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MEXICO

1. The overall picture

In 1976 the growth rate of the Mexican economy was 1.9 per cent: the lowest in the last twenty-three years. Taking population increase into account, this rate represented a decline in the per capita product of 1.5 per cent (see table 1).

The slow growth of the product was due to the 2 per cent decline in the agricultural sector, the stagnation in construction and the reduced activity of the manufacturing sector, mainly caused by the slackening of domestic demand. The recessive situation of these sectors of the national economy was not offset by the greater dynamism of the petroleum and electricity generation sectors, in which the State has carried out intense activity in recent years aimed at overcoming bottlenecks.

Furthermore, total supply remained at practically the same level as the previous year. The volume of imports declined steeply because of the fall in investment and also the adjustment in prices resulting from the devaluation of the Mexican peso from August onwards (see table 2).

Domestic demand, for its part, was affected both by the 3 per cent decline in gross fixed investment and by the slight fall in private consumption. The 7 per cent decline in public investment, whose dynamism had offset the slow growth of private investment in previous years, and the continuing slackness of the latter, also had some influence on the contraction in private consumption.<sup>1/</sup>

The volume of exports of goods and services, which fell sharply in 1975, grew by nearly 6 per cent during 1976 as a result of the increase in the services component. The volume of merchandise exported, for its part, remained at almost the same level as in 1975, although the average prices improved.

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<sup>1/</sup> It is not possible to assess the true magnitude of the change in private consumption because no information is available on movements of stocks.

Table 1  
HONDURAS: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	49 850	53 646	56 812	59 221	60 368
Population (millions)	53.7	55.4	57.3	59.2	61.2
Per capita gross domestic product (US dollars at 1970 prices)	929	968	992	1 000	986
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	7.3	7.6	5.9	4.2	1.9
Per capita gross domestic product	3.9	4.2	2.5	0.9	-1.4
Gross income <sup>b/</sup>	7.3	7.8	6.6	4.2	1.8
Terms of trade	0.5	3.1	3.4	-5.2	3.7
Value of exports of goods and services	20.6	27.0	31.2	-1.4	9.4
Value of imports of goods and services	23.5	30.4	40.3	9.0	-5.5
Consumer prices <sup>c/</sup>	5.0	12.0	25.7	15.0	15.8
Money	...	24.2	22.0	21.3	30.9
Wages and salaries <sup>d/</sup>	...	6.0	36.3	13.6	29.1
Current income of government	...	25.3	27.9	42.5	29.8
Total expenditure of government	...	36.4	29.6	40.1	31.7
Fiscal deficit/total expenditure of government <sup>e/</sup>	28.6	34.4	30.3	29.1	30.1
<u>Billions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-280	-493	-1 543	-2 326	-1 289
Balance on current account	-926	-1 424	-2 390	-4 068	-3 302
Variation in net international reserves	-220	-141	-38	-170	333

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Annual average variation.

<sup>d/</sup> Minimum wage.

<sup>e/</sup> Percentage.

Table 2  
MEXICO: TOTAL SUPPLY AND DEMAND

	Billions of Mexican pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976a/	1970	1976a/	1974	1975	1976a/
<u>Total supply</u>	<u>592 026</u>	<u>614 136</u>	<u>618 706</u>	<u>109.0</u>	<u>110.0</u>	<u>7.0</u>	<u>3.7</u>	<u>0.7</u>
Gross domestic product	529 374	551 820	562 304	100.0	100.0	5.9	4.2	1.9
Imports	62 652	62 316	56 402	9.8	10.0	17.2	-0.5	-9.5
<u>Total demand</u>	<u>592 026</u>	<u>614 136</u>	<u>618 706</u>	<u>109.0</u>	<u>110.0</u>	<u>7.0</u>	<u>3.7</u>	<u>0.7</u>
<u>Domestic demand</u>	<u>547 277</u>	<u>572 974</u>	<u>576 293</u>	<u>101.6</u>	<u>102.5</u>	<u>7.7</u>	<u>4.9</u>	<u>0.4</u>
Gross domestic investment	175 207	...	...	21.5	...	15.8	...	...
Gross fixed investment	117 628	127 657	123 027	19.6	22.0	9.8	8.5	-3.0
Public	48 468	50 163	55 952	7.5	10.0	7.5	24.1	-7.0
Private	69 160	67 494	67 075	12.1	12.0	11.6	-2.4	0.6
Changes in stocks	17 579	b/	b/	1.9	...	-	-	-
Total consumption	412 070	446 317b/	452 466b/	80.1	80.5	5.3	3.9b/	1.3b/
General government	49 268	57 446	66 637	7.8	11.9	12.5	16.6	16.0
Private	362 802	388 871b/	385 829b/	72.3	68.6	4.4	2.2b/	-0.8b/
<u>Exports</u>	<u>44 749</u>	<u>40 162</u>	<u>42 413</u>	<u>8.2</u>	<u>7.5</u>	<u>-1.4</u>	<u>-10.3</u>	<u>5.6</u>

Source: 1970-1976: CEPAL calculations on the basis of figures supplied by the Bank of Mexico and other official data.

a/ Preliminary figures.

b/ Includes changes in stocks.

/The unfavourable

The unfavourable performance of the Mexican economy in 1976 must be attributed to some extent to the structural factors which during recent years have resulted in slow growth of production activities and have generated major disequilibria both in the balance of payments and in the Government budget. In addition to this, from 1973 onwards there was an inflationary process of some intensity, deriving from both internal and external factors, which strengthened the tendency towards the overvaluation of the peso.

The elements mentioned were linked not only with the repercussions of the crisis in the international economy between 1973 and 1975, but also with the apparent exhaustion of a stage of the import substitution model oriented mainly towards replacing imports of consumer goods and, to a lesser extent, intermediate goods. This process, which was begun in the mid-1940s, was characterized, among other aspects, by support for production through major subsidies to the sale of goods and services by State enterprises and by the low levels of taxation applied to capital and income. Although steps were subsequently taken to remedy the disadvantages of this style of development - as for example, through the policy of stimulating the export of manufactures - imbalances deriving from this strategy persisted, such as insufficient creation of employment, lack of flexibility of the industrial apparatus and heavy external dependence on the supply of capital goods.

The cumulative imbalances linked with the lack of international competitiveness, the financial deficit of the public sector and external borrowing aggravated the vulnerability of the economic system and led to the most outstanding economic decision taken in 1976: the devaluation of the Mexican peso, after a long period of exchange stability.

As a background to the tensions which arose in the sphere of external payments, it may be noted that since the dynamism of public expenditure was not accompanied by a sufficient increase in fiscal receipts, despite the tax reforms introduced from 1974 onwards, the State resorted to increasing external and domestic borrowing. The role of the State was centered, on the one hand, on stimulating

/infrastructure projects

infrastructure projects with long lead times in certain basic production sectors, such as iron and steel and petrochemicals, and in projects of social value, while in recent years it has also attempted to alleviate the detrimental effects caused by inflation among the lowest income strata of the population by subsidizing essential goods. Moreover, the Government tried to counteract the fall in private investment.

The consequences of the weakening of the traditional pattern of growth included the channelling of private savings towards the real estate market, the increasing conversion of resources into foreign currency, and the increase in the internal and external tapping of financial resources by the public sector. Furthermore, during the first three months of 1976 there was an intensification in the flight of capital which had begun to be noticeable in the last months of 1975. This, in addition to having an adverse effect on the balance of payments, reduced the banks' procurement of resources in national currency and led to an acceleration in the growth of liabilities in foreign currency, both because of the increase in loans from abroad and because of the conversion of national currency liabilities to foreign currency. This situation persisted until the end of August, when the financial authorities abandoned the fixed exchange rate of 12.50 pesos per dollar and established a system of regulated floating at an initial rate of 20.40 pesos buyer and 20.60 pesos seller. This measure did not have the hoped-for effect on capital movements, however, as explained later.

At the practical level, the growth of the production apparatus was affected by uncertainty regarding increases in costs. Furthermore, despite the fact that in October a 23 per cent increase in minimum wages, retroactive to 1 September, was decreed, the incomes of a vast sector of the population were not sufficient to cope with the rise in prices, and this caused a decline in private consumption. Lastly, in an attempt to maintain a certain level of economic activity without putting pressure on prices and helping to aggravate the financial imbalances which had been emerging, the State kept up its policy of permitting only a modest increase in current expenditure, which grew

by only 8 per cent in 1976, compared with 32 per cent in 1975. Furthermore, with the completion of the programmed investment stages, levels of public investment fell, thus leading to less dynamic activity in the production sectors linked with such investment.

As a result of the devaluation, there was a sharp reactivation of the inflationary process, which had tended to decelerate during the first eight months of the year. Inflation had less effect on consumer prices, especially for non-durable consumer goods, because of the State policy of subsidies and price controls on essential items. At the same time the prices and tariffs policy adopted in respect of goods and services sold by public enterprises was aimed at remedying their finances and securing greater resources for their investment programmes.

Although in 1976 the immediate effects of the devaluation accentuated the slow growth of the economy, it is hoped that as a result of these and other adjustments made in economic policy, growth will be reactivated in the future and the imbalances in the public and external sectors will diminish.

The current economic strategy aims to reactivate short-term economic activity by stimulating longer-term action. The priority areas selected include, in the first place, agricultural activities - whose stagnation in recent years has limited the increase in the supply of agricultural goods and accentuated the problems of rural underemployment and unemployment - and industrial development. In the latter field, encouragement will be given to a set of vertically integrated projects - especially projects related to the capital goods sector - and the export of manufactures will continue to be promoted. In order to implement these projects, financial policy has been adapted so as to obtain a sufficient amount of resources by stimulating greater tapping of both internal and external savings. Finally, attempts have been made to reconcile the aspirations of the various productive groups and to define the responsibilities of each of them through joint agreements.



## 2. Sectoral trends

### (a) The agricultural sector

During 1976 the total agricultural product showed a decline provisionally estimated at 2 per cent, due to a drop in the crop-raising product of over 4 per cent and an increase of 2.5 per cent in livestock production (see table 4). Thus, the phase of slow agricultural growth which began in the middle of the previous decade and during which production has increased at a lower rate than population growth continued to prevail.

The decline of the agricultural product in 1976 was mainly caused by a prolonged drought, aggravated, to some extent, by the accentuation of social tensions in the irrigated areas. The climatic factors, in addition to adversely affecting the production of the seasonal areas, caused decreases in the crops of the Spring-Summer cycle in the irrigated areas because of the reduction in the amount of water collected in the dams.<sup>2/</sup> The most significant declines in production due to the factors mentioned were in oilseeds (soya beans and safflower), beans, tomatoes and chick-peas.

The production of sugar cane continued to decline (by around 6 per cent) for reasons unconnected with the general factors mentioned. This was due, inter alia, to a gradual deterioration in the productivity of the sugar mills due to the failure to renew equipment at the appropriate time, and this was one of the factors in the fall in the incomes of the sugar cane growers. During the last sugar cycle, the exportable surplus declined to such a point that, if there was no improvement in the situation, the country would be obliged to import sugar in 1977 to satisfy domestic demand, which has been growing in recent years at the rate of 10 per cent annually.

In order to reverse this trend the State is making structural changes, with greater emphasis on marketing, the renewal of equipment, the organization of producers and price-cost ratios, among other aspects.

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<sup>2/</sup> The level of collection was about 10 per cent of capacity, the lowest in the last five years.

The unfavourable evolution of export agriculture was basically influenced by the decline of around 20 per cent in the production of tomatoes. Other items generally remained at the levels of the previous year or rose very slightly, with the exception of strawberries, melons and henequen, production of which grew by nearly 10 per cent.

Among the factors which most influenced the trends of agricultural production for export were the prices policy - which encouraged an increase in crops for internal consumption, especially grains - and, towards the end of the year, the tension which arose among large-scale agricultural producers in the irrigated areas of the Northeast because of the possible application of the Agrarian Reform Law. In the case of coffee, which was favoured by a very considerable increase in the international price, the physical impossibility of increasing the rate of production because of the characteristics of the crop also exerted an influence.

The growth of the livestock sector, for its part, was mainly due to the recovery of exports to the United States and the increase in domestic demand. The livestock sectors which showed the greatest increases were poultry and cattle, while the production of the other types of livestock remained at the previous level.

These types of situations, and the loss of dynamism of agricultural production <sup>3/</sup> reflect the structural problems of Mexican agriculture, in which two systems of cultivation exist side by side. The first system is that of modern agriculture, which is practised in the irrigated areas, accounting for 19 per cent of the area harvested, and is carried out mainly on large private properties where considerable use is made of inputs and agricultural machinery. The yields are therefore higher than the national average and differ considerably from those obtainable on seasonal land. The other system is the seasonal agriculture carried out on the ejidos and on small properties, with a low level of

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<sup>3/</sup> During the period 1950 to 1960 agricultural production grew at an average annual rate of 6.1 per cent; in the decade 1960 to 1970, at a rate of 4.4 per cent, and in the 1970s at the rate of only 3 per cent.

capitalization, little use of machinery, and low yields. Over 60 per cent of the land cultivated under this system is used to grow basic foods (maize and beans).

In the past, the expansion of irrigated areas and the cultivation of virgin land in the seasonal areas led to an increase in yield and production, thus facilitating an increase both in supply for domestic consumption and in the exportable surpluses.

At the beginning of the 1970s, however, there was a loss of dynamism in the expansion of the irrigated areas.<sup>4/</sup> This limited the growth of agricultural production, and agriculture was oriented increasingly towards domestic consumption, to the detriment of exports. Seasonal agriculture, for its part, had to expand in land of increasingly low quality, thus involving higher costs and stagnating yields.

Together with these limitations in the production sphere, problems of a social nature began to arise. In 1970 almost 40 per cent of the economically active population was employed in the agricultural sector, and agriculture is one of the activities in which, despite major migratory flows to the urban centres and abroad, incomes are lowest and rates of unemployment highest. For this reason there has been increasing pressure on the land which has led to invasions by peasants, of the larger properties and, in recent years, of irrigated areas in Sonora and Sinaloa.

Concern over the stagnation of the agricultural sector has led in recent years to special emphasis on investment projects, particularly those aimed at increasing the irrigated area. To this end, measures have been adopted which, in the medium term, will mean the irrigation of over one million hectares. In 1976 the General Rural Credit Law entered into force, replacing that which had been applied since 1956. This Law considerably broadened the concept of credit by including ejido and other peasant organizations, and it lays down that credit

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<sup>4/</sup> Between 1946 and 1952 the average growth rate of the area of irrigated land was 9.8 per cent a year; between 1952 and 1958, 7.3 per cent; from 1958 to 1964, 1.8 per cent; and from 1964 to 1970, 2.5 per cent.

can be supplied not only for activities directly related to agriculture and stock-raising, but also for activities relating to the preservation and marketing of products, rural industries, and other activities which increase sources of employment. The Law favours the collectivization of rural work and its organization in all possible rural activities.

The financial system on which the Law is based is made up of the National Rural Credit Bank (resulting from the merger in 1975 of three banks which financed various segments of agricultural production), which consists of 12 regional banks, and the National Rural Industry Finance Company, which is concerned with the financing of agro-industrial activities in the rural sector.

Another innovation was the Law on Mutual Social Assistance Societies, promulgated in 1976, which gave rise to a new type of enterprise or company of a collective nature, to which priority will be given in the provision of credit. The members of such societies are, in particular, ejido workers, workers of common land, landless peasants, small holders and other persons, who have the right to work and who devote part of the product of their work to a mutual social aid fund and carry out or may carry out trading activities. All the work in these societies must be done by the members themselves, without employing any paid assistants.

(b) The industrial sector

In keeping with the trend of recent years, the growth rate of the industrial sector (in the broad sense of the term)<sup>5/</sup> went down again in 1976, when it amounted to 3 per cent, compared with 4.5 per cent in 1975 and 7 per cent in 1974. In 1976 its expansion was due mainly to the three energy-producing branches - petroleum, gas and electricity - whose growth rates were of the order of 9 per cent, 9 per cent and 8 per cent respectively. The growth rate of the basic petrochemical industry, on the other hand, which had shown strong

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<sup>5/</sup> In addition to manufacturing, the sector includes mining, petroleum drilling and refining, electric energy and construction.

dynamism (13.5 per cent a year on average) during the period 1970-1975, fell drastically to 3.5 per cent. In mining there was a reaction which led to an increase in the product of 3.5 per cent, after a decline of over 6 per cent in the previous year. The value added by manufacturing, for its part, rose by less than 2 per cent, while that of construction remained totally stationary (see table 3).

The performance of the various industrial branches was linked with a number of specific factors. The expansion of electric energy production made it possible to meet the normal demand requirements, which had not been satisfied in the previous year because of shortcomings in the installed capacity. The petroleum branch grew, albeit at a lower rate, because of the growth of refining activities favoured by the expansion of the installed capacity. In the petrochemical industry, on the other hand, which still has ample scope for import substitution, growth was limited by shortcomings in the installed capacity. Manufacturing, for its part, was affected by the general slackness of domestic demand, due to the fall in the real income of some strata and the lack of funds for working capital. Lastly, construction was affected mainly by the decline in investment.

The short-term elements which influenced the level of industrial activity during the year, together with those produced by the floating of the peso from the last quarter onwards and those deriving from the approaching change of government, fitted in with the longer-term situation characterized by the deceleration of industrial growth associated with the current stage of the substitution process.

The protection and stimulus provided by the public sector, and also the direct action of the State in certain strategic branches, were not enough to counteract the difficulties faced by the industrial sector as a whole in entering new branches of activity involving bigger economies of scale, greater technological complexity and more capital density.

Table 3

MEXICO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of Mexican pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	50 776	51 486	50 405	11.8	9.4	2.7	1.4	-2.1
Mines and quarries	20 712	21 759	22 350	4.1	4.4	15.4	5.1	7.3
Mining	7 116	6 668	6 901	1.4	1.3	14.5	-6.3	3.5
Petroleum extraction and refining	13 596	15 091	16 449	2.7	3.1	15.9	11.0	9.0
Manufacturing	120 873	125 793	128 095	23.4	24.0	6.0	4.1	1.8
Construction	30 060	31 775	31 775	5.4	5.9	5.9	5.7	-
<u>Subtotal goods</u>	<u>222 421</u>	<u>230 813</u>	<u>233 625</u>	<u>44.7</u>	<u>43.7</u>	<u>6.0</u>	<u>3.8</u>	<u>1.2</u>
Electricity, gas and water	7 781	8 228	8 886	1.4	1.7	9.4	5.7	8.0
Transport, storage and communications	15 241	16 544	...	2.6	...	11.8	8.5	...
<u>Subtotal basic services</u>	<u>23 022</u>	<u>24 772</u>	<u>...</u>	<u>4.0</u>	<u>...</u>	<u>11.0</u>	<u>7.6</u>	<u>...</u>
Commerce, financial institutions and insurance	143 960	148 388	...	28.9	...	5.3	3.1	...
Real estate <sup>b/</sup>	34 887	35 794	...	7.6	...	2.6	2.6	...
Community, social and personal services <sup>c/</sup>	79 566	84 893	...	14.9	...	6.1	6.7	...
<u>Subtotal other services</u>	<u>258 413</u>	<u>269 075</u>	<u>...</u>	<u>51.4</u>	<u>...</u>	<u>5.2</u>	<u>4.1</u>	<u>...</u>
<u>Subtotal services</u>	<u>281 435</u>	<u>293 847</u>	<u>300 217</u>	<u>55.3</u>	<u>56.3</u>	<u>5.6</u>	<u>4.4</u>	<u>2.2</u>
<u>Total gross domestic product</u>	<u>504 489</u>	<u>525 879</u>	<u>526 064</u>	<u>100.0</u>	<u>100.0</u>	<u>5.9</u>	<u>4.2</u>	<u>1.9</u>

**Source:** 1970-1975: CEPAL calculations on the basis of figures supplied by the Bank of Mexico; 1976: CEPAL 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.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Refers to ownership of dwellings only.

<sup>c/</sup> Also includes restaurants, hotels and services provided to enterprises.

Table 4

MEXICO: VARIATION IN THE GROSS DOMESTIC PRODUCT  
OF THE AGRICULTURAL SECTOR

	Annual growth rates				
	1972	1973	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>
Total agricultural	1.1	2.1	2.8	1.3	-2.0
Crop farming	-2.5	1.9	3.2	0.2	-4.8
Livestock	7.2	1.8	1.7	3.6	2.5
Forestry	8.2	6.8	6.3	0.0	0.0
Fisheries <sup>a/</sup>	3.4	3.8	1.0	3.4	-6.0

Source: CEPAL, on the basis of official data.

<sup>a/</sup> Preliminary figures.

/This process

This process was reflected in the trend of the manufacturing product, whose growth rate fell from 8.9 per cent a year in the decade 1960-1970 to 5.3 per cent a year in the period 1970-1976, and in that of its main components. Thus, the rate of increase in the production of non-durable consumer goods fell from 7.2 per cent to 5.3 per cent; that of intermediate goods, where the possibilities for import substitution are still broad, from 10 per cent to 7 per cent, and that of capital goods and consumer durables from 12 per cent to 5 per cent.

This pattern was further accentuated by the slow growth of agriculture during the period and, from 1974 onwards, by the increase in the inflationary pressures which particularly affected the lower income groups of the population and their already limited consumption of manufactured goods. The situation of organized groups of workers was not the same, however, since to some extent they recovered the lost purchasing power because of the official wages policy. Official financial machinery such as the National Workers' Credit Fund (FONCOT), mechanisms for controlling the prices of some basic goods, and arrangements for direct sales of those goods, in some cases at subsidized prices, also helped to improve the levels of consumption of the population.

During 1976 the volume of exports of manufactures - which in the previous year had declined by 15.5 per cent after accentuated growth from 1970 onwards - rose by a little over 4 per cent.

It is still too early to assess how sales abroad will be affected by the policy changes made, especially the modification of the parity of the peso compared with the dollar during the last quarter.<sup>6/</sup> Although the devaluation put exporters in a better competitive position, the subsequent increase in prices of imports and salary rises partially

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<sup>6/</sup> The Ministry of Finance and Public Credit adopted a series of measures designed to make the administrative procedures for the export of manufactures more flexible. To the same end, measures were also introduced which broadened the fiscal and financial stimuli.



destroyed this initial advantage. Furthermore, the delay in the recovery of the industrialized economies, which was slower than had been expected, prevented a full assessment of the effectiveness of the measures adopted.

(i) Mining. During 1976 mining began to recover from the contraction of the previous year. On the basis of the provisional figures available it is estimated that production rose by 3 per cent in contrast with the decline of over 4 per cent in 1975.

Although with a very few exceptions the unfavourable external demand situation persisted, the sector did expand somewhat as the result of an improvement in the sales of the products which contribute most to export earnings, such as refined silver and zinc, which together represent nearly 50 per cent of the value of mining exports. In this respect, the implementation of a major mining project 7/ which increased the production of silver by rather more than 4 per cent made it possible to take advantage of the favourable international demand for this metal. There was also a major rise (over 17 per cent) in zinc exports, although the price of the metal fell slightly (see table 5).

Copper production, mostly for the domestic market, also rose intensely (14 per cent) with the entry into operation of extensions to the main producer's facilities. Lead production, however, fell steeply for the second consecutive year because of labour problems which made the country's largest refining plant temporarily inactive.

Production of inputs for the iron and steel industry expanded by 5 per cent, mainly because of the increase in coke and iron output in connexion with new extensions to two iron and steel plants and the substitution of pig iron for scrap in the steel making process.

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7/ The new Los Cedros and Las Torres mines in Guanajuato will produce 9 million ounces of silver a year, and with three more projects the total production of silver will increase by 38 per cent.

Table 5  
MEXICO: INDEXES OF MINING PRODUCTION

	Annual growth rates		
	1974	1975	1976a/
<u>Total mining production</u>	<u>9.1</u>	<u>-4.3</u>	<u>3.0</u>
<u>Precious metals</u>	<u>-2.4</u>	<u>1.6</u>	<u>4.5</u>
Gold	1.3	7.6	6.8
Silver	-3.2	1.4	4.3
<u>Non-ferrous industrial metals b/</u>	<u>7.1</u>	<u>-9.3</u>	<u>5.5</u>
Zinc	-3.2	-4.2	17.4
Lead	21.6	-18.1	-13.3
Copper	2.7	-5.4	14.0
<u>Metals and minerals for the steel industry c/</u>	<u>7.7</u>	<u>1.6</u>	<u>5.2</u>
Coke	7.0	0.9	3.4
Iron	7.2	0.9	6.0
<u>Non-metallic minerals d/</u>	<u>23.0</u>	<u>-1.8</u>	<u>-4.6</u>
Sulphur	44.4	-6.8	-3.4
Fluorite	2.4	-2.3	-9.2

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Also includes arsenic, antimony, cadmium, mercury, bismuth, molybdenum, tungsten, selenium and tin.

c/ Also includes coal and manganese.

d/ Also includes barite, graphite, dolomite, kaolin, silica, gypsum, phosphorite, limestone, sodium sulphate, feldspar and magnesite.

/Among non-metallic

Among non-metallic minerals, production of the two most important items - sulphur and fluorite - diminished as in the previous year (see table 5). In the case of fluorite, exports diminished above all because of the contraction in external demand due to the lower level of iron and steel activity in the United States and the lower demand for other products for which it is an input (aerosol sprays, refrigerators, etc.). Another factor in the decline was the increase in international supply due to the opening of new sources of fluorite in South Africa.

During 1976 a start was made on the implementation of the mixed investment programme promoted and totally or partially financed by the State through the Mining Promotion Commission. This programme covers the period 1976-1980 and comprises various projects to a total value of 23 billion pesos which will consolidate and expand mining activity, supply the domestic market more fully, and substantially increase exports, from which it is estimated that a foreign exchange income of nearly 13 billion pesos a year can be obtained. The new investments will also make it possible to carry out increasingly advanced manufacturing processes such as the manufacture of semi-finished and finished products.<sup>8/</sup>

(ii) Petroleum and petrochemicals. During 1976 the product of the petroleum sector grew by around 9 per cent, compared with 11 per cent in the previous year and 16 per cent in 1974 (see table 3). This slower growth was associated with the drop in the growth rate of

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<sup>8/</sup> The main projects include the following:  
Real de Angeles, Zacatecas. With an investment of 1.1 billion pesos it is expected to obtain 5.5 million ounces of silver, 18,000 tons of lead and 21,000 tons of zinc.  
La Caridor-Sta. Rosa, Sonora. Investment estimated at 10 billion pesos for a complex which will produce 150,000 tons of electrolytic copper.  
Rofomex, San Hilario, Baja California Sur. Development of a deposit of phosphate rock, through an investment of 5 billion pesos, to obtain 1.3 million tons of concentrate in the first stage.  
Zincamex, Saltillo, Coahuila. Investment of 300 million pesos to expand the current installations and increase zinc production by 20,000 tons a year.

extraction activities from over 18 per cent in 1975 to 7.5 per cent in 1976. This decline was not offset by the increase of the growth rate of refining from nearly 4 per cent in 1975 to 11 per cent in 1976 (see table 6). Exports, for their part, increased from 6.2 million cubic metres in 1975 to nearly 7 million in 1976, largely because of shipments of crude abroad for refining and re-importation.

The performance of the sector during 1976 reflected a policy of moderate exploitation of new deposits and limitation of sales abroad. Furthermore, the commissioning of the Tula refinery in the middle of the year made it possible to raise the degree of refining and cease shipments for refining abroad in the last few months.

As regards the individual products, a trend was observed towards the production of cheaper grades of gasoline rather than high-priced types, and there was a general tendency towards slower growth of automobile fuel production because of the drop in demand due to the higher prices.

In November Petróleos Mexicanos (PEMEX) was authorized to increase the prices of its products.<sup>9/</sup> This increase was made in accordance with the policy followed by PEMEX since 1974, which is aimed at covering costs fully and generating increasing savings for its investment projects.

The growth rate of the petrochemicals industry went down significantly, from just over 12 per cent in 1975 to 4 per cent in 1976. This was mainly due to limitations in the installed capacity and the delay in executing major investment projects.

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<sup>9/</sup> The price of gasoline rose by 33 per cent, that of bottled gas by 12 per cent per kilogramme, and that of diesel fuel by 15 per cent per litre.

Table 6

MEXICO: GROWTH OF PETROLEUM AND COKE PRODUCTION

	Annual growth rates					
	1971	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Total</u>	<u>2.8</u>	<u>1.9</u>	<u>1.4</u>	<u>16.2</u>	<u>8.5</u>	<u>11.5</u>
Crude and condensed petroleum	2.4	7.7	1.2	16.6	8.7	11.7
Refining <sup>b/</sup>	2.2	11.0	-0.2	13.7	3.8	11.0
Extraction	-1.3	3.3	3.1	29.7	18.4	7.5
Coke	16.6	9.3	10.0	5.9	1.4	2.5

Source: Banco de México, S.A.

a/ Preliminary figures.

b/ Total crude and liquids processed.

/(iii) Manufacturing.

(iii) Manufacturing. The effects of devaluation on the prices of imports and their influence on domestic costs 10/ and prices had adverse repercussions on the demand for manufactured products, thus helping to aggravate the depressive trends that have been recorded in that demand for the past two years. As a result, the manufacturing product grew only slightly, by 3.4 per cent, during the first eight months of 1976. The contraction recorded in the last three months, which was directly associated with the situation mentioned above, meant that the increase for the whole year was finally less than 2 per cent (see table 7).

This slow growth was mainly due to the contraction of domestic demand, which was reflected above all in the drops of 0.4 per cent in the production of consumer goods and 12.2 per cent in that of investment goods.

The branches manufacturing raw materials showed a moderate increase of 3.8 per cent, which contrasted favourably with the decline of 3.3 per cent in 1975 but was well below the growth rates recorded in previous periods.

The branches producing non-durable consumer goods which were most affected by the deterioration of domestic demand included food processing and particularly beverages and tobacco, whose combined production diminished by 7 per cent. Other branches affected were textiles (due to the decline in the production of synthetic fabrics which was not offset by the increased production of cotton yarn and fabrics) and footwear and clothing.

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10/ Internal costs were influenced still more because of the increased cost servicing debts contracted in foreign currency.

Table 7

MEXICO: GROSS DOMESTIC PRODUCT OF THE MANUFACTURING SECTOR, AT MARKET PRICES

	Weighting in 1970	Annual growth rates					
		1971	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Total</u>	<u>100.0</u>	<u>3.1</u>	<u>8.2</u>	<u>8.9</u>	<u>5.7</u>	<u>3.9</u>	<u>1.8</u>
Food, beverages and tobacco	26.5	1.0	5.5	4.9	3.4	5.4	1.7
Textiles	10.3	5.4	8.2	8.1	2.1	2.7	0.8
Footwear and clothing	13.5	7.6	8.4	9.5	2.7	6.0	1.0
Wood	1.9	-5.2	7.2	6.0	9.8	3.7	4.1
Paper and paper products	2.5	-7.1	5.6	11.2	12.2	-6.4	9.9
Printing and publishing	3.2	-1.1	13.1	0.6	6.7	4.9	7.6
Rubber products	1.4	11.0	10.9	7.1	1.5	9.5	11.5
Chemical products	8.1	10.1	14.0	10.0	3.9	2.4	4.6
Non-metallic minerals	5.1	8.6	11.5	16.4	5.6	6.2	7.7
Basic metals industry	5.4	2.7	12.4	8.2	11.2	-2.9	1.3
Machinery	7.9	0.1	6.8	12.0	5.6	7.4	10.2
Transport equipment	6.6	5.9	9.9	18.3	19.2	5.2	-10.6
Other industries <sup>b/</sup>	7.6	4.5	2.6	8.3	6.3	-2.4	-5.8

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Includes the leather and leather products industries and the manufacture and repair of metal products.

/Among durable

Among durable consumer goods and investment goods, the most significant decline (11 per cent) was in the production of motor vehicles, with consequent repercussions on the iron and steel industry. This performance was influenced by the decline in sales of vehicles, particularly of the popular type, demand for which was also affected by the lack of credit. The increase of more than 10 per cent in the product of the machinery branch was decisively influenced by the growth of 18 per cent in the production of electrical equipment, the demand for which very probably increased because of expectations of price rises but was also helped by State financing made available through FONACOT.

In the intermediate goods industry the performance of the branches was uneven. While the expansion in the paper and rubber products branches was outstanding (10 per cent and 11.5 per cent respectively), that of the chemical industry and basic metals was slow, in response to lower demand (see table 7). A special case was the production of fertilizers, where the lack of dynamism was probably attributable to shortcomings in the installed capacity, since approximately 50 per cent of the plants have been in use for more than 20 years.

It is estimated that in general manufacturing was not affected by shortcomings in the supply of inputs during 1976. Its growth was limited, however, by the scant supply of credit and the restrictions on installment sales imposed by shopkeepers as a result of the official credit policy.

During the year the public sector brought into operation the "Lázaro Cárdenas" steelworks at Las Truchas with a capacity of 1.3 million tons of steel a year and also expanded the production capacity of Altos Hornos de México, which currently amounts to 3.75 million tons of steel a year. As soon as production is normalized in the new iron and steel installations, there should be an exportable surplus of both steel and manufactured iron and steel goods.



(iv) Industrial policy. In 1976 the State adopted a number of measures, both of a short-term and a medium- and long-term nature, aimed at orienting and strengthening the industrialization process.

The short-term measures include those which accompanied the change in the exchange rate and others which affected the general tax on exports. In September the export taxes were increased and new taxes were imposed on manufactures and semi-manufactures. This measure was designed to absorb part of the surplus which would be generated by the greater income in national currency earned by exporters as result of devaluation and also to avoid possible shortages in the supply of the national market because of the export of stocks. Before the end of the year, however, it was decided to abolish the latter taxes because the rise in the prices of inputs and the readjustments of wages and salaries were, in the view of the authorities, largely nullifying the external competitiveness which was sought and which should have been favoured by the devaluation of the peso.

With the same objective, the Ministry of Finance reintroduced Indirect Tax Refund Certificates (CEDIS), which had been abolished on 1 September. Since their reintroduction, however, the treasury authorities have tried to make this subsidy more selective, as a function of the degree of competitiveness which it is desired to attain.

In a longer-term perspective, mention may be made of the establishment of two official bodies: the National Co-ordinating Commission for Industrial Development and the Co-ordinating Commission for the Development of the Machinery and Equipment Industry.11/

The objectives of the first of these Commissions include standardizing the activities of bodies and institutions which participate

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11/ These two Commissions were created by decrees of 16 March 1976 and will be made up of the Deputy Ministers of Finance and Public Credit, the National Patrimony, and Industry and Commerce, as well as by the Director of the Nacional Financiera (National Finance Company) and the Presidents of the National Confederation of Chambers of Industry and of the National Chamber of Manufacturing.

in the promotion of industrialization and formulating goals and short- and medium-term programmes for the development of the industrial sector, as well as the policy measures needed to carry them out.

The Co-ordinating Commission for the Development of the Machinery and Equipment Industry, for its part, will be responsible for co-ordinating the activities of the subsidiary bodies of the Executive and the bodies and institutions which participate in the development of this branch of industry; formulating short- and medium-term goals for securing rapid development of the branch; recommending to the competent authorities suitable incentives and support measures; promoting the production and sale of machinery, tools and equipment, and carrying out the necessary studies for this purpose.

After the change of administration a series of measures were introduced to restructure the Government apparatus concerned with the industrial sector. These measures include the amalgamation of the bodies of the para-State public administration into a central body - the Ministry of the National Patrimony and Industrial Promotion - in which the functions of programming, budgeting and appraisal of the sector are centralized.

Finally, stress should be laid on the importance of the agreements already mentioned which the Federal Government made with the private and mixed industrial sector. These agreements include investment projects totalling 100 billion pesos and commitments for the promotion and development of priority areas of the economy.<sup>12/</sup> The industrial activities defined as priority are energy, petrochemicals, iron and steel, mining, transport, capital goods and mass-consumption goods.

There are 10 agreements, made with 140 enterprises, which could generate 300,000 jobs. They represent the first step in realizing the Alliance for Production proposed by the new administration. This

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<sup>12/</sup> In this respect, special importance is attached to industrial promotion in the Federation's budget for 1977, in which 33 per cent of total net expenditure is devoted to strengthening industrial development, compared with 24 per cent in 1976.

Alliance defines the role of the State as guide and supervisor of the economy and specifies that it will be for the State to study such reforms of policy instruments as are needed to regulate and promote industrial growth. Thus, the investment of the public sector and para-State bodies will be programmed in the medium and long term so that the entrepreneurial sector can plan its own expansion. In this way it is hoped to secure self-sufficiency in the production of essential foods and strategic energy products and industrial inputs, and also an increase in exports of manufactures.

The objectives which are sought in the various industrial branches are:

1. To link investment in the petrochemicals industry with the PEMEX expansion programme in order to meet domestic demand fully and also participate in the international market;

2. To integrate the industrial sector vertically as regards capital goods. For this purpose, provision will be made for the investments needed to expand the supply of these goods on the basis of close co-ordination with the para-State bodies which constitute an important part of the capital goods market, while the rate of expansion and the plan for the corresponding purchases will also be programmed;

3. To establish a commitment to cover the level of integration of the automobile sector fixed for the period 1977-1982 as regards the automobile parts industry. It is also envisaged that appropriate stimuli will be given to production for the external market. As regards the terminal section of the motor vehicle industry, the short-term goal is to secure an equilibrium in the trade balance of each enterprise, while also determining the degrees of integration and production quotas.

### 3. The external sector

During 1976 the external sector was subjected to intense pressures, and the problems raised by a disequilibrium which had been affecting the economy since the previous decade, sometimes reaching critical proportions, continued to be clearly manifested up to September.

On the export side, despite the range of Government measures adopted to support exports and the signs of a gradual recovery in the markets of various industrialized countries, increasing difficulties again emerged in entering the world manufactures market and once again the limitations due to the insufficient exportable supply of some goods became evident.

On the import side, the advance made in continuing the substitution process was slight, and only the slow growth of the economy, plus the effects of the devaluation, helped to contain the level of imports. The adverse repercussions of factor payments related to foreign investment and the burden of external borrowing which was resorted to over a long period to sustain increased expenditure and thus stimulate the economy were strongly felt.

This problem of acute external disequilibrium was augmented by uncertainty and speculation, thus generating one of the most serious balance-of-payments crises in the economic history of Mexico. The abandonment of fixed exchange parity, largely attributable to this dual crisis of both a structural and short-term nature, was reflected in varied repercussions of different types which had not yet emerged in full force by the end of the year. Thus, while no decisive effects were visible as regards exports, the impact on foreign purchases of goods and services was more marked, although still incipient. During the brief period since the floating of the peso, some slackening in speculative activity was to be observed, although the outflow of capital continued quite strongly and there were also significant pressures both on the country's monetary reserves and on the external debt of the public sector. This naturally accelerated the rate of external borrowing, and moreover under less favourable contracts not necessarily linked with the financing of specific investment projects.

(a) The current account

The current account of the balance of payments showed a deficit of 3,300 million dollars, a figure equivalent to nearly 50 per cent of the current foreign exchange income (see table 8). Even so, this deficit was nearly 770 million dollars less than the unprecedented deficit of the previous year. This relative reduction was influenced by the devaluation of the peso, since up to August the level of the imbalance had remained similar to that of the first eight months of the previous year.

The increase of more than 15 per cent in the value of exports of goods was mainly due to the rise in international prices (13 per cent) and only to a much lesser extent to an increase in the volume exported (see table 9). The economic reactivation of most of the industrialized countries with which Mexico carries out trade transactions produced export opportunities and encouraged an increase in prices for most of the articles which the country exports. The stimulus this represented for exporting greater volumes of merchandise was not, however, fully evident, not only because during the first two-thirds of the year the incentive was insufficient to counteract the overvaluation of the peso, as occurred in the case of manufactures, but also because various factors led to a decline in the volumes available for export.

Thus, supply problems led to a decline in exports of footwear (16 per cent), cotton (9 per cent) and phosphoric acid (28 per cent). Sugar - a product which some years ago occupied a very prominent place in sales abroad - was no longer exported at all. The decline in the sales of refined lead (42 per cent) was mainly due to a change in external demand in favour of the raw material (unrefined lead). Moreover, the increase in the domestic price of the raw materials for producing hormones led to a reduction in exports. Finally the decline in the domestic demand for automobiles led to a reduction in the export requirements to which the assembly firms are subject as part of the industrial integration policy, and this was reflected in a decline of sales of automobiles and parts abroad (see table 10).

Table 8  
MEXICO: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>Current account</b>					
Exports of goods and services	3 736	4 743	6 222	6 134	6 708
Goods FOB	1 882	2 419	3 443	3 445	3 976
Services	1 854	2 324	2 779	2 689	2 732
Transport	79	135	182	206	221
Travel	1 493	1 792	2 056	2 142	2 151
Imports of goods and services	4 016	5 236	7 765	8 460	7 997
Goods FOB	2 643	3 656	5 790	6 283	5 726
Services	1 373	1 580	1 975	2 177	2 271
Transport	179	292	439	516	495
Travel	870	953	1 154	1 332	1 436
Net payments of profits and interest on foreign capital	-700	-997	-1 447	-1 856	-2 118
Profits	-435	-581	-794	-948	-1 060 <sup>b/</sup>
Interest	-265	-416	-653	-908	-1 058
Net private transfer payments	54	66	100	114	105
Balance on current account	-926	-1 424	-2 890	-4 068	-3 302
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	926	1 424	2 890	4 068	3 302
(a) Net external non-compensatory capital	1 214	2 184	3 687	4 968	} 2 969
Direct investment	301	457	678	749	
Long- and medium-term loans	1 208	2 383	3 092	4 571	
Amortization payments	-609	-924	-640	-1 027	
Short-term liabilities	304	260	544	663	
Official transfer payments	10	8	13	12	
(b) Domestic non-compensatory capital or assets	-274	-666	-378	-148	
(c) Errors and omissions	164	47	-381	-582	
(d) Allocation of SDRs	42	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-220	-141	-38	-170	333
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	...
Amortization payments	-	-	-	-	...
Variation in gross international reserves (minus sign signifies an increase)	-220	-141	-38	-170	
Foreign exchange (minus sign signifies an increase)	-190	-154	-78	-222	...
Gold (minus sign signifies an increase)	12	13	41	-	...
SDRs (minus sign signifies an increase)	-42	-	-1	52	...

Sources: 1972-1975: International Monetary Fund, Balance of Payments Yearbook, vol. 28;  
1976: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Includes reinvested profits.

Table 9

MEXICO: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentages)

	1972	1973	1974	1975	1976 <sup>g/</sup>
<u>Exports of goods</u>					
Value	24.9	28.6	42.3	0.1	15.4
Volume	20.6	6.8	-	-3.2	2.1
Unit value	3.6	20.4	42.3	3.3	13.0
<u>Imports of goods</u>					
Value	21.3	38.4	58.4	8.5	-8.9
Volume	17.8	18.5	21.7	-0.5	-12.4
Unit value	3.0	16.8	30.1	9.1	4.0
<u>Terms of trade</u>	0.5	3.1	9.4	-5.2	8.7

<sup>g/</sup> Preliminary figures.

Table 10

MEXICO: INDEXES OF THE VOLUME OF EXPORTS OF SOME SELECTED PRODUCTS

	Indexes (1970 = 100)			Annual growth rates	
	1974	1975	1976	1975	1976
Raw cotton	77.9	73.2	66.7	-6.0	-8.9
Raw coffee	143.3	169.9	196.1	18.6	15.4
Tomatoes	82.3	89.8	96.6	9.1	7.6
Leaf tobacco	245.2	163.2	160.5	-33.4	-1.6
Cattle	38.9	24.2	50.4	-37.8	108.3
Fresh or chilled meat	58.8	23.5	58.1	-60.0	147.2
Honey	98.0	133.0	223.3	35.7	67.9
Shrimps	99.1	109.7	108.6	10.7	-1.0
Refined lead	139.2	125.9	72.4	-9.6	-42.5
Refined zinc	193.0	226.4	321.9	17.3	42.2
Sugar	73.9	32.0	-	-56.7	-
Natural hormones	113.5	82.7	61.1	-27.1	-26.1
Iron and steel pipes	175.5	146.2	251.0	-16.7	71.7
Glass and glass manufactures	196.1	229.3	291.4	16.9	27.1
Footwear	192.4	184.6	154.3	-4.0	-16.4
Phosphoric acid	220.3	102.3	73.8	-53.6	-27.9
Yarn and manufactures of henequen	154.1	59.6	129.2	-61.3	116.8
Cotton yarn	353.8	270.5	241.6	-23.5	-10.7

Sources: CEPAL, on the basis of official figures.

/Among the



Among the items which developed favourably as a result of the increase in prices were tomatoes (8 per cent), coffee (15 per cent), refined zinc (42 per cent), henequen manufactures (117 per cent), clothing (between 3 and 10 per cent), glass (27 per cent), and some selected capital goods. During 1976 the country also reasserted its position as a net exporter of hydrocarbons, attained in 1974, as a result of the discovery of new deposits and the policy of expanding the refining capacity.

The foreign exchange income from tourism, in dollars, increased by only 2.6 per cent. In pesos and in real terms, however, this income grew at a higher rate, since the devaluation of the national currency more than outweighed the domestic price increases. During the year some adverse short-term factors such as the strong competition abroad to attract tourists and the decline in the United States tourist flow to Mexico were overcome, at least partially. Nevertheless, the attraction of the floating exchange rate for tourists had not, by the end of 1976, produced such appreciable increases in the number of visitors or in the length of their stay in the country as to significantly expand the foreign exchange income of the sector. This was due both to the shortness of the period which had passed since devaluation and to the rise in internal prices which it provoked.

Frontier transactions and subcontracting services did not react either to the extent which might have been expected from the exchange readjustment. Frontier transactions rose by only 4.4 per cent and income from subcontracting activities by 14.5 per cent in the first eight months, compared with the rates of 9 and 27 per cent recorded in the same period of the previous year. As in the case of tourism, the incentive given by devaluation was reflected in the export of greater volumes of goods and services, but this reaction was not sufficient to offset fully the deterioration in prices due to floating.

The devaluation, and also to some extent the tariff measures adopted from 1975 onwards, discouraged imports of goods and services, which fell between September and December by nearly 500 million dollars

/compared with

compared with the level attained in 1975. Exports of goods and services, however, maintained the growth rate recorded during the months previous to the floating (around 11 per cent).

Current foreign exchange expenditure diminished by 0.8 per cent as a result of two opposing trends. The first was the decrease of nearly 9 per cent in imports of goods and the 4 per cent decline in the expenditure of Mexican tourists abroad. These declines largely reflected the pronounced loss of purchasing power of the peso abroad and, in the case of goods, the modest growth of the economy and the efforts of the Government to contain these purchases.

On the other hand, there was an intense increase in outflows corresponding to frontier transactions (10 per cent), sales of international travel tickets (15 per cent) and payments in connexion with direct foreign investment (12 per cent), despite the fact that the floating of the peso helped to check the even higher growth rates which had been recorded in these outflows up to September.<sup>13/</sup> Finally, payments of interest on the official public debt showed the same rising trend (24 per cent) as in the first months of the year and in recent years in general, reflecting the absolute increase in indebtedness and the less favourable conditions of borrowing.

The decline in the value of imports of goods was mainly due to the lower volume (-12 per cent), which in turn was associated with the lower rate of economic activity. The unit value of imports of goods, for its part, rose moderately (see table 10).

The drastic decline of over 50 per cent in imports of consumer goods was due in particular to the reduction in the special purchases of maize compared with the previous year. The volume of raw materials imported fell by 4.5 per cent, the lower purchases of scrap iron and steel smelting products for the steel industry and inputs for food production being of particular significance. In contrast, imports of capital goods rose by less than 1 per cent in real terms (see table 11).

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<sup>13/</sup> During the 8 months prior to devaluation these rates amounted to 13 per cent, 33 per cent and 17 per cent, respectively, compared with the same period of the previous year.

Table 11  
MEXICO: IMPORTS OF GOODS, BY ECONOMIC DESTINATION

	Millions of dollars			Annual growth rates		
	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Total</u>	<u>6 057</u>	<u>6 580</u>	<u>6 030</u>	<u>58.8</u>	<u>8.6</u>	<u>-8.4</u>
Consumer goods	802	793	374	83.4	-1.1	-52.8
Intermediate goods	2 882	2 727	2 665	70.5	-5.4	-2.3
Capital goods	1 705	2 368	2 472	28.8	38.9	4.4
Others	668	693	519	83.6	3.7	-25.2

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Preliminary figures.

/The public

The public sector adopted a strict policy regarding acquisitions of imported goods, and this, together with the scant increase in the sector's investment expenditure, led to a decline in imports of over 13 per cent. The private sector also reduced its purchases of imported goods, although in a much less pronounced manner (see table 12).

(b) The capital account

The deficit on current transactions, although appreciable, was less than that of the previous year, thus reversing the rising trend which had been recorded in recent years. The speculative transactions which had been carried out before the abolition of fixed parity and even more so after this decision led to a significant outflow of capital, however, and forced the public sector to resort once again to massive external borrowing, including borrowing of a compensatory nature, and to make intensive use of its monetary reserves in order to meet the exceptional demand for foreign currency.

In order to appreciate the amount of the outflow of capital, it only needs to be pointed out that the net movements of short-term capital (including errors and omissions in the balance of payments) showed a deficit of 2,200 million dollars, while in the year before this amount, although also negative, had been 400 million, and in previous years it had been much less. If it is also borne in mind that short-term external borrowing by the official banking bodies and public sector enterprises increased by over 1,300 million dollars, it may be concluded that the total outflow of private capital may have exceeded 3,500 million dollars. As a result, the net long-term borrowing and the utilization of the country's reserves required to finance net expenditure on current account and the net outflow of short-term capital exceeded 5,200 million dollars, which represents around three quarters of the country's current foreign exchange income. The net long-term commitments entered into to finance this requirement came to 4,890 million dollars and the decline in reserves needed to complement these resources amounted to 333 million dollars, so that by the end of the year the reserves were down to just over 1,400 million dollars.

Table 12  
MEXICO: IMPORTS OF GOODS BY THE PUBLIC AND PRIVATE SECTORS

	1972	1973	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>
<u>Millions of dollars</u>					
<u>Total</u>	<u>2 718</u>	<u>3 813</u>	<u>6 057</u>	<u>6 580</u>	<u>6 030</u>
Public sector	645	1 223	2 202	2 498	2 167
Private sector	2 073	2 591	3 855	4 082	3 863
<u>Annual growth rates</u>					
<u>Total</u>	<u>20.6</u>	<u>40.3</u>	<u>58.8</u>	<u>8.6</u>	<u>-8.4</u>
Public sector	42.4	89.5	80.1	13.4	-13.2
Private sector	15.1	25.0	48.8	5.9	-5.4

Source: Ministry of Industry and Trade.

<sup>a/</sup> Preliminary figures.

/As regards

As regards the long-term commitments, the contribution of new direct foreign investment amounted to only 330 million dollars (compared with 360 million in 1975) and the procurement of credit from the exterior by private bodies came to 375 million dollars (also lower than the 1975 figure). In contrast, the long-term external debt of the public sector rose by more than 4,200 million dollars to a total of nearly 15,850 million dollars (see table 13). Of this increase, 2,700 million dollars consisted of net credit from the exterior, a figure almost 300 million dollars lower than that of the previous year because of the increase in amortization payments and because the new disbursements generally remained at the same level. The issue of securities and Government borrowing increased sharply by over 1,500 million dollars. Half the net additional borrowing was carried out through Government-owned enterprises, particularly those which produce energy (somewhat more than a quarter); around a third was effected through State financial institutions and 17 per cent was directly contracted by the Federal Government.<sup>14/</sup>

The unpegging of the exchange rate after 22 years affected holders of savings and liquidity. Conversion to dollars was a widespread and almost immediate reaction to the announcement of the abandonment of fixed parity. The outflow of capital, together with the slowness of the favourable effects of the new exchange parity on current transactions and the flow of capital for investment, put pressure on the rate of exchange by accentuating uncertainty and thus encouraging further outflows. In order to deal with this situation the Government resorted to measures such as securing compensatory loans and continuing to allow the peso to float, after having supported the exchange rate in order to eliminate erratic fluctuations.

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<sup>14/</sup> Preliminary estimates place the total short- and long-term external public debt at 20,000 million dollars at the end of the year, of which around 80 per cent was for a term of over one year and the remaining 20 per cent was short term. It should also be noted that the structure of the long-term debt has been characterized by a trend towards shorter periods and higher rates of interest.

Table 13

MEXICO: EXTERNAL PUBLIC DEBT, BY KIND OF ECONOMIC ACTIVITY, 1972-1976

(Millions of US dollars)

	Balance at December					Annual growth rates			
	1972	1973	1974	1975	1976 <sup>a/</sup>	1973	1974	1975	1976 <sup>a/</sup>
<u>Total</u>	<u>5 065</u>	<u>7 070</u>	<u>9 975</u>	<u>14 449</u>	<u>20 800</u>	<u>39.6</u>	<u>41.1</u>	<u>44.9</u>	<u>30.4</u>
<u>Medium and long-term</u> (one year or more)	<u>4 322</u>	<u>5 732</u>	<u>7 981</u>	<u>11 612</u>	<u>15 846</u>	<u>32.6</u>	<u>39.2</u>	<u>45.5</u>	<u>36.5</u>
Agricultural activities	6	101	190	704	1 410	1 608.5	88.7	270.3	100.2
Energy	1 688	2 064	2 918	4 223	5 292	22.3	41.4	44.7	25.3
Industry	556	764	1 055	1 839	2 821	37.5	38.1	74.3	53.4
Transport and communications	895	995	1 225	1 479	1 822	11.2	23.1	20.7	23.2
Construction	33	124	216	317	570	275.2	73.7	46.9	80.1
Other activities	320	473	602	1 031	1 220	47.8	27.3	72.5	17.5
Federal Government	824	1 211	1 775	2 011	2 710	46.9	46.6	13.3	34.7
<u>Short-term (less than</u> <u>one year)</u>	<u>742</u>	<u>1 339</u>	<u>1 994</u>	<u>2 837</u>	<u>4 954</u>	<u>80.3</u>	<u>49.0</u>	<u>42.3</u>	<u>46.4</u>
Agricultural activities	389	521	852	521	925	34.0	63.5	-38.8	77.5
Energy	14	157	65	291	628	1 022.1	-58.6	347.5	115.9
Industry	216	274	456	606	1 150	26.9	66.6	32.8	89.8
Construction	21	22	29	6	100	1.4	34.9	-79.3	1 566.7
Other activities	103	365	592	1 413	1 351	256.0	62.1	138.6	-4.4

Sources: CEPAL, on the basis of figures supplied by the Ministry of Finance and Public Credit.

<sup>a/</sup> Preliminary figures.

/The authorities

The authorities of the International Monetary Fund were requested access to the Fund's resources and the same approach was made to the United States Treasury and Federal Reserve System. In response to the request, the International Monetary Fund granted credit support for a total amount equivalent to 960 million dollars, with the possibility of raising the amount to 2,200 million dollars. Approximately 22 per cent of this support came from the Fund's compensatory financial facility; 16 per cent was constituted by a drawing on the first credit tranche and the rest was granted from the expanded facility to be use over three years on condition, as specified in the corresponding agreement, that structural adjustments are made to correct the balance-of-payments difficulties during this period. The Government presented to the authorities of the Fund the economic policy programme which the institution requires in such cases. The programme aims to achieve this adjustment through measures to secure certain goals in production, balance of payments, public finances, prices and wages, remunerated employment and monetary circulation. The commitments include the limiting of the growth of credit, money and expenditure, particularly of the public sector, and of enforcing a strict prices and incomes policy, aimed at limiting the inflationary pressures and the disequilibria of the balance of payments and public finances.

#### 4. Prices and wages

In 1976 prices showed one of the biggest increases in recent decades. The available information indicates that in the country as a whole the average variation in consumer prices amounted to 15.8 per cent and in Mexico City to 16.1 per cent, while wholesale prices during the same period rose on average by 22.3 per cent (see table 14).

The increases in food prices to the consumer were lower than those of other articles, particularly services, and the same was true in wholesale prices. Food and articles for the home showed relatively more moderate price increases, at least in comparison to those of raw materials - essentially the unprocessed ones - and those recorded at the end of the year for fuels, energy, vehicles and accessories.



Table 14

## MEXICO: EVOLUTION OF DOMESTIC PRICES

	Indexes (1970 = 100) <sup>a/</sup>					Annual growth rates							
						End of period				Annual averages			
	1972	1973	1974	1975	1976 <sup>b/</sup>	1973	1974	1975	1976 <sup>b/</sup>	1973	1974	1975	1976 <sup>b/</sup>
<u>In Mexico City</u>													
<u>Wholesals price index</u>	106.7	123.4	151.2	167.1	204.3	25.2	13.3	13.4	45.9	15.7	22.5	10.5	22.3
Consumer articles	107.9	123.9	152.8	170.2	208.0	23.8	15.3	14.2	41.5	14.8	23.3	11.4	22.2
Food	107.9	124.6	155.3	174.7	208.2	26.3	15.6	15.3	36.8	15.5	24.6	12.5	19.2
Non-food	107.9	122.0	146.7	158.8	207.4	17.9	14.6	11.8	53.9	13.1	20.2	8.2	30.6
<u>Articles for general production</u>	104.6	122.7	148.4	162.1	198.2	27.6	10.1	12.0	53.3	17.3	20.9	9.2	22.6
Raw materials	104.6	130.2	157.2	171.3	211.4	32.1	10.7	12.8	44.2	24.5	20.7	9.3	23.4
Fuels and energy	107.2	111.8	145.7	157.9	182.7	28.4	6.9	8.8	80.4	4.3	31.2	7.6	15.7
Vehicles and accessories	100.2	103.2	106.0	122.1	156.5	0.9	12.6	12.3	60.9	3.0	2.7	15.2	28.2
<u>Consumer price index</u>	111.1	123.5	151.3	176.8	205.3	20.5	20.8	13.3	24.0	11.2	22.5	16.9	16.1
Food	111.2	130.2	165.1	186.1	211.7	28.5	21.2	10.6	20.5	17.1	26.8	12.7	13.8
<u>At the national level</u>													
Consumer price index	110.7	124.0	153.4	176.4	204.3	21.3	20.6	11.3	27.2	12.0	23.7	15.0	15.8
Food	108.9	126.1	163.8	184.4	207.9	27.5	23.1	10.1	22.2	15.8	29.9	12.6	12.7
Nominal minimum wage index	117.6	124.6	169.8	192.9	249.1	18.0	39.0	...	50.2	6.0	36.3	13.6	29.1
Real minimum wage index	106.3	100.4	110.4	109.4	121.8	-2.7	15.3	-10.2	18.1	-5.6	10.0	-0.9	11.3

Sources: Banco de México, S.A.

<sup>a/</sup> Previous base, for consumer prices and wages, 1968, and for wholesale prices, 1954.<sup>b/</sup> Preliminary figures.

The significant pressure on prices was related to the rising trends to which the Mexican economy has been prone for some years and which reached a peak in 1974.

Furthermore, the inflationary effects of the modification of the exchange rate were evident. Inflation was boosted by the violent increase in the prices of imported goods and services, despite the Government's efforts to prevent this through tariff changes and selective price controls. The reluctance of the organized groups of workers and employers to absorb these increases reinforced the upwards trends of prices and salaries and even led to the possibility of a serious inflationary spiral, which was partially dispelled by the agreement of the workers organizations to moderate their demands for wage increases and the commitment of the entrepreneurial organizations to adopt the Government policy of stabilizing, and in a few cases reducing, the level of the prices of a relatively broad range of consumer goods and services.

The floating of the exchange rate also created uncertainty which was reflected in speculation and a lack of fluidity in the supplies of raw materials and capital goods. This generated further inflationary pressures in addition to those already experienced by the economy.

The combination of the factors mentioned in connexion with the floating of the peso caused wholesale prices to rise by nearly a third (31.1 per cent) between September and December, and at the end of the year the upwards pressures were still at work, even though the bulk of the effects of devaluation appeared already to have been absorbed by the economy. In contrast, consumer prices showed an increase of 17 per cent during this period, a moderate increase bearing in mind the size of the devaluation, the rising trend already prevailing before August and the subsequent rise in wholesale prices.<sup>15/</sup>

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<sup>15/</sup> Until August wholesale prices rose by 11.2 per cent and consumer prices by 8.7 per cent compared with those of December of the previous year. Between December and December these rates rose to 45.9 per cent and 27.2 per cent, respectively.

This lower growth rate of consumer prices compared with wholesale prices, which intensified during the last four months of the year, was partly due to the impact of the steps taken by the Government to offset the inflationary effects of the exchange measures. The Government attempted to protect consumers from the increases by three methods. As soon as foreign exchange became more expensive, it imposed price controls over a specific range of basic products including food, certain types of clothing, other non-durable consumer articles and some basic raw materials. Subsequently it authorized moderate price increases for these products, generally of 10 per cent, and slightly more in some carefully defined cases. The Government also increased its share in the marketing of basic consumer products and of agricultural products by a greater increase in the guarantee prices paid to the agricultural producer (between 5 and 23 per cent) than in retail sales prices.

For various months it also followed the policy of not increasing the prices of public services and inputs produced by State-owned enterprises, or by making moderate increases in cases where this policy was not viable. The policy began to be modified at the end of the year in order to allow the financial readjustment required by the public sector in view of the increase in debt servicing in foreign currency due to devaluation and the increase in domestic prices.<sup>16/</sup>

Some wages tended to react vigorously, or even in advance, to increases in average consumer prices. Thus between December 1976 and the same month of the previous year the real minimum wage rose by 18 per cent (see table 14). There was also an increase - although possibly to a lesser extent - in the average real wage in manufacturing industry. The improvement was, however, relative if it is borne in mind that in 1975 there was a real deterioration in these wages. The recovery of wages was thus partly attributable to the measures adopted

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<sup>16/</sup> It should be noted that, in order to improve their financial situation, the pricing policy of enterprises with State participation was modified from 1974 onwards and began to follow the general rising trend.

by the Government to reduce the increase in prices of the basic consumer products and partly to the two increases in nominal minimum wages granted in 1976. These amounted to 22 per cent at the beginning of the year and 23 per cent in October. The latter increase was fixed after prolonged negotiations between leaders of business groups and workers.

Unfortunately no information is available on the evolution of the real average wages of workers whose pay is below or above the minimum salary or who do not work in the manufacturing industry. Nor is there any information to assess the evolution of the real wages of non-salaried workers. Nevertheless, partial data indicate that while the real wages of the more organized workers recovered, or even improved, the situation was different for those who receive wages which are not subject to government control, non-salaried workers and the workers in higher income strata.

Judging by the available information, the number of unemployment also increased because of the loss of dynamism of the economy; it is estimated that at the middle of the year, open unemployment amounted to just over 7 per cent of the economically-active population, that is, 1,100,000 persons.<sup>17/</sup> As the economy expanded less in the second half of the year, this figure may have risen significantly. Unemployment was particularly evident in the construction, textiles, automobile, footwear, beverages and other industries.<sup>18/</sup>

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<sup>17/</sup> CEPAL estimates on the basis of information supplied directly by the Secretariat of Labour.

<sup>18/</sup> The situation in the agricultural sector also remained at the critical levels of recent years.

## 5. Monetary and fiscal policy

The monetary and financial system of the Mexican economy during more than two decades was subject to increasing difficulties in recent years which came to a head in 1976, caused serious upheavals in the economy in general and led to the adoption of drastic measures. At the end of August the fixed exchange parity was abandoned in order to avoid further upheavals and distortions and so as not to have to resort to other economic policy options such as exchange controls. The new exchange system and the collateral measures adopted did not completely resolve the critical situation, although at the end of the year there were signs that the most difficult period of monetary readjustment had passed.

For more than two decades the Mexican economy had grown rapidly influenced by the supply of opportune credit support on favourable terms. This credit was made available taking care to maintain a balance in the allocations of resources among the public and private sectors, and taking into account the goal of not generating excessive inflationary pressures. This was possible because the banking system, through the issue of fixed-income instruments and the establishment of attractive rates of interest compared with those of the exterior successfully managed to secure private savings. Furthermore, the financial requirements of a growth policy had been met on the basis of a flexible management of bank reserve policy, the channelling of banking resources to the acquisition of Government bonds and the additional procurement of external resources.

The confidence in the financial system shown by the holders of savings and foreign lenders undoubtedly played a strategic role in the smooth functioning of the financial intermediation machinery, particularly bearing in mind the great vulnerability of most of the instruments for non-monetary procurement which were gradually created by the banking system. Exchange stability, despite the disparate development of domestic prices compared with those of the exterior, and the free convertibility and transferability of funds, strengthened and

/sustained this

sustained this confidence which also strengthened exchange stability and freedom as basic and traditional objectives of economic policy.

Recently, however, and particularly since 1972, difficulties began to arise in the operation of this machinery. The tapping of savings from the public began to show signs of slackening; between 1972 and 1975, for example, the savings tapped by the banks showed a constant trend to increase less than the financing granted by the banking system (17 per cent and 23 per cent a year, respectively) and even less than the resources tapped in foreign exchange (22 per cent excluding foreign bank loans to the credit institutions) (see tables 15 and 16). In 1976, discounting the effect of the revaluation of the exchange rate, non-monetary procurement in pesos rose by only 3.7 per cent; bank financing, however, grew by 28.6 per cent, and procurement in foreign exchange by 122 per cent, excluding foreign loans, due to circumstances which will be explained below. The relative weakness of the banking system in securing savings from the public with the available instruments, especially from the national credit institutions, was linked with factors of very different kinds, including discouragement in the face of inflationary expectations and the consequent unfavourable repercussion on the generation of resources capable of being tapped by the banks.

During recent years, moreover, enormous pressures were building up on the creation of means of payment. The Government's need to secure monetary resources to finance an increasing deficit which could not be covered with private savings channelled through the banking system led the monetary authorities to resort to the primary issue of money and external borrowing. Thus the loss of dynamism in non-monetary procurement reduced the Central Bank's possibility of using bank resources in keeping with the growth of the federal Government's deficit; for example, between 1972 and 1975 the placing of Government bonds by the Central Bank in the banking system rose by 5,100 million pesos and bank reserves by 56,500 million pesos, while the accumulated deficit of the federal Government during that period rose to nearly

Table 15

MEXICO: PROCUREMENT OF RESOURCES AND FINANCING OF THE BANK SYSTEM<sup>a/</sup>

(Billions of pesos)

	Balance at the end of the period					Absolute increase		Annual growth rates			
	1972	1973	1974	1975	1976 <sup>b/</sup>	1976	Adjustment due to modification of the exchange rate in 1976	1973	1974	1975	1976 <sup>b/</sup>
<b>Total</b>											
Procurement <sup>c/</sup>	272.1	319.3	385.8	484.3	698.9	214.6	86.3	17.4	20.8	25.5	44.3
Financing	256.5	304.4	378.7	481.5	682.9	201.3	63.6	18.5	24.4	27.1	41.8
Other assets and liabilities	15.6	15.0	7.1	2.8	16.1	13.3	22.7	-4.0	-52.7	-60.4	474.4
<b>National institutions</b>											
Procurement <sup>c/</sup>	71.1	86.1	110.3	143.2	273.1	129.9	68.0	21.1	28.1	29.9	90.6
Financing	73.3	89.6	114.1	150.0	246.4	96.5	40.5	22.3	27.3	31.4	64.3
Other assets and liabilities	-2.2	-3.5	-3.8	-6.8	26.6	33.4	27.6	61.0	8.0	79.4	-
<b>Banco de México S.A.</b>											
Procurement <sup>c/</sup>	30.2	39.0	50.2	59.4	111.0	51.6	1.6	29.3	28.7	18.3	87.0
Financing	67.9	88.5	123.6	164.7	239.5	74.8	17.2	30.4	39.8	33.2	45.4
Other assets and liabilities	-37.7	-49.5	-73.4	-105.3	-128.5	-23.1	-15.5	31.2	48.5	43.5	22.0
<b>Private institutions</b>											
Procurements <sup>c/</sup>	170.8	194.2	225.3	281.7	314.8	33.1	16.6	13.7	16.0	25.1	11.7
Financing	115.4	126.3	141.0	166.8	196.9	30.1	6.0	9.5	11.7	18.3	18.0
Other assets and liabilities	55.5	67.9	84.3	114.9	117.9	3.0	10.6	22.5	24.1	36.4	2.6

Source: CEPAL, on the basis of figures supplied by Banco de México, S.A.

<sup>a/</sup> Excluding inter-bank operations. <sup>b/</sup> Preliminary figures. <sup>c/</sup> Excludes results, reserves and other liabilities.

Table 16

MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES AND INDIVIDUALS<sup>a/</sup>

(Billions of pesos)

	Balance at December					Absolute increase		Annual growth rates			
	1972	1973	1974	1975	1976 <sup>b/</sup>	1976	Adjust- ment <sup>c/</sup>	1973	1974	1975	1976 <sup>b/</sup>
<u>Total</u>	<u>154.0</u>	<u>166.7</u>	<u>202.7</u>	<u>245.5</u>	<u>317.8</u>	<u>71.4</u>	<u>29.1</u>	<u>8.2</u>	<u>21.6</u>	<u>21.6</u>	<u>29.0</u>
<u>Primary activities</u>	<u>24.9</u>	<u>28.1</u>	<u>36.7</u>	<u>41.2</u>	<u>49.8</u>	<u>7.9</u>	<u>0.9</u>	<u>13.0</u>	<u>30.4</u>	<u>14.3</u>	<u>18.8</u>
Agricultural	23.5	26.2	33.9	38.2	44.8	6.6	0.3	11.2	29.6	12.6	17.3
Mining and others	1.4	2.0	2.8	3.8	5.0	1.3	0.5	45.2	41.1	34.9	33.7
<u>Industry</u>	<u>74.7</u>	<u>78.6</u>	<u>93.1</u>	<u>114.2</u>	<u>150.0</u>	<u>35.1</u>	<u>17.8</u>	<u>5.2</u>	<u>18.4</u>	<u>23.5</u>	<u>30.5</u>
Energy	17.9	17.8	16.4	16.0	19.0	3.0	2.1	0.6	-7.5	-2.4	18.6
Manufacturing	40.0	42.6	55.5	71.1	98.1	26.9	10.2	6.6	30.2	28.3	37.9
Construction	16.9	18.3	21.2	27.8	32.9	5.2	5.6	8.2	16.0	31.1	18.6
<u>Public housing</u>	<u>4.8</u>	<u>5.8</u>	<u>6.3</u>	<u>7.5</u>	<u>9.1</u>	<u>1.5</u>	<u>...</u>	<u>19.3</u>	<u>8.7</u>	<u>20.2</u>	<u>20.2</u>
<u>Services and other activities</u>	<u>22.1</u>	<u>26.3</u>	<u>32.9</u>	<u>39.2</u>	<u>60.8</u>	<u>20.9</u>	<u>8.1</u>	<u>18.9</u>	<u>17.6</u>	<u>29.0</u>	<u>52.6</u>
<u>Commerce</u>	<u>27.4</u>	<u>27.9</u>	<u>35.8</u>	<u>42.2</u>	<u>48.1</u>	<u>5.9</u>	<u>2.4</u>	<u>1.6</u>	<u>28.4</u>	<u>17.9</u>	<u>14.1</u>

Source: CEPAL, on the basis of figures prepared by the Banco de México, S.A. on the obligations of users of bank credit.

a/ Includes enterprises owned by the public and private sectors.

b/ Preliminary figures.

c/ As a result of the exchange devaluation in 1976.

/100,000 million



100,000 million pesos (see tables 17 and 18). In 1975 the placing of these Government bonds by the Bank in the system increased by 56,670 million pesos (discounting the effect of the devaluation of the rate of exchange), mainly on the basis of external resources secured by the official finance companies. According to partial indicators, the resources of the bank reserve may have diminished. By contrast, the deficit of the federal Government rose to nearly 57,300 million pesos and was thus 36 per cent higher than in the previous year.

The squeeze in financing the Government deficit was further aggravated because the issuing body had to support the banking system in order to provide it with liquidity and expand the financing capacity to the private sector, which was deteriorating because of the slackness of procurement. The expansionary effects of financing to the Government and the slower growth of credit to enterprises and individuals were partially offset by the tapping of external resources and the absorption by the banks of funds in foreign currency (see table 17).

The above difficulties were compounded by other which hampered the operation of the traditional machinery for financial intermediation. They included the difficulty of spreading bank financing more broadly among the production sectors, either because of problems in the demand for credit or because of rigidities in the credit system itself. The obstacles to continuing indefinitely to increase external liabilities and bank obligations in dollars also played a part.

In order to solve the difficulties of the financial intermediation system, the monetary and treasury authorities introduced measures between January and August aimed at maintaining growth with exchange stability and freedom in transaction. They decreed that the Central Bank should support the banking system with additional resources and by reducing the Bank's compulsory cash deposits. The aim was thus to offset the decline in the system's financing capacity arising from the obstacles encountered in increasing procurement in local currency in view of the clear propensity of the public to convert their liabilities into foreign currency.

Table 17

MEXICO: MONETARY BALANCE<sup>a/</sup>

(Billions of dollars)

	Balances at end of period				Absolute increase			Annual growth rates			
	1972	1973	1974	1975	1976 <sup>b/</sup>	1976 <sup>b/</sup>	Adjust- ment <sup>c/</sup>	1973	1974	1975	1976 <sup>b/</sup>
<u>Money</u>	<u>64</u>	<u>80</u>	<u>97</u>	<u>118</u>	<u>155</u>	<u>37</u>	-	<u>24.2</u>	<u>22.0</u>	<u>21.3</u>	<u>30.9</u>
Currency outside banks	27	34	43	52	80	28	-	27.6	24.9	22.4	52.8
Deposits on current account	38	46	55	66	75	9	-	21.7	19.9	20.5	13.7
<u>Factors of expansion</u>	<u>241</u>	<u>277</u>	<u>334</u>	<u>416</u>	<u>508</u>	<u>92</u>	<u>13</u>	<u>14.9</u>	<u>20.6</u>	<u>24.5</u>	<u>22.2</u>
Domestic credit	257	304	379	482	683	201	64	18.6	24.4	27.1	41.8
Government	85	111	148	195	295	100	31	30.6	33.3	31.9	51.2
Enterprises and individuals	172	193	231	286	388	101	33	12.7	19.4	24.1	35.4
International reserves	15	17	17	19	27	8	12 <sup>b/</sup>	16.4	3.0	9.9	39.5
<u>Less: Bank loans from the   exterior to credit institu-   tions <sup>d/</sup></u>	<u>30</u>	<u>44</u>	<u>62</u>	<u>85</u>	<u>201</u>	<u>23</u>	<u>116</u>	<u>47.9</u>	<u>40.5</u>	<u>36.3</u>	<u>137.3</u>
<u>Factors of absorption</u>	<u>175</u>	<u>195</u>	<u>226</u>	<u>281</u>	<u>343</u>	<u>62</u>	<u>24</u>	<u>11.4</u>	<u>15.9</u>	<u>24.4</u>	<u>21.9</u>
National currency	163	179	208	258	268	10	-	9.9	16.6	24.0	3.7
Savings deposits	14	17	20	24	25	1	-	22.1	20.4	19.6	4.2
Fixed interest instruments <sup>e/</sup>	109	118	141	166	165	-20	-	3.4	18.8	32.0	-10.8
Other non-monetary liabilities	40	44	48	49	78	29	-	9.7	9.3	2.4	59.0
Foreign currency	13	17	18	23	75	52	24	31.0	7.3	28.7	226.9
Checking and savings accounts	3	6	5	6	16	10	3	89.7	-11.1	10.9	182.3
Bonds and debentures	3	3	3	7	10	4	3	12.5	-3.9	104.1	51.6
Other non-monetary liabilities	7	7	9	10	48	38	18	12.9	26.9	11.1	367.4
<u>Other assets and liabilities (net)</u>	<u>-2</u>	<u>-2</u>	<u>-10</u>	<u>-16</u>	<u>-11</u>	<u>5 704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A. and the International Monetary Fund.

a/ Includes the entire banking system.

b/ Preliminary figures and estimates.

c/ Because of exchange devaluation.

d/ These loans are considered as a factor of negative expansion, since they are resources which for the most part directly finance credit to the government.

e/ Exclude some fixed interest instruments such as debentures and deposit and investment certificates of credit institutions.

Table 18

## MEXICO: ACTUAL BUDGET INCOME AND EXPENDITURE OF THE FEDERAL GOVERNMENT

	Millions of pesos					Annual growth rates			
	1972	1973	1974	1975	1976 <sub>a</sub> /	1973	1974	1975	1976 <sub>a</sub> /
<u>Current income</u>	<u>41 666</u>	<u>52 217</u>	<u>71 996</u>	<u>102 592</u>	<u>133 129</u>	<u>25.3</u>	<u>37.9</u>	<u>42.5</u>	<u>29.8</u>
Tax	37 836	47 979	67 224	96 215	124 048	26.8	40.1	43.1	28.9
Direct <u>b/</u>	21 573	20 982	36 809	49 781	65 430	-2.7	75.4	35.2	31.4
Indirect	12 987	23 145	25 365	37 555	45 962	78.2	9.6	48.1	22.4
Foreign trade	3 276	3 853	5 050	3 880	12 649	17.6	31.1	75.8	42.5
Non tax	3 829	4 238	4 772	6 377	9 081	10.7	12.6	33.6	42.4
<u>Current expenditure</u>	<u>36 867</u>	<u>48 022</u>	<u>68 228</u>	<u>92 560</u>	<u>126 347</u>	<u>30.3</u>	<u>42.1</u>	<u>35.7</u>	<u>36.5</u>
Administration	16 801	21 716	28 416	43 506	56 645	29.3	30.9	53.4	30.0
Interest <u>c/</u>	5 866	7 316	10 698	13 018	23 914	24.7	46.2	21.7	83.7
Transfers and other current expenditure	14 200	18 989	29 115	35 956	45 788	33.7	53.3	23.5	27.3
<u>Saving on current account</u>	<u>4 798</u>	<u>4 195</u>	<u>3 767</u>	<u>10 032</u>	<u>6 782</u>	<u>-12.6</u>	<u>-10.2</u>	<u>166.3</u>	<u>-32.4</u>
<u>Net capital expenditure d/</u>	<u>21 524</u>	<u>31 610</u>	<u>35 005</u>	<u>52 080</u>	<u>64 074</u>	<u>46.9</u>	<u>10.7</u>	<u>48.8</u>	<u>23.0</u>
Real investment	12 437	20 816	21 993	34 316	37 212	67.4	5.7	56.0	14.3
Financial investment	4 974	4 252	5 505	7 307	13 736	-14.5	29.5	32.7	88.0
Liquidation of previous debts	4 523	7 951	8 140	10 800	12 553	75.8	2.4	32.7	16.2
Other capital expenditure (net)	-410	-1 408	-633	-343	-1 428				
<u>Total expenditure d/</u>	<u>58 391</u>	<u>79 632</u>	<u>103 233</u>	<u>144 640</u>	<u>190 421</u>	<u>36.4</u>	<u>29.6</u>	<u>40.1</u>	<u>31.7</u>
<u>Actual budgetary deficit d/</u>	<u>16 725</u>	<u>27 415</u>	<u>31 237</u>	<u>42 048</u>	<u>57 292</u>	<u>63.9</u>	<u>13.9</u>	<u>34.6</u>	<u>36.3</u>

Source: CEPAL, on the basis of figures supplied by Banco de México, S.A.

a/ Preliminary figures.

b/ Includes outlays for work.

c/ Includes expenditure in connection with the debt.

d/ Excludes debt amortization but includes the liquidation of fiscal debts from previous years.

In respect of the rate of interest, after the slight decline at the end of 1975 and with the single exception of small increases in the month of August in fixed-income bonds securities of six months and one year, the policy was continued of maintaining the rate virtually unchanged despite the fact that a slight tendency to decline set in abroad, although with small fluctuations over time.

Furthermore, a relatively restricted budget of federal expenditure was prepared, although in practice it had to be expanded in order to offset a greater increase in prices than had been envisaged, conclude priority investment projects in energy and basic inputs begun some years previously - which needed to be completed in order to eliminate inflexibilities in domestic supply - and meet current expenditure which was difficult to avoid in a period of change of administration such as that of 1976.

Despite the implementation of these and other collateral measures of a similar nature, discouragement and uncertainty precipitated the financial difficulties which had become particularly acute since the last months of 1975. Domestic savings increased by only 8 per cent during the first eight months of 1976, a much lower proportion than those recorded during the same period in the two previous years, which had already been low (10 per cent in 1974 and 18 per cent in 1975). The contrast was greater in the case of the entry of foreign currency (excluding external bank loans to the domestic credit institutions) which increased by 86 per cent during the same period, as against 5 per cent in 1974 and 22 per cent in 1975. If the evolution of bank liabilities is analysed from the standpoint of securities and obligations in local and foreign currency, the differences are even greater. Savers showed greater preference not only to acquire bank liabilities in foreign currency, but also to change peso certificates into them. Furthermore, judging by the balance-of-payments figures, part of the monetary expansion was channelled through other paths than those of the banking system of the country.

On the financing side the problem, although serious, was less evident because of the support received by the banking system from the Central Bank, the lack of dynamism in the demand for credit for private investment, the slight increase in public investment and the pronounced external borrowing of the official bank. In other words, up to September the authorities supported the bank's financing capacity on the basis of external borrowing and the relative sacrifice of public investment, preserving exchange stability and the guarantee of freedom in transactions.

The decision not to continue with this financial machinery, and considerations related with balance-of-payments problems, the accumulation of exaggerated price rises compared with those of commercial and financial trade partners, as well as motives linked to the goal of freeing instruments and eliminating restrictions on long-term economic policies, all combined to lead the authorities to decide at the end of August to adopt a different exchange system than that of fixed convertibility.

It was agreed to allow the price of the currency to float, with the Central Bank playing a regulatory role to avoid unnecessary fluctuations. From the parity of 12.50 pesos per dollar which had existed since 1954, the rate began to fluctuate from 20.40 (buying) and 20.60 (selling). In an attempt to eliminate speculation and uncertainty and in response to petitions from organized groups, the monetary authorities decided on 11 September to fix the selling rate at 19.90 pesos per dollar and the buying rate at 19.70. Nevertheless, after a month and a half, on 26 October, it was agreed to refloat the peso in view of the fact that the conversion to foreign currency and the outflow of capital were continuing to diminish the effectiveness of the machinery for financial intermediation and the country's reserves (the rate of exchange rose to as much as 26.50 pesos per dollar). On 21 November, under pressure of speculation on the exchange market, the credit institutions, on the indications of the Central Bank, temporarily abstained from purchasing and selling currency. The price of the dollar gradually stabilized at around 20.10 pesos, so that on 20 December

/the authorities

the authorities lifted the restriction adopted a month previously. At the end of the year it could be seen that speculative activities were declining and the tendency to convert bank liabilities in national currency to foreign exchange diminished. Nevertheless the authorities decided to maintain the regulated floating system indefinitely, until the effects of the measures which began to be adopted at various levels to secure the readjustment of the economic system to the new situation could be felt.<sup>19/</sup>

When the peso was first floated in September complementary measures were announced, almost all of which were oriented towards reducing the foreseeable and immediate drawbacks of devaluation. The measures included tariff modifications and export incentives; price and wage controls to protect the purchasing power of the workers; greater austerity in the public sector spending; higher interest rates for savers and the use of taxation to avoid excessive profits.

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<sup>19/</sup> Table 19 shows an estimate of the exchange rate which would be consistent with the variations in domestic prices compared with those of the exterior. On the basis of indexes of Mexico and the United States (as a point of reference for external fluctuations), it is calculated that in August the exchange rate was between 20 and 24 pesos per dollar, depending on whether wholesale or consumer prices are considered, respectively, and assuming that the exchange rate of 1954, the last year when parity was fixed, was an adequate reference. If this reference year is changed to 1960, for example, the exchange rate calculated on that basis would be between 16 and 17 pesos per dollar. With the reference point of 1954 the parity in December would be between 25 and 27 pesos, and that of 1960 between 19 and 21 pesos.

Table 19

## MEXICO: EVOLUTION OF THE EXCHANGE RATE AND PRICES, 1954, 1955, 1960, 1965, 1970, 1975 AND 1976 a/

	1954 (May- December)	1955	1960	1965	1970	1975	1976									
							Whole year	January- June	July	August	September	October	November	December		
<u>Exchange rate (pesos per dollar)</u>	12.49	12.49	12.49	12.49	12.49	12.49	15.44	12.49	12.49	12.49	12.49	20.05	20.77	24.38	20.21	
<u>Index of rate of exchange</u>	100.0	100.0	100.0	100.0	100.0	100.0	123.7	100.0	100.0	100.0	100.0	160.5	166.3	195.2	161.8	
<u>Price index, Mexico</u>																
<u>Wholesale prices in Mexico</u>																
City																
Base 1954	100.0	109.9	133.2	145.8	168.6	281.6	344.3	315.2	331.7	330.8	351.3	380.7	412.1	434.0		
Base 1960	75.1	82.5	100.0	109.5	126.6	211.5	258.6	236.7	249.1	248.4	263.8	285.9	309.5	325.9		
Consumer																
Base 1954	100.0	114.1	151.5	166.1	196.3	348.8	405.2	387.3	395.6	400.5	407.7	426.1	448.2	459.5		
Base 1960	65.0	75.3	100.0	109.6	130.2	230.2	267.4	255.6	261.1	264.3	269.1	281.2	295.8	303.3		
<u>Price index, United States</u>																
<u>Wholesale</u>																
Base 1954	100.0	100.0	108.2	110.1	125.9	169.4	208.4	206.0	210.1	209.4	210.5	211.1	211.6	213.3		
Base 1960	92.4	92.4	100.0	101.7	116.3	184.2	192.6	190.3	194.1	193.5	194.5	195.1	195.5	197.1		
<u>Consumer prices</u>																
Base 1954	100.0	99.0	109.5	116.8	143.7	199.2	210.7	207.9	211.4	212.5	213.4	214.1	214.8	215.4		
Base 1960	91.3	90.4	100.0	106.6	131.2	181.9	192.4	189.8	193.0	194.0	194.8	195.5	196.1	196.7		
<u>Index of over-valuation</u>																
<u>Wholesale</u>																
Base 1954	100.0	109.9	123.1	132.4	133.9	141.2	165.2	153.0	157.9	158.0	166.9	180.3	194.8	203.5		
Base 1960	81.3	89.3	100.0	107.7	108.9	114.8	134.1	124.4	128.3	128.4	135.6	146.5	158.3	165.3		
<u>Consumer</u>																
Base 1954	100.0	115.3	138.4	142.2	137.3	175.1	192.3	186.3	187.1	188.5	191.0	199.0	208.7	213.3		
Base 1960	72.3	83.3	100.0	102.8	99.2	126.5	138.9	134.7	135.3	136.2	138.1	143.8	150.8	154.2		
<u>Estimate of real</u>																
<u>rate of exchange</u>																
<u>(pesos per dollar)</u>																
<u>Wholesale</u>																
Base 1954	12.49	13.73	15.38	16.54	16.72	17.64	20.63	19.11	19.74	19.72	20.85	22.52	24.33	25.41		
Base 1960	10.15	11.15	12.49	13.45	13.60	14.34	16.75	15.54	16.02	16.04	16.94	18.30	19.77	20.65		
<u>Consumer</u>																
Base 1954	12.49	14.40	17.29	17.76	17.15	21.87	24.02	23.27	23.37	23.54	23.86	24.86	26.07	26.64		
Base 1960	9.04	10.40	12.49	12.84	12.39	15.81	17.35	16.82	16.90	17.01	17.25	17.96	18.84	19.26		

Source: CEPAL, on the basis of figures supplied by the International Monetary Fund.

a/ Refers to averages for the periods indicated.

Although this range of complementarity measures partially attained the goals for which they had been established, particularly immediately after the peso was first floated, they were insufficient to counteract the difficulties encountered by the financial intermediation system, and their effects in this respect will only be visible in a longer period. The instrumentation of these measures was also reviewed in the last months of the year, when attempts were made to bring about a better interrelations between the various instruments on the basis of the effects of the initial measures. Uncertainty and speculation were heightened and it was not possible to solve problems which had already been present such as the strong tendency to convert liabilities into foreign currency, the difficulties in channelling bank financing to production activities and the substantial outflow of short-term capital from the country.

During the last four months the flow of bank liabilities in foreign currency continued to increase, and showed a pronounced trend to alter in structure: there was an accentuated liquidation of bonds and a displacement to current and savings accounts.

Furthermore, bank credit during the year, discounting the revaluation due to the change in the exchange rate, grew by 28 per cent; credit to the Government by 35 per cent, and to enterprises and individuals by 24 per cent, in approximate figures.

Since the monetary reserves declined and the inflow of loans from external banks to the banking system amounted to over 60 per cent of the total held at the end of 1975 (discounting revaluation), monetary expansion amounted to only 19 per cent. The absorption of resources showed a slight increase of 8.2 per cent, as a result of the significant increase in the procurement of foreign currency (227 per cent) and the growth of only 3.7 per cent in the procurement of savings in pesos. The final outcome of these changes was a 31 per cent increase in the money supply. This was accompanied by an unprecedented change in the public preference for notes and currency instead of bank deposits, which further aggravated the shortage of bank liquidity. Thus in November, for the first time for many year, the quantity of cash exceeded checking deposits (see table 17).

/In addition,



In addition, the actual budgetary deficit of the federal Government rose during the year by a significant proportion (36 per cent), a rate, however, which was lower than the exceptional rate of 1973 (64 per cent). This occurred despite the fact that during the first eight months the deficit had grown by only 10 per cent compared with the same period of the previous year. Current income continued to expand during the remaining four months at similar levels to those of the preceeding months, growing more than the domestic product at current prices (30 per cent and 20 per cent, respectively) in the year as a whole. As in the previous two years - and as a result of the fiscal changes introduced in 1974 - current income expanded mainly on the basis of direct taxation, which in 1976 came to represent 52 per cent of tax receipts (see table 18).

Fiscal expenditure rose to meet greater requirements of financial investment and interest - accentuated during the year as a result of the floating of the peso - on debt servicing expressed in national currency and in order to offset the inflationary repercussions on other current payments, so that the efforts of the federal Government to reduce expenditure, and hence the total deficit, were partially undermined. In particular, expenditure on administration reflected the increase in wages and salaries of federal Government staff.

Some changes in the fiscal system entered into force on 1 January 1977. As a result, the income tax for the lowest income groups is reduced; the profits secured in property operations are subject to higher taxation; a special rate is established to cover the excess profits of the period following devaluation; new investment is encouraged by providing fiscal facilities for investment in new machinery; the taxes on luxury goods are increased; and, lastly, some specific tax rates are adjusted.

In short, the difficulties of the monetary system which were affecting the economy and the immediate effects of the adjustment of that system had negative repercussions on the banks' capture of savings, the effects of which filtered through to the financing of production and the activities of the public sector. It should be noted in this

/respect that

respect that it was possible to meet the priority needs of this sector in respect of financing for investment projects already begun and for basic current expenditure. Furthermore, credit support was granted to finance a growth of the economy which, although slow, exceeded the expectations in view of the difficulties in tapping resources.

From another point of view, by eliminating exchange stability of the peso - which was significantly over-valued - as an objective of economic policy, and by maintaining the basic criterion of freedom in internal and external monetary and financial transactions, the manoeuvring capacity of the financial system was expanded and efforts could be turned towards other development objectives.

The Organic Law of Federal Public Administration introduced by the new administration should be noted in connexion with this goal of improving the organization of the functioning of the monetary and fiscal system, and also with a view to securing greater efficiency in the activities of the public sector. The purpose of this law is to avoid overlapping, specify responsibilities and simplify structures. It lays down that subsidiary bodies should constitute units with sectoral responsibility and should programme their own activities. In order to secure these goals some secretariats of State underwent major modifications 20/ and a new body was created, the Secretariat of Programming and Budget, which will be responsible for drawing up national and regional economic and social development plans. Other relevant decrees are the General Law of the Public Debt which will concentrate the management and control of public borrowing. In addition, the Budget, Accounting and Public Expenditure Law was also introduced to rationalize State expenditure.

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20/ The National Secretariat of National Resources became the Secretariat of National Resources and Industrial Development; the Secretariat of Industry and Commerce, became the Secretariat of Commerce; the Secretariats of Water Resources and Agriculture were merged; and that of Public Works became the Secretariat of Human Settlements and Public Works.

## NICARAGUA

### 1. The overall picture

In 1976 Nicaragua's economy showed a growth rate of 6.1 per cent, in contrast to the 1 per cent of the previous year. The growth rate was thus higher than in any year of the present decade with the exception of 1974 when, because of the reconstruction work following the earthquake in 1972, the product increased at the record rate of 13.7 per cent.

The main determinant of economic growth in 1976 was the high level of prices for the main export products, as a result of which the value of external sales, the terms of trade and income all showed substantial improvement (see table 1).

These favourable circumstances, however, were accompanied by some adverse factors. The most important of these were the decline in cotton production during the previous crop year, which reduced exportable stocks and made it difficult to take fuller advantage of the favourable conditions in the world market, and the reduction, for the second consecutive year, in gross capital formation, which decreased in spite of efforts by the public sector.

However, the recovery of cotton prices and, in particular, the high world prices of coffee provided a sharp incentive to agricultural activity, the effects of which spread to other productive sectors. The cultivated area of cotton increased substantially, and a boost was given to the introduction of technology in coffee plantations. In addition, there was an increase in livestock and fishing activities, and a greater area was brought under cultivation for the production of products for local consumption. As a result, the agricultural sector generated greater demand for inputs, which helped to speed up the growth rate of the manufacturing sector.

Broadly speaking, the expansion in industrial and agricultural production was achieved basically through the use of installed manufacturing capacity and land already prepared for cultivation. Although fresh investment occurred in the textile and food sectors,

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	841	883	1 005	1 016	1 078
Population (millions)	2.10	2.17	2.24	2.32	2.40
Per capita gross domestic product (US dollars at 1970 prices)	400	407	448	439	450
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	3.2	5.1	13.7	1.2	6.1
Per capita gross domestic product	-0.1	1.7	10.0	-2.1	2.7
Gross income <sup>b/</sup>	5.6	4.0	13.1	-3.0	13.2
Term of trade	10.4	-4.6	-4.4	-17.8	32.0
Value of exports of goods and services	29.6	30.0	19.4	-1.0	39.8
Value of imports of goods and services	10.8	58.9	56.2	-12.3	6.9
Consumer price index <sup>c/</sup>	3.1	13.8	16.3	12.5	7.0
Money	...	...	11.8	-3.5	25.4 <sup>d/</sup>
Wages and salaries	2.6	8.6	14.8	6.8	3.7
Current income of government	...	...	...	-3.1	15.6
Total expenditure of government	...	...	...	3.3	2.1
Fiscal deficit/total expenditure of government <sup>e/</sup>	...	...	32.2	36.4	28.0
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance	23	-48	-214	-136	2
Balance on current account	-9	-54	-266	-188	-68
Variation in net international reserves	25	60	-28	32	32

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Cross domestic product plus terms-of-trade effect.

<sup>c/</sup> Annual average variation.

<sup>d/</sup> As at November.

<sup>e/</sup> Percentage.

/private gross

private gross capital formation diminished. Consequently, imports showed a low growth rate in real terms, because of the reduction in the purchases of capital goods abroad. However, these developments had a favourable impact on the trade balance. The goods account showed a positive balance, and the deficit of 136 million dollars on the goods and services account in 1975 was converted into a small surplus in 1976.

During 1976 inflation showed a marked decline. Consumer prices increased by 7 per cent, a much lower rate than that of the three previous years, but one which remained well above the rate usual in the country before 1973. In contrast, the levels of wages and salaries increased by less than 4 per cent as a general average for the public sector and workers engaged in some form of gainful activity. As in previous years, this adjustment was insufficient to cover the increases in the cost of living (see table 1).

## 2. Recent economic trends

### (a) Global trends in demand and supply

Despite the increase of 11.5 per cent in public investment, gross capital formation was 2.5 per cent lower than that of the previous year, because of the sharp contraction in private sector investment for the second consecutive year (see table 2). In contrast, private enterprises built up large holdings of stocks, because the price outlook for 1977 in international markets encouraged the stockpiling of agricultural export products and national inputs of stock seed for the crop year 1977/1978.

Several factors determined the performance of private investment. The traditional agricultural sectors, which already had an adequate productive infrastructure for meeting increases in demand, offered opportunities of higher returns on resources; this was true in the case of cotton and coffee, in the production of which installed capacity in the form of available cultivable land is used, the investment required being minimal.

Table 2  
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Total supply</u>	<u>9 905</u>	<u>9 326</u>	<u>9 823</u>	<u>129.2</u>	<u>130.1</u>	<u>15.5</u>	<u>-5.8</u>	<u>5.3</u>
Gross domestic product	7 035	7 116	7 550	100.0	100.0	13.7	1.1	6.1
Imports	2 870	2 210	2 273	29.2	30.1	20.2	-23.0	2.9
<u>Total demand</u>	<u>9 905</u>	<u>9 326</u>	<u>9 823</u>	<u>129.2</u>	<u>130.1</u>	<u>15.5</u>	<u>-5.8</u>	<u>5.3</u>
<u>Domestic demand</u>	<u>7 960</u>	<u>7 343</u>	<u>7 699</u>	<u>102.5</u>	<u>102.0</u>	<u>16.1</u>	<u>-7.8</u>	<u>4.8</u>
Gross domestic investment	1 891	1 111	1 262	18.6	16.7	35.0	-41.3	13.6
Gross fixed investment	1 405	1 231	1 200	16.4	15.9	25.5	-12.4	-2.5
Construction	664	622	643	6.5	8.5	42.3	-6.4	3.4
Machinery and equipment	742	609	557	9.9	7.4	13.5	-17.8	-8.5
Public	441	431	481	4.1	6.4	23.9	-2.3	11.5
Private	964	800	719	12.3	9.5	26.0	-17.0	-10.1
Changes in stocks	486	-120	62	2.2	0.8	-	-	-
Total consumption	6 069	6 232	6 437	83.9	85.3	11.3	2.7	3.3
General government	716	790	798	9.6	10.6	30.7	10.2	1.0
Private	5 353	5 442	5 639	74.3	74.7	9.1	1.7	3.6
<u>Exports</u>	<u>1 945</u>	<u>1 983</u>	<u>2 124</u>	<u>26.7</u>	<u>28.1</u>	<u>13.1</u>	<u>2.0</u>	<u>7.1</u>

Source: 1970-1975: CEPAL calculations on the basis of figures of the Central Bank of Nicaragua; 1976: CEPAL estimates based on official statistics.

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 CEPAL for the purpose.

a/ Preliminary figures.

/The situation

The situation was similar in manufacturing since installed capacity could meet demand in most of the industrial branches. Despite the expansion carried out by several enterprises which supply the Central American Common Market, and the investment carried out during the year on food, beverage and textile plants, total investment levels in the industrial sector were lower than in 1975.

Some structural factors continued to constitute constraints on the growth of investment; the saturation of the markets for those articles in respect of which the country was able to substitute imports both at national level and at the level of the Central American Common Market, and the limitations of private enterprise to undertake projects involving greater risks, and calling for increased technology and capital.

Private investment also slackened in the construction sector, and the drop was particularly marked (37 per cent) in the construction of commercial buildings (see table 5). This contraction occurred despite the continued shortage of premises in various service areas, despite the reconstruction work carried out after the earthquake in 1972.

As stated above, public investment increased sharply, with the implementation of several projects promoted by decentralized bodies and the central Government in an attempt to activate private investment through the incentives provided, which ranged from the preparation of the projects to the construction of commercial buildings. An increasing proportion of such investment was made through transfers of funds to independent decentralized bodies, the result of which was a corresponding drop in central government investment.

Total consumption increased by 3 per cent, rising above the figure of the preceding year (see table 2). However, this increase was very similar to that of the population, and as a result the improvement in the product and the external sector did not lead to an improvement in the average standard of living of the population.

/The conclusion

The conclusion may therefore be drawn that during the past five-year period, the polarizing effects in the distribution of income, produced by structural factors, were increased because of the inflationary pressures to which the country has been subject since 1973, and the loss of capital and income suffered by a vast number of small traders following the 1972 earthquake.

In contrast, fiscal and public spending policy tended to mitigate these regressive trends in the distribution of income through the fiscal reform introduced in 1975. This came into full effect during 1976 and served to increase the progressive rates of income tax. In addition, during that year payments in respect of wages and salaries to public employees increased.

(b) Sectoral developments

Total production of goods increased by 6.5 per cent, with agricultural production rising by 6.8 per cent, manufacturing by 7 per cent, and construction by 3.4 per cent (see table 3).

The growth in the production of goods was brought about mainly by the impulse given to the agricultural sector by price trends in international markets in respect of export products. Furthermore, industry was favoured by the increase in demand for manufactured imports for the production of, and trade in, agricultural products, and the increase in the demand of the countries of the Central American Common Market. This higher demand stemmed partly from effects relating to the reactivation of cotton production in the region, and partly from the purchases of products needed for the reconstruction work undertaken by Guatemala following the 1976 earthquake.

(i) Agricultural sector. The good harvests of the crop year 1976/1977 (in particular those of cotton and coffee) and the increases in the production of livestock and fish products and of some staple grains for domestic consumption were responsible for the 7 per cent increase in the agricultural product (see table 4). In contrast, tobacco and banana production remained at the levels of previous periods, and sugar cane yields dropped slightly.



Table 3

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

	Millions of córdobas at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	1 800	1 845	1 969	26.9	28.2	13.7	2.5	6.7
Mining	38	27	26	0.7	0.4	25.3	-30.0	-3.0
Manufacturing	1 235	1 261	1 349	19.2	19.4	12.6	2.0	7.0
Construction	323	303	313	3.5	4.5	42.1	-6.3	3.4
<u>Subtotal goods</u>	<u>3 396</u>	<u>3 436</u>	<u>3 657</u>	<u>50.3</u>	<u>52.5</u>	<u>15.6</u>	<u>1.1</u>	<u>6.5</u>
Electricity, gas and water	104	121	136	1.7	2.0	8.6	16.0	12.5
Transport, warehousing and communications	382	374	391	5.8	5.6	10.7	-2.1	4.5
<u>Subtotal basic services</u>	<u>486</u>	<u>495</u>	<u>527</u>	<u>7.5</u>	<u>7.6</u>	<u>10.3</u>	<u>1.7</u>	<u>6.5</u>
Commerce, financial institutions, insurance	1 374	1 363	1 452	20.5	20.9	13.4	-0.8	6.6
Real estate <sup>b/</sup>	309	328	346	7.1	5.0	7.2	6.0	5.6
Community, social and personal services <sup>c/</sup>	895	937	978	14.6	14.0	13.8	4.7	4.4
<u>Subtotal other services</u>	<u>2 578</u>	<u>2 628</u>	<u>2 776</u>	<u>42.2</u>	<u>39.9</u>	<u>12.7</u>	<u>1.9</u>	<u>5.7</u>
<u>Total gross domestic product</u>	<u>6 441</u>	<u>6 515</u>	<u>6 912</u>	<u>100.0</u>	<u>100.0</u>	<u>13.7</u>	<u>1.1</u>	<u>6.1</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;  
1976: CEPAL estimates based on official statistics.

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

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Ownership of dwellings.

<sup>c/</sup> Including restaurants, hotels, and services provided to enterprises.

Table 4

NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION, 1973-1976

	1973	1974	1975	1976 <sup>a/</sup>	Annual growth rates		
					1974	1975	1976 <sup>a/</sup>
<u>Production of some important crops (thousands of tons)</u>							
Raw cotton	435.6	367.9	330.4	378.0	-15.5	-10.2	12.0
Sesame	4.8	3.9	5.5	5.5	-18.8	41.0	-
Rice	51.6	54.5	56.3	39.4	5.6	3.3	-30.0
Cane sugar	1 800.1	2 116.0	2 603.8	2 369.5	17.5	23.1	-9.0
Maize	53.0	212.7	192.1	201.7	301.3	-9.7	5.0
Tobacco	2.4	3.1	3.0	3.0	29.2	-3.2	-
Coffee	36.7	39.0	48.3	53.1	6.3	23.8	9.9
<u>Indicators of stock-raising production</u>							
Number of animals slaughtered (thousands of head)	308.6	220.6	324.6	344.1	-28.5	47.1	6.0

Source: CEPAL on the basis of official figures.

<sup>a/</sup> Estimates.

Table 5  
NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY, 1973-1976

	Millions of córdobas at 1970 prices				Annual growth rates			
	1973	1974	1975	1976 <sup>a/</sup>	1973	1974	1975	1976 <sup>a/</sup>
<u>Total</u>	<u>467</u>	<u>631</u>	<u>632</u>	<u>653</u>	<u>16.0</u>	<u>35.1</u>	<u>0.1</u>	<u>3.4</u>
<u>Private</u>	197	330	303	290	49.7	67.5	-8.3	-4.3
Dwellings	136	251	230	233	77.5	84.3	-8.5	1.3
Offices	16	27	29	18	30.3	68.6	7.1	-37.3
Industrial buildings	7	8	10	10	250.0	11.4	30.8	-4.9
Agricultural buildings	22	20	12	12	-8.7	-8.7	-40.0	3.3
Others	16	24	22	17	-4.2	52.2	-9.5	-23.7
<u>Public</u>	270	301	329	363	-0.3	11.5	9.4	10.4
Buildings	94	106	127	165	223.7	12.7	19.5	29.7
Roads and community works	107	97	141	133	39.4	9.0	45.5	-6.2
Other	69	97	61	66	-58.4	41.7	-37.7	8.7

Source: CEPAL on the basis of figures provided by the Central Bank of Nicaragua.  
<sup>a/</sup> Preliminary.

/As regards

As regards cotton, high international prices were responsible for the increase of 36 per cent in the area cultivated. Nevertheless, it is estimated that production increased by only 12 per cent, partly because of the lower yields from marginal areas, and also because of the crop losses and the reduction in productivity in other areas suffered as a result of irregular rainfall.

Coffee production increased by 10 per cent, thanks to the renewal of plantations which the official banking system has been promoting for the past five years, and the improved cultivation methods used by the coffee growers. The favourable outlook for prices for 1977 also encouraged the expansion of the cultivated area and the intensification of the renewal of plantations with high-yield varieties and systems.

In contrast, the production of sugar cane fell by 9 per cent owing entirely to a reduction in yields.

As regards the other agricultural export products, banana and tobacco production remained stable. There was no significant change either in the yield or in the area for the cultivation of these crops, and the problems of distribution and sales in foreign markets were resolved.

Finally, during 1976 efforts continued to find new export products, and frozen vegetables have already given some results in addition, 2,000 manzanas of cashew trees were planted to produce nuts for export.

Agricultural products for domestic consumption reflected different trends; whereas the area under cultivation with maize and beans increased, that reserved for rice and sorghum was reduced. Altogether the area planted was 6 per cent larger than that sown in 1975.

The reduction in the area reserved for rice cultivation was due to the fact that the stocks built up in previous years exerted pressure on prices, and the irregular rainfall did not favour its cultivation; production was, therefore, 30 per cent lower than in the preceding year. In contrast, the reduction of 7 per cent in the area reserved

/for the

for the cultivation of sorghum and the 11 per cent reduction in production were due to the preference shown by farmers for cotton.

The increases in the cultivated areas of maize and beans - 8 and 15 per cent respectively - resulted from the low production levels of 1975, and the promising outlook for prices as a result of this circumstance. Thus, maize production was 5 per cent and beans production 17 per cent higher than in 1974.

Livestock products increased by 6 per cent mainly owing to the production of beef for export and the processing of powdered milk, sales of which increased to the Central American Common Market. The increase in pig-killing and poultry production played a smaller part in raising production.

Despite the increase in prices, beef continued to be sold at relatively low prices. The improvement in prices which took place during the third quarter led to an increase in slaughterings during that period, thus making it possible to meet the export quotas negotiated with the United States, the country to which almost the entire exportable production is sold.

In turn, fishery activities increased by 15 per cent, influenced by improved prices and climatic conditions which suited shrimp and lobster fishing.

In the context of the Government's land policy - which envisages the implementation of various projects designed to increase productivity and the income of small- and medium-scale farmers through investment, the financing of production, technical assistance, education, and the establishment of marketing centres - during 1976 a plant for processing fruit and vegetables was brought into operation. This opened up a new market for the cultivation of 1,000 hectares of such products, for which financing and technical assistance will be provided to the agricultural producers. In this connexion, a loan was negotiated with the Central American Economic Integration Bank in order to launch during 1977 a programme for irrigating individual farms which will cover a total of 5,000 hectares in units of up to 50 hectares.

/The Government

The Government also continued its programmes for financing livestock for the production of meat and milk, and started work on the definition of the conditions under which a project will be implemented to provide educational and health assistance to rural workers, and to establish distribution centres for the sale of articles produced by small and medium-sized farmers. One of these centres, for use in the distribution of beef, began operations in 1976.

(ii) Manufacturing industry. Manufacturing activity increased by 7 per cent compared with the previous year. This growth was brought about by various factors which led to higher domestic demand for manufactured goods, such as the increase in the cultivated area of cotton (which called for greater use of insecticides), the reconstruction works in Guatemala (which required construction materials) and the packaging of products for export (which called for paper-board and textile articles).

The increase in production, as mentioned above, was based mainly on the use of the installed capacity of existing enterprises, although in the case of beverages, foods and textiles the existing capacity was expanded and new enterprises were set up. Similarly in the industries producing chemical and dairy products - industries which recorded greater growth during 1976 - some factories made investments to increase their capacity in the years ahead.

The largest increases in industrial production were in chemical products, paper and paper-board, foods and construction materials: in contrast, the manufacture of footwear and clothing increased moderately.

The production of the paper and paper-board industry rose by almost 15 per cent, and that of textiles by 9 per cent. Both increases stemmed from the upswing in demand for packaging materials for the distribution of agricultural inputs and for exports and the storage of coffee, cotton, beef and other products.

Food production increased by 7 per cent with the increase in the slaughtering of cattle and the export of meat to the United States market. The production of powdered milk for export to the other countries of Central America also increased, but that of edible fats and oils, with a high weighting in the food total, decreased as a result of the reductions in the supplies of cotton seed. Finally, the supply of construction materials increased by 6 per cent, partly because of the increase in demand as a result of the reconstruction work in Guatemala.

### 3. The external sector

#### (a) Foreign trade

(i) Exports. In 1976 the current value of exports of goods increased at the record rate of 44 per cent, thanks to an equally extraordinary increase of 37 per cent in unit value and an increase of almost 6 per cent in volume. In contrast, the value of imports increased by only 5.5 per cent, as a result of the moderate increases in their volume and average prices (see table 6).

The substantial improvement in the unit value of exports sprang primarily from the spectacular increase of 74 per cent in the average price of coffee sales, and the major increase of 42 per cent in the price of cotton. In addition to this substantial increase in the unit values of the two main export products, those of beef, shrimp, and lobster also increased. In contrast, the average price of sugar declined by approximately one-fifth, after its enormous increase of 158 per cent in 1975.

Cotton continued to head the list of export products, despite the fact that the volume exported fell by almost 16 per cent for the reasons given above. However, because of the increase in the average price, the value of sales rose by 35 per cent. In the expectation that the upward trend in prices would continue, the farmers stocked part of the year-end harvest.

Table 6

NICARAGUA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Exports of goods</u>					
Value	33.6	11.9	36.6	-1.2	44.3
Volume	17.8	-1.0	8.3	4.5	5.6
Unit value	13.5	13.0	26.1	-5.5	36.5
<u>Imports of goods</u>					
Value	8.5	59.5	65.3	-12.9	5.5
Volume	5.6	34.8	25.3	-24.3	2.0
Unit value	2.8	18.4	31.8	15.0	3.4
<u>Terms of trade</u>	10.4	-4.6	-4.4	-17.8	32.0

Source: CEPAL on the basis of official statistics.

<sup>a/</sup> Preliminary estimates.

/Coffee experienced



Coffee experienced a higher growth rate as a result of the increase in prices mentioned above, and an increase in volume of approximately 4 per cent. Owing to this combination of favourable factors, the value of exports of coffee beans almost doubled in 1975 (see table 7). In addition, prospects for 1977 are also favourable: production has increased, and in addition higher prices are expected. However, the situation could change in the medium term since during the second half of 1976 there was a pest outbreak on the Pacific Coast which led to an increase in operating costs, and also threatened to wipe out the plantations.

During 1976 there was also a sharp increase (60 per cent) in the volume of sugar exported, owing to the increase in production brought about by the high prices of previous years. However, the average price was 22 per cent lower than that of 1975 and, as a result, the current value of sales increased by only 26 per cent.

Sales of beef also increased very sharply, but failed to match the high levels of 1973 (see table 7). This increase was the result both of the growth in quantity and of the increase in the average price, which rose by 23 per cent, after two years at low levels.

The increase in the value of shrimp and lobster exports was even more marked (72 per cent), thereby heightening the steep growth in previous years. As a result, the value of sales in 1976 more than tripled that of 1973.

As regards other export products, sales of bananas increased slightly, whereas those of tobacco and pigs increased by 10 and 9 per cent respectively. The other exports - which represent approximately 30 per cent of the total value of exports - increased at a substantial rate, after dropping in 1975. The increase in the sales of chemical and dairy products and textiles to the Central American Common Market played a decisive part in this expansion.

Table 7

NICARAGUA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB), 1973-1976

	Millions of dollars at current prices				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1973	1976	1974	1975	1976
<u>Main export products</u>	<u>172.8</u>	<u>225.9</u>	<u>228.2</u>	<u>341.7</u>	<u>62.2</u>	<u>64.2</u>	<u>30.7</u>	<u>1.0</u>	<u>49.7</u>
Cotton	63.2	135.9	95.6	129.1	22.7	24.5	115.0	-29.7	35.0
Sugar	13.5	12.3	42.6	53.5	4.9	10.2	-8.9	246.3	25.6
Coffee	44.4	46.1	48.1	95.0	16.0	18.0	3.8	4.3	97.5
Meat	44.5	21.9	27.0	38.5	16.0	7.3	-50.8	23.3	42.6
Shrimp and lobster	7.2	9.7	14.9	25.6	2.6	4.9	34.7	53.6	71.8
<u>Other products</u>	<u>95.2</u>	<u>143.5</u>	<u>135.8</u>	<u>172.6</u>	<u>34.2</u>	<u>32.8</u>	<u>50.7</u>	<u>-5.4</u>	<u>27.1</u>
Bananas	5.6	5.3	4.9	5.0	2.0	1.0	-5.4	-7.5	2.0
Tobacco	2.9	3.9	4.1	4.5	1.0	0.9	34.5	5.1	9.8
Figs	1.4	2.3	2.2	2.4	0.5	0.4	64.3	4.3	9.1
Other products	85.3	132.0	124.6	160.7	30.7	30.5	54.7	-5.6	29.0
<u>Total</u>	<u>277.9</u>	<u>380.9</u>	<u>375.2</u>	<u>526.2</u>	<u>100.0</u>	<u>100.0</u>	<u>37.1</u>	<u>-1.5</u>	<u>40.2</u>

Source: CEPAL, on the basis of official figures.

a/ Estimates.

/(ii) Imports.

(ii) Imports. In 1976 the value of imports of goods increased moderately as a result of a very large rise in purchases of consumer goods, the stagnation of imports of intermediate products, and the drop of 5 per cent in the acquisition of capital goods (see table 8). Imports of consumer goods came largely from the Central American Common Market and comprised mainly food, pharmaceutical products and toiletries. The virtual stagnation of imports of raw materials was due to some extent to the use of previously imported stocks. Finally, the drop in purchases of capital goods resulted from the 12 per cent reduction in the purchase of industrial plant, which was not offset by the slight increase in imports of agricultural and transport machinery and equipment.

(iii) Trade with Central America. Trade with the countries of the Central American Common Market was quite buoyant as regards both exports and imports; the deficit was lower than that of 1975, since sales increased by 39 per cent and purchases by 28 per cent.

The increase in the volume of exports was due both to the higher demand for insecticides stemming from agricultural activity in Central America (which was satisfied to a large extent by Nicaraguan production), and also to the rise in sales of powdered milk and metal manufactures.

In the case of imports from the region, the most important were purchases of foods (which increased by 40 per cent) and agricultural raw materials for industrial use.

(b) Balance of payments

Because of the extraordinary increase in the export of goods and the much smaller increase in imports, the balance on the goods account showed a substantial turnaround, with the deficit of 95 million dollars in 1975 giving way to a surplus of 45 million dollars in 1976.

This marked improvement, and the fact that the deficit on the real services account was held at the 1975 level, helped to change the deficit of 136 million dollars in the trade balance in 1975 to a small surplus in 1976, a situation which had not occurred since 1972 (see table 9).

Table 8

NICARAGUA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF), 1973-1976

	Millions of dollars at current prices				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Consumer goods	91	126	123	142	27.9	28.2	38.2	-3.3	15.8
Intermediate goods	160	318	275	276	48.9	48.2	98.9	-13.4	-0.4
Petroleum and fuels	23	59	73	73	7.0	12.8	159.0	22.9	0.4
Others	137	259	202	203	41.9	35.4	88.9	-21.7	0.4
Capital goods	74	115	119	113	22.7	23.6	55.0	3.5	-5.0
<u>Total</u>	<u>327</u>	<u>562</u>	<u>517</u>	<u>532</u>	<u>100.0</u>	<u>100.0</u>	<u>71.8</u>	<u>-8.0</u>	<u>2.8</u>

Source: Economic Indicators, Central Bank of Nicaragua.

a/ Estimates.

/Table 9

Table 9  
NICARAGUA: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>Current account</b>					
Exports of goods and services	291	378	451	447	625
Goods FOB	249	278	380	375	541
Services	42	100	71	72	84
Transport	10	10	16	16	20
Travel	14	12	23	27	31
Imports of goods and services	268	426	665	583	623
Goods FOB	205	327	540	470	496
Services	63	99	125	113	127
Transport	25	37	58	51	56
Travel	17	17	33	30	33
Net payments of profits and interest on foreign capital	-36	-46	-58	-57	-76
Profits	-25	-31	-37	-27	-40
Interest	-11	-15	-21	-30	-36
Net private transfer payments	4	40	6	5	6
Balance on current account	-9	-54	-266	-188	-68
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	9	54	266	188	68
(a) Net external non-compensatory capital	45	162	275	184	} 100
Direct investment	10	13	14	13	
Long- and medium-term loans	61	122	181	172	
Amortization payments	-19	-16	-21	-29	
Short-term liabilities	-10	26	92	20	
Official transfer payments	3	17	9	8	
(b) Domestic non-compensatory capital or assets	-9	-46	-25	38	
(c) Errors and omissions	-5	-2	-12	-2	
(d) Allocation of SDRs	3	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-25	-60	28	-32	-32
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	4	18	4	15	...
Amortization payments	-8	-10	-7	-8	...
Variation in gross international reserves (minus sign signifies an increase)	-21	-68	31	-39	...
Foreign exchange reserves (minus sign signifies an increase)	-18	-69	31	-41	...
Gold reserves (minus sign signifies an increase)	-	-	-	-	...
SDRs (minus sign signifies an increase)	-3	1	-	2	...

Source: 1972-1975: International Monetary Fund, *Balance of Payments Yearbook*, vol. 28; 1976: CEPAL, on the basis of official statistics.

<sup>a/</sup> Preliminary estimate.

/For this

For this reason, and despite the sharp increase in interest payments and the transfer of profits, the deficit on current account was 68 million dollars, a figure equal to less than half the 1975 deficit and only a little more than a quarter of the 1974 deficit.

The imbalance on the current account was more than covered by a net entry of long-term and medium-term capital of approximately 100 million dollars. Thus, for the second year running the country increased its international reserves.

(c) External debt

In 1976 the balance of the external public debt guaranteed by the State increased by almost 10 per cent. This rate was substantially lower than the 28, 45 and 36 per cent recorded in the three preceding years, as a result of which between 1973 and 1975 the external debt had increased two and a half times (see table 10).

In contrast, the rate of increase in external debt servicing in 1976 (33 per cent) more than doubled the 1975 figure (15 per cent). Nevertheless, this rate was lower than the rate at which the value of exports increased and, therefore, the proportion of the latter accounted for by amortization and interest payments fell slightly (see table 10).

4. Fiscal and monetary policy

(a) Fiscal policy

The public finances of the country developed along the lines laid down by the fiscal reform which came into force during 1975. In general terms, fiscal policy played the dual role of redistributing income (with the introduction of progressive taxation on income which increased owing to inflation) and of stimulating gross capital formation (through increases in government spending and technical assistance to private enterprise). At the same time, an attempt was made to narrow the gap between regular income and central government expenditure.

Table 10  
 NICARAGUA: INDICATORS OF EXTERNAL INDEBTENESS, 1972-1976  
 (Millions of dollars at current prices)

	1972	1973	1974	1975	1976 <sup>a/</sup>
Balance of public debt and of debts guaranteed by the State	255.1	346.7	502.7	644.0	708.0
Servicing of external debt	34.7	70.5	48.7	56.2	75.0
Amortization payments	22.5	51.9	20.3	20.3	30.0
Interest payments	12.2	18.6	28.4	35.9	45.0
Servicing of external debt, as a percentage of total exports	11.9	18.7	10.8	12.6	12.0

Source: CEPAL, on the basis of official figures.

<sup>a/</sup> Estimates.

/In the

In the second half of the year several budgetary divisions were extended to channel funds to the financial institutions in the public sector responsible for implementing development programmes to agencies undertaking infrastructure work and activities relating to health and public education, and to the armed forces. This increase was financed with external resources and served to offset the fall in investment in the private sector.

During 1976 current income of the central Government increased by approximately 16 per cent. The fiscal reform approved in 1975, which came into force in 1976, was largely responsible for the increase in current income. Through this reform taxes on domestic sales were increased from 4 to 8 per cent, and there was an increase in the progressive rates of income tax. The effect of the latter was seen in the substantial increase in revenue from direct taxes, which rose by 30 per cent (see table 11). The increase in the revenue from income tax, which rose by more than 40 per cent, was particularly marked and was mainly attributable to the export sector. However, in some areas the results of the tax reform fell short of expectations, since some of the larger enterprises succeeded in avoiding the progressive taxation by legally dividing themselves into smaller enterprises and presenting narrower bases for taxation.

Central Government expenditure, as mentioned above, acted as a growth factor in both public and private investment. It also helped to maintain levels of consumption, and contributed to the partial recovery of the purchasing power of the employees of various bodies.

Total expenditure increased by 2 per cent. However, trends in current expenditure and in investment differed widely. Whereas current expenditure increased by 16 per cent, capital expenditure fell by more than 13 per cent (see table 11). Nevertheless, because of the financial support provided since 1975 to autonomous institutions and decentralized enterprises through current and capital transfers to increase their delivery capacity, total public investment exceeded the levels of the previous year. Thus, in addition to the infrastructure



Table 11

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of córdobas)			Annual growth rates	
	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>	1975	1976
<b>1. Current income</b>	<u>1 365</u>	<u>1 323</u>	<u>1 528</u>	<u>-3.1</u>	<u>15.6</u>
Tax revenue	1 156	1 175	1 345	1.6	14.5
Direct	199	288	374	45.0	29.9
Indirect	957	887	971	-7.4	9.5
From taxes on imports	362	345	348	-4.6	0.7
From taxes on exports	122	7	6	-99.9	-8.7
From taxes on production and consumption	474	535	617	12.8	15.4
Non-tax revenue	209	148	184	-29.3	24.4
<b>2. Current expenditure</b>	<u>990</u>	<u>1 085</u>	<u>1 262</u>	<u>9.7</u>	<u>16.3</u>
Wages and salaries	388	442	546	13.9	23.5
Other current expenditure	602	643	716	7.1	11.3
<b>3. Saving on current account (1 - 2)</b>	<u>376</u>	<u>237</u>	<u>267</u>	<u>-36.8</u>	<u>12.3</u>
<b>4. Capital expenditure</b>	<u>1 024</u>	<u>996</u>	<u>862</u>	<u>-2.8</u>	<u>-13.4</u>
Reel investment	309	347	347	12.3	-0.1
Debt amortization	81	90	158	11.5	75.0
Other capital expenditure	634	559	357	-11.9	-35.9
<b>5. Total expenditure (2+4)</b>	<u>2 014</u>	<u>2 081</u>	<u>2 124</u>	<u>3.3</u>	<u>2.1</u>
<b>6. Fiscal deficit (or surplus) (3 - 4)</b>	<u>-649</u>	<u>-758</u>	<u>-595</u>	<u>16.9</u>	<u>-21.5</u>
<b>7. Financing of deficit</b>	<u>649</u>	<u>758</u>	<u>595</u>	<u>16.9</u>	<u>-21.5</u>
External financing	714	448	525	-37.2	17.2
Domestic financing	-66	310	70	-	-77.4

<sup>a/</sup> Preliminary figures.

/work on

work on roads, the dredging of the coastal canal on the Atlantic Ocean, and the reconstruction of Managua involving buildings for public administration and health services, all carried out by the central Government, the decentralized agencies promoted electrification and port infrastructure projects on the Pacific coast and on lake Nicaragua.

Expenditure directed towards increasing gross capital formation was channelled to activities whose recovery is a long-term task, or at least longer than the terms of loans negotiated with commercial banks. It was impossible to postpone these investments because of the reconstruction of Managua. From this point of view, the rigidity of the specific terms imposed by the international financial agencies, which has impeded and delayed the programmes, may rightly be questioned.

The sharp rise in current income also enabled the Government to increase savings and show a smaller deficit than that of the previous year. In order to cover it, recourse was had to external financing and accumulated cash reserves (see table 11).

Furthermore, public debt servicing reached a level which, although perhaps maintainable in view of the very promising outlook for economic activity and the external sector, is likely to place the country in a vulnerable position if the prices of agricultural export products should change.

(b) Monetary policy

The recovery of economic activity and the increase in income from exports was reflected in the various monetary variables. Thus, between November 1975 and November 1976 the net international reserves of the banking system increased by more than 600 million córdobas, and domestic credit rose by 16 per cent. During this period the money supply also expanded by 27 per cent (see table 12).

Table 12  
NICARAGUA: MONETARY POSITION

	Balance at end of				Annual growth rates		
	1973	1974	1975	1976	1974	1975	1976
<b>1. Money</b>	<u>1 276</u>	<u>1 427</u>	<u>1 377</u>	<u>1 729</u>	<u>11.8</u>	<u>-3.5</u>	<u>25.4</u>
Currency outside banks	411	452	445	636	10.0	-1.5	42.9
Demand deposits	850	964	913	1 064	13.4	-5.3	16.5
<b>2. Factors of expansion</b>	<u>2 736</u>	<u>2 895</u>	<u>3 076</u>	<u>3 607</u>	<u>5.8</u>	<u>6.3</u>	<u>23.8</u>
Foreign assets (net)	650	353	248	605	-45.7	-29.7	144.0
Domestic credit	2 086	2 542	2 828	3 202	21.9	11.3	13.2
Claims on government (net)	63	-156	114	162	-	-	42.1
Claims on official entities	35	44	53	69	25.7	20.5	30.2
Claims on private sector	1 988	2 654	2 661	2 971	33.5	0.3	11.7
<b>3. Factors of absorption</b>	<u>1 460</u>	<u>1 468</u>	<u>1 699</u>	<u>2 080</u>	<u>0.5</u>	<u>15.7</u>	<u>22.4</u>
Quasi-money (savings and time deposits)	588	703	774	1 084	19.6	10.1	40.1
Long-term foreign borrowing	459	459	550	545	-	19.8	-0.9
Other items (net)	413	306	375	451	-25.9	22.5	20.3

Source: International Financial Statistics.

/The increase

The increase in the supplies of funds in the banking and financing systems, owing to the rise in deposits, was used to finance activities in both the public and private sectors. As regards the public sector, private financial institutions took up reconstruction bonds issued by the Central Bank to a value of almost 68 million córdobas, besides granting credits of 69 million córdobas to official bodies.

In turn, credit to the private sector increased by 9 per cent. Most of this increase went to commerce, although sizeable increases were also recorded in short-term loans for agriculture and industry. As regards long-term financing, there was a reduction in the loans granted by the commercial banks to agriculture and industry, which reflected the fall in the growth of fixed investment in these sectors. In contrast, long-term loans in respect of livestock increased as a result of the joint action of the Central Bank and private banks in placing funds from abroad in this activity.

Another major feature of financial developments in 1976 was the increase in the share of non-banking financial institutions. They attracted a greater volume of resources by offering higher rates of interest on time deposits than those paid by the banks on sight deposits, and also because the banks use the financial and saving institutions as intermediaries, since they obtain better rates of interest through them.<sup>1/</sup>

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<sup>1/</sup> Whereas the banks' rates of interest were fixed at 13 and 14 per cent for the short term and the long term respectively, savings and loans institutions were authorized to charge 14 per cent plus a 4 per cent commission collected once only and finance companies, 17 and 18 per cent for short-term and long-term loans, respectively.

PANAMA

1. The overall picture

(a) Global trends

The stagnation of the gross domestic product was the predominant feature of economic activity in 1976. The loss of momentum since 1972 has been accentuated in the last two years in spite of the various government incentives to private activity and the considerable growth of public investment for the second year running.

On the demand side, the 8 per cent contraction of exports and, in particular, the drop in sales of goods and services to the Canal Zone were mainly responsible for the recession in overall economic activity in 1976. From the standpoint of supply, the economy was affected by the decline in agricultural production as a result of the drought. The smaller external demand and the decrease in value added in the agricultural sector were the reasons why the gross domestic product failed to grow in relation to 1975. With the 11 per cent reduction in the volume of imports, total supply in turn fell by 3 per cent (see tables 1 and 2).

The short-term measures adopted in 1974 to promote production and employment did not succeed in counteracting the effect of the recession of external origin on the performance of private investment. Added to this was the uncertainty of some entrepreneurial sectors as a result of the changes in economic policy aimed at improving income distribution. Although private investment in both capital goods and construction declined with respect to the 1975 levels, and altogether dropped by 9 per cent, public investment continued to expand rapidly owing to the fact that industrial and housing projects maintained the pace initiated in 1975. Thus, gross capital formation originating in the public sector rose by 21 per cent, following an increase of 66 per cent in 1975. Total fixed investment therefore increased by 4.5 per cent (see table 2).

Table 1  
PANAMA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	1 441	1 529	1 569	1 578	1 578
Population (millions)	1.54	1.58	1.63	1.68	1.72
Per capita gross domestic product (US dollars at 1970 prices)	935	965	963	942	916
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	5.3	6.1	2.6	0.6	-
Per capita gross domestic product	2.4	3.2	-0.2	-2.2	-2.8
Gross income <sup>b/</sup>	5.1	6.1	-0.9	-2.6	-0.4
Terms of trade	4.4	-4.3	-8.1	-4.5	-3.5
Value of exports of goods and services	8.7	13.9	38.6	18.1	-7.2
Value of imports of goods and services	12.2	11.9	52.0	9.6	-5.9
Consumer price index <sup>c/</sup>	5.3	6.9	16.8	5.4	2.0
Money	34.9	21.3	15.0	1.7	20.3 <sup>d/</sup>
Rate of unemployment <sup>e/</sup>	6.8	7.0	5.7	6.3	6.9
Current income of government	9.2	13.7	20.1	9.5	8.6
Total expenditure of government	26.6	11.3	48.4	-6.5	8.0
Fiscal deficit/total expenditure of government <sup>e/</sup>	30.4	28.9	42.5	32.7	32.3
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance	-68	-67	-171	-126	-129
Balance on current account	-106	-118	-269	-136	-162
Variation in net international reserves	4	-	-19	-7	-31

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Annual average variation.

<sup>d/</sup> At 30 September.

<sup>e/</sup> Percentage.

Table 2  
PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976a/	1970	1976a/	1974	1975	1976a/
<u>Total supply</u>	<u>1 819</u>	<u>1 808</u>	<u>1 754</u>	<u>140.6</u>	<u>131.9</u>	<u>2.9</u>	<u>-0.6</u>	<u>-3.0</u>
Gross domestic product	1 321	1 329	1 329	100.0	100.0	2.6	0.6	-
Imports	498	479	425	40.6	31.9	3.6	-3.8	-11.2
<u>Total demand</u>	<u>1 819</u>	<u>1 808</u>	<u>1 754</u>	<u>140.6</u>	<u>131.9</u>	<u>2.9</u>	<u>-0.6</u>	<u>-3.0</u>
<u>Domestic demand</u>	<u>1 339</u>	<u>1 283</u>	<u>1 272</u>	<u>103.3</u>	<u>95.7</u>	<u>1.2</u>	<u>-4.2</u>	<u>-0.9</u>
Gross domestic investment	317	353	327	26.4	24.6	-11.8	11.1	-7.4
Gross fixed investment	272	333	348	24.4	26.2	-19.0	22.3	4.4
Construction	143	172	191	12.2	14.4	-26.6	20.5	10.8
Machinery and equipment	129	161	157	12.2	11.8	-8.6	24.5	-2.3
Public	89	148	179	6.4	13.5	-0.6	66.0	21.2
Private	183	185	169	18.0	12.7	-25.7	1.1	-8.9
Changes in stocks	45	20	-21	1.9	-1.6	-	-	-
Total consumption	1 022	930	945	76.9	71.1	6.1	-9.0	1.6
General government	200	215	220	14.3	16.6	3.8	7.1	2.6
Private	822	715	725	63.6	54.5	6.6	-12.8	1.4
<u>Exports</u>	<u>480</u>	<u>525</u>	<u>482</u>	<u>37.3</u>	<u>36.2</u>	<u>7.9</u>	<u>9.3</u>	<u>-8.2</u>

Source: 1970-1976: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office.

a/ Preliminary figures.

/Private consumption

Private consumption rose slightly, following the sharp decline in 1975, but its level remained very low.

The contraction of external demand also showed the limitations of the Panamanian economy due to its heavy dependence both on services sold to the Canal Zone and on banana exports and the refining of imported petroleum. These considerations were kept in mind by the Government in its efforts to obtain the conclusion of a new treaty on the Panama Canal, and to promote the rational utilization of the country's natural resources and geographical position.

The latter aspect, which in the past constituted the basis of the country's development, could still play an important role in the future if it is combined with the diversification of the production apparatus and the development of new fields of economic activity. The most important projects being carried out in this connexion are the construction of the new international airport, of the fishing port, of the trans-isthmus oil pipeline and of the container ports located at both ends of the isthmus (which will enable cargo to be carried between them over land).

Some projects for the expansion of the Colon Free Zone, were also initiated, such as new storage and other facilities for manufacturing enterprises, and measures were taken to expand the international banking centre and establish a regional reinsurance centre.

The electrification programme being carried out is another important contribution to the expansion of industrial and commercial activities, which also includes projects of great importance for the Panamanian economy such as the production of copper from the Cerro Colorado and Petaquilla mines, which are considered to be the main source of future development. A contract of association between the State-owned Empresa Cerro Colorado and Texasgulf, Inc., a United States-Canadian enterprise, for the development of these mines was signed in 1976.<sup>1/</sup>

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<sup>1/</sup> The capital of the enterprise will be made up as follows:  
80 per cent by government contributions through the Mining Development Corporation, and the remaining 20 per cent by the direct contribution of Texasgulf, which will administer all the activities connected with exploration, evaluation, design, (cont.)



Other projects which are well under way include the convention centre, the remodelling of the old part of Panama, and new hotels in other areas, which, together with the new international airport, will improve the prospects for tourism.

As regards manufacturing, the State cement enterprise is building a new plant which, once in operation, will permit a considerable saving of foreign exchange. Five sugar plants are also being installed, the production of which is largely destined for export.

All this means that Panama will continue to take advantage of its favourable geographical position to undertake more and more export-oriented projects.

Furthermore, the Government has been implementing a group of measures aimed at substantially improving the social aspects of economic development, raising productivity levels and reducing the existing gap between the countryside and the town. In this respect, it continued the educational reform initiated in 1972 which establishes compulsory education up to ninth grade and provides training for middle-level professionals.<sup>2/</sup>

Moreover, in 1976, work proceeded on the health programme carried out since 1973 with the purpose of integrating the services provided independently by the Social Security Fund and the Ministry of Health - a goal which was largely achieved in 8 provinces - and of extending the coverage of social security to include the wife, children and parents of the insured person, which means taking care of an additional 40 per cent of the population.

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<sup>1/</sup> (concl.) construction and operation of the project for a period of 15 years, receiving an established fee for each of the different stages. From 1982 onwards, 170,000 tons of copper should be produced annually, which will mean annual foreign exchange earnings from copper exports of about 450 million dollars, and a contribution in terms of national value added of 300 million dollars annually. A total of 4,500 persons will be employed directly in the production of copper, and employment for a further 10,000 will be provided indirectly.

<sup>2/</sup> The Polytechnical Institute, offering 12 intermediate courses, was set up for the purpose in 1975.

In 1975 the authorities also adopted a number of measures designed to stimulate activities and investment in the private sector. At the end of 1974, the "Boquete Declaration" had already sought to create a climate of understanding between entrepreneurs and workers and to facilitate government austerity. The inadequacy of the measures taken at the time compelled the Government to adopt various measures at the end of 1976 designed to encourage private and semi-public investment projects through the National Financial Corporation and private banks; to promote capital formation in the entrepreneurial sector by means of a system of accelerated depreciation and tax exemptions for reinvested profits; to improve the efficiency of public services, particularly in price regulation; to establish export incentives and smuggling controls; and, in general, to institute systems of consultation between the public and private sectors concerning official measures affecting the latter.

(b) Sectoral trends

Domestic production declined in 1976 owing to the recession which mainly affected the manufacturing sector, services to the Canal Zone and private construction, and also as a result of the severe drought which prevented agricultural activity from continuing to play a dynamic role as in 1975 (see table 3).

Thus the gross domestic product remained at the same level as in 1975. This situation contrasts strongly with the performance of the economy in the early 1970s. It should be noted in this respect that the sluggish growth trend was accentuated from 1974 onwards, when the world recession and inflationary pressures affected domestic production costs and reduced income from external transactions.

(i) The agricultural sector. Affected by a severe drought, the product of the agricultural sector declined slightly in 1976, following its vigorous growth in the previous year.

Table 3  
PANAMA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of balboas at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	216	226	225	20.7	18.5	-1.5	4.8	-0.5
Mining	4	4	4	0.3	0.3	-5.4	-5.7	6.1
Manufacturing	172	171	168	15.8	13.8	-4.4	-0.9	-1.7
Construction	63	76	84	6.3	7.0	-26.0	20.4	10.8
<u>Subtotal goods</u>	<u>455</u>	<u>477</u>	<u>481</u>	<u>43.1</u>	<u>39.6</u>	<u>-6.8</u>	<u>4.8</u>	<u>0.8</u>
Electricity, gas and water	29	32	34	2.0	2.8	4.7	9.4	5.7
Transport, storage and communications	84	85	89	5.6	7.3	15.0	2.2	3.6
<u>Subtotal basic services</u>	<u>113</u>	<u>117</u>	<u>123</u>	<u>7.6</u>	<u>10.1</u>	<u>12.1</u>	<u>4.0</u>	<u>4.2</u>
Commerce	126	120	115	9.9	9.5	5.2	-4.9	-4.3
Financial institutions, insurance and real estate <sup>b/</sup>	57	74	79	4.2	6.5	9.5	9.5	7.9
Ownership of dwellings	78	81	84	5.9	6.9	4.8	3.2	3.9
Public administration and defence	38	42	45	3.1	3.7	8.3	10.0	7.9
Services to the Canal Zone	78	81	79	8.2	6.5	-7.9	4.4	-2.2
Miscellaneous services <sup>c/</sup>	245	220	209	18.1	17.2	18.0	-9.9	-5.3
<u>Subtotal other services</u>	<u>632</u>	<u>618</u>	<u>611</u>	<u>49.3</u>	<u>50.3</u>	<u>8.4</u>	<u>-2.2</u>	<u>-1.1</u>
<u>Total gross domestic product</u>	<u>1 192</u>	<u>1 200</u>	<u>1 200</u>	<u>100.0</u>	<u>100.6</u>	<u>2.6</u>	<u>0.6</u>	<u>-</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office;  
1976: CEPAL estimates based on statistics 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.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Excludes ownership of dwellings.

<sup>c/</sup> Also includes restaurants, hotels, and business services.

/The production

The production of rice from the first sowing - representing 90 per cent of total output for the year - was 23 per cent less than that recorded in 1975 (see table 4). Little rice was imported, however, as domestic consumption was covered from the rice stocks built up by the Agricultural Market Institute.

Maize production from the first sowing, which amounted to 60 per cent of the year's total output, was slightly above the 1975 level, but the drought will affect the crop from the second sowing. Lastly, because of the drought, the area sown to beans had to be reduced by approximately 50 per cent, and there was a 40 per cent decline in the crop from the first sowing.

In contrast, the sugar cane crop continued to expand (9 per cent) with a view to supplying the five plants that are being installed in Panama, some of which are expected to start operating early in 1977.

The performance of the traditional export crops was fairly normal, as the coffee and banana plantations maintained their 1975 production levels (see table 4).

To cushion the adverse effects of the drought on the standard of living of the agricultural population, the Government adopted the following emergency measures: an increase in the price of rice (3 balboa cents per pound for the consumer and 10.50 balboas per quintal for the producer); an extension of the maturity period of unpaid debts; the formulation of programmes for the construction in the near future of small dams for watering-places and irrigation, 50 per cent of the cost of which would be covered by the farmers; the formulation of animal feed programmes on the basis of small plots of grass for cutting and other supplements; and an increase of 2 balboa cents per litre in the price of milk.

On the whole, the production promotion policy initiated three years earlier with the establishment of the Ministry of Agricultural Development, the Agricultural Market Institute and the Agricultural Development Bank was strengthened in 1976. In this respect, the production of melons and okra for export was encouraged, as was the production of tomatoes to supply a new pulp plant scheduled to start operating in 1977, and that of oranges for the government plant which sells citrus concentrates mainly to Central American and Yugoslavia.

Table 4  
PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1973	1974	1975	1976 <sub>a/</sub>	Annual growth rates		
					1974	1975	1976 <sub>a/</sub>
<b>1. Index of agricultural production</b>							
Crop farming	190	190	203	195	0.1	6.7	-4.0
Stock-raising	184	170	165	176	-7.9	-2.6	6.7
<b>2. Production of some important crops</b>							
Paddy rice (thousands of quintals) <u>b/</u>	3 575	3 932	4 075	3 126	10.0	3.6	-23.3
Unmilled maize (thousands of quintals) <u>b/</u>	1 208	1 309	1 438	1 457	8.3	9.9	1.4
Dried beans (thousands of quintals)	77	89	93	56	16.0	3.5	-39.5
Husked coffee (thousands of quintals)	95	99	106	108	4.3	6.6	1.5
Sugarcane (thousands of short tons)	1 580	1 899	2 122	2 318	20.2	11.7	9.2
Bananas (thousands of pounds) <u>b/</u>	1 851	1 575	1 749	1 745	23.7	17.2	-0.2
<b>3. Indicators of stock-raising activity</b>							
Stocks:							
Cattle	1 312	1 333	1 348	1 361	1.6	1.1	1.0
Pigs	188	175	166	179	-6.7	-5.1	7.8
Poultry	3 706	3 802	3 704	4 277	2.6	-2.6	15.5

Source: Panamá en cifras 1971-1975.

a/ Estimates.

b/ 1973/1974, 1974/1975 and 1975/1976 crop years.

/In order

In order to solve the difficulties stemming from the establishment of the new tax on banana exports, the Government and United Brands signed new contracts by virtue of which: (1) the company sold the land it owned in the Chiriquí and Bocas del Río provinces to the State; (2) the Government leased the company part of this land for the production of bananas and other crops against payment of an annual rent; (3) United Brands will use the State-owned wharves and equipment, also against payment of an annual rent, and will perform and defray the cost of the work of maintenance and repairs involved in the use of these facilities; (4) the company will primarily use the railways in the respective jurisdictions, also paying an annual rent and performing the work of maintenance and repair at its own cost; and (5) it will pay tax to the authorities of the municipal areas where its exports are established. In return, the State exempts the company from the payment of duties on imported machinery, equipment, spare parts, fuels and other inputs, wharfage, etc.; loading and discharging taxes; the tax on any dividends the company may pay to its shareholders; taxes for a period of three years on exports of fruit harvested in new-sown or re-sown areas; and, lastly, taxes on other assets, government stamps, capital, real estate, etc.

These new contracts will bring the State an annual income of 2 million dollars, the rate for taxable income also rising by 30 to 50 per cent, and the existing tax of 0.45 dollars per crate of bananas exported remaining unchanged.

The rental contract for the land is for a period of 5 years, and may be extended successively for an additional year, which opens the doors to independent producers, an aspect that is being encouraged by the Government through the Corporación Bananera del Pacífico, a State enterprise recently established to promote exports to new markets.

Stock-raising continues to face serious problems, largely of a structural nature, and cattle stocks grew by barely 1 per cent. To this must be added the 1976 drought, the main impact of which will be on the supply of feed in 1977.

/In contrast,

In contrast, the stock of pigs increased by 8 per cent, thus partially regaining the levels of the two previous years, but not those recorded in the first two years of the present decade.

Altogether, the value of production of the stock-raising sub-sector rose by about 7 per cent; this is mainly accounted for by the higher rate of cattle slaughtering, which was 8 per cent above the 1975 rate, while pig slaughtering once again declined (by 4 per cent).

With the aim of improving the stock-raising position, the Government has been carrying out a cattle breeding and fattening programme through the Banco Nacional de Panamá, with resources from the World Bank. This has enabled Panama to fill the export quota of 2.6 million pounds of meat for the United States market. Furthermore, as a result of negotiations with that country, the quota was increased to 5 million pounds as from 1977.

The promotion of milk production by the Agricultural Development Bank has continued according to plan. During the year, 1,000 bulls and breeding cows were imported in support of the programme for the improvement of feeds and cattle.

(ii) Manufacturing. The value of manufacturing production fell by 8 per cent in the first nine months of 1976 compared with the same period in 1975. The main reason for this was the sharp drop in petroleum refining. Although marked progress was recorded in other sectors such as food and fish meal and oil (see table 5), the small influence of these items failed to offset the effects of the shortfall in oil-refining on the total manufacturing product. The product fell by about 2 per cent, representing a further deterioration of industrial activity which had already dropped by 4 per cent in 1974 and 1 per cent in 1975 (see table 3).

Table 5

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1973	1974	1975	1976 <sub>a/</sub>	Annual growth rates		
					1974	1975	1976 <sub>a/</sub>
<b>Production of some important manufactures</b>							
<b>(thousands of tons)</b>							
Fish oil	4.74	3.92	5.04	13.64	-17.3	28.4	170.8
Fish meal	14.01	10.36	12.48	23.14	-26.0	20.4	85.4
Sugar <u>b/</u>	1.78	2.30	2.84	3.06	28.9	23.6	7.5
Tomato products	4.59	5.95	7.03	4.96	29.7	18.1	-29.5
Salt <u>b/</u>	0.51	0.45	0.27	0.27	-11.2	-40.3	-
Cigarettes <u>c/</u>	1.03	1.05	1.05	1.08	2.8	-0.8	3.1

Source: Indicadores económicos 1974-1975 (serie P); Situación económica, Industria 1975; and Panamá en cifras 1971-1975.

a/ Estimates.

b/ Thousands of quintals.

c/ Millions of units.

/(iii) Construction.



(iii) Construction. The projects undertaken by the public sector helped to raise the construction product by nearly 11 per cent, which, however, is lower than the very high rate recorded in 1975. The share of private enterprise, in its turn, continued to decline, although at a slower rate than in the two previous years. In fact, the value of building permits fell by 14 per cent in the first nine months of 1976 compared with the same period in 1975. Moreover, since the sharpest falls were in the interior, it may be concluded that there was a contraction in demand not only for luxury housing but also for that intended for broad middle- and low-income sectors of the population. This decline was also partly reflected in the 3 per cent drop in employment in construction activities in the metropolitan area (see table 6).

(iv) Basic services. The electricity, gas, water and sewerage sector showed a dynamic performance (see table 3), owing to the fact that the investment which the State has been making in electric power generation is beginning to yield results. The goal is to replace thermoelectric plants as far as possible by hydroelectric plants that will enable the country to free itself in some measure from its dependence on imported petroleum for the production of electricity. Panama has at present an installed capacity of 264 MW in the form of thermoelectrical plants, but if those located in the Canal Zone are included the capacity increases to 372 MW. The hydroelectric plants being built will have a capacity of 475 MW, which is expected to be sufficient to achieve the aforementioned goal. They include the Bayano hydroelectric plant, the first stage of which was completed in 1976 and which will have an installed capacity of 150 MW, Estrella-Los Valles plant which will be completed in 1979, and the 255 MW plant at Fortuna. Work continued on the construction of the access road to the Fortuna plant, and on laying the 42-kilometre line which will serve to integrate the three hydroelectric systems in the country.

Table 6  
PANAMA: INDICATORS OF CONSTRUCTION ACTIVITY

	1973	1974	1975	1976 <sub>a</sub> /	Annual growth rates		
					1974	1975	1976 <sub>a</sub> /
<b>1. Area constructed b/</b> (thousands of m <sup>2</sup> )							
Total	808	430	176	...	-46.8	-59.1	...
Dwellings	593	253	94	...	-57.3	-62.8	...
<b>2. Apparent consumption of certain</b> building materials (thousands of balboas at 1960 prices)							
Structural steel	8 053	10 457	8 856	...	29.9	-15.3	...
Grey cement	7 953	7 338	7 748	...	-7.7	5.6	...
Cement and clay blocks	4 890	4 926	5 238	...	0.7	6.3	...
Sawnwood	4 351	4 375	2 870	...	0.6	-34.4	...
Veneered wood	1 797	1 860	1 711	...	3.5	-8.0	...
<b>3. Employment c/</b>	23 500 <sub>d</sub> /	30 800	30 600	29 660	...	-0.6	-3.1

Source: Situación Económica, Industria 1975.

a/ Estimates.

b/ District of Panama.

c/ The employment figures relate to one week in October 1974, one week in November 1975, and one week in August 1976.

d/ Metropolitan area only.

/Electric power

Electric power generation increased by slightly over 11 per cent in relation to 1975 with the entry into operation of four thermoelectric plants with a capacity of 28.2 MW.

In addition, 17 million balboas were invested in 1976 in continuing with the installation of drinking water, sewerage and health facilities in rural areas. Lastly, total sales of gas rose by nearly 8 per cent.

(v) Other services. Services maintained rates of growth comparable with those of 1975, in sharp contrast with their vigorous growth at the beginning of the decade.

The services most adversely affected were commerce, which declined by over 4 per cent following a slightly bigger drop in 1975, and personal services in the Canal Zone, which fell by 2 per cent (see table 3). In the former case, the fall in sales and the impossibility of meeting financial commitments contracted in previous years owing to the lack of liquidity affected both commercial and industrial enterprises, some of which were forced to halt their operations with the consequent repercussions on employment levels and income. As regards services to the Canal Zone, the value added in these activities declined with the general loss of dynamism that affected transactions with the Canal Zone which led to a reduction in the personnel employed.

Financial and government activities are the exception in the general recession affecting the various services. They both showed an increase of nearly 8 per cent, which, however, was lower than the exceptionally high growth rate of these activities in previous periods (see table 3).

(c) Developments in employment and unemployment

The slowing-up of economic activity during the year directly affected employment levels. The rate of unemployment was 7.2 per cent in March 1976 compared with 6.5 per cent in March of the previous year. In the metropolitan area open unemployment was more serious, since the rate of unemployment was 9.6 per cent compared with 8.2 per cent in 1975.

In line with the weaker economic growth since 1974, the national index of urban employment in March 1976 was nearly 29 per cent higher than the index for the same month in 1974 (see table 7).

Nevertheless, government support for new forms of agrarian organization and agricultural development slowed down unemployment in rural areas.

## 2. The external sector

### (a) Foreign trade

In 1976 the value of exports of goods fell by one-fifth as the result of an even bigger decrease in the volume and a small increase in the average price of the products exported (see table 8).

The factor mainly responsible for the contraction of exports was the decline in sales of petroleum products, the volume of which decreased by about 50 per cent.<sup>3/</sup> A second determining factor was the sharp fall in the world price of sugar which reduced the value of exports of this commodity by more than 46 per cent, despite the slight increase in volume (see table 9).

Sales of bananas, another of Panama's main export commodities, followed a different trend: a slight decrease in volume and a rise in average price; their total value thus rose by a little over 3 per cent.

Exports of shrimps and of the group made up of meat, fish meal, coffee and other products increased very rapidly. In the first half of 1976 the value of the former was 86 per cent higher than in the same period of 1975, while exports of the remaining products over the same period were more than 70 per cent higher than in the first half of the previous year (see table 5).

In contrast, sales to the Canal Zone declined, partly owing to the smaller flow of traffic through the Canal. This was reflected, for example, in the appreciable drop of 28 per cent in sales of petroleum products to the Canal Zone in the first half of 1976.

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<sup>3/</sup> If petroleum and petroleum products are excluded, the drop in exports of goods was only 5 per cent.

Table 7  
PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1974		1975		1976	
	March	October	March	November	March	August
<u>Rates of unemployment</u>						
National	5.6	5.8	6.5	6.1	7.2	6.5
Main cities						
Metropolitan area	7.1	7.2	8.2	8.2	9.6	8.9
Rest of the country	3.8	4.0	4.2	3.5	4.2	3.6
<u>National indexes</u>						
Labour force	100.0		100.3		101.8	
Employment	100.0		99.4		100.0	
Unemployment	100.0		116.0		128.6	

Source: Sample household survey.

Table 8  
PANAMA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1972	1973	1974	1975	1976 <sub>a/</sub>
<u>Exports of goods</u>					
Value <u>a/</u>	6.3	10.8	52.7	32.9	-20.0
Volume	-3.1	0.9	6.8	21.0	-23.8
Unit value <u>a/</u>	9.7	9.9	40.3	9.8	2.3
<u>Imports of goods</u>					
Value <u>a/</u>	12.6	12.8	59.8	9.0	-6.0
Volume	7.2	-1.8	4.6	-5.2	-11.3
Unit value <u>a/</u>	5.1	14.9	52.8	15.0	6.0
<u>Terms of trade</u>	4.4	-4.3	-8.1	-4.5	-3.5

Source: CEPAL, on the basis of official statistics.

a/ Estimates.

/Table 9

Table 9  
PANAMA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars at current prices						Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	First half		1973	1976	1974	1975	First
					1975	1976					half
											1976
<u>Main export products</u>	<u>132.8</u>	<u>170.8</u>	<u>243.5</u>	...			<u>68.6</u>	...	<u>28.6</u>	<u>42.6</u>	...
Bananas	63.8	49.5	59.5	61.5			39.4	23.2	-22.4	20.2	3.4
Petroleum	21.9	52.8	94.1	65.3 <sup>b/</sup>			13.5	24.8	141.1	78.2	...
Sugar	8.8	27.5	48.3	25.9			5.4	9.8	212.5	75.6	-46.4
Shrimps	16.7	15.2	19.0	...	14.1	26.2	10.3	...	-9.0	25.0	85.8
<u>Other exports</u>	<u>21.6</u>	<u>25.2</u>	<u>22.6</u>	...	<u>9.4</u>	<u>16.1</u>	<u>13.4</u>	...	<u>16.6</u>	<u>-10.3</u>	<u>71.3</u>
<u>Sales to the Canal Zone</u>	<u>25.0</u>	<u>62.8</u>	<u>63.6</u>	...			<u>15.5</u>				
Petroleum products	2.5	33.5	34.2	...	16.0	11.6	1.6	...	1 240.0	2.1	-27.5
Other exports and re-export items	22.5	29.3	23.4	...	...	...	13.9	...	30.2	0.3	...
Adjustments and other items	4.1	17.3	21.5	...	...	...	2.5	...	322.0	24.3	...
<u>Total</u>	<u>161.9</u>	<u>250.9</u>	<u>323.6</u>	<u>256.2</u>			<u>100.0</u>	<u>100.0</u>	<u>55.0</u>	<u>31.0</u>	

Source: Panamá en cifras 1971-1975.

a/ Estimates.

b/ Including sales of petroleum products to the Canal Zone.

/Since Panama

Since Panama is not an oil-producing country, the contraction in exports of this fuel and petroleum products was accompanied by a considerable drop in purchases of crude petroleum: 42 per cent between the first half of 1975 and the equivalent period in 1976. Over this span, imports of other intermediate products increased, in contrast, by nearly 10 per cent, while imports of capital goods declined slightly and imports of consumer goods fell by 3 per cent (see table 10).

(b) Balance of payments

The sharp drop in exports of goods and the much less accentuated decline in imports of goods led to a deficit in visible trade of nearly 500 million dollars, which is 25 million dollars higher than that recorded in 1975.

This larger deficit was, however, almost wholly offset by the increase in the surplus on the services account and, consequently, the foreign trade deficit rose only from 126 million dollars in 1975 to 129 million in 1976 (see table 11).

The increase in the current account deficit - which rose from 136 to 162 million dollars between those two years - was practically the same as the rise of 24 million dollars in net payments of profits and interest on foreign capital.

As had occurred in the previous two years, the 1976 deficit on current account was greater than autonomous capital inflows. Thus, net international reserves dropped once again, by approximately 30 million dollars (see table 11).

(c) The external debt

In 1976 the external debt increased substantially for the fifth year running, its total being far more than double the amount recorded in 1972 (see table 12).

The increase in service payments was even bigger. In fact, amortization and interest payments on the debt, which had dropped slightly in 1975, rose by nearly 40 per cent in 1976.



Table 10  
PANAMA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars at current prices					Percentage breakdown		Annual growth rates		
	1973	1974	1975	1975 <sub>a/</sub>	1976 <sub>a/</sub>	1973	1976 <sub>a/</sub>	1974	1975	1976 <sub>a/</sub>
Consumer goods	49	65	56	27	26	9.7	7.2	33.0	-13.3	-3.0
Intermediate goods	351	648	685	342	279	69.9	78.0	84.4	5.8	-18.5
Crude petroleum	98	286	347	187	109	19.4	30.5	192.7	21.6	-41.9
Others	254	362	338	155	170	50.5	47.5	42.8	-6.7	9.8
Capital goods	103	110	129	53	53	20.4	14.8	7.5	16.8	-1.1
<u>Total</u>	<u>502</u>	<u>822</u>	<u>870</u>	<u>422</u>	<u>358</u>	<u>100.0</u>	<u>100.0</u>	<u>63.8</u>	<u>5.8</u>	<u>-15.3</u>

Source: Panamá en cifras 1971-1975.

a/ First half of the year.

/Table 11

Table 11  
PANAMA: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Current account</u>					
Exports of goods and services	455	519	719	849	788
Goods FOB	146	162	247	329	256
Services	309	357	472	520	532
Transport	61	68	163	156	160
Travel	83	103	121	129	132
Imports of goods and services	523	586	850	975	917
Goods FOB	409	461	737	803	755
Services	114	125	153	172	162
Transport	59	68	88	100	89
Travel	26	27	34	35	33
Net payments of profits and interest on foreign capital	-34	-43	-91	2	-22
Profits	-14	-13	-14	-15	-17
Interest	-20	-30	-77	17	-5
Net private transfer payments	-4	-3	-7	-12	-11
Balance on current account	-106	-118	-269	-136	-162
<u>Capital account</u>					
Net external financing (a+b+c+d+e)	106	118	269	136	162
(a) Net external non-compensatory capital	660	1 607	2 613	1 943	
Direct investment	13	36	24	5	
Long- and medium-term loans	146	174	176	230	
Amortization payments	-33	-60	-101	-96	
Short-term liabilities	525	1 538	2 709	1 793	131
Official transfer payments	9	9	10	6	
(b) Domestic non-compensatory capital or assets	-492	-1 475	-2 491	-1 675	
(c) Errors and omissions	-62	-106	-77	-139	
(d) Allocation of SDRs	4	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-4	-	19	7	31
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	9	12	29
Amortization payments	-	-	-	-	-
Variation in gross international reserves (minus sign signifies an increase)	...	...	...	...	...
Foreign exchange reserves (minus sign signifies an increase)	-	-	-	-	...
Gold reserves (minus sign signifies an increase)	-4	-	10	-	...
SDRs (minus sign signifies an increase)	-	-	-	-5	2

Source: 1972-1975: International Monetary Fund, Balance of Payments Yearbook, vol 28; 1976: CEPAL, on the basis of official statistics.

a/ Preliminary estimates.

Table 12

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars at current prices)

	1972	1973	1974	1975	1976 <sup>a/</sup>
Balance of public debt and of debts guaranteed by the State <sup>b/</sup>	214.9	296.9	358.9	421.4	510.2
Servicing of external debt	23.8	28.2	42.8	38.2	53.4
Amortization payments	10.1	11.4	8.7	9.3	17.0
Interest payments	13.7	16.8	33.1	28.9	36.4
Servicing of external debt, as a percentage of total exports	5.2	5.4	5.6	4.5	6.8

Source: Office of the Controller General of Panama, Statistics and Census Office.

<sup>a/</sup> Estimates.

<sup>b/</sup> Disbursements.

/Owing to

Owing to this sharp rise and to the equally marked drop in exports of goods and services, the proportion of the value of exports represented by debt service payments increased considerably. From the standpoint of international comparison, however, the coefficient was still fairly low (see table 12).

### 3. Prices

The inflationary process which severely affected Panama's economy in 1974 eased up in 1976.

The average rise in the wholesale price index in 1976 was 7.8 per cent, following increases of over 30 per cent in 1974 and 14 per cent in 1975. The rise in consumer prices was even less; in fact, the average level of the price index for Panama City in the period January-September was only 2 per cent higher than the average for the same period in 1975; moreover, the food and beverages sub-index showed virtually no change, and the clothing index rose by only 1 per cent (see table 13). If on the other hand a comparison is made between consumer prices in December 1976 and December 1975, an increase of 4.2 per cent is noted. This was due to the shortage of some products at the end of the year owing to the drought and to the adjustment decreed in certain prices in order to compensate for the resulting fall in the income of agricultural producers.

On the whole, prices reverted to a more normal trend in 1976 owing to three main factors: the slower rate of increase in the price of imported goods, the weakening of aggregate demand, and the production and control policies adopted. These have been especially significant in the agricultural sector, where the programmes launched in 1972 for the production and marketing of basic grains and other mass consumption goods have had favourable effects on agricultural production. Thus in 1976, except in the situation observable at the end of the year as a result of the drought, an adequate supply was available from the previous crop.

Table 13  
PANAMA: EVOLUTION OF DOMESTIC PRICES

(Annual growth rates)

	1972	1973	1974	1975	1976a/
<u>Percentage variation December to December</u>					
Consumer price index	6.7	9.7	16.6	1.8	4.2
Food	-4.4	17.8	20.8	-0.4	4.0
Wholesale price index	6.2	18.7	27.0	12.3	-
Imported products	4.6	20.2	25.1	9.7	5.3
Agricultural products	4.5	12.7	28.9	10.8	5.0
Manufactures	8.3	19.6	27.9	15.1	7.8
<u>Annual average variation</u>					
Consumer price index	5.3	6.9	16.6	5.4	2.0
Food	4.6	9.8	22.8	7.0	0.3
Wholesale price index	8.5	10.5	30.2	14.0	7.8
Imported products	6.7	11.6	28.8	12.5	5.6
Agricultural products	4.0	9.1	23.8	10.3	5.7
Manufactures	11.9	10.1	33.7	13.3	10.3

Source: Panamá en cifras 1971-1975.

a/ Average for the first three quarters of the year.

#### 4. Monetary and fiscal policy

##### (a) Monetary trends

In spite of the recession in economic activity, the public's deposits in the banking system increased by 18 per cent. This fact, coupled with the 30 per cent rise in deposits in 1975, suggests that the international financial centre operating in Panama plays a relatively independent role. Indeed, 1976 witnessed the continued establishment of foreign banks with the accompanying inflow of capital. Thus the value of external deposits increased at an accelerated pace over the past six years, rising from 370 million balboas at the end of 1970 to 7,050 million in 1975 and to 8,025 million in September 1976. This last figure is 38 per cent higher than that recorded in the same month of 1975 (see table 14).

The financing granted to production sectors increased by about 14 per cent between June 1975 and June 1976. However, the bulk of the credit continued to be granted to residents abroad (see table 15).

##### (b) Fiscal policy

The fiscal policy adopted in the past two years has been designed essentially to keep the growth of current expenditure in line with the expansion of public revenue. In 1976, however, total revenue increased by 8.6 per cent and current expenditure by 10 per cent. Thus, saving on current account declined for the third year running and was 8.5 per cent lower than in 1975 (see table 16).

With the decentralization of public investment and its increased channelling through autonomous institutions, investment expenditure grew by only 2.5 per cent, following a pronounced drop in 1975. In contrast, amortization payments on the public debt increased by about 22 per cent.

To cover the 1976 deficit, greater recourse than in previous years was had to domestic financing. This doubled with respect to 1975 while external financing fell by 17 per cent.

Table 14

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

(Millions of balboas)

	Balance at end of			Balance at end of September	
	1973	1974	1975	1975	1976
<u>Assets</u>	<u>3 578</u>	<u>6 475</u>	<u>8 433</u>	<u>7 221</u>	<u>8 599</u>
<u>Liquidity</u>	<u>1 043</u>	<u>1 809</u>	<u>2 156</u>	<u>1 644</u>	<u>2 423</u>
Cash holdings	42	39	45	36	34
Sight deposits in banks and agencies	143	197	203	228	107
By foreign banks <u>a/</u>	142	191	164	195b/	71
By local banks <u>b/</u>	-	7	40	33c/	36
Time deposits in banks and agencies	727	1 437	1 532	1 037	1 765
By foreign banks	686	162	1 198	846	1 430
By local banks	41	75	163	148	183
By agencies	-	200	170	43	151
Deposits in IMF	12	14	21	19	18
Other assets	119	121	356	325	504
<u>Investment</u>	<u>2 410</u>	<u>4 424</u>	<u>6 067</u>	<u>5 370</u>	<u>5 971</u>
Loans and discounts	2 359	4 353	5 987	5 293	5 907
Securities	72	90	81	77	65
<u>Others</u>	<u>125</u>	<u>243</u>	<u>231</u>	<u>207</u>	<u>200</u>
<u>Liabilities and capital</u>	<u>3 578</u>	<u>6 475</u>	<u>8 433</u>	<u>7 221</u>	<u>8 599</u>
<u>Sight deposits</u>	<u>351</u>	<u>452</u>	<u>406</u>	<u>380</u>	<u>472</u>
By the private sector	151	191	170	142	209
By the public sector	69	68	46	48	82
By foreigners	47	62	101	79	75
By foreign banks <u>a/</u>	84	123	65	85	75
By local banks	-	-	24	27	32
<u>Time and limited-access deposits</u>	<u>2 879</u>	<u>5 572</u>	<u>7 495</u>	<u>6 220</u>	<u>7 538</u>
By the private sector	359	415	465	465	493
By foreigners	313	549	1 046	1 023	1 180
By foreign banks <u>a/</u>	2 159	4 508	5 839	4 613	5 696
By local banks	47	100	145	120	169
Liabilities in respect of banks and international agencies	73	78	99	84	149
Other liabilities, capital and reserves	275	374	434	537	440

Source: CEPAL, on the basis of figures supplied by the Office of the Controller General of Panama, Statistics and Census Office.

a/ Including banks and agencies in the Panama Canal Zone.

b/ Including deductions from liabilities.

c/ Including deposits in the International Monetary Fund.

Table 15

PANAMA: ALLOCATION OF LOANS GRANTED BY THE BANKING SYSTEM, 1970-1976

(Millions of balboas)

	1970	1973	1974	1975	At end of June	
					1975	1976
<u>Total</u>	<u>941.6</u>	<u>3 686</u>	<u>8 996</u>	<u>8 846</u>	<u>4 136</u>	<u>5 635</u>
To residents abroad	392.0	2 293	6 942	6 939	3 303	4 696
Personal consumption	66.1	195	307	141	63	54
Production	451.5	976	1 382	1 174	528	601
Agriculture	37.1	101	127	151	74	75
Manufacturing	40.5	92	166	205	81	97
Commerce	353.9	783	1 089	818	370	429
Housing and other construction	43.7	157	267	331	145	124
Unclassified and others	8.3	65	97	262	100	160

Source: Hacienda y Finanzas, serie E, 1974.

/Table 16



Table 16

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas at current prices				Annual growth rates		
	1973	1974	1975	1976a/	1974	1975	1976a/
1. <u>Current income</u>	<u>225</u>	<u>271</u>	<u>297</u>	<u>323</u>	<u>20.1</u>	<u>9.5</u>	<u>8.6</u>
Tax revenue	173	210	227	224	21.7	7.9	-1.5
Non-tax revenue	53	54	64	58	1.9	19.0	-9.8
Other income	-	7	6	41	-	-17.4	619.3
2. <u>Current expenditure</u>	<u>304</u>	<u>256</u>	<u>283</u>	<u>310</u>	<u>25.2</u>	<u>12.7</u>	<u>9.4</u>
Wages and salaries	122	152	170	176	23.8	12.0	4.8
Other current expenditure	82	104	113	132	27.4	8.7	16.3
3. <u>Saving on current account</u> (1-2)	<u>22</u>	<u>16</u>	<u>14</u>	<u>13</u>	<u>-12.0</u>	<u>-10.2</u>	<u>-8.5</u>
4. <u>Capital expenditure</u>	<u>114</u>	<u>216</u>	<u>158</u>	<u>167</u>	<u>90.1</u>	<u>-23.3</u>	<u>5.3</u>
Fixed capital, financial investment and transfers	92	197	135	139	113.1	-21.2	2.5
Debt amortization payments	22	20	23	28	-8.4	17.8	21.6
5. <u>Total expenditure (2+4)</u>	<u>318</u>	<u>472</u>	<u>441</u>	<u>476</u>	<u>43.4</u>	<u>-6.5</u>	<u>8.0</u>
6. <u>Deficit (1-5)</u>	<u>92</u>	<u>201</u>	<u>144</u>	<u>154</u>	<u>118.2</u>	<u>29.1</u>	<u>6.7</u>
7. <u>Financing of deficit</u>	<u>92</u>	<u>201</u>	<u>144</u>	<u>154</u>	<u>118.2</u>	<u>29.1</u>	<u>6.7</u>
Domestic financing	8	60	28	58	681.8	-53.0	105.3
Issue of securities	10	45	17	57	360.2	-62.5	238.5
Other	-2	15	11	1	-	-24.5	-92.1
External financing	84	140	116	96	66.6	-17.4	-17.4

Source: Office of the Controller General of Panama, Statistics and Census Office.

a/ Estimates.

/Tax income

Tax income declined in 1976 owing to the smaller revenue from direct taxes (5.5 per cent), and particularly from income tax owing to the recession in economic activity. Of the indirect taxes, income from import and export taxes followed the opposite trend. The former maintained the previous year's level owing to the stagnation of imports. On the other hand, income from taxes on exports dropped by 33 per cent, mainly owing to the decline in exports of petroleum products.

Taxes on production and consumption yielded a higher income than the duties levied on foreign trade, and increased considerably for the second consecutive year (12.5 per cent in 1976 compared with 10.6 per cent in 1975). This trend was particularly important since it offset the decline in receipts from export taxes.

Non-tax revenue, in its turn, fell by 10 per cent, following a marked expansion (19 per cent) in 1975. This was exclusively due to the drop in the profits of public enterprises, in particular from the oil refinery which had to face the increases in the unit value of crude petroleum while maintaining the prices of processed products so as to avoid unfavourable repercussions on the general level of prices.

Current government expenditure grew by much the same proportion as in 1975, in line with the policy of curbing expenditure adopted since 1974. That year public spending rose by 25 per cent, while in 1975 it went up by 11 per cent and in 1976 by a little over 9 per cent. During 1976, expenditure on wages and salaries increased by less than 5 per cent, which is much lower than the 1975 rate and reflects the Government's aim to hold down the salary scales of public employees (see table 16).

## PARAGUAY

### 1. The overall picture

Paraguay's economy recorded in 1976 an overall growth rate of 7.1 per cent and a per capita growth rate of 4.1 per cent. These rates were substantially above those of the previous year but not enough for the gross domestic product fully to recover the high rate of growth of the 1973-1974 biennium. A further deterioration in the terms of trade resulted in an increase in gross income (6.8 per cent) which was slightly lower than that of the domestic product. At the same time, the rise in prices was moderate and lower than that of 1975, while the deficit on current account was similar to that of 1975 (see table 1).

As regards sectoral activity, a faster rate of expansion in agriculture and particularly, in manufacturing, which recovered from the recession it had experienced in 1975, were responsible for the greater expansion in the economy. Meanwhile, construction increased more slowly and service sectors maintained approximately the same growth rates as in the previous period.

The current value of exported goods increased by 10 per cent, the result of an expansion in volume (12 per cent), since the unit value fell (2 per cent). Seeds for industrial use, cotton and vegetable oils were the export products which showed the highest increases in sales abroad. In turn, the value of imports of goods rose by 5 per cent. Trends in the trade of goods were mainly responsible for a deficit on current account of 78 million dollars, and, since the net inflow of capital increased to 120 million dollars, the level of international reserves rose by 42 million dollars.

Between 1975 and 1976, the rate of increase in domestic prices declined from approximately 7 to 5 per cent, reflecting a further attenuation of the effects of imported inflation. However, the means of payment increased by approximately 25 per cent, and the fiscal deficit rose substantially, amounting in 1976 to approximately 14 per cent of total government expenditure.

/Table 1

Table 1  
PARAGUAY: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sub>a/</sub>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	892	952	1 042	1 092	1 170
Population (millions)	2.43	2.50	2.57	2.65	2.72
Per capita gross domestic product (US dollars at 1970 prices)	367	385	405	413	430
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	5.1	7.8	8.3	4.8	7.1
Per capita gross domestic product	2.3	4.9	5.3	1.9	4.1
Gross income <u>b/</u>	5.9	13.4	8.0	2.5	6.8
Terms of trade	5.4	27.3	-3.0	-16.3	-5.0
Value of exports of goods and services	18.8	41.6	38.2	1.7	9.1
Value of imports of goods and services	-2.6	52.0	55.9	11.6	7.5
Consumer price index <u>c/</u>	9.2	12.8	25.2	6.7	4.7 <sub>d/</sub>
Money	20.0	32.6	21.0	17.9	24.6 <sub>e/</sub>
Current income of government	6.4	22.3	40.3	10.2	8.3
Total expenditure of government	11.8	9.7	30.4	25.8	19.6
Fiscal deficit/total expenditure of government <u>f/</u>	9.3	-1.2	-8.9	4.6	13.7
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-	-12	-44	-70	-72
Balance on current account	-9	-20	-57	-76	-78
Variation in net international reserves	9	24	30	29	42

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Annual average variation.

d/ Between averages for the periods January-October.

e/ Between September 1975 and September 1976.

f/ Percentage.

## 2. Recent economic trends

### (a) Total supply and demand

As stated above, the economy of Paraguay showed an increase in its growth rate in 1976; the gross domestic product rose by 7.1 per cent, a rate substantially higher than that of 4.8 per cent recorded in the previous year. If account is taken of the increase in population, the per capita product increased by 4.1 per cent in 1976 and by 1.9 per cent in 1975 (see table 1).

Total supply expanded at a slightly lower rate than that of the product, as the volume of imports increased by approximately 6 per cent, recovering from the reduction it showed in the previous year. In any event, the import ratio recorded in 1976 (17.4 per cent) remained higher than that for 1970 (16.1 per cent), and continued to reflect the rapid growth of imports which took place in the 1973-1974 biennium (see table 2).

Domestic demand increased at a rate similar (6.6 per cent) to that of total demand, thereby showing a higher growth rate than that of the previous year. This was mainly due to the expansion of private consumption and total consumption by approximately 5 per cent, whereas in 1975 they had declined. In contrast, the growth rate of government consumption was halved.

At the same time, gross fixed investment increased by 10 per cent, approximately half the rate recorded in the previous year. The construction component showed a relatively bigger drop - because of the proportionally smaller impact during this period than in 1975 of the beginning of work on the hydroelectric complex of Itaipu. The increase of 13 per cent shown by machinery and equipment, although smaller than in 1975, was still significant. In recent years, the steady expansion in capital formation enabled the fixed investment ratio to increase in comparison with the gross domestic product, from 14.5 per cent in 1970 to more than 22 per cent in 1976, following a marked upward trend.

/Table 2

Table 2

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaranies at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
	<u>Total supply</u>	<u>114 689</u>	<u>118 506</u>	<u>126 739</u>	<u>116.1</u>	<u>117.4</u>	<u>9.8</u>	<u>3.3</u>
Gross domestic product	96 196	100 813	107 971	100.0	100.0	8.3	4.8	7.1
Imports	18 493	17 693	18 768	16.1	17.4	18.7	-4.3	6.1
<u>Total demand</u>	<u>114 689</u>	<u>118 506</u>	<u>126 739</u>	<u>116.1</u>	<u>117.4</u>	<u>9.8</u>	<u>3.3</u>	<u>6.9</u>
<u>Domestic demand</u>	<u>102 236</u>	<u>106 103</u>	<u>113 168</u>	<u>101.2</u>	<u>104.8</u>	<u>10.1</u>	<u>3.8</u>	<u>6.6</u>
Gross domestic investment	20 033	24 126	26 997	14.7	25.0	10.3	20.4	11.9
Gross fixed investment	18 280	21 798	23 978	14.5	22.2	11.2	19.3	10.0
Construction	8 513	10 310	11 032	7.3	10.2	11.4	21.1	7.0
Machinery and equipment	9 767	11 488	12 946	7.2	12.0	1.5	17.6	12.7
Changes in stocks	1 753	2 328	3 019	0.2	2.8	-	-	-
Total consumption	82 203	81 977	86 112	86.5	79.8	10.1	-0.3	5.0
General government	6 401	7 508	8 199	9.0	7.6	-0.5	17.3	9.2
Private	75 802	74 469	77 913	77.5	72.2	11.1	-1.8	4.6
<u>Exports</u>	<u>12 453</u>	<u>12 403</u>	<u>13 630</u>	<u>11.9</u>	<u>12.6</u>	<u>7.7</u>	<u>-0.4</u>	<u>9.9</u>

Source: 1970-1975: CEPAL calculations and estimates on the basis of figures supplied by the Central Bank of Paraguay.

a/ Preliminary figures.

/Exports showed

Exports showed a faster growth rate than domestic demand, with an increase of 10 per cent in volume, in contrast with the standstill in 1975. Reversing the trend set by imports, between 1970 and 1976, the export coefficient declined from 15 per cent to less than 13 per cent (see table 2).

(b) The growth of the main sectors

In 1976, the total activity of the goods-producing sectors increased by 7.5 per cent, a rate one and a half times higher than in 1975, which proved decisive in speeding up the rate of development. Meanwhile, the basic services and other service sectors, taken as a whole, showed relatively satisfactory increases in their contributions to the domestic product (8.8 per cent and 6.4 per cent, respectively), but these figures were slightly lower than those of the previous year (see table 3).

The agricultural sector - whose contribution remained at approximately one third of the gross domestic product - continued to show some growth, as a result of the incentive provided by external demand and the agricultural promotion policies in force. Agricultural production increased by 4.4 per cent, thereby exceeding the figure recorded during the previous year, but not that of 1974, when the sector recorded a growth rate of more than 9 per cent. Additional information suggests that the agricultural crops sub-sector grew by more than 5 per cent in 1976, whereas the corresponding rate for livestock was approximately 2 per cent (see table 4).

It is estimated that manufacturing industry expanded production at a fast rate (14 per cent), recovering from the recession experienced in the previous year. This trend was produced by the expansion of private consumption mentioned above, on the one hand, and the growth of the volume of exports, on the other, particularly of some items more directly linked with industrial activity (agricultural and livestock products which have undergone some degree of processing).

Finally, between 1975 and 1976 the rate of increase of construction declined from 21 to 7 per cent, for the reasons mentioned above.

Table 3

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

	Millions of guaranies at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976a/	1970	1976a/	1974	1975	1976a/
Agriculture	30 418	31 561	32 950	34.3	32.6	9.8	3.8	4.4
Mining	226	240	254	0.1	0.3	14.9	6.0	6.2
Manufacturing	15 875	15 559	17 752	17.3	17.6	8.9	-2.0	14.1
Construction	3 235	3 918	4 192	3.0	4.1	14.2	21.1	7.0
<u>Subtotal goods</u>	<u>49 754</u>	<u>51 278</u>	<u>55 148</u>	<u>54.7</u>	<u>54.6</u>	<u>9.8</u>	<u>3.1</u>	<u>7.5</u>
Electricity, gas and water	1 527	1 845	1 978	1.2	2.0	2.3	20.8	7.2
Transport, storage and communications	4 147	4 396	4 813	4.2	4.7	14.0	6.0	9.5
<u>Subtotal basic services</u>	<u>5 674</u>	<u>6 241</u>	<u>6 791</u>	<u>5.4</u>	<u>6.7</u>	<u>10.6</u>	<u>10.0</u>	<u>8.8</u>
Commerce, financial institutions, insurance	17 491	18 365	19 669	19.5	19.5	8.8	5.0	7.1
Real estate <u>b/</u>	2 718	2 990	3 122	3.3	3.1	5.4	10.0	4.4
Community, social and personal services <u>c/</u>	14 164	15 397	16 320	17.1	16.2	2.7	8.7	6.0
<u>Subtotal other services</u>	<u>34 373</u>	<u>36 752</u>	<u>39 111</u>	<u>39.9</u>	<u>38.7</u>	<u>6.1</u>	<u>6.9</u>	<u>6.4</u>
<u>Total gross domestic product</u>	<u>80 987</u>	<u>83 293</u>	<u>89 917</u>	<u>100.0</u>	<u>100.0</u>	<u>8.3</u>	<u>4.8</u>	<u>7.1</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay; 1976: CEPAL estimates based on figures contained in the National Economic and Social Development plan, 1977-1981, of the Technical Planning Secretariat.

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/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and services supplied to enterprises.



Table 4  
PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1973	1974	1975	1976 <sup>a/</sup>	Annual growth rates		
					1974	1975	1976 <sup>a/</sup>
1. Agricultural production (billions of guaranies at 1972 prices)	32.1	35.0	36.0	37.6	9.0	2.9	4.4
Crop farming	19.0	21.1	21.6	22.8	11.2	2.2	5.4
Stock-raising	13.1	13.9	14.4	14.8	6.0	4.0	2.1
2. Production of some important crops (thousands of tons)							
Cotton	84	85	100	...	1.2	17.6	...
Rice	23	35	50	...	52.2	42.9	...
Sweet potatoes	167	184	178	...	10.0	-3.0	...
Cassava	877	894	863	...	2.0	-3.5	...
Maize	273	282	338	...	3.0	20.0	...
Soya beans	120	190	210	...	58.3	10.5	...
3. Number of animals slaughtered (thousands of head)	571	578	498	...	1.2	-13.8	...

Source: Agricultural Production, Technical Planning Secretariat. Production of selected important crops, Central Bank of Paraguay.

a/ Preliminary figures.

### 3. The external sector

#### (a) Foreign trade

The value of exports, which had increased by 2 per cent in 1975, rose by 10 per cent in 1976 owing to an increase in volume of 12 per cent, since their unit value fell by 2 per cent (see table 5). In any event, it is clear that in the 1975-1976 biennium the export sector failed to achieve the same growth rate which it recorded in 1972-1974, a period during which the country took advantage of the fast and steady expansion of world trade.

In 1976 the increase in exports of goods was made possible by the growth in sales abroad of some selected products, particularly vegetable oils, seeds for industrial use, cotton and, to a lesser extent, tobacco. In contrast, the export values of meat products, wood and sugar decreased, and those of coffee and of the remaining export items increased slightly (see table 6).

As regards the imports of goods, only global preliminary figures are available which suggest an increase in value of 5 per cent, with increases of 2 per cent in quantum and 3 per cent in unit value. In 1976 imports amounted to 225 million dollars.

The variation in the unit values of exports and imports of goods led to a 5 per cent drop in the terms of trade. This was a further deterioration following those of 16 per cent and 5 per cent recorded in 1975 and 1974 respectively.

All trade in goods was effected at the single fixed rate of exchange of 126 guaranies to the dollar in force since 1960. That rate of exchange applies to almost all foreign trade operations, with the exception of certain service operations - particularly tourism - which are carried out in a parallel market, at a freely fluctuating rate of exchange.<sup>1/</sup>

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<sup>1/</sup> In 1976 the average price of the dollar in that market was approximately 146 guaranies.

Table 5

PARAGUAY: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Exports of goods</u>					
Value <u>b/</u>	29.1	49.5	35.1	1.9	10.0
Volume	15.9	3.8	3.8	1.7	12.0
Unit value <u>b/</u>	11.5	44.1	30.1	0.2	-2.0
<u>Imports of goods</u>					
Value <u>b/</u>	-4.8	61.8	55.8	8.4	5.0
Volume	-10.1	42.9	16.1	-9.4	2.0
Unit value <u>b/</u>	5.8	13.2	34.1	19.8	3.0
<u>Terms of trade</u>	<u>5.4</u>	<u>27.3</u>	<u>-3.0</u>	<u>-16.3</u>	<u>-5.0</u>

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Calculated on the basis of figures in dollars at current prices.

Table 6

PARAGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars					Percentage breakdown		Annual growth rates		
	1973	1974	1975	1975 <sup>a/</sup>	1976 <sup>a/</sup>	1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Main export products</u>	<u>66.4</u>	<u>84.6</u>	<u>82.7</u>	<u>67.1</u>	<u>51.1</u>	<u>51.8</u>	<u>33.1</u>	<u>27.4</u>	<u>-2.3</u>	<u>-23.9</u>
Meat products	40.5	35.2	32.2	27.1	19.0	31.6	12.3	-13.1	-8.5	-29.9
Wood	11.8	24.7	27.9	22.4	9.2	9.2	6.0	109.3	13.0	-58.9
Vegetable oils	6.6	13.3	10.6	7.3	11.3	5.2	7.3	101.5	-20.3	54.8
Tobacco	7.5	11.4	12.0	10.3	11.6	5.8	7.5	52.0	5.3	12.6
<u>New exports</u>										
Agricultural	<u>25.8</u>	<u>45.5</u>	<u>53.0</u>	<u>44.3</u>	<u>71.0</u>	<u>20.2</u>	<u>46.0</u>	<u>76.4</u>	<u>16.5</u>	<u>58.5</u>
Soya beans	10.4	15.0	17.5	16.9 <sup>b/</sup>	33.2 <sup>b/</sup>	8.2	21.5	44.2	16.7	96.4
Cotton	11.6	16.5	20.1	14.7	30.1	9.0	19.5	42.2	21.8	104.8
Sugar	1.1	10.0	6.7	6.7	1.0	0.9	0.7	809.1	-33.0	-85.1
Coffee	2.7	4.0	8.7	6.5	6.7	2.1	4.3	48.1	117.5	3.1
<u>Other exports</u>	<u>35.8</u>	<u>42.9</u>	<u>40.5</u>	<u>31.5</u>	<u>32.4</u>	<u>28.0</u>	<u>20.9</u>	<u>19.8</u>	<u>-5.6</u>	<u>2.9</u>
<u>Total</u>	<u>128.0</u>	<u>173.0</u>	<u>176.2</u>	<u>143.4</u>	<u>154.5</u>	<u>100.0</u>	<u>100.0</u>	<u>35.1</u>	<u>1.9</u>	<u>7.7</u>

Source: Central Bank of Paraguay, Department of Economic Studies, Boletín Estadístico, October 1976, N° 221, p. 31.

a/ January-October: Preliminary figures for 1976.

b/ Figures for the whole range of seeds for industrial use.

(b) Balance of payments

In 1976 there was a deficit of some 30 million dollars on trade in goods, a figure lower than that of almost 40 million recorded in the previous year. However, a substantial increase in imports of services resulted in a deficit on the trade of goods and services similar to that of the two previous years (70 million in 1975 and 72 million in 1976)(see table 7).

As a result of that situation, and in view of the amount represented by net payments of profits and interest on foreign capital and income from net private transfer payments, there was a deficit on current account of approximately 80 million dollars, a figure similar to that of 1975, but substantially higher than those recorded in 1974 and, in particular, in 1973 and 1972.

In 1976 the net inflow of non-compensatory capital amounted to 120 million dollars, as a result of which there was a final balance-of-payments surplus of approximately 40 million dollars. At the same time, gross international reserves increased by almost the same amount, the total of 115 million dollars at the end of 1975 rising to approximately 160 million at the end of 1976.

4. Prices and monetary and fiscal trends

(a) Prices

In 1976, the consumer price index increased by 4.5 per cent. This represented a further slackening in the rate of inflation, since in 1974 and 1975 prices rose by 25.2 per cent and 6.7 per cent respectively (see table 8).

Prices of food items increased by a figure similar to that of the general index and showed changes equal to those of the previous year. This slackening in inflation was also marked in respect of housing, clothing and general expenditure.

/Table 7

Table 7  
PARAGUAY: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	1973	1974	1975	1976a/
<b>Current account</b>					
Exports of goods and services	106	149	207	210	229
Goods FOB	86	128	173	176	194
Services	20	21	34	34	35
Transport	1	1	2	2	2
Travel	11	11	12	12	12
Imports of goods and services	106	161	251	280	301
Goods FOB	79	127	198	215	225
Services	27	34	53	65	76
Transport	10	15	27	30	33
Travel	8	10	10	14	14
Net payments of profits and interest on foreign capital	-11	-10	-13	-12	-14
Profits	-3	-2	-2	-2	-2
Interest	-9	-8	-11	-10	-12
Net private transfer payments	2	2	-	6	8
Balance on current account	-9	-20	-57	-76	-78
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	9	20	57	76	78
(a) Net external non-compensatory capital	24	51	103	114	120
Direct investment	3	9	21	12	
Long- and medium-term loans	26	35	49	124	
Amortization payments	-11	-11	-21	-23	
Short-term liabilities	2	14	51	-3	
Official transfer payments	4	4	3	4	
(b) Domestic non-compensatory capital or assets	-4	-4	-14	-4	
(c) Errors and omissions	-4	-6	-2	-3	
(d) Allocation of SDRs	2	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-9	-21	-30	-31	-42
Balance-of-payments loans, trade arrear, IMF loans, and other liabilities of the monetary authorities	-	3	1	-	...
Amortization payments	-	-	-1	-2	...
Variation in gross international reserves (minus sign signifies an increase)	-9	-24	-30	-29	-42
Foreign exchange reserves (minus sign signifies an increase)	-7	-24	-30	-29	...
Gold reserves (minus sign signifies an increase)	-	-	-	-	...
SDRs (minus sign signifies an increase)	-2	-	-	-	...

Source: 1972-1975: International Monetary Fund, *Balance of Payments Yearbook*, vol 28; 1976: CEPAL, on the basis of data supplied by the Technical Planning Secretariat.

/ Preliminary figures.

/Table 8

Table 8  
PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	Annual rates of increase		
	1974	1975	1976a/
<u>Consumer price index</u> (workers, Asunción)			
<u>General index</u>	25.2	6.7	4.5
Food	24.8	4.6	4.7
Housing	25.0	9.2	2.9
Clothing	20.8	13.0	6.0
General expenditure	23.7	7.5	5.5

Source: Central Bank of Paraguay, Department of Economic Studies. Boletín Estadístico, No 221, October 1976, p. 24.

a/ The variations in the components of the index correspond to the periods January-October of 1975 and 1976.

As is widely known, the acceleration of the rate of inflation which the Paraguayan economy experienced in 1972-1974 was closely linked with imported inflation and, particularly, with the sharp increases in the unit values of imports and exports recorded in 1973 and 1974. The fact that in 1975 and 1976 those unit values tended to rise at a rather slower pace, and even to remain relatively stable, therefore acted as an important stabilizing factor (see table 5).

(b) Monetary and fiscal trends

Between the end of 1975 and December 1976, the means of payment expanded by 21 per cent, a rate faster than in 1975 and equal to that of 1974 (see table 9). Thus, following the increase of approximately 8 per cent in the previous year, real liquidity increased by approximately 17 per cent in 1976.

As a result of the surplus on the balance of payments, the main growth factor proved to be the increase of 47 per cent in net international reserves, a rate higher than that recorded in 1975. Domestic credit also increased by 14 per cent, reflecting a relatively high rate of expansion in credit (21 per cent) to the private sector; in contrast, credit to the Government and to public institutions fell in absolute terms.

Monetary absorption factors increased by 28 per cent in 1976, a rate similar to that of the previous year. The growth in quasi-money, however, was slower than in 1975.

As regards trends in government finance, the increases of 8 per cent in current income and of 12 per cent in current expenditure led to a reduction of 6 per cent in savings on current account. Meanwhile, government investment, which has been increasing steadily and vigorously since 1974, rose by 57 per cent in 1976 (see table 10).



Table 9  
PARAGUAY: MONETARY POSITION

(Millions of guaraníes)

	Balance at end of				Annual growth rates		
	1973	1974	1975	1976	1974	1975	1976
1. <u>Money</u>	12 494	15 120	17 829	21 590	21.0	17.9	21.1
2. <u>Factors of expansion</u>	27 496	33 819	41 537	51 993	23.0	22.8	25.2
Foreign assets (net)	5 262	10 061	13 988	20 496	91.2	39.0	46.5
Domestic credit	22 234	23 758	27 549	31 497	6.9	16.0	14.3
Claims on government (net)	3 144	1 250	791	422	-60.2	-36.7	-46.6
Claims on official entities	2 576	3 024	3 634	3 119	17.4	20.2	-14.2
Claims on private sector	16 514	19 484	23 124	27 956	18.0	18.7	20.9
3. <u>Factors of absorption</u>	15 001	18 698	23 708	30 403	24.6	26.3	28.2
Quasi-money	11 808	14 260	19 258	24 159	20.8	35.0	25.5
Long-term foreign borrowing (and counterpart funds)	750	472	254	192	-37.1	-46.2	-24.4
Other items (net)	2 443	3 966	4 196	6 052	62.3	5.8	44.2

Source: International Monetary Fund, International Financial Statistics, May 1977.

Table 10

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of guaranies				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
1. <u>Current income</u>	11 590	16 262	17 918	19 400	40.3	10.2	8.3
2. <u>Current expenditure</u>	9 508	12 054	14 411	16 096	26.8	19.6	11.7
3. <u>Saving on current account (1 - 2)</u>	2 082	4 208	3 507	3 304	102.1	-16.7	-5.8
4. <u>Capital expenditure</u>	1 946	2 877	4 369	6 371	47.8	51.9	45.8
Real investment	1 388	1 964	3 486	5 479	41.5	77.4	57.2
Other capital expenditure (transfers)	558	913	883	892	63.6	-3.3	1.0
5. <u>Total expenditure (2 + 4)</u>	11 454	14 931	18 780	22 467	30.4	25.8	19.6
6. <u>Fiscal deficit (or surplus)</u> (1 - 5)	136	1 331	-862	-3 067			255.8
7. <u>Financing of deficit</u>							
Domestic financing	-438	-1 644	-504	433 <sup>b/</sup>	-	-	-
External financing	302	313	1 446	2 634	3.6	362.0	82.2

Source: Technical Planning Secretariat, National Economic and Social Development Plan 1977-1981, 1973-1975, vol. I p. 13; 1976 vol. II, p. 161.

a/ Preliminary figures and estimates.

b/ Includes a variation of 551 millions guaranies in holdings.

/The resulting

The resulting fiscal deficit exceeded 3 billion guaranies, a relatively large figure since it represents almost 14 per cent of total government expenditure, whereas the comparable figure for 1975 was below 5 per cent.

Since the financing of the higher government investment was largely met out of foreign loans, a large part (86 per cent) of the fiscal deficit was covered by foreign funds. In addition, it is estimated that domestic funds - the variation in liquid assets in particular - covered approximately 15 per cent of the deficit.

PERU

1. The overall picture

A characteristic feature of 1976 was the continuation of some features of the preceding year, but there were also important changes with respect to the situation in 1975.

The growth rates were similar in the two years, and represented a marked decline with respect to the dynamic performance of previous years. This moderation in the rate of growth was mainly the result of the disequilibria recorded by external transactions and the acceleration of the inflationary process.

As regards external transactions, the changes occurring in 1975 were sufficiently important and negative to have an appreciable effect on the general situation. Thus, together with a fall in the value of exports and a serious deterioration in the terms of trade in that year, the sharp rise in the value of imports continued (see table 1). This meant that both the trade balance and the current account showed deficits that were more than double those recorded in the preceding year, which in their turn had been much higher than in previous years. As a result, international reserves fell drastically and external commitments increased.

The figures for 1976 reveal some significant changes which demonstrate the authorities' efforts to rectify the above trends. What is evident at first glance is the contraction of imports and the modest increment in exports, both these trends being reinforced by the more moderate decline in the terms of trade. All this helped to bring down the deficits in the balance of payments, although in any case the system's international liabilities were bound to rise.

The ups and downs of the external sector were closely linked with the tempo of inflation, especially since the disequilibrium in the external accounts forced a devaluation, with consequent effects on the rate of price increases, which had been accelerating since 1973.

Table 1  
PERU: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sub>a</sub> /
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	7 917	8 408	8 984	9 281	9 559
Population (millions)	14.4	14.8	15.2	15.7	16.2
Per capita gross domestic product (US dollars at 1970 prices)	551	569	590	592	592
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	5.8	6.2	6.9	3.3	3.0
Per capita gross domestic product	2.8	3.1	3.7	0.3	-
Gross income <u>b</u> /	4.9	9.6	8.8	1.5	2.5
Terms of trade	-7.4	24.8	18.3	-15.1	-3.5
Value of exports of goods and services	8.4	16.6	36.9	-4.9	4.8
Value of imports of goods and services	9.0	34.6	64.6	27.9	-16.4
Consumer price index <u>c</u> /	7.2	9.5	16.9	23.6	33.5
Money	27.1	27.4	41.6	17.3	17.9 <sub>d</sub> /
Wages and salaries	-	-	29.2	28.2	14.0
Rate of unemployment <u>e</u> /	4.2	4.2	4.0	4.7	...
Current income of government	10.3	16.9	28.5	28.3	25.9
Total expenditure of government	14.1	19.4	22.6	29.2	37.9
Fiscal deficit/total expenditure of government <u>e</u> /	19.2	20.8	16.9	17.5	24.7
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	51	-139	-601	-1 372	-777
Balance on current account	-63	-299	-751	-1 613	-1 100
Variation in net international reserves	11	87	407	-532	-807

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Annual average variation.

d/ Over 12 months up to 30 September.

e/ Percentage.

/Despite the

Despite the Government's efforts to slow up the rise in prices, it was impossible to halt the rising trend in its total expenditure, which outstripped the rate of inflation. Since the opposite occurred as regards current income, the fiscal deficit increased appreciably.

## 2. Recent economic trends

### (a) Total supply and demand

The growth rate of the Peruvian economy was once again around 3 per cent in 1976, so that for two consecutive years it only just succeeded in keeping pace with population growth (see table 1).

The drop of nearly 19 per cent in the volume of imports was an important factor in bringing the supply of goods and services down by nearly 1 per cent, thus presenting a picture very different from that observable in 1975 and even more different from the situation in 1974.

On the demand side, the fall in investment was one of the factors which reduced the dynamism of economic activity, with the delayed effects this normally brings in its train. Thus, compared with increases of 30 per cent in 1974 and 10 per cent in 1975, in 1976 there was a drop of more than 11 per cent, due to declines in public investment (-6 per cent), private investment (-9 per cent), and investment in stocks (see table 2).

The slow growth of consumption was another indication of the scant dynamism of the economy in 1976. Private consumption, which accounts for about 85 per cent of the total, did not grow at all in 1976, while government consumption increased by only a little more than 3 per cent, whereas in the preceding year it had grown at the exceptionally high rate of 13.5 per cent.

The growth of exports was the only dynamic factor in economic activity. The increase of over 6 per cent in 1976 contrasted with the drop in investment and the stagnation of consumption, and after the decline in export activities in the previous two years, it represented a recovery of the level reached in 1973.

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Total supply</u>	<u>365 266</u>	<u>384 194</u>	<u>380 574</u>	<u>115.7</u>	<u>117.6</u>	<u>10.5</u>	<u>5.2</u>	<u>-0.0</u>
Gross domestic product	303 879	314 029	323 559	100.0	100.0	6.9	3.3	3.0
Imports	61 387	70 165	57 015	15.7	17.6	32.7	14.3	-18.7
<u>Total demand</u>	<u>365 266</u>	<u>384 194</u>	<u>380 574</u>	<u>115.7</u>	<u>117.6</u>	<u>10.5</u>	<u>5.2</u>	<u>-0.9</u>
<u>Domestic demand</u>	<u>326 522</u>	<u>346 856</u>	<u>340 887</u>	<u>96.0</u>	<u>105.3</u>	<u>12.3</u>	<u>6.2</u>	<u>-1.7</u>
Gross domestic investment	59 333	65 254	57 942	13.0	17.9	30.4	10.0	-11.2
Gross fixed investment	48 456	58 254	53 943	12.4	16.7	30.8	20.2	-7.4
Public	25 329	23 355	26 740	2.6	8.3	58.0	11.9	-5.7
Private	23 127	29 899	27 202	9.8	8.4	10.0	29.3	-9.0
Changes in stocks	10 877	7 000	4 000	0.6	1.2	-	-	-
Total consumption	267 189	281 602	282 945	83.0	87.4	9.0	5.4	0.5
General government	36 497	41 423	42 838	10.1	13.2	4.2	13.5	3.4
Private	230 692	240 179	240 107	72.9	74.2	9.8	4.1	-
<u>Exports</u>	<u>38 744</u>	<u>37 338</u>	<u>39 687</u>	<u>19.7</u>	<u>12.3</u>	<u>-3.2</u>	<u>-3.6</u>	<u>6.3</u>

Source: 1970-1974: CEPAL calculations and estimates on the basis of figures supplied by the Banco Central de Reserva del Perú; 1975-1976: CEPAL estimates based on data supplied by the National Institute of Statistics.

a/ Preliminary figures.

/The above

The above description shows that in 1976 the performance of the economy was very different from and to a large extent the opposite of that recorded in preceding years. The extraordinary expansion of imports, investment and consumption which took place in the two years 1974-1975 became a contraction or stagnation in 1976, while in contrast with the contraction in exports in those two years, they increased in 1976.

In spite of the differences between the trends in the period 1974-1975 and the situation in 1976, the changes of proportion between supply and demand with respect to 1970 were unquestionably similar to what happened in those two years. In other words, the developments in 1976 did not alter the trend in the composition of the global balance, since the magnitudes involved did not counteract the sharp changes in the intervening years. Thus, the import coefficient was significantly higher in 1976 than in 1970. Similarly, the share of investment in the product increased appreciably: from 13 per cent in 1970 to 18 per cent in 1976. Consumption, for its part, also increased its share between those two years: from 83 per cent in 1970 to over 87 per cent in 1976. The share of exports deteriorated drastically, however, from 20 per cent in 1970 to a little over 12 per cent in 1976.

These changes in the global structure are a fair reflection of the main origins of the special situation of the economy in 1976. The deterioration of the external sector, which in its turn helped to bring many pressures to bear on prices, decisively influenced the management of the economy, and it is in those trends and the way in which they were dealt with by the government's economic policy that the causes of the various negative signs in 1976 would seem to lie.

(b) Sectoral trends

(i) Agriculture. The domestic product of the agricultural sector grew in 1976 by 3 per cent, which is satisfactory compared with the recent past (see table 3). Although, as usual, variations in the agricultural product mainly reflect weather conditions, other favourable factors are observable which could influence the sector's future development.



Table 3

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

	Millions of soles at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	41 641	42 386	44 227	18.8	15.2	3.4	1.8	4.3
Crop, farming	38 672	38 967	40 127	15.9	13.8	1.9	0.9	3.0
Fishing	2 969	3 419	4 100	2.9	1.4	35.9	15.2	19.9
Mining	19 879	17 712	19 289	8.6	6.6	3.7	-10.9	8.9
Manufacturing	60 608	63 457	66 122	20.6	22.7	7.5	4.7	4.2
Construction	15 610	18 233	17 722	4.5	6.1	22.0	16.8	-2.8
<u>Subtotal goods</u>	<u>137 738</u>	<u>141 783</u>	<u>147 360</u>	<u>52.5</u>	<u>50.5</u>	<u>7.2</u>	<u>2.9</u>	<u>3.9</u>
Electricity, gas and water	3 343	3 440	3 473	1.2	1.2	9.3	2.9	1.1
Transport, storage and communications	13 731	14 321	14 608	4.5	5.0	7.2	4.3	2.0
<u>Subtotal basic services</u>	<u>17 074</u>	<u>17 761</u>	<u>18 086</u>	<u>5.7</u>	<u>6.2</u>	<u>7.6</u>	<u>4.0</u>	<u>1.8</u>
Commerce, financial institutions and insurance	46 782	48 466	49 241	16.1	16.9	5.9	3.6	1.6
Real estate <sup>b/</sup>	11 942	12 300	12 669	4.5	4.3	5.7	3.0	3.0
Community, social and personal services <sup>c/</sup>	60 365	63 007	64 267	21.3	22.0	5.3	4.4	2.0
<u>Subtotal other services</u>	<u>119 089</u>	<u>123 774</u>	<u>126 178</u>	<u>41.8</u>	<u>42.3</u>	<u>5.6</u>	<u>3.9</u>	<u>1.9</u>
<u>Total gross domestic product</u>	<u>275 993</u>	<u>285 100</u>	<u>293 653</u>	<u>100.0</u>	<u>100.0</u>	<u>6.9</u>	<u>3.3</u>	<u>3.0</u>

Source: 1970-1974: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú;  
1975-1976: CEPAL estimates based on data supplied by the National Institute of statistics.

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/ Relates to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

/Weather conditions

Weather conditions were favourable, although as frequently happens the rainfall was excessive or lasted longer than usual in certain parts of the Sierra. On the coast, the area of irrigated land increased with the completion of important irrigation projects in Piura and Arequipa and the effect of the rains on the water supply in areas with pumping equipment.

Moreover, the changes in agricultural production are beginning to be increasingly linked with other factors, particularly economic ones. This may be seen from the new composition of agricultural production.

Output of cotton continues to decline. In 1976 it fell by approximately 6 per cent, since the return per hectare obtained by farmers is lower than that of other crops with which it competes for the land. In order to counteract this trend, which is unfavourable for the national foreign exchange budget, the Government substantially raised the price paid by the official body exercising a monopoly over exports of cotton. This measure was only partially effective, however, since it was offset by the rise in the prices of competing crops.

Among these are industrial varieties of maize, production of which rose 24 per cent in 1975 and 37 per cent in 1976; forage plants, notably sorghum, with increases of 21 per cent and 112 per cent, respectively, in those years; and other crops whose export is beginning to assume importance (see table 4).

Rice production continued to increase at a rapid rate - 8 per cent in 1975 and 13 per cent in 1976 - and in the latter year it succeeded in covering domestic demand. The improvements introduced in storage and marketing facilities in recent years have played an important part in this respect.

Production of meat also continued to increase fairly rapidly, partly as a result of the improvement in its relative price. The majority of the farms that were subject to agrarian reform have imported breeding cattle and introduced new grasses and forage plants. This led to smaller sowings of cereals, precisely on the best-farmed land. Nevertheless, the production of grains rose because of better weather conditions and the addition of new irrigated land.

Table 4  
PERU: INDICATORS OF AGRICULTURAL PRODUCTION

(Thousands of tons)

	1973	1974	1975	1976 <sup>a/</sup>	Annual growth rates		
					1974	1975	1976 <sup>a/</sup>
<b>1. Production of some important crops</b>							
Rice	440	468	504	570	6.4	7.7	13.2
Cotton	244	237	210	198	-2.9	-11.4	-6.0
Coffee	65	65	60	...	-	-7.7	...
Sugar cane	8 746	9 179	8 966	8 800	5.0	-2.3	-1.8
Potatoes	1 712	1 720	1 581	1 650	0.5	-8.1	4.4
Starch corn	...	295	295	295	...	-	-
Hard yellow maize	...	255	315	430	...	23.5	36.5
Yuca	...	470	350	380	...	-25.6	8.6
Wheat	...	142	108	120	...	-23.9	11.1
Sorghum	...	20	24	61	...	20.5	111.6
<b>2. Production of some livestock products</b>							
Poultry meat	82	103	130	142	25.6	26.2	9.2
Beef	73	75	77	79	2.7	2.7	2.6
Milk	588	590	600	610	0.3	1.7	1.7

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

/It should

It should be noted that in Peruvian agriculture there has been a decided increase in the number of fish farms which form part of agricultural enterprises. They have expanded their sales - originally covering only towns in the interior - to include Lima and other coastal cities.

(ii) Fishing. The domestic product of the fisheries sector again showed considerable growth in 1976; when it rose by after increases of 15 per cent in 1975 and 36 per cent in 1974. Despite these figures, however, sea fishing is still at a very low level, i.e., 4.3 million tons compared with over 10 million tons annually in the late 1960s.

In 1976 the sea fishing catch increased by 28 per cent. The catch of fresh or processed fish for human consumption rose more slowly (14 per cent) to a total of 332,000 tons. Other products, which are inputs for various activities, rose by 29 per cent to a total of 4 million tons (see table 5) and this figure might have been higher but for some fairly serious labour disputes.

These disputes occurred in response to the new fisheries policy adopted by the Government during the year. It will be remembered that the industry had been taken over by the State in 1970-1971, following a period when the boom in anchoveta fishing had caused private companies to over-invest in facilities and equipment, which became a critical problem when the scale of operations was substantially reduced. In view of the burden which this situation represented in terms of public financing, particularly under the difficult conditions of such financing in recent years, the Government put into practice a policy of denationalization, i.e., of handing the fishing boats over to organizations of crewmen and private companies. This gave rise to disputes, since the numerous and relatively well-paid labour force preferred to remain under State protection. Finally, however, a large proportion of the fishing fleet started to operate under the new system.

Table 5  
PERU: INDICATORS OF FISHERY PRODUCTION

	Thousands of tons				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Total output of fishery products</u>	<u>2 289</u>	<u>4 125</u>	<u>3 409</u>	<u>4 348</u>	<u>80.2</u>	<u>-17.4</u>	<u>27.5</u>
For human consumption <sup>b/</sup>	294	324	292	332	10.2	-9.9	13.7
For fish meal and oil	1 995	3 801	3 117	4 016	90.6	-18.0	28.8

Source: Banco Central de Reserva del Perú.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Comprises fresh and processed fish consumed in the country or exported.

/(iii) Mining.

(iii) Mining. The mining sector experienced a serious recession in 1975, when its product fell by nearly 11 per cent. In 1976, in contrast, world prices of metals rose again, enabling the mining product to increase by 9 per cent.

Although no figures are available as yet for metal mining as a whole, the information on the individual products indicates a satisfactory recovery. In the case of copper, production rose by 31 per cent, both because of the normal way in which work proceeded in the existing mines and because of the entry into production at the end of the year of the Cuajone mine, which is expected to produce 200,000 tons a year (see table 6).

There has been only a partial recovery in the production of silver, lead and zinc, since the fine tonnage extracted is still low compared with that obtained in recent years. Output of silver rose by 9 per cent (in the two years 1974-1975 it had dropped by 12 per cent). Lead production was up 2 per cent compared with a previous fall of 14 per cent, and output of zinc also increased by the same amount, after a 7 per cent drop in the previous two years.

Small-scale and medium-scale mining, which play an important role in the production of these metals, experienced a recession in 1975 owing to the fall in world prices. In addition, their efforts to improve their equipment caused them to select petroleum as their main fuel, so that they faced a substantial increase in their costs when oil prices rose. The Government's efforts to help them by means of special credits in order to avoid large-scale unemployment do not seem to have been sufficient in many cases, and many mines closed.

Petroleum production rose 6 per cent, but perhaps the most important development in this field was the rapid progress made in the construction of the North Peruvian pipeline which runs over the Andes and links the new oil-fields in the Amazon area with Pacific ports. At the end of the year a start was made on the operation of filling the completed sections with petroleum, which is essential in order to permit the entry into operation early in 1978 and which requires a total of 400,000 barrels of oil. By the end of 1975, approximately 200,000 barrels had been injected into the pipeline.

Table 6  
PERU: VOLUME OF MINING PRODUCTION  
(Thousands of tons)

	1975 <sup>a/</sup>	1976 <sup>a/</sup>	Percentage variation
Silver	1.1	1.2	9.1
Copper	183.8	241.5	31.4
Lead	179.8	182.9	1.7
Zinc	448.3	456.7	1.9
Petroleum <sup>b/</sup>	26.3	27.9	6.3

Source: Statistical Unit of the Ministry of Economic Affairs and Finance,  
and Hydrocarbons Department of the Ministry of Energy and Mines.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Millions of barrels.

/((iv) Manufacturing.

(iv) Manufacturing. The growth rate of the manufacturing sector continued to be somewhat sluggish in 1976, and the increase in the manufacturing product was only 4.2 per cent compared with the 4.7 per cent attained the year before.

This deterioration was due largely to the sector's continued over-dependence on imported inputs. The devaluation of the sol was added to the factors which raised production costs and led to a rapid increase in sales prices. Another factor which had the same effect was the rise in the interest rates paid and charged by the formal finance sector. Prices of manufactured products had to be raised substantially because external sources of funds for the manufacturing sector accounted for more than 80 per cent of the total, and the interest rates paid by this sector of activity doubled in some cases and trebled in others.

Moreover, the relatively higher prices of industrial supply coincided with weakened real demand, in view of the existing situation of depressed real wages and salaries and in general a certain restriction of overall economic activity.

As a result of the above mentioned factors, several of the consumer goods industries declined or grew only to a minimal extent (see table 7). The food industry recorded a new drop, and there were decreases too in industries producing clothing and footwear (2 per cent) and furniture (12 per cent).

In contrast, the production of intermediate goods for the most part showed increases. The output of chemical products grew by 21 per cent, that of non-metallic minerals by 9 per cent and that of rubber products by 20 per cent. In the machinery and equipment industries there were declines in the production of simple metal products (6 per cent) and transport equipment (4 per cent), but, production of machinery other than electrical, which had risen by 50 per cent in 1975, grew by 11 per cent in 1976, and that of electrical machinery, which had increased only slightly in 1975, rose by 12 per cent.



Table 7  
PERU: INDEX OF MANUFACTURING PRODUCTION  
(1968 = 100)

	1973	1974	1975	1976 <sup>a/</sup>	Annual growth rates		
					1974	1975	1976 <sup>a/</sup>
<u>Index of manufacturing production</u>	<u>153</u>	<u>165</u>	<u>173</u>	<u>181</u>	<u>7.9</u>	<u>4.8</u>	<u>4.5</u>
Food	153	160	159	158	4.8	-0.6	-0.5
Fish meal	25	53	44	49	114.0	-16.7	9.7
Beverages	...	...	198	209	...	...	5.6
Tobacco	...	...	187	190	...	...	1.9
Textiles	171	173	171	184	1.2	-1.0	7.9
Footwear and clothing	...	...	129	127	...	...	-1.5
Wood	...	...	176	145	...	...	-17.9
Furniture	...	...	130	115	...	...	-11.5
Paper and paper products	115	138	128	124	20.2	-6.7	-3.5
Printing and publishing	...	...	113	113	...	...	-0.1
Leather, except footwear	...	...	146	139	...	...	-5.1
Rubber products	181	190	193	232	5.0	1.3	20.4
Chemical products	182	196	231	279	7.6	17.7	20.6
Petroleum and petroleum product	...	...	160	159	...	...	-0.7
Non-metallic minerals	138	157	168	182	13.9	7.2	8.5
Basic metals	174	181	189	182	4.2	4.3	-3.8
Simple metal products	...	...	199	187	...	...	-5.8
Machinery, except electrical	181	186	279	310	3.0	50.1	10.8
Electrical machinery	181	220	225	253	21.7	2.2	12.4
Transport equipment	275	269	304	293	-4.4	15.7	-3.7
Miscellaneous industries	...	...	236	241	...	...	1.7

Source: Ministry of Industry and Tourism.

<sup>a/</sup> Preliminary figures.

/It should

It should be added that exports of fishing vessels have come to have considerable relative importance which will increase as the vessels ordered since 1975 are completed and delivered. Also of importance were the total sales of manufactured products abroad, which came to an estimated value of 120 million dollars: well over double the figure recorded in 1975.

(v) Construction. Preliminary data indicate that construction activity declined by about 3 per cent in 1975. This drop is attributed to the effects of the rise in interest rates charged by financing institutions and the 64 per cent increase in the prices of building materials. Added to this was the reduction in central government expenditure on some public works. Continued work on the construction of other large-scale projects such as the North Peruvian pipeline and new fishing ports and dams was not sufficient to counteract the negative effects of these factors.

(c) Employment trends

The figures available refer only to the trends recorded by employment in metropolitan Lima. Here employment in manufacturing increased by a little over 3 per cent, which was appreciably lower than the rate recorded in the preceding year (over 7 per cent) and, in general, lower than the growth rate of this variable in any previous year of the current decade. Employment in commerce rose 4 per cent, thus exceeding the increase recorded in the preceding year, but in the services sector the growth rate of employment dropped significantly between 1975 and 1976 (see table 8).

Table 8  
PERU: EVOLUTION OF EMPLOYMENT IN METROPOLITAN LIMA

	Index <u>a/</u>			Annual growth rates		
	1974	1975	1976 <u>a/</u>	1971- 1976	1975	1976 <u>b/</u>
Manufacturing	126.4	135.5	139.9	5.5	7.2	3.2
Commerce	124.7	128.1	132.9	5.0	2.7	3.7
Services	117.7	121.0	122.5	3.0	2.8	1.2

Source: Ministry of Labour.

a/ December 1970 = 100.

b/ Preliminary figures.

### 3. The external sector

Foreign trade pursued the relatively unfavourable trend it had shown in 1975, although this time the value of exports of goods increased (see table 9). This was mainly due to their larger volume, since the indexes of unit value dropped once again, this time by 1.6 per cent. Imports were energetically restricted, so that their value fell by 17 per cent and their volume by 18 per cent. Their unit value however, increased by 2 per cent which, combined with a slightly smaller drop in the average price of exports, caused the terms of trade to fall by 3.5 per cent. This deterioration was, however, less than in 1975 when it was 15 per cent.

These circumstances were not sufficiently compensated for by the inflow of capital. Although total direct investment exceeded remittances of profits, the performance of the other accounts did not permit the current account deficit to be fully covered. Thus, in spite of the renegotiation of part of the guaranteed external debt, there was a drop of nearly 590 million dollars in the gross international reserves, which was slightly more than the reduction in 1975 (see table 10).

#### (a) Current account

(i) Exports. The value of exports of goods rose by over 5 per cent (see table 11). The main reason for this improvement was an increase of 7 per cent in the volume exported, since unit values fell by nearly 2 per cent.

Mining products contributed most to the increase in volume, but at the same time they were affected by the drop in prices. The tonnage of copper exported increased by 38 per cent, with an average price slightly below that recorded in 1975 (see table 12). In the case of silver, the volume increased by 21 per cent, but the price fell by 11 per cent. The importance of these two metals within the whole group counteracted the slight increases in the prices of other metals and of crude petroleum. Exports of the latter amounted to 4.8 million barrels, or 19 per cent more than in the previous year, even though the production of crude was only enough to satisfy two-thirds of domestic consumption.

Table 9  
PERU: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS  
(Percentage)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Exports of goods</u>					
Value	6.5	17.9	35.2	-8.5	5.4
Volume	7.4	-17.5	-7.9	-3.7	7.1
Unit value	-0.9	43.0	46.7	4.9	-1.6
<u>Imports of goods</u>					
Value	11.6	35.1	74.0	30.6	-16.5
Volume	4.2	17.9	40.3	16.6	-18.2
Unit value	7.1	14.6	24.1	12.0	2.0
<u>Terms of trade</u>	-7.4	24.8	18.3	-15.1	-3.5

Source: CEPAL, calculations, on the basis of official statistics.

<sup>a/</sup> Preliminary figures.

Table 10  
PERU: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976 <sub>a/</sub>
<b>Current account</b>					
Exports of goods and services	1 154	1 345	1 841	1 751	1 894
Goods FOB	945	1 114	1 506	1 378	1 453
Services	209	231	335	373	381
Transport	64	73	133	154	156
Travel	60	69	96	97	95
Imports of goods and services	1 103	1 484	2 442	3 123	2 611
Goods FOB	812	1 097	1 908	2 491	2 080
Services	291	387	534	632	531
Transport	161	200	292	357	309
Travel	45	55	64	69	74
Net payments of profits and interest on foreign capital	-121	-163	-172	-252	-343
Profits	-47	-80	-84	-98	-105
Interest	-74	-83	-88	-154	-238
Net private transfer payments	7	3	22	11	20
Balance on current account	-63	-299	-751	-1 613	-1 100
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	63	299	751	1 613	1 100
(a) Net external non-compensatory capital	152	436	1 246	1 140	626
Direct investment	24	70	58	32	150
Long- and medium-term loans	324	811	1 223	1 560	941
Amortization payments	-244	-384	-399	-739	-465
Short-term liabilities	15	-99	337	242	...
Official transfer payments	33	38	27	45	...
(b) Domestic non-compensatory capital or assets	2	-6	-13	1	
(c) Errors and omissions	-90	-44	-75	-60	-333 <sub>b/</sub>
(d) Allocation of SDRs	14	-	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-11	-87	-407	532	807
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	44	6	-	23	220
Amortization payments	-3	-20	-25	-	-
Variation in gross international reserves (minus sign signifies an increase)	-52	-73	-382	509	587
Foreign exchange reserves (minus sign signifies an increase)	-39	-45	-332	509	547
Gold reserves (minus sign signifies an increase)	1	-33	-	-	...
SDRs (minus sign signifies an increase)	-14	5	-	-	40

Source: 1972-1975: International Monetary Fund, Balance of Payments Yearbook, vol. 28; 1976: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Includes short-term liabilities.

Table 11  
PERU: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<u>Main export products</u>	<u>901</u>	<u>1 252</u>	<u>1 080</u>	<u>1 157</u>	<u>80.2</u>	<u>79.6</u>	<u>39.0</u>	<u>-13.7</u>	<u>7.1</u>
Fish meal	136	202	156	174	12.2	12.0	48.5	-22.8	11.5
Copper	284	301	157	242	25.5	16.7	5.7	-47.8	54.1
Sugar	89	197	269	106	8.0	7.3	121.9	36.5	-60.6
Iron ore	61	75	52	68	5.5	4.7	23.6	-30.7	30.8
Silver	69	137	146	167	6.2	11.5	99.0	6.6	14.4
Cotton	62	97	53	75	5.6	5.2	54.9	-45.4	41.5
Zinc	93	150	152	164	8.3	11.3	61.2	1.3	7.9
Coffee	64	35	53	101	5.7	7.0	-45.9	51.4	90.6
Lead	43	58	42	60	3.9	4.1	34.9	-27.6	42.9
<u>Others</u>	<u>213</u>	<u>254</u>	<u>299</u>	<u>296</u>	<u>19.1</u>	<u>20.4</u>	<u>19.2</u>	<u>17.7</u>	<u>-1.0</u>
<u>Total</u>	<u>1 114</u>	<u>1 506</u>	<u>1 378</u>	<u>1 453</u>	<u>100.0</u>	<u>100.0</u>	<u>35.2</u>	<u>-8.5</u>	<u>5.4</u>

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

/Table 12

Table 12

PERU: VALUE AND VOLUME OF EXPORTS OF THE MAIN PRODUCTS

(Millions of dollars and thousands of tons)

Product	1975	1976
<u>Copper</u>		
Value	155.7	241.7
Volume	151.9	209.2
<u>Iron ore</u>		
Value	51.9	67.8
Volume a/	5.0	4.9
<u>Silver</u>		
Value	146.3	166.7
Volume b/	34.9	42.3
<u>Lead</u>		
Value	41.9	59.6
Volume	128.1	175.7
<u>Zinc</u>		
Value	151.5	164.0
Volume	405.9	425.7
<u>Petroleum</u>		
Value	43.6	53.0
Volume c/	4.1	4.8
<u>Fish meal</u>		
Value	155.8	173.7
Volume	746.0	620.0
<u>Other fishery products</u>		
Value	52.4	21.2
Volume	8.0	2.2
<u>Cotton</u>		
Value	53.0	74.6
Volume	33.9	61.0
<u>Sugar</u>		
Value	269.1	106.4
Volume	421.8	373.8
<u>Coffee</u>		
Value	53.2	101.0
Volume	43.2	42.8
<u>Wool</u>		
Value	8.0	18.7
Volume	2.1	7.5

Source: Ministry of Economic Affairs and Finance, prepared by the National Institute of Statistics.

a/ Millions of net statute tons.

b/ Millions of Troy ounces.

c/ Millions of barrels.

/Exports of



Exports of fishery products did not expand in line with the rise in world prices. Thus, the price of fish meal rose by 65 per cent over 1975, but the volume exported was 17 per cent less. A similar situation occurred in the case of other fishery products. The apparent discrepancy between the rising production volume and the declining volume of exports of fish meal is explained by the policy with regard to stocks. These were partially exported in 1975 and it was deemed advisable to rebuild them in 1976.

As regards agricultural export commodities, the most important development was the 55 per cent drop in the price of sugar, which meant that the value of sugar exports was 60 per cent lower than in 1975. Cotton exports, whose unit value fell 22 per cent, grew by 80 per cent in volume, but while the average price of coffee rose 88 per cent, the tonnage exported was 1 per cent less than in 1975.

(ii) Imports. The current value of imports of goods fell by 17 per cent owing to a number of factors (see table 13).

One factor was the depression affecting domestic demand for imports as a result of both the sluggish economic growth and the heavy devaluation of the sol. The first estimates concerning imports of consumer goods indicate a 2 per cent drop in their current value. Another factor was the accumulation of stocks of industrial inputs in 1975 due to expectations of a devaluation, which led to an unusual increase in imports of intermediate goods. It is not surprising, therefore, that the value of these imports should have fallen by 11 per cent in 1976, in spite of the higher cost which petroleum imports must have represented. Moreover, many of the materials used in the construction of important projects, such as the oil pipeline from the jungle to the Pacific, are included under this head, and the virtual completion of many of these projects thus contributed to the contraction in the value of imports.

The same situation arose with respect to imports of capital goods. Their lower value (14 per cent) was due both to the completion of projects and to the general behaviour of the economy, but even so their value remained at the relatively high level of 670 million dollars, or almost double the 1973 figure.

Table 13  
PERU: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Consumer goods	154	165	199	195	14.0	9.4	7.1	20.6	-2.0
Non-durable	102	116	...	...	9.3	...	12.9	...	...
Durable	52	49	...	...	4.7	...	4.4	...	...
Intermediate goods	464	797	1 172	1 046	42.3	50.3	71.7	47.1	-10.8
Petroleum and fuels	57	119	160	...	5.2	...	110.6	34.2	...
Others	407	678	1 012	...	37.1	...	66.3	49.3	...
Capital goods	381	563	781	669	34.7	32.2	47.7	38.7	-14.3
Adjustments and other	98	383	339	170	9.0	8.1	...	...	...
<u>Total</u>	<u>1 097</u>	<u>1 908</u>	<u>2 491</u>	<u>2 080</u>	<u>100.0</u>	<u>100.0</u>	<u>74.0</u>	<u>30.6</u>	<u>-16.5</u>

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

/(iii) Services

(iii) Services in the current account. The services account maintained its negative position in 1976, when the deficit was around 470 million dollars. This was lower than the 1975 figure, however, and the performance of its individual components presented a more favourable picture.

Thus net payments in respect of transport and insurance decreased from 200 million dollars in 1975 to 150 million in 1976, in keeping with the evolution of exports and imports. Travel continued to show a surplus, this time of 21 million dollars. Payments of profits increased moderately, while interest payments rose by 55 per cent, representing an outflow of 240 million dollars.

(b) Capital account

Although the deficit on the current account of the balance of payments dropped from 1,600 million dollars in 1975 to 1,100 million in 1976, it was not easy for the Peruvian authorities to obtain the external capital required to finance the balance of payments.

The net inflow of non-compensatory foreign capital fell from 1,140 to 630 million dollars, in spite of the fact that direct investment rose from 32 to 150 million dollars. This was mainly because the gross inflow of long- and medium-term foreign loans fell from 1,560 million dollars in 1975 to 940 million in 1976, notwithstanding the lengthy and delicate negotiations carried out with a view to securing new external loans (see table 10).

In 1976, moreover, there was a relatively high net outflow of short-term capital, which pushed up the total net compensatory financing requirements from 530 to nearly 810 million dollars. However, the use of balance-of-payments loans totalling 220 million reduced the loss of gross international reserves to 590 million dollars.

#### 4. Prices and wages

##### (a) Prices

Since 1973 there has been a constant acceleration of the rate of inflation. Thus consumer prices rose by 14 per cent in that year, by 19 per cent in 1974, by 24 per cent in 1975 and by 45 per cent in 1976 (December to December). In other price indexes the spurt of inflation in 1976 showed up even more violently. The percentage increases in wholesale agricultural and livestock prices and in the prices of building materials during the year, for example, were several times higher than those recorded in 1975 (see table 14).

Although it is true that a determining factor of the price trends from 1973 onwards was imported inflation and its internalization in the Peruvian economy, it is also a fact that by 1975 essentially internal factors and/or factors representing a response to imported inflation began to predominate. In this respect, attention may be drawn to the financial disequilibria (fiscal, monetary and balance of payments) that arose, and also the correction of a number of key prices which was put into effect by the government.

The main and most visible correction was in the exchange rate. In June 1976 the sol was devalued by about 45 per cent, from 45 to 65 soles to the dollar (at the end of 1975 the various exchange rates had been consolidated in a single rate). In August 1976 a policy of periodical mini-devaluations of the national currency was initiated with the object of keeping the exchange rate approximately on a par with the increases in the general level of prices. As a result of these measures, the index of the real exchange rate (equal to 100 in December 1975), after dropping to 89 in June 1976 and rising to 128 in July, remained at a value of around 106 in the period between September and December (see table 15).

Table 14  
 PERU: EVOLUTION OF DOMESTIC PRICES  
 (Percentage variation)

	1972	1973	1974	1975	1976
<u>1. Variation from December to December</u>					
Consumer price index	4.3	13.8	19.2	24.0	44.7
Food	2.2	14.8	24.1	31.2	44.5
Wholesale price index					
Crop-farming products	18.5	7.7	27.7	23.9	68.4
Livestock products	9.7	43.8	2.3	14.0	99.5
Building materials	2.9	6.7	10.5	18.1	99.3
<u>2. Annual average variation</u>					
Consumer price index	7.2	9.5	16.9	23.6	33.5
Food	7.4	10.1	18.8	32.3	32.1
Wholesale price index					
Imported products	7.2	33.3	16.4	19.6	44.4
Domestic products	4.6	9.4	15.0	18.9	36.5
Crop-farming products	22.4	14.2	15.7	37.5	30.4
Livestock products	0.4	28.6	32.2	-5.9	63.7
Building materials	3.5	3.9	10.6	14.5	63.9

Source: National Institute of Statistics.

/Table 15

Table 15  
PERU: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate (soles per US dollar) (1)	Index of exchange rate (2)	Consumer price index (3)	Index of real exchange rate (4) = (2)/(3)
<u>1975</u>				
December	45.00	100.0	100.0	100.0
<u>1976</u>				
January	45.00	100.0	106.9	93.5
February	45.00	100.0	109.2	91.6
March	45.00	100.0	110.9	90.2
April	45.00	100.0	111.7	89.5
May	45.00	100.0	112.3	89.0
June	65.00	144.4	113.0	127.9
July	65.00	144.4	128.5	112.4
August	65.00	144.4	133.5	108.2
September	65.56	145.7	138.1	105.5
October	66.52	147.8	141.2	104.7
November	67.73	150.5	142.5	105.6
December	69.37	154.2	144.7	106.6

Source: Banco Central de Reserva del Perú.

/The exchange

The exchange policy influenced the monthly evolution of prices. During the first half of the year, consumer prices rose at an average rate of 2 per cent per month, whereas in July, taken on its own, the comparable rate was 14 per cent. Finally, the last five months marked a return to a rate of inflation similar to, though a little higher than, that observed in the first half of 1976.

Another important rectification of prices occurred in the field of petroleum products, particularly special and regular gasoline, whose prices per litre were raised to the equivalent in soles of approximately 32 and 20 US cents, respectively. The prices of paraffin and diesel oil, however, were kept relatively low, at about the equivalent of 3 US cents per litre in each case.

(b) Wages and salaries

The available data refer only to the evolution of wages and salaries in manufacturing, where the average wages paid in 1976 were 14 per cent higher than those paid in the previous year. Consequently, considering the variation in consumer prices (33.5 per cent between annual averages), real wages and salaries are estimated to have fallen by about 15 per cent. This evolution contrasts with that observed in previous years, since in 1974 and 1975 real industrial wages rose by 11 per cent and 4 per cent, respectively (see table 16).

The relatively small increase in nominal wages and salaries, and their decline in real terms, naturally acted as an important restraint on inflationary pressures and, in view of the movement of other economic variables, must have led to significant changes in the distribution of income.

5. Fiscal and monetary policy

(a) The monetary position

In the period between September 1975 and September 1976 the means of payment increased by 18 per cent, which is less than half the increase in consumer prices during that period. A similar situation had arisen in 1975 (although the difference was smaller), since the money supply then rose by 17 per cent while the increase in prices was 24 per cent (see table 17).

Table 16  
PERU: EVOLUTION OF WAGES IN MANUFACTURING

(Annual growth rates)

	1973	1974	1975	1976 <sup>a/</sup>
Index of nominal wages (1973=100)	100.0	129.2	165.6	188.8
Nominal variation	-	29.2	28.2	14.0
Real variation <sup>b/</sup>	-	10.5	3.7	-14.6

Source: National Institute of Statistics.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Variation in nominal wages, deflated by the variation in the consumer price index over the same periods.

/Table 17



Table 17  
PERU: MONETARY POSITION  
(Billions of soles)

	Balance at end of					Annual growth rates		
	1973	1974	1975	1975 <sup>a/</sup>	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<b>1. Money</b>	<u>71.6</u>	<u>101.4</u>	<u>118.9</u>	<u>112.1</u>	<u>132.2</u>	<u>41.6</u>	<u>17.3</u>	<u>17.9</u>
Currency outside banks	27.2	33.5	42.6	38.1	45.5	23.2	27.2	19.4
Demand deposits	44.4	67.9	76.3	74.0	86.7	52.9	12.4	17.2
<b>2. Factors of expansion</b>	<u>97.0</u>	<u>126.3</u>	<u>147.2</u>	<u>143.0</u>	<u>148.2</u>	<u>30.3</u>	<u>16.6</u>	<u>3.6</u>
Net international reserves	15.2	26.8	5.1	8.0	-54.5	76.3	-81.0	-
Domestic credit	81.8	99.5	142.1	135.0	202.7	21.6	42.8	50.2
Government (net)	27.1	24.5	37.9	32.4	57.3	-9.6	54.7	76.9
Official entities	11.3	27.1	41.6	46.2	70.5	139.8	53.5	52.6
Private sector	43.4	47.9	62.6	56.4	74.9	10.4	30.7	32.8
<b>3. Factors of absorption</b>	<u>25.4</u>	<u>24.9</u>	<u>28.3</u>	<u>30.8</u>	<u>16.0</u>	<u>-2.0</u>	<u>13.7</u>	<u>-52.0</u>
Quasi-money (savings and time deposits)	19.1	21.2	23.4	22.5	25.5	11.0	10.4	13.3
Other items (net)	6.3	3.7	4.9	8.3	-9.5	-41.3	32.4	-

Source: IMF, International Financial Statistics, April 1977.

<sup>a/</sup> At 30 September.

/A study

A study of the behaviour of the factors of expansion reveals that total domestic credit grew by the substantial amount of 50 per cent in the 12 months up to September 1976. The biggest increase was in credit to the government (77 per cent); the additional monetary resources extended to official entities and the private sector represented increases of 53 and 33 per cent, respectively.

In spite of the considerable relative and absolute variation in domestic credit, the factors of expansion taken as a whole increased by less than 4 per cent. This was because, reflecting the evolution of the balance of payments, there was a decrease of 63 billion soles in the net international reserves of the monetary authorities, and this almost completely cancelled out the absolute variation of 68 billion soles in total domestic credit.

Moreover, in 1976 the so-called factors of absorption operated in the reverse of their usual sense, i.e., they contributed to the expansion of the means of payment. This was due on the one hand, to the continued slow growth of quasi-money and, on the other hand, to the significant reduction under the heading "other items (net)". The increase in savings and time deposits was only small in spite of the measures adopted in the course of the year to make the mechanisms for fixing interest rates in the savings market more flexible.

(b) Fiscal trends

In 1976, current income of the central government increased by 26 per cent, which means that it fell by nearly 6 per cent in real terms (see table 18). The tax system showed little flexibility in adapting to the accelerated inflationary process, and moreover the decline in imports adversely affected customs revenue.

Table 18

PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (billions of soles)				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<b>1. Current income</b>	<u>53.4</u>	<u>68.6</u>	<u>88.0</u>	<u>110.8</u>	<u>28.5</u>	<u>28.3</u>	<u>25.9</u>
Tax revenue	47.5	60.7	80.6	...	27.8	32.8	...
Non-tax revenue	5.9	7.9	7.4	...	33.9	-6.3	...
<b>2. Current expenditure</b>	52.0	62.4	81.2	108.0	20.0	30.1	33.0
<b>3. Saving on current account (1 - 2)</b>	1.4	6.2	6.8	2.8	342.9	9.7	-58.8
<b>4. Investment</b>	15.4	20.2	25.5	39.1	31.2	26.2	53.3
<b>5. Total expenditure (2 + 4)</b>	<u>67.4</u>	<u>82.6</u>	<u>106.7</u>	<u>147.1</u>	<u>22.6</u>	<u>29.2</u>	<u>37.9</u>
<b>6. Fiscal deficit (or surplus) (1 - 5)</b>	<u>-14.0</u>	<u>-14.0</u>	<u>-18.7</u>	<u>-36.3</u>	-	<u>33.6</u>	<u>94.1</u>
<b>7. Financing of deficit</b>							
Domestic financing (net)	11.7	9.5	16.8	36.3	-18.8	76.8	116.1
Banking system (net)	...	...	15.9	31.5	...	...	98.1
Other	...	...	0.9	4.8	...	...	433.3
External financing (net)	2.3	4.5	1.9	-	95.7	-57.8	-
<b>8. Fiscal deficit (or surplus) as a percentage of total expenditure</b>	<u>20.8</u>	<u>16.9</u>	<u>17.5</u>	<u>24.7</u>	-	-	-

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

/Meanwhile, current

Meanwhile, current government expenditure increased at almost the same pace as inflation (33 per cent), and it totalled almost as much as current income. Although no details are available regarding the composition of this expenditure, some measures are known to have been adopted to curb its growth. These include the relative restrictions applied during the year as regards the granting of wage and salary adjustments to public workers, and the prohibition on filling vacant posts. More immediate and visible results were obtained, however, from the suppression of drastic reduction of some subsidies, particularly for mass consumption goods and certain petroleum products. It is estimated that the amount saved on subsidies was equal to approximately 10 per cent of total current expenditure.

Saving on current account dropped to less than 3 billion soles. In spite of this, however, government investment grew by 15 per cent in terms of constant currency, since fairly normal progress continued to be made on the large-scale investment projects being carried out by the public sector. Thus, disbursements under this head amounted to 39 billion soles.

Between 1975 and 1976 the fiscal deficit almost doubled in terms of current values, and as a proportion of total expenditure it rose from 18 to 25 per cent. To finance the deficit of 36 billion soles, recourse was had exclusively to domestic borrowing, since the Treasury either did not possess or did not use external resources for the purpose. The major part of the domestic financing (32 billion soles) was obtained through borrowing operations with the banking system, with the monetary consequences already noted above.

DOMINICAN REPUBLIC

1. The overall picture

In 1976 economic activity again expanded by 5 per cent. Although this result was satisfactory considering the difficulties faced by production, it was low compared with the growth rate of the gross domestic product of approximately 12 per cent a year during the first three years of the current decade, which began to decline in 1974 (see table 1).

With the exception of agriculture, which benefitted from the favourable climatic conditions and hence fully recovered from the damage caused by the drought in 1975, the other production sectors were affected to varying degrees by the fall in export income and the lack of expansion of the supply of money. Furthermore the inadequacy and frequent interruptions of the supply of electricity seriously affected manufacturing, commerce and other services.

Despite the exceptional external prices of coffee and cocoa, the reduction of sugar prices by more than half in 1976 led to a marked deterioration (28 per cent) in the unit value of exports. The decline in the terms of trade was even more pronounced (31 per cent). This caused stagnation of real income, which during the previous five-year period had always grown more rapidly than the domestic product.

Total supply, as in 1975, grew less than domestic production as the quantum of imports of goods and services declined for the second consecutive year. The quantum of exports, however, increased by 7 per cent (see table 2).

Domestic demand, which increased by 3.7 per cent, grew at a much lower rate than those recorded since the beginning of the decade, which had made it possible to maintain rapid growth of consumption and a high rate of capital formation, as a result of which the coefficient of fixed investment rose from 17 per cent in 1970 to 25 per cent in 1975.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>e/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	1 393	2 121	2 280	2 397	2 528
Population (millions)	4.6	4.8	5.0	5.1	5.3
Per capita gross domestic product (US dollars at 1970 prices)	408	443	461	468	478
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	12.4	12.1	7.5	5.1	5.5
Per capita gross domestic product	8.7	8.5	4.0	1.7	2.0
Gross income b/	13.7	13.1	10.8	11.2	-0.1
Terms of trade	7.8	2.9	21.4	47.6	-31.4
Value of exports of goods and services	40.5	25.2	41.9	37.5	-18.5
Value of imports of goods and services	16.2	20.1	62.1	9.0	4.0
Consumer prices c/	7.8	15.1	13.1	14.5	7.7
Money	16.2	18.6	38.2	5.7	8.3
Current income of government	14.2	14.3	31.7	24.4	-17.0
Total expenditure of government	9.8	16.7	32.3	8.8	1.1
Fiscal deficit/total expenditure of government d/	2.8	4.8	5.2	17.1 <sup>e/</sup>	3.6
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-60	-32	-138	-4	-229
Balance on current account	-62	-80	-245	-64	-279
Variation in net international reserves	19	22	11	20	-14

<sup>e/</sup> Preliminary figures.

<sup>b/</sup> Gross domestic product plus terms-of-trade effect.

<sup>c/</sup> Annual average variation.

<sup>d/</sup> Percentage.

<sup>e/</sup> Represents a surplus.

Table 2  
DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Billions of pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<b>Total supply</b>	<u>2 795</u>	<u>2 896</u>	<u>2 015</u>	<u>124.5</u>	<u>122.4</u>	<u>11.1</u>	<u>2.6</u>	<u>4.1</u>
Gross domestic product	2 224	2 338	2 464	100.0	100.0	7.5	5.1	5.4
Imports	571	558	551	24.5	22.4	26.0	-2.4	-1.3
<b>Total demand</b>	<u>2 795</u>	<u>2 896</u>	<u>2 015</u>	<u>124.5</u>	<u>122.4</u>	<u>11.1</u>	<u>2.6</u>	<u>4.1</u>
<b>Domestic demand</b>	<u>2 426</u>	<u>2 573</u>	<u>2 669</u>	<u>107.3</u>	<u>103.3</u>	<u>14.0</u>	<u>6.1</u>	<u>2.7</u>
Gross domestic investment	573	634	...	19.1	...	15.7	10.7	...
Gross fixed investment	516	590	...	16.6	...	12.7	14.4	...
Construction	310	340	...	9.9	...	14.5	9.5	...
Machinery and equipment	206	250	...	6.7	...	9.9	21.7	...
Public	186	206	...	5.1	...	20.8	10.7	...
Private	330	384	...	11.5	...	8.7	16.5	...
Changes in stocks	57	44	...	2.5	...	-	-	...
Total consumption	1 853	1 934	...	88.2	...	13.5	4.6	...
General government	170	134	...	11.6	...	7.3	7.9	...
Private	1 683	1 755	...	76.6	...	14.1	4.3	...
<b>Exports</b>	<u>369</u>	<u>323</u>	<u>346</u>	<u>17.2</u>	<u>14.0</u>	<u>-4.6</u>	<u>-12.5</u>	<u>7.1</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; official statistics.

<sup>a/</sup> Preliminary figures.

/The rise

The rise in public investment was particularly intense in those years, increasing at an average annual rate of 22 per cent. The current expenditure of the government, for its part, increased less rapidly, in accordance with a policy of containing it in order to increase the resources devoted to capital formation. This situation changed in 1976, however, with the reduction - estimated at 17 per cent - in fiscal income as a result of the lower yield of external taxation. This lower income mainly affected capital expenditure, which declined by around 12 per cent; current expenditure continued to increase at a higher rate than domestic prices.

The most direct consequences of the fall in sugar prices were the decline of 185 million dollars in exports of goods and services, the increase of 225 million dollars in the trade gap, and a similar increase in the deficit on the current account of the balance of payments.

Nevertheless, net international reserves diminished by only 14 million dollars because of the substantial net inflow of capital, which totalled 265 million dollars - much more than the net inflow in 1975.

Various circumstances combined in 1976 to produce a lessening in the growth rate of domestic prices, especially the significant increase in agricultural production (and particularly in the food supply at a time of depressed domestic demand) and the zero expansion of the means of payment. Consequently, the consumer price index, which had been increasing by 14 per cent a year, grew by less than 8 per cent in 1976, and the index for food even declined slightly.

## 2. Sectoral trends

The growth of the gross domestic product in recent years was mainly due to the rapid expansion of mining, manufacturing and construction. The evolution of agriculture was slower and more uneven, as it is subject to variations in the climate and also in demand and external prices. Despite the fluctuations in agriculture and the loss of relative importance by this sector, however, the share of goods production in the total domestic product increased slightly mainly at the expense of non-basic services (see table 3).



Table 3

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

	Millions of pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	405	390	420	25.8	19.4	0.3	-3.6	9.9
Mining	139	145	164	1.7	7.5	3.7	12.1	12.5
Manufacturing	255	355	380	16.7	17.2	9.1	6.1	6.9
Construction	154	163	178	5.5	8.1	14.8	9.5	5.5
<u>Subtotal goods</u>	<u>1 053</u>	<u>1 053</u>	<u>1 142</u>	<u>49.7</u>	<u>52.2</u>	<u>8.5</u>	<u>2.6</u>	<u>6.3</u>
Electricity, gas and water	26	30	30	1.3	1.4	7.3	6.7	1.2
Transport, storage and communications	163	174	181	6.5	8.2	12.5	4.0	3.6
<u>Subtotal basic services</u>	<u>196</u>	<u>204</u>	<u>211</u>	<u>2.8</u>	<u>2.6</u>	<u>14.7</u>	<u>4.4</u>	<u>2.2</u>
Commerce, financial institu- tions and insurance	261	272	281	12.7	12.6	2.4	4.3	3.2
Income from real estate	144	161	169	7.6	7.6	11.4	11.6	4.5
Community, social and personal services <sup>b/</sup>	355	406	391	30.2	17.8	7.5	8.5	1.2
<u>Subtotal other services</u>	<u>760</u>	<u>839</u>	<u>840</u>	<u>40.5</u>	<u>26.2</u>	<u>8.6</u>	<u>7.8</u>	<u>2.5</u>
<u>Total gross domestic product</u>	<u>1 814</u>	<u>2 092</u>	<u>2 182</u>	<u>100.0</u>	<u>100.0</u>	<u>7.5</u>	<u>5.1</u>	<u>5.4</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1976: CEAL estimates.

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

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Also includes restaurants, hotels and services provided to enterprises.

/In 1976

In 1976 this trend changed. The marked increase (9.3 per cent) in agricultural production exceeded those recorded in manufacturing and especially construction, the growth rate of which declined considerably. Only mining expanded more rapidly than agriculture, maintaining a similar growth rate to that of 1975.

The growth rate of basic services continued to decline during the year, especially in the case of electricity generation, which caused serious problems for the other production activities. The same was true of the rest of the services sector, the lower expansion rate of which reflected the lower growth of the goods-producing sectors, with the exception of agriculture.

(a) The agricultural sector

The drought of 1975 affected agricultural production in general. There were, however, some exceptions such as coffee, the 1975-1976 crop of which reached the unprecedented level of 61,400 tons. The climatic conditions returned to normal in 1976, and this, together with various other less decisive factors which included the fixing in 1975 of readjustable minimum prices for a range of products, mainly food, contributed to a marked increase in the production levels of most products, both for domestic consumption and for export.

It is estimated that sugar cane production improved substantially in 1976. Some calculations put the increase at about 12 per cent, which would mean that production amounted to just over 12 million tons.

During 1976 there was also an appreciable increase in tobacco production, which had fallen by half in 1975, partly as a result of the drought but also because of problems of demand and external prices.

In the case of coffee, however, it was difficult to surpass the 1975-1976 harvest and it is estimated that the 1976-1977 harvest was 20 per cent lower. In 1975 the fourth stage of the coffee plantation improvement programme initiated in 1969 was completed. During this period financial and technical support was made available for the renewal of coffee trees, the improvement of cultivation methods, and the purchase of inputs. This programme covered an area of just over 16,000 hectares.

Part of the big investments made by the public sector in infrastructure projects during the period 1970-1975 has benefited agriculture: dams and irrigation canals, rural highways, investment in sanitary and drinking water works and in the construction of housing and schools in agricultural areas. However, it is possible that the reduction in the capital expenditure of the public sector in 1976 had some effect on the construction or initiation of some projects in the agricultural sector, such as the Yaque del Norte irrigation system.

(b) Mining

Mining showed a considerable increase in production in 1976, although as a result of low external demand there was a further significant decline in the volume of bauxite exported. The mining of gold and silver continued to increase rapidly, however.

In 1976 a new contract was negotiated with FICDA, the enterprise which operates the bauxite deposits. There were also conversations between the government and the United States company Rosario Dominicana, which has been responsible for gold and silver mining and smelting since 1975, with a view to expanding the concessions with the participation of the government.

(c) Manufacturing

With the help of the 1971 Industrial Protection and Incentives Act, the installed capacity of the manufacturing sector has expanded rapidly. The opening of industrial free zones has also contributed towards stimulating the production of manufactures. The 40 or so enterprises currently established in these zones, which provide about 4,000 jobs are subject to a special tax régime and tariff scale which exempts them from the payments of taxes on imports of capital and intermediate goods and on the export of their production.

As a result of this measure, the production of the sector also grew rapidly at a rate of 11 per cent a year between 1970 and 1974.

/The growth

The growth rate declined considerably in 1975, however, although it recovered slightly in 1976, when manufacturing production increased by 7 per cent, despite the irregular supply of electricity and the lower expansion of domestic demand.

(d) Construction

The construction industry was probably the activity most affected by the reduction of government investment expenditure in 1976. During the first three years of the current decade construction grew at an average annual rate of 23 per cent, but in the following three years this rate fell gradually to the 5.5 per cent recorded in 1976: a much lower increase than that of 1975, when the plentiful income received from the exterior made possible a range of major construction projects.

Construction activity is closely linked with tourism, which has been acquiring considerable importance <sup>1/</sup> and has provided a considerable stimulus to hotel construction and other infrastructural work related to this activity. Thus, in addition to the hotels which have been completed recently or are in course of construction (mainly in Santo Domingo), there are three projects for the construction of major tourist complexes: one on the north coast in the Puerto Plata area, another on the south coast near Boca Chica, and a third at Bayahibe.

Other important projects which have been initiated, or are about to be begun are: the modernization of the port of Haina, for which a loan of 36 million dollars from the Inter-American Development Bank will be used; other port projects in Puerto Plata and Río San Juan, partly financed by the World Bank, and the completion of the airport, designed for the use of large aircraft, at Puerto Plata.

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<sup>1/</sup> In 1975 233,000 tourists visited the country and stayed an average of 7.6 days.

As regards the construction of projects designed to expand the electricity generating capacity, the State Electricity Corporation is completing the installation of two units of 80 MW capacity at Haina and has also received external financing of 47 million dollars for the construction of a 116 MW thermal power station which will begin operation in 1979.

### 3. The external sector

#### (a) External trade

Between 1971 and 1975 exports of goods rose from 240 to 890 million dollars, i.e., at a cumulative annual rate of 39 per cent. In 1975 alone exports expanded by 260 million dollars because of the higher sales of sugar. Furthermore, during this period various major products were added to the list of exports, especially ferro-nickel (which has become the second most important export item) and, more recently, gold and silver. The expansion of the quantum exported was accompanied by a series of major price increases in the traditional products, culminating in the increases in sugar prices in 1974 and 1975. As a result, the unit value of exports rose by 55 and 67 per cent, respectively, in those years (see table 4).

In 1976, however, sugar prices fell by 56 per cent. Although at the same time coffee and cocoa prices showed increases of the order of 70 and 60 per cent respectively, this was not sufficient to offset the effect of the low price quoted for sugar. The unit value of exports thus went down by 28 per cent and their total value fell from nearly 900 million dollars in 1975 to just over 700 million in 1976. This decline was entirely due to the decline of over 300 million dollars in the value of sugar exports, which had trebled between 1973 and 1975 as a result of the marked increase in sugar prices on the world market (see table 5).

Table 4

DOMINICAN REPUBLIC: VARIATIONS IN EXTERNAL TRADE AND IN OTHER EXTERNAL VARIABLES

(Percentage)

	1972	1973	1974	1975	1976 <sub>a/</sub>
<u>Exports of goods</u>					
Value	43.0	27.5	40.7	40.4	-21.7
Volume	26.5	4.7	67.5	-15.9	8.7
Unit value	13.0	21.8	55.3	66.8	-20.0
<u>Imports of goods</u>					
Value	12.5	14.2	59.2	14.3	3.5
Volume	14.0	22.5	24.5	1.6	-1.4
Unit value	4.3	19.4	27.9	13.0	5.0
<u>Terms of trade</u>	7.3	2.9	21.4	47.6	-31.4
<u>Purchasing power of exports</u>	24.2	3.8	13.0	22.3	-22.9

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

Table 5

DOMINICAN REPUBLIC: IMPORTS, BY MAIN PRODUCTS

	Billions of US dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sub>a/</sub>	1973	1976 <sub>a/</sub>	1974	1975	1976 <sub>a/</sub>
Sugar	198	340	577	269	44.8	37.9	71.7	69.7	-53.4
Coffee	46	46	43	101	13.4	14.2	-	-6.5	134.9
Cocoa	24	48	29	49	5.4	6.9	100.0	-55.6	69.0
Tobacco	30	39	35	39	6.8	5.5	30.0	-10.3	11.4
Bauxite	15	18	17	16	3.4	2.3	20.0	-5.6	-5.9
Ferrous-nickel	84	93	105	235	12.0	33.2	10.7	12.9	21.8
Gold and silver	-	-	29				-	-	
Other products	45	52	59				17.8	11.3	
<u>Total</u>	<u>442</u>	<u>637</u>	<u>924</u>	<u>709<sub>b/</sub></u>	<u>100.0</u>	<u>100.0</u>	<u>44.1</u>	<u>40.2</u>	<u>-22.7<sub>b/</sub></u>

Source: CEPAL, on the basis of the Bulletin of the Central Bank and IIP, International Financial Statistics, April 1977.

a/ Preliminary figures.

b/ This figure differs from those which appear in the balance of payments and in Table 4.

/The average

The average price of coffee exports, however, rose by 73 per cent in 1976. At the same time the volume exported rose by 45 per cent because of the substantial surpluses accumulated and the abundant harvest of the period 1975-1976. The value of coffee exports thus approached 100 million dollars, which was more than twice as much as the highest levels recorded up to then.

The increase in the average price of cocoa amounted to 61 per cent, so that the value of sales rose from 29 to 49 million dollars. The volume exported increased by 9 per cent, thus varying little from the depressed levels which had been recorded since 1973.

Among the other exports, those of tobacco rose by 14 per cent, while those of bauxite again fell, this time by 7 per cent. This decline occurred despite the significant price increases of 53 and 35 per cent in 1975 and 1976 and reflected the marked declines (39 and 30 per cent) in the volume exported in those years. As regards exports of gold and silver, it is estimated that there was a significant expansion in the second year of this activity.

In view of the magnitude which it seemed that the trade deficit would assume in the first half of 1976 <sup>2/</sup> and the decline in international reserves during the same period, measures were taken to reduce imports. As a result, the increase in the value of imports of goods was less than 5 per cent (compared with the 15 per cent recorded in 1975) and their quantum fell slightly (see table 4).

(b) The terms of trade and the purchasing power of exports

As may be seen from table 4, the terms of trade have shown marked changes in their annual variations since 1972, and the same has been true of the purchasing power of exports. In 1976 the decline in the prices of exports totally cancelled out the favourable effect of the rise in the terms of trade of the previous year and the same occurred as regards the purchasing power of exports.

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<sup>2/</sup> This was aggravated by the withholding of exports of sugar in expectation of an improvement in prices.

(c) The balance of payments

The 300 million dollars drop in sugar exports in 1976 was not offset by the increase in the value of other exports. As a result, total exports declined by 190 million dollars whereas the value of imports of goods and services rose by 4 per cent. The trade deficit thus rose from 4 million dollars in 1975 to 230 million in 1976 and the deficit on the current account trebled (see table 6).

Nevertheless in 1976 there was a substantial inflow of 265 million dollars of non-compensatory capital: an amount similar to that of 1974 and double that of 1975.<sup>3/</sup> Because of this considerable inflow of capital, the deficit on current account did not lead to any major loss of international reserves, which diminished by only 14 million dollars in 1975.

4. Prices

In 1976 there was an appreciable slackening of inflationary pressures. The rate of increase in the consumer price index in Santo Domingo fell by almost half from an average of over 14 per cent in the period 1973-1975 to 7.7 per cent in 1976 (see table 7).

Various factors contributed to the decline in the rate of inflation, especially the appreciable increase in the supply of agricultural products in the domestic market and the limited expansion of the means of payment. Another moderating factor on the rise in prices was the low growth of domestic demand and, in particular, the restriction of public expenditure. The influence of the prices of imports - the increases in which had decisively affected the inflation of 1973-1975 - was not significant in 1976.

The trends of food prices confirm the influence of the level of agricultural production, particularly that destined for the domestic market. During the period 1973-1975, when the increases in domestic prices intensified, the increases in food prices were always 3 or 4 points above the general index. In 1976, however, the relationship was reversed and the food price index showed a slight decline.

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<sup>3/</sup> In that year the inflow of capital declined considerably because of the completion of some major projects, including the installations of the Rosario mining enterprise.



Table 6  
DOMINICAN REPUBLIC: BALANCE OF PAYMENTS  
(Billions of US dollars)

	1972	1973	1974	1975	1976 <sub>a</sub> /
<b>Current account</b>					
Exports of goods and services	421	514	729	1 003	818
Goods FOB	347	443	637	894	700
Services	64	71	92	109	118
Transport	12	14	15	16	18
Travel	33	38	54	61	65
Imports of goods and services	471	566	917	1 007	1 047
Goods FOB	370	423	673	773	800
Services	101	143	244	234	247
Transport	51	71	142	125	135
Travel	30	58	76	78	30
Net Payments of profits and interest on foreign capital	-47	-77	-90	-93	-85
Profits	-35	-54	-47	-49	-40
Interest	-12	-23	-43	-44	-45
Net private transfer payments	45	49	33	33	35
Balance on current account	-62	-80	-245	-64	-279
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	62	80	245	64	279
(a) Net external non-compensatory capital	82	75	243	91	} 265
Direct investment	45	55	54	51	
Long- and medium-term loans	60	40	99	119	
Amortization payments	-16	-19	-45	-36	
Short-term liabilities	-9	-3	133	-46	
Official transfer payments	2	2	2	3	
(b) Domestic non-compensatory capital or assets	21	38	41	19	
(c) Errors and omissions	-27	-11	-28	-26	
(d) Allocation of SDRs	5	-	-	-	
(e) Net compensatory financing	-19	-22	-11	-20	
(minus sign signifies an increase)					14
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	14	3	13	25
Amortization payments	-16	-13	-9	-6	-
Foreign exchange reserves (minus sign signifies an increase)	5	-10	-17	-28	...
Gold reserves (minus sign signifies an increase)	-	-13	19	-	...
SDRs (minus sign signifies an increase)	-8	-	-1	1	...

Source: 1972-1975: International Monetary Fund, *Balance of Payments Yearbook*, vol.28; 1976: CEPAL estimates on the basis of official statistics.

a/ Preliminary figures.

Table 7

DOMINICAN REPUBLIC: CONSUMER PRICE INDEX IN  
SANTO DOMINGO

(Average annual variation)

	1972	1973	1974	1975	1976 <sup>a/</sup>
General	7.8	15.1	13.1	14.5	7.7
Food	6.0	18.4	17.7	17.7	-0.7

Source: United Nations Monthly Bulletin of Statistics, March 1977;  
IMF, International Financial Statistics, April 1977.

<sup>a/</sup> Preliminary figures.

As regards the means of payment, there was almost no variation in 1976 because the increase in money outside banks was offset by the reduction in demand deposits. Quasi-money also rose at a considerably lower rate, much less than in previous years (see table 8).

The main factor which helped to lessen the expansion of the means of payment was the decline in international reserves. Domestic credit, for its part, showed an increase which was somewhat higher than that recorded in 1975, but much lower than in 1974.

Table 8  
DOMINICAN REPUBLIC: MONETARY POSITION

	Balance at end of year (millions of pesos)				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
<b>1. Money</b>	<u>274</u>	<u>378</u>	<u>400</u>	<u>403</u>	<u>28.2</u>	<u>5.7</u>	<u>0.8</u>
Currency outside banks	116	141	158	172	21.6	12.1	9.9
Demand deposits	158	237	242	231	50.0	2.1	-4.5
<b>2. Factors of expansion</b>	<u>740</u>	<u>1 013</u>	<u>1 180</u>	<u>1 283</u>	<u>26.2</u>	<u>16.5</u>	<u>9.2</u>
Net international reserves	24	13	70	48	-45.8	430.5	-31.7
Domestic credit	716	1 000	1 110	1 240	39.6	11.0	12.8
Claims on government (net)	206	258	242	273	25.1	-6.2	12.7
Claims on official entities	37	68	68	62	83.6	.	-9.1
Claims on private sector	386	573	685	789	49.8	19.6	15.2
Claims on the Agricultural Bank and others	87	96	115	116	10.2	19.8	0.9
<b>3. Factors of absorption</b>	<u>466</u>	<u>625</u>	<u>780</u>	<u>885</u>	<u>26.3</u>	<u>22.8</u>	<u>13.5</u>
Quasi-money (savings and time deposits)	245	361	463	485	47.3	29.6	3.7
Other items (net)	221	274	312	400	24.0	13.9	28.2

Source: International Monetary Fund, International Financial Statistics, various issues.

a/ Preliminary figures.

/SURINAM

## SURINAM

### 1. The overall picture

For 1974, the gross domestic product at current prices officially estimated at SF1 664 million,<sup>1/</sup> i.e., 31 per cent higher than 1970 (see table 1). The trend of growth during the period was, however, quite irregular especially because of the fluctuations in the mining sector, whose share in the economy is still very high.

Official estimates of the GDP have not been made for 1975 and 1976, but on the basis of the few indicators available some tentative conclusions about the overall trends can be advanced. It would appear that the GDP in current terms increased in 1975, mainly because a strong performance in agriculture and increased government spending more than offset the decline in the production and earnings of the mining sector. For 1976, the mild recovery in mining, the improvement in agriculture (although less marked than in 1975), and the general increase in manufacturing output and government expenditure appear to point to some growth in the GDP in real terms.

Despite its relatively small growth in 1970-1974 and its declining share in the GDP, mining, including the processing of bauxite, has remained the dominant sector, but agriculture, Government and the commercial/financial sectors have been growing in importance. Some other sectors have also increased their share in the product, but these are of relatively minor significance (see table 2).

The balance of payments showed a net surplus during the whole period under review, except in 1971, when there was a very minor deficit. As a consequence the level of foreign reserves has been steadily increasing.

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<sup>1/</sup> Surinam guilders (SF1) are used throughout. Since 1971 the Surinam guilder has had a central rate of approximately SF1 1.79 = US\$ 1.00. Prior to 1971 the rate was SF1 1.89 = US\$ 1.00.

Table 1  
SURINAM: MAIN ECONOMIC INDICATORS

	1971	1972	1973	1974	1975	1976 <sub>a/</sub>
<b>A. Basic economic indicators</b>						
Gross domestic product (millions of current Surinam guilders)	530	555	609	644	...	
Population (thousands of inhabitants)	380	390	400	410	422	
Per capita gross domestic product (current Surinam guilders)	1 416	1 423	1 523	1 571	...	
<u>Annual growth rates</u>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	9.6	3.2	9.7	5.8	...	
Per capita gross domestic product	6.9	0.5	7.0	3.2	...	
Terms of trade	-4.0	-3.1	-15.1	12.7	1.1	
Value of exports of goods and services	15.9	3.7	4.0	...	...	
Value of imports of goods and services	9.2	8.6	9.0	...	...	
Consumer price index	1.9	3.3	13.0	16.9	8.3 <sub>a/</sub>	
Money	...	...	...	5.2	20.5 <sub>b/</sub>	
Rate of unemployment <u>b/</u>	...	...	...	2.3	2.0 <sub>b/</sub>	
Current income of government	12.4	7.1	-3.6	28.3	48.0 <sub>a/</sub>	
Total expenditure of government	9.9	5.3	13.6	14.2	40.1	
Fiscal deficit/total expenditure of government <u>b/</u>	18.1	16.7	29.3	20.6	16.1	
<u>Millions of Surinam guilders</u>						
<b>C. External sector</b>						
Trade balance (goods and services)	83.5	72.3	47.1	71.3	25.1	
Balance on current account	-19.8	-30.1	-49.2	-41.3	-81.8	
Variation in net international reserves	-1.0	17.6	29.8	10.8	61.8	

Source: CEPAL, on the basis of official statistics.

a/ Estimates.

b/ Per cent.

Table 2  
SURINAM: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

	Millions of current Surinam guilders					Percentage composition	
	1970	1971	1972	1973	1974	1970	1974
Agriculture, animal husbandry and fisheries	38	41	45	51	62	7.7	9.6
Forestry and wood processing	14	15	14	11	11	2.8	1.7
Mining <u>a/</u>	163	187	182	198	182	33.1	28.3
Manufacturing	38	39	41	44	34	7.8	5.3
Construction	7	10	9	12	13	1.4	2.0
<u>Subtotal goods</u>	<u>260</u>	<u>292</u>	<u>291</u>	<u>316</u>	<u>302</u>	<u>52.8</u>	<u>46.9</u>
Gas, water and electricity	13	14	14	16	15	2.6	2.3
Transport, storage and communications	12	13	17	20	21	2.4	3.3
<u>Subtotal basic services</u>	<u>25</u>	<u>27</u>	<u>31</u>	<u>36</u>	<u>36</u>	<u>5.0</u>	<u>5.6</u>
Commerce, hotels, restaurants and financial institutions	86	84	89	101	123	17.6	19.1
Government	94	105	110	117	136	19.2	21.1
Other	26	30	34	39	47	5.4	7.3
<u>Subtotal other services</u>	<u>206</u>	<u>219</u>	<u>233</u>	<u>257</u>	<u>306</u>	<u>42.2</u>	<u>47.5</u>
<u>Gross domestic product at current factor cost</u>	<u>491</u>	<u>538</u>	<u>555</u>	<u>609</u>	<u>644</u>	<u>100.0</u>	<u>100.0</u>

Source: Ministry of Finance.

a/ Includes processing of bauxite into alumina and aluminium.

/Inflation was

Inflation was relatively minor until 1973. In that year the consumer price index increased by 13 per cent, while in 1974 prices rose by 17 per cent. Since then lower rates of increase have prevailed, although in 1976 the rate of inflation exceeded that for 1975. In view of the relatively large import coefficient and the limited range of domestic production, trends in inflation have been strongly influenced by the behaviour of external prices.

On the basis of data on employment in large establishments, employment levels appear to have been fairly constant, partly because public sector employment has helped to offset declines in other economic sectors and emigration has caused an absolute decline in the labour force. A major problem in the employment area is that there is a shortage of skilled labour side-by-side with a plentiful supply of unskilled workers. As for wages, the dominant feature is the large disparity between the wages in the mining sector and those prevailing in the rest of the economy.

Improved export prices for bauxite and its derivatives, as well as for rice, strongly influenced economic trends in 1974, but a world-wide reduction in demand for aluminium caused a sharp cut-back in bauxite production in 1975. Other factors of major importance to the economy since 1974 include the levy imposed on foreign bauxite companies and the write-off, by mutual agreement, of the debt owing to the Netherlands on the occasion of Surinam's attainment of independence in late 1975.

## 2. Sectoral trends

### (a) Agriculture

The total land area under commercial agricultural exploitation increased from 46,000 hectares in 1969 to 59,000 in 1975 (see table 3). This increase was due to the expansion of two crops: rice and palm oil. The area under rice rose from 33,000 hectares to 48,000 hectares in 1975, whereas in 1969 it had been negligible. Palm oil may in due course become a valuable asset: 1975 production amounted to 625 metric tons of raw oil (see table 4), and there are plans for further expansion of the area under this crop.

Table 3  
 SURINAM: AREAS UNDER MAIN AGRICULTURAL CROPS  
 (Hectares)

Crop	1969	1970	1971	1972	1973	1974	1975
Paddy	33 248	39 132	40 153	37 409	44 985	44 353	47 500
Maize	226	129	126	140	149	120	146
Peanuts	379	238	387	360	358	238	359
Peas	438	540	367	335	444	180	306
Cabbage	67	54	34	50	48	41	36
Tomatoes	101	97	38	47	61	51	56
Green vegetables	581	470	367	369	374	310	260
Plantains	529	397	163	151	254	139	124
Bananas	1 857	1 634	1 822	1 940	1 713	1 910	1 950
Sugar-cane	2 772	2 291	2 200	2 160	2 343	2 300	2 280
Oranges	1 900	1 784	1 328	1 399	1 401	1 319	1 479
Grapefruit	444	316	371	377	352	325	400
Other citrus fruit	146	73	63	65	93	181	141
Coconuts	1 417	1 392	1 243	1 160	1 198	1 200	1 105
Cocoa	595	511	428	396	403	396	401
Coffee	929	747	524	442	433	448	420
Oil palm	...	50	230	840	1 215	1 435	1 640
<u>Total area</u>	<u>45 719</u>	<u>49 855</u>	<u>49 944</u>	<u>47 640</u>	<u>55 824</u>	<u>54 946</u>	<u>58 606</u>

Source: Ministry of Finance.



Table 4  
 SURINAM: PRODUCTION OF MAIN AGRICULTURAL CROPS  
 (Metric tons)

Crop	1969	1970	1971	1972	1973	1974	1975
Paddy	113 328	145 399	136 290	122 968	164 063	162 417	174 845
Maize	405	192	319	350	320	193	365
Peanuts	2 296	1 953	2 300	2 300	2 307	766	2 300
Peas	450	494	365	345	447	617	420
Cabbage	556	404	240	355	354	259	250
Tomatoes	724	576	245	311	390	266	380
Green Vegetables	2 878	2 390	2 255	2 300	2 362	1 491	1 600
Plantains	5 343	3 634	1 980	1 922	2 724	834	950
Bananas	44 165	32 749	49 255	42 312	38 811	39 605	43 095
Sugar-cane	14 556	13 056	10 959	12 050	9 000	9 000	9 000
Oranges	11 809	6 956	10 030	11 575	11 600	17 463	15 036
Grapefruit	5 090	4 160	5 373	6 821	6 000	5 123	5 530
Other citrus fruits	622	427	426	440	640	650	530
Coconuts	5 916	6 057	5 784	5 630	6 080	6 000	5 525
Cocoa	127	106	83	58	50	54	55
Coffee	233	207	200	98	89	91	88
Palm oil	...	...	...	...	...	130	625

Source: Ministry of Finance

a/ Preliminary figures.

/Both the

Both the area and production of traditional crops like cocoa, coffee and sugar-cane fell during the period under review, and the downward trend is believed to have continued in 1976 (see table 4). The fall in production has been attributed, in part, to labour shortages and if this is indeed an important factor then it is unlikely that there will be an upturn in production in the short run because of the reluctance of potential agricultural labour to work on these crops.

As regards fruit production, the banana harvest reached a peak of 49,000 metric tons in 1971 but production declined thereafter. The United Fruit Company has an export monopoly of this commodity. Citrus fruit production reached a peak in 1974, with 17,000 metric tons of oranges and 5,000 metric tons of grapefruit. Surinam is an off-season supplier of citrus fruit to the Netherlands, and this assured market serves to stimulate production.

Figures on meat production are not very reliable, but the trend seems to have been towards depletion of the national herd. In an effort to reverse the trend, the slaughter of female animals has recently been banned. Pork and chicken production increased between 1967 and 1970 at an annual rate of over 20 per cent in an attempt to meet local requirements, but the rising demand also had to be met by imports. Thus, notwithstanding some expansion of the poultry industry, the indications are that dependence on foreign supplies of meat has increased in recent years.

Data on total milk production in the country are not available, but the output in 1976 of a milk processing plant in Paramaribo which is the main supplier of that city was 7.3 million litres, 12 per cent higher than the 1975 output. As in previous years, however, growth was primarily due to increased imports of milk powder rather than increased purchases of local fresh milk.

(b) Mining

This sector consists mainly of bauxite extraction, with processing up to the stage of aluminium production. While making the largest single contribution to the product, this sector's share of the total has fallen in recent years from 33 per cent in 1970 to 28 per cent in 1974 (see table 2).

Prior to 1965 all the bauxite mined was exported, but in that year processing of the raw material was started and an increasing proportion of the bauxite produced has been retained in the country for conversion to aluminium. Thus, while bauxite exports were 82 per cent of production in 1966, they represented only 44 per cent of production in 1976 (see table 5).

Although aluminium smelting activities have been going on since 1965, most of the alumina produced is still exported. Of the 11.2 million metric tons of alumina produced between 1965 and 1975, for example, 92 per cent was exported. Of the remaining 8 per cent which was retained and processed into aluminium, 97 per cent of the finished product was exported and a mere 14,000 metric tons of aluminium retained for use in the country.

The processing of bauxite into aluminium was made economically feasible by the harnessing of hydro-electric power. There is much potential for further development of the industry, and plans are afoot for such development in West Surinam, where there are large deposits of bauxite and other mineral ores.

(c) Forestry

Surinam has an abundant supply of high-quality commercial timber for furniture and construction and also vast resources of timber for fuel and charcoal. Table 6 shows the volume of timber cut annually. Over 90 per cent of this is used for furniture and construction, and the table gives figures on the production of timber for this purpose in the period 1973-1976. There was a downward trend in the production of plywood during the first three years, but in 1976 there was a 14 per cent upturn. The production of particle board has fluctuated from year to year, with a peak production of 23,000 cubic metres in 1975. In the latter year, sawnwood production increased by 59 per cent and exports of wood and wood products amounted to 51 per cent of total production.

Table 5  
 SURINAM: PRODUCTION AND EXPORTS OF BAUXITE, ALUMINA AND ALUMINIUM  
 (Thousands of metric tons)

Year	Bauxite		Alumina		Aluminium	
	Production	Exports	Production	Exports	Production	Exports
1963	...	3 483	...	...	...	...
1964	3 993	3 985	...	...	...	...
1965	4 360	4 369	...	59	...	1.3
1966	5 563	4 535	407	347	27.4	25.6
1967	5 466	3 806	741	684	32.5	30.5
1968	5 660	3 766	900	702	43.4	43.6
1969	6 236	5 678	949	856	53.3	53.0
1970	6 011	5 410	998	893	54.5	52.8
1971	6 719	3 476	1 069	1 149	53.8	47.3
1972	6 778	3 476	1 352	1 279	43.7	53.6
1973	6 718	3 666	1 346	1 209	55.3	54.2
1974	6 863	3 974	1 184	1 077	57.0	54.1
1975	4 751	2 324	1 134	1 030	34.7	26.4
1976	4 588	1 999	1 163	1 103	44.9	46.5

Source: Ministry of Finance.

Table 6  
SURINAM: INDICATORS OF TIMBER PRODUCTION  
(Cubic meters, roundwood equivalent)

	1973	1974	1975	1976
Extraction of timber from Government-owned land	...	200 072	294 317	...
Lawlogs and veneer logs	...	194 997	272 203	...
Sleepers	...	1 480	12 881	...
Fuel wood	...	3 595	9 233	...
Production of sawwood, plywood and particle board				
Sawwood	...	48 536	77 295	...
Plywood	19 147	17 415	14 066	16 006
Particle board	17 518	14 251	23 306	14 822

Source: CEPAL, on the basis of official statistics.

(d) Manufacturing

Table 7 shows the output of the main manufactured goods. After reaching a peak of 9,900 tons in 1973, the production of wheat flour fell by 50 per cent in 1974, but by 1976 output had recovered somewhat to a level of 9,300 tons. Butter production showed a remarkable increase during the same period. The other commodities where there was increased production were beer (2 per cent), cattle feed (20 per cent) and cigarettes (32 per cent).

Between 1973 and 1976, shoe output showed an upward trend. Production of cardboard boxes displayed wide fluctuations, but on the whole a slight upward trend was noticeable. Cement production, for its part, fell from a peak of 62,000 tons in 1973 to a low of 35,000 tons in 1975, but in 1976 it rose by 47 per cent.

(e) Energy

Traditional sources of energy such as charcoal and firewood are used widely both in the hinterland and in urban areas, but the main sources for domestic, commercial and industrial use are gas and electricity. The output from each source in 1976 was less than it was in 1973, the most significant decline being in the supply of gas to urban areas, which fell by 55 per cent between 1973 and 1976 (see table 8).

3. The external sector

The most notable features of the balance of payments between 1970 and 1975 were the persistent surpluses on visible trade, the current account deficit and the relatively large surplus on capital account. The overall balance during the period was positive, except for a small deficit in 1971.

(a) The current account

The performance of the merchandise trade has been generally favourable since 1966, when a surplus was recorded for the first time in 10 years. Since then, the surplus has grown, largely propelled by exports of bauxite and its derivatives, which on the average account for some 90 per cent of domestic exports. Other important exports include agricultural products, notably rice and bananas, and wood and wood products of which plywood accounts for about 50 per cent of the total value (see table 9).

Table 7  
SURINAM: INDICATORS OF MANUFACTURING PRODUCTION

Commodity	Unit	1973	1974	1975	1976
Soft drinks	'000 ltr.	...	...	22 240	22 568 <sub>a/</sub>
Wheat flour	Tons	9 900	4 401	7 049	9 257
Butter	Kg.	8 900	11 100	16 700	17 100
Margarine	'000 kg.	...	1 235	774	1 017
Molasses	'000 ltr.	4 201	3 900	3 869	3 644
Alcohol	'000 ltr.	2 642	2 579	2 243	1 913
Beer	'000 ltr.	8 944	7 840	7 988	9 126
Stout and beer	'000 ltr.	...	210	212	264
Cattle feed	Tons	18 083	21 550	21 497	21 671 <sub>a/</sub>
Cigarettes	'000 000 units	260	275	309	342
Cigars	'000 units	348	180	200	228
Shoes	'000 prs.	138	233	292	235 <sub>a/</sub>
Cardboard boxes	'000 units	2 278	2 615	2 222	2 785
Matches	'000 boxes	6 798	7 442	5 095	1 569
Soap powder	Tons	751	805	895	730 <sub>a/</sub>
Methylated spirits	'000 ltr.	215 <sub>a/</sub>	200	178	154
Cement	Tons	62 200	33 800 <sub>a/</sub>	34 700	51 008

Source: CEPAL, on the basis of official statistics.

a/ January - September.

Table 8  
SURINAM: SUPPLIES OF ENERGY

Item	Unit	1973	1974	1975	1976 <sup>a/</sup>
Gas (town)	'000 m <sup>3</sup>	3 248	3 612	2 878	1 789
Electricity (private)	Mlms. KWH	1 368	1 515	1 121	1 213
Electricity (public)	Mlms. KWH	76	73	80	58

Source: CEPAL, on the basis of official statistics.

<sup>a/</sup> Preliminary figures.

/Table 9



Table 9  
SURINAM: MAIN EXPORTS  
(Millions of Surinam guilders)

	1970	1971	1972	1973	1974	1975
<u>Bauxite mining and processing</u>	<u>231</u>	<u>267</u>	<u>278</u>	<u>274</u>	<u>361</u>	<u>345</u>
Bauxite	76	83	82	85	125	93
Alumina	106	133	143	144	169	213
Aluminium	49	45	48	45	68	39
<u>Agricultural sector</u>	<u>12</u>	<u>17</u>	<u>17</u>	<u>28</u>	...	...
Rice	5	10	9	21	...	...
Citrus fruit	1	-	-	1	...	...
Bananas and plantains	3	5	5	4	...	...
Fish products	1	1	1	1	...	...
Other	2	1	2	2	...	...
<u>Forestry and wood processing</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>12</u>	...	...
Plywood	4	4	5	6	...	...
Other	4	3	4	6	...	...
<u>Other exports</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	...	...
<u>Total domestic exports</u>	<u>252</u>	<u>290</u>	<u>303</u>	<u>315</u>	...	...

Source: Central Bank of Surinam; Annual Report, 1973, and General Bureau of Statistics, Surinam.

/As regards

As regards imports, basic raw materials are far and away the most important category of goods, followed by consumer goods, investment goods and fuels and lubricants (see table 10). During the period 1970-1973 the shares of the first two categories of goods remained fairly constant but fuels increased slightly while investment goods declined. The rates of increase of imports were generally more rapid than those of exports during 1970-1973. In 1974 imports increased at the same rate as exports, but it should be noted that this reflects the devaluation of the Surinam guilder vis-à-vis the US dollar.

The movements in the prices of imports and exports resulted in a considerable deterioration in the terms of trade between 1970 and 1973. There was some improvement, however, in 1974 and 1975 (see table 11).

Huge net outflows of investment income were the major cause of the deficits on the current account in the period 1970-1974. The net outflow of investment income rose by 15 per cent in 1971, but since then remittances have tended to decline, so that by 1975 they were 76 per cent less than in 1971. During the same period net outflows for foreign travel increased more than threefold, with the result that in 1975 travel was the largest net outflow item. Private remittances and transport and insurance have also become relatively important deficit items in the balance of payments (see table 12).

(b) The capital account

As already mentioned, the balance on capital account was positive during the period 1970-1975. There were net outflows of private capital in 1970 and 1971, but this trend was reversed during the next three years. As a result, the gap between net investment income and net private capital narrowed. Only in 1975, however, did net private capital inflows exceed net investment income outflows.

Table 10  
 SURINAM: CLASSIFIED IMPORTS  
 (Millions of Surinam guilders)

	1970	1971	1972	1973
Fuel, lubricants, etc.	26	30	30	36
Raw and basic materials	78	89	96	109
Yarn and threads	9	9	9	7
Consumption goods	57	63	68	74
Foodstuffs	17	21	23	25
Furnishings, appliances and electric fittings	(9)	(9)	(10)	11
Medicine and articles for personal care	(7)	(8)	(9)	10
Cars and motorcycles	7	7	7	6
Capital goods	42	40	48	49
Transportation equipment	14	13	17	14
Machines and parts for the bauxite industry	3	3	6	7
Other	25	23	26	28
<u>Total imports</u>	<u>216</u>	<u>238</u>	<u>258</u>	<u>281</u>

Source: Central Bank of Surinam, Annual Report, 1973.

Table 11  
SURINAM: EXPORT, IMPORT AND TERMS OF TRADE INDICES

	Unit values		Terms of trade
	Exports	Imports	
1970	100	100	100
1971	102	106	96
1972	100	107	93
1973	101	128	79
1974	134	152	89
1975	158	176	90

Source: CEPAL, on the basis of official statistics.

/Table 12

Table 12  
 SURINAM: BALANCE OF PAYMENTS  
 (Millions of Surinam guilders)

	1970	1971	1972	1973	1974 <sup>a/</sup>	1975 <sup>a/</sup>
<u>Current account</u>						
Merchandise trade	16.3	83.5	72.3	47.1	71.3	25.1
Transport and insurance	-0.1	-2.3	-0.9	-2.0	-8.8	-20.2
Foreign travel	-3.6	-10.3	-13.0	-19.1	-36.7	-47.4
Salaries and pensions	-1.9	-2.8	-3.4	-3.7	-4.6	-7.3
Other private remittances	-8.3	-7.9	-8.1	-8.3	-32.0	-19.4
Investment income	-77.1	-89.0	-84.0	-69.9	-43.8	-21.0
Non-monetary gold	-0.2	-0.6	-1.2	-1.1	-1.4	-1.4
Other items	7.4	9.7	8.2	9.3	14.7	10.3
<u>Balance on current account</u>	<u>-20.5</u>	<u>-19.8</u>	<u>-30.1</u>	<u>-49.2</u>	<u>-41.3</u>	<u>-81.8</u>
<u>Capital account</u>						
Private capital	-6.5	-5.3	7.8	49.3	0.7	70.0
Migration and private grants	-0.5	0.9	-1.8	-1.4	-2.7	-3.4
Government grants	23.9	24.2	22.9	24.3	40.7	319.5
Government loans	22.9	7.5	32.9	15.3	22.3	24.9
Repayment of Government loans	-1.2	-2.3	-2.4	-5.5	-5.3	-270.3
Other Government capital	2.5	3.2	-11.7	-3.0	-1.7	2.8
<u>Balance on capital account</u>	<u>41.1</u>	<u>18.0</u>	<u>47.7</u>	<u>79.0</u>	<u>52.1</u>	<u>143.6</u>
<u>Balance on total account</u>	<u>20.6</u>	<u>-1.8</u>	<u>17.6</u>	<u>29.8</u>	<u>10.8</u>	<u>61.8</u>
<u>Variations in international reserves</u>						
Monetary gold	-	0.4	-	-5.6	-	-
Net official foreign exchange	10.6	-2.1	17.7	35.7	12.1	61.8
Foreign exchange held by commercial banks	2.0	-0.1	-0.1	-0.3	-1.3	-

Source: Central bank of Surinam.

<sup>a/</sup> Preliminary figures.

/Grants and

Grants and loans to the Government are generally the two largest credit items in the capital account and are mainly responsible for the relatively large surpluses on capital account as well as on the overall balance of payments. The inflows consist mainly of Dutch bilateral aid. When Surinam was granted independence in 1975, that portion of the external debt due to the Netherlands was written off and development aid of approximately SF1 3 billion was promised to the country, for disbursement over the next 10-15 years. These capital inflows will considerably enhance the country's foreign exchange position. It must be noted, however, that as the development projects get underway, the level of merchandise imports can be expected to rise and this may erode the trade surplus.

The overall performance of the balance of payments has also been enhanced by the Bauxite Levy, the first payments of which were made in 1974.

The favourable balance-of-payments situation in the period under consideration is reflected in the continuous increase in official foreign exchange reserves. Provisional estimates in table 13 put the increase for 1975 at almost SF1 62 million, the largest increase for any year between 1970 and 1975. As for the level of reserves, these totalled SF1 234 million at the end of 1976.

(c) Geographical distribution of trade

Most of Surinam's foreign trade is with the United States, which accounted for an average of about 41 per cent of exports and 33 per cent of imports between 1970 and 1973 (see table 14). The EEC, however, is the chief source of imports. Important trading partners within the EEC are the Netherlands and the Federal Republic of Germany. Trade with the Caribbean area is predominantly with Trinidad and Tobago, which accounted for 11 per cent of total imports in 1973.

Table 13  
SURINAM: END-OF-PERIOD NET INTERNATIONAL RESERVES  
(Millions of Surinam guilders)

	1970	1971	1972	1973	1974	1975	1976
Central Bank	69	75	83	111	130	173	198
Foreign exchange	53	59	63	100	119	162	187
Gold	16	17	17	11	11	11	11
Central government	-	-	4	-	-	...	...
Commercial banks	13	10	20	22	13	33	36
<u>Total reserves</u>	<u>87</u>	<u>85</u>	<u>103</u>	<u>133</u>	<u>154</u>	<u>205</u>	<u>234</u>

Source: Central Bank of Surinam.

/Table 14

Table 14  
SURINAM: DIRECTION OF TRADE  
(Per cent)

	1970	1971	1972	1973
<u>Exports</u>				
United States	38.5	47.6	44.3	34.6
Canada	2.4	2.5	3.6	3.8
European Economic Community	37.7	24.9	28.8	33.9
Germany	14.5	7.6	10.7	14.2
Netherlands	13.8	17.6	12.0	12.1
Other Europe	17.0	14.1	12.2	13.4
Japan	0.5	3.0	0.9	0.8
Caribbean Islands	2.9	3.1	2.7	4.1
Other	1.1	4.6	7.6	4.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Imports</u>				
United States	35.3	33.4	31.7	33.7
Canada	1.2	1.1	1.0	1.0
European Economic Community	38.9	38.4	38.8	37.6
Germany	6.0	5.6	5.5	4.9
Netherlands	22.2	22.6	23.9	23.6
Other Europe	1.9	2.1	1.8	1.9
Japan	6.3	6.6	7.5	5.7
Caribbean Islands	11.5	12.9	11.8	13.0
Other	4.9	5.6	7.3	7.1
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: General Bureau of Statistics, Surinam.

/Surinam's favourable



Surinam's favourable balance on visible trade results mainly from trade with the United States and Canada and "Other Europe". Within the European Economic Community a large surplus is obtained from trade with the Federal Republic of Germany. However, the net result of trade with the EEC over the period 1970-1973 was a deficit, mainly with the Netherlands.

Although trade data are not yet available for years later than 1973, no significant shifts in the direction of trade are thought to have taken place. The direction of the principal export commodities, bauxite and its derivatives, tends to be stable because production and trade in these products are controlled by the subsidiaries of multinational firms. Furthermore, as mentioned earlier, exports of this sector averaged 90 per cent of the total output.

#### 4. Prices, employment and wages

##### (a) Prices

Consumer prices were relatively stable in Surinam during the early 1960s, but during the second half of the decade price levels rose somewhat. This may have some relation with the huge investments that took place in the construction and mining sectors in this period.

Beginning in 1973, the average price levels rose drastically. In that year the price index increased by 13 per cent as the index for food and grains rose by 48 per cent, apparently in response to increases in the price of rice and wheat on world markets. Prices increased even more sharply in 1974 (by 17 per cent). Since then a comparatively high rate of inflation has continued to exist, although the price increases were considerably more moderate in 1975 and 1976 (see table 15).

Food and beverages, which have the largest weight in the index (40 per cent), experienced an increase far in excess of the rise in the total index during 1973 and were thus the main factor in inflationary problems that year. In the following year the average rise in prices of food and beverages was almost equivalent to that of the total index.

Table 15  
SURINAM: PERCENTAGE CHANGES IN CONSUMER PRICE INDEX

	1969	1970	1971	1972	1973	1974	1975	1976
Food and beverages	2.7	3.2	-1.2	4.0	22.5	16.8	7.4	9.9
Housing and furnishings	0.8	1.6	1.4	3.4	5.5	23.9	8.8	6.8
Clothing and footwear	0.4	-2.0	-1.2	0.4	10.9	12.5	12.9	10.0
Other items	1.9	4.3	2.0	3.3	6.5	12.7	8.3	10.2
<u>Total</u>	<u>1.8</u>	<u>2.6</u>	<u>1.2</u>	<u>3.3</u>	<u>13.0</u>	<u>16.9</u>	<u>8.3</u>	<u>10.1</u>

Source: General Bureau of Statistics, Surinam.

/The more

The more moderate rise in the overall index after 1974 was due largely to the lower rates of increase for the food and beverages and housing and furnishings components.

The greater stability observed in the price of food in the last few years has mainly been the result of an active policy of intervention in the domestic market by the Government. Maximum prices have been laid down for a wide range of staple domestic foodstuffs, while the export of rice has been curtailed by a requirement that exporters supply to the Government an amount of rice equivalent to two-thirds of the quantity they wish to export. By this means rice is made available to the domestic market even when international prices exceed the locally controlled price. The supply of imported products at controlled prices is ensured through the Central Import Office of Surinam (CIS), established in 1972 to take care of the importation of a range of commodities. The CIS also operates its own distribution outlets in several districts in the country and co-ordinates its activities with the private sector.

(b) Employment

Definitive employment data are not available for the more recent years, but certain crude estimates of the size of the labour force and unemployment are given in table 16. Since the 1971 census showed about 105,000 persons in the labour force, the figures for 1974 in the table may be somewhat high. The declining labour force figures after 1974 reflect the relatively high level of emigration between that year and 1976.

The data in the table suggest that unemployment has been falling both absolutely and relatively and that employment has been rising since 1974, but other indicators do not seem to corroborate these trends. While it is likely that migration during 1974-1976 severely affected the total labour force, it is less likely that most of the migrants were from the ranks of the unemployed. Thus the 1976 estimates of unemployed that are presented in the table seem to understate the situation and should perhaps be closer to 23.5 thousand or 20 per cent of the labour force. It should be remembered too that Surinam, like most Caribbean countries, has high levels of underemployment.

Table 16  
SURINAM: ESTIMATES OF EMPLOYMENT AND UNEMPLOYMENT  
(Beginning of year)

	1961 <sup>a/</sup>	1974	1975	1976
Labour force ('000)	90.0	130.0	128.5	117.5
Unemployed ('000)	10.0	30.0	26.0	17.5
Rate of unemployment (per cent)	11.0	23.0	20.0	15.0

Source: Stichting Planbureau Surinam, Multiannual Development Programme for Surinam: Plan Year 1977, Vol. 1, August 1976.

a/ June.

/In response

In response to the unemployment problem the Government has increased the size of its staff, which is currently the second largest employment group in the economy, with 29 per cent of the total labour force in 1975 compared with the 32 per cent of the agricultural sector. The latter sector, of course, has been victim of urban migration and the unwillingness of many to work in agriculture, so that its share of total employment has declined. Another large employer is the distributive trade, with 9 per cent, while the capital-intensive mining and bauxite refining sector employs an estimated 7 per cent of the total.

(c) Wages

Data on wages are given in table 17. In nominal terms, the average level of wages in the establishments covered rose by approximately 7 per cent between 1972 and 1973 and 11 per cent between 1973 and 1974. Preliminary data suggest that there was a substantial increase in 1975 and it is probable that there was an even larger increase in 1976. It should be noted, however, that because the data mainly cover the larger private establishments (where wages are determined by collective bargaining agreements) and Government departments, they exclude the majority of workers. There is therefore a real possibility that the actual level of wages is lower than that shown in the table.

The level of wages in mining is significantly higher than that in all the other economic sectors. At nearly SF1 11,000 in 1974, the average level of annual wages in this sector was more than twice the overall average, and with subsequent increases the gap grew even wider by 1976.

Wage levels in transport, warehousing and communications run a distant second, followed by forestry and wood products. Wages in the Government sector are relatively low, but higher than those prevailing in agriculture, construction, the retail trade (including hotels and restaurants) and personal and community service establishments. Because of the large number of employees involved, the total wage bill of the Government appears to be larger than that of the mining sector, at least for 1975, and the wage bill in agriculture, livestock and fishing may also be higher than in mining.

Table 17  
 SURINAM: AVERAGE ANNUAL EARNINGS PER WORKER<sup>a/</sup>  
 (Thousands of Surinam guilders)

	1971	1972	1973	1974	1975
General average	...	4.2	4.5	5.0	5.7
Agriculture, livestock, fishing	...	3.0	3.1	3.6	...
Forestry, timber and wood products	2.1	4.0	4.4	5.7	...
Mining and processing of bauxite ore	3.5	9.4	10.0	10.9	14.4
Manufacturing, gas, water and electricity	1.7	4.3	4.5	4.8	...
Construction	1.5	3.0	3.5	3.5	...
Trade, Restaurants, hotels	1.9	3.3	3.8	4.1	...
Transport, warehousing, communications	...	4.9	5.5	6.1	...
Other community, social and personal services	...	1.6	1.7	2.1	...
Average, private sector (enterprises)	1.7	4.4	4.9	5.6	6.6
Government (public service)	...	4.0	4.0	4.3	4.7

Source: Stichting Planbureau Surinam, Multiannual Development Programme for Surinam: Plan Year 1977, Vol. 1, p. 46, August 1976.

<sup>a/</sup> Includes social benefits.

/Up to

Up to 1972 wages seem to have risen faster than consumer prices,<sup>2/</sup> but in 1973 and 1974 wages are estimated to have fallen in real terms. This downward trend was reversed in 1975, when real wages rose by about 9 per cent, and a sharp increase appears to have taken place in 1976. The significant rise in real wages in the latter two years is largely the result of market pressures created by substantial emigration of skilled workers between 1974 and 1976.

## 5. Monetary and fiscal policy

### (a) Monetary trends

The financial system of Surinam is structured around the operations of a Central Bank, five commercial banks (including the Agricultural Development Bank), two specialized banks (the Surinam Mortgage Bank and the National Development Bank), and a number of insurance companies and pension funds. Additionally, the Post Office Savings Bank was a specialized institution until October 1976, when it assumed the main function of a deposit money bank.

Data on the monetary position of the banking system in 1973-1976 are shown in table 18. It can be seen that the level of gold stocks remained constant throughout the period, while net foreign assets increased considerably each year. In 1975 and 1976, increases of 47 per cent and 15 per cent were recorded, respectively. The supply of both money and quasi-money followed an upward trend during the same period.

Loans and advances of commercial banks also followed an upward trend between 1972 and 1976. The largest increase in the period considered was 32 per cent, in 1976. It will be observed from table 19 that loans to service sectors have exceeded those to the goods sectors by a wide margin. Between 1972 and 1976 the share of loans to the former group ranged from 74 per cent in 1972 to 62 per cent in 1976.

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<sup>2/</sup> See Planning Bureau: Multiannual Development Programme, Plan year 1977. Vol. 1, page 44, August 1976 (English summary, mimeographed, page 6).

Table 13  
 SURINAM: SELECTED MONETARY STATISTICS  
 (Millions of Surinam guilders)

	As of 31 December			
	1973	1974	1975	1976
Gold	11	11	11	11
Net foreign assets <u>a/</u>	121	132	194	223
Claims on Government	24	11	9	8
Claims on private sector	125	154	163	241
Money supply	133	140	169	198
Demand deposits	...	61	80	88
Banknotes, treasury notes and coins	...	79	89	110
Quasi-money <u>b/</u>	...	17	22	32
Long-term deposits and borrowings <u>c/</u>	88	96	111	178

Source: Central Bank of Surinam.

a/ Excludes Government foreign assets.

b/ Time deposits with a remaining maturity of one year or less, liquid savings deposits (10 per cent of total savings deposits), plus some other short-term liabilities.

c/ Time deposits with a remaining maturity of more than one year, genuine savings deposits and long-term borrowing.



Table 19  
 SURINAM: LOANS AND ADVANCES OF COMMERCIAL BANKS  
 (Millions of Surinam guilders)

	1972	1973	1974	1975	1976
Agriculture	6.5	7.6	10.0	11.0	19.9
Fishing	-	0.5	0.7	4.3	2.8
Forestry	0.1	0.1	0.1	0.1	0.6
Mining	10.2	13.1	11.5	9.6	28.9
Manufacturing	14.3	15.3	28.6	32.2	25.1
Construction and installation	0.5	5.5	3.7	4.8	8.1
<u>Subtotal goods</u>	<u>31.6</u>	<u>42.1</u>	<u>54.6</u>	<u>62.0</u>	<u>85.4</u>
Electricity, gas and water	8.0	4.2	8.3	9.7	10.8
Commerce	57.0	49.7	52.9	54.9	73.3
Transport	0.8	1.5	2.5	2.8	5.4
Other services <u>a/</u>	24.8	36.8	45.9	42.4	51.5
<u>Subtotal services</u>	<u>91.4</u>	<u>92.2</u>	<u>109.6</u>	<u>109.8</u>	<u>141.0</u>
<u>Total</u>	<u>123.0</u>	<u>134.3</u>	<u>164.2</u>	<u>171.8</u>	<u>226.4</u>

Source: Central Bank of Surinam.

a/ Excludes building loans.

/Commerce has

Commerce has the greatest weight of any single sector in the loans and advances of the commercial banks. The data since 1972, however, indicate that its share has declined substantially, from 47 per cent in 1972 to 32 per cent in 1975, although there was a modest increase in 1976.

Among the goods-producing sectors, manufacturing and mining obtained the greatest share of loans. It should be noted, however, that since 1972 the share of agriculture has been increasing.

The Central Bank is invested with power to influence the activities of the commercial banks, but it appears that this has been carried out mainly through moral suasion or mutual agreement rather than through the more active instruments available to it. This may be connected with the relative stability of the banking system. Nevertheless, there has been a system of credit ceilings in effect since 1968, and the level of credit which banks can extend appears to be monitored very closely. Interest rates have risen slightly and banks have maintained relatively high liquidity during the period under review.

#### 6. Fiscal policy

Data on Government revenue are given in table 20, but it should be noted that the figures for 1975 and 1976 are provisional and may be revised. Between 1970 and 1973 growth in Government revenue slackened, but in 1974 there was a substantial increase reflecting higher rates of taxes (including import duties) on goods and services, plus the first income from the Bauxite Levy. Revenue is estimated to have increased by nearly 48 per cent in 1975 due to the large retroactive collections under this levy, but a decline was estimated for 1976 as a result of the more normal annual collections under the levy and reduced exports of raw and processed bauxite (see table 20).

The biggest single revenue item since 1975 has been the Bauxite Levy, which accounted for about 40 per cent and 30 per cent of the total in 1975 and 1976, respectively. Import duties are also a big item and should come a close second if the normal upward trend in total import values persists.

Table 20  
 SURINAM: GENERAL GOVERNMENT REVENUE AND EXPENDITURE  
 (Millions of Surinam guilders)

	1970	1971	1972	1973	1974	1975 <sup>a/</sup>	1976 <sup>a/</sup>
1. <u>Current revenue</u>	137	154	165	159	204	302	289
Tax revenue	110	122	133	132	167	268	241
Non-tax revenue	27	32	32	27	37	34	48
2. <u>Current expenditure</u>	124	145	149	173	199	250	...
Wages and salaries	80	82	90	100	113	142	...
Other	44	63	59	73	86	108	...
3. <u>Saving on current account (1-2)</u>	13	9	16	-14	5	52	...
4. <u>Capital expenditure</u>	47	43	49	52	58	110	...
Real investment	40	40	46	49	55	94	...
Other	7	3	3	3	3	16	...
5. <u>Total expenditure (2+4)</u>	171	188	198	225	257	360	...
6. <u>Deficit (1-5)</u>	-34	-34	-33	-66	-53	-58	...

Source: CEPAL, on the basis of official statistics.

<sup>a/</sup> Preliminary estimates.

/Estimated expenditure

Estimated expenditure totalled SF1 360 million in 1975, compared with actual expenditure of SF1 171 million in 1970. The share of current expenditure was relatively stable over the five-year period, declining slightly from 72 per cent to 70 per cent of the total. Wages and salaries constitute the largest element of current expenditure, but their share has declined somewhat in recent years from 65 per cent of the total in 1970 to 57 per cent in 1975. It should be noted, however, that the figures are not fully comparable from 1973 onwards because of the transfer of the accounts of some government enterprises from the central government budget. The effect of this transfer is a reduction in the figures for wages and purchases of goods and services compared with earlier years, and an increase in transfer payments from the public sector in the form of subsidies to these enterprises.

Real investment, which accounts for a large share of total capital expenditure, amounted to 85 per cent in 1975. Financial investment, which was quite minimal in 1970, is of increasing importance and accounted for 12 per cent of capital expenditure in 1975.

As regards expenditure broken down by functional classification, community services (which include public utilities and infrastructure) are the most important item in both current and capital expenditure and amounted to about 35 per cent in 1975. Social services, which accounted for 25 per cent of the total in 1975, are particularly important in current expenditure.

The surpluses or deficits on Government current account shown in the table should be interpreted with caution, since current revenue is generally attributed to the year in which funds are received, while expenditure is attributed to the year in which it is incurred, provided payment is made by the following year. It may be observed that there was a surplus on current account in every year of the period under review, except in 1973 when there was a deficit of SF1 13 million.

A major source of financing for the budget is the Government of the Netherlands, which provides funds for capital expenditures. These funds averaged SF1 38 million annually between 1970 and 1974, and such financing will continue over the next 10 to 15 years.

/Notwithstanding the

Notwithstanding the Dutch commitment to maintain financial support, a major problem with which the Government has had to contend is that of ensuring sufficient revenues for the future. Since the country is now independent it must arrange for its own funding. At present international trade provides a significant part of the revenue, but duties are already high and their average level probably cannot be increased significantly. At the same time there is incentive legislation which provides in some cases for customs exemptions and/or income tax concessions. Furthermore, income tax receipts have been declining recently.

Faced with these realities the Government followed the example of Jamaica and other bauxite producers in the Caribbean and introduced a Bauxite Levy in 1974. It was expected that average annual receipts would be in the vicinity of SF1 90 million per year, but because of lower bauxite output in 1975 and 1976 actual collections were lower.

The duty to be paid is calculated by means of a price formula based on the exports of bauxite and the bauxite equivalents of the alumina and aluminium exported, with a fixed percentage (6 per cent) of the world market price of aluminum, considered as being not less than 0.35 dollars per pound. Corporate income tax of the bauxite companies is deductible from this amount. This arrangement was due to expire at the end of 1975 and negotiations were to be conducted to arrive at a new arrangement. The outcome of these negotiations is not yet known.

The public debt increased by 46 per cent from approximately SF1 166 million to SF1 241 million between 1970 and 1974, representing a growth rate of about 10 per cent per annum (see table 21). Up to 1974 debts owing to foreigners accounted for the major share (about 87 per cent). In 1975, however, there was a sharp decline in the external debt from SF1 210 million to SF1 22 million. As explained earlier, this substantial decline resulted from the cancellation of debts owing to the Netherlands. Since then domestic sources of debt financing have become relatively more important and are likely to increase in the future.

Table 21

SURINAM: GOVERNMENT DEBT

(End-year figures, in millions of Surinam guilders)

	1970	1971	1972	1973	1974	1975
<u>Total external debt</u>	<u>152</u>	<u>157</u>	<u>188</u>	<u>197</u>	<u>211</u>	<u>22</u>
Government	122	128	161	173	191	1
International organizations	2	3	3	3	-	-
Private sector	28	26	24	21	20	21
<u>Total domestic debt</u>	<u>14</u>	<u>18</u>	<u>21</u>	<u>31</u>	<u>30</u>	<u>28</u>
<u>Total debt</u>	<u>166</u>	<u>175</u>	<u>209</u>	<u>229</u>	<u>241</u>	<u>50</u>

Source: Central Bank of Surinam.

/TRINIDAD AND TOBAGO

## TRINIDAD AND TOBAGO

### 1. The overall picture

Crude estimates of the gross domestic product at current factor cost show a rise of 16 per cent in 1976, compared to a 32 per cent rise in the previous year. Taking into account the trends suggested by the output and price indicators, this means that there was some real growth in the economy during the year. However, the unemployment level remained chronically high at an estimated 15 per cent (see table 1).

Three factors seem to have had the greatest impact on the economy during the year: output and price trends in the sugar industry, developments in petroleum extraction and refining, and the behaviour of retail prices.

Sugar-cane output increased by approximately 30 per cent and, although yields were somewhat lower, sugar production increased by about 25 per cent. On the other hand, average sugar export prices declined drastically (by about 45 per cent) - this situation tended to depress the contribution of the agricultural sector during the year.

Output of petroleum remained at approximately the same level as the previous year, but petroleum refining increased substantially and this helped the sector to achieve some growth in 1976.

Retail prices are estimated to have risen by nearly 14 per cent during the year. Contrary to earlier years, food prices showed relatively minor increases and tended to restrain the upward movement of the price index.

Non-sugar agriculture and construction tended to be somewhat depressed, but the manufacturing sector and some services sectors were quite buoyant. Construction activity was supported mainly by public sector expenditure on infrastructure and industrial development projects.

/Table 1

Table 1  
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of current Trinidad and Tobago dollars)	1 981	2 358	3 310	4 368	5 068
Population (thousands of inhabitants)	976	987	998	1 009	1 020
Per capita gross domestic product (current Trinidad and Tobago dollars)	2 030	2 389	3 317	4 329	4 969
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product (at current prices)	11.5	19.0	40.4	32.0	16.0
Per capita gross domestic product (at current prices)	9.7	17.7	38.8	30.5	14.8
Terms of trade	-8.6	21.0	26.0	-1.8	-10.5
Value of exports of goods and services	12.3	25.1	159.8	-21.8	21.6
Value of imports of goods and services	14.0	4.5	123.6	-15.4	33.2
Consumer price index <sup>b/</sup>	9.3	14.8	22.0	17.0	11.4 <sup>c/</sup>
Wages and salaries <sup>d/</sup>	12.9	10.4	11.9	22.7	30.4 <sup>e/</sup>
Rate of unemployment <sup>f/</sup>	..	15.5	15.5	15.0	15.0
Current income of government	15.1	18.2	136.5	26.5	18.9
Total expenditure of government	19.0	3.7	57.0	18.5	19.3
Fiscal surplus/total expenditure of government	9.7 <sup>g/</sup>	3.0	55.1	65.6	65.1
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	-88.6	70.0	500.3	265.8	131.0
Balance on current account	-155.4	-19.3	279.9	-31.0	-253.0
Variation in net international reserves	-13.0	-7.0	333.0	457.0	263.0

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Annual average variation.

c/ January - October.

d/ Minimum wage for manual laborers.

e/ May 1976 compared to May 1975.

f/ Percentage.

g/ Deficit.

/There was



There was considerable liquidity in the economy which, no doubt, contributed to the maintenance of strong consumer demand. Available data indicate that instalment credit and loans and advances of commercial banks increased quite substantially. Government spending also continued to rise very rapidly.

The cumulative impact of the developments noted above is reflected in the surplus on external transactions. Both imports and exports increased significantly, but imports increased at a faster rate so that, although there was a very substantial visible trade surplus, it is estimated to be lower than in 1975. The surplus was more than offset by the substantially enlarged deficit on the services account, but with the rise in net capital inflows the balance of payments and foreign exchange reserves were augmented by some \$ 260 million by the end of 1976.

In order to arrest the continued depreciation of the national currency, the Government untied the Trinidad and Tobago dollar from the pound sterling and established a fixed rate in terms of the US dollar (TT\$2.40 = US\$1.00) on 28 May 1976. Establishment of this fixed rate should have slightly reduced the influence of imported inflation from US dollar areas, while at the same time it should have added a degree of stability in external transactions.

During 1976, the Government remained concerned with the problem of reconciling the need for more rapid growth in the economy with that of alleviating the high levels of unemployment against a background of rising prices.

Recognizing the urgent need to reduce unemployment levels, provide jobs for new entrants into the labour force, and raise skill levels, the Government has encouraged wider use of youth training camps and vocational schools and instituted an apprenticeship programme in private and public enterprises. These measures are expected to increase the number and raise the level of skilled personnel. Other fiscal measures introduced to benefit persons in the lower income groups included reduced taxes and increased subsidies on a wide range of mass consumption items.

/Considerable emphasis

Considerable emphasis has also been placed on expanding and improving education and health facilities in a continued effort to improve the quality of life.

Because of its awareness that international shortages can affect the country's domestic economy, the Government has proclaimed as one of its objectives the attainment of greater economic self-reliance. The strategy to achieve this goal includes more meaningful participation by the population in the control and ownership of the means of production; in unison with private foreign capital and technology. Meanwhile, attempts at diversifying the country's production structure have continued.

## 2. Sectoral trends

### (a) Agriculture

Crude estimates show that the agricultural product grew in current values by 5 per cent with respect of 1975 (see table 2). Agriculture's relative share of the total GDP fell to slightly over 5 per cent, compared with nearly 6 per cent in the previous year. The partial data show mixed trends in the quantum of agricultural output, but there are indications that the sector did expand in real terms.

The increase in the current value of the product is attributable mainly to higher output of sugar-cane and, to a lesser extent, better prices for some commodities. In the export sub-sector, the volume of sugar cane production improved by over 30 per cent under the influence of relatively fine weather conditions and uninterrupted harvesting (see table 3). Moreover, the price paid to farmers per ton of sugar cane remained at the 1975 level in spite of a dramatic fall in world sugar prices.

Table 2

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	In millions of Trinidad and Tobago dollars			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	180	247	259	7.7	5.1	58.6	31.4	4.9
Mining	1 024	1 575	1 637	21.1	32.3	33.2	63.0	3.9
Manufacturing	487	555	677	18.9	13.4	16.2	14.0	22.0
Construction	166	216	293	4.4	5.8	33.3	30.1	35.0
<u>Subtotal goods</u>	<u>1 865</u>	<u>2 593</u>	<u>2 866</u>	<u>52.1</u>	<u>56.6</u>	<u>55.7</u>	<u>39.0</u>	<u>10.5</u>
Services	1 445	1 775	2 202	47.9	43.4	23.9	22.8	24.1
<u>Total gross domestic product</u>	<u>3 310</u>	<u>4 368</u>	<u>5 068</u>	<u>100.0</u>	<u>100.0</u>	<u>40.4</u>	<u>32.0</u>	<u>16.0</u>

Source: Government of Trinidad and Tobago, Draft Third Five-Year Plan, 1969-1973, and estimates prepared by CEPAL.

<sup>a/</sup> Preliminary figures.

Table 3  
TRINIDAD AND TOBAGO: INDICATORS OF AGRICULTURAL PRODUCTION

		1973	1974	1975	1976	January-June		Annual growth rates		
						1975	1976	1974	1975	1976
Sugar cane	(Mln. Tons)	2.0	1.9	1.7	2.2	...	...	-1.7	-12.0	30.4
Cocoa beans	(Mln. Lbs)	7.0	9.2	11.6	5.1	...	...	31.6	25.9	-55.9
Coffee beans <u>a/</u>	(Mln. Lbs)	6.0	4.3	8.9	8.9	...	...	-28.6	107.4	0.3
Oranges	(Mln. Lbs)	1.6	24.7	6.6	14.8	...	...	1486.6	-73.3	125.6
Grapefruit	(Mln. Lbs)	9.8	39.0	13.8	17.8	...	...	499.0	-64.6	28.8
Citrus juices	(Mln. Gals)	0.3	2.1	0.7	1.2	...	...	585.0	-69.4	89.6
										<u>January-June</u>
Beef and veal	(Mln. Lbs)	3.4	3.2	2.7	...	1.4	1.4	-6.0	-16.4	-1.5
Pork	(Mln. Lbs)	5.3	4.4	3.5	...	1.4	2.2	-18.2	-20.6	55.6
Mutton	(Mln. Lbs)	0.1	0.1	0.1	...	...	0.1	10.3	-0.8	60.4
Poultry <u>b/</u>	(Mln. Lbs)	40.1	43.1	59.6	...	30.7	24.0	7.5	38.4	-22.0
Eggs <u>c/</u>	(Mln. Doz)	3.9	3.6	4.1	...	2.0	1.8	-9.3	13.9	-11.8
Fish <u>d/</u>	(Mln. Lbs)	6.7	6.0	6.6	...	3.0	2.9	-11.1	10.7	-2.6
Milk <u>e/</u>	(Mln. Gal)	1.6	1.6	1.7	...	0.9	0.7	0.6	6.4	-19.6
Tobacco	(Mln. Lbs)	0.7	0.7	0.6	...	0.4	0.3	-6.0	-8.4	-33.3
Copra	(1000 Tons)	11.6	6.6	8.8	...	4.1	4.5	-43.2	33.3	9.8

Source: Central Statistical Office, Trinidad, Quarterly Economic Report (several issues); Quarterly Agricultural Report, April-June 1976, Vol. 3, No 2; Central Bank of Trinidad and Tobago, Statistical Digest, Vol. IX, No 11; Co-operative Citrus Growers Association of Trinidad and Tobago, Ltd; Sugar Manufacturers Association.

a/ Deliveries to principal exporters.

b/ Live weight of poultry.

c/ Commercial production only.

d/ Delivered to principal markets.

e/ Principal producers only.

/As regards

As regards the other major export crops, available data on the output of cocoa point to a significant drop in 1976, but export prices were higher. Production of citrus fruits increased significantly over 1975, but was still below the 1974 level. Coffee output was at about the same level as the previous year, but export prices were higher.

In that part of the sector producing for domestic consumption, prices remained relatively high for most commodities but the overall performance was mixed. Bad weather adversely affected vegetable and root crop production. Vegetable production was probably lower in 1976 than in 1975, although root crops should have increased somewhat.

Definitive data for the first six months of 1976 show a decline in the output of tobacco, beef and veal, poultry and eggs as compared with the same period of 1975, but the volume of output of pork, mutton and copra increased (see table 3).

(b) Mining and refining

The high rate of expansion in mining and refining activity that had been forecast for 1976 did not materialize, and preliminary estimates indicate an increase in the sectoral GDP of only 4 per cent (see table 2). However, mining and refining remains the dominant sector and accounts for about 32 per cent of the country's total GDP.

Partial data on the volume of crude petroleum output indicate only a slight increase over the 1975 figure. Extraction of crude oil and natural gas from the country's major offshore field came to a halt during the year as the result of a disastrous fire. It was estimated that it would take between six to eight months to restore fully the previous level of output, which averaged 127,000 barrels daily. A substantial portion of the restoration work was completed by year-end, and production was returning to normal levels.

Judging from the improvement in sales of natural gas in the first nine months of 1976 (see table 4), both production and sales are expected to exceed their 1975 level. The implementation of various energy-based projects will increase the future demand for natural gas.

The downward trend in imports of crude petroleum since 1972 was reversed in 1976, when the estimated volume of imported crude was approximately 86 million barrels, equivalent to a 48 per cent rise. Since exports of indigenous crude are not expected to have exceeded the 1975 level, a significantly larger quantity of crude oil was therefore available for refining in 1976. Available data show that the volume of both refinery throughput and refinery output for the first nine months of 1976 exceeded the figures for the whole of 1975 (see table 4).

It is interesting to note that dry-land petroleum extraction operations, which had been showing a downward trend since 1971, have recently been given a "shot in the arm" by legislation approved in October 1976 which provides for the refunding of part of the taxes levied on operating companies in order to provide an incentive to improve land petroleum production. This legislation also had the aim of generating increased employment opportunities.

(c) Manufacturing

Partial data indicate considerable dynamism in this sector during 1976, when the sectoral GDP at current prices is estimated to have increased by roughly 22 per cent (see table 2).

It is apparent that there was growth in real terms as well, for the index of manufacturing production at mid-1976 was 18 per cent higher than the figure for the comparable period of 1975 (see table 5). Nevertheless, it is estimated that the average annual index for 1976 was actually about 12 per cent higher than in 1975. Up to June 1976, all the index components showed increases except building and materials.

Table 4

TRINIDAD AND TOBAGO: INDICATORS OF MINING AND REFINING PRODUCTION

	1973	1974	1975	1976	January- September		Annual growth rates		
					1975	1976	1974	1975	1976 <sup>a/</sup>
					Indicators of oil production and refining (millions of barrels)				
Crude petroleum production	60.6	68.1	78.6	...	58.4	57.3	12.4	15.4	-1.9
Crude imports	102.2	95.5	58.1	...	38.2	63.4	-6.6	-39.2	66.0
Crude exports	23.5	31.8	48.8	...	35.9	32.6	35.3	53.5	-9.2
Refinery throughput	141.7	130.3	85.7	...	59.1	89.4	-7.7	-34.7	51.3
Refinery output	135.8	127.1	82.9	...	57.2	86.3	-6.4	-50.9	50.9
Natural gas sales (millions of m <sup>3</sup> )	948.7	853.7	946.3	...	679.2	774.1	-5.3	5.3	14.0

Source: Ministry of Finance, Review of the Economy, 1976.

a/ January - September.

/Large increases

Large increases were recorded in wood products, metal products, assembly goods, chemical products and miscellaneous manufacturing industries. The rise in the output of assembly goods marks a recovery from the severe slump which has plagued the industry since 1973.

Table 5 also gives additional data confirming the upward trend in output for some of the more important products. During the first eight months of 1976 the output of assembly industries (radios, televisions and motor vehicles, etc.) increased significantly, while fertilizer production showed signs of strong recovery after three successive years of decline. Food and beverages, including edible oils and fats, also showed substantial increases in 1976.

The improvement in the sector's performance is attributable to increases in consumer demand, a calmer industrial climate and the relative stability of raw material prices.

(d) Construction

International shortages of building materials and the concomitant high prices, together with critical shortages of domestic supplies, continued to plague the construction sector. Thus, although there was an increase in gross domestic product at current prices, it is estimated that there was little or no real growth during 1976 (see table 2).

The principal impetus during 1976 came from the public sector through its programmes of school construction, expansion of the main road network, and participation in new industrial investment activities involving construction work.

Firm data on two major domestic inputs for the construction industry indicate a downward trend in the quantities available. Thus, as at August 1976 there was a 6 per cent decline in the output of both cement and bricks and blocks compared with the corresponding period in 1975 (see table 5). Building plans approved during the first half of 1976 also showed a decline in floor space compared with January-June 1975 (see table 6). Part-year data show the value of imports of



Table 5  
TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION

	1973	1974	1975	1976	1975	1976	Annual growth rates		
							1974	1975	1976
					<u>June</u>				<u>June</u>
<b>1. Index of total manufacturing production a/</b>	<u>108.9</u>	<u>115.6</u>	<u>119.0</u>	...	<u>112.4</u>	<u>132.3</u>	<u>6.1</u>	<u>2.9</u>	<u>17.7</u>
Food processing b/	110.0	130.6	146.9	...	143.1	156.9	18.7	12.5	9.6
Drinks and tobacco	124.6	133.2	134.5	...	135.2	146.4	6.9	1.0	8.3
Textiles	69.4	78.9	77.6	...	84.4	90.6	13.7	-1.6	7.3
Printing and publishing	132.5	145.0	118.3	...	105.8	112.4	9.4	-18.4	6.2
Wood products/mattresses	69.8	75.7	76.9	...	53.0	89.6	8.5	1.6	69.1
Chemical products	87.5	88.6	93.9	...	79.8	97.5	1.3	6.0	22.2
Building materials	110.7	101.2	98.7	...	103.4	100.0	-3.6	-2.5	-3.3
Assembly	128.6	112.6	119.3	...	103.1	140.3	-12.4	6.0	36.1
Metallic products	131.6	138.9	158.6	...	125.9	222.6	5.5	14.2	76.9
Miscellaneous	115.0	117.7	140.1	...	128.4	165.1	2.3	19.0	28.6
<b>2. Production of some important manufactures</b>					<u>January-August</u>				<u>January August</u>
<b>A. In millions of units</b>									
Rum (proof gals)	2.4	4.3	3.8	...	2.1	2.3	77.6	-11.6	7.8
Beer and stout (gals)	5.2	4.5	5.4	...	3.0	3.3	-13.2	19.4	27.5
Tobacco and cigarretes (lbs)	2.0	1.8	2.1	...	1.0c/	1.2c/	-11.8	18.5	10.3
Edible oil (gals)	2.0	1.3	1.3	...	0.7c/	1.0c/	-34.5	33.7	39.0
Margarine and lard (lbs)	14.1	16.4	14.6	...	6.8d/	9.0d/	16.4	-11.0	31.3
Soap (lbs)	13.1	11.8	14.1	...	8.1	8.4	-9.9	19.0	3.7
Bricks and blocks	25.3	25.0	20.1	...	13.1	12.3	-2.9	-19.7	-6.1
<b>B. In thousands of units</b>									
Sugar (tons)	161.0	183.0	160.0	200.0	...	...	1.1	-12.6	25.0e/
Cement (tons)	242.0	238.0	255.0	...	173.0	162.0	-4.4	7.1	-6.4
Fertilizers (short tons)	459.0	411.0	381.0	...	233.0	246.0	-10.5	-7.3	5.6
<b>Assembly (thousands of units)</b>									
Motor vehicles	9.0	6.0	8.0	...	5.1	7.6	-33.2	33.4	50.1
Radios and TV's	33.5	25.1	27.2	...	14.5	20.3	-25.1	8.2	40.4
Gas cookers	15.4	9.1f/	...	...	...	...	-40.0	...	...
Refrigerators	20.7	16.5f/	...	...	...	...	-20.5	...	...

Source: Central Statistical Office, Trinidad, Economic Indicators, October-December 1975, April-June 1976; Quarterly Economic Report, January to March 1976; Central Bank of Trinidad and Tobago, Statistical Digest, September 1976, Ministry of Finance, Review of the Economy 1976, and data supplied to CEPAL.

a/ Data exclude oil, sugar, and ship and boat building.

b/ Exclude sugar.

c/ January - June.

d/ January - July.

e/ Annual.

f/ January - November

Table 6

TRINIDAD AND TOBAGO: INDICATORS OF CONSTRUCTION ACTIVITY

	1973	1974	1975	1976	January-June		Annual growth rates		
					1975	1976	1974	1975	Jan. June 1976
<u>Approved building plans</u>									
<u>Dwelling houses a/</u>									
Nº of plans	3 112	2 995	2 322	...	1 240	1 202	-3.8	-22.5	-3.1
Floor space ('000 sq.ft.)	3 721	3 652	3 104	...	1 622	1 666	-1.9	-15.0	2.7
<u>Commercial and industrial</u>									
Nº of plans	61	57	49	...	33	25	-6.6	-14.0	-24.2
Floor space ('000 sq. ft.)	391	238	330	...	202	121	-39.1	38.8	-39.9
<u>Other building</u>									
Nº of plans	197	105	85	...	43	51	-46.7	-19.0	18.6
Floor space ('000 sq. ft.)	529	332	311	...	160	139	0.9	-6.4	-13.1
<u>Total</u>									
Nº of plans	3 280	3 157	2 456	...	1 313	1 270	-3.7	-22.2	-3.0
Floor space ('000 sq. ft.)	4 441	4 222	3 375	...	1 984	1 926	-4.9	-11.3	-3.0

Source: Central Statistical Office, Trinidad; Quarterly Economic Report, October-December 1975, and data supplied to CEPAL.

a/ Dwelling houses include also private dwellings combined with commercial or industrial building.

/construction materials

construction materials increasing at a faster rate in 1976 than in 1975, although it is true that these values also include capital equipment. Imports were expected to continue to expand throughout the year in order to offset some of the domestic shortages.

Construction costs maintained their upward trend during the year. The index of retail prices of building materials increased by 15 per cent during the January-October period, while the index of minimum wage rates for manual industrial workers showed an increase of 30 per cent as of May 1976, compared with the figure for the corresponding period of 1975 (see tables 13 and 14).

The implementation of construction projects in both the private and public sub-sectors has been delayed not only by general supply shortages, but also by industrial problems dating back to 1975. Another problem is that the construction sector is hampered by low productivity. There is also a conspicuous shortage of trained personnel at the various levels of the industry and this will clearly be a severe obstacle to major projects that are due to be implemented shortly.

Because of these problems, it has become necessary to award more contracts to foreign firms. It should be mentioned, however, that plans are being formulated for the local university and other training institutions to provide places for additional trainees for top and middle-level management positions in the industry.

### 3. The external sector

Available data for 1976 indicate a strong upward trend in the country's external trade transactions compared with 1975. Imports, however, increased faster than exports as the corresponding rates of growth were 34 per cent and 22 per cent, respectively (see table 7). As a result, the surplus on merchandise trade, approximately 245 million dollars, was 27 per cent less than that recorded in 1975 (see table 8).

Table 7

TRINIDAD AND TOBAGO: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Annual growth rates)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<u>Exports of goods</u>					
Value	12.2	20.9	202.9	-21.9	22.0
Volume	16.5	-7.4	1.4	-29.0	30.0
Unit value	-3.7	30.6	198.5	10.0	-6.0
<u>Imports of goods</u>					
Value	15.3	2.4	135.0	-18.9	34.0
Volume	9.4	-5.1	-0.8	-27.6	28.0
Unit value	5.4	8.0	137.0	12.0	5.0
<u>Terms of trade</u>	-8.6	21.0	26.0	-1.8	-10.5

Source: CEPAL, on the basis of official data.

a/ Preliminary estimates.

Table 8  
TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS  
(Millions of US dollars)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>Current account</b>					
Exports of goods and services	754	950	468	1 931	2 349
Goods FOB	596	720	2 180	1 704	2 079
Services	158	230	288	227	270
Transport	93	98	174	148	170
Travel	51	59	66	58	65
Imports of goods and services	842	880	1 968	1 665	2 218
Goods FOB	701	718	1 687	1 368	1 834
Services	141	162	281	297	384
Transport	107	97	191	170	259
Travel	27	24	26	31	30
Net payments of profits and interest					
on foreign capital	-69	-87	-213	-285	-377
Profits	-67	-80	-112	-201	-280
Interest	-2	-7	-101	-84	-97
Net private transfer payments	2	-2	-7	-12	-7
Balance on current account	-155	-19	280	-31	-253
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	155	19	-280	31	253
(a) Net external non-compensatory capital	100	65	38	216	} 516
Direct investment	87	66	85	223	
Long- and medium-term loans	24	34	46	30	
Amortization payments	-5	-39	-78	-35	
Short-term liabilities (net)	-	11	-6	7	
Official transfer payments	-6	-7	-9	-9	
(b) Domestic non-compensatory capital or assets	8	4	-24	5	
(c) Errors and omissions	27	-57	39	267	
(d) Allocation of SDRs	7	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	13	7	-333	-457	-263
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	...
Amortization payments	-	-	-	-	...
Variation in net international reserves	13	7	-333	-457	...
Foreign exchange (minus sign signifies an increase)	13	-1	-326	-440	...
Gold (minus sign signifies an increase)	-	8	-6	-17	...
SDRs (minus sign signifies an increase)	-	-	-1	-	...

Source: 1972-1975: IMF, *Balance of Payments Yearbook*, Vol. 27;  
1976: CEPAL, estimates based on official statistics.

a/ Preliminary figures.

/The increase

The increase in the value of exports in 1976 was spread over nearly all major product groups, but was especially important in the case of fuels, lubricants and related items, as shown in table 9.

The growth of exports reflected increased volume, as the average unit value of exported goods declined by 6 per cent. The export prices for most agricultural commodities declined, the fall being exceptionally acute for sugar. There was, however, a sizeable rise in the volume of sugar exported, and the quantum of some other agricultural exports such as citrus fruits was also higher. With regard to petroleum products, there was a sharp rise in the volume of exports of refined petroleum, while the quantum of crude exports showed little change with respect to the previous year.

The growth of imports was stimulated by a large rise in the value of imported mineral fuels, lubricants and related items; whose value up to September 1976 was more than double that for the corresponding period of 1975 (see table 10). Other large increases were recorded in machinery and transport equipment, chemicals, and miscellaneous manufactured articles. Most of the rise in imports reflected increased volume, as the average unit prices rose by a relatively modest 5 per cent. As a result, there was an 11 per cent deterioration in the terms of trade (see table 7).

It should be noted that the buoyancy of both exports and imports of mineral fuels and lubricants is attributable largely to the strong recovery of refinery activity under the Petroleum Processing Agreement. By July 1976, imports of crude and exports of refined petroleum products under this Agreement were almost at the level achieved for the entire year 1975 (see table 11).

The traditional deficit on service transactions showed a substantial rise in 1976 (see table 8). The deficit on non-factor services rose by 62 per cent, reflecting mostly the effects of higher transport costs. Net payments for factor services rose by nearly one-third, largely on account of increased remittances of profits on foreign capital.

Table 9

TRINIDAD AND TOBAGO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of Trinidad and Tobago dollars at current prices						Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976	January- September		1973	Jan.- Sept. 1976	1974	1975	Jan.- Sept. 1976
					1975	1976					
<u>Main export products</u>											
Fuels and Lubricants	1 130	3 760	3 376	...	2 289	3 626	82.2	90.3	232.7	-10.2	58.4
<u>Other exports</u>	<u>246</u>	<u>406</u>	<u>503</u>	...	<u>396</u>	<u>392</u>	<u>17.9</u>	<u>2.7</u>	<u>65.0</u>	<u>23.9</u>	<u>-1.0</u>
Food, beverages and tobacco	96	171	248	...	211	136	7.0	4.6	78.8	44.8	-12.3
Chemicals	76	140	137	...	105	120	5.5	3.0	86.4	-2.8	15.1
Other	74	95	118	...	80	86	5.4	2.1	28.4	24.2	7.5
<u>Total</u>	<u>1 376</u>	<u>4 166</u>	<u>3 879</u>	...	<u>2 685</u>	<u>4 018</u>	<u>100.0</u>	<u>100.0</u>	<u>203.0</u>	<u>-6.9</u>	<u>49.6</u>

Source: Central Statistical Office, Trinidad, Annual Overseas Trade Report, 1974; Bi-monthly Overseas Trade Report, February 1976, Vol. 26, No 1, and data supplied to CEPAL.

Table 10  
TRINIDAD AND TOBAGO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of Trinidad and Tobago dollars at current prices					Percentage breakdown		Annual growth rates		
	1973	1974	1975	January- September		1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>b/</sup>
				1975	1976					
Fuels and lubricants	794	2 716	1 640	1 014	2 074	50.7	57.7	242.2	-39.6	104.5
Food, beverages and tobacco	172	263	303	215	257	11.0	7.2	52.6	15.1	19.3
Chemicals	76	116	150	115	137	4.9	3.8	53.5	28.8	19.7
Manufactured items	486	629	1 095	824	1 069	31.1	29.7	29.3	74.1	29.9
Other imports	36	53	56	41	58	2.3	1.6	49.0	5.6	38.5
<u>Total</u>	<u>1 564</u>	<u>3 778</u>	<u>3 245</u>	<u>2 209</u>	<u>3 594</u>	<u>100.0</u>	<u>100.0</u>	<u>141.5</u>	<u>-14.1</u>	<u>62.7</u>

Source: CEPAL, on the basis of official statistics.

a/ January-September.

b/ Variation between January-September 1971 and the corresponding period of 1975.



Table 11

TRINIDAD AND TOBAGO: TOTAL TRADE AND PETROLEUM TRADE UNDER PROCESSING AGREEMENT

(Millions of Trinidad and Tobago dollars)

	Imports			Exports			Net exports minus net imports
	Total	Petroleum under processing agreement	Net	Total	Petroleum under processing agreement	Net	
1969	969	487	482	950	447	503	+21
1970	1 037	530	557	963	476	487	-70
1971	1 329	625	705	1 042	573	469	-236
1972	1 471	667	805	1 072	547	525	-280
1973	1 557	762	792	1 375	684	692	-103
1974	3 778	2 689	1 089	4 166	2 398	1 768	+679
1975	3 244	1 629	1 615	3 878	1 698	2 181	+565
1975							
January- June	1 193	429	763	1 612	580	1 032	+269
1976							
January- June <u>a/</u>	2 485	1 419	1 066	2 824	1 439	1 385	+318
1976							
January- July <u>a/</u>	2 828	1 613	1 215	3 221	1 642	1 579	+364

Source: Central Statistical Office, Trinidad, Overseas Trade Report (several issues); Overseas Trade, Bi-monthly Report, Vol. 25, N<sup>o</sup> 3, June 1975 and Vol. 26, N<sup>o</sup> 3, June 1976; and data supplied to CEPAL.

a/ Preliminary figures.

/The smaller

The smaller merchandise trade surplus in 1976, coupled with the marked rise in the deficit on service transactions, resulted in a dramatic deterioration of the current account position. Whereas a surplus of 31 million dollars was recorded in 1975, the current account showed a deficit of 253 million dollars in 1976. The net inflow of capital, however, was very substantial and the overall balance of payments ended up in surplus to the extent of 263 million dollars. This marked the third consecutive year in which a large overall payments surplus was realized.

Trade with the CARICOM area continued to increase in importance during 1976. In value terms, imports from the area increased, by just under 60 per cent (see table 12). Trinidad's exports to the area which are traditionally larger than its imports from it, rose by 28 per cent between September 1975 and September 1976.

#### 4. Prices and wages

Part-year data on retail prices for 1976 point to a slackening in the rate of inflation for the second successive year. Between January and October 1976, the All Items Index of Retail Prices showed an 11 per cent increase compared with the first ten months of 1975 (see table 13). For the full year 1976 it is estimated that the index rose by around 14 per cent, compared with the 17 per cent increase of 1975.

Medical goods and services, housing maintenance, education and transportation showed the largest increases. The higher cost of clothing also gave the index a fairly strong upward push, but in contrast with previous years the heavily weighted food group exercised a restraining influence on the overall index (see table 13).

Table 12  
 TRINIDAD AND TOBAGO: TRADE WITH CARIBBEAN COUNTRIES  
 (Millions of Trinidad and Tobago dollars)

	Imports					Exports				
	1973	1974	1975	January-September		1973	1974	1975	January-September	
				1975	1976				1975	1976
<u>Total</u>	<u>40.1</u>	<u>61.8</u>	<u>91.4</u>	<u>54.4</u>	<u>87.0</u>	<u>150.7</u>	<u>289.2</u>	<u>346.4</u>	<u>162.5</u>	<u>208.6</u>
Jamaica	10.3	25.0	36.0	22.7	32.8	40.6	92.2	118.5	33.4	35.2
Guyana	10.1	22.5	35.9	19.6	32.2	49.4	99.4	120.4	60.2	77.0
Barbados	7.4	9.7	13.4	8.4	12.6	24.2	45.7	45.8	28.7	39.2
ECGI countries	3.3	4.9	5.3	3.2	7.5	36.3	51.4	60.3	36.0	56.8
Belize	0.5	0.3	0.2	0.5	0.9	0.2	0.5	0.9	0.2	0.4

Source: Central Statistical Office, Trinidad, Annual Overseas Trade Report and Bi-monthly Overseas Trade Report (various issues), and data supplied to CEPAL.

Table 13  
 TRINIDAD AND TOBAGO: EVOLUTION OF DOMESTIC PRICES  
 (Annual average variation)

	1972	1973	1974	1975	January- October 1976
Retail price index	9.3	14.8	22.0	17.0	11.4 <sub>a/</sub>
Food	11.5	19.0	30.0	16.9	7.7 <sub>a/</sub>
Building materials	8.1	15.9	34.2	23.4	14.8 <sub>b/</sub>

Source: Central Statistical Office, Trinidad, Quarterly Economic Report, April-June 1976; Economic Indicators, April-June 1976, and data supplied to CEPAL.

a/ The index for January-October 1976 is not fully comparable with indexes for earlier periods owing to the introduction of a new index system. The indexes are however linked at September 1975 for comparison with earlier years.

b/ Percentage change over the 12 months ending May 1976.

Table 14  
 TRINIDAD AND TOBAGO: EVOLUTION OF MINIMUM WAGES OF MANUAL WORKERS<sup>a/</sup>  
 (Annual growth rates)

Year	Minimum wage index <sub>a/</sub>
1974	11.9
1975	22.7
1975 (May) <sub>b/</sub>	20.0
1976 (May) <sub>b/</sub>	30.4

Source: Central Statistical Office, Trinidad, Quarterly Economic Report, April - June 1976.

a/ Data for average of May and November for manual workers.

b/ Percentage change over 12 months.

The relatively small change in food prices was partly the result of continued vigilance by the Government in monitoring the prices of food items as well as providing subsidies on a fairly wide range of food items. In addition, the revaluation of the Trinidad dollar and the establishment of a fixed rate of exchange vis-à-vis the US dollar in late May 1976 had a stabilizing effect on the rate of price increases. Previously, the Trinidad dollar had been floating downward with the pound sterling.

The level of wages and salaries rose again during 1976 under the impact of rising prices and the increased bargaining power of labour unions. By August 1976 about 74 major new industrial labour agreements had been finalized, compared with 138 during 1975. Major wage agreements tend to be of three years' duration, so that during 1976 a large proportion of the wage agreements negotiated in 1974 were still in force. The index of minimum wage rates for manual workers in all industries rose by 30 per cent between May 1975 and May 1976, compared with 20 per cent, for the 12-month period ending in May 1975 (see table 14).

##### 5. Fiscal and monetary policy

Budgetary data indicate that the Government's fiscal position remained very strong in 1976. Revenues, once again stimulated by the petroleum sector, showed good growth, and although expenditures rose somewhat more sharply than in 1975, the fiscal surplus expanded by 18 per cent to a record 830 million Trinidad and Tobago dollars. As in the two previous years the surplus resources were channelled into special funds for later use in the Government's industrial development programme (see table 15).

As for the country's monetary indicators, they continued to be expansive. The supply of money rose by 47 per cent in 1976, a rate only marginally less than that recorded in the previous year. The average rate for 1971-1973 was 11 per cent.

Table 15

TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of Trinidad and Tobago dollars)

	Current values				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976
<b>1. Current income</b>	591	1 398	1 769	2 104	136.5	26.5	18.9
Income tax	257	987	1 397	1 725	284.0	41.5	23.5
Other revenue <sup>b/</sup>	334	411	372	379	23.1	-9.5	1.9
<b>2. Current expenditure</b>	434	624	760	893	43.8	21.8	17.5
General services	103	150	197	268	45.6	31.3	36.0
Community services	27	33	41	47	22.2	24.2	14.6
Social services	174	236	294	340	35.6	24.6	15.6
Education	(31)	(119)	(136)	(171)	(46.9)	(14.3)	(25.7)
Health	(51)	(66)	(82)	(91)	(29.4)	(24.2)	(11.0)
Housing	(1)	(2)	(3)	(4)	(100.0)	(50.0)	(33.3)
Economic Services	49	96	(98)	106	95.9	(2.1)	(8.2)
Agriculture	(27)	(36)	(38)	(41)	(33.3)	(5.6)	(7.9)
Transport and communications	(14)	(13)	(19)	(21)	(35.7)	-	(10.5)
Other	79	109	131	134	38.0	20.2	2.3
<b>3. Savings on current account</b>	157	774	1 009	1 211	393.0	30.4	20.0
<b>4. Capital expenditure</b>	140	277	303	381	97.9	11.1	23.7
Capital development programme	104	154	216	293	(48.1)	(40.3)	(38.0)
Other	36	123	92	83	241.7	-25.2	-9.8
<b>5. Total expenditure (2+4)</b>	574	901	1 068	1 274	57.0	18.5	19.3
<b>6. Fiscal surplus (1-5)</b>	17	497	701	830	2 823.0	41.0	18.4
<b>7. Financing</b>							
Special development funds	-	-402	-701	-830	-	41.0	18.4
Other	-17	-95	-	-	458.9	-	-

Source: Trinidad and Tobago Government Printery. Estimates of Expenditure, 1974, 1975, 1976.

a/ Budget estimates.

b/ Includes oil royalties.

The influx of foreign exchange stemming from a buoyant external sector was again the prime source of monetary expansion, although the rate of increase of net international reserves was much reduced with respect to the two previous years (see table 16). Another source of expansion was credit to the private sector, which showed a sharp rise for the second consecutive year. This latter trend undoubtedly reflected the growing activity in the domestic economy.

Credit to the public sector, on the other hand, was a moderating factor in monetary expansion. Net domestic credit to the Government has been negative since 1974, and this negative balance rose by 43 per cent in 1976 (see table 16). This trend reflects the efforts of the Government to restrain the inflationary impact of the country's oil receipts by generating budgetary surpluses and placing the resources in the aforementioned special development funds.

Table 16

TRINIDAD AND TOBAGO: MONETARY POSITION

(Millions of Trinidad and Tobago dollars)

	Balance at end of				Annual growth rates		
	1973	1974	1975	1976	1974	1975	1976
<b>1. Money</b>	<u>224</u>	<u>290</u>	<u>430</u>	<u>630</u>	<u>29.5</u>	<u>48.3</u>	<u>46.5</u>
Currency outside banks	80	99	138	177	23.8	39.4	28.3
Demand deposits	144	191	287	430	32.6	50.3	49.8
<b>2. Factors of expansion</b>	888	1 168	1 599	2 138	31.5	36.9	33.7
Foreign assets (net)	54	765	1 733	2 424	1 316.7	126.5	39.9
Domestic credit	834	403	-194	-286	51.7		-113.4
Government (net)	158	-327	-1 084	-1 547		-231.5	-42.7
Official entities	91	65	63	44	-28.6	-3.1	-30.1
Private sector	585	665	887	1 217	13.7	33.4	37.2
<b>3. Factors of absorption</b>	<u>664</u>	<u>878</u>	<u>1 169</u>	<u>1 508</u>	<u>32.2</u>	<u>33.2</u>	<u>29.0</u>
Quasi-money (saving and time deposits)	616	817	1 021	1 314	32.6	25.0	28.7
Other items (net)	48	61	148	194	27.1	142.6	31.1

Source: IMF, International Financial Statistics, May 1977.

/URUGUAY



## URUGUAY

### 1. The overall picture

In 1976, Uruguay recorded an overall growth rate of 2.8 per cent and a per capita rate of 1.6 per cent. These rates, although lower than those attained in 1975, show that the country's economic expansion continued for the fourth year running: something which had not happened for the last twenty years or so. A further deterioration in the terms of trade, however, led to a lower increase in gross income (1 per cent) than in the domestic product. At the same time, the inflationary process slowed down considerably and there was a significant decrease in the deficit on the balance-of-payments current account (see table 1).

The slower rate of growth went hand in hand with a slower expansion of manufacturing and a decline in construction. Agricultural production, in contrast, increased much more rapidly than in the previous year, owing to the substantial increment in several important crops. The services sectors as a whole, for their part, expanded at virtually the same rate as the gross domestic product.

The evolution of exports of goods was the factor primarily responsible for this growth, since it reflected increases of 42 per cent in the current value and 39 per cent in the volume exported. The vigorous growth of non-traditional exports continued in 1976, while traditional exports also grew, albeit more slowly, thanks to the favourable conditions for exports of meat. Imports of goods rose by 7 per cent, but their volume remained almost unchanged, so that the import quantum continued much the same as in 1973.

The evolution of the trade in goods during 1976 played a decisive part in sharply reducing the balance-of-payments current account deficit which, at 96 million dollars, was considerably less than the previous year. The net inflow of capital amounted to 182 million dollars, thus substantially increasing the country's international reserves.

Table 1  
URUGUAY: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	2 562	2 585	2 626	2 721	2 797
Population (thousands) <sup>b/</sup>	3 017	3 048	3 079	3 111	3 143
Per capita gross domestic product (US dollars at 1970 prices)	849	848	853	875	890
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	-3.3	0.9	1.6	3.6	2.8
Per capita gross domestic product	-4.3	-0.1	0.6	2.5	1.7
Gross income <sup>c/</sup>	-2.6	3.9	-3.2	0.4	1.0
Terms of trade	17.0	31.4	-47.2	-26.5	-3.8
Value of exports of goods and services	23.0	31.8	15.9	4.6	33.4
Value of imports of goods and services	-7.3	31.1	60.0	9.4	6.4
Consumer price index <sup>d/</sup>	76.5	96.0	77.2	81.4	50.6
Consumer price index <sup>e/</sup>	94.7	77.5	107.2	66.8	39.9
Money	57.0	75.6	62.9	53.3	61.3
Wages and salaries <sup>f/</sup>	44.3	96.0	74.6	66.4	42.0
Current income of government	62.5	121.0	58.8	67.6	71.8
Total expenditure of government	37.7	103.9	94.2	70.8	47.7
Fiscal deficit/total expenditure of government <sup>g/</sup>	16.0	8.9	25.5	26.9	15.2
<u>Millions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	31	43	-112	-145	-20
Balance on current account	7	18	-155	-217	-96
Variation in gross international reserves	20	31	3	-20	90

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> CELADE figures which do not take account of the preliminary results of the 1975 Population Census, according to which the population is smaller.

<sup>c/</sup> Gross domestic product plus terms-of-trade effect.

<sup>d/</sup> Annual average variation.

<sup>e/</sup> December to December.

<sup>f/</sup> Variation of average nominal wage between annual averages.

<sup>g/</sup> Percentage.

The rate of inflation fell from 67 per cent in 1975 to 40 per cent in 1976, primarily as a result of the relatively small rise in domestic prices during the first half of the year, when the Government held down the prices of a number of main goods and services and also managed to keep a check on wages. The reduction of the fiscal deficit, in constant-value terms, helped the monetary authorities to avoid an excessive increase in liquidity, despite a significant rise in international reserves. Moreover, average real wages and salaries fell by about 6 per cent.

## 2. Recent economic trends

### (a) Total supply and demand

As noted above, the Uruguayan economy achieved a fairly satisfactory rate of growth (2.8 per cent) in 1976, although it was lower than the rate recorded the year before. Exports were once again the main stimulating factor, with the consolidation of the system of outward-directed growth and the consequent change in the production structure. The volume of exports of goods and services increased by 31 per cent, which, added to the sizeable increments recorded in 1974 and 1975, helped to raise the export coefficient to over 17 per cent, which is markedly higher than the 12 per cent observed at the beginning of the 1970s (see table 2).

In contrast, domestic demand declined by over 1 per cent, owing to the decrease of over 2 per cent in total consumption. While general government consumption is estimated to have increased by more than 4 per cent, private consumption recorded a drop of about 4 per cent, which, as we shall see below, is in keeping with the fall in the real average wage.

Table 2  
URUGUAY: TOTAL SUPPLY AND DEMAND

	Thousands of pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sub>a/</sub>	1970	1976 <sub>a/</sub>	1974	1975	1976 <sub>a/</sub>
<u>Total supply</u>	<u>671 389</u>	<u>693 017</u>	<u>710 550</u>	<u>112.5</u>	<u>111.1</u>	<u>1.1</u>	<u>3.2</u>	<u>2.5</u>
Gross domestic product	600 289	621 893	639 306	100.0	100.0	1.6	3.6	2.8
Imports	71 100	71 124	71 244	12.5	11.1	-2.3	-	0.2
<u>Total demand</u>	<u>671 389</u>	<u>693 017</u>	<u>710 550</u>	<u>112.5</u>	<u>111.1</u>	<u>1.1</u>	<u>3.2</u>	<u>2.5</u>
<u>Domestic demand</u>	<u>604 644</u>	<u>608 635</u>	<u>599 860</u>	<u>100.8</u>	<u>93.8</u>	<u>0.2</u>	<u>0.7</u>	<u>-1.4</u>
Gross domestic investment	58 923	69 823	74 711	11.4	11.7	-6.4	18.5	7.0
Gross fixed investment	51 783	67 888	72 770	11.2	11.4	2.9	31.1	7.2
Construction	39 255	43 857	40 705	6.6	6.4	3.7	11.7	-7.2
Machinery and equipment	12 528	24 031	32 065	4.6	5.0	0.5	91.8	33.4
Changes in stocks	7 140	1 935	1 941	0.2	0.3	...	...	...
Total consumption	545 721	538 812	525 149	89.3	82.1	0.9	-1.3	-2.3
General government	82 349	87 784	91 558	15.0	14.3	-1.3	6.6	4.3
Private	463 372	451 028	433 591	74.3	67.8	1.3	-2.7	-3.3
<u>Exports</u>	<u>66 745</u>	<u>84 382</u>	<u>110 690</u>	<u>11.7</u>	<u>17.3</u>	<u>10.8</u>	<u>26.4</u>	<u>31.2</u>

Source: 1970-1976: CEPAL calculations and estimates on the basis of data supplied by the Central Bank of Uruguay.

a/ Preliminary figures.

Gross fixed investment grew by about 7 per cent, giving an investment coefficient with respect to the domestic product of over 11 per cent. On the one hand, purchases of machinery and equipment increased by 33 per cent, mainly reflecting the bigger purchases of capital goods made by branches of industry producing for the external sector and the substantial imports of fishing vessels, material and equipment for the production of fuels and electric energy, and passenger transport vehicles. Investment in construction, however, fell by a little over 7 per cent as a result of the slower rate of activity in the public and private sectors.

(b) Sectoral trends

According to some preliminary data, it is estimated that the product of the goods-producing sectors grew by 3.3 per cent, while in the services sectors as a whole the increase was 2.6 per cent. The former rate is equal to half that observed in 1975, while the latter is three times the previous year's rate (see table 3).

Among the goods-producing sectors, manufacturing recorded the fastest growth (5 per cent), as a result of the big increase in exports of non-traditional products. This stimulated the production of food, certain branches of the textile industry, the manufacture of footwear and other leather articles, and the production of some non-metallic minerals. Owing to this greater export activity, the manufacturing sector grew at fairly satisfactory rates for the second year running, despite the continued operation of restrictive factors in the branches most closely linked with domestic demand.

The agricultural sector grew by a little over 3 per cent, thus easily exceeding the previous year's expansion. As will be seen below, this was the result of the dynamic performance of crop-farming, since livestock production remained at practically the same level as in 1975.

Table 3

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

	Thousands of pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	61 661	62 383	64 380	12.6	11.5	-0.6	1.2	3.2
Mining	130 256	138 981	146 069	24.2	26.2	3.7	6.7	5.1
Manufacturing								
Construction	18 630	22 795	21 155	3.8	3.8	6.3	22.4	-7.2
<u>Subtotal goods</u>	<u>210 547</u>	<u>224 158</u>	<u>231 604</u>	<u>40.6</u>	<u>41.5</u>	<u>2.6</u>	<u>6.5</u>	<u>3.3</u>
Electricity, gas and water	7 946	8 267	8 730	1.5	1.6	-3.9	4.0	5.6
Transport, storage and communications	47 868	48 520	50 316	8.6	9.0	3.8	1.4	3.7
<u>Subtotal basic services</u>	<u>55 814</u>	<u>56 787</u>	<u>59 046</u>	<u>10.1</u>	<u>10.6</u>	<u>2.7</u>	<u>1.7</u>	<u>4.0</u>
Commerce, financial institutions and insurance	86 237	88 326	...	17.2	...	3.9	2.4	...
Real estate <sup>b/</sup>	28 333	28 661	...	5.2	...	0.2	1.2	...
Community, social and personal services <sup>c/</sup>	144 036	144 036	...	26.9	...	-0.2	-	...
<u>Subtotal other services</u>	<u>258 606</u>	<u>261 023</u>	<u>267 288</u>	<u>49.3</u>	<u>47.9</u>	<u>1.2</u>	<u>0.9</u>	<u>2.4</u>
<u>Total gross domestic product</u>	<u>521 727</u>	<u>540 517</u>	<u>555 650</u>	<u>100.0</u>	<u>100.0</u>	<u>1.6</u>	<u>3.6</u>	<u>2.8</u>

Sources: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay;  
1976: CEPAL estimates based on official statistics.

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

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Relates to ownership of dwellings only.

<sup>c/</sup> Also includes restaurants, hotels and business services.

As regards construction, on the basis of available data on the production and domestic supply of cement it is estimated that the domestic product of the sector fell in 1976 by over 7 per cent, in sharp contrast with the previous year's increase of over 22 per cent. Construction activity fell off considerably in the private sector (10 per cent) and still more in the public sector (25 per cent), in spite of the increase of approximately 23 per cent in the public works involved in the construction of the Salto Grande hydroelectric dam.

The average rate of growth of the basic services sectors (4 per cent) is mainly attributable to the greater dynamism of transport, storage and communications, whose relative variation was 2.5 times that of 1975.

For the group of sectors producing other services, a growth of over 2 per cent is estimated on the basis of the probable expansion of financial intermediation and government services.

(i) Agriculture. As noted earlier, the increase in agricultural production was basically due to the expansion of crop farming (7 per cent), since livestock production grew by less than 1 per cent. There was thus a continuation of the divergent trends followed by these two sub-sectors, the result of which was that between 1973 and 1976 the production of crops rose by 17 per cent while livestock production declined by over 3 per cent (see table 4).

In the crop farming sub-sector the production of cereals exceeded the previous year's abundant harvest, since the 13 per cent drop in the production of wheat was more than offset by the bigger output of maize and rice (34 and 15 per cent, respectively), due to the combined effect of increases in area sown and yields. Industrial crops and oilseeds also expanded considerably, reaching unprecedented production figures. Largely responsible for this were the bumper crops of linseed, sunflower and sugar beet, which recorded increases of 57, 50 and 45 per cent, respectively.

Table 4  
URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1973	1974	1975	1976 <sup>a/</sup>	Annual growth rates		
					1974	1975	1976 <sup>a/</sup>
<b>1. Index of agricultural production (1961=100)</b>							
Crop farming <sup>b/</sup>	107.3	106.3	108.3	111.8	-0.9	1.9	3.2
Stock-raising	128.4	134.3	140.2	150.0	4.6	4.4	7.0
	97.6	93.4	93.7	94.3	-4.2	0.3	0.7
<b>2. Production of some important crops <sup>c/</sup> (thousands of tons)</b>							
Wheat	187	297	527	456	59.1	77.4	-13.5
Maize	229	225	157	210	-1.5	-30.2	33.9
Rice	137	158	189	216	15.3	19.4	14.8
Linseed	30	26	39	62	-10.9	49.4	57.0
Sunflower	71	48	51	77	-31.9	6.2	49.9
Sugar beet	371	434	573	833	17.2	32.0	45.3
<b>3. Indicators of stock-raising production</b>							
Number of cattle (thousands of head) <sup>d/</sup>	9 860	10 961	11 362	10 701	11.2	3.7	-5.8
Number of animals slaughtered (thousands of head)	1 224	1 573	1 755	2 042	28.5	11.6	16.4
Slaughtering coefficient (percentage)	12.4	14.3	15.4	19.1	-	-	-

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Agriculture and fisheries.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Including plantations and permanent pastures.

<sup>c/</sup> Crop year.

<sup>d/</sup> At 30 June of each year.



The production of roots and tubers also reached exceptionally high levels, increasing by 26 per cent largely as a result of the bigger potato crop (37 per cent). Production of fruit and vegetables remained at the previous year's satisfactory levels, thus adequately supplying the domestic market. In contrast, there was a sharp drop in production (35 per cent) in the remaining crop farming activities (forage grass and grain, permanent and other crops), which is associated with the stagnation of meat production since part of the land normally used for these activities was utilized for the production of cereals and industrial crops.

The performance of the livestock sub-sector was affected by the drop in beef production owing to the reduced cattle stocks, whereas the production of mutton increased by 2 per cent and output of wool and milk by approximately 8 per cent, owing among other reasons to favourable weather conditions.

Some indicators explain the reduction in cattle stocks. First, the slaughtering coefficient in relation to stocks rose to 19 per cent in 1976, which represents a rate of slaughtering similar to the normal production capacity of Uruguay's cattle-raising activities. At the same time, the average weight of the animals slaughtering has been maintained and breeding cows continued to account, as in 1975, for one-third of the slaughtering.

Per capita beef consumption dropped by 8 per cent during the year owing to the restrictions imposed as from August on the entry and marketing of cattle and the sale of meat in the Departments of Montevideo and Canelones, where 40 per cent of the domestic consumption of meat is normally concentrated. As a result of this limitation on consumption, there was a considerable increase in slaughtering for export (74 per cent), made feasible by the opening up of new markets.

(ii) Manufacturing. In 1976, as in the previous year, there was a considerable increase in the output of the industrial branches and groups producing for the external market. This was due to the continued application of the measures providing credit, fiscal and exchange incentives (see table 5).

Table 5  
URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION  
(1961 = 100)

	1973	1974	1975	Annual growth rates		
				1974	1975	1976 <sup>a/</sup>
<b>Total</b>	<b>116.4</b>	<b>120.7</b>	<b>128.8</b>	<b>3.7</b>	<b>6.7</b>	<b>5.1</b>
Food	122.3	131.4	142.0	7.4	8.0	14.6
Beverages	133.6	134.2	134.2	0.5	-	-9.8
Tobacco	147.4	146.7	148.2	-0.6	1.0	-0.9
Textiles	87.2	88.8	108.9	1.9	22.6	1.0
Footwear and clothing	88.5	90.4	82.6	2.3	-8.8	-0.9
Paper and paper products	216.7	216.7	200.0	-	-7.6	10.7
Printing and publishing	122.0	108.9	108.9	-10.7	-0.2	-0.3
Tanneries and leather industries	...	...	...	...	22.5	23.0
Rubber products	84.3	104.6	110.2	24.7	5.0	-24.9
Chemical products	138.4	144.6	128.0	4.4	-11.5	0.1
Petroleum products	113.0	118.4	130.0	4.7	9.8	-1.0
Non-metallic mineral products <sup>b/</sup>	192.5	209.1	205.6	8.7	-1.7	28.4
Metal products	68.9	61.3	58.0	-10.5	-5.1	9.7
Electrical machinery	51.9	50.5	53.2	-2.3	5.4	7.9
Transport equipment	...	...	...	...	-0.9	-2.5
Other manufacturing industries	...	...	...	...	10.1	-7.7

Source: Central Bank of Uruguay.

<sup>a/</sup> January-September, compared with the same period in 1975.

<sup>b/</sup> Including mining and quarrying.

/Thus, the

Thus, the production of the food industry grew by nearly 15 per cent, mainly owing to the fact that exports of meat rose from 112,000 tons in 1975 to 185,000 tons in 1976. This volume, which had never been attained before, meant that meat preparation and packing activities grew by 18 per cent during the year. Another factor influencing the increased production of the food industry was the increment in exports of milled rice (8 per cent), vegetable fats and oils (which rose by 55 per cent in current dollar terms) and other less important food items. In addition, the preparation of milk products increased in the first nine months by a little over 10 per cent, as a result of the larger quantities of milk arriving at the processing plants. Sugar refining grew by 14 per cent during the same period, in line with the aforementioned increase in the production of sugar beet, which accounts for about half of the raw material required by the country's sugar refining plants.

Sales abroad also stimulated the production of other items. Tanneries and leather industries grew for the second year in succession at a rate of 23 per cent, owing to the sharp rise in exports of leather manufactures and footwear. Concurrently, in the textile industry the fall in sales on the domestic market was offset by the considerable increase in exports of tops and other products of the spinning and weaving industries. Output of non-metallic minerals grew by 28 per cent, basically as a result of the notable increase in exports of Portland cement (40 per cent), which absorbed over one-third of the country's total production.

In contrast, exports of tyres declined, and this fact, combined with decreased sales on the domestic market, led to a 25 per cent drop in the manufacture of rubber products in the first nine months of the year. Branches of industry with little access to the external market also reduced their level of activity, among them beverages (-10 per cent); clothing (excluding footwear) - a drop of over 5 per cent; transport equipment (a decline of around 3 per cent); and other manufacturing industries (-7 per cent).

### 3. The external sector

#### (a) Trade in goods

The value of exports of goods increased considerably in 1976 (42 per cent). The important fact here is that this increment was achieved thanks to a 39 per cent expansion in volume, since the unit value of exports rose by only 2 per cent. The vigorous growth recorded by the export quantum since 1974 continued at an even more accelerated pace: between 1973 and 1976 it more than doubled, increasing at an average annual rate of approximately 29 per cent (see table 6).

The biggest increase was in non-traditional exports (56 per cent), where the policy of incentives caused the current value of the "other exports" group to climb from 81 million dollars in 1973 to 285 million in 1976.<sup>1/</sup> Since the 29 per cent increase in traditional exports (meat, hides and wool) brought them to only just above the level reached in 1973, the share of non-traditional exports in the total thus rose from 25 per cent in 1973 to 52 per cent in 1976 (see table 7).

Particularly noteworthy among the new export products, because of the increases in their external sales in 1976, were leather manufactures and made-up fur articles (+65 per cent), which amounted to 60 million dollars; footwear (+84 per cent), which totalled 17 million, and textile product (+70 per cent), which reached a figure of 16 million dollars.

Among the traditional items there was an unusually large increase in the volume of meat exported (65 per cent more than in 1975) which, combined with a certain stability in world prices of this commodity, resulted in an export value of 115 million dollars, compared with around 70 million in 1975. The current value of wool exports also rose (15 per cent) - despite an 11 per cent drop in volume - owing to the rise in the world prices of this product and the fact that in 1976 a larger proportion of more highly processed wool was exported than in 1975.

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<sup>1/</sup> For a description of this policy see the note on Uruguay in CEPAL, Economic Survey of Latin America, 1975.

Table 6

URUGUAY: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1972	1973	1974	1975	1976
<u>Exports of goods (FOB)</u>					
Value <u>a/</u>	23.3	35.4	16.4	0.9	42.0
Volume	-5.3	-3.9	19.0	27.7	39.0
Unit value <u>a/</u>	30.2	40.9	-2.2	-20.9	2.0
<u>Imports of goods (FOB)</u>					
Value <u>a/</u>	-11.7	39.1	75.7	13.5	7.0
Volume	-20.7	29.8	-5.2	5.6	1.0
Unit value <u>a/</u>	11.4	7.2	85.3	7.5	6.0
<u>Terms of trade</u>	17.0	31.4	-47.2	-26.5	-3.8

Source: CEPAL, on the basis of official statistics.

a/ Calculated on the basis of figures in dollars at current prices.

Table 7

URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976	1973	1976	1974	1975	1976
<u>Main export products a/</u>	247	257	202	260	75.3	47.7	4.0	-21.4	28.7
<u>Other exports b/</u>	81	124	183	285	24.7	52.3	53.1	47.6	55.7
<u>Total</u>	<u>328</u>	<u>381</u>	<u>385</u>	<u>545</u>	<u>100.0</u>	<u>100.0</u>	<u>16.4</u>	<u>0.9</u>	<u>42.0</u>

Source: CEPAL, on the basis of official statistics.

a/ Meat, hides and wool.

b/ Mainly non-traditional exports.

The value of imports of goods rose by 7 per cent in 1976, as a result of increases of 6 per cent in price and 1 per cent in volume. Between 1973 and 1976 the value of imports rose by over 110 per cent, while the volume remained virtually static.

The last few years have witnessed significant changes in the composition of imports. A substantial increment in imports of capital goods - which in dollars at current prices rose from only 22 million in 1973 to 103 million in 1976 - raised their share in the total from 8 to 18 per cent between these two years (see table 8). This trend is closely linked with the execution of some large-scale investment projects by the public sector and with imports of machinery by the private sector for the purpose of replacing obsolete equipment and initiating new activities for the manufacture of non-traditional export products.

Imports of intermediate goods - petroleum and fuels and other products - showed virtually no change between 1975 and 1976, in view of the fact that no new important financial or material factors emerged to alter the relatively normal supply of these types of goods, as had occurred in 1974 and 1975. Thus, their share in total imports went down from 83 per cent in 1973 to 79 per cent in 1976.

The value of imports of consumer goods was only 19 million dollars (33 per cent less than in 1975), so that their share in the total dropped from 9 per cent in 1973 to 3 per cent in 1976.

The variations in the unit values of exports and imports in 1976 led to a deterioration of around 4 per cent in the terms of trade, on top of the substantial deterioration recorded in 1974 and 1975 (see table 6).

(b) The balance of payments

In contrast with the situation in 1974 and 1975, trade in goods showed a surplus of 15 million dollars. However, as the trade in services (mainly transport and travel) showed a deficit of 35 million dollars, there was an overall deficit of 20 million dollars on the goods and services account. To this figure must be added the payments of profits and interest on foreign capital totalling 75 million dollars, and a small negative balance in respect of private transfer payments, so that the total deficit on current account was 96 million dollars, although this was a great improvement on the figure of 217 million recorded in 1975 (see table 9).

Table 8  
URUGUAY: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1973	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Consumer goods	26	37	48	19	9.2	3.2	41.8	-26.0	-32.6
Intermediate goods	237	418	456	458	83.0	79.0	76.6	9.3	0.5
Petroleum and fuels	55	161	183	180	19.2	31.0	193.6	13.9	-1.8
Others	182	257	273	278	63.8	48.0	41.4	6.4	1.9
Capital goods	22	32	73	103	7.8	17.8	44.4	126.1	41.8
<u>Total</u>	<u>285</u>	<u>487</u>	<u>557</u>	<u>580</u>	<u>100.0</u>	<u>100.0</u>	<u>70.9</u>	<u>14.3</u>	<u>4.2</u>

Source: Central Bank of Uruguay.

<sup>a/</sup> Preliminary data, estimated on the basis of figures for the first 11 months of the year.



Table 9  
URUGUAY: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	1973	1974	1975	1976 <sup>a/</sup>
<b>Current account</b>					
Exports of goods and services	311	410	475	497	663
Goods FOB	242	328	381	385	545
Services	69	82	94	112	118
Transport	9	12	19	21	22
Travel	45	43	45	57	59
Imports of goods and services	280	367	587	642	683
Goods FOB	179	249	437	496	530
Services	101	118	150	146	153
Transport	42	47	76	65	67
Travel	40	44	44	48	50
Net payments of profits and interest					
on foreign capital	-24	-25	-42	-71	-75
Profits	-	-	-4	-4	-4
Interest	-24	-25	-38	-67	-71
Net private transfer payments	-	-	-1	-1	-1
Balance on current account	7	18	-155	-217	-96
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	-7	-18	155	217	96
(a) Net external non-compensatory capital					
Direct investment	64	5	120	131	} 182
Long- and medium-term loans	-	-	-	-	
Amortization payments	48	28	43	168	
Short-term liabilities	-15	-47	-22	-20	
Official transfer payments	19	5	77	-31	
Official transfer payments	12	19	22	14	
(b) Domestic non-compensatory capital or assets	-6	34	24	28	
(c) Errors and omissions	-59	-29	-65	-5	
(d) Allocation of SDRs	8	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-14	-28	76	63	-86
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	62	67	136	100	...
Amortization payments	-56	-64	-57	-57	...
Variation in gross international reserves (minus sign signifies an increase)	-20	-31	-3	20	...
Foreign exchange reserves (minus sign signifies an increase)	-37	-27	-1	-6	...
Gold reserves (minus sign signifies an increase)	26	-	-	13	...
SDRs (minus sign signifies an increase)	-9	-4	-2	13	...

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 28, and Central Bank of Uruguay.

<sup>a/</sup> Preliminary estimates.

/To finance

To finance this deficit, Uruguay received a net inflow of non-compensatory capital of 182 million dollars (compared with the 154 million obtained in 1975), which permitted an increase of 86 million dollars in the Central Bank's net international reserves.<sup>2/</sup> This strengthening of the reserves following two successive years of decline made it possible to restrict the issue of public bonds in foreign currency and swap operations. Thus, it is estimated that income under these two heads dropped from 110 million dollars in 1975 to less than half that figure in 1976.

#### 4. Prices and wages

##### (a) Anti-inflationary policy

During the year Uruguay continued to pursue its aim of curbing inflation, mainly through the adoption of economic measures designed to consolidate the more propitious financial and material conditions for the progressive stabilization of prices that had already emerged in 1975. One of the authorities' greatest concerns was to absorb the increase in liquidity deriving from the substantially larger international reserves, in which the decrease in the fiscal deficit played an important part. Furthermore, action was taken to maintain a certain relationship between the evolution of the exchange rate, interest rates and prices, so as to avoid any disequilibria likely to jeopardize the consolidation of the efforts in connexion with domestic capital formation and the external sector. Over the year as a whole, housing rentals and prices and rates for goods and services produced by the public sector closely followed the general increase in prices, thereby maintaining the relative level they had largely regained by the end of 1975.

Wages however, once again lagged behind the movement of prices, so that the resultant fall in the level of real wages and salaries helped to slow down the rise in prices.

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<sup>2/</sup> The gross international reserves are estimated to have risen by about 90 million dollars (from 166 to over 250 million) between the end of 1975 and the end of 1976.

During the first half of the year action was taken to hold down wages, the prices charged by public enterprises (particularly for fuels and electric energy) and agricultural prices, and increases in these items were postponed until the second half of the year, so that the rate of inflation decreased significantly. As from July and throughout the second half of the year, however, the rate of price increases accelerated and new inflationary expectations emerged with the adjustment during that period of wages, public service tariffs and rents, together with the serious problems that arose in connexion with the supply and prices of beef and alternative types of meat.

(b) Prices, the exchange rate, and wages and salaries

The December to December rise in the consumer price index, which had averaged 90 per cent per year in the period between 1972 and 1974, slowed to 67 per cent in 1975 and to 40 per cent in 1976. This decline in inflation was particularly evident up to the middle of the year, since in the first six months the index rose by 9 per cent, while in the second it went up by over 28 per cent. Wholesale prices rose by 45 per cent, also confirming the declining trend in the rate of inflation with respect to the last few years. As in the case of consumer prices, however, this drop was observable in the first half of the year, when the rate of increase was only 9 per cent (see table 10).

The relative prices of agricultural products rose slightly in terms of the prices of manufactures, thus altering the trend observed in 1974 and 1975. This increase was the result of the ground gained in the second half of the year by livestock prices, particularly of cattle (79 per cent in six months), since the increase in crop prices was much less than the rise in industrial prices. Factors influencing the trend in crop prices were the excellent harvests of several important items of production and the favourable weather conditions for farming activities.

Table 10  
URUGUAY: EVOLUTION OF DOMESTIC PRICES  
(Percentage variation)

	Variation in the period indicated					Annual average variation a/		
	1974 a/	1975 a/	1976			1974	1975	1976
			First half	Second half	Full year <sup>a/</sup>			
<u>Consumer price index</u>	<u>107.2</u>	<u>66.8</u>	<u>9.0</u>	<u>28.4</u>	<u>39.9</u>	<u>77.2</u>	<u>81.4</u>	<u>50.6</u>
Food	105.5	53.1	4.1	33.1	38.5	72.4	70.8	47.7
Clothing	72.7	68.0	13.2	20.5	36.4	62.9	67.3	47.7
Housing	111.5	88.6	14.6	25.2	43.5	81.3	97.9	56.8
Other	129.6	77.2	11.1	27.0	41.1	95.7	93.7	52.0
<u>Wholesale price index</u>	<u>87.5</u>	<u>65.0</u>	<u>9.3</u>	<u>32.7</u>	<u>45.1</u>	<u>78.7</u>	<u>72.4</u>	<u>50.6</u>
<u>Agricultural products</u>	<u>54.9</u>	<u>35.8</u>	<u>7.3</u>	<u>35.5</u>	<u>45.4</u>	<u>61.6</u>	<u>47.4</u>	<u>37.8</u>
Crop-farming products	103.0	43.6	-4.5	16.0	10.8	92.0	76.0	24.7
Livestock products	25.3	27.9	20.5	52.8	84.1	44.9	26.5	51.2
Cattle	15.8	-0.4	9.3	78.7	95.4	42.4	6.9	28.6
<u>Non-agricultural products</u>	<u>103.4</u>	<u>75.9</u>	<u>9.9</u>	<u>31.9</u>	<u>45.0</u>	<u>86.4</u>	<u>82.1</u>	<u>54.6</u>
Petroleum products	213.1	117.3	-	32.9	32.9	161.7	109.7	52.4
Electric energy	73.7	103.9	-	51.1	51.1	70.5	76.1	55.2

Source: Central Bank of Uruguay and Statistics and Census Office.

a/ December to December.

The periodical adjustments in the exchange rate led to a 50 per cent rise in the price of the dollar between the end of 1975 and the end of 1976. Since the cumulative devaluation percentages were similar in the two halves of the year whereas the rates of inflation were uneven, the real value of the dollar rose up to June and subsequently declined (see table 11).

The index of average nominal wages increased by 42 per cent compared with 1975: in view of the rise in consumer prices this meant a 6 per cent drop in real wages. Since government employees obtained a slightly larger increase in their nominal wages and salaries than wage-earners in the private sector, their real loss was smaller (see table 12).

## 5. Monetary and fiscal policy

### (a) The monetary situation

In 1976 the means of payment increased by 61 per cent (15 per cent in real terms) following two years of negative real rates of growth. This performance may be ascribed to the change in the trend of international reserves which, after having a contractive monetary effect in 1974 and 1975, became an important factor of expansion as from the last quarter of the latter year (see table 13).

The monetary authority endeavoured to neutralize part of the expansionary effect of the reserves in order to prevent an unacceptably large increase in liquidity that would bring excessive pressures to bear on demand. This task was facilitated by the decrease in the public sector deficit and the changes in the structure of its financing, as will be seen below. As regards monetary measures, first of all the compulsory cash reserves of banking institutions were restructured and a system of obligatory holdings of public securities was established with the purpose of contributing resources to the central government without any increase in its foreign currency indebtedness and reducing direct credit from the Central Bank to the Government. Secondly, steps were taken to regulate the secondary expansion of the Central Bank issue through a modification of the rediscount system. This involved the elimination of credit lines at subsidized interest rates for certain sectors and the adoption of a system of variable interest rates, governed by market conditions, which were higher than those in force in 1975.

Table 11  
URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate <sup>a/</sup> (pesos per US dollar) (1)	Index of exchange rate (2)	Wholesale price index (3)	Index of real exchange rate (4) = $\frac{[(2)/(3)]}{100}$
1973	0.87	100.0	100.0	100.0
1974	1.20	136.2	178.7	76.2
1975				
Average	2.26	261.0	308.0	84.4
December	2.66	307.5	388.2	79.2
1976				
Average	3.34	385.7	463.8	83.2
June	3.23	373.0	424.4	87.9
December	3.98	459.7	563.3	81.6

Source: Central Bank of Uruguay.

<sup>a/</sup> Annual or monthly average of commercial exchange rate.

Table 12  
URUGUAY: EVOLUTION OF AVERAGE WAGE  
(Annual growth rates)

	1974		1975		1976	
	(1)	(2)	(1)	(2)	(1)	(2)
<u>Nominal</u>						
All wage-earners	96.9	74.6	61.6	66.4	29.2	42.0
Wage-earners in public sector	106.7	72.7	55.1	65.5	32.0	44.4
Wage-earners in private sector	88.3	76.4	67.9	67.1	26.6	39.4
<u>Real <sup>a/</sup></u>						
All wage-earners	-5.1	-0.9	-3.2	-8.8	-7.7	-5.9
Wage-earners in public sector	-0.3	-2.6	-7.1	-8.9	-5.7	-4.1
Wage-earners in private sector	-9.2	0.7	0.6	-8.8	-9.5	-7.4

Source: Statistics and Census Office.

Note: (1) Annual variation.

(2) Variation between the annual average and the average for the preceding year.

<sup>a/</sup> Deflated by the consumer price index.

Table 13  
URUGUAY: MONETARY POSITION

(Millions of pesos)

	Abso- lute varia- tion	Balance at end of		Annual growth rates			Percentage breakdown of absolute variation	
		1974	1975 <sup>a/</sup>	1976 b/c/	1974	1975	1976	1975
<u>Money</u>	<u>534</u>	<u>821</u>	<u>1 325</u>	<u>62.9</u>	<u>53.3</u>	<u>61.3</u>	<u>100.0</u>	<u>100.0</u>
Currency outside banks	316	470	782	56.6	48.8	66.5	53.6	62.1
Demand deposits	218	352	542	72.8	59.7	54.3	46.4	37.9
<u>Factors of expansion</u>	<u>1 035</u>	<u>1 643</u>	<u>3 244</u>	<u>64.9</u>	<u>64.2</u>	<u>97.4</u>	<u>211.5</u>	<u>217.8</u>
International reserves (net)	-113	-309	244	-	-	-	-68.0	109.8
Domestic credit	1 148	1 952	2 999	88.4	80.7	53.7	279.5	208.0
Government (net)	-190	339	596	116.3	92.7	75.9	51.9	51.0
Official entities	5	17	-133	-	178.7	-	4.4	-29.8
Private sector	954	1 596	2 536	90.4	75.4	58.9	223.2	186.8
<u>Factors of absorption</u>	<u>501</u>	<u>822</u>	<u>1 919</u>	<u>67.9</u>	<u>78.5</u>	<u>133.4</u>	<u>111.5</u>	<u>217.8</u>
Quasi-money (savings and time deposits in national currency)	214	443	849	59.8	105.6	91.9	79.4	80.8
Deposits in foreign currency	201	333	844	68.1	129.1	153.7	45.9	101.5
Long-term foreign borrowing	-11	-22	...	21.7	-	-	-3.6	...
Other items (net)	98	69	226	131.3	-29.9	260.9	-10.2	35.5

Source: Central Bank of Uruguay.

a/ Preliminary figures.

b/ Book balances.

c/ Adjusted balances comparable with end-1975 balances for purposes of determining real flows.



The measures adopted with the primary purpose of continuing the process of liberalizing interest rates and diversifying and strengthening the financial instruments expressed in national currency had a similar contractive effect. The liberalization of passive interest rates was intended to promote more competition in the money market as a means of enabling the banking system to increase its procurement of resources in national currency. In practice, the competitive capacity of the system improved in relation to government bills and bonds in foreign currency, in view of the less urgent need to obtain deposits of external resources owing to the favourable evolution of the balance of payments.

In order to increase the competitiveness and importance of instruments expressed in national currency, investment procedures were diversified. Thus, a bank acceptance market was established and operations involving bank intermediation in connexion with public securities and the sale of Treasury bonds in national currency were effected. At the same time, issues of bonds in foreign currency were suspended and issues of Treasury bonds in foreign currency were restricted. Towards the end of the year the Central Bank announced that it would operate in the open market, buying and selling Treasury bonds.

These measures had the desired effect, since in the course of the year the group of absorption factors increased by 133 per cent compared with 79 per cent in 1975. This was the result of sharp increases in quasi-money, foreign currency deposits - reflecting capital inflows and increases in deposits of residents - and other net items.

As regards the significance of the course followed by domestic credit as a factor of expansion, it is worth noting that its relative variation went down from 81 per cent in 1975 to 54 per cent in 1976. The decline in the growth of credit to the private sector was fairly moderate (from 75 to 59 per cent), but the decline in the growth of total credit to the public sector (government and official entities) was much bigger (30 per cent in 1976 compared with over 90 per cent in the previous year), mainly as a result of the negative use of resources by official entities.

(b) Fiscal trends

During the first nine months of the year, the total deficit of the central government represented 15 per cent of total expenditure, which marks a substantial decrease in relation to the previous year, when the deficit was 27 per cent of total spending (see table 14). This reduction is accounted for by the significant growth, in real terms, of current income (13 per cent) and the real drop of approximately 3 per cent in total expenditure.

The performance of current income was determined, on the one hand, by the more efficient collection of taxes as the result of a favourable situation characterized by a decrease in the rate of inflation and a clearly defined policy of raising the fines and additional charges for tax arrears and tightening up the terms of payment, thus encouraging entrepreneurs to keep their taxes up to date. Moreover, the establishment of a general tax of 7 per cent on imports in place of import deposits brought in new fiscal revenue which considerably increased the income obtained from taxes on foreign trade. These taxes represented 15 per cent of total tax revenue, compared with 12 per cent in the previous year. Furthermore, in the group of taxes on income and domestic transactions, the revenue from value added taxes rose significantly as a result of the increase in the tax and greater efficiency in its collection.

In the structure of total expenditure some moderate changes are observable with respect to the previous year, particularly in personal remuneration, social security contributions, and interest on the public debt. The share of the first two items dropped from 65 to 63 per cent, while the share of interest rose from a little over 4 per cent in 1975 to 6.5 per cent in 1976, reflecting the sizeable increment that has taken place in the total amount of Treasury bonds and bills in circulation.

Table 14

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos					Annual growth rates		
	1973	1974	1975	1975 <sup>a/</sup>	1976 <sup>c/</sup>	1974	1975	1976 <sup>b/</sup>
1. <u>Current income</u>	370.2	587.9	985.5	693.6	1 191.7	58.8	67.6	71.8
Tax revenue	351.2	555.1	929.0	651.2	1 126.1	58.1	67.4	72.9
Non-tax revenue	19.0	32.8	56.5	42.4	65.6	72.6	72.3	54.7
2. <u>Current expenditure</u>	372.2	709.4	1 203.8	849.6	1 254.4	90.6	69.7	47.6
Wages and salaries and social security	255.7	499.1	870.5	619.7	884.5	95.2	74.4	42.7
Other current expenditure	116.5	210.3	333.3	229.9	369.9	80.5	58.5	60.9
3. <u>Saving on current account (1-2)</u>	-2.0	-121.5	-218.3	-156.0	-62.7	-	-	-
4. <u>Real investment c/</u>	34.3	80.1	145.0	102.3	151.3	133.5	81.0	47.9
5. <u>Total expenditure (2+4)</u>	406.5	789.5	1 348.8	951.9	1 405.7	94.2	70.8	47.7
6. <u>Fiscal deficit (or surplus) (1-5)</u>	-36.3	-201.6	-363.3	-258.3	-214.0	455.3	80.2	-17.2
7. <u>Financing of deficit</u>								
Domestic financing	28.2	200.6	362.6	257.8	213.9	611.3	80.8	-17.0
Central bank	20.9	93.8	95.2	43.7	50.2	348.8	1.5	14.9
Issue of securities (net of amortization payments)	9.8	113.8	263.3	208.0	150.0	1 016.1	131.4	-27.9
Other	-2.5	-7.0	4.1	6.1	13.7	-	-	124.6
External financing c/	8.1	1.0	0.7	0.5	0.1	-87.6	-30.0	-80.0

Source: Office of the Comptroller.

a/ January-September.

b/ January-September, compared with the same period in the preceding year.

c/ Excluding investments in the Salto Grande and Palmar projects not yet entered.

Public investment in constant currency showed a slight drop which was practically equal to that noted in current spending, so that its share in total expenditure remained constant between 1975 and 1976, at approximately 11 per cent. The investment figures are not very representative, however, since they exclude expenditure on the Salto Grande and Palmar hydroelectric projects.

In order to finance the deficit, recourse was had primarily to the domestic sale of public securities, although the relative importance of this source decreased in relation to 1975. The restriction of issues of bonds and bills in foreign currency, not wholly compensated for by the sale of public securities in national currency, led to a moderate nominal increase in the use of Central Bank credit, which meant that the amount of this credit remained constant in real terms. The resources obtained from this source finance 23 per cent of the deficit, compared with 17 per cent in 1975.

## VENEZUELA

### 1. The overall picture

In 1976 the Venezuelan economy had a high rate of growth for the fourth consecutive year. This growth occurred despite the deliberate cut in the production of the two traditional export sectors - petroleum and iron ore - under the Government's conservationist policy on basic natural resources. Furthermore, it was accompanied by a significant drop in the rate of inflation. The external accounts, however, showed a less satisfactory position than in the previous year.

The gross domestic product grew by a little over 7 per cent, representing a rise of a little over 4 per cent in the per capita product. In 1975 the growth of the product was 5.5 per cent, and the average annual rate in the period 1971-1974 was 4.2 per cent (see table 1).

Sectoral development in 1976 followed the pattern of the two previous years, during which the production of goods and services for the domestic market grew very rapidly, while traditional export-oriented activities declined. However, this trend was less pronounced in 1976, since crude oil production dropped by only 2 per cent, as against drops of 21 per cent in 1975 and 12 per cent in 1974. The rapid growth of domestic activities for the third consecutive year was spearheaded in 1976 by the sharp rise in construction and manufacturing.

One of the most significant aspects of the Venezuelan economy in 1976 was the completion of the oil industry nationalization process, which occurred without major problems, while attaining the goals of maintaining production within the levels fixed in the Fifth National Plan, guaranteeing existing sales commitments, initiating sales to new clients, and maintaining an appreciable flow of government revenue and foreign exchange to ensure the continuity of the country's economic development programme. Moreover, oil prices remained very firm and the production of crude, which averaged 2.29 million barrels daily, was slightly above the ceiling of 2.2 million barrels per day established by the Fifth National Plan on conservationist grounds.

Table 1  
VENEZUELA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976 <sub>e/</sub>
<b>A. Basic economic indicators</b>					
Gross domestic product (millions of US dollars at 1970 prices)	13 261	14 149	14 977	15 795	16 932
Population (millions)	11.2	11.5	11.9	12.2	12.6
Per capita gross domestic product (dollars at 1970 prices)	1 185	1 228	1 263	1 293	1 346
<u>Annual growth rates</u>					
<b>B. Short-run economic indicators</b>					
Gross domestic product	3.0	6.7	5.9	5.5	7.2
Per capita gross domestic product	0.1	3.6	2.8	2.4	4.1
Gross income <u>b/</u>	3.1	12.4	31.7	5.3	4.4
Terms of trade	1.1	20.8	114.7	-8.0	-5.7
Value of exports of goods and services	2.2	52.7	124.5	-18.5	0.5
Value of imports of goods and services	16.3	16.9	55.3	27.3	30.5
Consumer price index <u>c/</u>	2.9	4.1	3.3	10.3	7.7
Money	19.9	19.2	37.8	50.5	30.4
Current income of government	4.0	31.7	165.4	-4.0	-6.8
Total expenditure of government	-6.8	31.7	166.3	-1.0	-2.2
Fiscal deficit/total expenditure of government <u>d/</u>	5.1	6.7 <sub>e/</sub>	6.3 <sub>e/</sub>	1.9 <sub>e/</sub>	3.4
<u>Billions of US dollars</u>					
<b>C. External sector</b>					
Trade balance (goods and services)	437	1 548	6 301	2 708	923
Balance on current account	-145	592	5 664	2 647	1 024
Variation in net international reserves	212	609	4 269	2 503	-283

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Annual average variation.

d/ Percentage.

e/ Surplus.

In the external sector, the value of exports rose slightly, while that of imports climbed by 30 per cent, a similar rate to that of 1975, although well below the exceptional 55 per cent recorded in 1974.

The two-thirds drop in the trade surplus led to a drop of over 70 per cent in the surplus on current account, which, together with the deficit of 1,300 million dollars in the net movements of non-compensatory capital, caused a balance-of-payments deficit of about 280 million dollars (see table 1). This had to be absorbed by an equivalent reduction in international reserves, which thus stood at a little under 8,670 million dollars on 31 December.

The rate of inflation declined in 1976, as in 1975. The rise in wholesale prices was 9 per cent, as against 13.6 per cent in 1975 and 16.5 per cent in 1974. The rise in consumer prices in the metropolitan area, for its part, was 7.7 per cent compared with 10.3 per cent in 1975. The drop in the rate of increase of prices was due to a marked decline in the price rises of imports and to various economic policy measures adopted by the Government to hold down inflation. Lower government expenditure, particularly in investment, also helped to reduce the pressure on price level.

As in 1974 and 1975, the Government continued the practice of depositing in the Venezuelan Investment Fund (FIV) the resources which the economy could not absorb smoothly. However, the quantity deposited in 1976 (2,500 million bolívares) was rather lower than in the previous year.

In sum, during 1976 the Venezuelan economy continued the vigorous growth characteristic of recent years. Despite this striking performance, some problems have come to light which are likely to demand the attention of the Venezuelan authorities in the near future. These include the extraordinarily high levels of imports, the relatively slow progress in the growth of non-traditional exports, the rapid monetarization of the economy stemming from the growth of monetary liquidity, the slow progress in the policy of income redistribution, and the gradual closing of the agricultural frontier as a result of the expansion of the cultivated area in recent years.

## 2. Recent economic trends

### (a) Total supply and demand

As already noted, the Venezuelan economy grew vigorously in 1976, since the gross domestic product grew by 7.2 per cent in real terms, compared with 5.5 per cent in 1975 and the annual average of 4.2 per cent during the period 1971-1974.

The growth of the product in 1976 was accompanied by an extraordinary rise in imports of goods and services, the volume of which rose by 21 per cent after having increased at an average rate of 18 per cent annually in 1974-1975. Higher imports, together with increasing production of domestic goods and services, caused similarly exceptional growth of the level of total supply (see table 2).

Among the components of total demand, private consumption continued to follow the unprecedented upward trend which began in 1974. According to preliminary estimates, private consumption grew by over 15 per cent in real terms in 1976.

Capital formation also maintained a significant growth rate. It was largely stimulated by the dynamism imparted to the economy by the public sector through investment projects in basic industries, urban development, highway infrastructure and the agricultural sector. In addition, construction activity in the public and private sectors reached very high levels for the second consecutive year.

The high economic growth rate was accompanied by a significant rise in employment. Already in 1975 the number of unemployed had dropped from 295,000 to 245,000 and employment, which stood at nearly 3.5 million persons in 1975, is estimated to have reached 3.7 million by the end of 1976. The demand for and employment of specialized labour, technicians and professionals also grew stronger in 1976, thus helping to raise levels of productivity and efficiency.



Table 2  
VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sub>a/</sub>	1970	1976 <sub>a/</sub>	1974	1975	1976 <sub>a/</sub>
<u>Total supply</u>	<u>76 697</u>	<u>81 710</u>	<u>89 828</u>	<u>119.5</u>	<u>128.5</u>	<u>2.2</u>	<u>6.5</u>	<u>9.9</u>
Gross domestic product	61 849	65 225	69 922	100.0	100.0	5.9	5.5	7.2
Imports	14 348	16 485	19 906	19.5	28.5	26.0	11.0	20.8
<u>Total demand</u>	<u>76 697</u>	<u>81 710</u>	<u>89 828</u>	<u>119.5</u>	<u>128.5</u>	<u>2.2</u>	<u>6.5</u>	<u>9.9</u>
<u>Domestic demand</u>	<u>64 830</u>	<u>72 384</u>	<u>80 531</u>	<u>94.0</u>	<u>115.2</u>	<u>12.7</u>	<u>11.6</u>	<u>11.3</u>
Gross domestic investment	20 537	22 531	...	27.0	...	8.6	9.7	...
Gross fixed investment	16 500	21 492	...	22.0	...	-2.4	30.3	...
Changes in stocks	4 037	1 039	...	5.0	...	-	-	...
Total consumption	44 351	49 853	...	67.0	...	14.7	12.4	...
General government	9 594	10 936	...	13.4	...	18.1	14.5	...
Private	34 757	38 867	...	53.6	...	13.8	11.8	...
<u>Exports</u>	<u>11 809</u>	<u>9 326</u>	<u>9 297</u>	<u>25.5</u>	<u>13.3</u>	<u>-6.7</u>	<u>-21.0</u>	<u>-0.3</u>

Source: 1970-1976: CLPAL calculations and estimates on the basis of data of the Central Bank of Venezuela and other official data.

a/ Preliminary figures.

(b) Sectoral trends

(i) Petroleum. In 1976 crude oil production dropped by a little over 2 per cent, with average daily production falling from 2.35 million barrels in 1975 to 2.29 million in 1976. Drops of 13 and 21 per cent respectively had already occurred in 1974 and 1975 as a result of the Governments conservationist policy (see tables 3 and 4).

It should be noted, however, that production increased in the course of 1976. It was lowest at the beginning of the year, when the daily average was only 1.7 million barrels. This drop was primarily due to the need to work off the high stocks accumulated in the last quarter of 1975 before the nationalization of the oil industry. A production upturn began in March and the daily average rose to 2.4 million barrels, with this trend continuing in the second half of the year as a result of the bigger purchases by the industrialized countries to meet the fuel needs stemming from their economic recovery. The industrialized countries also increased their purchases in the last quarter of the year in order to build up stocks in anticipation of an OPEC price rise at the end of December. In this period, demand was also stimulated by the extremely hard winter in the United States.

Contrary to what happened in 1975, the production of petroleum products rose steeply in 1976 (see table 3).

The continued drop in oil production since 1971 has led to an appreciable decline in the importance of the oil industry in the sectoral structure of the gross domestic product, measured at constant prices. If the product is computed at current prices, however, the opposite is true: the sector's share then rises from 18.5 per cent in 1970 to 48 per cent in 1974, dropping to a little over 30 per cent in 1976. This growth reflects the rise of international oil prices, which more than offset the production cuts in recent years.<sup>1/</sup>

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<sup>1/</sup> The nationalization of the oil industry has meant that the treatment of the extractive sector in the national accounts has changed somewhat. Thus, there was no longer any justification for using fiscal prices in computing the value of oil exports in the national accounts, since the real and effective prices are the same as those received by the nationalized companies, i.e., the "sales prices".

Table 3

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

	Billions of bolívars at 1970 prices			Percentage breakdown		Annual growth rates		
	1974	1975	1976 <sup>a/</sup>	1970	1976 <sup>a/</sup>	1974	1975	1976 <sup>a/</sup>
Agriculture	4 175	4 512	4 436	7.5	6.6	6.1	8.1	-1.7
Petroleum	9 123	7 081	7 109	22.2	10.5	-11.9	-22.4	0.4
Extraction	7 201	5 690	5 565	18.5	8.2	-13.0	-21.0	-2.2
Refining	1 922	1 391	1 544	3.7	2.3	-7.6	-27.6	11.0
Mining (excluding petroleum)	916	879	737	1.4	1.1	15.0	-4.0	-16.2
Manufacturing	7 169	7 982	8 940	11.3	13.3	9.9	11.3	12.0
Construction	3 175	3 844	4 420	3.8	6.6	-1.5	21.1	15.0
<u>Subtotal goods</u>	<u>24 558</u>	<u>24 298</u>	<u>25 642</u>	<u>46.2</u>	<u>28.0</u>	<u>-1.1</u>	<u>-1.0</u>	<u>5.5</u>
Electricity, gas and water	1 219	1 420	1 600	1.7	2.4	12.8	17.1	12.0
Transport and communications	7 104	7 687	8 149	10.9	12.1	10.2	7.0	6.0
<u>Subtotal basic services</u>	<u>8 403</u>	<u>9 115</u>	<u>9 749</u>	<u>12.6</u>	<u>14.5</u>	<u>10.6</u>	<u>8.5</u>	<u>7.0</u>
Commerce, restaurants and hotels	6 652	7 529	8 282	11.0	12.3	10.4	13.2	10.0
Financial institutions, insurance and real estate	8 257	8 671	9 191	12.9	13.6	7.0	5.0	6.0
Community, social and personal services	11 709	13 242	14 540	17.3	21.6	12.6	12.3	9.8
<u>Subtotal other services</u>	<u>26 690</u>	<u>29 442</u>	<u>32 013</u>	<u>41.2</u>	<u>47.5</u>	<u>10.3</u>	<u>10.3</u>	<u>9.7</u>
<u>Total gross domestic product</u>	<u>59 310</u>	<u>62 548</u>	<u>67 051</u>	<u>100.0</u>	<u>100.0</u>	<u>5.9</u>	<u>5.5</u>	<u>7.2</u>

Source: 1970-1975: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela; 1976: CEPAL estimates on the basis of 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.

Table 4

VENEZUELA: PETROLEUM AND IRON ORE PRODUCTION

	1970	1974	1975	1976	Annual growth rates		
					1971-1974	1975	1976
Crude petroleum <u>a/</u>	3.71	2.98	2.35	2.29	-5.3	-21.0	-2.2
Petroleum products <u>a/</u>	1.30	1.20	0.87	0.96	3.0	-27.6	11.0
Iron ore <u>b/</u>	22.10	26.80	24.77	20.58	5.1	-7.6	-16.9

Source: CEPAL calculations on the basis of data of the Central Bank of Venezuela.

a/ Millions of barrels/day.

b/ Millions of tons.

The volume of oil exports in 1976 is estimated at 787 million barrels, which represents a rise of almost 2 per cent over the previous year. In the period January-November exports of oil products grew by 18.5 per cent and sales of oil products in the domestic market grew by nearly 10 per cent. The fact that these sales only represented about 4 per cent of the total revenue of the industry, while their volume represented 25 per cent of national production, shows the magnitude of the subsidy received by the domestic consumer of oil products.

In order to consolidate the process of nationalization of the oil industry, in the second half of the year the income tax of the operating companies was reduced. In addition, the exchange rate for the proceeds of oil sales was raised from 4.2 to 4.285 bolívares per dollar, and there was a reduction in the adjustments for freight and sulphur content, thus enabling the nationalized companies to swing from an accounting deficit of 1,200 million bolívares to profits of about the same amount. These adjustments led to a net profit of 20 US cents on every barrel sold, which will be available for the industry's investment programmes. Investments authorized by Petróleos de Venezuela (PETROVEN) in 1976 amounted to 1,700 million bolívares.

International oil prices in 1976 remained at the level fixed in October 1975 (11.51 dollars per barrel for Arabian light crude, which serves as a reference price). At the OPEC meeting held in Bali in May 1976 it was decided to freeze the price of hydrocarbons until

/December. However,

December. However, from 1 July Venezuela raised the price of some of its crude and oil products and lowered that of low sulphur fuels, thus bringing the price of its hydrocarbon range more rationally in line with world market conditions, using a procedure accepted by OPEC. The adjustment in question resulted in a slight increase in the average external price of oil (3.8 per cent for the period January-September 1976).

The investments made in 1976 resulted in the drilling of 345 wells, of which 314 were productive. Well-drilling thus increased by 28 per cent over 1975, the last year in which the petroleum sector was controlled by the transnational corporations. Furthermore, in the oil-bearing area of the Orinoco a total of six exploratory wells were drilled in 1976 in order to guide the work and determine the volume and quality of probable reserves in that region.

(ii) Mining. Mining production, excluding petroleum and natural gas, dropped by a little over 16 per cent in comparison with the previous year. This was due primarily to a drop of almost 17 per cent in the production of iron ore, stemming from lower international demand, particularly from the European countries.

Production levels also fell in the case of gold and diamonds. On the other hand, coal production rose by almost 20 per cent, with the beginning of exploitation of the Maricual and Lobatera coalfields.

Despite the drop in production and exports of iron ore, State revenue from this sector was higher than in 1974, the year preceding nationalization of the industry, when production and exports were 30 per cent and 29 per cent higher than in 1976, respectively. Finally, from 1 January 1976 the Empresa Ferrominera Orinoco became responsible for all activities relating to the exploitation of iron ore.

(iii) Agriculture. Preliminary estimates of the Ministry of Agriculture indicate a drop of almost 2 per cent in the agricultural product, stemming from a drop of over 4 per cent in the production of the crop-farming sub-sector and 2 per cent in that of the livestock sub-sector.

/This decline

This decline in agricultural activity in 1976 was to a large extent caused by the adverse weather conditions. Rainfall during the first eight months of the year was above normal levels for the period, while for the same period in 1975 there had been a deficit of about 26 per cent. In particular, the rainy season began early and very heavily in Apure, Bolívar, Barinas, Portuguesa, Yaracuy, the Andean zone and the regions of Barlovento and south of Lake Maracaibo. In almost all these areas the heavy rainfall in the first half of the year caused floods and the overflowing of various rivers. In contrast, in the States of Aragua and Anzoátegui, as well as in part of Carabobo, Buárico, Lara and Zulia, there was a considerable rainfall deficit due to the prolonged summer.

These irregularities in rainfall caused considerable losses in the sowing and harvesting of various crops and also affected beef and dairy livestock production. The crops most damaged included rice, maize, beans, sesame, cotton, potatoes, yuca, garlic, tomatoes, cocoa and sugar cane, which in 1975 accounted for over half the production of the agricultural sub-sector.

In the case of the livestock sub-sector, the information available shows a drop in milk production estimated at over 30 million litres. This reduction was due to the livestock losses caused by the heavy rains and floods, the difficulties these created for product delivery, and the problems resulting from the prolonged summer in the Carora region.

The drop in agricultural production was not generalized, however, since in some crops there were quite substantial increases compared with the previous year. Thus, for example, the sorghum harvest increased by almost 240 per cent, while the production of vegetables, fruit and root crops grew by almost 6 per cent. In the livestock sub-sector there were significant increases in the production of sheep (9 per cent), poultry (6 per cent), pigs (4 per cent) and cattle (nearly 3 per cent). Finally, the data available on fishing activities show a rise in production of about 5 per cent.

/The drop

The drop in the supply of the agricultural sector caused a shortage of various foods and raw materials, which in turn led to higher prices for the products not subject to controls or regulations, as well as to higher imports.

The Government took special measures, primarily in the form of financial assistance, to mitigate the damaging effects of the adverse weather conditions. Furthermore, in the course of 1976 the Government took important decisions aimed at promoting and stimulating agricultural development. These include the introduction of a payment per metric ton harvested for various crops and hybrid maize seed crops; the adoption of partial regulations in respect of the Agrarian Reform Law and the law on the Agricultural Credit Institute for the granting of loans to organizations of peasants; the fixing of new minimum prices for the producer in respect of 15 crops, eggs, chickens, pigs and fish; the creation of an agricultural financing programme to the value of 400 million bolívares, as part of government assistance measures for the flood victims; and the reform of regulations Nº 3 of the General Law on Banks and Other Credit Institutions, which establish new arrangements regarding the resources which the commercial banks must allocate to financing the agricultural sector.

(iv) Manufacturing. The performance of manufacturing was one of the outstanding features of the strong growth of the Venezuelan economy in 1976. According to the available data, it is estimated that the product of the industrial sector grew by 12 per cent in real terms, thus surpassing the high growth rates of 1974 (10 per cent) and 1975 (11 per cent) (see table 3).

The branches producing inputs for construction grew fastest, followed in order of importance by those producing capital goods and consumer goods.

In the first case this performance was due to the strong growth of construction, which stimulated the production of glass, metal products, basic iron and steel products, and products of the basic non-ferrous metal industries. Among the industries producing capital goods, the transport machinery and equipment, motor-vehicle and

/electrical machinery

electrical machinery industries grew particularly fast. Finally, in the consumer goods industries the greatest growth was in the production of foods, beverages and tobacco. It may be noted that the production of vehicles rose by 11 per cent to 160,000 units, compared with 144,300 in 1975. This growth occurred despite the fact that in April the Government imposed an 18-month limit on the financing periods for motor-cars and station wagons.

Steel production at the Siderúrgica del Orinoco steel works (SIDOR) increased by about 50 per cent in physical terms, and company earnings almost doubled. In 1976 SIDOR put out a contract for the construction of a plant for the continuous casting of steel slabs, which will enable it to produce approximately 2.4 million metric tons annually, and a multi-line rolling and wiredrawing mill with an annual capacity of 750,000 metric tons.

Aluminios del Caroní S.A. (ALCASA) increased physical production by 12 per cent, and to ensure raw material supplies over the next five years, signed a 150-million-dollar contract with Jamaica and Surinam for the purchase of alumina.

In the chemicals field, both the Instituto Venezolano de Petroquímica (IVP) and Venezolana de Nitrógeno (NITROVEN) increased production and improved their financial position.

During the year the Government took a series of measures to bring about more integrated development of the industrial sector and improve its infrastructure. Some changes were made in the areas covered by the industrial dispersal policy, and measures were taken to establish 25 industrial areas in different parts of the country, in which an estimated 1,200 manufacturing companies will be set up. Furthermore, the National Steel Board approved 3 steel projects in Zulia, Táchira and Lara involving an investment of a little over 250 million bolívares. The Government also nationalized one of the companies producing powdered milk. Finally, in 1976 the Organic Law on the Environment, designed to rationalize the conservation and use of natural resources was promulgated.

/During the



During the first nine months of 1976 public bodies granted financing to the manufacturing sector totalling 2,660 million bolívares - almost double the amount for the same period of the previous year. More than half of this (1,420 million) was provided by the Venezuelan Development Corporation, followed in order of importance by the Fondo de Crédito Industrial (520 million), the Banco Industrial de Venezuela (425 million) and the Corporación de Desarrollo de la Pequeña y Mediana Industria (about 300 million).

This financial assistance was mainly channelled towards the traditional industries (1,295 million) and intermediate industries (900 million). The industries which benefited most were foods, non-metallic minerals, basic iron and steel, and metal products.

From the regional point of view the most favoured areas were the Centre-North, Coastal and Centre-West regions, which together absorbed over four-fifths of all the credit granted. In the period January-September, the Venezuela Investment Fund paid out nearly 1,800 million bolívares for the financing of manufacturing projects, especially the programmes for the expansion of SIDOR (1,155 million) and ALCASA (210 million).

Over the same period, the Ministry of Development evaluated 675 manufacturing projects: 5 per cent more than in the same period in 1975. Of these, 496 were for new enterprises and 179 for the expansion of existing enterprises. About two-thirds of the projects in question concerned the intermediate and engineering industries, and their implementation would entail investments of 4,300 million bolívares and directly generate about 40,000 jobs.

(v) Construction. In 1976 the construction industry once again had a high growth rate (15 per cent). This was due partly to the increased construction work carried out by the Ministry of Public Works and the National Housing Institute; partly to the execution of some of the civil engineering projects corresponding to the investment projects contained in the Fifth National Plan; and partly to the continued high rate of private housing construction, particularly in the interior of the country.

/Since this

Since this was the second consecutive year in which the growth of construction was particularly high, pressures began to be felt on the construction materials market, particularly the supply of cement. There was also a sharp rise in imports of these materials, and of machinery and equipment. Simultaneously the demand for labour rose steeply, so that the reserves of these resources were gradually exhausted and the upward trend in wages in the construction sector was strengthened. The real growth of construction was also accompanied by further price rises at both the producer and final purchaser levels.

In order to ensure proper supplies of construction materials the Government adopted special customs arrangements in connexion with the facilities for imports of such products, particularly cement. However, cement imports ran up against limits of a physical character, such as the inadequate capacity of Venezuelan ports.

National cement production, although reaching 3.6 million metric tons (4 per cent above the 1975 level), was unable to meet the growing demands of the construction industry. It is estimated that cement consumption rose by about 15 per cent in 1976, and thus a significant part of the demand was met by imports. Since according to preliminary estimates the demand for cement will be about 4 million tons in 1977, various cement works began projects for expansion.

The Government took a series of measures to direct the real estate market towards the construction of low-cost housing. Thus in April a decree was issued which establishes, among other incentives, total or partial exemption from income tax on net gains from the promotion, sale or lease of housing. At the same time, through the Central Bank of Venezuela, limits were placed on the mortgage financing activities of mortgage banks and finance companies, with the aim of orienting these activities towards the financing of housing costing less than 150,000 bolívares.

In 1976 measures were also taken to bring the financing terms offered by the national savings and loan system (SNAP) into line with the new levels of market prices. Housing loans were thus increased to a maximum of 220,000 bolívares for housing construction and up to /80,000 for

80,000 for housing improvement and other purposes. In the first nine months of 1976 SNAP granted mortgages totalling 625 million bolívares: 12 per cent above the level for the previous year. In addition, during the same period the mortgage banks granted loans worth 60 per cent more than in the same period in 1975. Finally, in 1976 the National Urban Development Fund began operations, thus representing a significant stimulus to the activities of the construction industry.

(vi) Services. The indicators available for the services sector show that the growth rates of the different sub-sectors remained at a high level, although somewhat lower than in 1975 (see table 3).

In basic services (electricity, gas and water, and transport and communications) the growth rate dropped from 8.5 per cent in 1975 to 7 per cent in 1976. The picture was similar for other services. The lower growth rate of services was reflected in the index of commercial sales for the metropolitan area of Caracas, which, according to preliminary estimates of the Central Bank of Venezuela, rose by 16 per cent compared with the exceptional 26 per cent of the previous year.

### 3. The external sector

#### (a) External trade

(i) Exports. The value of exports of goods in 1976 is estimated at over 9,100 million dollars: slightly higher than the figure for 1975 <sup>2/</sup> and almost double the 1973 figure (it was at the end of 1973 that the OPEC countries decided to quadruple the price of oil) (see table 5).

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<sup>2/</sup> The figures for the value of exports of petroleum and petroleum products and for the total value of Venezuelan exports in this document differ from those presented by CEPAL in previous studies because the official data have now been changed from the standpoint of the valuation of transactions in the petroleum sector. The oil exports now included have been valued at the sales prices declared by PETROVEN, which are on average 24 per cent lower than those used previously.

Table 5  
VENEZUELA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of US dollars				Percentage breakdown		Annual growth rates		
	1973	1974	1975	1976	1973	1976	1974	1975	1976
<u>Total exports</u>	<u>4 600</u>	<u>11 109</u>	<u>8 899</u>	<u>9 130</u>	<u>100.0</u>	<u>100.0</u>	<u>141.5</u>	<u>-19.9</u>	<u>2.6</u>
Petroleum and petroleum products	4 267	10 572	8 493	8 738	92.8	95.7	147.8	-19.7	2.9
Iron ore	201	252	260	203	4.4	2.2	25.4	6.3	-24.3
Others	132	285	138	189	2.8	2.1	115.9	-5.6	37.0

Table 6  
VENEZUELA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE,  
VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1972	1973	1974	1975	1976
<u>Exports of goods</u>					
Value	1.6	48.4	141.5	-19.9	2.6
Volume	-5.1	4.0	-9.5	-25.0	-
Unit value	7.0	42.7	166.7	6.8	2.6
<u>Imports of goods</u>					
Value	17.6	18.1	56.2	30.0	27.8
Volume	11.1	-	25.7	12.0	17.2
Unit value	5.9	18.1	24.2	16.1	9.0
<u>Terms of trade</u>	1.1	20.8	114.7	-8.0	-5.7

The moderate growth of external sales stemmed from the stagnation of their volume and a rise of nearly 3 per cent in their unit value (see table 6). The latter was caused by the above-mentioned rise in the average price of Venezuelan oil exports.

Because of the sharp drop in exports of iron ore and the rise in oil exports, the relative importance of the latter in the total value of exports increased still further, reaching almost 96 per cent. Non-traditional exports rose sharply after their drop in the previous year, but their share in the total value of exports remained marginal (see table 5).

(ii) Imports. Imports of goods and services, on the other hand, rose by a large amount for the third consecutive year. In 1976 their value increased by over 30 per cent, reaching a total three times that of 1972 (see table 7).

The main factor underlying the strong growth of imports of goods was the rise in the quantum (see table 6). Indeed, the growth of the physical volume of imports induced by the vigorous growth of the Venezuelan economy and the abundant supply of foreign exchange was so great that it caused serious problems of overcrowding in the country's ports, and this was responsible for some of the exceptional 40 per cent rise in transport costs in 1976, which was more than three times the growth rate of the total trade in goods (see table 7).

The rise in the value of imports was also partly due to the rise in average prices. Although rather lower than in the previous three years, this rise was nevertheless substantial (see table 6).

From the standpoint of the breakdown of imports, the biggest increases were in plant and machinery, transport equipment and food.

Geographically, a very high proportion (46 per cent) of imports came from the United States. The Federal Republic of Germany (9 per cent), Japan (8 per cent), the United Kingdom (6 per cent) and Italy (5 per cent) were also important suppliers. Finally, imports from LAFTA countries and the Central American Common Market also increased during 1976.

Table 7  
VENEZUELA: BALANCE OF PAYMENTS  
(Billions of US dollars)

	1972	1973	1974	1975	1976 <sub>a/</sub>
<b>Current account</b>					
Exports of goods and services	3 323	4 921	11 540	9 405	9 660
Goods FOB	3 100	4 600	11 109	8 899	9 130
Services	223	321	431	506	530
Transport	57	80	106	121	130
Travel	73	119	174	215	220
Imports of goods and services	2 886	3 373	5 239	6 697	8 737
Goods FOB	2 222	2 625	4 101	5 330	6 811
Services	664	748	1 138	1 367	1 926
Transport	317	342	485	622	872
Travel	182	198	289	324	400
Net payments of profits and interest on foreign capital	-493	-851	-507	37	313
Profits	-476	-849	-686	-350	-301
Interest	-17	-2	179	337	674
Net private transfer payments	-89	-105	-130	-98	-212
Balance on current account	-145	592	5 664	2 647	1 024
<b>Capital account</b>					
Net external financing (a+b+c+d+e)	145	-592	-5 664	-2 647	-1 024
(a) Net external non-compensatory capital	-134	229	-983	-539	} -1 307
Direct investment	-376	-60	-191	-475	
Long- and medium-term loans	236	212	137	146	
Amortization payments	-113	-132	-313	-136	
Short-term liabilities	124	215	48	-16	
Official transfer payments	-5	-6	-64	-58	
(b) Domestic non-compensatory capital or assets	-122	6	-465	-463	
(c) Errors and omissions	575	-218	-547	358	
(d) Allocation of SDRs	38	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-212	-609	-4 269	-2 503	283
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	8	3	...
Amortization payments	-3	-2	-	-	...
Variation in gross international reserves (minus sign signifies an increase)	-209	-607	-4 277	-2 508	...
Foreign exchange reserves (minus sign signifies an increase)	-171	-607	-3 926	-2 013	...
Gold reserves (minus sign signifies an increase)	-	-	-349	-491	...
SDRs (minus sign signifies an increase)	-38	-	-2	-4	...

a/ Preliminary figures.

/(iii) The

(iii) The terms of trade. As a result of the bigger rise in the unit value of imports than of exports, the terms of trade deteriorated by 6 per cent. Despite this decline and that which occurred in 1972, the level in 1976 was double that in 1973, because of the spectacular improvement in 1974 resulting from the higher oil prices decided on by the OPEC countries at the end of 1973.

(b) The balance of payments

As a result of the small increase in exports and the great rise in imports, the trade surplus fell markedly for the second consecutive year. In 1976 it amounted to a little over 920 million dollars: one-third of the figure for 1975 and only one-seventh of the record surplus of 6,300 million dollars recorded in 1974 for the trade in goods.

On the other hand, net earnings from profits and interest continued to increase. This item, which had shown a deficit up to 1974, showed a small surplus in 1975 primarily caused by the interest payments the country began to receive from the large external financial investments made by FIV. This trend was accentuated in 1976, when the country received almost 675 million dollars in net interest, while remittances of profits rose only slightly after dropping sharply in the previous year (see table 7).

The surplus on current account was thus 100 million dollars greater than the trade surplus, but it too dropped considerably, from almost 2,650 million dollars in 1975 to nearly 1,025 million in 1976, which represents less than one-fifth of the enormous current account surplus recorded in 1974.

The current account surplus was also smaller than the deficit on capital transactions. Consequently international reserves dropped by a little over 280 million dollars, although even so at the end of 1976 they still stood at about 8,670 million dollars - the equivalent of the value of imports for approximately 15 months.

/4. Prices

#### 4. Prices and monetary and fiscal developments

##### (a) Prices

Price trends in 1976 were better than in the previous year, with a decline in the rate of inflation for the second consecutive year. The wholesale price index rose 9 per cent, as against nearly 14 per cent in 1975, and the consumer price index for the metropolitan area rose by a little under 8 per cent compared with 10 per cent in the previous year (see table 8).

In contrast with the three previous years, in 1976 the prices of domestic products rose less than those of imports. This occurred despite the readjustment of the prices of various agricultural products in April. This result reflected in part the effect of the Government's anti-inflation policy centred on price controls, subsidies for essential articles and credit restrictions on the purchase of real estate and luxury goods.

##### (b) Monetary trends

In 1976 the rate of growth of money declined substantially. Nevertheless it continued to be high, for between December 1975 and December 1976 the quantity of money increased by 18 per cent. Substantial though this rise was, it was nevertheless rather smaller than the 38 per cent recorded in 1974 and, above all, the figure of over 50 per cent in 1975. The growth rate of savings and time deposits, although much higher than that of money, was likewise more moderate in 1976 than in 1975 (see table 9).

Unlike what occurred in 1974 and 1975, when the extraordinary rise in net international reserves was the main factor underlying the strong growth of the supply of money, in 1976 reserves declined slightly, thus helping to limit the growth of the money supply.

The trend in net loans to the Government and public institutions also contributed to the reduction of the money supply, since net loans by the monetary system to the Government declined in 1976, as they had done in the two previous years. This downward trend was accompanied, for the second consecutive year, by a drop in loans to public institutions, which fell by 46 per cent (see table 9).



Table 8

VENEZUELA: EVOLUTION OF DOMESTIC PRICES

	1971	1972	1973	1974	1975	1976
	<u>Annual average variation</u>					
<u>Consumer price index a/</u>	<u>3.2</u>	<u>2.9</u>	<u>4.1</u>	<u>8.3</u>	<u>10.3</u>	<u>7.7</u>
Food	3.4	4.9	7.6	12.7	14.7	8.8
<u>Wholesale price index:</u>	<u>3.5</u>	<u>3.5</u>	<u>6.3</u>	<u>16.5</u>	<u>13.6</u>	<u>2.0b/</u>
Imported products	4.9	4.5	5.4	16.2	12.2	10.4
Domestic products	2.3	2.7	7.2	16.7	14.3	8.1
	<u>Variation from December to December</u>					
<u>Consumer price index a/</u>	<u>3.0</u>	<u>3.5</u>	<u>5.1</u>	<u>11.6</u>	<u>8.0</u>	<u>6.9</u>
Food	3.5	7.4	8.1	13.2	8.7	8.2
<u>Wholesale price index:</u>	<u>3.7</u>	<u>2.7</u>	<u>11.0</u>	<u>19.9</u>	<u>8.6</u>	<u>9.1</u>
Imported products	4.4	3.7	12.1	17.0	5.4	10.4
Domestic products	3.1	2.1	10.3	21.9	10.9	8.2

Source: President of Venezuela, Mensaje al Congreso de la República, May 1975 and May 1976;  
Central Bank, Informe económico, 1970, 1971, 1972, 1973, 1974 and 1975.

a/ Cost-of-living Index for the Caracas metropolitan area.

b/ Provisional figures, January-October.

Table 9  
 VENEZUELA: MONETARY POSITION  
 (Millions of bolívares)

	Balance at end of:				Annual growth rates		
	1973	1974	1975	1976	1974	1975	1976
1. <u>Money</u>	<u>11 597</u>	<u>15 975</u>	<u>24 034</u>	<u>28 273</u>	<u>37.8</u>	<u>50.5</u>	<u>17.6</u>
2. <u>Factors of expansion</u>	<u>24 730</u>	<u>42 926</u>	<u>59 900</u>	<u>68 489</u>	<u>73.6</u>	<u>39.6</u>	<u>14.9</u>
Foreign assets (net)	10 491	27 848	37 750	37 226	135.5	35.6	-1.4
Domestic credit	14 239	15 073	22 150	31 263	5.9	46.9	41.2
Claims on government (net)	-473	-4 491	-7 120	-8 743			
Claims on official entities	162	209	138	74	29.0	-34.0	-46.4
Claims on private sector	14 550	19 360	29 132	39 932	33.1	50.5	37.1
3. <u>Factors of absorption</u>	<u>13 132</u>	<u>26 951</u>	<u>35 865</u>	<u>40 218</u>	<u>105.2</u>	<u>33.1</u>	<u>12.1</u>
Quasi-money (savings and time deposits)	8 139	9 735	14 866	21 414	18.9	52.7	44.1
Investment funds	-	11 772	16 344	11 652	-	38.8	-23.7
Other items (net)	4 944	5 444	4 655	7 152	10.1	-14.5	53.7

Source: IF, International Financial Statistics, May 1977.

/Consequently, the

Consequently, the growth of the money supply was caused exclusively by the growth of credit to the private sector and the decline in the deposits in the different investment funds of the Government.

Loans by the monetary system to private entities continued to increase very rapidly in 1976, with the result that by the end of the year their amount was double that of only two years previously.

Moreover, Venezuelan Investment Fund (FIV) deposits with the Central Bank and the commercial banks dropped by 29 per cent, thus contributing to the expansion of the money supply.

This reduction reflected both the decline of fiscal inputs to the FIV in 1976 and the rise in the latter's investments. In 1976 the most important FIV operation was the allocation of resources to the programme for the financing of domestic economic activity through loans and shares in the capital of domestic companies. This meant that the programme came to account for more than half of all resources allocated to financial assistance programmes.

On the other hand, placements in the external financial market dropped, particularly in the case of time deposits. The resources allocated by FIV to the international financial co-operation programme increased by a little over 1 billion bolívares in comparison with the previous year. Fifty-five per cent of those resources were in the form of loans, mainly to the Central Banks of some Latin American countries to finance investment projects based on commitments undertaken in earlier years. The remainder took the form of contributions to the trust funds of the Inter-American Development Bank and the Caribbean Development Bank.

(c) Fiscal trends

During 1976 the trends in public finances were somewhat similar to those in 1975, in that current income, saving and capital expenditure of the central government again declined, while current expenditure further increased (see table 10).

/Table 10

Table 10

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolívores				Annual growth rates		
	1973	1974	1975	1976 <sup>a/</sup>	1974	1975	1976
1. <u>Current income</u>	<u>13 055</u>	<u>42 602</u>	<u>40 898</u>	<u>38 134</u>	<u>165.4</u>	<u>-4.0</u>	<u>-6.8</u>
Petroleum	11 376	36 671	31 612	27 385	222.3	-13.3	-13.4
Direct tax revenue <sup>b/</sup>	3 070	3 747	5 282	6 608	21.3	41.0	25.1
Indirect tax revenue	911	1 020	2 224	2 009	12.0	110.0	-9.7
Import duties	698	1 163	1 700	2 132	66.6	52.1	12.8
2. <u>Current expenditure</u>	<u>10 119</u>	<u>15 368</u>	<u>19 339</u>	<u>21 542</u>	<u>51.9</u>	<u>25.8</u>	<u>11.4</u>
Wages and salaries	5 030	6 541	8 008	...	30.0	22.4	...
Other current expenditure	5 089	8 827	11 331	...	73.4	28.4	...
3. <u>Saving on current account</u>	<u>5 936</u>	<u>27 234</u>	<u>21 559</u>	<u>16 592</u>	<u>358.8</u>	<u>-20.8</u>	<u>-23.0</u>
4. <u>Capital expenditure</u>	<u>4 923</u>	<u>24 691</u>	<u>21 031</u>	<u>17 924</u>	<u>401.5</u>	<u>-14.8</u>	<u>-14.8</u>
Real investment	1 696	2 196	2 914	3 678	29.5	32.7	26.2
Transfers	448	742	2 727	13 606	65.6	267.5	-23.4
Financial investment <sup>c/</sup>	2 309	21 165	15 035				
Debt service	470	588	355	640	25.1	-39.6	80.3
5. <u>Total expenditure (2+4)</u>	<u>15 042</u>	<u>40 059</u>	<u>40 370</u>	<u>39 466</u>	<u>136.3</u>	<u>-1.0</u>	<u>-2.2</u>
6. <u>Fiscal surplus (1-5)</u>	<u>1 013</u>	<u>2 543</u>	<u>528</u>	<u>-1 331</u>	<u>151.0</u>	<u>-79.2</u>	<u>-</u>
7. <u>Financing</u>	<u>379</u>	<u>241</u>	<u>102</u>	<u>5 013</u>	<u>-36.2</u>	<u>-57.7</u>	<u>4 815.0</u>
External	61	48	77	4 371	-21.3	60.4	5 576.6
Domestic	318	193	25	642	-39.3	-87.6	2 468.0
8. <u>Final surplus (6+7)</u>	<u>1 392</u>	<u>2 784</u>	<u>630</u>	<u>2 682</u>	<u>100.0</u>	<u>-7.4</u>	<u>484.4</u>

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including royalties.

c/ Including contributions to the Venezuelan Investment Fund.

The decisive factor in the drop in current income was the drop in the tax yield from the oil sector, which declined for the second consecutive year by over 13 per cent. In 1976, however, this decline was basically due to the institutional changes accompanying the nationalization of the oil companies, which altered the traditional distribution of the surplus generated by the oil sector between the central government and the companies. Thus, in 1976 the tax on the income of the companies was reduced from 72 to 65.5 per cent, and they were allowed to include among their costs their contributions to Petr6leos de Venezuela (PETROVEN), equal to one-tenth of their net export earnings.

Revenue from taxes on imports and, above all, direct taxation rose steeply, however, although in both cases at a lower rate than in 1975 (see table 10).

In contrast with the downward trend of current income, current expenditure rose once again, and in 1976 it was double the 1973 level. Its rise in 1976 was smaller than in previous years, however, and only slightly exceeded the rate of inflation.

Nevertheless, the rise in current expenditure coupled with the drop in current income meant that for the second consecutive year central government saving on current account dropped by more than one-fifth. This substantial fall meant that for the first time in the last four years current saving was not sufficient to cover the government's total capital expenditure, although the latter again declined by 15 per cent in 1976 (see table 10).

The drop in capital expenditure was entirely due to the decline in financial investment and transfers. In contrast, real investment and, above all, debt service rose very sharply.

The drop in financial investment was primarily due to the smaller contribution by the government to the FIV. The contribution in 1976 was 2,500 million bol6vares: only one-third of the allocation in 1975 and less than one-fifth of the contribution of 13 billion bol6vares made in 1974.

/The drop

The drop in financial investment caused by the smaller contribution to the FIV was not offset by the bigger allocations made in 1976 by the central government to the Industrial and Agricultural Credit Funds (1,560 million bolívares); the creation of the Urban Development Fund (500 million bolívares); and to the Special Fund of the Oil-Exporting Countries for providing financial assistance to the developing countries (200 million bolívares).

Since current income shrank more than total expenditure, the current operations of the central government showed a deficit for the first time since 1971. The amount, however (1,330 million bolívares), was much smaller than the 5 billion bolívares which the government obtained from public borrowing operations. Almost 90 per cent of this extraordinary income stemmed from a 1 billion dollar loan contracted with 25 foreign banks to finance and refinance short-term external liabilities of various government bodies.



