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RECENT ECONOMIC DEVELOPMENTS IN LATIN AMERICA AND THE CARIBBEAN */

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FOREWORD

At its twenty-first session, held in Mexico City from 17 to 25 April 1986, the Commission adopted, resolution 479 (XXI) containing the ECLAC calendar of conferences for the period 1986-1988. As is usual, this calendar includes a session of the Committee of the Whole (nineteenth session), preceded by the thirteenth session of the Committee of High-Level Government Experts (CEGAN).1/

The Secretariat considers that this is a suitable occasion for summarizing some of the main developments of recent months and presenting to the governments of member States some reflections on their effects on the economies of the region and on the design and implementation of economic policy.2/ In accordance with the mandate contained in ECLAC resolution 478 (XXI), special attention is given to the topic of the external debt in this.

I. TRENDS AND PROSPECTS OF THE WORLD ECONOMY

Although the member countries of the Organization for Economic Co-operation and Development (OECD) have been going through a long period of economic expansion since 1982, in recent years this process has gradually been slowing down. At the same time, the forms of interdependence of these economies have now become more complex, and in practice the structural imbalances deriving from their mutual economic relations are tending to get worse.

The persistence of the trade and fiscal deficits of the United States and the big trade surpluses of Germany and Japan have made necessary greater economic co-ordination among the main member countries of that Organization. To begin with, the corrective measures were applied only to the exchange and financial markets, in an effort to bring down the value of the dollar and reduce interest rates. More recently, however, awareness has grown up of the need to co-ordinate fiscal policies too, especially in order to enable Germany and Japan to reactivate their domestic economies and thus shoulder greater responsibility for promoting world growth, in view of the United States' need to correct its external deficit.

In spite of all the efforts made, the imbalances still persist. Indeed, the tensions between the United States and Japan have increased in recent months. Against this background, it is not possible to rule out a resurgence of protectionism in which the EEC would also be involved, particularly as the total number of unemployed in the OECD countries has tended to stabilize at around 30 million persons.

The projections prepared both by the International Monetary Fund (IMF) and by the OECD on the growth rate of the industrialized countries in 1986 were higher than the real results. The expected growth rate was close to 2.8%, while the actual rate was only 2.5%, according to the OECD itself. This has led to a reduction in the growth projections of the central countries, which are now estimated by the IMF at around 2.3% for 1987 and 2.8% for 1988.

Among the factors which slowed down the performance of these nations (except the United States) were the slower growth of their volume of exports of manufactures and the sluggish response of their domestic demand in spite of the drop in world prices of oil and primary commodities, with a consequent restrictive effect on external demand. This behaviour can also be attributed to the decline in the import capacity of the oil-exporting countries and the rest of the developing countries, due both to the deterioration in commodity prices and to the need to secure foreign exchange to service the external debt.

In general, the monetary and fiscal policies of the industrialized countries (except the United States) did not try to speed up growth. In almost all cases it was preferred to seek a reduction in the fiscal deficit and moderate monetary expansion. In the United States, in contrast, the Federal Government deficit increased by 4.1% in 1986 compared with 1985 in nominal terms, amounting to US$ 221 billion as against the figure of US$ 203 billion projected at the beginning of the year and US$ 172 billion laid down by the Gramm-Rudman-Hollings Act.

Inflation in the industrialized countries, for its part, maintained up to 1986 the downward trend observed in recent years, the average rate for that year being 2.1%. For 1987, the IMF and the OECD expect inflation to increase to 3%.

The drop in the international prices of most commodities, together with the devaluation of the dollar which has taken place since 1985, is helping to reduce the domestic prices of imports in Europe and Japan. It is expected, however, that these factors will be at least partly offset by the speeding up of acceleration in those countries due to the rise which is to be observed in oil prices and a more expansionary fiscal policy. The latter is explained both by the repeated United States moves to secure an increase in public expenditure in the rest of the OECD countries (especially Germany and Japan) and also by the need of those economies to increase their level of domestic activity during the present year.

At the same time, most observers consider that as from 1987 inflation in the United States will speed up mainly in two ways. One of these is through the increased cost of that country's imports, on account of the depreciation of the dollar and the intensification of protectionist pressures. The second is the increase in the financial costs of production due to the upward tendency which has been observed in recent months in United States interest rates, as a reflection of the imbalances mentioned earlier.

In recent years, the rate of expansion of world trade in general has been below that of the expansion of economic activity in the developed countries, and this is explained in part by the fact that vast developing regions have not benefited from the long period of growth enjoyed by the central economies. Thus, according to IMF and OECD estimates, in 1986 the growth in the volume of exports of the developed countries did not exceed 3%: i.e., it was 1.3% less than the 1985 figure. The forecasts of the same organizations for 1987 are between 3.1% and 3.5%: relatively low rates which have been negatively affected by the growing protectionism of the developed nations.

With regard to exchange rates and interest rates, various measures have been taken by the industrialized countries since the second half of 1985. The dollar had been going down in value since March 1985, but in September of that year the so-called Group of Five signed the Hotel Plaza Agreement aimed at promoting a reasonable and orderly depreciation of the dollar with respect to the main world currencies. Between that date and May 1987, the deutsche mark and the yen have appreciated by nearly 35% with respect to the dollar. Even so, however, there has not been any significant reduction in the United States deficit in its trade with Germany and Japan.

In addition, through a process of co-ordination of economic policies it had proved possible until a few months ago to achieve a gradual drop in international interest rates, both in the case of the prime rate and of LIBOR. As from last April/May, however, this downward trend was reversed, especially because the United States prime rate began to rise in order to counter both a decline in the value of the dollar which was considered more rapid than was acceptable and some resurgence of inflationary expectations in that country. Likewise, LIBOR has also followed an upward path.

The above measures show the desire of the main industrialized countries to reach rapid agreements designed to reduce tensions and plot the future of the international economy and its main variables in a more stable manner. In addition, the new multilateral trade negotiations within the framework of the Uruguay Round in GATT can and must be used by the industrialized countries to improve the main bases of the functioning of world trade.

To sum up, although during 1986 there were some phenomena which were of a positive nature for most of the countries in Latin America and the Caribbean, (such as the drop in interest rates mentioned earlier), generally speaking the effects of international economic developments have continued to be negative in view of the slow evolution of the OECD economies, the negative net transfer of financial resources from the region, the depressed demand for basic commodities, and the tendency towards all kinds of restrictions on international trade.

II. THE RECENT EVOLUTION OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN

In 1986, the economic evolution of Latin America was singularly complex, for while the main domestic variables —production, employment, inflation— generally showed positive changes, most of the external sector indicators displayed a clear deterioration (see table 1 and figure 1). Moreover, the changes which took place in the situation of the region as a whole were the final result in a number of cases of the very uneven and sometimes even opposing changes which took place in the different economies of Latin America and the Caribbean. On the one hand —as was to be expected in view of the collapse in the world price of petroleum— the economic evolution was more favourable in the case of the countries which import that commodity than in those which export it. On the other hand, economic growth tended to be concentrated in the large and medium-sized economies of the region, whereas in most of the smaller countries it was insufficient to offset the effects of population growth.

1. Production and employment

In 1986, the gross domestic product of Latin America increased by 3.8%, which was a similar rate to that of 1984 and an improvement on the rate of only 2.6% registered the year before. As a result, the per capita product grew by 1.5% after having increased by only 0.3% in 1985. Even so, for the region as a whole it was still nearly 8% below that of 1980 —the year before the crisis started— and it was only slightly over the level already reached in 1978.

In contrast with what had occurred in the previous two years, in 1986 the expansion in economic activity was concentrated in the non-oil-exporting countries, whose product grew by 6.7%. In contrast, the product of the oil-exporting countries as a whole went down by 1.4%, mainly as a result of the drop of nearly 4% in economic activity in Mexico (see table 2). The uneven performance of the economies of the region is reflected, on the one hand, in the high growth rates achieved in Peru (8.7%), Brazil (8.2%), Uruguay (6.6%) and Argentina, Colombia and Chile (between 5% and 6%) and, on the other, in growth rates lower than those of population increase in Mexico, Bolivia and Paraguay and almost all the countries of Central America and the Caribbean except Barbados, Costa Rica, Panama and Cuba (see table 3).

Table 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS a/

Indicators	1980	1981	1982	1983	1984	1985	1986 b/
Gross domestic product at market prices (index base year 1980 = 100)	100.0	100.0	98.5	96.1	99.5	102.0	105.9
Population (millions of inhabitants	355	363	372	380	389	398	406
Per capita gross domestic product (index base year 1980 = 100)	100.0	97.7	94.0	89.6	90.7	91.0	92.3
			Growth rates				
Gross domestic product	5.3		-1.5	-2.5	3.5	2.6	3.8
Per capita gross domestic product	2.8	-2.3	-3.7	-4.7	1.2	0.3	1.5
Consumer prices c/	56.1	57.6	84.8	131.1	185.2	275.3	64.9
Terms of trade (goods)	4.3	-5.8	-9.0	1.1	6.5	-5.0	-8.7
Purchasing power of exports of goods	10.3	1.9	-7.6	10.1	13.3	-4.8	-9.7
Current value of exports of goods	32.3	7.6	-8.8	0.1	11.7	-5.9	-15.3
Current value of imports of goods	34.9	8.1	-19.8	-28.5	4.0	0.3	1.6
			Billions of dollars				
Exports of goods	89.1	95.9	87.4	87.5	97.7	92.0	77.9
Imports of goods	90.4	97.6	78.3	56.0	58.3	58.5	59.4
Trade balance (goods)	-1.3	-1.9	9.1	31.5	39.4	33.5	18.5
Net payments of profits and interest	17.9	27.2	38.7	34.3	36.2	35.3	30.7
Balance on current account d/	-28.3	-40.3	-41.0	-7.6	-0.2	-4.0	-14.1
Net movement of capital e/	29.4	37.5	20.0	3.2	9.2	2.4	8.5
Global balance f/	1.4	-2.8	-21.0	-4.4	9.0	-1.6	-5.6
Total disbursed external debt g/	227.8	285.4	328.0	348.4	361.6	371.5	386.2

Source: ECLAC, on the basis of official data.

a/ The figures for the gross domestic product and consumer prices refer to the group formed by the countries included in table 2, except Cuba (23 countries). The data on the external sector relate to the 19 countries mentioned in table 7.

b/ Preliminary figures.

c/ Variation from December to December.

d/ Includes net unrequited private transfer payments.

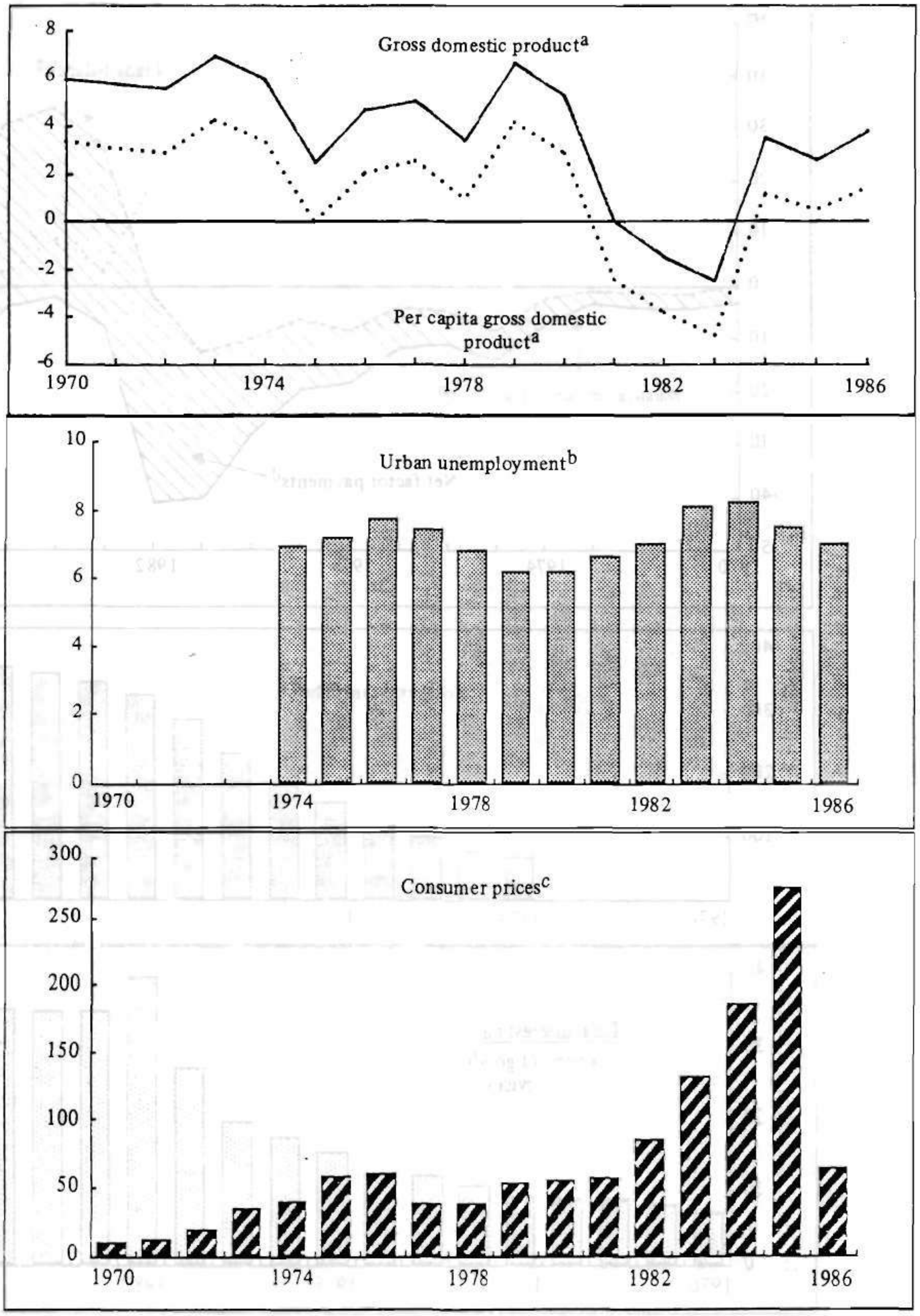
e/ Includes long and short-term capital, official unrequited transfer payments and errors and omissions.

f/ Relates to the variation in international reserves (of reverse sign) plus counterpart items.

g/ See notes to table 10.

Figure 1

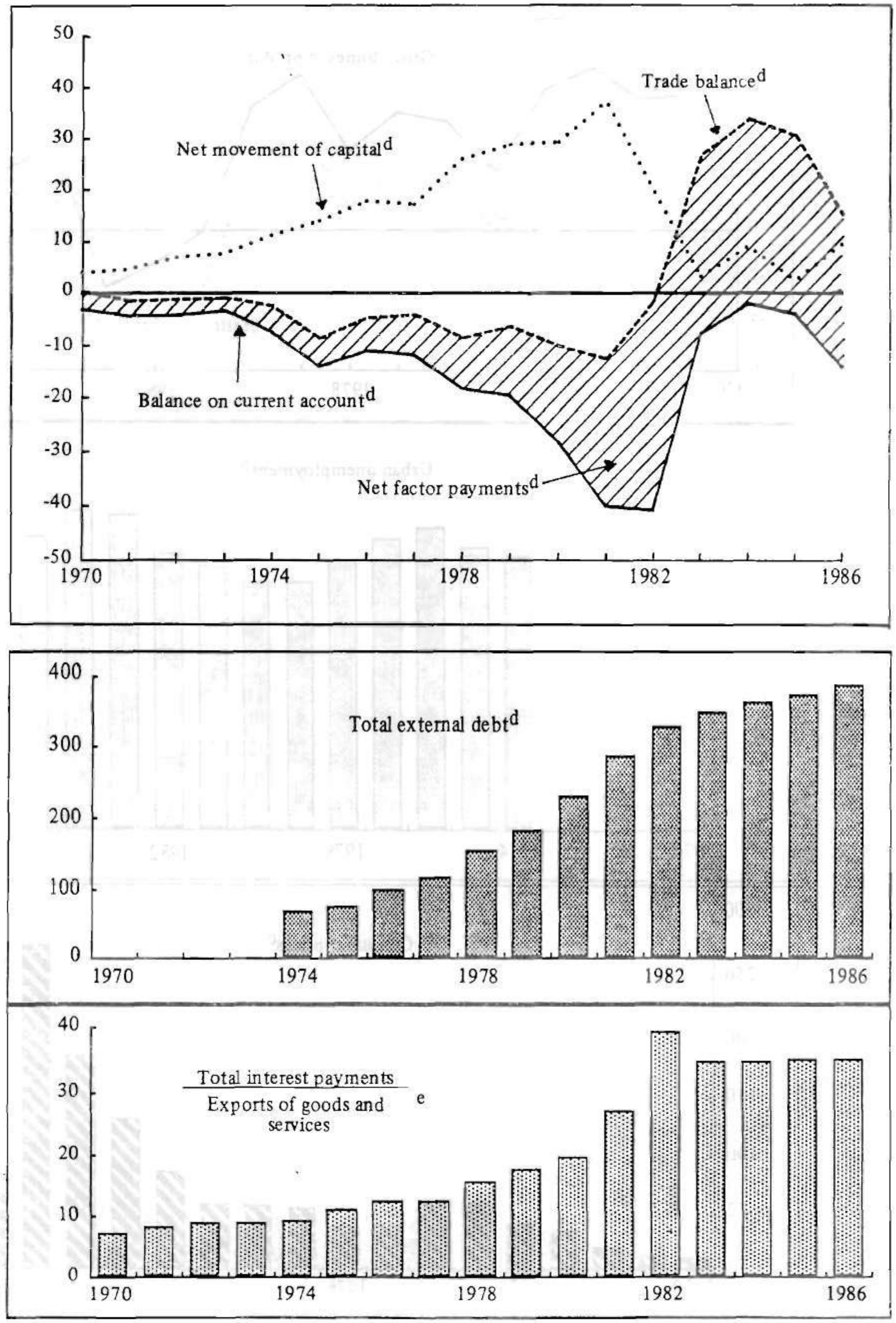
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

[a]Annual growth rate. [b]Weighted average annual rate for 18 of the 25 most populous cities of Latin America. [c]Percentage variation from December to December.

Figure 1 (concluded)



[d]Billions of dollars. [e]Percentages.

Table 2

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT

Country	Annual growth rates						Cumulative variation
	1981	1982	1983	1984	1985	1986 a/	1981-1986 a/
Latin America and the Caribbean (excluding Cuba)	-1.5	-2.5	3.5	2.6	3.8	6.1	
Oil-exporting countries	5.6	-0.3	-5.6	2.5	1.8	-1.4	2.8
Bolivia	0.3	-2.8	-6.6	-0.9	-1.7	-2.9	-13.8
Ecuador	3.8	1.1	-1.2	4.8	4.9	3.0	17.4
Mexico	8.3	-	-5.2	3.5	2.7	-3.8	4.8
Peru	4.0	0.1	-11.9	5.0	2.6	8.7	7.4
Trinidad and Tobago	-0.2	0.3	-9.7	-6.6	-3.1	...	...
Venezuela	-1.0	-1.3	-5.6	-1.0	-0.6	3.3	-6.1
Non-oil-exporting countries	-3.2	-2.2	-0.5	4.1	3.0	6.7	7.9
Argentina	-7.1	-5.3	2.4	2.3	-4.7	6.0	-6.9
Barbados	-2.0	-5.2	0.4	3.6	0.9	5.6	3.1
Brazil	-3.4	0.9	-2.4	5.7	8.3	8.2	17.7
Colombia	2.3	1.0	1.9	3.8	2.8	5.4	18.4
Costa Rica	-2.4	-7.3	2.7	7.9	0.9	3.0	4.1
Cuba b/	16.0	3.8	4.9	7.3	4.8	2.5	45.7
Chile	5.2	-13.1	-0.5	6.0	2.4	5.4	4.1
El Salvador	-8.4	-5.7	0.6	1.4	1.4	-0.5	-11.1
Guatemala	1.0	-3.4	-2.7	-	-0.9	-	-6.0
Guyana	-0.7	-10.8	-10.3	5.8	1.8	...	...
Haiti	-2.7	-3.5	0.6	0.4	0.2	0.6	-4.3
Honduras	1.0	-1.6	-0.6	-	2.9	1.2	6.1
Jamaica	2.4	-0.2	1.2	-	-5.4	...	...
Nicaragua	5.4	-0.8	4.4	-1.4	-4.1	-0.4	2.8
Panama	4.0	4.9	-0.1	-0.4	4.1	3.1	16.4
Paraguay	8.8	-0.8	-3.0	3.3	4.0	-0.3	12.1
Dominican Republic	4.0	1.4	4.4	0.5	-2.0	1.8	10.2
Uruguay	1.4	-10.1	-6.1	-1.2	-0.2	6.6	-9.9

Source: ECLAC, on the basis of official data.

a/ Preliminary figures.

b/ Refers to total social product.

Table 3

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

Country	Annual growth rates						Cumulative variation
	1981	1982	1983	1984	1985	1986 a/	1981-1986 a/
Latin America and the Caribbean (excluding Cuba)	-2.3	-3.7	-4.7	1.2	0.3	1.5	-7.7
Oil-exporting countries	2.8	-2.9	-8.1	-0.1	-0.7	-3.8	-12.1
Bolivia	-2.3	-5.4	-9.0	-3.5	-4.4	-5.5	-26.7
Ecuador	0.8	-1.8	-4.0	1.8	2.0	0.2	-1.2
Mexico	5.4	-2.6	-7.6	0.9	-0.1	-6.1	-10.2
Peru	1.3	-2.5	-14.1	2.3	-	5.9	-8.1
Trinidad and Tobago	-0.8	-0.5	-10.6	-7.6	-4.2	...	...
Venezuela	-3.9	-4.1	-8.2	-3.7	-3.2	0.6	-20.7
Non-oil-exporting countries	-5.3	-4.3	-2.6	1.9	0.9	4.5	-5.0
Argentina	-8.6	-6.8	0.7	0.7	-6.1	4.4	-15.3
Barbados	-2.7	-5.9	-0.4	2.5	0.1	4.9	-1.9
Brazil	-5.6	-1.4	-4.5	3.4	5.9	5.9	3.1
Colombia	0.1	-1.1	-0.3	1.6	0.7	3.2	4.1
Costa Rica	-5.0	-9.7	-	5.1	-1.7	0.5	-11.0
Cuba b/	15.3	3.0	3.9	6.3	3.7	1.5	38.1
Chile	3.5	-14.5	-2.2	4.3	0.7	3.7	-5.9
El Salvador	-9.6	-6.5	-0.2	0.5	0.1	-2.1	-17.0
Guatemala	-1.8	-6.1	-5.4	-2.8	-3.7	-2.8	-20.7
Guyana	-2.6	-12.6	-12.0	3.9	-0.1	...	...
Haiti	-4.4	-5.2	-1.1	-1.4	-1.6	-1.2	-14.2
Honduras	-2.4	-4.9	-3.9	-0.3	-0.4	-2.0	-13.2
Jamaica	1.1	-1.5	-0.2	-1.4	-6.7	...	...
Nicaragua	2.0	-4.0	1.0	-4.7	-7.3	-3.7	-15.8
Panama	1.7	2.7	-2.2	-2.6	1.9	0.9	2.3
Paraguay	5.3	-4.0	-6.0	-	0.9	-3.4	-7.4
Dominican Republic	1.5	-1.1	1.9	-1.9	-4.3	-0.5	-4.4
Uruguay	0.8	-10.7	-6.7	-1.9	-0.9	5.9	-13.6

Source: ECLAC, on the basis of official figures for the gross domestic product. The population figures are taken from CELADE estimates published in Boletín Demográfico, Vol. XIX, No. 38, July 1986.

a/ Preliminary figures.

b/ Refers to total social product.

As a result of this evolution, in 1986 there was a continuation of the deterioration observed since the beginning of the present decade in the living conditions of the masses in the relatively poorer economies of Latin America. Thus, in the period 1981-1986 the per capita product fell by nearly 27% in Bolivia, almost 21% in Guatemala, 17% in El Salvador, 16% in Nicaragua and over 13% in Honduras and Haiti. In the same period it also went down sharply in countries with considerably higher levels of income and development, as in the case of Venezuela (-21%), Costa Rica (-11%) and Mexico (-10%), and in spite of the recovery observed in 1986, it still registered considerable declines in Argentina (-15%), Uruguay (-14%) and Peru (-8%).

The explanation for the uneven growth registered in 1986 lies in the variety of different circumstances characterizing the evolution of the various economies and the relative heterogeneity of the economic policy mixes applied from one country to another. By way of illustration, the 8.7% increase in the domestic product of Peru was fundamentally due to the raising of domestic demand and the better use made of installed capacity. The growth in economic activity was accompanied by an exceptionally marked increase (30%) in the volume of imports --especially of consumer goods and intermediate products-- which was financed partly with the foreign exchange saved as a result of the limitation imposed on payments of interest on the external debt. As a result of the marked expansion registered in industry, construction and commerce, unemployment went down in the urban centres and there was an increase in real wages. The latter rose by a little over 7%, while the unemployment rate in non-agricultural activities went down from almost 12% in 1985 to 8.2% in 1986 (see table 4).

In Brazil, the gross domestic product grew by more than 8% in 1986, as it had done the year before also. Its expansion, propelled by the extraordinary dynamism of domestic demand, made it possible to absorb most of the installed capacity which was still underutilized at the beginning of 1986. The growth of production was also facilitated by the noteworthy rise in non-oil imports for the second year running and the diversion to the domestic market of part of the intermediate goods which had gone for export in previous years. As a result of the sustained expansion of economic activity, the employment situation improved markedly, so that the average level of open unemployment in the six main cities of the country, which had gone down between 1984 and 1985 from 7.1% to 5.3%, dropped to only 3.6% in 1986 (see figures 2 and 3).

The fuller use of existing installed capacity brought about by the increase in domestic demand was also the key to the 6% rise in economic activity in Argentina, which thus recovered from the 4.7% drop suffered the year before. The recovery was particularly marked in manufacturing, where production increased by almost 13% after having gone down by 10.5% in 1985. In 1986 there was also an increase of nearly 9% in construction, thus interrupting the sustained and severe downward trend of the previous five years. In contrast, the agricultural product declined for the second year running, mainly because of unfavourable weather conditions.

In 1986 there was a further accentuation in the recovery which the economy of Uruguay had begun to experience in the last quarter of the year before. Thus, after having fallen steadily since 1982, the gross domestic product registered its first significant increase in the last five years in

Table 4

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 a/
Argentina b/	[illegible]	2.8	2.0	2.3	4.5	4.7	4.2	3.8	5.3	4.6
Bolivia c/	...	...	...	5.8	9.7	10.9	13.0	15.5	18.0	20.0
Brazil d/	[illegible]	6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3	3.6
Colombia e/	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5	14.1	13.8
Costa Rica f/	5.1	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.7	6.7
Chile g/	13.9	13.7	13.4	11.8	9.0	20.0	18.9	18.5	17.2	13.1
Ecuador h/	...	...	5.4	5.7	6.0	6.3	6.7	10.6	10.4	12.0
Guatemala h/	...	...	...	2.2	2.7	4.7	7.6	9.7	12.9	16.3
Honduras h/	...	...	...	8.8	9.0	9.2	9.5	10.7	11.7	...
Mexico i/	8.3	6.9	5.7	4.5	4.2	4.1	6.7	6.0	4.8	4.8
Nicaragua j/	...	...	...	22.4	19.0	19.9	18.9	21.1	22.3	21.7
Panama k/	...	9.6	11.6	9.8	11.8	10.3	11.5	11.0	15.2	14.2
Paraguay j/	3.7	3.1	2.6	2.1	4.6	9.4	13.8	8.3	8.0	9.0
Peru l/	9.4	10.4	11.2	10.9	10.4	10.6	9.2	10.5	11.8	8.2
Trinidad & Tobago m/	...	11.8	11.0	9.9	10.4	9.9	11.1	13.4	15.3	...
Uruguay n/	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1	10.7
Venezuela o/	5.5	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3	11.3

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

a/ Preliminary figures.

b/ Federal Capital and Greater Buenos Aires. Average for April and October.

c/ Whole country.

d/ Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife: average for 12 months; 1980, average June-December.

e/ Bogotá, Barranquilla, Cali and Medellín: average for March, June, September and December; 1985, average for March, July, September and December; 1986, average for April, June, September and December.

f/ National urban. Average for March, July and November; 1984, average March and November; 1986, average March and July.

g/ Greater Santiago. Average for four quarters. As from August 1983 data relate to the Metropolitan Region of Santiago. As from October 1985 the figures are not exactly comparable with earlier ones because of change in sample size.

h/ Whole country. Official estimates.

i/ Metropolitan areas of Mexico City, Guadalajara and Monterrey, average for twelve months. 1986: average January-September.

j/ National average.

k/ National urban, August of each year, except for 1980, which refer to data from national census carried out in February; and 1981 and 1986, which refer to the metropolitan area.

l/ Non-agricultural activities.

m/ Whole country, average for two half-years; 1978, average July-December; 1980, average August-December, and 1985, average January-June.

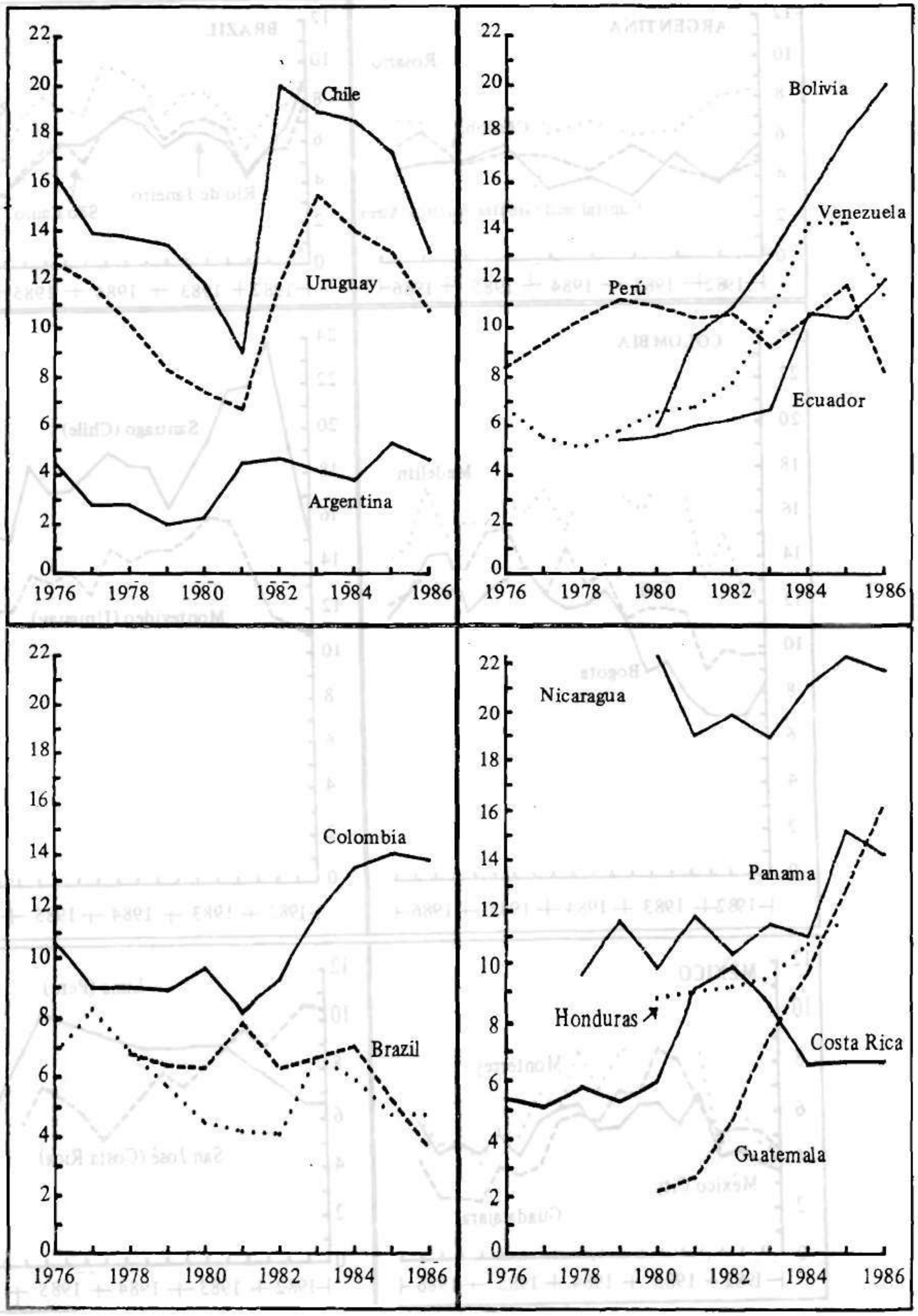
n/ Montevideo, average for two half-years. As from 1981, average for four quarters.

o/ National urban, average for two half-years; 1986, first half-year.

Figure 2

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): EVOLUTION OF URBAN UNEMPLOYMENT

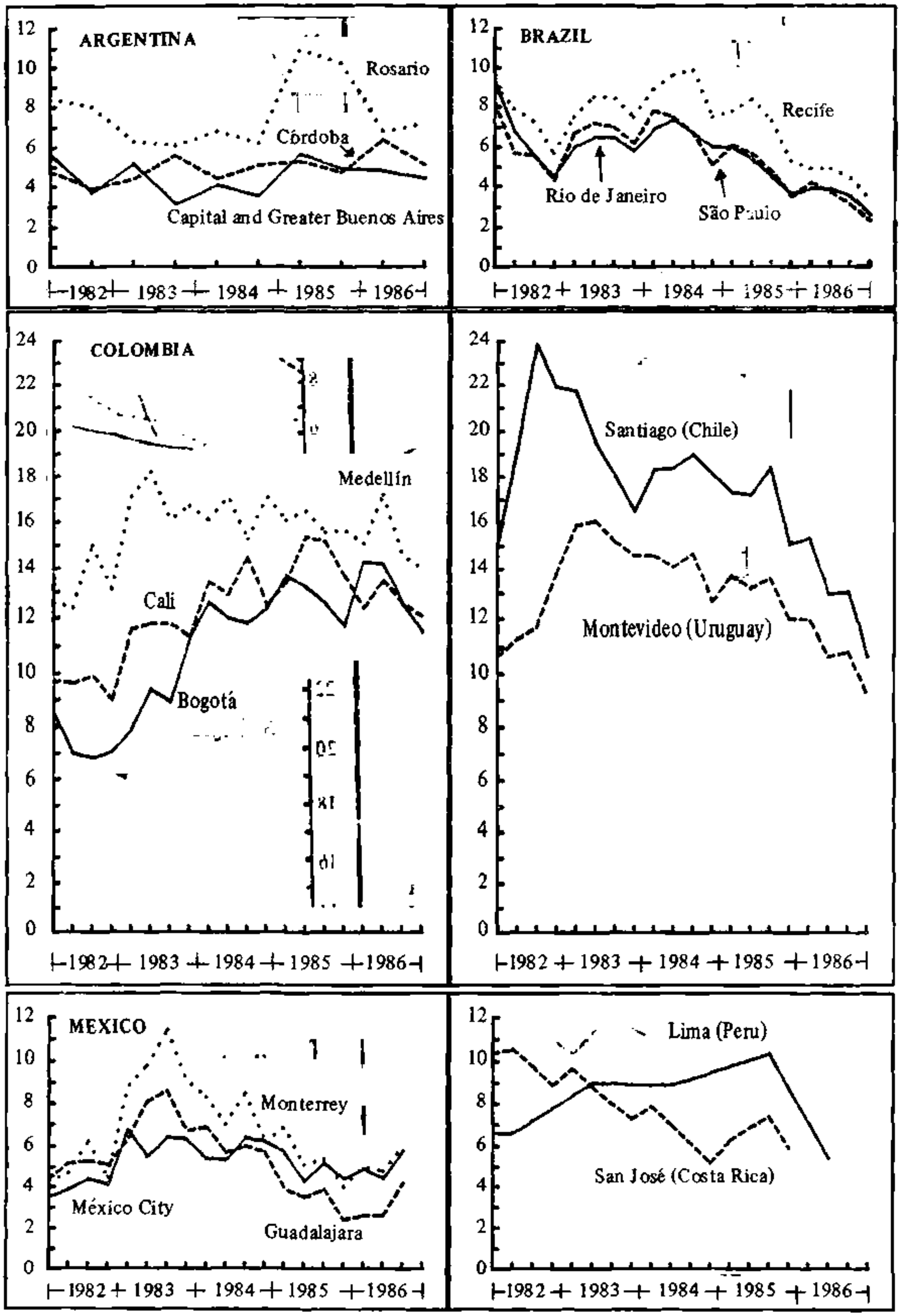
(Annual average rates)



Source: ECLAC, on the basis of official data.

Figure 3

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF UNEMPLOYMENT IN SOME PRINCIPAL CITIES



1986, when it grew by 6.6%. The main reason for the rise in the level of economic activity was the very favourable turn of events in the external sector. After having gone down by almost one-third between 1981 and 1985, the value of exports of goods rose by 27% in 1986 and thus made it possible to expand considerably the volume of imports, whose very low level had come to be the main restriction on economic recovery. Even so, however, because of the drop in oil prices the increase in the value of imports was less than that of exports. The consequent turnaround in the external accounts —also aided by the smaller payments of interest and profits— likewise favourably influenced the expectations of the economic agents. Because of this and the rise in real wages, there was a tendency to the recovery of both private investment and family consumption, which helped in turn to bring down unemployment. The percentage of people out of work went down almost continuously during 1986 and dropped to 9% in the final months of the year (see table 4 and figure 3).

In Chile, overall economic activity grew by 5.4%. As in the previous two years, this growth was due mainly to the sectors producing internationally tradeable goods. Thanks to the growth of the economy, the employment situation --which had deteriorated to an extraordinary extent in the period 1982-1983-- improved markedly. At the national level, the rate of open unemployment went down from almost 13% in 1985 to 10.5% in 1986 and even to a little under 9% in the last quarter of the year, while in Greater Santiago it dropped from an average of 17% in 1985 to one of 13% in 1986.

In Colombia, where the product also grew by 5.4%, the main element in economic growth was the exceptional expansion in exports. As a result of the drop in Brazilian coffee production, the international price of this commodity went up sharply for several months, and Colombia also managed to increase the volume of its coffee sales. At the same time, exports of coal and petroleum expanded and there was vigorous growth in exports of manufactures. The bigger income generated by the export sector helped to increase domestic demand and stimulated commerce and industry. As a result, in spite of the restrictive nature of fiscal policy there was an interruption towards the end of the year in the persistent upward trend displayed since 1982 by the unemployment rate (see figures 2 and 3).

In contrast with the rapid expansion of economic activity in the countries mentioned above, however, other countries of the region turned in less favourable performances. The collapse of oil prices had an enormous impact, but overall economic activity nevertheless grew by a little over 3% in Venezuela, thus interrupting the steady decline experienced since 1980. As a result, the per capita product increased for the first time in the last nine years. The recovery in economic activity was due to the growth of nearly 7% in the agricultural sector, the 3% rise in manufacturing, and the 12% growth registered in construction after nine years of uninterrupted sharp falls. This progress was due in turn to the policies applied by the authorities in order to neutralize the effects of the drop in oil prices on domestic activity. The increase in expenditure particularly favoured the construction sector and, together with various complementary programmes for the hiring and training of labour, helped to reduce urban unemployment to 11.3% in 1986 after it had risen steadily between 1978 and 1985 from 5% to 14.3%.

The fall in the international price of petroleum also affected the economic performance of Ecuador, which grew by only 3% in 1986 after having expanded at an average rate of almost 5% in the previous two years. This slackening of growth was due to the sharp drop in the growth rate of oil production, the stagnation in manufacturing, and the decline in the construction sector, the effects of which could not be offset by the satisfactory performance turned in for the third year running by the agricultural sector. As a result, the unemployment rate rose to the unprecedented level of 12%.

The serious deterioration in the external situation also contributed to the drop of the order of 3% in economic activity in Bolivia. In 1986 tin prices dropped to less than half their previous level, after having already gone down in the previous two years. Because of this enormous price drop, and also in order to reduce the losses of the State mining industry, numerous mining enterprises were closed down or had their level of activities reduced. In addition to the collapse in tin prices, there was the impact of the drop in the price of natural gas --which has contributed half of the country's export income in recent years-- and the negative effects on agricultural production of the floods and the adverse weather conditions which prevailed in the first half of the year. Furthermore, the depressed purchasing power of wage earners, the high level of real interest rates resulting from the application of the stabilization programme, and the greater competition from imported goods helped to bring about a further drop in industrial production. The decline in economic activity brought with it a fresh increase in the rate of unemployment, which rose for the sixth year running and reached the record level of 20%.

In 1986 the evolution of economic activity continued to be very unsatisfactory in the Central American countries, in all of which (except Costa Rica and Panama) there was a further decline in the per capita product. In contrast with what occurred in the oil-exporting countries, this setback coincided with an improvement in the terms of trade due to the rises in the international prices of coffee, bananas and sugar and the drop in oil prices. Most of the countries also benefited from the decline in the payments they had to make to the exterior in respect of interest on their external debt. Even so, however, these changes did not succeed in offsetting the negative consequences of the ravages left by five years of economic decline (including the weakening of intra-regional economic relations), as well as the uncertainty deriving from the social and political tensions prevailing in most of the countries of the subregion.

In Mexico, the gross domestic product went down by almost 4%, mainly because of the sharp drop in exports of petroleum. In order to face up to the effects of the radical deterioration in the terms of trade, the economic authorities initiated an adjustment programme with novel features,3/ adopted a very restrictive monetary and credit policy, and made fresh cuts in public sector expenditure. As a result of all this and the further drop suffered by real wages, domestic demand went down, industrial production fell by around 6% (although exports of manufactures grew very rapidly), and construction activity contracted by 12.5%.

2. Prices

Inflation went down markedly in Latin America in 1986, when the population-weighted average growth rate of consumer prices, which had risen steadily in the previous six years and reached the record level of 275% in 1985, went down to 65%. Furthermore, this reduction was quite generalized. Thus, the inflation rate slackened in 13 of the 22 countries for which information is available, and in most of them the decline was considerable. The most notable examples were Argentina, Peru, Brazil and, above all, Bolivia: the four countries which --together with Nicaragua-- had suffered from the most intensive inflationary processes in 1985 (see table 5).

In spite of this progress, however, inflation continued to be a serious problem in most of the countries of the region. Thus, in 1986 consumer prices rose by less than 10% only in Barbados, Haiti, Honduras, Panama, the Dominican Republic and Trinidad and Tobago. In contrast, inflation rose to levels considerably higher than usual in Ecuador, El Salvador, Guatemala and Paraguay; it continued to be very high in Uruguay; it speeded up in Mexico, and in Nicaragua it soared to almost 750%. Furthermore, in the second part of the year there was a reversal of the downward trend which had been observed since the third quarter of 1985 in Argentina and Peru, while the same occurred towards the end of the year in Brazil also.

Among the countries where there was a slackening of inflation, the most spectacular drop was in Bolivia. In that country the annual rate of consumer price increases fell steadily from the maximum of 23 500% registered in September 1985 to 66% in December 1986. Moreover, two-thirds of the latter figure was due to the very considerable increases registered in the consumer price index in the first two months of the year, and subsequently the monthly variations in prices, although erratic, did not even average 2% (see figure 4). This very abrupt reduction of the inflationary process was mainly due to the very strict policies applied in fiscal and wage matters and the noteworthy stability displayed by both the official and the parallel exchange rates from February onwards.

Inflation also went down dramatically in Argentina, from 385% in 1985 to 82% in 1986. This overall drop, however, conceals the appreciable differences in the evolution of inflation in the two years in question. Thus, whereas in 1985 inflation accelerated sharply up to June and then fell abruptly in the second half of the year as a result of the application of the Plan Austral, in 1986 the monthly price variations were only small in January and February, but increased markedly from March onwards and reached an average level of 6.6% in the second half of the year. As a result of this, after having gone down to 50% in June (the lowest value registered since December 1974), the annual price variation rose steadily in the following months. Even so, however, inflation continued to be much lower in this period than before the stabilization programme was applied (see figure 4).

The slackening in the rate of price increases was also very marked in Peru. As a result of the unorthodox stabilization plan which the new government began to apply in August 1985, the annual rate of inflation fell from the record level of 192% registered in that month to 63% in December 1986. This decline was due largely to the application of broad but selective

Table 5

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Latin America and the Caribbean a/	40.0	39.0	54.1	56.1	52.6	84.8	131.1	185.2	275.3	64.9
Argentina	150.4	169.8	139.7	87.6	131.2	208.7	433.7	688.0	385.4	81.7
Barbados	9.9	11.3	16.8	16.1	12.3	6.9	5.5	5.1	2.4	-0.8
Bolivia	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0
Brazil	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.2	228.0	58.6
Colombia	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3	20.9
Costa Rica	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1	15.3
Chile	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4	17.4
Ecuador	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4	27.4
El Salvador	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8	30.4
Guatemala	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	5.2	31.5	25.6
Guyana	9.0	20.0	19.4	8.5	29.0	19.3	9.6	...	...	...
Haiti	5.5	5.5	15.4	15.3	16.4	4.9	11.2	5.4	17.4	-4.7 b/
Honduras	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2	3.2
Jamaica	14.1	49.4	19.8	28.6	4.8	7.0	16.7	31.2	23.9	10.8
Mexico	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7	105.7
Nicaragua	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3	747.5
Panama	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4	0.1
Paraguay	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1	24.1
Peru	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3	62.9
Dominican Republic	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4	6.5
Trinidad and Tobago	11.4	8.8	19.5	16.6	11.6	10.8	15.4	14.1	6.6	9.8
Uruguay	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	70.6
Venezuela	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	9.0	12.9

Source: ECLAC, on the basis of official price indexes supplied by the countries, supplemented in some cases by figures published in International Monetary Fund, International Financial Statistics, May 1987.

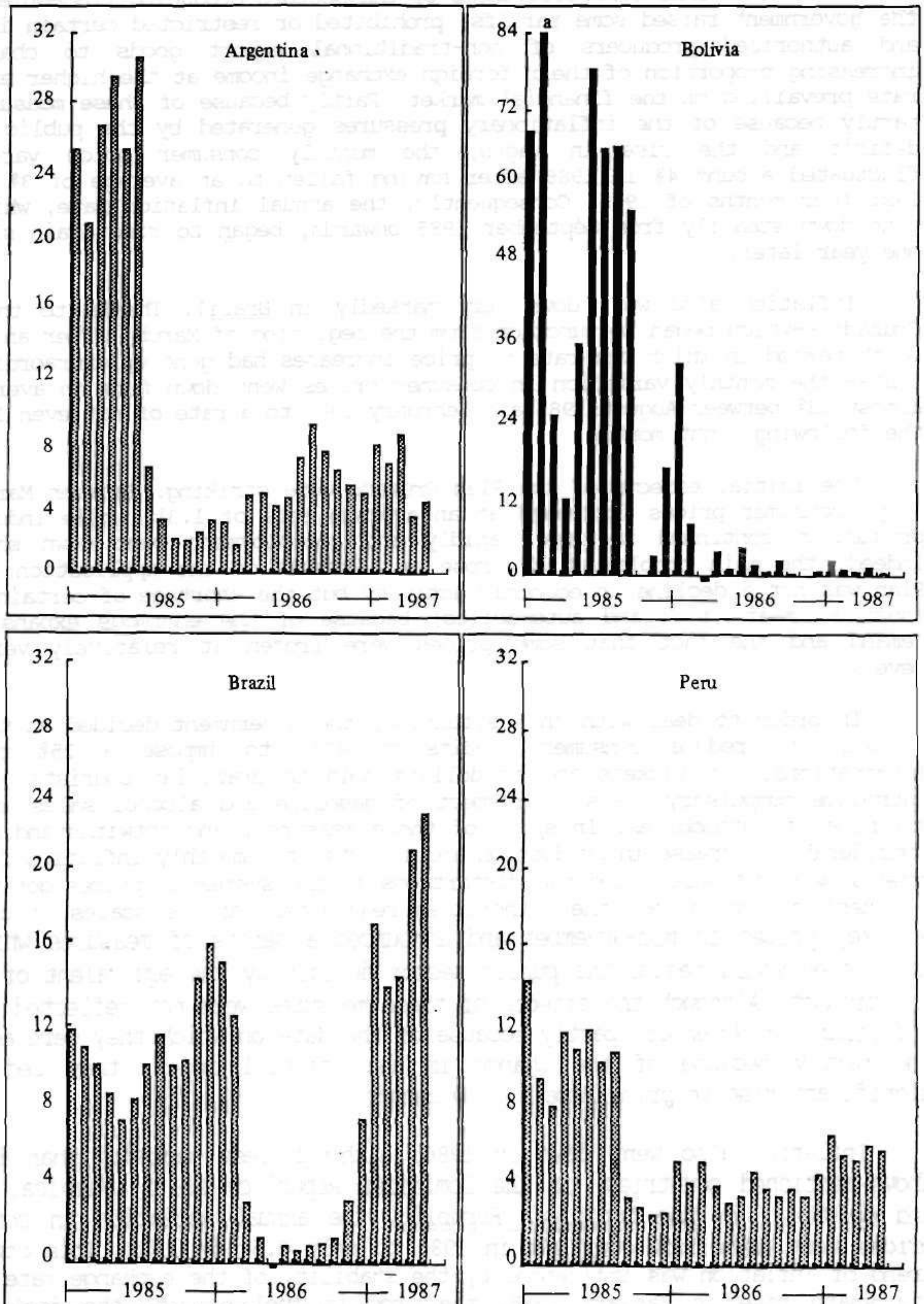
a/ The totals for Latin America and the Caribbean correspond to the variations for the individual countries, weighted by the respective population in each year.

b/ Corresponds to variation between November 1985 and November 1986.

Figure 4

MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX IN ARGENTINA, BOLIVIA, BRAZIL AND PERU

(Percentages)



Source: ECLAC, on the basis of official data.

[a]The variation for this month was 182.8 per cent.

price controls, the drop in production costs due to the decline in interest rates, the reduction in the rate of sales tax, and the maintenance of a fixed exchange rate. In order to reduce the negative effect of the exchange policy on the international competitiveness of the sectors producing tradeable goods, the government raised some tariffs, prohibited or restricted certain imports, and authorized producers of non-traditional export goods to change an increasing proportion of their foreign exchange income at the higher exchange rate prevailing on the financial market. Partly because of these measures and partly because of the inflationary pressures generated by the public sector deficit and the rise in wages, the monthly consumer price variations fluctuated around 4% in 1986 after having fallen to an average of 3% in the last four months of 1985. Consequently, the annual inflation rate, which had gone down steadily from September 1985 onwards, began to rise again slightly one year later.

Inflation also went down very markedly in Brazil. Thanks to the Plan Cruzado --which began to function from the beginning of March, after an eight-month period in which the rate of price increases had gone up extraordinarily fast-- the monthly variation in consumer prices went down from an average of almost 13% between August 1985 and February 1986 to a rate of not even 1.5% in the following eight months.

The initial effects of the Plan Cruzado were striking. Between March and July, consumer prices increased at an average rate of 1.3%, while industrial production continued to grow rapidly and unemployment went down sharply. Indeed, the main problem which arose as a result of the application of the Plan was not a decline in economic activity but the shortage of certain goods (such as meat, milk and automobiles) because of the enormous expansion in demand and the fact that some prices were frozen at relatively very low levels.

In order to deal with this situation, the government decided at the end of July to reduce consumer credits by 40%, to impose a 25% tax on international air tickets and on dollars sold to Brazilian tourists, and to introduce compulsory loans in respect of gasoline and alcohol sales and the purchase of automobiles. In spite of these measures, and notwithstanding the considerable increase in production and imports, the monthly inflation figures rose slowly but surely and the distortions in the system of prices got worse. In these circumstances, the authorities readjusted various scales of charges and key prices in mid-November and announced a series of measures which it considered would reduce the public sector deficit by the equivalent of 3% of the product. Although the effects of these measures were not reflected in the inflation for November, partly because of the date on which they were adopted and partly because of the change in the official index, they led to a significant rise in price levels in December.

Inflation also went down in 1986, although less markedly than in the above-mentioned countries, in the Dominican Republic, Haiti, Jamaica, Chile and Colombia. In the Dominican Republic, the annual variation in consumer prices went down from over 28% in 1985 to only 6.5% in 1986. This downward trend of inflation was influenced by the stability of the exchange rate after its sharp rise in January 1985, the drop in fuel prices, the decline in inflation in the United States, and greater monetary and fiscal discipline.

The first three of these factors were also important in the marked decline in inflation in Jamaica and Haiti (see figure 5). The gradual but sustained reduction in inflation in Chile (from 26% in 1985 to 17% in 1986), for its part, was due to the very small increase in the national currency prices of imported goods, the marked drop in domestic interest rates, the stability of real wages during most of the year, and the better balance of the fiscal accounts. In Colombia, in contrast, the slight reduction in inflation was due entirely to the behaviour of prices in May and June, when consumer prices went down in absolute terms because of the marked reduction in food prices as a result both of the increased harvests and of the considerable smuggling of agricultural products from Venezuela. Consequently, the annual inflation rate dropped to 13.5% in June: the lowest figure registered in almost 14 years. Later, however, inflation speeded up steadily (see figure 6).

Inflation continued to be very low in 1986 in Honduras, Barbados and Panama, where traditionally the rate of increase of domestic prices has varied in line with the fluctuations of international inflation and especially that of the United States. In contrast, inflation speeded up slightly in Trinidad and Tobago and more markedly in Venezuela: both countries where price levels had risen moderately in 1985. The speeding up of inflation in Venezuela was influenced by the elimination of the preferential exchange rate for some imports and the more expansionary nature of monetary and fiscal policy. The downward trend which had been displayed since the end of 1984 by inflation in Costa Rica was reversed early in 1986, and the same occurred as from August in Ecuador, mainly as a result of the heavy devaluation of the sucre which took place that month when a free exchange rate policy was adopted (see table 5 and figure 6).

Inflation reached unusually high levels for the second year running in El Salvador (30%) and Guatemala (26%): two countries where, historically, price variations have been among the lowest in the region. These countries also displayed total exchange rate stability in the past, but in 1986 in the first-named country and in 1985 in the second there were very marked increases in the exchange rate. In Guatemala, however, the rate of inflation did go down as from August.

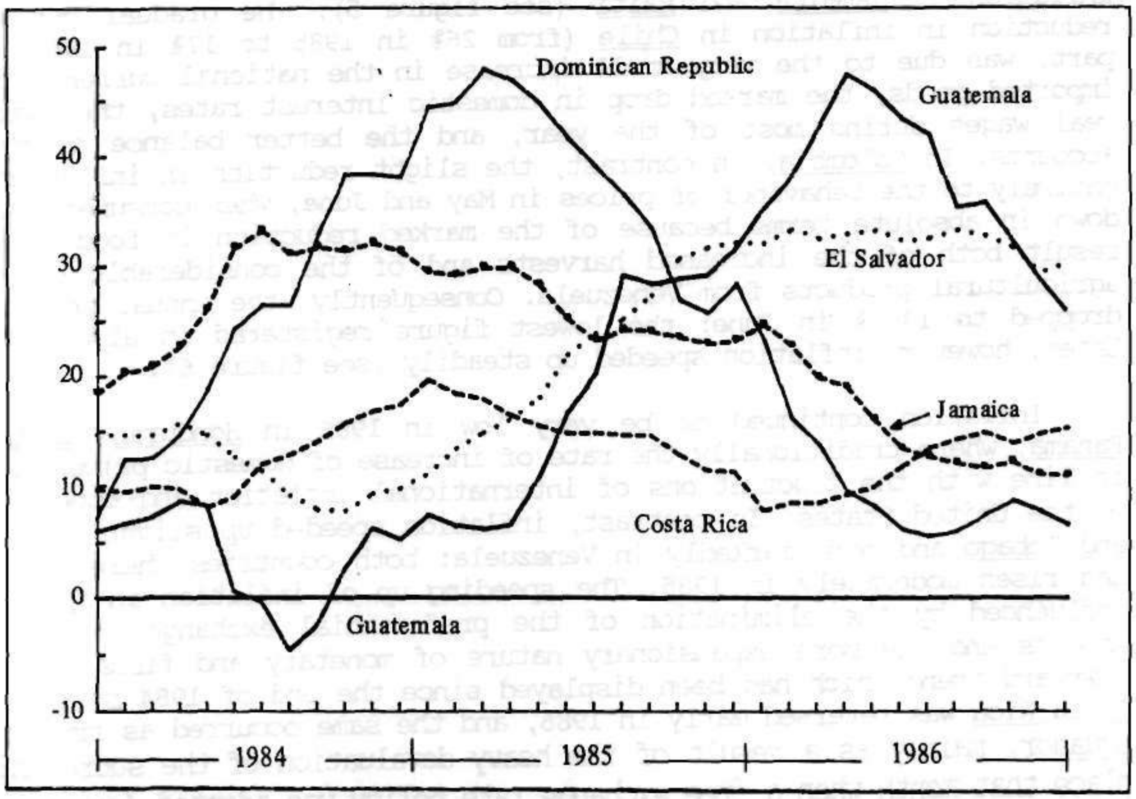
The increase in prices was considerably greater in Uruguay, where inflation exceeded 70%, and still higher in Mexico. In this latter country the rate of inflation --which had already begun to rise in mid-1985, largely as a result of the heavy devaluation of the peso carried out in July that year-- continued to speed up unceasingly in 1986, reaching a record level of 106% at the end of that year. This trend in inflation was at once the effect and the main cause of the repeated sharp increases in the exchange rate, the considerable and more frequent adjustments in the value of minimum wages in current terms, the high level of nominal interest rates, and the strengthening of inflationary expectations.

Finally, there was an extraordinary increase in the rate of inflation in 1986 in Nicaragua. There, after rising from 50% in 1984 to 335% in 1985, the growth rate of the consumer price index rose to nearly 750% in 1986. The worsening of the inflationary process was mainly due, once again, to the considerable rises in the various exchange rates, the rapid expansion of the means of payment, and the very considerable public sector deficit, the

Figure 5

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX

(Percentages)

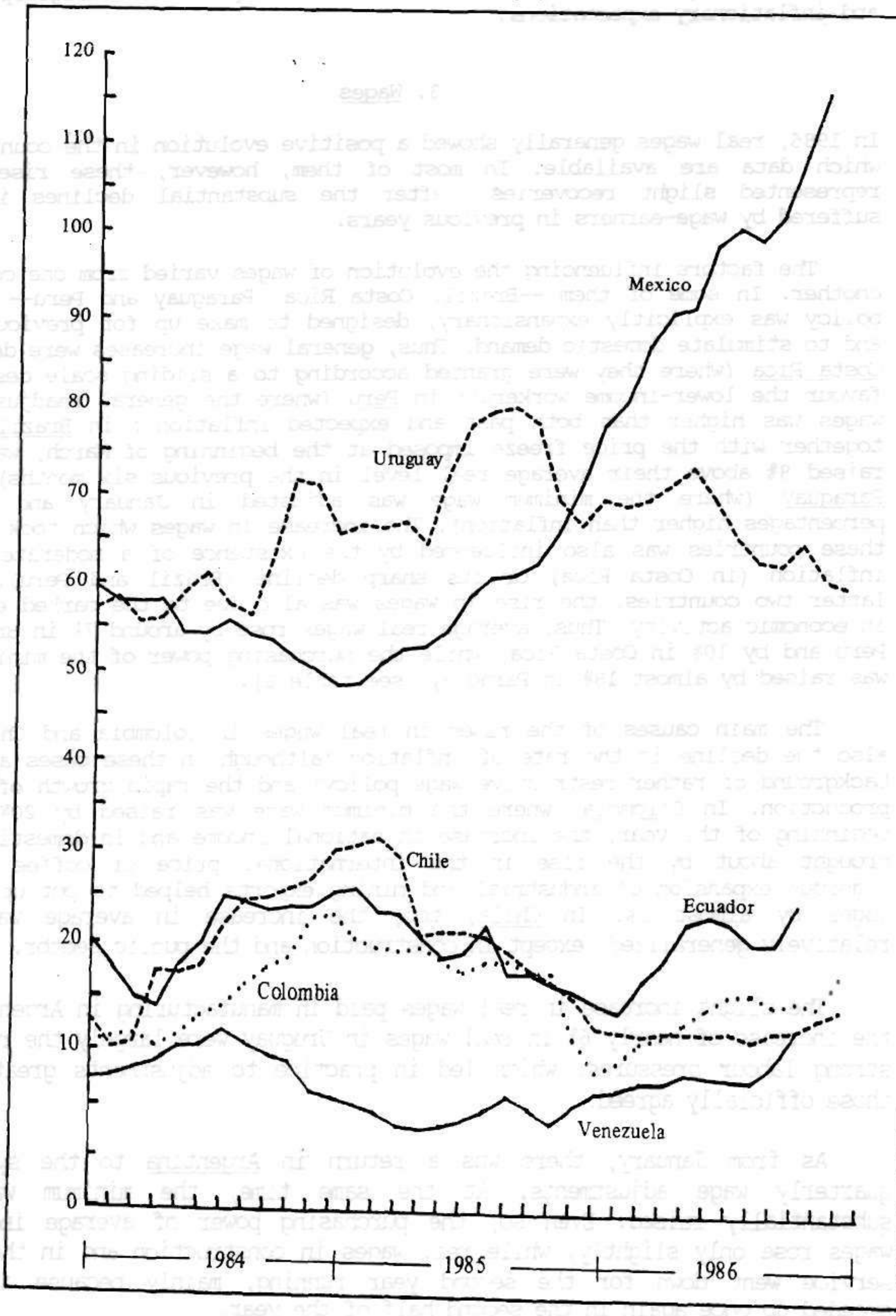


Source: ECLAC, on the basis of official data.

Figure 6

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX

(Percentages)



correction of which was made more difficult, inter alia, by the rigidity imparted to fiscal expenditure by defence-related needs. The persistent supply shortages and the existence of parallel markets on which goods are sold at prices much higher than the official ones also helped to encourage speculation and inflationary expectations.

3. Wages

In 1986, real wages generally showed a positive evolution in the countries for which data are available. In most of them, however, these rises merely represented slight recoveries after the substantial declines in income suffered by wage-earners in previous years.

The factors influencing the evolution of wages varied from one country to another. In some of them --Brazil, Costa Rica, Paraguay and Peru-- the wage policy was explicitly expansionary, designed to make up for previous losses and to stimulate domestic demand. Thus, general wage increases were decreed in Costa Rica (where they were granted according to a sliding scale designed to favour the lower-income workers); in Peru (where the general readjustment in wages was higher than both past and expected inflation); in Brazil (where, together with the price freeze imposed at the beginning of March, wages were raised 8% above their average real level in the previous six months), and in Paraguay (where the minimum wage was adjusted in January and July by percentages higher than inflation). The increase in wages which took place in these countries was also influenced by the existence of a moderate rate of inflation (in Costa Rica) or its sharp decline (Brazil and Peru). In the latter two countries, the rise in wages was also due to the marked expansion in economic activity. Thus, average real wages rose by around 7% in Brazil and Peru and by 10% in Costa Rica, while the purchasing power of the minimum wage was raised by almost 18% in Paraguay (see table 6).

The main causes of the rises in real wages in Colombia and Chile were also the decline in the rate of inflation (although in these cases against a background of rather restrictive wage policy) and the rapid growth of overall production. In Colombia, where the minimum wage was raised by 20% at the beginning of the year, the increase in national income and in domestic demand brought about by the rise in the international price of coffee and the vigorous expansion of industrial and mining exports helped to put up average wages by almost 5%. In Chile, too, the increase in average wages was relatively generalized, except in construction and the public sector.

The slight increase in real wages paid in manufacturing in Argentina and the increase of nearly 6% in real wages in Uruguay were largely the result of strong labour pressures, which led in practice to adjustments greater than those officially agreed.

As from January, there was a return in Argentina to the system of quarterly wage adjustments. At the same time, the minimum wage was substantially raised. Even so, the purchasing power of average industrial wages rose only slightly, while real wages in construction and in the public service went down for the second year running, mainly because inflation speeded up once again in the second half of the year.

Table 6

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF REAL WAGES

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 a/
Annual average indexes (1980 = 100)										
Average wages										
Argentina b/	79.3	77.9	89.5	100.0	89.4	80.1	100.5	127.1	107.8	109.4
Brazil c/	89.1	93.9	95.1	100.0	108.5	121.6	112.7	105.1	112.6	117.0
Colombia d/	83.5	93.2	99.3	100.0	101.4	104.8	110.3	118.5	115.0	121.1
Costa Rica e/	87.0	94.7	99.2	100.0	88.3	70.8	78.5	84.7	92.2	97.4
Chile f/	79.6	84.7	91.8	100.0	109.1	108.7	97.1	97.4	93.0	95.1
Mexico g/	106.6	104.4	102.9	100.0	103.6	104.4	80.7	75.7	76.6	73.1
Peru h/	108.7	94.9	88.9	100.0	98.3	100.5	83.7	71.0	60.1	64.0
Uruguay i/	113.2	109.1	100.4	100.0	107.5	107.1	84.9	77.1	88.0	93.1
Urban minimum wages										
Ecuador j/	53.8	48.1	60.4	100.0	86.2	75.9	63.6	62.8	60.8	61.8
Paraguay k/	92.0	94.8	92.4	100.0	103.6	101.4	93.9	93.7	99.5	117.2
Venezuela l/	74.4	69.3	61.6	100.0	86.8	80.1	75.1	66.7	91.4	85.5
Percentage variations m/										
Argentina	-1.5	-1.8	14.3	11.8	-10.6	-10.4	25.5	26.4	-15.2	0.9
Brazil	4.0	5.4	1.3	5.2	8.5	12.1	-7.3	-6.7	7.1	6.4
Colombia	-5.6	11.5	6.5	0.8	1.4	3.4	5.2	7.4	-2.9	4.9
Costa Rica	9.4	8.8	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9	10.1
Chile	12.9	6.5	8.3	9.0	9.1	-0.4	-10.6	0.3	-4.5	1.7
Mexico	1.6	-2.1	-1.4	-2.9	3.6	0.8	-22.7	-6.2	1.2	-4.1
Peru	-16.6	-12.7	-6.3	12.4	-1.7	2.3	-16.8	-15.2	-15.3	7.3
Uruguay	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.2	14.1	5.8
Ecuador	-11.2	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.2	1.2
Paraguay	-8.3	3.1	-2.5	8.0	3.6	-2.0	-7.5	-0.2	6.2	17.8
Venezuela	-7.2	-6.8	-11.1	62.3	-13.2	-7.7	-6.2	-11.2	37.2	-6.6

Source: ECLAC, on the basis of official data.

a/ Preliminary figures. b/ Average total monthly wages in manufacturing. Average for twelve months. 1986: average January-October. c/ Average wages in basic industry, deflated by the CPI for Rio de Janeiro. Average for twelve months. 1986: average January-June. d/ Wages of manual workers in manufacturing (except coffee processing). Average for twelve months. e/ Average wages declared for social security members. 1986: first half-year. f/ Average remuneration of wage-earners in non-agricultural sectors. Average for twelve months. g/ Average wage in manufacturing. Average for twelve months. 1986: average January-May. h/ Wages of private-sector workers in Metropolitan Lima. Average for February, May, August and November. 1986: average for February and May. i/ Index of average real wages. Average for twelve months. j/ General minimum wage. 1986: average January-October. k/ Minimum wage in Asunción and Puerto Stroessner. l/ National minimum wage for non-agricultural activities. m/ Compared with the same period in the previous year.

In 1986, Uruguayan wages policy was based on adjustments of wages every four months as a function of the expected inflation. In practice, however, the increases granted were considerably greater than the official guidelines, which were often overtaken in reality by inflation. Thus, real wages kept steady through the year. As they were considerably higher than those registered in the first half of 1985, however, their average annual level was higher than that of the year before.

Finally, in 1986 the purchasing power of the minimum wage went down by nearly 7% in Venezuela and 4% in Mexico. In Venezuela --where the real minimum wage had risen very markedly in 1985-- this result was due to the negative effects of the faster inflation and the fact that the readjustment of the minimum wage decreed early in 1986 was only actually applied in November. In Mexico, for its part, where the minimum wage was readjusted three times in 1986, instead of being adjusted twice as was usual, its purchasing power went down by 4% because at the same time inflation speeded up sharply.

4. The external sector

The collapse in international oil prices, the continuation (with only a few exceptions) of the persistent downward trend in commodity prices, and the successive declines in international interest rates deeply influenced the evolution of the Latin American external sector in 1986. As was to be expected, these changes affected the external accounts of the various countries of the region in very different manners, and the results also reflected the marked differences in their exchange, trade and foreign indebtedness policies.

After having gone down 6% in 1985, the value of exports of goods dropped a further 15% in 1986 as the result of a decline of almost 13% in the unit value and a contraction of 2.5% in the volume exported. These drops were influenced above all by the sharp fall in the exports of the oil-exporting countries, the overall value of which went down by 30% because of the slump in international hydrocarbon prices, despite the considerable expansion in the non-oil exports of Mexico and Ecuador. In 1986, however, there were also declines of between 10% and 20% in the exports of Paraguay, Brazil, Nicaragua, Argentina and Haiti, while those of the Dominican Republic went down by 4% (see table 7).

In contrast, the value of exports went up by an unusually large amount (47%) in Colombia, as a result of the phenomena mentioned earlier in this document. External sales also went up sharply (27%) in Uruguay, which benefitted from the enormous expansion in Brazilian imports and also considerably increased its sales of traditional and non-traditional exports to Europe. Such sales grew by more than 10% in all the Central American countries except Guatemala and Nicaragua, while they went up by 10% in Chile as the result of a 20% increase in non-copper exports.

Despite the reduction in exports, 1986 saw the continuation for the third year running of the recovery in imports after the enormous 42% drop they suffered in the two-year period 1982-1983. The expansion in imports, although only slight (1.5%), was quite generalized. Indeed, imports went down in only six countries and fell markedly only in Haiti, Mexico and Guatemala. Although

Table 7

LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE (GOODS)

(Millions of dollars)

Country	Exports of goods FOB			Imports of goods FOB			Trade balance (goods)		
	1984	1985	1986 a/	1984	1985	1986 a/	1984	1985	1986 a/
Latin America and the Caribbean	97 706	91 981	77 920	58 263	58 457	59 355	39 443	33 524	18 565
Oil-exporting countries	46 656	42 503	29 955	22 638	24 903	23 868	24 018	17 600	6 087
Bolivia	724	623	543	412	463	580	312	160	-37
Ecuador	2 622	2 870	2 186	1 567	1 723	1 631	1 055	1 147	555
Mexico	24 196	21 867	16 031	11 256	13 460	11 432	12 940	8 407	4 599
Peru	3 147	2 965	2 509	2 141	1 869	2 525	1 006	1 096	-16
Venezuela	15 967	14 178	8 686	7 262	7 388	7 700	8 705	6 790	986
Non-oil-exporting countries	51 050	49 478	47 965	35 625	33 554	35 487	15 425	15 924	12 478
Argentina	8 101	8 397	7 000	4 119	3 520	4 285	3 982	4 877	2 715
Brazil	27 001	25 634	22 393	13 915	13 168	14 045	13 086	12 466	8 348
Colombia	4 273	3 713	5 477	4 027	3 734	3 486	246	-21	1 991
Costa Rica	977	930	1 070	997	1 005	1 020	-	-75	50
Chile	3 650	3 804	4 205	3 357	2 954	3 125	293	850	1 080
El Salvador	726	723	800	915	954	970	-189	-231	-170
Guatemala	1 132	1 060	1 120	1 182	1 077	970	-50	-17	150
Haiti	199	223	180	325	345	250	-126	-122	-70
Honduras	746	835	970	880	954	990	-134	-119	-20
Nicaragua	385	293	250	761	763	820	-376	-470	-570
Panama	1 686	1 949	2 412	2 509	2 603	2 955	-823	-654	-543
Paraguay	361	324	290	649	516	580	-288	-192	-290
Dominican Republic	868	739	710	1 257	1 286	1 200	-389	-547	-490
Uruguay	925	854	1 088	732	675	791	193	179	297

Source: 1984, 1985: ECLAC, on the basis of figures supplied by the International Monetary Fund; the 1985 figures for El Salvador, Haiti, Nicaragua and the Dominican Republic and the 1984 figures for Nicaragua are ECLAC estimates. 1986: ECLAC, on the basis of official data.

a/ Preliminary figures.

the growth rate of the value of external purchases in the other economies of the region was very uneven, in most of them the expansion in volume was considerable. Particularly noteworthy are the figures for Peru (31%), Brazil (26%), Uruguay (25%) and Bolivia (21%), but there were also significant increases in the case of Honduras, Argentina, Colombia, Nicaragua, Chile, Paraguay and El Salvador. Even so, however, in most of these countries the volume of imports continued to be far below that registered before the crisis.

Notwithstanding the decline for the fourth year running in the unit value of imports, the terms of trade for Latin America went down by almost 9%, thus making a total drop of 20% in the last six years. In contrast with what had occurred in 1985, however, this drop was due mainly to the performance of the oil-exporting economies, whose external terms of trade suffered a very marked deterioration. In the other economies of the region, except for Argentina and Paraguay, the terms of trade improved and in some cases they did so markedly: special mention may be made in this respect of Brazil (in whose imports oil carries very heavy weight) and the Central American countries (see table 8). Because of the drop in the value of exports and the slight increase in that of imports, the surplus on trade in goods went down in 1986 for the second consecutive year. As from 1981 it had displayed a steady upward trend, and in 1984 it had reached the unprecedented level of US$ 39.4 billion, but after having gone down somewhat to US$ 33.5 billion in 1985 it fell to only US$ 18.5 billion in 1986 (see table 7). This drop was due mainly to the very severe contraction in the surplus of the oil-exporting countries, which went down by 66% from US$ 17.6 billion in 1985 to less than US$ 6.1 billion in 1986. As was to be expected, the decline in the trade surplus was particularly marked in Mexico and, above all, Venezuela. It was also very considerable in Brazil and Argentina, and quite substantial in Peru and Ecuador.

In 1986, in contrast, there was a favourable turnaround in Colombia's external trade, which, after having closed with a small deficit in 1985, turned in a surplus of almost US$ 2 billion. Guatemala and Costa Rica also managed to replace their deficits of the previous year with surpluses, while the remaining Central American countries (except Nicaragua) reduced their deficits. Chile and Uruguay, for their part, markedly increased the surpluses they had obtained in 1985.

As in 1985, the merchandise trade surplus was not sufficient to cover the whole of the net remittances of profits and interest, even though those went down by more than US$ 4.4 billion as a result of the decline in international interest rates. As a result, and even though net payments for services went down once again, the current account deficit more than trebled, amounting to over US$ 14 billion. There was thus an accentuation of the change in the trend as regards the current account deficit, which, after having reached the unprecedented level of US$ 41 billion in 1982, practically disappeared only two years later but began to rise again in 1985 (see table 1).

In 1986, as in the year before, the increase in the current account deficit was the result of opposing changes in the different economies of the region. Mexico and Venezuela —which had been the only countries that turned in positive balances in 1985— registered considerable deficits; there was a sharp increase in the deficits of Argentina, Brazil, Bolivia, Ecuador and Peru; but the negative balance went down spectacularly in Colombia and (for

Table 8

LATIN AMERICA AND THE CARIBBEAN: PRICES OF MAIN EXPORT COMMODITIES

(Dollars at current prices)

Product	Annual averages					Growth rates				
	1970-1980	1983	1984	1985	1986 a/	1982	1983	1984	1985	1986
Unrefined sugar b/	12.8	8.5	5.2	4.1	6.1	-50.3	1.2	-38.8	-21.1	48.8
Coffee (mild) b/	121.8	141.6	147.3	155.9	220.0	2.3	-4.7	4.0	5.8	41.1
Cocoa b/	86.3	96.1	108.7	102.3	93.8	-16.1	21.6	13.1	-5.9	-8.3
Bananas b/	11.8	20.4	19.0	18.4	22.1	-4.2	10.9	-6.9	-3.2	20.1
Wheat c/	125.1	158.0	153.0	138.0	115.0	-9.0	-2.5	-3.2	-9.8	-16.7
Maize c/	127.5	162.2	167.3	135.3	111.1	-24.1	18.0	3.1	-19.1	-17.9
Beef b/	82.2	110.7	102.6	97.7	95.0	-3.4	2.1	-7.3	-4.8	-2.8
Fish meal c/	354.7	453.0	373.0	280.0	321.0	-24.6	28.3	-17.7	-24.9	14.6
Soybeans c/	232.4	282.0	282.0	225.0	208.0	-14.9	15.1	-	-20.2	-7.6
Cotton b/	61.2	84.8	80.3	61.7	52.9	-14.7	16.5	-5.3	-23.2	-14.3
Wool b/	131.5	144.0	141.6	140.7	147.7	-13.2	-6.9	-1.7	-0.6	5.0
Copper b/	69.6	72.2	62.5	64.3	62.3	-14.9	7.4	-13.4	2.9	-3.1
Tin d/	3.9	5.9	5.6	5.4	2.6	-9.4	1.7	-5.1	-3.6	-51.9
Iron ore c/	17.6	23.7	22.4	22.0	21.6	4.6	-3.3	-5.5	-1.8	-1.8
Lead b/	25.3	19.3	20.1	17.7	18.4	-24.8	-22.2	4.1	-11.9	4.0
Zinc b/	29.7	34.7	40.6	34.3	32.3	-12.0	2.7	17.0	-15.5	-5.8
Bauxite c/	103.5	179.5	165.0	164.3	164.6	-3.7	-13.8	-8.1	-0.4	0.2
Crude petroleum e/	10.1	28.1	27.0	26.5	15.0 f/	-	-12.2	-3.9	-1.9	-43.3

Source: UNCTAD, Monthly Commodity Price Bulletin, supplements 1960-1980 and March 1987; International Monetary Fund, International Financial Statistics, Yearbooks 1981, and May 1987; Petroleum Intelligence Weekly, various issues; ECLAC, on the basis of official data.

a/ Preliminary figures.
b/ Cents per pound.
c/ Dollars per metric ton.
d/ Dollars per pound.
e/ Dollars per barrel, Venezuela (Tía Juana).
f/ Average January-October.

the second year running) in Chile --the two economies which had registered the biggest deficits in 1985. The deficit also went down in the Dominican Republic, Haiti and all the Central American countries (except Nicaragua), while it disappeared completely in Panama and Uruguay, which thus became the only economies whose current account closed with a positive balance.

In 1986 there was an increase in the net inflow of capital, which had fallen to a very low level the year before. This increase was not due, however, to a substantial and widespread expansion in the flow of loans and investments to the region but largely reflected the turnaround in the capital account of Mexico, which turned in a positive balance of around US$ 2.2 billion. This change was influenced both by the considerable bridging loans granted by the governments of the industrialized countries, public financial agencies and commercial banks, and by the very restrictive credit policy applied by the monetary authorities, which in 1986 led a considerable number of enterprises to bring back into the country, in order to finance their activities, funds which they had been keeping abroad.

For the region as a whole, however, the increase in the net inflow of loans and investments was considerably smaller than the deficit on current account, and ultimately the balance of payments, which had turned in a deficit of almost US$ 1.6 billion in 1985, registered a negative balance of over US$ 5.6 billion in 1986.

Because of the greater inflow of capital and the decline in net payments of interest and profit, the net transfers of resources from Latin America to the exterior went down by almost one-third. Even so, however, these transfers, (which totalled US$ 22.2 billion) continued to represent a heavy burden, and since at the same time there was a decline in exports of goods and services, they still amounted to almost 24% of the value of such exports, which was only a slightly lower proportion than that registered on average in the previous four years (see table 9 and figure 7).

5. Future prospects

Although at this point in the year the available information is only partial and tentative, there are certain trends which are clearly taking shape on the regional economic scene. Generally speaking, they point towards a more unfavourable evolution of the economy than in 1986, thus raising queries about the possibility of maintaining both the growth rates registered in some countries and the stabilization programmes adopted. The rate of increase of prices, after having gone down markedly in 1986, has gone up sharply and in quite a widespread manner so far in 1987, while in most of the countries there has been a weakening in the external accounts. The rises in international interest rates, the slow growth of world trade and the spread of protectionist practices in the industrialized countries have tended to increase the current account deficit. In some countries, such as Brazil and Peru, the external sector imbalance has also reflected the delayed effects of the considerable increases in domestic demand which took place in 1986, while in Colombia and the Central American countries the balance of payments has been affected by the abrupt fall in coffee prices. In the oil-exporting countries, in contrast, the opposite has occurred, due to the increase in the international prices of

Table 9

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

(Billions of dollars and percentages)

Year	Net inflow of capital (1)	Net payments of profits and interest (2)	Transfers of resources (3)=(1)-(2) (3)	Exports of goods and services (4)	Transfers of resources/ exports of goods and services a/ (5)=(3)/(4) (5)
1973	7.9	4.2	3.7	28.9	12.8
1974	11.4	5.0	6.4	43.6	14.7
1975	14.3	5.6	8.7	41.1	21.2
1976	17.9	6.8	11.1	47.3	23.5
1977	17.2	8.2	9.0	55.9	16.1
1978	26.2	10.2	16.0	61.3	26.1
1979	29.1	13.6	15.5	82.0	18.9
1980	29.4	17.9	11.5	107.6	10.7
1981	37.5	27.1	10.4	116.1	9.0
1982	20.0	38.7	-18.7	103.2	-18.1
1983	3.2	34.3	-31.2	102.4	-30.5
1984	9.2	36.2	-27.0	114.1	-23.7
1985	2.4	35.3	-32.9	109.0	-30.2
1986 b/	8.5	30.7	-22.2	93.4	-23.8

Source: 1973-1985: ECLAC, on the basis of data supplied by the IMF. 1986: ECLAC, on the basis of official figures.

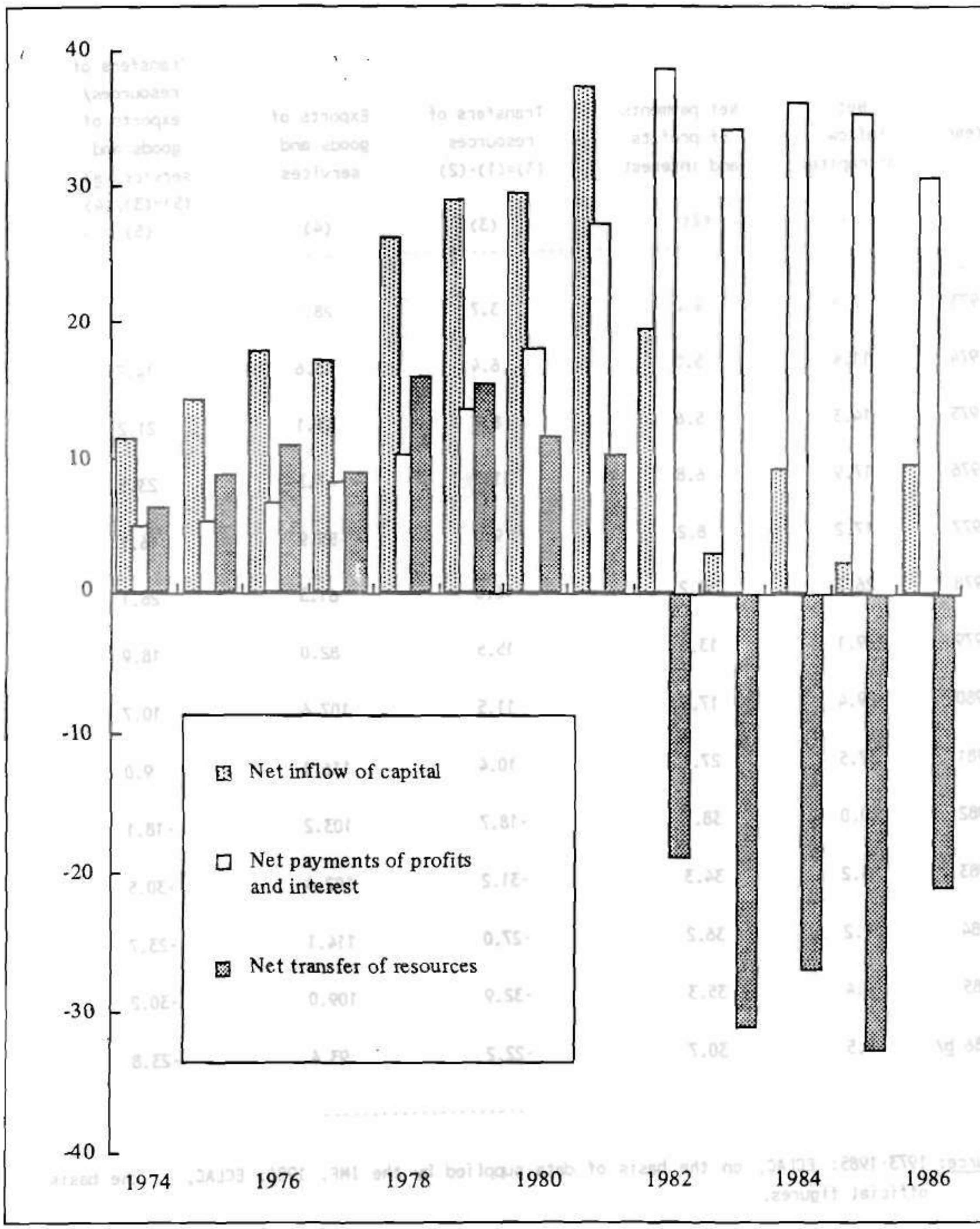
a/ Percentages.

b/ Preliminary figures.

Figure 7

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

(Billions of dollars)



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

hydrocarbons, the beneficial effects of which have been further aided in the particular case of Mexico by the big expansion in non-traditional exports and the return of large amounts of capital from abroad.

Growth in economic activity has also been weakened by the need to take measures to reduce the external imbalance and inflation and by the reduction in underutilized installed capacity in many countries. The available information suggests that in 1987 the gross domestic product will expand a good deal less than the year before in Brazil, Uruguay, Argentina and Colombia. Notwithstanding the recovery in oil prices, it is likewise probable that the growth in economic activity will also be slower than in 1986 in Ecuador and Venezuela, and that such activity will recover less than had originally been foreseen in Mexico. It is also anticipated that the economies of Peru and Chile will perform less dynamically.

With regard to inflationary pressures, during the first half of 1987 there was a reversal of the marked slackening achieved the year before, and it is probable that by the end of the year inflation will again exceed 100% for the region as a whole. As may be seen from figures 4 and 6, this resurgence of inflation has taken place in most of the countries for which information is available, with the very important exception of Bolivia. Generally speaking, it was due to very expansionary domestic policies (especially in Brazil and Peru) or to the effects of the heavy devaluations carried out in order to reduce imbalances in the balance of payments (especially in the oil-exporting countries).

The most dramatic acceleration in the inflationary process took place in Brazil, where the cumulative rise in consumer prices during the first quarter of 1987 was over 52% --thus coming close to the figure for the whole of 1986-- while in the following two months the monthly rate of inflation rose even more, exceeding 20%. Less pronounced, but still very significant, was the resurgence of inflation in Mexico, where the 30% rise in the real effective exchange rate which took place during 1986 meant that by April 1987 inflation was running at an annual rate of 120%, compared with 70% twelve months earlier. In Argentina, although the adjustments made in August 1986 to the Plan Austral made it possible to regain control of the inflationary process, the rate of price increases once again began to rise markedly in the first quarter of 1987, averaging more than 7% per month. Monthly inflation went down to a little under 4% in April-May, after the set of measures taken at the end of February (which included a new price freeze, smaller wage adjustments and greater control over the fiscal deficit), but even so from March onwards the annualized variation of the consumer price index remained over 100%.

Although it took place more gradually, there was also a marked acceleration in the rate of inflation in Peru. Thus, the increase of almost 34% in consumer prices during the period January-May 1987 was 40% greater than that registered in the same period of the year before. Inflation also speeded up in Ecuador and Venezuela because of the recent devaluations, although in both countries the rates of consumer price increases continued to be relatively low (less than 30% per year) compared with the average for the region. Since the beginning of 1987, the rate of price increases has speeded up slightly in Colombia and Chile, and more markedly in Costa Rica, reaching annual rates of around 20% in the three countries. In contrast, the speed of the inflationary process went down in Uruguay, although the annual rate was still very high (66%).

Bolivia is the country which registered the most dramatic reduction in inflationary pressures, for after having gone up by almost 8 200% in 1985 and 66% in 1986, consumer prices rose by only 6.5% between January and May 1987. This result was achieved through exchange stabilization and a Draconian reduction in the fiscal deficit. The first of these was achieved by initially allowing the official exchange rate to float at a level around the value reached by the dollar on the free market (which, at the time that the exchange reform was carried out, was equivalent to 15 times the official exchange rate). Subsequently, the exchange rate was stabilized as from March 1986. This stabilization was considerably influenced by the fixing of a very high interest rate (which stimulated the return of short-term capital), the fact that the amount of money in circulation was very small compared with the international reserves (thus preventing speculation at the expense of the currency), and the relatively easy availability of external financing. As the economy was "dollarized" before the stabilization plan was begun, the exchange stability simultaneously and abruptly checked all the other price increases, which had evolved in line with the price of the dollar on the parallel market during the period of hyperinflation. Furthermore, the devaluation, together with the subsequent fixing of the domestic prices of fuels at international levels, raised public revenue by the equivalent of nearly 8% of the gross domestic product. The remainder of the deficit was tackled through cuts in public expenditure which led to a sharp contraction in public investment, a 10% reduction in public employment, and a reduction of the order of 20% in the average real wages of public employees. In addition, the practice was introduced of not making fiscal expenditure except in keeping with the actual cash income. It should be noted, however, that although the cut in fiscal expenditure helped to reduce inflation to less than 2% per month, it did so at the cost of an initial drop and subsequent stagnation of the level of economic activity, and a regressive redistribution of income.

In contrast, the stabilization policy suffered a marked setback in the first half of 1987 in Brazil. As may be seen from figure 4, in both April and May inflation exceeded 20%, which was even more than the very high rates registered before the beginning of the Plan Cruzado. Moreover, the trade surplus of US$ 1 billion per month achieved up to August 1986 was turned into a deficit in the last quarter of the year. This turnaround was a factor in the marked reduction in the international reserves and led the economic authorities to declare a moratorium on the external debt servicing in February. These changes were also accompanied by a very considerable rise in domestic interest rates and a deterioration in the financial situation of enterprises, thus dashing the hopes which were entertained at the beginning of the Plan Cruzado that it would be possible to bring down inflation without affecting the economic growth rate.

In 1986, in spite of the reduction in idle capacity, the virtual elimination of unemployment, the rapid economic growth and the increase of more than 25% in the volume of imports, there were growing and widespread supply shortages, since at the level at which prices were fixed, demand exceeded supply in many cases. The efforts made by the government to regain control of demand after the November 1986 elections (by increasing certain taxes and raising public service tariffs and the prices of fuels, automobiles and other goods) were not enough to absorb the excess demand; the accumulated imbalances and the unpopularity of the supply shortages thus made it easier for businessmen to avoid the official price controls with increasing frequency. In these circumstances, the inflationary expectations grew enormously. In order to solve the problem of supply shortages and to correct the considerable distortion in relative prices which existed after a year of "freeze", in February the government eliminated price fixing for most goods and made a substantial devaluation in April. Although these measures helped to improve the trade surplus, which once again exceeded US$ 900 million in May, they were also instrumental in speeding up the rate of inflation still further in April and May. In these circumstances, in mid-June the government announced a new stabilization plan mainly aimed at controlling domestic demand and strengthening the external sector. For this purpose, a further devaluation of almost 10% was decreed, wages and prices were frozen for 90 days, the government investment programme was suspended for six months, public service charges and fuel prices were raised sharply, as were the prices of some basic consumer goods, and the subsidy on wheat products was terminated.

In short, the events which have taken place so far in 1987 confirm once again that the vast majority of the Latin American and Caribbean countries are very far from having overcome the effects of what is usually called the "crisis of the 1980s", the main features of which have been a profound and prolonged economic recession, domestic and external financial imbalances, and a very marked contraction in investment coefficients. In this respect, as the Secretariat noted at the time,4/ the relative improvement observed in 1986 in some countries was not necessarily an indication of a permanent reversal of the trends which had marked the evolution of the region's economy in previous years.

III. THE EXTERNAL DEBT

1. Main trends in 1986

As can be seen in table 10, the slowdown in the accumulation of external debt that has been underway since mid-1982 continued through 1986. The year-end estimated foreign debt balance was US$ 386 billion, meaning that Latin America's total external obligations rose by 4%. Given that prices in the industrialized countries rose by about 2% in 1986, the total debt grew only slightly in real terms, after the negative and zero real rates of growth recorded in 1985 and 1984, respectively. However, practically all of the growth of the region's debt in 1986 reflected the revaluation of non-dollar-denominated obligations due to the falling value of the United States currency on international markets during the course of the year. Hence, for the region as a whole, there was no effective net increase in the debt contracted. Indeed, in the case of Venezuela, its debt declined for the third consecutive year and as a consequence was 10% below the level recorded in 1983.

The dynamics of debt in Latin America continued to be circumscribed by a collapse of private lending to the region and the inability of official lenders to offset this trend. Estimates of the Bank for International Settlements indicate that in 1986 net bank credit outstanding to the region rose by only US$ 2 billion in nominal terms (1%) with respect to 1985. Moreover, this rise was due to the revaluation of non-dollar claims; when adjusted for exchange rate movements, international bank credit to the region actually declined in absolute terms.

Data on United States banks provide a further insight into the nature of the restrictions on external finance. As of June 1986, total exposure of United States banks in Latin America was 2% below the levels recorded at the end of 1985 and 3% below the balance registered in June 1982. While the nine largest United States banks slightly expanded their exposure (6%) over the period June 1982/June 1986, the medium-sized and small institutions reduced their total exposure very significantly in absolute terms (-16%). This reflects the fact that the biggest banks are the relatively most heavily exposed lenders in Latin America, and have participated in the so-called involuntary lending packages that have been part of IMF-sponsored adjustment programmes and the debt rescheduling exercises. In contrast, the smaller and medium-sized institutions, which generally are much less heavily exposed in the region, have had less incentive to participate in involuntary lending and have therefore been reducing their exposure in absolute terms whenever possible.

Table 10

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT a/

Country	End-of-year balance in millions of dollars						Annual growth rates				
	1981	1982	1983	1984	1985	1986 b/	1979-1981	1982-1983	1984	1985	1986 b/
Latin America and the Caribbean	285 403	328 063	348 432	361 631	371 496	386 214	22.9	10.4	3.8	2.7	4.0
Oil-exporting countries	126 691	143 077	152 194	155 010	156 203	159 094	25.0	9.7	1.8	0.8	1.9
Bolivia c/	2 824	2 889	3 265	3 272	3 323	3 696	15.7	7.5	0.2	1.6	11.2
Ecuador	5 868	6 187	6 690	6 949	7 440	8 159	25.4	7.6	2.3	7.1	9.7
Mexico	74 900	87 600	93 800	96 700	97 800	100 500	30.2	11.9	3.1	1.1	2.8
Peru	9 688	11 340	12 442	13 389	13 794	14 398	1.3	13.3	7.6	3.0	4.4
Venezuela d/	33 411	35 061	35 997	34 700	33 846	32 341	25.9	3.8	-3.6	-2.5	-4.4
Non-oil-exporting countries	158 712	184 986	196 238	206 621	215 293	227 120	21.3	11.0	5.3	4.2	5.5
Argentina	35 671	43 634	45 087	46 903	48 312	50 300	41.9	12.4	4.0	3.0	4.1
Brazil	79 946 e/	91 035 e/	95 520 e/	99 765	103 142	108 749	14.4	9.3	4.4	3.4	5.4
Colombia	8 042	9 528	10 554	11 611	12 847	14 761	25.6	14.6	10.0	10.6	14.9
Costa Rica	3 360	3 497	3 848	3 955	4 084	4 100	21.6	7.0	2.8	3.3	0.4
Chile	15 591	17 159	18 037	19 659	20 403	20 670	30.5	7.6	9.0	3.8	1.3
El Salvador	1 471	1 710	1 891	1 949	2 003	2 120	14.3	13.4	3.1	2.8	5.8
Guatemala	1 305	1 560	2 130	2 463	2 624	2 641	16.7	27.8	15.6	7.3	0.6
Haiti c/	372	410	551	607	599	680	22.8	21.7	10.2	-1.3	13.5
Honduras	1 708	1 986	2 162	2 392	2 615	2 880	20.7	12.5	10.6	9.3	10.1
Nicaragua	2 566	3 139	3 788	3 901	4 616	5 260	20.5	21.5	3.0	18.3	14.0
Panama c/	2 333	2 810	3 392	3 644	3 674	3 874	7.5	20.[illegible]	7.4	0.8	5.4
Paraguay	949	1 204	1 469	1 654	1 773	1 842	12.4	24[illegible]	12.6	7.2	3.9
Dominican Republic	2 286	3 076	3 237	3 447	3 701	4 050	19.8	19[illegible]	6.5	7.4	9.4
Uruguay	3 112	4 238	4 572	4 671	4 900	5 193	35.9	21[illegible]	2.2	4.9	6.0

Source: ECLAC, on the basis of official data.

a/ Including debts with IMF.

b/ Preliminary figures.

c/ Public debt.

d/ Public debt, plus non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements.

e/ Total medium- and long-term debt, plus short-term debt according to World Bank data.

The retreat of private banks has left official lenders as the only source of new net credit. However, even there problems arose in 1986. For the year the International Monetary Fund (IMF) emerged as a net recipient of funds from Latin America and the Caribbean as repayments and service charges on outstanding stand-by credits exceeded new disbursements. Meanwhile, the World Bank's net transfer of resources to the region in fiscal year 1986 slipped to only US$ 200 million, compared to US$ 1.2 billion the previous fiscal year. The Inter-American Development Bank (IDB) also experienced problems in meeting its lending targets, as the region had to devote a sizeable proportion of domestic savings to finance resource transfers abroad, leaving no margin for counterpart funds to carry on investment projects partially financed by the IDB.

During 1986 international interest rates continued a decline that first began in mid-1984. By the second semester of 1986, the London Interbank Offer Rate (LIBOR) had steadied at around 6% --its lowest level since 1977-- and this compared favourably to the average rate of 8.6% recorded in 1985. It is estimated that the lower interest rates saved Latin America (excluding Panama) about US$ 5 billion compared with payments registered in 1985. The savings mostly accrued to debtor countries with a high proportion of variable rate loans from commercial banks: Mexico (85%), Chile and Venezuela (84%), Brazil (75%), Argentina (70%) and Ecuador (68%). However, the LIBOR and Prime rates have increased in 1987; by midyear, LIBOR was around 7.5%.

Notwithstanding lower world interest rates, in 1986 the burden of payments remained considerable. The interest burden of US$ 32 billion, was still considerably more that three times the amount paid on the region's debt in 1978. Moreover, for Latin America as a while the lower interest payments were offset by lower export earnings, so that the interest payments/exports coefficient remained practically identical to the high level of 35% recorded in 1985, which itself was more than double the coefficient registered in 1978 (see table 11). The behaviour of the coefficient at the country level was, however, generally differentiated according to whether a borrower was an oil exporter or not. The coefficient for the former group rose by 5 points with respect to 1985, reaching a level of 37%, while it declined by 4 points for the non-oil exporters to the lower, but still very burdensome, level of 34% (see table 11).

Although as pointed out previously, there was a reduced interest rate bill in 1986, an important decline occurred in the ability of the region's trade surplus on goods to finance interest payments. For Latin America and the Caribbean as a whole (excluding Panama) the trade surplus in 1986 was equivalent to 57% of that year's interest payments, compared to 90% and 100% in 1985 and 1984, respectively. The change is basically explained by the loss of oil revenue in the petroleum-exporting countries, as their average coverage of interest remittances with their trade surplus fell from more than 100% in 1985 to 46% in 1986. The level of coverage for the non-oil exporters (excluding Panama) declined nearly 11 points between 1985 and 1986 to 65%.

Another indicator of the debt burden is the debt/export ratio. For the region as a whole this rose quite sharply from 341% in 1985 to 414% in 1986 (see table 12). As could be expected, falling prices for petroleum made the coefficient rise considerably in all the oil-exporting countries: the 1986

Table 11

LATIN AMERICA: RATIO OF TOTAL INTEREST PAYMENTS TO EXPORTS OF GOODS AND SERVICES a/

(Percentages)

Country	1978	1980	1981	1982	1983	1984	1985	1986 b/
Latin America and the Caribbean	15.7	20.2	28.0	41.0	36.0	35.6	35.2	34.7
Oil-exporting countries	6.1	16.6	22.6	35.6	31.4	32.5	32.3	36.9
Bolivia	13.7	25.0	34.5	43.4	39.8	49.8	46.8	46.2
Ecuador	10.4	18.3	24.3	30.0	27.4	30.7	27.0	32.9
Mexico	24.0	23.3	29.0	47.3	37.5	39.0	36.0	41.4
Peru	21.2	16.0	24.1	25.1	29.8	33.2	30.0	28.3
Venezuela	7.2	8.1	12.7	21.0	21.6	20.1	26.3	30.6
Non-oil-exporting countries	15.5	23.7	33.6	46.7	40.7	38.7	37.9	33.7
Argentina	9.6	22.0	35.5	53.6	58.4	57.6	51.1	51.4
Brazil	24.5	34.1	40.4	57.1	43.5	39.7	40.0	41.5
Colombia	7.5	11.8	21.9	25.9	26.7	22.8	26.3	18.3
Costa Rica	9.9	18.0	28.0	36.1	33.0	26.6	27.3	19.9
Chile	16.9	19.3	38.8	49.5	38.9	48.0	43.5	38.3
El Salvador	5.3	5.9	7.8	11.9	12.2	12.3	12.6	10.4
Guatemala	3.7	5.3	7.6	7.8	8.7	12.3	14.9	16.1
Haiti	2.8	2.1	2.7	2.4	2.4	5.3	4.2	5.4
Honduras	8.2	10.6	14.4	22.4	16.4	15.8	15.3	12.7
Nicaragua	9.3	17.8	21.9	32.1	14.3	12.1	13.0	29.2
Paraguay	8.4	13.4	14.8	13.5	14.3	10.1	8.3	11.3
Dominican Republic	14.0	14.8	19.1	22.7	24.5	18.1	22.2	28.8
Uruguay	10.4	11.0	12.9	22.4	24.8	34.8	34.2	23.5

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

a/ Interest payments include those on the short-term debt.

b/ Preliminary figures.

Table 12

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

(Percentages)

Country	1978	1980	1981	1982	1983	1984	1985	1986 a/
Latin America and the Caribbean	253	214	248	321	343	322	341	414
Oil-exporting countries	256	186	219	278	303	286	311	446
Bolivia b/	259	227	281	317	381	401	462	561
Ecuador	175	162	201	230	257	240	230	331
Mexico	316	216	259	335	345	321	353	495
Peru	388	206	241	278	334	351	377	465
Venezuela	171	148	160	200	227	207	226	352
Non-oil-exporting countries	251	240	276	363	381	355	367	392
Argentina	167	275	329	475	485	488	481	601
Brazil	391	320	313	414	404	345	372	449
Colombia	102	118	184	213	275	224	273	213
Costa Rica	186	266	286	313	340	310	340	289
Chile	238	188	311	370	390	438	454	416
El Salvador	107	80	159	208	217	218	231	221
Guatemala	64	56	90	122	182	201	228	206
Haiti b/	95	95	155	152	191	203	175	246
Honduras	141	160	193	259	270	279	275	261
Nicaragua	203	369	464	703	818	924	1 308	1 748
Panama b/	...	67	63	78	114	122	112	96
Paraguay	154	152	171	195	317	214	163	194
Dominican Republic	161	162	151	269	261	252	281	320
Uruguay	136	140	183	276	324	362	392	326

Source: ECLAC, on the basis of official data.

a/ Preliminary figures.

b/ Disbursed medium- and long-term external debt as a percentage of exports of goods and services.

average of 446% was 43% higher than that of 1985 and represented an historical high that is two and one-half times above the corresponding figure for 1980.

But the debt/export ratio also rose for the non-oil exporters to 392%, equivalent to 1.6 times the level registered in 1980. This figure also is an all-time peak coefficient as it exceeds the previous high of 381% recorded in 1983. However, this average hides considerable diversity among the different countries (see table 12).

In sum, on the whole the most striking features of 1986 with respect to trends in debt accumulation were the complete vanishing of net disbursements of credit by private lenders and the deterioration of important indicators of debt burden to levels that were as bad as, or worse than, those registered at the outset of the crisis. Moreover, the increase in interest rates during the first half of 1987 worsened the debt burden still further.

2. Debt renegotiations

As far as debt negotiations were concerned, 1986 proved to be a very eventful year. It began on the heels of growing demands in the debtor countries during 1985 for a more equitable sharing of the costs of the debt crisis, the full sentiment of which is captured in the "Emergency Proposals for Negotiations on Debt and Growth" ("Propuestas de Emergencia para las Negociaciones sobre Deuda y Crecimiento") presented in the Declaration of Montevideo of the Cartagena Consensus in mid-December of that year.

The already difficult environment for debt negotiations was further complicated by the drastic fall in world petroleum prices in the first quarter of 1986. The sudden and sharp drop of spot market quotations eroded the repayment capacity of two of the largest debtors in the region (Mexico and Venezuela) as well as some smaller ones (Peru, Ecuador and Bolivia). This problem in turn gave an impulse to the initiation of a fourth round of debt negotiations in Latin America (see tables 13 and 14).

Many of the developments in the 1986 debt negotiations revolved around the Mexican case. The adjustment programme in that country had begun to show signs of strain in 1985, and towards the end of that year there were discussions on a new financial package for 1986 that would involve additional lending of some US$ 4 billion, US$ 2.5 billion of which was to come from private banks. However, with petroleum prices entering into a steep slide in late 1985/early 1986, the Mexican authorities suggested during the first quarter of the year that their needs for new finance might rise to as much as US$ 9-10 billion.

Initially, there was considerable resistance in creditor circles regarding the Mexican proposals for new finance. Negotiations lingered on until midyear, when the recessionary implications of the creditors' counterproposals led the Government of Mexico to harden its bargaining stance. Mexico's very firm negotiating position brought a positive response from the creditors, as they feared the direct consequences for them of a Mexican moratorium as well as the indirect demonstration effects that this and a rupture with the IMF could have on other debtor countries.

Table 13

LATIN AMERICA AND THE CARIBBEAN: RESCHEDULING OF EXTERNAL DEBT WITH PRIVATE BANKS a/ b/

(Millions of dollars)

Country	Third round 1984/1985			Fourth round 1986/1987		
	Rescheduled maturities c/		New credits	Rescheduled maturities c/		New credits 1987
	Amount	Years	Amount	Amount	Years	Amount
Argentina	13 500	82-85	4 200	29 500	86-90	1 950
Brazil	15 500	85-86	-	...	87-..	...
Bolivia	-	-	-	...	82-..	...
Costa Rica	280	85-86	-	...	86-89	...
Cuba	82	85	-	...	86-87	...
Chile	5 700	85-87	714; 371 d/	12 490	88-91	-
Ecuador	4 800	85-89	-	...	...	...
Honduras	220	85-86	-	...	85-..	...
Mexico	48 700	85-90	-	43 700 e/	85-90	6 000 f/; 1 700 g/
Panama	603	85-86	60	1 200	87-90	...
Dominican Republic	790	82-85	-	...	...	...
Uruguay	2 130	85-89	45 h/	...	...	...
Venezuela	21 200	83-88	-	26 450	86-88	-

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

a/ Although four rounds of renegotiations have been held, in the second of them (in which six countries took part) some of the agreements did not materialize. For this reason, mention is sometimes made of three rounds instead of four.

b/ For each round the first column refers to the total amount of commitments rescheduled, the second to the period for which maturities were restructured, and the third to the additional credits granted by the private banks as an integral part of that restructuring process. The table does not include information on the maintenance of lines of short-term credit and bridging loans authorized by the United States Department of the Treasury, the Bank for International Settlements, etc.

c/ In some cases, these include maturities already rescheduled in previous rounds.

d/ The values correspond to 1985 and 1986, respectively. They include US$ 150 million guaranteed by the World Bank in a co-financing agreement.

e/ Preliminary agreement was also reached on the restructuring of US$ 11.2 billion of private sector debts which had been refinanced earlier under the FICORCA programme.

f/ The financial package includes US$ 750 million guaranteed by the World Bank through a co-financing agreement with the private banks.

g/ Contingency loan provided by the private banks.

h/ Voluntary loan, but forming part of a co-financing plan with the World Bank.

Table 14

LATIN AMERICA AND THE CARIBBEAN: TERMS OF RESCHEDULING OF EXTERNAL DEBT WITH PRIVATE BANKS a/ b/

Country	Third round 1984/1985			Fourth round 1986/1987		
	Spread over LIBOR (%)	Term (years)	Fixed commissions c/	Spread over LIBOR (%)	Term (years)	Fixed commissions c/
Argentina	1.44	11.5	0.15	0.81	17.6	-
Brazil	1.13	12.0	-	...	...	...
Bolivia	-	-	-	...	...	...
Costa Rica	1.66	9.4	1.00	...	...	...
Cuba	1.5	10.0	0.38	...	...	...
Chile	1.42	12.0	0.08	1.00	15.0	-
Ecuador	1.38	12.0	-	...	...	...
Honduras	1.58	11.0	0.88	...	...	...
Mexico	1.13	14.0	-	0.81	19.0	-
Panama	1.40	11.7	0.05	...	...	...
Dominican Republic	1.38	13.0	-	...	...	...
Uruguay	1.38	12.0	-	...	...	...
Venezuela	1.13	12.5	-	0.88	14.0	-

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

a/ Although four rounds of renegotiations have been held, in the second of them (in which six countries took part) some of the agreements did not materialize. For this reason, mention is sometimes made of three rounds instead of four.

b/ Each column represents the terms agreed with the banks for rescheduled maturities and/or fresh loans. When the country negotiated both the rescheduling of maturities and the granting of fresh loans, the figures given represent a weighted mean of the two components.

c/ Calculated as a percentage of the total amount of the transaction and paid once only, on signing the credit contracts.

The new plan offered to Mexico gave concrete form to the stated principles of the Baker Initiative and initiated a fourth round of debt reschedulings. The major novelty was that the US$ 13.7 billion financial package (including contingency loans) adjusted itself to the requirements of economic growth and not vice-versa, as had been the case in the adjustment programmes organized by the creditors during the first three rounds of reschedulings.

Another novelty was that the IMF flexibilized its criteria for measuring fiscal deficits: a necessary ingredient for an expansionary adjustment process. In the case of Mexico, for the first time, the Fund excluded from its calculation of the operational deficit the effects of inflation on interest payments for the domestic debt. As a consequence, the then nominal deficit of roughly 13% (relative to GDP) was calculated as a real deficit of 3%. Mexico is committed to gradually reducing the real deficit to zero by the end of 1987, but in nominal terms the reduction of the deficit will be from 13% of GDP to 10%.

The Mexican package also followed the pattern of the first three rounds of reschedulings, each of which brought progressively less onerous conditions regarding the terms of indebtedness. In this fourth round, the banks agreed to reschedule nearly US$ 44 billion of debts falling due over 1985-1990 at a spread over LIBOR of 0.81%; this compares to a spread of 1.13% in the third round of reschedulings and spreads of around 0.50% paid in 1986 by some of the most creditworthy developing country borrowers outside Latin America with autonomous access to the Eurocurrency market. The amortization period offered on the rescheduled maturities was 20 years, with seven of grace compared to a total amortization period of 14 years in the third round of these exercises. Furthermore, no flat commissions were to be paid (a precedent first established in the third round of the debt negotiations). As for the new bank lending of US$ 6 billion, it also bears a spread of 0.81%. The amortization period is 19 years and there were no commissions (see table 13 and 14). Since some resistance developed in the banking community to the provision of new money the final agreement did not materialize until April 1987, that is, six months after the initial agreement in principle with the banks' Steering Committee had been reached.

While Mexico was certainly the highlight of the debt negotiations in 1986, there were significant developments in other countries during that year and during the first half of 1987.

Argentina's negotiations with the banks had been stalled by, among other things, its authorities' insistence on a Mexican-style spread and new involuntary loans to support an explicit target growth rate of 4% in 1987. Negotiations grew tense in early 1987 as the authorities even hinted at one point that they might suspend payments if the banks did not prove more flexible. The agreement finally arrived at in April was indeed in many ways similar to the Mexican package. The entire stock of public bank term debt (US$ 29.5 billion) was rescheduled and new money of nearly US$ 2.0 billion (US$ 500 million of which is linked to World Bank co-financing) was also awarded to support the government's stated growth target. The average spread over LIBOR of 0.81% was identical to that granted to Mexico, while the package's composite amortization period was 18 years. No flat commissions were charged on the rescheduled maturities or new money. However, a special commitment fee was granted to the banks which signed the new agreement promptly. Overall, these terms represented a major softening as compared to those agreed upon in the third round of reschedulings (see tables 13 and 14).

There were a number of other interesting features in the Argentine agreement, the most notable of which was the creation of exit bonds for the small banks that have proven so recalcitrant with respect to extending new money. These institutions were in effect offered, as an alternative to new loans, Argentine government bonds with a maturity of 25 years and a below-market interest rate of 3%. This arrangement represents a significant innovation because it accommodates a reality in the private credit market —the fact that smaller banks want out of the rescheduling exercises— and permits a more fluid environment for arriving at a restructuring agreement.

Chile also had been experiencing difficulties in its negotiations over the question of "retiming" (annual rather than biannual interest payments). One major bank was adamantly opposed to this formula for financing Chile's economic programme, thereby stalling a final rescheduling agreement. However, a couple of days before the Brazilian declaration of moratorium (discussed below) the banks suddenly dropped their objection to the retiming clause and an agreement in principle was finally reached in February.

The Chilean programme calls for the rescheduling of US$ 12 billion of public and private sector maturities falling due over 1988-1991. The average spread of 1% and maturity of 15 years represents a softening compared to the 1.42% and 12 years obtained for the spread and maturity, respectively, in the third round of reschedulings. As in the third round, no flat commissions were charged on restructured maturities. And, of course, the novelty of the Chilean agreement is that the country's new finance is not to come via an involuntary loan, but rather through the retiming of interest payments from a semi-annual to annual basis beginning in 1988. It is estimated that the retiming arrangement will be worth some US$ 450 million in savings of foreign exchange for that year. Partly because the banks did not have to provide new net credits, the final agreement was signed very quickly.

Venezuela, for its part, had been meeting stiff resistance to a proposal to amend the agreement reached with the banks in February 1986 (as part of third round negotiations) in order that treatment would be more similar to that recently granted to Mexico. That resistance broke down with the declaration of the Brazilian moratorium and an agreement was announced shortly thereafter. The new accord lowered the spread on 1986 rescheduled maturities from 1.125% over LIBOR to 0.88%. The amortization period has been stretched out from 12 to 14 years, deferring US$ 6 billion in payments over 1987-1989; e.g., in 1987 amortization will be only US$ 250 million instead of the US$ 1 billion envisioned in the 1986 agreement (see tables 13 and 14).

Whereas Mexico's debt problems and negotiations with its creditors were the main focus of attention in 1986, it has been Brazil which has been at centre stage so far in 1987. The year started out with Brazil gaining a positive response from the Paris Club with respect to its petition to renegotiate the debt without a prior agreement with the IMF for an adjustment programme. In effect, in January the creditor governments finally agreed to ease the repayment terms on US$ 3.3 billion in arrears --US$ 2.5 billion in principal and US$ 780 million in interest-- that had accumulated in 1985 and 1986 on its US$ 9 billion of government-to-government debt. A stretch-out of maturities was provided on this debt as well as on US$ 840 million in payments falling due during the first half of 1987. The new terms allow for an eight-year repayment period, including five years of grace.

The significance of the new Paris Club Agreement, however, was more one of forming a precedent than of debt relief, since government-to-government debt is less than 10% of Brazil's US$ 110 billion in foreign obligations. The bulk of the debt --some US$ 70 billion-- is with private banks and during the second half of 1986 the capacity of Brazil to service those obligations, as mentioned in the previous section, was fast eroding. The sharp contraction in the country's trade surplus, coupled with the absence of new lending by the banks, meant that interest payments were being effected largely through the draw down of international reserves. By February reserves were down to US$ 3.9 billion, less than four months' import requirements.

The picture was further complicated by the fact that the banks were displaying increasing stubbornness regarding the granting of involuntary loans. As mentioned, Mexico had been experiencing great delays in obtaining the bank's signature regarding their participation in its US$ 7.7 billion (including contingency money) loan package. Moreover, the banks and their governments had been actively conveying the idea that the 1986 Mexico package was a "special case", and should not be looked upon as a precedent by other borrowers. All this, plus Brazil's insistence on avoiding the IMF, pointed to the impossibility of quick agreement with the banks that would stem Brazil's loss of international reserves. In face of these circumstances, Brazil, in late February 1987, unilaterally declared a temporary moratorium on payments of its medium and long-term debt to private creditors.

The Brazilian declaration of a moratorium, coupled with an earlier suspension of payments in Ecuador in January due to falling oil revenues, set off a chain of interesting reactions. The most immediate consequence was that a logjam in debt negotiations was broken. As mentioned, Argentina, Chile and Venezuela, as well as other countries, had been negotiating with the banks for concessions that often mirrored different aspects of the pioneering Mexican package. Negotiations had been stalled, however, as the private banks were strongly resisting a generalization of the conditions of the Mexican rescheduling; indeed, at least one major United States bank had publicly declared its objection to more concessions for the debtors. With Brazil's declaration of a moratorium, however, the banks, trying to minimize the spread of demonstration effects, dropped most of their objections to the demands of Brazil's neighbours, and signed a series of new rescheduling agreements with a number of developing countries inside and outside of Latin America. This in turn gave full definition to the fourth round of rescheduling which was initiated by the 1986 Mexican financial package (see tables 13 and 14).

In past rescheduling rounds, and indeed as recently as the 1986 Mexican financial accord, a stiffer bargaining stance by a major debtor had usually shaken the international banking system and brought forth new initiatives (often public) to stave off growing irregularities in the payment positions of the debtors. This time, however, the banks acted more aggressively. Instead of attempting to keep the problem debtor current in interest payments through an agreement to refinance those payments with new loans, major banks quickly took steps to reclassify Brazilian credits as non-performing, even though they had 90 days before such a move --which reduces earnings-- was legally required. The new attitude of the banks was further underlined in May by a dramatic decision of the largest United States bank to raise its loan loss reserves by US$ 3 billion, or 150%. The move was followed by other banks which also intensified their provisioning for losses.

This provisioning will have the effect of increasing the bargaining power of the banks because they will thus be in a better position to bide time in the negotiations until they find acceptable conditions for a rescheduling.

Another repercussion of the tendency to raise loan loss provisions in the banking system is that there will be greater pressure on Latin American governments to establish, or liberalize, programmes that permit capitalization of their debt, or its repurchase by domestic economic agents. This is because with greater loan loss provisions the big banks will be more disposed to enter into secondary market trading, which is the port of entry for participation in the capitalization and repurchase programmes of the debtor countries. The pressure to expand and liberalize these latter programmes will be viewed as positive, or negative, by the debtor governments according to their own particular national objectives and priorities. In any event, the number of countries sponsoring such discount and repurchase agreements continued to expand in 1987.

A third consequence, which might ensue in the longer run, is related to the increased capabilities of banks to recognize in their books the market valuation of their assets; this is a step that will allow debtors to benefit from the difference between the market and book valuation of their debts.

It also is worth mentioning that another stimulus to the development of a secondary market is the fact that 28 Japanese commercial banks recently joined forces to set up a company in the Cayman Islands for purchasing their portfolio of high-risk external debts, paying for it with shares in the new company. The latter will take responsibility for collecting the interest and principal on the debt thus purchased and will pass the proceeds on to the participating banks in the form of dividends or use the money to buy back the banks' shares in the recently-formed company. To the extent that the debts purchased from the participating banks are not fully repaid by the original debtors, the banks will have to absorb losses which will be reflected in a loss of value of their shares in the new company. The tax régime to which that company will be subject will facilitate the operations it is expected to carry out. The new company has already begun operations and has purchased the Mexican debt portfolio of the participating Japanese banks, worth US$ 580 million, at 58% of its book value.

Finally, it must be observed that the debt problem has been alarmingly aggravated by the recent return to rising interest rates in international credit markets. As noted earlier, LIBOR had fallen to a little more than 6% by the end of 1986, but it then increased to 7.5% by mid-1987. The rise in the base LIBOR rate has, in effect, more than wiped out any gains achieved by the countries through the negotiation of lower spreads in the fourth round of reschedulings. If rates continue their upward trajectory, the nominal cost of debt service will jump, squeezing the cash flow of debtors. The real effect of rising interest rates, of course, will depend on the evolution of the debtors' terms of trade. The prospect of a deteriorating external environment led the Presidents of the Cartagena Consensus countries to address a letter to the Venice Summit Conference participants, calling their attention to the arduous efforts made by debtors to adjust their economies and the need for debt relief.

3. Closing observations

In mid-1987 what is striking about the evolution of the renegotiation of Latin America's debt is the great variety of circumstances facing the creditors.

On the one hand, the creditors are clearly confronting a much broader "menu" of options for payment of debts than they did in 1982. There are now debt for equity swaps, repurchase agreements, payments in kind, exit bonds, retiming formulas and even prospects of exchanging debt for active stock market trading in the debtor countries. This broader menu is, in principle, a useful development, because in contrast to the early days --when all banks had to conform to a single formula of reschedulings cum involuntary loans-- the creditors can now more freely pursue options that are reflective of their different interests with regard to portfolio development. However, it is also true that a broader market as such is only a very partial solution to the debt problem and in no way can substitute for a comprehensive multilateral government-sponsored initiative, which inevitably must include debt forgiveness for some borrowers. One positive aspect for the debtors of the more aggressive provisioning for loan losses now practised by the creditors is that it indeed establishes better technical conditions for a government-supported political solution, i.e., the banks are better positioned to have their governments impose losses upon them for the purpose of giving more comprehensive debt relief to the debtor countries, which may require this for socially efficient adjustment.

On the other hand, it is also clear that nearly two years after its announcement, the Baker Initiative has failed to provide for a coherent management of the debt problem. Indeed, what stands out in 1987 is the diverse state of affairs on matters related to the repayment of debt. Only Argentina, Chile, Mexico and Uruguay are in the conventional framework of the Baker Plan, in which the debtor reschedules private bank debt through discussions with the banks' Steering Committee and creditor government debt through the Paris Club, after negotiating a formal IMF adjustment programme and complying with its criteria, which include the elimination of arrears. Colombia and Venezuela are partly out of the conventional scheme, since their economic programme and refinancing/rescheduling process, respectively, were subject only to article IV consultations with the IMF rather than full-scale Fund monitoring in a formal adjustment programme. Costa Rica, Honduras and the Dominican Republic, for their part, find themselves even further outside the officially-sponsored programme, as an orderly rescheduling of their obligations has been stalled by a repeated inability to comply with the requirements of the IMF and a tendency to accumulated arrears in the payment of debt. Both Costa Rica and Honduras have formally presented to their private creditors a new plan to regularize payments; however, the proposed repayment schemes do not even remotely correspond to the commercial repayment terms so vigorously defended by the Baker Initiative.

Meanwhile, in mid-1987 Bolivia, Brazil, Ecuador and Peru are in an official state of moratorium on their debt service. Bolivia has recently signed a stand-by agreement with the IMF and has established a mechanism at the Central Bank to buy back its own debt at a small fraction of its book value. Peru, for its part, is clearly outside the conventional framework established by the Baker Plan. It refuses to accept an adjustment programme with the IMF and has unilaterally limited payments of the debt to a percentage of its export earnings. Facing a negative transfer, it has fallen behind schedule in payments to the Fund and the World Bank; and these two institutions have recently declared Peru ineligible for new borrowing. The country is also aggressively promoting the payment of debt in goods rather than foreign exchange.

Finally, this diverse picture regarding the renegotiation of debt is made even more complex by other factors. At the outset of 1987 Latin America's indicators of debt burden were generally as bad as, or worse than, they were at the outset of the crisis. This, along with the spectre of another rise in international interest rates and the persistence of severe macroeconomic disequilibrium and slow growth in the central countries, creates even more uncertainty about Latin America's ability to insert itself in the Baker Plan's essentially rigid commercial framework for debt payments. Moreover, the banks, never enthusiastic about the new lending promised by the Baker Initiative, are now, after more loan loss provisioning, in an even better position to resist that initiative: indeed, not even the low levels of additional financing expected under the Baker Initiative have been forthcoming.

IV. REGIONAL INTEGRATION AND CO-OPERATION

As already noted in various ECLAC documents,5/ the economic crisis in Latin America and the Caribbean has had a profound effect on the subregional integration schemes, especially as regards the level of trade between member countries. Thus, if trade is used as an indicator of what has happened in those schemes, it may be seen that in ALADI intrazonal exports in 1985 were 37% below the highest figures, which were registered in 1981; in the Andean Group the decline between the same two years was 36%; in the Central American Common Market it was 21%, and in CARICOM it was 26% (see table 15). All this means that, as a percentage of total exports, intra-regional exports went down from 15.9% in 1981 to 10.6% in 1985.

The Central America case is perhaps the most dramatic of these, above all when contrasted with the notable progress made in the framework of the Central America Common Market in previous decades. The impressive fall in intra-regional trade, both in nominal terms and as a proportion of total trade, reveals the progressive decline in the aggregate demand of the regional market and especially the crisis in the reciprocal payments systems, both multilateral and bilateral. It should be noted, however, that during the period under consideration the Central American governments made resolute efforts to avoid still further deterioration. In 1986, for example, three of the five countries put into effect a new customs and tariff agreement; new machinery for payment in local currencies was adopted (Central American Import Rights); and progress was made on some physical integration projects, especially regarding the interconnection of electricity systems.

As regards the Caribbean Community, the Seventh Conference of Heads of Government was held in July 1986, while the Council of Ministers of the Common Market held its twenty-ninth meeting in January 1987. At both meetings, among other aspects, the free trade system was reviewed with the aim of reactivating mutual trade. This review covered the common external tariff, the rules of origin and fiscal incentives. At the same time, some concrete measures were taken to reactivate the mutual payments systems, including, for example, the adoption of a credit facility within the Caribbean Development Bank (CARIBANK) to finance intra- and extra-regional exports. The member countries of the Organization of Eastern Caribbean States, for their part, expressed interest in heightening their integration process and even extending it to political union, to which end a number of meetings have been scheduled for the coming months.

Table 15

LATIN AMERICA AND THE CARIBBEAN: EXPORTS WITHIN INTEGRATION SCHEMES, AND INTRA-REGIONAL AND TOTAL EXPORTS
(Millions of dollars FOB)

	1960	1965	1970	1975	1978	1979	1980	1981	1982	1983	1984	1985	1986
ALADI													
Total exports	7 344.8	9 388.7	13 786.7	29 664.2	44 630.1	60 729.0	78 237.8	86 636.6	81 262.5	80 471.4	90 531.7	87 979.9	70
Exports to Latin America	-	-	1 583.5	5 031.2	7 174.3	10 011.8	12 314.8	13 424.1	11 688.3	9 268.4	10 184.7	9 063.1	
Exports to Latin America/ total exports (%)	-	-	11.5	17.0	16.1	16.5	15.7	15.5	14.4	11.5	11.2	10.3	
Exports within ALADI	566.6	841.9	1 266.0	4 010.2	5 838.4	8 574.6	10 935.3	11 348.1	9 761.0	7 188.0	8 131.4	7 159.6	7
Exports within ALADI/total exports (%)	7.7	9.0	9.2	13.5	13.1	14.1	14.0	13.1	12.0	8.9	9.0	8.1	
Exports of ALADI/total Latin American exports (%)	-	-	79.9	79.7	81.4	85.6	88.8	84.5	83.5	77.6	79.8	79.0	
Andean Group a/													
Total exports	3 586.8	4 346.0	5 419.1	12 897.8	16 293.4	23 937.5	29 428.9	29 284.4	27 434.0	24 139.3	25 493.0	24 975.6	19
Exports to Latin America	-	-	569.0	2 055.3	2 404.2	3 412.9	4 282.7	4 859.2	4 428.2	3 298.9	3 266.7	3 013.2	
Exports to Latin America/ total exports (%)	-	-	10.5	15.9	14.8	14.3	14.6	16.6	16.1	13.7	12.8	12.1	
Exports within Andean Group	24.5	52.7	91.6	477.1	684.5	1 075.1	1 190.0	1 265.4	1 228.2	857.9	773.9	804.7	
Exports within Andean Group/ total exports (%)	0.7	1.2	1.7	3.7	4.2	4.5	4.0	4.3	4.5	3.6	3.0	3.2	
Exports of Andean Group/total Latin American exports (%)	-	-	16.1	23.2	28.5	31.5	27.8	26.0	27.7	26.0	23.7	26.7	
Central American Common Market (CACM)													
Total exports	444.2	762.5	1 105.4	2 309.4	3 974.0	4 462.5	4 412.6	3 792.3	3 393.7	3 850.4	3 888.2	4 219.2	
Exports to Latin America	-	-	313.7	645.9	965.7	1 034.2	1 249.8	1 160.5	969.7	959.6	872.1	890.0	
Exports to Latin America/ total exports (%)	-	-	28.4	28.0	24.3	23.2	28.3	30.6	28.6	24.9	22 4	21.1	
Exports within CACM	30.9	132.8	287.1	541.3	862.8	898.7	1 118.9	929.4	761.2	782.0	720.5	736.2	
Exports within CACM/total exports (%)	7.0	17.4	26.0	23.4	21.7	20.1	25.4	24.5	22.4	20.3	18.5	17.4	
Exports of CACM/total Latin American exports (%)	-	-	91.5	83.8	89.3	86.9	89.5	80.1	78.5	81.5	82.6	82.7	
CARICOM b/													
Total exports	543.7	750.2	1 000.1	3 028.5	3 190.2	3 908.1	5 558.8	5 281.5	4 296.6	3 531.5	3 527.4	3 343.9	
Exports to Latin America	-	-	63.2	259.7	297.6	439.6	601.6	704.2	716.7	435.0	383.0	332.3	
Exports to Latin America/ total exports (%)	-	-	6.3	8.6	9.3	11.2	10.8	13.3	16.7	12.3	10.9	9.9	
Exports within CARICOM	21.3	27.1	42.3	216.8	204.7	255.7	350.2	375.0	390.8	325.0	278.5	278.2	
Exports within CARICOM/total exports (%)	3.9	3.6	4.2	7.2	6.4	6.5	6.3	7.1	9.1	9.2	7.9	8.3	
Exports of CARICOM/total Latin American exports (%)	-	-	66.9	83.5	68.8	58.2	58.2	53.3	54.5	74.7	72.7	83.7	
Latin America and the Caribbean c/													
Total exports	8 532.5	11 518.6	15 212.2	36 182.8	52 712.2	70 265.6	89 726.1	97 381.0	90 273.0	89 376.2	99 522.8	97 523.4	
Intra-regional trade	749.9	1 275.3	1 969.7	5 964.8	8 536.5	11 583.3	14 331.6	15 438.3	13 474.0	10 740.5	11 531.9	10 347.7	
Intra-regional trade/total trade (%)	8.8	11.1	12.9	16.5	16.2	16.5	16.0	15.9	14.9	12.0	11.6	10.6	

Source: ECLAC, on the basis of official statistics.

a/ Excluding Chile.
b/ Comprises only Barbados, Guyana, Jamaica and Trinidad and Tobago.
c/ Comprises 11 ALADI countries, five CACM countries, four CARICOM countries, Panama, Dominican Republic and Haiti.
d/ Estimate.

With regard to the Andean Group, efforts were made to flexibilize the machinery of the Cartagena Agreement. This process kept this integration scheme practically paralyzed for almost two years. Recently, in May 1987, the proposal for the signing of a protocol to amend the Cartagena Agreement was approved, and this could give new impetus to the Agreement.

Finally, with regard to the Latin American Integration Association (ALADI), the regional round of negotiations marked an important change of style, since objectives have gradually been taking shape which cover practically all spheres of zonal trade and the instruments governing it. This initiative, which was formally put into effect in April 1986 in ALADI, is designed to revitalize the integration process and to promote a reorientation of mutual trade. In July of the same year, the Second Special Meeting of High-Level Government Representatives was held in Acapulco and made progress in the analysis and adoption of resolutions on the central topics of the Round, while in March 1987 the Third Meeting of the Council of Ministers of Foreign Affairs of ALADI was held. On this occasion, a Declaration and six specific agreements were signed.

The Third Meeting of the Council of Ministers gave a fresh impulse to the activities of the Association. At this meeting, all the Ministers reiterated their desire to strengthen integration in the zone, and consensus was reached on various topics that were difficult for some countries to implement. Even so, real obstacles persist which may hinder the implementation of the agreements adopted. Thus, for example, most of the member countries of ALADI have a pressing need to generate trade surpluses to service their external debt, so that in practice their external trade machinery limits imports, regardless of where they come from, and promotes exports, whatever their destination.

Furthermore, for various reasons there has been a failure to fulfil some commitments. In the case of the Regional Tariff Preference --approved at the Second Meeting of the Council of Ministers of Foreign Affairs in April 1984-- this was only put into effect by seven of the eleven members of ALADI. Likewise, before the programme for the elimination of non-tariff restrictions could be put into practice, it had to be renegotiated to make it more flexible, because of the inability of some countries to fulfil the objectives originally agreed on.

In the final analysis, it would appear that there is a group of member countries of ALADI which have a real desire and possibilities to promote dynamic integration, whereas others experience difficulty in implementing the more ambitious agreements. If this situation persists, a sub-group may gradually grow up in ALADI which has the intention of advancing more rapidly in trade negotiations (as the Andean Group did in the past). It is also reasonable to anticipate a tendency towards bilateral arrangements, as indeed occurred in 1986. To some extent there would thus be a departure from the multilateralist concepts which underlie these schemes.

One of the most novel agreements of the Council of Ministers concerns the recovery and expansion of mutual trade. The distinctive feature of this resolution is that it fixes a target of a quantitative nature --the expansion of trade by a predetermined percentage-- and then goes on to identify the instruments which will make such a result possible. Thus, the target was adopted of increasing the value of mutual trade by 40% by the end of the three year period 1987-1989. According to some estimates, this measure brings to the bargaining table potential trade worth nearly US$ 13 billion. The negotiation process will finally determine how much of this amount can be channeled towards the regional supply.

The resolution adopted in this respect establishes, as the mechanism for inducing future trade, preferential tariffs at significantly high levels (a base level of 60%) and with differential treatment; it lays down procedures and a calendar for the negotiations; it opens up the possibility of offering complementary compensation of a bilateral nature; it eliminates non-tariff restrictions (except in a few special cases), and it contemplates the opening up of the Agreement, by negotiation, to other Latin American and Caribbean countries. There are at least two factors which can limit the possibilities of success of this effort. The most important of them involves of the practical arrangements for achieving multilateral and also bilateral equilibrium. Big import capacities --even in theory-- call for substantial export and production capacity too. It is well known, however, that the intermediate countries and those with the relatively lowest economic development have an extremely limited exportable supply, which may seriously complicate the search for forms of compensation, concentrate the benefits in the countries with greater potential, or hold up the negotiations.

It will be appreciated from the foregoing that the subregional integration processes, although still operative, have not made sufficient progress in recent years. Within these same processes, however, there have been important developments reflected in some bilateral-type arrangements.

Relations between pairs of countries are structured directly in keeping with the political postulates and specific interests of the governments. The Argentine-Brazilian agreements signed in July 1986, the extension of the scope of the Argentina-Uruguay Economic Co-operation Agreement (CAUCE) which came into effect in September 1985, the amplification and new projections of the Trade Expansion Protocol (PEC), agreed in August 1986, and the various bilateral agreements between Andean countries are all examples of an increasingly clear trend towards the establishment of global policy lines through bilateral agreements, in some cases conceived outside the structures of the relevant integration and co-operation schemes. The defects or limitations of bilateralism are well known, and they are further accentuated when there are dissimilar economic structures, as occurs in the regional framework. It must be acknowledged, however, that the bilateral negotiation of sets of measures may be a perfectly valid means of dealing with the specific economic and trade conditions of pairs of countries. Thus, to the extent that there are forms of interdependence deriving from geographical or political links and various degrees of economic complementarity, it will be very difficult to turn a bilateral relationship into a multilateral one. A typical example is that of the relations between certain neighbouring countries or those which exist between some nations of the Southern Cone which are dynamic axes of intra-Latin American trade. In this sense, there is a complex paradox which can only be solved by promoting, together with bilateral arrangements, a thorough-going renovation of the operating profile of the multilateral schemes, in order to avoid antagonism and to generate actions which mutually strengthen each other.

In this respect, the efforts being carried out in the framework of the Regional Round of Negotiations of ALADI are of particular importance. At the political level, their basic postulates seek to reduce or eliminate the lack of synchronization between the overall proposals and concrete facts. Moreover, the participation of Latin American countries which are not members of the Association in the capacity of observers strengthens the "regionalization" of ALADI and the multilateral nature of this initiative.

At the operational level, the Round will finally be expressed in the adoption of certain concrete arrangements. The most important of these, such as the extension of the Regional Tariff Preference (PAR) or those concerned with payments and financing, are to a large extent multilateral. Thus, it may be possible to reach a global framework in which the bilateral approaches are integrated and it will be possible to begin to act simultaneously on both levels.

Notes

1/ In accordance with Resolution 419 (PLEN.14), the Committee of the Whole meets in the years when the Commission does not do so, and its sessions are normally "preceded by a meeting of the Committee of High-Level Government Experts (CEGAN), in conformity with resolution 310 (XIV)".

2/ For greater background detail and more proposals, see ECLAC, Latin American and Caribbean development: obstacles, requirements and options (LC/G.1440-P), "Cuadernos de la CEPAL" series, No. 55, Santiago, Chile, June 1987, United Nations publication, sales No. E.87.II.G.9. This document was prepared for the Special Conference of ECLAC, held in Mexico City from 19-23 January 1987.

3/ See ECLAC, Preliminary Overview of the Latin American Economy, 1986, LC/G.1454, December 1986, p. 8.

4/ See ECLAC, Preliminary overview of the Latin American economy, op.cit., especially page 1.

5/ See for example: ECLAC, Relaciones económicas internacionales y cooperación regional de Améria Latina y el Caribe (LC/G.1422), "Estudios e Informes de la CEPAL". series, No. 63, Santiago, Chile, February 1987; Cooperación comercial y negociaciones regionales (LC/R.513), Santiago, Chile, 28 July 1986; and Multilateralismo y bilateralismo en la ALADI (LC/R.564), Santiago, Chile, 9 February 1987.