

**american
economy
in 1966**

**excerpt from
ECLA survey**



UNITED NATIONS

ECONOMIC COMMISSION FOR LATIN AMERICA

**the latin american
economy
in 1966**

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Introduction

In 1966 the Latin American economy again showed signs of sluggishness, although it appeared to be gathering some momentum in the last two years. The Survey accordingly begins by recapitulating the structural limitations that continue to prevent the region from developing, and reviewing significant advances (Part One, chapter I).

Although structural factors -both internal and external- exert the greatest influence on the Latin American economy, there are important short-term factors that should not be underestimated. Their influence can be appreciated by comparing the 1966 figures with those for the previous year. The progress made in framing development policy and mobilizing internal and external resources is changing some of the ways in which the Latin American economies operate. The experience thus accumulated should be periodically evaluated. This is the main theme of chapter II, which also provides data on recent world economic trends with the twofold purpose of showing how the Latin American economies react to external stimuli or obstacles and how the economy of the region compares with that of other regions.

The external sector has always exerted a preponderant influence on the evolution of the Latin American economies. Although it is still essentially inflexible and lacking in dynamism, the external sector's recent evolution indicates the existence of new factors which cannot be ignored. In 1965 and 1966 the gross export earnings of many of the Latin American countries rose to exceptionally high levels in comparison with the 1960 figures, but their imports did not always follow suit in absolute terms because of the growing burden of servicing the accumulated external debt. On the other hand, several countries have good opportunities for expanding and diversifying their exports within the framework of regional economic integration. Lastly, world market conditions for Latin

America's major export products have shown few signs of changing on the lines laid down at the first United Nations Conference on Trade and Development, while circumstantial factors have had conflicting influences on the volume and price of many of these items of trade. Chapter III is devoted to an analysis of the recent behaviour of these variables.

Because of the special features of recent trends in Argentina and Brazil and the weight they carry in the total figures for the region, these aggregate figures are of little significance for the interpretation of developments in many other countries of the region. They have the effect of obscuring other trends which indicate a very different tempo and pattern of development. Consequently, Part Two of the Survey is again devoted to analyses of recent economic changes in most of the Latin American countries.

The magnitude of the efforts being made to increase and diversify production capacity, which will determine the rate of development in the next few years, often cannot be grasped simply by singling out and analysing overall trends. The Survey has therefore included a description of some of the most important investment projects, present and future, for expanding mining and industrial production and electric power and for developing and integrating basic national and regional transport, indicating the level of activity in each economic sector over the last few years (Part Three).

There is full justification for the growing concern displayed on account of the backwardness of agriculture in the region. Since the volume of agricultural output is barely sufficient to keep pace with population growth, there are few prospects of increasing the food supply and the widening gap often has to be filled by imports. A special analysis of the agricultural sector has therefore been included as Part Four of the Economic Survey.

Recent Economic Trends

Major developments in 1966

According to provisional data, Latin America's overall gross product increased by 3 per cent in 1966, which was barely sufficient to keep pace with population growth and lower than the growth rate for the previous two-year period.

This new recession was due both to structural factors which continue to plague Latin America's development and to circumstantial factors. The basic features of the region's economic development may be summarized as follows:

(a) The decline in the growth rate of the gross product accentuated the irregularity and sluggishness of economic development in the region as a whole and was brought about by different circumstances in each country.

(b) Latin America failed to benefit sufficiently from the expansion of world economic activities and trade in 1966.

(c) Nevertheless, its exports increased fairly rapidly and imports even faster, thereby reversing previous trends.

(d) The pattern of Latin America's transaction changed substantially. They showed an increase

in the flow of net external financing and a sharp rise in external factor payments.

(e) Regional economic integration schemes continued to create opportunities for increasing and diversifying reciprocal trade, though at a slower rate than in previous years.

(f) In a number of countries where the main object of economic policy was to curb inflationary pressures, Governments had varying degrees of success in attaining their goals.

(g) The decline in capital formation was arrested, and although there was little change in the distribution of resources between consumption and investment, fixed investment climbed to higher levels.

(h) Manufacturing made greater headway, more than doubling the growth rate of its aggregate product.

(i) Absorption of the labour force and the direct and indirect effect of rural-urban population shifts continued to create acute problems.

LATIN AMERICA a/: EVOLUTION OF PRODUCT AND INCOME, 1960-66
(Annual growth rates)

	1960-66	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 <u>b/</u>
<u>Gross domestic product</u>							
Total	4.3	5.2	3.8	2.3	6.2	5.1	3.0
Per capita	1.3	2.2	0.8	-0.7	3.2	2.1	-
<u>Real income</u>							
Total	4.2	5.2	3.2	2.6	6.5	4.7	3.2
Per capita	1.2	2.2	0.2	-0.4	3.5	1.7	0.2

Source: ECLA, on the basis of official statistics.

a/ Excluding Cuba.

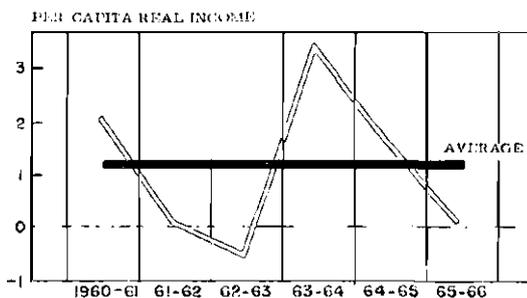
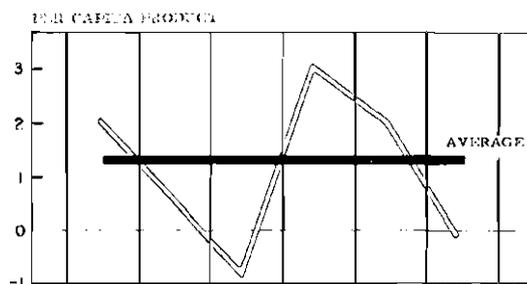
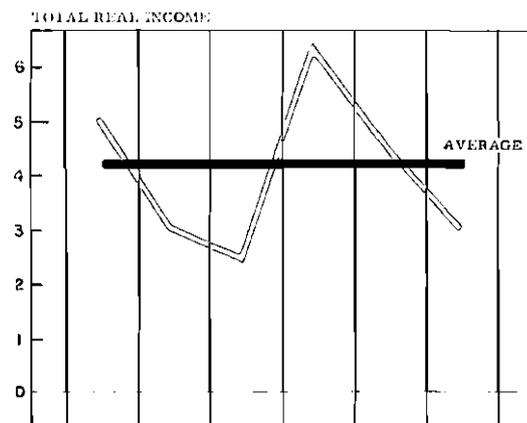
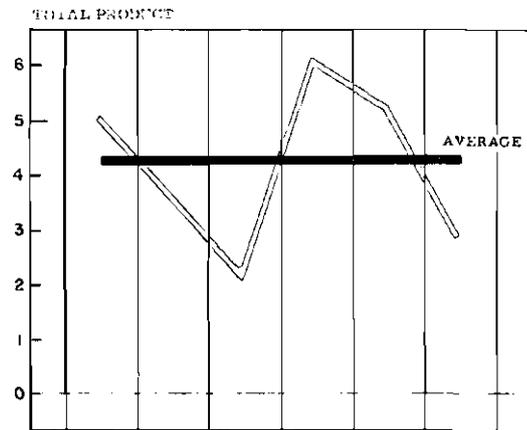
b/ Provisional estimates.

The rate of growth

LATIN AMERICA : GROWTH RATE OF PRODUCT AND INCOME

(Annual rates)

Natural scale



— Average rate for the period 1960-66

In 1966 the Latin America economy again developed at the slow and irregular pace it has shown for years. The per capita gross product for the region as a whole was almost stationary after two years of satisfactory growth and recovery from two years of recession.

Thus far in the present decade only four countries -El Salvador, Guatemala, Nicaragua and Panama- have attained or exceeded an average annual rate of increase of 3 per cent in the per capita gross product.

Three other countries -Bolivia, Mexico and Peru- have come close to attaining it, while in the Dominican Republic, Haiti and Uruguay the per capita product now is lower in absolute terms than in 1960. Brazil, Ecuador and Paragay achieved an average annual rate of less than 1 per cent, and Argentina, Chile, Colombia, Costa Rica, Honduras and Venezuela - to 2 per cent

The 1966 expansion gives a very different impression when analysed on a country-by-country basis. In the first place, the decline in the region's growth rate is largely a reflection of the serious falling-off in that of Argentina and Brazil. The Argentine domestic product decline in absolute terms after the rapid growth in 1965 while Brazil's growth rate dropped again to a level below that of the growth of population. But there were adverse changes in other countries as well: the per capita product of El Salvador, Mexico and Paragay also declined, and in Guatemala, Honduras, Nicaragua, Peru and Venezuela, although the product increased, its 1965 growth rate was not maintained. Bolivia, Chile, Colombia, Costa Rica, El Salvador, Mexico, Panama and Uruguay developed more rapidly than in 1965 and the Dominican Republic made a partial recovery after the previous year's severe recession.

The differences in the growth of the individual economies become even more striking when real income in 1966 is compared with that of the previous year in view of the divergent trends of export prices for primary commodities. The effects of the terms of trade were particularly favourable for Chile and Peru, whose real income rose by over 8 per cent in 1966. Mexico and Uruguay showed gains, though on a far lesser scale, and no appreciable change took place in Colombia, Ecuador and Venezuela. However in all other countries real income lagged behind the domestic product.

Latin America and the world economy

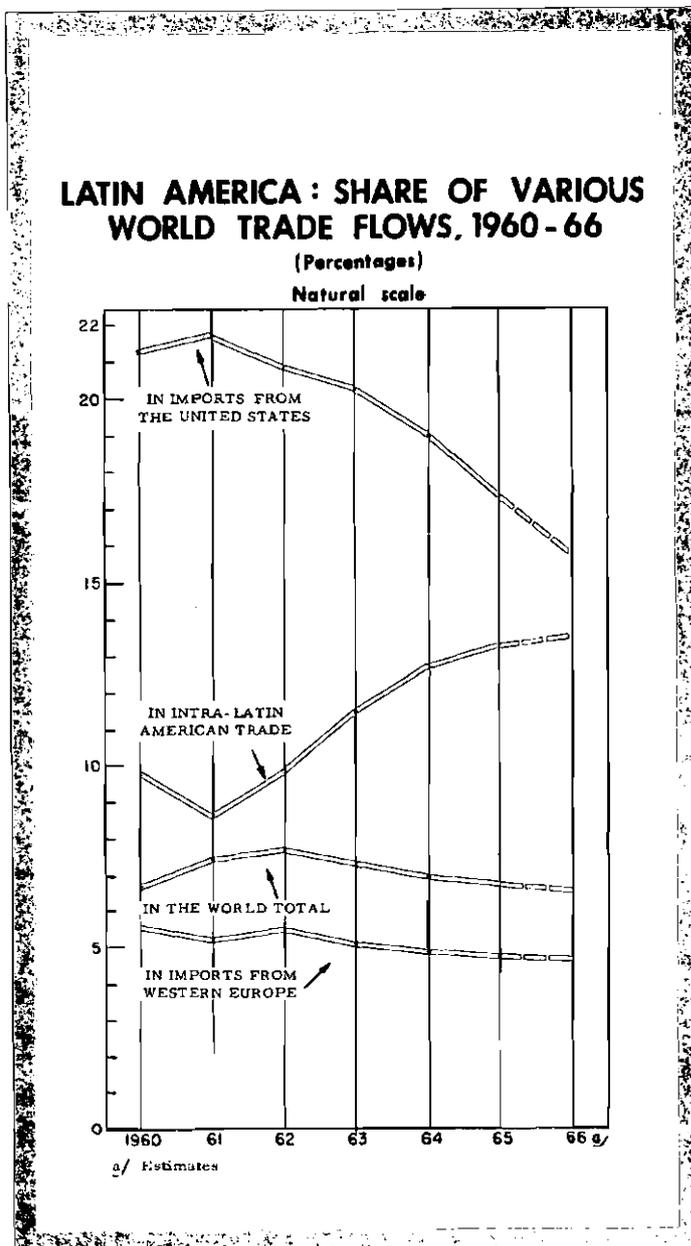
Latin America's slow rate of growth in 1966 is in sharp contrast with the general expansion of the world economy. Similarly, Latin America's foreign trade -although generally encouraging- expanded at a much slower rate than international trade as a whole.

In 1966 the world economy recovered after the 1965 decline which had depressed the growth rate to a level well below the 1964 high. Industrial production -excluding that of the centrally planned economies- levelled off in the second and third quarter of 1965, rose again in the last quarter of that year and continued to gain momentum in the first half of 1966, and provisional estimates indicate that it came close to matching the rapid growth of 1964.

The continued growth of the United States economy was still the salient feature in the world picture: it was stimulated by increases in private consumption, private investment (excluding residential building) and government spending, particularly for military purposes. However, the expansion of international trade was even more significant. In the first nine months of 1966 exports of goods in the United States increased by 13 per cent in comparison with the same period in 1965, and imports by 23 per cent. Exports and imports were up more than 10 per cent in the European Economic Community as a whole, 8 and 6 per cent, respectively, in the European Free Trade Association, between 12 and 13 per cent in Japan and about 20 per cent in Canada.

But once again Latin America remained on the fringe of this expansion of world trade. For the period January-September 1966 Latin America's share of imports in almost all its traditional markets declined, compared with the same period in 1965. The sharpest decline was in the United States market, continuing the downward trend that started in 1961, when Latin America accounted for approximately 22 per cent

of imports, whereas it absorbed less than 16 per cent in the first nine months of 1966.



Export and import trends

Despite this sluggishness in Latin American foreign trade, there were significant increases in external transactions in absolute terms.

In 1966 exports of goods and tourism showed a moderate increase of about 4 per cent in volume, while their current value increased more sharply and amounted to a total of 12 000 million dollars. The current value of imports of goods and services

was almost 10 800 million dollars, or 9 per cent more than in 1965.

In a broader context, these recent developments confirm the trends followed by Latin American foreign trade thus far in the present decade. The growth of exports has been extremely unstable, with the increase in physical volume ranging from a high of 9.2 per cent in

LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY COUNTRY, 1960-66
(Annual growth rates)

	Total gross product			Per capita gross product		
	1960-66	1964-65	1965-66a/	1960-66	1964-65	1965-66a/
Argentina	2.6	7.8	-1.2	1.1	6.3	-2.7
Bolivia	5.2	5.6	6.0	2.9	3.3	3.7
Brazil	3.8	3.8	1.9	0.7	0.7	-1.2
Chile	4.0	4.1	5.5	1.6	1.7	3.1
Colombia	4.5	3.2	4.5	1.3	-	1.3
Costa Rica	5.2	6.4	6.9	1.2	2.4	2.9
Dominican Republic	2.3	-12.0	7.1	-1.3	-15.6	3.5
Ecuador	4.0	3.3	3.3	0.6	-0.1	-0.1
El Salvador	6.4	4.7	5.5	3.2	1.5	2.3
Guatemala	6.3	7.3	5.9	3.2	4.2	2.8
Haiti	-0.9	-5.3	-2.6	-2.9	-7.3	-4.6
Honduras	4.8	7.3	3.3	1.5	4.0	-
Mexico	6.3	5.4	6.7	2.9	2.0	3.2
Nicaragua	7.8	9.6	3.6	4.5	6.3	0.3
Panama	8.1	8.1	8.8	4.8	4.8	5.3
Paraguay	3.5	5.9	1.9	0.5	2.9	-1.1
Peru	5.8	6.3	6.0	2.7	3.2	2.9
Uruguay	1.2	1.0	2.6	-0.1	-0.3	1.3
Venezuela	5.2	6.2	4.0	1.7	2.7	0.5
Total Latin America (excluding Cuba)	4.3	5.1	3.0	1.3	2.1	-

Source: ECLA, on the basis of official statistics.

a/ Provisional estimates.

LATIN AMERICA: EXPORT AND IMPORT TRENDS, 1960-66
(Millions of dollars)

	1960	1961	1962	1963	1964	1965	1966 a/
<u>Exports of goods and tourism</u>							
At current prices	8 663.2	8 927.3	9 386.8	9 881.1	10 663.2	11 226.6	11 955.5
At 1960 prices	8 663.2	8 946.9	9 740.2	10 066.1	10 331.1	10 987.4	11 378.0
<u>Imports of goods and services (net)</u>							
At current prices	8 603.7	8 834.1	9 134.0	8 799.3	9 671.6	9 854.8	10 760.0
At 1960 prices	8 603.7	8 875.6	9 021.7	8 799.9	9 491.1	9 488.0	10 195.4

Source: ECLA, on the basis of IMF data, Balance of Payments Yearbook.

a/ Estimates.

1962 to a low of 2.2 per cent in 1964. Imports have also followed an irregular course and have not expanded as vigorously as exports. In 1964 they barely climbed back to their 1957 level of about 9 300 million dollars, and since 1962 they have dropped further and further below the value of exports.

These overall regional trends vary greatly from country to country. The exclusion of Venezuela, which has a preponderant influence on the overall regional figures and whose exports have been dwindling since 1961, places the figures for the rest of the region in a much more favourable light, although they reveal special conditions in each country. For example, between 1960 and 1966, in seven countries - Bolivia, Chile, Guatemala, Honduras, Nicaragua, Panama and Peru - per capita exports increased in terms of dollars at current prices by 50 per cent or more; in the Dominican Republic and Haiti they declined substantially and in Brazil and Colombia they remained virtually stationary; in Argentina, Costa Rica, Ecuador, El Salvador,

Mexico, Paraguay and Uruguay they increased at varying rates, but by less than 50 per cent.

For Latin America as a whole (excluding Cuba) per capita exports increased from 48 dollars in 1960 to 55 dollars in 1966; excluding both Cuba and Venezuela, the increase was from 36 to 45 dollars. These figures might give the impression that, although Latin America's relative share of world trade was smaller, its external transactions have favoured a more rapid economic development. But that conclusion is no longer valid in the light of earlier trade figures and recent import trends. For example, in 1966 total exports were below their 1947-48 level in Argentina, scarcely up to their 1961 level in Bolivia and Brazil, and well below their 1954, 1953 and 1957 levels in Colombia, Uruguay and Venezuela, respectively. The per capita value of imports, despite the increase in export earnings, showed little change between 1960 and 1966 (47 dollars) and the import coefficient continued to decline until in 1965-66 it was as low as 10 per cent.

Other external factors

The difference between export and import trends was the effect of a number of factors.

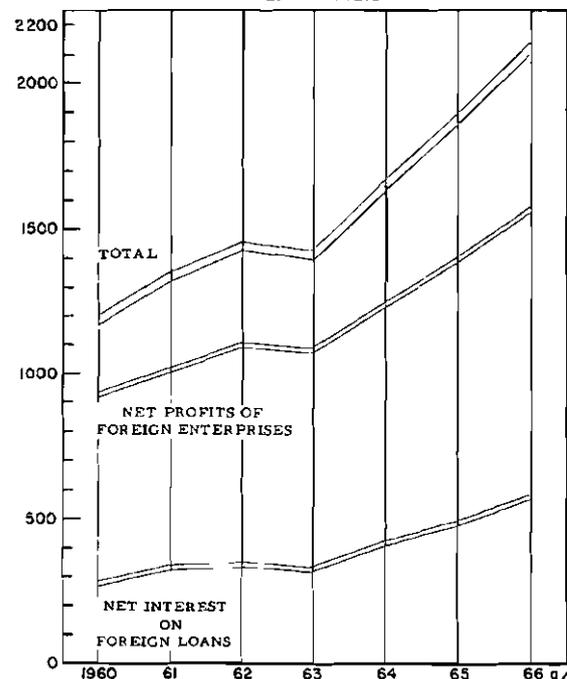
Firstly, external factor payments rose sharply as a result of the greater inflow of foreign capital. The profits of foreign enterprises, which were a little over 900 million dollars in 1960, amounted to almost 1 600 million in 1966, and interest payments on external loans rose from 280 to 570 million dollars during the same period. At the same time, the region's external public debt alone increased from 6 100 to over 12 000 million dollars, which suggests that the burden of debt servicing will be even heavier in the near future. This problem is so serious in certain countries that it has led to renegotiation of the debt to alleviate the immediate effects on the balance of payments.

The need to build up a reasonable level of international reserves has also reduced the effect of increased exports on the actual capacity to import. The net gold and foreign exchange holdings in 1960 for the region as a whole were 3 000 million dollars, but a sharp decline in the following two years reduced them to 2 200 million in 1962. They were subsequently brought up to 3 200 million dollars in 1965. In other words, in the course of those three years 1 000 million dollars had to be used to build up the reserves. Moreover, during the same period the nonetary authorities' liabilities, including balance-of-payments loans, were reduced by

LATIN AMERICA : NET FACTOR PAYMENTS FROM REST OF WORLD, 1960 - 66

(Millions of dollars at current prices)

Natural scale



/ Estimates

LATIN AMERICA: CONSUMPTION AND INVESTMENT TRENDS, 1960-66

(Millions of dollars at 1960 prices)

	Consumption			Gross domestic investment			
	Total	General government	Private	Total	Fixed		
					Total	Public	Private
1960	63 913	8 303	55 610	14 079	13 487	4 696	8 791
1961	67 020	8 756	58 264	15 027	14 326	4 880	9 446
1962	69 093	9 171	59 922	15 429	14 700	4 897	9 803
1963	71 437	9 620	61 817	14 467	13 984	4 887	9 097
1964	75 263	9 651	65 612	16 455	15 190	5 504	9 686
1965	78 368	9 833	68 535	17 381	15 609	5 669	9 940
1966 a/	81 135	10 102	71 033	17 853	16 695	5 996	10 699

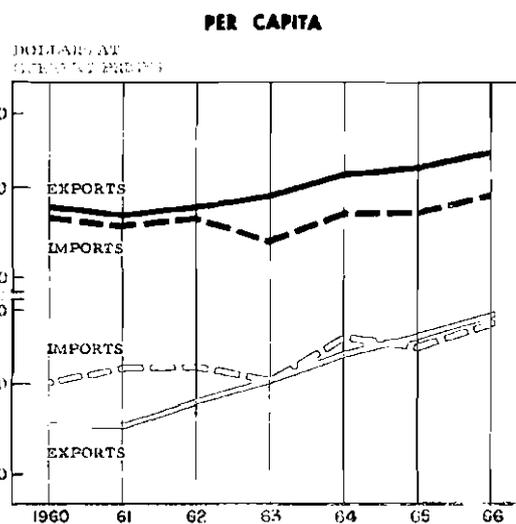
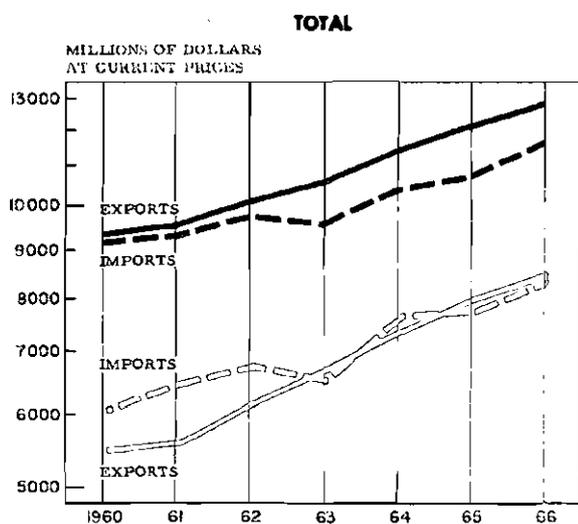
Source: ECLA, on the basis of official statistics.

a/ Provisional estimates.

LATIN AMERICA: EXPORT AND IMPORT TRENDS, 1960 - 66

Semi-logarithmic scale

— LATIN AM. REG. EXCLUDING CUBA
 - - - LATIN AM. REG. INCLUDING CUBA, GUYANA AND VENEZUELA



500 million dollars. Thus, a total of 1 500 million dollars was subtracted from the purchasing power of exports between 1962 and 1965.

Movements in the terms of trade had similar effects. Although they have not been particularly unfavourable thus far in the present decade, in

relation to 1960 they represented a loss of about 1 000 million dollars for Latin America as a whole between 1961 and 1966. Adverse terms of trade had a particularly strong impact in certain countries, such as Venezuela and Brazil, where they represented losses of 1 800 and 500 million dollars, respectively, in the same period.

LATIN AMERICA a/: CONTRIBUTION TO TOTAL SUPPLY OF VARIOUS REGIONS AND COUNTRIES, 1960-66
(Percentages)

	1960	1961	1962	1963	1964	1965	January-September	
							1965	1966
World total	6.6	7.4	7.6	7.3	6.9	6.7	6.9	6.6
United States <u>b/</u>	21.3	21.7	20.8	20.3	19.0	17.3	17.1	15.8
Canada <u>b/</u>	5.4	5.6	5.5	5.7	5.6	4.7	5.2	4.1
Japan	6.4	7.8	7.7	7.9	7.6	8.1	8.1	7.7
Western Europe	5.5	5.1	5.4	5.0	4.8	4.7	5.0	4.8
European Economic Community (EEC) <u>c/</u>	6.0	5.6	5.9	5.4	5.3	5.2	5.8	5.5
European Free-Trade Association (EFTA) <u>d/</u>	5.4	4.9	5.1	4.7	4.4	4.2	4.3	4.2
Other Western European countries	2.7	3.4	3.6	4.2	3.7	4.1	4.2	4.5
Latin America	9.8	8.6	9.7	11.5	12.6	13.3	10.8 <u>e/</u>	11.5 <u>e/</u>
Rest of world	3.0	4.8	4.6	4.3	3.9	3.6	...	...

Source: International Monetary Fund (IMF), Direction of Trade Annual, 1960-65.

a/ Excluding Cuba.

b/ Based on f.o.b. figures.

c/ Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

d/ Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

e/ January-June.

Inter-Latin American trade

Bolstered by the movement towards regional economic integration, inter-Latin American trade has compensated to some extent in the last few years for the limitations of the region's trade with other areas. It showed particular dynamism between 1961 and 1964 when it jumped from less than 700 million to nearly 1 000 million dollars in terms of c.i.f. import values, but it fell off slightly in the two years which followed.

In 1961-65 total intra-regional trade increased at the cumulative average rate of 14.3 per cent yearly, which represented 12.7 per cent for the members of the Latin American Free-Trade Association (ALALC) and 30 per cent for the

Central American Common Market countries. In 1966, on the other hand, the expansion was more moderate -by only 2.4 per cent in c.i.f. terms. The ALALC countries made virtually no headway because of the reduction in imports in Argentina and Brazil, which was barely offset by the increase in purchases in other countries, particularly Mexico and Peru, and Central American trade rose by less than 15 per cent.

Meanwhile the countries continued their efforts to establish an institutional framework for strengthening and improving the regional economic integration process. ALALC was broadened geographically to cover Venezuela, and Bolivia

announced its intention of joining the Association. As regards infrastructure, nine members (not including Venezuela) signed the water transport agreement, specifying the conditions for freight transport by sea, river and lake, and a system of multilateral compensation of balances and swing credits between the Central Banks was introduced.

During the session of the Council of Ministers held from 7 to 12 December 1966, important resolutions were adopted -subject to ratification- concerning the powers of the ALALC Council of Ministers for Foreign Affairs as principal organ of the Association, freedom for nationals of member countries to visit those countries without visa or special permit, provisional procedures for the settlement of disputes and a draft protocol, a system of phased tariff reduction and the establishment of consultative machinery for co-ordinating national trade and financial policies.

During the sixth regular session of the Conference, tariff negotiations were held with respect to 592 products. Of these, 370 had not been previously included on national schedules. 138 concerned the extension of reductions already agreed upon, and 84 restored the margin of preference that had been changed by Brazil's revision of its customs tariff.

The five-year transition to a fully operative free trade area provided by the General Treaty of Central American Economic Integration ended in June 1966. Free trade was established for 94 per cent of the headings in the Central American Standard Customs Nomenclature (NAUCA). The remaining 6 per cent (82 headings) comprises the main export items and other products which will be liberalized upon conclusion of regulatory agreements among the five Common Market members. The common external tariff covers

LATIN AMERICA: RECENT TRENDS IN INTER-LATIN AMERICAN TRADE, 1960-66
(Millions of dollars and percentages)

	1960	1961	1962	1963	1964	1965	1966 a/
	<u>Exports</u>						
Latin American Free-Trade Association	397.0	357.8	416.2	491.3	641.9	722.6	776.1 b/
(percentage)	(58.0)	(60.8)	(63.2)	(66.1)	(67.0)	(70.9)	(71.0)
Central America (excluding Panama)	40.4	44.0	45.6	71.5	107.6	121.5	139.0
(percentage)	(5.9)	(7.5)	(6.9)	(9.6)	(11.2)	(11.9)	(12.7)
Venezuela	231.8	167.4	185.4	166.9	200.8	149.2	151.0
(percentage)	(33.9)	(28.4)	(28.1)	(22.4)	(20.9)	(14.7)	(13.8)
Other Latin American countries	14.8	19.3	11.9	14.0	8.4	25.4	27.2
(percentage)	(2.2)	(3.3)	(1.8)	(1.9)	(0.9)	(2.5)	(2.5)
Total inter-Latin American trade	684.0	588.5	659.1	743.7	958.7	1 018.7	1 093.3
(percentage)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
	<u>Imports</u>						
Latin American Free-Trade Association	661.0	585.8	642.8	726.5	821.1	947.2	943.5 b/
(percentage)	(86.4)	(84.6)	(80.7)	(78.6)	(76.2)	(80.0)	(77.9)
Central America (excluding Panama)	55.6	57.6	72.9	105.1	154.6	164.2	187.0
(percentage)	(7.2)	(8.3)	(9.1)	(11.4)	(14.3)	(13.9)	(15.4)
Venezuela	26.6	23.5	29.2	29.2	30.4	34.4	41.0
(percentage)	(3.5)	(3.4)	(3.7)	(3.1)	(2.8)	(2.9)	(3.4)
Other Latin American countries	22.0	25.9	51.8	64.0	71.7	37.4	40.4
(percentage)	(2.9)	(3.7)	(6.5)	(6.9)	(6.7)	(3.2)	(3.3)
Total inter-Latin American trade	765.2	692.8	796.7	924.8	1 077.8	1 183.2	1 211.9
(percentage)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: International Monetary Fund, Direction of Trade Annual, 1965.

a/ Estimates on the basis of data supplied by ALALC.

b/ Excluding Ecuador.

98 per cent of the NAUCA sub-items. The equalization of customs duties on the remaining items, mainly petroleum products, motor vehicles and electrical appliances, is contingent upon regional agreements standardizing internal consumption taxes, free trade and the integrated development of the assembly industries. In 1966 the Central American Bank for Economic Integration granted credits amounting to 44.1

million dollars, thus bringing the total sum of its loans to nearly 89 million dollars. The Central American Electrification Sub-Committee at its third session in September 1966 approved a programme for evaluating the water resources of the area and standardizing regional electricity rates, and also improved programmes for interconnecting power networks and promoting telecommunications.

Other characteristics of recent economic growth

The containment of internal inflationary pressures continues to be one of the main objectives of economic policy in a number of Latin American countries in 1966. As in the past, domestic prices rose most sharply in Argentina, at the same rate as in 1965. Brazil managed to bring its rate of inflation down to well below the 1964 level of 80 per cent, although the figure was not much better than in 1965 (about 40 per cent). In Uruguay, the rate of inflation continues to hover around 50 per cent although it is lower than in 1965. In both Colombia and Chile, prices rose about 20 per cent but this did not have the same significance in both countries. In Colombia the price rise reflected an intensification of the pressures which had been easing off in 1964 and 1965, while in Chile it meant an even greater

departure from the peak levels reached in 1963-64. Prices in Bolivia and Peru climbed by approximately 5 and 10 per cent. For Bolivia their level was higher than in 1965, but for Peru it was lower. In Ecuador the rate was 6 per cent and in Mexico 3 to 4 per cent, although the wholesale price index in Mexico rose by only 1 per cent.

Other internal developments in 1966 include a recovery in fixed investment which is not reflected in the aggregate figures because of the substantial reduction in carry-over stocks, particularly of some agricultural exports. Private investment expanded by 7.6 per cent compared with only 2.6 per cent in 1965, whereas public investment rose by 5.8 per cent as against 3 per cent in 1965. Since both investment components increased less

LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY SECTOR, a/ 1960, 1965 AND 1966
(Percentages)

	1960	1965	1966
1. Agriculture, forestry and fisheries	21.8	21.5	20.8
2. Mining and quarrying	5.1	5.0	4.9
3. Manufacturing	21.3	22.3	23.0
4. Construction	3.3	3.0	3.2
5. Electricity, gas and water	1.4	1.7	1.8
6. Transport and communications	6.5	6.5	6.5
<u>Sub-total: essential goods and services</u>	<u>59.4</u>	<u>60.0</u>	<u>60.2</u>
7. Trade and finance	18.2	18.5	18.5
8. Public administration and defence	7.3	6.8	6.8
9. Other services	15.1	14.7	14.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: ECLA, on the basis of official statistics.

a/ Calculated on the basis of the gross domestic product at factor cost and expressed in constant 1960 prices.

than the total product, the expansion of imports could not prevent the growth rate of consumption from falling to 3.5 per cent, which reflects a 2.7 per cent increase in general government consumption and a 3.6 per cent rise in private consumption.

Lastly, reference should be made to the different trends of the two main sectors producing goods in 1966. Industry in general developed vigorously, although it did not show particularly high growth rates, whereas agricultural production was nearly 3 per cent less than in 1965.

This decline was largely due to the sharp

contraction of about 10 per cent in Brazil's agricultural output, which was only partly offset by the substantial increases obtained in other countries. Drought and hurricanes in the Caribbean, low precipitation in the central area of the Andean altiplano and an unusually heavy rainfall in the eastern and southern areas of South America were also instrumental in keeping production down. In the southern part of the continent, however, the weather was good for livestock and late sowings. Consequently the 1966 recession was solely the effect of the decline in crop production (which decreased by 4 per cent in aggregate terms), while livestock production improved slightly.

LATIN AMERICA: TOTAL SUPPLY AND DEMAND, 1961-66
(Annual growth rates in percentages)

	1961	1962	1963	1964	1965	1966 ^{a/}
<u>Total supply</u>	<u>5.0</u>	<u>3.6</u>	<u>1.8</u>	<u>6.3</u>	<u>4.6</u>	<u>3.4</u>
Gross domestic product	5.2	3.8	2.3	6.2	5.1	3.0
Imports of goods and services	3.2	1.6	-2.5	7.9	-	7.5
<u>Total demand</u>	<u>5.0</u>	<u>3.6</u>	<u>1.8</u>	<u>6.3</u>	<u>4.6</u>	<u>3.4</u>
Volume of exports	3.3	8.9	3.3	2.6	6.3	3.6
Total investment	6.7	2.7	-6.2	13.7	5.6	2.7
Gross fixed investment	6.2	2.6	-4.9	8.6	2.8	7.0
Public	3.9	0.3	-0.2	12.6	3.0	5.8
Private	7.5	3.8	-7.2	6.5	2.6	7.6
Inventory changes	18.4	4.0	-33.7	161.9	40.1	-34.6
Consumption	4.9	3.1	3.4	5.4	4.1	3.5
General government	5.5	4.7	4.9	0.3	1.9	2.7
Private	4.8	2.8	3.2	6.1	4.5	3.6

Source: ECLA, on the basis of national statistics.

^{a/} Estimates.

Evolution by countries

Argentina

Recent economic trends

The Argentine economy has been characterized in the last five years by irregular movements in the level of the product. Two years in which the level of activity dropped sharply (1962-63) were followed by a period of vigorous expansion (1964-65). However, another recession in 1966 had the effect of reducing the gross product by about 1.2 per cent, or by 2.9 per cent in per capita terms.

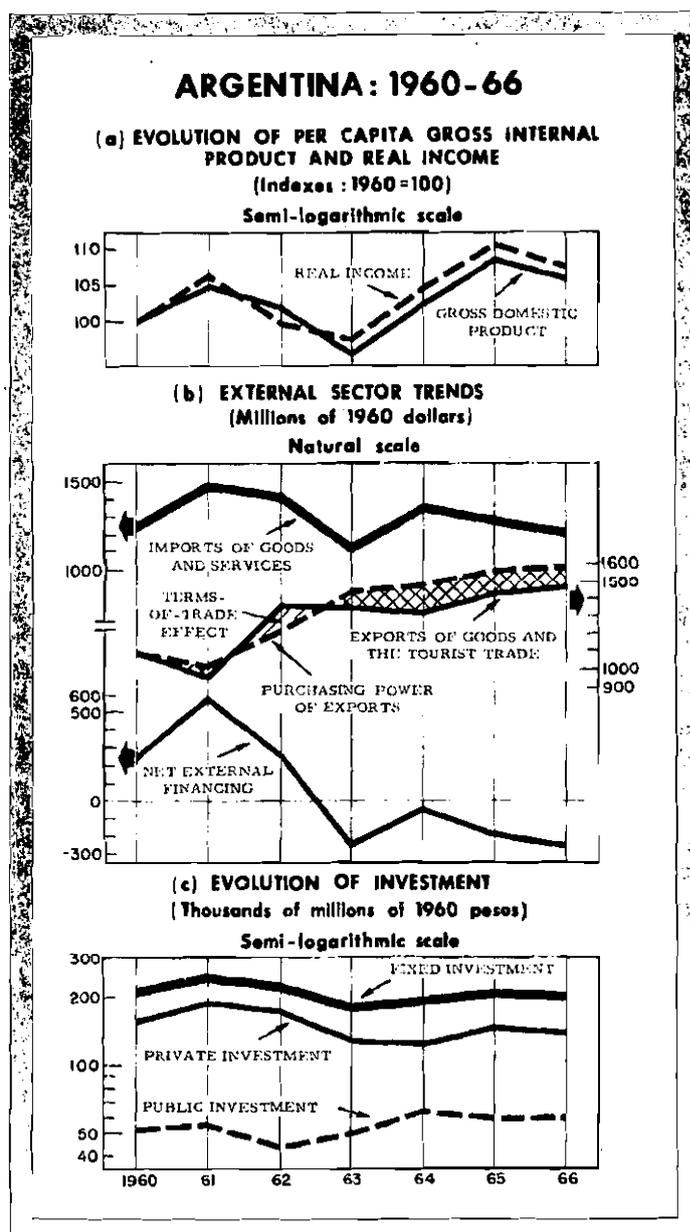
The major sectors of activity showed different patterns of development in 1966. Agriculture, manufacturing and services declined by 3.7, 1.4 and 0.7 per cent, respectively, while increases were achieved in mining and quarrying (4.7 per cent) and construction (5.3 per cent).

One of the principal factors responsible for this contraction of the product and income in the Argentine economy in 1966 was the decline in agricultural production and earnings. This not only led to a decrease of at least 100 million dollars (at 1960 prices) in the product, but also indirectly affected other sectors. For example, it resulted in less demand for machinery, equipment and inputs of industrial origin, and manufactures - particularly durable consumer goods - for which there had been an expanding rural market. This contraction in demand led to a decline in the production of such goods as motor vehicles and electrical equipment. In addition, the food-processing industries, geared as they are to agricultural production, gained only slightly.

The economy was also influenced by other factors to a greater or lesser extent. At the end of 1965, the effects of the policy of expanding the money supply and stepping up public expenditure began to wear off and inflation gained momentum. Consequently, measures were taken to slow down the increase in prices, which indirectly affected demand. For instance, wage increases were kept as low as possible and there was a relative tightening of Central Bank credit to the public sector. Although no further measures of deliberate monetary restraint were taken during the first half of 1966, and banking activity remained at the same level in real terms, the enforcement of regulations for the payment of taxes and social security contributions seems to

have made money tighter in the private sector, and this in turn affected investment and internal demand in general. Finally, political instability was another factor weighing heavily on the general economy and on planned investment in particular.

The rigidity of the external sector also persisted throughout the year. The decline in agricultural production did not lead to a similar drop in exports, because it was offset by the more favourable trends in livestock production and the crop surpluses accumulated by the National Grain Board. But, although exports



remained at a relatively high level, the heavy debt burden (in 1966 amortization payments amounted to 564 million dollars) led to a sizable reduction in the capacity to import, and the value of imports eventually declined by 12 per cent in comparison with 1965.

Thus, inflationary pressures continued throughout the year. Retail prices climbed more

than 30 per cent and wholesale prices 20 per cent. Basic statutory wages rose on the average by 33.8 per cent, which represented a slight increase in real terms. No serious tension arose in the labour market, except in the Tucumán area, since construction and other services absorbed available manpower, and working hours were reduced in manufacturing industry.

ARGENTINA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Thousands of millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 a/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	961.2	1 051.6	1 133.3	1 119.7	2.6	7.8	-1.2
Total investment	218.3	200.7	223.5	193.3	-2.0	11.4	-13.5
Gross fixed investment	208.6	191.6	209.9	204.4	-0.4	9.6	-2.6
a) Construction	87.3	78.1	86.5	...	-0.2 b/	10.8	...
Private	53.2	51.0	58.1	...	1.8 b/	13.9	...
Public	34.1	27.1	28.4	...	-3.6 b/	4.8	...
b) Durable production equipment	121.3	113.5	123.5	...	0.4 b/	8.8	...
Total consumption	754.5	846.4	889.4	889.6	2.8	5.1	-
Private	668.2	764.7	807.3	807.6	3.2	5.6	-
Public	86.3	81.6	82.0	82.0	-0.9	0.5	-
Exports of goods and services	102.5	122.2	132.3	134.8	4.7	8.3	1.9
Imports of goods and services	114.1	117.7	111.9	98.0	-2.5	-4.5	-12.4

Source: Central Bank of the Argentine Republic.

a/ Provisional figures.

b/ 1960-65.

Balance of payment movements

Exports of goods and services maintained a relatively high level of 1 537 million dollars, an increase of 2.9 per cent over 1965. At the same time, imports declined, creating a surplus of 235.8 million dollars on current account. The salient feature of the capital account was the high level of amortization payments, which amounted to 564 million dollars. Other outflows covering short-term liabilities brought the total to around 740 million. Capital income amounted to almost 500 million dollars, including direct investment (29.9 million), the financing of capital imports (160 million), loans unrelated to imports (242.6 million) and the sale of external bonds (67 million). Consequently there was scarcely any change in the position of the gold and foreign exchange reserves, which showed a loss of only 4.7 million dollars.

Changes in the major sectors of production

The decline in agricultural production was precipitated to some extent by adverse weather conditions. However, for several commodities - particularly wheat - it is brought into relief by the exceptionally high levels of production in 1965. In any case, all agricultural branches were affected and the physical output of the sector as a whole fell by 13.8 per cent. There was a particularly sharp decline of 19.1 per cent in production of grains and oilseeds, wheat and feed grains declined by 50 per cent and only maize (37 per cent), millet and sunflower showed increases in relation to the preceding crop year. The decline in output of oilseeds was due to a 30.1 per cent decrease in linseed. Industrial crops declined by 7.4 per cent, fruit and flowers

by 7.7 per cent, and vegetables and pulses by 13.2 per cent.

Livestock production showed more encouraging trends, with an increase of 3.7 per cent over 1965 (4.9 per cent for cattle and 10 per cent for sheep and pigs). Moreover, as a result of the build-up begun in mid-1963, livestock inventories reached a satisfactory level.

The expansion of the mining and quarrying sector was mainly due to a 6.6 per cent increase in petroleum extraction in comparison with 1965, as a result of greater activity on the part of the State enterprise, Yacimientos Petrolíferos Fiscales, which brought sixty new oil wells into operation, the output of private companies and of those holding provisional contracts remaining unchanged. The volume of piped gas rose by 10.6 per cent and coal output by 11.8 per cent, reaching a total of more than 600 000 tons at the pithead. More stone was quarried in response to the larger demand from the construction sector.

As has been pointed out, the decline in industrial production can be traced primarily to the durable consumer and capital goods

industries and the suppliers of those industries felt its impact. Output declined by 8.5 per cent in metal manufactures (excluding machinery), by 7.6 per cent in transport equipment and machinery (excluding electrical machinery), by 3 per cent in electrical machinery and equipment and by 2 per cent in textiles, made-up goods and leather products. In contrast, it rose by 2 per cent in food, beverages and tobacco.

Higher levels of building activity were due to an 11 per cent increase in the private sector, particularly housing. Public construction, however, was reduced by 3 per cent.

The product of commerce decreased by 3.6 per cent because the expansion of retail sales in Buenos Aires and its suburbs did not offset the reduction in the wholesale trade and in the demand for durable goods. Transport and communication services declined by 1.3 per cent; electricity, gas and water increased by 7.4 per cent and financial services by 2.5 per cent. Government services remained at the 1965 level and there was an expansion of 2.1 per cent in other services.

Bolivia

Recent economic trends

Bolivia has maintained a steady economic growth rate since 1961, with the increase in the overall product fluctuating between 5.5 and 6.4 per cent annually. This trend was consolidated in 1966 with a 6 per cent rise in the gross domestic product.

Real income has increased even more steeply. The average annual rate was 8.2 per cent up to 1965, as a result of more favourable export prices, but the decline in tin prices over the past year brought it down to 5.2 per cent.

The volume and prices of mining exports and the inflow of foreign capital have been the main factors of Bolivia's economic growth. They have made possible larger supplies of imported goods and more resources for capital formation.

The spectacular rise in tin prices in 1964 and 1965 increased the value of exports from 69 million dollars in 1963 to 118 million in the space of three years. On the other hand, gross inflows of capital in the form of official donations and foreign credit decreased in the last two years, but direct investment rose and there was a decline in the amortization of external loans on

which payment had been deferred. Thus, net capital inflows amounted to over 40 million dollars; that is to say, they financed 30 per cent of Bolivia's imports of goods and services in 1965 and 25 per cent in 1966.

The resulting expansion of Bolivia's payment capacity was reflected in a proportional rise in imports and a continued increase in the country's international reserves, which had sunk to a very low ebb at the end of 1962.

Exports increased by 4.6 per cent annually (at constant prices) and consumption expenditure by 6.3 per cent.

Since 1961, public investment has been increasing at a faster rate and at the end of the five years it was 2.7 times the original figure in terms of constant prices. Three-quarters of the investment resources available in the last few years were used in infrastructure projects, mainly to drill oil-wells, lay a pipeline to the east, expand the Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) refinery, build over 400 kilometres of roads, and construct the Coranf and Chururaqui hydroelectric plant with the aid of 18 million dollars from the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD).

Private investment as a whole has grown no less dynamically, at a rate of over 20 per cent in 1964 and over 30 per cent in 1965, the increment in 1966 being estimated at more than 10 per cent. Various factors were responsible for this trend: the Private Investment Development, Incentives and Co-operation Law was enacted in 1965, and bank credit to the private sector rose by 35 per cent in 1964, 8 per cent in 1965 and 25 per cent in the first nine months of 1966.

Changes in the major sectors of production

Mining production trends, as shown by the export figures, have differed among the three groups of producers. Exports of the Corporación Minera de Bolivia (COMIBOL) increased 35 per cent up to 1964, but underwent no further change

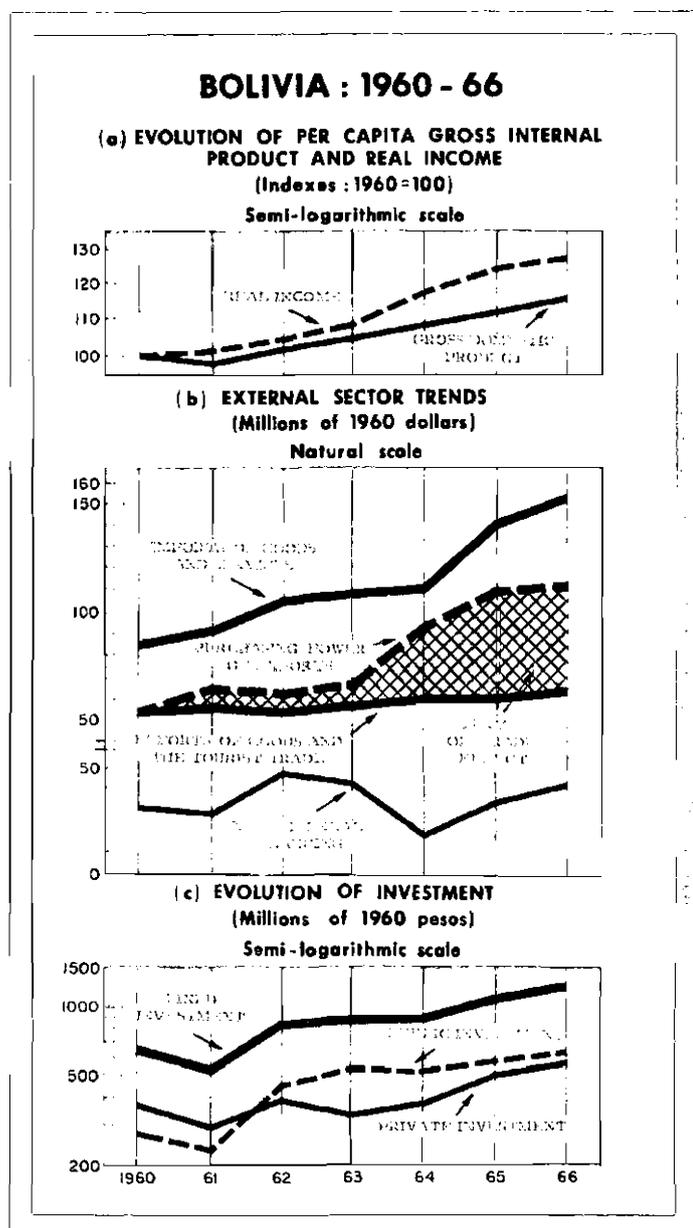
until 1966. Exports of the mediana minería (private moderate-sized mining companies), after expanding by about 50 per cent in the space of two years, decreased and were only about 10 per cent higher in 1966 than in 1960. The exports of the small producers followed no stable trend, but increased less than exports of the mediana minería.

One of the most striking developments in domestic production during 1966 was the 60 per cent upsurge in output of crude petroleum. Taken together with an increase of 14.5 per cent in refining of that product, this development boosted the production of the sector as a whole by 32.6 per cent. The oilfields of the private sector accounted for the largest increase in extraction in 1966.

The manufacturing sector has lost the vigour it had gained in the three-year period 1961-64. In contrast to the lower production levels, more and more funds are being invested in industry. After the promulgation of the investment law in 1965 and until mid-1966, applications for funds totalling 32.7 million dollars were submitted to the Investment Promotion Institute (INPIBOI), and projects for 14.7 million dollars were approved, over 60 per cent of them in the manufacturing sector.

Electric power output has increased at a steady rate of 8 or 9 per cent over the past five years (except 1965, when there was no change). At the end of 1966, installed capacity amounted to 215 000 kW; this includes the capacity of the new hydroelectric plants of Chururaqui (22 000 kW) and Coranf (27 000 kW), which are to supply Cochabamba and the central nationalized mining area.

Since the beginning of the sixties, the gross agricultural product has barely kept pace with the population increase (estimated at 2.5 per cent annually). In the traditional farming area, production remained stationary, except in the case of a few commodities. In 1966 the output of potatoes -one of the most important crops- declined by about 10 per cent owing to adverse weather conditions. Maize and wheat production was down in 1965, but recovered partially the following year. Agricultural production on the tropical llanos and in the sub-tropical valleys (yungas) has been satisfactory, particularly sugar output, which increased by 26 per cent in 1966. Production figures rose by 7 per cent for cotton and 11 per cent for rice. Cattle production on the eastern llanos -the Department of Beni, part of Santa Cruz and Tarija- has remained virtually at a standstill. Work is proceeding on the joint Development Corporation/IDB land settlement programme, which is scheduled for completion in 1967 at a cost of 3 million dollars, and a new land settlement area is under consideration.



BOLIVIA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964 a/	1965 a/	1966 b/	1960-1966	1964-1965	1965-1966
Gross domestic product	4 479	5 421	5 721	6 063	5.2	5.5	6.0
Total investment	675	946	1 144	1 285	11.3	20.9	12.3
Gross fixed investment	637	898	1 103	1 240	11.7	22.8	12.4
Public	275	521	(570)	(640)	15.1	9.4	12.3
Private	362	377	(533)	(600)	8.8	41.4	12.6
Total consumption	4 150	5 055	5 537	5 821	5.8	9.5	5.1
Public	387	526	615	604	7.7	16.9	-1.8
Private	3 763	4 529	4 922	5 217	5.6	8.7	6.0
Exports of goods and services	726	812	824	882	3.3	1.5	7.0
Imports of goods and services	1 072	1 392	1 784	1 925	10.2	28.2	7.9

Source: ECLA, on the basis of statistics prepared by the National Planning Office (Secretaría Nacional de Planificación).

- a/ Provisional figures.
b/ ECLA estimates.

Brazil

Recent economic trends

It is unofficially estimated that the product increased by nearly 2 per cent in 1966 as against almost 4 per cent the year before. This very low rate, signifying a reduction in per capita income, was the result of a general decline of 5.7 per cent in agricultural production, a recovery in manufacturing, which declined the last quarter of 1966 but rose above the low 1965 level by 7.5 per cent for the year as a whole, a rapid expansion in mining and moderate growth in building and power output.

The importance of these changes can only be fully understood in the broader context. To begin with, recent economic trends have continued to reflect the deep-rooted process of deterioration over the past five years when import substitution first began to lose its dynamic impact. Secondly, in 1966 a three-year economic programme was completed; its purpose has been to hold down inflation and pave the way for the resumption of economic growth. For various reasons, the emphasis was placed on stabilization, and the production sectors failed to recover sufficiently owing to the weakness of final demand. Wage policy adversely affected private consumption and as a result of efforts to reduce budget deficit,

public investment and Government consumption expenditure fell short of their targets. On the other hand, industrial production made a striking recovery, which began in the first half of 1966 and continued throughout the second half. Exports were higher than at any other time in the sixties, imports increased considerably, and investment, particularly private investment, also expanded. Thirdly, a series of policy measures was devised and applied with the object of providing the next Government with the machinery for executing its programme and achieving its targets.

Prices rose to much the same extent as in 1965: 42 per cent according to the cost-of-living index for the State of Guanabara (as against 45 per cent in 1965) and 39 per cent according to the wholesale price index (in comparison with 28 per cent in 1965). The upward trend was largely due to the decline in agricultural production, including production of basic foods, the expansion of the means of payment as a result of the sale of bumper coffee and other crops the previous year, the removal of price controls on a number of agricultural products, rent adjustments and increases in the rates of some public utilities.

Exports continued to expand with the vigour that they have shown since 1962, reaching a value of around 1 730 million dollars in 1966. Because

of the exceptional coffee harvest in the previous crop year, it was possible to step up exports in spite of smaller harvests of both coffee and other commodities the following season. Industrial exports maintained the relatively high level of over 100 million dollars achieved in 1965.

Economic policy

During the last three years economic policy has been radically reshaped in two major areas: in the first, its aim is to remedy the causes of the country's internal economic instability by means of a stabilization programme. In the second, the goals are of a more long-term nature and are being implemented through the establishment of integrated planning system for the whole country on the basis of institutional reform and the creation of national and regional planning offices.

The stabilization programme has been active on three main fronts: reduction of the Treasury deficit, credit controls and wage policy.

The Treasury deficit was reduced considerably as the result of an integrated policy of raising tax

revenue, through an emergency tax reform and better collection methods, containing expenditure by keeping wage increases for public employees below the rise in the cost of living and curtailing subsidies for decentralized agencies. In 1965 the deficit had dropped to 39 per cent of its 1963 level and by 1966 it had been reduced even further.

The policy of limited wage increases, originally applied to the public sector only, was extended to the private sector in 1965. Although wages could be raised in proportion to increases in productivity and plans were made to adjust nominal wages in accordance with the inflation rates forecast for 1965 and 1966, the disparities between the projections and the actual figures lowered real wages throughout the economy.

Lastly, credit policy sought to replace financing based on the expansion of money in circulation by financing from private savings. The stringent credit restrictions applied by the Bank of Brazil and the strict controls on the expansion of the primary money supply tightened the real supply of credit available for the production sectors.

Although the anti-inflationary attacks launched on the various fronts were continued in 1966, the various factors mentioned in previous paragraphs

BRAZIL: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Thousands of millions of cruzeiros at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 <u>a/</u>	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	2 418.8	2 864.5	2 973.4	3 030.0	3.8	3.8	1.9
Total investment	438.4	519.7	561.3	...	5.1 <u>b/</u>	8.0	...
Gross fixed investment <u>c/</u>	419.6	461.5	443.7	488.0	2.6	-3.9	10.0
Public <u>d/</u>	179.6	191.8	213.7	220.1	3.5	11.4	3.0
Private	240.0	269.7	230.0	267.9	1.8	-14.7	16.5
Total consumption	2 045.2	2 325.3	2 354.4	...	2.9 <u>b/</u>	1.3	...
Public <u>d/</u>	370.7	441.7	425.7	...	2.8 <u>b/</u>	-3.6	...
Private	1 674.5	1 883.6	1 928.7	...	2.9 <u>b/</u>	2.4	...
Exports of goods and services <u>e/</u>	173.5	184.0	210.5	233.3	5.1	14.4	10.8
Imports of goods and services <u>e/</u>	238.3	164.5	152.8	189.1	-3.8	-7.1	23.8

Sources: Basic series: Fundação Getulio Vargas; Joint ECLA/BNDE Centre for Economic Development; ECLA.

a/ Provisional estimates.

b/ 1960-65.

c/ Series estimated by the Joint ECLA/BNDE Centre for Economic Development.

d/ Series obtained by deflation of the current values calculated by the Fundação Getulio Vargas.

e/ For 1960: Fundação Getulio Vargas, national accounts of Brazil. For other years in the series: ECLA estimates based on extrapolation of 1960 figures by quantum of exports and imports of goods and services.

sustained the inflationary trend in 1966, although its rate, was much slower than in 1964 (86 per cent according to the cost-of-living indexes for Guanabara and Sao Paulo).

Changes in the major sectors of production

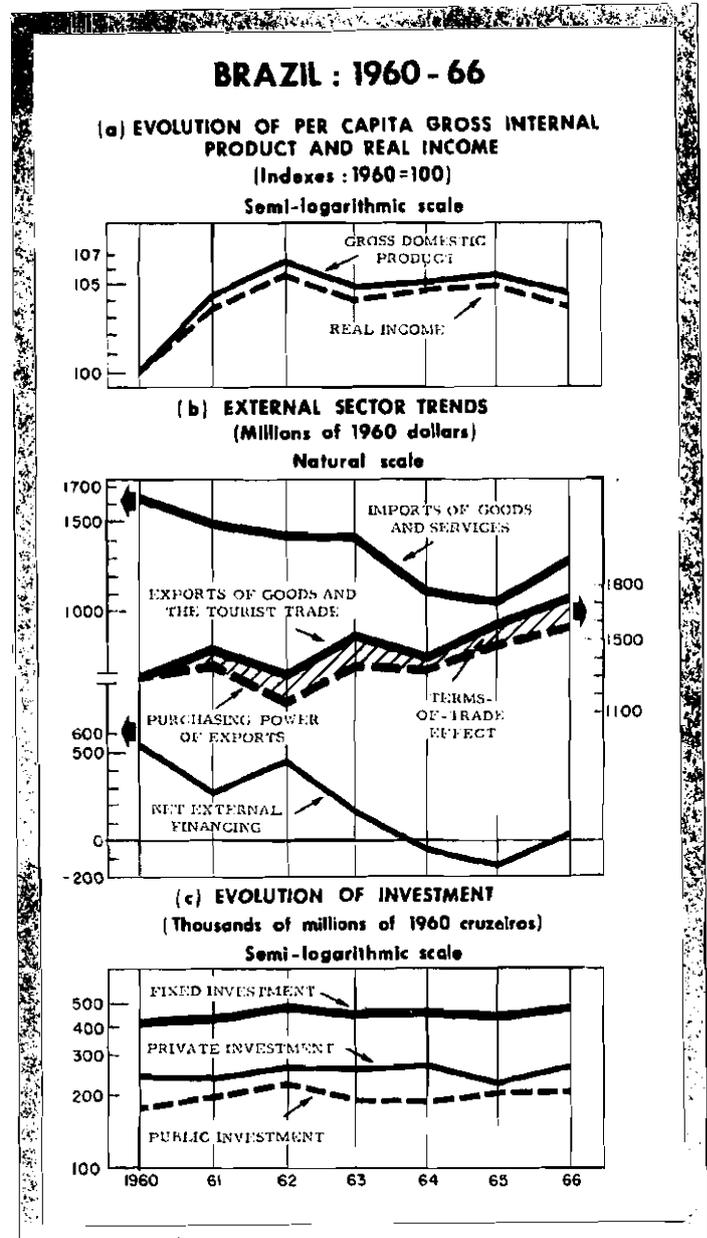
The decline of agriculture in 1966 followed an exceptionally good year for crops, when output expanded by nearly 14 per cent. In fact 1966 marked the first time in the last five years that a general contraction took place in the output of the country's major crops, while livestock production continued to rise. Some crops were badly affected by weather conditions, while the relatively high levels of production in the previous year and other economic factors caused farmers to change their sowing plans and make sizable cuts in the area under cultivation.

The reduction was substantial for food crops as a whole, with maximum decreases of over 30 per cent for rice, potatoes and beans and around 15 per cent for maize. However, domestic supplies were not affected to the same extent because stocks of certain commodities had been accumulated the previous year, a temporary embargo was placed on rice exports and a moderate quantity of beans was imported. Nevertheless, prices felt the impact: food rose 43 per cent on the wholesale price index, and also increased in relation to industrial products, approaching levels comparable to those of 1962.

The coffee crop is expected to yield 37 to 22 million bags less. This is chiefly due to the damage caused by frost in the State of Paraná, but steps are still being taken to discourage coffee growers by programmes for uprooting coffee trees and replanting with other crops, and for maintaining low sales prices.

The recovery of manufacturing industry in 1966 is largely the achievement of industries producing capital goods, which were stimulated by an increase in investment, while the traditional consumer goods industries expanded at a more sluggish pace. The motor-vehicle industry continued to develop under the incentive of new methods of financing, which opened up additional market possibilities, while steel, machinery and equipment, cement and other branches of production also expanded fairly rapidly as a result of further investment. Several particularly important projects continued to make headway, including those embodied in integrated programme for mining and steel manufacture nearly all for export markets, and some chemical projects, mainly for fertilizer production.

Production and consumption of electric power increased by more than 8 per cent in 1966 in



comparison with 4.2 per cent in the previous year. The full significance of this expansion can be appreciated simply from the figures for sales to industrial consumers which climbed 13.7 per cent in 1966 as against 1.4 per cent the year before. In both years installed capacity was increased by 882 MW, as part of a programme to raise it to 12 655 MW by 1970 or 85 per cent over capacity as of 31 December 1964.

Preliminary estimates indicate that there was a 4 per cent increase in railroad freight traffic, but that passenger traffic continued to decline. Road transport accounted for 70 per cent of the total freight traffic in the country, and nearly two-thirds of the motor-vehicle inventory in 1966 had been manufactured in Brazil. Coastal traffic continued to show a steady decline in the volume of dry goods transported, but liquid cargo, particularly petroleum, increased. In general, the aim of transport policy in recent years has been to place the transport system on a sounder financial basis as part of the overall anti-inflationary policy.

Colombia

Income and production trends

The growth rate of Colombia's domestic product, which had been low in 1965, showed signs of recovery during 1966. The levelling off of agricultural production and the slow progress during the previous year were largely counteracted. By the end of November the volume of imports had been stabilized at a relatively high level, providing an impetus for industrial production and other sectors of activity, such as transport and commerce. In contrast, the recession in construction continued.

To judge from the provisional data available, the final outcome of these changes will probably be a relatively modest increase in the 1966 aggregate product of about 4.5 per cent or slightly more.

The Ministry of Agriculture's yield forecasts for specific crops predict particularly large increases in the output of coffee, cotton, barley, plantains and yuca (most of which showed decreases in 1965), and continued increases in output of bananas, sugar and panela. But these forecasts may be somewhat thrown out of line by the prolonged and heavy rainfall at the end of the year, which damaged certain crops.

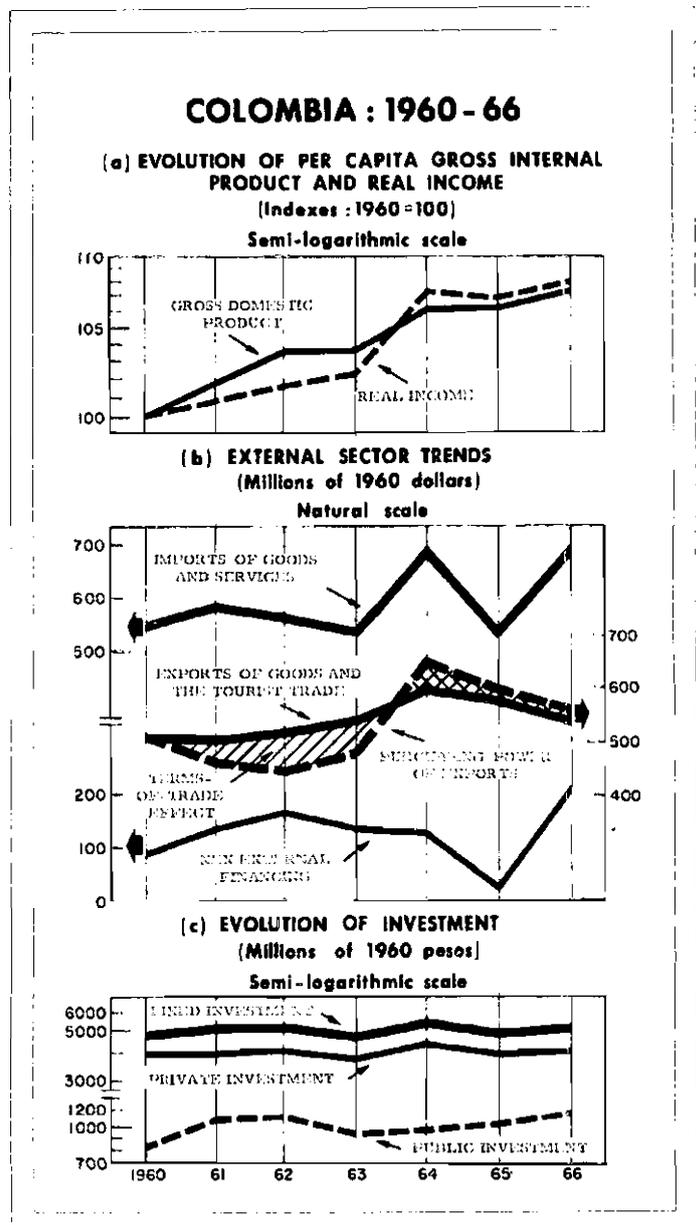
Although data on volumes of industrial output for 1966, the manufacturing product can be estimated to have increased by about 7 per cent. This comparatively high rate of growth must be related to the rather low levels reached in the previous year; moreover, some activities which had been gaining considerable momentum - such as production of pig iron - lost ground in 1966.

In the mining sector, petroleum production, which had expanded by 17 per cent in 1965 over 1964, declined in the first seven months of 1966, and production of gold and silver also fell off. In the year as a whole, therefore, the sectoral gross product will probably have decreased by 2 per cent.

Public and private building activities have diminished since 1963, and no signs of recovery are apparent from the indicators available for 1966. The index for January-July 1966 of floor area completed is 1 per cent lower than the corresponding 1965 index, and the floor area completed in fifteen towns during the period January-August 1966 is 5.3 per cent smaller than for the same period in 1965.

The external sector and inflationary pressures

For several years, as the Colombian economy's import requirements have steadily increased, and current income - of which coffee exports are the main source - has failed to follow suit, the balance of payments has been showing a deficit (134 million dollars in 1964, rising to 224 million in 1966). To cover these deficits, Colombia has resorted essentially to balance-of-payments loans. Nevertheless, although compensatory financing stood at a high level in 1965 and 1966, the debt servicing problem was not substantially aggravated owing to the long-term loans granted by AID.



COLOMBIA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964 <u>a/</u>	1965 <u>a/</u>	1966 <u>b/</u>	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	26 418	31 887	32 907	34 400	4.5	3.2	4.5
Total investment	5 477	6 100	5 550	5 700	0.7	-9.0	2.7
Gross fixed investment	4 762	5 426	4 974	5 200	1.5	-8.3	4.5
Public	809	982	1 012	1 130	5.7	3.1	11.7
Private	3 953	4 444	3 962	4 070	0.5	-10.8	2.7
Total consumption	21 249	26 400	26 926	29 422	5.6	2.0	9.3
Public	1 659	2 032	2 160	2 260	5.3	6.3	4.6
Private	19 590	24 368	24 766	27 162	5.6	1.6	9.7
Exports of goods and services	4 012 <u>b/</u>	4 856	4 641	4 712	2.7	-4.4	1.5
Imports of goods and services	4 320	5 469	4 210	5 434	3.9	-23.0	29.1

Sources: For 1960-65: basic data from Bank of the Republic, Department of Economic Research, Cuentas Nacionales. For 1966: ECLA, on the basis of partial indicators for Colombia.

a/ Provisional estimates.

b/ 1960 peso values adjusted by ECLA (peso values obtained by conversion of values in dollars at import exchange rate).

It was just this type of financing that enabled Colombia to pursue a more liberal import policy in 1966, up to the month of November. Thereafter, the Government decided to establish stringent exchange controls, since further AID loans of this type were conditional upon a balance-of-payments policy in agreement with criteria of the International Monetary Fund, which considered it essential that Colombia should devalue its currency. The Government felt that devaluation would intensify inflationary pressures, which in 1966 had once again become acute.

These inflationary pressures were generated by the sluggish development of the agricultural sector and the shortage of enough current foreign exchange income to satisfy the economy's growing import requirements. They reached

their peak between January 1963 and July 1964, when workers were faced with a 20 per cent rise in the consumer price index, as a result of a considerable expansion of the means of payment in the second half of 1962 and the blanket wage increase granted early in 1963. During the first half of 1964, inflationary pressures were intensified by the currency devaluation at the end of 1963 and by a shortage of agricultural products due to poor harvests. The inflationary trend subsequently levelled off until in 1966 it was reversed, the consumer price index rising by 16 per cent. Apart from the pressure on aggregate supply resulting from the recovery of the growth rate, this 1966 increase seems to have been particularly influenced by the prices of imported goods.

Costa Rica

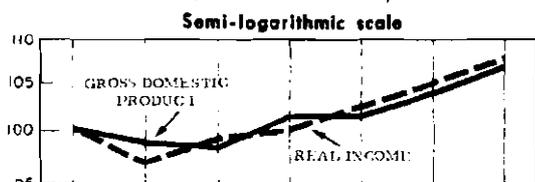
Recent economic trends

In 1966 Costa Rica had a fairly satisfactory rate of economic growth. The increase of 7.8 per cent in the gross product represents a rise of around 3.0 per cent in real per capita income. Exports totalled 154.0 million dollars (an increase of nearly 18 per cent), having recovered after

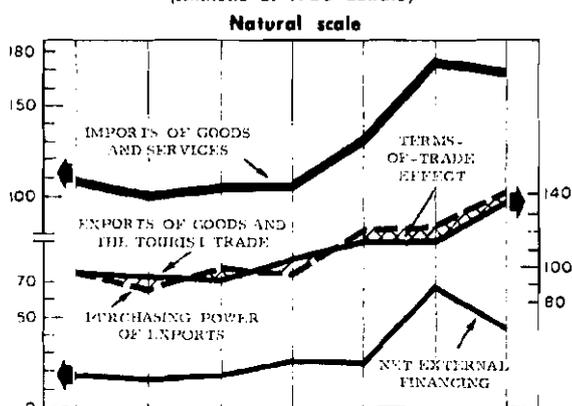
the 1965 recession caused by the eruption of Irazú, which destroyed crops and affected livestock production. There was an appreciable increase in exports as a result of larger sales of traditional products and the diversification of foreign trade, particularly manufactures for the Central American Common Market. Sales of bananas and coffee, for instance, increased 4

COSTA RICA : 1960 - 66

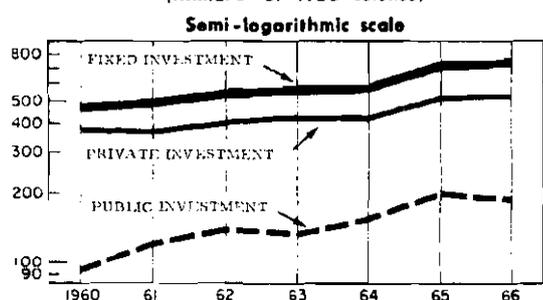
(a) EVOLUTION OF PER CAPITA GROSS INTERNAL PRODUCT AND REAL INCOME
(Indexes : 1960=100)



(b) EXTERNAL SECTOR TRENDS
(Millions of 1960 dollars)



(c) EVOLUTION OF INVESTMENT
(Millions of 1960 colones)



compensatory loans met with difficulties, with the result that international reserves have dwindled.

Domestic demand and production

Domestic demand was much weaker, its growth rate for nearly every item being lower than in 1965. Total investment increased by slightly under 2 per cent in contrast to the investment boom of the previous year, while the growth rate of consumption dropped to 3.6 per cent. These developments were partly due to the exceptionally high levels reached in 1965, and partly to a levelling-off of investment activities and import restrictions.

Despite budget and balance-of-payments difficulties, supplies reacted vigorously to the stimuli of external and domestic demand. It is provisionally estimated that the agricultural and industrial sectors maintained growth rates of 9 to 10 per cent. Owing to a favourable combination of circumstances, agriculture, which had begun to recover in 1965, continued to improve throughout 1966. Industrial activities also made a good recovery. The Industrial Development Act, and the bank credits made available in 1964 and 1965, encouraged the expansion and diversification of plants. Another contributory factor was the growth of demand in the Central American Common Market, which led to an increase in the output of rolled iron products, asbestos and cement, tyres and inner tubes, canned food and petroleum refining, among other items. New plants are also going up (textiles, insecticides, grain-processing, soluble-coffee processing, pulp and paper, ammonia, etc.), and will start production in 1967.

and 20 per cent respectively as compared with 1965, while exports of manufactures rose from 5 to 22 million dollars between 1962 and 1965, and are estimated at 30 million in 1966.

On the other hand imports declined slightly in absolute terms, after two years of particularly rapid expansion (12 and 29 per cent in 1964 and 1965 respectively). Their decline can be attributed to the stabilization policy and restrictions on public expenditure and investment, and is explained by the fact that much of the increase over the past two years was due to purchases of machinery and equipment for the establishment or expansion of cement plants, petroleum refineries, tyre factories and electric power plants, which had no counterpart in 1966.

Although exports and imports followed different trends, the current account on the balance of payments again closed with a sizable deficit. At the same time, short and long-term external loans matured, and efforts to obtain regular and

Fiscal problems and economic policy

During the last few years, the state of public finances, including those of both the central government and semi-autonomous agencies, has been far from satisfactory. Real public investment rose from 94 to over 215 million colones between 1960 and 1966, current and capital transfers to help finance the social security institutions and public services increased substantially, and current public expenditure climbed from 619 to over 1 000 million colones while central government expenditure jumped from 349 to 582 million. Current public income, on the other hand, failed to cover and capital outgoings, although it shot up from 732 to nearly 1 200 million colones between 1960 and 1966. As a result, compensatory financing had to be introduced and bigger loans were sought from national sources and international agencies.

However, new problems were created by the rise in total debt servicing from 57 million colones in 1960 to 132 million in 1965, and the additional strain placed on the balance of payments. Consequently, some restrictions had to be

imposed in 1965, and particularly in 1966, mainly on public expenditure, but they were not sufficient to reduce the current deficit of the central government, which is estimated at 36 million colones as against 27 million in 1965.

COSTA RICA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of colones at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 ^{a/}	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	2 811	3 347	3 564	3 811	5.2	6.5	6.9
Total investment	...	...	...	...	...	...	...
Gross fixed investment	479	582	739	744	7.6	27.0	0.7
Public	95	153	202	197	12.9	32.0	-2.5
Private	384	429	537	547	6.1	25.2	1.9
Total consumption ^{b/}	2 500	2 966	3 312	3 388	5.2	11.7	2.3
Public	328	414	468	484	6.7	13.0	3.4
Private ^{b/}	2 172	2 552	2 844	2 904	5.0	11.4	2.1
Exports of goods and services	583	721	724	852	6.5	0.4	17.7
Imports of goods and services	751	922	1 211	1 173	7.7	31.3	-3.1

Source: ECLA, on the basis of statistics prepared by the Central Bank of Costa Rica.

a/ ECLA estimates based on provisional official figures.

b/ Inventory changes included in private consumer expenditure.

Chile

Recent economic trends

In 1966 the Chilean economy consolidated the progress achieved in 1965, when it finally broke out of the slow growth pattern of the last decade. The gross domestic product rose by 5.5 per cent, compared with a little over 4 per cent in 1965 and an average of only 3.5 per cent annually in the period 1960-64. In terms of real income, the 1966 increase was 7.5 per cent because there was a considerable improvement in copper prices.

In the past two years, too, there have been wide differences in the trend of the various economic sectors. While there was an unusual spurt in building activity in 1965, agriculture went through a period of recession, and production of basic commodities such as steel, cement and even copper declined sharply. In 1966, however, all the main sectors expanded; agriculture developed at a rate

of 4 per cent, mining at 4.6 per cent and manufacturing at 8 per cent.

Exports of goods and services rose steeply in value to almost 1 000 million dollars in 1966. Imports were also exceptionally high (some 850 million dollars, or 15 per cent higher than the 1965 level).

The expansion of domestic activities and the increase in foreign trade transactions were instrumental in increasing the supply of goods and services concurrently with the expansion of consumption and investment. Consumption trends -in addition to the overall expansion of consumption- reflect the impact of the policy of income redistribution and social benefits, which had the effect of raising the real income of broad sectors of the population. Investment, which rose appreciably in 1966, also changed in structure. Investment in construction declined by 13 per

cent, while the resources allocated to production machinery and equipment increased more than 26 per cent.

Notwithstanding the extremely favourable position of the external sector, inflationary pressures continued to harass the policy-makers. It was hoped to prevent prices from rising more than 15 per cent, but by October they had already risen 21 per cent, although the final figure was not as high because of seasonal reductions at the end of the year. The price rise was curbed as in 1965: prices rose only 17 per cent, which compares favourably with the increases of 26 and 38 per cent recorded in 1965 and 1964.

In short, in 1966 the Chilean economy showed a higher and more even rate of development, and continued to make progress in controlling inflation and raising the real income of most population groups.

The external sector

Although the aims of development policy and other factors contributed to the favourable development of the external sector, its expansion was primarily the result of the vigorous and relatively consistent increase in foreign trade transactions.

Past trends and the data for the last few years suggest that the Chilean economy is becoming progressively more open. Indeed, per capita exports and imports, like the share of those components in overall supply and demand, have not only increased substantially but now figure among the highest in the region.

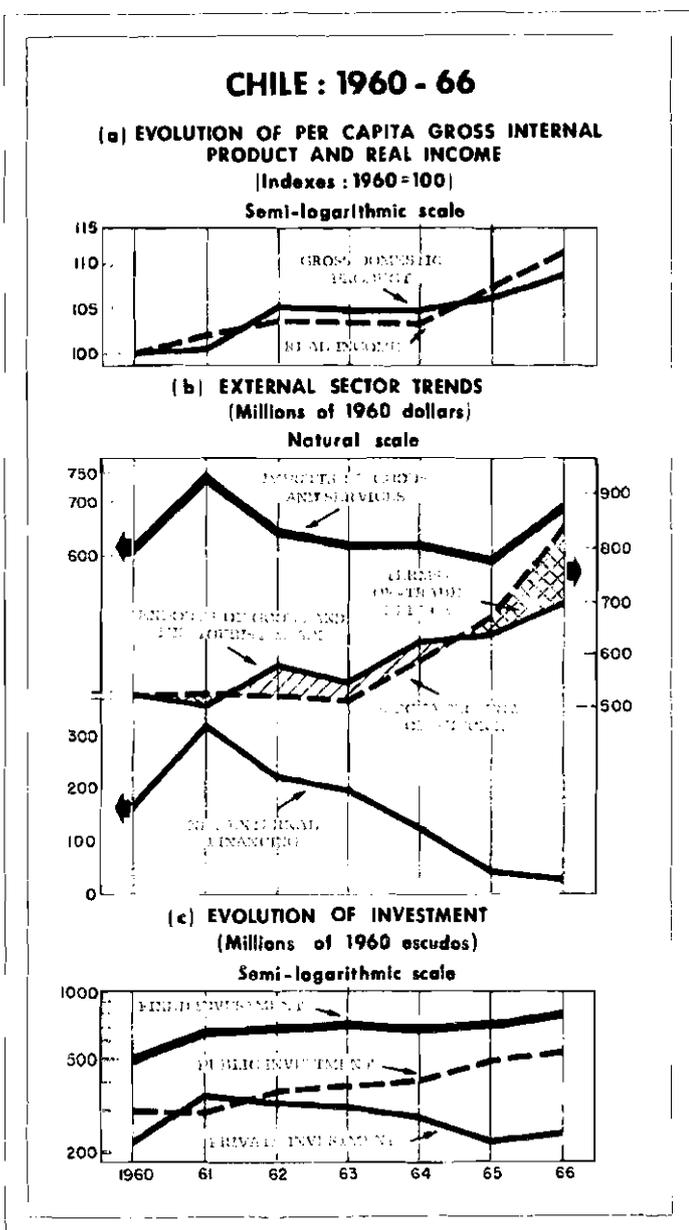
Both the recent steady growth of exports and imports and the greater balance between them have improved the balances on current account. On the other hand, foreign investment income rose from 90 million dollars in 1963 to nearly 200 million in 1966, largely because export earnings increased. The capital transactions account shows that, while there have been negative figures for direct investment since 1963, long-term loans helped to improve the balance of payments, resulting in a gain of about 76 million dollars in official reserves in 1966.

This coincided with an increase of some 150 million dollars in the external debt in 1966, whereas it had been reduced in 1965. The marked change in the structure of the debt was reflected in the lower proportion of short-term liabilities. At the end of 1966 the Government announced its decision not to draw on the overall credit of about 80 million dollars from AID or on the stand-by loan of 36 million dollars from the International Monetary Fund (IMF). However, it would continue to use loans granted for specific purposes.

The public sector

In response to more vigorous management of government finances and public sector activities, public consumption and investment have become the most dynamic force of the economy. The most notable change occurred in 1965, when total government expenditure rose 34 per cent in real terms. The rate of increase diminished in 1966 but nevertheless remained at a high level, real expenditure increasing by slightly over 17 per cent.

The growth of capital expenditure in 1965, which was about 60 per cent in real terms, had brought government participation in gross capital formation to a level approaching 70 per cent.



In 1966, on the other hand, the increase in capital expenditure -about 15 per cent- was lower than the corresponding increases in current expenditure (18.6 per cent) and total expenditure.

There were also significant changes in the structure of government income. In 1966, while overall income increased 17 per cent in real terms, current income rose 27 per cent and capital income declined by 25 per cent. Although direct taxes were raised by about 20 per cent, there was an even larger increase in the taxes on copper and indirect taxes (28 and 52 per cent respectively). Given the higher value of imports, customs duties accounted for most of the increase in indirect taxes.

Apart from direct action, the public sector has strengthened its influence on the whole economy through the Government's formulation and

application of its development policy. Although the establishment of an official planning system is still awaiting approval by the Congress, satisfactory progress has been made in centralizing the basic policy decisions and co-ordinating action on taxes, currency, exchange and prices.

The efforts to implement agrarian reform and overall agricultural policy have continued. Significant changes are announced in investment, which will be channelled mainly into the basic industries (steel-making, the petrochemical industry, basic chemicals, forest industries, metal-transforming, and the electrical and electronics industry), regional complementarity industries (including the manufacture of motor vehicles) and the food industry. The new wage policy is intended to curb demand from wage-earners in consonance with the objective of continuing to contain price rises.

CHILE: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of escudos at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 <u>a/</u>	1966 <u>a/</u>	1960-1966	1964-1965	1965-1966
Gross domestic product	4 974.3	5 719.8	5 952.0	6 278.0	4.0	4.1	5.5
Total investment	535.0	716.0	740.0	(815.0)	7.3	3.4	10.1
Gross fixed investment	513.0	696.7	724.6	800.0	7.7	4.0	10.4
Public <u>b/</u>	(300.0)	406.4	500.3	551.0	10.7	23.1	10.1
Private	(213.0)	290.3	224.3	(249.0)	2.6	-22.7	11.0
Total consumption	4 547.9	4 998.9	5 167.1	5 453.7	3.1	3.4	5.5
Public	510.7	524.3	571.5	(595.0)	2.6	9.0	4.1
Private	4 037.2	4 474.6	4 595.6	4 858.7	3.1	2.7	5.7
Exports of goods and services	582.3	706.5	721.7	793.3	5.3	2.2	9.9
Imports of goods and services	690.9	701.6	676.8	784.0	2.1	-3.5	15.8

Sources: For data on product, investment and public consumption in 1960 and 1964, Development Corporation (Corporación de Fomento de la Producción - CORFO), Cuentas Nacionales de Chile, 1958-63; and Office of the President of the Republic, National Planning Office (Oficina de Planificación Nacional). For export and import data, ECLA estimates based on data from IMF, Balance of Payments Yearbook.

a/ Provisional ECLA estimates based on national indicators.

b/ Real public-sector investment data prepared by the Ministry of Finance, Budget Department. 1965, 1966: Central Bank of Chile, "Situación Fiscal en 1966", Boletín Mensual (N° 466, December 1966).

Dominican Republic

Recent economic trends

The most striking development in 1966 was the recovery of the economy following the 1965 decline, although the 1964 level was not regained in absolute terms. In 1965 the gross domestic product had dropped by about 12 per cent compared with 1964, reflecting the impact of the armed conflict which broke out in April and the unfavourable world prices for sugar. The hostilities, which were confined mainly to Santo Domingo, disrupted shipping activities, communications with the interior and construction. Consequently, exports fell nearly 27 per cent, agricultural supplies diminished and building in the capital city virtually came to a standstill. The return to normal after the conflict had a tonic effect on the whole economy. The gross domestic product rose by 7.2 per cent. There was a spectacular recovery in imports (29.4 per cent) and investment (56.8 per cent) following contractions of 39.5 and 58.1 per cent respectively in 1965; consumption expanded by 7.8 per cent and exports by 3.8 per cent (compared with the 1965 reductions of 10.1 and 18.4 per cent, respectively). However, in none of these cases did the increases reach the 1964 levels in absolute terms.

The public sector showed a marked recovery. Central government current income, which had dropped from 222.9 million pesos in 1964 to 138 million in 1965, rose to 180.1 million in 1966. The surplus on capital account increased from 20 million pesos in 1964 to 46.2 million in 1965 and 46.9 million in 1966. Perhaps the most notable changes were in external borrowing (7.1 million pesos in 1965 and 27 million in 1966) and transfers (25.1 million in 1965 and 12.3 million in 1966). Operating expenses fell from 176.9 million pesos in 1964 to 129.8 million in 1965 and climbed to 158.2 million in 1966; real investment figures were 29.9 million in 1964, 14 million in 1965 and 27.8 million in 1966.

The balance of payments showed a sizable increase in imports against a much smaller rise in exports. The capital account therefore reflected a net gold and foreign exchange outflow of some 21 million dollars. Both the volume and prices of two-thirds of the Dominican Republic's exports depend on its quota of sugar on the United States market and of coffee under the International Coffee Agreement. The basic sugar quota on the United States market is about 400 000 short tons, which was increased by 200 000 tons in 1966; only 10 000 tons were sold on the world market where much lower prices were quoted.

DOMINICAN REPUBLIC: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

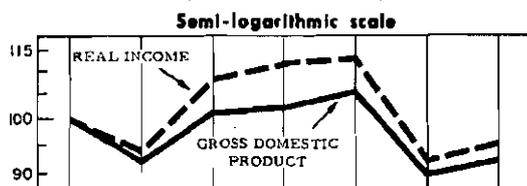
	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964 a/	1965 b/	1966 b/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	722.9	878.1	772.7	828.0	2.3	-12.0	7.2
Gross fixed investment	75.2	176.7	74.0	116.0	7.5	-58.1	56.8
Public	36.4	36.8	22.0	49.0	5.1	-40.2	122.7
Private	38.8	139.9	52.0	67.0	9.5	-62.8	28.8
Total consumption c/	592.5	820.4	737.7	795.1	5.0	-10.1	7.8
Public	92.2	113.7	83.0	100.0	1.4	-27.0	20.5
Private c/	500.3	706.7	654.7	695.1	5.6	-7.4	6.2
Exports of goods and services	172.1	156.2	127.4	132.2	-23.2	-18.4	3.8
Imports of goods and services	116.9	275.2	166.4	215.3	10.7	-39.5	29.4

Sources: ECLA, on the basis of national statistics. Basic Statistics from Central Bank of the Dominican Republic, *Cuentas Nacionales*.

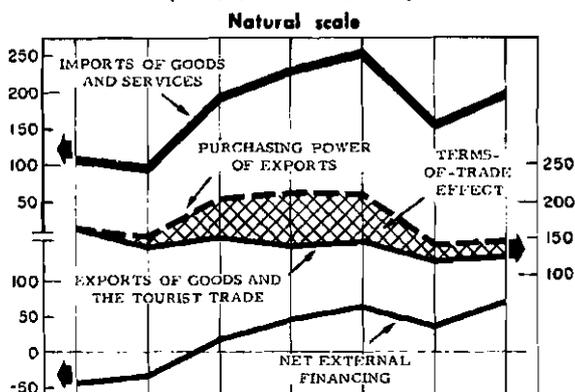
- a/ Provisional figures.
- b/ Provisional estimates.
- c/ Including inventory changes.

DOMINICAN REPUBLIC : 1960 - 66

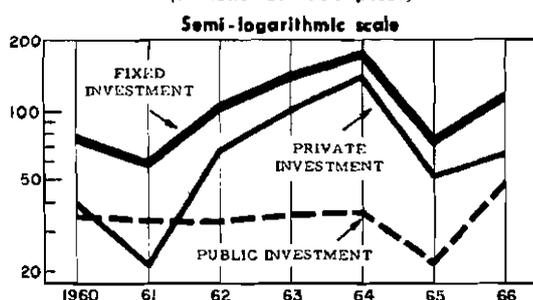
(a) EVOLUTION OF PER CAPITA GROSS INTERNAL PRODUCT AND REAL INCOME
(Indexes : 1960=100)



(b) EXTERNAL SECTOR TRENDS
(Millions of 1960 dollars)



(c) EVOLUTION OF INVESTMENT
(Millions of 1960 pesos)



Recent economic policy

Economic policy followed three principal guidelines: an austerity plan, reorganization of the sugar industry and a plan to streamline public enterprises.

Under the austerity plan, the Government decreed a salary cut for public employees earning over 200 pesos a month and established a salary ceiling at 750 pesos. At the same time, rents and consumer food prices were reduced with a view to lowering the cost of living.

The State-owned sugar companies, which control about two-thirds of total production, showed a cumulative deficit of about 100 million dollars by the end of 1966. This prompted the Government to change the constitutional law of the State Sugar Council, to divide the Dominican Sugar Corporation into twelve production units which must operate at a profit, to remove 4 000 employees from the payroll and to absorb the companies' long-term debt. Furthermore, steps have been taken to tackle the basic problem of reducing production costs and diversifying crops, in view of the relatively inflexible United States quota, unremunerative world prices and the shortage of storage space.

The key factor in the policy governing public enterprises was the establishment of the Dominican Public Enterprise Corporation to co-ordinate activities in this sector, which, in 1962, controlled 17 per cent of the labour force and 28 per cent of the gross manufacturing output.

Ecuador

Recent changes in the overall and sectorial product

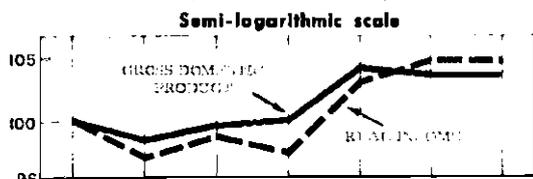
Recent changes in Ecuador's levels of economic activity have consolidated the declining growth rate which has harassed the country for years. While the average annual rate of increase of the gross domestic product was 5.4 per cent in the first half of the fifties, it dropped to 4.5 per cent in the second half and averaged only 4 per cent over the period 1960-66. The figures for the year 1964 constitute an exception to this general trend, since the gross product rose by 7.8 per cent. However, the improvement did not last, for the rate of development fell to 4 per cent in the following year, and was still lower in 1966, to judge from the provisional estimates available.

The evolution of the major sectors of economic activity, particularly industry, construction and government services, has followed the same pattern as the overall product.

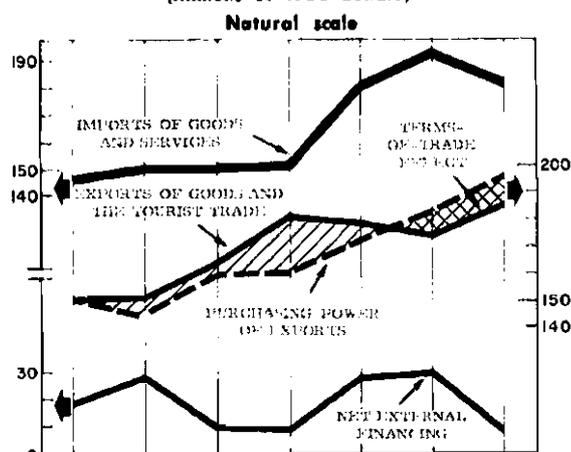
In 1965, after a year of virtual stagnation, agricultural production expanded at the high rate of 11 per cent. Output of coffee and cacao rose by more than 40 per cent and some of the crops grown for domestic consumption (maize, potatoes, wheat, yuca, plantains and tobacco) also showed considerable increases. On the other hand, bad weather in the coastal districts reduced the rice harvest, and, to a lesser extent, that of bananas, although the area under cultivation had been substantially enlarged. In 1966 the situation altered. Coffee and cacao were unable to maintain the preceding year's high production levels, but

ECUADOR : 1960 - 66

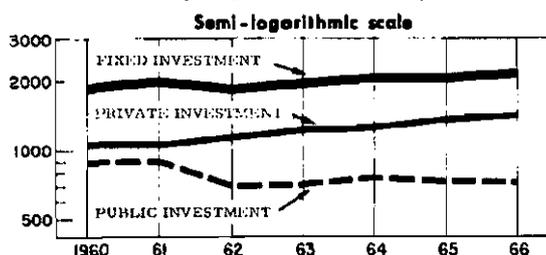
(a) EVOLUTION OF PER CAPITA GROSS INTERNAL PRODUCT AND REAL INCOME
(Indexes : 1960=100)



(b) EXTERNAL SECTOR TRENDS
(Millions of 1960 dollars)



(c) EVOLUTION OF INVESTMENT
(Millions of 1960 sucres)



as output of bananas increased by about 10 per cent, the volume of exports remained almost unchanged. Production for domestic consumption expanded by approximately 5 per cent, because increases in rice, sugar-cane, wheat, beans, yuca and maize more than offset contractions in potatoes, raw cotton and barley.

The growth rate of manufacturing was particularly rapid in 1964, under 5 per cent in 1965 and lower still in 1966, having lost some of the momentum that had characterized it for years. However, considerable progress is still being made in respect of modernization and the improvement of productivity in some branches of industry, and industry is becoming more diversified geographically with the development of fairly important industrial centres in Quito, Guayaquil and Cuenca.

The recent decline in both public and private investment kept the growth rate of construction relatively static. Commerce, on the other hand,

showed a more favourable trend because it is closely linked with foreign trade transactions, although it suffered from the recent contraction in imports.

Infrastructure projects made relatively little headway, although work on the Highway Plan proceeded more regularly because it had been covered by specific allocations of internal and external financing.

The external sector

In contrast with the trends of the domestic product, exports increased rapidly over the past three years: 9.1 per cent in 1964, 8.2 per cent in 1965 and 10 per cent in 1966. At the same time, marked changes took place in the geographical composition of trade, mainly because the share of banana exports in the United States market dwindled, while sales to Europe increased substantially.

Imports trends also showed significant changes, but they more closely parallel the movements of the domestic product, although imports fluctuated more sharply. The increase in imports was particularly striking in 1964 (over 20 per cent). A more moderate expansion the following year raised them to a level of more than 200 million dollars, although they decreased slightly in 1966. Deliberately restrictive measures were adopted in 1966 to reduce the continuing deficit on current account. They included special surcharges, additional taxes and increases in prior deposits.

The public sector

Total public expenditure in 1966 contracted as an effect of the stabilization programme, causing a further decline in public investment which was not offset by the increase in private capital formation.

For years, public expenditure has expanded more rapidly than current fiscal income, and it became necessary to draw on domestic credit. Up to August 1966 the cumulative internal public debt had risen to 3 290 million sucres, compared with 1 730 million at the end of 1963.

The deficit financing of public expenditure, in conjunction with balance-of-payments problems created by the rapid growth of imports and the outflow of foreign exchange, intensified inflationary pressures. In the circumstances, a stabilization plan was launched embodying the import restrictions referred to above, the budget was reduced, ceilings were fixed for Central Bank loans and the statutory cash reserves were increased.

	Millions of sucres at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 a/	1966 b/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	14 140	16 809	17 366	17 940	4.0	3.3	3.3
Total investment	2 151	2 338	2 392	...	2.1c/d/	2.3	...
Gross fixed investment ^e	1 897	2 025	2 073	2 120	1.9	2.4	2.3
Public	882	760	739	...	-3.5c/d/	-2.8	...
Private	1 015	1 265	1 334	...	5.6c/d/	5.5	...
Total consumption	11 935	14 536	15 272	15 737c/d/	4.7	5.1	3.0
Public	1 813	2 242	2 369	2 490	5.4	5.7	5.1
Private	10 122	12 294	12 903	13 247c/d/	4.6	5.0	2.7
Exports of goods and services	2 530	3 013	2 945	3 150	3.7	-2.3	7.0
Imports of goods and services	2 476	3 078	3 243	3 067	3.6	5.4	-5.4

Sources: ECLA, on the basis of statistics from Central Bank of Ecuador, Memoria del Gerente General 1965; IMF, Balance of Payments Yearbook.

- a/ Provisional figures.
 b/ Provisional estimates.
 c/ 1960-65.
 d/ Including inventory changes.

El Salvador

Recent economic trends

In 1966 the growth rate of the economy of El Salvador was 5.5 per cent, higher than in 1965, despite the fact that for the second consecutive year there was a decline in the growth of exports.

This positive trend was to some extent the result of the strengthening of economic bonds with the rest of Central America which, together with other stimuli created by the widening of the domestic market, provided a basis for a dynamic process of industrialization. On the other hand, exports increased by less than 1 per cent as a result of adverse weather conditions affecting the cotton and coffee crops in the crop year 1965/66 and unfavourable conditions in the international market, and there was a reduction in the revenue from taxes, which led to cuts in public expenditure.

Private consumption rose sharply (5.5 per cent), stimulated by the increased production of agricultural commodities (particularly basic cereals) and manufactured goods for domestic consumption. Private investment, whose rate of

growth had declined in 1965, was given fresh impetus and rose by almost 9 per cent. Although public investment increased by only 3.2 per cent in real terms, the high levels reached in 1965 were maintained, despite pressure on public saving and obstacles to the negotiation of certain foreign credits.

The increase in consumption and investment provided incentives for growth in most branches of domestic production. The industrial sector continued to grow at a high rate (9.3 per cent) and in agriculture the cotton crisis was offset by an increase in the production of goods for domestic consumption. The rates of growth in building, electricity and services were lower than in 1965, but generally higher than that of the economy as a whole.

The external sector

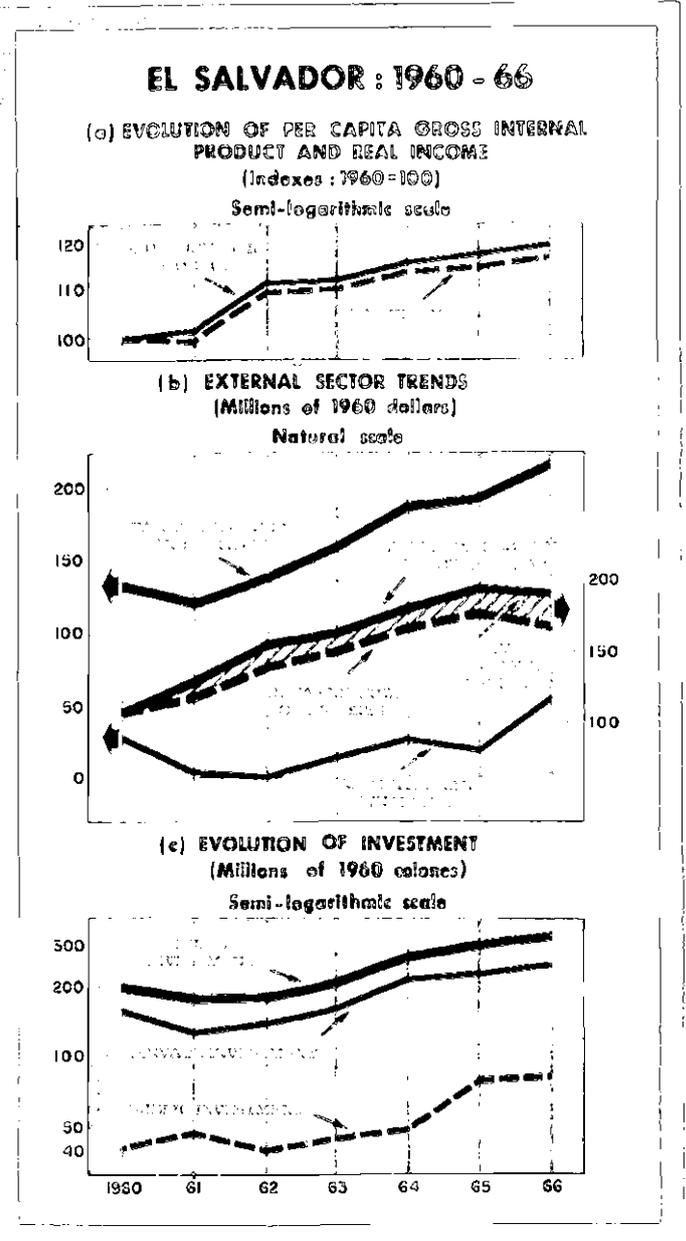
There was increased pressure on the balance of payments in 1966. The deficit on current account, which had risen to 40 million colones a year in the period 1963-65, more than doubled in 1966 to reach a figure of 84 million colones. The

current value of exports fell from 528 to 511 million colones and their purchasing power was further reduced (4.0 per cent) by a downward turn in the terms of trade.

Almost the only exports affected by the decline were coffee and cotton, in the first case because of the restricted quotas established under the International Coffee Agreement, and in the second because of the reduction in supply. Cotton exports fell by almost 25 per cent (from 73 000 to 55 000 tons) between 1965 and 1966, while their current value was reduced by 24.1 million colones. The value of coffee exports also declined, with the levelling off in volume and the drop in average world prices, resulting in a loss of income of approximately 12 million colones.

Exports of residual products or products intended for the Central American Common Market showed a very different trend. Sales of sugar and shrimps climbed back to their 1964 levels, with the increase in supply to meet the greater demand from the United States. At the same time, exports to the rest of Central America, particularly of manufactures, continued to increase rapidly, reaching a value of around 50 million dollars, an increase of 8 per cent over 1965.

This situation led to a more rigorous application of the measures designed to cut down imports and reduce short-term borrowing which were first imposed in mid-1965. To this end, new credit ceilings were established, and deadlines were set for acquiring foreign exchange to pay for goods from abroad. This held the rate of increase of imports which had averaged 14 per cent over the previous three years, down to 3.2 per cent.



EL SALVADOR: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of colones at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	1 418.3	1 859.9	1 948.2	2 055.4	6.4	4.7	5.5
Total investment	...	...	...	...	...	...	...
Gross fixed investment	197.3	261.5	300.6	322.9	8.5	15.0	7.4
Public	40.6	48.4	78.6	81.1	12.2	62.4	3.2
Private	156.7	213.1	222.0	241.8	7.5	4.2	8.9
Total consumption	1 285.4	1 624.3	1 648.8	1 807.9	5.8	1.5	9.6
Public	143.1	162.6	171.7	178.4	3.7	5.6	3.9
Private a/	1 142.3	1 461.7	1 477.1	1 629.5	6.1	1.1	10.3
Exports of goods and services	289.4	468.6	504.2	495.7	9.4	7.6	-1.7
Imports of goods and services	353.8	494.5	505.4	571.1	8.3	2.2	13.0

Source: ECLA, on the basis of official statistics.

a/ Including inventory changes.

Balance-of-payments capital movements showed some deterioration in the inflow of investment funds and growing difficulties of different kinds in increasing long-term receipts. In 1966 total net inflows declined by about 6.6 per cent and net

inflows of long-term government funds by 3 per cent, with the result that 27 per cent of the deficit on current account had to be financed out of the Central Bank's reserves.

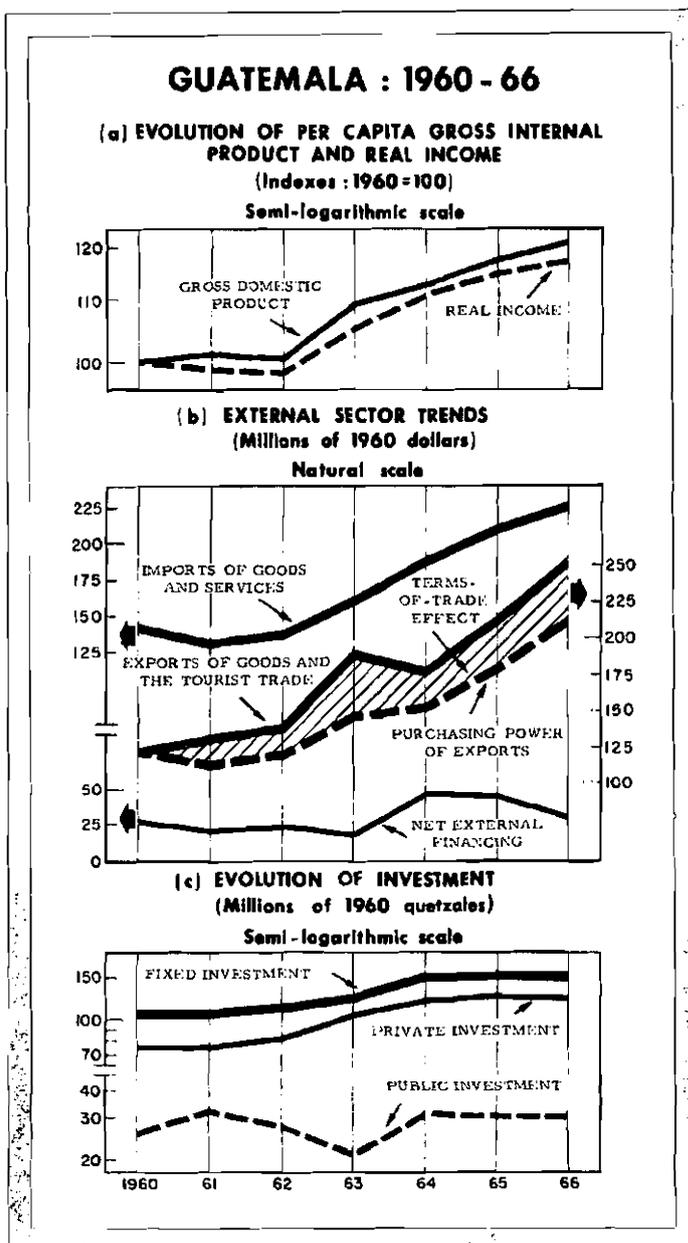
Guatemala

Recent economic trends

In 1966, through a combination of circumstances, the normal evolution of Guatemala's system of production was significantly modified. Export earnings continued their rapid upward trend, mainly as a result of the sale of surplus carried over from the preceding year. Internal economic activity, on the other hand, contracted with the withholding of private investment and the problem of securing funds and building up savings in the public sector. Lastly, and closely related to these events, the change of government that took place halfway through the year resulted in substantial changes in economic policy and in the institutional machinery for the promotion and programming of development.

Subject to those determining factors, Guatemala's economic growth rate was relatively high (5.9 per cent), although lower than the 1965 rate and the average for the last three years. The mainspring of development was the auspicious external demand situation. The value of exports of goods and services rose by 13 per cent - as compared with 19.9 per cent in the preceding year and 9.3 per cent in 1963-66 - as a result of bigger coffee and cotton sales and the steady growth of sales to the Central American Common Market. Another and stronger favourable influence seems to have been that exerted by an improvement in world market prices, as a result of which the per cent of exports rose more than their quantity. But the expansion of exports did not create corresponding increases in the other components of aggregate demand. Elements of uncertainty influenced investment decisions, and had an indirect effect on the consumption levels of the population. Generally speaking, the private sector took a cautious stand, which accounted for the contraction of its expenditure on capital formation (-1.3 per cent), and, in part, for the virtual stagnation of imports. This latter development was in sharp contrast to previous trends, since external purchases had increased in recent years at rates ranging between 10 and 15 per cent.

Public expenditure also showed signs of retrenchment. Both on current and capital



accounts it increased at a very moderate rate, dropping in the case of current expenditure from 9.6 per cent in 1965 to 2.3 per cent in 1966, and in the case of capital outlay, recovering slightly (with an increase of 2.2 per cent) following the contraction in the previous year. The current income of the central government remained virtually stationary at a little above 120 million quetzales.

During the past few years, public investment has fluctuated considerably, but has invariably fallen far short of the levels reached early in the second half of the fifties. In 1966, central government investment decreased by 10.0 per cent, and that of the public sector as a whole only just exceeded the amount invested in the previous year (32.6 million quetzales, as against 31.9 million in 1963).

Development policy

The new Government has formulated a number of economic policy programmes and measures which will begin to have an impact in the course of 1967. Public investment is being rechannelled to a considerable extent, with emphasis on infrastructure projects calculated to eliminate the economy's worst bottlenecks, and on the rapid execution of available projects by tapping new resources and streamlining legal and administrative formalities. Moreover, a start has been made on the implementation or study of expanded programmes in various economic and social fields. In addition, the necessary changes have been introduced in the public sector's financing policy. The intention is to make fuller and more

efficient use of the funds obtainable from international credit institutions and several substantial loans have been approved in principle by such agencies as the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (IBRD) and the Export-Import Bank (EXIMBANK). Action has also been initiated to increase the income of the central government. A moderate tax reform has been introduced, raising the rates of real estate taxes and stamp duties, and various administrative changes are being adopted to improve revenue collection and control systems.

More general steps are also being taken to improve the operation of the public administration and to incorporate it more fully into the development programming process. Work has begun on the internal reorganization of the Ministry of Communications and Public Works and the Ministry of Agriculture, with the aim, *inter alia*, of expanding their capacity for the preparation and execution of projects or bringing them into more direct contact with regional development problems. In addition, the application of the performance budgeting technique has been extended to most departments of the central government, and is shortly to be introduced in semi-public enterprises and agencies.

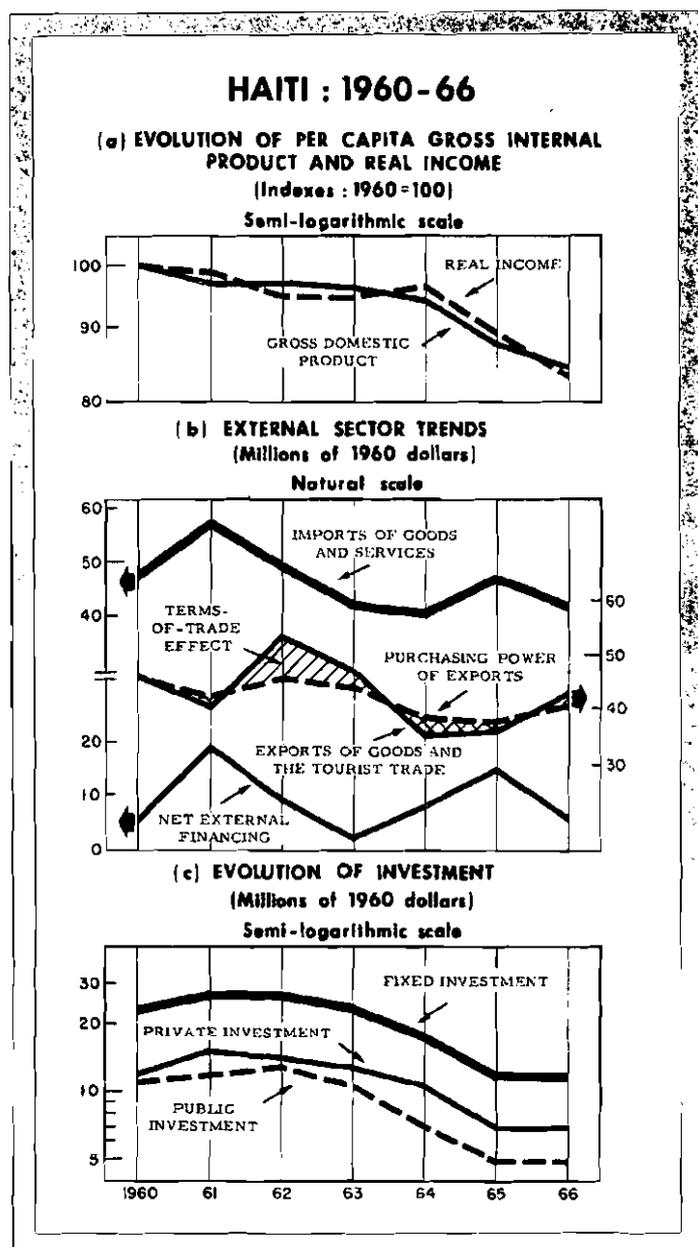
GUATEMALA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of quetzales at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 <u>a/</u>	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	1 020.5	1 298.8	1 394.1	1 476.3	6.3	7.3	5.9
Total investment	108.8	162.2	179.6	189.2	9.7	10.7	5.3
Gross fixed investment	103.2	152.3	154.4	153.5	6.8	1.4	-0.6
Public	26.6	31.9	30.2	30.8	2.5	-5.3	2.0
Private	76.6	120.4	124.2	122.7	8.2	3.2	-1.2
Total consumption	932.0	1 148.0	1 206.9	1 250.3	5.0	5.1	3.6
Public	79.9	79.3	87.0	89.0	1.8	9.7	2.3
Private	852.1	1 068.7	1 119.9	1 161.3	5.3	4.8	3.7
Exports of goods and services	131.9	191.7	232.7	277.6	13.2	21.4	19.3
Imports of goods and services	152.2	203.1	225.1	240.8	7.9	10.8	7.0

Source: ECLA, on the basis of statistics prepared by the Bank of Guatemala.

a/ Provisional estimates.

Haiti



declining for the past six years. Crop production for export contracted slightly owing to the decline in world market prices and bad weather. Coffee output, in particular, dropped about 3 per cent. The level of manufacturing output was much the same as in 1965, both in the food industries producing for the domestic market and in those processing raw materials for export.

Total investment seems to have been stationary between 1965 and 1966 at its lowest level for the last five years (about half as high as in 1960 and 1963). Public investment accounted for about 40 per cent of the total. Overall consumption dwindled, entirely as a result of the decline in private sector consumption, since government consumption showed no change.

Public sector revenue, excluding autonomous capital inflows, is estimated to have been 132.8 million gourdes (5.7 more than in 1965 but less than in 1960), and budgetary expenditure decreased by about 6 per cent. There was a small debit balance for net external loans. Budgetary expenditure did not cover investment, which was charged to the special development appropriation (4.5 million gourdes), extra-budgetary funds (10.3 million from the national rehabilitation drive and the development budget) and specific expenditure items financed by external loans (1.5 million) (see IA-ECOSOC, *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Haití* (CIAP/29), pp. 43-46).

The balance of payments shows an increase of 11.3 per cent for exports and a decrease of approximately 6.6 per cent for imports. As there was little variation in net foreign investment income and the current account deficit of 16.3 million dollars in 1965 was reduced to 6.6 million in 1966.

In 1966 Haiti's gross domestic product decreased again by an estimated 2.6 per cent. The services sector was responsible for the decline, since the agricultural product increased slightly (by 1 per cent) while the industrial product remained at the 1965 level.

In agriculture, there was an improvement in crop output for the home market, particularly maize, rice and sugar. This reversed the trend of the food production index, which had been

As a measure of economic policy, the Government initiated a crash public investment programme in March 1966. Its aims were to improve the highways and irrigations systems, to continue the programme being run by the Artibonita Valley Development Agency to purchase agricultural machinery, to complete the airport at Port-au-Prince to prevent the accumulation of silt in the Péligre reservoir to establish fish nurseries and to prepare projects for new industries.

Honduras

Recent economic trends

In 1966 the gross product increased at a rate of only 3.3 per cent, which was barely sufficient to sustain per capita income levels. This low growth rate accentuated the disparity between the economic growth of Honduras and that of the other Central American countries in the present decade, the average growth rate for Honduras being 4.8 per cent for the period 1960-66 as against 6.2 per cent for the rest of Central America.

In 1966 exports continued to constitute the main area of expansion, although they did not increase as rapidly as in 1965 (37 and 13 per cent respectively). Gross investment grew slowly, as a result of the decline in public capital formation (one-third lower in 1966 than in 1963) and a modest increase in private investment. The decline in the growth rate of private investment (3.3 per cent in 1966 as against 6.3 per cent in 1965) was mainly due to the fact that in 1965 the banana companies completed a two-year expansion programme involving very heavy outlays, which were only partly offset by a simultaneous drive to mobilize resources for other sectors, particularly manufacturing. Consumption increased by only 2

per cent in relation to 1965, because private consumer expenditure remained virtually stationary; in contrast, the public sector's current expenditure continued to expand at a fairly rapid rate (6.9 per cent), but is still too slight to exert a decisive influence on internal demand.

In the circumstances, the Government took a series of measures to change the structure of production, improve planning machinery and bring Honduras abreast of the other members of the Central American Common Market.

At the end of 1965, a law was passed establishing a Higher Planning Council to advise the Executive and the Legislature, and several sectoral offices were subsequently set up. At the same time, a start was made on preparatory studies for a crash programme, which will identify and evaluate the investment projects to be given top priority for government action and international technical assistance.

Vis-à-vis the Central American Common Market, Honduras succeeded in obtaining the establishment of a preferential system favouring its industrial development.

HONDURAS: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of dollars at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 a/	1966 a/	1960-1966	1964-1965	1965-1966
Gross domestic product	376.7	451.4	484.2	500.1	4.8	7.3	3.3
Total investment	52.9	65.1	66.4	...	4.7 b/	2.0	...
Gross fixed investment	47.9	61.1	62.4	64.9	5.2	2.1	4.0
Public	10.1	12.4	10.7	11.3	1.9	-13.7	5.6
Private	37.8	48.7	51.7	53.6	6.0	6.2	3.7
Total consumption	329.8	410.3	434.8	450.8 c/	5.3	6.0	3.7
Public	29.7	38.2	39.6	42.3	6.1	3.7	6.8
Private	300.1	372.1	395.2	408.5 c/	5.3	6.2	3.4
Exports of goods and services	71.9	87.9	113.6	132.7	10.8	29.2	16.8
Imports of goods and services	77.9	111.9	130.6	148.3	11.3	16.7	13.6

Source: ECLA, on the basis of official statistics.

a/ Provisional estimates.

b/ 1960-65.

c/ Including inventory changes.

The external sector

In both 1965 and 1966 the trade account closed with a surplus (3.8 and 5.3 million lempiras respectively), as against a deficit in the two preceding years, while exports accounted for an unprecedented proportion (28 per cent) on the domestic product.

In the space of two years, banana exports virtually doubled to reach a quantum of 21 million stems, raising their share of total exports to 45 per cent. There was also a steady increase in coffee sales and in exports of a wide range of goods to the Central American Common Market.

Imports have also been growing rapidly, and had an estimated f.o.b. value of 250 million lempiras in 1966. In general, the greatest increases were in consumer and intermediate goods with more moderate rates of increase for capital goods.

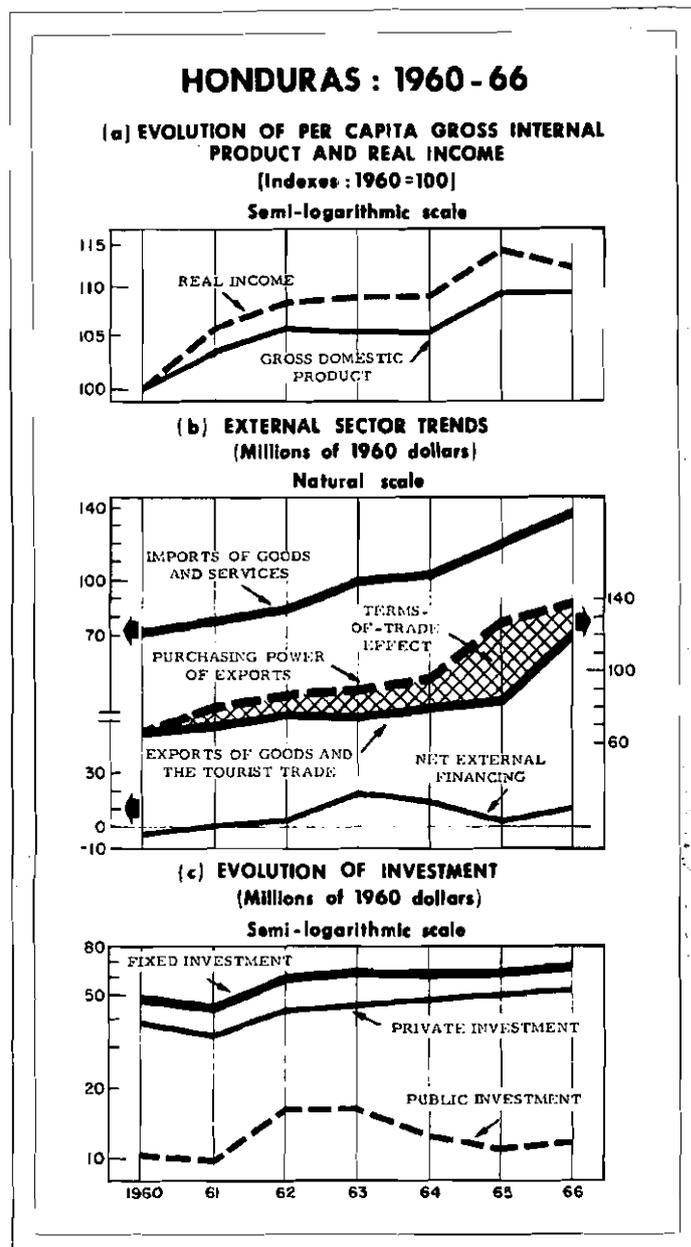
The exceptional increase in external factor payments associated with the expansion of the banana sector was responsible for deficits on the current account as a whole, despite the surpluses on the trade account. Capital transactions in 1966 showed a net income of nearly 36 million lempiras, or an increase of 18 per cent over 1965. As has generally been the case throughout the sixties, the largest inflows were those of private long-term capital (with nearly 65 per cent of the total) and, in that category, direct foreign investment. However, short-term capital movements were not significant both because they amounted to very little and because of the Government's policy with regard to this type of debt.

By and large, the balance of payments was sound, since international reserves increased for the third year in succession. Pressure on the capacity to import was reduced by the slow growth of income and consumption and the cuts and delays in government investment programmes.

Public finances

Generally speaking, tax revenue is increasing rapidly while spending is lagging behind because expenditure for capital formation has remained at the same level.

Central government income on current account has soared in the last four years. The 13.1 per cent increase in 1966 was due to the growth of



foreign trade and tax reform.

In contrast with tax revenue, central government expenditure has been losing impetus. It expanded by 17 per cent in 1964 and contracted to 9 and 5 per cent in the two years that followed. The declining trend has had a different effect on current and capital account expenditure, in that the former has continued to increase more rapidly than the domestic product, reaching a total of 91 million lempiras, of 6 per cent more than in 1965.

The result was a surplus on the current government account (32 million lempiras) for the third year in succession. The growth of public sector saving and the reduction in capital formation made it possible to hold down external and internal borrowing and to increase cash holdings by an estimated 10 million lempiras.

Jamaica

Recent economic growth

After the high rate of growth achieved by the Jamaican economy in the fifties, in recent years it has been characterized by a slower and more irregular expansion. In the fifties per capita income approximately doubled and the level of investment rose from under 10 per cent of the gross national product at the beginning of the period to well over 20 per cent. The main impetus to economic growth and capital formation was provided by foreign investment in bauxite mining, alumina production and hotel construction, but at the same time there was a substantial increase in domestic savings.

The 6.1 per cent growth rate of the product in 1960 declined to 3.2 and 1.9 per cent in the following two years, picked up to reach 3.2 and 7 per cent in 1963 and 1964, and slowed down again in 1965 to approximately 4.5 per cent. Although complete data are not available, it is estimated that in 1966 the growth rate was higher than in 1965.

In 1965, the last year for which figures are available, gross national income amounted to 260.4 million Jamaican pounds and per capita income to 145.6 Jamaican pounds (the Jamaican pound being equivalent to 2.8 dollars).

Main sectors of production

In the period 1955-65, the Jamaican economy -once completely dependent upon tropical agriculture- underwent a major transformation, with the exploitation of bauxite, the rapid rise in the level of industrial activity, the development of Jamaica into a major vacation resort and the upsurge in the building industry. Increased activity in these sectors had a stimulating effect on the rest of the economy, except for agriculture.

Agriculture's contribution to the gross domestic product fell rapidly from 20 per cent in 1954 to 12 per cent in 1964 and 1965. With an average growth rate of 4.5 per cent since 1960, it has not managed to keep pace with the other major sectors, since, although output has increased steadily, it has not matched the expansion in demand, and agricultural imports have added to balance-of-payments pressures.

Mining and refining contribute 10 per cent of the gross domestic product, manufacturing 15 per cent, construction 11 per cent and the

distributive trades about 14 per cent. Since 1963 manufacturing has contributed the largest share of the gross domestic product and is now growing at an average rate of more than 6 per cent, about half the present growth rate of mining and refining.

In 1966 the economy was characterized by a steady increase in the production of certain major commodities, particularly alumina, bauxite, cement and petroleum products. By October, cement production was up 20 per cent, bauxite 4 per cent, alumina 11 per cent, and petroleum products 4.5 per cent in comparison with the same period in 1965. Other industrial goods, such as rum, beer and cigarettes, also showed increases, while the movement in agricultural products was marginal.

The external sector

Balance-of-payments trends since the mid-fifties show that the rapid expansion of the Jamaican economy was largely stimulated by foreign private investment in the export sector, and that the bulk of financing was provided by both private and official foreign capital. Thus while both merchandise exports and imports more than tripled and there was a persistent deficit on current account, the country's foreign exchange reserves nearly doubled and amounted to 41 million Jamaican pounds in 1965 or about five months of imports. The import and export coefficients, which were already high at the beginning of the decade, rose substantially by 1964, indicating increasing openness of the economy. Exports of goods and services amounted to 42 per cent of the gross domestic product in 1964 as against 30 per cent in 1954; and this proportion has since risen to 45 per cent. The comparable figures for imports are 33 per cent in 1954 and 48 per cent in 1964 and 1965.

The main determinant of Jamaica's rapidly rising exports was bauxite. Exports of bauxite and alumina rose from 2.8 million Jamaican pounds in 1952 to 33.8 million in 1964 and 35.2 million in 1965, and now constitute roughly 45 per cent of total merchandise exports. At the same time, however, other exports, such as sugar, bananas and other agricultural commodities, nearly doubled. Since 1959 Jamaica has been an exporter of manufactures, consisting mainly of textiles (clothing) and cement. In addition, tourist earnings increased approximately 61 per cent between 1960 and 1965 (14.4 million Jamaican pounds in 1960 and 23.2 million in

1965). Preliminary estimates put tourist earnings in 1966 at 29 million Jamaican pounds. The net result of these developments is that Jamaica is now less dependent upon agricultural export earnings, which declined from 69 per cent of the total in 1953 to 40 per cent by the end of 1964.

The general tendency has been for imports of goods and services to expand more rapidly than exports. However, by 1963 the 1959 deficit of 14.1 million Jamaican pounds on current account had been converted into a surplus of 2.6 million. This trend was reversed in 1964 and 1965 when there were deficits of 12.6 and 13 million Jamaican pounds respectively. Available data indicate that both imports and exports continued to expand in 1966, the former more rapidly than the latter, suggesting an increase in the trade

deficit, although this deficit should to a large extent be offset by the substantial increase in tourist earnings.

The growth of exports in 1966 was mainly due to increased shipments of bauxite, alumina and petroleum products. However, lower export earnings from bananas, sugar and citrus fruits offset many of the gains recorded by other food commodities. The rise in the visible trade deficit up to October is attributable mainly to higher imports of machinery and equipment, raw materials, food and durable consumer goods on the one hand, and lower export earnings from the main agricultural products on the other. This decline -mainly due to the drop in sugar prices- has constituted the major problem in external transactions since 1964.

Mexico

Major overall trends

In 1966 the Mexican economy generally followed the main trends which developed since the beginning of the post-war period, with the domestic product estimated to have risen 6.7 per cent above the previous year's level. Although the inflationary pressures were controlled and production

capacity substantially enlarged, some partial controls were maintained on expenditure during the year.

Measured at 1960 prices, public investment seems to have risen by 13 per cent, but this was essentially a recovery after the sharp decline in 1965. Capital expenditure by the Federal

MEXICO: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 a/	1966 b/	1960-1966	1964-1965	1965-1966
Gross domestic product	155 889	198 724	209 420	224 500	6.3	5.4	7.2
Total investment	25 226	32 038	35 150	37 943	8.5	3.5	14.5
Gross fixed investment	23 226	32 038	33 150	37 943	8.5	3.5	14.5
Public	13 560	18 660	18 340	21 920	8.3	-1.7	19.5
Private	9 666	13 378	14 810	16 023	8.8	10.7	8.2
Total consumption	134 389	169 686	178 478	187 636	5.7	5.2	5.1
Public	7 669	10 680	11 750	12 563	8.6	10.0	6.9
Private	126 720	159 006	166 728	175 073	5.5	4.9	5.0
Exports of goods and services	16 599	20 551	22 262	24 039	6.4	8.3	8.0
Imports of goods and services	18 325	23 551	24 470	25 118	5.4	3.9	2.6

Sources: Bank of Mexico, Department of Economic Studies; Ministry of Finance, Technical Group; ECLA, on the basis of official statistics; IMF, Balance of Payments Yearbook.

a/ Provisional figures.

b/ Estimates.

Government followed much the same trend. Even with a slight increase estimated at around 4 per cent from 1965 to 1966, it would still be well below the peak figure recorded in 1964. Nevertheless, a number of Government investment projects were initiated and the work of co-ordinating and improving capital formation programmes in the public sector continued.

Steps were also taken to retrench and clamp down on the expansion of current government expenditure, which had been rising at a rate of more than 14 per cent between 1960 and 1965, and an increase of 9 per cent over the 1965 figure, i. e. from 15 100 to 16 500 million pesos, was anticipated for 1966.

Total fiscal revenue was expected to increase at a faster rate than the gross national product (7.5 and 6.5 per cent respectively) with the economic recovery, the 1965 amendment of the Income Tax Act and certain changes in import duties and internal taxes. However, revenue from export taxes was expected to be lower owing to the policy of exempting exports of cotton to world markets.

Although the final figures are not yet available, the trend of Federal government receipts and expenditure indicates that, for the second year in succession, the level of the budget deficit will be reduced to between 900 and 1 000 million pesos as against 2 600 and 1 150 million in 1964 and 1965 respectively.

The major factors of demand underlying the expansion in 1966 were the sizable increase in private investment and in income from exports of goods and services. It was also due in part to the increased purchasing power of many groups of workers, as a result of a higher minimum wage and higher allowances for government and decentralized agency employees, as well as the revision of the collective labour contracts for several branches of industry.

External demand soared to unprecedented heights during the year, and this, added to the stagnation of imports, reduced the deficit on current account by nearly 60 million dollars, thereby relaxing the pressure on the balance of payments. Exports of goods and income from tourism showed growth rates of around 6 and 17 per cent respectively, which compare favourably with the rates of 8.9 and 15 per cent in 1965. This facilitated the measures that have been taken since 1965 to check the expansion of the external debt and reschedule some short-term liabilities. Net long-term credit from abroad, while around 70 million dollars more than in 1965, was still well below the high level for 1964.

Stimulated by the upsurge of domestic demand

and the need to complete the expansion projects begun in 1964, private investment increased by 15.5 per cent (22 400 million pesos at 1960 prices). The growth of industrial investment in itself gave considerable impetus to supplementary building works, and, together with the recrudescence of residential building demand and various other factors, was almost certainly responsible for the main change in the utilization of private resources. Building activities, which experienced a recession in 1965, made good progress again (15 per cent) through the use of idle capacity and additions to production capacity for cement, rods and structural shapes.

Lastly, more capital resources were channelled to other sectors, mainly agriculture and mining, partly as a result of a number of development incentives.

The steps taken to check the growth of domestic demand and the general increase in production had a steadying effect on price levels. The rise in the wholesale price index for Mexico City was about 1 per cent for the first ten months of 1966 as against 2 and 4 per cent in 1965 and 1964.

Recent production trends

One of the most notable trends in Mexico's economic development in 1966 was the rapid growth of production in response to the increase in domestic and external demand. Almost all sectors of the economy experienced higher growth rates than in 1965, which was also partly the result of increases in installed capacity over previous years.

Industrial production, building and services were among the most dynamic sectors. Electric power continued to grow rapidly (9.5 per cent), and together with activities such as stock farming, trade and transport - which generally maintained the previous year's trends - helped to sustain the overall levels of economic activity. In contrast, agricultural and petroleum production showed less of an increase as compared with the growth rates achieved in 1965. This decline was largely the result of particular circumstances, which are unlikely to have a marked effect on long-term trends.

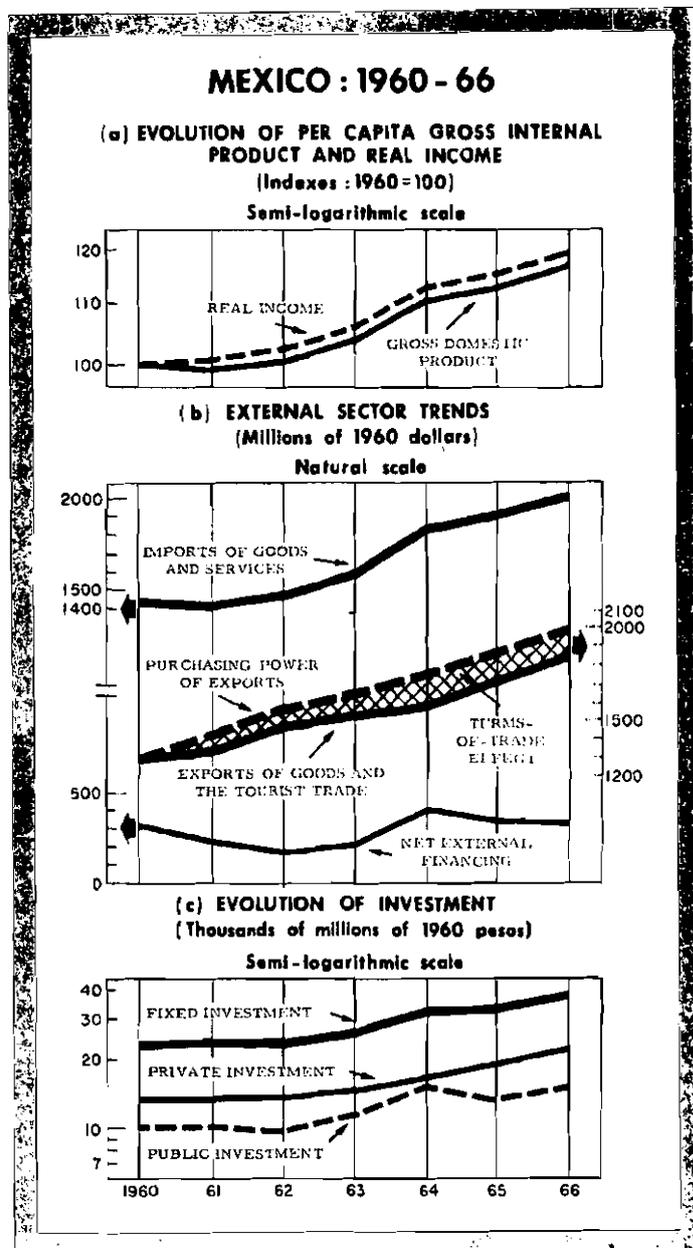
In 1966 the growth rate for manufacturing reached 9 per cent, which was above the annual average for the last decade (8 per cent). Thus manufacturing was the principal force behind the overall growth of the product in that period. Although, generally speaking, the producer goods industries showed the largest increases, in some cases there were considerable increases in the manufacture of consumer goods.

The production and refining of petroleum expanded by 7 per cent, which was lower than in 1965 (4.2 per cent). The lower rate of growth in the petroleum industry in the last two years is partly the result of the policy of keeping the expansion of supply in line with the growth rate of internal demand, but in 1966 it was also partly the result of the fire which temporarily paralysed the operation of the main refinery.

Mining continued to be affected by factors which had long been responsible for the slow growth or levelling off of production. There were conflicting trends in the mining of the main ores and, in general, the growth of the industry was not a decisive stimulus to the industry's growth. Production of zinc, manganese, bismuth, antimony and iron ore declined, while production of silver, lead and copper rose moderately.

Total agricultural production rose by 2.8 per cent, but export crops and commodities for the domestic market followed divergent trends. Export crops, which had expanded at the rate of 9 per cent in 1965, showed a slight decline as a result of unfavourable conditions in foreign markets. In addition, adverse weather conditions during the second half of the year were responsible for an overall decline in production, estimated at 1 per cent. In general, weather conditions were more favourable for crops mainly intended for domestic consumption, and production of those crops increased by 6.1 per cent, as against a 3.7 per cent increase in 1965.

Livestock production showed a growth rate of 4 per cent in 1966, a slight increase over its rate of 3.4 per cent in 1965. There were no substantial changes in the size of exports, the higher sales of meat being offset by a reduction in the sales of cattle on the hoof.



Nicaragua

Recent economic trends

In 1966 there was a sharp decline in Nicaragua's rate of economic growth, although the economy had been expanding rapidly in the previous five-year period. (The gross domestic product increased by 4.0 per cent in 1966 compared with 8.4 and 9.7 per cent in 1964 and 1965 respectively.) It was caused mainly by a recession in the export sector, primarily due to certain factors that affected output, such as the bad weather that damaged the coffee, cotton, sugar and banana crops, and the lack of elasticity in livestock and meat supplies.

Consumption and investment were higher than in 1965, but showed signs of faltering as a result of the contraction in exports. Investment expanded by 9.3 per cent, thereby compensating to some extent for its decline in 1965. Public investment expenditure rose 11.8 per cent; although this was an appreciable increase, it was barely enough to bring capital formation up to its former level. Preliminary estimates indicate that agriculture and industry in particular made a rapid recovery, and its full effects will be felt in 1967. Agricultural output is expected to expand by 9-10 per cent in the 1966/67 crop year, as a result of increased production for the home market and a resurgence of rising trends in export crops.

The growth of the industrial product was around 8 per cent, which compares favourably with the rate of 2.9 per cent in 1965. To judge from preliminary estimates, the branches that made the greatest progress were food processing, textiles, footwear, chemical products and metal products.

Central government receipts continued to increase, but less rapidly than in the preceding two years because of the depression in the export sector and the slower growth of the economy as a whole. In aggregate terms, they rose from 434 million cordobas in 1965 to 462 million in 1966. Outgoings on current account over the last three years increased on the average by 18.7 per cent each year. Public investment has also increased rapidly since the beginning of the sixties at approximately the same rate as private investment. However, its contraction in 1965 had considerable impact, which was barely offset by an increase of 16.6 per cent in 1966 expenditure.

The external sector

Income from exports of goods and services dropped from 168 to 163 million dollars between 1965 and 1966, after increasing by over 16 per cent in each of the two previous years.

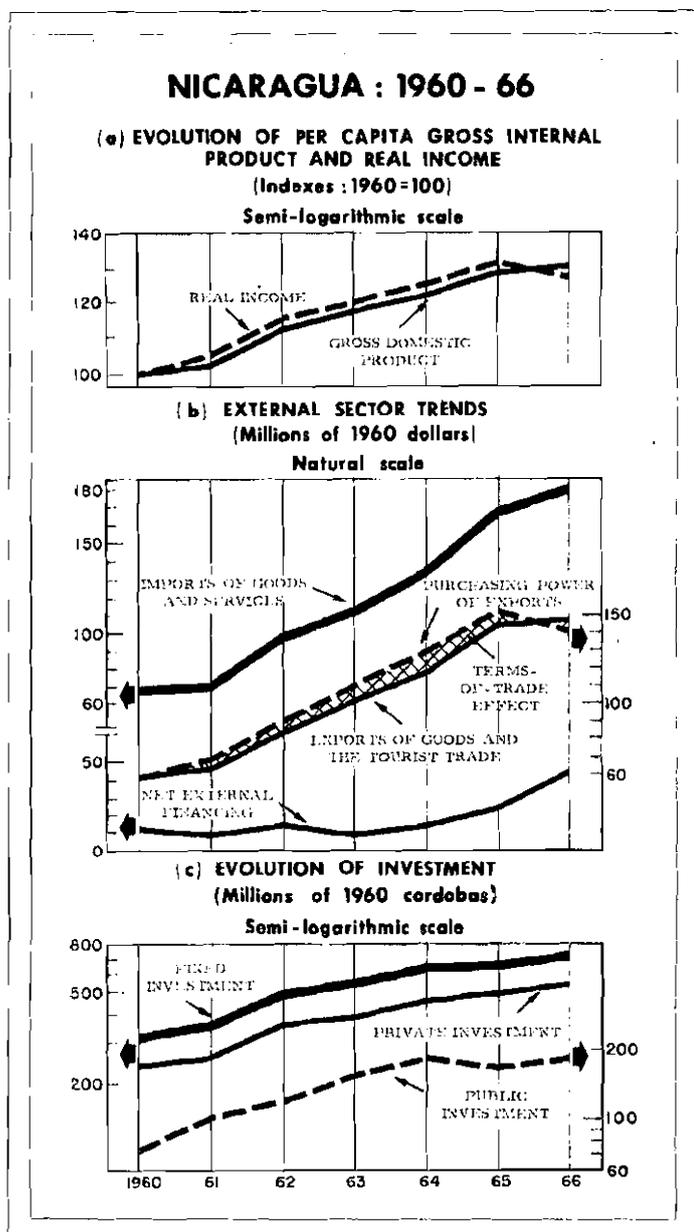
Production of cotton fibre was severely affected by drought. A large part of the cotton-growing area had to be resown with other crops and yields were reduced in general. The current value of exports to world markets declined even more sharply when average market prices fell by 1 per cent. For the same reason, the volume of exports of cotton seed decreased by 20 per cent, although higher market prices kept the reduction in current export earnings below 7 per cent. Sugar exports were affected even more severely by the drought. Yield dropped considerably, cutting sales by over 36 per cent. Nicaragua was unable to send more than 29 000 tons of sugar to the United States market instead of its quota of 49 000 tons. The new quota for 1967 was fixed at 43 000 tons, which may be too little in view of the substantial increase in the cane-growing area in the past few years.

Coffee output in 1965/66 was 31 200 tons, as against 38 400 tons in the previous season. However, the volume of exports diminished by only 2.5 per cent, owing to the sale of carry-over stocks from the 1964 harvest, when the production surplus was well over the quota of 23 625 tons fixed by the International Coffee Agreement. It is hoped that coffee exports will increase in a fairly short period of time as the programme for improving coffee cultivation begins to take effect.

Exports of meat and livestock continued to be affected by inelasticity of supply and the measures taken to prevent the reduction of the livestock inventories. Sales dwindled in volume by 6 per cent, but the rise in international market prices brought their value up to approximately 25 per cent more than the 1965 level.

The trend of imports, unlike that of exports, showed an increase of 12.2 per cent in volume and from 183 to 211 million dollars in value between 1965 and 1966.

The disparity in export and import trends led to a sharp deterioration in the balance of payments. The deficit on current account more than doubled for the second consecutive year, reaching the exceptionally high figure of 51 million dollars. Reserves increased slightly, however, thereby continuing the trend of the past four years. In fact, the changes in foreign exchange earnings resulted in a net increase of 46 million dollars in gross reserves between 1962 and 1966.



Net inflows of foreign capital, including unregistered transactions, soared from 17.6 to 56.5 million dollars in 1964-66. Short-term liabilities accounted for about 72 per cent of this increment. Although reserves are steady, and external debts are not weighing too heavily on current receipts, a further increase in these debts may bring pressure to bear on the balance of payments or create liquidity problems similar to

those affecting other Latin American countries.

Net official long-term capital inflows have remained at a fairly low level, but short-term capital inflows have increased tremendously. The private sector and commercial banks used net credits amounting to 14.2 and 10 million dollars in 1965 and 1966, after having been lenders themselves in previous years.

NICARAGUA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of cordobas at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 a/	1960- 1966	1964- 1965	1965- 1966 a/
Gross domestic product	2 426.2	3 352.7	3 678.1	3 808.5	7.8	9.7	3.5
Total investment	...	...	...	...	...	...	...
Gross fixed investment	314.3	636.1	663.8	725.9	15.0	4.4	9.4
Public	74.2	181.3	165.9	185.5	16.5	-8.5	11.8
Private	240.1	454.8	497.9	540.4	14.5	9.5	8.5
Total consumption b/	2 236.5	2 947.0	3 344.8	3 534.3	7.9	13.5	5.7
Public	210.0	260.9	303.4	343.1	8.5	16.3	13.1
Private b/	2 026.5	2 686.1	3 041.4	3 191.2	7.9	13.2	4.9
Exports of goods and services	525.0	1 066.9	1 291.6	1 283.5	16.1	21.1	-0.6
Imports of goods and services	649.6	1 297.3	1 622.1	1 735.2	17.8	25.0	7.0

Sources: ECLA, on the basis of official statistics. Basic data on external sector: LiF, Balance of Payments Yearbook, various issues.

a/ Provisional estimates.

b/ Including inventory changes.

Panama

Income and production

In 1966 Panama's gross domestic product was about 8.8 per cent higher than in 1965, thus exceeding the average annual growth rate of 8 per cent for the period 1960-65. This continued growth can be partly attributed to a gradual acceleration of domestic production, based mainly on import substitution, the assimilation of new agricultural areas into the market economy and increased public expenditure. In addition, substantial capacity to import, as well as the activities associated with the Canal, expanded the services sector, which produces the bulk of domestic income.

The manufacturing sector is estimated to have increased by 8.4 per cent in 1966, or less than the cumulative annual average growth rate of 12.4 per cent for the period 1960-65. This development was mainly the result of higher domestic demand, tax incentives and protective tariffs. The greatest increases in 1966 were in the slaughtering of cattle, meat processing and canning, the food industries and paper and paperboard production.

Agriculture showed an annual average growth rate of 5.7 per cent between 1960 and 1965, which rose to an estimated 9.3 per cent in 1966. The work begun in 1964 on the cadastral survey, which will cover 39 000 km², was continued in 1966 and is expected to be completed by the end of 1967.

PANAMA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of balboas at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 a/	1966 b/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	418.0	568.8	614.8	668.9	8.1	8.1	8.8
Total investment	67.8	98.8	116.4	128.0	11.2	17.8	10.0
Gross fixed investment	61.4	85.0	98.9	(109.0)	10.0	16.4	10.2
Public	12.0	24.4	28.6	(29.5)	16.2	17.2	3.1
Private	49.4	60.6	70.3	(79.5)	8.2	16.0	13.1
Total consumption	375.1	476.5	518.3	566.3	7.1	8.8	9.3
Public	46.9	63.8	68.0	73.4	7.8	6.6	7.9
Private	328.2	412.7	450.3	492.9	7.0	9.1	9.5
Exports of goods and services	124.2	205.6	225.3	243.8	11.9	9.6	8.2
Imports of goods and services	149.1	212.1	245.2	269.2	10.3	15.6	9.8

Sources: 1960-65: Statistics and Census Office, Panama, and IMF, Balance of Payments Yearbook.

a/ Provisional figures.

b/ Estimates.

Building, which showed a cumulative annual average growth rate of 7.5 per cent between 1960 and 1965, increased that rate to 9.8 per cent in 1966. The Housing and Town Planning Institute is implementing the IVU/IDB programme calling for 6 000 low-cost housing units, and work on the highways plan is continuing. In the private sector, the increase in individual building projects in Panama City and Colón is worth noting.

The trade and services sector is traditionally large in Panama for historical and economic policy reasons, including the country's geographical position as well as the increase in demand, credit and tariff facilities, urbanization and the growth of the market economy. The sector's growth in 1966 is estimated at 9 per cent, thus exceeding the cumulative annual average of 7.3 per cent for the period 1960-65 resulting from greater activity in the Canal Zone.

Balance of payments

The balance of payments reflects Panama's distinctive economic structure. In the first place, there is a wide disparity between exports and imports of goods, which in 1966 are estimated at a value of 100 and 207 million dollars respectively. The resulting deficit of 107 million dollars was mainly covered by sales to the Canal Zone, which amounted to 20 million dollars in goods and 80 million in services.

Panama's exports cover a wide range and may be grouped under three main headings: sales to the Canal Zone (50 per cent), registered exports of goods (30 per cent) and transit trade, tourism and other services (20 per cent). The trends show a relative reduction in exports to the Canal Zone and an increase in export earnings from transit trade and tourism. However, exports to the Zone are responsible for about half of Panama's capacity to import.

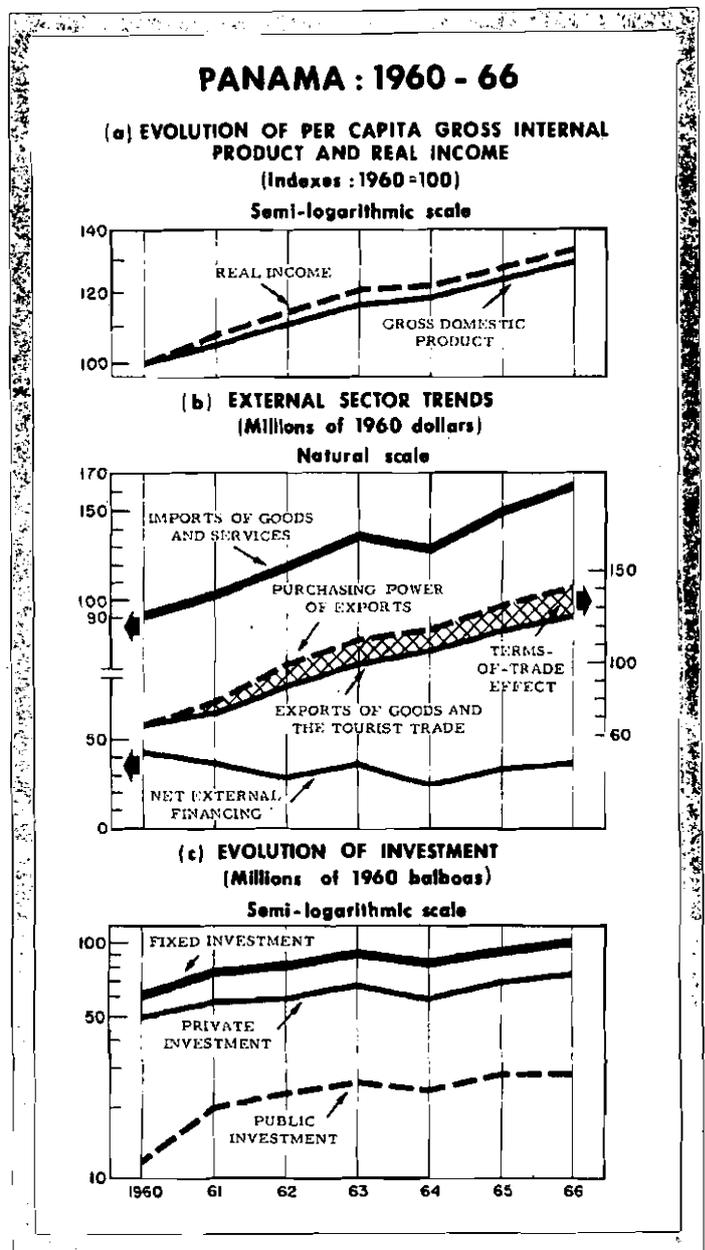
Exports of goods, which consisted almost entirely of two items -bananas and shrimps- increased from 92.6 million dollars to 100 million in 1966 (8 per cent). Imports of goods and services increased at a rate of 8 per cent in 1966 as against 12.7 per cent in 1965, and continued to account for a high proportion of the total product (38.8 per cent).

The public sector and economic policy

Between 1960 and 1965 current public income increased at a cumulative annual rate of 10.4 per cent, and in 1966 is estimated to have dropped to slightly under 10 per cent. The application of the 1964 tax reform raised the level of tax revenue in 1965 and 1966, particularly from income and property taxes. Current expenditure increased at the rate of 8.5 per cent between 1960 and 1965.

and climbed almost 15 per cent in 1966, with the result that the surplus on current account -attributable for the most part to the autonomous agencies- was somewhat under 10 million balboas. Public investment in 1966 is estimated at around 31 million balboas, of which approximately 40 per cent was invested in production sectors (20 per cent in transport and 10 per cent in power), almost 30 per cent in social programmes (15 per cent in housing) and the remaining 30 per cent in administrative projects. The most outstanding projects under way include the housing plan of the Housing and Town Planning Institute, the La Yeguada electric power station, to be completed in 1967, and the water and sewerage works in Panama City. The main project under consideration is the Bayamo hydroelectric plant, at a cost of 40 million dollars, which is expected to be financed under an agreement with the International Bank for Reconstruction and Development.

The main economic policy events in 1966 include, first and foremost, the decision to initiate formal negotiations for Panama's entry into the Central American Common Market. The first step was a study of the probable consequences of this move, from the point of view of Panama and the Central American countries, and negotiations are already under way. Another significant event was the Government's decision not to renew the standby agreement with the International Monetary Fund, which was never used and lapsed in June 1966. Finally, the first steps were taken to establish a banking commission, whose function will be to control the operation of the banking system and to fix interest rates.



Paraguay

Recent economic trends

In the four-year period 1963-66 the Paraguayan economy showed steady but moderate growth, with an increase of 2.3 and 3.3 per cent in the gross domestic product in 1963 and 1964, as much as 5.9 per cent in 1965 and about 1.9 per cent in 1966. These variations were in direct relation to the changes in import capacity, which were favourable in 1965 and much less so in 1966.

According to preliminary estimates, the balance-of-payments position in 1966 shows a deficit on current account of 16.4 million dollars at current prices, as against the negative balances of 7.9 million dollars in 1965 and 10.5 million in

1964. This was the result of a decline of 9.3 per cent in exports and a 3 per cent increase in imports. Floods in some production areas and the lower level of the Paraguay river caused exports of livestock products to contract by nearly 30 per cent, and tobacco, coffee and cotton fibre exports by over 45 per cent. The increase in exports of oils, maté and wood failed to compensate for this decline. The export price index dropped slightly (from 117.1 in 1965 to 115.2 in 1966, with 1960 taken as the base year). The capital account shows little change in government transfer payments (official donations), direct investment and long-term loans. Consequently, the current account deficit has had to be covered mainly by net movements of short-term capital and by drawing on reserves.

The government administration spent nearly 10 per cent more in 1966 than in 1965, in terms of current prices. The increase was due entirely to capital expenditure, since current expenditure remained at the same level. Thus, investment represented 22 per cent of total central government expenditure, as against 14 per cent in the previous year. Tax revenue remained at the relatively high level reached in 1965, when it increased by about 30 per cent.

As in previous years, the policy was to maintain stability, but in 1966 it was hampered by the slower growth rate of the external sector.

Banks extended nearly 40 per cent more credit to the private sector than in 1965, and the Central Bank continued to provide financial support to the Government and State-owned enterprises. The Central Bank's international monetary reserves, including the right to draw on the International Monetary Fund (IMF), remained at about the same level as in December 1965 (11.4 million dollars).

Domestic prices were relatively stable in 1966, with a 2.9 per cent rise in the consumer price index over 1965 in Asunción.

Changes in the major sectors of production

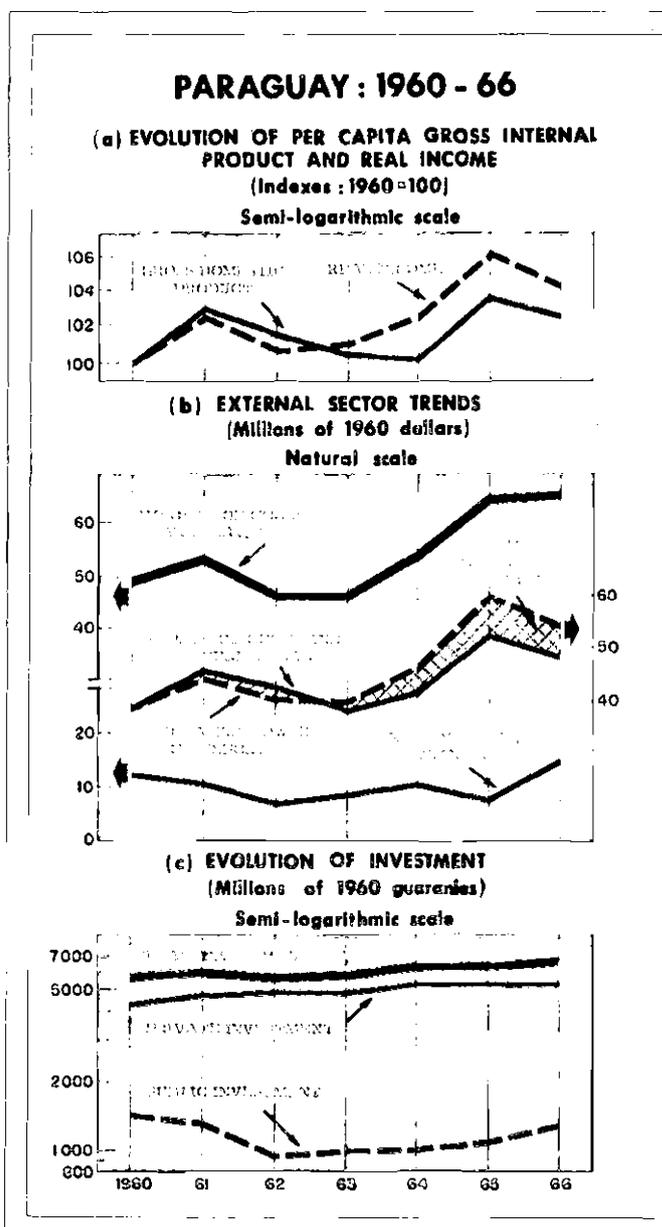
Agriculture expanded by only 1.2 per cent in 1966, as against 3.8 per cent in 1965. The volume of production of most products dwindled as a result of adverse weather conditions. Slaughtering of stock for export decreased considerably, but there was no change in domestic demand, which absorbed three-quarters of the total number of animals slaughtered. Animal stocks rose moderately, despite the floods at the end of 1965 and early in 1966.

The industrial product declined by 1.5 per cent in 1966 in contrast to a 5.4 per cent increase in 1965. This was due to a falling off of the production of Portland cement, cotton fibre and, to a lesser extent, cotton fabrics, sugar, canned meat and tannin. Nevertheless, new plants were established, some with a large growth potential. This is an important development, particularly because slow-growing activities such as the food, oils and textile industries continue to be the mainstay of the industrial structure.

The slow growth of agriculture and industry also affected other economic sectors, except construction, which increased by 13.2 per cent. However, this increase did not affect the situation because construction represents only a

small part of overall activities.

Meanwhile, the Government continued to apply various measures to strengthen the growth of the main economic sectors. In agriculture, the principal objective was to promote land settlement and implement the National Wheat Plan. In industry, new plants were established and existing plants modernized. The most important new project was the Refinería Paraguaya de Petróleo at a cost of 10 million dollars. The tariff policy was to remove export taxes on a number of products. Infrastructure works mainly included highways and power installations. Thus, in 1966, the Ministry of Public Works built 55 kilometres of paved roads, 21 kilometres of gravelled roads and 331 kilometres of embanked roads. The most important power project under way is the Acaray hydroelectric plant, which will have an installed capacity of 47 000 kW upon completion of the first stage in August 1968, and 94 000 kW upon completion of the second stage in 1969. It will cost a total of 29.9 million dollars.



PARAGUAY: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of guaraníes at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965 a/	1966 b/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	34 523	39 177	41 514	42 309	3.5	6.0	1.9
Total investment	5 840	6 577	6 525	(6 800)	2.6	-0.8	4.2
Public	1 400	993	1 100	(1 300)	-1.2	10.8	18.2
Private	4 440	5 584	5 425	(5 500)	3.6	-2.8	1.4
Total consumption	30 157	34 252	36 621	37 903	3.9	6.9	3.5
Public	2 629	3 012	3 066	3 150	3.1	1.8	2.7
Private	27 528	31 240	33 555	34 751	4.0	7.4	3.6
Exports of goods and services c/	5 194	5 969	7 536	6 932	4.0	26.3	-8.0
Imports of goods and services c/	6 968	7 621	9 168	9 324	5.0	20.3	1.7

Sources: ECLA, on the basis of statistics prepared by the Planning Office (Secretaría Técnica de Planificación) and the Central Bank of Paraguay; IMF, Balance of Payments Yearbook.

a/ Provisional figures.

b/ Provisional estimates.

c/ ECLA estimates.

Peru

Recent economic expansion

In 1966 the Peruvian economy continued the steady expansion begun in the early sixties and accelerated in the last three-year period. The gross product rose 6 per cent in 1966 and the increase in real income was much larger (about 8.6 per cent) because export prices were higher and the export sector was more active. There was a price increase of 26 per cent in fish meal and 57 per cent in copper, which, together with the higher prices fetched by other products, raised the overall value of exports by 15 per cent and brought in an additional 100 million dollars in foreign exchange. However, a large proportion of these earnings remained outside the country.

The trends of the major economic sectors show that manufacturing expanded for the second successive year at a rate of over 8 per cent, as a result of the rise in domestic demand and the inflow of direct investment capital, mainly for industry. Construction activities were stimulated by an increase of about 14 per cent in public investment, mainly in infrastructure.

Fisheries output, which had plummeted in

1965 owing to the temporary disappearance of the anchoveta, rose by about 14 per cent in 1966 despite the three-month closed season and the forty-five day fishermen's strike.

The dynamism exhibited in these sectors was counterbalanced to some extent by the quiescence of per capita agricultural production and the decline in mining production.

Since 1960 agricultural production has been increasing at an annual rate of 2.8 per cent, but it expanded 3 per cent in 1966. Its poor progress was particularly apparent in the case of traditional crops grown for domestic consumption, and led to supply shortages that had to be offset by imports. In 1966, imports of food amounted to 132 million dollars, partly because of the drought in southern Peru and certain areas of the sierra.

Provisional data indicate that mining and petroleum production declined in 1966 by about 6 per cent. This aggravated the already stagnant state of the industry, which has remained the same since the beginning of the sixties despite the high prices offered for metals on the world market.

Consumption investment and foreign trade

Since 1960 investment has increased by 10.3 per cent annually and consumption (both private and public) by 7.4 per cent. The disparity between the growth of production and of domestic demand was created by the more rapid expansion of imports, which rose at the rate of 13.2 per cent yearly during that period, and ultimately accounted for 22 per cent of total supply and 28 per cent of the domestic product.

Imports of goods and services have also increased more rapidly than current foreign exchange earnings. Furthermore, gross capital inflows were considerably larger in the last two years, rising from 135 million dollars in 1964 to 247 million in 1966, which comprised 179 million dollars in long-term loans and 38 million in direct investment.

If the sums sent abroad by foreign companies under the head of profits and interest are deducted, the net capital inflow was only 60 million dollars. This was not enough to cover the deficit on current account, and led to a reduction of 22.3 million dollars in international reserves, which had not sunk so low since 1958.

In 1966 the value of exports amounted to 748 million dollars, which indicated an increase of 14 per cent over 1965. This increase was due to the high prices obtained for fish meal, which brought in 182 million dollars, and copper, which earned over 190 million dollars, although the actual volume of fish meal sales was 8 per cent lower and that of copper was also slightly smaller. The other export products varied little, except for sugar, which increased by 23 per cent because Peru's sugar quota was raised for the year.

Total imports of goods were 13.6 per cent higher than in 1965. Three-quarters of this increase represented imports of capital goods (mainly industrial machinery and equipment), 21.5 per cent raw materials and fuels and only 2.5 per cent consumer goods, which nevertheless continued to account for nearly a quarter of the total.

Public investment tripled in terms of constant prices between 1960 and 1965 and rose by 14.3 per cent in 1966. More resources have been earmarked for infrastructure works and programmes for pushing back the agricultural frontier. In industry, work proceeded on the expansion of the Chimbote steel mill, which will raise output of ingots from 60 000 to 350 000 tons by 1968, while, in the power sector, the third stage of the Huinco power plant (60 MW) began

PERU: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of soles at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 a/	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	60 117	74 814	79 522	84 294	5.8	6.3	6.0
Total investment	12 079	16 578	19 309	...	9.8 b/	16.5	...
Gross fixed investment	11 256	16 485	18 630	20 990	10.9	13.0	12.7
Public	1 065	3 507	3 500	4 000	24.7	-0.2	14.3
Private	10 191	12 978	15 130	16 990	8.9	16.6	12.3
Total consumption c/	46 226	59 958	65 245	70 837 d/	7.4	8.8	8.6
Public	5 407	8 936	10 053	10 700	12.0	12.5	6.4
Private e/	40 819	51 022	55 192	60 137 d/	6.7	8.2	9.0
Exports of goods and services e/	13 222	16 914	16 638	16 503	3.8	-1.6	-0.8
Imports of goods and services e/	11 410	18 636	21 670	24 046	13.2	16.3	11.0

Sources: ECLA, on the basis of statistics prepared by the National Planning Institute (Instituto Nacional de Planificación); IMF, Balance of Payments Yearbook.

a/ Provisional estimates.

b/ 1960-65.

c/ Series obtained by subtraction.

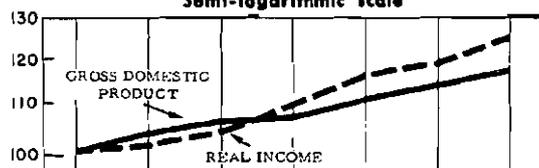
d/ Including inventory changes.

e/ Series prepared by ECLA.

PERU : 1960 - 66

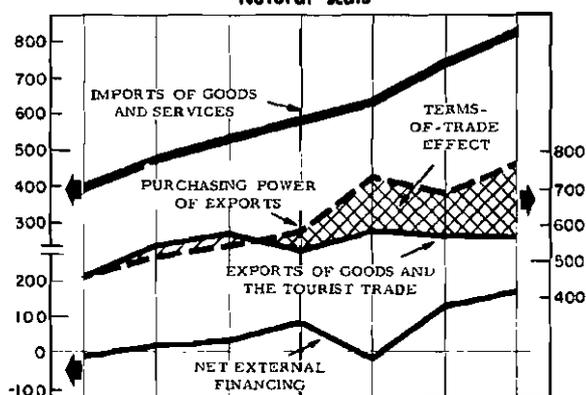
(a) EVOLUTION OF PER CAPITA GROSS INTERNAL PRODUCT AND REAL INCOME
(Indexes : 1960=100)

Semi-logarithmic scale



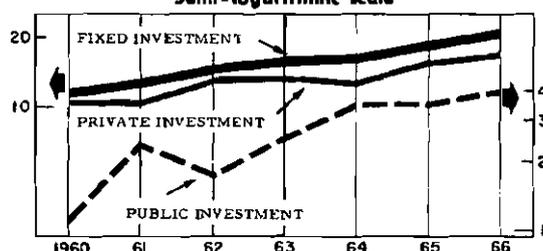
(b) EXTERNAL SECTOR TRENDS
(Millions of 1960 dollars)

Natural scale



(c) EVOLUTION OF INVESTMENT
(Millions of 1960 soles)

Semi-logarithmic scale



operating and arrangements were made for the construction and financing of the first stage of the Mantaro hydroelectric plant (342 MW) to be completed by 1971. In addition, a petroleum refinery is being built at La Pampilla, with an initial capacity of 20 000 barrels a day, and a network of hospitals is being established at a cost of 500 million soles under the Two-Year Hospital Plan.

Private capital has been the major contributor to the expansion of industrial capacity in the last two years. Among other projects, the motor vehicle assembly industry was launched with the establishment of eight plants, and other plants are under construction. A copper wire drawing plant with an annual capacity of 50 000 tons is also being set up, and the International Petroleum Company plans to build a petroleum refinery costing 210 million soles at Talara.

A private mining company opened a new pellets plant and is to build a zinc smelter with an annual capacity of 20 000 tons, and the Cerro de Pasco Corporation plans to add a further 20 000 tons to its copper production capacity by 1970.

Official external loans in 1966 amounted to 234 million dollars. This includes the renegotiation of a 40 million dollar loan, and a 12.5 million dollar issue of bonds floated abroad. Internal credit to the public sector rose more than 40 per cent over the 1965 figure and a new issue of bonds amounting to 1 245 million soles was placed on the market.

Trinidad - Tobago

Rate of economic growth

The rate of growth of the Trinidad and Tobago economy has been relatively slow during the present decade. At current prices, the gross domestic product increased from 918.3 million Trinidad and Tobago dollars to 1 282.3 million in 1966 (TT\$ 1.70 - US\$ 1.00), which represents an annual growth rate of 5.8 per cent, but at the same time prices rose about 3 per cent annually.

The economy expanded much more rapidly in the fifties, when the average annual growth rate was an estimated 8.6 per cent. The most notable feature in recent years was the stagnation in 1962 and 1963, which can in part be attributed to unsettled political conditions after the disintegration of the

Federation of the West Indies and the attainment of independence, but which had its root cause in unfavourable developments in the external sector.

The external sector

An important feature of the economy is its dependence on the external sector. During the fifties imports at current prices accounted for an average of 37.8 per cent of total supplies (sum of the gross domestic product at current prices and imports) and exports accounted for an average of 40.1 per cent of the total uses of these supplies, and in 1960-64 these proportions remained roughly at the same level.

To put the point in its proper perspective, it is useful to note the dominance of petroleum in foreign trade. During 1960-64 imports of crude petroleum averaged 41 per cent of total imports of goods and services and exports of petroleum products averaged 71.4 per cent of total exports.

In contrast with the fifties the present decade has so far been characterized by adverse movements in the terms of trade, reflected in falling export prices for petroleum, sugar, cocoa and citrus fruit. It has been estimated that during 1951-60 (base year 1950), Trinidad and Tobago benefited from favourable movements in the terms of trade to the extent of 327 million TT dollars while adverse movements in the subsequent much shorter period, 1961-64, resulted in a loss of 324 million.

Another factor which has affected growth is the tendency for the external payments deficit to increase. In contrast with the fifties, when merchandise trade showed an average annual surplus of 9.2 million TT dollars, since 1960 there has been an average annual deficit of 5.4 million. At the same time net factor payments to the rest of the world, which averaged 63 million TT dollars during the last decade, accounted for an annual average of 111 million or 10.6 per cent of the gross domestic product in 1960-64. Indications for the post-1964 period are that although both imports and exports have maintained a high level, the deficit is increasing.

Sectoral growth and structure of the economy

Although petroleum is still the prime mover in the economy, by virtue of its contribution to the gross domestic product, export trade, and government revenues, its share in the gross domestic product has declined continuously from 30.4 per cent in 1960 to 27 per cent in 1965, and its annual growth rate averaged only 2.7 per cent. The slowing down of expansion in this industry has been the principal reason for the slow overall rate of growth in the sixties. In 1966, however, petroleum regained some ground. Spurred by increased production of local crude, it grew by an estimated 8 per cent and was mainly responsible for the improved performance of the economy.

One noteworthy development is that the emphasis is gradually shifting from mining and refining local crude to refining imported crude. It is estimated that in 1966 about 60 per cent of refinery throughput (estimated capacity in 1966 was 400 000 barrels per day) consisted of imported crude, as against 42 per cent in 1959.

Manufacturing is becoming one of the major sectors of the economy. Its contribution to the

gross domestic product rose from 12.5 per cent in 1960 to 13.9 per cent in 1965 and its average growth rate over the period was 7.3 per cent. Production ranges from petrochemicals and fertilizers to consumer durables, food, tobacco and clothing. The growth of new industries was encouraged under the policy of import substitution and through incentive legislation. In 1966 manufacturing is estimated to have grown 8 per cent, most of the increase being in the food and clothing industries and in ammonia production.

In contrast, agriculture's share of the gross domestic product has declined steadily over the period, even in absolute terms. This decline is partly attributable to falling export prices especially for sugar, citrus fruits and cocoa, but there are indications that overall physical production has been sluggish. In 1966, agriculture recovered some ground, at least in absolute terms. Although export agriculture, particularly sugar and cocoa, continued to encounter serious difficulties, domestic agriculture improved considerably. This improvement may be the result of recent efforts to arrest the decline in agriculture through policies of diversification and import substitution.

After growing at a moderate rate up to 1962 distribution, transport and construction all tapered off, the first two recovering in 1965 and construction even later. In 1966, all three sectors showed a marked improvement over 1965.

Consumption and investment

In 1960-64 total consumption of goods and services averaged 70.8 per cent of the gross domestic product and increased at an average annual rate of 6.9 per cent, surpassing the rate of increase in the gross domestic product. If the national retail price index is used as a deflator this means that real consumption increased at an average annual rate of 3.6 per cent while the gross domestic product at constant prices increased by 2.5 per cent.

Public sector consumption played a significant part in generating this increase and increased its share of total consumption from 13.7 per cent in 1960 to 17.2 per cent in 1964. The rate of growth of private consumption declined somewhat after 1960 but rose again in 1964. In the period under consideration the government adopted a number of fiscal measures to restrain consumption. The tariff structure was revised in 1962 and purchase tax on non-essential consumer items was introduced in 1963. These measures probably accounted for restraint during 1962 and 1963, but indications are that in the post-1964 period the rate of increase in consumption began to pick up again.

Total investment as a proportion of the gross domestic product averaged 26.8 per cent in 1960-64. Despite annual fluctuations, the trend is definitely downward, in contrast with the fifties, when investment rose steadily until in 1960 it represented 31.1 per cent of the gross domestic product, mainly as a result of expansion in the petroleum industry and increases in public development expenditure.

With the slowing down of investment in petroleum during the sixties, the private sector's share of total investment, which averaged 83.8 per

cent during the fifties, declined from 82.5 per cent in 1960 to 78.2 per cent in 1962. Public investment showed a corresponding increase, mainly through increased expenditure under the first Five-Year Development Programme. Although detailed data are not available for the post-1962 period, indications are that these trends continued. By 1966, new investment in petroleum was relatively small and, although some expansion had taken place in sugar, construction and transport, this could not offset the relative decline in petroleum. Public investment has continued to increase, although at a slower rate than in previous years.

Uruguay

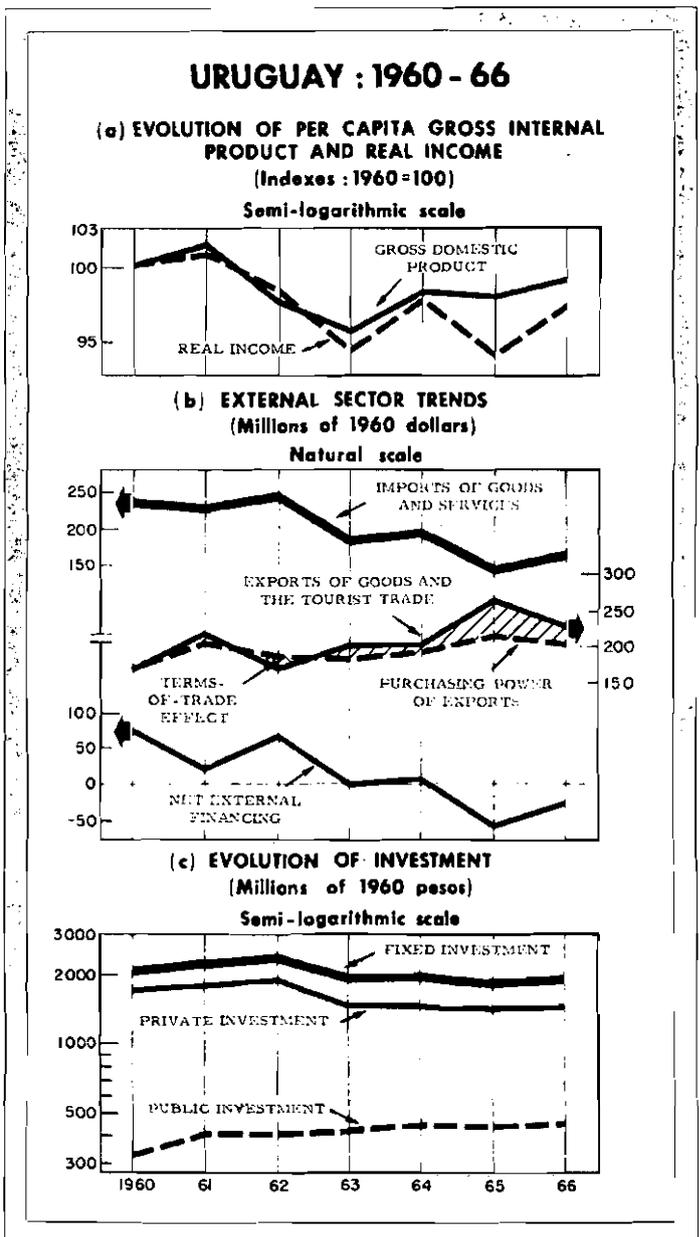
Recent economic trends

In 1966 Uruguay's gross domestic product increased at a rate of about 2.6 per cent, which represented a slight recovery from the inertia from which the economy had suffered since 1957. In 1961-65, the growth rate of the aggregate product had been only 0.4 per cent, resulting in a very marked decline in the per capita product. The improvement achieved in 1966 is the effect of agricultural expansion, since very little progress was made by manufacturing industry and services.

The external sector was still the bottleneck of the economy. It showed a slight decrease in exports, a contraction of imports, heavy short-term borrowing and unfavourable terms of trade. This situation led to negotiations with the International Monetary Fund, which also had repercussions on internal economic policy.

The inflationary process continued, although at a less rapid rate than in 1965. Nevertheless, consumer prices rose by 50 per cent between December 1965 and December 1966, according to estimates prepared by the Department of Statistics. Moreover, during 1966 the trade unions exerted strong pressure for higher wages.

A reform of the Constitution introduced during the year not only centralized and strengthened the authority of the Executive and his policy-making powers in the economic field, but included important provisions relating to planning and public finance. In particular, the Legislature was authorized to establish a national economic council (Consejo de Economía Nacional) to serve in an advisory capacity; the Planning and Budget Office (Oficina de Planeamiento y Presupuesto) was created and made responsible to the Office of the President of the Republic; the Legislature was given statutory powers to issue expropriation orders called for under economic development



plans and programmes against fair compensation, not necessarily payable in advance; and performance budgeting was made compulsory.

URUGUAY: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1964 <u>a/</u>	1965 <u>a/</u>	1966 <u>a/</u>	1960- 1966	1964- 1965	1965- 1966
Gross domestic product	13 583	14 073	14 213	14 577	1.2	1.0	2.6
Total investment	2 392	2 018	1 867	...	-4.9 <u>b/</u>	-7.5	...
Gross fixed investment	2 045	1 935	1 861	1 916	-1.1	-3.8	3.0
Public	322	(445)	(440)	(450)	5.7	-1.1	2.3
Private	1 723	(1 490)	(1 421)	(1 466)	-2.6	-4.6	3.2
Total consumption	11 955	11 924	10 924	11 856 <u>c/</u>	-0.1	-8.4	8.5
Public	1 228	1 310	1 230	1 260	0.4	-6.1	2.4
Private	10 727	10 614	9 694	10 596 <u>c/</u>	-0.2	-8.7	9.3
Exports of goods and services	1 952	2 375	3 139	2 719	5.7	32.2	-13.4
Imports of goods and services	2 716	2 244	1 717	1 914	-5.7	-23.5	11.5

Sources: ECLA, on the basis of statistics prepared by the Bank of the Republic; IMF, Balance of Payments Yearbook.

a/ Provisional estimates.

b/ 1960-65.

c/ Including inventory changes.

Changes in the major sectors of production

The agricultural sector, which had made no progress in 1964 and 1965, achieved a significant expansion of about 10.8 per cent in 1966. In crop farming, the increase exceeded 11 per cent, mainly as a result of substantial increases in the output of sunflower seed (157 per cent) and wine grapes (57 per cent). Output of maize and rice was also larger, but wheat and linseed showed a decrease (the area sown to wheat was smaller than before, but peak yields were obtained). There was an 8 per cent increase in livestock production, to which its three major components - wool, meat and milk - contributed.

Industry expanded by 0.8 per cent, with a 20 per cent increase in textiles and a decrease of 11.7 per cent in food products. Synthetic fibre textiles were mainly responsible for the upward trend in textiles, while the decline in food output resulted from a recession in the meat-packing industry. To solve this problem, the Bank of the Republic was authorized to finance the packing-plants' debt to producers.

In the construction sector, an increase of 5.2 per cent was due to a boom in building not only in Montevideo and the larger towns, but also, and indeed mainly, in the seaside resorts.

The product generated by commerce rose by 2 per cent, reflecting the overall trends of the other sectors.

Transport kept pace with the volume of activity in the various sectors but there was a shift from road to rail freight, owing to the lower rates charged by the railways, which are subsidized by the central Government.

The activities of banks and other financial agencies were paralysed by a strike that lasted two months.

The external sector

In 1966, for the second year in succession, the balance of payments showed a surplus on current account amounting to 26.7 million dollars (at current prices). It was produced by maintaining the policy of import restriction (although imports increased by 12.7 per cent), and reducing exports slightly (3.5 per cent). The import restrictions, which, although tighter in 1966, made up for only a fraction of the decrease in previous years, affected consumer durables and capital goods more than raw materials. The terms of trade also deteriorated considerably, producing negative effects of 48.1 million and 22.4 million dollars in 1965 and 1966, respectively.

Short-term capital was most available: net short-term private capital and net external compensatory financing amounted to 87.8 per cent of net inflows of funds from abroad, thus increasing the economy's external vulnerability.

Reserves were reduced by about 6 million dollars, and the flight of capital continued, although on a smaller scale (roughly represented by the negative balance of 40 million dollars under the heading of errors and omissions).

Venezuela

Recent economic trends

The growth rate of the Venezuelan economy was only 4 per cent in 1966, as against 6.5 per cent in 1961-65. This deceleration was primarily due to the 2.4 per cent decline in the product of the petroleum sector -which accounts for about 20 per cent of the country's total product- resulting from an abnormal decrease in demand for fuel oil halfway through the year. In addition, there was a slight recession in economic activity in the second half of 1966, largely because the Government's proposed tax reform measures had a dampening effect on the expectations of the private non-petroleum sector. It was reflected in the monetary series, as well as in an unusually large outflow of foreign exchange in August and September, which did not seriously affect the level of international

reserves, since some of it was recovered in the months immediately following.

Generally speaking, the decline in the economic growth rate seems to have been the result of temporary circumstances rather than of any radical change in the basic pattern of growth since 1961, the mainspring of which has been import substitution.

The value of exports of goods and services has remained almost stationary in the last four years, because the substantial increase in the volume of petroleum exports has been offset by a drop in prices. This price decline has been a matter of constant concern to the Government of Venezuela, which has tried to keep international petroleum prices up by supporting the Organization of Petroleum Exporting Countries (OPEC). In 1966,

VENEZUELA: PRODUCT, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1960-66

	Millions of bolivares at 1960 prices				Annual growth rates (percentages)		
	1960	1964	1965	1966 a/	1960-1966	1964-1965	1965-1966 a/
Gross domestic product	25 620	31 403	33 352	34 687	5.2	6.2	4.0
Total investment	4 510	6 163	6 439	...	7.4 b/	4.5	...
Gross fixed investment	4 607	5 033	5 764	6 060	4.7	14.5	5.1
Public	2 107	1 588	1 700	1 720	-3.3	7.0	1.2
Private	2 500	3 445	4 064	4 340	9.6	18.0	6.8
Total consumption	17 896	20 844	22 559	24 333 c/	5.3	8.2	7.9
Public	3 544	4 100	4 539	4 830	5.3	10.7	6.4
Private	14 352	16 744	18 020	19 503 c/	5.3	7.6	8.2
Exports of goods and services	8 096	9 396	9 678	9 568	2.8	3.0	-1.1
Imports of goods and services	4 882	5 000	5 324	5 274	1.3	6.5	-0.9

Sources: ECLA, on the basis of statistics prepared by the Central Co-ordination and Planning Office (Oficina Central de Coordinación y Planificación - CORDIPLAN); Central Bank of Venezuela; IMF, Balance of Payments Yearbook.

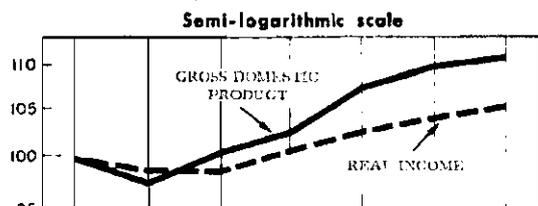
a/ Provisional estimates.

b/ 1960-65.

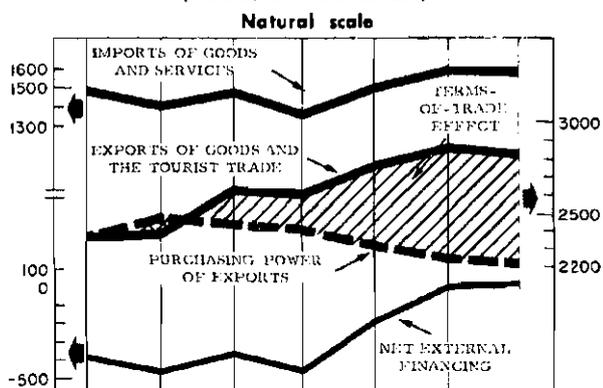
c/ Including inventory changes.

VENEZUELA : 1960 - 66

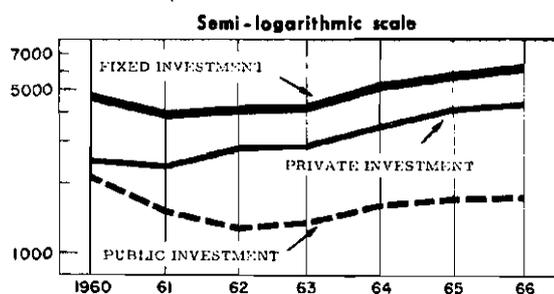
(a) EVOLUTION OF PER CAPITA GROSS INTERNAL PRODUCT AND REAL INCOME
(Indexes : 1960=100)



(b) EXTERNAL SECTOR TRENDS
(Millions of 1960 dollars)



(c) EVOLUTION OF INVESTMENT
(Millions of 1960 bolivares)



Venezuela negotiated with the oil companies operating in the country to establish a reference price system which would curb the downward trend of prices in the coming five years. This system came into force in January 1967, taking 1965 prices as the minimum prices for Venezuela's petroleum exports and providing for progressive average annual increases for crude petroleum and petroleum products up to 1971.

The increase in imports in 1965-66 was brought about by the absorption of idle capacity and the greater demand for imported intermediate goods of all kinds created by import substitution. This factor and, to a lesser extent, the increase in foreign investment income as from 1964, wiped out the surpluses on current account which had substantially added to Venezuela's international monetary reserves in previous years.

In 1966 public expenditure was about 5 per cent higher than in 1965, while public investment

remained at the same level. Public resources were not sufficient, in absolute terms, to finance the investment projects included in the 1965-68 National Plan, and the Government decided to submit a tax reform bill to finance a further investment plan in 1967.

The main features of the tax reform are the consolidation of income tax schedules, the elimination or reduction of taxes for taxpayers in the low and middle income brackets, and a moderate increase in rates for the higher brackets, i.e. persons with monthly incomes over 3 500 bolivares.

It was agreed in negotiations with the foreign oil companies that the tax rate for the petroleum sector should be raised from 47.5 to 52 per cent, with reductions on a graduated scale for companies with low productivity.

Changes in the major sector of production

Although the non-petroleum sector's growth rate was lower than in previous years, the rate of increase of its share in the gross domestic product was higher than average. Agriculture maintained much the same rate of expansion as in 1961-65, mainly owing to the increase in production of maize, beans, potatoes, groundnuts and cotton. There were exportable surpluses of rice and sugar. Cattle production did not increase to any remarkable extent, but there was a boom in pig production and milk output figures were about 10 per cent higher than in 1965.

The growth rate of manufacturing industry dropped from 10 per cent to 7 per cent, as a result of the deterioration in the overall economic situation. The decline was not as marked in the traditional industries as in other branches of manufacturing, because demand for durable consumer goods followed a less favourable trend. Between January and November 1966, 212 new industrial enterprises were established, with a total capital of about 70 million bolivares and capacity to provide employment for more than 3 400 workers. The Venezuelan Petrochemical Institute (Instituto Venezolano de Petr leo - IVP) and Union Carbide agreed to set up a company -Unicar Petroqu mica- to produce low-density polyethylene, partly for export. This is the first agreement of its type to be concluded, the aim being to promote the formation of mixed companies in association with foreign firms which will ensure Venezuela an international market for certain lines of industrial production.

The petroleum product fell by 2.4 per cent, presumably as a result of a contraction in demand on the world market. In addition to the reforms mentioned above, the Council of Ministers approved the standards and bases for future relations between the State and private oil companies. Those relations will be based on service contracts between the companies and the Venezuelan Petroleum Corporation (Corporación Venezolana del Petróleo), which will gradually replace the present system, as concessions expire or are renegotiated.

Electricity, gas and water showed an

exceptional growth rate in 1966; in contrast, disturbances in the market for mortgage bonds slowed the growth rate of building to half that of previous years. To offset this trend, a decree was issued authorizing the Ministry of Finance to conclude agreements with mortgage banks under which the State can purchase mortgage bonds issued by them.

Lastly, government services expanded at the same rate as in the previous two-year period, but the growth rate of other services which are more closely related to the production sectors of the economy declined.

The present Economic Survey was written during January and February 1967, and is based, generally speaking, on the information available by the end of the preceding year. Data for 1966 are therefore provisional, and may differ from subsequent official estimates. It will be noted that the 1965 figures published here are not the same as those appearing in the Survey for that year, and that there are significant discrepancies in the case of certain countries. Unless otherwise stated, the regional totals given in the text do not include the Cuban economy because the data available were insufficient or not comparable with those of other countries. Moreover, the information on Haiti, Jamaica, the Dominican Republic and Trinidad and Tobago has not been extracted from the Economic Survey, inasmuch as the Survey does not contain special sections on those countries.

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