxation on earnings to 63.5 per cent.

Lastly, expenditure on salary and wages increased by 6.1 per cent, and other operation costs by 15.2 per cent.

^{70/} Statements made by the Minister of Mines and Hydrocarbons, El Universal (16 January 1975).

Table 3

VENEZUELA: FINANCIAL RESULTS OF THE OPERATIONS OF THE PETROLEUM INDUSTRY

(Millions of bolívares)

	1971	1972	1973	1974 ^{a/}
<u>Income</u>	<u>13 720</u>	<u>13 566</u>	<u>19 855</u>	<u>45 354</u>
Exports ^{b/}	12 815	12 573	18 784	44 527
Petroleum	8 403	8 132	11 586	27 899
Refined products	4 272	4 219	6 746	15 485
Liquefied gas	140	222	452	1 143
Sales within the country	905	993	1 071	827
Petroleum	4	9	35	-
Refined products	756	826	852	636
Gas	145	158	184	191
<u>Costs and expenditure</u>	<u>6 820</u>	<u>6 742</u>	<u>7 849</u>	<u>14 355</u>
Wages and salaries	1 100	1 153	1 296	1 379
Depreciation, amortization, and depletion	1 160	1 104	1 075	1 027
Losses resulting from writing off assets ^{c/}	51	36	4	-
Other operational expenditure	1 644	1 668	1 792	2 065
Royalties	2 828	2 752	3 653	9 787
Various taxes ^{d/}	37	29	29	41
<u>Pre-tax profit ^{e/}</u>	<u>6 900</u>	<u>6 824</u>	<u>12 006</u>	<u>30 999</u>
Income tax ^{f/}	4 653	5 558	9 341	28 730
Net profit	2 247	1 266	2 665	2 269

Source: Ministry of Mines and Hydrocarbons.

a/ Preliminary figures.

b/ Income based on actual prices.

c/ Covers losses incurred in writing off assets (obsolescence, poor condition, etc.).

d/ Including municipal and national taxes, except income tax.

e/ Income tax.

f/ From 1971 onwards, at export values.

On 31 December 1974 proven recoverable petroleum reserves in concession areas amounted to 18,568 million barrels which means an increase of 34.43 per cent compared with the previous year. This is due to the valorization of certain reserves which, owing to the increase in prices, are now considered recoverable.

(ii) Iron. In 1974 the production of iron ore reached its highest level ever of 27.7 million metric tons, which represented an increase of 20.4 per cent compared with the previous year. (See table 4.)

Table 4

VENEZUELA: INDICATORS OF IRON ORE PRODUCTION
(Millions of metric tons)

Year	Production	Exports	Reserves
1970	22.1	21.1	1.923
1971	20.2	19.1	1.951
1972	18.5	16.5	1.882
1973	23.0	21.5	1.859
1974 ^{a/}	27.7	25.5	1.831

Source: Ministry of Mines and Hydrocarbons, Office of Mining Economics.

a/ Provisional figures.

The volume of exports of iron ore increased by 19.4 per cent. Its value increased from 167 million dollars to 259 million, that is, by 55.1 per cent. During 1974 increases in the prices of the mineral were in the region of 25 per cent.^{71/} Under a joint resolution adopted by the Ministries of Finance and of Mines and Hydrocarbons, minimum export prices for iron ore are to be fixed towards the end of the year,

71/ In January the price per metric ton increased from 42.15 bolívares to 42.20 bolívares, and at the end of the same month rose to 42.46 bolívares under the Joint Resolution adopted by the Ministries of Finance, and of Mines and Hydrocarbons. On 9 March it rose to 43.03 bolívares, and on 2 April to 44.89 bolívares.

/and will

and will remain in force during 1975. These prices represent increases of approximately 45 per cent for "fine" quality ores and by 35 per cent for "lump" ores, compared with 1974 prices.

(c) The domestic economy

In 1974 the sectors which direct their supply preferably towards the domestic market recorded, on the whole, a highly satisfactory rate of growth of 8.3 per cent. However, the results of the different sectors varied in size. (See table 2.)

(i) Agricultural sector. During 1974 the agricultural sector experienced a higher rate of growth than in the previous year, thereby strengthening the tendency towards recovery for its performance in recent years has been irregular.

The items which showed the highest increase in the year were mainly sugar cane, maize, sorghum, cotton, potatoes, milk, pork, poultry, shellfish and timber. On the other hand there was a drop in the production of coffee, sesame, and eggs.

In spite of the high levels of production achieved in 1974 the external dependence on several food products continued, such as cereals, oil-seeds, and others. The years ahead hold a number of opportunities for the substitution of the majority of these imports.

(ii) Manufacturing industry. In 1974 the manufacturing industry grew by 9.8 per cent, a rate higher than that recorded in previous years of the present decade, with the exception of 1970, when it increased by 10 per cent.

The engineering sectors showed the highest rate of growth, an overall increase of 15.2 per cent. For their part, traditional industries showed a growth rate of 8.7 per cent, and intermediate industries one of 8.6 per cent. The graphic arts and other industries suffered a slight drop in their growth rate.

The increase in the growth rate of engineering industries was due to a strong expansion in the electrical machinery and electrical equipment sector (28.8 per cent), and in the transport equipment sector (21.4 per cent). The production of motor vehicles was in the region of 120,000 units.

/In the

In the traditional industries the sectors of foodstuffs, tobacco, textiles, and skins and hides recorded the highest increases in response to an increase in demand during 1974 brought about by adjustments in wages and salaries.

In the intermediate industries, the greatest growth was experienced by the rubber and rubber products sector (45.2 per cent), owing to an increase in the manufacture of motor vehicles, and basic metals (12.7 per cent). In the third quarter the SIDOR steel-rolling plant came into operation. This and the expansion of the ALCASA aluminium plant which increased its production from 27,690 metric tons in 1973 to 45,595 tons in 1974 was responsible for the increases experienced in these sectors.

(iii) Construction. After having experienced rates as high as 10.8 per cent in 1973 and even higher ones in the two previous years, construction activity experienced a marked drop in its growth rate in 1974, which fell to 2.8 per cent. Various factors were responsible for this.

There was a contraction in public sector construction as a result of the application of new work guidelines which gave priority to the construction of physical infrastructure for agricultural activities, and the construction of medium-cost or low-cost housing units in an attempt to prevent construction in the metropolitan area, where it had been concentrated in recent years, from being stepped up.

Trends in private construction were irregular throughout the year as a result of the new government construction policy, changes in financing arrangements, and increases in prices of some of the major inputs of national origin. However, in the closing months of the year the situation evolved favourably as a result of the greater availability of financial resources, and tax incentives for construction.

(iv) Basic services. Electricity, gas, and water services recorded an increase of 10 per cent, maintaining the dynamic trend of previous years, mainly as a result of the increase in the generation of electricity which accompanied the expansion in manufacturing production. As for transport and communication services, they increased their activities by 8.6 per cent.

/(v) Other

(v) Other services. The overall product of the different service sectors increased by 8.4 per cent. The financial sector recorded the highest increase as a result of the impulse given to domestic economic activity by a large portion of the financial resources stemming from petroleum, and the expansion of credit operations as a result of the sharp rise in imports and the increase in investments in mortgage bonds, among others.

The service sectors were the ones which in the first instance benefited from the favourable impact of the surplus petroleum funds. In productive activities the positive effects of these surplus funds will only be able to be judged from 1975 onwards, for such activities require a longer lead time.

(d) Balance of payments

In 1974, the major expansion in imports, 169 per cent measured in SDR terms and, to a rather lesser extent that of exports, (60 per cent) resulted in a trade balance 3.8 times higher than that of 1973, which had already shown a marked increase over previous years. From SDR 13,400 million in 1972 it increased to SDR 2,260 million in 1973 and to SDR 8,640 million in 1974.

Services which had a negative balance also showed a moderate increase, although lower than that of goods, with the result that the current account of the balance of payments closed at the end of 1974 with a surplus of SDR 4,350 million, a figure that bore no relation whatever to that recorded in previous years, and one which in the final analysis meant an increase of SDR 3,327 million in net international reserves, bringing them up to SDR 5,330 million, the highest figure in the history of the country. (See table 5.)

Table 5

VENEZUELA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974 _{a/}
Current account					
Exports of goods and services	2 943.0	3 572.0	3 703.0	4 867.0	12 680.0
Goods FOB	2 756.0	3 372.0	3 498.0	4 620.0	12 405.6
Services	187.0	200.0	205.0	247.0	274.4
Transport	59.0	55.0	52.0	61.0	74.0
Travel	50.0	61.0	67.0	99.0	108.9
Imports of goods and services	2 318.0	2 588.0	2 770.0	3 001.0	4 690.4
Goods FOB	1 793.0	1 994.0	2 158.0	2 354.0	3 765.8
Services	525.0	594.0	612.0	647.0	924.6
Transport	238.0	283.0	292.0	343.0	548.8
Travel	140.0	138.0	164.0	161.0	213.7
Net external investment income	-669.0	-874.0	-960.0	-1 401.0	-3 550.5
Profits	-657.0	-858.0	-943.0	-1 402.0	-3 683.5
Interest	-12.0	-16.0	-17.0	1.0	133.0
Net private transfer payments	-86.0	-79.0	-82.0	-87.0	-91.5
Balance on current account	-130.0	31.0	-109.0	378.0	4 347.6
Capital account					
Net external financing (a+b+c+d+e)	130.0	-31.0	109.0	-378.0	-4 347.6
(a) Net external non-compensatory capital	153.0	425.0	216.0	264.0	-1 020.6
Direct investment	-25.0	215.0	53.0	69.0	
Long- and medium-term loans	168.0	260.0	168.0	214.0	
Amortization payments	-34.0	-82.0	-98.0	-114.0	
Short-term liabilities	50.0	36.0	98.0	100.0	
Official transfer payments	-6.0	-4.0	-5.0	-5.0	
(b) Domestic non-compensatory capital or assets	-69.0	71.0	-109.0	49.0	
(c) Errors and omissions	94.0	-117.0	210.0	-252.0	
(d) Allocation of SDR units	42.0	35.0	35.0	-	
(e) Net compensatory financing (increase -)	-90.0	-445.0	-243.0	-439.0	-3 327.0
Balance-of-payments loans, trade credits, IMF loans and other liabilities of the monetary authorities	2.0	7.0	10.0		...
Amortization payments	-5.0	-	-	-2.0	...
Movements of foreign exchange reserves (increase -)	-30.0	-416.0	-218.0	-410.0	...
Movements of gold reserves (increase -)	-9.0	-1.0	-	-38.0	...
SDR units (increase -)	-48.0	-35.0	-35.0	11.0	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

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