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RECENT ECONOMIC TRENDS IN LATIN AMERICA
AND THE CARIBBEAN

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INTRODUCTION

The twenty-second session of ECLAC, held in Rio de Janeiro from 20-27 April 1988, adopted resolution 495(XXII) which contains the calendar of conferences of ECLAC for the period 1988-1990. This calendar, as is usual, includes a session of the Committee of the Whole --in this case, the twentieth-- preceded by a session of the Committee of High-Level Government Experts (CEGAN), which on this occasion is the fifteenth.

The Secretariat felt that it would be useful to outline here some of the principal developments noted in recent months and to submit to the governments of member States some remarks regarding the effects of these events on the economies of the region and on the design and implementation of economic policy. In accordance with the mandate contained in ECLAC resolution 478(XXI), particular attention was paid in this outline to the question of the external debt.

I. WORLD ECONOMIC TRENDS AND PROSPECTS

As 1988 opened, the effects of the collapse of the stock markets of the industrialized countries in October 1987 were still being felt. That situation, the persistence of the fiscal and trade deficits of the United States and of the concomitant trade surpluses of the Federal Republic of Germany and Japan, and the fact that, according to most forecasts, the growth rate in the industrialized countries could be expected to slacken appreciably (with even the possibility of a recession), presaged a particularly difficult external outlook for Latin America and the Caribbean.

Such an external environment had serious implications for Latin America and the Caribbean, since the prospects of achieving adjustment with growth at that time depended to a critical degree on increases in the prices and volume of their exports, on a drop in international interest rates, and the possibility of an increase in the net inflow of external capital.

The crisis of 1982-1983 had found Latin America and the Caribbean very vulnerable to the changes in their external sector. For one thing, the export and import base of the region was too narrow to adjust to the unfavourable effects of a crisis, either through increased import substitution or increased exports. Exports accounted for less than 13% of the region's gross domestic product, and three quarters of them consisted of commodities whose elasticity both of demand and of supply is very low and whose prices are subject to sharp fluctuations. This situation left very little margin for achieving adjustment through the expansion of exports. Moreover, since the process of import substitution was already far advanced at the onset of the crisis, there was not much room for reducing imports without negative repercussions on the product, as indeed occurred during the period 1983-1985.

Furthermore, when the crisis broke the region was also in a very vulnerable situation as regards external financing. During the 1970s, the countries of Latin America and the Caribbean had received a net transfer of resources equivalent to 2% of their annual gross domestic product, so that in 1981 the ratio of debt to exports was already 2.5:1, and it rose even higher in the following years. Moreover, since the lion's share of this debt had been contracted at floating interest rates, interest payments constituted an extremely heavy burden.

In sum, during the 1980s the region has been extremely vulnerable to external shocks, both in the area of trade (deterioration of the terms of trade and drop in the volume of exports) and in that of finance (declining capital inflows or rising interest rates). The stock market crash of October

1987, together with the macroeconomic imbalances in the industrialized countries, led to fears that both types of shocks could occur again in 1988.

However, the forecasts proved exaggerated. Particularly mistaken were those who predicted a recession in economic activity and world trade. Far from going down to a little over 2%, as had originally been forecast by the Organization for Economic Co-operation and Development (OECD), the growth rate of the product of the industrialized countries rose from 3.3% in 1987 to more than 4% in 1988. Moreover, this economic growth was more evenly distributed among the principal countries, with the product growing significantly not only in Japan and the Federal Republic of Germany but also in the rest of Europe and the United States. Furthermore, the volume of world trade expanded by 9% (in comparison with 5.7% in 1987), while the prices of most commodities, with the exception of petroleum, increased by more than the rate of inflation posted in the OECD countries, which remained virtually stable at around 3.5% (although it tended to increase during the second half of 1988).

On the other hand, developments took place in the international financial sphere which had adverse consequences for the region. Not only did capital flows to Latin America and the Caribbean decline still further but international interest rates increased. The LIBOR rate, for example, which, as a result of the massive support provided by the central banks to the financial system had dropped by 1 1/2 points during the five months following the stock market crash, began to rise steadily as from the second quarter of 1988, and by the end of the year it had reached 9.3%, which was almost one point higher than the October 1987 level.

The reason why the forecast of lower world production and trade failed to materialize is to be sought in both external and internal factors. The drop in the price of petroleum and the dynamic growth of the developing countries of Asia helped to spur economic activity in the industrialized countries. At the same time, some of the latter (including the United States) benefited from increases in their exports and from the improvement of their external accounts position. The most significant underlying reasons for the good economic performance of the OECD countries, in contrast with the projections made at the end of 1987, were on the one hand the vigorous and surprising growth in non-residential private investment—which expanded twice as fast as in 1987—and, on the other hand, the 2.5% rise in productivity (compared with the projected figure of 1.5%).

It is difficult to tell at the present time which factors were most instrumental in this increase in investment and productivity: they might include the delayed effects of the reductions in interest rates which occurred up to mid-1987, the improvement in the microeconomic sphere brought about by the liberalization of the capital markets or by the introduction of special tax incentives, or the better balance between national monetary and fiscal policies and the improved co-ordination of such policies among the industrialized countries. At all events, the fact that such growth took place at all would tend to confirm the thesis that the stock market crash was primarily a reflection of the imbalance that existed in this market alone as a result of the accumulation of speculative trends, and did not constitute

the emergence or visible manifestation of more profound imbalances in other sectors of the economies.

There is no doubt that the enhanced international competitiveness of the United States, attributable to the decline in the value of the dollar between 1985 and 1987, was influential in finally bringing about a significant reduction in that country's trade deficit (by approximately US\$40 billion). On the other hand, while the reduction of the fiscal deficit has been more modest, this deficit has decreased steadily in relation to the product and is now equivalent to little more than 3% of the latter. Furthermore, since the Federal Republic of Germany and especially Japan have adopted more expansionary policies, the structure of demand in the OECD countries has improved. All of these factors have combined to enhance the future prospects of the world economy. Those prospects may be further enhanced by the impetus to trade and investment in the OECD countries which may be provided by the liberalization of the capital markets envisaged in the project "Europe 1992".

Nevertheless, there are a number of factors working against these favourable projections. The fiscal deficit of the United States remains high, particularly in relation to the rate of personal savings, and this places continued pressure on interest rates. Moreover, an upsurge of inflation seems likely in the OECD countries as a consequence of the ever-higher rates of utilization of installed capacity. Consequently, although current forecasts suggest that the present period of economic growth --the longest since the end of the Second World War-- may continue over the next few years, their materialization depends on the continued reduction of the United States fiscal deficit, avoidance of a resurgence of inflation, and the maintenance (and, if possible, reduction) of interest rates.

In sum, the evolution of world economic activity and trade in 1988 had favourable net effects on the majority of the countries of Latin America and the Caribbean, even though the drop in oil prices was detrimental to the oil-exporting countries of the region. While the price of petroleum fell to its lowest real levels since 1974, those of most of the other commodities experienced increases which in some cases brought the levels up to the nominal dollar prices recorded early in the decade. As the dollar prices of manufactured goods exported by the industrialized countries have risen substantially in the 1980s, however, this recovery in commodity prices must still be viewed against a background of deteriorating commodity terms of trade, which have currently reached their lowest level since 1932.

At the same time, the increase in international interest rates had an unfavourable effect on the servicing of the external debt, partly offsetting the relatively improved environment in which some countries of the region were able to develop their trade and, in other cases, worsening already bad trade performances. Because of this and the drop in the net inflow of capital into the region, the net transfer of resources from Latin America and the Caribbean to the rest of the world again registered a sharp increase in 1988.

II. RECENT ECONOMIC TRENDS IN LATIN AMERICA AND THE CARIBBEAN

In 1988 the economic crisis in Latin America and the Caribbean reached dramatic proportions. Per capita output fell for the first time since the recession of 1981-1983, so that it amounted to barely the equivalent of that obtained back in 1978; inflation more than doubled, averaging an unprecedented 530%, and real wages and salaries decreased in most countries (see table 1 and figure 1). This deterioration in economic conditions occurred even though, for the reasons already noted, there was a relative easing of external restrictions. Thus, most countries of the region have distanced themselves ever more from the elusive goal of resuming a stable and sustained economic growth such as to enable them to relieve the massive and serious social problems which have built up.

The poor performance of the region for the eighth consecutive year shows that, against a background of long-standing structural problems, the recurrent macroeconomic imbalances associated with debt servicing, the fiscal crisis and the scarcity of foreign exchange have now acquired a momentum of their own which is reflected in growing inflationary pressures, in a weakening of the investment process, and in reduced leeway for the implementation of economic policy. These factors go a long way towards explaining the poor results in terms of growth and stability registered once again in 1988.

The increase in the value of exports as a result of the rise in the international prices of basic non-energy commodities and the considerable expansion in the volumes exported failed to boost growth, since, save in a few countries, only a small proportion of the rise in exports was used to increase imports; instead, the bulk of higher export earnings was used to finance the increased outward transfer of resources. Such transfers rose by nearly 75% to US\$28.9 billion —one of the highest levels since the debt crisis broke out in 1982. Thus, limited import capacity continued to act as a constraint on growth.

In a number of countries —including the three largest— however, it was not so much the lack of foreign exchange which limited growth in 1988 as the difficulties of coping with macroeconomic imbalances made still more acute by the crisis. More specifically, a major factor in their economic slowdown was the negative impact of large public deficits and the acceleration of inflation or the intensification of efforts to control it.

Table 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS^a

Indicators	1982	1983	1984	1985	1986	1987	1988 ^b
Gross domestic product at market prices (index, base year 1980 = 100)	99.4	96.9	100.4	104.1	108.1	110.8	111.6
Population (millions of inhabitants)	375	383	391	400	408	417	426
Per capita gross domestic product (index, base year 1980 = 100)	95.0	90.5	91.8	93.0	94.5	94.8	93.4
Growth rates							
Gross domestic product	-1.2	-2.6	3.7	3.6	3.9	2.5	0.7
Per capita gross domestic product	-3.5	-4.7	1.4	1.4	1.6	0.3	-1.5
Consumer prices ^c	84.6	130.8	184.8	274.7	64.5	198.9	533.0
Terms of trade (goods)	-9.2	1.3	6.6	-4.4	-11.4	-0.5	-0.1
Purchasing power of exports of goods	-7.7	11.0	13.4	-4.2	-12.2	7.5	10.4
Current value of exports of goods	-8.8	0.0	11.6	-5.6	-15.2	14.0	14.6
Current value of imports of goods	-19.9	-28.5	4.2	-0.3	2.5	13.0	12.0
Billions of dollars							
Exports of goods	87.5	87.5	97.6	92.2	78.2	89.2	102.2
Imports of goods	78.4	56.0	58.3	58.1	59.7	67.4	75.5
Trade balance (goods)	9.1	31.5	39.3	34.1	18.5	21.8	26.7
Net payments of profits and interest	38.8	34.4	37.0	35.0	31.9	30.5	33.6
Balance on current account ^d	-41.0	-7.3	-0.8	-3.0	-15.4	-9.8	-10.0
Net movement of capital ^e	20.2	2.9	10.2	2.2	8.3	13.9	4.9
Global balance ^f	-20.8	-4.4	9.4	-0.8	-7.1	4.1	-5.1
Total gross external debt ^g	331.0	352.2	369.9	376.7	389.4	410.5	401.4
Net transfer of resources ^h	-18.6	-31.5	-26.7	-32.8	-23.6	-16.6	-28.7

Source: ECLAC, on the basis of official data.

^aThe 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) and in table 5, respectively. The data on the external sector relate to the 19 countries mentioned in the table "Latin America: Balance of Payments". ^bPreliminary estimates, subject to revision. ^cVariation from December to December. ^dIncludes net unrequited private transfer payments. ^eIncludes long and short-term capital, unrequited official transfer payments and errors and omissions. ^fCorresponds to the variation in international reserves (of reverse sign) plus counterpart items. ^gSee notes to table "Latin America: Total disbursed external debt" given below. ^hCorresponds to net inflow of capital, less net payments of profits and interest.

Figure 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

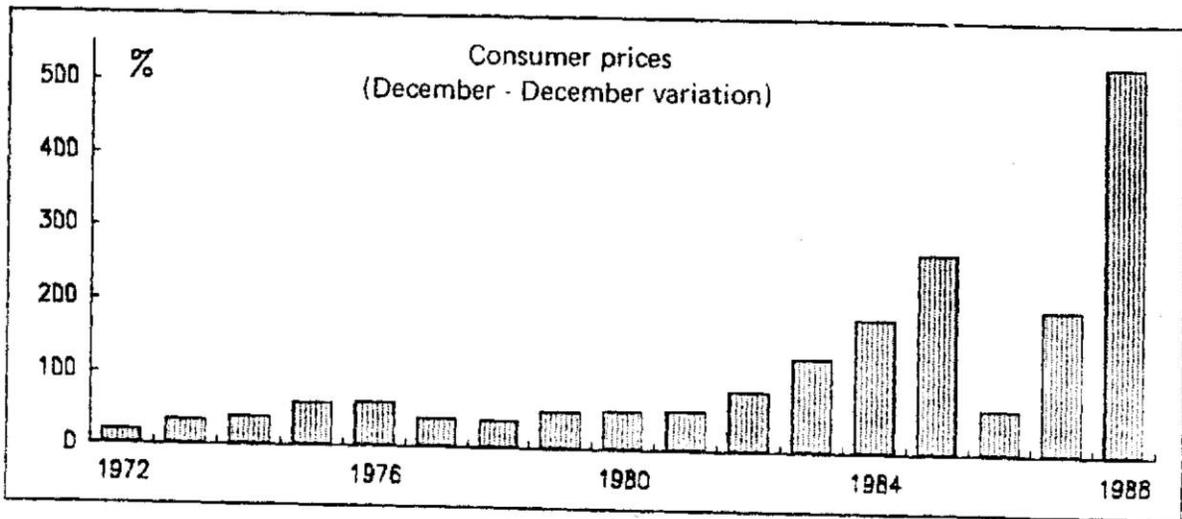
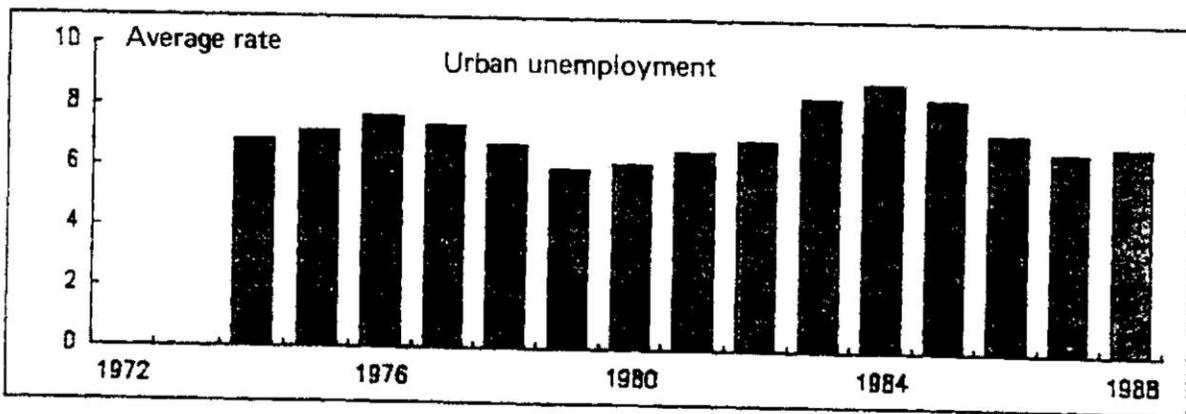
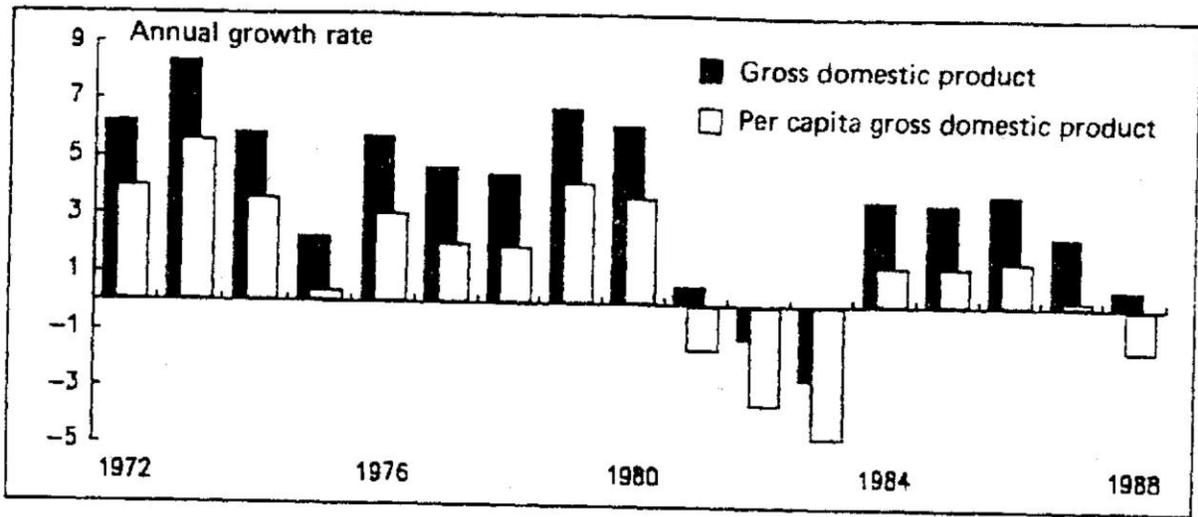
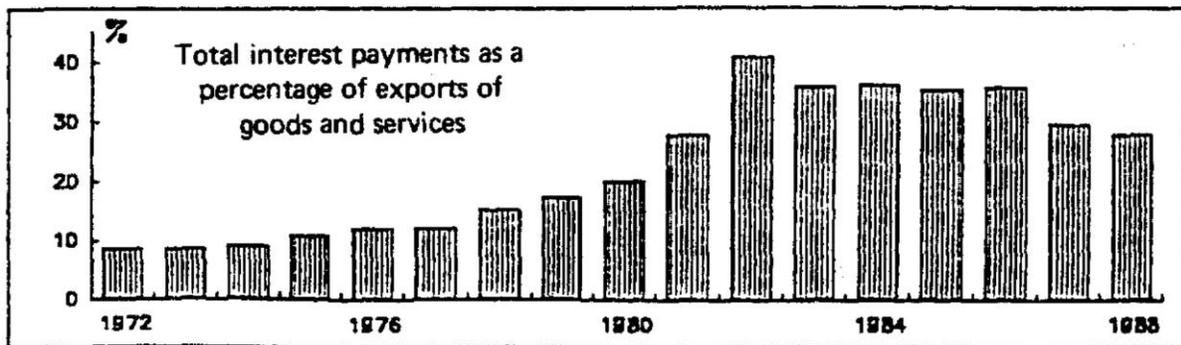
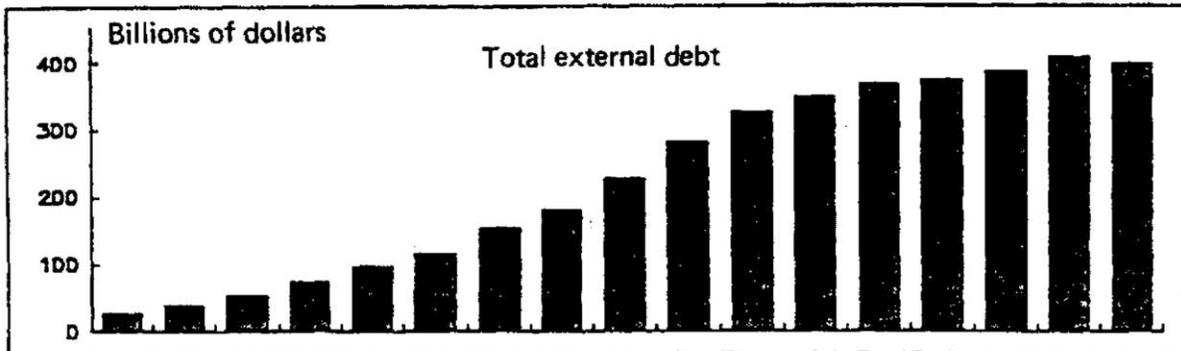
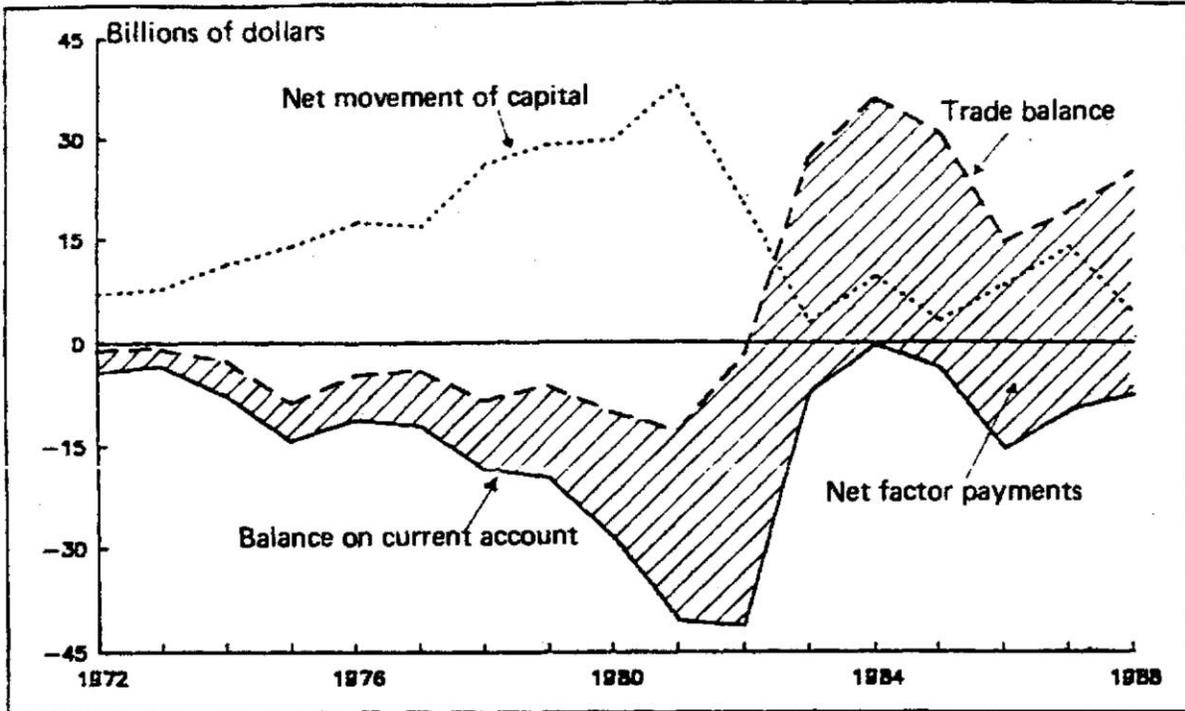


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

According to preliminary estimates, the gross domestic product of the region increased by a scant 0.7%, which was lower than the already feeble growth rate recorded in 1987 and also lower than the growth rate of the population. As a result, the per capita product fell by 1.5% to a level 6.5% lower than in 1980.

The reduction in the economic growth rate of the region was influenced in particular by the virtual stagnation of economic activity in Brazil and its very slight growth in Argentina and Mexico; three countries which, together, account for nearly three-quarters of the regional product. It was also influenced by the sharp drops in economic activity in Panama (-20%), Nicaragua (-9%) and Peru (-8.5%), as well as the slower growth in most of the other economies of the region. The generalized loss of dynamism was reflected in the fact that the per capita product fell in 12 of the 23 countries for which information is available, while it showed only a slight increase in three others. Indeed, the per capita product rose at a satisfactory rate only in Chile (5%), Ecuador (although the 5% growth registered compensated for less than half of the sharp decline experienced the preceding year), and Paraguay (3%).

As in 1987, the slower growth of economic activity was accompanied by an extraordinary surge in inflation. The average growth rate of consumer prices, weighted by population, reached the unprecedented level of 530% —more than twice the already very high figure recorded the preceding year. Furthermore, this spurt in inflation, in addition to being acute, was also widespread, since it occurred in 13 of the 22 countries, and in nine of them the rate of inflation more than doubled.

As in the two preceding years, the most notable rise took place in Nicaragua, where consumer prices rose by close to 7 800% between September 1987 and September 1988. Inflation in Peru likewise showed a very sharp increase, rising from 115% in 1987 to 1 720% in 1988, while prices also increased rapidly in Brazil, where an unprecedented rise of over 930% was recorded —well over twice the rate of the preceding year. The rate of inflation also doubled in Argentina, rising from 175% to nearly 390%, although it slackened considerably in the final quarter of the year. Inflation also continued to rise notably —although from much lower levels— in Ecuador and the Dominican Republic, where the price rises recorded (86% and 57%, respectively) represented new historical highs, and it flared up again in Uruguay, where it had slackened off slowly but surely in the two preceding years. Inflation also intensified in Bolivia, Colombia and Costa Rica, although the rises in the level of prices were still under 30% at the end of the year. In contrast, the rate of inflation fell markedly and sustainedly in Mexico, dropping from 160% in 1987 to 52% in 1988, and decreased by five points in Venezuela, although its end-year rate of 35% was nevertheless the second highest in the country's history. Inflation slackened significantly in Chile, where the rate of nearly 13% was little over half that observed the preceding year. Finally, inflation remained below 10% in Barbados, Jamaica, Haiti, Honduras, Panama and Trinidad and Tobago, in all of which the rises in domestic price levels have traditionally been on a par with or even lower than the international rate of inflation.

As in 1987, the slackening of economic growth and the acceleration of inflation coincided with an improvement in foreign trade. Because of rises in the international prices of many primary commodities and the vigorous growth of manufactured exports in a number of countries, and despite the decline in the price of petroleum, the value of exports of goods rose by 15% to over US\$100 billion for the first time in history. Moreover, this expansion was quite widespread, being especially marked in Argentina (35%), Chile (32%), Brazil (28%) and the Dominican Republic (25%).

Furthermore, since the increase in exports was greater than that of imports (which grew by 12%), the trade surplus in goods rose from US\$21.8 billion in 1987 to US\$26.7 billion in 1988, thereby continuing its upward trend for the second consecutive year.

The growth of the trade surplus made it possible to finance nearly 80% of the net payments of interest and profits (a higher proportion than in the two preceding years) in spite of the fact that those payments increased by close to 10%, mainly as a result of the rise in international interest rates. Because of this increase in remittances of interest and profits, and despite the greater trade surplus, the deficit on current account grew slightly from US\$9.8 billion in 1987 to nearly US\$10 billion in 1988.

This increase in the deficit coincided with a sharp decline in the net inflow of capital. In 1987 this inflow had partially recovered from the enormous contraction experienced over the preceding four years, but in 1988 it dropped to US\$4.9 billion, equivalent to only 35% of the net loans and investments received in 1987.

Furthermore, the contraction in external financing was much greater than the reduction in the deficit on current account, so that the overall balance-of-payments results suffered a turnaround from a surplus of US\$4.1 billion in 1987 to a deficit of US\$5.1 billion in 1988.

The decrease in the net inflow of capital and the simultaneous rise in payments of interest and profits also caused a spectacular increase in the net transfer of resources abroad. Such transfers, which in the preceding two years had followed a downward pattern, rose from US\$16.6 billion in 1987 to US\$28.7 billion in 1988: equivalent to nearly a quarter of the value of the region's exports of goods and services and approximately 4% of its gross domestic product.

Because of the very limited inflow of new loans and the increase in debt conversion transactions in a number of countries, the external debt of Latin America and the Caribbean fell in 1988 for the first time in absolute terms. It is estimated that in the course of the year the total debt of the region fell from US\$410 billion to US\$401 billion, primarily as a result of the reductions of about 7% in the debts of Bolivia and Chile and of close to 5.5% in those of Brazil and Mexico.

Owing to the drop in the debt and especially to the considerable expansion of exports, the debt/exports coefficient decreased considerably in 1988. This coefficient, which in 1986 had attained a record level of 425% for the region as a whole and which had dropped to a little over 390% in 1987,

fell in 1988 to 340%: a figure comparable to those recorded, on average, during the period 1982-1985, although much higher than those of the early years of the decade. Contrary to what had happened in 1987, the decrease in this coefficient was much less marked in the oil-exporting countries (where it fell from 361% to 343%) than it was in the other economies of the region (where it dropped from 417% to 337%). At all events, the coefficients for both groups of countries remained significantly above the levels usual in the early part of the decade.

In 1988 there was also an improvement, although only a slight one, in the ratio between interest payments and exports. For the region as a whole, this coefficient fell from nearly 30% in 1987 to 28% in 1988, thereby continuing the downward trend begun in 1983. Even though this coefficient was the lowest since the beginning of the debt crisis, however, it was still 50% higher than that recorded in the period 1978-1980.

1. Production and employment

In 1988 the loss of economic dynamism already observed in Latin America and the Caribbean the preceding year increased still further. Thus, gross domestic product rose by a bare 0.7%, after having grown by nearly 4% in 1986 and by 2.5% in 1987. This lowered the per capita product by 1.5% to a level which was almost 7% below that of 1980 (its historic peak) and was only equal to that obtained back in 1978.

The marked slackening in economic growth was due in particular to the stagnation of production in Brazil and its very feeble growth in Argentina and Mexico: three countries which account for nearly three-quarters of the region's total product. It was also partly attributable, however, to the sharp drops in economic activity experienced by Panama (-20%), Nicaragua (-9%) and Peru (-8.5%) and to the fact that most of the remaining economies in the region grew more slowly than in the past (see table 2).

Thus, in 1988 the deterioration in living conditions in many of the Latin American and Caribbean economies observed since the beginning of the decade continued to worsen. Between 1980 and 1988, the per capita product has fallen by 39% in Trinidad and Tobago, by over 26% in Nicaragua and Bolivia, by 24% in Panama, by around 20% in Guatemala and Haiti, by 15% in Argentina, El Salvador and Venezuela, by 14% in Honduras and Peru, and by 11% in Mexico (see table 3).

In Brazil, where the expansion of overall economic activity had already begun to slacken in 1987, the product stagnated in 1988, with the result that the per capita product fell by over 2% to a level only slightly higher than that of 1980. This poor performance can be blamed both on the rapid and persistent rise in inflation and on the attempts made to reduce the public deficit. Capital formation was particularly affected, so that the investment coefficient fell below 16% to the lowest level recorded since the 1983 crisis. All sectors, with the exception of transport and communications, experienced a loss of dynamism. Thus, after having grown by a bare 1% in 1987, manufacturing fell by nearly 3%. This was attributable largely to the contraction in domestic demand, the adverse effects of which were only

Table 2

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

	Annual growth rates							Cumulative variation
	1982	1983	1984	1985	1986	1987	1988 ^a	1981-1988 ^a
Latin America (excluding Cuba)	-1.2	-2.6	3.7	3.6	3.9	2.5	0.7	11.6
Oil-exporting countries	-0.6	-5.1	2.6	2.3	-0.9	1.5	0.8	6.5
Bolivia	-4.4	-6.5	-0.3	-0.1	-2.9	2.4	3.0	-8.1
Ecuador	1.1	-1.2	4.8	4.8	3.4	-8.7	8.0	16.0
Mexico	-0.6	-4.2	3.6	2.6	-4.0	1.4	0.5	7.7
Peru	0.3	-11.8	4.7	2.3	8.9	6.5	-8.5	5.3
Trinidad and Tobago	0.3	-13.6	-4.9	-1.7	3.8	-6.6	-4.0	-30.3
Venezuela	-1.2	-5.5	-1.5	1.3	6.8	3.0	4.0	5.8
Non-oil-exporting countries	-1.7	-0.8	4.4	4.5	6.8	3.2	0.6	14.7
Argentina	-5.8	2.6	2.2	-4.5	5.8	1.6	0.5	-5.3
Barbados	-5.2	0.4	3.6	1.0	5.2	2.2	2.5	7.7
Brazil	0.9	-2.4	5.7	8.4	8.1	2.9	0.0	20.9
Colombia	1.0	1.9	3.8	3.8	5.9	5.4	4.0	31.6
Costa Rica	-7.3	2.7	7.8	0.7	5.3	4.5	3.0	14.6
Cuba ^b	3.9	4.9	7.2	4.6	1.2	-3.8	2.0	41.1
Chile	-13.1	-0.5	6.0	2.4	5.3	5.4	6.5	16.6
El Salvador	-5.7	0.6	2.3	1.8	0.5	2.7	1.0	-5.7
Guatemala	-3.4	-2.7	0.0	-0.6	0.3	3.1	3.5	1.0
Guyana	-10.8	-9.9	2.2	1.0	0.3	0.7	...	...
Haiti	-3.5	0.6	0.4	0.5	0.6	-0.6	-5.0	-9.4
Honduras	-1.8	-0.1	2.4	1.5	2.5	4.2	3.0	13.2
Jamaica	0.0	1.9	-0.8	-5.5	2.5	5.8	3.0	9.4
Nicaragua	-0.8	4.6	-1.6	-4.1	-0.6	1.7	-9.0	-5.1
Panama	4.9	-0.1	-0.4	4.8	3.5	2.2	-20.0	-4.8
Paraguay	-0.8	-3.0	3.2	4.0	-0.3	4.5	6.0	24.5
Dominican Republic	1.3	5.0	0.3	-1.9	3.1	8.0	1.0	22.3
Uruguay	-10.1	-6.0	-1.3	0.2	7.0	5.3	0.0	-4.4

Source: ECLAC, on the basis of official data.

^aPreliminary estimates, subject to revision.

^bRefers to total social product.

Table 3

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

	Annual growth rates							Cumulative
	1982	1983	1984	1985	1986	1987	1988 ^a	variation 1981-1988 ^a
Latin America (excluding Cuba)	-3.5	-4.7	1.4	1.4	1.6	0.3	-1.5	-6.6
Oil-exporting countries	-3.1	-7.5	0.1	-0.1	-3.3	-0.9	-1.5	-12.7
Bolivia	-6.9	-9.0	-3.0	-2.8	-5.6	-0.3	0.1	-25.9
Ecuador	-1.8	-4.0	1.8	1.9	0.5	-11.2	5.0	-7.6
Mexico	-3.0	-6.5	1.2	0.2	-6.1	-0.8	-1.7	-10.6
Peru	-2.3	-14.1	2.1	-0.3	6.2	3.8	-10.8	-14.6
Trinidad and Tobago	-1.2	-15.0	-6.4	-3.3	-5.3	-8.1	-5.5	-38.6
Venezuela	-4.0	-8.1	-4.2	-1.4	4.0	0.3	1.5	-15.3
Non-oil-exporting countries	-3.7	-2.9	2.2	2.3	4.6	1.0	-1.5	-2.9
Argentina	-7.2	1.1	0.8	-5.8	4.4	0.3	-0.8	-15.2
Barbados	-5.2	0.0	3.2	0.6	4.8	1.4	2.1	4.3
Brazil	-1.4	-4.6	3.4	6.0	5.8	0.7	-2.3	1.5
Colombia	-1.1	-0.3	1.6	1.6	3.7	3.3	1.9	11.1
Costa Rica	-10.0	-0.3	4.8	-2.1	2.4	1.7	0.4	-8.7
Cuba ^b	3.3	4.3	6.5	3.9	0.3	-4.7	1.0	33.1
Chile	-14.5	-2.2	4.3	0.7	3.6	3.7	5.0	2.4
El Salvador	-6.5	-0.3	1.3	0.5	-1.2	0.8	-0.8	-15.2
Guatemala	-6.1	-5.4	-2.8	-3.3	-2.6	0.2	0.6	-19.5
Guyana	-12.6	-11.7	0.3	-0.8	-1.6	-1.1	...	...
Haiti	-5.2	-1.2	-1.4	-1.3	-1.3	-2.4	-6.8	-21.7
Honduras	-5.4	-3.6	-1.2	-1.9	-0.9	0.9	-0.2	-14.1
Jamaica	-1.5	-0.4	-2.2	-6.9	1.0	4.1	1.4	-2.8
Nicaragua	-4.0	1.2	-4.8	-7.3	-3.9	-1.7	-12.1	-27.4
Panama	2.7	-2.2	-2.6	2.6	1.3	0.0	-21.3	-18.7
Paraguay	-4.0	-6.0	0.0	0.9	-3.3	1.4	3.1	-3.0
Dominican Republic	-1.1	2.5	-2.0	-4.1	0.8	5.5	-1.3	1.4
Uruguay	-10.7	-6.6	-2.0	-0.6	6.3	4.5	-0.8	-9.8

Source: ECLAC, on the basis of official figures for the gross domestic product. The population figures are taken from CELADE estimates.

^aPreliminary figures, subject to revision.

^bRefers to total social product.

partially offset by the notable rise in exports of manufactures and by the larger purchases of automobiles and other durable consumer goods as a result of consumers' efforts to protect themselves against inflation. Construction fell by close to 2%, in line with the slackness of investment, and agricultural output rose by only 1% after having grown by 14% the preceding year. However, the improved prices paid for farm exports brought the real income of the agricultural sector up by 10%, which stimulated sales in rural areas. In spite of the weak performance of industry and construction, the average rate of open unemployment in the six leading cities of the country rose only from 3.8% to 4% between January-September 1987 and the same period in 1988, since the drop in the real minimum wage probably mitigated the unemployment effects of the recessive trends in urban activities.

In Mexico economic activity is estimated to have risen by a scant 0.5%, so that per capita output went down for the third consecutive year. This meagre result was due to the drop in the international price of petroleum, the severity of the stabilization policy carried out within the framework of the "Economic Solidarity Pact", the shift of domestic demand towards imports brought on by the lowering of tariffs and by the gradual deterioration in the real exchange rate, and the setback caused to agriculture by the very adverse weather conditions. While the cuts in public investment and the reduction in domestic financing to the private sector had an adverse effect on construction and the manufacture of capital goods, the drop in real wages hurt industries producing consumer goods. In addition, the combination of a rapid opening up of trade and a drop in the real exchange rate meant that a greater share of domestic demand was satisfied by imports both of consumer goods and of inputs and equipment. Winter crops suffered the consequences of the worst drought in the past 20 years. The export industry, including the subcontracting industry, whose sales expanded notably for the third consecutive year, continued to escape the consequences of these adverse tendencies, however.

The economy also grew very slowly in Argentina. The gross domestic product, which had already shown slow growth in 1987, grew by a scant 0.5% in 1988, bringing it down to a level 5% lower than that recorded in 1980. The virtual stagnation of overall economic activity was due to the fact that a strong rise in agricultural exports and production coincided with drops in industry (-3%) and construction (-8%). These drops were related to the contraction in domestic demand in a context which, up until August, was characterized by faster inflation and a deterioration in wages and salaries, and after that by the adjustments made in order to control inflation, which had a particularly negative impact on investment. However, the increase in the physical volume of industrial exports helped to attenuate the drop in the production of those sectors with greater access to external markets. The agricultural sector grew by 7%, thanks to the recovery of the supply of crop-farming products, which had been harmed by very unfavourable weather conditions the preceding year. This made it possible to take advantage of the opportunities offered by the sharp rise in international prices of traditional exports, leading to a rise in real earnings from crop-farming activities. As a result of the weakening of the main urban activities, the rate of unemployment increased for the second consecutive year, attaining its highest level in the past 12 years, although it continued to be one of the lowest in the region (see table 4 and figure 2).

Table 4

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

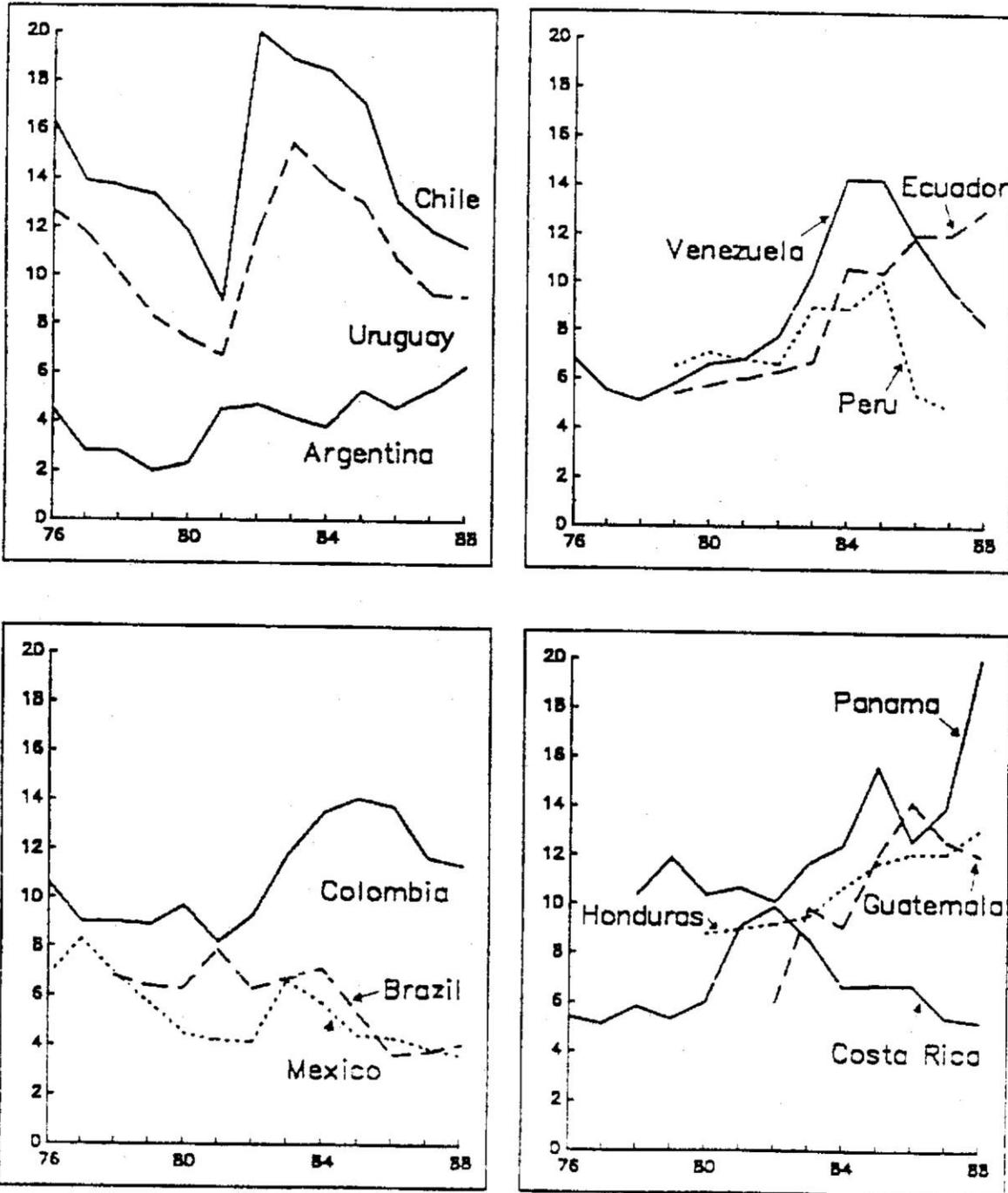
Country	1980	1981	1982	1983	1984	1985	1986	1987	1988
Argentina ^a	2.6	4.7	5.3	4.7	4.6	6.1	5.2	5.9	6.5
Bolivia ^b	7.1	5.9	8.2	8.5	6.9	5.8	7.0	5.2	11.7
Brazil ^c	6.2	7.9	6.3	6.7	7.1	5.3	3.6	3.7	4.0
Colombia ^d	9.7	8.3	9.1	11.7	13.4	14.0	13.8	11.7	11.4
Costa Rica ^e	6.0	9.1	9.9	8.5	6.6	6.7	6.7	5.6	5.2
Chile ^f	11.7	9.0	20.0	19.0	18.5	17.0	13.1	11.9	11.2
Ecuador ^g	5.7	6.0	6.3	6.7	10.5	10.4	12.0	12.0	13.0
Guatemala ^h	2.2	1.5	6.0	9.9	9.1	12.0	14.2	12.6	12.0
Honduras ^h	8.8	9.0	9.2	9.5	10.7	11.7	12.1	13.0	13.1
Jamaica ⁱ	13.8	11.2	14.3	13.1	12.1	10.9	10.9	8.6	8.7
Mexico ^j	4.5	4.2	4.2	6.6	5.7	4.4	4.3	3.9	3.6
Panama ^k	10.4	10.7	10.1	11.7	12.4	15.6	12.6	14.1	20.8
Paraguay ^l	3.9	2.2	5.6	8.3	7.3	5.1	6.1	5.6	...
Peru ^m	7.1	6.8	6.6	9.0	8.9	10.1	5.4	4.8	...
Uruguay ⁿ	7.4	6.7	11.9	15.5	14.0	13.1	10.7	9.3	9.2
Venezuela ^o	6.6	6.8	7.8	11.2	14.3	14.3	12.1	9.9	8.3

^aNational urban rate, average for April-October. 1986: October, 1988: May. ^bWhole country, official estimates. The figures are not strictly comparable over time because the geographical coverage of the surveys has been expanding of year by year. ^cMetropolitan Areas of Rio de Janeiro, Sao Paulo, Bello Horizonte, Porto Alegre, Salvador and Recife, average for 12 months; 1980, average June-December; 1988, average January-September. ^dBogotá, Barranquilla, Medellín and Cali, average for March, June, September and December; 1985: average for March, July and December; 1986: average for April, June, September and December; 1988: average for March, June and September. ^eNational urban. Average for March, July and November; 1984, average March and November; 1986: average March and July; 1987: July. As from the latter date, the figures are not strictly comparable with the preceding ones as they correspond to the new Multi-Purpose Household Survey, in which there have been changes in the methodology. ^fGreater Santiago. Average for four quarters. As from August 1983 data relate to the Metropolitan Region of Santiago. Since October 1985 the figures are not strictly comparable with the preceding ones due to changes in the design and size of the sample. ^gWhole country. Official estimates. ^hWhole country, official estimates. 1986: Urban Labour Force Survey; 1987: March, Central District. ⁱNational average, April and October. ^jMetropolitan areas of Mexico City, Guadalajara and Monterrey, average for four quarters; 1988: average January-September. ^kNational urban, August of each year. From 1978 refer to Metropolitan Region. 1980: data from population census of that year. ^lAsunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo, annual averages; 1981: first half of year; 1983: average for September, October and November; 1984: average for August, September and October; 1985: average for November and December. ^mMetropolitan Lima; 1985: official estimates. ⁿMontevideo, average of four quarters. 1988: average of two quarters. ^oCountry-wide urban rate, average for the two half-years; 1984 and 1985, country-wide rate; 1986: second half of year; 1988: first half of year.

Figure 2

LATIN AMERICA (SELECTED COUNTRIES): EVOLUTION OF URBAN UNEMPLOYMENT

(Annual average rates)



Source: ECLAC, on the basis of official data.

In Uruguay, economic activity grew by only 1%, following a two-year period in which most of the drop suffered at the beginning of the decade had been made good. This slower performance was partially attributable to the restrictive monetary and fiscal policies applied as from the second half of 1987 to reduce the expansion of domestic demand and to make it possible to meet the stabilization targets. It was also influenced by the big changes in the exchange parities with Argentina and Brazil, which helped to increase direct purchases by Uruguayans in those two countries. These factors mainly affected industrial activity—which fell by close to 5% after having risen at an average annual rate of 11.5% in the preceding two years—and, to a lesser extent, construction, which, after showing a partial recovery in 1987 from the enormous drop experienced over the preceding five years, rose by only 3.5%. The agricultural product, which had barely increased in 1987, suffered a slight fall in 1988. Owing to the slow growth of the labour force and to the lag normally experienced between variations in production and employment, however, the slowdown did not affect the latter. Hence, though the rate of open unemployment in Montevideo fluctuated, its average level in the first nine months of the year (9.2%) was slightly lower than that recorded for the same period in 1987.

The worsening of economic conditions was especially severe in Peru. After two years in which economic activity had expanded rapidly on the basis of a sharp increase in domestic demand, the harnessing of underutilized installed capacity and the very considerable growth shown by imports, the domestic product fell by around 8.5%. This radical turnabout was caused primarily by the sudden contraction in domestic demand for consumer goods resulting from the drop in real wages caused by the extraordinary upsurge of inflation; the even greater drop in investment as a consequence of the financial problems of the public sector and the uncertainty prevailing in the private sector; the exhaustion of the international reserves, which severely limited imports, and the proliferation of labour disputes. Although the recessive trend was generalized, the drop in production was particularly severe in mining (owing to the exhaustion of the petroleum reserves under exploitation and the greater length and frequency of strikes) and in manufacturing, which was affected simultaneously by the drop in domestic demand and the insufficient availability of imported inputs. The agricultural sector, on the other hand, continued expanding for the fifth consecutive year as a result of the good weather conditions and favourable relative prices and agricultural credit conditions prevailing early in 1988.

Economic activity in Bolivia, in contrast, rose for the second year running in 1988, following a six-year period of continuous decline. The growth of the product was very modest (3.0%), however, and was barely sufficient to offset the increase in the population. The per capita product thus rose very slightly, interrupting the continual decline registered during the previous seven years. The most dynamic sector was mining, which, after showing slight growth in 1987, expanded by 12% and thus partly recovered from its collapse in the first six years of the decade, when it contracted by nearly 40%. Manufacturing grew by slightly over 4%, improving slightly on its 1987 performance; construction rose by 5%, thereby breaking away from the steady drop recorded over the past six years; and agriculture again showed a slight decrease.

The economy of Colombia, which had achieved considerable dynamism in the preceding two years, grew by 4% in 1988. Two important causes of this slackening in the economic growth rate were the acceleration of inflation during the first half of the year and the restrictive monetary policy which the authorities adopted in order to control the rise in prices. Whereas the worsening of inflation helped to reduce the purchasing power of wage-earners and thus limited the expansion of sales of everyday consumer goods, the monetary restrictions had a particularly strong impact on new housing starts. The growth of industry was therefore due primarily to export-oriented activities, the automobile industry and the production of some intermediate and capital goods. Largely as a result of the unfavourable weather conditions during the first half of the year, the growth rate of agricultural production fell by half (from 6% to 3%), while attacks on pipelines reduced the notable dynamism which had been shown by the mining sector and were a factor in the reduction in the output of petroleum products. The modest expansion of the main urban activities was accompanied by a further, although slight, decline in the rate of unemployment in the country's four principal cities, which, after having dropped by a little more than two points in 1987, went down from an average of 12.3% in the first nine months of that year to 11.4% for the same period in 1988 (see figure 3).

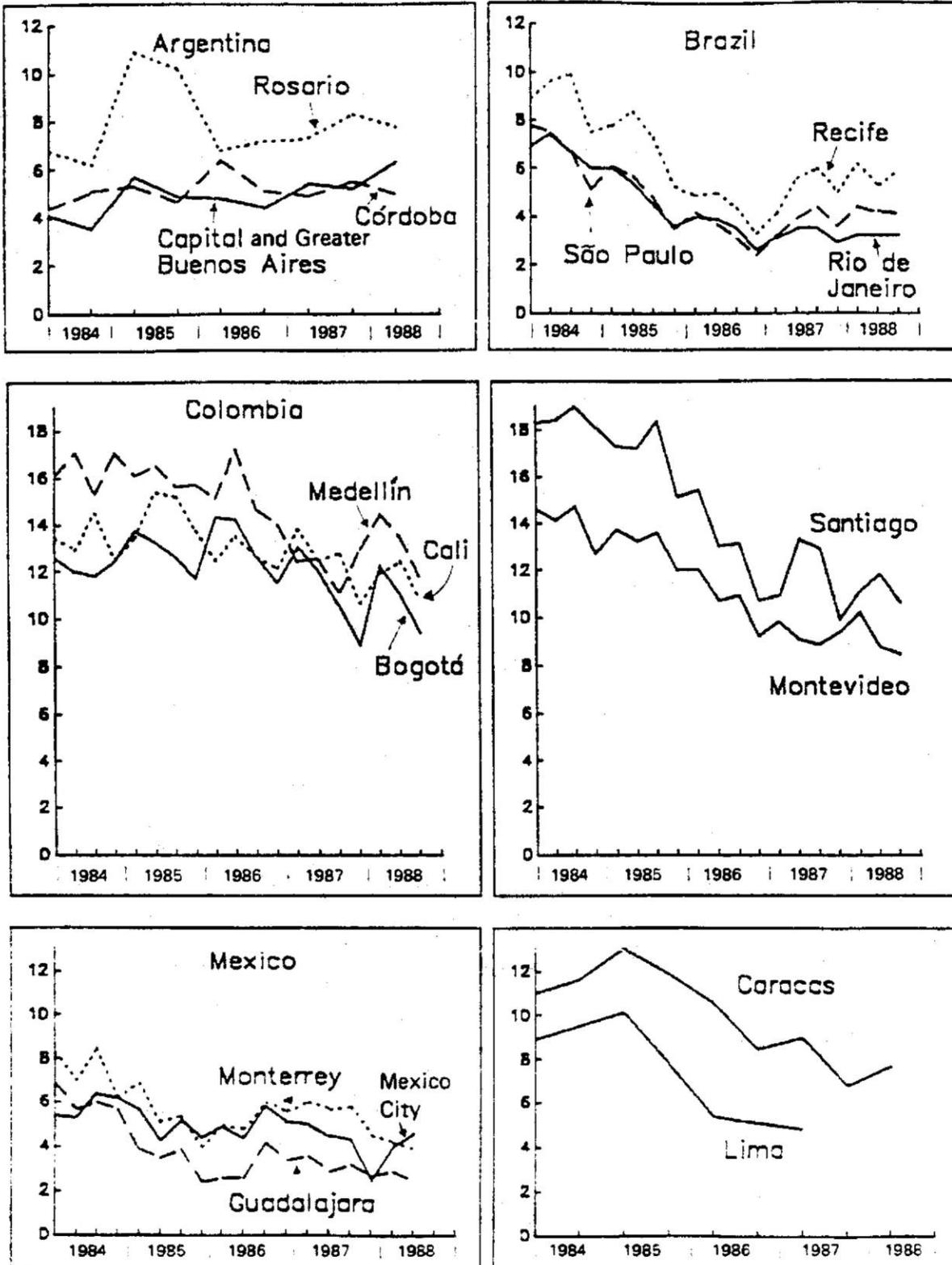
In contrast, economic growth in Venezuela accelerated and the product increased by approximately 4% in 1988 compared with 3% the year before. In spite of the decline in the international price of hydrocarbons and the restrictions placed by the OPEC quota system on the growth of the petroleum sector, the authorities continued to apply an expansive fiscal policy which was reflected, in particular, in a rapid increase in investments by State enterprises. Private demand, for its part, was stimulated by the growing expectations of increases in the official exchange rate, of higher interest rates and of higher inflation, which resulted in heavy advance purchases, especially of durable consumer goods. In these circumstances, industrial production rose by 4.5% and construction expanded by close to 6%. At the same time, agriculture increased by 4%, continuing the sustained expansion it had shown over the preceding three years. Because of the expansion of urban activities, open unemployment fell for the third year running, dropping in the first half of the year to 8.3%, the lowest rate recorded since 1983 (see figure 3).

In 1988 economic growth also improved in Paraguay, where the gross domestic product rose by 6%, after having grown by 4.5% in 1987. Once again, this expansion was primarily due to the excellent performance of the agricultural sector, which alone generates 30% of the product and which—thanks largely to the increase of over 100% in the cotton harvest—grew by 11% in 1988, thus improving on the already high growth rate of 7% registered the year before. Manufacturing, which is largely based on the processing of agricultural products, benefited from the expansion of the agricultural sector and likewise grew at a satisfactory rate (5%), but construction increased by only 2.5%.

Overall economic activity grew by 6.5% in Chile, thereby marking five years of uninterrupted growth. As a result, the per capita product came close to recovering its peak level achieved in 1981, prior to the sharp contraction of the economy in the period 1982-1983. National income grew even faster,

Figure 3

**LATIN AMERICA: EVOLUTION OF UNEMPLOYMENT
IN SOME PRINCIPAL CITIES**



Source: ECLAC, on the basis of official data.

mainly thanks to the marked recovery of the terms of trade. This recovery and the rapid expansion of the volume of agricultural and industrial exports were decisive factors in the growth of the economy. On the one hand, they considerably eased the foreign exchange restrictions, thereby reducing what had constituted the main restraint on growth since 1982 and permitting an appreciable accumulation of international reserves. On the other hand, the sudden and unexpected rise in the price of copper caused public sector income to increase markedly, since the majority of copper exports come from State-owned firms. In these circumstances, the authorities were able to apply an expansive economic policy which was reflected in very rapid growth of the monetary aggregates, considerable reductions in tariffs, in the value added tax and in other taxes, and a moderate increase in government spending. The growth of domestic demand was also aided by the recovery of real wages (largely the result of a steady drop in inflation) and the considerable increase in investment. Thanks to this, all the productive sectors—especially manufacturing, basic services and commerce—showed vigorous growth, while employment increased markedly. This was reflected in a decline in the nationwide rate of open unemployment from an average of 9.7% in the period January-September 1987 to 8.7% during the same period in 1988, a fall in unemployment from 12.4% to 11.2% in Santiago, and a steady and marked decrease in the number of people enrolled under the government's emergency employment plans, which absorbed only 0.5% of the labour force at year-end.

In Ecuador, the domestic product rose by 8% in 1988, thereby partially recovering from the steep drop it had suffered the preceding year. This increase was due almost entirely to the normalization of the petroleum sector, which in 1987 had remained paralysed for five months as a result of the earthquake which devastated the north-eastern part of the country in March of that year. Consequently, after having fallen by over 40% in 1987, the mining product rose by more than 70% in 1988. In contrast, there was a marked decline in the growth rate of agriculture (which had expanded very rapidly over the preceding three years), manufacturing continued to stagnate, and a sharp drop was experienced by construction. As a result, unemployment for the country as a whole rose to 13%: the highest figure recorded in the past 10 years.

In the majority of the Central American countries, 1988 witnessed a further accentuation of the unfavourable trend shown by economic activity since the beginning of the 1980s. The gross domestic product increased more slowly than in 1987 in Costa Rica and Honduras, decreased slightly in El Salvador, fell sharply in Nicaragua and virtually collapsed in Panama (see tables 2 and 3).

Only in Guatemala did economic activity progress in comparison with previous years. The product increased by 3.5%, thereby slightly strengthening the recovery begun in 1987. This improvement was stimulated by the more favourable trends in the external sector due to the upturn in the international price of coffee and other export products and the increase in official transfers. At the same time, unemployment fell slightly.

In Costa Rica, economic growth was somewhat slower than in the preceding two years, with the product increasing by only 3% as a result of the slower expansion of the main activities, although coffee and non-traditional exports

were notable exceptions to this sluggishness. The loss of economic dynamism was primarily the result of the decline in the purchasing power of wage-earners brought on by the intensification of inflation and by the restrictive policies adopted by the authorities in connection with taxes and credits with a view to the achievement of domestic stabilization and the external adjustment of the economy.

The growth rate also fell in Honduras, dropping from somewhat over 4% in 1987 to only 3% in 1988, as a consequence of increased restrictions on imports of inputs and capital goods, the decline in public and private investment and the damage done to some sectors of agricultural production by hurricane Gilbert. However, the adverse effects of these events were partially offset by the increase in the supply of bananas and coffee, the expansion of some industrial subsectors (in response to trade agreements at the Central American level) and the moderate growth shown by construction, commerce and banking services.

The economy of El Salvador continued to be faced by the socio-political problems which have been obstructing productive activity since the beginning of this decade. It grew by only about 1% in spite of the upturn in the international price of coffee, with the result that the per capita product fell once again, offsetting the slight rise recorded the preceding year.

The year 1988 was particularly difficult for Nicaragua, where the adverse effects of the armed conflict were compounded by a slide towards hyperinflation, the accumulation of severe economic distortions, and unfavourable weather conditions. Thus, the gross domestic product fell by 9%, registering its severest decline in the present decade. Although the drop in economic activity was generalized, it was especially marked in agriculture (whose difficulties were further aggravated towards the end of the year by hurricane Joan); in industry, which was affected by the decrease in domestic demand due to the adjustment programme and by the shortage of imported inputs and equipment, and in construction, which had grown vigorously in preceding years but was adversely affected by the sharp reduction in public investment in 1988.

In 1988 the economy of Panama suffered the most spectacular drop on record in the recent history of Latin America and the Caribbean. It is estimated that the gross domestic product fell by close to 20%, capital formation contracted even more markedly, and the rate of open unemployment reached the unprecedented level of 21%. These changes were attributable in particular to factors unrelated to economics, including, on the one hand, the worsening at the beginning of the year of the political conflicts which had begun in mid-1987 and, on the other hand, the continuation of the pressure put on the country by the United States, which had a profound effect on the banking system and on most domestic commercial activities and was also partially responsible for reducing external purchases and sales.

In general, economic activity also evolved unfavourably in the Caribbean countries, although the situation differed considerably from country to country. It is estimated that the product shrank by 5% in Haiti, largely as a result of the uncertainty and instability prevailing in the domestic political field and the interruption of international aid. In Trinidad and

Tobago, which was affected by the drop in the price of petroleum, the product is estimated to have dropped by 4%, thus continuing its downward trend for the sixth consecutive year. On the other hand, in Cuba economic activity rose by 2%, thus partially recovering from the drop experienced in 1987, while in Barbados the moderate increase recorded the preceding year is estimated to have continued. In the Dominican Republic, however, although economic growth had been very vigorous in 1987, it is estimated to have fallen to under 1% this year, and there was also a drop in the growth rate in Jamaica (from nearly 6% to close to 3%), largely because of the devastating effects of hurricane Gilbert (see table 2).

2. Prices and wages

In 1988 inflation increased markedly for the second consecutive year, setting a new record in the region. The average population-weighted growth rate of consumer prices exceeded 530%, or more than double the rate recorded the preceding year. In addition to its severity, this resurgence of inflation was also quite widespread, for it affected 13 of the 22 countries for which information is available, and in nine of them the rate of inflation more than doubled (see table 5).

As in the two preceding years, the steepest rise occurred in Nicaragua, where consumer prices increased by close to 7 800% between September 1987 and September 1988. Inflation also grew spectacularly in Peru, rising from 115% in 1987 to 1 720% in 1988, and it also increased considerably in Brazil, which registered unprecedented price increases of over 930%: well over twice the figure recorded the preceding year. Inflation also doubled in Argentina, rising from 175% to nearly 390%, although the rate of increase slackened off during the final quarter of the year (see figures 4 and 5).

At the same time, inflation continued to grow notably, although starting from much lower levels, in Ecuador and the Dominican Republic, both of which recorded the highest price rises in their history in 1988, while it flared up again in Uruguay, where it had fallen gradually but persistently over the preceding two years (see figure 6).

Furthermore, although countries like Bolivia, Colombia, Costa Rica, El Salvador and Venezuela experienced relatively moderate rates of inflation (between 20% and 35%), for some of them this meant that what had been a sporadic problem up to the beginning of this decade has now become a regular feature in recent years.

Thus, stabilization programmes made progress in only a few countries of the region. This was true most notably of Mexico, where inflation fell from a record of 180% in February 1988 to 52% in December. The growth rate of prices also fell significantly in Chile, where the rate of nearly 13% was only half that observed the preceding year and was the second lowest rate since 1961. Inflation also fell in Venezuela (by five percentage points), although even so its level at the end of the year was the second highest in the history of the country (see figure 7).

Table 5

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^a
Latin America	56.0	57.5	84.6	130.8	184.8	274.7	64.5	198.9	533.0
Argentina	87.6	131.2	209.7	433.7	688.0	385.4	81.9	174.8	388.0
Barbados	16.1	12.3	6.9	5.5	5.1	2.4	-0.5	6.3	4.3 ^c
Bolivia	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0	10.7	21.5
Brazil	95.3	91.2	97.9	179.2	203.3	228.0	58.4	365.9	933.6
Colombia ^d	26.5	27.5	24.1	16.5	18.3	22.3	21.0	24.0	28.1
Costa Rica	17.8	65.1	81.7	10.7	17.3	11.1	15.4	16.4	23.2 ^b
Chile	31.2	9.5	20.7	23.6	23.0	26.4	17.4	21.5	12.7
Ecuador ^f	14.5	17.9	24.3	52.5	25.1	24.4	27.3	32.5	85.7
El Salvador	18.6	11.6	13.8	15.5	9.8	30.8	30.3	19.6	18.0 ^b
Guatemala	9.1	8.7	-2.0	15.4	5.2	31.5	25.7	10.1	13.4 ^e
Guyana	8.5	29.0	19.3	9.6	...	...	...	...	...
Haiti	15.6	16.4	4.9	11.2	5.4	17.4	-11.4	-4.1	8.3 ^g
Honduras	11.5	9.2	8.8	7.2	3.7	4.2	3.2	2.7	6.6 ^e
Jamaica	28.6	4.8	7.0	16.7	31.2	23.9	10.4	8.4	7.7 ^g
Mexico	29.8	28.7	98.8	80.8	59.2	63.7	105.7	159.2	51.7
Nicaragua	24.8	23.2	22.2	32.9	50.2	334.3	747.4	1 347.4	7 778.4 ^g
Panama	14.4	4.8	3.7	2.0	0.9	0.4	0.4	0.9	0.2 ^g
Paraguay	8.9	15.0	4.2	14.1	29.8	23.1	24.1	32.0	16.8 ^b
Peru	59.7	72.7	72.9	125.1	111.5	158.3	62.9	114.5	1 722.0
Dominican Republic ^h	4.6	7.3	7.2	7.7	38.1	28.4	6.5	25.0	57.3 ^e
Trinidad and Tobago	16.6	11.6	10.8	15.4	14.1	6.6	9.9	8.3	6.0 ^f
Uruguay	42.8	29.4	20.5	51.5	66.1	83.0	76.4	57.3	69.0
Venezuela	19.6	11.0	7.3	7.0	18.3	5.7	12.3	40.3	35.5

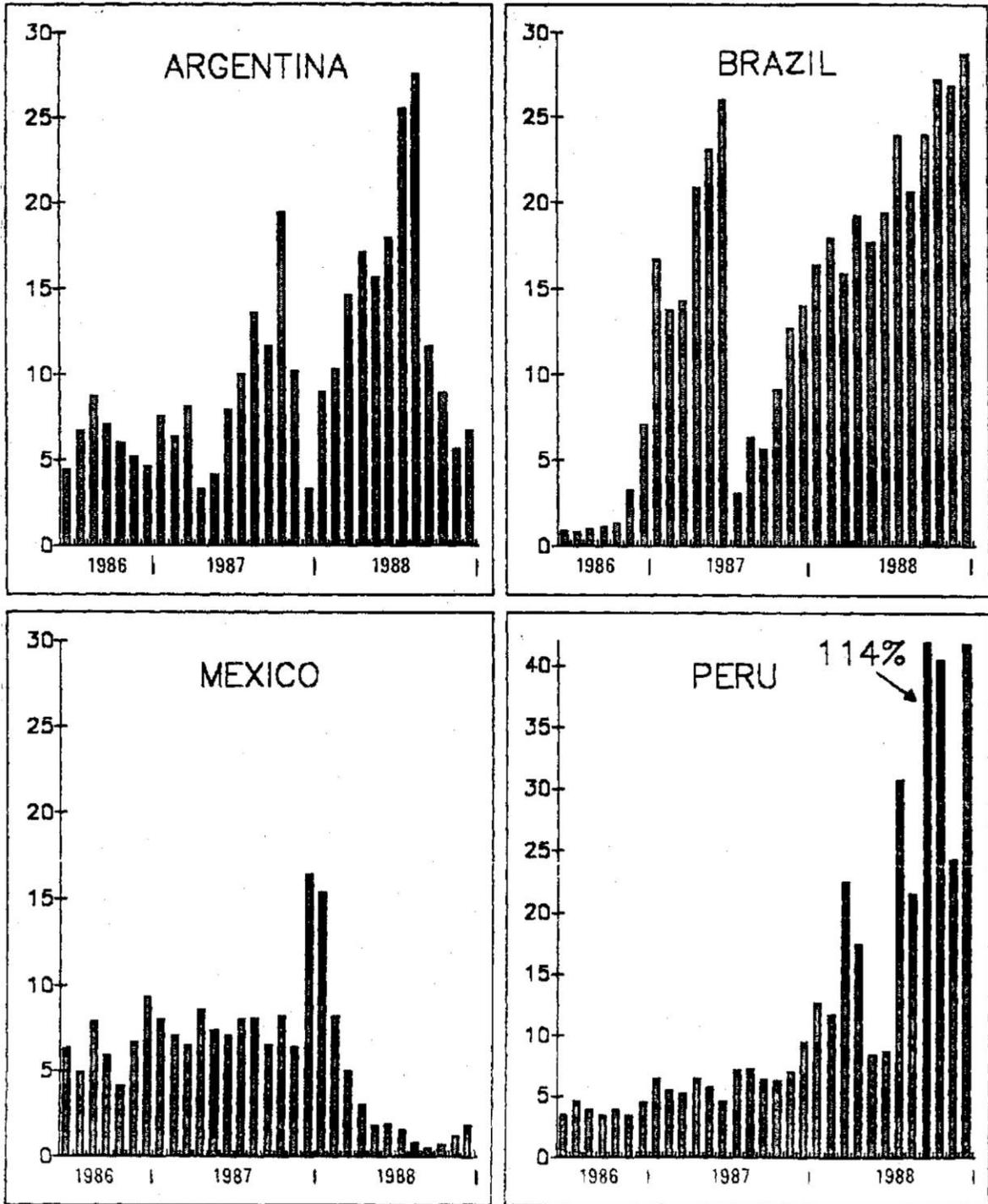
Source: International Monetary Fund, *International Financial Statistics*, November 1987, and information supplied by the countries.

^a Figures corresponding to the variation in prices over the last twelve month period ending in the month given for each country. ^b Corresponds to variation between November 1987 and November 1988. ^c Corresponds to variation between August 1987 and August 1988. ^d Up to 1980, corresponds to variation in the Consumer Price Index for manual workers; from 1981 onwards, corresponds to the variation in the nation-wide index for both manual and non-manual workers. ^e Corresponds to the variation between October 1987 and October 1988. ^f Up to 1982, corresponds to the variation in the Consumer Price Index for the city of Quito; from 1983 onwards, corresponds to the variation in the nation-wide index. ^g Corresponds to variation between September 1987 and September 1988. ^h Up to 1982, corresponds to the variation in the Consumer Price Index for the city of Santo Domingo; from 1983 onwards, corresponds to variation in the nation-wide index.

Figure 4

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

(Percentages)

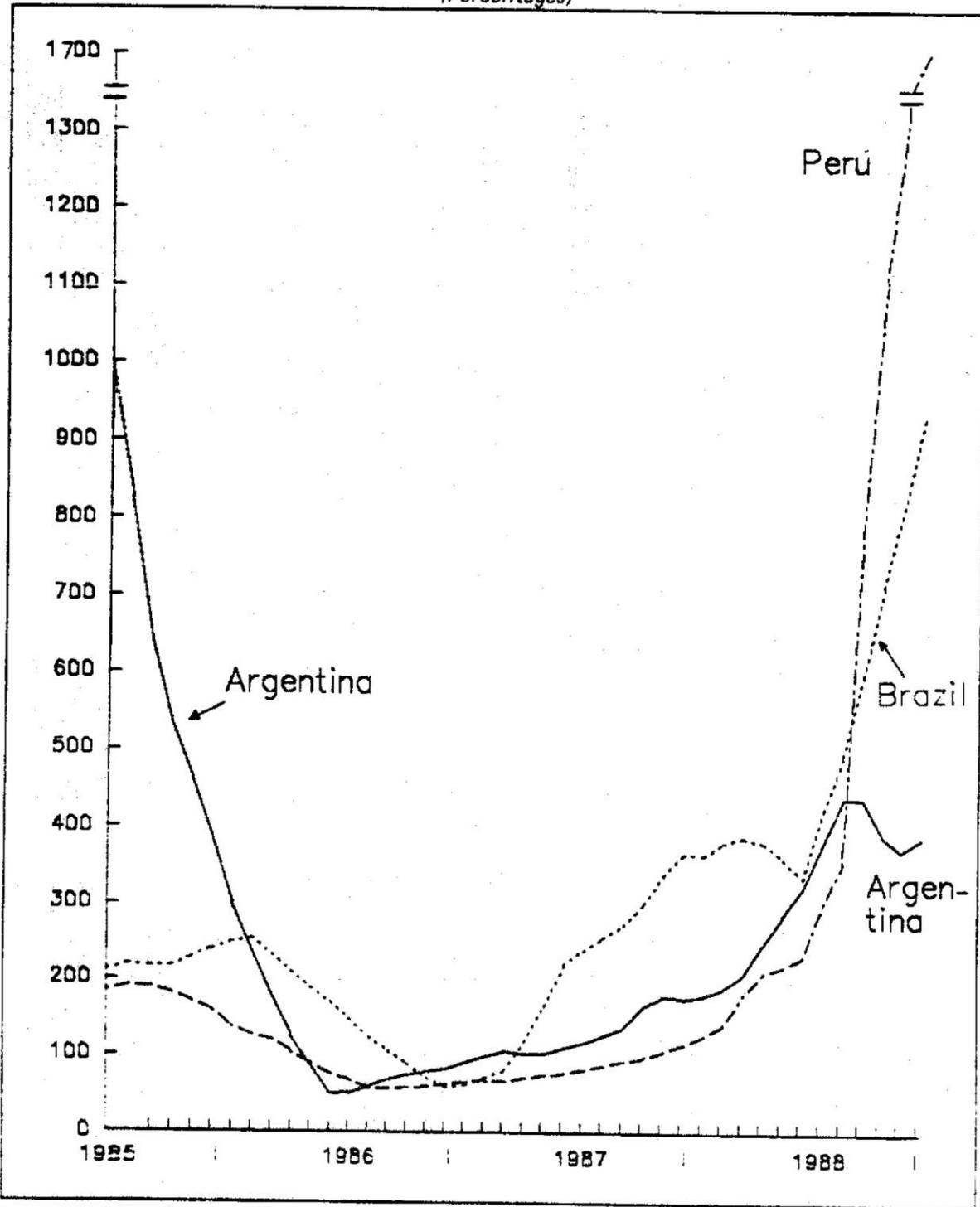


Source: ECLAC, on the basis of official data.

Figure 5

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

(Percentages)

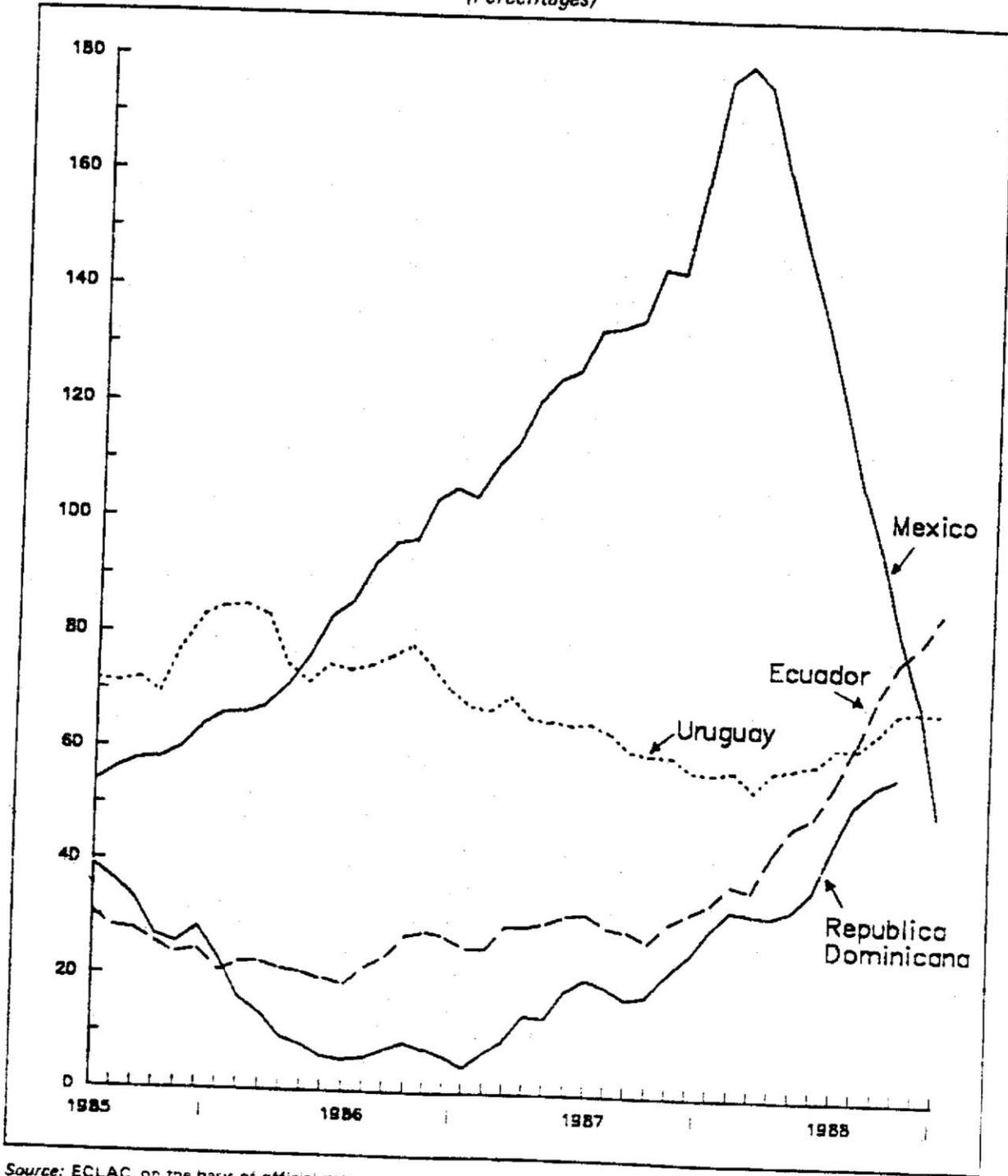


Source: ECLAC on the basis of official data

Figure 6

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

(Percentages)

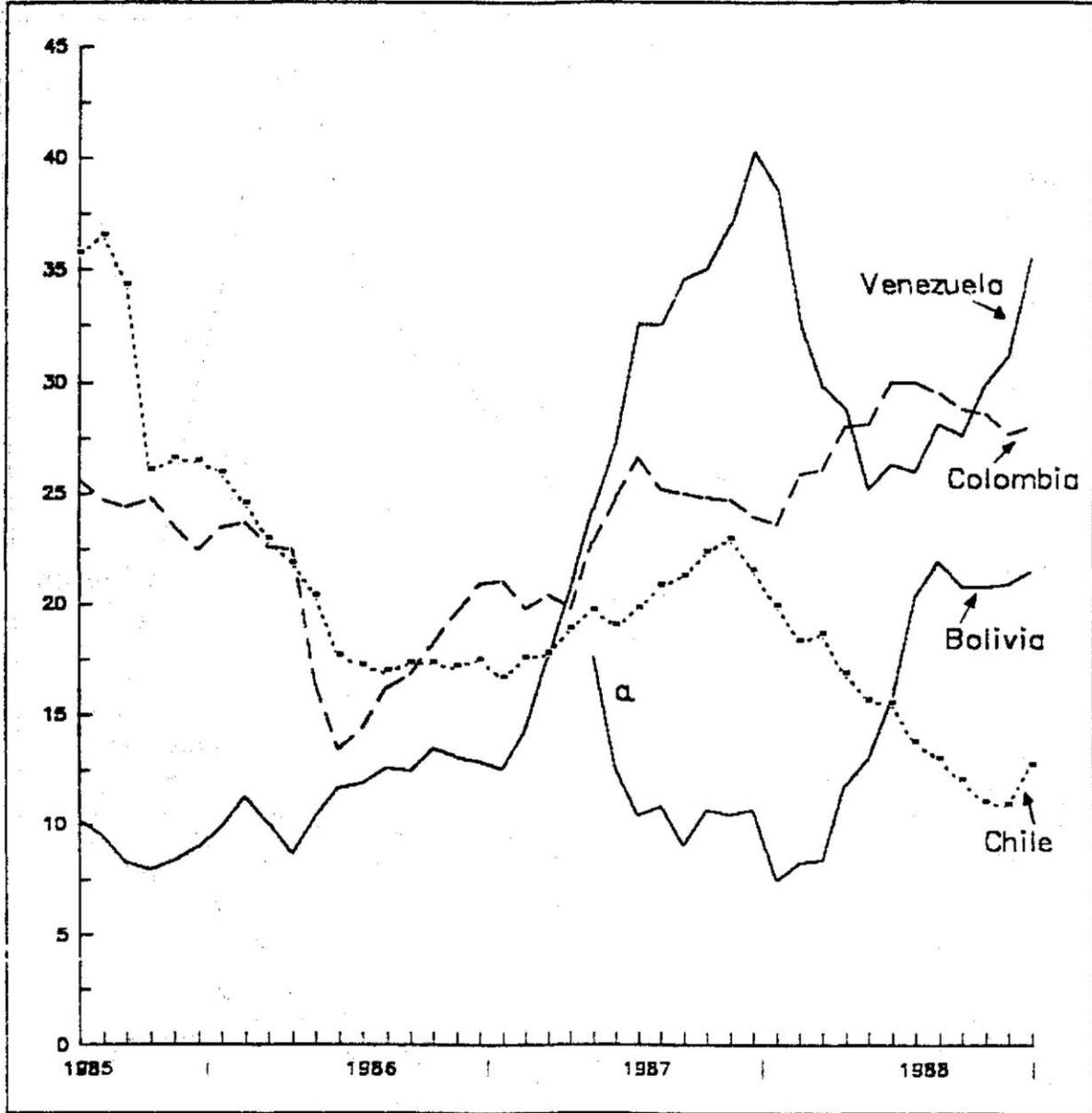


Source: ECLAC, on the basis of official data

Figure 7

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

(Percentages)



Source: ECLAC, on the basis of official data.

^aThese data exclude the period July 1985 - April 1987, when inflation rose from 14.175 per cent in July 1985 to an all-time high of 23.447 per cent in September 1985, subsequently going down steadily.

Finally, inflation remained below 10% in Barbados, Haiti, Honduras, Jamaica, Panama and Trinidad and Tobago, in most of which countries the rises in domestic prices have traditionally been similar to or less than the international rate of inflation (see table 5).

In 1988 inflation accelerated again dramatically in Nicaragua. After rising from 50% in 1984 to 330% in 1985, 750% in 1986 and 1 350% in 1987, consumer prices increased by nearly 7 800% in the 12-month period ending in September 1988. This movement towards hyperinflation occurred in spite of the fact that at the beginning of the year the authorities adopted a programme designed to diminish the heavy fiscal and Central Bank deficits, which constituted the main sources of inflationary pressure, and to reduce the enormous relative price distortions caused by the high subsidies applied to fuels and foodstuffs and the existence of a large number of different exchange rates. To this end, in February the exchange rates were unified and the official exchange rate was sharply raised, while semi-confiscatory and redistributive monetary reforms were introduced, with the aim of neutralizing the excess of currency which had been building up since 1983. In June these measures were followed by a new maxi-devaluation of the córdoba, price liberalization and the introduction of more flexible wage regulations, and later on by new increases in the exchange rate, public utility rates, fuel prices and interest rates.

Although some distortions were partially corrected as a result of these measures, the rate of inflation soared instead of diminishing. This was due in part to the fact that it proved impossible to reduce the public sector deficit as much as had been expected. On the one hand, government income actually decreased in real terms as a result of the contraction of economic activity, while current expenditures continued to rise because certain subsidies which it had been planned to eliminate were maintained, because the government tried to make the drop in the real wages of public servants as small as possible, and because funds had to be disbursed to meet defence needs (which represent over half of public spending). On the other hand, the continuous spectacular rise in the official exchange rate (which increased more than 40 000% during 1988) affected the prices of many basic commodities and was responsible for raising costs and strengthening inflationary expectations. These factors were compounded by the effects of the hurricane which laid waste the eastern part of the country in November, causing tremendous losses in farm production and in the availability of housing and infrastructure and forcing the government to increase its spending in order to cope with the damage done.

In 1988 there was also a veritable explosion of inflation in Peru, where the annual growth rate of consumer prices rose from 115% in 1987 to 1 720% in 1988. Largely because of this increase, real wages and salaries fell by 35% during the year (see figure 5 and table 6).

The leading causes of this inflationary explosion were the increasingly serious imbalances in the public sector accounts and in the balance of payments due to the prolongation (without the timely introduction of appropriate adjustments) of the economic reactivation programme applied since the middle of 1985. Up to 1987 this reactivation was kept going, on the demand side, by the sharp increases in real wages and in net government

Table 6

**LATIN AMERICA AND THE CARIBBEAN: EVOLUTION
OF REAL AVERAGE WAGES**

	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^a
Annual average indexes (1980 = 100)									
Argentina ^b	100.0	89.4	80.1	100.5	127.1	107.8	109.5	103.0	97.9
Brazil									
Rio de Janeiro ^c	100.0	108.5	121.6	112.7	105.1	112.7	121.8	102.4	99.8
Sao Paulo ^d	100.0	104.7	107.2	94.0	97.9	120.4	150.7	143.2	147.5
Colombia ^e	100.0	101.4	104.8	110.3	118.5	114.9	120.2	119.7	119.0
Costa Rica ^f	100.0	88.3	70.8	78.5	84.7	92.2	97.8	...	...
Chile ^g	100.0	108.9	108.6	97.1	97.2	93.5	95.1	94.7	100.9
Mexico ^h	100.0	103.5	104.4	80.7	75.4	76.6	72.3	72.8	...
Peru ⁱ	100.0	98.3	100.5	83.7	70.1	59.6	75.5	80.0	52.7
Uruguay ^j	100.0	107.5	107.1	84.9	77.1	88.1	94.0	98.5	100.8
Percentage variation^k									
Argentina	11.8	-10.6	-10.4	25.4	26.4	-15.2	1.6	-5.9	-5.0
Brazil									
Rio de Janeiro	5.2	8.5	12.1	-7.3	-6.7	7.2	8.1	-16.0	-12.8
Sao Paulo	8.0	4.7	2.4	-12.3	4.1	23.0	25.2	-5.0	4.6
Colombia	0.8	1.4	3.7	5.0	7.3	-3.0	4.9	-0.4	-0.6
Costa Rica	0.8	-11.7	-19.8	10.9	7.8	8.9	6.1	...	...
Chile	9.0	8.9	-0.2	-10.7	0.1	-3.8	1.7	-0.3	6.7
Mexico	-2.9	3.5	0.9	-22.7	-6.6	1.6	-5.6	0.7	...
Peru	12.4	-1.7	2.3	-16.7	-15.5	-15.0	26.7	6.0	-34.5
Uruguay	-0.4	7.5	-0.3	-20.7	-9.2	14.1	6.7	4.8	2.3

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bAverage total monthly wages in manufacturing. Average for twelve months. 1988, average January-September. ^cAverage wages in basic industry, deflated by the CPI for Rio de Janeiro. Average for twelve months. 1988, average January-May. ^dAverage wages in manufacturing in the State of Sao Paulo, deflated by the cost-of-living index for the city of Sao Paulo. Average for twelve months. 1988, average January-September. ^eWages of manual workers in manufacturing (except coffee processing). Average for twelve months. 1988, average January-July. ^fAverage wages declared for social security members. ^gAverage remuneration of wage-earners in non-agricultural sectors. Average for twelve months. 1988, average January-October. ^hAverage wages in manufacturing. Average for twelve months. ⁱWages of private-sector workers in Metropolitan Lima. Average for February, May, August and November. 1987, average for twelve months. 1988, January-October. ^jIndex of average real wages. Average for twelve months. 1988, average January-September. ^kCompared with the same period in the previous year.

spending, while on the supply side it was facilitated by the harnessing of underutilized productive capacity and by the vigorous growth of imports. The latter was financed at the beginning through the unilateral reduction of external debt servicing and later on through the use of the international reserves, whose volume shrank by nearly US\$1.8 billion between the beginning of 1986 and the middle of 1988. Naturally, when both the supply of reserves and the idle capacity had been exhausted, it became imperative to put into effect a process of adjustment and stabilization.

The authorities managed to control the inflationary pressures up to September by applying partial measures of a gradual nature, especially in the external sector. However, since the subsidies applied to food and fuel prices were linked to the exchange rate, every rise in the export exchange rate increased the exchange losses suffered by the Central Bank and therefore also increased the overall deficit of the public sector. The continuous marked decrease in the relative prices of the subsidized goods also stimulated the demand for such products, and together with the devaluation it provided an incentive for their illegal export to neighbouring countries. In these circumstances, food imports more than doubled between 1985 and the middle of 1988, and the public sector deficit rose to the equivalent of nearly 10% of the gross domestic product.

In view of the inadequate effect of the gradual measures taken and the growing deterioration of the government accounts, the authorities decided to apply a shock stabilization programme in September. This included the unification of the various existing exchange rates, leading to a very pronounced rise in the average exchange parity. The unification of the exchange rates halted the exchange losses of the Central Bank, but as the local-currency price at which the government marketed basic imported foodstuffs remained the same, the overall deficit of the public sector persisted but now appeared as losses of the State marketing enterprise rather than of the Central Bank. At the same time, the minimum wage was increased by 150%; the price of fuels was readjusted by nearly 300%; the prices of some essential goods and services were raised; and a general freeze on prices for a period of four months was announced. This latter measure did not come into force immediately, however, as producers were allowed a period of time in which to adjust the prices of their goods.

The immediate result of these measures was a rise of 114% in consumer prices in September. It also became clear that the price adjustments applied to fuels and other goods and services supplied by State firms, although very considerable, were not enough to bring their accounts into balance, and in order to finance this deficit they were forced to continue to have recourse to the Central Bank on a massive scale.

Consequently, at the end of November a new set of measures was announced with a view to closing the gaps in the external and government accounts. These measures included the doubling of the exchange rate; even higher rises in the prices of food and fuel; a 40% increase in the minimum wage plus a transport bonus equivalent to another 20%; and tax measures designed to raise fiscal income in real terms. In addition, it was aimed to maintain the real exchange parity and the relative price of fuels, which meant further price adjustments on top of those contained in the initial shock programme.

Brazil was another country where inflation accelerated very markedly for the second consecutive year. The annual growth rate of consumer prices, after rising from 58% in 1986 to nearly 370% in 1987, increased to over 930% in 1988. This was the highest inflation ever recorded in the country and was four times as high as it had been at the beginning of 1986, when the Plan Cruzado went into effect (see figure 5).

In actual fact, the increase in the monthly price variations was almost continuous since the third quarter of 1987, when the inflationary pressures caused by a public sector deficit equivalent to nearly 6% of the gross domestic product, together with the lags in certain key prices, forced the abandonment of the price and wage freeze decreed in the middle of that year. Since it was recognized that a prices and incomes policy could make a lasting contribution to stabilization only if at the same time the imbalance in public sector accounts could be significantly reduced, the authorities concentrated their main efforts on bringing the public deficit down to 4% of the product --by cutting public spending (especially on subsidies) and increasing tax revenue-- and on correcting price distortions. However, the problems of managing the monetary policy at a time when the trade surplus was very large (equivalent to nearly 6% of the gross domestic product), together with the short-term inflationary effects of trying to correct relative prices in a highly indexed economy with inflationary expectations very sensitive to external shocks or to the prospect of economic policy changes, meant that the monthly rate of inflation nevertheless went up from 17% in the first quarter to 19% in the second, almost 25% in the third, and to over 27% in October (see figure 4).

In these circumstances, and in view of the imminent threat that inflation might go completely out of control, a social pact was entered into in November by the government, entrepreneurs and some of the main trade unions. In contrast with the Economic Solidarity Pact signed in Mexico, the Brazilian agreement made no provision for a freeze on prices and wages but called instead for their gradual de-indexation, while the government undertook to adopt further measures to reduce the public sector deficit. Under the agreement, wages would initially be readjusted on the basis of the average rate of inflation over the preceding three months, while ceilings were imposed on price rises and provision was made for strict monitoring of the prices of 94 essential commodities and public services. On the other hand, no advance measures were laid down as regards monetary correction or exchange rate variation. An inflation rate of 26.5% was targeted for November, while for December a target of 25% was set. The November target was almost met, but in December the rate of inflation went up instead of down.

In view of this, in mid-January the government announced a drastic stabilization plan involving the elimination of most indexing mechanisms, an indefinite price freeze, the freezing of wages at the average real level of the last 12 months, a 17% devaluation, an increase in real interest rates, and a set of measures to reduce the fiscal deficit (including the elimination of five ministries and various public bodies). The government undertook not to spend more than it received and not to issue new securities to cover the deficit. It was also announced that interest payments on the external debt, which had been regularized in the course of the previous year, might be

suspended once again if fresh credits were not received from the international banking system.

Inflation also worsened in Argentina, where prices rose by nearly 390%, or more than double the rate recorded in 1987. However, in contrast with the situation in Nicaragua, Peru and Brazil, this increase was not the highest in the country's history: indeed, it was less than half the rate of inflation registered in mid-1985, before the Plan Austral went into effect. Moreover, the evolution of the rate of inflation in Argentina was not continuous but occurred in two markedly different phases. During the first phase, which covered the first eight months of the year, the monthly growth rate of prices rose rapidly and persistently, from 9% in January to nearly 28% in August, while real wages fell by close to 10%. In the second phase, on the other hand, the monthly variation of prices fell steadily, so that by November it had dropped below 6%, and real wages showed some recovery.

The acceleration of inflation during the first eight months of the year followed upon the failure of the price freeze decreed in October 1987, which had only a transitory repressive effect on the accumulated inflationary pressures. During those eight months, the public sector continued to be faced with severe financial problems, partly as a result of the drop in revenue from the value added tax and export taxes, which had been reduced or eliminated to offset the effects of the fall in the prices of farm exports. The fiscal imbalance put pressure on the money supply and induced the authorities to take steps to increase the real levels of public sector charges. Moreover, at least through mid-year the exchange rate was raised somewhat faster than the rate of inflation. These measures, together with the liberalization of industrial prices at the beginning of the year, produced appreciable changes in relative prices, which, within an institutional context of high and rapid indexation, helped to speed up the rate of inflation.

In these circumstances, the authorities decided to give priority to reducing the public sector deficit, first by cutting current spending, later by suspending Treasury contributions to State firms and restoring the system of mandatory savings and, in August, by instituting a new stabilization plan.

In essence, the new programme sought to combat inflationary inertia through price agreements with the entrepreneurial sector and to reduce the deficit by creating an exchange differential which would benefit the government with part of the increased earnings received by exporters as a result of the marked rises in international prices. It was agreed that the price pacts would be of short duration and would be reviewed periodically in order to avoid price lags and encourage adherence by business. In return, the value added tax was reduced by three percentage points. Private sector wages would continue to be set by collective bargaining, while it was decided to freeze public sector wages for two months, following a prior readjustment of 25%. At the same time, far-reaching reforms were made in the exchange system. Under these, payments in local currency for exports of primary commodities would continue to be made at the trade exchange rate set by the Central Bank, which, after being raised by 11%, would remain constant until the end of September. Most imports, on the other hand, were transferred to the financial rate, which would be set by a float managed by the Central Bank at a level up

to 20% higher than the exchange rate applied on the trade market. Payment for industrial exports, would be made on the basis of a mixed exchange rate. In this way, the trade market would have a surplus supply of foreign exchange, which would be absorbed by the Central Bank at the fixed price and would be used in part to regulate the exchange rate on the financial market. Thus, the reforms provided, on the one hand, that the Central Bank would be able to make a profit on foreign exchange (which would make it easier to keep the accounts of the public sector in balance), while on the other hand some trade transactions would be effected at a floating exchange rate which would, however, be subject to intervention. At the same time, tariff and para-tariff reductions were announced for October, after negotiations with the main industrial entrepreneurs' association.

The initial results of the new plan were positive. Inflation fell persistently and significantly, from over 25% in July and August to less than 6% (consumer price index) and less than 4% (wholesale price index) in November, thereby coming close to the agreement's target of a monthly rate of 4% at the beginning of 1989. The wage increases negotiated and the drop in inflation itself led to some recovery of real remunerations (although admittedly starting from low levels), while the exchange rate, public utility rates and industrial prices declined relative to consumer prices.

Ecuador was another country where inflation worsened in 1988. Indeed, the 86% increase in consumer prices was the highest in the history of the country and was two and a half times that recorded in 1987 (see figure 6).

To some extent, the acceleration in inflation was a delayed effect of the earthquake which devastated the western part of the country early in 1986. This natural disaster paralysed petroleum production for five months, causing a sharp fall in fiscal income. As a result, even though the servicing of the debt owed to the international commercial banks was suspended, the public deficit nevertheless increased. This forced the government to have recourse to credit from the Central Bank, which caused a marked increase in the issue of currency. In addition, the tight foreign exchange situation caused by the drop in petroleum exports made it necessary to raise the exchange rate sharply, thus leading to considerable rises in the prices of tradeable goods. The foreign currency shortage continued in 1988 owing to the decline in the international price of crude, the need to return the petroleum loaned by Venezuela and Nigeria in 1987, and the speculative activities which took place in the climate of political uncertainty experienced by the country during the first half of the year. These factors were compounded by pressures resulting from a drop in the food supply and from increases in the prices of public transport and fuels.

At the end of August, the new government announced a series of measures designed to restore the main macroeconomic equilibria. In order to alleviate the foreign currency shortage, the exchange rate was raised by over 50% and it was announced that thereafter it would be readjusted on a weekly basis to keep it at its real level. At the same time, selective restrictions were imposed on imports, including an indefinite ban on imports of automobiles. In order to reduce the public deficit, which was estimated to amount to the equivalent of 12% of the gross domestic product, electricity rates were raised by 30%, and fuel prices were doubled (although even so they only came

to 36 US cents per gallon, which is very much below the international price). At the same time it was decided to stop Central Bank loans to the government at least until December. Finally, the minimum wage was raised by 16%. The immediate effect of these measures was that consumer prices rose even more rapidly, increasing at an average rate of over 6% a month in the following three months. This further increased the decline in the purchasing power of the minimum wage, which in the first 10 months of the year was 13% lower than during the same period in 1987 (see table 7).

After following a downward trend for two years, inflation flared up again in Uruguay, reaching an annual rate of close to 70%. This acceleration of inflation was due, on the one hand, to the expansion of indexing mechanisms, especially that governing the exchange rate, which rose faster than domestic prices, and, on the other hand, to the upward pressure exerted by agricultural prices. Thus, in spite of the application of a relatively restrictive macroeconomic policy, inflation increased during the second half of the year, returning to the annual rate which it had registered at the beginning of the preceding year (see figure 6). As a consequence of this acceleration of inflation, real wages --which in the first half of the year had grown by 7% in comparison with the same period in the preceding year-- subsequently went down, although their average level in the period January-September was still 2% higher than during the same period in 1987 (see table 6).

Inflation steadily became more and more severe for the second consecutive year in the Dominican Republic. After rising by only 6.5% in 1986, consumer prices went up by 25% in 1987 and by over 57% in the 12 months ending in October 1988 (see figure 6). The persistent sharp upward trend of inflation was largely a result of the excessive expansion of domestic spending in 1987, when investment in public works, in particular, increased by an unusually large amount. This, together with the expansive monetary policy followed by the authorities, put strong pressure on imports and on domestic prices. The latter were also driven up by the 30% devaluation effected in the second half of 1987 and by a further 50% increase in the exchange rate during the first half of 1988.

The doubling of the rate of inflation in Bolivia --where the annual rate had fallen spectacularly during the preceding two years from a peak of 23 000% in September 1985 to less than 11% at the end of 1987-- was due to the considerable increases in the domestic prices of fuels, the rise in the international prices of imported wheat, the increased frequency of the mini-devaluations made to prevent a lag in the exchange rate, and the tendency of many firms to price their products on the basis of the value of the US dollar on the free market.

In Colombia --where inflation rose from 24% in 1987 to 28% in 1988-- the main causes of this increase were the excessively expansive monetary policy applied the previous year and, above all, the increases in food prices caused by the reduction in the domestic supply of agricultural products as a result of the climatic upsets which affected large parts of the country early in 1988. Thus, in the first half of the year the annual rate of inflation increased persistently until at mid-year it was over 30%: the highest figure registered in the country in the last 10 years. This led the government to

Table 7

**LATIN AMERICA AND THE CARIBBEAN: EVOLUTION
OF URBAN REAL MINIMUM WAGES**

	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^a
Annual average indexes (1980 = 100)									
Argentina ^b	100.0	97.8	97.8	136.9	167.7	117.1	111.1	122.3	95.8
Brazil ^c	100.0	104.4	104.9	93.0	86.0	88.8	87.1	71.2	67.1
Colombia ^d	100.0	98.9	103.6	107.9	113.5	109.4	114.2	113.0	111.3
Costa Rica ^e	100.0	90.4	85.9	99.3	104.4	112.2	118.7	118.6	116.5
Chile ^f	100.0	115.7	117.2	94.2	80.7	76.4	73.6	69.1	73.4
Ecuador ^g	100.0	86.2	75.9	63.6	62.8	60.4	65.0	61.4	53.6
Mexico ^h	100.0	101.9	92.7	76.6	72.3	71.1	64.9	60.6	53.6
Paraguay ⁱ	100.0	103.9	101.9	94.2	93.8	99.6	108.3	122.6	134.2
Peru ^j	100.0	84.2	77.8	89.2	69.0	60.3	62.5	64.0	60.1
Uruguay ^k	100.0	103.4	104.6	89.6	89.9	94.1	88.3	91.1	85.6
Venezuela ^l	100.0	86.2	78.5	73.9	66.5	96.8	92.3	95.3	76.2
Percentage variation^m									
Argentina	-17.3	-2.2	0.0	40.0	22.5	-30.2	-5.1	10.1	-21.8
Brazil	2.6	4.4	0.5	-11.3	-7.5	3.3	-1.9	-18.3	-7.4
Colombia	2.5	-1.1	4.8	4.1	5.2	-3.6	4.4	-0.1	-3.0
Costa Rica	1.4	-9.6	-5.1	15.7	5.2	7.4	5.8	0.0	-2.5
Chile	0.3	15.6	1.3	-19.6	-14.4	-5.3	-3.6	-6.1	6.1
Ecuador	65.5	-13.8	-11.9	-16.2	-1.3	-3.8	7.6	-5.5	-12.6
Mexico	-6.7	1.9	-9.0	-17.4	-5.6	-1.7	-8.8	-6.6	-11.6
Paraguay	8.2	3.9	1.9	7.5	-0.5	6.2	8.7	13.2	9.5
Peru	23.8	-15.8	-7.6	14.7	-22.7	-12.6	3.6	2.5	-3.1
Uruguay	-4.6	3.4	1.2	-14.3	0.3	4.7	-6.2	3.2	-6.0
Venezuela	62.8	-14.1	-8.9	-5.9	-10.0	45.5	-4.7	3.4	-22.2

Source: ECLAC, on the basis of official data.

^a Preliminary figures. ^b National minimum wage, 1988: average January-October. ^c Minimum wage for the city of Rio de Janeiro, deflated by the corresponding CPI, 1988: average January-October. ^d Minimum wage for upper urban sectors, 1988: average January-October. ^e National minimum wage, 1988: first half of year. ^f Minimum income, 1988: average January-October. ^g General minimum official living wage, 1988: average January-October. ^h Minimum wage in Mexico City, deflated by the corresponding CPI, 1988: January-October. ⁱ Minimum wage in Asunción and Puerto Stroessner, 1988: average January-November. ^j Minimum wage in Metropolitan Lima for non-agricultural activities, 1988: January-October. ^k National minimum wage for persons over 18 years of age, 1988: average January-September. ^l National minimum wage for non-agricultural activities, 1988: average January-October. ^m Compared with the same period in the previous year.

apply a stricter monetary policy which, together with the normalization of the supply of agricultural goods, contributed to the gradual decrease in the rate of inflation in the second half of the year (see figure 7). As a result of the faster inflation, the purchasing power of the minimum wage --whose nominal value is adjusted at the beginning of the year according to the inflation of the previous year-- went down by 3%.

Inflation also increased in Costa Rica, rising from 16% in 1987 to 23% at the end of 1988. Factors in this were the increase in the exchange rate effected in January, the periodic mini-devaluations made later in order to maintain the real exchange rate, and increases in the controlled prices of some basic goods (milk, eggs, bread and flour) and some public services (electricity, telephones, water and urban transport). As in Colombia, the increase in inflation caused a moderate decline (-2.5%) in the real value of the minimum wage (see figure 8).

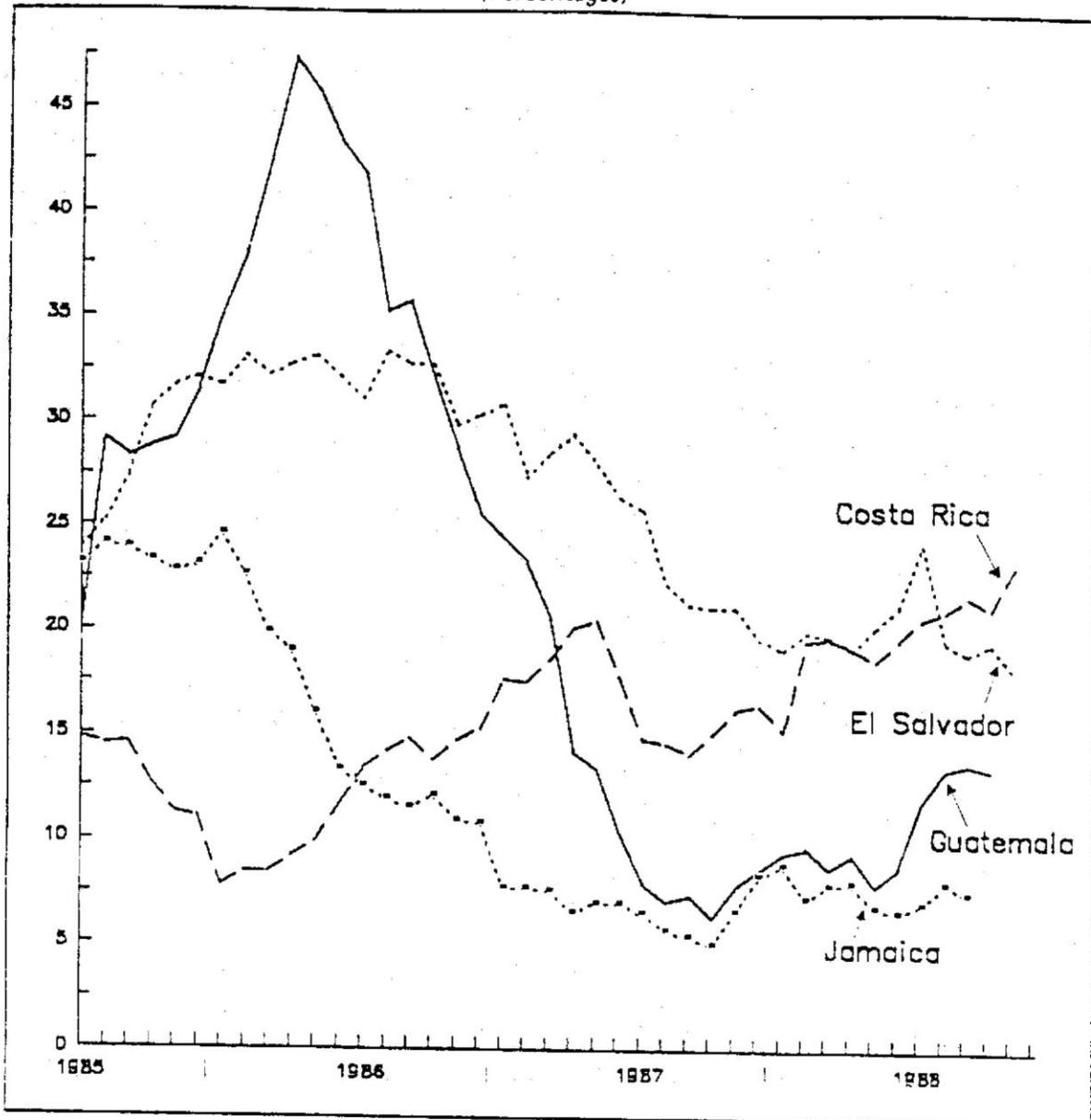
In Guatemala, too, the main causes of the slight rise in inflation --from 10% in 1987 to a little more than 13% at the end of 1988-- were the exchange adjustment and the price policy pursued by the government. Thus, in January the exchange rates were unified, raising the parity for most transactions from 2.50 to 2.70 quetzales per dollar, while the policy of freeing the prices of certain basic goods continued to be applied throughout the year, and the official prices of fuels and the rates for some public services were increased. As from September, however, the monthly rate of price increases fell once more to the level of international inflation (see figure 8)

Among the few countries in the region where inflation fell, the most considerable progress was made in Mexico, where the monthly variation in consumer prices, which in late 1987 and early 1988 had been around 16%, subsequently went down sharply and steadily, falling from August onwards to levels close to 1% (see figure 4). As a result, annual inflation went down more than 100 points, from almost 160% in 1987 to 52% in 1988.

The main cause of the reduction in inflation was the stabilization policy applied by the government in the framework of the Economic Solidarity Pact concluded in December 1987 between the government, business, and workers. This programme combined heterodox elements --the concerted de-indexing of the exchange rate, wages and key prices in order to attack inertial inflation-- with orthodox restrictive fiscal and monetary policies and the correction of relative prices in order to solve the more basic causes of inflation.

Thus, in mid-December the exchange rate was increased by 22%, after another substantial devaluation the previous month, and increases were decreed in the prices of key public sector goods and services, including increases of 85% in fuel and electricity. The government committed itself to maintain the new prices and the exchange rate at least until March (a commitment which was later extended under new agreements). For their part, the labour union representatives accepted wage adjustments of 15% in December and 20% in January, followed by the freezing of wages until March, while producers agreed to keep their prices frozen once the initial adjustments had been made. At the same time, the government made notable efforts to reduce

Figure 8

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

Source: ECLAC, on the basis of official data.

the public sector deficit. Thanks to these, the "primary balance" of the public accounts --which excludes interest payments on the public debt-- turned in a very considerable surplus in 1988. The stabilization programme was also accompanied by a customs tariff reform (which entailed lowering the maximum tariff from 40% to 20% and the average tariff to only 11%) and by the dismantling of the quantitative controls on imports (leaving only 6% of these subject to prior licenses).

As was to be expected, the initial effects of the devaluation and the corrective price adjustments was to double the monthly inflation rate, which averaged 16% in December-January. Nevertheless, as the freeze on the exchange rate, wages and prices and the tighter fiscal policy took hold, the monthly variation in prices went down to 3% in April and fell to 2% in the three following months. In August, the freeze was extended and the value added tax on food and medicines was reduced, so that monthly inflation went down even more between August and November (see figure 4).

The stabilization programme was accompanied, however, by a new drop of 12% in the real value of minimum wages --whose level thus came to barely half of that registered before the debt crisis-- and it was complicated by unfavourable changes in the external environment. Thus, the drop in the international price of petroleum caused a reduction in government petroleum revenue which offset a considerable part of the greater revenue obtained from other sectors through the indexing of the tax system and other fiscal measures. Consequently, the increase achieved in the primary surplus was mainly obtained through further decreases in public spending, with the resultant negative effects on economic activity. Furthermore, because of the rise in international interest rates, the public sector financial deficit --which includes interest payments on the public debt-- dropped less than expected, while the decrease in the price of petroleum and the increase in international interest rates, together with the freezing of the exchange rate and the freeing of imports, caused the international reserves to drop by around US\$3.5 billion.

In these circumstances, in mid-December the new government announced a series of measures designed to make the price, wage and exchange rate policies more flexible. These measures formed part of an Economic Growth and Stability Pact signed by businessmen and trade-union representatives. According to the new agreement --which came into force in January and will last until July-- the exchange rate (which had remained fixed at 2 280 pesos per dollar during 1988) will be increased by one peso per day until 31 July, while at the beginning of 1989 the minimum wage will be adjusted by 13.5% and some public service charges will be increased. The prices of gasoline, electricity, and gas for domestic use will continue frozen, however, while a review will be made of the support prices of certain agricultural products.

Inflation also declined in Venezuela, where, as in Mexico, it had reached unprecedented levels in 1987. In contrast with Mexico, however, the decrease in inflation was not continuous. As may be seen from figure 7, the drop was concentrated in the first half of the year, when the annual rate of inflation went down from 40% to 26%, mainly as a result of the freezing of prices and public sector salaries, the application of stricter controls on the prices of basic goods, and the seasonal drop in the prices of certain

agricultural products. As from August, however, inflation speeded up due to the rapid increase in food prices and the higher inflationary expectations caused by the sharp rise in the exchange rate on the free market.

In 1988 inflation slackened markedly in Paraguay, where consumer prices, after having risen by 32% in 1987, went up less than 17% in 1988. This easing of inflation was due to both demand and cost factors. On the one hand, the fact that in 1987 the increase in prices was the highest registered in the last 10 years led the economic authorities to apply a stricter monetary policy. On the other hand, the notable agricultural expansion helped to moderate food prices and the lag in the real exchange rate tended to reduce the relative price of imported goods. As a result of the slower inflation and of the adjustments made in the minimum wage in March and October, its purchasing power went up by 8% in 1988.

The drop in inflation was also marked in Chile, where consumer prices, after having gone up by almost 22% in 1987, increased by less than 13% in 1988, with wholesale prices rising by only a little over 3%. The basic causes of this slowing-down of inflation were the coherent macroeconomic policy applied and the foreign trade boom caused, mainly, by the significant improvement in the international prices of copper and other exports. These factors, together with a greater growth in economic activity than initially foreseen, both improved the fiscal accounts and strengthened the balance of payments, thus leading the economic authorities to lower various taxes. Successively, the customs tariff was reduced from 20% to 15%, the tax on credit was reduced by half, the special tax on fuels was lowered and the value added tax was reduced from 20% to 16%. These tax and tariff reductions, together with the decrease in the international price of petroleum and the slower increase in the nominal exchange rate, helped to reduce inflation. At the same time, the slowing-down of inflation and the rapid growth of economic activity facilitated the recovery in real wages, which went up significantly for the first time since 1981. Between January and October, average real wages rose to almost 7% more than those registered in the equivalent period of 1987, although because of their sharp drop in 1983 they were still 7% lower than in the two-year period 1981-1982. The disparity was even greater in the case of the real minimum wage, which, in spite of the 6% increase registered in 1988, was still 37% lower than in 1981-1982 (see tables 6 and 7).

3. The external sector

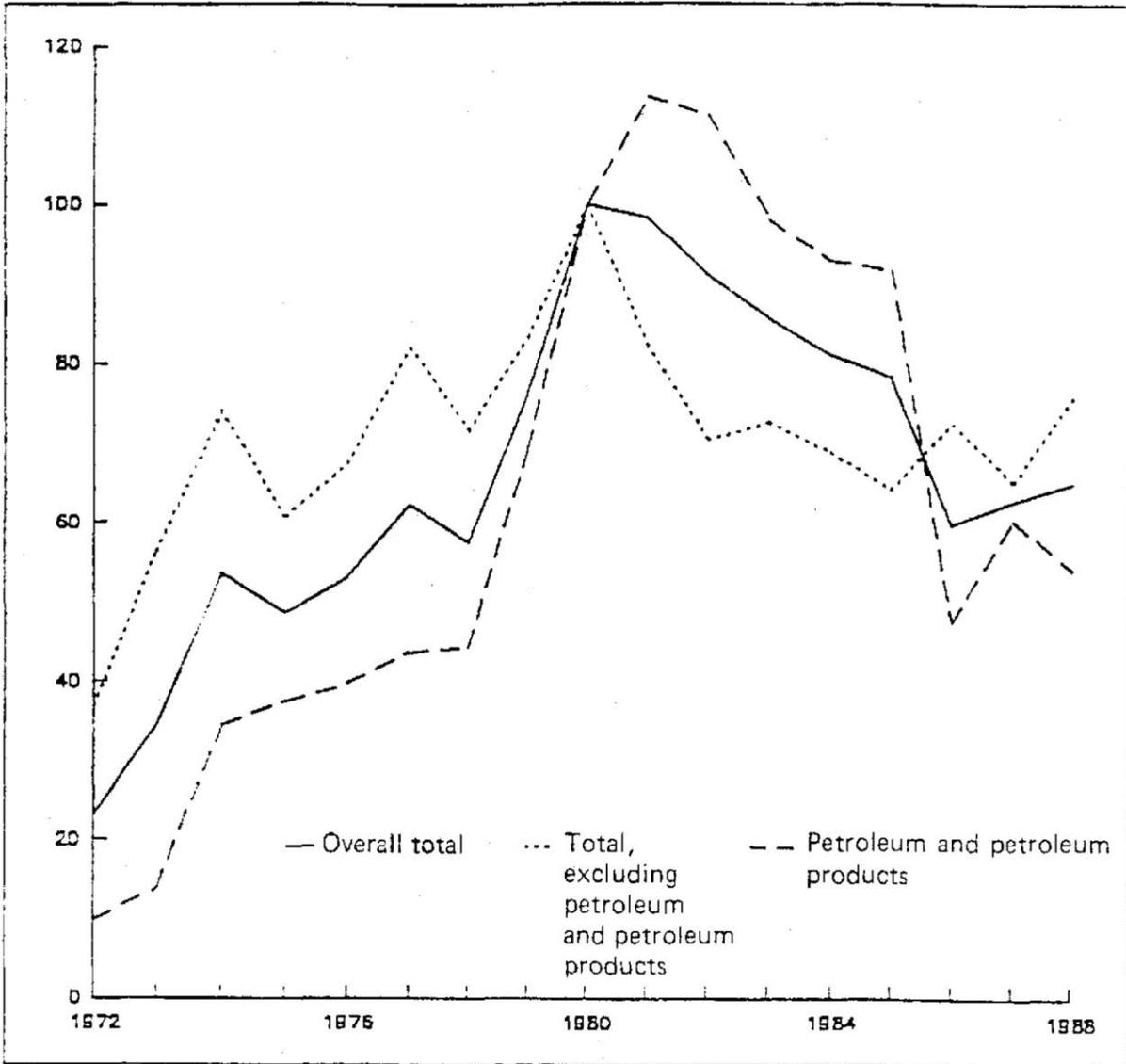
a) Foreign trade and the terms of trade

In 1988, the region's export performance took place against the background of contradictory trends in the international commodity markets already mentioned earlier (see figure 9).

In this context, the value of Latin American and Caribbean exports of goods went up by 14.5% --a similar increase to that recorded in 1987-- and thus surpassed US\$100 billion for the first time. This growth resulted mainly from the considerable expansion (23%) in the value of the exports of the non-oil-exporting countries, resulting from an 11% increase in unit value

Figure 9

LATIN AMERICA: PRICE INDEXES OF MAIN EXPORT PRODUCTS
(1980 = 100)



Source: ECLAC

and growth of 10% in export volume. The value of the external sales of the oil-exporting countries, on the other hand, went up only slightly, because the decrease of 7% in the unit value neutralized most of the 10% increase in the volume exported (see table 8).

The rise in the value of exports was quite generalized, with increases being registered in 15 of the 19 countries for which information is available. It was particularly marked, however, in Brazil, Argentina, Chile and the Dominican Republic. In fact, more than half the increase in the value of the region's exports originated in Brazil, whose exports went up by 28% to a record level of US\$33.5 billion. This result was influenced, above all, by the notable expansion (40%) in external sales of industrial goods. Argentina's exports increased even faster (35%), thanks to an increase in the international prices of some grains, the bigger volume of agricultural exports, and the growing sales of manufactured goods. The country's exports thus more than made up for their abrupt drop in the two previous years and reached their highest level since 1981. Export growth was once again very high (32%) in Chile, as a result of the combination of strong increases in the international prices of copper, fish meal, wood pulp, and other export products and of the increase in the volume of industrial and agricultural exports. Exports also went up very markedly (25%) in the Dominican Republic (mainly as a result of the increase in the prices of its main export products), while they continued to increase (by 16%) in Uruguay, which benefited from an improvement in the international prices of wool and rice, and rose by more than 10% in Honduras, Guatemala and El Salvador, thanks largely to the higher price of coffee.

Among the petroleum-exporting countries, only Bolivia and Ecuador significantly increased their external sales. As a result of the recovery of mining production, exports went up 13% in Bolivia --thus interrupting their continual decline in the seven previous years-- while Ecuador's exports rose by 11%, mainly as a result of the resumption of production and shipping of petroleum. In Mexico, however, the value of exports went up only 4%, since the drop of 12% in petroleum sales wiped out a considerable part of the 22% increase in agricultural exports and a similar increase for the third consecutive year in exports of manufactures. The increase in external sales was even smaller (2%) in Peru, where the drop of more than 15% in export volume neutralized most of the favourable effects derived from considerable increases in some of the country's main export products, such as copper, fish meal, zinc and silver.

Conversely, in spite of greater exports of aluminium and non-monetary gold, the value of exports dropped by 2% in Venezuela as a result of the fall in petroleum prices, while exports went down 16% in Nicaragua, where significant increases in prices did not manage to compensate for the effect of a 25% contraction in export volume. Declines were also registered in Haiti (-9%) and in Panama (-6%).

In 1988 the value of Latin American and Caribbean imports of goods went up by 12%, due to increases of 8% in volume and 4% in unit value. This latter increase was greater in the petroleum-exporting countries than in the other economies of the region, which were favoured by the drop in the price of hydrocarbons (see table 9).

Table 8
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS
(Indexes 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Rates			Index	Rates			Index	Rates		
	1988 ^a	1986	1987	1988 ^a	1988 ^a	1986	1987	1988 ^a	1988 ^a	1986	1987	1988 ^a
Latin America	115	-15.2	14.0	14.6	74	-15.3	5.4	4.0	156	0.0	8.3	10.2
Oil-exporting countries	87	-29.0	19.4	2.7	58	-34.5	14.7	-6.5	152	8.5	4.1	10.0
Bolivia	56	-12.5	-13.8	12.8	82	-12.5	-3.7	1.0	69	0.0	-10.5	11.7
Ecuador	89	-24.8	-7.5	11.3	56	-29.1	2.1	-2.0	159	6.2	-9.5	13.6
Mexico	134	-26.0	28.9	4.1	59	-27.4	10.9	-6.0	228	1.9	16.2	10.6
Peru	68	-15.0	3.0	2.3	95	-5.0	11.5	21.0	71	-10.6	-7.6	-15.4
Venezuela	54	-37.8	15.8	-2.0	50	-50.5	26.1	-13.0	108	25.8	-8.2	12.6
Non-oil-exporting countries	139	-3.3	10.6	22.8	87	3.9	-1.5	11.2	159	-6.9	12.4	10.4
Argentina	94	-18.4	-7.2	35.3	82	-6.6	4.7	15.0	131	-12.7	-11.4	17.7
Brazil	166	-12.7	17.1	27.8	85	1.2	-2.2	9.5	197	-13.7	19.7	16.8
Colombia	150	46.0	6.9	4.9	86	18.1	-19.4	2.5	174	23.6	32.6	2.3
Costa Rica	120	15.5	2.7	8.2	100	14.1	-6.8	13.0	121	1.2	10.2	-4.3
Chile	146	10.4	24.4	31.8	92	3.5	17.6	28.0	158	6.6	5.8	3.0
El Salvador	59	11.2	-24.1	9.9	75	21.9	-28.4	17.0	78	-8.7	5.9	-6.1
Guatemala	73	-1.5	-6.0	12.6	88	19.6	-18.0	13.0	83	-17.7	14.6	-0.4
Haiti	83	-14.4	4.0	-9.1	102	19.0	-6.4	9.0	82	-28.1	11.1	-16.7
Honduras	115	12.9	-3.2	13.6	109	15.5	-9.6	16.0	106	-2.3	7.1	-2.1
Nicaragua	48	-18.0	4.9	-15.8	108	3.4	3.8	13.0	45	-20.7	1.0	-24.9
Panama	104	21.2	4.4	-6.3	120	15.5	-3.5	14.0	87	4.9	8.2	-17.8
Paraguay ^b	251	76.8	65.9	5.6	105	-5.2	14.7	13.0	239	86.4	44.7	-6.6
Dominican Republic	85	-2.2	-1.5	24.5	86	7.8	-4.2	14.0	107	-9.3	2.8	9.2
Uruguay	130	27.4	9.3	16.1	100	1.5	12.0	13.0	130	25.5	-2.4	2.8

Source: ECLAC.

^aPreliminary estimates.

^bAs from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

Table 9
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS

(Indexes 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Rates			Index	Rates			Index	Rates		
	1988 ^a	1986	1987	1988 ^a	1988 ^a	1986	1987	1988 ^a	1988 ^a	1986	1987	1988 ^a
Latin America	83	2.5	13.0	12.0	95	-4.1	5.8	4.1	88	7.1	6.6	7.7
Oil-exporting countries	96	-2.0	11.2	27.3	93	-1.6	3.8	5.2	103	0.4	7.2	21.1
Bolivia	90	28.9	10.3	-14.9	92	-4.3	-1.2	5.0	106	34.6	11.6	-18.9
Ecuador	68	1.2	25.9	-26.0	84	-5.7	3.6	5.0	81	7.3	21.6	-29.5
Mexico	98	-13.5	6.9	51.4	94	-2.4	4.9	4.0	104	-11.3	1.9	45.5
Peru	88	43.7	18.3	-11.1	89	-1.3	2.7	6.0	100	45.6	15.2	-16.0
Venezuela	100	4.4	12.3	23.1	92	1.4	3.8	4.5	108	3.0	8.3	17.8
Non-oil-exporting countries	75	6.0	14.1	1.9	96	-6.2	7.3	3.6	79	13.0	6.4	-1.6
Argentina	56	25.2	21.6	-1.0	104	4.0	6.6	4.5	54	20.4	14.0	-5.3
Brazil	63	6.6	7.2	-3.7	98	-7.6	9.4	3.5	65	15.4	-2.0	-6.9
Colombia	103	-7.2	13.6	13.6	96	-9.1	4.7	5.0	107	2.1	8.5	8.1
Costa Rica	92	4.4	19.0	0.9	99	-5.3	4.9	5.5	93	10.3	13.5	-4.4
Chile	88	4.9	28.9	20.4	92	-4.8	12.6	5.0	96	10.3	14.5	14.7
El Salvador	109	-2.1	3.5	7.5	109	-5.0	5.0	3.0	100	3.1	-1.4	4.3
Guatemala	100	-18.7	55.8	8.1	96	-7.9	4.2	4.5	105	-11.7	49.5	3.5
Haiti	77	-12.0	1.5	-20.4	106	5.7	1.5	3.0	73	-16.7	0.0	-22.8
Honduras	97	-0.6	2.3	4.0	108	-6.2	2.1	3.5	90	6.0	0.2	0.5
Nicaragua	112	-9.2	13.6	9.1	97	-2.3	6.8	2.0	116	-7.1	6.4	6.9
Panama	89	9.4	1.6	-12.0	91	-6.9	2.6	1.5	98	17.6	-1.0	-13.2
Paraguay ^b	173	42.6	42.5	11.6	74	-9.0	10.2	4.5	235	56.7	29.4	6.7
Dominican Republic	103	5.1	14.7	3.2	90	-6.5	5.7	3.0	117	12.4	8.5	0.3
Uruguay	64	17.1	36.5	-1.0	86	-12.8	9.0	3.0	74	34.2	25.3	-3.9

Source: ECLAC.

^aPreliminary estimates.

^bAs from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

A decisive element in the total regional increase was the growth of Mexican imports, which went up somewhat more than 50%, as a result of the combined effect of the erosion of the real exchange rate and the rapid reduction of protectionist barriers. Imports continued to increase vigorously in Venezuela (23%), Chile (20%), Colombia (14%), and Paraguay (12%), these being the countries which grew most in 1988.

In Argentina, Brazil and Uruguay, on the other hand, the virtual stagnation of economic activity and the sluggishness of investment were reflected in a slight reduction in imports. El Salvador and Nicaragua, however, increased their imports by 8% and 9%, respectively, in spite of the continuing stagnation of the first-named economy and the strong contraction suffered by the second. In the other countries which experienced domestic or external payments crisis situations in 1988 --Peru (-11%), Panama (-12%) and Haiti (-20%)-- the value of imports went down significantly, as it also did in Bolivia (-15%).

Ecuador was a special case in this respect, since the value of its imports decreased by 26% even though in 1988 there was a recovery in both economic activity and the value of exports. This situation was mainly due to the resumption of petroleum production, which meant that hydrocarbon imports --which had strongly increased the previous year as a result of the loans of fuel received from Venezuela and Nigeria-- dropped sharply to their traditional levels.

Due to the almost identical increases in the unit values of imports and exports, the terms of trade of the region as a whole remained constant in 1988. Because of the continued drops in the three previous years and the pronounced reduction in 1981-1982, however, the terms of trade were still 22% lower than in 1980.

The stability of the terms of trade of the region as a whole concealed the opposite trends in this respect in the petroleum-exporting countries and the other economies. While in the former the terms of trade dropped sharply (-11%) because the effects of the fall in the price of petroleum were aggravated by the higher prices of manufactured goods and imported food, in the non-oil-exporting countries the terms of trade improved by more than 7% through the combined effect of the higher international prices for the majority of non-energy primary commodities and the drop in the price of imported petroleum (see tables 10 and 11).

Thanks to the vigorous expansion in export volume, the purchasing power of the region's exports went up by 10% (see table 12), although, despite this increase and the rise of almost 8% registered the previous year, the purchasing power of these exports still did not recover its 1984 level. Furthermore, the 1988 increase was the net result of very disparate changes in the different countries of the region: while the purchasing power of exports increased by an unusually large amount in Argentina (29%), Chile (26%), Brazil (23%) and the Dominican Republic (21%), it contracted strongly in Nicaragua (-23%), Haiti (-12%), Panama (-8%) and Venezuela (-6%).

Table 10
**LATIN AMERICA AND THE CARIBBEAN: TERMS
 OF TRADE (GOODS), FOB/FOB**

(Indexes 1980 = 100, growth rates and percentage variation)

	Indexes				Growth rates					Cumulative variation
	1985	1986	1987	1988 ^a	1984	1985	1986	1987	1988 ^a	1981-1988 ^a
Latin America	88	78	78	78	6.6	-4.4	-11.4	-0.5	-0.1	-22.2
Oil-exporting countries	95	64	70	62	2.0	-0.1	-33.4	10.3	-11.1	-37.7
Bolivia	104	95	92	89	16.3	-7.8	-8.6	-2.5	-3.8	-11.3
Ecuador	97	73	72	67	16.6	1.2	-24.9	-1.4	-6.6	-33.2
Mexico	88	65	69	62	-7.2	1.6	-25.6	5.7	-9.6	-37.8
Peru	90	87	94	108	-2.8	-3.6	-3.8	8.5	14.2	7.5
Venezuela	111	54	66	55	12.1	-4.7	-51.3	21.7	-16.8	-45.4
Non-oil-exporting countries	83	92	85	91	9.9	-7.4	10.7	-8.1	7.4	-9.1
Argentina	81	73	72	79	21.0	-17.6	-10.1	-1.8	10.0	-21.2
Brazil	84	91	82	86	10.1	-2.7	9.3	-10.5	5.8	-13.6
Colombia	92	120	92	90	6.9	-8.4	29.9	-23.0	-2.4	-10.0
Costa Rica	88	106	94	100	5.2	2.7	20.6	-11.2	6.3	0.1
Chile	73	79	83	101	-6.3	-7.3	8.8	4.4	21.8	0.5
El Salvador	69	89	61	69	-12.0	-4.8	28.4	-31.8	13.5	-31.2
Guatemala	83	108	85	92	3.4	-5.6	30.0	-21.2	8.1	-8.0
Haiti	88	99	91	96	26.0	5.8	12.6	-7.7	5.7	-3.8
Honduras	82	101	90	100	3.2	-14.3	23.1	-11.5	12.1	0.3
Nicaragua	98	104	101	112	26.9	-7.3	5.8	-2.8	10.8	11.5
Panama	101	125	117	132	4.1	1.6	24.1	-5.9	12.4	31.9
Paraguay ^b	121	127	132	143	60.4	-15.5	4.3	4.0	8.2	42.5
Dominican Republic	82	95	86	95	11.0	-14.9	15.3	-9.4	10.7	-4.9
Uruguay	89	103	106	116	7.5	-9.6	16.5	2.7	9.6	16.2

Source: ECLAC.

^a Preliminary estimates.
 "Services".

^b As from 1986 "Goods" includes the trade in energy, which was previously included under

Table 11

**LATIN AMERICA AND THE CARIBBEAN: PRICES OF
MAIN EXPORT COMMODITIES**

(Dollars at current prices)

	Annual averages					Growth rates				Cumulative variation
	1970- 1980	1985	1986	1987	1988 ^a	1985	1986	1987	1988 ^b	1988/ 1970-1980
Unrefined sugar ^c	12.8	4.1	6.1	6.8	10.0	-21.2	48.8	11.5	47.1	-21.9
Coffee (mild) ^c	121.8	145.6	192.7	112.3	134.4	1.0	32.3	-41.7	19.7	10.3
Cocoa ^c	86.3	102.3	93.8	90.6	72.7	-5.9	-8.3	-3.4	-19.8	-15.8
Bananas ^c	11.8	18.4	22.1	26.5	26.7 ^d	-3.2	20.1	19.9	0.8	126.3
Wheat ^c	125.1	138.0	115.0	115.0	143.0	-9.8	-16.7	0.0	24.3	14.3
Maize ^c	127.5	135.3	112.9	109.4	135.2	-19.1	-16.6	-3.1	23.6	6.0
Beef ^c	82.2	97.7	95.0	108.2	113.7	-4.8	-2.8	13.9	5.1	38.3
Fish meal ^c	354.7	280.0	321.0	383.0	544.0	-24.9	14.6	19.3	42.0	53.4
Soya beans ^c	232.4	225.0	208.0	216.0	302.0	-20.2	-7.6	3.8	39.8	29.9
Cotton ^c	61.2	61.7	52.9	76.1	64.1	-23.2	-14.3	43.9	-15.8	4.7
Wool ^c	131.5	140.7	147.7	185.1	213.1	-0.6	5.0	25.3	15.1	62.1
Copper ^c	69.6	64.3	62.3	80.8	110.7	2.9	-3.1	29.7	37.0	59.1
Tin ^c	3.9	5.4	2.6	3.1	3.2	-3.6	-51.9	19.2	3.2	-17.9
Iron ore ^c	17.6	22.0	21.6	22.1	22.3	-1.8	-1.8	2.3	0.9	26.7
Lead ^c	25.3	17.7	18.4	27.1	29.3	-11.9	4.0	47.3	8.1	15.8
Zinc ^c	29.7	40.4	38.0	42.4	57.7	-16.9	-5.9	11.6	36.1	94.3
Bauxite ^c	103.5	164.3	165.2	164.8	164.8 ^e	-0.4	0.5	-0.2	0.0	59.2
Crude petroleum ^h										
Saudi Arabia	10.0	28.0	13.7	17.1	14.7 ^d	-1.8	-51.1	27.7	-14.0	47.0
Venezuela	10.1	25.9	12.8	16.4	14.6 ^d	-2.2	-50.6	28.1	-11.0	44.6

Source: UNCTAD, Monthly Commodity Price Bulletin, supplements 1960-1984 and October 1988; International Monetary Fund, *International Financial Statistics*, Yearbooks 1981 and November 1988; *Petroleum Intelligence Weekly*, 1986-1988, various issues; *Energy Economics Research Limited, Oil and Energy Trends*, October 1988; ECLAC, on the basis of official data.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market. Coffee, mild Colombian arabica, *ex-dock* New York. Cocoa beans, average of daily prices (futures), New York/London. Central American bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF Northern Europe. Wool, clean, combed, grade 50's United Kingdom. Beef, frozen and deboned, all sources, United States ports. Fish meal, all sources, 61-65% protein, CIF Hamburg. Wheat, United States No 2, Hard Red Winter, FOB. Maize, Argentina, CIF North Sea ports. Soya beans, United States, No. 2, yellow, bulk, CIF Rotterdam. Copper, tin, lead and zinc, spot cash prices on the London Metal Exchange. Iron ore, Liberia, C61% Fe, CIF North Sea ports. Bauxite, Guyana (Balcimore). Petroleum, Venezuela (Tia Juana).

^aAverage January-October. ^bAverage January-October, compared with average for 1987. ^cUS cents per pound. ^dAverage January-September. ^eDollars per metric ton. ^fDollars per pound. ^gAverage January-May. ^hDollars per barrel.

Table 12

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

(Indexes 1980 = 100, growth rates and percentage variations)

	Indexes				Growth rates					Cumulative variation
	1985	1986	1987	1988 ^a	1984	1985	1986	1987	1988 ^a	1981/1988 ^a
Latin America	114	100	107	118	13.5	-4.2	-12.2	7.5	10.4	18.4
Oil-exporting countries	114	82	94	92	8.4	-6.7	-28.2	14.3	-1.7	-7.9
Bolivia	67	61	53	57	2.6	-17.0	-9.0	-13.3	7.4	-43.5
Ecuador	136	108	97	103	31.3	17.0	-20.5	-10.4	6.0	2.8
Mexico	150	113	139	139	0.6	-7.7	-24.3	22.8	0.0	39.4
Peru	90	77	77	75	11.6	1.1	-14.1	0.3	-3.7	-25.5
Venezuela	89	54	60	56	17.2	-10.1	-38.9	11.5	-6.3	-43.5
Non-oil-exporting countries	113	116	119	142	19.0	-1.7	2.4	3.0	18.8	41.9
Argentina	115	91	79	102	8.4	0.0	-21.0	-13.3	29.3	1.9
Brazil	135	127	136	167	31.2	-1.3	-5.9	7.0	23.4	67.3
Colombia	94	149	152	152	47.3	-17.0	59.3	2.2	-0.1	52.1
Costa Rica	96	116	114	117	18.7	-7.6	21.6	-2.2	2.5	16.6
Chile	97	112	124	156	-6.2	10.0	15.8	10.7	25.5	56.0
El Salvador	58	68	49	52	-6.9	-7.2	16.8	-27.9	6.1	-47.8
Guatemala	71	75	68	73	2.9	-5.4	6.4	-9.6	7.8	-26.8
Haiti	101	84	84	74	17.6	5.0	-17.2	1.0	-12.0	-25.8
Honduras	83	100	94	103	0.6	1.0	19.9	-5.3	9.8	3.4
Nicaragua	71	59	63	49	-3.4	-24.0	-16.1	6.6	-23.4	-51.5
Panama	92	119	122	112	0.0	19.9	29.6	2.5	-7.7	12.1
Paraguay ^b	111	206	317	320	36.7	-4.0	86.3	53.5	1.0	220.2
Dominican Republic	84	87	82	99	12.3	-14.2	3.8	-6.4	20.8	-1.5
Uruguay	90	130	131	148	-16.7	-9.9	44.4	1.0	12.6	48.0

Source: ECLAC.

^aPreliminary estimates.
^b"Services".

^bAs from 1986 "Goods" includes the trade in energy, which was previously included under

b) The balance of payments

As the value of exports increased a good deal more than that of imports, the trade surplus in goods increased for the second consecutive year, so that after having risen from US\$18.5 billion in 1986 to almost US\$21.8 billion in 1987, it went up to US\$26.7 billion in 1988 (see table 13).

Even though more than two-thirds of the regional total originated in the Brazilian trade surplus --which went from US\$11 billion in 1987 to US\$19 billion and was thus the third largest in the world-- this growth was also due to the significant improvements registered in the trade balances in many other countries.

Thus, in Argentina the surplus on the trade in goods went up from US\$1 billion to US\$3.3 billion, hence reversing its sharp contraction in the two previous years; that of Chile went up from US\$1.2 billion to a record figure of almost US\$2.1 billion, and that of Uruguay almost trebled, reaching rather more than US\$300 million. In Ecuador, for its part, the trade balance suffered a radical turnaround, passing from a small deficit in 1987 to a surplus of more than US\$700 million in 1988, while Bolivia, Haiti, Panama, Peru and the Dominican Republic registered appreciably smaller deficits than in the previous year.

In other countries of the region, however, the results of the trade in goods were less favourable than in 1987. As a result of Mexico's enormously increased imports, its trade surplus went down from US\$8.4 billion to US\$3 billion; Venezuela registered an even greater deterioration from a surplus of US\$1.7 billion in 1987 to a deficit of US\$500 million in 1988, mainly as a result of a very rapid increase in imports, and that of Colombia went down from US\$1.8 billion to less than US\$1.6 billion as a result of the rapid growth in imports.

For the region as a whole, the trade surplus in goods was equivalent to almost 80% of the US\$33 billion in net payments of profits and interest: a higher proportion than in the two previous years and one which would have been even greater if net payments of profits and interest had not increased by nearly US\$2.7 billion, mainly because of the rise in international interest rates.

In spite of the increase in the trade surplus, the larger payments of profits and interest and the 70% rise in net payments for services meant that the deficit on current account rose slightly from almost US\$9.8 billion to US\$10 billion (see table 14). This increase was due to the greater current account deficit of the petroleum-exporting countries, which had been minimal the previous year, but which grew by more than US\$8 billion. This increase was mainly due to the turnaround in the Mexican current account --which, after generating a surplus of US\$3.6 billion in 1987, closed with a negative balance of US\$2.5 billion-- and to the growth of US\$3.5 billion in the Venezuelan deficit. In contrast, the deficit of the non-oil-exporting countries went down by more than US\$8 billion, thanks in particular to the extraordinary change registered in Brazil, which, after a deficit of US\$800 million in 1987, obtained a surplus of almost US\$4.6 billion. In 1988 trade

Table 13

LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE (GOODS)

(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Trade balance (goods)		
	1986	1987	1988 ^a	1986	1987	1988 ^a	1986	1987	1988 ^a
Latin America	78 179	89 158	102 205	59 645	67 382	75 485	18 534	21 776	26 720
Oil-exporting countries	30 414	36 318	37 300	24 116	26 835	34 180	6 298	9 483	3 120
Bolivia	546	470	530	597	658	560	-51	-188	-30
Ecuador	2 186	2 021 ^b	2 250	1 631	2 054 ^b	1 520	555	-33	730
Mexico	16 028	20 655	21 500	11 430	12 221	18 500	4 598	8 434	3 000
Peru	2 531	2 605	2 665	2 595	3 070	2 730	-64	-465	-65
Venezuela	9 123	10 567	10 355	7 863	8 832	10 870	1 260	1 735	-515
Non-oil-exporting countries	47 765	52 840	64 905	35 529	40 547	41 305	12 236	12 293	23 600
Argentina	6 850	6 355	8 600	4 406	5 356	5 300	2 444	999	3 300
Brazil	22 387	26 213	33 500	14 042	15 052	14 500	8 345	11 161	19 000
Colombia	5 331	5 700	5 980	3 409	3 874	4 400	1 922	1 826	1 580
Costa Rica	1 085	1 114	1 205	1 049	1 249	1 260	36	-135	-55
Chile	4 199	5 224	6 885	3 100	3 994	4 810	1 099	1 230	2 075
El Salvador	755	573	630	876	907	975	-121	-334	-345
Guatemala	1 044	981	1 105	876	1 364	1 475	168	-383	-370
Haiti	191	198	180	303	308	245	-112	-110	-65
Honduras	891	863	980	874	894	930	17	-31	50
Nicaragua	247	259	220	727	835	900	-480	-576	-680
Panama	2 402	2 508	2 350	2 988	3 035	2 670	-586	-527	-320
Paraguay ^c	573	952	1 005	736	1 049	1 170	-163	-97	-165
Dominican Republic	722	711	885	1 352	1 550	1 600	-630	-839	-715
Uruguay	1 088	1 189	1 380	791	1 080	1 070	297	109	310

Source: 1986, 1987: ECLAC, on the basis of figures supplied by the International Monetary Fund; the 1986 and 1987 figures for El Salvador and the 1987 figures for Brazil, Nicaragua and the Dominican Republic are ECLAC estimates. 1988: ECLAC, on the basis of official data from the countries.

^aECLAC, preliminary estimates. Figures rounded to zero or five. ^bIncluding loans and return of petroleum.

^cAs from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

Table 14
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Net services payments ^a			Net payments of profits and interests ^c			Balance on current account ^d			Net movements of capital ^e			Global balance ^f		
	1986	1987	1988 ^b	1986	1987	1988 ^b	1986	1987	1988 ^b	1986	1987	1988 ^b	1986	1987	1988 ^b
Latin America	3 938	3 173	5 385	31 853	30 451	33 570	-15 414	-9 778	-9 985	8 324	13 887	4 900	-7 090	4 109	-5 085
Oil-exporting countries	908	11	1 370	11 323	10 741	11 475	-5 643	-991	-9 315	1 255	4 604	1 040	-4 388	3 613	-8 275
Bolivia	127	145	110	306	285	255	-466	-597	-375	575	540	405	109	-57	30
Ecuador	325	312	280	888	918	1 020	-658	-1 263	-570	486	1 163	505	-172	-100	-65
Mexico	-1 095	-2 175	-1 500	7 824	7 394	7 500	-1 785	3 599	-2 500	1 690	1 963	-1 000	-95	5 562	-3 500
Peta	341	393	390	822	769	730	-1 229	-1 627	-1 185	934	858	820	-295	-769	-365
Venezuela	1 210	1 336	2 090	1 483	1 375	1 970	-1 505	-1 103	-4 685	-2 430	80	310	-3 935	-1 023	-4 375
Non-oil-exporting countries	3 030	3 162	4 015	20 530	19 710	22 095	-9 771	-8 787	-670	7 069	9 283	3 860	-2 702	496	3 190
Argentina	891	793	700	4 417	4 483	4 600	-2 859	-4 285	-2 000	1 975	2 615	3 500	-884	-1 670	1 500
Brazil	2 133	2 317	2 910	10 777	9 701	11 600	-4 468	-787	4 570	1 236	2 948	-1 950	-3 232	2 161	2 620
Colombia	584	577	550	1 740	1 995	2 100	391	255	-270	907	147	420	1 298	402	150
Costa Rica	-7	21	-20	278	286	275	-197	-403	-225	278	441	240	81	38	15
Chile	434	458	595	1 888	1 699	1 940	-1 181	-872	-390	930	1 015	1 060	-251	135	625
El Salvador	-19	-74	45	152	147	125	-80	-209	-215	155	260	75	75	51	-140
Guatemala	52	109	110	209	172	165	-42	-562	-465	155	509	365	113	-53	-100
Haiti	69	84	70	16	21	20	-145	-158	-155	128	133	140	-17	-25	-15
Honduras	70	76	80	211	222	220	-251	-314	-245	281	391	245	30	77	0
Nicaragua	83	63	80	245	265	300	-799	-866	-1 060	605	414	540	-194	-452	-520
Panama	-837	-801	-700	-106	12	20	325	229	350	-264	-320	-1 300	61	-91	-950
Paraguay	40	63	165	167	125	135	-369	-283	-465	241	336	340	-128	53	-125
Dominican Republic	-416	-485	-560	258	306	300	-162	-400	-125	221	182	190	59	-218	65
Uruguay	-47	-39	-10	278	281	295	66	-132	25	221	220	40	287	88	65

Source: 1986, 1987: ECLAC, on the basis of figures supplied by the International Monetary Fund; the 1986 and 1987 figures for El Salvador and the 1987 figures for Brazil, Nicaragua and the Dominican Republic are ECLAC estimates. 1988: ECLAC, on the basis of official data.

^aExcluding net payments of profits and interest.

^bPreliminary ECLAC estimates. Figures rounded to zero or five.

^cIncluding interest earned.

^dIncluding net private

unrequited transfer payments, which were of significant magnitude in 1988 in the case of Colombia, Ecuador, El Salvador, Guatemala, Mexico and the Dominican Republic.

^eIncluding long- and short-term capital, official unrequited transfer payments and errors and omissions.

^fCorresponds to variation in international reserves (of

opposite sign) plus counterpart entries.

deficits were also reduced by considerable amounts in Argentina (US\$2.3 billion), Chile (US\$500 million) and the Dominican Republic (almost US\$300 million), while that of Uruguay disappeared. Conversely, in Colombia the US\$250 million surplus obtained the previous year was replaced by a deficit of US\$270 million in 1988.

After its recovery in the previous two years, the net inflow of capital contracted by US\$9 billion. Most of this drop was due to the abrupt turnaround in the net capital movements of Brazil and Mexico, which in 1987 had received net loans and investments of almost US\$5 billion, but which in 1988 registered a net capital outflow of nearly US\$3 billion. During the year, there was also an increase in the net capital outflow from Panama and there was a marked reduction in net external financing in Bolivia, Ecuador, Costa Rica, El Salvador, Guatemala and Uruguay. Thus, the only countries where the net inflow of loans and investments went up significantly in 1988 were Argentina and Colombia.

In contrast to 1987, the net capital inflow was considerably less than the deficit on current account. Consequently, the overall balance of payments once again registered a turnaround from a surplus of US\$4.1 billion in 1987 to a deficit of US\$5.1 billion in 1988. The decrease in international reserves was very large in Venezuela --whose reserves went down almost US\$440 million, making a total drop of over US\$9 billion in the last three years-- and also in Mexico (where they fell by US\$3.5 billion after having increased by nearly US\$5.6 billion in 1987) and Panama. The same thing also happened in seven other countries of the region, however. In fact, in 1988 only Brazil, Argentina and Chile achieved significant balance-of-payments surpluses which allowed them to increase their reserves appreciably (see table 14).

After having declined from US\$33 billion in 1985 to less than US\$17 billion in 1987, the net transfer of resources abroad once again increased strongly in 1988, reaching a total of almost US\$29 billion. This was due partly to the larger interest payments but was caused, above all, by the sharp reduction in the inflow of capital, which was barely enough to finance 15% of those payments and amounted to little more than one-eighth of the capital inflow which the region received before the debt crisis. The outward transfer of resources was equivalent to 24% of total exports of goods and services: a much higher percentage than in the previous year (see table 15).

Thus, 1988 was the seventh consecutive year in which the Latin American and Caribbean economies had to make a heavy outward transfer of resources (see figure 10), with the cumulative transfer since the onset of the crisis amounting to almost US\$180 billion, equivalent to 45% of the region's present external debt. Likewise, the amount of the annual transfer during this period has been the equivalent of 3.5% of the regional product, in contrast with the situation which existed before the crisis, when the region received transfers from abroad equal to about 2.5% of its gross domestic product. The serious restriction which this turnaround of nearly six points in the net transfer of resources has represented for the economic growth of Latin America and the Caribbean becomes clear when it is noted that this amount corresponds almost exactly to the drop registered in the coefficient of gross capital formation.

Table 15

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

(Billions of dollars and percentages)

Year	Net inflow of capital	Net payments of profits and interest	Transfer of resources (3)=(1)-(2)	Exports of goods and services	Transfer of resources/ exports of goods and services ^a (5)=(3)/(4)
	(1)	(2)	(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	29.7	18.1	11.6	107.6	10.8
1981	37.6	27.2	10.4	116.1	9.0
1982	20.2	38.8	-18.6	103.2	-18.0
1983	2.9	34.4	-31.5	102.4	-30.8
1984	10.3	37.0	-26.7	113.9	-23.4
1985	2.2	35.0	-32.8	109.6	-29.9
1986	8.3	31.9	-23.6	95.4	-24.7
1987	13.9	30.5	-16.6	108.2	-15.3
1988 ^b	4.9	33.6	-28.7	121.9	-23.5

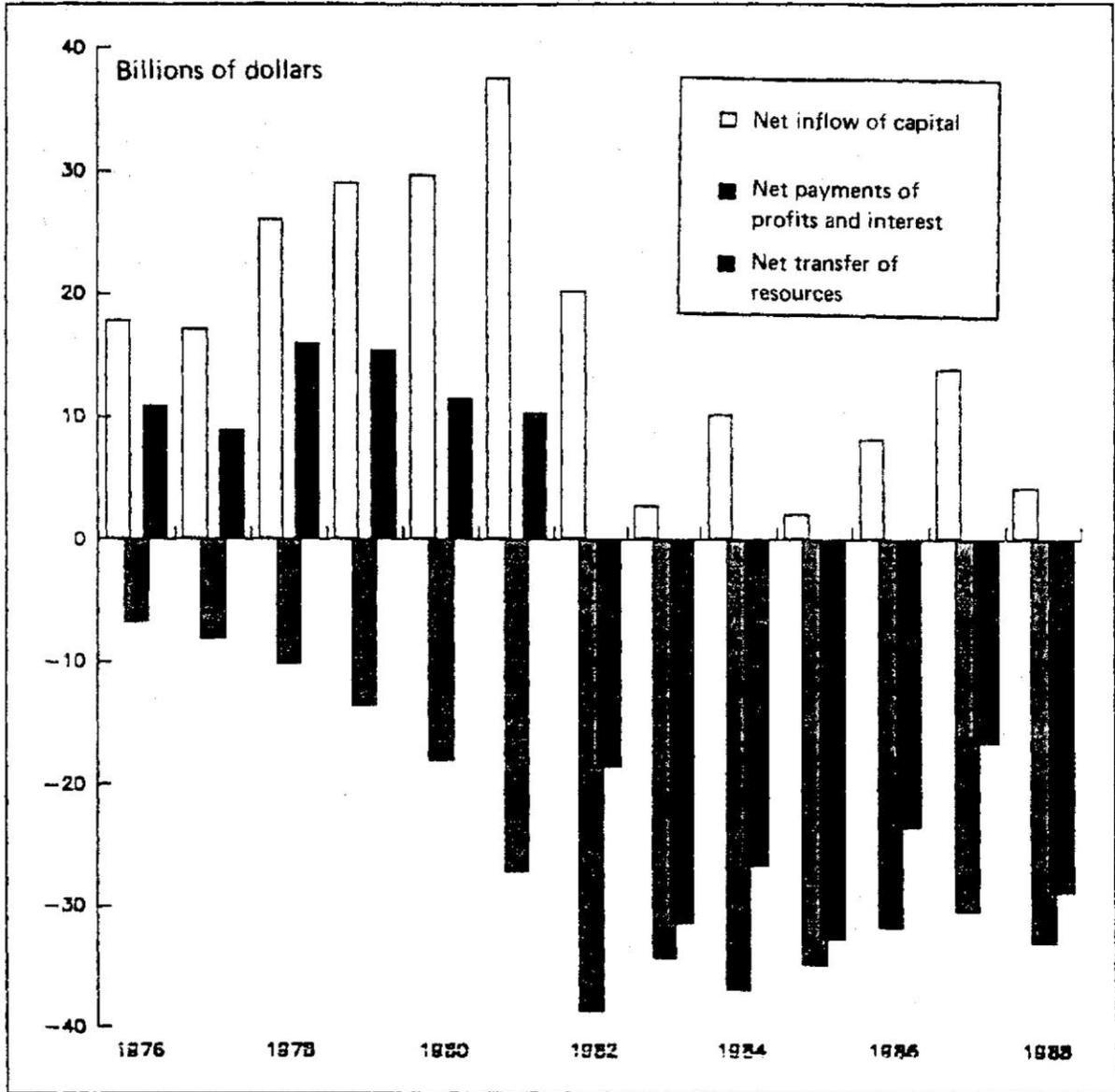
Source: 1973-1987: ECLAC, on the basis of data supplied by the IMF. 1988: ECLAC, on the basis of official figures from the countries.

^a Percentages.

^b Preliminary estimates.

Figure 10

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



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

III. THE EXTERNAL DEBT

1. Main trends

The slackening of the growth rate of the Latin American and Caribbean external debt which began in 1982 culminated in 1988 in the first absolute drop in the region's obligations: the amount of the debt fell by US\$9 billion to stand at US\$401 billion at the end of the year. Although this represented a nominal reduction of only 2%, the reduction in real terms (taking into account world inflation) was approximately 6% (see table 16).

The fall in the debt reflected both the extremely restricted access of the region to new loans and the increase in operations designed to reduce the debt through official mechanisms and direct purchases by the private sector. On the other hand, the revaluation of the United States dollar during the first half of the year --which made the dollar value of debts contracted in other currencies drop significantly-- was offset by the later fall in the United States currency in the second half of the year. It would therefore appear that the fluctuations of the dollar in 1988 scarcely affected the final value of the region's debt.

In 1988, net lending by private banks --the main creditors of Latin America-- was practically non-existent. Only Brazil secured a new medium-term involuntary loan (US\$5.2 billion), and even then a large part of this was used to cover accumulated arrears of interest. For its part, Mexico received a net disbursement of US\$1 billion from a loan agreed with the banks in 1986. Colombia also received US\$1 billion, from a loan agreed in 1987, but the net disbursement was practically nil, since the funds were earmarked to pay debt amortization commitments with the banks corresponding to 1988. Venezuela had very limited recourse to the bonds market, where it was able to place only two relatively costly issues, of US\$100 million each, repayable in five years. Net disbursements to the region from multilateral financial organizations were also relatively low for the second consecutive year. Ultimately, one of the most important sources of the expansion of the debt was the involuntary loans which private and official creditors were forced to make because of delays in interest payments: at least 13 countries of the region contracted this type of commitment in 1988.

A noteworthy feature in 1988 was the activity carried out by the United States Treasury in organizing bridge loans for some of the main debtors in Latin America. Thus, the Treasury mobilized US\$550 million in February and US\$500 million in August for Argentina --sums which were reimbursed by this country during the course of the year with the resources from new credits

Table 16

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

	End-of-year balance in millions of dollars						Annual growth rates				
	1983	1984	1985	1986	1987	1988 ^b	1979- 1981	1982- 1983	1984- 1986	1987	1988 ^b
Latin America	352 183	369 848	376 667	389 336	410 505	401 360	23.3	11.0	3.4	5.4	-2.2
Oil-exporting countries	152 626	156 589	156 406	158 873	164 158	159 230	25.5	9.5	1.3	3.1	-3.0
Bolivia ^c	3 265	3 272	3 287	3 636	4 215	3 930	15.8	7.7	3.7	15.9	-6.8
Ecuador	6 908	7 198	7 772	8 624	9 900	10 500	25.5	8.5	7.7	14.8	6.1
Mexico	93 800	96 700	97 800	100 500	102 350	96 700	30.8	12.0	2.3	1.8	-5.5
Peru	12 445	13 338	13 721	14 477	15 441	16 200	1.0	14.0	5.2	6.7	4.9
Venezuela ^d	36 208	36 081	33 826	31 636	32 252	31 900	27.5	4.1	-4.4	1.9	-1.1
Non-oil-exporting countries	199 557	213 259	220 261	230 463	246 347	242 130	21.7	12.1	4.9	6.9	-1.7
Argentina	45 069	46 903	48 312	51 400	54 700	56 800	42.1	12.8	4.5	6.4	3.8
Brazil	98 175 ^e	105 275 ^e	106 731 ^e	111 045	121 264	114 600	14.4	10.8	4.2	9.2	-5.5
Colombia	11 458	12 350	14 063	14 987	15 651	15 900	28.0	16.1	9.3	4.4	1.6
Costa Rica	3 532	3 752	3 742	3 791	3 914	4 100	13.3	14.7	2.4	3.2	4.8
Chile	18 037	19 659	20 403	20 716	20 551	19 100	30.7	7.6	4.7	-0.8	-7.1
El Salvador	1 890	1 949	1 980	1 928	1 876	1 850	19.1	8.4	0.7	-2.7	-1.4
Guatemala	2 149	2 505	2 695	2 668	2 718	2 840	19.3	24.8	7.5	1.9	4.5
Haiti ^f	551	607	600	697	741	800	21.1	22.3	8.2	6.3	8.0
Honduras	2 162	2 392	2 794	3 018	3 101	3 230	17.8	17.0	11.8	2.8	4.2
Nicaragua ^f	3 788	4 362	4 936	5 760	6 270	6 700	27.4	21.5	15.0	8.9	6.9
Panama ^f	3 392	3 644	3 642	3 835	3 950	4 170	7.5	20.6	4.2	3.0	5.6
Paraguay	1 469	1 654	1 773	1 855	2 043	2 150	12.4	24.4	8.1	10.1	5.2
Dominican Republic	3 313	3 536	3 690	3 525	3 680	3 840	24.4	14.0	2.1	4.4	4.3
Uruguay	4 572	4 671	4 900	5 238	5 888	6 050	36.1	22.0	4.6	12.4	2.8

Source: ECLAC, on the basis of official data.

^aIncluding debts with IMF. ^bPreliminary figures.^cPublic debt.^dTotal debt according to information from official sources and international financial agencies. ^eTotal debt according to World Bank data.

granted by the World Bank and the IMF— and in October it was announced that a short-term bridge loan of US\$3.5 billion was being made available for Mexico.

As for debt reduction operations carried out in 1988 --which are described below in detail-- many countries of the region promoted programmes to convert their foreign debt into risk capital in local enterprises. During the year governments, public enterprises and, above all, private corporations actively negotiated agreements with their creditors for repurchasing the debt at a discount. On the other hand, Venezuela continued making modest payments of principal on its public debt.

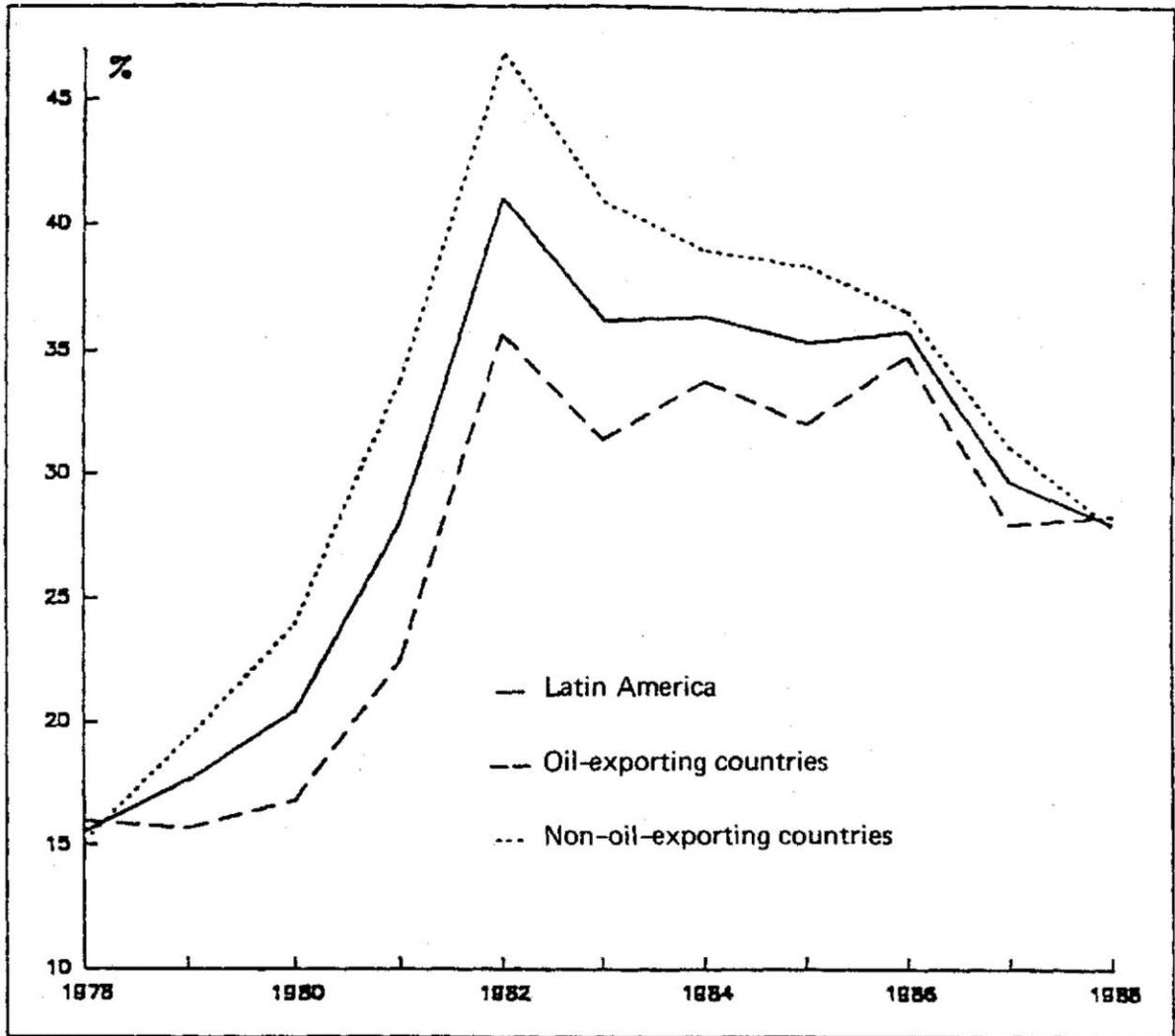
During 1988 the amount of the debt fell in absolute terms in six countries, compared with two in 1987. The greatest reductions were made in Chile and Bolivia, where the debt contracted by 7%, Brazil and Mexico, with drops of the order of 6%, and El Salvador and Venezuela, with lesser reductions. In Chile, the debt went down for the second consecutive year, while in Venezuela the reduction was the fourth in the last five years. In contrast, 1988 was the first year in the decade in which the debt was reduced in Bolivia, Brazil and Mexico. The greatest increases in foreign commitments were registered in Haiti, Nicaragua, Ecuador and Panama (over 6%), and in Peru, Costa Rica, Guatemala and Paraguay (around 5%). In all these countries delays in interest payments helped to raise the debt (see table 16).

Due to the reduction of the debt and the expansion of exports, the indicators of the foreign debt burden improved with respect to 1987. For the region as a whole, the regional coefficient between total interest due and exports of goods and services went down by two percentage points to 28%. Although this proportion is still high, it is the lowest registered since 1981 (see figure 12). Nevertheless, the improvement in this indicator was due exclusively to the better performance of the region's exports, since, as already noted, the increase in international interest rates in 1988 caused the net interest payments of the region to go up by US\$2 billion (see figure 12).

The drop in the interest/exports ratio was concentrated in the non-oil-exporting countries, since they were the ones which registered the greatest increase in exports (see table 17). The greatest drops in this coefficient occurred in Argentina (11 percentage points) and Bolivia (nine percentage points), although the coefficients of these two countries continued to be the highest of the region (40% and 35%, respectively). The reduction in Argentina was due exclusively to the better performance of exports, while Bolivia was one of the few countries which benefited both from lower interest payments and from greater export revenue. The only country where the interest/exports coefficient went up markedly in 1988 was Nicaragua, but since it actually pays only a small fraction of the total interest due, this rise does not necessarily reflect a corresponding increase in its debt burden. At all events, despite the reduction in the interest/exports coefficient, this continued to be high (over 20%) in most of the countries of the region in 1988.

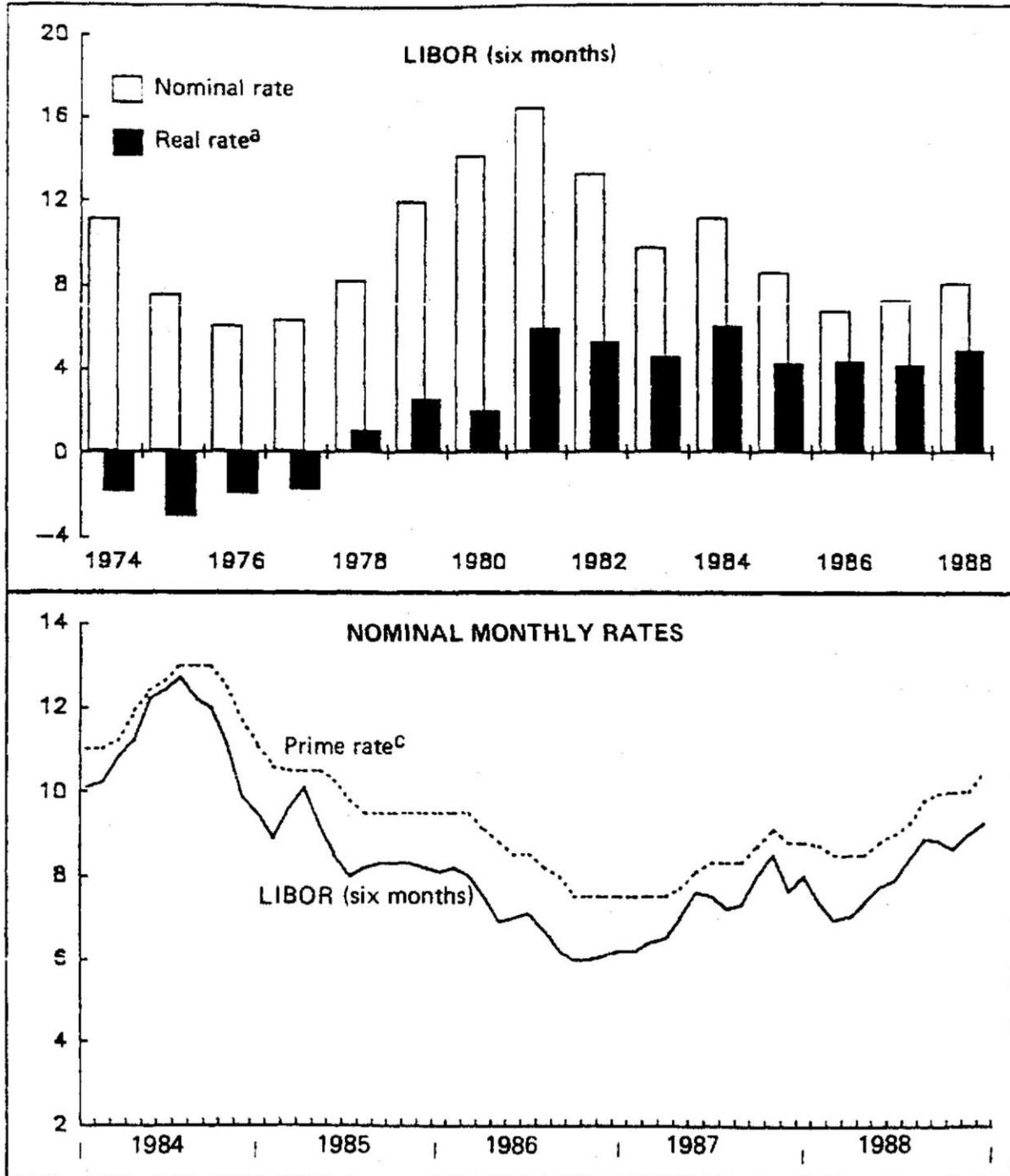
Since the debt went down and exports rose, the debt/exports coefficient decreased from 393% in 1987 to 339% in 1988. Nevertheless, this coefficient

Figure 11

LATIN AMERICA: INTEREST PAID, AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES

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

Figure 12
INTERNATIONAL INTEREST RATES
(Percentages)



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

^aNominal rate deflated by the consumer price index of the industrialized countries.

^bAverage January - November.

^cPreferential rate granted by United States banks to their best clients.

Table 17

**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL INTEREST
PAYMENTS TO EXPORTS OF GOODS AND SERVICES**

(Percentages)

	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^a
Latin America	20.4	28.0	41.0	36.2	36.4	35.4	35.8	29.7	28.2
Oil-exporting countries	16.8	22.5	35.6	31.4	33.8	32.1	34.8	28.0	29.0
Bolivia	25.0	34.6	43.4	39.8	49.8	46.8	42.1	43.9	34.8
Ecuador	18.3	22.8	30.3	27.4	30.7	25.5	30.0	32.8	33.3
Mexico	23.3	29.0	47.3	37.5	39.1	36.9	38.2	29.8	29.1
Peru	18.4	24.1	25.1	29.8	33.2	27.9	26.2	21.9	21.8
Venezuela	8.1	12.7	21.0	21.6	24.1	25.3	31.1	23.7	29.8
Non-oil-exporting countries	23.9	33.8	46.8	40.9	39.0	38.4	36.6	31.1	27.9
Argentina	22.0	35.5	53.6	58.4	57.6	51.1	50.9	51.0	40.4
Brazil	34.1	40.4	57.1	43.5	39.6	40.0	41.4	33.1	29.7
Colombia	11.8	21.9	25.9	26.7	22.8	28.9	20.5	20.7	20.8
Costa Rica	18.0	28.0	36.1	33.0	26.6	24.9	21.8	21.2	19.7
Chile	19.3	38.8	49.5	38.9	48.0	43.5	37.9	26.4	22.6
El Salvador	5.9	7.8	11.9	12.2	12.3	11.1	12.3	13.4	10.0
Guatemala	5.3	7.6	7.8	8.7	12.3	14.9	17.4	13.6	13.0
Haiti	2.1	2.7	2.4	2.4	5.2	5.4	5.2	6.3	6.9
Honduras	10.6	14.4	22.4	16.4	15.9	16.1	15.4	16.5	14.4
Nicaragua	24.3	37.4	41.8	44.8	56.1	72.0	83.6	81.8	103.0
Paraguay	13.4	14.8	13.5	14.3	10.1	8.3	18.5	9.8	11.6
Dominican Republic	19.9	19.1	22.7	24.5	18.1	18.7	18.9	14.7	13.2
Uruguay	11.0	12.9	22.4	24.8	34.8	34.2	24.7	24.7	23.4

Source: ECLAC, on the basis of official data.

^aPreliminary estimates.

continued to be much higher than before the crisis and also significantly surpasses the figure of 200% which some analysts consider to be a threshold for creditworthiness. The greatest reductions in this coefficient were registered in Argentina, Brazil, Bolivia and Chile. This was due to the fact that in all four countries export revenue increased, while in the last three the debt was reduced also.

At the end of 1988, the countries with the highest debt/exports coefficients were Nicaragua, Bolivia, Argentina, Peru, Ecuador, Uruguay and Mexico. The lowest coefficients, in contrast, were registered in El Salvador, Colombia, the Dominican Republic, Guatemala and Chile (see table 18).

Since the better export performance was not accompanied by a general expansion of economic activity in the region, however, the debt/gross domestic product coefficients only showed a slight decline from 56% in 1987 to 53% in 1988: almost the same as the average of 54% registered in 1982/1983. Among the main debtors, only Brazil (with 42%) had a coefficient below 50%, while most of the other major debtors had figures between 70% and 100%.

2. The debt renegotiation process

For the first time since the onset of debt servicing problems, mechanisms for reducing indebtedness became significant. They were partly encouraged by the sharp drop in prices of the Latin American debt on secondary markets (see table 19).

The only commercial reprogramming of the bank debt in 1988 occurred in Brazil, thus increasing to six the number of countries participating in the fourth round of these negotiations (see table 20). The agreement officially ended the moratorium imposed by the Brazilian government in February 1987 and also facilitated the payment of interest arrears accumulated since that date. The terms included the reprogramming of US\$62.2 billion due between 1987 and 1993 and the provision of US\$5.2 billion in new resources, and were in line with the general pattern established for Latin American debtors in 1987 in the fourth round of reprogramming. Thus, the spread over the London Inter-Bank Offer Rate (LIBOR) was 0.81%, the amortization periods were 20 and 12 years, respectively, for the reprogrammed capital and for the new loans, and no commissions were charged, except for the early participation fees of 0.38% for banks signing onto the new money package before 6 August 1988 and 0.13% for those joining in before 3 September 1988. In July, Brazil also reprogrammed US\$5 billion in the Paris Club, with a repayment schedule of 10 years and the proviso that payments of principal and interest would not begin until April 1990.

The most notable feature of the Brazilian reprogramming, however, was that for the first time general use was made of the debt reduction mechanisms contained in the Market Menu officially proposed by the creditors. Under the agreement, the banks were allowed to acquire exit bonds with a 25-year maturity and a fixed, below-market interest rate of 6% (LIBOR plus 0.81% was equivalent to 10% at the beginning of December 1988). These bonds are intended to offer those banks which wish to avoid future reschedulings and

Table 18

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

(Percentages)

	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^b
Latin America	212	247	331	354	333	354	424	393	339
Oil-exporting countries	187	220	279	304	288	306	412	361	343
Bolivia	262	348	317	380	400	457	545	706	595
Ecuador	162	202	231	261	249	236	333	404	388
Mexico	216	259	335	345	321	354	460	372	339
Peru	207	239	281	334	349	362	430	429	442
Venezuela	148	160	200	229	216	217	313	286	290
Non-oil-exporting countries	236	273	386	405	377	399	434	417	337
Argentina	275	329	475	485	488	481	610	673	541
Brazil	321	313	417	416	364	385	457	430	321
Colombia	128	199	232	303	239	314	233	227	218
Costa Rica	184	229	286	312	294	306	272	271	260
Chile	188	311	370	390	437	457	404	326	236
El Salvador	97	174	208	216	218	219	188	205	185
Guatemala	61	96	144	183	204	232	229	239	225
Haiti	87	155	152	191	190	178	239	239	276
Honduras	147	180	259	270	283	309	299	316	290
Nicaragua	369	464	702	804	1 013	1 405	1 958	1 894	2 068
Paraguay	152	171	195	317	214	163	234	158	324
Dominican Republic	171	183	260	267	258	279	249	237	220
Uruguay	141	183	276	324	362	391	349	379	354

Source: ECLAC, on the basis of official data.

^aCalculated on the basis of the external debt figures given in table 16 and exports of goods and services.

^bPreliminary estimates.

Table 19

**LATIN AMERICA AND THE CARIBBEAN: VALUES OF EXTERNAL DEBT
PROMISSORY NOTES ON THE SECONDARY MARKET**

(As a percentage of their nominal value)

	1985		1986		1987		1988			
	July	January	June	De- cem- ber	January	June	De- cem- ber	January	June	No- vem- ber
Argentina	60	62	63	62	62	58	35	36	27	20
Bolivia	...	...	7	...	...	11	...	...	11	11
Brazil	75	75	73	74	74	61	45	45	53	40
Costa Rica	...	...	...	40	...	...	...	...	11	12
Chile	65	65	64	65	65	68	60	56	59	55
Colombia	81	82	80	...	...	85	67	65	62	56
Ecuador	65	68	63	63	63	51	34	32	26	13
Honduras	...	...	...	...	...	...	...	...	...	23
Jamaica	...	...	...	...	...	...	...	...	...	38
Mexico	80	69	55	54	54	57	51	53	53	43
Nicaragua	...	...	...	...	...	...	...	...	2	5
Panama	...	...	...	...	...	...	...	...	24	18
Peru	45	25	17	16	16	14	7	6	6	5
Dominican Republic	...	...	...	...	...	...	...	...	20	21
Uruguay	...	...	64	...	...	...	...	...	60	59
Venezuela	81	80	75	72	72	71	49	55	56	40

Source: *International Financing Review*, various issues, and LIBRA Bank.

Table 20

**LATIN AMERICA AND THE CARIBBEAN: RESCHEDULING
OF EXTERNAL DEBT WITH PRIVATE BANKS^a**

(Millions of dollars)

	Third round 1984/1985			Fourth round 1986/1988		
	Maturities rescheduled ^b		New credits ^c	Maturities rescheduled ^b		New credits ^c
	Amount	Years		Amount	Years		Amount
Argentina	16 500	82-85	3 700	29 500	86-90	1 550
Brazil	16 300	85-86	-	62 100	87-93	5 200
Bolivia	...	...	...	-^d	-	-
Costa Rica	440	85-86	75	...	...	...
Cuba	82	85	-	...	...	...
Chile	5 700	85-87	714; 371 ^e	12 490	88-91	- ^f
Ecuador	4 800	85-89	-	...	...	...
Honduras	220	85-86	-	...	...	...
Mexico	48 700	85-90	-	43 700 ^g	85-90	6 000 ^h ; 1 700 ⁱ
Panama	603	85-86	60	...	...	...
Dominican Republic	790	82-85	-	...	...	...
Uruguay	1 700	85-89	45 ^j	1 780	86-91	-
Venezuela	21 200	83-88	-	26 450	86-88	-

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

^aFor each round the first column refers to the total amortization commitments rescheduled, the second to the maturity years 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. ^bIn some cases, these include maturities already rescheduled in previous rounds. ^cMedium- and long-term loans. ^dIn March 1988 Bolivia announced the repurchase of US\$334 million of bank debt at a discount of 89%. In addition US\$150 million of arrears of interest and penalties in respect of commitments which began to pile up in 1984 was condoned. ^eThe values correspond to 1985 and 1986, respectively. They include US\$150 million underwritten by the World Bank under a co-financing agreement. ^fThe retiming of interest payments to an annual basis was arranged as from 1 January 1988, the estimated saving from this modification for 1988 being estimated at US\$450 million. ^gPreliminary 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. ^hThe financial package includes US\$750 million underwritten by the World Bank through a co-financing agreement with the international banking system. ⁱStand-by credit provided by private banks. ^jVoluntary loan, but forming part of a co-financing plan with the World Bank.

requests for new money a chance to "exit" from the process now, but at the cost of accepting financial instruments with lower interest rates and longer maturities. Brazil offered to issue exit bonds for up to US\$15 million per bank and a global maximum of US\$5 billion. Somewhat more than 100 banks subscribed US\$1 billion in these instruments, thus making the Brazilian issue the first time in Latin America that exit bonds were successfully used.

Another innovation was to offer banks the opportunity of turning their credits into local investments. On the one hand, the banks could convert their exit bonds at par into Treasury promissory notes in cruzados, indexed, at the choice of the bank, according to domestic inflation or according to the dollar exchange rate. These notes have a 25-year term, and the interest on them is tax free. On the other hand, starting next year, the banks will have for 36 months the option of converting their involuntary loans into equity investments at par value, up to a limit of US\$50 million per month.

In February 1988 Brazil also initiated a new debt-equity conversion programme through monthly auctions of cruzados, limited to the equivalent of US\$150 million per month. Up to November, US\$1.7 billion had been converted in this way, at an average discount of 24%. Together with this, in 1988 there were a large number of cases of conversion of debt to capital outside this programme, through *ad hoc* repurchase agreements in which private and State firms bought the external debt at a discount and the creditor banks then sold the cruzados arising from these operations to foreign investors. Up to August, this type of conversion totalled US\$4 billion. Consequently, it is estimated that the gross total of debt reduction operations will reach almost US\$7 billion by the end of 1988.

In Mexico, too, attention was concentrated on reducing the debt. At the beginning of the year, the country offered the creditor commercial banks the possibility of converting up to US\$20 billion of the debt, at a discount, into dollar-denominated bonds with a single maturity of 20 years and an annual interest rate of 1.63% over LIBOR. To make this proposal more attractive, Mexico offered to guarantee the principal of the bonds through a zero-coupon United States Treasury bond for an amount equal to the nominal value of the Mexican instruments, to be acquired in a parallel operation by the government with its foreign reserves. In spite of the highly innovative nature of this plan for capturing a part of the existing discount on the Mexican debt, it was not well received in the market, for several reasons. On the one hand, there was no external guarantee for the interest payments, which represented about 80% of the discounted present value of the income stream on the bond. On the other hand, private markets are typically cautious with new, complex and unproved financing formulas such as this. The banks were also reserved in their attitude because in many of them the level of loan loss reserves was relatively low, and because the tax and accounting consequences of the transaction were complex. Nevertheless, by March Mexico received conversion bids from 139 banks (that is to say, a third of the total) for US\$6.7 billion of the debt. The government considered the discounts offered with respect to US\$3.7 billion of this acceptable and traded that debt into Mexican government bonds with a value of US\$2.6 billion, obtaining an average discount of something over 30% from the 95 banks which participated in the operation. The outlay of foreign reserves for acquiring the guarantee referred to came to US\$490 million, plus another

US\$100 million for acquiring guarantees for the bonds already issued and in circulation, which, under previous agreements, were to enjoy guarantees equal to those granted in respect of the new issue.

The main operation for reducing the Mexican debt, however, took the form of a large number of ad hoc buyback operations negotiated between the private sector and the banks. Conversion operations associated with the privatization of State enterprises were also of some importance. It is estimated that altogether these transactions eliminated about US\$5 billion of the foreign-currency debt during 1988.

Chile, a pioneer in foreign debt reduction schemes, continued to implement its two main conversion programmes: Chapter 18, which facilitates debt repurchase operations by Chilean citizens, and Chapter 19, for debt-equity swaps by foreign individuals or firms. In 1988, the conversion of the external debt into assets in pesos exceeded US\$2 billion, so that the total of the conversions carried out since the beginning of the programme in 1985 reached an estimated US\$5.6 billion.

Furthermore, in August Chile also negotiated an agreement with the creditor banks to use part of its dollar reserves for the direct repurchase of up to US\$500 million of Central Bank commitments traded at a discount on the secondary market. On the basis of this agreement, the government announced in November that it had taken steps to repurchase foreign debt with a value of US\$299 million for US\$168 million, representing a discount of 44%. Likewise, as part of the agreement signed with the banks in August, Chile managed to reduce the spread over LIBOR on the debt reprogrammed in 1987 from its original level of 1% to only 0.81%, equal to the rate charged to Argentina, Brazil and Mexico in the fourth reprogramming round (see table 21).

Argentina also had an active conversion programme, and officially registered debt-equity swaps and buybacks resulted in the reduction of the foreign-currency debt by US\$1 billion in 1988, at an average discount of 55%. In addition, it is estimated that other buyback operations carried out by the private sector will further increase the total amount of the debt converted this year.

One of the most encouraging operations of the year with respect to reducing the debt took place in Bolivia. Because of economic and political problems, this nation unilaterally suspended its debt service in mid-1984. After reprogramming in the Paris Club in 1986, Bolivia began to explore the possibility of repurchasing its bank debt, amounting to US\$670 million, which constituted about 15% of its total foreign debt. After prolonged negotiations, it was announced in March 1988 that the country would proceed to repurchase US\$334 million of its bank debt at 11 cents per dollar, with the participation of 60 of the 131 creditor banks. If the condonation of arrears of interest and fines of US\$150 million is taken into account, the effective purchase price was really around 7 cents per dollar. In this transaction, US\$234 million of debt was paid for in foreign exchange, while another US\$64 million was exchanged for 25-year peso-denominated zero-coupon bonds indexed to the United States dollar and guaranteed by the acquisition of a 25-year dollar bond delivered in trust. These bonds can also be redeemed

Table 21

**LATIN AMERICA AND THE CARIBBEAN: TERMS OF RESCHEDULING
OF EXTERNAL DEBT WITH PRIVATE BANKS^a**

	Third round 1984/1985			Fourth round 1986/1988		
	Spread over LIBOR (%)	Term (years)	Com- mission ^b	Spread over LIBOR (%)	Term (years)	Com- mission ^b
Argentina	1.44	11.5	0.15	0.81	17.6	^c
Brazil	1.13	12.0	-	0.81	19.3	^d
Costa Rica	1.66	9.4	1.00	...	...	...
Cuba	1.50	10.0	0.38	...	...	...
Chile	1.42	12.0	0.08	0.81	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	-	0.88	17.0	-
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.

^aEach 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 elements. ^bCalculated as a percentage of the total amount of the transaction and paid once only, on signing the credit contracts. ^cNo commission was charged on the rescheduled debt. In the case of the new loans, the banks were eligible for a 0.38% participation fee if the granting of loans was formally agreed before 17 June 1987. ^dNo commission was charged on the rescheduled debt. In the case of the new loans, the banks were eligible for a 0.38% participation fee of the granting of loans was formally agreed before 5 August 1988 or 0.13% if agreed before 3 September.

at a premium of 50% for conversion into local investments. The rest of the US\$16 million of debt reduction corresponds to the condonation by a Netherlands bank of the debts owed to it. The repurchase announcements were followed in November by another restructuring of the bilateral debt owed to governments, with a payment period of 11.5 years. The future of the US\$336 million of pending obligations with the commercial banks is yet to be determined.

The most noteworthy aspect of the Bolivian plan was the very active participation of creditor governments in the successful repurchase agreement: the IMF established a fund for anonymous donations to finance the operation and financial contributions were made to the fund by OECD countries. The Bolivian buyback scheme effectively demonstrated how comprehensive international public intervention in the market can effectively facilitate more orderly and macroeconomically significant debt relief for Latin American countries.

Another more informal and less publicized process for reducing the debt was very important in 1988: the accumulation of arrears with private creditors. This process not only reduces the immediate outlays on debt servicing but also helps to lower the price of debt commitments negotiated on secondary markets. In turn, the big discounts on the debt create strong pressure for eventual debt settlements at less than the face value of existing obligations. During the course of the year unsettled arrears of this type accumulated in Argentina, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Peru.

Finally, in 1988 the debtor countries experienced a substantial widening of their leeway for negotiating with their creditors. On the one hand, more banks tended to by-pass their Steering Committees and made their own repayment deals with problem debtors at values below par. On the other hand, the IMF and the World Bank showed a greater willingness to implement adjustment programmes even in cases where the debtor country could not reach agreement with its creditor banks on outstanding arrears. In 1988, this flexible and encouraging approach to the debt problem was seen in the cases of Argentina, Costa Rica and Honduras. Finally, the leeway for the debtors' negotiations with the World Bank and IMF also widened, since the first-named agency decided to negotiate adjustment programmes in Argentina and Mexico without demanding prior approval of an IMF standby agreement.

IV. THE CRISIS AND THE CURRENT SITUATION: SIGNIFICANCE AND IMPLICATIONS

The year 1988 marks the prolongation of what has very rightly been called the economic crisis of Latin America and the Caribbean in the 1980s. This crisis is made up of a lack of dynamism in economic activity, the persistence of macroeconomic imbalances, a drop in capital formation and the deterioration of average living standards, especially those of the most vulnerable strata of the population. The term "Latin American and Caribbean" has a double significance: first, it confirms that the vast majority of the countries of the region have been affected by the crisis, albeit in different ways and extents, and second, it indicates that Latin America and the Caribbean have been particularly hard hit by some of the adverse effects resulting from world economic trends in this decade, such as the drop in commodity prices, the increase in interest rates, the uncertainty naturally associated with fluctuating exchange rates, and the growing spread of protectionism. Furthermore, the fact that 1988 is the eighth consecutive year of unsatisfactory economic evolution confirms that in this decade the recessive and inflationary processes are coming to acquire a life of their own.

At the same time, however, 1988 differed from previous years in at least one important aspect: the rise in the international prices of many of the region's primary exports (with the important exception of petroleum). This contributed to the considerable increase in export values and the improvement in the terms of trade of the non-oil-exporting countries, as well as improving the goods trade balance in most of them. It might therefore have been thought, in view of historical patterns of economic performance, that the increase in the purchasing power of exports should have facilitated greater rates of economic expansion. In general, however, this did not happen.

This was due, in part, to the fact that the increase in export value was neutralized by a considerable increase in the outward transfer of resources caused by higher interest rates and, especially, the extremely limited access to new financing. This was true both of the region as a whole and of many of the individual countries. Consequently, Latin America and the Caribbean continued to make massive transfers of financial resources abroad. On the other hand, it was necessary to confront both structural and conjunctural domestic restrictions and, above all, the weight of the accumulated effects of the adjustment policies. Thus, in not a few countries --including the three biggest ones-- it was not so much the lack of foreign exchange which limited growth in 1988, but difficulties in coping with macroeconomic imbalances worsened by the crisis.

Over the course of the decade, in fact, the management of economic policy has become much more difficult. Public finances have been affected by downward trends in income and upward pressures on spending, especially those due to the growing debt service burden. Furthermore, the drop in real wages associated with the worsening of inflation not only aggravated the domestic recessive situation but also caused considerable social and political tension.

It has also been increasingly difficult to tackle long-standing structural obstacles to development such as antiquated educational systems, inefficient agrarian structures, the scanty application of technical progress to production, and out-of-date financial and tax systems, since the leeway for dealing with them has become increasingly restricted and conjunctural problems have demanded growing attention. At the same time, the social cost of the recession, as well as of inflation and the deterioration of public social services, have accentuated the acutely unequal distribution of income and wealth, long present in many Latin American societies.

The 1988 economic panorama shows new aspects of the complex interrelation between the external and domestic restrictions on reactivation and development. The demands of resource transfers, the problems of high and growing inflation, and the lags which have accumulated over the decade have all combined to hinder growth. This has happened because the bulk of the external debt corresponds to the public sector and hence the outward transfer of resources usually also requires a domestic transfer of resources from the private sector to the public sector. In view of the total disproportion between the size of the transfer required and current tax revenues, a significant part of this transfer has come from inflationary financing, and this has contributed, in turn, to a considerable acceleration in the rate of price increases throughout the region since the beginning of the debt crisis.

This phenomenon has especially affected the petroleum-exporting countries. While the other economies of the region have benefited from increases in export prices as well as from the reduction in the price of imported petroleum, the oil-exporting countries have been faced with the classic problem of the 1980s: how to cope simultaneously with restrictions on foreign demand, high debt servicing costs, and the lack of access to net external financing.

Even in the countries benefited by a recovery in their export prices, the greater availability of foreign exchange has not necessarily meant more fiscal revenue, since the tax systems have not been capable of syphoning-off a growing proportion of export earnings. Only in countries where the public sector owns the main export activities has there been a direct relationship between the capacity to make the necessary outward transfer of resources and the financial situation of the public sector. As an illustration, the recovery of the price of copper on international markets has contributed to direct and simultaneous improvements in the balance of payments and the fiscal accounts of Chile, where export-mining is in the hands of the State, and has thereby facilitated higher growth and lower inflation. In the case of other countries, in contrast, although the improvement in export prices has naturally strengthened the trade balance, the lack of mechanisms allowing the State to capture a substantial share of increased export earnings has

prevented the better external performance from being translated into an appreciable reduction in the public deficit. The situation has been even more difficult in those countries which have based higher national-currency costs for servicing their debt, as a result of increases in the exchange rate.

In short, the events of 1988 once again highlight the fact that overcoming the deep and prolonged recession confronted by the vast majority of countries in the region in this decade calls for three requisites: an increased capacity to import, improvements in economic management, and domestic structural changes for overcoming long-standing obstacles to faster growth and greater equity. In fact, an increase in export values is not necessarily translated, in the short term, into higher levels of imports and economic expansion. On the other hand, however, for the effective application of adjustment programmes and the transformation of productive structures it is undoubtedly essential to gain relief from the foreign exchange restrictions which have formed part of the economic panorama of the region in this decade.

Only by tackling these three aspects simultaneously will it be possible to avoid a repetition in the 1990s of the painful experiences of the present decade. The further aggravation of the macroeconomic imbalances in various countries in 1988 once again highlighted the importance of securing improvements in economic management. Although coherent policies in themselves do not assure sustained development, there can be no doubt that it is essential to avoid excessive macroeconomic imbalances whose social effects can prove to be very serious and whose subsequent correction tends to be extremely difficult.

Consequently, without underestimating the limits imposed on economic management by political reality, the Latin American and Caribbean countries should do everything that is in their power to further reforms, both in macroeconomic and social policy and at the sectoral level. After several years of deteriorating investment levels in the majority of the countries of the region, it will be necessary to make an enormous effort to increase capital formation in both physical plant and human resources. Among the priority objectives in the field of economic transformation and the search for greater equity, interregional co-operation must occupy a leading place.

The efforts of the countries must be matched by improvements in the external environment, both in trade and finance, however. It is here that the question of the co-responsibility of the countries which have most influence on the evolution of that environment arises. In this context, the external debt has acquired very high priority on the Latin American agenda: because of its effects on the external sector and public finances, the servicing of the debt has become a kind of Gordian knot, as much for the recovery of economic activity in the short term as for the financing of the changes needed to permit medium and long-term growth.

It is evident, however, that a lasting solution to the problem of the debt must not be considered as a cure-all, but rather as an element for facilitating —economically and politically— the adoption of the domestic measures needed for reactivation and development. In this respect, 1988 saw the emergence of some new initiatives for handling the debt problem.

Conceptually, there was a gradual convergence of points of view among the interested parties: the debtor countries, the commercial banks, the governments of the major industrialized countries, and the multilateral financial organizations. Today it is recognized, for example, that it is necessary to grow to be able to pay the debt; it is admitted that the debt is unpayable under the original terms; it is recognized that it is necessary to reduce the level of indebtedness, and there is an awareness that the persistence of this problem adversely affects not only the debtors but all the parties involved. However, no actions have yet been adopted which are consistent with these conceptual advances. Therefore, the debtor countries have been obliged to seek emergency solutions which merely put off the problem and --what is even more serious-- make it still more difficult to solve in the future.

For their part, the governments of the main highly indebted Latin American countries tried different ways of reducing the incidence of the debt and maintained ongoing consultations among themselves over the results. It was in this latter context that, in December, the Ministers of Finance of seven countries of the region met in Rio de Janeiro to examine the available options for alleviating the debt problem.

It is to be hoped that the set of initiatives announced in 1988 will converge and take concrete form in 1989 to provide solutions which surpass the framework of the present limited strategy and enable the costs to be shared more equitably among debtors and creditors. Although this is not the place to spell out in detail the Secretariat's point of view, it is clear that there are at least three changes which must be made if the conceptual progress achieved so far is to be translated into concrete actions.

In the first place, some degree of consensus is emerging with respect to the desirability of establishing some multilateral organization or mechanism to collaborate with the countries in their efforts to repurchase part of their old debt or convert it into new long-term securities. This initiative requires the endowment of this mechanism with resources or guarantees, which can only be done with the participation of the industrialized countries. Some governments of those countries have made concrete proposals in this respect. Others, however, do not appear disposed to play their part in this type of arrangement. This is unfortunate, since the problem of the external debt is of a systemic nature and its solution would suit all the parties involved. This fact more than justifies not only the participation of the governments of creditor countries in solving the problem, but also even some transfer of the risk from private entities to the public sector, in the interests of promoting the dynamic and orderly expansion of the world economy. The Bolivian government's repurchase of a proportion of its foreign debt, although based on bilateral arrangements, is an interesting example of the support given by some governments of developed countries in order to ease the situation of one of the most highly indebted countries of the region.

Secondly, creditors have insisted that any proposal to resolve the debt problem should be kept within the rules of the market and should be voluntary. In general, the Latin American and Caribbean countries have accepted this approach, since they wish eventually to return to the voluntary capital markets. At the same time, however, this principle should be kept

within certain limits: at the very least it should be accepted that maximum interest rates may be fixed on the accumulated debt, perhaps through the formula that the differential between the market interest rate and the maximum rate thus set should automatically be capitalized. For if this debt must be serviced on the basis of variable rates, not only are the debtors subjected to additional burdens in periods of high interest rates such as the present (and, predictably, in coming months), but an element of uncertainty is also introduced into their financial programming, which naturally has extremely harmful effects.

Finally, it is obvious that a greater flow of new financing is required from the multilateral organizations, above all during the period --probably prolonged-- when the countries of the region will have difficulties in acquiring voluntary private financing. This means that the industrialized countries should increase their contributions for replenishing the capital of the Inter-American Development Bank, the World Bank, and the International Monetary Fund.

