

**ECONOMIC COMMISSION FOR LATIN AMERICA
AND THE CARIBBEAN**

**ECONOMIC SURVEY
OF LATIN AMERICA
AND THE CARIBBEAN
1983**



UNITED NATIONS

SANTIAGO, CHILE, 1985

LC/G.1343
June 1985

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

UNITED NATIONS PUBLICATION

Sales No.: E.85.IIG.2

ISBN 92-1-121121-2

CONTENT

Part One

TRENDS IN THE LATIN AMERICAN ECONOMY IN 1983

I. MAIN TRENDS	3
1. The decline in internal economic activity and the increase in inflation	3
2. Reduction of the external imbalance	3
3. The contraction in the capital inflow and the real transfer of resources ...	5
II. PRODUCTION	8
1. The rate and structure of economic growth	8
2. Total supply and demand and domestic supplies of goods	14
III. EMPLOYMENT AND UNEMPLOYMENT	16
1. Employment in industry	16
2. Unemployment	17
IV. PRICES AND WAGES	23
1. Prices	23
2. Wages and salaries	28
V. THE EXTERNAL SECTOR	34
1. Foreign trade	34
2. The balance of payments	38

Part Two

FINANCIAL CONSTRAINTS, TRANSFER OF RESOURCES AND RENEGOTIATION OF THE EXTERNAL DEBT

I. FINANCIAL CONSTRAINT	51
1. The increase in the cost of external credit	53
2. The decline in the net inflow of capital	57
II. RENEGOTIATION OF THE EXTERNAL DEBT	64
1. The first round of reschedulings	64
2. The second round of reschedulings	66

Part Three

THE ECONOMIC EVOLUTION OF THE INDIVIDUAL COUNTRIES

Argentina	75
Bolivia	99
Brazil	129
Colombia	179
Costa Rica	209
Cuba	235
Chile	271
Ecuador	309
El Salvador	345
Guatemala	369
Haiti	395
Honduras	413
Mexico	435
Nicaragua	469
Panama	491
Paraguay	511
Peru	557
Dominican Republic	601
Uruguay	623
Venezuela	651

Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amounts is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

PART ONE

**TRENDS IN THE LATIN AMERICAN
ECONOMY IN 1983**

Part One

TRENDS IN THE LATIN AMERICAN ECONOMY IN 1983

1. MAIN TRENDS

Three salient facts basically characterized the economic evolution of Latin America in 1983. The first was the worsening of the crisis which had begun in 1981 and which by 1982 had attained dimensions unrecorded since the Great Depression of the 1930s. The second was the remarkable adjustment effort made by many economies of the region in order to reduce the radical imbalances generated in the external sector in preceding years. Lastly, the third was the exceptional contraction undergone for the second year in succession by the net inflow of capital and the similarly exceptional scale on which, in consequence, Latin America had to transfer resources abroad.

1. The decline in internal economic activity and the increase in inflation

In 1983, just as in 1982, the crisis affected almost all the countries of the region and was reflected in the deterioration of the main internal economic indicators. Thus, during the year the gross domestic product decreased, the employment situation went from bad to worse, and there was a marked speeding-up of the rate of inflation.

It is estimated that Latin America's total gross domestic product was reduced by 2.9% in 1983, after having fallen by 1% in 1982 and increased by barely 1.5% in 1981. As a result of this further decline in economic activity and of population growth, the per capita product dropped by somewhat more than 5% in the region as a whole, decreasing in 16 of the 20 Latin American countries.

This downturn, together with those registered in the two preceding years, meant that in 1983 the per capita product was 9% lower than in 1980 and was equivalent to that recorded in 1977 (see table 1). In effect, the retrogression in the real level of living was even greater, since per capita national income plummeted during the last three years by almost 13%, in consequence of the continuous and marked deterioration undergone in that period by the terms of trade and the considerable increase in net remittances of interest and profits.

The decline in economic activity was accompanied, moreover, by rising trends in rates of urban unemployment and decreases in real wages in the majority of the countries for which relatively reliable data are available.

Nevertheless, inflation spiralled rapidly, as had already happened in the three preceding years, and reached unprecedented levels. Thus, in the region as a whole the simple average rate of increase of consumer prices rose from 48% in 1982 to 76% in 1983, and the rate weighted by the population shot up still more steeply, from 86% in 1982 to 131% in 1983. Although these upward movements reflected a more or less widespread trend, they were preponderantly influenced by the particularly high rates of inflation recorded in some countries. Thus, in the course of 1983, price levels increased above fivefold in Argentina, were easily quadrupled in Bolivia, trebled in Brazil, more than doubled in Peru, jumped by 80% in Mexico and went up by over 50% both in Ecuador and in Uruguay.

2. Reduction of the external imbalance

The falling-off in most of the indicators for the domestic economy coincided, however, with a significant although very costly reduction of the external imbalance. Indeed, partly on account of the marked contraction in domestic levels of production and expenditure —which curtailed demand for imports and released goods for export— and partly owing to the adjustment policies applied in many countries during 1983, Latin America achieved an unprecedented surplus in its external merchandise

trade. In 1983 this trade, which up to 1981 had regularly shown deficits, but by 1982 had closed with a positive balance of over US\$ 8.4 billion, generated a surplus of nearly US\$ 30 billion.

This surplus was exclusively attributable, however, to a further spectacular drop in imports, whose value sank by 30%, after having decreased by 20% in 1982. This extraordinary reduction in the total value of external purchases of goods was accompanied, as in 1982, by an almost equally marked diminution of their volume, which was at once an effect and a cause of the decline in domestic economic activity. In turn, despite the fact that the volume of exports of goods expanded by about 8%, their values fell by nearly 2% in 1983, mainly as a result of the considerable increases in real exchange rates in a number of countries and, in many of them, the significant contraction undergone by domestic demand.

Table 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Basic economic indicators											
Gross domestic product at market prices (billions of dollars at 1970 prices)	237	253	263	278	292	305	325	344	349	346	336
Population (millions of inhabitants)	288	295	302	310	318	326	334	342	350	358	367
Per capita gross domestic product (dollars at 1970 prices)	824	858	868	895	917	937	974	1 007	998	965	916
Per capita gross national income (dollars at 1970 prices)	821	871	868	896	919	930	923	1 010	985	935	880
Growth rates											
Short-term economic indicator											
Gross domestic product	8.3	6.9	3.7	5.7	5.0	4.6	6.6	5.9	1.5	-1.0	-2.9
Per capita gross domestic product	5.6	4.2	1.2	3.1	2.4	2.1	4.0	3.4	-0.9	-3.3	-5.2
Per capita gross national income	6.6	6.0	-0.3	3.3	2.5	1.2	4.6	3.8	-2.4	-5.2	-5.8
Urban unemployment rate ^d	...	6.9	7.2	7.7	7.4	6.8	6.0	5.8	5.7	6.9	8.9
								6.0 ^e	6.3 ^e	6.8 ^e	7.8 ^e
Consumer prices ^f	36.2	40.1	57.8	62.2	40.0	39.0	54.1	52.8	60.8	85.8	131.4
Terms of trade (goods and services)	1.7	24.1	-11.9	3.1	3.0	-7.7	5.1	4.2	-6.4	-9.1	-8.6
Current value of exports of goods and services	40.8	50.6	-5.7	15.1	18.1	9.9	33.7	29.0	7.9	-10.1	-2.5
Current value of imports of goods and services	30.0	63.7	7.8	4.5	15.3	16.7	26.4	31.3	9.3	-16.8	-29.2
Billions of dollars											
External sector											
Exports of goods and services	28.9	43.6	41.1	47.3	55.9	61.4	82.0	105.8	114.1	102.6	100.0
Imports of goods and services	28.2	46.1	49.7	51.9	59.8	69.8	88.2	115.9	126.6	105.4	74.6
Trade balance (goods and services)	0.8	-2.5	-8.6	-4.6	-4.0	-8.5	-6.2	-10.1	-12.5	-2.8	25.4
Net payments of profits and interest	-4.2	-5.0	-5.5	-6.8	-8.2	-10.2	-13.6	-18.0	-27.7	-36.9	-34.7
Balance on current account	-3.2	-7.4	-14.0	-11.0	-11.8	-18.3	-19.5	-28.1	-40.5	-40.4	-9.3
Net inflow of capital	7.8	11.4	14.2	18.2	17.0	26.1	28.6	30.0	37.7	20.3	8.0
Balance-of-payments position	4.6	4.0	0.2	7.2	5.2	7.7	9.1	1.7	-2.8	-20.2	-1.3
Official international reserves ^g	14.0	20.4	21.2	23.9	29.4	38.2	51.2	53.4	46.5	34.3	29.8
Balance of disbursed external debt											
Total gross external debt	...	...	76.2	99.7	118.8	150.9	182.0	221.1	275.4	308.3	332.3
Total net external debt ^h	...	...	55.0	75.8	89.4	112.7	130.8	167.7	228.9	274.0	302.5

Source: ECLAC, on the basis of official figures.

^aAll figures relate to the 20 countries appearing in table 13, except Cuba.

^bProvisional figures.

^cPercentages.

^dWeighted average rate for Buenos Aires, Córdoba, Mendoza, Rosario; Bogotá, Barranquilla, Medellín, Cali; México City, Guadalajara, Monterrey; San José, Costa Rica; Santiago, Chile; Lima, Perú; Montevideo, Uruguay.

^eWeighted average rate for the cities mentioned in footnote ^d plus Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.

^fVariation from December to December.

^gPlus monetary gold valued at London fine ounce prices, minus use of International Monetary Fund Credit.

^hTotal gross external debt minus official international reserves.

On the other hand, the aforesaid decline in internal economic activity and the reduction of nominal interest rates in the leading international financial markets helped to bring down net payments of profits and interest in 1983, thus modifying the dizzy pace at which they had risen during the preceding years. In fact, the amount of remittances under these heads, which between 1977 and 1982 had more than quadrupled, soaring from US\$ 8.2 to US\$ 36.9 billion, fell to a little under 35 billion in 1983.

As a result of the sizeable surplus obtained in merchandise trade, the decrease in remittances of profits and interest and the considerable reduction also undergone by net service payments, the deficit on current account abruptly sank from rather more than US\$ 40 billion in 1982 to under 9.3 billion in 1983. This was the lowest figure recorded since 1974 (see figure 1).

The steep drop in the deficit on current account coincided with and was largely caused by a no less drastic contraction of the net inflow of capital. This inflow, which had already shrunk by 46% in 1982, after having swelled to an all-time maximum of almost US\$ 38 billion in 1981, diminished once again, but even more sharply, in 1983, when it barely amounted to US\$ 8 billion.

In these circumstances, and notwithstanding that the deficit on current account was so much smaller, the balance of payments closed with a deficit of US\$ 1.25 billion. Although this was much lower than that of 20 billion recorded in 1982, it signified a further decrease in Latin America's international reserves.

Likewise as a result of the decline in the net inflow of capital, the growth rate of the external debt slowed down for the second year in succession. Latin America's total external debt increased by 8% in 1983, a rate a good deal lower than that of 12% corresponding to 1982 and far below the average of 24% recorded between 1978 and 1981. Even so, owing to the fall in the value of exports of goods and services and the real decrease in the gross domestic product, both the debt/exports coefficient and the debt/product ratio reached unprecedented figures in 1983. Although in 1983 the proportion of the value of exports of goods and services absorbed by interest payments slightly decreased, it remained very high (34.5%) in comparison with its levels in the past (see figure 1.)

3. The contraction in the capital inflow and the real transfer of resources¹

As mentioned above, in 1983 the net inflow of capital contracted sharply for the second year running. Its reduction was in fact so marked that in the end the amount it represented fell short of that of net payments of interest and profits. Accordingly, as in 1982, Latin America, instead of receiving a net transfer of resources *from* abroad, transferred resources *to* the rest of the world.

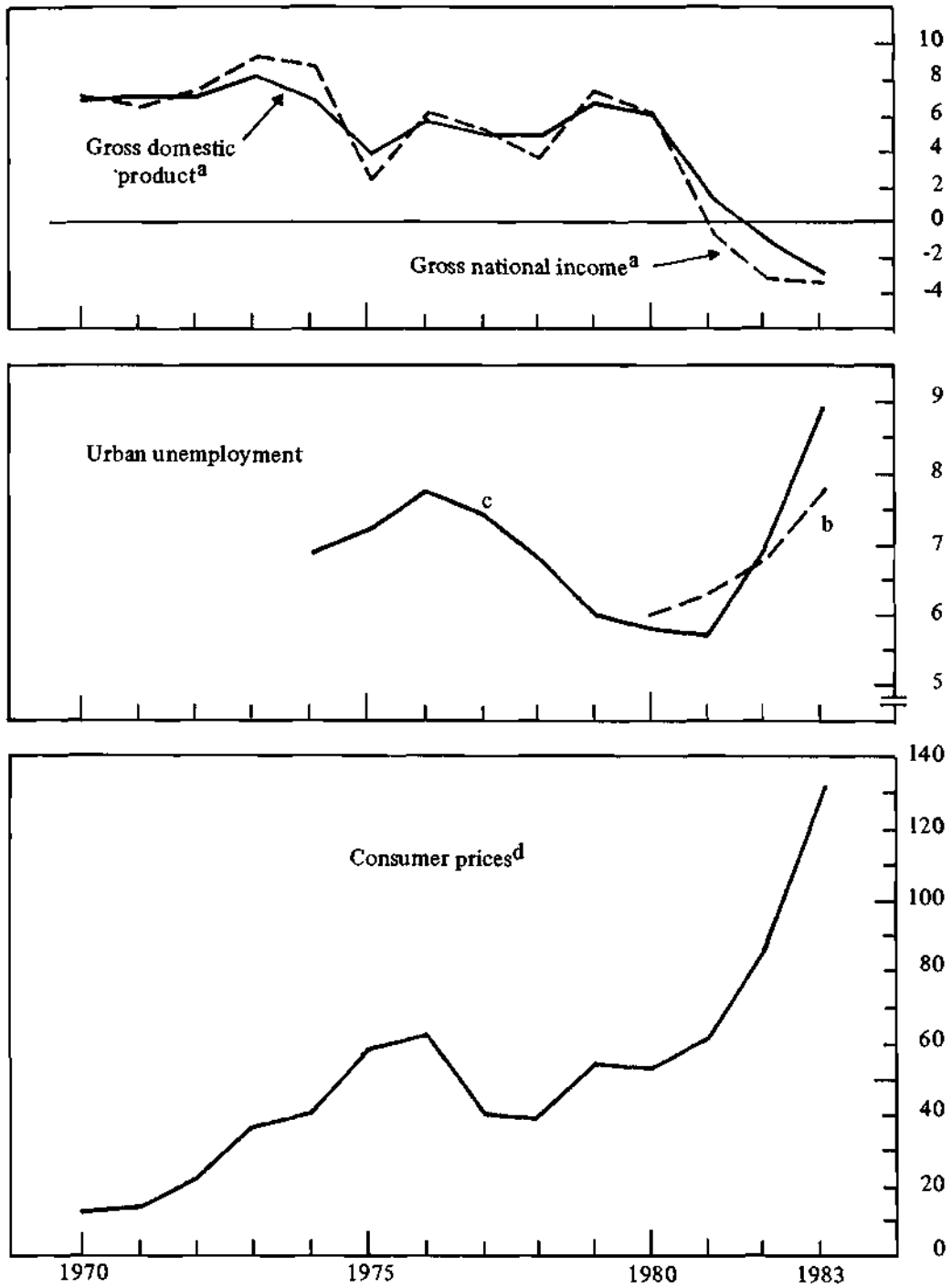
Moreover, this transfer amounted to very considerable sums: US\$ 17 billion in 1982 and almost 27 billion in 1983, i.e., figures equivalent to 16% and 24%, respectively, of the value of exports of goods and services. Looked at from yet another angle, the reversal of the direction of net financial payments which took place between 1981 and 1983 was equivalent to a deterioration of approximately 36% in the terms of trade. In the first of those years the *positive* difference between the net inflow of capital and payments of profits and interest *added* to the region's capacity to import by the equivalent of almost 9% of the value of exports of goods and services. In 1983, on the contrary, the *negative* difference between these two financial flows *subtracted* from the capacity to import the equivalent of 27% of external sales of goods and services.

For an adequate assessment of what this figure means, suffice it to recall that the effective deterioration of the terms of trade during that period was about 16%. Consequently, in relation to the capacity to import, the negative impact of the decline in the net inflow of capital and the increase in payments of interest and profits more than doubled the effects of the deterioration in the terms of trade.

Thus the spectacular change in the direction of net financial flows was a decisive cause of the almost universal contraction in economic activity in Latin America and the difficulties encountered by some countries in the servicing of their external debt. Up to 1981 the region had received capital of

¹This topic is more fully analysed in Part Two of the present Survey.

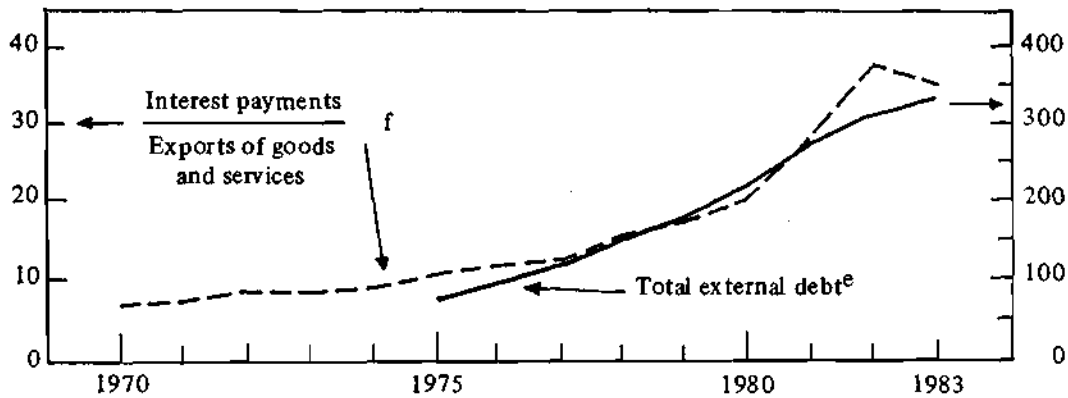
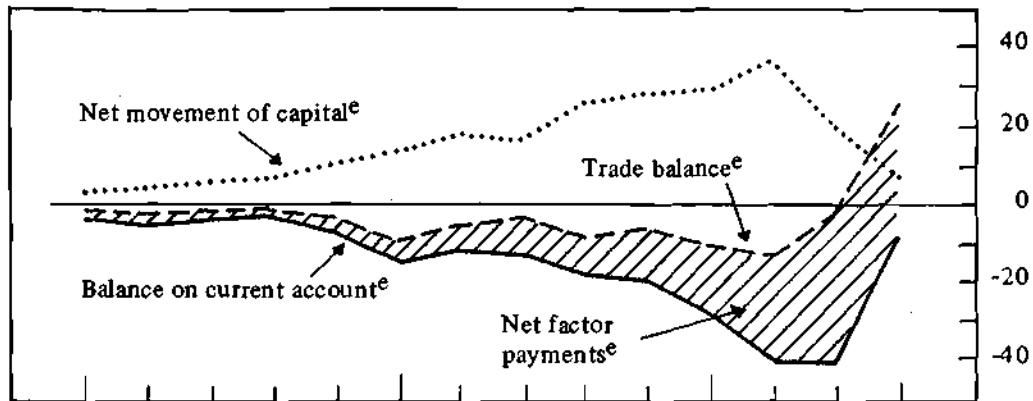
Figure 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bWeighted annual average for cities mentioned in table 8. ^cWeighted average annual rate for cities referred to in 'b', excluding cities in Brazil. ^dWeighted percentage variation from December to December.

Figure 1 (Concluded)



^eBillions of dollars. ^fPercentages. Excluding Panama.

which the gross amount substantially exceeded the sum total of amortization payments, investment abroad and remittances of interest and profits. During the period 1973-1981 this transfer of resources was equivalent on an average to 16% of the value of exports, which, in its turn, increased during the same space of time at an annual rate of about 20%. In these circumstances, Latin America was able to pay amortization and interest payments on its external debt and the profits accruing on foreign capital by means of the new loans and investment received year by year.

As from 1979, however, the size of this net transfer of resources began to diminish, since the increases in the net inflow of capital were more than offset by the still greater increases in payments of interest and profits. This trend sharpened in the period 1982-1983, during which the slump in the net inflow of capital aggravated the negative effects of the international recession and forced a number of countries of the region to apply much more drastic adjustment policies than would have been necessary to cope with the effects of the recession alone. Thus, in 1983, owing to the procyclical behaviour pattern of the capital flows, Latin America had to settle most of its payments of interest and profits with resources deriving from the trade surplus or from the international reserves previously built up. Nevertheless, as has already been explained, because of the unfavourable external context, the trade surplus was not achieved by an increase in the value of exports—which would have had an expansionist effect on the economy—but had its origin in an extremely severe contraction of the volume of imports, which was the main cause of the decline in economic activity.

II. PRODUCTION

1. The rate and structure of economic growth

As already pointed out, in 1983 there was a sharp accentuation of the loss of dynamism that the Latin American economy had been showing during the two preceding years. After increasing by barely 1.5% in 1981—the lowest growth rate on record since 1940—and decreasing by 1% in 1982, the region's gross domestic product went down by nearly 3% in 1983 (see table 2 and figure 2).

In consequence of this unprecedented decline in economic activity, the per capita product was reduced for the third consecutive year, but by a proportion (-5.2%) much higher than those recorded in 1981 (-0.9%) and 1982 (-3.3%). It was therefore 9% lower in 1983 than in 1980.

The exceptional intensity of the retrogression in economic activity in the last three years was also reflected in the enormous decreases in the per capita product of many Latin American countries. During the period in question, it fell by 23% in Bolivia and 21% in El Salvador; 17% in Costa Rica; over 14% in Chile, Peru and Uruguay; between 12% and 13% in Argentina and Guatemala; and almost 11% in Brazil, Haiti, Honduras and Venezuela (see table 3).

As in 1982, the falling-off in economic activity was, moreover, quite widespread. The gross domestic product dropped in 11 of the 19 countries for which comparable data are available, remained virtually static in El Salvador and Panama and increased very slightly in Colombia, Costa Rica and Haiti. Thus, only in Argentina, Nicaragua and the Dominican Republic did the growth rate of global economic activity exceed that of the population. In addition, in Cuba the global social product rose by about 5%² (see table 2).

Table 2

LATIN AMERICA: EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT (Annual growth rates)

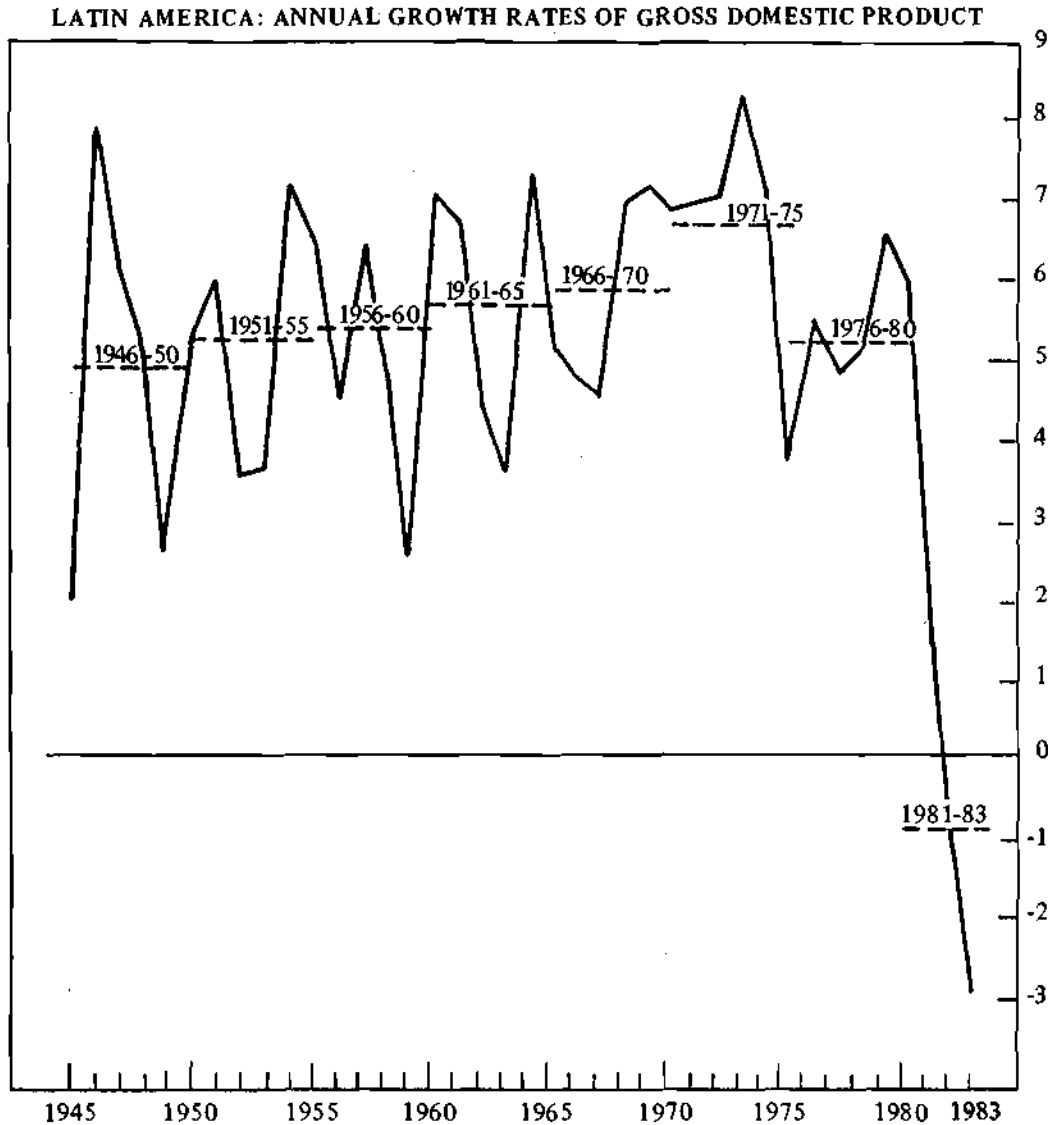
	1970- 1974	1975- 1978	1979- 1980	1981	1982	1983 ^a	1981- 1983 ^{ab}
Latin America ^c	7.1	4.8	6.2	1.5	-1.0	-2.9	-2.4
Argentina	4.0	0.5	3.7	-6.2	-5.3	2.8	-8.7
Bolivia	5.6	5.1	1.2	-0.9	-8.7	-7.6	-16.5
Brazil	11.1	6.4	7.3	-1.9	1.1	-3.3	-4.1
Colombia	6.6	4.9	4.7	2.3	0.9	0.8	4.1
Costa Rica	7.1	5.7	2.8	-2.3	-9.1	0.8	-10.4
Cuba ^d	8.7 ^e	6.0 ^f	2.9	15.6	2.6	5.2	24.8
Chile	0.9	1.7	8.0	5.7	-14.3	-0.8	-10.2
Ecuador	11.5	7.0	5.1	4.5	1.4	-3.3	2.5
El Salvador	4.9	-5.5	-5.3	-8.3	-5.6	-	-13.5
Guatemala	6.4	5.5	4.2	0.9	-3.5	-2.0	-4.6
Haiti	4.5	3.7	7.5	-2.8	-2.5	1.3	-4.0
Honduras	3.9	5.8	4.7	1.2	-1.8	-0.7	-1.3
Mexico	6.8	5.3	8.8	7.9	-0.5	-4.7	2.3
Nicaragua	5.4	1.2	-10.0	5.3	-1.2	5.3	9.6
Panama	5.8	3.5	9.7	4.2	5.5	0.2	10.1
Paraguay	6.4	9.2	11.0	8.5	-2.0	-3.7	2.3
Peru	4.8	1.5	4.0	3.9	0.4	-11.8	-8.0
Dominican Republic	10.1	4.7	5.4	4.1	1.6	3.9	9.9
Uruguay	1.3	4.1	6.1	1.9	-9.7	-4.7	-12.3
Venezuela	5.4	5.9	-0.5	-0.3	0.7	-3.0	-2.6

Source: ECLAC, on the basis of official figures.

^aProvisional figures. ^bCumulative variations in the period. ^cAverage, excluding Cuba. ^dRefers to total social product. ^eRefers to period 1971-1974. These data are not comparable with those for 1976-1983, for methodological reasons. ^fRefers to 1976-1978.

²The concept of global social product used in Cuban statistics represents the sum total of gross production in the agricultural, industrial, mining, energy, transport, communication and business sectors.

Figure 2



Source: ECLAC, on the basis of official data.

In contrast with what happened in 1982, however, the fall of the product in the region as a whole during 1983 was especially due to the very unfavourable evolution of productive activity in Brazil and Mexico, by far the two largest Latin American economies.

In Mexico, the global gross domestic product, which had already slightly decreased in 1982, fell by 4.7%, while industrial production declined by more than 7% and construction was reduced by nearly 14.5%. The chief causes of this sharp drop in economic activity were the drastic contractions in domestic demand and in the volume of imports, resulting from the restrictive policy applied by the government with a view to strengthening the balance of payments and bridleing the galloping inflation which had begun to escape control in the preceding year. Although this policy succeeded in halving the swollen public-sector deficit recorded in 1982 and helped to generate an impressive trade surplus, it also brought about considerable reductions in fiscal expenditure, private investment and wages, with the consequent negative effects on domestic spending and on the level of activity.

In Brazil, in its turn —a country which by itself generates about one-third of the region's total domestic product— global economic activity declined by over 3%, after having marginally increased

in 1982. As in Mexico, the decreases were very marked in manufacturing industry (-6%) and, above all, in construction (-19%), both of which sectors had remained at a standstill in 1982 and had undergone a contraction in 1981 (see table 4). This slump in economic activity, unprecedented in the country's evolution during the last half century, was decisively influenced by a further drastic reduction in the volume of imports and the severe cuts introduced in the public sector's investment programmes, as also by the growing uncertainty consequent upon the acceleration of the rate of inflation and the prolonged and toilsome negotiations conducted by the economic authorities with a view to rescheduling the external debt and signing a stand-by agreement with the International Monetary Fund.

The decreases in the product were even bigger in Bolivia (-7.6%) and especially in Peru (-11.8%), two countries which in 1983 had suffered an unwonted combination of natural disasters, characterized by torrential rains and floods in certain regions and severe and long-drawn-out droughts in others. These catastrophes inflicted particularly severe damage on agricultural production, which was reduced by over 11% in Peru and 22% in Bolivia. To these were added, in the case of Peru, a change in the ocean currents, by reason of which the results obtained in the fishing sector plummeted. In addition, economic activity was affected in both countries by exceptionally severe inflation and, in Peru, by the drastic contraction in the volume of imports.

The situation was similar, although less serious, in Ecuador and Paraguay. In the former country, the domestic product declined by 3.3%, inasmuch as fishing, agriculture and industry in the coastal belt suffered the destructive effects of torrential rains, floods and tidal waves, and also because of the abrupt curtailment of the quantum of imports (-35%).

Table 3

LATIN AMERICA: EVOLUTION OF PER CAPITA
GROSS DOMESTIC PRODUCT

	Dollars at 1970 prices				Annual growth rates						
	1980	1981	1982	1983 ^a	1970-1974	1975-1978	1979-1980	1981	1982	1983 ^a	1981-1983 ^{ab}
Latin america ^c	1 007	998	965	916	4.4	2.2	3.7	-0.9	-3.3	-5.2	-9.1
Argentina	1 334	1 231	1 147	1 161	2.3	-1.2	2.0	-7.7	-6.8	1.2	-13.0
Bolivia	382	368	327	295	3.0	2.4	-1.4	-3.5	-11.1	-10.0	-22.9 ^d
Brazil	958	919	908	859	8.4	3.9	4.8	-4.1	-1.2	-5.4	-10.4
Colombia	824	825	815	804	4.2	2.7	2.5	0.1	-1.2	-1.4	-2.5
Costa Rica	974	926	820	805	4.4	2.6	-0.1	-4.9	-11.5	-1.8	-17.3
Cuba ^e	...	...	...	...	7.9 ^f	5.3 ^f	2.2	14.8	2.0	4.6	22.6
Chile	1 045	1 087	917	895	-0.9	0.2	6.5	4.1	-15.7	-2.4	-14.3
Ecuador	723	734	723	680	8.2	3.9	2.1	1.6	-1.5	-6.0	-6.0
El Salvador	433	386	354	344	1.9	2.5	-8.0	-10.9	-8.3	-2.9	-20.7
Guatemala	589	578	542	516	3.5	2.6	1.4	-1.9	-6.2	-4.7	-12.3
Haiti	114	108	102	101	2.2	1.3	4.9	-5.2	-4.9	-1.2	-10.9
Honduras	356	348	331	317	0.8	2.2	1.1	-2.3	-5.1	-4.0	-11.0
Mexico	1 366	1 436	1 391	1 292	3.4	2.3	5.8	5.1	-3.1	-7.1	-5.5
Nicaragua	337	344	329	335	2.0	-1.6	-12.6	2.0	-4.4	1.8	-0.7
Panama	1 174	1 197	1 236	1 211	2.9	0.9	6.2	1.9	3.2	-2.0	3.2
Paraguay	633	665	632	590	3.2	5.6	7.5	5.1	-5.0	-6.6	-6.7
Peru	690	698	683	587	1.9	-1.2	1.2	1.2	-2.2	-14.1	-15.0
Dominican Republic	601	611	606	615	7.0	2.2	2.9	1.7	-0.7	1.5	2.4
Uruguay	1 426	1 444	1 295	1 226	1.1	3.6	5.4	1.2	-10.3	-5.3	-14.1
Venezuela	1 310	1 267	1 239	1 169	1.6	2.2	-3.6	-3.3	-2.2	-5.7	-10.8

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bCumulative variations in the period.

^cAverage, excluding Cuba.

^dRefers to total social product.

^eRefers to 1971-1974. These data are not comparable with those for 1976-1983, for methodological reasons.

^fRefers to 1976-1978.

Table 4

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT BY BRANCH OF ECONOMIC ACTIVITY

(Growth rates)

	Agriculture			Mining and quarrying			Manufacturing			Construction			Subtotal goods			Basic services			Other services		
	1981	1982	1983 ^a	1981	1982	1983 ^a	1981	1982	1983 ^a	1981	1982	1983 ^a	1981	1982	1983 ^a	1981	1982	1983 ^a	1981	1982	1983 ^a
Latin America	4.8	-0.3	0.7	5.7	3.1	-0.4	-2.3	-2.5	-4.6	1.1	-5.4	-13.6	0.4	-1.9	-4.0	3.5	1.4	0.7	3.0	-0.6	-2.0
Argentina	2.4	6.4	0.8	0.6	-0.7	2.2	-16.0	-4.7	9.9	-13.8	-19.8	-6.8	-9.8	-3.1	4.5	-3.1	-1.5	4.2	-3.1	-9.2	0.2
Bolivia	7.0	-2.2	-22.0	1.6	-9.4	-0.4	-3.8	-15.3	-7.5	-34.9	-40.0	-	-1.4	-10.1	-13.4	0.8	-6.5	-4.3	-1.3	-8.4	-3.8
Brazil	6.9	-2.5	2.2	0.2	8.3	14.5	-6.4	0.1	-6.3	-4.3	-0.4	-19.0	-3.7	-0.4	-6.1	0.8	4.8	2.6	-0.1	1.1	-1.0
Colombia	3.3	-1.9	2.1	5.3	3.8	10.1	-1.2	-3.9	-0.2	-8.1	6.5	3.1	2.0	-1.7	1.6	5.5	3.2	0.8	4.2	8.1	1.6
Costa Rica	5.1	-4.9	4.4	...	...	...	0.5 ^b	-14.9 ^b	-1.8 ^b	-21.7	-32.6	-6.0	-1.6	-12.7	0.9	1.4	-0.2	5.7	-3.5	-6.0	-
Cuba ^c	13.0	-2.3	1.4	10.4 ^d	2.0 ^d	9.6 ^d	17.8 ^e	3.4 ^e	4.7 ^e	20.0	0.2	10.7	16.6	1.5	4.7	16.2	-2.0	3.6	12.5 ^f	5.8 ^f	-6.9 ^f
Chile	5.3	-2.3	-1.0	8.0	5.7	-2.0	2.6	-21.6	3.0	21.1	-29.0	0.2	6.0	-12.5	0.6	1.4	-7.5	-1.2	5.7	-10.8	-9.2
Ecuador	5.7	2.0	-14.9	3.9	-0.9	12.7	6.1	4.0	-9.4	1.4	-0.7	-15.4	5.3	2.4	-9.3	5.4	5.6	-0.7	4.4	3.0	...
El Salvador	-6.4	-4.7	-2.8	-2.6	-	-	-10.5	-8.4	0.8	-15.3	-2.1	4.3	-8.4	-5.7	-1.1	-8.4	-5.6	2.5	-7.0	-4.6	0.5
Guatemala	1.4	-2.0	-2.5	-36.4	5.2	2.2	-2.5	-5.2	-2.1	16.0	-11.7	-10.7	1.1	-4.0	-3.1	-0.4	-4.9	-1.4	1.7	-2.2	-0.8
Haiti	-1.4	-4.2	3.3	-14.5	23.7	-99.3	-11.6	1.3	2.5	-1.0	-5.6	5.8	-4.9	-2.2	0.7	-0.9	-3.0	7.6	-0.2	-2.0	1.3
Honduras	0.9	1.1	2.6	5.1	-4.8	-	1.7	-1.3	-1.0	-7.8	-4.2	-2.9	0.4	-0.4	0.8	-0.7	-2.6	-1.4	1.0	-0.6	-1.2
Mexico	6.1	0.6	3.4	15.3	9.2	-2.2	7.0	-2.9	-7.3	11.8	-5.0	-14.3	8.0	-1.3	-5.4	10.4	-2.2	-3.2	7.0	1.4	-3.8
Nicaragua	10.1	2.9	9.5	5.9	-7.1	-9.3	2.8	-1.7	4.6	10.4	-25.5	7.6	6.9	-0.4	7.3	-0.1	-2.0	1.0	4.9	-0.5	4.5
Panama	8.3	0.3	3.1	22.6	7.9	7.3	-3.3	2.4	-2.3	3.2	24.0	-27.8	2.7	7.5	-8.4	5.6	10.9	7.4	5.0	3.2	0.6
Paraguay	6.7	-3.0	-4.9	15.0	2.0	-9.8	8.0	-4.5	-4.2	16.7	-6.0	-5.4	8.7	-3.9	-4.8	3.9	9.6	-2.1	9.2	-1.2	-1.0
Peru	10.7	2.1	-11.4	-3.1	6.5	-6.6	-0.2	-2.5	-17.2	11.0	2.3	-21.4	3.1	0.8	-14.0	6.2	0.7	...	4.2	0.4	...
Dominican Republic	5.5	3.6	3.8	7.1	-28.1	29.9	2.7	5.2	1.7	0.6	-4.9	14.5	3.9	-0.5	6.6	5.9	2.1	1.5	3.9	3.1	2.3
Uruguay	5.5	-11.4	2.6	...	...	...	-9.4 ^b	-16.9 ^b	-7.0 ^b	3.0	-13.6	-26.5	-3.6	-14.8	-7.6	0.2	-8.7	-3.5	7.3	-6.8	3.8
Venezuela	-1.9	3.6	0.7	-2.5	-10.2	-5.6	-2.5	4.1	-1.8	-2.1	-8.4	-10.8	-2.3	-1.0	-3.5	5.5	5.0	...	0.4	-1.5	...

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bIncluding mining and quarrying.^cReferring to the social product concept.^dIncluding mining and metalworking.^eExcluding metalworking.^fReferring to business and other productive activities in the non-material sphere of the social product.

In Paraguay, in its turn, economic activity decreased by 3.7%, so that the downward trend which had made its appearance in the preceding year was sharpened. This further falling-off was decisively influenced by the contraction of almost 5% in agricultural production —which still carries a very great deal of weight in the economy as a whole— due to the heaviest rainfall and worst floods recorded in the country's recent history. The negative effects deriving from the evolution of agriculture were accentuated, in addition, by a 20% drop in the volume of exports and an even greater reduction in the quantum of imports.

Trends in economic activity continued to be very unfavourable in Uruguay. After raising its level by 2% in 1981 and falling by almost 10% in 1982, the gross domestic product diminished by 4.7% in 1983. As in the preceding year, particularly powerful determinants of this new decline were the adverse evolution of industrial production and construction —which decreased by 7% and 27%, respectively, after having undergone reductions of 17% and 14% in 1982— and the violent contraction once again occurring in the quantum of imports, which shrank by 26%, after having done so by 30% in 1982 and 14% in 1981.

During 1983 the level of economic activity also fell in Venezuela, whose gross domestic product decreased by 3% —an all-time low for the period since the war. As the GDP had remained almost entirely at a standstill since 1978, the per capita product declined for the fifth year in succession, while the rate of urban unemployment rose, likewise for the fifth year running, and attained an unprecedented level of nearly 10%. As in other countries, two important causes of the decline in economic activity were the drastic contraction of imports —the volume of which was reduced by about 56%— and the increased uncertainty generated by the devaluation of the bolivar and the radical changes introduced in the exchange system, after a long spell during which a fixed exchange rate had been in force and complete freedom in exchange operations had prevailed.

In Chile, in contrast, the headlong downward trend in economic activity which had started in mid-1981 and in 1982 had led to a drastic reduction of the gross domestic product by over 14% and to an equally spectacular rise in unemployment was to some extent attenuated in the course of 1983. Although activity continued to decrease during the first half of 1983, it subsequently showed signs of recovering slowly, through the operation of three factors: the expansion of public expenditure, the fall in real interest rates, and the greater degree of protection for activities competing with imports which was signified by the maintenance of a higher real exchange rate, the raising of the general tariff from 10% to 20%, and the establishment of higher special tariffs on imports of certain agricultural and industrial goods. Nevertheless, this recovery was not sufficient to offset the effects of the decline in economic activity during the first half of the year, and, consequently, the gross domestic product diminished by nearly 1% in the year as a whole.

The recovery of economic activity was much more marked in Argentina. In this country, the product increased by 2.8%, thanks in particular to a rise of about 10% in industrial production. But as in the two preceding years global economic activity had declined by 11%, while the output of the manufacturing sector had fallen by almost 23% between 1979 and 1982, both the former and the latter were far from regaining their 1977 levels in 1983.

In Colombia, on the other hand, the gross domestic product increased only very slightly (by 0.8%) so that its growth rate slackened for the fifth year in succession. The main cause of the economy's loss of dynamism was the stagnation of industrial production. This was affected by the meagre expansion of domestic demand and by the decrease in exports to Venezuela and Ecuador, countries in which Colombian manufactures lost competitive capacity after the devaluations of the bolivar and the sucre. As a result of the decline in industrial production, and notwithstanding the moderate increase in construction, the unemployment rate went up for the second year running in the main cities of Colombia, reaching an annual average of almost 12%, the peak figure for the last nine years.

Trends in economic activity were likewise unsatisfactory in most of the countries of Central America, although as a general rule they were less unfavourable than in preceding years. Thus, the gross domestic product increased slightly in Costa Rica, after declining considerably for two years. The downward movement of economic activity was also interrupted in El Salvador, where the domestic product, which since 1979 had continuously and sharply decreased, was stabilized in 1983. In Panama, too, economic activity stagnated, after having expanded persistently and fairly rapidly since 1978. In Guatemala, as in Honduras, the product fell for the second year in succession, although in

Table 5

LATIN AMERICA: EVOLUTION OF TOTAL SUPPLY, DOMESTIC DEMAND AND GROSS NATIONAL INCOME^a

	Millions of dollars at 1970 prices				Annual growth rates						1981-
	1978	1981	1982	1983 ^b	1970-1974	1975-1978	1979-1980	1981	1982	1983	1983 ^{bc}
1. Total supply (2 + 3)	384 905	391 057	380 630	360 443	7.5	4.7	6.8	1.6	-2.7	-5.3	-6.4
2. Gross domestic product at market prices	344 212	349 330	345 910	335 808	7.1	4.8	6.2	1.5	-1.0	-2.9	-2.4
3. Imports of goods and services	40 693	41 727	34 720	24 635	11.4	4.3	12.0	2.5	-16.8	-29.0	-39.5
4. Exports of goods and services	31 186	33 700	33 321	35 598	4.2	6.3	9.2	8.1	-1.1	6.8	14.1
5. Available domestic supplies of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	353 719	357 357	347 309	324 845	7.7	4.6	6.6	1.0	-2.8	-6.5	-8.2
6. Total final consumer expenditure ^d	276 919	279 964	278 582	269 338	7.5	4.1	6.8	1.1	-0.5	-3.3	-2.7
7. Gross fixed capital formation	76 800	77 393	68 727	55 507	8.8	6.3	5.8	0.8	-11.2	-19.2	-27.7
8. Terms-of-trade effect	6 776	4 128	619	-1 982	...	...	...	...	...	...	...
9. Factor payments to rest of world	6 161	8 884	11 745	11 286	4.5	10.2	16.6	44.2	32.2	-3.9	83.2
10. Real gross national income (2 + 8 - 9)	344 827	344 574	334 783	322 540	7.7	4.2	6.7	-0.1	-2.8	-3.7	-6.5

Source: ECLAC, on the basis of official statistics.

^aNineteen countries. Of the Caribbean countries, only Haiti and the Dominican Republic are included.^bProvisional figures.^cRefers to the cumulative variation in the period.^dIncludes variation in stocks.

those countries the contractions in economic activity were slighter than in 1982. In contrast, the activity in question rose by over 5% in Nicaragua, thus more than offsetting its modest decline in the preceding year. This growth was particularly influenced by the marked increment in agricultural production shown for the third year in a row, and by the recovery of construction and of manufacturing industry.

Lastly, in 1983 economic activity increased by nearly 4% in the Dominican Republic and by somewhat more than 5% in Cuba. In the former country, the growth of the product was based on the 30% boom in mining —which thus almost offset its steep decline in the preceding year—, on an upswing of almost 15% in construction —mainly due to the expansion of housing plans— and on the steady increase in agricultural production, which rose by about 4% for the third year in succession (see table 4).

The 5% growth rate of the social product in Cuba, in its turn, stemmed mainly from a rise of almost 11% in construction, a 7% increase in business activity and communications and an increment of approximately 5% in industrial production. The expansion of productive activity was facilitated by a relatively satisfactory supply of imports —of which the quantum rapidly mounted for the fourth year running— and by the progress made in global economic management and the greater autonomy granted to the units of production.

2. Total supply and demand and domestic supplies of goods

As in the preceding year, but to an even more pronounced extent, the economic crisis was reflected in 1983 in highly unfavourable trends in the total supply of goods and services, which, after decreasing by about 3% in 1982, was reduced by over 5% in 1983, as the result of a 2.9% decline in the gross domestic product and a spectacular contraction —of nearly 30%— in the volume of imports of goods and services (see table 5). Owing to this exceptional curtailment of external purchases (on top of that recorded in 1982) the import coefficient dropped from 12% in 1981 to barely 7.4% in 1983 —the

Table 6

LATIN AMERICA: RELATIVE SHARES OF COMPONENTS OF GROSS DOMESTIC PRODUCT AND OF GROSS NATIONAL INCOME^a

(GDP = 100)

	Final consumer expenditure	Gross capital formation	Domestic demand	Exports of goods and services	Imports of goods and services	Gross domestic product	Terms-of-trade effect	Net factor payments to rest of world	Real gross national income
1970	80.6	19.6	100.2	8.9	9.1	100.0	-	1.4	98.6
1971	80.7	19.8	100.5	8.5	9.0	100.0	-0.2	1.4	98.4
1972	80.5	20.0	100.5	8.5	9.0	100.0	-	1.2	98.8
1973	80.3	20.5	100.8	8.6	9.4	100.0	1.1	1.4	99.7
1974	81.5	21.2	102.7	8.2	10.9	100.0	2.6	1.2	101.4
1975	80.3	22.4	102.7	7.7	10.4	100.0	1.0	1.1	99.9
1976	79.3	22.7	102.0	7.8	9.8	100.0	1.2	1.2	100.0
1977	79.7	22.4	102.1	8.1	10.2	100.0	1.4	1.3	100.1
1978	79.6	22.5	102.1	8.6	10.7	100.0	0.7	1.5	99.2
1979	79.9	22.2	102.1	9.0	11.1	100.0	1.4	1.6	99.8
1980	80.5	22.3	102.8	9.1	11.9	100.0	2.0	1.8	100.2
1981	80.1	22.2	102.3	9.7	12.0	100.0	1.2	2.5	98.7
1982	80.5	19.9	100.4	9.7	10.1	100.0	0.2	3.4	96.8
1983 ^c	80.2	16.5	96.7	10.7	7.4	100.0	-0.6	3.4	96.0

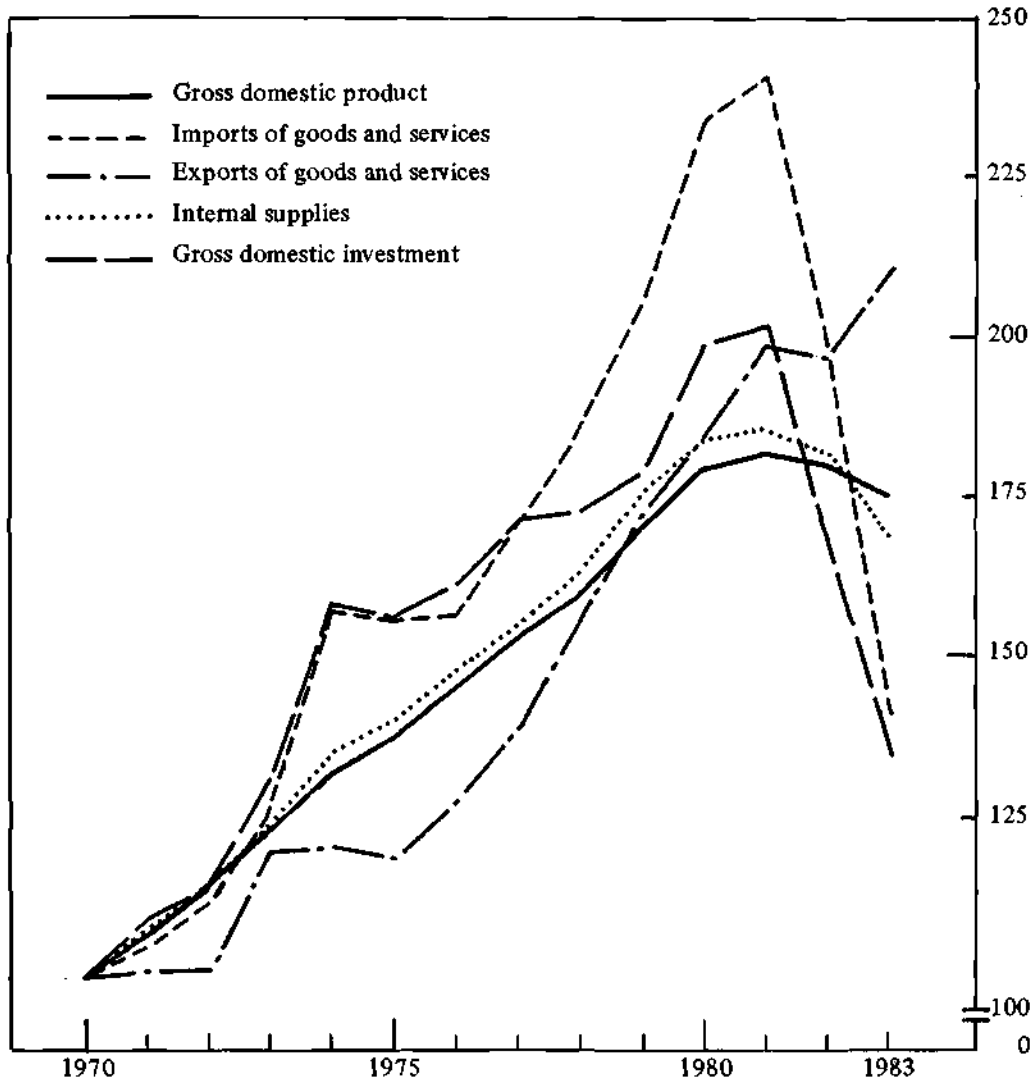
Source: ECLAC, on the basis of official figures.

^aNineteen countries. Of the Caribbean countries, only Haiti and the Dominican Republic are included.

^bIncludes variation in stocks.

^cProvisional figures.

Figure 3
**LATIN AMERICA: INDEXES OF GROSS DOMESTIC PRODUCT,
INTERNAL SUPPLIES OF GOODS AND SERVICES,
INVESTMENT, IMPORTS AND EXPORTS**
(1970 = 100)



Source: ECLAC, on the basis of official data.

lowest proportion on record in the region since the war— while their volume fell below the level attained in 1974 (see table 6 and figure 3).

Since in 1983 the slump in the volume of imports was accompanied by an almost 7% expansion of the quantum of exports, the decline in domestic supplies of goods was much greater than the decrease in the product. These supplies were reduced by 6.5% in 1983, after having contracted by about 3% in 1982. Thus, in the course of the last two years alone, the per capita internal supply of goods and services—which is, in the last resort, the determinant of the current and future level of living of the population— fell by over 13%.

As was to be expected, and as can be clearly seen in figure 3, this decline had a particularly intensive impact on capital formation, which had enjoyed a period of thriving growth between 1970

and 1980, but, after increasing very little in 1981 and falling by 11% in 1982, dropped by over 19% in 1983. In consequence of these considerable decreases, the investment coefficient, which had been a little over 22% in 1981, was barely 16.5% in 1983. As in the case of imports, this coefficient too was the lowest in the last 40 years.

Furthermore, during 1983 there was a break in the sharply rising trend which net external factor payments had been showing. After increasing rapidly in the second half of the 1970s and almost doubling between 1980 and 1982 alone, these payments decreased by nearly 4% in 1983. Nevertheless, since at the same time the gross domestic product also declined, they went on absorbing the same very high proportion of the product (3.4%) as in the preceding year. The heavy burden imposed on the economy by the exceptional increase in payments on foreign capital during the preceding years was likewise reflected in the fact that the proportion of the product which they represented in the two-year period 1982-1983 was almost three times as big as had been customary in the mid-1970s (see table 6).

Lastly, just as in the two preceding years, the negative effects on national income produced by the massive net external factor payments were aggravated by the deterioration in the terms of trade. In these circumstances (as can be seen in table 6), the existing gap between the domestic product and national income continued to widen.

III. EMPLOYMENT AND UNEMPLOYMENT

Trends in the employment situation in 1983 evidenced the exacerbation of the crisis which the economies of the region had been suffering since 1981, and to which was superadded the impact of the adjustment policies applied to cope with it. Thus almost all the countries witnessed a decline in their levels of employment. In some of them it resulted in further increases in open unemployment rates, while in others the already high levels of unemployment recorded in 1982 persisted.

1. Employment in industry

As was to be expected, trends in employment in manufacturing industry largely reflected the variation in that sector's level of activity in 1983. In most of the countries there were simultaneous decreases in the levels of production and employment; employment in industry showed a rising trend solely in Argentina and Chile, the only countries in the group under consideration that experienced a recovery in the manufacturing sector in 1983.³

Even in these two countries, however, the recrudescence of employment in industry was very slight, and did not suffice to offset the notable reductions recorded in the preceding years. Thus, the number of persons employed in the manufacturing sector in Argentina, which had fallen by about 22% in 1981 and over 5% in 1982, rose by barely 3% in 1983. This meant that employment in the sector was still 30% below its 1977 level (see table 7).

Although the average level of employment in industry declined by 2.6% in Chile, the number of workers employed in this sector began to increase as from the second half of 1983 and by the end of the year reached a level almost 14% higher than that attained twelve months before. Nevertheless, owing mainly to the drastic reduction of almost 21% which occurred in 1982, employment in the manufacturing sector in 1983 was more than 20% lower than it had been at the beginning of the decade.

According to the partial data available, employment in industry decreased moderately in Costa Rica (-2%) and Ecuador (-3.5%).⁴ But since these downward movements were the first to take place in the last eight years, in both countries employment in industry exceeded the levels reached in 1980.

In the other countries the decreases in employment in industry were much more marked. The biggest occurred in Mexico, where employment in manufacturing contracted by over 8%, after having declined by almost 2.5% in 1982. However, thanks to substantial increases between 1976 and

³Of the nine countries for which long and homogeneous statistical series on employment in manufacturing industry are available — Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Venezuela— only Argentina and Chile showed increases in the industrial product (10% and 3%, respectively). In contrast, manufacturing activity slightly declined in Colombia, fell by 2% in Costa Rica and Venezuela, and dropped sharply in the other countries (-17% in Peru, -9% in Ecuador, -7% in Mexico and -6% in Brazil).

⁴Data for March in the case of Costa Rica, and for the first two quarters in that of Ecuador.

Table 7

LATIN AMERICA: EMPLOYMENT IN MANUFACTURING

(1980 = 100)

	1977	1978	1979	1980	1981	1982	1983 ^a	1982				1983			
								I	II	III	IV	I	II	III	IV
Argentina ^b	109.7	99.3	97.2	100.0	78.4	74.2	76.7	77.5	73.2	72.2	74.0	78.0	77.0	74.8	76.9
Brazil ^b	91.8	93.7	96.9	100.0	92.6	86.5	80.1	86.4	87.4	86.5	85.5	82.4	81.3	79.0	77.7
Colombia ^b	96.9	98.6	100.8	100.0	95.5	90.7	85.1	91.9	91.2	90.1	89.5	85.5	84.4	...	...
Costa Rica ^c	98.7	99.2	99.5	100.0	100.4	102.1	101.8	103.9	...	98.4	104.0	101.8	...	...	...
Chile ^c	91.4	92.7	93.1	100.0	102.2	80.9	78.8	90.9	86.7	74.9	70.4	75.4	75.8	82.7	81.1
Ecuador ^b	89.2	94.5	97.3	100.0	107.1	109.6	104.0	107.4	108.1	115.8	108.9	103.8	104.2	...	...
Mexico ^b	82.5	86.6	93.2	100.0	105.6	103.0	94.4	105.9	105.7	101.7	97.9	97.3	96.0	93.2	91.2
Peru ^b	98.6	97.9	97.9	100.0	101.1	94.7	94.3	100.0	100.0	99.2	99.4	97.8	95.6	93.1	91.2
Venezuela ^c	91.7	99.6	99.1	100.0	101.8	100.8	94.5	...	100.6	...	100.9	...	94.5	...	...
Percentage variation ^d															
Argentina ^b	-6.2	-9.7	-2.1	2.9	-21.6	-5.4	3.3	-6.9	-11.0	-5.2	-1.7	0.6	5.3	3.6	3.8
Brazil ^b	1.0	2.1	3.4	3.2	-7.4	-6.7	-7.4	-12.6	-7.9	-3.6	-1.9	-4.6	-7.0	-8.6	-9.1
Colombia ^b	1.5	1.8	2.2	-0.8	-4.5	-5.0	-7.2	-4.8	-5.2	-4.9	-5.1	-7.0	-7.4	...	...
Costa Rica ^c	7.0	0.5	0.4	0.5	0.4	1.7	-2.0	3.5	...	4.1	-2.1	-2.0	...	...	...
Chile ^c	2.2	1.4	0.5	7.4	2.2	-20.8	-2.6	-7.0	-15.4	-28.8	-31.1	-17.0	-12.6	10.5	13.8
Ecuador ^b	6.0	6.0	2.9	2.8	7.1	2.3	-3.4	5.9	-1.3	8.5	-2.9	-3.4	-3.6	...	...
Mexico ^b	-0.9	4.9	7.6	7.3	5.6	-2.4	-8.3	2.5	-0.2	-5.0	-7.7	-8.2	-9.2	-8.4	-6.9
Peru ^b	0.7	-0.7	-	2.1	1.1	-1.4	-5.4	-1.3	-1.1	-1.6	-1.4	-2.2	-4.4	-6.1	-8.3
Venezuela ^c	6.2	8.6	-0.5	1.0	1.8	-1.0	-6.1	...	-0.1	...	-1.4	...	-6.1	...	...

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bPersonnel employed in manufacturing, according to periodic sample surveys of enterprises.^cPersonnel

employed in manufacturing, according to household surveys.

^dIn relation to the same period in the preceding year.

1981—in which period the average annual growth rate of employment in industry was over 6%—the number of workers employed in the manufacturing sector was still a little higher than it had been in 1979.

Employment in industry followed a similar trend during the last two years in Venezuela, where it fell by 1% in 1982 and by 6% in the first half of 1983. But since its expansion during the three preceding years had been very slight, its level was 5% lower in 1983 than in 1978.

The decline in industrial employment was also considerable (-5.5%) in Peru. For this reason, and because of its unfavourable evolution in the preceding years, its level in 1983 was barely higher than in 1975.

Employment in the manufacturing sector dropped even more sharply in Brazil and Colombia, in which two countries it decreased by over 7% in 1982. As this downward movement succeeded others of considerable significance that had occurred in the two preceding years, employment in industry both in Brazil and in Colombia sank to its lowest levels in the last ten years (see table 7).

2. Unemployment

Largely as a result of these unfavourable trends in employment in the manufacturing sector, and also in consequence of the sharp drop in employment in construction, a further rise took place in the level of open urban unemployment, which had been soaring since 1981. In some countries, unemployment rates reached record levels, while the slight downturns of about one percentage point which occurred in Argentina, Costa Rica and Nicaragua were not sufficient to offset the increases in the rate of unemployment in previous years. Consequently, in all the countries there was a good deal more urban unemployment in 1983 than before the start of the current recession (see table 8).

In five countries—Bolivia, Chile, Colombia, Uruguay and Venezuela—open unemployment reached its highest levels in the last nine years (see figure 4). As in the preceding year, the peak rates were recorded in Chile, Nicaragua and Uruguay (22, 17.5 and 16.5%, respectively).

What happened in Chile was mainly that the already very high level of urban unemployment noted during the preceding year was maintained.⁵ The rate remained especially high in manufacturing industry (26%) and, above all, in construction (49%). Even so, in the course of 1980 the rate of unemployment decreased slightly but steadily, reflecting the above-mentioned recovery in industrial employment (see figure 5). This decline was also influenced by the enormous expansion of government employment programmes, which managed to provide temporary jobs for 13% of the active population of the metropolitan region of Santiago in 1983. Despite these factors, the rate of unemployment at the end of the year remained above 20%, i.e., at double the figure recorded three years before (see table 9).

The employment situation deteriorated to a more marked extent in Uruguay, where unemployment had been shooting up since the third quarter of 1981 and continued to increase until mid-1983. Despite its slight decline in the following months, the average unemployment rate of almost 16% in Montevideo was the highest recorded since the relevant statistical series had been started in 1968. As in Chile, manufacturing and construction were the activities with the highest unemployment levels (17%). The rate of unemployment in the business sector, although lower in absolute terms (13%), almost doubled within the space of barely a year (see table 10).

In Bolivia, too, there was a pronounced increase in unemployment. The rate of open unemployment in the city of La Paz, which in 1982 had already exceeded 9%, continued to rise in 1983, until by the end of the year it reached an unprecedented level of nearly 14%. Although no

Table 8

LATIN AMERICA: EVOLUTION OF THE URBAN UNEMPLOYMENT RATE

Country	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Argentina ^a	...	4.2	3.7	4.9	3.3	3.3	2.5	2.6	4.7	5.3	4.6
Bolivia ^b	...	...	...	...	7.9	4.5	7.6	7.5	9.7	9.4	13.3
Brazil ^c	...	...	...	...	...	6.8	6.4	6.2	7.9	6.3	6.8
Colombia ^d	...	12.7	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.8
Costa Rica ^e	...	...	...	5.4	5.1	5.8	5.3	6.0	9.1	9.9	8.5
Chile ^f	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2
Mexico ^g	7.5	7.4	7.2	6.8	8.3	6.9	5.7	4.5	4.2	4.2	6.7
Nicaragua ^h	...	...	...	...	...	...	21.4	18.3	15.9	18.5	17.5
Panama ⁱ	...	7.5	8.6	9.0	...	9.6	11.6	9.8	11.8	10.3	11.2
Paraguay ^j	...	...	...	6.7	5.4	4.1	5.9	3.9	2.2	5.6	8.4
Peru ^k	5.0	4.1	7.5	6.9	8.7	8.0	6.5	7.1	6.8	7.0	8.8
Uruguay ^l	8.9	8.1	...	12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.5
Venezuela ^m	...	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	9.8

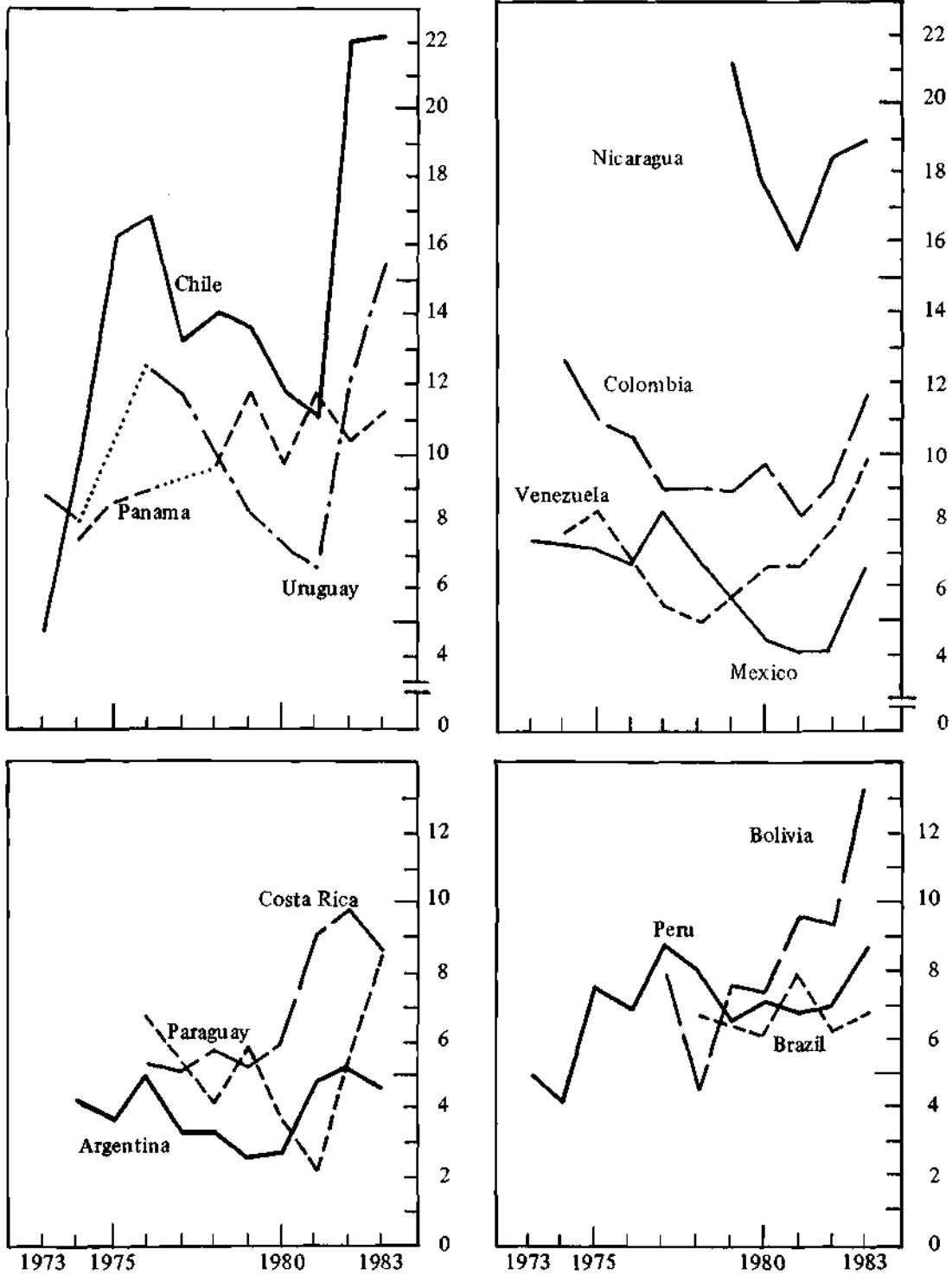
Source: ECLAC, on the basis of official figures.

^aNational urban rate. Average for April-October. ^bLa Paz. 1978, second semester; 1979, annual average; 1980, May-October; 1981, national urban average; 1982 and 1983, average for June-December. ^cMetropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average for 12 months; 1980, average for June-December. ^dBogotá, Barranquilla, Cali and Medellín. Average for March, June, September and December. ^eNational urban rate. Average for March, July and November. ^fGreater Santiago. Average for March, June, September and December. ^gMetropolitan areas of México City, Guadalajara and Monterrey. Average for four quarters. ^hNational rate for non-agricultural activities. ⁱNational urban rate. August of each year, except the years 1974 to 1976, where the reference is to non-agricultural unemployment; 1980, according to data from the National Census taken in February; 1981, official estimates. ^jAsunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo. 1981, first semester; 1982, first quarter; 1983, four quarters. ^kMetropolitan Lima. 1978, average for July-August; 1979, August-September; 1980, April; 1981, June; 1982 and 1983, official estimates. ^lMontevideo, average for two semesters. ^mNational urban rate. Average for two semesters.

⁵According to data from the Department of Economics of the Universidad de Chile. The figures presented by the Instituto Nacional de Estadísticas, for their part, show a decline in the average annual rate from 20% to 19% between 1982 and 1983. But this decrease can be partly attributed to the change in the geographical base of the survey, which, as from the second half of 1983, was extended from Greater Santiago to the whole of the metropolitan region, thus including some rural areas where open unemployment is usually on a smaller scale. It may also have been influenced by the raising of the lower age limit for the labour force from 12 to 15 years.

Figure 4

LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT



Source: ECLAC, on the basis of official data.

precise figures are available for underemployment, it may be assumed to have increased substantially at the same time, having shown a sharply rising trend during the past five years (see table 11).⁶

The increase in urban unemployment was equally striking in Colombia. The average rate of unemployment in the principal Colombian cities rose for the second year in succession, reaching almost 12%, the highest figure recorded in the last nine years. As in previous years, Medellín was the urban centre worst affected, with a rate that ranged from 16 to 18% in the course of the year. As for Bogotá —where almost half the country's urban labour force is concentrated—, during the last quarter of the year it showed an unprecedented unemployment rate of 11%. In contrast, average underemployment in the four principal cities slightly decreased, and in March 1983 was not even as much as 11% (see tables 9 and 11).

The contraction in economic activity also caused an increase in urban unemployment in Panama. Mainly as a result of the 2% fall in the manufacturing product and the 28% drop in that of construction, the unemployment rate went up from 10% to 11% between 1982 and 1983. In the same

Table 9
LATIN AMERICA: EVOLUTION OF UNEMPLOYMENT RATE
IN LARGEST CITIES

	1978	1979	1980	1981	1982	1983	1982				1983			
							I	II	III	IV	I	II	III	IV
Argentina^a														
Capital and Greater														
Buenos Aires	2.8	2.0	2.3	4.5	4.7	4.0	...	5.7	...	3.7	...	4.9	...	3.1
Córdoba	3.9	2.2	2.4	3.8	4.4	5.0	...	4.8	...	3.9	...	4.3	...	5.6
Greater Mendoza	3.2	3.1	2.3	4.8	4.1	4.5	...	4.8	...	3.3	...	4.5	...	4.5
Rosario	3.9	2.9	3.4	5.8	8.4	...	...	8.3	...	8.1	...	6.3	...	...
Brazil^b														
Rio de Janeiro	...	...	7.5	8.6	6.6	6.2	9.3	6.8	5.6	4.5	6.0	6.5	6.5	6.2
Sao Paulo	...	...	5.7	7.3	6.0	6.8	8.3	5.7	5.6	4.3	6.7	7.2	7.0	6.6
Recife	...	...	6.9	8.6	7.5	6.7	9.1	7.9	7.3	5.7	7.5	8.5	8.5	7.5
Porto Alegre	...	...	4.5	5.8	5.3	8.0	6.4	5.3	5.2	4.1	6.1	7.1	7.4	6.3
Colombia^c														
Bogotá	7.3	6.6	7.9	5.5	7.4	9.4	8.5	7.0	6.8	7.1	7.9	9.4	8.9	11.3
Barranquilla	7.4	6.3	8.1	11.1	10.4	13.8	9.6	11.3	10.3	10.3	11.8	14.8	14.4	14.3
Medellín	12.7	14.3	14.7	13.1	13.3	17.0	12.6	12.4	15.0	13.1	17.1	18.2	16.1	16.7
Cali	9.8	10.7	10.0	9.0	9.6	11.6	9.7	9.6	9.9	9.0	11.6	11.8	11.8	11.3
Mexico^b														
México City	6.9	5.7	4.3	3.9	4.0	6.0	3.5	3.9	4.4	4.1	7.0	5.5	6.2	5.4
Guadalajara	6.0	5.7	5.0	5.8	5.0	8.0	4.4	5.2	5.3	5.1	6.4	8.6	9.5	7.6
Monterrey	7.6	5.9	5.2	4.2	4.9	10.7	4.3	4.7	6.2	4.5	9.0	10.2	12.5	11.1
Asunción (Paraguay)^d														
Asunción	4.1	5.9	3.9	2.2	5.6	8.4	5.6	...	...	...	...	...	...	8.4
La Paz (Bolivia)^e														
La Paz	4.5	7.6	7.5	...	9.4	13.3	...	7.0	...	11.8	...	12.7	...	13.8
San José (Costa Rica)^f														
San José	5.8	4.5	5.6	8.8	10.0	8.0	10.4	10.6	...	8.9	9.5	8.7	...	5.9
Santiago (Chile)^g														
Santiago	14.0	13.6	11.8	11.1	22.1	22.2	19.1	23.2	24.8	21.3	23.9	22.7	21.9	20.4
Lima (Peru)^h														
Lima	8.0	6.5	7.1	6.8	7.0	8.8	...	7.0	...	...	...	8.8	...	...
Montevideo (Uruguay)ⁱ														
Montevideo	10.1	8.4	7.4	6.6	11.9	15.5	10.7	11.3	11.7	13.8	15.9	16.1	15.2	14.6

Source: ECLAC, on the basis of official data.

^aFigures for April and October. ^bQuarterly averages. ^cFigures for March, June, September and December. ^dIncluding Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo. ^e1978, second semester; 1979, average for two semesters; 1980, May-October; 1982 and 1983, June and December. ^fFigures for March, July and November. ^gFigures for March, June, September and December. ^h1978, average for July-August; 1979, September; 1980, April; 1981, June; 1982 and 1983, official estimates. ⁱSix-monthly averages for 1978, 1979 and 1980. Quarterly averages for 1981, 1982 and 1983.

⁶According to official estimates, barely 80% of industrial production capacity was in use in 1983, while the percentage of urban employment in low-productivity informal activities significantly increased. Reflecting the growth of employment in these latter, the proportion of the total number of employed persons represented by wage-earners dropped from 60% at the beginning of 1983 to barely 57% at the end of the year.

Table 10

**LATIN AMERICA (SELECTED COUNTRIES): EVOLUTION OF URBAN
UNEMPLOYMENT IN SOME SECTORS OF ECONOMIC ACTIVITY**

(Average annual rates)

	Business				Manufacturing				Construction			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Costa Rica ^b	3.4	5.1	8.8	7.9	5.2	7.1	10.0	7.3	5.6	11.7	15.0	14.6
Chile ^c	6.4	5.9	14.5	16.0	11.9	11.8	26.7	25.9	16.5	16.4	49.4	49.0
Peru ^d	4.1	3.6	2.7	...	5.4	7.3	5.2	...	8.7	3.0	5.3	...
Uruguay ^e	...	5.9	7.7	13.3	...	7.0	13.0	16.6	...	5.7	9.7	16.6
Venezuela ^f	4.6	4.8	5.6	7.4	7.9	7.8	8.0	12.4	11.7	11.8	12.9	20.8

Source: ECLAC, on the basis of official data.

^aProvisional figures.

^bValle Central. Data for March in each year.

^cGreater Santiago. Average for March, June, September and

December. Data supplied by the Department of Economics of the Universidad de Chile.

^dMetropolitan Lima. 1980, April; 1981 and

1983, June.

^eMontevideo. Average for four quarters.

^fNational total. Average for two semesters.

Table 11

**LATIN AMERICA (SELECTED COUNTRIES): NON-VOLUNTARY
URBAN UNDEREMPLOYMENT^a**

(Average annual rates)

	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Argentina ^c	6.5	4.1	5.2	4.0	5.6	6.4	6.8	4.8
Bolivia ^d	...	...	43.9	46.1	48.5	50.9	53.5	...
Colombia ^e	16.3	14.0	14.3	14.0	16.0	11.4	11.0	10.6
Costa Rica ^f	9.3	8.1	10.0	13.8	15.6	19.3	24.2	17.7
Peru ^g	32.7	39.2	43.7	44.1	41.4	40.3	43.9	46.3

Source: ECLAC, on the basis of official figures.

^aPercentage of the labour force whose working day is shorter than they would be willing for.

^bProvisional figures.

^cGreater Buenos

Aires. Average for April-October.

^dNational total.

^eBogotá, Barranquilla, Cali and Medellín. Average for March, June, September

and December. 1983, March.

^fUrban national total. Average for March, July and November. 1983, March.

^gNational total. Non-

agricultural activities.

period, rural unemployment although on a smaller scale in absolute values, showed a proportionally bigger increase, rising from 6% to 7%, largely in consequence of smaller sugar-cane harvests and of the drought which affected production of basic grains.

The rate attained by unemployment in Venezuela —almost 10%— also represented an all-time high. Although the deterioration in the employment situation was apparent in all branches of economic activity, it made itself especially felt in construction, a sector in which the proportion of unemployed went up from 13% in 1982 to 21% in 1983.

In Peru, too, the employment situation grew worse. As a result of the almost 12% slump in global economic activity, open unemployment in Lima climbed from 7% in 1982 to nearly 9% in 1983, while urban underemployment reached the unprecedented level of over 46%.

Although lower in absolute values, unemployment rates also rose significantly in Mexico and Paraguay. In the latter country, urban unemployment rose from 5.6% in March 1982 to more than 8% in December 1983.

In the principal cities of Mexico, in their turn, open unemployment went up from 4% in 1982 to almost 7% in 1983. The city hardest hit was Monterrey, where the rate of unemployment more than doubled, attaining a record average level of about 11%. The deterioration in the urban employment situation was also reflected in the above-mentioned drop in industrial employment, in the decline of

the rate of participation (see table 12), and in the transfer of a considerable number of workers from the modern sector to the so-called informal activities. However, open unemployment in the three principal cities decreased slightly in the last quarter of the year, partly thanks to emergency employment programmes.⁷

In the case of Brazil, the methodological changes introduced in 1982 preclude comparisons with preceding years. However, the quarterly evolution since that date shows a relative increase in urban unemployment, especially in the city of Recife. In Sao Paulo and Rio de Janeiro unemployment continued to hover between 6% and 7% throughout the year, which is surprising, since these are cities in which employment in industry carries a great deal of weight, and, given the marked contraction in this sector, a rise in unemployment rates might have been expected (see tables 7 and 9).

Argentina, Costa Rica and Nicaragua, for their part, showed slight downward movements in 1983 in their respective rates of open unemployment, mainly in consequence of the recovery of economic activity in all these countries. Nevertheless, unemployment rates remained very high in Costa Rica and, particularly, in Nicaragua, where although the rate of urban unemployment fell by one percentage point between 1982 and 1983 it was the second highest in Latin America (see table 8). This modest decrease was essentially due to the increase of more than 5% in the gross domestic product, and was also a consequence of the substantial rise in public employment and the expansion of urban informal activities.

Urban unemployment also declined in Costa Rica, from an annual average of 10% in 1982 to one of 8% in 1983. In San José unemployment remained high during the first half of the year, fluctuating around 9%, but fell to 6% in November. The most marked decrease occurred in manufacturing industry, where the unemployment rate dropped between 1982 and 1983 from 10% to 7%. In contrast, the proportion of unemployed workers was barely reduced at all in construction, and went down only a very little in the business sector. Another sign of improvement in the employment situation was a considerable decrease in urban underemployment, from 24% in March 1982 to 18% in March 1983 (see tables 10 and 11). These changes in the employment situation reflected a slight recrudescence of economic activity, after two years of sharp reduction.

Table 12

LATIN AMERICA (SELECTED COUNTRIES): TOTAL PARTICIPATION RATES^a

(Average annual rates)

Country	1970	1976	1980	1981	1982	1983 ^b
Bolivia ^c	47.3 ^d	48.1	55.8	...	...	49.9
Colombia ^e	...	49.8	54.4	52.3	53.0	54.6
Costa Rica ^f	44.9 ^d	50.2	50.2	49.3	50.9	48.7
Chile ^g	51.8	50.3	50.7	51.8	51.7	52.2
Mexico ^h	...	50.9	50.1	50.1	49.5	46.8
Uruguay ⁱ	48.5	52.8	56.4	54.6	56.6	56.9
Venezuela ^j	43.4	...	50.2	50.4	50.0	49.7

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

^aEconomically active population as a percentage of population of working age, according to household survey data. The lower age limit varies slightly from one country to another (see the corresponding footnotes). ^bProvisional figures. ^cNational total. Lower age limit 10 years, upper 64 years. Average annual estimate. ^dAccording to data from the corresponding national census. ^eBarranquilla, Bogotá, Cali, and Medellín. Lower age limit 12 years. Average for March, June, September and December. ^fNational total. Lower age limit 12 years. March of each year. ^gGreater Santiago. Lower age limit 14 years. Average for March, June, September and December. ^hMetropolitan areas of México City, Guadalajara and Monterrey. Lower age limit 12 years. Average for four quarters. ⁱNational total. Lower age limit 14 years. Average for four quarters. ^jNational total. Lower age limit 15 years. First semester of each year.

⁷The Mexican Government put into practice several programmes of this type, both in urban and in rural areas. The aim was to provide training (in particular for persons looking for work for the first time) or temporary employment in various public or social utility projects (drinking-water, sewerage, housing, highways, etc.).

Lastly, during the second half of 1983 the reactivation of the economy also caused a decline in urban unemployment in Argentina. The most notable decrease took place in Greater Buenos Aires, where not only unemployment but also underemployment dropped steeply. According to provisional data,⁸ both the 3% unemployment rate recorded in October 1983 in the capital and the rate of underemployment were the lowest observable since 1980. In contrast, in the other principal cities, the reduction in unemployment by the end of the year barely succeeded in offsetting the increases that had occurred in the first semester. The situation was particularly unfavourable in Córdoba, where unemployment continued to rise throughout the year and reached its highest level since 1977 (see figure 5). As a result of these changes, the average rate of urban unemployment fell from 5.3% in 1982 to 4.6% in 1983. This figure, while considerably higher than those prevailing during 1977-1980, was by far the lowest in Latin America in 1983.

IV. PRICES AND WAGES

1. Prices

Although economic activity declined and unemployment increased, and notwithstanding the weakening of external inflationary pressures, the rate of increase of prices continued to rise in most of the Latin American economies, and in the region as a whole reached a new all-time high in 1983. The simple average rate of increase of consumer prices went up from 48% in 1982 to 66% in 1983, and the rate weighted by the population soared from a little less than 86% in 1982 to 131% in 1983.

Inflation speeded up particularly fast in Argentina, Bolivia, Brazil, Peru, Ecuador and Uruguay; in Mexico, prices continued to increase at a very rapid rate. Inflation also worsened in most of the Central American economies, but particularly in Nicaragua and Guatemala. In contrast, it was spectacularly reduced in Costa Rica, underwent a moderate but steady decline in Colombia, and was very low in Panama (see table 13).

Consumer prices continued to shoot up in Argentina, attaining a rate of over 430%, which more than doubled that of the preceding year and easily exceeded the very high rates recorded in 1975 and 1976. This phenomena was linked, as in previous years, to the existence of a very considerable fiscal deficit and to the spread of more and more unfavourable expectations as to the future course of price levels. To the incidence of these factors was superadded the effect of the frequent wage and salary adjustments, which reached very considerable magnitudes, especially in the second half of the year, and helped to push up real wages.

Inflation figures were likewise unprecedented in Bolivia, where consumer prices soared by almost 330%, on top of having already trebled in 1982. As can be seen in figure 6, the acceleration of inflation was particularly marked as from November, in which month the exchange rate was adjusted by 150% —after a year in which it had been pegged by the authorities— and when a rise of more than 70% in minimum wages was decreed.

There was also a very marked intensification of inflation in Brazil. As a result of the massive public-sector deficit, of the maxidevaluation of the cruzeiro decreed in February and the continuous subsequent increases in the exchange rate, of the deterioration of the outlook and of the complex and generalized indexing system in force, consumer prices, which in 1981 and 1982 had risen at a rate of about 100%, went up by over 180% in 1983, while the overall price index was more than trebled.

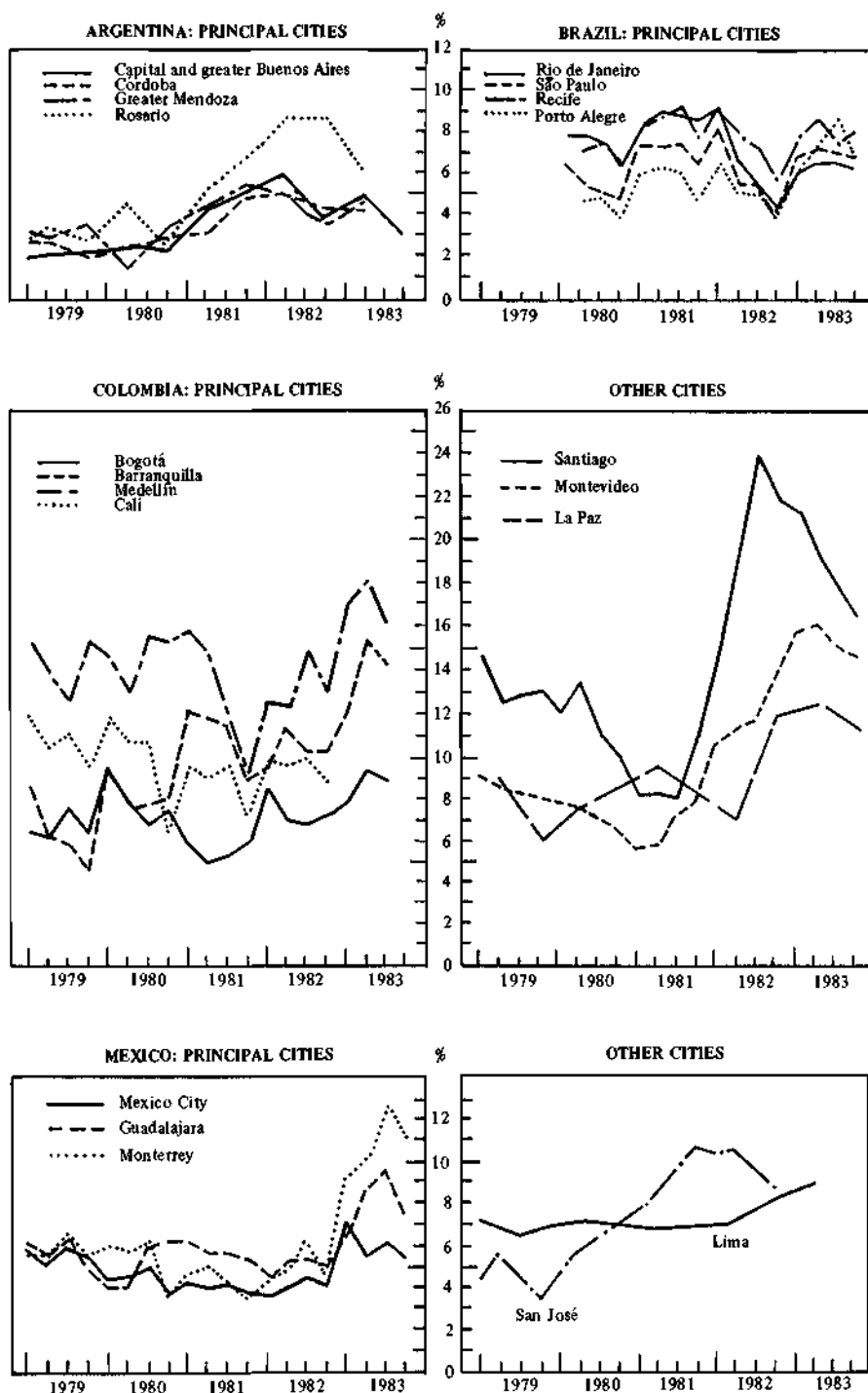
Galloping inflation was also the order of the day in Peru, where the annual rate of increase of consumer prices, after fluctuating around 70% in 1981 and 1982, jumped to 125% in 1983. Special determinants of this notable increase were the policy of more rapid devaluation of the sol applied by the economic authorities until August, and also the sharp increases in food prices due to the poorer harvests caused by drought and floods.

Although a great deal lower in absolute terms than in the four preceding countries, in relative terms the increase in inflation in Ecuador was greater; from 24% in 1982 it rose to 52% in 1983. As in other countries, this acceleration of inflation was influenced by the devaluations of the sucre decreed as from 1982, after a long period of exchange stability; but another decisive factor was the reduction in supplies of agricultural products which was caused by floods, and which brought in its train

⁸Representing only 50% of the sample customarily used.

Figure 5

LATIN AMERICA: EVOLUTION OF UNEMPLOYMENT IN SOME PRINCIPAL CITIES



Source: ECLAC, on the basis of official data. See also table 9.

Table 13

LATIN AMERICA: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Latin America ^a	57.8	62.2	40.0	39.0	54.1	52.8	60.8	85.8	131.4
Countries with traditionally high inflation									
Argentina	334.9	347.5	150.4	169.8	139.7	87.6	131.2	209.7	433.7
Bolivia	6.6	5.5	10.5	13.5	45.5	23.9	25.2	296.5	328.5
Brazil	31.2	44.8	43.1	38.1	76.0	86.3	100.6	101.8	177.9
Colombia ^b	17.9	25.9	29.3	17.8	29.8	26.5	27.5	24.1	16.5
Chile	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.6
Mexico	11.3	27.2	20.7	16.2	20.0	29.8	28.7	98.8	80.8
Peru	24.0	44.7	32.4	73.7	66.7	59.7	72.7	72.9	125.1
Uruguay	66.8	39.9	57.3	46.0	83.1	42.8	29.4	20.5	51.5
Countries with traditionally moderate inflation									
Costa Rica	20.5	4.4	5.3	8.1	13.2	17.8	65.1	81.7	10.7
Ecuador ^c	13.2	13.1	9.8	11.8	9.0	14.5	17.9	24.3	52.5
El Salvador	15.1	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.5
Guatemala	0.8	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	8.1 ^d
Haiti	-0.1	-1.4	5.5	5.5	15.4	15.3	16.4	8.0 ^e	7.1 ^f
Honduras	7.8	5.6	7.7	5.4	18.9	15.0	9.2	9.4	10.2
Nicaragua	1.9	6.2	10.2	4.3	70.3	24.8	23.2	22.2	37.3 ^g
Panama	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.7	2.0
Paraguay	8.7	3.4	9.4	16.8	35.7	8.9	8.1	8.9	14.1
Dominican Republic	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.1	6.0
Venezuela	8.0	6.9	8.1	7.1	20.5	19.6	10.8	7.9	7.0

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

^aThe totals for Latin America and the partial figures for groups of countries correspond to the countries' price variations weighted by each year's population. ^bUp to 1980, represents the variation in the workers' consumer price index; from 1981 onwards, the variation in the national total, which includes workers and employees. ^cUp to 1982, represents the variation in the consumer price index in the city of Quito; in 1983, the variation in the national total. ^dRepresents the variation between October 1983 and October 1982. ^eRepresents the variation between September 1982 and September 1981. ^fRepresents the variation between September 1983 and September 1982. ^gRepresents the variation between November 1983 and November 1982.

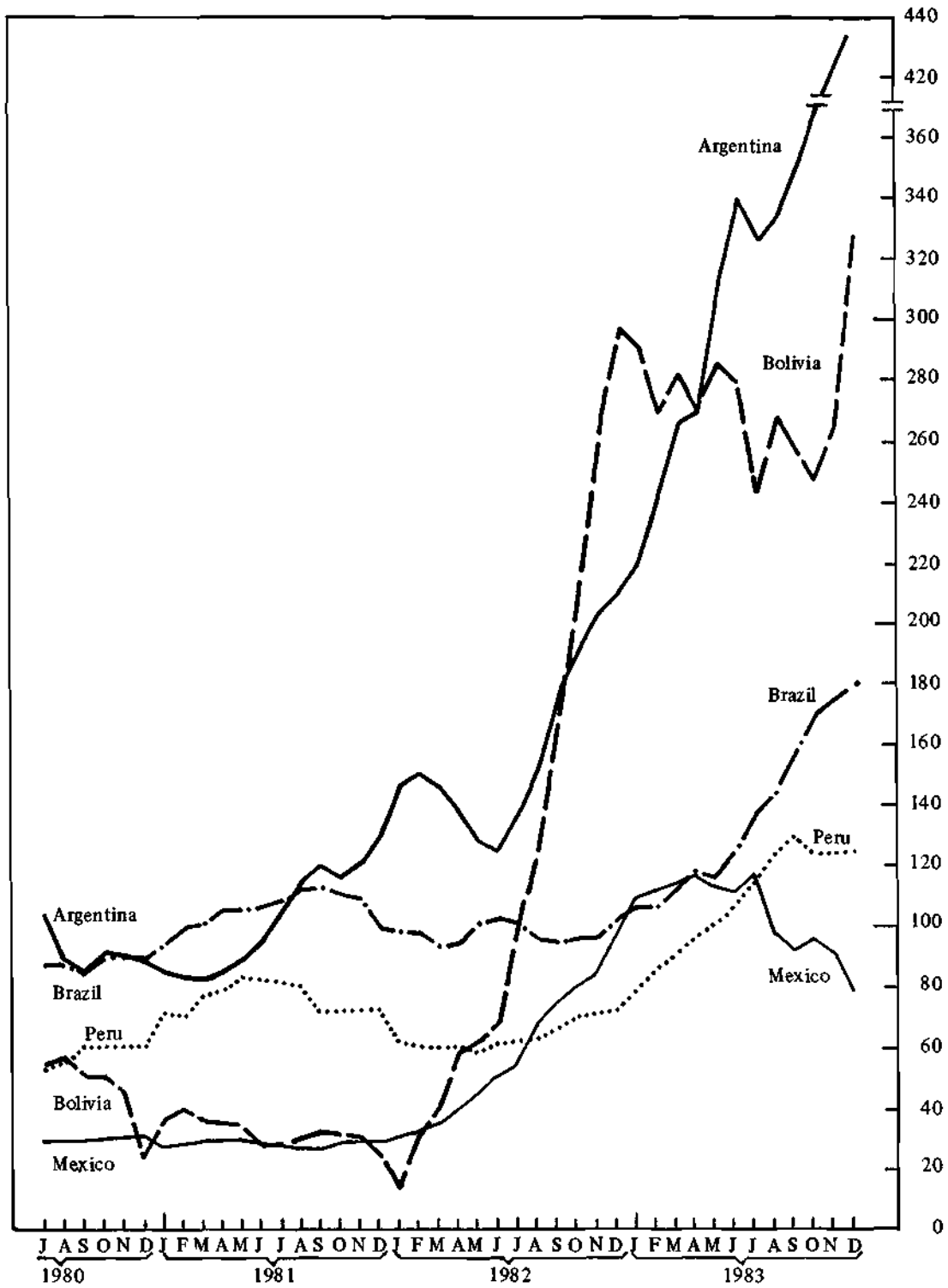
unaccustomed increases in food prices. Towards the end of the year, however, the supply of these products became more normal, with the result that the consumer price index showed small decreases in November and December and the rising trend of the rate of inflation was abruptly reversed (see figure 7).

The course followed by inflation was very similar in Uruguay, where the rate of price increases, after following a systematic downward trend between the beginning of 1960 and November 1982, shot up again after the devaluation of the peso at the end of that month. Thus, the rate of inflation rose steadily and steeply during most of 1983, but was greatly reduced in December. Even so, the 51% increase in consumer prices in 1983 more than doubled the corresponding figure for 1982.

In Mexico, too, inflation remained very high during 1983, although its rates slowed down as from the middle of the year. As shown in figure 6, the annual rate of increase of consumer prices reached an all-time peak of almost 120% in July, but subsequently declined almost continually, falling to 81% in December. This break in the inflationary trend was mainly attributable to the notable reduction of the fiscal deficit and the very restrictive wage policy applied by the economic authorities.

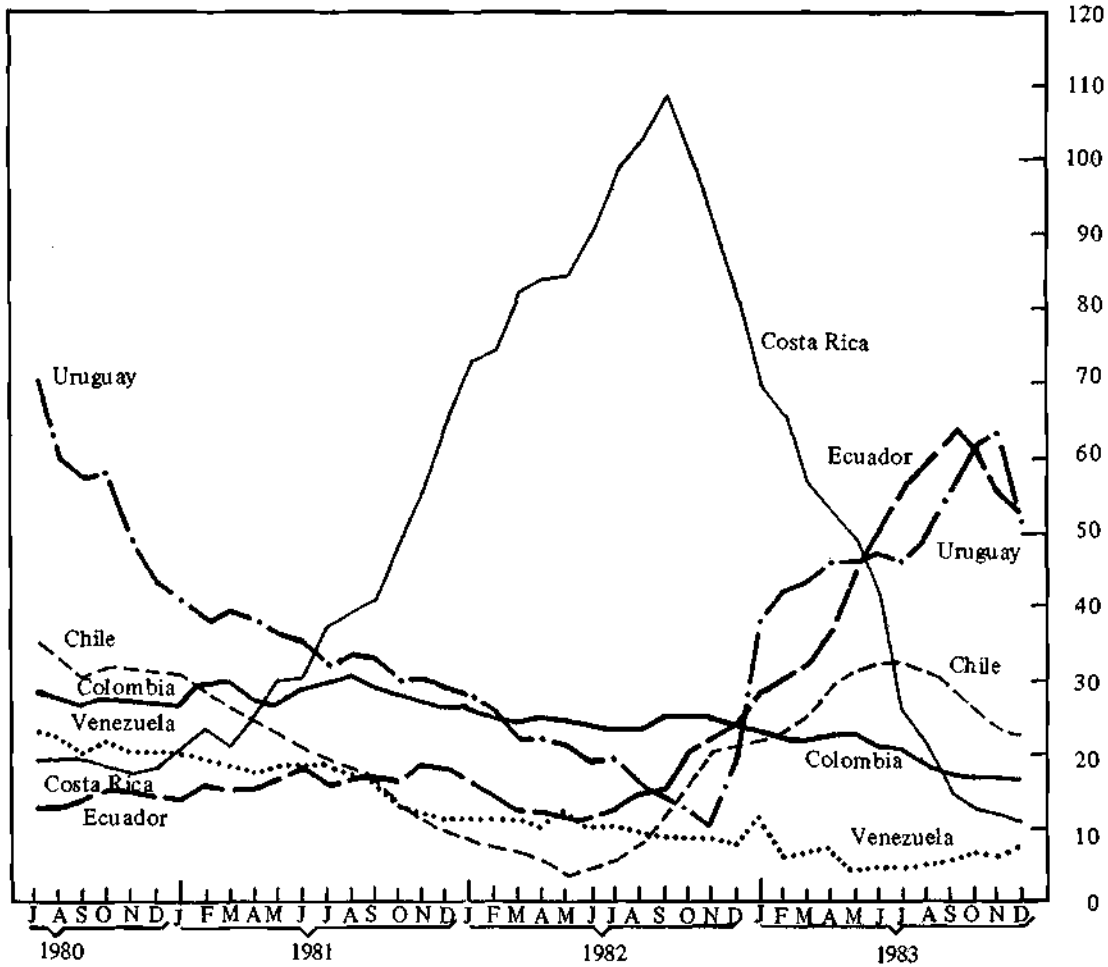
The reversal of the inflationary trend was much more definite and spectacular in Costa Rica, a country where, as in Mexico, the rate of price increases had soared rapidly in 1982. As can be seen in figure 7, the rate of increase of consumer prices, after reaching an unprecedented level of close to 110% in September 1982, declined exceptionally fast and persistently in the subsequent months, and by the end of 1983 has dropped below 11%. In fact, mainly as a result of the fixing of the exchange

Figure 6
**LATIN AMERICA (SELECTED COUNTRIES): TWELVE-MONTH
 VARIATIONS IN CONSUMER PRICE INDEX**



Source: ECLAC, on the basis of official data.

Figure 7
LATIN AMERICA (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN CONSUMER PRICE INDEX



Source: ECLAC, on the basis of official data.

rate, of the restrictive wage policy applied and of a considerable expansion of the volume of imports, as from the middle of the year consumer prices were almost completely stabilized.

The course followed by inflation during 1983 was more complex in Chile. Between June 1982 — the month in which the authorities decided to devalue the peso after almost three years of exchange stability — and June 1983, the annual rate of increase of consumer prices climbed steadily from 4% to somewhat more than 32%. But the effects on the costs of tradeable goods produced by the abrupt upward movements of the exchange rate in the second half of 1982 gradually petered out and real wages and salaries went on decreasing; consequently, the pace of inflation began little by little to slacken as from August 1983, and fell below 23% by the end of the year.

During 1983 inflation went on declining gradually but continuously in Colombia, the Latin American country in which the rate of increase of prices has been most stable in the last ten years. This slowdown of inflation took place despite the fact that, with a view to strengthening the balance of payments, the authorities speeded up the mini-devaluations of the peso. But the greater inflationary pressure that this might have caused was neutralized by the sluggishness of domestic demand.

In Venezuela, likewise, the rate of increase of consumer prices was slightly reduced in 1983. They rose, in fact, by only 7%, notwithstanding the sharp devaluation of the bolívar at the end of

February. The effects of this latter on consumer prices were mitigated by the maintenance of a preferential exchange rate for imports of essential goods, strict price controls in respect of these, reduction of previous years' stockpiles, a slump in domestic demand and a downward trend in wages. The impact of the raising of the exchange rate on costs was reflected, however, in the evolution of the wholesale price index, in which internationally tradeable products carried greater weight. Indeed, wholesale prices, which in 1982 had gone up only 6%, rose by over 10% in 1983 and showed an upward trend which became particularly marked at the end of the second quarter of that year.

In Paraguay, on the other hand, inflation notably accelerated its pace. After increasing by barely 4% in 1982, consumer prices rose by 14% in 1983. As in other countries, the increase in the rate of inflation was influenced by the raising of the exchange rate. The effects of the devaluation were combined with those of the abrupt reduction of the supply of agricultural products caused by adverse weather conditions —which stepped up food prices to a marked extent— and with the impact of the over-25% expansion of the means of payment generated by the significant increase in the credit granted to the central government.

Lastly, price trends differed widely among the countries of Central America and the Caribbean, which have traditionally had moderate inflationary processes tending as a general rule to follow the variations in international inflation. Thus the rate of inflation increased to a marked extent in Nicaragua —from an average of 23% in 1980-1982 to 37% in 1983— and in Guatemala, where consumer prices rose by 8% after having decreased by 2% in 1982. In contrast, the rate of inflation did not vary very much in El Salvador and Honduras; it was spectacularly reduced, as has already been shown, in Costa Rica; it was very low in Panama; and it declined slightly for the third year running both in Haiti and in the Dominican Republic (see table 13).

2. Wages and salaries

As in previous years, the evolution of real wages and salaries was very unequal in Latin America, in accordance with the likewise widely differing paths followed by the countries of the region in respect of growth, employment, inflation and wage policy. Of the countries for which relatively reliable statistical data are available, a majority (Brazil, Chile, Paraguay, Peru and Uruguay) recorded substantial decreases both in average wages and salaries and in the minimum wages, mainly as a result of the contraction in internal economic activity and the acceleration of inflation. Similarly, in Ecuador and Mexico, countries for which statistical data are available only with respect to minimum wages, these suffered a marked reduction. In contrast, real salaries and wages continued to follow a moderate upward trend in Colombia, while they showed notable increases in Costa Rica and, above all, in Argentina (see tables 14 and 15 and figure 8).

The most spectacular decreases —of about 20% for average wages and salaries and over 10% for minimum wages— occurred in Brazil and Uruguay. The deterioration in real wages and salaries began to make itself apparent on an unusually large scale in Uruguay as from the second half of 1982 and continued throughout the following year. This unfavourable trend was due in the first place to the abrupt drop in the gross domestic product, the negative effects of which were strengthened in 1983 by the impact of the marked acceleration of inflation. It was also influenced by the wage policy which formed part of the overall adjustment programme, and by virtue of which the salaries of public employees were frozen, compulsory adjustments in the private sector were suppressed and increases in the national minimum wage were made more moderate. This last, despite the intensive rate of inflation, was adjusted only twice in 1983 (by 15% in January and 33.5% in September). Moreover, these increases failed to match the rate of inflation, which meant that the real minimum wage fell by 10% in 1983. The nominal rise in average wages and salaries was considerably lower, so that their purchasing power was lessened by 21%. Since for several years both real minimum wages and real average wages and salaries had been showing a persistent downward trend, the levels recorded in 1983 were the lowest in the last 15 years.

In contrast, the slump in real wages and salaries in Brazil occurred in a very different context, as they had been increasing uninterruptedly up to 1982 (see figure 8). The decreases recorded in 1983 were equally spectacular, however, since average wages and salaries contracted by over 19%, while the minimum wage in Rio de Janeiro fell by 11%.

Table 14

**LATIN AMERICA: EVOLUTION OF REAL AVERAGE
WAGES AND SALARIES**

(1976 = 100)

Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Argentina ^b	138.3	131.5	139.7	157.7	148.6	100.0	98.5	96.7	111.1	124.2	111.0	99.2	128.3
Brazil ^c	78.1	85.7	86.4	88.3	96.8	100.0	104.6	112.7	116.3	122.5	129.4	140.0	113.0
Colombia ^d	117.4	98.3	105.2	99.6	97.8	100.0	94.4	105.3	112.2	113.0	114.4	118.3	124.2
Costa Rica ^e	102.5	99.4	97.1	91.6	88.3	100.0	109.4	119.0	124.7	125.7	110.9	89.1	97.7
Chile ^f	189.4	171.7	113.3	102.9	98.6	100.0	112.9	120.2	130.2	141.9	154.8	154.2	137.8
Paraguay ^g	108.2	102.9	99.4	95.0	94.9	100.0	95.4	98.8	92.4	93.0	98.0	95.4	88.6
Peru ^h	...	...	110.1	108.4	92.2	100.0	84.4	76.0	73.6	80.8	78.7	80.5	67.5
Uruguay ⁱ	144.2	118.5	115.0	116.5	106.2	100.0	88.1	84.9	78.0	77.8	83.6	83.3	66.0
Percentage variation													
Argentina ^b	3.4	-4.9	6.2	12.9	-5.9	-32.7	-1.5	-1.8	14.9	11.8	-10.6	-10.4	29.3
Brazil ^c	4.2	8.9	0.8	2.2	9.6	3.3	4.6	7.7	3.2	5.3	5.6	8.2	-19.3
Colombia ^d	-3.8	-16.5	7.0	-5.3	-1.8	2.2	-5.6	11.5	6.5	0.8	1.4	3.7	5.0
Costa Rica ^e	10.9	-3.0	-2.3	-5.6	-3.7	-13.2	9.4	8.8	4.8	0.8	-11.8	-19.7	9.7
Chile ^f	19.3	-9.3	-34.0	-9.1	-4.2	1.4	12.9	6.5	8.3	9.0	9.1	-0.4	-10.6
Paraguay ^g	-1.1	-4.9	-3.4	-4.4	-0.1	5.3	-4.6	3.6	-6.5	0.7	5.3	-2.7	-7.1
Peru ^h	...	...	...	-1.5	-14.9	8.5	-15.6	-9.9	-3.2	9.9	-2.0	2.2	-16.1
Uruguay ⁱ	5.1	-17.1	-3.8	1.3	-8.8	-5.8	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7

Source: ECLAC, on the basis of official data.

^aProvisional figures. ^bWages in manufacturing industry in the metropolitan area. ^cAverage wages in industry in general. ^dWages in manufacturing industry. ^eWages or salaries declared by affiliates of the social security system. ^fWages and salaries of workers and employees in the non-agricultural sectors, excluding large-scale copper mining and pulp and paper industries. ^gWages in general for Asunción. ^hWages in the private sector in the metropolitan area of Lima. ⁱWages and salaries in the private and public sectors in Montevideo and the interior.

As in the case of Uruguay, these reductions were particularly influenced by the speeding-up of inflation, which in 1983 reached rates never recorded in the country before. Other determinants were the changes in wage legislation, which was modified for the first time in January 1983 and again, after a long period of uncertainty and difficult internal negotiations, in November 1983.⁹ These reforms were aimed at bringing down the percentage levels of the six-monthly adjustment applicable to the different wage and salary steps. Thus, for wages and salaries amounting to less than three minimum wages, the percentage was reduced from 110 to 100% of the variation in the national consumer price index in January 1983.¹⁰ In turn, the adjustment percentages applied to wages and salaries exceeding three minimum wages were fixed at the beginning of the year at a level lower than the rate of inflation and were further reduced in November. The second reform in wage legislation consisted in the establishment of a ceiling for the increase under the head of productivity, in accordance with the variation in national per capita income in the preceding year. Since the ceiling was fixed at zero for 1982, in 1983 there was no increase on this account.

As a result of these modifications, the rising trend that average real wages and salaries had been showing since the beginning of the 1970s was abruptly reversed, and as from June 1983 they began to fall steeply. Thus, by the end of the year their level was barely equivalent to that recorded in 1980. As for the salaries of public employees, which are not regulated by wage legislation, they were accorded nominal increases considerably lower than the rate of inflation, whereby they dropped 20% in real terms.

⁹The wage legislation in force since 1979 establishes a system of compulsory six-monthly adjustments, scaled in accordance with the ratio between the pay received and the minimum wage. It also provides for an additional increase if productivity rises. The latter, however, is largely determined by direct negotiations.

¹⁰This index also serves as a basis for the entire indexing system applied in Brazil. It should be noted that during 1983 the government, in calculating the variation in this index, excluded price increases attributable to the incidence of factors considered as exceptional or accidental (for example, those caused by the shortage of agricultural supplies due to floods in the south of the country). Naturally, this procedure reduced the size of automatic wage adjustments.

Furthermore, with a view to gradually establishing a single minimum wage for the whole country, in May the number of different areas considered was further reduced, so that thenceforward only two levels were differentiated.¹¹ The policy of granting two six-monthly adjustments (in May and November) equivalent to the variation in the national consumer price index was maintained. But since the increase in prices in the principal Brazilian cities was proportionally higher, in all those urban centres the real minimum wage decreased. The sharpest drops occurred in the Federal District (-16%) and Recife (-17%), the two urban areas where the rates of inflation were highest.

The notable acceleration of inflation in 1983 also contributed to the 16% decrease in average wages and salaries in Peru, which brought these down to their lowest level in the last 10 years. The worst deteriorations (-29% and -28%, respectively) corresponded to the construction and business sectors, which were especially affected by the slump in economic activity. In manufacturing industry, too, real wages declined to a marked extent (-21%). The reductions were smaller, although substantial, in the other sectors, ranging from 13% in the banking sector to 8% in non-government services.

Average wages and salaries, however, did not follow the same behaviour pattern throughout the year. They were reduced by 21% during the first half of the year, but in the last quarter rose by 3%. This was due partly to the slowing-down of the rate of inflation in the last months of the year, and partly to the granting of a blanket wage increase of 15%, which had not been originally programmed.

In contrast, the purchasing power of the average minimum wage scarcely varied at all in 1983. Thanks to the special 60% bonus granted in March, it considerably increased in real terms during the

Table 15

LATIN AMERICA: EVOLUTION OF VALUE URBAN REAL MINIMUM WAGE

(1980 = 100)

Country	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Argentina ^b	104.0	99.7	81.0	92.1	100.0	105.6	105.5	166.6
Brazil ^c	...	...	97.7	97.5	100.0	98.7	99.1	87.8
Colombia ^d	75.1	77.9	89.5	97.5	100.0	98.9	103.2	107.6
Costa Rica ^b	79.5	86.2	96.0	98.5	100.0	90.5	85.7	99.3
Chile ^e	67.5	120.9	100.7	99.8	100.0	99.2	97.2	78.3
Ecuador ^f	60.5	53.8	48.1	60.4	100.0	89.6	80.8	72.0
Mexico ^g	113.5	112.5	108.6	107.2	100.0	97.6	93.4	71.9
Paraguay ^h	100.6	92.0	94.8	92.4	100.0	103.2	101.1	93.6
Peru ⁱ	107.3	94.2	72.3	80.8	100.0	84.7	80.0	79.7
Uruguay ^j	171.5	114.7	113.6	104.8	100.0	103.4	104.6	94.0
	Percentage variation							
Argentina	-48.2	-4.1	-18.8	13.7	8.6	5.6	-0.1	57.9
Brazil	...	...	...	-0.2	2.6	-1.3	0.4	-11.4
Colombia	-6.2	3.7	13.1	10.7	2.5	-1.1	4.4	4.3
Costa Rica	14.8	8.4	11.4	2.6	1.6	-9.5	-5.3	15.9
Chile	...	17.9	26.5	-0.9	0.2	-0.8	-2.0	-19.5
Ecuador	...	-11.2	-10.6	25.7	65.5	-10.4	-9.9	-10.7
Mexico	11.6	-0.9	-3.4	-1.3	-6.7	-2.4	-4.3	-23.0
Paraguay	...	-8.3	3.1	-2.5	8.2	3.2	-2.0	-7.5
Peru	...	-12.2	-23.2	11.7	23.8	-15.3	-5.4	-0.4
Uruguay	-3.1	-33.5	-0.5	-7.7	-4.6	3.4	1.2	-10.2

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bNational minimum wage.

^cMinimum wage for the city of Rio de Janeiro, deflated by the corresponding

CPI.

^dMinimum wage for upper urban sectors.

^eMinimum income.

^fMinimum overall wage, calculated on the basis of

annual minimum wages and legal supplementary benefits.

^gNational average minimum wage.

^hMinimum wage in Asunción

and Puerto Stroessner.

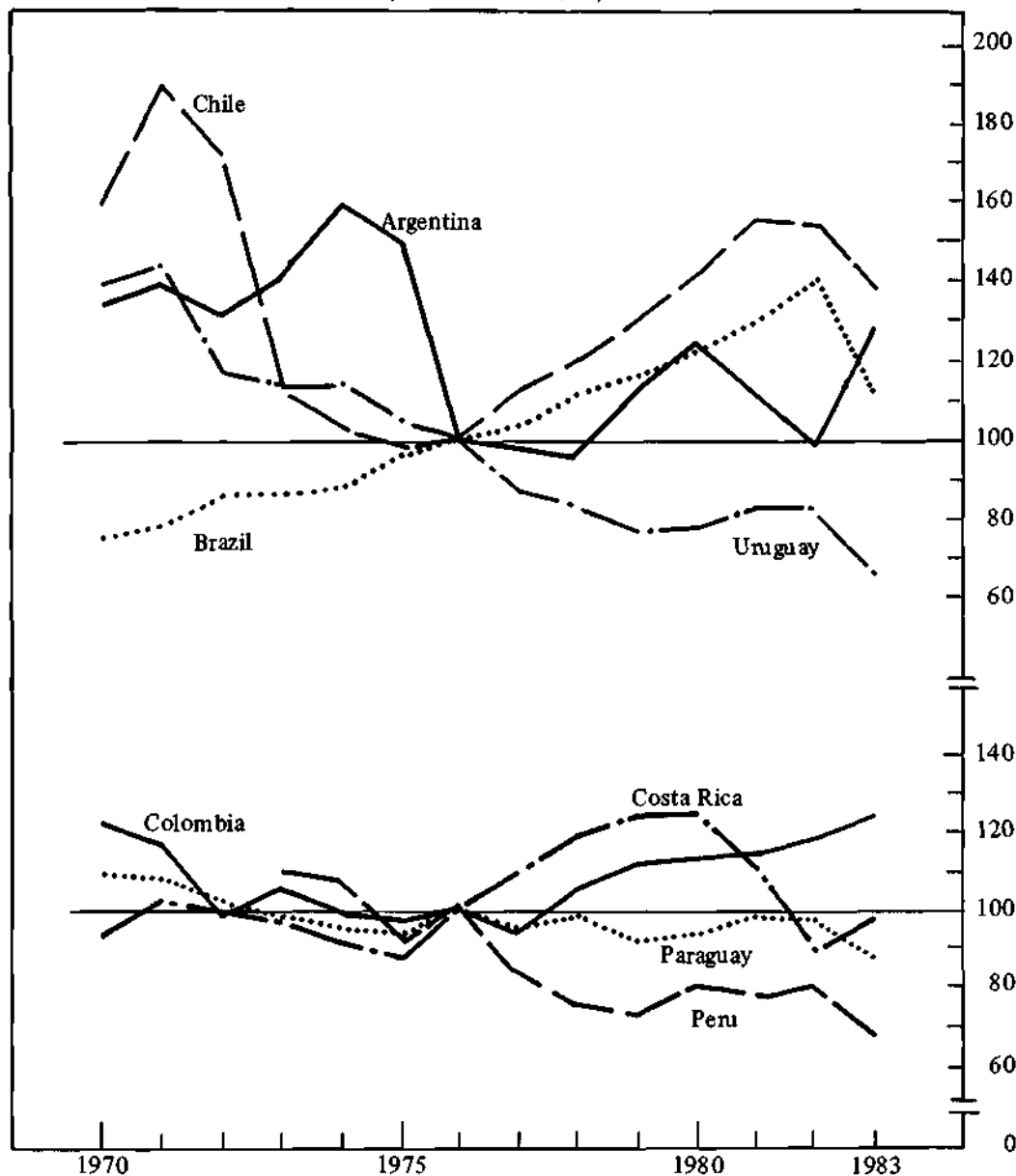
ⁱMinimum wage in Lima for non-agricultural activities.

^jNational minimum wage for workers over 18

years of age.

¹¹Up to May 1983, for the purpose of fixing minimum wages, three areas had been differentiated: firstly, the south and south-east region plus the Federal District; secondly, the states of Bahia, Pernambuco, and the rest of the central zone; and lastly, the remainder of the north-east. The legal minimum wage for these last two areas was unified as from May 1983.

Figure 8
LATIN AMERICA: EVOLUTION OF AVERAGE REAL WAGES AND SALARIES
(Indexes 1976 = 100)



Source: Table 14.

second quarter of the year (see figure 9). The three subsequent adjustments,¹² however, did not suffice to offset the effect of inflation, so that during the following months the purchasing power of the minimum wage gradually declined.

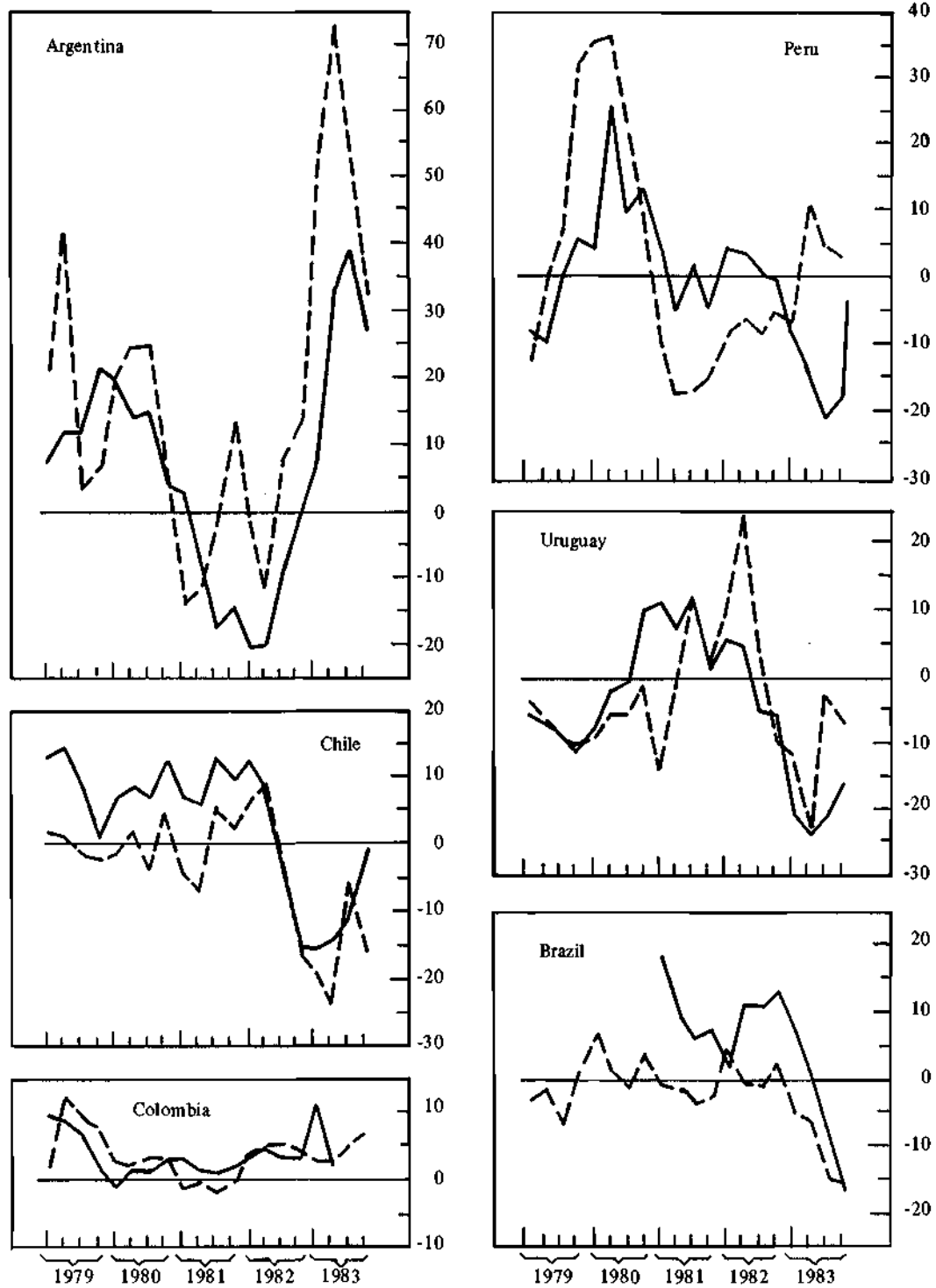
In Chile, too, the decrease in real salaries and wages was very marked, inasmuch as average wages were reduced by 10%, and minimum income by almost 20% (see tables 14 and 15). This unfavourable trend was due, in the first place, to the sharp contraction in the gross domestic product which took place in 1982, and which, together with the restrictive wage policy, meant that as from the second half of 1982 real salaries and wages dropped steeply. This deterioration, however, was to some

¹²Nineteen per cent in July, 10% in September and 8% in November.

Figure 9

LATIN AMERICA (SELECTED COUNTRIES): TWELVE-MONTH VARIATION IN REAL WAGE AND SALARIES

— Average wage in manufacturing sector
- - - Minimum urban wage



Source: ECLAC, on the basis of table 15 and official data.

extent slowed down by the subsequent moderation of the rate of inflation, by the modest recrudescence of domestic economic activity during the second half of 1983 and by a slight relaxation of wage policy during the same period. From April onwards, public employees received several special bonuses.¹³ Then, in July, a nominal adjustment of 5% in their salaries was decreed, as well as in those of other workers not subject to collective renegotiation. Lastly, in December a Christmas box equivalent to 15% of the corresponding salary was paid. Thus the index of average wages and salaries declined more gently, and even rose a little in the last months of the year. Thus, at the end of 1983 its level was almost the same as that recorded twelve months before (see figure 9.)

The biggest drop in average wages and salaries occurred in the manufacturing sector, where they fell by over 17%. Employees in the service sector, for their part, suffered an 8% reduction of their salaries, and at the same time real wages in mining declined by 6%.

The minimum wage, in its turn, decreased by nearly 20%, since its nominal amount was frozen for two whole years (from July 1981 to July 1983) and subsequently benefited only by an increase of 5% in nominal terms.

In Paraguay both average wages and salaries and minimum wages fell by over 7%. In the case of the former, this downward movement was mainly attributable to the acceleration of inflation, since, in general, higher nominal increases were granted than in the preceding year. Thanks in part to these increments, the real wages of agricultural day-labourers actually rose slightly (by 1%) and the reduction in real wages in the basic services sector was only 1%. In other activities, however, wages and salaries deteriorated a good deal. This happened particularly in the manufacturing and construction sectors, which were those hardest hit by the recession, and in which average real wages and salaries fell by 8% and 12%, respectively. Although no precise data are available on average salaries and wages of public employees, it may be assumed that they declined still more sharply, since no adjustments were granted in 1983.

The same restrictive wage policy that had frozen the minimum wage from May 1981 was maintained until August 1983. At that time a nominal increase of 10% was granted, which was equivalent to barely half the cumulative rate of inflation during that period. Consequently, this adjustment did not suffice to offset the loss of purchasing power completely, and the average minimum wage dropped by 7% in 1983 in relation to the preceding year.

Where Ecuador and Mexico are concerned, the statistical data available only make it possible to show the very considerable deterioration undergone in both countries by real minimum wages. But because of the impact of the recession in the two economies, and considering the usual backwash of the evolution of the legal minimum wage on the other wages, it may be assumed that average wages and salaries also dropped sharply in those countries in 1983.

In Mexico the decline in the real minimum wage was of unwonted magnitude (-23%), bringing it down to the equivalent of barely three-quarters of its level ten years before. This decrease reflected at one and the same time the application of a restrictive wage policy and the persistence of a high rate of inflation. In practice, the 25% and 16% increases granted in January and June failed to counterbalance the deterioration undergone by the real minimum wage and were quickly absorbed by higher price increases than had initially been foreseen.

In Ecuador, in turn, the rate of inflation more than doubled in 1983 and rapidly eroded the effect of the minimum wage adjustment which had been granted in November 1982. Neither did the further increase accorded in July 1983 suffice to compensate the loss of purchasing power. Consequently, in 1983 a reduction of the average minimum wage by nearly 11% in real terms was superadded to the decreases of similar proportions recorded in the two preceding years. Thus the minimum wage dropped by more than one-third in the space of barely three years, so that most of the substantial increase (65%) it had enjoyed in 1980 was cancelled out (see table 15).

In contrast, real wages and salaries rose in 1983 in Argentina, Colombia and Costa Rica.

Although in Colombia the increases were moderate in comparison with those shown by the other two countries, the 5% rise in the real wages of workers in the manufacturing sector appreciably speeded up their growth rate. As in the preceding year, the increase in the salaries of industrial employees was somewhat smaller, although not insignificant (4%). The daily wage of agricultural workers was raised on an average by about 1%, the biggest increments appearing in temperate-zone

¹³In April they were granted a special bonus of 30%, to be paid in the months of April, September and November. In practice, half the bonus corresponding to the month of November was paid in advance in October.

agricultural activities. In contrast, the purchasing power of wages and salaries paid in the business sector remained completely static. Lastly, real minimum wages increased by 4%, thanks to the nominal adjustment of 25% —equivalent to the rise in consumer prices during 1982— granted in January, and to the slowing-down of the rate of inflation in 1983.

The upward trend of wages and salaries was more marked in Costa Rica, where average wages increased by almost 10% and the minimum wage by 16%. A contributing factor, in addition to the modest growth of the gross domestic product by 1%, was the notable decrease in the average rate of inflation, which dropped from 90% to 33%. By virtue of this slackening of the pace of inflation, average wages and salaries, which rose by 50% in nominal values, increased in real terms by 10%, the highest rate since 1971. However, owing to the substantial reductions they had undergone in the two preceding years (-12% and -19%, respectively) their purchasing power was barely as much as 78% of what it had been in 1980. In contrast, the urban minimum wage, which went up by nearly 16% in real terms, regained its 1980 level.

Nevertheless, the most spectacular increases in real wages and salaries were recorded in Argentina. Average wages in the manufacturing sector shot up by over 29%, so that the downward movements that had occurred in the two preceding years were easily counterbalanced and the level reached was the highest since 1976 (see table 14). Consequently the participation of wage-earners in the gross domestic product at factor cost rose from 32.5% in 1982 to 40% in 1983.

Furthermore, the recovery in real wages and salaries was widespread throughout all the economic sectors. Workers in public enterprises, whose wages had been frozen since the beginning of 1982, enjoyed the biggest increase (42%). Wages and salaries in the rest of the public sector went up by 11%, while salaries in the business sector rose by 23%.

This evolution of real wages reflected, in the first place, the effect of an expansionary wage policy, to which were added the repercussions of the recrudescence of economic activity. The policy in question was expressed, on the one hand, in regular increases in negotiated basic wages. Up to September the adjustments were granted quarterly and fluctuated around 11%. During the fourth quarter, the acceleration of inflation, together with stronger trade-union pressure, led to the granting of at once more frequent and more considerable increases (18% in October, 16% in November and a fixed sum of 1 200 pesos in December).

Moreover, an attempt was made to appreciably improve the lowest level of income, to which end a much more expansionary policy was pursued with regard to family allowances and minimum wages. The latter were favoured with nominal increases of a much larger proportion than was accorded to other incomes,¹⁴ with the result that they rose on an average by 58% in real terms and attained the highest level they had reached in the previous decade (see table 15).

V. THE EXTERNAL SECTOR

In 1983 Latin America made an enormous effort to reduce the imbalances which had been piling up in the external sector since the end of the 1970s. Thus, in 1983 the rises in exchange rates to which many countries resorted in 1982 were reinforced by further devaluations, various other measures to restrict imports and encourage exports, and stringent fiscal, monetary and wage policies, directed towards reducing domestic expenditure.

As a result of these adjustment policies, and not withstanding the unfavourable evolution of world trade, in 1983 the region obtained an enormous surplus on trade in goods, very significantly lessened the negative balance on current account, and reduced, likewise considerably, the size of the balance-of-payments deficit.

1. Foreign trade

However, as already noted, the surplus of almost US\$ 30 billion obtained in 1983 on trade in goods was due exclusively to a new and drastic curtailment of imports, of which the total value fell by 30%, after having decreased by 19% in 1982. On the other hand, the value of exports, which in that year had dropped by 8.5%, declined by about 2% in 1983.

¹⁴Respectively, 25% in January, 40% in April, 57% in July, 45% in September, 12.5% in October and 55% in December.

a) *Exports of goods*

As in 1982, the reduction in the value of external sales occurred in spite of an increase in the volume exported. The latter, which had expanded at an exceptionally high and sustained annual rate of approximately 9% between 1976 and 1981, and which, notwithstanding the international recession, had increased by just under 2% in 1982, rose by nearly 8% in 1983 (see table 16). This increment, like those in preceding years, easily exceeded the increase in the volume of world trade and reflected, in essence, the considerable adjustment effort that had been made in 1983 by many Latin American economies through measures designed to reduce domestic expenditure and modify the relative prices of tradeable and non-tradeable goods.

However, the significant increment in the quantum of exports did not derive from a region-wide trend. In fact, in 1983 the number of countries in which the volume of exports contracted was the same as that in which it expanded. Outstanding among the latter instances were the considerable increases in the export quantum achieved by the three biggest Latin American economies —Brazil (15%), Mexico (12.5%) and Argentina (9.5%)— as well as those recorded by Haiti, Nicaragua, El Salvador and Ecuador. In contrast, the volume of exports showed considerable decreases, of about 11%, in Colombia, Peru, Guatemala and Bolivia (see table 17).

In the region as a whole, however, the effect of the expansion of the export quantum was more than counteracted by the impact of the decline in their unit value. As can be seen in table 16, this latter dropped sharply for the third year in succession, so that the cumulative reduction in the last three-year period amounted to 20%. Although the further decrease in the unit value of exports in 1983 was decisively influenced by the fall in petroleum international prices, allowance must also be made for the effect of lower international quotations for products of great importance among the region's exports, such as coffee, wheat, wool, iron, bauxite and other minerales. Moreover, the substantial increases in the international prices of bananas, cocoa, maize, fish meal, soya, cotton and copper in 1983 were far from offsetting, except in the case of the first of these products, the enormous reductions they had suffered in preceding years (see table 18).

In these circumstances, the total value of exports of goods fell by almost 2% in Latin America as a whole and 6% in the oil-exporting countries. On the contrary, in the group formed by the other economies of the region the value of external sales went up by nearly 3%. But this increase —entirely attributable to the vigorous expansion of the volume of exports— only partly compensated for the decline of more than 11% undergone by the value of exports in 1982. Furthermore, the increase in question derived mainly from the considerable upswing (8.5%) in Brazil's external sales in 1983. In the remaining economies of the region, with the sole exception of Haiti, the value of exports rose only moderately or very sharply decreased (see table 17).

b) *Imports*

As in 1982, the fall in the value of imports was much more marked than the decline in that of exports. As already noted, the value of external purchases, which in 1982 had been radically reduced by more than 19%, was lowered in 1983 in the even higher proportion of almost 30%. Thus, the total value of imports of goods, which had climbed vigorously and uninterruptedly between 1970 and 1981, dropped by over 43% in the course of the last two years. Furthermore, since both in 1982 and 1983 the unit value of imports declined only slightly, the decreases in the quantum of imports were almost as drastic as those in their total value. Such, in fact, was the scale of this contraction that in 1983 the volume of imports was not only much lower than in any of the eight preceding years, but scarcely exceeded that recorded in 1974.

Besides being precipitous, the drop in the quantum of imports was very widespread, which meant that there was a recurrence of the situation that had occurred in 1982. The volume of external purchases shrank in 1983 by over 25% in five countries, and between 12% and 20% in another six, it expanded only in Bolivia, Costa Rica, the Dominican Republic, Haiti, Honduras, Nicaragua and Paraguay. Even in this last group of countries, however, the increase in the volume of imports was not enough to make up for the big reductions it had undergone in 1982 (see table 19).

But the contraction in imports was particularly severe in the oil-exporting countries. Thus their quantum diminished by almost 50% in Venezuela, more than 40% for the second year running in Mexico and about 33% in Ecuador and Peru. The decrease was also very substantial in Uruguay

Table 17

LATIN AMERICA: EXPORTS OF GOODS

(Indexes: 1970 = 100, and growth rates)

	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a	1983 ^a	1981	1982	1983 ^a
Latin America	619	7.3	-8.5	-1.7	295	-3.8	-10.1	-8.7	210	11.6	1.7	7.7
Oil-exporting countries	763	9.6	-5.7	-6.1	455	1.4	-15.6	-11.6	168	8.0	11.8	6.2
Bolivia	397	-3.5	-9.0	8.6	411	-3.3	-3.5	2.2	97	-0.2	5.7	-10.6
Ecuador	1 007	-	-7.9	0.9	452	-4.0	-7.7	-7.8	223	4.2	-0.2	9.5
Mexico	1 587	24.1	6.5	0.8	348	4.5	-13.0	-10.5	456	18.8	22.4	12.6
Peru	287	-16.7	-0.6	-8.1	291	-11.2	-10.4	3.6	99	-6.2	11.0	-11.2
Venezuela	530	4.8	-18.2	-15.5	1149	10.8	-5.1	-12.0	46	-5.4	-13.8	-4.0
Non-oil exporting countries	524	5.2	-11.3	2.8	221	-7.0	-9.1	-5.1	238	13.1	-2.4	8.3
Argentina	435	14.0	-16.9	1.5	243	-2.4	-12.0	-7.4	179	16.8	-5.6	9.6
Brazil	800	15.6	-13.3	8.6	224	-7.5	-7.2	-5.9	357	25.0	-6.6	15.3
Colombia	383	-20.8	10.3	-15.0	289	-17.7	8.9	-4.0	133	-3.8	1.2	-11.5
Costa Rica	368	0.2	-13.1	-2.3	243	-10.0	-5.5	-2.2	152	11.3	-8.1	-0.1
Chile	344	-18.5	-3.4	3.3	134	-15.3	-16.7	-0.1	256	-3.8	16.0	3.4
El Salvador	310	-25.8	-11.8	4.0	276	-8.3	4.8	-5.5	112	-19.1	-15.8	10.0
Guatemala	367	-14.5	-7.6	-9.1	256	-4.0	-6.6	2.4	143	-11.0	-1.1	-11.2
Haiti	484	-30.3	15.5	9.0	261	-6.4	1.0	-4.1	186	-25.5	14.4	13.7
Honduras	395	-7.8	-13.7	4.1	267	-8.0	-4.0	-2.0	148	-0.2	-10.0	6.2
Nicaragua	230	11.0	-18.4	0.9	190	-8.0	-6.0	-9.6	121	20.6	-13.2	11.6
Panama	243	-8.3	0.4	-8.1	248	2.7	-15.1	0.6	98	-10.7	18.3	-8.6
Paraguay	523	-0.4	-0.6	-13.8	255	7.9	-12.7	-9.3	205	-7.7	15.9	-4.9
Dominican Republic	366	23.5	-35.4	2.0	249	7.4	-30.0	6.9	147	15.0	-7.7	-4.6
Uruguay	502	-16.2	-2.2	-10.4	233	-2.1	-6.5	-7.3	216	18.7	9.3	-3.3

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

—where the volume of imports, which had already declined by over 40% in the two preceding years, dropped by 26% in 1983— and in Brazil, Chile and Guatemala, countries where imports fell between 15% and 19% in real terms, after having dwindled considerably in the two preceding years.

c) *The terms of trade and the purchasing power of exports*

Albeit in 1983 the unit value of imports decreased for the second year in succession, their downward movement (-2%) was much less than the fall in average export prices (-9%). Latin America's terms of trade therefore declined by 7%, after reductions of about 9% both in 1981 and in 1982 (see table 20). As in 1982, the deterioration in the terms of trade was more pronounced in the oil-exporting countries than in the group formed by the remaining economies of the region. But as in the latter the terms of trade had seriously worsened in the five preceding years, the index was not only 29% lower in 1983 than in 1978, but was also the lowest in the last half century. In 1980-1983 it averaged considerably less than in 1931-1933, years which represented the most critical phase of the Great Depression.

On the contrary, among the oil-exporting countries the deterioration of the terms of trade during the last three years did not completely counteract the notable progress they had made in the two-year period 1979-1980 as a result of the second series of increases in international oil prices. Thus, in all these economies except that of Peru, the terms-of-trade index was still much higher than in any of the non-oil-exporting countries, and the average level of the terms of trade in the group as a whole almost trebled the average index for the non-oil-exporters in 1983 (see table 21).

On the other hand, the further deterioration in the terms of trade nullified most of the positive effect that could have been expected from the considerable efforts made by Latin America in 1983 to expand the volume of its exports. Although, as already mentioned, this volume grew by about 8%, the purchasing power of exports rose only insignificantly in 1983 (see table 22 and figure 10). This increment, besides being insufficient to offset the decline undergone by the purchasing power of external sales in the two preceding years, benefited only half the Latin American countries. As can be seen in table 23, the purchasing power of exports increased meaningfully only in Brazil (owing exclusively to the large-scale expansion of the volume exported), Chile (in consequence both of the improvement in its terms of trade and of the real growth of exports) and Mexico (despite the deterioration in its terms of trade).

2. The balance of payments

a) *The current account*

Since the reduction in the value of imports was much bigger than the decrease in the value of exports, the balance of trade in goods underwent a new and significant change in 1983. On top of the *volte face* which occurred in 1982 (when a surplus of US\$ 8.45 billion replaced the preceding year's US\$ 2 billion deficit), the year 1983 witnessed an exceptional increase of the trade surplus, which amounted to almost US\$ 30 billion, and far more than trebled that of the preceding year.

Table 18

LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

	Annual averages in dollars				Growth rates			
	1970-1980	1981	1982	1983	1980	1981	1982	1983
Unrefined sugar ^a	12.8	16.9	8.4	8.5	95.9	-41.1	-50.3	1.2
Coffee (mild) ^a	121.8	145.3	148.6	141.6	-2.5	-18.7	2.3	-4.7
Cocoa ^a	86.3	94.2	79.0	96.1	21.0	-20.2	-16.1	21.6
Bananas ^a	11.8	19.2	18.4	20.4	21.2	1.6	-4.2	10.9
Wheat ^b	125.1	178.5	163.0	160.0	7.9	0.6	-8.7	-1.8
Maize ^b	127.5	181.0	137.4	162.2	35.9	-13.9	-24.1	18.0
Beef ^a	82.2	112.2	108.4	110.7	-3.8	-10.9	3.4	2.1
Fish meal ^b	354.7	468.0	353.0	453.0	27.6	-7.1	-24.6	28.3
Soya beans ^b	232.4	288.0	245.0	282.0	-0.7	-2.7	-14.9	15.1
Cotton ^a	61.2	85.3	72.8	84.8	21.7	-9.5	-14.7	16.5
Wool ^a	131.5	178.2	154.6	144.0	2.1	-8.4	-13.2	-6.9
Copper ^a	69.6	79.0	67.2	72.2	9.6	-19.9	-14.9	7.4
Tin ^c	3.9	6.4	5.8	5.9	8.6	-15.8	-9.4	1.7
Iron ore ^b	18.3	25.9	27.1	25.2	20.4	-10.4	4.6	-7.0
Lead ^a	25.3	33.0	24.8	19.3	24.7	-19.7	-24.8	-22.2
Zinc ^a	29.7	38.4	33.8	34.7	3.0	11.0	-12.0	2.7
Bauxite ^b	103.5	216.3	208.3	179.5	39.3	1.8	-3.7	-13.8
Crude oil ^d								
Saudi Arabia	10.0	32.5	33.5	29.3	68.8	13.2	3.1	-12.5
Venezuela	10.1	32.0	32.0	28.1	64.3	15.9	0.0	-12.2

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplement 1960-1980 and June 1984. International Monetary Fund, *International Financial Statistics*, Yearbook 1981 and June 1984.

Note: Unrefined sugar FOB Caribbean ports, for export to the free market. Coffee, Colombian mild arabica, *ex-dock* New York. Cocoa beans, average daily price (futures), New York/London. Central American bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF, Northern Europe. Wool, clean, combed, 50's quality, United Kingdom. Beef, frozen, boneless, all sources, United States ports. Fish meal, all sources, 64-65% protein, CIF Hamburg. Wheat, United States, N°2, Hard Red Winter, FOB. Maize, Argentina, CIF, North Sea ports. Soya beans, United States, N°2, yellow, in bulk, CIF Rotterdam. Copper, Tin, lead and zinc, cash quotations on the London Metal Exchange. Iron ore, Canada, c.64% Fe, CIF, North Sea ports. Bauxite, Guyana. (Baltimore). Oil, Venezuela (Tia Juana).

^aU.S. cents per pound.

^bDollars per ton.

^cDollars per pound.

^dDollars per barrel.

Table 19

LATIN AMERICA: IMPORTS OF GOODS

(Indexes: 1970 = 100 and growth rates)

	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1983 ^d	1981	1982	1983 ^d	1983 ^d	1981	1982	1983 ^d	1983 ^d	1981	1982	1983 ^d
Latin America	426	7.8	-19.2	-29.6	315	5.6	-1.6	-1.7	135	2.0	-17.9	-28.4
Oil-exporting countries	376	20.3	-20.0	-45.0	263	7.8	-	-4.2	143	11.6	-20.0	-42.6
Bolivia	356	-	-37.0	12.4	297	1.9	-2.6	-3.3	120	-1.9	-35.3	16.2
Ecuador	564	5.3	-7.6	-35.4	244	6.7	-	-1.0	231	-1.3	-7.6	-34.8
Mexico	345	27.2	-38.9	-46.5	270	5.5	6.1	-7.3	128	20.5	-43.4	-42.3
Peru	382	24.1	-0.4	-29.5	308	7.8	2.0	3.3	124	15.1	-2.3	-31.8
Venezuela	387	11.5	12.0	-51.1	243	11.9	-5.7	-5.3	160	-0.4	18.8	-48.4
Non-oil exporting countries	459	-0.7	-18.7	-17.2	352	6.8	-3.7	-4.9	130	-7.1	-15.5	-12.9
Argentina	274	-10.2	-42.2	-15.9	307	2.4	-5.1	-4.4	89	-12.4	-39.1	-12.0
Brazil	615	-3.8	-12.2	-20.5	421	10.9	-3.6	-6.0	146	-13.2	-8.9	-15.4
Colombia	581	10.8	25.3	-21.9	254	6.2	-4.4	-6.3	229	4.3	31.0	-16.7
Costa Rica	311	-20.7	-28.4	14.6	354	5.0	5.3	2.8	88	-24.5	-32.0	11.5
Chile	325	19.1	-44.1	-22.7	368	7.5	-7.7	-7.9	88	10.8	-39.4	-16.0
El Salvador	412	0.2	-8.1	-2.8	334	4.9	5.7	1.7	124	-4.5	-13.0	-4.4
Guatemala	405	4.6	-16.6	-15.9	347	4.6	6.3	3.3	117	-	-21.6	-18.6
Haiti	656	12.3	-17.4	5.8	331	3.2	6.9	2.4	198	8.8	-22.7	3.4
Honduras	359	-5.8	-24.2	7.4	312	5.8	1.0	-1.0	115	-10.9	-25.0	8.5
Nicaragua	426	14.9	-21.6	5.2	353	3.8	5.3	3.1	121	10.7	-25.5	2.0
Panama	376	9.4	-	-13.5	434	2.9	4.9	1.6	87	6.4	-4.6	-14.9
Paraguay	914	14.4	-7.9	-1.6	320	3.2	3.7	-3.9	285	10.8	-11.2	2.4
Dominican Republic	466	-4.5	-13.4	3.2	319	3.6	2.2	-1.7	146	-7.8	-15.3	4.9
Uruguay	348	-4.6	-34.8	-32.0	325	10.9	-7.1	-8.4	107	-13.9	-29.8	-25.8

Source: ECLAC, on the basis of official data.

^dProvisional figures.

Table 20

LATIN AMERICA: TERMS OF TRADE (GOODS)

(1970 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.4	100.0	-1.6	100.0	4.8
1971	97.3	-2.7	113.5	13.5	92.9	-7.1
1972	100.0	2.8	110.7	-2.5	97.3	4.7
1973	113.4	13.4	140.2	26.6	107.6	10.6
1974	131.3	15.8	313.8	123.8	100.1	-7.0
1975	113.6	-13.5	285.1	-9.1	88.1	-12.0
1976	118.8	4.6	290.4	1.9	94.6	7.4
1977	126.0	6.1	289.6	-0.3	104.7	10.7
1978	112.6	-10.6	252.9	-12.7	94.0	-10.2
1979	117.2	4.1	303.8	20.1	88.2	-6.2
1980	121.1	3.3	355.5	17.0	82.0	-7.0
1981	110.3	-8.9	335.5	-5.6	71.3	-13.0
1982	100.8	-8.6	283.1	-15.6	67.3	-5.6
1983 ^c	93.6	-7.1	261.2	-7.7	67.2	-0.1

Source: ECLAC, on the basis of official data.

^aFrom 1970 to 1975, includes Bolivia, Ecuador and Venezuela; as from 1976, Mexico and Peru are added.

and Peru are excluded.

^cProvisional figures.^bFrom 1976 onwards, Mexico

To this result the principal contributions were made by the very substantial increments in the trade surpluses obtained by Mexico, Brazil and Venezuela, and the considerable changes that took place in the merchandise trade of Argentina, Chile, Peru, Ecuador and Uruguay (see table 24).

In Venezuela the 1983 trade surplus of about US\$ 7.2 billion almost trebled that shown in 1982, even though, as in that year, the value of exports appreciably decreased.

On the other hand, in Brazil —where the merchandise trade surplus increased by a factor of eight between 1982 and 1983, rising from US\$ 780 million to US\$ 6.5 billion— the improvement was due both to an increase in exports and to a contraction of imports. In its turn, Mexico, which in 1982 had already succeeded in converting its 1981 deficit of US\$ 4.1 billion into a surplus of nearly US\$ 6.8 billion, boosted its positive trade balance to US\$ 13.7 billion, thanks to a new and massive curtailment of the total value of its imports —which in 1983 was equivalent to barely one-third of the figure for 1981— and to a slight increase in the value of its external sales.

The trade balance evolved similarly to Mexico's in Chile and Uruguay, although, of course, in absolute terms the changes were much smaller. Thus, Chile, after showing a deficit of close on US\$ 2.7 billion in 1981 and achieving a small surplus in 1982, in 1983 obtained a surplus of US\$ 1 billion, deriving essentially from a new and significant decline in the total value of imports and a moderate increase in the value of exports. Uruguay, in the same lapse of time, converted a deficit of US\$ 360 million into a surplus of US\$ 430 million. In this country, however, the exclusive cause of the reversal of the trade balance was the radical reduction in the value of imports, which between 1981 and 1983 decreased by 56%.

Table 21

LATIN AMERICA: TERMS OF TRADE (GOODS)

(Indexes: 1970 = 100 and growth rates)

	Indexes					Growth rates				1979/ 1983 ^{ab}
	1975	1977	1979	1981	1983 ^a	1980	1981	1982	1983 ^a	
Latin America	114	126	117	110	94	3.3	-8.9	-8.6	-7.1	-17
Oil-exporting countries	189	192	202	222	173	17.0	-5.9	-15.6	-7.7	3
Bolivia	111	120	118	132	138	17.7	-5.0	-1.0	5.6	15
Ecuador	162	199	214	215	185	11.9	-10.0	-7.7	-6.8	6
Mexico	106	123	133	162	129	23.7	-1.0	-18.0	-3.5	8
Peru	104	102	117	107	95	11.4	-17.6	-12.1	0.2	9
Venezuela	340	348	406	506	473	26.0	-1.0	0.6	-7.1	52
Non-oil-exporting countries	82	98	82	66	63	-7.1	-13.1	-5.6	-0.2	-29
Argentina	99	86	80	88	79	16.3	-4.7	-7.2	-3.2	0
Brazil	85	100	79	55	53	-15.7	-17.0	-3.8	0.0	-39
Colombia	82	190	130	98	114	-3.1	-22.5	13.9	2.4	-24
Costa Rica	77	121	97	80	69	-3.8	-14.3	-10.2	-4.9	-30
Chile	52	51	52	37	36	-9.9	-21.2	-9.7	8.3	-26
El Salvador	87	180	121	91	84	-15.4	-12.7	-0.8	-7.1	-38
Guatemala	69	121	96	85	74	-3.7	-8.2	-12.3	-0.8	-35
Haiti	93	124	97	89	79	1.4	-9.4	-5.5	-6.4	-30
Honduras	91	113	103	91	86	1.8	-13.0	-5.0	-1.0	-24
Nicaragua	79	112	81	69	54	-4.3	-11.3	-10.7	-12.4	-44
Panama	108	80	73	72	57	-1.3	-0.1	-19.0	-1.0	-22
Paraguay	104	139	109	100	80	-12.4	4.6	-15.8	-5.7	-35
Dominican Republic	148	89	86	105	78	17.4	3.5	-31.4	8.6	-8
Uruguay	74	80	89	70	72	-10.7	-11.7	0.6	1.1	-15

Source: ECLAC, on the basis of official figures.

^a Provisional figures.

^b Cumulative percentage variations in the period.

Table 22

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(1970 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	4.4	100.0	3.8	100.0	4.6
1971	98.0	-2.0	112.1	12.1	94.5	-5.5
1972	107.3	9.5	109.1	-2.7	107.4	13.7
1973	133.6	24.5	151.1	38.5	128.6	19.7
1974	161.2	20.7	304.4	101.5	120.0	-6.7
1975	131.6	-18.4	217.1	-28.7	108.2	-9.8
1976	145.2	10.3	224.4	3.4	127.0	17.4
1977	162.9	12.2	235.1	4.8	150.6	18.6
1978	161.9	-0.6	235.8	0.3	148.7	-1.3
1979	193.2	19.3	327.8	39.0	154.4	3.8
1980	217.0	12.3	408.4	24.5	153.3	-0.7
1981	215.0	-0.9	412.3	1.0	147.9	-3.5
1982	199.6	-7.2	385.7	-6.5	135.8	-8.2
1983 ^c	200.1	0.2	380.9	-1.2	145.0	6.8

Source: ECLAC, on the basis of official data.

^a From 1970 to 1975, Bolivia, Ecuador and Venezuela are included; as from 1976, Mexico, and Peru are added.^b As from 1976, Mexico and Peru are excluded.^c Provisional figures.

A drastic contraction in imports was also the main cause of the new increase in the trade surplus obtained by Argentina; of the multiplication of Ecuador's trade surplus by a factor of six; and, in Peru, of the substitution of a surplus of US\$ 300 million in 1983 for the deficit of US\$ 560 million recorded in the preceding year.

In contrast with what happened in 1982, when the effect on the current account of the reversal of the trade balance was almost entirely neutralized by the sharp rise in payments of interest and profits, in 1983 the contribution of the bigger trade surplus to the reduction of the imbalance on current account was reinforced by a decline in financial remittances.

The total value of these latter, which in the past five years had more than quadrupled, rising from US\$ 8.2 billion in 1977 to almost US\$ 37 billion in 1982, fell to a little under US\$ 35 billion in 1983. This result was influenced both by the decrease in remittances of profits resulting from the sharp contraction in domestic economic activity and by the reduction of interest payments on account of the drop in nominal interest rates in the international financial markets.

In these circumstances, the deficit on current account—which had slightly exceeded US\$ 40 billion in the two preceding years—was drastically reduced to less than US\$ 9.3 billion in 1983 (see table 25). Almost all the countries of the region contributed to this result, either through a substantial decrease in their deficits on current account, or, as in Mexico and Venezuela, through their replacement by very large surpluses. The sole exceptions to this overall trend were to be found in Argentina, Bolivia, Costa Rica, Nicaragua and Paraguay, which showed bigger deficits than in the preceding year.

The magnitude of the adjustment effort made by the economies of the region in order to reduce their external imbalance was also clearly reflected in the notable decline in the relation between the deficit on current account and the value of exports of goods and services. This coefficient, which in 1982 had reached the unheard-of proportion of nearly 40%, dwindled in 1983, to scarcely more than 9%, the lowest figure on record in the last 12 years (see table 26).

However, the exceptionally low level of this regional average was largely due to the massive surpluses on current account obtained in 1983 by Mexico and Venezuela. It therefore reflects the situation of many of the Latin American economies to a lesser degree than in the past. Thus, apart from Ecuador and Uruguay—where the deficit/export ratio was below 5%—in the great majority of

the countries of the region the ratio in question ranged from 25% to 40%. Moreover, the deficit on current account was equivalent to over half the exports of goods and services in Colombia and Haiti, to almost 100% of these in Paraguay and to close on 120% of them in Nicaragua.

b) *The capital account*

As was mentioned earlier, in 1983 the net inflow of capital decreased for the second year in succession. After amounting to the unprecedented sum of about US\$ 38 billion in 1981 and falling in 1982 to a little over US\$ 20 billion, in 1983 it dropped to barely 8 billion.

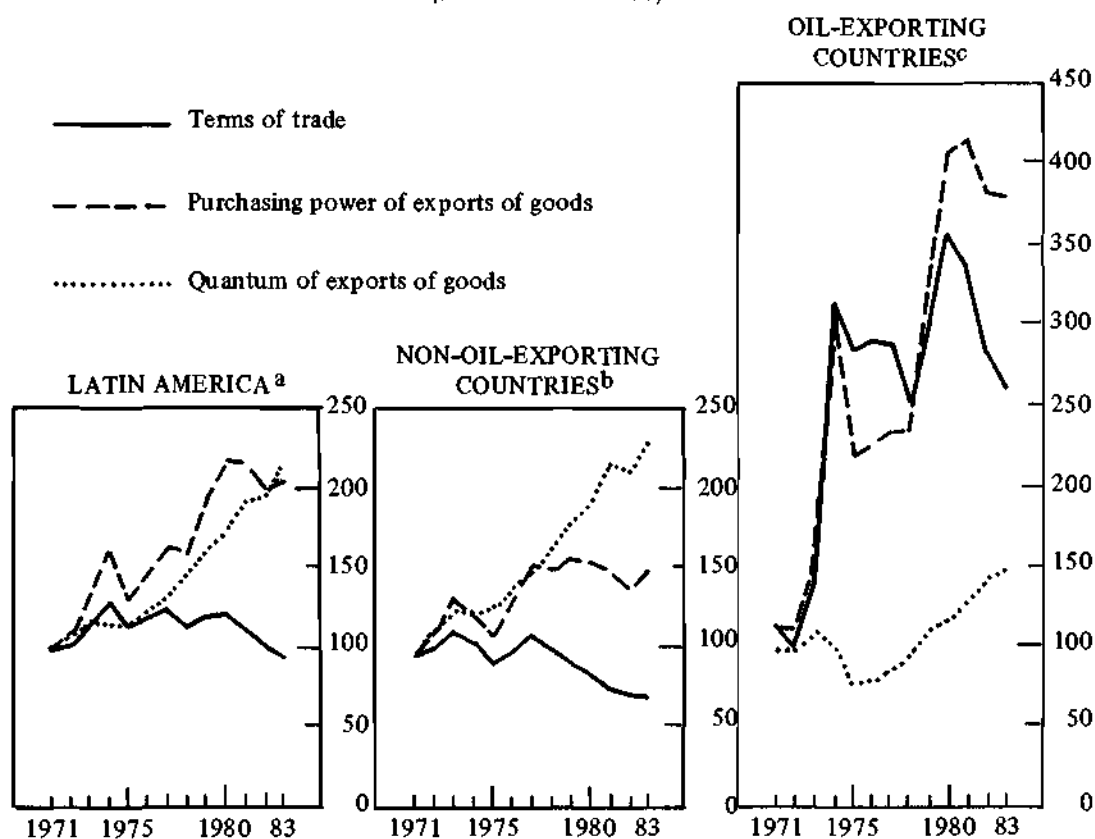
Just as in the preceding year, this new contraction of the net flow of loans and investment chiefly affected Mexico and most of the larger economies of South America. On the contrary, the net capital inflow was kept going and even increased in most of the Central American countries, among which Nicaragua and El Salvador had considerable external financing at their disposal.

In contrast, the decline in procurement of external resource was very marked in Brazil—which, after receiving over US\$ 11 billion in net loans and investment in 1982, obtained less than 5.5 billion in 1983—and in Colombia, where the net capital inflow of US\$ 340 million recorded in 1983 was equivalent to barely 15% of the previous year's supply (see table 25).

Figure 10

LATIN AMERICA: EVOLUTION OF SELECTED FOREIGN TRADE INDICATORS

(Indexes: 1970 = 100)



Source: ECLAC, on the basis of official data.

^aNineteen countries. ^bFrom 1970 to 1975 includes 16 countries. As from 1976 Mexico and Peru are excluded. ^cFrom 1970 to 1975 includes Bolivia, Ecuador and Venezuela; as from 1976 Mexico and Peru are added.

Table 23
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1970 = 100 and growth rates)

	Indexes					Growth rates				1979/ 1983 ^{ab}
	1975	1977	1979	1981	1983 ^a	1980	1981	1982	1983 ^a	
Latin America	132	163	193	215	204	12.3	-0.9	-7.2	0.2	20
Oil-exporting countries	166	180	250	315	291	24.6	1.0	-6.5	-1.3	62
Bolivia	133	164	150	155	135	10.4	-6.3	-7.6	-5.7	-8
Ecuador	280	347	441	435	409	5.6	-6.6	-7.8	2.0	13
Mexico	127	181	299	538	586	53.2	17.3	0.6	8.4	157
Peru	74	88	141	108	94	-0.8	-22.9	-2.5	-10.7	9
Venezuela	214	201	258	282	216	16.4	-6.2	-13.8	-11.1	21
Non-oil-exporting countries	110	152	156	149	146	-0.7	-3.5	-8.2	6.8	-3
Argentina	78	135	137	154	142	1.5	10.6	-12.9	6.0	4
Brazil	135	173	173	186	193	5.4	3.2	-10.2	15.3	14
Colombia	124	177	201	145	150	-3.5	-25.5	14.8	-9.6	-23
Costa Rica	107	173	155	135	106	-8.5	-5.3	-17.3	-4.6	-30
Chile	67	82	109	83	95	-	-24.1	3.9	11.2	12
El Salvador	121	209	194	110	94	-19.5	-29.3	-16.5	2.5	-40
Guatemala	101	195	163	140	108	5.5	-18.7	-12.9	-11.6	-38
Haiti	99	166	139	129	150	38.8	-33.2	8.8	7.2	-11
Honduras	94	135	171	142	128	-4.0	-13.2	-14.6	5.1	-16
Nicaragua	113	174	133	87	66	-38.8	6.5	-22.3	-2.5	-59
Panama	118	92	89	68	60	-12.8	-11.9	-3.8	-9.2	-35
Paraguay	139	237	228	194	166	-11.0	-4.4	-4.0	-10.7	-34
Dominican Republic	224	176	164	177	116	-8.5	18.1	-36.7	3.6	-17
Uruguay	83	127	131	147	156	6.9	4.9	8.7	-2.6	11

Source: ECLAC, on the basis of official figures.

^aProvisional figures. ^bCumulative percentage variations in the period.

During 1983 the external financing received by Peru was also sharply reduced, the amount procured by Chile—which had drastically diminished in 1982—continued to decline, and that obtained by Argentina decreased to a moderate extent.

In Mexico, in turn, there was a new and spectacular change in the external financing situation. After dropping from US\$ 14.8 billion in 1981 to barely 2.4 billion in 1982, in 1983 the movement of loans and investment showed a net outflow of a little more than US\$ 2 billion, mainly as a result of the deficit of over US\$ 5 billion on the short-term capital account.

Contrary to what had happened in the preceding year, in 1983 the reduction in the net inflow of capital received by Latin America was much smaller than that of the deficit on current account. Consequently, the balance-of-payments deficit, which in 1982 had reached the record figure of US\$ 20 billion, was reduced in 1983 to a little over 1.25 billion.

This considerable drop in Latin America's balance-of-payments deficit reflected both the smaller negative balances recorded in 1983 in many countries of the region and the *volte face* which took place in others, where the global deficits shown in 1982 were replaced by positive balances in 1983.

Outstandingly significant in this connection were the changes that occurred in Mexico and Venezuela. Mexico's balance of payments, which had closed in 1982 with a deficit of nearly US\$ 2.9 billion, showed a surplus of close on US\$ 3.3 billion in 1983. For its part, Venezuela, whose deficit of US\$ 8.15 billion in 1982 had been the highest in the whole of Latin America, obtained a surplus of nearly US\$ 700 million in 1983.

Table 24
LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments ^a			Trade balance		
	1981	1982	1983	1981	1980	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983
Latin America (19 countries)	93 768	85 787	84 290	95 768	77 333	54 454	-2 001	8 451	29 836	11 422	12 082	4 943	-13 422	-3 631	24 894
Oil-exporting countries	46 603	43 963	41 291	43 004	34 418	18 917	3 599	9 546	22 374	6 135	7 475	1 611	-2 535	2 071	20 763
Bolivia	909	828	757	680	429	482	229	399	275	215	122	142	15	277	133
Ecuador	2 544	2 343	2 365	2 362	2 181	1 408	183	162	957	487	530	367	-304	-368	590
Mexico	19 938	21 230	21 399	24 038	14 437	7 721	-4 100	6 793	13 678	1 192	1 785	-492	-5 292	5 008	14 170
Peru	3 249	3 230	2 970	3 801	3 787	2 670	-553	-556	300	237	213	249	-790	-769	51
Venezuela	19 963	16 332	13 800	12 123	13 584	6 636	7 840	2 748	7 164	4 004	4 825	1 345	3 836	-2 077	5 819
Non-oil exporting countries	47 165	41 824	42 999	52 764	42 915	35 537	-5 600	-1 095	7 462	5 287	4 607	3 332	-10 887	-5 702	4 131
Argentina	9 142	7 598	7 710	8 432	4 873	4 100	710	2 725	3 610	1 702	478	799	-992	2 246	2 811
Brazil	23 275	20 172	21 899	22 091	19 395	15 429	1 184	777	6 470	2 862	3 589	2 449	-1 678	-2 812	4 021
Colombia	3 219	3 549	3 017	4 763	5 967	4 658	-1 544	-2 418	-1 641	169	94	-63	-1 712	-2 512	-1 578
Costa Rica	1 002	871	851	1 091	780	894	-88	90	-43	44	-20	-5	-132	111	-38
Chile	3 836	3 706	3 827	6 513	3 643	2 818	-2 677	63	1 009	712	561	577	-3 389	-498	432
El Salvador	798	704	732	898	826	803	-100	-122	-71	110	72	32	-211	-194	-103
Guatemala	1 299	1 200	1 091	1 540	1 284	1 080	-241	-85	11	312	231	172	-553	-316	-161
Haiti	150	174	189	358	296	314	-208	-122	-124	69	73	68	-277	-195	-192
Honduras	784	677	704	899	681	731	-115	-4	-27	62	52	41	-177	-56	-68
Nicaragua	500	408	411	922	723	761	-423	-316	-350	69	65	81	-492	-381	-430
Panama	343	345	317	1 441	1 441	1 246	-1 098	-1 096	-929	-879	-849	-886	-219	-247	-43
Paraguay	399	396	342	772	711	700	-374	-315	-359	-22	92	63	-352	-407	-422
Dominican Republic	1 188	768	783	1 452	1 257	1 297	-264	-490	-514	42	-97	-164	-306	-393	-350
Uruguay	1 230	1 256	1 126	1 592	1 038	706	-362	218	420	35	266	168	-397	-48	252

Source: ECLAC, on the basis of official data.

^a Excluding net payments of profits and interest.

Table 25
LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payment of profits and interest ^a			Balance on current account ^b			Balance on capital account ^c			Total balance ^d		
	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983	1981	1982	1983
Latin America (19 countries)	-13 422	-3 631	24 894	28 533	37 785	35 201	-40 502	-40 457	-9 257	37 733	20 259	8 000	-2 769	-20 199	-1 257
Oil-exporting countries	-2 535	2 071	20 763	11 042	14 703	13 302	-13 197	-12 697	7 371	12 841	1 282	-3 363	-357	-11 415	4 008
Bolivia	15	277	133	343	418	428	-312	-121	-252	319	153	237	6	32	-15
Ecuador	-304	-368	590	722	847	718	-1 027	-1 215	-128	656	875	274	-370	-340	146
Mexico	-5 292	5 008	14 170	9 531	10 855	8 980	-14 074	-5 316	5 320	14 775	2 431	-2 059	700	-2 885	3 261
Peru	-790	-769	51	1 020	1 053	1 152	-1 810	-1 823	-1 101	1 138	1 753	1 051	-672	-70	-50
Venezuela	3 836	-2 077	5 819	-574	1 530	2 024	4 026	-4 222	3 532	-4 047	-3 930	-2 866	-21	-8 152	666
Non-oil-exporting countries	-10 887	-5 702	4 131	17 491	23 082	21 899	-27 305	-27 760	-16 628	24 892	18 977	11 363	-2 412	-8 784	-5 265
Argentina	-992	2 246	2 811	3 932	5 107	5 861	-4 712	-2 477	-2 571	1 519	1 809	1 570	-3 193	-668	-1 001
Brazil	-1 678	-2 812	4 021	10 274	13 509	11 701	-11 760	-16 314	-7 560	12 381	11 119	5 446	621	-5 195	-2 114
Colombia	-1 712	-2 512	-1 578	404	878	683	-1 895	-3 196	-2 152	2 328	2 222	340	433	-974	-1 812
Costa Rica	-132	111	-38	308	348	417	-407	-206	-383	358	331	401	-50	125	18
Chile	-3 389	-498	432	1 595	2 035	1 809	-4 817	-2 378	-1 222	4 952	1 038	693	136	-1 340	-529
El Salvador	-211	-194	-103	74	105	148	-272	-271	-239	223	242	418	-49	-29	179
Guatemala	-553	-316	-161	86	115	108	-567	-376	-238	265	338	327	-301	-38	89
Haiti	-277	-195	-192	13	14	15	-225	-160	-157	168	115	134	-57	-45	-23
Honduras	-177	-56	-68	153	202	145	-321	-249	-204	249	203	187	-72	-46	-17
Nicaragua	-492	-381	-430	93	140	91	571	-512	-521	657	578	591	86	66	70
Panama	-219	-247	-43	223	231	300	-496	-538	-409	423	524	440	-74	-14	31
Paraguay	-352	-407	-422	-31	-53	4	-378	-391	-463	421	329	429	44	-63	-34
Dominan Republic	-306	-393	-350	293	254	299	-416	-457	-454	454	311	276	38	-146	-178
Uruguay	-397	-48	252	74	197	318	-468	-235	-55	494	-182	111	26	-417	56

Source: ECLAC, on the basis of official data.

^aIncluding labour and ownership.

^bIncluding net private unilateral transfers.

^cIncluding long and short-term capital, official unilateral transfers and errors and omissions.

^dVariation in international reserves, including counterpart entries.

Significant balance-of-payments surpluses were also achieved in 1983 by Ecuador and Uruguay —which had recorded very large deficits in 1982— and also by El Salvador, Guatemala and Panama, whose external operations had shown small negative balances in the preceding year.

Among the countries that succeeded in reducing their balance-of-payments deficits, special mention should be made of Brazil —which brought down its negative balance from US\$ 5.2 billion in 1982 to 2.1 billion in 1983— and Chile, where between those years the deficit dropped from US\$ 1.34 billion to US\$ 530 million.

On the contrary, during 1983 the balance-of-payments deficit slightly increased in the Dominican Republic, rose significantly in Argentina and almost doubled in Colombia, where it thus became the second largest in the whole of Latin America (see table 25).

c) *International reserves*

In 1983, Latin America's international reserves decreased for the third year in a row, although the reduction was not as big as in the two preceding years. As a result of these successive contractions, the total value of reserves was 44% lower at the end of 1983 than at the close of 1980 (see table 27).

However, as in 1983 imports contracted even more sharply, the ratio between reserves and the value of imports of goods and services rose to a moderate degree, after having steadily and rapidly decreased in the three preceding years (see table 28).

Table 26

LATIN AMERICA: RELATION BETWEEN THE BALANCE-OF-PAYMENTS DEFICIT ON CURRENT ACCOUNT AND THE VALUE OF EXPORTS OF GOODS AND SERVICES^a

(Percentages)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Latin America	11.1	17.0	34.2	23.3	21.1	29.8	23.7	26.6	35.5	39.4	9.3
Oil-exporting countries	7.1	-10.9	20.4	22.0	29.0	40.6	14.9	8.6	22.8	24.2	-15.1
Bolivia	-0.7	-21.3	28.8	10.3	18.8	50.2	46.6	15.9	30.8	13.3	29.5
Ecuador	1.9	-1.7	21.5	2.1	23.7	42.9	27.1	23.4	35.2	45.2	4.9
Mexico	30.9	47.8	67.1	50.2	24.0	30.3	36.7	35.4	48.7	19.5	-19.8
Peru	22.4	40.8	93.2	71.5	45.8	10.2	-16.2	1.6	44.6	44.9	29.7
Venezuela	-17.5	-50.1	-23.5	-3.3	30.8	58.1	-2.5	-23.8	-19.2	24.0	-23.7
Non-oil exporting countries	13.9	43.9	45.6	24.2	15.9	22.3	31.4	43.9	48.5	55.4	32.6
Argentina	-18.9	-2.6	36.8	-14.2	-17.1	-24.5	5.8	48.3	43.4	27.5	27.4
Brazil	32.5	87.5	74.3	60.4	39.3	51.5	62.7	58.8	46.1	74.3	32.0
Colombia	5.0	20.6	5.9	-6.9	-12.8	-7.4	-10.8	3.0	44.2	65.3	52.3
Costa Rica	26.9	49.9	36.5	28.9	23.6	36.1	50.5	54.9	34.6	19.3	37.3
Chile	19.7	12.9	27.1	-5.5	21.8	37.8	26.1	33.9	96.2	51.2	26.6
El Salvador	11.5	26.3	16.0	-2.2	-2.0	31.6	-1.2	-	29.4	33.0	26.0
Guatemala	-1.6	14.5	8.3	8.1	2.8	20.9	14.2	9.5	39.0	28.8	20.3
Haiti	13.2	36.3	38.1	37.1	40.2	39.8	45.5	45.8	93.8	59.3	53.6
Honduras	12.9	37.0	36.3	25.3	23.9	24.7	24.4	35.1	36.3	32.5	25.4
Nicaragua	30.3	61.7	44.2	7.7	26.7	4.8	-13.4	101.2	104.8	114.3	116.8
Panama	29.7	37.2	25.1	27.8	20.4	25.6	32.1	24.1	30.9	33.6	25.9
Paraguay	13.0	26.4	38.3	29.7	15.2	27.2	40.9	50.1	66.7	63.4	97.7
Dominican Republic	19.2	33.3	7.8	15.8	14.2	38.1	31.7	53.0	27.5	40.0	37.2
Uruguay	-4.4	27.3	35.9	11.8	21.2	14.5	30.4	46.9	27.5	15.3	4.0

Source: ECLAC, on the basis of official figures.

^aNegative figures indicate a surplus on the balance-of-payments current account.

^bProvisional figures.

Table 27

LATIN AMERICA: EVOLUTION OF OFFICIAL INTERNATIONAL RESERVES^a

(Millions of dollars)

	End-of-December balances					Growth rates			
	1979	1980	1981	1982	1983	1980	1981	1982	1983
Latin America	51 151	53 366	46 563	34 264	29 832	4.3	-12.7	-26.4	-12.9
Oil-exporting countries	18 309	21 703	20 429	15 476	18 445	18.5	-5.9	-24.2	19.2
Bolivia	469	478	369	466	403	1.9	-22.8	26.3	-13.5
Ecuador	910	1 259	802	488	592	38.4	-36.3	-39.2	21.3
Mexico	2 839	4 187	4 999	1 530	3 548	47.5	19.4	-69.4	131.9
Peru	1 556	2 357	1 395	1 319	1 835	51.5	-40.8	-5.4	39.1
Venezuela	12 535	13 422	12 864	11 673	12 067	7.1	-4.2	-9.3	3.4
Non-oil-exporting countries	32 842	31 663	26 134	18 788	11 387	-3.6	-17.5	-28.1	-39.4
Argentina	11 378	9 320	5 061	4 449	1 697	-18.1	-45.7	-12.1	-61.9
Brazil	9 740	6 887	7 506	3 445	1 920	-23.3	9.0	-54.1	-44.3
Colombia	4 898	6 489	6 181	5 558	3 541	32.5	-4.7	-10.1	-36.3
Costa Rica	101	141	40	156	153	39.6	-71.6	290.0	-1.9
Chile	2 453	4 014	3 862	2 570	2 024	63.6	-3.8	-33.4	-21.2
El Salvador	371	378	240	231	224	1.9	-36.5	-3.8	-3.0
Guatemala	934	756	253	239	273	-19.1	-66.5	-5.5	14.2
Haiti	55	5	-6	-35	-60	-91.0	-	-	-
Honduras	215	145	70	15	-27	-32.6	-51.7	-78.6	-
Nicaragua	...	...	...	...	...	...	...	...	...
Panama	77	94	26	17	14	22.1	-72.3	-34.6	-17.6
Paraguay	625	783	820	755	694	25.3	4.7	-7.9	-8.1
Dominican Republic	166	231	260	98	-45	39.2	12.6	-62.3	-
Uruguay	1 829	2 420	1 821	1 290	979	32.3	-24.8	-29.2	-24.1

Source: International Monetary Fund, *International Financial Statistics*.^aForeign exchange plus monetary gold valued at London fine ounce prices minus use of IMF credit.

In contrast to what happened in 1982, when reserves declined in much the same proportions in the oil-exporting countries as in the other economies of the region, in 1983 the reduction was concentrated almost exclusively in the latter. On the contrary, in the oil-exporting countries there was a marked increase in reserves, except in Bolivia.

The growth of reserves was especially intensive (132%) in Mexico, where they had fallen precipitously (-70%) in 1982. Consequently, despite their recovery, at the end of 1983 they were still considerably lower than in 1980-1981. But as in the last two years the total value of imports dropped by over 60%, reserves were equivalent to a much higher proportion of the value of external sales in 1983 than in any of the six preceding years.

Reserves also increased significantly —although much less than in Mexico— in Peru (39%) and Ecuador (21%). However, owing to the severe reductions they had undergone in both these countries during the two preceding years, they totalled much less, especially in Ecuador, than at the end of 1980.

On the other hand, the relative increment in reserves was very small (3.5%) in Venezuela. But as they had declined only moderately in the two preceding years, their total value in 1983 fell only 10% short of the unprecedented level they had reached in 1980. Furthermore, Venezuela's reserves were far the highest in the region —in fact, they represented 40% of the total for Latin America— and were also equivalent to an exceptionally large proportion (133%) of the annual value of imports. However, the unwonted magnitude of this figure primarily reflected the effects of the spectacular (54%) reduction of the value of external purchases of goods and services which took place in 1983.

Thus, among the oil-exporting countries, the only one in which reserves decreased was Bolivia, where they fell by 13.5%. Despite this decline, they still represented the equivalent of almost seven months' imports, i.e., one of the highest coefficients in the region. But as a very substantial proportion of reserves consisted of gold —whose immediate use presents more difficulty than that of foreign currencies—, the economic authorities' room for manoeuvre in respect of financing temporary deficits on the trade balance was in practice decidedly limited.

In contrast, in the non-oil-exporting countries the drop in reserves was sharper in 1983 than in the two preceding years. In these circumstances, the end-of-year value of reserves was equivalent to only just over one-third of that recorded at the end of 1979. Moreover, since the relative decrease in reserves was once again greater than the contraction of imports, the ratio between the total amount of the former and the value of the latter also declined for the fourth consecutive year (see tables 27 and 28).

The biggest reduction of reserves occurred in Argentina, where they went down by 62%, thus falling to a level equivalent to barely 15% of that reached at the end of 1979. This new and enormous decrease in reserves signified a severe constraint on the management of the balance of payments, which was further accentuated by the fact that a high proportion of them consisted in holdings of monetary gold.

In Brazil, too, reserves dropped very abruptly for the third time in the last four years. Thus, at the end of 1983 they amounted to only 20% of their value in 1979 and were equivalent to scarcely more than one month's imports —an exceptionally low ratio which was above only those recorded in Haiti and Honduras.

Table 28

**LATIN AMERICA: RELATION BETWEEN OFFICIAL INTERNATIONAL RESERVES
AND IMPORTS OF GOODS AND SERVICES**

(Percentages)

	1973	1975	1977	1979	1980	1981	1982	1983 ^a
Latin America	51	40	46	58	46	37	33	40
Oil-exporting countries	49	65	50	49	45	34	31	66
Bolivia	27	31	39	43	50	37	74	56
Ecuador	49	24	38	34	42	25	20	29
Mexico	31	23	18	17	16	15	7	28
Peru	41	19	11	62	61	29	27	50
Venezuela	90	144	72	88	89	75	59	133
Non-oil-exporting countries	51	23	43	64	47	39	34	25
Argentina	51	15	70	130	71	44	69	28
Brazil	83	29	50	45	25	28	14	10
Colombia	39	32	73	125	119	103	75	62
Costa Rica	11	3	16	7	9	3	16	14
Chile	10	-6	9	47	57	47	51	50
El Salvador	20	24	26	30	32	21	22	21
Guatemala	46	42	52	52	39	13	15	20
Haiti	18	-1	5	17	1	-1	-8	-12
Honduras	14	17	27	23	13	7	2	-3
Nicaragua	26	18	18	...	...	...	...	...
Panama	7	1	2	6	6	1	1	1
Paraguay	36	41	62	85	93	84	71	74
Dominican Republic	16	13	14	11	12	14	6	-3
Uruguay	108	78	78	122	113	87	81	87

Source: ECLAC, on the basis of table 27 and official data.

^aProvisional figures.

The decline in reserves was also considerable (-36%) in Colombia. However, as they had amounted to very large sums in 1980 and reductions in the two following years had been relatively small, they were still equivalent to over seven months' imports, a proportion exceeded in the region only by Venezuela.

Lastly, in 1983 decreases of more than 20% occurred in the international reserves of Chile and Uruguay, both of them countries in which reserves had already steeply declined in the two preceding years. Even so, since imports had also fallen abruptly, reserves were still equivalent to very high proportions of external purchases. In the case of Uruguay, however, the exceptional magnitude of the reserves/imports coefficient (87%) makes for an overestimate of the economic authorities' room for manoeuvre, since a very large proportion of the reserves consisted of monetary gold stocks.

PART TWO
FINANCIAL CONSTRAINTS, TRANSFER OF
RESOURCES AND RENEGOTIATION OF
THE EXTERNAL DEBT

Part Two

FINANCIAL CONSTRAINTS, TRANSFER OF RESOURCES AND RENEGOTIATION OF THE EXTERNAL DEBT

The evolution of Latin America's external financing and indebtedness during 1983 was characterized by two main features. The first was the accentuation of the constraints under which the region had been labouring since mid-1982 in respect of its access to international financial markets; the second was the initiation of a second round of renegotiations of the external debt, in which the debtor countries obtained, in general, somewhat more favourable terms and conditions than in the first.

I. FINANCIAL CONSTRAINT

Table 29 shows, through the figures for the movement of financial resources between the region and the rest of the world, the magnitude of the financial constraint with which Latin America had to cope.

As already noted, during the 1970s there was a net transfer of resources to Latin America from abroad, i.e., what happened was what normally should in the case of a developing region. A transfer of this kind, besides contributing external saving and thus giving an additional impulse to internal development or adjustment efforts, facilitates debt servicing, inasmuch as the inflow of new resources under the head of net loans and investment exceeds net remittances of interest and profits.

Furthermore, during the 1970s the transfer of resources to Latin America took place on a very large scale: by the middle of the decade it totalled more than 20% of the value of exports of goods and services, which, in their turn, were expanding at a very high average rate. In these circumstances, the region's capacity to import increased at high speed, as can be seen in figure 11.

By the end of the decade, however, a marked and progressive decline had begun both in the absolute value of resources transferred and in their ratio to the value of exports. In consequence of this trend, the direction of the financial flow was reversed in 1982, and a massive negative balance resulted. In that year the net transfer of resources abroad amounted to about US\$ 17 billion, and the process was intensified in 1983, in which year it is estimated that the resources transferred abroad represented a sum of approximately US\$ 87 billion.¹⁵

Thus, just as during the preceding year, in 1983 Latin America had to face a combination of highly unfavourable events: precisely when the net inflow of resources was converted into an enormous net outflow, the international recession and the increase in protectionism limited the possibilities of stepping up export earnings. In consequence of these two phenomena, the region's capacity to import suffered a new and drastic contraction (see figure 11).

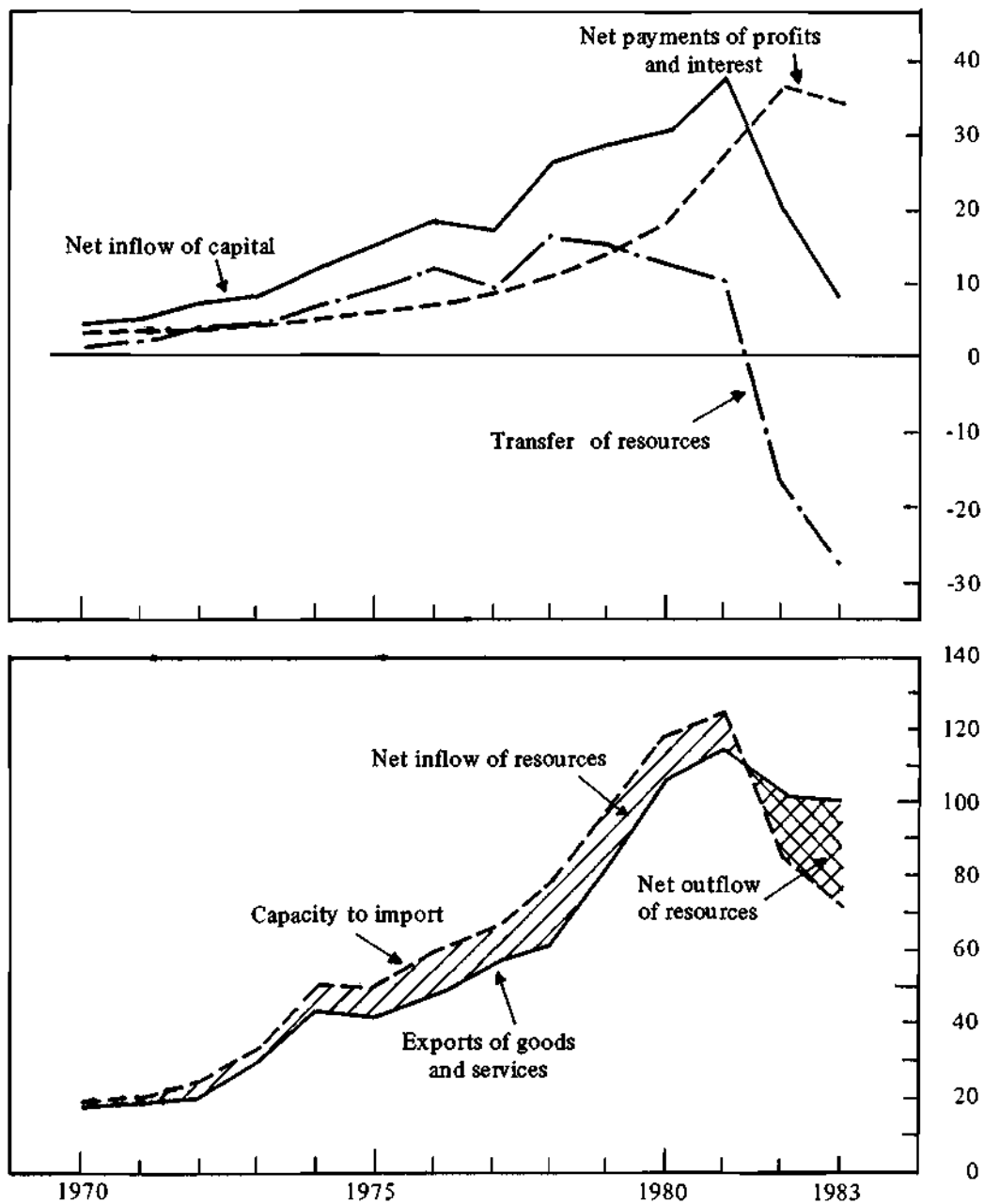
The financial constraint occurred, moreover, at a time when the region's real capacity to import had been decreasing on account of the continuous and rapid deterioration of the terms of trade. Thus, in addition to the US\$ 20 billion reduction of the capacity to import brought about in 1982-1983 by this deterioration, a drop of about US\$ 43 billion resulted from the draining-off of financial resources.

In these circumstances, the countries of the region had to adapt their economies by means of a radical contraction of their imports, which, as already mentioned, was the main cause of the decline in domestic levels of production and employment.

Thus, the emergence of these substantial net transfers of financial resources from Latin America to the creditor banks and countries had highly unfavourable consequences. Economic development is a long-term process in which a stable net inflow of external resources usually fills an

¹⁵ As can be seen in table 29, the *absolute* value of the transfer of resources abroad is smaller if account is taken of the errors and omissions item in the balance of payments, which probably was constituted in the main, especially in 1982, by unregistered capital outflows. But if this procedure is followed, the magnitude of the *volte face* in the transfer of resources which was produced between 1981 and 1983 turns out to be even greater.

Figure 11
LATIN AMERICA: NET INFLOW OF CAPITAL AND TRANSFER OF RESOURCES
(Billions of dollars)



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

Table 29

LATIN AMERICA: NET INFLOW OF CAPITAL AND TRANSFER OF RESOURCES

(Billions of dollars and percentages)

	Effective net inflow of capital ^a	Unregistered transaction ^b	Net inflow of capital (1 + 2)	2/1	Net payments of profits and interest	Transfer of resources		Exports of goods and services	6/8	7/8	Variation in terms of trade
						(1 - 5)	(3 - 5)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1970	3.8	0.1	3.9	2.6	2.8	1.0	1.1	17.0	5.9	6.5	3.4
1971	4.5	-0.2	4.7	-4.4	3.0	1.5	1.7	17.7	8.5	9.6	-2.7
1972	6.0	1.0	7.0	16.7	3.1	2.9	3.9	20.5	14.1	19.0	2.8
1973	8.5	-0.7	7.8	-8.2	4.2	4.3	3.6	28.9	14.9	12.5	13.4
1974	12.7	-1.3	11.4	-10.2	5.0	7.7	6.4	43.6	17.7	14.7	15.8
1975	16.0	-1.8	14.2	-11.3	5.5	10.5	8.7	41.1	25.5	21.2	-13.5
1976	18.9	-0.7	18.2	-3.7	6.8	12.1	11.4	47.3	25.6	24.1	4.6
1977	15.4	1.6	17.0	10.4	8.2	7.2	8.8	55.9	12.9	15.7	6.1
1978	24.4	1.7	26.1	7.0	10.2	14.2	15.9	61.4	23.1	25.9	-10.6
1979	26.9	1.7	28.6	6.3	13.6	13.3	15.0	82.0	16.2	18.3	4.1
1980	35.5	-5.5	30.0	-15.5	18.0	17.5	12.0	105.8	16.5	11.3	3.3
1981	48.3	-10.6	37.7	-21.9	27.7	20.6	10.0	114.1	18.1	8.8	-8.9
1982	28.1	-7.8	20.3	-27.8	36.9	-8.8	-16.6	102.6	-8.6	-16.2	-8.6
1983 ^c	12.5	-4.5	8.0	-36.0	34.7	-22.2	-26.7	100.0	-22.2	-26.7	-7.1

Source: 1970-1982: International Monetary Fund, *Balance of Payments Yearbook*, 1983: ECLAC, on the basis of official data.^aEquivalent to net inflow of capital minus unregistered transactions.^bCorresponds to balance-of-payments item "errors and omissions".^cProvisional estimates.

essential role in the financing of investment. Accordingly, a diminution of this inflow and, above all, its replacement by a net outflow directly affects both the rate and the social cost of the development process. Furthermore, such a reversal of the direction of resource transfers proves particularly serious when it occurs during the downturn of the economic cycle, since in that event it reinforces the negative effects of the conjunctural fall in the volume and prices of exports. Lastly, the net transfer of resources abroad may promote a major crisis, both for the developing countries and for the international financial system, in so far as the payments problems which it helps to generate may affect large-scale debtors in such a way as to call in question, or even imperil, the solvency of the creditor financial institutions.

The immediate causes of this adverse trend in financial movements were two in number: the rise in the cost of external credit, and the abrupt decrease in the net capital inflow.

1. The increase in the cost of external credit

A very important factor behind the net outflow of financial resources from Latin America was the heavy and sustained increase in the servicing of foreign capital, in the form of remittances of interest and profits. Between 1977 and 1982 net payments under this head grew at an average annual rate of 34%, a figure whose significance in real terms can be more clearly assessed if it is borne in mind that during that period domestic prices in the industrialized countries rose at an average rate of 9%, and, above all, if it is recalled that Latin America's terms of trade deteriorated at an average annual rate of about 3%. Although in 1983 payments of interest and profits slightly declined in consequence of the fall in international interest rates and the contraction of economic activity in Latin America, they still amounted to nearly US\$ 35 billion, i.e., more than three times as much as in 1978 (see table 29).

The most important component of this phenomenal expansion of payments on foreign capital was constituted by net interest payments. These represented 83% of the outflows recorded under this head between 1978 and 1983, a period in which, moreover, they continued to soar, and were ultimately quadrupled. In turn, this evolution of interest payments had its origin in the rapid growth of the external debt and the considerable increases in international interest rates.

During the past decade many countries of the region took advantage of the then easy access to the Eurocurrency market to pursue a development strategy based on liberal use of external credit.¹⁶ Thus, the region's external debt shot up at a very high rate, which between 1978 and 1981 averaged about 22% per annum (see table 30). Although this growth rate fell to 12% in 1982 and to less than 8% in 1983, it still far exceeded that of other main macroeconomic variables. For this reason, by the end of 1983 the external debt was equivalent to proportions of the gross domestic product and of exports which not only were very high—42% and 333%, respectively—but topped all those recorded in earlier years (see tables 31 and 32). In these circumstances, a steadily increasing proportion of Latin America's national income had to be diverted from domestic consumption and investment to debt servicing.¹⁷

Of course, as always happens, these regional averages conceal widely differing situations in the various countries. Thus, in 1983 the debt/export coefficient was especially high in Nicaragua (759%), Argentina (485%) and Brazil (408%), and, on the other hand, fluctuated around 150% in

Table 30

LATIN AMERICA: TOTAL GROSS DISBURSED EXTERNAL DEBT^a

	End-of-year balances in millions of dollars						Growth rates		
	1978	1979	1980	1981	1982	1983 ^b	1979-1981	1982	1983
Latin America	150 893	181 978	221 059	275 422	308 336	332 279	22.2	12.0	7.8
Oil-exporting countries	64 390	77 585	92 324	118 963	128 657	137 387	22.7	8.1	6.8
Bolivia ^c	1 762	1 941	2 220	2 450	2 373	2 780	11.6	-3.1	17.2
Ecuador	2 975	3 554	4 652	5 868	6 187	6 689	25.4	5.4	8.1
Mexico	33 946	39 685	49 349	72 007	78 000	82 000	28.5	8.3	13.9
Peru	9 324	9 334	9 594	9 638	11 097	12 418	3.4	15.1	11.9
Venezuela ^d	16 383	23 071	26 509	29 000	31 000	33 500	21.0	6.9	8.1
Non-oil-exporting countries	86 503	104 393	128 735	156 459	179 679	194 892	21.8	14.8	8.5
Argentina	12 496	19 034	27 162	35 671	43 634	45 500	41.9	22.3	4.3
Brazil ^e	52 285	58 907	68 354	78 580	87 580	96 500	14.5	11.5	10.2
Colombia	4 247	5 117	6 277	7 930	9 421	10 740	23.1	18.8	14.0
Costa Rica	1 870	2 333	3 183	3 360	3 497	3 848	21.6	4.1	10.0
Chile	6 664	8 484	11 084	15 542	17 153	17 454	32.6	10.4	1.8
El Salvador	986	939	1 176	1 471	1 683	2 000	14.3	14.4	18.8
Guatemala	821	934	1 053	1 409	1 504	1 766	19.7	6.7	17.4
Haiti ^c	210	248	290	372	410	446	21.0	10.2	8.8
Honduras	971	1 280	1 510	1 708	1 800	2 000	20.7	5.4	11.1
Nicaragua ^c	961	1 131	1 579	2 163	2 797	3 385	31.1	29.3	21.0
Panama ^c	1 774	2 009	2 211	2 338	2 820	3 275	9.6	20.6	16.1
Paraguay	669	733	861	949	1 204	1 469	12.4	26.9	22.0
Dominican Republic	1 309	1 565	1 839	1 837	1 921	2 000	12.0	4.6	4.1
Uruguay	1 240	1 679	2 156	3 129	4 255	4 509	36.1	36.0	6.0

Source: ECLAC, on the basis of official data. Brazil and Venezuela: ECLAC, on the basis of data from the Bank for International Settlements.
^aTotal public and private external debt. ^bProvisional figures. ^cCorresponds to public debt. ^dIncluding public debt, plus unguaranteed long and short-term debt with financial institutions supplying data to the Bank for International Settlements. ^eIncluding total medium and long-term debt plus short-term debt with financial institutions supplying data to the Bank for International Settlements.

¹⁶For more background information on this subject, see CEPAL, *Adjustment policies and renegotiation of the external debt* (E/CEPAL/SES.20/G.17), Santiago, Chile, February 1984.

¹⁷The burden of indebtedness is obviously heavier in relation to exports than to the product. Whereas the debt/product coefficient is not much higher in Latin America than in some Asian countries whose creditworthiness is still well-seen in the credit markets, the ratio of more than three to one existing between debt and exports trebles that of the large debtor countries in Asia.

Table 31

**LATIN AMERICA: RELATION BETWEEN TOTAL GROSS DISBURSED EXTERNAL
DEBT AND GROSS DOMESTIC PRODUCT**

(Percentages)

	1978	1979	1980	1981	1982	1983 ^a
Latin America	30	31	33	37	39	42
Oil-exporting countries						
Bolivia	33	34	35	39	40	43
Ecuador	52	51	53	54	54	66
Mexico	34	36	41	45	44	47
Peru	26	25	27	33	34	36
Venezuela	51	45	41	36	39	48
	50	64	69	69	69	74
Non-oil exporting countries						
Argentina	28	29	31	35	39	41
Brazil	22	28	37	47	58	56
Colombia	32	31	30	32	34	37
Costa Rica	13	14	15	17	19	21
Chile	54	59	73	73	78	82
El Salvador	41	44	49	59	72	71
Guatemala	26	23	29	36	41	47
Haiti	13	13	13	16	17	19
Honduras	22	23	22	27	29	30
Nicaragua	49	56	59	60	61	65
Panama	51	74	86	99	123	136
Paraguay	56	56	50	47	51	56
Dominican Republic	25	23	22	20	25	30
Uruguay	26	28	28	25	24	23
	20	24	27	35	49	53

Source: ECLAC, on the basis of official data.

^aProvisional figures.

Guatemala, Haiti and the Dominican Republic. The debt/product ratio, in its turn, reached more than 80% in Costa Rica and over 135% in Nicaragua, but was only 20% in Colombia and Guatemala.

Apart from the intensive growth of the total debt during the 1970s, there was a striking change in the sources of external credit, which caused a considerable increase in the average rate of interest. In the course of that decade private banks took the place of official credit institutions (bilateral and multilateral) as the region's main creditors. Thus, the share of the commercial banks in Latin America's total external debt has climbed from very modest levels at the beginning of the 1970s to approximately 80% at the present time. This structural change has implied a rise in the average cost of credit, since, as a general rule, commercial banks charge an interest rate about 50% higher than that charged by public international financing institutions, such as IDB and the World Bank.

In practice, however, the chief cause of the rapid increase in interest payments lay in the variability of the interest rates at which private bank loans were contracted. Since in recent years the economic policies applied in some of the main industrial centres led to an unprecedented rise in bank interest rates, the effective rate of interest that had to be paid by the Latin American countries also went up unusually fast. In 1978 the nominal level of LIBOR and the United States PRIME rate was already over 9%, and they reached maximum average values of 16.5% and 18.9%, respectively, in 1981. Although in the two following years they showed a downward trend, their levels in 1983 —10% for LIBOR and 11% for PRIME— were still very high in comparison with past periods (see table 33).

Moreover, to the cost represented by the basic rates must be added the spread, which since 1982 has risen steeply, with the result that some countries have had to pay an average spread fluctuating

between 1.5% and 2.0%. Lastly, the increase in the rate of interest was also spectacular in real terms: as can be seen in figure 12, after registering negative values in 1974-1977, LIBOR and PRIME swung over to the positive side, attaining values of 6% and 8%, respectively, in 1981. Although in the next two years they declined, their level in 1983 was still more than twice that of about 2% recorded in the past.¹⁸ The heavy financial burden represented for the Latin American countries by the rise in interest rates is highlighted in tables 34 and 35.

The first of these shows that in 1983 net interest payments absorbed 31% of the value of exports of goods and services. This figure, although slightly lower than in 1982, was equivalent to two and a half times the coefficient of 12% noted in 1978 and 1979.¹⁹

In several countries, of course, the problem was of even greater dimensions than are indicated by the regional average. For example, in 1983 the proportion of exports represented by interest was 53% in Argentina, 47% in Bolivia, 40% in Brazil and 39% in Costa Rica. Since 1978 the growth of this coefficient had been exceptionally intensive in Argentina, where it increased by a factor of ten, and in Costa Rica, where it was quintupled (see table 34).

Although the main causes of the spectacular rise in the net interest/export ratio between 1981 and 1983 were the high interest rates and the increase in the external debt, another influencing factor was the serious depletion of the region's international reserves. Through its deposits in the

Table 32

LATIN AMERICA: RELATION BETWEEN TOTAL GROSS DISBURSED EXTERNAL DEBT AND EXPORTS OF GOODS AND SERVICES

(Percentages)

	1978	1979	1980	1981	1982	1983 ^a
Latin America	246	222	210	242	301	332
Oil-exporting countries	254	207	177	208	245	281
Bolivia	251	227	213	242	260	326
Ecuador	175	147	162	201	230	255
Mexico	316	262	210	249	286	305
Peru	388	228	206	238	273	335
Venezuela	167	154	133	139	177	225
Non-oil-exporting countries	241	234	241	276	359	382
Argentina	167	207	275	329	484	485
Brazil	383	353	313	308	399	408
Colombia	107	113	118	185	192	261
Costa Rica	186	213	266	286	327	374
Chile	227	184	186	310	370	379
El Salvador	107	74	97	159	204	217
Guatemala	63	63	61	97	115	151
Haiti	100	116	95	149	155	152
Honduras	141	153	160	193	235	249
Nicaragua	133	168	319	397	624	759
Panama	189	178	147	145	176	208
Paraguay	154	143	152	167	195	310
Dominican Republic	158	138	145	121	168	164
Uruguay	136	141	141	184	277	326

Source: ECLAC, on the basis of official data.

^aProvisional figures.

¹⁸In the first half of 1984 this downward trend was reversed, so that the two rates rose to 11% and 12%, respectively.

¹⁹To appreciate the gravity of the situation, it is useful to recall that an interest/export coefficient of 20% is already considered to constitute an unduly onerous financial burden.

Table 33

LATIN AMERICA: NOMINAL AND REAL INTERNATIONAL INTEREST RATES

	Nominal LIBOR ^a	Nominal Prime Rate ^b	CPI of industrialized countries	Real LIBOR ^c	Real Prime Rate ^c
1972	5.41	5.25	4.7	0.7	0.5
1973	9.31	8.03	7.7	1.5	0.3
1974	11.20	10.81	13.3	-1.9	-2.2
1975	7.61	7.86	11.1	-3.1	-2.9
1976	6.12	6.84	8.3	-2.0	-1.3
1977	6.42	6.83	8.4	-1.8	-1.4
1978	8.33	9.06	7.2	1.1	1.7
1979	11.99	12.67	9.2	2.6	3.2
1980	14.15	15.27	11.9	2.0	3.0
1981	16.52	18.85	9.9	6.0	8.1
1982	13.25	14.77	7.5	5.3	6.8
1983	9.79	10.81	5.0	4.6	5.5
1981					
I	16.58	19.05	10.1	5.9	8.1
II	16.46	18.65	9.8	6.1	8.1
1982					
I	15.14	16.29	8.3	6.3	7.4
II	11.35	13.25	6.7	4.4	6.1
1983					
I	9.47	10.73	5.3	4.0	5.2
II	10.11	10.89	4.7	5.2	5.9
1984					
I ^d	11.10	11.80	5.3	5.5	6.2

Source: ECLAC, on the basis of data from the Morgan Guaranty Trust, *World Financial Markets*, and from *Economic Report of the President*, Washington, February 1984.

^aCorresponding to the interest rate on 180-day Eurodollar deposits in London.

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

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

^dProvisional estimates.

international financial markets, Latin America traditionally received a substantial amount of resources, which helped partly to counterbalance interest payments. Of course, as international reserves decreased, interest earnings were reduced as well. Lastly, the rise in the interest/export coefficient was also due to a decline in the value of exports during the last three years.

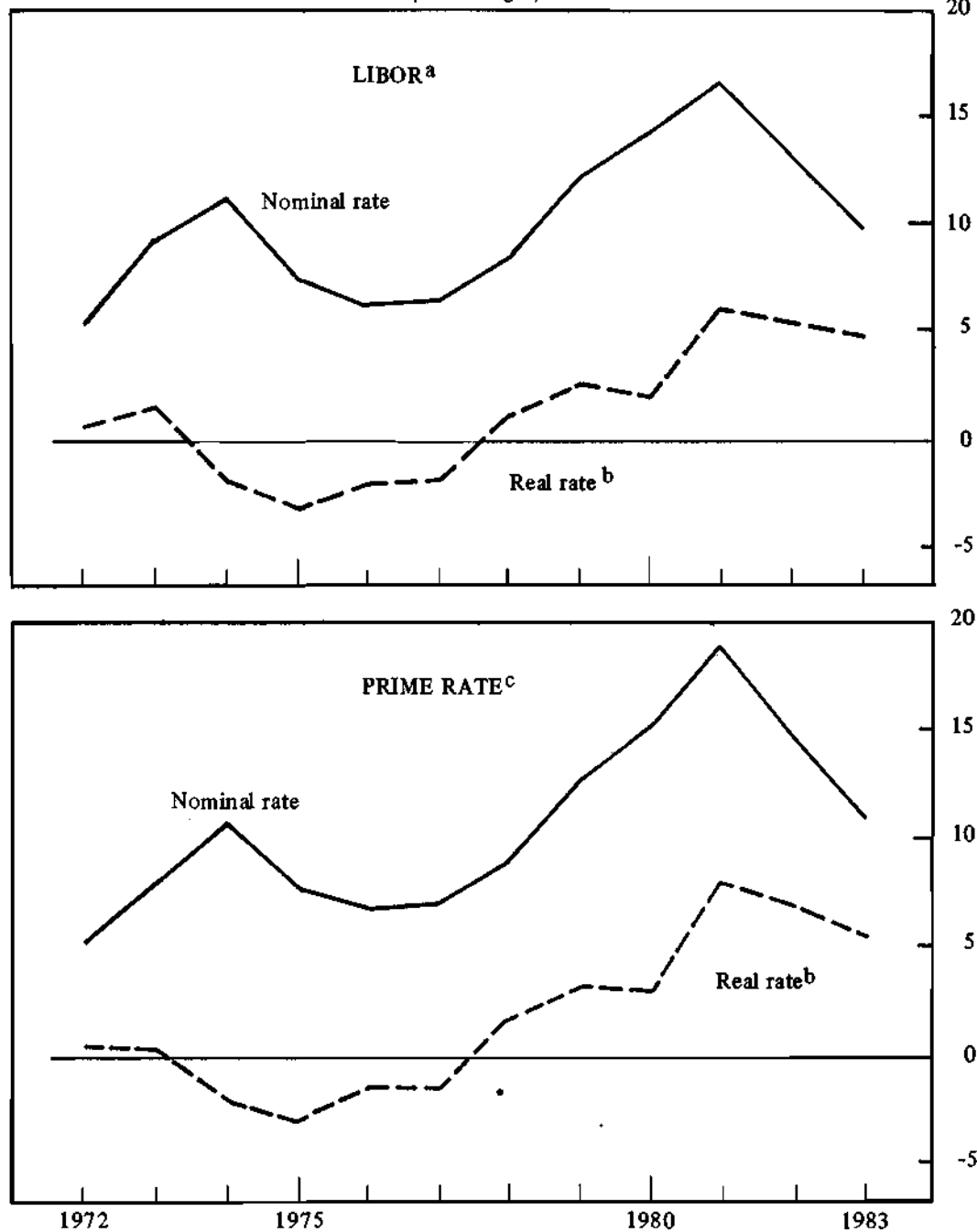
There was also a rapid increase in the proportion of the region's gross domestic product represented by interest payments. The coefficient for the region as a whole rose from only 1.5% in 1978 to 4.0% in 1982-1983 and was much higher in 1983 in Bolivia (9.5%), Costa Rica (8.7%), Chile (6.6%) and Argentina (6.1%). While in the first three countries the net interest/product ratio was already a good deal higher than the regional average in 1978, in Argentina its increase was really spectacular, inasmuch as in that year the country in question had had one of the lowest coefficients in Latin America (0.7%) (see table 35).

2. The decline in the net inflow of capital

The other fundamental cause of the negative transfer of resources that Latin America had to make in the last two years was the striking reduction of the net inflow of capital. As previously noted, the net amount of this inflow notably decreased both in 1982 and 1983. In effect, its values —US\$ 20 billion in 1982 and US\$ 8 billion in 1983— were equivalent, respectively, to only 20% and 8% of the

Figure 12
NOMINAL AND REAL INTERNATIONAL INTEREST RATES

(Percentages)



Source: ECLAC, on the basis of data from Morgan Guaranty Trust, *World Financial Markets*, and from *Economic Report of the President*, Washington, D.C., February 1984.

^aRate of interest on deposits in Eurodollars (180 days) in London. ^bNominal rate deflated by the consumer price index of the industrialized countries. ^cPreferential rate granted by the United States banks to their best clients.

Table 34

LATIN AMERICA: RELATION BETWEEN NET INTEREST PAYMENTS AND EXPORTS OF GOODS AND SERVICES

(Percentages)

	1978	1979	1980	1981	1982	1983 ^a
Latin America	12	12	14	21	32	31
Oil-exporting countries	13	11	12	17	24	26
Bolivia	14	18	23	31	43	47
Ecuador	8	11	15	21	29	24
Mexico	20	20	19	24	35	33
Peru	21	13	12	19	22	29
Venezuela	3	2	3	4	6	12
Non-oil-exporting countries	12	13	17	26	39	36
Argentina	5	5	10	27	49	53
Brazil	20	25	29	36	52	40
Colombia	5	5	3	7	15	15
Costa Rica	8	12	17	26	31	39
Chile	16	14	14	26	39	35
El Salvador	4	3	4	6	10	13
Guatemala	1	2	1	4	6	5
Haiti	3	3	2	2	2	5
Honduras	6	6	8	12	20	16
Nicaragua	8	9	16	16	31	12
Paraguay	4	2	1	2	5	9
Dominican Republic	11	12	11	19	22	25
Uruguay	8	5	7	4	11	23

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

^aProvisional figures.

region's total exports, which were figures far below the averages of about 33% recorded during the period 1978-1981.²⁰

This falling-off in net capital inflows had its origin in two factors: the procyclical behaviour of the international private banks and the flight of capital from Latin America to the outside world.

a) *The procyclical behaviour of the international private banks*

The slump in credit activity was related, in the first place, with the behaviour of the private banks, Latin America's principal creditors. These institutions are guided by a private and commercial perception of risk, which is highly sensitive and therefore imparts a high degree of variability to the loans they are prepared to grant.

It is common knowledge that the banks' image of Latin America's creditworthiness began to deteriorate as from 1982, a circumstance which was partly due to the overwhelming increase in debt servicing. As can be seen in table 36, the sum to which this amounted in absolute terms was more than doubled between 1978 and 1982. Up to 1981, however, this upswing did not create major difficulties, inasmuch as exports also expanded at a very rapid rate. Thus, despite the ever-increasing commitments under the head of amortization and interest payments, the debt service coefficient

²⁰The exceptional magnitude of the decline in net inflows of capital is clearly evidenced in column 3 of table 29. These figures, however, include the effect of inflows and outflows under the head of unregistered transactions, those termed "errors and omissions" in the balance of payments. Accordingly, so that a more exact picture of annual credit activity may be formed, column 1 of the same table presents an estimate of the effective net capital inflow, correcting the figures in column 3 by those financial operations which are not included in the economic authorities' accounts. Although, as was said before, when this operation is performed the absolute amount of the net inflow of capital works out to be larger in each of the last four years, the decline in the net inflow of loans and investment between 1981 and 1983 is also greater.

—the creditworthiness indicator in commonest use among creditors—remained relatively stable, fluctuating between 42 and 49%.

But in 1982, mainly as a result of the international recession, Latin America's total exports contracted by 10%, whereas debt servicing rose by almost 16%. Thus, the ratio between amortization and interest payments and the value of exports jumped from 49% in 1981 to 61% in 1982. Moreover, if short-term debt maturities—which amounted to approximately US\$ 69 billion—²¹ were taken into account, Latin America's debt service coefficient would have been about 120% in 1982, a manifestly untenable situation.

It was in these circumstances that the region's creditors radically changed their view of its creditworthiness and decided to restrict their loans severely. The rapid deterioration of Latin America's capacity to serve its debt and the considerable magnitude of the loans already granted by banks in the region were among the reasons why these latter saw a much higher degree of risk in their financial operations in Latin America.

Their first reaction to this situation was to harden amortization terms, a step which, in turn, had the effect of directly reducing the net inflow of capital. In the 1970s the maturities of loans granted to the countries of the region had often ranged from seven to ten years; but such amortization periods became increasingly less frequent at the beginning of the present decade. What is more, a common practice among banks when they feel their risk to be greater is to meet the borrowers' demand for refinancing by means of a steadily growing proportion of short-term credits, i.e., those extended for less than one year. This attitude was reflected in the increase of the relative importance

Table 35

LATIN AMERICA: RELATION BETWEEN NET INTEREST PAYMENTS AND GROSS DOMESTIC PRODUCT^a

(Percentages)

	1978	1979	1980	1981	1982	1983 ^b
Latin America	1.5	1.8	2.3	3.3	4.1	4.0
Oil-exporting countries						
Bolivia	2.8	4.0	5.8	6.9	9.0	9.5
Ecuador	1.6	2.6	3.7	4.7	5.4	4.4
Mexico	1.6	1.9	2.4	3.2	4.2	3.8
Peru	2.7	2.7	2.3	2.9	3.2	4.1
Venezuela	1.0	0.9	1.7	2.2	2.5	3.8
Non-oil-exporting countries						
Argentina	0.7	0.7	1.3	3.9	5.8	6.1
Brazil	1.6	2.1	2.8	3.8	4.4	3.6
Colombia	0.6	0.6	0.4	0.7	1.4	1.2
Costa Rica	2.4	3.3	4.6	6.7	7.5	8.7
Chile	2.8	3.3	3.7	5.0	7.5	6.6
El Salvador	0.9	0.8	1.3	1.5	2.1	2.7
Guatemala	0.1	0.5	0.2	0.6	0.9	0.7
Haiti	0.6	0.5	0.5	0.4	0.4	0.9
Honduras	1.9	2.3	3.0	3.9	5.3	4.2
Nicaragua	3.1	3.8	4.3	3.9	6.0	2.2
Paraguay	0.7	0.3	0.1	0.3	0.6	0.9
Dominican Republic	1.9	2.3	2.2	4.0	3.2	3.5
Uruguay	1.3	0.8	1.2	0.8	1.9	3.7

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

^aInterest payments include those corresponding to the short-term debt.

^bProvisional figures.

²¹See Inter-American Development Bank, *La deuda externa y el desarrollo económico en América Latina. Antecedentes y perspectivas*, Washington D.C., 1984.

Table 36

LATIN AMERICA: EXTERNAL DEBT INDICATOR

	1978	1979	1980	1981	1982	1983 ^a
Billions of dollars						
Medium and long-term disbursements	38.4	46.0	43.0	59.5	43.6	...
Oil-exporting countries	13.3	17.2	14.5	18.8	15.5	...
Non-oil-exporting countries	25.1	28.8	28.5	40.6	28.0	...
Debt service	26.7	37.0	43.3	53.8	62.2	...
Oil-exporting countries	9.7	15.2	15.9	20.2	23.2	...
Non-oil-exporting countries	17.0	21.8	26.4	33.6	39.0	...
Total interest payments	9.5	14.2	21.0	31.4	39.2	35.7
Oil-exporting countries	4.1	5.8	8.6	13.1	16.8	16.2
Non-oil-exporting countries	5.4	8.4	12.4	18.4	22.4	19.5
Medium-term amortizations	17.2	22.8	21.3	22.3	22.9	...
Oil-exporting countries	5.6	9.4	7.3	7.1	6.4	...
Non-oil-exporting countries	11.6	13.4	14.0	15.2	16.6	...
Percentages						
Debt coefficients^b						
DS/DIS	72	84	103	94	142	...
Oil-exporting countries	73	89	110	105	150	...
Non-oil-exporting countries	71	81	101	78	140	...
DS/X	45	47	42	49	61	...
Oil-exporting countries	38	41	31	35	43	...
Non-oil-exporting countries	50	52	54	64	81	...
I/X	16	17	20	28	38	35
Oil-exporting countries	16	16	17	23	31	32
Non-oil-exporting countries	15	19	23	32	46	38
TGD/X	247	223	211	243	301	332
Oil-exporting countries	254	207	177	208	245	281
Non-oil-exporting countries	242	237	243	278	359	382
TGD/GDP	30	31	33	37	39	42
Oil-exporting countries	33	34	35	39	40	43
Non-oil-exporting countries	28	30	32	36	39	41

Source: ECLAC, on the basis of official data.

^aProvisional estimates.

^bThe following are the symbols used: DS: debt services; DIS: medium- and long-term loan disbursements; X: exports of goods and services; I: gross interest payments on the short- and medium-terms debt; TGD: total gross external debt disbursed; GDP: gross domestic product.

of short-term credit in Latin America's total debt, the proportion it represented rising from 15% in 1975 to an average of 23% in 1980-1982.²²

The accumulation of these short-term liabilities reflected the severe pressures existing within the financial system. Credits of this type are usually granted for trade purposes, and it is estimated that they should represent the equivalent of about three months' imports. In 1982, however, this proportion was exceeded three times over. In 1983, the short-term debt was reduced to the equivalent of seven months' imports, largely owing to the constraint imposed on these credit lines by the creditors during the crisis.

One effect of these changes was that the rate of amortization — i.e., amortization payments as a percentage of the debt — on the bank debt rose steadily throughout the second half of the last decade,

²²See IDB, *op. cit.*, table 7.

reaching more than 40% in the two-year period 1981-1982.²³ This, of course, also pushed up the rate of amortization on the total debt, which climbed from about 23% in 1975 to over 30% in 1982.²⁴

The increase in the amortization rate threw into relief the countries' growing vulnerability, since it compelled them to intensify their "debtor activity", i.e., that directed towards obtaining new loans to cover amortization payments and thus avoid a net outflow of capital. Faced with an intensive increase in the demand for credit for the sole purpose of refinancing amortization payments, the banks had to meet a growing number of applications for credit just when the amount of their commitments in the countries of the region forced them to give more weight to considerations of prudence.

The unwillingness of the banks to continue increasing their loans in Latin America became more patent still when they began to have doubts as to the capacity of Argentina —the third among the largest debtors in the region—to serve its debt, on account of the South Atlantic conflict in March 1982, and was made yet more acute by the payments crisis in Mexico in the middle of the same year. As this country was the second largest debtor in the Third World, its difficulties created a sensation of panic in the financial market, which had a negative impact on the volume and terms of the credit available for other countries in the region. Thus, from August 1982 onwards the banks' normal credit activity was brought to a virtual standstill.

The magnitude of the constraint imposed by the banks can be appreciated in table 37, where the medium-term bank credits reported in the Eurocurrency market are presented. Before 1982 this type of credit was increasing at an average annual rate of 34% at the world level and 21% in the case of developing countries; those granted to Latin America exceeded this average, rising at an annual rate of 32%. For reasons already indicated, as from 1982 there was a sharp contraction of the new credits granted, and this trend persisted in 1983. For Latin America, the amount of new credits was reduced by 11% in 1982 and 43% in 1983, these decreases being a good deal larger than those corresponding to the developing countries as a whole. Furthermore, part of the credits granted to Latin America in 1982 and practically all those recorded in 1983 were not market operations, but non-voluntary loans which formed part of the debt refinancing programme organized under the sponsorship of the International Monetary Fund.²⁵

This drastic reduction in new credits to Latin America, which would have led to a net outflow of capital had it not been for the large-scale rescheduling of maturities carried out by the creditor banks, accounts for most of the spectacular decline in inflows of capital during 1982 and 1983.

Table 37

MEDIUM-TERM BANK CREDITS DECLARED ON THE EUROCURRENCY MARKET

	Billions of dollars							Growth rates		
	1977	1978	1979	1980	1981	1982	1983	1978-1981	1982	1983
Total	41.8	70.2	82.8	77.4	133.4	84.9	73.9	33.7	-36.4	-13.0
Industrialized countries	17.2	29.0	27.2	39.1	86.0	42.5	38.4	49.5	-50.6	-9.7
Countries with centrally planned economies	3.4	3.8	7.3	2.8	1.8	0.7	1.2	-14.7	-61.0	-71.4
Developing countries	21.0	37.3	48.0	35.0	45.3	41.5	33.0	21.2	-8.4	-20.5
Latin America	9.9	21.3	28.1	24.1	30.1	26.7	15.3	32.1	-11.3	-42.7
Asia	4.3	7.9	10.6	7.1	10.3	8.4	8.8	24.4	-18.5	4.8
Africa and the Middle East	6.8	8.1	9.3	3.8	4.8	6.4	8.9	-8.3	33.3	39.1
Others	0.2	0.1	0.3	0.5	0.3	0.2	1.3	10.7	-33.3	...

Source: Morgan Guaranty Trust, *World Financial Markets*, January 1984.

²³See R. French-Davis, 'El problema de la deuda externa en América Latina', CIEPLAN, Santiago, Chile, December 1983, p. 14.

²⁴Estimated on the basis of data in IDB, *op.cit.*, tables 1 and 3.

²⁵For more detailed analysis of the role of the Fund and of non-voluntary loans granted by private banks, see CEPAL, *Economic Survey of Latin America, 1982*, Part Two (E/CEPAL/L.286); and *Adjustment Policies and Renegotiation of the External Debt* (E/CEPAL/SES.20/G.17), Santiago, Chile, February 1984, chapter III.

Table 38

MEDIUM-TERM BANK CREDITS: SPREADS OVER BASIC INTEREST RATE^a

	1981		1982				1983		
	First semester	Second semester	I	II	III	IV	I	II	July-October
OECD	0.49	0.46	0.57	0.47	0.50	0.55	0.66	0.57	0.63
OPEC	0.97	0.92	0.85	0.80	0.87	0.95	0.87	0.85	1.39
Other developing countries			0.83	1.05	1.08	1.47	2.02	1.77	1.80
Overall average	0.74	0.69	0.75	0.78	0.69	0.93	1.53	0.96	1.17

Source: OECD, *Financial Market Trends*, Paris, November 1982 and November 1983.

^aWeighted average of spreads for credits of over US\$ 50 million and with maturities of more than three years.

Such scanty loans as Latin America was able to secure in the last two years were obtained, moreover, on very burdensome terms. Over and above the extremely high rates of interest, the non-voluntary credits granted by the banks included very large spreads; some idea of the magnitude of the change can be formed from the figures in table 38, which show that the average surcharge on loans to developing countries increased from 0.95% in 1981 to 1.47% at the end of 1982 and 1.80% by mid-1983. Thus, the difference between the spreads on basic rates paid by the industrialized countries and by the developing countries rose from 0.48% in 1981 to 1.17% in July-October 1983. And, as will be seen later, the deterioration was a good deal worse for Latin America than for the developing countries as a whole.

b) *The flight of capital*

The second determinant of the massive transfer of resources abroad was the abundant outflow of private capital from the region. Thus, from the standpoint of their effects on the balance of payments, a considerable part of the new loans contracted by some Latin American governments was counteracted by the outflow of resources from the private sector. In these conditions, the increase in public indebtedness partly originated —especially at the beginning of 1982— in the need to cover the flight of private capital to the exterior.

It is of course difficult to estimate the magnitude of the phenomenon. In the first place, there are no records of this type of capital movement, either because of the existence of a free foreign exchange market in the countries concerned, or owing to evasion of exchange controls by means of such procedures as under-invoicing of exports and over-invoicing of imports. Secondly, the coverage of indirect methods of estimating the flight of capital may be insufficient —which would lead to underestimating the flow— or their scope may be excessively broad, incorporating other factors conducive to an overestimate.

A traditional indirect indicator of the flight of capital is the balance-of-payments item "errors and omissions", which appears in the second column of table 29. According to these figures, between 1980 and 1983 Latin America could have experienced a cumulative net outflow of capital of about US\$ 28 billion —a sum equivalent to almost 7% of the value of exports of goods and services during that period and to approximately 8.5% of the cumulative external debt at the end of 1983. As is likewise evident from the figures in the same table, this outflow absorbed a significant proportion (25%) of the net inflow of capital between 1980 and 1983.

There are signs, however, that the "errors and omissions" item underestimates the effective capital outflow. Another indirect method of estimating the flight of capital is to compare the growth of the external debt and the net annual inflow of capital recorded in the balance of payments. The difference between the two figures will represent the unregistered outflow of financial resources. Since the coverage of the data on external indebtedness for the years preceding 1980 is less wide, it seems prudent to confine the analysis to the three-year period 1981-1983. The corresponding calculation suggests that there could have been an unregistered financial outflow of about US\$ 45

billion in that triennium, i.e., a much larger sum than the US\$ 28 billion estimated on the basis of the "errors and omissions" item in the balance of payments. These US\$ 45 billion are equivalent to nearly 14% of the external debt existing at the end of 1983.²⁶

Nevertheless, these figures must be handled with a good deal of caution, since it is highly probable that they overestimate the unregistered capital outflow. In the first place, estimates of indebtedness relating to more recent years have a broader coverage than those of earlier date and therefore tend to overestimate the growth of the debt. Secondly, the figures on net movements of capital, which also enter into the calculation made, are affected by outflows which do not, strictly speaking, constitute a flight of capital, such as contraband and traffic in drugs.

The flight of capital tends, of course, to occur or to be accentuated during periods of economic crisis and when the private sector loses confidence in the economic policies applied. In these circumstances, some of the holders of assets look for a haven abroad where the value of their capital may be conserved. Another factor that influences the process, and was probably important in Mexico, Venezuela and Argentina, is the non-existence of exchange controls. Even when such controls are susceptible of evasion, their existence increases the cost of transactions of this type and therefore to some extent discourages the transfer of capital to the exterior.

Lastly, it should be noted that although the flight of capital aggravated the crisis, it also signifies a potential, since, in principle, the resources concerned could be repatriated and thus give an impulse to investment and to the reactivation of the economy. For this to happen, however, economic policies would have to offer the holders of such assets prospects of security and an attractive rate of return.

II. RENEGOTIATION OF THE DEBT

The abrupt drop in Latin America's net external financing in the two-year period 1982-1983 interrupted the process of "credit renewal" —i.e., the contracting of new loans to cover debt servicing— which had made the servicing of external commitments relatively easy during the 1970s. For most Latin American countries the change made the debt burden impossible to carry, and this in its turn caused many countries of the region to embark upon negotiations for the rescheduling of the external debt.

1. The first round of reschedulings

The first round of reschedulings, which was initiated in August 1982, was analysed in depth in the *Economic Survey of Latin America, 1982*. The data on this process published there are updated in tables 39, 40 and 41.

In 1982 fourteen of the twenty countries of the region opened debt rescheduling negotiations; Colombia was the only country with a relatively large debt to the international private banks which did not do so. Generally speaking, debt restructuring operations combined two essential components: the rescheduling of one or two years' amortizations and the procurement of new "non-voluntary" credits from the private banks in order to refinance that part of interest payments which the countries were not in a position to cover with resources of their own.²⁷ Another characteristic element in the negotiations was the insistence of the banks that before a rescheduling agreement was concluded the country concerned should have agreed with IMF upon an adjustment programme.²⁸ Lastly, also as part of the rescheduling processes, the Bank for International Settlements and the United States Treasury granted very short-term bridge credits to some countries to finance them temporarily during their negotiations with IMF.

Tables 40 and 41 summarize the terms of the first rescheduling. It may be noted that they were exceptionally burdensome and represented a grave deterioration of debt conditions, both as regards the elements of indebtedness subject to negotiation (the spread in excess of LIBOR, amortization periods and commissions), and with respect to the financial cost. The data in column 7 of table 41

²⁶During the period analysed, the flight of capital was apparently concentrated in three countries: Venezuela, Mexico and Argentina. Uruguay also seems to have witnessed an outflow of appreciable magnitude in relation to the size of its economy.

²⁷In 1983 this proportion was about 50%.

²⁸The only exceptions to this rule occurred in the reschedulings of the external debt of Cuba and Nicaragua.

Table 39

**LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION OF
EXTERNAL DEBT WITH PRIVATE BANKS
(FIRST ROUND OF RENEGOTIATIONS 1982/1983)^a**

(Billions of dollars)

Country	Gross bank debt ^b		Renegotiation of debt with private banks					Loans approved during 1982 and 1983			
	at end of		Start of negotiations	Amount			Maturities of re-scheduled amortizations	IMF	BIS ^{c,d}	United States ^d	New credits ^e
	1982	1983		Total	Public	Private					
Argentina	22.2	23.4	Sep 1982	13.00 ^f	6.00	7.00	Sep 1982-1983	2.20	0.50	-	1.10 ^d , 1.50 ^g
Brazil	56.0	57.5	Dec 1982	4.80 ^h	...	...	1983	6.00	1.20	1.50	4.40
Costa Rica	0.7	0.7	Sep 1981	0.62 ⁱ	0.62	-	1982-1984	0.10	-	-	0.23
Cuba	1.0	0.9	Sep 1982	0.14 ^j	0.14	-	Sep 1982-1983	-	-	-	-
Chile	10.4	11.0	Jan 1983	3.46 ^k	1.00	2.46	1983-1984	0.88	0.30	-	1.30
Ecuador	4.1	4.2	Oct 1982	2.20 ^l	1.20	1.00	Nov 1982-1983	0.17	-	-	0.43
Honduras	0.2	0.2	Jul 1982	0.12 ^m	0.12	-	1982-1984	0.11	-	-	-
Mexico	59.0	62.9	Aug 1982	23.00 ⁿ	23.00	-	Aug 1982-1984	3.97	1.85	1.60	5.00
Nicaragua	0.6	0.5	... 1982	0.55 ^o	0.55	-	...	-	-	-	-
Panama	...	1.6	... 1983	0.18	...	...	1983	0.26	-	-	0.10
Peru	5.2	4.5	Mar 1983	0.38 ^p	0.38	-	1983	0.94	-	-	0.45
Dominican Republic	1.0	1.0	Dec 1982	0.57 ^q	0.15	0.42	1982-1983	0.46	-	-	-
Uruguay	1.2	1.5	Feb 1983	0.63 ^r	0.63	-	1983-1984	0.46	-	-	0.24

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

^aIncluding countries which during 1982 and 1983 signed definitive or provisional external debt renegotiation agreements with the private banks: excluding the English-speaking Caribbean countries.

^bRefers exclusively to each country's short, medium- and long-term public and private debt with the private commercial banks that supply information to the Bank for International Settlements. The debt to governments and official agencies is not therefore included, nor the debt with suppliers, nor the debt with those commercial banks which do not transmit information to BIS. In some countries, this last item is significant. In the case of the Dominican Republic, the data correspond to official information.

^cBank for International Settlements. ^dShort-term bridge credits.

^eCredits granted by the international banks as part of the process of renegotiation of the external debt.

^fCorresponds to public external debt maturities falling within the period September 1982 to December 1983 (US\$ 6 billion); to those maturities of the private external debt, protected by Central Bank exchange insurance, which fell due as from November 1982 (US\$ 5.5 billion); and to maturities of swaps (US\$ 1.5 billion). It should be noted that Argentina did not sign any final agreement on renegotiation of its public external debt during the year 1983. In December 1983 the new government notified its intention to renegotiate a new agreement.

^gThe international banks are waiting to disburse US\$ 1 billion until an agreement with IMF is reached.

^hAt the end of 1982 an application was submitted to the foreign banks requesting them to grant 1) new loans to the amount of US\$ 4.4 billion; 2) refinancing of public and private debt amortizations to the amount of US\$ 4.8 billion; 3) maintenance of the short-term loans of US\$ 9.6 billion for the financing of foreign trade operations; and 4) re-establishment of the inter-bank credit lines at the levels reached on 30 June 1982 (US\$ 10 billion). Points 1 and 2 were accepted in February 1983 and point 3 later; point 4 was never settled.

ⁱIn September 1983 an agreement was signed providing for the renegotiation of US\$ 370 million of arrears and of amortization payments amounting to US\$ 250 million which would fall due during 1983 and 1984. A trade credit equivalent to 50% of the interest payments disbursed in 1983 was also granted. The banks also agreed to maintain short-term revolving credits to an amount of US\$ 215 million, with a spread of 1 3/4% over LIBOR.

^jIn August 1982 a request was submitted for deferment of the external debt service payments which were due to be made between September 1982 and December 1983. The Banks also agreed to maintain the short-term credit lines with a spread of 1 1/4% over LIBOR.

^kIncludes amortization of credits due to be disbursed during 1983 and 1984 (US\$ 2 158 million) and the restructuring of short-term financial credits (US\$ 1.3 billion). In February 1983 the international banks authorized a moratorium up to April 1983 and then, by successive rollovers, up to January 1984. In the latter month and in February 1984 the definitive debt renegotiation agreements were signed. The maintenance of the short-term loans for the financing of foreign trade operations (US\$ 1.7 billion) was also obtained, with a spread of 1 1/2% over LIBOR.

^lIn September 1983 decrees were signed authorizing the signature of contracts for the refinancing of public and private debt amortizations to the amount of US\$ 2.2 billion in the period November 1982 to December 1983. The agreement includes the maintenance of short-term credit lines totalling US\$ 700 million with a spread of 1 5/8% over LIBOR. Between October 1982 and January 1983, by common accord with the creditors, no payments were made against the public debt.

^mA note of understanding between the government and the creditor banks committee was signed in February 1983, but this agreement did not come into force because the banks refused to contribute new financing equivalent to double the half-yearly interest payments falling due. Until the end of 1983 the government kept up to date with interest payments; the same was not the case with amortization payments on capital.

ⁿIn August 1982 the international banks authorized a moratorium on public external debt amortization payments for three months, which was subsequently extended until March 1983 and later to August 1983. In the latter month and in September 1983 contracts were signed for the refinancing of public external debt amortization payments totalling US\$ 19.83 billion. Later on the amount restructured under the agreement reached US\$ 23 billion.

^oDuring 1982 a renegotiation agreement for this amount was concluded. The terms of the renegotiation are similar to those originally contracted in a debt rescheduling agreement the government obtained in 1980.

^pIn addition short-term credit lines totalling US\$ 2 billion were renewed, with a spread of 1.5% over LIBOR.

^qIn September 1983 an agreement was concluded on the refinancing of US\$ 465 million of short-term debt and US\$ 100 million of medium- and long-term debt.

^rCorresponds to 90% of amortization payments on short- and medium-term credits due to be made during 1983 and 1984. In addition, short-term credit lines amounting to US\$ 81 million were maintained. At the beginning of March 1983 payments had been deferred for 90 days by agreement with the creditor banks. In July 1983 an agreement was signed with 80 creditor banks.

reveal that in some cases the terms of the debt deteriorated spectacularly —between 175% and 240%— because of its rescheduling. Column 10 in the same table shows that very substantial increases —of 20% or over— also occurred in the real financial cost of indebtedness in an appreciable number of cases.

2. The second round of reschedulings

Almost immediately after the first round of rescheduling a second began, originating in the operation of several factors (see table 42). In the first place, some countries had renegotiated only the payment of maturities falling due in 1983, with the addition, in some instances, of the arrears accumulated in 1982. As the external sector remained sluggish, these countries opted for requesting the rescheduling of amortization payments that were due to be made in 1984. Secondly, there were some countries which, despite having initiated negotiations to reschedule their debt during the first round, for one reason or another did not reach the point of signing a final agreement. Lastly, as already mentioned, the private banks agreed to grant new credits, with which a part of the interest payments on the bank debt was refinanced under an arrangement which covered only one year's payment. Thus, both the countries that rescheduled their 1983-1984 maturities and those that requested a year's restructuring had to return to the negotiating table to fix the amounts and terms of the new credits that they needed to cover their financing requirements in 1984.

Table 40

LATIN AMERICA (SELECTED COUNTRIES): TERMS OF RESCHEDULING OF EXTERNAL DEBT TO PRIVATE BANKS (FIRST ROUND OF RESCHEDULINGS: 1982/1983)^a

Country	Spread over LIBOR (percentage)		Total period (years)		Grace period (years)		Commissions ^b	
	R	AC	R	AC	R	AC	R	AC
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Argentina ^c	2.13	2.50	7.0	5.0	3.0	3.0	1.25	1.25
Brazil	2.50	2.13	8.0	8.0	2.5	2.5	1.50	1.50
Chile	2.13	2.25	8.0	7.0	4.0	4.0	1.25	1.25
Costa Rica ^d	2.25	-	8.5	-	4.0	-	1.38	-
Cuba	2.25	-	8.0	-	3.0	-	1.25	-
Ecuador	2.25	2.38	7.0	6.0	1.0	1.5	1.25	1.25
Honduras	2.38	-	7.0	-	3.0	-	1.38	-
Mexico	1.88	2.25	8.0	6.0	4.0	3.0	1.00	1.25
Nicaragua ^e	-	-	12.0	-	5.0	-	-	-
Panama	2.25	2.25	6.0	6.0	2.0	2.0	1.50	1.50
Peru	2.25	2.25	8.0	8.0	3.0	3.0	1.25	1.25
Dominican Republic	2.25	-	6.0	-	2.0	-	1.25	-
Uruguay	2.25	2.25	6.0	6.0	2.0	2.0	1.38	1.38

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

^aColumn R refers to rescheduled maturities and column AC to terms for additional credits.

^bCalculated as a percentage of the total amount of the transaction and paid once only at the time of signing the loan contracts. It should be noted that evidence has been found that some commissions were not declared, and consequently the figures could underestimate payments under this head.

^cAt the end of 1983 the new Government of Argentina notified its intention to negotiate another debt rescheduling agreement, the terms of which would be better than those included in the present table.

^dDuring 1983 the renewal of short-term trade credits was granted with a spread of 1.75% over LIBOR and for a term of three years.

^eNicaragua is continuing the rescheduling of its bank debt on the terms established in an agreement signed in 1980.

^fNicaragua pays a maximum rate of 7%; the difference between the interest rate in force and the 7% ceiling will be capitalized.

Table 41

**LATIN AMERICA (SELECTED COUNTRIES): DETERIORATION OF TERMS OF
INDEBTEDNESS WITH PRIVATE BANKS
(FIRST ROUND OF RENEGOTIATIONS, 1982/1983)^a**

Country	Spread over LIBOR (percentage)		Total period (years)		Commissions		Deterioration of terms ^b (percentage)	Real cost of credit ^c		
	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC		1980/1981	R*AC	Increase
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Argentina ^d	0.67	2.16	7.5	6.8	1.09	1.25	217	5.82	7.34	26.1
Brazil	1.62	2.32	8.5	8.0	2.01	1.50	44	6.86	7.50	9.3
Chile	0.91	2.16	7.6	7.7	0.81	1.25	125	6.02	7.32	21.6
Costa Rica	1.13	2.25	6.0	8.5	1.23	1.38	28	6.34	7.41	16.9
Cuba	1.00	2.25	5.0	8.0	0.88	1.25	28	6.18	7.41	19.9
Ecuador	0.74	2.28	8.0	6.7	0.97	1.25	242	5.86	7.47	27.5
Honduras	...	2.38	...	7.0	...	1.38	...	...	7.58	...
Mexico	0.65	1.95	7.6	7.6	0.70	1.05	181	5.74	7.09	23.5
Panama	1.09	2.25	8.0	6.0	1.00	1.50	174	6.22	7.50	20.6
Peru	1.12	2.25	8.2	8.0	1.07	1.25	97	6.25	7.46	18.6
Dominican Republic	1.30	2.25	8.1	6.0	0.91	1.25	135	6.41	7.46	16.4
Uruguay	0.98	2.25	9.1	6.0	0.90	1.38	249	6.08	7.48	23.0

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

^aThe symbol R*AC represents a weighted average of the rescheduled credits and additional credits.

^bBased on an index of the cost-of-credit components which are subject to negotiation. The following is the formula used.

$$\frac{\frac{C_1}{P_1} + S_1}{\frac{C_0}{P_0} + S_0} - 1$$

in which: C= Commissions; P= Period; S= Spread over LIBOR, and in which subindex 1 refers to the conditions existing in 1983 and subindex 0 to average terms in 1980-1981. All components of the formula are weighted by the amount of the loan. It should be noted that the deterioration is not in itself an indicator of the quality of a country's negotiation, since it is strongly influenced by the borrower's initial position.

^cA real annual LIBOR of 5% is assumed and C/P + S are added.

^dAt the end of 1983 the new Government of Argentina notified its intention to negotiate a new external debt rescheduling agreement.

a) *The reduction of the banks' new commitments*

In 1984 the banks continued to pursue their policy of granting new loans to refinance a part of interest payments. However, there was a marked decline in this contribution. For example, in 1984 Mexico has received new credits amounting to US\$ 3.8 billion (a sum which represents a 6% expansion of the banks' commitments) in comparison with the US\$ 5 billion obtained in 1983 (equivalent to an increase of approximately 8% in the said commitments). In 1984 the new credits obtained by Chile were reduced to US\$ 780 million as compared with US\$ 1.3 billion in the preceding year, which implied that the growth rate of the banks' commitments fell from 11% to 7%. Similarly, there was a reduction of the credits granted to Ecuador and, up to mid-1984, Peru had received no new credits, after having been granted US\$ 450 million in 1983 (see table 42). The only countries that obtained more credits in 1984 than in 1983 were Brazil—which received US\$ 6.5 billion in 1984, as against US\$ 4.4 billion in 1983—and Nicaragua, which apparently had the opportunity of organizing a new loan for US\$ 200 million, after several years in which it had no access to new credit from the commercial banks. It must be stressed, however, that the increase in the financing obtained by Brazil was due to the fact that during the first round it was impossible to maintain the inter-bank credit lines to that country at the established levels. Accordingly, in the second round it was decided to substitute new medium-term credits for the short-term lines.

Table 42

**LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION OF THE
EXTERNAL DEBT WITH PRIVATE BANKS
(SECOND ROUND OF RENEGOTIATIONS: 1983/1984)^a**

(Billions of dollars)

Country	Gross bank debt ^b at end of 1983	Start of negotiations	Renegotiation of the debt with the private banks			Maturities to be re-scheduled	New credits approved in 1984 ^c
			Amount				
			Total	Public	Private		
Argentina	23.4	Dec 1983	22.00 ^d	22.00	-	Sep 1982-1984	0.5 ^e
Bolivia	1.2	Oct 1982	0.64 ^f	0.64	...	1983-1985	-
Brazil	57.5	Jun 1983	5.40 ^g	...	...	1984	6.4
Chile	11.0	Jan 1984	-	-	-	-	0.8
Ecuador	4.2	Nov 1983	1.50	...	...	1984	0.4 ^h
Mexico	62.9	Mar 1983	11.60	-	11.60	Aug 1982-1984	3.8
Nicaragua	0.5	Jun 1983	...	...	...	Jun 1983-Jun 1984	0.2 ^h
Peru	4.5	Dec 1983	1.56 ⁱ	1.56	-	1984- July 1985	-
Venezuela	28.5	Oct 1982	24.00 ^k	...	...	1983-1984	-

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

^aThese data are provisional and subject to revision. The countries included are those that during 1983 did not conclude any formal external debt rescheduling agreement with private banks; others that during 1983 signed definitive or provisional agreements relating only to that year's maturities, and for those of 1984 began a second round of renegotiations; and countries that applied for new credits to refinance interest payments in 1984.

^bRefers exclusively to each country's short-, medium- and long-term public and private debt with the private commercial banks that transmit information to the Bank for International Settlements. Accordingly, neither the debt with governments of official institutions is included, nor the debt with suppliers, nor the debt with commercial banks that do not transmit information to BIS. In some countries this last item is significant, and the figures could therefore underestimate the share of the banks in total external debt.

^cRefers to credits granted by the international banks as part of the renegotiation process.

^dRefers to US\$ 14 billion corresponding to amortization payments on the public debt due in 1982-1984; interest payments to the amount of US\$ 6 billion; and bridge credits for a sum of US\$ 2 billion (estimate prepared in May 1984). The total amount includes the renegotiated public external debt mentioned in table 39, since the authorities never concluded a definitive agreement with the private banks. In mid-December 1983 the new Government of Argentina asked the international banks for a moratorium on all amortization and interest payments up to 30 June 1984.

^eAt the end of March 1984 the Governments of Brazil, Colombia, Mexico, Venezuela and the United States announced a package financing of US\$ 500 million for the payment of interest on Argentina's external debt, of which US\$ 300 million were provided by the above-mentioned countries, US\$ 100 million by the commercial banks and US\$ 100 million by the beneficiary government. The loans from the Latin American countries are short-term bridge credits and will be replaced by a loan from the United States Treasury once Argentina reaches an agreement with IMF.

^fIncludes maturities amounting to US\$ 416 million and corresponding to the debt rescheduled by the banks in 1981, and US\$ 225 million in amortization payments due within the period 1983-1985. In principle, the government reached an agreement with the foreign banks in mid-1983, but it was conditional upon the approval of an agreement with IMF which up to May 1984 had not been signed. At the end of 1983 it was agreed that 50% of interest would be paid. In June 1984 the government notified its intention of temporarily deferring its amortization and interest payments.

^gIn November 1983 a final agreement was reached on financing which includes US\$ 6.5 billion provided by the commercial banks, US\$ 3.5 billion in the shape of refinancing by the Paris Club and US\$ 2.5 billion in financing from State entities in the industrialized countries. Still in force, moreover, are short-term commercial credit lines to an amount of US\$ 10.3 billion and short-term inter-bank credit lines amounting to US\$ 6 billion.

^hAs from June 1983 Nicaragua for the first time stopped interest payments on the bank debt. In December an agreement was reached to refinance interest payments in arrears, which provides for capitalization of 100% of interest payments, amortization to begin as from the second semester of 1984.

ⁱIncluding the refinancing of US\$ 610 million corresponding to the medium- and long-term debt and US\$ 950 million corresponding to the short-term debt.

^jEstimate on the basis of official data.

^kAt the end of March 1983 the international banks authorized a three months' moratorium on payments which was subsequently extended on four occasions. In April 1984 a sixth moratorium up to July 1984 was requested. In June 1984 the Government pledged itself to settle part of the cumulative interest payments corresponding to the public and private sectors.

Table 43

**LATIN AMERICA (SELECTED COUNTRIES): TERMS OF RESCHEDULING
OF THE EXTERNAL DEBT WITH THE PRIVATE BANKS
(SECOND ROUND OF RENEGOTIATION: 1983/1984)^a**

Country	Spread over LIBOR (percentage)		Total period (years)		Period of grace (years)		Commissions ^b	
	R	AC	R	AC	R	AC	R	AC
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Brazil	2.00	2.00	9.0	9.0	5.0	5.0	1.00	1.00
Chile	-	1.75	-	9.0	-	5.5	-	0.63
Ecuador	1.75	...	9.0	...	4.0	...	0.88	...
Mexico	...	1.50	...	10.0	...	5.0	...	0.63
Peru	1.75	-	9.0	-	5.0	-	...	-

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

^aThese data are provisional and subject to revision. Column R relates to rescheduled maturities and column AC to terms for additional credits.

^bCalculated as a percentage of the total amount of the transaction and paid once only on signing the loan contracts. It should be noted that evidence has been found that some commissions were not declared and the figures could therefore underestimate payments under this head.

Table 44

**LATIN AMERICA (SELECTED COUNTRIES): DETERIORATION OF
TERMS OF INDEBTEDNESS WITH THE PRIVATE BANKS
(SECOND ROUND OF RENEGOTIATIONS: 1983/1984)^a**

Country	Spread over LIBOR (percentage)		Total period (years)		Commissions		Deterioration of terms ^b (percentage)	Real cost of credit ^c		
	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC		1980/1981	R*AC	Increase
	(1)	(2)	(3)	(4)	(5)	(6)		(8)	(9)	(10)
Argentina	0.67	...	7.5	...	1.09	...	...	5.82	...	...
Brazil	1.62	2.00	8.5	9.0	2.01	1.00	7	6.86	7.11	3.6
Chile	0.91	1.75	7.6	9.0	0.81	0.63	51	6.02	6.82	13.3
Ecuador	0.74	1.75	8.0	9.0	0.97	0.88	91	5.86	6.85	16.9
Mexico	0.65	1.50	7.6	10.0	0.70	0.63	60	5.74	6.56	14.3
Peru	1.12	1.75	8.2	9.0	1.07	...	...	6.25	7.46	18.6

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

^aThe symbol R*AC represents a weighted average of rescheduled credits and additional credits.

^bBased on an index of the cost-of-credit components that are subject to negotiation. The following is the formula used:

$$\frac{\frac{C_1}{P_1} + S_1}{\frac{C_0}{P_0} + S_0} - 1$$

in which: C= Commissions; P= Period; S= Spread over LIBOR and in which subindex 1 refers to terms existing in 1983-1984 and subindex 0 to average terms in 1980-1981. All components of the formula are weighted by the amount of the loan. It should be noted that the deterioration in itself is not an indicator of the quality of a country's negotiation, since it is strongly influenced by the borrower's initial position.

^cA real annual LIBOR of 5% is assumed and C/P + S are added.

Several factors account for the decrease in the banks' new commitments. On the one hand, the private banks want to restrict the extent of their commitments in the Latin American countries, and are therefore seeking gradually to reduce the amount of new credits linked to each successive round of debt renegotiation. On the other hand, the countries of the region, faced both with the unwillingness of the banks to grant new resources and with the strict IMF targets designed to reduce financing requirements, have spectacularly compressed their imports, whereby they have succeeded in radically reducing the deficit on current account and, consequently, the need for new loans. Another factor of some importance is that certain countries are hoping to replace part of the bank financing with new disbursements by the official international credit institutions, such as IDB and the World Bank.

b) *Reduction of the negotiated price of credits*

As mentioned above, the first round of reschedulings was characterized by the abrupt deterioration of borrowing conditions. In the second round, on the other hand, the countries succeeded in obtaining somewhat more favourable terms. In table 43 it can be seen that for all countries both the spreads over LIBOR and the commissions were smaller, and that maturities were longer in the second round of renegotiation than in the first. Although the new debt terms were still burdensome in comparison with those prevailing in the credit market in 1980-1981, the relative deterioration in the conditions negotiated, as well as the financial cost, was much more moderate than in the first phase of the renegotiations (see columns 7 and 10 in table 44).

But the relief provided to the Latin American countries by the decrease in the negotiated price of credit was largely neutralized by the appreciable rise which occurred after December 1983 in LIBOR, the basic interest rate over which debtors and creditors have no control. In fact, while the countries obtained a reduction of approximately half a percentage point in the spread over LIBOR during the second round of renegotiations, LIBOR itself increased two points between December 1983 and May 1984, more than counteracting the benefits of the improvement in the negotiated price of credit.²⁹

It is interesting to note that it was the countries which decided to reprogramme only one year's maturity (1983) that were able to take most advantage of the new situation, since the softer conditions were applied not only to new credits obtained in 1984 but also to the rescheduled 1984 maturities. On the contrary, the debtor countries that rescheduled the latter in advance during the first round of renegotiations had to comply with the more burdensome conditions negotiated on that occasion.

²⁹It is estimated that if this increase in LIBOR persists for one year, it will signify additional payments on Latin America's external debt of at least US\$ 5 billion, a sum equivalent to 6% of the value of the region's exports of goods in 1983.

PART THREE
THE ECONOMIC EVOLUTION OF THE
INDIVIDUAL COUNTRIES

ARGENTINA

1. Recent economic trends: Introduction and summary

Economic activity recovered slightly in 1983, though the increase of 2.8% in the gross domestic product only partially compensated for the severe falls in the two preceding years (see table 1). This incipient recovery had some special features. In the first place, the growth of the product was markedly slower than in previous periods of recovery. In the second place, real wages increased much more rapidly than production. Moreover, the improvement in industrial activity took place at the same time as a continuous fall in purchases from abroad, including those of intermediate goods. This untypical behaviour, which reflects the resubstitution of imports following the breakdown of the opening-up experiment, once again enabled a significant trade surplus to be achieved. This did not alleviate the difficult external payments situation, however, owing to the extremely high cost of the servicing of the debt. Moreover, the inflation rate went up again: the growth of consumer prices in 1983 (430%) exceeded all previous records (see figure 1). Thus, despite the improvement in the rate of production and in real wages, and the drop in unemployment, the economy was still far from overcoming its already prolonged crisis.

Economic policy was clearly transitory in character during 1983, since the announcement of elections for the month of October put a well-defined limit on government measures. Hence the economic authorities confined their objectives to an attempt to avoid brusque changes in the economy at a time when the critical situation of the external sector, the deterioration in activity and the sharpening of social tensions were simultaneously creating conditions of instability.

At the beginning of the year the government negotiated an agreement with the IMF, as part of its programme for refinancing the external debt. This agreement involved a gradual reduction in the growth rate of prices, together with a slight recovery in the product and in real wages. No abrupt changes in relative prices were envisaged: there was to be a moderate increase in public service charges, and interest rates and the exchange rate were to keep in line with the evolution of prices. A reduction of the fiscal deficit and a gradual slackening of monetary expansion were also contemplated. Although initially the monetary and fiscal goals were more or less attained, already from the beginning of 1983 certain deviations from the agreed programme were observable. In particular, wages went up faster than had been foreseen, and the interest rates in the regulated market were markedly lower than inflation, while those of the free market attained very high levels. Moreover, since the policies were obviously so fragile, there were no clear guidelines to bring about a slowdown in price expectations.

In fact, in the second half of the year, the original programme was overtaken by events. On the one hand, the rise in expenditure and the fall in revenue substantially increased the fiscal deficit, while the growth rate of wages quickened. At the same time, the renegotiation of the external debt ran into increasing difficulties, which culminated in September when a judicial decision ordered the cessation of the negotiations that some public enterprises had been conducting with the creditor banks. This led to a virtual suspension of payments abroad and to a brusque rise in the parallel exchange rate. The sum of the existing pressures, on the other hand, led to a sharp upswing in prices, which grew at an average rate of over 17% per month in the second half of the year.

The authorities who took over the government in December were faced, therefore, with conditions of extreme instability. Furthermore, the poor performance of the economy in recent years led the majority currents of opinion to favour major changes in the policy approach, with a view to increasing domestic income and redistributing it to benefit the lower-income groups. The government announced that these would be their main objectives and that they would base their strategy for renegotiating the external debt and their programme of price stabilization on them.

Thus, discussions were initiated with the IMF with a view to reaching an agreement which would facilitate the rescheduling of the payments abroad without causing a further contraction of the

economy. Changes in fiscal policy were also announced: the deficit in the public sector would be diminished by reducing certain expenditures (especially on defence and security), exercising greater control over tax evasion, and imposing higher taxation on income and wealth, while expenditure of a social nature would be increased. Control of the government financial imbalance, with a view to moderating monetary expansion, would be one of the components of the anti-inflationary programme; its other element would be the incomes policy. A large part of the initial decisions on economic policy were concerned with the establishment of guidelines for prices. In December a substantial wage increase was granted (a growth rate in real wages of around 7% was programmed for 1984), and measures to control industrial prices were adopted. It was also decided that the exchange rate, wages, interest rates, public service charges and controlled prices should be readjusted initially on the basis of schedules announced month by month. Thus a policy of gradual deceleration was adopted, in the hope that the expectations of the private sector would gradually adjust themselves so as to reconcile a fall in the inflation rate with a rise in the activity rate.

Table 1

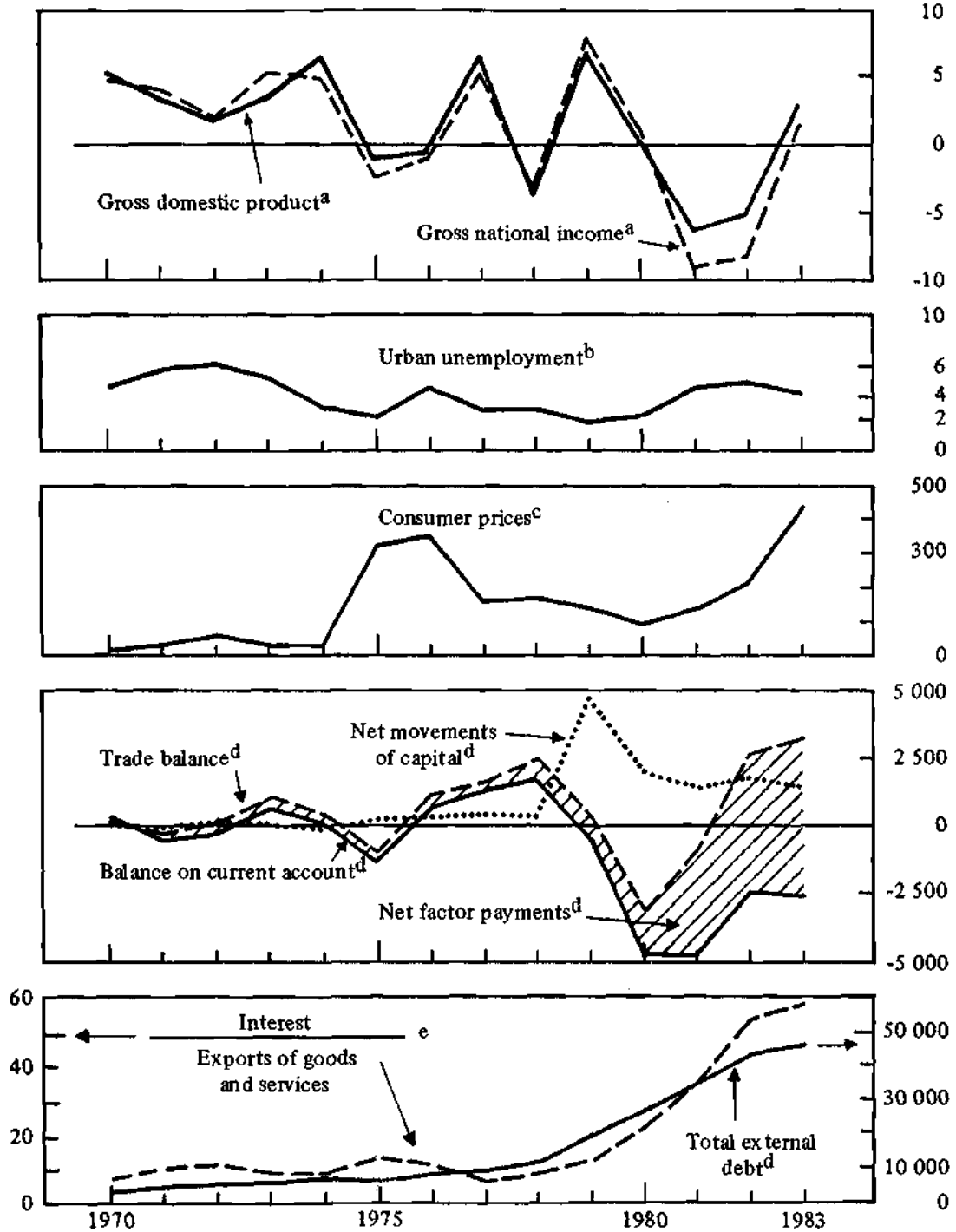
ARGENTINA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	35 047	37 397	37 675	35 326	33 453	34 388
Population (millions of inhabitants)	27.4	27.8	28.2	28.7	29.2	29.6
Per capita gross domestic product (1970 dollars)	1 282	1 346	1 334	1 231	1 147	1 161
Growth rates						
B. Short-run economic indicators						
Gross domestic product	-3.4	6.7	0.7	-6.2	-5.3	2.8
Per capita gross domestic product	-4.9	5.0	-0.9	-7.7	-6.8	1.2
Gross national income ^b	-3.4	7.6	1.8	-7.0	-7.0	2.4
Terms of trade (goods and services)	1.1	8.6	12.9	-9.2	-16.6	-2.6
Current value of exports of goods and services	13.6	22.6	7.8	9.7	-16.9	4.0
Current value of imports of goods and services	5.3	76.8	49.1	-11.2	-44.7	-4.8
Consumer prices						
December-December	169.8	139.7	87.6	131.3	209.7	433.7
Variation between annual averages	175.5	159.5	100.8	104.5	164.8	343.8
Money ^c	170.3	145.5	97.8	68.6	222.4	370.6
Industrial workers' wages ^d	170.6	198.0	120.1	81.0	145.1	446.2
Unemployment rate ^{e,f}	2.8	2.0	2.3	4.5	4.8	4.0
Current income of government	154.0	170.0	79.8	97.9	168.3	342.2
Total expenditure of government	138.9	163.2	110.6	139.2	124.5	718.6
Fiscal deficit/total expenditure of government ^g	21.7	19.7	31.4	43.3	32.2	63.4
Millions of dollars						
C. External sector						
Trade balance (goods and services)	2 520	403	-3 191	-757	2 600	3 275
Balance on current account	1 836	-535	-4 774	-4 712	-2 477	-2 571
Balance on capital account	302	4 760	2 176	1 519	1 809	1 570
Variation in net international reserves	2 236	4 424	-2 666	-3 452	-762	245
External debt ^h	12 496	19 034	27 162	35 671	43 634	45 500

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect. ^cBalances at end of year. ^dVariation between annual averages. ^eSimple average of the results of surveys for each year in the Federal Capital and Greater Buenos Aires. ^fPercentages. ^gGlobal medium and long-term external debt.

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.
^aAnnual growth rate. ^bAverage annual rate in the Federal Capital and in Greater Buenos Aires.
^dMillions of dollars. ^ePercentages.

2. Trends in economic activity

a) *Total supply and demand*

Total supply went up by 2.5% in 1983, since the growth of 2.8% in the product more than offset the drop of somewhat more than 2% in the volume of imports of goods and services. The recovery in the gross domestic product contrasted with the marked decreases it had suffered during the two preceding years (see table 2). Nonetheless, the aggregate volume of production was only similar to that of ten years earlier, which demonstrates the intensity of the recent crisis. The decline in imports, unusual in a period of increased activity, confirms the reversal of the trend towards economic openness already noted in 1982. The import coefficient, in fact, was over 40% less in 1983 than in the period 1980-1981 and was similar to that recorded, on average, in the period preceding the tariff and exchange-rate reforms of the late 1970s.

The most dynamic component of total demand was exports of goods and services, which went up in volume by almost 10%. This was influenced by the notable increase in grain sales. There was also an increase in consumption (4.7%), probably in response to the larger income of wage-earners and the negative real interest rates on bank deposits.

In contrast, investment once more declined: the drop in private construction (-12.5%) more than offset the slight recovery in public construction and in expenditure on equipment. With these results, investment in construction was at its lowest since 1970. This meant still further depression in housing construction, which was affected by financial restrictions, by the reduced public activity in this field, and possibly by uncertainty as to future rent regulations. The slight increase in public construction, for its part, should be viewed in the light of the extremely low level recorded in 1982. In fact, the increased rate of execution of some works was sufficient to produce the slight growth referred to, even though no new projects of importance were initiated. Investment in equipment

Table 2

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	39 090	35 557	36 446	106.7	111.9	106.0	3.8	-7.3	-9.0	2.5
Gross domestic product at market prices	35 326	33 453	34 388	100.0	100.0	100.0	0.7	-6.2	-5.3	2.8
Imports of goods and services ^b	3 764	2 104	2 058	6.7	11.9	6.0	40.2	-15.9	-44.1	-2.2
Total demand	39 090	35 557	36 446	106.7	111.9	106.0	3.8	-7.3	-9.0	2.5
Domestic demand	35 576	32 019	32 561	99.6	103.8	94.7	5.1	-9.0	-10.0	1.7
Gross domestic investment	6 632	5 615	4 912	21.2	22.9	14.3	7.2	-23.1	-15.3	-12.5
Gross fixed investment	6 881	5 191	5 090	21.2	22.1	14.8	3.6	-17.2	-24.6	-2.0
Construction	4 295	3 469	3 260	13.2	13.1	9.5	0.6	-13.1	-19.2	-6.0
Public	1 692	1 438	1 483	5.2	5.4	4.3	-3.2	-17.2	-15.0	3.1
Private	2 603	2 031	1 777	8.0	7.7	5.2	3.4	-10.1	-22.0	-12.5
Machinery and equipment	2 586	1 722	1 830	8.0	9.0	5.3	8.2	-23.3	-33.4	6.3
Changes in stocks	-249	424	-178	-	0.8	-0.5				
Total consumption	28 944	26 404	27 649	78.4	80.9	80.4	4.6	-5.0	-8.8	4.7
General government	4 309	4 288	...	10.3	11.6	...	1.3	-1.3	-0.5	...
Private	24 635	22 116	...	68.1	69.3	...	5.1	-5.6	-10.2	...
Exports of goods and services ^b	3 514	3 538	3 885	7.1	8.1	11.3	-10.3	14.5	0.7	9.8

Source: ECLAC, on the basis of figures supplied by the Central Bank of Argentina.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

Table 3

ARGENTINA: GROSS DOMESTIC PRODUCT, BY TYPE OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of 1970 dollars				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	33 380	31 299	29 639	30 468	100.0	100.0	100.0	0.7	-6.2	-5.3	2.8
Goods	15 621	14 088	13 651	14 263	49.0	46.8	46.8		-9.8	-3.1	4.5
Agriculture, hunting, forestry and fishing	4 223	4 325	4 603	4 638	13.2	12.7	15.2	-6.7	2.4	6.4	0.8
Mining and quarrying	835	839	833	852	2.3	2.5	2.8	3.8	0.6	-0.7	2.2
Manufacturing	8 354	7 019	6 687	7 349	27.0	25.0	24.1	-3.8	-16.0	-4.7	9.9
Construction	2 210	1 905	1 528	1 424	6.5	6.6	4.7	1.1	-13.8	-19.8	-6.8
Basic services	4 773	4 628	4 561	4 750	14.6	14.3	15.6	2.3	-3.1	-1.5	4.2
Electricity, gas and water	1 191	1 178	1 214	1 311	2.3	3.6	4.3	7.8	-1.1	3.1	8.0
Transport, storage and communications	3 582	3 450	3 347	3 439	11.3	10.7	11.3	0.6	-3.7	-3.0	2.8
Other services	12 986	12 583	11 427	11 455	37.4	38.9	37.6	5.7	-3.1	-9.2	0.2
Wholesale and retail trade											
Restaurants and hotels	4 996	4 657	3 804	3 939	15.2	15.0	12.9	5.6	-6.8	-18.3	3.6
Financial institutions, insurance, real estate and business services	3 035	2 873	2 530	2 328	7.6	9.1	7.6	12.3	-5.3	-11.9	-8.0
Ownership of dwellings	684	697	710	719	2.1	2.0	2.4	1.9	2.0	1.8	1.4
Community, social and personal services	4 955	5 053	5 093	5 188	14.6	14.8	17.1	2.2	2.0	0.8	1.9
Government services	3 174	3 205	3 278	3 326	9.8	9.5	10.9	0.8	1.0	2.3	1.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Argentina.

^aPreliminary figures.

^bAs the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

likewise grew from very depressed values. Recovery was particularly noticeable in expenditure on transport equipment (15%), probably because of the increasing obsolescence of the existing stock. Purchases of machinery, on the other hand, rose by only slightly more than 3%, mainly thanks to the greater investments of the agricultural sector and scattered increases in capacity in some industrial branches. In addition—and as a reflection of the process of import resubstitution already indicated—there was a significant change in the origin of the capital goods incorporated: there was a pronounced fall in imported goods (-19%) while purchases of nationally produced goods rose by 22%.

b) *Evolution of the main sectors*

i) *The agricultural sector.* The agricultural product grew by almost 1% in 1983. This rise was due exclusively to the increase in livestock production, since, despite the excellent grain harvest of the 1982/1983 season, the value added by crop farming actually declined slightly (see tables 3 and 4).

The components of crop farming production displayed an uneven trend: the growth registered in fruits and cereals contrasted with the stagnation in the production of green vegetables and pulses and the decline in the production of oilseeds and industrial crops.

The agricultural product assigned to 1983 in the calculation of the national accounts reflects, on the one hand, the harvesting activities of the 1982/1983 season and, on the other, the estimates of the activity on sowing, care of the crops and part of the harvesting of the 1983/1984 season. Hence, the variation in the value added does not necessarily coincide with the changes in the volume of goods marketed during the year. The discrepancy was especially marked in 1983: whereas the product generated by crop-farming activities typical of the pampa (cereals and oilseeds) declined slightly, the supply of goods of that origin reached an all-time record of 40 million tons (see table 5).

The exceptional volume of the 1982/1983 harvest was mainly due to the increased production of wheat, which came to 15 million tons. Throughout 1983 the relative prices of wheat tended to go down, as a result of the fall in the real exchange rate and international price levels (the prices in the world market declined by 20% between the sowing months of 1982 and those of 1983). As a result of this the area sown was reduced for the 1983/1984 season, and this, coupled with the smaller yields for climatic reasons, probably means a smaller supply of this cereal in 1984. In contrast, the improvement in the international prices of maize (64%), sorghum (33%), soya (15%) and sunflowerseed (20%) stimulated an increase in the areas devoted to these crops.

The fall in the product of industrial crops was due to the decline in cotton-growing, since there was increased production of sugar cane, tobacco and tea. This lower production of cotton was due to the low prices recorded in 1982 — which discouraged sowing— and to the poor yields obtained. With the fall in the supply, domestic prices rose markedly in 1983, which resulted in a considerable expansion of the area cultivated for the 1983/1984 season. As there was a general rise in domestic and international prices for industrial crops, a major increase in production is forecast for the agricultural year 1983/1984.

Table 4

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of 1970 dollars				Growth rates ^b		
	1980	1981	1982	1983 ^a	1981	1982	1983 ^a
Gross product of agricultural sector, at factor cost ^c	4 223	4 325	4 603	4 638	2.4	6.4	0.8
Crop-farming	2 386	2 570	2 814	2 807	7.8	9.4	-0.3
Stock-raising	1 695	1 627	1 648	1 685	-3.8	1.4	2.2
Fishing	27	27	34	31	-3.5	32.5	-9.9

Source: Central Bank of Argentina.

^aPreliminary figures.

^bThe growth rates were calculated on the basis of non-rounded data.

^cIncludes also agricultural construction, hunting, forestry and timber extraction.

Table 5

ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)				Production (millions of tons)		
	Average 1978/1979 1982/1983	1981/ 1982	1982/ 1983	1983/ 1984	Average 1978/1979 1982/1983	1981/ 1982	1982/ 1983
Cereals	15.7	16.8	17.6	17.1	27.0	27.1	33.7
Wheat	6.0	6.6	7.4	7.2	9.5	8.3	15.0
Sorghum	2.0	2.7	2.7	2.8	6.6	8.0	8.3
Maize	3.5	3.7	3.4	3.3	9.3	9.6	8.8
Oilseeds	4.9	4.8	5.2	5.5	6.4	6.9	6.8
Linseed	0.9	0.9	0.9	0.8	0.7	0.6	0.7
Sunflower	1.8	1.7	1.9	2.0	1.7	2.0	2.3
Soya	2.0	2.0	2.2	2.4	3.7	4.2	3.6
Total annual crops	23.5	24.4	25.7	25.7			
Total area sown	26.6	27.3	28.1	28.0			

Source: Ministry of Agriculture.

Table 6

ARGENTINA: CATTLE SLAUGHTERING AND PRICES

Season (July- June)	Stocks (millions of head) ^a	Slugh- tering (millions of head) ^b	Slaughte- ring rate (percent- age) ^c	Yield in kilo- grammes of dressed meat per head) ^d	Proportion of cows and heifers in typified slaughte- ring ^e	Annual per capita consump- tion (kilo- grammes) ^d	Prices of steers in comparison with:	
							Industrial prices ^{d/f}	Wheat prices ^{d/g}
1977-1978	59.3	15.5	26.1	197	36.1	89.0	0.73	4.07
1978-1979	59.0	16.4	27.8	195	35.5	87.8	0.82	5.16
1979-1980	56.9	13.8	24.3	204	32.8	79.1	0.95	6.48
1980-1981	55.8	14.4	25.8	203	31.9	86.7	0.71	4.86
1981-1982	54.2	14.1	26.0	203	33.4	78.8	0.71	4.15
1982-1983 ^h	52.7	11.4	21.6	210	33.1	64.0	0.89	5.67
1983-1984 ^h	53.8	12.0	22.3	208	35.5	70.0	0.80	6.30
1983-III ^h		2.7		214	31.2	64.8	0.82	5.91
IV ^h		2.8		212	31.3	71.2	0.79	7.04

Source: Ministry of Agriculture, National Meat Board and ECLAC, on the basis of Official data.

^aAt 1st July. ^bTotal slaughtering for the period. ^cSlaughtering for the period as a percentage of the stocks at 1st July.

^dAverage for the period. ^eSlaughtering controlled by the National Meat Board, which represents between 77% and 80% of the total (registered) commercial slaughtering. ^f1970 pesos. ^gKilogrammes of wheat per kilogramme of live steer.

^hPreliminary figures and projections.

Livestock production increased as a result of the build-up in stocks of cattle, but activity declined in the milk and wool sectors, while the production of poultry and eggs remained more or less stable.

Between mid-1982 and mid-1983 the stocks of cattle increased by around a million head (see table 6). This was due to a notable reduction in slaughtering (which fell from 14.1 million head in the stock-raising year 1981/1982 to 11.4 million in 1982/1983), with repercussions both on domestic consumption (which sank to 64 kg per inhabitant per year in 1982/1983 compared with 79 kg in 1981/1982) and on exports (460 000 tons compared with 565 000 tons in the preceding stock-raising year). The process of reduction of slaughtering reached its peak at the end of 1982; from then onwards slaughtering began to increase, though it did not exceed the gross additions to the stock. In the course of 1983, however, a change occurred in the composition of demand. Exports, which had become increasingly difficult to place, declined to a level representing at the end of the year an annual equivalent volume of around 300 000 tons; in contrast, domestic demand tended to strengthen, so that consumption in the fourth quarter easily exceeded 70 kg per inhabitant per year.

The relative prices of cattle had notably increased in 1982. In 1983, however, they declined, owing partly to the fall in the real exchange rate and partly to the low international prices. The recovery in sales to the domestic market in the second half of the year coincided with a fall in export demand and with a seasonal increase in supply, so that it did not affect prices. At all events, cattle prices seem to have remained at levels which encouraged the retention of stocks, particularly when compared with the prices of goods competing for the use of land, such as wheat.

In recent years there have been important changes in the pampa sector of agriculture. Between 1977 and 1982 there was an appreciable fall in the cattle stocks of this region, while the long-standing decline in stocks of sheep continued and there was only a slight growth in the area devoted to crops. All this suggests a fall in the capital assigned to production, probably associated with the rise in interest rates and the relatively unattractive rate of return obtainable in the agricultural sector. This rise had a further effect in the reduction of purchases of investment goods by the sector. The incentives for crop farming persisted in spite of the unfavourable prices, owing to the improvements recorded in productivity, which markedly increased the profitability of crop farming as compared with livestock.

This change in the relative productivity of the two subsectors seems to have continued in 1983. Nonetheless, the retention of cattle, although less marked than in former periods of recovery of stocks, seems to indicate a definite trend: the very reduction of stocks that has occurred in recent years

generates expectations of higher prices and stimulates investment in livestock areas. Additionally, the growth of cattle stocks from 1982 has not diminished the area cultivated, as happened in earlier cycles. This indicates an increase in the receptivity of farmland, in contrast with what happened in 1977-1982, a period in which, in particular, there was no renewal of pastures. Hence investment in the sector appears to be increasing: an impression which is confirmed by the appreciable rise in purchases of pesticides, fertilizers and tractors in 1983.

ii) *Mining.* The product of the mining and quarrying sector rose by 2.2% compared with the depressed values of 1982 (see table 7). Petroleum production did not change significantly, since the greater activity of Yacimientos Petrolíferos Fiscales only offset the smaller contribution of the contracting enterprises. In contrast, the amount of natural gas of local origin fed in at the head of the gas pipelines increased appreciably (15%), while the production of marketable coal declined owing to the lower yield of the coal extracted and an accident at the Rio Turbio mines.

In recent years there has been an increase in the identified reserves of natural gas, which has come to be the non-renewable energy resource in relatively greatest supply. It is planned to stimulate the replacement of oil with gas, and this has been reflected in the greater use of gas as a fuel in electric power stations and in industry and in the project for the production of synthetic naphtha; there are also plans for greater industrial use of this resource.

iii) *Manufacturing.* The recovery of almost 10% in industrial activity accounted for four-fifths of the growth registered in the total gross product. Thus in 1983, in contrast with what had been happening since 1980, industry increased its share in the aggregate product (see table 3). Nonetheless, the increase in industrial production, although it marked a definite break with the previous downward trend, only very partially offset the loss suffered during the period of contraction. As a result, the industrial gross domestic product in 1983 was still lower than that of any year between 1971 and 1980.

There were two main causes for the increase in production: on the one hand, the renewal of domestic demand, particularly for durable consumer goods; on the other, the resubstitution of imports, which had already begun to take place in the previous year. Thus, purchases abroad of final goods went down appreciably, in response to the higher relative price of foreign exchange (compared with that of the period of "exchange lag") and to the ever-increasing administrative restrictions. This enabled local industry to increase its share in the market. Moreover, both the rising prices of imports and the expectation of a continued scarcity of foreign exchange seem to have induced many enterprises to turn to local producers of inputs, in order to ensure a stable supply.

Thus there has been a partial reversal of the effects of the tariff liberalization and the overvaluation of the exchange rate subsequent to 1978. Even so, the consequences of those policies have continued to condition industrial growth.

On the one hand, the resubstitution of the last two years has reduced competing imports to a minimum; the remaining purchases abroad consist of intermediate and capital goods not produced

Table 7

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates ^b		
					1981	1982	1983 ^a
Gross mining product at factor cost (millions of 1970 dollars)	835	839	833	852	0.6	-0.7	2.2
Production of some important minerals							
Petroleum ^c	28.6	28.9	28.5	28.5	1.0	-1.4	-
Marketable coal ^d	389	498	515	486	28.0	3.4	-5.6
Injected gas ^e	7 981	8 182	9 786	11 224	2.5	19.6	14.7

Source: Central Bank of Argentina and Department of Fuels.

^aPreliminary figures.

^bThe growth rates were calculated on the basis of non-rounded figures.

^cMillions of

m³.

^dThousands of tons.

^eAfter deduction of imports.

locally, which are complementary to the activity of the national industries. Thus it is probable that in the future the traditional positive association between local production and imports will be restored: in that case the supply of foreign exchange, limited by the payments of the external debt, would be one of the main constraints on expansion.

On the other hand, the intense contractive forces operating in recent years led to a certain disarticulation of the industrial system: a portion of its capital assets was scrapped —although some sectors increased their capacity and there was a certain advance in the application of more modern technologies— while numerous firms suffered setbacks and either closed down or drastically reduced their quota of specialized personnel. These losses affect the capacity of recovery of industry.

Moreover, the prolonged crisis of the sector led to the overindebtedness of many firms, even though this was to some extent corrected by the decline in the real value of debts in the regulated segment of the credit market, which took place in the latter part of 1982 and in 1983. Notwithstanding, the extremely high interest rates outside the banking system indicate that difficulties in the financing of current production and investment still remain.

It is probable that the instability that has characterized the Argentine economy also constitutes a brake on sustained recovery. In the course of 1983 industrial production did not grow continuously, but fluctuated month by month and tended to slow down towards the end of the year. The variability in demand deriving from erratic price movements, and the changes in the incentives to maintain stocks caused by the trends of interest rates and the inflationary expectations of the entrepreneurs themselves, might partly explain this behaviour.

The relative prices of the different sectors of industry also registered fluctuations. At all events, the ratio between prices and variable costs seems to have tended to narrow during the first nine months of the year, since the rapid increase in wages more than offset the lower real values of agricultural and imported inputs. The price-fixing policy of the enterprises was also influenced by the existence of controls which, although not rigorously applied, appear to have had a moderating effect during the first part of the year. However, the prospect of a stricter policy on the part of the new authorities gave rise to "pre-emptive" price increases over and above the rise in costs during the last quarter.

The most dynamic industrial branches in 1983 were machinery and equipment and textiles, which had already given signs of recovery in the second half of the preceding year. There was a general growth of activity, however: all the subsectors increased their production except the wood industry (see table 8).

The food sector registered a slight increase, although continuing to operate at very low levels. The slaughtering of beef cattle went down by 5.3%, as a result of the reconstitution of cattle stocks already mentioned and the fall in exports. The drop in sales abroad particularly affected the frozen meat industry, to the extent of causing the closure of some cold-storage plants. In contrast, the other food industries experienced a marked improvement of close on 5%, which was probably induced by the greater demand of wage-earners and the ample supply of various agricultural raw materials. This last explains in particular the excellent results registered in the production of vegetable oils.

The textile industry grew by 14%, although its product was still 20% lower than in 1970. There was a greater demand for articles of clothing, which also affected the production of intermediate goods, thanks to the substitution of imports.

As mentioned above, the wood industry was the only one which recorded a decline. This was due both to the shrinkage of demand (associated with the sluggishness of construction) and to difficulties in the supply of raw materials: there were serious floods in the forestry areas and problems in the acquisition of imported woods.

The production of the paper and printing branch, which had already increased in 1982, increased again by 5.5%. In this branch there was rapid substitution of imports; in particular, the starting up of a new plant at the end of 1982 contributed to the notable increase in the production of pulp and paper recorded during the year.

The resubstitution of imports also explains in part the growth of the chemical industry. The domestic demand for these goods was increased, in addition, by the demand for inputs by the other industrial activities and by the growth of purchases of agricultural chemicals by the rural sector. In the petrochemical industry there was considerable use of the installed capacity, owing to the increased sales to the domestic market and to the export of basic products; however, more highly processed products continued to be imported.

The iron and steel sector continued to stagnate in its primary stages —output of pig iron and sponge iron declined by almost 1.5% and that of crude steel grew by barely 0.4%— but there was an increase in the production of rolled goods. There was only a slight increase in the output of non-flat rolled products, in keeping with the reduced demand of the construction sector, but there was a marked rise in the output of flat rolled products to supply the other machinery and equipment industries. Exports, which had come to be appreciable, declined in 1983 owing to the shrinkage of international markets; towards the end of the year the United States applied restrictive measures against sales of Argentine products. Production of non-ferrous metals increased in 1983, with particularly notable growth in the output of aluminium.

The metal-products industries showed a generalized increase, both in the branches supplying the capital goods market and in those that produce durable consumer goods. In the first case, the outstanding feature was the rise of 70% in the manufacture of tractors, attributable to the increased agricultural income and to the need to renew existing resources after several years of very low investment. The motor-vehicle industry, for its part, increased its production by almost 21%, owing to the greater sales of commercial vehicles and of cars, especially those of larger size. Despite this, the sales of motor vehicles were the lowest since 1970, with the sole exception of the year 1982. A similar trend was observed in the production of domestic electrical appliances, the value of which increased, but without recovering the levels recorded before the recession.

iv) *Construction.* The product of the construction sector declined for the third year running, this time by almost 7% (see table 3). This represented a continuation of the declining trend which had begun in 1978 and was only interrupted by a slight recovery in 1980. As a result, the construction product in 1983 came to only 60% of its maximum historical value and was 10% lower than that of ten years earlier.

The fall recorded in 1983 was due entirely to the deterioration in the private construction sector (-16%) since activity in public works experienced a slight increase (3%). The latter was not the result of the execution of important projects, since there were once again severe budgetary restrictions; the

Table 8

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates ^b		
					1981	1982	1983 ^a
Gross manufacturing product at factor cost (millions of 1970 dollars)	8 354	7 019	6 687	7 349	-16.0	-4.7	9.9
Food	1 817	1 745	1 584	1 644	-3.9	-9.2	3.8
Textiles	834	668	658	753	-20.1	-1.0	14.1
Wood	149	132	112	102	-12.9	-15.3	-7.6
Paper	414	339	359	376	-18.2	5.5	5.5
Chemicals	1 238	1 146	1 133	1 241	-7.4	-1.3	9.5
Non-metallic minerals	451	373	336	380	-17.6	-9.3	12.4
Basic metal industries	464	403	454	478	-13.0	12.4	5.0
Machinery and equipment	2 411	1 728	1 590	1 868	-28.1	-8.2	17.6
Other industries	576	485	461	508	-16.0	-4.7	9.9
Production of some important manufactures							
Pig iron ^{c,d}	1 793	1 720	1 894	1 867	-4.1	-10.1	-1.4
Crude steel ^c	2 702	2 527	2 913	2 925	-6.5	15.3	0.4
Finished rolled products ^{c,e}	2 643	2 193	2 667	2 814	-17.0	21.6	5.5
Motor vehicles ^f	282	172	132	160	-39.0	-23.3	21.2
Tractors ^{g,h}	3 481	1 506	2 826	7 428	-56.7	87.6	162.8

Source: Central Bank of Argentina; Centro de Industriales Metalúrgicos; Asociación de Fabricantes Automotores, and Asociación de Fabricantes Tractores.

^a Preliminary figures. ^b The growth rates were calculated on the basis of non-rounded figures. ^c Thousands of tons. ^d Includes sponge iron. ^e Total of finished rolled products in terms of hot-rolled products. ^f Thousands of units. ^g Number of units sold. ^h Sold on the domestic market.

Table 9

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1981	1982	1983 ^a	Growth rates		
					1981	1982	1983 ^a
Construction permits granted^b							
Federal capital	1 634	1 430	1 016	781	-12.5	-29.0	-23.1
Paraná	480	224	146	180 ^c	-53.3	-34.8	...
Rosario	630	424	362	328 ^c	-32.7	-14.6	...
Salta	231	166	150	133	-28.1	-9.6	-11.3
Santa Fe	164	162	83	162	-1.2	-48.8	95.2
Supply of some construction materials							
Deliveries of cement (to the domestic market)^d							
Public works	7 104	6 535	5 394	5 518	-8.0	-17.5	2.3
Private works	1 899	1 794	1 225	972	-5.5	-31.7	-20.7
Private works	5 205	4 741	4 169	4 546	-8.9	-12.1	9.0
Deliveries (to the domestic market) of steel products for reinforced and prestressed concrete^d							
	539	396	324	310	-26.5	-18.2	-4.3

Source: National Institute of Statistics and Censuses; Asociación de Fabricantes de Cemento Portland, and Instituto Argentino de Siderurgia.
^aPreliminary figures. ^bThousands of square metres. ^cFirst 11 months. ^dThousands of tons.

increase seems rather attributable to progress on construction projects already begun and to increased expenditure in some provinces.

Housing construction continued depressed, despite the tax incentives for the purchase of new houses. Official activity in the housing field did not show any significant recovery. The demand of the private sector, for its part, was affected by the scarcity of finance and probably also by uncertainty as to the future rent regulations. The reduced demand was reflected in the drop in building permits granted, which was particularly acute in the Federal Capital (see table 9). Furthermore, the sale prices of housing declined in relation to the costs of construction, especially in the latter part of the year.

v) *Electricity.* The generation of electric energy grew by more than 7%: there was increased production in hydroelectric and nuclear power stations, which offset the fall in generation by thermal sources, whose share of total production fell to approximately 42%. In the course of 1983 several important additions were made to the generating facilities: the hydroelectric stations of Agua del Toro and Los Reyunos and the nuclear power station of Embalse Río III were put into operation, while several thermal plants were enlarged.

3. The external sector

a) *General evolution, and financing of the balance-of-payments deficit*

In 1983 trade in goods registered a surplus of somewhat more than US\$ 3 600 million, equivalent to close on 47% of the value of exports (see table 10). This was possible owing to a reduction of almost 16% in purchases of goods, and was achieved despite the unfavourable evolution of the international markets —which caused a new fall in the terms of trade of nearly 3%— and the difficulties in finding a market for exports, especially those of meat and industrial products. The merchandise trade result therefore reflects an appreciable savings effort. Nevertheless, it only managed to offset two-thirds of the deficit generated by the servicing of debts. This deficit rose to close on US\$ 5 400 million and its main component —net interest payments— amounted in 1983 to more than half the value of exports of goods and services (see table 11).

This heavy burden and rapid growth of interest payments had two causes: the large amount and rapid increase of the external debt (which in 1982 equalled more than five years of export income and around 50% of the annual product), and the very high international interest rates. The combined

Table 10

ARGENTINA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	1 127	1836	-535	-4 774	-4 712	-2 477	-2 571
Trade balance	1 877	2 520	403	-3 191	-757	2 600	3 275
Exports of goods and services	6 588	7 483	9 177	9 891	10 854	9 022	9 386
Goods FOB	5 650	6 401	7 810	8 022	9 142	7 598	7 710
Real services ^b	935	1 083	1 366	1 870	1 710	1 422	1 676
Transport and insurance	439	475	605	810	887	682	568
Travel	212	278	266	345	413	516	434
Imports of goods and services	4 711	4 962	8 774	13 081	11 610	6 422	6 111
Goods FOB	3 799	3 488	6 027	9 394	8 432	4 873	4 100
Real services ^b	912	1 474	2 745	3 688	3 180	1 550	2 011
Transport and insurance	459	510	905	1 271	1 164	6 49	600
Travel	188	588	1 266	1 792	1 472	566	519
Factor services	-782	-734	-973	-1 607	-3 932	-5 107	-5 861
Profits	-368	-274	-428	-585	-738	-351	-418
Interest received	128	315	681	1 229	887	525	500
Interest paid	-499	-720	-1 175	-2 175	-3 851	-4 930	-5 479
Others	-41	-54	-52	-76	-233	-351	-464
Unrequited private transfer payments	33	48	35	23	-21	32	15
Balance on capital account	719	302	4 760	2 176	1 519	1 809	1 570
Unrequited official transfer payments	-1	21	22	-	-	-	-
Long-term capital	476	1 520	3 156	4 492	9 965	3 788	455
Direct investment (net)	144	273	265	788	943	270	180
Portfolio investment (net)	-	102	223	153	1 123	3 028	...
Other long-term capital	332	1 145	2 667	3 550	7 899	491	...
Official sector ^c	-203	-954	-	478	962	-29	...
Loans disbursed	99	47	50	510	1 034	227	...
Amortization payments	-210	-914	-43	-36	-48	-208	...
Commercial banks ^c	63	101	198	-65	363	268	...
Loans disbursed	66	124	236	89	399	812	...
Amortization payments	-3	-22	-37	-155	-37	-542	...
Other sectors ^c	472	1 997	2 470	3 138	6 574	251	...
Loans disbursed	1 047	3 745	3 157	4 231	8 795	2 761	...
Amortization payments	-575	-1 588	-857	-1 229	-1 696	-2 097	...
Short-term capital	109	-1 246	1 341	-2 011	-8 244	-1 708	1 410
Official sector	-399	335	180	313	299	2 682	...
Commercial banks	20	-27	-286	-365	24	304	...
Other sectors	488	-1 554	1 447	-1 958	-8 567	-4 693	...
Errors and omissions (net)	135	9	243	-307	-205	-273	-295
Global balance ^d	1 846	2 138	4 225	-2 598	-3 193	-668	-1 001
Total variation in reserves (- sign indicates an increase)	-1 827	-2 236	-4 424	2 666	3 452	762	-245
Monetary gold	-7	-4	-3	-1	-	-	...
Special Drawing Rights	1	-121	-116	-1	-76	404	-
IMF reserve position	-	-169	-34	-133	57	178	100
Foreign exchange assets	-1 710	-1 522	-4 272	2 801	3 471	180	1 234
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	-111	-419	-	-	-	-	1 173

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, (magnetic tape, May 1984); 1983: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Real services also include other official and private transactions, but not factor services.

^c In addition to

loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The global

balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 11

ARGENTINA: REGISTERED EXTERNAL DEBT (AT END OF YEAR)

	1978	1979	1980	1981	1982 ^a	1983 ^{ab}
Millions of dollars						
Total	12 496	19 034	27 162	35 671	43 634	45 500
Public	8 357	9 960	14 459	20 024	28 616	...
Private	4 139	9 074	12 703	15 647	15 018	...
Percentages						
Coefficients						
External debt/exports of goods and services	167	207	275	329	484	485
Net interest/exports of goods and services	5	5	10	27	49	53
Debt falling due within the next two years	53	56	60	58	59	...

Source: Central Bank of Argentina.

^aIncludes the registered external debt plus arrears for other items.^bPreliminary estimates.

effect of these two circumstances was to increase the vulnerability of the economy in the face of changes in the international credit markets. On the one hand, the level of real interest rates —unusually high in relation to historical values, and also aggravated by the appreciable spreads applied to the debts of countries like Argentina— hampers the repayment of the capital; on the other hand, the magnitude of debt servicing causes the availability of the foreign exchange required to sustain domestic growth to be very sensitive to variations in the cost of credit. Hence it is doubtful whether the present conditions of external financing are compatible with development.

As a result of the heavy burden of payments of interest and profits, the balance-of-payments current account had a deficit of almost US\$ 2 600 million. Capital movements produced a net income of around US\$ 1 600 million, which may be attributed to the procurement of new compensatory loans on the part of the Central Bank and to the issue of external bonds, but on the other hand the inflow of capital to public enterprises was only small and the operations of the private sector produced a net outflow of capital. Despite the fact that capital transactions did not offset the deficit on current account, there was an increase in the international reserves owing to a variation in counterpart items arising from the revaluation of the gold reserves of the Central Bank (see table 10).

The economic policy aimed at balancing the external accounts had three main aspects: the negotiations for refinancing the debt, the management of the exchange rate and the administration of external trade.

At the end of 1982 the external debt situation was causing urgent problems: there would be a large number of maturities in the near future; it was foreseeable that the interest to be paid would exceed the surplus obtainable from the trade in goods, and arrears of payment had built up. The authorities sought to arrange refinancing through agreements with the IMF and with the private international banks. In this way a crisis in the payments situation was avoided. Nevertheless, the negotiations were difficult and their results were only provisional. Thus, at the end of the year, the new government faced another round of hard bargaining with the creditors.

In the last days of 1982 a credit of US\$ 1 100 million was agreed with a group of banks with a view to regularizing the arrears of payment. The interest rate on this loan was fixed with a spread of 1.75% over LIBOR,¹ and disbursement was made conditional on the signing of a stand-by agreement with the IMF. This agreement, which was concluded in January 1983, included a line of credit for US\$ 1 620 million, along with a loan of US\$ 580 million in compensation for the fall in exports.

¹When the agreed commission and other expenses are included, the spread amounted to close to three percentage points.

Fulfilment of the economic policy goals established with the IMF was one of the conditions for a further loan of US\$ 1 500 million negotiated the previous year with the creditor banks. The disbursement of these credits was not fully realized, not only because the government did not succeed in carrying out the programme agreed with the IMF, but also because the negotiations with private creditors ran into legal and political difficulties. In particular, delicate situations arose in connection with the bankruptcy law, which accorded priority to domestic creditors, and also in respect of the tribunals to which possible litigation would be submitted. This last point paralysed the refinancing of the debt of the public enterprises, since a ruling of a local court prohibited the signing of contracts that would involve the submission of disputes to non-Argentine courts.

The rescheduling of the loans obtained by the private sector with exchange insurance also ran into difficulties. Finally, a large part of these debts was taken over by the State, which issued bonds for a five-year term for close on US\$ 5 500 million. A similar system was used to regularize the US\$ 1 500 million of "swap" transactions. In this case, the debts were refinanced for a three-year period. Thus, although an appreciable part of the external debt was originally contracted by the private sector, a growing portion of the commitments with the exterior was taken over by the government.

The programme agreed with the IMF provided that the exchange rate would remain more or less stable in real terms and that foreign exchange transactions would be gradually liberalized during the year. In the event, the devaluation rate was lower than the rise in domestic prices, especially in the first half of 1983, even though the real exchange rate remained substantially higher than during the "exchange lag" period of 1979-1981 (see table 12). On the other hand, in the first part of the year there was some relaxation of exchange controls: the minimum period for import payments was reduced and the remittance of profits, dividends and royalties was permitted through the use of external bonds. Nevertheless, restrictions were subsequently reimposed; indeed, the crisis already mentioned in the negotiations on the official debt led in October to a virtual suspension of payments abroad.

The variable evolution of the exchange regulations and of the negotiations with foreign creditors was reflected in the parallel foreign exchange market. The exchange rate in this market grew more slowly than the official exchange rate in the first half of the year, so that the gap between the quotations of the dollar in the two markets fell to less than 20% in June, but the differential increased sharply in the following months and went up to over 75% towards the end of October. After the elections, however, there was a fall in the demand for foreign exchange, as a result of which between October and the end of the year the parallel exchange rate declined in nominal figures, bringing the exchange gap down to around 15%. Thus, although with differing intensity during the year, there continued to be incentives for the evasion of exchange controls, and the possibility that there have been over- or underdeclarations of transactions in foreign exchange should be taken into account in interpreting the figures on external trade.

Table 12

ARGENTINA: EVOLUTION OF THE EXCHANGE RATE AND PRICES^{a,b}

	Exchange rate (pesos per dollars) ^c	Index of trade prices (dollars)		Relative prices ^d	
		Exports	Imports	Of exported goods	Of imported goods
1980	0.184	135.1	155.7	56.5	64.8
1981	0.442	134.5	148.1	60.6	67.3
1982	2 193	113.5	139.7	74.8	91.8
1983	10 546	106.1 ^e	133.6 ^e	78.5 ^e	98.3 ^e

Source: ECLAC Office in Buenos Aires, on the basis of official data.

^aAll the indexes have as their base 1974=100.

^bExcluding adjustments for taxes, surcharges, reimbursements or other fiscal or financial incentives.

^cFrom 13 September 1982 this includes the effective exchange rate which resulted from a combination of the trade exchange rate (85%) and financial exchange rate (15%). From 1 October 1982 the weightings were 80% and 20% respectively. From November 1982 a single exchange rate has been applied once more.

^dThe deflator employed is the wholesale price index of non-agricultural domestic goods. The annual values are simple averages of quarterly relative prices. In the base year, 1974, multiple exchange rates were in force. The indexes have been calculated with reference to the "combined" rates for non-promoted exports and for imports.

^ePreliminary figures.

Table 13

ARGENTINA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods						
Value	13.3	22.0	2.7	14.0	-16.9	1.5
Volume	9.5	-1.2	-12.6	16.8	-5.6	9.6
Unit value	3.5	23.6	17.5	-2.4	-12.0	-7.4
Imports of goods						
Value	-8.2	72.8	55.9	-10.2	-42.2	-15.9
Volume	18.0	40.8	54.5	-12.4	-39.1	-12.0
Unit value	12.0	22.7	0.9	2.4	-5.1	-4.4
Terms of trade (goods)	-7.4	1.5	16.2	-5.4	-7.7	-3.3
Indexes (1970 = 100)						
Terms of trade (goods)	79.9	81.1	94.2	89.1	82.2	79.5
Purchasing power of exports of goods	136.8	137.1	139.1	153.8	133.9	142.0
Purchasing power of exports of goods and services	150.4	158.7	160.8	167.3	140.5	150.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

b) *External trade*

i) *Exports.* After the sharp fall suffered the previous year, the value of exports of goods rose by 1.5% in 1983. This increase was due entirely to the expansion of almost 10% in the volume of sales, which more than offset the considerable fall which occurred once again in their unit value (see table 13).

The growth in exports was due to the bigger sales of products of agricultural origin, which increased remarkably to over 60% of total sales. In particular, there was a notable increase in exports of cereals (see table 14). Wheat sales were especially high as a result of the record harvest obtained in the 1982/1983 agricultural year. There was also an increase in sales of maize, but the volume of sorghum exported declined slightly. On average, cereal prices showed only a very slight variation in relation to the 1982 values, for the drop in the price of wheat offset the rise in those of maize and sorghum. Towards the end of the year, however, there was a rapid improvement in prices, probably caused by the reduction in the supply from North America. There was also some recovery in oilseed prices towards the end of 1983 and this, coupled with the abundant domestic supply of raw materials, contributed to the 12% increase in the value of exports of this item.

In contrast, there was a pronounced fall in the sales of products of stock-raising origin. Exports of meat in particular suffered a sharp decline for the third year running, and their value did not reach US\$ 600 million, compared with a total of almost US\$ 1 000 million registered three years previously. This was mainly due to the contraction in external demand and to the policy of the EEC, which not only appreciably reduced its imports of Argentine meat, but has also begun to compete in third-country markets with highly subsidized products.

During 1983 there was also a sharp fall (-28%) in the value of industrial exports, as a result of decreases in both their volume and average prices. Moreover, the contraction in the value of sales extended to all the main groups of products. The main causes of this decline were the reduced demand from other Latin American countries and the recovery of the domestic market. There was a pronounced decline in exports of iron and steel products, which, as already stated, suffered from depressed international demand and also, towards the end of the year, the imposition of restrictive measures by the United States. There was likewise a decline in sales of processed foods, owing to the drastic fall in their prices. On the other hand, the prices of chemical products went up, though not enough to offset the contraction in the volumes exported.

ii) *Imports.* The value of imports of goods went down for the third year running, this time by 16% (see table 15). This fall was not due to a lower level of activity, but rather to the substitution of imported products prompted by the successive devaluations, the administrative controls, and apparently also the increasing difficulty in obtaining commercial credit from abroad.

As happened in the two preceding years, the most marked decreases occurred in purchases of final goods. Thus, imports of consumer goods came to only US\$ 240 million, whereas in 1980 they had amounted to close on US\$ 1 900 million. Thus, external purchases of durable consumer goods which compete with local products, and which had previously been stimulated by a policy of tariff reduction, were reduced to a minimum. There was also a further sharp fall (-15%) in imports of capital goods, so that their volume barely exceeded a third of the value they had achieved in 1980 (see table 15).

For their part, imports of intermediate goods suffered a decline (-8% with respect to 1982 and -40% with respect to 1980) which was generalized but less abrupt than that of the other groups of products. This was partly due to the recovery of local supply and also to some reduction in stocks which apparently took place towards the end of the year.

The import régime aimed to reconcile an adequate supply of inputs for local industry with discouragement of purchases abroad. Requirements for prior authorization and minimum payment periods were applied (although importers could make purchases by using external bonds or their own funds already placed abroad). The restrictions were increased in October, as a result of the failure of the negotiations on the external debt. This meant that the difficulties in obtaining letters of credit also increased. At the end of the year the new government established a temporary system for imports. Three lists of products were defined: the first comprised products regarded as essential, imports of which would be authorized almost automatically; the second list would require prior permission; while imports of the products on the third list were provisionally suspended.

Table 14

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS

	Millions of dollars at current prices			Percentage breakdown			Growth rates		
	1981	1982	1983 ^a	1970	1980	1983 ^a	1981	1982	1983 ^a
Total	9 144	7 625	7 721	100.0	100.0	100.0	14.0	-16.6	1.3
Agricultural products	6 799	5 297	6 051	86.4	73.4	78.4	15.4	-22.1	14.2
Livestock products	1 799	1 464	1 143	39.5	21.8	14.8	2.7	-18.6	-21.9
Meat	932	806	589	24.9	12.1	7.6	-3.8	-13.5	-26.9
Wool, animal hair and horsehair	338	234	193	4.9	3.5	2.5	18.2	-30.8	-17.5
Hides and skins	388	298	247	5.5	4.5	3.2	6.9	-23.2	-17.1
Other livestock products	141	126	114	4.2	1.7	1.5	5.2	-10.6	-9.5
Crop-raising products	4 863	3 645	4 762	46.7	49.8	61.7	21.6	-25.0	30.6
Cereals	2 920	1 903	2 966	31.0	21.7	38.4	67.6	-34.8	55.9
Oilseeds	1 184	1 161	1 300	8.0	16.6	16.8	-10.9	-1.9	12.0
Other crop-raising products	759	581	496	7.7	11.5	6.4	-18.1	-23.5	-14.6
Fishery products	137	188	146	0.2	1.8	1.9	-2.8	37.2	-22.3
Industrial products	2 345	2 328	1 670	13.6	26.6	21.6	10.1	-0.7	-28.3
Fuels	618	551	363	0.4	3.5	4.7	120.7	-10.8	-34.1
Other industrial products	1 727	1 777	1 307	13.2	23.1	16.9	-6.6	2.9	-26.5

Source: ECLAC Office in Buenos Aires, on the basis of official figures.

^aPreliminary figures.

Table 15

ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS

	Millions of dollars at current prices				Percentage breakdown			Growth rates		
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1981	1982	1983 ^a
Total	10 541	9 430	5 337	4 564	100.0	100.0	100.0	-10.6	-43.4	-14.5
Capital goods	2 392	2 059	950	810	21.5	22.7	17.7	-13.9	-53.9	-14.7
Fuels and lubricants	1 172	1 031	688	460	4.8	11.1	10.1	-12.0	-33.3	-33.1
Intermediate goods	5 120	4 708	3 304	3 054	68.9	48.6	66.9	-8.0	-29.8	-7.6
Chemical products, plastics and rubber	1 360	1 272	1 086	1 100	15.3	12.9	24.1	-6.5	-14.6	1.3
Paper and pulp	305	288	175	160	5.9	2.9	3.5	-5.6	-39.2	-8.6
Metals and metal prod- ucts, electrical equipment and components, spare parts machinery and transport equipment	2 308	2 224	1 505	1 240	32.6	21.9	27.2	-3.6	-32.3	-17.6
Other intermediate goods	1 147	924	538	554	15.1	10.9	12.1	-19.4	-41.8	3.0
Consumer goods	1 857	1 632	395	240	4.8	17.6	5.3	-12.1	-75.8	-39.2

Source: Central Bank of Argentina and ECLAC Office in Buenos Aires.

^aPreliminary figures.

4. Prices, wages and employment

a) Prices

The rate of inflation accelerated again in 1983, until it reached the highest annual values ever recorded: the consumer price index rose by 434%, while wholesale prices increased by 411% (see table 16). Throughout the year, moreover, there was a clear upward trend in the variation of prices. Thus, in the first six months, the CPI increased at an average rate of around 12.5% per month, but the figure rose to over 17% in the second half of 1983.

Argentina has known periods in which the inflation rates have been extremely high; in some cases the growth in prices even exceeded 50% per month. These brusque increases were generally associated with sudden changes in economic policy, which signified drastic adjustments in the exchange rate. This was not the case in 1983; in fact, it is difficult to identify a single "shock" as the sole cause of the sharp rise in prices. The inflation in 1983 was rather the result of a confused process in which the political weakness of the government was combined with social pressures and the absence of clear guidelines for the expectations of the individual agents.

In the first part of the year the economic policy aimed at a gradual slowdown of inflation. The agreement signed with the IMF put limits on monetary and fiscal expansion, and these were initially observed. At the same time, wages, the exchange rate and public service charges went up month by month, according to a system which took into account the inflation rate registered and official estimates of the future growth of prices. Likewise a system of control was established on the prices of the larger enterprises, which were compensated by being given credit facilities at the regulated interest rate.

Although it continued to display sharp fluctuations, the inflation rate declined for some months: thus, in May the monthly variation of the CPI fell below 10% for the first time since mid-1982. Even so, this did not suffice to produce expectations of greater stability, since both the evolution of prices and the economic policy itself seemed subject to changes which were difficult to foresee. The rise in the price of meat in June, owing in part to seasonal factors, contributed to a further rise in the rate of variation of the CPI and produced expectations of new increases. In addition, as the moment of the elections approached, the fragility of the anti-inflationary policy became manifest: the fiscal deficit increased appreciably (exceeding the terms of the agreement with the IMF), wage increases

accelerated, and the sharp rise in the parallel exchange rate further strengthened, the spiralling upward trend. Moreover, the prospect of the application of stricter controls by the new authorities created incentives to make pre-emptive price increases. Thus, as of September there was a general upsurge of inflation. The growth rate of the CPI exceeded 20% in that month and came close to that figure two months later.

The variability of the inflation was linked with probably erratic changes in relative prices. Nonetheless, some pattern can be identified in the movements during 1983. Prices of industrial goods, in particular, rose more rapidly than those of imported products and goods of agricultural origin (see table 16). This was partly due to the lag in the devaluation rate in relation to price increases, to the adjustments of industrial prices in anticipation of more rigid controls, and also to an increased supply of beef. The relative prices of public services, for their part, which had originally been increased as a policy objective, were indeed higher than the average for 1982, but they declined in the latter part of the year owing to the decision of the outgoing authorities to avoid social tensions in the period prior to the elections and the transfer of government.

b) *Wages and employment*

Real wages rose substantially in 1983, after a prolonged period in which they had suffered serious losses. The recovery was general, being observable both in industrial wages and in the service and public administration sectors: thus, while the real average wage of workers in manufacturing increased by around 23%, that of public employees rose by over 17% (see table 17).

This behaviour was probably due to two main factors. In the first place, the increase in activity, especially in the manufacturing sector, increased the demand for labour. In the second place, the trade unions were able to act with fewer constraints, so that they succeeded in exerting sufficient pressure to obtain rises in remunerations. Hence, the income policy that the government had proposed to adopt to regulate wages was forced to yield in the face of these heavy pressures.

Table 16

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983
Variation from December to December				
Consumer prices	87.6	131.3	209.7	433.7
Food and beverages	81.7	135.8	218.4	415.2
Clothing	54.8	104.8	289.4	486.7
Housing, fuel and electricity	109.0	111.8	181.2	512.1
Wholesale prices	57.5	180.2	311.3	411.3
Imported products	59.6	237.5	497.3	342.2
Domestic products	57.4	177.5	300.7	416.4
Agricultural	36.1	212.8	314.0	389.5
Manufactures	65.4	166.6	295.9	426.6
Variation between annual average				
Consumer prices	100.8	104.5	164.8	343.8
Food and beverages	95.1	99.2	178.4	339.0
Clothing	69.1	81.4	188.3	411.3
Housing, fuel and electricity	104.6	111.1	133.8	366.2
Wholesale prices	75.4	109.6	256.2	360.8
Imported products	74.5	157.7	377.1	335.7
Domestic products	75.5	107.4	249.2	362.8
Agricultural	63.0	93.9	293.2	373.1
Manufactures	80.4	112.2	234.8	358.8

Source: National Institute of Statistics and Censuses.

Table 17

ARGENTINA: EVOLUTION OF WAGES AND SALARIES

	1979	1980	1981	1982	1983 ^a
Average real wage of manufacturing workers					
Variation between annual averages	14.8	12.0	-10.2	-10.5	22.6
Variation December-December	22.5	7.0	-15.8	5.0	9.3
Average real salary of public employees					
Variation between annual averages	1.0	33.7	-3.8	-19.9	17.2
Variation December-December	3.5	32.3	-6.0	-5.3	18.5

Source: ECLAC Office in Buenos Aires, on the basis of official data.

^aPreliminary figures.

Table 18

ARGENTINA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980		1981		1982		1983	
	April	October	April	October	April	October	April	October
Unemployment rates								
Capital and Greater Buenos Aires	2.3	2.2	4.0	5.0	5.7	3.8	4.9	3.1
Córdoba	2.1	2.7	2.9	4.7	4.8	3.9	4.3	5.5
Greater Mendoza	1.4	3.1	4.2	5.3	4.8	3.3	4.5	4.5
Greater Rosario	4.3	2.4	4.9	6.5	8.4	8.0	6.3	...
Greater Tucumán	6.3	8.3	8.8	10.6	11.0	8.7	9.6	7.4
Employment indexes (1970 = 100)								
Manufacturing	95.6	88.2	77.1		73.0		75.4	
Public sector (at 1 January)	114.2	112.3	111.4		112.8		112.0	

Source: National Institute of Statistics and Censuses and Ministry of the Economy.

^aPreliminary figures.

The new authorities, for their part, increased all wages in December by a fixed sum which substantially raised the wages of the lower-income strata. At the same time a change was made in the method of calculating the complementary annual salary, which also meant an appreciable rise in the remunerations received at the end of the year. The authorities also announced a policy of monthly adjustments with a view to raising real wages by around 7% in 1984.

In keeping with the improvement in the level of activity, during 1983 there was a rise in employment of labour. The average unemployment rate in Greater Buenos Aires fell to 4% in comparison with the 4.7% rate recorded in 1982, and in October it even dropped to 3.1% (see table 18). There was also a fall in underemployment. Employment in manufacturing, however, increased only slightly (3.3%), although the growth in the number of hours worked was somewhat greater. This suggests that business was cautious in taking on new personnel. Furthermore, the drastic fall in manufacturing employment throughout several years seems to have reduced the supply of labour for that sector.

5. Monetary and fiscal policy

a) *Monetary policy*

The money supply (measured as M_2) increased appreciably faster in 1983 than in the previous years; even so, its growth of 405% was slightly lower than the rise in prices. The amount of currency outside banks, for its part, grew by 370% (see table 19).

Transactions with the external sector were once again a factor of absorption; hence the monetary expansion was due entirely to the growth of domestic credit. The public sector in particular greatly increased its indebtedness with the monetary system, both through the increase in actual loans and through the deficit on the Monetary Regulation Account (that is to say, on the payments made by the Central Bank to financial institutions in compensation for the compulsory reserves), which is computed as a credit to the government.

The financial system operated during 1983 under the régime established in the July reform of the previous year. This reform provided, on the one hand, for the consolidation of bank credits to enterprises (whose indebtedness had reached critical figures) and, on the other, for the segmentation of the market for deposits. As a result, the interest on short-term deposits came under the control of the Central Bank, time-deposits of more than 90 days were permitted at freely negotiated rates, and a system of indexed deposits was created. Except for those at a free rate, these deposits were subject to high reserve requirements (initially 100%) but in compensation the Central Bank granted a rediscount to the banks so that they could refinance their loans. At the same time, it was decided to redeem the main government securities (treasury bonds, adjustable debentures) in order to reduce the supply of money substitutes. The regulated interest rate was initially fixed at values much lower than the inflation rate, so as to bring about a rapid reduction in the real volume of the debts of enterprises. This policy caused an appreciable fall in the liquidity ratios in the second half of 1982, since the public reduced its demand for deposits and, to a lesser extent, for means of payment.

Once the initial effect of the reform had been assessed, it was announced that the interest rate would be fixed in accordance with the inflation rate, the aim being to avoid excessive credit costs, while at the same time preventing pressures on the demand for goods and foreign exchange. In the event the real interest rates in the regulated segment were markedly negative throughout 1983, as a result of which the real value of debts continued to decline. All in all, the demand for deposits did not

Table 19

ARGENTINA: MONETARY BALANCE

	End-year balances (billions of pesos)			Growth rates		
	1981	1982	1983 ^a	1981	1982	1983 ^a
Money	4.6	14.9	70.0	68.6	222.4	370.6
Currency outside banks	3.0	8.7	46.3	84.0	189.2	430.5
Current account deposits	1.6	6.1	23.6	45.4	285.7	285.3
Factors of expansion	23.4	64.8	324.1	156.6	177.4	400.4
Net international reserves	-7.7	-35.9	180.3			
Domestic credit	31.1	100.7	504.4	210.1	224.2	400.9
Government and public institutions (net)	8.3	25.7	1976.4	456.6	208.0	668.7
Private sector	22.7	75.0	307.0	166.8	230.2	309.2
Factors of absorption	18.7	49.9	254.2	194.5	166.3	409.3
Quasi-money (savings and time deposits)	11.4	23.5	123.6	115.2	106.4	427.1
Other items (net)	7.4	26.5	130.5	581.0	258.7	393.5

Source: Central Bank of Argentina.

^a Preliminary figures.

fall (although there was a shift towards indexed investments) probably because a good part of the process of adjustment to the low returns had already taken place in the early months of the reform.

The segmentation of the credit market was manifest in the large differentials in interest rates. In the first half of the year, the free-rate bank credits had a cost appreciably higher than the inflation. In August, the Central Bank eliminated this market, in order to tighten its control over credit. Nonetheless, there was a great expansion of loans outside the institutionalized system, also at high rates of interest. Thus in the course of 1983, while the real rate for deposits in the regulated sector was negative at 30% annually, the interest charged on loans at the free rate exceeded 30%.

In recent years the organization of the financial system has become a matter of heated debate. The régime adopted in 1977 sought to improve the efficacy of the channelling of savings by reducing controls and freeing the interest rate. In practice this system was far from achieving the expectations of its authors, however, and the financial crisis of 1980 (whose effects still persist) revealed the fragility of the system and the costly errors of those who sought and offered credit. Hence, the Central Bank had to take over the running of numerous institutions whose portfolios were not viable, while at the same time many firms were showing signs of imminent insolvency. The reform of 1982 sought to correct this situation, but although it alleviated the financial burden of the enterprises (through an implicit heavy tax on deposit holders), it did not succeed in regularizing the market, since the problems as regards the repayment of debts did not completely disappear, the cost of intermediation continued very high, and the development of parallel markets revealed the presence of imbalances.

The authorities who took over at the end of 1983 announced their intention to introduce radical changes in the system, beginning with the consolidation of institutions so as to put their portfolios on a sounder basis and reduce the costs and margins of intermediation. At the same time, the Central Bank would assume the declared role of credit orientation. The controls on interest rates would be maintained, although with the express intention of keeping these in line with the growth of prices. It was hoped to increase the real size of the institutionalized system and to channel a greater proportion of credit towards the private sector, once the fiscal deficit had been reduced. These measures, it was hoped, would tend to discourage credit transactions in the marginal markets.

b) *Fiscal policy*

The considerable increase in the National Treasury deficit during 1983 was due to the increase in expenditure and the fall in income, measured at constant prices (see table 20).

The reduction in income was caused by the fall in tax revenues, which in its turn was due to a drop in gross tax collection and an increase in the assignment of resources to the Social Security System and to the National Housing Fund (in order to compensate for the suppression of the employers' contributions to retirement pensions and of the contribution to FONAVI decreed at the end of 1980).

The increase in Treasury expenditure (over 80% in constant values) was due to the behaviour of transfers and loans, which was in turn the result of three concurrent factors. In the first place, at the end of the first quarter the government decided to deny the public sector access to the credit of the domestic financial system, so that the Treasury had to make big transfers to some public enterprises and decentralized agencies in order to provide them with funds for the payment of commitments as they fell due and for the financing of operational deficits. Secondly, the Treasury had to come to the aid of the provincial authorities, whose finances had seriously deteriorated. Finally, there was also a marked increase in expenditure owing to the non-settlement of private debts which had been guaranteed by the National Treasury.

The remaining expenditure remained constant or declined in real terms. Remunerations paid through the National Treasury grew at a rate similar to the variation in prices, despite the substantial improvement in the real salaries of government officials. Expenditure on non-personal goods and services declined slightly. There was a notable fall in interest payments owing to the redemption of domestic securities decided on in 1982.²

As regards the financing of the deficit, the advances made by the Central Bank were much higher than the financing needs recorded in the Treasury statements; this was due to the low level of

²In view of the criterion used in imputing interest, the servicing of the external debt is included for the most part as negative financing under the heading "amortization of the adjustment" (see table 20).

foreign investment in Argentine bonds, the redemption of domestic debentures, the posting as amortization payments of a large part of the interest payments, and also the classification as a financing operation (with negative sign) of the account designated "amortization of other debts", which appears to have included the payment of debts incurred abroad mainly in relation to purchases of armaments.

Taking the public sector as a whole, the burden seems to have been maintained at a similar level to that of 1982, when it was far below historical levels. The low tax revenue might be attributed to a relaxation of fiscal discipline and to the high rates of inflation, which reduce the real value of income during the period between the time when the tax is incurred and that when the payment is made. Additionally, the behaviour of taxation in 1983 was not homogeneous, since there was an increase in revenues derived from taxes on foreign trade (especially export duties) and on fuels, while there was a fall in the remaining taxes (such as those on value added, profits, wealth and domestic taxation), which are included in the system of federal co-participation. The fall in the co-participation tax revenues, as mentioned earlier, was intensified by the increase in the real value of the funds diverted to the Social Security System. As a result of this phenomenon, the revenue accruing to the Treasury and the provinces from this group of taxes declined (after deduction of inflation) by almost 30%. This was one of the main causes of the deterioration of the provincial finances.

The fiscal situation of the local authorities was likewise aggravated by the fall in provincial tax revenues proper and by the simultaneous increase in expenditure. This last was due to the levelling up of the wages of local government personnel with those of the national civil service (which meant

Table 20

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of Argentine pesos				Growth rates		
	1980	1981	1982	1983	1981	1982	1983
1. Current income	1 712	3 387	9 086	40 177	97.9	168.3	342.2
Tax revenue	1 526	2 933	8 224	35 798	92.2	180.4	335.3
Non-tax revenue	186	454	862	4 379	144.1	89.9	408.0
2. Current expenditure	2 206	4 862	11 460	71 435	120.4	135.7	523.3
Wages and salaries	918	1 768	3 881	17 502	92.6	119.5	351.9
Non-personal goods and services	240	554	1 255	5 459	130.8	126.5	335.0
Interest	6	41	176	497	583.3	329.3	182.4
Transfers	1 019	2 426	5 598	45 083	138.1	130.8	705.3
Other expenditure	23	73	550	2 894	217.4	653.4	426.2
3. Current saving (1 - 2)	-494	-1 475	-2 374	-31 258			
4. Capital expenditure	291	1 110	1 947	38 318	281.4	75.4	1 868.1
Real investment	162	483	795	2 215	198.1	64.6	178.6
Loans (net of repayments)	129	627	1 152	36 103	386.0	83.7	3 034.0
5. Total expenditure (2 + 4)	2 497	5 972	13 407	109 753	139.2	124.5	718.6
6. Deficit (1 - 5)	785	2 585	4 321	69 576			
7. Financing of deficit							
Central Bank	976	2 775	7 055	103 976			
Unified Official							
Accounts Fund	156	156	624	3 190			
Issue of securities	267	1 606	5 447	5 466			
Bond amortization payments	-153	-243	-2 131	-1 971			
Amortization of adjustment	-414	-1 476	-4 910	-12 734			
Amortization of other debts	-47	-233	-1 764	-28 351			

Source: National Treasury of Argentina.

bigger improvements in salaries than those granted in the nation as a whole), to the maturing of private debts guaranteed by the provincial States and to the expenditure occasioned by the serious floods that occurred in the northeast.

As regards public enterprises, the process of gradual increases in charges begun in mid-1982 continued during a good part of the year, giving rise to an appreciable increase in the average for the year. This enabled the level of the operational deficit to be kept steady despite the marked improvements in wages granted to the personnel. Owing to the outgoing government's decision to try to reduce tensions during the electoral period, however, the trend towards recovery in the levels of charges was halted in the last quarter.

Thus, by the end of 1983 the increase in expenditure and contraction of income of the public sector as a whole had become serious in the extreme. The new authorities declared their intention of putting the public finances in order, and proposed to bring about a drastic reduction in the fiscal deficit to this end, while at the same time reorganizing expenditure, reducing that earmarked for defence and security, and increasing the share of expenses of a social nature. They also propose to increase tax revenue through control of evasion and the imposition of higher taxes on the upper-income social groups.

BOLIVIA

1. Recent economic trends: Introduction and summary

During the past four years Bolivia has been immersed in a severe economic crisis, and the evolution displayed by the economy in 1983 was very similar to that of the preceding year. Thus, almost every indicator again showed a considerable downturn, marking the second consecutive year of deterioration of economic activity and welfare, following the economic difficulties that started to become apparent in 1980 and 1981.

Furthermore, in 1983 the country suffered a series of natural disasters (droughts and floods) that affected almost half of the national area and approximately two million people, causing damages of incalculable consequences which depressed even more the low levels of development that had been attained.

The forecasts made for 1983 by the new government which took office at the end of the preceding year had envisaged an economic upturn that would be achieved through a rise of 4% in the product, a slowdown in the rate of inflation to one-third of that of the preceding year, an increase in real wages and a decline in unemployment, besides an improvement in the performance of State enterprises and a reduction of the fiscal deficit. However, reality was quite different from those expectations.

In 1983 total production, the per capita output and investment dropped again sharply. In the external sector imports increased, but exports, as has been the case in recent years, continued to shrink. Internally, prices increased even more than the preceding year, although minimum wages retained their purchasing capacity. Finally, although the fiscal deficit in real terms diminished by half, it continued to be exceedingly large.

In 1983, the gross domestic product fell in absolute terms for the third year in a row. The contraction was slightly over 7.5%, after a reduction of almost 9% in 1982. Declines such as those of the past two years had not occurred since 1961, and this marked the continuation of a period, which had begun in 1976, of regular and consistent decreases in the growth rate of the production of goods and services (see table 1 and figure 1).

The decline in production caused the per capita gross domestic product to drop by 10%, after having declined by more than 11% in 1982. Such drops, added to other lesser ones which had occurred in the three previous years, resulted in an overall reduction of 25% in the period 1979-1983.

In 1983 gross national income also decreased (-7.6%), for the third consecutive year, although the reduction had been even larger (-11%) the year before. The decline in national income in 1983 was not larger because the terms of trade rose almost 3%, after a slightly larger drop in the two preceding years.

There were widespread losses in the production of goods and services. Thus, the production of goods declined over 13%: this was the sharpest drop ever, at least since 1970, and followed another fall of slightly over 10% in 1982. In 1983, the most affected subsector, was agriculture, whose output fell by 22%. That drop was followed —though on a lesser scale— by manufacturing (-7.5%) and commerce and hotel activities (-11.6%).

Together with this widespread decrease in production, inflationary pressures flared up to unprecedented limits. Consumer prices (December-December) rose by over 328%, while their variation between annual averages (which in 1982 had been over 123%) was close to 276% in 1983.

The external sector, for its part, continued to face serious problems. The current value of exports of goods and services, after having exhibited in 1982 a decline of almost 10%, declined again the following year (-6.5%). As imports —after having recorded a fall of over 36% in 1982— rose by slightly over 13%, the trade balance dropped to US\$ 137 million, or almost half the amount of the preceding year.

Net remittances of interest on the external debt continued to be a heavy burden for the balance of payments. In 1983, they accounted for US\$ 399 million, an amount more than six times higher than that in 1977. Furthermore, payments would have been still larger if the country had been in a position to fulfill all of its external commitments.

Thus, the small surplus on the trade of goods and the substantial interest payments increased the current account deficit to US\$ 252 million: more than double the amount registered in 1982.

Capital inflows —unlike what happened in 1982 when they only amounted to slightly over US\$ 150 million, or half the value recorded the year before— resumed their expansion in 1983 and reached the considerable amount of US\$ 237 million.

Long-term capital inflows experienced a substantial increase, rising by nearly US\$ 350 million, in contrast with a similar decline in 1982. In contrast, short-term capital outflows speeded up sharply. In 1982 they had only represented US\$ 7 million, but in 1983 they amounted to US\$ 400 million, thus

Table 1

BOLIVIA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators								
Gross domestic product at market prices (millions of 1970 dollars)	1 930	2 010	2 078	2 116	2 128	2 107	1 923	1 777
Population (millions of inhabitants)	5.02	5.15	5.29	5.43	5.57	5.72	5.88	6.03
Per capita gross domestic product (dollars at 1970 prices)	384	390	393	390	382	368	327	294
Growth rates								
B. Short-run economic indicators								
Gross domestic product at market prices	6.1	4.2	3.4	1.8	0.6	-0.9	-8.7	-7.6
Per capita gross domestic product	3.4	1.6	0.7	-0.8	-2.1	-3.6	-11.1	-10.0
Gross national income ^b	5.8	4.2	2.3	1.2	2.1	-2.7	-10.8	-7.6
Terms of trade (goods and services)	0.8	5.6	0.1	0.4	19.4	-3.6	-3.6	2.9
Current value of exports of goods and services	28.0	11.5	1.2	21.3	22.1	-3.0	-9.8	-6.5
Current value of imports of goods and services	6.3	15.4	24.6	14.1	-11.8	4.3	-36.4	13.1
Consumer prices								
December-December	5.5	10.5	13.5	45.4	23.9	25.1	296.5	328.5
Variation between annual averages	4.5	8.1	10.3	19.7	47.2	32.1	123.5	275.6
Money (M ₁)	37.3	20.9	11.6	16.8	41.1	20.5	229.7	160.2
Current income of government ^c	15.1	3.3	1.3	-18.0	-4.5	-9.7	-38.6	-47.3
Total expenditure of government ^c	23.3	22.9	-4.5	8.8	-2.8	-14.6	139.9	-49.0
Fiscal deficit/total expenditure of government ^d	16.9	30.3	26.0	44.2	45.2	42.0	85.1	84.6
Millions of dollars								
C. External sector								
Trade balance (goods and services)	-35	-64	-242	-226	90	17	280	137
Balance on current account	-64	-131	-353	-399	-166	-312	-121	-252
Balance on capital account	116	198	269	417	19	319	153	237
Variation in international reserves	54	44	-55	24	-136	23	38	-14
External debt ^e	1 107	1 458	1 762	1 941	2 220	2 450	2 373	2 780
External debt service/exports of goods and services ^d	17.8	23.2	50.5	30.6	26.9	26.8	26.9	30.8

Source: ECLAC, on the basis of official data.

^a Preliminary figures. ^b Gross domestic product at market prices plus terms-of-trade effect. ^c Real growth rates.

^d Percentages. ^e Medium- and long-term external public debt at end of each year.

offsetting the effect of long-term capital inflows. The overall result of the external transactions during the year was that the country lost reserves in the amount of US\$ 14 million: an amount that constitutes nearly one-third of the reserves accumulated the year before.

Another serious problem that the economy and the authorities had to face was connected with the operation of the exchange market. Thus, one of the main limitations on the normal development of economic activity was the acute shortage of foreign exchange in the Central Bank to meet both the service of the external debt and the necessary imports. Early in the year the amount of foreign exchange available for the procurement of the most essential goods barely came to US\$ 100 million, sufficient to cover less than two months of imports.

As a result of the foregoing, most transactions in foreign currency were conducted on the so-called parallel market. Given the shortage of foreign exchange its quotations attained very high levels, a fact that contributed, on the one hand, to the intensification of the process of dollarization of the economy and, on the other hand, to a further acceleration of the already high inflationary trends, while at the same time promoting unregistered trade. Thus, the dollar not only constituted an internationally accepted means of payment but was also an asset in itself, through which members of the public could accumulate wealth and protect themselves against the deterioration of the national currency.

In order to reduce the difference between the value of the dollar in the official market and in the parallel market and to give a more realistic value to the national currency, the nominal exchange rate was devalued in November 1983 so that the number of Bolivian pesos per dollar went up from 196 to 500, i.e., the exchange rate increased by 155%.

In 1983 there was a substantial slowdown in the rate of expansion of the money supply (M_1), which increased 160% compared with 230% the year before. That important reduction in the growth rate of the means of payment was possible because both the net credit delivered to the public sector as well as financing available to the banks were considerably tightened. While the former increased only 69%, the latter rose by 116% compared with rates of 421% and 341%, respectively, the year before. As the rate of price increases was higher than that of the monetary variables, the latter had a negative evolution in real terms.

The behaviour of the public sector during 1983 also followed the trend of some monetary aggregates and prices. In real terms, the current income of the central government—which in 1982 had already shrunk by nearly 39%—decreased in 1983 by more than 47%. The severe fiscal crisis was apparent from the behaviour of the ratio current income/gross domestic product. In 1983, this came to only 4% whereas only two years before it had been 10%.

Due to the highly restrictive policy begun at the end of the preceding year, in 1983 total government expenditure at constant values fell 50%, compared to an increase of 140% in the preceding year. The deficit—though substantial—was half of that in 1982, when it reached 386%.

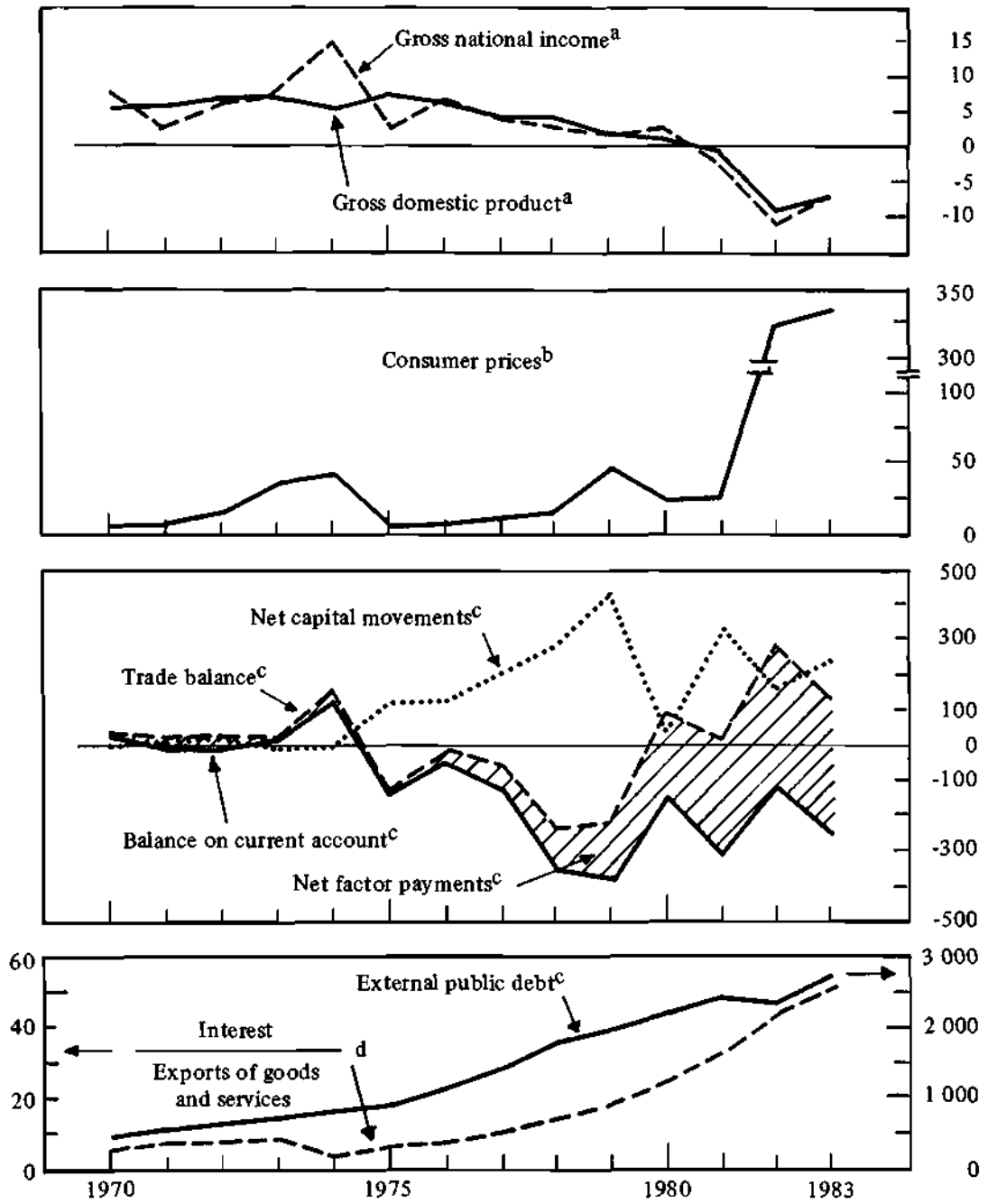
With respect to economic policy, two broad economic packages were approved during the year.

In March new price increases were approved for goods included in the family shopping basket. There were also wage increases, while all components of the public sector were called upon to adjust their wage policies to that established by the government. In addition to the foregoing, a major part of the supplementary bonuses were included in the basic salary, and the concepts of "production bonus" and "professional category" were defined more strictly. Furthermore, rates of interest and compulsory cash reserves were increased and new lines of credit for agriculture and mining were opened.

Between May and September, a new scale of assumed costs for the mining sector was established; the income tax on natural persons was lowered; the wage ceiling for social security was raised and, once again, the rates of interest and compulsory cash reserves were increased.

Finally, in November other provisions were approved whereby, while attempting to influence economic activity directly, it was sought to preserve the continuity of the process of legal and administrative rearrangement begun by the authorities. Thus, a rise in the exchange rate was decided, and new increases in domestic prices and other wage increases were established. In addition, the regularization of public sector debts with the Central Bank and a rebate of income tax retentions for natural persons were determined. With regard to the process of administrative rearrangement mentioned above, the following measures were adopted: formulation of a new banking law and establishment of the Stabilization and Development Board (Junta de Estabilización y Desarrollo), which became the main body for the control and follow-up of economic activity.

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.
^dPercentages.

^bDecember-December percentage variation.

^cMillions of dollars.

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1980	1981	1982	1983 ^a	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	2 464	2 444	2 138	2 024	115.8	113.9	-2.9	-0.8	-12.5	-5.4
Gross domestic product at market prices	2 128	2 107	1 923	1 777	100.0	100.0	0.6	-0.9	-8.7	-7.6
Imports of goods and services ^b	336	337	215	247	15.8	13.9	-20.4	0.5	-36.2	14.6
Total demand	2 464	2 444	2 138	2 024	115.8	113.9	-2.9	-0.8	-12.5	-5.4
Domestic demand	2 205	2 193	1 903	1 807	103.6	101.7	-2.3	-0.5	-13.2	-5.0
Gross domestic investment	261	223	99	74	12.3	4.2	-25.6	-14.7	-55.7	-25.1
Gross fixed investment	268	210	127	103	12.6	5.8	-19.8	-21.6	-39.8	-18.7
Public	149	...	...	...	7.0	...	-23.4	...	...	...
Private	119	...	...	...	5.6	...	-14.9	...	...	...
Construction	164	...	...	...	7.7	...	-11.6	...	...	...
Machinery and equipment	104	...	...	...	4.9	...	-30.1	...	...	...
Changes in stocks	-7	13	-28	-29	-0.3	-1.6	...	...	...	...
Total consumption	1 944	1 970	1 804	1 733	91.3	97.5	2.0	1.4	-8.4	-4.0
General government	283	293	252	241	13.3	13.6	1.5	3.3	-13.9	-4.2
Private	1 661	1 677	1 552	1 492	78.0	83.9	2.1	1.1	-7.5	-3.9
Export of goods and services ^b	259	251	235	217	12.2	12.2	-7.7	-3.1	-6.2	-7.9

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

^a Preliminary figures.

^b Figures on exports and imports of goods and services were taken from balance-of-payments data, deflated with price indexes calculated by ECLAC.

2. Trends in economic activity

a) Total supply and demand

In 1983 the total supply of goods and services diminished over 5%, following a decrease of more than 12% in 1982, representing a contraction for the fourth consecutive year (see table 2).

A drop of nearly 8% in the gross domestic product, which already had fallen approximately 10% in the period 1981-1982, contributed to this downturn. The negative impact on the supply was buffered in part by an increase of 15% in the volume of imports in 1983, in contrast with the sharp drop of 35% recorded the year before.

Domestic demand, for its part, declined 5% in 1983, registering declines in both of its components once again. Fixed capital investment went down by nearly 19%; as it had dropped by nearly 40% in 1982 and between 1979 and 1981 had suffered an overall decline of approximately 50%, its 1983 level was scarcely more than a quarter of that recorded in 1978. The sluggishness in the process of capital formation was reflected in the behaviour of the investment coefficient, which in 1983 was equivalent to only 6% of the gross domestic product, i.e., half the level attained in 1980.

On the other hand, global consumption also dropped, although the 4% decrease was only half that recorded in 1982. Both public and private consumption contributed to this fall.

Although the drop in public consumption in 1983 was substantially less severe than the year before (-14%), this brought its real value down to a similar amount to that of 1974. Private consumption, for its part, decreased 4% in 1983, after having declined 7.5% in 1982, so that its value was similar to that of 1977.

Due to a series of complex internal and external factors, the volume of exports kept on dropping in 1983. With a decrease of nearly 8% this was the fourth year running of persistent drops in the volume of external sales (see table 2).

b) *Evolution of the main sectors of production*

In 1983, one of the most visible symptoms of the country's economic problems was the fall of nearly 8% in the product. Practically all economic activities contributed to this decline (see table 3).

The production of goods dropped over 13% during the year; since it had also decreased in 1981 and 1982, this caused the value of the production of goods to sink to its lowest level since 1970. The great deterioration in production—equivalent to 39% of the product—was due to two main reasons. Firstly, agricultural activity had to face an unusual and devastating combination of droughts and floods. Secondly, in 1983 all economic activities continued to suffer the consequences of the foreign exchange shortage, which first began to show itself the preceding year, affecting especially sectors which are highly dependent on imports such as mining, manufacturing and, to a lesser extent, construction.

With respect to agriculture—one of the most important sectors, accounting for 17% of the product—it shrank by 22% in 1983. Due to this loss, agricultural activity dropped back to the levels reached in 1973.

Table 3

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

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1980	1981	1982	1983 ^a	1980	1983 ^a	1980	1981	1982	1983 ^a
Total gross domestic product^b	1 966	1 947	1 777	1 642	100.0	100.0	0.6	-0.9	-8.7	-7.6
Goods	862	850	764	661	42.6	39.1	0.1	-1.4	-10.1	-13.4
Agriculture, hunting, forestry and fishing	361	386	377	294	17.8	17.4	1.4	7.0	-2.2	-22.0
Mining and quarrying	107	109	99	98	5.3	5.8	2.2	1.6	-9.4	-0.4
Manufacturing	317	305	258	239	15.7	14.2	1.3	-3.8	-15.3	-7.5
Construction	77	50	30	30	3.8	1.8	-11.6	-34.9	-40.0	-
Basic services	283	285	267	255	14.0	15.1	2.7	0.8	-6.5	-4.3
Electricity, gas and water	36	39	40	39	1.8	2.3	7.2	9.4	0.5	-1.6
Transport, storage and communications	247	246	227	216	12.2	12.8	2.1	-0.5	-7.6	-4.8
Other services	914	902	826	795	45.1	47.1	-0.4	-1.3	-8.4	-3.8
Wholesale and retail trade, restaurants and hotels	318	310	259	229	15.7	13.6	-2.1	-2.4	-16.4	-11.6
Financial institutions, insurance, real estate and business services	213	207	197	193	10.5	11.4	-1.4	-2.8	-4.8	-2.0
Ownership of dwellings	161	160	159	159	8.0	9.4	0.1	-0.5	-1.0	-
Community, social and personal services	383	385	370	373	18.9	22.1	1.7	0.3	-3.6	0.5
Government services	204	207	208	211	10.1	12.5	2.5	1.5	0.7	1.2
Less: imputed bank service charges	34	30	25	22	1.7	1.3	-12.9	-10.4	-19.1	-9.0

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

^aPreliminary figures. ^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Industrial production also suffered a sharp fall (-7.5%), although this value was only half of that recorded the year before. Since another drop of nearly 4% had occurred in 1981, the total drop in manufacturing in the period 1981-1983 came to 25%.

The other goods-producing sectors showed a less unfavourable performance. Mining stagnated, after declining over 9% in 1982, and the real value of construction also remained unchanged. Since in 1980 it had dropped by 12%, while in the two subsequent years it had decreased by 35% and 40% respectively, however, its 1982 level was only one-third that recorded in 1979. As this sector absorbs a large volume of manpower, this decline helped to intensify the unemployment problem.

The production of basic services declined over 4%, though this rate was less than the 6.5% drop recorded in 1982. It was due largely to a fall of 5% in transport and communications, since the other component of basic services —electricity, gas and water— decreased by only around 1.5%.

Finally, production under the heading designated "other services", which contributed slightly over 47% of the gross domestic product, decreased nearly 4%, thus declining for the fourth year running. The largest decrease was in commerce and hotel activities (-11.5%), though the decline had been even greater in 1982 (-16%). The magnitude of the deterioration seen in this sector was followed in 1983 by that in financial institutions. The other activities either stagnated (ownership of dwellings), or increased only slightly (community and government services).

i) *Agriculture.* As pointed out earlier, one of the biggest problems that the economy as a whole had to face during 1983 was due to the natural disasters which devastated a large part of the country.

In the highlands, the departments of Potosí, Oruro, La Paz, Cochabamba, Chuquisaca, Tarija and Santa Cruz were affected by a protracted drought which drastically reduced normal crop yields. It is estimated that the damaged area covered approximately 380 000 km² —equivalent to 35% of the country's areas—, and the number of people who suffered the consequences was approximately 1 600 000.

Furthermore, in the eastern and northern regions of the country, the departments of Santa Cruz and Beni were affected by unusually heavy rainfall which caused large floods and affected both urban and rural areas. In this case, the damaged area exceeded 150 000 km² and, directly or indirectly, approximately 700 000 people were victims of this disaster.

The problems caused by these climatic changes in agriculture, among the peasants and in the country as a whole were serious. With regard to agriculture, the main problems were the decrease of 15% in the cultivated area during the crop year 1982/1983 with respect to the average for the period 1978-1982; the damage to pastures and the loss of land due to floods and sedimentation; the scarcity of essential inputs and the damage to agricultural production; the drop in food availability, with the ensuing rise in the price of agricultural products, and, finally, the intensification of the problem of rural-urban migration.

These natural disasters even affected future agricultural activities, since to satisfy food needs the seeds from previous harvests were often assigned for consumption,¹ or cattle were slaughtered to prevent them perishing from water shortage or floods. The increase in beef supply pushed down its real price and the income of small farmers and cattle raisers deteriorated.

In these circumstances, agricultural activities suffered an unprecedented decline in 1983. Moreover, the enormous drop was widespread.

Grains in general, which in previous years had accounted for about 45% of the area under cultivation, exhibited a downward trend. Thus, the output of wheat, which occupies approximately 20% of the total area under cultivation, fell by 44%. Other extensive crops such as rice and maize also performed in a highly unfavourable manner. In the case of rice, which generally occupies 13% of the area sown, the volume harvested dropped by 29%, following another drop of nearly 15% in 1982. The production of maize experienced an equally sharp fall, since after having declined approximately 11% in 1982, it went down again by 25%, thus sinking to a very similar level to that of five years before (see table 4).

During 1983 tubers and roots, which are basic elements in the Bolivian diet, also declined considerably. Potato production, for example, dropped by 66%, thus sinking to a similar level to that recorded at the beginning of the 1960s.

¹In these circumstances, some products —particularly tubers— may have disappeared for ever, since they were exclusive varieties from the highlands which do not exist in other parts of the world.

Table 4

BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Production (thousands of tons)								
Main crops								
Grains in general								
Rice	95	101	86	61	15.8	6.3	-14.8	-29.0
Maize	383	504	450	336	14.3	31.6	-10.7	-25.3
Quinoa	...	13	16	15	...	...	23.1	-6.2
Wheat	60	67	66	37	11.1	11.6	-1.5	-43.9
Roots and tubers								
Oca	...	50	45	30	...	...	-10.0	-33.3
Potatoes	787	867	900	303	9.3	10.2	3.8	-66.3
Ulluco	...	19	20	6	...	...	5.3	-70.0
Fruits and vegetables								
Onions	...	37	35	18	...	...	-5.4	-47.4
Peaches	31	31	30	19	-3.0	-	-3.2	-36.6
Broad beans	...	53	45	13	...	...	-15.1	-70.0
Tomatoes	31	22	32	24	-3.1	-29.0	45.4	-25.0
Industrial crops and stimulants								
Cotton fibre	7	7	4	3	-50	-	-43.0	-25.0
Raw coffee	16	17	17	...	-	6.2	-	...
Sugar cane	3 080	3 103	2 600	2 600	3.7	0.7	-16.2	-
Coca	26	33	35	45	8.3	26.9	6.0	28.6
Area under cultivation (thousands of hectares)								
Main crops								
Grains in general								
Rice	66	63	54	43	17.8	-4.5	-14.3	-20.1
Maize	293	313	286	261	20.1	6.8	-8.6	-8.7
Quinoa	...	23	25	24	...	...	8.7	-4.0
Wheat	100	96	96	65	25.0	-4.0	-	-32.6
Tubers and roots								
Oca	...	14	13	12	...	...	-7.2	-7.7
Potatoes	169	177	159	117	5.6	4.7	-10.2	-26.8
Ulluco	...	5	5	3	...	...	-	-40.0
Fruits and vegetables								
Onions	...	5	4	3	...	...	-20.0	-25.0
Peaches	6	6	7	6	-	-	16.6	-14.3
Broad beans	...	...	23	12	...	...	...	-47.8
Tomatoes	3	2	3	3	-25.0	-33.3	50.0	-
Industrial crops and stimulants								
Cotton fibre	26	14	10	...	-29.4	-41.6	-28.6	...
Raw coffee	23	24	24	...	4.5	4.4	-	...
Sugar cane	68	70	69	67	-1.4	2.9	-1.4	-2.9
Coca	...	27	31	38	...	...	14.8	22.6

Source: Central Bank of Bolivia, National Statistical Institute and Ministry of Peasant and Agricultural Affairs.

^aPreliminary figures.

Finally, vegetable and fruit crops were also severely affected by the climatic phenomena. In these products, decreases were approximately 70% for broad beans and 25% for tomatoes.²

The droughts and floods also affected the cattle-breeding sector. Although no data were available on final results for 1983, the performance of the sector was certainly unfavourable since, for example, 86% of cattle and sheep and 90% of their producers were affected by the drought that devastated the departments of La Paz, Oruro and Potosí.

The shortage of food obviously contributed to a turnabout in the parity ratio between prices for crop farming products and industrial goods, with the former more than recovering the level of the most favourable years. Thus, in 1983 there was a sharp increase (50%) in the parity index, following a drop of 23% in 1982 with respect to the preceding year which had interrupted the persistent improvement exhibited by the terms of trade between agriculture and industry. Nevertheless, these data should be viewed with caution. On the one hand, this increase was due to the transient food shortage mentioned above; on the other hand, it did not necessarily mean a proportional improvement in the income of peasants, since an important part of the increase in wholesale prices was appropriated by middlemen.

In brief, 1983 was a devastating year for Bolivian agriculture. In the face of such a serious situation, and as soon as it became aware of the extent of the problems, the Government approved an emergency plan designed to confront them. In its first phase, this plan was oriented to fostering winter crops. To that end the Central Bank approved credits amounting to US\$ 11 million, with nominal interest rates ranging between 38% and 48% annually, which in real terms were markedly negative. In addition, an amortization period of one year was granted. In the second phase of the plan, designed for summer crops, funds amounting to US\$ 61 million, with interest rates similar to the previous ones, were made available. Furthermore, thanks to credits granted by the Inter-American Development Bank (IDB), US\$ 43 million was allocated to the agricultural sector for the procurement of inputs, tools and working capital. Finally, studies with a view to the continuation of the agrarian reform process were initiated during the year.

ii) *Mining.* In addition to the problems that have traditionally affected this sector, others arose in 1983 which increased its difficulties. The main problem stemmed from the exchange policy and the foreign exchange shortage existing in the country. The scanty foreign currency reserve in the Central Bank had to be carefully managed in order to be able to cover both the cost of servicing the external debt and the most essential imports (food, medicines, etc.). Therefore, the Central Bank could meet only a very small part of the demand for foreign currency for other imports, and so the foreign exchange that the mining sector required for the purchase of inputs, machinery, etc., had to be procured in the parallel market, at higher prices than the official rates.

Other factors that also had a considerable influence in increasing the costs of production were the price increases of all national and imported goods and inputs, the periodic wage adjustments and tax increases.

These domestic difficulties were compounded by others coming from the exterior, among which the most important were the international crisis and the fall in the demand for raw materials.

In brief, the problem faced by the mining sector was due, on the one hand, to increasing costs and, on the other, to the impossibility of passing on such increases to sales prices, since these were governed by a depressed international market.

²The situation, serious though it was at the national level, was even worse at the department level, as shown by the following figures for typical products of the departments most affected by the natural disasters:

	Po- tatoes	Broad beans	Wheat	Barley	Oats	Oca	Quinoa
	<i>Growth rates (%)</i>						
La Paz:							
Northern highlands	-82.2	-32.4	-67.0	-100.0	-100.0	-100.0	-71.0
Central highlands	-98.0	-13.0	-77.5	-100.0	-100.0	-100.0	-65.0
Oruro:							
Central highlands	-100.0	-12.5	-83.8	-48.0	...	-100.0	-49.7
Potosí:							
Central highlands	-70.8	-46.4	-28.6	...	-16.6	-100.0	-100.0
Central valley	-74.7	...	...	-29.2	-52.0	-100.0	-63.0
Sucre:							
Northern valleys	...	-39.6	-72.6	-100.0	...	-100.0	-100.0

In the light of the above, the mining product in 1983 suffered a slight decline (-0.4%), adding to the drop of over 9% the year before. Consequently, the sector continued to stagnate, as it has done since 1971.

Production of tin —by far the most important mineral— fell by over 11% in 1983 (see table 5). This fall followed that registered in 1982, so that in the 1982-1983 biennium production decreased by 20%. With the exception of 1981, output had fallen steadily since 1978 and, with the decline in 1983, it sank to its lowest level in the past 19 years. The fall in the volume of tin production occurred in spite of a slight upturn in its international price, which went up from US\$ 5.74 per pound in 1982 to US\$ 5.88 per pound a year later, but this rise did not compensate for the decrease of over 10% in 1982. Furthermore, Brazil was added to Bolivia's traditional Southeast Asian competitors, since it has been constantly increasing production from deposits with lower operating costs, and in 1983 it expanded its volume of production by 60%.

In 1983 the production of antimony fell 29%, following on the fall recorded the preceding year, and as a result production fell to its lowest level since 1970. The negative effects of this decline were further increased by the sharp new reduction of nearly 20% in this metal's international price in 1983, following a reduction of 18% the preceding year.

Lead production, which fell approximately 2.5% in 1983, after another drop of over 25% in 1982, sank to its lowest level since 1965. There was a substantial decline in its international price, which went down by 24% for the second year in a row.

Copper production decreased approximately 30% during the period 1982-1983, while tungsten output fell by 12% in the same period.

In 1983 silver production increased by 10% and gold production by over 6%. The increase in silver production was in line with the trend that had been apparent since 1979 and had only been interrupted in 1982. The steep rise in the price of silver from US\$ 7.79 to US\$ 11.42 per ounce, more than offset the fall of 28% it experienced in 1982.

Finally, although gold production increased by slightly over 6%, this was not enough to offset the sharp drop of nearly 40% registered the year before. Because of this, production in 1983 was only 64% of that recorded in 1981 (see table 5). Furthermore, the 13% rise in the international price of gold in 1983 failed to cancel out the sharp drop of 20% recorded in 1982.

During 1983 prospecting for gold was promoted in order to increase production. To that end, from May onwards, a more realistic price policy was implemented —in contrast with that in force for other minerals— consisting of the purchase of the extracted metal at a higher exchange rate than that prevailing in the official market. The results were very positive: whereas between January and April the State had only purchased 76 kilogrammes, in the two following months it purchased 367 kilos.

Table 5

BOLIVIA: INDICATORS OF MINING PRODUCTION

	Thousands of tons				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Production of the most important minerals^b								
Antimony	15.4	15.3	13.9	9.8	6.9	-	-9.1	-29.4
Copper	1.8	2.6	2.2	1.9	5.8	44.4	-15.3	-13.6
Tin	27.2	29.7	26.7	23.7	-1.8	9.2	-10.1	-11.2
Silver ^b	190.0	205.0	173.7	191.1	4.4	7.9	-15.3	10.0
Lead	17.2	16.7	12.4	12.1	12.4	-2.9	-25.7	-2.4
Tungsten	3.3	3.4	3.2	3.0	6.4	3.0	-5.8	-6.2
Zinc	50.2	47.0	45.6	46.4	13.8	-6.3	-2.9	1.7
Gold ^c	1 459.0	2 064.0	1 249.0	1 328.0	53.9	41.5	-39.5	6.3
Other minerals	...	...	8.0	4.0	...	...	...	-50.0

Source: National Association of Medium-Scale Miners.

^aPreliminary figures. ^bTons. ^cKilogrammes.

Table 6

BOLIVIA: HYDROCARBON INDUSTRY INDICATORS

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^b
Thousands of cubic metres								
Petroleum								
Production of crude petroleum	1 384	1 286	1 418	960	-14.4	-7.1	10.3	-9.7
Exports of crude petroleum	...	...	...	...	...	...	...	...
Refining of petroleum products	1 503	1 352	1 373	899	-5.9	-10.0	1.5	-15.0
Domestic sales of some fuels								
Gasoline	462	461	464	337	2.2	-0.2	0.6	-4.5
Kerosene	151	105	101	84	-8.5	-30.4	-3.8	10.5
Fuel oil	299	300	260	182	2.0	0.3	-13.3	-8.0
Gas oil	152	155	136	109	2.0	1.9	-12.2	-7.9
Millions of cubic metres								
Natural gas								
Production	4 781	4 969	5 320	3 723	5.5	3.9	7.0	-6.0
Exports	2 040	2 196	2 297	1 694	18.2	7.6	4.6	-3.4

Source: Central Bank of Bolivia.

^aPreliminary figures, for the period January-September.^bCorresponding to January-September in relation to the same period of 1982.

Moreover, mining claims increased considerably during the year, investments of up to US\$ 200 million were announced, and a Bureau of Gold Control (Oficina de Control Aurífero) was also established.

Among other mining policy measures adopted during the year by the Government, the following may be highlighted: i) granting of credits of US\$ 60 million to the sector for the purchase of inputs and tools and for working capital; ii) compensation for the general increase in prices, for increases in electricity tariffs for private industrial use and for higher railway freight charges, through a rise in mining sector "assumed costs" for tax purposes; and iii) centralization, through the Central Bank, of the payment of mining and hydrocarbon royalties of public and private institutions (decided at the end of 1983).

Finally, it is necessary to point out the special importance of the statement made in April by the trade unions regarding the introduction of self-management of the Bolivian Mining Corporation (Corporación Minera Boliviana). After the relevant negotiations, the Government approved in November the legal measure providing for co-management in that State enterprise.

As regards the production of crude petroleum, this fell by nearly 10% in the first nine months of 1983 (see table 6). With the exception of 1982, when it expanded by slightly over 10%, production has persistently diminished since 1974.

Domestic gasoline sales dropped by 4.5%, while those of fuel oil and gas oil fell by 8%, thus continuing the depressive trend evidenced by these derivatives. In the first case, a drop such as the one mentioned above had not occurred since 1973 and the same was true of gas oil. These drops may be ascribed, *inter alia*, to the acute deterioration of the economic situation, which necessarily had as one of its impacts a downturn in the demand for fuels for domestic and industrial consumption. In contrast, kerosene sales rose by 11%, although such an increase was still not enough to offset the drops in preceding years (see table 6).

As far as prices are concerned, in 1983 fuels experienced large nominal price increases, on top of those that occurred in 1982. The largest price increases were for high octane gasoline (186%) and fuel oil (173%); prices of other products also increased in similar proportions. In spite of such increases, however, these fuels still remained extremely cheap in international terms. Thus, even at the official exchange rate high octane gasoline was sold during most of the year at the equivalent of 12 U.S. cents per litre, and at the exchange rate prevailing on the parallel market, the price was merely 5 cents. A similar situation was observed for the rest of the fuels.

In the context of fuel prices in neighbouring countries, the situation had negative consequences for the economy. In Peru, for example, the average price of gasoline during 1983 was approximately 30 U.S. cents. Such big differences in prices had very marked repercussions. On the one hand, they fostered unregistered trade, and on the other hand, the short supply of dollars existing in the economy could have been supplemented with dollars deriving from this form of foreign trade.

Even though fuel prices were reviewed when the November devaluation was effected, the fact that they were very low in international terms and the difference between the official exchange rate and that in the parallel market meant that this unregistered trade with neighbouring countries continued to be attractive.

Finally, in 1983 a study was begun of a new comprehensive law on hydrocarbons which envisaged the termination of the operating contracts signed with foreign firms and the possibility of the State enterprise Yacimientos Petrolíferos Fiscales Bolivianos taking charge of every phase of the exploitation and processing of natural resources.

3. The external sector

a) *Overall trends*

During 1983, the three main interrelated problems of the external sector continued to be the behaviour of exports, the external debt and the exchange rate.

Export activities continued to experience great difficulties. In 1983 the volume of exports went down steadily for the fourth year running, and the volume of sales was lower than in 1970. At the same time, the persistence of the international crisis prevented the unit value of exports from compensating for that trend.

Nor could the small foreign exchange reserves be expanded by increasing the country's indebtedness, since Bolivia's commitments stood at untenable levels. Thus, instead of granting new credits, most of external creditors, demanded net payments. For that reason, it was not easy simultaneously to meet the debt payments and pay for imports of essential goods for the economy. The debt service accounted for a relatively modest share of exports of goods and services (31%), but even so it was not possible to meet all the commitments expiring during the year, and the country accumulated large arrears.

Other important problems were those related to the exchange market, which suffered from great instability due to the shortage of dollars during the year. Dollars were necessary for imports, and as the amounts that could be obtained in the official market were limited and controlled by the Exchange Policy Commission (Comisión de Política Cambiaria), importers had to purchase them in the parallel market, thereby forcing up their price. This in turn caused sharp increases in domestic prices. Moreover, bearing in mind the high rate of inflation, the majority of the economic agents protected their wealth through the accumulation of dollars, thereby providing yet another stimulus for exchange rate increases in the parallel market.

b) *External trade*

i) *Exports of goods.* In 1983 the value of exports fell slightly more than 8.5%. Thus, the value of external sales diminished for the third consecutive year, with an overall drop of 20% in the triennium (see table 7).

The decline in 1983 in the value of exports of goods was due exclusively to the fall of nearly 11% in the volume exported, since the unit value increased slightly over 2%. In contrast, in 1982 there was a drop of both the volume exported (-6%) and the unit value (-3.5%).

The decline in the volume of exports confirmed once more the serious domestic restraints which prevent the export sector from expanding its sales. Except for 1976 and 1979, the volume of exports have been declining steadily since 1975.

Furthermore, the drop in exports was very widespread, and except in the cases of silver and sugar the value of the main export products shrank considerably (see table 8).

Thus, metallic tin exports, which accounted for one-fifth of external sales, dropped over 26%. Due to that fall and that registered in the preceding year, the overall drop in the period 1982-1983 was over 34%. The decline in 1983 was due exclusively to a drop in the volume exported, since the unit

Table 7

BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Growth rates											
Exports of goods											
Value	29.6	113.3	-20.1	26.6	12.7	-1.1	21.4	23.6	-3.5	-9.0	-8.6
Volume	2.1	7.5	-11.0	19.1	-4.0	-11.1	2.2	-7.3	-0.2	-5.7	-10.6
Unit value	26.9	98.4	-10.2	6.3	17.4	11.3	18.8	33.3	-3.3	-3.5	2.2
Imports of goods											
Value	26.1	67.7	45.0	9.0	13.0	25.0	12.6	-16.5	-	-37.0	12.4
Volume	6.9	36.6	27.4	4.8	1.3	12.8	-6.9	-26.3	-1.9	-35.3	16.2
Unit value	18.0	22.8	13.8	4.0	11.5	10.8	21.0	13.2	1.9	-2.6	-3.3
Terms of trade (goods)	9.2	59.6	-20.6	2.1	5.7	1.1	-0.5	19.1	-6.1	-2.0	5.4
Indexes (1970 = 100)											
Terms of trade (goods)	87.6	139.7	111.0	113.4	119.8	121.2	120.6	143.6	134.8	132.1	139.2
Purchasing power of exports of goods	110.2	191.4	135.8	164.0	163.6	147.0	149.5	165.1	154.7	143.0	134.8
Purchasing power of exports of goods and services	112.8	190.0	138.0	169.0	170.8	157.4	162.9	179.5	167.7	151.6	143.7

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 8

BOLIVIA: EXPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983 ^a	1973	1983	1980	1981	1982	1983 ^a
Total	1 036	995	898	819	100.0	100.0	20.8	-3.9	-9.7	-8.8
Main traditional exports	886	902	817	767	86.6	93.6	19.4	1.8	-9.4	-6.1
Metallic tin	239	266	237	175	9.5	21.3	4.8	11.3	-10.9	-26.2
Tin concentrate	139	77	41	32	29.2	3.9	-17.3	-44.6	-46.7	-21.9
Silver	118	72	37	59	3.8	7.2	103.4	-38.9	-48.6	59.4
Zinc	37	40	38	33	7.7	4.0	-13.9	8.1	-5.0	-13.2
Tungsten	47	43	34	20	3.2	2.4	34.3	-8.5	-20.9	-41.1
Antimony	26	34	18	...	5.0	...	-13.3	30.7	-47.0	...
Other minerals	35	24	14	...	7.9	...	16.6	-20.0	-41.6	...
Petroleum	...	...	...	...	14.5	...	...	...	...	...
Natural gas	221	337	382	378	5.3	46.1	110.5	52.5	13.3	-1.0
Main non-traditional exports	150	93	80	52	13.4	6.3	29.3	-38.0	-13.9	-35.0
Sugar	51	6	8	15	3.6	1.8	64.5	-88.2	33.3	87.5
Coffee	21	16	16	13	1.7	1.6	5.0	-23.8	-	-18.7
Wood	31	18	12	...	2.2	...	40.9	-41.9	-33.3	...
Handicrafts	9	8	5	...	...	...	200.0	-11.1	-37.5	...
Other	38	45	39	...	...	...	-5.0	18.4	-13.3	...

Source: Central Bank of Bolivia.

^aPreliminary figures.

value went up slightly. Indeed, the 27% fall in the quantum brought it to its lowest level since 1970. The average price increased slightly (2%), but in spite of this the international price of tin remained depressed during 1983 and was far below the exceptionally high value of 1980 (see table 9).

Foreign sales of natural gas, which in 1983 accounted for nearly 50% of total sales, decreased slightly (1%), thereby interrupting the trend of systematic expansion in the value of exports of this hydrocarbon which had begun in 1972. The slight decrease in 1983 was due exclusively to a decrease in the volume sold, since the unit value increased a little. Thus, the quantum dropped by 3.5% to a level similar to that of 1981, and although the average price rose instead by nearly 2%, this was the smallest increase since exports began in 1972.

During 1983, the value of other traditional exports also showed a negative performance. Thus, zinc dropped over 13% and tungsten by 41%, although both declines had a lesser impact, because their share in the external trade decreased.

In contrast with what occurred with nearly all mineral exports during 1983, the value of foreign sales of silver expanded very considerably. The expansion of nearly 60% reversed the trend of the two preceding years, when there had been drops of 39% and 49%, respectively. This increase was made possible because both the volume and, especially, the unit value went up with respect to 1982, by 4.5% and 51% respectively. Nevertheless, even with the upturn in the sales of this product, its value remained well below the levels recorded in 1980-1981.

Lastly, in 1983 there was also a considerable shrinkage in non-traditional exports, which dropped by 35%, thus evolving negatively for the third consecutive year. The only positive aspect in the behaviour of these products was the sharp increase in sugar sales, which amounted to US\$ 15 million. However, in spite of their growth in 1982 and 1983, the value of these exports was still well below the 1980 level (see table 8).

ii) *Imports of goods.* In 1983, the value of imports of goods rose over 12%, which was due exclusively to expansion of the quantum, since their unit value decreased (see table 7).

The increase in the volume of external purchases in 1983 came after four years of decline in a row, but even so the quantum only reached a value close to that of 1973.

Table 9

BOLIVIA: AVERAGE PRICE OF TIN ON THE LONDON METAL EXCHANGE

(Dollar per pound)

	Price index			Real price (1970 dollars)	
	Nominal price	United States wholesale price	Unit value of Bolivian imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)		
1970	1.6	100.0	100.0	1.6	1.6
1971	1.5	103.2	102.4	1.4	1.5
1972	1.7	107.8	108.2	1.5	1.6
1973	2.1	121.9	124.2	1.7	1.7
1974	3.7	145.0	152.4	2.5	2.4
1975	3.1	158.4	171.6	1.9	1.8
1976	3.4	165.7	180.0	2.0	1.9
1977	4.9	175.9	198.5	2.7	2.5
1978	5.8	189.5	218.1	3.0	2.6
1979	7.0	213.4	256.0	3.2	2.7
1980	7.6	243.3	283.6	3.1	2.7
1981	6.4	265.4	294.3	2.4	2.2
1982	5.8	271.0	293.1	2.1	1.9
1983	5.9	274.7	288.9	2.1	2.0

Source: UNCTAD, International Monetary Fund (IMF) and ECLAC estimates.

Table 10

BOLIVIA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983 ^a	1973	1983	1980	1981	1982	1983 ^b
Total	668	917	497	560	100.0	100.0	-25.5	37.3	-45.8	12.4
Consumer goods	172	234	81	58	20.0	10.4	-8.0	36.0	-65.4	-28.4
Durable	67	118	33	24	4.8	4.3	-10.6	76.1	-72.0	-27.3
Non-durable	105	116	48	34	15.2	6.1	-6.2	10.5	-58.6	-29.2
Raw materials and intermediate goods	251	342	201	252	38.3	45.0	-23.0	36.2	-41.2	25.3
Fuels	2	14	9	3	1.0	0.5	-80.0	600.0	-35.7	-66.6
For agriculture	11	15	6	6	1.2	1.1	10.0	36.4	-60.0	-
For industry	206	264	181	201	27.8	35.9	-23.1	28.1	-31.4	11.0
Construction materials	32	49	5	42	8.3	7.5	-15.8	53.1	-89.7	740.0
Capital goods	241	334	205	240	40.7	42.9	-36.0	38.6	-38.6	17.0
For agriculture	14	20	36	6	2.4	1.1	-17.6	42.8	80.0	-83.3
For industry	146	195	118	180	18.1	32.2	-31.4	33.5	-39.5	52.5
Transport equipment	81	119	51	54	20.2	9.6	-44.9	46.9	-57.1	5.8
Other	4	7	10	10	1.0	1.6	-42.8	75.0	42.8	-

Source: Central Bank of Bolivia.

^aFigures estimated for the entire year on the basis of the evolution of the first nine months expected for the whole year.^bRates calculated on the basis of behaviour

On the other hand, in 1983 the unit value declined (by approximately 3%) for the second consecutive year (see table 7).

Considering imports by groups, the value of consumer goods dropped substantially. Thus, in 1983 they fell by over 28%, following another fall of over 65% the preceding year (see table 10). These declines affected durable and non-durable goods more or less equally. Their most serious feature was the fall in purchases of non-durable consumer goods, since this coincided with a poor crop year, thus producing an unprecedented contraction in agricultural supply and an inordinate increase in food prices.

The value of imports of raw materials and capital goods increased 25% in the former case and 17% in the latter, but even so these increases could not offset the declines recorded in 1982. Considering the components of the first-named category, purchases of raw materials for agriculture stagnated during the year, whereas those for industry and, especially, construction materials expanded considerably. The value of imports of capital goods for industry and transport equipment also increased during the year, though at very different rates. In contrast, purchases of equipment for agriculture suffered a very sharp drop.

c) *The terms of trade*

Due to the increase of slightly over 2% in the prices of exports and the drop of 3.3% in the unit value of imports, the terms of trade improved by over 5% during 1983. This performance reversed the trend of the two preceding years, when the terms of trade fell by 6% and 2%, respectively (see table 7).

Lastly, due to the sharp fall in the volume exported (-10.6%), the improvement in the terms of trade could not prevent the purchasing power of exports from shrinking by nearly 6%. This decline occurred for the third consecutive year, since in 1982 there was a slightly larger drop (7.5%), and in the preceding year it had also declined (-6.3%) (see table 7).

Table 11

BOLIVIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-131	-353	-399	-166	-312	-121	-252
Trade balance	-64	-242	-226	90	17	280	137
Exports of goods and services	695	703	855	1 043	1 012	912	853
Goods FOB	634	627	762	942	909	828	757
Real services ^b	61	76	93	101	103	85	97
Transport and insurance	12	15	29	32	34	26	36
Travel	29	35	37	40	36	30	40
Imports of goods and services	759	946	1 081	953	994	633	716
Goods FOB	579	724	815	680	680	429	482
Real services ^b	180	222	266	273	314	204	234
Transport and insurance	103	140	177	168	196	101	130
Travel	38	41	45	52	50	40	20
Factor services	-69	-116	-183	-264	-343	-418	-428
Profits	-1	-18	-28	-19	-29	-24	-25
Interest received	4	1	2	14	15	7	22
Interest paid	-69	-96	-155	-256	-325	-397	-421
Labour and ownership	-2	-3	-3	-3	-3	-3	-4
Private unrequited transfers	2	5	11	8	13	17	39
Balance on capital account	198	269	417	19	319	153	237
Official unrequited transfers	13	22	41	48	26	29	68
Long-term capital	325	293	257	252	473	164	512
Direct investment	-1	12	18	41	60	37	43
Portfolio investment	-	-	-	-3	-	-	-
Other long-term capital	326	281	240	213	413	128	...
Official sector ^c	169	114	89	264	310	116	...
Loans received	221	326	149	334	328	132	...
Amortization payments	-42	-203	-57	-56	-53	-67	...
Commercial banks ^c	-	-	77	-24	26	-13	...
Loans received	-	-	87	13	10	6	...
Amortization payments	-	-	-10	-21	-6	-19	...
Other sectors ^c	157	167	74	-26	77	24	...
Loans received	238	275	151	94	96	55	...
Amortization payments	-81	-108	-77	-90	-55	-35	...
Short-term capital	-61	40	147	-20	148	-7	-403
Official sector	42	-53	192	-29	200	118	...
Commercial banks	38	51	-11	-19	6	20	...
Other sectors	-141	42	-34	28	-58	-145	...
Errors and omissions	-79	-85	-28	-260	-329	-34	61
Global balance^d	67	-84	19	-147	6	32	-15
Total change in reserves (- sign indicates an increase)	-44	55	-24	136	-23	-38	14
Monetary gold	-8	-2	-2	-2	-3	-2	-1
Special Drawing Rights	1	-11	18	-	-	-	-
IMF reserve position	-2	-3	12	-	-	-	-
Foreign exchange assets	-60	56	-39	72	6	-56	19
Other assets	24	-4	-14	6	-17	5	-8
Use made of IMF credit	-	20	-	61	-9	15	3

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*; 1983: ECLAC, on the basis of official data.^aPreliminary figures.^bReal services also include other official and private transactions, but not factor services.^cIn addition to

loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe global

balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

d) *The balance on current account and capital movements*

During 1983 the current account deficit rose to over US\$ 250 million, representing an increase of more than 100% over 1982 (see table 11).

The merchandise trade balance yielded a surplus of US\$ 275 million in 1983, which was US\$ 124 million less than in 1982. The decline in the positive balance of Bolivia *vis-à-vis* the rest of the world was due to the behaviour of both exports and imports. Thus, exports fell by US\$ 70 million, while imports expanded slightly more than US\$ 50 million. In spite of this latter increase, external purchases remained extraordinarily compressed with respect to previous years (see table 11).

Real services maintained their usual negative behaviour. In 1983 exports corresponding to invisible transactions increased 14% to nearly US\$ 100 million, but as payments for similar imports rose 15% to US\$ 234 million, the relevant deficit expanded slightly.

As had occurred in previous years, the bulk of net payments to the exterior was connected with factor services. In 1983 nearly US\$ 430 million was paid to the exterior under this heading, and although the increase over the preceding year was only US\$ 10 million, the absolute level of payments was six times higher than that recorded in 1977 (see table 11).

The amount of profits remitted to the exterior was relatively modest and remained within the same order of magnitude of previous years. The major part of payments in respect of factor income stemmed from net disbursements for debt interest, which came to US\$ 399 million in 1983. This amount was only 2% higher than the payments recorded in 1982, but it was much greater than the figure of US\$ 65 million in 1977. The extent of the sacrifices that the country had to endure to meet its external commitments is evidenced in the ratio between net interest payments and exports of goods and services. In 1983 that ratio was 47%, and the year before 43%.

Net long-term capital movements —after having shrunk considerably in 1982, when they dropped 65%— more than recovered in 1983, when they reached US\$ 512 million. However, the effect of the larger inflow of long-term resources was offset to a great extent by a large net short-term capital outflow, which amounted to US\$ 400 million in 1983.

Among the different capital flows that entered the economy during 1983, the second place in order of importance was occupied by unrequited public capital transfers, which rose by 134% to a record nominal figure. The origin of a large part of these funds was the assistance provided by other governments to the country, mostly connected with the natural disasters that ravaged the economy in the first part of the year.

Taking into account the behaviour of the different capital movements, the capital account received a net foreign exchange inflow of US\$ 237 million, that is, only US\$ 80 million more than in 1982, and as the capital account surplus was lower than the current account deficit, the country lost reserves in the amount of US\$ 14 million in 1983 (see table 11).

e) *The external debt*

The high degree of external indebtedness continued to place serious restraints on the economy during 1983. The year-end debt balance increased by 17%, and the debt service grew 7% compared with 1982, due entirely to interest payments, since payments of principal were practically paralysed.

The level of indebtedness continued to represent a heavy burden for the economy. The debt service/exports of goods and services coefficient was 31%, that is, slightly higher than that recorded in 1982 (27%) (see table 12). Moreover, that coefficient would have been still larger had it not been for defaults in the payment of certain commitments.

In 1983 the Government carried on with the process, uninterrupted since 1980, of renegotiating practically all the loans granted by international private banks to the country. The first steps in this direction were taken in March, and consisted of an unofficial moratorium in respect of 100% of the capital payments that were due between April and October of that year, resulting from the medium- and long-term debt of the public sector. A new rescheduling of payments of interest arrears was also carried out, under which the country committed itself to pay them between April and September. A second round of negotiations took place in May. In this case, it included credits already rescheduled in 1981. Capital maturities for 1983, 1984 and 1985 were also postponed. However, in practice these agreements never materialized because the Government could not implement the stand-by loan programme of the International Monetary Fund, which the private creditors had prescribed as a precondition for negotiation.

Among other debt reschedulings carried out during the year, it is worth mentioning that agreed with Argentina, whereby Bolivia rescheduled its payments amounting to US\$ 660 million for a period of 10 years, including three years' grace, at an interest rate of 8%.

In practice, debt service problems inhibited the granting of new loans by foreign banks. In contrast, credits granted by multilateral agencies and those derived from bilateral agreements expanded in 1983 at the rates of 17% and 49%, respectively. Particularly significant were the credits from the Inter-American Development Bank and the Andean Development Corporation in the amount of US\$ 82 million, intended for the agricultural and mining sectors. In addition, there were others from different governments and several international agencies.

f) *The exchange rate*

One of the major problems that both the economy and the authorities had to face during 1983 was that of the ups and downs experienced by the exchange market. Its typical high degree of instability and the great sensitivity developed by the agents acting within it made its control by the economic authorities difficult in practice. In addition, it is difficult to separate the behaviour of this market during 1983 from what had occurred in recent years, from the external debt problem and from the foreign exchange scarcity existing in the economy.

Following the devaluation carried out in 1972, the exchange rate remained fixed until the end of 1979. During that period, exports had a less dynamic performance than imports. Thus, between 1972 and 1979 the average growth rate of external sales of goods was 19.5%, while FOB imports of goods rose over 24% a year.³

Table 12
BOLIVIA: MEDIUM AND LONG-TERM EXTERNAL PUBLIC DEBT

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars											
Total contracted, at year-end	...	...	...	1 979	2 442	3 102	3 498	3 642	3 782	4 525	...
Total disbursed, at year-end	707	786	883	1 107	1 458	1 762	1 941	2 220	2 450	2 373	2 780
Debt service	53	76	92	111	161	355	262	281	272	246	263
Principal	35	54	65	71	101	271	144	122	104	96	95
Interest	18	22	27	40	60	84	118	159	168	150	168
Growth rates											
Total contracted, at year-end	...	...	...	...	23.4	27.0	12.7	4.1	3.8	19.6	...
Total disbursed, at year-end	...	11.2	12.3	25.3	31.7	20.8	10.1	14.4	10.4	-3.1	17.1
Debt service	...	43.4	21.0	20.6	45.0	120.5	-26.2	7.2	-3.2	-9.5	6.9
Principal	...	54.3	20.4	9.2	42.2	168.3	-46.8	-15.3	-14.7	-7.7	-1.0
Interest	...	22.2	22.7	48.1	50.0	40.0	40.5	34.7	5.6	-10.7	12.0
Main indicators											
Debt service/exports of goods and services	18.5	12.8	18.9	17.8	23.2	50.5	30.6	26.9	26.8	26.9	30.8
Principal/exports of goods and services	12.2	9.1	13.4	11.4	14.5	38.5	16.8	11.7	10.3	10.5	11.1
Interest/exports of goods and services	6.3	3.7	5.5	6.4	8.6	11.9	13.8	15.2	16.6	16.4	19.7

Source: ECLAC, on the basis of data published by the Central Bank of Bolivia.

^a Preliminary figures.

³ This process became especially acute between 1974 and 1978, when exports of goods grew 19% annually, while FOB imports of goods increased over 30%.

As a consequence of the foregoing, there was generally a trade deficit, but there were no difficulties in financing this, since the economy was receiving a strong inflow of external credits. Until 1979, the credits received by the economy amounted to US\$ 1 940 million.

In 1979, a part of the disbursed credits began to fall due, meaning a rise in the external debt service costs. In the face of these looming difficulties, the first process of renegotiation of the debt service was initiated. Furthermore, at the end of the year and with the purpose of reducing the foreign exchange outflow for import, the peso was devalued from 20.02 pesos per dollar to 24.53.

In the period 1980-1981, the trade balance produced a small surplus, but the net foreign exchange reserve position was negative, so that it became increasingly difficult to meet external debt payments and imports. Besides, in 1982 new debt services fell due which could not be paid for. On the other hand, the maintenance of a fixed exchange rate from the end of 1979 through early 1982, together with domestic rates of inflation higher than the international rates,⁴ amounted to subsidizing the consumption of foreign products.

In view of the foregoing, efforts were made to alleviate the foreign exchange shortage that began to be openly perceived since early 1982 by devaluing the currency in February of that year, raising the exchange rate by 76% to 43.13 pesos per dollar. In spite of this marked depreciation of the peso, however, speculation in dollars could not be restrained and the national unit of account practically lost its own identity.

In these circumstances, two exchange areas —the official market and the parallel market— were established in March 1982 with the purpose of increasing the stability of the exchange market. In addition, the rule whereby it was mandatory to surrender 100% of foreign exchange from public and private sector exports to the Central Bank was modified. These latter measures produced still greater instability, however. Prices soared,⁵ and the dollar reached a value in the parallel market that was up to six times higher than its official price (September 1982).

Against this background, a change of government took place in October 1982, and in November three measures in the exchange area were implemented in an attempt to solve the above problems. In the first place, a new devaluation was approved and at the same time a fixed exchange rate was reinstated, so that the area of free dollar quotation legally disappeared. The exchange rate rose by 354% from 43.13 to 196 pesos per dollar. Concurrently, a system of exchange control was introduced, whereby all foreign exchange operations were to be conducted through the Central Bank. Finally, the so-called dedollarization of the economy was carried out, which consisted in converting into national currency all debts contracted in dollars, attempting thereby to make the performance of the economy independent of the dollar price in the parallel market.

The dedollarization performed in November 1982 had, *inter alia*, the following objectives. On the one hand, it tried to restore a higher degree of control over the financial and monetary system; the process of dollarization of the economy which had taken place virtually meant the substitution of the dollar for the national currency in the majority of domestic transactions, and made control of the main monetary variables —and hence of the economy as a whole— increasingly difficult.

The other objective of dedollarization was to bring some relief to dollar debtors. Debt service costs had become very heavy as a result of the large borrowing incurred in the past, and the ever-increasing price of the dollar in the parallel market made it increasingly difficult for debtors to pay their commitments; this problem affected especially the productive sectors, whose financial costs were increasing as time went by, with an obvious impact on prices, which helped to increase the rate of inflation.

Dedollarization was carried out when private banks had accumulated foreign currency surpluses, and for that reason different exchange rates were applied to the assets and liabilities of banks.⁶

This was the broad background against which the performance of the exchange market during 1983 should be set. In essence, its behaviour throughout the year intensified the tensions noted earlier.

⁴The consumer price index in Bolivia grew between November 1979 and January 1982 by 514%, whereas in the same period the wholesale price index in the United States increased by 21%.

⁵Between July and September 1982, the average rate of increase in consumer prices was nearly 20% per month.

⁶See R. Morales Anaya, "Evaluación y análisis de las medidas de política cambiaria de noviembre de 1982", in *Puntos de Vista*, No. 3, September 1983.

During the last two months of 1982 and January 1983, the difference between the price of the dollar in the official and the parallel markets diminished considerably, and never exceeded 70%. Accordingly, in those months domestic prices remained relatively stable and their rate of expansion slowed down considerably; thus, in November they increased nearly 19%, but in December and January there were more moderate increases of 7% and 0.6%, respectively.

Later, between February and May there was some stabilization in the parallel market of the dollar, and its price even went down. In the course of the year the gap between the two prices expanded, however, so that the economy found itself once more in a situation of great instability.

As there was not enough foreign exchange, there was an ever-increasing gap between the official value of the dollar and its value in the parallel market. The value of the dollar for its part, determined the price of other goods, and controls established to prevent price increases were not effective. At the same time, the strong inflationary expectations of the economic agents fostered the hoarding of goods, causing in the short run a false shortage of certain items which led to new price increases.

Finally, price increases were passed on once again to the exchange market, thereby further increasing the price of the parallel dollar.

Table 13

BOLIVIA: EVOLUTION OF EXCHANGE RATES

	Nominal exchange rates (pesos per dollar)		Indexes of effective real exchange rate ^b	
	Oficial ^a (purchase)	Parallel market (purchase)	Exports	Imports
1975	20.00	...	96.6	102.7
1976	20.00	...	102.8	108.4
1977	20.00	...	99.1	106.4
1978	20.00	...	102.8	110.3
1979	20.39	...	104.8	107.5
1980	24.51	...	100.0	100.0
1981	24.51	...	73.5	76.0
1982	99.00	144.0	125.9	130.4
1983	230.00	646.0	76.5	78.4
1981				
I	24.51	...	85.6	76.0
II	24.51	...	78.6	80.8
III	24.51	...	69.9	72.1
IV	24.51	...	69.8	72.3
1982				
I	40.70	44.8	99.1	101.9
II	68.60	90.3	127.1	131.3
III	116.50	196.6	135.0	140.5
IV	169.90	244.4	127.5	131.4
1983				
I	196.00	415.5	117.0	121.0
II	196.00	398.2	90.0	91.8
III	196.00	662.6	63.8	65.0
IV	331.00	1 107.7	64.9	66.7

Source: Central Bank of Bolivia; ECLAC, on the basis of official data; and International Monetary Fund, *International Financial Statistics*.
^a Exchange rate used by the banking system to convert foreign currency into national currency. ^b These are the indexes of the real official exchange rate for the peso [except during March-October 1982, when a real rate obtained from the average official rate (weighted 40%) and the open-market exchange rate (weighted 60%) was in use] *vis-à-vis* the currencies of trading partners, weighted according to the relative size of exports or imports to or from those countries. With respect to the methodology and sources used to calculate the effective real exchange rate, see the Statistical Appendix of ECLAC, *Economic Survey of Latin America, 1981*, United Nations publication, Sales No. E.83.II.G.2.

As from June, an enormous difference between the dollar price in the two markets occurred again. The difference in that month was 120%, and each month it increased progressively, until it reached 340% in October. At the same time, the growth rate of the general consumer price index between the same months (June-October) was nearly 86%.

In November, with an exchange rate in the parallel market amounting to nearly four and a half times that in the official market, the official peso/dollar rate was modified from 196 pesos to 500 pesos. Following this devaluation, the gap existing between the two markets in which the dollar was traded was somewhat reduced, but it still remained large, and in November and December the dollar exchange rate in the parallel market was two and a half times higher than that in the official market.

Finally, in the highly unstable situation described above, the effective real exchange rate could not help reflecting the inflationary tensions nor the highly speculative process which developed in the economy. The annual average indexes of the effective real exchange rate for exports and imports dropped 40% in both cases (see table 13), and the levels at which the two indexes stood were very close to those of 1981, which in turn had been the lowest since 1970.

In brief, the fundamental problem in 1983 continued to be the shortage of foreign exchange in the economy, both to meet the external debt service costs and to pay for essential imports. That caused complaints throughout the year by the import sectors, which also complained about the slow procedures of the Exchange Policy Commission (Comisión de Política Cambiaria) —established in November of the preceding year— in relation to the study and approval of import licenses.

4. Prices, wages and employment

a) *Price trends*

In 1983 the rate of inflation remained in the triple-digit level for the second consecutive year. The December-December variation in the consumer price index was 329%, a slightly higher rate than that of 1982 (see table 14). Although all the components of the consumer price index exhibited substantial increases, food prices took the lead with a growth rate of 344%. Clothing and the "miscellaneous" component showed similar increases, while the housing component rose somewhat less (228%).

The variation between annual averages also grew at an accelerated pace. Thus, the general consumer price index expanded 276%, after having grown by 124% in 1982. The same happened with all components of the consumer price index, a remarkably fast increase being observed in the price of food products, which rose by 304% or nearly two and a half times the rate of 1982.

Wholesale prices rose even faster than consumer prices. The December-December general index rose by 518%: an increase of slightly over 100 points with respect to 1982. The highest price increase (693%) was in the case of imported products, which had risen by 543% in 1982. The rate of increase in the prices of agricultural products also accelerated (601% compared to 275% the preceding year). As for the prices of manufactures in 1983, they increased less than the year before, although they still rose at a rapid rate (345%) (see table 14).

The variation between annual averages of the wholesale price index was 416%. In contrast with what occurred with the December-December variation, in this case the prices of agricultural products increased the most (518%), while import prices rose 489%. Manufactures, in contrast, rose somewhat less (312%).

The overall high rate of inflation for the year showed different fluctuations during the period. Thus, during the first six months, in spite of the marked acceleration during February and March in the monthly rates of consumer price rises (10.2% and 11.8%, respectively), the general trend was towards a slower increase. Month-to-month variations in the general price index in April and May, and especially in June, were smaller (see figure 2).

In the second part of the year, in contrast, the rate of variation of prices accelerated considerably. Between July and December the growth rate was never below 10% per month, and it ranged around 25% in August, November and December.

Price increases stemmed from the food shortage noted earlier, which was especially severe in the second half of the year, and from difficulties in importing products due to the lack of foreign exchange. Moreover, the depreciation of the peso *vis-à-vis* the dollar meant that prices of both

imported and national products increased because they were in practice indexed according to the exchange rate in the parallel market.

Another important inflationary factor was the fiscal deficit, which expanded in nominal terms by 90%, following a considerable higher rise in 1982. The expansion of the means of payment needed in order to cover the fiscal deficit also influenced the rate of domestic price increases.

Unregistered trade in goods also affected the rise in the cost of living. Several attempts were made to reduce the extent of this activity, which arose mainly for two reasons. One was the enormous disparity between the official exchange rate and that in the parallel market, and the other was the considerable differences between the prices of essential goods in the country —subsidized in many cases— and the price of the same goods in neighbouring countries.

Finally, and within the context of the pricing policy implemented throughout the year, it is worth mentioning the two price increases for essential goods approved by the Government, one in March and the other in November, as the progressive approach of these prices to the equilibrium levels of the market. The policy of progressively reducing the subsidies had a dual purpose: to promote domestic production, and to prevent the diversion of national products to other markets.

b) *Wages and salaries*

During 1983, wages and salaries were one of the issues that received most attention in the package of economic policy measures put into effect. This was basically due to two different reasons. On the one hand, in previous years real wages had suffered a significant deterioration, and the repercussions of this process were not only economic. On the other hand, the wage structure in force up to then had formed a complex system of remunerations which made wage policy management more difficult.

With respect to the first issue, since 1980 there had been a steep fall in the purchasing power of wage earners. That year, real average wages decreased by 5.5%, and in the two following years the drops were even larger: in 1981 wages fell nearly 9% and in the following year the decline was 27% (see table 15).

Table 14

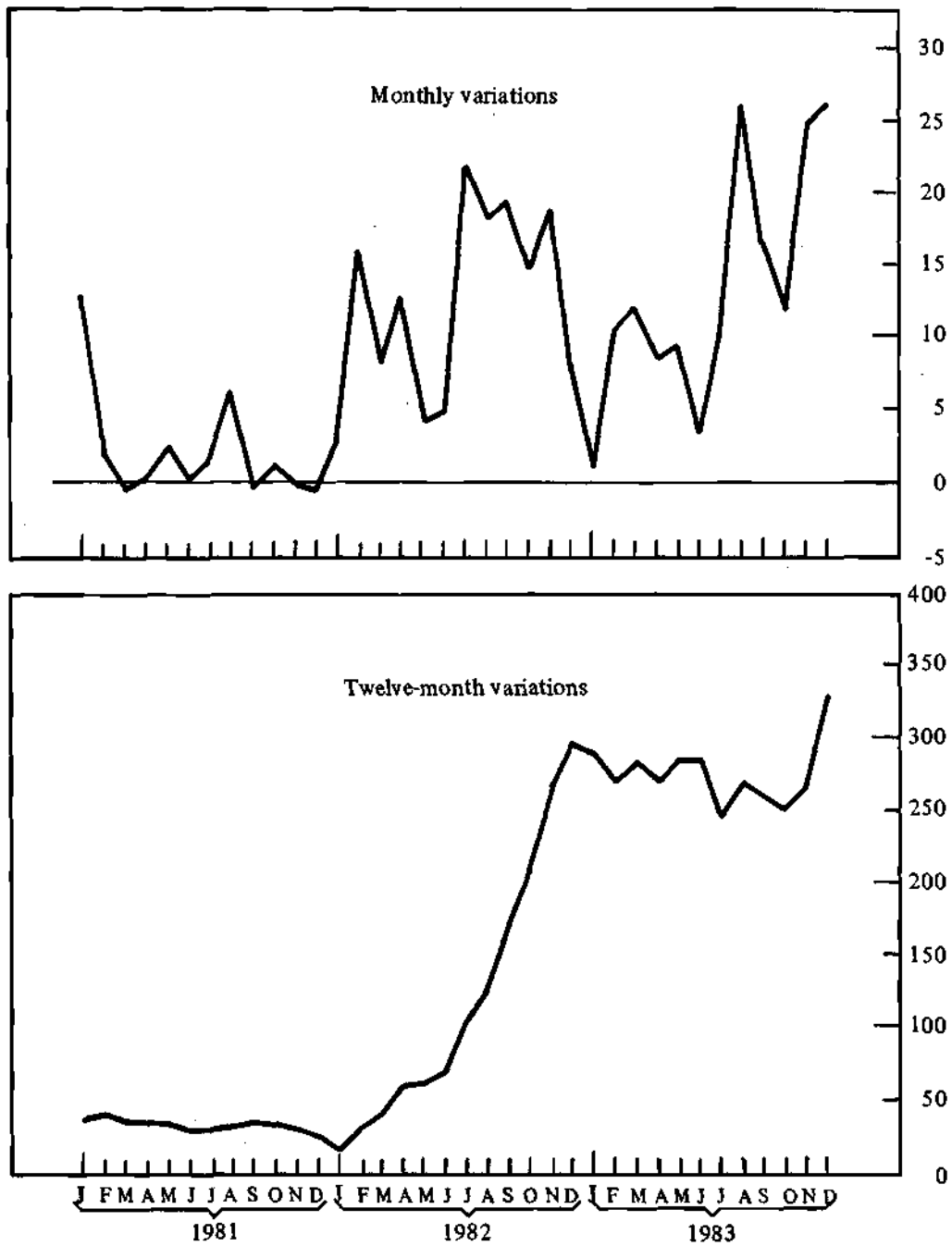
BOLIVIA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982	1983
	Variation December-December							
Consumer price index	5.5	10.5	13.5	45.4	23.9	25.1	296.5	328.5
Food	5.3	10.3	14.8	45.4	22.6	26.6	313.2	343.6
Wholesale price index	11.4	9.5	18.6	43.5	35.2	27.9	406.1	517.8
Imported products	14.5	14.1	24.5	27.9	36.4	37.2	543.0	693.0
Domestic products								
Agricultural products	13.4	12.0	29.1	44.4	36.2	14.4	274.6	601.1
Manufactures	8.8	5.6	9.1	53.5	33.8	31.1	395.8	344.7
	Variation between annual averages							
Consumer price index	4.5	8.1	10.3	19.7	47.2	32.1	123.5	275.6
Food	2.4	8.1	10.0	18.6	47.6	35.2	123.9	303.7
Housing	9.5	12.0	11.3	21.3	47.8	32.7	100.4	179.5
Clothing	10.9	4.0	8.8	15.9	42.6	24.0	129.0	249.9
Miscellaneous	4.2	8.4	13.0	28.8	49.5	23.1	142.0	237.1
Wholesale price index	6.6	10.2	15.6	23.9	49.3	35.5	227.9	415.9
Imported products	8.4	15.1	23.6	18.0	35.6	43.8	342.4	488.6
Domestic products								
Agricultural products	6.3	13.9	20.5	27.8	54.6	24.7	139.7	517.6
Manufactures	6.0	5.4	8.4	25.5	54.5	37.6	211.1	311.6

Source: National Statistical Institute and the Central Bank of Bolivia.

Figure 2

BOLIVIA: CONSUMER PRICE INDEXES



Source: ECLAC, on the basis of data supplied by the National Statistical Institute.

Wage losses in almost every branch of economic activity were considerable. In 1981, the real wage index in mining decreased by 12%, and this downturn was followed by another of 38% one year later. In manufacturing, the overall drop in the index between 1981 and 1982 was 45%, and in the petroleum industry the same index, after having practically stagnated in 1981, fell 52% the following year.

It may be assumed that in 1983, as a consequence of the sharp nominal wage increases implemented during the year, the deterioration exhibited by average real wages may have been checked. On the basis of the data available up to March, average real wages are estimated to have fallen 2.5% with respect to the 1982 average.

The new government, which took office at the end of 1982 formulated its wage policy in the light of the decline in real wages. For that reason, in analysing the evolution of that policy during 1983 account should be taken of the measures that were adopted in this respect in November of the preceding year.

In the first days of November 1982, the Government introduced a set of provisions designed to rationalize the wage system. To that end, a general wage increase was approved, both for the public and private sectors. For wage earners receiving 15 500 pesos or less, the increase was 30%; in the case of wages over that amount, an increase of 4 650 pesos per month was established.

A minimum monthly wage of 8 490 pesos was also established, to be adjusted —on a one-time basis— after 100 days. Once that adjustment had been implemented, future adjustments would take place at certain intervals and would conform to criteria to be developed later.

In March 1983, as a consequence of the decision adopted in November of the preceding year, a sliding scale for the minimum wage was applied, involving an increase of 46% in the minimum wage for the public and private sectors. The figure was set bearing in mind the fact that in the period between November 1982 and February 1983, prices had gone up by the same amount; the minimum wage therefore went up from 8 490 pesos to 12 400 pesos per month.

On the other hand, in March 1983 two other important measures were taken. Firstly, from that date on, the principle of the sliding scale for the minimum salary was introduced. This meant that in the future, for the period of one year, the minimum wage would be adjusted according to the evolution of the price index. The sliding scale would be applied every six months, except if the increase in the price index in the meantime exceeded 40%, in which case the wage increase would be equal to the percentage of price increase, beginning to count from that date on a new period of six months for the

Table 15

**BOLIVIA: EVOLUTION OF AVERAGE WAGES IN
SELECTED ECONOMIC ACTIVITIES**

	1970	1972	1974	1976	1978	1979	1980	1981	1982	1983
Nominal wages in Bolivian pesos										
Mining	1 064	1 174	2 071	2 364	2 387	3 179	4 560	5 311	7 838	...
Manufacturing	903	1 141	2 112	2 739	3 178	3 928	5 182	6 145	8 912	...
Petroleum	1 064	1 174	2 071	5 363	8 911	10 040	14 847	19 443	20 723	...
National average	1 045	1 178	2 161	2 728	3 371	3 979	5 540	6 681	10 889	24 433 ^a
Indexes of real wages (1970 = 100)										
Mining	100.0	99.9	82.8	83.3	76.4	78.4	76.4	67.3	41.4	...
Manufacturing	100.0	114.4	98.9	113.7	110.5	114.0	102.3	91.8	59.6	...
Petroleum	100.0	99.9	82.8	188.9	263.2	247.6	248.7	246.5	117.5	...
National average	100.0	102.1	87.5	97.9	101.3	99.9	94.4	86.2	62.8	61.3 ^a
Annual variation of the national index	-	-1.9	-18.7	20.4	0.4	-1.4	-5.5	-8.7	-27.1	-2.4

Source: Ministry of Labour, National Wages Commission.

^aIncludes the cities of La Paz, Santa Cruz, Cochabamba and Oruro, and refers to the first quarter of the year.

Table 16

BOLIVIA: EVOLUTION OF EMPLOYMENT AND UNDEREMPLOYMENT^a

	1978	1979	1980	1981	1982	1983
						Central axis ^b July-Sept.
Unemployment rate	4.5	5.2	7.5	8.6	9.9	12.26
Underemployment rate	43.9	46.1	48.5	50.9	53.5	...

Source: National Statistical Institute, Permanent Household Surveys.

^aTotal capitals. ^bComprises the cities of La Paz, Santa Cruz, Cochabamba and Oruro.

future application of the sliding scale. Secondly, all workers who received wages higher than the minimum —except those who earned more than 50 000 pesos— received an equal increase of 3 910 pesos. In accordance with the behaviour exhibited by prices in the following months, a new rise in the minimum salary of workers in the public and private sectors was agreed in July. In this case, the wage increment was 41%, bringing the minimum wage to 17 484 pesos.

From October until the end of the year, wage policy became much more complex. Between July and October some sectors of economic activity had received new wage increases in accordance with the existing regulations. Consequently, in October a rise of 23% in the minimum wage from 17 484 pesos to 21 500 pesos was decided in order to standardize the situation of all wage earners. Also in October an additional increase of 40% was applied to that amount, so that the minimum wage rose to 30 100 pesos. Moreover, the establishment of a compensatory bonus of 22 500 pesos, to be paid in three months starting in November, was also agreed. As a result of all these increases, the minimum wage in November and December amounted to 37 600 pesos.

Another fundamental objective established by the economic authorities, which they attempted to achieve from the end of 1982 and throughout 1983, was to rationalize and simplify the wage system in the country. Until October 1982, the forms of payment exhibited a great variety, with different components according to the type of establishment, and there were even cases in which each firm set its own remuneration pattern. The system was organized on the basis of a relatively low basic wage or salary, increased by the addition of countless compensatory bonuses.⁷

In view of this situation, there were attempts, through different measures adopted as from November 1982 and during 1983, to modernize the wage structure. To that end a series of steps pointing in the following directions were taken. On the one hand, except for those bonuses paid for seniority, overtime, dependency allowances, etc., all others were consolidated and incorporated into the basic wage. On the other hand, the concepts of production bonus and professional category were redefined, since they no longer answered the purpose for which they had been created.

Finally, other important measures were adopted during the year, among them a ban on the granting by public and mixed enterprises, as well as by decentralized public institutions, of wage increases departing from the wage policy defined by the Government. An electricity tariff of a social nature was also established, providing for a minimum consumption at a preferential price.

Furthermore, in the second half of the year frequent references began to be made to a widespread urge for higher wages not matched by an increase in production and productivity, and it was decided that in the future both concepts should be taken into account in the indexes used for wage calculations.

c) *Evolution of employment and unemployment*

Because of the generalized crisis, the unemployment already existing in the Bolivian economy expanded further during 1983, thereby confirming the trend of previous years. The unemployment rate ranged around 12% (see table 16).

⁷As evidence of the degree of anarchy prevailing in the field of wages, it may be noted that by November 1982 the wage structure had become so heterogeneous that, in addition to the basic wage and seven compensatory cost-of-living bonuses, there were a number of other supplementary bonuses making up the total wage. Their number changed from one branch of economic activity to another; for example, in manufacturing the number of supplementary bonuses amounted to 53; in services to 40; in the banking sector, to 38; in commerce to 31, and to smaller numbers in the other economic sectors.

The factors leading to this increase in unemployment were related, among others, to the sharp fall in production and import difficulties. In addition, as a consequence of the natural disasters that affected almost the entire agricultural sector, unemployment increased sharply in rural areas, and this contributed to increased migration to the cities. As employment possibilities in urban areas were not very favourable, the already extremely high levels of underemployment got worse.

According to surveys undertaken by the Ministry of Planning and Co-ordination, the repercussions of the droughts and floods were enormous. Forty-six per cent of the rural population suffered the loss of between 50 and 100% of their sources of employment, meaning fewer jobs for some 300 000 persons, representing 19% of the rural economically active population, or 22%, if only the highland departments are considered.

5. Monetary and fiscal policy

a) *Evolution of the means of payment*

Although the monetary base expanded considerably in 1983 (181%), this was a much slower rate of expansion than in 1982, when it rose nearly 300%. This slower growth rate was made possible because the process of monetization of assets followed by the Central Bank diminished considerably (see table 17), the reason being that in 1983 the net credit granted to the public sector and the financing made available to banks increased by only 69% and 116%, respectively, compared with increases of 422% and 341% the preceding year (see table 17).

In 1983 the approach taken two years earlier was maintained and the financing granted to the central government suffered a sharp fall. The growth rate of credits granted to the rest of the public sector also diminished very considerably after the large increase that they had experienced in 1982.

As a consequence of the smaller increase in the monetary base in 1983, the variations experienced by the currency outside banks and the cash reserves of banks were also smaller than in 1982. In that year they had been enormous (258% and 365%, respectively), but in 1983 they grew by only 158% and 221% (see table 17).

Table 17

BOLIVIA: MAIN MONETARY INDICATORS

	Year-end balance (millions of pesos)				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^b
1. Monetary base	13 742	16 195	63 726	143 379	39.6	17.8	293.5	180.6
Origin								
International reserves (net)	-2 219	-6 021	-63 531	972				
Credit to public sector (net)	13 329	16 878	88 070	34 186	68.3	26.6	421.8	68.9
Central government	8 028	11 205	222	-139 018	81.6	39.6		
Other public sector	5 301	5 673	87 848	173 203	51.4	7.0	1 448.0	77.5
Financing to banks	3 983	4 770	21 038	41 585	34.5	19.7	341.0	116.2
Other items (net)	-1 353	568	18 150	-66 635			3 095.4	
Destination								
Currency outside banks	9 461	10 852	38 898	84 502	31.9	14.7	258.4	158.0
Cash reserve of banks	4 281	5 343	24 828	58 877	60.3	24.8	364.7	221.0
2. Demand deposits	4 777	6 301	17 659	36 044	63.8	31.9	180.3	165.4
3. Money supply (M ₁)	14 238	17 153	56 557	120 546	41.1	20.5	229.7	160.2
4. Fixed-term deposits	8 855	12 421	41 979	79 800	34.2	40.3	237.9	105.6
5. Money supply (M ₂)	23 093	29 574	98 536	200 346	38.4	28.0	233.2	135.3

Source: Central Bank of Bolivia.

^a Preliminary figures. Data correspond to November.

^b Figures were calculated with respect to the same period of the preceding year.

Table 18

BOLIVIA: STRUCTURE OF INTEREST RATES

(Percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Loans										
Business and private activities										
Maximum effective nominal rate	15.0	15.0	15.0	15.0	15.0	19.0	20.8	27.0	38.0	59.5
Real rate	-23.2	15.8	19.6	15.6	13.3	5.2	-13.2	-0.1	-35.1	-53.1
Productive activities										
Maximum effective nominal rate	19.0	19.0	19.0	19.0	19.0	19.0	23.0	24.8	32.0	57.5
Real rate	-26.9	10.2	13.9	10.1	7.8	2.7	-15.2	-0.1	-36.0	-53.7
Deposits										
Deposits in savings banks										
Minimum nominal rate	10.0	10.0	10.0 ^b	10.0 ^b	10.0 ^b	15.0 ^b	17.0	22.0	30.0	38.2
Real rate	-32.4	1.9	5.3	1.8	-0.3	-3.9	-20.5	-7.7	-41.8	-59.4
Fixed-term deposits in national currency										
Minimum nominal rate	...	10.7	10.7	10.7	10.7	11.7	18.0	23.0	32.0	40.2
Real rate	...	3.5	6.9	3.4	1.3	-3.1	-19.9	-6.9	-40.9	-58.8

Source: Central Bank of Bolivia.

^aAnnual averages, up to and including November.^bWith a clause protecting their value.

The growth rate of demand deposits also decreased; in 1983 they expanded 165%, compared to slightly over 180% the year before.

As a result of the increase in currency outside banks and the expansion of demand deposits, the money supply (M_1) rose by 160%, i.e., less than in 1982. The expanded money supply (M_2), for its part, grew by 135%, compared with 233% in 1982, but in view of the high domestic inflation, the large nominal increases in the monetary supply represented sharp contractions in real terms.

As regards domestic nominal interest rates, those for both deposits and loans were raised in two occasions during 1983. However, the most significant fact was the deterioration they experienced as a consequence of the price increases that occurred during the year. In real terms, interest rates on credits granted by the banking system for commercial or productive activities were sharply negative (-53%). At the same time, the rate of return for private persons making savings or fixed-term deposits was also negative (-59%) (see table 18).

These negative real interest rates explained, in part, why the public preferred to maintain an important share of their wealth for transactions in cash, instead of letting it lose its value. Something similar may have occurred with respect to the rate of return of credit operations carried out by banks.

In 1983, legal cash reserve rates were modified on two occasions, the first as part of the package of measures approved in March, and the second in July. In both cases, the rates were raised for both national and foreign banks by between 5 and 12.5 points, depending on whether they referred to demand deposits, deposits in savings banks, etc., in national currency. For demand deposits and fixed-term deposits in foreign currency, the cash reserve rate remained 100%.

One of the main reasons for raising interest and cash reserve rates was to restrict the surplus liquidity in the economy and thus reduce the high rate of price increases.

Lastly, it is worth mentioning that in view of the big price increases experienced during the year and the strong speculation with the dollar, there were few incentives to make any productive investments. In actual fact, the most profitable economic activity was indebtedness in national currency. Those who were in a position to do so applied to the banking system for credits in national currency and then converted the resources thus obtained into dollars in the parallel market in order to protect their wealth, or to perform later the reverse operation, according to the rate of variation of the exchange rate in this market. Taking into account the rapid price increases in the economy, the

profitability of the operation stemmed essentially from the fact that interest rates were negative, while in the second place there was also a small increase in the value of the dollar in real terms on the parallel market.⁸ Furthermore, the mere conversion of wealth into dollars allowed its owners to protect themselves from the deterioration of the Bolivian national currency.

b) *Central government income and expenditure*

In nominal terms, the behaviour of central government current income and total expenditure during 1983 was quite different from that recorded in 1982, for while the former nearly doubled, the latter markedly slowed down their high rate of expansion. As a consequence of these different forms of evolution the fiscal deficit at current values grew in 1983 considerably less than the preceding year. Thus, whereas in 1982 the deficit increased at a rate of nearly 1 000%, a year later it expanded by only 90% (see table 19).

The above considerations, however, have little significance in the context of the inflationary process in which the economy was immersed between 1982 and 1983. For that reason, it is more realistic to make the corresponding comparisons in real terms.

In constant values, current income shrank by 47% during 1983, so that it amounted to only half the value of the preceding year and one-third of the 1981 level. This was therefore the fifth consecutive year of persistent decline in the real income of the central government (see table 20).

As may be seen from the figures, the main income of the National Treasury showed a negative performance during the year. The main declines in central government revenue were in the field of mining and petroleum royalties and customs revenue. Income from foreign trade operations dropped nearly 72%, following another decline in 1982 of 46%. However, the steepest falls of 1983 were in royalty income: mining royalties decreased nearly 90% and petroleum royalties approximately 74%. The smallest downturn was in domestic income tax, which fell by 27% (see table 20).

On the expenditure side, the total amount suffered a drop of 49% in real terms, in contrast with the increase of 140% recorded in 1982. Payments for personal services fell 35% in the first nine

Table 19

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of pesos					Growth rates			
	1979	1980	1981	1982	1983	1980	1981	1982	1983
Current income	8 384	11 793	14 069	19 316	38 217	40.6	19.3	37.3	97.8
Inland revenue	3 621	4 460	5 087	7 950	16 051 ^a	23.2	13.9	56.5	254.1 ^a
Customs revenue	2 064	2 563	3 150	3 800	3 453 ^a	24.2	22.9	20.6	39.1 ^a
Additional export tax	807	127	10	65	162 ^a	-84.3	-92.1	550.0	285.7 ^a
Mining royalties	1 333	1 771	889	1 776	797 ^a	32.8	-49.8	99.7	-51.6 ^a
Petroleum and gas royalties	80	1 852	2 406	4 186	2 054 ^a	2 215.0	29.9	73.9	26.8 ^a
Other income	480	1 020	2 535	1 539	3 386 ^a	2 025.0	148.5	-39.3	444.4 ^a
Total expenditure	15 035	21 521	24 286	130 275	249 116	43.1	12.8	436.4	91.2
Personal services	5 948	9 706	11 931	23 515	40 201 ^a	63.2	22.9	97.1	212.4 ^a
Non-personal services	587	946	1 147	2 567	3 149 ^a	61.1	21.2	123.8	450.5 ^a
Materials and supplies	692	1 512	2 532	3 340	5 689 ^a	118.5	67.5	31.9	333.6 ^a
Fixed and financial assets	317	1 345	1 599	1 564	2 849 ^a	324.3	18.8	-2.2	291.8 ^a
Public debt	1 831	3 817	3 093	75 954	7 203 ^a	108.5	-18.9	2 355.6	747.4 ^a
Transfers and contributions	3 424	2 552	2 674	5 910	12 969 ^a	-25.5	4.8	121.0	371.0 ^a
Other expenditure	2 236	1 642	1 310	17 425	16 890 ^a	-26.6	-20.2	1 230.1	169.7 ^a
Deficit	6 651	9 728	10 217	110 959	210 899	46.3	5.0	986.0	90.0

Source: Central Bank of Bolivia.

^aData refer to September and rates were calculated with respect to the same period of the preceding year.

⁸The following example illustrates the above more clearly. The real interest rate of credits for commercial and private activities was 53%. The profitability of the process of taking out debts in pesos and converting them into dollars is explained by the fact that, for every 100 pesos of indebtedness with the banking system, only 47 pesos had to be paid back in real terms, and as in addition the dollar had a slight increase in real terms, this further added to the profitability stemming from the debt depreciation.

Table 20

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of pesos of 1970					Growth rates			
	1979	1980	1981	1982	1983	1980	1981	1982	1983
Current income	2 201	2 102	1 898	1 166	614	-4.5	-9.7	-38.6	-47.3
Inland revenue	950	795	685	480	258 ^a	-16.3	-13.8	-29.9	-26.9 ^a
Customs revenue	542	457	425	229	55 ^a	-15.7	-7.0	-46.1	-71.5 ^a
Additional export tax	212	23	1	4	3 ^a	-89.2	-95.6	300.0	. ^a
Mining royalties	350	316	120	107	13 ^a	-9.7	-62.0	-10.8	-89.8 ^a
Petroleum and gas royalties	21	330	325	253	33 ^a	1 471.4	-1.5	-22.2	-73.8 ^a
Other income	126	182	342	93	54 ^a	44.4	87.9	-72.8	-12.5 ^a
Total expenditure	3 946	3 836	3 276	7 862	4 003	-2.8	-14.6	139.9	-49.0
Personal services	1 561	1 730	1 609	1 419	646 ^a	10.8	-6.9	-11.8	-35.4 ^a
Non-personal services	154	169	155	155	51 ^a	9.7	-8.3	-	15.9 ^a
Materials and supplies	182	270	342	202	91 ^a	48.3	26.6	-40.9	-10.7 ^a
Fixed and financial assets	83	240	216	94	46 ^a	189.2	-10.0	-56.5	-19.3 ^a
Public debt	481	680	417	4 584	116 ^a	41.3	-38.7	999.2	75.7 ^a
Transfers and contributions	899	455	361	357	208 ^a	-49.4	-20.6	-1.1	-2.8 ^a
Other expenditure	587	293	177	1 052	271 ^a	-50.0	-39.6	494.4	-44.3 ^a
Deficit	1 746	1 734	1 378	6 696	3 389	-0.6	-20.5	385.9	-49.3
	Main ratios (percentages)^b								
Deficit/total expenditure	44.2	45.2	42.0	85.1	84.6				
Deficit/gross domestic product	9.1	9.0	7.2	38.7	21.1				
Current income/gross domestic product	11.5	10.9	10.0	6.7	3.8				
Total expenditure/gross domestic product	20.6	19.9	17.2	45.5	24.9				

Source: Central Bank of Bolivia.

^aData refer to the period January-September, and rates have been calculated with respect to the same period of the preceding year.

^bFigures calculated on the basis of real values.

months. The value of purchases of materials and supplies, as well as that of fixed and financial assets, decreased 11% and 19%, respectively, whereas the entry "other expenditure" fell 44%. Disbursements for transfers and contributions declined considerably less. The only expenditure that increased in real terms was that in respect of non-personal services—partly because of the disbursements that had to be made to confront the disasters that affected the economy during the first part of the year—and public debt services, which were exceptionally high.

As a result of all the above, the deficit shrank 49% in real terms, after having expanded in 1982 by the enormous amount of 386%.

In spite of the foregoing, the figures for 1983 continued to evidence the crisis in which the central government is still entangled. Current income as a percentage of the gross domestic product, after having declined from 10% in 1981 to less than 7% in 1982, went down yet again in 1983, when it represented less than 4% of the product.

With respect to expenditure, there was a substantial improvement in 1983. This item, which in the preceding year had been equivalent to 45% of the product, decreased practically to one-half of this (25%) a year later. A drop of this size was made possible because, although in both those years the product shrank significantly, in 1982 real expenditure expanded, while in 1983 it decreased.

In view of all the above, although the deficit had declined from its 1982 level of the equivalent of 39% of the product, it still stood at an extremely high level in 1983 (21%).

The financial difficulties that the central government had suffered in recent years are also evidenced by the fact that between 1979 and 1981 the real income of the Treasury only covered 55% of its expenditure: a situation that became even more acute in 1982 and 1983, when it only covered 15%.

In this context, the measures adopted during the year attempted to rationalize the legal provisions in force while raising fiscal revenue, on the one hand, and reducing public expenditure, on the other. In March, public enterprises were forbidden to agree to wage policies different from those established by the Government for the country as a whole. In June, but with retroactive effect as of January, a new income tax scheduled for natural persons and a new scale for the inheritance tax on undivided estates were established. Income tax on wages under 14 000 pesos was eliminated, while that on remunerations ranging between 14 000 and 20 000 pesos were reduced by 65%. At the same time, new exempt minimums and deductions for dependants were established.

Finally, other important provisions included in the measures adopted in November may be mentioned. Given the strong speculation on the dollar in the second part of the year, which in turn resulted in high price increases, it was decided that the Finance Ministry should supervise all foreign exchange purchase and selling operations.⁹ Furthermore, the first steps were taken to ensure that all institutions and public or joint enterprises regularized their debts with the Central Bank. It should also be mentioned that a 40% reduction was granted on income tax retentions of wage earners during the last quarter of the year.

⁹Evidence of the seriousness of the speculation problem was the establishment of a reward for informers and pertinent authorities amounting to 50% of the value of transactions not in keeping with legal requirements.

BRAZIL

1. Recent economic trends: Introduction and summary

Application of the economic adjustment programme agreed with the International Monetary Fund (IMF) was undoubtedly the central element in Brazilian economic policy in 1983. This programme was drawn up at the end of 1982 and enjoyed the financial support of the Fund, which thus also gave its backing for the refinancing of the debts with foreign commercial banks and the procurement of fresh credits. A salient feature of this programme was the policy of austerity in public expenditure, which was to be applied more vigorously than in preceding years with a view to reducing the high fiscal deficit.

Another significant feature of the adjustment programme was the adoption of an exchange-rate policy designed to improve competitiveness in the export field. In view of the unsatisfactory balance-of-trade results observed early in the year, an extraordinary devaluation of the cruzeiro was decreed by the authorities in February. The policy of periodical mini-devaluations in line with domestic inflation which was continued thereafter enabled the real exchange rate thus established to be maintained —a situation which contrasted noticeably with events following the previous major devaluation of December 1979.

The authorities also gave particular attention to wages policy, especially with regard to the prevailing system of adjustment of personal remunerations. The Government took the view that the index-linked wage policy was itself causing further inflation and adversely affecting the efficacy of the economic adjustment measures. It was consequently decided to modify the wage-adjustment procedures as from the beginning of the year.

An initial change in the corresponding regulations was accordingly introduced in January 1983, with the aim of keeping increases at the lowest wage levels (which had previously been subject to six-monthly adjustments at rates in excess of inflation) strictly in line with the variations recorded in the national index of consumer prices. As a result of continuing inflation and the difficulties being encountered in applying the economic adjustment programmes, wages legislation was again amended in July by limiting wage adjustments to a maximum of 80% of the variation recorded in the consumer price index. These modifications met with vigorous opposition in Congress, which even rejected the Government-sponsored amendments on two occasions. It was therefore not until November that the new wage-readjustment policy involving a partial reduction in the level of indexation applicable to wages was finally enacted.

Considerable difficulties were also encountered in 1983 in the procurement of external resources, and the inflow of loans was smaller than it had been before the severe contraction experienced as from September 1982. Credit procurement mechanisms were at the same time substantially modified, since the international banking system refused to continue granting new loans in the manner hitherto applied, whereby Brazilian institutions and foreign banks negotiated the loans freely and independently. In view of this adverse circumstance it became necessary to initiate negotiations between the Government and the country's foreign creditor banks, the latter being represented for this purpose by committees. Under the new system, both the granting and disbursement of loans became subject to the fulfilment of the terms agreed with the International Monetary Fund and to such other requirements as might be introduced by the banking committees.

Negotiations between the Government and the International Monetary Fund began in November 1982. In January 1983 the Government submitted a formal request in the form of a letter of intent specifying the adjustment programme it intended to apply in order to correct the internal and external imbalances affecting the national economy.

In February 1983 a credit was approved by the IMF in favour of Brazil for the amount of US\$ 4 900 million under an extended three-year agreement, in addition to a new compensatory financing loan of US\$ 500 million. In the same month negotiations were concluded by the

Government with foreign commercial banks for the refinancing of the existing indebtedness and procurement of fresh credits. The total resources thus promised by the commercial banks amounted to US\$ 4 400 million, while the conversion of amortization commitments into new loans came to approximately US\$ 4 500 million.

The adjustment programme agreed upon with the IMF included a set of measures in the exchange rate, monetary and fiscal spheres, and established quantitative quarterly limits as regards the net international reserves to be held by the national monetary authorities (Central Bank and Banco do Brasil), external indebtedness, exchange-rate variations, finance requirements of the non-financial public sector, and net domestic assets of the monetary authorities.¹ It was specified in the agreement that in the event of non-fulfilment of these specific quarterly targets loan disbursements would be withheld and would be resumed only after consultations and the establishment of new quantitative goals. The programme also included annual targets with regard to inflation, growth of federal government income in real terms, expansion of the monetary base and means of payment, and trade and current account balances in the national balance of payments. A number of economic policy measures were also agreed, such as the elimination of subsidies, establishment of new taxation and adjustment of the rates of existing taxes, containment of public expenditure, elimination of government expenditure charged to the monetary authorities, liberalization of the financial system and reduction of import and foreign-exchange restrictions.

Since the economic targets established for the first quarter of the year were not fulfilled, the IMF suspended payment of the disbursements due to be made in May and August. The foreign commercial banks took a similar attitude, withholding the disbursements scheduled to be made from May onwards. These decisions by the IMF and the commercial banks compelled the authorities to renegotiate the quantitative limits agreed upon at the beginning of the year. In September 1983 Brazil asked to be excused from the commitment to comply with the former targets, and new quantitative limits were agreed with the IMF and confirmed in a third letter of intent. The adjustment programme was at the same time expanded to include monthly targets with regard to growth of the money supply, the monetary base and the financial requirements of the federal and State governments, municipalities, and public enterprises. In contrast with what had previously been agreed with regard to the quarterly goals, however, non-fulfilment of these monthly targets would not now cause the automatic suspension of loan disbursements by the Fund but would only make it necessary to carry out mutual consultations.

Disbursements under the expanded agreement arrived at with the IMF were resumed in November 1983, and in December the commercial banks disbursed the suspended installments of the group of loans approved early in the year. In the last quarter of 1983 Brazil also set in motion negotiations with the foreign commercial banks with a view to obtaining a second group of loans to cover the accounts for that year, plus resources to finance the 1984 balance of payments. These disbursements were not however received before the year's end, with the result that some of the targets undertaken with the Fund remained unfulfilled.

The performance of the Brazilian economy in 1983 was undoubtedly unsatisfactory, as evidenced by the severe contraction (-3%) in economic activity, which caused a considerable reduction in per capita income for the third consecutive year (see table 1). In addition, a further increase was recorded in the already high rates of inflation and of urban unemployment. The external sector difficulties continued, especially in the balance-of-payments capital account. The high rates of interest in the international financial markets continued to affect the Brazilian economy adversely, and these interest rates, coupled with the high level of the foreign debt, were again the cause of a considerable transfer of resources to other markets. It nevertheless proved possible to achieve a substantial reduction of the balance-of-payments current account deficit, thanks to the positive balance on foreign trade in goods and services. Trade in goods showed a record surplus due to a significant recovery in exports and a further considerable reduction in imports.

The gross domestic product declined by 3.3%: the worst result recorded in this respect since the crisis of the 1930s. The per capita product, for its part, fell by 5.4%, which came on top of the 5% contraction experienced in the two preceding years. These results were decisively influenced by the

¹ Net domestic assets were defined in the first letter of intent as the difference between commitments *vis-à-vis* the private sector and the net international assets of the monetary authorities. In the third letter of intent issued in September, these assets were defined as the difference between the monetary liabilities and net international reserves of the monetary authorities.

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (billions of 1970 dollars)	100.9	107.7	116.2	114.0	115.2	111.4
Population (millions of inhabitants)	115.9	118.6	121.3	124.1	127.0	129.8
Per capita gross domestic product (1970 dollars)	871	908	958	919	908	859
Growth rates						
B. Short-run economic indicators						
Gross domestic product	4.8	6.7	7.9	-1.9	1.1	-3.3
Per capita gross domestic product	2.4	4.3	5.4	-4.1	-1.2	-5.4
Gross domestic income ^b	3.9	6.1	7.0	-3.9	0.4	-3.9
Terms of trade (goods and services)	-11.9	-7.3	-13.5	-13.9	-3.8	-3.9
Current value of exports of goods and services	5.1	22.3	30.8	16.8	-13.9	7.6
Current value of imports of goods and services	12.6	31.7	27.9	-2.1	-9.0	-20.9
Consumer prices ^c						
December-December	38.1	76.0	86.3	100.6	101.8	177.9
Variation between annual averages	38.6	52.7	82.8	105.6	98.0	142.0
General price index domestic availability ^d						
December-December	40.8	77.2	110.2	95.2	99.7	211.0
Variation between annual averages	38.7	53.9	100.2	109.9	95.4	154.5
Money	42.2	73.6	70.2	74.7	69.7	92.0
Wages and salaries ^e	50.4	57.7	92.5	117.1	112.1	
Rate of urban unemployment ^f	...	...	6.3	7.9	6.3	6.7
Current government income	43.8	46.0	139.2	85.4	104.2	145.5
Total government expenditure ^g	...	...	126.3	101.1	89.4	123.7
Fiscal deficit/total government expenditure	...	40.0	36.5	41.5	36.9	25.2
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-2 830	-5 019	-5 935	-1 677	-2 795	4 034
Balance on current account	-7 039	-10 483	-12 848	-11 760	-16 314	-7 560
Balance on capital account ^h	11 666	7 582	9 379	12 381	11 119	5 446
Variation in international reserves	4 640	-2 860	-3 322	747	-4 157	-1 587
Total external debt ⁱ	52 285	58 907	68 354	78 580	87 580	96 500

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect, less net factor payments to the rest of the world and net private transfer payments. ^cConsumer price indexes for Rio de Janeiro. ^dThe general price index is a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%) and building cost in the same city (10%). ^eAverage nominal wage in industry. ^fWeighted average of rates in main metropolitan regions. ^gIncluding financial costs relating to the public debt, except redemptions of securities. ^hIncluding long- and short-term capital, unrequited official transfers, and errors and omissions. ⁱIncluding the total medium- and long-term debt plus short-term indebtedness to financial institutions reporting to the Bank for International Settlements. The figures consequently differ in composition from those given in table 25.

severe contractions in the levels of activity of the manufacturing and building sectors. Real income registered an even more disadvantageous trend than that of the gross domestic product, since the terms of trade deteriorated for the sixth consecutive year.

Employment in the formal sector fell by more than 3%, reflecting the considerable decline observed in this connection in manufacturing and construction, while employment in the services sector showed an increase of slightly more than 1%. On the other hand, the rise in the average unemployment rate in the main metropolitan areas was relatively modest, increasing only from 6.3% to 6.7%, so that it failed to provide a clear indication of the real situation in the labour market. As in 1982, this development may be explained in part by a contraction of the economically active population, since many people out of work, discouraged by the prolonged recession,² gave up seeking employment.

Inflation rose appreciably in 1983. The general price index recorded a growth rate of 211% and showed a marked acceleration in the first nine months of the year. Prices rose in the first quarter at an annual rate of 170% —already a much higher figure than in 1982— and the annualized rate reached almost 300% in the third quarter. There was a significant decline in the final quarter of the year, but even so the final 1983 rate of inflation was more than 200% per year. These results considerably exceeded the targets established in the letters of intent submitted to the International Monetary Fund.

In order to reduce the rate of inflation, the Government—in addition to applying the measures provided for in the adjustment programme agreed with the Fund—resorted to administrative price controls and introduced the already-mentioned amendments in wages policy.

The decidedly unsatisfactory results of the anti-inflation policy may be explained by various factors, prominent among which were some measures deriving from the application by the Government of the adjustment plan itself, such as the curtailment of production subsidies in the case of farm products, the running-down of price-regulating stockpiles, and the devaluation of the cruzeiro *vis-à-vis* the US dollar. Also influencing the worsening inflationary situation were the natural disasters experienced in the course of the year (floods in the central-southern areas of the country, continuation of the drought in the northeast for the fifth consecutive year), which appreciably reduced domestic supplies, especially of basic food products. Inflationary expectations had been rising since the end of the preceding year as a result of the supply problems already referred to and fears of a severe devaluation of the cruzeiro due to the critical situation in the external sector. The existence of a generalized indexation system also helped to accentuate these expectations, as well as creating greater difficulties in the application of anti-inflation measures.

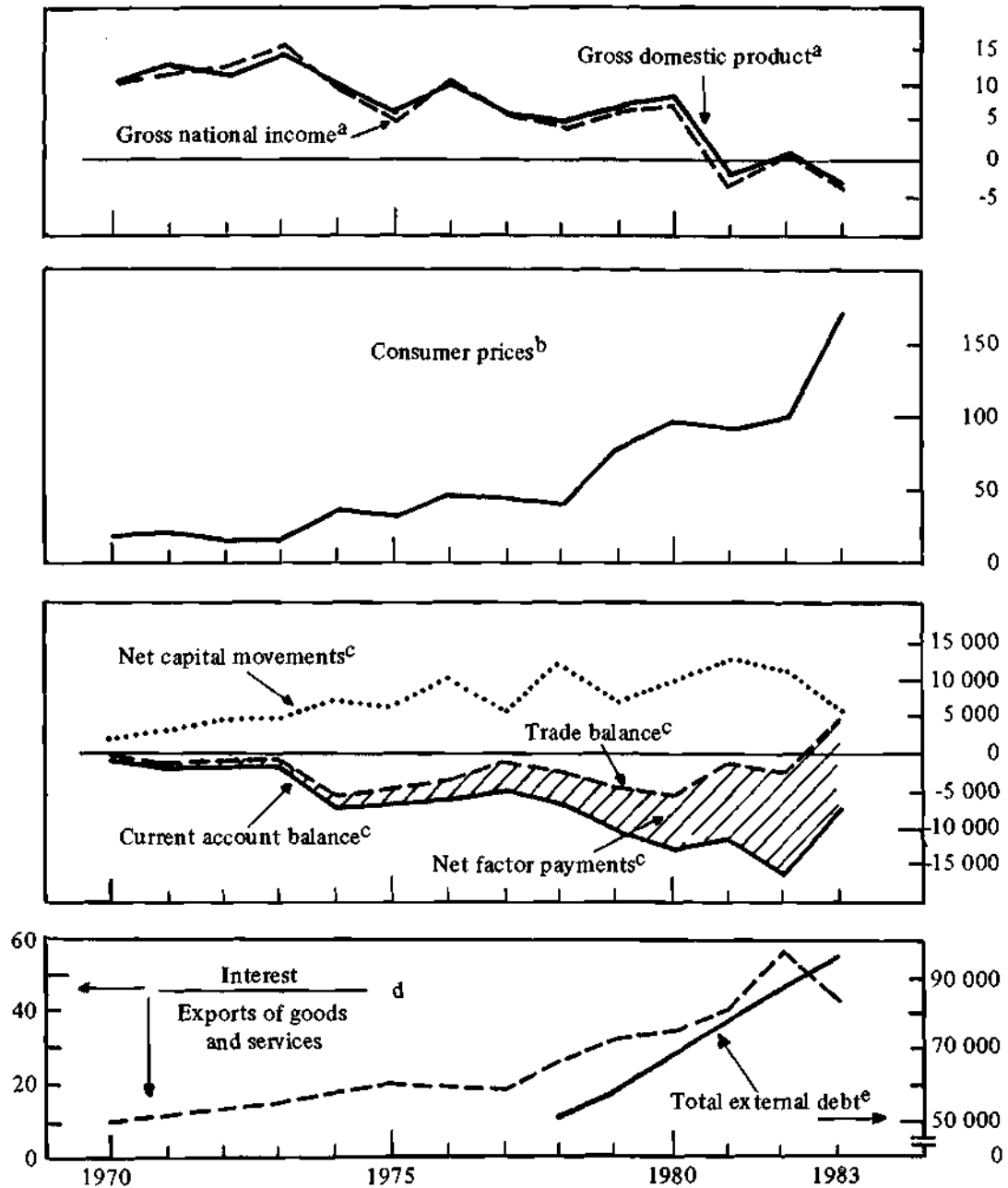
The area where the most favourable results were achieved was that of foreign trade, a positive balance of some US\$ 6 500 million being recorded on the merchandise trade balance, surpassing even the ambitious goal of US\$ 6 billion established by the economic authorities at the beginning of the year. The increase of 8.6% in exports represented a partial recovery from the considerable contraction of the preceding year and was due to the improved external competitiveness of Brazilian products arising from the depreciation of the cruzeiro in real terms. Recovery in the export field would have been greater had it not been for the fact that sales to developing countries, especially in the Latin American region, which in recent years had become important clients, fell drastically due to the severity of the economic crisis also affecting them. Imports continued to decline due to the application of more restrictive measures on external purchases and the incidence of the domestic recession.

Non-factor services showed more favourable results than in the past, the deficit on these transactions amounting in 1983 to US\$ 2 400 million compared with US\$ 3 600 million in the preceding year. As a consequence of these combined results, trade in goods and services in 1983 showed a surplus of US\$ 4 billion, in contrast with the deficits recorded in previous years. The deficit on current account, for its part, was substantially lower and was equivalent to only 45% of that recorded in the preceding year (see figure 1).

In spite of the noticeable improvement in the balance-of-payments current account, considerable difficulties continued to be encountered on the capital account, aggravating the situation experienced as from September 1982, when the inflow of medium- and long-term foreign loans was drastically reduced. Furthermore, the net outflow of short-term capital and the suspension of

²See the section on Brazil in ECLAC, *Economic Survey of Latin America, 1982*.

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bPercentage variation from December to December. Up to 1979 this corresponds to the consumer price index for Rio de Janeiro, and from 1980 onwards to the consumer price index for the entire country. ^cMillions of dollars. ^dPercentages. ^eIncludes the total medium- and long-term debt plus short-term debt to financial institutions reporting to the Bank for International Settlements. The above series therefore differs from the figures shown in table 25.

disbursements by the Fund and international creditor banks gave rise to serious balance-of-payments problems, with the result that pending foreign payment commitments began to accumulate rapidly. This situation induced the authorities to seek to negotiate the official debt with the Paris Club and to request new loans from the foreign commercial banks (second phase of renegotiation of the external debt). Due to the non-receipt of the first disbursements under the new credit facilities requested from the foreign commercial banks, by the end of the year the arrears in settling commitments due to the banks amounted to US\$ 2 340 million. The problems arising from these arrears made it necessary for the economic authorities to institute the centralization of all foreign exchange operations in the Central Bank as from August 1983.

As in former years, the economic adjustment plan included limits on the annual expansion of the monetary base and means of payment. In addition to those traditional indicators, quarterly targets were specified in respect of the net domestic assets controlled by the monetary authorities and loan requirements in the non-financial public sector. The programme also included various measures to reduce the financing needs of the public sector, outstanding among them those aiming to eliminate expenditure carried out in former years by the federal government and charged to the monetary authorities through the medium of "open accounts". In 1983, a significant proportion of this expenditure was covered with resources from current government income. As for the rest of the public sector, strict limits were fixed in regard to the expansion of credit granted by the financial system to public enterprises, State governments and municipalities.

With the same purpose of curbing monetary expansion, credits to priority activities such as agriculture, exports, and the alcohol-fuel programme were made subject to maximum growth limits in accordance with monetary budget availabilities. These credits had not formerly been liable to limitations of this nature since they, too, had been chargeable to the above-mentioned "open accounts". On the other hand, loans to other sectors granted under non-preferential conditions were liberalized by eliminating ceilings on their expansion.

Other important changes were introduced in the sphere of interest rates, all types of which were made subject to regulation by the Central Bank. Furthermore, preferential rates for priority activities were raised, with the aim of reducing the official subsidies granted in this respect.

In the sphere of fiscal policy, measures were introduced to improve the collection of tax revenues, although the increment targets in real terms set in this connection were not reached, since various types of taxes were affected by the decline in the level of economic activity. On the other hand, the planned results in the policy of restraining government expenditure were attained, since it proved possible to reduce outgoings both in the case of those chargeable to the Treasury and those effected through the monetary authority. In the latter instance, considerable reductions were achieved in the amount of subsidies granted in connection with credit and the marketing of basic commodities.

Despite these measures and the results obtained in the fiscal area, considerable difficulties were encountered in fulfilling the quarterly goals of the adjustment programme as regards net domestic assets held by the monetary authorities. In the first quarters of the year the results were close to the goals so defined, but towards the end of the year it became impossible to fulfil them, due mainly to delays in receipt of the second group of loans from the foreign commercial banks. Another factor that prevented fulfilment of the goals was the big injection of money made necessary in December to redeem the considerable volume of public-debt securities due for settlement at that time.

The monetary base and means of payment grew by approximately 90%, so that the corresponding goals for the year were close to being fulfilled. This was mainly due, however, to the contraction induced by the considerable decline in international reserves. According to other liquidity indicators, the increases were greater than planned, although still considerably less than the variation in prices.

Monetary control came up against serious difficulties as a result of the problems arising in the management of the domestic public debt. Thus, in order to alleviate the pressures on interest rates and relieve the lack of liquidity which was affecting many economic sectors, the Central Bank had to inject almost 2.3 billion cruzeiros into the monetary market: a sum equivalent to more than 100% of the monetary base at the beginning of the year. In addition, due to the above-mentioned redemption of securities, the balance of the public debt outside the field of action of the monetary authorities contracted by more than 30% in real terms. Monetary control was furthermore hampered by the inability of several public enterprises to meet their foreign debt servicing commitments, for which the Banco do Brasil had to assume responsibility.

Table 2

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1981	1982	1983 ^a	1970	1983 ^a	1980	1981	1982	1983 ^a
	Total supply	120 749	121 551	116 572	106.5	104.6	7.6	-2.4	0.7	-4.1
Gross domestic product at market prices	113 966	115 220	111 418	100.0	100.0	7.9	-1.9	1.1	-3.3
Imports of goods and services ^b	6 783	6 331	5 154	6.5	4.6	3.3	-10.6	-6.7	-18.6
Total demand	120 749	121 551	116 572	106.5	104.6	7.6	-2.4	0.7	-4.1
Domestic demand	110 691	112 323	105 945	100.5	95.1	6.7	-4.3	1.5	-5.7
Gross domestic investment				22.7	...				
Gross fixed investment	25 285	23 743	19 469	21.5	17.5	5.5	-7.5	-6.1	-18.0
Construction	15 247	15 188	12 150	12.5	10.9	7.8	-4.3	-0.4	-20.0
Machinery and equipment	10 038	8 555	7 319	9.0	6.6	2.3	-12.0	-14.8	-14.4
Changes in stock				1.2	^c				
Total consumption	85 406	88 580	86 476	77.8	77.6 ^c	7.1 ^c	-3.3 ^c	3.7 ^c	-2.4 ^c
General government	10 076	10 680	10 680	10.5	9.6	1.8	-2.0	6.0	.
Private	75 330	77 900	75 796	67.3	68.0 ^c	7.8 ^c	-3.5	3.4	-2.7 ^c
Exports of goods and services ^b	10 058	9 228	10 627	6.0	9.5	22.0	23.9	-8.3	15.2

Source: ECLAC, on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

^cChanges in stocks are included in private consumption.

Investment expenditure by public enterprises was significantly lower because of the controls exercised by the Department of State Enterprises (SEST) and the impossibility of financing the planned investments by means of external resources. As in 1982, this contraction of public investment had a negative effect on the capital-goods manufacturing sector and the building industry, which were the most depressed activities in the year under review.

Despite the significant reduction of both current and investment expenditure in real terms, difficulties were experienced in meeting the goals established as regards the borrowing needs of the public sector, due to the big increases in its financing costs caused by the steep revaluation of the domestic debt and the considerable international devaluation of the currency. Public-enterprise debt servicing costs amounted in 1983 to 30% of their operating income, compared with 25% in the preceding year. However, if the amount corresponding to revaluation of the domestic and foreign debt in accordance with monetary correction and exchange rate variations is excluded, the results obtained must be regarded as satisfactory, since operational financing needs, defined as the difference between nominal financing availabilities and the amount of the above price and exchange rate revaluations, dropped from the equivalent of 6.2% of the gross domestic product in 1982 to 2.9% in 1983.

2. Trends in economic activity

a) Total supply and demand

Total supply dropped by 4% in 1983, thereby aggravating the accumulated contraction of the two preceding years, which had shown the most unfavourable results in this respect since the economic crisis of the 1930s. The decrease in total supply reflected the contraction of 3.3% in the gross domestic product and the severe drop in imports for the third consecutive year. The latter led to a further deterioration in the import coefficient, which in the year under review reached the lowest level since 1966 (see table 2).

On the other hand, a clear upswing (15%) was observed in the volume of exports of goods and services, thereby restoring (after the drop recorded in 1982) the growth trend recorded between 1968 and 1981, when exports rose at an average annual rate of more than 10%. Exports thus became the only main economic variable to show a favourable result in the year under review.

In contrast, the main components of domestic demand contracted sharply in the year. Private consumption fell by approximately 2.5%, while gross fixed investment declined for the third consecutive year, this time by the unprecedented amount of 18%. The coefficient of gross capital formation consequently dropped appreciably, to the lowest level in the past 30 years.

Significant changes occurred in the financing of gross domestic investment, with the proportion accounted for by external resources falling from 14% in 1982 to 10% in 1983, the latter result being less than the average for the period 1975-1981. This reduction in the share of external saving was due to the country's need to obtain a high trade surplus by transferring real resources abroad in order to counteract the balance-of-payments crisis, caused, among other factors, by the lower procurement of new external loans. It may be noted that gross national saving, as a percentage of the gross domestic product, has been declining since 1975 due to the increasing transfers of resources abroad as a consequence of the deterioration in the terms of trade over the five-year period 1978-1982 and the extremely sharp rise in interest rates affecting the foreign debt (see table 3).

b) *Evolution of the main sectors*

During 1983 the production of goods fell considerably (-6%), thereby aggravating the unfavourable trend of the two preceding years. The production of basic services continued to grow moderately while that of other services showed a slight contraction (see table 4).

Salient aspects in the production of goods were the considerable declines in manufacturing and building activities, while agricultural production showed modest growth. Vigorous expansion was again observed in the output of the mining industry (14.5%) but its incidence was small due to its relatively scant significance in the composition of the overall product (1%).

Table 3

BRAZIL: FINANCING OF GROSS DOMESTIC INVESTMENT

	Average 1975- 1979	1980	1981	1982	1983 ^d
Percentages of gross domestic investment^b					
1. Gross domestic investment	100.0	100.0	100.0	100.0	100.0
2. Gross national savings	88.6	86.8	88.6	85.6	90.0
a) Domestic savings	96.0	102.0	113.0	113.5	125.6
b) Net factor payments ^c	-5.5	-7.1	-9.8	-13.4	-15.4
c) Terms-of-trade effect	-1.9	-8.1	-14.6	-14.5	-20.2
3. External savings	11.4	13.2	11.4	14.4	10.0
Percentages of gross domestic product					
1. Gross domestic investment	26.6	22.7	22.2	22.0	18.7
2. Gross national savings	23.6	19.7	19.7	18.8	16.8
a) Domestic savings	25.6	23.2	25.1	25.0	23.5
b) Net factor payments ^c	-1.4	-1.6	-2.2	-3.0	-2.9
c) Terms-of-trade effect	-0.5	-1.9	-3.2	-3.2	-3.8
3. External savings	3.0	3.0	2.5	3.2	1.9

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bThe original information is expressed in constant values at 1970 prices.

^cIncludes unrequited private transfer payments.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1981	1982	1983 ^a	1970	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	97 208	98 290	95 044	100.0	100.0	7.9	-1.9	1.1	-3.3
Goods	40 996	40 850	38 338	44.0	40.5	7.5	-3.7	-0.4	-6.1
Agriculture, hunting, forestry and fishing	7 958	7 757	7 927	10.1	8.4	6.3	6.9	-2.5	2.2
Mining and quarrying	676	732	839	0.8	0.9	12.6	0.2	8.3	14.5
Manufacturing	26 405	26 428	24 766	27.4	26.1	7.6	-6.4	0.1	-6.3
Construction	5 957	5 933	4 806	5.7	5.1	7.8	-4.3	-0.4	-19.0
Basic services	11 736	12 299	12 622	9.0	13.4	10.8	0.8	4.8	2.6
Electricity, gas and water	3 941	4 192	4 515	2.8	4.8	10.8	3.4	6.4	7.7
Transport, storage and communications	7 795	8 107	8 107	6.2	8.6	10.8	-0.5	4.0	-
Other services	...	...	...	47.0	...	...	...	...	...
Commerce ^c	22 787	22 787	22 556	20.6	23.8	10.2	0.4	-	-1.0
Ownership of dwellings	...	...	...	8.4	...	...	...	...	...
Community, social and personal services ^d	...	...	...	18.0	...	...	...	...	...
Government services	...	...	...	9.1	...	...	...	...	...

Source: ECLAC, on the basis of official figures supplied by the Getulio Vargas Foundation.

^a Preliminary figures.

^b As the individual activities and totals were calculated independently, the sum of the former does not coincide with the latter.

^c Including financial institutions, insurance and real estate, except ownership of dwellings.

^d Including restaurants, hotels and business services.

In the field of services the most dynamic sector was once again electricity, gas and water, which expanded in the year by almost 8%. Although greater than in the preceding year, however, this increase was still less than the considerable expansion recorded in this sector between 1970 and 1980 (an annual average rate of 12%).

i) *The agricultural sector.* The agricultural product showed an increase of 2.2%, after having gone down by 2.5% in the preceding year. This favourable trend in the year under review was mainly due to the big increase (80%) in the production of coffee, which partly compensated for the steep decline recorded in the preceding year when output of this product was severely affected by frosts (see table 5).

Among other export products, favourable results were obtained in crops of major importance such as soya, sugar cane and cocoa, while decreases were recorded in the production of items of less significance such as tobacco, cotton, peanuts and castor oil seed. Soybean output increased by close on 14% despite a loss of one million tons due to adverse climatic conditions almost at the end of the harvest period. As in former years sugar cane production showed a favourable rate of expansion, due both to an increase in area sown and yields obtained. Since the commencement of alcohol production for energy purposes in the mid-1970s, the area devoted to the cultivation of sugar cane has expanded by more than 60% (from 2 to 3.3 million hectares), and output has grown by 130%.

The production of crops destined primarily for the domestic market contracted very considerably, mainly because of the natural disasters already mentioned. A further contributing factor in this context was that, due to the official foreign-exchange policy and price controls, which had a particular effect on food products mostly consumed by the lower-income sectors, farmers gave priority to the production of commodities for export.

With the exception of wheat, output of the crops intended mainly for the domestic market showed severe contractions. There was a particularly acute drop in the bean harvest (-45%), due to

reductions both in area sown (-30%) and yields obtained (-20%). The smaller area cultivated was attributable to relative lack of interest in this crop on the part of producers, due to the very unfavourable prices obtained the preceding year. Other crops for local consumption which declined considerably were rice (-20%), potatoes (-15%), maize (-14%), tomatoes (-11%) and yuca or manioc (-10%). These severe reductions were mainly caused by adverse weather conditions.

On the other hand, despite the smaller area sown, wheat production rose appreciably (23%) thanks to considerably improved yields which were nearly double those previously obtained. This product therefore recovered from the poor results of the preceding year and even exceeded the output levels obtained in 1981, which were the highest recorded so far in the country's history. The considerable contraction in the area sown to wheat was attributable to the difficulties faced by producers as a result of harvesting failures in the preceding year in the southern part of the country due to unfavourable climatic conditions, and also to delays in fixing the amount of financing for the crop and uncertainty in connection with the subsidy applicable to wheat consumption.

Livestock output rose by 3% in 1983, assisted by further increases in the production of beef and poultry and partial recovery in the case of pork and milk (see table 5).

Table 5

BRAZIL: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Index of agricultural production (1970 = 100)	136.7	170.9	182.5	177.9	181.8	6.3	6.8	-2.5	2.2
Production of main crops (thousands of tons)									
For export									
Coffee (beans)	2 545	2 122	4 064	1 854	3 331	-20.4	91.5	-54.4	79.7
Soya	9 893	15 156	15 007	12 835	14 582	48.0	-1.0	-14.5	13.6
Oranges ^b	31 566	54 459	56 966	57 939	58 136	29.0	4.6	1.7	0.3
Sugar cane	91 525	148 651	155 224	186 392	216 703	7.0	4.9	19.5	16.3
Cocoa	282	319	336	364	380	-32.1	5.3	8.3	4.6
Tobacco	286	405	365	422	395	-4.0	-1.9	15.6	-6.2
Cotton	1 748	1 673	1 732	1 935	1 604	2.3	3.5	11.7	-17.1
Peanuts	442	483	355	317	284	4.5	-26.5	-10.7	-10.4
Castor oil seed	354	281	222	192	172	-13.5	3.9	-34.2	-10.8
For domestic consumption									
Rice	7 782	9 776	8 228	9 716	7 750	20.7	-15.8	18.1	-20.2
Beans	2 282	1 968	2 341	2 906	1 587	-10.0	18.9	24.1	-45.4
Maize	16 839	20 372	21 117	21 865	18 743	24.9	3.6	3.5	-14.4
Yuca	26 118	23 466	24 803	24 009	21 746	-6.0	5.7	-3.2	-9.5
Potatoes	1 655	1 940	1 912	2 148	1 819	-9.9	-1.5	12.3	-15.3
Tomatoes	1 050	1 535	1 452	1 737	1 547	2.3	-5.4	19.6	-11.0
Wheat	1 788	2 702	2 209	1 849	2 265	-7.7	-18.2	-16.3	22.9
Livestock production (thousands of tons)									
Beef	1 790	2 084	2 115	2 393	2 441	-1.4	1.2	12.9	2.0
Pork	496	699	707	622	654	14.5	1.1	-12.0	5.1
Mutton and goat meat	20	16	15	16	16	7.8	-6.3	6.7	-
Poultry	373	914	1 041	1 170	1 218	28.2	13.9	12.4	4.1
Milk	7 708	9 945	10 775	10 366	10 729	0.6	8.3	-3.8	3.5

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE), *Levantamento sistemático de produção agrícola*, December 1983.
^aPreliminary figures. ^bMillions of units.

Table 6

BRAZIL: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Index of mining production (1970 = 100)	100.0	147.6	187.3	187.7	203.3	232.8	12.6	0.2	8.3	14.5
Production of some important minerals (thousands of tons)										
Petroleum ^b	9 681	10 286	10 564	12 378	15 080	19 142	9.3	17.2	21.8	26.9
Natural gas ^c	1 264	1 625	2 207	2 497	3 028	4 011	15.5	13.1	21.3	32.5
Coal	5 172	6 309	16 006	17 409	19 150	21 125	14.8	8.8	10.0	10.3
Iron ore	36 381	89 893	114 692	98 700	99 457	110 397	19.3	-14.0	0.7	11.0
Bauxite	510	969	4 696	4 663	4 200	...	117.4	-0.7	-9.9	...
Zinc ^d	7	49	105	97	112	...	7.3	-8.0	15.5	...
Cassiterite ^d	4	5	7	8	8	...	-1.0	19.7	-	...
Nickel ore	202	266	483	476	860	...	97.3	-1.5	80.6	...
Manganese ore	2 732	2 828	2 705	2 986	2 720	...	-3.0	10.4	-8.9	...

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE), National Petroleum Council, Department of National Mineral Production, and Central Bank of Brazil.

^aPreliminary figures.

^bThousands of cubic metres.

^cMillions of cubic metres.

^dMetal content.

ii) *Mining*. The mining product again showed a high rate of growth in 1983 (14%), decisively influenced by considerable expansion in the production of mineral fuels and recoveries in the output of some metallic minerals (see table 6).

Petroleum and natural gas exploration and development investments again gave excellent results in the year under review. Petroleum production rose in the year by the unprecedented extent of 27%, while that of natural gas increased by 33%. Much of the output of petroleum (60%) came from offshore deposits, especially from the Campos area located in the Atlantic off the State of Rio de Janeiro. Crude oil production thus rose to an average daily volume of approximately 400 000 barrels —thereby approaching the target of 500 000 barrels adopted for 1985 when the ambitious investment programmes were undertaken with a view to achieving a significant reduction of imports.

Coal production rose by 10%, continuing the rapid rate of expansion observed since 1975. In the case of coal for the metallurgical industry the rate of increase was 16% while that for energy generation amounted to 6%.

Iron ore output rose by 11%, thereby recovering from the drop recorded in 1981 and the static situation prevailing in 1982. The increase was due to greater demand from the steel industry and, to a lesser extent, higher exports (4%). The infrastructural work being undertaken in connection with the Grande Carajás project was again delayed, however, due to insufficient financial resources, with the result that iron ore exports from this region will only be able to commence in 1986.

With the coming into operation of the copper refinery at Carajás in November 1982 it became feasible to start extraction of this mineral. Local supplies will cover 40% of the input of the refinery, the remainder being supplied by imports of concentrate.

iii) *Manufacturing*. The product of the manufacturing sector declined in 1983 by 6.3% —the largest contraction recorded since the crisis of the 1930s, with the exception of the slightly greater drop recorded in 1981 (see table 7). This decrease was mainly attributable to the domestic recession, since foreign sales showed signs of recovery, stimulated by the devaluation of the cruzeiro in real terms.

The industries most affected by the crisis were those turning out capital goods. Production declined in their case by 20%, after having dropped by almost 11% in 1982 and by 19% in 1981. The output level of these producers in 1983 was therefore less than 60% of that recorded in 1980 —a situation reflecting the severe contraction of gross domestic investment since 1981. The production of intermediate goods, which had fallen by more than 10% in 1981 and remained unchanged in 1982,

showed a further contraction of 3% in 1983 to a level 13% lower than that recorded three years earlier. The output of consumer goods also declined considerably, the drop of 5% in the case of non-durable consumer goods —the largest contraction since the beginning of the present crisis— being especially significant.

Of the 17 branches of industrial activity, only two —food and pharmaceutical products— reported higher production levels than in 1980. Moreover, only the producers of food products, paper and paperboard and rubber products recorded increases in output in 1983. The sector most affected by the prevailing crisis was that producing non-metallic minerals, which suffered a drop of 15%, due mainly to severe reductions in public investment.

The production of transport equipment fell by almost 9% due to considerable decreases in the manufacture of light commercial vehicles, utility vans, trucks and buses which more than offset a recovery in the production of passenger cars. The number of buses and trucks manufactured in the year was equivalent to only slightly more than one-third that produced in 1980, the severe contraction

Table 7

BRAZIL: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1975 = 100)					Growth rates			
	1970	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Industrial product^b	12.4	29.5	27.6	27.7	25.9	7.6	-6.4	0.1	-6.3
Manufacturing production	60.4	142.8	128.6	128.8	120.7	7.6	-9.9	0.1	-6.3
Types of goods									
Capital	44.5	134.9	109.7	97.8	78.0	6.5	-18.7	-10.8	-20.2
Intermediate ^c	60.5	151.7	135.8	136.4	132.3	8.3	-10.5	0.5	-3.0
Consumer durables	42.5	157.2	114.4	123.6	118.7	10.7	-27.2	8.0	-4.0
Consumer non-durables	74.3	130.1	127.2	129.5	122.8	5.2	-2.2	1.9	-5.2
Industrial branches									
Food products	74.2	134.1	133.7	135.0	140.8	7.1	-0.3	1.0	4.3
Beverages	63.7	144.8	135.6	127.5	117.7	2.7	-6.3	-6.0	-7.7
Tobacco	69.5	126.0	127.6	126.1	122.4	-9.0	1.2	-1.2	-2.9
Textiles	78.4	125.9	116.6	121.8	109.3	6.8	-7.3	4.4	-10.3
Clothing	80.8	124.7	124.4	128.3	114.4	6.2	-0.2	3.1	-10.8
Paper and paperboard	86.7	168.5	153.9	161.2	165.9	9.6	-8.6	4.7	2.9
Petroleum products	...	120.2	116.2	119.9	115.0	-4.6	-3.3	3.2	-4.1
Other chemical products	58.9 ^d	177.0	155.2	159.2	147.6	8.9	-12.3	2.6	-7.3
Pharmaceutical products	...	137.9	144.7	147.1	142.1	13.1	5.0	1.7	-5.4
Perfumery, soaps and candles	62.1	174.9	177.1	172.0	169.4	9.4	1.2	-2.8	-1.5
Rubber products	51.8	134.3	119.5	117.7	118.2	9.0	-11.0	-1.6	0.4
Plastic articles	46.3	152.0	117.6	130.5	116.3	12.4	-22.6	10.9	-10.9
Non-metallic minerals	57.9	144.4	135.9	131.5	110.6	6.5	-5.9	-3.2	-15.9
Metallurgy	63.2	162.6	137.3	136.2	134.3	12.1	-15.6	-0.7	-1.4
Machinery	41.0	142.4	119.4	101.2	89.8	15.3	-16.1	-15.2	-11.3
Electrical equipment	49.6	149.9	125.2	121.1	105.4	5.2	-16.5	-3.3	-13.0
Transport equipment	43.1	127.4	92.3	98.5	89.8	2.0	-27.6	6.7	-8.8
Other indicators of manufacturing production									
Industrial electricity consumption ^e	17.4	54.3	51.6	52.8	56.8	7.9	-5.0	2.4	5.9
Employment ^f	...	110.0	101.9	95.1	88.1	3.5	-7.4	-6.7	-6.8

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

^a The indexes for 1983 were calculated on the basis of the increments shown in the new IBGE index, which only provides information for 1982 and 1983. This new index was drawn up using 1978 prices whereas the indexes shown in this table for the period 1970-1982 were estimated on the basis of 1970 prices. ^b Billions of dollars at 1970 prices. ^c Includes mining. ^d Includes petroleum products. ^e Billions of kWh consumed by the manufacturing sector. ^f Indexes (1976 = 100).

Table 8

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates			
	1975	1980	1981	1982	1983	1980	1981	1982	1983
Motor vehicles	979	1 165	780	860	896	3.3	-33.1	10.1	4.3
Passenger cars	547	601	406	475	576	9.6	-32.4	16.9	21.3
Light commercial and utility vehicles ^a	339	448	285	328	278	-5.5	-36.6	15.9	-15.1
Trucks	83	102	76	47	36	9.5	-25.5	-38.2	-24.0
Buses	10	14	13	10	6	10.2	-7.4	-26.2	-36.9
Vehicles fuelled by gasoline or alcohol^b									
Vehicles running on gasoline	886	795	559	565	263	-21.9	-29.6	1.0	-53.5
Vehicles running on alcohol	-	254	132	238	592	...	-48.2	80.6	149.1
Conversion of vehicles from gasoline to alcohol	-	29	16	1		...	-43.9	-92.1	

Source: National Association of Motor Vehicles Manufacturers (ANFAVEA).

^aIncluding multi-purpose light commercial vehicles.

^bOnly includes passenger cars, light commercial and utility vehicles.

being due to lower external as well as domestic demand. The drop in domestic sales, for its part, was due to the recessive situation being faced throughout the country and the greater restrictions imposed by the banks on financing for these types of vehicles. The production of passenger cars, on the other hand, continued the recovery begun in the preceding year. The output level nevertheless remained lower than that recorded in 1980. The manufacture of alcohol-powered vehicles in 1983 showed an increase of 150%, while that of gasoline-powered passenger cars dropped by 54%. The production of vehicles running on alcohol thus represented 87% of the passenger cars turned out in the year (see table 8). The growth in the production of alcohol-powered passenger cars was due, as in 1982, to the existence of a number of incentives for the use of this type of vehicle, such as the lower cost of fuel compared with gasoline (40% cheaper per litre and 30% per kilometre run), assurance of alcohol supplies throughout the country, credit and tax benefits (granted mainly in the case of vehicles for use as taxis, though this incentive was discontinued in mid-1983), and less restrictions on the supply of alcohol during weekends (the sale of this fuel continued to be allowed on Saturdays, whereas that of gasoline remained banned).

Although the metallurgical subsector reported a further decline in output in 1983 (-1.5%), several types of iron, steel and non-ferrous manufactures showed a marked recovery (see table 9). Particularly worthy of note were the improvements recorded in the output of pig iron (19%), steel ingots (13%), flat rolled products (17%) and aluminium (28%). These increases were mainly due to larger foreign sales, since the domestic market remained relatively slack. As already mentioned, copper production rose considerably as a consequence of the coming on stream of the Caraiíba Metals refinery in the Bahia area. This plant has an annual refined copper output capacity of 150 000 tons, and its operation contributed to a reduction of imports of this commodity.

The end of 1983 saw the entry into operation of the Tubarão steel mill, an enterprise in which SIDERBRAS is associated with a Japanese-Italian consortium and whose production of semi-finished steel plate will to a large extent be exported. As a consequence of the restrictions imposed by the Department of State Enterprises, the resources obtained by SIDERBRAS for its investment budget were only sufficient to meet financial commitments, thereby causing a severe curtailment of the investment programme. Development of AÇOMINAS and other projects consequently remained incomplete.

The lower output results of the producers of beverages (-8%), textiles (-10%) and clothing (-11%) were due to the reductions in consumption of these articles caused by the deterioration in real wages and employment. The production of foodstuffs, on the other hand, showed a moderate rate of growth (4%), attributable to favourable results in activities linked with the processing of important

agricultural crops for export and the higher output of alcohol motor fuel. Finally, paper and paperboard production rose in 1983 by 3% thanks to a significant increase in exports.

iv) *Construction.* The product of the construction sector declined sharply (by 19%) in 1983, thereby notably accentuating the crisis which began in 1981 and brought to an end a decade of growth at an annual rate of almost 10%. As a result of this fall in activity, employment in construction, which had already contracted significantly in the main urban areas in the three preceding years, underwent a further marked decrease in 1983 (see table 10).

This severe reduction was due to the policy of containment of public sector investment and the fact that the recession also discouraged investment by private interests. At the same time the construction of dwellings came up against serious difficulties due to the lack of financial resources both in the context of the National Housing System and in the private sector.

v) *Energy.* Notwithstanding the economic recession, final commercial energy consumption rose by almost 2% —an increase similar to that recorded in the preceding year. The total consumption of petroleum products fell, however, for the fourth consecutive year as a consequence of the substitution of petroleum by other sources of energy (see table 11).

According to preliminary data from ELECTROBRAS, gross electricity production in the year amounted to 152 417 GWh, of which 94% represented hydroelectric energy, whose output increased by 7% compared with 1982. Industrial consumption rose by 6.5% due to the introduction of preferential tariffs which had the effect of encouraging substitution for other energy sources. Home and commercial consumption increased still more, reflecting greater use of domestic electrical appliances.

Installed capacity for electricity generation grew by 4% to 40.5 million KW. Almost the entire increase was due to the expansion of hydroelectric facilities, since thermal electric generation capacity rose by only 1% to 6.1 million KW. Projects under construction, including expansion projects, represented a total capacity of 32 million KW, of which hydroelectricity will account for 28.4 million KW.

The policy of replacing petroleum with other energy sources has proved notably successful, as evidenced by the fact that the consumption of petroleum products, as a percentage of total commercial energy consumption, fell from 60% in 1970 to 41% in 1983; fuel oil demand decreased for the fourth consecutive year, due to replacement with coal and electricity, and the consumption of gasoline fell for the fifth consecutive year as a result of the contraction in the use of privately-owned

Table 9

BRAZIL: METALLURGICAL PRODUCTION

	Thousands of tons					Growth rates			
	1975	1980	1981	1982	1983	1980	1981	1982	1983
Iron and steel									
Pig iron	7 264	12 960	11 022	11 054	13 200	7.7	-15.0	0.3	19.4
Steel ingots	8 308	15 339	13 231	12 996	14 676	10.4	-13.7	-1.8	12.9
Rolled products	6 721	13 307	11 258	11 253	12 354	13.7	-16.7	1.5	8.9
Flats	3 151	7 313	5 921	6 236	7 292	9.8	-19.0	5.3	16.9
Non-flats	3 570	5 995	5 167	5 017	4 961	14.0	-13.8	-9.9	-1.1
Alloy steels	256	553	572	580	578	13.9	3.4	-1.4	-0.3
Non-ferrous metals^a									
Aluminium	145	314	293	345	443	11.3	-6.6	17.7	28.4
Copper	33	63	45	62	103	18.6	-28.6	37.4	66.6
Tin	7	9	8	9	13	-12.9	-11.4	19.2	36.1
Nickel	2	3	2	5	11	1.7	-8.0	108.7	123.2
Lead	63	85	66	48	49	-13.4	-22.6	-26.7	1.6
Zinc	39	96	111	110	111	21.8	15.5	-0.9	0.5

Source: Conselho de Nao-Ferrosos e Siderurgia (CONSIDER).

^aPrimary and secondary metal.

Table 10

BRAZIL: CONSTRUCTION INDICATORS

	1975	1980	1981	1982	1983	Growth rates				
						1979	1980	1981	1982	1983
Index of real product (1970 = 100)	178.5	251.9	241.3	240.3	194.6	3.5	7.8	-4.4	-0.4	-19.0
Apparent consumption of some building materials (thousands of tons)										
Iron bars	1 067	1 669	1 490	1 456	1 032	3.4	20.4	-10.7	-2.3	-29.1
Cement	16 694	27 089	26 114	25 249	20 876	7.8	10.1	-3.6	-3.3	-17.3
Employment indexes (February-December 1977=100)										
Rio de Janeiro	...	91.3	86.3	75.2	64.3	12.3	-3.8	-5.5	-12.8	-15.7
São Paulo	...	71.8	68.3	61.8	49.3	-14.1	-6.6	-4.9	-9.5	-20.3
Other urban centres ^a	...	91.6	92.1	85.9	69.4	-4.9	-3.1	0.5	-6.7	-19.2

Source: Fundação Getulio Vargas, Conselho de Não-Ferrosos e Siderurgia (CONSIDER) National Cement Industry Syndicate (SNIC), and Ministry of Labour.

^aSimple average of indexes for Belém, Fortaleza, Recife, Salvador, Belo Horizonte, Curitiba, Porto Alegre and Brasília.

Table 11

BRAZIL: FINAL ELECTRIC ENERGY CONSUMPTION^a

	Millions of TPE ^b					Percentage breakdown		Growth rates			
	1970	1980	1981	1982	1983 ^c	1970	1983 ^c	1980	1981	1982	1983 ^c
Electricity ^d	11.1	35.3	36.0	38.2	40.8	30.8	44.0	11.6	2.0	6.1	6.9
Coal and gas	1.6	5.1	4.8	5.8	6.4	4.6	6.9	9.7	-5.2	19.3	11.2
Charcoal	1.4	3.5	3.3	3.6	4.0	3.9	4.3	19.2	-8.4	9.2	11.5
Fuel oil	6.5	16.2	12.8	10.4	8.7	18.1	9.4	-2.0	-21.1	-19.1	-16.4
Diesel oil	5.3	15.4	15.1	15.4	15.2	14.6	16.4	7.0	-2.5	2.3	-1.4
Gasoline	7.3	8.7	8.3	7.9	6.3	20.2	6.8	-13.5	-4.8	-4.3	-20.5
Liquefied	1.3	3.0	3.2	3.4	3.6	3.7	3.9	8.7	5.2	8.5	6.3
Other petroleum derivatives ^e	1.3	3.9	3.8	4.0	4.2	3.7	4.6	-6.5	-1.7	4.5	6.8
Alcohol motor fuel	0.1	2.0	1.7	2.6	3.5	0.4	3.8	18.3	-11.6	48.3	35.9
Total	35.9	93.1	88.8	91.1	92.6	100.0	100.0	4.8	-4.5	2.5	1.7
Petroleum derivatives	21.7	47.2	43.1	41.1	38.0	60.3	41.1	-1.5	-8.8	-4.7	-7.4
alcohol and gasoline	7.4	10.6	10.0	10.5	9.8	20.6	10.6	-9.0	-6.1	4.8	-6.7
Energy/product ratio ^f (1970 = 100)	100.0	113.3	110.2	111.4	118.0	-	-	-2.8	-2.7	1.1	5.8

Source: 1970-1982: Ministry of Mines and Energy, *Balanco Energético Nacional* 1983; 1983: Estimates prepared by ECLAC, on the basis of figures provided by ELETROBRAS, Ministry of Industry and Trade, and the National Petroleum Council.

^aExcluding firewood and sugar-cane bagasse.

^bTons of petroleum equivalent.

^cPreliminary figures.

^dApproximately

92% was produced by water power and 8% by thermal energy. Electricity consumption in MWh has been converted to TPE by applying the coefficient 0.29 TPE/MWh, in line with petroleum consumption at the country's oil-fired thermal power plants.

^eIncludes kerosene,

naphthas and other energy products.

^fCommercial electricity consumption divided by gross domestic product.

vehicles and the replacement of gasoline with alcohol for private transportation purposes. Diesel oil consumption, for its part, fell by 1.4%, more in response to the economic recession than to substitution by other forms of energy.

c) *Developments in employment and unemployment*

Formal-sector employment in urban centres dropped in 1983 by almost 5%, thereby making still more acute the downward trend observed since 1981.³ The level of employment was thus 10% lower in 1983 than three years earlier. Manufacturing and construction were the sectors showing the most unfavourable results in 1983, with decreases of 7% and 20%, respectively (see table 12).

The level of employment in manufacturing—which had already fallen in the two preceding years—continued to decline in 1983 (see table 13), so that its annual average for the year was 20% lower than in 1980. The fall in employment was in fact greater than the contraction of activity in the manufacturing sector during this period. Labour productivity rose in consequence at an annual average rate of 2.6%, evidencing the fact that the enterprises involved made considerable adjustments in an effort to deal with the recession. The lower employment level in the industrial sector was of a generalized character, no increase being recorded in any of its component branches. The activities showing the greatest reduction in the number of persons employed were the metal products and machinery branch (-15%), non-metallic mineral products (-13%), electrical equipment (-12%) and textiles (-11%).

According to official statistics, unemployment in urban areas rose from an average of 6.3% in 1982 to 6.7% in 1983. It began to increase from the first quarter, but diminished in the final quarter of the year, though without recovering the low level recorded in the same period of 1982 (see table 14).

This unemployment trend was not however adequately representative of the situation in the labour market, since it failed to reflect the severe drop in formal employment levels in urban sectors. This manifest contradiction may well be due to the transfer to the informal sector of many persons losing employment in formal activities and to a reduction in rates of participation of the economically active population, especially among women and young people. The latter circumstance would in its turn be attributable to the magnitude and prolonged duration of the economic depression, which must have discouraged many persons from continuing to seek employment in view of the scarcity of available opportunities.

Table 12

BRAZIL: INDEXES OF URBAN UNEMPLOYMENT

(Base: 1977 = 100)

	1979	1980	1981	1982	1983
Belém	113.8	113.0	112.2	113.1	113.4
Fortaleza	110.2	113.7	110.9	115.2	112.8
Salvador	104.0	110.1	110.3	112.2	109.6
Recife	110.8	114.8	114.5	112.0	106.2
Belo Horizonte	108.3	113.1	111.8	110.7	104.2
Rio de Janeiro	104.5	104.1	100.2	97.0	92.8
Sao Paulo	103.2	103.8	97.2	93.6	89.3
Curitiba	100.2	98.8	96.7	96.8	91.2
Porto Alegre	105.1	109.1	107.4	106.6	105.2
Brasília	107.6	107.3	106.5	106.7	107.7
Average for metropolitan areas^a	105.6	107.5	104.0	102.0	98.7
Industry	102.6	102.8	93.2	87.7	81.2
Civil construction	89.9	87.8	85.8	78.6	63.4
Commerce	109.0	113.9	113.3	113.9	115.4
Services	112.5	115.8	117.2	120.1	121.9

Source: Ministry of Labour, National Employment System (SINE).

^a Calculated on the basis of employment information from the household survey Pesquisa Nacional de Amostras Domiciliárias (PNAD).

³ According to information from the Ministry of Labour based on the results of a survey covering the country's 7 000 largest enterprises.

Table 13

BRAZIL: PERSONNEL EMPLOYED IN THE MANUFACTURING SECTOR

(Base: 1976 = 100)

Month	1979	1980	1981	1982	1983 ^a
January	105.6	107.2	109.0	94.3	91.0
February	106.6	108.3	109.1	94.8	90.4
March	107.4	109.6	108.0	95.8	90.3
April	107.1	110.3	106.1	96.0	89.9
May	107.3	110.7	104.3	96.5	89.7
June	107.0	111.2	102.7	95.9	88.7
July	106.6	111.2	100.5	95.4	87.7
August	106.1	111.1	98.4	95.2	86.9
September	105.6	110.9	97.3	94.6	86.0
October	106.2	110.5	96.4	94.1	85.6
November	106.5	109.8	95.8	93.2	85.5 ^a
December	106.1	108.9	95.4	94.9	85.5 ^a
Average	106.5	110.0	101.9	95.1	88.1

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE), *Indicadores Conjunturais da Indústria*, (several issues).^aPreliminary figures.

Table 14

BRAZIL: UNEMPLOYMENT RATES IN MAIN URBAN CENTRES

Major cities	1981					1982					1983				
	Quarter				Annual average	Quarter				Annual average	Quarter				Annual average
	I	II	III	IV		I	II	III	IV		I	II	III	IV	
Rio de Janeiro	8.3	8.9	8.8	8.7	8.6	9.3	6.8	5.6	4.5	6.6	6.0	6.5	6.5	5.8	6.2
Sao Paulo	7.4	7.4	7.5	6.7	7.7	8.3	5.7	5.6	4.3	6.0	6.7	7.2	7.1	6.2	6.8
Belo Horizonte	9.9	9.4	8.7	7.9	9.0	8.9	6.8	6.2	5.9	7.0	7.6	7.9	7.8	7.8	7.8
Porto Alegre	5.9	6.3	6.1	4.9	5.8	6.3	5.3	5.2	4.1	5.2	6.1	7.1	7.4	6.3	6.7
Salvador	8.7	9.8	9.2	8.5	9.0	8.4	6.0	5.8	4.9	6.3	5.5	5.6	5.5	5.7	5.6
Recife	8.3	8.8	9.3	7.8	8.6	9.1	7.9	7.2	5.7	7.5	7.5	8.5	8.5	7.5	8.0
Average for urban centres^a	7.9	8.2	8.1	7.4	7.9	8.5	6.2	5.7	4.6	6.3	6.5	7.0	7.0	6.3	6.7

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE), Monthly Employment Survey.

^aWeighted according to the population of each city.

3. The external sector

a) *General trends*

A drastic contraction in the procurement of external loans took place in the second half of 1982. This circumstance, coupled with the significant growth of the current account deficit, helped to cause a large deficit on the overall balance of payments, which could only be financed by means of a significant loss of international reserves and special short-term operations involving foreign commercial banks, the United States Treasury, the Bank for International Settlements (BIS) and the International Monetary Fund.

Moreover, as a result of a variety of external developments it became evident that the volume of new loans that Brazil might be able to obtain in international markets in the coming years would be

considerably less than in the past and that traditional mechanisms for the procurement of external resources would be insufficient to finance the current account deficit and the amortization of the foreign debt.

Under these circumstances, the financial authorities drew up an economic adjustment programme at the end of 1982, to be given the financial support of the IMF, which was designed to confront the difficult short-term balance-of-payments situation and to introduce structural changes in the medium term with the aim of reducing the relative role of external savings and improving the efficiency of the economy through the medium of relative price adjustments.

In the planning for the future of the external sector carried out in 1982 it was envisaged that the current account deficit capable of being financed by the maximum amount of external resources available in the form of direct investment and foreign loans (net of amortizations) could not exceed US\$ 6 900 million. Since the projected deficit on the services account came to US\$ 12 900 million, it would be essential to attain a surplus on the trade in goods of at least US\$ 6 billion in order to reach a position of equilibrium in the 1983 balance of payments (see table 23 below).

With a view to ensuring the necessary external financing for the coming years, negotiations were started with the IMF at the end of 1982 with the aim of obtaining a group of loans, and a financing plan was submitted to the foreign commercial banks comprising four projects for the purpose of: obtaining new additional loans (project 1); converting amortization commitments into long-term loans (project 2); and recovering or maintaining short-term lines of credit (projects 3 and 4). The negotiations between the Government of Brazil and the international commercial banks thus in effect took the place of the former direct individual negotiations between those banks and the Brazilian recipients of such external loans. These negotiations included in a single package all the financial loans that Brazil intended to request over a given period of time (in principle one year) and were supported by —and subject to— the terms of the economic adjustment programme agreed with the IMF.

The latter programme established specific balance-of-payments goals for the three-year period 1983-1985. With regard to the current account, the country's financial authorities adopted as their goal the reduction of the deficit (excluding re-invested profits) from 4.5% of the GDP in 1982 to 2.2% in 1983, 1.5% in 1984 and 1% in 1985. The global balance of payments should reach a position of equilibrium in 1983, and show surpluses of US\$ 1 billion in 1984 and US\$ 2 billion in 1985. These developments would enable the ratio between debt-servicing requirements and exports of goods and services to be reduced, slow down the growth rate of the commitments of the international commercial banks in Brazil, and transform the net international reserves position of the monetary authorities from a significant deficit at end-1982 into a surplus at the end of 1985.

The financial authorities aimed to improve the external competitiveness of Brazilian exports by raising the exchange rate in real terms *vis-à-vis* the US dollar. To this end, in December 1982 the monthly accumulated value of the mini-devaluations to be made during 1983 was calculated in such a way that on average it would be 1% higher than domestic inflation. On 21 February 1983, however, an extraordinary increase of 30% was instituted in the exchange rate. This measure was deemed necessary in view of disappointing results observed in the trade account in January and in order to facilitate fulfilment of the balance-of-payments goals. Furthermore, the Government undertook to protect thereafter the degree of external competitiveness thus achieved by means of systematic mini-devaluations which would be at least equal to domestic inflation.

The annual average exchange rate (in terms of cruzeiros per dollar) rose in 1983 by 222%, representing a real devaluation rate of 35% (see table 15). With respect to the currencies of Brazil's main trading partners, and taking into account the geographical distribution of exports of manufactured products in the period 1978-1982, the devaluation of the cruzeiro in real terms amounted to approximately 30% (see table 16 and figure 2). The real devaluation of the cruzeiro *vis-à-vis* the US dollar in 1983 thus exceeded that of most of the Latin American currencies. In the case of the European countries and Japan, part of the effects of the maxi-devaluation were absorbed by the new appreciation of the dollar *vis-à-vis* the currencies of those countries.⁴

⁴Due to the exchange rate policy applied in 1980, the appreciation of the dollar *vis-à-vis* other currencies as from 1981, and the devaluations carried out throughout Latin America in 1982, the extraordinary devaluation of the cruzeiro in February 1983 failed to recover completely the level of competitiveness of Brazilian exports achieved just after the maxi-devaluation of December 1979 (see table 16).

Table 15

BRAZIL: EVOLUTION OF THE EXCHANGE RATE AND OF PRICES

(Base: 1980 = 100)

Annual and quarterly averages	Official exchange rate		Wholesale price index - Manufactured products		Adjusted real exchange-rate index (2)×(4)/3 (5)
	Cruzeiros per dollar (1)	Index (2)	Brazil ^a (3)	United States (4)	
1975	8.20	15.6	12.3	62.5	78.9
1976	10.67	20.2	16.8	66.4	80.3
1977	14.14	26.8	23.5	71.0	81.1
1978	18.07	34.3	32.0	76.3	81.7
1979	26.95	51.1	50.0	86.1	88.1
1980	52.71	100.0	100.0	100.0	100.0
1981	93.13	176.7	209.3	110.6	93.4
1982	179.51	340.6	422.8	113.7	91.6
1983	577.04	1 094.7	1 021.1	115.0	123.3
1981					
I	70.80	134.3	159.0	107.3	90.6
II	83.89	159.2	190.1	110.7	92.7
III	99.72	158.9	224.6	111.7	94.1
IV	118.08	224.0	263.5	112.6	95.7
1982					
I	137.87	261.6	314.4	113.4	94.3
II	160.18	303.9	379.1	112.9	90.5
III	189.65	359.8	461.0	114.0	89.0
IV	230.36	437.0	536.8	114.7	93.4
1983					
I	326.43	619.3	643.5	114.3	110.0
II	475.89	902.8	817.9	114.3	126.2
III	638.36	1 121.1	1 125.6	115.0	123.7
IV	867.50	1 645.8	1 531.8	116.0	124.6

Source: International Monetary Fund (IMF), *International Financial Statistics*.^aCorrespond to the wholesale price index for manufacturing industries calculated by the Getúlio Vargas Foundation.

Within the framework of trade policy the maxi-devaluation was accompanied by the reintroduction of taxes of between 10% and 20% on exports of a number of basic commodities (these taxes were, however, reduced or eliminated in the course of the year) and a reduction in the tax on financial operations (IOF) in the case of certain raw materials —mainly non-ferrous metals, iron and steel products and agricultural inputs. Although the fiscal credit subsidy in favour of exports and other trade-policy mechanisms were maintained in 1983, the intention nevertheless remains to adjust exchange-rate policy in the medium term in such a way as to make possible the elimination of export subsidies and the reduction of import restrictions.⁵

⁵In order to compensate for the effects of the maxi-devaluation of February 1983, the percentages of financing of working capital for the production of manufactured goods for export to which exporting firms are entitled in accordance with Central Bank Resolution 674, were reduced by 25%. Annual interest rates applicable to this type of financing were increased from 40% to 60% in June 1983, and —as from 1 January 1984— to 3% per annum plus the variation in the nominal value of Index-Linked Treasury bonds (ORTN) during the period of the respective loans.

The extraordinary devaluation carried out in February had a favourable effect on the subsequent evolution of the trade balance. Exports also benefited from the economic recovery in the United States. On the other hand, the economic recession and restrictions on external purchases brought about a significant contraction in imports.⁶ As a consequence of these changes, the goal established in connection with foreign trade in goods was exceeded, since a surplus of US\$ 6 500 million was achieved.

Brazil had considerable difficulty, however, in fulfilling the goals established as regards domestic economic policy and the quarterly balance-of-payments targets, measured in terms of the variations in the net international reserves held by the monetary authorities. The adverse performance of the balance of payments was mainly due to lower-than-expected inflows of external resources in the form of direct investment and short-term capital, due primarily to the disappointing progress of the corresponding projects (3 and 4). The situation became more acute when the IMF decided in April to hold up the new loan disbursements due under the extended agreement: a circumstance that caused the commercial banks, in their turn, to postpone the remaining disbursements of new pledged loans (project 1).⁷

Due to these impediments, significant delays were incurred in settling overdue foreign debt payments, which, by the end of August 1983, amounted to US\$ 2 500 million. These delays compelled the financial authorities to institute the centralization of all foreign exchange transactions in the Central Bank as from 1 August 1983. The primary purpose of this move was to administer foreign payments in such a manner as to keep delays in payment of the public and private foreign debt within certain time limits in order to avoid a default situation.⁸

In September, after agreeing new economic-policy goals with the IMF, the second phase of renegotiation of the foreign debt was put in hand in order to obtain additional resources for financing the 1983 balance of payments and to ensure the availability of the necessary external resources for the following year. These negotiations covered a total of US\$ 11 billion,⁹ broken down as follows:

- Renegotiation of the debt-servicing commitments subject to the intervention of the Paris Club, amounting to an initially estimated value of US\$ 2 billion;
- New loans from the commercial banks for US\$ 6 500 million;
- Commercial credits from government agencies for the sum of US\$ 2 500 million.

Balance-of-payments estimates indicated that some US\$ 3 550 million of the new loans granted by the commercial banks should be received by Brazil before 31 December in order to comply with the IMF requirements in respect of the level of international reserves and to cover the arrears of foreign debt service payments. However, as the corresponding disbursements were not forthcoming before the end of the year, these goals remained unfulfilled. The balance of payments for 1983 showed a final deficit of US\$ 2 100 million. On the other hand, the fact that the group of requested loans was not received within the year meant that the goal of limiting the growth of the foreign debt was more than fulfilled.

⁶The main instruments used in the effort to limit imports were:

- Discontinuance of the issue of import permits for a large number of products.
- The application of surcharges in the case of imports of "luxury" goods.
- Extension of the tax on financial operations (IOF) to purchases of foreign exchange for all imports not expressly exempt from this levy. Imports of petroleum were also made liable to this tax as from December 1983.
- The submission to CACEX (the Banco do Brasil's Foreign Trade Portfolio) of annual import programmes by enterprises intending to effect imports. Until August 1983 this requirement only applied to the larger importers, but subsequently it was extended to all.
- Requirement to obtain external financing, for certain minimum terms varying according to the type of product, as a requisite for the granting of import licenses.
- Application of a maximum annual limit for all public sector imports (with the exception of wheat and petroleum). This limit, which was fixed at US\$ 3 630 million in 1981, was reduced in 1982 to US\$ 3 028 million and still further reduced to US\$ 1 989 million in 1983.
- Centralization of all foreign currency transactions in the Central Bank, thereby obliging the commercial banks to open foreign currency clearing accounts with the Central Bank.

⁷The pending disbursements in the framework of the programme agreed with the IMF and of project 1 with the commercial banks were made at the end of the year, thereby enabling the bridging loans received from the Bank for International Settlements to be paid off.

⁸This measure continued in force until March 1984, when the first disbursements received from the foreign commercial banks under the new loan arrangements made it possible to settle these overdue foreign debt commitments.

⁹Not counting the IMF programme, the conversion of debt amortization payments due to the commercial banks into new loans (project 2), and the recovery or maintenance of short-term lines of credit (projects 3 and 4).

Table 16

**BRAZIL: EVOLUTION OF INDEXES OF THE EFFECTIVE REAL EXCHANGE RATES
FOR EXPORTS AND IMPORTS^a**

(Base: 1980 = 100)

Annual and quarterly averages	Exports		Total imports
	Totals	Manufactured products ^b	
	(1)	(2)	
1975	74.6	72.5	74.8
1976	73.8	72.9	74.9
1977	75.1	73.5	75.7
1978	79.8	77.0	80.1
1979	88.9	87.2	88.4
1980	100.0	100.0	100.0
1981	83.6	86.9	85.6
1982	76.2	78.5	78.2
1983	97.9	101.8	101.1
1981			
I	85.7	88.1	87.1
II	82.1	85.2	84.1
III	81.3	85.3	83.9
IV	85.4	89.0	87.4
1982			
I	81.6	84.7	83.5
II	76.8	79.2	78.6
III	71.7	73.3	73.5
IV	74.8	76.8	77.0
1983			
I	89.7	91.3	92.4
II	102.3	105.7	105.6
III	99.6	104.8	103.0
IV	99.9	105.2	103.5

Source: International Monetary Fund, *International Financial Statistics*.

^aThese indexes were obtained by adding together the real exchange rates of Brazil's most important trading partners, weighted in accordance with the geographical composition of Brazilian exports and imports. The countries included in the calculations are: United States, Canada, Japan, the Federal Republic of Germany, Belgium-Luxembourg, France, Italy, Netherlands, United Kingdom, Spain, Switzerland, Argentina, Chile, Mexico, Paraguay, Uruguay and Venezuela. All the indexes refer to wholesale prices, primarily of domestic and industrial products.

^bIn the case of Brazil the wholesale price index for manufacturing industries drawn up by the Getulio Vargas Foundation was used.

In spite of these difficulties, notable progress was made in 1983 in the sphere of the external accounts. As already mentioned, the surplus on merchandise trade exceeded the established goal and the current account deficit was spectacularly reduced from US\$ 16 300 million in 1982 to less than US\$ 7 600 million.¹⁰

b) *Merchandise trade*

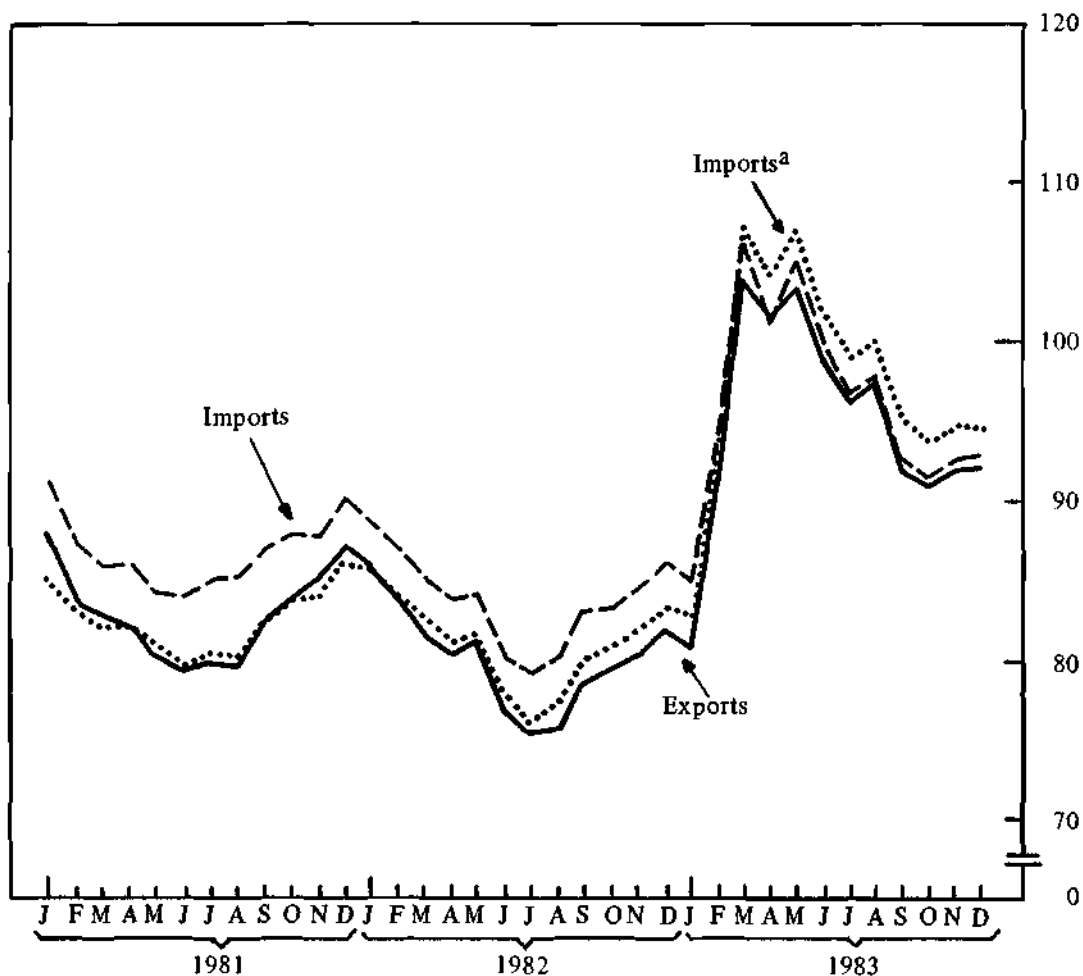
i) *Exports.* Exports of goods in 1983 amounted to US\$ 21 900 million, 8.6% more than in 1982, but 6% below the 1981 level. This favourable development was mainly due to an improvement in the external competitiveness of Brazilian products as a consequence of the exchange rate policy adopted, the economic recovery in the United States of America, and the domestic recession inside Brazil. The initially forecast value of US\$ 23 billion was not achieved because exports continued to be affected by the difficult economic and financial situation faced throughout Latin America as well as in

¹⁰A surplus of US\$ 9 100 million on trade in goods was established by the financial authorities as a goal to be fulfilled in 1984, together with a reduction of the current account deficit to US\$ 5 billion. These developments would make possible an overall balance-of-payments surplus of US\$ 4 300 million.

other developing countries, the high value of the US dollar and the resurgence of protectionism. The recovery expected by the financial authorities in the international prices of basic commodities also failed to materialize, and the unit values of most of the products in this category exported by Brazil remained at the same low levels as in 1982. Furthermore, export prices of industrially-processed goods suffered a severe drop. As a result, the average unit value of exports showed a further decline of 6% which partially counteracted the effects of their extraordinary increase of over 15% in volume (see table 17).

The value of exports to the member countries of the Latin American Integration Association (ALADI) dropped by 28% in 1983 after having contracted by 32% in the preceding year. Consequently, the value of these exports in 1983 was only half that recorded in 1981. On the other hand, exports to member countries of the Council for Mutual Economic Assistance (CMEA) and the Organization of Petroleum Exporting Countries (OPEC) (with the exception of Venezuela and Ecuador) rose in value by 21% and 22% respectively, thereby partially recovering from their severe contraction in 1982 (see table 18).

Figure 2
**BRAZIL: EVOLUTION OF INDEXES OF EFFECTIVE REAL
 EXCHANGE RATES FOR EXPORTS AND IMPORTS**
 (1980 = 100)



Source: ECLAC, on the basis of data obtained from the International Monetary Fund.
^aExcluding petroleum-exporting countries (Saudi Arabia, Iran, Iraq, Kuwait).

Table 17

BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Growth rates								
Exports of goods, FOB								
Value	17.3	19.7	4.6	22.2	32.1	15.6	-13.3	8.6
Volume	1.6	7.3	12.5	12.0	22.3	25.0	-6.6	15.3
Unit value	15.4	11.6	-7.0	9.1	8.0	-7.5	-7.2	-5.9
Imports of goods, FOB								
Value	2.5	-2.6	13.4	31.8	27.8	-3.8	-12.2	-20.5
Volume	-3.3	-5.1	5.9	9.9	-0.8	-13.2	-8.8	-15.4
Unit value	6.0	2.6	7.0	19.9	28.8	10.9	-6.2	-6.0
Terms of trade (goods)	8.7	8.5	-13.1	-8.8	-15.7	-16.7	-3.8	-0.1
Indexes (1970 = 100)								
Terms of trade (goods)	92.8	100.8	87.6	79.9	67.4	56.1	54.0	53.9
Purchasing power of exports of goods	148.9	173.4	169.5	173.2	178.7	185.9	167.0	192.5
Purchasing power of exports of goods and services	155.2	180.7	177.3	184.7	195.1	208.1	183.6	203.2

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

The main factor in the growth of Brazilian exports in 1983 was however the sales to the United States market which grew by 26% to reach a value of US\$ 5 billion, representing 23% of all Brazilian exports in the year. The increases in exports to the European Common Market (4.5%) and Japan (10.5%) were more modest due to the slower economic recovery in these economies and the depreciation of their currencies *vis-à-vis* the US dollar.

The large increase in exports to the United States was achieved despite a significant resurgence in 1982 and 1983 of protectionist pressures against the importation of certain Brazilian products. United States industrialists made several requests in those two years for the imposition of countervailing customs duties and/or anti-dumping taxes in respect of some imports from Brazil, especially steel products. However, the Governments of Brazil and the United States managed on the whole to prevent these moves from giving rise to the institution of compensatory import tariffs. To this end they agreed to introduce suspension agreements whereby the net subsidies estimated by the US Department of Trade were counteracted by the levying of an export tax in Brazil. Approximately 25% of the value of exports to the United States in 1983 was subject to export-tax payments arising from these negotiations, which were primarily intended to obviate the imposition of compensatory import duties. In addition, exports of other articles, such as sugar, special steels, textiles and ready-made clothing, were subjected to quantitative restrictions.

Exports also showed considerable changes in composition. A renewed tendency was thus observed in 1983 towards a greater proportion of industrially-processed products in total exports and a decrease in the relative significance of sales of basic commodities.

The growth of exports of commodities (3.4%) was led by coffee beans (12%), soya (soya meal shipments rose by 11% and beans by 151%), unrefined sugar (24%), and cocoa beans (31%).¹¹ On the other hand the value of exports of iron ore fell by 18% due both to lower volume and a drop in prices (see table 19).

The considerable increase of 25% in the value of exports of semi-manufactured products was fairly diversified in origin, higher values recorded in the case of cocoa, pig iron, tin and ferrosilicon being particularly noteworthy.

¹¹The growth of overall exports of coffee (10%) and sugar (6.9%) was lower than the above-mentioned rates due to decreases in exports of these products in semi-processed or manufactured form. The increases in value of overall soya and cocoa exports amounted to 20.8% and 29.3%, respectively.

The increase of 10% in exports of manufactured goods was primarily due to higher sales in the United States market, especially of iron and steel products (58%), footwear (37%), textiles, motor-vehicle parts and chemical products. At the same time a spectacular increase (of 364%) occurred in the value of exports of aluminium and manufactures thereof, which reached a total of US\$ 264 million. In contrast, despite the severe contraction of domestic demand, reductions were recorded in the value of exports of transport equipment (-16%), and machinery and mechanical products (-8%) which depend to a relatively greater extent on markets in the developing countries.

ii) *Imports.* The overall value of imports of goods in 1983 came to US\$ 15 400 million —20% less than in 1982 and a third lower than in 1980.

An item of considerable influence in this result was the 18% drop in the value of imports of crude oil, which alone account for more than half of the country's foreign purchases. In physical terms, imports of petroleum reached an average daily volume of 726 000 barrels compared with 793 000 in 1982.¹² The average price paid per barrel dropped for the second consecutive year, from US\$ 33 in 1982 to US\$ 29.50 in 1983.

Table 18

BRAZIL: EXPORTS OF GOODS, BY GROUPS OF COUNTRIES OF DESTINATION

	Millions of dollars FOB				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1980	1983	1980	1981	1982	1983
Total	20 132	23 293	20 175	21 899	100.0	100.0	32.1	15.7	-13.4	8.5
Developed market-economy countries	12 092	12 942	12 316	14 099	60.1	64.4	23.8	7.0	-4.8	14.5
United States, Canada, EEC ^a and Japan	10 450	11 554	11 002	12 495	51.9	57.1	21.2	10.6	-4.8	13.6
United States ^b	3 509	4 111	4 034	5 064	17.4	23.1	19.3	17.2	-1.9	25.5
Canada	243	290	231	312	1.2	1.4	21.7	19.5	-20.3	34.9
EEC ^a	5 466	5 933	5 443	5 688	27.2	26.0	19.0	8.5	-8.3	4.5
Japan	1 232	1 220	1 294	1 431	6.1	6.5	38.9	-1.0	6.1	10.6
Others ^c	1 641	1 388	1 313	1 604	8.2	7.3	43.3	-15.4	-5.4	22.1
Eastern Europe	1 307	1 699	1 191	1 441	6.5	6.6	33.9	30.0	-29.9	21.0
Developing countries^d	6 474	8 296	6 417	6 083	32.2	27.8	48.5	28.1	-22.6	-5.2
OPEC ^e	1 232	1 962	1 346	1 637	6.1	7.5	104.7	59.2	-31.4	21.7
Others	5 241	6 334	5 072	4 446	26.0	20.3	39.5	20.9	-19.9	-12.3
ALADI ^f	3 458	4 209	2 862	2 054	17.2	9.4	39.7	21.7	-32.0	-28.2
Argentina	1 091	880	666	657	5.4	3.0	51.9	-19.4	-24.3	-1.4
Chile	451	640	289	192	2.2	0.9	24.2	42.1	-54.9	-33.7
Mexico	470	643	324	173	2.3	0.8	61.0	36.9	-49.6	-46.6
Paraguay	409	450	324	234	2.0	1.1	26.2	9.9	-27.8	-28.0
Uruguay	311	373	138	104	1.5	0.5	49.3	20.1	-63.1	-24.4
Andean Group	726	1 222	1 120	694	3.6	3.2	27.6	68.3	-8.4	-38.0
Other developing countries	1 783	2 125	2 210	2 392	8.9	10.9	39.1	19.2	4.0	8.2
Supplies to ships and aircraft; undeclared exports	260	356	251	275	1.3	1.3	82.0	36.8	-29.5	9.5

Source: ECLAC, on the basis of data from Banco do Brasil, Carteira de Comércio Exterior (CACEX).

^aEuropean Economic Community (10 countries)

^bIncluding Puerto Rico.

^cSouth Africa, Australia, Austria, Spain, Finland,

Iceland, Malta, Norway, New Zealand, Portugal, Sweden, Switzerland, Turkey and Yugoslavia.

^dIncludes socialist countries of

Asia.

^eOrganization of Petroleum Exporting Countries, excluding Venezuela and Ecuador.

^fLatin American Integration

Association.

¹²Brazilian imports amounted in 1979 to one million barrels per day. Subsequent reductions have been due to the displacement of petroleum by other sources of energy, higher domestic oil production, and the domestic economic recession.

Table 19

BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1981	1982	1983 ^a
Total	20 132	23 293	20 175	21 899	100.0	100.0	100.0	15.7	-13.4	8.5
Commodities	8 488	8 920	8 238	8 517	74.8	42.2	38.9	5.1	-7.6	3.4
Coffee beans	2 486	1 517	1 858	2 078	34.3	12.3	9.5	-39.0	22.5	11.8
Iron ore	1 564	1 748	1 847	1 520	7.7	7.8	6.9	11.8	5.7	-17.7
Soya meal and cake	1 449	2 136	1 619	1 792	1.6	7.2	8.2	47.4	-24.2	10.7
Soya beans	394	404	123	309	1.0	2.0	1.4	2.5	-69.6	151.2
Unrefined sugar	625	579	259	320	4.6	3.1	1.5	-7.4	-55.3	23.6
Others	1 970	2 536	2 532	2 498	25.6	9.8	11.4	28.7	-0.2	-1.3
Industrial products	11 376	14 000	11 686	13 075	24.3	56.5	59.7	23.1	-16.5	11.9
Semi-manufactures	2 340	2 116	1 433	1 786	9.1	11.6	8.2	-9.6	-32.3	24.6
Manufactures	9 028	11 884	10 253	11 290	15.2	44.8	51.6	31.6	-13.7	10.1
Transport equipment	1 514	2 080	1 719	1 450	0.5	7.5	6.6	37.4	-17.4	-15.6
Machinery, boilers and mechanical apparatus	1 384	1 550	1 198	1 106	1.8	6.9	5.1	12.0	-22.7	-7.7
Processed coffee	287	244	256	246	1.6	1.4	1.1	-15.0	4.9	-3.9
Electrical machinery and equipment	462	561	406	448	0.6	2.3	2.0	21.4	-27.6	10.3
Footwear	408	586	524	715	0.3	2.0	3.3	43.6	-10.6	36.5
Orange juice	339	659	575	609	0.5	1.7	2.8	94.4	-12.7	5.9
Manufactured iron and steel products	625	801	795	1 255	1.9	3.1	5.7	28.2	-0.7	57.9
Others	4 009	5 403	4 780	5 461	8.0	19.9	24.9	34.8	-11.5	14.2
Other products^b	268	373	251	307	0.9	1.3	1.4	39.2	-32.7	22.3

Source: Banco do Brasil, Carteira de Comercio Exterior (CACEX).

^aPreliminary figures.

^bIncludes consumption on board ships and aircraft, re-exports and special transactions.

If petroleum and its derivatives are excluded, the total value of imports dropped in the year by 22%. This contraction was moreover fairly generalized in terms of economic destination (see table 20). Among raw materials, there was a further drastic reduction (-61%) in imports of iron, steel and non-ferrous metals, due mainly to the continuation of import substitution processes which enabled the value of these imports to be reduced in 1983 to US\$ 335 million, or less than a quarter of the 1980 figure.

The drop in imports was also generalized in terms of their geographic origin, for there was a drop in purchases from all groups of countries (with the exception of Eastern Europe) in 1983, the reduction of 33% in imports from the ALADI countries being particularly noteworthy (see table 21).

The improvement in the merchandise trade surplus from US\$ 780 million in 1982 to US\$ 6 500 million in 1983 was mainly due to the lower purchases of petroleum already mentioned. These contributed decisively to the US\$ 2 500 million reduction during the year in the trade deficit with the OPEC countries (including Venezuela and Ecuador). Furthermore, trade with the United States, which prior to the present decade customarily showed a deficit, recorded a surplus of US\$ 2 700 million in 1983: more than double the surplus of US\$ 1 200 million registered in 1982.

iii) *Terms of trade and purchasing power of exports.* Preliminary estimates indicate that the terms of trade remained stable in 1983 as a result of similar declines in the unit values of exports and imports. This checked the prolonged deterioration that had been taking place since 1978, during which period a decline of 46% took place (see table 17).

The drop in export prices mainly affected industrial products, since on average commodity prices maintained the same unit prices as in 1982. It is probable that in order to maintain their competitiveness in foreign markets exporters of manufactures may have absorbed part of the

Table 20

BRAZIL: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1980	1981	1982	1983	1970	1980	1983	1981	1982	1983
Total	22 955	22 091	19 395	15 429	100.0	100.0	100.0	-3.8	-12.2	-20.4
Consumer goods	1 316	987	999	793	13.6	5.7	5.1	-25.0	1.2	-20.6
Intermediate goods	17 259	17 081	15 124	12 131	48.1	75.2	78.6	-1.0	-11.5	-19.8
Fuels and lubricants	10 200	11 340	10 457	8 607	7.0	44.4	55.8	11.2	-7.8	-17.7
Others	7 059	5 741	4 667	3 524	41.1	30.8	22.8	-18.7	-18.7	-24.5
Capital goods	4 381	4 023	3 272	2 505	38.3	19.1	16.2	-8.2	-18.7	-23.4

Source: Central Bank of Brazil.

Table 21

BRAZIL: IMPORTS OF GOODS, BY GROUPS OF COUNTRIES OF ORIGIN

	Millions of dollars, FOB				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1980	1983	1980	1981	1982	1983
Total	22 955	22 091	19 395	15 408	100.0	100.0	26.9	-3.8	-12.2	-20.6
Developed market-economy countries	9 494	8 255	6 635	5 305	41.4	34.4	18.9	-13.0	-19.6	-20.0
United States, Canada, EEC ^a and Japan	9 496	8 255	6 635	5 305	41.4	34.4	19.5	-13.1	-19.6	-20.0
United States ^b	4 101	3 504	2 861	2 409	17.9	15.6	26.6	-14.6	-18.3	-15.8
Canada	814	534	452	493	3.5	3.2	136.0	-34.4	-15.2	9.0
EEC ^a	3 513	2 978	2 441	1 842	15.3	12.0	7.3	-15.2	-18.0	-24.5
Japan	1 066	1 240	880	561	4.6	3.6	-1.8	16.3	-29.0	-36.3
Others ^c	5 393	4 752	3 774	2 896	23.5	18.8	-7.7	-11.9	-20.6	-23.3
Eastern Europe	249	242	463	503	1.1	3.3	3.9	-2.8	91.6	8.5
Developing countries ^d	12 058	12 667	11 424	9 007	52.5	58.5	35.7	5.1	-9.8	-21.2
OPEC ^e	8 434	8 598	7 468	5 750	36.7	37.3	40.9	1.9	-13.1	-23.0
Others	3 264	4 069	3 956	3 257	14.2	21.1	24.8	24.7	-2.8	-17.7
ALADI ^f	2 692	3 126	3 286	2 204	11.7	14.3	21.9	16.1	5.1	-32.9
Argentina	757	587	550	358	3.3	2.3	-15.6	-22.5	-6.2	-34.9
Mexico	431	784	789	708	1.9	4.6	75.2	81.7	0.7	-10.2
Venezuela	570	968	970	663	2.5	4.3	150.4	69.8	0.2	-31.6
Others	934	787	977	474	4.1	3.1	11.4	-15.7	24.2	-51.5
Other developing countries	932	943	669	1 053	4.1	6.8	34.3	1.2	-29.0	57.3

Source: ECLAC, on the basis of data from Banco do Brasil, Carteira de Comercio Exterior (CACEX).

^aEuropean Economic Community (10 countries).^bIncluding Puerto Rico.^cSouth Africa, Australia, Austria, Spain, Finland,

Iceland, Malta, Norway, New Zealand, Portugal, Sweden, Switzerland, Turkey and Yugoslavia.

^dIncluding socialist countries ofAsia. ^eOrganization of Petroleum Exporting Countries, excluding Venezuela and Ecuador.^fLatin American Integration

Association.

appreciation in the value of the US dollar by lowering their prices in that currency—a practice that was facilitated by the exchange rate policy. The drop in import prices, for its part, was attributable both to lower oil prices and to the lower dollar prices of imports from countries whose currencies also declined in value *vis-à-vis* the US dollar. Since there was not significant variation in the terms of trade during the year, the notable increase in the volume of exports (15.4%) was reflected in an equivalent rise in their purchasing power.

c) *Services trade and factor payments*

The traditional deficit on the trade in real services contracted significantly from close to US\$ 3 600 million in 1982 to slightly more than US\$ 2 400 million in 1983. Freight and insurance payments were 13% lower than in 1982, in line with the decline in imports of goods. Since, on the other hand, freight and insurance earnings increased in a similar proportion, the corresponding deficit fell from US\$ 1 450 million in 1982 to US\$ 980 million in 1983. Outgoings on account of foreign travel contracted much more markedly (-40%) due mainly to the measures adopted to discourage this form of expenditure.¹³

After their spectacular rise in previous years, net interest payments fell from nearly US\$ 11 400 million in 1982 to less than US\$ 9 600 million in 1983. This reduction reflected the drop in interest rates in international financial markets in the second half of 1982.

d) *The current account position and its financing*

i) *Background.* In 1983, the deficit on current account contracted spectacularly to US\$ 7 560 million, compared with more than US\$ 16 300 million in the preceding year. The ratio between this deficit and the value of exports of goods and services thus fell to 32% after having stood at 74% in 1982 (see table 22).

Despite this favourable result, it proved impossible to finance the current account deficit as originally envisaged, with the result that the balance of payments as a whole showed a final deficit for the year of more than US\$ 2 100 million.

Negotiations to ensure the financing of the current account deficit and foreign debt amortization payments had been initiated at the end of 1982, when Brazil applied for access to a number of IMF facilities and submitted four financing proposals to the international commercial banks. The first global balance-of-payments forecasts for 1983 envisaged a surplus of about US\$ 1 500 million. Those forecasts were, however, subsequently reviewed and the objective was adopted of achieving a state of equilibrium in the overall balance. This objective also became one of the goals included in the programme agreed with the IMF.

The IMF agreement was signed on 25 February, together with projects 1 and 2 as proposed to the commercial banks concerning new loans and the conversion of debt-amortization commitments into long-term loans.

Several difficulties regarding the capital account arose in the course of the year, however. When Brazil failed to fulfil its principal economic policy objectives in the first quarter of the year, the IMF decided not to release the disbursements programmed for payment in May and August, each amounting to 374 million Special Drawing Rights. This decision in its turn caused the international commercial banks to freeze the disbursements corresponding to project 1 due for delivery in June and September, amounting in each case to US\$ 635 million. As a result, by September the accumulated disbursements for the year under the IMF agreement and project 1 were some US\$ 2 billion less than the inflow originally foreseen. After the establishment of amended economic policy goals, the IMF released in November the remaining disbursement installments programmed for 1983, and after the signing of the new agreement between Brazil and the IMF the international commercial banks, in their turn, disbursed in December the rest of the loans corresponding to project 1.

These problems were aggravated by other unfavourable developments. Direct investment proved to be considerably less than the amounts originally forecast, and there was a significant net outflow of short-term capital, due, among other reasons, to an increase in export financing by the

¹³In September 1982 it was decided to apply the tax on financial operations (IOF), at the rate of 25%, to purchases of foreign exchange for tourism abroad. In March 1983 the maximum amount of foreign exchange allowed for this purpose was reduced, but the IOF tax was eliminated at the same time. The limit was again reduced as from 1 August.

Table 22

BRAZIL: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-7 039	-10 482	-12 848	-11 760	-16 314	-7 560
Trade balance	-2 830	-5 019	-5 935	-1 677	-2 795	4 034
Exports of goods and services	13 666	16 707	21 857	25 523	21 967	23 628
Goods FOB	12 473	15 244	20 132	23 275	20 172	21 899
Real services ^b	1 191	1 465	1 726	2 248	1 791	1 729
Transport and insurance	570	705	843	1 102	1 013	1 145
Travel	69	74	125	242	66	39
Imports of goods and services	16 495	21 725	27 792	27 200	24 762	19 594
Goods FOB	13 632	17 961	22 955	22 091	19 395	15 429
Real services ^b	2 864	3 764	4 838	5 109	5 365	4 165
Transport and insurance	1 580	2 104	2 758	2 786	2 460	2 129
Travel	254	310	367	407	913	431
Factor services	-4 278	-5 478	-7 041	-10 274	-13 509	-11 701
Profits	-1 535	-1 356	-720	-1 112	-2 141	-2 133
Interest received	644	1 157	1 146	1 144	1 198	708
Interest paid	-3 343	-5 261	-7 456	-10 306	-12 550	-10 263
Others	-45	-17	-9	-1	-14	-13
Unrequited private transfer payments	70	12	128	189	-11	107
Balance on capital account	11 666	7 582	9 379	12 381	11 119	5 446
Unrequited official transfer payments	3	5	42	10	2	...
Long-term capital	10 088	6 466	7 104	11 659	8 011	...
Direct investment (net)	1 882	2 223	1 544	2 313	2 534	657
Portfolio investment (net)	-	659	354	-2	-1	...
Other long-term capital	8 205	3 584	5 206	9 348	5 478	...
Official sector ^c	3 965	3 370	-14	60	1 744	...
Loans disbursed	6 240	4 665	1 841	1 650	3 368	...
Amortization payments	-2 062	-1 278	-1 366	-1 319	-1 286	...
Commercial banks ^c	1 853	486	2 105	4 054	1 681	...
Loans disbursed	2 898	1 981	4 005	6 409	4 239	...
Amortization payments	-1 043	-1 494	-1 917	-2 361	-2 559	...
Other sectors ^c	2 387	-272	3 115	5 234	2 053	...
Loans disbursed	4 979	4 248	6 085	9 633	6 675	...
Amortization payments	-2 169	-3 781	-3 394	-3 761	-4 264	...
Short-term capital	1 273	-122	2 572	1 132	3 476	...
Official sector	499	274	-31	-6	3 879	...
Commercial banks	897	-422	608	1 039	-136	...
Other sectors	-123	26	1 996	99	-267	...
Errors and omissions (net)	300	1 233	-343	-418	-369	...
Global balance ^d	4 627	-2 900	-3 469	621	-5 195	-2 114
Total variation in reserves (minus sign indicates an increase)	-4 640	2 860	3 322	-747	4 157	1 587
Monetary gold	-4	-	-103	-130	824	...
Special Drawing Rights	-30	-144	-1	-68	452	-
IMF reserve position	13	-60	-103	80	-23	287
Foreign exchange assets	-4 619	3 063	3 301	-844	2 245	-714
Other assets	-	-	228	215	109	...
Use made of IMF credit	-	-	-	-	550	2 094

Source: 1978-1982: International Monetary Fund, *Balance of Payments Yearbook*; 1983: ECLAC, on the basis of official data.^aPreliminary figures.^bReal services also include other official and private transactions, but not factor services.^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Banco do Brasil and the disappointing progress in projects 3 and 4, the aim of which was to restore or maintain short-term lines of credit (see table 23). Preliminary estimates also revealed that the current account deficit would exceed the forecast goal of US\$ 6 900 million (excluding reinvested profits and dividends) and would reach a level of approximately US\$ 7 700 million. In these circumstances, Brazil was unable to comply fully with the service of the foreign debt, with the result that arrears of payment in this respect amounted at the end of August to US\$ 2 500 million.

The review of economic policy goals carried out in September in conjunction with the IMF cleared the way for the second phase of the external financing programme. In this new stage the economic authorities sought additional financing in order to fulfil the balance-of-payments goals by eliminating the global deficit before 31 December 1983 and consequently also settle the arrears of payments on the foreign debt. Financing was also sought to ensure fulfilment of the 1984 goal of increasing the net international reserves by US\$ 1 billion.

The balance-of-payments projections available in September showed a probable deficit of US\$ 4 500 million. It was estimated that US\$ 700 million corresponding to debt servicing payments due in 1983 could be refinanced with the assistance of the Paris Club, leaving a shortfall of US\$ 3 800 million to be financed with additional resources (see table 23, second column). The main source of this initial financing would be new loans from the foreign commercial banks to a total value of US\$ 6 500 million for 1983 and 1984.

The first disbursements of the second set of loans from the foreign commercial banks failed to materialize within 1983, however, and this was the main reason for the deficit finally recorded in the overall balance of payments for the year.

ii) *The programme agreed with the IMF.* Brazil's request to the IMF for a group of loans was formally submitted on 6 January 1983 through the first letter of intent and the technical memorandum appended to it. Brazil requested access to IMF resources to a value of 4 489 million Special Drawing Rights (approximately US\$ 4 900 million), which was equivalent to 450% of Brazil's quota. Of this total, 249 million SDRs corresponded to the first credit tranche and 4 239 million SDRs to an agreement under the policy of extended access to the resources of the Fund, for a three-year period. The Executive Board of the IMF approved the request on 28 February 1983. Brazil also requested maximum access to the resources available for compensatory financing and the financing of buffer stocks.

As is usual, financing under the extended agreement was subject to an economic and financial adjustment programme which included the following programme criteria¹⁴ in the external sector for 1983:

- *Maintenance of international reserves.* It was agreed that one goal would be the attainment of equilibrium in the global balance of payments, which meant that the net international reserves held by the monetary authority (Central Bank and Banco do Brasil), adjusted in accordance with the monetarization of gold and exchange rate fluctuations, should not amount at 31 December 1983 to less than the level recorded one year earlier (-US\$ 2 884 million). This equilibrium should be reached by means of successive reductions of the accumulated deficits at the end of each quarter (see table 24).

- *Growth of the external debt.* Maximum limits were established for the net quarterly growth of the external long- and short-term public and private debt, in line with the balance-of-payments goals. The growth of the debt was defined as the difference between foreign debt disbursements and amortization payments, adjusted in accordance with variations in the net position of certain types of short-term debt. The quarterly goals for 1983 were, however, modified in the course of the year and the goal for the year was amended in September in order to incorporate the new loans from the international commercial banks.

- *Exchange policy.* In its first letter of intent Brazil undertook to adjust the cruzeiro/US dollar exchange rate in such a manner that the accumulated devaluation per month would be, on average, one percentage point higher than domestic inflation measured in accordance with the general price index (IGP-DI). This commitment was modified in the second letter of intent as a result of the 30% devaluation introduced on 21 February 1983. Under the new commitment the periodical increase in the exchange rate would, as a minimum, be equal to the general price index variation. As from the

¹⁴ "Performance criteria" are targets that must be fulfilled as a pre-condition for payment of the disbursements planned in the extended agreement.

Table 23

BRAZIL: NEEDS EXTERNAL RESOURCES AND FINANCING IN 1983

(Millions of dollars)

	Original forecast (1)	Revised forecast ^a (2)	Deficit of resources (2)-(1) (3)	Actual figures (4)	Resource deficit (4)-(1) (5)
A. Resource requirements	14 100	15 287	1 187	13 762	-338
Deficit on current account ^a	6 900	7 663	763	6 171	-729
Trade balance - goods ^b	-6 000	-6 300	-300	-6 470	-470
Deficit on services	12 900	14 063	1 163	12 748	-152
Net interest payments	9 100	9 700	600	9 555	455
Other outgoings	3 800	4 363	563	3 193	-607
Unilateral transactions	-	-100	-100	-107	-107
Amortization payments	7 200	7 624	424	7 591	391
B. Financing	14 100	11 376	-2 724	11 933	-2 167
Direct investment ^c	1 500	438	-1 062	657	-843
Financing provided by international organizations, government agencies and supplier loans ^d	2 000	2 286	286	3 037	1 037
Other financing sources	10 600	9 652	-948	8 239	-2 361
Financial loans	...	9 190	...	8 771	...
Project 1	2 061	2 083	22	2 167	106
Disbursements	4 400	4 422	22	4 506	106
Amortization of bridging loans	-2 339	-2 339	-	-2 339	-
Project 2	4 600	4 820	220	4 532	-68
Committed in 1982	1 200 ^e	1 435	235	1 186	-14
Others	...	852	...	886	...
Short-term capital	1 300	-896	-2 196	-1 822	-3 122
Projects 3 and 4	1 300 ^e	...	...	...	...
Others	...	...	...	...	...
Other capital movements	-	-214	-214	-394	-394
Monetary authority liabilities BIS	-500	-500	-	-500	-
United States Treasury	-876	-876	-	-876	-
Other short-term liabilities	-	89	89	194	194
Use of IMF credit	2 483 ^f	2 145	-338	2 152	-335
Refinancing via the Paris Club	-	714	714	714	714
C. Errors and omissions	-	-	-	-531	-531
D. Balance-of-payments result (B-A+C)	-	-2 911	-2 911	-2 360	-2 360
E. Variation in reserves, in balance-of-payment terms (- indicates an increase)	f	-858	-858	20	20
F. Financing deficit (-(D+E))	-	3 769^g	3 769	2 340	2 340
Delays in payments of external commitments	-	-	-	2 340	2 340

Source: ECLAC, on the basis of the following information:

Original forecast: National Monetary Council, *External Sector Programming in 1983*.Galveas, *A crise Mundial e a Estrategia Brasileira de Ajustamento do Balanco de pagamentos*.Revised forecast: Central Bank, *Brazil Economic Program, Internal and External Adjustment*, October 1983.Actual figures and projections for 1984: Central Bank of Brazil, *Brazil Economic Program*, Volume 2, March 1984.^aBasic data for the second phase of the external financing programme.^bExcluding profits and re-invested dividends.^cOf opposite sign.^dLess export loans, after deduction of amortization payments received.^eData shown in Galveas.^fGalveas shows an increase in reserves of US\$ 1 600 million.^gExcluding refinancing via the Paris Club.

Table 24

BRAZIL: VARIATIONS IN INTERNATIONAL RESERVES

(Millions of dollars)

	Reserves at end of each period						Variation in each period			
	Sep- tem- ber	De- cem- ber	March	June	Sep- tem- ber	De- cem- ber	I+II	III	IV	Total
	1982	1982	1983	1983	1983	1983	1983	1983	1983	1983
I. International liquidity^a	5 051	3 994	3 480	3 803	3 965	4 563	-191	162	598	569
Reserves, excluding gold ^b	4 185	3 928	3 389	3 758	3 853	4 355	-170	95	502	427
Special Drawing Rights	189	-	-	-	-	-	-	-	-	-
IMF reserve position	282	287	-	-	-	-	-287	-	-	-287
Foreign exchange	3 714	3 641	3 389	3 758	3 853	4 355	117	95	502	714
Gold (national valuation and other assets ^c)	866	66	91	45	112	208	-21	67	96	142
II. Net reserves held by the monetary authority^d										
A. Assets	4 352	3 250	...	2 941	3 054	3 757	-309	113	703	507
B. Liabilities	3 304	6 134	...	7 435	8 353	9 444	1 301	918	1 091	3 310
Short-term	3 304	5 590	...	5 979	6 897	6 748	389	918	-149	1 158
Bank for International Settlements	-	500	1 050	1 050	1 050	-	550	-	-1 050	-500
United States										
Treasury	-	876	-	-	-	-	-876	-	-	-876
Others	3 304	4 214	...	4 929	5 847	6 748	715	918	901	2 534 ^e
Use of IMF credit ^f	-	544	1 456	1 456	1 456	2 696	912	-	1 240	2 152
C. Net reserves (A-B)	1 048	-2 884	...	-4 494	-5 299	-5 687	-1 610	-805	-388	-2 803
D. Adjustments for counterpart items	-	-	...	226	404	527	226	178	123	527
E. Net reserves, adjusted (C-D)	1 048	-2 884	...	-4 720	-5 703	-6 214	-1 836	-983	-511	-3 330
Goal established with the IMF										
First letter of intent	-	-2 884	-4 384	-4 384	-3 584	-2 884	-1 500 ^g	700 ^g	-	-
Third letter of intent	-	-	-	-	-5 984	-2 884	-	-3 100 ^g	-	-

Source: ECLAC, on the basis of information given in: IMF, *International Financial Statistics*, April 1984; Central Bank of Brazil, *Monthly Report*, March 1984 and *Brazil Economic Program, Internal and External Adjustment*, Volume 2, March 1984. Technical memorandums attached to the Brazilian letters of intent.

^aOn the basis of data published by the Central Bank of Brazil.

^bOn the basis of data published by the IMF.

^cObtained through differences.

^dCentral Bank and Banco do Brasil. Method of calculation employed to determine balance-of-payments performance in the framework of the corresponding goal agreed with the IMF.

^eIncludes arrears of payment of the debt to a value of US\$ 2 340 million.

^fRe-purchase commitments.

^gMaximum balance-of-payments deficit accumulated in the year.

third letter of intent, the minimum devaluation commitment was linked with the evolution of the general price index, corrected for fortuitous factors (the so-called "expurgated index").

- *Trade policy.* The agreement with the IMF included some provisions concerning import restrictions and payments relating to international transactions, as well as certain practices which in effect gave rise to the existence of multiple exchange rates (the most significant practices of this nature at the end of 1983 were the tax on financial operations (IOF) and the credit premium for exports, both of which are due to disappear in the course of 1985). Certain restrictions affecting remittances abroad in respect of royalties, technical assistance, profits and dividends were eliminated in 1983, as well as taxes affecting exports of certain basic commodities (mainly orange juice and cattle hides). Brazil also made some adjustments —mainly in respect of payment periods— in bilateral payments agreements with Hungary and Romania (both of these countries being members of the IMF).

iii) *The projects submitted to the private banks.* In December 1982 Brazil submitted to the foreign commercial banks a plan in connection with its external financing needs for 1983. In October 1983, within the second phase of external finance programming, a new plan was submitted regarding additional external financial requirements in 1983 and 1984. On both occasions four projects were put forward with the aim of obtaining new loans, converting amortization commitments into long-term loans, and restoring or maintaining short-term lines of credit.

The projects submitted in December 1982 were as follows:

Project 1: New loans to the value of US\$ 4 400 million, to be disbursed in March (US\$ 2 500 million), June, September and December 1983 (US\$ 635 million each). Part of these loans was advanced at the end of 1982 in the form of bridging loans to a value of US\$ 2 339 million. The corresponding agreements were signed on 25 February 1983.

Project 2: Conversion into new long-term loans of debt amortization payments due to be made to the commercial banks in 1983. It was initially estimated that this project would involve some US\$ 4 billion. This amount was subsequently raised to US\$ 4 600 million.

Project 3: Maintenance of US\$ 8.8 billion of short-term lines of credit for commercial transactions, through the renewal of expired credits.

Project 4: Reinstatement of lines of credit in the external inter-bank market (very short-term inter-bank deposits lodged with agencies of Brazilian banks abroad) to a total of US\$ 10 billion.

The four projects submitted to the foreign commercial banks concerning additional financial requirements in 1983 and the financing of external resources needed in 1984, for their part, were as follows:

Project A: New loans to a value of US\$ 6 500 million (of which US\$ 3 500 million should become available in December 1983), mainly in order to finance debt arrears.

Project B: Conversion of amortization payments falling due in 1984 into new loans, to a value of US\$ 5 billion.

Project C: Maintenance of short-term lines of credit for commercial operations, to the extent of US\$ 10 billion.

Project D: Maintenance of inter-bank deposits at agencies of Brazilian banks abroad to a value of US\$ 6 billion.

iv) *Agreement with the Paris Club.* At the end of November 1983, Brazil negotiated in Paris the reprogramming of debt service payments in connection with direct government loans and commercial loans covered by guarantees or insurance extended by foreign governments or their institutions. The renegotiation plan covered interest and amortization payments falling due between 1 August 1983 and 31 December 1984 as well as accumulated arrears at 31 July 1983.

The value of the debt subject to this reprogramming exercise was estimated at between US\$ 2 400 million and US\$ 3 800 million, according to initial estimates drawn up by the Government of Brazil on the one hand and information received from the corresponding creditor governments on the other. The discrepancy was mostly due to the fact that guarantees provided by foreign governments are not always referred to in the documentation relating to commercial loans to Brazil.

With regard to interest and amortization payments due between 1 August 1983 and 31 December 1984, Brazil negotiated a nine-year rescheduling agreement with a five-year grace period on the following terms:

- 85% to be paid in eight equal half-yearly installments between 1 January 1989 (end of the period of grace) and 1 July 1992.
- 15% to be paid as follows: 5% in accordance with the originally-established credit periods, 4% on 30 June 1985, 3% on 30 June 1986 and 3% on 30 June 1987.

It was additionally agreed that the accumulated arrears at 31 July 1983 would be settled in three equal payments on 31 March 1984, 30 September 1984 and 31 March 1985.

e) *The external debt*

As had been the case in 1982, a corollary of the difficulties that had to be faced in order to finance the current account deficit was the fact that Brazil's external debt grew more slowly in 1983 than had been originally foreseen.

As already noted, Brazil entered into a commitment with the IMF to limit the net increase in the short- and long-term public and private debt to a level of US\$ 6 billion. Subsequently, in the context of the second external financing programming phase, this limit was raised to US\$ 9 billion, thereby incorporating the first disbursements of the second group of loans requested from the foreign commercial banks, due to be received before 31 December 1983. However, on account of the difficulties mentioned in the preceding section, the actual growth of the foreign debt, measured in accordance with the definition agreed with the IMF, amounted in 1983 to only US\$ 3 500 million.

The registered external debt rose by 16%, from US\$ 70 200 million at the end of 1982 to slightly more than US\$ 81 300 million at 31 December 1983.¹⁵ For its part, the unregistered (short-term) debt dropped from US\$ 13 billion to US\$ 10 300 million (see table 25). This was due both to a reduction in the traditional lines of credit associated with foreign trade and the amortization of debts contracted at the end of 1982 through the medium of special short-term operations connected with the level of international reserves (bridging loans to a value of US\$ 3 715 million). This contraction was, however, partially compensated by the accumulation as at 31 December 1983 of external debt arrears amounting to US\$ 2 340 million which acquired the nature of a non-traditional form of short-term debt.

In these circumstances the total external debt (short- and long-term, public and private) reached a level slightly in excess of US\$ 91 600 million at 31 December 1983 — 10% more than it had been one year earlier.

Debt servicing costs, for their part, were again equivalent to an extraordinarily high proportion (73%) of exports of goods and services. They also exceeded, for the third time in four years, the amount of medium and long-term credits obtained (see table 26).

4. Prices and wages

a) *Prices and anti-inflationary policy*

The economic adjustment programme agreed upon by the Government of Brazil with the International Monetary Fund sought as one of its aims to bring about changes in relative prices and reduce subsidies and price controls. It was also announced that policies with regard to prices would be pursued in such a manner as to stimulate economic activities. In order to reduce the fiscal deficit and improve the efficiency of the economy it was decided to adjust the prices of public services and of products subject to price control in accordance with their corresponding costs. Prices of essential goods that in 1982 had not risen in line with domestic inflation would for their part be gradually readjusted in order to eliminate their relative lag.

The adjustment programme laid down goals for reduction of the high rates of inflation, in spite of the probable effects of the freeing of official price controls. The first letter of intent envisaged a reduction in the annual average rate of inflation from 95% in 1982 to 78% in 1983, while the rate of increase in prices from December to December was scheduled to decline from 99% in 1982 to 70% in 1983. However, as a result of the extraordinary devaluation of the cruzeiro in February and problems

¹⁵Of the amortization payments due in 1983 on the medium- and long-term foreign debt, amounting to US\$ 7 591 million, US\$ 4 532 million was converted into new loans within the framework of project 2. (This consisted almost entirely of amortization payments on the external debt arising from financial credits, 88% of which were converted into new loans.)

Table 25

BRAZIL: EXTERNAL DEBT*(Millions of dollars at end of each year)*

	1978	1979	1980	1981	1982	1983	
						30 Sep-tem-ber	31 De-cem-ber ^a
Total external debt, registered and unregistered	...	...	...	71 878	83 205	...	91 638
I. Medium and long-term debt (registered)							
Total	43 511	49 904	53 848	61 411	70 198	77 006	81 319
Compensatory loans	44	19	-	-	-	1 414	...
United States Government	44	19	-	-	-	-	...
International Monetary Fund	-	-	-	-	544	1 414	...
Others	-	-	-	-	-	-	...
Bonds	2 380	2 966	3 236	2 896	2 610	2 309	...
International agencies	2 885	3 211	3 485	3 583	3 847	4 239	...
World Bank	1 974	2 181	2 246	2 264	2 341	2 536	...
Inter-American Development Bank	731	873	1 047	1 071	1 203	1 332	...
International Finance Corporation	180	157	192	248	301	303	...
Official bilateral entities	3 153	3 219	3 485	3 894	4 160	4 662	...
Of the United States:							
Agency for International Development (AID)	1 099	1 077	1 050	1 019	989	963	...
Programme loans	551	531	512	490	470	456	...
Project loans	548	546	538	529	519	507	...
US wheat credits (PL. 480)	76	70	64	57	50	49	...
Export-Import Bank	929	929	931	955	934	993	...
Others	1 049	1 143	1 440	1 863	2 187	2 657	...
Supplier credits	5 343	5 673	5 651	5 894	5 983	6 595	...
Financial credits	29 500	34 625	37 820	44 984	52 918	57 656	...
Resolution N ^o 63	7 272	7 724	9 924	13 456	16 145	15 525	...
Law N ^o 4131	22 200	26 883	27 887	31 520	36 763	42 125	...
Others credits	206	191	171	160	139	131	...
II. Short-term debt (not-registered)							
Total	...	...	...	10 467	13 007	...	10 319
Traditional operations	...	...	...	...	9 292	...	7 979
Commercial lines of credit	...	...	...	...	5 034	...	4 357
Brazilian commercial banks	...	...	...	...	4 306	...	3 622
Assets	...	...	...	...	2 099	...	1 924
Liabilities	...	...	...	...	6 405	...	5 546
Special operations	...	...	...	...	3 715	...	2 340
Private banks	...	...	...	...	2 339	...	-
United States Treasury	...	...	...	...	876	...	-
Bank for International Settlements	...	...	...	...	500	...	-
Arreas of payment of debt	...	...	...	...	110	...	2 340

Source: Central Bank of Brazil, *Boletim Mensal*, January 1984 and *Brazil Economic Program and External Adjustment*, Volume 3, May 1984, (table 34).

^aPreliminary data.

Table 26

BRAZIL: COEFFICIENTS OF THE EXTERNAL DEBT

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
	Millions of dollars							
Loans and financing ^b	8 042	8 765	13 284	11 907	11 419	17 424	14 207	14 861
Debt service payments	4 820	6 238	8 138	10 645	13 028	16 676	19 452	17 146
Principal	3 009	4 135	5 439	6 541	6 719	7 514	8 098	7 591
Interest (net)	1 811	2 103	2 699	4 104	6 309	9 162	11 354	9 555
	Coefficients of the debt (percentages)							
DS / X	44.4	48.0	59.5	63.7	59.6	65.3	88.4	72.6
DS / LF	59.9	71.1	61.3	89.4	114.1	95.7	136.9	115.4
D / GDP	17.0	18.4	21.9	21.0	18.4	19.6	21.7	25.5

Source: 1976-1981: International Monetary Fund. 1982 and 1983: ECLAC, on the basis of official figures.

Note: DS = Debt services.

X = Exports of goods and services.

D = Total registered public and private debt.

LF = Loans and financing

GDP = Gross domestic product.

^aPreliminary figures.

^bMedium- and long-term credits, less export loans, after deduction of amortization payments received.

of supply in the case of some essential food products, it became evident even in the early months of the year that it would not be possible to fulfil those goals. They consequently had to be modified on two occasions.

Average inflation in 1983, measured in accordance with the general price index¹⁶ based on domestic availability (IGP-DI), amounted to 155%, while the increase in this index in December 1983 compared with the same month in the preceding year came to 211% (see table 27). These discouraging results were due to a number of factors, prominent among which were the elimination or reduction of subsidies for food products and fuels, depreciation of the national currency in real terms, import restrictions, the heightening of inflationary expectations, the general system of price indexation applied in the country, and problems of supply in the agricultural sector.

The natural disasters which struck the country in the course of the year caused serious problems in the supply of farm products, and especially those mainly consumed by the general population, such as beans, rice, yuca and maize. Shortfalls in the supply of essential products, coupled with the measures adopted by the Government to reduce subsidies for basic foodstuffs, brought about markedly higher price increases (356%) than those recorded in the general price index (238%). Other factors contributing in this respect were the limitations on the formation of buffer stocks of agricultural products due to the restriction of credit for this purpose with the aim of controlling monetary expansion.

Inflationary expectations, for their part, were considerably accentuated from the beginning of the year as a result of the extraordinary devaluation of the cruzeiro in February, the centralization of foreign exchange operations in the Central Bank, the already-mentioned problems of supply in the case of several essential agricultural products, and the difficulties experienced in the negotiations with the IMF and foreign commercial banks.

As in previous years, the effects of the anti-inflationary policy were seriously restricted by the generalized indexation system. In 1983 this mechanism continued to be applied to assets and liabilities in the financial system, sales of real estate, judicial liabilities, the exchange rate, and wages in both the public and private sectors. The Government, however, attempted to reduce this self-fuelling source of price increases by modifying some indexation mechanisms. An effort was made to avoid the impact of certain extraordinary factors such as severe food price increases deriving from natural disasters and increases in the prices of such items as fuels resulting from the elimination of subsidies, which tended to accelerate the inflationary process through the application of automatic

¹⁶The general price index is calculated by the Getulio Vargas Foundation and represents a weighted average of wholesale prices (60%), the cost-of-living index for Rio de Janeiro (30%), and building costs in Rio de Janeiro (10%).

price-readjustment mechanisms under the indexation system. With this in mind, price indexes were amended to take into account the effects of such anomalous developments. As a result of these amendments, the "corrected" general price index in 1983 showed an increase of 175%, whereas the uncorrected index would have amounted to 211%.¹⁷ The Government also modified the law governing wages, as a consequence of which wage adjustments became lower than the increments corresponding to the recalculated price index, in order to eliminate the incidence of the extraneous factors mentioned.

In view of the acceleration of the inflationary process, administrative price controls were maintained, thereby postponing the programmed reduction of government intervention. In practice, the prices of products representing a high proportion of popular consumption, the prices charged by State-owned enterprises, and public service tariffs continued to be subject to official control, and a large number of manufactured products were also added. Thus, in February, by a decision of the Inter-Ministerial Price Council, approximately 300 industrial products were made subject to price control,

Table 27

BRAZIL: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
December-to-December variation						
General price index ^a						
Total supply	40.5	76.8	108.5	92.8	99.2	212.9
Domestic availability	40.8	77.2	110.2	95.2	99.7	211.0
Wholesale price index						
Total supply	42.3	79.5	118.7	90.5	96.8	238.4
Agricultural products	47.6	80.5	138.2	70.7	89.0	335.8
Industrial products	39.9	78.8	110.3	99.7	99.8	200.5
Domestic availability	43.0	80.1	121.3	94.3	97.7	234.0
Raw materials	35.2	76.3	110.7	86.1	81.5	214.4
Foodstuffs	51.9	84.8	130.8	85.9	98.9	299.5
Consumer price index,						
Rio de Janeiro	38.1	76.0	86.3	100.6	101.8	177.9
Food	44.4	86.4	90.9	96.0	99.9	256.9
Building costs,						
Rio de Janeiro	37.0	63.1	113.0	86.1	108.0	148.9
National consumer price index	...	...	95.3	91.2	97.9	172.9
Variation between annual averages						
General price index						
Total supply	37.9	54.3	98.4	106.8	94.2	156.3
Domestic availability	38.7	53.9	100.2	109.9	95.4	154.5
Wholesale price index						
Total supply	37.5	55.9	106.5	108.2	92.0	168.3
Domestic availability	38.9	55.4	109.2	113.1	94.0	164.9
Consumer price index,						
Rio de Janeiro	38.6	52.7	82.8	105.6	98.0	142.0
Building costs,						
Rio de Janeiro	37.9	49.3	96.9	101.0	98.2	119.6
National consumer price index	...	...	...	99.8	96.8	134.8

Source: Getulio Vargas Foundation, *Conjuntura Econômica*, and Central Bank of Brazil, *Informativo Mensal*, various issues.

^aThe general price index represents a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%) and building costs in that city (10%).

¹⁷The national consumer-price index (INPC) shows only the information after adjustment, i.e., after eliminating the incidence of the above-mentioned extraordinary factors.

Table 28

BRAZIL: QUARTERLY VARIATION OF DOMESTIC PRICES
(Percentages)

Period	General price index ^a	Wholesale price index ^a	Building costs in Rio de Janeiro	National index of consumer prices
1980				
I	18.0	18.4	29.3	16.2
II	19.0	21.6	14.4	15.7
III	22.1	23.3	26.7	17.4
IV	22.6	24.8	13.7	23.7
1981				
I	24.1	23.9	29.7	18.2
II	17.0	17.1	9.5	17.5
III	17.8	15.8	21.0	19.9
IV	14.1	15.1	8.3	14.8
1982				
I	21.8	21.2	29.5	21.2
II	20.7	21.7	13.8	19.8
III	16.3	14.2	28.3	18.3
IV	16.8	17.4	10.0	15.2
1983				
I	27.9	28.4	26.6	28.0
II	30.8	33.7	17.2	21.6
III	40.7	44.2	35.7	35.1
IV	32.1	34.9	23.5	29.8

Source: Getúlio Vargas Foundation and Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

^aBased on domestic availability.

and it was decided that these prices could only be raised by up to 90% of the variation in value of the index-linked National Treasury bonds (ORTN). This proportion was subsequently reduced to 80% under a new Inter-Ministerial Price Council resolution adopted in July.

Finally, a contractive trend was introduced in the sphere of fiscal and monetary policy in order to reinforce the struggle against inflation. However, the increase in the velocity of circulation of money reduced the efficacy of those policies.

The rate of inflation in 1983 was more than double that recorded in the three preceding years, when it had been around 100%. This acceleration in the growth of prices became evident from the beginning of the year and reached its maximum severity in the third quarter, when the three-monthly rate of increment in the general price index was equivalent to an annual rate of almost 300%—a level never before reached in this country. The rate declined in the fourth quarter, but still continued at over 200% (see table 28). These results considerably exceeded the ceilings established in the adjustment programme, even though these had been raised twice in order to incorporate the incidence of factors not initially considered.

Prices of agricultural products rose noticeably faster than those of other items. In the wholesale price index, they showed an increase of 336% in the year, while the prices of manufactured goods rose by 200%. The food component in the Rio de Janeiro consumer price index rose by 250%, while the rest of the index rose by less than 180% (see table 27). This situation helped to aggravate the difficulties faced by the lower-income sectors of the population, because of the greater incidence of foodstuffs in their "shopping basket".

For its part, the National Consumer Price Index (INPC) increased by 173%—a trend similar to that observed in the general price index.¹⁸

¹⁸ The INPC is fulfilling an increasingly important role in the generalized system of indexation in the Brazilian economy. This index has traditionally served as a basis for the calculation of half-yearly wage readjustments. Since 1981 it has also been taken as the basis for the monthly adjustment of support prices for agricultural products, and it has been used since December 1982 to determine the annual adjustments of housing rents, which were formerly amended in accordance with the variation in value of the Index-Linked Treasury bonds (ORTN).

As a result of the measures taken to curb rising consumer prices, the housing and public service sections increased to much less than the general index (118% and 127% respectively). In the case of housing, the relative price lag was attributable to an alteration in the method of readjustment of housing rents which, as from December 1982, was fixed at 90% of the variation in the National Consumer Price Index (INPC). This percentage was reduced to 80% in July, when wage policy in general was amended. The relatively lower increase in public service prices, for its part, was due to the fact that in the face of accelerating inflation the authorities decided to postpone readjustment of the prices and tariffs applied by government-owned enterprises.

b) *Wages*

In contrast with the two preceding years, indicators relating to the industrial sector revealed a drop of nearly 9% in 1983 in the average annual real wages paid to production workers (see table 29). This development was attributable to the accelerating inflationary process and to a change in the wage-adjustment mechanisms applicable to workers. Thus, the existing wage law was modified at the beginning of the year by reducing the percentage of half-yearly readjustments of wages in the bracket of up to three minimum-wage rates from 110% to 100% of the variation in the INPC index. This wage readjustment system was again altered by the authorities in July, when a uniform readjustment percentage was established equivalent to 80% of the increase recorded in the national consumer price index, thereby eliminating the differential increments according to amount of remuneration established in the 1979 wage law. At the same time, a ceiling was placed on wage increments due to higher productivity. This type of wage adjustment became subject to annual determination by the Executive in accordance with the previous year's variation in per capita income. However, the frequency of wage readjustments was kept at six months.

In view of vigorous opposition in the Nation Congress—which on two occasions rejected the legislative decrees changing the provisions concerning wages—the Executive found itself compelled to alter the proposed wage readjustment system once again in order to avoid a further rejection by Congress, since this would have meant a return to the 1979 wage law, as modified in 1980. The new legislative decree was eventually only endorsed by Congress in November, thereby bringing to an end a period of several months of uncertainty in the sphere of wage policy—a fact that to a certain extent affected the negotiations with the foreign commercial banks concerning the second group of loans.

The new wage readjustment system restored the concept of scaled increments, granting adjustments equivalent to 100% of the variation in the national consumer price index to workers earning up to three minimum wage rates. Those earning higher wages were assigned appreciably lower readjustment percentages compared with those in force at the beginning of the year. Thus, levels of remuneration equivalent to 10 minimum wages, which in 1982 had been granted readjustments to the extent of 103% of the variation in the INPC index, became entitled to only 80% of that variation, and in the case of remunerations equivalent to 20 minimum wages, the

Table 29

BRAZIL: AVERAGE WAGES IN INDUSTRY

(Base: 1976 = 100)

	Average nominal wage		Consumer prices		Average real wage	
	Index	Variation	Index	Variation ^a	Index	Variation
1977	150.3	50.3	146.9	46.9	102.3	2.3
1978	226.0	50.4	210.6	43.4	107.3	4.9
1979	356.3	57.7	327.3	55.4	108.9	1.5
1980	685.8	92.5	620.6	89.6	110.5	1.5
1981	1 488.9	117.1	1 271.7	104.9	117.1	6.0
1982	3 190.3	114.3	2 480.8	95.1	128.6	9.8
1983	6 229.3	117.2	5 896.9	137.7	117.5	-8.6

Source: Gerulio Vargas Foundation and Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

^a Calculated on the basis of a simple average of the consumer price indexes for Rio de Janeiro, Sao Paulo, Belo Horizonte and Porto Alegre.

Table 30

BRAZIL: COST OF LIVING AND MINIMUM WAGES

Major cities	Indexes (1978 = 100)			Growth rates				
	1980	1981	1982	1979	1980	1981	1982	1983
Nominal wage								
Sao Paulo	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9	114.5
Rio de Janeiro	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9	114.5
Belo Horizonte	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9	114.5
Porto Alegre	307.7	624.3	1 241.5	55.2	98.3	102.9	98.9	114.5
Federal District	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9	114.5
Recife	316.3	656.8	1 345.1	62.7	94.4	107.7	104.8	120.9
Cost-of-living index								
Sao Paulo	267.4	523.1	991.7	50.2	78.0	95.6	89.6	135.6
Rio de Janeiro	279.2	573.8	1 136.0	52.7	82.8	105.5	98.0	142.0
Belo Horizonte	336.0	687.5	1 345.3	64.1	104.8	104.6	95.7	136.3
Porto Alegre	293.6	622.5	1 225.7	53.0	91.9	112.0	96.9	141.0
Federal District	308.4	656.3	1 352.5	55.7	98.1	112.8	106.1	154.6
Recife	324.6	708.3	1 463.8	63.0	99.1	118.2	106.7	167.4
Real minimum wage								
Sao Paulo	106.9	110.9	116.3	1.5	5.3	3.7	4.9	-9.0
Rio de Janeiro	102.4	101.1	101.5	-0.2	2.6	-1.3	0.4	-11.4
Belo Horizonte	85.1	84.4	85.7	-7.1	-8.4	-0.8	1.5	-9.2
Porto Alegre	104.8	100.3	101.3	1.4	3.4	-4.3	1.0	-11.0
Federal District	92.7	88.4	85.3	-2.1	-5.3	-4.6	-3.5	-15.8
Recife	97.4	92.7	91.9	-0.2	-2.4	-4.8	-0.9	-17.4

Source: ECLAC, on the basis of information from the Central Bank of Brazil and the Getulio Vargas Foundation.

readjustment percentage was reduced from 84% to 68% of the INPC variation. Furthermore, no wage increases in recognition of higher productivity were awarded in 1983, since under the Executive's new provisions this form of additional remuneration was reduced to zero on the grounds that the previous year's general per capita income level had fallen. In addition, as already mentioned, the Government eliminated from the INPC—and consequently from legal wage adjustments—the incidence of extraordinary or fortuitous factors, with the result that in Rio de Janeiro, for example, the consumer price increments considered for wage readjustment purposes amounted to 164% compared with the rise of 178% recorded in the uncorrected consumer price index.

Moreover, the readjustments of minimum wage rates granted in May involved differential increments depending upon the region concerned. This decision was adopted with the aim of gradually establishing a uniform minimum wage rate throughout the country. Thus, as from that month the differentiation in question consisted of only two minimum wage ranges: for the southern and south-eastern¹⁹ regions and the Federal District, the minimum wage was fixed at 34 776 cruzeiros (an increase of 47%), while in the rest of the country it was set at 30 600 cruzeiros (an increment of up to 50.5%). A flat-rate increase of 64.2% was given throughout the country in November, equivalent to the half-yearly variation in the national consumer price index (INPC).

These minimum wage adjustments were, however, clearly lower than the rise in consumer prices in the major cities, so that minimum remuneration levels fell in real terms in all those urban centres, particularly outstanding in this respect being the decline of more than 15% in the Federal District and Recife (see table 30). This reduction of wages in real terms was mainly the result of the acceleration of inflation and, to a lesser extent, the fact that the correction already referred to in the consumer price index failed to reflect the real rate of inflation.

¹⁹ This region includes the States of Espirito Santo, Minas Gerais, Rio de Janeiro, São Paulo, Paraná, Santa Catarina and Rio Grande do Sul.

Wages of public servants —the readjustment of which is not regulated by the wage law— were raised by 40% in January and 30% in June in the case of civilian personnel, and by 58% and 30%, respectively, in the case of the military. These increases were considerably lower than the rate of inflation, so that the wages of civilian personnel fell in real terms by more than 20% and those of military personnel declined by 11% compared with the preceding year. State administrations and municipal corporations followed the wage policy of the federal government, in general.

5. Monetary and fiscal policy

a) *Monetary policy*

The economic adjustment programme agreed with the International Monetary Fund included the establishment of limits on the growth of the monetary base and means of payment. It was also agreed that monetary policy would be assessed in the light of the variation in the net domestic assets held by the monetary authorities, for which maximum growth rates were fixed. This policy was supplemented by the control of public sector financing requirements, increases in the preferential interest rates formerly granted to priority sectors, and the elimination of quantitative restrictions on unsubsidized credits, together with other economic policy measures.

In the first letter of intent, net domestic assets were defined as the difference between monetary liabilities to the public (including foreign currency deposits in the Central Bank) and the external assets of the monetary authorities in the form of net international reserves and other net external assets. The goals in connection with the financing needs of the public sector included the federal government, State and municipal administrations, government-owned enterprises, social security bodies and government funds and programmes administered by the banking system.

The goals with regard to public sector financing needs and net domestic assets of the monetary authorities could not be fulfilled, however, in the first half of the year. This was mainly due to the extraordinary devaluation of the cruzeiro in February and its subsequent effects on the rate of inflation, monetary correction and domestic and foreign indebtedness. The consequent suspension of disbursements under the extended agreement with the Fund in April made it necessary to negotiate new limits.

In the September letter of intent the quarterly limits were revised and methodological changes were also introduced. In the calculation of net domestic assets held by the monetary authorities, foreign currency deposits with the Central Bank (i.e., foreign loans not yet used by Brazilian debtors and external assets consisting of trade balances relating to contracts in non-convertible currencies) were no longer considered. In this manner the direct influence of devaluation of the cruzeiro on the commitments of the monetary authorities was eliminated.²⁰

In order to achieve the monetary policy goals the authorities used classical instruments of control —such as obligatory bank reserves and liquidity rediscounts— together with methods of direct control, such as the establishment of ceilings for interest rates and credits granted by the financial system to the public sector.

In order to restrict the expansion of domestic liquidity the obligatory reserves in respect of demand deposits in the medium-sized and large commercial banks were raised from 40% and 45% to 45% and 50%, respectively.²¹ The legal reserve level on time deposits in commercial, investment and development banks was also raised, from 5% to 10%.²²

²⁰The formula or definition used to calculate the net domestic assets of the monetary authorities in accordance with the first letter of intent dated 6 January 1983 was:

$$\text{NDA} = (\text{ML} + \text{FCD}) - (\text{NIR} + \text{OEA})$$

where:

NDA = Net domestic assets

ML = Monetary liabilities to the private sector

FCD = Foreign currency deposits with the Central Bank

NIR = Net international reserves

OEA = Other net external assets.

This definition was modified in the letter of intent dated 15 September 1983, items FCD and OEA being eliminated so that the final formula was:

$$\text{NDA} = \text{ML} - \text{NIR}$$

(See: Marques, Maria S., and Batista, Paulo N., "O terceiro acordo Brasil-FMI", CEMEI/IBRE/FGV, 1983.)

²¹On the other hand, the legal reserve level of 36% applicable to small commercial banks was maintained, as were the lower reserve rates in force in less developed regions.

²²The commercial banks are required to deposit these reserves with the Central Bank and are paid interest on them at a rate equivalent to the variation in value of the Index-Linked National Treasury bonds (ORTN), plus 6% per annum.

Another feature of monetary policy in 1983 was the change in the interest rates on special lines of credit granted by the Central Bank. In this respect the inflation indicator used for the indexation of these rates was changed, replacing the National Consumer Price Index (INPC) with the index of the nominal value of Index-Linked National Treasury bonds (ORTN). Moreover, the practice of prefixing the price index variation for use in calculating the actual rates payable by debtors was discontinued. In the case of rediscounting operations, the Central Bank stipulated that interest rates would be equivalent to the variation in value of the ORTN bonds plus 18% per year, whereas they had formerly been determined in accordance with the variation in the INPC index plus 10% per annum. As regards lines of credit for the agricultural sector, the applicable interest rates were fixed at 85% of the variation in value of the ORTN bonds plus 3% annually in the case of crop financing operations or 5% annually in that of agro-industrial activities (in coming years these rates will be raised until they incorporate 100% of the variation in value of the ORTN securities in 1985). For the less developed regions, such as the north and north-east, the rates of interest fixed were equivalent to only 70% of the ORTN variation. For other agricultural financing operations, interest rates were made equivalent to 100% of the ORTN variation plus annual surcharges of up to 12%, depending on the type of transaction involved.

The cost of pre-shipment financing for exports of manufactured goods, for its part, was fixed from June 1983 onwards at an annual rate of 60%. (As from 1984 these rates will be equivalent to 100% of the variation in value of the ORTN bonds plus 3% per year.) For special programmes such as POLONORDESTE and PROTERRA the applicable rates of interest will amount to 55% of the variation in value of the ORTN.

Apart from these changes aiming to establish less negative interest rates in real terms, more rigid control was established on the expansion of lines of credit for priority activities such as agriculture, exports and the alcohol programme. The system of "open accounts" for these activities, which had been used in recent years and which had shown itself to be a destabilizing factor in the monetary budget, was consequently eliminated.

In order to mitigate the impact of inflationary expectations on interest rates, the monetary authorities eliminated the limits on the expansion of loans granted by the financial system and fixed the rates of interest applicable to loans granted by the commercial banks. Interest rates on credit operations of up to 180 days using domestic resources were initially restricted to 6% monthly in the case of the small and medium-sized banks and 5% in that of the large banks. In other credit operations of commercial, investment or development banks (except when employing foreign resources) rates were limited to a maximum equivalent to the full variation in value of the ORTN bonds plus 20% annually in the case of the large banks and 24% in that of the small and medium-sized banks. The limit on loans for up to 180 days was subsequently eliminated in view of the rising inflation.

The main factors of expansion of the monetary base in 1983 were the loans granted by the Banco do Brasil, the redemption of federal public-debt securities, credits granted by the Central Bank, and lines of credit for the marketing of wheat and fuels (see table 31). Although the loans granted by the Banco do Brasil were the factor that most contributed to monetary expansion, they continued to contract in real terms for the fourth consecutive year. The large-scale redemption of federal public-debt securities, for its part, was responsible for a bigger increase in the monetary base. On the other hand the incidence of lines of credit for the marketing of wheat and fuels declined in the course of the year thanks to the gradual elimination of subsidies for the consumption of those products. In practice, the higher price of fuels—which rose by nearly 300%—made it unnecessary to increase the resources of the petroleum account. The expansion of this account in the first half-year amounted to 320 billion cruzeiros, whereas in the second half of the year it was nil.

Outstanding among the factors of contraction of the monetary base were the transfers carried out by the National Treasury for 2 700 million cruzeiros, a sum 300% greater than in the preceding year.

The means of payment expanded in 1983 by 92% and the monetary base by 89%, both increments being much lower than the 200% rise in the level of prices. The growth rates of M_2 and M_3 were greater—131% and 170%, respectively—but even so considerably lower than the rate of inflation (see tables 32 and 33). Likewise, if securities in circulation outside the banking system are added to the above concepts, the expansion of liquidity, measured in accordance with this new indicator, was still considerably less than inflation.

This low growth rate of the monetary aggregates in comparison with price increases brought about a noticeable rise in the velocity of circulation of money. Because of the inflationary process and the availability of an up-to-date financial system offering a range of investment opportunities, the economic agents avoided holding monetary assets which gave no return or only a nominal return at a much lower level than that of expected inflation (for example, currency and demand deposits). In 1980 the last-mentioned had represented 33% of total financial assets held by the public, whereas at the end of 1983 they were equivalent to only 16%. The preference for other high-liquidity assets brought about a considerable increase in savings deposits (see table 34). This expansion was partly due to the fact that the liquidity of these deposits increased in 1983 since, on the one hand, monthly payments of both the interest and the adjustment for monetary correction were authorized and, on the other, the sum exempt from income tax in such deposits was also increased.

The goals established for the net domestic assets of the monetary authorities were not fulfilled at the end of the year, since the level of net international reserves was lower than planned because of the non-receipt by that date of disbursements under the second group of loans negotiated with the foreign commercial banks.

Table 31

**BRAZIL: MAIN FACTORS OF EXPANSION AND CONTRACTION
OF THE MONETARY BASE**

(Variations in billions of cruzeiros)

	1981	1982	1983 ^a
1. Factors of expansion	1 615	3 255	8 139
Credit to the agricultural sector	574	1 431	2 280
Crops	384	794	1 446
Marketing of wheat	65	284	517
Minimum prices	95	181	-139
Sugar: exports and cost equalization	32	172	456
Credit to exports	276	494	974
Credit to the public sector	203	403	2 290
Public debt ^b	-	218	2 290
Special operations	203	186	-
Credit from the Central Bank	358	280	762
Special funds and programmes	227	77	458
Transfers to financial institutions	25	95	118
Others	106	108	186
Others credits from Banco do Brasil	157	381	1 248
Credit to PROALCOOL	106	68	116
Other accounts (net variation)	-58	198	468
2. Factors of contraction	1 127	2 224	6 161
National Treasury	253	686	2 711
Cash results	3	7	14
Transfers	250	680	2 696
Foreign-exchange operations	231	528	1 813
Resources of Banco do Brasil	-	487	-
Resources of funds and programmes	-	335	811
Time deposits with Banco do Brasil	91	110	304
Amortization of debt of the social security system	-	76	-7
Public debt	552	-	-
Obligatory deposit in respect of time deposits	-	-	529
3. Monetary base (1 - 2)	489	1 031	1 978

Source: Central Bank of Brazil, *Informativo Mensal*, January 1984, and Gerulio Vargas Foundation, *Conjuntura Economica*, February 1984.
^aPreliminary figures. ^bNet purchases of federal government public debt securities.

Table 32

BRAZIL: MONETARY BASE AND MEANS OF PAYMENT
(Percentage variations)

	Monetary base		Means of payment	
	During the year	Over last 12 months	During the year	Over last 12 months
1981				
March	-0.2	63.3	-8.1	58.8
June	13.4	55.9	13.4	56.9
September	30.4	63.2	23.4	60.4
December	68.3	68.3	74.7	74.7
1982				
March	9.0	84.0	-7.2	76.3
June	23.4	83.1	13.3	74.6
September	40.0	81.5	24.4	76.1
December	88.5	86.8	69.7	69.7
1983				
March	7.6	86.0	-2.7	78.0
June	26.0	92.5	24.8	87.4
September	45.7	95.3	45.8	99.0
December	89.1	89.1	92.0	92.0

Source: Central Bank of Brazil, *Informativo mensal*, January 1984.

Table 33

BRAZIL: PRIVATE SECTOR LIQUIDITY
(Percentage variations between end-year balances)

	M ^{1a}	M ^{2b}	M ^{3c}
1974	33.5	32.8	40.2
1975	42.8	47.7	54.3
1976	37.2	37.2	48.2
1977	37.5	48.0	52.2
1978	42.2	49.3	53.0
1979	73.6	75.5	77.2
1980	70.2	65.7	72.3
1981	74.7	96.4	114.5
1982	69.7	87.3	103.6
1983	92.0	131.3	169.8

Source: Getulio Vargas Foundation, *Conjuntura Econômica*, February 1984.

^aM¹ = Means of payment (currency outside banks and demand deposits).

^bM² = M¹ + demand deposits in public savings banks and National Co-operative Credit Bank, plus time deposits.

^cM³ = M² plus savings deposits.

The public debt placed outside the sphere of operation of the monetary authorities amounted at the beginning of 1983 to 11% of the gross domestic product. However, since the monetary authorities had to redeem securities corresponding to that debt in the course of the year —provoking monetary expansion to a value of 2 300 million cruzeiros— the amount in circulation fell to a level of 8% of the gross domestic product. This contraction of securities in circulation was attributable to declining interest on the part of the public and of the financial system, which in turn was due to the policy followed until September by the monetary authorities, who refrained from issuing new securities containing an automatic adjustment clause based on variations in the rate of exchange. These had formerly proved very attractive on account of expectations of further devaluation of the cruzeiro.

Between September and November, however, new issues were made of securities subject to readjustment of value in accordance with variations in the rate of exchange. In September the Central Bank placed on the market Index-Linked Treasury bonds (ORTN) to a value of 750 billion cruzeiros and redeemed one billion cruzeiros' worth of National Treasury Bills. The proportion of such bills in the total amount of federal securities outside the field of action of the monetary authorities was thus reduced from approximately 30% in 1980 to less than 4% in 1983. This virtual disappearance of the bills was a result of the public's lack of interest in securities not readjustable in line with monetary correction or exchange rate variations and the fact that the interest yields of these securities in real terms had proved negative in recent years.

In December the authorities modified the procedures they had followed in previous months and embarked on a massive redemption of federal securities, taking advantage of the fact that expectations of greater devaluations had been greatly reduced by the agreements being negotiated at that time with the IMF and international banks and the favourable results in the merchandise trade balance.

Loans to the private sector showed an increase of nearly 150% in the year (see table 35). This fall in the availability of resources in real terms was due mainly to the reduced access to additional external resources. Moreover, private economic agents avoided the foreign-currency loans offered by the local banks because of the uncertainty concerning the future evolution of the rate of exchange and also regarding the current economic recession. As a consequence of the lack of interest on the part of borrowers the financial institutions found it necessary to increase their foreign currency deposits with the Central Bank, so that the balance of these accounts at the end of 1983 amounted to US\$ 11 billion: US\$ 2 billion more than the balance the year before.

With regard to loans to the public sector, the economic authorities took vigorous steps to comply in the second half of 1983 with the goals agreed with the IMF. Through the medium of Resolution 831 the Central Bank established maximum limits on the expansion of credit from the financial system to the public sector in general. These limits were determined monthly by the Central Bank on the basis of guidelines suggested by the Inter-Ministerial Committee for the Control of Budgetary Implementation set up in August 1983.

b) *Fiscal policy*

Fiscal policy was one of the central aspects of the economic adjustment programme applied by the Government in 1983, since considerable emphasis was placed on a drastic reduction of the total public sector deficit. To this end, rigorous quarterly goals were established with regard to the procurement of loans by the sector (see table 36). According to these goals, the financing

Table 34

BRAZIL: DEPOSITS AND OTHER DOMESTIC LIABILITIES OF THE FINANCIAL SYSTEM WITH THE PUBLIC

(Billions of cruzeiros)

	End-year balances				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Demand deposits	1 138	1 978	3 237	6 373	69.6	73.8	63.7	96.9
Fixed-term deposits	639	1 560	3 360	9 380	55.9	144.1	115.4	179.2
Savings deposits	985	2 485	5 720	18 361	88.1	152.3	130.2	221.0
Bills of exchange	275	494	1 785	4 677	47.1	79.6	261.3	162.0
Real estate bills	16	27	30	76	23.1	68.8	11.1	156.4
Total	3 053	6 544	14 132	38 867	69.1	114.4	116.0	175.0

Source: Central Bank of Brazil, *Boletim Mensal*, January 1984.

^aPreliminary figures.

Table 35

BRAZIL: LOANS BY THE FINANCIAL SYSTEM TO THE PRIVATE SECTOR

	End-year balances in billions of cruzeiros				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
	Banking sector	2 948	5 598	10 543	24 643	70.4	89.9	88.3	133.3
Banco do Brasil	1 211	2 025	3 452	6 729	68.0	67.2	70.5	94.9
Commercial banks	1 737	3 573	7 090	17 914	72.2	105.7	98.4	152.7
Official	644	1 298	2 703	36 726	73.6	101.6	108.2	148.8
Private	1 093	2 275	4 386	11 189	71.3	108.1	93.0	155.1
Non-banking sector	2 945	6 609	15 161	39 358	76.5	124.4	129.4	159.6
Finance corporations	348	663	2 289	5 495	43.2	90.5	245.2	140.1
Official	28	53	154	398	40.0	89.3	190.6	158.4
Privadas	320	610	2 135	5 097	43.5	90.6	250.0	138.7
Investment banks	657	1 343	2 376	5 477	79.0	104.4	76.9	130.5
Official	19	37	62	129	72.7	94.7	67.6	108.1
Private	638	1 306	2 214	5 348	79.2	104.7	77.1	131.1
National Housing Bank (BNH)	35	80	235	646	40.0	128.6	193.8	174.9
Real estate credit corporations	463	2 893	3 106	8 285	94.5	151.8	148.1	186.3
Official	27	66	168	466	80.0	144.4	154.5	177.3
Private	436	1 100	2 725	7 819	95.5	152.3	147.7	186.5
Savings and loan associations	158	361	510	1 212	90.4	128.5	41.3	137.6
Federal Savings Bank (CEF)	475	1 093	2 572	6 921	97.9	130.1	135.3	169.1
State Savings Banks	194	509	1 093	2 716	71.7	162.4	110.3	153.1
National Economic and Social Development Bank (BNDES)	390	855	2 089	5 821	66.7	119.2	144.3	178.7
State development banks	192	446	965	2 408	76.1	132.3	116.4	149.5
National Co-operative Credit Bank	20	73	128	293	150.0	265.0	75.3	128.9
Social Integration Programme	13	20	34	83	44.4	53.8	70.0	144.1
Official sector	3 248	6 555	13 635	33 336	73.1	101.8	108.0	144.5
Private sector	2 645	5 652	12 071	30 665	73.7	113.7	113.6	154.0
Total	5 893	12 207	25 706	64 001	73.4	107.1	110.6	149.0

Source: Central Bank of Brazil, *Informativo mensal*, January 1984.

^aPreliminary figures.

requirements of the public sector were to decrease from 13.8%²³ of the gross domestic product in 1982 to 7.9% in 1983. In order to attain this goal, an increase of 16% in real terms was planned in federal government revenue, for which several measures were adopted in the sphere of taxation, especially as regards income tax. An effort was also made to implement a more suitable policy concerning the prices and tariffs charged by public enterprises, bearing in mind not only their financial situation but also the prevailing conditions of supply and demand.²⁴

With the aim of reducing public expenditure, an attempt was made to limit staff costs and transfers to decentralized units and enterprises. It was also laid down that during the period covered by the agreement with the Fund, government expenses defrayed by the monetary authorities would be eliminated through a substantial reduction in their total amount and the gradual transfer of the remainder to the federal budget.

The expenses of government-owned enterprises were more severely reduced, especially in capital investment. It was decided not to undertake any major new project in 1983 (except for the

²³This percentage was subsequently reviewed and raised to 15.8%.

²⁴Hydroelectric power plants, for example, were operating below their full generating capacity.

Carajás project, financing of which was fully ensured from abroad), while the implementation of projects begun in previous years would also be slowed down.

Application of the adjustment programme in terms of income —both in the fiscal sector and as regards the operating income of public enterprises— was not however carried out as strictly as originally intended and the results achieved in this respect consequently fell short of official expectations. On the other hand, in the matter of expenditure —other than that of a financial character— the planned action was applied with great severity and a substantial reduction in real terms was achieved. It was not possible to reduce financial costs due to the incidence of adjustments in the value of loans, especially those of external origin, since the increase in the rate of exchange was considerably higher than the rise in domestic prices.

As a result of the appreciable increase in financial costs, the financial requirements of the public sector reached a level equivalent to almost 18% of the gross domestic product, compared with less than 16% in 1982 (see table 37). The goal agreed with the Fund in this respect was raised on three occasions in order to adjust the nominal values in the light of the higher rates of inflation being registered. The goal finally established was fulfilled at the end of the year.

In view of the difficulties inherent in the use of nominal limits it was decided to introduce an additional indicator —given the name of operational financing— which was defined as the difference between nominal financing and an amount taking account of the effects of monetary correction and exchange rate variations on the value of the loans.²⁵ In the light of this new indicator, the results of the policy of restraint on the financing needs of the public sector were significant. Operational financing actually fell from 6.6% of the gross domestic product in 1982 to 2.5% in 1983 and there was a clear decline in the total public sector deficit (see table 37).

It is estimated that the total central government deficit, which in recent years had reached a level equivalent to 5% of the gross domestic product, dropped to 4% of the GDP in 1983 as the result of a reduction of current expenditure equivalent to 12% in real terms (see table 38). Excluding financing costs, since the greater part of these were in effect debt amortization,²⁶ the total federal government deficit was equivalent to 0.7% of the gross domestic product, whereas in 1980 and 1981 it had amounted to approximately 4% and in 1982 to 2.6% of the GDP.

Federal government tax revenues in 1983 showed a nominal increase of 145%, but this was equivalent in real terms to a contraction of 3.5%, thereby failing to fulfil the corresponding goal

Table 36

BRAZIL: GOALS AND ACTUAL RESULTS OF SOME INDICATORS AGREED WITH THE INTERNATIONAL MONETARY FUND FOR 1983

(Billions of cruzeiros)

Quarterly periods	Net domestic assets of the monetary authorities ^a		Financing requirements of the public sector ^b	
		Goals	Actual results	Goals
I	6 150 ^c	...	2 800	3 578
II	6 950 ^c	...	5 000	8 334
III	5 600	5 417	14 900	13 263
IV	3 540	6 646 ^d	24 600	23 60

Source: Central Bank of Brazil, *Brazil Economic Program, Internal and External Adjustment*, March 1984.

^aBalance at end of quarter. ^bAccumulated flow in the year. ^cIn the goals for the first three quarters deposits in foreign currency in the Central Bank and other external assets were included in the definition of net domestic assets of the monetary authorities. ^dThe goal was not achieved due to delay in reaching agreement on the second group of loans with the foreign commercial banks, the first disbursement of which was initially scheduled for December 1983.

²⁵Discussions concerning this concept are still going on. The results shown are therefore preliminary.

²⁶Domestic public debt financing costs may mostly be regarded as amortization payments since the interest rates implicit in the corresponding securities were invariably negative or extremely low compared with the prevailing Treasury Bill discount rates or with the adjustment for monetary or exchange rate correction in the case of nominal ORTN bonds.

Table 37

BRAZIL: FINANCING OF THE PUBLIC SECTOR^a

	1981	1982	1983 ^a
Flows in billions of cruzeiros			
A. Nominal financing	3 350	8 385	23 605
Domestic financing	2 993	7 107	23 339
Federal Government	992	2 831	5 649
Public debt	1 534	2 591	4 406
Monetary authorities	-507	294	862
Commercial banks	-57	-107	52
Other financial institutions	22	52	329
Government-owned enterprises	1 120	2 359	11 486
Monetary authorities	201	173	4 231
External debt payments ^b	172	65	3 336
Others	29	108	895
Commercial banks	390	891	3 921
Other financial institutions	514	1 090	2 928
Suppliers	16	205	405
State and municipal governments	883	2 130	6 902
Public debt	262	621	1 641
Financial system	620	1 509	5 261
Decentralized agencies	17	250	651
Funds and programmes	94	-263	-929
Social security	-113	-199	-420
External financing	357	1 278	266
B. Monetary and exchange-rate correction	1 755	4 854	20 290
C. Operational financing (A-B)	1 596	3 531	3 314
Percentages			
Nominal financing/gross domestic product	12.5	15.8	17.9
Operational financing/gross domestic product	5.9	6.6	2.5

Source: Central Bank of Brazil, *Informativo mensal*, February 1984.

^aPreliminary figures.

^bPayments made by Banco do Brasil in respect of the external debt of government-owned enterprises.

established in the adjustment plan (see table 39). This was due to the unfavourable performance of several important taxes such as those on manufactured products, fuels and lubricants, imports, financial operations, and the tax on the use of vehicles. The general economic decline, which particularly affected the industrial sector, had a negative influence on these taxes, and they were also affected by the fact that the authorities refrained from adjusting taxable values in line with the rate of inflation in order to avoid the possibility of these tax dues rising more steeply than taxpayers' incomes.

Revenue from the tax on manufactured products (IPI) showed a severe drop of 25% as a result of a decline of 20% in gross collection and a decrease of 6% in refunds. The IPI tax on cigarettes and tobacco, which represents approximately 40% of total gross revenue under this levy, showed a drop in real terms since tax rates rose less than the general price index, and moreover the consumption of cigarettes fell. Although refunds were lower in real terms they still came to a significant amount since they represent one of the most important incentives for exports of manufactured goods.

The poor results of the tax on fuels and lubricants were due to a contraction in sales of gasoline, which is the petroleum product paying the highest tax. The results were also influenced by the changes made in the system of collection of this tax with a view to attenuating the rise in fuel prices, which were considerably affected by the devaluation of the cruzeiro and the elimination of the subsidy which had favoured several petroleum products.

The tax on financial operations also declined severely in real terms due to lower imports and to reductions in the tax rates applicable to credit operations, which were scaled down in order to alleviate the financing costs of debtors. Import duties, for their part, were affected by the decline in imports.

On the other hand, fiscal revenue from personal and corporate income evolved favourably, for in spite of the prevailing economic crisis collections rose by 36% in real terms as the combined result of amendments introduced in the capital gains tax, the institution of monetary-correction adjustments in tax installments payable by corporate entities, an increase from 10% to 15% in the supplementary tax payable by financial institutions, and a reduction of the tax-payment period.

Revenues from export duties, also rose considerably due to the extraordinary devaluation of the cruzeiro in February since, in addition to the direct incidence of these taxes, the authorities raised the tax rates in order to avoid reductions in export prices.

Finally, tax revenues for social programmes rose appreciably as a result of the establishment of FINSOCIAL in June 1982. Collection of the corresponding tax began in the second half of that year, and the tax rate was set at 0.5% of the value of sales of goods-producing enterprises, and 5% of the amount of sales tax paid in the case of service enterprises.

Table 38

BRAZIL: CONSOLIDATED INCOME AND EXPENDITURE OF THE FEDERAL SECTOR

	Billions of cruzeiros			Growth rates			
	1981	1982	1983	1980	1981	1982	1983
Current income	2 262	4 618	11 336	139.2	85.4	104.2	145.5
Total expenditure^a	3 865	7 319	16 368	126.3	101.1	89.4	123.7
Direct administration	1 026	1 772	4 683	58.3	104.4	72.7	164.3
Transfers to official banks	21	239	851	...	29.8	1 066.3	256.1
Transfers to autonomous institutions	956	1 921	3 091	170.9	160.9	99.2	62.4
Expenses defrayed by the authorities							
Expenses defrayed by the monetary authority ^b	1 300	2 060	3 625	198.3	51.5	58.4	76.0
Subsidies to wheat, sugar, petroleum and other basic products	278	710	1 195	...	...	155.4	68.4
Subsidies for preferential-interest loans ^c	1 022	1 350	2 430	...	...	32.0	80.0
Public debt financing costs	562	1 327	4 119	62.2	217.3	136.5	210.5
Interest payments and monetary correction ORTN	100	404	1 573	214.3	-7.2	303.6	289.8
Discounting of National Treasury Bills	462	923	2 546	-7.6	568.8	100.0	175.8
Total deficit	1 603	2 701	5 053	107.0	128.2	68.6	87.1
Deficit excluding financing costs^d	1 041	1 374	915	128.2	98.3	89.6	53.7
	Percentages						
Fiscal deficit/gross domestic product	6.0	5.1	4.0				
Fiscal deficit/gross domestic product (excluding financing costs) ^d	3.9	2.6	0.7				
Fiscal deficit/total government expenditure	41.5	36.9	25.2				
Fiscal deficit/total government expenditure (excluding financing costs) ^d	31.5	22.9	7.5				

Source: ECLAC, on the basis of official information.

^aExcluding amortization payments.

^bNot including payments made in respect of the service of the external debt of government-owned enterprises.

^cEstimated by the Central Bank on the basis of the difference between rates of inflation and average preferential-credit interest rates.

^dThe deficit particulars shown exclude financing costs since, due to the fact that implicit interest rates in the case of public-debt securities were nearly always negative, payments of financing costs were in effect almost entirely debt-amortization payments.

Table 39

**BRAZIL: CURRENT INCOME OF THE NATIONAL TREASURY AND OF STATE
AND MUNICIPAL ADMINISTRATIONS**

	Billions of cruzeiros				Growth rates			
	1980	1981	1982	1983	1980	1981	1982	1983
Current income of the National Treasury	1 219	2 261	4 618	11 335	139.2	85.4	104.2	145.5
Tax revenues	1 054	2 016	4 064	9 559	136.4	91.2	101.6	135.2
Income tax	307	640	1 354	3 494	104.3	108.6	111.5	158.0
Gross collection	366	764	1 652	4 347	96.8	108.5	116.3	163.1
Individuals	31	59	99	343	111.0	90.6	69.5	245.1
Legal entities	78	174	431	1 500	114.2	122.5	147.5	248.3
Retentions at source	257	531	1 122	2 504	90.6	106.4	111.3	123.1
Refunds	-124	-263	-599	-1 539	77.6	112.3	127.9	156.9
Manufactured products	263	501	990	1 897	106.3	90.3	97.6	91.6
Gross collection	292	591	1 260	2 545	92.0	102.3	113.1	102.0
Cigarettes and tobacco	100	224	506	1 051	92.0	123.6	126.1	107.6
Others	192	367	753	1 493	92.0	91.2	105.2	98.2
Refunds	-29	-90	-270	-648	17.9	211.0	199.3	140.1
Financial operations	119	283	557	787	396.2	138.5	96.8	41.4
Electricity	27	60	128	273	99.3	122.9	112.1	113.6
Lubricants and fuels	85	126	285	298	61.6	47.7	125.9	4.7
Imports	88	138	230	478	157.2	57.7	66.2	107.9
Exports	58	21	27	609	...	-63.1	27.0	2 132.6
Telecommunications	22	49	103	221	94.7	123.2	109.6	114.6
Taxes earmarked for social programmes	39	81	144	966	110.2	107.4	76.6	571.4
Others taxes	46	115	247	535	239.0	149.7	114.4	116.9
Others current income	165	245	553	1 776	158.9	48.6	125.9	220.9
Levies	55	85	152	319	156.5	54.0	78.5	109.8
Motor vehicle licenci fees	41	63	120	243	165.6	54.0	90.3	102.4
Other levies	14	22	32	77	133.9	53.8	45.3	137.0
Sundry income	109	160	401	1 456	160.1	45.8	151.2	263.1
Current income of state government^a	744	1 469	3 014	6 663	110.8	97.5	105.2	121.0
Tax on circulation of merchandise	608	1 210	2 468	5 484	108.6	99.0	104.0	122.2
São Paulo	255	490	996	2 170	101.3	91.7	103.4	117.9
Rio de Janeiro	65	130	265	560	98.8	98.9	104.3	111.3
Minas Gerais	56	111	225	466	110.9	98.0	102.2	106.7
Southern region ^b	112	229	456	1 026	119.2	104.7	99.2	125.0
Others States	119	250	526	1 263	120.7	109.8	110.2	140.2
Transfers from the National Treasury in respect of tax receipts earmarked for the States	136	260	547	1 180	121.1	90.9	110.6	115.8
Current income of municipal corporations								
Transfers from the National Treasury in respect of tax receipts earmarked for municipal corporation	64	139	301	686	90.3	116.1	116.1	127.7

Source: Central Bank of Brazil, *Boletim mensal*, January 1984.

^aIncludes only collections under the two headings specified. Other tax income is received but the two factors shown represent a high proportion of the tax revenue of the States. ^bComprises the States of Paraná, Santa Catarina and Rio Grande do Sul.

The considerable contraction of current federal government expenditure in real terms was attributable both to items payable from the resources of the National Treasury and to a reduction in the subsidies financed by the monetary authority. Expenditure corresponding to personal remunerations and family allowances rose in nominal terms by 115%, equivalent to a contraction in real terms of 15%, thereby reflecting the wage policy applied by the federal government. The only items of expenditure showing increases in real terms were those relating to debt servicing costs and expenditure incurred in assisting the victims of floods in the south of the country and of drought in the north-east.

Subsidies disbursed by the monetary authority showed an even greater contraction in real terms than the expenses defrayed by the Treasury, thereby demonstrating the clear intention of the financial authorities to reduce this type of expenditure. The raising of interest rates on credit operations for priority activities brought about a significant decrease in subsidies under this heading, but the effects of this were not felt throughout the whole year, since the new measures were only instituted in July. With regard to other subsidies, the Government achieved an appreciable reduction but was unable to eliminate them entirely. The only subsidies to continue in future will be those covered directly by the National Treasury in accordance with budget items specifically established for the purpose. Consolidation of the Brazilian budgetary system will thus be achieved, with consequent elimination of a disturbing factor in the management of monetary policy in recent years.

The operating income of autonomous institutions and government-owned enterprises rose less than the level of prices since, with a view to slowing down the rate of inflation, the financial authorities did not readjust their tariffs or selling prices in line with related costs as envisaged in the adjustment programme agreed with the IMF. Expenses incurred in payment of personal remunerations and family allowances went down sharply on account of the Government's wage policy and the severe restrictions on the engagement of additional personnel. Real investment expenditure rose by 88% in nominal terms, which was equivalent at constant prices to a reduction of nearly 20%. This was due to the strict policy of containing expenditure applied by the Ministry of State Enterprises and the difficulty experienced in obtaining resources from abroad. On the other hand, financing costs rose by 17% in real terms, thus preventing the achievement of better results as regards the reduction of the overall public sector deficit.

In spite of this reduction of imbalances, the financial situation of the public enterprises was critical in 1983 due to the inability to obtain external financing. Many of the enterprises concerned were unable to meet their external liabilities, and these consequently had to be covered by the Banco do Brasil on behalf of the federal government, which had undertaken responsibility as guarantor in the corresponding loan contracts.

Finally, income received by the States and municipal corporations fell in real terms, evolving even more unfavourably than the revenue of the federal government. This was due to the fact that the tax on the circulation of merchandise (ICM) —the main source of income of the State administrations— and transfers from the federal government to the State and municipal administrations deriving from taxes prescribed for specific purposes fell sharply in real terms as a consequence of the economic crisis.

In addition to this unfavourable trend in the area of tax revenue, the States and municipal corporations were adversely affected by the restrictions placed by the Government on the granting of credit to the public sector by financial institutions and the impossibility of procuring external resources.

COLOMBIA

1. Recent economic trends: Introduction and summary

The growth rate of economic activity has gradually slackened since 1979. Thus, the gross domestic product grew 5.4% in 1979, 4.1% in 1980 and 2.3% in 1981, while the rates for the past two years were the lowest since statistical records began to be kept: 0.9% in 1982 and 0.8% in 1983 (see table 1). There have, however, been some indications of a change in this trend since mid-1983.

This stagnation has been particularly notable in agriculture and industry, which grew much more slowly than the average rate for the other sectors from the outset of this process. The situation has only changed in the past few years, when such low growth rates have spread to the whole economy (see figure 1).

The production situation has been reflected in employment levels, although with some time lag. At the beginning, laws prohibiting the immediate laying-off of workers reduced the direct effects of this phenomenon, but the rules governing the dismissal of workers have recently been made more flexible, the accumulated effect of several years of slack production thus made itself felt in the space of a few months, with the unemployment rate rising from 9.0% to 12.7% during 1983.

There were different reasons for the lack of growth in industry and in agriculture. The flagging performance of industry was clearly related to the drop in demand, initially prompted by falling exports (as a result of weakening world markets) and by the rise in imports brought about by the policy of relaxing controls on the external sector. Thus, the decrease in production was initially felt in export activities, such as textiles and clothing, and in production activities which lend themselves more easily to import substitution, such as textiles, the products of basic metal industries and transport equipment. This was later compounded by the way in which fiscal and monetary policy was handled. In 1980 an energetic policy of expanding public investment was implemented which generated a large fiscal deficit, and the action subsequently taken by the monetary authority to ward off the monetary effects of this fiscal imbalance entailed a severe restriction of credit and a rise in interest rates which affected industry as a whole and particularly the production of durable consumer goods. The fiscal deficit thus completed the chain reaction of recessionary factors which had begun with the stagnation of exports and the increase in imports.

In contrast, the decline in the agricultural growth rate was due to supply-side factors. Throughout the past decade, technological research and investment in this sector had been slackening-off, and the effects of this have been felt in the past four years. The level of productivity of most crops has evolved only slowly, and there has been no major expansion of the agricultural frontier. In addition, some crops which play a very important part in the sector's performance have run up against a series of adverse phenomena which have not been controlled satisfactorily. Thus, for example, cotton and rice have been affected by productivity and price problems which have given rise to inefficient crop shifts and to a significant reduction in the overall growth of production.

The drop in industrial demand was initially manifested in terms of volume; its impact on prices was not felt until 1981, and then only very slightly. Moreover, the decrease in the growth rate of industrial prices from 25% to 20% was not accompanied by a parallel change in costs, since real interest rates, real wages and the real exchange rate rose steadily. The burden of this adjustment was therefore mainly taken up by company earnings. Prices were not significantly affected until mid-1983, when the drop in aggregate demand caused by the decline in industrial and agricultural production, the monetary squeeze and the fall in both legal and illegal exports to Venezuela and Ecuador led to a considerable drop in the growth rate of prices. Thus, the rate of increase in food prices slipped from 25% in 1982 to 17% in 1983 and that of the general price index declined from 24% to 17% over the same period.

The balance-of-payments situation has progressively deteriorated. Minor exports have been decreasing since 1980 and exports of services plummeted in 1983. The marked constriction of imports during the latter year could not wholly counteract the trend. Thus, the trade deficit in 1983, although much lower than in the preceding year, was still a very substantial one.

Moreover, in 1982, not enough external resources were secured in 1983 to finance the current account deficit. The recent problems which many of the countries of the region have had with their external debt has led the international banking system to restrict financing even for those countries whose judicious handling of the problem has saved them from having difficulties in servicing their debt, and there has thus been a drastic decline in the country's international reserves. These fell from US\$ 5.2 billion to US\$ 3.19 billion between 1980 and 1983, and in the last year alone, they fell by US\$ 1.8 billion.

The overall economic situation in Colombia during the first half of 1983 was a very delicate one. Economic activity was faced with the worst recession in the last 30 years and unemployment rose rapidly. Reactivation of the economy appeared to be the most urgent priority at that time, but the

Table 1

COLOMBIA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	17 865	19 379	20 421	21 256	21 740	21 943	22 118
Population (millions of inhabitants)	24.2	24.7	25.3	25.8	26.4	26.9	27.5
Per capita gross domestic product (1970 dollars)	739	784	809	824	823	815	804
Gross rates							
B. Short-term economic indicators							
Gross domestic product	4.2	8.5	5.4	4.1	2.3	0.9	0.8
Per capita gross domestic product	2.0	6.2	3.2	1.9	0.1	-1.2	-1.4
Gross national income	7.2	7.4	4.9	4.0	0.4	0.8	1.0
Terms of trade (goods and services)	41.2	-14.3	-10.4	-2.8	-17.3	10.6	1.3
Current value of exports of goods and services	22.5	16.3	14.3	17.4	-19.3	14.1	-15.9
Current value of imports of goods and services	19.1	24.2	14.4	39.2	10.4	22.8	-23.0
Consumer prices ^b							
December to December	29.3	17.8	29.8	26.5	26.7	23.9	16.7
Variation between annual averages	34.8	17.1	24.7	27.2	28.1	24.6	19.8
Money	30.4	30.3	24.2	27.9	21.2	25.4	25.6
Wages and salaries ^c	-5.6	11.5	6.5	0.8	1.4	3.7	5.0
Unemployment rate ^d	9.3	8.8	8.8	9.6	8.2	9.3	11.8
Current government income	29.9	32.6	36.3	32.5	35.0	25.7	28.3
Total government expenditure	29.9	35.8	38.9	50.3	31.6	35.5	35.6
Fiscal deficit/total expenditure of government ^e	10.1 ^f	7.5 ^f	5.5 ^f	7.0	4.7	11.5	22.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	643	532	606	-141	-1 733	-2 503	-1 579
Balance on current account	435	294	490	-159	-1 895	-3 196	-2 152
Variation in international reserves	661	676	1 552	1 311	199	-694	-1 812
External debt ^g	4 106	4 247	5 117	6 277	7 930	9 421	10 740

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bNational index for manual workers.

^cReal wages for manual workers in manufacturing.

^dAverage annual rate for Bogotá, Barranquilla, Medellín and Cali.

^ePercentage.

^fSurplus.

^gTotal disbursed debt.

steps taken to accomplish this came into conflict with the need to keep inflation under control and to maintain exchange stability. Managing the economy was especially difficult because of the change in external sector conditions that took place early in the year when devaluations in neighbouring countries caused exports to plummet, thus causing the reduction in reserves to be far greater than had been forecast late in the preceding year.

Against this background, a two-pronged policy was followed which was aimed both at reactivating the economy and at halting the deterioration of the external sector. The methods employed were to set the rate of devaluation above that of inflation, to expand the fiscal deficit, and to restrict imports by various means. The first two mechanisms, however, exacerbated the balance-of-payments problem. The high rate of return on external transactions caused personal savings and internal liquidity to be shifted to deposits abroad and to the payment of the external debt. A process was thus begun whereby the expansion in credit for the private sector was cancelled out by the drop in international reserves, which, in turn, raised the amount of the fiscal deficit needed to counter the constraining effect which that reduction had on aggregate demand. The decrease in reserves and the rise in the fiscal deficit were thus both greater than would have been desirable.

Moreover, the raising of the real exchange rate and the expansion of export subsidies were not enough to offset the effects of the shrinkage of external markets caused by the world recession and the measures adopted to remedy it. In practice, the policy which was applied was not successful in counteracting the quantitative controls placed on imports by Ecuador, Venezuela and other countries with a view to adjusting their balance of payments. Under these circumstances, the value of exports of goods and services fell 16% below the level of the preceding year, while the drop in external sales of manufactures was even greater, since these products are more varied and their markets are more highly concentrated in Latin America.

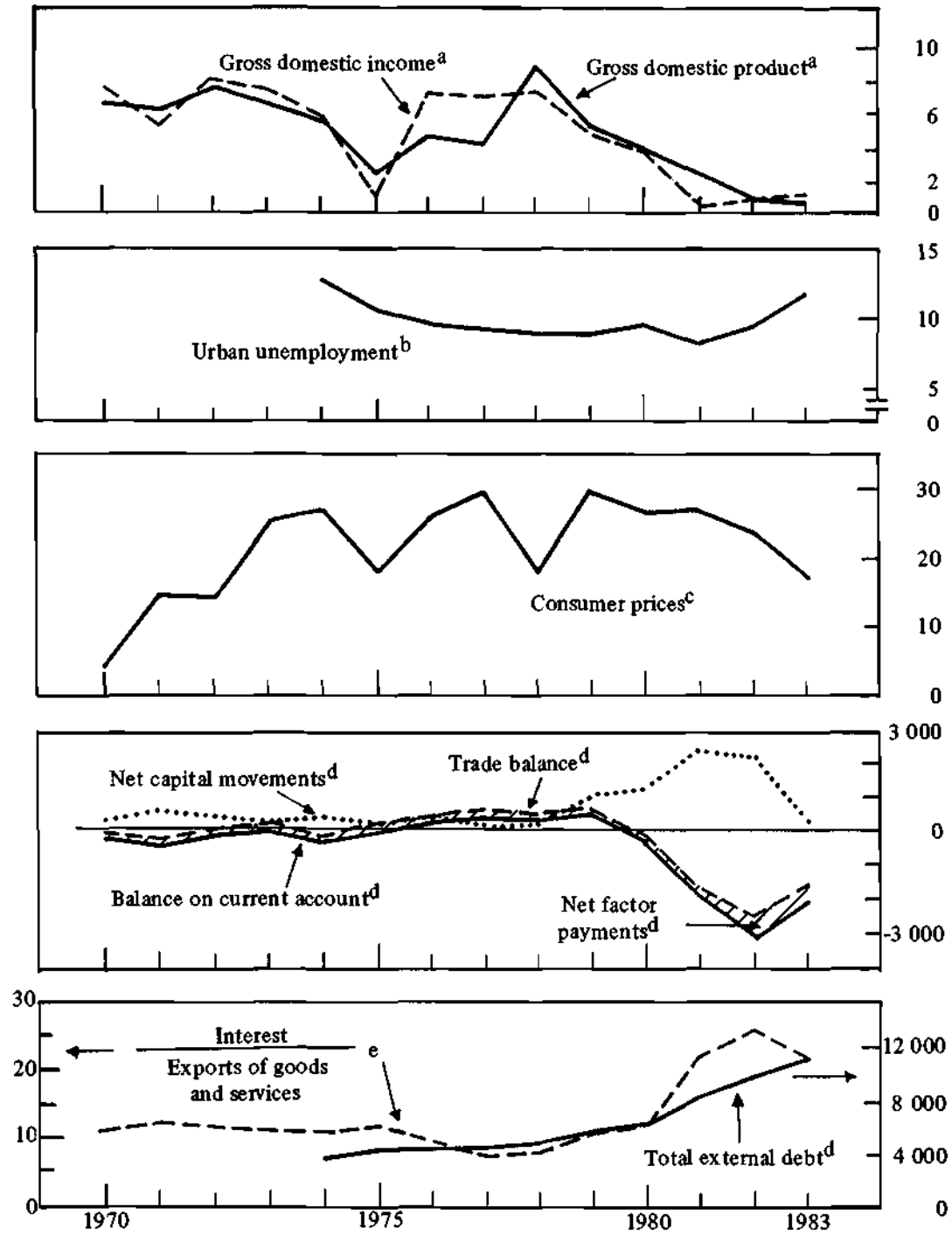
The policy for regulating imports was, on the other hand, both sound and well-timed. The action taken in this area made it possible to reverse the trend towards a rapid growth in imports which had been observed in previous years and to reduce the drop in international reserves by US\$ 1 billion. The recovery of the domestic market for the products of the industrial sector modified the latter's make-up. Thus, the production of consumer goods and raw materials, which had been the most severely affected by the relaxation of controls on foreign trade, since they were the products which lent themselves the most to import substitution, rose substantially during the second half of the year, thereby altering the downward trend in industrial activity. Industrial production reacted positively to this and, after having dropped by an annualized rate of 6% in June, it closed the year with only a very slight decrease. Even so, the manufacturing sector's response to the import restrictions policy may be said to have been slow and limited. Although the decrease in industrial imports made room for a 10% increase in production, the actual production barely maintained the level of the preceding year.

Another factor favouring the recovery of production activity was the expansion of construction. The Government launched a determined policy to increase financing for housing, and the deposits made for this purpose rose 43% in 1983, while the surface area constructed climbed 34% in relation to the preceding year. This was partially offset by the drop in public investment, however, and the value added in construction rose only 3%.

Government action to boost agriculture was relatively dispersed. Generally speaking, it was aimed at expanding credit and improving external competitiveness. The sector's recovery during the second half of the year does not, however, appear to reflect a change in the structural factors which had curbed its growth in previous years. Thus, the 2% increase in the agricultural product was primarily due to rapid growth in coffee production and to the return to normal cotton production in the second half of the year: both typically cyclical phenomena.

With respect to monetary policy, the national budget was responsible for a 44% increase in the monetary base, while the rise in credit for the private sector was responsible for a further 27%. The external sector, however, counteracted a greater expansion with a 57% decrease. Since the bank multiplier, for its part, rose 11% the net result of these changes was an expansion of nearly 26% in the means of payment. This figure, which would be high under normal circumstances, cannot be regarded as being so in this case in view of the recession and the under-utilization of the economy's installed capacity. In effect, the figure is compatible with an inflation rate of under 20% and a slight recovery in industry, so in this sense the monetary policy is a suitable one for reconciling the goals of

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Bogotá, Barranquilla, Medellín and Cali.

^cPercentage variation December - December.

^dMillions of dollars.

^ePercentages.

stability and growth, at least in the short run. The most serious consequences of the lack of policy coordination were seen in the path followed by the monetary aggregates: 70% of the total monetary expansion took place in the last two months of the year, thereby giving rise to unnecessary difficulties in the economy.

For the time being, aggregate demand does not pose a problem with respect to maintaining the downward trend in inflation. Most industrial sectors have a wide margin of under-utilized capacity and have had serious difficulties in adjusting their prices. The reduction in industrial prices in real terms has not been accompanied by a like decrease in costs, for in 1983 real industrial wages rose 5%, real interest rates fluctuated around 15% and the real exchange rate climbed 8%. Because of this, many industrial companies' profits have been lower and a number of them have reported losses; naturally, a situation such as this cannot continue for long. Unless substantial progress is made with respect to an earnings policy which can bring about a rapid adjustment in these variables, the first reaction of companies upon observing any upsurge in demand will be to raise the prices of their products.

Fiscal policy has unquestionably been one of the most complex elements of all in managing the economy. The Government introduced tax reforms in order to change the trend towards an increase in the fiscal deficit. In general terms, wide-ranging amnesties were granted in order to facilitate the incorporation into the tax system of individuals who had been operating outside of it, new forms of estimating income were introduced and the existing ones were broadened, penalties for tax evasion were increased, and tax rates were lowered. The combined effect of these adjustments was an estimated increase of 15 billion pesos in tax revenue for 1983. Inasmuch as this was a one-time increase, this sum suggests that the scope of the reform was quite modest and only made a small contribution to lowering the fiscal deficit. At the end of the year, however, the Government made a series of changes in the sales tax in order to change it into a value added tax. Although these adjustments represent an increase in the existing tax rates, their real impact will depend upon their administrative base, which does not appear to be very solid. In any event, tax receipts could be increased significantly by these means.

However, along with the tax reform, it became necessary to increase the fiscal deficit in order to offset the monetary effect of the drop in international reserves, which was compounded early in the year by the devaluations in Venezuela and Ecuador. The purposes of these measures are not mutually contradictory despite appearances. The tax reform was applied on the basis of a long-term view and its object was to raise tax revenue. In contrast, the increase in the fiscal deficit was an attempt to solve a short-term problem by means of increased spending. In this latter connection, it should be noted that such a large increase in the fiscal deficit, which will inevitably place severe constraints on future action, was not necessary; the same result with respect to aggregate demand could have been achieved with a smaller deficit, provided that interest rates were not kept at a level which induced people to transfer domestic resources abroad, thereby exacerbating the drop in reserves.

The steps taken by the Government to reactivate the economy were successful in halting the process of economic decline by mid-1983. At the same time, it proved possible to reduce the inflation rate from 24% in 1982 to 17% in 1983. The economic recovery has been very weak, however, and does not appear to be enough to reverse the upward trend in unemployment. Moreover, some of the measures which have been taken speed up the drawing down of international reserves, which will inevitably act as a brake on the reactivation of the economy. What provides the most food for thought, however, is that future action does not seem to have been made any easier. The effectiveness of the means used thus far to bring about a reactivation will be sharply reduced later on. Thus, imports have been reduced to the point where the supply of essential raw materials and capital goods has been affected; the expansion of construction is limited by the enormous amount of financial resources required to sustain it; the enlargement of the fiscal debt is held back by the impossibility of continuing to lose international reserves. Furthermore, the decreasing level of investment in machinery and equipment is an indication that entrepreneurs are adjusting installed capacity to suit the new demand conditions, and this could severely limit the recovery of previous levels of activity. The consolidation of the first signs of an improvement in economic activity therefore depends on the ability to make adjustments in the economic policy programme with a view to strengthening existing mechanisms and supplementing them with others which will ensure a longer-lasting and more sustained impulse.

2. Recent economic trends

a) Total supply and demand

The growth rate of economic activity has declined steadily since 1980. In 1983, the product increased scarcely 0.8%, which was the lowest figure in the past 20 years. As a result of this, together with a 19% reduction in the volume of imports of goods and services, total supply fell by 1.4%. Indeed, in absolute terms the drop in imports far exceeded the small increase in the product (see table 2). This is an indication that import restriction policies have not been as successful as hoped. The increase in the demand for nationally-produced goods which is implicit in the decrease in imports did not bring along with it an equivalent increase in production.

The main factor which accounted for the behaviour of final demand was a sharp drop (-15%) in investment in machinery and equipment. The expansion of public investment and housing construction was not enough to offset this fall. As a result, gross capital formation declined by 3.6% in comparison to the preceding year. The decrease of almost 13% in the volume of exports of goods and services also contributed to the shrinkage of demand. Household consumption, however, maintained its 1982 level and was the steadiest component of final demand.

The drop in demand has created a situation in which there is an excess of capacity that discourages investment projects. During the past two years, entrepreneurs have been reluctant to obtain bank loans and to use the systems of import preferences in order to set up new plants and to expand existing ones. This unsatisfactory investment performance has altered the causes and characteristics of the stagnation of the economy. In effect, because of its adverse effects on capital formation, the initial slackening of effective demand has given rise to expectations which tend to cause this stagnation to gradually turn into a problem of supply.

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	23 919	24 681	24 329	109.1	109.9	110.0	5.1	2.4	3.2	-1.4
Gross domestic product at market prices	21 740	21 943	22 118	100.0	100.0	100.0	4.1	2.3	0.9	0.8
Imports of goods and services ^b	2 179	2 738	2 211	9.1	9.9	10.0	17.0	3.1	25.7	-19.3
Total demand	23 919	24 681	24 329	109.1	109.9	110.0	5.1	2.4	3.2	-1.4
Domestic demand	22 364	23 039	22 900	101.2	101.9	103.5	5.4	3.2	3.0	-0.6
Gross domestic investment	4 662	4 895	4 719	20.2	19.4	21.3	10.9	13.2	5.0	-3.6
Gross fixed investment	3 938	4 310	4 063	18.0	17.4	18.4	13.2	6.3	9.5	-5.7
Construction	1 966	2 112	2 197	10.2	8.6	9.9	14.6	7.8	7.4	4.0
Machinery and equipment	1 972	2 198	1 866	7.8	8.8	8.5	11.8	4.8	11.5	-15.1
Changes in stocks	724	585	656	2.2	2.0	2.9				
Total consumption	17 702	18 144	18 181	81.0	82.5	82.2	4.2	0.9	2.5	0.2
General government	2 375	2 470	2 537	9.3	10.8	11.5	12.7	3.7	4.0	2.7
Private	15 327	15 674	15 644	71.7	72.0	70.7	3.1	0.5	2.3	-0.2
Exports of goods and services ^b	1 555	1 642	1 429	7.9	8.0	6.5	1.6	-8.8	5.5	-12.9

Source: ECLAC calculations based on figures supplied by the National Bureau of Statistics (DANE).

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLAC for that purpose.

Table 3

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

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	19 354	19 906	20 002	20 169	100.0	100.0	100.0	5.5 ^c	2.9 ^c	0.5 ^c	0.8
Goods	9 170	9 355	9 193	9 338	51.0	46.9	45.4	7.0	2.0	-1.7	1.6
Agriculture, hunting, forestry and fishing	4 770	4 925	4 831	4 933	27.3	24.4	24.0	1.8	3.3	-1.9	2.1
Mining and quarrying	196	206	214	235	2.4	1.0	1.1	18.9	5.3	3.9	9.8
Manufacturing	3 424	3 382	3 251	3 245	17.3	17.5	15.8	12.7	-1.2	-3.9	-0.2
Construction	780	843	897	925	4.0	4.0	4.5	14.3	8.1	6.5	3.1
Basic services	2 562	2 703	2 790	2 813	10.7	13.1	13.7	3.0	5.5	3.2	0.8
Electricity, gas y water	305	321	341	362	1.2	1.6	1.8	7.0	5.3	6.4	6.1
Transport, storage and communications	2 257	2 382	2 449	2 451	9.5	11.5	11.9	2.4	5.6	2.8	0.1
Other services	8 352	8 703	8 970	9 114	41.1	42.7	44.3	5.0	4.2	3.1	1.6
Wholesale and retail trade, restaurants and hotels	2 625	2 668	2 727	2 711	13.1	13.4	13.2	2.0	1.6	2.2	-0.6
Financial institutions, insurance, real estate and business services	2 805	2 966	3 069	3 148	14.5	14.3	15.3	6.5	5.7	3.5	2.6
Ownership of dwellings	1 371	1 420	1 465	1 528	8.1	7.0	7.4	2.1	3.6	3.1	4.3
Community social and personal services	2 922	3 069	3 174	3 255	13.5	15.0	15.8	6.5			
Government services	1 723	1 822	1 895	1 946	7.8	8.8	9.5	9.9	5.7	4.0	2.7
Less: Imputed commissions for banking services	530	626	692	699	2.8	2.7	3.4	12.2	18.1	10.5	1.0

Source: 1970-1982: ECLAC calculations on the basis of figures supplied by the National Bureau of statistics (DANE); 1983: ECLAC estimates based on official figures.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cThe discrepancies between these growth rates and those shown in tables 1 and 2 are due to the fact that they involve different measurements of the product: in this instance, at factor cost, and in the other cases at market prices.

b) *Evolution of the main sectors*

The decline in economic activity first began in industry and later spread to agriculture. For several years, growth in these two sectors was less than the average for the economy. This gap narrowed in 1983, when the recession spread evenly to all the main economic sectors (see table 3).

i) *Agriculture.* During the past four years, agriculture has grown much more slowly than its historical average. Indeed, in 1982 agricultural production actually fell (by 1.9%), while in 1983 it only rose by 2.1% (see table 4). This performance has been due to specific problems with some products. There was a decrease in the productivity of the cotton crop, which represents a large proportion of crop-farming output, and lower international prices had a substantial effect on its profitability. There have been very sharp fluctuations in the rice crop as a result of the support price policy. The steps taken to regulate coffee production have not had the expected effect and have given rise to phenomena which are difficult to understand. The influence of long-term policy has been even more significant. Spending on technological research has fallen during the past ten years and investment in machinery and infrastructure has grown only very slowly; the effects of this have been felt in all their intensity during the past four years, during which time productivity has not increased and the extension of the agricultural frontier has been limited.

Crop performance varied significantly in 1983. In 1982, the fastest-growing agricultural sector was cereals, especially rice, while the output of oilseeds was lower than during the previous year. In contrast, in 1983 the output of cereals fell and the production of oilseeds rose (see table 4). The sharp changes in relative prices produced marked fluctuations, many of them due to the setting of the rice

support price during the second half of 1982. At that time, agriculture was having serious difficulties and external prices were depressed. Planting cotton, in particular, was unprofitable because of the decrease in productivity and the drop in external prices. Within this frame of reference, the raising of the rice support price by 22%, which was much greater than the increase in the external price, gave this crop a clear advantage over most crop-farming products. As a result, production soared, but the rice could not be placed on external markets, partly because of the enormous difference between the external price and the support price. The Agricultural Marketing Institute (IDEMA) had to use large amounts of funds to buy up the surplus, and stocks grew considerably. This situation began to change in early 1983. The over-production of rice and the difficulty of marketing it were a clear indication to producers that the policy could not be continued for long. Planting consequently dropped and rice production fell 12%. At the same time, various aspects of cotton cultivation improved. The price set by the Government in 1983 for domestic sales was higher than the international price; the external price improved, and there was a recovery of productivity in a number of areas. The external prices of most export crops also rose during the second half of the year. As a result of these changes, cotton production recovered during the second half of the year and the output of soya and African palm increased substantially, thereby setting the stage for a reversal of 1982 trends. It should be noted, however, that many of the problems caused by massive crop shifts could have been avoided with a more orderly and well-timed pricing policy.

Table 4

COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982	1983 ^a	Growth rates				
						1979	1980	1981	1982	1983 ^a
Index of agricultural production (1970 = 100)	153	156	162	158.9	162.2	4.0	2.6	3.2	-1.9	2.1
Crop farming	158.0	161.5	164.0	...	...	3.9	2.0	3.1	...	...
Stock-raising	150.6	155.7	161.7	...	...	4.5	3.4	3.9	...	...
Production of main crops ^b (thousands of tons)										
Cereals										
Rice	1 932	1 798	1 788	2 018	1 780	12.7	-6.9	-0.5	12.9	-11.8
Maize	870	854	880	898	864	0.9	-1.8	3.0	2.0	-3.8
Sorghum	501	431	532	576	595	-3.1	-14.0	23.4	8.3	3.3
Wheat	42	46	62	71	78	10.5	9.5	34.8	14.5	9.9
Oilseeds										
Raw cotton	282	353	366	154	130	-14.5	25.2	3.7	-57.9	-15.6
Sesame	16	13	12	7	5	14.3	-18.7	-7.7	-41.7	-28.6
Soya	146	155	89	99	122	11.5	6.1	-42.6	11.2	23.2
African palm ^{cd}	62	70	80	85	102	26.5	12.9	14.3	6.5	20.0
Staples										
Common beans	75	84	74	73	82	2.7	12.0	-11.9	-1.4	12.3
Potatoes	1 966	1 727	2 105	2 149	2 188	-1.5	-12.2	21.8	2.1	1.8
Yuca ^c	2 081	2 150	2 150	2 000	1 555	1.8	3.3	-	-7.0	-22.3
Other										
Refined cane sugar ^c	10 545	11 653	11 778	11 891	12 542	10.1	10.5	1.1	1.0	5.5
Unrefined cane sugar (panela) ^c	984	988	935	884	780	7.8	0.4	-5.4	-5.5	-11.8
Coffee ^e	694	753	782	774	870	10.3	8.5	3.9	-1.1	12.5
Bananas ^c	802	944	1 078	1 147	1 173	11.5	17.7	14.2	6.4	2.3
Tobacco ^c	60	47	49	47	49	13.0	-21.7	4.2	-3.4	4.3

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture, the Banco de la República and the National Coffee-Growers Federation.

^a Preliminary figures.

^b Agricultural year.

^c Calendar year.

^d Production of oil pulp.

^e Coffee-growing year, 1 October to 30 September.

Table 5

COLOMBIA: TRENDS IN COFFEE PRICES AND IN THE RETENTION QUOTA

End of	Prices			Retention quota ^{de}	Ad valorem tax ^{ef}
	External ^d	Export repayment ^b	Domestic ^c		
1979 March	1.37	188.4	6 400	45	16
June	2.18	251.0	7 000	58	16
September	2.13	251.0	7 900	58	16
December	1.84	251.0	8 300	58	16
1980 March	1.81	251.0	8 733	58	16
June	1.67	287.3	8 733	62	16
September	1.25	287.3	8 733	62	16
December	1.28	182.0	9 200	15	13
1981 March	1.31	182.0	9 200	15	13
June	1.08	186.6	9 200	20	13
September	1.34	186.6	9 200	25	12
December	1.45	206.5	10 330	30	12
1982 March	1.45	217.3	11 050	39	12
June	1.41	206.5	11 050	35	12
September	1.37	206.5	11 050	35	12
December	1.34	206.5	12 100	40	9
1983 March	1.17	191.0	12 100	40	9
June	1.12	191.0	12 800	40	9
September	1.04	191.0	13 570	45	6.5
December	1.41	204.5	14 400	58	6.5

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aDollars per pound. Corresponds to the prevailing price on the New York commodities exchange for the "other milds" variety, plus US\$ 0.02. ^bDollars per 70 kg bag of raw coffee. ^cPesos per 125 kg load of parchment coffee. ^dPer 70 kg bag exported. ^ePercentages. ^fTax on the value in foreign currency of the coffee export repayment price.

Nonetheless, the 1983 drop in cereal production did not have any major effect on supply, since it was more than offset by the drawing down of the stocks accumulated in 1982.

Trends in the production of staple foods were uneven. While bean output climbed 12% and potato production rose slightly, yuca production fell by over 22%.

The coffee production situation has also affected overall agricultural performance. The increase in external coffee prices which began in 1975 as a result of the frosts at that time in Brazil pushed domestic prices up 80% between 1975 and 1978. This rise stimulated production, which increased at an average annual rate of 12% between 1976 and 1981. Some of the increased output could not be sold on international markets, and Colombian coffee stocks climbed from 2 million to 10 million bags between 1976 and 1983. World coffee stocks rose from 27 million to 46 million bags during the same period. In response to this situation, domestic prices began to be lowered in 1978 and various sorts of administrative measures were taken to curb planting (see table 5). Nonetheless, the results of this policy have been slow in coming (which is only natural, given the long interval which elapses between coffee planting and harvesting) as well as erratic. Production dropped 1% in 1982 but rose sharply (12.5%) in 1983. That increase, which went against all predictions, accounts for nearly one percentage point of the agricultural sector's growth rate. Its main effect, however, was a further increase in coffee stocks.

Thus, it is clear that the increase in crop-farming output over the previous year was not due to fundamental changes in structural factors affecting the sector's growth, but primarily to the rapid expansion of coffee production (which, for the reason given above, will probably not continue for long) and to the resolution of serious temporary difficulties which had affected cotton-growing.

In 1983 the Government attempted to boost crop-farming production in various ways. Firstly, it promoted a significant expansion of credit: the financing provided by the Agricultural Finance Fund, for example, rose 37%. It also extended preferential treatment with respect to exchange dealings to crop-farming activities. The export subsidy for these products, which had been under 10% before and which had been lower than the percentage received by industrial products, was in most cases set at the ceiling of 20%.

ii) *Industry.* After having grown at an average rate of 7% during the first part of the 1970s, industrial production steadily declined from 1979 on. After increasing by only 1.2% in 1980, it fell by around 3% in both 1981 and 1982 and dropped a further 1% in 1983 (see table 6). As already stated, however, this downturn seems to have been reversed in mid-1983.

The decline in industrial production was brought on by a contraction in demand. The initial cause of this contraction, which first became evident in 1980 and which deepened in following years, was the drop in exports. Another even more important cause was the policy of relaxing restrictions on the external sector. The reduction of tariffs, the drop in the real exchange rate and the elimination

Table 6
COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION
(Growth rates)

	1981	1982	1983 ^a
Total^a	-2.8	-3.1	-1.1
Consumer goods^b	-2.7	-4.5	0.4
Foodstuffs	-6.5	-1.5	3.4
Beverages	-2.6	-6.1	6.1
Tobacco	8.1	4.9	1.9
Textiles	2.3	-6.5	-7.6
Clothing	1.1	-7.8	-9.4
Leather and leather products	2.9	-7.2	-18.9
Footwear	2.7	-9.9	1.6
Wooden furniture	-8.5	-22.3	-14.6
Printings, publishing and related activities	-5.9	1.8	-7.1
Articles of clay, pottery and china	-4.0	-3.4	-9.3
Miscellaneous industries	-6.6	-26.1	12.3
Intermediate goods	-2.5	0.9	4.3
Lumber industry	6.0	6.7	-3.8
Paper and paper products	-2.1	-4.1	-1.7
Industrial chemicals	-12.4	0.8	14.3
Others chemicals	-5.3	6.8	-3.7
Petroleum products	12.8	0.1	10.0
Other petroleum and coal products	-2.2	5.3	7.6
Rubber products	5.5	-10.0	-6.1
Plastic products	6.2	.	7.1
Glass and glass products	-2.9	-0.8	-3.5
Other non-metallic mineral products	-2.1	4.1	-2.7
Basic iron and steel industries	3.9	5.5	8.9
Basic non-ferrous metals industries	0.2	-9.6	0.4
Capital goods	-3.5	-7.2	-11.3
Metal products, except machinery	-5.7	-5.4	-0.7
Machinery, except electrical appliances	-1.1	-2.6	-16.6
Electrical machinery and appliances	7.2	-2.5	-15.7
Transport equipment and material	-11.6	-15.5	-13.7
Professional and scientific equipment	19.3	1.3	-0.7

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aPreliminary figures.

^bDoes not include coffee hulling.

Table 7

COLOMBIA: CONSTRUCTION PERMITS APPROVED

	Thousands of square meters					Growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Total area	6 093	5 941	6 134	6 148	...	-14.5	-2.5	3.2	0.2	...
Ten principal cities	4 859	4 653	5 150	5 168	4 978	-16.3	-4.3	10.7	0.3	22.6
Bogotá	2 014	1 893	1 914	2 321	1 943	-18.0	-6.0	1.1	21.3	17.1
Barranquilla	341	218	237	243	387	-25.9	-36.1	8.7	2.5	100.5
Bucaramanga	206	263	336	271	200	-21.1	27.7	27.7	-19.6	-9.2
Cali ^b	777	763	900	600	651	-1.0	-1.8	17.9	-33.3	25.9
Cartagena	81	113	90	69	253	20.9	39.5	20.4	-23.3	309.7
Cúcuta	75	97	45	120	47	-51.3	29.3	-53.6	166.7	-41.8
Manizales	237	163	188	123	215	-7.0	-31.2	15.3	34.5	112.5
Medellín ^c	950	1 033	1 352	1 317	1 143	-24.3	8.7	30.9	-2.5	0.1
Neiva	121	42	29	49	85	210.3	-65.3	-31.0	69.0	141.9
Pasto	58	69	58	55	54	-21.6	18.9	-15.9	-5.2	12.2
46 other cities	1 234	1 287	984	980	...	-6.4	4.3	-23.5	-0.4	...
Total area of new housing	4 717	4 634	5 052	4 716	...	-20.6	-1.8	9.0	-6.6	...
Ten principal cities	3 750	3 670	4 196	3 916	3 982	-23.3	-2.1	14.3	-6.7	33.9
Bogotá	1 488	1 566	1 575	1 771	1 386	-31.6	5.2	0.6	12.4	17.0
Barranquilla	238	178	152	128	355	-42.9	-25.2	-14.6	-15.8	210.4
Bucaramanga	180	236	290	222	159	-15.1	31.1	22.9	-23.4	-10.4
Cali ^b	676	563	767	511	598	5.8	-16.7	36.2	-33.4	37.3
Cartagena	61	60	73	41	199	19.6	-1.6	21.7	-43.8	419.8
Cúcuta	58	53	33	95	27	-53.6	-8.6	-37.7	187.9	-52.1
Manizales	192	136	155	78	177	-12.7	-29.2	14.0	-49.7	219.8
Medellín ^c	704	787	1 077	986	955	-27.8	11.7	36.9	-8.4	12.4
Neiva	110	39	24	34	80	358.3	-64.5	-38.5	41.7	304.3
Pasto	44	54	50	50	45	-34.3	22.7	-7.4	-	6.0
46 other cities	967	964	856	800	...	-8.2	-3.1	-11.2	-6.5	...

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aPreliminary figures, January-October 1983. Growth rate for January-October 1983 with respect to the same period of 1982.

^bIncludes permits approved in the metropolitan area of Yumbo.

^cIncludes permits approved in the metropolitan areas of Bello,

Envigado and Itagüí.

of quantitative restrictions led to a substantial increase in imports. At the same time, some of these measures, together with some errors in the domestic pricing policy, led to a very big increase in contraband trade. Thus, a portion of domestic manufacturing production was gradually replaced by imports. Subsequently, multiplier phenomena which exacerbated the problem began to appear. The drop in industrial production lowered the growth rate of the gross domestic product and this, in turn, resulted in a drop in aggregate demand which primarily affected industrial activity.

The available figures appear to indicate that the decline affecting industry was halted during the first half of 1983 and that there was some recovery during the second half of the year. This turnaround was clearly associated with the economic policy applied, since the Government made a number of drastic changes in external sector policy from mid-1982 onwards. As well as raising the tariffs on most industrial products, it made sharp cuts in the number of goods subject to the free importation system and applied a policy of strict controls on contraband. Moreover, the exchange rate has been rising faster than the difference between domestic and external inflation, and the dollar on the parallel market was much higher than the official dollar exchange rate. All of this helped to reduce legal and illegal imports and to expand the domestic market for national industry. The increase in the demand for nationally produced goods which took place as a result of the drop in imports stimulated an expansion of industrial production, especially of consumer goods and raw materials, which are the

imports that can be most easily substituted by domestic production. Even so, the response of industrial production to the increased demand was not entirely satisfactory: the decrease in imports in 1983 amounted to over 30% of total industrial production, but the latter showed no increase over the preceding year.

Another factor which had a clear effect on industry was interest rates, which have stayed at excessively high levels for several years and which have ended up by undermining the financial structure of enterprises. The biggest industrial companies' balance sheets show a general decline in profits, and several of them are running at a loss.

One factor which helped to aggravate this situation was the exchange policy that began to be applied in 1982. In the past, some manufacturing companies had been able to sidestep high domestic interest rates by borrowing abroad at a much lower financial cost. This possibility ceased in 1983, however, when the policy was adopted of raising the nominal exchange rate several points above the rate of inflation. This has given rise to an industrial cost structure which product prices are unlikely to be able to absorb.

iii) *Construction.* The value added in construction rose 3% in 1983. This increase was substantially less than in previous years, and had a different origin. Between 1980 and 1982, the growth in the sector's activity was due to the increase in public investment, which more than made up for the decline in housing construction. In 1983, however, expansion was due to a very significant increase in housing construction, which grew by 34% (judging from the permits approved in the country's ten main cities), thereby cancelling out the effects of lower public investment (see table 7).

The considerable expansion in housing construction was the result of a deliberate government policy aimed at reducing the housing deficit and stimulating recovery in the economy in general. The main mechanism used for this purpose was the housing savings system, which received preferential tax and interest rate treatment as from the beginning of the year. As a result, deposits in the system rose 43% in 1983, thereby even exceeding the demand of those seeking credit. Indeed, financial intermediaries had great difficulty at the beginning in mobilizing the resources, and their loans increased only 35%.

The government initiative of offering a no-down-payment housing programme through the Institute of Real Estate Credit (ICT) was equally significant. In 1983 the Institute began the construction of 100 000 basic housing units, which was much more than in previous years. The programme's continuance is threatened, however, but the lack of a suitable financing system; the deficit of the ICT has grown considerably and has primarily been financed by delaying payments to contractors. Although the Government has made major adjustments in order to provide the ICT with more resources, it is unlikely that this will be enough to maintain the dynamism exhibited by the housing programme in 1983.

Table 8

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1979	1980	1981	1982	1983 ^a	Growth rates				
						1979	1980	1981	1982	1983 ^a
Gross mining product ^b	165	196	206	215	235	1.6	18.9	5.4	3.9	9.8
Petroleum ^c	45.3	45.9	48.9	51.6	53.6	-5.0	1.3	6.5	5.5	3.9
Iron ore ^d	378.0	491.0	410.6	445.4	449.1	-16.6	29.6	-16.4	8.5	0.8
Gold ^e	265.6	497.0	516.6	459.6	447.1	4.2	87.1	3.9	-11.0	-2.7
Silver ^e	93.5	140.5	133.3	124.2	76.9	12.1	50.3	-5.1	-6.8	-38.1
Platinum ^e	12.9	14.3	14.8	11.9	9.9	-13.4	10.8	3.5	-19.7	-16.8
Salt ^d	633.6	887.1	716.3	423.0	522.0	-15.6	40.0	-19.3	-40.9	23.4

Source: ECLAC, on the basis of data supplied by the Ministry of Mining and energy and the Banco de la República.

^a Preliminary figures.

^b Thousands of dollars at 1970 prices.

^c Millions of 42-gallon barrels.

^d Thousands of tons.

^e Thousands of troy ounces.

Table 9

COLOMBIA: PETROLEUM INDUSTRY INDICATORS

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Millions of barrels								
Productions								
Extraction of crude oil	45.9	48.9	51.6	53.6	1.3	6.5	5.5	3.9
Output of petroleum products	59.3	63.3	62.6	68.6	0.1	6.7	-1.1	9.6
External trade								
Imports of crude oil	7.3	7.7	7.3	14.1	-18.4	5.5	-5.2	93.2
Imports of petroleum products	13.0	11.0	11.0	7.5	-2.6	-15.4	-	-31.8
Exports of petroleum products	9.4	10.4	12.0	17.2	-10.5	10.6	15.4	43.3
Millions of dollars								
Imports of crude oil	220	267	249	381	4.3	21.4	-6.7	53.0
Imports of petroleum products	491	417	413	244	36.4	-15.1	-1.0	-40.9
Exports of petroleum products	240	271	291	378	63.7	12.9	7.4	29.9
Energy balance	-471	-413	-378	-247				

Source: ECLAC, on the basis of data supplied by the Banco de la República and the Ministry of Mining and Energy.

^aPreliminary figures.

The expansion in construction has not had all the reverberations that had been expected. Thus, as may be seen from table 6, the industrial sectors which produce building materials showed no growth in relation to the preceding year; glass production dropped 3.5%, the output of other non-metallic mineral products fell nearly 3% and that of the lumber industry decreased almost 4%.

iv) *Mining*. In 1983 the mining sector continued to be the fastest growing economic activity. Its added value climbed nearly 10%, which was far more than during the two previous years (see table 8). This expansion took place even though the mining of iron ore rose less than 1% and the production of gold, silver and platinum continued to decrease, largely because of the decline in the international prices for these products in recent years.

Consequently, the increase in mining activity is primarily accounted for by the growth in the output of oil, natural gas and coal. After steadily declining during the 1970s, crude oil production has been climbing systematically since 1980. Its mean annual growth between 1980 and 1983 was approximately 4% (see table 9). Nonetheless, the decrease in external prices has slowed the rapid growth it showed early in the decade. Exploration, especially for new deposits, has diminished in recent years, and there has also been a reduction in partnership contracts. On the other hand, the Colombian Petroleum Company (ECOPETROL) has invested heavily in increasing existing deposits by means of secondary recovery procedures. This effort has been aimed at making full use of the present sources rather than creating new ones; this will make it possible to maintain the expansion of production for several more years, but not over the long term.

Fuel consumption rose 2.5% in relation to the preceding year. This figure, which is very low in comparison to past statistics, was a clear reflection of the recession.

Fundamental changes were made in the production structure of petroleum products in 1983. Crude oil imports were increased very sharply (93%) so that existing refining capacity might be fully used; partially as a result of this, the output of petroleum products rose nearly 10%. In turn, this increase allowed gasoline imports to be reduced and exports to be increased, thereby significantly improving the oil balance, whose deficit was lowered from nearly US\$ 380 million in 1982 to less than US\$ 250 million in 1983 (see table 9).

Natural gas production was 8% greater than in the preceding year. Most of this increase was taken up by thermoelectric plants and by the increase in household consumption, which has been encouraged by the domestic fuel pricing policy.

c) *Employment*

Predictably, the slowing down of production activity affected employment. The unemployment rate had already climbed in 1982, and it shot up much faster in 1983, rising in the country's four major cities from 9% in December 1982 to 12.7% in December 1983 (see table 10).

The increase in unemployment, which was observed in all cities for which data are available, was especially marked in Bogotá, the city with the lowest unemployment levels in recent years. Medellín, however, continued to be the urban centre with the highest rate of unemployment.

The process by which the unemployment rate has reached its highest level since 1974 has developed over a long time. The labour force has recently been growing at an annual rate of over 3%, which is far above the average rate of increase in the value added during recent years. This imbalance between the labour supply and demand had not been reflected in unemployment figures, however, due to institutional restrictions preventing the dismissal of workers. Because dismissal procedures have recently been made more flexible, however, everything seems to indicate that the effects of the imbalances which had built up over a number of years are now being felt within a short span of time. This situation might be alleviated to some degree by taking special steps to stimulate some sectors, such as construction, which are in a position to absorb manpower rapidly. Basically, however, a real solution can only be found if overall growth rates are high, and this is no easy task for an economy exhibiting serious weaknesses in some of its main productive activities as well as in the external sector.

Table 10

COLOMBIA: TRENDS IN EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1982				1983			
					March	June	September	December	March	June	September	December
Rate of unemployment	9.6	8.2	9.2	11.8	9.5	9.0	9.3	9.0	10.8	12.2	11.4	12.7
Bogotá	8.0	5.5	7.4	9.4	8.6	7.0	6.8	7.1	7.9	9.4	8.9	11.3
Barranquilla	8.2	11.1	10.4	13.8	9.6	11.3	10.3	10.3	11.8	14.8	14.4	14.3
Medellín	14.7	13.0	13.3	17.0	12.6	12.4	15.0	13.1	17.1	18.2	16.1	16.7
Cali	10.0	8.9	9.6	11.6	9.7	9.6	9.9	9.0	11.5	11.8	11.8	11.3
Bucaramanga	...	...	...	...	6.6	...	8.0	...	8.5	...	9.2	...
Manizales	...	...	...	...	10.3	...	9.9	...	12.8	...	13.3	...
Pasto	...	...	...	...	6.9	...	8.0	...	13.8	...	11.6	...
Gross rates of participation	41.0	38.9	39.2	40.7	38.7	39.5	39.1	39.4	39.6	40.7	40.6	42.0
Bogotá	34.2	38.9	40.0	41.8	40.1	40.3	39.4	40.1	40.1	41.7	41.3	44.2
Barranquilla	41.3	36.4	34.5	36.4	33.5	34.8	34.8	34.8	36.7	35.4	36.9	36.6
Medellín	42.2	39.3	38.8	40.1	38.1	39.0	39.4	38.7	39.7	40.6	40.2	39.9
Cali	40.0	40.5	41.0	41.2	40.2	41.2	41.3	41.1	40.5	41.3	41.5	41.4
Bucaramanga	...	...	...	...	37.3	...	39.1	...	39.6	...	41.1	...
Manizales	...	...	...	...	34.9	...	36.9	...	35.3	...	39.4	...
Pasto	...	...	...	...	36.8	...	39.0	...	42.7	...	40.3	...

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

Table 11

COLOMBIA: MAIN FOREIGN TRADE INDICATORS

(Growth rates)

	1977	1978	1979	1980	1981	1982	1983 ^a
Exports of goods FOB							
Value	21.0	18.2	9.4	15.8	-20.8	10.3	-15.0
Volume	-27.6	40.0	18.7	-1.0	-3.8	1.2	-11.5
Unit value	67.1	-15.6	-7.9	17.0	-17.7	8.9	-4.0
Exports of services							
Value	28.8	9.1	35.5	23.0	-14.4	25.6	-18.4
Volume	7.8	1.0	19.3	8.4	-21.2	18.5	-16.7
Unit value	19.4	8.0	13.6	13.5	8.7	6.0	-2.0
Exports of goods and services							
Value	22.5	16.3	14.3	17.4	-19.3	14.1	-15.9
Volume	-18.5	26.8	18.9	1.6	-8.8	5.6	-12.9
Unit value	50.3	-8.2	-3.8	15.6	-11.4	8.1	-3.4
Imports of goods FOB							
Value	18.9	29.6	16.9	43.5	10.8	25.3	-21.9
Volume	12.4	21.4	9.7	18.9	4.3	31.0	-16.7
Unit value	5.8	6.8	6.5	20.7	6.2	-4.4	-6.3
Imports of services							
Value	19.7	10.4	7.1	25.1	9.3	13.5	-27.6
Volume	10.9	3.3	-1.7	11.2	-0.7	7.6	-29.8
Unit value	8.0	6.9	9.0	12.6	10.0	5.5	3.2
Imports of goods and services							
Value	19.1	24.2	14.4	39.2	10.4	22.8	-23.0
Volume	11.9	15.9	6.6	17.0	3.1	25.7	-19.3
Unit value	6.4	7.1	7.3	19.0	7.1	-2.3	-4.7
Terms of trade (goods)	57.9	-20.9	-13.7	-2.5	-22.6	13.5	2.2
Terms of trade (goods and services)	41.2	-14.3	-10.4	-2.8	-17.3	10.6	1.3
Purchasing power of exports of goods and services	15.1	8.6	6.5	-1.3	-24.6	16.8	-11.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

3. The external sector

a) *Merchandise trade*

The merchandise trade balance has been negative since 1980, and the deficit has reached high levels during the past three years. In 1983, however, the deficit of US\$ 1.6 billion was a good deal lower than the US\$ 2.4 billion deficit in 1982. This decrease was due entirely to the sharp reduction in imports, which went down by 22% as a result of the highly restrictive policy applied.

i) *Exports.* Exports have tended to flag since 1981, and this process was even more marked in 1983, when their value fell by 15% (see table 11).

The performance of the various export products was far from uniform. There was a moderate decrease in agricultural exports, while mining exports nearly doubled but industrial exports fell sharply (see table 12).

The downward trend in exports has been no accident: it has coincided with the world recession. Colombian exports are concentrated in a number of markets, especially Latin American ones, which cannot be easily replaced and which have dropped off considerably in recent years.

In 1983, exchange policy was handled in a way which was intended to reverse the downward trend in exports. To this end, a policy was applied of raising the nominal exchange rate faster than both past and expected inflation. In addition, export subsidies were increased substantially; after having been maintained at around 10% in previous years, they rose to nearly 20%. Nevertheless, this policy has had very modest results: as already noted, exports fell sharply in 1983, and there were no signs of any appreciable recovery for 1984.

The exchange policy's relative lack of effectiveness is clearly related to the nature of the world economy. The actions taken in many countries to revive and reorient their economies have clearly had a protectionist slant and have consisted of expanding production for the domestic market by reducing imports. Thus, the only means which many countries of Latin America have found of dealing with the obligations stemming from their excessive external borrowing has been to cut back imports, which were reduced by around 45% between 1981 and 1983. Colombia has not been able to escape the consequences of these policies, and the exchange adjustments have in fact not been enough to offset the quantitative measures taken by some countries to limit imports. Thus, the devaluation of the peso was by no means able to offset the effects of the devaluation and the establishment of preferential exchange rates in Venezuela and Ecuador, which had a very negative effect on Colombian exports. The difference between the trends in exports of manufactures and agricultural products tends to corroborate this statement. Because agricultural products are homogeneous and are less heavily

Table 12

COLOMBIA: EXPORTS OF GOODS, FOB^a

	Millions of dollars			Percentage breakdown		Growth rates		
	1981	1982	1983 ^b	1980	1983 ^b	1981	1982	1983 ^b
Total	3 003	2 999	2 793	100.0	100.0	-24.7	-0.1	-6.9
Total, excluding coffee	1 543	1 060	1 299	40.5	46.5	-4.3	-31.3	22.5
Agricultural products	1 809	1 939	1 860	68.9	66.6	-34.1	7.2	-4.1
Coffee	1 460	1 599	1 494	59.5	53.5	-38.5	9.5	-6.6
Bananas	136	154	166	2.7	5.9	24.8	13.2	7.8
Flowers	108	115	123	2.5	4.4	5.9	6.5	7.0
Beef	60	41	30	1.8	1.1	-14.3	-31.7	-26.8
Shrimp	16	21	14	0.5	0.5	-5.9	31.3	-33.3
Other	29	9	33	1.9	1.2	-60.8	-69.0	266.7
Mining products	11	16	31	0.5	1.1	-35.3	45.5	93.8
Coal	6	13	25	0.2	0.9	-	116.6	92.3
Other	5	3	6	0.3	0.2	-54.5	-40.0	100.0
Manufactured products	1 183	1 042	901	30.6	32.2	-2.9	-11.9	-13.5
Raw sugar	75	48	69	4.4	2.5	-57.1	-36.0	43.8
Cement	68	56	34	1.3	1.2	28.3	-17.6	-39.3
Textiles	124	90	82	3.7	2.9	-16.2	-27.4	-8.9
Clothing	120	149	74	3.0	2.6	1.7	24.2	-50.3
Leather and footwear	45	61	34	1.0	1.2	12.5	35.6	-44.3
Metal products, machinery and equipment	182	174	133	4.0	4.8	14.5	-4.4	-23.6
Fuel oil	53	48	...	4.8	...	-72.3	-9.4	...
Publications	42	39	30	1.1	1.1	-	-7.1	-23.1
Cardboard boxes	49	39	39	1.0	1.4	22.5	-20.4	-
Precious stones	62	41	32	1.6	1.1	-1.7	-33.9	-22.0
Other	363	297	374	4.7	13.4	92.1	-18.2	25.9

Source: ECLAC, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

^aBased on export records. The totals differ from the balance-of-payments figures.

^bPreliminary figures.

Table 13

COLOMBIA: EVOLUTION OF THE EFFECTIVE REAL EXCHANGE RATE^a

Annual and quarterly averages	Official exchange rate (pesos per dólar)	Index of effective real exchange rate	
		Exports	Imports
1975	30.93	118.2	119.5
1976	34.70	112.0	113.1
1977	36.78	102.0	102.0
1978	39.10	103.1	103.4
1979	42.55	99.3	98.6
1980	47.28	100.0	100.0
1981	54.49	92.6	95.6
1982	64.10	86.7	89.2
1983	78.86	87.3	89.7
1981			
I	51.70	96.3	99.4
II	53.30	92.6	95.4
III	55.30	90.4	93.9
IV	57.70	92.2	95.0
1982			
I	60.24	89.9	92.4
II	62.65	87.4	89.7
III	65.14	85.6	87.8
IV	68.38	84.7	87.4
1983			
I	72.14	86.9	89.0
II	76.34	84.9	86.9
III	80.87	86.9	89.4
IV	86.09	90.3	93.2

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

^aThis corresponds to the average of the indexes of the real exchange rates for the peso with respect to the currency of main trading partner countries, weighted according to the relative importance of exports to those countries or imports from them. For information regarding the methodology and sources used for the calculations, see the technical appendix in the *Economic Survey of Latin America, 1981*.

concentrated in Latin America, they can be shifted more easily to other markets, whereas manufactures are more limited in this respect. It is not easy, for example, to shift exports of boilers and home appliances, which have traditionally been sold in Latin America, to the markets of Europe and the United States. The shrinkage of the Latin American market has therefore almost inevitably affected the external sales of these products.

The evolution of the exchange rate over the past eight years is shown in table 13. The real exchange rate began to drop as from 1975, with a slight recovery in 1983. These figures do not include export subsidies, however, which have played a very important role in the Colombian economy. If these subsidies, which decreased in 1975 and then moved back up in the second half of 1982, are taken into account then the pattern appears to be less irregular, and the difference between the current exchange rate and that of 1975 would be less. In that case, the improvement in the exchange rate might be said to have begun in mid-1982, and its recovery would be much greater than what is shown in the table. In sum, the real exchange rate would not be more than 20% below that of 1975, and the upturn over the past year and a half would be of the order of 15%.

ii) *Imports.* Variations in the value of imports have traditionally been very closely linked to trends in the gross domestic product; this has not been the case, however, in recent years, when sharp fluctuations have been recorded. Thus, during the period 1979-1982 imports grew much more rapidly than the gross domestic product, and in 1980 their value rose by nearly 44%. As from mid-1982, however, they began to decrease and in 1983 their value fell by 22%.

These changes have not been chance events. Indeed, both were brought about by deliberate economic policy moves. Thus, in the 1978-1982 period, the real exchange rate was reduced, tariffs were lowered and the number of products whose importation was prohibited was decreased. The resulting drop in the relative prices of trade goods encouraged the purchase of these products abroad and helped to displace the purchase of national products. Imports therefore shot up while the output of some nationally-produced goods which had previously enjoyed greater protection decreased considerably. As already mentioned, the decline in industrial activity which began in 1980 is primarily accounted for by this factor. The harmful effects of this policy led to its modifications as from 1982. Since then, tariffs have been raised, the exchange rate has been raised faster than inflation and, even more significantly, the list of prohibited imports has been greatly expanded. Between 1982 and 1983, the percentage of imports subject to the prior licensing system rose from 38% to 53%.

At the outset, the import restriction policy was intended to bring about reactivation, and this was the means used to attempt to reorient the demand which had previously shifted to the exterior towards domestic production. Broadly, these measures were intended to restrict imports of consumer goods first, then those of raw materials, and only lastly those of capital goods. Their effects began to be felt from the second half of 1983 onwards and, as shown in table 14, consumer goods and especially durable consumer goods were the imports which fell most.

The aims of import controls changed as the international reserves progressively sank. Thus, the restrictions have gradually been extended to include imports of capital goods and of some raw materials for which local substitutes cannot readily be found. The recessionary effects of these measures have not yet been felt because of the excess installed capacity which exists and the availability of stocks, but it is to be expected that this situation will act as a serious limitation with respect to future reactivation efforts.

b) *The balance of payments*

The effects of the reduction in exports were more than offset by the drop in imports. As a result, the merchandise trade deficit fell from US\$ 2.4 billion in 1982 to US\$ 1.6 billion in 1983 (see table 15). The negative balance on merchandise trade was compounded by the effect of interest payments, which were over US\$ 600 million more than income under the same heading. The deficit on current account thus reached US\$ 2.15 billion; although this is less than the deficit for 1982, it is still excessive.

Table 14

COLOMBIA: IMPORTS OF GOODS, FOB^a

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^b	1975	1980	1983 ^b	1980	1981	1982	1983 ^b
Total^c	6 094	6 095	5 030	100.0	100.0	100.0	16.9	12.6	-	-17.5
Consumer goods	770	1 062	576	11.5	14.1	11.4	41.7	1.4	37.9	-45.8
Non-durable	325	449	344	6.5	5.5	6.8	17.9	9.8	38.1	-23.4
Durable	445	613	232	5.0	8.6	4.6	63.4	-4.1	37.8	-62.2
Intermediate goods	3 112	2 723	2 527	48.3	49.0	50.2	11.2	17.3	-12.5	-7.2
Petroleum and fuels	902	645	650	2.0	15.0	12.9	21.8	11.4	-28.5	0.8
For agriculture	188	217	183	1.5	3.0	3.6	49.1	14.6	15.4	-15.7
For industry	2 022	1 861	1 694	44.8	31.0	33.7	4.3	10.4	-8.0	-9.0
Capital goods	2 172	2 242	1 866	39.9	36.3	37.1	17.7	10.6	3.2	-16.8
Building materials	126	125	104	1.9	1.2	2.1	-35.6	88.0	-0.8	-16.8
For agriculture	82	87	74	2.2	1.3	1.5	11.3	18.8	6.1	-14.9
For industry	1 350	1 297	1 043	20.3	20.9	20.7	17.8	19.6	-3.9	-19.6
Transport equipment	614	733	645	15.5	12.9	12.8	28.3	-12.1	19.4	-12.0

Source: ECLAC, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

^aThe data are based on import records and therefore differ from the balance-of-payments figures.

^bPreliminary figures. ^cIncludes small lots of unclassified imports.

Table 15

COLOMBIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	435	294	490	-159	-1 895	-3 196	-2 152
Trade balance	643	532	606	-141	-1 733	-2 503	-1 579
Exports of goods and services	3 403	3 959	4 526	5 315	4 292	4 897	4 117
Goods FOB	2 713	3 206	3 506	4 062	3 219	3 549	3 017
Real services ^b	690	752	1 019	1 253	1 073	1 348	1 100
Transport and insurance	291	305	335	433	480	481	420
Travel	245	283	358	402	376	422	344
Imports of goods and services	2 760	3 427	3 920	5 456	6 026	7 400	5 696
Goods FOB	1 979	2 564	2 996	4 300	4 763	5 967	4 658
Real services ^b	781	863	924	1 156	1 263	1 433	1 038
Transport and insurance	383	421	432	648	728	875	690
Travel	200	229	236	224	254	235	170
Factor services	-262	-283	-216	-184	-404	-878	-683
Profits	-86	-121	-49	-42	-121	-152	-60
Interest received	65	124	249	471	632	550	269
Interest paid	-252	-304	-456	-627	-936	-1 266	-893
Labour and ownership	12	19	40	14	21	-9	1
Unrequited private transfer payments	54	45	99	165	243	184	110
Balance on capital account	137	154	969	1 213	2 328	2 222	340
Unrequited official transfer payments	5	28	1	-	-	2	...
Long-term capital	230	95	725	798	1 623	1 774	272
Direct investment (net)	43	68	105	48	212	372	230
Portfolio investment (net)	-2	-3	-12	-3	-1	-8	-4
Other long-term capital	189	30	632	752	1 411	1 410	46
Official sector ^c	12	30	397	505	772	355	...
Loans received	88	155	601	679	1 007	558	...
Amortization payments	-75	-103	-189	-128	-185	-198	...
Commercial banks ^c	-	-	-	-	-	-	...
Loans received	-	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	-	...
Other sectors ^c	177	-	235	247	639	1 054	...
Loans received	333	208	512	437	990	1 334	...
Amortization payments	-155	-208	-276	-190	-351	-279	...
Short-term capital	-257	14	176	40	389	384	420
Official sector	-4	15	-22	-56	35	42	140
Commercial banks	-203	14	376	172	189	146	120
Other sectors	-50	-15	-178	-75	165	197	160
Errors and omissions (net)	159	19	68	375	316	63	-352
Global balance ^d	572	448	1 459	1 054	433	-974	-1 812
Total variation in reserves (- sign indicates an increase)	-661	-676	-1 552	-1 311	-199	694	1 812
Monetary gold	-13	-56	-75	-324	-289	-187	...
Special Drawing Rights	-4	-18	-45	-14	-31	-40	-19
IMF reserve position	-41	2	-6	-49	-30	-16	-81
Foreign exchange assets	-603	-604	-1 425	-925	151	936	2 060
Other assets	-	-	-	-	-	-	...
Use Made of IMF credit	-	-	-	-	-	-	-

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, April de 1984; 1983: ECLAC, on the basis of official data.^a Preliminary figures.^b Real services also include other official and private transactions, but not factor services.^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^d The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Net external financing covered only a minimal part of the deficit on current account. Capital income fell sharply and was not even enough to offset the disbursements represented by amortization and interest payments. The country was thus exporting resources precisely at the time when it was suffering from one of the worst trade imbalances in recent years. Given these circumstances, the current account deficit was mainly financed from the international reserves, which went down by US\$ 1.8 billion. This meant that, in 1983 alone, the country lost one-third of the international assets it had accumulated between 1975 and 1981. This brought the reserves down to US\$ 3.1 billion by the end of 1983.

c) *The external debt*

Generally speaking, Colombia has followed a moderate policy with respect to external borrowing. As shown in table 16, the balance of the disbursed debt rose only very slightly between 1975 and 1978. This trend began to change in 1979, when the debt started to rise rapidly; as a result, the balance of the debt more than doubled between 1978 and 1982. For its part, the ratio between debt service and exports of goods and services, which had remained moderate—under 20%—until 1980, started to move up quickly as from 1981 until, by 1983, it was around 35%. In view of the fact that amortization payments have continued to rise, this coefficient may also continue to increase.

Despite its considerable increase in recent years, external indebtedness is still within what would be considered manageable bounds under normal circumstances. The outlook for the world capital market, however, appears to complicate the situation for Colombia. In 1983, following a major borrowing effort on world markets, barely US\$ 275 million was contracted with private banks. The international banking system has given clear priority to the largest countries of the region, which are also the most heavily-indebted countries and could place the world financial system in a difficult situation. Consequently, much of the cost of the adjustment appears to fall on the countries which followed prudent borrowing policies. In Colombia, this is compounded by the fact that the adjustment process has been carried out very slowly, partly because the authorities put their faith in the comfortable reserve position they had enjoyed until 1981. In 1983, however, the situation was quite different: Colombia had the largest trade deficit in the region, yet the rise in its real exchange rate was the most moderate. As a result, the Colombian peso has been revalued in recent years in relation to the average level of currencies in Latin America.

Table 16

COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Debt disbursed (at year-end)	3 712	3 951	4 106	4 247	5 117	6 277	7 930	9 421	10 740
Public	2 527	2 642	2 842	2 962	3 456	4 174	5 168	6 078	6 752
Private ^b	1 185	1 309	1 264	1 285	1 661	2 103	2 762	3 343	3 988
Servicing of debt	452	505	486	611	866	913	1 262	1 332	1 429
Payments of principal	217	247	246	327	458	305	323	411	534
Public debt	99	125	188	215	418	258	266	336	347
Private debt	107	63	71	90	40	47	57	75	187
Payments of interest and commissions	235	258	240	284	408	608	878	921	895
Public debt	108	119	133	135	231	284	402	600	510
Private debt	117	127	103	117	177	324	477	321	385
Servicing of debt/exports of goods and services ^c	21.2	18.2	14.3	15.4	19.1	17.2	29.4	27.2	34.7

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

^bIncludes: i) debts registered in the Banco de la República, ii) external liabilities of goods and financial corporations, iii) lines of credit and suppliers' credit.

^cPercentage.

Table 17

COLOMBIA: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983
Variation from December to December								
Consumer price index ^a								
Total for manual workers	25.9	29.3	17.8	29.8	26.5	26.7	23.9	16.7
Food	27.8	35.0	11.9	32.1	25.4	28.2	24.9	17.2
Total for non-manual workers	25.4	27.5	19.7	26.5	24.5	25.6	24.5	16.5
Food	28.0	34.4	14.1	32.1	26.7	28.8	25.1	17.4
Wholesale price index	27.3	19.7	21.6	27.4	25.4	23.5	24.6	18.4
Imported products	14.2	11.7	21.2	20.6	23.6	22.4	18.5	23.4
Domestic products	35.6	21.8	20.7	28.7	26.5	25.3	27.0	23.4
Agricultural products	37.8	26.4	21.7	28.3	21.3	29.3	32.3	18.5
Manufactures	24.0	18.2	19.7	33.3	30.0	20.9	20.2	16.1
Housing construction cost index								
Whole country	18.9	22.3	32.7	30.0	26.9	22.0	21.7	24.6
Bogotá	18.9	18.6	36.4	29.7	27.4	20.2	22.0	17.1
Variation between annual average								
Consumer price index ^a								
Total for manual workers	19.9	34.8	17.1	24.7	27.2	28.1	24.6	19.8
Food	20.2	43.2	12.6	22.7	28.7	28.5	25.4	20.6
Total for non-manual workers	20.4	31.3	18.9	23.8	24.9	26.0	24.5	19.5

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.

^aNational average.

4. Prices and wages

a) *Prices*

Inflation has slowed since 1982. After having fluctuated around 26% between 1976 and 1981, the rate of variation in the consumer price index dropped to 24% in 1982 and to less than 17% in 1983. The wholesale price index has followed a similar pattern, although with a time lag which has shortened in recent years; in 1982 it rose nearly 25% and in 1983 it climbed by somewhat more than 18% (see table 17).

Relative prices changed considerably in the 1980-1982 period. While the growth rate of industrial prices fell from 30% to 20%, the rate for agricultural prices increased from 21% to 32%. The stability of the inflation rate during this time therefore stemmed from the fact that the changes in some prices were offset by opposite changes in others. The drop in inflation only became appreciable in 1983, when the growth rates of agricultural and manufacturing prices tended to converge. During that year, the upward trend in the rate of increase of agricultural prices was greatly diminished and that of industrial prices also fell somewhat. The pattern followed by the latter has been very closely linked to the decline in effective demand which began in mid-1979. The drop in the rate of production and sales which was initially observed later prompted entrepreneurs to accept a reduction of prices in relation to costs. The faster increase in the prices of agricultural products stemmed from supply problems caused by the slackening of agricultural production in recent years. The change in this trend seen in 1983 was not, however, due to the restoration of normal production conditions. What apparently happened was that the effects of supply shortages were neutralized by the drop in the demand for foodstuffs due to the decrease in national income. The reduction in the

inflation rate is thus accounted for by the industrial slump which has been occurring for some time and by the decrease in the demand for foodstuffs brought about by the recession.

b) *Wages and salaries*

In 1983, wages in industry rose 26%, while in commerce they increased 19%. Nominal industrial wages have followed a steady pattern: the drop in their growth rate in 1983 was only slight and was much less than the decline in inflation. As a result, real wages increased 5% during the year, so that they have risen by an average of 3% per year in the 1981-1983 period (see table 18).

Although nominal wage increases may seem reasonable when they are deflated on the basis of the consumer price index, they appear to be excessive if they are compared with industrial prices, whose evolution has been well below the average. In terms of prices in that same sector, industrial wages have increased at an average rate of 7% in recent years, and this has been one of the main reasons for the large companies' declining profits.

The pattern followed by daily wages in agriculture and wages in the commercial sector has been more erratic. After dropping in real terms during the 1980-1982 period, the former increased in 1983. In contrast, the latter climbed nearly 5% in 1982 but dropped slightly in 1983 (see tables 18 and 19).

Wage trends reflect a series of general patterns which have been observed repeatedly for several years. First of all, industrial wages are much more rigid than others and adapt to changes in inflation more slowly. These wages are not determined by the market as much as other remunerations and are therefore more sensitive to economic policy.

The Government has had some influence in determining wage levels by virtue of the minimum wage and the wages paid in the public sector. The breadth of impact and effectiveness of such measures, however, vary according to the characteristics of each sector. Traditionally, the minimum wage has been closely linked to industrial wages, has had a more distant relation with wages in commerce, and has had practically no link with agricultural day-wages. Thus, variations in the minimum wage have been similar to those in industrial wages, not very different from those in the commercial sector, and have had no relation whatever to daily wages in the agricultural sector (see table 20). This asymmetric pattern is not always taken into account, however, when the minimum wage is set; it is often assumed that it influences all wages equally.

The lack of co-ordination between adjustments in the minimum wage and inflation has pushed up real wages in industry, thereby lowering companies' profits. Moreover, a considerable imbalance has arisen between those wages which can be regulated and those which cannot. Industrial wages have risen much more than wages in rural areas and in the commercial sector, thus distorting the

Table 18

**COLOMBIA: EVOLUTION OF WAGES AND SALARIES
IN INDUSTRY AND COMMERCE**

(Growth rates)

	1977	1978	1979	1980	1981	1982	1983 ^a
Nominal wages							
Industry							
Non-manual workers	22.9	24.5	25.9	26.6	29.0	27.8	25.2
Manual workers	27.1	30.4	32.8	28.1	29.7	28.8	26.2
Commerce	32.4	26.5	28.3	32.1	26.3	30.9 ^b	19.4
Real wages							
Industry							
Non-manual workers ^b	-5.9	4.1	1.6	1.4	2.5	2.6	4.4
Manual workers ^c	-5.6	11.5	6.5	0.8	1.4	3.7	5.0
Commerce ^c	1.0	6.8	3.8	2.6	-0.6	4.8	-0.2

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^a Preliminary figures.

^b Deflated by the consumer price index for non-manual workers.

^c Deflated by the consumer price index for manual workers.

Table 19

COLOMBIA: AVERAGE DAILY[†] WAGES IN AGRICULTURE AND STOCK-RAISING

	Pesos					Real growth rates ^a				
	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
Agriculture										
Cold (upland) areas										
With food	97	125	158.3	188	234	2.7	0.8	-3.1	-0.8	3.9
Without food	144	182	227.0	268	328	1.9	-0.6	-5.0	-2.1	2.2
Hot (lowland) areas										
With food	106	137	172	202	249	-0.8	-1.5	-4.6	-1.2	2.9
Without food	151	195	241	284	346	-2.9	1.4	-5.9	-1.8	1.7
Stock-raising										
Cold (upland) areas										
With food	98	126	161	191	235	1.3	0.7	-2.7	-1.0	2.7
Without food	144	182	229	272	329	2.0	-0.4	-3.8	-2.1	1.0
Hot (lowland) areas										
With food	111	147	184	216	261	-2.2	3.8	-4.4	-2.3	0.9
Without food	159	207	256	301	364	-1.7	2.2	-5.6	-2.5	0.9

Source: ECLAC, on the basis of data supplied by the Nacional Bureau of Statistics (DANE).

^aDeflated by the consumer price index for manual workers.

Table 20

COLOMBIA: MINIMUM LEGAL DAILY WAGES

(Averages)

	Pesos						Real growth rates ^a					
	1978	1979	1980	1981	1982	1983	1978	1979	1980	1981	1982	1983
Rural wages ^b	71	105	140	177	234	292	13.7	18.7	5.4	0.4	5.5	4.2
Urban sector ^c												
High ^d	83	115	150	190	247	308	13.1	11.3	3.0	0.6	3.7	4.1
Low ^e	78	105	140	177	234	292	13.4	8.6	5.4	0.4	5.5	4.2

Source: ECLAC, on the basis of data supplied by the Banco de la República and the Nacional Bureau of Statistics (DANE).

^aDeflated by the consumer price index for manual workers.^bCrop-farming, stock-raising, forestry, hunting and fishing.^cRemaining economic activities.^dIn the departmental capital cities and adjacent municipalities.^eIn the remaining municipalities.

overall operation of the economy. The high industrial wages impede normal operations and provide a strong incentive for companies in that sector to use a variety of labour-substituting procedures. Furthermore, the relative improvement in urban income encourages people to move to the cities and runs counter to the trend which should result from the migration of the labour force from rural areas to urban centres. Thus, since the rise in industrial wages has decreased the demand for manpower while increasing the supply, it has had a negative effect on the urban employment picture. Its effects have also been compounded by the unemployment stemming from the sharp drop in production.

5. Monetary and fiscal policy

a) *Monetary policy*

The means of payment grew by over 25% in 1983 in comparison to the preceding year. This was the result of a 13.5% increase in the monetary base and a rise of nearly 11% in the bank multiplier (see tables 21 and 22).

The issue of money in various forms to finance the national budget was the main source of the expansion in the monetary base. Firstly, the Central Bank granted direct credits to the national government. Thus, as may be seen in table 22, credit extended to the Treasury rose by US\$ 47 billion. The remainder was accounted for by the international reserves, because the fiscal deficit has in large part been financed with the artificial income derived from the increased valuation of the international reserves. By this means, 55 billion pesos were issued. The input from external credit, on the other hand, was very limited. All in all, the Government made a very substantial contribution (44%) to the increase in the monetary base.

Rediscounting was another important factor in monetary expansion and represented a considerable change in the way monetary affairs had been handled in recent years. Since 1975 a great effort had been made to reduce the Central Bank's direct financing of the private sector as much as possible; during the past year and a half, in contrast, ample use has been made of this mechanism to ease the situation of companies experiencing difficulties due to the recession. Special lines of credit have been created to finance the acquisition of financial institutions, to help some sectors suffering from specific problems, and to undertake a series of activities whose purposes have not been clearly outlined. It is estimated that over 40 special lines of credit were authorized in 1983. These measures reduced the monetary authority's discretionary powers for regulating the amount of credit, inasmuch as the opening of a line of credit furnished other groups with a powerful argument for requesting similar treatment and exerting pressure to that end. Perhaps the only thing which averted an even bigger imbalance was the recession, which dampened the demand by companies. Consequently, bank credit expanded by 23 billion pesos, which was significantly less than the amount authorized by the Monetary Board.

Development agencies did not act with a great deal of discipline either. Their disbursements rose by 27 billion pesos while the amount they took in rose by only 14 billion pesos, the difference being covered by Central Bank issues. The main cause of the imbalance was the Agricultural Finance Fund: the Government implemented an ambitious policy for expanding agricultural credit in order to help the sector recover, and this gave rise to a 37% increase in credit, which was far in excess of the

Table 21

COLOMBIA: EVOLUTION OF THE MAIN MONETARY AGGREGATES

	Year-end balance in billions of pesos					Growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Means of payment (M ₁)	167.6	214.3	259.7	325.7	408.9	24.2	27.9	21.2	25.4	25.5
Currency	66.9	83.3	100.6	129.1	165.9	23.2	24.5	20.8	28.4	28.5
Current account deposits	100.7	131.0	159.1	196.6	243.0	23.6	30.1	21.5	23.5	23.6
Quasi-money (M ₂)	126.1	214.4	336.0	417.5	568.4	25.5	70.0	56.7	24.3	36.1
Deposits in housing corporations	53.2	83.2	122.2	172.2	244.5	52.2	56.5	46.8	40.9	42.0
Savings deposits	46.0	58.3	72.7	84.3	132.1	36.8	26.8	24.6	16.0	56.7
Time deposits certificates	26.9	72.8	141.1	161.0	191.8	-15.6	170.6	93.8	14.1	19.1
Extended money supply (M ₁ = M ₂)	293.7	248.7	595.7	743.2	977.3	24.8	46.0	39.0	24.8	31.5

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

Table 22

COLOMBIA: ORIGIN OF THE MONETARY BASE

	Year-end balance in billions of pesos					Growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Monetary base	132.0	170.1	207.1	243.7	276.7	30.4	28.8	21.8	17.7	13.5
Assets of the Banco de la República	181.5	246.3	288.6	357.8	373.7	34.9	35.7	17.2	24.0	4.4
Net international reserves	176.7	260.0	309.7	318.0	234.0	78.0	47.1	19.1	2.7	-26.4
Domestic credit	12.1	-2.7	-0.8	61.6	140.2					
Treasury	-7.4	-15.4	-16.5	29.8	76.9					
Rest of the public sector	-16.0	-18.2	-18.9	-9.9	-14.7					
Commercial banks	13.9	10.9	13.2	21.2	43.2	1.9	-21.6	21.1	60.6	103.8
Finance funds	3.4	-2.0	-6.6	-12.9	-10.7					
Other financial intermediaries	11.9	15.8	18.1	21.6	31.3	19.8	32.8	14.6	19.3	44.9
Private sector	6.3	6.2	9.5	11.7	14.1	40.1	-1.6	53.2	23.2	20.5
Exchange difference	-8.1	-14.4	-18.7	-22.5	-0.4					
Other net assets	0.8	3.4	-1.2	0.7	-0.1					
Non-monetary liabilities of the Banco de la República	50.6	77.9	83.6	117.5	102.8	47.9	54.0	7.3	40.5	-12.5
Commercial banks	0.7	0.8	0.7	0.4	0.5	34.0	14.3	-12.5	-42.9	25.0
Other financial intermediaries	0.6	0.4	0.3	1.0	0.8	138.5	-33.5	-25.0	233.0	-20.0
Private sector	14.4	19.1	20.3	21.1	38.4	49.0	32.6	6.3	3.9	82.0
Money market operations	25.8	44.3	45.2	73.6	37.5	57.9	71.7	2.0	62.8	-49.0
Long-term external operations	9.4	13.6	17.3	21.7	25.7	22.0	44.7	27.2	25.4	18.4
Other liabilities	-0.4	-0.4	-0.4	-0.4	-0.4					
Treasury currency in circulation	1.2	1.8	2.1	3.5	5.8	20.0	50.0	16.7	66.6	65.7
Bank multiplier	1.27	1.26	1.25	1.34	1.48	-4.7	-0.8	-0.5	6.5	10.6
Means of payment	167.6	214.3	259.7	325.7	408.9	30.3	28.9	21.8	17.7	25.6

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

possibilities for attracting deposits. Another factor in the imbalance was the construction sector's housing saving system. The low rate of return on such deposits spurred a large amount of withdrawals late in the year, which had to be covered by loans from the Banco de la República.

The policy for open market transactions was also highly expansionary. As shown in table 23, Banco de la República bonds decreased by a total of 36 billion pesos. This was partially offset by its private sector liabilities, which for the most part corresponded to the increase in deposits made in order to obtain exchange permits for transfers out of the country. The net expansion under these two headings amounted to 16 billion pesos.

The compulsory bank reserve policy also served the purpose of expanding credit to the private sector, since the 100% marginal legal reserve which had been required for several years was eliminated in early 1983, and the average cash reserve has been gradually declining.

The expansion in credit to the private sector was accounted for by the development agencies deficit, the opening of new lines of credit, the reduction in open market transactions and the drop in bank cash reserves. The first three factors accounted for 27% of the expansion in the monetary base, while the last-named was responsible for an 11% increase in the multiplier.

The expansion of domestic credit was partially offset by the external sector deficit, which prevented a greater increase in the monetary base.

The most negative aspect of this situation was the lack of co-ordination between interest rate and exchange rate policies. Bank loans rose 18% in real terms. One of the primary objectives of this policy of expanding financial resources was to lower interest rates, but the exchange policy seriously interfered with this, for in effect it provided for what was virtually a pre-announced devaluation of 28% per year which, combined with international inflation, results in an external interest rate of nearly 40%. Under such circumstances, the expansion of financial resources had no major effect on domestic interest rates, whereas it did stimulate the outflow of capital. The extent of this phenomenon cannot be accurately estimated because of the widespread illegal transfers which took place, but judging from the situation with respect to minor and services exports and the parallel exchange rate for the dollar, this outflow probably accounted for a large percentage of the decrease in the international reserves.

These sources of expansion did not act in isolation. Domestic credit did not expand due to the fact that early action was taken to offset the slowdown in the external sector. Domestic credit, budgetary credit and the external sector deficit are normally closely related, but they became even more so due to the lack of co-ordination between the policy concerning domestic interest rates and the devaluation. The greater profitability of external transactions clearly encouraged the use of resources for acquiring foreign exchange and paying the external debt. The expansion in domestic credit exacerbated the external imbalance, which in turn increased the fiscal deficit that was necessary in order to neutralize the dampening effect which this imbalance had on aggregate demand; and this, in its turn, resulted in greater public spending, more imports and a larger drop in reserves. Thus, a large part of the monetary policy's negative effects involved the country's international reserves.

The interaction of these effects resulted in a 25% increase in the means of payment, which was similar to the figure for 1982 and the average in recent years. Although it is higher than the increase

Table 23

COLOMBIA: TRANSFERABLE SAVINGS

	Billions of pesos				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Total	299.1	443.7	582.5	732.8	65.1	48.3	31.3	25.8
Financial system	244.8	388.1	494.8	665.3	63.2	58.5	27.5	34.5
Savings deposits	57.2	72.7	84.3	106.0	24.3	27.1	16.0	25.7
Time deposit certificates	69.9	140.7	161.0	211.3	165.8	101.3	14.4	31.2
CAV deposits ^b	83.8	122.2	171.8	244.5	58.1	45.8	40.6	42.3
Commercial finance company promissory notes	18.8	36.6	44.7	56.1	93.8	94.7	22.1	25.5
Mortgage notes	11.1	12.0	14.1	16.0	2.8	8.1	17.5	13.5
Coffee bonds	4.0	4.0	4.0	4.7	-4.8	-	-	17.5
Coffee certificates	-	-	14.8	20.6	-	-	-	39.2
Electricity certificates	-	-	-	6.0	-	-	-	-
Banco de la República securities	49.2	51.3	84.3	48.0	90.7	4.3	64.3	-43.1
Share securities	21.4	18.6	17.9	3.5	201.4	-13.1	-3.8	-80.4
Exchangeable securities	9.5	9.7	24.0	13.8	63.8	2.1	147.4	-44.4
Agro-industrial securities	5.0	6.2	10.6	10.4	...	24.0	71.0	-1.9
Exchange certificates	13.4	16.8	31.9	20.3	3.1	25.4	89.9	-36.4
National Government securities	5.1	4.2	3.3	19.5	-5.6	-17.6	-21.4	490.9
Economic development bonds	5.1	4.2	3.3	2.5	-5.6	-17.6	-21.4	-24.2
National savings bonds	-	-	-	17.0	-	-	-	-

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

^bSavings and housing corporations.

Table 24

COLOMBIA: BANKS INTEREST RATES^a

	1980	1981	1982	1983
Effective nominal rate	36.4	38.6	35.9	34.2
Inflation rate	26.5	26.7	23.9	16.7
Effective real rate	7.8	9.4	9.7	15.0

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aCorresponding to time deposit certificates.

in nominal income as of the end of 1982, generally speaking this percentage is acceptable. The amount of installed capacity that is being used, prevailing expectations and the conditions created by the recession make it possible to absorb a larger expansion in demand than the average in recent years. In this sense, the monetary policy followed during the past two years is compatible, in the short term, with inflation of under 20%. These conditions may of course change as past levels of activity are regained. In that event, a policy of greater austerity would be needed in order to bring about a systematic reduction in the rate of inflation.

The lack of co-ordination between domestic credit and exchange policies was reflected less in the year-end monetary aggregates than in the trends they followed during the course of the year. The attempt to compensate for the decline in reserves by expanding domestic credit led to a series of adjustments which magnified the phenomenon that the authorities were trying to counteract. The efforts in this direction initially proved to be fruitless, and the means of payment decreased during the first few months of the year. The contraction caused by the drop in reserves was actually not reversed until the last two months of the year. This irregular pattern in the money supply introduced untoward elements into the functioning of the economy. The sharp decline which occurred early in the year exacerbated recessionary trends, and the big expansion seen late in the year is likely to create other types of problems at the outset of 1984.

Interest rates have been one of the most complex aspects of economic management. The process of relaxing financial regulations which was begun in 1973 reached its culmination, in practice, in 1980, when intermediaries were authorized to establish interest rates on time deposits without restriction. The importance of this step lay in the fact that this rate had traditionally been one of the main points of reference used by the intermediaries in order to set the interest rates for loans. The elimination of restrictions on the former gave the banks virtually total discretionary powers in setting the latter, and since that time the interest rates on deposits have been excessively high. Table 24 indicates that they have fluctuated between 8% and 15% in real terms, and other less refined information suggests that the rate on loans is over five percentage points higher.

The high interest rates prompted a rapid expansion in transferable savings, which have increased much faster than inflation and nominal income (see table 23). Economic agents have shifted their stress from securities and direct investments in companies to financial paper, making corporate financial structure increasingly dependent on bank credit.

Up until 1982, the growth of transferable savings was accounted for by the securities of the banking system and those issued by the Banco de la República in order to make transactions on the open market. This changed in 1983, when the Government reduced the interest rate on stock certificates and began to offer high-yield public debt bonds. The main source of expansion in transferable savings thus became public debt bonds.

b) *Fiscal policy*

The economy has shown a growing fiscal deficit since 1980. The action taken by the monetary authorities to eliminate this by reducing domestic credit speeded up the rise in interest rates and posed companies with serious problems of liquidity. In this sense, the fiscal deficit acted as a recessionary factor and has definitely contributed to the decline in economic activity during the past three years.

In late 1982 the Government approved a fiscal reform which was then revised and adjusted by the Congress in 1983; as a whole, it was presented as a means of expanding the tax base. The adjustments made were designed to help incorporate people into the tax system who had been operating outside of it, to create and strengthen systems for estimating income in order to prevent tax evasion, and to reduce tax rates as a means of encouraging people to fulfil their tax obligations.

As a first step, an amnesty covering assets was declared and it was provided that individuals who brought their tax payments up to date would be exempt from audits of their previous statements. At the same time, mechanisms for estimating income which had been introduced as part of the 1974 reform and whose effectiveness had been demonstrated were extended to include other sectors. Thus, the tax on estimated income was extended to cover limited-liability companies, and new estimates were established in relation to sales of goods. Systems were also established for deducting taxes at the source, thus facilitating the administrative monitoring of tax evaders. The rates of the various taxes were also reduced, and some standardization was sought in order to avoid encouraging the creation of corporations and the use of substitute names. The double taxation of corporations was indeed eliminated in part, and the tax on windfall profits was corrected for inflation. Finally, the penalties for tax evasion were increased and the use of substitute names was made a criminal offence.

Table 25 provides a preliminary indication of the reform's impact. It shows that income tax receipts rose 55%, which was considerably greater than the growth of the gross domestic product in nominal terms. It is difficult at this time to ascertain exactly how much of this increase might be attributed to the new tax measures; however, a tentative approximation based on a review of historical series suggests that the reform accounted for approximately 15 billion pesos of the increase in receipts. This is barely 15% of the effective fiscal deficit, and is clearly a very modest result,

Table 25

**COLOMBIA: EFFECTIVE INCOME AND EXPENDITURE
OF THE CENTRAL GOVERNMENT**

	Billions of pesos					Growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Current income	114.6	151.8	204.9	257.5	283.0	36.3	32.5	35.0	25.7	10.1
Tax revenue	112.6	148.8	201.1	252.5	275.3	37.3	32.2	35.1	25.6	9.0
Income and comple- mentary taxes	37.3	47.1	53.0	65.2	97.0	22.6	26.4	12.5	23.0	55.2
Sales taxes	23.0	30.5	40.3	49.6	58.9	31.1	32.9	32.8	23.1	18.8
Customs duties and surcharges	16.6	24.8	29.4	36.6	38.8	24.3	49.2	18.5	24.4	4.1
Profits on exchange operations	23.8	30.1	55.5	74.3	50.2	118.3	26.4	84.4	33.4	-32.4
Gasoline taxes	8.0	11.3	18.1	20.1	24.2	37.1	41.4	60.2	11.0	20.4
Others	4.3	4.9	4.8	6.7	6.9	8.2	15.7	-2.0	39.6	2.9
Non-tax revenue	2.0	3.0	3.8	5.0	7.7	-4.3	51.0	26.7	31.6	54.0
Current expenditure	82.6	121.3	153.8	211.0	271.2	44.7	46.7	26.8	37.1	28.4
Current savings	31.9	30.6	51.1	46.5	11.8	19.0	-4.3	67.0	-9.0	-74.6
Investment	26.0	42.0	61.1	80.2	84.7	23.7	61.6	45.5	31.3	5.6
Total expenditure	108.6	163.3	214.9	291.2	355.9	38.9	50.3	31.6	35.5	22.2
Surplus or deficit	6.0	-11.4	-10.0	-33.6	-72.9	2.1		-12.3	236.0	116.0
Financing										
External credit	5.2	16.5	19.5	14.9	9.9					
Domestic credit	-11.2	-5.9	-9.5	18.8	63.0					

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

especially as the reform provides for a number of one-time adjustments. It remains to be seen how much the elasticity of tax payments has been changed. What is clear, however, is that the initial impact of the reform, which is usually greater in such cases, has been very limited.

Table 25 also shows that tax receipts from external sector activities plummeted. Customs duties rose barely 4% in nominal terms, while exchange profits dropped in nominal terms. Surprisingly enough, the receipts derived from the tax reform did not offset the drop in receipts from the external sector. As a result, total tax revenue, which rose 9% in nominal terms, fell 7% in real terms. The fiscal adjustments did not even manage to counteract the cyclical trends of the external sector.

Operating expenses rose 28%, and investment expenditure climbed 6%. Total expenditures thus rose 22%, which is excessive in view of the fact that this percentage has been calculated on bases that have been greatly expanded in recent years.

The fiscal deficit has gradually increased since 1980. For 1983, it is estimated at 100 billion pesos, which is equivalent to 25% of the means of payment and 4% of the gross domestic product.

This deficit was financed in three ways. Firstly, the Banco de la República opened up special lines of credit worth 38 billion pesos in order to finance the treasury deficit. Secondly, the Government took very active steps to place 17 billion pesos in securities on the open market. Thirdly, the income generated through the special exchange account from the purchase and sale of foreign exchange amounted to 55 billion pesos.¹

The fiscal deficit is one of the most difficult aspects of economic policy to analyse, partly because its impact has varied as external conditions have changed. Until 1982, it was accompanied by an expansion in international reserves which led the monetary authorities to restrict credit to the private sector. It acted as a recessionary factor, in that it helped to raise interest rates and reduced long- and short-term financing for industry. Given this frame of reference, it was logical to design a policy for recovery based on a reduction of the tax imbalance. However, conditions changed drastically during the first half of 1982, when devaluations in Venezuela and Ecuador increased the decline in the international reserves. This drop could not be offset by increasing the amount of credit extended to the private sector because, as a result of the recessionary conditions, at that time the sector was reluctant to accept funds. The fiscal deficit was an essential element in compensating for the drop in aggregate demand caused by the external sector deficit, and in this sense it clearly played an expansionary role during the year. The difficulty did not lie in the fact that this deficit existed, but rather in the lack of co-ordination of economic policy as a whole. The stimulus created by the gap between interest rates on domestic and external operations accelerated the drop in international reserves and caused the fiscal deficit to increase more than was necessary to maintain aggregate demand. The short-term economic situation was dealt with in a way which involved an unnecessary sacrifice of long-term conditions. The 1983 fiscal deficit will affect the future pattern of expenditure, and the outflow of capital will lessen the manoeuvring room open to the authorities in trying to reactivate the economy.

¹Despite the fact that revenue under this heading is derived from a monetary issue, in table 24 it is classified as tax income. Strictly speaking it should be shown as part of the fiscal deficit financed with credit from the Banco de la República. Therefore, the deficit discussed in the text is greater than the deficit shown in table 24.

COSTA RICA

1. Recent economic trends: Introduction and summary

In a framework of widespread economic depression in Central America and amid the constraints imposed by a stabilization programme, the economy of Costa Rica achieved, during 1983, a slight improvement on the preceding year's very low level. This occurred despite the persistence of some of the external factors that had adversely influenced the economy, which, in addition, was faced at the beginning of the year with various disequilibria, especially in the financial area.¹ However, the gross domestic product's growth rate of a little less than 1% did not suffice to make up for the steep decline recorded during the two preceding years. Nor did this growth succeed in reversing the downward trend of the per capita product, which decreased for the fourth year in succession and thus dropped to a level lower than that of 1973 (see table 1 and figure 1).

A stand-by arrangement with the International Monetary Fund had been signed at the end of 1982.² This agreement, which came into force during 1983, established a number of fiscal, monetary and exchange objectives which combined to form an economic stabilization programme. Most of these objectives were fulfilled and, as a general rule, economic policy developed within the constraints implied, except in the fields where a more favourable evolution of economic variables gave a certain amount of elbow-room, or in the few cases in which it was impossible to reach the goals agreed upon, because of the disproportionate political and social cost involved.

If little headway was made in the area of the real economy, in 1983 some important advances were achieved in the reduction of certain financial disequilibria. Albeit they were not fully reflected in production as regards its quantitative results, they interrupted its downward trend and helped to establish more favourable bases for the evolution of the economy in the immediate future.

In the first place, economic policy was highly successful in stabilizing the exchange rate. As from early 1981 and up to the third quarter of 1982, dollar quotations had been affected by marked speculative propensities in a free market whose operation was unregulated and chaotic. This led to successive devaluations which introduced biases and disequilibria throughout all productive activity. Thenceforward the monetary authorities assumed control of external operations, whereby a measure of rationality was infused into the management of the exchange rate, and the atmosphere of generalized speculation which exerted pressure upon it was mitigated.

Secondly, and in close relation to the above, during the year there was an exceptional deceleration of inflationary pressure, which helped to shape a scenario more propitious to productive activity. The consumer price index rose by less than 11% between December 1982 and the same month in 1983, as against almost 82% in the corresponding period of the year before (see figure 2).

Thirdly, a selective and more liberal wage policy was applied, which, given the marked slowing-down of inflation, resulted in a significant recovery of real wages, especially those earned by the lower-income strata. Thus, the increase in the minimum wage was so substantial in real terms as even to offset its sharp deterioration during the two preceding years.

Lastly, in the external sector too results were obtained that helped to curb the downward trend of the economy. The renegotiation of part of the external public debt to private creditors and bilateral sources was successfully concluded, and the delinquent interest payments which had piled up were liquidated. Consequently, in 1983 the economy was no longer subject to the pressures that had negatively influenced the balance of payments in the past, and access to external financing was reopened to the private sector. Similarly, a considerable inflow of external capital became available,³ which allowed freer room for manoeuvre in the management of the balance of payments.

¹See the chapter on Costa Rica, in ECLAC, *Economic Survey of Latin America*, 1982, Santiago, Chile.

²See section 5 below.

³Of these inflows 91% was allocated basically to debt service payments.

Furthermore, the government made efforts to promote a rapid expansion of external sales, with the aim of reactivating the economy and ensuring an increasing flow of foreign exchange by virtue of which deferred external debt commitments could be met over the medium term.

Perhaps the only financial field in which the objectives of the stabilization programme were not fully attained was the maintenance of fiscal discipline. Here political pressure, in conjunction with the social costs implied by the interruption of high-priority programmes, wage increases, the considerable rise in public debt servicing, and expenditure on security made it impossible to reduce the central government deficit, despite a significant tax effort. Nevertheless, thanks to the notable improvement in the financial situation of the rest of the public sector, its total deficit declined from a figure equivalent to 9% of the gross domestic product in 1982 to approximately 3% in 1983.

Almost all the components of domestic demand, except private investment, reversed the downward trend they had been following. Even so, their growth was insufficient to counteract the

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	2 099	2 202	2 220	2 170	1 973	1 989
Population (millions of inhabitants)	2.15	2.21	2.28	2.34	2.41	2.47
Per capita gross domestic product (1970 dollars)	977	995	974	926	820	805
Growth rates						
B. Short-term economic indicators						
Gross domestic product	6.3	4.9	0.8	-2.3	-9.1	0.8
Per capita gross domestic product	3.0	1.9	-2.1	-4.9	-11.5	-1.8
Gross income ^b	2.4	4.7	0.4	-7.7	-11.1	2.2
Terms of trade (goods and services)	-15.5	-1.3	-2.4	-23.1	-9.2	1.2
Current value of exports of goods and services	5.1	8.9	9.2	-1.9	-8.9	-3.9
Current value of imports of goods and services	13.7	19.2	9.1	-21.4	-26.5	11.2
Consumer prices						
December to December	8.1	13.1	17.8	65.1	81.7	10.7
Variation between annual averages	6.0	9.2	18.1	37.0	90.1	32.6
Money						
Wages and salaries ^c	8.8	4.5	0.8	-11.8	-19.7	9.7
Unemployment rate ^{d e}	4.6	4.9	5.9	8.7	9.4	9.0
Current income of government	17.9	5.7	21.0	41.7	77.5	61.0
Total expenditure of government	27.2	20.3	26.8	9.8	64.4	67.9
Fiscal deficit/total government expenditure ^d	30.5	39.0	41.8	24.8	18.8	22.2
Fiscal deficit/gross domestic product ^d	6.0	8.0	9.1	4.3	3.2	4.8
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-266	-421	-459	-127	113	-36
Balance on current account	-364	-554	-658	-407	-206	-383
Balance on capital account	391	436	749	358	331	401
Variation in net international reserves	18	-113	33	-65	125	18
Total external debt ^f	1 112	1 463	2 140	2 413	2 860	3 096

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bGross domestic product plus terms-of-trade effect.

^cGeneral real wage index of affiliates of Costa Rican

Social Security Fund.

^dPercentages.

^eAs of July.

^fDisbursed public external debt.

contractions they had suffered in the two preceding years. Moreover, the evolution of some external variables was unfavourable, although less so than in the past. Firstly, during most of the year instability in quotations for the main export products persisted, so that the terms of trade deteriorated still further.⁴ Secondly, the volume of exports of goods remained stationary, while their unit value was reduced for the third year running. In these circumstances, the value of external sales of goods and services declined by almost 4%. This situation was influenced not only by conditions in the traditional markets —notwithstanding the economic recovery in the United States—, but also by the stagnation of Central American demand and the financial constraints affecting the region's trade.

In addition, both the very low level at which —despite its partial recovery— domestic demand remained, and the public sector's relatively limited financial capacity to provide incentives to the production apparatus, contributed to the atony of economic activity. Thus, albeit public investment was the most dynamic demand variable, its real amount was still 45% below the figure attained in 1980. Moreover, in 1983 private investment again declined. This was one of the most serious symptoms of weakness in the production apparatus, which is projecting over the medium term and shows that the private sector is maintaining a listless attitude, despite the great efforts made by the State to reduce disequilibria and restore stability to the system, even at the cost of the social sacrifice which the fall in real wages has implied.

Mainly owing to the limitations imposed by stabilization policy and by the financial straits of public institutions, it proved impossible to implement promotional programmes capable of encouraging production by way of a considerable expansion of domestic demand.

On the supply side, the most dynamic variable consisted in external purchases of goods and services. Although during the first quarter their evolution was in keeping with the atony of production, during the second they underwent an acceleration which, although serving to absorb part of the inflationary pressures, once again aggravated the external imbalance; thus the deficit on the balance-of-payments current account jumped from under US\$ 210 million in 1982 to a little over US\$ 380 million in 1983.

From the sectoral standpoint, depression continued in most of the productive activities. Outstanding features, however, were the appreciable recovery in the agricultural sector, and the further expansion of the energy sector, which was linked with an increase in household consumption and with exports of electricity to neighbouring countries.

In consonance with all this, employment problems also continued to make themselves felt. Although the unemployment rate declined towards the end of the year, its annual average was still very high (9%). Moreover, such indicators as the decrease in the proportion of the total working-age population represented by employed persons and a certain stagnation of the labour force also point to the persistence of a difficult employment situation, which had the effect of weakening family income in the middle and lower strata.

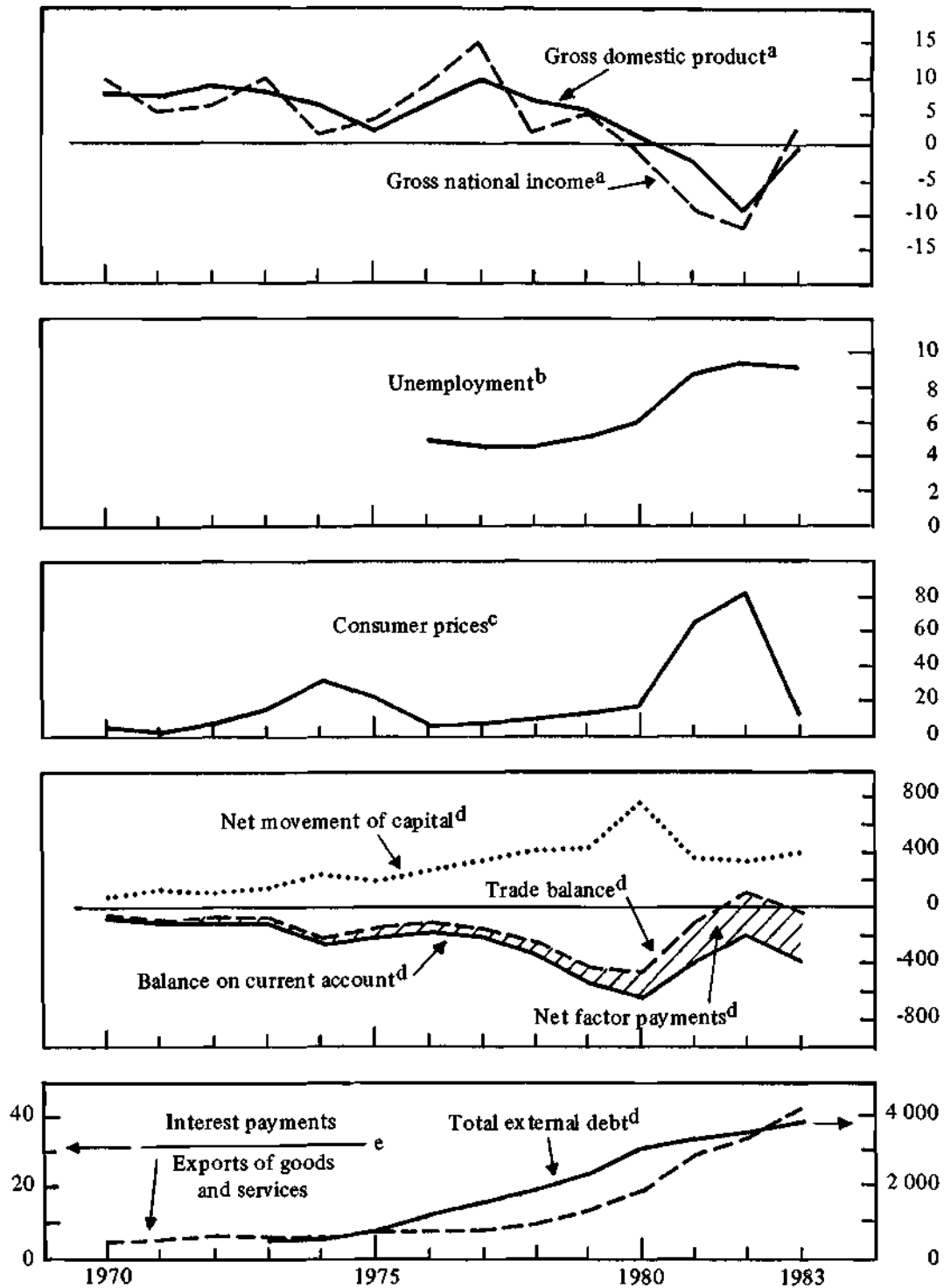
Owing to the strong pressure exerted by the consumer sector, and notwithstanding the price objectives established by the government, an active policy was pursued to control the widespread increases observable since the preceding year. Thus, the number of products subject to control was enlarged, authorizations for increases were limited, administrative mechanisms for ensuring compliance with ceiling prices were strengthened, and the increments budgeted for in the tariffs and prices of public services were deferred and in some cases reconsidered.

Lastly, monetary policy was directed towards endowing economic activity with the necessary resources, while taking care, however, that these were not disproportionately increased, to prevent the generation of new inflationary pressures. The money supply, for example, was augmented by a percentage similar to the combined growth rates of prices and of production. Outstanding among the causes of its expansion was credit to the private sector, while that granted to the public sector evolved more slowly.

In short, in 1983 there were manifest signs of a return to stability, fostered by a restoration of confidence in the system on the part of the various economic agents. Proper management of the main macroeconomic prices —wages, exchange rate and interest rates— had a steadying effect on expectations, and made it possible to eliminate obstacles to the normal operation of the economy and to arrest the recessive trends that had been observable. Full recovery of the economy, however, will be consolidated only if the external context takes a more favourable turn.

⁴During the past six years the deterioration of the terms of trade was continuous. In the whole period they fell by 42%.

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate for country total. ^cPercentage variation from December to December. ^dMillions of dollars. ^ePercentages.

Table 2

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	2 780	2 585	2 264	2 302	126.6	125.2	115.8	-0.6	-7.0	-12.4	1.7
Gross domestic product at market prices	2 220	2 170	1 973	1 989	100.0	100.0	100.0	0.8	-2.3	-9.1	0.8
Imports of goods and services	560	415	291	313	26.6	25.2	15.8	-5.8	-25.9	-29.8	7.6
Total demand	2 780	2 585	2 264	2 302	126.6	125.2	115.8	-0.6	-7.0	-12.4	1.7
Domestic demand	2 347	2 064	1 765	1 845	105.0	105.7	92.8	-0.1	-12.1	-14.5	4.5
Gross domestic investment	643	400	208	220	20.5	29.0	11.0	6.6	-37.7	-48.1	5.8
Gross fixed investment	561	422	258	239	19.5	25.3	12.0	-9.4	-24.9	-38.7	-7.3
Construction	332	249	180	169	9.8	14.9	8.5	2.0	-24.8	-27.9	-5.9
Machinery and equipment	229	173	78	70	9.7	10.3	3.5	-22.0	-25.0	-54.5	-10.5
Changes in stocks	82	-22	-50	-19	1.0	3.7	-1.0				
Total consumption	1 704	1 664	1 557	1 625	84.5	76.7	81.8	-2.4	-2.4	-6.4	4.4
General government	312	294	286	294	12.6	14.0	14.8	1.5	-5.6	-2.8	2.7
Private	1 392	1 370	1 271	1 331	71.9	62.7	67.0	-3.2	-1.7	-7.2	4.7
Exports of goods and services	433	521	499	457	21.6	19.5	23.0	-3.4	20.3	-4.2	-8.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica.

^aProvisional figures.

2. Trends in economic activity

a) *Total supply and demand*

With the exception of fixed capital formation and the volume of exports, both supply and demand variables discontinued the downward trend they had followed during the preceding three-year period. Their increments were so moderate, however, that in no instance did they suffice to offset the contractions that had taken place in the years in question (see table 2). The expansion of total supply was mainly due to import behaviour, while that of total demand stemmed chiefly from the reactivation of public expenditure and the rise in private consumption.

The total supply of goods and services increased by about 2% in 1983, after undergoing a marked decline in the preceding three-year period. This improvement was due to a slight recovery on the part of the gross domestic product and a more perceptible increase in imports of goods and services. Even so, the volume of external purchases reached only the absolute levels that it had already attained by the beginning of the 1970s. This suggests that during recent years some structural change in the operation of the economy may have occurred under the pressure of the severe constraints imposed by the current recession. In fact, while the proportion of the gross domestic product represented by imports was nearly 27% in 1970 and in 1980 was still over 25%, in 1983 the import coefficient was only 16% (see table 2).

On the side of total demand, the most striking feature was an almost 5% increase in private consumption, together with a partial recovery in public consumption. In contrast, gross fixed investment contracted for the fourth consecutive year —although less sharply than in the three preceding years— and the volume of exports of goods and services was reduced by more than 8%.

Despite financial difficulties and the need to reduce the fiscal imbalance —one of the goals of stabilization policy—, public expenditure was a dynamizing element in demand. During the past

decade, it had played an important role in economic growth, with respect both to investment and to outlays in connection with the expansion of social services. However, as tax revenue increased more slowly, serious imbalances in the public finances were gradually accumulated. This led to a real contraction of public expenditure in the two-year period 1981-1982, which strengthened the depressive trends of the economy.⁵

The private sector, on its part, continued to maintain a cautious attitude towards investment. This could imply that the evident symptoms of stabilization and the still weak indicators of recovery have made no substantial difference to the expectations of the entrepreneurial sector. Among the factors that are having an inhibiting effect on private capital outlays may be mentioned the following: the financial troubles of many enterprises, the problems faced by the Central American Common Market, the considerable percentages of idle production capacity, the high rates of interest and some credit restrictions. In any case, the decline in investment is of special importance because it has repercussions that spread beyond the immediate conjuncture, in so far as it represents the decapitalization of certain major sectors of production, an event which would cramp economic growth possibilities over the medium term.

In contrast, private consumption increased by almost 5%, after continuously declining in the preceding three-year period. In addition, during the year changes probably took place in its composition —as has been pointed out before— in consequence of the differential behaviour of the income of the various population strata.⁶ A wage policy clearly designed to benefit the lower income groups was again put into effect in 1983. This necessarily entailed rationalizing the expenditure of the middle strata and safeguarding at least the consumption of lower income wage-earners.

The quantum of exports of goods and services, in its turn, dropped by 8.5%. This behaviour reflected the juxtaposition of structural problems and unfavourable conjunctural factors. On the one hand, external demand was characterized by weakness and instability. On the other, despite the efforts made in recent years to support export-oriented productive activities —development programmes, exchange measures, credit preferences, etc.—, no significant results have been noted up to now, not only because the effects of the incipient and uncertain economic recovery of the developed countries are not yet perceptible, but also because of the abnormal state of intra-Central American trade.

b) *Behaviour of the main sectors*

The level of activity of the sectors of production continued to fall, although more slowly than in 1982. This indicates that the generalized economic crisis persisted. Production of non-basic goods and services remained virtually stationary at the preceding year's low levels, despite the appreciable recovery in agriculture. Basic services showed a growth rate of about 6%, mainly influenced by the notable 18% expansion of production in the electricity, gas and water services (see table 3).

i) *The agricultural sector.* After a year in which an irregular rainfall régime affected harvests in the preceding crops cycle, the favourable weather conditions in 1983 made it possible to obtain normal yields in most crops. With the aid of the traditional agricultural support policies —credit assistance, preferential interest rates and other development programmes— and of certain measures introduced during the year, the agricultural sector enjoyed a recovery which signified a growth of over 4%, as against a contraction of nearly 7% in 1982.

Since the present administration took office in May 1982 agriculture has been one of its main concerns. The idea implicit in the slogan "back to the land"⁷ was to promote measures which will invigorate agricultural activities as a means of broadening the domestic market, ensuring food security and increasing production for export. But financial difficulties, the need to cope with other urgent priorities deriving from the conjuncture, a heap of administrative obstacles, and conflicts between economic policy objectives held back this programme. Nevertheless, support measures were

⁵ Apparently this is one of the structural factors that has worsened in the present conjuncture, mainly owing to the relative inelasticity of public expenditure, which it is difficult to reduce, on the one hand because of its strategic importance in social services and therefore in the degree of well-being of large sectors, and, on the other hand, because of its close relationship with economic growth. It is a significant fact that the decline of productive activity during the past two-year period was accompanied by contractions in public expenditure and that the slight recovery in 1983 coincided with its more positive trend.

⁶ See the chapters on Costa Rica in *Economic Survey of Latin America*, 1981 and 1982, Santiago, Chile.

⁷ See "Volvamos a la tierra", Government Programme, 1982-1986.

Table 3

COSTA RICA: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	1 965	1 787	1 801	100.0	100.0	100.0	0.8	-0.4	-9.1	0.8
Goods	849	742	750	44.9	43.9	42.0	-0.1	-1.6	-12.7	0.9
Agriculture	387	368	385	25.0	18.8	21.5	-0.5	5.1	-4.9	4.4
Manufacturing ^c	351	299	294	15.1	17.9	16.5	0.8	-0.5	-14.9	-1.8
Construction	111	75	71	4.7	7.2	4.0	-1.1	-21.7	-32.6	-6.0
Basic services	198	198	210	6.8	9.9	11.8	6.7	1.4	-0.2	5.7
Electricity, gas and water	51	54	64	2.0	2.4	3.6	11.8	7.8	5.6	18.2
Transport, storage and communications	147	144	146	4.8	7.5	8.2	5.2	-0.7	-2.2	1.0
Other services	878	825	825	48.3	46.2	46.2	0.8	-3.5	-6.0	-
Wholesale and retail trade restaurants and hotels	268	223	221	17.2	15.2	12.4	-3.0	-10.6	-16.8	-0.9
Financial institutions, insurance, real estate and business services	277	279	282	13.6	14.1	15.8	5.7	-0.4	0.7	1.1
Ownership of dwellings	144	145	145	8.4	7.2	8.1	2.4	1.7	0.6	-0.3
Community, social and personal services	333	323	322	17.5	16.9	18.0	2.8	0.5	-2.9	-0.6
Government services	244	239	239	12.0	12.1	13.4	3.6	1.8	-2.2	-

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica.

^aProvisional figures. ^bAs the general method applied consisted in extrapolating the individual activities and the totals independently, the sum of the former does not coincide with the latter. ^cIncluding mining.

launched, such as a programme to increase agricultural production (Programa de Incremento de la Producción Agrícola-PIPA), a national dairy development programme (Programa Nacional de Fomento Lechero), and a local irrigation project (Proyecto de Riego en el Tempisque), and progress was made with the implementation of a development programme for livestock production and animal health (Programa de Desarrollo Ganadero y Sanidad Animal).

The growth of the agricultural sector was based essentially on crop farming, which showed a substantial increase (7%), while livestock production remained stationary, and forestry and fishing continued to follow their sharp downward trend (see table 4).

During recent years, it has been noted that the possibilities of extending the agricultural frontier might be approaching exhaustion and that there are signs of a slow but systematic tendency towards land concentration, on the basis of an expansion of export-oriented agriculture and especially stock-breeding. This would account for the sporadic agrarian conflicts in some localities and might be one of the structural factors that restrict the sector's growth. Nevertheless, in the recent years of crisis agriculture has maintained an upward trend, supported by efficient organization.

The coffee crop once again increased (by 3%) thanks to a satisfactory rainfall régime and to the Programme for the Improvement of Coffee Production which has made for bigger yields. This occurred despite the fact that production costs once again rose—because of increases in imported input prices and in wages—and that during the first nine months of the year prices were consistently low.⁸ During the last quarter international quotations improved, but sales abroad were limited by the quota fixed for Costa Rica. Surpluses therefore began to accumulate of which only part could be sold in new markets, at a considerably lower price.

⁸In addition, some outbreaks of rust were discovered; this disease may affect future costs and yields of this crop.

Production of bananas —the second most important item among traditional exports—slightly decreased for a second time. This activity has been stagnating because of the contraction of the area planted, since the leading banana producer and exporter enterprise has begun gradually replacing this crop by African palms and citrus fruits. Among the factors to which this is due is the maintenance of international banana prices at very low levels, while production costs and export taxes have steadily increased. Furthermore, the fact that this enterprise primarily exports its own output discourages small independent producers.

Sugar-cane production practically recovered from the preceding year's decline, thanks to bigger yields, the application of some support programmes and, furthermore, favourable weather conditions.

Table 4

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Index of agricultural production (base 1970 = 100.0)	100.0	123.1	134.9	130.0	135.7	-0.6	3.2	-6.6	4.4
Agriculture	100.0	122.8	131.5	138.7	148.8	0.7	2.1	-3.3	7.3
Livestock	100.0	118.5	133.8	127.9	128.5	-3.6	8.6	-12.0	0.5
Forestry	100.0	139.4	142.9	110.9	96.2	5.9	-5.0	-18.3	-13.3
Fishing	100.0	197.7	270.2	191.3	172.6	-22.8	-18.8	-12.8	-9.8
Production of main crops^c									
For export									
Coffee	81	85	106	115	118	7.9	6.3	2.0	2.7
Bananas	959	1 221	1 108	1 136	1 128	-4.1	3.0	-0.4	-0.7
Sugar-cane	2 135	2 324	2 516	2 446	2 516	-3.8	0.2	-3.0	2.9
Cocoa	4	7	5	3	2	-49.2	-4.1	-30.7	-44.2
For domestic consumption									
Rice	56	179	231	149	260	5.0	-3.5	-33.2	74.7
Maize	71	68	75	86	99	3.3	9.9	4.5	14.4
Beans	12	15	12	16	14	1.6	6.7	32.8	-12.0
Sorghum	-	20	42	31	31	23.7	-25.9	2.1	-2.7
Tobacco	2	3	2	1	1	-22.8	5.5	-23.9	7.0
Plantains	60	67	90	90	93	10.6	-0.2	-	3.7
Indicators of livestock production^c									
Animals slaughtered									
Cattle	111	128	118	111	97	-13.7	24.6	-24.6	-12.7
Pigs	9	10	19	18	18	-3.9	6.8	-14.8	5.1
Poultry	4	5	5	4	4	-12.4	-12.2	-17.6	10.2
Other production									
Milk ^d	206	251	308	303	333	0.7	0.7	-2.4	10.0
Eggs ^e	272	344	430	424	420	16.0	0.1	-1.4	-1.0
Indicators of forestry production									
Wood ^f	482	671	687	533	462	5.7	-4.9	-18.4	-13.3
Fishing: volume of catch^c	7	14	19	13	12	-22.8	-18.8	-12.9	-9.9

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bGrowth rates are given in real, not rounded, figures.

^cThousands of tons.

^dMillions of litres.

^eMillions of units.

^fThousands of cubic metres.

In general, production of basic grains sufficed to ensure supplies for the domestic market. Outstanding aspects were the spectacular increase in the rice crop and the dynamism of maize production, although at the beginning of the year some consignments of basic grains had to be imported because output had been small in the preceding year. In the case of rice, for some years now abrupt fluctuations have been observable, which have entailed, on the one hand, making purchases abroad and, on the other piling up stocks which could not be exported, because domestic costs were higher than the international market price.

Lastly, within the livestock sector, which showed a measure of reactivation, beef production yet again suffered a sharp reduction (-13%), which was basically reflected in external sales. It would seem to have been the result of over-extraction in the recent past, when on top of the poor yields caused by lack of rain, cattle slaughtering was speeded up with the aim of making the most of exchange advantages. This behaviour is of special significance inasmuch as it may well project a downward trend over the medium term, in an activity which is of considerable importance in the production system.

ii) *The manufacturing sector.* The decline in manufacturing production which had begun in 1981 continued, although at a slower rate than in the preceding year. The scanty indicators available revealed contractions in almost all the industrial branches, outstanding examples being the textiles, leather, wood, chemical products and basic metalworking industries.

For some five years past, the manufacturing sector has shown symptoms of weakness as regards maintaining the same growth rate as in the preceding decade. This is ascribed to the depressive effects brought about by the reduction of domestic demand, the loss of dynamism in Central American trade, and some degree of exhaustion of import substitution possibilities. In addition to all this, in the year 1982 there had been difficulties in obtaining an adequate supply of raw materials —because of the shortage of foreign exchange—, an increase in costs, basically attributable to the national currency price of imported inputs, and a rise in interest rates. Generally speaking, all these adverse factors were still present in 1983, with the exception of the obstacles to the purchase of raw materials, since exchange policy gave priority to the granting of foreign exchange for that purpose. However, a certain reanimation of domestic demand had stimulating repercussions, above all on branches producing basic consumer goods.

Furthermore, the financial difficulties faced by the other Central American countries, combined with a real contraction of their domestic demand and operational obstacles in intra-regional trade, restricted the favourable effects that might have been expected from the variations in the exchange rate. During the year balances were accumulated against El Salvador, Guatemala and Nicaragua which had to be covered by the Central Bank of Costa Rica, and this caused some domestic monetary expansion. In order to lessen the inflationary effects that this situation might produce, during the second half of the year the authorities began to restrict exports to certain neighbouring countries and to impose payment conditions for current transactions. It was not until the end of the financial year that possibilities of documenting the debts and establishing amortization programmes began to take shape. Thus intra-regional sales slackened and manufacturers viewed the region's future prospects with even less optimism than before.

Notwithstanding all this, economic policy was directed towards reactivating the national economy by way of external demand, although without underestimating the potentialities of local demand. In this connection, activities concerned with the quest of new markets for non-traditional products, especially manufactures, were raised to the ministerial category. This decision cannot be expected to produce immediate results, but new markets have already been opened up —especially in the Caribbean—, advantage being taken of installed capacity and the experience gathered in trade with Central America. Sales in these markets, however, still represent only a small proportion of Costa Rica's foreign trade as a whole.

iii) *Other sectors.* It was the electric energy sector that diverged farthest from the depressive trends of the economy. In normal circumstances, this sector maintains a close correlation with the other economic activities, at any rate those of an urban character, but the increase that took place in the preceding two-year period, and, in particular, the significant 18% expansion achieved in 1983, were due to the entry into operation of the hydro power station El Arenal. This permitted an appreciable extension of the distribution network basically used for household consumption and for the increasing sales of energy to neighbouring countries (Honduras, Nicaragua and Panama).

The product of the construction sector went on decreasing, on top of the drastic contractions of two years before. Public works, which were mainly concentrated in the continuation of three major highway projects and two in the field of hydroelectricity, showed an upturn which proved insufficient to neutralize the decline in private construction. The latter activity was one of those hardest hit by the crisis, and although the negative implications in the overall picture were enormous, they were even more inauspicious with respect to employment. From various indicators it can be seen that construction did not entirely keep to its typical seasonal fluctuations. At the beginning of 1983, requests for permits indicated that some reactivation might be expected; at mid-year, sales of cement —excluding government consumption— and of other building materials pointed to a decline, while at the end of the period most of the relevant indicators —including employment— reflected a recovery. This recrudescence was based to a major extent on official programmes and on the financial backing given to construction of low-cost housing. The other sectors, in particular transport and business, remained at about the same levels as in the preceding year.

c) *Employment and unemployment*

Traditionally, the Costa Rican economy has been characterized by the maintenance of a satisfactory level of employment with seasonal variations, consistent with the nature of the diverse economic activities. As soon as the first symptoms of the present economic crisis appeared (1980), the main employment indicators began to reflect the depressive trends of the economy and to show changes in seasonal fluctuations. In the past, the different unemployment indexes rose between March and July and declined in November, coinciding with the busiest seasons in crop farming, especially coffee growing. As from 1981, almost all indexes followed atypical trends, possibly reflecting the degree of arrhythmia prevailing in productive activity. According to provisional estimates, during 1983 the rate of open unemployment stood at a high level in the months of March and July, and dropped abruptly in November (see table 5). It was the second year that this had happened, both globally and in the rural and urban areas, which might suggest that towards the end of the period certain signs of economic reactivation became more marked. But it might also point to phenomena of adaptation to the insufficiency of jobs.

Table 5

COSTA RICA: EMPLOYMENT AND UNEMPLOYMENT TRENDS^a

	1980			1981			1982			1983		
	March	July	No- vem- ber	March	July	No- vem- ber	March	July	No- vem- ber	March	July	No- vem- ber
Unemployment rates^b												
Open	4.6	5.9	5.5	7.4	8.7	8.7	9.5	9.4	6.6	9.0	9.0	5.5
Rural	4.0	5.9	4.3	7.2	8.4	6.8	8.7	8.3	4.4	8.2	8.7	4.7
Urban	5.2	5.9	6.8	7.5	9.1	10.7	10.4	10.5	8.9	9.9	9.3	6.4
Urban, Central Valley	4.6	5.4	6.7	7.3	8.4	10.7	10.4	10.6	8.9	9.5	8.7	5.9
Equivalent ^c	8.8	7.6	8.1	8.5	8.7	9.7	11.8	14.4	13.6	11.1	10.9	...
Rural	10.3	8.4	9.1	10.0	10.8	10.7	13.5	11.7	14.8	13.6	12.5	...
Urban	6.9	6.7	7.0	6.9	6.4	8.5	10.2	16.8	12.3	8.7	9.1	...
Urban, Central Valley	6.2	6.1	6.7	6.6	6.0	8.4	9.4	11.8	12.5	10.7	8.8	...
Participation rates^d	34.4	34.7	36.3	34.5	35.0	38.7	35.8	36.1	37.8	34.4	35.5	36.6
Indexes^e												
Labour force	129.3	131.6	138.7	132.7	136.0	151.3	141.0	143.2	151.1	138.8	144.2	149.8
Employment	133.2	133.6	141.4	132.7	133.9	149.1	137.6	140.1	152.4	136.3	141.5	152.8
Unemployment	80.4	106.0	103.7	133.1	162.0	178.4	183.3	182.8	134.8	170.7	177.3	113.1

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security and the Ministry of Economic Affairs, Industry and Commerce.

^aFigures obtained from household surveys on employment and unemployment.

^bPercentages of labour force unemployed.

^cUnderemployed population expressed in terms of open unemployment.

^dLabour force as a percentage of total population.

^eBased on figures from the census taken in May 1973.

In the first place, an increasing proportion of the workers declaring themselves as employed had probably found a foothold in the informal sector, both in intermediary activities and in other services, for which reason average productivity was perhaps reduced. Secondly, it is also possible that a change, although slight, may have taken place in the historical patterns of migration from rural to urban areas, while at the same time a larger number of persons ceased trying to find work after successive periods of looking for a job.

The figures reveal a slight increase in the proportion of rural population, a surprising stagnation of the labour force, a rise in rural unemployment and, in general, a contraction in the coefficient of employed persons in relation to the population of working age (over 12 years). This seems to suggest that traditional methods of estimating employment indexes in normal periods lose some of their validity in face of an abnormal economic situation; it also points to the persistence of a significant degree of unemployment, although there are other indicators which support the hypothesis that the process of recovery became brisker towards the end of 1983.

3. The external sector

a) *Introduction*

The external sector variables continued to limit domestic productive activity, but less severely than in 1982. Neither the economic recovery in some of the developed countries, nor domestic policies designed to expand exports, produced the desired effects. The outlook therefore continued to be very uncertain for the export-oriented agricultural sector, both with regard to trends in demand for the main products, and in respect of the price instability that characterized their markets. Moreover, various obstacles that had been drastically affecting inter-Central American trade remained operative and even tended to worsen, combining with the general weakness of demand in the neighbouring countries.

In the financial area, however, some success was achieved in easing the pressure created by the formidable burden of external debt servicing and the isolation to which the country was being relegated by failure to meet its external commitments. The relief obtained was largely due to the rescheduling of the maturities of a considerable proportion of the debts. This, in turn, allowed more room for manoeuvre in international transactions and safeguarded external supplies within a framework of exchange stability.

Generally speaking, most of the economic policy measures adopted during the year were linked to the external sector, with a view to attenuating balance-of-payments disequilibria and reinstating exports as an important stimulus to economic reactivation. Thus, early in the year barter regulations were established to make operations viable that would rationalize import priorities and permit the sale of some production surpluses. Moreover, internal incentives —such as preferential interest rates for stockbreeding— were maintained in the case of certain strategic lines of production; debts contracted by Central American importers were discharged to domestic producers —assets which were absorbed by the Central Bank—; official feelers were repeatedly sent out or support was given to private-sector efforts with a view to opening up new markets —especially for manufactures formerly exported to Central America—; the task of export promotion was raised to ministerial status and, towards the end of the year, an "export contract" was finalized for the purpose of attracting foreign investment which would accept a definite commitment to generate exportable production. While these and other measures in the same field can only bear fruit over the medium term, their adoption reveals how the State strove to give an impulse to foreign trade, in the midst of a lively national controversy provoked by the schools of thought which base the possibilities of economic recovery on dynamization of the domestic market.

b) *The evolution of the exchange rate*

One of the noteworthy successes of economic policy during 1983 was the feat of stabilizing the exchange rate after its abrupt fluctuations during 1981 and part of 1982. This event, which had positive effects on most of the macroeconomic variables —not only those relating to the external sector—, stemmed from careful management of exchange policy, from the availability of new external financial support —which supplemented the country's own resources for smoothly meeting

demand for foreign exchange— and from an appreciable reduction of the pressure that external debt servicing had been exercising —due to the accumulation of payments in arrears— on the movement of foreign exchange.

Thus, during most of the year only two effective exchange rates were in force:⁹ the “interbank” and the “free” rates, handled by the Central Bank.¹⁰ In addition, in the course of 1983 changes took place in both markets, some gradual and others punctual. On the one hand, the interbank exchange rate was slightly raised on two occasions, and on the other hand, the free market rate was little by little reduced. At the end of June the monetary authorities decided to increase the interbank exchange rate by 1 colon and to reduce the free rate by the same amount. The aim of this measure was to encourage exports —since net payment for 98% of these was made at the interbank exchange rate—, to discourage imports and to advance more rapidly towards unification of the exchange rates, which is one of the commitments assumed with the International Monetary Fund under the stabilization programme. In this way, the buying and selling interbank rates were established at 41 and 41.50 colones to the dollar, respectively, while the free rate fell to 43.10 colones for the buyer and 43.60 for the seller. Additionally, the Regulations for the Application of the Exchange Régime were also modified, with the object of giving preferential treatment in the authorization of foreign exchange to enterprises exporting goods whose domestic production content exceeded 35%, and to those whose annual sales amounted to over one million colones. Lastly, at the beginning of November, the monetary authorities established a single exchange rate of 43.15 colones (purchase) and 43.65 colones (sale).

In short, in consequence of the last exchange adjustments, the foreign exchange market was successfully rationalized —and the harmful inward effects of instability on the economy were averted— by concentrating it in a single exchange rate. Nevertheless, despite its slight recovery in the second half of the year, the effective exchange rate was considerably lower in 1983 than in the two preceding years (see table 6).

c) *Merchandise trade*

Despite the efforts made to encourage exports and restrict external purchases, merchandise trade showed a tendency towards disequilibrium, once the effects of the exchange adjustments were exhausted. Up to 1980 the trade deficit had rapidly increased, influenced more by a high import/product elasticity than by the slow growth or reduction of external sales. In 1981, as a result of modifications of the exchange rate and the generalized economic contraction, this imbalance had been drastically reduced, and in 1982, for the first time in many years, a positive balance had been obtained, thanks to a decrease in imports. In 1983, although the low levels of production were maintained, the balance became negative again —although the deficit was moderate— because of an upturn in external purchases and a slight falling-off in exports (see table 7).

i) *Exports.* The FOB value of external sales amounted to US\$ 850 million, a slightly smaller sum than in the preceding year, when a decrease of 13% had already taken place. This behaviour was almost exclusively due to a decline, for the third year running, in the unit value of exports (see table 7).

Among traditional export products, the value of coffee sales fell by 4% owing to a 9% drop in its average price, which more than offset the effects of the 5% increase in the volume exported. Coffee-growing is, of course, an activity of special importance in the Costa Rican economy, not only because of the amount of foreign exchange it brings in to the balance of payments, but because of the employment it generates and the considerable quantity of production processes it involves. Consequently, a steady reduction of the value of coffee exports has discouraging repercussions on several segments of the economy. The basic problem lies in the constraints imposed by the quota system when world demand is weak. Although towards the end of the year there was a slight improvement in quotations on the markets of the International Coffee Organization (ICO), it was impossible to take advantage of this because the quota allotted to Costa Rica had already been covered, so that part of the crop had to be sold on other markets, where the price is approximately 40% lower.

⁹In addition, there is an official exchange rate of 20 colones to the dollar, which is applied only for a minimum (1%) of operations deriving from judicial sentences, and will continue in force until the conclusion of the legal process already begun to abolish the relevant law.

¹⁰As from July 1982 the extra-bank free market rate known as “Lonja” was legally abolished, and in practice no parallel market rate outside the legal framework has arisen.

Table 6

COSTA RICA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE

Annual and quarterly averages	Exchange rates (colones per dolar)			Indexes of effective real exchange rate calculated with column data ^c		
	Exports of goods and services		Imports of goods and services	Exports		Imports
	(1) ^a	(2) ^b	(3) ^a	(1)	(2)	(3)
1975	8.57		8.57	106.9		104.0
1976	8.57		8.57	104.0		101.1
1977	8.57		8.57	105.4		102.3
1978	8.57		8.57	106.7		105.5
1979	8.57		8.57	102.6		100.0
1980	9.20		9.27	100.0		100.0
1981	21.15		20.01	142.8		138.7
1982	38.62	34.55	39.23	126.3	113.0	129.2
1983	42.24	37.97	42.16	111.9	100.6	113.2
1981						
I	14.68		10.93	130.6		100.7
II	17.88		17.92	133.0		138.0
III	19.77		19.45	129.2		132.2
IV	33.25		33.26	172.5		178.2
1982						
I	36.24	32.45	35.04	151.5	135.7	149.3
II	36.45	32.64	39.77	130.6	117.0	143.8
III	40.14	35.95	40.30	117.7	105.4	118.2
IV	41.64	37.29	41.81	114.8	102.8	115.7
1983						
I	41.64	37.29	41.96	110.7	99.1	112.1
II	41.69	37.33	41.78	109.3	97.9	110.7
III	42.70	38.24	42.07	111.7	100.0	111.6
IV	42.93	38.44	42.84	113.1	101.3	115.4

Source: ECLAC, on the basis of data supplied by the Central Bank of Costa Rica.

^aExchange rates supplied by the Central Bank of Costa Rica. Up to September 1980, the official rate is given. As from October 1980 figures represent exchange rates weighted by the real transactions of the economy in the different markets. ^bExchange rates for exports of goods and services discounting the exchange differential between this and the official rate, which as a weighted average is a little over 10%.

^cAverage of the indexes of the real exchange rate of the colón in relation to the currencies of the main countries with which Costa Rica trades, weighted by the relative importance of exports to those countries or imports from them. For the methodology and sources used see the technical appendix in the *Economic Survey of Latin America*, 1981.

In turn, the value of exports of bananas — a product which in recent years has acquired an importance similar to that of coffee in Costa Rica's export structure— remained almost stationary (see table 8). This was because an unexpected increase in the international price, towards the end of the year, compensated for the decline in production. The high winds that occurred during the last quarter in the northern areas of Guatemala and Honduras, together with the damage caused to Ecuador's production by the torrential rains and floods that were the effects of the "Niño" current, led to a contraction of world supply which pushed up the price. At all events, the historical instability of this market, basically because of the monopolistic fashion in which distribution is effected, is generating a substitution process in the large producer enterprises and has caused discouragement among small-scale producers.

Owing to the production difficulties mentioned above, beef exports again underwent a serious setback (-40%), despite the fact that in contrast to what had happened in previous years international market conditions were relatively favourable. In the first place, the quota allotted to Costa Rica by the

Table 7

COSTA RICA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods						
Value	4.4	9.0	6.2	0.2	-13.1	-2.3
Volume	7.1	3.6	-5.9	11.3	-8.1	-0.1
Unit value	-2.5	5.2	12.9	-10.0	-5.5	-2.2
Imports of goods						
Value	13.4	19.8	9.4	-20.7	-28.4	14.6
Volume	-5.4	12.5	-6.8	-24.5	-32.0	11.5
Unit value	20.0	6.5	17.3	5.0	5.3	2.8
Terms of trade (goods)	-17.7	-1.6	-2.8	-14.8	-10.1	-4.5
Indexes (1970 = 100)						
Terms of trade (goods)	100.2	98.6	95.8	81.6	73.4	70.1
Purchasing power of exports of goods^b	152.3	155.3	142.1	134.6	111.3	106.2
Purchasing power of exports of goods and services^b	152.9	155.1	146.2	135.2	117.6	108.9

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bQuantum of exports of goods or goods and services, as the case may be, adjusted by the corresponding terms-of-trade index.

Table 8

COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	1 002	860	851	100.0	100.0	100.0	6.2	0.2	-14.2	-1.0
Main traditional exports	584	536	514	73.5	57.0	60.4	-7.1	2.2	-8.1	-4.2
Coffee	240	237	228	31.6	24.7	26.8	-21.4	-3.1	-1.4	-3.8
Bananas	225	227	229	28.9	20.7	26.9	8.9	8.3	1.2	0.9
Cocoa	3	2	1	0.8	0.4	0.1	-56.7	-35.7	-8.7	-73.7
Meat and livestock	74	53	32	7.8	7.1	3.8	-13.5	4.5	-28.1	-40.0
Sugar	42	17	24	4.4	4.1	2.8	132.6	3.2	-60.5	41.0
Main non-traditional exports	418	324	337	26.5	43.0	39.6	31.4	-2.5	-22.5	4.3
To Central America	237	165	165	19.9	27.0	19.4	54.1	-17.8	-30.5	-
To the rest of the world	181	159	172	6.6	16.0	20.2	5.1	23.4	-12.2	8.2

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bPercentage breakdown and growth rates are given in real, not rounded, figures.

Table 9

COSTA RICA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown ^c			Growth rates ^c			
	1981	1982	1982 ^{ab}	1983 ^{ab}	1970	1980	1983 ^b	1980	1981	1982	1983 ^b
Total	1 208	867	663	719	100.0	100.0	100.0	9.1	-20.1	-28.3	8.4
Consumer goods	252	167	124	150	32.5	25.5	20.9	10.8	-35.1	-33.7	21.2
Non-durable	165	134	100	118	22.0	16.1	16.4	19.1	-32.5	-18.5	17.5
Durable	87	33	24	32	10.5	9.4	4.5	-0.9	-39.4	-62.5	37.0
Raw materials and intermediate goods	689	552	422	461	42.7	52.0	64.1	18.9	-13.0	-20.0	8.9
For agriculture	44	44	37	41	2.9	3.3	5.7	40.8	-13.0	-0.5	11.7
For industry	523	394	297	315	32.3	37.6	43.8	27.5	-8.7	-24.6	5.8
Building materials	46	27	22	27	5.5	4.8	3.8	23.3	-36.2	-42.9	23.4
Fuels and lubricants	76	87	66	78	2.0	6.3	10.8	-21.5	-20.9	14.7	16.8
Capital goods	258	140	111	104	24.8	21.2	14.5	-19.8	-20.4	-45.5	-5.7
For agriculture	13	9	7	10	2.0	1.5	1.4	-19.5	-42.6	-29.6	38.5
For industry, mining and construction	97	51	39	49	11.3	9.4	6.8	-19.0	-33.1	-47.1	26.2
For transport	66	35	27	22	7.3	5.6	3.1	-22.8	-22.4	-46.9	-18.6
Other capital goods	82	45	38	23	4.2	4.7	3.2	13.1	14.9	-45.2	-37.6
Miscellaneous	9	8	6	4	-	1.3	0.5	...	-53.1	-15.2	-38.0

Source: ECLAC, on the basis of official figures.

^aJanuary-September.^bProvisional figures.^cPercentage breakdown and growth rates are given in real, not rounded, figures.

United States was covered only in part, and secondly, albeit the price still remained low, it sufficed to cover the production costs of such efficient stockbreeding as is found in Costa Rica. But the depletion of herds by over-exploitation in the past prevented these advantages from being turned to account, even with the incentives generated within the country.

Thanks to the recovery in sugar prices, the value of sugar sales substantially increased (41%) in relation to the low 1982 value. Nevertheless, it amounted to only 57% of the figure recorded in 1981.

The proportional increase in non-traditional export products was small (4%), and was mainly derived from sales to markets outside Central America, which began to gain importance. Essentially, these exports consisted in simple manufactures sold to the United States, Panama, Venezuela and some Caribbean countries, as well as a few agricultural surpluses. The fact of paramount importance is that for the first time these non-traditional exports to third countries exceeded sales to Central America.

Although Costa Rica obtained a further credit balance with the Central American countries, it stemmed from particularly constricted trade. As is common knowledge, the economic integration process, in its first phase, facilitated import substitution—principally in respect of certain non-durable consumer goods—and generated powerful stimuli for the manufacturing sector. This process still shows signs of vitality, although in recent years various obstacles have been limiting intra-regional trade flows, and have had negative effects on production. The difficulties in question range from the contraction of domestic demand in the various economies and the financial constraints as regards liquidating debit balances through the Central American Clearing House, to the means employed by each country to restore its external equilibrium—which include, in the main, measures to restrict external purchases—and even in some cases, extra-economic phenomena such as the

socio-political tensions which impede trade movements. All these piled-up difficulties have been slowing down Costa Rica's exports to the Central American region, with the result that more vigorous efforts have been made to find other markets.

ii) *Imports.* Imports of goods increased by about 15%, a rate which although it may be considered moderate after the drastic contractions of the preceding two-year period, was high in comparison with the growth rate of the gross domestic product and with export trends. During the first half of the year, external purchases expanded slightly, in keeping with the moderate progress of productive activity; by September they had increased by 8% (see table 9), and during the last quarter their growth was accelerated until the above-mentioned percentage was reached. This may be attributed to three causes. In the first place, in view of the stabilization of the exchange rate and the prospect of an economic reactivation, the private sector replenished part of the stocks that had dwindled in the past; secondly, the effect of the exchange adjustments on containment of external purchases gradually petered out; and, thirdly, exchange policy, in an endeavour to prevent the emergence of a parallel market, supplied almost all demands for foreign exchange for the purchase of goods and services and softened exchange restrictions. This provided a safety-valve for part of the internal inflationary pressure, which otherwise might have had repercussions on price levels.

Certain characteristics of the evolution of the various components of external purchases support the foregoing remarks. Input figures up to September show that the global increase of 8% stemmed from very different movements on the part of the diverse categories of goods. For example, imports of consumer goods rose by 21%, while those of raw materials expanded only by 9% and those of capital goods contracted for the fourth time, on this occasion by 6%.

As regards consumer goods—which represented over 20% of the total—, imports partly consisted in basic grains. These purchases were made at the beginning of the year to supplement internal supplies affected by the poor harvests in 1982. In the case of raw materials, most of the increase was due to imports of building materials, as well as to purchases of fuels and lubricants and of inputs for agriculture. The value of imports of intermediate goods, however, owing to its sharp decreases during the preceding two-year period, barely exceeded the level reached in 1978.

Lastly, purchases of capital goods dropped to a very low value—after four successive years of contraction—which will probably not even suffice to compensate total depreciation in 1983. This confirms the opinion that the effects of the crisis will stretch over the medium term.

d) *Trade in services and payments for factor services*

For the second year running, trade in non-factor services showed a positive balance, which, however, was of little significance (US\$ 7 million). This was mainly due to a considerable reduction of income which more than offset the effects of the slight fall in expenditure in 1982 (see table 10).

The deficit with respect to factor services was accentuated. Net payments under this head rose to about 420 million—a sum equivalent to almost half the value of exports of goods and 20% larger than the amount disbursed under this head in the preceding year. This negative balance, which has been rapidly increasing during recent years, reflects the burden of the external public debt.

It should be noted, however, that in 1983 the sum in question included delinquent interest payments which had accumulated in the preceding years and which, thanks to the negotiations conducted—among them, an automatically renewable credit, as a function of payments out of domestic resources—, were completely liquidated during the period. Had these commitments not been outstanding, the deficit would have been considerably lower, since private-sector payments under this head were decreasing in accordance with total economic results.

e) *Balance on current account and its financing*

After the significant effort made in 1982 to reduce it, the long-standing balance-of-payments deficit on current account—which had fallen from almost US\$ 410 million in 1981 to 206 million in 1982—increased again appreciably in 1983, exceeding US\$ 380 million. This result was partly attributable to the resurgence of the trade-balance deficit and the resumption of external debt servicing, factors which were partly offset by external transfer payments a good deal larger than those made in previous years (see table 10).

Table 10

COSTA RICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-226	-364	-554	-658	-407	-206	-383
Trade balance	-162	-266	-421	-459	-127	113	-36
Exports of goods and services	959	1 008	1 097	1 198	1 175	1 070	1 028
Goods FOB	828	864	942	1 001	1 002	871	851
Real services ^b	131	144	156	197	173	201	177
Transport and insurance	35	28	33	48	33	31	30
Travel	62	72	74	85	96	133	127
Imports of goods and services	1 120	1 274	1 519	1 657	1 302	957	1 064
Goods FOB	925	1 049	1 257	1 375	1 091	780	894
Real services ^b	195	225	262	283	213	177	170
Transport and insurances	115	129	155	177	128	92	99
Travel	51	62	63	60	48	47	50
Factor services	-80	-113	-150	-218	-308	-348	-417
Profits	-18	-27	-17	-16	5	-8	-9
Interest received	9	16	11	16	20	20	24
Interest paid	-68	-100	-140	-216	-329	-357	-430
Other	-3	-3	-4	-2	-4	-4	-2
Unrequited private transfer payments	15	16	17	20	27	29	70
Balance on capital account	337	391	436	749	358	331	401
Unrequited official transfer payments	0	1	-4	-5	-	6	...
Long-term capital	300	353	353	402	215	38	...
Direct investment (net)	62	47	42	48	66	33	...
Portfolio investment (net)	4	21	-	124	-	-	...
Other long-term capital	234	285	311	230	149	5	401
Official sector ^c	81	114	221	81	114	27	356
Loans received	99	241	304	112	169	122	450
Amortization payments	-18	-120	-79	-25	-48	-83	-94
Commercial banks ^c	37	-12	35	9	-18	-21	113
Loans received	51	12	63	32	11	7	...
Amortization payments	-14	-23	-28	-23	-29	-28	...
Other sectors ^c	115	182	55	140	53	-1	-68
Loans received	236	333	357	267	186	170	...
Amortization payments	-121	-151	-302	-127	-133	-171	...
Short-term capital	64	88	6	422	42	186	...
Official sector	4	57	2	287	46	181	...
Commercial banks	5	2	6	32	5	40	...
Other sectors	55	29	-2	104	-8	-35	...
Net errors and omissions	-27	-51	80	-71	100	101	...
Global balance ^d	111	27	-119	92	-50	125	18
Total variation in reserves (- sign indicates an increase)	-108	-18	113	-33	65	-125	-18
Monetary gold	-	-	-	-	28	-7	...
Special Drawing Rights	-5	3	-2	6	-	-	-3
IMF reserves position	-	-10	-	10	-	-	-
Foreign exchange assets	-90	4	77	-43	14	-95	-82
Other assets	-11	-11	12	-5	-23	-14	...
Use of IMF credit	-2	-4	26	-1	46	-10	99

Source: 1977-1982, International Monetary Fund, *Balance of Payments Yearbook*, magnetic tape, May 1984; 1983, ECLAC, on the basis of official data.

^a Provisional figures. ^b Real services also include other official and private transactions, but do not include factor services.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The global balance is the sum of the balance on current account plus the balance on capital account. The difference between the total variation in reserves with the opposite sign and the global balance represents the value of counterpart entries: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

Nevertheless, for the second year in a row a global surplus was recorded in the balance of payments. Gross international reserves thus rose to US\$ 311 million, a sum equivalent to 3.5 months of imports, i.e., a much higher coefficient than that of 2.8 months, recorded in the preceding year, when, moreover, imports had been a good deal lower.

This result was obtained by virtue of the increase in the net inflow of capital, which rose from US\$ 330 million in 1982 to 400 million in 1983. At the same time, its composition underwent a marked change. Whereas in 1982 the net inflow of long-term capital had fallen short of US\$ 40 million, in 1983 it exceeded 400 million, largely owing to the rescheduling of the external debt. Out of the gross inflow of US\$ 450 million which passed into the hands of the official sector, 130 million had their origin in loans from bilateral sources granted on highly favourable terms, 120 million came from compensatory credits and 40 million from the disbursement of loans previously contracted with multilateral institutions.

f) *The external debt*

Another of the year's important achievements was the culmination of a difficult process of renegotiation of the external debt. In the first place, at the end of 1982 a new stand-by arrangement was concerted with the International Monetary Fund, comprising a loan for a little under US\$ 100 million the whole of which was used during 1983, and a second credit line of US\$ 20 million was agreed upon to offset the decreases in external sales attributable to the fall in international prices. Secondly, agreements were formalized with bilateral creditors (Paris Club) to reschedule amortization payments, the first steps to this end having been taken at the end of 1982. Lastly, during the first half of 1983 negotiations were conducted with private creditors to establish the schedule and method for liquidating interest payments due, amortization payments in arrears and payments corresponding to 1983 and 1984.

The negotiations conducted with the Co-ordinating Committee, formed by 12 of the 170 creditor banks, dealt with various aspects such as interest payments due, treatment of bonds, grace periods, amortization payments and restructuring costs.

As a result of these measures, the government obtained a rollover credit to finance imports, which enabled it to supplement the country's own resources for clearing delinquent interest payments. It also secured the restructuring, not only of the 1981 and 1982 maturities, but also of the payments corresponding to 1983 and 1984, and to that end the four-year commitments had to be renegotiated. The total sum amounted to US\$ 617 million. Out of this, 95% of "Tranche I", equivalent to US\$ 142 million, was restructured for a term of eight-and-a-half years, including four grace years, during which interest payments only will be made. The principal will be liquidated in 18 quarterly instalments, between March 1987 and June 1991; the remaining 5% will be paid on 31 January 1984. "Tranche II" (US\$ 142 million) was negotiated for a period of seven-and-a-half years as from January 1984, and also includes four grace years.

The foregoing measures involved an increase in costs, owing to the bigger spreads over reference rates established in the restructured portion. The spreads fixed by the banks for this renegotiated part were 2.25% over LIBOR or 2.125% over the United States Prime Rate. Lastly, the surcharges on "deferred payments" and "refinancing" were set at 0.25% and 1%, respectively.

With these adjustments taken into account, the public sector's external debt approached US\$ 3.1 billion at the end of 1983, which implied an 8% increase over the year before. Disbursements, in their turn, went up to 330 million¹¹ and amortization payments to US\$ 94 million; these payments mainly represented obligations to multilateral sources (see table 11).

The absolute level of the external debt, both public and global, reached extremes that were almost unmanageable, given the other macro-financial variables. In this sense, the results of the rescheduling negotiations merely postponed a problem which, in any event, is of far-reaching significance and jeopardizes the medium-term evolution of the Costa Rican economy, unless the export effort yields rapid results. In 1983, however, the financial —balance-of-payments, public finance, monetary and exchange— variables were temporarily eased of this burden, and the authorities thus gained greater freedom in the management of economic policy and time to carry out structural changes.

¹¹ Not including International Monetary Fund credits.

Table 11

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
Public external debt						
Balances	1 112	1 463	2 140	2 413	2 860 ^b	3 096
Disbursements ^c	413	455	755	413	254	330
Servicing	182	196	251	311	278	567
Amortization payments ^d	113	104	78	140	158	94
Interest payments ^e	69	92	173	171	120	473 ^f
Global external debt						
Balances	1 870	2 233	3 183	3 360	3 497	3 848
Disbursements	670	603	1 217	413	295	525
Servicing	331	362	477	507	313	687
Amortization payments	246	240	267	236	158	174
Interest payments	85	122	210	271	155	513
Percentages						
Ratios						
Global external debt/ gross domestic product	53.1	55.3	71.0	124.6	144.1	127.6
Servicing of global external debt/ exports of goods and services	32.8	33.0	39.8	43.1	29.6	66.8
Servicing of global external debt/ disbursements	49.4	60.0	39.2	122.8	106.1	130.9
Servicing of global external debt/ gross domestic product	9.4	9.0	10.6	18.8	12.9	22.8

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bIncluding US\$ 351 million in certificates of deposit.

^cNot including US\$ 351 million in certificates for

1982 or refinancing of the principal (US\$ 475 millions) in 1983.

^dNot including arrears to the amount of US\$ 5 million in 1980, 238

million in 1981, 125 million in 1982 and 106 million in 1983. Total (US\$ 475 million) was renegotiated in 1983.

^eNot including payments in arrears to the amount of US\$ 121 million in 1981 and 250 million in 1982.

^fComprises total interest payments, including accumulated arrears.

In short, notwithstanding the advances made, the global external debt is still one of the worst constraints on economic recovery. The amount of the external debt in absolute terms exceeded the domestic product by 28%, and 67% of earnings from exports of goods and services was assigned to debt servicing, notwithstanding the terms of the restructuring described. The public debt alone was equivalent to a per capita debt of US\$ 1 250, and its servicing absorbed 23% of the product (see table 11).

4. Prices and wages

a) Introduction

Outstanding among the economic policy objectives which were felt to deserve priority attention during 1983 were control of inflation —envisaged in the agreement with the International Monetary Fund— and defence of the real wages of the lower income strata. In view of the fact that the inflationary process had its origins both in phenomena associated with demand —such as the high fiscal deficit in the biennium 1979-1980— and in the structure of costs, a programme was launched to put the finances of the central government and public enterprises on a sounder footing. At the same time, a prudent wage policy and a realistic exchange policy were followed. Although some of the provisions adopted caused costs to rise in the short term —for example, the increase in tariffs and prices for goods and services supplied by public enterprises—, as a whole the measures applied, and, in particular, the stabilization of the exchange rate and wage policy, were contributory to the marked deceleration of inflationary pressures.

In 1983 the unusually high rate of inflation experienced by the economy in recent years was abruptly reduced. The rate of increase of consumer prices, after having gone up to 65% in 1981 and almost 82% in 1982, had dropped to under 11% by the end of 1983. In reality, the turning-point occurred at the end of the third quarter of 1982, when the annual rate of inflation attained an all-time maximum of 100% (see table 12 and figure 2).

The success scored in combating inflation is, moreover, particularly significant in view of the fact that it was achieved without depressing the overall level of economic activity.

A factor which unquestionably influenced the results noted was the stabilization of the exchange rate. Up to 1982 all economic activities had been establishing domestic prices in relation to the effect of devaluation on their costs. The intermediation system therefore fixed prices with due regard to this fact, as well as to inventory turnovers and to expectations regarding future dollar quotations. When the exchange rate was stabilized, speculation ceased and the price system underwent a correlative adjustment, especially as supply was faced with depressed demand in consequence of the contraction of real income. For some months in the second half of the year the consumer price index even showed downward movements in relation to the preceding months, thanks in part to the firmness shown in management of the exchange rate (see table 13).

In face of the increase in the domestic currency production costs of some public services, as well as the rise in the price of various strategic products—especially hydrocarbons—, during the second half of 1982 substantial adjustments had to be made in the price of electric energy, fuels, collective transport and the potable water and telephone services. The aim of this move was to restore the financial capacity of enterprises and to reduce the pressure that their deficits exerted on the public finances, but it also had direct and indirect repercussions on the evolution of the overall price system. During 1983 new increases in the items mentioned were announced, with a view to mitigating, or even eliminating, the deficit of some public institutions and maintaining financial equilibrium in those which had already attained it. Nevertheless, the government found itself obliged to give way to a variety of pressures, on which account it reconsidered the increases already decreed in the electricity service and some fuels and did not put into practice the other increases projected.

Lastly, monetary policy succeeded to a large extent in adapting the available supply of liquid funds to the real needs of the economy, while at the same time the external sector made it possible to eliminate some of the internal factors of inflation arising out of shortfalls in domestic supply, particularly in the last quarter, when there was an appreciable recrudescence of imports.

Table 12

COSTA RICA: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation from December to December						
Consumer price index ^a	8.1	13.1	17.8	65.1	81.7	10.7
Food	15.9	14.7	18.7	70.4	101.1	8.2
Wholesale price index	9.4 ^b	24.0	19.3	117.2	79.1	5.9
Imported products	...	31.7	21.8	154.6	66.9	2.6 ^c
Domestic products	...	19.8	17.3	93.3	89.4	7.9 ^c
Variation between annual averages						
Consumer price index ^a	6.0	9.2	18.1	37.0	90.1	32.6
Food	10.3	12.6	21.8	36.7	113.6	32.2
Wholesale price index	7.8 ^b	16.1	23.7	65.3	108.3	26.2
Imported products	...	19.4	27.6	90.4	109.2	19.7 ^d
Domestic products	...	14.2	21.4	49.6	107.5	35.6 ^d

Source: ECLAC, on the basis of official figures.

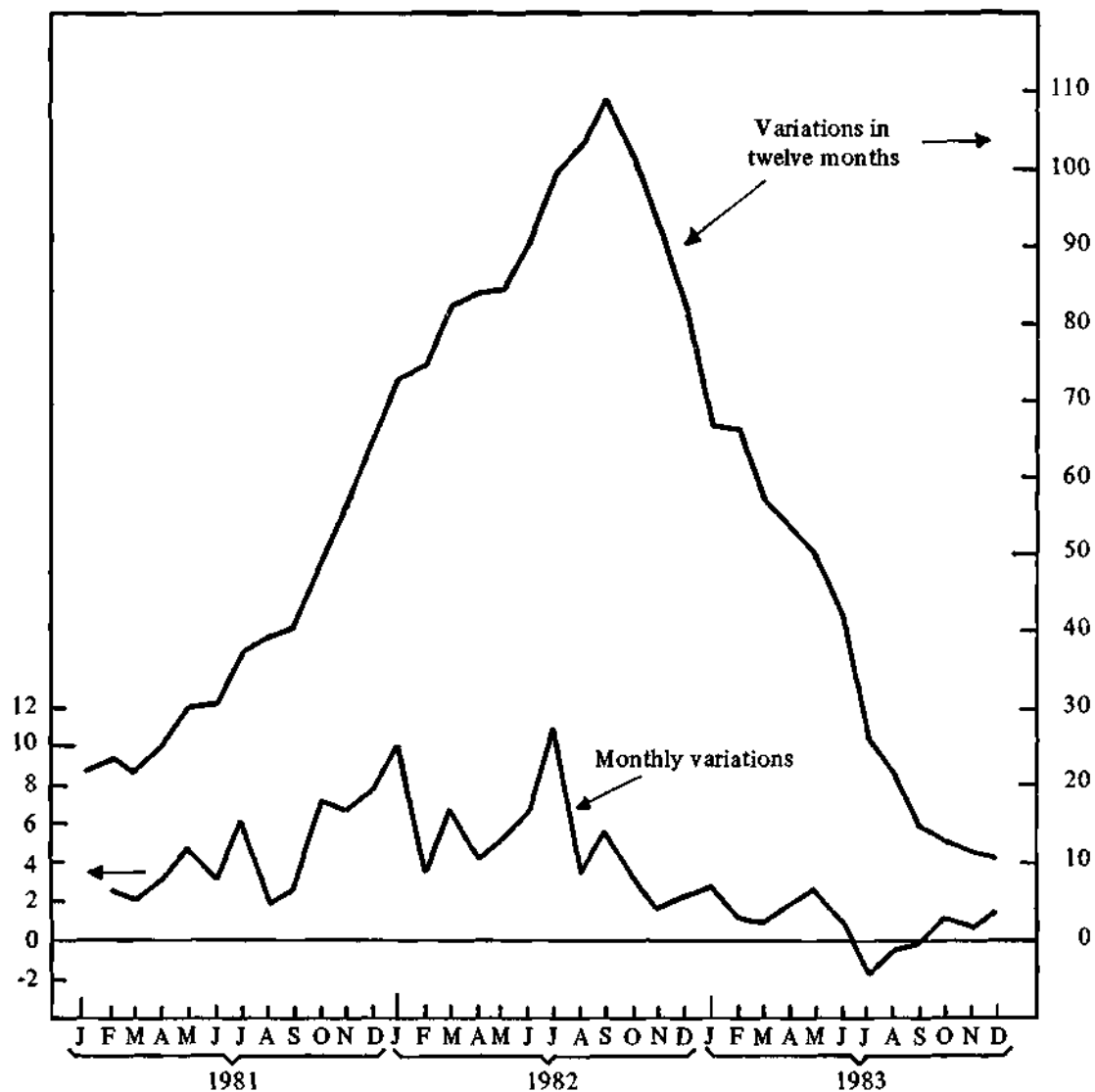
^aPrice index for middle- and low-income consumers in the metropolitan area of San José.

^bCorresponds to the preceding wholesale price index.

^cVariation between November 1982 and November 1983.

^dVariation between January-November 1983 and the same period in the preceding year.

Figure 2
COSTA RICA: EVOLUTION OF CONSUMER PRICE INDEX^a



Source: ECLAC, on the basis of official figures.

^aPrice index for middle- and low-income consumers, in the metropolitan area of San José.

b) Wages

The objective of implementing a policy to defend real wages came into conflict with the stabilization programme and with the conjunctural priorities imposed by the country's serious financial disequilibria. However, the hardening of the trade-unions' bargaining position, the obvious necessity of pumping some vitality into domestic demand, and the improved economic prospects of the entrepreneurial sector led to wage adjustments which, in view of the radical deceleration of the rate of increase of prices, implied that average real wages reversed their downward trend and that the minimum wage even recouped the losses it had suffered during the preceding two-year period. Average real wages rose by almost 10%, while the minimum legal wage went up by 15%, in real terms (see table 13).

During the year certain measures were put into effect which gave realistic expression to wage policy. The basic consumer basket came into operation and was enlarged, and application of a sliding wage scale — mechanisms whereby wages in the public and private sector were adjusted every half-year — continued in accordance with the absolute variations occurring in the prices of the articles comprised in the basket. In addition, a single salary scale with 73 categories was established for the whole of the public sector, and the "National Wage Council" was strengthened¹² to facilitate agreements on minimum wage adjustments.

Thus, in the course of 1983 several wage increases were accorded both in the public and in the private sector. In the case of civil servants, in January an adjustment of 1 000 colones per month was granted and remunerations corresponding to higher-level posts were raised to a moderate extent. Another feature introduced was a salary compensation to professionals for full-time engagement in their functions as public employees. In July a further general increase of 450 colones per month was granted and in August a resolution to equalize the wages of professionals and technical personnel was promulgated. The wage scale was also restructured. All this involved a total adjustment which ranged from 25% to 28% of nominal wages for the different government categories, i.e., on average a 27% increase in the first nine months of the year.

Moreover, in January a blanket rise of 16% in private-sector wages was decreed and in August another of 13% was granted. In addition, a generalized revision of collective negotiations was carried out. All these adjustments represented an increase of 45.5% in the effective average wage, while the nominal minimum wage rose by 52% (see table 14).

Table 13
COSTA RICA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100.0)				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Average wages and salaries^b								
Total (nominal)	208.2	251.8	384.3	559.2	19.1	20.9	52.6	45.5
Public sector	208.1	242.0	350.5	...	22.0	16.3	44.8	...
Central government	222.0	241.6	348.1	...	29.7	8.8	44.1	...
Autonomous institutions	198.5	241.2	350.6	...	17.0	21.5	45.4	...
Private sector	201.6	253.6	406.0	...	16.1	25.8	60.1	...
Total (real) ^c	141.2	124.6	100.1	109.8	0.8	-11.8	-19.7	9.7
Public sector	141.2	119.8	91.3	...	3.4	-15.2	-23.8	...
Central government	150.6	119.6	90.6	...	9.8	-20.6	-24.2	...
Autonomous institutions	134.7	119.4	91.3	...	-0.9	-11.4	-23.5	...
Private sector	136.8	125.5	105.7	...	-1.7	-8.3	-15.8	...
Minimum wage								
Nominal								
Higher level	154.4	189.4	...	...	15.8	22.7	...	...
Lower level	210.4	261.0	479.9	731.9	19.4	24.0	83.9	52.5
Real^c								
Higher level	104.7	93.7	...	...	-2.0	-10.5	...	...
Lower level	142.7	129.2	124.9	143.7	1.1	-9.5	-3.3	15.1

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security.

^aProvisional figures.

^bEstimate based on tabulations of the Costan Rican Social Security Fund.

^cDeflated by the consumer price index for the middle- and lower-income strata in the metropolitan area of San José.

¹²A tripartite institution composed of representatives of the government, workers and employers.

Table 14

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	5 258	7 453	13 231	21 296	21.0	41.7	77.5	61.0
Tax revenue	4 681	6 933	12 564	20 296	16.7	48.1	81.2	61.5
Direct	1 069	1 555	3 297	4 590	7.7	45.5	112.0	39.2
Indirect	2 060	2 256	3 573	7 643	35.3	9.5	58.4	113.9
On foreign trade	1 552	3 122	5 694	8 063	3.8	101.2	82.4	41.6
Non-tax revenue	577	520	667	1 000	72.8	-9.9	28.3	49.9
2. Current expenditure	6 747	7 938	13 108	20 281	29.7	17.7	65.1	54.7
Wages and salaries	2 968	3 483	5 131	7 450	19.3	17.4	47.3	45.2
Other current expenditure	3 779	4 455	7 977	12 831	39.1	17.9	79.1	60.8
3. Current saving (1-2)	-1 489	-485	123	1 015				
4. Capital expenditure	2 283	1 973	3 186	7 083	19.2	-13.6	61.5	122.3
Real investment	1 086	1 201	1 444	2 528	10.5	10.6	20.2	75.1
Debt amortization payments	380	420	807	3 389	7.0	10.5	92.1	320.0
Other capital expenditure	817	352	935	1 166	41.6	-56.9	165.6	24.7
5. Total expenditure (2 + 4)	9 030	9 911	16 294	27 364	26.8	9.8	64.4	67.9
6. Fiscal deficit (1 - 5)	3 772	2 458	3 063	6 068	35.9	-34.8	24.6	98.1
7. Financing of deficit								
Domestic financing	3 133	1 552	1 684	3 068	41.5	-50.5	8.5	82.2
External financing	639	906	1 379	3 000	14.3	41.8	52.2	117.5
	Percentages							
Ratios^b								
Current saving/capital expenditure	-65.2	-24.6	3.9	14.3				
Fiscal deficit/total expenditure	41.8	24.8	18.8	22.2				
Tax revenue/GDP	11.3	12.1	13.0	16.1				
Total expenditure/GDP	21.8	17.4	16.8	21.8				
Fiscal deficit/GDP ^c	9.1	4.3	3.2	4.8				
Financial deficit/GDP ^d	7.9	5.3	3.1	3.0				
Domestic financing ^e /deficit	83.1	63.1	55.0	50.6				
External financing ^e /deficit	16.9	36.9	45.0	49.4				
Public sector financial deficit/GDP ^d	11.2	14.3	9.1	2.2				

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica, the Ministry of Finance, the Office of the Comptroller-General of the Republic and the International Monetary Fund.

^aProvisional figures.

^bCentral government, unless otherwise indicated

^cIncluding debt amortization payments.

^dNot including debt amortization payments.

^eGross.

5. Fiscal and monetary policies

a) *Introduction*

Many of the financial disequilibria occurring in previous years had originated in the growing fiscal deficit and the pressure it exercised on monetary variables. The latter, in their turn, generated internal inflationary forces which were reflected in the overvaluation of the colon and in subsequent exchange disorders. In face of the increasing constraints imposed by these disequilibria on the operation of the economy, and in order to meet the obligations deriving from the heavy external debt, the authorities negotiated a one-year stand-by loan with the International Monetary Fund, for an amount equivalent to 92 million Special Drawing Rights (SDR). In the agreement, which strengthened international liquidity and opened the doors to the process of renegotiation of the external public debt, the government pledged itself to put into practice a stabilization programme which comprised a group of financial objectives.

As is customary in adjustment programmes supported by the Fund, quarterly targets were established for net domestic assets and net international reserves of the monetary authority, and for net domestic credit granted by the bank system to the non-financial public sector.

Goals were also set in respect of restricting the growth of the public sector's external debt and the State-guaranteed debts of the private sector. The government also engaged to apply measures with respect to the public sector's expenditure and income, interest rates and the exchange rate.¹³

Generally speaking, the quarterly goals were successfully attained, as well as those relating to the external debt, on which disbursements of the Fund's resources are conditional. The measures agreed upon with regard to exchange policy were also applied. The relative abundance of external credit had a good deal to do with these achievements. Of equal —or still more— crucial importance, however, was the financial performance of the public sector, which even outdid the results proposed, despite the increasing social and political pressures.¹⁴

b) *Fiscal policy*

On the side of income, taxes on international trade were maintained, and revenue from these rapidly increased, partly owing to the variations in the exchange rate and partly to the prorogation of the tax on the exchange differential applied to exports. A temporary surcharge was also added to the tax on the income of enterprises, the base for the selective tax on consumption of goods was broadened and the sales tax was increased from 8% to 10%. In the course of the year, several tax projects were also debated, such as those relating to remittances abroad, and increases in the tax on income from ownership, but they were ultimately vetoed by the Legislative Assembly or modified by the Executive in face of the adverse reactions of the various political and economic groups. All in all, the current income of the central government rose by 61%, a rate which, although lower than that obtained in the preceding year, implied a real increase of about 20%. Thus the tax burden went up from 13% to 16%.

The pursuit of the objective of reducing the budget deficit was also based on a programme to restrict expenditure. To this end, a prudent wage policy was planned, together with reductions in respect of current transfer payments, on the basis that public enterprises would regain their financial equilibrium through the fixing of realistic prices and tariffs.

With regard to wages, as the favourable reaction of the tax structure became apparent and the demands of wage-earners gradually hardened, the authorities decided upon the adjustments mentioned above. This implied a 45% increase in expenditure under this head. Other current disbursements expanded by 61%, partly in consequence of the increase in purchases of goods and services, but mainly owing to the incidence of interest payments on the public debt. The proportion of increases in transfer payments to public enterprises and decentralized institutions was smaller (15%). In this connection, only the National Electricity Service (Servicio Nacional de Electricidad - SNE) continued to face a financial imbalance, attributable to the heavy burden of external debt servicing expressed in national currency. Although graduated tariff increases in energy services had been decided on reactions in protest made it necessary to reconsider them. Accordingly, the institution was obliged to overhaul its expenditure budget and the rate of execution of some investment projects had to be slowed down, as in the case of the Ventanas-Garita and Corobisí hydroelectric and Miravalles geothermic power projects.

Capital outlays more than doubled, but once again it was those associated with the public debt that increased most rapidly. Real investment continued to be concentrated in the continuation of the San José-Guapiles-Siquirres, Borruca and southern coastal highway projects. The reactivation of these and other smaller-scale projects, and the initiation of some new ones —connected especially with the habilitation of land in the northern and southern regions and the building of low-cost housing— had a stimulating effect on economic activity.

The fiscal deficit —including amortization payments on the internal and external debt— almost doubled, in consequence of the rapid growth of capital expenditure. On the other hand, the financial deficit —which does not include debt amortization payments— rose much less sharply and, in fact, showed a moderate decrease in relation to the product. Of the fiscal deficit 49% was covered

¹³ See "Carta de intenciones al FMI", *La República*, San José, Costa Rica, 1 December 1982.

¹⁴ For an analysis of the application of this programme, see "Carta de intenciones al FMI", *La Nación*, San José, Costa Rica, 6 April 1984, p. 16-A.

Table 15

COSTA RICA: MONETARY POSITION

	Balance at end of year (millions of colones)				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^e
Money	7 104	10 809	18 104	24 609	15.0	52.2	67.5	35.9
Currency outside banks	2 225	3 501	5 436	6 940	15.3	55.3	55.3	27.7
Demand deposits	4 849	7 308	12 668	17 669	14.9	50.7	73.3	39.5
Factors of expansion^b	19 829	17 184	30 698	37 966	10.6	-13.3	78.6	23.7
Net international reserves	-1 142	-6 784	-2 148	-5 156	...	...	...	...
Domestic credit	20 971	23 968	32 846	43 122	23.9	14.3	37.0	31.3
Government (net)	5 542	6 555	6 409	5 701	40.0	18.3	-2.2	-11.0
Public institutions	3 380	4 163	7 625	9 726	44.8	23.2	83.2	27.6
Private sector	12 049	13 250	18 812	27 695	13.2	10.0	42.0	47.2
Factors of absorption	12 725	6 375	12 594	13 357	8.2	-49.9	97.6	6.1
Quasi-money (savings and time deposits) ^c	10 455	20 574	32 570	48 418	17.1	96.8	58.3	48.7
Long-term foreign loans	4 835	25 468	34 686	47 763	2.7	426.7	36.2	37.7
Other items (net) ^d	-2 565	-39 667	-54 662	-82 824	36.7	1 446.5	37.8	51.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica.

^aProvisional figures.

^bAccording to official estimates, accounts in foreign currency were value at 8.50 colones per dollar in 1980, 36 colones per dollar in 1981 and 45 colones per dollar in 1982 and 1983.

^cIncluding securities.

^dIncludes adjustments for variations in the rate of exchange.

out of external resources from loans previously contracted with multilateral sources and external financial resources obtained on "soft" terms (see table 14). Accordingly, 51% of total financing came from internal sources, mainly through the sale of bonds to the private sector at rates of interest which competed with the bank system's deposit operations, and although this cushioned the immediate monetary impact of the deficit, it will imply heavier financial costs in the future. In any event, inorganic issues declined appreciably during the period.

The global financial deficit of the consolidated public sector was substantially reduced. As a proportion of the product, it dropped from 9% in 1982 to a little over 2% in 1983.

c) *Monetary policy*

Within the narrow limits set by stabilization policy, both in the sphere of credit and in that of the exchange rate, the authorities structured monetary policy with the aim of giving—or rather restoring to—the productive system the indispensable monetary resources, in step with the alterations in the exchange rate and the evolution of the overall price system, but seeking to ensure that the supply of liquid resources did not cause further domestic inflationary pressures.

Money in circulation increased by 36%, a rate slightly exceeding the growth rate of the gross domestic product at current prices. This was due to an increase of 24% in the factors of expansion and one of 6% in the factors of absorption (see table 15). Thus the evolution of the monetary variables was a good deal more consistent with other aspects of the economy than the trends noted during the preceding two-year period.

As regards the institutional destination of bank credit, priority was given to loans to the private sector, while those granted to the public sector increased at a slower rate. Net credit extended to the central government contracted for the second year running, in conformity with one of the original targets of the stabilization programme, while the growth rate of that granted to public institutions was more moderate than in 1982. As a whole, financing accorded by the bank system to the public sector expanded by 14%, as against average increases of 25% in the preceding biennium.

Loans to the private sector increased by 47%, a much higher percentage than the average for the last five years, and equivalent to 86% of the total increment in domestic credit. But the ratio

between the absolute level and the domestic product (22%) was still much lower than that reached in 1980 (29%).

In relation to the loan and deposit interest rates of the bank system, as from the beginning of the year a controversy arose between those who held that the maintenance of high rates would produce harmful effects on productive activity and those who argued that rates should be sufficiently high to encourage saving and prevent the flight of capital abroad. In practice, the moderation of inflationary trends and a restoration of confidence in the monetary system and, in general, in the performance of the economy gradually determined monetary conditions which made it possible for interest rates to be gradually reduced. Even the increase in quasi-money was on such a large scale that in some banks a temporary excess of liquidity was produced, which obliged the monetary authorities to raise the legal cash reserve for a time and to cover the cost of the operations in question.

In short, monetary policy was implemented in conformity with the constraints of the stabilization programme, but taking advantage of every possibility that arose of endowing the productive system with such credit resources as might help to check the downward trend of the economy. All this was achieved in the framework of a managed stabilization of the exchange rate which held out favourable economic prospects. However, the attempt to meet total demand for foreign exchange caused a resurgence of external disequilibrium and the advantages implied for exports by the high level of the exchange rate were gradually lost.

CUBA

1. Recent economic trends: Introduction and summary¹

In 1983, after its moderate growth in the preceding year, the Cuban economy expanded at an appreciably higher rate. The global social product increased by 5.2%, which meant that the per capita product went up by 4.1% (see table 1). This relatively favourable evolution—at least in comparison with that of the rest of Latin America—was attributable to various factors of both domestic and external origin.

The country had not been exempt from the recessive effects of the international economic conjuncture in recent years. The drop in the price of sugar—its main export product—in world markets, the rise in interest rates on the debt contracted in previous years with market economy countries, and the reduced supply of new external financing in convertible currencies had considerably limited its import capacity in the preceding two-year period and had obliged the authorities to reschedule the external debt maturities corresponding to 1982-1984. However, the very special conditions characterizing Cuba's relations with the other countries members of the Council for Mutual Economic Assistance (CMEA) and, in particular, with the Soviet Union; its consumption structure, less slanted towards the consumerist patterns; prevailing in other countries of the region; and the peculiar role played by the State in the economy, attenuated the effects of the international recession, at least during 1983.

Thus, despite the fact that the quantum of exports apparently contracted on account of a 12% decrease in the volume of external sales of sugar,² their total value rose by 12%, which made it possible to increase imports, in their turn, by a similar percentage. This relatively satisfactory result was due to three circumstances. In the first place, both the volume and the value of exports other than sugar showed a measure of dynamism, thanks to a larger domestic supply of several products. Secondly, in accordance with the trade agreements concluded with several CMEA countries, which include an indexing system in respect of quotations for the country's main export products, the average price that Cuba received for its sugar was significantly higher than in 1982, despite the opposite trends observable in the world market. Thirdly, there was a substantial increase in re-export of part of the petroleum purchased from the Soviet Union at prices lower than the international quotations by virtue of the above-mentioned agreements. In addition, the country had access to fresh external financing, even if in non-convertible currencies, for the promotion of specific activities.

The year 1983 witnessed a rise in the value of exports both to market economy countries (1%), and to socialist countries (14%). The absolute amount paid by these latter for their purchases, in convertible currencies, was approximately the same as in 1982, which represented over 40% of the income received in such currencies. This sum, in conjunction with the renegotiation of the external debt maturities falling due in 1983, allowed the country to increase its purchases from market economies by 31%.

In short, although the evolution of the volume of exports was not very satisfactory owing to a fall of about 9% in sugar production, sufficient foreign exchange was generated to keep up an adequate supply of external inputs for the expansion of both material and non-material production.

¹ ECLAC has been analysing the Cuban economy in the *Economic Survey of Latin America* since 1978, but partially, as in the early years the study covered only trends in economic activity and the balance of trade in goods. This was due both to methodological difficulties in respect of comparability between Cuba's material accounts and the national accounts prepared by the other Latin American countries, and to lack of data. Subsequently, the coverage of the analysis was broadened, incorporating information—also partial—on price, balance of payments and State budget policies. On the present occasion, the information and the analysis are expanded and are given a format more or less comparable with that usually adopted by ECLAC in studying economic trends in the other countries of the region, although some shortages of data and indicators are still apparent. Since the economic, political and social system under consideration is very different from that of the other Latin American countries, it was deemed useful, for a better understanding of happenings during 1983, to include a description of some of the policies that have been in process of application since previous years, but were not fully summarized in the notes on recent years because the official statistical information supplied on those occasions was less complete than in the present case.

² No detailed data are available on export and import volumes.

And albeit the total trade deficit was larger than in the preceding year—even though a trade account surplus was obtained on transactions conducted in convertible currency—the positive balance of net financing from the socialist countries and the renegotiation of the external debt in convertible currency permitted of an increase in international reserves.

In these circumstances, it was possible to pursue a moderately expansionist policy in respect of domestic expenditure. Thus, the population's consumption rose by over 6%, while capital formation expanded at an even higher rate.

Notwithstanding the unfavourable development of agriculture—a result of extremely adverse weather conditions, among other factors—the production apparatus in general made an adequate response to increasing internal and external demand. The growth rates of livestock production, forestry and fishing were sufficiently high to counteract the decline in the material product of crop

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^d
Basic economic indicators						
Global social product (millions of 1981 pesos) ^b	18 180	18 756	19 258	22 268	22 850	24 029
Population (thousands of inhabitants) ^c	9 638	9 714	9 718	9 717	9 794	9 891
Per capita global social product (1981 pesos)	1 885	1 931	1 982	2 292	2 333	2 429
Growth rates						
Global social product	7.0	3.2	2.7	15.6	2.5	5.2
Per capita global social product	5.9	2.4	2.6	15.6	1.8	4.1
Terms of trade						
Soviet Union	15.1	-4.9	17.6	0.8	-8.2	...
Market economy countries	-13.7	-3.6	58.9	-16.9	-15.4	...
Current value of exports of goods						
Total	17.9	1.7	13.4	6.5	17.0	12.0
Sugar	22.3	0.9	10.4	14.3	9.5	...
Current value of imports of goods						
Total	3.2	3.2	25.5	10.5	8.3	12.4
Petroleum and petroleum products	34.3	16.7	20.5	27.6	29.9	...
Average annual wage	2.1	2.6	3.1	14.7	3.8	1.7
Implementation of State budget						
Current income	...	...	2.8	15.0	-7.5	13.7
Total expenditure	...	...	5.4	20.0	-12.2	8.0
Deficit/total expenditure ^d	...	0.3	2.6	6.7	1.7	-3.5 ^e
Millions of pesos						
External sector						
Trade balance (goods)	-134	-188	-669	-980	-597	-693
Soviet Union	168	-143	-651	-876	-459	-421
Other socialist countries	-101	-28	-175	-149	-271	-221
Rest of world	-200	-19	163	45	133	-51
Balance on current account ^f	-523	-139	-45	51	-278	-195
Balance on capital account ^f	484	133	60	-52	-519	-10
Variation in international reserves ^f	-39	-6	14	-1	-241	185
Disbursed external debt ^f	...	3 267	3 227	3 170	2 694	2 807

Source: ECLAC, on the basis of data supplied by the State Statistical Committee and the National Bank of Cuba, and of other international statistics.

^aProvisional figures. ^bSee footnote ^a to table 4 below. ^cAnnual average, taking migratory movements into account.

^dPercentages. ^eSurplus. ^fIn freely convertible currency. Excluding a large part of trade with countries members of the Council for Mutual Economic Assistance (CMEA).

farming, so that the agricultural sector as a whole achieved a moderate growth (1.4%). Industrial production increased by nearly 5%, chiefly under the impulse of the bigger output of durable consumer goods, capital goods and some intermediate goods, in particular those connected with construction, an activity whose expansion was particularly dynamic (almost 11%). In its turn, the non-material product —i.e., that generated in transport, communications and trade— rose at a rate of 6.2%, outstripping the 4.8% growth rate of the material product.

These advances did not stem only from greater import capacity, plus a strenuous effort in the fields of import substitution, manufacture of spare parts and recovery of raw materials, but were also due to major changes in the running of the economy which had been making their appearance since 1976, and which have gained strength in recent years. Of these changes the following were the most noteworthy.

In the first place, economic units were more intensively encouraged to evaluate their own production potential for themselves and determine the best way of turning it to account. In application of this principle, they were made responsible for attaining the targets which they themselves set up. It was thus that the method of self-management was put into practice (which gives production units greater freedom as regards production and management initiatives), together with that of self-financing (which assigns them greater financial responsibility).

Secondly, in view of the increase in State production, steps were taken to open up new freed markets to supply the population. This measure broadened the business networks and was gradually applied to all those goods in whose case production exceeded the requirements of the rationed market, the essential purpose of which is to ensure equitable minimum consumption.³

Thirdly, a wage reform was carried out which appreciably increased the "wage fund". This reform was introduced in relation, *inter alia*, to the new levels of productivity, wages being tied to the "work productivity norm". In this sense, more emphasis than before was placed on material incentives.

Fourthly, wholesale and later on retail prices were adjusted. The policy pursued in this field was that although prices ought to incorporate a social redistribution criterion, they must also be kept in line with production costs and the rates of return of enterprises and institutions, in order to encourage greater economic efficiency.⁴

Lastly, the role of the National Bank of Cuba was strengthened as the formulator and controller of a monetary policy which, firstly, gave expression in the financial sphere to the economic interrelationships of enterprises and sectors of production and to the more exact measurement of their profitability; and, secondly, estimated the value of the money supply in the hands of the population and encouraged saving. This orientation was closely allied to fiscal policy which, on the one hand, strengthened State income and, on the other, transferred to units and institutions the free management of part of the economic surplus they generated.

In short, the authorities consider that the greater degree of autonomy granted to enterprises as regards the formulation of their own economic plans and the distribution between their workers and investment requirements of the profits obtained, within the framework of a clearly-defined self-management system, made possible a rise of over 3% in labour productivity,⁵ which accounted for almost two-thirds of the growth of the global social product.

In addition, an effort was made to step up investment which raised it 10% above the value reached in 1981. Similarly, a substantial change was introduced in the manner of financing investment; whereas in 1981 the State budget had provided 99% of the necessary resources, in 1983 this share was considerably reduced, since the financing contributed by the enterprises came to represent 16% of the total. These resources derived from part of the profits obtained and, in some instances, from loan amortization payments.

Adjustments of wage and price policies continued during 1983. The level of wages was fixed in accordance with the above-mentioned productivity norms. This signified a 2% increase in average wages in the sphere of production. Prices, in their turn, were progressively adjusted and markets were

³In 1960 almost 300 products were distributed through ration-books; in 1983 they numbered barely a score or two, almost all being dependent on raw materials imported from market economy countries.

⁴The State Pricing Committee is the body responsible for implementing this policy. To that end, it studies the cost records which enterprises send it in their applications for price changes and, in the light of the above-mentioned criteria, fixes wholesale and retail prices.

⁵Measured through the global social product per worker in the sphere of production.

opened in which unrationed goods were sold, in step with the rising levels of domestic production. Part of the production increment recorded in 1983 was thus offered at higher prices in the official parallel markets. As a result, the supply and demand ingredient played a bigger part than in 1982 in the determination of prices, in which, however, the social utility criterion was still paramount. At the same time, the State Statistical Committee went ahead with expenditure studies and surveys for the purpose of preparing in 1984, for the first time in 25 years, consumer price indexes differentiated territorially and by markets.

To sum up, the year 1983 seems to have marked a milestone in the application of the new measures relating to the management and conduct of the economy which began to be introduced in 1976. According to official sources, the financial aspects of the annual production plans were more faithfully and precisely put into effect through budget plans whose implementation was constantly supervised by the National Bank of Cuba and the State Finances Committee of the Ministry of Financial Affairs. Stricter control was also exercised over monetary liquidity outside the banks, which in 1983 increased by 69 million pesos, in contrast with increments of 448 million in 1981 and 117 million in 1982. This aspect of monetary policy was closely linked to fiscal policy in respect of management of the finances of enterprises, including both their revolving funds and the surpluses generated. The national income and expenditure budget closed with a surplus of 385 million pesos, after five consecutive years of fiscal deficits.

For the better application of all these reforms, more precise guidelines were also formulated in the Economic Direction and Planning System (*Sistema de Dirección y Planificación de la Economía*). An attempt was also made to enhance the depth and extension of the planning system itself. Thus, apparently clearer methodological rules were provided for the formulation of the relevant annual plans,⁶ which are currently reviewed by the Central Planning Board (*Junta Central de Planificación JUCEPLAN*), with the aim of raising the technological level of the new five-year plan for 1986-1990. Lastly, the population participated in discussion and monitoring of the plan.⁷

2. Trends in economic activity

a) *Use of the global social product*

Although no detailed information was available for 1983 on the use of the global social product, from the official data supplied it can be inferred that nominal consumption increased by over 6%. Although in this rate is included the rise in retail prices brought about in 1983 by the transfer of some products from the rationed market to the State-controlled market—in which higher prices prevailed—and by adjustments in this latter, the population's real consumption seems to have increased in almost all the main items. Consumption of these accordingly recovered from its decline in 1982, equalling or exceeding the levels reached in 1981, except in the case of milk, fruit and vegetables. Particularly marked was the expansion of supplies of durable consumer goods; according to official statistics, between 1980 and 1983 the number of washing-machines per hundred households rose from 24 to 41; that of television sets from 53 to 71; that of refrigerators from 29 to 38; and that of radio receiving sets from 108 to 133 (see table 2).

The net capital formation coefficient, in its turn was approximately 11% in 1983 (see table 3). It was investment in the sphere of production that showed most dynamism and within it emphasis was placed on trade and industry, whereas investment in transport declined. In view of the

⁶See Central Planning Board, *Indicaciones metodológicas para la elaboración del plan anual de la economía nacional*. It should be noted that the aim of these rules was to maximize the uniformity of standard methodologies for the formulation of the enterprises' plan, as well as of methodological indicators, so that the same principles and models could be used both in enterprises and in units working on a budget, and in the agencies of the Central Administration and the provincial organs of the *Poder Popular*. (These organs are production enterprises or units providing services to the population which are left to the care and management of the *Poder Popular* in each of the 169 municipalities existing in the country.) These norms also incorporate the concept of territorial planning.

⁷In conformity with the system in force, the 10 735 delegates from the Municipal Assemblies of the *Poder Popular* jointly discuss those aspects of the Single Economic and Social Development Plan and the State Budget for the forthcoming year which are of concern to the town councils. Next the document is analysed by the 1 139 delegates to the 14 Provincial Assemblies, and, lastly, once it has been considered by the respective committees with the participation of JUCEPLAN, the plenary meeting of the National Assembly of the *Poder Popular*, constituted by 499 deputies, finally sanctions it as a law of the Republic. In 1983, in addition to this procedure, at the end of each quarter the Provincial Assemblies discussed, together with the National Bank and the State Finance Committee, the implementation of the budget plans consolidated by branches of economic activity in each province. The plan is also discussed by the workers in each establishment. Thus, the 1983 plan was debated in 36 000 assemblies by more than 1.8 million workers.

Table 2

CUBA: INDICATORS OF PER CAPITA CONSUMPTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Foodstuffs										
Calories (units/day)	2 565	2 622	2 866	2 885	2 872	2 970	3.7	0.7	-0.5	3.4
Proteins (grams/day)	68.4	71.4	74.5	78.0	76.3	78.8	5.9	4.7	-2.2	3.3
Meat ^b	36.4	37.5	38.2	37.5	30.2	39.6	8.7	3.0	4.5	1.0
Fish ^b			12.3	14.9	15.1	15.0	16.0	21.1	1.3	6.0
Milk and milk products ^b			157.9	160.5	152.3	152.3	1.3	1.6	-5.1	-
Eggs (units)			232.8	235.7	226.3	239.1	17.4	1.2	-4.0	5.7
Cereals ^b			108.9	110.1	108.3	113.6	4.9	1.1	-1.6	4.9
Fats ^b			17.3	17.6	17.2	17.7	5.5	1.7	-2.3	2.9
Vegetables ^b			52.3	86.7	60.8	61.4	39.1	27.5	-8.8	1.0
Roots and tubers ^b			80.4	83.7	78.8	...	6.2	4.1	-5.9	...
Fruit ^b			60.7	62.2	62.8	61.3	27.5	2.5	1.0	-2.4
Beans ^b			10.7	11.5	11.0	12.2	5.9	7.5	-4.3	10.9
Sugar ^b			51.7	51.9	54.0	55.4	3.6	0.4	4.0	2.6
Industrial products										
Textiles (m ²)			30.3	28.9	28.2	...	3.8	-4.6	-2.4	...
Outer clothing (units)			5.2	4.8	4.7	5.3	-	-7.7	-2.1	12.8
Underwear (units)			6.8	6.9	7.6	6.9	3.0	1.5	10.1	-9.2
Footwear (pairs)			2.3	2.7	3.0	3.2	9.5	17.4	11.1	6.7
Durable consumer goods^c										
Television sets			53	59	67	71	...	15.1	13.6	6.0
Refrigerators			29	32	36	38	...	13.8	12.5	5.6
Washing-machines			24	31	37	41	...	25.0	19.3	10.8
Radio sets			108	115	130	133	...	3.7	13.0	2.3

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^a Provisional figures.

^b Kilograms.

^c Number owned per hundred households, in units.

constraints on imports of capital goods, preference was given during the year to the completion of works under way and stricter project evaluation criteria were applied in permitting new investments. Copious resources were also allocated to the repair of the damages caused by meteorological phenomena.

Lastly, one of the traditional obstacles faced by the Cuban economy is the evolution of its external variables. Thus the proportion of the global social product represented by the deficit on trade in goods and services systematically rose from 1% in 1978 to 4% in 1981, after which it fell to 2.5% in 1982 and went up again to 2.8% in 1983.

b) *Growth of main sectors*

The 5.2% increase in the global social product was the result of a 5% growth rate in material production and an expansion of the non-material product by rather more than 6%.

The agricultural product, which in 1982 had fallen by more than 3%, rose by 0.6% in 1983; thus it still remained lower than that of 1981, a year in which the biggest output in recent decades was recorded. The industrial product grew by almost 5%, while that of construction increased by about 11%. With respect to the non-material product, a notable feature was the recovery of the transport sector, which nevertheless was still beset by serious problems with regard both to the mobilization of passengers in the urban area —mainly in the city of Havana— and to road and rail freight. The product generated in commerce kept up its high growth rate of the preceding years, thanks to the enlargement of the network of commercial establishments; in contrast, the growth rate of communications, although high (7%), was lower than in previous years (see table 4).

i) *The agricultural sector.* In 1983 two contrasting movements took place in this sector's production. On the one hand, crop farming declined by 3%; on the other, livestock raising increased by about 6%, forest production by 25% and fishing by more than 3%.⁸ Consequently, the joint product of these subsectors rose by 1.4%. The investment placed totalled 767 million pesos, 4% more than in 1982. Of this sum, 380 million were allocated to crop farming (7% less than in the preceding year), 377 million to livestock production (signifying an increment of 20%) and 10 million to agricultural services.

During 1983 the country suffered —mainly in its western and central regions— the rigours of a disastrous winter in which rainfall surpassed the levels recorded in the last 50 years. Along with these heavy rains came squalls, tornados and hailstorms of such violence as to cause tidal waves on the northern coast, especially in the province of Havana, penetrating farther inland than any that had occurred since 1926. The only worse event of this kind in recent times was the hurricane Flora, which scourged the country in October 1965.

As a result, agriculture was seriously affected.⁹ Indeed, 14 000 hectares under tobacco were lost and another 3 000 were badly damaged, so that the harvest was reduced by 33%. In the case of tomatoes, 6 000 hectares were ruined (3 000 belonging to the private sector and as many more to the State), which meant that the harvest of this product too decreased by 33%; those of onions and peppers also contracted by about one-third. In addition, 50 000 tons of potatoes were lost through the destruction of 4 000 hectares under seed. Coffee production dropped by 10% while fruit-growing was hard hit, the lemon crop being reduced by 26% and production of mangoes by 33%. On the other hand, rice production —which is completely mechanized— declined only slightly (-0.4%). Lastly, and perhaps of more significance, the volume of sugar-cane razed to the ground by the tempestuous weather was equivalent to one million tons of raw sugar. In contrast, production of maize, grapefruit, kenaf and cocoa increased appreciably (between 37% and 16%), and that of beans to a lesser extent (see table 5).

Furthermore, in consequence of the weather conditions a great deal of damage was done to infrastructure works —mainly electric energy transmission and distribution pylons and networks—,

Table 3
CUBA: USE OF THE GLOBAL SOCIAL PRODUCT

(Percentages)

	1979	1980	1981	1982 ^a	1983 ^b
Global social product	100.0	100.0	100.0	100.0	100.0
Intermediate consumption	43.9	44.9	47.4	47.5	...
Final consumption	47.2	47.0	42.2	44.9	...
Consumption of the population	43.4	43.6	39.0	41.3	41.6
Personal consumption	38.1	37.8	38.6	35.6	...
Consumption of organizations providing services to the population	5.3	5.8	5.6	6.7	...
Consumption of organizations meeting collective needs	3.8	3.4	3.1	3.8	...
Net capital formation	11.3	11.6	13.0	9.8	11.2
Fixed	8.4	8.3	9.0	7.4	...
Stocks	2.9	3.3	3.2	2.4	...
Losses	0.1	0.1	0.2	0.3	...
Exports minus imports ^c	-1.1	-2.9	-3.8	-2.5	-2.8
Statistical discrepancies	-1.4	-0.7	-0.9	-	...

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee and the National Bank of Cuba, and other official data.
^aProvisional figures. ^bECLAC estimates. ^cProductive goods and services.

⁸These three last-named activities account for almost half of the sector's production.

⁹The damage caused by this phenomenon would have been even worse, had it not been that, after the experience of Flora, empounding and regulating dams were constructed which at the end of 1982 had a capacity of 5 650 million cubic metres.

Table 4

CUBA: GLOBAL SOCIAL PRODUCT BY ECONOMIC SECTORS^a

	Millions of pesos at 1981 prices			Percentage breakdown ^f			Growth rates ^c			
	1981	1982	1983 ^b	1970 ^b	1980	1983 ^b	1980	1981	1982	1983 ^b
Global social product	22 268	22 850	24 029	100.0	100.0	100.0	3.1	15.6	2.6	5.2
Material product	14 940	15 194	15 980	67.8	66.6	66.2	1.0	16.6	1.7	4.8
Agriculture, forestry and fishing	3 791	3 705	3 756	14.7	17.1	15.6	1.1	13.0	-2.3	1.4
Agricultural	3 499	3 378	3 400	13.9	16.0	14.1	2.3	13.0	-3.4	0.6
Sugar-cane agriculture	1 144	1 065	1 052	6.7	5.0	4.4	-2.6	17.6	-6.9	-1.2
Non-sugar-cane agriculture	905	885	839	3.1	3.9	3.5	6.3	21.6	-2.2	-5.2
Livestock production	1 415	1 393	1 474	4.1	7.0	6.1	6.3	4.5	-1.6	5.8
Agriculture services	35	35	35	-	0.1	0.1	29.8	34.6	-	-
Forestry	80	84	105	0.2	0.4	0.4	-0.7	16.5	4.9	25.2
Fishing	212	243	251	0.6	1.0	1.1	28.2	12.8	14.6	3.3
Industrial	9 351	9 688	10 149	47.9	41.4	42.2	2.1	17.5	3.6	4.8
Electric energy	452	489	503	1.5	2.0	2.1	15.2	15.9	8.2	2.9
Mining and metallurgy	245	250	274	0.8	1.0	1.1	8.2	10.4	2.0	9.6
Manufacturing	8 654	8 949	9 372	45.5	38.4	39.0	1.6	17.8	3.4	4.7
Construction	1 798	1 801	1 995	5.2	7.8	8.3	-2.2	20.0	0.2	10.7
Non-material product	7 318	7 656	8 129	32.2	33.4	33.8	7.6	13.5	4.6	6.2
Transport	1 623	1 612	1 668	9.4	7.2	6.9	9.8	17.9	-0.7	3.5
Communications	172	191	204	0.8	0.8	0.8	11.3	9.0	12.2	7.0
Commerce	5 433	5 744	6 133	22.0	25.1	25.6	6.9	12.6	5.7	6.8
Other productive activities	100	109	124	-	0.3	0.5	4.9	25.6	10.5	12.8

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aThe global social product is equivalent to the value of gross production. According to official source "the basic criterion for recognizing gross production and ascribing it to given sectors, branches and sub-branches is the nature of the basic activities undertaken by the enterprise, establishment or department with an independent balance, in which the economic activity is carried out" (see State Statistical Committee, *Bases metodológicas del Sistema de Balances de la Economía Nacional*, Havana, November 1981, p. 9). Consequently, the information contained in this table does not relate solely to sectors and branches of origin; the classification adopted records not only the main production of the entrepreneurial units but also the secondary production carried out in those units, whether or not it corresponds, by origin, to the same branch of activity. If a system of classification based strictly on sectors of origin were adopted (in accordance with the criterion applied by the United Nations in ISIC), the conclusions at sectoral and branch level would be different. Thus, the data on the agricultural sector include secondary production of industry and construction not computed in these sectors. These differences are cancelled out, however, in the total material product.

^bProvisional figures.

^cThe percentage breakdown and growth rates were calculated on the basis of non-rounded figures.

to almost all the tobacco sheds, to a large proportion of the irrigation and drainage channels, and to dairies and piggeries. The worst havoc was wreaked in the provinces of Pinar del Río and Havana. In addition, thousands of houses were badly affected or destroyed, a fact which partly accounts for the recrudescence of construction.

The crop losses indicated might have been greater had it not been for intensive mobilization whereby some of the harvest was rescued, for the effort made to step up production in less-affected parts of the country, and for the rapidity with which the ravage areas were resown, short-cycle crops being promoted. Even so, the product of non-sugar-cane agriculture decreased for the second year running, this time by a little over 5% (see table 4). The area harvested shrank from 2 261 000 hectares to 2 230 000 hectares, a contraction which exclusively affected the State sector, since the private-sector and co-operative areas remained unchanged at 425 000 hectares.

Table 5

CUBA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Crop production^c									
Grains									
Rice	375	447	478	520	518	12.4	-3.5	12.8	-0.4
Maize	15	20	23	22	30	41.7	-0.9	-7.2	37.5
Beans	2	3	9	12	13	115.5	-12.9	48.9	2.5
Vegetables									
Tomatoes	53	169	207	227	151	26.2	50.7	-27.3	-33.2
Onions	6	9	10	15	10	-4.0	68.7	-7.1	-33.1
Peppers	12	20	45	34	23	45.5	-24.1	1.4	-34.5
Roots and tubers									
Potatoes	77	121	239	258	207	19.2	14.0	-5.4	-20.0
Boniato	19	82	228	177	201	141.1	-12.4	-11.2	13.0
Malanga	9	30	161	48	45	-17.7	-38.5	-54.1	-0.9
Fruit									
Citrus fruit	164	170	444	530	631	55.9	6.0	12.6	19.1
Oranges	122	121	298	339	399	61.0	-13.6	31.5	17.9
Lemons	8	12	25	41	30	29.6	21.0	34.2	-26.4
Grapefruit	17	26	84	128	165	72.9	73.9	-11.1	29.4
Bananas	73	183	233	272	315	1.1	11.7	4.2	16.0
Mangoes	9	33	59	52	39	-10.2	-2.5	-9.2	-26.2
Guavas	14	17	46	43	50	10.3	-6.2	-	17.8
Tobacco	32	42	8	45	30	-74.3	564.3	-17.7	-32.7
Coffee	20	20	19	29	26	-16.3	13.9	32.7	-9.1
Cocoa	1	1	1	2	2	-45.4	10.1	-2.3	16.4
Fibre crops									
Kenaf	1	22	10	18	21	-35.6	61.9	-4.5	31.6
Henequen	215	276	206	209	228	-6.0	-35.2	56.4	9.2
Cultivated pasture and fodder									
	36	39	43	40	40	0.8	-7.2	0.9	-
Livestock products									
Inventory									
Milch cows ^{d,e}	309	399	398	417	...	3.2	3.2	1.7	...
Swine ^e	280	600	765	853	867	7.0	9.8	1.5	1.7
Poultry ^f	14	18	25	23	...	-1.0	-2.5	-3.9	...
Animal slaughtered^g									
Cattle	382	240	293	309	303	2.4	3.9	1.5	-1.9
Swine	16	43	58	71	72	-4.8	18.2	3.7	2.1
Poultry	20	57	91	76	90	13.6	13.0	-26.1	18.6
Other production									
Milk ^h	380	591	889	929	948	12.4	4.2	0.3	2.1
Eggs ⁱ	1 456	1 851	2 327	2 247	2 494	15.3	1.5	-4.8	11.0
Honey ^c	5	6	7	10	10	12.1	20.3	13.0	-

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aProvisional figures. ^bGrowth rates were calculated on the basis of non-rounded figures. ^cThousands of tons, except for henequen, which is expressed in millions of units. ^dIn State enterprises. ^eThousands of head. ^fMillions of heads, final inventory. ^gThousands of cons. ^hTons. ⁱMillions of units.

In 1983, these last-named sectors represented, in the case of certain crops, a high proportion of the total area harvested. According to official data, their shares were as follows: maize 51%, beans 40%, roots and tubers 39%, vegetables 54% (including tomatoes, 64%) tobacco 76%, coffee 56%, plantains 58% and malanga 62%.

Almost the entire non-State sector is grouped in co-operatives which sell their production to the State. Under the stimulus of better utilization of State aid, in 1983 a movement to co-operativize independent peasants took place, and merging of co-operatives was speeded up with a view to facilitating the provision of technological support and achieving economies of scale. Thus, during the year, 131 new co-operatives were created, of which 65 were a product of the fusion of 140 already in existence. By the end of 1983 there were 1 742 co-operatives, with 83 000 members and a total area of 940 000 hectares.

The process of technifying and mechanizing agriculture also continued in 1983. Of the investment placed in the subsector 56% was allocated to sugar-cane agriculture, in which significant progress was made. Thus, sugar-cane harvesting has been completely mechanized since the 1979-1980 crop; for that harvest 2 551 sugar-cane combines were available, and this number rose to 2 954 in the 1981/1982 harvest and to 3 550 in that of 1982/1983; at the same time, the yield of these machines rose from 7 000 to over 7 500 arrobas cut daily.¹⁰ This made it possible to reduce the number of workers employed in cutting cane by hand (*macheteros*) from 350 000 in the 1970 harvest to 131 000 in that of 1979/1980 and to 85 000 in that of 1983/1984. In addition, more careful selection of *macheteros* partly accounted for the increase in their productivity between 1980 and 1983 from 219 to 258 arrobas daily. As part of the technifying process, work was completed on the building of a reception centre at each sugar mill for cleaning, stripping and chopping the sugar-cane, a technical advance which not only helps to make cutting more efficient, but minimizes the influence of dirt on the milled sugar-cane yield. Nevertheless, in 1983 the product of sugar-cane agriculture decreased by a little more than 1%.

With regard to this activity, of strategic importance for the Cuban economy, halfway through the year it was decided that as from the beginning of 1984 all sugar-cane and sugar-processing enterprises would be integrated in agroindustrial complexes. These units have been on trial since the 1980/1981 harvest, when the first four were set up; at the next harvest 13 more were added, and at that of 1982/1983 94 were in operation. As from 1984, 142 sugar-processing agroindustrial complexes will be operating. This resolution was adopted after JUCEPLAN and the Ministry of the Sugar Industry had analysed the results of the experiment.¹¹

Livestock production, in its turn, increased by nearly 16%, thus recovering, after its decline in 1982, the rates of expansion recorded in the previous decade. This activity was accorded priority attention in development plans. As regards stock-raising, between 1970 and 1982 more than 1 800 dairy farm units were constructed with a capacity of 376 000 head; thus, at the beginning of 1983 a total of 4 300 units existed, with a capacity of 960 000 head, a figure equivalent to a little under 20% of the cattle population of 5 100 000 head existing at the end of 1982. Partly as a result of this process, between 1968 and 1983 the daily yield of milk per milch cow rose from 2.7 kilograms to 6.3 kilograms.¹² Consequently, the output of milk amounted to 948 000 tons in 1983, i.e., 570 000 tons more than in 1970, since which year it has increased at an average annual rate of 7.3%. Moreover, the average weight of the animals slaughtered rose from 320 kilograms in 1970 to 333 kilograms in 1982. In 1983, however, meat production decreased by 2% owing to the restrictions imposed on slaughtering in order to replenish the herds.

Poultry-raising was the object of policies similar to those applied in respect of stock-farming. They were launched with the setting-up of a technico-administrative apparatus —via the creation of a single vertically-oriented enterprise in 1965— and were implemented through a number of

¹⁰ Thus, the proportion of sugar-cane cut with combines was 25% in the 1969/1970 harvest and 45% in that of 1979/1980, and is expected to reach 62% in that of 1983/1984.

¹¹ In March-June 1983 methodological instructions were issued for the preparation of the economic plans of these complexes, including an enjoinder to adjust the figures for the years 1980 to 1983 so that they will dovetail smoothly with the preceding series. From the methodological standpoint, as from 1984 sugar-cane agriculture will virtually disappear as an independent item, since the only entry under this head will be the activity carried out by the sugar-cane co-operatives, while the State sector will be classified under the sugar industry, because of the principle of calculation applied in working out the global social product.

¹² As a result of cross-breeding through artificial insemination, in 1983 more than 55% of the total number of cows were dairy cattle, whereas in 1962 the corresponding proportion had been only 10%. Between the years mentioned the number of specialists in this activity climbed from 200 to 4 400.

specialized centres, which were provided with equipment and for which fertile eggs of high-quality breeds were imported, enabling them to build up brood stock. As a result of the application of these policies, egg production increased from 946 million units in 1965 to 1 456 million in 1970 and to 2 494 million in 1983 (see table 5). Between these years production per laying hen rose from 210 to 240 eggs per annum and conversion of feed per dozen eggs dropped from 1.86 to 1.54 kilograms. Production of poultry meat grew at an average annual rate of nearly 10% from 1973 to 1983, rising in this latter year to 90 000 tons. During this interval average yield per bird increased from 1.16 to 1.40 kilograms of meat and average conversion of feed into meat decreased from 3.31 to 2.66 kilograms.

ii) *Fishing*. As from the mid-1970s this activity was vigorously promoted with the aim of improving the quality of the population's diet and bringing in more convertible foreign exchange. This drive gained most impetus between 1975 and 1978, when a total of 680 million pesos was invested in the sector, increasing the number of fishing craft from 103 to 177 units.¹³ In subsequent years there was a notable slackening of effort; between 1979 and 1982 investment amounted to only 100 million pesos, ten units being added to the fishing fleet.¹⁴

As a result of this effort, the deep-sea catch increased by a factor of 3.5 between 1965 and 1975 and attained a volume of 213 000 tons in 1978. The application of the 200 ocean miles provision had adverse effects on fishing in 1979 and the catch was considerably smaller. From 1980 onwards, however, production began to recover and in 1983 reached 251 000 tons.

The contribution made by this activity to the population's consumption was important. Between 1965 and 1975 supplies increased at an average annual rate of 1.6%, amounting to 41 000 tons; as from that year supplies to the domestic market expanded at an average annual rate of 4.4%, which raised their volume to 58 000 tons in 1983.

Fishing also played a significant part in the trade balance. In 1965 exports of fish products represented barely six billion pesos (a figure equivalent to 9.0% of the total value of exports); in 1975 they went up to 52 million pesos (1.8% of total exports) and in the following five-year period continued to grow until they reached 99 million pesos in 1982 and 106 million in 1983.

iii) *Mining and metallurgy*.¹⁵ During 1983 the product of this sector rose by about 10%, resuming the vigorous upward trend of the years 1980-1981, after weakening in 1982. This positive evolution was achieved by virtue of the results obtained in metallurgy, particularly in respect of ferrous minerals.

Production of common steel, after decreasing 9% during 1982, increased by 20%, reaching an unprecedented level of 360 000 tons. On the other hand, although rolling of corrugated steel bars expanded by 23%, it still fell 20% short of its 1979 figure. Similar recoveries occurred in the manufacture of steel and cast-iron tubes and forged steel parts. In non-ferrous metallurgy, too, there was an interruption of the sharp downward movement which had been observable for two consecutive years in production of copper concentrate. Nevertheless, the output achieved in 1983 was slightly less than that obtained in the mid-1970s and 1.8% lower than that recorded in 1980 (see table 6).

Output of nickel and cobalt sinter, oxide and sulphide increased to 39 000 tons, the peak figure since 1970, that reached in 1980 having been slightly lower. In order to develop this activity, in 1983 60 million pesos were invested in the improvement of the laterite mines, in the progress of work on bringing the nickel combine into operation, and a 90% advance in the construction of the Punta Gorda plant, which, with a real production capacity of 24 000 tons of nickel and cobalt sinter, is being set up with the co-operation of the Soviet Union. It is expected that as a result this plant's first nickel-producing line will enter operation in 1984.¹⁶

In the petroleum industry a significant increase took place in extraction of crude oil, which rose from 541 000 tons in 1982 to 725 000 tons in 1983. In contrast, production of natural gas continued to decline sharply for the third year running (see table 6). In actual fact, although since the 1960s

¹³ Excluding those belonging to the Cienfuegos industrial fishing combine.

¹⁴ The 187 fishing vessels existing in 1983 were distributed among 20 fishing enterprises, of which eight employed between 1 000 and 2 000 workers each and another two employed over 2 000.

¹⁵ In Cuban nomenclature ferrous and non-ferrous mining are grouped with the metallurgy of both types of mineral.

¹⁶ Concurrently, in 1983 the project plans and documentation were completed and the necessary measures adopted in respect of the earth-moving required for the erection — with the co-operation of the countries members of the Council for Mutual Economic Aid (CMEA) — of a new nickel-producing plant, having the same characteristics and capacities as Punta Gorda, in the Las Camariocas area.

Table 6

**CUBA: MAIN PRODUCTS OF THE PETROLEUM,
MINING AND METALLURGY INDUSTRIES**

	Thousands of tons					Growth rates			
	1970	1975	1980	1982	1983 ^a	1980	1981	1982	1983 ^a
Petroleum and petroleum products									
Extraction of crude petroleum	159	226	274	541	725	-5.1	-7.5	13.7	34.0
Processing of crude petroleum	...	5 976	6 333	6 600	6 500	-0.8	22.2	1.5	-1.5
Petroleum-based fuels	...	2 822	3 026	3 300	3 400	-5.8	3.4	6.5	3.0
Diesel fuel	...	1 083	1 099	1 100	1 100	0.5	1.7	-	-
Natural gas ^b	...	17	18	11	9	1.7	25.3	-19.5	-15.9
Gasoline	...	947	807	847	900	-7.5	22.6	-14.4	6.3
Mining and ferrous metallurgy									
Refractory chromium	23	36	29	27	33	1.1	-28.1	33.2	19.0
Common steel	...	298	304	301	360	-7.3	8.5	-8.7	19.6
Corrugated steel bars	...	243	260	204	250	-17.0	5.7	-25.9	22.7
Mining and non-ferrous metallurgy									
Nickel + cobalt (metal content)	28	37	38	...	30	18.2	5.4	...	...
Copper concentrate (metal content) ^c	...	2 777	3 305	2 694	2 700	16.4	-12.0	-10.3	3.8

Source: ECLAC, on the basis of figures provided by the State Statistical Committee.

^aProvisional figures.

^bMillions of cubic metres.

^cTons.

petroleum exploration and prospection has been carried on intensively in the Island itself and on its continental shelf, the results so far have not come up to expectations.

iv) *Manufacturing industry.* In 1983 the industrial product expanded by almost 5%. Production of capital and durable consumer goods, which had increased considerably in the last two years, soared by over 15%. Production of intermediate goods, in turn, went up by 6%, partly recovering from its decline in 1982. Lastly, the growth rate of the non-durable consumer goods industry was 2.6%, i.e., considerably lower than the rate achieved in the preceding year (see table 7).

The constraint deriving from the relative difficulty of obtaining supplies of raw materials and of spare parts imported from market economy countries again made itself felt in 1983, although less severely than in 1982. However, the experience gained in the latter year led to the adoption of measures whereby the obstacles created by this situation were partly surmounted.

In the first place, strong emphasis was placed on import substitution in respect of purchases from market economy countries, and it was estimated that over US\$ 52 million were saved on raw materials through production and recovery of spare parts. The value of this output was 384 million pesos, outstripping the goal envisaged in the plan by more than 80 million and exceeding the 1982 production figure by 40%.¹⁷ It was designed primarily for agriculture and transport, for repairs of sugar mills and for construction of new mills, in which the domestic content component has substantially increased.

Secondly, between 1982 and 1983 purchases from market economy countries were made for the purpose of building up operational reserves, the use of which was strictly supervised; sources of supply were sought in new directions, with the co-operation of the CMEA countries; meticulous supervision of the purchase prices of the supplies in question was established, with the result that savings were achieved; and imports of raw materials were given preference over those of capital goods.

¹⁷ See Humberto Pérez, Minister President of JUCEPLAN, *Presentación ante la Asamblea Nacional del Poder Popular*, fifth session, 22 December 1983.

All these measures were adopted in the framework of a more general policy geared to raising rates of return and productivity through the operation of a system based on self-management and self-financing of enterprises, on establishment of work norms, and on more responsible fulfilment of the contractual agreements in which enterprises give legal expression to their economic interrelationships.

Moreover, the sector's installed capacity, after its sluggish growth in 1982, was strengthened by the entry into operation of 17 new plants.¹⁸ Noteworthy examples included the expansion of the Ecuador sugar plant and the modernization of the Amancio Rodríguez mill, plus the construction of three more sugar mills in the provinces of Camaguey, Granma and Cienfuegos, each with a milling capacity of 600 000 arrobas daily; two citrus fruit canning plants with a joint capacity of 40 tons per hour; the Jaguey citrus fruit complex,¹⁹ with a capacity to produce 28 000 tons of simple and concentrated juice, 273 tons of essential oils and 13 000 tons of fodder; the alcoholic beverage complex at Santa Cruz del Norte—one of the biggest in the country—with a capacity of 7 000 tons of torula yeast, 6 000 tons of carbon anhydride, 50 000 hectolitres of liquors and 194 000 of natural alcohol; and two paper mills, with a production capacity of 8 000 tons of toilet paper, 60 000 tons of paper and 60 000 tons of bagasse board. Other plants brought into operation were the Jesús Menéndez saw mill, with a capacity of 103 000 m² of board; a wheat mill with a capacity of 141 000 tons of flour and 4 000 tons of pastas; and the enlargements of the aluminium tubes plant.

Table 7

CUBA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates ^b			
					1980	1981	1982	1983 ^a
Index of material product (base 1975 = 100)								
Total^c	118.2	138.4	142.2	149.0	1.6	17.9	2.8	4.8
Non-durable consumer goods industry								
Foodstuffs (excluding sugar)	122.3	141.0	149.1	153.0	0.4	16.2	5.8	2.6
Sugar and sugar products	120.2	137.4	142.2	156.4	6.8	14.2	3.5	10.0
Beverages and tobacco	121.6	141.1	145.7	143.2	-7.4	16.1	3.2	-1.7
Ready-made clothing	117.0	142.6	161.9	157.7	-0.4	21.7	13.6	-2.6
Printing matter	143.1	171.7	165.9	192.0	-4.1	20.1	-3.4	15.7
	129.3	153.7	119.2	124.7	5.6	18.9	-22.5	4.6
Intermediate goods industries^c								
Textiles	102.4	116.8	107.8	114.3	1.7	14.8	-7.7	6.1
Chemicals	101.0	113.7	113.8	128.4	18.0	12.6	0.1	12.8
Fuels	100.1	124.9	103.5	113.0	0.9	24.8	-17.1	9.1
Construction materials	96.7	100.3	102.0	104.5	-2.1	3.7	1.7	2.5
	117.7	133.3	122.8	127.0	2.1	13.3	-7.9	3.4
Capital and durable consumer goods industries								
Construction of non-electrical machinery	143.2	177.7	189.2	218.0	2.6	24.1	6.4	15.2
Electrotechnical and electronic products	172.2	215.8	234.9	268.9	6.1	24.8	8.8	14.5
Metal products	93.6	123.9	110.6	137.1	-2.5	33.4	-10.7	24.0
	130.9	150.2	185.3	187.7	-4.5	14.8	10.1	13.5
Other manufactures^{c,d}	116.4	142.9	144.8	153.5	7.8	23.7	1.3	6.0

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aProvisional figures.

^bGrowth rates were calculated on the basis of non-rounded figures.

^cExcluding basic metals.

^dIncluding, *inter alia*, the leather, glass and pottery, paper, and forestry and timber-processing industries.

¹⁸Vigorous impulse was given to another 15 projects with a view to their entering operation in 1984.

¹⁹Where headway is being made by an experiment in agroindustrial integration in the citrus fruit industry.

Table 8

CUBA: MAIN INDUSTRIAL PRODUCTS

	Thousands of tons					Growth rates			
	1970	1975	1980	1982	1983 ^a	1980	1981	1982	1983 ^a
Non-durable consumer goods									
(excluding sugar)									
Canned meat	15	26	35	48	58	14.2	18.9	15.2	20.9
Wheat flour	160	176	271	386	430	59.8	30.9	9.0	11.4
Canned fruit and vegetables	39	98	122	143	148	19.6	16.0	-8.1	2.9
Alcoholic beverages ^b	170	320	402	563	582	12.0	-6.9	46.4	3.4
Twist ^c	354	383	167	358	337	+43.6	38.6	55.4	-5.9
Fishing industry									
Gross catch	106	143	186	195	198	21.2	-11.7	18.7	1.5
Total unloaded	91	113	152	152	146	21.9	-17.5	21.4	-3.9
Outerwear ^c	26	47	44	51	52	-14.1	14.7	10.4	2.6
Intermediate goods									
Textiles^d									
Grey cement	742	2 083	3 292	3 163	3 100	8.3	16.3	-3.9	-2.0
Pain, enamel and varnish ^b	59	241	149	67	166	-6.9	-3.3	-53.4	147.3
Sulphuric acid 90%	322	418	402	333	370	35.7		-19.4	11.3
Sodium hydroxide	4	4	3	11	16	-21.9	130.4	40.0	41.1
Superphosphates	-	43	18	22	9	25.4	58.8	-22.7	-60.6
Ammonium nitrate	14	208	312	207	175	-14.0	14.2	-42.0	-15.1
Compound fertilizers	577	749	1 059	1 027	1 082	21.4	3.6	-3.7	5.3
Urea	-	3	16	28	32	-26.9	213.3	-40.0	13.8
Bottles ^c	92	201	176	233	190	-4.6	-10.4	47.9	-18.4
Unbleached cardboard and cardboard	20	28	22	26	23	-14.5	16.0	4.4	-10.6
Capital and durable consumer goods									
Refrigerators ^e	6	50	26	18	13	-53.2	53.3	-56.4	-23.7
Radio receiving sets ^e	19	113	200	239	300	39.6	28.0	-6.6	25.4
Television sets ^e	-	26	40	50	81	-23.1	93.1	-35.2	80.4
Sugar-cane combines ^f	-	-	501	602	624	39.2	20.8	-0.5	3.7
Omnibuses ^f	300	1 718	1 846	1 601	1 822	-24.3	-10.8	-3.8	13.8
Electric wire and cables, not coated ^g	824	1 332	2 547	1 424	1 900	7.8	-4.4	-41.7	35.7
Insulated wires and cables ^g	13	27	38	33	42	-9.6	40.9	-37.4	26.6
Furniture and sanitary appliances ^e	56	160	298	358	351	29.1	5.4	12.8	-2.1

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aProvisional figures.

^bThousands of hectolitres.

^cMillions of units.

^dMillions of square metres.

^eThousands of units.

^fUnits.

^gThousands of kilometres.

In the capital and consumer goods industries, outstanding features were the production of 624 sugar-cane combines, with designs worked out entirely in Cuba, adapted to the climate of the country and to the characteristics of its sugar-cane plantations; a partial recovery in assembly of omnibuses —which had fallen 35% in the three preceding years— and in production of electric wires and cables —which had dropped by 44% between 1980 and 1982—; and a boom in the production of domestic electrical equipment, with the exception of refrigerators (see table 8).

Production of intermediate goods also gathered strength in 1983 and output of all items rose well above the levels reached in 1982, with the exception of production of anhydrous ammonia (-13%), superphosphate (-61%), ammonium nitrate (-15%), bottles (-18%) and cement (-3%).

Apart from the progress indicated in table 8, production of torula yeast increased by 72%, that of inner tubes by 61% and that of corrugated paperboard containers by 7%.

Output of consumer goods expanded by 2.6%, thanks to the counterbalancing trends followed by sugar and beverages and tobacco—which declined slightly—and by production of foodstuffs (excluding sugar), ready-made clothing and printed matter, which increased at very high rates (see table 7).

The falling-off in the processing of beverages and tobacco was due to a reduction of over 6% in production of twist, among the causes of which was the damage to the tobacco crops already described; in contrast, output of beverages and of cigarettes went up by 5% and 1%, respectively.

In 1982/1983 sugar-cane harvest produced 7 109 000 tons of sugar and was thus the second lowest since 1978, and 13% below that of 1982 (see table 9). This drop was not due to smaller supplies of cane in the sugar-cane plantations—in fact at the time when harvesting began they amounted to 1.5 million tons more than in 1982, which was one of the two years with the biggest sugar output since 1960—; rather was it attributable to the effects of the above-mentioned adverse weather conditions on cane-cutting and the industrial yield.

Owing to the deterioration caused by the storms in the access roads for transport to the sugar-mills, and to the shorter time available daily for cutting, the volume of sugar-cane cut contracted by 6.5%, notwithstanding that harvesting was prolonged for eight days. Furthermore, the industrial yield shrank to 10.35%—the second lowest since the 1952/1953 harvest—because of the excess moisture in the cane, the imperfect cutting due to the swampiness of the ground, the difficulties encountered in the mechanized cutting and lifting operation, the longer time that the cut cane was left on the plantation, and its dirty condition. These decreases occurred in spite of the fact that in preparing for the 1983 crop 634 000 tons of compound fertilizers (nitrogen, phosphates and potassium)—an unprecedented figure—were applied on the sugar-cane plantations, as well as 227 000 tons of nitrogenous fertilizers—the third biggest volume on record; and that weeding by hand in the sugar-cane plantations covered over 3.3 million hectares and 2 million hectares had been irrigated—also unprecedented events in the history of Cuba's sugar industry.

Thanks to the measures adopted to increase efficiency in the sugar-mills, the actual days of milling were considerably reduced, which meant that the amount of sugar-cane milled per working day reached almost 609 000 tons—the highest figure since 1960. A significant increment was thus

Table 9

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons) ^a		Indus- trial yield (base 96 ^o) (percen- tages)	Days		Sugar cane milled per day (tons)	
	Sugar- cane milled	Raw sugar (base 96 ^o)		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 943	12.51	103	88	468 289	542 344
1965	56 687	6 158	12.15	130	105	388 449	482 050
1970	79 678	8 538	10.71	217	143	367 442	557 818
1975	50 770	6 314	12.44	123	99	413 747	513 521
1976	51 999	6 156	11.84	130	99	399 088	528 922
1977	56 149	6 485	11.55	141	104	395 774	542 951
1978	67 043	7 351	10.96	168	119	400 087	563 198
1979	73 050	7 992	10.94	182	128	402 320	571 424
1980	61 600	6 665	10.82	140	109	412 663	565 775
1981	66 408	7 359	11.08	136	114	489 100	580 300
1982	73 500	8 210	11.17	152	124	484 600	584 100
1983 ^b	68 687	7 109	10.35	160	113	429 600	608 900

Source: 1960 to 1970: Central Planning Board, Statistical Bureau, *Boletín Estadístico*, 1970; from 1975 to 1982, *Anuario Estadístico de Cuba*, 1982; and for 1983, data supplied by the State Statistical Committee.

^aHarvest year.

^bProvisional figures.

achieved in the economic yields of the sugar industry complex, mainly on the basis of a perceptible stepping-up of the thermal efficiency of the mills. By virtue of this fact, combined with the conditioning of the furnaces for burning bagasse, in 1983 consumption of fuel oil during harvest was reduced to only 23 000 tons, after having reached 430 000 tons in 1979. Given the average world market price of US\$ 28 per barrel of fuel oil, this saving of 407 000 tons was equivalent to US\$ 76 million, and was made possible largely by the use of sugar-cane bagasse.

Moreover, during 1983 the expansion of milling capacity in the sugar-mills continued, with the addition of an extra 17 300 tons per day of potential capacity, bringing it up to 596 200 tons. Operational capacity increased by 14 300 tons daily, reaching a total of 515 300 tons per day. This investment helped to consolidate the fundamental role played by sugar in the economic development of Cuba as the principal generator of foreign exchange (between 70% and 80% of the total value of exports).

Lastly, attention should be drawn to the 10% increase observed in production of foodstuffs, inasmuch as despite the difficulties encountered in domestic supplies of agricultural products and the constraints on external purchases deriving from the international situation, the output planned was exceeded by 4% in more than 650 plants in the manufacturing sector.

v) *Construction*. After its virtual stagnation in the preceding year, in 1983 construction expanded by 10% (see table 10).

Three main factors influenced this result. In the first place, the volume of investment was enlarged by 10% and the maintenance of highway and electric energy transmission networks was increased even more (27%). Secondly, bigger supplies of building materials were available, such as crushed stone, tiles, cement,²⁰ wire rod, etc., which in some cases came from stocks built up in 1982. Lastly, some part was also played by the repairing of the damage due to natural disasters.

During 1983 the State built 26 320 housing units and 30 000 more were the product of the self-help construction system.²¹ Nevertheless, the deterioration of urban housing is still very serious, especially in the oldest parts of the city of Havana, since no maintenance work has been undertaken for decades. Consequently, during 1982 and 1983 priority programmes were established for strengthening the maintenance and repair of housing, particularly in the capital. Two types of measures were adopted to further these programmes: firstly, in 1983 five enterprises were set up in Havana, some of which specialized in maintenance and repair of housing and others in maintenance and repair of public buildings and streets. Secondly, a production plan was put into effect with a view to substituting domestic for imported building materials, by increasing production of paint, sanitary appliances, ironwork, plastic sanitary piping, materials for electric installations and other materials. Concurrently, action on the part of private individuals was encouraged through credits for the building and repair of housing, larger direct supplies of building materials being provided.

Industrial construction increased by 20% and accounted for the largest proportion of the sector (21%). Thanks to this the 17 major projects mentioned above were completed, and another 15 were in process of execution. As a whole, construction of this kind represented 31% of the investment in this sector. Despite its very high growth rate (69%), agricultural construction was equivalent to less than half what had been effected annually during the period 1979-1981 (see table 10). Construction of railroads more than doubled, thus partly recovering from its precipitous drop in the preceding year. This expansion reflected efforts made to finish or reconstruct a total of 700 kilometres of track in the central railroad (conditioning it for speeds of up to 140 kilometres/hour), and to maintain the sugar-cane rail transport facilities damaged by the storms at the beginning of the year. Hydraulic construction rose by almost 5%, after three years in which it had fallen continuously, while road-building (excluding railroads) decreased by 3% and maritime and other constructions dropped sharply (by 7% and 19%, respectively). In the sphere of social welfare (excluding housing), 31 major construction projects were completed.

vi) *Electricity*. The sector's basic activity increased by 5%, with the result that gross generation reached an all-time high of 11 533 GWh. Of this 84% came from public utility plants, 9% from the sugar-mill plants and 7% from those of the nickel industry and from other isolated plants not

²⁰ In the case of cement, despite a reduction of 63 000 tons in the volume of output, apparent consumption was able to rise on account of a considerable decrease in exports, which in 1981 had been 420 000 tons and in 1982 290 000 tons.

²¹ Apparently this figure includes the addition of rooms to dwellings and even major repairs. In most cases the housing units constructed under this system do not display the same technical characteristics as those built by the State.

interconnected with the system. Thermo-electric plants accounted for 98% of total generation. Yet consumption of electricity rose by less than 1% (see table 11). This figure excludes, however, the electricity consumption of the sugar sector and of the nickel-producing enterprises, as well as that corresponding to generation by 'other producers', which, as a whole, increased by 16%.

At the end of 1982 generation capacity stood at 2 418 MW, of which only 1.9% is hydro-electric, so that Cuba is heavily dependent upon imported fuels. Hence the strenuous efforts made to discover deposits of petroleum and natural gas.

3. The external sector

In Cuba's case foreign trade is a variable which strongly influences the operation of the economy. In addition, the evolution of foreign trade with the market economy countries is highly unpredictable, inasmuch as it is heavily dependent upon exports of sugar, whose international price has fluctuated widely since 1970. This also makes it difficult to forecast supplies of intermediate goods and

Table 10

CUBA: INDICATORS OF CONSTRUCTION

	Gross production (millions of Cuban pesos at 1981 prices)			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Construction and assembly (base 1975 = 100)	1 622	1 634	1 792	100.0	100.0	100.0	-0.1	13.9	0.7	9.7
Agriculture	58	24	41	9.6	4.5	2.3	-6.5	-8.5	-58.6	68.9
Housing and urbanization	165	130	153	5.0	8.1	8.5	-2.3	42.1	-21.2	17.6
Education	67	39	50	2.3	7.6	2.8	-20.9	-38.0	-41.8	29.1
Industry	348	314	377	15.2	22.9	21.0	0.4	7.0	-12.3	20.0
Water resources	102	72	76	10.7	7.9	4.2	-4.7	-9.0	-29.4	4.7
Highways (excluding railways)	145	155	150	13.4	8.0	8.4	-14.5	27.1	6.9	-3.2
Railways	49	15	32	0.4	4.4	1.8	39.9	21.6	-69.4	117.2
Hydrological works	27	25	31	1.9	1.9	1.7	20.9	1.1	-8.4	21.8
Maritime facilities	36	41	38	0.9	2.1	2.1	11.8	20.5	13.9	-6.6
Others	624	809	845	40.6	32.6	47.2	5.5	34.2	29.6	4.6
Electricity systems	16	16	17	1.9	1.0	8.9	4.6	-29.8	-	5.9
Communication networks	17	14	16	-	0.4	0.9	-	181.3	-17.6	8.3
Maintenance	196	244	310	22.4	10.4	17.3	24.8	32.5	24.5	27.1
Other buildings	255	377	305	16.3	12.6	17.0	-12.4	41.6	47.8	-19.1
Other production marketed	140	168	198	-	7.6	11.1	16.2	29.7	20.0	17.9
Production of selected building materials										
Corrugated steel bars ^c	275	207	250				-17.0	5.7	-24.8	20.7
Steel bars ^c	285	252	...				-18.2	15.0	-11.8	...
Gray cement ^c	3 292	3 163	3 100				8.7	16.3	-3.9	-2.0
Prefabricated concrete products ^d	778	754	...				-16.5	5.6	-3.1	...
Clay bricks ^e	113	116	...				-5.7	3.9	2.5	...
Tiles ^e	66	50	54				13.4	-1.8	-24.8	8.0
Sheet glass ^f	88	284	...				-35.6	-53.2	220.8	...

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aProvisional figures.

^bThe percentage breakdown and growth rates were calculated on the basis of non-rounded figures.

^cThousands of tons.

^dThousands of cubic metres.

^eMillions of units.

^fThousands of square metres.

Table 11

CUBA: ELECTRICITY INDICATORS

	GWh					Growth rates ^b			
	1970	1975	1980	1982	1983 ^a	1980	1981	1982	1983 ^a
Gross generation	4 888	6 583	9 895	11 024	11 553	5.2	6.9	11.0	4.8
Ministry of the Electricity Industry	3 609	5 413	8 679	9 647	10 107	7.4	6.0	11.0	4.8
Ministry of the Sugar Industry	881	756	954	1 010	1 087	-0.4	3.0	6.0	7.6
Nickel-producing enterprises	237	239	170	258	350	-30.8	57.0	51.8	-2.2
Other producers	160	175	92	109		-20.4	37.5	18.5	
Consumption^c	4 048 ^d	5 404	7 330	8 045	8 099	10.8	5.9	9.8	0.7
Industrial	1 829 ^d	2 477	3 003	3 640	3 620	9.7	19.6	21.2	-0.5
Agricultural	37 ^d	204	312	217	168	30.0	-23.7	-30.4	-22.6
Commercial	1 100 ^d	1 277	1 851	1 886	1 884	14.0	-1.3	1.9	-0.1
Residential	1 019 ^d	1 343	2 087	2 195	2 312	7.5	-3.7	5.2	5.3
Other	63 ^d	103	77	107	115	6.6	28.6	39.0	7.5

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aProvisional figures.

^bGrowth rates were calculated on the basis of non-rounded figures.

^cExcluding the consumption of the Ministry of the Sugar Industry, and of the nickel-producing enterprises, as well as that corresponding to generation by "other producers".

^dCorresponds to the year 1971.

indispensable capital goods from the countries in question. Furthermore, Cuba's international trade still suffers from the latent negative effect deriving from the economic embargo imposed on the country almost 25 years ago.

In recent years, trade with the market economy countries has been encountering difficulties attributable to international financing constraints, which have been aggravated by the sharp upswings in interest rates and by the reduction of the said countries' purchases of Cuban goods. The effects of these situations worsened in 1982, when international sugar prices dropped still more sharply, the use of new international credits in convertible currency was restricted, and the burden of the external debt contracted in convertible currency increased.²² All this led the authorities to begin renegotiation of the debt in the year in question, to impose severe restrictions on imports, even sacrificing economic growth, and to maximize encouragement of export expansion.²³

The results of the renegotiation and other foreign trade measures adopted—chiefly those deriving from the special arrangements concerted with the CMEA countries, and in particular with the Soviet Union—produced a positive effect in 1983, easing the pressure of the external sector on the evolution of the internal economy.

Hence, for example, in trade with the market economy countries, despite the unfavourable evolution of international prices, exports increased and better external supplies were obtained. At the same time, international reserves in convertible currencies rose, partly because the renegotiation of the debt carried out in 1982, by reducing expenditure on debt amortization, favoured a bigger net inflow of resources from international sources of financing, and, more especially, owing to the increase in transfer payments made by the Soviet Union in currency of this type.

The results obtained in trade with the socialist countries were also more favourable, thanks to new transfer payments which counteracted the adverse effect of the fall in the volume of sugar exports, both through a rise in the price paid for sugar by the Soviet Union for and through the prices charged by that country for certain import items, which were lower than quotations on the international market. Similarly, Cuba was allowed to re-export part of its imports of petroleum, with the consequent profit deriving from the difference between the import price and the current international market quotation.

²²During the second half of 1982 maturities amounting to over 1.25 million pesos fell due.

²³See the chapter on Cuba in ECLAC, *Economic Survey of Latin America*, 1982.

Union in force up to 1985, which has proved highly favourable to Cuba. Under its terms, any surpluses that Cuba obtains through saving on the use of fuels can be sold to the Soviet Union against freely convertible currency and at international market prices. As in recent years the intensive fuel-saving campaign has yielded positive results, especially in the sugar industry, these petroleum sales have become an important source of foreign exchange.

ii) *Imports.* In 1983 purchases abroad totalled almost 6 225 million pesos, an amount 12% higher than the previous year's figure. Imports from the socialist area increased by 10%, while those from other countries rose by 31%, thus partly recovering from their sharp decline in the preceding year (see table 15). Despite the efforts made since long before 1980 to reduce the degree of dependency on external supplies, the Cuban economy is still highly dependent upon imports: in fact the import coefficient in 1983 (25%) was only slightly lower than that recorded in 1980 (27%).

During 1983 the authorities continued adopting import substitution measures and rationalizing imports that had to be paid for in convertible currencies. As a result, in 1983 the share of imports from market economy countries in that year's global social product was 3.3%, a coefficient somewhat higher than that of 2.7 recorded in 1982, but much lower than those of 6% and 5% corresponding to the years 1980 and 1981, respectively.

From the partial data available on the composition of imports it appears that the proportion of the total represented by intermediate goods purchased in freely convertible currency rose from 62% in 1982 to 73% in 1983. This increase was consequent upon the policy adopted since 1982. In that year the government issued instructions to the effect that imports paid for in convertible currency should be kept down to the indispensable minimum and should be geared, in the first place, to guaranteeing "production for export and tourism, other activities generating income in convertible currency, and programmes directed towards the expansion and diversification of these" and, secondly, "to guaranteeing the essential consumption and medical care of the population".²⁶ Given this orientation, on the one hand, and, on the other, the increase in domestic production, it may be supposed that imports of raw materials and capital goods enlarged their share in total purchases from the socialist countries.

iii) *The terms of trade.* Although neither export and import price and quantum indexes nor data whereby they could be indirectly estimated were available, some trends can be inferred.

As regards the prices concerted in trade with market economy countries, Cuba was not exempt from the trend towards deterioration of the terms of trade between industrialized and developing countries as they presented themselves in 1983. On the one hand, there was a reduction in the effective average price of sugar (see table 13) and of other Cuban export products, such as for example, nickel; on the other hand, prices of imported goods continued to rise. With the aim of palliating the negative effects of this latter trend, the Ministry of Foreign Trade carried out an

Table 14

CUBA: SUGAR EXPORTS BY COUNTRIES OF DESTINATION

(Percentage breakdown)

	1978	1979	1980	1981	1982	1983 ^a
Value	100.0	100.0	100.0	100.0	100.0	100.0
Soviet union	79.7	76.1	61.8	58.7	73.3	75.9
Rest of socialist countries	11.7	14.0	12.7	13.9	18.4	17.5
Rest of world	8.6	9.9	25.5	27.4	8.3	6.6
Volume	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	54.4	52.9	44.2	45.4	56.3	49.8
Rest of socialist countries	17.3	18.8	20.5	20.8	22.3	27.7
Rest of world	28.3	28.3	35.5	33.8	20.4	22.5

Source: ECLAC, on the basis of figures supplied by the State the Statistical Committee, with the exception of the figures for 1983.

^aECLAC estimates.

²⁶See National Bank of Cuba, *Informe Económico*, August 1982.

Table 15

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

	Millions of Cuban pesos					Growth rates				
	1970	1975	1980	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Total exports	1 050	2 952	3 967	4 940	5 531	1.7	13.4	6.5	17.0	12.0
Soviet Union	529	1 662	2 253	3 297	3 874	-5.0	-4.9	4.6	39.9	17.5
Rest of socialist countries	248	341	534	882	887	22.4	3.9	53.9	7.3	0.6
Rest of world	273	949	1 180	761	770	17.4	91.9	-11.4	-27.2	1.2
Total imports	1 311	3 113	4 627	5 537	6 224	3.2	25.5	10.5	8.3	12.4
Soviet Union	691	1 250	2 904	3 756	4 295	7.9	15.6	11.0	16.5	14.4
Rest of socialist countries	226	407	709	1 153	1 108	3.6	31.3	24.3	30.9	-3.9
Rest of world	394	1 456	1 014	628	821	-12.6	57.7	-1.4	-37.2	30.7
Total balance	-261	-161	-660	-597	-693					
Soviet Union	-162	412	-651	-459	-421					
Rest of socialist countries	22	-66	-175	-271	-221					
Rest of world	-121	-507	166	133	-61					

Source: ECLAC, on the basis of official figures supplied by the State Statistical Committee, the National Bank of Cuba and other international sources such as Soviet Union, *Foreign Trade*.

^a Provisional figures.

indicative programming of the probable evolution of international prices at the level of specific products and instructed importer enterprises to adhere to it; strictly controlled any purchase which it was sought to make at prices higher than those programmed; and kept precise statistics of every contract signed, comparing the agreed price with those quoted on the day of signature in the world market or on specific stock exchanges. The application of these procedures resulted in 1983 in a saving estimated at US\$ 50 million.

In trade with socialist countries, which represented 86% of Cuba's total foreign trade in 1982 and 1983, provision is made for compensation in respect of losses on the terms of trade, as is usual among the CMEA countries. Thus, in the Sugar Agreement signed by Cuba with the countries in question, and in force for the five-year period 1981-1985, a floor price is established which is calculated on the basis of world sugar production costs and other parameters. The basic minimum price fixed in 1980 was 19.23 US cents per pound for Eastern Europe and 35.4 cents per pound for the Soviet Union. Starting from this level, sugar prices were adjusted by means of an indexing process, whereby increases in the prices of manufactures and the other products imported from the aforesaid countries were applied to the price of Cuban sugar, so that the terms of trade in bilateral transactions could be kept stable.

iv) *The balance of trade in goods.* After amounting to 161 million pesos in 1975, the trade deficit rose rapidly, reaching almost 1 billion in 1981. Although the size of the negative balance was substantially reduced in 1982, it increased again in 1983, which meant that the trade deficit in that year exceeded 690 million pesos. Of this sum, only 51 million corresponded to trade with market economy countries and a little over 420 million to trade with the Soviet Union (see table 15).

Where the socialist countries were concerned, the financing of these deficits was effected as follows: a) payment of accumulated balances with the Soviet Union up to 1972 was deferred, free of interest, to 1986; b) subsequent deficits were refinanced through CMEA by means of bilateral and multilateral agreements, including three-cornered clearing arrangements; and c) in some cases these clearing arrangements included the possibility of using transferable rubles instead of convertible currencies for payments to market economy countries against their sales to Cuba.

In international transactions, the Cuban peso underwent a slight devaluation in relation to the United States dollar and one somewhat more marked in relation to the Japanese yen. In contrast, it was moderately revaluated in relation to the pound sterling and the Swiss franc, and more strongly with respect to the German (Federal Republic) mark (see table 18).

c) *External indebtedness in freely convertible currency*

During 1983 the total disbursed debt increased by 113 million pesos, which brought it up to 2 807 million. This amount, although 13% bigger than that recorded at the end of 1982, was lower than the average figure of 3 230 million recorded in the three-year period 1970-1981 (see table 19).

In face of the hardening of external financing terms, and in view of the fact that during the second part of 1982 the country had to make amortization payments in the neighbourhood of 1 250 million pesos —a sum equivalent to 43% of the disbursed debt up to the end of June of that year—, the government proceeded to make preparations for renegotiating its external debt.

On the adoption of this decision, and before it was announced, a report was prepared on the economic situation, which was presented to the highest financial authorities of the creditor countries.²⁹ Until the request for renegotiation was formally and publicly made, Cuba continued the servicing of interest payments, but suspended amortization payments on medium- and long-term credits.

According to the Cuban authorities, the presentation of this report meant that when the request was submitted to their creditors they received it with all the evidence before them, and thus, once some legal drawbacks posited by one financial institution had been overcome, the following agreements were concluded with respect to medium-term credits: a) payment of maturities falling due between 1 September 1982 and 31 December 1983 was deferred; b) a promise to renegotiate 1984 maturities was obtained; c) it was established that the amortization of suspended payments

Table 18

CUBA: EVOLUTION OF EXCHANGE RATE

(Cuban pesos per foreign currency unit)

	United States dollar	Pound sterling	Swiss franc	German mark	Yen ^a
Averages					
1980	0.7113	1.6432	0.4294	0.3968	0.3113
1981	0.7814	1.6071	0.4001	0.3510	0.3572
1982	0.8333	1.4686	0.4139	0.3443	0.3372
1983	0.8598	1.3167	0.4128	0.3411	0.3609
1983					
January	0.8587	1.3863	0.4204	0.3554	0.3526
February	0.8605	1.3560	0.4389	0.3593	0.3689
March	0.8611	1.3294	0.4317	0.3587	0.3679
April	0.8489	1.2817	0.4132	0.3557	0.3572
May	0.8516	1.3193	0.4149	0.3482	0.3578
June	0.8527	1.3275	0.4141	0.3450	0.3648
July	0.8519	1.2999	0.4014	0.3331	0.3537
August	0.8595	1.3113	0.4058	0.3320	0.3570
September	0.8690	1.3025	0.4023	0.3237	0.3546
October	0.8693	1.3005	0.3996	0.3248	0.3559
November	0.8689	1.3046	0.4120	0.3343	0.3731
December	0.8653	1.2819	0.3989	0.3225	0.3678

Source: ECLAC, on the basis of National Bank of Cuba data.

^a 100 yens.

²⁹ The non-oil-producing creditor market economy countries numbered 26, and their share in the total debt was 70%. The participation coefficients of the main creditors were as follows: France, 11%; Spain, 12%; Japan, 11%; United Kingdom, 7%; Finland, 4%; and other European countries, 19%. The share of the oil-producing and other creditor countries was 19%.

Table 19

**CUBA: INDICATORS OF EXTERNAL INDEBTEDNESS
IN CONVERTIBLE CURRENCY^a**

	1979	1980	1981	1982	1983 ^b
Millions of Cuban pesos					
Disbursed debt	3 267	3 277	3 170	2 694	2 807
Bilateral official debt	1 280	1 384	1 294	1 299	1 430
Multilateral official debt	-	8	15	18	18
Suppliers	33	27	33	47	93
Financial institutions	1 953	1 837	1 826	1 330	1 266
Medium-term bilateral loans and loans from consortia	659	563	505	417	474
Short-term deposits	1 269	1 238	1 282	862	741
Credits for current imports	25	36	39	50	51
Other credits	2	1	1	1	-
Disbursements ^c	360	214	229	171	352
Service ^d	403	417	619	991	609
Interest paid	176	263	338	301	248
Amortization payments on long-term debts	101	96	142	166	44
Amortization payments on short-term debts	126	58	139	524	317
Percentages					
Coefficients					
Disbursed debt/global social product	19.3	18.3	14.0	11.8	11.7
Debt service/exports of goods and services	45.3 ^e	28.7 ^e	35.9 ^e	61.8	39.9
Debt service/disbursements	...	365.8	276.3	583.6	173.2
Debt service/global social product	2.4	2.4	2.8	4.3	2.5

Source: ECLAC, on the basis of data supplied by the State Statistical Committee and the National Bank of Cuba.

^aIncludes commitments in freely convertible currency falling due in one year or less after the date of issue.

^bProvisional figures.

^cIncludes long- and short-term loans received, according to the balance of payments.

^dRelates to service payments included in the balance of payments (see table 15).

^eFor want of broken-down information, exports of goods and services include factor services, except for interest payments on the debt.

should begin early in 1986, and should be effected over a period of 5 years in equal six-monthly instalments; and d) the commissions and spreads applied were equivalent to those obtained by other countries in similar conditions. For the amortization of short-term credits, too, more favourable terms were secured.

As a result of these renegotiations, in 1983 all the ratios between elements linked to the external debt and the main macroeconomic variables showed appreciable improvements. Thus, the debt service/export coefficient decreased by more than one-third and was even lower than in 1979; the debt service/global social product ratio (2.5%) returned to the levels prevailing in the years prior to 1980, after having risen sharply in the years 1981 and 1982 (3% and 4%, respectively); and the external debt/global social product coefficient was slightly reduced (see table 19).

4. Wages, prices and productivity

In the Cuban economic system wages are the population's basic source of income. The nominal wage, *vis-a-vis* the mass of goods available at a given price level, determines the quantitative aspects of the population's consumption.³⁰ As an upward trend in real wages is one of the central objectives of economic policy and an increase in productivity a *sine qua non* in the Economic and Social Guidelines of the 1981-1985 Plan, the authorities took pains to regulate the interrelationships between the wage and productivity variables.

³⁰In these circumstances, imbalances between wages and prices led to an increase in the liquid resources in the hands of the population. Unable to find expression in a generalized price inflation, up to 1981 this surplus liquidity generated a "black" market in some consumer goods and excess demand for certain services, such as restaurants and entertainments.

a) *Wages*

As part of the economic reform begun in 1976, during 1981 the wage reform initiated at the end of 1980 was continued in greater depth. The central purpose of this reform was to reorganize labour activity, set a higher value on the more efficient use of working time, raise the population's level of living, and encourage productive activity.³¹ The reform was closely linked to the increase in productivity, and under it concrete expression is given to this linkage through the organization of labour and the establishment of norms of work. These normative efforts were associated with material incentives to workers and with political and social motivation to fulfil the norms set.

The reform, based on the principle of equal wages for equal work in all spheres of production and geographical areas, was applied in keeping with the wage system, of which the following are the main elements: a) the wage scale; b) the evaluators; c) tariffs; and d) forms of payment.³² In 1982 the bases of the system were established and progress was made in its application. During 1983 more than 75% of all workers in the country were paid by norm and this mode of payment began to be practised in the retail trade and in restaurant services.³³

During 1983 the general wage fund grew by almost 5%, a figure contrasting with that of 6% recorded in 1982 and, above all, with that of 18% achieved in 1981. The average number of workers employed during the year in the productive sphere went up by 3% and the average wage rose by 1.7% (see table 20).

Average wages increased by nearly 2% in the sphere of production and about 1% in the non-productive sphere. In the former the increases were much smaller than in 1982, and wages even decreased in forestry; in contrast, they rose by over 2% in industry, construction and transport. Although no precise data were available, it may be noted that to average wages were added significant earnings in the shape of premiums for over-fulfilment of norms.³⁴ Furthermore, many enterprises, especially in export activities, were authorized by JUCEPLAN to set up material incentive funds. These enterprises represented 40% of the total number; in 1983 this proportion rose to over 50%.

In employment in the sphere of production, a significant redeployment took place to the detriment of the agricultural sector—the result of the progress of mechanization in rural areas and of the falling-off in sugar-cane activity—and to the benefit of such sectors as industry, forestry, construction and commerce, in which last sector a substantial extension of the retail trade network was brought about.

b) *Prices*

Between 1963 and 1981, wholesale prices "or producer prices" remained virtually unchanged. The reform of these was put into effect on 1 January 1981.³⁵ The objective of this reform was to adapt the income obtained by enterprises from the sale of their output to the changes occurring in the structure of their internal primary costs and in international market prices.

To judge from the few figures available, the level of open unemployment is very low.³⁶ This does not mean, however, that no unemployment problems exist. On the one hand, in some cases there has been a shortage of manpower for specific activities, while in certain areas a persistent problem is that of the so-called "interrumpidos", i.e., workers who are left without jobs (although not without

³¹See National Bank of Cuba, *Informaciones suministradas al grupo de expertos de los países acreedores*, Havana, November 1982.

³²The *scale* indicates the degree of complexity of the work done in the various economic activities, from the standpoint of the technical requirements for their efficient performance and makes no distinction between branches or local criteria; by the end of 1982 24 scales had been established. The evaluators—who are a complement to the scale—discriminate within it in relation to the different techniques necessary, including as a criterion the time needed to acquire the requisite know-how. The *tariff* is the amount of money paid according to the quantity and quality of work done (quality does not imply greater complexity, but rather extraqualificational conditions which involve more physical and/or mental effort). Lastly, the *forms of payment* are established by time (per hour, per day or monthly wage) and by performance (by the job, by the norm with or without adjustment of premiums, etc.).

³³By their very nature not all jobs lend themselves easily to the establishment of norms in terms of work-working hours performance; this is the case, for example, in an office or a medical centre.

³⁴In 1983 more than 1.2 million workers were paid according to the norm; 930 000 of them received benefits in the shape of over-fulfilment premiums.

³⁵This reform comprised producer prices of industrial enterprises (consumer, intermediate and capital goods), agricultural inventory prices (sales to the State), construction prices (construction, assembly and infrastructure), tariffs for services to industries, to agricultural enterprises and to construction (engineering projects, prospection, cartography, etc.) freight prices, and domestic prices for imported goods.

³⁶According to the population censuses, the rate of unemployment was 1.3% in 1970 and 3.4% in 1981. See JUCEPLAN, *Censo de población y viviendas, 1970: Datos fundamentales de la población*, Havana, Instituto del Libro, pp. 74 to 97; and State Statistical Committee, *Censo de población y viviendas, 1981*, Havana, July 1983, Vol. 1, p. vv iii.

Table 20
CUBA: EMPLOYMENT AND WAGES^a

	1980	1981	1982	1983 ^b	Percentage breakdown			Growth rates		
					1971	1980	1983	1981	1982	1983 ^b
Average number of workers (thousands)										
Total	2 734	2 824	2 882	...	100.0	100.0	...	3.3	2.0	...
Productive sphere	1 968	2 008	2 037	2 100	73.4	72.0	...	2.0	1.5	3.1
Agriculture	624	619	616	594	29.0	22.8	...	-0.9	-0.5	-3.6
Forestry	20	21	21	27	...	0.7	...	4.0	-1.0	28.6
Industry	548	576	690	627	21.2	20.0	...	5.5	4.1	4.5
Construction	273	266	261	285	6.4	10.0	...	-2.6	-2.1	9.2
Transport	171	181	180	185	7.5	6.3	...	5.5	-0.8	2.8
Communications	22	23	24	25	1.0	0.8	...	4.1	3.5	4.2
Commerce	302	311	324	344	8.1	11.1	...	2.8	4.3	6.2
Other activities	10	11	13	14	0.2	0.3	...	17.9	15.2	7.7
Non-productive sphere	766	817	845	...	26.6	28.0	...	6.7	3.4	...
Community and personal services	93	91	86	...	...	3.4	...	-2.5	-5.6	...
Science and technology	19	20	21	...	...	0.7	...	6.8	4.9	...
Education, culture and art	360	380	392	...	...	13.2	...	5.6	3.2	...
Public health and social welfare, sports and tourism	127	138	153	...	...	4.6	...	9.1	11.2	...
Finance and insurance	11	12	13	...	...	0.4	...	10.2	11.8	...
Administration	141	152	152	...	...	5.2	...	7.5	-0.3	...
Other activities	15	23	27	...	...	0.5	...	60.3	16.7	...
Average wages (Cuban pesos)										
Total	1 774	2 035	2 113	2 148				14.7	3.8	1.7
Productive sphere	1 761	2 055	2 120	2 160				16.7	3.2	1.9
Agriculture	1 520	1 923	2 000	2 028				26.5	4.0	1.4
Forestry	1 706	1 914	1 986	1 956				12.2	4.0	-1.5
Industry	1 883	2 138	2 209	2 256				13.5	3.3	2.1
Construction	1 969	2 242	2 241	2 292				18.9	-0.1	2.3
Transport	2 169	2 403	2 479	2 544				10.8	3.2	2.6
Communications	1 752	1 960	2 021	2 028				11.9	3.1	0.3
Commerce	1 611	1 816	1 895	...				12.7	4.4	...
Other activities	2 137	2 241	2 380	2 448				4.9	6.2	2.9
Non-productive sphere	1 809	1 985	2 095	2 112				9.7	5.5	0.8
Community and personal services	1 637	1 813	1 864	...				10.8	2.8	...
Science and technology	2 147	2 251	2 402	...				4.8	6.7	...
Education, culture and art	1 784	1 960	2 102	...				9.9	7.2	...
Public health and social welfare, sports and tourism	1 777	1 954	2 216	...				10.0	13.4	...
Finance and insurance	2 009	2 117	2 213	...				5.4	4.5	...
Administration	1 952	2 123	2 243	...				8.8	5.7	...
Other activities	1 781	2 050	2 059	...				15.6	-	...

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aIncludes only civilian employment in the State sector. ^bProvisional figures.

income) because of temporary slumps in production. Then again, there is a marked redundancy of personnel in particular activities, as in restaurant and similar services, and also, to a lesser extent, in some centres of industrial production and in construction. Certain problems relating to laxities in the determination of work norms have also been considered in trade-union and political congresses.

An additional intention underlying the reform was to secure an improvement in the financial situation of State enterprises, on the basis of which they could operate under a self-management or self-financing system. In other words, the aim was to obtain adequate rates of return at the enterprise level. In actual fact, in the State enterprises as a whole, this reform implied nothing more than a rational redistribution of costs. But on comparison of this new wholesale price system, product by

product, with the retail price system, it was easy to see the incongruity between the two and the obsolescence of the latter, which had remained unchanged for many years.

To bring the two systems into harmony, the authorities envisaged the application of a price policy which, while in keeping with the country's economic policy, would a) introduce into the retail price system the changes and the flexibility which the higher levels of productivity and production made necessary; b) take into account the correspondence that ought to exist between the population's income and its expenditure, in order to avoid exaggerated increases in monetary liquidity; c) advance with caution in the process of elimination of the rationed market and develop the State parallel market at differential prices; d) correlate prices with the value of goods in demand; and e) encourage the production of the local *Poder Popular*, and other marginal outputs, in order to increase the supply of goods and services to the population.³⁷

On these bases, on 15 December 1981 a new consumer price structure was put into effect which, up to September 1982, involved an average rise of about 10%. However, the increases in the prices of some wage goods were much higher, as was the case, for example, with those of beef (which went up by 27% and 36%, according to the cuts), rice (20%), fruit, vegetables and *viandas* (40%) and detergents 100%).³⁸

This reform of retail prices was introduced eleven and a half months after that of wholesale prices.³⁹ As a result of this dephasing, at least three significant facts occurred: a) the monetary liquidity of the population increased by 450 million pesos in 1981, which contributed to the expansion of the parallel market for goods; b) heavy losses were incurred in some activities, because the higher wage levels had not been incorporated in their prices; and c) these losses not only deducted income from the national budget, but also called for large subsidies. To remedy this situation, in 1981 some highly important measures were adopted. Among temporary measures were those that have a vigorous impulse to the rural free market, a step which, while it relieved the pressure of demand, did not necessarily imply a reduction of liquidity, but did involve appreciable speculative price movements. Permanent measures, linked to the expansion of output available for the market, included in the first place an increase in supplies which helped to reduce distribution of products through ration books,⁴⁰ and, secondly, the decision to offer at a single price and without quantitative restrictions those goods in which State production was sufficient.

Thus, in practice, in respect of retail prices four markets came to exist, namely: a) the rationed market; b) the controlled State market, comprising products which appear on the list of rationed goods but can be purchased in this market in any quantity desired, at higher prices; c) the free State market, where products are offered without quantitative restrictions and without price discrimination; and d) the rural free market.⁴¹ The existence of the first three markets mentioned reflects the increasing supply of State production for popular consumption. The rural free market, in its turn, is of great significance as regards the supply of certain products such as: garlic, in respect of which it satisfied 83% of total demand in 1983; onions, in which it covered 12% of demand; malanga (15%) and *vianda* plantain (9%). It is estimated, however, that in the future this sector will lose some of its importance, owing to the widespread co-operativization movement prevailing among small independent peasant farmers.⁴²

Lastly, in consequence of the changes that have taken place in the price system since 1982 and the emergence of different markets, the economic authorities perceived the need to possess reliable

³⁷ See National Bank of Cuba, *Informaciones suministradas al grupo de expertos de los países acreedores*, Havana, November, 1982.

³⁸ *Ibid.*

³⁹ That of wholesale prices, while virtually coinciding with an almost 15% rise in wages in 1981 (see table 20), failed to take into account the consequent increase in costs under this head. Notwithstanding that Cuba has at its disposal a monthly balance-sheet of sectoral interrelationships and a very full and detailed input-output matrix, the reform also failed to incorporate the increase in wholesale prices for consumer, intermediate and capital goods, for construction, and for domestic and imported technical services. Hence it is indispensable for the adjustment process to be continued with the help of the tools described.

⁴⁰ The purpose of the ration-book, according to the Cuban authorities, is nowadays exclusively to ensure, in the majority of cases, equitable consumption of basic goods. The existence of a parallel market in which rationed products are sold without restrictions, but at much higher prices, appears to confirm this assertion.

⁴¹ Price differences between the markets are quite considerable. For example, on 30 December 1983, among the prices charged in the rationed market (1) the controlled market (2) the free market (3) and the rural market (4) there were appreciable differences in the following cases: one litre of pasteurized milk —the price of which was 0.25 pesos in (1) and 0.80 pesos in (2); one kilogram of rice —which was priced at 0.52 pesos in (1), 2.61 pesos in (2) and 2.11 pesos in (4); one kilogram of garlic —the price of which was 4.35 pesos in (1), 15.40 pesos in (2) and 14.26 pesos in (4). In contrast, in the free market (3) eggs were sold at 0.10 pesos per unit, butter at 5.22 pesos per kilo, bread at 0.33 pesos per kilo, and pork at 7.30 pesos per kilo.

⁴² It is expected that by 1988 they will all be grouped in co-operatives delivering their production to the State.

and appropriate consumer price indexes. With this end in view, the State Statistical Committee carried out a household expenditure survey covering more than 5 000 families. From this were obtained the weightings for more than 500 products making up a price index basket which, discriminated by markets and by geographical areas, will begin to be published in the second half of 1984.

c) *Productivity*

In real terms, and excluding commercial activities, productivity per worker increased by 2% during 1983, easily improving upon the previous year's increment of 0.6%, but falling far short of the 14.5% recorded in 1981, in which year, thanks to very favourable exogenous conditions, productivity rose by 14% in the agricultural sector, 11% in industry and 23% in construction.

By sectors, the evolution of productivity was very uneven in 1983. In industry as a whole it went up barely 0.3%, in consequence of sharp reductions in output of sugar and of beverages and tobacco, due to smaller supplies of agricultural raw materials. In contrast, significant increases were recorded in ready-made clothing, textiles, electronic and electrical goods, chemicals, food products, and publications and printed matter. Productivity in agriculture, despite the adverse weather conditions which affected it, grew by 5%, reaching a level 20% higher than that of 1980; this was possible thanks to increased mechanization, among other factors. In construction productivity rose by 1.4% and in transport by about 1%. In contrast, it decreased in commerce and in the other productive activities.

As has already been said, an increase in the productivity of labour and rates of return on production are a key objective in the running of the economy. The establishment of norms (i.e., the fixing of the quantity and quality of output that must be obtained in a given number of working hours) is the procedure followed to attain this goal. Up to the end of 1982, 60% of workers in normal jobs were paid according to norm fulfilment; in 1983 this proportion rose to 90%.⁴³ At the same time, an effort was made to perfect the norms established, and to eliminate as far as possible the irrationality, superficiality and bureaucratism which were apparent in the fixing of norms in some centres of work, and which at times created labour pressures.

If the criterion applied for measuring productivity is not the value of output but the value incorporated or value added, the increases in productivity indicated will be bigger, since they will have to be augmented by the saving achieved in the use of raw materials. This saving amounted to more than 200 million pesos in 1983, and in the utilization of energy by the production apparatus and by the population was equivalent to a reduction of 500 000 tons of petroleum.⁴⁴

5. Monetary and fiscal policies

a) *Introduction*

For the purposes of a better understanding of the evolution of the main monetary variables in 1983, it seems worth while to make a few observations on the operation of the Cuban bank system, particularly in view of the fact that, as it pertains to a country with a centrally planned economy, it differs notably from that existing in almost all the other countries of the region.

In conformity with the economic reform begun in 1976 and with the new System of Economic Direction and Planning, the Five-Year Plan for 1981-1985 included more precise instructions and norms relating to the operation of the self-management or self-financing system in enterprises producing material goods and services; the Plan also comprised norms for the strengthening of "democratic centralism" in the budgeted redistribution of the global economic surplus. These features—considered of fundamental importance for perfecting the running of the economy—and the occurrence of other events—such as the general price and wage reforms applied from 1981 onwards—revealed the increasing significance of the role assigned to financial planning in the direction and control of the national economy.

⁴³Of the norms established, 77% are elementary and 23% are of a semi-technical character.

⁴⁴See Humberto Pérez, President of JUCEPLAN, *Exposición ante la Asamblea Nacional*, 22 December 1982.

In this sense, the year 1983 witnessed a very important change as regards the use of financial categories as effective tools for measuring, monitoring and raising the overall efficiency of the economic system. To this end, early in the year the "profitability working parties"⁴⁵ concluded their task at the national level, having been initiated on the instructions of the political authorities at the level of each individual enterprise to evaluate the factors affecting and ways and means of increasing its profitability.⁴⁶ Thus, at the present time both monetary and fiscal policy have assumed a role of the first importance.

b) *Monetary policy*

Up to 1981 the part played by monetary and fiscal policy in the internal operation of the Cuban economic system was on the neutral side.⁴⁷ On the domestic plane, in contrast with its active role in external economic relations, the National Bank of Cuba confined itself to the centralized management of the monetary flows of income and expenditure generated in the production units, the central institutions, and the public administration. True, the corresponding plans, on consolidation, afforded a measure of the quantity of money necessary for fulfilment of the planned economic interrelations among productive units, for meeting the consequent wage fund needs, and for financing the centralized requirements of the State. But as the non-State sector is small, and saving and credit play a very modest role, the bank, under this planned system, had very little possibility of influencing the volume of the money supply required for the fulfilment of the said plans, or of using money as a tool for their more efficient implementation.

However, the wage and price reform introduced in 1981 acted as a stimulus to the drawing-up of an economic policy which would prevent a monetary overflow and would at the same time encourage efficient use of money by the production units and by the population.

For a better understanding of the way in which this policy was applied, reference must be made to the tools employed: interest rates and rediscounts (single or differential), credit quotas and others.

Within the framework of the national economic plans and the State budget of income and expenditure, the National Bank consolidated the budget plans prepared by all units of production that conduct their monetary operations through the Bank itself.⁴⁸ This consolidation is carried out by the agencies to which the units in question are subordinated and is effected at the municipal, regional and national levels.

The continuous follow-up and periodic review of the budget plan of each executing unit⁴⁹ makes it possible, firstly, to control the amounts of money in circulation which, according to the degree of implementation of the plan, each economic unit, branch and region requires, and, secondly, to evaluate the economic efficiency of the system.⁵⁰ During 1983 this monetary supervision and control procedure was applied more intensively than in any previous year.

Furthermore, as under the Cuban planning system the balance of the population's monetary income and expenditure determines the variations in the money supplied in the hands of the public,⁵¹ the budget controls described permit a timely follow-up of the movements of monetary liquidity outside the Bank and the adoption of the necessary correctives, whether through prices, through saving or through credit.

As a result of the 1981 wage reform, its subsequent adjustments, and the lag in the adjustments of consumer prices, the population's increase in liquidity during 1981-1983 was 634 million pesos, a figure 16 times higher than that recorded in the whole of the five-year period 1976-1980. It was

⁴⁵ Assemblies of workers and managers held both at the level of producer units and enterprises and at the municipal, regional and national levels, by branches and subordinating agencies, to analyse this question.

⁴⁶ Profitability is defined in each enterprise as the ratio between profits and the volume of fixed and working capital.

⁴⁷ See UNCTAD, *Cuba: Recent economic development and future prospects*, UNCTAD/MFD/TA/21, Annex II, p. 31.

⁴⁸ The budget plans are an instrument created by Decree No. 19 of 1978. This law establishes that the Bank will submit the budget plan to the Council of Ministers. After its approval, the Bank has to provide the Council with quarterly reports on the budget plan.

⁴⁹ This review is carried out quarterly by committees at the municipal, regional and national levels. The chairmen of the committees are members of the corresponding *Poderes Populares* at the municipal and regional levels, and at the national level the President of the National Bank.

⁵⁰ In the event of deviations from the Plan, provision is made for appropriate remedial measures, including penalties of a financial or other type.

⁵¹ This is because the centralized and obligatory management by the National Bank of the monetary flows of economic bodies means that their reciprocal transactions are based on clearing arrangements and that the Bank retains the amount of those costs which are not a cause of monetary outlays.

Table 21

CUBA: MONETARY LIQUIDITY

	Millions of pesos				Growth rates			
	1980	1981	1982	1983 ^a	1979-1980	1981	1982	1983 ^a
Factors of expansion	6 766	8 047	8 576	9 144	2.5	18.9	6.5	6.7
Workers' income	5 404	6 392	6 842	7 330	2.6	18.3	7.0	7.1
Income of private sector ^b	340	516	518	535	0.8	51.8	0.4	3.3
Other income ^c	1 022	1 138	1 216	1 280	2.8	11.2	6.8	5.3
Factors of contraction	6 855	7 606	8 467	9 076	3.6	11.0	11.3	7.2
Expenditure on goods and services	6 572	7 264	8 086	8 654	3.7	10.5	11.3	7.1
Other expenditure ^d	283	343	381	422	1.4	21.2	11.1	10.8
Variation in liquidity	-89	441	109	69				
Cash	...	305	-80	-6				
Savings deposits	...	136	189	75				

Source: ECLAC, on the basis of official figures.

^aProvisional figures. ^bComprises income of peasant farmers, transport workers and artisans from sales of goods and services to the State, to co-operatives and to other organizations. ^cComprises pensions of all kinds, personal subsidies, loans from the bank system, interest on savings, foreign exchange drafts and transfer payments received. ^dComprises amortization and interest payments on loans, quotations to political, sports and social institutions, savings deposits and drafts and transfers.

because of this phenomenon that in 1981 price policy and monetary policy measures were adopted, since in that year 70% of the aforesaid increase in liquidity was accumulated.

The substantial retail price increases which came into force mainly in 1982 and the more moderate ones applied in 1983 made it possible for the annual increments in liquidity to decrease, despite the population's growing income, from 448 million pesos in 1981 to 117 million in 1982 and 69 million in 1983. Furthermore, thanks to the monetary policy pursued, the cash in the hands of the public — which had increased by 305 million pesos in 1981 — was reduced by 80 million the following year and by 6 million during 1983. There was a substantial rise, in contrast, in savings deposits (see table 21).

During the 1960s and 1970s, domestic savings had played a meagre role in economic development and in the regulation of the money in circulation. Various causes account for this behaviour. The chief of these was probably the priority attention that the National Bank had to devote to the fundamental tasks assigned to it by the National Direction system in connection with the economic control of enterprises and management of international financial relations. Other unfavourable conditions were the inadequacy of bank facilities, the lack of incentives to saving (in fact in 1968 the payment of interest on the balance of savings accounts was suspended), and the account-holders' ignorance of their rights over their savings accounts and bank deposits.

In the Economic and Social Guidelines for the Five-Year Plan for 1981-1985 provision was made for a reversal of this situation. Thus, the National Bank was assigned the objective of encouraging savings and to that end it created a new vice-presidency and prepared an "Incentives to Saving Project" which was submitted to the Council of State. As a result of this initiative, the Council issued Decree No. 69 of May 1983, whereby a People's Savings Bank (Banco Popular de Ahorro) was created.

Moreover, in recent years the network of bank agencies has been considerably enlarged; their number rose from 74 in 1978 to 421 in 1983. The network now covers 143 of the 169 existing municipalities, whereas in 1978 it covered only 25. In 1983 each served an average of 24 000 inhabitants, almost half the number served per agency in 1980.²² At the same time, the hours of daily attention to the public were increased from 5 to 12.5. To strengthen its operations, the Bank stepped

²²The importance assigned to the bank system, in general, and to savings policy in particular, is exemplified in the goal for the end of the 1980s, namely, that each agency should serve not more than 10 000 inhabitants.

up the number of visits made by its savings and credit promoters to work centres, co-operatives, small peasant farmers and other associations from 7 000 in 1981 to 53 000 in 1983. It also took more intensive action to disseminate knowledge of the individuals's constitutional rights over his bank deposits, extended the range of services offered to its clients (automatic payment of public service tariffs, credit amortization, etc.) and re-established interest payments on savings deposit balances.

Lastly, between 1980 and 1983 personal credits increased significantly (see table 22). The interest rates applied ranged from a maximum of 9.5% per annum for long-term purchases of passenger cars and a minimum of 4% for repairs of dwellings. Between 1982 and 1983 the rates corresponding to credits for purchases of refrigerators in the parallel market rose from 7% to 7.5%; but they remained constant at 5% when these articles were bought on credit in the rationed market, and those applied to purchases of air-conditioners were reduced from 9% to 7.5%.

The volume of credit granted to small peasant farmers and to agricultural co-operatives increased from 140 million pesos in 1981 to 231 million in 1983. This increase, however, was very unevenly distributed. In fact, in consequence of the strong co-operativization drive, between the years in question loans to peasant farmers dropped from 65 to 45 million pesos, while those extended to co-operatives soared from 75 to 186 million.

By the end of 1983 the balance of State credits had risen to 6 000 million pesos, that is, 804 million more than on the same date in 1982 and 1 270 million above the figure recorded two years before. During 1983 financing of inventories decreased by more than 280 million pesos, whereas financing for working capital went up by 30 million and for trade operations (whose share in the credits was 35%) by 270 million. In turn, the agricultural sector increased its net commitments by almost 60 million and other national activities by 740 million pesos.

Table 22

CUBA: BANK SYSTEM AND PERSONAL SAVINGS AND CREDIT OPERATIONS

	1979	1980	1981	1982	1983 ^a
Number of bank agencies specializing in service to the population at end of year					
Municipal	74 ^b	...	192	326	421
Auxiliary	25	...	69	115	143
Savings banks	47	...	63	71	76
Non-specialized	2	...	60	140	185
					17
Monetary saving of the population (1974 = 100)	105	101	120	147	157
Number of credits to the population (thousands)	190	178	252	215	268
For domestic electrical equipment	165	139	212	166	216
For motor-vehicles	15	15	12	17	18
For construction materials and repair of dwellings	...	9	11	10	11
Others	9	14	17	22	23
Value of personal credit (millions of pesos)	96	104	160	146	161
For domestic electrical equipment	80	70	117	92	114
For motor-vehicles	13	17	16	27	22
For construction materials and repair of dwellings	...	9	13	12	10
Others	3	8	14	15	35
Other items (millions of pesos)					
Collection of payments	108	107	115	124	139
Balances outstanding	181	176	221	243	265

Source: ECLAC, on the basis of statistics supplied by the People's Savings Bank.
^aProvisional figures. ^bAs at 30 June 1978.

c) *Fiscal policy*

Among the instruments of financial policy which the authorities have been applying and perfecting since 1976, particularly under the present Five-Year Plan for 1981-1985, the budget has fulfilled two basic functions: redistribution of a substantial proportion of national income⁵³ and monitoring of national economic activity. Taking into account the results of monetary policy, analysis of the execution of the budget permits a global evaluation not only of domestic finances, but also of the efficiency with which the system operates.

In order to perform these tasks in the course of 1981-1983, the State Finances Committee (Comité Estatal de Finanzas - CEF) had to devote much of its efforts to systematizing the ways in which individuals with tax obligations had to classify and present accounts of their financial action, to determining methods of calculating their main tax base,⁵⁴ to organizing and establishing norms for relations between these individuals, their central or subordinating *Poder Popular* agencies and the national budget for the purposes of distribution of the surplus created and, lastly, to laying down norms and procedures for fiscal auditing.

In carrying out this work, CEF, in keeping with the indicators contained in the Single Development Plan and with the National Statistical System, established a National Accounting System, thereby giving concrete financial expression to the "economic calculation" procedures which enterprises are obliged to follow. The system constitutes the tool for checking up on financial efficiency at the level of economic units and also, through consolidation of accounts, at the national level and by branches of activity. It is also of basic importance for formulating the budget plan required by the National Bank and facilitates this institution's financial and monetary control of enterprises.

In 1982 CEF issued resolution 58, which, among other norms, laid it down that as from 1 January 1983 all State enterprises will have to present once a month to the Finance Department of the *Poder Popular* the set of models indicated by the Information System of the National Accounting System. According to the authorities, the experience gathered during the year in question showed increasing skill on the part of the *Poder Popular* in analysing the results obtained and indicated its fuller participation in the monitoring of local economic management.

In this same resolution regulations and norms were established with respect to the financial procedures that must be followed by enterprises with regard to the operation of bank accounts;⁵⁵ to relations with the State Budget and with the subordinating central agencies;⁵⁶ and to debit and credit interest payments on these accounts. It stated the method to be used for calculating the free profit balance,⁵⁷ which is the enterprises' principal tax base. Furthermore, dates and schedules were established for payment of contributions and details were given of procedures for receiving subsidies for planned losses or applying for them when unforeseen results occurred.

The State Finances Committee also laid down procedural patterns for the central administration agencies in charge of production enterprises, for redistributing among these the estimated profits collected in order to finance losses or increases in working capital, and for financing investment in their enterprises. It likewise indicated to these agencies how the proportions of the depreciation reserves which their enterprises had transferred to them should be redistributed and the functions which should be fulfilled by this redistribution.

Lastly, in October 1982 CEF decreed the "General Norms for Auditing" which it began to apply, as from 1 January 1983, to all State enterprises and agencies, with the exception of the National Bank, with a view to promoting the more efficient utilization of resources, preventing their misuse,

⁵³ According to the estimates prepared by the State Finances Committee, this redistribution represented about 60% of national income.

⁵⁴ The so-called "free profit balance".

⁵⁵ These include operational accounts, investment financing, capitalizable general reparations and bank credits, in accordance with the procedures established by the National Bank of Cuba.

⁵⁶ These norms indicate what enterprises will contribute to each of the entities in question: for example, to the budget they will contribute: the free profit balance; the depreciation of basic means of production (fixed assets) which are not retained or transferred to their central agency for the financing of investment; and surplus working capital. Similarly, indications are given of the resources which, under specific heads and procedures, they will receive from those same entities; for example, from the budget they will receive resources for financing a) losses not covered by their agency; b) losses on account of price differentials as established by the State Pricing Committee; c) increases in working capital; and d) investment not financed by funds of their own or by the central agency to which they are subordinated.

⁵⁷ From the *balance-sheet profit* (income minus costs) bank interest and fund (fixed and working capital) payments are deducted, so that the *estimated balance* is obtained. From this are deducted, *inter alia*: provisions for material incentives to workers, own investment, social outlays and transfer payments to their agency in accordance with the norms. Thus the so-called *free profit balance* is obtained.

detecting financing anomalies and suggesting remedial measures, strengthening financial discipline and ensuring profounder administrative integrity.⁵⁸

d) *Fiscal action*

After five consecutive years of deficits in the State budget,⁵⁹ in 1983 it closed with a surplus of 385 million pesos, notwithstanding the hardships faced by the economy in consequence of the above-mentioned climatic phenomena.

This result was due to the significant increase of 14% in current income,⁶⁰ which, for the first time in the last five years, exceeded the amount programmed, and was more than enough to finance administrative, social and development expenditure, which, in its turn, rose by 8% (see table 23).

Table 23

CUBA: BUDGET OF STATE INCOME AND EXPENDITURE

	Programmed (millions of pesos)				Actual performance						
					Millions of pesos				Growth rates		
	1980	1981	1982	1983	1980	1981	1982	1983 ^a	1981	1982	1983 ^a
Current income	9 534	11 201	9 413	10 496	9 389	10 802	9 987	11 354	15.0	-7.5	13.7
Contributions from the State sectors	9 416	11 082	9 289	10 324	...	...	9 854	11 193	...	...	13.6
Taxes and other contributions from the non-State sector	17	20	14	16	...	...	23	23	...	...	0.9
Taxes and duties paid by the population	101	99	110	157	...	...	110	137	...	...	24.5
Total expenditure	9 531	11 197	9 834	10 300	9 644	11 577	10 159	10 969	20.0	-12.2	8.0
Productive sphere	3 978	4 672	3 180	3 558	4 566	5 729	3 822	4 196	25.5	-33.3	9.8
Housing and community services	364	412	483	508	391	467	473	570	19.4	1.3	20.5
Education and public health	1 800	1 848	2 040	2 158	1 779	2 007	2 097	2 267	12.8	4.5	8.1
Other socio-cultural and scientific activities	1 315	1 437	1 546	1 524	1 325	1 402	1 425	1 641	5.8	6.6	9.8
<i>Poder Popular</i> , Central State Government, Tribunals and Public Prosecutor's Office	484	675	621	635	459	597	620	646	30.1	3.9	4.2
Defence and domestic law and order	811	842	924	1 116	759	931	1 109	1 117	22.7	19.1	0.7
Other activities	443	767	544	450	365	444	543	532	21.6	22.3	-2.2
Reserves	336	544	496	350	-	-	-	-	-	-	-
Surplus (or deficit)	3	4	-421	196	-255	-775	-172	385			

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee, the National Bank of Cuba and the State Finances Committee.

^aProvisional figures.

⁵⁸Resolution 49 of 1982.

⁵⁹Mainly between 1980 and 1982, when the negative balances increased from 255 million pesos in 1980 to 775 million in 1981, subsequently falling to 172 million pesos in 1982.

⁶⁰In Decree No. 44 of July 1981 it was established that income received by the State budget came from the following sources: a) from State enterprises answerable for i) the circulation tax applied to consumer goods and goods intended for technico-productive activity as determined by CEF; ii) taxes on services rendered; iii) the foreign trade differential, i.e., external price differences between imports and exports of goods; iv) contributions on account of amortization payments on basic means of production (capital goods), of sale of these or of surplus revolving means (working capital); b) from State and non-State organization answerable for forestry taxation; c) from State enterprises, political, social and mass organizations and enterprises subordinated to any of these organizations, under the head of taxation on the circulation of overland transport motor-vehicles; and d) from social security contributions made by State enterprises, units working on a budget, political, social and mass organizations and enterprises subordinated to these.

The increase in income was achieved basically as a result of the price policy applied to consumer goods and of the growth of the economy. The first of these factors was linked in its turn to the strengthening and development of the parallel market for consumer goods and to the application of differential prices. According to CEF estimates, revenue increments under this head amounted to 400 million pesos.⁶¹ The second factor was attributable to more efficient economic management, enabling State enterprises to generate increasing profits by expanding the volume of production, a result which, in turn, was reflected in larger transfer payments to the State.⁶²

After the decline of 12% in the preceding year, State expenditure increased by 8% in 1983, exceeding the planned amount by 6.5%. Nevertheless, it did not equal the level of the outlays made in 1981, the year in which, although one of the highest rates of economic growth in Cuba's history (15%) was recorded, one of its biggest fiscal deficits (775 million pesos) was also produced.

Although outlays destined for the productive sphere increased by almost 10%, they still fell short of the levels reached in 1980 and 1981.⁶³ This increase in expenditure, although partly originating in the additional subsidy granted to the agricultural sector to cover the losses suffered during the first quarter, was mainly intended to finance fixed investment and boost working capital. To this financing were added the bigger surpluses retained by enterprises and central administration agencies.

Expenditure on housing and community services rose by 21%, reaching an unprecedented level. Furthermore, during 1983 the government continued to assign high priority to public expenditure on education, health and socio-cultural and scientific activities, whose share in total outlays thus rose from 32% in 1980 to 36% in 1983.

⁶¹ See Francisco García Valls, Minister President of the State Finances Committee, *Informe a la Asamblea Nacional*, fifth session, 22 December 1983.

⁶² For example, in 1983 it was possible to shorten the time that goods remained in the warehouses of the General Customs House of the Republic and to raise the tax revenue obtained from the Customs House by 58%.

⁶³ Because the wage reform preceded that of prices, in 1981 the enterprises incurred heavy financial losses, which were largely covered with State resources. Moreover, the reduction of expenditure in 1982 was the result of deliberate action on the part of the economic authorities, who sacrificed an increase in internal economic dynamism for the sake of not increasing the external debt and/or not failing to keep strictly up to date with its servicing.

CHILE

1. Recent economic trends: Introduction and summary

After its extremely unfavourable performance in 1982, when the gross domestic product fell by over 14%, the unemployment rate in Greater Santiago reached the unprecedented level of 22%, inflation increased, and the international reserves went down by some US\$ 1.2 billion, the Chilean economy suffered further setbacks in 1983.

However, these were much less marked than in the previous year. Thus, the gross domestic product went down by a little under 1%, the average unemployment rate in Greater Santiago remained at the level of the year before, the rate of inflation increased only slightly from 21% to 23%, and the international reserves went down by a little over US\$ 600 million. At the same time, however, real wages, which had scarcely gone down in 1982, suffered a drop of nearly 11% (see table 1 and figure 1).

These overall results were due to a very uneven performance by the economy during the year, which was also markedly different from that registered in 1982. Thus, while in 1982 the economic situation deteriorated progressively, in 1983 it showed signs of recovery from the middle of the year onwards.

As may be seen from figure 2, after continuing to contract sharply in the first quarter of the year and declining at a moderate rate in the second, overall economic activity almost stabilized in the third quarter and increased by almost 6% in the last three months of the year. This change of trend was influenced above all by the recovery which manufacturing began to show towards the middle of the year and, to a lesser extent, by the increase in the construction sector registered a little later.

Partly because of these changes, but much more because of the enormous expansion of the emergency employment programmes of the Government —which came to employ more than 14% of the labour force in Greater Santiago in the second half of the year— the unemployment rate in the capital went down from almost 22% at the beginning of the year to 16.5% in the last quarter.

Towards the middle of 1983 there was also a reversal of the upward trend which inflation had been following since June 1982. Thus, the consumer and wholesale price indexes, after attaining annualized growth rates of over 30% and 60% respectively between May and July, ended the year with variations of the order of 24% (see figure 2). The gradual moderation of the rate of inflation and the incipient recovery of economic activity also contributed to the fact that in the last few months of 1983 there was an interruption in the rapid and persistent drop that real wages had been suffering since June 1982.

The contrast between the evolution of the economy registered in the first and second halves of the year was also very clearly seen in the external sector. Thus, on account of the acute uncertainty caused by the official intervention in mid-January of eight financial institutions —including the two main private banks of the country— the price of the dollar on the parallel market rose on several occasions to almost 100% more than the official rate, and in the first three months of the year alone the international reserves went down by US\$ 1 billion. As a result of the considerable trade surplus obtained and, above all, the loans made by the International Monetary Fund and foreign commercial banks, however, the international reserves increased in the second half of the year by US\$ 480 million, so that the loss of reserves for the year as a whole was even slightly less than that provided for in the agreement initially signed with the Fund.

In essence, both the overall results registered in 1983 and the evolution of the main indicators in the course of the year reflected the continued restrictive effects of external factors and of the changes made in domestic economic policy.

Among the external conditioning factors, the three most important were the unsatisfactory level of exports of goods and services, the sharp new decline suffered in 1983 by the net inflow of

capital, and the agreements signed with the International Monetary Fund and the foreign private banking system within the process of renegotiation of the external debt.

Thus, in 1983 the value of exports of goods and services went down slightly after having dropped sharply in the previous two years. As a result, it was 23% lower than in 1980, in spite of the fact that the volume of exports of goods had risen by over 15% since that year.

The net inflow of capital, for its part, which had reached the extraordinary and unsustainable level of nearly US\$ 5 billion in 1981 but had dropped to only US\$ 1 billion in the following year, suffered a new contraction of over 30% in 1983, so that it did not even amount to US\$ 700 million and was equivalent to less than 40% of the net payments of profits and interest.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	9 960	10 785	11 624	12 289	10 527	10 443
Population (millions)	10.81	10.96	11.13	11.30	11.48	11.67
Per capita gross domestic product (dollars at 1970 prices)	922	984	1 045	1 087	917	895
Growth rates						
B. Short-run economic indicators						
Gross domestic product	8.2	8.3	7.8	5.7	-14.3	-0.8
Per capita gross domestic product	6.7	6.7	6.2	4.1	-15.7	-2.4
Gross national income ^b	7.2	7.0	5.0	4.0	-22.1	-0.8
Terms of trade (goods and services)	-4.4	5.7	-5.5	-16.6	-9.9	2.2
Current value of exports of goods and services	13.0	57.1	29.2	-16.1	-7.3	-0.9
Current value of imports of goods and services	26.1	44.1	34.6	17.7	-39.2	-19.2
Consumer prices						
December - December	37.2	38.9	31.2	9.5	20.7	23.1
Variation between annual averages	50.0	33.4	35.1	19.7	9.9	27.3
Money	60.5	59.1	77.9	2.1	-19.7	21.1
Real wages and salaries	6.4	8.3	9.0	9.1	-0.4	-10.6
Rate of unemployment ^c						
Greater Santiago	14.0	13.6	11.8	11.1	22.1	22.2
Nation-wide	13.6	13.5	12.2	11.7	21.1	16.1 ^d
Current income of government	70.3	69.3	50.5	22.0	-5.0	21.2
Total expenditure of government	64.5	52.3	54.2	29.3	-	28.2
Fiscal deficit/total expenditure of government ^e	3.6	7.2 ^e	2.1 ^e	4.5	8.2	13.2
Fiscal deficit/gross domestic product	0.8	-1.7	-0.6	1.2	2.3	3.8
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-680	-598	-1 056	-3 258	-385	538
Balance on current account	-1 111	-1 205	-2 024	-4 817	-2 378	-1 222
Balance on capital account	1 854	2 261	3 345	4 952	1 038	693
Variation in net international reserves ^f	683	1 061	1 331	164	-1 112	-541
General external debt (gross)	6 664	8 484	11 084	15 542	17 153	17 454
General external debt (net) ^g	5 606	6 170	7 010	11 767	14 575	15 431

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect, less net factor payments to rest of world and net private transfer payments. ^cPercentages. ^dAverage for second half of year according to National Statistical Institute (INE). ^eSurplus.

^fExcluding variation in reserves due to revaluation of gold.

^gIncluding variation in reserves due to revaluation of gold.

Thus, on the one hand the country had to effect a large transfer of resources abroad which amounted to a little over US\$ 1 100 million and was thus 20% higher than the year before, while on the other hand it had to drastically restrict imports for the second year running in order to reduce the current account deficit.

In order to facilitate the adjustment process, at the beginning of January the authorities signed an agreement with the International Monetary Fund which included two loans. The first of these, designed to make up for the drop in export income caused by the deterioration of the terms of trade, was for US\$ 325 million and was disbursed immediately. The second—a stand-by credit for US\$ 550 million—was subject however to the fulfilment of a two-year adjustment programme and would be disbursed quarterly. As is usual in this latter type of credit, the country undertook not to exceed certain limits as regards loss of international reserves, expansion of net Central Bank domestic credit, and size of the non-financial public sector deficit, and it agreed to follow a restrictive wage policy, to keep interest rates free, and to maintain a liberal scheme as regards imports.

As a result of the intervention of the financial system which was decreed only three days after signing the agreement with the Fund, however, some of the goals provided for in the latter were rapidly exceeded. Thus, in the month of January alone there was a loss of reserves of US\$ 600 million, which was the maximum amount authorized in the agreement with the IMF for the whole year. Furthermore, because of the support which the Central Bank had to give to the financial system after the intervention measures, the net domestic credit granted by the Central Bank rose by 80 billion pesos, thus exceeding by nearly 30 billion pesos the maximum expansion agreed on for the whole year.

In these circumstances, it was indispensable to negotiate with the Fund the modification of the original agreement, which, in its turn, was essential both in order to obtain the support of the international private banking system in the rescheduling of the external debt commitments and in order to secure additional net external financing.

The new agreement was reached in July, when the Fund approved a waiver whereby, together with reaffirming some of the goals agreed on in the original agreement (such as that regarding the maximum loss of reserves), permission was given for the modification of others (such as the expansion of the maximum deficit of the non-financial public sector from 1.8% to 2.3% of the gross domestic product). This authorization by the Fund also facilitated the agreement between Chile and the international private banking system whereby the latter agreed to reschedule for eight years (with four years' grace) the amortization payments on both long and medium-term credits falling due in 1983-1984 and the amounts due in respect of short-term credits. In addition, the banking system granted additional credits amounting to US\$ 1.3 billion, to be drawn in 1983.

Largely thanks to these agreements with the Fund and with the international commercial banks, the international reserves increased as from the middle of the year and the economic authorities were able to apply a more expansive policy as regards public spending in the last four months of the year, while the Central Bank was able to establish lines of credit which enabled it to reschedule on less onerous conditions the heavy debts which productive enterprises and real estate debtors had with the national banks. The issuing institute also set up other lines of credit for financing the working capital of enterprises. Although these measures were not enough to solve the serious problems of indebtedness faced by many units of production, on the one hand they helped to lighten their financial burden by reducing interest rates and lengthening terms of repayment, while on the other they raised demand in sectors such as construction where the under-utilization of installed capacity and the labour force were enormous.

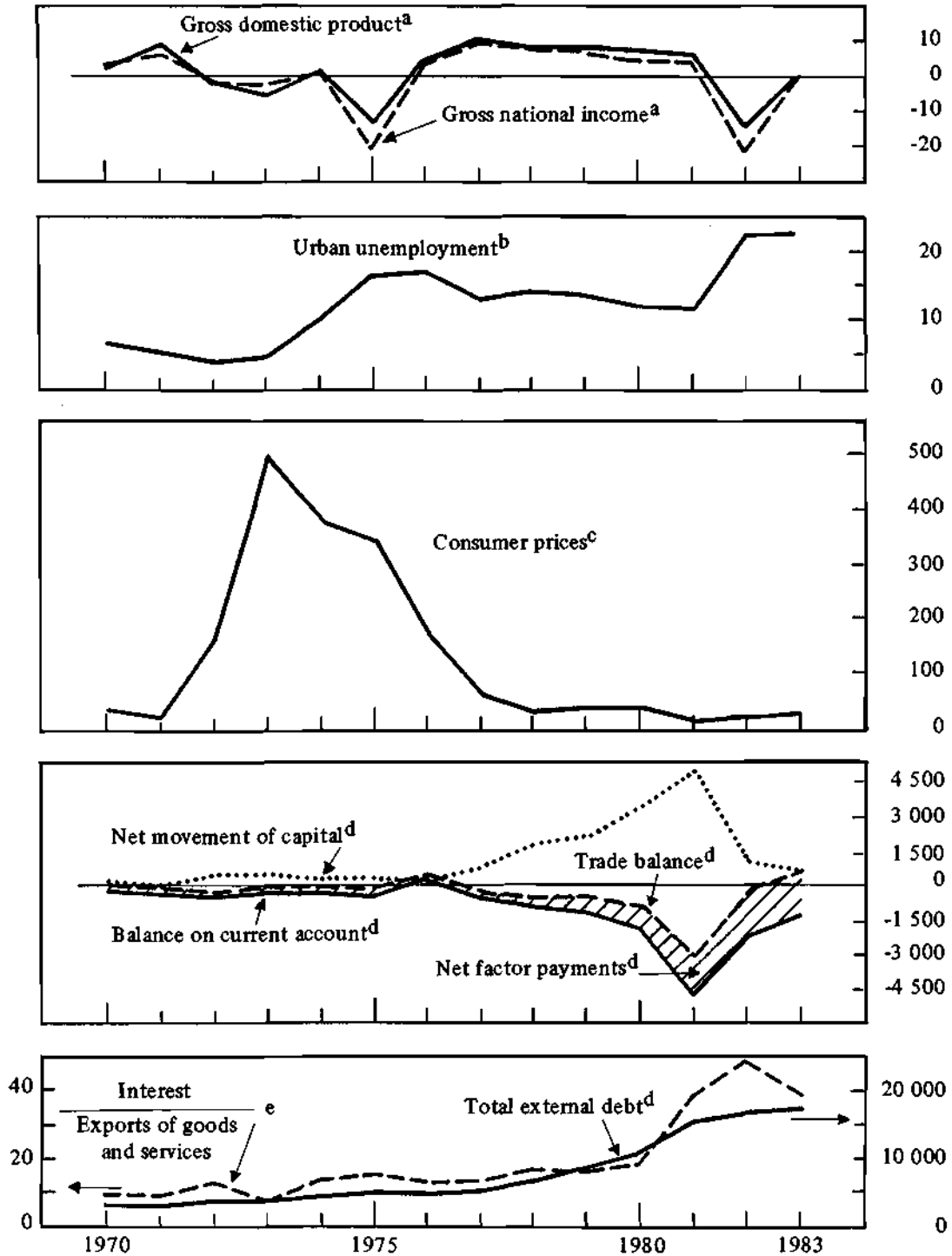
The positive effects of these measures on the level of activity were strengthened in industry and agriculture by the raising of the general tariff from 10% to 20% and by the imposition of import surcharges on a number of manufactures and agricultural commodities.

2. Trends in economic activity

a) *Total supply and demand*

After having suffered a drastic decline of over 17% the year before, the total supply of goods and services went down a further 2.5% in 1983 as a result of the drop of almost 1% in the gross domestic product and a substantial new contraction of 15% in the volume of imports (see table 2).

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

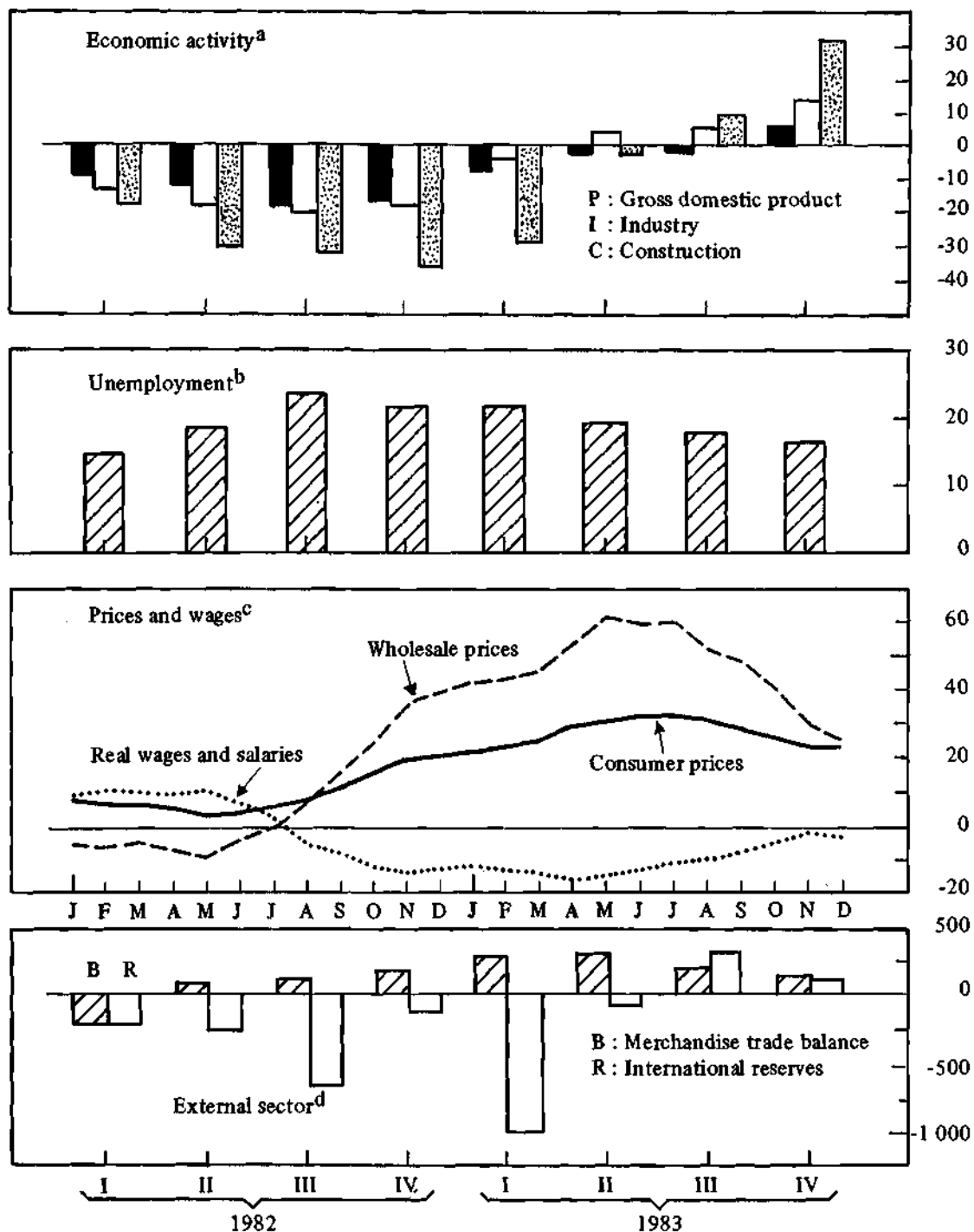
^aAnnual growth rate.
variation December - December.

^bAnnual average rate for Greater Santiago.
^dMillions of dollars

^cPercentage
^ePercentage.

Figure 2

CHILE: QUARTERLY EVOLUTION OF MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of industrial information.

^aQuarterly variations in the gross domestic product, industrial production and the construction product.

^bAverage rate for Greater Santiago.

^cVariation with respect to the same month in the preceding year.

^dBalance on trade in goods and variations in international reserves, in millions of dollars.

Due mainly to the marked drop in the volume of imports and, to a lesser extent, a small increase in the volume of exports, the domestic availability of goods and services went down for the second year running by a larger amount than the product and total supply. Thus, over the last two years the volume of goods and services available per inhabitant, which is what ultimately determines the present and future level of living of the population, has fallen by 30%.

As was to be expected in view of the sluggishness of demand, the existence of abundant underutilized capacity in many sectors, and the uncertainty which prevailed especially during the first half of the year, the decline in investment was even more serious. Thus, fixed capital formation, which had already gone down by 37% in 1982, went down by almost 14.5% more in 1983, so that the coefficient of fixed investment stood at not even 9% of the gross domestic product: the lowest proportion registered in the last 25 years.

Furthermore, because of the persistence of a very high unemployment rate and the drastic fall in real wages, private consumption suffered a considerable drop of over 6% which came on top of the decline of 17.5% registered the year before. General government consumption, for its part, went down for the third time in the last four years.

Thus, as in 1982, the only component of demand which showed some dynamism was exports of goods and services. Even so, however, the real increase in these exports was far below the almost 11% rise registered the year before (see table 2).

b) *Evolution of the main sectors*

As well as being much smaller than the year before, the decline in economic activity in 1983 was also a good deal less generalized. Thus, in contrast with what happened in 1982, when the product of all the main sectors of the economy except mining went down, in 1983 the drop in economic activity was concentrated in the services sectors (see table 3). In the goods-producing sectors, in contrast, there was a slight recovery in the manufacturing product and that of the construction sector held its

Table 2

CHILE: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	13 651	14 478	11 953	11 652	112.7	117.4	111.6	8.6	6.1	-17.4	-2.5
Gross domestic product at market prices	11 624	12 289	10 527	10 439	100.0	100.0	100.0	7.8	5.7	-14.3	-0.8
Imports of goods and services ^b	2 027	2 189	1 426	1 213	12.7	17.4	11.6	13.4	8.0	-34.8	-14.9
Total demand	13 651	14 478	11 953	11 652	112.7	117.4	111.6	8.6	6.1	-17.4	-2.5
Domestic demand	10 316	11 400	8 561	8 189	98.9	88.7	78.4	6.6	10.5	-24.9	-4.3
Gross domestic investment	1 954	2 065	714	823	16.4	16.8	7.9	31.2	5.7	-65.4	-15.3
Gross fixed investment	1 508	1 729	1 088	931	15.0	13.0	8.9	21.9	14.7	-37.1	-14.4
Construction	722	846	730	...	9.2	6.2	...	22.4	17.2	-13.8	...
Machinery and equipment	786	883	358	...	5.8	6.8	...	21.5	12.4	-59.5	...
Changes in stocks	446	336	-374	-108	1.4	3.8	-1.0				
Total consumption	8 362	9 335	7 847	7 366	82.5	71.9	70.6	2.1	11.6	-15.9	-6.1
General government	1 529	1 534	1 415	1 333	12.8	13.2	12.8	-8.1	0.3	-7.8	-5.8
Private	6 833	7 801	6 432	6 033	69.7	58.7	57.8	4.7	14.2	-17.5	-6.2
Exports of goods and services ^c	3 335	3 078	3 392	3 463	13.8	28.7	33.2	15.2	-7.7	10.8	1.6

Source: ECLAC, on the basis of data supplied by the Central Bank of Chile.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

^cVariations in stocks.

Table 3

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

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	10 008	10 580	9 064	8 991	100.0	100.0	100.0	7.8	5.7	-14.3	-0.8
Goods	4 610	4 887	4 277	4 300	50.4	46.2	46.5	6.9	6.0	-12.5	0.6
Agriculture, hunting, forestry and fisheries	745	785	767	759	7.7	7.5	8.2	3.8	5.3	-2.3	-1.0
Mining and quarrying	1 124	1 214	1 283	1 257	10.3	11.3	13.6	5.2	8.0	5.7	-2.0
Manufacturing	2 323	2 383	1 868	1 924	26.6	23.3	20.8	6.2	2.6	-21.6	3.0
Construction	418	506	359	360	5.8	4.2	3.9	23.9	21.1	-29.0	0.2
Basic services	1 035	1 049	971	959	8.9	10.4	10.4	9.5	1.4	-7.5	-1.2
Electricity, gas and water	261	267	266	276	2.1	2.6	3.0	5.0	2.1	-0.2	3.7
Transport, storage and communications	774	783	705	683	6.8	7.8	7.4	11.1	1.1	-9.9	-3.1
Other services	4 910	5 189	4 659	4 232	42.9	49.2	45.8	8.3	5.7	-10.8	-9.2
Commerce, restaurants and hotels	1 509	1 609	1 323	1 273	13.5	15.1	13.8	12.4	6.6	-17.8	-4.1
Financial institutions, insurance, real estate and business services	1 588	1 767	1 662		11.0	15.9		14.5	11.2	-5.9	
Ownership of dwellings	527	535	541		5.9	5.3		1.0	1.5	1.0	
Community, social and personal services	1 813	1 813	1 674	2 259	18.4	18.2	32.0	0.5	-	-7.6	-11.3
Government services	612	601	584		6.5	6.1		-3.2	-1.8	-2.9	
Less: Imputed bank service charges	580	750	648	256	2.2	5.8	2.7	41.0	29.2	-13.6	-60.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Chile.

^aPreliminary figures. ^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

own, although the agricultural sector continued to decline and the mining product went down for the first time since 1975.

i) *Agriculture*. In 1983, the agricultural sector suffered a contraction of 1.5%, which came on top of the decline of a little over 3% registered the year before. This new drop was due to the falls in both livestock production and that of traditional crops, which were not offset by the growth of the fruit and forestry subsectors, since these are still of minor relative importance. Among the main factors responsible for this new decline in agricultural activity were the poor financial situation of producers due to high interest rates and low prices, and the drought which affected the southern area of the country.

The value of the fourteen traditional crops went down by over 7%, thus intensifying the negative trend which, except for 1979, has been observed since 1978 (see table 4) and bringing this value down to only three-quarters of that registered in 1970. There were increases in production in the case of only three of the fourteen traditional crops: sugar beet (71%), oats (24%) and maize (6%). In contrast, there were some very marked drops in the harvests of other products such as barley (-38%), beans (-48%) and rape (-78%).

As in the previous two years, there was a substantial reduction (-8%) in the area devoted to these crops, which only came to just over 870 000 hectares in the 1982-1983 season. This area was one of the smallest registered for over half a century and represented only 70% of that sown in 1970.

The area sown with wheat, which is the most important traditional crop, went down by 4% in 1983 and thus stood at less than half the area sown in 1970. That corresponding to cereals as a whole, however, increased by a little over 2%, since the above-mentioned reduction, together with that in the areas planted with rice and barley, was offset by the big increases in the areas sown with oats (25%) and maize (10%).

The evolution of crop farming yields, in contrast, was diametrically opposed to that of 1982. Whereas in that year the yields increased in the case of all products except two, in 1983 there was a general decline, with only three exceptions: sugar beet (4%), rice (9%) and lentils (46%). The effects of this decline thus compounded those of the reduction in the area sown in causing the general drop in production of the traditional crops.

Fruit-growing also turned in a less favourable performance. Thus, after several years in which the great majority of lines of fruit-growing expanded steadily, in 1983 there were increases in only eight of the fifteen main varieties (see table 5).

Table 4

CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Production of the 14 traditional crops										
Value ^b	148.6	135.5	135.7	130.4	122.7	113.8	-9.7	-3.9	-5.9	-7.3
Volume ^c										
Wheat	1 306.9	1 002.4	966.0	686.0	650.5	586.0	-2.9	-29.0	-5.2	-9.9
Oats	110.5	131.1	172.6	130.7	117.6	143.6	-14.9	-24.3	-10.0	24.4
Barley	97.4	120.6	105.0	91.4	117.9	73.2	-6.3	-13.0	29.0	-37.9
Rye	10.8	11.1	10.4	9.2	6.1	4.5	15.6	-11.5	-33.7	-26.2
Rice	76.2	76.3	95.4	99.7	131.2	115.6	-47.4	4.5	31.6	-11.9
Maize	239.1	329.0	405.2	518.2	484.1	511.6	-17.2	27.9	-6.6	5.7
Potatoes	683.8	737.9	903.1	1 007.3	841.6	683.6	17.2	11.5	-16.5	-18.8
Beans	65.6	74.1	84.2	138.2	162.5	84.4	-27.6	64.1	17.6	-48.1
Lentils	11.2	12.1	26.8	17.7	15.8	13.8	-15.5	-34.0	-10.6	-12.7
Peas	7.4	6.3	13.6	11.0	7.4	5.7	-6.8	-19.1	-32.4	-23.0
Chickpeas	5.4	4.9	11.6	6.4	4.1	3.2	23.4	-44.8	-35.9	-22.0
Sugar beet	1 655.1	1 616.7	450.2	1 460.5	963.0	1 642.8	-33.7	224.4	-34.1	70.6
Rape	70.0	61.4	73.4	26.9	13.2	2.9	13.6	-63.4	-50.8	-78.0
Sunflower	28.2	17.8	38.3	7.4	5.4	4.6	15.0	-80.7	-27.0	-14.8
Area sown with the 14 traditional crops^d										
Wheat	1 251	1 248	1 237	1 079	945	871	-1.1	-12.8	-12.5	-7.8
Oats	740	686	546	432	374	359	-2.7	-20.9	-13.5	-4.0
Rice	73	94	92	80	68	85	16.5	-13.0	-15.0	25.0
Barley	47	66	49	46	58	38	-18.3	-6.1	26.1	-34.5
Rye	8	9	8	9	6	5	14.3	12.5	-33.3	-16.7
Maize	25	23	41	31	37	30	-12.8	-24.4	19.4	-18.9
Potatoes	74	92	116	126	107	118	-10.8	8.6	-15.1	10.3
Beans	72	72	89	90	77	77	9.9	1.1	-14.4	-13.0
Lentils	57	68	111	118	122	86	0.9	6.3	3.4	-29.5
Peas	17	21	53	48	39	23	6.0	9.4	-18.8	-41.0
Chickpeas	11	9	18	18	12	10	5.9	-	-33.3	-16.7
Sugar beet	11	8	21	16	10	8	23.5	-23.8	-37.5	-20.0
Rape	42	42	11	37	22	36	-31.3	236.4	-40.5	63.6
Sunflower	54	45	50	24	10	3	-7.4	-52.0	-58.3	-70.0
	20	13	32	5	3	3	45.5	-84.4	-40.0	-

Source: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of pesos at 1974 prices.

^cThousands of tons.

^dThousands of hectares.

Table 5
CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Area planted (thousands of hectares)									
Total	65.8	82.3	86.1	89.7	93.0	10.1	4.6	4.2	3.7
Almonds	1.6	2.2	2.2	2.3	2.3	8.2	1.6	1.0	3.0
Cherries	1.1	1.8	2.0	2.1	2.2	9.6	8.8	5.6	3.7
Plums	1.8	3.2	3.7	4.5	4.8	15.2	15.9	19.7	8.9
Apricots	1.6	1.4	1.3	1.3	1.3	0.2	-7.9	1.0	0.2
Peaches	10.5	6.4	6.2	6.0	6.0	0.5	-2.7	-3.2	0.7
Nectarines	4.1	5.8	6.2	6.5	6.7	4.9	6.0	5.4	3.8
Lemons	7.4	6.0	5.7	5.3	5.4	0.9	-5.0	-6.7	2.3
Apples	11.7	15.8	16.7	17.6	17.8	15.8	5.6	5.5	1.3
Quinces	1.0	0.7	0.6	0.5	0.5	-	-10.5	-21.2	2.1
Oranges	4.6	5.2	5.3	5.7	5.8	0.7	3.4	6.4	2.0
Walnuts	4.4	6.4	6.5	6.6	6.6	9.1	1.6	0.7	0.2
Olives	3.2	3.1	3.0	3.0	3.0	6.2	-2.7	-0.7	-0.1
Avocados	4.6	6.7	7.1	7.4	7.6	18.0	7.0	3.1	3.0
Pears	2.6	3.3	3.7	3.9	4.2	7.5	11.5	6.2	6.9
Table grapes	5.6	14.5	16.0	17.4	18.8	23.6	10.2	8.8	8.4
Production (thousands of tons)									
Almonds	0.8	1.2	1.3	1.4	1.3	10.0	8.3	7.5	-7.3
Cherries	5.1	5.3	5.9	6.4	6.3	-2.9	11.5	7.5	-1.5
Plums	13.2	17.0	17.2	18.4	19.0	6.1	1.4	6.7	3.1
Apricots	13.9	12.6	13.0	13.2	12.9	-5.0	3.0	1.6	-2.1
Peaches	115.0	68.2	61.0	62.6	63.5	-5.5	-10.5	2.5	1.5
Nectarines	30.8	36.4	40.7	45.8	52.5	7.2	12.0	12.4	14.7
Lemons	69.9	64.7	60.7	61.6	49.6	-2.4	-6.3	1.6	-19.5
Apples	125.0	245.0	298.4	345.0	365.0	16.7	21.8	15.6	5.8
Quinces	5.5	7.9	8.4	7.9	7.2	1.3	6.2	-6.3	-7.8
Oranges	46.9	59.2	58.8	65.4	66.8	-2.7	-0.6	11.1	2.2
Walnuts	3.1	5.2	5.7	6.0	6.3	6.2	8.7	5.8	5.5
Olives	11.4	8.3	8.5	9.2	8.3	21.3	2.7	7.5	-10.0
Avocados	14.7	21.7	25.0	25.7	26.6	12.1	15.2	2.9	3.4
Pears	33.8	43.1	45.5	50.6	48.1	2.2	5.6	11.1	-4.8
Table grapes	59.1	85.0	121.7	162.7	196.4	7.8	43.2	33.7	20.7

Source: Ministry of Agriculture, Agricultural Planning Office (ODEPA).

^aPreliminary figures.

Among those where there was an increase in production, the most outstanding examples were table grapes and nectarines. In the case of grapes (which is the type of fruit with the biggest planted area), although the increase was a good deal less than the very high rates registered in the previous two years, it was nevertheless considerable (21%). This made a total increase of 130% over the three-year period 1981-1983, so that the 1983 production was three times greater than in 1975. This notable increase was due largely to the recovery in yields, which in 1983 reached a similar level to that of 1975 (10.5 tons per hectare), after having gone down by 1980 to only 5.8 tons per hectare. Production of nectarines, for its part, expanded by 15% after having grown by 12% in each of the two preceding years; this increase, too, was influenced by the positive evolution of yields.

Production of apples (the second most important fruit as regards area planted) and walnuts both increased by 6%; in the case of apples, however, this represented a marked slackening of the trends of previous years.

As regards the types of fruit whose level of production went down in 1983, the most noteworthy was the drop of 20% in lemon production. This marked the continuation of the negative trend of recent years, and the 1983 output thus stood at only 70% of that obtained in 1975. There were also substantial reductions in the output of olives (-10%), quinces (-8%), almonds (-7%) and pears (-5%). In all these cases the reason was a sharp drop in yields, since the area planted with olives remained unchanged, while that devoted to the other three types of fruit increased.

In the livestock sector, the total production of undressed meat went down by 1.6% in 1983 to only about 378 000 tons (see table 6). This was due fundamentally to the considerable drop (-31%) in poultry meat production. In contrast, cattle slaughtering expanded by 7%, thus completing a cycle of three years of growth, and apparent per capita consumption rose from 17.4 kilogrammes in 1982 to 18 kilogrammes in 1983. In the light of this, when the drop in the production of mutton and the slight increase in that of pork are taken into account, the total per capita meat production is seen to have gone down from 33.5 to 32.4 kilogrammes between 1982 and 1983.

Milk production dropped markedly (-15%) after having already gone down by 12% in 1982. This performance was influenced by the financial problems faced by producers because of the high domestic interest rates, the competition of low-cost imported products,¹ etc. These problems caused them to slaughter an excessive number of animals, and the difficulties were accentuated by the drought in the south of the country.

Table 6

CHILE: INDICATORS OF LIVESTOCK PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Production of main livestock items^b										
Beef	176.1	215.5	162.3	184.6	194.6	205.1	-3.1	13.7	5.4	6.9
Poultry meat	61.6	43.8	102.0	122.5	114.0	79.0	29.3	20.1	-6.9	-30.7
Pigmeat	44.4	30.0	49.7	55.8	57.7	58.9	16.9	12.3	3.4	2.1
Mutton	22.4	18.1	15.5	15.6	14.9	13.3	-12.4	0.6	-4.5	-10.7
Milk ^c	895.1	956.1	1 080.0	1 200.0	1 056.0	900.0	13.3	11.1	-12.0	-14.8
Eggs ^d	1 205.8	1 196.8	1 425.0	1 442.8	1 312.8	1 170.0	17.1	1.2	-9.0	-10.9
Greasy wool	20.2	18.8	20.6	21.6	21.6	...	5.1	4.9	-	...

Source: Beef, pigmeat and mutton: National Statistical Institute (INE); other livestock items: Agricultural Planning Office (ODEPA).

^aPreliminary figures. ^bThousands of tons. ^cMillions of litres. ^dMillions of units.

Table 7

CHILE: AREA AFFORESTED

(Thousands of hectares)

	1971	1973	1975	1977	1979	1980	1981	1982	1983 ^a
Total	28.0	30.3	82.6	93.2	52.0	72.3	93.2	68.6	76.3
National Forestry Corporation (CONAF)	16.6	27.4	44.1	44.6	0.4	0.2	0.1	...	21.8
Private enterprises	11.4	2.9	38.5	48.6	51.6	72.1	93.1	68.6	54.5

Source: National Forestry Corporation (CONAF).

^aPreliminary figures.

¹It should be noted, however, that in September the customs tariffs for milk, butter and cheese were modified, so that the respective import costs rose by 15%, 30% and 22% respectively.

Table 8

CHILE: INDICATORS OF FISHERY PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Fishery product^b	24.9	24.5	54.7	64.6	70.3	73.5	7.5	18.1	8.8	4.6
Fishing catch^c	1 181	899	2 892	3 503	3 846	4 168	13.0	21.1	9.8	8.4
Fish	1 082	804	2 700	3 291	3 577	3 852	11.2	21.9	8.7	7.7
Fresh consumption	62	71	75	149	64	55	-27.2	98.7	-57.0	-14.1
Industrial processing	1 020	733	2 625	3 142	3 513	3 797	12.9	19.7	11.8	8.1
Shellfish	99	95	192	212	269	316	45.5	10.4	26.9	17.5
Fresh consumption	34	33	54	46	52	78	22.7	-14.8	13.0	50.0
Industrial processing	65	62	138	166	217	238	56.8	20.3	30.7	9.7
Output of fishery products^d	240.6	197.6	734.6	860.5	1 025.2	970.9	9.4	17.1	19.1	-5.3
Frozen	7.4	6.9	13.5	15.4	60.8	44.6	-39.7	14.1	294.8	-26.7
Canned	11.9	9.0	38.0	29.5	23.5	41.5	38.2	-22.4	-20.3	76.6
Fishmeal	197.3	155.1	571.9	688.3	795.8	827.7	11.6	20.4	15.6	4.0
Fish oil	23.3	25.8	111.0	127.3	145.0	57.0	1.9	14.7	13.9	-60.1
Other	0.7	0.8	0.2	-	0.1	0.1	-	-	-	-

Source: Ministry of Agriculture: Crop-farming and Livestock Service (SAG).

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

^cThousands of tons.

^dThousands of tons of finished products.

As regards forestry activity, the area planted grew by 11% (see table 7). With this new increase, the total area exceeded one million hectares, of which almost 80% were planted in the last ten years. A noteworthy fact in 1983 was that the National Forestry Corporation (CONAF) reactivated its afforestation activities after four years in which direct activities by CONAF in the planting of trees had been suspended. Thus, in 1983 CONAF planted almost 22 000 hectares, or 29% of the total. In contrast, private activity in reafforestation and the planting of new forests went down by over 20%.

Production of lumber in the nearly 1 500 sawmills existing in the country increased considerably (37%) to the level of 1.6 million cubic metres, thus marking a substantial recovery compared with 1982, when the lumbering industry had registered its lowest production for the last eight years.

ii) *Fisheries*. The product of the fishery sector increased by 4.6% in 1983. Although this rate was a little below those registered in 1981 and 1982, it nevertheless represented a continuation of the upward trend of recent years (see table 8).

The fishery catch increased by 8%, or a little less than in 1982. Noteworthy was the big (59%) increase in the catch of sardines. The seafood catch also increased by quite a large amount (18%), although this was a good deal less than the exceptionally high growth rate of 27% registered on average during the period 1980-1982. Noteworthy in this category was the increase of 170% in the catch of crustaceans.

Industrial fishery production, however, which had grown at an average rate of 25% over the five-year period 1978-1982, went down for the first time in several years (see table 8). Almost all categories showed reverses in their evolution with respect to 1982. Thus, frozen products, after increasing fourfold in 1982, went down by 14%, while production of fish oil, which had grown by 14% in 1982, went down by 60%. In contrast, the production of the canning industry increased by 77%, thus reversing its strong negative trend in 1981 and 1982. Finally, production of fish meal — which is by far the most important line of activity in this area — did not suffer such abrupt changes and continued to grow as in previous years, although at a considerably lower rate.

Fishery sector exports came to US\$ 455 million or 11% more than in 1982. External sales accounted for 80% of national production and consisted especially of fish meal, fish oil, canned goods and frozen products.

iii) *Mining*. The mining product contracted in 1983 (by 2%) for the first time in several years. Its average annual growth rate in the previous five years had been over 5% (see table 9).

Among the main minerals, there were declines in the production of iron ore (-8% in the case of the ore itself and -9% in the case of pellets) and of molybdenum (-24%), as well as in that of petroleum. The latter went down by 8% after having grown by only 3% in 1982. This marked the end of its period of rapid growth (1979-1981), when it expanded by 160%, largely thanks to the execution of the Costa Afuera project in the Straits of Magellan. These oilfields currently provide three-quarters of national production, involving the use of 21 marine platforms. During 1983 this project was further developed with the entry into service of a gas processing and recompression station which makes it possible to collect gas together with the crude and subsequently convert it into products such as butane, propane and natural gasoline. A 33 kilometre gas pipeline was also placed in operation between the terminals of Tierra del Fuego and Cabo Negro, the latter being on the mainland.

Among the minerals whose production increased, the most noteworthy was silver, which grew by 23% after having increased by 6% in 1982. Its production thus rose for the fifth year running. Coal mining also increased considerably (10%) and thus partially recovered from its sharp decline the year before. For their part, the outputs of nitrates, iodine and sodium sulphate increased by 8% after having all suffered declines in 1982. Finally, gold production increased by only 5%, thus ending the period of very rapid growth which it had enjoyed between 1980 and 1982, when it expanded at an annual average rate of 70%.

Production of copper, the country's most important mineral, grew only marginally (1%) after having increased by 15% in 1982, which had made Chile the leading world producer of this mineral. The small increase registered in 1983 was due to a decline in the first half of the year, followed by a recovery in the second. The structure of production by institutional sectors also showed opposing tendencies: the production of the large-scale mining sector went down by 2%, while that of medium-sized and small-scale mining (which usually accounts for some 15% of total production) increased at a rapid rate (18%) for the fourth consecutive year.

Table 9

CHILE: INDICATORS OF MINING PRODUCTION

	Production						Growth rates			
	1970	1975	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Mining sector product ^b	802	866	1 124	1 214	1 283	1 257	5.2	8.0	5.7	-2.0
Copper ^c	692	828	1 068	1 081	1 241	1 257	0.5	1.2	14.8	1.3
Large-scale mining	541	683	905	894	1 033	1 012	-0.5	-1.2	15.5	-2.0
Medium-and small-scale mining	151	146	163	188	208	245	7.9	15.3	10.6	17.8
Iron ore ^c										
Ore	11 265	11 007	8 835	8 514	6 470	5 974	7.4	-3.6	-24.0	-7.7
Pellets	...	...	3 179	3 266	3 377	3 072	12.9	2.7	3.4	-9.0
Coal ^d	1 382	1 460	1 024	1 169	997	1 095	7.0	14.2	-14.7	9.8
Nitrates ^d	669	726	620	624	517	623	-0.2	0.6	-7.5	8.0
Iodine ^e	2 250	1 962	2 601	2 688	2 597	2 793	7.9	3.3	-3.4	7.5
Sodium sulphate ^e			70 100	58 320	47 610	51 300	2.0	-16.8	-18.4	7.8
Petroleum ^f	1 977	1 423	1 933	2 401	2 484	2 284	60.8	24.2	3.5	-8.1
Molybdenum ^e	5 701	9 091	13 668	15 360	20 048	15 267	0.8	12.4	30.5	-23.8
Gold ^g	1 623	3 997	6 836	12 456	16 907	17 725	97.2	82.2	35.7	4.8
Silver ^e	76	194	299	361	382	468	9.9	20.7	5.8	22.5

Source: Copper: Chilean Copper Corporation and State Department of Mines; iron ore: National Statistical Institute; coal: National Coal Corporation; nitrates, iodine and sodium sulphate: Chilean Chemical Corporation; petroleum: National Petroleum Corporation; molybdenum: State Department of Mines and National Statistical Institute; gold and silver: National Statistical Institute.

^aPreliminary figures. ^bMillions of dollars at 1970 prices. ^cThousands of tons. ^dThousands of gross tons. ^eTons. ^fThousands of cubic metres. ^gKilogrammes fine.

Table 10

CHILE: INDICATORS OF MANUFACTURING ACTIVITY

	Indexes (1969 = 100)					Growth rates				
	1970	1975	1980	1982	1983 ^a	1975	1980	1981	1982	1983 ^a
Industrial product ^b	2 073	1 613	2 323	1 868	1 924	-25.5	6.2	2.6	-21.6	3.0
Industrial output										
INE	99.7	77.9	110.2	93.8	98.4	-28.1	5.9	0.3	-15.1	4.9
SOFOFA	103.5	85.0	129.2	106.6	111.5	-23.5	4.0	0.1	-17.6	4.6
Mass consumption goods	104.5	84.6	120.1	106.3	115.7	-18.9	0.3	-0.9	-10.7	8.8
Consumer durables	115.6	88.1	122.1	59.2	48.2	-28.9	28.4	10.4	-56.1	-18.6
Transport equipment	100.0	53.6	109.7	59.5	42.7	-26.4	19.8	-13.8	-37.1	-28.2
Intermediate products for industry	100.6	113.1	155.2	146.3	154.7	-14.9	1.2	-0.8	-5.0	5.7
Intermediate products for construction	104.1	65.1	145.7	99.4	99.3	-42.6	7.6	-2.0	-30.4	-0.1
Miscellaneous manufactures	97.2	67.4	108.0	93.4	102.6	-36.2	1.7	12.2	-22.9	9.9
Industrial sales	99.7	85.9	128.6	109.3	110.9	-20.4	4.7	-0.5	-14.5	1.5

Source: Industrial product: National Planning Office (ODEPLAN); industrial output: National Statistical Institute (INE) and Sociedad de Fomento Fabril (SOFOFA); industrial sales: Sociedad de Fomento Fabril.

^a Preliminary figures. ^b Millions of dollars at 1970 prices.

The Chilean Copper Corporation (CODELCO), which is the State enterprise responsible for operating the large-scale mining deposits, contributed almost US\$ 680 million to the State in 1983: an increase of almost 30%. This contribution was accounted for by income tax, import duties, value added tax, a share in the profits, etc. CODELCO also began investment programmes in its Chuquicamata and El Teniente divisions which will enable copper production to be increased by 142 000 tons per year. For this purpose it received a loan of US\$ 268 million from the Inter-American Development Bank (IDB), which will finance part of the project, whose total cost amounts to US\$ 670 million. The IDB will contribute a similar amount in 1984 and the difference will be covered partly by other loans and partly by drawing on the resources of CODELCO itself (US\$ 85 million).

As regards mining area policy, two facts were particularly worthy of note: the promulgation of the new Mining Code, and a number of measures aimed at relieving the financial situation of producers. The new Code changed the nature of mining concessions by making them more stable. Among the measures designed to aid producers, the most noteworthy was the reactivation plan carried out by the National Mining Corporation (ENAMI). This included in particular the establishment of government purchasing arrangements for the output of small and medium-sized mining enterprises in areas where there were processing plants with idle capacity and potential supplies of raw material; thus, a purchasing facility was opened in Illapel for sulphide ores, another in Combarbalá for oxide ores, and others in Andacollo and Tocopilla. Secondly, ENAMI was authorized to assume indebtedness in order to continue its programme of loans to small and medium-sized mining enterprises. It will also act as guarantor for these enterprises in the purchase of machinery on a long-term basis. Finally, action was begun to set up various gold washing facilities.

iv) *Manufacturing*. In 1983 the industrial product recovered slightly (3%) after the sharp 22% contraction suffered in 1982. Even so, the level finally reached was 12% lower than in 1979 and 7% below that obtained as far back as 1970. The industrial production indexes of the National Statistical Institute (INE) and the Sociedad de Fomento Fabril both showed similar trends (see table 10).

The recovery registered in 1983 was the result of a radical change in the behaviour of production in the course of the year. Thus, whereas in 1982 the rates of variation of industrial production were not only systematically negative but also became progressively more unfavourable, in 1983 industrial production showed a recovery as from the second quarter of the year and the rate of this recovery gradually increased in the second part of the year.²

² After having gone down by 4% in the first quarter (compared with the same period of the year before), industrial production rose by 4% in the second quarter, 5% in the third, and rather more than 13.5% in the fourth.

Also in contrast with 1982, when there was a contraction in the production of all branches of industry, in 1983 there was a good rate of recovery in the sectors producing everyday consumer goods (9%), intermediate products for industry (6%) and miscellaneous manufactures (10%), which account altogether for about three-quarters of the total industrial value added. In the sector producing everyday consumer goods, the most outstanding features were the increases of 26% in textile production, 11% in that of beverages, and 9% in that of footwear; in contrast, the foodstuffs industry—which is the most important industrial subsector with 16% of the total industrial value added—grew by only 1%. Among intermediate products for industry the most outstanding features were the growth of 27% in the output of petroleum products, 11% in petroleum refining, and 7% in basic iron and steel industries. Finally, among miscellaneous articles, there was a noteworthy expansion of 53% in the production of rubber goods.

In contrast, the sectors producing consumer durables and transport equipment continued to decline—by 28% and 29%, respectively—after having registered even bigger falls in 1982. Finally, the production of intermediate goods for the construction sector continued to stagnate (see table 10).

The result achieved by industrial production as a whole was due to the opposing influence of positive and negative factors. Among the former was the increase in the real exchange rate, which succeeded in increasing the profitability of exports and products competing with imports, although somewhat slower than had been expected. The latter products were also favoured by the increase in the general tariff to 20% and the imposition of specific surcharges on various products. Among the negative factors, for their part, was the high real cost of credit, the low international prices obtained for such products as wood pulp, and the low level of construction activity.

v) *Construction.* In 1983, the performance of the construction sector was marked by sharp contrasts. Whereas there was a further accentuation, in the first half of the year, of the profound

Table 11

CHILE: MAIN INDICATORS OF CONSTRUCTION ACTIVITY

	1970	1975	1980	1981	1982	1983 ^a	Growth rates		
							1981	1982	1983 ^a
Construction product ^b	455	305	418	506	359	360	21.1	-28.8	0.3
Building materials									
Deliveries of cement for the domestic market ^c	30.8	23.1	35.4	43.5	27.0	29.6	22.9	-37.9	9.6
Deliveries of round bars for construction ^d	86.1	53.9	107.6	83.8	40.9	45.6	-22.1	-51.2	11.5
Index of real sales of intermediate goods for construction (1969 = 100)	101.4	116.6	151.2	148.4	107.8	103.8	-1.9	-27.4	-3.7
Building									
Total area (thousands m ²)	2 272	1 676	4 297	5 118	2 080	2 412	19.1	-59.4	15.9
Public sector ^e	498	322	265	183	139	119	-30.9	-24.0	-14.4
Private sector ^f	1 774	1 354	4 032	4 935	1 941	2 293	22.4	-60.7	18.1
Residential	1 570	1 256	3 058	3 705	1 330	1 832	21.2	-64.1	37.7
Non residential	702	420	1 239	1 413	750	580	14.0	-46.9	-22.8
Total number of dwellings	21 344	15 845	43 310	49 802	24 139	34 322	15.0	-51.5	42.2
Public sector ^e	3 552	3 105	1 589	534	314	845	-66.4	-41.2	169.1
Private sector ^f	17 792	12 470	41 721	49 268	23 825	33 477	18.1	-51.6	40.5

Source: Construction product: ECLAC, on the basis of data provided by the National Planning Office; building materials: Cámara Chilena de la Construcción; building: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

^cMillions of bags.

^dThousands of tons.

^eBuilding starts in 80 communes, except for 1970, when figures refer to only 60 communes.

^fPermits approved.

Table 12

CHILE: UNEMPLOYMENT IN GREATER SANTIAGO

(Percentages)

	Annual averages											
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
Total rate of unemployment												
Department of Economics of the University of Chile	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	
National Statistical Institute	4.8	9.7	15.0	17.0	13.9	13.8	13.4	11.8	9.0	20.0	18.9	
Rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time)												
Industry	3.2	6.7	11.9	12.6	9.9	10.5	10.1	8.7	8.5	18.8	18.4	
Construction	3.5	7.6	14.8	15.5	11.8	11.8	13.1	11.9	11.8	26.7	25.9	
Commerce	6.9	13.0	31.6	34.1	38.7	23.5	24.5	16.5	16.4	49.4	49.0	
Government and financial services	3.1	5.3	9.1	9.7	7.4	8.8	8.3	6.4	5.9	14.5	16.0	
Personal and household services	2.0	3.3	5.8	6.5	6.0	7.5	5.4	5.8	5.9	9.9	11.7	
Community and social services	2.6	7.5	12.5	13.7	8.5	10.8	8.9	8.4	7.0	12.9	15.6	
Non-manual workers	2.0	4.3	6.1	6.0	6.8	7.0	5.9	5.6	4.8	10.3	10.7	
Manual workers	2.4	4.5	7.4	8.3	6.7	8.0	7.5	5.3	6.3	15.6	17.9	
Own-account workers	5.2	10.9	20.6	20.7	16.3	16.5	16.0	14.5	14.4	28.9	24.9	
	2.0	4.7	8.4	8.5	5.7	6.0	6.1	4.5	3.1	9.1	10.3	

Source: Department of Economics of the University of Chile and National Statistical Institute (INE).

depression which had affected the sector the year before, in the second half there was a clear recovery which exactly made up for this drop. Thus, for the year as a whole the construction product remained at the same very low level registered in 1982 (see table 11).

In building construction, the recovery was reflected in a 16% increase in the area of constructions begun or approved. Because of the enormous drop of almost 60% registered in 1982, however, the area constructed was equivalent to less than half that registered on average in the two-year period 1980-1981. Furthermore, the increase in the area constructed was due entirely to housing construction, whereas the area accounted for non-housing building suffered a further considerable reduction.³

The recovery in housing construction was influenced both by the measures taken by the Government and by the reduction in construction costs. Notable among the former were the system of supplementary financing of dwellings established by the Central Bank —whose central objective was to reduce the considerable number of completed dwellings which still remained unsold— and the programme of housing subsidies made available by the Department of Housing and Town Planning for the purchase of middle and low-priced dwellings. The real cost of construction, for its part, went down by over 10%, according to the index of the Chilean Chamber of Construction, as a result of declines of 19% in wage costs and 6% in materials.

c) *The employment situation*

In 1983, the extremely unfavourable employment situation of the previous year continued. Thus —mainly as a result of the fresh drop suffered by overall economic activity— the average rate of open unemployment in Greater Santiago, which had already doubled in 1982, remained at slightly over 22% according to the statistics of the Department of Economics of the University of Chile, or

³Moreover, both the increase in the area of residential building and the number of dwellings built exaggerate the magnitude of the new construction work begun, since they include an effect caused by the hurried regularization of permits. This effect was due to the very short deadline given by the authorities for the regularization of the status of dwellings which had been begun without the respective permit, so that advantage could be taken of the housing subsidy programme. This effect was particularly marked in April, when the number of dwellings begun or approved came to almost 11 600 —five times the monthly average registered before and after that month.

went down slightly from 20% to 19%, according to the data of the National Statistical Institute (see table 12).

In line with the moderate recovery in manufacturing and the slight increase in construction activity, the average rates of unemployment in these two sectors went down slightly from the very high levels they had reached the previous year (27% and 49%, respectively). On the other hand, the fresh contraction suffered by commerce and the even sharper drop in financial, social, personal and government services caused the unemployment rates in all these activities to rise. As was to be expected, the slight progress made by the urban goods-producing sectors and the setbacks suffered by services were reflected on the one hand in a reduction from 29% to 25% in the unemployment rate for manual workers, and on the other in a further increase in the proportion of unemployed non-manual workers (see table 12).

The very unfavourable nature of the employment situation was also reflected in the extraordinary expansion in the Minimum Employment Programme (PEM) and above all in the Employment Programme for Heads of Households (POJH).

The average number of participants in the PEM, after reaching the hitherto unprecedented number of 225 000 persons in 1982, exceeded 340 000 in 1983. As may be seen from table 13, this

Table 13

CHILE: GOVERNMENT EMPLOYMENT PROGRAMMES

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Minimum Employment Programme									
Number of participants^a									
Total	72.7	157.8	187.7	145.8	133.9	190.7	175.6	225.3	341.6
Metropolitan Region	19.6	34.9	36.4	29.0	21.8	28.1	23.2	35.6	80.8
Rest of country	53.1	122.9	151.2	116.8	112.1	162.6	152.4	189.7	260.8
Monthly allowance paid									
Nominal ^b	153	461	704	834	992	1 275	1 300	1 650	2 000
Real ^c	1 863	1 690	1 209	954	831	791	674	778	741
Programme for heads of households^d									
Number of participants^a									
Total								81.2	161.2
Metropolitan Region								30.5	110.6
Rest of country								50.7	50.6
Monthly allowance paid									
Labourers									
Nominal								4 000	4 000
Real ^c								1 690	1 481
Chargehands									
Nominal								8 000	8 000
Real ^c								3 380	2 963
Supervisors									
Nominal									15 000
Real ^c									5 456
Managers									
Nominal									30 000
Real ^c									10 911

Source: National Statistical Institute (INE).

^aThousands. ^bPesos. ^cPesos at December 1978 prices, on the basis of the corrected consumer price index given in table 22 below. ^dEmployment was provided as from October 1982 for labourers and chargehands, and as from March 1983 for supervisors and managers.

Table 14

**CHILE: EMPLOYMENT, UNEMPLOYMENT AND THE MINIMUM
EMPLOYMENT PROGRAMMES**

	Thousands of persons					Percentages of the labour force		
	Labour force	Employed	Unem- ployed	PEM ^a	POJH ^b	Unem- ployed (3) / (1)	PEM ^a (4) / (1)	POJH ^b (5)/(1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974	3 067	2 785	282			9.2		
1975	3 112	2 661	451	73		14.5	2.4	
1976	3 164	2 708	456	158		14.4	5.0	
1977	3 221	2 810	411	188		12.8	5.8	
1978	3 374	2 915	459	146		13.6	4.3	
1979	3 481	2 999	482	134		13.9	3.9	
1980	3 568	3 140	428	191		12.0	5.4	
1981	3 611	3 247	393	176		10.8	4.8	
1981 ^c	3 688	3 271	417	171		11.3	4.6	
1982 ^d	3 661	2 943	718	315	70	19.6	8.6	1.9
1983 ^e	3 696	3 102	594	309	199	16.1	8.4	5.4

Source: For labour force, employed and unemployed, 1974-1981: ODEPLAN estimates based on data of the National Statistical Institute (INE) for same items for October-December 1981, October-November 1982, second half of 1983 and all PEM and POJH figures: data of the National Statistical Institute (INE).

^aMinimum Employment Programme. ^bProgramme for Heads of Households. ^cAverage October-December.
^dAverage October-November. ^eAverage for second half of year.

increase was particularly marked in the Metropolitan Region, where the number of people registered in the PEM more than doubled. At the same time, the purchasing power of the allowance paid for working in the PEM went down by almost 5%, thus reaching its lowest level since the establishment of the Programme, except for the level corresponding to 1981.⁴

In relative terms, the increase in enrolment was even greater in the case of the POJH, the number of whose participants doubled in the country as a whole and almost quadrupled in the Metropolitan Region. Thus, in the second half of the year almost 14% of the labour force was working in the Government's emergency employment programmes: a proportion which, as may be seen from table 14, was only slightly below the percentage of workers openly unemployed.

The incidence of the expansion of the PEM and POJH on the decline in the rate of unemployment can be seen especially clearly from figure 3, which presents the quarterly evolution of open unemployment in Greater Santiago, the proportion of the labour force in the capital enrolled in the PEM and POJH schemes, and the percentage of the labour force employed in "normal" productive activities in the period 1981-1983.

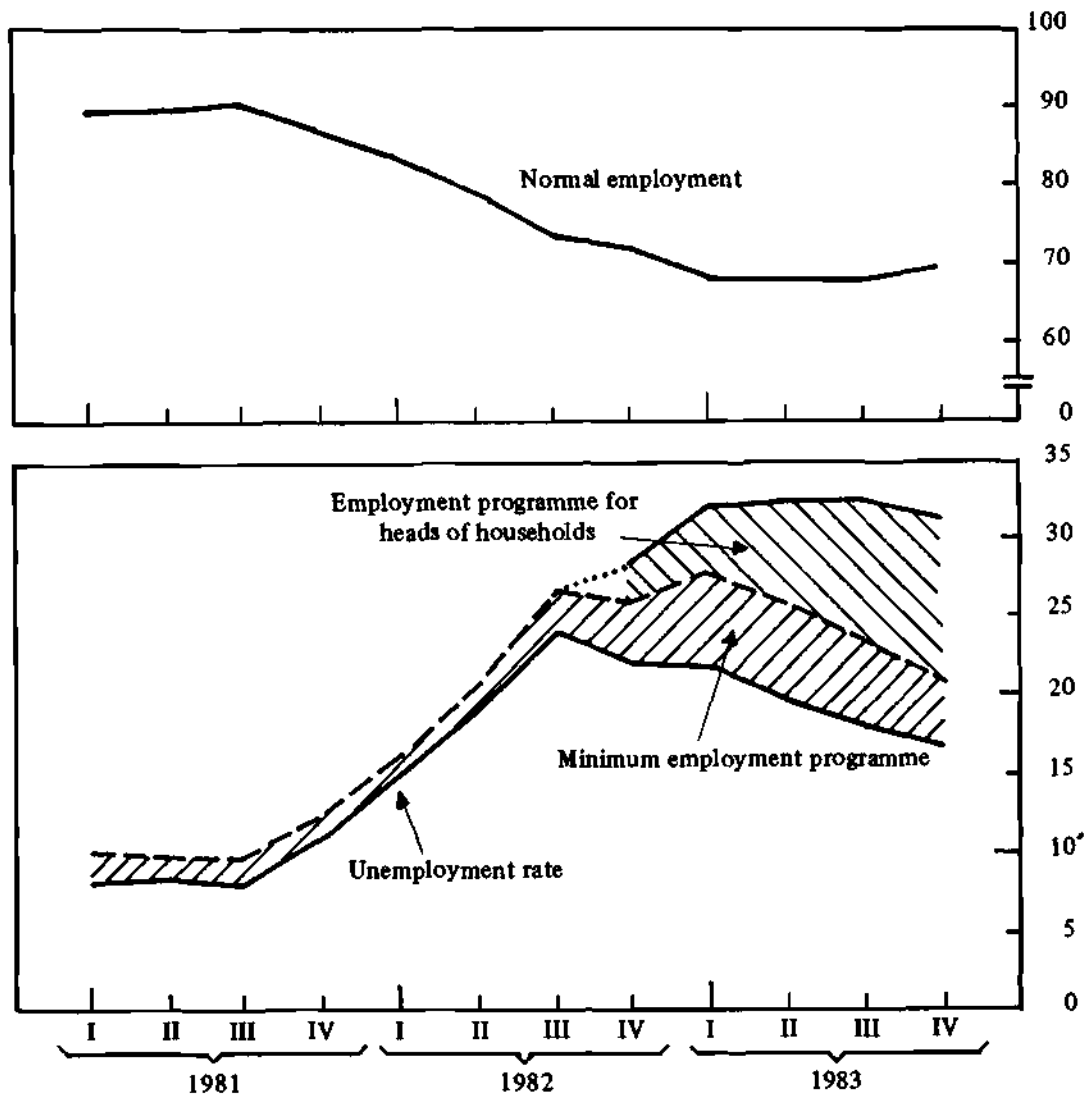
As may be seen from figure 3, the steady and marked descent of the unemployment rate in Greater Santiago from a record level of almost 24% in the third quarter of 1982 to 16.5% in the last quarter of 1983 was not due to an increase in the proportion of workers employed in "normal" economic activities, but to the extraordinary growth of the government employment programmes. These programmes, which absorbed only 2.6% of the labour force in the third quarter of 1982, came to employ 14.5% of the economically active population in the last three months of 1983. In contrast, the proportion of workers employed in the other activities of the economy, which had begun to decline at the end of 1981 and continued to go down in 1982 with the accentuation of the recession, maintained a downward trend, although this was less marked, in the first half of 1983 and only registered a slight increase in the last quarter of the year, when the recovery of industry accelerated a little and the Government expanded its construction expenditure.

⁴Converted at the official exchange rate, the monthly allowance paid for working in the PEM in 1983 was equivalent to a little over US\$ 25.

3. The external sector

As in the previous year, two of the main features of the performance of the external sector were the violent drop in external financing and the marked fall in imports of goods and services. Although this new reduction in external purchases made it possible to achieve a trade surplus, the heavy outflow in respect of payments of interest — which were more than three times the amount of the trade surplus— and the very low level of net inflow of external capital generated a further appreciable deficit on the global balance of payments. Nevertheless, this deficit was well below that registered in 1982, and moreover there was a marked slackening in 1983 in the very high growth rate previously displayed by the net general external debt, which had more than doubled between 1980 and 1982. On

Figure 3
**CHILE: 'NORMAL' EMPLOYMENT, MINIMUM EMPLOYMENT PROGRAMME,
 EMPLOYMENT PROGRAMME FOR HEADS OF HOUSEHOLDS,
 AND UNEMPLOYMENT IN THE METROPOLITAN REGION**
(Percentages)



Source: ECLAC, on the basis of data from the National Statistical Institute (INE).

Table 15

CHILE: EVOLUTION OF EXCHANGE RATE

Annual and quarterly averages	Exchange rate (pesos per dollar) ^a	Effective real exchange rate indexes ^b			
		Exports		Imports	
		A	B	A	B
1975	4.91	135.7	142.6	131.1	137.8
1976	13.05	116.8	120.3	115.2	118.6
1977	21.53	113.8	100.2	110.9	97.6
1978	31.66	133.3	113.5	127.0	108.1
1979	37.25	118.6	114.5	114.2	110.2
1980	39.00	100.0	100.0	100.0	100.0
1981	39.00	87.3	80.5	92.2	84.9
1982	50.91	101.9	90.8	108.2	96.4
1983	78.84	106.5	105.7	115.9	115.1
1981					
I	39.00	92.3	89.0	95.0	91.2
II	39.00	87.5	81.6	92.5	86.3
III	39.00	83.8	76.6	90.3	82.4
IV	39.00	88.6	77.6	94.2	81.8
1982					
I	39.00	90.1	75.9	96.0	80.6
II	40.34	93.3	78.4	97.8	81.9
III	55.01	107.3	96.7	114.4	102.7
IV	69.28	111.9	108.5	120.4	116.7
1983					
I	74.96	117.8	112.0	126.6	120.4
II	75.34	106.5	103.5	115.2	111.9
III	79.75	99.8	102.8	109.7	113.0
IV	85.31	103.4	104.5	113.5	114.7

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

Note: A: For deflation, the domestic products sub-index of the wholesale price index was used.

B: For the purpose of deflation, the consumer price index prepared by R. Cortázar and J. Marshall was used for the years 1975-1978, and the INE consumer price index from 1979 onwards.

^aOfficial exchange rates. ^bThese indexes correspond to the average of the real peso exchange rate indexes *vis-a-vis* the currencies of Chile's main trading partners, weighted by the relative importance of the exports to or imports from those countries. For further details on the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America, 1981*.

the economic policy level, the domestic adjustment measures —such as the raising of the general tariff rate, the introduction of specific surcharges on some imports, and the maintenance of a relatively high effective real exchange rate— were complemented with important initiatives on the external front, such as the loan agreements signed with the International Monetary Fund and the renegotiation of part of the external debt agreed with the foreign private banking system.

a) *External trade*

i) *Exports of goods.* After having gone down sharply in 1981 and slightly in 1982, the current value of exports of goods increased by a little over 3% in 1983. Although this offset the drop of the previous year, the value of external sales was still about 19% below that reached in 1980.

Unlike 1982, however, when the volume of external sales increased very vigorously, the growth in volume in 1983 was relatively modest, despite the further increase in the average effective real exchange rate (see table 15). The average price of exports, for its part, remained stable in 1983 after having gone down drastically in both 1981 and 1982. Consequently, although the volume of exports of goods was 15% greater in 1983 than in 1980, their unit value was almost 30% lower (see table 16).

Table 16

CHILE: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Growth rates								
Exports of goods (FOB)								
Value	33.1	3.3	12.6	55.9	22.7	-18.5	-3.4	3.3
Volume	21.5	3.8	7.3	19.1	9.2	-3.8	16.0	3.4
Unit value	9.5	-0.5	4.9	30.9	12.4	-15.3	-16.7	-0.1
Imports of goods (FOB)								
Value	-3.1	46.0	34.2	45.2	30.5	19.1	-44.1	-22.7
Volume	-4.5	31.4	24.1	18.2	4.7	10.8	-39.4	-16.0
Unit value	1.5	11.1	8.1	22.8	24.6	7.5	-7.7	-7.9
Terms of trade	7.4	-10.3	-2.8	7.3	-8.3	-21.1	-10.5	7.5
Indexes (1970 = 100)								
Terms of trade	57.1	51.3	49.8	53.4	49.0	38.6	34.6	37.2
Purchasing power of exports of goods	87.4	81.6	85.0	108.6	108.7	82.5	85.7	95.3
Purchasing power of exports of goods and services	95.6	93.5	96.5	126.9	138.1	106.3	105.6	110.2

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 17

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(US cents per pound)

Year	Nominal price (US cents of each year)	Price indexes (1970 = 100)		Real price (US cents at 1970 prices)	
		United States whole- sale prices	Unit value of Chilean imports of goods and services	(1/2)	(1/3)
1960-1964	32.4	86.3	84.1	37.5	38.5
1965-1970	61.0	93.0	93.5	65.6	65.3
1971-1972	49.0	105.6	106.1	46.4	46.2
1973-1974	87.1	133.6	152.3	65.2	57.2
1975-1983	72.0	218.4	284.8	33.0	25.3
1980	99.2	243.4	346.6	40.8	28.6
1981	79.0	265.5	365.0	29.8	21.6
1982	67.2	271.1	343.8	24.8	19.5
1983	72.2	274.8	335.8	26.3	21.5
First quarter	72.8	272.4	...	26.7	...
Second quarter	77.8	273.3	...	28.5	...
Third quarter	74.0	276.0	...	26.8	...
Fourth quarter	64.1	277.2	...	23.1	...

Source: Central Bank of Chile, International Monetary Fund, and ECLAC estimates.

Table 18

CHILE: VALUE AND BREAKDOWN OF EXPORTS, FOB

	Millions of dollars				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1975	1980	1983 ^a	1980	1981	1982	1983 ^a
Total exports of goods	4 705	3 837	3 706	3 827	100.0	100.0	100.0	22.7	-18.4	-3.4	3.3
Traditional	2 885	2 426	2 383	2 573	74.5	61.3	67.2	22.7	-15.9	-1.8	8.0
Copper	2 125	1 738	1 685	1 871	57.4	45.2	48.9	12.6	-18.2	-3.1	11.1
Iron ore	157	162	158	112	5.9	3.3	2.9	42.7	2.7	-2.3	-29.2
Nitrates and iodine	89	83	75	84	3.5	1.9	2.2	53.4	-7.1	-10.0	12.0
Fishmeal	234	202	256	307	1.9	5.0	8.0	52.9	-13.7	26.7	20.0
Wood pulp	231	204	173	157	3.7	4.9	4.1	27.6	-11.7	-15.2	-9.3
Paper and paper board	49	37	36	42	2.1	1.0	1.1	-	-24.5	-4.8	16.7
Non-traditional	1 820	1 411	1 323	1 254	25.5	38.7	32.8	12.4	-22.5	-6.2	-5.2
Mining products	243	195	206	265	0.6	5.2	6.9	164.1	-19.8	5.9	28.4
Agricultural and marine products	340	365	375	327	5.5	7.2	8.5	28.3	7.5	2.6	-12.6
Crop farming products	244	268	278	254	3.8	5.2	6.4	32.6	9.7	3.8	-8.8
Livestock products	37	29	34	26	1.1	0.8	0.7	-2.6	-21.1	15.1	-21.2
Forestry products	2	2	2	2	0.3	-	0.1	-33.4	-	4.8	4.5
Fishery products	57	66	61	45	0.4	1.2	1.2	42.5	15.9	-7.7	-26.2
Manufactured products	1 237	851	742	662	19.3	26.3	17.3	20.7	-31.2	-12.8	-10.8
Food and beverages	163	141	123	128	5.0	3.4	3.3	10.1	-13.5	-12.6	4.1
Wood	286	121	122	116	1.6	6.1	3.0	73.3	-43.0	-25.1	-4.7
Chemicals and petroleum products	163	86	88	59	3.0	3.5	1.5	27.3	-47.3	1.7	-33.0
Basic metal industries ^b	471	349	326	292	5.7	10.0	7.6	-1.3	-26.0	-6.6	-10.3
Metal products, machinery, electronic articles, etc.	64	44	36	20	2.7	1.4	0.5	6.7	-31.5	-18.3	-43.3
Transport equipment	43	74	23	29	0.5	0.9	0.8	65.4	72.1	-69.4	27.8
Other	47	36	24	18	0.8	1.0	0.5	62.1	-23.4	-33.3	-25.0

Source: Central Bank of Chile and data on direct sales to the exterior supplied by CODELCO and Molymet.

^a Preliminary figures. ^b Including sale of molybdenum oxide and ferromolybdenum: 1980, US\$ 337 million; 1981, US\$ 223 million; 1982, US\$ 178 million and 1983, US\$ 149 million.

The slight recovery in the value of external sales reflected the favourable evolution of traditional exports as a whole and copper in particular. The value of copper exports increased by 11% thanks to the improvement in the international price of the metal and a further expansion in the volume exported. Thus, copper's contribution to the overall value of exports rose slightly for the third year running, after having gone down steadily from 82% in 1973 to 45% in 1980. However, despite its rise in 1983 the international price of copper was still 28% below that obtained in 1980, and in real terms it was equivalent to less than half that registered on average during the period 1960-1974. Moreover, at the end of 1983 the price of copper on the London Metal Exchange again deteriorated markedly (see table 17).

In 1983 there was also an appreciable recovery in the amount of other traditional export products such as fish meal (20%), paper and paperboard (17%) and nitrates and iodine (12%). However, there were sharp declines in those of wood pulp and, above all, iron ore (see table 18).

The value of non-traditional exports, for its part, declined for the third year running, although less sharply than in 1982 and above all in 1981. In 1983, the contraction was due mainly to the drop of almost 11% in the value of sales of manufactures, although the 13% decline in those of agricultural

and marine products also had a substantial influence in that result. The non-traditional export lines where sales fell most were metal products, machinery and electronic items (with a decline of over 43%), chemicals and petroleum products (down 33%) and fishery products (which diminished by a little over 21%). In fact, among traditional exports only those of transport equipment showed a significant recovery. Because of the steady drop in the value of non-traditional exports between 1980 and 1983, their share in the overall value of external sales went down from almost 38% to 33% in that period (see table 18).

ii) *Imports of goods.* The sharp reduction in external financing, the increase in tariffs and the further reduction suffered in 1983 by domestic economic activity were contributory factors in causing the value of imports to continue to go down sharply and systematically during the year. Thus, this value went down by 22% after having already fallen by 44% in 1981. Consequently, in 1983 the value of external purchases was only 43% of that registered in 1981 (see table 19).

Although the unit value in dollars of imports of goods once again went down substantially in 1983, the contraction in the overall value was due mainly to the 16% reduction in volume (see table 16).

As in the previous year, the compression of imports most seriously affected capital goods, the amount of which went down by almost 44% so that it represented less than 27% of the 1981 value of imports of such goods. Imports of consumer goods, for their part, fell by over 31%, while those of intermediate goods declined by almost 9%. Among consumer goods, the 45% reduction in imports of non-food items was once again specially noteworthy. In particular, imports of automobiles came to only a little over US\$ 30 million in 1983, compared with US\$ 124 million in 1982 and almost US\$ 430 million in 1981 (see table 19).

iii) *Terms of trade and purchasing power of exports.* In 1983, the terms of trade for goods improved by 7.5%. This increase was due exclusively to the reduction in the average price of imports, however, and moreover it was only the second rise registered in the last seven years. In these circumstances, and also as a result of the very serious deterioration which the terms of trade had undergone in the first half of the previous decade, they remained at an extraordinary depressed level in 1983 which was only 37% of that registered in 1970 and was even 27% below that prevailing in 1931-1935, which represented the most critical period of the Great Depression.

Table 19

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1975	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	7 318	4 094	3 160	100.0	100.0	100.0	30.5	19.1	-44.1	-22.2
Consumer goods	2 727	1 484	1 019	25.6	33.7	32.2	56.0	31.7	-45.6	-31.3
Non-food	1 904	894	494	5.3	20.7	15.6	57.7	49.8	-53.0	-44.9
Motor vehicles	428	124	31	...	3.3	1.0	59.8	110.8	-71.0	-75.0
Goods of industrial origin	1 476	770	463	...	17.4	14.7	57.3	38.2	-47.8	-39.9
Food	823	590	525	20.3	13.0	16.6	53.4	3.0	-28.3	-11.0
Intermediate goods	3 144	1 913	1 747	58.6	45.6	55.3	15.0	12.2	-39.2	-8.7
Fuels and lubricants	956	632	581	14.2	15.7	18.4	-1.8	-0.7	-33.9	-8.1
Raw materials	757	450	505	20.4	10.3	16.0	11.9	19.8	-40.6	12.4
Spare parts and intermediate industrial products	1 431	831	661	24.0	19.6	20.9	35.2	18.7	-41.9	-20.5
Capital goods	1 447	697	393	15.8	20.7	12.5	34.7	13.6	-51.8	-43.6

Source: Central Bank of Chile.

^a Preliminary figures.

The decline in the unit value of imports and the growth in the volume of exports helped to raise the purchasing power of external sales by 11%. Even so, this purchasing power was still 13% below the peak registered in the two-year period 1979-1980 and was even 5% below that registered in 1970. This occurred in spite of the vigorous expansion of the volume of exports over almost the whole of the period in question and reflected the singularly unfavourable evolution of the terms of trade.⁵

Furthermore, the growth in the purchasing power of exports in 1983 was completely offset by the effect of the contraction in the net flow of capital to the country. Because of this, the overall import capacity—which had already fallen violently in 1982—went down once again in 1983, although this time only by a small amount.

b) *The current account position and capital movements*

The ongoing adjustment of the economy as from mid-1981 not only led to the elimination of the trade deficit during 1983 but also made it possible to build up a considerable surplus by the end of the year (see table 20). Thus, 1983 was the first year since 1976 in which the gross domestic expenditure was less than the gross domestic product, and it was one of the few years since the Second World War in which domestic saving exceeded domestic investment.⁶ In the present crisis conditions, however, the turnaround in the trade account has not been accompanied by a similar change in the current account results, as happened in the crisis of the mid-1970s. The main reason for this difference has been the heavy external indebtedness accumulated since then and the rise in international interest rates in recent years. Thus, in 1976 a trade surplus of US\$ 433 million helped to generate a current account surplus of US\$ 132 million, whereas in 1983 a trade surplus of US\$ 538 million was accompanied by a deficit of US\$ 1 222 million on current account. Moreover, despite the very drastic reduction in imports and the considerable increase in the volume of exports, the economy only generated enough saving in 1983 to take care of about 30% of the payments of interest on the external debt.

Furthermore, although the reduction in the deficit on current account was 50% with relation to 1982 and 75% compared with 1981, the financing of this deficit involved a loss of international reserves, since at the same time there was a sharp fall in the net inflow of capital from abroad. In 1983, this fall amounted to 30%, so that the overall balance of payments closed with a deficit of almost US\$ 530 million (see table 20).

The performance of the capital account reflected the very steep fall in long-term loans to the private sector and the outflow of private short-term capital. In net terms, the results of private sector capital transactions with the exterior became markedly negative in 1983 after having attained a positive balance of nearly US\$ 4 800 million only two years before. In contrast, the public sector markedly increased its procurement of external financing in 1983 through the agreements signed with the International Monetary Fund and the renegotiation of part of the external debt with the commercial banking system. The public sector obtained total net direct financing of over US\$ 1 400 million, while at the same time its negotiations with the international financial community made it possible to reduce the amortization payments that the private sector had to make.

Finally, despite the loss of a substantial part of the international reserves in recent years, the net holdings of the monetary authority at the end of 1983 still came to the equivalent of six months of imports of goods and services (at the very depressed level registered by these during the year). On the other hand, the reduction in external assets meant a marked decline in income from interest.

c) *The external debt*

Another marked factor of contraction in the net inflow of capital was the virtual halting of the expansion of the external debt. Thus, between the end of 1982 and of 1983 the gross general external debt increased by less than 2%. The net general external debt, for its part, which had more than doubled between 1980 and 1982, increased by 7% in 1983 (see table 21). At the same time, however, there was a marked improvement in the debt profile, since short-term indebtedness was reduced by

⁵The incidence of the terms of trade is obvious when it is borne in mind that in 1983 the volume of exports of goods was 156% greater than in 1970, while that of imports was 12% less than in that year.

⁶These conclusions are drawn from an analysis of the evolution of the national accounts at current prices. At constant prices, domestic saving has exceeded domestic investment systematically since 1973. The difference may be attributed to the very negative evolution of the terms of trade.

Table 20
CHILE: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^c
Balance on current account	-567	-1 111	-1 205	-2 024	-4 817	-2 378	-1 222
Trade balance	-267	-680	-598	-1 056	-3 258	-385	538
Exports of goods and services	2 604	2 941	4 619	5 968	5 008	4 641	4 601
Goods FOB	2 186	2 460	3 835	4 705	3 836	3 706	3 827
Real services ^b	418	482	784	1 262	1 172	936	774
Transport and insurance	149	233	348	433	373	318	269
Travel	82	109	150	174	200	125	95
Imports of goods and services	2 871	3 621	5 217	7 023	8 266	5 027	4 063
Goods FOB	2 151	2 886	4 190	5 469	6 513	3 643	2 818
Real services ^b	720	735	1 027	1 554	1 752	1 383	1 245
Transport and insurance	342	421	584	872	953	630	511
Travel	205	130	165	200	221	195	214
Factor services	-379	-506	-696	-1 028	-1 595	-2 035	-1 809
Profits	-23	-33	-41	-82	-121	-128	-76
Interest received	18	41	127	305	601	506	186
Interest paid	-358	-497	-761	-1 152	-1 943	-2 299	-1 813
Others	-14	-16	-21	-99	-132	-114	-106
Unrequited private transfer payments	81	75	88	60	37	41	49
Balance on capital account	738	1 854	2 261	3 345	4 952	1 038	693
Unrequited official transfer payments	16	23	17	53	72	68	43
Long-term capital	50	1 510	1 786	2 243	3 579	1 680	1 210
Direct investment (net)	16	177	233	171	362	384	148
Portfolio investment (net)	-7	-	50	-	-	-	-
Other long-term capital	41	1 333	1 503	2 072	3 217	1 296	1 062
Official sector ^c	-158	167	96	-193	-496	134	1 150
Loans received	218	587	581	280	154	296	1 300
Amortization payments	-357	-421	-485	-472	-641	-162	-150
Commercial banks ^c	7	290	525	1 438	2 496	327	-9
Loans received	18	295	593	1 617	2 730	701	168
Amortization payments	-11	-4	-50	-147	-216	-309	-177
Other sectors ^c	191	876	882	826	1 217	836	-79
Loans received	668	1 439	1 693	1 645	2 205	1 613	511
Amortization payments	-478	-562	-810	-819	-961	-788	-590
Short-term capital	557	449	470	1 000	1 190	-647	-710
Official sector	43	14	4	100	126	15	112
Commercial banks	127	58	39	469	252	68	-422
Other sectors	386	378	428	431	811	-731	-400
Errors and omissions	116	-128	-13	51	112	-64	150
Global balance^d	170	744	1 056	1 321	136	-1 340	-529
Total variation in reserves ^d							
(- sign indicates an increase)	-125	-683	-1 061	-1 331	-164	1 112	541
Monetary gold	-1	-1	-44	-90	-	-2	89
Special Drawing Rights	-11	39	-2	25	-15	-1	14
IMF reserve position	-	-50	1	-33	7	-3	78
Foreign exchange assets	-11	-654	-848	-1 177	-81	1 160	-313
Other assets	-	-	-	-	-	-	74
Use made of IMF credit	-101	-18	-169	-57	-74	-42	600

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, May 1984; 1983: ECLAC, on the basis of official data.

^aPreliminary figures.

^bReal services also include other official and private transactions, but not factor services.

^cIn addition to

loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe global

balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 21
CHILE: EXTERNAL DEBT^a

(Billions of dollars)

	1970	1973	1976	1977	1978	1979	1980	1981	1982	1983 ^b
I. Medium- and long-term external debt	2.8	3.3	4.3	4.5	5.9	7.5	9.4	12.6	13.8	16.0
1. State-guaranteed public and private debt	2.2 ^c	2.9	3.5	3.5	4.4	4.8	4.7	4.4	5.2	7.0 ^d
2. Private debt	0.5	0.4	0.8	1.0	1.6	2.7	4.7	8.1	8.7	9.1 ^e
a) Supplier credits	0.1 ^f	0.1	0.2	0.2	0.2	0.2	0.3	0.5	0.4	...
b) Lines of credit for importation of capital goods						0.2	0.3	0.5	0.5	...
c) Financial credits ^g	0.4	0.3	0.6	0.8	1.4	2.4	4.1	7.2	7.8	...
II. Short-term external debt^h	0.05	0.4	0.5	0.7	0.7	1.0	1.7	3.0	3.3	1.4 ⁱ
Public sector	...	...	0.3	0.4	0.4	0.3	0.4	1.1	1.5	0.9
Private sector	...	...	0.2	0.3	0.3	0.7	1.3	1.9	1.8	0.5
III. Gross general external debt (I + II)	2.8	3.6	4.7	5.2	6.6	8.5	11.0	15.5	17.2	17.5
IV. Net international reserves^j	0.4	0.2	0.1	0.3	1.1	2.3	4.1	3.8	2.6	2.0
V. Net general external debt	2.4	3.5	4.6	4.9	5.6	6.2	6.9	11.7	14.5	15.5
Servicing of medium and long-term debt										
Total	0.4	0.2 ^k	1.1	1.2	1.3	1.9	2.4	3.0	2.9	2.7 ^l
Principal	0.3	0.13	0.8	0.9	0.9	1.3	1.5	1.8	1.2	0.9 ^m
Interest	0.1	0.04	0.3	0.3	0.4	0.6	0.9	1.2	1.7	1.8
Total as a percentage of exports of goods and services	33	12	39	44	45	41	40	60	62	59

Source: Central Bank of Chile, *Deuda externa de Chile*, 1982, August 1983, and *Informe del Ministro de Hacienda*, 2 July 1984.

^a Amounts disbursed and pending payment at 31 December of each year. ^b Preliminary figures. ^c Including balances and credits contracted by some private enterprises subsequently incorporated into the public sector. ^d Includes US\$ 470 million corresponding to 100% of the reprogrammed short-term financial debt. ^e Includes US\$ 747 million corresponding to 100% of the reprogrammed short-term financial debt. Also includes US\$ 150 million of private sector deposits in the Central Bank which will be reprogrammed later. ^f Excluding balances in respect of credits contracted by enterprises subsequently incorporated into the public sector. ^g Credits entering under articles 14, 15 and 16 of the International Exchange Law and credits under Decree-Law 600. ^h Excludes commercial credits to the non-financial sector estimated at US\$ 780 million at the end of 1982 and US\$ 550 at the end of 1983. ⁱ Excludes US\$ 1 217 million corresponding to 100% of the reprogrammed short-term financial debt. ^j Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. Gold is value at market prices and mutual credit agreements are taken at their net value. This explains the difference compared with table 20, where gold is valued at 35 SDR units per ounce. ^k The servicing is lower because of the renegotiation of the external debt. ^l Before the renegotiation of the external debt, amortization payments came to US\$ 2 063 million.

58%,⁷ while long-term indebtedness grew by 16%. This increase was almost entirely accounted for by credit mobilized by the public sector.

The coefficient of external debt servicing, for its part, which had gone up between the period 1979-1980 and 1980-1981 from an average of 40% to one of a little over 60%, went down slightly in 1983 as the result of a slight drop in amortization payments (see table 20).

4. Prices and wages

a) Prices

During 1983, consumer prices rose by 23%: that is to say, slightly more than the year before (see table 22). Both the variation between the annual averages of the consumer price index and the

⁷ This figure does not include the evolution of commitments of the Government with the International Monetary Fund, which are recorded under net international reserve holdings.

wholesale price index and the evolution of the rate of inflation in the course of the year, however, were very different from those registered in 1982.

Thus, as may be seen from figure 4, during the year under review the price rises were radically different in the two halves of the year. In the first half, consumer prices were completely stabilized, while wholesale prices actually went down in absolute terms. As a result of this phenomenon, the 12-month variations of the two indexes showed a persistent downward trend up to the middle of the year. This trend was abruptly reversed, however, after the devaluation of the peso decreed in June, which marked the end of almost three years of complete exchange rate stability. Thus, during the second half of the year consumer prices rose by 20% and wholesale prices—in which internationally tradeable products have a more important incidence—rose by 40%. The upward trend in inflation continued during the first half of 1983, as the rises in costs caused by the June devaluation and the subsequent increases in the exchange rate⁸ were gradually transferred to price levels. As a result, the annual rate of increase of consumer prices rose by mid-year to around 32%, while that of wholesale prices exceeded 60%.

With the gradual weakening of the effects on the cost of tradeable goods caused by the exchange rate rises that took place in the second half of 1982, however, real wages continued to go down, and as the real level of interest rates also went down, the intensity of the inflationary process began to decline, gradually in the case of consumer prices and a good deal more rapidly in that of wholesale prices (see figure 4).

Table 22

CHILE: EVOLUTION OF DOMESTIC PRICES

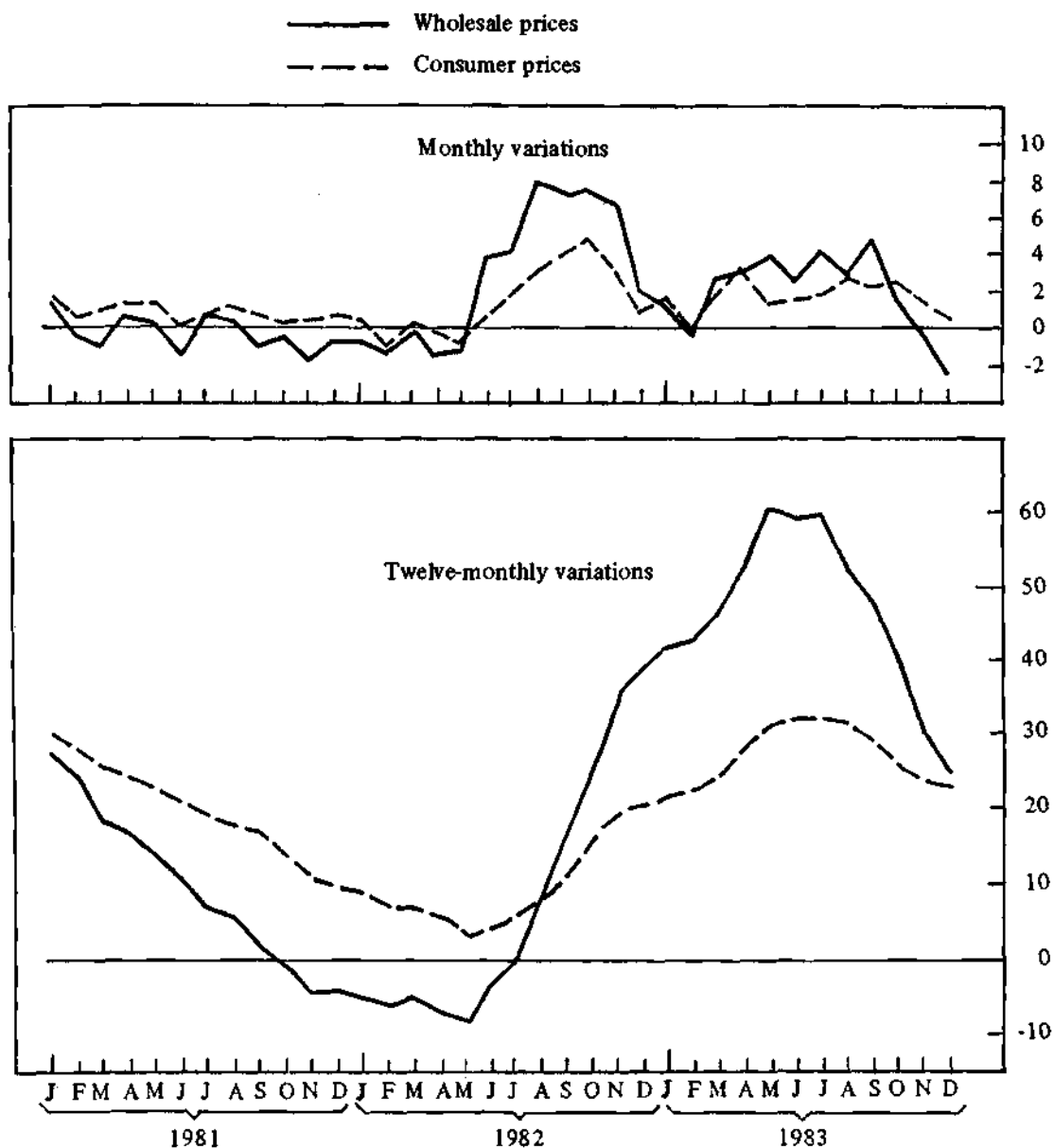
	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Variation from December to December										
Consumer price index	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.1
Food	392.0	321.3	167.4	59.4	25.5	41.9	30.8	0.1	16.3	26.8
Corrected consumer price index ^a	369.2	343.3	197.9	84.2	37.2					
Wholesale price index	570.6	410.0	151.5	65.0	38.9	58.3	28.1	-3.9	39.6	25.2
Imported products	714.5	363.8	130.1	79.2	22.2	67.5	12.5	0.5	49.5	33.1
Domestic products	517.5	424.9	157.1	61.7	43.2	56.3	31.9	-4.8	37.5	23.3
Agricultural products	381.0	565.2	148.6	53.0	48.9	52.2	27.7	-14.5	41.7	27.1
Mining products	823.3	381.8	147.7	46.6	40.6	85.6	37.8	12.1	33.9	23.5
Manufactures	527.4	350.7	165.7	70.8	39.6	55.3	33.9	-0.9	35.6	20.9
Index of building costs	315.4	328.1	195.1	78.1	43.7	44.8	31.8	14.5	5.2	10.3
Variations between annual averages										
Consumer price index	504.7	374.7	211.9	92.0	40.1	33.4	35.1	19.7	9.9	27.3
Food	513.7	359.6	212.8	86.2	34.6	31.1	36.1	14.2	3.6	25.8
Corrected consumer price index ^a	497.8	379.2	232.8	113.8	50.0					
Wholesale price index	1 029.0	482.0	221.1	86.0	42.9	49.4	39.6	9.1	7.2	45.5
Imported products	1 349.8	445.9	201.6	99.8	34.9	41.7	37.7	4.4	10.9	62.6
Domestic products	926.9	486.0	226.1	82.8	45.0	51.3	40.0	10.1	6.4	41.8
Agricultural products	640.1	567.2	245.9	79.3	34.7	51.8	41.4	2.7	0.7	51.3
Mining products	1 503.5	478.8	191.7	73.2	51.1	70.1	54.0	22.3	7.3	40.0
Manufactures	969.1	420.7	215.5	87.4	52.7	48.3	41.3	13.3	9.9	36.5
Index of building costs	...	333.9	233.2	109.0	54.9	42.7	40.7	22.5	5.6	9.7

Source: National Statistical Institute; Cámara Chilena de la Construcción; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977", in *Comentarios sobre la situación económica*, Department of Economic of the University of Chile; and René Cortázar and Jorge Marshall, "Índice de precios al consumidor en Chile: 1970-1978", *Estudios CIEPLAN*, N° 4, November 1980.

^a 1974-1978: based on the index of Cortázar and Marshall.

⁸ It is worth recalling in this respect that both the effective real exchange rate for exports and that for imports continued to increase up to the first quarter of 1983 (see table 15).

Figure 4
CHILE: EVOLUTION OF DOMESTIC PRICES



Source: ECLAC, on the basis of information from the National Statistical Institute (INE).

As in 1982, these changes in inflationary trends were accompanied by important variations in relative prices. Thus, the average variation in the prices of imported goods (63%) once again considerably exceeded that of domestic products (42%). Among the latter, and in contrast with what happened in the previous two years, the increase in the prices of agricultural goods was much greater than in that of manufactures and mining products. Construction costs, for their part, increased for the second year running much more slowly than the other indexes, as a consequence of the acute decline in real wages in the construction sector and the low level of construction activity, which persisted for most of the year.

b) *Wages*

As part of its efforts to reduce the external imbalance and slow down inflation, the Government followed a restrictive wage policy in 1983. The first element in this was the elimination of the automatic readjustment of wages subject to collective bargaining.⁹ Secondly, wages in the public service were increased in June by only 5%, which was far below the rate of inflation, and moreover this was the first readjustment granted since August 1981. Finally, between April and November 1983 three compensatory bonuses, each amounting to 30% of the monthly basic wage, were given to public sector workers who do not negotiate collectively.

Because of this restrictive policy and the low level of economic activity, real wages went down by almost 11% in 1983 (see table 23). Most of this decline took place during the first nine months of the year, when wages went down at an average rate of 0.6% per month in real terms. Largely because of the recovery in domestic activity which took place in the second half of the year, however, their rate of decline slackened towards the end of the year and they rose again slightly during the last two months.

5. Monetary and fiscal policy

Monetary evolution during 1983 was conditioned mainly by the problems that arose as a result of the excessive domestic and external indebtedness. In order to overcome the domestic financial crisis, the Government was obliged to intervene officially in the banking system, and it agreed on a restrictive monetary and credit policy with the IMF. It was hoped that in combination with the real devaluation effected in 1982 this policy would make it possible to reduce the current account imbalance, restore confidence in the peso and stabilize external capital flows.

a) *The agreements with the International Monetary Fund*

i) *The initial agreement.* The drop in the net inflow of capital—from US\$ 5 billion in 1981 to only US\$ 1 billion in 1982—meant a net loss of reserves of the order of US\$ 1 300 million. Even so, the level of net reserves existing at the end of 1982 (US\$ 2 600 million) would have been adequate in a normal situation. The evolution of the economy in 1982, however, had been very far from normal, with a drop of 14% in the gross domestic product, a nominal increase in the exchange rate of almost 100%, and a marked deterioration of the financial system. In these circumstances, there was considerable uncertainty. This was reflected, in turn, in a marked decline in the demand for money and a corresponding increase in the demand for dollars on the parallel market, as well as declines in the international reserves every time that the authorities tried to increase liquidity and a sharp rise in real national currency interest rates in the last quarter of 1982.

In order to be able to bring about reactivation, it was ultimately indispensable to solve the financial crisis, to generate confidence and to reverse the downward trend in the inflow of capital. To this end, the authorities reached an agreement with the IMF. This agreement had been in course of

Table 23

CHILE: EVOLUTION OF REAL WAGES AND SALARIES (1970 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Index of real wages and salaries ^a	108.2	71.4	64.8	62.1	63.0	71.1	75.7	82.0	89.4	97.5	97.1	90.8
Variation during the year	-9.3	-34.0	-9.1	-3.3	0.5	12.9	6.4	8.3	9.0	9.1	-0.4	-10.6

Source: Index of nominal wages and salaries of the National Statistical Institute (INE), deflated for the period 1971-1973 by the consumer price index prepared by José Yáñez, *op. cit.*; for the period 1974-1978 by the corrected consumer price index prepared by René Cortázar and Jorge Marshall, *op. cit.*; and for the period 1979-1983 by the consumer price index of the INE.

^a For the years 1970-1976 the figures correspond to the average for April, July and October, while for 1977-1982 they represent averages for the whole twelve months.

⁹ Between July 1979 and June 1982, the nominal wages and salaries of workers subject to collective negotiation were increased by at least the same percentage as the rise in the consumer price index during the preceding period.

negotiation since the beginning of 1982, but it was not approved until 10 January 1983. The agreement included two credit arrangements: one for compensatory financing of US\$ 325 million, designed to make up for the drop in export income caused by the deterioration in the terms of trade, and the other a stand-by agreement subject to the fulfilment of a two-year economic adjustment programme. The main provisions of this latter were as follows:

- a) a maximum permissible fall in the international reserves of US\$ 600 million (equivalent to the total credits that the country would receive from the IMF in 1983);
- b) a maximum increase in domestic credit (net Central Bank domestic assets) of 50 billion pesos;
- c) a maximum non-financial public sector deficit equal to no more than 1.8% of the gross domestic product (i.e., an amount equivalent to a little over 29 billion pesos).

The programme also provided for a goal of 4% growth of the gross domestic product and an inflation rate of the order of 20%, compared with the rate equivalent to 40% per year registered in the second half of 1982.

With regard to the goal fixed in respect of the permissible loss of reserves, the most important feature seems to have been the control of the rapid fall of these reserves, which had led in 1982 to a total loss of US\$ 1 300 million, of which US\$ 750 million had been lost in the second half of the year alone. The projected level of reserves for the end of 1983 (US\$ 2 billion), however, was adequate.

As regards the expansion of domestic credit, on the other hand, this did indeed signify a severe restriction, since it represented a nominal increase in money issue of only a little over 10%, corresponding to the difference between the expansion of domestic credit and the drop in reserves envisaged. This increase would be compatible with the goals of 20% inflation and 4% overall economic growth only if the demand for money were to continue going down. This latter evolution, however, assumed in turn a continued loss of confidence in the peso and/or lack of credibility of the inflationary goal fixed. To the extent that confidence in the peso or in the inflationary goal were restored, the demand for money would grow and thus create liquidity problems and ultimately hold back the recovery of the economy.

On the other hand, without restriction of the supply of credit it would be difficult to reverse the growing loss of confidence in the stability of the peso unless more external credits were obtained (which was very difficult) or controls were placed on imports (which the IMF was unlikely to accept).

Likewise, the doubt remained as to whether there were not accumulated cost pressures deriving from the rise in the exchange rate in June 1982 which were still in existence but had not yet shown themselves in price rises because of the big stocks of imported goods on hand when the devaluation was announced. If so, these pressures would have an impact on prices as soon as the stocks of imported goods were exhausted. One index as to this possibility was the fact that between June and December 1982, in the course of which period the exchange rate rose by 86%, the wholesale price index rose by 41% while the consumer price index only increased by 20%. If all this were true, it was felt, the effort to bring about a reduction in inflation would force an additional fall in the product.

In short, although the goals proposed in the agreement were plausible, their achievement would call for the satisfaction of a number of difficult conditions, and if these were not fulfilled, the goal regarding reserves could only be achieved at the cost of economic contraction or greater inflation than that envisaged.

ii) *The modification of the agreement.* Everything provided for in the agreement with the IMF was placed in a different context, however, only three days after the signing of this instrument, because of the official intervention of part of the financial system on 13 January. This intervention meant that the ceilings laid down in the agreement were rapidly exceeded. On the one hand, the greater uncertainty caused by the intervention led depositors to reduce their deposits and buy dollars. On the other, the unsuccessful attempt by the authorities to persuade the foreign banks to absorb part of the losses incurred by the Chilean private banks and enterprises to which they had granted loans which did not enjoy a State guarantee caused these foreign banks to drastically reduce their short-term credits to Chile. In the face of this reaction, the government authorities retreated and promised to respect external commitments in respect of the debts without a State guarantee as well as those which enjoyed this backing. Finally, the rise in the value of the dollar on the parallel market, which rose during the first quarter to a level 50% higher than the official rate and at one time even amounted to double the latter, caused those with debts expressed in dollars to pay their commitments in advance.

The result of all these reactions was that the Central Bank lost US\$ 1 billion of reserves in the first quarter alone, thus exceeding by US\$ 400 million the maximum loss permitted under the IMF agreement for the whole year. For its part, the backing which the Central Bank had to give to the financial system because of the intervention of the banks and the consequent withdrawal of deposits led to an increase of nearly 80 billion pesos in domestic credit: a figure which was almost equivalent to the US\$ 1 billion lost from the reserves and which also meant that in the first quarter alone the maximum expansion of domestic credit permitted for the whole year under the terms of the initial agreement with the IMF had been exceeded by almost 30 billion pesos.

It therefore became essential to modify the initial agreement, and this was finally achieved in July, when the directors of the IMF approved a waiver which included a series of changes in the original programme. It was agreed that the intervention of the financial system had been necessary, but that this should not substantially alter the original goals. The loss of reserves for the whole year was to continue to be limited to US\$ 600 million. As US\$ 1 billion had already been lost, however, it was agreed that in the course of the second half of the year the international banking system would grant new medium and long-term credits for a total of US\$ 1 300 million, which was equivalent to the approximately 100 billion pesos of additional domestic credits made necessary by the intervention of the financial system. It was also agreed that the international banking system should restore the short-term credits which had been suspended and which amounted to approximately US\$ 200 million. Since the resources that the country would obtain from the international banking system for this purpose were intended to replace credits which theoretically could have been obtained by the domestic financial sector from the international banking system if it had not been intervened, it was agreed with the IMF that these additional external credits should be considered "monetized", i.e., that they would replace the 100 billion pesos of domestic credit previously supplied by the Central Bank to bolster up the financial system. In this way, it was possible to comply by the end of the year with the goal originally agreed on for the expansion of domestic credit, as may be seen from table 24.

The cost for Chile was that, unlike previous credits, these new credits granted by the international banking system were to bear a State guarantee. Despite this —and as a reflection of the greater risks which such credits involved in the view of the banks— their cost rose from 3/4% over LIBOR, which was the spread charged to State enterprises up to the first half of 1982, to 2 1/8%, plus a fixed commission of US\$ 42.5 million.

Table 24

CHILE: ORIGINAL AND MODIFIED TARGETS OF AGREEMENT WITH
IMF AS REGARDS RESERVES AND DOMESTIC CREDIT

	Decem- ber 1982	March 1983	June 1983	Septem- ber 1983	Decem- ber 1983	Annual movement
Net international reserves^a (Stocks in billions of pesos)						
1. Original programme	123	97	87	81	81	-42 ^b
2. Operational programme	123	47	24	84	81	-42
2.1 Without external bank support	123	47	24	1	-22	-145
2.2 With external bank support	-	-	-	83	103	103
Net domestic assets or net domestic credit of Central Bank^a (Stocks in billions of pesos)						
1. Original programme	-26	-6	4	13	24	50
2. Operational programme	-26	51	75	13	21	47
2.1 Without external bank support	-26	51	75	95	124	150
2.2 With external bank support	-	-	-	-82	-103	-103

Source: Central Bank of Chile, *Informe económico y financiero*, second half of May 1983.

^aExcluding gold.

^bEquivalent to US\$ 606 million.

Finally, it was agreed to raise the limit of the fiscal deficit to 2.3% of the gross domestic product, i.e., approximately 35 billion pesos. In order to achieve this goal, and also on account of the smaller fiscal revenue due to the drop in imports, the Government decided to raise customs tariffs from 10% to 20% and to replace public sector wage adjustments with several individual bonus payments which would not raise the nominal wages of public servants by more than 10% during the year.

Thanks to the support of the external banking system, it was possible to restore the level of the reserves during the second half of the year and the loss of reserves for the year as a whole was thus kept down to the level contemplated in the original agreement.

This support from the banking system was due to various factors: firstly, the granting of a State guarantee for the loans; secondly, the pressure exerted by the IMF on the international commercial banks, and lastly the fact that it was difficult to demand a greater effort from the Chilean economy. All this brought greater confidence in the stability of the peso, so that the price of the dollar on the parallel market dropped markedly to around 25% over the official rate (the difference had previously been more than 50%). Likewise, the increase in the authorized fiscal deficit from 1.7% to 2.3% of the product gave the economy more room to manoeuvre, since in such a serious recession it was difficult to finance the public deficit at the expense of the resources available for the private sector. Indeed, in view of the prevailing uncertainty and lack of confidence, an increase in credit to the private sector would lead rather to the paying off of debts than to the expansion of production, and this therefore justified the assignment of a more active role to the State.

b) *The State intervention of the banking system*

i) *Background.* The domestic indebtedness problem had deteriorated so much during 1982 that what was at stake was no longer merely the solvency of many productive enterprises but that of the financial system as a whole. The enterprises had been able to withstand the very high real interest rates of the period 1975-1981 —of the order of 20% to 30% per year— only because the (apparent) value of their assets showed similar rises. The value of these assets began to go down sharply as from the beginning of 1981, however, so that the level of the index of the value of securities on the stock exchange at the end of 1982 was exactly half, in real terms, of that reached two years before. Over the same period, in contrast, real interest rates had risen from 14% per year in 1980 to an average of 35% per year in the period 1981-1982. Finally, sales and production had gone down by almost 20% since mid-1981. It was therefore hardly surprising that a growing number of enterprises went bankrupt or were on the verge of doing so, or that they were only capable of "paying" the interest on their debts to the extent that the banks gave them new loans to cover both principal and interest payments. Even so, in the course of 1982 many enterprises ceased paying off their loans, so that the portfolio of bad debts of the banks grew alarmingly.

It was for this reason that in 1982 the Central Bank offered to buy a considerable part of the portfolio of bad debts of the banks and promoted the renegotiation of debts between enterprises and the banks. However, the burden of indebtedness accumulated by the enterprises was so great and the interests of the banks and of the enterprises were so similar —either because recognizing the insolvency of the latter would also compromise the solvency of the banks, or because the ownership of the banks was closely related with that of the enterprises themselves— that the demand for credit continued to be very high. Consequently, at the end of 1982 the authorities designated supervisors for the banks to help to distinguish between viable and non-viable debtors and to liquidate the latter. In this way it was hoped that the demand for credit would be reduced, that the pressure on interest rates would be relieved, and that the available resources could be used to promote a suitable renegotiation with viable debtors.

ii) *The measures taken.* As already noted, on 13 January 1983 (only three days after signing the agreement with the IMF) the authorities decided to officially intervene the banking system as the only way of achieving the vital objective of placing the financial system on a sound basis. This intervention affected five banks, including the two main private banks. In addition, two banks of lesser importance and one financial institution were dissolved, and inspectors representing the Government were placed in another two banks. These measures, together with the interventions made in previous years, meant that (in terms of the assets involved) the State came to control 70% of the national banking system.

In order to avoid a massive withdrawal of funds from the banks, the State guaranteed all deposits in banks and financial institutions, regardless of whether they were intervened or not, with the sole exception of deposits in the banks which had gone into liquidation. In the case of the latter, the losses were to be absorbed by the owners of the banks and by the biggest depositors, to the extent of up to 30% of the value of their deposits.

The fundamental mission of the government delegates in the intervened banks consisted of clarifying and putting an end to the practice of crossed credits granted to enterprises which were related to the banks either directly or through the so-called "paper companies", the purpose of which was to obtain for these related companies a volume of credit greater than that which was prudent and permitted by the banking legislation. The authorities considered that only in this way would it be possible to put an end to a situation in which the State was saving all tottering enterprises, regardless of whether they were viable or not. Indeed, up to the time when the banks were intervened in January 1983, the State had provided US\$ 2 200 million to support debtors: US\$ 650 million in respect of the intervention of four banks and four financial institutions in November 1981; US\$ 550 million in respect of the intervention of another four financial institutions in April 1982, and nearly US\$ 1 billion as a subsidy for the "preferential dollar" (foreign exchange made available to certain debtors at less than the official exchange rate) during 1982. Moreover, the authorities estimated that the total loans that could no longer be recovered were of the order of US\$ 2 billion.

iii) *The immediate effects.* The most immediate consequence of the intervention of the financial sector was the drop in deposits, which went down by 8% during the first quarter. Of course they would have gone down much more if they had not been given a State guarantee and if the Central Bank had not backed up the banking system by expanding domestic credit. The funds withdrawn from the banks were largely used to purchase dollars on the parallel market, on which, as already noted, the price of the dollar was almost 50% higher than the official exchange rate.

A second immediate consequence was the reduction of the flow of short-term credits to Chile by the foreign banks when they realized that the authorities would not necessarily back up the commitments contracted by the national banking system with the exterior. In fact, these credits were not restored until the Government made it clear that it would fulfill its commitments and formalized this promise with the modification to the initial agreement with the IMF. Meanwhile, because of the withdrawal of deposits, the advance payment of commitments with the exterior and the reduction of the short-term credits, the country's reserves went down by around US\$ 1 billion.

A third consequence of the intervention action was the reduction of the flow of credits from banks to their related enterprises, so that some of these firms, because of shortage of liquidity or insolvency, entered into cessation of payments, especially in respect of the commercial instruments they had placed on the market. This meant heavy losses for holders of securities and of the instruments in question, especially for the mutual funds linked to the intervened banks and their related enterprises.

The total value of the portfolio of bad debts and the portfolio sold to the Government by the intervened banks rose from 86% of the total amount of their capital in December 1982 to more than 2.6 times that value in March 1983 and four times that value at the end of the year.¹⁰

iv) *Measures for the renegotiation of credits.* The intervention action made it possible to separate the credits granted to related enterprises from the other credits, to determine more exactly which credits were overdue or risky, and finally to distinguish the situation of the genuine productive enterprises, termed "enterprises with chimneys" from the "paper companies". This distinction was essential in order to be able to discriminate between viable and non-viable credits or in order to establish the conditions for certain credits to become viable. To this end, starting with the emergency plan set forth in March, machinery was set up to facilitate the renegotiation of producers' credits with the financial sector. This fact, together with the decline in interest rates achieved through the reduction of the demand for credit by the enterprises related to the financial groups and the lower rate of interest "suggested" by the authorities for deposits, brought some relief to the viable debtors. Although it was not a final solution, it did stop their situation from continuing to get worse.

¹⁰It should be noted that this ratio was of the order of two to one at the end of 1983, even for the non-intervened national private banking system, which not only shows the generalized nature of the crisis but also suggests that the intervention of the banks may have been somewhat arbitrary, for while all the intervened banks were indeed in bad shape, not all of those which were in bad shape were intervened.

Table 25

**CHILE: INDICATORS OF PROFITS, FINANCIAL COSTS
AND INDEBTEDNESS OF LIMITED COMPANIES**

(Percentages)

Sector	Number of compa- nies	Profits			Financial costs			Total liabilities		
		Net worth			Operating income			Net worth		
		9/81	9/82	9/83	9/81	9/82	9/83	9/81	9/82	9/83
Wines	4	0.39	-7.92	-53.07	20.35	35.24	24.82	104.87	172.31	228.97
Forestry	7	1.10	-14.15	-104.43	31.69	88.50	251.85	43.30	131.53	298.48
Fisheries	8	1.45	-22.70	5.20	8.11	19.60	6.43	71.01	86.14	71.09
Food industry	12	-7.68	-50.64	-45.97	14.53	19.81	13.58	129.95	216.83	183.79
Mining	6	-7.11	-9.12	-4.17	2.07	6.75	8.95	21.52	29.13	51.09
Textiles	3	-4.15	-108.27	-119.31	15.13	51.79	45.93	60.59	313.89	378.49
Construction materials	10	8.44	-10.44	0.68	19.03	29.42	25.05	66.64	112.45	145.03
Metal products and machinery	6	3.91	-24.11	-18.11	10.54	28.09	26.31	84.37	145.98	218.93
Miscellaneous manufactures	4	4.40	1.24	4.83	2.82	8.43	5.02	39.81	46.44	42.16
Public services	6	3.18	1.97	5.53	6.44	7.95	6.59	31.18	35.73	42.73
Shipping	4	10.47	-10.05	-14.29	0.11	1.96	5.56	97.91	25.75	152.90
Commerce and distribution	6	2.57	-70.64	-37.28	2.50	7.46	7.47	120.63	129.04	233.32
Investments	6	-0.74	-20.31	-107.54	16.97	143.26	467.26	82.01	126.11	300.56
Tourism	3	2.80	-34.06	-7.93	442.79	548.66	393.27	30.91	104.92	129.86

Source: University of Chile, Department of Economics, *Comentarios sobre la situación económica*, second half of 1983.

The machinery set up included five lines of credit one of up to 250 billion pesos to renegotiate the debts of productive sectors with the financial system at a real interest rate of 7% per year; another of 50 billion pesos to finance the supply of dollars at a preferential exchange rate to help those with debts in foreign currency; a third of 7 500 million pesos for special lines of credit for the sale of dwellings with a 20 year repayment period and at a real interest rate of 8% per year (which enabled construction firms to dispose of part of their stock of unsold dwellings); a fourth for a further 4 billion pesos to enable mortgage debtors to reduce their monthly repayments in "Unidades de Fomento" (readjustable units of account) for the next four years through a Central Bank loan at a real interest rate of 8% per year; and finally a line of credit of 31 billion pesos to provide credits in order to enable enterprises to finance their working capital.

Finally, at the end of 1983 the Central Bank permitted financial institutions which had not been intervened and had participated in the programme of selling their portfolio of bad debts in 1982 to sell this portfolio to the Central Bank up to a maximum of 1.5 times their capital and reserves, in return for bank promissory notes bearing interest at a real rate of 7% per year and eligible to be redeemed at 5%.

While these measures did relieve the financial burden of enterprises by reducing interest payments and extending repayment terms, they were nevertheless far from solving their problems definitively. Indeed, as was to be expected in a year in which the product went down, the profits of limited companies during 1983 were negative in 10 of 14 economic sectors (see table 25). The relief, then, such as it was, was achieved by stabilizing the very high levels of financial costs with respect to operating income and increasing the already very high level of indebtedness, as occurred in 11 of the 14 sectors of the economy.

c) *Monetary policy*

i) *The money supply.* Because of the deflationary policy applied during the first half of 1982 and the generalized uncertainty regarding the value of the peso caused by the devaluation and the numerous exchange policies tried out in the second half of that year, the money supply went down by 20% in 1982. Ultimately, it was obvious that in order to reactivate the economy it was necessary to expand the money supply. The problem, however, was how to do this without losing reserves, for if

the demand for money continued to go down, an increase in the money supply would lead to a loss of reserves or a higher level of inflation.

As already noted, the initial agreement with the IMF appeared to be contractive, since it provided for only a relatively small nominal expansion in money issue and credit (less than 15%) compared with the projected inflation (20%) and economic growth (4%). Indeed, most of the main monetary aggregates went down in real terms during 1983. Thus, real money issue went down by 8% and only private sector money (M_1) grew, and even then only 3% in real terms. Furthermore, as this increase was more than offset by the 36% drop in time deposits, the broader money supply (M_2) went down by 27% in real terms. At the same time, real loans by the banking system went down almost by 10% (see table 26).

Though the evolution of the money supply was generally contractive for the year as a whole, its behaviour varied widely in the course of the year. Thus, as a result of the intervention of the financial system, money issue grew by 10% and M_1 increased by 30% in real terms during the first quarter of 1983. Subsequently, however, both money issue and the money supply went down, reaching their lowest levels of the year in real terms during the last quarter. Indeed, it was only in December that money issue and the other monetary aggregates registered real increases once again. This shows how cautious the monetary policy was after the intervention of the banking system, as well as the effort made by the authorities to comply strictly with what had been agreed with the IMF.

ii) *Interest rates.* The restrictive character of the monetary policy cannot be judged, however, only from the evolution of the supply of money and credit. It is essential to take into account also what happened with the demand for credit and consequently with interest rates.

Table 26

CHILE: MONETARY INDICATORS

	December averages for each year, in billions of pesos				Growth rates				
	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Money issue (E)	93.7	87.3	61.7	70.1	49.4	37.2	-6.8	-29.3	13.6
Total money supply	140.2	143.1	114.5	138.7	59.1	77.9	2.1	-19.7	21.1
Private sector (M_1)	75.9	82.5	75.0	95.2	58.7	59.5	8.7	-9.1	26.8
Public sector (PS)	64.3	60.6	39.5	43.5	59.6	106.1	-5.7	-34.3	10.1
Term deposits (TD)^b	142.4	244.6	273.6	262.2	72.5	70.1	71.8	11.9	-4.2
From 30 to 89 days	85.8	206.8	221.5	128.2	42.9	52.1	141.0	7.1	-42.1
From 90 to 365 days	37.0	12.5	28.4	80.2	217.5	111.4	-66.2	127.2	182.4
Readjustables	27.7	2.6	24.4	73.6	1 284.5	279.5	-90.6	838.5	201.6
Non-readjustable	9.3	9.9	4.0	6.6	104.7	-8.8	6.5	-59.6	65.0
Over one year	19.6	25.3	23.7	53.8	160.1	366.7	29.1	-6.3	127.0
Private money + term deposits ($M_2 = M_1 + TD$)	218.3	327.1	348.6	357.4	66.6	66.3	49.8	6.6	2.5
Bank quasi-money (D_2)^c	196.1	305.6	334.5	315.9	78.5	80.2	55.8	9.5	-5.6
Term deposits	142.4	244.6	273.6	262.2	72.5	70.1	71.8	11.9	-4.2
Savings deposits	39.8	44.0	47.8	80.1	82.7	147.2	10.6	8.6	67.6
Loans by the banking system									
National currency	251.6	412.7	519.6	636.4	100.8	92.9	64.0	25.9	22.5
Foreign currency ^d	5 264.0	7 156.0	6 431.0	4 838.0	39.6	73.3	35.9	-18.6	-24.8

Source: Central Bank of Chile, *Síntesis Monetaria*.

^aPreliminary figures.

^bIncludes bonds of the Department of Savings and Investments (DAI).

^cIncludes other deposits for less than 30 days.

^dMillions of dollars.

Table 27

CHILE: BANK INTEREST RATES

	1978	1979	1980	1981	1982	1983	1983 ^a			
							I	II	III	IV
Nominal										
Short-term deposits	62.8	45.0	37.4	40.8	47.8	27.9	33.1	29.0	25.0	24.9
Short-term loans	85.3	62.0	46.9	51.9	63.1	42.7	50.1	44.1	39.2	37.7
Real										
Non-readjustable operations										
Short-term deposits ^b	18.7	4.6	4.7	28.6	22.4	3.9	14.5	1.7	-4.9	5.3
Short-term loans ^b	35.0	16.6	12.0	38.7	35.1	15.9	29.1	13.7	6.0	16.1
Readjustable operations										
Deposits	17.5	14.5	8.4	13.1	12.0	7.7	10.1	8.4	6.9	5.5
Loans	...	23.0	15.4	14.5	16.9	9.8	11.2	9.7	9.4	9.0

Source: Central Bank of Chile.

^a Annual rates projected on the basis of quarterly rates.

^b Calculated on the basis of the nominal rates published by the Central Bank, the corrected consumer price index given in table 22, and the consumer price index of the National Statistical Institute (period 1979-1982).

For the year as a whole, the real interest rate for loans went down to less than half (16%) of what the rate had been in the period 1981-1982 (see table 27). Thus, with the exception of the level registered in 1980, the real interest rate was the lowest since the freeing of interest rates in 1975.

There was a similar decline in the rate of procurement of deposits, because of the use by the authorities of the mechanism of "suggesting" an interest rate to the banks, together with the slackening of the inflationary process compared with the second half of 1982. As a result, the nominal rate of procurement of deposits went down rapidly from an annual rate of 73% in the last quarter of 1982 to a rate of 35% in the first quarter of 1983. At the same time, the real interest rates on deposits went down from 22% per year in 1982 to only 4% in 1983; their lowest level since the liberalization of the financial system.

Had it not been for this policy of suggested interest rates, the adjustment to smaller inflationary expectations would probably have been much slower in 1983, especially in view of the uncertainty prevailing at the beginning of the year. In fact, it is probable that the suggested interest rates encouraged the withdrawal of short-term deposits for use in the acquisition of dollars or in order to increase longer-term deposits at readjustable interest rates (see table 26). The fact that the bulk of the decline in deposits took place in the first quarter, however, suggests that it was due rather to problems of general uncertainty and not to the fact that inflationary expectations were higher than the suggested interest rate. As a matter of fact, the monthly decline in deposits in real terms was very even from April onwards (although a good deal slower than in the first quarter), even though the interest rate on deposits was low and very unstable. Consequently, the "cost" of the policy of suggested deposit interest rates does not seem to have been very high.

For its part, the reduction in the interest rates on loans is attributable almost entirely to the decline in the rate on deposits. Thus, between 1982 and 1983 the latter went down by 18 percentage points in real terms, while the former went down by 20.

Nevertheless, an explanation must be found for this extra drop of two points in the interest rate on loans, especially in view of the fact that the supply of money was rather contractive. What happened, it would appear, is that the demand for credit went down in the course of the year as much as or even more than supply. Because of the intervention of the banks and the subsequent reprogramming of debts, there was a decline in the "artificial" pressure of enterprises seeking credit at any cost, that is to say, the almost unlimited pressure for credit coming from the related and/or non-viable enterprises. If these circumstances remained unchanged, this would tend to reduce the interest rate on loans. This was particularly evident after the intervention of the banks and was

Table 28

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
A. Income and expenditure in national currency									
(Billions of current pesos of each year)									
1. Current income	7.9	25.2	57.6	100.4	157.1	239.4	319.9	300.7	348.3
Direct taxes	2.4	6.5	14.7	24.7	45.3	65.6	81.1	80.1	70.0
Indirect taxes	5.1	18.0	41.1	69.6	104.3	154.1	203.7	190.7	260.3
Non-tax revenue	0.4	0.7	1.8	6.1	7.5	19.7	35.1	29.9	18.0
2. Total expenditure	7.4	24.1	57.0	94.5	151.2	226.4	291.5	323.4	400.3
Service of public debt	-	0.3	1.0	1.2	7.8	15.8 ^b	2.9	4.2	13.0
Other expenditure	7.4	23.8	56.0	93.3	143.4	210.6	288.7	319.2	387.3
3. Deficit (1-2)	0.5 ^c	1.1 ^c	0.6 ^c	5.9 ^c	5.9 ^c	13.0 ^c	28.4 ^c	22.7	52.0
4. Deficit/total expenditure (percentage)	6.1 ^c	4.6 ^c	1.0 ^c	6.2 ^c	3.9 ^c	5.8 ^c	9.7 ^c	7.0	13.0
B. Income and expenditure in foreign currency									
(Millions of dollars at current prices)									
1. Current income	219	383	374	360	864	1 007	523	439	548
Copper	177	352	353	331	840	976	449	402	518
Other	42	31	21	29	24	31	74	37	30
2. Total expenditure	556	695	624	675	679	1 178	1 550	564	648
Service of public debt	388	544	445	507	524	958 ^d	1 270 ^e	410	462
Other expenditure	168	151	179	168	156	220	280	154	186
3. Deficit (1-2)	337	312	250	315	184 ^c	171	1 037	125	100
4. Deficit/total expenditure (percentage)	60.6	44.9	40.1	46.7	27.1 ^c	14.5	66.9	22.2	15.4
C. Consolidate income and expenditure									
(Millions of dollars at 1976 prices)									
1. Current income	2 360	2 313	2 499	2 688	3 104	3 579	3 842	3 239	3 025
Copper	193	352	314	253	509	519	219	192	244
Direct taxes	674	515	564	604	752	842	915	809	559
Indirect taxes	1 388	1 384	1 553	1 681	1 717	1 963	2 291	1 926	2 070
Non-tax revenue	105	62	68	150	126	255	417	312	152
2. Total expenditure	2 607	2 540	2 699	2 788	2 896	3 504	4 025	3 528	3 485
Service of public debt	447	566	435	418	446	710 ^f	652 ^g	238	321
Other expenditure	2 160	1 974	2 264	2 370	2 450	2 797	3 373	3 290	3 164
3. Deficit (1-2)	247	227	200	100	208 ^c	75 ^c	183	289	460
D. Coefficients									
(Percentages)									
4. Deficit/total expenditure	9.5	8.9	7.4	3.6	7.2 ^c	2.1 ^c	4.5	8.2	13.2
5. Deficit/gross domestic product	2.6	2.3	1.8	0.8	-1.7 ^c	-0.6 ^c	1.2	2.3	3.8
6. Current income/gross domestic product	24.8	23.5	23.1	23.0	24.5	26.3	26.7	26.2	24.6
7. Total expenditure/gross domestic product	27.4	25.8	24.9	23.8	22.8	25.7	27.9	28.5	28.4

Source: Ministry of Finance, Budget Office.

^aPreliminary figures.^bIncluding advance payments of 9 565 million pesos.^cSurplus.^dIncluding advance payments of

US\$ 422 million.

^eIncluding advance payments of US\$ 867 million.^fIncluding advance payments of US\$ 346 million at 1976

prices.

^gIncluding advance payments of US\$ 423 million at 1976 prices.

reflected in the fact that the interest rate on loans went down by 23 points between the first and third quarters of 1983, while over the same period the rate for deposits went down by 19 points. This suggests that the demand for credit went down, on the one hand, due to the intervention of the banks and the subsequent placing of the financial system on a sounder basis, and on the other, because the enterprises tried not to increase their already very high levels of indebtedness.

In these circumstances, then, the increase in the supply of credit in the first half of the year helped to bring down interest rates. On the other hand, the apparent increase in the real interest rate in the fourth quarter would seem to indicate that, as the impression that the reactivation had begun became more general, the demand for credit increased more than the supply.

At all events, at the end of the year there were still three problems which needed to be solved in order to normalize financial flows and ensure reactivation: defining the terms of a definitive renegotiation of the debts of the productive sector; determining how the losses were to be absorbed and who should shoulder them, and finally, deciding who the owners of the intervened banks should be.

d) *Fiscal policy*

In 1983 the fiscal deficit was finally equivalent to 3.8% of the gross domestic product: the highest proportion registered in the last nine years (see table 28). The ratio of the deficit to the product was thus more than double the goal (1.8%) laid down in the initial agreement with the IMF and 1.5 percentage points greater than the goal in the modified agreement (2.3%). This discrepancy was due to the fact that in the agreements with the Fund it was assumed that the economy would grow. In practice, however, the economy did not grow, and finally, in order to meet the target deficit foreseen, it would have been necessary to reduce the level of expenditure even more, which would have made the recession even more serious. It is hardly surprising, then, that finally it was decided to give way over the fulfilment of the fiscal deficit goal, since in essence this represented the counterpart of the unforeseen fall in the product.

Even so, fiscal expenditure in national currency went down by 3% in real terms between 1982 and 1983, so that the bigger deficit obviously did not act as a factor of reactivation. The bulk of this decline was due to the contraction in current expenditure, especially payments of wages. This reflected the effect of the wage adjustments granted, which represented a nominal increase of the order of 10% but a drop in real terms of around 15%. Even the expenditure of the Ministry of Public Works, which had already suffered a very drastic reduction in 1982, went down by a further 7% in 1983.

Outstanding among the cases of increased expenditure was the Ministry of Housing and Town Planning, whose expenditure grew by 70% and thus more than offset the decline in expenditure on public works, and the outlays to finance the programmes for the absorption of unemployment. This latter expenditure increased by 144% in real terms between 1982 and 1983, amounting to the equivalent of US\$ 300 million, or more than 6% of the total central government expenditure.

Total fiscal revenue, for its part, went down by 7% in real terms on account of the recession. The most significant declines were in revenue from income tax and value added tax (35% and 9%, respectively). On the other hand, foreign trade taxes increased by 73% in real terms, mostly because of the rise in tariffs from 10% to 20%. Revenue from taxes on certain specific products also considerably increased (33%) as a result of the increased rates of taxation on tobacco and cigarettes and the increase in the taxable basis (price) of the fuel tax.

As real fiscal revenue went down by 7% whereas total fiscal expenditure dropped by only 1%, the fiscal deficit increased by 60% even though, as already noted, the authorities did not try to use fiscal policy to bring about a reactivation.

ECUADOR

1. Recent economic trends: Introduction and summary

The progressive worsening of the economic situation since the beginning of the decade had become even more marked in 1982, and in 1983 it degenerated into a crisis which affected with various degrees of intensity the entire economy, even in the case of those activities which had recorded some growth. The gross domestic product, which had shown scant dynamism during the preceding year (1.4%), dropped in 1983 by 3.3%, while the per capita product fell by 6.3%. In the last two years the per capita product has thus decreased by 8%. The fall in national income was somewhat greater than the year before —nearly 4%— due to a new deterioration in the terms of trade, which since 1981 have gone down by more than 20% (see table 1 and figure 1).

The decreases exhibited by other important variables during the year illustrate the depth of crisis. Imports shrank by nearly 35%, both in value and in volume, on account of the increasingly restricted purchasing capacity, which led the authorities to establish severe import controls.

On the other hand, gross fixed investment, which had already stagnated in 1981 and dropped 10% in 1982, decreased 26% in 1983. This fall in investment was at once the cause and the consequence of the recession. The low level of economic activity and the 7.3% contraction in domestic consumption discouraged private investment completely, while public investment was sluggish, inhibited as it was by the policy of austerity and containment of public expenditure.

The conjunction of different factors and circumstances contributed to the progressive worsening of the economic situation in recent years. However, two facts in particular hastened the critical situation which emerged in 1983. On the one hand, the weakening of exports in 1981 and their decrease in 1982 raised the trade deficit. At the same time, the external debt service increased rapidly, and in 1982 it equalled the earnings from exports of goods and services. This generated important balance-of-payments deficits in both years, leading to a reduction in the international reserves. On top of that situation, in the second half of 1982 there was an unexpected fall in foreign financial flows, compelling the authorities to apply for the rescheduling of the external debt falling due in 1983 and to restrict imports severely.

On the other hand, the heavy rains which fell for 11 months, especially in the coastal region, and which (together with the appearance of the El Niño ocean current) caused enormous losses in production and damage to communications and facilities, impaired the entire economy.¹

Mainly as a consequence of these disasters, the agricultural product fell by 29% and the fishery product by 20% (sea fishing decreased by half, although it was partly compensated by an excellent shrimp catch). The decrease in agricultural and fishery production affected the supply of raw materials for manufacturing, and this, together with import restrictions, serious financial difficulties in the enterprises and a fall in demand, led to a drop of nearly 6% in the manufacturing product. Construction, for its part, suffered a decrease of the order of 15%, due to problems similar to those of industry, which were aggravated by the deferment of important public works.

Among the few activities which grew during the year were electricity, gas and water services (around 10%) and crude petroleum production, which rose 12.5% thanks to the entry into operation of new fields and wells in the eastern region. On the other hand, the output of petroleum products diminished approximately 16% and domestic fuel sales decreased 7%, making it possible to allocate a larger share of crude production for export. Among the factors which had an influence on the drop in domestic fuel sales were price increases, lower fuel consumption in industries and in other productive activities due to the recession, and the replacement of some thermo-electric power plants (which require large quantities of fuel) by the first three units of the Paute hydroelectric power project (100 MW each), which were incorporated to the transmission network in the second half of the year.

¹These losses were estimated by ECLAC at around US\$ 640 million. See the report entitled *Los desastres naturales de 1982-1983 en Bolivia, Ecuador y Perú*, E/CEPAL/G.1274, 27 December 1983.

The decrease in agricultural and fishery production severely affected the supply of food and raw materials for important industrial sectors, and the shortage got even worse due to the hoarding of merchandise which led to huge price increases, particularly in the case of food. Price increases due to these reasons came on top of the increments in fuel prices (except gasoline, which had gone up the preceding year) and electricity rates. Furthermore, prices of imported goods went up with the currency devaluation and tariff surcharges. The food price index increased at a rate of 9% per month in the period between April and July, but slackened in the following months and even showed negative growth in November and December. All in all, the December to December consumer price index increased 53% (more than doubling its rise of 24% in 1982) while food prices went up by 86% (see table 1).

The inordinate price increases led to numerous protest demonstrations, work stoppages and strikes in demand for higher wages. At the beginning of July, the minimum wage for industrial workers was raised from 4 600 to 5 600 sucres per month, and the basic wages for workers in agriculture, small enterprises etc., went up by a similar proportion. Given the considerable increases in domestic prices, however, these rises were not enough for wages to retain their purchasing power.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	4 985	5 313	5 595	5 869	6 136	6 221	6 018
Population (millions of inhabitants)	7.32	7.54	7.78	8.02	8.28	8.54	8.81
Per capita gross domestic product (dollars at 1970 prices)	681	704	719	732	742	729	683
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.5	6.6	5.3	4.9	4.5	1.4	-3.3
Per capita gross domestic product	3.3	3.4	2.1	1.8	1.4	-1.8	-6.3
Gross national income	6.1	5.0	8.3	5.6	1.6	-0.2	-3.9
Terms of trade (goods and services)	2.3	-6.5	18.5	12.0	-10.5	-0.9	-11.7
Current value of exports of goods and services	12.3	7.0	41.5	18.9	1.6	-7.7	-2.5
Current value of imports of goods and services	35.2	22.1	25.1	11.2	6.8	-5.0	-33.5
Consumer prices							
December - December	9.8	11.8	10.0	13.7	17.2	24.4	52.5
Variation between annual averages	13.1	13.1	10.1	12.8	16.0	16.3	48.5
Money	31.0	10.2	27.4	27.7	15.3	18.3	24.9
Minimum wage in real terms ^b	-13.1	-7.6	21.6	16.5	-14.2	-9.5	-8.9
Current income of government	12.3	15.8	20.7	62.3	5.2	15.2	28.6
Total expenditure of government	16.9	17.2	7.8	68.7	24.9	12.0	15.4
Fiscal deficit/total expenditure of government ^c	26.2	27.1	18.1	20.9	33.8	32.5	22.7
Fiscal deficit/GDP ^c	2.6	3.7	2.2	3.4	5.8	5.3	3.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-182	-463	-299	-147	-304	-368	590
Balance on current account	-377	-730	-654	-672	-1 027	-1 215	-128
Balance on capital account	489	736	698	942	656	875	274
Variation in net international reserves	146	13	87	291	-381	-328	146
Total external debt	1 264	2 975	3 554	4 652	5 868	6 187	6 689

^aPreliminary figures.

^bIncludes various bonuses and allowances.

^cPercentages.

Thus, real wages diminished by an average of 16% during the year, or 9% if special bonuses and additional benefits are considered.

Before the occurrence of the natural disasters already referred to and the decline in economic activity in the coastal region, the urban unemployment rate was estimated at nearly 5% and that of underemployment between 40% and 60%. As a result of the events that occurred in 1983, however, urban unemployment rose to between 9% and 10%.

As mentioned earlier, one of the causes that speeded up economic deterioration in the last year was the critical external situation, aggravated by the fall in external credit flows. At the end of 1983, however, the results shown by the balance of payments were fairly favourable and quite different from those recorded in 1982, although this was accomplished by sacrificing one-third of imports. Thus, the negative trade balance of US\$ 370 million in 1982 changed to a positive one of US\$ 590 million in 1983, while the current account deficit decreased by US\$ 1 090 million and international reserves recovered US\$ 150 million of the US\$ 710 million lost in 1981 and 1982.

The 34% drop in imports of goods and services in 1983 was a consequence of prohibitions instituted at the end of 1982, the progressive devaluation of the sucre, and tariff surcharges, as well as the establishment of new provisions on the exchange rate and prior deposits. Another major cause of the import contraction was the economic recession.

On the other hand, total exports diminished 2.5% and those of goods recorded only a tiny increase. Crude petroleum exports amounted to US\$ 290 million more than in 1982, even though their average sales price decreased from US\$ 32.40 to US\$ 27.60 per barrel. Moreover, shrimp exports increased from US\$ 122 million in 1982 to US\$ 175 million, and coffee exports also rose although more slowly. The increase in sales of these three products offset the fall in other items (-87% in the case of cocoa beans and -45% in manufactures).

After protracted negotiations, an agreement was reached with creditor banks for the refinancing of US\$ 1.2 billion of the external public debt and approximately US\$ 1 billion of the private debt falling due between November 1982 and December 1983. The renegotiation covered a seven-year period, including one year of grace. Furthermore, agreement was reached with the Paris Club for the refinancing of US\$ 155 million of the public sector debt with governments and State-guaranteed supplier credits falling due up to mid-1984. The State made itself responsible for renegotiating the private debt and debtors signed agreements with the Central Bank to pay their commitments in sucres.

Among the agreements with the international banking system, the Government obtained a "fresh money" loan of US\$ 431 million, designed mainly for the payment of commercial credit arrears. Likewise, the opening of lines of trade credit for US\$ 700 million was agreed. The granting of these loans and the rescheduling of the debt proper were to some extent conditional on the signing of an agreement with the International Monetary Fund for the granting of a stand-by loan of US\$ 171 million, to be disbursed in four equal quotas upon certification of fulfilment of the purposes expressed in the Letter of Intent which the monetary authorities had sent to the IMF in March.

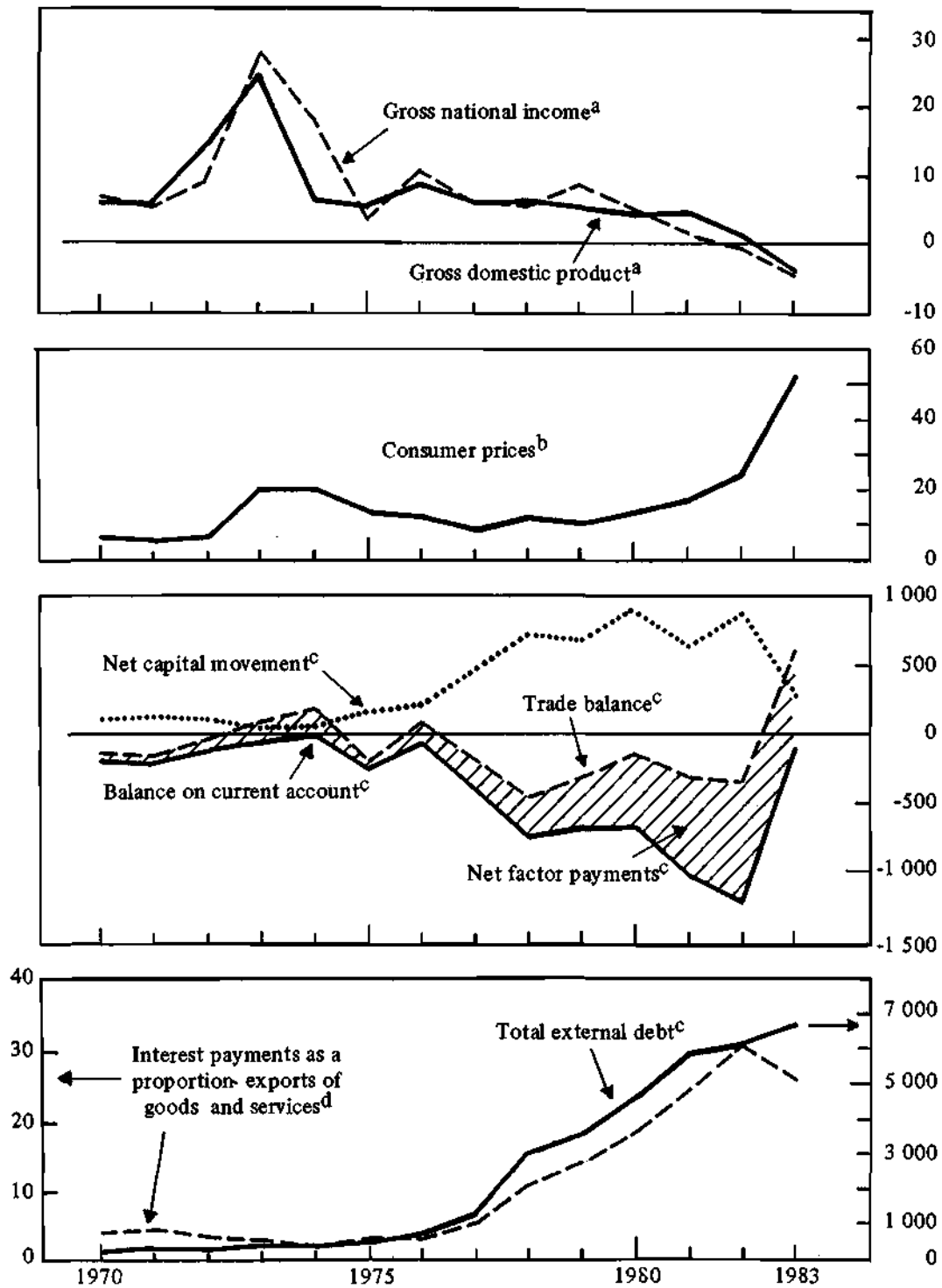
At the end of 1983 the total external debt came to approximately US\$ 6.7 billion: US\$ 500 million more than in December 1982. Disbursements made in 1983 amounted to US\$ 2 720 million and amortization payments to US\$ 2 200 million.² In addition, there were interest payments of US\$ 680 million, i.e., US\$ 130 million less than in 1982.

The objectives expressed in the Letter of Intent sent to the IMF were included in an Economic Stabilization Programme proposed by the Monetary Board in March. In order to fulfill them, a series of exchange rate, monetary, fiscal and foreign trade measures were adopted during the year. Thus, at the end of March the official exchange rate was increased from 33 to 42 sucres per dollar, and a daily devaluation system was implemented, so that the rate came to 54 sucres per dollar by the end of the year. Likewise, a free exchange rate was established (somewhat lower than that of the free market) at which the Central Bank purchases foreign exchange arising from 30% of non-traditional export earnings and resells it for importing less essential goods (classified in Schedule II). Together with these measures, the issuance of tax credit certificates in respect of exports was eliminated.

In addition, frequent transfers of goods from Schedule I to Schedule II were made during the year and the amounts of the prior deposits demanded for imports were increased, while payments to

²The disbursements and amortization payments effectively made were lower, since the figures mentioned include the accounting movements which took place as a result of the debt renegotiation.

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate.

^bPercentage variation from December to December.

^cMillions of dollars.

^dPercentages.

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	7 428	7 427	6 815	114.4	122.2	113.2	3.8	3.6	-	-8.2
Gross domestic product at market prices	6 136	6 221	6 018	100.0	100.0	100.0	4.9	4.5	1.4	-3.3
Imports of goods and services ^b	1 292	1 206	797	14.4	22.2	13.2	-0.7	-0.7	-6.7	-33.9
Total demand	7 428	7 427	6 815	114.4	122.2	113.2	3.8	3.6	-	-8.2
Domestic demand	6 738	6 796	6 122	104.1	111.1	101.7	4.8	3.4	0.8	-9.9
Gross domestic investment	1 179	1 061	808	18.2	20.9	13.4	8.8	-3.9	-10.0	-23.9
Gross fixed investment	1 079	968	717	16.7	18.3	11.9	6.1	0.3	-10.2	-25.9
Construction	496	496	...	10.9	9.6	...	17.8	-12.4	-	...
Machinery and equipment	583	472	...	5.8	8.7	...	-4.4	14.5	-18.9	...
Changes in stocks	100	93	91	1.5	2.6	1.5	...	...	...	...
Total consumption	5 559	5 735	5 314	85.9	90.2	88.3	3.9	5.1	3.2	-7.3
General government	893	888	871	11.0	14.6	14.5	9.0	4.1	-0.5	-2.0
Private	4 666	4 847	4 443	74.9	75.5	73.8	3.0	5.3	3.9	-8.3
Exports of goods and services ^b	690	631	693	10.3	11.1	11.5	-5.2	5.8	-8.6	9.8

Source: ECLAC, on the basis of figures supplied by the Central Bank of Ecuador.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services correspond to those of the balance of payments, deflated by means of price indexes calculated by ECLAC.

the exterior in respect of them were deferred. Likewise, tariff surcharges were imposed: imports of a long list of luxury items had already been prohibited and those of some capital goods had been discontinued.

The interest rate for loan operations was also raised from 15% to 19%, but even so the real rates remained highly negative. Furthermore, several taxes were increased and measures for the containment of public expenditure and reduction of the fiscal deficit were adopted.

One of the purposes of the Stabilization Programme was to regulate the money supply and credit according to the essential needs of the economy with the aim of preventing inflationary pressures. During the year money increased only 25%: much less than the gross domestic product at current prices. It was also laid down that the public sector deficit should not exceed 4% of the gross domestic product. In fact, the fiscal deficit/GDP ratio decreased from 5.3% in 1982 to 3% in 1983, thanks to a 29% increment in current income and an increase of only 15% in total expenditure.

2. Trends in economic activity

a) Total supply and demand

The rapid growth of the gross domestic product recorded in the 1970s gradually began to lose momentum towards the end of that decade. This trend persisted in the following years and already by 1982 the economy recorded an increase of only 1.4%, while there were evident signs of recession and deterioration in the main economic variables. The situation worsened and became critical in 1983 due to the drastic reduction in external financing and the natural disasters that devastated the coastal region. The gross domestic product fell by 3.3% and the per capita product dropped by 6.3%: an unprecedented event, at least in the last 35 years.

The immediate causes of the crisis must be ascribed to the aggravation of the external situation. In 1981 and 1982 the external debt service absorbed export earnings almost completely and external financing became insufficient to cover imports and other commitments, thus leading to significant

reductions in the international reserves. In the last quarter of 1982 the external deficit became still more acute as the external credit flow decreased, and it was therefore necessary to adopt immediate measures to restrict imports and to take steps for the rescheduling of external debt payments falling due during 1983.

The other factor which triggered the critical situation of 1983 was the heavy rain and floods which, together with the appearance of the El Niño ocean current, caused enormous losses in production and heavy damage that affected the entire economy.

All components of total supply and demand, except the volume of exports of goods and services, showed substantial declines in 1983 (see table 2).

The slowdown in the growth of the gross domestic product, and later its fall, were accompanied in the 1980-1981 biennium by a slight decrease in the volume of imports of goods and services, which worsened in 1982 and became extraordinarily acute in 1983, when this volume shrank by 34%. In the years of greatest economic activity of the preceding decade the import coefficient reached over 23%; in 1983, in contrast, it only came to 13%.

Furthermore, fixed capital formation dropped by one-third since 1980, thus reversing the vigorous capitalization process which existed in the period of rapid economic growth extending from 1973 to 1978. In 1978, the fixed investment coefficient was nearly 25%; but in 1983 it dropped to 12%, thus jeopardizing the recovery of production in the years to come.

There has been a parallel between the fall in investment and the course followed by construction and also by imports, particularly in 1983, when purchases of capital goods decreased by one half at current values. However, two other important factors explain the decline in investment: the contraction of private consumption and the containment of public expenditure.

In the periods 1976-1980, 1981-1982 and in 1983, important changes occurred in the composition of investment financing sources. Between the two first periods the share of external savings in such financing increased remarkably, with a concomitant drop in domestic savings. The cause of this increment was not so much the decrease in domestic savings, or the deterioration in the terms of trade, as the rapid increment of net factor payments to the exterior, especially interest payments (see table 3).

Table 3

ECUADOR: FINANCING OF GROSS DOMESTIC INVESTMENT

	Average 1976-1980	1981	1982	1983 ^a
Percentage of gross domestic investment^b				
1. Gross domestic investment	100.0	100.0	100.0	100.0
2. Gross national savings (a + b + c)	76.9	65.0	54.9	93.8
a) Gross domestic savings	46.9	41.7	42.6	77.2
b) Net factor payments to the exterior ^c	13.8	24.6	31.5	34.8
c) Terms-of-trade effect	43.9	47.9	43.7	51.4
3. External savings	23.1	35.0	45.1	6.2
Percentages of gross domestic product				
1. Gross domestic investment	20.4	19.2	17.1	13.4
2. Gross national savings (a + b + c)	15.7	12.5	9.4	12.6
a) Gross domestic savings	9.6	8.0	7.3	10.4
b) Net factor payments to the exterior	2.8	4.7	5.4	4.7
c) Terms-of-trade effect	9.0	9.2	7.5	6.9
3. External savings	4.7	6.7	7.7	0.8

Source: ECLAC, on the basis of official statistics.

^aPreliminary figures. ^bThe original information is expressed in constant values (see preceding table).

^cIncludes unrequired private transfer payments.

Table 4

**ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY**

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
	Gross domestic product^b	5 587	5 665	5 480	100.0	100.0	100.0	4.9	4.5	1.4	-3.3
Goods	2 368	2 424	2 199	47.8	46.2	43.3	2.2	5.3	2.4	-9.3
Agriculture	805	821	698	25.1	15.7	13.8	5.3	5.7	2.0	-14.9
Mining and petroleum industry ^c							-8.4	4.7	-3.9	8.4
Manufacturing							3.6	5.1	4.6	-5.6
Construction	172	170	144	4.3	3.5	2.8	0.8	1.4	-0.7	-15.4
Basic services	531	560	...	8.5	10.3	...	8.3	5.4	5.6	...
Electricity, gas and water	54	60	66	0.9	1.0	1.3	10.0	11.4	11.5	10.5
Transport, storage and communications	477	500	...	7.6	9.3	...	8.1	4.8	4.9	...
Other services	2 398	2 471	...	45.7	47.2	...	10.4	4.4	3.0	...
Commerce	862	864	...	14.2	17.0	...	8.4	4.2	0.2	...
Financial institutions, insurance, real estate and business services	650	681	...	8.5	12.9	...	14.5	3.3	4.8	...
Ownership of dwellings	(234)	(241)	...	(6.3)	(4.7)	...	(3.2)	(3.3)	(2.8)	...
Community, social and personal services	886	926	...	23.0	17.3	...	12.0	5.2	4.5	...
Government services	508	521	522	9.6	10.1	10.3	9.2	3.6	2.5	0.2
Less: imputed bank service charges	180	190	...	2.0	3.7	...	38.5	-0.2	6.0	...

Source: ECLAC, on the basis of information provided by the Central Bank of Ecuador.

^a Preliminary data. ^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond with the latter. ^c Oil refining has been included under petroleum industry and excluded from manufacturing. The original values in millions of 1975 sucres are as follows:

	1980	1981	1982	1983
Mining and petroleum industry	15 070	15 780	15 172	16 446
Manufacturing (oil refining excluded)	26 807	28 181	29 467	27 812

The financing structure of investment changed drastically in 1983, when domestic savings financed 94% of gross domestic investment, which recorded a decrease of 24% during that year. External financing thus amounted to only 6%. In spite of the deterioration in the economic situation, domestic savings were able to show an extraordinary increment, which is undoubtedly related to the large current savings obtained by the central government.

b) Evolution of the main sectors

All economic activities, except petroleum production, and electricity, gas and water services, contributed in different degrees to the reduction experienced by the gross domestic product in 1983 (see table 4).

The largest drops were recorded in agriculture, particularly in cropfarming (-29%) and fishing (-20%), due to climatic phenomena, and also in forestry (-10%). Likewise, activity in the previously dynamic construction sector dropped by more than 15% and manufacturing by over 5%, due to various problems which included in particular financing difficulties, fall in demand, etc., and the lack of raw materials due to losses in agricultural and fishing production and a decline in imports, which also became more expensive.

Sectoral product estimates unfortunately do not include that of services; however, according to partial data available on some activities, and in view of the extent and depth of the economic recession, it may be concluded that very few activities achieved any real positive results during 1983.

i) *Agriculture.* The heavy and persistent rains which led to the overflowing of rivers and extensive floods in the coastal region, as well as the heavy seas and the decline in the level of sea salinity, caused huge losses and damage to important crops and a drastic reduction in fishing.

The rainy season, which started prematurely at the end of October 1982, continued until September, and its effects on harvests and sown land naturally lasted even longer. In some coastal provinces, the volume of rainfall in that period was five times that of a normal year.³ Harvests were lost, yields diminished due to excess humidity and the proliferation of pest attacks, and some products were spoiled because they could not be removed from farms due to damage to roads and other facilities.

In addition to natural disasters, the situation was made worse by several other longstanding problems in Ecuadorian agriculture, which have progressively undermined production. Between 1975 and 1982 the agricultural product, in real terms, dropped by slightly over 4%, but in 1983 alone it diminished by 29%. The fishing and forestry products contracted 20% and 10%, respectively, while, the growth rate of livestock production went down slightly. The behaviour of these activities led to a fall of 15% in agricultural and fishing production (see table 5).

Table 5
ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1976-1980	1981	1982	1983 ^a
Millions of 1975 sucres									
Agricultural product	19 333	21 198	22 399	22 839	19 432	1.9	5.1	2.0	-14.9
Crop farming	11 599	10 831	11 355	11 090	7 862	-1.4	4.8	-2.3	-29.1
Livestock	5 880	7 216	7 547	7 976	8 375	4.2	4.6	5.7	5.0
Forestry	1 019	1 540	1 727	1 765	1 589	8.6	12.1	2.2	-10.0
Fishing and hunting	835	1 611	1 770	2 008	1 606	14.0	9.9	13.4	-20.0
Thousands of tons									
Principal products									
Bananas	2 544	2 269	2 010	1 999	1 530	-2.3	-11.4	-0.5	-23.5
Coffee	76	69	86	84	81	-1.9	24.1	-2.6	-3.0
Cocoa	75	91	81	97	59	3.9	-11.0	20.4	-39.1
Sugar cane	3 680	3 862	3 348	2 461	1 350	1.0	-13.3	-26.5	-45.1
Cotton	30	40	42	25	5	5.9	5.5	-40.0	-81.3
Soya	12	34	33	37	8	23.1	-0.9	12.6	-77.5
African palm	95	245	300	309	320	20.9	22.5	3.0	3.6
Rice	195	381	434	384	270	14.3	14.1	-11.5	-29.7
Wheat	65	31	41	39	34	-13.8	33.1	-7.0	-12.7
Hard maize	190	196	233	269	124	0.6	18.4	15.5	-53.9
Soft maize	83	45	49	55	53	-11.5	7.3	12.6	-2.9
Barley	63	24	27	35	34	-17.6	11.1	30.6	-2.8
Potatoes	499	323	392	416	383	-8.3	21.2	6.1	-7.9
Primary products									
Beef	94	89	92	96	97	-1.1	2.8	5.2	1.0
Poultry meat	15	36	42	46	30	19.1	16.7	9.5	-34.8
Milk (millions of litres)	701	897	916	935	950	3.3	2.1	2.0	1.6

Source: ECLAC, on the basis of information from the Central Bank of Ecuador, the Ministry of Agriculture, and the National Development Council.

^aPreliminary figures.

³See ECLAC, *Los desastres naturales de 1982-1983, op.cit.*

Table 6

ECUADOR: AGRICULTURAL AREA HARVESTED

	Thousands of hectares				Growth rates		
	1980	1981	1982	1983 ^a	1981	1982	1983 ^a
Bananas	70.5	61.6	65.0	52.2	-12.6	5.5	-19.7
Coffee	288.0	320.9	321.9	...	11.4	0.3	...
Cocoa	269.9	270.0	277.0	200.0	-	2.6	-27.8
Sugar cane	50.9	50.0	31.7	20.0	-1.8	-36.6	-36.9
Cotton	19.4	22.4	17.4	4.6	15.5	-22.3	-73.6
Soya	24.9	25.0	21.3	6.3	0.4	-14.8	-70.4
African palm	18.0	25.4	26.8	27.7	41.1	5.5	3.4
Rice	126.6	130.1	131.7	74.3	2.8	1.2	-43.6
Wheat	32.1	36.2	33.1	33.6	12.8	-8.6	1.5
Hard maize	166.7	169.0	155.4	70.2	1.4	-8.0	-54.8
Soft maize	59.2	65.1	61.1	71.8	10.0	-6.1	17.5
Barley	26.2	28.6	33.9	35.6	9.2	18.5	5.0
Potatoes	30.4	40.0	35.1	36.0	31.6	-12.2	2.6
Total	1 182.8	1 244.3	1 211.4	903.3	5.2	-2.6	-25.4

Source: ECLAC, on the basis of information from the Central Bank of Ecuador, the Ministry of Agriculture, and the National Development Council.

^aPreliminary figures.

Among agricultural goods intended for the domestic market, the largest falls in production were recorded by major industrial raw materials such as cotton, soya and sugar cane, as well as hard maize intended mainly for animal feeding. Only the production of African palm exhibited an increase during the year, because the plantations are in the highlands.

It is estimated that cotton production diminished by approximately 80% as a consequence of a reduction in the area planted. Rains and floods prevented sowing, and part of the area previously planted with cotton was occupied by other crops, mainly maize. On top of that there was a drop of approximately 30% in yields. Already in 1982 the cotton harvest had declined 40% due to the drought that affected the province of Manabí.

Soya production also diminished (by nearly 80%), seriously affecting supplies to the industries producing edible oils and balanced feed for animals. As in the case of cotton, rains prevented the sowing of a considerable area, while due to the excess rainfall an important part of the harvest was lost and yields diminished.

Sugar-cane plantations were concentrated around four sugar mills in the coastal region. During the five-year period 1975-1980 sugar-cane production increased only slightly, while in 1981-1982 it decreased by more than one-third. Heavy rains at the end of 1982 seriously hindered the 1982-1983 harvest and the rains that followed damaged plantations and delayed from June to September the beginning of the 1983-1984 harvest. As a consequence of the above, the area of cane cut diminished approximately 37% and the harvested volume dropped by 45%. Likewise, the excess rainfall lowered the cane saccharose content.

Furthermore, it is estimated that the hard maize harvest diminished by more than one half, in spite of the cultivation of a larger area on lands which before the rains were arid. Heavy rains between May and July hindered the harvest and in many cases prevented transport to consumption centres.

Among staple foods, rice production—which in 1982 had already declined 11%—was that which dropped the most (around 30%). Floods prevented or hampered sowing and the harvested area dropped by 44%, despite the fact that when rains subsided in March, 20 000 new hectares had been sown (see tables 5 and 6).

There were also drops in the harvests of potatoes (-8%), wheat (-13%) and soft maize and barley (approximately 3%). With respect to wheat, it should be borne in mind that approximately

300 000 tons must be imported each year (7.5 times more than domestic production in a normal year), and this figure was probably higher in 1983.

For the same climatic causes the production of three main export products also dropped: bananas, coffee and cocoa. The most hit was banana production, which is estimated to have diminished by around 24%. Part of this was lost due to floods; besides, excess humidity favoured the proliferation of fungi and, to make matters worse, their prevention and control was delayed by a strike of fumigation workers and by the shortage of fungicides and other chemical products. To this should be added the damage to bridges and roads, which hindered the transport of fruit to shipping ports.

Coffee plantations also suffered from the rains and humidity. However, it is estimated that the drop in the coffee harvest was only around 3%, and indeed the volume of exported coffee increased slightly thanks to the availability of stocks.

The cocoa harvest, however, dropped nearly 40%. The plantations suffered heavy losses from the floods while the flowering was partially destroyed by the rains. Moreover, the yield of this crop has declined in recent years because, for economic reasons, an adequate renewal programme has not been implemented. The National Development Bank launched a rehabilitation programme covering 27 000 hectares of cocoa plantations affected by the rains.

The drastic falls in food production and the difficulties in transporting products to consumption centres caused serious shortages, aggravated by hoarding and speculation. This led to inordinate food price increases, so that the food component of the consumer price index rose between April and July at a rate of 9% per month. However, both the supply and prices of most essential products began to return to normal as imports intended to replace the missing products began to arrive.

Authorization was given for the importation of 100 000 tons of rice, 120 000 tons of sugar, 130 000 tons of hard maize, 18 000 tons of soya beans, 3 000 tons of soya cake and 5 000 tons of cotton fibre, plus the imports of wheat, barley and powdered milk which are normally effected each year.⁴

For its part, the Ministry of Agriculture prepared and implemented a plan of action for production rehabilitation and the normalization of domestic supply.

The National Agricultural Marketing Corporation (ENAC) had a storage capacity of 170 000 tons during 1983, and this, together with the much smaller capacity available to the National Staple Commodities Corporation (EMPROVIT), helped to relieve the shortages. On the other hand, price fixing and price control arrangements at the producer and consumer levels were incapable of preventing the high prices reached by many products in the domestic market.

In general, stock-raising activity suffered less than crop farming, or fishing from the phenomenon of the El Niño ocean current. The stock-raising product increased by 5% during the year, i.e., slightly less than the preceding year. Cattle losses were not heavy, but the average cattle weight dropped owing to feeding changes and irregularities and to the fact that animals had to be evacuated from flooded land. Poultry farming was the most seriously affected activity. Rains and floods destroyed facilities and killed large numbers of poultry in the province of Manabí, while there was also an acute shortage of maize and basic products for the processing of balanced feed.

Despite the problems caused by the bad weather, livestock profitability seems to have improved in 1983, since whereas the added value increased 5% in real terms, beef production increased slightly more than 2%, that of milk 1.5% and swine slaughtering 3.5%. In contrast, it is estimated that poultry meat production decreased by one-third and that of eggs by 25%.

It is estimated that the offshore fishing catch dropped to less than half in 1983. On the one hand, heavy seas and bad weather hampered the sailing of fishing vessels, while an increase of several degrees in the sea temperature and a drop in its salinity caused some types of fish to migrate or perish. The volume of fish exports dropped drastically; thus, exports of frozen tuna fell from 7 900 tons in 1982 to 5 120 tons in 1983 and those of processed seafood products diminished from 134 000 tons to 40 000 tons. Shrimp exports, however, increased from 16 500 to 21 600 tons in the same period. The damages suffered by shrimp facilities from the rains and floods were not too extensive and their timely repair allowed this activity to recover and to carry on its dynamic expansion.

As part of the plan for the rehabilitation of agricultural production fostered by the Ministry of Agriculture, the National Development Bank channeled an important share of external financing —nearly US\$ 200 million— to agricultural development in areas affected by floods. Thus,

⁴No data were available on the amounts of these products effectively imported.

Table 7

ECUADOR: PETROLEUM INDUSTRY INDICATORS

	Thousands of barrels				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Crude oil								
Production	74 797	77 062	77 072	86 691	-4.4	3.0	-	12.5
Exports	40 321	44 979	36 530	53 370	-11.5	11.6	-18.8	46.1
Processed in refineries	33 967	32 411	32 950	27 521	6.4	-4.6	1.7	-16.5
Percentage of total production	45.4	42.1	42.8	31.7				
Production of principal derivatives								
Gasoline	33 058	31 187	31 636	26 588	4.5	-5.7	1.4	-16.0
Fuel oil	8 232	7 802	7 564	6 119	3.3	-5.2	-3.1	-19.1
Diesel oil	14 964	14 322	14 491	12 486	6.7	-4.3	1.1	-13.8
Turbo fuel	5 674	5 015	5 224	4 374	9.0	-11.6	4.2	-16.3
Kerosene	1 078	1 147	1 064	907	-3.1	6.4	-7.2	-14.8
Liquefied gas	2 267	2 207	2 530	2 059	-9.3	-2.6	14.6	-18.6
Imports of derivatives	843	694	763	643	3.8	-17.7	9.9	-15.7
Exports of derivatives	4 592	5 480	5 570	6 898	68.2	19.3	1.6	23.8
Domestic fuel sales	7 958	5 846	5 430	4 111	7.2	-26.5	-7.1	-24.3
	26 588	28 650	29 538	27 427	8.2	7.8	3.1	-7.1

Source: Central Bank of Ecuador.

^aPreliminary figures.

the Bank granted credits for sowing 80 000 hectares of rice, 54 000 hectares of hard maize, 5 500 hectares of soft maize and 5 000 hectares of potatoes.

ii) *Petroleum*. Crude oil production, which had increased very little in recent years in spite of efforts made to offset the decline in the natural flow of oil through injection and pumping, experienced a significant boost in 1983, going up from 77 to 86.7 million barrels, that is, by 12.5% (see table 7).

The increase in oil production was due to the entry into operation of the Secoya, Shushuqui and Shuara fields at the end of 1982, and of the Charapa and Cononaco fields and the Secoya 8 and 9, Pichincha (in the Libertador field) and Rumiyacu I wells in 1983. Twenty-nine wells were drilled during the year, twelve of which (two more than the preceding year) were development wells.

The average production capacity went up from 211 000 barrels per day in 1982 to 238 000 in 1983. In September, however, there was already an output of 250 000 barrels per day and it was hoped that by the end of the year and the beginning of 1984 the output would rise to 270 000 barrels per day with the entry into operation of the Cuyabeno, Tetete and Bermejo fields. Besides the entry into operation of the above fields, a factor that also helped to raise crude production was the increase in maximum extraction rates established by the National Hydrocarbons Bureau with the aim of regulating production and preventing the rapid exhaustion of the fields.

The significant increase achieved by crude production and the drop of nearly 17% in the amount of petroleum processed by refineries increased by 46% the volume of foreign sales, thus offsetting the lower price of hydrocarbons in international markets. Thus, the value of crude oil exports increased from US\$ 1 180 to US\$ 1 470 million (24%) between 1982 and 1983, even though the average sales price dropped from US\$ 32.4 to US\$ 27.6 per barrel.

The marketing difficulties encountered in the first months disappeared progressively during the year, but problems arising from insufficient storage capacity persisted and were finally relieved by renting ships for that purpose.

In contrast with the increment recorded by crude production, the volume processed by refineries in 1983 was lower than that of the preceding year. The Esmeraldas refinery, with a capacity of 55 700 barrels per day, stopped operation on two occasions for maintenance reasons, and the

production of gasoline and kerosene dropped by 19% and that of other fuels between 14% and 16%. The volume of fuel oil exported, for its part, decreased 24% and its value fell from US\$ 137 million in 1982 to US\$ 106 million in 1983 (see table 7).

The decrease in the output of petroleum products was linked, in the first place, to the economic recession and the decline in production which led to lower fuel consumption. Moreover, the doubling of domestic gasoline prices in October 1982 and the rise of the other fuels in 1983 helped to rationalize their consumption.⁵ Domestic fuel sales, which had increased at a rate of 6.3% in the three preceding years, thus diminished by 7% in 1983. Despite the reduction in domestic fuel consumption, however, fuel imports (mainly of liquefied gas) increased nearly 24% in 1983. In October eleven big oil companies sent in bids for the exploration and exploitation rights of selected areas, according to the new Hydrocarbons Law adopted in August 1982. At the end of September, proven oil reserves were estimated at 1 100 million barrels and probable reserves at 670 million barrels. An important volume of oil reserves may change from the probable category to the proven category due to the secondary recovery works conducted in Shushufindi, Aguarico and Sacha.

The new wells which entered into production have increased the reserves and the Ecuadorian State Petroleum Corporation (CEPE) has continued to perform drillings in the northeastern region with very good results with respect to the volume and quality of the oil extracted. Light crude was also discovered in the south-east region in the Balsaura well, which produces nearly 1 800 barrels per day.

iii) *Manufacturing.* The sluggishness which manufacturing had been exhibiting since 1980 led to a substantial (5.6%) fall in its gross product in 1983, with impacts on employment and the rest of the depressed economy which have not yet been assessed (see table 8).

Several factors have contributed to the decline in manufacturing production. In the first place, there is the contraction of domestic demand: an eloquent expression of the overall recession which affects the economy and of the crisis of some activities in particular (such as construction) which are important buyers of manufactured goods. Also, in the case of some products — wood, canned seafood, processed cocoa products, etc. — external demand has suffered restrictions.

Table 8

ECUADOR: GROSS MANUFACTURING PRODUCT

	Millions of 1975 sucres				Growth rates				
	1980	1981 ^a	1982 ^a	1983 ^a	1972-1979	1980	1981 ^b	1982 ^b	1983 ^b
Manufacturing product^c	26 807	28 181	29 467	27 812	11.1	3.6	5.1	4.6	-5.6
Food, beverages and tobacco	11 592	11 805	11 808	10 748	10.0	3.6	1.8	-	-8.9
Textiles, clothing and leather goods	5 681	5 863	6 495	...	10.7	1.9	3.2	10.8	...
Wood and wood products	1 478	1 604	1 615	1 405	10.1	1.9	8.5	0.7	-13.0
Paper and publishing	1 657	1 690	1 745	1 571	8.2	8.5	2.0	3.3	-10.0
Chemical and rubber products ^c	1 739	2 008	2 254	...	13.3	2.6	15.5	12.3	...
Basic metal and non-metallic products	2 973	3 338	3 438	...	14.6	1.4	12.3	3.0	...
Machinery, equipment and transport equipment	959	1 072	1 277	1 149	9.5	12.4	11.8	19.1	-10.0

Source: Central Bank of Ecuador, *Presupuesto económico, 1983 y 1984*, November 1983.

^a Preliminary figures and estimates.

^b The index of manufacturing production normally included in this section has been replaced by the gross product of the manufacturing sector at constant prices, due to the considerable differences observed between the trends of the two indicators.

^c Excluding petroleum refining.

⁵ In 1982 gasoline prices were doubled. That of 80-octane gasoline went up to 30 sucres per gallon and that of 92-octane gasoline rose to 40 sucres per gallon. In March 1983 prices for the other fuels were raised between 14% and 18%. That of kerosene rose to 7 sucres per gallon, that of diesel oil to 13 sucres and that of fuel oil to 8 sucres per gallon. Likewise, quarterly adjustments were established which raised the price of kerosene to 10 sucres and that of diesel oil to 19 sucres per gallon by the end of the year.

Another major cause of the decline in manufacturing has been the extensive losses in production suffered by the agricultural and fishing sector, which caused an acute raw material shortage for many industries, particularly those producing food, beverages, textiles, animal feed, canned fish, etc. Furthermore, the shortage generated huge increases in prices and, therefore, in costs: a situation which helped to lead a large number of industries into bankruptcy. Imports to make up for raw materials shortages were not always timely, while devaluation, changes in goods classification (from Schedule I to Schedule II) and tariff surcharges made them more expensive. For the same reasons, the prices of other imported inputs and of equipment and spare parts for industry went up sharply: a phenomenon that affected still further the precarious financial situation of enterprises. This was a third contributory element in the deterioration in manufacturing.

The value of imports of raw materials and intermediate goods for industry declined by 7% in 1983 and that of capital goods by 48%, a fact that reflected very clearly the scant investment in the sector.

It is estimated that the output of the food, beverages and tobacco industries diminished by approximately 9%. Among the most affected industries were those producing canned seafood, sugar, processed cocoa products, edible oils, balanced animal feed and rice. The lack of sugar affected several other food and beverage industries and the lack of molasses negatively influenced alcohol production, which in turn had an impact on the pharmaceutical and cosmetics industries.

Textile plants were affected by the lack of cotton and by the difficulties in importing other fibres. But the biggest decline, estimated at 13%, was recorded by the timber and wood products industries, owing to the fall in construction activity and to certain problems which arose regarding their export to Colombia and Venezuela.

As regards cement production, the three existing large-scale industries were affected by strikes and by severe financial problems, which were finally overcome through the fixing of higher sales prices.

According to the economic surveys carried out jointly by the Central Bank and the National Development Corporation (CONADE), industrial activity experienced a slight recovery in the third quarter of 1983, mainly in the production and sale of some non-durable consumer goods and certain intermediate goods. In this period there was also a slight upturn in the production of some durable consumer goods and capital goods, but sales of the latter kept on declining. For the fourth quarter, the slow recovery in industrial production and sales was expected to continue, although the same was not foreseen with respect to employment. The estimates for 1983, made on the basis of surveys, anticipated a fall of 4.9% in manufacturing production and a decrease of 1.9% in the number of persons employed in industry.

Also according to the same surveys, at the end of the third quarter there was a slight increase in the percentage of installed capacity used, which had declined from 71% to 63% between September 1982 and March 1983. In industries producing non-durable consumer goods, the figure was only 55%, but by September 1983 it had gone up to 65%.

The contraction in demand and rise in production costs during the year rapidly aggravated the financial situation of companies highly indebted in both foreign and national currency. The renegotiation of the private debt together with the public external debt and its conversion into sucres therefore constituted an enormous relief for many companies.

An attempt was also made to diminish the pressure of domestic indebtedness and to provide companies with the necessary financial resources for their rehabilitation. That purpose was to be fulfilled through the consolidation of debts, the capitalization of companies' liabilities and the granting of new loans. The Central Bank would open special credit lines for financing rehabilitation plans approved for each company, especially those which had high social and economic priority and were economically viable.

During the first ten months of 1983, industry received 75 670 million sucres in credits granted by the national banking system: 60% more than in the same period of the preceding year. Moreover, in March the World Bank granted a credit of US\$ 40 million to the National Finance Corporation to develop a programme for the promotion of small industry and handicrafts in the 1983-1984 biennium.

iv) *Construction.* Construction declined by approximately 15% during 1983. Since 1979 it had remained virtually stagnated due to various problems related to the gradual deterioration of the

economy, but the situation became critical in 1983 when those problems got worse and others emerged.

The rapid increase in prices of construction materials affected the companies which were highly indebted both internally and externally and were in a poor financial position owing to increasing dollar interest rates, whose cost increased further with the devaluation of the sucre. In these difficult circumstances enterprises had to face a demand for housing which decreased simultaneously with economic activity and income, and a public sector which drastically reduced its expenditure by postponing the implementation of public works.

Heavy rains and floods, which affected mainly the coastal provinces, caused enormous damage to communication routes and dwellings. It has been estimated that they damaged or destroyed around 13 700 urban and rural dwellings, some 1 800 kilometres of highways, 10 important bridges and approximately 5 000 kilometres of secondary roads, besides destroying and damaging railway lines and bridges, landing strips, and water and sewage systems. Direct damage and losses were estimated at US\$ 173 million.⁶

It was hoped that the beginning of rehabilitation works would help to reactivate construction, and indeed something of the sort did happen. In spite of a long winter which delayed the implementation of works—and the fear of an early and heavy rainy season such as the preceding one—in the third quarter there was already a certain recovery from the downward trend that activity had shown in the first half of the year. This change was due mainly to rehabilitation work on the road infrastructure, particularly in Guayas province, and to housing programmes in flood-affected areas.⁷

The National Housing Board (JNV) and the Ecuadorian Housing Bank (BEV) promoted a loan programme for the reconstruction of dwellings destroyed by floods. The programme envisages granting 2 000 loans of 40 000 sucres each with a ten-year repayment term and at a nominal interest rate of 12%. In addition, the BEV launched a national popular housing plan, which will favour more than 5 000 families and cost 3 000 million sucres. The JNV planned to build 1 850 housing units in Quito and around 6 000 in Guayaquil during 1983, as well as to initiate more than 20 rural housing programmes in the coastal region. In the period August 1983-August 1984, 20 000 housing units were scheduled to be delivered as part of the "floor and roof" programme, as well as "plots with services", especially in Quito and Guayaquil.

Furthermore, with the aim of fostering the demand for housing the Ecuadorian Social Security Institute increased from 850 000 to 1 300 000 sucres the total amount of mortgage credits. However, the purpose of this measure was not fulfilled, because higher construction costs absorbed the rise in loans.

Once again, construction permit records do not match the trend exhibited by the sector's gross product, nor the economic surveys of the construction industry. For instance, in the Municipalities of Quito, Guayaquil and Cuenca, permits were granted in 1983 for the construction of a surface area 4.6% less than that of the preceding year, but the approved surface area for residential construction—included in the above—exceeded by 11.5% that allowed in 1982.

v) *Electricity.* In May, July, and September three 100 MW units forming part of the first two stages of the Paute hydroelectric project came into operation. This addition meant an increase of 25% over the public service electric power capacity existing at the end of 1982 (1 184 MW). Part of the new installed capacity served to permit the shutdown of an undetermined number of thermal plants with high operating costs and heavy fuel consumption.

It is estimated that when the whole of the first two stages of the Paute project, with a total of 500 MW, come into operation, there will be an important drop in the thermal installed capacity belonging to self-producers (239 MW and 17% of the total installed capacity in 1982) and that thermal electricity generation, which in 1982 accounted for three-quarters of total capacity, will be reduced to 23% in 1984.

The energy generated by the new power station has been integrated into the National Interconnected System through a 180 kilometre 230 kV transmission line to Guayaquil, and a 70 kilometre 138 kV line to Cuenca.

In addition, during 1983 construction work continued on the 156 MW Agoyán hydroelectric project, which is expected to come into operation in 1987. Likewise, progress has been made in the

⁶See ECLAC, *Los desastres naturales...*, op.cit.

⁷Economic Survey Programme, CONADE-Central Bank of Ecuador, *Industria de la Construcción*, December 1983.

Table 9

ECUADOR: MAIN FOREIGN TRADE INDICATORS^a

	1978	1979	1980	1981	1982	1983 ^b
Growth rates						
Exports of goods						
Value	9.2	40.6	18.3	-	-7.9	0.9
Volume	13.7	0.2	-8.0	6.2	-9.1	17.8
Unit value	-4.0	40.4	28.6	-5.8	1.3	-14.3
Imports of goods						
Value	25.2	23.1	6.9	5.3	-7.6	-35.4
Volume	18.9	5.9	-4.8	-1.3	-7.6	-34.8
Unit value	5.3	16.2	12.3	6.7	-	-1.0
Terms of trade	-8.8	20.8	14.5	-11.7	1.3	-13.4
Indexes (1970 = 100)						
Terms of trade (goods)	149.8	180.9	207.1	182.9	185.2	160.4
Purchasing power of exports of goods	360.6	440.7	465.3	435.1	400.8	408.8
Purchasing power of exports of goods and services	363.8	450.7	478.4	452.3	409.9	397.6

Source: ECLAC, on the basis of official figures.

^aAs petroleum exports have great significance for Ecuador, and bearing in mind that in 1970 the country initially did not export hydrocarbons, the quantum index of exports of goods has been calculated on a sliding basis, using prices of the immediately preceding year instead of constant 1970 prices. Therefore, the indexes of the volume and unit value of exports, as well as the indexes of the terms of trade and the purchasing power of exports, may not coincide with those included in Part One of the *Economic Survey*, which deals with the evolution of the latinoamerican economy. ^bPreliminary figures.

studies on the hydroelectric power stations which form part of the Daule-Peripá and Paute-Mazar projects (130 MW and 174 MW, respectively). In contrast, due to lack of financing the implementation of the Toachi and Coca projects was postponed, and for the same reasons there was a delay in some works pertaining to the National Interconnected System and rural electrification programmes, the latter of which includes the construction of small hydroelectric power plants.

Finally, in July electricity charges were raised by 10%, and a monthly readjustment of 2% was applied to the highest levels of consumption.

3. The external sector

a) *Merchandise trade*

The principal measures adopted during the year — which supplemented those established in 1982 with the purpose of reducing imports — were new foreign exchange price increases and changes in the classification of a large number of imported goods, to which considerably higher exchange rates were applied. It was hoped in this way to improve the trade balance in order to be able to face up to the interest payments due on the external debt, to reduce the imbalance on the balance-of-payments current account, and to restore the foreign exchange reserves, which were reaching extremely low levels.

The effects of these restrictive measures were strengthened by the economic recession. Thus, in 1983 imports of goods diminished around 35% in both value and volume (see table 9).

On the other hand, the value of exports of goods increased barely 1%, in spite of the fact that the export volume experienced an extraordinary increment of 18%. Had it not been for the remarkable increase in the volume of crude petroleum exported and the rapid expansion of shrimp sales, exports of goods would have suffered a decline of approximately 38% in 1983, mainly as a consequence of losses in agricultural and fishing production.

Even though exports of goods amounted to only US\$ 22 million more than in 1982, the drastic US\$ 770 million fall in imports left an unprecedented favourable balance of approximately US\$ 960 million on merchandise trade, whereas in the two preceding years that amount had barely exceeded US\$ 180 million.

The remarkable increase in the quantum of total exports in 1983 was largely outweighed by a decline in prices of slightly over 14%, due to a fall in hydrocarbon prices. In contrast, the unit value of non-oil exports decreased barely 1% during the year.

Following the rapid increment experienced by the unit value index of exports in the 1979-1980 biennium, when oil prices nearly trebled, that index has dropped 18% since then, while the unit value of exports other than oil and petroleum products has diminished 25% (see figures 2 and 3).

Furthermore, the reduction in export prices, plus the slight increase in import prices from 1981 onwards, has led to a deterioration of 23% in the terms of trade since then, with the deterioration in 1983 alone exceeding 13% (see table 9).

However, thanks to the considerable increase in the quantum of exports in 1983 —due to the greater volume of oil exported— the purchasing power of exports of goods improved 2%, although this improvement is only minimal compared with the reduction of 14% exhibited in the 1981-1982 biennium.

i) *Exports of goods.* The value of exports went up slightly less than 1% in 1983, after having shown an extraordinary expansion in the 1970s, when oil exports were incorporated and the price of this commodity rose sharply,⁸ followed by an 8% decline in the 1981-1982 biennium. This very slight increase is explained by the fact that the considerable increment of 18% in the volume exported was offset by a drop of 14% in prices. Sales of petroleum and petroleum products, which currently constitute 72% of total exports, had a decisive influence on this result. If hydrocarbons sales to the exterior are excluded, the value of other exports decreased 25% in 1983 and their volume by a similar percentage. In contrast, the decrease in the price of petroleum from US\$ 32.40 per barrel in 1982 to US\$ 27.60 in 1983 was more than offset by a considerable increase in the volume exported, so that the

Table 10

ECUADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1975	1980	1983 ^a	1980	1981	1982	1983 ^a
Total^b	2 541	2 140	2 194	100.0	100.0	100.0	15.3	1.4	-15.8	2.5
Primary products	2 036	1 756	1 983	89.6	75.5	90.4	15.7	7.7	-13.7	12.9
Petroleum	1 560	1 184	1 473	60.3	55.6	67.1	35.1	11.9	-24.1	24.4
Coffee	106	139	149	6.8	5.2	6.8	-50.6	-18.5	31.1	7.2
Bananas	203	208	147	14.2	9.5	6.7	18.5	-12.2	2.5	-29.3
Cocoa	44	63	8	4.3	1.2	0.4	-28.6	46.7	46.5	-87.3
Shrimps	78	122	175	1.5	2.3	8.0	26.4	36.2	57.8	43.2
Others	45	40	31	2.5	1.7	1.4	-18.8	7.1	-11.1	-22.5
Manufactured products	505	384	211	10.4	24.5	9.6	14.3	-17.9	-24.0	-45.1
Processed cocoa products	106	56	26	3.1	7.2	1.2	-22.6	-41.4	-47.2	-53.6
Petroleum products	167	137	106	0.1	7.7	4.8	33.1	-13.5	-18.0	-22.6
Processed marine products	99	82	27	0.7	3.6	1.2	50.0	10.0	-17.2	-67.1
Others	133	109	52	6.5	6.0	2.4	53.1	-12.0	-18.0	-52.3

Source: Central Bank of Ecuador.

^aPreliminary figures. ^bThe data are based on export permits, so that the totals do not necessarily match the data in table 13.

⁸During that period the value of external sales of goods went up from US\$ 240 million to US\$ 2 540 million, and that of non-oil exports from US\$ 240 million to US\$ 960 million (see figure 2).

Table 11

ECUADOR: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Tons			Growth rates			
	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Petroleum ^b	45 449	36 530	53 370	-11.5	14.7	-19.6	46.1
Coffee	55 994	73 896	75 046	-34.2	3.8	32.0	1.6
Bananas ^c	1 195	1 224	871	3.7	-14.8	2.4	-28.8
Cocoa	27 156	42 468	5 555	-8.7	98.3	56.3	-86.9
Shrimps	11 291	16 509	21 604	47.6	39.5	46.2	30.9
Processed cocoa products	48 143	47 846	27 255	-0.2	-21.7	-0.6	-43.0
Petroleum derivatives	5 846	5 430	4 111	7.2	-26.5	-7.1	-24.3
Processed marine products ^c	131	134	40	16.7	4.0	2.3	-70.1

Source: Central Bank of Ecuador.

^aPreliminary figures.^bThousands of barrels.^cThousands of tons.

value of crude petroleum exports went up 24%. This increment, plus the even greater increase (43%) in shrimp exports and the more moderate one exhibited by coffee sales, offset the drastic fall of 40% in other exports (see table 10).

The huge losses in agricultural and fishery production caused by climatic phenomena led to a remarkable decline in the export volumes of many primary and manufactured products. Thus, external sales of bananas diminished nearly 30%, those of cocoa beans fell 87% and those of processed cocoa products dropped 54%. Exports of frozen fish and processed sea products also decreased (by around 65%).

In addition to losses in production, the blockage of transport routes by rains and floods often prevented the dispatch of goods to shipping points. Other problems were the shortage of raw materials and supplementary inputs, such as some types of packing or products used in crop disinfection.

Fuel-oil exports diminished for the third consecutive year (by approximately 23% in volume and 24% in value), partly because of a decrease in the production of derivatives in 1983 on account of the temporary shutdown of the Esmeraldas refinery. On the other hand, the entry into production of new oil wells and the efforts made to increase the flow from others enabled oil extraction to be increased by over 12% and the volume exported to be expanded by 46%. In the first months of the year, and again towards its end, difficulties in sales and the accumulation of stocks made necessary the hiring of floating storage capacity. However, prices did not vary much during the year, ranging around an average of US\$ 27.60 per barrel. Consequently, the value of crude oil exports went up 24%, representing an increase in earnings of US\$ 290 million compared with 1982.

Shrimp sales rose 31% in volume and 43% in value. The damage caused to shrimp facilities by the rains was overcome and the industry continued the rapid development begun in 1980. Thus, whereas 5 500 tons of shrimp worth US\$ 31 million were exported in 1979, in 1983 the volume rose to 21 600 tons and the value to US\$ 175 million, so that shrimps became the second most important export product (see tables 10 and 11).

In 1983 coffee exports also increased, although only by 7%, which was considerably less than the rise recorded in 1982 (31%). In actual fact, the coffee harvest was not as bad as initially expected. Moreover, at the beginning of 1983 stocks came to approximately 55 000 tons, allowing a slight increase in the volume exported during the year. As this volume —around 75 000 tons— exceeded the export quota of 67 800 tons established by the International Coffee Organization for the coffee year 1983-1984, sales to countries which are not members of the International Coffee Agreement had to be increased.

The rate of return of exports was favoured by certain measures taken by the economic authorities in March. Together with an increase in the official exchange rate from 25 to 33 sucres per dollar and its daily adjustment which brought it to 53 sucres in December, the Central Bank was

Figure 2
ECUADOR: EXPORTS OF GOODS

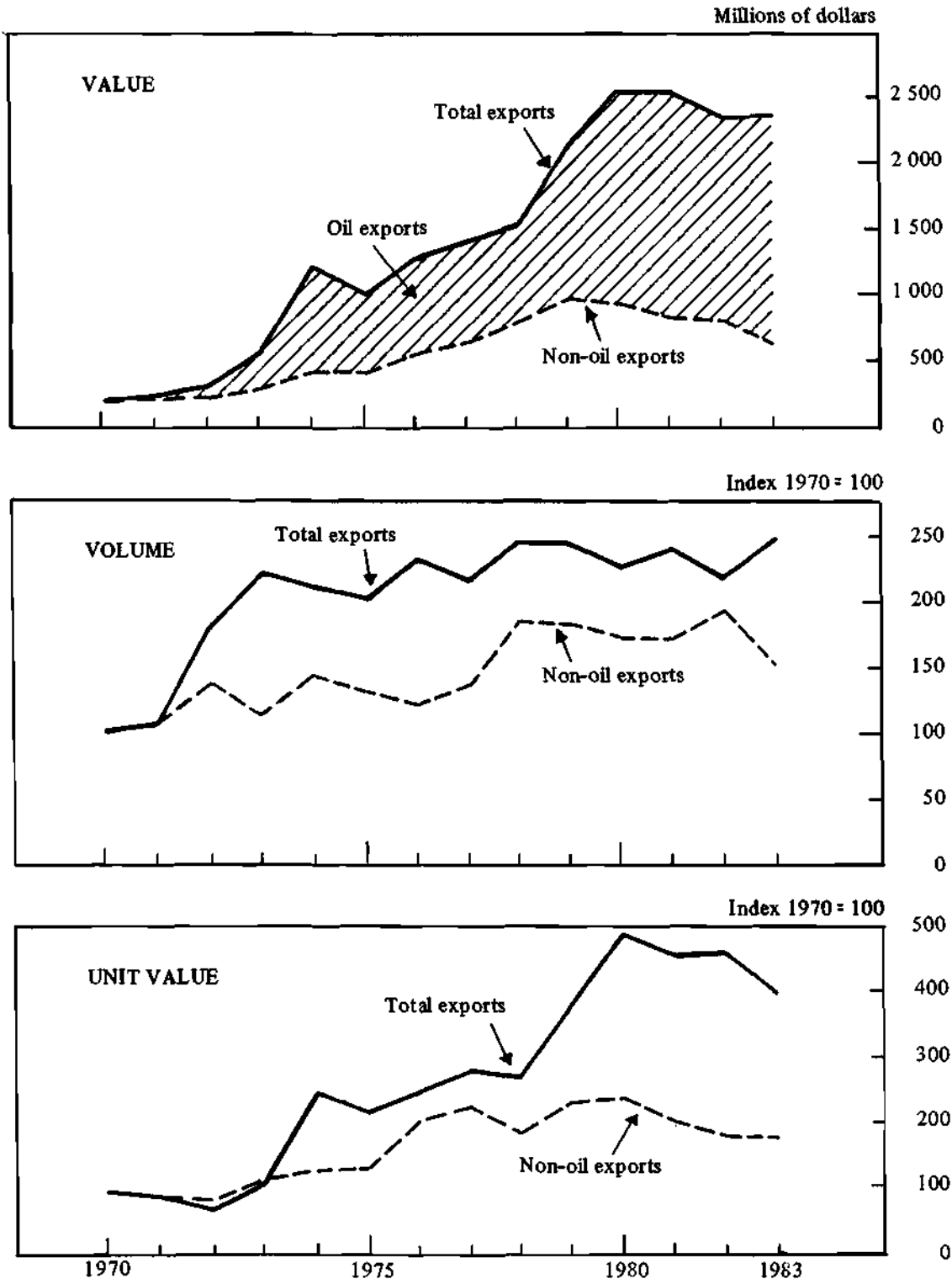
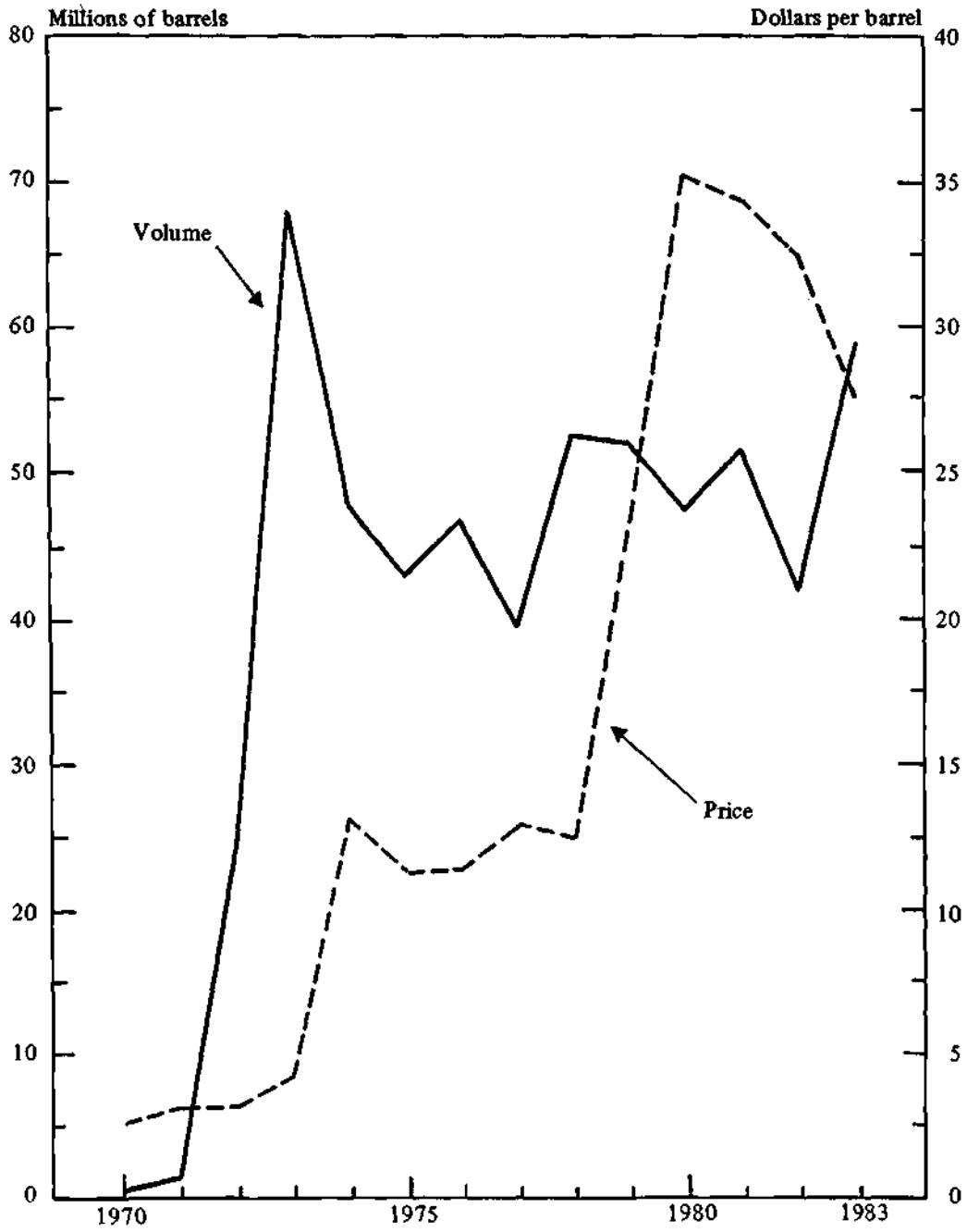


Figure 3

ECUADOR: EXPORTS OF PETROLEUM AND DERIVATIVES



^aFOB average price of crude oil exports.

authorized to purchase 30% of the foreign exchange receipts from exports (except those stemming from sales of hydrocarbons, bananas, coffee and cocoa beans) at the Central Bank intervention exchange rate in the free market, which went up from 70 sucres per dollar in March to 87 sucres at the end of December. In October, the Monetary Board decided to extend the purchase of foreign exchange on those terms to 10% of the export receipts for those products which had been excluded under the previous system, except for petroleum and its derivatives. However, together with those measures, which favoured exporters of non-traditional products, the granting of tax credit certificates for exports was eliminated, thus partly offsetting the benefits achieved.

ii) *Imports of goods.* The rapid drop in the international monetary reserves, plus the paralyzation of external trade credit flows, led the monetary authorities in October 1982 to adopt strict measures to restrict imports. Thus, an import prohibition was applied in respect of 123 goods from Schedule I (i.e., those considered most essential), in particular capital goods, and 510 goods from Schedule II. It should be remembered that the importation of automobiles had already been prohibited in 1981.

As a result of these prohibitions, the value of import permits granted in November and December 1982, dropped to less than one half with respect to the same months of the preceding year and the value of imports in the year diminished by nearly 8%. This decline occurred after nine years of continuous growth, although there had been a loss of momentum since 1980.

In addition to the restraints imposed in 1982, several other measures were taken in 1983 with the aim of reducing imports even more and attaining a favourable external trade balance which would make it possible to cope with the high external debt service and the lower capital inflow. Among those measures, one of the most important was the devaluation in March. In addition, the authorities decreed that 30% of the foreign exchange earnings from exports (except those of hydrocarbons, bananas, coffee and cocoa) should be changed at the intervention exchange rate of the Central Bank in the free market, which is somewhat lower than that of the free market proper, to pay for imports considered less essential (Schedule II). Later on, in October, the availability of foreign exchange for that category of imports was expanded with 10% of the export earnings from bananas, coffee and cocoa.

Table 12

ECUADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983	1975	1980	1983	1980	1981	1982	1983
Total^a	2 246	1 988	1 465	100.0	100.0	100.0	13.3	-0.2	-11.5	-26.3
Consumer goods	202	225	184	13.1	11.1	12.6	38.1	-19.2	11.4	-18.2
Non-durable	104	128	111	7.0	5.5	7.6	41.4	-15.4	23.1	-13.3
Durable	98	96	73	6.1	5.6	5.0	35.1	-22.8	-2.0	-24.0
Raw materials and intermediate goods	949	944	863	43.8	42.9	58.9	14.3	-1.8	2.3	-8.6
For agriculture	63	60	62	4.8	2.6	4.2	31.8	8.6	-4.8	3.3
For industry	770	797	741	29.6	34.0	50.6	8.7	0.7	3.5	-7.0
For construction	90	61	40	7.5	5.3	2.7	44.6	-25.0	-32.2	-34.4
Lubricants	26	26	19	1.9	1.0	1.3	64.3	13.0	-	-26.9
Capital goods	1 085	816	403	42.6	45.1	6.4	6.8	-2.8	38.1	-50.6
For agriculture	44	37	15	3.6	1.7	1.0	22.6	15.8	-15.9	-59.5
For industry	547	513	266	23.9	25.3	18.2	0.5	-4.0	-6.2	-48.1
Transport equipment	494	266	122	15.1	18.1	8.3	14.3	21.1	-46.2	-54.1

Source: Central Bank of Ecuador.

^aCorresponds to imports permits granted. The total includes a relatively insignificant group of unclassified imports.

The amount of foreign exchange sold by the Central Bank was insufficient to cover imports of goods under Schedule II. Between the end of March and the end of December, permits granted for the import of goods from that Schedule amounted to US\$ 112 million, whereas foreign exchange availability only came to US\$ 71 million. The difference had to be covered with foreign exchange purchased in the free market at a higher price.

In addition, with the aim of discouraging imports, the classification of certain goods was changed from "essential" to "less essential" on several occasions during the year. However, in September, after 35 products had been transferred from Schedule I to Schedule II, 40 transfers were made in the opposite direction. Likewise, in March prior import deposits were increased, but at the beginning of November they were reduced again, thus freeing monetary resources and relieving somewhat the existing situation of illiquidity.⁹

The prohibitions and other measures described, plus a lower demand attributable to the recession, led to an extraordinary reduction of 35% in the value and volume of imports of goods (see table 9).

Furthermore, this drop was very widespread. Thus, according to import permits granted during 1983, the only imports which increased were those of inputs for agriculture, due to the extraordinary imports of animal feed made in order to compensate for the lack of production. In contrast, imports of all other types of goods diminished considerably. The biggest drops were in imports of transport equipment (-54%) and capital goods for agriculture (-60%) (see table 12).

Imports of raw materials and intermediate goods for industry, for their part, dropped by 7%, in spite of the greater imports of cotton, soya and crude oils effected in order to offset the drop in domestic production. On the other hand, imports of chemical inputs, which are of considerable significance, were 9% lower. The decline was even more substantial (-34%) in the case of imports of construction materials, which reflected the critical situation of that activity. Imports of lubricants also diminished considerably (-27%).¹⁰

There was an appreciable decline in imports of consumer goods during the year, particularly in the case of durable goods (-24%). The prohibition on importing motor-vehicles was the main reason for that downturn. Purchases of non-durable consumer goods for their part, decreased 13%, in spite of the extraordinary food imports which were made to supplement domestic supply.

The flow of imports was also disturbed during the year by the Central Bank's delays in making repayments in respect of imports, which totalled some US\$ 600 million by October. By November, however, the total outstanding unpaid letters of credit had sunk to US\$ 400 million, and it was estimated that by the end of the year they had dropped to US\$ 150 million. In order to pay them, use was made of some US\$ 200 million of the country's own resources and part of the US\$ 431 million credit granted by the international banking system.

Finally, in November a line of credit for external trade operations not exceeding 13 months in duration was established under an agreement signed by the Central Bank with foreign private banks.

b) *The current account deficit and its financing*

Thanks to a drastic decrease in imports and the decline in net payments for real services, remittances of profits and interest payments, the current account deficit shrank by nearly 90%. Thus, after having rapidly expanded since 1980 and reaching in 1982 the unprecedented amount of US\$1 215 million, it dropped to less than US\$ 130 million in 1983 (see table 13).

With the slight increase in exports of goods and the considerable drop in imports (-35%), the merchandise trade balance went up from US\$ 160 million to US\$ 960 million between 1982 and 1983. Furthermore, there was a decline in the negative balance of payments in respect of freight and insurance (due to a reduction in the amount of commercial transactions), travel, and other real services. As a result of these changes, the trade balance moved from a deficit of US\$ 370 million in 1982 to a surplus of US\$ 590 million in 1983. This surplus was the first recorded since 1976 and its amount considerably exceeded those achieved in the best years of the oil boom.

⁹In March prior import deposits were set at 20% of the import value for merchandise included in Schedule I-a and at 50% for those in Schedule II. Likewise, holding periods of deposits for merchandise in Schedules I and II were set at 180 and 270 days, respectively. The above percentages were reduced in early November to 10% and 25%, respectively, while the holding period of the deposits remained unchanged.

¹⁰Import permits do not include fuels exchanged for crude petroleum which in 1983 amounted to approximately US\$ 250 million, or 16% more than the preceding year.

Table 13

ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-377	-730	-654	-672	-1 027	-1 215	-128
Trade balance	-182	-463	-299	-147	-304	-368	590
Exports of goods and services	1 592	1 703	2 411	2 866	2 913	2 690	2 623
Goods FOB	1 401	1 529	2 151	2 544	2 544	2 343	2 365
Real services ^b	192	174	260	322	369	347	258
Transport and insurance	93	49	109	113	151	139	140
Travel	48	65	80	131	131	131	97
Imports of goods and services	1 774	2 167	2 710	3 014	3 218	3 058	2 033
Goods FOB	1 361	1 704	2 097	2 242	2 362	2 181	1 408
Real services ^b	414	463	613	772	856	877	625
Transport and insurance	257	283	295	328	368	164	105
Travel	82	97	156	228	250	250	178
Factor services	-196	-279	-356	-525	-722	-847	-718
Profits	-119	-116	-94	-111	-100	-80	...
Interest received	25	37	68	109	87	44	65
Interest paid	-76	-176	-329	-523	-709	-811	-683
Others	-27	-24	-	-	-	-	-
Private unrequited transfers	-	12	-	-	-	-	-
Balance on capital account	489	736	698	942	656	875	274
Official unrequited transfers	36	29	29	30	25	20	24
Long-term capital	591	782	690	763	1 077	162	...
Direct investment	34	49	63	70	60	40	50
Portfolio investment	52	-	-	-	-	-	...
Other long-term capital	504	733	626	693	1 017	122	...
Official sector ^c	440	352	344	609	898	-261	...
Loans received	487	498	952	795	1 283	192	...
Amortization payments	-42	-139	-601	-176	-378	-437	...
Commercial banks ^c	-	63	1	5	2	-	...
Loans received	-	64	2	8	7	8	...
Amortization payments	-	-1	-1	-1	-1	-1	...
Other sectors ^c	64	319	281	79	117	383	...
Loans received	123	469	593	496	462	1 112	...
Amortization payments	-58	-88	-374	-416	-345	-728	...
Short-term capital	-88	-120	-24	217	-360	921	...
Official sector	-101	3	9	-30	1	585	...
Commercial banks	-26	3	-10	-17	-5	50	...
Other sectors	39	-126	-22	264	-356	286	...
Errors and omissions	-50	44	3	-68	-86	-228	...
Global balance^d	112	5	44	270	-370	-340	146
Total change in reserves (- sign indicates an increase)	-146	-13	-87	-291	381	328	-146
Monetary gold	-1	-	-	-	-	-	-
Special Drawing Rights	-3	-4	-11	1	-9	34	-
IMF reserve position	-	-10	-2	-15	-1	29	-12
Foreign exchange assets	-143	2	-73	-277	391	266	-328
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	-	-

Source: International Monetary Fund, *Balance of Payments Statistics, 1983*, and ECLAC, on the basis of data from the Central Bank of Ecuador.^aPreliminary figures. ^bReal services also include other official and private transactions, but not factor services. ^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation changes.^eDoes not include revaluation of gold reserves in the amount of US\$ 107 million.

Table 14

ECUADOR: NET INTERNATIONAL RESERVES

(Millions of dollars)

End of period	Foreign exchange	SDR	Gold	Reserve position in IMF	Use made of IMF credit	International reserves ^a	Net international reserves ^b
1980	961.0	24.2	17.5	27.8	-	1 030.5	856.5
1981	570.0	33.6	17.5	28.8	-	649.9	562.9
1982	304.2	-	124.3	-	-	428.5	209.0
1983	632.4	0.1	124.3	12.0	194.4	574.4	151.5
1983							
January	285.2	-	124.3	-	-	409.5	157.1
February	262.0	-	124.3	-	-	386.3	205.2
March	205.3	-	124.3	-	-	329.6	145.8
April	244.1	-	123.3	-	-	368.4	136.6
May	261.9	0.8	124.3	-	-	387.0	175.8
June	293.0	0.8	124.3	-	-	418.1	161.6
July	273.6	0.3	124.3	-	-	398.2	120.2
August	355.0	0.1	124.3	-	75.3	404.1	92.1
September	306.6	0.1	124.3	-	75.3	355.7	108.2
October	523.8	1.5	124.3	-	75.3	574.3	296.3
November	606.5	0.1	124.3	-	194.4	536.5	165.4
December	632.4	0.1	124.3	12.0	194.4	574.4	151.5

Source: International Monetary Fund, *International Financial Statistics*, and Central Bank of Ecuador, *Información Estadística*.

^a Coincides with the concept of international reserves whose variation appears in the preceding table on the balance of payments, except that in table 13 the revaluation of gold reserves carried out in October 1982 was not taken into account. ^b Corresponds to the figures published by the Central Bank, converted into dollars at the official exchange rate.

In 1983 there was also a decline in net factor service payments which went down by nearly US\$ 130 million. According to preliminary data, it may be assumed that remittances of profits to the exterior increased, but at the same time, that net interest payments dropped by around US\$ 150 million. This, plus the favourable trade balance result, led to the notable reduction in the current account deficit.

The net inflow of capital also showed a substantial drop, from US\$ 875 million in 1982 to approximately US\$ 275 million in 1983. In spite of the small amount of the net capital inflow in 1983, however, it was enough to offset the lower current account deficit, giving a balance-of-payments surplus and an increase of US\$ 146 million in the international reserves.¹¹

In the two preceding years the international reserves had diminished by approximately US\$ 300 million each year, due to the enormous size reached by the current account deficit in spite of the high levels of capital inflow.

It is worth noting that although foreign exchange assets increased by US\$ 328 million, reaching a total of US\$ 630 million at the end of the year, up to July foreign exchange availability only ranged around US\$ 260 million—less than the December 1982 level—while in March it only came to slightly over US\$ 200 million. Only in August, October and November did the foreign exchange reserves experience substantial increases, partly related to an increase in liabilities with IMF (see table 14).

c) *The external debt*

The external debt increased rapidly between the mid-1970s and 1981, rising from approximately US\$ 510 million at the end of 1975 to US\$ 1 260 million two years later,¹² and to

¹¹ It should be noted, however, that according to the preliminary data on the 1983 balance of payments supplied by the Central Bank of Ecuador (19 March 1984), in 1983 there was a decrease of US\$ 58 million in the net international reserves.

¹² It should be pointed out that both this figure and that for 1975 do not include the short-term debt; hence, they are not fully comparable with those of more recent years.

nearly US\$ 5 900 million by the end of 1981. Indebtedness continued to increase in 1982 and 1983, but at a slower rate, and at the end of 1983 it came to nearly US\$ 6 700 million. Since 1979 there has been a persistent growth in the relative significance of the external debt as a proportion of the gross domestic product, and in 1983 this proportion amounted to 52% (see table 15).

Up to 1982 the private debt increased much more rapidly than the public debt (228% and 84%, respectively, in the period 1978-1982). However, the latter continued to represent an important part of the total debt in 1982. Likewise, until 1982 the short-term indebtedness increased rapidly, although its proportion with respect to the total debt was only slightly over 13% in that year.

Loan disbursements grew considerably between the years 1978 and 1981, particularly those of the private sector, which increased nearly fivefold. Until 1981, the amount of disbursements markedly exceeded that of service payments, although the difference between them tended to go down. Interest payments grew more steadily and rapidly than payments of principal, and their share as a proportion of exports of goods and services rose from 10% to 24% between 1978 and 1981. If payments of principal are added, these proportions rose to 35% and 76%, respectively, in that period (see table 15).

The above situation changed drastically from 1982 onwards. The debt service increased substantially and its amount exceeded that of disbursements: that is to say, for the first time there was a net transfer of financial resources to the exterior. In addition, expenditure on account of payments of principal and interest equalled in 1982 and exceeded in 1983 the earnings from exports of goods and services.

Table 15
ECUADOR: EXTERNAL DEBT

	1978	1979	1980	1981	1982	1983 ^a	Growth rates		
							1979-1981	1982	1983 ^a
Millions of dollars									
Total external debt ^b	2 975	3 554	4 652	5 868	6 187	6 689	25.4	5.4	8.1
Public ^b	2 479	2 848	3 530	4 416	4 559	5 165	21.2	3.2	13.2
Private ^b	496	706	1 122	1 452	1 628	1 524	43.1	12.1	-6.4
Medium- and long-term ^b	2 679	3 343	4 157	5 272	5 366	6 663	25.3	1.8	24.2
Short-term ^b	296	211	495	596	821	26	26.3	37.8	-96.8
Disbursements	1 145	1 851	1 950	2 768	2 225	2 721	34.2	-19.6	22.3
Service	594	1 606	1 422	2 222	2 677	2 902	55.2	20.5	8.4
Principal	418	1 277	899	1 513	1 866	2 219	53.5	23.3	18.9
Interest	176	329	523	709	811	683	59.1	14.4	-15.8
External public debt ^b	2 479	2 848	3 530	4 416	4 559	5 165	21.2	3.2	13.3
Disbursements	884	1 269	1 099	1 484	843	1 732	18.8	-43.2	105.5
Service	455	1 147	731	1 057	1 264	1 679	32.4	19.6	32.8
Principal	316	906	417	598	700	1 126	23.7	17.1	60.9
Interest	139	241	314	459	564	553	48.9	22.9	-2.0
Debt coefficients (percentages)									
Total external debt/GDP ^c	38.9	38.0	39.6	42.3	46.3	51.5			
Debt services/exports of goods and services	34.9	66.6	49.6	76.3	99.5	110.6			
Debt interest/exports of goods and services	10.3	13.6	18.2	24.3	30.1	26.0			
Debt service/disbursements	51.9	86.8	72.9	80.3	120.3	106.7			
Debt service/GDP ^c	7.8	17.2	12.1	16.0	20.0	22.4			

Source: ECLAC, on the basis of data from the Central Bank of Ecuador.

^aPreliminary figures.

^bBalance at end of year.

^cThe GDP has been calculated in dollars on the basis of the official exchange rate.

The external debt structure changes in 1983. At the end of the year the total debt came to US\$ 6 690 million, i.e., 8% more than in December 1982. Almost all the short-term debt existing at that date was converted into long-term debt through renegotiation. For the same reason, the share of private debt in the total decreased from 26% in 1982 to 23%.

On the other hand, during the year credits in the amount of US\$ 2 720 million were drawn (22% more than in 1982). These were mainly allocated to payments of principal and of part of the interest on the portion of the debt that was renegotiated. The debt service exceeded the gross inflow of loans. Payments of principal amounted to US\$ 2 200 million, while interest payments reached US\$ 680 million. Since the amount of net credit flows (US\$ 500 million) was less than that of interest payments, there was a net transfer of resources to the exterior for the second consecutive year.

The rapid decline in the flow of external credit in the third quarter of 1982, and the gloomy prospects shown by the 1983 balance of payments, due to a downward trend in oil prices,¹³ prompted the adoption of some additional measures in order to reduce imports and the initiation of discussions with private banks in order to reschedule external debt payments falling due in November 1982 and December 1983. Only the public debt was considered initially in this process, but later on the renegotiation of the private external debt falling due in that period was also included.

The renegotiations with the international banking system began in October 1982 and continued for a year before the final agreement was signed. In June, an agreement was reached with the Management Committee representing creditor banks. This agreement included the refinancing of approximately US\$ 2 560 million of the debt and the granting of a "fresh money" credit for US\$ 431 million. As a prerequisite, an agreement had to be signed (1 June) with the International Monetary Fund for the granting of a stand-by credit for US\$ 171 million.

The agreement with the IMF, for a one-year term, was based on a Letter of Intent whose terms were included in the economic stabilization programme of March 1983. At the end of November, the IMF approved the third disbursement of US\$ 42 million of the stand-by credit, after having assessed the fulfilment of the goals established in that programme, and granted an additional loan of approximately US\$ 91 million as compensatory financing.

In the second week of October the following agreements with the representatives of the international private banks were formalized:

a) Refinancing of US\$ 1 200 million of amortization payments on the public debt falling due between November 1982 and December 1983. These were renegotiated for a term of seven years, including one year of grace. During 1984 amortization payments will be made equal to 10% of the debt and from 1985 onwards equal quarterly payments will be made until the end of the term in early 1990. Interest rates of 2 1/4% over LIBOR or 2 1/8% over United States prime rate and a conversion commission of 1.25% were established.

b) Renegotiation of around US\$ 1 000 million of the private external debt recorded in the Central Bank falling due in the same period (November 1982 and December 1983). The Central Bank took responsibility for these debts, as a guarantor for the creditors.¹⁴

c) Fresh money loans totalling US\$ 431 million, mainly designed to normalize import payment arrears. These loans were granted over a term of six years (until July 1989) and their repayment will begin in January 1985 in equal quarterly quotas. Interest was set at 2 3/8% over LIBOR or 2 1/4% over prime rate and commissions at 1.25%, to be paid 30 days after signing.

d) Opening of a line of trade credit for US\$ 700 million. This is a revolving credit, to be disbursed for terms not exceeding 13 months. The interest rate on the portion loaned to the private sector is to be negotiated and that to be paid by the Central Bank was set at 1 5/8% over LIBOR or 1 1/2% over prime rate.

In addition, US\$ 155 million were renegotiated with the Paris Club. This represented part of the public sector debt contracted with governments and suppliers (with State guarantee) which fell due between the beginning of June 1983 and the end of May 1984: a period coinciding —not by accident— with that of the agreement signed with the International Monetary Fund. Refinancing

¹³When the first contacts with creditors for the renegotiation of the external debt were established, nobody envisaged the possibility of the floods in the coastal region which severely damaged Ecuadorian exports.

¹⁴In a decision dated 20 June 1983, the Monetary Board established the mechanism to be followed in refinancing the private external debt guaranteed by the State. The Central Bank was authorized to convert these liabilities into sucres and to supply, subject to certain conditions, the foreign exchange for the service of the debt.

was granted over an eight-year term, including three years of grace, for 85% of that amount. Another 10% was to be paid when it fell due and the remaining 5% in December 1984.

Up to September 1983, US\$ 242 million in long-term loans had been contracted for the public sector: a quarter of the amount contracted in the same period of the preceding year. Of that amount, all of which was agreed for the long term, nearly 90% (US\$ 213 million) was contracted with international organizations and only 10% with governments. These figures do not include US\$ 431 million contracted with international private banks. In the first nine months of 1982 the structure of credit contracts had been quite different: 24% of public sector contracts had been signed with international organizations, 6% with governments and 70% with international banks.

d) *Exchange policy*

On 18 March 1983—a little less than a year after the last devaluation of the sucre in May 1982, which raised the exchange rate from 25 to 33 sucres per dollar—the authorities established a new parity of 42 sucres per dollar, to be increased at the rate of four cents per working day. At the end of June the progressive devaluation was accelerated to five cents per day, including holidays (see table 16 and figure 4).

Thus, the official dollar price reached 54.10 sucres by the end of the year, that is, 64% higher than that existing at its beginning. On the contrary, the free market exchange rate increased only 37%: from 65 to around 89 sucres per dollar. However, in the months of June, July and August, the free dollar price ranged between 93 and 98 sucres.

The greater speed at which the official exchange rate rose compared with the free market rate reduced the difference between the two during the year, so that the gap between them, which had

Table 16

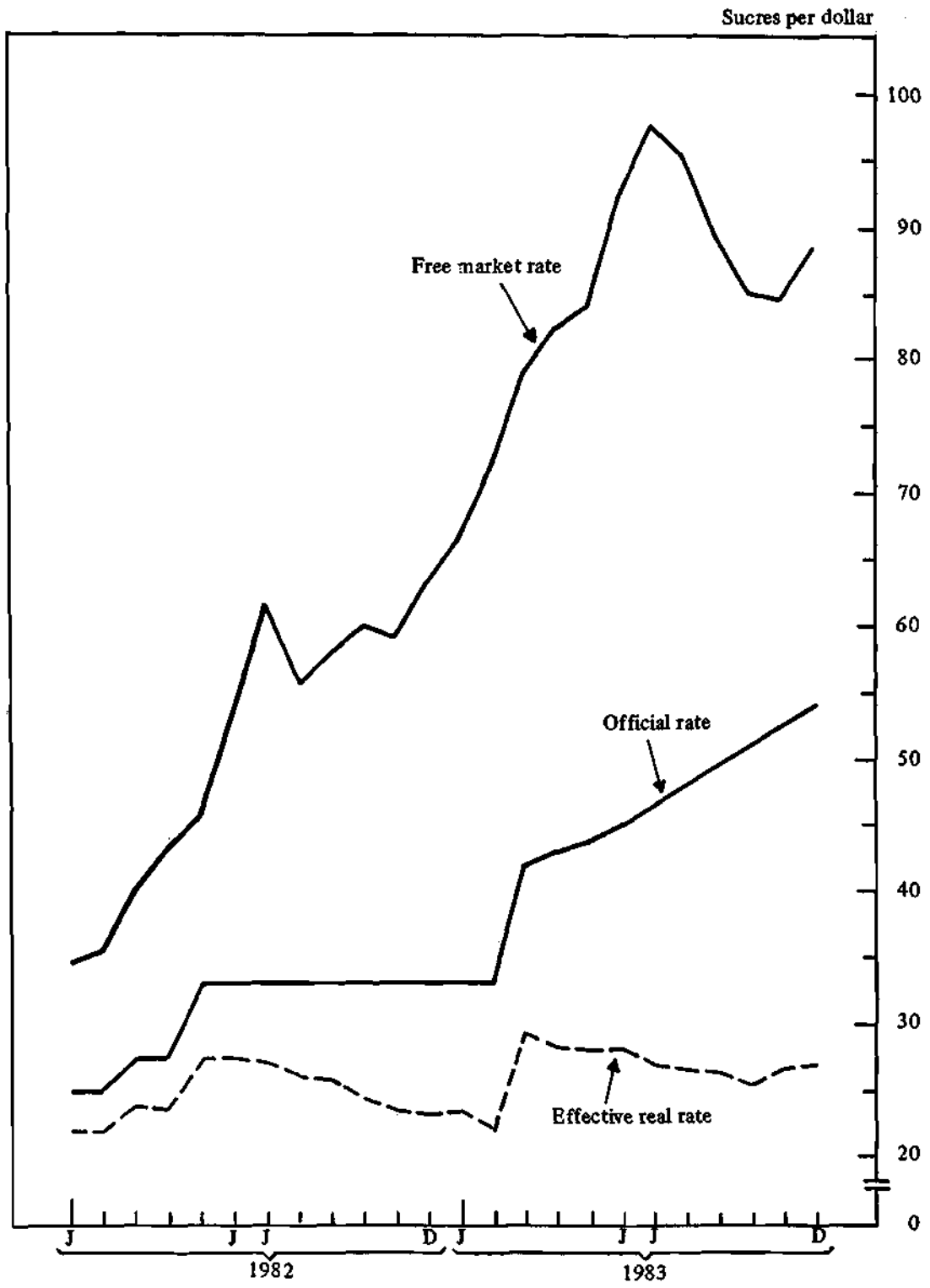
ECUADOR: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Exchange rates (sucres per dollar)		Indexes of effective real exchange rate ^a	
	Official	Free	Exports	Imports
1975	25.00	25.40	111.5	109.0
1976	25.00	27.45	105.2	102.4
1977	25.00	27.47	99.0	98.0
1978	25.00	26.60	96.2	98.9
1979	25.00	27.61	99.2	100.2
1980	25.00	27.78	100.0	100.0
1981	25.00	30.76	95.0	92.0
1982	30.57	51.03	100.8	97.4
1983	44.19	84.79	104.9	107.2
1982				
I	26.70	36.97	91.8	89.4
II	32.00	47.64	105.8	104.1
III	33.00	58.65	108.1	102.9
IV	33.00	60.85	97.6	93.2
1983				
I	36.06	72.63	99.4	100.5
II	43.90	86.36	110.0	113.9
III	47.98	94.03	105.2	108.5
IV	52.57	86.14	105.1	105.7

Source: ECLAC, on the basis of data from the Central Bank of Ecuador, *Información Estadística*; and from the FMI, *Supplement of Exchange Rates and International Financial Statistics*.

^aThese correspond to indexes of the exchange rates used in foreign trade operations with respect to currencies of countries with which Ecuador has trade relations, weighted by the relative importance of exports or imports, as the case may be, to or from those countries. The methodology and sources used in calculating the effective real exchange rate may be found in the Technical Appendix to the *Economic Survey of Latin America, 1981*.

Figure 4
 ECUADOR: EXCHANGE RATE



reached 120% in February and a similar figure in July, dropped to 64% in December. Among the package of economic measures adopted by the Monetary Board in March, the most significant was the devaluation of the sucre and the programme of daily devaluations which was simultaneously adopted. In another resolution of the board, on the same date, the Central Bank was authorized to intervene in the free exchange market to buy foreign exchange for the equivalent of 30% of the value of exports —except those of petroleum and its derivatives, bananas, coffee, cocoa beans and sugar— and to sell it for the importation of merchandise included in Schedule II, deemed to be non-essential.

The foreign exchange transactions effected by the Central Bank in the free market are made at a rate which is fixed daily and which is somewhat lower than that of the free market proper. In March it was set at 70 sucres per dollar and by the end of December it had gone up to 87 sucres. The purposes taken into account in establishing this new exchange rate were, on the one hand, the discouragement of imports of less essential items by insisting on use of a more expensive dollar, and, on the other hand, the containment of the rapid increase in the dollar price in the free market, which had reached 86 sucres in March.

Foreign exchange from exports of products excluded from the list in the previous resolution, as well as 70% of the earnings received from exports of other products, are sold by the Central Bank for importing essential goods classified in Schedule I, for servicing the public and private external debt registered in the Central Bank, and for covering the expenses of students abroad.

According to a resolution of the Monetary Board dated 19 March, foreign exchange from foreign investment inflows, from private external credits registered in the Central Bank, and all foreign exchange received by the government and public or private institutions must be sold in the official exchange market.

The fact that the official exchange rate rose during the year by a higher percentage (64%) than that of the increase in domestic prices (53%) —something that did not happen, however, with the free market rate— represented a significant and timely export incentive. The purchase of 30% of the foreign exchange income from non-traditional exports at an exchange rate quite close to that of the free market also favoured the exporters of those goods. However, since such exports are not yet very significant the weighted average exchange rate was only 3% over the official one.

For the importers of goods classified in Schedule II, that provision of the Monetary Board had a greater significance, because the availability of foreign exchange of the Central Bank free market price was insufficient to cover those imports and it was necessary to buy the rest of it in the true free market at a higher price.¹⁵ In brief, total imports during the year were made at an average dollar price 9% higher than the official one.

Because of the devaluation in 1982, the effective real exchange rate index recovered some of the ground it had lost in 1981, but very little of what it had lost between 1970 and 1978, particularly in the case of the effective real exchange rate related to exports. With the devaluation in March 1983 and the daily adjustment programme which followed, however, the average effective real index with respect to 1982 rose by 7%. In other words, with the devaluations implemented in 1982 and 1983, Ecuadorian exports improved by around 10% their competitive possibilities in external markets, whereas imports increased their prices with respect to national products by approximately 17% (see table 16 and figure 4).

4. Prices and wages

a) *Domestic prices*

The annual rate of increase in prices, which had gone up gradually since 1980 until it reached 24% in 1982, measured from December to December, rose unexpectedly to a little over 52% in 1983. The price increases on the basis of annual averages, for their part, speeded up from 16% in 1982 to over 48% in 1983 (see table 17).

The strengthening of inflationary pressures was due exclusively to the extraordinary increase in prices of food products and some raw materials, as a consequence of the enormous losses produced by rains and floods, especially in agriculture. Thus, the food component of the consumer price index increased by 86% from December to December or by 78% on the basis of annual averages.

¹⁵ At the end of July, the Central Bank discontinued foreign exchange sales for the importation of goods included in Schedule II, so users were compelled to resort to the free exchange market.

Table 17

ECUADOR: CONSUMER PRICE INDEX^a

	1978	1979	1980	1981	1982	1983
Variation from December to December						
Consumer price index	11.7	9.0	14.5	17.2	24.4	52.5
Food	10.6	7.0	12.3	16.8	26.3	86.1
Variation between annual averages						
Consumer price index	11.7	10.3	13.0	16.0	16.3	48.4
Food	10.2	10.0	11.0	13.9	17.1	77.9

Source: Central Bank of Ecuador and the National Institute of Statistics and Censuses.

^aUp to 1980, corresponds to the consumer price index for Quito. Since 1981, corresponds to the national consumer price index for urban areas.

As a consequence of the natural disasters, a serious shortage of several basic foods developed, which became even more acute due to hoarding for speculation purposes and the smuggling of food products to neighbouring countries. The shortage was relieved by importing those products that were in shortest supply —rice, maize and sugar— as well as those imported regularly, such as wheat and powdered milk. However, in the period which elapsed until those imports arrived huge price increases occurred.

Among staple foods, the biggest price increases in the first six months of the year were for rice (52%), bread (81%), chicken (63%), sugar (43%), oil (34%), potatoes (133%) and eggs (112%). The acceleration of food price increases began in October of the preceding year (3.6% per month). In the first three months of 1983, that rate rose to 6.1% and in the next four months to 8.9%. From August onwards, however, the monthly rate of inflation began to decrease and it even became negative in November and December.

The trend of the general consumer price index during the year followed approximately that of food, although at a considerable lower level. The highest annual rate of variation (63%) was reached in September and October, when the annual price variation of food reached 110% (see figure 5).

The daily devaluation process of the currency which began in March with an exchange rate of 42 sucres per dollar also contributed to the rise in domestic prices by sending up the prices of imported goods, including essential goods imported with foreign exchange purchased at the official exchange rate, which, as mentioned earlier, rose 64% during the year.

b) *Wages*

By the middle of the year, eight months had elapsed since the last readjustment of minimum wages in November 1982. Since then the consumer price index had increased 38% and that of food had gone up 68%, thereby substantially eroding the purchasing power of wages. This situation led to a wave of protests, stoppages and strikes on the part of the workers, demanding higher wages.

On 1 July the general minimum wage for workers was raised from 4 600 to 5 600 sucres per month. The minimum wage for agricultural workers was raised from 3 600 to 4 400 sucres in the coastal region and from 3 200 to 3 900 in other regions. The minimum wage for workers in small-scale industry went up from 3 500 to 4 400 sucres and that for handicraft workers from 3 400 to 4 150 sucres.

Taking into account the dates of the readjustments, the nominal increase in average wages in the year was 24%, which in real terms meant a reduction of 16%, on top of the declines of 14% and 12% recorded in the previous two years. Thus, in the last three years the real minimum wage has lost 36% of its purchasing power. This seems to be a compensation for the substantial real increase (77%) achieved in 1980 (see table 18). Workers in small-scale industry, experienced an 18.5% decline in their real minimum wage during 1983, but the wages of agricultural and handicraft workers went down less, while those of domestic servants improved slightly.

Figure 5
 ECUADOR: CONSUMER PRICE INDEX

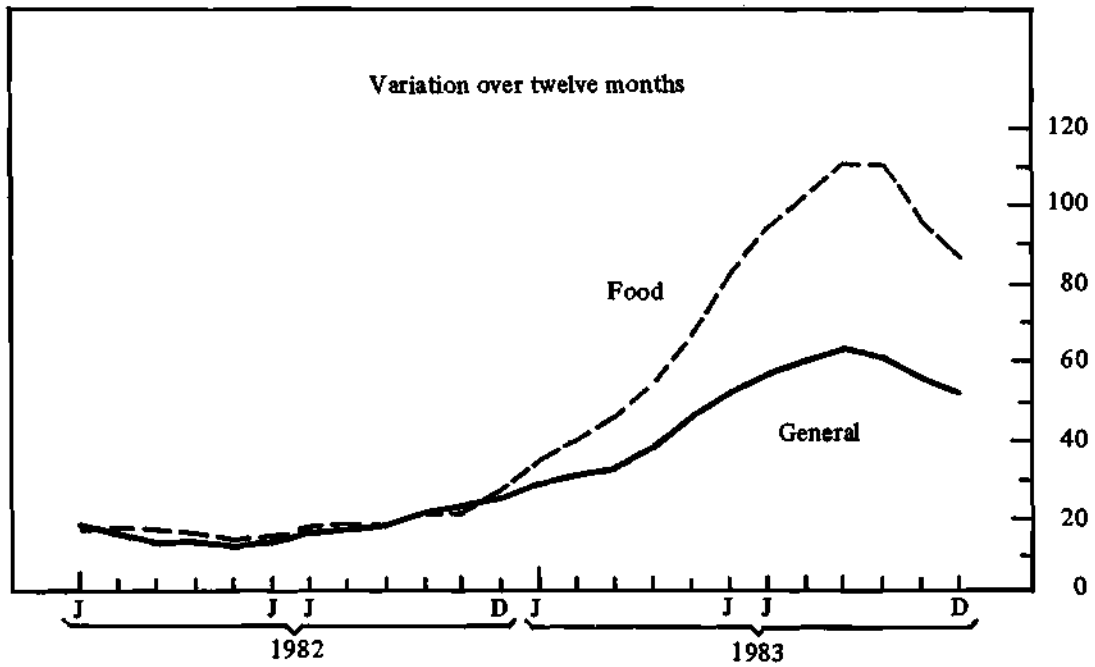
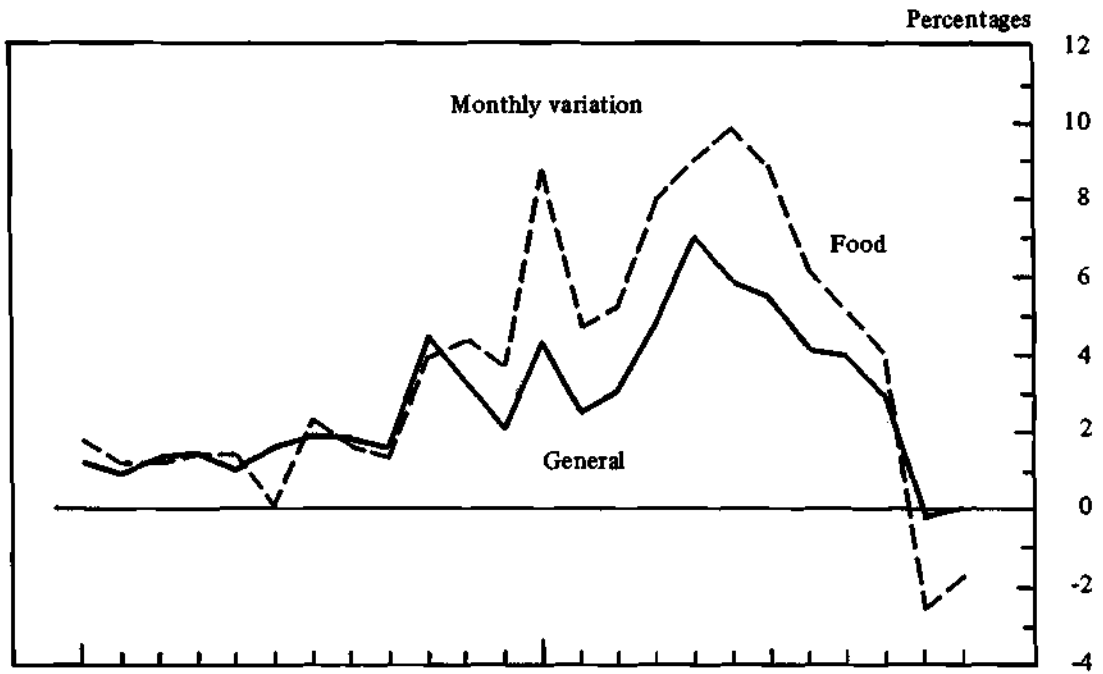


Table 18

ECUADOR: EVOLUTION OF MINIMUM MONTHLY WAGES

	In sucres at current and constant 1978 prices ^a				Growth rates			
	1980	1981	1982	1983	1980	1981	1982	1983
General workers								
Nominal	4 000	4 000	4 100	5 100	100.0	-	2.5	24.4
Real	3 209	2 757	2 434	2 039	77.0	-14.1	-11.7	-16.2
Agricultural workers, Sierra region								
Nominal	2 500	2 500	2 617	3 550	85.2	-	4.7	35.7
Real	2 006	1 723	1 554	1 420	63.9	-14.1	-9.8	-8.6
Agricultural workers, Coastal region								
Nominal	3 000	3 000	3 100	4 000	100.0	-	3.3	29.0
Real	2 407	2 068	1 840	1 598	77.0	-14.1	-11.0	-13.1
Agricultural workers, Oriente region								
Nominal	2 500	2 500	2 617	3 550	66.7	-	4.7	35.7
Real	2 006	1 723	1 554	1 420	47.5	-14.1	-9.8	-8.6
Handicraft workers								
Nominal	2 800	2 800	2 900	3 775	80.6	-	3.6	30.2
Real	2 246	1 930	1 722	1 510	59.9	-14.1	-10.8	-12.3
Domestic servants								
Nominal	1 500	1 500	1 617	2 450	66.7	-	7.8	51.5
Real	1 203	1 034	960	979	47.4	-14.0	-7.2	2.0
Small-scale industry								
Nominal	3 000	3 000	3 100	3 750	...	-	3.3	21.0
Real	2 407	2 068	1 840	1 499	...	-14.1	-11.0	-18.5

Source: ECLAC, on the basis of data from the Central Bank of Ecuador.

^aReal wages are expressed in 1978 sucres and were calculated by deflating nominal wages by the national (urban) consumer price index.

Table 19

ECUADOR: EVOLUTION OF ANNUAL MINIMUM WAGES AND SUPPLEMENTARY ALLOWANCES

	1980	1981	1982	1983	Growth rates			
					1980	1981	1982	1983
Current sucres								
Total remuneration	69 200	69 200	72 705	98 355	99.4	-	5.1	35.3
Minimum wage	48 000	48 000	49 200	61 200	100.0	-	2.5	24.4
Bonuses^a	13 000	13 000	13 325	16 575	122.2	-	2.5	24.4
Allowances^b	8 200	8 200	10 180	20 580	32.3	-	24.1	102.2
1978 sucres								
Total real remuneration	55 538	47 658	43 123	39 290	76.5	-14.2	-9.5	-8.9

Source: ECLAC, on the basis of data from the Central Bank of Ecuador and W. Spurrier Baquerizo, *Análisis remanual*, various issues.

^aCorresponds to three additional monthly wages per year (13th, 14th and 15th months).

^bIncludes an allowance known as "Compensación", the allowance proper, and the transport allowance.

Taking into account the allowances and bonuses which are usually added to the minimum wage, annual income increased 35% during 1983, representing a drop of 9% in real terms (see table 19).

During July 1983 there was also an increase in the basic salary for teachers from 5 000 to 6 300 sucres per month, although only half of that adjustment was put into effect during the year. In October, the "fourteenth month" salary bonus for public servants was raised from one to two monthly minimum wages (from 5 600 to 11 200 sucres) and a similar proposal in favour of the private sector was submitted to the Congress.

As the adjustment in the minimum wage was insufficient to compensate for the increase in domestic prices, especially those of food, labour protests and demand for higher wages continued during the year. The workers' confederation (FUT) demanded an increase in the minimum wage to 10 000 sucres per month and an increase of 3 000 sucres in all wages up to 20 000 sucres.

5. Monetary and fiscal policy

a) *Monetary developments*

Among the purposes and goals included in the Economic Stabilization Programme of March 1983, there are several which helped in different ways to contain monetary expansion. Thus, the Programme limited the public sector deficit to a maximum of 4% of the gross domestic product and established that net indebtedness of the non-financial public sector should not exceed 6 billion sucres by the end of the year, in order not to affect credit to the private sector. Likewise, ceilings were placed on the increase in liabilities of private banks (23.5%) and on the net domestic assets of the Central Bank, which must not exceed 21 billion sucres at year-end. Moreover, it was laid down that the expansion in money and credit should be the minimum necessary to support the anticipated growth of the economy, so as to avoid excessive pressure on foreign exchange availability and on domestic prices.

In line with these objectives, the money supply increased 25% between December 1982 and December 1983: a percentage which was not even half that of the rise in domestic consumer prices and which was also well below the increase in the gross domestic product at current prices (see table 20). The lack of money in circulation which has affected the evolution of economic activity for

Table 20
ECUADOR: MONETARY BALANCE

	End-year balance (billions of sucres)			Growth rates				
	1981	1982	1983 ^a	1980	1981	1982	1983 ^b	1983 ^c
Money	61.8	73.1	87.7	27.7	15.3	18.3	27.3	24.9
Currency outside banks	17.4	20.5	24.5	23.9	13.9	17.8	34.6	24.5
Demand deposits	44.4	52.6	63.2	29.3	15.9	18.5	24.6	25.1
Factors of expansion	103.8	122.6	163.3	29.2	16.2	18.2	46.0	
Foreign assets (net)	15.8	9.5	9.9	37.1	-31.2	-39.7	30.0	
Domestic credit	88.0	113.1	153.4	26.7	32.6	28.6	47.2	
Government	3.5	3.8	7.9	-8.2	-6.0	8.5	57.9	
Private sector	72.2	94.3	124.5	28.0	33.1	30.7	45.2	
Financial institutions	12.3	15.0	21.0	40.9	46.7	22.0	56.0	
Factors of absorption	42.0	49.5	75.6	31.5	17.5	18.0	76.0	
Quasi-money (savings and time deposits)	13.9	20.5	19.6	23.1	10.4	47.5	1.9	
Government deposits	11.4	6.5	23.0	21.0	50.7	-42.4	147.8	
Bonds	12.5	15.8	18.1	34.8	18.7	26.2	21.0	
Other items (net)	4.2	6.7	14.9	75.7	-17.1	60.0	...	

Source: International Monetary Fund, *International Financial Statistics*, April 1984.

^aBalances at end of September.

^bBalances at end of September 1983 with respect to the same month of 1982.

^cIncrease from

December to December.

some years and has helped to increase the recession thus became more acute during the year. In the last months of the year, however, the adoption of some measures such as the reduction of the compulsory cash reserves of banks, an increase in rediscount levels and the gradual elimination of prior import deposits, freed monetary resources and partly relieved the problems of lack of liquidity.

Currency outside banks and demand deposits (including those in the Central Bank) both increased around 25%. During the year, up until November, however, the former increased much more rapidly than the latter. Up to September, the means of payment increased 27% with respect to the same month of the preceding year. As in the previous two years, the expansion of domestic credit (47%) was the main cause of money creation. Unlike what happened in 1981 and 1982, the increase in net international reserves also helped to foster the expansion of the means of payment, which grew by 30% between September 1982 and September 1983, although its influence was much less than that of domestic credit because of its lower amount in absolute terms.

Among the various components of credit, that channelled to the private sector was much more important and contributed decisively to the expansion of the money supply. For its part, credit granted to the government increased 58% between September 1982 and September 1983, despite the decrease in the fiscal deficit. This increase was due to the fact that external credit was hard to obtain and the government had to resort with increasing frequency to the Central Bank in order to finance its deficit. Finally, credit granted to financial institutions increased 56% in that period.

Government deposits played an important role in offsetting the factors which contributed to an increase in the money supply. At the end of September they exceeded time and savings deposits, after having increased nearly 2.5 times with respect to September of the previous year. Furthermore, in the first nine months of 1983 government deposits in the Central Bank increased from 6.5 billion sucres to nearly 23 billion, while in October they went up to 78.3 billion. The absorption effect exerted on the money supply by this remarkable increase in deposits, however, was cancelled out to a great extent by the increase from 7.9 to 66.6 billion sucres in October of credit granted to the government by the Central Bank.

Savings and time deposits, in contrast, increased very little in the period September 1982-September 1983, and they even decreased slightly with respect to their level at the end of 1982. Due to the acceleration of inflation, the rise in the nominal interest rate was insufficient to encourage savings.

In the first 10 months of 1983, credit granted by the banking system increased 52% with respect to the same period of 1982. Loans intended for agriculture increased 37% in that period, those for industry grew by 60%, but those granted to commerce rose by only 20%. In contrast, loans for other activities more than doubled.

At the end of the year the outstanding balance of credits granted by the Central Bank came to around 92 billion sucres, or 41.6 billion more than the year before. Of that amount, 20.2 billion were stabilization credits related to the conversion into sucres of the external debt of the private sector. The Central Bank was authorized to discount documents arising from credits obtained abroad (assuming the debt) and to convert the liabilities into sucres. Furthermore, among the agreements signed with creditor banks for refinancing the external private debt, a line of credit for financing imports, to operate through the banking and financial system, was established in the Central Bank.

With the aim of promoting domestic savings and, at the same time, relieving the liquidity problems of banking and financial institutions, and activating their operations, interest rates were raised on two occasions during the year, rediscount quotas were expanded, and the compulsory cash reserves of banks were reduced by 2 points, both for demand deposits (to 20%) and savings (to 10%), thus freeing around 1.2 billion sucres for the use of the banking system.

In March the interest rate for loans was raised from 15% to 16%, and in October it went up again to 19%. The interest rate for time deposits was set at between 13% and 15%, but savings and loans associations (known as Mutual Societies) were authorized to pay up to 1 point more to depositors.

b) *Government income and expenditure*

Since 1982, a strict policy to control and restrict public expenditure has been implemented with the aim of reducing the fiscal deficit, which had reached extremely high levels in previous years and which was increasingly difficult to finance, particularly with external resources. In fact, in that year it

was possible to halt the increase in the deficit, and its proportion with respect to the gross domestic product was slightly reduced (from 5.8% to 5.3%). The same objectives remained in force during 1983, and a series of measures designed to increase income and to reduce expenditure were adopted.

• Thus, in the Economic Stabilization Programme of March 1983 the intention of continuing with the rearrangement of public finances and the restriction of expenditure was reaffirmed, while taking into account the need to grant additional resources to repair the damage caused by floods in the coastal region, as well as the funds which might be required for wage increases. It was also laid down that the overall deficit of the public sector should not exceed 4% of the gross domestic product in 1983 (in 1982 the proportion had been 7.5%), and recommendations were formulated on the need for the prices of public goods and services to be sufficiently high to cover production costs, together with others about the maximum limits of public sector indebtedness.

The following measures taken during the year brought more resources to the State directly or indirectly, or contributed to a reduction in expenditure: increased fuel prices (except that of gasoline, which had gone up in 1982); increased rates for electricity and other public services; the elimination of Tax Credit Certificates which favoured exporters; additional surcharges on imports, and several tax increases. In addition, the number of public service posts was frozen, except in education and health, a law on economic regulation and control of public expenditure was adopted, and a National Emergency Fund was established.

The budgetary income of the government increased 32% in 1983, while total expenditure rose only 15%. As a result, income covered 77% of total expenditure, compared with only 67% in 1982. The deficit, for its part, which in 1982 had amounted to 21.6 billion sucres, dropped to 17.4 billion in 1983, a sum equivalent to 3% of the gross domestic product (see table 21).

Table 21

ECUADOR: STATE BUDGET INCOME AND EXPENDITURE

	Millions of sucres				Growth rates				
	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
1. Total income ^b	37 631	39 297	44 889	59 358	21.1	63.0	4.4	14.2	32.2
Current income	38 512	40 510	46 680	60 013	20.7	62.3	5.2	15.2	28.6
Traditional	23 915	25 379	25 735	32 473	10.7	23.5	6.1	1.4	26.2
Tax revenue	22 445	23 744	24 433	31 255	10.1	21.7	5.8	2.9	27.9
Direct	4 179	6 137	6 101	6 188	15.7	22.2	46.9	-0.6	1.4
Indirect	8 616	8 098	9 856	15 065	17.8	32.0	-6.0	21.7	52.9
On foreign trade	9 650	9 509	8 476	10 002	3.0	-13.5	-1.5	-10.9	18.0
Other income	1 470	1 635	1 302	1 218	23.1	58.6	11.2	-20.4	-6.5
From pretroleum	14 229	15 131	20 945	27 540	101.5	227.1	6.3	38.4	31.5
Transfers	367	-	-	-					
2. Total expenditure	47 557	59 395	66 536	76 777	7.8	68.7	24.9	12.0	15.4
3. Deficit (1-2)	-9 926	-20 098	-21 647	-17 419	-28.0	94.3	102.5	7.7	-19.5
4. Financing	5 733	16 838	21 647	17 419					
Net indebtedness	5 956	8 301	19 543	19 597					
Foreign	1 553	7 658	9 988	-2 250					
Domestic	4 403	643	9 555	21 847					
Use of special resources	61	9 757	1 823	18					
Cash balances ^c	-284	-1 220	281	-2 196					
Difference (3 - 4) ^d	4 193	3 260	-	-					

Source: Central Bank of Ecuador.

^aPreliminary figures.

^bTotal net income. Taxes paid with tax credit certificates and agrarian reform bonds have been deducted.

^cUtilization or net accumulation of funds during the period in question, according to whether the balance is positive or negative.

^dPayments deferred to the following year, less payments made in respect of expenditures of the preceding year.

However, the increases in income and expenditure during the year were a good deal less than the rise in domestic prices. Income, and especially expenditure, consequently diminished in real terms. In the case of expenditure this was achieved despite the high cost implied by wage adjustments, disbursements made to deal with the emergency caused by national disasters, and the increase in construction costs and in prices of imported goods caused by the rise in the exchange rate. The external debt service also grew (in sucres) with the devaluation, although payments of principal diminished due to the debt renegotiation. Thus, while interest payments on the external debt increased 26% in 1983, payments of principal (which are not included in total expenditure) diminished to less than one half in sucres.

On the other hand, the devaluation helped to raise fiscal income from exports of crude petroleum and derivatives effected by the State petroleum corporation (CEPE). Petroleum income, which constitutes 45% of current income, increased 32% in 1983. The rise in domestic fuel prices (except for gasoline) also contributed to this increase.

Tax revenue, for its part (which represents 42% of total income), increased 28% during 1983, mainly due to a substantial rise (53%) in indirect taxes. Among these, taxes on transactions and services, on beer and on cigarettes grew by 56% and taxes on the sale of petroleum derivatives increased by 35%.

In contrast, according to preliminary data direct tax revenue seems to have increased very little, while that from duties on foreign trade probably rose 18%. The decrease by one-third in the value of imports of goods in 1983 meant a fall in tax revenue for the State estimated at around 4.5 billion sucres. However, this lower income was compensated by the special duties imposed on imports: 5% on imports of essential goods (Schedule I-a); 8% on necessary goods (Schedule I-b) and 15% on purchases of non-essential goods (Schedule II). Another measure which helped to improve the government's financial situation was the elimination of the Tax Credit Certificates (CAT) issued to exporters. In 1982 this subsidy cost the government 1 790 million sucres, but the amount dropped to 655 million in 1983.

There were also fundamental changes in the way the fiscal deficit was financed. In the first place, it was entirely financed by indebtedness, which, unlike the preceding year, was 100% domestic. In 1982, in contrast, 51% of the net indebtedness had been with the exterior.

EL SALVADOR

1. Recent economic trends: Introduction and summary

It is becoming increasingly difficult to examine the recessive situation in El Salvador by applying traditional categories of economic analysis. The protracted political conflict suffered by the Salvadorian community is a central issue in political, economic, social and institutional spheres. The country's depressed economy —made apparent by a considerably reduced level of activity, an extremely high rate of unemployment and severe maladjustments in balance of payments and fiscal accounts— has aggravated the factors deriving directly from the above-mentioned conflict, namely a large and continuing loss of life and widespread damage to the economic infrastructure.¹ In addition, the internal armed confrontation has become progressively more international in its effects owing to the recent influence of external participants.

Nevertheless, in spite of this prolonged and intense political struggle and the particularly adverse local conditions arising from international economic developments over the past four years, the national economy still shows some signs of normality within a framework of severe depression and undeniable deterioration in average living standards. In this respect the progressive decline of the gross domestic product in the four preceding years was detained in 1983 when levels similar to those of 1982 were recorded. Although the gross domestic product per capita fell for the fifth consecutive year —to a level equivalent to that of 1961— the fact that the total product remained static in 1983 represented a turning point in the trend observed in preceding years (see table 1 and figure 1).

This development was influenced by two circumstances. In the first place there was a modest revival in the volume and value of exports in comparison with the extremely depressed levels of the year before, although in the case of coffee —the country's main export commodity— it was necessary to resort to considerable stock withdrawals. Secondly, government expenditure rose significantly, especially in the case of capital investment, thereby exerting some dynamic influences through its direct and indirect effects.

A considerable inward flow of external financing —especially from official bilateral sources— also influenced the performance of the economy in the year under review. This financing was not only of assistance in boosting public investment (as already mentioned) but also enabled the country to maintain a higher importing capacity than any other Central American country.

Private investment, on the other hand, continued to contract for the fifth consecutive year, a situation attributable to the generalized climate of uncertainty affecting the private sector and the depressed economic outlook. To this was added the fact that existing capital availabilities continued to diminish rapidly owing to lack of adequate replenishment. Private consumption, too, again declined because of the contraction of real wages and supply maladjustments deriving from the abnormal situation of the country. The dramatic nature of this decline is only too evident when it is borne in mind that real per capita consumption in 1983 barely reached the level attained in 1960.

As regards internal supply, farming output again fell, although less than in the three preceding years. The lower rate of contraction was due to expansion in the cultivation of sugar-cane and most basic grains partly carried out on land formerly subjected to agrarian reform. On the other hand building activity rose for the first time since 1977, as a result of a higher level of government investment. Manufacturing production also rose for the first time since 1978, though only to a very limited extent owing to low domestic demand and a drop in intra-Central American trade. A growth

¹ Several estimates have been made of the material damage caused by the armed conflict. The press makes frequent mention of a figure of US\$ 600 million, whereas, according to an estimate drawn up by the Chamber of Industry and Commerce of El Salvador, the figure is around US\$ 1 billion.

of almost 3% was also recorded in value-added for basic services together with a small decline in the case of other services.

The management of economic policy in 1983 was affected by the decidedly sombre underlying economic situation and by the very tense political conditions that had built up in previous years. In 1982 a civilian coalition government had taken over the administration after an electoral process in which the complete range of Salvadorian community groups had not been represented. The continuation of civil and military confrontation within the country, coupled with a growing polarization of positions and the breakdown, in practice, of the governing coalition, caused the revival in 1983 of an atmosphere of scepticism among the country's economic agents.

The aggravation of internal and international controversy and its coincidence with the intensification of armed conflict resulted in a gradual decline in efficacy of the policy of economic

Table 1

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of dollars at 1970 prices)	2 316	2 276	2 079	1 906	1 800	1 799
Population (millions of inhabitants)	4.52	4.66	4.80	4.94	5.08	5.23
Per capita gross domestic product (in dollars at 1970 prices)	512	489	433	386	354	344
Growth rates						
B. Short-run economic indicators						
Gross domestic product	6.4	-1.7	-8.7	-8.3	-5.6	-
Per capita gross domestic product	3.3	-4.6	-11.3	-10.9	-8.3	-2.9
Gross domestic income, in real terms ^b	0.4	-1.4	-11.9	-10.3	-5.9	-1.4
Terms of trade (goods and services)	-22.4	-4.9	-12.2	-11.8	-0.7	-3.7
Current value of exports (goods and services)	-15.2	37.1	-4.0	-23.9	-11.0	12.0
Current value of imports (goods and services)	12.9	3.9	-6.8	-0.8	-10.4	3.0
Consumer prices						
December - December	14.6	14.8	18.6	11.6	13.8	15.5
Variation between annual averages	13.3	15.9	17.4	14.8	11.7	13.2
Money	9.9	21.6	7.2	-0.8	4.7	1.3 ^c
Real minimum wages ^d	-5.9	1.7	-6.1	-12.9	-10.5	-11.7
Unemployment rates ^e	3.7	6.7	16.2	25.0	30.0	30.0
Current government income	-13.1	18.3	-14.4	4.8	1.4	14.4
Total government expenditure	12.2	12.8	17.6	13.1	4.8	18.5
Fiscal deficit/total government expenditure ^f	11.3	7.0	32.3	37.2	39.3	41.4
Fiscal deficit/gross domestic product ^f	...	1.1	5.6	7.5	8.1	9.3
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-285	10	45	-231	-218	-151
Balance on current account	-292	15	-1	-272	-271	-239
Balance on capital account	348	-149	-74	223	242	418
Variation in net international reserves	57	-128	-69	-43	-27	179
Disbursed global external debt	986	939	1 176	1 471	1 683	...

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Gross domestic product plus terms-of-trade effect, less net factor payments to the rest of the world and net private donations.

^c Variation between October 1982 and October 1983.

^d Real minimum wages of agricultural workers, except for harvesting of coffee, sugar cane and cotton.

^e Percentages.

adjustment and stabilization, the main mechanisms for which were established in 1982.² To the extent that the main imbalances and maladjustments progressively acquired the character of permanence and continuity, the administration (regarded as transitory in view of the electoral calendar established by the Constituent Assembly) endeavoured to fulfill certain goals as laid down in the stabilization programme, but at the same time had to bow to unforeseen pressures.

Thus, with respect to government finances, a substantial reduction of the fiscal deficit had been envisaged at the beginning of the year to be attained through the combined expedients of raising revenue—in particular from taxation—and restricting expenditure. Some amendments in tax legislation were introduced but proved insufficient owing to delays in the discussion and legalization of the proposed reforms and the fact that they were less comprehensive than had been foreseen. Thus tax coefficient only rose from 10.7% in 1982 to 11.3% in 1983. As for the policy of restricted expenditure, two circumstances conspired against the fulfilment of the originally approved budget: firstly, the larger outlays assigned to security and defence and the repair of damage to physical infrastructure and, secondly, the increasing debt-servicing (interest and amortization) costs. Moreover, although an austere current expenditure budget had been considered, a more expansive capital expenditure policy was deliberately adopted with a view to safeguarding minimum levels of economic activity and employment. The joint effect of sluggish income performance and severe expansion of expenditure was that the fiscal deficit, far from contracting as programmed early in the year, rose from the equivalent of 8.1% of gross domestic product in 1982 to 9.3% in 1983.

The country's external accounts, for their part, showed a certain improvement. The balance-of-payments current account deficit fell from US\$ 271 million in 1982 to US\$ 239 million in 1983 as a result of a recovery of 12% in the value of exports of goods and services and a much smaller rise in the cost of imports. The growth of exports of goods was basically due to a significant increase in the value of non-traditional exports, which rose from US\$ 44 million to US\$ 67 million, partly in response to the considerable effort made by the authorities in recent years to increase and diversify exports. On the other hand, however, the improved position in the trade deficit was partially offset by an increase in net factor service payments. Even more significant than the evolution of the balance-of-payments current account was that recorded in the capital account. This showed a notable surplus (of almost US\$ 420 million) which enabled the level of international reserves to rise by US\$ 180 million. Net incoming capital came from bilateral official sources—including approximately US\$ 150 million donated by the Government of the United States, from multilateral sources and from the rephasing of part of the short-term external public debt. The external imbalance was thus attenuated in 1983 and the country acquired greater scope for manoeuvre owing to the rising levels of external credit.

The slackening of inflationary pressures was another economic policy objective in 1983. With this in mind, and in contrast with developments in preceding years, public service tariffs were frozen and maximum price levels were established for basic food products. However, and despite the fact that import prices rose only slightly, inflation continued to rise, reaching an average annual variation of 13.2% compared with 11.7% in 1982. This acceleration of inflation took place mainly in the second half of the year, food products being those most affected.

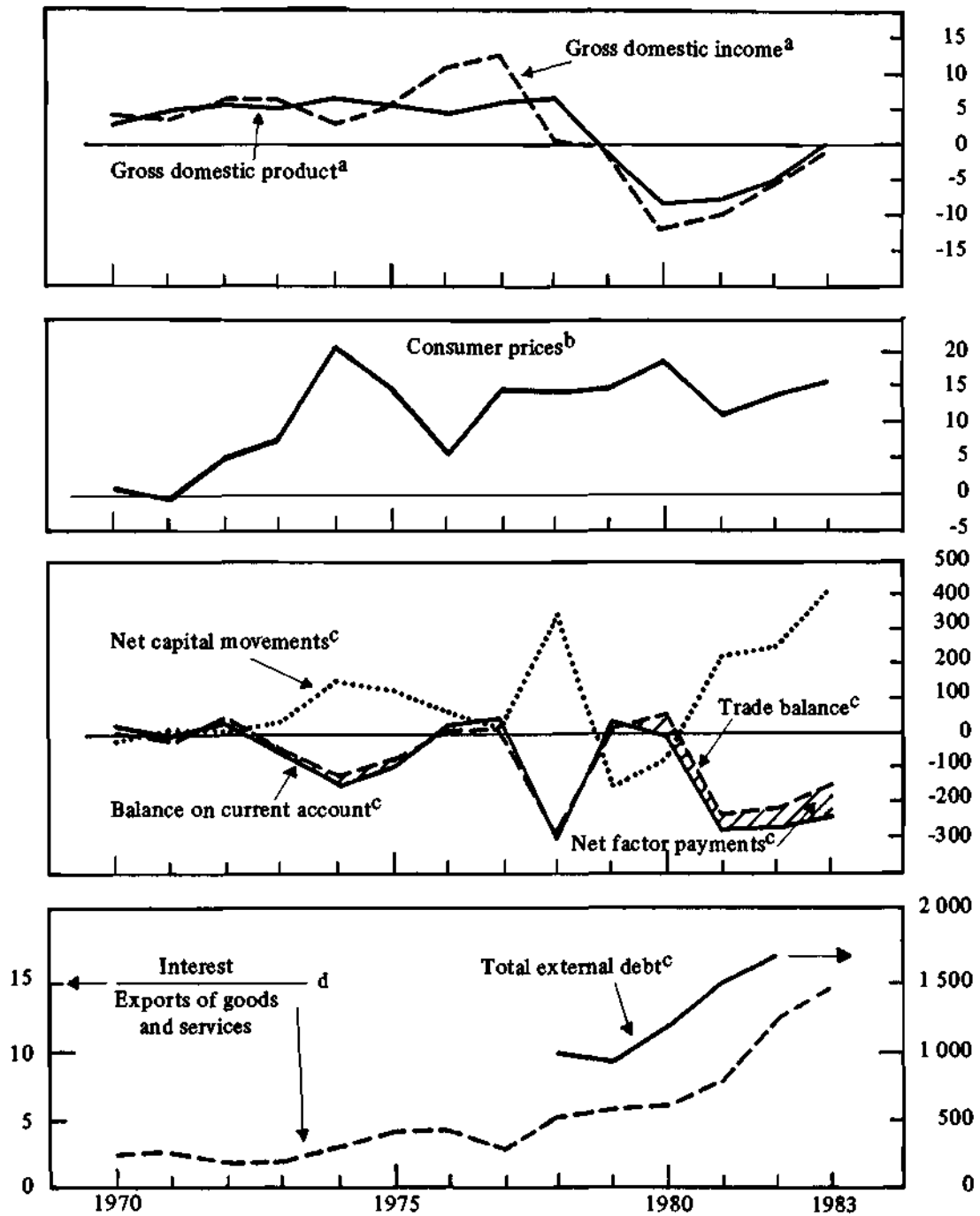
To the foregoing was added a very restrictive wage policy which kept minimum nominal wage levels totally unchanged. This led to a drop in average real wages which in turn contributed to the already-mentioned reduction in the levels of private consumption and most probably to a further deterioration in income distribution.

Finally, monetary policy was kept essentially consistent with the economic adjustment programme. The supply of means of payment rose moderately, as did the expansion of credit. In addition, deposit receipts in the financial intermediation system rose steeply—consisting almost entirely of time deposits—partly as a result of the difficulty of converting local financial holdings into foreign currencies under the exchange control system in force. As for the exchange rate policy, the operation of a dual rate was maintained and neither the official nor the preferential rate underwent any substantial alteration in 1983.

To sum up, under the prevailing conditions of political tension, it is extremely difficult to apply any economic policy programme, especially when the Government is not at all times in control of the

² A contingency agreement amounting to US\$ 50 million was reached with the International Monetary Fund in 1982 together with a compensatory financing agreement for 37 million subject to a disbursement period which covered the whole of 1983.

Figure 1
EL SALVADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation December - December.

^cMillions of

dollars. ^dPercentages.

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	2 297	2 130	2 135	116.7	120.2	118.7	-10.8	-8.1	-7.3	0.2
Gross domestic product at market prices	1 906	1 800	1 799	100.0	100.0	100.0	-8.7	-8.3	-5.6	-
Imports of goods and services ^b	391	330	336	16.7	20.2	18.7	-20.1	-6.9	-15.5	1.7
Total demand	2 297	2 130	2 135	116.7	120.2	118.7	-10.8	-8.1	-7.3	0.2
Domestic demand	1 969	1 853	1 817	99.8	100.7	101.0	-11.6	-5.9	-5.9	-1.9
Gross domestic investment	276	234	244	13.2	13.8	13.8	-32.0	-3.9	-15.0	4.1
Gross fixed investment	264	236	223	12.0	14.2	12.4	-28.0	-10.8	-10.6	-5.5
Public	145	116	...	2.8	7.5	...	8.1	-7.5	-19.7	...
Private	119	120	...	9.2	6.7	...	-47.6	-14.5	0.3	...
Construction	110	108	...	5.1	6.3	...	-19.2	-16.0	-2.2	...
Machinery and equipment	154	128	...	6.8	7.9	...	-33.8	-6.6	-16.7	...
Stock variation	12	-2	21	1.2	-0.4	1.2	...	...	...	...
Total consumption	1 693	1 619	1 573	86.6	86.9	87.4	-7.3	-6.2	-4.4	-2.8
General government	282	278	268	10.7	13.1	14.9	-5.6	3.5	-1.6	-3.6
Private	1 411	1 341	1 305	75.9	73.8	72.5	-7.5	-8.0	-5.0	-2.7
Exports of goods and services ^b	328	277	318	16.9	19.5	17.7	-6.3	-19.1	-15.6	14.8

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices which were converted to constant 1970 values using price indexes calculated for this purpose by ECLAC.

country's entire territorial area. While it is true that international aid, especially that provided bilaterally by the United States, made it possible to increase the net international reserves, the generalized debility of the economy and reluctance on the part of the local private sector to maintain—and even less to expand—its productive activities continued.

All the foregoing developments took place in the framework of continuing armed conflict at a high cost in human lives and the cumulative backwardness implicit in a fifth consecutive year of decline in per capita gross domestic product, with the consequent high level of unemployment (despite a strong emigratory flow), deteriorating real wages and, in general, the dramatic situation facing the Salvadorian people. If to these circumstances is added a severe contraction in the formation of private capital and the complex web of factors underlying the prevailing political tensions, the possibilities of short-term improvement are constantly diminishing over the years.

2. Trends in economic activity

a) *Total supply and demand*

The total supply position in 1983 was similar to that of the preceding year, causing a consequent break in the steady deterioration observed in this respect since 1979. Between the latter year and 1982 this contraction had been equivalent to a total of 26%. The performance in 1983 was the result of a combination of two factors: stagnation in the evolution of the gross domestic product and a slight increase in the volume of external purchases (see table 2).

In the case of domestic productive activity, the continuing negative trend of recent years was halted by the positive effect of a certain dynamism in some sectors such as manufacturing, construction and transport (which are high sources of employment), as against the persistent decline of others, such as agriculture and mining.

From the point of view of demand, a notable increase in the volume of external sales coincided with a further deterioration in overall domestic demand (though to a lesser extent than in preceding years). As for exports, the 15% expansion in the year represented a welcome recovery after a drop of 36% recorded in the three preceding years. This increase was due on the one hand to larger export volumes in the case of some important items (this in turn being the result of a degree of recovery in agricultural output), and on the other —as in the case of coffee— to stock reductions in view of the policy of seeking new external markets in the light of the precarious foreign exchange situation.

With regard to domestic demand, an increase in gross internal investment was offset by contractions in government and private consumption (for the fifth year running in the latter instance).

Efforts were made to invigorate the economic system by resort to public expenditure, though this was somewhat contradictory to the stabilization policy envisaged in the agreements reached in 1982 with the International Monetary Fund. In the case of public capital expenditure —by both the central government and decentralized agencies— the increase was attributable to the continuation of some important public works, to the need to replace a significant part of the infrastructure destroyed or damaged by acts of sabotage against communication installations, power transmission lines, bridges and roads and to other undertakings carried out for defence purposes. The overall increase recorded, however, was lower than that foreseen since it was decided to proceed only with fully financed projects.

Part of the investment expenditure referred to above was financed by resort to the national credit system and to international financial support (from the U.S. Agency for International Development and the Inter-American Development Bank). Resources were thus devoted to road works and housing; although these activities were of little significance in absolute terms when compared with the levels of construction carried out in the first years of the second half of the preceding decade, they nevertheless contributed to an upswing in investment, which contrasted with the constant deterioration that had taken place from 1979 to 1982.

Finally, private consumption fell by almost 3% in 1983, to a level of 30% below that of 1978. One of the determining factors in this reduction was the effect of the official wage-freeze policy applied at a time when inflation was increasing at a higher rate than in the preceding year. Thus during the crisis of 1983 the level of satisfaction of basic needs continued to fall, adversely affecting one of the most significant welfare indicators.

b) *Evolution of the main sectors*

After four years of substantial reductions in the gross domestic product, this pointer remained static in 1983. The production of goods dropped by 1% and that of other services by 0.5%, being compensated by an increase of 3% in basic services. In the case of the production of goods, farm output fell by 3% while that of the building and manufacturing sectors rose by 4 and 1% respectively compared with the preceding year (see table 3).

i) *Agriculture.* As already noted, the index of agricultural production (including livestock) fell by almost 3%. The level reached was 21% lower than in 1980 and was equivalent to that recorded in 1970 (since when there had been an increase in population of close on 40%). A point deserving mention in this connection is the considerable variety of results in the case of individual commodities. In the export group a marked decline in production occurred in the two main crops —coffee and cotton— with an increment for the second year running in the case of sugar cane. As for items produced predominantly for local consumption, a high rate of increase was observed in the output of most basic grains (maize, beans and rice) though the production of sorghum fell sharply (see table 4).

The armed conflict that has persisted in the country for the past few years continued to influence results in the farming sector, probably to a greater extent in 1983 than formerly. In fact, this conflict generated great uncertainty owing to its political nature and especially because part of the farming area could not be fully exploited. It also caused a reduction in levels of productivity by area and by worker occupied in view of its persistence on various fronts. This, however, did not affect the main sugar-cane production areas, which are situated in the western part of the country. On the other hand, in some instances, such as cotton, the postponement of precise decisions on the application of the agrarian reform programme continued to have adverse effects on rented property.

Table 3

**EL SALVADOR: GROSS DOMESTIC PRODUCT BY TYPE OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of 1970 dollars				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	1 920	1 761	1 662	1 662	100.0	100.0	100.0	-8.7	-8.3	-5.6	-
Goods	980	898	847	837	51.4	50.5	49.6	-8.7	-8.4	-5.7	-1.1
Agriculture, hunting, forestry and fishing	574	537	512	498	30.6	29.6	29.5	-5.1	-6.4	-4.7	-2.8
Mining and quarrying	3	3	3	3	0.2	0.1	0.2	2.7	-2.7	-	-
Manufacturing	329	295	270	272	17.6	17.0	16.1	-10.7	-10.5	-8.4	0.8
Construction	74	63	62	64	3.0	3.8	3.8	-22.6	-15.3	-2.1	4.3
Basic services	167	151	144	147	6.9	8.6	8.7	-5.6	-8.4	-5.6	2.5
Electricity, gas and water	54	52	50	51	1.6	2.8	3.0	-2.0	-3.0	-3.9	2.9
Transport, storage and communications	113	100	94	96	5.3	5.8	5.7	-7.2	-11.0	-6.5	2.3
Other services	791	735	701	705	41.6	40.8	41.7	-8.0	-7.0	-4.6	-0.5
Commerce, finance insti- tutions and insurance	336	288	258	258	20.3	17.3	15.3	-16.0	-14.1	-10.4	-0.1
Ownership of dwellings	80	83	85	86	4.0	4.1	5.1	2.4	2.9	2.6	1.6
Community, social and personal services ^c	375	364	358	361	17.3	19.4	21.3	-1.7	-2.9	-1.6	0.6
Government services	220	223	230	233	8.4	11.4	13.8	2.9	-8.6	-8.7	-1.2

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not necessarily tally with the latter.

^cIncludes restaurants, hotels and business services.

In the case of coffee, production levels once again fell steeply. There were various reasons for this, among which were the effects of climate, the existence of plant rot (rust), uncertainty among producers concerning the terms of land reform with reference to areas of between 100 and 500 hectares (a doubt only cleared up in the last few days of the year), and the military conflict itself, which made it impossible to give adequate attention to plantations in certain parts of the country. A further aspect in this connection was that, according to official reports, agricultural producers failed to make efficient use of bridging loans offered by the banking system, thereby allowing fertilization levels to decline. Coffee exports, however, rose as a result of considerable withdrawals from stocks.

Cotton output fell for the fifth successive year. Determining factors in this respect were uncertainties arising from the land reform project and its possible expansion and the circumstance that the most important cotton-growing area lies in the eastern part of the country, which has been the main scene of the armed conflict.

With the 27% increase in production of sugar cane a level similar to that of 1975 was reached. This increase was the result of a substantial expansion in areas under cultivation and a significant growth in productivity per area. This was partly due to the programme of subsidies in favour of producers conducted by the official institution INAZUCAR by means of prices, credit concessions and special terms for the use of fertilizers.

With regard to basic grains, most of the crops showed a certain degree of recovery after the considerable falls recorded in preceding years. In particular, incentives were granted to some land-reform beneficiaries by means of relatively attractive guaranteed prices and adequate credits. Rice production rose by 22% and that of maize by 11%. These higher output levels, however, were still lower than those attained in 1980 (by 13% in the case of maize and 29% in that of rice). On the other hand bean production, which is relatively less important, was almost 9% higher in 1983 than in 1980.

At all events, the comparatively favourable results of the output of grains alleviated to some extent the pressure on foreign exchange required to supply some of these basic food products habitually consumed by the population.

As for meat production, partial information from official sources indicates that results were comparatively negative, although less so than in previous years. The number of cattle slaughtered apparently remained unchanged in 1983 after the marked contractions recorded in 1981 and 1982; while pig slaughtering fell by 2% compared with the year before when a fairly high increase had been recorded.

The country's animal stock—both cattle and pigs—remained precarious throughout the year. Four factors combined to reduce the livestock inventory: the armed conflict which had continued for several years, the high extraction rate—carried out in a disorganized manner to meet urgent food requirements and keep up the flow of exports—the reactions of stock breeders *vis-a-vis* land reform, and, finally, the limited scope of animal health and reproduction programmes. In practice, despite preliminary estimates which had envisaged an almost continuous reduction in slaughtering rates, extraction figures have risen progressively as a result of depletion of the total stock, thereby establishing one of the main obstacles to the country's future livestock development.

On the other hand, although precise official estimates are not available, it should be mentioned that some fairly important efforts have been made to increase poultry production in terms of meat as well as eggs.

Finally, milk production fell again in 1983, although at a noticeably lower rate than in preceding years. Unlike the case of grains, this reduction stemmed from additional pressures on the demand for imported supplies.

Table 4

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Index of agricultural production (1968 = 100)	112.0	145.3	142.5	129.6	115.1	111.9 ^b	-7.2	-9.1	-11.2	-2.8 ^b
Crop farming	112.4	142.2	140.2	126.4	111.2	...	-5.4	-9.8	-12.0	...
Livestock raising	110.9	156.1	150.6	140.6	132.2	...	-12.5	-6.6	-5.9	...
Production of main crops^c										
For export										
Coffee	7 912	3 587	4 094	3 825	3 796	3 446	-0.8	-15.1	-0.8	-9.2
Ginned cotton	1 207	1 616	1 349	948	871	826	-4.3	-29.7	-8.1	-5.2
Sugar cane	1 587	3 166	2 564	2 263	2 372	3 016	-22.8	-11.7	4.8	27.2
For domestic consumption										
Maize	7 912	9 565	11 473	10 919	8 999	9 960	0.7	-4.8	-17.6	10.7
Beans	636	838	852	834	828	927	-15.6	-2.1	-0.7	12.0
Milled rice	625	818	858	709	501	611	4.3	-17.6	-29.3	22.0
Sorghum	3 200	3 800	3 041	2 950	2 700	2 217	-12.7	-3.0	-8.5	-17.9
Stock-raising indicators										
Number of animals slaughtered										
Cattle ^d	147	187	185	148	145	145	-8.9	-20.0	-2.0	-
Pigs ^d	158	115	126	121	143	140	-16.0	-4.0	18.2	-2.0
Poultry ^e	...	...	35	36	...	...	2.9	2.9	...	...
Other products										
Milk ^f	218	319	351	321	267	262	-14.4	-4.8	-16.8	-1.9
Eggs ^g	341	599	809	800	844	...	-3.2	-7.8	5.5	...

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures. ^bEstimated on the basis of variations in value added at constant prices. ^cIn thousands of quintals, with the exception of sugar cane which is shown in thousands of tons. ^dThousands of head. ^eMillions of pounds of meat. ^fMillions of bottles. ^gMillions of units.

Table 5

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Index of value added (1970 = 100)	138.2	133.4	119.5	109.5	110.4	-15.5	-10.4	-8.4	0.8
Foodstuffs, beverages and tobacco	144.0	136.7	126.8	119.9	117.5	-14.1	-7.2	-5.4	-2.0
Textiles, clothing and leather products	95.8	102.3	89.6	71.2	72.3	-16.5	-12.4	-20.5	1.5
Textiles	64.7	62.0	49.7	33.6	...	-21.1	-19.8	-32.4	...
Clothing, footwear and other leather products	131.6	148.8	141.4	127.1	...	-14.1	-5.0	-10.1	...
Wood and paper	129.0	139.6	129.5	102.0	105.1	-19.1	-7.2	-21.3	3.0
Wood and its manufactures	136.3	139.0	143.7	130.4	...	-20.8	3.4	-9.3	...
Paper and paper products	123.1	140.2	119.0	80.7	...	-17.6	-15.1	-32.2	...
Chemicals and petroleum and rubber products	126.7	116.6	100.4	96.7	87.0	-17.6	-13.9	-3.7	-10.0
Chemical products	113.2	96.9	87.9	90.8	...	-21.6	-9.2	3.2	...
Petroleum and rubber products	148.0	147.7	124.1	116.1	...	-13.0	-16.0	-6.5	...
Non-metallic mineral products	140.5	104.2	118.4	102.3	102.3	-21.4	13.7	-13.6	.
Machinery and metal products	158.6	163.5	120.0	105.8	103.6	-19.9	-26.6	-11.8	-2.0
Metal products	175.9	157.6	136.0	127.9	128.5	-19.5	-13.7	-5.9	0.5
Machinery and equipment	151.1	166.0	118.9	97.1	88.4	-20.1	-28.4	-18.3	-9.0
Other manufactures	114.9	119.4	88.4	74.9	...	-14.5	-26.0	-15.3	...

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures based on partial indicators.

ii) *Manufacturing*. The negative trend of manufacturing production in the period 1979-1982 was detained in 1983, when output rose by almost 1% compared with a contraction of 33% in the former period (see table 5).

This important upturn would have been greater had it not been for several factors. On the one hand, the general weakness of the economy and consequent depressed domestic demand for manufactured products was reflected in a continuing high level of unemployment and underemployment. To this circumstance was added a severe contraction of real wages in 1983. Moreover, the growth of public expenditure in the year, except in some very specific items such as building materials, was not sufficiently swift. Government purchases of non-personal goods and services declined in real terms. On the other hand, the critical state of the economy throughout the Central American countries adversely affected export sales of manufactured products. To these factors was added the climate of uncertainty in the private sector caused by the persistence of the armed conflict so often referred to.

Official data by industrial branches were incomplete. It was, however, possible to observe severe contractions in the output of chemical products (-10%) and in the metal products and machinery branch (-9%), though the latter is of little importance in the manufacturing sector as a whole. The production of foodstuffs, beverages and tobacco also contracted (-2%), reaching a level of 14% below that of 1980.

Several other sectors, in contrast, showed a degree of dynamism which offset the above reductions. Prominent among the branches for which details are available were the wood and paper industry, where output rose by 3% in 1983 after decreasing at an average annual rate of more than -13% in the four preceding years. Similarly the production of textiles, clothing and leather manufactures increased by almost 2% after having diminished at an annual rate of -17% in the period 1980-1982.

iii) *Construction.* The building sector product rose by 4% in 1983. This, however, represented only a weak recovery after an accumulated fall of 45% between 1979 and 1982. The 1983 growth rate was basically attributable to the public sector, since private sector activity again deteriorated. Public construction was concentrated in some large projects such as the San Lorenzo Hydroelectric Plant (which was completed in the course of the year), several communications installations, the reconstruction of infrastructure affected by acts of sabotage and other projects necessary for defence. Thanks to some external financial support and as yet incipient recovery in the building of medium-sized housing also began to acquire a degree of importance in some urban centres.

iv) *Basic services.* A recovery of some significance in electricity generation (7% in the year)³ occurred in this service group as against the reductions recorded in the three preceding years. This recovery was mainly due to the bringing into service of the above-mentioned San Lorenzo Dam. The product of the transport, storage and communications sector also rose (by 2%) after several years of successive declines. This was due to the fact that the increase in agricultural handling requirements was greater than the contraction in industry and imported products.

v) *Other services.* Prominent in the rest of the service group were increases in home ownership—for the fourth year running—and in community, social and personal services, for the first time in several years. On the other hand, government services fell in value by more than 1%, despite staff increases, essentially for non-civilian duties. Finally, the product of the commercial, financial and insurance sector remained stationary after having fallen at an average annual rate of -11% in the four preceding years.

c) *Employment and unemployment*

Although no final figures have been available concerning the evolution of employment in recent years, everything appears to indicate that employment levels can scarcely have improved in 1983. In fact, no advance was recorded in the gross domestic product though some additional employment is known to have taken place in the building sector. The small increases in manufacturing and in the services group, combined with a lower output of farm crops requiring a high proportion of manual labour for harvesting purposes—as in the case of coffee and cotton—and the fact that the increases in basic grain production were largely attributable to small and medium producers, would seem to confirm that there were no variations of importance in the employment situation. Official sources estimated the unemployment level as being in the neighbourhood of 30% of the economically active population—a level comparable with 1982 and greater than the 25% estimated for 1981. Only three years earlier (i.e., in the first half of 1980), the unemployment rate was 16%. The situation in 1983 might have been even worse had it not been for the considerable flow of emigration which slackened the increase in the economically active population.

3. The external sector

a) *Introduction*

The year 1983 saw an improvement in the evolution of external and balance-of-payments variables. Exports of goods expanded in volume by 10% after a 36% deterioration over the period 1980-1982. On the other hand, import purchases fell in volume for the sixth consecutive year to a level equivalent to only 55% of that recorded in 1977. Terms of trade fell by 7%, thereby completing a drop of 19% since 1980 and 53% since 1977 (see table 6).

Similarly, the value of exports rose and that of imports fell. The external trade deficit thus decreased by 31%, this being partially offset by a further increase in factor payments. As a result of this development the deficit on current account was somewhat less than in the year before, but higher than that envisaged by the authorities early in the year.

For the second year running, therefore, the country benefited from external financial support greater than the current account deficit. Since the foreign debt was also partially rephased—part of the short-term commitments being added to long-term indebtedness—the level of net international reserves, which had decreased in each of the four preceding years, rose by approximately US\$ 180 million.

³ According to preliminary estimates based on the variation in the period January-August.

Table 6

EL SALVADOR: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods, FOB						
Value	-17.7	41.2	-5.0	-25.8	-11.8	4.0
Volume	1.2	35.0	-5.6	-19.1	-15.8	10.0
Unit value	-18.6	4.6	0.6	-8.3	4.8	-5.5
Imports of goods, FOB						
Value	10.4	0.4	-6.0	0.2	-8.1	-2.8
Volume	-0.2	-12.2	-20.9	-4.5	-13.0	-4.4
Unit value	10.7	14.3	18.8	4.9	5.7	1.7
Terms of trade (goods)	-26.2	-8.2	-14.8	-12.7	-0.8	-6.9
Indexes (1970 = 100)						
Terms of trade (goods)	132.5	121.3	102.6	89.7	89.0	82.7
Purchasing power of exports of goods ^b	156.3	193.6	155.8	110.1	91.9	94.2
Purchasing power of exports of goods and services ^b	170.1	207.2	170.6	121.7	102.0	112.8

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bVolume of exports of goods, or of goods and services where applicable, adjusted in accordance with the corresponding terms-of-trade index.

b) *Merchandise trade*

i) *Exports.* Owing to a 4% increase in 1983, the trend of contraction in the value of exports recorded in the preceding three years was successfully reversed. This increase was due in part to efforts seeking on the one hand to gain new markets for a number of products and on the other to expand sales to those countries and regions with which trade relations had traditionally been maintained.

Several factors, however, prevented exports from increasing further. Outstanding among these were: that the effects of the international crisis remained latent throughout the year; that the crisis prevailing in the Central American Common Market —and the consequent problem of unpaid balances in various directions— coupled with existing political tensions, once again obstructed trade in the area in 1983; and, finally, that the problems of armed confrontation within the country —especially the acts of sabotage against production and distribution already mentioned— particularly affected some agricultural export products. Sales of merchandise to Central America thus continued to drop (-3% in 1983), although an increase of 6% was attained in exports to the rest of the world. Included in the latter were some non-traditional products, although of comparatively scant significance (see table 7).

The value of the main traditional export sales rose as a whole in 1983 by almost 3% after a cumulative fall of 40% in the three preceding years. In the case of coffee —which accounted for more than half of total exports— the decline in external sales during the previous few years was successfully halted as the result of efforts made to reduce accumulated stocks. Sales of this commodity were even made to non-traditional markets, with which negotiations were subject to the vicissitudes of price movements (customarily erratic) but in general at lower levels than those obtainable under multilateral agreements. The higher volume of coffee sold was therefore more than offset by a contraction in the average price obtained.

Results proved much more satisfactory in the case of cotton, the country's second most important export commodity. In this case, apart from a slightly higher export volume than in 1982 (again assisted by inventory depletions) the international price rose by almost 10%. The impact of this price improvement, which offset the deterioration in coffee sales, was nevertheless very small considering the country's supply possibilities, had sowings not been so markedly affected in recent

years. Owing to the country's endowment of natural resources, El Salvador is one of the Central American countries with the greatest possibilities of expanding its cotton production.

With regard to sugar, the value of exports rose to the unusual extent of nearly 70%. This was due to an increase of approximately 40% in the export volume and a rise of more than 20% in contracted selling prices. The larger volume sold was due in turn to an increase in production — influenced by rationalization in the use of certain resources, as was the case at one large sugar plantation— and the concession by the United States to El Salvador of part of the diminished quota to Nicaragua.

Finally, in the case of shrimps a small increase in price was partially offset by a relatively lower contraction in volume sold.

Complete official information on trade with the Central American countries for the whole year has not been available in broken-down form. Results for the first three quarters of the year, however, show a drop in exports to all countries except Honduras. Nonetheless, since export sales to the latter country in 1982 were almost non-existent, their relative significance in 1983 was small (barely 4% of the total). In the case of Guatemala, traditionally the largest buying country in the area, there was a considerable drop in sales (more than 10%). Influencing this result were a number of administrative measures adopted unilaterally by that country towards the end of the year with regard to import permits which inhibited purchases not only from El Salvador but also from other regional countries. Exports to Costa Rica and Nicaragua, which were at practically the same level in 1982, fell with very differing degrees of intensity in 1983, namely by 10% and almost 40% respectively.

ii) *Imports*. External purchases of goods diminished in nominal value by 3% in 1983 as the result of a 4% contraction in volume, partially offset by an increase of nearly 2% in unit value⁴ (see table 6).

Table 7

EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	789	704	732	100.0	100.0	100.0	-5.3	-26.1	-11.8	3.9
To Central America	205	174	168	...	27.5	23.0	10.9	-30.7	-15.3	-3.4
To the rest of the world	593	530	564	...	72.5	77.0	-10.3	-23.9	-10.6	6.4
Main traditional exports	539	483	497	66.1	65.7	67.8	-10.5	-25.8	-10.4	2.8
Coffee	453	403	400	51.1	57.2	54.6	-10.2	-26.3	-11.1	-0.6
Cotton	53	45	50	9.8	7.9	6.8	-2.3	-37.7	-14.7	10.0
Sugar	14	16	27	3.0	1.2	3.7	-51.9	7.7	13.6	69.2
Shrimps	19	19	20	2.2	1.2	2.7	-	46.2	1.6	3.6
Main non-traditional exports	40	44	67	4.8	5.9	9.2	18.9	-36.5	10.0	51.4
Perfumery, toiletries and cosmetics	9	8	...	0.1	1.4	...	15.4	-40.0	-11.1	...
Insecticides, fungicides and disinfectants	3	3	...	0.8	0.6	...	50.0	-50.0	-	...
Cotton yarn and thread	7	11	...	1.3	1.0	...	10.0	-36.4	57.1	...
Clothing	21	22	...	2.6	2.9	...	19.2	-32.3	4.8	...
Others	219	177	168	29.1	26.6	23.0	5.5	-23.4	-19.2	-5.1

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

⁴Table 8 shows a somewhat different result in the case of total imports. The discrepancy is due to the fact that the sources of information are not the same.

Table 8

EL SALVADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	986	883	880	100.0	100.0	100.0	-5.8	2.5	-10.4	-0.3
From Central America	302	264	260	...	33.3	29.5	24.5	-5.6	-12.7	-1.4
From the rest of the world	684	619	620	...	66.7	70.5	-16.0	6.5	-9.5	0.1
Consumer goods	302	262	260	33.4	31.9	29.5	14.6	-1.6	-13.4	-0.6
Durables	26	26	24	...	3.5	2.7	-35.8	-25.5	-	-7.7
Non-durables	276	236	236	...	28.4	26.8	27.0	1.1	-14.7	0.2
Raw materials and intermediate products	569	516	516	48.9	56.5	58.7	-0.4	4.6	-9.2	-0.1
Petroleum and fuels	149	143	122	1.2	15.7	13.9	23.8	-1.3	-3.8	-14.8
Construction materials	59	46	44	47.7	5.9	5.0	-20.8	3.5	-22.4	-3.9
Others	361	327	350	...	34.9	39.8	-4.5	7.4	-9.4	7.0
Capital goods	115	105	104	17.7	11.6	11.8	-46.4	3.6	-8.7	-1.0

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

In view of insufficient foreign exchange the country continued to apply a restrictive policy in external purchases in line with procedures adopted in previous years. Nonetheless, in 1983 purchases ceased to decline owing to two associated circumstances. First, despite the widespread depression of the economy, the country has been gradually exhausting its minimum inventories of raw materials and imported products in general, which had to begin to be replenished. Imports of raw materials and intermediate products thus ceased to decline as formerly.

Secondly, and partly as a result of the above circumstance, the monetary authorities introduced a measure midway in the second half year whereby some current restrictions were suspended to the extent made possible by improvements in the level of net international reserves. However, since this decision was adopted in the final months of the year and the availability of foreign exchange, although somewhat less limited than in the preceding year, was nevertheless still insufficient to allow the full replacement of inventories, no increase was recorded in the year's external purchases (see table 8).

iii) *Terms of trade and the purchasing power of exports.* The terms of trade in merchandise fell by 7%, since export prices went down by 6%, while import prices rose by almost 2%. Quoted prices for almost all foreign supplies rose with the exception of the main imported input—petroleum. On the other hand, despite this deterioration in the terms of trade, the considerable increase in volume of external sales caused an improvement of close on 3% in the purchasing power of exports of goods after a contraction of 53% in the three years 1980-1982. At all events, the purchasing power of exports in 1983 remained lower than in the early 1970s. For its part, the total purchasing power of exports of goods and services rose in the year by almost 11%.

c) *The services trade and factor payments*

The deficit on the non-factor services account decreased in 1983 from US\$ 97 million to US\$ 80 million, although to some extent maintaining a structure similar to that of 1982. In the case of tourism a high proportion of hotel capacity remained vacant—especially in San Salvador—as a result of the tense situation prevailing in the country in recent years. As regards imported services, efforts made to reduce them did not prove effective, at least to the extent envisaged, because of their heavy dependence on developments in the external purchase of goods and on the evolution of freighting and insurance costs, or—to cite a further factor—on foreign travel which had already contracted considerably in previous years, leaving no appreciable margin for further economies in this respect (see table 9).

Table 9

EL SALVADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	22	-292	15	-1	-272	-271	-239
Trade balance	19	-285	10	45	-237	-218	-151
Exports of goods and services	1 089	923	1 266	1 215	924	822	921
Goods, FOB	973	802	1 132	1 075	798	704	732
Real services ^b	115	121	133	140	126	118	189
Transport and insurance	19	23	24	25	20	23	46
Travel	32	37	25	13	14	20	22
Imports of goods and services	1 070	1 208	1 255	1 170	1 161	1 041	1 072
Goods, FOB	861	951	955	897	898	826	803
Real services ^b	209	257	301	273	263	215	269
Transport and insurance	88	98	107	84	113	72	117
Travel	58	103	117	106	69	60	64
Factor services	-28	-52	-40	-63	-74	-105	-148
Profits	-26	-26	-45	-41	-40	-45	-80
Interest received	20	15	40	18	13	14	15
Interest paid	-32	-49	-72	-72	-73	-98	-131
Others	10	8	37	31	26	24	48
Unrequited private transfer payments	30	45	45	17	39	52	60
Balance on capital account	19	348	-149	-74	223	242	418
Unrequited official transfer payments	9	7	6	31	21	119	148
Long-term capital	36	175	78	177	125	255	270
Direct investment (net)	19	23	-10	6	-6	-1	...
Portfolio investment (net)	1	4	-6	-1	-	-1	...
Other long-term capital	17	148	94	172	131	257	270
Official sector ^c	20	115	83	170	133	251	146
Disbursements	37	127	100	204	205	358	173
Amortization payments	-16	-10	-16	-29	-68	-87	-27
Commercial banks ^c	-	-	-	3	-	-	128
Disbursements	-	-	-	4	-	1	268
Amortization payments	-	-	-	-1	-	-1	-140
Other sectors ^c	-3	32	11	-2	-1	6	-4
Disbursements	51	54	22	36	28	36	...
Amortization payments	-72	-32	-11	-37	-30	-31	...
Short-term capital, net	6	195	-127	38	76	-66	...
Official sector	-1	24	-15	194	96	-65	...
Commercial banks	20	4	-2	-67	-11	29	...
Other sectors	-14	167	-110	-89	-10	-	...
Errors and omissions, net	-32	-28	-106	-320	-	-95	...
Global balance^d	41	55	-134	-75	-49	-29	179
Total variation in reserves (- sign indicates an increase)	-41	-57	128	69	13	27	-179
Monetary gold	-	-	-	-	-	-	...
Special Drawing Rights	-5	-	-7	17	-	-2	2
IMF reserve position	-6	-5	-	11	-	-	-
Foreign exchange assets	-15	-51	135	34	6	-35	53
Other assets	-	-	-	-	-	-	...
Use of IMF credit	-15	-	-	7	37	64	11

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*; (magnetic tape, May 1984); 1983: ECLAC, on the basis of official data.

^aPreliminary figures. ^bReal services include other official and private transactions, but exclude factor services. ^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. ^dThe global balance represents the sum of the balance on current account plus the balance on capital account. The difference between the total variation in reserves of opposite sign and the global balance represents the value of counterpart entries: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

A large part of the reduction in the negative trade balance was offset by a further increase in the deficit on factor services. The negative balance in the latter instance, which in 1979 had amounted to only US\$ 40 million, reached a level of US\$ 150 million in 1983. This was in fact the most distorting item in the current account and continued to conspire against the recovery of the external finances.

Moreover, this situation could worsen in the next few years owing to the intensified growth of the country's foreign debt since 1980, despite the fact that El Salvador has been one of the countries of the region receiving support under relatively favourable conditions, such as that obtained from the United States.

d) *The current account balance and its financing*

After a considerable deterioration in 1978, the total trade balance in goods and services in the first two years of recession (1979 and 1980) proved positive. In this two-year period the volume of imports fell by approximately one third. Although an increasingly strict economic adjustment policy was subsequently applied, the rapid descent in volume and value of exports again led to a large trade deficit in the following two years (1981-1982). Moreover, net payments on factor services began to rise rapidly as from 1980 with the result that the current account deficit reached a very high level (about US\$ 270 million in 1981 and 1982). Finally, in 1983, a reduction of nearly US\$ 40 million in the trade deficit was partly counteracted by growing external factor service payments. Together with an increase of 15% in private unilateral transfers, this resulted in an improvement of only 11% in the 1983 current account balance, equivalent to more than 6% of the country's gross domestic product.

In 1983 bilateral aid of some magnitude continued to be received from the United States in the form of official donations which, after amounting to only US\$ 15 million in 1981, rose in the following two years to US\$ 113 million and almost US\$ 150 million respectively. Similarly, after a two-year hiatus, the net inflow of capital exceeded the current account deficit in absolute value. Hence net international reserves rose in 1983 by nearly US\$ 180 million after a contraction of almost US\$ 290 million in the period 1979-1982.⁵

In view of constant imbalances in the balance of payments, the country had requested and received support from the International Monetary Fund already in 1981. In that year compensatory financing was obtained amounting to 32 million Special Drawing Rights. Later, in 1982, under the new administration, a contingency agreement was signed for 43 million Special Drawing Rights in addition to another compensatory financing loan of US\$ 32 million SDRs. These arrangements took place in the context of an economic adjustment programme whose objectives, as in other instances in the region, could not be fully achieved. Negotiations with the International Monetary Fund were again set in motion towards the end of 1983 without any agreement being reached by December.

e) *External indebtedness*

With the exception of Guatemala, El Salvador is the Central American country with the lowest per capita external debt. Even so, external liquidity difficulties during the period under review induced the authorities —as in the case of other governments in the region, although somewhat later— to seek support from public and private international sources. From the end of the 1970s part of the foreign commitments undertaken, especially in the sphere of private indebtedness, had been contracted with commercial sources with a consequent hardening of conditions in terms of repayment periods and interest rates. In view of this, and faced with ever greater maladjustments in public finances and in the balance of payments, the Central Reserve Bank contracted additional and increasing external loans as a way of contributing in a co-ordinated manner to the process of financial regularization envisaged in the economic adjustment policy, which was more intensively applied as a result of the agreement reached with the International Monetary Fund.

Together with the foregoing, the above-mentioned financial support from the United States, which in part took the form of various types of donations and loans via the U.S. Agency for International Development, brought about a change in some characteristic features of the structure of the country's external debt, as a result of which the monetary authorities took over part of the

⁵In the first months of 1983 net international reserves continued to drop to a level of less than US\$ 88 million. In June they began to rise and reached US\$ 134 million in August. In October the level of net international reserves was US\$ 116 million, a sum equivalent to slightly less than 40 days of imports of goods and services.

external commitments of the private sector. For example, between 1978 and 1982 private indebtedness fell from US\$ 470 million to US\$ 196 million —i.e., from 48 to 12% of the total national indebtedness— while the debt of the Central Reserve Bank increased fourfold, reaching a level of US\$ 700 million. The latter increase, however, has been used primarily, to solve balance-of-payments difficulties rather than to promote production and development. According to official information, the trends prevalent up to 1982 were accentuated in 1983 but with an important change in the structure of repayment periods since, as a result of successful rephasing negotiations, short-term obligations amounting to more than US\$ 300 million were converted into medium- and long-term commitments. The external indebtedness of the public sector increased in 1983 by 22%, a proportion similar to that of previous years, the average annual rate between 1979 and 1982 having amounted to 23% (see table 10).

For their part, public debt servicing costs, excluding those of the Central Bank, rose in the year by 27% owing especially to the higher interest payments made. Expressed as a percentage of exports, these costs —although of comparatively limited significance— have risen continuously between 1979 (2.4%) and 1983 (6.7%). Figures are not available concerning servicing costs for the rest of the

Table 10

EL SALVADOR: EXTERNAL INDEBTEDNESS INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
External public debt						
Balances						
Total	517	591	947	1 254	1 487	... ^b
Total, excluding the Central Reserve Bank	339	399	475	653	786	957
Central government	121	142	204	328	414	518
Official institutions	218	255	271	325	372	439
Guaranteed	193	235	255	306	347	...
Non-guaranteed	25	20	16	19	25	...
Loans received ^c	74	75	98	194	146	198
Servicing costs^c						
Amortization payments	15	16	21	15	22	27
Interest payments	17	15	19	24	27	35
Global foreign debt						
Total balance	986	939	1 176	1 471	1 683	...
Servicing costs	91	119	138	160	217	...
Amortization payments	42	47	66	43	90	...
Interest payments	49	72	72	117	127	131
Percentages						
Ratios						
Global foreign debt/GDP	32.0	27.2	32.9	41.7	47.4	...
External public debt/GDP	16.8	17.1	26.5	35.6	41.9	...
Servicing of global foreign debt/ exports of goods and services	9.9	9.4	11.4	16.8	24.9	...
Servicing of external public debt/ exports of goods and services ^c	3.5	2.4	3.3	4.1	5.6	6.7
Servicing of external public debt/ loans received ^c	43.2	41.3	40.8	20.1	33.6	31.3
Servicing of global foreign debt/GDP	3.0	3.5	3.9	4.5	6.1	...
Servicing of external public debt/GDP ^c	1.0	0.9	1.1	1.1	1.4	1.6

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Central Reserve Bank indebtedness amounted to US\$ 701 million at 31 December 1982. According to official information, between that date and 31 October 1983 the institution's long-term foreign debt increased by US\$ 315 million, but its short-term commitments decreased in the same period by US\$ 318 million.

^c Excluding Central Reserve Bank indebtedness.

Table 11

EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation from December to December						
Consumer price index ^a	14.6	14.8	18.6	11.6	13.8	15.5
Food products	12.7	13.7	22.5	14.4	11.0	17.9
Wholesale price index ^b	4.7	22.9	17.1	12.6	4.6	12.4 ^c
Farm products	3.0	4.3	12.3	5.4	12.8	13.0 ^c
Manufactures	-1.0	20.4	6.3	15.4	1.8	4.8 ^c
Building materials	7.6	17.8	4.7	25.0	10.0	18.1 ^c
Fuels and energy	3.5	37.0	23.7	19.6	0.2	1.0 ^c
Variation between annual averages						
Consumer price index ^a	13.3	15.9	17.4	14.8	11.7	13.2
Food products	10.7	14.8	19.7	17.6	10.7	13.5
Wholesale price index ^b	4.8	14.5	18.8	14.8	6.0	8.9 ^d
Farm products	1.7	4.6	3.9	10.6	11.0	8.5 ^d
Manufactures	-1.6	9.6	17.1	13.3	4.1	3.3 ^d
Building materials	0.5	13.2	20.2	12.5	8.1	12.8 ^d
Fuels and energy	0.3	46.9	36.2	24.7	6.0	0.4 ^d

Source: ECLAC, on the basis of official data.

^aCorresponds to the metropolitan area of San Salvador. Base for 1978: June 1954 = 100. For the years 1979 to 1983 this has been linked with the new index based on December 1978 = 100. ^bBase 1955 = 100. Excludes coffee. ^cVariation between October 1982 and October 1983.

^dAverage variation between January-October 1982 and the same period in 1983.

foreign debt, which is of much greater importance. In 1982 this portion of servicing costs represented 25% of the value of exports, compared with only 9% three years earlier (see table 10).

To sum up, the country's difficult external financial situation, which had dragged on for several years, underwent a fairly significant change in composition in the year under review, together with increasingly significant direct support from the United States, which influenced the attitude of other sources of foreign credit. Nevertheless, in view of the prevailing trade constraint, the apparent improvement in the liquidity situation is fragile and only likely to be maintained if international financial support continues to grow under comparatively soft conditions, such as those recently obtained.

4. Prices and wages

a) *Prices and anti-inflationary policy*

An intensification of inflation occurred in 1983, although the year's rate of 15.5% was lower than that of other Central American countries. The higher rate was due to difficulties in the supply of essential products, aggravated by the fact that distribution problems at the national level resulting from the internal armed conflict caused distortions in the pricing system. Many cases of speculation also occurred for the same reasons. Finally, the improved external liquidity position also exerted pressure on price levels through its effect on monetary aggregates.

In the case of consumer prices, average food prices rose by 17.9%, i.e., more than the general index. The situation prevailing in 1980 and 1981 was thus repeated, and further aggravated in those sectors of the population in whose budget food is the largest item (see table 11).

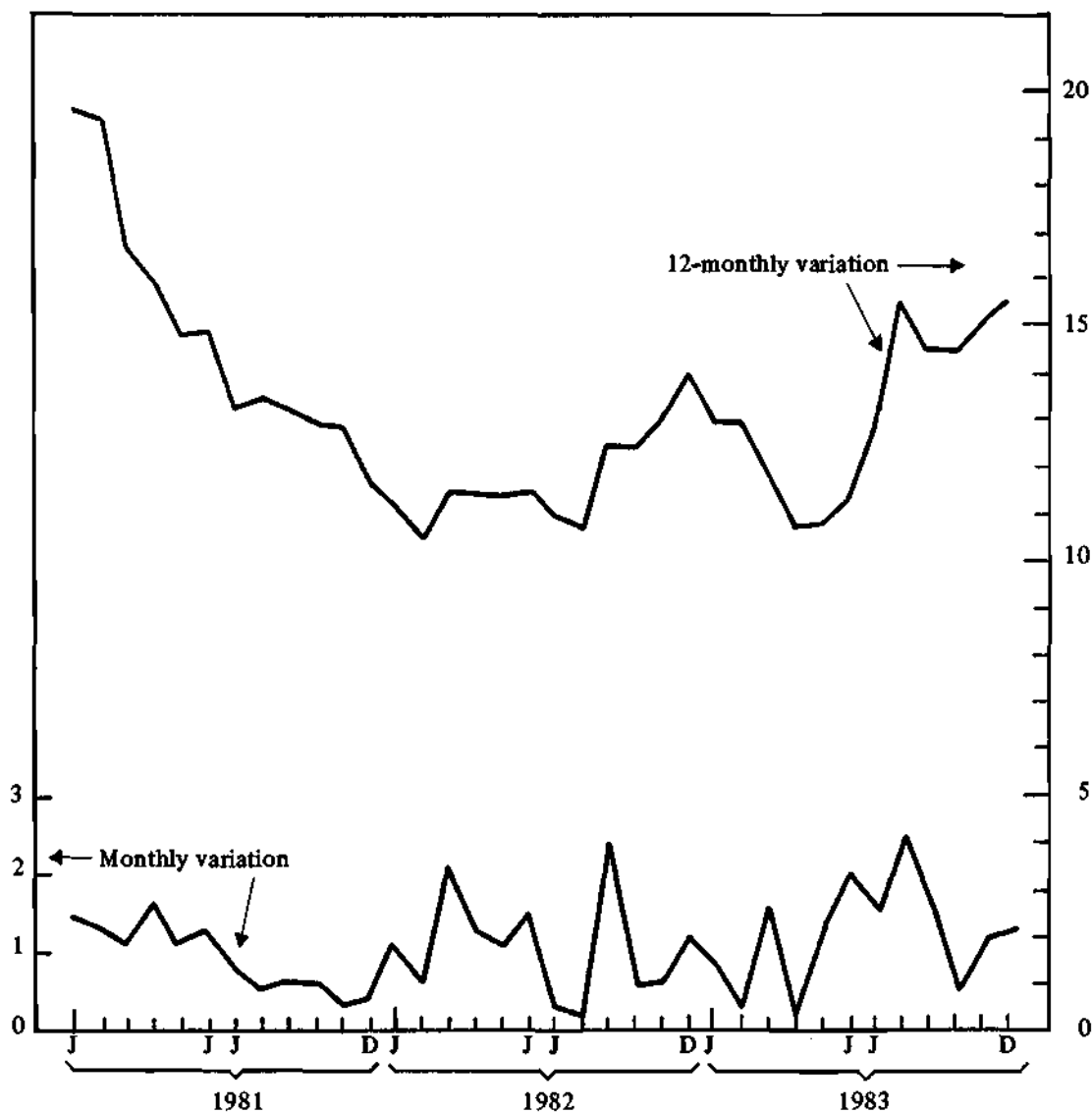
The evolution of variations between 12-monthly periods showed a notable change as from August 1983. During 1982 and up to July 1983 this variable fluctuated monthly around 12%, but rose

to around 15% from August 1983 onwards. This circumstance was most noticeable in the case of foodstuffs, which in the final months of the year showed cumulative annual variations of 17 and 18% compared with the variations of 10 to 11% ruling in 1982 and up to July 1983 (see figure 2). Hence one of the principal aims of the adjustment policy, which was to reduce inflation, remained unfulfilled in spite of the freezing of public service tariffs.

In the case of wholesale prices, information has only been obtainable up to the month of October. The diversity of price fluctuations by category was nevertheless a notable feature in the year. The greatest increase affected building materials which was due to the fact that the resumption of some construction work —although modest considering the severe contractions in this activity in preceding years— came up against very low input inventory levels. Farm-product wholesale prices also rose considerably more than those of manufactured goods.

Figure 2

EL SALVADOR: EVOLUTION OF CONSUMER PRICES^a



^aIn the metropolitan area of San Salvador.

Table 12

EL SALVADOR: EVOLUTION OF WAGES

	Indexes (1970 = 100)				Growth rates			
	1980	1981	1982	1983	1980	1981	1982	1983
Nominal minimum wages								
Farm workers	231.1	231.1	231.1	231.1	10.2	-	-	-
Harvesting								
Coffee	529.7	527.7	529.7	529.7	36.2	-	-	-
Sugar cane	425.8	444.4	444.4	444.4	86.8	4.4	-	-
Cotton	377.8	388.9	388.9	388.9	47.8	2.9	-	-
Seasonal agricultural industries								
Coffee processing	560.0	560.0	560.0	560.0	82.5	-	-	-
Sugar refining	320.0	320.0	320.0	320.0	24.2	-	-	-
Cotton processing	320.0	320.0	320.0	320.0	20.7	-	-	-
Other activities in San Salvador								
Industries and services	322.8	343.8	343.8	343.8	34.0	6.5	-	-
Commerce	295.1	314.3	314.3	314.3	27.5	6.5	-	-
Real minimum wages								
Farm workers	82.9	72.2	64.6	64.6	-6.1	-12.9	-10.5	-11.7
Harvesting								
Coffee	190.0	165.6	148.3	148.3	16.1	-12.8	-10.5	-11.7
Sugar cane	152.7	138.9	124.4	124.4	59.1	-9.0	-10.5	-11.7
Cotton	135.5	121.6	108.9	108.9	25.9	-10.3	-10.5	-11.7
Seasonal agricultural industries								
Coffee processing	200.9	175.1	156.8	156.8	55.5	-12.8	-10.5	-11.7
Sugar refining	114.8	100.0	89.5	89.5	5.8	-12.9	-10.5	-11.7
Cotton processing	114.8	100.0	89.5	89.5	2.8	-12.9	-10.5	-11.7
Other activities in San Salvador								
Industries and services	115.8	107.5	96.2	96.2	14.2	-7.2	-10.5	-11.7
Commerce	105.8	98.2	87.9	87.9	8.6	-7.2	-10.5	-11.7

Source: ECLAC, on the basis of official data.

b) *Wages*

A greater number of labour disputes than formerly arose during the year in pursuit of wage adjustments. Two factors, however, prevented this trend from developing still further: on the one hand the persistence of a tense political climate and, on the other, the fact that, in the light of the difficult unemployment and under-employment situation already referred to, there was a prevailing need to retain jobs rather than demand wage increases. Nominal minimum wages remained unchanged for the third year running, in line with the current economic adjustment policy. As a result, real minimum wages fell by almost 12% in the year after a reduction of close on 11% in the preceding year. In the case of farm workers, this meant a fall of more than a third in real wages in four years. The severe drop in real minimum wages was reflected in a further reduction in the level of satisfaction of basic needs in the lower-income strata of the population (see table 12).

5. Monetary and fiscal policy

a) *Monetary policy*

The adjustment policy agreed with the International Monetary Fund with the aim of attenuating the negative effects of financial imbalances continued to be applied in 1983 —perhaps more rigorously than in previous years. In practice, however, the application of this policy could not fully achieve some of the objectives established at the beginning of the year and in other instances proved more restrictive and contractive than had been envisaged.

In the first place, total means of payment rose by only 1% between October 1982 and October 1983,⁶ as against an increase in 1983 of almost 9% in the gross domestic product at current prices or 7% applying the nominal value of total supplies of goods and services in the country. The lower rate of expansion of means of payment was due to the relatively uneven performance of currency outside banks and demand deposits. The latter increased by rather less than 3% while the former remained static (see table 13).

The scant movement in demand deposits contrasted with the high growth rate of quasi-money (18%). This in turn was the result of a slow rate of increase in savings deposits (6%) compared with a markedly dynamic expansion of time deposits (31%). This situation reflected in part the growing liquidity in local currency in view of difficulties in the acquisition of foreign exchange in the context of exchange control. The country's economic agents, for their part, preferred to direct their resources towards the banks in order to ensure profitability through interest rates rather than devote them to operations in real terms with the consequent risk deriving from unstable political, economic and financial prospects.

Absorption factors increased in total by 27%. Among them two items in particular rose considerably between October 1982 and October 1983, namely, bond issues which expanded by 40% and long-term loans which increased by 33%. In view of the critical situation of the private sector the latter were concentrated in the Central Bank while bond placings were transacted mainly with social security institutions.

Expansion factors evolved at a more moderate rate, prominent among them being an improvement in net international reserves, primarily as a consequence of debt renegotiation.⁷ On the

Table 13

EL SALVADOR: MONETARY BALANCE

	End-year balance (millions of colones)					Growth rates			
	1980	1981	1982	October		1980	1981	1982	1983
				1982	1983 ^a				
Money	1 416	1 404	1 470	1 164	1 179	7.2	-0.8	4.7	1.3
Currency outside banks	719	703	732	560	560	-3.2	-2.2	4.1	.
Demand deposits	697	701	738	604	619	20.6	0.6	5.3	2.5
Expansion factors	3 689	4 255	5 089	4 684	5 651	10.3	15.3	19.6	20.6
Net international reserves	-175	-373	-197	-177	291	...	...	...	...
Domestic credit	3 864	4 628	5 286	4 861	5 360	27.7	19.8	14.2	10.3
Government (net) ^c	418	1 059	1 520	1 390	1 633	...	153.3	43.5	17.5
Official entities	1 145	1 133	1 016	950	986	121.0	-1.0	-10.3	3.8
Private sector	2 301	2 436	2 750	2 521	2 741	-7.5	5.9	12.9	8.7
Absorption factors	2 273	2 851	3 619	3 520	4 472	12.4	25.4	26.9	27.0
Quasi-money	1 135	1 397	1 633	1 605	1 901	0.9	23.1	16.9	18.4
Savings deposits	643	787	893	800	847	8.4	22.4	13.5	5.9
Time deposits ^d	492	610	740	805	1 054	-7.3	24.0	21.3	30.9
Bonds	190	205	246	185	259	-21.8	7.9	20.0	40.0
Long-term foreign borrowing	725	922	1 239	1 187	1 579	50.4	27.2	34.4	33.0
Other items (net)	223	327	501	543	733	29.7	46.7	53.2	35.0

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures. ^bGrowth rates for the period October 1982-October 1983. ^cNet government credit (credits less deposits) was negative in 1977 and 1978 (127 million colones and 98 million respectively) and positive in 1979 (21 million colones). ^dIncludes foreign currency deposits involving low amounts.

⁶October was the last month in 1983 for which information has been available. All 1983 growth rates relating to monetary aggregates correspond to the period mentioned.

⁷Significant changes were observed between May and June 1983 in the position of the banking system with regard to the external sector. Net international monetary reserves rose in those two months from -139 million colones to +151 million, while long-term foreign commitments increased from 894 million colones to 1 125 million. This increment of 231 million colones was absorbed in its entirety by the Central Reserve Bank.

other hand, expansion by way of credit was relatively limited, although consistent with the availability needs of goods and services in nominal terms. Domestic credit rose during the 12-month period ending in October 1983 by slightly more than 10%. The Government was again the main recipient of monetary resources supplied by the banking system. In this context, credit received by the former rose by 18% in nominal terms while that granted to the rest of the country's official entities increased by 4% and that devoted to the private sector by 9%. Main destinations in the last-named category were the agricultural and building sectors.

Few new measures in the sphere of monetary policy were introduced during the year. Thus both obligatory bank-reserve percentages and active and passive interest rates were maintained at the same levels as in the preceding year. Among the few changes introduced that of greatest significance was the rephrasing of overdue loan repayments to the financing system. This measure sought to relieve: first, those who had totally or partially lost their capital assets or farm crops as a result of the internal armed conflict; second, those who had been affected by a drastic fall in demand or in the prices of goods or services produced; and finally, those who had been adversely affected by delays in the implementation of legal reforms in connection with property.

Another development, introduced in the second half of the year, established maximum amounts for deposits in savings and loan associations. It was feared in official circles that an inordinate increase in these deposits, attracted by high interest rates carried over from previous periods, might encourage speculative or potentially destabilizing moves in the event of massive withdrawals.

b) *Fiscal policy*

The critical situation of government finances was again one of the main difficulties created by the recession in 1983. As already pointed out, in view of the serious financial situation prevailing since 1980, the authorities continued to apply an adjustment policy wherein a significant role was assigned to efforts to increase the procurement of resources—in particular from taxation—and to the intensification of restrictive measures in government expenditure. It was not possible, however, to achieve either of these objectives, with the result that, instead of contracting, the fiscal deficit rose once more, reaching a level of over 41% of total expenditure and over 9% of the gross domestic product (see table 14).

Current government income increased in nominal terms by 14%, i.e., slightly more than prices, although economic activity on the whole remained static. This was mainly the result of a number of provisions adopted in the taxation field which, however, failed to produce the desired effects owing to the widespread weakness of economic activity and the fact that hindrances deriving from administrative practices in some cases, and legal issues or political negotiations in others, impeded the immediate application of certain changes in tax rates and in collection methods. These last-named obstacles caused the evolution of direct taxation to remain unchanged in nominal terms although indirect tax revenue rose by almost 22%.

Changes in direct taxation could not be introduced in 1983, these being partly postponed until 1984. This was true both in the case of income tax (traditionally the main source of fiscal revenues) and of taxes levied on capital and real-estate transfers. By contrast, some satisfactory results were attained in the area of indirect taxation. These were attributable to the conjunction of two factors: on the one hand an increase in revenue from the stamp tax as a consequence of a further increase in rates and on the other a relatively favourable result in revenue derived from taxes on exports, in view of the larger external sales and an important growth in the current value of these transactions. Contrasting with this last-named factor was the scant significance of the tax increases levied on imports owing to the official policy of austerity in external purchases. Although some import restrictions were suspended early in September, thereby opening the way to a resurgence of foreign purchases towards the end of the year, no significant results were obtained from a fiscal point of view. The coefficient of taxation continued to oscillate around 11%, one of the lowest such ratios in Latin America.

During 1983 a tax-reform project was submitted by the Executive to the General Assembly, the purposes of which were to bring about a relative increase in tax revenue in relation to the evolution of the gross domestic product, and to empower the fiscal system (which had hitherto been far from

flexible) to introduce progressive changes in some aspects of income distribution.⁸ The lack of political consensus, however, delayed approval of a large number of the proposed amendments, severely limiting their effects in 1983 and confining them almost exclusively to the above-mentioned change in stamp-tax rates.⁹ On the other hand, however, the peremptory need to increase tax revenue in the shortest possible time weighed more in the definition of the group of reforms referred to than in a more radical fiscal change whose effects would only have been felt in the medium term. It is

Table 14

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of colones)

	Millions of colones				Growth rates ^b			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	1 040	1 090	1 104	1 264	-14.4	4.8	1.4	14.4
Tax revenue	989	990	952	1 095	-14.9	0.1	-3.8	15.1
Direct	312	297	294	294	12.6	-4.7	-1.0	-
Indirect	677	693	658	801	-23.5	2.4	-5.1	21.8
On foreign trade	375	322	279	330	-34.3	-14.0	13.5	18.2
Non-tax revenues	51	100	152	169	-3.8	94.7	53.6	10.6
2. Current expenditure	1 077	1 233	1 346	1 457	24.9	14.5	9.2	8.2
Remunerations	618	657	728	844	30.1	6.4	10.8	15.9
Purchase of goods and services	160	180	168	168	23.4	12.5	-6.8	-0.2
Interest payments	40	98	161	214	52.9	148.1	64.1	32.8
Transfers and others	259	298	289	232	24.8	15.1	-3.0	-19.7
3. Current savings (1 - 2)	-37	-143	-242	-193	...	...	...	...
4. Capital expenditure	459	504	474	700	3.4	9.7	-5.9	47.8
Real investment	382	381	298	510	39.4	-0.2	-21.7	71.0
Debt amortization	23	57	79	84	-20.7	147.4	38.1	7.4
Other capital expenses	54	66	97	106	-61.7	21.7	47.6	9.1
5. Total expenditure (2 + 4)	1 536	1 737	1 820	2 157	17.6	13.1	4.8	18.5
6. Fiscal deficit (1 - 5)	-496	-647	-716	-893	455.1	30.4	10.7	24.7
7. Financing of deficit								
Domestic financing	361	456	480	605				
Central Bank	143	140	85	320				
Sale of securities	299	408	382					
Others	-81	-92	13	285				
External financing	135	191	236	288				
Percentages								
Ratios								
Current savings/capital expenditure	-8.1	-28.4	-51.1	-27.6				
Fiscal deficit/total expenditure	32.3	37.2	39.3	41.4				
Tax revenue/GDP	11.3	11.5	10.7	11.3				
Total expenditure/GDP	17.5	20.1	20.5	22.3				
Fiscal deficit/GDP	5.6	7.5	8.1	9.3				
Domestic financing/deficit	72.8	70.5	67.0	67.7				
External financing/deficit	27.2	29.5	33.0	32.3				

Source: ECLAC, on the basis of data supplied by the Finance Ministry and the Central Reserve Bank of El Salvador.

^aPreliminary figures.

^bGrowth rates are shown in actual figures (not rounded off).

⁸The main tax increases proposed were: motor vehicle licenses (100%), air and sea fares (100%), national lottery prizes (10%), stamp taxes on sales of merchandise and services (150%), and sales of beer (42%).

⁹The stamp-tax rate, which until 1981 had been of the order of 1%, was raised in 1982 to 2%, and again in 1983 to 4% on transactions involving raw materials and intermediary products and to 5% on all other transfer operations.

possible, moreover, that the transitory nature of the ruling administration (from May 1982 to mid-1984) and the difficulties in achieving a full consensus may have contributed to the partial nature of the proposed reform. In practice the delay in its approval, and especially the deferment of changes in income-tax requirements, brought about a situation in which, as a result of the stamp-tax increase, the comparatively more affected population groups were those in the lower-income category. In November, however, a new tax reform project was submitted for consideration based on the value-added tax and was approved in the final days of the year.

The main lag in the fulfilment of the year's programmed financial objectives occurred in the sphere of expenditure. Both current and capital expenditure considerably exceeded forecast values, especially in the second of these instances. The policy of restriction and selectivity in the use of resources therefore proved insufficient. In the case of current expenses, which rose by a little over 8% (a rate similar to the evolution of the nominal gross domestic product), an increase in expenditure on goods and services was successfully avoided and a significant contraction in current transfers (-20%) was also attained. On the other hand there was an unforeseen increase in the payment of remunerations (16%) —in spite of the intention not to create vacancies and to freeze wages— resulting in particular from a larger number of military appointments. In the second place debt-interest payments also grew (by 33%). This item, which in 1980 represented only 4% of total expenditure, rose in 1983 to 15%.

Capital expenditure was that which most exceeded the forecast objectives, since it rose by 48% in nominal terms (or 31% in constant values). This was mainly the result of higher investment disbursements in real terms, which accounted for nearly 94% of the increase in these expenses. Although efforts were made to apply a criterion of strict selectivity in the continuation or completion of some public works such as in the fields of energy and communications, part of the higher expenditure was due to the need to reconstruct damaged or deteriorated infrastructure caused by acts of sabotage. Certain expenditure of a military character was also incurred although this was mainly covered by external donations. As for debt-amortization payments, these rose by a moderate 7%¹⁰ in consequence of favourable conditions obtained in negotiations with international creditors.

With regard to State-owned enterprises, attempts to ensure that they would be self-financing brought about a decrease in current and capital transfers made to them from central government funds. In this connection, since in practice no increases were introduced in public-service tariffs and the demand situation remained depressed, the activity of government-owned enterprises in general tended to stagnate.

The total result of the combined factors outlined in the preceding paragraphs was therefore that in 1983 the maladjustment of the government financial balance continued or even became worse. The fiscal deficit coefficient in respect of total government expenditure and of the gross domestic product rose to even higher levels than those considered critical in the preceding year. Finally, with regard to the financing of this deficit, almost the same proportions were maintained in 1983 in respect of credit of domestic origin (approximately two thirds of the total) and that covered from external sources. Hence the pressure on the monetary variables observed in preceding years was maintained.

¹⁰ At all events the increase of only 5 million colones in the amortization payment from a global standpoint was due to a reduction of 6 million in the internal debt as against an increase of 11 million in the external debt.

GUATEMALA

1. Recent economic trends: Introduction and summary

In 1983 the recessive situation experienced by the Guatemalan economy since 1980 persisted and in some respects got worse. The gross domestic product experienced a sharp (-2%) contraction for the second consecutive year, after a drop of 3.5% in 1982, and this was reflected in the continued decline of levels of employment and real income and, at the microeconomic level, in a growing number of enterprises with liquidity and even insolvency problems (see table 1 and figure 1).

Although the decline described above was not quite so notable as that of the preceding year, the seriousness of the overall climate of recession consists in its cumulative and persistent nature, which has brought the per capita gross domestic product down to a level comparable with that of 1973. Thus, after a long period of sustained and relatively dynamic expansion of the per capita real product between 1950 and 1980, the plunge in economic activity in the past three years has resulted in a downturn equivalent to the loss of a whole decade of growth. Furthermore, the already long period of recession has begun to be reflected in adverse consequences of a persistent nature, among which mention may be made of the continuous drain on domestic savings by flights of capital, the lack of maintenance of industrial plants and agricultural plantations, and the incipient exodus of skilled labour and entrepreneurs (the former because of lack of job opportunities and the latter owing to the unfavourable prospects), all within the context of a climate of generalized uncertainty which has affected the expectations of the various economic agents.

The factors contributing to this situation were the same, with differences in degree and scope, as have affected the Guatemalan economy during recent years.¹ In the first place, the international market continued to provide very limited opportunities for the country's traditional export commodities, so that the volume of external sales fell by over 11%. Although unit values increased slightly (2.4%), they were far from making up for the 10% loss accumulated in the preceding biennium, and moreover the unit prices of imports rose faster, producing a new, albeit slight, deterioration in the terms of trade. Secondly, Guatemala encountered increasingly serious problems in obtaining external financing, both from official and private sources, due to the unfavourable conditions prevailing in the international financial markets, while the burden of servicing the external liabilities showed a tendency to increase. Thus, net inflows of capital decreased from US\$ 340 million in 1982 to less than US\$ 330 million in 1983 (nevertheless, because the deficit on current account was considerably less than in 1982 owing basically to the drop in imports, the international monetary reserves increased by US\$ 90 million). Thirdly, trade among the Central American countries continued to deteriorate not only because of the contraction in the subregion's overall demand, but also because of the acute shortage of foreign exchange which was felt by all the countries in the area, forcing them to take import-containment measures which in some cases affected trade in goods originating in the subregion.²

In addition to all these depressive factors stemming from the external sector, there were others of internal origin. Notable among these were the already chronic political and social tensions which have affected Central America in general and Guatemala in particular, one of whose manifestations was another change in government.³ The general uncertainty which prevailed as regards the future of intra-Central American relations and the course which might be taken by the programme designed by

¹ See the chapters on Guatemala in *Economic Survey of Latin America, 1981*, United Nations publication, Sales No. E.83.II.G.2, November 1983, and *Economic Survey of Latin America and the Caribbean, 1982* (E/CEPAL/L.286/Add.3).

² Guatemala has traditionally shown a high surplus in intra-Central American trade, since among the areas receiving its exports, the rest of the region has been in first place in respect of value. Thus, the sharp decline in intra-regional trade had a particularly adverse effect on the country's economy.

³ In March 1982 the army deposed the régime in power, and in August 1983 there was another change of Head of State.

the new authorities for a gradual return to a constitutional régime was generally aggravated by the recessive economic climate described above and was all the more strongly felt owing to some perplexity concerning the management of the economic policy. All this undoubtedly contributed to the severe reduction (-18.6%) for the fourth year running in private capital formation and to the behaviour of private financial flows in the capital account of the balance of payments.

In addition, public expenditure, far from offsetting the effect of the recessive factors on total demand, helped to strengthen them in that, as part of the policy adopted by the authorities in 1982 within the context of an economic and financial adjustment programme, general government consumption expenditure fell by nearly 3% in real terms, while capital expenditure dropped by over 15%, so that the total public expenditure coefficient fell from 13.9% in 1982 to 13.5% in 1983.

Adverse factors of domestic origin accompanied and strengthened those of external origin and brought on a decrease in global demand and all its components. Private consumption decreased for

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 750	3 926	4 074	4 110	3 965	3 886
Population (millions of inhabitants)	6.8	7.0	7.3	7.4	7.7	7.9
Per capita gross domestic product (dollars at 1970 prices)	548	557	561	549	515	490
Growth rates						
B. Short-run economic indicators						
Gross domestic product	5.0	4.7	3.7	0.9	-3.5	-2.0
Per capita gross domestic product	1.9	1.6	0.7	-2.1	-6.3	-4.8
Gross income ^b	3.9	2.5	3.6	-0.1	-4.9	-1.8
Terms of trade	-4.6	-12.7	-1.0	-8.0	-12.2	-1.3
Current value of exports of goods and services	-2.8	13.5	17.5	-16.0	-10.1	-10.3
Current value of imports of goods and services	15.2	8.5	9.3	3.3	-19.4	-17.7
Consumer prices						
December - December	9.1	13.7	9.1	8.7	-2.0	8.1 ^c
Variation between annual averages	7.9	11.5	10.7	11.4	0.2	4.3 ^d
Money	8.9	10.9	2.5	4.1	1.4	3.3
Nominal salaries and wages	6.1	14.5	10.9	31.2	6.2	-2.4
Current income of government	11.7	1.0	11.8	-0.8	-1.5	-0.1
Total expenditure of government	15.9	15.3	29.4	24.3	-15.2	-12.6
Fiscal deficit/total expenditure of government ^e	17.3	27.5	37.4	50.0	42.0	33.6
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-354	-320	-228	-570	-323	-168
Balance on current account	-271	-209	-165	-567	-376	-238
Balance on capital account	339	183	-93	265	338	327
Variation in international reserves	68	-19	-251	-305	-16	89
External debt ^f	304	427	549	809	1 119	1 187

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect.

^cFrom August 1982 to August 1983.

^dFrom

January to August 1982 and from January to August 1983.

^ePercentages.

^fDisbursed public external debt plus State-guaranteed

private debt.

the second consecutive year, undoubtedly influenced by rising unemployment and by the drop recorded in real wages: the fact that private per capita consumption was 11.6% lower than the figure recorded in 1980 speaks eloquently of the magnitude of the recession. What is of even greater concern on account of its consequences for the future, however, is the fact that public and private investment was one of those components of demand which contracted most, as a result of which the coefficient of domestic fixed capital formation fell from 13.3% in 1981 to 10.3% in 1983.

On the supply side, all productive activities contracted, with the exception of a few services and the exploitation of mines, quarries and hydrocarbons, whose share in the product is still not very significant and which, in any case, only showed a slight increase of 2.0%, due to the steady expansion of the petroleum sector. Agriculture, manufacturing and, in particular, construction performed negatively, under the impact both of the contraction in demand and of special factors which are examined in greater detail below. The only activities which showed slow but steady growth were in the services sector —banking, insurance, ownership of dwellings, public administration (basically due to the increase in defence expenditure) and private services. In contrast, imports plunged by 21% in real terms, as a result of which the import coefficient reached the lowest level recorded since 1950, which is probably below the minimum requirements for imported components for the effective development of the Guatemalan economy.

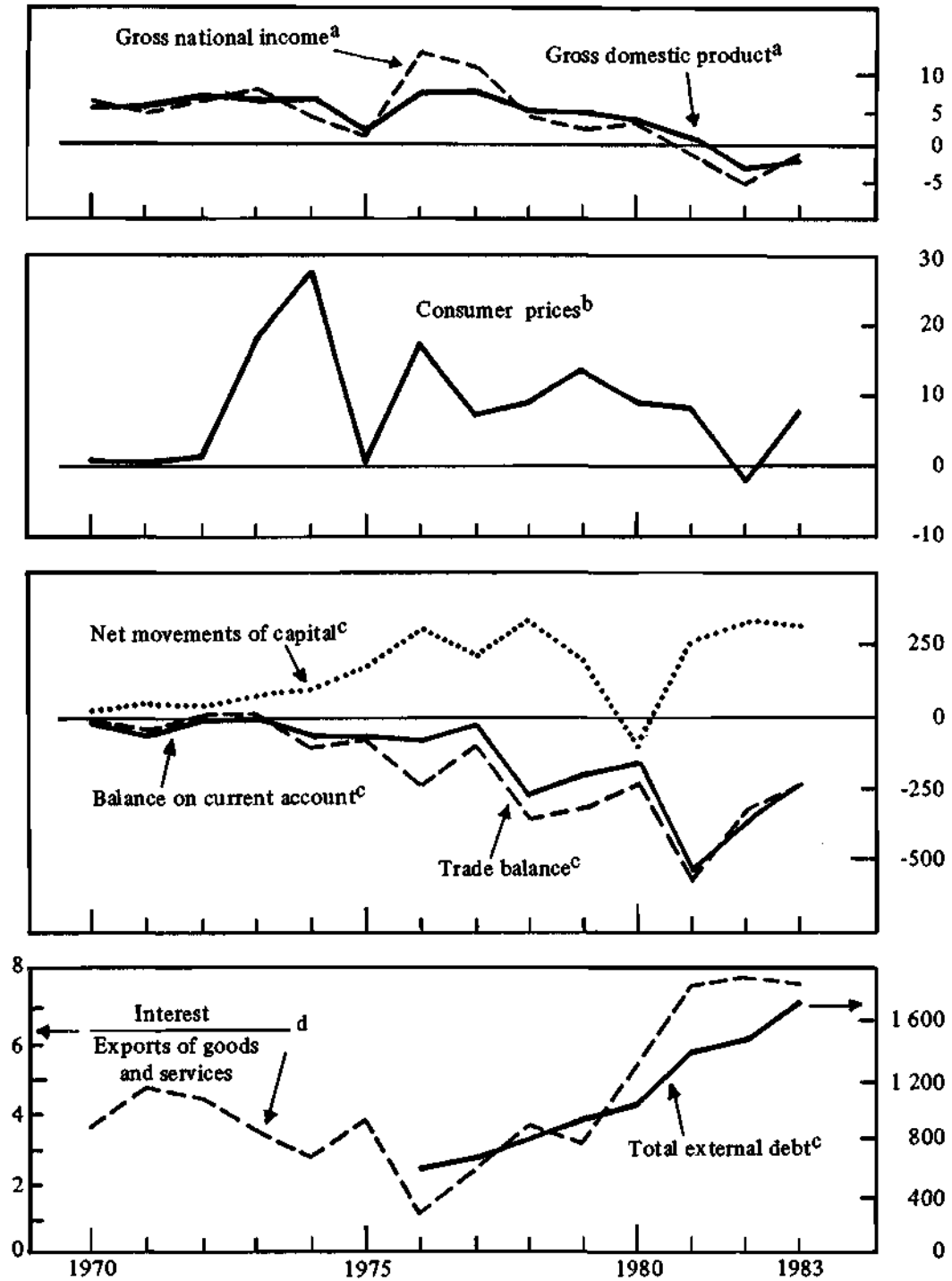
In evaluating the response of the public sector to this accumulation of adverse circumstances, the recent tendencies in respect of the main imbalances facing the economy may be recalled. To begin with, at the onset of the recessive period under review, the Government acted rapidly to increase its expenditure (especially its capital expenditure), partly in order to counterbalance the drop in private investment. Thus, between 1978 and 1981 the ratio of total expenditure by the central government to the gross domestic product rose from 11.0% to 15.4%, while the tax coefficient, already hit by the incipient recession, fell from 10.3% to 7.9%. This naturally caused the fiscal deficit to rise, from negligible levels in 1978 to nearly 7% of the gross domestic product in 1981. These deficits were to a large extent financed by means of domestic indebtedness with the Central Bank, and this contributed to a growing internal financial imbalance.

In the second place, for reasons closely associated with the phenomenon described above on account of the impact of public expenditure at the import level and the increasingly unfavourable behaviour of international demand, the country came up against a growing external imbalance. Thus, the current account deficit of the balance of payments rose from moderate levels in 1979-1980 (US\$ 200 million or less than 3% of the gross domestic product) to nearly US\$ 570 million (6.4% of the product) in 1981. Moreover, as from 1981 the international reserves were exhausted, marking the onset of a period in which foreign exchange was increasingly hard to come by, this being reflected, *inter alia*, in quantitative import restrictions, the emergence of an incipient "parallel market" in foreign exchange and a backlog of foreign currency applications awaiting authorization on the part of the monetary authorities, for an amount which reached close to US\$ 400 million by the end of 1982.

For the purpose of addressing both these imbalances (internal and external), the authorities already adopted in 1982 an adjustment programme supported by the International Monetary Fund under its Compensatory Financing Facility, while a stand-by loan agreement had been approved in October 1981. It is true that the critical trends of both imbalances were reversed in 1982 (the central government deficit fell from 6.9% to 4.7% of the gross domestic product between 1981 and 1982, while the deficit on the current account of the balance of payments dropped from US\$ 570 million to less than US\$ 380 million during the same period). Nevertheless, the two imbalances have persisted and could be reversed only temporarily at the cost of the sacrifices described above in terms of economic activity and the well-being of the people.

In 1983 the authorities placed emphasis on the continuation of the adjustment programme, along with certain supplementary measures designed to prevent further deterioration in production activities or even to revive them. Among the decisions adopted with respect to the adjustment programme and the solution of the problems which remained from previous years, brief mention may be made of the following: i) an attempt was made to relieve the fiscal deficit by applying a tax reform while at the same time effecting a marked contraction in public expenditure; ii) the Central Bank issued stabilization bonds for the purpose of absorbing the excess liquidity in the intermediation system and establishing a definitive register of liabilities which had come to term and on which payment was pending with the exterior; iii) a new letter of intent was signed with the International

Figure 1
 GUATEMALA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate.
 of dollars. ^dPercentages.

^bPercentage variation, December - December.
^eFrom August 1982 to August 1983.

^cMillions

Monetary Fund, providing for a more rigorous adjustment programme, and iv) the parallel exchange market was virtually institutionalized.

As regards tax reform, during the first half of 1983 there was an intense debate between government authorities and various private sector producers' associations concerning the timeliness and content of the reform. Towards the middle of the year, with the agreement of some sectors and the opposition of others, the Government announced the application as of 1 August of a new 10% value added tax (in replacement of the stamp tax on transactions) and of a series of small individual taxes. In addition, changes in income tax went into effect, and the taxes on exports of the main commodities were reduced gradually and progressively. Finally, a change was made in the tax base of certain consumer taxes, including those on tobacco and alcoholic beverages. It was estimated that, with these changes, the overall reform would yield almost an extra 60 million quetzales in 1983 (a little over 0.5% of the gross domestic product) and an extra 200 million quetzales in 1984 (2% of the gross domestic product) and that, in addition, the gradual reduction of taxes on export commodities would provide a stimulus for economic reactivation.

However, the date on which the new tax law went into effect coincided with the change of government, which occurred early in August, and this caused the debate on the merits and drawbacks of the reform to be reopened. The controversy finally ended late in September when the authorities decided to reduce the rate of the value-added tax from 10% to 7% and to expand the list of exemptions significantly. The cumulative effect of the late application of the original initiative, the final reduction of the rate and, in particular, the exemptions granted from the new tax (which caused serious difficulties in its collection and administration), as well as of the tax reductions described earlier, meant that far from generating additional income the tax reform had a negative net effect on global tax receipts. Thus, instead of the 770 million quetzales envisaged in the 1983 budget even prior to the application of the tax reform, the real amount collected was 730 million quetzales, which was only about the same as the preceding year. The taxation coefficient came to only 6.5%, compared with 7.1% in 1982 and 10.3% in 1978. In brief, although the overall financial situation of the central government did not deteriorate (the deficit fell from 4.7% of the gross domestic product in 1982 to 3.1%), this was due solely to the sharp contraction in expenditure, which contributed to the recessive tendencies of the economy and helped to jeopardize the Government's capacity to provide the population with a minimum of basic services while at the same time maintaining a reasonable programme for expanding the physical, energy and social infrastructure of the country.

The second important economic policy measure adopted during the year was the decision taken by the monetary authorities to issue stabilization bonds in an amount of 400 million quetzales for the purpose of absorbing the excess liquidity generated by the economy (basically as a result of the local-currency counterpart of arrears of payments owed to the exterior) and obtaining a definitive record of the amount of the liabilities. By the end of the year, nearly 300 million quetzales of bonds had been sold, of which nearly 30 million were purchased by creditors in the exterior. These instruments fulfilled their dual role of establishing a definitive record of liabilities in foreign currency and absorbing excess liquidity; the total deposits in the intermediation system at the end of December was a mere 2.2% higher than the amount recorded in the same period the preceding year.

The third important economic policy decision related to the signing, in September, of a new letter of intent with the International Monetary Fund to make use of the second stand-by credit tranche.⁴ This letter, whose contents are described below, committed the authorities to the application of a new adjustment programme with a view to the stabilization of the balance-of-payments position and the reduction of the global deficit of the non-financial public sector. By the end of the year the quantitative targets set in this letter had been met, and the country had used close to US\$ 27 million of the stand-by credit, which was scheduled to total approximately US\$ 125 million by the end of 1984. Because of the changes subsequently made in one of the main pillars of the adjustment programme (the tax reform), however, it was already foreseeable that the country would not be in a position to meet the quantitative targets of the programme in the immediate future unless new changes were introduced either in public expenditure or in the volume of income. This posed new dilemmas with regard to the management of economic policy in the short term.

Finally, 1983 saw the consolidation and institutionalization of a phenomenon which was relatively new in Guatemala —a "parallel market" in foreign exchange which was tolerated and to

some extent even encouraged by the authorities.⁵ In effect, this meant that the exchange policy operated in a market with two exchange rates— the official rate, which preserved the traditional parity of the quetzal with the United States dollar, and the non-official rate, which varied on the basis of supply and demand, with no intervention by the Central Bank, and which fluctuated during the year between 1.25 and 1.50 quetzales per dollar. Although no information is available concerning the magnitude of the transactions made on this "parallel market", a very rough estimate suggests that between a quarter and a third of all imports were financed through it.⁶ Thus, contrary to what happened in 1982, businesses did not suffer an absolute shortage of foreign currency but were rather forced to have recourse to this non-official instrument to obtain it, and costs were affected accordingly. In other words, the consolidation and virtual institutionalization of the "parallel market" resulted in a certain amount of flexibility for transactions in foreign currency but raised the average price of imports in local currency terms, especially in the case of those not regarded as essential.

This, in turn, partially explains the acceleration of inflationary pressures (the annual average variation in consumer prices was 4.3% in 1983 compared with a rate of 0.2% in 1982). It should be noted that these pressures were more intense in the second half of the year than in the first, which suggests that the new value-added tax—first the mere expectation that it would be applied and then its gradual application—helped to speed this process up. This phenomenon in turn contributed to the abrupt drop in the level of real wages (-6.4%), shown by the records of the Guatemalan Social Security Institute.

The monetary authorities also maintained a system of exchange controls, supplemented by import quotas applied on the basis of criteria of need. In addition, towards the end of the year a measure requiring advance registration and licenses both for imports from the rest of Central America and for exports within the area came into force, and it became obligatory for the latter to be paid for in a period of 45 days from the date of issue of the export license. This provision, which contravenes, at least in part, the integration commitments of the Central American Common Market, was adopted, according to the official announcement, for the purpose of guaranteeing that payments for those exports actually entered the country and furthering reciprocal trade, in view of the restrictions which had been placed on Guatemalan exports in other Central American countries. Seemingly, however, the measures described did not accomplish their purposes; rather they evoked reprisals on the part of most of the neighbouring countries which rapidly resulted in the virtual paralysis of intra-regional trade: a situation which had still not been overcome at the year-end. Thus, the Guatemalan export sector, and in particular its manufactures branch, suffered an additional setback.

Among the measures adopted by the Government to prevent greater deterioration of the production sector, mention should be made of the proclamation of a new Hydrocarbons Law (September 1983), one of whose aims was to promote the prospection and exploitation of hydrocarbons by offering greater incentives for this activity than the former laws. Similarly, a series of measures was adopted to promote traditional and non-traditional exports, partly in order to take advantage of the potential offered by the "Caribbean Basin Initiative" fostered by the United States Government. These measures included the elimination of the traditional export taxes and, from September on, the selective extension of Tax Credit Certificates for non-traditional exports.⁷ Finally, although the policy as regards credit for the private sector was not particularly expansionist (in keeping with the adjustment programme which had been adopted), some activities such as the construction of low-cost housing received special incentives from the Central Bank. In addition, the authorities kept in effect the machinery established towards the end of 1982 to facilitate the

⁵The first stand-by credit agreement expired in October 1982.

⁶Although the Monetary Law did envisage the possibility of establishing multiple rates of exchange, the legislation in force strictly speaking provides for only one single, official rate of exchange. During the year, however, the finance authorities announced an agreement which, for tax purposes and within certain limits laid down in it, permits the costs of enterprises to include the higher exchange rate paid in the parallel market.

⁶On the other hand, a much lower percentage of the value of exports was changed on that market because of the export registers kept by the Bank of Guatemala under the exchange control regulations, although there might have been some under-invoicing, part of the proceeds of which must have been changed on the "parallel market" (the remainder would have had to be registered as "errors and omissions"). Seemingly, the main source of foreign currency on that market was family remittances, income from tourism and some capital inflows, including the repatriation of resources which Guatemalans had been keeping abroad.

⁷On the other hand, in October the Government took the unexpected decision to close down the National Exports Centre (GUATEXPRO) and incorporate some of its functions in the Ministry of the Economy, seemingly for budgetary reasons.

refinancing of the overdue debt portfolio of the agricultural sector, so as to bring repayment periods, amortization programmes and guarantees in line with the debtors' capacity to pay.

In brief, during 1983 the recessive tendencies of the preceding biennium continued and to some extent grew worse. The action taken by the public sector to mitigate their effects did not always prove efficacious, and in some respects, such as in the matter of containing expenditure, it even helped to aggravate the problems. Moreover, the adverse trends shown by the Guatemalan economy for a number of years will probably have lasting consequences. The level of well-being of the population has deteriorated seriously; the coefficient of savings and investment has declined notably from its historic levels, and there has been a change in the relative share of both exports and imports in the gross domestic product. In addition, just when more decisive action on the part of the public sector was needed to relieve the economic crisis, the State's role in the economy as a whole has been reduced. Apart from the many consequences already referred to, this suggests that the structure of distribution has become even less equitable, since public expenditure has traditionally been the most effective instrument for meeting the basic needs of majority groups. The rising level of unemployment and the lag in real wages has strengthened that tendency. In sum, Guatemala, like the other small agro-exporting economies of the region, was severely affected during 1983 by the combination of factors referred to herein.

As a result of all this, the last quarter of the year saw the return of one of the phenomena which has had the most adverse effects on the economy in recent years; i.e., the continued deterioration in the purchasing power of exports. The rise in the prices of some of the main export items, together with the slackening of the inflationary pressures in the industrialized countries, suggests that during 1984 Guatemala may experience an improvement in its terms of trade for the first time since 1977, thereby benefitting from the incipient recovery of the developed economies. The country's capacity to take advantage of the potential offered by this recovery will depend *inter alia*, on the rearrangement of public sector finances and the restoration of a minimum of confidence in order to promote the reactivation of private investment, as well as on the ability of the Central American countries as a whole to surmount the severe problems they face and give renewed impetus to the integration process.

2. Trends in economic activity

a) *Total supply and demand*

As already noted, in 1983 the gross domestic product fell by 2% in real terms, which meant a drop of close to 5% in the per capita gross domestic product and a 4.5% decline in gross per capita income (see table 1).

All the components of demand decreased, but the most meaningful ones —and those which undoubtedly had a decisive effect on the highly adverse behaviour of the economy— were exports and gross fixed capital formation. With regard to the former, the volume of exports of goods and services decreased for the third consecutive year, this time by over 12%. This was due both to restrictions in external demand and to certain phenomena affecting exportable production. It must be borne in mind that the behaviour of the Guatemalan economy is very sensitive to variations in the traditional export sector, so that it is not surprising that the systematic drop in the volume of exports (external sales in 1983 barely amounted to 75% of those recorded in 1980) has had an adverse effect on the other supply and demand variables.

With regard to capital formation, both public and private investment decreased dramatically. The investment coefficient fell from 14% in 1981 to 11.2% in 1983; public investment contracted for the second year running, owing, in particular, to the financial restrictions which the central government has been encountering. Private investment fell for the fifth consecutive year due to the general climate of uncertainty prevailing in the country for both economic and non-economic reasons.

The austerity of fiscal policy also explains the drop in general government consumption (-2.8%), which seems to have been reflected in a severe reduction in purchases of goods and a slight increase in the contracting of services. As for the drop of over 2% in private consumption (for the second consecutive year), it was a consequence of the downward trends in employment and real wages and of the general restrictions on demand associated with the economic depression (see table 2).

On the supply side, imports of goods and services plummeted in the past two years —by 25 % in 1982 and by 21 % in 1983. This brought the import coefficient down to its lowest level since the war, which suggests, among other things, that the economy has reached, or even passed, the minimum level of imports needed by the production apparatus in order to operate effectively.⁸ The drop in imports was due not only to the widespread contraction of demand but also to the rise in the cost of external purchases owing to the emergence of the "parallel market" mentioned above and the establishment of quantitative controls which made import procedures relatively complicated.

b) *Evolution of the main sectors*

Domestic supply, by branches of activity, evolved in accordance with the global picture described above, except in the case of mining, whose share in the total product is not very significant. Thus, the production of goods declined, and the supply of services contracted or grew only modestly (see table 3)

i) *Agriculture.* The restrictions on external demand affected the supply of agricultural products primarily in terms of the low prices of the majority of export commodities on the international market, especially during the first few months of the year. This helped to discourage the production of coffee and cotton, the two main export items. In the case of the former, the propensity of coffee growers to cut expenditure on such items as fertilizers and the upkeep of coffee plantations contributed to a cyclical drop in the yield from the plantations, whose volume of production shrank by close to 11% compared with the previous year's harvest. This phenomenon was accentuated by the continued spread of rust, a disease which diminishes yields and raises the cost of cultivation significantly, and which was particularly harmful to small producers who use outdated techniques. In the case of cotton, the low prices expected caused the area sown during the 1983/1984 season to fall to some 60 000 hectares, compared with the more than 100 000 hectares which are traditionally

Table 2

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown ^b			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	4 788	4 476	4 292	114.3	117.1	110.4	2.2	0.4	-6.5	-4.1
Gross domestic product at market prices	4 110	3 965	3 886	100.0	100.0	100.0	3.7	0.9	-3.5	-2.0
Imports of goods and services	678	511	406	14.3	17.1	10.4	-5.9	-2.8	-24.6	-20.7
Total demand	4 788	4 476	4 292	114.3	117.1	110.4	2.2	0.4	-6.5	-4.1
Domestic demand	4 246	3 956	3 837	99.4	101.6	98.7	2.2	2.6	-6.8	-3.0
Gross domestic investment	577	468	435	12.8	12.2	11.2	-14.7	15.7	-18.8	-7.1
Gross fixed investment	547	484	402	12.5	12.9	10.3	-9.9	4.4	-11.4	-17.0
Public	287	229	194	2.4	5.3	5.0	19.2	34.3	-20.4	-15.2
Private	260	255	208	10.1	7.6	5.3	-22.9	-16.2	-1.5	-18.6
Changes in stocks	30	-16	33	0.3	-0.7	0.9				
Total consumption	3 669	3 488	3 402	86.6	89.4	87.5	5.1	0.8	-4.9	-2.5
General government	346	341	332	8.0	8.1	8.5	12.0	4.4	-1.3	-2.8
Private	3 323	3 147	3 070	78.6	81.3	79.0	4.4	0.4	-5.3	-2.4
Exports of goods and services	542	520	455	14.9	15.5	11.7	2.2	-14.1	-4.1	-12.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bThe percentage breakdown and the growth rates are based on real, not rounded, figures.

⁸Thus, if the economy is reactivated in the future, the rise in the level of imports may be expected to be very dynamic.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product ^b	3 840	3 704	3 630	100.0	100.0	100.0	3.7	0.9	-3.5	-2.0
Goods	1 833	1 759	1 704	47.0	47.8	46.7	3.5	1.1	-4.0	-3.1
Agriculture	1 058	1 036	1 010	30.1	27.5	27.8	1.6	1.4	-2.0	-2.5
Mining	12	12	12	0.1	0.5	0.3	71.2	-36.4	5.2	2.2
Manufacturing	572	542	531	14.6	15.5	14.5	5.6	-2.5	-5.2	-2.1
Construction	191	169	151	2.2	4.3	4.1	3.8	16.0	-11.7	-10.7
Basic services	218	208	204	4.4	5.8	5.6	6.8	-0.4	-4.9	-1.4
Electricity, gas and water	49	48	47	0.9	1.3	1.3	2.4	-0.2	-2.2	-0.9
Transport, storage and communications	169	160	157	3.5	4.5	4.3	8.2	-0.4	-5.7	-1.5
Other services	1 792	1 752	1 740	48.6	46.4	47.7	3.7	1.7	-2.2	-0.8
Wholesale and retail commerce, restaurants and hotels ^c	1 026	972	943	27.5	26.9	25.8	2.1	0.6	-5.3	-3.1
Ownership of dwellings	193	198	204	7.8	5.0	5.6	3.0	2.6	2.6	3.0
Community, social and personal services	573	582	593	13.3	14.5	16.2	7.2	3.3	1.6	1.9
Government services	306	318	326	7.0	7.6	8.9	10.6	5.8	-1.0	1.0

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncludes financial institutions, insurance and real estate, except for ownership of dwellings.

harvested. Nevertheless, yields surpassed those of the preceding year owing to favourable climatic conditions and to the fact that towards the end of the year international prices began to rise, so that this activity may be reactivated in the next season. All in all, cotton production in 1983 was some 35% lower than in 1982 (see table 4).

Although climatic factors were in general favourable for crop raising, in March a phenomenon consisting of strong wind streams occurred and caused serious destruction to banana plantations and, to a lesser extent, to coffee growing. This phenomenon was the main reason for the sudden 35% drop in the production of bananas and was a contributing factor in the drop in the production of coffee mentioned above. On the other hand, the production of basic grains remained close to the high levels achieved in the preceding season, even though the area sown with maize, beans and rice was reduced. As a result, near self-sufficiency was achieved with regard to basic grains (with the exception of wheat), and in the case of rice there was even a small surplus. The wheat harvest, which supplies approximately 15% of demand, was similar to that obtained the preceding year, while the sorghum harvest was nearly 30% higher owing to the expansion of the surface under cultivation and to improved yields.

The cultivation of sugar cane also benefited from the favourable climatic conditions and was not so adversely affected by the low prices which prevailed during most of the year in the international sugar market, since the domestic price is set so as to compensate for declines in international prices, in order to guarantee producers an acceptable level of profits.⁹ Furthermore, Guatemala obtained a slight increase in its quota for sales to the United States market at preferential prices. Because of these incentives and perhaps also because of the expected rise in international prices, although in the end this did not occur, the production of cane increased by nearly 60%, basically due to an expansion in the area planted.

⁹The main factor behind the government's economic policy on sugar was a heated debate between cane producers and sugar processors concerning the prices set by the Ministry of the Economy per ton of cane. That problem was not settled to the entire satisfaction of either party.

The relatively unfavourable performance of the main export commodities, with the exception of sugar cane, offset the satisfactory evolution of the production of crops for domestic consumption, so that the product of the crop-raising sector as a whole fell by 3.0%. The aforementioned climate of uncertainty which prevailed in the country had its impact on agricultural activities, especially on account of the violence often experienced in certain rural areas. Some agricultural entrepreneurs were also disturbed by the debate which occurred towards the middle of the year on an announced agrarian reform programme, although the authorities rapidly withdrew that initiative.

Finally, the livestock sector showed slightly more dynamism than crop-raising. Cattle production, measured in terms of number of head, rose by slightly more than 4%, while milk production grew at a similar rate (see table 4).

ii) *Mining and hydrocarbons.* Up to 1979 the extraction of nickel was the main mining activity of the country. However, this activity has been suspended since 1980 owing to the adverse international market conditions, and this situation persisted throughout 1983. Since the suspension, the production of the mining sector has been of very little significance in the gross domestic product, and the most important branch has been the still incipient but growing petroleum activity (see table 5).

Petroleum production amounted to some 6 600 barrels a day on average, by comparison with 5 600 in 1982. This figure is still far from covering the country's domestic needs, which are close to 25 000 barrels a day, but at least it holds out some hope for the possibility of achieving self-sufficiency. With that goal in mind, a new petroleum law was promulgated in September, the central aim of which was to stimulate investment in the exploration and exploitation of hydrocarbons by providing more favourable conditions than in the past for enterprises engaged in that activity.¹⁰ At the same

Table 4

GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Index of agricultural production^b (1975 = 100)	118.3	120.0	117.7	115.3	1.6	1.4	-1.9	-2.0
Crop-farming	112.4	113.9	...	...	1.3	1.4	...	-3.0
Stock-raising	127.5	128.4	...	...	2.2	0.7	...	4.0
Production of main crops								
Coffee ^c	3 628	3 700	3 500	3 100	3.6	2.0	-5.4	-11.4
Cotton ^c	3 140	2 618	1 683	1 100	-8.7	-16.6	-35.7	-34.6
Bananas ^d	16 260	16 489	17 100	11 100	24.6	10.5	3.9	-35.0
Sugar-cane ^e	101	119	138	218	7.4	18.2	16.0	58.0
Maize ^c	20 602	21 000	23 900	23 900	0.8	1.9	10.2	0.1
Beans ^c	1 372	1 300	2 200	2 300	-11.2	60.3	69.2	4.6
Rice ^e	803	917	1 007	930	40.1	14.2	9.8	-7.6
Indicators of stock-raising production								
Stock								
Cattle ^f	2 374	2 498	2 609	2 719	...	5.2	4.4	4.2
Slaughtering								
Cattle ^f	323	325	338	382	...	0.6	16.9	13.0
Other products								
Milk ^g	275	285	296	305	...	3.6	3.9	3.0
Eggs ^h	71	78	78	78	...	9.9	-	-

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bOn the basis of figures at 1958 prices.

^cThousands of quintals.

^dThousands of hands.

^eMillions

of quintals.

^fThousands of head.

^gMillions of litres.

^hMillions of dozens.

¹⁰The initial reaction of the transnational petroleum corporations to this new legislation was, however, not entirely favourable, possibly owing to the present conditions of over-supply in the international petroleum market.

Table 5

GUATEMALA: INDICATORS OF MINING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Index of value added (1979 = 100)								
Total	171.2	108.9	122.8	125.3	71.2	-36.4	12.8	2.0
Petroleum	263.1	261.4	364.1	418.7	163.1	-0.6	39.3	15.0
Minerals	193.7	63.6	67.7	43.0	93.7	-67.2	6.5	-36.5
Sand and gravel	116.5	128.5	116.8	119.1	16.5	10.3	-9.1	2.0
Salt	88.9	111.1	133.3	166.6	-11.1	25.0	20.0	25.0

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

time, the old decentralized unit concerned with mining and petroleum activities was upgraded with the establishment of the Ministry of Energy and Mines. Also during the year a law was passed on the promotion and development of small-scale mining, with the aim of reactivating the exploitation of abandoned mines and encouraging the opening of new mines operated by co-operatives or small entrepreneurs.

iii) *Manufacturing*. The industrial sector was one of those most severely affected by the contraction of global demand and the decrease in exports to the rest of Central America. Although little quantitative information on specific branches of activity is available, the survey conducted in October by the Bank of Guatemala on activities in this sector showed that in the case of over half of those interviewed, the volume of production during the first half of the year was less than in the same period in 1982, while it had increased in the case of only 14% of them (see table 6). This was true of nearly all branches of industrial activity; indeed, in some cases (textiles, wearing apparel, wood and furniture) close to two-thirds of the replies indicated that production had fallen. Other indicators confirmed this trend. For example, the volume of sales of electric power to industrial clients in 1983 dropped by 3.8% on average. For a few lines of production, tax revenue figures were available which make it possible to conclude, for example, that the volume of production of cigarettes stagnated while that of beer fell by 14% and that of soft drinks by 8.2%. The volume of exports of manufactures to the rest of Central America fell by over 10.0%. In these circumstances, according to estimates by the Bank of Guatemala, the value added for the sector fell by 2.1% (see table 7).

Among the main economic policy measures adopted by the Government to bring this situation under control, or at least to prevent further deterioration, were the contracting of a loan for US\$ 60 million from the Inter-American Development Bank to support industrial reactivation, the extension for one year of the fiscal incentives granted under the Central American Agreement on Industrial Development Incentives (by mutual agreement with the other Central American Common Market Countries), and the granting of additional incentives for the exportation of non-traditional products to the rest of the world. Towards the end of 1983, however, some industrial entrepreneurs expressed disagreement with the reclassification procedure established by the national authorities for extending fiscal incentives, as well as with the aforementioned measures adopted by Guatemala which had caused an interruption in intra-regional trade.

Directors of the leading association of industrialists estimate that industry as a whole operated at only 60% of capacity. In such circumstances, it is understandable that investment in new plants or in the expansion of existing plants has been very low. The main project under execution during the year was a wood pulp plant initiated years ago with the support of the National Finance Corporation (CORFINA), aided by Spanish capital. This project was 90% complete at the end of the year.

iv) *Construction*. For the second consecutive year the Government continued to stimulate the construction of dwellings by extending lines of credit on preferential terms. The home building permits granted in Guatemala City between January and October increased by 2.1% in terms of area under construction and by 4.1% in terms of value, by comparison with the same period the preceding

Table 6

**GUATEMALA: RESULTS OF THE SURVEY OF ENTREPRENEURS CONCERNING
INDUSTRIAL ACTIVITY DURING THE FIRST HALF OF 1983**

(Percentages)

Branch of activity	Volume of production						Wages			Level of employment			Use of installed capacity					
	Same period of preceding year			Previous half year			In-creased	Same	De-creased	In-creased	Same	De-creased	< 50	51-60	61-70	71-80	81-90	91-100
	In-creased	Same	De-creased	In-creased	Same	De-creased												
Manufacturing	14.0	34.3	51.7	16.9	35.1	48.0	26.5	72.6	0.9	4.7	63.8	31.5	31.3	19.7	23.6	15.6	6.7	3.1
Food industry	17.1	32.9	50.0	11.8	42.1	46.1	27.3	72.7	-	3.9	75.3	20.8	28.6	19.4	23.4	19.5	5.2	3.9
Beberages and tobacco	-	48.3	51.7	17.2	27.6	55.2	41.4	58.6	-	-	69.0	31.0	41.4	3.5	31.0	6.9	17.2	-
Textiles	6.1	28.6	65.3	6.1	49.0	44.9	14.3	85.7	-	-	42.9	57.1	38.8	24.5	10.2	8.2	12.2	6.1
Wearing apparel and leather goods industry	7.7	31.9	60.4	13.2	29.7	57.1	7.7	89.0	3.3	7.7	63.7	28.6	25.3	23.0	29.7	13.2	7.7	1.1
Wood and furniture industry	7.0	29.8	63.2	13.6	20.3	66.1	15.8	82.5	1.7	8.8	35.1	56.1	52.6	26.3	8.8	3.5	3.5	5.3
Paper, printing and publications industry	19.6	15.7	64.7	17.7	29.4	52.9	11.8	88.2	-	5.9	54.9	39.2	23.5	19.6	25.5	17.6	7.9	5.9
Rubber and plastic goods industry	23.9	21.7	54.4	19.6	26.1	54.3	39.1	60.9	-	6.5	60.9	32.6	26.1	21.7	34.8	17.4	-	-
Manufacture of chemicals	16.7	41.7	41.6	21.7	31.7	46.6	26.7	70.0	3.3	-	68.3	31.7	15.0	23.3	33.3	26.7	-	1.7
Glass and non-metallic minerals industry	19.1	33.3	47.6	31.0	31.0	38.0	21.4	76.2	2.4	16.7	47.6	35.7	40.5	40.5	14.2	4.8	-	-
Basic metals industries	-	46.2	53.8	-	46.2	53.8	30.8	69.2	-	-	69.2	30.8	38.5	38.5	23.0	-	-	-
Manufacture of metal products	25.8	24.2	50.0	25.8	32.3	41.9	25.4	74.6	-	16.1	46.8	37.1	43.5	9.7	8.1	19.3	11.3	8.1
Other industries	14.3	14.3	71.4	14.3	21.4	64.3	14.3	71.4	14.3	-	64.3	35.7	42.9	28.6	-	-	14.3	14.2

Source: Bank of Guatemala.

Table 7

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates ^b			
					1980	1981	1982	1983 ^a
Index of manufacturing production (1977 = 100)								
Foodstuffs	119.3	116.7	109.0	106.7	6.0	-2.8	-6.6	-2.1
Textiles	121.7	117.8	109.6	...	7.3	-3.2	-7.0	...
Clothing	113.6	106.7	99.2	...	0.2	-6.5	-7.0	...
Chemical products	109.3	105.0	100.8	...	-0.6	-3.9	-4.0	...
Others	117.6	112.8	104.9	...	6.0	-4.1	-7.0	...
	120.9	119.1	...	...	7.3	-1.5	-5.9	...
Other indicators of manufacturing production								
Consumption of electricity by industry	515 006	467 870	425 760	409 580	-5.6	-9.2	-9.0	-3.8
Employment (number of persons)	83 066	73 683	73 851	...	1.6	-11.3	0.2	5.4

Source: ECLAC, on the basis of official figures.

^a Preliminary figures. ^b The growth rates correspond to real, not rounded, figures.

year. Towards the end of the year, however, the firms responsible for these programmes were complaining that the market was to some extent saturated and had plans for reducing the scale of their activities. At all events, the slight increase shown in the building of certain kinds of dwellings was not enough to counterbalance the severe depression in the construction branch caused by the dramatic drop in public investment and the virtual absence of new commercial and industrial buildings in Guatemala City. An indicator of this state of affairs, which also had adverse repercussions on the industrial sector, was that the consumption of cement during the first nine months of the year was 17.1% lower than during the same period in 1982, which was also a year of recession for the construction sector (see table 8).

v) *Other sectors.* Curiously enough, most services expanded, albeit slowly, in contrast to the negative rates in the production of goods. Thus, the tertiary sector seems to have been the only one which managed to provide new employment, although only to a modest extent. Only commerce and transport showed decreases, in line with the trends in both foreign trade and the supply of goods and services. Similarly, the value added by the electricity, gas, water and sanitary services sector fell by nearly 1% (see table 3).

c) *Employment and unemployment*

Two estimates were available on the evolution of employment. The first, prepared by the Office of the Secretary-General of the National Economic Planning Council, indicates that open unemployment for the economically active population rose from 5.2% at the end of 1982 to 8% at the end of 1983 and that equivalent unemployment rose from 33.2% to 33.7% (see table 9). The second estimate is taken from the records on workers registered in the Guatemalan Social Security Institute. According to that source, the number of jobs in enterprises which are members of the Institute fell by 1.4% in 1983; the fall being particularly notable in agriculture (-7.4%) and the construction sector (-33.8%) (see table 10). The increase in the number of workers in the services sector (3.4% in commerce and 4.5% in other services) seems to support the aforementioned hypothesis of the National Economic Planning Council that underemployment rose even among workers who are members of the Social Security system.

3. The external sector

For the third consecutive year, the country's external transactions on both current and capital account were seriously restricted, in particular with regard to import capacity. Both the value of exports of goods and services and the net mobilization of external capital went down markedly compared with the preceding year. Although the balance of external transactions showed an improvement (even the trade account closed with a surplus of US\$ 11 million, compared with a deficit of US\$ 84 million in 1982, while the deficit on current account dropped from US\$ 376 million to US\$ 238 million), this was due to the virtual collapse in the value of imports, which was reflected domestically in the contraction of economic activity already examined in this Survey.

Table 8

GUATEMALA: CONSTRUCTION INDICATORS

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Area of new buildings^b (thousands of m ²)								
Total	228	151	190	194	-56.2	-33.8	25.8	2.1
Dwellings	128	87	129	111	-44.0	-32.0	48.3	-14.2
Cement production (1972 = 100)	228.4	227.2	178.5	148.0	4.8	-0.5	-21.4	-17.1
Employment^c (number of persons)	27 738	23 440	26 894	17 817	-34.4	-15.5	-14.7	-33.8

Source: ECLAC, on the basis of official figures.

^aJanuary-October.

^bRefers to building permits granted in the capital. Does not include reconstruction programmes.

^cSocial security contributors.

Table 9

GUATEMALA: ESTIMATED LEVEL OF LABOUR FORCE UTILIZATION

	1980	1981	1982	1983 ^a
Thousands of persons				
Economically active population	2 183	2 250	2 320	2 391
Employment	2 136	2 182	2 201	2 201 ^b
Technical requirement for full employment	1 503	1 481	1 430	1 394
Open unemployment	47	69	120	192
Equivalent unemployment	633	701	771	806
Total unemployment	680	770	890	998
Percentages				
Economically active population	100.0	100.0	100.0	100.0
Employment	97.8	96.9	94.8	92.0 ^b
Technical requirement for full employment	68.8	65.8	61.6	58.3
Open unemployment	2.2	3.1	5.2	8.0
Equivalent unemployment	29	31.1	33.2	33.7
Total unemployment	31.2	34.2	38.4	41.7

Source: ECLAC, on the basis of calculations by the Population and Employment Department of the Secretariat of the National Economic Planning Board.

^aPreliminary figures.

^bThree premises were employed in calculating the use of labour for 1983: 1) that the gross geographic product shows negative growth of 2.3%; 2) that the new economically active population is in a situation of open unemployment and 3) that the average productivity of the economic sectors is the same as the preceding year.

Table 10

GUATEMALA: EVOLUTION OF EMPLOYMENT^a

	1980	1981	1982	1983 ^b	Growth rates			
					1980	1981	1982	1983 ^b
Thousands of persons								
Total	755.5	591.0	609.1	600.6	-0.1	-21.8	3.1	-1.4
Agriculture	373.5	225.7	215.7	199.8	-0.3	-39.6	-4.4	-7.4
Manufacturing and mining sector	86.8	77.1	77.0	81.2	2.8	-11.2	-	5.5
Construction sector	27.7	23.4	26.9	17.9	-34.5	-15.5	15.0	-33.8
Commerce	58.9	58.9	61.3	63.4	0.7	-	4.1	3.4
Other services ^c	208.6	205.9	228.2	238.4	6.2	-1.3	10.8	4.5
Indexes (1975 = 100)								
Total	145.1	113.5	117.0	115.3				
Agriculture	143.6	86.8	82.9	76.8				
Manufacturing and mining sector	134.5	119.5	119.3	125.8				
Construction sector	132.7	112.2	128.9	85.4				
Commerce	154.1	154.1	160.3	165.9				
Other services ^c	152.3	150.3	166.6	174.0				

Source: ECLAC, on the basis of official figures.

^aNumber of persons affiliated with the Guatemalan Social Security Institute.

^bPreliminary figures.

^cIncludes public administration.

Furthermore, 1983 witnessed the expansion and consolidation of the parallel foreign exchange market which had appeared some years earlier, with the result that some balance of payments items (income from tourism, family remittances) virtually disappeared. One of the effects of this was to raise doubts concerning the reliability of the data published on the external sector and the country's trade relations with the rest of the world.

The net overall result of the international transactions conducted in 1983 was a positive evolution of US\$ 89 million in the gross monetary reserves, but this was not enough to make up, even to a minimal extent, for the losses sustained in previous years, and at the end of the year the net international monetary reserves still showed a negative balance.

a) *Merchandise trade*

The value of exports of goods fell by 9% compared with 1982. This drop was caused solely by a marked contraction in volume, since on average unit prices increased by 2.4% over the preceding year (see table 11).

The only two export items which showed any dynamism were sugar and, to a lesser extent, petroleum, in keeping with the increase in the supply of these two commodities. The drop in volume and value of coffee exports was greater than the contraction in coffee production because in 1982 it had been possible to export a large amount of surplus coffee which had accumulated in previous years to the so-called "new markets" outside the quota allocated under the International Coffee Agreement.¹¹ The decline in the volume of external sales of coffee was only partially offset by a moderate rise in unit prices. A similar situation occurred in the case of cotton exports, where an increase in unit prices partly compensated for a fall of nearly 25% in volume. The pattern in respect of meat exports was different: the volume of external sales rose, but that rise was offset by a drop in

¹¹ See the *Economic Survey of Latin America and the Caribbean*, 1982, chapter on Guatemala, *op.cit.* During 1982, total exports of coffee beans amounted to 3.3 million quintals, of which slightly over 1 million quintals was sold outside the quota system. In 1983, total exports amounted to less than 2.6 million quintals, but only 150 000 quintals were marketed outside the quota system.

unit prices. Finally, among the other traditional export commodities, the volume of bananas shipped to the exterior declined significantly owing to the smaller amount produced, as mentioned above, while unit prices stayed at the level reached the preceding year (see table 12).

The value of export to the rest of Central America also decreased, but at a lower rate than the value of exports as a whole. This meant that sales to the rest of the Central American Common Market were responsible for nearly 30% of the total value of foreign sales, compared with 28.8% in 1982. Moreover, the country continued to maintain a marked surplus position in intra-regional trade; although its imports from the rest of Central America increased from US\$ 215 million to US\$ 230 million, so that in the past biennium the positive balance has gone down from US\$ 122 million to US\$ 92 million.

In 1983 the volume of imports of goods fell by 19% and their value by 16%. This reflected the global contraction of the economy as well as the additional constraints represented by the application of exchange controls, the quota system and the rise in the price of some imports financed with foreign exchange acquired in the parallel market. The unit value of external purchases increased slightly faster than that of exports, with the result that the terms of trade again showed a deterioration (see table 11).

The drop in imports affected all kinds of goods, but it was particularly notable in the case of external purchases of building materials (-17%) and of machinery, equipment and tools (-51%), which are the very items associated with capital formation (see table 13). There were also indications of a marked decline in the value of fuel imports.¹²

b) *The services trade and factor payments*

Exports of services declined even faster than external sales of goods, although it may be held that this was due to the fact that some of the main items, such as tourism, were channelled towards the parallel foreign exchange market. The balance of payments showed only US\$ 7 million of income from tourism and travel (compared with US\$ 12 million in 1982 and close to US\$ 80 million in

Table 11

GUATEMALA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods						
Value	-5.8	11.8	24.4	-14.5	-7.6	-9.1
Volume	-7.0	12.4	8.3	-11.0	-1.1	-11.2
Unit value	1.2	-0.5	14.9	-4.0	-6.6	2.4
Imports of goods						
Value	18.1	9.2	5.1	4.6	-16.6	-15.9
Volume	10.6	-8.0	-11.9	0.0	-21.6	-18.6
Unit value	6.8	18.6	19.2	4.6	6.3	3.3
Terms of trade (goods)	-5.1	-15.7	-2.7	-8.7	-11.9	-0.4
Indexes (1970 = 100)						
Terms of trade (goods)	114.3	96.4	93.8	85.7	75.4	75.1
Purchasing power of exports of goods	172.2	163.1	172.0	139.9	121.8	107.7
Purchasing power of exports of goods and services	178.3	174.4	176.4	139.4	117.3	101.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

¹²This reflects not only the contraction in total energy demand but also the relative drop in the degree of dependence on energy imports due to the increase in the production of petroleum and, in particular, the entry into operation of the new hydroelectric plant at Aguacapa and the decline in the demand for electric power. In addition, for a short period of a few weeks beginning in October, the new 300 MW Chixoy hydroelectric project went into operation, but it had to be interrupted in December due to defects in the water supply tunnel.

Table 12

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	1 299	1 170	1 091	100.0	100.0	100.0	22.5	-14.5	-9.9	-6.8
Exports to Central America	379	337	322	34.4	29.0	29.5	44.1	-14.1	-11.1	-4.5
Exports to the rest of the world	920	833	769	65.6	71.0	70.5	15.4	-14.7	-9.5	-7.7
Tradicional	663	596	...	57.1	50.9	...	5.2	14.2	-10.0	...
Coffee beans	325	374	308	33.9	30.5	28.2	7.4	-30.0	15.0	-17.6
Ginned cotton	170	90	...	8.9	10.9	...	-12.2	4.2	-47.1	...
Bananas	50	71	...	6.9	3.0	...	136.8	13.3	42.0	...
Mear	29	17	...	4.3	1.9	...	-29.3	-	41.4	...
Sugar	85	44	...	3.1	4.5	...	27.8	23.2	-48.2	...
Non-traditional	257	...	...	8.5	20.1	...	53.0	-16.8	-8.6	...
Cardamom seed	34	44	44	1.3	3.7	4.0	14.3	-39.3	29.4	...
Cocoa	1	31	...	-	0.2	...	-40.0	-50.0	...	...
Sesame seed	16	12	...	0.3	0.7	...	-16.7	60.0	-25.0	...
Nickel	-	-	...	-	3.9	...	118.5	-	-	...
Petroleum	22	46	58	...	1.6	5.3	...	-8.3	109.1	26.1
Others	184	120	...	6.9	10.1	...	43.9	16.5	-34.8	...

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bThe percentage breakdown and growth rates are based on real, not rounded, figures.

previous years). This income seems to be very much underestimated in view of the number of foreign travellers entering the country (which increased by 4.8% up to October, compared with the same period of the preceding year) and the figures for rooms occupied in the main hotels (which, although very low, by no means confirmed a foreign exchange income as small as this). The same trend towards underestimation can undoubtedly be observed in other items of the services account, particularly in the case of transfers, since one of the main sources of the foreign exchange available on the parallel market is family remittances, which are openly exchanged in a number of centres, including the main post office.

In imports of services, factor payments are still the most important variable. The flight of foreign currency in this connection was somewhat less marked than in 1982, not only because of the slight decrease in nominal interest rates on international financial markets, but also because some of the short-term debt in respect of which these payments were made was amortized the preceding year. Furthermore, the external debt of Guatemala is still relatively low, at least by comparison with that of the other Central American countries, and is favourably structured in terms of periods of maturities and average interest rates.

In brief, the balance on the services account continued to be highly negative and constituted the sole source of the balance-of-payments current account deficit, since both merchandise trade and transfers were in surplus (see table 14).

c) *The current account position and its financing*

As a result of the trends described above, the deficit on current account fell from some US\$ 376 million in 1982 to US\$ 238 million in 1983. As indicated above, this decrease was achieved basically through the severe contraction of imports.

The deficit was financed through net inflows of capital, largely derived from public sources, in an amount which even made it possible to raise the level of the gross monetary reserves by US\$ 89 million. This was achieved basically through a significant increase in the lines of credit contracted by the Bank of Guatemala (US\$ 157 million by comparison with US\$ 31 million in 1982) and through the incipient use (US\$ 27 million) of the second tranche of stand-by credit obtained from the IMF, since both the amount of official loans disbursed and the private capital contracted decreased. At the same time, direct foreign investment (in recent years largely oriented towards the petroleum sector) dropped from US\$ 77 million in 1982 to US\$ 45 million in 1983. In these circumstances, the net inflow of capital fell from US\$ 338 million to US\$ 327 million, reflecting the austerity prevailing in international financial markets and the persistent difficulty experienced by the country in mobilizing more external resources.

d) *External indebtedness*

In 1983 the finance authorities continued their efforts to obtain external financing to support both the public investment programmes and the balance of payments. As part of this effort, the Government contracted 11 new loans with bilateral and multilateral finance institutions, totalling US\$ 190 million,¹³ and the Central Bank acquired nearly US\$ 90 million in new credit lines, including some renegotiations, in addition to the aforementioned disbursement of the second tranche of stand-by credit granted by IMF. The coefficient of disbursement of new credit contracted by the public sector was relatively low, while the external public debt increased by slightly more than US\$ 200 million in the past year.

As may be seen, by comparison with the other countries of the region the external public debt is still relatively moderate in size (19% of the gross domestic product), and its servicing absorbs a reasonable, although in recent years rapidly rising, percentage of the foreign currency generated by exports of goods and services (see table 15). This is due to the prudent policy followed by successive

Table 13

GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b				
	1981	1982	1983 ^a	1970	1980	1983 ^a	1979	1980	1981	1982	1983 ^a
Total	1 673	1 388	1 160	100.0	100.0	100.0	8.2	6.3	4.7	-17.0	-16.4
Consumer goods	342	284	247	29.7	21.3	21.3	6.9	-4.8	0.3	-17.0	-13.1
Durable	117	79	...	9.3	7.7	...	7.3	-7.5	-5.0	-32.5	...
Non-durable	225	205	...	20.4	13.6	...	6.7	-3.1	3.0	-8.9	...
Intermediate goods	1 011	861	788	48.0	59.8	67.9	17.4	19.3	5.9	-14.8	-8.5
Petroleum and fuels	369	302	...	5.0	21.2	...	42.3	40.0	8.8	-18.2	...
Building materials	100	77	64	6.3	5.8	...	16.7	-7.9	7.9	-23.0	-16.9
Others	542	482	...	36.7	32.7	...	7.6	14.2	3.5	-11.1	...
Capital goods	300	236	118	20.8	17.9	10.2	-6.8	-15.4	5.1	-21.3	-51.3
For agriculture	16	13	...	1.9	1.2	...	-33.0	-17.4	-15.0	-18.7	...
For industry	221	187	...	14.6	12.1	...	-0.7	-14.6	14.6	-15.4	...
For transport	63	36	...	4.3	4.6	...	-11.5	-16.9	-15.1	-42.9	...
Miscellaneous	20	7	7	1.5	1.0	0.6	-30.0	128.5	18.9	-65.0	-

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bThe percentage breakdown and growth rates are based on real, not rounded, figures.

¹³The sources of financing were as follows: four loans from the Inter-American Development Bank (IDB) for US\$ 123 million; four loans from the Agency for International Development (AID) for US\$ 22.5 million; one credit from the World Bank for US\$ 18.5 million and two from other official sources for US\$ 26 million.

Table 14

GUATEMALA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-37	-271	-209	-165	-567	-376	-238
Trade balance	-98	-354	-320	-228	-570	-323	-168
Exports of goods and services	1 335	1 298	1 473	1 730	1 454	1 307	1 173
Goods FOB	1 160	1 092	1 221	1 520	1 299	1 200	1 091
Real services ^b	175	205	251	211	155	107	82
Transport and insurance	28	33	40	43	33	26	18
Travel	66	67	82	62	30	12	7
Imports of goods and services	1 433	1 651	1 792	1 958	2 024	1 630	1 341
Goods FOB	1 087	1 284	1 402	1 473	1 540	1 284	1 080
Real services ^b	346	368	390	486	484	346	261
Transport and insurance	172	142	161	187	188	141	111
Travel	100	108	120	164	133	100	90
Factor services	-33	-32	-13	-45	-86	-115	-108
Profits	-33	-35	-45	-42	-49	-41	-51
Interest received	33	50	78	75	55	20	25
Interest paid	-32	-47	-46	-92	-109	-101	-89
Others	-1	-	-	14	17	7	7
Unrequited private transfer payments	94	115	123	109	89	62	38
Balance on capital account	219	339	183	-93	265	338	327
Unrequited official transfer payments	2	1	3	1	1	1	-
Long-term capital	199	268	258	247	416	341	257
Direct investment (net)	97	127	117	111	127	77	45
Portfolio investment (net)	5	12	5	4	-	-	-
Other long-term capital	96	129	135	132	288	263	212
Official sector ^c	68	102	112	106	219	142	231
Loans received	82	117	130	121	246	197	366
Amortization payments	-14	-15	-18	-18	-27	-55	-135
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	28	27	23	26	69	121	-19
Loans received	43	58	60	25	100	121	-
Amortization payments	-24	-41	-47	-10	-42	-15	-19
Short-term capital	44	129	-33	-323	-140	-29	31
Official sector	-	8	2	59	44	15	-48
Commercial banks	3	1	24	2	-7	14	-
Other sectors	41	121	-59	-384	-178	-1	79
Errors and omissions (net)	-27	-59	-44	-18	-11	-33	39
Global balance^d	182	68	-26	-258	-301	-38	89
Total variation in reserves (- sign indicates an increase)	-182	-68	19	251	305	16	-89
Monetary gold	-1	-	-	-	-	-	-
Special Drawing Rights	-1	-1	-9	2	20	3	-1
IMF reserve position	-1	-2	-2	-9	18	10	-8
Foreign exchange assets	-176	-70	56	259	257	25	-89
Other assets	-3	5	-26	-1	-102	-15	-26
Use made of IMF credit	-	-	-	-	111	-6	35

^aPreliminary figures. ^bReal services also include other official and private transactions, but not factor services. ^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. ^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

governments (the period 1980-1982 may constitute somewhat of an exception to this rule) not only as regards the amounts contracted but also as far as the sources of this financing are concerned. Nearly all of the external debt of the public sector is obtained from official sources on highly concessionary terms.

Even so, in view of the scarcity of foreign exchange which has been making itself felt, the authorities have been forced to apply for the restructuring of some of the debt with the exterior. Thus, the Bank of Guatemala renegotiated some of the credit lines contracted in previous years with commercial banks, and towards the end of the year the National Finance Corporation (CORFINA) was negotiating the restructuring of its financial commitments with official sources in Spain.

4. Prices and wages

During 1983, some acceleration was noted in inflationary pressures, although it is difficult to determine how much owing to methodological and conceptual problems relating to the preparation of the consumer price index, the scope of which is described below. Up to October 1983, the variation of this index compared with the same month the previous year was 8.1%, while the variation between annual averages over the period October-October was 4.3% (see table 16).

The problems referred to were due basically to the fact that in April the statistical authorities decided to change the food basket made up of 145 articles, on which the consumer price index had been based since January 1975. That index was based on all those families whose annual income was between 1 560 and 6 000 quetzales. The new index, whose base is April 1983, uses a food basket made up of 212 articles and refers to three social strata. The two indexes also differ with regard to the regional distribution of the population covered by periodic surveys. Thus, although the two indexes have points in common—they both use the Laspeyres method of calculation—and many of the commodities in their baskets are the same, it is not feasible to carry out a rigorous technical comparison of them. In spite of the shift in methodology which occurred in April, the estimate given in the paragraph above was made on the basis of the criteria available.

Table 15
GUATEMALA: INDICATORS OF EXTERNAL ENDEBTEDNESS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983 ^a
Total external debt^b						
Balance	821	934	1 053	1 409	1 504	1 766
Service	103	111	120	178	188	245
Principal	56	65	28	69	92	154
Interest	47	46	92	109	101	89
Public and State-guaranteed private external debt						
Balance	304	427	549	809	1 119	1 187
Service	26	38	45	61	88	129
Principal	10	15	15	23	34	58
Interest	16	23	30	38	54	71
Total external debt service, as a percentage of exports of goods and services	7.9	7.5	6.9	12.2	14.4	20.9
Public external debt service, as a percentage of exports	2.0	2.6	2.6	4.2	6.7	11.0

Source: ECLAC, on the basis of figures supplied by the Bank of Guatemala and the World Bank.

^aPreliminary figures. ^bDisbursed.

Table 16

GUATEMALA: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation December to December						
Consumer price index	9.1	13.7	9.1	8.7	-2.0	8.1 ^a
Food	8.2	13.3	8.2	4.8	-2.6	9.0 ^a
Wholesale price index	5.1	18.7	12.0	4.0	-4.4	...
Imported products	2.3	25.5	6.8	10.8	4.2	...
Domestic products	5.4	18.1	12.4	3.4	-5.3	...
Building materials	12.0	30.4	3.5	-3.0	-1.3	...
Variation between annual averages						
Consumer price index	7.9	11.5	10.7	11.4	0.2	4.3 ^b
Food	4.6	10.3	11.2	11.3	-2.8	5.0 ^b
Wholesale price index	3.6	10.3	16.0	11.7	-5.8	...
Imported products	1.6	15.2	19.0	10.1	3.8	...
Domestic products	3.8	10.3	15.7	11.9	-6.7	...
Building materials	15.7	13.8	12.4	4.7	-5.2	...

Source: ECLAC, on the basis of official figures.

^aVariation October 1982 to October 1983.

^bVariation between average for January-October 1982 and that for January-October 1983.

Furthermore, the statistical authorities reported that owing to problems relating to the application of the methodology used up until April, the data relating to 1982 were not entirely reliable. Consequently, because the variations in the 1982 index were underestimated, the data for 1983 might be overestimated if the two years are compared. This being the case, the variations registered in both the 1982 and the 1983 indexes should be viewed with a certain amount of caution. The April to October series does, however, appear to be reliable and correct from a methodological point of view.

While the index for the former series remained virtually unchanged between January and April, from April to September an increase of 11.2% was shown. The items most responsible for the resumption of inflationary pressures include wearing apparel and footwear (23.9%) and food and beverages (12.6%), while other entries, such as household expenses, showed only a slight increase (2.5%). The price variation was slightly less than average in Guatemala City and above average in other places, especially in rural areas.

In contrast with previous years, when part of the inflationary pressure was due to excess demand, as a result of a growing fiscal deficit together with restrictions on the capacity to import, the rise in the consumer price index in 1983 was basically due to cost inflation. There were two main causes for this: first, the higher cost of imports due to the fact that an increasing proportion of them was financed with foreign exchange acquired in the parallel market,¹⁴ and second, the price increases made by the commercial sector in response to the application of the new value-added tax, which even spread to articles not subject to that tax. In other words, at least during the first few months that this tax was enforced, its impact on the price structure was magnified, especially if we take into account that the legislation did not provide for credit in respect of the stamp tax already paid on merchandise which would be subject to the new value-added tax, so that for a short period of time some goods were subject to double consumer taxes (the old stamp tax and the new value-added tax). It should be noted that this phenomenon was by its very nature temporary; by October the index was already showing deceleration. Thus, the variation for October compared with the same month the preceding year was 8.1%, in comparison with 11.2% for the September-September variation.

¹⁴During the last years of the past decade, the rise in the cost of imports due to the inflationary process recorded in the main countries supplying goods and services to Guatemala was an important factor in the local inflationary process. This kind of "imported inflation" diminished considerably in 1983 (the unit price of imports rose by less than 3%), as a reflection of the decline of inflation in the international market and also of the revaluation of the dollar with respect to the majority of European currencies and the Japanese yen, which was partially responsible for a relative drop in the costs of goods and services from those countries in terms of the official Guatemalan exchange rate.

With regard to wages, the only indicator available was that relating to wages paid to workers who contribute to the Social Security System. According to those data, both the total payroll and average wages experienced a drop even in nominal terms. Consequently, real wages appear to have declined by 6.4% and the real purchasing power of total wages by nearly 8% (see table 17). These data must be viewed with a certain amount of caution, since they do not refer to all wage-earners, although the trend they indicate is at all events consistent with the global economic situation described in this report. On the other hand, the decline in average nominal wages was not felt in every sector; increases were in fact recorded for workers in the agricultural (11.0%) and industrial (9.0%) sectors, while the most significant drops occurred in the construction (-2.5%), the commercial (-1.6%) and especially the services (-19.6%) sectors.

5. Fiscal and monetary policy

a) *Fiscal policy*

In recent years public finances have been one of the weakest elements in the Guatemalan economy, due to the exceptionally low incidence of taxation and the heavy demands on the public sector to raise its expenditure. As already noted, during the recent recessive period tax receipts tended to diminish, while at the same time the Government decided to tackle the contraction of economic activity with increased expenditure. This of course resulted in a growing fiscal deficit.

During 1983 the Government attempted to meet this situation head on, first by promoting a tax reform and second by reducing expenditure. Details are given below of the rather erratic way in which this reform was applied and the consequences thereof, the result being a net loss of income during the last months of the year. This forced the financial authorities to go in for even greater expenditure than that originally provided for, especially in the area of public investment.

Thus, as the year began the State's income and expenditure budget provided for revenue of nearly 770 million quetzales, in the face of operating costs of 796 million quetzales and capital expenditure of 518 million quetzales. The estimated income did not take account of the additional yield which a tax reform might bring. At the end of 1983, total revenue amounted to 729 million quetzales—5% less than the amount provided for in the budget— while operating and capital expenses amounted to 707 and 394 million quetzales, respectively (in all, nearly 20% less than the amount budgeted).

Total income did not even manage to exceed the amount received the preceding fiscal year, while tax revenue actually fell from 626 to 599 million quetzales, so that the tax coefficient reached its lowest point in the past 30 years (6.5% compared with 10.3% only five years previously). This fall was partially attributable to the tax reform mentioned above. The situation would have been more dramatic, had it not been for the fact that, because many tax payers decided to reschedule their tax periods in line with the new law, many income tax payments were received in December 1983 which,

Table 17

GUATEMALA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates			
	1980	1981	1982	1983	1980	1981	1982	1983
Average salaries and wages								
Nominal	148.5	194.8	206.8	201.8	10.9	31.2	6.2	-2.4
Real	89.4	105.2	111.5	104.4	0.1	17.6	6.0	-6.4
Total payroll								
Nominal	215.4	221.1	242.0	232.7	10.8	2.6	9.5	-3.8
Real	129.7	119.5	130.5	120.4	0.0	-7.9	9.2	-7.7

Source: ECLAC, on the basis of official figures.

* Refers to information supplied by the Guatemalan Social Security Institute on the number of members and the salaries and wages paid to them.

Table 18

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of quetzales)

	1980	1981	1982	1983 ^a	Growth rates ^b			
					1980	1981	1982	1983 ^a
1. Current income	747	741	730	729	11.8	-0.8	-1.5	-0.1
Tax revenue	678	652	626	599	9.2	-3.9	-3.9	-4.3
Direct	100	110	108	136	3.1	9.4	-2.5	25.9
Indirect	578	542	518	463	10.3	-6.2	-4.4	-10.6
On foreign trade	259	171	125	106	7.4	-34.0	-26.9	-15.2
2. Current expenditure	678	759	710	707	25.5	11.9	-6.5	-0.4
3. Current saving (1 - 2)	69	-18	20	22	-46.1	...	...	...
4. Capital expenditure	515	724	548	392	34.8	40.6	-24.3	-28.5
Real investment	438 ^c	621 ^c	432	334	41.3 ^c	41.8 ^c	-30.4	-22.7
Debt amortization payments	77	103	116	58	6.9	33.8	12.6	-50.0
Other capital expenditure	...	...	...	...	...	...	...	...
5. Total expenditure (2 + 4)	1 193	1 483	1 258	1 099	29.4	24.3	-15.2	-12.6
6. Fiscal deficit (1 - 5)	-446	-742	-528	-370	75.6	66.4	-28.8	-29.9
7. Financing of deficit								
Domestic financing	328	634	416	251	68.9	93.3	-34.4	-40.0
External financing	118	108	112	119	10.6	-8.5	3.7	6.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bThe growth rates correspond to real, not rounded, figures.^cIncludes other capital expenditure.

strictly speaking, pertained to the next fiscal year. This explains the relative dynamism of direct tax revenues, in contrast with the negative results from other taxes (see tables 18 and 19).

As the financial authorities noted the unsatisfactory performance of receipts during the year, expenditure was increasingly curtailed, especially in the case of public investment. Thus, at the end of 1983 the current expenditure of the central government was lower than that of the preceding year (707 and 710 million quetzales, respectively).¹³ The reduction in capital expenditure was even greater, since it dropped from 548 million quetzales in 1982 to 392 million in 1983. In brief, the fact that the fiscal deficit went down from 528 million quetzales in 1982 to 370 million in 1983 (3.8% and 3.1% of the gross domestic product, respectively) was due basically to the severe contraction in total expenditure.

Undoubtedly the most important occurrence of the year in the fiscal domain related to the effort to restructure the tax system. In July, after an intense public debate, the Government agreed to introduce a reform which included a number of provisions. The main one envisaged the establishment of a 10% value-added tax as a substitute for the 3% cumulative stamp tax on transactions. It was felt that this new tax would provide more equitable treatment, would be more efficient for purposes of fiscal and administrative control and would yield additional revenues. Mass consumption items and medicines, agricultural inputs, exports and a few other activities regarded as basic were exempted from the new tax. As a second measure, the income tax law was changed, one rate being established for enterprises and another for individuals, in order to avoid double taxation and encourage the capitalization of enterprises (previously, both legal entities and natural persons were subject to a single progressive rate). Thus, a less progressive rate was established for enterprises than for persons; some financial institutions were even subject only to a proportional tax of 20%. A third provision of the reform was to convert the specific tax base of the duties on the consumption of

¹³It appears that at the close of the period there remained a very large floating debt which must be paid in the next fiscal year.

distilled alcoholic beverages, beer and other beverages to an *ad valorem* base so as to make them more sensitive to price variations. This also resulted in a slight increase in the levels of taxation. Finally, some minor increases were made in respect of existing surcharges, such as for example, the tax applied to travel abroad. The reform also contained a provision for selective taxes on the consumption of non-essential articles, but this provision was not put into effect owing to the opposition it generated among various producers' associations.

The reform also provided for the elimination of some taxes. Not only was the stamp tax on the value of sales eliminated, but the application of the stamp tax on the value of imports and on contracts for credit extended by banks was also suppressed. In addition a large number of taxes which were of little importance in terms of their contribution to the total levy but which entailed high administrative costs were eliminated. In this connection, mention may be made of a tax on the production of salt, a number of permits to carry out activities in the country and various taxes on the provision of services or the sale of goods. But the most significant case of tax reduction was that which occurred with respect to the tax on the value of exports, the objective being to provide an incentive for external sales by reducing the duties applied to exports of coffee, cotton, bananas, sugar, meat and shrimps by 50% up to 30 June 1984 and by 75% between that date and 30 June 1985, after which they were to be entirely eliminated.

In brief, the reform was aimed at bringing in additional fiscal income in the amount of 60 million quetzales during 1983 (slightly more than 0.5% of the gross domestic product) and some 200 million quetzales more in 1984 (2% of the gross domestic product). It was also aimed at promoting non-traditional exports by gradually eliminating the taxes on them. It was thought that, taken together, the new provisions would probably make the tax system more regressive and give it less elasticity by eliminating or reducing some progressive taxes such as the income tax on enterprises and the export tax. On the other hand, it was felt that the reform would increase the State's capacity to administer and control taxes, through the management and control system inherent in the value-added tax. There was, however, no opportunity to assess the exact consequences of the set of measures described, since in August, a few days after the value-added tax went into effect, there was a change of government and the whole debate on the tax reform was reopened.¹⁶

Table 19

GUATEMALA: CURRENT INCOME OF THE CENTRAL GOVERNMENT
(Millions of quetzales)

	1977	1978	1979	1980	1981	1982	1983 ^a
Total	591	661	668	747	741	730	729
Tax income	557	621	621	678	652	626	599
Direct	80	102	97	100	110	108	136
Income tax	71	94	91	95	104	102	128
Land tax	9	8	6	5	5	5	5
On legacies and donations	1	1	0	0	1	1	2
Indirect	477	519	524	578	541	519	463
Imports	97	106	115	110	103	76	66
Exports	152	158	126	146	68	49	40
Alcohol	37	40	43	47	43	42	33
Tobacco	13	14	17	21	21	23	25
Stamps and stamped paper	140	151	171	200	261	284	226
Petroleum products	18	24	28	24	21	19	25
Miscellaneous	20	25	24	27	25	26	48
Non-tax income	34	40	47	68	89	104	130

Source: Bank of Guatemala.

^aPreliminary figures.

¹⁶At the first press conference given by the new authorities, at which the reasons for the change which had occurred were explained, mention was made of the possibility of reviewing the recently adopted tax reform.

As long as the debate lasted, very few enterprises complied with the new provisions, and although some of them collected the tax, they did not declare it to the financial authorities. The debate ended towards the end of September, when the Government decided to reduce the rate of 10% to one of 7% and to increase the number of tax exemptions significantly, thus weakening one of the primary motivations for the original law, which was to improve the administration and supervision of consumer and income taxes. In addition, since the three-taxes which have historically been the most elastic in terms of variations in income (sales taxes, export tax and the income tax on legal entities) were eliminated or reduced, it must be assumed that any reactivation of the economy in the future will not necessarily imply an increase in the amount collected in taxes.

With regard to the budgetary reductions made in the course of the year, they affected virtually all activities, projects and programmes. The reduction in operating expenses was not always based on criteria of selectivity and had an adverse impact on the Government's capacity to supply basic health and education services. In the cuts made in the investment programme an attempt was made to safeguard priority projects and projects with external financing, but this was not always possible, and some works regarded as being of high priority had to be suspended or at the very least their execution had to be deferred.

Finally, detailed figures were not available for the rest of the public sector, whose current income and operating expenditure represent close to 40% of total central government outlays. Some of the most important institutions in this category are the Guatemalan Social Security Institute, the National Electrification Institute, some municipalities and a number of enterprises which supply public services.

b) *Monetary policy*

The monetary picture in 1983 changed radically between the first and second parts of the year. Up to June, the banks in the system had surplus liquidity because there was a moderate increase in new deposits and a let-up in credit pressure due to the widespread economic recession which affected the private sector and to the increasingly severe restrictions on public expenditure. On 30 June, for example, the means of payment available to the intermediation system had grown by 8.9% by comparison with the same date in 1982, while credit activity had increased by 11.6%. Towards the end of the year, in contrast, the system was in a position which was characterized rather by a lack of liquidity, due not so much to a slight reactivation in the demand for credit (total credit activity as of 31 December was 14.8% higher than in the same period in 1982) as to the rapid absorption of deposits by the Bank of Guatemala through the issue of stabilization bonds.

As in the previous three-year period, the net credit provided by banks to the public sector grew faster (17.4%) than that supplied to the private sector (13.0%), which meant that at the end of 1983 more than 40% of the portfolio of the consolidated banking system was in the hands of the public sector (see table 20). This is a reflection of the central government's deficit position noted earlier, since although the deficit was smaller than in 1982 it was still high in nominal terms. It should be noted that all the net financing to the public sector came from the Central Bank and that the financing granted to the central government was higher than that directed to the sector as a whole since the rest of the sector was a net creditor of the bank.

In addition to credit activity, another factor responsible for the monetary expansion was the growth of the net international reserves. Although the absolute figure continued to be highly negative (-US\$ 255 million), it was more favourable by nearly US\$ 100 million than that recorded at the end of 1982.¹⁷

With regard to new deposits, the amount placed in current accounts grew by only 3.8%, while quasi-money expanded even more slowly (1.9%). This reflects both the sluggishness of the economy and the substantial transfer of resources to the Bank of Guatemala through the stabilization bonds issued from July on. Thus, at the end of the year, the figure for net assets in the Central Bank was markedly negative, which explains the spectacular growth of "other items", regarded as one of the factors of absorption (see table 20).

¹⁷ For purposes of this chapter, the term "net international reserves" refers to the difference between external assets and external liabilities.

Table 20

GUATEMALA: MONETARY BALANCE

(Millions of quetzales)

	Balance at end of year				Growth rates ^b			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	709	738	749	773	2.5	4.1	1.4	3.3
Currency outside banks	379	403	403	414	4.1	6.3	-0.2	2.8
Demand deposits	330	335	346	359	0.6	1.6	3.4	3.8
Factors of expansion	2 049	2 266	2 415	2 919	7.9	10.6	12.8	20.9
International reserves (net)	351	-98	-351	-255	-47.1			
Domestic credit	1 698	2 364	2 766	3 174	37.4	39.2	17.0	14.8
Public sector	355	802	1 097	1 288	200.8	125.9	36.7	17.4
Private sector	1 343	1 562	1 669	1 886	20.1	16.3	6.8	13.0
Factors of absorption	1 340	1 528	1 666	2 146	11.0	14.0	9.0	28.8
Quasi-money (savings and time deposits)	1 088	1 260	1 532	1 561	17.4	15.8	21.5	1.9
Other items (net)	252	268	134	585	-10.0	6.3	-50.0	336.6

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bThe growth rates are based on real, not rounded, figures.

During 1983 the authorities of the Bank of Guatemala followed the main policies decided upon in 1982. Compulsory bank reserves remained the same (35% for monetary deposits and 10% for savings deposits), with the result that, as the Central Bank froze some of the deposits of the intermediation system, the reserve coefficient fell from 21.3% at the end of 1982 to 17.8% at the end of 1983. The policy adopted in November 1982 in respect of interest rates under which the maximum rate of interest on loans was set at 12% and that on deposits at 9%, was also kept in force. The provisions relating to the minimum capital requirements and the open market transactions of the Bank of Guatemala also remained unchanged.

The global monetary picture described above does not reflect the high incidence of overdue debt—a result of the financial difficulties facing many enterprises. This meant that a large proportion of the credits granted were for refinancing, and the Bank of Guatemala continued to support the banks of the system in their efforts to adapt their portfolios to the capacity of the debtors to pay.

Apart from the issue of stabilization bonds referred to above, the main event in the field of monetary policy in 1983 was that in August a new letter of intent was signed with the International Monetary fund with a view to obtaining a stand-by credit (approved in September) for approximately US\$ 125 million. In that letter, the Government undertook to adopt an adjustment programme whereby concrete measures would be taken in the fiscal area (reduction of the non-financial public sector deficit to 3.5% of the gross domestic product in 1983 and to 3% of the product in 1984); wages and domestic prices would continue to reflect basically the play of market forces; the monetary policy would be designed to bring about price stability and prevent a continued loss of international monetary reserves; a realistic policy on interest rates would be adopted, and more use would be made of external credit for financing productive investment projects and public sector projects. The programme also set some targets as regards reactivating the export sector, providing new encouragement for economic activity, and gradually liberalizing the recently adopted exchange policy.

HAITI

1. Recent economic trends: Introduction and summary

The recession which had been affecting the Haitian economy in 1981 and 1982 eased slightly during 1983. The gross domestic product, which had fallen somewhat less than 3% in each of those years,¹ made a small recovery of scarcely over 1% in 1983; nevertheless, this amounted to another decrease (-1.2%) in the per capita product. Over the past three years, the per capita gross domestic product has fallen 11%.

Gross national income declined more steeply in 1981 and 1982 and rose less in 1983 than the gross product did during those years. This was primarily due to a persistent deterioration in the terms of trade since 1978, with the sole exception of 1980 (see table 1 and figure 1).

All economic activities, with the exception of mining (which is not a major industry) and government services, increased their product in real terms during 1983. In the vast majority of cases, the results were substantially better than in 1981 and 1982. The recovery made by construction and by transport services, storage and communications was particularly notable. The upswing in agricultural production—despite the smallness of the increase—was even more significant, however, in view of the great economic importance of this sector. Export crops and poultry production were the two activities which led the recovery of the sector.

The economic recession of the past three years has been very closely related to the deteriorating situation with respect to external variables—as reflected in the increase in the on-going deficit on the current account of the balance of payments—and this, in turn, was linked to the decline in the world economy. In this connection, it should be recalled that the industrialization process during the past decade (the manufacturing industry's contribution to the global product climbed from 14% to 19% during this period) was based on the establishment of foreign-capital export industries which primarily use imported parts and raw materials.

The need to point the economy in a different direction made it necessary, first of all, to reduce the external sector deficit and to put public finances on a sound footing. Thus, after the fiscal deficit had more than doubled between 1979 and 1981 and the trade balance in that year showed a deficit 56% greater than in 1980, the Government adopted an economic and financial stabilization policy and obtained a loan from the International Monetary Fund for 35 million in Special Drawing Rights, which were drawn between August 1982 and September 1983. Nonetheless, the restriction of public spending and the payment of that portion of the external debt which fell due that year took up a large part of the fresh financial resources that the country received. The main consequences of this were the drop in the gross domestic product in 1982 and its very slight increase in 1983.

Two components of global demand, gross domestic investment and the quantum of exports of goods and services, represented a departure from the weak growth shown by production and imports, in that they rose more than 5% and nearly 9%, respectively, in 1983, to the detriment of consumer spending, which decreased once again.

The increase in investment during 1983, which followed upon a large contraction in 1982 and insignificant increases in preceding years, came from the boost given to the construction of some projects, such as the Belladere hydroelectric plant and the expansion of the industrial inventory. Private investment, on the other hand, showed a lack of activity, as it also had during the two preceding years.

The drop in economic activity during recent years raised the rate of open unemployment from an estimated 11.5% in 1981 to around 14% in 1983; the same thing is assumed to have occurred with

¹Unless otherwise indicated, the period under review is the fiscal year which runs from 1 October 1982 to 30 September 1983. The reference periods also correspond to fiscal years.

respect to underemployment, which was estimated at about 40% in 1981. This situation was compounded by a 15% decrease in minimum industrial wages in real terms during the past two years, which has further reduced the population's already low levels of consumption. Even during the years of sustained economic growth in the 1970s, poverty levels increased.² Moreover, in view of the decrease in the domestic supply of goods and services, this situation must certainly have grown worse.

The economy's greater openness to the exterior —the import coefficient for the gross domestic product has risen from 17% to 25% since 1970 and the export coefficient from 13% to 16%— and the greater vulnerability which this engendered to changes in the international market was reflected in the worsening of the trade deficit in 1980 and 1981. In 1982, however, there was less of an imbalance and in 1983 this level was maintained. After a considerable drop in 1981, the current value of exports of goods and services rose 12% and 8.5% during the last two years. Imports fell 10% in 1982 and increased slightly more than 4% in 1983 (see table 1).

The current deficit on the balance of payments has followed much the same course as the trade balance since 1980; it amounted to approximately US\$ 160 million in 1983, which was greater than the net inflow of capital. This made it necessary to resort, for the third year running, to the use of compensatory credit from the International Monetary Fund, in this case, for US\$ 28 million. Net international reserves were reduced by US\$ 24 million in 1983; the sum total of this figure and the decreases of the three preceding years is US\$ 103 million, of which US\$ 76 million corresponds to the increase in IMF liabilities.

During 1982 and 1983, a strict policy to hold down government spending and to raise revenue was followed in order to cut the fiscal deficit, which had reached a very high level in 1981. These goals were achieved: spending was reduced 17% in 1982 (this figure particularly reflects the drop in investment expenditure, inasmuch as current expenditures rose slightly) and slightly over 1% in 1983. Current revenues rose 10% and 16% in those two years and the increase in tax receipts was even greater. This reduced the fiscal deficit considerably. Nonetheless, though spending was reduced, amortization payments on the debt increased, especially in 1983, in view of which the fiscal deficit rose 20% during the past year, while as a ratio of the gross domestic product (8.9%), it once again neared the 10.3% level of 1981.

The contraction of private consumption and of government expenditures helped to keep domestic demand low, so that the increase in domestic prices remained at around 8%, which was similar to the rate recorded in recent years. The lack of growth in the money supply also helped to hold down price increases.

2. Trends in economic activity

a) *Total supply and demand*

The shrinkage of the gross domestic product in 1981 and 1982 —following two years of rapid growth at a rate of 7.5% annually— and its slight recovery in 1983 were coupled with a similar trend in imports in constant terms; as a result, the total supply of goods and services also showed a slight upswing in 1983 after declining during the two preceding years (see table 2).

The economic recession and the decrease in foreign exchange assets first resulted in a virtual stagnation of the quantum of imports in 1981; this was followed by a sharp drop of 14% in 1982 and the slight increase, already mentioned, in 1983. In contrast, the volume of exports of goods and services rose 8.5% and nearly 9% during the past two years, mainly because of higher sales of coffee and cacao.

Given the very small expansion in total supply, the significant increase which occurred in exports eliminated any possibility of expanding the domestic supply of goods and services; in 1981 this supply had already shown no growth and in 1982 it had declined. There was an appreciable expansion however, of gross domestic investment (5.5%) in 1983 (after it had behaved erratically since 1980). A particularly important factor in this expansion was the boost which the Government gave to the construction of the Onde Verte de Belladere hydroelectric plant, as against other public

²It is estimated that the portion of the total population living at levels of absolute poverty rose from 48% to 68% between 1976 and 1980. See, Institut haïtien de statistique et d'informatique, Département du plan, *Population, ressources humaines et développement*, December 1982.

Table 1

HAITI: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^d
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	571	613	660	641	625	633
Population (millions of inhabitants)	5.53	5.67	5.81	5.95	6.10	6.26
Per capita gross domestic product (1970 dollars)	103	108	114	108	102	101
Growth rates						
B. Short-term economic indicators						
Gross domestic product	4.8	7.3	7.7	-2.8	-2.5	1.3
Per capita gross domestic product	2.4	4.7	5.1	-5.3	-4.8	-1.2
Gross national income	3.4	5.9	9.1	-3.5	-3.6	0.7
Terms of trade (goods and services)	-7.6	-9.0	3.6	-8.2	-1.2	-2.8
Current value of exports of goods and services	21.3	0.8	43.5	-21.3	12.2	8.5
Current value of imports of goods and services	17.4	6.9	46.5	6.9	-10.1	4.2
Consumer prices						
September to September	2.3	18.6	9.5	4.8	8.0	9.2
Variation between annual averages	-2.9	9.7	18.1	8.2	8.2	8.4
Money						
Wages and salaries ^b	25.1	22.0	11.1	21.3	14.9	0.1
	26.6	-8.8	16.5	10.9	-7.6	-7.8
Current income of government	15.1	12.0	14.0	-4.3	10.0	16.4
Total expenditure of government	31.6	14.7	21.5	19.5	-5.7	18.2
Fiscal deficit/total expenditure of government ^c	40.6	42.2	42.5	54.0	46.3	47.2
Fiscal deficit/gross domestic product ^c	7.6	7.7	7.2	10.3	8.0	8.9
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-98	-117	-178	-277	-195	-192
Balance on current account	-84	-97	-140	-225	-160	-157
Balance on capital account	98	105	111	168	115	134
Variation in net international reserves	6	24	-26	-50	-3	-24
Disbursed external public debt	210	248	290	372	410	446

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bMinimum wages in industry.^cPercentages.

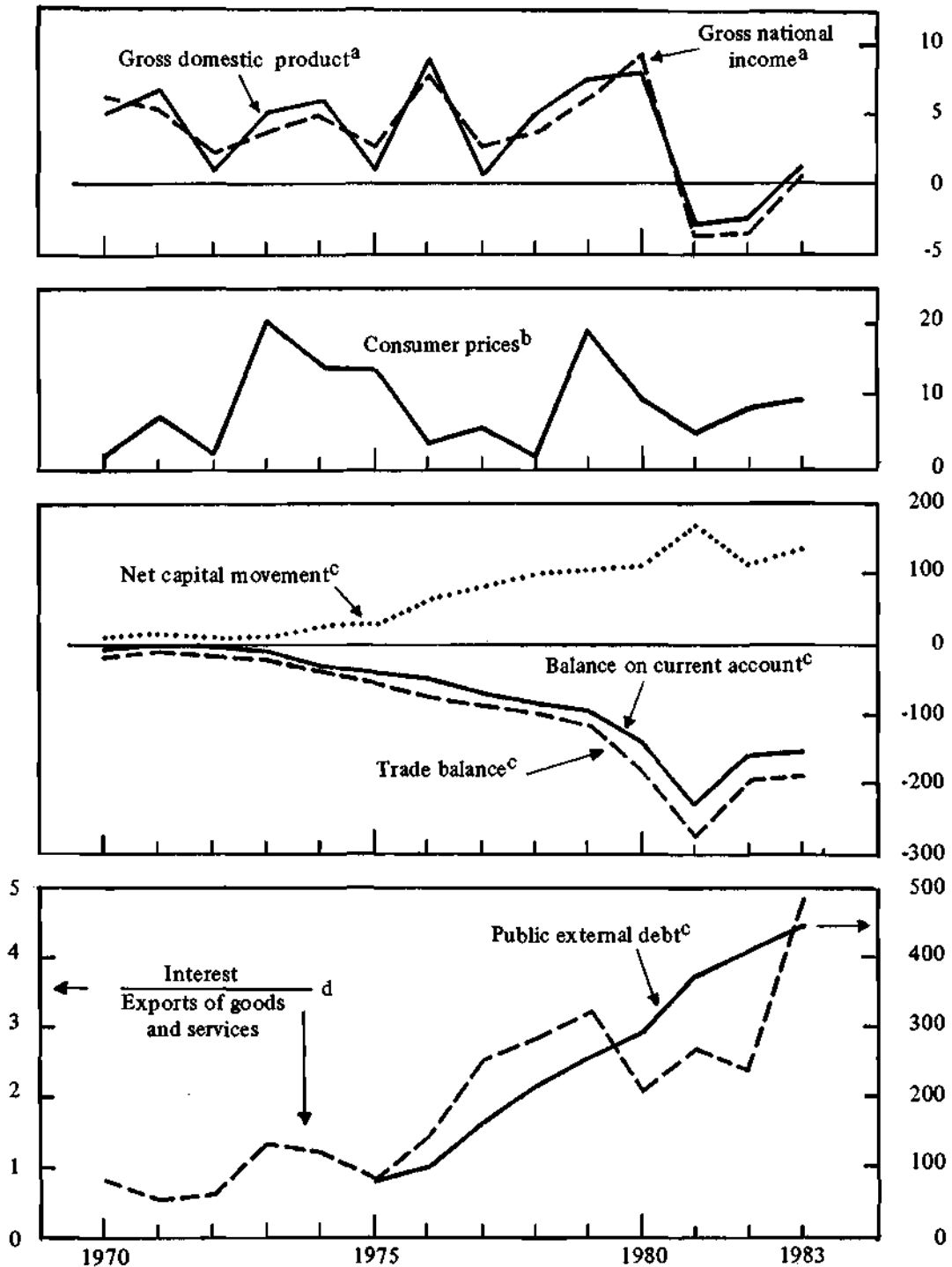
works and projects, where work was slowed down or postponed. Funds were also assigned to the enlargement of industrial facilities in the assembly industry and in the processing of imported inputs for export.

With the stabilization of domestic demand and the above-mentioned upswing in investment, total consumption again slackened in 1983, although this time much less than during the preceding year. Since the beginning of the decade, consumer spending has fallen 7% in real terms, i.e., nearly 14% on a per capita basis. The policy to hold down government spending had a hand in this, but the basic cause was the reduction in economic activity and the real drop in the purchasing power of income.

b) *Trends in the main sectors*

With the exception of mining—which is of little relative importance—and of government services, all the other sectors contributed in widely varying degrees to the small but significant reactivation of total production in 1983.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.
^dPercentages.

^bPercentage variation, September - September.

^cMillions of dollars.

Table 2

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentages breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	823	781	791	116.8	127.3	125.0	11.8	-2.1	-5.1	1.4
Gross domestic product at market prices	641	625	633	100.0	100.0	100.0	7.7	-2.8	-2.5	1.3
Imports of goods and services ^b	182	156	158	16.8	27.3	25.0	30.0	0.6	-14.2	1.5
Total demand	823	781	791	116.8	127.3	125.0	11.8	-2.1	-5.1	1.4
Domestic demand	736	687	689	104.1	111.0	108.8	10.3	0.4	-6.7	0.3
Gross domestic investment	128	120	126	10.1	19.3	19.9	1.4	0.7	-6.8	5.4
Total consumption	608	567	563	94.0	91.7	88.9	12.4	0.4	-6.7	-0.7
Exports of goods and services ^b	87	94	102	12.7	16.3	16.2	23.0	-19.4	8.5	8.8

Source: ECLAC, on the basis of figures provided by the Haitian Institute of Statistics and Information Sciences.

^aPreliminary figures.

^bThe figures given for exports and imports of goods and services were taken from balance-of-payments data and were converted into dollars at constant 1970 prices using unit value indexes calculated by ECLAC.

Table 3

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

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	589	574	582	100.0	100.0	100.0	7.7	-2.9	-2.5	1.3
Goods	341	333	336	65.8	59.6	58.1	4.7	-4.9	-2.2	0.7
Agriculture	199	191	197	46.9	33.7	34.2	0.8	-1.4	-4.2	3.3
Mining	7	8	...	2.3	1.3	...	-4.4	-14.5	23.7	...
Manufacturing	101	102	105	13.9	19.0	18.1	14.1	-11.6	1.3	2.5
Construction	34	32	34	2.8	5.6	5.8	2.8	-1.0	-5.6	5.8
Basic services	16	16	17	2.2	2.8	2.9	5.5	-0.9	-3.0	7.6
Electricity, gas and water	4	5	5	0.3	0.7	0.8	7.5	6.2	6.6	3.7
Transport, storage and communications	12	11	12	1.9	2.1	2.1	4.8	-3.3	-6.5	9.3
Other services	226	221	224	32.0	37.6	39.0	11.5	-0.2	-2.0	1.3
Commerce	111	108	110	17.4	19.5	19.2	9.3	-4.9	-3.0	1.9
Financial establishments, insurance, real estate and business services	32	32	33	6.6	5.1	5.7	1.7	2.6	1.6	2.2
Community, social and personal services	83	81	81	8.0	13.0	14.1	19.7	5.7	-1.9	0.2
Government services	63	64	63	5.0	10.1	11.0	24.5	4.6	1.8	-1.5

Source: ECLAC, on the basis of figures provided by the Haitian Institute of Statistics and Information Sciences.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not coincide with the latter.

Apart from the increases in transport services, storage and communications and in construction, which were around 9% and 6%, respectively, the expansion in the other activities was rather limited. The increase of slightly over 3% in agricultural output had a very favourable effect on the entire economy, inasmuch as agriculture is still of relatively great importance, despite the fact that part of it was lost during the 1970s and the aforesaid increase is the first sign of reactivation in a sector which had been gradually declining for a number of years (see table 3).

There was a significant recovery (2.5%) in manufacturing production which, as in the case of agriculture, had a positive effect. In contrast, the supply of electricity, gas and water lost dynamism during the year, while commercial activity and other services were sluggish. Nor was there any significant growth in tourism, while the authorities' stricter control of the financial market discouraged domestic operations and served to encourage deposits of assets abroad.

i) *Agriculture.* Agricultural output, which had dropped over 5% in 1981 and 1982 through the effects of the Hurricane Allen and long-standing structural problems, made up for part of this loss in 1983 with an increase of something over 3%.

The rapid deterioration of agricultural production, especially in 1982, jeopardized a sector which contributed one-third of the total gross domestic product and around 37% of exports of goods, as well as providing employment for 68% of the active population. The food production capacity for supplying the domestic market has progressively diminished. Around US\$ 70 million is spent annually on food imports in order to cover this deficit.

The pressing need to reduce the imbalance in trade and to halt the loss of foreign exchange prompted the authorities to promote the production of export crops in 1983. The efforts made in this area had considerable success, although they were partially offset by the sharp decrease in crop-farming output for the domestic market. This was the reason why, midway through the year, the authorities renewed the agreement with the United States Government³ by which US\$ 11 million was provided for the purchase of wheat, wheat flour and other staple foods.

Table 4

HAITI: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Production of the main crops								
For export								
Coffee	42.9	33.3	32.3	36.0	19.5	-22.5	-3.0	11.6
Cotton	5.9	5.7	5.4	6.0	1.7	-3.6	-5.1	11.1
Cocoa	3.4	2.2	4.5	4.6	-70.0	-35.1	102.3	2.4
For domestic consumption								
Rice	124.1	119.7	115.8	113.4	1.6	-3.5	-3.3	-2.1
Maize	186.2	179.2	175.7	170.9	1.6	-3.8	-1.9	-2.7
Sorghum	125.2	120.8	117.8	106.6	1.5	-3.5	-2.5	-9.5
Beans	52.6	50.8	50.3	46.7	1.4	-3.5	-1.0	-7.2
Plantains	519.7	501.5	504.1	509.6	1.6	-3.5	0.5	1.1
Sugar cane	5 640.8	5 443.4	5 440.0	5 674.4	1.6	-3.5	-0.1	4.3
Livestock production								
Meat, total								
Beef	69.4	61.1	70.9	92.3	17.0	-11.9	15.9	30.2
Pork	18.0	18.6	19.8	19.9	-	3.3	6.5	0.5
Goat meat	43.9	35.0	29.3	-	29.4	-20.5	-16.3	-
Poultry	4.1	4.1	6.3	6.0	2.5	-	53.7	-4.8
Eggs	3.4	3.4	15.5	66.4	3.0	-	355.9	328.4
Eggs	17.6	17.8	17.7	18.6	1.4	1.6	-0.8	5.0

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

^aPreliminary figures.

³This refers to United States Law PL-480, which provides for the granting of foreign exchange to governments for the acquisition of foodstuffs on the condition that the product of such sales is invested in domestic markets, development programmes and assistance for low-income social sectors.

Among the main crop-farming export products, the coffee harvest was slightly affected by the drought occurring in the southern part of the country; nevertheless, it increased nearly 12% and, for the first time, filled the quota assigned by the International Coffee Agreement; production was probably stimulated by the slow recovery in coffee prices during the final quarter of 1982 (see table 4).

Cotton production rose 11% in 1982 owing to favourable climatic conditions in the north-west region and to a significant increase, of the order of 16%, in cotton prices on the international market. The cacao crop, however, expanded only 2% during the year after production had doubled in 1982.

The harvests of the great majority of products destined for the domestic market were smaller, thus repeating the results of 1981 and 1982. Rice and maize output dropped by around 2% and 3%, while the production of sorghum and beans fell by around 10% and 7%. Over the past three years, the combined output of three of the most important foods in the basic diet —rice, maize and beans— decreased approximately 9%. The banana harvest was an exception to this trend, in that it has remained at around the same volume during the last four years, and the sugar cane harvest increased slightly over 4% in 1983, thereby regaining its 1980 level.

With respect to stock-raising, there was once again an exceptional increase in poultry production; spurred on by appropriate incentives, it has almost totally replaced the heavy consumption of pork in the country. Midway through the year, the campaign to eradicate African fever was terminated; this campaign had involved the extermination of virtually the entire pig population and had inflicted enormous losses on the peasants. At the same time, beef production did not show any major increase and goat production fell 5% after having risen sharply in 1982 as it, too, provided a substitute for pork.

The structure of agriculture, which is divided among a large number of small remote farms with difficult access to consumer centres, hinders the marketing of production surpluses. These same factors also prevent a large number of small crop-farming producers from having access to credit, technical assistance and other governmental support policies. The creation of agricultural co-operatives, which would help to eliminate isolation and improve the techniques for producing and marketing these products, has prospered in only a few places. By virtue of the policy for promoting agro-industrial exports, special support was provided for the cultivation of vegetables during 1983.

ii) *Mining.* The mining of bauxite, which accounted for over 30% of the value added by the mining sector, has been at a virtual standstill since the final quarter of 1982, when the company involved decided to suspend its activities owing to their low rate of return. The Government has been contracting foreign companies to explore mineral deposits in the northern area of the country (see table 5).

iii) *Manufacturing.* Manufacturing output, which had fallen off considerably in 1981, only expanded by a little more than 1% in 1982; in 1983 it achieved a slight upturn, having coped with the problem of the shortage of foreign exchange and the restriction of imports.

The relative lack of drive exhibited during the year by some of the industries which assemble and process imported parts and intermediate goods for export was offset by the dynamism of a number of other medium-sized and small industries. In the food industry, there were notable increases in the production of flour (34%), fats (7%) and carbonated beverages (17%). On the other hand the production of oil decreased 26%, and sugar output grew by only 3%. Midway through the year the Leogane sugar refinery was inaugurated; this project had been initiated in 1981 and became the largest in the country (see table 5).

The production of some chemicals also increased considerably, such as soap (25%), detergents (18%) and essential oils (23%). The production of textiles dropped 9%, however, and that of footwear decreased almost 12%. Cement output rose 9%, only partially recovering the ground lost during the two preceding years.

Some foreign-owned export industries presented a different picture. The production of electronic parts fell 29% and the output of sports equipment, 12%. No more direct foreign investment for industry was forthcoming in 1983 than in other years. The only activity in this regard was the establishment of a shoe factory and the renovation of some equipment in others.

iv) *Construction.* The shrinkage of demand and investment in 1981 and 1982 caused construction to fall off during those years, especially in 1982, when the decrease was approximately 6%. It made a good recovery in 1983; according to preliminary data, its product rose nearly 6%. This

upswing was primarily related to the construction of the Belladere hydroelectric plant, inasmuch as housing construction, at least in the metropolitan area, showed no major variation.

v) *Electricity*. The generation of electricity, which had increased at a rate of 5.5% annually during 1980 and 1981, despite the slump in economic activity in 1981 and 1982, slowed to a 4% growth rate in 1983. Electricity use, meanwhile, has increased at a rate of 4.4% annually since 1980.

The residential use of electricity has expanded very evenly during the last three years; this was not the case with public service, which increased substantially, or with commercial and industrial use, which varied widely from one year to another, especially in the cement and sugar industries. The sugar industry's consumption of electricity increased sharply, however, when the new Leogane sugar refinery began to operate in 1983 (see table 6).

The first phase of the Carrefour thermoelectric plant near Port-au-Prince had gone into operation in 1982, and construction on the Belladere hydroelectric plant continued in 1983.

3. The external sector

a) *Merchandise trade*

There was a deficit of US\$ 125 million in foreign merchandise trade in 1983, which was very similar to the deficit recorded for the preceding year. This balance was the result of a significant increase in exports (9%) and a somewhat smaller one (6%) in imports (see table 7).

Exports of goods rose 26% over the past two years. Nonetheless, the level continues to be lower than that of 1980, when an exceptional expansion in sales volume, combined with favourable prices in international markets, pushed the value of exports up from US\$ 138 million to US\$ 216 million. In 1981, however, export volumes and export prices both declined considerably. The volume of exports rose approximately 14% in each of the two last years; on the other hand, their prices, which had risen slightly in 1982, dropped 4% in 1983.

Imports of goods, which had decreased notably both in value and volume in 1982, rose nearly 6% in the past year, despite the shortage and resulting control of foreign exchange.

Table 5

HAITI: INDICATORS OF MINING AND INDUSTRIAL PRODUCTION

	Thousands of tons					Growth rates ^b			
	1975	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Mining production									
Bauxite	523	414	480	622	-	-32.5	15.9	29.6	-
Manufacturing output (index 1959-1960 = 100)	186	266	235	227	227	13.2	-11.6	-3.3	-
Main manufactured product									
Flour	81	84	121	88	118	12.6	42.5	-26.8	33.9
Sugar	52	54	52	52	54	-8.6	-4.3	-	3.0
Fats	1	3	3	3	3	26.9	-6.1	-9.7	7.1
Edible oils	9	19	25	17	13	-2.1	29.6	-30.2	-25.7
Carbonated beverages ^c	41	74	64	62	73	-7.4	-3.6	-2.2	16.8
Cigarettes ^d	680	1 064	852	965	932	5.8	-19.9	13.2	-3.4
Footwear ^e	223	795	528	588	519	103.1	-33.6	11.3	-11.7
Detergents ^f	184	579	513	586	692	8.4	-11.3	14.2	18.1
Toilet soap ^f	...	253	258	376	469	-	2.0	45.7	24.7
Essential oils ^f	...	242	208	234	286	-10.0	-13.7	12.0	22.5
Cement	145	243	241	206	225	2.0	-1.0	-14.4	9.0

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti.

^aPreliminary figures.

^bGrowth rates were calculated on the basis of real, no rounded figures.

^cMillions of bottles.

^dMillions of units.

^eThousands of pairs.

^fTons.

Table 6

HAITI: ELECTRICITY GENERATION AND CONSUMPTION

	Millions of kWh					Growth rates			
	1979	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Generation	322	336	355	378	393	4.4	5.7	6.5	4.0
Consumption ^b	241	256	262	274	286	6.2	2.4	4.5	4.4
Commercial and industrial	154	156	152	153	149	1.6	-2.6	0.3	-2.1
Sugar industry	27	18	7	6	9	-33.3	-58.8	-13.3	35.6
Cement industry	19	21	22	20	22	13.5	4.4	-12.7	13.0
Others	108	117	122	127	119	8.1	4.7	3.5	-6.3
Residential	70	81	90	99	110	16.1	11.4	10.3	10.9
Public services and government consumption	17	19	20	22	27	11.8	5.3	10.0	22.7

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bThe difference between generation and consumption is due to losses in transmission and to unrecorded consumption.

Table 7

HAITI: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
	Growth rates					
Exports of goods						
Value	8.9	-8.0	56.3	-30.3	15.5	9.0
Volume	11.0	-3.9	35.3	-25.5	14.4	13.7
Unit value	-1.9	-4.2	15.5	-6.4	1.0	-4.1
Imports of goods						
Value	3.8	6.0	45.0	12.3	-17.4	5.8
Volume	-3.3	-5.0	27.3	8.8	-22.7	3.4
Unit value	7.4	11.6	13.9	3.2	6.9	2.4
Terms of trade (goods)	-8.3	-14.2	2.6	-10.3	-5.0	-5.8
	Indexes (1970 = 100)					
Terms of trade (goods)	114.4	98.2	100.7	90.4	85.9	80.9
Purchasing power of exports of goods ^b	168.4	138.9	192.9	128.8	140.1	150.2
Purchasing power of exports of goods and services ^b	185.4	169.2	215.4	159.5	170.9	180.7

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bThe quantum of exports, either of goods or of goods and services, as applicable, is adjusted on the basis of the respective terms-of-trade index.

The terms of trade have deteriorated 20% since 1981 and 11% during the past two years. However, the appreciable increase in export volumes during the past biennium has bolstered the purchasing power of exports of goods and services, which had been seriously impaired in 1981 (see table 7).

i) *Exports*. Two consecutive years of a significant expansion of exports was still not enough to bring them back to the 1980 level, from which they dropped in 1981 as a result of plummeting sales of coffee and other export commodities (see table 8).

In 1980 coffee had come to represent 42% of total exports of goods. In 1981 it accounted for only 22% and in 1983 the figure rose to 27%. During 1983, the value of coffee exports soared (42%), thanks to an extraordinary increase in the volume exported (57%), which peaked during the final

quarter of 1982 and the first quarter of 1983. The year 1983 was the first in which the coffee export quota assigned to the country by the International Coffee Organization had been filled. Coffee prices, however, which had remained high until late 1982, declined nearly 11% in the first three quarters of 1983, but rose again during the fourth.

Along with coffee exports, sales of essential oils, sisal and cocoa showed notable increases. This was not the case with bauxite, exports of which were halted during the course of the year because they had ceased to be profitable. In addition, meat exports have dropped by nearly 90% over the past two years.

During 1983, net exports of manufactures in the free zone, after subtracting that portion represented by imported parts and raw materials used in their production, showed a significant increase (14%) and now occupy an important place in the country's export structure.

ii) *Imports.* Despite the shortage of foreign exchange which caused the authorities to employ stricter measures for controlling and rationalizing its use, imports of goods showed a partial but significant recovery of slightly over 3% in terms of volume and nearly 6% in terms of value; this contributed to a slight economic recovery. It should be recalled that in 1982 imports had plummeted as a result of the recession (see table 7).

The preliminary information available concerning trends in imports of goods (CIF), broken down by main products as shown in table 9, indicates that the increase in 1983 was substantially lower than that shown in the balance of payments in terms of imports FOB. According to this information, the drop in imports of goods was less than 9% in 1982, while they only appear to have increased 3.6% in 1983. Moreover, it would seem that during 1983 the percentages by which imports in the various categories of products increased were similar to one another and to the total figure, which was 3.4% (see table 9).

b) *The deficit on current account and its financing*

The balance-of-payments current account showed a deficit of US\$ 157 million in 1983, which was similar to the deficit in the preceding year and 30% below that of 1981, when imports of goods rose rapidly. The deficit balance for services has also not varied a great deal in recent years, and the deficit in factor services has changed even less, despite the fact that net remittances of profits outside the country fell sharply in 1983 and interest payments increased from US\$ 6 million to US\$ 14

Table 8

HAITI: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	150.4	173.8	186.6	100.0	100.0	100.0	56.4	-30.3	15.6	7.4
Main products	62.7	68.7	68.9	69.6	60.3	36.9	66.7	-52.0	9.6	0.3
Coffee	33.1	35.9	51.1	35.2	42.1	27.4	131.3	-63.6	8.5	42.3
Cocoa and cocoa products	3.4	2.2	4.0	2.5	2.1	2.1	-33.8	-24.4	-35.3	81.8
Sugar	-	-	1.3	7.5	3.0	0.7	966.7	-	-	-
Sisal and sisal products	0.5	1.7	5.0	4.2	0.6	2.7	-48.1	-64.3	240.0	194.1
Essential oils	4.9	5.7	7.0	6.1	2.6	3.7	-28.0	-9.3	16.3	22.8
Bauxite	16.6	21.4	-	13.0	9.1	-	8.9	-15.3	28.9	-
Meat	4.2	1.7	0.5	1.1	0.8	0.3	-41.9	133.3	-59.5	-70.6
Products of the free zone (net)	54.8	48.3	55.1	6.5	25.3	29.5	29.3	0.2	-11.9	14.1
Other goods	32.9	56.8	62.6	23.9	14.4	33.6	52.7	6.1	72.6	10.2

Source: ECLAC, on the basis of figures provided by the General Customs Administration and the Bank of the Republic of Haiti.

^aPreliminary figures.

Table 9

HAITI: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	399.7	365.0	378.0	100.0	100.0	100.0	37.7	9.5	-8.7	3.6
Foodstuffs, beverages and tobacco	71.9	68.2	70.6	11.2	17.5	18.7	54.8	16.2	-5.1	3.5
Hydrocarbons	64.6	46.8	48.4	5.6	13.7	12.8	40.8	5.4	-27.6	3.4
Oils and fats	27.5	26.0	26.9	6.7	7.3	7.1	38.2	7.0	-5.5	3.5
Chemicals	35.1	33.2	34.2	10.4	8.7	9.1	28.5	14.3	-5.4	3.0
Manufactured products ^b	75.4	71.4	73.8	17.7	21.4	19.5	24.3	-0.9	-5.3	3.4
Machinery and transport equipment	75.0	71.0	73.4	20.0	18.1	19.4	17.9	17.2	-5.3	3.4
Miscellaneous manufactured products ^c	30.6	29.0	30.0	21.4	8.4	7.9	48.8	2.3	-5.2	3.4
Other ^d	19.6	19.4	20.7	7.0	4.9	5.5	30.1	13.3	-1.0	6.7

Source: ECLAC, on the basis of figures supplied by the General Customs Administration and the Bank of the Republic of Haiti.

^aPreliminary figures. ^bIncluding manufactures of textiles, leather, rubber, wood, paper and metallic and non-metallic minerals. ^cIncluding clothing, footwear, travel goods, furniture, professional instruments and sanitary, heating and lighting articles. ^dIncluding non-edible raw materials and commodities.

million. The inflow of private transfer payments from abroad has taken on special importance in Haiti; in the past two years these payments have amounted to US\$ 50 million, which means that they are now 50% higher than the inflow under this heading in the late 1970s (see table 10).

During 1983 there was a net capital inflow of US\$ 134 million, only US\$ 20 million more than the year before, but US\$ 34 million less than in 1981. According to information on 1983 which is still preliminary, the net inflow of long-term capital in that year was US\$ 25 million higher than in the year before, of which US\$ 6 million corresponded to direct investment, while the net inflow of short-term loans (which was negative in 1982) may have been US\$ 10 million. Official transfer payments rose from US\$ 61 million in 1982 to US\$ 76 million in 1983.

The long-term financing received by the official sector increased very little in 1983 and was partially nullified by higher amortization payments. Consequently, the Government had to borrow US\$ 11 million in short-term loans from private banks.

Despite the fact that, based on the transactions recorded in the current account and capital account, the global balance-of-payments deficit dropped from US\$ 45 million to US\$ 23 million between 1982 and 1983, the loss of international reserves rose from US\$ 3 million to US\$ 24 million during the same period, primarily in the form of International Monetary Fund liabilities. Foreign exchange assets, which had amounted to US\$ 15 million in September 1982, had fallen to US\$ 10 million one year later.

By late September, the Government had used up the entire credit of 35 million in Special Drawing Rights which the International Monetary Fund had granted fifteen months earlier. Taking into account the financial programme prepared by the Government, the IMF authorities granted Haiti a new loan of 60 million SDR for the period 1983-1985.

c) External indebtedness

The public sector's medium- and long-term external debt amounted to US\$ 450 million by the end of September 1983, which was equivalent to 26% of the gross domestic product. Of that figure, 70% corresponded to the Government and the remaining 30% to public companies (see table 11).

The rate of public-sector borrowing has slowed down during the past two years. It decreased from an annual rate of 21% between 1978 and 1981 to 10% in 1982 and 8% in 1983. Disbursements, which averaged US\$ 52 million during the three-year period 1978-1980 and which exceeded US\$ 90 million in 1981, thus amounted to less than US\$ 50 million each year in 1982 and 1983.

Table 10

HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-70	-84	-97	-140	-225	-160	-157
Trade balance	-89	-98	-117	-178	-277	-195	-192
Exports of goods and services	174	211	213	306	240	270	293
Goods FOB	138	150	138	216	150	174	189
Real services ^b	37	61	75	90	90	96	103
Transport and insurance	2	2	3	6	7	7	7
Travel	30	53	65	76	75	80	86
Imports of goods and services	263	309	330	484	517	465	485
Goods FOB	200	207	220	319	358	296	314
Real services ^b	63	102	110	165	159	169	171
Transport and insurance	40	49	48	83	89	77	86
Travel	6	28	33	41	31	41	39
Factor services	-12	-15	-13	-14	-13	-14	-15
Profits	-8	-9	-7	-8	-7	-8	-1
Interest received	-	-	-	1	1	1	-
Interest paid	-4	-6	-7	-6	-6	-6	-14
Other	-	-	-	-	-	-	-
Unrequited private transfer payments	31	29	34	52	64	49	50
Balance on capital account	82	98	105	111	168	115	134
Unrequited official transfer payments	33	39	42	37	74	61	76
Long-term capital	70	50	64	69	110	43	69
Direct investment	8	10	12	13	8	7	13
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	62	40	52	56	102	36	56
Official sector ^c	43	29	44	53	45	33	36
Loans received	45	43	41	56	50	38	46
Amortization payments	-2	-3	-3	-2	-4	-4	-10
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	20	11	8	3	57	4	20
Loans received	26	17	11	10	61	8	20
Amortization payments	-6	-6	-4	-7	-4	-5	-
Short-term capital (net)	-1	-4	-1	-1	-6	-8	10
Official sector	-	-	1	2	-	-	11
Commercial banks	-1	-4	-2	-3	-6	-8	-1
Other sectors	-	-	-	-	-	-	-
Errors and omissions	-20	12	-	7	-10	19	-21
Global balance^d	12	14	8	-29	-57	-45	-23
Total variation in reserves (- sign indicates an increase)	-13	-6	-24	26	50	3	24
Monetary gold	-	-	-5	-4	2	1	-
Special Drawing Rights	-	-3	-2	4	3	-	-
IMF reserve position	-	-3	-3	6	-	-	-
Foreign exchange assets	-8	-	-11	22	15	-16	-5
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-5	-	-2	-3	30	18	28

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, magnetic tape, May 1984; 1983; ECLAC, on the basis of official data.

^aPreliminary figures. ^bReal services also include other official and private transactions, but not factor services. ^cIn addition to loans received and their amortization payments, this entry includes net loans granted and other assets and liabilities. ^dThe global balance is the sum of the balance on current account and the balance on capital account. The difference between the total variation in reserves marked with a minus sign and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights and variations owing to revaluation.

Table 11

HAITI: PUBLIC SECTOR EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
External public debt^b	210	248	290	372	410	446
Government	152	183	223	247	282	312
Public enterprises	58	65	67	125	128	134
Disbursements	60	46	52	93	48	47
Servicing	15	11	15	16	16	24
Amortization payments	9	8	9	11	9	10
Interest payments	6	3	6	5	7	14
Percentages						
Ratios						
External debt/ gross domestic product	21.7	21.8	20.4	24.8	26.3	26.2
Debt service/ exports of goods and services	7.1	5.1	4.9	6.9	6.1	8.1
Debt service/disbursements	25.0	23.8	29.0	17.6	34.4	50.7
Debt service/ gross domestic product	1.5	1.0	1.0	1.1	1.1	1.4

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti and the International Monetary Fund.
^aPreliminary figures. ^bBalance of disbursed debt, for terms of over one year, as of 30 September of each year.

The debt service, however, which had held steady at between US\$ 15 million and US\$ 16 million annually until 1982, shot up to US\$ 24 million in 1983, owing to the fact that interest payments, part of which corresponded to overdue interest, had doubled. Hence the debt service, which in 1980 represented 5% of the exports of goods and services, had reached 8% in 1983.

In sum, during 1983 the net flow of capital (deducting amortization and interest payments) amounted to US\$ 23 million, which was substantially lower than in 1982 (US\$ 32 million) and far below that of 1981 (US\$ 77 million).

4. Prices and wages

Consumer prices rose somewhat more than 8% annually, on average, for the third year running.⁴ Measured from September to September, prices climbed 9%. There were larger increases in food prices, which rose 13% during the fiscal year, pushed up by an insufficient supply of basic consumer products, since production has declined over the past three years (see table 12).

Other factors contributing to the rise in prices during the year were the 16% increase in fuel prices and the general imposition of a 7% sales tax.

In so far as wages are concerned, the minimum wage paid in industry has not risen at all since its last adjustment in October 1980. This means that real wages have dropped 19% in industry since then and 15% in the last two years (see table 13).

The wages paid in the manufacturing and construction industries, which in some cases varied between the equivalent of US\$ 2.64 and US\$ 3.20 per day, are substantially higher than those paid in other production activities, and the trends in these wages in recent years have not necessarily followed those of wages in general.

⁴According to the new consumer price index using 1980 as the base year, the average variation in 1983 amounted to 9%. The geographical coverage of this index is more extensive, inasmuch as it includes price trends in the urban centres of Delmas, Carrefour and Pétion Ville, in addition to Port-au-Prince. The main components of the new index are weighted as follows: food, 64%; clothing, 3%; and housing, 12%.

5. Fiscal and monetary policy

a) *Fiscal policy*

During 1983 strict measures to hold down public spending and increase tax revenue were applied in order to decrease the high fiscal deficit. In 1981 this deficit had come to represent slightly over 10% of the gross domestic product, a proportion which had been reduced to 8% in 1982. These aims figured in the stringent economic adjustment programme agreed upon with the International Monetary Fund.

Raising some taxes and reforming others produced good results both in 1982 and in 1983. Tax receipts, which had risen only slightly more than 2% in nominal terms in 1981, rose by something over 11% in 1982 and by 17% in 1983. The collection of both direct and indirect taxes increased 18%, while taxes on foreign trade, which had dropped off sharply during the two preceding years, climbed 15% in 1983 (see table 14).

One of the major changes made in the tax system was the replacement of some specific taxes by a 7% general sales tax. The increase in tax receipts from foreign trade was primarily due to the increase in coffee exports, whose value was set at benchmark prices. This accounted for 30% of the increase in these taxes. In addition, there was a rise in the percentages of taxes on imports of luxury items. In relation to taxes on foreign trade, efforts were also made to eliminate contraband, which resulted in the closure of the border and of overland trade with the Dominican Republic for three months.

Table 12

HAITI: TRENDS IN CONSUMER PRICES

	1978	1979	1980	1981	1982	1983
Variation from September to September						
Consumer price index	2.3	18.6	9.5	4.7	8.0	9.2
Food	-2.0	26.4	13.9	6.7	3.5	13.0
Variation between annual averages (fiscal years)						
Consumer price index	-2.9	9.7	18.1	8.2	8.2	8.4
Food	-6.7	9.9	26.8	11.7	5.6	10.1

Source: ECLAC, on the basis of figures provided by the Haitian Institute of Statistics and Information Sciences and the Bank of the Republic of Haiti.

Table 13

HAITI: TRENDS IN WAGES AND SALARIES

	1980	1981	1982	1983 ^a
Indexes (1977 = 100)				
Wages and salaries ^b				
Nominal	169.2	203.1	203.1	203.1
Real ^c	134.5	149.2	137.9	127.2
Growth rates				
Wages and salaries ^b				
Nominal	37.6	20.0	-	-
Real	16.5	10.9	-7.6	-7.8

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti and the Haitian Institute of Statistics and Information Sciences.

^aPreliminary figures.

^bMinimum wages paid in industry.

^cDeflated on the basis of the consumer price index.

Table 14

HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of gourdes				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	691	661	727	846	14.0	-4.3	10.0	16.4
Tax revenue	629	644	718	842	27.3	2.4	11.5	17.3
Direct	268	116	136	161	7.2	36.2	17.2	18.4
Indirect	361	249	326	386	48.0	-22.7	30.9	18.4
On foreign trade	361	279	256	295	48.0	-22.7	-8.2	15.2
Non-tax revenue	62	17	9	4	-44.6	-72.6	-47.1	-55.6
2. Current expenditure	540	797	817	807	32.7	47.6	2.5	-1.3
Wages and salaries	...	355	402	418	...	...	13.2	4.0
Purchase of goods and services	...	123	115	97	...	...	-6.5	-15.7
Other current expenditure	...	319	300	292	...	...	-6.5	-2.7
3. Current savings (1 - 2)	151	-136	-90	39	-24.1	...	-33.8	
4. Capital expenditure ^b	662	717	537	794	3.3	8.3	-25.1	47.8
Real investment ^c	580	609	350	344	3.4	5.0	-42.5	-1.7
Debt amortization payments	82	108	187	450	2.5	31.7	73.1	140.6
5. Total expenditure (2 + 4)	1 202	1 436	1 354	1 601	21.5	19.5	-5.7	18.2
6. Fiscal deficit (1 - 5)	-511	-775	-627	-755	57.1	51.7	-19.1	20.4
7. Financing of deficit								
Domestic financing	171	341	209	348	52.7	99.4	-38.7	66.5
Banking system	167	338	206	370	...	102.4	-39.1	79.6
Others	4	3	3	-22	...	-25.0	-	-
External financing	340	434	418	407	3.0	27.6	-3.7	-2.6
Grants	183	328	246	345	-12.4	79.2	-25.0	40.2
Loans	157	106	172	62	29.8	-32.5	62.3	-63.9
Percentages								
Ratios								
Current savings/capital expenditure	22.8	-19.0	-16.8	4.9				
Fiscal deficit/total expenditure	42.5	54.0	46.3	47.2				
Tax revenue/GDP	9.7	8.9	9.3	9.9				
Total expenditure/GDP	16.9	19.2	17.3	18.8				
Fiscal deficit/GDP	7.2	10.3	8.0	8.9				
Domestic financing/deficit	33.5	44.0	33.3	46.1				
External financing/deficit	66.5	56.0	66.7	53.9				

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bIncluding capital expenditure financed from domestic and external funds and not only that listed in the central government development budget.^cIncluding capital transfers.

Despite the stringent measures taken to reduce government spending, it expanded by 18% during the year, which was similar to the increases in such spending during the years prior to the establishment of these restrictions and was certainly quite a departure from the decrease in government expenditures achieved in 1982. The considerable expansion in government spending in 1983 was, however, entirely due to a huge increase in amortization payments on the debt (140%), which has risen by a factor of 5.5 since 1980 and in 1983 far exceeded the level of real investment.

If amortization payments are not taken into account, then government spending fell slightly in 1983 (-1.4%). Both current and investment expenditures decreased by a like amount and, among current expenditures, only wages recorded some nominal increase (4%), which was less than that of 1982, when wages were also the only category in which expenditure rose. The reduction in current

and investment expenditures obviously meant the delay and postponement of many government social projects and programmes in such areas as public health and educational reform (see tables 14 and 15).

Since total expenditures increased by two percentage points more than the rise in income, the fiscal deficit grew by 20%. Nonetheless, if the expenditures for amortizing the debt are excluded it can be seen that the measures adopted to reduce the fiscal deficit were highly successful, since the deficit dropped from 440 million gourdes in 1982 to 300 million gourdes in 1983 and from 5.6% to 3.6% as a ratio of the gross domestic product.

Table 15

HAITI: CENTRAL GOVERNMENT CURRENT EXPENDITURE

	Millions of gourdes			Growth rates	
	1981	1982	1983 ^a	1982	1983 ^a
Total current expenditure^b	797.9	817.1	806.8	2.5	-1.3
Administration ^b	543.9	527.6	536.9	-3.0	1.8
Armed forces	76.6	75.6	78.9	-1.3	4.4
Ministry of Finance	92.5	83.3	85.1	-9.9	2.2
Other ^b	374.8	368.7	372.9	-1.6	1.1
Services for production sectors	86.9	85.6	78.8	-1.5	-7.9
Agriculture	31.5	29.0	27.8	-7.9	-4.1
Public works	37.7	36.4	31.7	-3.4	-12.9
Other	17.7	20.2	19.3	14.1	-4.5
Social services	166.2	203.9	191.1	22.7	-6.3
Public education	78.3	85.9	87.3	9.7	1.6
Public health	61.0	93.2	81.5	52.8	-12.6
Other	26.9	24.8	22.3	-7.8	-10.1
Wages and salaries	354.8	401.7	417.9	13.2	4.0
Administration	161.6	168.6	183.1	4.3	8.6
Armed forces	51.5	54.7	57.5	6.2	5.1
Ministry of Finance	43.4	41.7	44.8	-3.9	7.4
Other	66.7	72.2	80.8	8.2	11.9
Services for production sectors	64.1	67.5	67.3	5.3	-0.3
Agriculture	25.8	25.5	26.6	-1.2	4.3
Public works	25.0	25.9	24.6	3.6	-5.0
Other	13.3	16.1	16.1	21.1	-
Social services	129.1	165.6	167.5	28.3	1.1
Public education	71.5	79.0	81.4	10.5	3.0
Public health	39.8	68.5	70.7	72.1	3.2
Other	17.8	18.1	15.4	1.7	-14.9
Other operating expenses^c	189.4	166.5	133.2	-12.1	-20.0
Administration	129.5	110.1	98.1	-15.0	-10.9
Armed Forces	25.1	20.9	21.4	-16.7	2.4
Ministry of Finance	49.1	41.6	40.3	-15.3	-3.1
Other	55.3	47.6	36.4	-13.9	-23.5
Services for production sectors	22.8	18.1	11.5	-20.6	-36.5
Agriculture	5.7	3.5	1.2	-38.6	-65.7
Public works	12.7	10.5	7.1	-17.3	-32.4
Other	4.4	4.1	3.2	-6.8	-21.9
Social services	37.1	38.3	23.6	3.2	-38.4
Public education	6.8	6.9	5.9	1.5	-14.5
Public health	21.2	24.7	10.8	16.5	-56.3
Other	9.1	6.7	6.9	-26.4	3.0

Source: ECLAC, on the basis of figures provided by the Bureau of the Treasury.

^aPreliminary figures.

^bIncluding operating expenses of the Central Amortization Fund.

^cExcluding operating expenses of the

Central Amortization Fund, but including quotas and subsidies for ministries.

Table 16

HAITI: MONETARY BALANCE

	September balance for each year (millions of gourdes)				Growth rates ^b			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	681	827	949	950	11.1	21.3	14.9	0.1
Currency outside banks	347	400	486	528	-0.3	15.1	21.7	8.4
Demand deposits	334	427	463	422	26.3	27.8	8.6	-8.9
Factors of expansion	2 237	2 490	2 723	2 894	15.8	11.3	9.4	6.3
Net international reserves	147	-10	-33	-125	-24.6			
Domestic credit ^c	2 090	2 500	2 756	3 019	20.2	19.6	10.2	9.5
Government (net)	768	1 085	1 292	1 670	33.2	41.2	19.1	29.3
Public institutions	265	229	287	171	-2.0	-13.6	25.2	-40.3
Private sector	1 057	1 186	1 177	1 178	11.0	12.2	-0.8	0.1
Factors of absorption	1 556	1 663	1 781	1 944	17.9	6.9	7.1	9.2
Quasi-money (savings and time deposits)	929	999	1 078	1 240	25.0	7.5	8.0	15.0
Long-term foreign loans	440	491	532	583	-4.0	11.5	8.4	9.6
Other accounts (net) ^d	187	173	171	121	57.5	-8.5	-2.2	-29.2

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti.

^aPreliminary figures.

^bGrowth rates have been calculated on the basis of exact, not rounded figures.

^cDoes not include interbank transactions.

^dIncluding allocations of Special Drawing Rights and of the IMF trust fund.

During 1983, 46% of the financing to cover the deficit came from the national banking system, unlike what occurred in previous years when a large part of such financing came from abroad; one factor contributing to this was the revocation of Central Bank provisions which limited the amount of credit that could be extended to the Government. In addition, grants made up a larger part of external financing, while loans accounted for a smaller proportion.

b) *Monetary policy*

There were no major variations in the means of payment between September 1982 and September 1983. The 8% increase in currency outside banks was offset by the fact that demand deposits decreased by a similar amount; this gave rise to a lack of liquidity which tended to curb the reactivation of economic activity (see table 16).

Net international reserves were drawn down more rapidly in 1983, thus becoming one of the main factors in the contraction of the money supply. A determination to maintain exchange parity—which has existed since 1919—led the authorities to regulate the monetary flow in accordance with the needs of the economy by providing duly programmed credit to the public sector and by maintaining stable balances of international reserves, without any major fluctuations. This made it possible to ward off speculation and expectations of a devaluation sparked by the shortage of foreign exchange. Near the end of the period in question, the exchange rate for the dollar in large-scale financial transactions was only very slightly above the official exchange rate of 5 gourdes.

The preference that became evident during the year for time and savings deposits, which expanded by 15%, contributed to the absorption of money and to the lower level of liquidity available for economic activity. In mid-1983, time-deposit interest rates were made more flexible; in order to conform to the conditions prevailing in the international financial market, these rates were increased from 12% to 17%. This step, which usually would have made more money available for the banking system, turned out to have an adverse effect because it encouraged speculation, to the detriment of productive activities.

The increases in quasi-money and other factors of absorption, as well as the decrease in net international monetary reserves, were counteracted by an increase of somewhat less than 10% in credit. Credit extended to the public sector expanded by 16%, but the largest amount of credit—that

granted to the Government— rose 29%, whereas less credit was extended to the other public institutions. The efforts that were made in line with a monetary programme to limit the credit extended to the Government to its minimum needs do not appear to have been very successful.

There was no major variation with respect to credit extended to the private sector. Banks granted less credit to companies and there was clearly less demand for such credit. Even the assistance granted by the Institute of Agricultural and Industrial Development (IDAI) decreased by 10% during the year, despite the fact that this is one of the most active and important of the institutions engaged in the promotion of development and that it had received an IDB loan for 75 million gourdes during the 1982-1983 period.

HONDURAS

1. Recent economic trends: Introduction and summary

The Honduran economy continued to suffer from pronounced financial imbalances in 1983. The situation with respect to external liquidity worsened; the deficit in public finances persisted; and real wages declined once again. In the midst of a great deal of tension, some of which was not economic in nature, activity as measured by the gross domestic product at market prices slowed for the second year running. After decreasing slightly less than 2% in 1982, it declined by less than 1% in 1983.

The per capita product fell by 4%, thus decreasing for the fourth successive year; in the last year its level was the same as that at the beginning of the preceding decade. The economic slowdown revealed by these indicators affected the population's levels of consumption in 1983 and caused a major drop in gross capital formation over the last three years. There was a slight but significant upswing in national income during 1983; this resulted from a smaller outflow of profits and interest payments abroad rather than from any improvement in the terms of trade, which continued to deteriorate (see table 1 and figure 1).

Honduras, which has the lowest per capita income of any country in Central America and which is one of the relatively least developed nations of Latin America, underwent quite rapid economic growth during the greater part of the 1970s. During that period, thanks to international financial support, a series of major policies and projects began to be implemented. These policies included measures which led the State to promote certain industrial and service activities as well as agrarian reform, which had gradually been slackening off. Two ambitious projects were also undertaken: the exploitation of forestry resources with a view to the future production of wood pulp and paper and the construction of El Cajón hydroelectric plant. The exploitation of African palm in the Valle de Aguán was also promoted.

Nonetheless, the growth rate of economic activity began to slow down late in the decade as financial difficulties increased and external accounts began to show imbalances. The fiscal and balance-of-payments current account deficits required increasing external financing, which was extended on less and less favourable conditions with respect to interest rates and maturity periods; this heightened the vulnerability of a commodity-exporting economy which was heavily dependent on the exterior.

The present government took office in early 1982 following the first elections in over a decade. Faced with the serious economic situation which already prevailed by that time, the newly-invested authorities turned their attention to the task of at least maintaining a satisfactory rate of economic activity and to the development of an adjustment programme aimed at reducing the fiscal and balance-of-payments deficits; this programme was later included in the Financial Stabilization Programme for the 1982-1983 period and served as a basis for the agreement signed with the International Monetary Fund in November 1982.

In general terms, the programme provided for the following measures in order to lessen the government's financial deficit: a wage freeze, refraining from filling posts as they became vacant, reducing the purchase of non-personal goods and services to a minimum, continuing with works and projects which had already been begun, limiting the commencement of new projects to those which were of top priority and, lastly, substantially cutting back current and capital transfers to the rest of the public sector. The fiscal policy was to be coupled with a reform of customs duties, but towards the end of 1983 this had still not been approved by Congress. It was also proposed that public companies should gradually become self-financing. This would be facilitated by an increase in prices and in the rates charged for electricity, water and sewerage and for port services.

Foreign trade policy was oriented towards export promotion and furthering trade with other Central American countries on the basis of bilateral agreements; a strict control of imports was also maintained and only the purchase of essential goods was authorized.

With respect to prices and wages, in addition to the above-mentioned increase in the rates charged for public services and the freeze placed on the wages of State employees, an attempt was made to keep staple food prices low (in the case of grains, through credit for production at low interest rates) and to hold down the prices of some essential inputs such as gasoline. An effort was also made to prevent nominal minimum wages from rising. A ceiling of 5% for domestic price increases was set by the Stabilization Programme, but this figure was greatly exceeded.

The above objectives could not be fully achieved owing to a variety of circumstances which were felt particularly strongly during the second half of the year. Three factors prevented a greater

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	1 199	1 281	1 316	1 331	1 307	1 298
Population (millions of inhabitants)	3.44	3.56	3.69	3.82	3.96	4.09
Per capita gross domestic product (dollars at 1970 prices)	349	359	356	349	331	317
Growth rates						
B. Short-run economic indicators						
Gross domestic product	7.4	6.8	2.7	1.2	-1.8	-0.7
Per capita gross domestic product	3.6	3.1	-0.8	-2.3	-5.1	-4.0
Gross national income ^b	7.1	3.9	3.1	-1.6	-3.7	0.5
Terms of trade (goods and services)	-0.5	-8.2	2.7	-12.0	-3.8	-0.4
Current value exports of goods and services	18.4	22.0	12.3	-6.2	-13.2	4.7
Current value of imports of goods and services	18.6	19.8	21.1	-5.8	-22.4	5.8
Consumer prices						
December - December	5.3	22.5	11.5	9.2	9.4	8.6
Variation between annual averages	5.7	12.1	18.1	9.4	9.4	8.4
Money	13.6	14.9	10.8	4.5	10.6	14.3
Real minimum wages						
Agriculture	-5.4	34.0	0.7	17.1	2.7	-7.7
Manufacturing	-5.4	11.5	-8.3	5.1	-1.0	-7.7
Rate of unemployment ^c	...	...	14.4	19.3	20.4	21.2
Current income of government	7.8	16.7	20.1	-2.4	3.9	0.9
Total expenditure of government	22.4	8.3	38.7	-	23.9	-2.3
Fiscal deficit/total expenditure of government ^c	38.3	30.7	40.0	41.4	50.9	49.3
Deficit/gross domestic product ^c	8.5	6.4	10.2	9.9	14.2	12.7
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-89	-92	-185	-177	-56	-68
Balance on current account	-170	-205	-331	-321	-249	-204
Balance on capital account	180	225	253	249	203	187
Variation in net international reserves	10	25	-73	-69	-53	-17
External debt ^d	845	1 008	1 275	1 475	1 654	1 851

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect and minus net factor payments to the rest of the world and net private donations.

^cPercentages.

^dTotal medium- and long-term external debt.

reduction, more in keeping with the objectives of reducing the fiscal deficit. Firstly, the ability of State companies to make a financial recovery had been overestimated; not only were these companies incapable of meeting their external obligations, but they also could not continue to operate efficiently without financial support from the government, and treasury outlays could therefore not be reduced as much as had been hoped.

Secondly, another factor in the failure to hold down public spending was the increasingly large allocations of monies for military purposes, which were due to the conflicts occurring in the region, especially along the country's borders with El Salvador and Nicaragua. The third factor was that, owing to the recession, current income was substantially less than had been projected.

Problems were also encountered in attempting to reduce the country's external imbalance. Despite the efforts that were made to hold down imports, they rose 6% in 1983 following a reduction of 27% during the two preceding years. They thus exceeded the rise in exports of goods and services (around 5%), thereby increasing the trade deficit. Because remittances of profits and interest payments abroad were lower, however, it was possible to reduce the deficit on current account from US\$ 250 million in 1982 to slightly over US\$ 200 million in 1983. At the same time, contrary to the expectations created by the establishment of a civilian government and the agreement signed with the International Monetary Fund, the net inflow of capital decreased despite the deferment of the amortization payments on the external debt with private creditors that fell due during the year.¹ As a result, international reserves declined once again.

There were other goals also which were not achieved. Consumer prices rose by 8.5%, which was more than had been foreseen. This increase, combined with the wage freeze, seriously reduced the population's buying power and consumption levels. Nonetheless, there was a sufficient amount of liquidity for economic activity. The 14% expansion in the means of payment was spurred on by a significant increase in credit, particularly that extended to the government, which rose almost 27% from December to December, as the amount of financing coming from abroad fell off sharply. The smaller increase in credit for the private sector, although significant (11%), was not in proportion to the weakness of production activity.² A much more notable development during the year was the rapid increase in savings and time deposits (24%).

Given the instability and severe internal and external constraints affecting economic activity in recent years, the gross domestic product diminished slightly in 1983; with the exception of agriculture (whose product rose by 2.5%) all production activities contributed to this decrease in a greater or lesser degree, thereby prolonging the recession which had begun in 1981. The slight decline in production, however, was counteracted by an increased volume of imports, which would seem to indicate that there was some increment in total supply, in contrast to the drop recorded in the two preceding years. Nonetheless, the expansion in the value of exports at constant prices ultimately resulted in a slight decrease in the domestic availability of goods and services during 1983, a decline which had a greater effect on consumer spending, primarily that of the general government, than on capital formation.

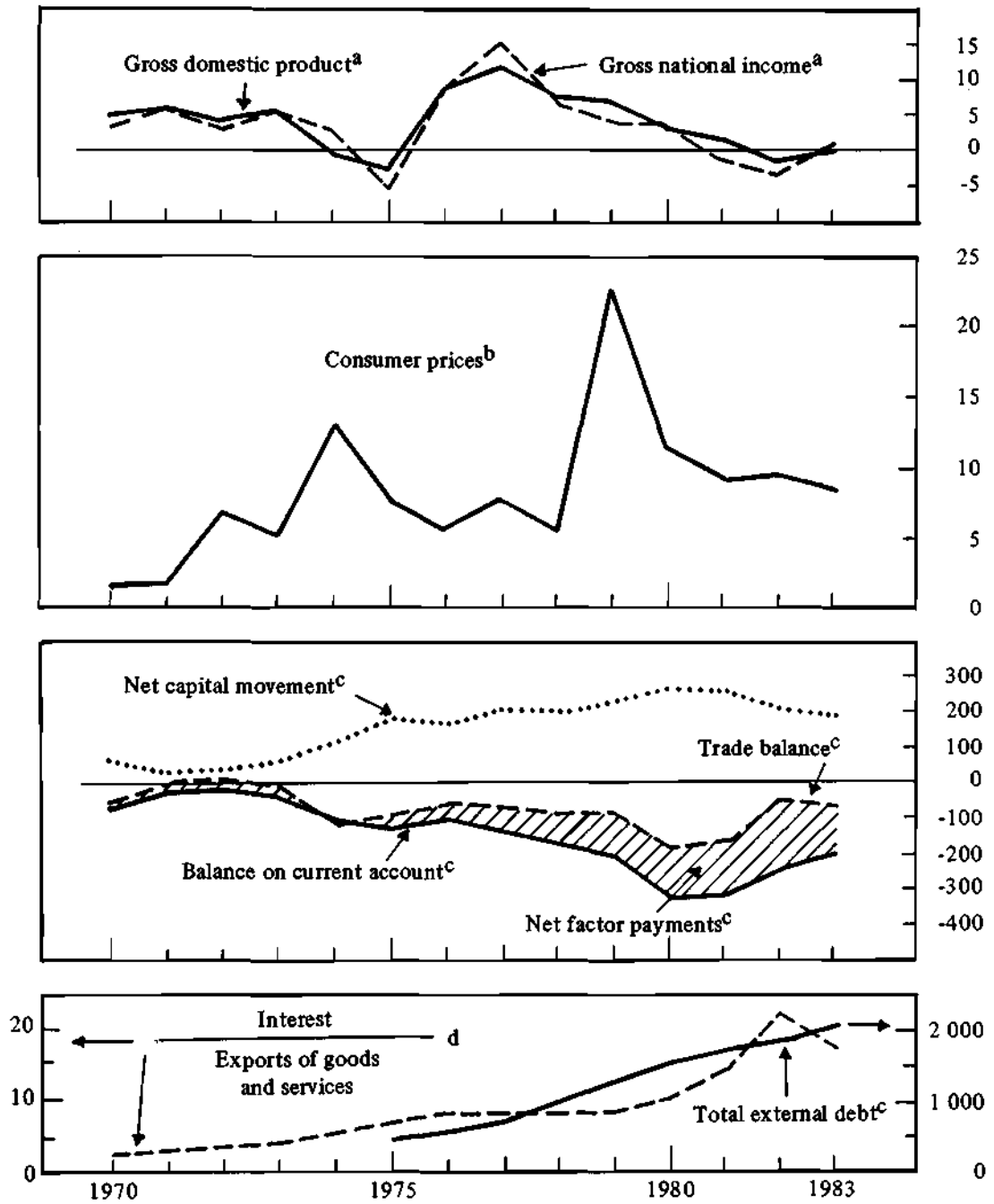
The sacrifice that the country made in intensifying a financial adjustment policy which worked to the detriment of economic growth and caused a greater degree of social dissatisfaction, did not bring about a reduction in the imbalances affecting the country, as had been hoped. Indeed, a number of variables and indicators deteriorated further, especially during the latter part of the year. This increased the skepticism of the economic agents, provoking, *inter alia*, the outflow of capital from the country.

In response to the difficult economic situation, which worsened towards the end of the year, in late November the "Emergency Law to reactivate the national economy" was promulgated. This Law authorized the government to take special measures to bring down the fiscal deficit, to settle overdue debts, to raise employment levels, and to promote production activities (primarily agricultural and industrial output for export) in order to reactivate the economy.

¹Although the government negotiated with its private external creditors in order to reschedule some of the amortization payments falling due in 1982 and 1983, no agreement whatsoever was signed during the year. Nonetheless, the government postponed making these payments with the implicit consent of its creditors since the corresponding agreements were soon to be formally concluded.

²The rediscount rate fell from 15% to 13% and the interest rate on credits for grain cultivation was reduced from 10% to 8% in order to stimulate grain production.

Figure 1
HONDURAS: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.
^dPercentages.

^bPercentage variation, December - December.

^cMillions of dollars.

Table 2

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	1 681	1 575	1 582	129.6	130.1	121.9	3.0	-1.8	-6.3	0.5
Gross domestic product at market prices	1 331	1 307	1 298	100.0	100.0	100.0	2.7	1.2	-1.8	-0.7
Imports of goods and services ^b	350	268	284	29.6	30.1	21.9	3.7	-11.5	-23.4	6.1
Total demand	1 681	1 575	1 582	129.6	130.1	121.9	3.0	-1.8	-6.3	0.5
Domestic demand	1 362	1 291	1 283	105.8	105.9	98.9	5.3	-2.2	-5.2	-0.6
Gross domestic investment	265	156	166	20.9	25.0	12.8	4.7	-19.5	-41.2	6.6
Gross fixed investment	243	196	195	18.5	23.4	15.0	8.1	-20.9	-19.5	-0.8
Construction	137	131	127	9.8	11.3	9.8	6.7	-7.8	-4.3	-2.9
Machinery	106	65	68	8.7	12.1	5.2	9.3	-33.2	-39.0	3.6
Public	114	118	116	6.5	9.8	9.0	0.6	-11.8	3.5	-1.4
Private	129	78	79	12.0	13.6	6.0	14.1	-27.5	-39.6	0.2
Changes in stocks	22	-40	-29	2.4	1.6	-2.2				
Total consumption	1 097	1 135	1 117	84.9	80.9	86.1	5.6	3.1	3.5	-1.6
General government	203	197	190	11.5	14.1	14.7	8.4	9.8	-3.4	-3.2
Private	894	938	927	73.4	66.8	71.4	5.0	1.7	5.1	-1.2
Exports of goods and services ^b	319	284	299	23.8	24.2	23.0	-6.3	0.2	-10.9	5.3

Source: ECLAC, on the basis of data provided by the Central Bank of Honduras.

^a Preliminary figures. ^b The figures on imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to dollars at constant 1970 values using price indexes calculated by ECLAC for the purpose.

2. Trends in economic activity

a) *Total supply and demand*

After having fallen by 8% during the two preceding years, the supply of goods and services expanded slightly in 1983. This was the result of a slight decrease (around 1%) in the gross domestic product at market prices, combined with a significant increase of approximately 6% in the quantum of imports, which was nevertheless not enough to compensate for the 32% drop recorded during the previous two years (see table 2).

Despite the increase noted, imports remained at very low levels owing to the lower demand of depressed production and to a shortage of foreign exchange during the past three years. The adjustment policy which has been applied to ease the country's financial imbalances included a variety of measures designed to limit total demand, especially external purchases. This reduced imports of some products, particularly consumer durables, capital goods and some raw materials used by the agricultural and industrial sectors. The volume of imported goods and services in 1983 was lower than in 1977; in per capita terms, it was equivalent to that of 20 years earlier, when the process of Central American integration had barely begun and the national economy's industrial structure was largely unintegrated.

With respect to demand, the increase of somewhat over 5% in the value of exports of goods and services at 1970 prices (which had dropped by 11% in 1982 and by 16% over the past three years) meant that the domestic supply of goods and services decreased for the third year running, this time by only 0.6%. This affected the possibilities for growth in consumption and investment.

Gross domestic investment rose by over 6% in 1983; fixed domestic investment, however, fell by around 1%. This difference may be attributed to the variation in inventories. Over the last three years, fixed-capital formation fell by 37%. The greatest decrease was in investment in construction,

in contrast to what had occurred in 1981 and 1982, when investment in machinery plunged by 60%. Investment made by the private sector, which up to 1981 had been greater than that of the public sector, lost its lead in 1982, inasmuch as it decreased by 56% in 1981 and 1982; it showed no major change in 1983. On the other hand, after having decreased by 12% in 1981 and risen by 3.5% in 1982, public investment dipped slightly again in 1983, since it was confined to the execution of only the most essential public works (see table 2).

Consumption was also affected by this new drop in the domestic supply of goods and services. General government consumption fell by slightly over 3% in real terms for the second year running, which was in keeping with basic fiscal policy objectives. Private consumption appears to have decreased by slightly over 1% as a result of the deterioration in the overall economic situation.

b) *The growth of the main sectors*

All activities except agriculture reflected the effects of the widespread recession of the economy to a greater or lesser extent. The increase of slightly under 3% in agricultural output was offset by construction, which decreased by a similar percentage, thereby constituting the sector that was hardest hit by the crisis, notwithstanding the efforts made to reactivate it; it was also counteracted by the manufacturing industry which, like basic services, has lost all dynamism since 1981 and by the other services, whose products fell by 1.2% on average in 1983, having followed an erratic course since early in the decade (see table 3).

In contrast, agricultural production (the largest activity) increased by slightly less than 3% in 1983. Agriculture has shown very little dynamism since 1980. The annual rate of 1.9% for those years was far below the level of nearly 8% recorded for the 1975-1979 period. Nonetheless, the value added by agriculture continues to represent nearly 30% of the gross domestic product.

Table 3

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

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	1 180	1 173	1 171	100.0	100.0	100.0	3.3 ^c	0.7 ^c	-0.6 ^c	-0.1 ^c
Goods	597	595	600	53.1	50.5	51.0	4.1	0.4	-0.4	0.8
Agriculture	324	327	336	32.4	27.2	28.6	3.1	0.9	1.1	2.6
Mining	26	25	25	2.1	2.1	2.1	-7.0	5.1	-4.8	-
Manufacturing	187	184	183	13.8	15.6	15.5	6.6	1.7	-1.3	-1.0
Construction	61	58	57	4.8	5.6	4.8	6.8	-7.8	-4.2	-2.9
Basic services	114	111	110	9.4	9.7	9.3	4.1	-0.7	-2.6	-1.4
Electricity, gas and water	27	26	26	1.4	2.1	2.2	10.0	8.7	-2.9	-
Transport, storage and communications	87	85	84	8.0	7.6	7.1	2.6	-3.3	-2.5	-1.8
Other services	475	472	466	37.5	39.8	39.7	1.8	1.0	-0.6	-1.2
Commerce, financial institutions, insurance and real estate	199	196	194	15.8	16.8	16.5	2.6	-	-1.7	-0.9
Ownership of dwellings	94	94	93	7.2	8.0	7.9	5.1	-0.7	-	-0.8
Community, social and personal services ^d	182	182	179	14.5	15.0	15.3	-0.8	2.9	0.3	-1.6
Government services	57	58	58	3.4	4.6	5.0	3.4	4.7	3.3	-

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras.

^a Preliminary figures.

^b As the individual activities and the total were calculated independently, the sum of the former does not coincide with the latter.

^c These growth rates differ from those given in tables 1 and 2 because they measure different concepts of the product: in the preceding tables they correspond to market prices while here they relate to factor cost.

^d Includes restaurants, hotels and business services.

Table 4

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
							1980	1981	1982	1983 ^a
Index of agricultural production	100.0	102.9	183.4	186.0	188.0	192.7	3.1	1.4	1.1 ^c	2.6 ^c
Crop-farming	100.0	95.4	200.9	204.6	...	...	2.7	1.8	...	...
Stock-raising	100.0	118.8	149.6	148.7	...	...	3.6	-0.6	...	...
Forestry	100.0	106.8	125.0	125.0	...	...	1.9	-	...	...
Beekeeping, hunting and fishing	100.0	200.0	260.0	280.0	...	...	-	7.7	...	...
Production of the main crops^d										
For export										
Bananas	1 246	786	1 425	1 336	1 405	1 170	-1.7	-6.2	5.2	-16.7
Coffee	34	51	73	73	73	86	-2.9	-	-	17.8
Sugar cane	1 374	1 557	2 865	2 880	3 052	3 150	12.2	0.5	6.0	3.2
Cotton	9	15	25	21	18	8	17.0	-16.0	-14.3	-55.6
Tobacco	4	5	7	7	7	7	-2.4	-	-	-
For domestic consumption										
Maize	353	343	366	409	404	409	1.0	11.7	-1.2	1.2
Beans	48	48	45	51	49	52	2.4	13.3	-3.9	6.1
Rice	10	22	29	32	34	39	9.8	10.3	6.3	14.7
Yuca	35	43	55	55	57	58	4.8	-	3.6	1.7
Plantains	83	83	145	151	153	162	4.0	4.1	1.3	5.9
African palm	33	51	72	89	95	124	2.5	23.6	6.7	30.5
Indicators of stock-raising production										
Stock										
Cattle ^e	1 783	1 238	2 337	2 358	2 468	2 520	0.2	0.9	4.7	2.1
Pigs ^e	676	690	703	706	711	714	0.4	0.4	0.7	0.4
Goats and sheep ^e	27	26	24	24	26	27	-1.2	-	8.3	3.8
Slaughtering										
Cattle ^d	47	54	62	61	63	65	0.2	-1.6	3.2	3.2
Pigs ^d	5	6	8	8	9	10	0.9	-	12.5	11.1
Poultry ^d	4	6	12	14	14	15	11.6	16.7	-	7.1
Other products										
Milk ^f	189	226	269	271	279	284	4.4	0.7	2.9	1.7
Eggs ^f	22	32	39	44	43	45	1.3	2.8	-2.2	4.6

Source: ECLAC, on the basis of official data.

^a Preliminary figures. ^b Growth rates have been calculated on the basis of actual, not rounded, figures. ^c Estimated on the basis of the variation in valued-added.^d Thousands of tons.^e Thousands of head.^f Millions of litres.^g Millions of dozens.

i) *Agriculture*. Even though agricultural output continued to show growth during 1983, this rate was not as good as it might seem. Firstly, per capita production declined slightly and, secondly, the production of bananas, which is one of the major products, went into a steep decline (see table 4).

There were adverse weather conditions during the year. In March, hurricane-force winds damaged budding citrus trees as well as banana and plantain plants, causing heavy losses. Then, the rains which usually begin during the first half of May were almost a month late, and as rainfall continued to be irregular, the production of basic grains was affected and late sowings had to be postponed. This made it necessary to import maize to cover the temporary deficit in order to provide for domestic consumption.

With the delay in the rains, crops were affected less by pests and disease, but the coffee rust disease continued to spread and to affect vast stretches of coffee plantations; the black sigatoka disease affected banana plantations in the same way.

The performance of export products was varied. While cotton and banana production declined by 56% and 17%, respectively, coffee and sugar cane output rose; tobacco production held steady at the same level as in preceding years. The production of bananas decreased owing to the adverse weather conditions mentioned above, which damaged over 5 000 hectares of plantings. This made it necessary for the authorities to assist some banana companies to rehabilitate damaged plantations. The shortage of funds for supporting the activities of the Honduran Banana Corporation (COHBANA) has caused it to play a smaller role in domestic banana marketing and in the promotion of projects to develop other areas of production.³

Despite the fact that coffee rust disease and the coffee berry beetle damaged around 45 000 hectares, coffee production expanded by nearly 18% owing to the ongoing replacement of all the coffee plantings with new high-yield and rust-resistant varieties. A support programme financed by the United States Agency for International Development (AID) is currently underway which is designed to help small-scale producers in improving the planting or total resowing of up to two hectares per coffee producer and in acquiring equipment and pesticides. The effective control or eventual eradication of coffee rust disease has, however, been hampered by a variety of factors, including the drop in international coffee prices, which has decreased the interest of producers in this effort.

The drop in international sugar prices also discouraged any major increase in sugar cane output, which only increased by slightly over 3% in 1983. Sugar cane production had shown greater dynamism in earlier years, especially in 1980 and 1982, and good use had been made of the installed industrial capacity, even though market conditions were not the best. This situation grew worse in the last year, and it therefore became necessary to reinforce the credit policy pertaining to this activity.

The banking system provided similar support to cotton producers, whose international market had diminished. The results were negative, however, in that production fell by nearly 56% after having dropped by 28% during the two preceding years (see table 4).

Production of all basic grains rose and would have risen more if the rains had not been late. Indeed, one of the primary objectives of the government's economic policy was to encourage and support production of these basic foodstuffs, particularly by means of the extension of credit, technical assistance and marketing facilities. In the case of maize, which was the crop that increased the least (1%), supply problems arose late in the third quarter owing to insufficient storage capacity. Towards the end of the year, however, a bidder had still not been selected to expand the network of grain—and especially maize—silos and depots that were to be constructed with the aid of the countries of the European Economic Community.

Bean production climbed by 6%, despite the substantial decrease in the surface area under cultivation as a result of the drop in international bean prices and the large surpluses accumulated during past years; these factors did not help to stimulate the planting of beans.

The lateness of the rains and their later intensity in the main farming areas worked to the benefit of rice production. The output of sorghum, however, was lower because the area along the border with El Salvador, which is the main sorghum-growing area, was affected by a drought.

The production of plantains and African palm increased considerably. In the case of plantains, this was due to the successful control of the black sigatoka disease, while in the case of African palm, it was due to the fact that new areas were brought under cultivation some years ago (the Bajo Aguán and Guaymas Projects).

Stock-raising increased as a result of a significant expansion in poultry and pork production. Poultry output made progress towards regaining the growth rate it had in 1980 and 1981, while there was a large increase in pig-slaughtering for the second year running. Investments made during earlier years in poultry-keeping also resulted in an increase of nearly 5% in egg production. Although milk output also increased, not enough was produced to meet domestic needs and additional imports were therefore necessary.

³In February 1984 the government decided to reduce the advisory role played by COHBANA in relation to banana policy and assigned some of its other functions to other institutions. Domestic marketing thus came under the responsibility of BANASUPRO, the Ministry of Natural Resources took charge of technical assistance, the National Agricultural Development Bank took over the area of financial assistance, and the Ministry for Economic Affairs was made responsible for providing advisory services in relation to international marketing.

Table 5

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates		
					1981	1982	1983 ^b
Index of manufacturing value added (1976 = 100)	135	137	135	134	1.7	-1.3	-1.0
Production of selected industries							
Cement ^c	7 229	7 315	6 528	11 422	1.2	-10.8	75.0
Fibro-cement sheets ^d	2 030	1 680	1 538	1 878	-17.2	-8.5	22.1
Cloth ^e	16.8	13.7	10.0	14.7	-18.0	-26.9	46.5
Wheat flour ^f	1 288	1 255	1 294	1 345	-2.6	3.1	3.9
Sugar cane ^f	4 077	4 167	4 858	4 793	2.2	16.6	-1.3
Cigarettes ^g	107.1	108.0	114.1	97.0	0.8	5.6	-15.0
Matches ^g	58.9	62.1	65.6	69.4	5.5	5.7	5.8
Beer ^h	122.2	116.1	110.5	126.1	-5.0	-4.8	14.1
Carbonated beverages ^h	478.8	522.6	444.0	478.9	9.2	-15.0	7.9
Alcoholic beverages ⁱ	7 638	7 830	7 349	6 465	2.5	-6.1	-12.0
Other indicators							
Consumption of electricity by industry ^j	379	415	401	438	9.5	-0.7	9.2

Source: ECLAC, on the basis of figures supplied by CONSUPLANE and the Central Bank of Honduras.

^aPreliminary figures and estimates based on an 11-month period. ^bCalculated on the basis of an 11-month period compared with the same period of the preceding year. ^cThousands of 42.5-Kg sacks. ^dThousands of square metres. ^eMillions of yards. ^fThousands of quintals. ^gMillions of boxes. ^hMillions of 12-ounce bottles. ⁱThousands of litres. ^jMillions of kWh.

Finally, beef production increased by slightly more than 3%. It should be noted that low meat prices during the two preceding years had sparked off the smuggling of live cattle into other Central American countries.

The progress made in agrarian reform continued at a slower rate than had been planned. During 1983, only half of the programmed allocations and awards of land were carried out. At the same time, the sector in which reforms had been carried out received only 7% of the credit that had been granted by the National Agricultural Development Bank (BANADESA).

Furthermore, agricultural production has been increasingly affected by the problems encountered in acquiring more production equipment and maintaining stocks of spare parts. According to official data, the number of tractors in operation was cut by half owing to a lack of spare parts and only 86% of existing caterpillar tractors are functioning.

ii) *Manufacturing*. Preliminary information indicates that manufacturing production declined for the second year in a row as a result of the decrease in domestic demand. Some industries also had problems as a result of a temporary lack of some imported inputs and materials; this was the case in a number of food industries, which suffered from a temporary shortage of packaging.

On the other hand, although intra-regional trade continued to slacken, the sale of manufactures on that market rose to such an extent that this line of products became one of the main factors in the expansion of exports; this slowed the decrease in industrial production.

The performance of different branches of industry varied. Whereas the production of traditional manufactures would appear to have increased slightly during 1983, according to the limited information available, the output of the smaller metal-working industry appears to have fallen (-4%), as has the production of intermediate goods.

In regard to the food, beverage and tobacco industries, preliminary information indicates that some of the largest increases were in the production of wheat flour, beer and carbonated beverages; sugar output hardly expanded at all, however, and the output of other alcoholic beverages and of cigarettes dropped (see table 5).

Textile production showed a considerable increase as a result of the establishment of a new textile industry which has become the largest of its kind; it was expressly designed to provide a supply for regional demand.

The production of cement and fibro-cement sheets increased considerably, especially that of cement, which rose by 75%; this partially made up for the drop in this item which occurred in 1982 as a result of the temporary shutdown of factories.

Owing to the slump in the domestic market and in regional demand resulting from the recession in general, many industries were working at less than one-third of their installed capacity; in the manufacturing industry as a whole, this coefficient fluctuated between 40% and 60%, irrespective of those medium-sized and small industries, primarily engaged in the manufacture of wood and the production of food, which suspended operations during the past two years. During 1983, however, the new Bonito Oriental sawmill started up operations. It is part of the Olancho Project, which was begun during the preceding decade and which is designed to develop the exploitation of forestry resources and, in the future, the manufacture of pulp and paper. Owing to financial problems and some limitations of a technical nature, however, the achievement of these objectives has been delayed.

Several of the companies founded in previous years with the support of the National Industrial Development Corporation (CONADI) —including those producing cement and other building materials— found themselves in very serious financial straits during the year.

Some years ago the government began to implement a policy designed to attract foreign investment to what is called the Free Zone of Puerto Cortés. This project has not been fully put into effect, however, and as owners have abandoned their installations, these have been taken over by a co-operative, the first such enterprise created in the zone.

iii) *Construction.* Affected by financial problems, by the slump in housing demand (primarily for medium- and high-priced dwellings), and by the policy to hold down public spending, construction continued to decline during 1983. There has been a 14% decrease over the last three years, and this has had serious repercussions on other associated production sectors and on employment. Nonetheless, the production of cement and of fibro-cement sheets soared during the year and largely made up for the decreases in these products in 1982 as a result of the partial suspension of operations of the country's two cement factories in response to the serious financial problems stemming from these companies' high rate of external indebtedness (see table 6).

The statistics on construction permits went down considerably during the period from October 1982 to September 1983 compared with the same period the year before, in contrast to the hitherto rapid increase in such permits despite the serious deterioration in the main economic variables. In late 1981 and early 1982, in view of the upcoming elections and subsequent change of administration, there was a period in which optimism once again reigned among economic agents, despite the

Table 6

HONDURAS: CONSTRUCTION INDICATORS

	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Constructed area^c (thousands of m²)									
Total	225	322	261	332	189	...	-19.0	27.3	-42.9
Dwellings	130	238	199	268	146	...	-16.2	34.6	-45.7
Production of some construction materials									
Cement (thousands of sacks)	...	7 229	7 315	6 528	11 422	11.5	1.2	-10.8	75.0
Fibro-cement sheets (thousands of m ²)	...	2 030	1 680	1 538	1 878	21.7	-17.2	-8.5	22.1

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^a Preliminary figures.

^b Calculated on the basis of actual, not rounded, figures.

^c Refers to private urban construction in the Central District, San Pedro Sula and La Ceiba.

Table 7

HONDURAS: ELECTRICITY CONSUMPTION

	Millions of kWh					Growth rates ^b			
	1970	1975	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Total	149	436	837	850	919	17.1	10.2	1.6	8.1
Residential	44	103	240	264	282	16.9	13.6	9.9	6.9
Commercial	33	64	124	131	136	8.3	5.6	6.1	3.8
Industrial	59	241	415	401	438	9.2	9.6	-3.4	9.2
Street lighting	3	12	18	19	25	8.3	-9.0	8.9	31.6
Government	10	15	38	31	38	16.4	20.5	-20.5	22.6
Other systems	-	1	2	4	-	-	-	144.9	-

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras.

^aPreliminary figures. ^bThe growth rates correspond to real, not rounded, figures.

economic crisis, and a recovery was expected to begin in October 1982; this gave rise to a brief speed-up in construction. These expectations diminished as the economic situation gradually grew worse.

iv) *Basic services.* While the product of transport, storage and communications services went down by nearly 2% in 1983, as a result of the recession of the last three years and the decrease in foreign trade volumes, there was no major variation in electricity, gas and water services after the decrease recorded in 1982. However, the available information indicates that there was a significant increase of 8% in the use of electricity, and, in the case of industrial use of electricity, the figure inexplicably exceeds 9%. Residential consumption of electricity rose by 7%, while the increase in business consumption was slightly less than 4%. It is equally difficult to account for the increase in street lighting and the huge variation which occurred between 1982 and 1983 in government electricity use (see table 7).

Electricity was imported during the year from Costa Rica (141 million kWh) by way of Nicaragua using the Central American system of electrical interconnection. Construction on the El Cajón dam, where a hydroelectric plant will be built, also continued.

c) *Employment*

The country suffers from a large and long-standing imbalance between the economically active population and the supply of jobs; the problems of unemployment and underemployment are therefore quite serious. Available indicators provide some information with respect to the high levels of unemployment brought about by the economic crisis. Nationally, the level of unemployment was over 21%, and almost 37% in the agricultural sector. The decline in construction (-14%) for the third year running and its multiplier effect on other industries was the most important factor in raising unemployment (see table 8).

The masses layoffs carried out by some companies, including some banana companies, in addition to the existing high level of unemployment and the deterioration in real wages, have caused many labour conflicts.

3. The external sector

a) *Merchandise trade*

The external situation continued to be critical in 1983; despite the fact that the deficit on current account was lower, the smaller net inflow of capital resulted in another drop in international reserves. An increase of slightly over 7% in imports of goods exceeded the increase of only 4% in exports of merchandise, thereby raising the negative balance in this type of trade from only US\$ 4 million in 1982 to US\$ 27 million in 1983.

The efforts made to expand sales to other countries were not successful in producing any major increase because of the decrease in the unit values of exports and adverse weather conditions which

reduced the banana crop, the main export product. Despite this, however, the volume of exports rose by 6%, which made up for only a part of the decreases registered in 1980 and 1982 (see table 9).

Although efforts were made to hold down imports in order to diminish the external imbalance, imports increased by over 7% and the volume of imported goods rose even more (8.5%).

Import prices fell slightly in 1983 (-1%) and export prices showed a larger decrease (-2%); there was thus a further deterioration in the terms of trade (this time the decrease was only 1%), making it the third successive decrease in the terms of trade, which, since 1980, have dropped by 18%. The purchasing power of exports of goods, which had decreased by 29% during the three-year period from 1980 to 1982, improved by 5% in the last year as a result of an increase in the volume exported.

i) *Exports.* Although the value of slightly over US\$ 700 million in exports of goods in 1983 was 4% higher than in the preceding year, it was still substantially lower than the peak level of US\$ 850 million reached in 1980.

Exports of the main traditional products, which together account for over 75% of the total, grew less than 2%. Two different factors influenced this increase: on the one hand, there was a

Table 8

HONDURAS: EMPLOYMENT AND UNEMPLOYMENT

	1981	1982	1983 ^a
Unemployment rates			
National	19.3	20.4	21.2
Agricultural sector	...	35.5	36.9
Indexes			
Labour force	100.0	103.9	107.6
Employment	100.0	99.6	105.2
Unemployment	100.0	109.6	117.9

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 9

HONDURAS: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
	Growth rates					
Exports of goods						
Value	18.2	20.8	12.4	-7.8	-13.7	4.1
Volume	13.1	23.9	-6.6	0.2	-10.0	6.2
Unit value	4.5	-2.4	20.4	-8.0	-4.0	-2.0
Imports of goods						
Value	19.0	19.7	21.8	-5.8	-24.2	7.4
Volume	13.5	11.8	3.1	-10.9	-25.0	8.5
Unit value	4.9	7.0	18.1	5.8	1.0	-1.0
Terms of trade (goods)	-0.4	-9.1	2.9	-13.4	-5.1	-1.0
	Indexes (1970 = 100)					
Terms of trade (goods)	112.8	102.9	104.8	91.2	86.6	85.7
Purchasing power of exports of goods	151.8	170.9	164.1	142.4	121.6	127.8
Purchasing power of exports of goods and services	154.1	174.9	168.3	148.4	127.1	133.3

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 10

HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^a			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	784	677	704	100.0	100.0	100.0	13.4	-7.8	-13.7	4.1
Central America	66	50	...	10.4	9.9	...	40.3	-22.0	-24.3	...
Rest of world	718	627	...	89.6	90.1	...	9.7	-6.1	-12.7	...
Main traditional exports	554	518	528	79.2	73.1	75.0	8.0	-12.6	-3.1	1.9
Bananas	213	218	208	42.0	26.8	29.5	14.1	-6.4	2.3	-4.9
Coffee	173	153	151	14.5	24.0	21.4	3.7	-15.3	-11.4	-1.3
Wood	43	45	40	9.1	4.2	5.7	-13.9	19.2	3.5	-11.2
Meat	46	34	31	5.4	7.2	4.4	-	-23.5	-27.5	-7.1
Zinc	12	12	23	2.4	1.2	3.3	-8.7	22.5	-2.5	95.0
Shrimp and lobster	26	28	34	0.8	2.7	4.8	-3.5	11.5	6.5	22.2
Silver	16	9	25	3.1	3.8	3.6	85.1	-50.4	-41.0	166.1
Cotton	12	8	5	0.6	1.5	0.7	19.0	-13.4	-37.4	-36.5
Tobacco	13	11	11	1.3	1.7	1.6	13.2	-2.6	-19.5	2.3
Non-traditional exports	230	159	176	20.8	26.9	25.0	26.5	0.4	-30.9	10.7
Wood manufactures	12	100	...	0.3	1.4	...	-3.3	-26.8	-17.2	...
Unrefined sugar	47	22	28	0.7	5.5	4.0	120.7	58.6	-52.2	25.2
Soap	13	10	...	1.4	1.5	...	24.2	-36.6	-24.9	...
Others	158	117	...	18.4	18.5	...	21.7	-3.1	-26.0	...

Source: ECLAC, on the basis of data supplied by the Central Bank of Honduras.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to real, not rounded, figures.

moderate improvement in the prices of most such products and, on the other hand, the volume of the main goods exported, particularly bananas and wood, fell through decreases in the output of both products (see table 10).

International coffee prices continued dropping. The value of sales therefore decreased for the third year in a row, even though a larger amount was exported because of increased production and the large surpluses accumulated the preceding year as a result of the restrictions placed on the export quota by the International Coffee Organization for the past cycle.

In 1983 there were significant increases in the sales of three lines of products which hold out the possibility of rapid development: sales of silver and zinc rose by 166% and 95%, respectively, while those of shrimp and lobster were 22% higher; in total, this amounted to about US\$ 82 million.

Non-traditional exports expanded by more than 10%, reaching US\$ 176 million; this was 23% less than only two years before. Efforts were made during the year to export new types of products, open up new markets and improve the co-ordination of the action taken by the State and by exporters. With respect to sugar exports, these efforts made it possible to take better advantage of the rise in prices on the free market and the 10% increase in the quota assigned by the United States.

According to information for the first half of the year, it appears that exports to Central America increased more than exports to the rest of the world. For several years now, certain problems relating to payments among the Central American countries have hindered intra-regional trade. These difficulties were compounded in December by the temporary closure of the border with Guatemala.

Lastly, it should be noted that new bilateral agreements were negotiated during the year with Costa Rica and Nicaragua. Although trade relations with El Salvador had been re-established in late 1982, only a minimum amount of trade has been resumed.

ii) *Imports*. There was a 6% increase in imports of goods CIF in 1983, following two years in which such imports dropped by 30% as a result of the widespread economic depression, the shortage of foreign exchange and the restrictive policy adopted several years earlier by the authorities. Such a

sharp reduction in imports as occurred during those two years made it unlikely that imports would continue to fall in 1983, inasmuch as this would have entailed an extremely high economic and social cost.

The expansion in imports during 1983 primarily stemmed from increases of 23% in the purchase of non-durable consumer goods and of about 14% in imports of raw materials and intermediate goods for use in industry and construction. The importation of consumer durables, however, declined substantially (-18%) and the decrease in the purchase of transport materials (-30%) was even greater (see table 11).

b) *The current account balance and its financing*

In addition to the growth in the deficit in merchandise trade, the trade balance deficit also rose in 1983, although to a lesser extent. This deficit increased from US\$ -56 million in 1982 to US\$ -68 million in the last year, which is only one-third of what it was in 1980. Expenditures on transport and insurance did not go up, despite the increase in imports, nor was there any variation in expenditures on travel or the income from tourism (see table 12).

Remittances of profits abroad fell to one-third of their former level and net interest payments dropped by US\$ 27 million. The current account position improved with the decrease in the negative balance for factor services. The deficit dropped from nearly US\$ 250 million in 1982 to slightly over US\$ 200 million in 1983. This last figure is equivalent to the 1979 level and is substantially lower than the 1980 level, when the deficit on current account peaked at US\$ 330 million.

As the deficit on current account has been decreasing since the beginning of the decade, the net inflow of capital has also declined; since that time, it has been lower than the current deficit, and this has resulted in a loss of international reserves. During those four years, international reserves were drawn down by US\$ 212 million, but the rate of decrease has slowed since then and in the last year it was only US\$ 17 million, which was one-fourth the size of the decrease in reserves during 1980.

Table 11

HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown ^a			Growth rates ^a			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	960	712	755	100.0	100.0	100.0	22.5	-5.8	-25.8	6.0
Consumer goods	237	159	173	30.7	23.3	22.9	22.0	-0.1	-33.0	8.8
Durable	77	55	45	9.9	8.2	6.0	13.5	-6.2	-28.8	-18.2
Non-durable	160	104	128	20.8	15.1	16.9	27.4	3.8	-35.0	23.1
Raw materials and intermediate goods	506	435	469	44.1	50.8	62.1	23.0	-2.5	-13.9	7.8
Fuels and lubricants	163	170	171	1.4	16.4	22.6	52.0	-4.7	4.2	0.6
Raw materials for agriculture	55	47	50	3.6	4.6	6.6	16.7	20.2	-14.9	6.4
Raw materials for industry	247	192	218	33.9	24.7	28.9	11.0	-2.2	-22.1	13.5
Raw materials for construction	41	26	30	5.2	5.1	4.0	18.8	-17.7	-36.3	15.4
Capital goods	215	115	111	25.0	25.7	14.7	22.2	-17.8	-46.7	-3.5
For agriculture	17	8	8	3.8	2.2	1.1	-23.2	-23.5	-50.4	-
For industry	157	83	87	14.6	17.5	11.5	33.4	-12.1	-47.2	4.8
For transport	41	23	16	6.6	6.0	2.1	19.0	-32.4	-43.2	-30.4
Other products	2	3	2	0.2	0.2	0.3	-12.5	43.3	55.8	-33.4

Source: ECLAC, on the basis of data from the Central Bank of Honduras and CONSUPLANE.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to real, not rounded, figures.

Table 12

HONDURAS: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-139	-170	-205	-331	-321	-249	-204
Trade balance	-74	-89	-92	-185	-177	-56	-68
Exports of goods and services	581	687	838	942	884	767	803
Goods FOB	530	626	757	850	784	677	704
Real services ^b	51	61	81	91	100	90	99
Transport and insurance	19	22	30	40	39	37	38
Travel	14	17	21	24	31	25	23
Imports of goods and services	655	777	930	1 126	1 061	823	871
Goods FOB	550	655	783	954	899	681	731
Real services ^b	105	122	147	172	162	142	140
Transport and insurance	54	64	79	98	90	69	68
Travel	21	23	29	31	27	23	21
Factor services	-69	-85	-120	-153	-153	-202	-145
Profits	-39	-47	-68	-78	-44	-45	-15
Interest received	12	18	20	24	18	15	12
Interest paid	-42	-56	-72	-100	-127	-172	-142
Other	-	-	-	-	-	-	-
Unrequited private transfer payments	4	5	7	8	9	9	9
Balance on capital account	205	180	225	253	249	203	183
Unrequited official transfer payments	10	13	14	14	19	21	32
Long-term capital	149	176	180	266	209	168	155
Direct investment (net)	9	13	28	6	-4	14	-5
Portfolio investment (net)	-	-1	-	-	-	-	-
Other long-term capital	140	163	152	260	213	155	160
Official sector ^c	34	50	56	53	23	77	58
Loans received	57	73	79	94	77	125	93
Amortization payments	-16	-20	-19	-30	-41	-38	-31
Commercial banks ^c	13	1	-15	2	5	-2	-2
Loans received	19	17	9	12	18	3	3
Amortization payments	-6	-17	-23	-11	-14	-5	-5
Other sectors ^c	94	112	110	205	186	80	104
Loans received	134	160	205	278	245	142	168
Amortization payments	-41	-43	-95	-72	-78	-62	-64
Short-term capital (net)	53	-21	51	12	28	19	-4
Official sector	11	-6	-1	-9	49	39	...
Commercial banks	10	-17	43	-8	-35	18	...
Other sectors	32	2	10	29	14	-37	-4
Errors and omissions	-7	13	-20	-39	-7	-5	-
Global balance^d	66	10	20	-78	-72	-46	-17
Total variation in reserves (- sign indicates an increase)	-66	-10	-25	73	69	53	17
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-1	1	-6	10	-2	-	-
IMF reserve position	-	-8	-	8	-	-	-4
Foreign exchange assets	-48	3	-19	41	50	-11	3
Other assets	-2	-	-	-1	-3	-2	-24
Use made of IMF credit	-14	-5	-	15	23	66	43

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, magnetic tape, May 1984; 1983: ECLAC, on the basis of official data.

^a Preliminary figures. ^b Real services also include other official and private transactions, but not factor services. ^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. ^d The global balance is the sum of the balance on current account and the balance on capital account. The difference between the total variation in reserves (minus sign) and the global balance represents the value of counterpart items: monetary gold, allocation of Special Drawing Rights and variations due to revaluation.

c) *The external debt*

The public external debt totalled nearly US\$ 1.9 billion by the end of 1983. Of that amount, more than US\$ 1.66 billion corresponded to medium- and long-term loans. Only about 15% of the debt was contracted with private institutions; the rest came from international agencies and governments. The medium- and long-term public debt represents 56% of the gross domestic product, a figure which rises to 62% if the global debt is considered, and to 70% if the short-term debt is also taken into account (see table 13).

The servicing of the external debt (the medium- and long-term debt only) reached a relatively high point in 1982, when it was equivalent to over one-third of the exports of goods and services and over 9% of the gross domestic product. In 1983 it increased very little, and these ratios fell to 21% and 5.7%, respectively.

The shortage of foreign exchange made it more and more difficult to meet all the payments due on the debt, especially that contracted in recent years with private financial sources. As a result, talks had already been begun in 1982 with private banks in order to restructure some of the amortization payments falling due during the 1982-1983 biennium.⁴

Table 13
HONDURAS: EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
External public debt						
Year-end balance	696	864	1 107	1 288	1 516	1 890
Medium and long term	570	692	872	1 055	1 328	1 662
Short term	126	172	235	233	188	228
Disbursements ^b	155	193	201	241	...	249
Global external debt						
Year-end balance ^c	971	1 180	1 510	1 708	1 842	2 079
Medium and long term	845	1 008	1 275	1 475	1 654	1 851
Short term	126	172	235	233	188	228
Disbursements ^b	249	300	381	333	284	270
Service ^b	118	189	190	243	262	269 ^d
Service ^e	136	209	214	261	277	215 ^f
Amortization payments ^b	80	137	114	133	105	73 ^d
Interest ^b	38	52	76	110	157	96 ^d
Interest ^g	56	72	100	128	172	142
Percentages						
Ratios^h						
External debt/gross domestic product	44.3	46.0	51.2	56.0	59.1	62.4
Service/exports of goods and services	17.2	22.6	20.2	27.5	34.2	21.0
Services/disbursements	47.4	63.0	49.9	73.0	92.3	62.6
Services/gross domestic product	6.2	8.6	7.6	9.2	9.4	5.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Honduras.

^aPreliminary figures. ^bMedium and long term. ^cIncluding total external public debt and medium- and long-term private debt. ^dCorresponds to the servicing of the medium- and long-term public debt only. ^eExcluding amortization payments on the short-term private debt. ^fExcluding all amortization payments on the private debt and amortization payments on the short-term public debt. ^gTotal interest paid. ^hCalculated on the basis of the external debt and medium- and long-term disbursements. The service includes total interest payments and the total amortization payments on medium- and long-term debt, except in 1983, where amortization payments on the private debt are not included.

⁴The financial commitments contracted with private foreign banks by the Central Bank of Honduras, the National Electrification Company (ENE) and other smaller debtors were not included in these renegotiations.

Table 14

HONDURAS: DOMESTIC PRICE TRENDS

	1978	1979	1980	1981	1982	1983
Variations December to December						
Consumer price index	5.3	22.5	11.5	9.2	9.4	8.6
Food	5.5	20.3	12.3	5.2	7.3	6.9 ^a
Variation between annual averages						
Consumer price index	5.7	12.1	18.1	9.4	9.4	8.4
Food	6.2	11.4	17.1	7.3	6.7	5.6 ^b

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^aVariation from October to October. ^bVariation from January to October 1983 in comparison with the corresponding period of the preceding year.

These negotiations continued in 1983 and were extended to include the debts payable in 1984. The total amount of loan payments due during those three years amounts to approximately US\$ 125 million. In mid-1983 an agreement was reached, in principle, whereby Honduras was to be given a grace period of three years and would make subsequent amortization payments, in equal proportions, over a term of four years. The interest rate and surcharges to be paid were also the subject of negotiations, but the agreement was still awaiting formalization owing to differences with respect to the amount of additional financing to be covered by the agreement. However, during 1983 the government acted with the implicit consent of the creditors as if the renegotiations had been formalized. Consequently, although the public sector had paid all the interest on its external debt as well as making the amortization payments due on the debt with public creditors by the end of 1983, it failed to pay part of the amortization payments due on the debt with private international banks.

4. Prices and wages

Domestic prices rose somewhat more than 8% in 1983. This was less than the variation recorded during the four preceding years, which had reached nearly 23% in 1979 (measured from December to December). Nonetheless, it exceeded the goals that had been set as part of the economic stabilization programme (see table 14).

The stabilization seen in the prices of imported products in general, including petroleum, contributed to the slackening of the rate of inflation, as did the satisfactory supply of foodstuffs and other commodities which was available during the year, except in September and October. During that period there was a temporary scarcity of basic grains for domestic consumption, and the supply had to be immediately supplemented with imports in order to prevent a shortage on the market; this helped to speed up the rise in prices. Until September, the general consumer price index climbed at a rate of 1% per month, on average; this rose to 1.4% or 1.5% in February, June and September, and dropped to between 0.3% and 0.4% in March and May. The price index fell slightly during the fourth quarter.

The rates charged for public services, electricity, water and sewerage, as well as for port services, communications and others rose during the year. These rate increases were intended to reduce the financial deficits of public enterprises and to make them self-supporting.

The increase in food prices was less than the increase in the overall index, as had frequently occurred during preceding years. Over the past five years, food prices rose at an annual rate of 9.5%, whereas prices in general increased at a rate of 11.4%. In 1980, when the inflation rate peaked at 18% (as an annual average), food prices climbed 17%. Agricultural promotion and credit policies, particularly those relating to grain production, have certainly helped to hold down the increase in food prices.

Although inflation slowed in 1983, real minimum wages fell by nearly 8%, since there were no wage adjustments during the year. Minimum wages paid in the various activities have lost about 10%, on average, of their purchasing power over the past four years, except in agriculture, where they increased by nearly 12% in real terms during that period. Minimum wages in the manufacturing industry and in construction were the hardest hit (see table 15).

The wages of public employees have been frozen since 1980; only isolated wage hikes were granted—which had been established under collective agreements signed prior to that time—to workers in decentralized institutions, but in no case did such increases exceed 15%. The decline in real wages and the high levels of unemployment occasioned by the recession led to serious labour conflicts in various sectors from the beginning of the year, and these conflicts threatened to spread to almost the entire country. Two such situations were the strike by municipal employees of San Pedro Sula in which several thousand workers participated, and the work stoppage by employees of public health institutions. In addition, the reduction of the budget for education and health which was made in September gave rise to protest demonstrations by workers in these sectors. These demonstrations were not successful in reducing the number of layoffs or in raising wages.

Table 15

HONDURAS: TRENDS IN MINIMUM WAGES

	1980	1981	1982	1983
Indexes (1976 = 100)				
Minimum wages^a				
Nominal				
Agriculture and stock raising	179	228	256	256
Manufacturing and mining	135	155	168	168
Artisanal activities	140	165	181	181
Construction	147	168	179	179
Commerce and services	130	153	169	169
Real				
Agriculture and stock raising	118	138	142	130
Manufacturing and mining	89	94	93	85
Artisanal activities	92	99	99	91
Construction	97	101	98	90
Commerce and services	86	92	91	84
Growth rates				
Minimum wages^a				
Nominal				
Agriculture and stock-raising	19.3	28.2	12.4	-
Manufacturing and mining	8.2	15.1	8.3	-
Artisanal activities	10.8	18.2	9.5	-
Construction	10.3	14.8	6.5	-
Commerce and services	8.5	17.8	10.4	-
Real				
Agriculture and stock-raising	0.7	17.1	2.7	-7.7
Manufacturing and mining	-8.3	5.1	-1.0	-7.7
Artisanal activities	-6.2	7.9	-	-7.7
Construction	-6.7	4.8	-2.7	-7.7
Commerce and services	-7.9	7.7	0.9	-7.7

Source: ECLAC, on the basis of official data.

^aMinimum wages correspond to annual averages in the Central District and San Pedro Sula. Since 1974, they have been adjusted in December 1978, May 1980, June 1981 and during 1982.

5. Fiscal and monetary policy

a) *Fiscal policy*

One of the main imbalances in the Honduran economy is in central government finance. It has become more severe with the rapid growth of expenses and the slower increase of income, giving rise to an increasing deficit. In 1982, the fiscal deficit peaked when total expenditure rose by 24% while current income climbed by only 4%, reaching the point where it represented 14% of the gross domestic product (see table 16).

In 1982, the serious situation led the authorities to conclude the above-mentioned agreement with the International Monetary Fund under very strict guidelines for an adjustment policy; although, in general, a number of goals were met, this policy was not successful in putting government finances on a completely sound footing. In the last year, some factors of distortion were reduced, but the negative effects of others continued to be felt and were compounded by additional pressure on expenditures which, during the preceding fiscal year, had gone largely unnoticed.

As a first step, an attempt was made to reduce expenditure on the purchase of non-personal goods and services, to abstain from filling vacancies as they came up and to abstain from granting wage increases. In addition, it was decided to reduce real investment by concentrating on those projects already underway and initiating only the most essential works.

Secondly, in view of the fact that central government finances had been subject to pressure in preceding years from the subsidies given to decentralized enterprises, the prices and tariffs of public services were increased in order to avoid the need to provide additional financing.

Two phenomena contributed to the fact that the proposed goals were not met. The first factor was the decentralized institutions' need for transfers or direct payments combined with a relative lack of consistency in the setting of priorities and in the initiatives taken by various agencies. The second factor was that the conflicts affecting the country and the rest of Central America encouraged increased defence spending.

The government had to continue to meet the commitments of various public companies, including some branches of CONADI. Most of these commitments involved the servicing of external credit, which gave rise to the need to transfer a larger amount than had been expected.

Another cause of the failure to meet the goals of the economic adjustment was a decrease of approximately 200 million lempiras in the current income budgeted by the government. There was virtually no variation in tax receipts; direct taxes fell by slightly more than 3% and indirect taxes rose by less than 1%. Revenue from income tax was less than had been planned, despite the fact that a surtax was applied to the existing rates. There was apparently a measure of over-optimism in drawing up the budget, and the effects of the 1982 depression and of the economic situation in 1983 were underestimated. There were also unforeseeable factors, however, which influenced the poor results of the tax revenue. One of these, for example, was that a large foreign banana company was given permission to postpone the payment of its taxes until it recovered its production levels, which had been seriously affected by hurricane winds. In addition, the revenue from import duties was 100 million lempiras lower than had been expected. Although the agreement signed in 1982 with the International Monetary Fund had provided for an increase in tariffs, this measure was not implemented.

With the near stagnation of tax revenue in 1981 and 1983 and the small increase recorded in 1982, the tax burden gradually fell from 14% in 1980 to 12% in 1983. In addition to the worsening economic situation in general and other factors which may have influenced the erratic trends seen in tax collection, it is possible that a certain degree of tax evasion may have played some part.

Current expenditure increased by 10% during 1983, more rapidly than in the two preceding years. Since 1980, the amount of interest payments has risen from 54 million lempiras to 115 million, and this figure increased by 42% in the last year alone. The purchase of goods and services also rose substantially in 1983; wages, on the other hand, increased by little more than 5% and transfers decreased.

Capital expenditure fell by nearly 18%. Nonetheless, real investment in current terms rose by 11% and amortization payments on the debt by 40%, making this the first time that they had exceeded investment (by 39 million lempiras). The decrease in capital expenditure corresponded

entirely to the "other capital expenditure" entry, which dropped by 48% as a result of the decrease in financial investment and, primarily, of the drop in capital transfer to the rest of the public sector.

Finally, even though the deficit on the central government balance was slightly lower in 1983, a marked imbalance that exceeded the planned goals persisted; it represented slightly less than 50% of total expenditure and nearly 13% of the gross domestic product.

b) *Monetary policy*

Between the end of 1982 and the end of 1983, money and quasi-money expanded by much larger percentages than the gross domestic product at current prices (around 6%), and the coefficient of liquidity rose as a result. Money outside banks and demand deposits rose by a similar amount, which

Table 16

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	759	741	770	777	20.1	-2.4	3.9	0.9
Tax revenue	696	694	715	712	21.5	-0.3	3.0	-0.4
Direct	236	186	206	199	54.5	-21.2	10.8	-3.4
Indirect	460	508	509	513	9.5	10.4	0.2	0.8
On foreign trade	278	312	271	279	8.2	12.2	-13.1	3.0
Non-tax revenue	63	47	55	65	5.9	-25.4	17.0	18.2
2. Current expenditure	734	791	859	947	38.0	7.8	8.6	10.2
Wages and salaries	342	468	455	478	18.0	36.8	-3.0	5.3
Purchases of goods and services	247	150	191	223	64.3	-39.3	27.3	16.8
Interest payments	54	64	81	115	...	18.5	26.6	42.0
Transfer payments	91	109	133	131	...	19.8	22.0	-1.5
3. Current savings (1-2)	25	-50	-89	-170				
4. Capital expenditure	531	474	709	585	37.9	-10.7	49.6	-17.5
Real investment	196	133	151	167	17.1	-32.1	13.5	10.6
Debt amortization payments	106	114	143	200	5.6	7.5	25.4	39.9
External	19	22	25	31	...	15.8	13.6	24.0
Domestic	87	92	118	169	...	5.7	28.3	43.2
Other capital expenditure	229	227	415	218	65.7	-0.9	82.8	-47.5
5. Total expenditure	1 265	1 265	1 568	1 532	38.7	-	23.9	-2.3
6. Fiscal deficit (1-5)	-506	-524	-798	-755				
7. Financing of the deficit								
Domestic financing	233	248	393	484	89.4	6.4	58.5	23.2
Central Bank	194	276	409	308	56.5	42.3	48.2	-24.7
Other	39	-28	-16	176				
External financing	273	276	405	271	73.9	1.1	46.7	-33.1
	Percentages							
Ratios								
Current savings/capital expenditure	4.7	-10.6	-12.6	-29.1				
Fiscal deficit/total expenditure	40.0	41.4	50.9	49.3				
Tax revenue/GDP	14.0	13.1	12.7	12.0				
Total expenditure/GDP	25.4	23.9	27.9	25.8				
Fiscal deficit/GDP	10.2	9.9	14.2	12.7				
Domestic financing/deficit	46.1	47.3	49.3	64.1				
External financing/deficit	53.9	52.7	50.7	35.9				

Source: ECLAC, on the basis of data supplied by the Central Bank of Honduras.

^aPreliminary figures.

Table 17

HONDURAS: MONETARY BALANCE

	Year-end balance in millions of lempiras				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	605	632	699	799	10.8	4.5	10.6	14.3
Currency outside banks	269	297	307	355	1.9	10.4	3.4	15.6
Demand deposits	336	335	392	444	19.2	-0.3	17.0	13.3
Factors of expansion	1 909	1 982	2 030	2 388	6.7	3.8	2.4	17.6
Net international reserves	125	-20	-205	-241	-46.1		925.0	17.6
Domestic credit	1 784	2 002	2 235	2 629	14.6	12.2	11.6	17.6
Government (net)	286	418	467	591	52.1	46.2	11.7	26.6
Official entities	33	-6	-5	68	266.7		20.0	
Private sector	1 465	1 590	1 773	1 970	7.7	8.5	11.5	11.1
Factors of absorption	1 304	1 350	1 331	1 589	4.9	3.5	-1.4	19.4
Quasi-money (savings and time deposits)	527	607	750	931	5.6	15.2	23.6	24.1
Bonds	103	68	67	75	1.0	-34.0	-1.5	11.9
Long-term foreign borrowing	485	545	539	536	10.7	12.4	-1.1	-0.4
Other items (net)	189	130	-25	47	-7.4	-31.2		

Source: ECLAC, on the basis of data supplied by the Central Bank of Honduras.

^a Preliminary figures.

was a departure from what had occurred in previous years. Savings and time deposits continued to grow rapidly (24%), as they had in the two preceding years. In the midst of the serious external financial situation of recent years, depositors, attracted by positive interest rates in real terms, placed their trust in the banking system within the country (see table 17).

The expansion in the money supply was bolstered by an increase in domestic credit (17.6%), which was twice as high as the rate of inflation. Although the monetary authorities tried to stay in line with the goals set forth in the agreement with the International Monetary Fund, it was not always possible to achieve them. Thus, the net amount of credit extended to the government, which had grown much more slowly in 1982, rose substantially in 1983 (27%). Since 1980, credit received by the private sector has expanded at the much lower rate of approximately 10% annually. To a slight extent, the increase in domestic credit was offset by a further reduction in net international reserves.

During the last two months of the year, rapid increases occurred in some monetary variables. In the midst of a situation marked by a sharp imbalance in the balance of payments and in fiscal accounts, the monetary authority continued the stringent application of the adjustment policy until October.

MEXICO

1. Recent economic trends: Introduction and summary

Throughout 1983 the Mexican economy was subject to strong recessive pressures, as a consequence of a large number of internal and external factors, significant among which were the aftermath of unprecedented disequilibria existing during 1982¹ and the subsequent implementation of a stabilization programme launched by the authorities in order to cope with them. To that end, adjustment policies were focused, in the short run, on the reduction of the fiscal deficit and the correction of external accounts with the purpose of rapidly coping with foreign exchange shortage and inflation, and thus creating a minimum platform on which to base economic reactivation.

The effects of the shift suffered by the economy in 1982, after four consecutive years of rapid growth, were only partial in that year, in view of the dynamism of former periods. But during 1983 the crisis was fully felt, not now as an acute problem of foreign exchange shortage, but as an overall process of recession with high inflation, a drop in consumption levels and the uncertainty of private economic agents as to the general trend of the economy.

The gross domestic product declined for the second consecutive year, this time by 4.7%, a drop only exceeded by that recorded half a century ago, during the depression of the 1930s. This implied a contraction in the per capita income of 7%, which virtually annulled the advances recorded by this indicator in the years of greatest economic boom (see table 1). Although these recessive phenomena were not experienced with the same harshness in all sectors of the economy, nor in all geographic regions, they produced as a whole serious disturbances in the economic and social structure of the country.

In 1982 the crisis had been characterized by a large public sector deficit which reached the equivalent of 18% of the gross domestic product,² and an increasing external public debt mainly contracted during that year and the preceding ones, in order to finance such deficit, as well as by an inordinate rate of inflation of nearly 100% and by severe external disequilibria which were reflected, among other things, in a massive capital flight, an acute foreign exchange shortage and a rapid and progressive monetary devaluation. The situation of widespread uncertainty in 1982 was also due to the adoption of policy instruments of opposite sign, not always consistent with one another.³

The new administration decided to face the crisis by means of the Immediate Economic Reorganization Programme (PIRE), announced on 1 December 1982. Significant among its objectives were the management of inflationary pressures, a decrease in the growth of public expenditure, the selective protection of the productive system and employment, a discipline in programming and implementing public expenditure, and the recovery of the control of the exchange market by the State.

In principle, PIRE was consistent with the extended facility agreement subscribed with the International Monetary Fund (IMF) by the former government, and ratified by the present administration, which will be in force during the period 1983-1985. This programme is part of the National Development Plan (1983-1988) published in May which includes the policy guidelines and objectives for the sexennium. Significant among the latter is that which aims at achieving structural changes in the productive system (in order to maintain a steady growth of the economy by means of expanding the domestic market), a more efficient insertion in the international economy and the generation of permanent labour sources. Likewise, the need to build up conditions for a more egalitarian society is stressed, an increasing challenge in the short run in the light of the adjustment programme effects on the distributive structure.

¹See the chapter on Mexico in ECLAC, *Economic Survey of Latin America and the Caribbean*, 1982, Santiago, 1984.

²The extraordinary magnitude of this amount is explained in part by the large disbursements made for external interest payments which multiplied with devaluation.

³See the chapter on Mexico, *Economic Survey of Latin America and the Caribbean*, 1982, *op.cit.*

Given the serious disequilibria both in the real and financial spheres, the administration was forced to centre its first efforts on coping with monetary and financial problems, particularly those related with foreign exchange shortage, reorganization of the exchange market, debt renegotiation and inflation. With the short-term measures which were applied it was possible to diminish the public deficit in the envisaged proportion, although at the expense of investment, given the enormous weight of the debt service on public finances. The surplus on the balance of payments greatly exceeded expectations —especially owing to a drastic fall in imports— allowing a notable restoration of the international monetary reserves, despite the fact that the external economic situation remained adverse to Mexico. Finally, it was possible to reduce inflation and to dispel the danger of plunging into chronic hyper-inflation.

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	80 091	87 460	94 803	102 338	101 784	97 000
Population (millions of inhabitants)	65.7	67.5	69.4	71.2	73.1	75.1
Per capita gross domestic product (1970 dollars)	1 220	1 295	1 366	1 436	1 391	1 291
Growth rates						
B. Short-term economic indicators						
Gross domestic product	8.1	9.2	8.4	7.9	-0.5	-4.7
Per capita gross domestic product	5.1	6.2	5.5	5.1	-3.1	-7.1
Gross national income ^b	8.1	9.6	9.8	7.5	-2.1	-5.0
Terms of trade (goods and services)	2.1	10.0	22.1	4.0	-12.8	-10.0
Current value of exports of goods and services	37.9	40.8	55.1	23.1	-5.6	-1.5
Current value of imports of goods and services	47.9	47.4	53.8	30.6	-34.9	-41.9
Consumer prices						
December to December	16.2	20.0	29.8	28.7	98.8	80.8
Variation between annual averages	17.5	18.2	26.3	27.9	58.9	101.9
Money ^c	32.7	33.1	33.5	32.8	62.1	42.0
Wages and salaries ^d	13.5	16.8	17.8	30.9	52.1	55.4
Unemployment rate ^{e,f}	6.9	5.7	4.5	4.2	4.2	6.7
Current income of government	33.3	35.9	65.2	39.3	61.8	110.3
Total expenditure of government	27.1	57.0	60.3	64.1	101.7	72.9
Fiscal deficit/total government expenditure ^f	19.7	20.0	16.4	30.3	44.1	30.8
Financial deficit of the public sector/GDP ^f	5.3	5.4	6.5	14.5	17.6	8.7
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-593	-1 575	-2 225	-4 658	5 436	14 170
Balance on current account	-3 259	-5 553	-8 305	-14 074	-5 316	5 320
Balance on capital account	3 690	5 835	9 330	14 775	2 431	-2 059
Variation in international reserves (net)	455	356	938	762	-3 185	3 108
External debt ^g	33 946	39 685	49 349	72 007	78 000	82 000

Source: ECLAC, on the basis of official data.

^aProvisional figures. ^bGross domestic product plus terms-of-trade effect, less net factor payments to the rest of the world and net private grants. ^cMoney in circulation: notes and checking accounts. ^dRefers to minimum wages and annual averages. ^eWeighted average for the metropolitan areas of Mexico City, Guadalajara and Monterrey. ^fPercentages. ^gEnd-of-year figures for total outstanding external debt.

The multiple economic restrictions affected a large number of productive sectors. In contrast, in spite of the uncertainty predominating in the international economy, the new deterioration of the terms of trade, and the high interest rates which prevailed throughout the year, it was possible to increase the volume of exports by nearly 13%. Exchange undervaluation and the existence of exportable surpluses had an influence on this increase, factors which allowed the support of activities such as petrochemicals, assembly industries —particularly motor-vehicle industries— and certain mining industries. On the other hand, industrial branches oriented to the domestic market underwent severe contractions, owing to a drop in consumption (-5%) and a steep fall in investment (-25%). Even the petroleum industry, which had recorded a dramatic growth in recent years, diminished by 0.6% owing to a sharp decline in domestic demand, and despite a rise in the volume of crude exports. For its part, manufacturing, which had fostered development during decades, suffered a decline of 7%; among the most affected branches were those producing capital goods (-26%) and durable consumer goods (-18%), but even non-durable manufacturing diminished by 5%. Construction was hit the hardest by the decline in investment: only housing construction retained some dynamism. Mining, transport, commerce and other services also declined. In contrast, owing in part to favourable climatic factors, agriculture grew by 3%, a rate that slightly exceeded population growth. Finally, the electrical sector expanded by slightly over 1%.

The considerable downturn in economic activity aggravated unemployment, particularly affecting occasional workers in industrial centres. On the other hand, in the northern frontier strip, in tourist centres and in some agricultural areas there was a greater absorption of manpower. In any event, the contraction in the number of wage earners and employment were crucial factors in the decline in private consumption of nearly 5% and in the worsening of income distribution. These phenomena were the most overt manifestations of the social and economic cost of the crisis and of the adjustment policies applied to combat it.

Within the framework of such policies, the authorities established a dual exchange system and effected a severe devaluation at the end of December 1982. In view of instability expectations, on 20 December, a new exchange rate was set at an extremely high level, which was modified during 1983 by means of a daily variation scale.⁴ This measure was supplemented by the maintenance of many of the controls associated with foreign exchange sales established previously. The combination of these measures —an extremely high free exchange rate and the active management of a dual exchange system which became more efficient over time, owing in part to an improved control exerted by means of a nationalized banking system— reduced to a great extent —although it did not eliminate completely— the capital flow to the exterior, particularly that stemming from speculative operations. Although the monetary authorities succeeded in recovering the control of the exchange markets, apparently certain irregularities in external transactions arose, such as undervaluation of exports and overinvoicing of imports, encouraged by the existence of a dual exchange rate system. Thus, in some cases the liquidation of external sales at the least favourable exchange rate discouraged export efforts, regardless of a considerable exchange difference.

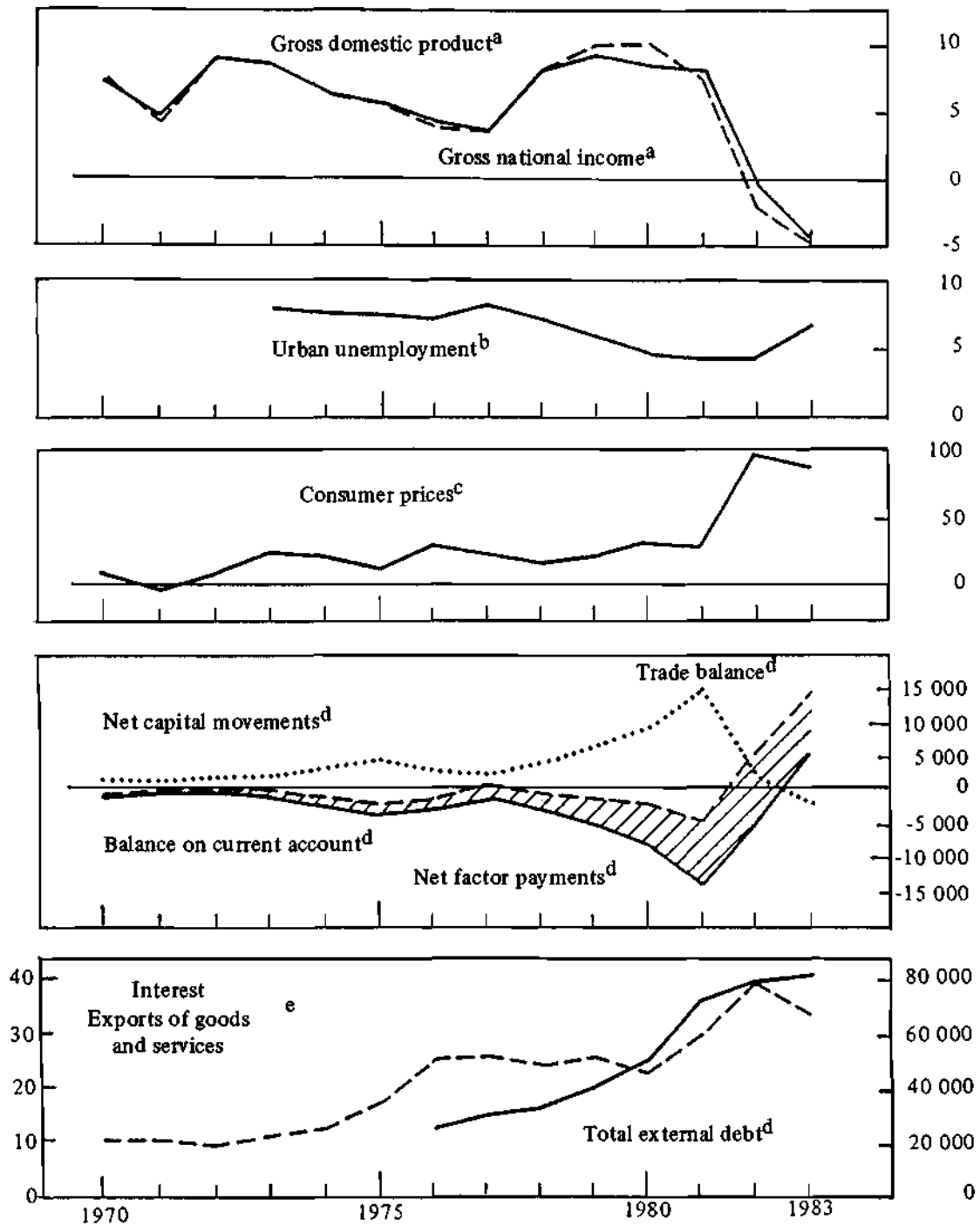
As regards the restructuring of the external debt, negotiations conducted with the IMF and the international financial community allowed a gradual reversal of the climate of uncertainty which had emerged in the exterior and the renegotiation of around US\$ 22.5 billion of the public external debt, whose amortization payments fell due between August 1982 and December 1984. These were rescheduled with refinancing for an eight-year term, including four years of grace, but with relatively high interest and commission surcharges. Thus, amortization payments were postponed until the 1987-1990 period, which gave a temporary financial relief.

Likewise, through the Trust Fund for the Coverage of Exchange Risks (FICORCA), established in the Banco de México to facilitate external debt payments of private enterprises and to protect the productive system from bankruptcy owing to devaluation, it was possible to renegotiate US\$ 11.6 billion of the approximately US\$ 20 billion of the private debt.

The debt management was internationally praised. However, the country's indebtedness is still high —US\$ 82 billion— a factor which will remain a limitation to its future development.

⁴On the basis of an exchange rate of 70 pesos per dollar applicable to the majority of external transactions, in December 1982 a "free" exchange rate of 150 pesos per dollar was established which remained fixed until September 1983, when daily variations began to be applied which raised it at the end of the year to 163 pesos per dollar. A "controlled" exchange rate, applicable to the majority of external transactions, was established in December 1982 at 95 pesos per dollar and, after a continuous variation it came to 144 pesos one year later.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate in the metropolitan areas of Mexico City, Guadalajara and Monterrey. ^cPercentage variation from December to December.

^dMillions of dollars. ^ePercentages.

Meanwhile, although in 1983 it was possible to defer amortization payments, interest payments alone —amounting to nearly US\$ 10 billion— accounted for more than 60% of foreign exchange earnings from hydrocarbon exports and to nearly 20% of public sector expenditure.

Other top priority objectives of economic policy were the reduction of the public deficit and of the rate of inflation. In the case of the latter, it has been considered that one of the fundamental causes for price increases in the recent past was excess demand caused by the great expansion of public expenditure and its financing pattern. With the aim of reducing the share of the public deficit with respect to the product —in the conditions described of a high public debt servicing— a strict austerity programme was applied, involving a considerable sacrifice in investment programmes, as well as important restrictions on current expenditure.⁵ As regards income, taxes were raised —especially those on consumption— but these did not supply the originally estimated resources, owing mainly to a real contraction in the taxable base because of a lower economic activity. The review of the major part of prices and tariffs of public goods and services had a greater influence, since it was estimated that their increase would provide an amount equivalent to 2.5% of the product.

The combination of these measures resulted in reducing the public sector deficit to 8.7% of the product in 1983, thus nearly fulfilling the goal established by the authorities in PIRE and also included in the Letter of Intent addressed to the IMF. Although the goals of putting public finances on a sound footing were fulfilled, inflation could not be controlled as much as expected, since between December 1982 and December 1983 consumer prices recorded a variation of 80%, instead of an estimated 60%. However, this implied a slowdown compared with the figures of 1982 and the rate of 117% reached in April 1983, with respect to the same month of the preceding year. Moreover, an important achievement of the stabilization programme was the opportune avoidance of hyper-inflation. The steep rise in the price of foreign exchange, the substantial revision of most of the prices and tariffs of public goods and services, higher indirect taxes and high active interest rates in nominal terms, were factors which, although in the long term they will diminish the rate of inflation, had immediate effects on costs. In contrast, other elements which have traditionally caused inflationary pressures, such as the increase in money supply and bank credit, remained in 1983 within conservative bounds. The fact that the public deficit had been reduced and had been financed with resources from domestic savings reduced the need to increase the primary issue of money.

At the same time, the existence of an exchange control system contributed to unpeg, at least in part, domestic from external interest rates and to preserve the passive rates at positive levels nominally, though negative in real terms in most months of the year. Owing to a wide differential between the cost of passive operations and the active rates, and to different commissions and outlays for credit openings, the effective active rates remained high and discouraged credit contracts. The banking system procured resources from individuals for 1 500 billion pesos, but could not place them entirely. Thus there remained a surplus of nearly 400 billion pesos, which was absorbed by the Banco de México through bidding, or was placed in securities issued by the government.

Also within the framework of an anti-inflationary policy, in order to inhibit effective demand and to lessen the effects on costs, it was decided to pursue a restrictive wage policy. In the light of a critical economic situation and a contraction in productivity, strict limitations were imposed on wage adjustments, which were far below price increases. The minimum wage, the only indicator available, suffered a real drop estimated at 23% compared with the average of 1982 and of 33% with respect to that of 1976, when it historically reached its peak. Although it is hard to assess the behaviour of government allowances and subsidies, which may constitute an important component in the income of wage earners, as well as the income evolution of workers not subject to the minimum wage, it is estimated that the share of wages in the gross domestic product declined as a whole from 40% to approximately 30% in the course of the last year. Increasing unemployment, as well as a commitment to restraint accepted by unions enrolled in the official party, contributed to that reduction. Thus the wage policy became another element of contraction in effective demand.

Another priority objective of the economic policy was to reverse external account imbalances and to rebuild international monetary reserves. Results exceeded expectations, mainly because of a 46% decline in the value of imports of goods, since the current value of external sales of goods and

⁵It is estimated that real contraction was 36% in investment expenditure and 11% in current expenditure.

services declined slightly. Thus, a trade surplus of over US\$ 14 billion was obtained, which was nearly double that of 1982. This sum exceeded by a wide margin the amount of factor payments to the exterior and therefore the current account closed with a surplus of US\$ 5.3 billion (see figure 1). As a result of the exchange policy, the evolution of foreign trade and the debt renegotiation, international monetary reserves increased by US\$ 3.1 billion. However, there were no signs of a return of the large capital amounts which had previously abandoned the country, nor of a significant reactivation of foreign investment.

In brief, 1983 was a year of important changes in economic policy, which had to face a complex situation of marked financial imbalances that had been encouraging pressures towards economic recession. Finally, the package of economic policies applied in the short run reversed the trend of those imbalances, especially those affecting the external sector. However, despite the fact that the authorities intended to apply these policies in a selective manner and to insert the stabilization programme within the framework of a wider economic reactivation project reflected in the National Development Plan for 1983-1988, their application had necessarily a high social cost in terms of a drop in the levels of production, productivity, employment and real income.

2. Trends in economic activity

a) *Global supply and demand trends*

In 1983 the depressive situation of the economy worsened. All macroeconomic variables suffered severe contractions, with the sole exception of the volume of exports of goods and services, which, thanks to an increase in sales of petroleum and petrochemical products, as well as a favourable response from some manufactures and the reactivation of tourism, increased by 13%. Nevertheless, their value diminished slightly in view, among other things, of a sharp decline in the prices of exported products.

In addition to the drop of nearly 5% in total supply in 1982 —after four years of unprecedented expansion—, it suffered another decline of over 7% in 1983, so that it fell to a level barely higher than that already reached in 1979. This completely annulled the progress achieved in terms of per capita income in the 1980-1981 biennium (see table 2).

The gross domestic product, which had been expected to remain stationary, suffered the above-mentioned decline of 4.7%. In this respect the restrictions imposed on economic development by the stabilization and adjustment programme adopted to contain inflation and to mitigate external and fiscal imbalances, had a major influence. The shortage of foreign exchange for importing inputs, the sharp contraction in public expenditure, the financial difficulties of enterprises, a more expensive credit and a drastic reduction in the demand for consumer goods, were the main factors responsible for the unfavourable performance of the various sectors of the economy.

Imports of goods and services were also constrained because of a rise in the exchange rate and a shortage of foreign exchange, thus declining again sharply, this time by 40%. Hence the trend towards an increasing opening up to the exterior which had occurred in recent years was reversed, and the import coefficient, which had accounted for nearly 11% of the product in 1980, diminished to less than 5% in 1983.

In contrast with the dynamism in external demand, all components of domestic demand experienced significant reductions. As envisaged, investment expenditure suffered a greater contraction than consumption expenditure. Thus, gross fixed investment declined by 25% and public investment fell by nearly 29%. Private investment, in turn, dropped by 23% because of the climate of uncertainty prevailing among entrepreneurs, the drop in domestic demand and the financial difficulties of corporations. For example, investment in construction fell by 16%, because no large-scale projects were undertaken, and the decline in the purchase of machinery —which was over 37%— even impaired in some cases the replenishment of capital assets. However, most enterprises operated at such a low capacity that the purchase of new equipment was unnecessary.

Unlike 1982, when consumption still experienced a moderate increase, in 1983 it declined by nearly 5%, owing to both a contraction of 5.5% in government consumption and a drop of nearly 5% in private consumption. The latter reflected the effects of a decline in the purchasing power of the population caused by an increase in unemployment and an unprecedented contraction in real wages, which particularly affected the low- and middle-income strata.

Table 2

MEXICO: TOTAL SUPPLY AND DEMAND

	Billions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	114.8	109.5	101.6	106.8	110.8	104.8	10.6	9.4	-4.7	-7.2
Gross domestic product at market prices	102.3	101.8	97.0	100.0	100.0	100.0	8.4	7.9	-0.5	-4.7
Imports of goods and services ^b	12.5	7.7	4.6	6.8	10.8	4.8	36.4	22.7	-38.4	-40.1
Total demand	114.8	109.5	101.6	106.8	110.8	104.8	10.6	9.4	-4.7	-7.2
Domestic demand	107.4	101.8	93.0	101.3	103.7	95.9	10.5	9.3	-5.2	-8.7
Gross domestic investment	30.7	21.9	16.9	22.7	28.0	17.4	22.0	15.6	-28.7	-23.0
Gross fixed investment	25.5	21.4	16.1	20.0	23.4	16.6	14.9	14.7	-15.9	-25.1
Public	11.1	9.5	6.8	6.6	10.1	7.0	16.7	15.8	-14.2	-28.6
Private	14.4	11.9	9.3	13.4	13.3	9.6	13.7	13.9	-17.3	-22.3
Construction	13.1	12.4	10.4	11.4	12.4	10.7	12.5	11.3	-5.1	-16.4
Machinery and equipment	12.4	9.0	5.7	8.5	11.0	5.9	17.8	18.6	-27.5	-37.1
Inventory changes	5.2	0.5	0.8	2.7	4.6	0.8				
Total consumption	76.7	79.9	76.1	78.6	75.7	78.5	6.7	6.9	4.3	-4.8
General government	9.3	9.7	9.2	7.3	8.9	9.5	9.5	10.1	4.8	-5.5
Private	67.4	70.2	66.9	71.3	66.8	69.0	6.4	6.5	4.2	-4.7
Exports of goods and services ^b	7.5	7.6	8.6	5.5	7.1	8.9	12.7	11.2	2.4	12.9

Source: ECLAC, on the basis of figures supplied by the Ministry of Programming and the Budget.

^a Provisional figures.

^b The figures for imports and exports of goods and services were taken from balance-of-payments data in dollars at current prices, which were converted to constant 1970 values by using price indexes calculated by ECLAC for that purpose.

b) *Evolution of the main sectors*

As noted earlier, there was a widespread recession in the economy as a whole. Agriculture was an exception, which, thanks to a favourable agricultural cycle, grew by 3%. Electricity also showed a slight increase (1.3%), confirming the persistent slowdown in its growth rate in recent years. Some services, such as real estate, also recorded a scant expansion (see table 3).

There was a remarkable stagnation in the petroleum industry, which in previous years had constituted the main driving force of the economy. Crude and gas exports recorded contractions owing to a drop in their prices; these were not offset by the dynamism shown in the production of some refined and petrochemical products. Domestic sales, in turn, diminished by 6% in real terms, as a result of the lower economic activity and price adjustments of fuels, which exceeded the inflationary rate.

Manufacturing, which given its weight still plays an important role in the economy, suffered a drop for the second consecutive year, this time of 7%. With the exception of the petrochemical industry, the remainder of the sector contracted; the production of capital goods declined considerably and that of motor-vehicles, even more. The shortage of foreign exchange for purchasing inputs, the credit restrictions, and particularly, the weakening of the domestic market, explain this behaviour, which was not helped by a dynamic external demand. Only some branches showed positive responses and these were, as a rule, those controlled by transnational corporations.

Construction was the activity which recorded the greatest decline (-14%) because no new public works had been initiated and private investment was sluggish. Only housing construction showed a certain dynamism. Significant, among services, was the depression in commercial activity (-9%) because of its high share in total added value. This was associated with a decrease in the real income of the population, restrictions imposed on consumption credits and the drop in imports.

As a whole, the added value of the production of goods declined more than that of services (-5.4% and -3.5% respectively).

i) *Agriculture*. Within a scenario of widespread recession, one of the few exceptions was the evolution of agriculture. In fact, after a decline recorded in the preceding year, its product increased by 3.4%, owing to the important role played by crop-farming, whose performance exceeded that of livestock and that of the other two relatively less important subsectors.⁶

Despite the relatively satisfactory growth attained in 1983, production barely recovered in some cases the volumes of 1981. However, it is of interest to stress the efforts made within the framework of agricultural policy to expand production, with the triple objective of substantially increasing agricultural exports and improving the trade balance of the sector; of promoting the production of basic grains intended for domestic consumption, especially maize; and of increasing the demand for labour in the sector in order to reduce migration to the cities, thus mitigating, to some extent, the decline in employment levels in urban areas caused mainly by the recession in manufacturing and construction.

During 1983 there was an increase in production of nearly all the main crops, except coffee, among export items, and wheat, among the products of domestic consumption (see table 4).

Among the export crops, cotton production rose sharply (18%). However, since in 1982 this had declined considerably, particularly owing to the sharp drop in its international price, it barely represented in 1983 two-thirds of the volume obtained in 1981.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	97 353	96 826	92 275	100.0	100.0	100.0	8.4	7.9	-0.5	-4.7
Goods	41 511	40 792	38 570	43.9	42.7	41.8	8.8	8.0	-1.3	-5.4
Agriculture, forestry and fishing	8 991	8 938	9 242	12.7	9.4	10.0	7.1	6.1	-0.6	3.4
Mining	3 266	3 566	3 488	2.5	3.1	3.8	22.0	15.3	9.2	-2.2
Oil production	2 039	2 365	2 351	0.9	1.9	2.5	32.7	18.7	16.0	-0.6
Manufacturing	23 498	22 820	21 154	23.2	24.4	22.9	7.2	7.0	-2.9	-7.3
Construction	5 756	5 468	4 686	5.5	5.7	5.1	12.3	11.8	-5.0	-14.3
Basic services	9 047	8 844	8 565	6.0	9.1	9.3	12.9	10.4	-2.2	-3.2
Electricity, gas and water	1 317	1 404	1 423	1.0	1.3	1.5	6.5	8.4	6.6	1.4
Transport, storage and communications	7 731	7 440	7 142	5.0	7.8	7.8	14.1	10.7	-3.8	-4.0
Other services	47 792	48 441	46 581	51.6	49.6	50.4	7.3	7.0	1.4	-3.8
Wholesale and retail commerce, restaurants and hotels	24 144	23 888	21 834	25.9	24.9	23.6	8.3	7.6	-1.1	-8.6
Financial institutions, insurance, real estate and business services	9 249	9 518	9 727	11.3	9.8	10.5	4.6	4.8	2.9	2.2
Ownership of dwellings	7 243	7 456	7 620	9.4	7.8	8.3	3.5	3.3	2.9	2.2
Community, social and personal services	14 399	15 035	15 020	14.4	14.9	16.3	7.5	7.7	4.4	-0.1
Government services	3 404	3 553	...	3.0	3.5	...	10.3	9.1	4.4	...
Less: commission on bank services	1 376	1 411	1 409	1.5	1.4	1.5	11.9	11.2	2.5	-

Source: ECLAC, on the basis of figures supplied by the Ministry of Programming and the Budget.

^aProvisional figures. ^bAs the general method applied in the calculation was to extrapolate independently individual activities and the total, the sum of the former does not correspond exactly with the latter.

⁶The decline of 4.7% in total economic activity that occurred in 1983 would have reached 5.5% had it not been for the growth in the agricultural product.

Coffee was one of the few items which suffered a drastic decline in output (-31%) in 1983, mainly because of the pernicious effects of rust. For some years now efforts have been made to control this disease, and plantation afforestation programmes have been carried out, in an attempt to introduce varieties more resistant to the blight. Despite this, rust has continued to spread, since eradication campaigns will only give full results when control measures are taken at the regional level, including Central America.

Tomato production showed the most dynamic growth in agriculture (121%), but starting from extremely low levels. This item had declined in the preceding biennium because of the high cost of inputs and restrictions imposed on imports in the United States. The upturn of 1983 was due, among other factors, to the slackening of these restrictive measures, owing to a drop in harvests in that country.

With respect to products intended for the domestic market, signs of recovery were observed after an exceptionally unfavourable crop-year, attributable in part to adverse natural factors. However, as noted earlier, the production levels of 1981, the highest in the last 15 years, were not reached. The lower harvests of 1982 forced the import in 1983 of very large amounts of some basic goods, which exerted a pressure on the balance of payments. In any case, there were evident successes in respect of maize and beans, essential items in the people's diet, whose production grew by 32% and 38%, respectively. The increase of 7% in sorghum production was, however, meagre in view of the decline of 25% in the preceding year. For its part, the wheat harvest dropped by 20%, owing to a policy designed to avoid the overproduction of the preceding year. Finally, there was a remarkable success in sugar cane, the only one among the ten major crops which attained the greatest production in history in 1983, thanks to the incentives that this activity has received in order to diminish the dependence of external supply, as well as to meet the raw material needs of sugar mills which came into operation in recent years.

Although no quantitative information on livestock was available, it may be stated that in 1983 this activity was subject to strong pressures which in some way affected its structure. Persistent cost increases, stemming in part from a rise in input prices—some coming from abroad—triggered a debate between producers and authorities, since the former wanted to transfer the said increases to the price of products such as milk. Although price rises did take place, they were not enough, according to producers, to reflect the higher costs. In any event, price increases in dairy products contributed to reduce sales, which were also affected by the substantial loss in the purchasing power of the majority of the population. Thus, a large number of cattle breeders preferred to sacrifice their dairy stock through slaughtering, considering their profits insufficient. Part of this slaughtering was destined to meet an increased external demand, and these sales were augmented by exports of cattle on the hoof. Given the importance of bovine cattle in livestock activity as a whole, this increased slaughtering and the reduction of the herd—whose reconstitution will demand great efforts over a long period—were reflected, paradoxically, in a slight expansion in the activity rate during the year.

ii) *Fishing*. Fishing production dropped by somewhat over 5%, in contrast with its expansion in 1982 and its dramatic dynamism during the 1977-1981 quinquennium. Such decline arose from the situation prevailing in the economy as a whole. Hence, in addition to public expenditure adjustments which led to lower income and investments in the sector, there were increases in the prices of basic inputs, thus raising costs. The scheduled catch goals were therefore not fulfilled.

The production for industrial use plummeted (-68%), owing to serious difficulties in importing tin-plate. This led to a drop in exports, which sank from 18 000 tons in 1982 to 8 000 in 1983, being also affected by the prohibition imposed by the United States on fish meal imports.

Shrimps still remained the major fishing product as a source of foreign exchange. This shellfish, together with carp, in the category of whole fresh fish, and seaweed for industrial use, were the only species whose catch increased: shrimps by nearly 26%, carp by 25% and seaweed by 23%. The catch of other species on the other hand, declined appreciably: tuna fish by 24%, sardines by 26% and anchovies by nearly 58%.

The evolution by regions was heterogeneous. Whereas along the Pacific coast fishing declined by nearly 36%, in the Gulf and the Caribbean it rose by approximately 2%. Lake areas recorded the greatest contraction (-60%).

iii) *Mining*. The fall of nearly 4% in mining production exceeded that of the preceding year (see table 5). The upturn in the exports of some products could not offset the weakness in the

external demand for others. For example, gold and silver extraction, which had declined in 1982, increased sharply. This momentum stemmed from an increased external demand for precious metals, and in the case of silver —of which Mexico still remains the major world producer— it was facilitated by the discovery of new deposits and by improvements in the methods of ore processing.

On the other hand, there was a sharp decrease in copper production (-13%), which had increased remarkably in the 1980-1981 biennium. The slump in production of this metal is likely to have reflected more than any other the impact of a drop in the domestic demand of various productive branches, particularly the motor-vehicle industry, durable consumption goods, the iron and steel industry and construction.

Significant among the non-ferrous metals was the growth in production of lead and zinc, attributable to a recovery of external demand. Exports of the former rose by 30% and those of the latter increased by 40% thanks to the entry into operation of a modern refinery in 1982. As regards ores for the iron and steel industry, production dropped again owing to a lower industrial demand, as in the case of iron (-3.5%) and manganese (-27%). Finally, the production of most non-metallic minerals also diminished.

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982 ^a	1983 ^a	Growth rates ^b			
						1980	1981	1982 ^a	1983 ^a
Indicators of agricultural production (base 1970 = 100)									
Agriculture	115.9	139.9	148.4	140.8	149.6	7.1	6.1	-5.1	6.3
Livestock production	113.2	138.4	149.6	130.0	144.4	10.0	8.1	-13.1	11.1
Forestry	119.4	138.2	142.5	146.3	149.7	3.0	3.1	2.7	2.3
Fishing and hunting	109.6	135.5	136.0	136.1	136.8	2.2	0.4	0.1	0.5
	153.1	245.6	274.1	290.8	275.7	10.5	11.6	6.1	-5.2
Production of main crops^c									
For export									
Unginned cotton	206	329	335	196	232	-4.8	1.9	-41.3	18.1
Coffee	228	193	244	313	217	-13.7	26.4	28.4	-30.6
Tomatoes	1 056	1 458	1 074	645	1 422	-4.9	-26.3	-40.0	120.7
For domestic consumption									
Maize	8 449	12 383	14 766	10 129	13 423	46.6	19.2	-31.4	32.5
Beans	1 027	971	1 469	943	1 302	51.5	51.2	-35.8	38.0
Wheat	2 798	2 785	3 189	4 462	3 491	22.0	14.5	39.9	-21.8
Sorghum	4 126	4 812	6 296	4 717	5 068	20.5	30.8	-25.1	7.4
Sugar cane	35 841	36 480	34 905	34 066	37 732	5.5	-4.3	-2.4	10.8
Soya	599	312	712	648	683	-55.6	128.4	-9.0	5.5
Lucerne	14 260	18 360	15 999	15 039	17 867	14.1	-12.9	-6.0	18.8
Indicators of livestock production									
Slaughter^c									
Beef cattle	763	1 016	1 126	1 201	...	6.7	10.8	6.6	...
Swine	810	1 250	1 307	1 365	...	7.2	4.5	4.4	...
Sheep	21	22	23	24	...	3.8	2.8	2.7	...
Poultry	296	399	426	450	...	8.9	6.8	5.5	...
Milk ^d	5 809	6 742	6 856	6 924	...	1.5	1.7	1.0	...
Eggs ^e	6 790	9 666	9 956	10 355	...	7.3	3.0	4.0	...

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bThe structure of the product in terms of 1980 current values was as follows: crop farming, 60.8%; livestock production, 30.8%; forestry, 5.2%; and fishing and hunting, 3.2%. ^cThousands of tons. ^dThousands of litres. ^eMillions of units.

Table 5
MEXICO: INDICATORS OF MINING PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^c
General index of mining production (base 1970 = 100)	112.6	148.5	165.6	163.7	157.7	17.1	11.5	-1.1	-3.7
Precious metals	87.4	109.6	122.3	114.9	139.1	4.1	11.6	-6.1	21.1
Non-ferrous industrial metals	102.8	154.6	180.8	186.6	175.1	29.9	16.9	3.2	-6.2
Metals and ores for the iron and steel industry	140.7	184.7	195.4	194.5	182.9	8.7	5.8	-0.5	-6.0
Non-metallic ores	135.2	125.3	125.7	103.8	94.2	2.7	0.3	-17.4	-16.0
Production of some important minerals									
Precious metals									
Gold ^c	4 501	6 096	6 319	6 104	6 874	3.1	3.7	-3.4	12.6
Silver ^d	1 183	1 473	1 655	1 550	1 888	-4.2	12.4	-6.3	21.8
Non-ferrous industrial metals									
Lead ^e	163	146	157	146	167	-16.1	8.1	-7.3	14.7
Copper ^e	78	175	230	239	208	63.8	31.4	4.3	-12.9
Zinc ^e	229	238	212	232	257	-3.0	-11.2	9.7	10.9
Bismuth ^d	445	770	656	606	545	2.1	-14.8	-7.6	-10.1
Cadmium ^d	1 581	1 791	1 433	1 444	1 320	0.7	-20.0	0.8	-8.6
Metals and minerals for the iron and steel industry									
Coke ^e	2 088	2 409	2 425	2 450	2 404	-7.0	0.7	1.0	-1.9
Iron ore ^e	3 369	5 087	5 293	5 382	5 191	25.9	4.1	1.7	-3.5
Manganese ^e	154	161	208	183	133	-9.2	29.3	-12.0	-27.2
Non-metallic minerals									
Sulphur ^f	2 164	2 102	2 077	1 815	1 602	3.8	-1.2	-12.6	-11.8
Fluorite ^f	1 089	916	925	631	558	4.7	1.0	-31.8	-11.6
Barite ^f	300	269	318	324	321	78.2	18.0	1.9	-0.9

Source: ECLAC, on the basis of data supplied by the Ministry of Programming and the Budget.

^a Provisional figures.

^b Calculated on the basis of total, not rounded, figures.

^c Kilograms.

^d Tons.

^e Thousands of tons.

iv) *Petroleum*. Various factors determined a loss of dynamism in the petroleum sector, whose added value and extraction index shrank nearly 1% and 2%, respectively (see table 6). In the first place, trends in the international petroleum market experienced a sudden change as from mid-1981: international prices declined and world consumption dropped. To the persistence of a depressed external market was added the deep recession of the national economy, which curbed the expansion plans of the petroleum industry, owing to a substantial contraction in investment and financing—through budgetary restrictions imposed by the adjustment and stabilization policies—and to a decrease in domestic demand because of the rise in petroleum derivatives and the contraction of the economic activity as a whole. These latter factors led to a fall of 6% in the domestic consumption of petroleum. Thus the extraction of crude and condensed petroleum decreased by nearly 2% and that of natural gas by over 4%.

In spite of the foregoing, Mexico was able to increase by 3% the volume of crude exports. These amounted to 560 million barrels, that is, to a daily rate of 1 536 000 barrels, thus slightly exceeding the established export goal. Of this volume, 44% corresponded to the Isthmus type (light) and 56% to the Maya type (heavy). However, foreign exchange earnings (US\$ 14.8 billion) dropped by 5%, owing to an average decrease of 8% in prices. As from February the quotations for the Isthmus type dropped from US\$ 33 to US\$ 29 and those of the Maya type from US\$ 25 to US\$ 23. Nevertheless, the price of the latter rose by one dollar in August and by another in October, reaching again by the end of 1983 the price of US\$ 25 per barrel.

For its part, the volume of gas exports decreased from 2.9 billion cubic metres to 2.1 billion as United States purchases declined, which, added to a decline in prices, also of 8%, implied a reduction of nearly 27% in earnings. However, there was an exportable surplus of 80 000 barrels per day in derivatives —gasoline, turbo fuel, diesel and fuel oil—, besides an additional volume of various petrochemicals which compensated the decrease in external sales of gas. The country earned a total of US\$ 16.5 billion from exports of petroleum products, that is, nearly the same amount as in 1982.

Domestic petroleum consumption shrank owing to a downturn in industrial activity and also to a lower demand from individuals. Even so, the production of refined products was slightly (1%) over that of the preceding year. Gasoline price adjustments decreed in December 1982 and on two occasions during 1983 contributed to a reduction in their domestic consumption by 12%, allowing a supply of exportable surpluses. On the other hand, diesel production dropped by 13% and domestic consumption, by a similar percentage. Fuel oil production, in contrast, nearly equalled that of 1982 and was enough to meet demand, which rose by 9%. The production of other refined products rose by 7%, mainly because of a greater external demand for gas oil.

In brief, the petroleum industry suffered a virtual stagnation, in contrast with its remarkable dynamism in preceding years. Significant progress was made in the field of distribution and the reactivation of the Tula and Salina Cruz refineries, and the petrochemical plants of La Cangrejera, Pajaritos and Morelos. Likewise, progress was made in developing facilities for using marine gas —especially the platforms of the Abkatún Complex— which improved the utilization of gas in Sonda de Campeche from 42% to 69% during the last biennium. Finally, there were the notable exploration works which gave positive results both in the mesozoic area of Chiapas-Tabasco and in Sonda de Campeche, which increased the country's proven reserves to 72.5 billion barrels.

v) *Manufacturing*. Given the important share of manufacturing in the gross domestic product (23%) and its role as a source of employment, its fall of 7% in production was highly significant. This contraction was in addition to that of 3% experienced in 1982, and contrasted sharply with its development in preceding years (see table 7).

Table 6

MEXICO: INDICATORS OF PETROLEUM ACTIVITY

	1980	1981 ^f	1982	1983 ^g	Growth rates ^h			
					1980	1981	1982	1983 ^g
Index of extraction of crude oil and natural gas (1970 = 100)	381.8	462.4	544.2	534.4	32.7	21.1	17.7	-1.8
Production of main items								
Petroleum ^c	779	932	1 096	1 078	32.0	19.6	17.6	-1.6
Crude and condensate	708	844	1 003	981	32.0	19.1	18.8	-2.2
Gas liquids	71	88	93	97	32.0	24.5	5.5	4.3
Natural gas ^d	36 772	41 972	43 890	41 896	22.0	14.1	4.6	-4.5
Refined products ^c	417	460	446	444	19.2	10.3	-4.7	1.3
Gasoline	120	132	127	130	15.3	9.8	-3.9	2.4
Diesel oil	89	98	84	82	13.8	10.2	-14.3	-3.0
Fuel oil	113	127	128	128	30.2	12.2	1.1	-0.2
Others	95	103	107	105	15.5	11.1	-9.5	6.8
Exports								
Crude oil ^f	302	401	545	560	55.3	32.7	35.9	2.9
Natural gas ^d	2 903	2 979	2 684	2 135	-	3.6	-9.9	-20.4
Other indicators^c								
Proven reserves	60 126	72 008	72 008	72 500	31.3	19.8	-	0.7
Domestic consumption of petroleum	477	531	551	518	20.5	11.4	3.8	-6.0

Source: ECLAC, on the basis of figures supplied by Petróleos Mexicanos (PEMEX).

^fPreliminary figures.

^gGrowth rates correspond to real, not rounded, figures.

^cMillions of barrels.

^dMillions of cubic metres.

Table 7

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	Index (1970 = 100)					Growth rates			
	1975	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Index of manufacturing production	140.7	199.3	213.3	207.1	192.0	7.2	7.0	-2.9	-7.3
Food, beverages and tobacco	128.7	168.3	176.5	183.9	181.7	6.0	4.9	4.2	-1.2
Textiles	135.1	178.3	190.2	178.8	177.0	1.5	6.7	-6.0	-1.0
Clothing	126.0	153.8	160.0	150.7	148.0	3.3	4.0	-5.8	-1.8
Wood	128.7	193.2	198.8	197.8	169.3	6.9	2.9	-0.5	-14.4
Paper	130.5	205.7	211.0	214.6	210.3	10.3	2.6	1.7	-2.0
Printing and publishing	120.6	171.2	183.4	184.6	156.6	12.4	7.1	0.7	-15.2
Rubber products	157.7	256.1	253.0	271.2	246.8	15.9	-1.2	7.2	-9.0
Basic petrochemical products	206.5	325.3	379.3	426.7	539.8	9.5	16.6	12.5	26.5
Basic inorganic chemical products	152.3	240.1	256.2	256.7	251.6	8.3	6.7	0.2	-2.0
Petroleum products	139.4	219.3	246.1	236.3	238.6	12.2	12.2	-4.0	1.0
Non-metallic mineral products	143.3	194.6	203.7	193.7	169.5	8.8	4.7	-4.9	-12.5
Steel products	139.5	201.9	209.0	190.6	180.5	3.4	3.5	-8.8	-5.3
Machinery, equipment and metal products	156.4	236.1	261.1	228.2	176.6	9.6	10.6	-12.6	-22.6
Production of some important manufactures									
Beer and malt	143.3	207.0	221.1	214.9	183.5	7.5	6.8	-2.8	-14.6
Fertilizers	149.3	190.5	235.5	301.9	303.1	6.9	23.6	28.2	0.4
Man-made fibres	214.4	337.0	347.1	336.7	381.5	7.0	3.0	-3.0	13.3
Cast iron	135.9	190.5	199.6	184.2	176.9	4.9	4.8	-7.7	-4.0
Motor vehicles	162.9	300.3	368.2	269.9	159.8	14.2	22.6	-26.7	-40.8
Other indicators of manufacturing production									
Consumption of electricity by industry ^b	22.7	33.4	34.9	35.9	36.3	4.2	4.4	2.9	1.0

Source: ECLAC, on the basis of official figures

^aPreliminary figures. ^bBillions of kWh.

The year 1983 was a particularly difficult year for manufacturing. Some of the essential elements on which its development was based were suddenly altered: the range of subsidies was reduced, mainly by revising prices and tariffs of public services and goods, and the traditional facility for importing equipment and inputs declined severely, owing to the shortage and increasing cost of foreign exchange and to exchange controls. To this were added a reduction in domestic demand and a strong credit contraction.

These phenomena forced many enterprises to reorient their strategies in a climate of great uncertainty as to the trend of the economy. Some of them attempted to advance in the field of import substitution, and others, in face of the prospects of a permanent undervaluation of the peso, preferred to turn towards the external market with very mixed results, given the prevailing protectionist conditions. In this latter field, the enterprises which showed their traditional exporting ability were the affiliates of transnational corporations. Such was the case, for example, of factories producing motors and spare parts for automobiles which, within the framework of the industrial redeployment process followed by their parent companies, took advantage of cheap manpower and of domestic subsidies and exemptions.⁷

⁷The climate of uncertainty mentioned above discouraged an increase in foreign investment during 1983. However, at the beginning of 1984, with the relaxation of the law on foreign investment, the installation, in the frontier State of Sonora, of a large-scale assembly plant owned 100% by foreign capital was announced, whose production is intended for the United States and Canadian markets. In various cities of the frontier States there are already in operation some factories manufacturing motors and spare-parts for automobiles.

In the almost total deterioration of the manufacturing sector, the production of non-durable consumer goods declined by 5%, that of durable consumer goods by 18%, that of raw materials by 8%, and that of production goods by 26%. In the first group, food, beverages and tobacco, as well as textiles, decreased by 1% and clothing by 2%. The demand for basic goods was, as a rule, affected by a rise in the price of products such as meat, milk and clothing and, above all, by a real reduction in wages.

In the second group there was a remarkable drop in production of automobiles (-29%),⁸ electric home-appliances (-17%), and radio and television sets (-13%). These drops were mainly a result of an increase in prices, a rise in interest rates, and the shortage of credit.

The production of intermediate goods declined by 8% as a result of a lower industrial demand which affected the iron and steel industry and the branch of basic chemical products. On the other hand, the drop in construction affected the cement industry, whose surpluses were exported, as well as other inputs. Conversely, the basic petrochemical industry showed an extraordinary dynamism (27%) thanks to the entry into operation of five plants in the La Cangrejera complex.

Finally, the manufacturing of capital goods was the most affected one owing to a fall in investment and to the few possibilities of exporting them on account of their low competitiveness. The drops in production of trucks (-60%) and agricultural machinery (-40%), were especially acute.

vi) *Construction.* Being a very sensitive sector to fluctuations in economic activity, construction declined by 14% in 1983. This decrease, substantially higher than that of the economy as a whole, was directly associated with a contraction in public and private investment, and affected the industries manufacturing its inputs. It also had an adverse influence on the employment level, since around 330 000 workers were laid off, that is, nearly 18% of the personnel working in that sector during 1982 (see table 8).

Given the policy of restriction on public expenditure, no new major projects were undertaken and only those already initiated were carried on. For this reason, public works contracted by nearly 40%. This considerable drop resulted mainly from the suspension of new drilling works and of the construction of various refining and petrochemical plants by *Petróleos Mexicanos (PEMEX)*, the notable decrease in investment by the Federal Commission on Electricity, the virtual stagnation in the construction of roads, hospitals and schools, as well as the almost complete paralyzation of the scheduled extensions of the underground railway network in Mexico City, since only those initiated by the former administration were concluded.

Table 8

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Index of volume of production (1970 = 100)	142.1	208.2	232.1	220.3	188.7	12.5	11.5	-5.1	-14.3
Production of some of the most important building materials (thousands of tons)									
Reinforcing rod	900	1 439	1 517	1 365	1 238	19.6	5.4	-10.0	-9.3
Seamless steel tubes	200	241	251	263	234	-5.3	4.2	4.8	-11.0
Copper wire and cables	41	57	79	51	49	6.6	38.3	-35.4	-2.9
Cement	11 512	16 243	17 972	19 294	17 071	7.0	10.7	7.4	-11.5
Refractory brick	148	246	242	167	150	0.4	-1.8	-31.0	-10.1
Flat glass	56	86	85	81	47	3.6	-1.2	-4.7	-41.7
Employment (thousands of persons)	1 151	2 016	2 248	2 154	1 821	12.7	11.5	-4.2	-15.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

⁸This fall, together with that of trucks (59%), led to a decline in motor-vehicle production of 41%.

Private construction declined less (around 7%), owing in part to the fact that housing construction retained some growth (nearly 4%). This was due to the building of some low-cost housing estates, —which received credit support—, the incentives granted to self-help construction programmes, and the investment in luxury residences, which was used as a means of protection against inflation. Non-residential private building (industrial, commercial, offices) contracted, in contrast, more than public construction (nearly 40%).

vii) *Basic services.* The aggregate product of basic services declined by 3%. Electricity, gas and water, after maintaining high growth rates in previous years entered, as from 1982, upon a definite slowdown stage. The huge dependence of the electricity sector's growth on imported equipment and foreign credit placed it in a very vulnerable situation *vis-à-vis* global financial problems. Consequently various projects for expanding the power generation capacity were suspended or postponed.⁹

In addition to the above problems there was the lower dynamism in domestic demand for energy, particularly by the industrial sector. But in 1983 this demand could still be met with the installed capacity existing in 1982 by means of an increase of 2.4% in power generation, which implied nearly 75 billion kWh.

At the same time, transport declined by a percentage similar to that of the preceding year (-4%), mainly owing to a lower domestic production and a drastic decline in imports, as well as to a rise in fuel prices, in toll rates on certain highways and in tariffs.

This fall was particularly evident in road transport. Although railway tariffs were also revised, the number of passengers and the volume of cargo carried grew by 5% and 8%, respectively. In relation to the latter, there was a considerable increase of over 30% in the transport of agricultural products, as a result of a rise in grain imports by CONASUPO. In contrast, the cargo carried by sea declined by approximately 3%. Finally, air transport grew by 4%, owing to a larger inflow of tourists, and to an increased use of local airlines by nationals who in previous years spent their holidays abroad.

viii) *Other services.* These declined by nearly 4%, but the performance of their main components varied. Whereas the commerce, restaurants and hotels sector was one of the most affected by recession (-9%), community, social and personal services remained practically stationary. On the other hand, the financial and real estate sectors went up by a little over 2%. The former reflected a certain recovery of intermediation volumes after a substantial drop in 1982; the latter maintained a relatively normal growth rate, but somewhat lower than that of the trend in preceding years.

Finally, commercial intermediation suffered a remarkable deterioration associated with the impact of various factors. Firstly, there was a lack of domestic demand resulting from an increase in unemployment, a decrease in income and a marked decline in investment. Secondly, the shortage of credit which became more expensive negatively affected the sales of durable consumer goods, which were those which dropped the most. Another adverse factor, although limited in scope, was the shortage of imported inputs.

As regards medium-scale trade, some unofficial estimates indicate that real sales shrank by 20%.¹⁰ The worst affected were articles for the home —furniture and electric appliances— and automobiles. In contrast, the fall in sales of essential products such as food and clothing was somewhat lower.

It should be noted that CONASUPO sales amounted to 113 billion pesos, that is, they suffered a real reduction of 7%. Of that amount, 75% was placed in urban zones and the remainder in the countryside. Thus the volume sold in the former declined by 13%, while that in the latter increased by 12%. This resulted from a contraction in predominantly urban activities —in contrast with a favourable crop-year— and the policy followed by CONASUPO designed to strengthen its rural programme.

⁹It should be pointed out that as the Federal Commission on Electricity had contracted a major external debt it had to refinance its maturities, particularly those which fell due in the short run.

¹⁰These estimates come from surveys undertaken by the Banco Nacional de México; and they should only be taken as orders of magnitude.

3. The external sector

a) *Main features*

The circumstances which intervened in the evolution of international economic relations during 1983 continued to be adverse for Mexico, as was the case for the majority of the economies in the region. In trade, the protectionism of industrialized countries prevailed; the terms of trade continued to deteriorate and the recovery of the American economy did not have the expected favourable effect on exports. In financing, despite a relative reduction in interest rates, these remained high, aggravating the enormous debt burden and compounding the increasing difficulties in obtaining access to capital markets.

The external economic policy was focused primarily on settling, at least in the short run, financial problems. Thus, negotiations were held with the international financial community in order to reschedule the debt and reorganize and stabilize the exchange market. Success was relative in both cases. It was possible to defer for four years the payment of maturities in the amount of nearly US\$ 23 billion of the public debt and over US\$ 11 billion of the private debt. The latter was achieved thanks to State support through the Trust Fund for the Coverage of Exchange Risks (FICORCA). The exchange market was able to recover a certain normality, despite the precarious availability of foreign exchange at the beginning of the year, thanks to a policy of undervaluation of the currency. On the other side, the stabilization programme caused a greater contraction than expected, leading to a slump in imports, against stable levels in external sales. This resulted in a trade surplus of over US\$ 14 billion and a current account surplus of over US\$ 5.3 billion. This latter outcome was in contrast with an anticipated deficit of US\$ 3 billion.

Thus, international monetary reserves rose by over US\$ 3 billion; secondary credit lines were restored, and only 4.4 from the US\$ 5 billion of additional loans negotiated by the public sector were drawn.

b) *Merchandise trade*

Within a framework of a widespread drop in trade flows with the exterior, the prices of most goods maintained a declining trend. Quotations for the package of export products diminished by over 10%, mainly because of a reduction of 8% in petroleum prices. Import prices also dropped, but by a considerably lower amount (-7%). Thus the terms of trade declined by nearly 4%, in addition to a fall of 18% suffered in 1982 (see table 9). The successful control of inflation by the United States

Table 9

MEXICO: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods, FOB						
Value	35.7	48.9	72.8	24.1	6.5	0.8
Volume	30.2	17.5	23.6	18.8	22.4	12.6
Unit value	4.2	26.7	39.8	4.5	-13.0	-10.5
Imports of goods, FOB						
Value	42.1	51.8	55.8	27.2	-39.9	-46.5
Volume	31.4	33.7	37.9	20.5	-43.4	-42.3
Unit value	8.1	13.6	13.0	5.5	6.1	-7.3
Terms of trade, FOB/CIF	-3.5	11.7	24.0	-1.2	-17.8	-3.7
Indexes (1970 = 100)						
Terms of trade, FOB/CIF	118.6	132.5	164.3	162.4	133.4	128.5
Purchasing power of exports of goods	227.8	299.1	458.4	537.9	541.0	586.4
Purchasing power of exports of goods and services	197.1	246.8	339.4	392.5	350.5	356.2

Source: ECLAC, on the basis of official figures.

^a Provisional figures.

Table 10

MEXICO: EXPORTS OF GOODS, FOB^a

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^b	1970	1980	1983 ^b	1980	1981	1982	1983 ^b
Total exports (merchandise, FOB) ^c	19 938	21 230	21 399	100.0	100.0	100.0	72.8	24.1	6.5	0.8
Hydrocarbons	14 440	16 362	15 881	2.6	64.1	74.2	166.9	40.1	13.3	-2.0
Petroleum and petroleum products	13 916	15 884	15 531	2.6	61.3	72.6	155.3	41.2	14.1	-2.2
Natural gas	524	478	350	-	2.8	1.6	...	16.7	-8.8	-26.8
Non-petroleum products	5 498	5 012	5 518	97.4	35.9	25.8	6.2	-6.3	-8.8	10.1
Main traditional exports	1 658	1 374	1 381	30.5	10.5	6.5	-5.9	-2.1	-17.1	0.5
Coffee beans	334	345	484	6.0	2.6	2.3	-27.8	-19.5	3.3	40.3
Shrimps	348	368	368	4.4	2.4	1.7	6.4	-9.2	5.7	-
Cotton	309	184	115	8.6	2.0	0.5	3.5	-3.7	-40.5	-37.5
Tomatoes	250	154	112	7.5	1.2	0.5	-10.6	35.1	-38.4	-27.3
Pulses and fresh vegetables	198	178	149	0.8	1.1	0.7	11.7	15.1	-10.1	-16.3
Fresh fruit	84	71	46	2.0	0.7	0.2	12.4	-22.9	-15.5	-35.2
Sulphur	135	74	107	1.2	0.5	0.7	12.5	25.0	-45.2	44.6
Main non-traditional exports	1 064	1 075	1 261	15.3	7.5	5.9	18.4	-11.5	1.0	17.3
Mechanical and electrical machinery and equipment	398	325	285	4.2	3.0	1.3	64.4	-16.2	-18.3	12.3
Parts for motor vehicles	271	404	603	7.5	1.8	2.8	5.2	-4.6	49.1	49.3
Automobiles and trucks	110	81	84	-	0.8	0.4	9.4	-14.1	-26.4	3.7
Vegetable and fruit preparations	112	130	114	1.1	0.8	0.5	-6.1	-9.7	16.1	-12.3
Amoniac	124	102	82	-	0.6	0.4	13.9	37.8	-17.7	-19.6
Refined lead	30	22	29	1.8	0.3	0.2	-23.6	-45.4	-26.7	31.8
Refined zinc	19	11	64	0.7	0.2	0.3	-17.9	-58.7	-42.1	481.8
Others^c	2 776	2 419	2 876	51.6	17.9	13.4	6.3	-3.1	-12.8	18.9

Source: ECLAC, on the basis of figures supplied by the Banco de México.

^aExcluding assembly industries.

^bProvisional figures.

^cIncluding uncoined gold and silver.

and other industrialized countries, the revaluation of the dollar *vis-à-vis* other strong currencies, and the low commercial activity in the international setting were the main causes of the decline in import prices.

In this way the progress made in the field of exports was almost completely neutralized, since the growth of nearly 12% in their volume led to an increase in their value of less than 1% (see table 10). This phenomenon was particularly evident in the exports of petroleum products, which represented 74% of total external sales. In fact, while their volume grew by 3%, their value declined by 2%.¹¹ To this should be added the losses due to a contraction of 27% in external sales of natural gas stemming from a lower American demand. In contrast, the value of exports of non-petroleum products increased by 10%, in spite of lower unit prices and protectionism in purchasing countries.

Among the few traditional products whose exports increased, those of coffee expanded by 40% with the favourable harvests in 1982 and those of sulphur increased by 45%. The other fresh products experienced sharp drops owing to border restrictions in some cases and to poor harvests, in others. Among manufactured goods, motors and parts for motor-vehicles were the most dynamic branches (49%), given the advantages offered by Mexico, especially in the field of cheap manpower, fiscal

¹¹The value of crude petroleum sales dropped by 5%, whereas those of petroleum derivatives responded favourably with an increase of 140%, partially offsetting the drop in petroleum exports. This was partly made possible by gasoline and gas oil surpluses resulting from a decline in domestic consumption.

subsidies and incentives, and the proximity of assembly units and consumption centres. Among mining products, zinc, lead and above all silver exports made good progress. Finally, exports of petrochemical products also increased.

On the other hand, nearly all imports suffered sharp drops: their value declined to almost half of that reached in 1982 and to less than a third of that in 1981. However, as unit prices also diminished, the contraction in the volume of imports was somewhat less than that in their value. The shortage of foreign exchange, the rise of the dollar, the lower public and private demand, the decline in consumption and investment and some efforts made in the field of import substitution were the main elements accounting for such an evolution. The private sector reduced its purchases above the average (-62%), while the public sector had to import considerable amounts of grains as a result of poor harvests in 1982, so that its purchases from abroad declined by only 21%.

Thus, purchases of basic food products —such as maize, sorghum and sugar—, whose domestic supply became insufficient, rose until they became one of the major import items. In contrast, the remaining products suffered substantial reductions. External purchases of consumer and capital goods dropped the most (by 63% and 60%, respectively), while those for intermediate use declined by 37%, a percentage in which the depression of the motor-vehicle industry weighed considerably (see table 11).

Table 11
MEXICO: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total imports, FOB	24 038	14 437	7 721	100.0	100.0	100.0	52.8	29.6	-39.9	-46.5
Public sector	8 822	5 401	4 243	...	36.4	55.0	67.6	30.6	-38.8	-21.4
Private sector	15 216	9 036	3 477	...	63.6	45.0	45.5	28.9	-40.6	-61.5
Consumer goods	2 809	1 517	555	9.4	13.1	7.2	142.1	15.8	-46.0	-63.4
Sugar	360	141	188	...	3.0	2.4	...	-35.9	-60.8	33.3
Beans	338	98	1	...	1.3	-	...	40.2	-71.0	-99.0
Milk	227	145	111	...	1.0	1.4	190.6	22.0	-36.1	-23.4
Automobiles	182	94	13	...	0.8	0.2	40.9	17.4	-48.4	-86.2
Butane and propane gas	151	109	41	...	0.8	0.5	163.6	4.1	-27.8	-62.4
Intermediate goods	13 545	8 418	5 347	58.8	59.4	69.3	48.9	22.8	-37.8	-36.5
Automobile componets	1 004	583	194	...	5.1	2.5	20.7	5.8	-41.9	-66.7
Maize	453	38	634	...	3.2	8.2	477.5	-23.1	-91.6	1 568.4
Iron and steel sheets	497	298	87	...	3.0	1.1	139.0	-11.9	-40.0	-70.8
Spare parts for automobiles and trucks	552	296	78	...	2.0	1.0	57.8	47.6	-46.4	-73.6
Sorghum	432	195	433	...	1.7	5.6	92.5	40.3	-54.9	122.1
Parts for electrical installations	399	284	121	...	1.5	1.6	51.7	47.8	-28.8	-47.4
Chemical products for industry	270	206	151	...	1.2	2.0	22.0	21.6	-23.7	-26.7
Paper and cardboard	192	136	60	...	1.1	0.8	89.0	-6.8	-29.2	-55.9
Capital goods	7 576	4 502	1 819	30.8	27.1	23.5	40.7	50.6	-40.6	-59.6
Metalworking machinery	716	606	253	...	2.2	3.3	91.1	75.1	-15.4	-58.3
Textile machinery	417	252	34	...	1.8	0.4	32.7	23.7	-39.6	-86.5
Drilling machinery	502	176	32	...	1.8	0.4	18.5	57.5	-64.9	-81.8
Pumps	482	284	189	...	1.6	2.4	10.7	61.2	-41.1	-33.5
Aircraft and aircraft part	323	171	64	...	1.5	0.8	48.1	17.9	-47.1	-62.6
Agricultural tractors	127	39	7	...	1.0	-	1.1	-31.7	-69.3	-82.1
Unclassified goods	108	-	-	1.0	0.4	-	-57.2	66.2	-51.8	-

Source: ECLAC, on the basis of figures provided by the Banco de México.
* Provisional figures.

In short, the slowdown in the economy reduced imports in general, with the exception of essential goods, to extremely low levels. This decline, as against a stable export value, led to a surplus on the trade account of US\$ 13.6 billion, essentially stemming from PEMEX operations. PEMEX external sales amounted to over US\$ 16 billion and its imports to 600 million, leaving a trade surplus of over US\$ 15.4 billion.

c) *Services trade and factor payments*

The effects of a rise in the exchange rate in 1982 and its gradual and continuous increment during 1983 had perhaps a more noticeable influence on the services trade than on that of goods. In effect, tourism and border transactions, as well as the services at assembly industries, are usually more sensitive to the evolution of comparative prices.

The large initial undervaluation of the peso and domestic recession were decisive for the development of non-factor services, by promoting exports and discouraging external purchases. Thus, income on account of transport and insurance grew by 12%, especially on account of a greater use of national airlines by foreign tourists. The inflow of 4.7 million tourists (26% more than in the preceding year) supplied US\$ 1 625 million, that is, 16% more than in 1982, and helped to sustain the employment level. In the border zone services sales experienced an upturn, but, because of devaluation, foreign exchange earnings diminished. The transformation services of assembly enterprises, encouraged by the exceptionally low cost of Mexican manpower, employed 15% more people than in 1982 and earned resources in the amount of US\$ 830 million. In brief, exports of real services rose to over US\$ 5.4 billion, an amount which, for the reasons noted, was nearly 10% lower than that obtained in 1982 (see table 12).

As regards imports, transport and insurance declined markedly (-30%) owing to a lower purchase volume and less use of foreign airlines by Mexicans. In tourism, there was a reduction of 26% in the number of travellers (nearly 2 million) and of 44% in expenditures. This drop was the main cause of tourism's positive balance of around US\$ 1.2 billion nearly double that of 1982. The purchases of nationals in the south of the United States contracted 40%, resulting in a surplus of US\$ 170 million, against a deficit of US\$ 140 million in the preceding year. Imports of real services totalled close on US\$ 5 billion, 33% less than in 1982.

The trade surplus —which exceeded US\$ 14 billion— more than doubled that of the preceding year, allowing, furthermore, the comfortable financing of factor services, which amounted to nearly US\$ 9 billion, that is, 17% less than in 1982. The decline in profits remitted by foreign corporations to their parent companies, and a drop in interest rates in the international financial markets in 1983, were the cause of this reduction.

d) *Capital account*

The current account as a whole exhibited an unprecedented surplus of over US\$ 5.3 billion.¹² Unlike what had happened in previous years, these resources served to finance a capital account deficit of over US\$ 2 billion (the first since 1949) and to restore the international monetary reserves by over US\$ 3.1 billion (see table 12).

Owing to restrictions on additional indebtedness, the public sector procured a considerably lower amount of credit than in previous years. For its part, foreign investment did not react in the degree expected to the incentives of a flexible legislation; the inflow of funds was only slightly over US\$ 370 million, and of that amount two-thirds corresponded to financing granted to affiliated corporations and only one-third to new investments. These resources, plus portfolio investments, gave a positive balance on the long-term capital account of nearly US\$ 4.2 billion.

In contrast, the short-term capital account exhibited a deficit of US\$ 5 billion despite the procurement of resources by the public sector in the amount of US\$ 770 million. The rescheduling of the short-term private debt and variations in the financial assets abroad of the banking system and of the private and public agencies and corporations may explain some of these movements. The remainder, which is hard to quantify, may correspond to capital flights. The entry errors and omissions, which exceeded US\$ 1.4 billion, includes perhaps payments made by corporations to their suppliers or creditors in the free exchange market.

¹²In the past, a current account surplus had been the exception; the last one was recorded in 1955 and amounted to US\$ 35 million.

Table 12

MEXICO: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-3 259	-5 553	-8 305	-14 074	-5 316	5 320
Trade balance	-593	-1 575	-2 225	-4 658	5 436	14 170
Exports of goods and services	10 743	15 129	23 458	28 884	27 257	26 843
Goods, FOB	6 246	9 300	16 067	19 938	21 230	21 399
Real services ^b	4 497	5 829	7 390	8 947	6 027	5 444
Transport and insurance	250	321	446	476	426	477
Travel	3 208	4 185	5 243	6 347	4 751	4 137
Imports of goods and services	11 336	16 704	25 683	33 542	21 821	12 673
Goods, FOB	7 992	12 130	18 897	24 038	14 437	7 721
Real services ^b	3 344	4 573	6 789	9 505	7 384	4 952
Transport and insurance	779	1 121	1 934	2 389	1 729	1 224
Travel	2 152	2 931	4 174	6 155	4 365	2 900
Factor services	-2 771	-4 108	-6 209	-9 531	-10 855	-8 980
Profits	-676	-945	-1 387	-1 898	-797	-184
Interest received	405	696	1 022	1 386	1 248	1 065
Interest paid	-2 576	-3 709	-5 476	-8 384	-10 878	-9 861
Others	77	-150	-368	-635	-428	-
Unrequited private transfer payments	104	130	132	114	103	130
Balance on capital account	3 690	5 835	9 330	14 775	2 431	-2 059
Unrequited official transfer payments	88	94	144	175	179	226
Long-term capital	5 121	5 200	7 776	13 044	8 466	4 187
Direct investment (net)	824	1 332	2 185	2 537	874	374
Portfolio investment (net)	737	-393	-75	987	630	225
Other long-term capital	3 560	4 261	5 666	9 521	6 962	3 588
Official sector ^c	362	-180	655	618	2 645	...
Loans received	857	1 752	1 149	1 803	3 094	...
Amortization payments	-495	-1 933	-494	-1 185	-449	...
Commercial banks ^d	1 006	1 269	1 134	2 973	2 346	...
Loans received	3 338	3 454	2 559	4 736	3 355	...
Amortization payments	-2 331	-2 183	-1 425	-1 764	-1 008	...
Other sectors ^e	2 192	3 172	3 877	5 929	1 971	...
Loans received	4 246	6 124	5 491	7 912	4 160	...
Amortization payments	-2 037	-2 968	-1 627	-1 624	-1 837	...
Short-term capital	-1 421	-58	5 180	10 147	-2 256	-5 040
Official sector	-1	-	67	-16	-137	772
Commercial banks	-837	1 077	2 317	6 127	-8	...
Other sectors	-583	-1 135	2 796	4 036	-2 111	...
Net errors and omissions	-98	598	-3 770	-8 594	-3 958	-1 432
Global balance^d	430	282	1 025	700	-2 885	3 261
Total variation in reserves (- sign indicates an increase)	-455	-356	-938	-762	3 185	-3 106
Monetary gold	-6	-3	-4	-7	7	...
Special Drawing Rights	1	-144	56	-34	...	...
IMF reserve position	-	-	-128	-60	...	...
Foreign exchange assets	-194	-16	-727	-662	...	...
Other assets	-46	-	-	-	-	...
Use made of IMF credit	-211	-163	-136	-	...	...

Source: 1978-1981: International Monetary Fund, *Balance of Payments Yearbook*; magnetic tape, June 1984; 1982-1983, ECLAC, on the basis of official data.

^aProvisional figures. ^bReal services also include other official and private transactions, but exclude factor services. ^cIn addition to loans received and amortization payments on these, this entry includes net loans granted and other assets and liabilities. ^dThe global balance is the sum of the balances on the capital and current accounts. The difference between the total variation in reserves with opposite sign and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights and variation owing to revaluation.

In brief, the balance of transactions with the exterior allowed the rebuilding of international monetary reserves, which exceeded US\$ 4.9 billion, a very similar amount to that at the end of 1981. In addition, the so-called secondary reserve, that is, credit lines to support the peso agreed with the IMF and with central banks of various countries, amounted to US\$ 4.75 billion, after the payment of US\$ 700 million to the Federal Reserve System of the United States and US\$ 1.85 billion to the Bank for International Settlements for loans contracted previously.

e) *The external debt*

The ratification of the Letter of Intent addressed to the IMF by the former government and the commitment to adopt a stabilization plan for three years facilitated the restructuring of maturities of the external, public and private debt. The negotiations were conducted in three stages and included an amount of US\$ 22 655 million, that is, 98% of the short- and medium-term commitments of the public sector which fell due between 23 August 1983 and 31 December 1984.

The first stage concluded in August with the renegotiation of a debt of US\$ 11.4 billion contracted by the Federal Government, PEMEX and Nacional Financiera with 530 international banks. The second stage comprised US\$ 8 432 million of debts contracted by the Banco Nacional de Comercio Exterior, Comisión Federal de Electricidad and CONASUPO, among other institutions. The third one, completed in October, included US\$ 2 823 million of debts contracted by the rest of the public entities. The refinancing terms included an 8-year term and 4 years of grace, an interest rate of 1 7/8 over LIBOR or 1 3/4 over prime rate in the United States. This implies that until March 1987 interest alone will be paid, while amortization payments on the capital will be made in the period 1987-1990.

At the same time, with the intervention of FICORCA, the private sector renegotiated US\$ 11.6 billion of a total debt of approximately US\$ 20 billion. Participants in the negotiations were, on the one hand, more than 1 200 corporations and, on the other hand, around 200 suppliers and 300 financial institutions. This trust fund of the Central Bank, established in March 1983, has played a crucial role in the payment of debts to suppliers, thus avoiding the bankruptcy of many enterprises owing to fluctuations in the exchange rate of their debt service.

The success achieved in rearranging the external debt allowed the deferment of amortization payments until 1987. However, the liquidation of interest alone forced the diversion of foreign exchange or the recourse to new loans, as occurred in the additional financing of the public sector in the amount of close on US\$ 4.4 billion.¹³

Thus, the external public debt rose to US\$ 62.5 billion and the total debt is estimated at US\$ 82 billion, an amount which represents a high proportion of the product (36%). Likewise, its service absorbed 56% of export earnings (see table 13).

4. Prices, wages and employment

a) *Prices*

The lowering of inflation constituted one of the priority objectives of the economic policy. Although this warded off hyperinflation, the real results fell short of those envisaged. In fact, after an inflation of nearly 100% in 1982, the government intended to reduce it to 60% by means of a restrictive policy on demand. However, the consumer price index closed in December with an increase of 81% over the same month in the preceding year (see table 14).

The causes of the persistence of inflationary pressures differed from those mainly associated with supply rigidities against the dynamism of demand in the petroleum boom period. In 1983, tensions were more related to cost factors and to adjustments in the structure of relative prices than to excess demand.

The effects on prices of the sudden variation in the exchange rate in December 1982 were felt from the beginning of the year. The rise in interest rates was definitely a contributing factor.

¹³Of this amount, around US\$ 3.6 billion correspond to an increase in the external public debt and the remainder covers short-term liabilities.

The active revision of prices and tariffs of the major part of goods and services supplied by the public sector—which was one of the crucial aspects of the programme for putting public finances on a sound basis— had short-term inflationary effects, despite that in the longer run, it will have repercussions of opposite sign. The gasoline price was increased on two occasions (high-octane 37%, normal 50% and diesel 90%), after a rise which had doubled its price in December 1982. Airline tariffs increased by 120% in the course of the year, those for road transport were altered on two occasions and those for railways once; highway tolls, postage costs, telephone, electricity and water rates also recorded substantial increases.

In addition to tariff revision, subsidies were modified; guarantee prices for peasants went up—although below the average inflation in most cases— having an immediate effect on the prices of basic products: that of bread increased by 100% and that of "tortilla" by 50%; milk, eggs, meat and oil prices were also frequently reviewed. The acceptance of the thesis of avoiding lags in the adjustment of relative prices led to a more liberal policy in the field of price control, which even affected basic products. In this climate of adjustment, changes in prices of many products were often made on account of inflationary expectations and not so much because of real cost pressures, except when the elasticity of demand set narrow limits.

The increase in the value added tax (IVA) from 10% to 50%, and B to 20% for luxury items—included in the policy of fiscal adjustment— was the main reason for the fact that the January inflation rate was the highest in the year (10.9%). The review of nominal wages effected simultaneously was also a contributing factor. As from that month the rate of inflation began to slow down until its renewed upturn in November. In fact, the inflationary rate exhibited an upward trend

Table 13

MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978	1979	1980	1981	1982	1983 ^a
Billions of dollars							
External public debt							
Balances outstanding	22.9	26.3	29.8	33.8	53.0	58.9	62.6
Disbursements	5.6	7.6	10.8	7.8	22.9	11.1	8.3
Services	3.8	6.3	10.2	7.7	9.2	13.7	11.9
Amortization payments	2.3	4.3	7.3	3.7	3.7	5.3	4.6
Interest payments	1.5	2.0	2.9	4.0	5.5	8.4	7.3
Global external debt							
Balances outstanding	29.9	33.9	39.7	49.3	72.0	78.0 ^b	82.0 ^b
Medium- and long-term	23.7	28.8	33.3	39.8	51.1	56.3 ^b	77.0 ^b
Short-term	6.2	5.1	6.4	9.6	20.9	21.8 ^b	5.0 ^b
Disbursements	6.6	8.8	14.8	14.3	28.9	11.2 ^b	10.1 ^b
Servicing	5.2	7.3	12.8	10.0	15.0	16.6 ^b	15.0 ^b
Amortization payments	3.2	4.7	9.1	4.6	6.3	5.3 ^b	5.1 ^b
Interest payments	2.0	2.6	3.7	5.4	8.7	11.3 ^b	9.9 ^b
Percentages							
Ratios							
Global external debt/gross domestic product	26.4	25.8	25.4	26.6	33.0	33.8 ^b	35.8 ^b
Global external debt servicing/ exports of goods and services	66.8	68.1	84.8	42.6	52.3	57.2 ^b	55.9 ^b
Global external debt servicing/ disbursements	78.7	83.2	86.5	70.3	51.7	161.7 ^b	148.5 ^b
Global external debt servicing/ gross domestic product	6.4	7.1	9.5	5.5	6.7	17.0 ^b	12.4 ^b

Source: ECLAC, on the basis of figures supplied by the Banco de México and the Ministry of Finance and Public Credit.
^aProvisional figures. ^bECLAC estimates, on the basis of official figures.

Table 14

MEXICO: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation December to December						
Consumer price index ^a	16.2	20.0	29.8	28.7	98.8	80.8
Food	15.4	20.1	29.4	24.7	89.8	77.9
Wholesale price index ^b	15.8	19.9	26.4	27.2	92.6	88.0
Consumer goods	16.7	20.9	30.1	28.9	72.6	76.8
Food	17.6	20.6	32.7	27.9	65.6	72.5
Others	14.7	21.8	24.4	31.2	88.3	85.0
Producer goods	14.3	18.2	20.5	24.3	127.6	102.8
Variation between annual averages						
Consumer price index ^a	17.5	18.2	26.3	27.9	58.9	101.9
Food	16.5	18.4	25.0	26.2	53.5	91.1
Wholesale price index ^b	15.8	18.3	24.5	24.5	56.1	107.4
Consumer goods	17.4	19.9	26.9	27.3	49.2	87.4
Food	18.7	19.9	28.2	28.1	42.6	80.0
Others	14.2	19.9	23.7	25.4	64.0	101.9
Producer goods	13.0	15.5	20.7	19.8	68.0	138.3

Source: ECLAC, on the basis of figures supplied by the Banco de México.

^aNational.

^bIn México City.

until April 1983, when it reached 117%, only to slacken again and close the year at 81% (see figure 2). Throughout 1983 the average growth in consumer prices was 102%, a figure higher than that of 59% recorded in 1982.

In the evolution of the consumer price index the price rise in fuels, transport, durable consumer goods and clothing had a marked effect. In contrast, price increases in food and housing were relatively lower. Probably because of moderate wage increases, price increases in services were considerably lower than those in merchandise (87% against 109%).

The rise in the wholesale price index was greater than that in consumer prices (88% from December to December and 107% when the annual average is considered). This was due, among other factors, to the greater influence of fuel prices.

b) *Wages*

The wage policy of 1983 was kept in line with the general adjustment strategy of the Immediate Economic Reorganization Programme and the Letter of Intent addressed to the International Monetary Fund. Therefore, the authorities adopted a restrictive wage policy so as to avoid an inflationary spiral.

In January there was an average increase of 25% in the general minimum wage and the rural wage. This increment, besides not replenishing the purchasing power lost in previous months, was absorbed by higher price increases than expected.

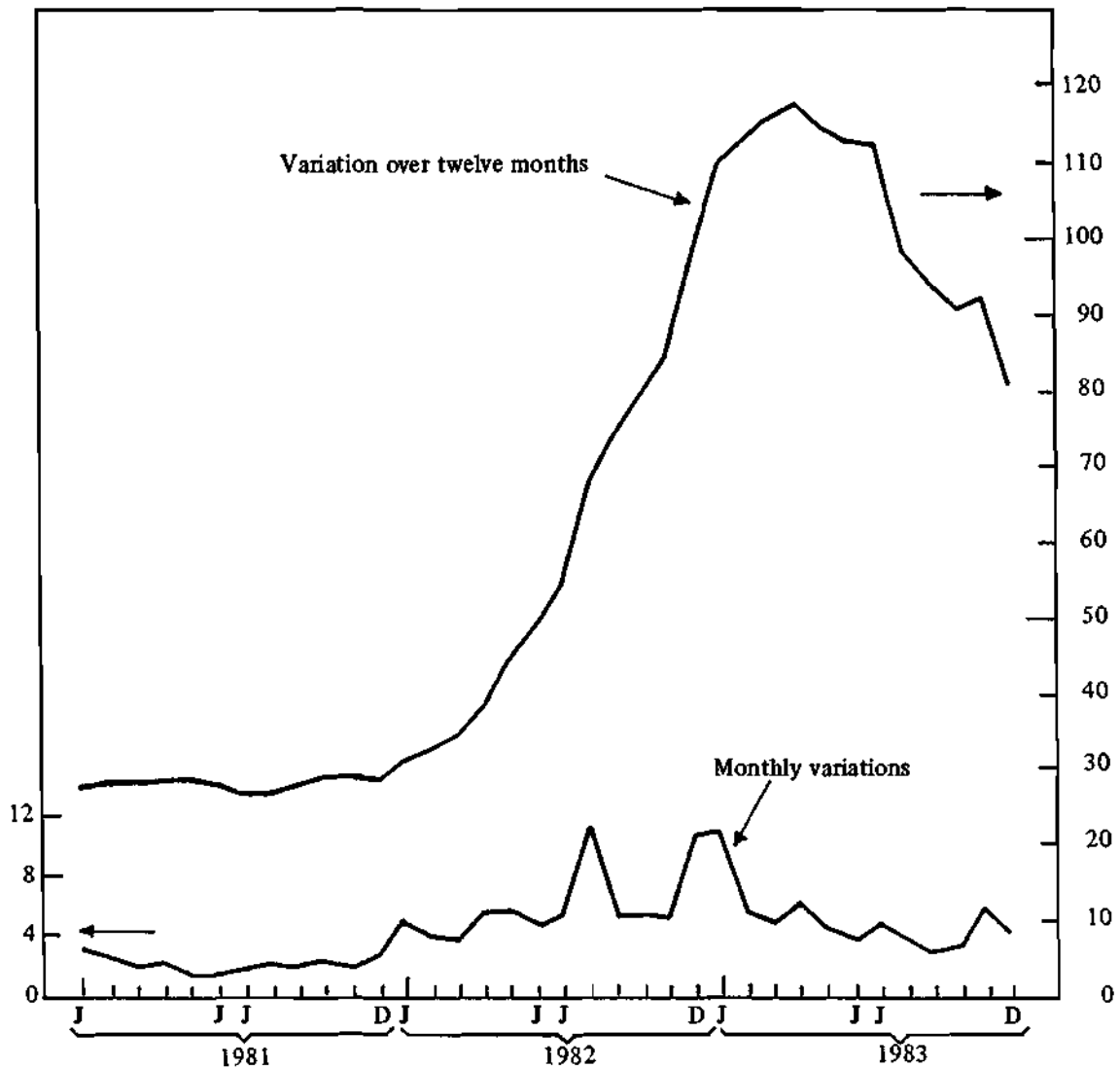
Thus, by mid-June the authorities granted an average readjustment of 15.6% for the four wage groups.¹⁴ Even so, these rises were insufficient to offset the changes in consumer prices, with the consequent erosion of the purchasing power of workers. Although it is hard to assess the loss, since only data on minimum wage adjustments were available and none on the evolution of allowances—which account for a considerable part of the total income of wage earners—or on government support in the field of education, health and housing, on the basis of the partial information available it may be stated that the average annual deterioration in real wages was around 23% (see table 15).

¹⁴The trend to establish a uniform wage in the country persisted. On the one hand, the general minimum wage and the rural wage were unified. On the other hand, the number of wage groups has gradually fallen from 54 in 1979 to 18 in 1980, to 8 in 1981, to 5 in 1982 and to 4 in 1983.

In former periods, the deterioration in the monetary wage was usually compensated with increases in allowances and with an ascending mobility of manpower. In addition, overall wages also grew as a result of greater employment. This did not happen in 1983, since the protection of real wages was centered on the Programme for the Production, Supply and Control of the Basic Package of Popular Consumption, comparatively limited in scope.

In brief, a considerable share of the burden of economic adjustment fell on wage earners. Owing to unemployment and the erosion of wage purchasing capacity, the latter appear to have lost around 25% of their share in the product,¹⁵ with regressive effects on income distribution and on the living standards of the population.

Figure 2
MEXICO: EVOLUTION OF PRICE INDEXES
(Percentages)



Source: ECLAC, on the basis of figures provided by the Banco de México.

¹⁵ According to estimates based on the evolution of employment and wages, the share of the latter in the product diminished from 40% in 1982 to 30% in 1983. These figures coincide approximately with those used by Wharton Economic Associates in their macroeconomic model for Mexico.

Table 15

MEXICO: EVOLUTION OF WAGES AND SALARIES

	1978	1979	1980	1981	1982 ^a	1983
Index (1976 = 100)						
Minimum wages and salaries						
Annual averages						
Nominal	145.1	169.5	199.5	261.2	397.3	617.4
Real	95.7	94.4	88.1	90.2	86.4	66.5
Month of December						
Nominal	124.8	145.7	171.6	224.6	391.3	565.4
Real	89.0	86.5	78.4	79.7	70.0	55.9
Growth rates						
Minimum wages and salaries						
Annual averages						
Nominal	13.5	16.8	17.8	30.9	52.1	55.4
Real	-3.4	-1.3	-6.7	-2.4	-4.3	-23.0
Month of December						
Nominal	13.5	16.8	17.8	30.9	74.2	44.5
Real	-2.3	-2.7	-9.3	1.7	-12.2	-20.1

Source: ECLAC, on the basis of official data.

^aIn calculating the annual average it was assumed that the recommendation of the 30% increase in minimum wages as from 18 February was initially complied with by 40% of enterprises and that the adjustment was gradually generalized until it became mandatory on 1 November.

c) *Employment*

The levels of open unemployment and underemployment appear to have increased in 1983, thus continuing the trend initiated halfway through the preceding year. However, this phenomenon affected with different intensity the various economic branches and geographic regions of the country.

Serious limitations exist for measuring unemployment and underemployment in Mexico and the official statistics often show certain inconsistencies.

Thus, estimates at the national level indicate a virtual stagnation in open unemployment between the end of 1982 and that of 1983. According to these estimates, the unemployment rate would not have exceeded 8.5%, thanks to the emergency programmes of employment protection implemented by the government.¹⁶

On the contrary, employment surveys undertaken quarterly in the three large metropolitan areas show an increase in unemployment with respect to 1982. According to these surveys, the real average open unemployment rate would have risen from 4% to 6% in Mexico City between 1982 and 1983, from 5% to 7.4% in Guadalajara, and from 5.4% to 10.7% in Monterrey (see table 16). In any event, part of this decline in urban employment appears to have been compensated by a rise in rural employment, given the relatively favourable performance of agriculture.

Likewise, the statistics of the Instituto Mexicano del Seguro Social (IMSS) —more limited in scope—¹⁷ also record a decrease of 2% in the average number of participants throughout 1983, stemming from a virtual standstill in the number of permanent participants and a drop of around 11% in that of eventual participants, whose proportion among its contributors is small. This drop is in contrast with the annual growth of the labour force, which amounts to 3.8%.

¹⁶ According to data supplied by the Ministry of Programming and the Budget 356 000 temporary jobs were created —157 000 in rural areas and 149 000 in urban zones—, in addition to 144 000 resulting from the channelling of public investment to labour-intensive sectors.

¹⁷ This information does not include the informal sector, both urban and rural. See, Ministry of Programming and the Budget General Statistical Office, *Boletín mensual de información económica*.

Bearing in mind the combination of an important fall in economic activity with a decline in average productivity (caused, in part, by the shift of those formerly employed in the modern sector to the informal sector), ECLAC estimates that the open unemployment rate may have risen to approximately 11% in 1983.¹⁸ Had open unemployment not really increased by that proportion, the fall of the product by 4.7% would certainly imply a considerable decline in the average productivity of the economy. This would be consistent with the increase in the informal sector, which has a lower productivity than the average of employed persons.

From a geographic point of view, the data of contributors to the IMSS show a greater absorption of manpower in the northern border strip, owing to a reactivation of the assembly industry, especially in Chihuahua (16%) and Baja California (13%), as well as in the States where tourism has a great influence on their economy; Quintana Roo (7%), Colima (6%), and Guerrero, where this activity had already experienced in 1982 a substantial upswing. Moreover, the results of the survey on assembly industries confirm these trends by exhibiting an increase of 17% in the annual average absorption of manpower.

5. Monetary and fiscal policies

a) *Monetary policy*

One of the immediate objectives which the monetary authorities intended to fulfill in 1983 was the recovery and rearrangement of the exchange market, taking advantage of a control system already in operation, of an expropriated banking system, and of the use of more traditional policy instruments.

The first step consisted in abandoning the dual system of fixed exchange rate set at 70 pesos and 50 pesos per dollar in the "ordinary" and "preferential" markets, because it had led to a massive outflow of pesos arising from speculative operations.

Hence a new dual exchange system was established which operated, on the one hand, with a "controlled" rate, with a relatively wide margin of undervaluation (which was set at the end of 1982 at 95 pesos per dollar), with a daily rise of 13 cents (a rate equivalent to the differential calculated between external and internal inflation) and, on the other hand, with a "free" exchange type, which was even higher than that quoted by foreign money-changing agencies. This rate, set at 150 pesos per dollar, assumed an extremely wide margin of peso undervaluation, which permitted the gradual recovery of the control of the exchange market and the encouragement of exports, although it led to a sudden rise in external purchases which fostered inflation. The controlled exchange rate was applied to transactions linked with debt payments, to basic imports and to exports (that is, around 80% of current account transactions), while the free exchange rate was applied to the remaining imports, tourism and other transactions in the free market.¹⁹

Table 16

MEXICO: OPEN UNEMPLOYMENT RATES IN THE MAIN METROPOLITAN AREAS

(Percentages)

	1979	1980	1981				1982				1983			
			I	II	III	IV	I	II	III	IV	I	II	III	IV
México City	5.7	4.3	4.2	3.8	4.1	3.6	3.6	3.9	4.4	4.1	7.0	5.6	6.2	5.4
Guadalajara	5.7	5.0	6.2	5.8	5.8	6.5	4.4	5.2	5.3	5.1	6.4	8.6	9.5	7.0
Monterrey	5.9	5.2	4.5	4.8	4.2	3.4	4.3	4.7	6.2	6.5	9.0	10.2	12.5	11.1

Source: Ministry of Programming and the Budget and the General Statistical Office.

¹⁸The main causes for this rise appear to have been the decline in employment in construction, manufacturing and commerce (330 000, 220 000 and 100 000 people, respectively), whereas the increase in agriculture appears to have involved somewhat fewer than 200 000 people.

¹⁹In fact, until March a third "special" exchange rate persisted, at which "mexdollars" (dollar deposits in Mexican banks) were converted into national currency. As from that month the "special" rate was made equal to the "controlled" rate.

Table 17

MEXICO: EVOLUTION OF THE EXCHANGE RATE AND PRICES

	Official exchange rate ^a (pesos per dollar)		Wholesale price index		Parity exchange rate 22.77 x (3/4) = (5)	Ratio between official and parity exchange rate prices	
	Free	Controlled ^b	Mexico	United States		Free (1/5 = (6))	Controlled (2/5) = (7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1978	22.77		100.0	100.0	22.77	100.0	
1979	22.80		118.3	112.6	23.92	95.3	
1980	22.95		147.2	128.4	26.10	87.9	
1981	24.51		183.3	140.2	29.77	82.3	
1982	57.18		286.1	143.0	45.56	125.5	
I	34.37		222.3	142.6	35.50	96.8	
II	46.78		256.9	142.7	40.99	114.1	
III	67.42	59.75	305.8	143.3	48.59	138.8	123.0
IV	80.13	55.91	359.2	143.4	57.03	140.5	98.0
1983 ^c	150.26	120.17	593.2	144.8	93.28	161.1	128.8
I	148.72	102.39	465.0	143.5	73.78	201.6	138.8
II	148.62	114.16	564.2	144.1	89.15	166.7	128.1
III	148.39	126.10	636.8	145.3	99.79	148.7	126.4
IV ^c	155.30	138.02	706.9	146.0	110.24	140.9	125.2

Source: ECIAC, on the basis of figures provided by the Banco de México.

^aAverage in the period. ^bAs from August 1982 a dual exchange type was adopted, first known as "preferential" and then as "controlled". ^cProvisional figures.

The tempo of the sliding scale of the "controlled" exchange rate was constant throughout the year and amounted to a devaluation of 49% —lower, in fact, than the inflation differential— while the "free" rate remained constant until the end of September, when it began to depreciate daily by the same amount as the "controlled" rate. Hence the "free" rate closed the year with a devaluation of nearly 9%, reaching a quotation of 163 pesos per dollar. Thus the gap between the two rates was reduced from 55% at the end of 1982 to 12% one year later.

Although domestic inflation was considerably higher than the shifting of the two exchange rates, the initial level of undervaluation was such that at the end of 1983 there was still no need to accelerate the daily tempo of the sliding scale, which would only have increased uncertainty about the exchange trend and inflationary expectations (see table 17).²⁰

This policy led to an improvement in the control of the exchange market, the virtual disappearance of the domestic parallel market, the minimization of the presence of foreign money-changing agencies and a rebuilding of reserves. Foreign exchange availability in the banking system gradually strengthened and their supply to corporations and individuals began to return to normal.

Thus, it was possible to isolate, to a certain extent and temporarily, the domestic interest rate from those prevailing in the exterior. In order to promote savings —and thereby financial intermediation, which had declined in 1982—, as well as to avoid luxury consumption, passive rates were set at nominally high levels. However, as high inflation persisted, real rates remained positive only in certain months.

The average procurement cost, whose annual average was 55%, was therefore lower than inflation. Even so, active rates ranged between 76% and 100%, that is, at high levels, even in real terms.²¹ Thus, the rise in credit cost constituted a restrictive instrument in addition to the effects of general economic stagnation.

²⁰These undervaluation margins refer in table 17 to a parity rate of purchasing power that, given its limitations, should only be taken as an indication.

²¹This refers to "effective" active rates, that is, those including expenditures and various commissions related to credit openings.

Besides the restoration of control over the exchange market, the monetary policy was subject to minor pressures as the public sector deficit was reduced, the international monetary reserves were rebuilt and the demand for credit diminished.

Currency outside banks recorded an extremely limited nominal growth (42%), implying a real contraction of 25%. This behaviour resulted from a real reduction in the monetary base because the financing needs of the public sector decreased. The multiplier also diminished. Furthermore, with respect to demand deposits, the persistence of strong inflationary pressures led the public to maintain reduced balances or to transfer them to longer-term instruments. Thus, the real contraction in these balances amounted to 20% with respect to those of December 1982 (see table 18).

The banking system as a whole procured resources in the amount of 3 700 billion pesos, thus reaching a balance of 9 700 billion pesos, 60% more than in 1982, which in real terms amounted to a fall of 15%. In fact, the 1982 devaluations distorted financial statistics by inflating foreign currency balances, thereby concealing the reduced intermediation operations of the banking system, which was not corrected in the last year.

During 1983 the commercial banks procured resources for nearly 1 600 billion pesos, as a consequence of the aforesaid interest rates, the impossibility for individuals to place deposits in foreign currency in Mexican banks, and the ban on capital expatriation, although this did not imply that there existed a greater savings capacity in the country. Rather, the lack of investment or expansion projects among enterprises in the face of depressed markets gave rise to large surplus resources which were placed in time instruments, in CETES and in variable income securities.

Among the factors of expansion, international monetary reserves trebled in terms of pesos after having reached extremely low levels in the former period. In contrast, the credit granted by the banking system suffered a real decline of 20% because: i) the government credit demand was more

Table 18

MEXICO: MONETARY BALANCE

	End-year balance (billions of pesos)			Growth rates			
	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	612	992	1 409	33.5	32.8	62.1	42.0
Currency outside banks	282	504	683	30.0	44.7	78.7	35.5
Demand deposits	330	488	726	36.2	24.1	47.9	48.8
Factors of expansion	3 124	7 070	11 149	35.4	52.4	126.3	57.7
Net international reserves	132	274	807	31.4	41.9	107.6	194.5
Domestic credit	2 992	6 796	10 342	35.6	52.9	127.2	52.2
Government ^b	1 214	3 648	5 546	30.8	68.1	200.5	52.0
Official institutions	580	1 579	2 406	33.2	57.2	172.4	52.4
Private sector	1 198	1 569	2 390	41.0	38.3	30.9	52.3
Factors of absorption	2 512	6 078	9 740	36.0	58.1	142.0	60.3
National currency	1 383	3 034	5 332	44.4	52.5	119.4	75.8
Quasi-money	312	767	1 119	42.4	32.8	145.9	45.9
Time instruments	684	1 390	2 607	42.1	62.1	103.1	87.6
Miscellaneous liabilities	387	877	1 606	50.6	54.8	127.0	83.1
Foreign currency	1 275	3 466	5 316	28.9	67.3	171.7	53.4
Quasi-money	88	37	49	50.0	54.4	-58.6	33.3
Time instruments	268	136	84	34.3	95.6	-49.4	-38.4
Long-term external liabilities	822	3 041	4 739	27.4	69.8	269.8	55.8
Other liabilities	97	252	444	18.3	15.5	159.8	76.2
Other items (net)	-146	-422	-908	57.7	82.5	189.0	115.2

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aProvisional figures.

^bIncluding the Federal Government, state and municipal authorities and the Federal District Department.

Table 19

**MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES
AND INDIVIDUALS^a**

	End-year balance (billions of pesos)			Growth rates			
	1981	1982	1983 ^b	1980	1981	1982	1983 ^b
Total	1 666	2 855	4 619	37.7	43.5	71.4	61.8
Primary activities	242	385	564	46.3	36.7	59.1	46.9
Agriculture	219	311	430	46.8	34.4	42.0	38.3
Mining and others	23	74	134	40.0	64.3	221.7	81.1
Industry	654	1 462	2 154	35.4	43.7	123.5	47.3
Fuels	179	599	875	63.4	54.3	234.6	46.1
Manufacturing	386	751	1 126	29.8	43.0	94.6	49.9
Construction	89	112	153	21.1	29.0	25.8	36.6
Low-cost housing	49	48	142	13.3	44.1	-2.0	195.8
Services and other activities	407	647	1 274	32.9	41.8	59.0	96.9
Commerce	314	313	485	48.6	51.0	-0.3	55.0

Source: ECLAC, on the basis of figures supplied by the Banco de México.

^aIncluding public and private enterprises. Excluding Central Bank financing.

^bProvisional figures.

moderate than in 1982, owing to a reduction in the fiscal deficit and an increase in financing through treasury certificates (CETES); ii) the revision of prices and tariffs of goods and services supplied by State corporations allowed them a greater amount of their own resources to meet their operating costs, and iii) investments were restricted.

The credit demand of the private sector also shrank by 20%. This drop was not due to an intrinsic resource shortage—since in fact there was a surplus in loanable funds in commercial banks estimated at nearly 400 billion pesos—but to a sharp fall in demand owing to high interest rates, difficult financial conditions in several enterprises and lower investment.

Within the real contraction suffered by credit oriented through commercial and development banks, the activities which endured most constraints were agriculture, construction, commerce and manufactures, whereas the electrical industry as services were less affected. In contrast, low-cost housing was definitively favoured, in spite of absorbing a modest share of resources (see table 19).

Despite the difficulties experienced by the banking system for placing its procured resources, which greatly exceeded those granted, it obtained significant profits in its first year of operation. This was partly due to the fact that it placed its surpluses in CETES or in the Banco de México, obtaining acceptable returns.

Mention must be made of the activity of the Bolsa Mexicana de Valores (Mexican Stock Exchange), which, as in 1978, showed an unusual growth by effecting operations in the amount of 6 200 billion pesos, 166% over those of 1982. Fixed income securities accounted for 98% of the total, of which 87% were CETES and 13% trade stocks, liabilities and petrobonds. CETES transactions amount to 5 300 billion pesos, 204% more than in the preceding year, a dynamism resulting from their advantages as regards liquidity and return. In contrast, the issuance of petrobonds was less successful. The fact that the stock exchange agencies are the only intermediaries for issuing to the public several of these instruments—mainly CETES—has granted them a higher degree of competitiveness than the banking system in the procurement of resources.

In addition to trade stocks and bank acceptances which allowed corporations to mobilize fresh resources, the stock exchange had at its disposal a new procurement instrument in the form of bank compensation bonds, which were issued in order to reimburse stockholders of nationalized banks the value of their shares by means of nominative securities at 100 pesos each, over a ten-year term, with three years of grace for the principal and seven equal amortization payments, on annuities due. The interest rate, payable quarterly, is equivalent to the maximum for quarterly time deposits. The first banks compensated in September recorded shares in the amount of 72 billion pesos, a fourth of which were transacted in the stock exchange in the remaining months.

As regards variable income securities—which represented barely 2% of the total transacted in the stock exchange—their accrued amount rose by 206%, owing to the dramatic increase in prices of most shares, which had remained extremely depressed since 1980, when they suffered a sharp drop. Thus, the quotation index moved from an average of 670 points in December 1982 to 2 200 a year later.

In view of its influence on the economy, reference must be made to the financing granted through development trust funds, which provided a selective support in the amount of 468 billion pesos—54% more, in nominal terms, than in 1982—implying a real contraction of 18%. Significant among them were Trust Funds Instituted in Relation to Agriculture (FIRA), the Fund for Export Promotion (FOMEX), the Fund for Industrial Equipment (FONEI) and others. The Fund for Bank Transactions and Discounts for Housing (FOVI) had a leading role in the growth of credit granted, since it provided financing for 32 billion pesos (106% more than in 1982) for the construction of around 32 000 dwellings.

Finally, among the significant legal changes which affected the banking system as a whole the law regulating the public service of banking and credit was outstanding. This law, which came into force in January 1983, establishes that banking services are to be provided by national credit associations and by national credit institutions constituted by the government, given the expropriation of banks. Likewise, it provides that the subscription of 66% of shares (Series A) belongs solely to the government and the remaining 34% (Series B) may be subscribed by any public sector body or any natural or legal person of Mexican nationality, and for no more than 1% of the capital of each society.

This law was the basis for restructuring the banking system and paying compensations to the previous bankers. With respect to the former, in transforming private and mixed institutions into national credit associations, their number was reduced from 60 to 29. As regards the latter, bank compensation bonds were issued, which, as noted earlier, are negotiable in the stock exchange under the terms described. Finally, the Banco de México established a trust fund for bank compensation payments.

b) *Fiscal policy*

In 1983, the rehabilitation of public finance was a priority objective of economic policy within the framework of the Immediate Economic Reorganization Programme launched in December 1982. The financial deficit of the public sector in the preceding year accounted for nearly 18% of the gross domestic product, and the purpose was to reduce it to 8.5%. This goal, which was almost achieved, since the year closed with 8.7%, is also included in the Extended Facility Agreement for three years subscribed with the IMF, in which the said percentage is to be reduced to 5.5% in 1984, and to 3.5% in 1985 (see table 20).

Despite the enormous burden of the internal and external debt service, the goals of 1983 were able to be fulfilled as a result of two facts: a reduction in current public expenditure and, especially, in investment, and an increase in fiscal income, not so much because of higher taxes, but because of an active review of prices and tariffs of goods and services provided by the public sector. To this was added the relief implied by the deferment of amortization payments on the renegotiated external debt and the reduction of exchange losses, absorbed by the federal government, which had greatly affected public expenditure in 1982.

Total public expenditure amounted to 7 300 billion pesos, representing a real contraction of 13% against that of 1982. In fact, this was the main policy instrument, not only for anti-inflationary purposes, but as a means of alleviating pressures exerted by external purchases on the balance of payments. Its amount was subject to non-inflationary domestic financing possibilities and to a maximum external indebtedness of US\$ 5 billion which, as noted, was not fully utilized. As regards the budget, amortization and interest payments on the external and domestic public debt constituted a major entry—2 800 billion pesos, that is, nearly 40% of total expenditure—and diverted funds which might have been used in investment expenditure in order to maintain productive plant and employment.

During the year the guidelines of the new administration were followed. These aimed at strengthening the public sector and not necessarily expanding it, but attempting to improve its efficiency. Thus, additional recruitments in the federal government and in the majority of semi-State

Table 20

**MEXICO: PUBLIC SECTOR INCOME AND EXPENDITURE IN
RELATION TO THE GROSS DOMESTIC PRODUCT**

(Percentages)

	1981	1982	1983 ^a
Expenditure	40.9	46.9	41.7
Federal Government	22.9	28.5	25.1
Institutions and enterprises subject to budgetary control	15.7	16.0	13.9
PEMEX	7.5	7.5	6.2
Others	8.2	8.5	7.7
Institutions and enterprises not subject to budgetary control ^b	2.3	2.4	2.7
Income	27.7	30.2	33.9
Federal Government	16.1	16.3	18.5
Institutions and enterprises subject to budgetary control	10.1	12.7	14.1
PEMEX	3.7	6.0	8.0
Others	6.4	6.7	6.1
Institutions and enterprises not subject to budgetary control ^b	1.5	1.2	1.3
Total deficit	13.2	16.7	7.8
Extrabudgetary and financial intermediation deficit	1.3	0.9	0.9
Financial deficit of the public sector	14.5	17.6	8.7

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit.

^aProvisional figures.

^bIncludes: Federal District Department, Altos Hornos de México, Teléfonos de México and the Metro.

agencies and corporations were avoided —the State even made some transfers— and an austere remuneration policy was introduced which affected all public services.

Total current expenditure of the public sector —nearly 6 000 billion pesos— suffered a real reduction of 11%, caused mainly by a decrease of 28% in remunerations, since both interest payments and current transfer increased by 30% and 15%, respectively. Capital expenditure —1 300 billion pesos— contracted even more (-36%), mainly due to a fall of 50% in public works and to lower investments by PEMEX and the Federal District Department.

The promotion of projects with low import content was attempted, since they generate employment, increase the supply of goods and services in the short run and support rural development. In the budget, priority was granted to social welfare and communications at the expense of industry and fuels, as well as to fishing and administrative expenditure, including defence.

PEMEX, whose investment was over one-fourth of the total, diminished its capital expenditure by 40%, limiting itself to exploration activities and the reactivation of certain important projects.

Federal government expenditure amounted to 4 600 billion pesos, that is, 63% of total expenditure, implying a real reduction of 16% with respect to that of 1982. This was also due to a greater contraction in capital expenditure (-27%) than in current expenditure (-13%). As shown in table 21, the major real drops were in remunerations and other capital expenditure.

The public sector procured resources totalling 5 900 billion pesos, a slight increase of 1% against those obtained in the preceding year, but an appreciable increase in the income coefficient, which rose from 30% to 34%. PEMEX absorbed the greatest growth (21%, in real terms) by its domestic sales (because price increases were higher than the drop in volume), as well as by an increase in exports as measured in pesos. The resources of the national railways rose by 6% owing to a tariff review. The other agencies and corporations, in contrast, recorded lower incomes owing to a sharp drop in their sales —as was the case with FERTIMEX and, to a lesser extent, with CONASUPO— or to tariff reviews which were deferred as for example, in the electric sector. Generally speaking, the scant

Table 21

MEXICO: FEDERAL GOVERNMENT INCOME, EXPENDITURE AND FINANCING

	1980	1981	1982	1983 ^a	Growth rates		
					1981	1982	1983 ^a
Billions of pesos							
1. Current income	680	947	1 532	3 222	39.3	61.8	110.3
Tax revenue	652	895	1 425	2 976	37.4	59.2	108.7
Direct	247	339	464	724	37.4	36.9	56.0
Indirect	221	294	419	999	33.5	42.5	138.4
On foreign trade	184	262	542	1 253	42.1	106.9	131.8
Non-tax revenue	28	52	107	246	82.6	105.8	129.9
2. Capital income	2	1	-	-			
3. Total income (1 + 2)	682	948	1 532	3 222	39.0	61.6	110.3
4. Current expenditure	597	937	2 182	3 887	56.9	132.9	78.1
Wages and salaries	159	225	399	560	41.9	77.3	40.4
Other current expenditure	438	712	1 783	3 327	62.3	150.4	86.6
5. Current savings (1 - 4)	83	10	-650	-663			
6. Capital expenditure	206	381	476	709	85.0	24.9	148.9
Real investment	172	334	398	609	93.6	32.9	53.0
Other capital expenditure	34	47	78	100	36.7	66.0	28.2
7. Total expenditure (4 + 6)	803	1 318	2 658	4 596	64.1	101.7	72.9
8. Budgetary deficit or surplus (3 - 7)	-121	-370	-1 126	-1 374	205.8	204.3	22.0
9. Account not under budgetary control	-11	-29	-46	-44			
10. Total deficit or surplus (8 + 9)	-132	-399	-1 172	-1 418	202.3	193.7	20.7
11. Financing of the deficit	132	399	1 172	1 418	202.3	193.7	20.7
Net increase of debt	135	400	1 172	1 418	196.3	193.0	21.0
Domestic	112	376	981	917			
Banco de México	...	265	918	782			
Others	...	111	63	135			
External	23	24	191	501			
Variation in available resources	-3	-1	-	-			
Percentages							
Ratios							
Current savings/capital expenditure	40.3	26.2	-136.6	-93.5			
Fiscal deficit/total expenditure	16.4	30.3	44.1	30.9			
Tax revenue/GDP	15.2	15.2	15.1	17.1			
Total expenditure/GDP	18.8	22.4	28.2	26.3			
Fiscal deficit/GDP	3.1	6.8	12.4	8.1			
Domestic financing/deficit	84.8	94.2	83.7	64.7			
External financing/deficit	15.2	5.8	16.3	35.3			

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit and the Banco de México.

^aProvisional figures.

economic activity largely neutralized the anticipated increment in income stemming from rises in prices and tariffs.

Without the fiscal resources that the federal government obtains from PEMEX (1 200 billion pesos), the total amount would have shrunk by over 20%, in spite of fiscal modifications made at the beginning of the year. Its total income amounted to 3 200 billion pesos, which is equivalent to a real increase of 2% with respect to 1982.

Significant among the fiscal modifications were the rise in the rate of the value added tax (IVA), from 10% to 15%, and the reduction to 6% of the 10% tax which formerly applied to processed foods and medicines. In addition, a rate of 20% on luxury items was established. An overall emphasis was laid on curbing tax evasion. Anonymity in respect of stocks representing corporate capital was abolished and the rate of income tax was reformed by reducing the tax on lower-income strata, though also establishing a 10% surcharge on income tax for 1983.

However, owing to the fall in economic activity and, therefore, in the taxable base, tax revenue grew at a lower rate than expected. Furthermore, direct taxes experienced a sharp contraction, which in real terms reached 24%, as a result of the reduction in real wages, and the losses or lower profits of many enterprises. In contrast, indirect taxes showed a real expansion of 16%, introducing new regressive elements into the tax system. The growth of tax revenue on foreign trade reached 13%, thanks to petroleum exports, although it was artificially increased by exchange effects. The strong decline in imports had the opposite effect.

In short, the consolidated financial deficit of the public sector rose to 1 500 billion pesos, that is, it experienced a real contraction of 55% against the deficit of 1982 (1 700 billion). It was partly financed with additional external indebtedness amounting to US\$ 4.4 billion (510 billion pesos) and the remainder with domestic financing. Within the latter, credit granted by the Banco de México amounted to 900 billion and that obtained by means of CETES and petrobonds, to a little over 100 billion. These certificates constituted an extremely dynamic instrument for the procurement of non-inflationary resources.

As regards the federal government, its deficit amounted to 1 400 billion pesos, that is, 40% less than in 1982, in real terms. This sum was covered with funds from the Banco de México for 782 billion and from other domestic resources for 135 billion pesos. Besides, external loans were obtained for 500 billion pesos (see table 21).

Given the large amounts of transfers and shares granted by the federal government to the semi-State sector, this became the chief generator of over 90% of the total deficit.²² In any event, in 1983 the efforts made to correct disequilibria in many agencies and corporations produced results. Particularly outstanding was the case of PEMEX which, for the first time in ten years, obtained a positive balance of 800 billion pesos, although with a reduced investment programme.

²²It is important to point out in this connection that the federal government assumed the huge financial disequilibrium which the Federal District Department had accrued over the years.

NICARAGUA

1. General economic trends: Introduction and summary

The evolution of the Nicaraguan economy in 1983 was dominated by problems of security and defence. It is difficult, therefore, to evaluate it adequately with the usual methodology of economic analysis. In fact, the particularly adverse effect on Nicaragua of the conditions created by the international economy was aggravated by a permanent harassment and state of siege which forced the authorities to divert their attention increasingly from other problems and to allocate greater resources to defence. These circumstances explain the opposing trends of the economy in 1983: a major expansion of production and employment, profound financial imbalances (both internal and external), and a fall in private per capita consumption.

Thus, the gross domestic product grew by more than 5% in 1983 (see table 1), mainly as a result of three factors: the growth of agriculture, the reactivation of construction and the inflow of external resources.

In the agricultural sector the main feature was the increase of 28% in the area sown with cotton, which accounts for a third of the expansion in agricultural production. The reactivation of construction, for its part —because of its impact on employment and especially its effects on the industrial branches which supply it— helped to generate at least one-third of the growth in manufacturing output. Finally, the inflow of external resources also influenced the growth of the product, despite the fact that in 1983 the country had no access to medium- and long-term credits from the leading multilateral financial agencies —the World Bank and the Fund for Special Operations of the Inter-American Development Bank— nor from the United States bilateral official organizations. Thus, the net capital inflows exceeded US\$ 500 million, which was more than seven times the amount of the net payments of profits and interest, thus placing Nicaragua in a different position from that of the rest of the Latin American economies.

Close on 45% of the positive balance on the capital account originated in the net loans received, although these totalled 12% less than the average for the period 1980-1982. The renegotiation of the maturities of the external debt for 1983 —including the capitalization of part of the interest payable during the year— provided another 45% and reduced the payments of interest and amortization on the global external debt to 35% of the value of the exports of goods and services, as against 46% in 1982. Finally, grants of foodstuffs and especially of intermediate goods for manufacturing, coupled with the creation of new lines of credit for acquiring raw materials, also contributed to the expansion of production.

The economic reactivation was influenced, on the demand side, by the expansion of public consumption and the increment in the physical volume of exports, achieved as a result of the excellent coffee crop and the increases in cotton production which occurred during the 1982/1983 cycle. In contrast, the terms of trade suffered a further drastic fall for the sixth year running. Thus, as may be seen from figure 1, the gross income once again grew less than the product and there was a marked contraction of domestic saving, which was already very low.

The relative economic dynamism of 1983 and the recruitment for defence led to an improvement in the employment situation. The sectors which absorbed most labour were agriculture —as a result of an increase of 9% in the area sown— and government, where the value added also rose by 9%.

The advances mentioned were overshadowed in more than one sense by the imbalance created by the demands of security, especially in view of certain significant lags in production. Thus, there has not been the time or the resources to correct the disequilibria associated with the events of 1979 and the basic structural faults of the economy, which have heightened the effects of the international crisis and the abnormal situation of the country. Indeed, in some cases these maladjustments have become even more acute.

In this connection, there was a continuance of the acute scarcity of foreign exchange, which ultimately reflected the high and persistent trade imbalance. For example, in the last four years the trade deficit averaged 47% of imports of goods and services and the terms of trade fell by 28%, or 48% if 1977 is taken as the base year. This deterioration was mainly reflected in what might be called a structural trade deficit, so that it was necessary to continue assigning high priority to exports. This had already been manifest in 1983, a year in which the physical volume of exports of goods rose by around 1%. Nevertheless, this increase was offset by the fall in the international prices of coffee and sugar, to such an extent that the current value of external sales was one of the lowest of the last decade.

As regards domestic financial imbalances, the fiscal deficit increased considerably. This occurred despite the notable increment in tax revenue achieved through the raising of the rates of indirect taxes—especially on gasoline—owing to the greater flexibility of these to price rises and the increased fiscal control and better organization of income-tax collection. Consequently, the sole cause of the considerable rise in the deficit was the very marked growth of public expenditure. More than

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	1 155	850	935	984	973	1 024
Population (millions of inhabitants)	2.62	2.69	2.77	2.86	2.96	3.06
Per capita gross domestic product (1970 dollars)	442	316	337	344	329	335
Growth rates						
B. Short-run economic indicators						
Gross domestic product	-7.8	-26.4	10.0	5.3	-1.2	5.3
Per capita gross domestic product	-10.3	-28.5	6.7	2.0	-4.4	1.8
Real gross national income ^b	-12.0	-29.6	11.7	2.3	-3.2	5.1
Terms of trade (goods and services)	-12.0	-11.7	-6.1	-12.7	-8.5	-10.3
Current value of exports of goods and services	0.1	-6.7	-26.4	10.1	-17.7	-0.7
Current value of imports of goods and services	-21.8	-22.3	77.9	14.1	-20.0	5.7
Consumer prices						
December-December	4.3	70.3	24.8	23.2	22.2	37.3 ^c
Variation between annual averages	4.6	48.2	35.3	23.9	24.8	30.9 ^d
Money	5.7	85.8	29.0	24.3	23.0	57.8
Wages and salaries ^e	-1.6	28.0	15.0	25.7	8.9	0.7
Unemployment rate ^f	14.5	22.9	18.3	15.9	18.5	17.5
Current income of government	-9.7	16.7	139.2	19.2	28.3	38.8
Total expenditure of government	6.8	-9.3	113.4	32.2	32.1	53.1
Fiscal deficit/total expenditure of government ^f	50.7	36.5	28.9	35.9	37.7	43.5
Deficit/gross domestic product	...	13.3	8.4	11.6	13.6	20.0
Millions of dollars						
C. External sector						
Trade balance (goods and services)	62	162	-414	-492	-381	-430
Balance on current account	-34	90	-501	-571	-512	-521
Balance on capital account	-49	-85	345	657	578	591
Variation in net international reserves	-83	9	-188	111	...	70
External debt ^g	961	1 131	1 579	2 163	2 797	3 385

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bGross national product plus terms-of-trade effect. ^cNovember 1982 to November 1983. ^dJanuary-November 1982 to January-November 1983. ^eNominal wages and salaries of members of the Nicaraguan Social Security Institute.

^fPercentages. ^gDisbursed medium and long-term external public debt.

half of this expansion originated in the increase in current expenditure, especially through the growth in defence requirements and the extension of social expenditure. There was likewise a substantial increase in capital expenditure. Apart from the sharp rise in real investment, there was a marked expansion in indirect investment, in the form of capital subsidies disbursed by the central government to finance the investments of the State enterprises. Thus the central government assumed the functions of financial intermediary, which notably increased its imbalances and heightened the need to apply new adjustments. In an attempt to solve this problem and to centralize the process of capital accumulation the Fondo Nicaragüense de Inversiones (Nicaraguan Investment Fund) was created in December 1983.

Thus, in 1983 the fiscal deficit represented close on 20% of the gross domestic product: almost twice the 1982 percentage.¹ Half this deficit was financed by money issues from the Central Bank. This caused a disproportionate expansion of the means of payment, which in its turn gave impetus to inflation.

Perhaps the most acute problem in 1983, together with the tasks of defence, was the periodic shortage of basic consumer goods, in consequence of the low agricultural output of 1982 and the lack of foreign exchange to remedy this shortage with imports. This gave rise to a new phenomenon, especially in the city of Managua: the existence of two different prices for the same goods, which reflected a process of speculation facilitated by the increase in the money supply. The scarcity of food and the high financial liquidity were decisive factors in the upsurge of inflation which occurred in 1983. This was particularly intense in the second half of the year, reaching 37% as between November 1982 and the same month in 1983.²

The aforesaid rise in prices particularly affected wage-earners, since a very restrictive wage policy continued to be applied. Thus, real average wages went down by 18% in rural areas and 25% in the towns. However, the loss of purchasing power varied between the different strata of the population because of the subsidies and price controls applied by the Government—including the use of ration cards—for a minimum basket of consumer goods, with a view to safeguarding the purchasing power of the lower-income groups.

In keeping with the foregoing, private consumption once again diminished, but at a much lower rate than in 1982 and 1981, although per capita consumption of the goods considered basic increased.³ The fall in overall private consumption reflected not only the decline in average real wages but also the meagre agricultural output in 1982, the restrictions on imports of goods, associated with the scarcity of foreign exchange, and the structure of the increase in production in 1983, since more than half of this growth was concentrated in export lines and intermediate goods and, in the case of the manufacturing sector, only a third of the expansion occurred in consumer goods.

The intensification of the external harassment, manifested *inter alia* by various armed frontier skirmishes, acts of sabotage against the economic infrastructure and, in general, tensions which had repercussions in the diplomatic and economic fields,⁴ forced the authorities to assign high priority to defence and security. This circumstance, linked with the lines of action required for the fulfilment of the basic postulates of the revolutionary process, contributed to the application of an economic policy distinct from the adjustment policies applied in other Latin American countries. This in its turn accounts for some of the phenomena—economic dynamism with financial imbalances—which characterized the Nicaraguan economy in 1983.

Economic policy was basically directed towards the achievement of three objectives: to reactivate production and accumulation; to improve the distribution of income; and to reduce inflation and the external and internal financial imbalances. The simultaneous achievement of these objectives obviously raised some problems, and in the course of the year there was a subtle change of emphasis. Thus, after having assigned priority to activities concerned with the reactivation of production, towards the end of the year the Government paid more attention to the disequilibria mentioned above.⁵

¹It should be noted that the gross domestic product, at current prices, is probably undervalued, owing to the fact that the implicit deflator of the product rose in recent years at much lower rates than those of the consumer price index. By way of example, whereas in 1983 the deflator rose by 14%, the annual variation of consumer prices reached 31%. If the implicit prices of the product were in effect underestimated, this would explain the high ratio of the fiscal deficit to the product, along with the high tax burden.

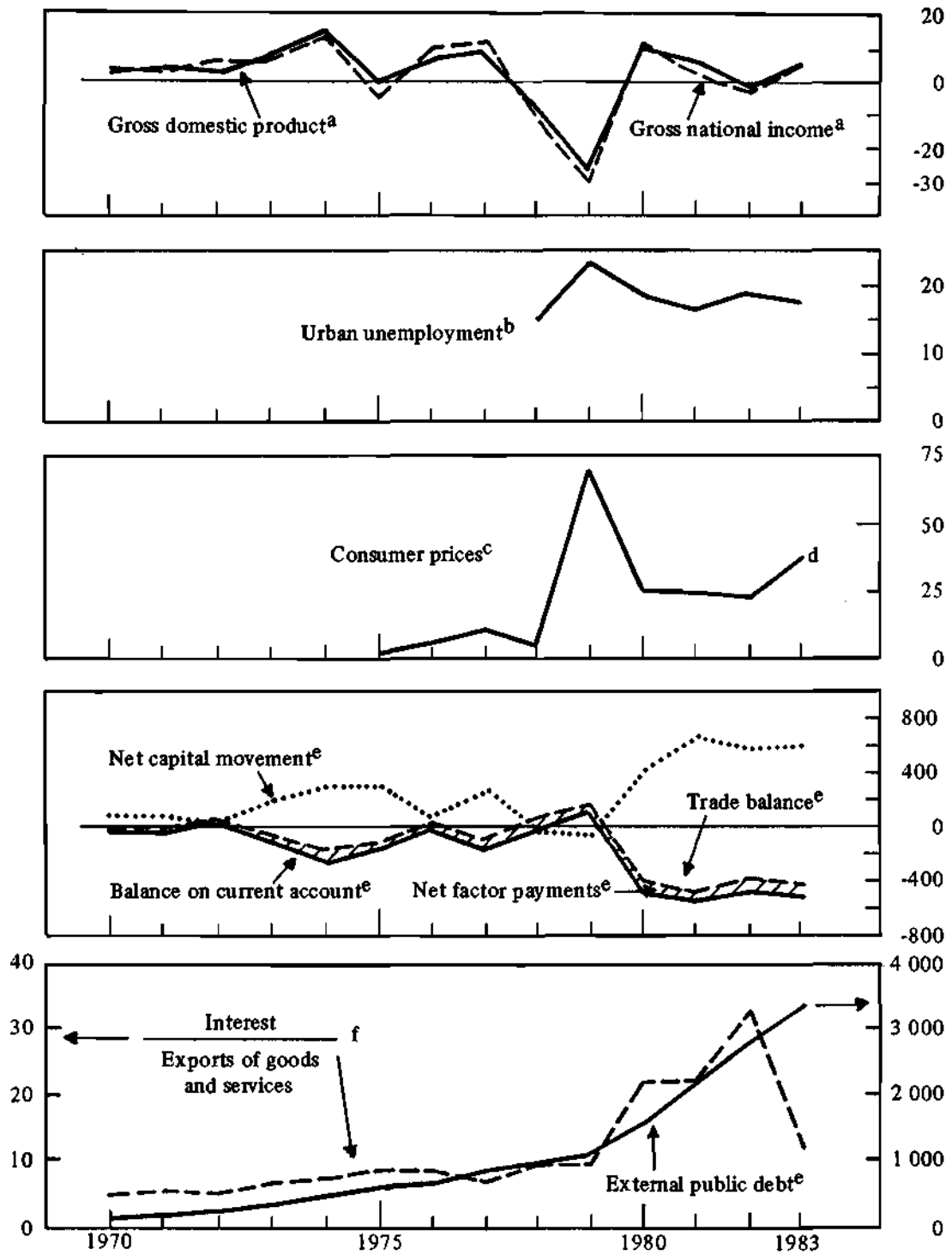
²It may also have been indirectly influenced by the price of the dollar in the parallel (illegal) market, which rose significantly.

³It is estimated that the consumption of basic goods increased by 5%, while that of goods considered "non-basic" fell by 27%.

⁴An example of this was the reduction of the sugar quota in the United States market.

⁵See, for example, Gobierno de Reconstrucción Nacional de Nicaragua, *Lineamientos de política económica 1983-1988*. September 1983.

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate. ^bAnnual average rate for the whole country. ^cPercentage variation from December to December. ^dNovember 1982 - November 1983. ^eMillions of dollars. ^fPercentages.

As regards the first aspect, public sector investment —both of the central government and the State enterprises— in machinery and equipment was increased and there was a special reactivation of construction. Production was fomented by giving priority to the agricultural sector through the fixing of a policy of guaranteed prices and greater attention to its credit needs, and through investments in the sector. The policy of guaranteed prices, combined with multiple exchange rate mechanisms to ensure reasonable profitability for the producers of the main export items, together with the credit policy (which in the case of cotton and coffee took care of 100% of the needs), facilitated the increase in the physical volume of exports. The policy of expansion of public expenditure and that of external financing were also important factors in the growth of investment and production.

To improve the distribution of income, various instruments were used. The main ones were the fixing and control of prices of the basic consumer items; the granting of subsidies in respect of the consumption of basic goods and services; the expansion of social expenditure; the rise in the levels of employment through the growth of production; the fixing of interest rates subsidized for the priority sectors, and the restructuring of the internal debt of small producers. The effects of all these measures were weakened by the wage policy, which drastically reduced real wages.

Finally, the anti-inflationary measures were less successful than previously, which perhaps explains the growing anxiety of the authorities over this phenomenon as the year advanced. Measures such as the controls on prices and subsidies of basic goods and services and the increase in tax revenues with a view to diminishing the fiscal deficit had some success. But the shortage of basic consumer goods during some periods of the year on the one hand —owing to the lack of foreign exchange and the climatic conditions which affected the 1982/1983 productive cycle— and on the other the expansion of public expenditure which raised the fiscal deficit and led to a marked expansion of the means of payment, generated an inflationary process which intensified in the second half of the year. Moreover, as already indicated, it was not possible to reduce the deficit on the balance-of-payments current account, nor to moderate the domestic financial imbalances in relation to the preceding year.

With regard to the action of the State, it should be noted that there was apparently an improvement in its capacity and experience in formulating and applying economic policies and in running the State enterprises. Examples of this were the renegotiation of the external debt, the greater control over the use of foreign exchange, and the flexibility achieved within a group of enterprises in the Area de Propiedad del Pueblo (the nationalized sector) for the solution of production problems deriving from the shortage of foreign exchange.

To sum up, the Nicaraguan economy in 1983 showed contradictory results. Economic activity developed at a much more dynamic rate than that of most of the countries of the region, but there was nevertheless a persistence, and even an aggravation, of the profound imbalances and lags of previous years. All in all, despite the number of adverse factors —of economic and other origin— which the country had to face, perhaps the most striking feature is that some advances have been made, and that the obstacles encountered have not been greater.

2. Trends in economic activity

a) *Total supply and demand*

Despite the international recession and the other difficulties of economic and other origin mentioned above, the gross domestic product grew by more than 5% in 1983. This increase gave rise to a somewhat smaller expansion (4.8%) in total supply, since the volume of imports rose by only 3% because of the shortage of foreign exchange and the need to rationalize its use (see table 2).

On the demand side, although the volume of exports of goods and services grew faster than that of domestic demand as a whole, the most dynamic elements were government consumption and gross fixed investment in construction. Thus, domestic demand increased by 4% and external sales by 8%, mainly owing to the increments in the production of coffee and cotton during the 1982/1983 cycle. For its part, public sector consumption rose by more than 15%, basically because of the priority given by the authorities to national defence and to the solution of critical social deficits. There was also a marked increase in gross fixed investment in the construction sector (16%). The effort in capital formation came mainly from the public sector, both from the central government and the enterprises

Table 2
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	1 312	1 223	1 281	126.6	132.2	125.1	16.7	6.2	-6.8	4.8
Gross domestic product at market prices	984	973	1 024	100.0	100.0	100.0	10.0	5.3	-1.2	5.3
Imports of goods and services ^b	328	250	257	26.6	32.2	25.1	43.9	8.9	-23.8	2.9
Total demand	1 312	1 223	1 281	126.6	132.2	125.1	16.7	6.2	-6.8	4.8
Domestic demand	1 067	1 013	1 055	101.8	110.4	103.0	39.8	3.4	-5.1	4.2
Gross domestic investment	242	200	203	18.5	16.7	19.8	...	54.6	-17.3	1.4
Gross fixed investment	221	179	181	16.3	14.5	17.6	139.8	62.8	-19.0	0.9
Construction	57	43	50	6.3	5.1	4.9	180.2	20.7	-24.1	15.7
Machinery	164	136	131	10.0	9.5	12.7	122.6	85.4	-17.3	-3.9
Changes in stocks	21	21	22	2.2	2.2	2.2				
Total consumption	825	813	852	83.3	93.7	83.2	9.9	-5.8	-1.6	4.9
General government	267	313	361	9.5	25.2	35.2	34.9	13.4	16.9	15.4
Private	558	500	491	73.8	68.5	48.0	2.8	-12.8	-10.4	-1.7
Exports of goods and services ^b	245	210	226	24.8	21.8	22.1	-36.6	20.4	-14.3	7.8

Source: ECLAC, on the basis of official figures from the Nicaraguan Ministry of Planning.

^aPreliminary figures. ^bThe figures for imports and exports of goods and services were obtained from balance-of-payments data in current dollars, converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

Table 3
NICARAGUA: FINANCING OF GROSS DOMESTIC INVESTMENT

	Average 1976-1980	1981	1982	1983 ^a
Percentages of gross domestic investment^b				
1. Gross domestic investment	100.0	100.0	100.0	100.0
2. Gross national saving (a + b + c)	63.9	22.2	13.6	15.2
a) Gross domestic saving	89.4	46.7	56.9	53.0
b) Net factor payments abroad ^c	-23.8	-10.8	-22.2	-9.7
c) Terms-of-trade effect	-1.8	-13.7	-21.1	-28.1
3. External saving	36.1	77.8	86.4	84.8
Percentages of gross domestic product				
1. Gross domestic investment	13.9	23.1	18.1	17.4
2. Gross national saving (a + b + c)	8.8	5.1	2.5	2.6
a) Gross domestic saving	12.4	10.8	10.3	9.2
b) Net factor payments abroad ^c	3.3	2.5	4.0	1.7
c) Terms-of-trade effect	0.3	3.2	3.8	4.9
3. External saving	5.1	18.0	15.6	14.8

Source: ECLAC, on the basis of official statistics.

^aPreliminary figures. ^bThe original information is expressed in constant values, coinciding with those given in table 2.

^cIncluding unrequited private transfers.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product ^b	902	891	938	100.0	100.0	100.0	10.0	5.3	-1.2	5.3
Goods	468	465	499	50.5	49.9	51.4	-0.6	6.9	-0.4	7.3
Agriculture	243	250	274	27.5	25.2	28.2	-16.3	10.1	2.9	9.5
Mining	2	2	2	0.7	0.2	0.2	-1.0	5.9	-7.1	-9.3
Manufacturing	201	197	206	18.9	22.3	21.2	18.1	2.8	-1.7	4.6
Construction	22	16	17	3.4	2.2	1.8	117.3	10.4	-25.5	7.6
Basic services	78	76	77	7.5	8.8	8.0	24.4	-0.1	-2.0	1.0
Electricity, gas and water	20	19	19	1.7	2.5	2.0	10.4	-11.0	-2.6	-2.6
Transport, storage and communications	58	57	58	5.8	6.3	6.0	30.9	4.2	-1.8	2.3
Other services	379	377	394	42.0	41.3	40.6	17.8	4.9	-0.5	4.5
Commerce, financial institutions and insurance	181	173	178	20.6	19.6	18.4	26.9	5.2	-4.2	2.9
Ownership of dwellings	43	45	46	7.0	4.7	4.7	-0.1	4.7	4.7	1.1
Community, social and personal services ^c	155	159	170	14.4	17.0	17.5	13.9	4.7	2.6	4.5
Government services	106	111	121	7.4	11.5	12.5	7.5	5.1	4.4	9.5

Source: ECLAC, on the basis of figures from the Ministry of Planning of Nicaragua.

^aPreliminary figures.

^bAs the individual activities and the total were calculated independently, the sum of the former does not correspond with the latter.

^cIncludes restaurants, hotels and business services.

of the Area de Propiedad del Pueblo, since the private sector continued to show some reluctance to invest, which meant that gross fixed investment in machinery declined by almost 4%. Consequently, the total gross fixed investment rose by barely 1%.

External resources continued to account for the greater part (75%) of investment finance (see table 3). Domestic saving, for its part, increased both as a source of this financing and in relation to the gross domestic product. At the same time, the positive effect which might have been produced on internal financing by the reduction in the net payments of services to the exterior—which between 1982 and 1983 fell from 4% to less than 3% of the product—was almost entirely offset by a new deterioration in the terms of trade. Even so, gross national savings financed 25% of the gross domestic investment.

Private consumption fell for the third year running, the drop being particularly marked in the case of goods and services considered non-basic. Three factors contributed to this: first, the drastic contraction of real wages; second, the lack of foreign exchange which limited imports of consumer goods, especially durables; and, finally, the meagre domestic supply of basic foodstuffs recorded during certain periods of the year owing to the fall in agricultural production caused by the adverse climatic conditions of the previous year (see table 2).

b) Evolution of the main sectors

i) *The general picture.* Almost all the economic sectors except mining and electricity recorded positive growth rates in 1983. The goods-producing industries showed the greatest dynamism, with outstanding increases in the agricultural sector (10%), construction (8%) and manufacturing (5%) (see table 4). In contrast, production in basic services virtually stagnated, with growth of only 1%. Finally, the notable expansion of government services (10%) gave rise to an increase of almost 5%

under the heading of "other services". All this contributed to a growth of over 5% in the gross domestic product, which more than made up for the slight decline of 1% suffered in 1982.

ii) *The agricultural sector.* The growth in the agricultural sector was mainly due to crop-farming, since stock-raising stagnated, forestry recovered only slightly and fishing fell abruptly⁶ (see table 5).

In agriculture, both export products and those destined for domestic consumption displayed great dynamism. This was mainly due to three elements. First, there was an expansion of 19% in the area sown, especially that devoted to cotton, sesame, beans and sorghum. Second, the yields in crops such as maize, sorghum and sugar cane increased considerably owing to the better climatic conditions and to the progress made through the irrigation policy. Finally, various economic policy measures also encouraged production. The credit policy gave priority to the agricultural sector, to which greater resources were allocated and lower rates of interest granted than to the rest of the economic activities.

Table 5
NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^c
Index of agricultural production (1970 = 100)	100.0	126.4	100.9	116.1	127.1	-17.7	10.3	4.3	9.5
Agriculture	100.0	132.3	96.8	121.9	138.5	-19.8	25.7	0.2	13.6
Stock-raising	100.0	108.9	108.8	103.0	103.1	-13.9	-16.5	13.3	0.1
Production of the main crops^c									
For export									
Cotton	67 358	130 634	34 790	67 086	81 918	-61.0	106.1	-6.5	22.1
Coffee	37 466	48 625	56 200	62 963	66 242	-9.4	4.8	6.7	5.2
Sugar cane ^d	1 703	2 598	2 233	2 750	2 750	-9.6	11.6	10.4	-
Bananas	216 362	171 502	121 653	140 567	123 826	-1.4	25.2	-7.7	-11.9
Sesame	7 348	5 534	9 344	5 935	8 437	13.5	-22.5	-31.3	68.4
Havana tobacco	680	1 179	1 588	1 279	1 542	28.3	-31.2	16.1	20.8
For domestic consumption									
Maize	232 510	191 596	194 182	177 743	229 235	14.2	1.8	-10.1	29.0
Beans	54 884	49 895	38 374	49 936	66 206	-1.9	42.5	-8.3	32.5
Rice	49 668	56 154	55 247	91 249	94 578	30.0	34.6	23.3	3.7
Sorghum	59 783	60 872	90 174	56 585	120 886	46.6	-8.0	-31.8	113.7
Blond tobacco	...	1 814	2 041	1 388	3 343	35.2	-29.1	-3.1	138.7
Indicators of stock-raising									
Number of animals slaughtered									
Cattle ^e	310	325	372	311	336	-7.1	-16.8	13.9	8.0
Pigs ^e	150	168	204	279	272	-15.6	2.2	14.8	-2.5
Poultry ^e	663	3 418	8 573	13 254	12 663	-31.7	57.7	19.2	-4.5
Other products									
Milk ^f	377	433	348	315	301	-16.9	-11.8	2.6	-4.4
Eggs ^g	...	...	29	43	42	-33.3	16.0	34.4	-2.3

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

^bThe growth rates correspond to real, not rounded, figures.

^cMetric tons.

^dThousands of metric

tons.

^eThousands of head.

^fMillions of litres.

^gMillions of dozens.

⁶According to official data, the aggregate value of fishing, which represented less than 0.5% of the total product, declined by 7%.

Thus, in the cases of cotton and coffee 100% of their credit needs were catered for, compared with 80% in the preceding year. Moreover, the adverse trend of the international prices of export lines was offset by the application of a system of multiple exchange rates and the fixing of guaranteed prices.⁷ In the lines destined for domestic consumption producer prices were likewise increased. The negative effect of this measure on the lower-income population was offset by the policy of subsidizing the consumption of basic goods.

Among export products, the most outstanding increase was in cotton production, whose rise of 22% contributed a third of the growth of the crop farming subsector. Even so, however, the level reached represented only two-thirds of the production levels of the period 1975-1978. In contrast, although the rate of growth of the coffee crop was more moderate (5%), a record volume was achieved owing mainly to the better climatic conditions.

The crops of products for domestic consumption also increased substantially. Those of sorghum and tobacco more than doubled, thus making up for the losses suffered in the two preceding years and reaching levels never before recorded. The bean crop, too, achieved a record level, while that of maize, with a growth rate of 33%, greatly exceeded the average volume registered in the period 1974-1978.

In fulfilment of the agrarian reform programme, 1983 saw the inclusion of a further 254 000 *manzanas*,⁸ which brought the total accumulated from the beginning of this programme to 518 000 *manzanas*. Moreover, in 1983 titles of ownership were granted in respect of 339 000 *manzanas*, which benefited 13 918 families, the majority grouped in various forms of co-operatives.

The stock-raising subsector practically stagnated. Although there was some growth in cattle-raising, this was offset by the falls in the production of pigs, poultry and dairy produce. This last was particularly affected by climatic problems, and declined by more than 4%. Moreover, a large part of it was devoted to cheese production, which diminished the supply of meat for public consumption.

Production of pigs and poultry was affected, for its part, by the scarcity of foreign exchange—which limited the importation of inputs, with the ensuing fall in yields—and by the shortage of basic grains. Thus, pig-slaughtering went down by close on 3%, while poultry production declined by 5%.

Despite the skirmishes taking place in the production zones, the extraction of timber rose slightly, mainly owing to the administrative reorganization of the sector. On the other hand, the fishing industry diminished by 7%. This was largely on account of the reduced catch of shrimps, due in its turn to the poor condition of the fishing fleet, the lack of inputs and the occurrence of hostilities in the Atlantic and especially in the Pacific.

iii) *Mining*. Mining production contracted for the second year running in 1983, suffering a fall of 9% (see table 6). The greatest decline occurred in silver production, which went down by 32%, reaching barely a third of the volume recorded in 1980. At the same time, the output of gold fell by 13%. The decline in both cases was due to the gradual depletion of the mines, the obsolescence of the machinery and the lack of equipment and spares to attend simultaneously to the tasks of production and prospection, so that ore of a lower metal content had to be used. Notwithstanding the decline in production, however, employment rose in the sector as a result of the increase in geological prospectings.

iv) *Manufacturing*. The manufacturing sector expanded by almost 5%, more than making up for its decline of almost 2% in 1982. As a result, the value of manufacturing output was the highest recorded since 1975 (see table 7).

If production is analysed by end-use, intermediate goods grew by 18% and represented two-thirds of the increase in the branches which expanded. There were high growth rates in intermediate goods destined for agriculture (17%), construction (23%) and manufacturing itself (14%). The rate was also high in the case of intermediate goods for transport, although these are of lesser importance.

Production of manufactures for consumption, for its part, rose by 3% and represented a third of the growth of the branches which increased. The production of beverages and tobacco grew most (9% and 7%, respectively). In contrast, production of clothing and footwear stagnated, while that of foodstuffs fell by almost 2%.

⁷For each export product, different combinations of exchange rates of 10 and of 28 córdobas per dollar were fixed, according to the international price trends and internal costs. This mechanism has been in force since the beginning of 1982.

⁸A *manzana* equals 0.7 hectares.

Table 6
NICARAGUA: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Index of mining production (1970 = 100)	100.0	63.3	56.4	53.2	48.3	2.4	1.6	-7.1	-9.3
Production of some important minerals (thousands of Troy ounces)									
Gold	113.0	69.0	60.0	54.0	47.0	2.5	3.2	-12.4	-13.1
Silver	127.0	142.0	164.0	84.0	58.0	...	-14.6	-40.2	-31.8

Source: ECLAC, on the basis of figures from the Ministry of Planning.
^aPreliminary figures. ^bThe growth rates correspond to real, not rounded, figures.

Table 7
NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Thousands of córdobas at 1958 prices					Growth rates			
	1970	1975	1980	1982	1983 ^a	1980	1981	1982	1983 ^a
Value of manufacturing production	2 455	3 320	3 131	3 163	3 310	12.3	2.7	-1.7	4.6
By branches of origin									
Food	1 129	1 422	1 336	1 542	1 513	-0.3	3.4	7.6	-1.9
Beverages	135	195	344	294	320	47.5	-2.9	-12.0	8.9
Tobacco	63	81	120	100	107	48.1	-3.5	-13.8	7.1
Textiles	119	178	102	143	176	-4.9	37.6	1.4	23.5
Footwear and clothing	110	87	112	103	104	132.0	10.0	-16.5	1.1
Wood and cork	68	122	61	55	49	3.9	4.7	-14.0	-8.5
Furniture and fittings	21	19	17	16	16	-9.3	5.4	-13.2	3.1
Paper and paper products	33	66	47	60	68	-17.1	9.9	17.6	14.6
Printing, publishing and related industries	49	51	56	64	71	50.5	11.7	3.2	11.2
Leather and leather products	29	24	25	22	18	7.3	-19.9	7.9	-14.1
Rubber products	9	9	21	22	19	149.4	5.8	2.5	-12.3
Chemicals and chemical products	282	480	399	339	387	6.4	-3.5	-12.0	14.5
Petroleum products	85	132	140	132	118	45.1	12.2	-15.0	-10.3
Non-metallic minerals	35	145	109	95	131	67.6	-6.0	-6.9	39.3
Metal products	135	185	118	122	150	40.9	-2.9	6.1	24.0
Machinery in general, including electrical	31	54	31	20	27	-22.5	-19.8	-22.0	37.0
Transport equipment	5	10	7	6	8	7.6	12.7	-26.2	39.2
Miscellaneous	68	61	36	28	29	36.9	9.1	-28.2	3.6
Other indicators of manufacturing production									
Industrial consumption of electricity ^b	179	258	236	275	307	3.1	20.9	-3.8	11.6

Source: ECLAC, on the basis of figures from the Ministry of Planning.
^aPreliminary figures. ^bIn millions of kWh.

Table 8

NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1982	1983 ^a	Growth rates		
					1981	1982	1983 ^a
Area constructed (thousands of m ²)							
Total	270	20	43	45	178.6	-21.1	4.4
Dwellings	171	11	54	15	464.7	-14.4	-72.2
Production of selected building materials							
Structural steel (tons)	...	20 788	26 180	32 573	4.8	20.1	24.4
Cement (thousands of tons)	...	172	183	265	6.4	-0.3	44.8
Paving stones for highways (thousands of units)	...	4 021	5 649	9 864	-11.5	58.7	74.6

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

The output of petroleum products contracted even more sharply (-10%), owing in part to the reduction of supplies coming from Venezuela under the San José Agreement (see table 7).

Manufacturing output expanded basically owing to the impulse of the demand of other activities, such as construction and agriculture. It was an inward-looking expansion, since exports of non-traditional manufactures fell in relation to those of 1982.

A further factor contributing to this dynamism in the manufacturing sector was the improved organization of the enterprises of the Area de Propiedad del Pueblo and the favourable response of the private sector to the economic policy incentives. There were even some investments by foreign enterprises in certain industrial branches, although these represented only a small proportion of the total capital formation in the sector. Finally, the growth of the manufacturing sector was helped by donations of intermediate products and the opening of credit lines to import inputs, which offset the restrictive effect of the scarcity of foreign exchange.

v) *Construction.* The construction sector recovered in 1983 to such an extent that it registered 8% growth. This had a positive effect on global demand, both because of the capacity of this sector to generate employment and through its purchases of inputs from the manufacturing sector.

In contrast to what had happened in previous years, the construction industry engaged to a greater extent in infrastructure works, while housing construction suffered a considerable decline (-72%) (see table 8). The most important increases occurred in works linked with the poultry industry, and in particular in the programme of agrarian reform. The network of access roads was likewise increased and other works were carried out, especially for defence.

vi) *The other sectors.* Energy production fell by almost 11% in 1983, largely owing to the marked fall (-43%) in hydroelectric generation (see table 9). This fall was due to climatic problems. Although the geothermal power station began to operate during the second half of the year, its production was insufficient to cover the deficit. Hence it was necessary to import energy from Costa Rica, under the Central American electrical interconnection programme.⁹

c) *Employment and unemployment*

The growth of the gross domestic product helped to improve the employment situation to some extent, and there was a slight fall in open unemployment (see table 10). According to preliminary estimates, this reflected an increase of close on 5% in employment. The crop-farming subsector and the central government came to account for more than half of total employment in 1983.

Notwithstanding this improvement, the unemployment rate remained very high (17.5%) and the structure of employment continued to suffer, with some variants, from a serious maladjustment:

⁹Under the same system, Nicaragua acted as intermediary in the purchases by Honduras from Costa Rica.

on the one hand, because of the shortage of labour during the harvesting of the main export products, and, on the other, owing to the accumulation of labour surpluses in other periods of the year and the growth in the number of urban underemployed poorly fitted for crop-farming work. Although policies were applied with the aim of achieving more stable levels of employment throughout the year, the heavy military recruitment in 1983 caused distortions in employment. At the same time, the growth of informal trade, above all in the city of Managua, was a factor in a new rise in employment in the urban informal sector.

3. The external sector

In 1983 there was a further substantial deterioration in foreign trade. The terms of trade fell by 13%, causing an increase of the same proportion in the merchandise trade deficit. This made necessary a new process of renegotiation of the external debt, which, together with the former agreements, made

Table 9

NICARAGUA: ELECTRICITY INDICATORS

	1970	1975	1980	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Total consumption (millions of kWh)	429	681	785	881	969	8.0	6.2	5.6	10.0
Residential	104	132	205	251	271	41.3	17.1	4.6	8.0
Commercial	54	61	68	68	74	20.9	...	...	8.8
Industrial	179	258	242	275	307	7.1	17.8	-3.5	11.6
Government	21	28	68	110	121	46.0	...	...	10.0
Public lighting	9	14	20	25	27	42.1	24.9	-	8.0
Irrigation	17	41	48	92	105	45.6	41.7	35.3	14.1
Pumping	16	30	52	60	64	15.8	5.8	9.1	6.7
Electricity wholesalers ^b	29	117	82	-	-	-49.4	-	-	-
Gross generation of power by type of station (millions of kWh)	509	821	977	970	864	12.4	3.4	-4.0	-10.9
Hydroelectric	276	355	484	412	234	30.6	0.2	-15.1	-43.0
Thermal	233	466	482	543	532	-1.4	6.4	5.8	-2.0
Diesel and gas	-	-	11	15	10	14.4	9.1	25.0	-33.3
Geothermal	-	-	-	-	88	-	-	-	...

Source: ECLAC, on the basis of figures from the Ministry of Planning and the Instituto Nicaragüense de Energía (Nicaraguan Energy Institute — INE).

^aPreliminary figures.
of that year.

^bIn January 1980 the INE began to take over wholesale distribution, ending with its total absorption in August

Table 10

NICARAGUA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983 ^a
Rates of unemployment				
National	18.3	15.9	18.5	17.5
Urban	...	11.1	11.3	...
Main cities				
Managua	...	12.8	13.5	...

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

Table 11

NICARAGUA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods FOB						
Value	1.5	-4.7	-26.9	11.0	-18.4	0.9
Volume	7.1	-1.0	-36.6	20.6	-13.2	11.6
Unit value	-5.2	-3.7	15.4	-8.0	-6.0	-9.6
Imports of goods FOB						
Value	-21.4	-29.7	106.5	14.9	-21.6	5.2
Volume	-28.8	-38.7	71.2	10.7	-25.5	2.0
Unit value	10.3	14.6	20.6	3.8	5.3	3.1
Terms of trade (goods) FOB/CIF	-13.8	-16.0	-3.4	-11.7	-10.4	-12.7
Indexes (1970 = 100)						
Terms of trade (goods) FOB/CIF	96.6	81.2	77.7	68.9	61.5	53.9
Purchasing power of exports of goods	160.4	133.5	81.7	87.0	67.6	65.9
Purchasing power of exports of goods and services	153.6	129.2	76.9	80.8	63.4	61.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

possible a marked reduction (-42%) in interest payments. At the same time the high net inflows of capital, whether as loans or donations, gave rise to an increase of US\$ 70 million in the net international reserves, despite the persistence, for the fourth year running, of a deficit on current account of over US\$ 500 million.

a) *Exchange-rate policy*

In 1983 some changes were introduced in the exchange-rate policy, with a view to improving the entry of foreign exchange. With regard to foreign trade, the multiple exchange rates applied to certain export products were corrected. In particular, the exchange rates for external sales of cotton, sesame and sugar were increased.

On the other hand, expenditure on travel, remittances, commissions and repatriation of capital had to be made at the exchange rate of 28 córdobas per dollar. At the same time, it was decreed that any natural or legal person could have in his possession only the equivalent of US\$ 500, and any amount in excess of that sum must be deposited or changed in the national financial system.

b) *Merchandise trade*

The merchandise trade deficit, which had fallen substantially in 1982, increased again in 1983. Thus, at the end of the year there was a negative balance of US\$ 350 million, mainly as a result of the fall for the sixth year running in the terms of trade, which went down on this occasion by close on 13%, since the average price of exports fell by 10%, while that of imports rose by 3%. Consequently, the purchasing power of exports in 1983 amounted to barely a third of that recorded in 1977 (see table 11).

The volume of external sales rose by close on 12%, partly owing to various incentives granted to producers.¹⁰ Their value, however, was not much higher than in 1982, owing to the sharp fall in the prices of the main export products.

In fact, in 1983 there was an increase in the value of external sales in the case of only three products: bananas, cotton and coffee. Banana exports grew the most, with an expansion of almost

¹⁰As mentioned above, in 1983 several exchange rate incentives were granted and guaranteed prices were fixed in order to shield producers from the effects of the fall in international prices.

78% over the previous year. Nonetheless, as a result of the sharp fall (-53%) suffered in 1982, their value was still 20% lower than that achieved in 1981 (see table 12). In the case of coffee and cotton, the increases in external sales, although lower in relative terms (19% and 25% respectively), were more significant, since the two products represent more than half of the traditional exports.

With regard to coffee, the volume sold rose by 35%, thanks to the increased production achieved in the 1982/1983 cycle and the use of stocks available at the beginning of the year. At the same time, however, prices fell by 12% compared with those of the preceding year.

Similarly, the international price of cotton fell slightly, despite the increase in the volume exported.

With regard to sugar exports, the greater volume did not manage to offset the decline of 25% in the average price. The fall in sales of sugar was also influenced by the reduction of Nicaragua's quota in the United States market, where a higher price was paid than that prevailing in the international market. Hence the value of sugar exports, which had already contracted by 25% in 1982, fell once again, this time by 13.5%. As a result, the amount of sugar exported was barely two-thirds of that recorded in 1981.

Exports of beef went down by 7%, as a result of falls in the international price as well as in the volumes sold abroad. This latter fact was due to greater domestic consumption, which reduced the exportable surpluses. On the other hand, the reduction in the values of shrimp, lobster and molasses exports was the result of falls in the levels of production.

Finally, the external sales of industrial products fell by over 40%, as a result of falls both in their prices and in the volumes sold abroad. This development was due in part to the difficult economic situation of the countries of the Central American Common Market, which are the main purchasers of these products.¹¹ A further factor was the lack of imported inputs, which had a restrictive effect on the level of industrial production.

Table 12
NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	500	408	411	100.0	100.0	100.0	-26.8	10.9	-18.4	0.7
To Central America	71	54	26	25.8	16.8	6.3	-22.6	-6.7	-23.8	-52.7
To rest of world	429	354	385	74.2	83.2	93.7	-27.6	14.5	-17.5	8.8
EEC	103	93	115	18.6	28.7	28.0	-13.4	-20.2	-9.7	23.2
CMEA	28	30	43	-	2.7	10.5	...	133.3	7.1	45.0
United States	135	92	65	31.3	36.0	15.7	-25.0	-16.7	-31.9	-30.0
Japan	56	43	74	13.8	2.9	18.0	-56.7	330.8	-23.2	71.3
Mexico	9	14	10	0.5	-	2.5	...	...	55.6	-28.0
Rest	98	82	78	10.0	13.1	19.0	-49.6	66.1	-16.3	-4.9
Main exports	428	354	381	68.7	84.2	92.7	-19.6	12.7	-17.4	7.6
Cotton	122	87	109	19.1	6.6	26.8	-77.7	307.3	-28.5	24.7
Coffee	136	124	147	18.0	36.8	36.4	4.5	-17.4	-9.1	18.9
Sugar	49	36	32	5.5	4.4	7.8	4.6	245.4	-25.3	-13.5
Meat	21	34	31	14.9	12.9	7.8	-37.6	-60.4	59.4	-7.1
Shrimp and lobster	18	22	17	3.4	6.0	4.1	23.3	-26.5	21.2	-23.0
Gold	24	15	10	2.3	7.3	2.4	477.2	-27.7	-36.6	-33.3
Sesame	8	6	6	-	1.3	1.4	96.9	27.0	-28.4	-
Bananas	21	10	17	0.2	1.8	4.3	31.3	148.8	-53.1	77.6
Chemical products	29	20	12	5.3	7.1	2.9	3.8	-12.0	-32.8	-40.5
Others	72	54	30	31.3	15.8	7.3	-50.5	1.3	-24.1	-44.5

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

^bThe percentage breakdown and the growth rates correspond to real, not rounded, figures.

¹¹In addition to the restricted global demand owing to the current recession, it should be noted that these countries were very short of foreign exchange to cover their debit balances on intra-regional trade.

Table 13

NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	999	776	819	100.0	100.0	100.0	146.3	11.6	-22.4	5.5
From Central America	211	117	127	25.2	33.9	15.5	171.2	-29.9	-44.5	8.5
From rest of world	788	659	692	74.8	66.1	84.5	135.3	34.4	-16.4	5.0
EEC	114	109	79	14.2	7.8	9.6	100.0	62.9	-4.4	-27.5
CMEA	33	89	138	0.1	0.2	16.8	-	...	169.7	55.1
United States	263	147	156	36.2	27.4	19.1	168.1	7.8	-44.1	6.1
Japan	28	19	17	6.4	3.2	2.1	107.1	-3.4	-32.1	-10.5
Mexico	120	164	170	1.3	2.2	20.7	233.3	500.0	36.7	3.7
Venezuela	87	31	5	4.1	16.8	0.6	125.8	-41.6	-64.4	-83.9
Remainder	143	100	127	12.5	8.5	15.5	97.3	95.9	-30.1	27.0
Consumer goods	243	161	175	29.2	29.1	21.8	165.2	-11.2	-34.0	8.7
Durable	47	44	39	10.2	4.9	4.9	120.0	9.3	-7.2	-11.4
Non-durable	196	117	136	19.0	24.2	16.9	176.0	-15.3	-40.5	16.2
Raw materials and intermediate goods	555	448	438	47.6	58.5	52.5	139.7	6.4	-19.3	-2.2
Petroleum and fuels	197	178	156	5.7	19.6	18.4	129.7	16.1	-9.4	-12.4
Others	358	270	282	41.9	38.9	34.1	143.0	1.4	-24.8	4.4
For agriculture	56	35	60	...	6.9	7.1	295.5	-9.8	-37.4	71.4
For manufacturing	262	187	199	...	27.9	24.2	124.3	2.4	-28.7	6.4
For construction	34	47	22	...	3.4	2.7	138.7	16.7	37.7	-53.2
Miscellaneous	6	1	1	...	0.7	0.1	...	-	-84.6	-3.2
Capital goods	201	167	206	23.2	12.4	25.7	137.7	90.0	-16.9	23.4
For agriculture	30	25	14	1.8	2.7	1.9	458.1	25.0	-16.6	-44.0
For manufacturing	121	109	150	17.0	6.9	18.7	93.9	95.1	-9.8	37.4
For transport	50	33	42	4.4	2.8	5.1	137.1	140.0	-34.0	27.3

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to real, not rounded, figures.

The fall in external sales of manufactured products caused a decline in the relative share of the Central American countries and Mexico in total exports. Moreover, the part corresponding to the United States fell to only 16% of the external sales: barely half the figure recorded in 1980. On the other hand, there was a rise in the shares of other purchasers, such as the European Economic Community (28%), Japan (18%) and the CMEA (Council for Mutual Economic Assistance) countries (10%) (see table 12).

The value of imports of goods grew by 5%, owing to a rise of 3% in prices and 2% in volume (see table 11).

The greatest increase (23%) corresponded to imports of capital goods, which came to represent more than a quarter of the total external purchases. Imports of machinery for the manufacturing sector went up by 37% and those of transport equipment by 27%. In contrast, external purchases of agricultural capital goods fell by 44% (see table 13).

Imports of non-durable consumer goods, for their part, went up by 16% owing to the increased external purchases of food, particularly basic grains. This rise more than offset the fall of 11% in imports of durable consumer goods, so that total external purchases of consumer goods went up by close on 9%.

On the other hand, total imports of raw materials and intermediate goods fell by slightly over 2%. External purchases of inputs for construction dropped to less than half (-53%), while those of fuels and lubricants declined by 12%, owing to falls both in volume and prices. For their part, imports of inputs for agriculture increased by 71%, which reflected the greater activity of this sector in 1983.

The OECD countries again reduced their relative share in Nicaraguan imports, which fell from 35% in 1982 to barely 31% in 1983. The proportion of purchases made in Venezuela underwent an even greater fall and failed to reach even 1% of the total in 1983, owing to the reduction in petroleum imports (see table 13).

In contrast, the CMEA countries —whose share in imports was practically negligible even in 1981— supplied almost 17% of total imports in 1983. Mexico and the Central American countries, for their part, maintained figures similar to those of the preceding year (21% and 16% respectively). The share of the latter, however, was much lower than the figure of almost 34% recorded in 1980.

c) *Services trade and factor payments*

The deficit on the real services balance rose substantially from US\$ 65 million in 1982 to US\$ 112 million in 1983. Nonetheless, this deterioration was more than offset by the sharp fall in interest payments during the same period. These went down from US\$ 150 million in 1982 to US\$ 86 million in 1983, thanks to the capitalization of the interest corresponding to the period from March to December 1983. Thus, the deficit on the overall services balance declined by more than a fifth, falling from US\$ 205 million in 1982 to US\$ 170 million in 1983 (see table 14).

d) *The current account position and its financing*

The reduction in interest payments offset the rise in the trade deficit. Thus, the balance-of-payments current account showed a deficit of US\$ 520 million, which was similar to that of the preceding year. As in 1982, the main source of financing for this deficit consisted of long-term loans received by the official sector. The corresponding amortization payments increased considerably, however, rising from US\$ 40 million in 1982 to over US\$ 100 million in 1983, and the net contribution of capital to the official sector consequently fell for the second year running, barely reaching US\$ 265 million.

Among the creditors, the socialist countries supplied the greater part (35%) of the medium- and long-term loans (not necessarily corresponding to those disbursed during the year). The countries of Western Europe, for their part, provided 21% of such credit, while another 20% came from Latin American countries, mainly Mexico, which financed Nicaragua's petroleum purchases. Finally, the multilateral agencies provided 16% and the countries of Africa and Asia, 8%.

Owing to the diminution of external credit, to which was added the deterioration of the trade balance, as from March 1983 Nicaragua was unable to carry out the servicing of its external debt. Hence a new round of negotiations began with the creditor banks in order to reschedule the payments falling due between March 1983 and June 1984. The advances achieved in this process made available US\$ 265 million, corresponding to the amount of the short-term debt, which was converted into medium-term commitments. At the same time, the donations received increased by 60% and contributed US\$ 70 million to the financing of the current account. Thus the net inflows of capital exceeded US\$ 590 million, i.e., practically seven times the net interest payments, which placed Nicaragua in a different situation from that confronting the majority of the Latin American countries in 1983. As a result, it was possible to increase the net international reserves by US\$ 70 million (see table 14).

e) *The external debt*

The external public debt having a term of more than one year increased by close on US\$ 590 million, as a result of the new disbursements made and of the rescheduling of part of the previously accumulated debt. Hence the total disbursed debt came to represent around 135% of the gross domestic product, the highest proportion of all the Latin American countries (see table 15).

Despite the substantial increase in the disbursed debt, the progress made in the renegotiation (and especially the conversion of part of the short-term debt) into long or medium-term debt considerably reduced the payments in respect of services. A particularly favourable aspect was the reduction of interest payments by more than 40%. This diminished the burden of the servicing of the global external debt as a proportion of exports of goods and services, which in 1982 had risen to the record level of 46%. Even so, the proportion of 35% recorded in 1983 was similar to that for 1981 and well over those noted up to 1980 (see table 15).

Table 14

NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-34	90	-501	-571	-512	-521
Trade balance	62	162	-414	-492	-381	-430
Exports of goods and services	720	672	495	545	448	446
Goods FOB	646	616	450	500	408	411
Real services ^b	74	56	44	45	41	34
Transport and insurance	28	22	13	15	12	5
Travel	25	18	22	23	20	5
Imports of goods and services	658	511	909	1 037	829	876
Goods FOB	553	389	803	922	723	761
Real services ^b	104	122	106	114	106	115
Transport and insurance	56	31	51	58	49	46
Travel	60	48	31	15	20	7
Factor services	-97	-73	-89	-93	-140	-91
Profits	-35	-13	-	-	-	-5
Interest received	8	6	19	28	9	-
Interest paid	-67	-65	-108	-121	-149	-86
Others	-3	-	-	-	-	-
Unrequited private transfer payments	-	1	2	13	8	1
Balance on capital account	-49	-85	345	657	578	591
Unrequited official transfer payments	9	90	122	57	43	69
Long-term capital	135	112	343	596	445	596
Direct investment (net)	7	3	-	-	-	8
Portfolio investment (net)	-	-	-	-	-	-
Other long-term capital	128	109	343	596	445	588
Official sector ^c	123	107	321	509	368	265 ^d
Loans received	152	132	335	566	407	367 ^d
Amortization payments	-24	-22	-14	-57	-39	-102 ^d
Commercial banks ^e	-7	5	17	82	24	...
Loans received	-	-	22	86	30	265 ^d
Amortization payments	-	-	-4	-4	-7	...
Other sectors ^f	12	-2	4	5	54	58
Loans received	58	15	9	15	61	...
Amortization payments	-46	-17	-5	-9	-11	...
Short-term capital	-184	-258	-87	-162	-44	-60
Official sector	-13	14	-	-	-	...
Commercial banks	55	-20	50	-131	4	...
Other sectors	-227	-252	-137	-31	-48	...
Errors and omissions	-10	-30	-33	166	134	-14
Global balance^g	-84	5	-156	86	66	70
Total variation in reserves (- sign indicates an increase)	83	-9	188	-111	...	-70 ^h
Monetary gold	-	-1	-	-	...	...
Special Drawing Rights	-1	6	-	-	-1	...
IMF reserve position	-	-	-	-	-	...
Foreign exchange assets	99	-75	120	-86	...	...
Other assets	-15	7	76	-	-11	...
Use made of IMF credit	-	55	-8	-25	-5	...

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bReal services also include other official and private transactions, but not factor services.^cIn addition to

loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dIncludes long

and short-term capital movements.

^eCorrespond to the renegotiation of the short-term external debt to long-term.^fThe

global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves

of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and

variations due to revaluation.

^gEstimates.

4. Prices and wages

In 1983 there was an upsurge of inflation. Although the variation between annual averages came to 31%, which was not much higher than the price increments of around 24% recorded in the last two years, a process of speculation broke out in the second half of the year, with the result that the rise in consumer prices was 37% between November 1982 and November 1983 (see table 16 and figure 2).

The price increases were particularly notable in the case of food, beverages and tobacco, which rose by close on 53%. Green vegetables and pulses, fruit and fish registered even higher price increases (95%, 78% and 56% respectively).

These increases were decisively influenced by the scarcity of some food products, as a result of the fall in the production of basic grains in the 1982/1983 cycle and the lack of foreign exchange. This scarcity also led, at least in the city of Managua, to the existence of two food markets: on the one hand, the official market, with prices fixed by the Ministry of Internal Trade, and with some products controlled by ration cards; on the other, the traditional markets of Managua, where the same articles, such as rice, beans, edible oil, salt, sugar, soap, eggs, cheese, meat, etc., were sold at prices which were uncontrolled and much higher than the official ones.¹²

Moreover, the economy was affected by the excess of means of payment, basically attributable to the large fiscal deficit.

Nevertheless, the price variation of the basket of basic products was only 12%, and that of the so-called "subsistence products" was even lower (6%).¹³ The other subindexes (housing, clothing and miscellaneous) also showed increases lower than the general index (16% for the first and 18% for the other two).

Table 15
NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1978 ^a	1979	1980	1981	1982	1983 ^b
Millions of dollars						
External public debt^c						
Balance	961	1 131	1 579	2 163	2 797	3 385 ^d
Disbursements	139	188	470	655	700	367
Debt service	103	60	60	171	196	89
Principal	52	18	22	71	66	43
Interest	51	42	38	100	130	46
Global external debt^e						
Debt service	137	104	131	191	206	188
Principal	70	39	23	70	57	102
Interest	67	65	108	121	149	86
Percentages						
Ratios						
Gross disbursed global external debt/ gross domestic product	51.0	74.0	86.0	99.0	123.0	136.0
Service of global external debt/ exports of goods and services	19.0	15.5	26.5	35.0	46.0	35.2
Service of external public debt/ disbursements	74.1	31.9	12.8	26.1	28.0	24.2

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aAt 31 December 1978 the short-term debt amounted to US\$ 131 million; commitments in respect of guaranteed debt, to US\$ 36 million; private debt not guaranteed by the State, to US\$ 264 million; and State-guaranteed private debt, to US\$ 6 million. ^bPreliminary figures. ^cEnd-year balance of debts having a term of over one year. ^dIncludes renegotiation of US\$ 264 million of the debt from short to long term. ^eEstimates, according to balance-of-payments data.

¹²The statistics on consumer prices weigh the prices prevailing in the two markets of Managua.

¹³In order to safeguard the incomes of the poorest groups, some foodstuffs —rice, beans, sugar, coffee and processed maize— are provided in pre-established amounts through a system of quotas, with prices fixed by the government.

Table 16

NICARAGUA: EVOLUTION OF DOMESTIC PRICES^a

	1978	1979	1980	1981	1982	1983 ^b
Variation from December to December						
Consumer price index	4.3	70.3	24.8	23.2	22.2	37.3
Food, beverages and tobacco	1.6	97.7	36.8	25.9	23.9	52.8
Clothing	4.3	46.0	21.0	24.0	22.5	21.0
Housing	7.9	35.3	9.7	23.7	21.6	14.2
Miscellaneous	5.5	65.6	14.3	16.0	17.9	18.8
Variation between annual averages						
Consumer price index	4.6	48.2	35.3	23.9	24.8	30.9
Food, beverages and tobacco	3.6	63.3	49.1	29.0	29.1	41.1
Main basic foods ^c	...	...	...	...	9.1	12.3
Clothing	3.3	26.3	32.5	20.5	27.3	17.6
Housing	6.3	29.9	13.9	20.6	21.3	16.1
Miscellaneous	4.8	45.2	28.2	15.2	16.5	17.6

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aConsumer price index for the metropolitan area of Managua. ^bPreliminary figures for the period January-November. In the first case, the growth rate corresponds to the variation between November 1983 and November 1982; in the second, to the variation between the period January-November 1983 and January-November 1982. ^cIncluding rice, beans, sugar, coffee, processed maize, beef, eggs and dairy products.

The rise in domestic prices and the very restrictive wage policy considerably reduced real remunerations. In the case of rural workers, the purchasing power of the legal minimum wage was reduced by almost 19%, while that of industrial wages went down by almost 26% (see table 17). Since in real terms these remunerations had already suffered substantial successive reductions during the five preceding years, they reached their lowest level for the whole period and were barely equivalent to half the figure recorded in 1980.

To offset part of this striking deterioration in real wages, various industrial enterprises provided daily meals for their workers at subsidized prices. Some institutions of the central government also made available the same type of service.

5. Fiscal and monetary policy

a) Fiscal policy

In 1983 the fiscal deficit rose again and reached 20% of the gross domestic product,¹⁴ owing mainly to the big increase in public spending.

Current expenditure grew by 36%, the most notable increases being in defence expenditure, social services,¹⁵ and current transfers (see table 18).

Capital expenditure, which rose by 131% at current prices, accounts for the remaining 45% of the increase in total expenditure. To the marked growth in real investment and debt amortization was added the unprecedented rise (260%) under the heading of "other capital expenditure". This comprises capital transfers to finance the investments of State enterprises, which as in the previous year absorbed a very high proportion of the fiscal outlays.¹⁶

¹⁴See footnote 1.

¹⁵Social expenditure — which includes disbursements for health, education, housing, social security and welfare — increased its share in the product from 11% in 1982 to 13% in 1983. Particular attention was given in 1983 to medical programmes, which brought down the rates of incidence of some tropical or infant diseases (malaria, whooping cough, amebiasis and measles).

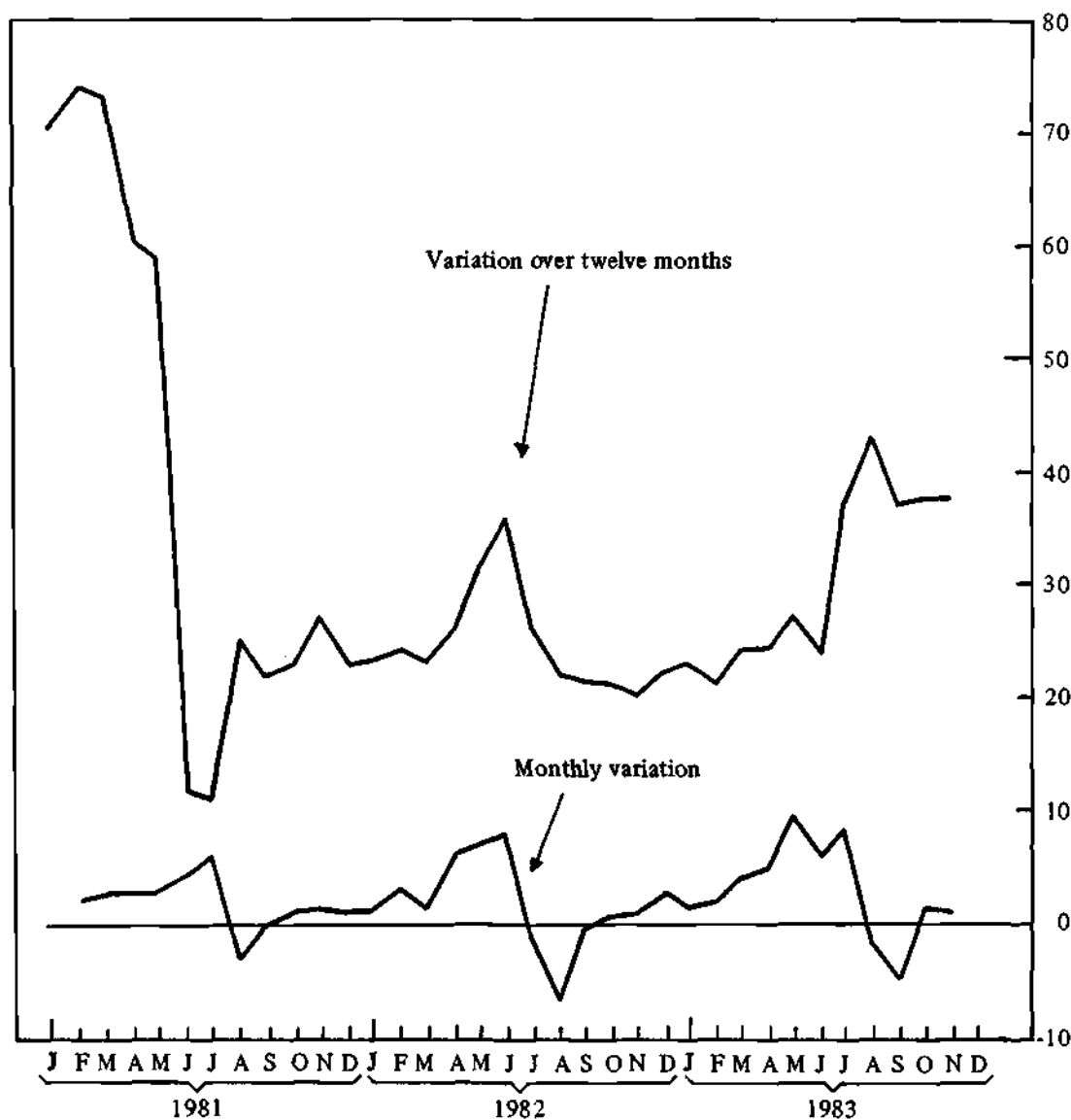
¹⁶In December 1983 the Fondo Nicaragüense de Inversiones (Nicaraguan Investment Fund) was created to cope with the situation.

Current income, on the other hand, showed a moderate increase (39% at current prices). Direct taxes rose slightly (5%) in real terms, owing partly to the expansion of the tax base and to the regularization of the arrears of some of the enterprises of the Area de Propiedad del Pueblo. Another contributing factor was the imposition of a special surtax on revenue.

Revenues derived from the tax on foreign trade, for their part, fell by practically a fifth, reflecting the stagnation of the external sector of the economy. On the other hand, indirect taxation grew by 55%, partly owing to the rise in the rates of duty on petroleum products. Other elements in this increase were the higher revenues obtained from the tax on the sale of goods and services and from the tax applied to the purchase of foreign exchange. Thus, indirect taxes came to represent 69%

Figure 2

NICARAGUA: EVOLUTION OF DOMESTIC PRICES^a



Source: ECLAC, on the basis of figures from the Ministry of Planning of Nicaragua.

^aConsumer price index for the metropolitan area of Managua.

Table 17
NICARAGUA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Members of the Nicaraguan Social Security Institute^b								
Wages and salaries								
Nominal	173.7	218.3	237.7	239.4	15.0	25.7	8.9	0.7
Real	73.6	74.6	65.0	48.5	-14.9	1.4	-12.9	-25.4
Some legal minimum wages^c								
Nominal								
Rural workers ^d	208.3	216.6	194.1	213.5	20.9	4.0	-10.4	10.0
Industrial workers ^e	200.9	224.6	231.3	231.3	19.5	11.8	3.0	-
Real								
Rural workers ^d	86.9	72.5	52.3	42.6	-10.5	-16.6	-27.8	-18.6
Industrial workers ^e	152.8	137.8	113.4	84.3	-11.3	-9.8	-17.7	-25.7

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures. ^bWith the expansion of the coverage of the Nicaraguan Social Security Institute, the evolution of the nominal and real wage calculated on the basis of its registers does not faithfully reflect the sequence for average wages at the national level, since the membership structure changed rapidly according to levels of income. ^cCorresponds to annual average. ^dNorth and Central Atlantic areas. ^eNational District.

Table 18
NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	4 526	5 395	6 922	9 608	139.2	19.2	28.3	38.8
Tax revenues	3 991	4 787	6 045	8 477	168.4	19.9	26.3	40.2
Direct	934	1 273	1 463	1 982	202.3	36.3	14.9	35.5
Indirect	1 840	2 684	3 753	5 824	141.2	45.9	39.8	55.2
On foreign trade	1 217	830	829	671	193.3	-31.8	-0.1	-19.1
Non-tax revenues	535	608	877	1 131	32.1	13.7	44.3	28.8
2. Current expenditure	5 008	6 986	9 090	12 340	93.6	39.5	30.1	35.8
Wages and salaries	1 562	1 904	2 189	2 843	73.0	21.9	15.0	29.9
Other current expenditure	3 446	5 082	6 901	9 497	104.6	47.5	35.8	37.6
3. Saving on current account (1 - 2)	-482	-1 591	-2 168	-2 732	-30.6	230.1	36.2	26.1
4. Capital expenditure	1 356	1 426	2 019	4 669	243.3	5.1	41.6	131.3
Real investment	972	883	1 136	2 092	209.6	-9.2	28.7	84.2
Debt amortization payments	170	274	310	511	109.9	61.3	13.2	64.8
Other capital expenditure	214	269	573	2 066	...	25.7	113.0	260.4
5. Total expenditure (2 + 4)	6 364	8 412	11 109	17 009	113.4	32.2	32.1	53.1
6. Fiscal deficit or surplus (1 - 5)	1 838	3 017	4 187	7 401	68.6	64.1	38.8	76.8
7. Financing of the deficit								
Domestic financing	450	2 083	3 601	4 380	-54.8	362.7	72.9	21.7
Central Bank	450	1 971	3 448	3 916	...	338.0	74.9	13.6
Others ^b	-	112	153	464	...	-	36.6	205.0
External financing	1 388	934	586	3 021	1 376.6	-32.7	-37.3	415.6

Source: ECLAC, on the basis of figures from the Ministries of Finance and Planning.

^aPreliminary figures. ^bIncluding income of the Junta de Reconstrucción de Managua (Managua Reconstruction Board) and special domestic income.

Table 19
NICARAGUA: MONETARY BALANCE

(Millions of córdobas)

	End-year balances				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	4 526	5 626	6 920	10 921	29.0	24.3	23.0	57.8
Currency outside banks	2 001	2 376	3 085	5 000	27.3	18.7	29.8	62.1
Demand deposits	2 525	3 250	3 835	5 921	30.4	28.7	18.0	54.4
Factors of expansion	9 223	16 058	20 274	29 223	61.3	74.1	26.2	44.1
Net international reserves	-4 438	-3 336	-4 513	-3 586	...	...	...	...
Domestic credit	13 661	19 394	24 787	32 809	87.8	42.0	27.8	32.4
Central government	2 486	3 177	6 338	11 582	65.5	27.8	99.5	82.7
Public institutions	1 874	1 796	1 379	1 322	61.0	-4.2	-23.2	-4.1
Private sector	...	9 417	10 038	11 125	...	...	6.6	10.8
Area Propiedad del Pueblo	...	5 005	7 032	8 780	...	...	40.5	24.8
Factors of absorption	4 697	10 432	13 354	18 302	112.7	144.9	13.6	37.1
Quasi-money (savings and time deposits) and bonds	1 835	3 395	3 717	5 273	114.4	85.0	9.5	38.6
Long-term external loans	2 512	6 310	7 201	14 436	44.9	151.2	14.1	100.5
Other items (net)	350	727	2 436	-1 407	...	...	...	...

Source: ECLAC, on the basis of figures from the Ministry of Planning.

^aPreliminary figures.

of the total tax revenues, as against only 46% in 1980. At the same time, the tax burden rose from 22% in 1982 to 26% in 1983,¹⁷ which shows the degree of efficacy of the collection.

External resources financed 41% of the fiscal deficit, while 90% of the domestic financing used (representing 11% of the gross domestic product) consisted of credit from the Central Bank.

b) *Monetary policy*

Owing mainly to the heavy fiscal deficit, the supply of money increased by 58%: the highest rate in the last six years. This generated surplus liquidity and facilitated speculative and inflationary processes (see table 19).

As in 1982, the most outstanding factor of expansion was clearly domestic credit to the central government, which increased by close on 83%, thus limiting the possibilities of increasing the credit granted to some productive sectors. Indeed, credit to the private sector increased by only 11% and that destined for the Area de Propiedad del Pueblo by 25%.

The loans by the national financial system to the different economic sectors highlighted the predominance of credit to the agricultural sector, which rose by 25% while total loans grew by 15%.

Deposits, both in current accounts and as time deposits, showed a notable increase, reflecting in their turn the monetization of the economy and the increase of confidence in the domestic economic and financial system. There was also a notable increase in savings deposits even though the interest rates on deposits were negative in real terms. As a result, quasi-money grew by 39%, thus showing a certain recovery compared with the rate of only 10% registered during the previous year.

The policy as regards interest rates on loans tended to favour the agricultural sector and within this the agricultural production co-operatives. Moreover, during 1983 there was a restructuring of the debts of small and medium-sized producers and of some State enterprises, which enabled them to remedy their financial situation. The debts of State enterprises (especially those dependent on the Ministries of Agriculture and Internal Trade) were condoned and taken over by the central government.

Finally, 1983 witnessed the introduction of a policy of bank specialization, beginning with a pilot project of a regional nature.

¹⁷See footnote 1.

PANAMA

1. Recent economic trends: Introduction and summary

The gross domestic product, which had maintained a quite acceptable growth rate in 1981 and 1982 despite the rapid worsening of the external situation, finally succumbed in 1983, coming to a virtual standstill which resulted in a reduction of 2% in the per capita product. The gross national income was also practically stationary during 1983, owing to the scant variation in the terms of trade (see table 1 and figure 1).

In 1982, the gross domestic product had increased by 5.5%, a growth which although it did not differ much from those recorded in preceding years, had the merit of having been the highest among those observed in the Latin American countries, nearly all of them seriously affected by economic recession. This result stemmed mainly from construction, fostered by public investment, and from basic services. However, other services and financial activity lost their dynamism, and to the intensification of the current account deficit of the balance of payments was added another more considerable increment in the fiscal deficit, which came to represent 18% of the gross domestic product.

In order to contain the increasing imbalances developing in different sectors and activities, various measures were adopted during 1983 to adjust economic variables to the limited prevailing conditions; one of them was a restriction on public expenditure. The drastic contraction in construction (-28%) was associated with a significant reduction in commercial activity (-6%) and with a decrease of around 2% in manufacturing, falls that were barely offset by increases in other activities, significant among which were basic services and other services—except trade—and a slight upturn in agriculture. Likewise, the conclusion of the construction of the trans-Isthmian oil pipeline¹ and its entry into operation at the end of 1982 also helped to maintain the global activity level of the economy.

The incorporation of the pipeline into the economic activity, besides having increased the country's status as exporter of services, resulted in the virtual disappearance of oil tankers going through the Canal. The transit of this kind of vessel had already dropped considerably since large-sized ships, which had difficulties in going through the Canal began to be used. The pipeline operation—with State participation—produces more income for the country than that earned from oil transport through the Canal.

The rapid worsening of the external situation in 1981 and 1982, with a marked increase in the balance-of-payments current account deficit and a loss in international reserves, changed in 1983 with the striking drop in imports of goods and services (-12%), despite the fact that exports also diminished, though by a slight proportion and for the second consecutive year. This slight fall was solely due to a decrease in the sales of goods, particularly of petroleum products.

Import reduction produced a major fall in the trade deficit, which, despite having been partially neutralized by lower interest earnings, led finally to a significant drop in the current account deficit and to an increase in international reserves (see table 1 and figure 1).

In 1981 and 1982, the country had an annual inflow of around US\$ 2.8 billion on account of interest and an outflow of nearly US\$ 3 billion. These amounts dropped in 1983: interest received fell to US\$ 2.2 billion and interest paid to a little less than US\$ 2.5 billion. The international economic recession, and particularly the crisis confronting the Latin American countries, depressed the important international financial transactions conducted in Panama.

¹ The pipeline, 130 kilometres long, connects the oil terminals of the Atlantic and the Pacific.

Halfway through 1983 an agreement was signed with the International Monetary Fund for a stand-by loan of 289 million in Special Drawing Rights (SDR). Under this agreement the economic authorities committed themselves, on the one hand, to drastically reducing the public sector deficit to a figure amounting to 6% of the gross domestic product in 1983,² and, on the other hand, to improving the profile of external indebtedness by reducing the share corresponding to trade financing. To this end, in addition to renegotiating the debt which fell due during the year, new long-term credits were contracted. Some of the latter, in the amount of US\$ 278 million were contracted with private banks, in addition to those agreed with international organizations, particularly the World Bank and the Inter-American Development Bank, with a view to various development projects.

Table 1

PANAMA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^e
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	1 909	1 995	2 297	2 393	2 525	2 530
Population (millions of inhabitants)	1.84	1.88	1.96	2.00	2.04	2.09
Per capita gross domestic product (1970 dollars)	1 040	1 062	1 174	1 197	1 236	1 211
Growth rates						
B. Short-run economic indicators						
Gross domestic product	9.8	4.5	15.1	4.2	5.5	0.2
Per capita gross domestic product	7.2	2.1	10.5	1.9	3.2	-2.0
Gross national income ^b	11.2	3.2	12.9	4.8	3.0	-
Terms of trade (goods and services)	-3.4	-6.7	-4.9	1.2	-3.4	0.2
Current value of exports of goods and services	4.4	20.4	33.1	6.8	-0.2	-1.6
Current value of imports of goods and services	10.4	24.9	22.3	9.6	1.4	-12.4
Consumer prices						
December - December	5.0	10.0	14.4	4.8	3.7	2.0
Variation between annual averages	4.2	7.9	13.8	7.3	4.2	2.1
Real wages	11.0	5.9	2.5	3.3	8.4	3.3
Unemployment rate ^c	8.1	8.8	8.2	...	8.4	9.5
Current income of government	13.8	23.4	42.0	13.4	7.3	6.8
Total expenditure of government	19.2	44.2	14.1	14.2	33.5	-18.6 ^d
Fiscal deficit/total expenditure of government ^e	38.7	47.5	34.6	35.1	47.8	31.5 ^e
Fiscal deficit/gross domestic product ^e	9.7	15.8	10.6	11.1	18.3	9.6 ^e
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-156	-236	-167	-225	-253	-49
Balance on current account	-240	-363	-363	-496	-538	-409
Balance on capital account	327	335	375	423	524	440
Variation in net international reserves	78	-21	17	-66	-9	31
Total external debt ^f	1 881	2 078	2 266	2 379	2 820	3 275 ^g

Source: ECLAC, on the basis of official data.

^aProvisional figures. ^bGross national product, plus terms-of-trade effect and less the net payment of factors to the rest of the world and of private grants. ^cPercentages. ^dVariation in the first half of 1983 with respect to the first half of 1982. ^eEstimate on the basis of data for the first half year. ^fYear-end balances of the debt contracted for a term of more than one year by the central government and decentralized agencies. ^gBalances at the end of October.

²It is estimated that the ratio fiscal deficit/gross domestic product, which in 1982 reached an extremely high percentage (18.3%), considering amortization payments on the debt in capital expenditure, might have diminished to around 10% in 1983.

The lack of dynamism in global production, as well as the sharp downturn in the quantum of imports of goods and services during 1983, resulted in reductions in domestic demand, mainly in gross fixed investment (-16%). Meanwhile, the consumption expenditure of the general government decreased slightly and private consumption increased by only 2%.

In a situation of economic depression such as that of the last year, domestic prices did not show much variation (2%) and already in the two preceding years they had increased only slightly, around 5 and 4% respectively. Food prices, at the consumer level, increased even less, 1.3% from December to December, owing to an increased supply of basic agricultural products, which was promoted by a price and financing policy favouring farmers and by the existence of greater facilities in storage and distribution.

The economic policy measures implemented during 1983 became more effective in the second half of the year, after the agreement with the International Monetary Fund was signed. However, their impact will only be fully felt in the medium term, when measures tending to reactivate the economy, included in the so-called "Caribbean initiative" (a project sponsored by the United States Government) are implemented, and investments by foreign enterprises in the Colón Free Zone show some results.

Minimum wages had been increased at the end of 1982 and the remunerations of civil servants were raised in 1983 by percentages exceeding inflation.

2. Trends in economic activity

a) *Total supply and demand*

Total supply, which had increased by close on 16% in 1980, grew at an annual rate of 3.7% in the two following years and diminished by 2.6% in 1983. The absence of dynamism in the gross domestic product in the last year was accompanied by a drastic contraction in the volume of imports, which already in the two preceding years had remained stagnated (see table 2).

Meanwhile, the quantum of exports of goods and services, which had shown marked fluctuations in recent years, dropped 3% in 1983; however, the domestic supply of goods and services diminished 2.4%, mainly affecting investment levels.

Gross domestic investment dropped 12% and fixed investment 16%. The conclusion of the construction of the trans-Isthmian pipeline, towards the end of 1982, was one of the reasons for the decline in investment; the other was the restrictive policy on public expenditure, which deferred the initiation of new projects and delayed some in process of execution. Thus public investment declined by nearly 18% and was limited to the construction of a hydroelectric power plant, a highway adjacent to the pipeline and other infrastructure works.

Moreover, private investment declined by 15%, affected by the worsening of the economic situation, the lack of reactivation expectations and the uncertainty brought about by the change of government and the election scheduled for May 1984.

Investment in construction diminished by 15% and in machinery and equipment by nearly 19%. The value of imports of capital goods fell 32% in the first half of the year. By and large, no new industries were installed except in the Colón Free Zone, where some clothing factories entered into operation.

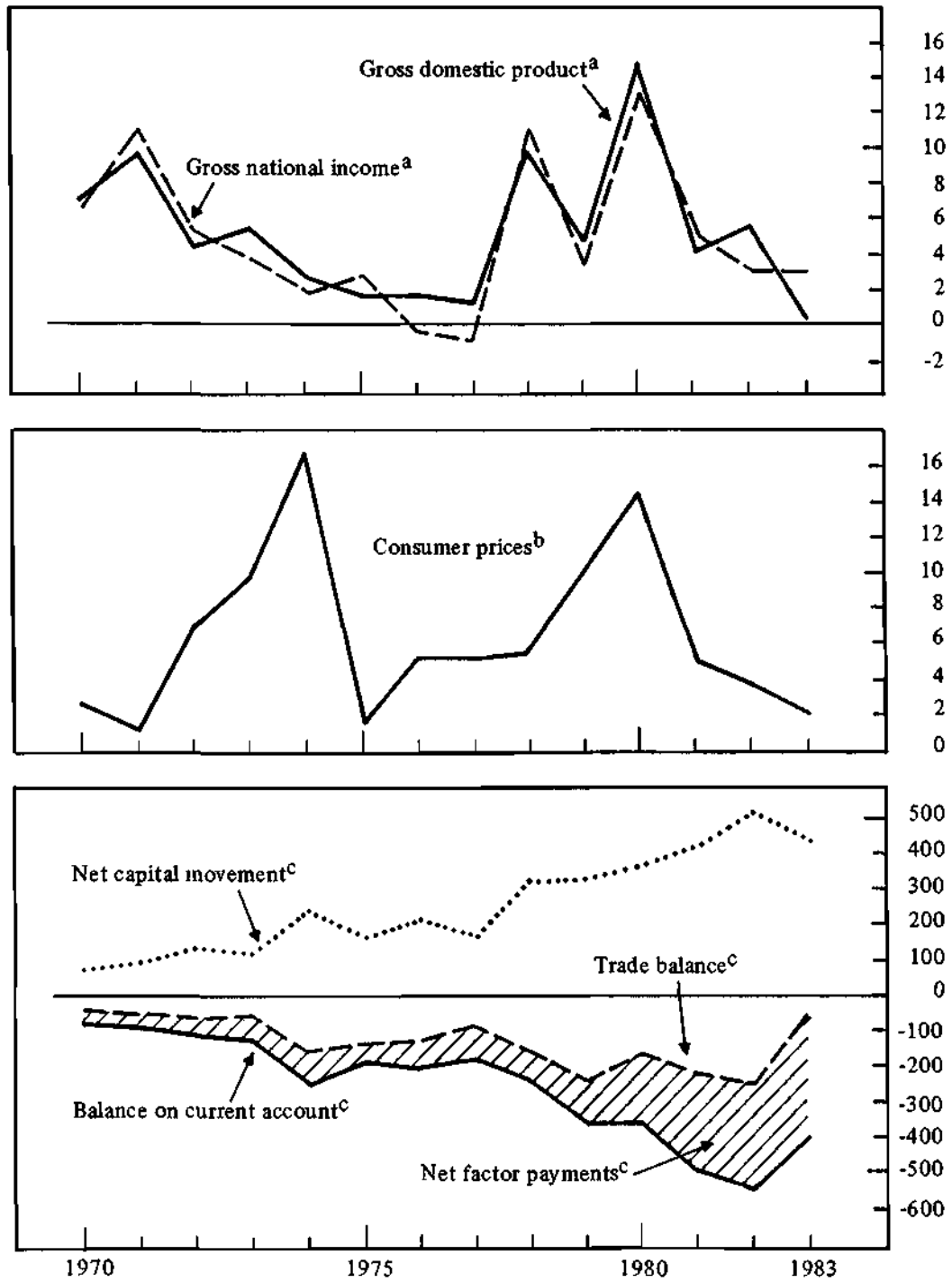
As regards consumption expenditure, while that of the general government dropped slightly over 1% in real terms, owing to the adoption of strict austerity measures, private consumption increased by approximately 2%, indicating a very slight decline in per capita consumption.

b) *Evolution of the main sectors*

The fall in the growth rate of global production from 5.5% in 1982 to practically zero was due, in the first place, to an extraordinary drop in construction (-28%), and, secondly, to decreases of around 6% in commercial activity and 2% in manufacturing (see table 3).

Other activities increased their output levels to a greater or lesser extent, especially basic services and particularly electricity, gas and water, whose rate doubled that of the previous two years. The other services, except commerce, did not increase at a notably high rate (3.3%), but it was important for the weight which these activities have in the total product. For other reasons, there was

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bDecember - December percentage variation.

^cMillions of dollars.

Table 2

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	3 059	3 191	3 109	131.4	129.1	122.9	15.7	3.2	4.3	-2.6
Gross domestic product at market prices	2 393	2 525	2 530	100.0	100.0	100.0	15.1	4.2	5.5	0.2
Imports of goods and services	666	666	579	31.4	29.1	22.9	17.5	-0.2	-	-13.0
Total demand	3 059	3 191	3 109	131.4	129.1	122.9	15.7	3.2	4.3	-2.6
Domestic demand	2 318	2 395	2 338	102.5	95.8	92.4	8.3	5.4	3.3	-2.4
Gross domestic investment	610	587	511	27.8	23.6	20.2	16.9	12.6	-3.8	-12.0
Gross fixed investment	561	586	492	25.6	20.9	19.5	21.8	16.6	4.5	-16.0
Public	176	237	195	6.9	8.6	7.7	30.9	-10.7	34.2	-17.6
Private	385	349	297	18.7	12.3	11.8	16.2	35.7	-9.1	-14.9
Construction	327	405	345	14.5	12.8	13.6	20.8	11.0	23.9	-14.8
Machinery and equipment	234	181	147	11.1	8.1	5.9	23.4	25.6	-22.6	-18.6
Changes in stocks	49	1	19	2.2	2.7	0.7				
Total consumption	1 708	1 808	1 827	74.7	72.2	72.2	5.8	3.0	5.8	1.0
General government	441	476	469	14.9	16.3	18.5	5.8	17.6	7.9	-1.4
Private	1 267	1 332	1 358	59.8	55.9	53.7	5.7	-1.2	5.1	1.9
Exports of goods and services	741	796	771	28.9	33.3	30.5	43.8	-3.1	7.5	-3.1

Source: ECLAC, on the basis of figures provided by the Statistics and Census Office.

particular significance in the upturn of 3% attained by agricultural and fishing production —despite the severe drought which affected crops between November 1982 and July 1983—, which led to striking increases in the exports of agricultural products and a satisfactory supply of basic foods.

i) *Agriculture.* The credit and price support policies, and the construction of infrastructure and storage capacity for grains and fodder, promoted during 1982, as well as the favourable situation of the markets of some export products, produced an increase in agricultural output of slightly over 4% in 1983, despite the severe drought which affected grain until July and livestock production, which increased by less than 1% (see table 4).

As regards crops intended for export, the production of bananas increased slightly and that of coffee considerably, fostered by the favourable conditions prevailing in the external markets for these products. In particular, banana exports to the United States were favoured by higher prices and by the possibility of expanding the exported volume, owing to a fall in banana production in Ecuador and Honduras.

Coffee production increased by 37%, thanks to very timely rains which raised the yields, as well as to an increase in the surface area harvested; the sugar cane harvest, in contrast, dropped by 12%. Low sugar prices in the free market made the operation of some sugar mills unprofitable; hence they slowed down and part of the surface planted with sugar cane remained uncut. Halfway through the 1970s —when the international price of sugar remained high— Panama, with State support, made vigorous efforts to expand this activity and its industrialization, allocating major investments to this end.

With respect to crops for domestic consumption, maize and beans were affected by a drought between November 1982 and July 1983; only the maize harvest, however, diminished (-25%), whereas that of beans rose slightly. Rice production, on the other hand, supported by a price policy which encouraged its expansion increased by 36%, exceeding domestic consumption levels and considerably increasing stocks in the State marketing corporations for agricultural products.

Livestock production did not vary significantly during the year, and no data were available on fishing. Beef cattle also suffered the effects of drought, leading to exports of live cattle. Beef cattle stocks remained virtually stationary and milk production diminished. At the same time, pig slaughtering declined by nearly 8%, whereas poultry production appears to have recovered from its sharp contraction in 1982.

ii) *Manufacturing*. Manufacturing output declined by 2.5% in 1983, affected by a weakening of the external market, by the fall in sugar production, by the domestic economic recession which depressed demand and, associated with the latter, by the drastic contraction suffered by construction, to the detriment of the production of building materials.

The decrease in sales to markets such as Venezuela and the Central American countries, which for different reasons and in different ways limited their imports, helped to depress the production of footwear, clothing and food. To this was added the fall in sugar-cane production. Thus, whereas the production of food, beverages and tobacco remained virtually stationary, that of footwear and clothing dropped by 17% (see table 5).

Similarly, petroleum-refining diminished by nearly 8%, mainly owing to a lower demand for heavy fuels resulting from the reduced shipping activity observed during the year, which was especially evident in the Canal.

Other branches which showed a substantial decline in production were those of basic metal products (-33%), non-metallic minerals (-13%) and wood, furniture and fittings (-12%), all related in greater or lesser degree to the sharp fall in construction.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	2 234	2 357	2 361	100.0	100.0	100.0	15.1	4.2	5.5	0.2
Goods	617	663	607	34.5	29.2	26.9	5.8	2.7	7.5	-8.4
Agriculture	228	229	236	14.6	10.3	10.4	-4.0	8.3	0.3	3.1
Mining	5	5	5	0.2	0.2	0.3	29.2	22.6	7.9	7.3
Manufacturing	216	221	216	12.6	10.8	9.6	5.9	-3.3	2.4	-2.3
Construction	168	208	150	7.2	7.9	6.6	21.5	3.2	24.0	-27.8
Basic services	581	644	691	8.5	26.8	30.6	109.3	5.6	10.9	7.4
Electricity, gas and water	73	77	84	2.3	3.4	3.7	2.1	5.1	5.3	10.0
Transport, storage and communications	508	567	607	6.2	23.4	26.9	146.5	5.7	11.6	7.0
Other services	1 013	1 047	1 053	58.2	47.0	46.6	-2.7	5.0	3.2	0.6
Commerce	305	303	284	15.7	15.1	12.6	6.4	-1.4	-0.3	-6.3
Financial establishments, insurance, real estate and business services	199	206	214	12.8	9.0	9.5	1.9	7.1	3.3	3.7
Ownership of dwellings	162	167	172	7.5	7.7	7.6	3.1	2.7	3.2	3.0
Community, social and personal services	509	538	555	29.7	22.9	24.5	-13.5	8.3	5.6	3.3
Government services	147	153	156	6.7	6.9	6.9	2.4	3.5	3.8	2.3
Less: Imputed commissions for banking services	71	89	91	1.2	3.0	4.1	-16.4	14.9	25.2	2.7

Source: ECLAC, on the basis of figures provided by the Statistics and Census Office.

^aProvisional figures.

^bAs the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Index of agricultural production (1970 = 100)	125.5	144.0	148.6	152.8	156.9	-1.3	3.2	2.8	2.7
Crop farming	123.5	149.0	154.7	153.1	159.9	-4.4	3.8	-1.0	4.4
Livestock	127.9	138.3	141.9	152.6	153.5	3.9	2.6	7.6	0.6
Production of the main crop^c									
For export									
Bananas	793	1 032	1 045	1 060	1 070	-3.0	1.2	1.5	0.9
Sugar cane	2 122	3 194	3 841	4 081	3 591	0.5	20.3	6.2	-12.0
Coffee	5	6	7	6	9	-0.7	16.7	-10.9	36.7
For domestic consumption									
Rice	185	175	199	177	242	9.2	13.5	-10.9	36.2
Maize	65	71	73	76	57	12.3	2.4	4.7	-24.8
Beans	4	4	4	4	4	9.9	-6.7	2.9	0.5
Tobacco	1	1	2	2	1	66.6	15.9	8.3	-20.0
Indicators of livestock production^d									
Stocks									
Beef cattle	1 348	1 405	1 426	1 456	1 459	-2.0	1.5	2.1	0.2
Swine	166	212	218	206	...	11.4	2.9	5.5	...
Poultry	3 704	4 797	6 004	4 545	5 702	-2.4	25.2	-24.3	25.5
Slaughter									
Beef cattle	222	215	239	277	279	9.4	11.1	15.9	0.9
Swine	87	121	133	130	120	15.0	9.8	-1.9	-7.7
Other production									
Milk ^e	70	91	90	89	84	0.5	-1.7	-1.1	-5.6
Eggs ^f	239	284	292	275	300	-3.9	2.8	-6.8	9.1
Fishery catch^g	76	189	126	...	...	36.1	-33.5	...	...

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bGrowth rates correspond to real, not rounded, figures.

^cThousands of tons.

^dThousands of head.

^eMillions of litres.

^fMillions of units.

^gTons.

During the year various measures were adopted to encourage industrial production. These included the tariff protection established for a series of domestic consumer products (such as soaps and cosmetics). Likewise, small-scale industry was granted credit facilities, as well as support and technical assistance through institutions such as the National Council for Small-State Enterprises.

iii) *Construction*. The value added by construction suffered an extraordinary fall of around 28% in 1983, contributing to the further depression of productive activity and employment.

The fall in construction is explained, in the first place, by a sharp contraction in demand for housing and new building, stemming from domestic economic recession and the lack of recovery expectations, which inhibited new investments. In these conditions it is estimated that housing and commercial construction shrank by a third. This situation was further aggravated by the excessive construction of relatively high-cost dwellings in recent years, which remained unsaleable owing to economic recession (see table 6). Other contributing factors were the drop in construction, the conclusion of the trans-Isthmian pipeline, as well as the restrictive policy on public expenditure which was strictly limited to the continuation of works already in progress, such as the construction of a highway running parallel to the pipeline, the La Fortuna hydroelectric power plant installations for agriculture (silos, warehouses, etc.) and works designed for housing, health and education.

iv) *Basic services.* Basic services activities were the most dynamic, especially those of electricity, gas and water, which in 1983 nearly doubled the growth rate recorded in 1981 and 1982. Transport, storage and communication services increased by 7%, considerably less than in the preceding year (see table 3).

The entry into operation of the above-mentioned pipeline contributed notably to a boom in these services; it brought about major changes in the transport system and allied services which Panama provides for the rest of the world. The pipeline crosses the Isthmus and connects two terminal points; it has a transport capacity of 300 million barrels per year, exceeding that which could be carried previously by ship through the Canal. Thus, the problem which the Canal posed for the passage of deep draught vessels was eliminated. The income earned by using the pipeline, and the greater fiscal revenue derived from it, more than offset the lower receipts stemming from a drop in the activity of the Canal.

Table 5

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^b
Index of manufacturing production (1971 = 100)	105.0	132.8	127.3	130.3	130.3	5.1	-4.1	2.4	-2.5
Food, beverages and tobacco	119.5	159.8	156.0	159.7	165.5	5.1	-2.4	2.4	-0.5
Footwear, clothing and leather goods	105.7	146.0	142.8	138.0	113.2	2.3	-2.2	-3.4	-17.3
Wood, furniture and fittings	69.1	85.8	82.8	84.4	72.3	0.6	-3.5	2.4	-11.9
Paper, printing and publishing	74.2	115.0	105.2	110.7	123.4	7.5	-8.7	5.2	10.4
Chemicals and petroleum products	125.7	111.9	106.9	110.0	114.6	1.0	-4.5	2.9	3.5 ^c
Non-metallic minerals	89.8	110.6	104.3	108.2	97.8	17.8	-5.7	3.7	-13.1
Basic metal products	40.0	122.9	105.4	107.0	77.0	32.6	-14.2	1.5	-33.2
Metal products	81.3	111.6	99.3	106.0	104.8	4.0	-11.0	6.7	-2.5
Other manufactures	100.0	87.1	104.9	84.8	117.4	-23.3	20.4	-19.2	39.6
Index of employment^d (1970 = 100)	122.9	96.6	98.2	98.0	94.4	1.3	1.7	-0.2	-3.9
Employees and technicians	132.2	...	111.8	112.7	116.3	...	...	0.8	2.7
Manual workers	120.3	...	94.7	94.3	88.9	...	...	-0.4	-5.9

Source: ECLAC, on the basis of figures provided by the Statistics and Census Office.

^aCorresponds to the January-September period. ^bCorresponds to the January-September variation with respect to the same period of the preceding year. ^cThe petroleum refineries included in this entry decreased their activities by 7.8%. ^dPersonnel employed in the cities of Panamá and Colón; averages for the period indicated.

Table 6

PANAMA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1981	1982	1983 ^a	Growth rates				
					1980	1981	1982	1983 ^a	
Area constructed^b (thousands of m²)									
Total	401	397	574	371	-2.5	-1.1	44.9	-35.4	
Dwellings	208	260	304	212	2.5	24.7	17.0	-30.3	

Source: ECLAC, on the basis of data from the Statistics and Census Office.

^aProvisional figures. ^bRefers to building permits granted in the District of Panama.

Table 7

PANAMA: PRODUCTION OF ELECTRICITY

	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^c
Production of electricity (millions of kWh)	1 305	1 812	1 897	2 088	1 076	2.8	4.7	10.1	6.1
Hydroelectric	98	964	1 334	1 074	414	19.9	38.5	-19.5	-22.5
Thermal	1 207	848	563	1 014	662	-11.6	-33.6	80.1	37.9

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^aCorresponds to the first half year.

^bGrowth rates correspond to real, not rounded, figures.

^cJanuary-June variation with respect to the same period of 1982.

On account of toll payments for crossing the Canal, US\$ 72 million were obtained in 1983, that is (-11%) less than in 1982, despite the fact that in March 1983 the tariff had been increased by 10%. This was the first year in which receipts decreased since the Torrijos-Carter Treaty came into effect in 1978.

In 1983 the number of vessels going through the Canal fell by 15% and the tonnage of freight by 17%. This fall was due mainly to the entry into operation of the new pipeline, and also to a drop in the Canal water level owing to drought, which prevented the passage of deep draught ships. Finally, the contraction in international trade also affected the volume of cargo passing through the Canal. However, it should be pointed out that in 1983, with the conclusion of some improvement works, it was possible to reduce considerably (from 35 to 22 hours) the average time for crossing the Canal.

On the other hand, in the first half of the year, the generation of thermoelectricity had to be increased by 38% in order to offset the fall (-23%) in the generation of hydroelectricity, affected by drought. Hence, electricity production increased by 6% in the first half of the year (see table 7).

The construction work on the La Fortuna hydroelectric power plant, with a capacity of 840 MW, was continued during the year, and its completion is expected in 1984.

v) *Other services.* In 1983, the marked contraction in commercial activity (around 6%), was in contrast with an increment in financing, insurance, real estate and business services, which, although not high (3.7%), slightly exceeded that recorded in the preceding year. This increment is significant, since it occurred in a year in which international financial transactions showed little dynamism, and when some foreign banks established in Panama transferred most of their operations to their parent institution. It should be mentioned that during the year six new branches of international banks opened in the country.

c) *Evolution of unemployment*

The sudden and considerable fall in construction, in the first place, and the subsequent reduction in manufacturing output, commercial activity and some agricultural productions, explain the increase in the unemployment rate from 8.4% in 1982 to 9.5% in 1983. Unemployment in urban centres still remains higher than in the countryside, though the latter increased more rapidly in 1983. Whereas urban unemployment increased from 10.3% to 11.2% between 1982 and 1983, rural unemployment went up from 5.9% to 7.2% in the same period (see table 8).

Urban unemployment is especially high in Panama City and the Colón Free Zone,³ where industrial activity and residential and commercial construction are concentrated. It is estimated that these two cities account for 70% of urban unemployment.

The government adopted various measures for reactivating production and thereby diminishing unemployment. For example, the National Council for Small-Scale Enterprises and the banks launched a campaign and supplied financial resources for promoting labour-intensive

³The population in the capital city and Colón comprised somewhat over 40% of the total population in 1981.

productive activities. In addition, credits were granted to small-scale entrepreneurs to enable them to develop their activities and foster handicraft, with the aim of absorbing unemployment.

In the countryside, the drought which affected grain production and the preparation of soil and crops contributed to the increase of rural unemployment. Employment was also affected by the fall in the sugar-cane harvest and the shutdown of some sugar mills.

Finally, it should be noted that open unemployment figures are relative in scope, since Panama is one of the countries in the region where underemployment has greatest significance. The patterns and peculiarities of a wide-open economy linked to the exterior, with an international financial and commercial centre, create the contradiction between a low demand for high- and medium-skilled human resources and an abundant supply of low-skilled labour, working in commercial intermediation activities, which are marginal and with scant productivity.

3. The external sector

a) *The external imbalance*

During 1983 there was a significant improvement in the external situation, reflected in appreciable falls in the trade and current account deficits and in an increase in international reserves (see table 9).

The trade imbalance had amounted to US\$ 250 million in 1982 and the current account deficit to US\$ 540 million, 48% more than that which existed at the beginning of the decade.⁴ Meanwhile, on account of net interest payments US\$ 110 million more were disbursed in 1982 than in 1980. This situation improved during 1983; on the one hand, the trade deficit shrank to one-fifth, thanks to a sharp decline in imports of goods and services, and the current account imbalance fell from US\$ 540 million to US\$ 410 million, in spite of an increase in net interest payments —as the amount of interest received had fallen more than that of interest paid.

Along with a decrease in the current account deficit in 1983, the net capital inflow diminished from US\$ 524 million to US\$ 440 million; nevertheless, this was sufficiently high to raise the country's international reserves by around US\$ 30 million, which had not happened since 1980, since which time US\$ 75 million had been lost.

The appreciable drop in total imports in 1983 (-12%) stemmed rather from a fall in imports of goods (-13.5%) than of services, which decreased by 8%. On the other hand, the slight decline in exports resulted solely from a drop of 8% recorded for goods; income received for the provision of real services —which are four times as high as those obtained for the sale of goods— did not vary significantly.

Table 8

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1979	1980	1982	1983 ^a
Unemployment rates				
National	8.8	8.2	8.4	9.5
Urban	11.6	9.8	10.3	11.2
Rural	4.6	6.0	5.9	7.2
Index (1978 = 100)				
National				
Labour force	106.4	101.0	112.8	121.9
Employment	105.6	100.8	112.4	120.0
Unemployment	115.9	102.6	117.7	143.5

Source: ECLAC, on the basis of official figures. For 1979, 1982 and 1983 corresponds to data obtained from housing surveys made in August of each year. For 1980 corresponds to data from the general population census undertaken in February.

^aProvisional figures.

⁴ However, the increases in these deficit were much larger in 1978 and 1979. Between 1977 and 1979 the trade imbalance went up from US\$ -93 to US\$ -236 million and the current account deficit from 183 to 363 million.

Table 9
PANAMA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-183	-240	-363	-363	-496	-538	-409
Trade balance	-93	-156	-236	-167	-225	-253	-49
Exports of goods and services	899	938	1 130	1 504	1 606	1 603	1 577
Goods FOB	288	302	356	375	343	345	317
Real services ^b	610	636	774	1 129	1 263	1 258	1 260
Transport and insurance	133	105	128	507	579	574	608
Travel	177	201	214	168	171	172	170
Imports of goods and services	991	1 094	1 366	1 671	1 831	1 856	1 626
Goods FOB	790	862	1 086	1 317	1 441	1 441	1 246
Real services ^b	201	232	280	354	390	415	380
Transport and insurance	112	127	160	218	239	243	210
Travel	35	37	48	56	65	78	72
Factor services	-60	-51	-87	-143	-223	-231	-300
Profits	-21	-16	-38	-52	-31	-35	-40
Interest received	482	795	1 435	2 107	2 822	2 816	2 200
Interest paid	-525	-832	-1 495	-2 199	-3 019	-3 017	-2 466
Others	3	3	11	2	6	6	6
Unrequited private transfer payments	-30	-34	-39	-54	-49	-55	-60
Balance on capital account	176	327	335	375	423	524	440
Unrequited official transfer payments	28	31	52	41	78	85	100
Long-term capital	-113	453	314	295	275	1 385	...
Direct investment	11	-1	50	45	37	277	...
Portfolio investment	13	70	204	16	25	262	...
Other long-term capital	-137	383	60	234	212	846	...
Official sector ^c	90	341	114	215	84	368	...
Loans received	123	685	225	284	217	553	...
Amortization payments	-32	-344	-111	-66	-131	-183	...
Commercial banks ^c	-411	-33	43	42	134	256	...
Loans received	1	-	43	42	135	256	...
Amortization payments	-412	-33	-	-	-	-	...
Other sectors ^c	184	76	-97	-23	-6	222	...
Loans received	246	213	99	113	140	334	...
Amortization payments	-59	-144	-196	-136	-146	-113	...
Short-term capital (net)	331	-156	391	-429	-151	-1 309	...
Official sector	3	5	-3	2	2	5	...
Commercial banks	377	-162	433	-385	-85	-630	...
Other sectors	-50	1	-38	-46	-68	-684	...
Errors and omissions	-70	-2	-421	467	221	364	...
Global balance ^d	-7	86	-27	11	-74	-14	31
Total variation in reserves (- sign indicates an increase)	10	-78	21	-17	66	9	-31
Monetary gold	-	-	-	-	-2	-	...
Special Drawing Rights	1	-	-	4	-2	-1	4
IMF reserve position	-	-5	2	-7	10	-	-9
Foreign exchange assets	7	-75	30	5	-11	20	-100
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	2	1	-11	-18	71	-10	109

Source: 1977-1982, International Monetary Fund, *Balance of Payments Yearbook*, magnetic tape, May 1984; 1983, ECLAC, on the basis of official data.

^a Provisional figures. ^b Real services also include other official and private transactions, but not factor services. ^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. ^d The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

b) *Merchandise trade*

The provision of services constitutes around 80% of the country's total income on account of exports of goods and services. For this reason, the balance of goods shows a huge deficit, which in 1981 and 1982 amounted to approximately US\$ 1.1 billion, falling to 930 million in 1983.

The exports of goods have shown a very uneven trend since the beginning of the decade. In 1983 they recorded a drop of 8%, which was preceded by another of the same magnitude in 1981 and a virtual stagnation in 1982. The fall in the last year was due exclusively to a reduction of around 9% in the volume exported, which contrasts with its striking increase in 1982. Prices, on the other hand, which had suffered a sharp fall in that year, barely increased in 1983 (see table 10).

At the same time, imports of goods, which in the period 1978-1981 grew at an annual rate of 16%, suddenly stagnated in 1982, and in 1983 recorded a significant contraction (-14%), which was even more intense in the case of the volume imported (-15%), in addition to a decline of 5% in 1982. Prices, meanwhile, showed a moderate increase.

The slightly higher increase in the unit value of imports against that of exports resulted in a new and slight deterioration in the terms of trade, on top of the many depreciations that had occurred in previous years. In the 1970s the terms of trade index diminished by 28% and the purchasing power of exports of goods, by 23%. However, in three years alone (1981-1983), the deterioration in the terms of trade reached 20% and in the purchasing power, 23%.

The evolution of the terms of trade index of goods and services was different from that of goods. It fell by 38% in the 1971-1980 decade, but its deterioration was minimal in the following three years. However, the purchasing power of exports of goods and services, which is really the major factor in the case of Panama, increased by 14% in the first period, continued to rise in 1981 and only in 1982-1983 decreased by 7%, an evolution which reflects the favourable course followed by the sale of services valued at constant prices (see table 10).

i) *Exports of goods.* The drop in exports in the first ten months of 1983 was due mainly to a sharp fall in sales of petroleum products (-42%), which could not be offset by the increases achieved in exports of agricultural products, mainly bananas, sugar, coffee and others, which, taken together, represent around 60% of total exports (see table 11).

Table 10

PANAMA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods						
Value	4.6	17.8	5.3	-8.3	0.4	-8.1
Volume	7.8	-2.6	-13.7	-10.7	18.3	-8.6
Unit value	-2.9	20.9	22.1	2.7	-15.1	0.6
Imports of goods						
Value	9.1	25.9	21.3	9.4	-	-13.5
Volume	2.6	3.0	-2.0	6.4	-4.6	-14.9
Unit value	6.3	22.3	23.8	2.9	4.8	1.6
Terms of trade	-8.7	-1.1	-1.4	-0.2	-19.0	-1.0
Indexes (1970 = 100)						
Terms of trade (goods)	73.4	72.6	71.6	71.5	57.9	57.3
Purchasing power of exports of goods ^b	90.8	88.6	77.3	68.1	65.5	59.5
Purchasing power of exports of goods and services ^b	101.3	102.4	114.3	116.7	111.8	108.5

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bQuantum of exports, of goods or of goods and services as the case may be, adjusted by the respective terms of trade index.

Table 11

PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates ^b			
	1981	1982	1983 ^a	1974	1980	1983 ^a	1980	1981	1982	1983 ^c
Total	343	345	286	100.0	100.0	100.0	5.3	-8.3	0.4	-8.1
Petroleum products	59	70	36	34.5	21.9	12.6	13.0	-28.6	20.0	-42.4
Sales to the Canal Zone	16	56	33	...	1.5	11.5	-87.4	178.9	250.0	-33.7
Others	43	14	3	...	20.4	1.1	181.9	-44.2	-66.8	-77.9
Bananas	69	66	65	19.8	16.4	22.7	-6.2	12.3	-4.6	15.4
Shrimps	43	53	44	6.1	11.7	15.4	-2.9	-2.3	23.2	-1.4
Unrefined sugar	53	22	32	11.0	17.6	11.2	152.1	-20.1	-57.6	48.6
Coffee	14	12	10	1.7	2.9	3.5	4.0	30.8	-11.0	63.9
Fish meal	4	2	5	0.5	2.7	1.7	27.8	-57.4	-62.8	237.5
Other exports and re-exports to the Canal	9	66	...	2.5	1.9	...	-12.5	28.9	619.8	...
Others	92	54	...	23.9	24.9	...	3.0	-9.8	-41.3	...

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^aCorresponds to the January-October period.

^bCalculated on the basis of real, not rounded, figures.

^cJanuary-October with respect

to the same period of 1982.

The slump in exports of petroleum products was closely related to a decrease in the passage of vessels through the Canal. Indeed, a high percentage of these exports correspond to bunker and other heavy fuels sold to ships crossing the Canal.

Banana exports, which represent about 23% of total exports, increased by approximately 15% in 1983, taking advantage of a fall in production in other important Latin American producer countries. Moreover, sugar exports increased by 49%, thanks to the excellent results of the sugar-cane harvest in 1982-1983. In addition, the sugar export quota to the United States rose from 73 600 to 85 500 tons for the 1983-1984 period, making it possible to place a larger share of sales in that market at higher prices and to decrease sales to the free market, where prices are 40% lower than in the American market.

Coffee exports also had an extraordinary increase (64% in the January-October period as compared with the same period in 1982), and those of fish meal, considerably less important, more than doubled. In contrast, shrimp sales retained the levels of the preceding year.

ii) *Imports.* Imports of goods diminished by slightly over 13% in the first half of 1983 with respect to the same period of the preceding year. Economic recession, the fall in construction, manufacturing and investment, as well as the scant dynamism shown by other activities, resulted in this drop in external purchases.

Capital goods, crude petroleum, raw materials and intermediate goods are among the items which dropped the most. In contrast, imports of food and chemical products recorded slight increments (see table 12).

During 1983 some import restrictions were applied. Taxes were raised on the importing of some goods, among these automobiles.

c) *Services trade*

The balance of real services was favourable to Panama in the amount of US\$ 880 million, a figure exceeding by US\$ 37 million that of 1982. This positive balance resulted from a stagnation in services sold and a decline of approximately 3% in services paid.

Income from tourism fell slightly (-3%), owing to a lower inflow of tourists. However, the operation of the new pipeline produced far more income than that which was lost through reduced activity in the Canal.

As regards outlays, transport expenditure diminished owing to the fall in imports and expenditure on travelling abroad also decreased.

Nonetheless, the favourable and significant reduction in the trade deficit in 1983 was eclipsed by increased outlays on factor services. In fact, during the year both interest paid and interest received diminished, but the decline in the latter was greater. Receipts and interest payments attain high magnitudes in Panama, owing to the importance of international financial transactions conducted in the country. In 1983 interest received amounted to US\$ 2.2 billion and interest paid to US\$ 2.47 billion, resulting in a negative balance of US\$ 270 million, 66 million more than that of 1982 (see table 9).

d) *External public indebtedness*

In addition to an intensification in the trade and current account deficits in 1982, the external debt grew considerably. Disbursements on loans to the public sector alone rose from approximately US\$ 330 million in 1981 to US\$ 730 million in 1982 (119%), resulting in an external public indebtedness at the end of that year of US\$ 2.82 billion, an amount which represents 66% of the gross domestic product. The debt service grew in the meantime by 25%, accounting for 38% of exports of goods and services and 15% of the gross domestic product (see table 13).

Table 12

PANAMA: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^c
Total	1 441	1 442	629	100.0	100.0	100.0	21.3	9.4	-	-13.5
According to their economic use										
Consumer and intermediate goods	823	790	347	62.5	56.1	55.1	16.6	11.3	-3.9	-6.3
Food	98	101	48	7.4	7.3	7.6	25.6	1.0	3.4	3.0
Others	725	689	299	55.1	48.8	47.5	15.4	12.8	-4.9	-7.7
Crude petroleum	347	366	170	18.0	29.3	27.1	28.0	-10.2	5.4	-11.1 ^d
Capital goods	271	285	112	19.5	14.6	17.8	27.7	41.5	5.2	-32.0
According to tariff sections										
Food products	98	...	48	7.4	7.3	7.6	25.6	1.6	...	3.0
Beverages and tobacco	9	...	3	0.9	0.6	0.5	7.1	16.0	...	-11.4
Non-edible crude materials, except fuels	9	...	4	0.8	0.6	0.6	16.9	12.0	...	-16.7
Fuels and lubricants, minerals and related products	418	...	184	18.8	31.5	29.2	29.9	0.7	...	-12.1
Animal and vegetable oils and fats, except edible margarines and fats	13	...	8	1.0	1.4	1.3	23.3	-28.1	...	-2.4
Chemical products	139	...	75	8.8	10.0	12.0	15.6	6.3	...	5.0
Miscellaneous manufactures	264	...	102	22.4	17.8	16.1	11.3	12.8	...	-23.6
Machinery and transport material	320	...	145	27.2	19.6	23.2	20.5	23.5	...	-24.8
Others	171	...	60	12.7	11.2	9.5	21.1	15.7	...	4.5

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^aProvisional figures from January to June.

^bCalculated on the basis of real, not rounded, figures.

^cJanuary-June variation with

respect to the same period of the preceding year.

^dVariation corresponds to the entire year.

Table 13

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
External public debt						
Balances ^b	1 881	2 078	2 266	2 379	2 820	3 275
Disbursements	962	397	391	334	731	638
Servicing of the debt	565	386	466	493	614	414
Amortization payments	443	190	214	214	282	183
Interest payments	122	196	252	279	332	231
Percentages						
Relations						
External public debt/gross domestic product	76.7	74.2	65.0	62.0	66.4	...
Servicing/exports of goods and services	60.2	34.2	31.0	30.7	38.3	26.3
Servicing/disbursements	58.7	97.2	119.2	147.6	84.0	64.9
Servicing/gross domestic product	23.0	13.8	13.4	12.8	14.5	...

Source: For the 1978-1982 period: World Bank, *All debt table*, ed., 1983-1984. 1983: ECLAC, on the basis of provisional data.

^aOutstanding debt at the end of October and disbursements and services made in the January-October period. ^bMedium- and long-term end-of-year debt of the general government and decentralized agencies.

This situation changed in 1983; in the first ten months, credits for US\$ 640 million had been disbursed and the debt service decreased to a little over US\$ 400 million. At the end of October, the external debt of the public sector amounted to US\$ 3.27 billion.

The rapid worsening of the external situation led the government, halfway through the year, to sign an agreement with the International Monetary Fund for a stand-by loan of 289 million in SDRs, subject to the application of an adjustment programme, which among its purposes stressed the need of limiting the public sector deficit to a maximum percentage of 6% with respect to the gross domestic product, and of considerably reducing the external indebtedness with commercial banks and the proportion of the short-term debt.

Likewise, during the year credits for US\$ 280 million were obtained from private banks; the Inter-American Development Bank granted credits mainly for infrastructure works and an agreement was signed with the World Bank for US\$ 60 million.

4. Prices and wages

a) *Evolution of domestic prices*

The fact that Panama is a wide-open economy has contributed to a great stability in domestic prices. The two-digit increases in the consumer price index in 1979 and 1980 were exceptional and were linked to the steep rise in petroleum prices. Since then, there has been a remarkable slowdown in the rate of inflation, which, as measured both from December to December and in its variation between annual averages, has diminished from around 14% in 1980 to only 2% in 1983. The more gradual increment in import prices had a definite influence on this decline (see table 14).

The work done by the Institute for Agricultural Marketing (IMA) in regulating the supply and prices of grains and other basic foods was a major factor in containing domestic prices. The drop in petroleum prices —an important item in Panamanian imports— also contributed to this outcome.

The food component index, which usually grew more than the general index, increased by barely over 1% from December to December, owing to a generally satisfactory supply of agricultural products during the year. The low increment in wholesale prices also helped to hold down consumer prices.

b) *Wages*

In the 1980-1982 triennium nominal wages increased at an annual rate of 13% and real wages by 4.7%. In 1983 these increments only amounted to 5.5% and 3.3%, respectively. Minimum wages, which had not been raised since the beginning of 1981, were adjusted by 18% in December 1982. This increment broadly favoured all workers (see table 15).

The wages for civil servants were also adjusted by percentages inversely proportional to the amount of their salaries, particularly those for officials in the educational sector, whose union has a strong influence.

Table 14
PANAMA: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation from December to December						
Consumer price index	5.0	10.0	14.4	4.8	3.7	2.0
Food	9.2	8.8	15.6	6.5	4.9	1.3
Wholesale price index	7.0	15.7	13.8	8.9	7.4	1.3
Imported products	5.3	9.4	11.6	13.4	4.0	5.3
National products						
Agricultural	8.4	15.9	16.2	0.8	10.7	4.0
Manufactured	7.8	20.7	14.6	8.4	8.8	-2.3
Variation between annual averages						
Consumer price index	4.2	7.9	13.8	7.3	4.2	2.1
Food	6.2	10.2	12.6	9.2	5.9	2.3
Wholesale price index	5.4	14.0	15.3	10.4	8.3	2.4
Imported products	5.4	7.4	14.3	12.8	5.7	3.9
National products						
Agricultural	8.9	17.2	8.0	8.2	9.8	4.0
Manufactured	4.3	19.2	17.9	8.5	9.6	0.8

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

Table 15
PANAMA: EVOLUTION OF WAGES

	1980	1981	1982	1983 ^a
Indexes (1970 = 100)				
Wages				
Nominal	317.9	352.3	398.2	420.0
Real	161.5	166.8	180.8	186.7
Growth rates				
Wages				
Nominal	16.6	10.8	13.0	5.5
Real	2.5	3.3	8.4	3.3

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^aProvisional data.

Table 16

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^b
1. Current income	696	790	848	906	42.0	13.4	7.3	6.8
Tax revenue	507	582	615	649	25.0	14.7	5.7	5.7
Direct	255	315	332	356	33.0	23.5	5.3	7.2
Indirect	252	267	283	292	18.7	5.8	6.1	3.8
On foreign trade	91	99	106	114	13.7	7.7	8.2	8.1
Non-tax revenue	189	208	233	257	123.6	10.8	11.9	10.3
2. Current expenditure	715	771	930	892	47.1	7.9	20.6	-4.1
Consumption expenditure ^c	340	363	618 ^d	623 ^d	23.1	6.8	70.4	0.8
Administrative area	118	129	199	224	29.7	9.3	54.7	12.6
Productive area	175	181	270	239	11.2	13.0	181.0	-11.5
Social area	47	53	149	160	22.5	3.5	49.1	7.4
Interest	184	227	312	269	57.1	23.2	37.5	-13.8
Domestic debt	6	13	45	55	-18.2	109.4	140.5	22.2
External debt	178	214	267	214	62.4	20.1	25.0	-19.9
Transfer payments	191	181	...	...	105.6	-4.9	...	...
3. Current savings (1-2)	-19	19	-82	14				
4. Capital expenditure	350	446	695	430	-21.7	27.1	55.9	-38.1
Real and financial investment and other capital expenditure	268	337	496	201	-30.3	25.4	47.5	-59.5
Amortization payments	82	109	199	229	30.4	32.9	81.7	15.1
5. Total expenditure (2+4)	1 065	1 217	1 625	1 322	14.1	14.2	33.5	-18.6
6. Fiscal deficit (1-5)	-369	-427	-777	-416	-16.7	15.3	82.2	-46.5

Source: ECLAC, on the basis of official figures.

^aWith the exception of current income, the remainder has been estimated on the the basis of data for the first half year compared with the same period of 1982. ^bExcept in the case of current income, variations correspond to January-June with respect to the same period of 1982. ^cIncludes wages and salaries and purchases of non-personal goods and services. ^dIncludes current and capital transfer payments.

5. Fiscal and financial policies

a) Central government income and expenditure

During 1983 various measures were adopted to diminish the fiscal deficit, which had increased inordinately in 1982, representing 18% of the gross domestic product. The commitment assumed with the International Monetary Fund halfway through 1983 stipulated that the ratio fiscal deficit/gross domestic product should not exceed 6% in 1983 and 5.5% in 1984. With this in mind, efforts were made during the year to increase government income and to reduce expenditure as much as possible.

According to estimates based on expenditure data for the first half year, a considerable reduction in the deficit (-47%) appears to have been attained during the year, thanks to a drastic reduction of 19% in expenditure and a fall in the ratio fiscal deficit/gross domestic product from 18% in 1982 to slightly under 10% (see table 16).

The contribution of income to the deficit reduction was not too clear. In fact, its increase was slightly under 7%, that is, lower than that recorded in preceding years, despite the various measures adopted during the year to expand it. Thus, import tariffs were raised for a series of goods, including automobiles, which were subjected to a 25% tax. In addition, the toll for using the Canal was increased by 10%.

The highest increases in tax revenue were recorded by duties on foreign trade (8%) and by direct taxes (7%); in contrast, indirect taxes proper did not show much variation. Among the latter, however, taxes on production, sales and selective consumption were increased by 12% (see table 17).

Non-tax receipts increased by 10% in 1983, a rate slightly lower than that of recent years. The drop in receipts deriving from a reduced activity in the Canal was offset by the operation of the new pipeline.

The sharp fall in expenditure (-19%) was largely determined by a drastic contraction (-60%) in capital expenditure, excluding amortization payments. Current expenditure declined less, i.e., by only 4%, and exclusively on account of lower interest payments on the external debt. Consumption expenditure did not record significant variation, owing to the different performances of its components (see table 16).

Various measures —such as that of not filling vacancies in the civil service— were taken during the year to diminish expenditure. However, consumption expenditure in the administrative sector went up by nearly 13%, boosted by wage increases. On the other hand, the decision to limit activity and to economize in public enterprises and institutions causing losses to the State led to a marked reduction in consumption expenditure in the production field.

The drastic contraction observed in capital expenditure was due to the conclusion of the pipeline towards the end of 1982 (a work which had considerably increased capital expenditure in that year), and to the deferment of any new project. In contrast, works in progress were carried on; for example, the construction of dwellings for low-income strata in Panama City and in various towns on the Atlantic coast, and the countrywide extension of health services.

Likewise, major works were built for grain storage and the marketing of agricultural products; work on the La Fortuna hydroelectric power plant was continued and, for the installation of distribution networks, progress was made with the construction of a highway running parallel to the trans-Isthmian oil pipeline.

b) *Evolution of financial transactions*

The activities of the international financial centre operating in Panama remained sluggish during 1983, in contrast with the dynamism shown in previous years, particularly in 1981. This recession was mainly evident in international transactions (see table 18).

Table 17

PANAMA: CURRENT INCOME OF THE CENTRAL GOVERNMENT

	Millions of balboas				Growth rates ^b			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Current income	696	790	848	906	42.0	13.4	7.3	6.8
Tax revenue	507	582	615	649	25.0	14.7	5.7	5.7
Direct taxes	255	315	332	356	33.0	23.5	5.3	7.2
On income	205	256	271	293	34.9	24.9	5.9	8.4
On ownership and patrimony	31	34	34	36	19.2	9.1	0.6	1.9
Educational insurance	19	25	27	27	18.7	31.6	8.0	2.7
Indirect taxes	252	267	283	292	18.7	5.8	6.1	3.8
Transfers of real estate	67	74	79	73	21.8	10.5	6.8	-7.7
Imports	42	46	45	...	23.5	9.5	-2.2	...
Domestic sales	25	28	34	...	19.1	12.0	21.4	...
Exports	79	84	91	97	16.2	6.3	8.3	5.6
Production, sales and selected consumption	12	16	15	17	9.1	33.3	-6.2	25.1
Other indirect taxes	77	75	77	87	20.1	-2.5	2.9	11.9
Non-tax revenue	17	18	21	18	33.1	6.9	11.9	-5.2
Other current income	175	195	214	235	119.6	11.3	9.7	9.3
	14	13	19	23	250.0	7.1	46.2	15.2

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^aProvisional figures.

^bGrowth rates were calculated on the basis of real, not rounded, figures.

Table 18

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

	Year-end balances (millions of balboas)			Growth rates			
	1981	1982	1983 ^a	1980	1981	1982	1983 ^b
Assets	28 642	31 207	31 363	-1.0	28.7	9.0	0.1
Liquid	5 702	7 085	8 722	35.0	7.4	24.3	17.0
Cash	98	...	75	-21.1	8.9	...	-
Other domestic liquid assets	235	...	1 221	-47.9	6.4	...	300.3
Other external liquid assets	5 369	6 808	7 426	-34.3	8.0	26.8	4.9
Demand deposits in banks	122	...	432	17.0	-56.7	...	-39.8
Time deposits in banks	5 073	6 186	6 970	-38.6	14.6	21.9	12.9
Deposits in IMF	13	...	20	12.5	-27.8	...	53.8
Other	161	...	4	29.3	33.7	...	-97.7
Investments	21 350	22 524	21 331	19.6	34.1	5.5	-2.6
Credit portfolio	20 446	21 233	19 984	17.1	33.8	3.8	-3.4
Domestic	3 146	3 351	3 503	18.7	24.3	6.5	5.2
External	17 300	17 882	16 481	16.8	35.7	3.4	-5.0
Securities	904	1 291	1 347	140.5	39.7	42.8	9.5
Other assets	1 590	1 598	1 310	1.5	55.0	0.5	-33.9
Liabilities and capital^c	28 642	31 207	31 363	-1.0	28.7	9.0	0.1
Demand deposits	1 072	1 123	1 257	26.5	14.5	4.8	-1.1
Private	354	375	375	11.2	7.6	5.9	15.3
Official entities	195	222	240	15.4	53.5	13.8	31.9
Foreign individuals	285	257	341	6.7	18.7	-9.8	42.1
Foreign banks	238	269	301	120.2	-0.8	13.0	-42.6
Time and savings deposits	24 905	26 485	26 078	-4.7	28.3	6.3	-0.3
Individuals	1 387	1 574	2 609	32.0	20.9	13.5	67.7
Foreigners	3 411	3 846	3 895	12.5	46.8	12.8	7.8
Foreign banks	20 107	21 065	19 574	-8.6	26.2	4.8	-6.7
Liabilities	462	736	1 002	14.2	98.3	59.3	67.3
Other liabilities, capital and reserves	2 203	2 863	3 026	43.3	30.6	30.0	-9.2

Source: ECLAC, on the basis of figures from the Statistics and Census Office.

^a Balances at the end of September.

^b Growth rates were calculated with respect to September 1982.

^c Excluding transactions among

local banks.

The end-of-September balances showed a considerable increment in liquid assets (17%) and a fall in the external credit portfolio, which was offset in part by a greater investment in securities (9.5%).

On the other hand, time deposits (83% of liabilities) did not show, as a rule, much variation, because deposit withdrawals by foreign banks were offset by a considerable increase in personal deposits made by nationals and, to a lesser extent, by foreigners.

The withdrawal of deposits by foreign banks is due to the fact that the parent houses of institutions established in Panama have given some preference to transactions made by branches set up in other countries, mainly in the United States, where they have increased their activities. As regards the increase in deposits by foreign individuals, this was related to the economic difficulties existing in some parts of the region, which discouraged investment in those countries.

Finally, it should be noted that banks which mainly operate with the exterior increased their reserves by 13% during the first half of the year, as a precaution against possible losses in operations connected with financial events in debtor countries. For the same reasons, the patrimony of the centre was strengthened by means of substantial increases in profits accrued in banks with general licence.

PARAGUAY

PARAGUAY

1. Recent economic trends: Introduction and summary

The recession affecting the Paraguayan economy since the end of 1981 was accentuated in 1983. At the same time unemployment again increased disproportionately while inflation became more intense. Most results in the external sector were also once again unsatisfactory in 1983 (see table 1 and figure 1).

As in the preceding year, external conditions proved decidedly unfavourable to the economy of Paraguay. Although some international variables showed improved results, the successive economic crises in neighbouring countries continued seriously to impair its evolution.

Furthermore, the most damaging floods in the history of the country occurred in 1983, causing a high cost in human suffering, destruction of wealth and loss of production.

In the sphere of domestic economic policies, numerous exchange rate adjustments were introduced in the course of the year (though in appreciably smaller proportions than the rising rates in the parallel exchange market); expansive fiscal and monetary policies were applied; there was a marked increase in external public indebtedness, and a comparatively small readjustment was granted in private sector wages.

In 1983 the recession deteriorated further in almost all sectors of the economy with the exception of certain non-basic services. As in 1982, the activity most affected was building, in which added value diminished by 5.4% compared with 1982. Nevertheless, the agriculture and livestock, commercial and manufacturing sectors also contracted severely. Community, social, personal and government services continued to expand at moderate rates.

On the other hand unemployment at the national level increased from 9.4% in 1982 to 15% in 1983, while the unemployment rate in Asunción rose from 5.6% in 1982 to 8.4% at the end of 1983.

Whereas the recession in 1982 had been accompanied by a decline of inflation, the wholesale price index in 1983 rose by 33% after a contraction of almost 7% in 1982. Consumer prices meanwhile rose by 14% in comparison with the increase of 9% recorded in the preceding year.

As regards real wages, a contraction of more than 7% occurred in the Asunción labour market after a decline of around 3% the year before. In contrast with this situation, agricultural wages remained unaffected and, according to available information, even rose in real terms.

In the external sector the purchasing power of registered exports of goods and services fell by 24.5% mainly owing to a severe contraction in the volume of foreign sales. The decline in total importing capacity was slightly less (almost 20%) as a result of an increase in net capital inflows.

At the same time, registered imports of goods and services diminished in volume by almost 22%. The current account deficit consequently fell despite the unfavourable evolution of foreign sales. This trend, together with a greater surplus on capital account, halted the depletion of international reserves. External indebtedness, however, increased considerably again and delays occurred in payments to foreign suppliers.

The international and regional situation remained highly unfavourable despite the appearance of some encouraging signs. Although the United States economy began to make a good recovery in 1983, that of most European countries remained recessive and stagnant. International interest rates, for their part, continued in real terms (*ex post*) at the historically unaccustomed levels of between 4% and 6%.

At the same time international capital supplies again contracted severely. For example, net flows in 1983 measured according to the Latin American balance of payments, showed a decrease of almost 81% after a decline of 56% in the preceding year.

Although this radical reduction in capital flows to Latin America did not directly affect Paraguay, it certainly harmed the country indirectly through its sharp impact on the economies of

Brazil and Argentina, countries with which Paraguay carries on 50% or more of its foreign trade. The indirect negative effect of high interest rates was also more significant than their direct effect.

Thus the process of adjustment in the Brazilian economy went on apace in 1983. The national product contracted by more than 3% while inflation accelerated to a level of close on 180%. The volume of its imports decreased by almost 19% while exports rose by over 15%. Although the crisis in Argentina became less acute, it continued to be a depressive factor in the level of activity in Paraguay.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982	1983 ^e
A. Basic economic indicators							
Gross domestic product at factor cost (millions of 1970 dollars)	1 358	1 506	1 667	1 857	2 014	1 973	1 900
Population (millions of inhabitants)	2.68	2.74	2.81	2.88	2.95	3.03	3.11
Per capita gross domestic product (1970 dollars)	520	550	593	645	683	651	611
Growth rates							
B. Short-run economic indicators							
Gross domestic product	12.7	10.9	10.7	11.4	8.5	-2.0	-3.7
Per capita gross domestic product	9.2	7.1	7.1	7.9	5.1	-4.7	-6.1
Gross national income ^b	13.0	10.7	11.8	11.0	9.3	-1.7	-4.6
Terms of trade (goods and services)	20.2	-8.5	-5.8	-7.0	5.0	-4.2	-6.1
Current value of exports of goods and services	61.2	11.4	18.2	10.2	0.1	9.0	-25.0
Current value of imports of goods and services	46.9	22.2	38.7	15.0	16.2	8.7	22.2
Consumer prices							
December-December	9.4	16.8	35.7	8.9	8.1	8.9	14.1
Variation between annual averages	9.4	10.6	28.2	22.4	14.0	6.8	13.5
Money (M ₁)	32.5	39.5	24.5	25.8	0.4	-3.9	26.4
Wages and salaries ^c	-4.6	3.5	-6.5	0.7	5.3	-2.7	-7.1
Rate of unemployment ^{d,e}	5.4	4.1	5.9	3.9	2.2	5.6	8.4
Current central government income	37.1	30.2	27.1	18.3	14.6	23.3	8.2
Total central government expenditure	13.1	32.0	23.6	30.4	14.5	0.7	11.1
Savings/current central government income ^f	29.7	37.0	37.7	26.2	10.3	6.3	-14.6
Global balance/total central government expenditure ^f	2.2	11.6	7.4	-2.6	-25.1	-6.0	-28.9
Central government global balance/GDP ^g	0.2	1.2	0.9	-0.3	-3.4	-0.7	-3.3
Public sector global balance/GDP ^g	-0.9	-0.3	1.8	0.4	-3.2	-1.1	-5.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-42	-93	-218	-276	-412	-508	-364
Balance on current account	-59	-118	-210	284	378	-536	364
Variation in international reserves	112	179	165	151	44	-123	-2
Disbursed gross external debt ^h	518	669	733	861	949	1 204	1 469
Disbursed net external debt ^h	253	234	146	97	146	530	825

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bGross national product plus terms-of-trade effect, less net factor payments to the rest of the world and net private donations. ^cWorkers' wages in real terms in Greater Asunción. ^dAverage annual rate in Greater Asunción.

^ePercentage. ^fPublic, and private with State guarantee; medium and long term. ^gDisbursed gross external debt less holdings of net foreign assets in the economy.

An indication of the very unsettling effects of these recessions and adjustments on the Paraguayan economy was to be seen in tourism. The number of visitors to Paraguay again fell by 17% after having decreased by 33% in 1982 and 12% in 1981. The number of foreign visitors in the year was thus 50% lower than in 1980. Slightly more than 53% of the decrease between 1980 and 1983 was due to a contraction of over 64% in the number of visitors from Argentina and more than 22% was attributable to a decline of 33% in Brazilian tourism.

These adverse developments were aggravated in 1983 by the worst rainstorms and floods ever experienced in Paraguay. Some 600 rivers and streams were calculated to have broken their banks, flooding vast areas in eleven of the country's 19 departments.

At least 125 000 persons were affected by this disaster, which caused considerable losses in the country's wealth (including more than 10% of the livestock population), depressed production levels, gave rise to inflationary pressures, reduced exports, and affected financial administration in the public sector. A conservative estimate suggests that the combined production losses were equivalent to 3% of the gross domestic product in 1982 and to 7% of the value of registered exports in that year. The climatic phenomenon alone would suffice to explain almost the whole drop in the level of activity in 1983.

With regard to domestic economic policy, the average official exchange rate for exports in 1983 was increased by 12%. The parallel rate, however, rose by 36%. As a result, the official rate fell to 50% of the value of the parallel rate, whereas in 1982 it had amounted to 70% of the latter. Apart from this greater disparity between the official and parallel rates caused by the adjustments introduced during the year, the exchange rates applicable to different products were also dissimilar. Thus, at the end of 1983 there were four different official parities for exports and three for imports. In addition, progressive restrictions in access to the importation of goods at the official exchange rate were introduced during the year, with the result that the latter remained in practice much closer to the parallel rate for the purpose of foreign purchases.

In spite of the devaluations adopted, the official real effective average rate of exchange for exports contracted by almost 12% in 1983 after having risen slightly in 1982 and having deteriorated to a marked degree in 1981. On the other hand, the rate applicable to imports probably increased considerably in 1983; however, as explained in the corresponding section, there is no way of calculating this accurately.

With respect to wage policy, a first readjustment of the minimum legal wage since May 1981 was introduced in July 1983. During this period inflation was approximately 20% whereas the minimum wage was raised by 10%. The public sector received no increase whatsoever in 1983.

The average nominal increase in wages received in 1983 by workers in Asunción was slightly over 5%, this being almost the same as the average increase in the minimum legal wage. On the other hand, the nominal increases applicable to daily farm wages were much greater than the legal readjustment.

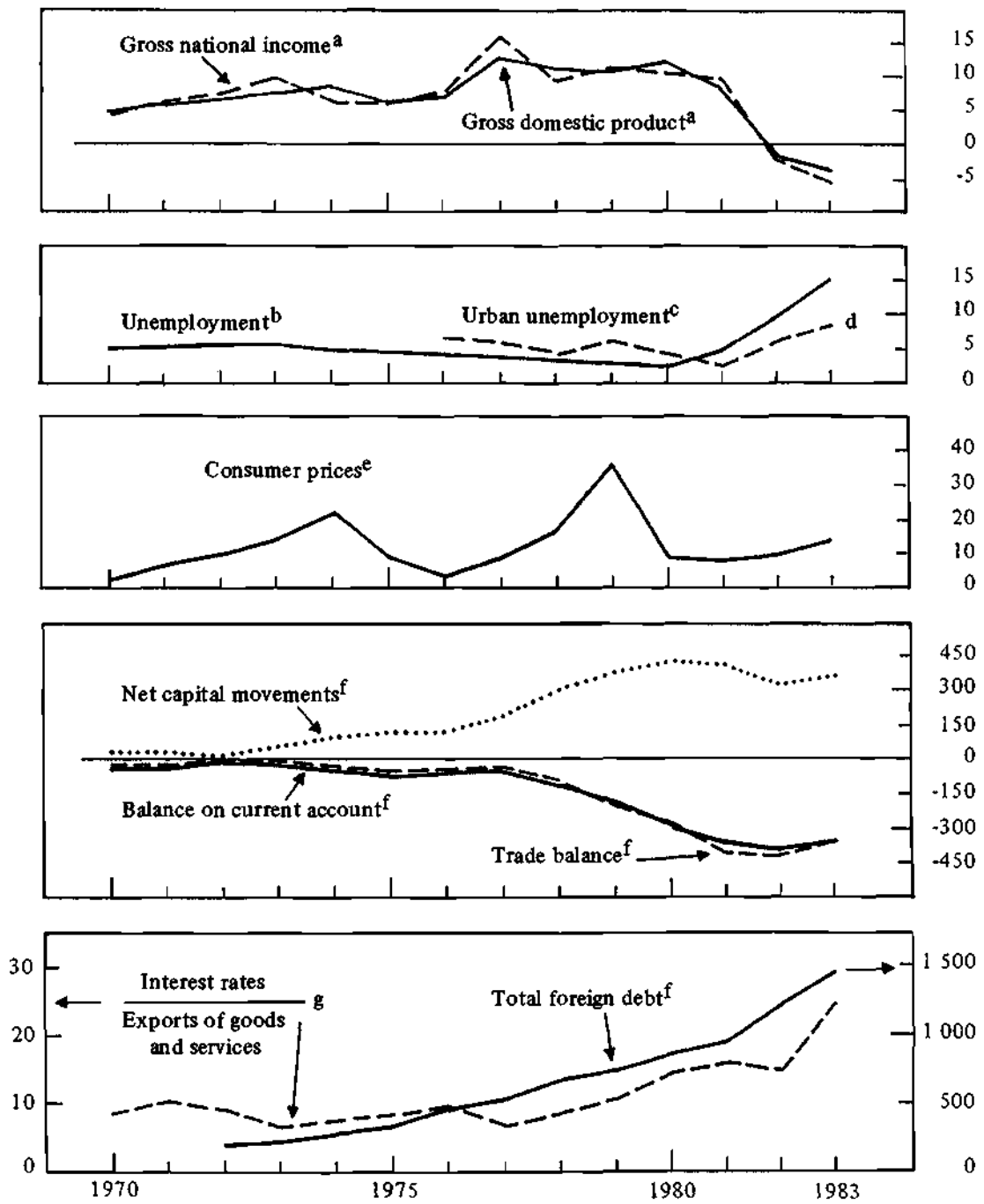
With reference to financial policy in the public sector, the central government budget for 1983 showed a deficit equivalent to 1% of the forecast gross domestic product and 39% greater than the deficit recorded in 1982. It was expected that less than 55% of the deficit would be financed from external sources and the remainder by a reduction in government-owned deposits in the Central Bank.

Most of the results in the 1983 fiscal year, however, were not only different from those foreseen in the budget, but showed a notable deterioration in comparison with the equivalent results in 1982. In fact, the deficit rose fourfold and was equivalent to 3.3% of the gross domestic product.

Financial results in the rest of the public sector also deteriorated. The consolidated global deficit in the non-financial public sector amounted to 5.4% of the gross domestic product. Its pressure on the external sector, however, was appreciably less than its monetary effect, since 60% of the difference between income and expenditure was covered by external credits.

With regard to monetary policy, this continued to follow the passive approach applied since the onset of recession in the second half of 1981. In contrast with events in the two preceding years, however, this policy led to a considerable growth in means of payment in 1983. In effect, the monetary authority adapted expansion to the growing demands of the State without limiting credit to the commercial banks. Thus, the total net domestic credit issued by the Central Bank rose by 109% in 1983. At the same time its net external asset holdings hardly varied. These circumstances caused an

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bTotal average annual growth rate country-wide. ^dFourth quarter.
^ePercentage variation, December - December. ^fMillions of dollars.
^gPercentages.

expansion of 30% in the monetary base. Approximately 73% of its growth may be attributed to an increase in the amount of credit absorbed by the central government. Expansion of the monetary base was accompanied by an increase of more than 26% in means of payment (M_1), while the growth of quasi-money was restricted to 13%. As measured by the M_2 , liquidity expanded by 18%.

To sum up, domestic economic policy contributed to the unfavourable evolution again shown by the economy in 1983. The exchange policy inhibited exports and encouraged further devaluation expectations. Fiscal policy, for its part, kept domestic expenditure at a higher level than would otherwise have been the case. However, since the increase in public sector investment was not covered by a growth of savings in the sector, the consequent creation of means of payment exerted pressure on the external sector and on price levels. In contrast, wage policy attenuated cost-induced inflationary pressures. On the other hand, the higher level of public expenditure was also accompanied by an appreciable restriction of growth in the allocation of credit to the private sector; its net impact on activity levels and employment was therefore a matter of doubt.

While the growth of means of payment arising from the monetary policy did not occasion a loss of international reserves, inflation was intensified, especially at the wholesale price level. This result would appear to be attributable to growing restrictions on access to the external assets of the Central Bank, namely, to import limitations. At the same time, the considerable expansion of the money supply failed to relieve the economic recession. This juxtaposition of results would also appear to have been due fundamentally to the effect of reduction in the volume of imports added to an insufficient allocation of credit to the private sector and an uneven distribution of money growth in the course of the year.

2. Trends in economic activity

a) *The product and income*¹

The recession affecting the Paraguayan economy since the end of 1981 increased in intensity in 1983; the gross domestic product declining by 3.7% after a drop of 2% the year before. The gross national product contracted by 4.6% and gross national income by nearly 5.7% compared with decreases of 1.7% in both indicators in 1982 (see table 2).

1983 was in fact the worst year for the Paraguayan economy since 1947 when the country suffered a civil war. As a result of the prolongation and deepening of recession, the product and per capita income fell back to levels lower than those achieved in 1980. This recessive interval contrasted significantly with the evolution of the economy in the preceding decade, when it was one of the most dynamic in the world, showing an average rate of expansion of 8.2%.²

b) *Supply and demand*

In contrast with events in the preceding year, when imports continued to expand strongly despite the recession in levels of activity, the volume of imports of goods and non-factor services in 1983 dropped by almost 22%, according to figures supplied by the Central Bank of Paraguay. However, the volume of registered exports of goods and services not attributable to factors also showed a radical change in 1983, decreasing by close on 20% compared with an expansion of 16% in the preceding year. As a result of the foregoing, the decrease in domestic expenditure was not much greater than the drop in the gross domestic product despite a very considerable reduction in imports.

While in 1982 the contraction of domestic demand more than reflected the depression of gross domestic investment, in 1983 it was mainly attributable to a decline in consumption. More

¹As readers will be aware, the national accounts drawn up in connection with the Paraguayan economy suffer from lack of precision, especially in regard to the external sector (in which foreign trade and net capital inflows have been underestimated in recent years by as much as 50% or more in relation to domestic expenditure, and, to a certain extent, to the product). The official statistics do not, therefore, necessarily reflect the magnitude or significance of variations in external sector aggregates other than in the case of the product. In these circumstances, an analysis of the evolution of these variables is subject to severe limitations. Nonetheless, it would appear that, at least in 1983, the trends indicated by the official figures were consistent with actual results. For a study of the problem and of alternative calculations of the main macroeconomic aggregates for the period 1972-1981, see Richard Lynn Ground, "Las cuentas nacionales del Paraguay", *Revista paraguaya de sociología*, year 19, No. 5, September-December 1982.

²See: ECLAC: *Economic Survey of Latin America and the Caribbean*, 1981, a United Nations publication, sales No. S.83.II.G.2, Santiago, Chile, 1983.

specifically, it reflected the decline in private consumption since general government consumption remained unchanged. Gross domestic investment, for its part, decreased by slightly less than 2% in 1983 compared with a contraction of nearly 12% in the previous year (see tables 3 and 4).

The persistence of the drop in domestic demand was in part due to factors such as the rains and floods, which reduced main farm crops, and the increase in competitive pressures from neighbouring economies which depressed activity and income levels and thereby private consumption. The rise in the effective average exchange rate in real terms and the continuing deceleration in the construction of the Itaipú hydroelectric power project also restrained domestic demand.

Countering these recessive features, and thus reducing the magnitude of the restraint on domestic demand, the country's fiscal and monetary policies, as against those of the preceding year, were frankly expansionary.

c) *Investment and savings*

Private sector expenditure devoted to capital formation again contracted in 1983, declining by nearly 9% after having fallen by over 17% in 1982. The depression in private investment was mainly due to a lower utilization of installed productive capacity in sectors of the economy other than construction, and also to the renewed slow-down in execution of the hydroelectric power projects. Despite this, private investment continued at a very high level compared with the general level of activity (it still represented 24% of the gross domestic product in 1983), mainly owing to the work in progress at Itaipú.³

The public sector, for its part, intensified its efforts to alleviate the effects of recession on activity and employment by increasing its investment expenditure to 29% after the previous year's increase of 17.5%. In this manner, public investment (excluding Itaipú and Yacyretá), expressed as a proportion of the product, rose to 8.6% in 1983 and represented more than 26% of total gross domestic investment compared with 6.1% and 17% respectively two years earlier (see table 5).

There can be no doubt that this growth of expenditure enabled employment to continue at a higher level than would otherwise have been the case. Its impact on the level of activity was probably also positive. Nonetheless, as it was not financed by an increase in savings, it exerted increasing

Table 2

PARAGUAY: SOME FIGURES ON THE PRODUCT, INCOME AND EXPENDITURE

(Millions of dollars at constant 1970 prices)^a

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Gross domestic product at market prices	1 214	1 300	1 466	1 625	1 799	2 004	2 173	2 129	2 050
Indirect taxes, less subsidies	88	95	108	119	132	147	159	156	150
Gross domestic product at factor cost	1 126	1 205	1 358	1 506	1 667	1 857	2 015	1 973	1 900
Net imports of goods and services	36	38	66	79	112	105	153	150	113
Net factor payments to the rest of the world ^c	13	10	8	12	-3	3	-11	-18	-
Terms-of-trade effect	6	11	46	35	25	11	18	6	-5
Gross domestic expenditure	1 162	1 243	1 424	1 585	1 779	1 962	2 168	2 123	2 013
Gross national product	1 113	1 195	1 350	1 494	1 670	1 854	2 026	1 991	1 900
Gross national income	1 119	1 206	1 396	1 529	1 695	1 865	2 043	2 009	1 895

Source: ECLAC, on the basis of official data.

^a At parity exchange rate.

^b Preliminary figures.

^c Including private unrequited transfer payments. The minus sign (-) indicates net income.

³ It should be noted that public expenditure incurred at Itaipú and Yacyretá is recorded as private investment when executed by private concerns.

Table 3

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Total supply	2 293	2 493	2 473	2 319	9.6	8.8	-0.8	-6.2
Gross domestic product at market prices	2 004	2 173	2 129	2 050	11.4	8.5	-2.0	-3.7
Imports of goods and services ^b	287	320	344	269	-1.4	11.5	7.4	-21.8
Total demand	2 293	2 493	2 473	2 355	9.6	8.8	-0.8	-4.8
Domestic demand	2 110	2 326	2 279	2 163	10.4	10.3	-2.0	-5.1
Gross domestic investment	690	770	680	668	15.6	11.7	-11.7	-1.9
Gross fixed investment	661	741	645	639	15.9	12.1	-12.9	-1.0
Stock variation	29	29	35	29				
Total consumption	1 420	1 556	1 599	1 495	8.0	9.7	2.7	-6.0
General government	120	146	150	150	8.0	22.0	2.6	-
Private	1 300	1 410	1 449	1 345	8.0	8.5	2.8	-7.2
Exports of goods and services ^b	183	167	194	156	1.6	-8.5	16.0	-19.6
Terms-of-trade effect	11	18	6	-5	-42.5	75.2	-68.5	

Source: ECLAC, on the basis of data from the Central Bank of Paraguay.

^aPreliminary figures.^bThe figures for exports and imports of goods and services were obtained from balance-of-payments data in current dollars converted at constant 1970 values using price indexes calculated for that purpose by ECLAC.

Table 4

PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND

(As a percentage of the gross domestic product)^a

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Total supply	111.6	111.7	114.2	115.1	116.2	114.3	114.7	116.2	113.1
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports of goods and services ^c	11.6	11.7	14.2	15.1	16.2	14.3	14.7	16.2	13.1
Total demand	111.6	111.7	114.2	115.1	116.2	114.3	114.7	116.2	116.2
Domestic demand	103.0	102.9	104.5	104.8	106.2	105.2	107.2	107.1	105.5
Gross domestic investment	22.1	25.4	27.8	30.5	33.2	34.4	35.4	32.0	32.6
Total consumption	80.8	77.6	76.7	74.3	73.0	70.8	71.7	75.0	72.9
General government	6.1	6.1	6.0	6.4	6.2	6.0	6.7	7.0	7.3
Private	74.8	71.5	70.7	67.9	66.9	64.8	65.0	68.0	65.6
Exports of goods and services ^c	8.7	8.8	9.7	10.3	10.0	9.1	7.6	9.1	7.6
Terms-of-trade effect	0.5	0.9	3.1	2.1	1.4	0.5	1.0	0.3	-0.2

Source: ECLAC, on the basis of Central Bank of Paraguay figures.

^aAt market prices in constant 1970 dollars at the parity exchange rate.^bPreliminary figures.^cThe figures for exports and imports of goods and services were obtained from balance-of-payments data in current dollars converted at constant 1970 values through deflation with price indexes calculated for that purpose by ECLAC.

pressure on the balance of payments and on price levels. The higher expenditure was in fact accompanied by a further significant deterioration in the situation of the public sector current account, in which the overall deficit rose from a sum equivalent to 3.9% of the gross domestic product in 1982 to 7.6% of the corresponding product in 1983. The counterpoise was an acceleration of inflation, a turn-around in the balance of the private sector (which, from a deficit equivalent to 2.1% of the gross domestic product in 1982, showed a surplus of 1.8% of the equivalent product in 1983) and an appreciable expansion in governmental external indebtedness. In these circumstances the balance-of-payments current account deficit showed a slight reduction (see table 5).

d) *Sectoral trends in the product*

i) *Introduction.* In 1983 the recessive situation increased in severity in almost all sectors of the economy, some non-basic sectors excepted. Construction was again the activity most affected. Similar declines occurred in the agricultural, commercial and manufacturing sectors. Basic services, which continued to grow in 1982, were also considerably affected by the recession in 1983. On the other hand, community, social and personal services, and government services again increased in 1983 (see table 6).

As in the preceding year, economic activity was affected by an unfavourable evolution in relative external prices owing to the difficult situation facing the countries whose economies have an important influence on that of Paraguay, and by a lower level of activity on the part of the binational entities. To these negative influences were added the exceptionally adverse climatic conditions experienced in 1983. As a result of the abnormally intense and frequent rainstorms, principally in the headwater areas of the rivers Paraguay and Paraná in Brazil, but also around the sources of the rivers Pilcomayo (in the Bandes region) and Iguazú (in Brazil) and over large expanses of Paraguayan territory, the year 1983 witnessed the most severe floods experienced in the country in the present

Table 5

PARAGUAY: COMPOSITION, ORIGIN AND FINANCING OF GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)^a

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Gross domestic investment	22.1	25.4	27.8	30.5	33.2	34.4	35.4	32.0	32.6
Demand									
Private sector	17.1	16.3	18.9	22.5	26.2	27.7	29.3	25.6	24.0
Public sector ^c	5.0	9.1	8.9	8.0	7.0	6.2	6.1	6.4	8.6
Composition									
Construction	10.0	11.0	12.8	15.1	17.8	20.2	21.7	20.8	20.3
Machinery and equipment	9.7	12.3	14.1	13.7	13.9	12.8	12.4	9.5	10.9
Stock variation ^d	2.4	2.1	0.9	1.7	1.5	1.4	1.3	1.6	1.4
Financing									
Gross domestic savings	19.1	22.4	23.3	25.7	27.0	29.2	28.3	24.9	27.0
Net factor payments to the rest of the world ^e	1.0	0.8	0.6	0.8	-0.2	0.1	-0.5	-0.8	-
Terms-of-trade effect	0.5	0.9	3.1	2.1	1.4	0.5	1.0	0.3	-0.2
Gross national savings	18.6	22.5	25.9	27.1	28.5	29.6	29.8	26.0	26.8
Private sector	15.1	19.3	20.3	20.6	21.2	24.4	26.7	23.5	25.8
Public sector	3.5	3.2	5.6	6.5	7.4	5.2	3.1	2.5	1.0
External savings	3.5	2.9	1.9	3.4	4.7	4.8	5.7	5.9	5.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Technical Planning Secretariat.

^aAt market prices in constant 1970 dollars at parity exchange rate.

^bPreliminary figures.

^cIncluding government enterprises, with

the exception of the Itaipú and Yacyretá Binational projects.

^dLivestock sector only.

^eIncluding private unrequited transfers. The

minus sign (-) indicates net income.

Table 6

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

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	1 857	2 014	1 973	1 900	100.0	100.0	100.0	11.4	8.5	-2.0	-3.7
Goods	1 039	1 128	1 085	1 032	54.7	55.1	53.1	12.6	8.7	-3.9	-4.8
Agriculture, hunting, forestry and fishing	567	605	587	558	34.3	30.1	28.7	9.2	6.7	-3.0	-4.9
Mining and quarrying	12	14	14	13	0.1	0.6	0.6	26.0	15.0	2.0	-9.8
Manufacturing	306	330	315	302	17.3	16.2	15.5	12.6	8.0	-4.5	-4.2
Construction	154	179	169	159	3.0	8.2	8.2	26.0	16.7	-6.0	-5.4
Basic services	137	143	157	153	5.4	7.3	7.8	13.4	3.9	9.6	-2.1
Electricity, gas and water	49	52	64	63	1.2	2.6	3.2	18.9	5.1	23.0	-1.2
Transport, storage and communications	88	91	93	90	4.2	4.7	4.6	10.5	3.2	2.0	-2.7
Other services	711	775	766	759	39.9	37.6	39.1	10.1	9.2	-1.2	-1.0
Commerce ^c	375	406	397	378	19.5	19.9	19.4	10.5	8.4	-2.2	-4.9
Ownership of dwellings Community, social and personal services ^d	54	57	56	60	3.3	2.8	3.1	9.0	6.9	-2.0	6.6
Government services	282	312	313	322	17.1	14.9	16.6	9.9	10.8	0.4	2.6
	70	86	90	93	5.7	3.7	4.8	7.0	22.8	4.0	3.9

Source: ECLAC, on the basis of Central Bank of Paraguay figures.

^aPreliminary figures. ^bAs the individual activities and totals have been calculated independently, the sum of the former does not tally exactly with the latter. ^cIncluding financial institutions, insurance and real estate except ownership of dwellings. ^dIncluding restaurants, hotels and business services.

century and perhaps throughout its history. It may without doubt be affirmed that the negative effects of these floods were far greater than those caused by other extensive inundations in the past, such as those of 1825 and 1904 when the population and economic activity were considerably smaller.

In its normal periods of spate the river Paraguay, which traverses the centre of the country from north to south, rarely exceeds a height of six metres, whereas at the end of May it rose to nine metres opposite Asunción—its highest level since 1904—and reached the unprecedented level of ten metres near the city of Pilar, to the south of the capital city. At the same time the river flow, normally less than 11 500 cubic metres per second, reached almost 18 000 cubic metres per second to the south of Pilar, near its junction with the river Paraná. It broke its banks and provoked overflows of its tributaries throughout its course across Paraguayan territory. The river Paraná, which defines the eastern and part of the southern borders of the country, reached its highest volume in more than 60 years, rising to a height of close on 45 metres in June with a flow of more than 40 000 cubic metres per second—the highest figure recorded in the last 200 years. At the same time the flows of the rivers Pilcomayo and Iguazú also swelled abnormally, the former inundating almost the whole of the department of Presidente Hayes in the west-central part of the country while the latter aggravated the overflows of the river Paraná and its affluents.

All in all, it is calculated that some 600 watercourses broke their banks, flooding extensive areas in 11 of the country's 19 departments, the departments of Mumbucu and Presidente Hayes being those particularly affected. The former, which lies between the rivers Paraguay and Paraná in the southwest corner of the country's eastern region, overflowed along almost 40% of its length while the latter was similarly affected to the extent of 10%. This natural disaster caused loss to at least

125 000 persons —slightly more than 4% of the total population,⁴ considerably diminishing the country's accumulated wealth, in particular that consisting of dwellings and livestock. It also depressed production, particularly in the agricultural sector; gave rise to inflationary pressures, and increased the deficits in the public and external sectors. With regard to activity levels it may be estimated, in a preliminary and conservative manner, that the rains and floods reduced gross domestic production to an extent equivalent to 3% of the gross domestic product of 1982. Even on this basis of calculation, which probably substantially underestimates their real impact, it would be reasonable to attribute more than 80% of the contraction in the country's level of activity in 1983 to these climatic disasters.⁵

ii) *Agriculture*. In 1983 production in this sector declined by almost 5%, mainly reflecting a contraction of 6% in agricultural activity in general. Production in the stock-raising and forestry subsectors also decreased (see table 7).

The harvests of the two main crops —soya and cotton— again diminished considerably in 1983. In contrast with events in the preceding year, however, when the marked deterioration of real prices

Table 7
PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaranies at 1977 prices				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Crop farming	74.2	80.3	76.7	72.0	10.6	8.2	-4.4	-6.1
Domestic consumption	40.5	40.1	...	...	4.5	-0.7	...	...
Exports	33.7	40.1	...	...	19.0	18.9	...	...
Stock-raising	24.4	25.2	25.8	25.3	4.0	3.2	2.3	-1.9
Forestry	11.9	12.4	11.8	11.6	12.3	4.8	-5.0	-1.7
Total ^b	111.0	118.4	114.9	109.3	9.2	6.7	-3.0	-4.9
Thousands of tons								
Production of main crops								
Cotton	235	317	254	225	2.2	34.9	-19.9	-11.4
Rice	60	62	65	35	-11.8	3.3	4.8	-46.2
Sweet potatoes	207	213	220	227	7.9	3.0	3.3	3.2
Maize	506	496	521	451	24.8	-2.0	5.0	-13.4
Manioc	1 823	1 841	1 896	1 800	2.0	1.0	3.0	-5.1
Soya	650	880	750	650	44.4	35.4	-14.8	-13.3
Sugar cane	2 357	2 121	2 021	2 064	20.0	-10.0	-4.7	2.1
Cocoa	248	243	413	...	5.0	-3.0	70.0	...
Tung	95	100	105	...	-10.0	5.0	5.0	...
Wheat	44	55	70	80	-32.3	25.0	27.3	14.3
Cattle slaughtering ^c	565	554	544	...	-2.1	-2.0	-1.8	...
Pig slaughtering ^c	1 420	1 560	1 638	...	10.0	9.9	5.0	...
Poultry slaughtering ^c	2 438	2 603	2 720	...	6.9	6.8	4.5	...
Roundwood	1 780	1 791	1 754	...	25.3	0.6	-2.1	...
Fuelwood	2 709	2 800	2 791	...	1.8	3.4	-0.3	...

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aPreliminary figures.

^bIncluding hunting and fishing.

^cThousands of head.

⁴This figure includes only those persons counted in a census of the emergency camps at the mid-year. Many others —it is not known how many— were directly taken care of by relatives and friends. According to some preliminary calculations, 50 000 dwellings were affected by the floods and it may therefore be estimated that some 250 000 persons —8% of the population— were involved by the end of the first half-year.

⁵This calculation only takes account of four sectors —agriculture, quarrying, commerce and transport— in the absence of information concerning the extent of losses in other activities or of criteria enabling them to be estimated. At the same time it is probable that the magnitude of production in the agricultural sector under normal weather conditions may also have been underestimated in 1983 considering other conditions prevailing at the time. In this event the losses in commerce and transport would similarly have been underestimated.

paid to producers appears to have been the main factor influencing that year's negative results (see table 8), in 1983 the exceptionally adverse climatic conditions were those responsible for reducing these and other crops.

The soya harvest in 1983 fell short of that of 1981 by 26%, while the cotton harvest was reduced by 29%. The lower output of these two products alone would explain 47% of the drop in the level of activity between 1981 and 1983, apart from further indirect effects to the extent of at least 11%. No recession would have occurred in the year under review if the output of these products had maintained the same growth rates as in the years prior to 1982.⁶

Approximately 60% of the crops were damaged by the excessive or untimely rains and floods. Apart from soya and cotton, the harvests of other main products which were severely affected included rice, maize and manioc, which contracted by over 46%, 13% and 5% respectively. On the other hand, slight increases were recorded in the sweet potato harvest and in the production of meat, while that of wheat rose by 14%. Even so, the wheat harvest was also affected by the bad weather, since, according to the annual target of the wheat-growing campaign and the availability of intermediate goods and inputs, a production level of 100 000 tons had been expected.

All in all, the primary activity most affected by the floods and their consequences was livestock-raising. According to preliminary estimates drawn up in mid-1983, between 500 000 and 600 000 head of cattle were lost owing directly or indirectly to the climatic conditions and it was feared that this figure would rise to one million by the end of the year. Assuming the latter figure, it is probable that 18% of the country's total cattle stock will have been lost in 1983. A further consideration is the anticipated lower fertility rate in 1984 and lower level of reproduction which, continued over many years, would entail the eventual extermination of the national herd. At the historic rate of growth, the size of the herd as it was in 1982 could be regained by 1990.

In the period 1981-1982 prices paid to producers of most of the main agricultural products deteriorated in real terms to a more or less pronounced extent (see table 8). In the case of cotton the real price received by the producer fell by 19% in this period and that of soya by 16%. These decreases were, moreover, additional to those of previous years, with the result that in 1982 the real price, both of cotton and of soya, was not only decidedly lower than it had been before the period of recovery which began early in the preceding decade, but was also lower than the average production costs. This adverse trend reflected both the deterioration of prices in the international market and that of the real exchange rate.

The average official rate of exchange in 1982 had risen by 14%, but this increase was barely sufficient to halt its deterioration in real terms, while the international prices of cotton and soya both declined by 15%.

A first important step taken by the authorities early in 1983 to overcome the unfavourable cost/price situation in agricultural production was to increase the exchange rate and thus raise the real price of cotton. An increase of 20% was introduced in the exchange rate effectively obtained for exports of cotton fibre by those ginning companies which undertook to pay a minimum price of 60 guaraníes per kilo of raw cotton delivered at their factories. This price represented a nominal increase of 28% in relation to the average price paid the year before, and a rise of 17% in real terms.⁷

An improvement of 15% in the exchange rate for exports of soya and its byproducts, and of 11% in the case of meat, was also introduced in mid-March. The exchange rate for cotton fibre was again raised in May by 7% and for soya and its byproducts by 8%.⁸ In June the exchange rate for cotton fibre was extended to apply also to exports of cotton wastes, and the rate for exports of tung oil and silk-worm cocoons was raised by 22%. Finally, in September the exchange rate for exports of peroba wood was also increased by 22%.

While the official exchange rate for these products was thus being raised, the normal applicable exchange rate had risen considerably and the prices of the country's main export products in the international market were also beginning to improve. In the second quarter of the year, during the harvest season, domestic prices paid to the producers of cotton and soya were clearly recovering —

⁶Between 1972 and 1981 the soya and cotton harvests multiplied 8.8 and 7.8 times respectively. If these rates of expansion had been maintained, it may be calculated that the gross domestic product would have been at least 10% greater than in 1982 and 4% greater than in 1981.

⁷This decision increased the exchange rate received thanks to a rebate in the official reference price, a reduction from 100% to 75% in the proportion of earned foreign exchange that the exporting companies were compelled to deliver to the Central Bank at the official exchange rate, and the application of a lower exchange rate for the calculation of the export tax.

⁸The official reference prices for cotton and soya were, however, increased at the same time.

Table 8

**PARAGUAY: NOMINAL AND REAL PRODUCER PRICES
OF MAIN AGRICULTURAL PRODUCTS**

(1970 = 100)

	Rice	Cotton	Sweet potatoes	Maize	Manioc	Soya	Sugar cane	Cocoa	Tung oil	Wheat
Nominal prices^{a,b}										
1977	225.0	340.7	333.3	320.0	333.3	280.0	284.1	166.7	500.0	231.6
1978	275.0	318.5	333.3	400.0	300.0	280.0	293.8	166.7	550.0	231.6
1979	337.5	362.9	400.0	480.0	333.3	320.0	316.2	266.7	275.0	252.6
1980	337.5	437.0	466.7	500.0	433.3	253.3	405.8	266.7	225.0	263.2
1981	325.0	404.4	533.3	440.0	433.3	373.3	344.2	248.5	200.0	273.7 ^c
I	370.8		400.0	553.3	366.7		324.7 ^c	155.6	208.3	257.9 ^c
II	300.0	404.9	677.8	426.7	455.6	360.0	335.5	266.7 ^c		
III		403.7 ^c	488.9	373.3	477.8	408.9	340.1	311.1		
IV			533.3	453.3	477.8	400.0 ^c	369.3	177.8		
1982	400.0	348.1	466.7	440.0	333.3	333.3	368.3	466.7	275.0	340.4
I			533.3	500.0	422.2			300.0 ^c		
II	412.5	338.3	422.2	310.0 ^c	288.9	320.0	305.7	266.7		
III	408.3	358.0	455.5	433.3	300.0	337.8	381.1	622.2	266.6	326.3
IV	387.5		422.2	453.3	311.1		430.2	600.0 ^c		
1983	687.5	644.0	366.7	1 680.0	315.0	400.0	368.3	466.7	343.8	437.7
I	458.2	548.4	411.0	579.3	311.0	380.0	368.3	333.4	374.3	340.0
II	533.2	644.4	333.4	866.6	288.6	413.3	368.3	377.4		
III	412.5	733.3	344.4	2 200.0	333.3	420.0	368.3	466.7	515.7	
IV	937.5		400.0	2 866.6	333.3		368.3	666.7	570.0	437.7
Real prices^{a,b}										
1977	114.0	172.7	168.9	162.2	168.9	141.9	144.0	84.5	253.4	117.4
1978	126.0	145.9	152.7	183.2	137.4	128.3	134.6	76.4	251.9	106.1
1979	120.6	129.7	142.9	171.5	119.1	114.3	113.0	95.3	98.2	90.2
1980	98.5	127.6	136.3	146.0	126.5	74.0	118.5	77.9	65.8	76.7
1981	83.2	103.6	136.6	112.7	111.0	95.6	88.2	63.7	51.2	70.1
I	97.1		104.8	144.9	96.0		85.0	40.8	54.6	67.5
II	77.0	104.0	174.1	109.6	117.0	92.4	86.2	68.5		
III		103.0	124.7	110.5	76.5	104.3	86.7	79.3		
IV			133.9	113.8	120.5	100.4	92.7	44.6		
1982	96.0	83.5	112.0	105.6	80.0	80.0	88.4	112.0	66.0	81.7
I			130.7	122.6	103.5			73.5		
II	100.5	82.4	102.8	75.5	70.4	77.9	74.5	151.5	64.9	
III	98.3	86.2	110.0	104.3	72.2	81.3	91.7	149.8	64.1	79.5
IV	89.5		97.5	104.6	71.8		99.3	138.5		
1983	145.4	136.3	77.5	355.3	66.6	84.6	77.9	98.7	72.7	92.6
I	101.8	121.8	91.2	128.6	88.8	84.4	81.8	74.0	83.1	75.6
II	116.7	143.1	73.0	192.4	64.1	91.8	80.6	82.6		
III	85.1	151.2	71.0	453.7	68.7	86.6	76.0	96.2	106.4	
IV	187.9		80.2	574.5	66.8		73.8	133.6	114.2	87.7

Source: ECLAC, on the basis of data from the Ministry of Agriculture (Department of Agricultural Marketing and Economics) and the Central Bank of Paraguay.

^aIn general a blank space means that there were no prices for the quarter, or that there were prices for one month only.

^bThe quarterly averages may not coincide with annual averages owing to frequency of observation or error in rounding-off.

^cTwo months only. ^dCalculated by deflating the nominal prices using the consumer-price index.

Table 9

**PARAGUAY: NOMINAL AND REAL PRICES IN
THE RURAL LAND MARKET**

(1970 = 100)

	Nominal price			Real price ^a		
	Crop-farming land	Stock-raising land	Forestry land	Crop-farming land	Stock-raising land	Forestry land
1972	151.2	201.4	134.5	131.8	175.6	117.3
1973	200.0	236.7	156.6	154.7	183.1	121.1
1974	228.8	310.8	229.1	141.3	192.0	141.5
1975	350.9	500.0	311.2	202.9	289.2	180.0
1976	518.6	686.0	442.1	287.3	380.1	244.9
1977	711.7	644.8	448.5	360.7	326.8	227.3
1978	872.5	877.0	448.5	399.7	401.7	205.5
1979	1 023.6	966.3	892.9	365.7	345.2	319.0
1980	1 550.1	1 793.7	1 317.1	452.6	523.7	384.6
1981	1 467.2	1 821.4	1 367.6	375.8	466.5	350.3
I	1 474.5	1 892.9	1 466.7	382.4	490.9	380.4
II	1 462.3	1 750.0	1 268.7	370.0	442.8	321.0
1982	1 615.9	2 142.8	1 381.8	387.7	514.1	331.5
I	1 335.6	1 829.4	1 105.1	326.4	447.1	270.1
II	1 930.3	2 460.3	1 713.1	454.9	579.8	403.7
1983	1 543.2	2 425.5	1 389.6	326.3	512.9	293.8
I	1 451.8	2 451.9	1 280.1	320.0	540.4	282.1
II	1 636.5	2 399.0	1 499.1	332.6	487.6	304.5

Source: ECLAC, on the basis of data from the Ministry of Agriculture and Stock-raising, Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

^aCalculated by deflating the nominal prices using the consumer price index.

especially in the case of the former. Between that period and its equivalent in the preceding year the price of cotton rose by 90%, while that of soya increased by 29%. In real terms the domestic price paid to cotton producers rose in the period mentioned by 74% and that of soya by 18% (see table 8). The average price of cotton in the second quarter of 1983 was 45% higher than that agreed in January between the government and the cotton ginning companies; and in the third quarter it exceeded it by 65%.

Owing to the rains and floods, neither the producers nor the country were able to take full advantage of the improvements in domestic and external prices in the 1982/1983 farming year. The domestic price increases of the products mentioned and of others such as maize were also partly induced by the effects of the bad weather on harvests. It is in any event foreseeable that production in the 1983/1984 season will rise appreciably thanks to the stimulus to sowing provided by these higher prices.

Prices in the rural land market, for their part, showed variable fluctuations in 1983. In the first half year, when the floods occurred, they showed signs of decline. During the second half year, however, a considerable improvement took place in the prices of farming and forestry land, although land devoted to stock-raising continued to fall in value. In real terms the prices for each of these classes of land declined, especially for arable land (in 1983), as a result of which the reversal of the trend noted in the preceding decade (when spectacular increases in crop- and stock-raising property were recorded), continued for the second successive year (see table 9).

As regards agrarian reform, in 1983 the Institute for Rural Welfare (IBR) awarded more than 2 600 properties comprising a total area of more than 300 000 hectares, as against over 3 030 lots and close on 600 000 hectares awarded the year before and with a historic rate of 3 480 lots and 306 000 hectares per year (see table 10).

Of the awards assigned in 1983, 2 500 lots were arable and covered an overall area of 28 000 hectares (an average of 11 hectares per lot). The 100 or so stock-raising lots awarded amounted to a total of 270 000 hectares and had an average area of 2 750 hectares.

In the course of the year almost 4 100 final title deeds were granted, comprising a total area of approximately 410 000 hectares, both figures being similar to those of the preceding year and appreciably larger than the historic figures. Furthermore, two new community settlements were established comprising an area of 340 hectares.

Finally, four properties measuring 25 790 hectares in all (an area similar to that awarded in the case of crop-farming properties) were taken over under occupation or expropriation decrees in 1983 (see table 10).⁹

iii) *Manufacturing*. In 1983, added value in the manufacturing sector decreased by slightly over 4%. This decline was exclusively due to a very substantial contraction in textile, clothing and leather production, which exceeded by over 30% the overall drop in the manufacturing sector. Other subsectors showing declines in levels of activity included those producing metal products, machinery and equipment (-13.6%), basic metals (slightly over -8%), handicrafts (-4.5%) and wood and

Table 10

PARAGUAY: AGRARIAN REFORM INDICATORS

	1956-1982	1977	1978	1979	1980	1981	1982	1983
Total awards								
Number of lots	94 074	2 651	2 837	2 506	3 931	4 316	3 036	2 604
Surface area (in thousands of hectares)	8 276	345	176	422	717	473		
Average hectares per lot	88	130	62	168	182	110	197	116
Crop-raising awards								
Number of lots	...	2 517	2 727	2 313	3 720	4 163	2 898	2 505
Surface area (in thousands of hectares)	...	76	51	38	51	49	39	28
Average hectares per lot	...	30	19	16	14	12	13	11
Stock-raising awards								
Number of lots	...	134	110	193	211	153	138	99
Surface area (in thousands of hectares)	...	269	125	385	666	424	560	273
Average hectares per lot	...	2 008	1 128	1 994	3 155	2 773	4 058	2 756
Final title deeds								
Numbers	90 256	2 507	3 500	3 814	3 836	4 054	4 224	4 093
Surface area (in thousands of hectares)	5 849	126	177	284	719	729	460	410
Average hectares per lot	65	50	50	74	187	180	109	100
Communal settlements								
Numbers	131	...	...	...	...	8	7	2
Surface area (in thousands of hectares)	63	...	...	...	...	16	5	^a
Nationalized and expropriated land (in thousands of hectares)								
Nationalized	14 785	...	...	...	...	...	-	-
Expropriated	579	...	...	...	...	...	-	-
Occupied	390	...	...	...	...	...	-	-
	509	...	...	...	...	...	-	-

Source: ECLAC, on the basis of data from the Institute for Rural Welfare, *Memoria* (several years' issues) and Juan Manuel Frutos, *Con el hombre y la tierra hacia el bienestar rural*, Cuadernos Republicanos, Asunción, 1982; and information provided by the Institute for Rural Welfare and the Departamento de Tierras y Colonias (Department of Rural Land and Settlements).

^a339 hectares.

⁹ For a retrospective analysis of the effects of agrarian reform on the distribution and ownership of land in Paraguay, see ECLAC, *Economic Survey of Latin America and the Caribbean*, 1982, United Nations Publication, Sales No. E.84.II.G.1, Santiago, Chile, United Nations, November 1984.

Table 11

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Percentage breakdown		Growth rates			
					1973	1983 ^a	1980	1981	1982	1983 ^a
Gross manufacturing product (millions of guaraníes at 1977 prices)	59.9	64.7	61.8	59.2	100.0	100.0	12.6	8.0	-4.5	-4.2
Foodstuffs, beverages and tobacco	20.1	23.8	23.9	24.3	44.0	41.0	4.2	18.7	0.4	1.7
Textiles, clothing and leather	8.4	10.5	9.3	5.9	16.4	10.0	-0.1	25.0	-11.4	-36.6
Wood and furniture	10.8	8.6	9.0	8.7	7.7	14.7	44.2	-20.4	4.7	-3.3
Paper and printing	2.3	1.2	1.1	2.0	2.1	3.3	28.3	-48.4	-8.3	81.8
Chemicals	8.8	9.4	6.6	6.9	15.5	11.6	10.1	6.8	-29.8	4.5
Ceramics	2.1	2.4	2.3	2.5	2.7	4.2	22.3	9.6	-4.2	8.7
Basic metals	0.1	0.2	0.3	0.2	0.3	0.3	59.3	100.2	23.6	-8.2
Metal products, machinery and equipment	1.5	2.0	2.2	1.9	3.3	3.7	1.6	29.9	10.0	-13.6
Other manufacturing industries	0.2	0.3	0.5	0.4	0.3	0.7	20.4	39.8	66.7	-20.0
Artisanal production	5.5	6.3	6.6	6.3	7.7	10.6	17.1	14.5	4.8	-4.5
Output of some of the main manufactures (thousands of tons)										
Cotton cloth ^b	16.6	15.9	9.2	5.8			-18.0	-4.0	-42.1	-37.0
Cotton fibres	74.9	105.9	90.8	77.2			2.0	41.0	-14.3	-15.0
Tannin	15.7	13.2	10.7	12.9			134.0	-16.0	-18.9	-20.6
Cocoa beans	5.1	4.6	6.5	4.5			4.1	-9.8	41.3	-30.8
Tung oil	10.2	12.1	12.8	17.0			-9.0	19.0	5.8	32.8
Cement	176.7	156.1	111.2	153.0			14.0	-11.7	-28.8	37.6
Cigarettes ^c	32.4	37.8	37.9	46.6			-20.0	17.0	0.3	23.0
Soft drinks ^d	116.1	145.7	160.3	122.1			5.0	25.0	10.0	-23.8
Wheat flour	81.8	100.7	96.8	100.2			-1.0	23.0	-3.9	3.5
Sugar	89.2	76.5	81.1	98.2			30.0	-14.0	6.0	21.1
Leather	9.0	9.5	9.5	11.0			-4.0	6.0	-	15.8

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aPreliminary figures.

^bThousands of metres.

^cThousands of packets.

^dThousands of litres.

furniture (-3.3%). In contrast, activity in the paper and printing sector — which is quite small in Paraguay despite the country's large forestry production — showed a marked increase after two years of depression. The ceramics and chemical products industries also showed some signs of recovery, while the foodstuffs, beverages and tobacco subsectors continued to expand at moderate rates despite the prevailing recession (see table 11).

The manufacturing sector was faced by four main difficulties in 1983. In the first place bad weather must again be mentioned, since the floods affected the operations and installations of many firms operating in the sector including the largest, Manufactura de Pilar, S.A. The installations of this firm, consisting of an integrated textile complex employing 2 000 persons, were completely inundated, bringing its operations to a halt and severely damaging machinery and equipment.

At the same time, and as in the previous year, deceleration of the construction work in progress at Itaipú and Yacyretá had an adverse effect on manufacturing activity, which also suffered from an intensification of competitive pressures, contraction of demand in neighbouring countries and high financing costs.

With regard to the effects of the economic crisis in regional terms, mention should be made of the depressive impact on the sector of the continuous increases in exchange rates in Brazil and Argentina, since these provided firms in those countries with major advantages over Paraguayan firms in the Paraguayan market and reversed the flow of tourism.

In the financing sphere, the main difficulty stemmed from a long-standing contradiction between the trend of the exchange rate and interest rates, on the one hand, and the sales situation on the other. Since mid-1981 two adverse circumstances had been developing simultaneously; namely, a weakening of demand and a more or less continuous rise in the parallel exchange rate, both of which raised the financing costs of companies with unregistered external debts (or debts in dollars). Since mid-1982 firms owing registered external debts were also faced with a higher official rate of exchange. At about the same time real interest rates rose spectacularly, reaching levels totally incompatible with economic activity and hence with the very survival of the financing sector itself.

While it is true that the rising trend in interest rates was reversed in 1983 despite the acceleration of inflation, their real levels (*ex-post*) still remained high and reached an average of around 14% annually for commercial operations in the second half-year. The parallel rate, moreover, continued to rise throughout much of the year, and at the year's end reached a level 43% higher than at the same period in 1982.

In respect of requests made by entrepreneurs that their debts be rephased and dollar commitments converted, the authorities decided not to finance a general renegotiation, leaving creditors and debtors to resolve their problems directly.¹⁰ Declining interest rates as from the end of July were, however, the result of a Central Bank policy. At the same time, a large increase in the public sector deficit, partly financed by the creation of means of payment, was attenuated by lack of liquidity, partially offsetting the decline in sales. Nevertheless, if the results of the transactions of the financial institutions in 1982 and 1983 are compared, a further new and important increase in their overdue portfolios is observed.

The intensification of recession again depressed financial allocations for capital expenditure. This may have been due to a notable fall in the amount of investments benefiting from investment-promotion Law No. 550. The value of investments approved in 1983 for the purpose of obtaining tax incentives under the terms of this law declined by 32% in comparison with 1982 and was 59% less than in 1981. These results, however, also reflected a decision to limit the application of Law 550, since it was considered that installed capacity was already sufficient in many of the country's manufacturing activities.

Furthermore, the programme to reduce the country's dependence on external sources of energy continued to be applied. Deserving mention in this respect was an increase from 10% to 15% in the proportion of dehydrated alcohol in admixture with gasoline and the doubling for the second consecutive year of the number of motor vehicles consuming alcohol fuel. Both of these alcohol products are locally manufactured from sugar cane and their combined production volume rose in 1983 by 32%.

A number of measures were adopted during the year to accelerate the development of this initiative. These included an increase in the price paid to producers of alcohol fuel; a reduction of the import tax on alcohol-fuelled vehicles to 30% of their value (compared with a rate of up to 100% in the case of conventional vehicles); liberalization of the sale of ethanol fuel, and a 28% increase towards the end of the year in the established proportion of alcohol for admixture with gasoline.

iv) *Construction.* The level of activity in this sector decreased in 1983 by 5.4% after the previous year's contraction of 6%. Once again, though to a lesser degree than in 1982, the reduction in building activity at Itaipú and Yacyretá affected the development of the construction industry. Purchases of goods and services by the binational entities declined at current prices by 6% in 1983, compared with a drop of 25% in 1982. As against what happened in 1982, when the purchases of Yacyretá Binacional contracted radically, they showed a slight increase in 1983 despite a further significant cut in their budget. In part, the local purchases of Itaipú Binacional fell by 7% in 1983 after a reduction of 3% in 1982. Employment at Itaipú also decreased by 35% in the year compared with a drop of 31% in 1982.

The marked expansion of investment expenditure in the rest of the public sector in 1983 more than offset the effects of the lower construction outlays of the binational entities, but was not sufficient to counteract completely the notable reduction of investment in private-sector construction which was again adversely affected by high interest rates and a decrease in personal incomes.

¹⁰ According to an unofficial estimate, 25% of the private banking portfolio with the manufacturing sector was overdue at the middle of the year.

Although this productive activity appears not to have been so badly affected by the widespread floods as the manufacturing sector, it should be borne in mind that, according to preliminary estimates, by the middle of the year some 50 000 homes had been damaged—a number equivalent to 9% of the dwellings recorded in the 1982 census.

As regards the development of hydroelectric projects in 1983, the spillway at Itaipú was brought into regular operation; work continued on the installation of the main engine room, associated structures and the first four power generators; various aerial interconnections were erected, including two power transmission lines to the Acaray hydroelectric station in Paraguay, and the first of the 18 turbines to be installed at Itaipú successfully underwent its initial mechanical rotation test at the end of the year.

A number of civil works had either been finished or were nearing completion by the end of the year. These included the main reservoir, the earth and rock dam, the right-hand lateral dam, and the principal cofferdams and spillway, while the main engine room and substation were 75% to 80% completed. With respect to the manufacture and installation of equipment and machinery for Itaipú, 4.3% of the forecast total had been completed by the end of the year. From a financial point of view, 67% of the total cost of the project had been carried out by the end of 1983. According to the latest estimate (December 1982), the total cost of the project when finished will have amounted to some US\$ 15.3 billion.

The working test of the first generating unit had originally been planned to take place in the first quarter of 1983. Together with this change in schedule, the date fixed for the entry of the complex into commercial operation was postponed from March 1986 to March 1988 owing to the financial restrictions and recession prevailing in Brazil.

In the case of Yacyretá the most significant events of the year were the agreement reached in September between Paraguay and Argentina to continue with this project, and the commencement of civil construction in December. One thousand three hundred persons were engaged in activities associated with the civil works at the year's end. For 1984 an increase of 30% was budgeted in the financial outlays of Yacyretá Binacional and it was hoped to increase the number of persons employed in the main construction works to 2 000 by the end of the year. In comparison it should be mentioned that the budget for 1983 amounted to only 37% of that of 1982.¹¹

v) *Basic services.* The global basic services product decreased by over 2% in 1983 compared with an expansion of 9.6% in 1982. Added value in transport, storage and communications declined by almost 3% while that of electricity, gas and water contracted by slightly over 1%.

The fluctuation in electricity demand was especially noticeable in that, after expanding continuously for more than two decades and even growing by around 27% the year before, when the rest of the economy was in a state of recession, it contracted by approximately 13% in 1983 despite a further increase in domestic consumption of electricity. Owing to opposing results in the generation and consumption of electricity, the country had to import 202 million kW, with which it covered 24% of domestic consumption. The increase of 3% in domestic consumption was mainly due to an increase in residential demand, although industrial consumption also rose after having contracted in 1982 (see table 12).

vi) *Trends in employment and unemployment.* As in the preceding year, the lower level of activity in 1983 was accompanied by a more than proportional increase in unemployment. The unemployment rate at the national level rose from 9.4% in 1982 to 15% in 1983 after amounting to 4.6% in 1981 and 2.1% in 1980. The open unemployment rate in Asunción also increased noticeably, rising from 5.6% in 1982 to 8.4% at the end of 1983. It nevertheless remained much lower than the overall national rate¹² (see table 13).

Generally speaking, evolution in the supply of labour showed no significant change either in the short term or from one year to the next. Since the growth rate of the labour force had accelerated considerably in the boom period, having risen from an annual average of 2.4% in the ten years ending in 1972 to 4% between 1972 and 1981, the abrupt fall in demand for labour from mid-1981 onwards led to a sharp increase in unemployment. The lower demand for labour was moreover greater than

¹¹ For additional details concerning these hydroelectric projects and their effects on the future of the Paraguayan economy, see ECLAC, *Economic Survey of Latin America, 1980*, United Nations, Santiago, Chile, 1981, pp. 620 and 621.

¹² It should be noted that the data for Asunción—but not those of the Central Bank for the country as a whole—are based on household surveys.

the contraction in levels of activity. For example, the labour force at Itaipú decreased by more than 55% between 1981 and 1983, while expenditure disbursed by the binational entity contracted much less in real terms.

To these factors were added the effects of the floods on the unemployment rate in 1983. Suffice it to recall that at least 4% of the population were displaced from their homes.

3. The external sector

a) Introduction

In the past four years the country's total importing capacity has contracted by 32.5%. Both registered imports of non-factor goods and services and gross international reserves have remained at relatively high levels; but the disbursed gross external debt has risen (at constant prices) by almost 46%, and the net foreign debt has increased three-fold (see table 14).

The deterioration experienced in the external sector was particularly acute in most aspects in 1983. The purchasing power of external sales fell by 24.5% owing mainly to a considerable contraction in the volume of exports of non-factor goods and services registered by the Central Bank. The decline in total import capacity was limited to slightly less than 20% as a result of a reversal of the declining trend in net capital inflows.

At the same time the volume of registered imports of goods and services decreased by almost 22% in 1983. Owing to this and to the expansion of the surplus on capital account, a reduction in the current account deficit was attained. The shrinkage of international reserves was also halted despite

Table 12

PARAGUAY: INDICATORS OF THE CAPACITY, GENERATION AND CONSUMPTION OF ELECTRIC ENERGY

	1970	1972	1974	1976	1978	1979	1980	1981	1982	1983 ^a
Installed potential ^b	123.7	127.0	169.2	219.4	270.7	272.1	272.5	274.1	274.1	274.1
Hydraulic	90.0	90.0	90.0	140.0	190.0	190.0	190.0	190.0	190.0	190.0
Thermal	33.7	37.0	79.2	79.4	80.7	82.1	82.5	84.1	84.1	84.1
Electric energy generation ^c										
Gross	159.2	197.6	450.9	540.9	491.1	618.2	697.4	720.4	916.0	793.0
Net	154.2	192.6	445.5	536.7	482.9	611.4	692.1	716.8	912.7	790.5
Net imports of electric energy ^c	-	-	-160.0	-166.0	-15.1	-25.6	5.4	103.0	-40.0	202.0
Domestic electric energy supply ^c										
Gross	159.2	197.6	290.9	375.0	476.8	592.9	703.1	824.0	876.0	995.0
Net	154.2	192.6	285.5	370.7	467.8	585.8	697.5	819.8	872.6	992.5
Domestic electric energy consumption ^c	129.8	168.6	238.6	307.0	438.3	544.8	658.0	751.7	800.6	827.2
Residential	76.4	93.9	130.1	173.2	237.6	273.9	344.3	390.7	473.9	492.2
Industrial	33.8	48.2	76.3	101.7	156.0	224.9	263.3	300.1	253.3	260.1
ANDE	5.0	5.0	5.4	4.3	9.0	7.1	5.6	4.2	3.4	2.5
Other ^d	14.6	21.5	26.8	27.8	35.7	38.9	44.8	56.7	70.0	72.4
Percentage of population receiving electric energy services	10.9	14.8	19.0	21.2	24.2	26.6	29.0	31.5	37.7	39.5

Source: National Electricity Administration (ANDE), *Compilación Estadística 1960-1981*, Asunción, 1982, and other statistics also supplied by ANDE.

^aPreliminary figures.

^bThousands of kW.

^cMillions of kWh.

^dIncludes street lighting.

Table 13

PARAGUAY: RATES OF OPEN UNEMPLOYMENT

	Country-wide	In Asunción ^a
1972	5.1	...
1976	4.2	6.7
1977	3.7	-5.4
1978	3.1	-4.1
1979	2.6	5.9
1980	2.1	3.9
I	...	5.3
II	...	4.0
III	...	3.6
IV	...	2.8
1981	4.6	...
I	...	2.0
II	...	2.3
III	...	...
IV	...	...
1982	9.4	5.6
1983	15.0	8.4

Source: Based on data supplied by the Central Bank of Paraguay and the Ministry of Finance, Department of Statistics and Censuses, *Encuesta de hogares* (several issues).

^aApart from Asunción proper, these figures include Fernando de la Mora, Lambaré and the urban districts of Luque and San Lorenzo.

the reduced volume of external sales. Offsetting these developments was an intensification of inflationary pressures and a considerable renewed increase in foreign indebtedness of almost 23% in gross terms and 74% in net terms. In addition, a notable expansion occurred in short-term external indebtedness, and payments to foreign suppliers were delayed.

One of the most significant factors in the weakening of the external sector as well as in the generation of recession has been the pressure exerted on the Paraguayan economy by the financial crisis in Argentina (especially in 1981 and 1982) and in Brazil (in particular in 1983). At the same time, the international recession has also directly affected the Paraguayan economy through its depressive effects on the prices of its main export products and the increase in the value of the dollar in relation to the European and Japanese currencies.

On the other hand, the level of expenditure of the binational entities declined substantially from 1982 owing in part to the financial difficulties in Argentina and Brazil but also to the postponement of the construction schedule at Itaipú. The other most noteworthy factor, however, was perhaps the unwillingness of the Paraguayan authorities to adjust the official export exchange rate to an extent comparable with the rise in the parallel exchange market. Further problems in 1983 were the climatic phenomena already mentioned and the deteriorating financial position of the government. Moreover, whereas the world's more developed countries began to recover, the crisis in Brazil grew worse.

Although a more or less progressive moving parity scale was established for the parallel exchange rate in the light of the anomalies affecting the country since 1981—consisting primarily of constant and drastic increases in the exchange rates in Argentina and Brazil (these being countries with which Paraguay conducts about 50% of its foreign trade at the official exchange rate)—, the competitive position of the Paraguayan economy continued to deteriorate appreciably. Thus, while the parallel market exchange rate rose by 11% between 1980 and 1981, by almost 38% between 1981 and 1982 and by more than 56% between 1982 and 1983, the official rate (at its average level for exports) remained unchanged in 1981, increased by slightly less than 14% on average in 1982 and rose by 12% in 1983.¹³ After having been very similar in value to the parallel rate for almost a full

¹³ These figures, however, underestimate the changes introduced in the official exchange rate for some export products, since their official reference prices were also reduced in comparison with the corresponding international prices.

decade, the official exchange rate declined to 85% of the parallel in 1981, to 70% in 1982 and to 50% in 1983. The real effective official exchange rate, in its turn, fell by almost 17% in 1981 and, after a small recovery in 1982, again deteriorated by 12% in 1983 (see tables 15 and 16).

The unwillingness of the authorities to reduce the gap between the official and parallel exchange rates appears to have been due to concern over the rate of inflation that it would involve as well as its effects on the magnitude in dollars of the purchases of the binational entities in Paraguay.¹⁴ Nevertheless, a large proportion of the country's foreign trade—at least 50% and perhaps 60%—was transacted in this period at the parallel exchange rate without causing an upswing of inflation until 1983, when the restrictive monetary policy came to an end. A key ingredient in this case was undoubtedly the reduction of monetary stocks between the end of 1980 and the end of 1982. It should

Table 14
PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
1970 = 100 ^b								
Volume of exports of goods and services ^c	127.9	159.6	188.0	201.5	204.6	187.2	217.2	174.6
Purchasing power of exports of goods and services ^c	140.3	210.5	226.9	229.2	216.3	207.8	223.7	168.9
Net factor payments to rest of world ^d	99.0	80.4	113.7	°	25.7	°	°	-
Purchasing power of net capital imports	224.1	310.1	521.3	562.5	560.2	519.4	328.9	443.5
Total import capacity	165.4	248.1	311.1	338.0	321.1	316.7	288.5	231.8
Volume of imports of goods and services ^c	154.9	211.7	250.1	296.1	292.1	325.6	349.7	273.7
Gross international reserves Index	465.6	736.8	1 194.6	1 385.6	1 484.6	1 506.3	1 261.7	1 264.0
In months of imports ^f	6.4	7.4	10.2	10.0	10.9	9.9	7.7	9.8
Gross disbursed external debt	154.8	163.9	204.7	191.6	192.9	203.9	255.6	313.8
Gross domestic product = 100 ^g								
Volume of exports of goods and services ^c	8.8	9.7	10.3	10.0	9.1	7.6	9.1	7.6
Terms-of-trade effect	0.9	3.1	2.1	1.4	0.5	1.0	0.3	-0.3
Net factor payments to rest of world ^d	0.8	0.6	0.8	-0.2	0.1	-0.5	-0.8	-
Purchasing power of net capital imports	4.6	5.6	8.5	8.3	7.4	6.4	4.1	5.8
Total import capacity	13.4	17.9	20.2	19.9	16.9	15.4	14.3	13.1
Volume of imports of goods and services ^c	11.7	14.2	15.1	16.2	14.3	14.7	16.2	13.1
Trade balance ^h	-2.9	-4.5	-4.8	-6.2	-5.2	-7.2	-6.8	-5.5
Current account balance	-2.9	-1.9	-3.4	-4.7	-4.8	-5.7	-5.9	-5.5
Global balance of payments	1.7	3.7	5.1	3.6	2.6	0.7	-1.8	-
Gross international reserves	6.3	8.8	12.9	13.5	13.0	12.1	10.4	10.8
Gross disbursed external debt	18.2	17.0	19.2	16.2	14.7	14.3	18.3	23.8

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^b1970 prices. ^cNon-factor. ^dIncluding private unrequited transfer payments. ^eCredit balances. ^fGross international reserves and imports of goods and services for each year. ^gAt market prices in 1970 dollars, at the parity exchange rate. ^hExcluding terms-of-trade effect.

¹⁴According to the consumer price index, inflation in 1981 and 1982 was even less than in preceding years. Between 1982 and 1983 it increased from 9% to 14% according to the same index. For its part, the wholesale price index recorded a decrease of 2% in 1980, rose by approximately 20% in 1981, declined by 7% in 1982 and increased by almost 40% in 1983.

Table 15

PARAGUAY: OFFICIAL EXCHANGE RATES

(Guaranties per dollar at the end of each period)

	1981	1982				1983			
		I	II	III	IV	I	II	III	IV
Exports of traditional goods									
Timber	126.0	141.9	153.1	143.0	143.0	143.0	143.0	177.5 ^a	177.5 ^a
Oils	126.0	141.9	153.1	143.0	143.0	143.0	177.5 ^b	177.5 ^b	177.5 ^b
Livestock products	126.0	157.8	180.2	160.0	160.0	177.5	177.5	177.5	177.5
Others	126.0	141.9 ^c	153.1 ^c	143.0	143.0	143.0	143.0	143.0	143.0
Non-traditional goods									
Cotton fibres	126.0	141.9	153.1	143.0	143.0	167.3	179.5 ^d	179.5 ^d	179.5 ^d
Oil seed (soya) ^e	126.0	141.9	153.1	143.0	143.0	164.8	177.4	177.4	177.4
Fruits and vegetables	126.0	141.9	180.2	160.0	160.0	160.0	160.0	160.0	160.0
Others	126.0	141.9 ^c	153.1 ^c	143.0	143.0	143.0	143.0	143.0	143.0
Imports of goods									
Consumer goods									
Basic									
Wheat	126.0	126.0	126.0	126.0	126.0	143.0	143.0	143.0	143.0
Others	126.0	126.0	126.0	160.0	160.0	160.0	340.0	410.0	342.0
Non-basic									
	126.0	157.8	180.2	160.0	160.0	160.0	340.0	410.0	342.0
Intermediate goods									
Petroleum and derivatives	126.0	126.0	126.0	126.0	126.0	143.0	143.0	143.0	143.0
For agriculture and industry	126.0	126.0	126.0	126.0	126.0	126.0	160.0	160.0	160.0
Others	126.0								
Capital goods	126.0	126.0	126.0	126.0	126.0	160.0	340.0	410.0	342.0
Services (non-factor)									
Travel	172.5	157.8	180.2	254.8	238.6	240.0	340.0	410.0	342.0
Others	126.0	157.8	180.2	160.0	160.0	160.0	340.0	410.0	342.0
Services (factor)									
Public sector	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0
Private sector									
Registered ^f	126.0	126.0	126.0	160.0	160.0	160.0	160.0	160.0	160.0
Unregistered	172.5	157.8	180.2	254.8	238.6	240.0	340.0	410.0	342.0
Capital									
Public sector	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0	126.0
Private sector									
Registered ^g	126.0	126.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0
Unregistered	126.0	157.8	180.2	254.8	238.6	240.0	340.0	410.0	342.0
Transactions of binational entities									
Parallel market	126.0	126.0	126.0	126.0	126.0	126.0	126.0	143.0	143.0
	172.5	157.8	180.2	254.8	238.6	240.0	340.0	410.0	342.0

Source: ECLAC, on the basis of official data.

^aPeroba wood only (143.0 for other species).^bTung oil only, also valid for silk-worm cocoons.^cExcluding certain exports for which

the applicable rate was 126.0.

^dAlso valid for cotton wastes (including strands) unrecorded and uncombed.^eIncludes soya

derivatives and by-products.

^fIncludes only interest payments on external debt used for the production of goods with the authorization of the Central Bank, and dividend and profit remittances.^gIncludes only capital imports and amortization payments on external debt used

for the production of goods with the authorization of the Central Bank.

however also be borne in mind that, with some minor exceptions, the country's export goods do not—other than marginally— form part of the consumption basket. In this respect, the fact that in practice the authorities raised the exchange rate for imports more than that for exports is especially noteworthy. In fact, successive restrictions had been gradually placed on the access of import goods to the "official dollar", as a result of which the official exchange rate for imports came increasingly closer in practice to the parallel rate. Imports were in fact made even more costly through administrative measures such as the institution of prior import deposits.

It is true on the other hand that the binational entities' foreign-currency receipts fluctuated—at least in the short term— more or less in the same proportion as the exchange rate adjustments. In the longer term, however, the development and stability of the economy will not depend on the magnitude of the binational entities' purchases within the country, but on the growth of the exporting sector and, to a lesser extent, on import substitution, both of these sectors being especially affected when the exchange rate is below its level of equilibrium.

Table 16

PARAGUAY: EVOLUTION OF INDEXES OF THE EFFECTIVE REAL EXCHANGE RATE FOR EXPORTS AND IMPORTS

(1980 = 100)

Annual and quarterly averages	Official ^a		Parallel ^d	
	Exports ^b	Imports ^c	Exports	Imports
1975	92.6	87.6	110.1	108.7
1976	99.0	96.3	107.6	115.5
1977	97.5	93.6	105.0	109.2
1978	102.2	94.3	112.0	115.0
1979	95.0	89.3	97.6	98.9
1980	100.0	100.0	100.0	100.0
1981	82.3	91.1	99.5	107.4
1982	85.3	89.9	124.9	133.9
1983	74.9	72.8	152.3	154.8
1981				
I	92.2	101.3	99.1	109.2
II	84.5	94.3	95.9	104.9
III	81.2	91.1	103.5	111.8
IV	71.7	77.3	99.5	105.1
1982				
I	76.2	101.3	91.9	98.4
II	88.6	101.6	104.9	113.5
III	91.6	104.6	145.6	158.0
IV	86.4	86.7	161.9	174.2
1983				
I	82.6	91.0	138.2	137.9
II	80.2	97.0	142.2	138.5
III	68.6	101.7	170.2	175.2
IV	65.7	97.4	152.1	159.2

Source: ECLAC, on the basis of information supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aCorresponding to the average of the real exchange-rate indexes of the guaraní in respect of the currencies of the principal countries with which Paraguay conducts trade, weighted in accordance with the relative importance of registered commercial flows to and from those countries. In the calculation of these indexes use was made throughout of the official exchange rate.

^bFor 1982 and 1983 the average exchange rate was used. ^cFor 1982 and 1983 the average exchange rate was used. However, the figures refer solely to imports handled by the Central Bank, and hence do not represent the true average official rate.

^dThese indexes correspond to a weighted average of the exchange rate indexes of Paraguay *vis-à-vis* the Federal Republic of Germany, Argentina, Brazil, the United States, Japan, Italy and France, according to the relative participation of the *non-registered* trade flows between Paraguay and the countries mentioned. Use was made of the free fluctuating exchange rate in calculating these indexes.

Table 17

PARAGUAY: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1973	1983	1980	1981	1982	1983
Total	310	296	330	252	100.0	100.0	1.7	-4.7	11.6	-23.7
Main traditional exports	132	100	97	81	74.3	32.1	17.4	-24.2	-3.5	-15.7
Livestock products	4	7	9	12	35.0	4.8	-63.0	53.5	32.3	38.4
Timber	66	36	44	19	9.3	7.5	57.1	-45.2	20.5	-56.5
Oils	26	29	22	21	11.3	8.3	-9.1	10.8	-23.4	-3.7
Tobacco	10	6	6	10	5.9	4.0	18.7	-36.3	-7.9	69.1
Quebracho extract	4	6	5	5	1.9	2.0	38.1	26.9	-10.7	8.5
Others	22	16	11	14	10.9	5.2	15.7	-22.7	-35.5	23.5
Main non-traditional exports	178	195	234	171	25.7	67.9	-10.2	12.5	19.3	-27.0
Cotton fibre	106	129	122	79	9.1	31.3	7.3	22.2	-5.3	-35.6
Oil seeds (soya beans)	42	48	90	76	8.2	30.2	-46.5	12.9	88.5	-15.5
Feed-cake and expellers	22	14	13	13	8.0	5.2	82.0	-35.1	-11.6	2.8
Fruits and vegetables	8	4	9	3	0.4	1.2	141.7	-47.4	96.1	-69.8

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aIncludes only exports appearing in the exchange register.

In addition to postponing the adaptation of the exchange rate to prevailing market conditions, the adjustments that were introduced differed as between different classes of goods. Thus, from a single official exchange rate in 1981, six different official rates were later introduced for exports and four for imports. Four different rates for exports and three for imports were in force at the end of 1983. By applying these procedures the production and export of certain goods were adversely affected to an exceptional degree without in any way benefiting existing or potential exporting capacity (see table 15).

The rains and floods also severely affected the exporting sector and the balance of payments in 1983. At the reference prices officially established for exports, the cotton and soya harvest losses in 1983 came to around US\$ 45 million compared with 1982 —an amount equivalent to slightly more than 11% of the current value of exports of goods registered at the Central Bank in 1982, and 69% of the contraction between 1982 and 1983. Although these figures tend to exaggerate the impact on registered trade (only a fraction of the loss would presumably have been registered through official channels) they might well underestimate the true dimension of the loss, since the 1982 harvests were in their turn substantially inferior to those of 1981. At the same time the official reference prices of these products were reduced in 1983, when international prices were on the increase.

On the other hand, despite the renewed considerable increase in its absorption of external credit, financial management in the public sector created pressures on the balance of payments for the first time in many years. These pressures, however, and those generated by the undervalued exchange rate were diverted towards price levels, or were compensated by growing restrictions on access to the official exchange rate, the application of prior import deposits, severe controls and follow-up procedures in connection with import applications, and the requirement that external financing be obtained for purchases abroad. Finally, amortization disbursements in foreign currency in respect of external credits for import purposes began to be delayed.

b) *Trade*

i) *Exports of goods, FOB.* The current value of so-called regular (i.e., registered) exports declined by nearly 24% in 1983 (see table 17).¹⁵

Of the main traditional export products, timber suffered the greatest fall with a decrease in the year of around 56%, so that its value was barely 29% of that recorded only three years earlier. On the other hand, exports of livestock products and tobacco rose substantially.

With regard to the main registered non-traditional exports, cotton fibre and soya beans both declined appreciably, the current value of cotton fibre decreasing by around 36% and that of soya beans by 15.5%. There was also a drastic fall in the current values of fruits and vegetables.

In contrast with events in recent years the international prices of the country's main export products improved in 1983. Thus, the nominal price of soya beans rose by 15% and that of cotton by 16%. In real terms these increases amounted to 22% and 23% respectively. Despite these improvements, the relative prices of these two products were still considerably depressed in comparison with those of the early years of the preceding decade (see table 18).

Table 18

**PARAGUAY: EVOLUTION OF EXTERNAL PRICES
OF MAIN EXPORT PRODUCTS**

(1970 = 100)

	Soya beans ^a		Soya-bean oil ^c		Cotton ^d		Timber ^e	
	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b
1972	119.0	103.6	84.3	73.3	122.1	106.3	127.6	110.5
1973	239.7	196.2	152.4	124.7	161.0	131.8	201.8	165.1
1974	228.9	117.0	290.9	148.6	215.6	110.2	237.0	121.1
1975	181.8	85.4	196.9	92.5	182.3	85.7	207.9	97.7
1976	190.9	88.0	153.1	70.6	258.3	119.0	219.8	101.3
1977	231.4	98.0	201.0	85.1	240.8	101.9	265.7	112.4
1978	221.5	85.3	212.2	81.7	237.7	91.6	303.1	116.8
1979	244.3	78.7	231.4	74.5	252.3	81.2	388.8	125.1
1980	244.6	64.2	209.1	54.9	307.0	80.6	443.7	116.5
1981	238.0	63.2	177.2	47.1	279.0	74.1	403.5	107.1
I	257.3	67.6	186.0	48.8	314.7	82.6	438.3	115.1
II	251.5	66.8	181.2	48.1	290.4	77.1	399.6	106.1
III	231.7	62.9	177.3	48.2	271.2	73.7	378.9	102.9
IV	212.9	56.2	164.5	43.4	241.6	63.8	397.6	105.0
1982	202.5	55.6	156.3	42.9	237.3	65.2	385.9	106.0
I	212.1	58.2	158.6	43.5	234.3	64.3	400.3	109.9
II	217.1	59.6	170.9	46.9	247.9	68.1	394.0	108.2
III	192.6	52.9	154.1	42.3	246.8	67.8	380.8	104.6
IV	186.5	51.2	142.0	39.0	223.7	61.4	368.7	101.2
1983	233.1	67.6	184.3	53.5	276.4	80.2	367.2	106.5
I	197.2	57.2	138.2	40.1	242.2	70.2	355.8	103.2
II	206.1	59.8	150.7	43.7	272.5	79.0	377.2	109.4
III	262.3	76.1	217.2	63.0	297.3	86.2	371.0	107.6
IV	265.6	77.0	230.4	66.8	293.4	85.1	364.4	105.7

Source: ECLAC, on the basis of UNCTAD, *Monthly Commodity Price Bulletin* (various issues) and International Monetary Fund, *International Financial Yearbook* (various issues).

^a United States, No. 2 yellow, CIF Rotterdam.

^b The nominal prices were deflated by world export prices.

^c All origins, raw oil, FOB,

ex-factory, Netherlands.

^d Mexican, middle grade, CIF, Northern Europe.

^e Tropical, wholesale price, United Kingdom.

¹⁵ This statistical figure does not include unregistered exports of goods or adjustments in respect of exports to the binational entities. Instead, the latter have been included in the balance-of-payments statistics shown in table 21.

Table 19

PARAGUAY: IMPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1973	1983	1980	1981	1982	1983
Total	517	506	581	478	100.0	100.0	18.1	-2.1	14.9	-17.7
Consumer goods	152	156	158	119	27.1	25.0	14.1	2.3	1.4	-24.4
Non-durable	118	121	118	90	21.4	19.0	11.0	2.5	-2.2	-23.0
Foodstuffs	24	33	24	31	5.0	6.5	20.5	35.4	-26.7	30.8
Beverages and tobacco	40	37	38	15	7.1	3.3	-4.6	-6.2	2.6	-59.2
Others ^b	54	51	56	44	9.3	9.2	21.4	-5.9	10.1	-21.3
Durables^c	34	35	40	29	5.7	6.0	26.0	1.7	13.4	-28.5
Automobiles	18	17	12	7	2.5	1.5	10.0	-8.2	-25.7	-44.7
Electric appliances	16	18	28	22	3.2	4.5	50.6	12.7	48.9	-21.2
Intermediate goods	167	145	228	187	18.7	39.0	27.8	-13.3	57.8	-18.3
Fuels and lubricants	130	95	154	120	6.5	25.1	48.0	-27.0	63.1	-22.2
Others ^d	37	50	74	67	12.2	13.9	-13.4	34.4	47.9	-10.2
Capital goods	169	175	157	144	46.0	30.1	13.8	3.3	-9.7	-8.7
Machinery, equipment and motors	80	108	105	108	29.4	22.5	-	35.1	-2.2	2.3
Transport elements and accessories ^e	75	49	35	22	10.7	4.7	42.4	-35.0	-27.8	-35.9
Others ^f	14	18	17	14	5.9	2.9	-11.3	27.2	-5.6	-20.7
Unclassified	29	31	38	28	8.2	5.9	15.2	6.8	21.1	-24.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aOnly includes imports appearing in the exchange register, plus imports subject to deferred payment and those carried out using long-term external loans. ^bIncluding final paper and paperboard products, pharmaceutical and chemical products and textiles and textile manufactures. ^cIncludes jeeps and rural vans. ^dIncludes iron and iron manufactures (except hardware); ordinary metals and their manufactures; stones and earth and their manufactures; cement, asphalt and timber and their manufactures. ^eExcluding automobiles, jeeps and rural vans. ^fIncludes agricultural implements and accessories, hardware, and live cattle.

ii) *Imports of goods, FOB.*¹⁶ The current value of registered imports of goods FOB fell by close on 18% in 1983 (see table 19). This result reflected a decrease of more than 24% in external purchases of consumer goods, more than 18% in the case of intermediate goods and around 9% in that of capital goods. Imports of consumer goods —durable and non-durable— decreased substantially, the most pronounced contractions being those of automobiles, beverages and tobacco. Imports of fuels and lubricants fell by 22%, while among capital goods the greatest decline occurred in transport equipment and accessories.

iii) *Services, Tourism.* The number of visiting tourists declined in 1983 for the third consecutive year. The total number of tourists failed to reach the 150 000 mark compared with 178 000 in 1982, 267 000 in 1981 and more than 300 000 in 1980. The decrease of more than 55% between 1980 and 1983 was due to a fall in tourism from Argentina which dropped from almost 133 000 visitors in 1980 to 47 000 in 1983. 77% of the contraction between 1982 and 1983, however, was due to a lower flow of tourists from Brazil.

There was also a decline in the average amount of money spent by incoming tourists, with the result that earnings from tourism declined by almost 24% in the year, amounting to barely half of the sum obtained in 1980. But in spite of the severity of the recession in this sector, the supply of rooms and beds for tourists continued to expand in 1983. In these circumstances the average occupancy rate fell to 42% in the case of rooms and to less than 19% for beds, these proportions in 1980 having been 99% and 43% respectively (see table 20).

¹⁶These statistics do not include unregistered imports of goods FOB, imports of goods FOB made by the binational enterprises of Itaipú and Yacyretá, imports in connection with external loans and unilateral official transfer payments, and imports connected with direct foreign investment. The last-named item, however, is included in the balance-of-payments data given in table 21.

About 40% of the decrease in the current value of exports of non-factor goods and services in the three preceding years was caused by lower levels of tourism. Moreover, since the expenditure of Paraguayans travelling abroad remained approximately the same or even rose, the considerable surplus obtained from this trade at the end of the 1970s and in the early 1980s has practically disappeared (see table 21).

Other services. Income from other non-factor services declined by close on 46% in 1983, while expenditure under this heading fell by 43%.

iv) Terms of trade. In calculating terms of trade on the basis of the official reference prices recorded in the Central Bank's foreign exchange register, a deterioration is observed. However, as already mentioned, the prices of the country's main export products rose substantially on the international market in 1983, while the reference prices of the same products were reduced as a matter of economic policy. It is very probable, therefore, that the country's terms of trade actually improved in 1983. In any case it may be stated that import prices declined slightly in the year (see table 22).

c) *The current account position*

The current account deficit dropped from US\$ 391 million in 1982 to US\$ 364 million in 1983. According to the evolution of the trade balance, the magnitude of the adjustment was considerably greater, since the gap between gross domestic investment and gross domestic savings decreased from US\$ 446 million to US\$ 364 million. The difference between these results mainly reflected a marked decrease in interest income, although at the same time payments under this heading rose, thereby producing a radical change in the balance of this account (see table 21).

The current account and trade account deficits were equivalent to 5.5% of the gross domestic product in 1983.

Table 20

PARAGUAY: INDICATORS OF TOURISM

	1972	1974	1976	1977	1978	1979	1980	1981	1982	1983
Number of tourists (thousands) ^{a,b}	93.0	80.1	115.2	176.9	201.9	301.9	302.1	267.1	178.4	147.8
From Argentina	33.7	46.8	38.5	68.1	86.8	132.2	132.6	122.5	56.9	47.1
From Brazil	28.5	25.5	43.0	65.3	68.2	106.9	104.8	92.1	93.8	70.3
From the United States	6.3	1.1	3.5	3.2	4.4	3.6	3.3	4.3	3.9	3.5
From Japan	2.5	0.6	2.5	4.2	4.0	5.1	3.9	2.5	1.0	1.9
From Uruguay	4.3	1.3	4.4	3.7	4.6	3.6	3.9	7.5	5.4	3.1
From other countries	17.7	4.8	23.3	36.1	33.9	50.5	53.6	38.2	17.9	22.1
Average stay (days)	...	3.9	3.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3
Average expenditure (dollars)	119	150	122	200	200	230	300	300	330	305
Total expenditure (millions of dollars)	11.1	12.0	14.0	35.4	40.4	69.5	90.7	80.2	59.0	45.0
Supply of rooms (number) ^c	...	1 605	2 187	2 279	2 442	2 326	2 750	2 769	3 076	3 177
Supply of beds (number) ^c	...	3 896	5 120	5 314	5 691	5 434	6 329	6 243	6 806	7 105
Average occupancy rate										
Of rooms (percentage)	...	53.3	43.3	63.8	68.0	117.3	99.3	87.2	52.4	42.1
Of beds (percentage)	...	22.0	18.4	27.4	29.1	50.2	43.2	38.7	23.7	18.8

Source: ECLAC, on the basis of data supplied by the Department of Tourism, Ministry of Public Works and Communications.

^aThe total number of tourists is calculated on the basis of tourist cards and includes only persons over 12 years of age. ^bThe distribution of tourists by country of origin is calculated on the basis of hotel registers. For 1970 and 1972 the distribution refers to the nationality of the tourists. Subsequent figures refer to their point of departure. ^cIn hotels, motels, hostels and boarding houses considered by the Department of Tourism to be of "tourist level".

Table 21

PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-72	-59	-118	-210	-283	-378	-391	-364
Trade balance	-52	-42	-93	-218	-276	-412	-446	-364
Exports of goods and services	242	390	434	514	566	566	617	463
Goods, FOB	202	327	356	384	400	399	396	331
Real services ^b	40	63	78	129	166	168	221	132
Transport and insurance	2	2	2	3	4	5	2	6
Travel	14	35	40	69	91	80	59	45
Imports of goods and services	294	432	528	731	842	978	1 063	827
Goods, FOB	236	360	432	577	675	772	711	608
Real services ^b	58	72	96	154	167	206	352	219
Transport and insurance	31	44	64	93	104	118	106	91
Travel	13	16	20	31	35	38	42	41
Factor services	-20	-18	-25	4	-11	31	53	-4
Profits	-13	-20	-42	-18	-54	-41	-16	-
Interest received	9	12	18	45	77	102	122	70
Interest paid	-23	-26	-37	-55	-81	-90	-92	-115
Others	7	16	36	33	48	60	39	41
Unrequited private transfer payments	1	1	1	3	3	2	2	4
Balance on capital account	114	171	296	372	434	421	329	...
Unrequited official transfer payments	3	-	5	4	2	3	4	9
Long-term capital	117	85	167	136	192	168	265	...
Direct investment (net)	-3	22	20	50	32	39	44	...
Portfolio investment (net)	-	-	-	-	-	-	-	...
Other long-term capital	120	64	147	85	160	129	221	...
Official sector ^c	36	31	56	10	85	39	60	...
Loans received	40	38	65	21	98	60	83	...
Amortization payments	-4	-8	-9	-11	-12	-20	-22	...
Commercial banks ^c	-2	-	-	3	1	11	11	...
Loans received	3	4	6	9	7	17	16	...
Amortization payments	-5	-4	-6	-6	-6	-6	-6	...
Other sectors ^c	86	33	91	72	74	79	150	...
Loans received	102	55	118	113	135	141	217	...
Amortization payments	-15	-22	-28	-41	-60	-61	-52	...
Short-term capital (net)	-6	106	108	223	261	263	74	...
Official sector	-1	3	7	15	3	12	10	...
Commercial banks	-12	4	9	-9	-14	-13	1	...
Other sectors	7	99	92	218	271	264	62	...
Errors and omissions	-	-20	17	9	-20	-13	-14	...
Global balance ^d	42	112	178	162	151	44	-63	...
Total variation in reserves								
(- sign indicates an increase)	-43	-112	-179	-165	-153	-43	121	2
Monetary gold	-	-	-	-4	-	-	-	...
Special Drawing Rights	-	-	-1	-4	-2	-3	-9	-6
IMF reserve position	-1	-1	-	-2	-8	-10	-1	-3
Foreign exchange assets	-42	-109	-180	-154	-143	-30	133	60
Other assets	-	-2	2	-1	-	-	-2	...
Use made of IMF credit	-	-	-	-	-	-	-	-

Source: 1972-1981: International Monetary Fund, *Balance of Payments Yearbook*. For 1982: ECLAC, on the basis of official data.

^aPreliminary figures.

^bReal services also include other official and private transactions, but not factor services.

^cIn addition to loans received and amortization payments made, this item includes net loans granted and other assets and liabilities.

^dThe global balance is the sum of the current account balance and the balance on capital account. The difference between the total variation of reserves (of opposite sign) and the global balance represents counterpart entries: monetization of gold, allocations of Special Drawing Rights and variations through revaluation.

In contrast with events in the preceding year, when it suffered a drastic fall, the current account surplus attributable to the transactions of the binational entities increased slightly in 1983 according to the accounting records of the Central Bank. However, the current deficit, excluding Itaipú and Yacyretá transactions, decreased for the second successive year, falling from US\$ 541 million to US\$ 523 million (see table 23).

d) *The capital account and the global balance of payments*

As measured by the variation in reserves, the global balance of payments remained approximately in equilibrium at the end of 1983 after recording in 1982 its first deficit for 13 years. The improvement reflected both the adjustment process and a larger capital inflow. The expansion of the surplus on capital account was due to a greater absorption of external credits by the public sector, which very substantially increased its investment expenditure. For their part, capital receipts generated by the binational entities again decreased appreciably.

Excluding the Itaipú and Yacyretá operations, the global balance-of-payments deficit amounted to US\$ 321 million, a considerably smaller amount than in the preceding year but still equivalent to 5% of the gross domestic product.

Table 22

PARAGUAY: VALUE AND VOLUME OF EXPORTS AND IMPORTS OF GOODS AND SERVICES^a

(Growth rates)

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Exports of goods									
Value	8.5	7.6	61.8	8.8	8.0	4.1	-0.4	-0.6	-16.5
Volume	8.3	7.9	20.0	19.4	1.1	0.3	-7.7	13.9	-9.7
Unit value	0.2	-0.3	-34.8	-8.9	6.8	3.8	7.9	-12.7	-7.5
Exports of services									
Value	0.2	16.7	58.0	24.3	64.9	28.3	1.4	31.6	-40.2
Volume	-6.1	11.7	44.7	12.4	29.3	5.1	-10.5	22.2	-45.7
Unit value	6.8	4.5	9.2	10.6	27.5	22.1	13.3	7.7	10.1
Exports of goods and services									
Value	7.2	8.9	61.2	11.4	18.2	10.2	0.1	9.0	-25.0
Volume	5.3	8.6	24.8	17.9	7.1	1.5	-8.5	16.0	-19.4
Unit value	1.9	0.3	29.2	-5.5	10.3	8.5	9.4	-6.1	-6.4
Imports of goods									
Value	14.6	4.0	52.3	20.0	33.6	17.0	14.4	-7.9	-14.5
Volume	1.4	10.3	42.7	16.7	11.2	-1.3	10.8	-11.2	-11.0
Unit value	13.1	-5.7	6.7	2.8	20.1	18.5	3.2	3.7	-3.9
Imports of services									
Value	21.3	5.2	24.7	32.6	61.1	8.1	23.4	71.1	-37.7
Volume	10.2	0.1	15.5	24.3	47.6	-1.8	13.5	63.6	-41.0
Unit value	10.1	5.1	8.0	6.6	9.2	10.0	8.7	4.6	1.9
Imports of goods and services									
Value	15.9	4.2	46.9	22.1	38.6	15.1	16.2	8.7	-22.2
Volume	3.3	7.9	36.7	18.2	18.4	-1.4	11.5	7.4	-21.7
Unit value	12.2	-3.4	7.5	3.3	17.0	16.7	4.2	1.2	-0.5
Terms of trade	-10.9	4.3	26.3	-11.4	-10.1	-11.3	3.6	-15.7	-4.0
Terms of trade (goods and services)	-9.2	3.8	20.2	-8.5	-5.7	-7.0	5.0	-7.2	-6.1
Purchasing power of exports of goods and services	-4.4	12.7	50.0	7.8	1.0	-5.6	-3.9	7.7	-24.5

Source: ECLAC, on the basis of official data.

^aNon-factor. ^bPreliminary figures.

Table 23

**PARAGUAY: EFFECTS OF THE BINATIONAL ENTITIES
—ITAIPU AND YACYRETA— ON THE BALANCE OF PAYMENTS^a**

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Current account								
Total	-71.8	-59.2	-118.1	-210.2	-283.5	-377.7	-391.2	-364.0
Binational entities	38.4	74.5	126.0	147.8	178.3	211.6	149.7	159.4
Itaipú	36.0	71.5	114.5	115.5	121.0	138.5	126.1	134.4
Yacyretá	2.4	3.1	11.5	32.3	57.3	73.1	23.6	25.0
Remainder	-110.2	-133.7	-244.1	-358.0	-461.8	-589.3	-540.9	-523.4
Capital account								
Total	114.3	170.9	296.5	372.0	434.0	421.2	328.6	362.0
Binational entities	38.4	74.5	126.2	148.9	216.8	237.1	183.6	159.5
Itaipú	36.0	71.5	114.5	115.9	145.5	159.2	158.8	134.5
Yacyretá	2.4	3.1	11.7	33.0	71.3	77.9	24.8	25.0
Remainder	75.9	96.4	170.3	223.1	217.5	184.1	145.0	202.5
Global balance								
Total	42.5	111.7	178.4	161.8	150.8	43.5	-62.6	-2.0
Binational entities	76.7	149.0	252.3	296.7	395.1	448.7	337.8	318.9
Itaipú	71.9	142.7	229.0	231.4	266.5	297.7	289.4	268.9
Yacyretá	4.8	6.1	23.3	65.3	128.6	151.0	48.4	50.0
Remainder	-34.4	-37.3	-73.9	-134.9	-244.3	-405.0	-400.4	-320.9
International reserves^f								
Total	157.5	267.8	448.7	609.1	761.9	805.7	682.8	680.3
Binational entities ^d	123.8	272.8	525.1	821.8	1 216.9	1 665.6	2 003.4	2 322.3
Itaipú ^d	116.4	259.1	488.1	719.5	986.0	1 283.7	1 573.1	1 842.0
Yacyretá ^d	7.4	13.5	36.8	102.1	230.7	381.7	430.1	699.0
Remainder ^e	38.4	1.1	-72.8	-207.7	-452.0	-857.0	-1 257.4	-1 578.3

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aExcluding imports of goods and services by the binational entities, which are imputable to the balance of payments, with the exception of profits deriving from investments by the binational entity Itaipú in Paraguay. Also excluded are the capital flows which finance those imports (and which are also imputable to the balance of payments). The accounting method used for this table is therefore the same as that on which table 21 (balance of payments) is based, the original source of which is the Central Bank of Paraguay. ^bPreliminary figures. ^cGross, minus gold. ^dShows the accumulated effects on the global balance of payments. ^eIncludes the counter-entries relative to the monetization and demonetization of gold, the allocation/repayment of SDRs, and variations arising from the revaluation of other reserves.

e) *The external debt*

The gross contracted external debt increased substantially for the third year running. At the end of the year it approached a level of US\$ 2 300 million, having amounted to US\$ 1 939 million in 1982 and US\$ 1 323 million in 1980. The gross disbursed external debt again increased at an even more rapid rate owing to the marked expansion of the absorption of external credits by the non-financial public sector, but it had still not reached two-thirds of the amount contracted. For its part, the external debt of the private sector decreased slightly between the end of 1982 and the end of 1983 (see table 24).¹⁷

The net external debt grew by almost 56% in 1983, reaching US\$ 825 million. In 1980 it had barely amounted to US\$ 97 million. In that year the public sector was even a net creditor to the outside world.

The rapid rise of the disbursed debt in recent years has not been accompanied by a similar growth in its servicing costs. In fact, these rose by only 16% between 1980 and 1983, the increase for

¹⁷These figures exclude the external commitments of the binational entities. In this respect see, for example: ECLAC, *Economic Survey of Latin America and the Caribbean, 1981. op. cit.*, pp. 632-634.

the year 1983 being 8%. This result not only reflects an improvement in the profile of the debt but also a decrease in the average rate of interest due. Net debt-servicing costs nevertheless more than doubled in 1983 owing to an appreciable reduction in interest earnings from the outside world.

Since international prices remained stable in real terms in 1983, the increase in the debt was similar to that at current prices. On the other hand, it again rose appreciably in relation to the gross domestic product, especially when converted at the market exchange rate. In fact, at the parallel rate, the gross disbursed external debt rose from 33.5% of the gross domestic product in 1982 to 56% of that in 1983 after having been less than 23% in 1981. The net external debt rose from less than 7% of the gross domestic product in 1981 to almost 15% of that in 1982 and 31.5% of that in 1983 at the market exchange rate (see table 25).

In relation to registered exports of non-factor goods and services, the gross service of the debt went up to 39% (compared with 28% the year before), owing to the decline in value of external sales and higher interest payments. In net terms, the service of the debt increased threefold in relation to exports, rising from 8% to 24.5%.

With regard to the sectoral allocation of the new external credits, a significant change occurred in 1983 with the notable increase of the flow to the social sectors. This was largely due to the high value of a loan obtained to finance the construction and equipping of a new 500-bed hospital near the capital. The counter-effect of this increase was a sharp drop in the channelling of new credits to sectors producing basic services. Allocations to producers of goods continued to represent 60% of the total. There was a marked reduction, however, in the proportion directed to the farming sector, while that assigned to the manufacturing industry rose steeply, for the purpose of completing the

Table 24

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Contracted external debt ^a	443	562	628	732	952	1 299	1 323	1 641	1 939	2 272
Public sector	395	494	556	643	842	1 139	1 152	1 490	1 766	2 101
Private sector	48	68	73	89	109	160	170	151	173	171
Gross disbursed external debt	272	332	456	518	669	733	861	949	1 204	1 469
Public sector	226	267	383	432	562	574	691	798	1 031	1 299
Non-financial	...	...	...	340	461	468	574	671	868	1 168
Central government	...	...	...	131	210	203	277	317	369	502
State enterprises	...	...	...	209	252	265	297	353	499	614
Financial	...	...	...	92	100	107	117	127	162	182
Private sector	46	65	72	87	107	159	170	151	173	171
Net foreign assets	77	110	160	265	435	587	764	803	674	644
Public sector ^b	84	112	151	260	439	592	744	776	646	622
Private sector ^c	-7	-2	9	5	-4	-5	20	27	28	22
Net external debt	195	222	296	253	234	146	97	146	530	825
Public sector	142	155	232	172	123	-18	-53	22	385	677
Private sector	53	67	63	82	111	164	150	124	145	149
Gross external debt service	33	42	47	60	79	113	160	177	172	186
Amortization payments	17	24	24	34	42	58	79	87	80	71
Interest	16	18	23	26	37	55	81	90	92	115
Net external debt service ^d	28	36	38	48	61	68	83	75	50	116

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aPublic and State-guaranteed private indebtedness, medium and long-term; end-year balances.

^bForeign assets of Central Bank less

short-term foreign liabilities of the Central Bank.

^cForeign assets less short-term foreign liabilities of private commercial

banks.

^dInterest and amortizations paid less interest received.

Table 25

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1970 Index = 100											
Disbursed gross external debt ^a											
At current prices	143.7	178.3	217.8	298.9	340.0	438.8	480.7	564.9	622.4	790.0	963.9
Deflated by export prices	89.0	86.0	103.1	141.0	124.2	169.6	168.4	182.4	180.8	248.3	324.1
Deflated by import prices	115.9	100.0	109.0	154.8	163.9	204.7	191.6	192.9	203.9	255.8	313.8
Disbursed net external debt											
At current prices	124.6	136.1	156.3	195.0	178.2	172.9	129.9	117.5	145.0	346.6	539.6
Deflated by export prices	77.2	65.6	74.0	98.0	65.1	66.8	45.5	38.0	42.1	108.9	181.6
Deflated by import prices	100.5	76.4	78.2	101.0	85.9	80.7	51.8	40.1	47.5	112.2	175.6
As a percentage of GDP											
Disbursed gross external debt											
At official exchange rate ^b	22.0	20.4	22.0	26.8	24.8	26.1	21.4	19.4	16.9	22.9	26.7
At parallel exchange rate ^c	23.2	22.3	24.9	28.9	26.1	29.4	23.1	23.0	22.6	33.5	56.1
At parity exchange rate ^d	16.7	13.4	13.7	18.2	17.0	19.2	16.2	14.7	14.3	18.3	23.3
Disbursed net external debt											
At official exchange rate ^b	24.3	19.9	20.1	22.3	16.6	13.1	7.4	5.1	5.0	10.1	15.0
At parallel exchange rate ^c	25.7	21.7	22.8	24.1	17.5	14.8	8.0	5.5	6.8	14.8	31.5
At parity exchange rate ^d	18.5	13.0	12.5	15.1	11.4	9.7	5.6	3.9	4.3	8.1	13.1
As a percentage of exports ^e											
Gross external debt service											
Amortization payments	14.0	15.9	18.9	19.4	15.4	18.2	22.0	28.3	31.2	27.9	39.2
Interest	7.4	8.2	10.8	9.9	8.7	9.7	11.3	14.0	15.4	13.0	15.0
Net external debt service ^f	6.7	7.7	8.1	9.5	6.7	8.5	10.7	14.3	15.9	14.9	24.3
	12.7	13.5	16.2	15.7	12.3	14.0	16.2	14.7	13.2	8.1	24.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aPublic and State-guaranteed private debt, medium and long-term; end-year balances. ^bBy the Central Bank, at current prices. For 1982 and exchange rate of 140 guaraníes per dollar was used, and for 1983, 153 guaraníes per dollar. ^cOn the "parallel" exchange market. The free exchange market formally established in 1973 was abolished in July 1982. From July 1982 onwards, therefore, the black market exchange rate has been used. ^dCalculated by ECLAC at constant prices. In order to deflate the external debt use has been made of the import price index. ^eExports of goods and services, excluding income in respect of interest from abroad. ^fInterest and amortizations paid, less interest received.

construction of a steel plant. The proportion finding its way to non-residential construction—namely to road works—also expanded substantially (see table 26).

With the considerable increase in net external indebtedness, the severity of the process of adjustment has been noticeably alleviated. Although this has meant a notable reduction in interest earnings, this higher indebtedness has hitherto been attained without appreciably increasing debt-service payments—a quite exceptional achievement considering the high interest rates and indebtedness prevailing in the international capital market in recent years. Nevertheless, the growth rate of indebtedness since 1980 cannot be maintained without causing a dramatic curtailment of the country's room for manoeuvre in the near future. Moreover, in 1983 the problem arose of delays in payments to foreign suppliers. Finally, doubts have also been arising concerning the profitability of new projects financed by external credits, since the exchange rate used for servicing the external public debt has remained at 126 guaraníes to the dollar while all other rates of exchange have increased.

4. Prices and wages

a) Prices

Between the end of 1981 and the end of 1982 the wholesale price index decreased by 7% despite the adjustment of relative prices. In 1983, however, wholesale prices went up very appreciably, rising by an average of 33% between December 1982 and December 1983. Inflation, for its part, measured in terms of the consumer price index, rose from 9% in 1982 to 14% in 1983 (see table 27).¹⁸

The wholesale price index also recorded an upward annual variation of 33% compared with 3.5% the year before, while the consumer price variation was 13.5% compared with around 7% in 1982. The index of implicit prices of the gross domestic product averaged a variation of 15.3% in 1983 as against 6% the previous year.

Inflation in the first nine months of the year accelerated more or less continuously. In the final quarter, however, this trend was reversed. In effect, according to the wholesale price index, it fell from over 45% in October to 33% in December, while according to the consumer price index it showed a decrease from close on 19% in September to 14% in December. Both indexes showed a decrease in price levels in the final month of the year.

Table 26

PARAGUAY: SECTORAL DISTRIBUTION OF THE EXTERNAL DEBT CONTRACTED ANNUALLY

(Percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Goods-producing sectors	61.4	47.9	12.7	50.6	24.5	51.0	60.4	78.0	57.6	58.4
Agriculture	41.0	23.6	7.8	28.6	9.3	22.5	4.4	15.2	26.7	10.2
Crop-farming	29.9	21.6	6.9	26.2	9.3	18.9	4.2	5.5	25.5	10.2
Stock-raising	11.1	2.0	0.9	2.4	...	3.6	0.2	9.7	1.2	-
Forestry	-	-	-	-	-	-	-	-	-	-
Industrial	20.4	24.3	4.9	22.0	15.2	28.5	56.0	62.8	30.9	48.2
Manufacturing	16.2	15.7	3.1	18.1	10.6	27.4	29.0	48.8	9.3	22.0
Construction	4.2	8.6	1.8	3.9	4.6	1.1	27.0	14.0	21.6	26.2
Residential	4.2	1.1	...	3.0	1.2	-	-	-	2.9	-
Non-residential	...	7.5	1.8	0.9	3.4	1.1	27.0	14.0	18.7	26.2
Sectors producing basic services	23.4	47.6	82.6	30.5	63.2	46.4	23.9	9.6	32.4	8.7
Electricity	0.1	23.8	59.5	...	27.6	-	2.2	5.4	5.6	5.9
Gas and water	-	-	-	-	-	-	-	-	-	-
Transport	23.3	23.8	23.1	30.5	35.6	24.7	20.6	2.8	14.1	2.8
Communications	-	-	-	-	-	21.7	1.1	1.4	12.7	-
Sectors producing non-basic services	15.2	4.5	4.7	19.0	12.2	2.6	15.6	12.4	9.9	32.9
Commercial	-	-	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-	-	-
Community, social and personal services	4.0	4.5	4.7	1.5	4.0	1.0	5.6	0.6	1.8	8.6
Government services	11.2	...	...	17.5	...	1.6	10.0	11.8	8.1	24.3
Health	11.2	...	...	8.6	8.2	1.6	2.7	7.7	1.6	24.3
Education	...	...	...	8.9	...	-	7.3	4.1	6.5	-
Amount contracted (millions of dollars)	95.9	141.4	89.5	135.3	263.0	322.9	181.3	415.0	345.2	404.4

Source: ECLAC, on the basis of data from the Central Bank of Paraguay.

¹⁸The wholesale price index is based on 1972, whereas the base year for the new consumer price index is 1980. Applying the former consumer price index based on 1964, inflation in 1982 amounted to 4%.

Table 27

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Average annual variation								
Consumer price index ^a	6.8	4.6	9.3	10.6	28.3	22.4	14.0	6.8	13.5
Food	4.6	4.2	11.2	12.9	29.6	18.9	10.4	3.5	17.1
Housing	9.1	3.2	7.9	6.4	22.3	22.7	20.2	8.4	3.6
Clothing	13.1	5.9	7.5	11.7	23.1	21.2	11.6	6.0	20.8
Miscellaneous	7.4	5.5	6.8	7.6	31.1	32.1	13.4	9.4	17.2
Wholesale price index ^b	15.2	1.1	8.0	12.8	26.3	7.8	12.2	3.5	32.9
Agricultural	26.5	2.5	8.3	21.5	38.4	2.7	13.7	3.5	39.7
Price index implicit in the gross domestic product ^c	6.7	5.0	9.2	10.4	20.6	16.8	16.6	6.1	15.3
	Variation from December to December								
Consumer price index ^a							8.1	8.9	14.1
Food							6.9	5.4	19.4
Housing							12.3	6.4	2.7
Clothing							5.0	15.5	20.9
Miscellaneous							4.4	14.0	17.0
Wholesale price index ^b	11.4	-1.2	6.9	23.7	33.0	-1.9	19.6	-6.8	32.9
Agricultural	28.3	-11.2	6.4	44.4	43.0	-10.6	30.9	-15.7	39.7

Source: Central Bank of Paraguay.

^aBase year: 1980.^bBase year: 1972.^cAt market prices. Base year: 1977.

The higher level of consumer prices in 1983 reflected similar increases in the case of clothing (21%), food (19.4%) and miscellaneous expenses (17%). On the other hand, the average price of housing rose by less than 3%. The increase in wholesale prices was particularly marked in the imported consumer goods group, which rose by nearly 85%. In the case of locally-produced goods, the price increases were in general lower than that of the global index.

A factor influencing the inflation of price levels in 1983 was the rising exchange rate and consequent adjustment of domestic relative prices. This process, which, according to the wholesale price index, was accompanied by deflation in 1982 and inflation in 1983, may be partly explained by the generalization and intensification of exchange rate adjustments. In the case of many products, including some, such as petroleum and wheat, which have considerable weight in the cost of the market basket, the exchange rate did not vary in 1982. But in 1983 no products remained at the old rate of exchange of 126 guaraníes to the dollar, while the average increase in the exchange rate was approximately double that of 1982. At the same time it is probable that the persistence of rising exchange rates may have exerted increasing pressure on the prices of goods not directly affected by the rate of exchange, because of its effects on expectations.

Similarly, in contrast with events in 1982, pressure was exerted on prices in 1983 by the lower domestic output of food products and the evolution of means of payment and wage levels.

The prices of most foodstuffs dropped in 1982; but in 1983 the exceptional rains and floods substantially reduced the harvests of a number of food products with consequent effects on their selling prices. The price of rice, for example, rose by around 140% between the end of 1982 and the end of 1983, and that of maize rose by more than 500%.

The monetary stock barely expanded in 1981 and contracted by 4% in 1982. In these circumstances the process of adjustment of relative prices had little effect on price levels. In 1983, however, means of payment increased by more than 26%. Furthermore—and again contrasting with the preceding year—money demand was declining in 1983. The sharp expansion of the monetary stock in 1983 was mainly due to the very considerable growth of credit to the public sector, which showed a deficit equivalent to 5.1% of the gross domestic product in 1983 compared with 0.9% in 1982.

Finally, nominal wages received by the labour force in 1983 also rose more than in the preceding year without however giving rise to any significant improvement in labour productivity. The general wage index for workers in Asunción rose by slightly over 5% in 1983 compared with 3.8% in 1982, while the index for agricultural day labourers went up by over 23% in 1983 as against 4.6% in 1982. Minimum legal wage levels, for their part, rose by 5% between December 1982 and December 1983 after remaining unchanged in the equivalent preceding period.

As in the previous year, factors having a moderating influence on inflation included the stability of international prices, the increase in gross labour productivity—employment having again declined more than the product—and the contraction of national income. Finally, price controls were appreciably stepped up during the course of the year.

b) *Wages*

Despite the greater nominal increases received in 1983, workers' wages in most sectors deteriorated substantially in real terms. They contracted by 11.5% in the building industry, close on 8% in manufacturing, 6.4% in commerce and transport, and 5.3% in the non-basic services sector. On the other hand, they declined by less than 1% in the basic services sector, while rising in the agricultural sector (see table 28).

In the case of activities surveyed in Asunción, real wages dropped for the second year running; they were approximately 10% lower in 1983 than in 1981 and more than 20% below the levels prevailing at the beginning of the preceding decade.¹⁹ A feature of interest in this connection is that agricultural day wages have not deteriorated in real terms during the recession and consequently, according to available information, continued to evolve in an anti-cyclical fashion.

Until recently, the government's wage policy consisted in readjusting the minimum legal wage for the private sector in accordance with past inflation and whenever the accumulated increase in price levels exceeded 15% after the previous adjustment.²⁰ In the case of the public sector, wage adjustments were in general less frequent and lower than past inflation.

After the May 1981 minimum legal wage readjustment, however, the government waited until the end of July 1983 before granting a new readjustment, whereas accumulated inflation since May 1981 had exceeded 10% by October 1982 according to the new consumer price index.²¹ Moreover, the increase of 10% granted on this occasion was equivalent to approximately half the increase in price levels between May 1981 and June 1983. Public employees, for their part, received no wage readjustments in 1983.

Wage policy cannot of course be disassociated from the evolution of activity levels and real income without sooner or later provoking inflation and pressures on the exchange rate. Since the product and incomes have been declining since the end of 1981, it is probable that remunerations in the private sector would have deteriorated in real terms regardless of the official wage policy, unless a more liberal policy had been accompanied by a successful global incomes programme.

5. Fiscal and monetary policy

a) *Fiscal policy*

The central government budget for 1983 assumed a deficit of 6 600 million guaraníes, equivalent to 1% of the year's projected gross domestic product and 39% greater than that of the previous year, which was under 0.8% of the product. It was foreseen that slightly less than 55% of the deficit would be financed from external sources. The remaining fraction would be covered by freeing resources withdrawn from circulation during the period of bonanza, when the government accumulated a considerable surplus. The monetary effect of the deficit would be small and its pressure on the balance of payments still less (see table 29).

¹⁹The apparent deterioration of workers' wages in Asunción in the recent boom years was examined in ECLAC, *Economic Survey of Latin America, 1981, op. cit.*

²⁰The readjustment also applied to other wages but in an amount equal to the increment of the minimum wage—and consequently in smaller and decreasing proportions.

²¹According to the previous index based on 1964, accumulated inflation between May 1981 and October 1982 amounted to only 6%.

Table 28

PARAGUAY: EVOLUTION OF WAGES

	Index 1970 = 100				Growth rates					
	1980	1981	1982	1983	1978	1979	1980	1981	1982	1983
Nominal										
Workers' wages in Asunción^a										
General	284.5	341.7	354.7	374.0	14.5	20.0	23.2	20.1	3.8	5.4
Manufacturing	283.9	341.4	348.3	364.6	15.5	17.8	24.6	20.3	2.0	4.7
Construction	318.1	379.7	381.5	383.2	12.0	14.0	17.7	19.4	0.5	0.4
Electricity, gas and water	259.1	310.8	333.8	375.9	10.9	12.1	22.8	20.0	7.4	12.6
Transport, storage and communications	287.5	343.4	377.6	401.1	14.1	28.3	20.9	19.4	10.5	6.2
Commerce	300.5	374.2	380.7	404.4	11.0	10.9	42.6	24.5	1.7	6.2
Other services	296.9	360.9	361.1	387.6	14.6	25.9	32.0	21.6	0.1	7.3
Average agricultural daily wage										
Meals included	460.9	522.9	547.2	675.3	3.3	29.0	12.5	13.5	4.6	23.4
Meals excluded	435.8	487.3	521.7	597.1	7.2	22.2	9.1	11.8	7.1	14.5
Minimum legal wage										
Asunción and Puerto Stroessner										
Stroessner	328.4	386.5	404.5	424.9	13.9	25.0	32.5	17.8	4.6	5.0
Other cities	314.7	370.3	387.2	406.6	13.8	25.1	32.4	17.7	4.6	5.0
Agriculture	314.2	369.7	386.5	405.8	25.7	26.0	32.4	17.7	4.5	5.0
Real^b										
Workers' wages in Asunción										
General	83.1	87.5	85.1	79.1	3.6	-6.5	0.7	5.3	-2.7	-7.1
Manufacturing	82.9	87.4	83.6	77.1	4.4	-8.1	1.8	5.4	-4.3	-7.8
Construction	92.9	97.3	91.5	81.0	1.4	-11.1	-3.8	4.7	-6.0	-11.5
Electricity, gas and water	75.6	79.6	80.1	79.5	0.3	-12.6	0.3	5.3	0.6	-0.7
Transport, storage and communications	83.9	88.0	90.6	84.8	3.3	0.1	-1.4	4.9	3.0	-6.4
Commerce	87.7	70.2	91.3	85.5	0.3	-13.8	16.8	-20.0	30.1	-6.7
Other services	86.7	92.4	86.6	82.0	3.5	-1.8	7.8	6.6	-6.3	-5.3
Average agricultural daily wage										
Meals included	134.5	133.9	131.3	142.8	-6.5	0.6	-9.4	-0.4	-1.9	8.8
Meals excluded	127.2	124.8	125.2	126.3	-3.1	-4.6	-10.7	-1.9	0.3	0.9
Minimum legal wage										
Asunción and Puerto Stroessner										
Stroessner	95.9	99.0	97.0	89.8	3.6	-2.5	8.2	3.2	-2.0	-7.4
Other cities	91.9	94.9	92.9	86.0	3.0	-2.4	8.1	3.3	-2.1	-7.4
Agriculture	91.7	94.7	92.7	85.8	13.7	-1.7	8.1	3.3	-2.4	-7.4

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay, Department of Economic Studies; Ministry of Agriculture and Livestock, Department of Agricultural Marketing and Economics; and Ministry of Justice and Labour, Department of Human Resources.

^aAverage for the months of June and December.

^bThe nominal values were deflated by the consumer price index.

Table 29

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of guaraníes					Growth rates				
	1980	1981	1982	1983 ^a	1983 ^b	1980	1981	1982	1983 ^a	1983 ^b
Current income	51.6	59.1	68.4	84.4	62.8	18.3	14.6	15.8	23.3	-8.2
Tax revenues	46.1	52.4	59.4	78.0	51.9	18.9	13.5	13.5	31.3	-12.7
Direct taxes	11.3	14.2	20.6	19.2	15.2	34.0	25.7	44.6	-6.5	-26.2
On personal income	...	...	...	...	...	...	...	...	...	...
On corporate earnings	9.4	11.7	12.6	15.0	11.7	37.2	24.9	7.2	18.9	-7.2
On net worth	1.9	2.5	8.0	4.3	4.5	20.3	29.7	220.0	-46.4	-44.0
Indirect taxes	34.8	38.1	38.8	58.8	36.7	14.6	9.5	1.9	51.4	-5.6
On foreign trade	17.2	17.8	15.6	14.1	11.0	9.0	3.6	-12.5	-9.5	-29.7
Imports	15.9	16.6	14.5	...	10.1	8.9	4.3	-12.5	...	-30.5
Exports	1.3	1.2	1.1	...	0.9	11.1	-5.2	-12.2	...	-19.0
On domestic trade	8.3	8.7	10.2	44.7	12.0	19.2	5.0	17.0	92.1	18.1
Others	9.3	11.6	13.1	...	12.7	22.1	24.5	12.7	...	-2.4
Non-tax income	5.5	6.8	9.0	6.4	10.9	13.2	23.8	33.4	-29.6	21.3
Current expenditure	38.1	53.0	64.1	70.1	71.9	40.0	39.2	21.0	9.4	17.2
Consumption	28.3	40.2	41.7	...	46.9	40.7	42.1	3.8	...	12.3
Salaries and wages	15.9	22.5	28.3	...	32.1	36.6	41.0	25.9	...	13.5
Non-personal goods and services	7.3	9.8	10.0	...	9.9	37.0	34.9	1.9	...	-1.0
Others	5.0	7.9	3.4	...	4.9	96.2	57.8	-56.4	...	40.9
Interest payments	1.8	2.1	2.5	...	3.2	31.3	14.0	18.5	...	26.5
Transfers	7.8	10.7	19.8	...	21.9	35.7	36.7	86.1	...	10.3
Subsidies	0.1	0.1	...	...	...	31.7	10.8	...	...	...
Transfers to the private sector	4.7	6.2	15.4	...	17.0	43.7	31.9	146.4	...	10.5
Transfers to the public sector	2.9	3.9	4.3	...	4.7	35.5	40.0	8.6	...	9.2
Others	0.3	0.4	0.2	...	...	23.7	19.8	-46.2	...	...
Savings	13.5	6.1	4.3	14.2	-9.2	-17.7	-54.8	-29.1	228.4	...
Capital income	...	...	6.4	...	...	...	...	...	...	-99.8
Capital expenditure	14.9	26.0	15.4	20.9	16.4	11.0	74.2	-40.7	35.4	6.5
Capital formation	10.7	14.7	14.0	...	15.0	-6.0	37.9	-4.8	...	6.8
Financial investment	2.5	9.1	0.2	...	...	...	258.3	-97.4	...	...
Transfers to the public sector	1.7	2.2	1.1	...	...	-7.2	28.8	-47.1	...	...
Total expenditure	53.0	79.0	79.5	91.0	88.3	30.4	49.1	0.7	14.4	11.1
Global balance	-1.4	-19.9	-4.8	-6.6	-25.5	...	...	...	...	...
						Percentage of financing				
Financing	1.4	19.9	4.8	6.6	25.5	100.0	100.0	100.0	100.0	100.0
Domestic (net)	-1.2	17.6	4.5	3.0	22.1	-83.2	88.9	94.1	45.4	86.5
Indebtedness	-1.8	2.6	3.9	-0.3	20.1	-130.9	13.3	82.1	-5.1	78.7
Direct loans	-1.0	2.8	4.0	-	...	-73.0	14.1	85.0	-	...
Central Bank	0.2	0.4	-0.2	-	15.8	17.0	1.9	-4.8	-	62.0
Suppliers	0.2	3.4	4.4	-	...	16.6	17.2	92.5	-	...
Others	-1.5	-1.0	-0.1	-	...	-106.6	-5.0	-2.6	-	...
Bonds	-0.8	-0.2	-0.1	-0.3	...	-57.9	-0.8	-2.9	-5.1	...
Sale	...	...	...	...	...	...	...	...	...	...
Amortization	-0.8	-0.2	-0.1	-0.3	-0.4	-57.9	-0.8	-2.9	-5.1	-1.5
Cash variation (- sign indicates an increase)	0.7	15.0	0.6	3.3	2.0	47.7	75.6	12.0	50.4	7.8
External (net)	2.5	2.2	0.3	3.6	3.4	183.2	11.1	5.9	54.6	13.5
Loans	2.5	2.2	0.3	3.4	3.4	181.6	10.9	5.7	52.0	13.5
Disbursements	4.1	4.6	2.9	6.5	6.5	293.6	23.4	60.6	97.6	25.3
Amortization	-1.5	-2.5	2.6	-3.0	-3.0	119.9	-12.4	-54.9	-45.6	-11.8
Donations	...	...	...	0.2	-	1.7	0.2	0.1	2.6	...

Source: Ministry of Finance of Paraguay, Technical Secretariat and Budget Department; and Public Sector Planning Division of the Technical Planning Secretariat.

^aBudgeted amounts.

^bQuantities recorded. Preliminary figures.

^cThese amounts are less than 50 million guaraníes.

An increase of more than 14% of total expenditure was budgeted with a 35.4% higher allocation for capital expenditure and one of 9.4% for current outgoings. At the ruling rate of inflation these increases assumed real variations of 5%, 24% and 0.5% respectively.

With reference to current income, a growth of slightly more than 23% was forecast. An increase of 31.3% in tax revenue was expected, together with a decrease of almost 30% in non-tax income. With regard to tax collection, the planned reduction of direct taxes was to be more than compensated by an expected increase in revenues from indirect taxation. Of the latter, a growth of 92% was forecast in those deriving from levies on domestic trade and others, and a contraction of 9.5% in the case of taxes on foreign trade.

The forecast current income of the central government was based on a number of adjustments in indirect taxes —including Law 967, which modified the specific levies on the consumption of cigarettes and whisky; Law 975, which readjusted the sealed-paper and stamp tax; Law 977, which increased the taxes on alcoholic and carbonated beverages and converted them into *ad valorem* rates; and Decree 35984, which stipulated lower real estate reference prices for tax purposes— and on the depressive effects of lower imports and the expiry of Law 920 relating to the legalization of irregular situations in respect of assets and values.

The restriction of current expenditure in real terms was to be achieved mainly through the freezing of wages paid to public employees. It was also intended not to increase expenditure on the consumption of goods and of non-personal services.

The forecast of current income and budgeted current expenditure would produce a saving of 14 238 guaraníes, which would more than treble the saving obtained in the preceding year. In relation to the forecast gross domestic product, this would represent slightly more than 2% compared with 0.7% in 1982. Since an important increase in capital expenditure was envisaged in order to attenuate the effects of recession, the attainment of this improvement in the current account would be an essential element in avoiding the generation of pressures on price levels and on the balance of payments.

Nonetheless, most actual results in the 1983 fiscal year were not only much higher than those envisaged in the budget but showed a marked deterioration in comparison with the previous year's financial figures. According to preliminary data, the 1983 fiscal deficit amounted to 25 543 million guaraníes. This sum was almost four times that of the budget and was equivalent to 3.3% of the gross domestic product. It reflected much lower revenues than those foreseen and required the creation of means of payment to defray the shortfall (see tables 30 and 29).

All in all, current income decreased by upwards of 8% in nominal terms and nearly 20% in real terms. The drop in tax revenues —which amounted to barely 66% of the receipts foreseen and almost 13% less than in 1982— was mainly due to the drop in direct taxation, which declined by 26% compared with 1982 and amounted to only 79% of the forecast amount. Indirect tax revenues also contracted by nearly 6% compared with the previous year and were barely 62% of the budget estimate. Non-tax revenues, however, rose by over 21%.

Compared with 1982, the main decreases in income were recorded in revenues from the tax on net worth, which contracted by 44%, and those deriving from import dues, which declined by 30.5%. Revenues from the tax on corporate earnings also decreased, as did those from export levies and other indirect taxes. On the other hand, revenues from sales taxes rose by 18%.

The most significant factors in the reduction of current income compared with receipts in 1982 were the contraction of domestic expenditure, the expiration of Law 920, and the exceptional rains and floods. On the other hand, it seems clear that the estimation of current income as contained in the 1983 budget was excessively optimistic.

As for current expenditure, the recorded expansion was not much greater in nominal terms than that foreseen in the budget and contracted slightly in real terms despite the exceptional demands arising from the climatic phenomena experienced in the year. While expenditure on goods and services was rigorously restricted and an explosive expansion in transfers and wage costs was successfully avoided, other consumption expenses and interest payments rose appreciably.

However, as current income proved to be much less than the level envisaged, a significant deficit occurred on current account —the first for many years. The negative result totalled more than 9 million guaraníes and was equivalent to 1.2% of the gross domestic product. The growth of capital expenditure was limited to less than 7% of that incurred in 1982, and to less than 80% of the amount

budgeted. Capital formation also expanded by slightly less than 7% and showed a reduction of close on 7% in real terms. Approximately 87% of the global deficit was financed from domestic sources — primarily the Central Bank.

Although recessional factors contributed to the marked retrogression of approximately one-third in the financial situation of the central government, it should be borne in mind that this has been deteriorating more or less continuously since the end of the previous decade owing to the increased rigidity of the tax system and to the accelerated expansion of current expenditure. Between 1979 and 1982 tax revenues fell from 11% to 9.6% of the gross domestic product, or to 8.9% if the extraordinary revenues stemming from Law 920 are excluded. At the same time, current expenditure increased from 7.7% to 10.4% of the gross domestic product (see table 30). Since all the necessary tax reforms have not yet been instituted, it would appear appropriate to attribute a considerable part — approximately one-third — of the deterioration in the finances of the central government in 1983 to structural problems hampering the tax system.

Table 30

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(As a percentage of the gross domestic product)^a

	1972	1977	1978	1979	1980	1981	1982	1983 ^b
Current income	11.6	10.4	11.2	12.3	11.1	10.0	11.1	8.1
Tax revenue	10.2	9.3	9.9	11.0	9.9	8.9	9.6	6.7
Direct taxes	...	1.8	2.2	2.4	2.4	2.4	3.3	2.0
Indirect taxes	...	7.5	7.9	8.6	7.5	6.5	6.3	6.0
Non-tax income				1.3	1.2	1.1	1.5	1.4
Current expenditure	10.0	7.3	7.1	7.7	8.1	9.0	10.4	9.3
Consumption	6.9	5.0	4.8	5.7	6.1	6.8	6.8	6.1
Wages and salaries	5.1	3.4	3.3	3.5	3.4	3.8	4.6	4.2
Non-personal goods and services	1.8	1.6	1.5	1.5	1.6	1.7	1.6	1.3
Others	...	...	...	0.7	1.1	1.3	0.6	0.6
Interest payments	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Transfers to the private sector				0.9	1.0	1.1	2.5	2.2
Transfers to the rest of the public sector	2.0	1.5	1.5		0.6	0.7	0.7	0.6
Others				-	0.1	0.1	-	...
Savings	1.6	3.1	4.2	4.6	2.9	1.0	0.7	-1.2
Capital income	-	-	-	-	-	-	1.0	-
Capital expenditure	2.2	2.9	3.0	3.8	3.2	4.4	2.5	2.2
Capital formation	1.5	2.4	2.6	3.2	2.3	2.5	2.3	1.9
Global balance	-0.1	0.2	1.2	0.9	-0.3	-3.4	-0.7	-3.3
Financing	0.1	-0.2	-1.2	-0.9	0.3	3.4	0.7	3.3
Domestic (net)	-0.1	-1.2	-1.8	-1.4	-0.2	3.0	0.7	2.9
Indebtedness	...	-0.2	-0.1	0.3	-0.4	0.4	0.6	2.6
Loans	...	-0.2	-0.1	0.4	-0.2	0.5	0.6	...
The banking system (net)	...	-0.4	-0.2	0.2	0.1	0.6	0.7	...
Central Bank (net)	...	0.2	0.1	0.2	0.1	0.1	-0.1	...
Bonds (net)	...	...	...	-0.1	-0.2	...	-	...
Cash variation (- sign indicates an increase)	...	-1.0	-1.7	-1.7	0.1	2.5	0.1	0.3
External (net)	0.2	1.0	0.6	0.5	0.5	0.4	-	0.4
Disbursements	...	...	...	1.2	0.8	0.8	0.4	0.8
Amortization	...	...	...	-0.7	-0.3	-0.4	0.4	-0.4

Source: ECLAC, on the basis of information from the Technical Planning Secretariat, Paraguay.

^aAt factor cost at current prices.

Table 31

**PARAGUAY: OPERATIONS OF THE NON-FINANCIAL
PUBLIC SECTOR**

	Billions of guaraníes					Growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Current income	60.4	70.1	81.4	91.6	94.5	35.2	16.2	16.1	12.6	3.1
General government	53.4	64.6	75.2	86.3	83.8	26.7	21.0	16.4	14.8	-2.9
Profits of public enterprises	7.0	5.5	6.2	5.3	10.7	180.8	-20.7	12.5	-14.5	101.0
Current expenditure	33.8	46.1	63.3	77.2	87.0	29.4	36.6	37.2	21.9	12.8
Consumption	26.2	35.3	49.4	52.8	59.4	25.5	35.0	40.0	6.9	12.5
Salaries and wages	16.0	20.7	28.7	35.8	40.7	22.5	28.8	38.9	24.9	13.5
Non-personal goods and services	7.2	9.4	12.6	13.2	13.5	22.2	31.2	33.3	4.8	2.5
Others	3.0	5.2	8.2	3.8	5.3	60.5	74.5	56.7	-53.2	37.8
Interest payments	1.5	1.9	2.3	2.7	3.4	47.4	33.0	19.8	16.0	27.6
Transfers to the private sector	5.0	7.3	9.6	19.5	21.9	26.0	44.2	32.5	102.2	12.5
Others	0.2	0.3	0.3	0.3	0.2	24.0	7.3	27.8	-5.3	-30.7
Savings	26.6	24.0	18.1	14.5	7.5	43.4	-9.7	-24.6	-20.1	-48.3
Capital income	3.6	6.8	6.4	19.2	3.0	72.3	87.1	-5.9	199.7	-84.2
Capital expenditure	23.8	28.8	43.6	40.6	59.0	10.0	20.9	51.3	-6.8	45.0
Capital formation	21.7	25.1	30.8	36.7	55.5	15.4	15.5	23.0	19.1	51.3
Global balance	6.4	2.0	-19.1	-7.0	-41.7					
						Percentage of financing				
Financing	-6.4	-2.0	19.1	7.0	41.7	100.0	100.0	100.0	100.0	100.0
Domestic (net)	-8.9	-5.6	12.8	-0.7	16.8	139.4	279.3	67.0	-10.5	-40.2
Indebtedness	0.9	-0.5	4.5	3.1	...	-13.3	26.6	23.6	44.0	-28.2
Loans (net)	1.1	...	4.7	3.2	...	-18.0	...	24.5	46.0	...
The banking system	1.1	...	0.8	0.3	...	-17.0	...	4.3	4.1	...
Central Bank	0.2	0.2	0.5	0.8	...	-2.8	-11.8	2.8	11.1	...
Others	0.9	...	0.3	-0.5	...	-14.0	...	1.5	-7.0	...
Suppliers	...	...	3.6	3.6	...	-0.7	...	18.8	52.2	...
Others	...	...	0.2	-0.7	...	-0.5	...	1.3	-10.3	...
Bonds	-0.3	...	-0.2	-0.1	...	4.7	...	-0.8	-2.0	...
Cash variations (- sign indicates and increase)	-9.8	-5.0	8.3	-3.8	...	152.7	252.8	43.4	-54.6	...
External (net)	2.5	3.5	6.3	7.7	24.9	-39.5	-179.4	33.0	110.6	-59.8
Loans (net) ^b	2.5	...	6.3	7.7	...	-38.9	...	32.7	110.5	...
Disbursements	6.5	...	12.1	13.1	...	-102.2	...	63.3	187.0	...
Amortization	-4.0	...	-5.7	-4.4	...	63.2	...	-29.7	-62.5	...
Donations	...	...	...	...	...	-0.5	-1.2	0.2	0.1	...

Source: ECLAC, on the basis of information from the Technical Planning Secretariat.

^aPreliminary figures.

^bIncluding suppliers.

^cThese amounts are less than 50 millions guaraníes.

Financial results in the rest of the public sector also deteriorated in 1983, though to a smaller extent than those of the central government. In this respect, the consolidated deficit of the non-financial public sector grew to 41 700 million guaraníes, a sum six times the amount of the small deficit of the preceding year and equal to 5.4% of the domestic product. Its pressure on the external position of the economy, however, was appreciably less than its monetary effect, since 60% of the deficit was financed by external credits (see tables 31 and 32).

Despite the contraction of general government income as a whole, that of the non-financial public sector increased slightly thanks to a doubling of the profits of public enterprises. Current income in real terms fell by approximately 10%. Expenditure, on the other hand, increased by almost

13% and consequently hardly varied in real terms. Most of this increase was attributable to higher salary and wage costs. Public sector savings amounted to only about 50% of the previous year's equivalent result; even so, it was a result which compares favourably with that obtained by the central government.

Capital expenditure rose by 45%, and capital formation by over 51%. In real terms, the formation of capital in the public sector was therefore approximately 30% greater in 1983 than in 1982. This counter-cyclical expansion of investment — mainly made by the public enterprises and decentralized entities— was supported by a greater absorption of previously contracted external credits and an increase in domestic savings; hence it did not have the effect of increasing the current account deficit on the balance of payments but rather tended to accelerate inflation.

Table 32

**PARAGUAY: OPERATIONS OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR**

(As a percentage of the gross domestic product)^a

	1972	1977	1978	1979	1980	1981	1982	1983
Current income	14.7	13.8	14.6	17.1	15.0	13.8	14.9	12.2
General government				15.1	13.8	12.8	14.0	10.8
Profits of public enterprises				2.0	1.2	1.0	0.9	1.4
Current expenditure	11.8	8.8	8.5	9.6	9.9	10.7	12.5	11.3
Consumption				7.4	7.6	8.4	8.6	7.7
Salaries and wages	...	4.3	4.3	4.5	4.5	4.9	5.8	5.3
Non-personal goods and services	...	2.0	1.9	2.0	2.0	2.1	2.1	1.7
Others	...			0.9	1.1	1.4	0.6	0.7
Interest payments	...	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Transfers to the private sector	...	1.4	1.3	1.4	1.6	1.6	3.2	2.8
Others	...			0.1	0.1	0.1	0.1	-
Savings	2.9	5.0	6.2	7.5	5.1	3.1	2.4	0.9
Capital income				1.0	1.5	1.1	3.1	0.4
Capital expenditure	5.5	6.3	7.1	6.7	6.2	7.4	6.6	7.6
Capital formation	...	5.8	6.1	6.1	5.4	5.2	6.0	7.2
Global balance	-3.6	-0.9	-0.3	1.8	0.4	-3.2	-1.1	-5.4
Financing	3.6	0.9	0.3	-1.8	-0.4	3.2	1.1	5.4
Domestic (net)	1.6	-1.7	-2.3	-2.5	-1.2	2.1	-0.1	2.2
Indebtedness	...	-	-	0.2	-0.1	0.8	0.5	...
Loans (net)	...			0.3	...	0.8	0.5	...
The banking system	...			0.3	...	0.2	-	...
Central Bank	...	0.1	0.1	0.1	0.1	0.1	0.1	...
Others	...	-0.1	-0.1	0.2	...	0.1	-0.1	...
Suppliers	...			-	...	0.6	0.6	...
Others	...			-	...	-	-0.1	...
Bonds	...			-0.1	...	-	-	...
Cash variations (- sign indicates an increase)	...	-1.7	-2.3	-2.7	-1.1	1.3	-0.6	...
External (net)	2.0	2.6	2.6	0.7	0.8	1.1	1.2	3.2
Loans (net)	...			0.7	...	1.1	1.2	...
Disbursements	...			1.8	...	2.1	2.1	...
Amortization	...			-1.1	...	-1.0	-0.7	...
Donations	...			-	-	-	-	...

Source: ECLAC, on the basis of information from the Technical Planning Secretariat.

^aAt factor cost at current prices.

The improved results of the non-financial public sector as a whole were basically due to an increase in the profits of the oil company PETROPAR (Petróleos del Paraguay), the mixed or semi-State enterprise responsible for refining and marketing petroleum products. This in turn reflected the effects of higher taxes on petroleum products on the one hand and, on the other, the application of a much lower exchange rate for oil imports than that ruling on the exchange market. If the rate of exchange applied to petroleum were raised without increasing the corresponding tax, a considerable proportion of the profits mentioned—which account for a large part of public-sector income in 1983—would disappear.

It should be added that the financial operations of the public enterprises have also been deteriorating since 1979. Their profits in real terms decreased by almost 50% between that year and 1982. This development, and the inelasticity of central government tax revenues, were determining factors in the lower current income of the non-financial public sector in general, which dropped from 17.1% to 14.9% of the gross domestic product in the period mentioned. It declined further to 12.2% of the gross domestic product in 1983 (see table 32).

b) *Monetary policy*

As has been the case since the present recession began in the second half of 1981, a passive monetary policy was applied in 1983. However, in contrast with the results of this policy in the two preceding years, it led in 1983 to a considerable expansion of means of payment. While the monetary stock contracted by 3.5% between December 1980 and December 1982, it expanded by more than 26% between the latter date and the end of 1983 (see table 33).

During the 1972-1981 boom period, an active monetary policy had been applied which, by means of a marked increase in legal bank reserves, counteracted to a considerable degree the monetary effects of the accumulation of external assets. This anti-inflationary policy was at the same time supported by an anti-cyclical fiscal policy. Almost the entire growth of the monetary stock in that period was provided by the balance of payments. As from 1976, the expansion of the net external assets of the monetary authority was consistently and appreciably greater than the growth of the means of payment, its holdings of net domestic assets becoming increasingly negative. At the end of 1980 the deposits of the central government held by the monetary authority were equivalent to 22% of its accumulated net external assets.

As from mid-1981, however, when the external position and financial operations of the government began to differ from those of the boom period, monetary policy became more passive, either deliberately—following an asymmetrical or one-way neutralization approach—or by omission.

Although the accumulation of international reserves ceased in mid-1981 and began to contract some months later, the monetary base continued to grow, albeit at a lower rate, during the second half of that year, since the government resorted to its assets over the monetary authority to finance the unforeseen expansion of its deficit.²² The monetary stock, on the other hand, which had increased by almost 20% annually between 1972 and 1980, contracted during the second half of 1981 and ended that year at a level barely greater than at the end of 1980. Quasi-money, for its part, continued to expand at a high rate, similar to that recorded between 1972 and 1980.

The first balance-of-payments deficit for many years occurred in 1982, when the central government almost eliminated its global deficit. With a passive monetary policy, these results led to a contraction of slightly less than 1% in the money base. The monetary stock, for its part, declined by 4% while quasi-money rose by 10%.

In 1983, on the other hand, the loss of reserves was halted, but the central government deficit increased substantially. The monetary authority adjusted to the resulting growth of government credit requirements and, mainly as a result of that deficit, the monetary base expanded by 30%. In this respect, approximately 73% of the growth of the monetary base may be attributed to a greater absorption of credit on the part of the central government. At the same time the monetary authority saw to the provision of the appreciably higher credit demands of the rest of the non-financial public sector and those of the commercial banks. Net domestic credit granted in 1983 by the Central Bank increased in all by 109%, mainly because of the radical change in the position of the central

²² Between 1972 and 1980 the monetary base expanded annually by approximately 28%. In the second half of 1981 it increased by 10%.

government, which, from having been a creditor to the Bank to the amount of nearly 3 000 million guaraníes, became a debtor to the extent of almost 16 000 million guaraníes (see table 33).

For its part, the expansion of means of payment (M_1) was somewhat less than that of the monetary base, while the growth of quasi-money was limited to 13%. Measured in M_2 terms liquidity expanded by 18%.

As the rate of inflation, deflated on the basis of the gross domestic product, amounted to about 15%, and since the level of activity contracted by slightly less than 4%, the income-velocity of M_1 decreased substantially. From 12.2 in 1982 it fell to 10.8 in 1983 with the result that its marginal variation barely amounted to 0.4. This contraction, after two successive years in which the monetary stock decreased appreciably in relation to the nominal gross domestic product, might appear surprising in the light of the recession, inflationary pressures, and growing restrictions on the importation of goods and services and on capital movements. It would have been more reasonable in the circumstances to expect a contraction of demand, although interest rates admittedly slackened during the year.

Table 33

PARAGUAY: CREATION AND INCOME-VELOCITY OF MONEY

	1977	1978	1979	1980	1981	1982	1983
Growth rates^a							
Money							
M_1	32.5	39.5	24.5	25.8	0.4	-3.9	26.4
M_2	31.9	35.8	17.0	34.0	15.3	4.3	18.0
Monetary base	31.7	31.1	23.0	27.0	17.2	-0.8	30.1
As a percentage of the increase^b							
Sources^c							
Net foreign assets	168.1	211.5	190.2	129.1	16.5	1 003.2	-6.8
Net domestic assets	-68.1	-111.5	-90.2	-29.1	84.5	-903.2	106.8
Domestic credit	62.9	48.2	38.3	-110.1	167.7	131.9	103.9
Public sector	106.2	126.5	141.2	36.7	75.7	123.9	79.6
Central government (net)	79.1	92.8	108.8	-138.3	88.1	24.2	82.9
Other public bodies	21.9	7.2	-8.8	-38.3	11.9	75.8	17.1
Financial	47.6	117.4	61.1	-8.2	44.2	87.1	23.2
Non-financial	52.4	-17.4	38.9	108.2	55.8	12.9	76.8
Private sector	-6.2	-26.5	41.2	63.3	24.3	-23.9	20.4
Other net domestic assets	37.1	51.8	62.7	210.1	-50.6	-31.9	-3.9
Capital and reserves	24.1	-8.2	11.7	41.2	67.7	312.8	127.8
Others	76.9	91.8	88.3	59.8	32.3	-212.8	-27.8
Coefficients							
Uses^c							
Currency outside banks	37.2	50.3	54.6	46.1	-0.2	-309.6	20.8
Commercial bank reserves	62.8	49.7	45.4	53.9	100.2	409.6	79.2
Currency outside banks/ demand deposits	0.88	0.88	0.96	1.00	0.99	1.23	1.02
Currency outside banks/ total deposits	0.30	0.33	0.36	0.34	0.25	0.26	0.25
Bank reserves/demand deposits	1.37	1.24	1.22	1.24	1.64	1.90	1.90
Bank reserves/total deposits	0.46	0.46	0.45	0.42	0.44	0.40	0.47
Monetary multiplier							
M_1 /monetary base	0.84	0.89	0.90	0.89	0.76	0.71	0.69
M_2 /monetary base	1.70	1.76	1.68	1.77	1.81	1.90	1.73
Income-velocity of money							
Gross domestic product/ M_1	9.23	8.09	8.68	8.98	11.31	12.24	10.76
Gross domestic product/ M_2	4.53	4.08	4.65	4.52	4.59	4.58	4.31

Source: ECLAC, on the basis of Central Bank of Paraguay, *Boletín Estadístico*, January 1984, No. 308.

^aBased on end-year balances.

^bThe items of each subdivision add up to 100%.

^cOf the monetary base.

Table 34

PARAGUAY: MONETARY BALANCE

	End-year balances in billions of guaraníes				Growth rates				
	1980	1981	1982	1983	1979	1980	1981	1982	1983
Money	62.4	62.6	60.2	76.1	24.5	25.8	0.4	-3.9	26.4
Currency outside banks	31.2	31.2	33.2	38.5	15.2	28.2	-0.1	6.4	16.0
Current account deposits	31.2	31.5	27.0	37.6	32.8	23.5	0.9	-14.2	39.1
Factors of expansion	171.7	206.4	220.3	249.8	24.7	32.0	20.2	6.9	13.4
Net external assets	97.3	103.0	96.8	93.0	38.0	27.7	5.8	-15.6	-4.0
Net domestic assets	74.4	103.3	123.5	156.8	9.8	38.2	38.8	19.6	26.9
Domestic credit	85.5	115.4	127.9	154.7	16.7	44.3	34.9	10.9	20.9
Public sector	-8.4	5.0	8.9	30.1					
Central government (net)	-16.9	-4.9	-2.6	16.0					
Credit	4.3	4.3	3.6	21.5					
Deposits	-21.1	-9.2	-6.2	-5.5					
Other public bodies	8.5	9.9	11.5	14.1					
Private sector	93.9	110.4	119.1	124.6	24.8	34.2	17.5	7.9	4.6
Other net domestic assets	-11.0	-12.0	-4.4	2.0	215.1				
Factors of contraction	109.4	143.7	160.1	173.7	24.9	35.9	31.4	11.7	8.5
Saving and time deposits	61.6	80.3	84.4	95.4	18.5	43.5	30.4	5.1	13.0
National currency	40.9	58.6	67.9	83.2	2.5	32.5	43.4	15.8	22.6
Foreign currency	20.7	21.7	16.5	12.2	120.8	71.6	4.8	-23.9	26.1
Import deposits	3.1	3.9	4.7	4.4	12.6	-9.6	25.4	21.0	-7.5
Long-term foreign borrowing	9.1	8.6	9.6	9.8	7.5	1.2	-5.8	11.3	1.8
Capital and reserves	32.3	43.1	53.3	51.6	46.8	42.3	33.7	24.3	-3.2
Other liabilities (net)	3.3	7.7	8.1	22.3	83.9	34.1	136.5	5.5	174.4

Source: ECLAC, on the basis of the Central Bank of Paraguay, *Boletín Estadístico*.

All in all, the growth of means of payment nevertheless accelerated noticeably during the last two months of the year. Up to October inflation exceeded the rate of monetary expansion, and surpassed it by a substantial margin during the greater part of the year. In this respect, the abnormally large drop in the income-velocity of money at the end of 1983 would betoken an intensification of inflation, a further loss of reserves and greater increases in the exchange rate if the accelerated growth of means of payment were to continue. However, since a considerable growth of means of payment is not uncommon at the end of the year, it appears that the exceptionally sharp expansion of the M_1 in December—almost 11%—was an anomalous event; in January 1984 the monetary stock contracted by more than 6%. It will nonetheless be remembered that the increase in the wholesale price index in the year was three times as high as that of consumer prices.

In spite of the enormous expansion of net domestic credit provided by the Central Bank, the increase in the domestic creation of means of payment was only slightly greater than that recorded in the preceding year. In fact, the net domestic asset holdings of the banking system rose by 22.5%—a figure somewhat higher than in 1982 and appreciably lower than that recorded in previous years. The growth of net domestic credit amounted to 21%. Although credit to the public sector increased substantially—it more than trebled—credit to the private sector rose by less than 5% despite the considerable expansion of Central Bank credit to the commercial banks (see table 34).

With reference to the allocation of credit to the non-financial private sector by type of economic activity, agriculture was the only sector to receive a higher increase than inflation.²³ That granted to

²³ It should be noted that this statistical figure includes both credit granted by the commercial banks and that supplied by the National Development Bank (Banco Nacional de Fomento), but excludes that issued by the Central Bank.

the manufacturing industry was similar to the rise in price levels, while that allocated to other activities was less. Credit allocations for the marketing of goods and services abroad also expanded appreciably more than inflation, after two years of considerable contractions (see table 35).

In relation to the gross domestic product, credit allocations again declined and were appreciably lower than in some former years.

With regard to monetary policy measures, at the beginning of the year—in January—the Central Bank repealed the application of indexation to the operations of savings and loan associations for housing. At the same time, it increased the applicable rates of interest for these operations, the passive rate rising from 11% to 14% and the active rate from 14% to 18%. The Central Bank also decided in January to raise from 60% to 85% the percentage of rediscounts granted to the commercial banks within the framework of the Programas de Garantías para Créditos Productivos y de Empresas Rurales (Guaranteed Productive Credit and Rural Enterprises Programmes). At the same time, it instructed the banks to attend to loan applications under these programmes up to an amount equivalent to at least 10% of their portfolio rediscounted by the Central Bank. In June the latter proceeded to limit commercial bank loans to public enterprises and decentralized entities by requiring the banks to obtain prior authorization before granting credit to these organizations. In July the Central Bank decided to establish maximum annual active rates for the commercial portfolios of financial entities and for the commercial banks. For the latter the maximum active rate was fixed at 24% (12% maximum interest rate and 12% maximum rate of commission) and for the financial entities at 33% (12% as the maximum interest rate and 21% as the maximum chargeable commission). The highest rate allowed for savings and loan associations for housing remained unchanged at 18%. At the same time, the Bank decided that the commercial banks could not collect interest and commission up front on loans made under the *Régimen de Cartera Mínima* (Minimum Portfolio Régime). The rate of interest, including commission, for this portfolio remained unchanged at 14.5%.²⁴ On the other hand, the rediscount rate for the same portfolio was raised from 30% to 50%.

Table 35

PARAGUAY: DESTINATION OF CREDIT GRANTED TO THE PRIVATE SECTOR, BY KIND OF ECONOMIC ACTIVITY^a

	End-year balances (billions of guaraníes)			As a percentage of the gross domestic product ^b					Growth rates		
	1981	1982	1983	1979	1980	1981	1982	1983	1981	1982	1983
Total	121.7	133.6	139.5	20.8	18.3	17.2	18.3	16.6	18.3	9.3	4.4
Agriculture	34.4	41.3	47.4	32.7	18.8	19.6	24.9	...	24.0	20.0	14.8
Crop-farming	20.6	23.0	27.4	33.1	16.2	17.1	20.0	...	25.3	11.6	19.1
Stock-raising	13.8 ^c	18.3	19.9	32.1	24.3	24.9	32.4	...	22.0 ^c	32.5	8.7
Industry	28.5	32.2	36.6	24.6	18.5	17.2	18.5	...	21.6	12.8	13.7
Manufacturing	27.0	31.0	35.5	27.2	24.0	22.8	25.6	...	21.8	14.4	14.5
Construction	1.5	1.2	1.1	8.9	3.6	3.2	2.4	...	18.3	-18.0	-8.3
Commerce (domestic)	38.1	41.5	35.3	13.9 ^d	20.9 ^d	20.2 ^d	18.0	...	26.0	8.8	-14.9
Exports	13.8	12.4	15.2	16.3	28.4	26.7	20.3	...	-9.6	-9.9	22.6
Others	6.9	6.3	4.9						11.1	-8.7	-22.2

Source: ECLAC, on the basis of the Central Bank of Paraguay, *Boletín Estadístico* (various issues).

^aCredits granted by the National Development Bank, the Livestock-raising Fund and commercial banks.

^bAt market prices.

^cEstimates.

^dIncluding financing.

²⁴The Minimum Portfolio Régime (*Régimen de Cartera Mínima*) was set up in 1972 and establishes a requirement that the commercial banks shall allocate at least 50% of their credit portfolio to finance industry, agriculture and exports.

Until these provisions came into force the maximum rates officially allowed for commercial operations carried out by the banks —namely, operations outside their minimum portfolio— varied between 19% and 28%. In practice, however, the rates actually charged usually exceeded the maximum official levels by a wide margin. The new interest rates, therefore, if they were made effective, would represent substantial reductions in the cost of money, especially in real terms. Although there was a small increase in the expansion of net domestic credit during the second half of the year, it was not at all clear at the year's end that the measures referred to had achieved the desired results. Furthermore, in view of the progressive expansion of the central government deficit, the monetary authority raised the rediscountable proportion of the portfolios of the commercial banks from 40% to 50%.

In summary, therefore, the monetary authority provided the credit requirements of the non-financial public sector; but, in spite of the lowering of interest rates decreed in July, the reserves of the commercial banks remained very high in relation to their deposits, and credit to the private sector grew hardly at all in nominal terms and contracted appreciably in real terms. Although the accelerated expansion of the means of payment did not occasion a loss of reserves in 1983, owing partly to the considerable increase in the exchange rate and growing administrative restrictions, inflation intensified, especially at the wholesale price level. Furthermore, the sharp growth of the monetary stock did not free the economy from recession. This might be due to the limitation of imports, i.e., to the level of international reserves, although the allocation of credit to the private sector also appears to have been insufficient. The climatic phenomenon alone, however, would suffice to explain the recession in 1983.

PERU

1. Recent economic trends: Introduction and summary

The unprecedented drop in the gross domestic product in 1983 (-12%) marked the deepest economic crisis recorded in Peru (see table 1 and figure 1). As in the previous six-year period its annual average growth rate was under 2%, the per capita gross domestic product in 1983 thus stood at the level already reached in 1962. Simultaneously, the inflationary process suffered a marked upturn, since the consumer price index increased by 125%, thereby intensifying the trend of the previous five-year period, in which the annual average rate of inflation was nearly 70%. At the same time, real wages diminished 17%, receding to two-thirds of their 1976 value. Besides causing a sharp decline in the living standards of the population, the drop in wages helped to aggravate the problems faced by the productive sectors, since it depressed domestic demand. The economic crisis was reflected, likewise, in an increment in unemployment, which amounted to over 13% in non-agricultural activities. As underemployment rose at the same time, the population adequately employed was equivalent to only 40% of the labour force engaged in such activities, compared with percentages of 49% only two years earlier and 59% in 1976.

The problems of the productive sectors were also aggravated due to a real contraction of 15% in total liquidity and of 11% in credit granted to the private sector. At the same time, the process of "dollarization" of the monetary aggregates continued at a very rapid pace. In fact, deposits in foreign currency represented more than two-fifths of total liquidity. Only six years before, that share had barely exceeded 1%.

To the problems of private economic activity were added the difficulties derived from the efforts made by the authorities to control the imbalance in the fiscal accounts. To this end, the central government diminished its capital expenditure for the third year running, so that it amounted to only three-fifths of the 1980 level, thus constituting another factor in the negative evolution of the economy. However, as the tax burden declined to only 14% —after having been 18% in the two preceding years—, there was no way of avoiding a continuous growth in the public deficit as measured in relation to the gross domestic product. Thus, this coefficient rose to 12%, after having been 1% only four years before.

On the other hand, however, there was a substantial upturn in the trade in goods and services with the exterior. Thus, after two years in which trade deficits of nearly US\$ 800 million were recorded, in 1983 a surplus of US\$ 51 million was obtained. This allowed a reduction in the current account deficit from US\$ 1.8 billion in 1981 and 1982 to US\$ 1.1 billion in 1983. Such an evolution —achieved largely on account of the economic depression— was supplemented by a high positive balance on the capital account obtained through refinancing operations of the external debt; thus, while the international reserves recorded only a scant decline, the country's external indebtedness grew by 12%.

The country's critical economic situation was due to various factors. On the one hand, there were some which were exogenous in nature, such as an unfavourable external background (tightening of the terms of access to financial markets, reappearance of protectionism) and natural disasters described as the most destructive in recent years.

On the other, the recent evolution of the economy has also been closely linked to developments in domestic economic policy. In order to review them it is necessary to go back to 1980 to analyse the progression of events since the civil government took office.

This government received from the former administration an economy that was relatively stabilized on the external front and was growing at a modest pace, with a notable surplus of domestic savings over investments. In contrast with this phenomenon, however, no reduction in the rate of inflation had been achieved. Hence, the main economic policy objectives of the new government were

to control price increases and to promote faster economic growth. The former was sought through two mechanisms. On the one hand, the real exchange rate was brought down by devaluating the currency at a lower rate than inflation, a measure which was feasible due to the favourable external situation: in 1980 the net international reserves recorded an unusually high level (nearly US\$ 1.3 billion against an average of US\$ -160 million in the six preceding years). This use of the reserves was justifiable in that their effect on the money supply needed to be sterilized in order to avert inflationary pressures. Furthermore, the procurement of a large amount of external resources was expected, thus avoiding an excessive gradual reduction in the reserves. In addition, substantial delays in adjustments of controlled prices were also resorted to.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators								
Gross domestic product at market prices (millions of 1970 dollars)	11 097	11 091	11 035	11 491	11 932	12 396	12 440	10 972
Population (millions of inhabitants)	15.6	16.0	16.4	16.9	17.3	17.8	18.2	18.7
Per capita gross domestic product (1970 dollars)	713	694	672	682	690	698	683	587
Growth rates								
B. Short-run economic indicators								
Gross domestic product	2.0	-0.1	-0.5	4.1	3.8	3.9	0.4	-11.8
Per capita gross domestic product	-0.6	-2.7	-3.1	1.4	1.1	1.2	-2.2	-14.1
Real gross national income ^b	1.4	-0.8	-2.9	6.7	5.8	1.5	-1.0	-12.6
Terms of trade (goods and services)	1.0	-7.0	-15.3	31.1	8.8	-13.6	-10.7	-1.8
Current value of exports of goods and services	3.3	22.2	12.6	70.8	13.4	-12.8	0.1	-8.7
Current value of imports of goods and services	-13.6	2.4	-23.0	20.8	55.3	24.6	-0.3	-24.3
Consumer prices								
December-December	44.7	32.4	73.7	66.7	60.8	72.7	72.9	125.1
Variation between annual averages	33.5	38.1	57.8	67.7	59.2	75.4	64.5	111.1
Money (M ₁)	21.7	27.8	43.0	78.4	70.2	46.2	36.9	91.3
Money plus quasi-money (M ₂)	...	27.4	53.2	98.3	93.7	77.1	77.3	91.0
Quasi-money in foreign currency/M ₂ ^c	0.4	1.4	13.7	21.3	28.2	27.6	35.4	41.8
Real remunerations:								
Salaries	-8.9	-12.5	-14.6	-8.7	7.4	1.7	8.3	-15.1
Wages	8.5	-15.6	-9.9	-3.2	9.9	-2.0	1.4	-16.9
Rate of unemployment ^{c d}	8.4	9.4	10.4	11.2	10.9	10.4	10.6	13.3
Current income of central government	38.7	38.3	71.1	109.1	84.6	49.5	63.7	49.7
Central government expenditure	46.5	45.9	49.7	68.2	97.6	67.1	57.0	98.8
Fiscal deficit/total central government expenditure ^e	30.2	33.9	24.4	6.0	12.2	21.4	18.1	38.3
Public sector deficit/gross domestic product ^e	10.0	9.8	6.2	1.1	4.7	8.4	8.5	12.0
Millions of dollars								
C. External sector								
Trade balance (goods and services)	-882	-557	330	1 599	763	-790	-769	51
Balance on current account	-1 249	-976	-244	663	-72	-1 810	-1 823	-1 101
Balance on capital account	936	1 042	268	414	725	1 138	1 753	1 051
Variation in net international reserves ^f	-314	60	6	1 066	607	-512	-57	-50
External debt ^f	7 384	8 567	9 324	9 334	9 594	9 638	11 097	12 418

Source: ECLAC, on the basis of official figures.

^a Preliminary figures. ^b Gross national product plus terms-of-trade effect. ^c Percentages. ^d Refers only to the non-agricultural sector. ^e According to data from table 17 (balance of payments), these figures differ from the official Peruvian figures (see table 18). ^f Total public and private external debt, both short and long term.

The rise in economic dynamism, for its part, would also be obtained through two instruments: in the first place, by means of a sharp increase in public investment, which was favoured by a situation of high domestic savings, and secondly, by incrementing the efficiency of the national productive system through a process of opening-up trade similar to that carried out some years before, under other circumstances, in the Southern Cone countries.¹ The authorities assumed that the costs of this opening-up would be easily absorbed by using the high international reserve level and the expected greater inflow of external resources.

The global economic policy implemented from the middle of 1980 to the end of 1981 failed to yield the expected results. On the one hand, the deterioration in the external variables was excessive and led to a much greater decrease in international reserves than that envisaged; inflation not only did not decrease but actually speeded up again, and finally, domestic activity did not show significant dynamism.

Domestic output did not expand at a greater pace largely because the process of opening-up of trade was carried out indiscriminately. More appropriate treatment of the special situation of some productive sectors, as well as greater graduality in the opening-up process to allow the economic agents to adapt themselves to the new rules of the game would have been in order. To this was added the lesser dynamism in the export sector, partly due to a decrease in the relevant tax incentives. The use of a considerable share of available resources for financing large increments in the State's current expenditure, instead of allocating them to public or private productive activity, also helped to aggravate the situation.

Several factors were responsible for the acceleration of inflation. The devaluation process, restricted though it was, resulted in strong cost pressures. Likewise, the management of controlled prices was not appropriate, both because of their delayed adjustment—which accounted for a substantial share of the public deficit—and the isolated and sudden nature of the adjustments made²—which increased the uncertainty and inflationary expectations. Another factor which contributed to price increases was the sharp decline in food production.

In these circumstances, at the beginning of 1982 the authorities changed the priorities relating to the main objectives of economic policy. Thus, the improvement of the country's external position gained priority over the goals of reducing inflation and accelerating the rate of economic growth. Given that since 1980 the surplus of domestic savings over investment had disappeared, it was necessary to introduce such a change in order not to lose access to international capital flows: an essential condition for being able to keep on financing the big public investment programme.

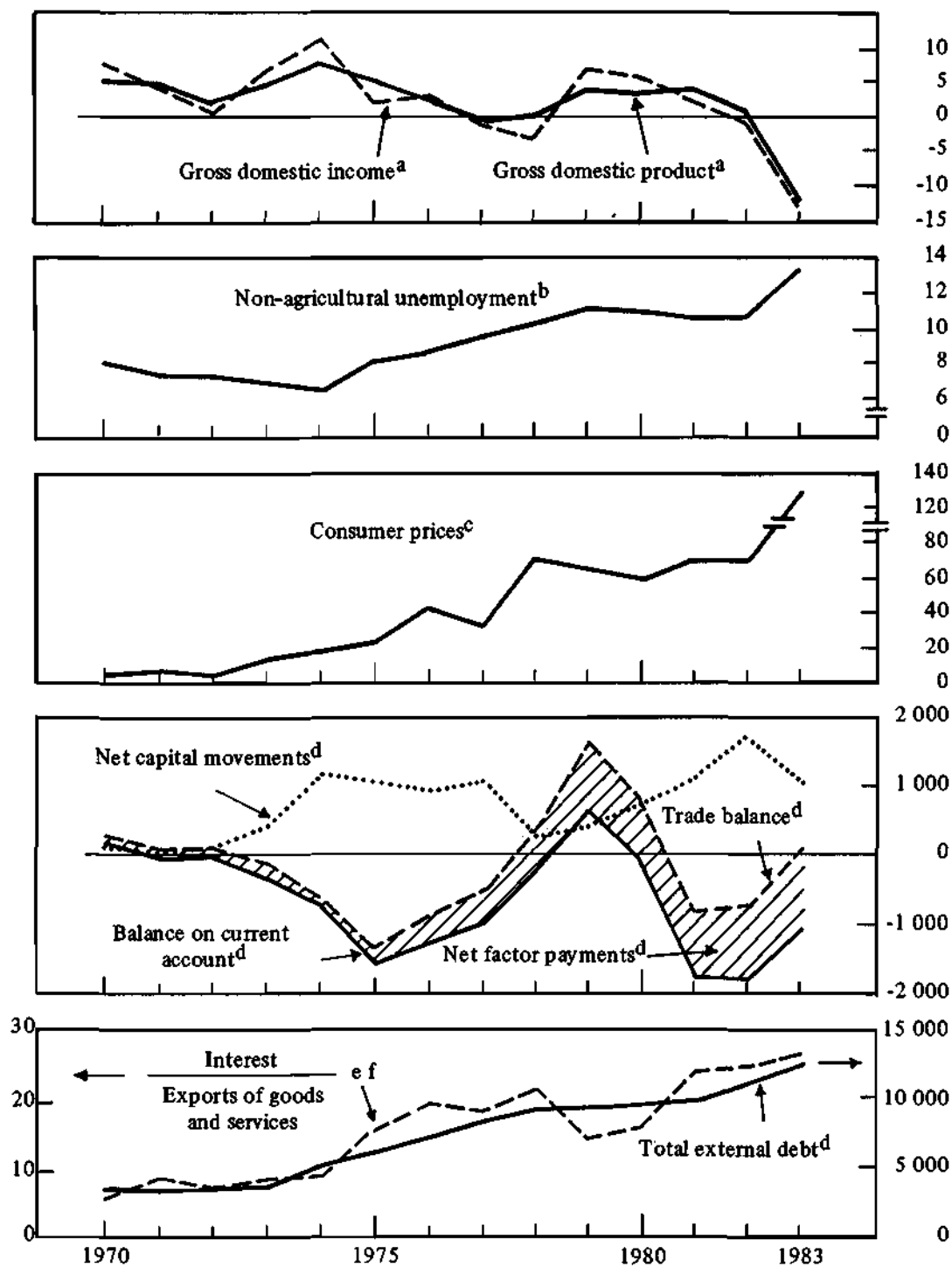
Integral parts of the new economic programme were a more accelerated devaluation process and a severely restrictive monetary programme. The former was expected to increase exports and to contain imports. The latter, for its part, besides offsetting the inflationary effects of devaluation, would help to contain demand pressures from the public and private sectors, by limiting their access to credit; this would also result in an improved balance-of-payments position. In addition, certain ceilings were established for the contracting of new medium and long-term external loans by the public sector, which were to cover the entire financing of the public deficit. Finally, the authorities decided not to refinance the external debt payment in 1982, attempting to attack its service problem by contracting new loans, subject to the above restrictions, and by reducing the sharp deficit on the current account of the balance of payments. The three-year agreement signed by Peru and the International Monetary Fund in the second quarter of 1982 clearly reflected these economic policy guidelines.

Despite these drastic changes, the economic situation in 1982 was worse than in the preceding year. In the second quarter economic growth came to a stop, but neither inflation nor the current account deficit went down. The public sector deficit, measured as a percentage of the gross domestic product, did not decline either. Likewise, the trend towards a decline in the dollarization of the economy was reversed, implying both an increase in the financial system's ability to pass on the inflationary effects of devaluation, and a growth in the share of foreign currency transactions in domestic credit activity, resulting in greater financial costs for enterprises. Finally, external financing

¹ This process actually started in 1979, but later it was considerably intensified.

² Such was the case of the so-called "unfreezing" of prices of January 1981, which raised the price index in that month by 12%, against typical monthly inflation of 3% or 4% in previous months.

Figure 1
PERU: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate.

^bAverage annual rate.

^cPercentage variation from December

to December.

^dMillions of dollars.

^ePercentages.

^fExcludes renegotiated interest (see

table 20).

was widely resorted to, largely through the procurement of short-term loans. Along with a suspension of certain amortization pre-payments on the debt, this caused it to grow by one-fifth in 1982, after having remained practically unchanged in the three preceding years.

A series of factors had an influence on this situation. The high import level of the public sector persisted, since its investment programme was still very large, and the purchase of defence material continued. The same was true of public enterprises, for which the procurement of short-term loans in the exterior was relatively easy (since they were excluded from the limitations imposed by the agreement with the International Monetary Fund). This meant that the adjustment of the balance of payments fell disproportionately upon the private productive sector. Despite the trade liberalization, this sector was forced to reduce its demand for imports owing to the strong devaluation process and the lack of financial resources—especially in soles—in the domestic market. In spite of the foregoing, total imports did not decline by the necessary amount. The poor export performance, due to a considerable decline in unit values and the problems faced by export enterprises, made the situation even more complex.

On the other hand, the problems of the private sector and the stagnation in public investment—whose increase had been one of the main factors in the modest economic dynamism attained in 1980 and 1981—combined to stop the growth in national output. This, in turn, prevented a reduction in the size of the public deficit as a percentage of the gross domestic product, with the consequent persistence of its inflationary effects and the limitation of financial resources for the private sector.

Thus, in 1983 the situation which had resulted in a change in the orientation of economic policy in the past year not only persisted but in many cases had got worse. As a result of the foregoing, rapid devaluations, adjustments of controlled prices, the reduction in real terms in the money supply and domestic credit, the decline in public investment expenditure, the rise in interest rates, the lag of real wages and the insistence in not renegotiating the external debt were all essential components of the economic programme for 1983. The difference with the previous year was that general economic policy went deeper owing to the worsening of the situation.

However, new factors rapidly began to emerge. The first months of the year were marked by natural disasters whose magnitude and effects were without precedent in the country's recent history. The far north and the central coastal region were affected by heavy rains and floods, sudden rises in temperature and destructive landslides, while the southern highlands were hit by an extremely serious drought. These disasters, which caused huge losses in production and infrastructure, prevented since early in the year the fulfilment of the scheduled programmes: the fiscal accounts were affected by the contraction in tax payments and the necessary increases in expenditure, while the external accounts were considerably prejudiced by a reduction in exports and an increase in imports for purposes of supply and reconstruction.

However, the general policy lines remained unchanged. In fact, in order to control the trade deficit, the rate of devaluation was intensified, with the resulting inflationary pressures. In this way, it was also sought to maintain the access to foreign capital markets for financing the public deficit, given the limitations for using domestic resources. On the other hand, the negative effects of the national disasters on production and tax revenue were compounded by those caused by a contraction in the real money supply greater than expected—due to higher inflation—and by the deterioration in the purchasing power of the population.

This difficult situation helped to limit the access to external capital markets, already restricted in 1982 due to exogenous factors mainly connected with the repercussions of the Mexican payments crisis and the Falklands conflict in international financial circles.

Thus, in March the authorities were compelled to formally request external creditors to renegotiate the external debt. An essential part of this process was to keep in force the agreement with the International Monetary Fund, which meant a tightening of control policies over external accounts (devaluation greater than inflation, deflation of the economy in order to correct an assumed excess demand) and a reduction in the public deficit (decrease in expenditure, increases in controlled prices and in tariffs of public enterprises).

As pointed out below, a process was thus started in which inflation and devaluation strengthened each other. As a result, there was a strong intensification of inflationary expectations, which quickly incorporated anticipated devaluations. For that reason, and due to the reduction which had already taken place in non-essential imports and to the problems which non-traditional export

enterprises faced domestically, devaluations lost a good deal of their ability to influence the trade in goods without affecting the pace of economic activity. In other words, the recovery in the external accounts was due rather to the recession than to economic policy. The national output, for its part, slumped on account of both supply factors (the natural disasters mentioned earlier and an increase in costs) and the reduced demand (deterioration in the purchasing power of the population, contraction in public investment, etc.).

In August, the situation became particularly difficult. This circumstance, added to the improved international position arising from the renegotiation of the external debt, led the authorities to change the orientation of the monetary and exchange policy. Thus, emphasis was again laid—as in 1980 and 1981—on the control of inflation. On the one hand, the pace of devaluation and of adjustments in controlled prices, including that of gasoline, was drastically reduced. On the other, the reactivation of the national productive system was attempted. Thus, the official credit available for the private sector was considerably increased and an extraordinary rise in domestic financing of the public deficit was allowed. In addition, it was endeavoured to make deposits in soles more attractive—in order to increase their procurement and availability—, through a rise in interest rates.

The most striking results of this change in the main lines of economic policy were a considerable decline in the rate of inflation and a slight recovery in productive activity. Thus, the monthly rate of consumer price increases in the last four months of the year amounted to only two-fifths of that recorded in the eight preceding months, while the gross domestic product recorded a small rise (0.7%) in the last quarter of the year, after six quarters of successive declines. However, another consequence of this change in economic policy was the cancellation of the agreement with the International Monetary Fund, due to the lack of coincidence with the guidelines proposed by that institution. This finally led to the suspension of the debt refinancing efforts. Towards the end of the year, the national authorities were attempting to replace the previous agreement with the IMF with a one-year stand-by agreement which would allow this situation to be solved.

2. Trends in economic activity

a) *Total supply and demand*

After the interruption in 1982 of the dynamic growth of supply recorded in the 1979-1981 triennium—in which it expanded at an annual average of 6%—during 1983 it contracted sharply by nearly 14% (see table 2). In order to appreciate the exceptional magnitude of this decline, it need only be compared with the 5% drop experienced by total supply in the former recessive period (1977-1978). As a result, in 1983 the total supply level was identical to that obtained in 1974.

The reduction in supply was due both to a contraction in the gross domestic product (-12%), and to an even greater reduction in the volume of purchases from abroad (-26%). Unlike the 1977-1978 period, in which 90% of the adjustment was made in external purchases, in 1983 80% of the adjustment stemmed from a reduction in domestic production levels.

As regards total demand, all its components shrank drastically, and in this case too there were great differences between what happened in 1983 and the 1977-1978 period. Thus, whereas in 1977 and 1978 exports grew rapidly (19% per year), thus counterbalancing by 40% the drop in domestic demand, in 1983 the volume of sales to the exterior diminished, strengthening the negative evolution of domestic demand. On the other hand, whereas in the 1977-1978 period 56% of the reduction in domestic demand was due to sharp contraction in gross fixed investment, in 1983 it was the decline in domestic consumption—and especially in private consumption—which accounted for 80% of the fall in demand, thus critically impairing the living standards of the population.

b) *Evolution of the main sectors*

During 1983, the gross domestic product registered a decline without precedent in the country's history (-12%), as a result, also for the first time, of contractions in the levels of activity of all productive sectors (see table 3). This caused the per capita product to sink to a level already attained 21 years earlier (see table 1).

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	14 110	14 102	12 197	111.2	112.5	111.2	6.8	5.1	-0.1	-13.5
Gross domestic product at market prices	12 396	12 440	10 972	100.0	100.0	100.0	3.8	3.9	0.4	-11.8
Imports of goods and services ^b	1 714	1 662	1 225	11.2	12.5	11.2	38.6	15.3	-33.0	-26.3
Total demand	14 110	14 102	12 197	111.2	112.5	111.2	6.8	5.1	-0.1	-13.5
Domestic demand	12 726	12 593	10 831	97.1	100.1	98.8	8.8	6.6	-1.0	-14.0
Gross domestic investment	2 109	1 791	...	13.3	15.1	...	39.8	17.0	-15.1	...
Gross fixed investment	2 087	2 039	1 454	13.3	15.2	13.3	25.3	15.3	-2.3	-28.7
Public	750	802	...	3.6	9.5	...	30.0	14.5	6.9	...
Private	1 337	1 237	...	9.7	9.7	...	22.8	15.8	-7.5	...
Construction	1 047	1 058	...	6.5	8.0	...	17.9	10.1	1.0	...
Machinery and equipment	1 040	982	...	6.8	7.2	...	34.7	21.1	-5.6	...
Changes in stocks	22	-248	...	-	-0.1	...	...	...	...	...
Total consumption	10 617	10 802	9 377 ^c	83.8	85.0	85.5 ^c	4.7	4.8	1.7	-11.2 ^c
General government	1 717	1 841	...	11.4	14.0	...	10.5	3.1	7.2	...
Private	8 900	8 962	...	72.4	71.0	...	3.6	5.1	0.7	...
Exports of goods and services ^b	1 384	1 509	1 366	14.1	12.4	12.4	-7.0	-6.7	9.1	-9.5

Source: ECLAC, on the basis of figures supplied by the National Institute of Statistics (INE).

^aPreliminary figures. ^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by ECLAC for that purpose. ^cVariation in stocks included in total consumption.

i) *Agriculture*. In 1983, agricultural production recorded the greatest contraction since regular statistics are available (-10%).³ This fall was due entirely to a sharp drop in crop farming production (-17%), since livestock production expanded by nearly 3% (see table 4).

The main reasons for this negative sectoral behaviour were the destructive natural disasters which affected the country in 1983. As mentioned earlier, Peru was affected by the worst rains and floods and the worst drought in living memory; the former affected the northern and central part of the coastal region (from the Ecuadorian border all the way to Lima), while the latter affected the southern highlands (the departments of Puno, Cuzco, Apurímac, Ayacucho, Huancavelica, Arequipa, Moquegua and Tacna: i.e., one-fifth of the national territory). The heavy rains caused dramatic increases in river flows: for example, in the first half of 1983 the river Piura had a discharge thirty times greater than a year before, the river Tumbes had a discharge eight times greater, etc. Likewise, while in the first quarter of the year precipitation in the city of Tumbes grew from a normal average of 120 millimetres to 1 100 millimetres and that in Piura from 31 millimetres to 810, in Cuzco it fell by 67%, in Juliaca (Puno) by 52%, and in Arequipa there was no rainfall at all (see table 5).

The rains and floods —together with an unusual increase in temperature— affected an area mainly producing crops which are internationally traded, either for replacing imports (rice, soya) or for export (cotton, sugar cane). In the drought area for its part, there was a marked decrease in the production of some goods which are not usually traded internationally (potatoes, quinoa) and of others which are imported (wheat and maize, for example).

The damage caused by these natural disasters was both widespread and intense. In the first place, there were great losses in production (due both to destruction of harvests and to a fall in

³Only two years earlier the greatest growth ever recorded had been attained.

productivity) and in inputs such as seed potatoes, which were eaten by peasants due to the food shortage. Secondly, there was great destruction of the infrastructure due to erosion and sedimentation of agricultural lands and of irrigation systems. The road network also suffered heavy damage, hindering the transport of inputs and the supply of consumer markets.⁴ In the drought area, for its part, large stretches of pastures were lost, as some of them dried up and also, because of the shortage of grass the animals ate it down to the roots, thus impairing future reproduction of pastureland. Finally, the cattle stock in the southern region was severely affected by the forced slaughtering of animals because they were likely to perish from hunger.

The Government adopted various measures to cope with the situation. The Agrarian Bank granted loans intended for the rehabilitation of areas affected by floods and drought, and it refinanced existing credits once five and ten-year terms. On the fiscal side, a large number of measures were taken regarding extensions, temporary exemptions and rebates on various taxes. Furthermore, the share to be received by agriculture from the funds collected through Reconstruction Bonds was set at 21%.⁵ On the other hand, due to a shortage of many crop farming products, emergency imports were authorized (especially potatoes, rice and sugar). In May, under the Agricultural Promotion Law, exemption from sales tax and from all duties on imports of intermediate and capital goods for agriculture was established.

Table 3

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

	Millions of dollars at 1970 prices				Percentage breakdown			Growth rates			
	1980	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	10 947	11 373	11 413	10 066	100.0	100.0	100.0	3.8	3.9	0.4	-11.8
Goods	5 007	5 164	5 205	4 478	49.2	44.9	43.4	2.4	3.1	0.8	-14.0
Agriculture, hunting, forestry and fishing	1 359	1 504	1 536	1 361	17.8	12.2	13.2	-5.5	10.7	2.1	-11.4
Mining and quarrying	904	876	933	871	7.2	8.1	8.4	0.4	-3.1	6.5	-6.6
Manufacturing	2 336	2 331	2 273	1 882	21.0	21.0	18.2	5.7	-0.2	-2.5	-17.2
Construction	408	453	463	364	3.2	3.7	3.5	18.8	11.0	2.3	-21.4
Basic services	1 021	1 084	1 092	...	6.7	9.2	...	7.3	6.2	0.7	...
Electricity, gas and water	164	180	190	179	0.9	1.5	1.7	5.4	9.6	5.6	-5.8
Transport, storage and communications	857	904	902	^c	5.8	7.7	^c	7.6	5.5	-0.3	^c
Other services	5 354	5 580	5 600	...	45.9	48.1	...	4.4	4.2	0.4	...
Wholesale and retail commerce, restaurants and hotels	1 639	1 732	1 675	1 404	13.7	14.7	13.6	5.9	5.7	-3.3	-16.2
Financial establishments, insurance, real estate and business services	1 432	1 489	1 529	...	12.3	12.9	...	4.2	4.0	2.7	...
Ownership of dwellings	746	757	766	...	7.1	6.7	...	1.3	1.4	1.1	...
Community, social and personal services	2 283	2 359	2 396	4 263	19.9	20.5	41.3	3.5	3.3	1.6	7.1
Government services	1 276	1 327	1 362	...	10.4	11.5	...	4.6	3.4	2.6	...
Less: imputed commission for banking services	241	255	238	...	1.8	2.2	...	13.9	5.7	-6.7	...

Source: ECLAC, on the basis of figures provided by the National Institute of Statistics (INE).

^a Preliminary figures.

^b As the individual activities and the total were calculated separately, the sum of the former does not correspond exactly with the latter.

^c Transport, storage and communications included in services.

⁴ As indicated in the relevant section, this generated heavy pressure on prices.

⁵ See the section on fiscal policy.

Table 4

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Indexes of agricultural production^b (1977 = 100)									
Total	100.3	95.1	105.9	108.9	98.0	-5.3	11.4	2.9	-10.0
Crop farming	103.1	94.3	105.8	107.8	89.6	-8.5	12.2	1.8	-16.8
Stock-raising	95.0	96.4	105.9	111.0	114.1	1.5	9.9	4.8	2.7
Production of the main crops									
Raw cotton	243	256	286	256	104	5.4	11.5	-10.4	-59.2
Rice	558	420	712	776	791	-24.6	69.4	8.9	2.0
Coffee	104	95	95	90	91	-8.5	0.0	-5.3	1.0
Sugar cane	7 034	5 598	5 129	6 509	6 533	-20.4	-8.4	26.9	0.4
Beans	42	39	44	43	37	-7.1	10.9	-0.7	-15.0
Soft maize	216	152	197	233	180	-29.8	29.7	18.3	-22.6
Hard maize	430	301	390	398	415	-30.0	29.5	2.2	4.1
Potatoes	1 716	1 380	1 705	1 800	1 153	-19.6	23.6	5.5	-35.9
Sorghum	54	35	44	38	12	-35.1	26.6	-13.5	-69.5
Soya	7	11	14	8	2	50.7	30.8	-41.4	-74.3
Wheat	104	77	119	101	75	-26.1	53.8	-15.0	-25.5
Production of the main livestock products^c									
Poultry meat	118	144	183	205	206	21.2	27.1	12.2	0.7
Murton	23	21	19	20	21	-8.8	-9.2	8.5	3.4
Pork	53	55	59	59	58	4.8	7.6	-0.8	-1.9
Beef	87	84	90	91	110	-3.2	7.5	1.3	19.9
Eggs	55	60	64	65	68	8.5	6.3	1.3	5.3
Fresh milk	824	780	785	805	757	-5.3	0.6	2.6	-6.0
Other indicators									
Area harvested ^{d,e}	...	...	1 179.3	1 475.0	1 346.9	...	...	11.4	-8.7
Cotton	134.7	149.0	157.3	134.3	83.6	10.6	5.5	-14.6	-37.8
Rice	131.4	95.9	149.7	169.4	194.5	-27.0	56.0	13.2	14.8
Sugar cane	53.9	49.1	38.6	46.3	45.2	-8.8	-21.4	19.9	-2.4
Maize (soft and hard)	371.0	274.9	315.6	347.9	342.1	-25.9	14.8	10.2	-1.7
Potatoes	242	194.1	201.7	217.0	150.4	-19.8	3.9	7.6	-30.7
Wheat	96.2	68.6	102.3	84.4	80.9	-28.7	49.0	-17.5	-4.2
Sales of fertilizers ^c	327.3	314.5	339.5	244.0	158.4	-3.9	8.0	-28.1	-35.0
Area supported ^f by the Agrarian Bank ^d	499.4	528.7	565.5	547.6	704.9	5.8	7.0	-3.2	28.7

Source: Ministry of Agriculture.

^aPreliminary figures. ^bCalculated on the basis of values at 1973 prices. ^cThousands of tons. ^dThousands of hectares.^eIncludes total area planted with fruit trees. ^fLand cultivated with credit support of the Agrarian Bank.

Losses in crop farming production due to the natural disasters were estimated at US\$ 300 million, as total production came to only four-fifths of that initially expected. Cotton production only amounted to 46% of that envisaged and potato and wheat production to 61% of their respective goals. By and large, the production of all crops was below the established goals.

The value of livestock production, however, slightly exceeded expectations (1%). The fact that beef production was 20% over that expected had a considerable impact on this result. The share of livestock production in the total agricultural product thus amounted to 40% in 1983, compared with a traditional coefficient of 34% or 35%. Altogether, total production of the agricultural sector was equivalent to only 87% of that originally scheduled.

The goals assumed an expansion of 3.5% in the agricultural gross domestic product, but this estimate had to be reviewed throughout the year, as the real extent of the damage caused by the climatic disorders became increasingly evident. Thus, in the second quarter it was already expected that the agricultural product would decline by 3.2% in the year. In the third quarter that figure was revised assuming a decline of 4.5%, and this forecast also became more pessimistic at the end of the year (-7.5%), but even this fell short of the effective decline (-8.5%).

At the national level, the area harvested dropped 9% during 1983. Striking drops took place in the departments of Piura and Tumbes on the northern coast (with contractions, of 78% and 51%, respectively), and in Huancavelica, Puno and Apurímac in the southern highlands (-61%, -59% and -53%, respectively). In Piura no cotton was harvested, in contrast with 30 000 hectares in 1982, while in Tumbes the soya harvest disappeared; in both cases, there was also a considerable reduction in the area of rice harvested. In Puno, for its part, the main problem was with potato cultivation, as well as in Apurímac and Huancavelica, where serious problems with maize and wheat also developed.

The setbacks faced by agriculture were reflected in decreases in both fertilizer sales and in the area cultivated with the support of the Agrarian Bank.⁶ The huge reduction (-35%) in the volume of fertilizer sales during 1983 was added to another substantial drop that occurred in 1982, so that sales were less than half those of 1981.⁷

The area cultivated with the support of the Agrarian Bank showed a steep increase (29%) in 1983. However, all the growth was concentrated in the second half of the year (55% with respect to the same period of 1982), since it shrank by one-fifth in the first half. As for the amount of credit granted by the Agrarian Bank in real terms, it declined by 23% in the 1982/1983 season⁸ with respect to the preceding one, which itself registered a drop of 12%. The reduction in credit was especially striking in the cases of wheat (-63%), sugar cane (-53%) and beans (-45%). Three products (rice, potatoes and cotton) absorbed 74% of total credit, thereby slightly increasing its concentration.

In the evolution by crops there were significant declines in the production of cotton (-59%), potatoes (-36%), wheat (-26%) and maize (-23%). Sorghum and soya exhibited the most dramatic drops (-70% and -74%, respectively), but these crops are of secondary importance (see table 4).

In 1983 cotton production barely exceeded one-third that of two years before. In this case, in addition to problems derived from floods and from increases in temperature, serious financial problems arose owing to a deterioration in the international price of this commodity, and the pests which affected the Tangüis variety. In these circumstances, cotton exports —traditionally important— had to be prohibited.

Table 5
PERU: MONTHLY PRECIPITATION AT SELECTED LOCATIONS,
DECEMBER 1982 TO MARCH 1983
(Millimetres)

	Tumbes ^a	Talara ^a	Piura ^a	Cuzco ^b	Juliaca ^b	Arequipa ^b
December 1982	30.0	3.0	13.4	6.0	20.0	0.0
(typical December) ^c	(0.0)	(0.0)	(0.5)	(126.1)	(90.1)	(4.3)
January 1983	378.0	162.0	259.0	100.0	49.0	0.0
(typical January) ^c	(28.5)	(0.1)	(5.6)	(152.5)	(123.9)	(31.1)
February 1983	493.0	153.0	209.0	42.0	100.0	0.0
(typical February) ^c	(34.4)	(0.5)	(8.2)	(140.0)	(105.0)	(46.0)
March 1983	207.0	162.0	329.0	23.3	30.0	0.0
(typical March) ^c	(57.0)	(5.5)	(17.0)	(101.4)	(99.0)	(23.3)

Source: "Programa integral de rehabilitación y reconstrucción de las zonas afectadas por los desastres de la naturaleza" (vol. I), National Planning Institute, Lima, July 1983.

^a Located on the Northern coast.

^b Located in the Southern Sierra.

^c Average monthly precipitation for the last 30 years.

⁶ Land cultivated with credit support of the Agrarian Bank.

⁷ Fertilizer sales have gone down steadily since 1978, except in 1981.

⁸ Crop-farming seasons extend from August until July of the following year.

Table 6

PERU: INDICATORS OF FISHERY PRODUCTION

	1979	1980	1981	1982	1983 ^e	Growth rates			
						1980	1981	1982	1983 ^e
Indexes of fishery production^b (1977 = 100)	143.7	139.0	129.8	119.6	79.5	-3.3	-6.6	-7.9	-33.5
Deep-sea fishing^c	3 640	2 697	2 701	3 453	1 453	-25.9	0.1	27.8	-57.9
For direct human consumption	758	971	851	586	354	28.1	-12.4	-31.2	-39.6
Fresh fish	177	156	147	155	138	-11.9	-5.8	5.2	-10.8
Frozen fish	201	220	106	49	79	9.6	-51.8	-53.6	60.8
Canned fish	345	567	566	352	115	64.2	-0.2	-37.8	-67.3
Dry salted fish	35	28	32	30	22	-19.6	14.3	-7.2	-26.4
For fishmeal and oil	2 882	1 726	1 850	2 867	1 099	-40.1	7.2	55.0	-61.7
Anchoveta	1 363	720	1 225	1 726	118	-47.2	70.1	40.9	-93.2
Other species	1 519	1 006	625	1 141	981	-33.8	-37.9	82.6	-14.0
Inland fishing^c	15	12	16	12	24	-17.6	28.2	-27.5	111.2
Fresh fish ^d	6	7	7	6	13	-10.8	28.9	-19.9	143.2
Dry salted fish	9	5	9	6	11	-22.0	27.7	-33.3	82.4

Source: Ministry of Fisheries.

^aPreliminary figures.^bCalculated on the basis of values at 1973 prices.^cThousands of tons.^dIncludes river shrimps.

As regards potato and wheat production, the declines in them caused very substantial reductions in their per capita availability. In the case of potatoes, the per capita output dropped from 99 to 62 kilogrammes between 1982 and 1983, and in the case of wheat, from 5.5 to 4.0 kilogrammes, representing a significant intensification of the marked and persistent decrease in recent years. Per capita potato production in 1970 was 146 kilogrammes and 108 in 1975; that of wheat was 9.5 and 8.3 kilogrammes, respectively, in those years.

In contrast, rice production grew marginally (2%), although there was a major decline in productivity in the coastal region. In spite of an increase of 8% in the area harvested in this region, production contracted 6%.

Livestock production expanded at a rate of nearly 3% (see table 4). Paradoxically, this small growth stemmed from the same disasters which caused a huge decline in crop-farming production. The drought led to substantial forced slaughtering of beef cattle, for when feed was exhausted the peasants were forced to sell their animals lest they perish from starvation. In September, for instance, 50 000 head of cattle, sold at an average price of 80 000 soles, against a normal one of 200 000 soles, left weekly from Puno for Arequipa and Moquegua, where they were slaughtered for sale as soon as they gained weight (slaughtering in the slaughterhouses of Moquegua doubled in 1983, while in Arequipa it grew 69%). Thus, in 1983 the drought was the direct cause of the slaughtering of 640 000 head of cattle out of a national stock of 3.2 million.⁹ This has resulted in heavy decapitalization of the agricultural sector, since these were animals already adapted to the special conditions prevailing in the highlands (high altitude, low temperatures, special types of food). The mere recovery of the cattle stock will take four or five years.

Poultry meat production for its part, which had grown at an annual rate of 20% in the 1980-1982 triennium, increased by less than 1% in 1983. This was largely due to a reduction in demand owing to a rise in its relative price. Whereas the consumer price for poultry increased by 94% in 1983, that for pork rose by 87%, that of beef by 77% and that of mutton by 62%.

ii) *The fisheries sector.* The climatic disorders affected very strongly fishery production, whose value declined by one-third in 1983. This was the fourth consecutive reduction, so that its real value was equivalent to only a little over half that recorded in 1979 (see table 6). For its part, the sector's gross domestic product contracted by the astonishing figure of 40%.

⁹In addition, it was estimated that around 10% of the total number of animals perished from starvation.

The climatic changes were reflected in increased temperature and lower salinity of sea water, as well as in heavy seas. The former caused a substantial decrease in the catch, as the marine species migrated to or took refuge in deeper waters. The heavy seas, for their part, caused substantial damage to fishery infrastructure, such as the sinking and damaging of vessels, destruction or deterioration of piers, handling modules, etc. In addition, the interruptions in the road system already mentioned impaired supplies to urban centres.

In mid-year the climatic disorders disappeared, allowing a certain recovery in production; however, this was weakened by the serious financial problems faced by the fishery enterprises. Given the excessive indebtedness of the private enterprises in the sector, the financial community has been severely limiting credit to them, and this has resulted in an acute lack of working capital. For its part, the public enterprise operating in the sector (Pescaperú) also went through a critical situation.

During 1983, the total catch for the preparation of fish meal and oil declined by 62%, after having expanded 55% in the preceding year. This is just an extreme case of the great variability traditionally observed in this field. The anchoveta catch contracted by 93%, and its share in the total value of the deep-sea fishing catch dropped from 25% to only 3%. The decline in the catch of other species (especially sardines) was 14%, and would have been larger if much of the sardine catch of the canning enterprises (87%) had not been sent for fish meal production.

Fishing for direct human consumption dropped in 1983 (-40%) for the third consecutive year, resulting in a catch equivalent to only one-third of that obtained in 1980. The fact that the decline was not greater was due to a partial recovery of 61% in the catch for frozen fish, after drops of over 50% in 1981 and 1982. This recovery stemmed largely from the signing of contracts between Peruvian firms and Bulgarian and Soviet State enterprises for the operation of fleets from those countries in exchange for the delivery of a certain share of the catch (20% to 30%).

The catch intended for the canning industry, for its part, after having dropped 38% in 1982, contracted 67% in 1983. The climatic disorders produced not only the migration of sardines to other areas and greater depths, but also physical deficiencies in the species, so that most of the catch had to be allocated to the preparation of fish meal. Sardines reappeared in the third quarter, however, and the catch considerably recovered in the last quarter. Given the poor situation of the canning enterprises, also affected by low international prices and protectionist measures, in November the Central Reserve Bank established a special credit line for 10 billion soles to support them, as well as enterprises engaged in the processing of frozen fish.

Finally, inland fishing more than doubled (see table 6). The basic reason was the indirect influence of the climatic disorders. In the case of jungle rivers, the catch improved thanks to the favourable environment they created in that region, while due to the great food shortage in the highlands, fishing in Lake Titicaca grew considerably (in spite of the drought which caused a fall of 3 metres in its level). The above factors raised the share of inland fishing in the total from a traditional 7% to 21%.

As already noted, Pescaperú suffered numerous problems throughout the year. This enterprise—which arose from the nationalization of the fish meal processing industries in 1973—has actually been suffering a serious crisis for some time and has been intervened by the Controller General of the Republic. The enterprise experienced considerable financial problems as soon as it was established, since many of the private enterprises from which it was formed had huge debts which were assumed by it. This problem has been aggravated by its high level of dollar indebtedness. As an indicator of its position, in September its working capital was negative, equivalent to US\$ -54 million.

The financial problems of Pescaperú were compounded by serious problems in other fields, especially a drop in the catch in recent years which has resulted in a high degree of overdimensioning. Thus, the enterprise's processing capacity is 6 million tons per year, but the average annual catch intended for fish meal and oil in the past five years has been somewhat under 2.1 million tons. This figure, moreover, includes the volume processed by private factories which have resumed operations since 1981, when the State monopoly in the manufacture of fish meal was ended.¹⁰ These factors, plus a high degree of labour instability, have given rise in turn to severe labour conflicts. In the first months of the year, for instance, most of the fishermen were on strike for 70 days.

¹⁰It should also be noted that in May, for example, only seven of the 36 factories of the enterprise were operating normally: twelve of the factories could not operate because their electric power had been cut off for non-payment of bills.

Table 7
PERU: INDICATORS OF MINING PRODUCTION

	1979	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Indexes of mining production^b (1977 = 100)									
Total	122.2	118.4	115.5	123.7	115.5	-3.1	-2.4	7.0	-6.6
Mining of metals	111.4	106.6	103.7	112.6	106.6	-4.4	-2.7	8.5	-5.3
Hydrocarbons	210.2	215.4	212.6	214.9	189.0	2.5	-1.3	1.1	-12.1
Main metal-mining products^c									
Copper	397	367	342	369	336	-7.7	-6.7	8.0	-9.1
Iron ore	3 622	3 780	4 008	3 767	2 848	4.4	6.0	-6.0	-24.4
Silver ^d	1 364	1 392	1 470	1 660	1 738	2.0	5.7	12.9	4.7
Lead	184	189	193	212	213	2.8	1.9	9.9	0.4
Zinc	491	488	499	556	577	-0.7	2.3	11.4	3.7
Hydrocarbons^e									
Petroleum	70.0	71.4	70.4	71.2	62.6	2.4	-1.3	1.1	-12.1
By producer zones:									
Coast	12.6	14.5	15.4	15.8	10.5	15.2	5.9	2.5	-33.2
Continental shelf	10.4	10.2	9.8	10.1	8.9	-1.5	-4.4	3.3	-11.7
Eastern region	47.0	46.6	45.3	45.3	43.2	-0.8	-2.9	0.1	-4.8
Other indicators									
Electricity consumption ^f	187.5	189.3	447.1	561.9	518.9	1.0	136.2	25.7	-7.7

Source: Ministry of Energy and Mines and Central Reserve Bank of Peru.

^aPreliminary figures.

^bCalculated on the basis of values at 1970 prices.

^cThousands of tons, unless otherwise indicated.

^dTons.

^eMillions of barrels.

^fGWH.

Discussions in relation to the future of Pescaperú continued throughout the year. The main points in the discussions refer to the necessary degree of redimensioning and how to carry it out, to a change in emphasis in the enterprise's output (from fish meal and oil to products for direct human consumption), and to the permanent limitation of its area of operations to the southern zone (between Pisco and the border with Chile).

iii) *The mining sector.* During 1983 mining production contracted by nearly 7%, dropping back to exactly the value obtained in 1981. Both metal mining and hydrocarbon production contracted, although the decline in the latter was far more intense (see table 7).

Mining activity was severely affected in 1983 by two kinds of factors. In the first place, there was a sharp increase in the number of man-hours lost due to strikes. For example, in the first quarter 15 000 workers from Centromín —the main public mining enterprise— quit their jobs for 18 days owing to wage issues. At the same time, the workers from the Southern Peru Copper Corporation went on strike, so that copper production dropped by 17 000 tons. Likewise, and also in the first quarter, the workers from Hierroperú —the public iron-ore enterprise— stopped work for 40 days. In September, the workers from the Toquepala mine of the Southern Peru Copper Corporation walked out for 10 days.

Secondly, the natural disasters caused serious problems in this sector too. Floods, overflowing rivers and landslides blocked the Central Highway and the Central Railway which connect the important mining zone in the centre of the country with Lima and the port of Callao. Likewise, in the hydrocarbons sector these disasters caused serious damages to the Talara refinery, in Piura, and to the north Peruvian pipeline, which carries petroleum from the producing zones in the east to the coast.

The reduction in the production of metallic ores was due to decreases in the extraction of copper (-9%) and of iron ore (-24%). In the case of copper, this decline meant a return to the 1977 production level, and it occurred in spite of the expansion of the Cobriza concentrating plant in the third quarter, which allowed Centromín to increase its production by one-fourth. Furthermore, there

was a drop of 22% in the output of medium-scale mining. In the case of iron ore, when the sharp contraction of 1983 is added to that of the preceding year, this brought production to a level only half that achieved ten years before. This was largely due to the ending of sales contracts to Japan and European steelworks, as well as to the serious problems of Siderperú, the State steel manufacturing public enterprise. Subsequently, however, new sales contracts with Japan were signed.

The increases in production of lead, zinc and silver partly offset the drops in copper and iron ore. Silver production grew (by 5%) for the eighth consecutive year and was the most dynamic item of the year, as in 1982. Thereby, Peru became in 1983 the leading world exporter of silver, displacing Mexico. The evolution of silver prices was an important incentive in this. Thus, the average price in 1983 was nearly 50% higher than that of the preceding year, although it declined sharply in the last quarter, even closing the year at a lower value than that of the end of 1982.

Petroleum production, for its part, dropped 12%, after having grown by only 2% in the 1980-1982 period. Most of this decline was due to lower production in the coastal oil fields, which had been the only fields to increase systematically in that triennium. Production on the continental shelf and in the east also declined, resulting in total average production of only 171 600 barrels per day. This drop was largely a direct consequence of the climatic disorders: transport through the pipeline was blocked twice in the year, while important oil zones on the coast (especially those engaged in secondary recovery operations) and in the east suffered serious floods and destruction of infrastructure. The drop in production due to natural disasters was estimated at 9.5 million barrels, or a little less than US\$ 250 million. Furthermore, problems in the Talara refinery reduced the demand for crude.

As for the proven petroleum reserves, at 775 million barrels these were 7% lower than in the preceding year, even though the legislation was attracted for foreign investors.

Investment in the mining sector as a whole was very slight during the year. Even work on the Cerro Verde II copper mine could not be initiated, as the Japanese investors demanded a State guarantee for the loan they were to grant, and this could not be provided given the strict limits set on external public indebtedness under the agreements with the International Monetary Fund.

Among the support measures taken by the Government mention may be made of the extension for six months, decided in the first half of the year, of the exemption from sales tax for all except silver producers, and the authority given to the Banco Minero to grant exceptional loans, with or without specific guarantees, to enterprises declared to be in a serious emergency.

iv) *Manufacturing.* During 1983, manufacturing production suffered a substantial contraction (-17%). This, added to the declines in the two preceding years, brought down that production to a level equivalent to that obtained ten years before, or, in per capita terms, to that obtained 20 years before. Of the 22 industrial branches covered by statistics, in nine production contracted 10% or more, and none of them showed any increase. The production of six branches suffered a decline for the third year in a row, while that of textiles dropped for the fourth time. Total electric power consumption by the sector dropped by 18% and industrial employment in Lima fell for the second consecutive year (see table 8).

The manufacturing sector reflected with particular intensity the problems affecting the economy during 1983. On the one hand, the natural disasters affected it in terms both of damage to infrastructure (especially, petroleum refineries, sugar mills and plants processing fishery resources), and of problems with the supply of inputs, owing to their lower quantity and quality in the cases of sugar and fishery products and to the interruption of communications as regards petroleum and minerals.

However, the manufacturing sector was more harmed by the effects of economic policy than by natural disasters; in fact, together with construction, it was the sector which felt most sharply the effects of the crisis and of the economic measures adopted with the aim of adjusting the economy. Thus, the severe domestic recession and high inflation resulted in a sharp fall in private domestic demand, due to a reduction in the real income of the population and to a lower demand for inputs by certain economic sectors (such as construction). The cutback in government expenditure because of the need to reduce its deficit also played a role. The strict monetary programme—designed to contain demand pressures—, brought about, for its part, a critical shortage of liquidity and a high cost of banking resources. The Central Bank provided for the establishment of certain promotional credit lines, but these were insufficient and were immediately used up, given the great demand for available funds. Finally, the problems derived from the exterior persisted: low international demand for non-

traditional export products and strong competition in the domestic market from legally and illegally imported products.

The total production of the sectors processing primary resources contracted 21%, compared with a slightly lower decline (-16%) in the production of the rest of the industry. The seriousness of the manufacturing crisis has thus been further magnified, for over the past ten years the sectors processing primary resources had been the most dynamic: between 1973 and 1982 these sectors grew at an annual rate of 4.7%, whereas the rest of industry expanded at the rate of only 1.5%.¹¹

The primary resource processing sector whose production dropped the most was the fish meal industry, whose output fell by 66% to a level equivalent to only one-third of that recorded in 1979 (see table 8). Besides the general factors outlined above, in this case the semiparalysation of Pescaperú due to the serious crisis affecting it¹² played a substantial role (this enterprise manufactures 60% of total fish meal).

The most severely affected industrial group, besides that manufacturing fish meal, was the metal products and machinery sector, whose production contracted by 35% (see table 8). Within it, one of the most serious falls was that suffered by the production of transport equipment (especially commercial vehicles), whose level fell by 59% to only two-fifths of that recorded in 1977. Sales of motor-vehicles declined to only 22 000 units, i.e., half the figure for the preceding year.

The textile industry registered the second largest decline (-16%) among the different industrial groups. This drop constituted one of the most serious cases in the whole industrial sector, in view of this activity's importance in manufacturing and in the economy as a whole, for its production represents 15% of that of national industry as a whole, it employs 18% of the industrial manpower,¹³ and normally exports between US\$ 200 and 300 million per year, that is, between a quarter and a fifth of its total production and one-third of all non-traditional exports. This industry has suffered in an especially severe way from the problems derived from the situation in the external sector. On the one hand, it has had to face strong competition from imported products in the domestic market arising from the policy of trade openness. Due to the speed with which this opening-up was carried out, the industry had no time to adapt to the new circumstances. Smuggling, and the dumping practices of certain Asian countries aggravated the situation. Furthermore, several enterprises of the sector borrowed heavily in order to purchase the necessary equipment for producing suitable export items: the textile industry was one of the few branches which modernized its production equipment in recent years. However, the steep rise in financial costs due to the greater importance of domestic credit in dollars, the high devaluation rate and the need to resort to external financing brought serious problems. Problems were also caused by the international recession with its aftermath of low demand and the emergence of protectionist practices, which included the application of countervailing duties in the United States and problems in the Andean market. Finally, the reform of incentives to non-traditional exports has also contributed to the serious financial crisis of the textile enterprises.

The sugar mills also suffered serious problems due, in part, to a major technological lag: 14% of their machinery and equipment is over 40 years old and another 27% dates back to the 1950s. Moreover, the industry has experienced acute financial problems which, in the case of some sugar co-operatives, may end in insolvency. In fact, as a result of inefficient production processes and several years of sugar price controls, in 1983 the co-operatives which produce 95% of Peru's sugar had an overall debt of US\$ 130 million and suffered from an acute shortage of working capital. In 1983 production of sugar —once an important export item— was the lowest in the past 45 years, equivalent to only half of that of 1973 and making imports necessary in order to adequately supply the domestic market. In this case, it was the natural disasters which had the greatest impact through the so-called "tropicalization" of sugar cane: due to the high prevailing temperatures its saccharose content dropped by 28%.

v) *Construction.* After fisheries, it was the construction sector which recorded the greatest contraction (-21%) during 1983. In 1980 and 1981, in contrast, construction had been the most dynamic activity, with growth rates of 19% and 11%, respectively, and in 1982, although its growth slackened sharply, it still ranked second in the economy (see table 9).

¹¹ It should be noted that in 1983 the production of the sectors processing primary resources exceeded by one-fifth that of 1973; the production of the rest of industry, in contrast, dropped 4% in the same period.

¹² See the notes on the fisheries sector, in this section.

¹³ In addition, it is the second most labour-intensive industrial sector, although employment in the sector has been declining at an annual rate of 5% or 6% since 1980.

Table 8

PERU: INDICATORS OF MANUFACTURING PRODUCTION^a

(1977 = 100)

	1979	1980	1981	1982	1983 ^b	Growth rates			
						1980	1981	1982	1983 ^b
Total manufacturing production	100.2	105.4	105.1	102.5	84.8	5.2	-0.3	-2.5	-17.2
Fish meal	140.8	94.5	98.6	133.1	45.7	-32.9	4.3	35.0	-65.6
Food, beverages and tobacco	97.0	102.3	102.4	98.5	88.8	5.5	0.1	-3.8	-9.9
Food	96.0	96.4	96.2	93.4	78.9	0.4	-0.2	-3.0	-15.5
Beverages	97.3	107.6	106.4	99.3	96.6	10.6	-1.2	-6.7	-2.7
Tobacco	100.3	110.4	118.2	120.1	105.5	10.1	7.1	1.6	-12.2
Textiles and clothing	107.5	105.7	101.2	98.8	82.8	-1.7	-4.3	-2.3	-16.3
Textiles	116.0	110.4	110.2	109.4	92.2	-4.8	-0.2	-0.7	-15.7
Clothing	74.0	78.3	56.2	...	...	5.8	-28.3	...	...
Leather footwear	89.0	99.3	90.9	72.2	52.5	11.6	-8.5	-20.5	-27.4
Paper, printing and publishing	77.0	93.0	97.0	89.0	81.3	20.8	4.3	-8.2	-8.7
Paper and paper products	80.3	97.7	91.3	67.5	59.7	21.7	-6.6	-26.0	-11.6
Printing and publishing	73.4	87.9	102.8	111.9	105.1	19.8	16.9	-6.1	-17.9
Chemical products	103.2	114.1	116.7	117.3	99.5	10.6	2.3	-15.3	-11.5
Industrial chemicals	112.5	118.5	118.3	126.7	113.3	5.3	-0.2	7.2	-10.6
Other chemicals	92.4	109.2	112.7	113.3	86.4	18.2	3.2	0.6	-23.8
Petroleum refining	114.1	117.4	119.8	114.5	111.0	2.9	2.0	-4.4	-3.1
Rubber products	93.8	113.7	111.0	100.0	90.1	21.2	-2.4	-9.9	-9.9
Plastic products	104.6	114.4	125.0	126.6	97.4	9.4	9.3	1.3	-23.6
Non-metallic mineral products	94.6	102.5	105.2	101.4	86.2	8.4	2.6	-3.6	-15.0
Pottery and china	82.4	77.0	92.8	89.9	75.1	-6.6	20.5	-3.1	-16.5
Glass and glass products	94.5	97.5	97.7	112.4	87.6	3.2	0.2	15.1	-22.1
Non-metallic mineral items	97.4	109.6	110.5	100.3	88.1	12.5	0.8	-9.3	-12.1
Basic metal products	114.5	112.0	104.9	103.7	94.6	-2.2	-6.3	-1.1	-8.8
Iron and steel	112.7	126.5	114.4	95.1	85.0	12.2	-9.6	-16.9	-10.6
Non-ferrous metals	115.0	108.5	102.8	105.8	96.9	-5.7	-5.3	3.0	-8.4
Machinery and metal products	82.4	102.0	105.5	91.8	59.4	23.8	3.4	-13.0	-35.2
Plain metal products	88.8	106.9	97.0	97.6	68.1	20.4	-9.3	0.6	-30.3
Non-electrical machinery	94.7	114.8	123.6	91.3	77.9	21.2	7.7	-26.2	-14.6
Electrical machinery	81.7	96.1	106.5	87.1	53.2	17.6	13.1	-18.3	-39.0
Transport equipment	60.1	92.9	87.8	93.9	38.9	54.6	-5.5	6.9	-58.6
Other indicators									
Industrial consumption of electric power ^c	960.0	1 087.6	1 097.1	1 100.6	902.4	13.3	0.9	0.3	-18.0
Index of industrial employment (1977 = 100) ^d	99.4	101.4	102.5	101.1	95.7	2.0	1.1	-1.3	-5.4

Source: Ministry of Industry, Tourism and Integration and National Institute of Statistics (INE).

^aIndexes of physical volume.^bPreliminary figures.^cGWH.^dData for Metropolitan Lima, calculated on a 1973 basis.

Table 9

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1979	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Gross domestic product of construction ^b (index 1977 = 100)	93.8	111.4	123.7	126.6	99.5	18.8	11.0	2.3	-21.4
Sales of construction materials									
Index of volume (first quarter 1977 = 100)	89.4	102.6	108.0	106.9	79.7	14.8	5.3	-1.1	-25.4
Sales of some construction materials ^c									
Cement	1 835	2 169	2 305	2 419	1 959	18.2	6.3	4.9	-20.0
To the public sector	805	1 173	1 409	1 468	...	45.7	20.1	4.2	...
To the private sector	1 030	996	896	951	...	-3.3	-10.0	6.1	...
Iron bars for building	139	140	209	148	115	1.0	48.4	-29.2	-22.1
Index of construction material prices ^b (1977 = 100)	337	551	978	1 935	4 049	63.3	77.7	97.8	109.3
Dwellings built ^d									
Total	16.2	21.4	31.3	37.1	22.2	32.3	46.3	18.4	-40.1
Public sector	6.0	9.1	11.8	20.1	8.7	53.0	29.4	70.0	-56.5
Private sector	10.2	12.3	19.5	17.0	13.5	20.6	58.8	-12.8	-20.8

Source: National Institute of Statistics and Peruvian Chamber of the Construction Industry.

^aPreliminary figures.

^bCalculated on the basis of 1973 prices.

^cThousands of tons.

^dThousands of units.

The most important cause of the 1983 situation was the contraction in public construction, owing to the imperative need to reduce the size of the public deficit. In fact, gross capital formation of the central government—which mainly consists of building activities—shrank in real terms by one-third in 1983. An indicator of the low level of public activity was the fact that at the end of the third quarter the real amount of resources allocated to pay for accepted building tenders had fallen by two-thirds compared with the end of 1982. Likewise, dwelling construction by the public sector diminished 57%, after having grown at an average rate of 50% during the three preceding years (see table 9). There was a large drop in private construction too: at the end of the year the number of dwellings built had declined by one-fifth, that is, to a level equivalent to that of 1980.

The natural disasters of 1983 caused serious damage to dwellings and communication routes. The floods and landslides in the northern and central coastal areas totally destroyed 10 800 dwellings and caused considerable damage to 2 100 more. In rural areas, for their part, some 20 000 dwellings were affected. The cost of rebuilding destroyed dwellings—including essential services—and repairing those damaged was estimated at some US\$ 70 million. As for highways, it is estimated that the cost of rehabilitating and reconstructing those destroyed or damaged—among them the Pan-American Highway and the Central Highway—amounts to US\$ 145 million.

c) *Employment, underemployment and unemployment*

During 1983 the employment situation experienced a marked deterioration, which was added to that already noted in 1982 (see table 10). Thus, the proportion of the labour force adequately employed in non-agricultural activities declined sharply from 49% to 40% between 1981 and 1983.¹⁴ Over this same two-year period, the unemployment rate in such activities increased from 10% to 13% and underemployment rose from 40% to 46%. The rural occupational situation, for its part,

¹⁴This proportion had attained a level of 59% in 1976.

Table 10

PERU: EVOLUTION OF NON-AGRICULTURAL EMPLOYMENT

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Non-agricultural EAP ^b	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Adequately employed	58.9	51.4	45.9	44.9	47.1	49.3	45.5	40.4
Unemployed	8.4	9.4	10.4	11.2	10.9	10.4	10.6	13.3
Underemployed	32.7	39.2	43.7	44.1	41.4	40.3	43.9	46.3

Source: Ministry of Labour and Social Welfare.

^aPreliminary figures.^bIncludes mining.

Table 11

PERU: EVOLUTION OF LABOUR DISPUTES^a

	1980		1981		1982		1983 ^b		Growth rates ^c	
	Work-ers af-fect-ed	Man-hours lost	Work-ers af-fect-ed	Man-hours lost	Work-ers af-fect-ed	Man-hours lost	Work-ers af-fect-ed	Man-hours lost	1982	1983 ^b
Total	481	17 919	857	19 974	572	22 751	785	19 916	13.9	-12.5
By economic activity:										
Agricultural and fishing	9	91	6	600	5	405	34	869	-32.5	114.6
Mining	64	2 790	90	5 403	61	3 464	84	7 568	-35.9	118.5
Manufacturing	112	10 857	93	6 414	95	6 680	63	2 526	4.1	-62.2
Construction	3	35	5	203	155	7 557	32	1 507	3 622.7	-80.1
Transport, storage and communications	26	670	65	1 234	27	376	60	1 407	-69.5	274.4
Commerce and banks	230	2 074	94	1 067	82	1 567	69	1 350	46.9	-13.8
Others	37	1 402	504	5 053	147	2 702	443	4 689	-46.5	73.5
By causes:										
Remunerations	225	12 474	176	9 446	248	14 631	160	11 191	54.9	-23.5
Reinstatements to work	106	1 421	58	2 792	65	2 766	27	466	-0.9	-83.2
Economic and financial policy of the enterprise	11	111	9	453	16	207	63	1 004	-54.3	385.0
Non-fulfilment of collective agreements	42	820	20	479	22	667	63	2 220	39.2	232.8
Solidarity	44	1 097	23	882	58	1 470	12	474	66.7	-67.8
Rise in the cost of living	11	250	459	3 593	-	-	380	3 036	-	-
Regional or local reasons	2	13	77	1 358	50	545	33	542	-59.9	-0.6
Other	40	1 733	35	971	113	2 465	47	983	153.9	-60.1

Source: National Institute of Statistics (INE).

^aAll values are expressed in thousands.^bPreliminary figures.^cOf man-hours lost.

Table 12

PERU: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982	1983 ^a
Growth rates							
Exports of goods, FOB							
Value	26.9	12.5	81.3	10.8	-16.7	-0.6	-8.1
Volume	22.8	15.0	20.8	-11.4	-6.2	11.0	-11.2
Unit value	3.4	-2.2	50.1	25.0	-11.2	-10.4	3.6
Imports of goods, FOB							
Value	3.1	-26.1	22.2	56.6	24.1	-0.4	-29.5
Volume	-6.7	-35.8	9.9	39.7	15.1	-2.3	-31.8
Unit value	10.4	15.1	11.2	12.1	7.8	2.0	3.3
Terms of trade, goods (FOB/CIF)	-6.2	-14.6	35.1	11.9	-17.8	-12.2	0.5
Indexes (1970 = 100)							
Terms of trade, goods (FOB/CIF)	101.6	86.8	117.2	131.1	107.8	94.7	95.3
Purchasing power of exports of goods	88.2	86.6	141.3	140.1	108.1	105.4	94.1
Purchasing power of exports of goods and services	93.1	93.3	143.7	145.3	117.2	114.2	101.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

also appears to have worsened considerably.¹⁵ This evolution was due to the serious economic problems affecting all productive sectors.

The natural disasters of 1983 also had a considerable influence on employment. According to estimates on manpower utilization coefficients in productive activities affected by such disasters, it is estimated that employment losses amounted to a total of 37 million working days. Of this total, 32 million corresponded to agriculture (46% in the growing of potatoes, 16% in that of maize and 13% in that of cotton), and 5 million corresponded to fishing activities. In contrast, employment losses in manufacturing directly due to those disasters were minimal.

The incidence of labour disputes was less in 1983 than the year before, as the number of man-hours lost dropped by 13% (see table 11). However, the number of workers affected increased to approximately 13% of the economically active population. The sectors most influenced by strikes were transport—owing to steep rises in fuel prices and a lag in the adjustment of public transit tariffs—, mining, agriculture (due to the problems of the sugar co-operatives), and fisheries, because of difficulties in Pescaperú. Noteworthy among the causes of labour conflicts was the growth in strikes stemming from the non-fulfilment of collective contracts, which reflected the poor situation experienced by enterprises in 1983.

3. The external sector

a) *Main trends and exchange policy*

The evolution of the external accounts during 1983 was marked by the economic crisis experienced during the year, the climatic disorders and the debt renegotiation process. Mainly because of the domestic economic depression, the high trade deficit recorded in 1981 and 1982 turned into a small surplus, as the value of exports of goods dropped by 8% and that of imports by 30%. These changes in values of exports and imports of goods were mainly due to drops in the traded volumes, since unit values varied very little; in fact, there was a break in the sharp downward trend shown in the last two years by the terms of trade (see table 12).

¹⁵The relevant figures are not too reliable, but in any event, they indicate that adequately employed persons decreased from 39% to 32% of the agricultural labour force between 1982 and 1983.

The effects of the turnabout in the trade in goods were, however, partly offset by an increment in the deficit on services and in the net accountable payments for factor services to the exterior. Thus, in the end the current account deficit was still quite high, although considerably lower than in the two preceding years. The positive balance on the capital account, for its part, decreased by approximately the same proportion as that deficit, so that the drop in net international reserves, just as in 1982, was very slight. This was made possible thanks to the rescheduling of service payments on the external debt achieved during the year.

During the first months of 1983 the exchange policy remained along the lines followed in the preceding year: a progressive increase in the real exchange rate with the aim of preserving the equilibrium of the balance of payments. To this end, devaluation proceeded at a higher rate than the rise in domestic prices, and consequently the effective real exchange rate with respect to exports, which had already risen by 9% in 1982, increased another 4% up to the end of June (see table 13 and figure 2). However, three phenomena became increasingly patent: firstly, the devaluation process itself had become one of the main causes of the rise in domestic prices, thus strongly increasing the vicious circle devaluation-inflation-devaluation; secondly, exports (especially non-traditional ones), instead of increasing, were diminishing, since, among other factors, most of the positive price effect of devaluation was offset by its negative effect on the costs of imported and financial inputs (a situation which had been aggravated by the restrictive monetary policy); and, lastly, although imports were indeed going down, this was a perverse adjustment, as it was due rather to the process of domestic economic crisis and the decrease in investment than to the direct effect of the devaluation of the sol.

Table 13

PERU: EVOLUTION OF NOMINAL AND EFFECTIVE REAL EXCHANGE RATES

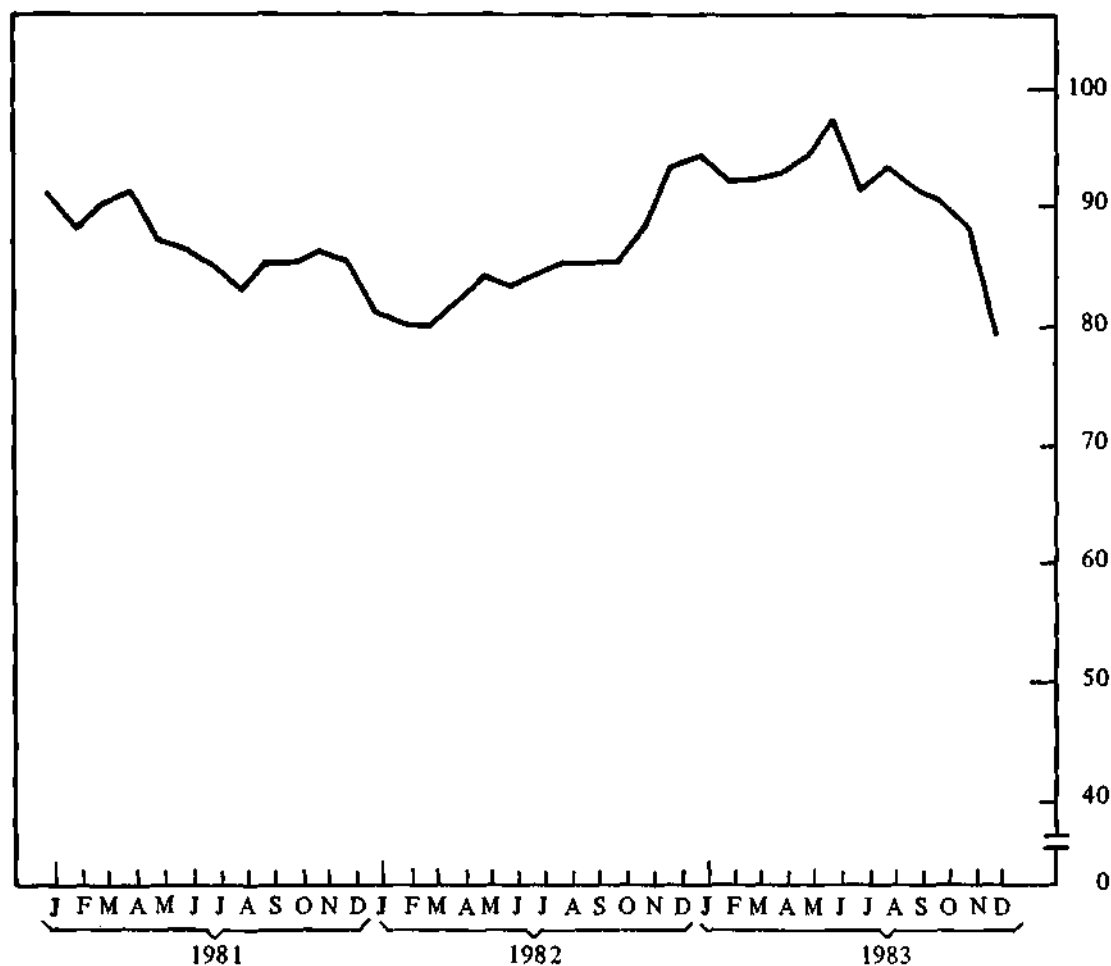
(Averages per period)

	Official exchange rate (soles per dollar)	Effective real exchange rate indexes ^a	
		Exports	Imports
1975	44	76.6	76.1
1976	57	80.7	81.5
1977	84	90.4	90.3
1978	156	113.1	112.8
1979	225	106.9	107.3
1980	289	100.0	100.0
1981	422	85.6	85.8
First quarter	366	89.6	89.5
Second quarter	411	87.6	87.7
Third quarter	435	83.0	83.5
Fourth quarter	480	83.3	84.0
1982	698	87.5	89.2
First quarter	540	83.2	84.7
Second quarter	628	86.1	87.3
Third quarter	736	88.1	89.5
Fourth quarter	887	90.7	93.4
1983	1 625	89.5	92.1
First quarter	1 100	92.5	95.3
Second quarter	1 432	94.4	96.7
Third quarter	1 846	91.4	94.4
Fourth quarter	2 122	85.6	88.2

Source: ECLAC, on the basis of information from the International Monetary Fund and the National Institute of Statistics (INE).

^aCorresponds to the average real exchange rate indexes for the sol *vis-a-vis* the currencies of Peru's main trading partners, weighted according to the relative size of exports or imports, as the case may be, to or from those countries. For the methodology and sources used see the Statistical Appendix of the *Economic Survey of Latin America, 1981*.

Figure 2
**PERU: SHORT-TERM EVOLUTION OF THE EFFECTIVE
 REAL EXCHANGE RATE INDEX^a**
 (1980 = 100)



Source: ECLAC, on the basis of information from the International Monetary Fund.
^aFor exports.

Such conflicts substantially increased the uncertainty among private agents, and this fact was reflected, in turn, in differences between the free and the official exchange rates which had not been observed in the past four years. The monetary authorities, for their part, attempted to maintain the original programme and intensified the devaluation process. In August (when devaluation amounted to 14%), however, it was concluded that such a situation —along with other aspects of economic policy— was leading to a dead-end, and the authorities then decided to change the orientation of the exchange and monetary policies.

One of the fundamental elements of the new programme was the reduction of the rate of devaluation and its announcement in advance: thus, it was set for the period from September up to November (later extended to December) at an average level of 3.7% per month (compared with the rate of 9% recorded in the first eight months). This was made possible due to the strengthening of the balance of payments as a result of the refinancing of the external debt and the (perverse) improvement in the current account. Two objectives were thus pursued: to reduce inflationary pressures, both directly and through expectations, and to reactivate the economy. As a result of this

situation, together with changes in monetary and pricing policies, the difference between the free and the official exchange rates disappeared and the rate of inflation dropped substantially, although there was nevertheless a deterioration in the effective real exchange rate in the second half of the year.

b) *Merchandise trade*

i) *Exports*. Although at the beginning of the year the value of exports was expected to grow by nearly one-fifth to some US\$ 3.9 billion, in practice its amount contracted by nearly 10% to less than US\$ 3 billion (see table 14).

At the global level, two-thirds of this contraction was due to a drop of 28% in non-traditional exports, in contrast with their anticipated growth: in fact, they showed a year-end value 43% lower than that envisaged early in the year. In spite of the credit support received and the vigorous devaluation process followed until August, these exports suffered the effects of the protectionist measures taken by member countries of the Andean Group (which, besides being a market which is difficult to replace, represents one-third of the total markets for non-traditional exports) and by the United States —the main market for Peruvian textile products— in the form of counter-vailing import duties. To some extent, non-traditional exports also experienced the effects of the natural disasters, as the supply of inputs diminished.

Table 14
PERU: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1980	1981	1982	1983 ^a	1975	1980	1983 ^a	1981	1982	1983 ^a
Total	3 898	3 255	3 293	2 970	100.0	100.0	100.0	-16.5	1.2	-9.8
Traditional products	3 067	2 562	2 531	2 420	92.8	78.7	81.5	-16.5	-1.2	-4.4
Fish meal	192	141	202	72	12.6	4.9	2.4	-26.6	43.3	-64.4
Crop-farming products	226	170	218	195	27.9	5.8	6.6	-24.8	28.2	-10.6
Cotton	72	64	85	43	4.0	1.8	1.4	-11.1	32.8	-49.4
Sugar	13	-	20	36	20.2	0.3	1.2	-100.0		80.0
Coffee	141	106	113	116	3.7	3.6	3.9	-24.8	6.6	2.7
Mining products	1 752	1 425	1 257	1 487	44.3	44.9	50.1	-18.7	-11.8	18.3
Copper ^b	752	529	460	431	13.8	19.3	14.5	-29.7	-13.0	-6.3
Iron	95	93	108	72	3.9	2.4	2.4	-2.1	16.1	-33.3
Refined silver	312	312	205	393	6.9	8.0	13.2	0.0	-34.3	91.7
Lead ^b	383	219	216	302	7.4	9.8	10.2	-42.8	-1.4	39.8
Zinc	210	272	268	289	12.3	5.4	9.7	29.5	-1.5	7.8
Petroleum and petroleum products	792	692	719	545	3.1	20.3	18.4	-12.6	3.9	-24.2
Other ^c	105	134	135	121	4.9	2.7	4.1	27.6	0.7	-10.4
Non-traditional products	832	693	762	550	7.2	21.3	18.5	-16.7	10.0	-27.8
Agricultural	70	60	70	56	0.9	1.8	1.9	-14.3	16.7	-20.0
Textiles	231	231	281	186	0.9	5.9	6.3	0.0	21.6	-33.8
Fisheries	119	106	98	80	1.3	3.1	2.7	-10.9	-7.5	-18.4
Metal products and machinery	55	58	50	43	1.1	1.4	1.4	5.5	-13.8	-14.0
Chemicals	84	80	65	45	0.7	2.2	1.5	-4.8	-18.8	-30.8
Iron and steel products	80	48	71	55	1.8	2.1	1.9	-40.0	47.9	-22.5
Non-metallic minerals	57	45	34	17		1.5	0.6	-21.1	-24.4	-50.0
Other ^d	136	65	93	68	0.5	3.5	2.3	-52.2	43.1	-26.9

Source: Central Reserve Bank of Peru.

^aPreliminary figures.

^bIncludes silver content.

^cIncludes mainly gold and minor metals.

^dIncludes mainly gold and silver

jewellery, wood and paper, hides and skins, and handicraft items.

However, the biggest negative effect of those disasters occurred at the level of traditional exports, causing a reduction of US\$ 105 million in external sales of fish meal, of US\$ 60 million in sales of crude petroleum and derivatives, of US\$ 55 million in the case of cotton and sugar and of US\$ 40 million in the case of mining products.¹⁶ With respect to the latter, in spite of labour disputes in the first quarter, there was a substantial recovery in the volumes of silver and lead exported, coinciding with a steep increase in their prices (see table 15). Thus, the volume of these two products exported exceeded by over 50% the figure envisaged at the beginning of the year. This offset the general effect of the natural disasters on mining exports, which grew by 18% as a whole and came to represent half of total exports. In addition, due precisely to the behaviour of silver and lead, external sales of traditional products as a whole only dropped 4%, and their share in the total increased to 82%.

ii) *Imports.* As in the case of exports, purchases from the exterior contracted during 1983 (to US\$ 2.67 billion) instead of expanding, as envisaged, to nearly US\$ 4 billion (see table 16).

There were a number of causes for this lower level of imports. On the one hand, the strong reduction in domestic economic activity diminished the demand for imported products. This was reflected, for example, in a drop of 51% in imports of capital goods by the private sector and in a fall of 34% in its purchases of raw material and inputs. Secondly, the programme of fiscal austerity was reflected in the 19% decrease in purchases of investment goods in the exterior by the public sector and in a slump of 84% in its imports of non-food consumer goods. Thirdly, the big increase in the real exchange rate up to August also had an influence in the same direction. Lastly, the average tariff rate rose from 36% in 1982 to 41% in 1983, after the tariff surcharge equivalent to 15% of the customs tariff in force in 1982 had been replaced by another equivalent to 10% of the CIF value. Nevertheless, just as in the three preceding years, about 98% of all tariff entries continued to be completely free from import restrictions, while only eight entries were subject to import prohibitions.

Climatic disorders, for their part, had an opposite effect, as they led to additional spending in the exterior totalling around US\$ 210 million: two-thirds of this amount was accounted for by extraordinary food imports such as rice, sugar, soya oil, dairy products and even potatoes —thereby increasing the value of imports of consumer and intermediate goods by the public sector—, and the remainder represented purchases of capital goods for reconstruction.

c) *Services trade and factor payments*

The deficit on the trade in real services increased by 17% in 1983.¹⁷ This was the result of a simultaneous drop in the value of sales of services to the exterior (-13%) and in that of services imports (-7%).

This increased deficit was exclusively concentrated in the travel category, whose positive balance sank from US\$ 169 million in 1982 to only US\$ 15 million in 1983, since together with an increase of 14% in the expenditure of Peruvian citizens abroad, there was a striking contraction of 41% in that of foreigners in the country. The latter was basically the result of an increase in terrorist activities and, to a lesser extent, of climatic disorders. Net payments to the exterior for transport services and insurance dropped for their part by one-fourth, and there was also a general decrease in their volume, due to a fall in total foreign trade.

The accounting balance of net payments for factor services expanded 9% and was greater than the total current account deficit. Accounting interest payments¹⁸ increased 15% to over US\$ 1.15 billion; however, this total also includes that share of interest on the external public debt covered by its rescheduling in negotiations with foreign governments, the socialist countries, and members of the Paris Club, totalling US\$ 173 million. Excluding the latter figure, effective interest payments fell 7%, to US\$ 983 million. This total included US\$ 95 million in interest corresponding to the renegotiation processes with governments and the international banks.¹⁹ For its part, owing to a drop

¹⁶ The total effect of the disasters on exports was approximately US\$ 280 million, the slight difference being accounted for by non-traditional products.

¹⁷ It should be noted that the average deficit was US\$ 233 million in the period 1981-1983, against only US\$ 41 million in the period 1977-1980.

¹⁸ Here, accounting payments mean total payments actually made plus those payments which, although not effected, have been recorded as such, together with a compensatory entry for capital inflow.

¹⁹ See table 20.

Table 15

**PERU: VALUE, VOLUME AND PRICES OF
MAIN EXPORT PRODUCTS^a**

	1976	1977	1978	1979	1980	1981	1982	1983 ^b
Fish meal								
Value	178	179	192	256	192	141	202	72
Volume	625	430	483	657	416	285	616	190
Price ^c	284.0	416.3	397.1	389.7	460.6	494.7	328.8	378.9
Cotton								
Value	71	48	38	49	72	64	85	43
Volume ^d	776	462	394	434	701	685	1 287	666
Price ^e	91.4	104.0	96.5	113.7	102.1	92.8	66.1	65.3
Sugar								
Value	91	74	52	34	13	-	20	36
Volume	296	390	291	181	53	-	60	90
Price ^f	14.2	8.8	8.2	8.7	11.4	-	15.2	18.4
Coffee								
Value	101	196	168	245	141	106	113	116
Volume	43	43	54	70	44	46	44	54
Price ^g	108.0	210.0	144.6	162.1	147.0	107.4	119.6	98.8
Copper								
Value	234	398	412	674	752	529	460	431
Volume	182	331	343	373	350	322	335	287
Price ^h	58.4	54.5	54.3	81.9	97.4	74.7	62.3	68.1
Iron ore								
Value	64	91	74	85	95	93	108	72
Volume ⁱ	4.5	6.1	4.8	5.7	5.7	5.3	5.7	4.1
Price ^j	14.2	14.8	15.5	14.8	16.5	17.7	19.1	17.6
Refined silver								
Value	90	116	118	234	312	312	205	393
Volume ^k	20.8	25.1	22.5	24.8	15.9	28.0	26.0	33.7
Price ^l	4.3	4.6	5.3	9.4	19.6	11.1	7.9	11.7
Lead								
Value	112	132	175	294	383	219	216	302
Volume	180	172	177	164	154	146	177	203
Price ^m	28.1	34.8	44.8	81.0	112.8	68.0	55.2	67.5
Zinc								
Value	192	164	133	171	210	272	268	289
Volume	432	434	437	418	438	499	491	494
Price ⁿ	20.1	17.1	13.8	18.6	21.8	24.7	24.8	26.5
Petroleum and derivatives								
Value	53	52	180	646	792	692	719	545
Volume ^o	4.7	4.1	13.8	23.6	22.4	19.9	22.7	20.5
Price ^p	11.2	12.7	13.1	27.4	35.3	34.7	31.6	26.6

Source: Central Reserve Bank of Peru.

^aValues in millions of dollars and volumes in thousands of tons, unless otherwise indicated; prices as indicated.

^bPreliminary figures. ^cDollars per ton. ^dThousands of quintals. ^eDollars per quintal. ^fU.S. cents per pound.

^gMillions of net legal tons. ^hDollars per net legal ton. ⁱMillions of troy ounces. ^jDollars per troy ounce.

^kMillions of barrels. ^lDollars per barrel.

Table 16

PERU: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1980	1981	1982	1983 ^a	1975	1980	1983 ^a	1981	1982	1983 ^a
Total	3 090	3 802	3 721	2 670	100.0	100.0	100.0	23.0	-2.1	-28.2
Consumer goods	410	603	495	368	8.9	13.3	13.8	47.1	-17.9	-25.7
Private sector	...	355	416	264	...	...	9.9	...	24.2	-36.5
Public sector	...	248	79	104	...	...	3.9	...	-68.1	31.6
Rice	93	59	17	34	...	3.0	1.3	-36.6	-71.2	100.0
Sugar	32	99	-	60	...	1.0	2.2	209.4	-100.0	-
Other	...	90	62	10	...	...	0.4	...	-31.1	-83.9
Intermediate goods	1 149	1 376	1 290	991	48.3	37.2	37.1	19.8	-6.3	-23.2
Private sector	...	918	926	607	...	...	22.7	...	0.9	-34.4
Public sector	...	458	364	384	...	...	14.4	...	-20.5	5.5
Wheat	141	167	155	147	...	4.6	5.5	18.4	-7.2	-5.2
Maize and sorghum	65	50	56	56	...	2.1	2.1	-23.1	12.0	0.0
Soya oil	24	30	28	46	...	0.8	1.7	25.0	-6.7	64.3
Petroleum products	25	22	32	44	...	0.8	1.6	-12.0	45.5	37.5
Fertilizer	16	14	10	11	...	0.5	0.4	-12.5	-28.6	10.0
Other	...	160	83	80	...	...	3.0	...	-48.1	-3.6
Capital goods	1 087	1 454	1 411	859	32.8	35.2	32.2	33.8	-3.0	-39.1
Private sector	624	990	893	438	...	20.2	16.4	58.7	-9.8	-51.0
Public sector	463	464	518	421	...	15.0	15.8	0.2	11.6	-18.7
Via external public debt	378	335	415	282	...	12.2	10.6	-11.4	23.9	-32.0
Via single exchange market	85	129	103	139	...	2.8	5.2	51.8	-20.2	35.0
Grants			65	100			3.7			
Miscellaneous items and adjustments ^b	} 444	369			} 10.0	14.4		-16.9	42.3	53.8
			460	352			13.2			-23.5

Source: Central Reserve Bank of Peru.

^aPreliminary figures.^bDefence equipment, non-monetary gold and other public sector imports.

in international interest rates, the amount of interest received went down, as did payments of profits. Indeed, the latter dropped for the fourth time, thus attaining a level equivalent to only 24% of that recorded in 1979.

d) *The current account position and its financing*

After two years of heavy deficits, the trade in goods and services showed a small positive balance, as imports contracted considerably faster than exports. Thus, in spite of an increase of 9% in net payments for factor services, the current account deficit shrank from a figure of nearly US\$ 1.8 billion in 1981 and in 1982, to US\$ 1.1 billion. This latter amount includes an entry for refinanced interest on the external public debt.²⁰ Had this been excluded, the current account deficit would have gone down by 49%, that is, to somewhat over US\$ 900 million.

As in 1982, the positive balance on the capital account financed more than 95% of the current account deficit (see table 17). This positive balance stemmed exclusively from long-term capital movements, and in these a decisive influence was exerted by funds received by the public sector. There was not only a reduction in the long-term indebtedness of the private sector, but also—in what was

²⁰See the preceding section.

one of the most striking differences in the country's economic evolution with respect to the preceding year— the short-term capital movements went from a positive value of over US\$ 450 million to a negative one of over US\$ 200 million.

The net international reserves, for their part, only dropped by US\$ 50 million (see table 18). However, their evolution exhibited noteworthy ups and downs throughout the year. At the end of the first quarter, when renegotiation operations on the external debt were just starting, the net international reserves had declined by US\$ 260 million, but by the end of the second quarter, as a result of the first effects of the renegotiation, they had risen considerably. In the third quarter they

Table 17
PERU: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-976	-244	663	-72	-1 810	-1 823	-1 101
Trade balance	-557	330	1 599	763	-790	-769	51
Exports of goods and services	2 131	2 401	4 101	4 650	4 055	4 061	3 689
Goods FOB	1 726	1 941	3 519	3 899	3 249	3 230	2 970
Real services ^b	406	461	582	751	806	830	719
Transport and insurance	175	179	255	284	298	291	270
Travel	112	141	175	292	287	322	189
Imports of goods and services	2 688	2 071	2 502	3 887	4 845	4 830	3 638
Goods FOB	2 164	1 600	1 955	3 062	3 801	3 787	2 670
Real services ^b	524	469	547	825	1 043	1 043	968
Transport and insurance	325	263	319	433	559	523	446
Travel	36	33	45	107	133	153	174
Factor services	-422	-579	-936	-835	-1 020	-1 053	-1 152
Profits	-54	-84	-393	-292	-252	-160	-93
Interest received	13	14	56	201	204	109	97
Interest paid	-381	-509	-601	-743	-971	-1 004	-1 156
Unrequited private transfer payments	5	4	-	-	-	-	-
Balance on capital account	1 042	268	414	725	1 138	1 753	1 051
Unrequited official transfer payments	53	54	122	134	166	179	219
Long-term capital	955	265	698	273	483	1 263	1 244
Direct investment (net)	55	26	70	27	125	59	15
Other long-term capital	901	238	628	246	358	1 204	1 229
Official sector ^c	883	225	660	182	224	1 048	1 305
Loans disbursed	1 285	1 102	1 684	1 581	1 700	2 028	2 450
Amortization payments	-395	-868	-1 008	-1 391	-1 474	-980	-1 145
Other sectors ^c	18	14	-32	64	134	157	-76
Loans disbursed	118	96	89	181	294	378	142
Amortization payments	-100	-83	-119	-117	-160	-221	-218
Short-term capital (net)	150	-101	-370	501	35	457	-204
Official sector	109	-37	-300	90	-17	-291	...
Commercial banks	39	-66	-53	13	61	-	...
Other sectors	2	2	-18	398	-9	749	...
Errors and omissions (net)	-113	53	-36	-186	451	-148	-208
Global balance^d	66	24	1 076	653	-672	-70	-50
Total variation in reserves (- sign indicates an increase)	-60	-6	-1 066	-607	512	57	50
Monetary gold	-	-	-64	-173	-118	-	...
Special Drawing Rights	-	-3	-100	94	1	-22	32
IMF reserve position	-	-	-	-	-	-	...
Foreign exchange assets	-68	-30	-1 030	-553	769	-119	...
Other assets	-13	-101	-29	43	-53	-65	...
Use made of IMF credit	21	128	158	-17	-87	262	...

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, March 1984; 1983: ECLAC, on the basis of official data.

^aPreliminary figures. ^bReal services also include other official and private transactions, but not factor services. ^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

Table 18

PERU: EVOLUTION OF INTERNATIONAL RESERVES

(Millions of dollars at end of period)

	International assets			Total	International liabilities ^d	Net international reserves
	Gold ^a	SDR ^b	Assets in foreign currency ^c			
1973	80	45	447	571	161	410
1974	80	45	842	966	274	692
1975	80	43	345	468	352	116
1976	80	4	284	368	1 120	-752
1977	80	3	374	457	1 558	-1 101
1978	75	11	506	592	1 617	-1 025
1979	175	118	1 565	1 858	1 304	554
1980	432	44	2 077	2 553	1 277	1 276
1981	432	40	1 351	1 823	1 051	772
1982						
First quarter	432	29	1 195	1 656	1 095	561
Second quarter	432	43	1 608	2 083	1 309	774
Third quarter	432	29	1 564	2 025	1 096	929
Fourth quarter	432	61	1 536	2 029	1 133	896
1983						
First quarter	432	27	1 284	1 743	1 107	636
Second quarter	432	27	1 780	2 239	1 300	939
Third quarter	432	44	1 665	2 141	1 293	848
Fourth quarter ^e	432	27	1 616	2 075	1 229	846

Source: Central Reserve Bank of Peru.

^aGold held by banks, either in vault or in custody abroad, and the country's gold contribution to the International Monetary Fund. ^bSpecial Drawing Rights. ^cDemand and time deposits in foreign currency, in banks and with agents abroad, and other international assets, such as bonds in the World Bank, contribution to the Andean Reserve Fund and deposits in local banks. The latter represented an average of 5% of the amounts recorded in this column during 1982 and 1983. ^dMainly liabilities with the International Monetary Fund, short-term liabilities with foreign banks, and balances with ALADI. ^ePreliminary figures.

contracted once more (-10%), largely due to delays in concluding the formal aspects of debt renegotiation with international banks which caused the latter to delay their disbursements of new contracted loans, and finally, in the last quarter, the international reserves remained practically unchanged.

e) *External indebtedness*

The total external debt expanded 12% in 1983, that is to say, at a faster rate than the Latin American debt as a whole (7%). This broke a four-year cycle during which Peruvian indebtedness had behaved in a completely opposite way to that of the region as a whole. In 1983, the growth of the external debt was concentrated entirely in long-term funds and, among these, in those received by the public sector (which increased by 19%) and by the Central Reserve Bank (which rose 57%). Short-term external funds, for their part, after their rapid growth in 1982, experienced a sharp reduction in 1983 (see table 19).

The original time schedule of the external debt service for 1983 anticipated that its level would be equivalent to 95% of total exports.²¹ However, given the widespread contraction in international capital markets and the insufficient reduction in the current account deficit of the balance of payments, the situation became untenable. Thus, on 7 March a forced rescheduling of the heavy short-

²¹The external public debt service, for its part, should have represented 57% of total exports in 1983.

Table 19

PERU: EVOLUTION OF EXTERNAL INDEBTEDNESS^a

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^e
Millions of dollars										
Total external debt ^b	3 681	6 257	7 384	8 567	9 324	9 334	9 594	9 638	11 097	12 418
Long-term external debt	2 190	4 352	5 250	6 263	7 226	7 941	8 125	8 172	9 279	10 927
Public sector ^c	945	3 066	3 554	4 311	5 135	5 764	6 043	6 210	6 908	8 213
Central Reserve Bank	41	-	385	626	751	869	710	455	707	1 111
Private sector	1 204	1 286	1 311	1 326	1 340	1 308	1 372	1 507	1 664	1 603
Short-term external debt	1 491	1 905	2 134	2 304	2 098	1 393	1 469	1 466	1 818	1 491
Public and private enterprises ^d	1 460	1 553	1 399	1 372	1 232	958	902	870	1 392	1 058
Banking system	31	352	735	932	866	435	567	596	426	433
Central Reserve Bank	1	21	101	275	309	5	25	24	39	-
Other banks	30	331	634	657	557	430	542	572	387	433
Long-term external public debt ^b	945	3 066	3 554	4 311	5 135	5 764	6 043	6 210	6 908	8 213
Debt, by financial sources										
Public agencies and government	223	821	990	1 255	1 667	1 733	1 847	1 617	1 379	1 638
Loans disbursed	39	359	236	260	306	242	257	149	215	443
Amortization payments	13	106	71	54	104	124	201	199	167	184
International agencies	171	259	268	330	408	485	610	784	949	1 109
Loans disbursed	26	35	37	79	56	96	177	186	237	200
Amortization payments	11	18	15	16	20	23	30	84	38	40
Socialist countries	-	263	361	743	915	935	985	930	925	1 073
Loans disbursed	-	143	113	417	142	31	136	118	71	362
Amortization payments	-	18	21	38	37	43	67	106	70	214
Suppliers	394	403	420	744	937	1 048	1 065	1 110	1 586	1 970
Loans disbursed	110	123	149	279	266	291	307	314	573	751
Amortization payments	71	101	118	142	157	93	220	236	324	367
International banks	157	1 320	1 515	1 239	1 208	1 563	1 536	1 769	2 069	2 423
Loans disbursed	15	417	260	32	78	424	331	853	838	694
Amortization payments	26	41	57	152	114	158	313	606	340	340
Debt, by destination ^b										
Investment projects	646	1 885	2 196	2 506	3 010	2 836	3 026	3 617	4 071	5 284
Food imports	18	100	119	154	190	224	308	332	322	-
Petroleum imports	-	65	83	119	93	40	7	-	-	-
Refinancing	190	557	558	489	504	1 226	1 115	792	890	1 015
Defence	91	459	598	1 043	1 338	1 438	1 587	1 469	1 625	1 914
Servicing										
Principal	121	284	282	402	432	441	831	1 231	939	308 ^f
Interest	46	190	203	220	270	384	492	525	552	472 ^f
Total	167	474	485	622	702	825	1 323	1 756	1 491	780 ^f
Debt coefficients ^g (percentages)										
ED/GDP	74.2	64.1	68.9	72.5	69.2	57.4	51.2	51.3	58.6	70.8
EPD/GDP	19.9	31.4	36.8	41.8	43.7	40.8	36.1	35.4	40.2	62.4
Servicing of ED/X	25.1	51.8	56.5	51.4	54.0	35.1	46.2	72.7	69.7	49.5 ^f
Servicing of EPD/X	16.2	35.6	36.2	36.0	35.6	22.4	33.8	54.0	48.6	26.3 ^f
Interest	4.5	14.3	15.2	12.7	13.7	10.4	12.6	16.1	18.0	15.9 ^f
Principal	11.7	21.3	21.0	23.3	21.9	12.0	21.2	37.9	30.6	10.4
Growth rates (percentages)										
ED	9.2 ^h	19.5	18.0	16.0	8.8	0.1	2.5	0.5	15.1	11.9
EPD	23.3 ^h	40.5	15.9	21.3	19.1	12.2	4.8	2.8	11.2	18.9
EPD with international banks	53.0 ^h	53.4	14.8	-18.2	-2.5	29.4	-1.7	15.2	17.0	17.1
Short-term ED	4.8 ^h	6.1	12.0	8.0	-8.9	-33.6	5.5	-0.2	24.0	-18.0

Source: Central Reserve Bank of Peru.

^aPreliminary figures. ^bUp to 1982, includes adjustment due to variation in the exchange rate of foreign currencies. ^cComprises central government and public enterprises. ^dWith or without the guarantee of the banking system. ^eThe totals for each entry include until 1982 the adjustment mentioned in footnote ^b, but not loans disbursed or amortization payments made. ^fExcludes renegotiated debt service: US\$ 173 million on account of interest and US\$ 837 million for principal. ^gGDP = gross domestic product; ED = total external debt; EPD = long-term external public debt, excluding that of the Central Reserve Bank; X = exports of goods, FOB. ^hAnnual average growth rate for the 1970-1974 period.

Table 20

**PERU: NET RELIEF DUE TO THE RENEGOTIATION OF
THE EXTERNAL PUBLIC DEBT IN 1983**

(Millions of dollars)

	1983	1984	1985	1986	1987	1988
1. Relief	1 015	845	256			
Paris Club ^a	459	582	61			
Principal	335	396	43			
Interest	124	186	18			
International banks	309	92	-			
Socialist countries	247	171	195			
Principal	198	148	166			
Interest	49	23	29			
2. Principal		119	24	64	196	310
Paris Club					92	208
International banks				40	80	80
Socialist countries		119	24	24	24	22
3. Interest and commissions	95	128	151	155	141	119
Paris Club	17	58	77	77	74	63
International banks	53	41	48	46	38	29
Socialist countries	25	29	26	32	29	27
4. Net relief (1-2-3)	920	598	81	-219	-337	-429
Paris Club	442	524	-16	-77	-166	-271
International banks	256	51	-48	-86	-118	-109
Socialist countries	222	23	145	-56	-53	-49

Source: Central Reserve Bank of Peru.

^aIncludes Latin American countries for US\$ 43 million in 1983 and for US\$ 52 million in 1984.

term external debt was unilaterally declared, under the pressure from the country's main creditors, who sought to avert a massive withdrawal of funds from dozens of small banks, which would have had catastrophic consequences. Commercial loans falling due in the period between 7 March and 31 May (approximately US\$ 500 million, mostly owed by public enterprises) were deferred for 90 days as from their original maturity date.²² At the same time, there was a 360-day postponement both of loans for working capital of public enterprises (US\$ 1.2 billion), and of those contracted by private banks (US\$ 300 million), between 7 March 1983 and 6 March 1984. The terms of this operation were LIBOR plus 2%, and a commission of 0.375%. The agreements were signed in June, and until then Peru systematically renewed its suspension of payments.

At the same time, an agreement was reached with commercial banks for refinancing the medium and long-term debt. The sum involved amounted to US\$ 401 million in amortization payments falling due in the same one-year period mentioned above; the conditions were an eight-year repayment term (including three years of grace), a spread of 2.25% over LIBOR and a commission of 1.25%. Simultaneously, and on the same terms (except for an additional annual commission of 0.5%), new loans for US\$ 450 million were obtained. This latter operation, besides being conditional, like the previous ones, on observance of the agreement with the International Monetary Fund, and therefore, the goals set by it, depended on the international banking system fulfilling its commitment to maintain at least 95% of its short-term credit lines. That was only achieved at the end of September, causing a delay in scheduled disbursements, as well as extension of deferral of payment of the short-term debt until October.

²² The procedure consisted in that local banks and public enterprises paid their debts to the Central Bank, which, in turn, opened a dollar account in favour of the creditor and deferred the payment.

The debt with governments was renegotiated by signing an agreement with the members of the Paris Club for the refinancing of loans granted by them and by official export credit agencies and State guaranteed supplier credits. The Peruvian authorities requested the refinancing of all loans falling due in the period from 1 May 1983 to 28 February 1985 (the date on which the agreement with the International Monetary Fund expired), amounting to approximately US\$ 1.2 billion. Peru had not served this debt (capital or interest) since the end of April. After intensive negotiations, refinancing of 90% of all payments corresponding to the period 1 May 1983 to 30 April 1984 was obtained, subject to the continued observance of the agreement with the International Monetary Fund. Likewise, half of the remaining 10% to be paid during 1983 was deferred until 1984. An "automatic clause" included in the agreement pledged to refinance the amounts falling due within 10 months following its entry into force. The repayment period granted was 8 years (including three years of grace), and it was agreed that interest rates would be determined in bilateral negotiations, which began once the Paris meeting was closed.

Finally, debt refinancing operations were completed by the signature of an agreement with the Soviet Union, under which maturities corresponding to 1983 would be paid over a six-year term, at an increasing rate. Those corresponding to 1984 and 1985 were refinanced for an eight-year term (including three years of grace). The amounts still due after the two refinancing operations will be paid in kind, according to a list of non-traditional exports which Peru undertook to submit to the consideration of the Soviet authorities. This part of the operation was for an amount close to US\$ 200 million, with a duration of two years, as from November 1983.

The global results of this complex renegotiation process are shown in table 20. The total of US\$ 1 015 million refinanced during 1983 corresponded to two-fifths of the total long-term resources received by the public sector.²³ Thanks to this refinancing, the effective debt service coefficient (that is, excluding refinanced principal and interest payments), as a proportion of total exports went down from the extremely high levels of 1981 and 1982 (73% and 70%, respectively) to 50% (see table 19).

4. Prices and wages

a) *Prices*

During 1983, the rate of inflation grew markedly, reaching for the first time a three-digit figure, both in terms of its annual accumulated variation (125%, as against 73% in 1982), and in its variation between annual averages (111%, as against 65% the year before) (see table 21.)

However, the evolution of the consumer price index was uneven over the year, with two clearly differentiated periods: January to September, when inflation was running at an annual level of 145%, and the last quarter of the year, when the rate of price increases in annual terms dropped by half to 74%; i.e., a similar rate to that of 1981 and 1982.

The rapid inflation of the first three quarters of the year was due to the combination of various factors: the impact of the climatic disorders, the very fast devaluation process, the policy of readjusting controlled prices and public service tariffs, and inflationary expectations.

The inflationary pressures caused by the natural disasters were due both to acute supply shortages in markets arising from losses in production and destruction of communication routes, and to intense speculative activity brought about by the emergency. In the areas directly affected by rains and floods, the problem was particularly serious; thus, for example, in the city of Piura the increase in prices, which averaged 5.2% per month during 1982, attained in the first four months of the year the level of 12.4% per month, and in the city of Chiclayo, it soared from a rate of 5.1% per month in 1982 to 14.1% in the January-April period.

In the drought zone, for its part, the average monthly inflation was also accelerated, although to a lesser extent: in Puno it rose from 4.3% in 1982 to 6.3% in the first four months of 1983, and in Arequipa from 5.2% in 1982 to 8.2% in January-April 1983. There were two reasons for the lower rise in this zone than in the northern zone of the country: on the one hand, there was a high degree of self-supply, so that part of the loss in production was not reflected in an increase in prices, and, on the other, there was a drop in the price of meat, because the peasants were forced to dispose of their cattle,

²³Of the remaining resources received by the public sector, two-thirds were allocated to investment projects, one-tenth to food imports and one-fourth (US\$ 370 million) to defence.

Table 21

PERU: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982	1983 ^a
Variation from December to December							
Consumer price index	32.4	73.7	66.7	60.8	72.7	72.9	125.1
Food ^b	33.0	77.7	75.1	38.1	68.2	72.1	135.8
Wholesale price index	43.3	95.7	60.9	53.0	66.1	64.2	136.5
Imported products	70.6	113.3	49.0	41.7	48.2	63.5	83.6
Agricultural commodities				56.7	42.3	47.7	300.3
Manufactures				41.1	48.5	64.2	75.7
Domestic products	30.5	88.5	66.4	57.7	72.7	64.5	153.2
Agricultural commodities	27.3	67.4	79.7	89.4	58.4	54.0	135.1
Manufactures	39.1	100.0	60.4	41.5	82.2	70.8	163.6
Variation between annual averages							
Consumer price index	38.1	57.8	67.7	59.2	75.4	64.5	111.1
Food ^b	40.3	59.7	74.2	58.8	76.4	52.9	125.7
Wholesale price index	46.5	76.0	70.4	53.1	68.1	56.3	113.1
Imported products	61.1	96.9	73.9	45.4	47.5	54.2	82.5
Agricultural commodities	24.1	56.2	73.2	69.4	47.4	31.0	...
Manufactures	63.3	101.0	72.0	44.6	47.6	55.2	...
Domestic products	42.0	68.2	69.6	56.3	76.1	57.0	122.9
Agricultural commodities	40.6	44.3	75.7	78.7	78.4	48.3	...
Manufactures	43.1	82.2	66.7	45.3	74.6	62.2	...

Source: National Institute of Statistics (INE).

^aPreliminary figures. ^bIncludes food, beverages and tobacco.

which were being sold in September at the equivalent of only 40 dollars per head. All these factors also had strong repercussions on the metropolitan area of Lima, to which the official consumer price index refers. Thus, whereas the monthly increase in the prices of food, beverages and tobacco in 1982 was 4.6%, in the first quarter of 1983 it was 10.4%: in that period, vegetables and pulses rose 29% per month, bread and grains 13%, tubers 11%, etc.

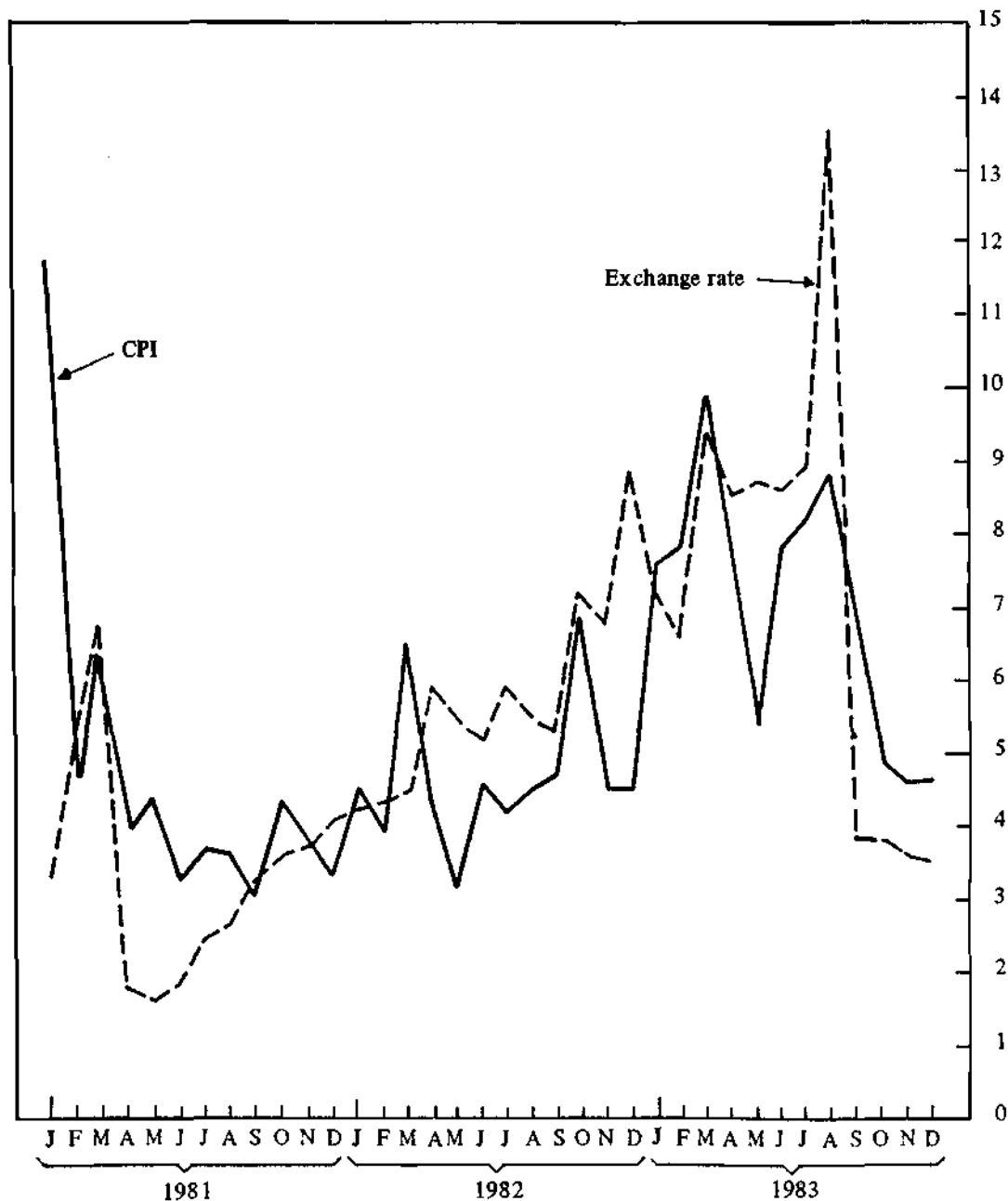
The factors linked to the economic policy (devaluation and rises in controlled prices) were also a major driving force in price increases. As regards devaluation, a policy designed to protect the balance of payments through a real improvement in the exchange rate set off a race between that factor and inflation, considerably increasing financial and input costs (see figure 3). As regards controlled prices, their monthly rate of increase went up from 4.9% in 1982 to 9.8% in the first nine months of 1983. The maintenance of gasoline prices at the equivalent of US\$ 1.10 per gallon had considerable weight in that evolution.

The situation became highly untenable, and the series of rises in prices and in the exchange rate came to be futile. Along with a restrictive monetary policy which attempted to sterilize the inflationary effects of devaluation, these rises had given rise to very serious strangulation of the productive sector. Consequently, in August the authorities announced a change in the objectives of the short-term economic policy, and the control of inflation (with its consequences on the exchange rate) became an essential part of this policy.

This new approach produced a marked decline in inflationary pressures, due basically to three factors. Firstly, the monthly devaluation rate of 9% recorded between January and August was reduced to 3.7% in the last four months of the year. Secondly, a ceiling of 3% was set on the monthly increment in the price of gasoline (which thereby dropped to the equivalent of US\$ 1.02 per gallon by the end of the year), and another of 4% for monthly adjustments in the prices of rice, bread, milk

distributed by the National Input Marketing Enterprise (ENCI)²⁴ and medicines, as well as water, electricity and telephone tariffs; at the same time, as from the end of August the prices of kerosene, diesel oil and gas were frozen. In these circumstances, the high average monthly increase in the prices of controlled products recorded for the three first quarters of the year dropped to 4% in the last quarter. Thirdly, the shortages arising from natural disasters gradually disappeared in the course of

Figure 3
**PERU: MONTHLY VARIATIONS IN THE CONSUMER
 PRICE INDEX AND EXCHANGE RATE**



²⁴The public enterprise responsible for importing dairy products.

Table 22

PERU: EVOLUTION OF AVERAGE REMUNERATIONS

	1977	1978	1979	1980	1981	1982	1983 ^a
Average remunerations in the private sector^b							
Nominal							
Salaries ^c	19 321	26 065	39 926	68 237	121 736	215 733	387 018
Wages ^d	376	534	868	1 510	2 605	4 328	7 584
Minimum wage ^{d,e}	180	230	500	845	1 238	2 000	4 500
Real (indexes 1973 = 100)							
Salaries	69.7	59.5	54.3	58.3	59.3	64.2	54.5
Wages	76.6	69.0	66.8	73.4	71.9	72.9	60.6
Minimum wage	71.9	53.9	69.7	82.0	64.8	60.5	60.5
Remunerations in general government							
Real (index December 1973 = 100)	...	65.9	52.5	71.9	63.7	58.6	43.4
Growth rates of real remunerations:							
Private sector:							
Salaries	-12.5	-14.6	-8.7	7.4	1.7	8.3	-15.1
Wages	-15.6	-9.9	-3.2	9.9	-2.0	1.4	-16.9
Minimum wage	-15.3	-24.1	-27.3	18.9	-21.0	-6.6	0.0
General government	...	...	-20.3	37.0	-11.4	-8.0	-25.9

Source: Ministry of Labour and Social Welfare; National Institute of Statistics (INE); Central Reserve Bank of Peru.

^aPreliminary figures. ^bData for Metropolitan Lima; coverage: establishments with ten or more workers. Salaries correspond to non-manual workers and wages to manual workers. ^cSoles per month. ^dSoles per day. ^eDollars at end of year, referred to Metropolitan Lima. Minimum salaries are obtained by multiplying minimum wages by 30.

the year; thus, for example, the prices of the products most affected in the first half of the year went down in nominal terms in the last quarter (the prices of vegetables and pulses in Lima fell at a rate of -9% per month, those of tubers and roots at a rate of -7% per month, etc.).

b) Wages

After having grown for three years, average remunerations in the private sector in metropolitan Lima diminished substantially in 1983; salaries contracted 15%, against an accrued growth of 17% in the period 1980-1982, while wages declined 16%, after having grown 11% during the three preceding years (see table 22). This situation was worse than that registered in the previous economic crisis (1977 and 1978).²⁵

However, the behaviour of remunerations was uneven over the year. Although between November 1982 and August 1983 real wages contracted by 21%, between August and November 1983 they grew 3%. This was due to the reduction in the rate of inflation in the last months of the year and to the granting, in November, of a general wage increase of 15% which had not originally been scheduled.

Between November 1982 and November 1983, when the last survey of the year was undertaken, wages dropped 19% in real terms. The most seriously affected sector was construction (-29%), followed by wholesale trade (-28%); these drops reflected the critical situation of these activities during the year. In contrast, the activities in which real wages were affected the least were non-governmental services (-8%), transport, storage and communications (-10%) and the banking system (-13%). Wages paid in manufacturing held an intermediate position, declining by a somewhat larger percentage (-21%) than wages as a whole.

²⁵It should be noted that at the end of 1983 the real value of salaries only slightly exceeded half the value reached 10 years before.

With respect to minimum remunerations (that is, the reference unit, or minimum wage, plus compulsory cost-of-living allowances), their real value at the end of 1983 was exactly the same as at the end of 1982. This does not reflect the strong real increase of 26% in the first quarter and the successive declines recorded in the three following quarters.

5. Monetary and fiscal policy

a) *Monetary policy*

During 1983, the contractive orientation of the monetary policy put into effect the year before was intensified. Whereas until the end of 1981 the objective of the monetary policy had been to increase, albeit moderately, the levels of real liquidity in national currency in the economy, with the purpose of providing adequate financing for productive activities, in 1982 the objective was focused on diminishing real liquidity and maintaining the global level of credit. This change in policy had the purpose of neutralizing the inflationary pressures resulting from the accelerated devaluation process due, in turn, to a change in the approach followed by global economic policy. Hence, the monetary programme for 1983 envisaged the maintenance of the emphasis laid on the contraction of real liquidity (which would only grow 30% in nominal terms, against anticipated inflation of 55%), as a means of continuing to tackle the internal and external imbalances of the economy. This time, however, a reduction was envisaged in the real level of domestic credit, which would expand in nominal terms by 41%. This fall would be partly offset by the launching of a vigorous process of selectivity in the granting of credit, which would be mainly destined for agricultural and non-traditional export activities.

Halfway through the year, however, it was realized that such a monetary programme, rather than solving the problems of inflation—which kept on growing rapidly—and of the external accounts—whose total breakdown had been avoided only through temporary suspension of debt servicing—was leading, in combination with the rest of the economic programme, to an acute process of economic recession.

Thus, early in August, and as part of a change in approach which affected economic policy in general, a new monetary programme with quite different characteristics was designed. A growth in nominal liquidity of 4% per month was scheduled for the second half of the year, which would result at least in the maintenance of the real level of liquidity, since the rate of inflation should drop, owing to the other measures of the new economic programme (lower devaluation rate, lower increases in controlled prices, etc.). On the other hand, domestic credit would be selectively raised by a total of 300 billion soles with resources from the Central Reserve Bank, through various special lines of credit, and with resources from the commercial banks. To this end, the zero marginal cash reserve was maintained and a minimum base was established (equal to 10% of the increase in loans) for determining the coefficients of the credit portfolio of banks for agriculture, which was one of the priority sectors.

Finally, the monetary programme included an increase in nominal annual interest rates on loans and deposits from 55% to 60%, with the determination of the capitalization periods being left open. As a result of this, along with the decrease in the devaluation rate, it was expected that saving deposits in soles would again become attractive. However, in spite of all those measures the nominal rate of return on dollar savings, calculated as the return on the Foreign Currency Bank Certificates, was still much greater than that of deposits in soles. Thus, the former amounted to 153% in nominal terms—as a result of the devaluation of 130%, plus an interest rate generally equivalent to LIBOR minus one point—, whereas the latter was, on average, barely equal to 70%, which meant that after discounting inflation, the return deposits in soles was highly negative (-25%). This was a considerably lower level than that of the preceding year (-3%), and was only exceeded in recent years by that attained in 1978 (see table 23). This had important effects on the composition of liquidity in Peru.

The change in policy halfway through the year was accurately reflected in the evolution of the monetary aggregates. The monetary base, after having contracted 23% in real terms during the first half of the year, expanded by 14% in the second. Nevertheless, this latter expansion failed to avoid a decrease in the monetary base for the third year running (this time by 13%) which brought it down to

Table 23

PERU: EVOLUTION OF INTEREST RATES^a

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Nominal rates										
Loans^b										
Rate	12.0	12.0	13.8	17.2	22.4	32.4	32.5	48.3	47.5	51.7
Commission	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Tax ^c	0.0	0.0	7.0	7.0	8.5	17.0	17.0	11.3	0.0	0.0
Deposits^d										
	9.0	9.0	10.0	13.3	19.9	32.9	33.0	51.4	55.0	56.7
Effective rates										
Loans										
For banks ^e	15.3	15.3	17.4	21.7	28.5	43.3	43.5	71.2	69.6	77.9
For users ^f	15.3	15.3	26.4	31.1	40.9	73.4	73.6	86.7	69.6	77.9
Deposits^g										
	9.3	9.3	10.4	13.9	21.4	37.2	37.3	62.2	67.4	69.9
Real effective rates										
Loans										
For banks	-3.2	-7.0	-19.0	-8.1	-26.0	-14.0	-10.8	-0.8	-1.9	-21.0
For users	-3.2	-7.0	-12.7	-1.0	-18.9	4.0	7.9	8.1	-1.9	-21.0
Deposits										
	-3.3	-11.9	-23.8	-14.0	-30.1	-17.7	-14.6	-6.1	-3.2	-24.5

Source: Central Reserve Bank of Peru.

^aFor operations in national currency. ^bCorresponds to the weighted average for the discount period, of a 90-day promissory note.^cWeighted tax for the period. ^dCorresponds to the weighted average, for the period, of the maximum deposit rate.^eLoan rate plus commission. ^fLoan rate plus commission and taxes. ^gCorresponds to quarterly capitalization of the nominal rate.

only half its 1980 level (see table 24). Simultaneously, although it declined slightly in 1983 the monetary multiplier, referred to total money plus quasi-money, was 80% bigger than in 1980.

The decline in the monetary base in 1983 was due to the fact that the negative balance on the "other items" entry (mainly foreign currency operations) doubled in real terms, thus offsetting the great increase in credit from the Central Bank to the public sector and to development banks. The former was due to the increased public financial needs owing to a big reduction in tax revenue and difficulties in obtaining external loans, while furthermore in the third quarter the Public Treasury withdrew from the Central Bank most of a US\$ 200 million bridging loan received from the international banks in June. In real terms, credit granted to the government by the issuing institute shrank by 41% in the first half of the year but more than trebled in the second. For its part, all growth in credit granted by that institution to development banks was concentrated in the last quarter of the year. Of this credit, three-fifths went to the Agrarian Bank, after real growth of 41%, and nearly all the rest to the Industrial Bank.

Despite the change in the second half of the year, a contraction in the total real monetary supply could not be averted. This phenomenon had not occurred since 1978, when it was smaller in magnitude (see table 25). In 1981 and 1982 the drop in the monetary base was offset by a large increase in the monetary multiplier, but this did not happen in 1983, when it dropped from 4.58 to 4.45 (see table 24).

The amounts of money and quasi-money suffered similar reductions over the whole of the year, the fall being, in the latter case, the first since 1978. It should be noted, however, that quasi-money in foreign currency remained stable and it was only quasi-money in national currency which contracted (-29%). The degree of dollarization of the economy (measured in terms of deposits in foreign currency as a proportion of the total money supply) attained the extremely high figure of 42%, after an uninterrupted series of rises (with the sole exception of 1981) since 1978, when it stood at 14%. This result was a direct consequence of the structure of interest rates mentioned above.

The monetary aggregates also clearly reflected the change in policy introduced halfway through the year; the total real money supply contracted by 21% in the first semester and grew 8% in the second. As regards the money supply in national currency, the change was even more striking: after a fall of 28% it registered an expansion of 10%.

Bank credit managed to expand 9% in 1983 due to the rapid increase in credit granted to the public sector not only by the Central Bank but also by the Banco de la Nación and by the commercial banks (see table 26). Real credit to this sector expanded 186% during the second half of the year, compared with a contraction of 39% in the first half.

Real credit to the private sector, for its part, recorded decreases in each of the first three quarters and grew less than 1% in the last quarter, with a total reduction of 11% during the year. This drop resulted from the interaction of two opposing factors. On the one hand, the Central Bank established a series of promotional credit lines designed to permit the reactivation of key sectors of the economy (agriculture, manufacturing exports, etc.). On the other, the depressed situation of private sector enterprises paradoxically brought about a huge surplus of loanable funds held by commercial banks, in conjunction with a great need for such funds by these enterprises and a restrictive monetary programme.

Thus, the excess cash reserve maintained by commercial banks in the Central Bank—reflecting how risky it was for them to lend to private enterprises, given the prevailing economic situation—amounted, in the case of bank deposits in national currency, to 95% of the demandable cash reserves (at the end of 1982, this latter indicator was equal to 5%). In the case of deposits in foreign currency there was a movement in the same direction, although much less marked, with the excess cash reserve increasing from 3% to 8% of the demandable cash reserve between the end of 1982 and the end of 1983. This reflects, in turn, the increasing importance of loans in foreign currency among the total loans by the commercial and savings banks: from 31% in 1981 to 38% in 1982 and 46% in 1983.

Finally, three banks ran into serious problems during 1983, due to excessive concentration of credit in enterprises associated with the banking institutions in question. Thus, after the liquidation in 1982, of the Banco de la Industria y la Construcción, in 1983 the Banco Comercial del Perú had to be

Table 24

PERU: EVOLUTION OF THE MONETARY BASE

	Balance at year-end (billions of soles)					Real growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Monetary base^b	304	536	789	924	1 818	23.2	9.6	-14.7	-32.4	-12.6
Sources										
Net international reserves of CRB ^c	107	506	402	905	2 020		194.2	-54.0	30.0	-0.8
Credit from CRB to the public sector	177	236	505	514	2 935	-17.7	-17.1	23.9	-41.1	153.7
a) Direct ^d	48	201	365	539	2 911	-15.3	160.4	5.1	-14.6	139.9
b) Via Banco de la Nación	129	35	140	-25	24	-18.8	-83.1	131.4		
Credit from CRB to development banks	76	107	189	351	882	-29.1	-12.3	1.9	8.3	11.6
Other accounts ^e	-56	-313	-307	-846	-4 019					
Uses										
In circulation	161	270	432	624	1 111	7.5	4.3	-7.4	-16.5	-20.9
Banking reserves	122	219	348	284	707	59.3	11.7	-7.8	-53.0	4.7
Other	21	47	9	16		3.0	39.2	-88.9	2.8	
Monetary multipliers^f										
M ₁ /Monetary base	1.00	0.97	0.96	1.12	1.09					
M ₂ /Monetary base	2.29	2.51	3.03	4.58	4.45					

Source: Central Reserve Bank of Peru (CRB).

^a Preliminary figures. ^b Or primary issue, depending on how shown in the accounts of the Central Reserve Bank.

^c Central Reserve Bank of Peru. ^d Includes Fondo Nacional de Propiedad Social (FONAPS) and Corporación Financiera de Desarrollo (COFLIDE). ^e Mostly operations in foreign currency. ^f M₁ corresponds to money held by the financial system and M₂ corresponds to M₁ plus quasi-money held by the financial system (see table 25).

Table 25
PERU: EVOLUTION OF THE MONEY SUPPLY^a

	Balance at year-end (billions of soles)					Real growth rates				
	1979	1980	1981	1982	1983 ^b	1979	1980	1981	1982	1983 ^b
Financial system^c										
Total	696	1 348	2 387	4 231	8 083	19.1	20.2	2.5	2.5	-15.1
1. Money	305	519	759	1 039	1 988	7.2	5.7	-15.4	-20.8	-15.0
a) Bills and coins in circulation	161	270	432	624	1 111	7.5	4.2	-7.4	-16.5	-20.9
b) Demand deposits in national currency	144	249	327	415	877	6.9	7.3	-24.1	-26.6	-6.1
2. Quasi-money	391	829	1 628	3 192	6 095	30.4	31.6	13.8	13.4	-15.2
a) In national currency	243	449	970	1 693	2 717	10.7	14.5	25.2	0.9	-28.7
b) In foreign currency	148	380	658	1 499	3 378	84.5	59.7	0.3	-31.8	-0.1
Sources										
1. Net international reserves	138	436	391	887	1 922		96.5	-48.1	31.2	-3.7
a) Assets	464	872	924	2 008	4 712	135.9	16.9	-38.6	25.7	4.2
b) Liabilities	326	436	533	1 121	2 790	-39.5	-16.8	-29.2	21.6	-10.6
2. Net long-term external indebtedness	-78	-118	-299	-764	-2 187					
3. Net domestic credit	636	1 030	2 295	4 108	8 348	-40.0	0.7	29.0	3.5	-9.7
a) To the public sector	303	508	974	1 355	4 518	-47.6	4.3	11.0	-19.4	48.1
b) To the private sector	487	935	1 928	3 717	7 161	-6.3	19.4	19.4	11.5	-14.4
c) Other accounts	-154	-413	-607	-964	-3 331					
Banking system^d										
Total	616	1 198	2 103	3 739	7 332	22.6	20.8	1.7	2.8	-13.0
1. Money	305	519	759	1 039	1 988	7.2	5.7	-15.4	-20.8	-15.0
a) Bill and coins in circulation	161	270	432	624	1 111	7.5	4.2	-7.4	-16.5	-20.9
b) Demand deposits in national currency	144	249	327	415	877	6.9	7.3	-24.1	-26.6	-6.1
2. Quasi-money	311	679	1 344	2 700	5 344	43.7	35.5	14.7	16.2	-12.1
a) In national currency	163	305	695	1 231	2 055	18.5	16.0	32.1	2.4	-25.8
b) In foreign currency	148	374	649	1 469	3 289	84.5	57.1	0.5	30.9	-0.5
Sources										
1. Net international reserves	138	436	391	887	1 922		96.5	-48.1	31.2	-3.7
a) Assets	464	872	924	2 008	4 712	135.9	16.9	-38.6	25.7	4.2
b) Liabilities	326	436	533	1 121	2 790	-39.5	-16.8	-29.2	21.6	10.6
2. Net long-term external indebtedness	-50	-77	-290	-419	-1 266					
3. Net domestic credit	528	838	2 002	3 271	6 676	-43.3	-1.3	38.3	-5.5	-9.3
a) To the public sector	224	386	772	905	3 651	-54.6	7.2	15.8	-32.2	79.2
b) To the private sector	392	749	1 586	3 020	6 052	-1.7	18.9	22.6	10.1	-11.0
c) Other accounts	-88	-297	-356	-654	-3 027					
Non-banking system^e										
Total	80	150	284	492	751	-2.3	16.3	9.3	0.2	-32.2
1. Quasi-money	80	150	284	492	751	-2.3	16.3	9.3	0.2	-32.2
a) In national currency	80	144	275	462	662	-2.3	11.6	10.4	-2.8	-36.3
b) In foreign currency	-	6	9	30	89			-16.7	92.8	31.8
Sources										
1. Net long-term external indebtedness	-27	-41	-9	-345	-921					
2. Net domestic credit	108	192	293	837	1 672	-15.9	10.5	-11.6	65.2	-11.3
a) To the public sector	79	122	202	450	867	-7.3	-3.9	-4.1	28.8	-14.4
b) To the private sector	95	186	342	697	1 109	-21.9	21.6	6.5	17.9	-29.3
c) Other accounts	-66	-116	-251	-310	-304					
Income velocity of money^f										
GDP/money	10.06	9.57	11.14							
GDP/money plus quasi-money	4.41	3.68	3.54							

Source: Central Reserve Bank of Peru.

^aExchange rates used (soles per dollar): 196 for 1978; 250 for 1979; 342 for 1980; 507 for 1981; 990 for 1982; 2 271 for 1983.

^bPreliminary figures.

^cIncludes the banking and non-banking systems.

^dIncludes the Central Reserve Bank of Peru, commercial banks and development banks.

^eComprises insurance and finance companies, mutual benefit societies, co-operatives and the Corporación Financiera de Desarrollo (COFIDE).

^fData referred to the financial system.

Table 26
PERU: EVOLUTION OF NET DOMESTIC CREDIT^a

	Balance at year-end (billions of soles)					Real growth rates				
	1979	1980	1981	1982	1983 ^b	1979	1980	1981	1982	1983 ^b
Credit from the banking sector^c	616	1 135	2 358	4 055	9 952	-31.0	14.6	20.3	-0.5	9.0
By currency:										
In national currency	476	786	1 781	2 814	7 060	-26.2	2.7	31.2	-8.6	11.5
In foreign currency	140	349	577	1 241	2 892	-43.3	55.1	-4.3	24.4	3.5
By sectors:										
1. To the public sector ^c	224	386	772	949	3 754	-54.6	7.2	15.8	-28.9	75.7
By currency:										
In national currency	174	242	585	708	2 972	-41.7	-13.6	40.1	-30.0	86.5
In foreign currency	50	144	187	241	782	-74.4	80.0	-25.0	-25.5	44.1
By bank:										
From the CRB ^d	47	201	365	539	2 911	-14.8	168.0	5.0	-14.6	139.9
From the Banco de la Nación	120	135	244	188	518	-64.2	-30.1	4.4	-55.4	22.4
From development banks	35	30	129	146	46	-40.0	-46.7	149.0	-34.5	-86.0
From commercial banks	22	20	34	76	279	-51.1	-43.5	-1.6	29.3	63.1
a) To the Central government	207	320	567	1 013	3 540	-45.0	-3.9	2.5	3.3	55.2
From the CRB ^d	32	183	339	505	2 826	-13.6	258.8	7.1	-13.8	148.6
From the Banco de la Nación	123	98	72	326	607	-51.5	-50.5	-58.2	161.9	-17.3
From development banks	32	25	123	140	45	-41.8	-51.4		-34.2	-85.7
From commercial banks	20	14	33	42	62	-36.9	-56.5		-26.4	-34.4
b) To the rest of the public sector	17	66	205	-64	214	-85.6	144.4	80.3		
From the CRB ^d	15	18	26	34	85	-17.2	-25.0	-16.7	-24.4	11.1
From the Banco de la Nación	-3	37	172	-138	-89			170.3		
From development banks	3	5	6	6	1	-10.0	3.6		-42.2	-92.6
From commercial banks	2	6	1	34	217	-85.0	86.6		1 866.5	183.5
2. To the private sector	392	749	1 586	3 106	6 198	-1.7	18.9	22.6	13.3	-11.4
By currency:										
In national currency	302	544	1 196	2 106	4 088	-12.9	12.2	27.2	1.8	-13.8
In foreign currency	90	205	390	1 000	2 110	72.6	41.4	10.2	48.3	-6.3
By bank:										
From the CRB ^d	-	-	1	3	11				73.5	62.9
From the Banco de la Nación	11	35	56	100	196	63.6	94.4	-8.6	3.3	-12.9
From development banks	171	301	598	1 309	2 652	-13.8	9.5	15.0	26.6	-10.0
From commercial banks	210	413	931	1 694	3 339	8.4	22.6	30.5	5.2	-12.4
Credit from the non-banking sector^e	174	308	544	1 026	1 741	-15.7	10.0	2.3	9.1	-24.6
To the public sector ^c	79	122	202	415	778	-7.3	-3.9	-4.1	18.8	-16.7
To the private sector	95	186	342	611	963	-21.9	21.6	6.5	3.3	-30.0
Total credit to the public and private sectors^d	790	1 443	2 902	5 072	11 679	-28.1	13.6	16.4	1.1	2.3
By currency:										
In national currency	...	...	2 166	3 406	7 760	...	...	...	-9.1	1.2
In foreign currency	...	...	736	1 675	3 933	...	...	...	31.6	4.3
By sector:										
To the public sector ^c	303	508	974	1 355	4 518	-47.6	4.3	11.0	-19.5	48.1
To the private sector	487	935	1 928	3 717	7 161	-6.3	19.4	19.4	11.5	-14.4
Other accounts^a	-154	-413	-607	-964	-3 331					
Total net credit from the financial system^f	636	1 030	2 295	4 108	8 348	-40.0	0.7	29.0	3.5	-9.7

Source: Central Reserve Bank of Peru (CRB).

^a Exchange rates used (soles per dollar): 196 for 1978; 250 for 1979; 342 for 1980; 507 for 1981; 990 for 1982; 2 271 for 1983.

^b Preliminary figures.

^c Includes the Central Reserve Bank, the Banco de la Nación commercial banks and development banks.

^d Excluding the "other accounts" entry.

^e Includes credit to the public sector minus deposits made by this sector.

^f CRB: Central Reserve Bank of Peru.

^g Comprises insurance and finance companies, mutual benefit societies, co-operatives and the Corporación Financiera de Desarrollo (COFIDE).

^h Mainly capital and reserves.

ⁱ Includes the banking and non-banking systems.

liquidated (the third out of four totally private banks in Lima); the Banco Internacional had to acquire the Banco Regional del Sur Medio y Callao (of Ica), and a special operation had to be performed in order to avoid the bankruptcy of the Banco Amazónico of Iquitos. For all these operations, the Central Reserve Bank granted financial support totalling 155 billion soles during the first quarter.

b) *Fiscal policy*

As in the preceding year, in 1983 the reduction in size of the public deficit, as a share of the gross domestic product, was one of the main objectives of the economic programme, but it was also the one which fared the worst. Although the goal, jointly designed with the International Monetary Fund, was to attain a deficit equivalent to 3.8% of the gross domestic product, the result achieved at the end of the year was 12%: the highest proportion recorded in Peruvian fiscal history. Four years earlier, the deficit had been equivalent to only 1.5% of the gross domestic product.

Three-fifths of the non-financial public sector deficit was financed with resources from the exterior (see table 27). However, although that proportion was less than that of the preceding year, when those resources financed three-fourths of the public deficit, it conceals a great increase in importance of long-term external financing, which came to be equivalent to 72% of the total deficit in 1983, after having amounted to 52% in 1982 and 37% in 1981; in contrast, the flow of short-term external resources became negative in net terms.

The contrast between 1983 and the preceding year was especially marked as regards the deficit financing of public enterprises. Whereas in 1982 they financed 46% of that deficit with short-term external funds, in 1983 there was a negative flow of these funds equivalent to 57% of the deficit (see table 27). Thus, the significance of domestic resources in the financing of the latter soared from 11% in 1982 to 72% in 1983.

In the case of the central government, financing from the banking system and from the issue of bonds gained considerable importance. The former trebled in real terms and consisted predominantly of credit from the Banco de la Nación with resources from the Central Reserve Bank. Financing through bonds, for its part, after being negative during the three preceding years, accounted for nearly one-fourth of domestic financing of the central government deficit in 1983. This was mainly due to the issue of Civil Reconstruction Bonds. These certificates in national currency for a fixed two-year term were established with the purpose of collecting funds for the reconstruction of areas affected by the climatic disasters,²⁶ and their purchase was mandatory, as from May, by all natural persons whose income exceeded a certain minimum amount,²⁷ in the equivalent of 10% of that income.

There are three main reasons why the public deficit was so much greater than expected. In the first place, the natural disasters caused a sharp fall in income, due both to the tax exemptions and facilities granted to the affected areas, and to a drop in revenue on account of the problems faced in those areas by the various economic activities. Likewise, those disasters brought about a great increase in expenditure (in order to meet the emergency and to cope with reconstruction), and caused losses in several public enterprises, especially Petroperú and Electroperú. The total cost of all these factors was estimated at 1 000 billion soles, that is to say, 32% of the public sector deficit and 3.9% of the gross domestic product.

Secondly, the various economic hypotheses on the basis of which the national budget had been prepared were far removed from the actual results: thus, economic growth of nearly 3% was assumed, yet there was a fall amounting to -12%; inflation of 45% was envisaged but in practice it was 125%; it was estimated that the average exchange rate would reach 965 soles per dollar whereas actually it was 1 629 soles; and it was calculated that the growth in export income would be 20%, whereas there was a drop of -8%. Thus, as regards the central government, income was 12% less than budgeted and expenditure was 30% bigger (see table 28).

Finally, as from September the rate of increase in the prices of goods and services marketed by public enterprises diminished sharply and, in some cases, fell to zero, while central government expenditure expanded faster than before.

²⁶Of the total funds collected, 45% will be allocated to Piura and Tumbes, 30% to Puno and other drought areas, and the remainder to other disaster areas.

²⁷600 000 soles, in May.

Table 27

PERU: DEFICIT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Balance at year-end (billions of soles)				Percentage breakdown			
	Central government	Public enterprises	Rest of the public sector ^a	Total	Central government	Public enterprises	Rest of the public sector ^a	Total
1980								
Deficit	-141	-197	18	-320				
Financing	141	197	-18	320	100.0	100.0	-100.0	100.0
1. Medium- and long-term external financing	15	92	-	107	10.6	46.7	-	33.4
Disbursements	197	139	-	336	139.7	70.6	-	105.0
Amortization payments	-182	-47	-	-229	-129.1	-23.9	-	-71.6
2. Short-term external financing	-5	4	-	-1	-3.5	2.0	-	-0.3
3. Domestic financing	131	101	-18	214	92.9	51.3	-100.0	66.9
Banking system	105	38	-13	130	74.5	19.3	-72.2	40.6
Deposits frozen in CRB ^b	-13	-2	-	-15	-9.2	-1.0	-	-4.7
Other financial intermediaries	2	14	-	16	1.4	7.1	-	5.0
Bonds ^c	-9	4	-	-5	-6.4	2.0	-	-1.6
Other	46	47	-5	88	32.6	23.9	-27.8	27.5
1981								
Deficit	-415	-288	-3	-706				
Financing	415	288	3	706	100.0	100.0	100.0	100.0
1. Medium- and long-term external financing	133	123	6	262	32.0	42.7	200.0	37.1
Disbursements	407	197	6	610	98.1	68.4	200.0	86.4
Amortization payments	-274	-74	-	-348	-66.0	-25.7	-	-49.3
2. Short-term external financing	9	-61	-	-52	2.2	-21.2	-	-7.4
3. Domestic financing	273	226	-3	496	65.8	78.5	-100.0	70.3
Banking system	308	43	-3	348	74.2	14.9	-100.0	49.3
Deposits frozen in CRB ^b	73	-	-	73	17.6	-	-	10.3
Other financial intermediaries	18	25	-	43	4.3	8.7	-	6.1
Bonds ^c	-14	3	-	-11	-3.4	1.0	-	-1.6
Other	-112	155	-	43	-27.0	53.8	-	6.1
1982^d								
Deficit	-550	-621	-7	-1 178				
Financing	550	621	7	1 178	100.0	100.0	100.0	100.0
1. Medium- and long-term external financing	340	265	9	614	61.8	42.7	128.6	52.1
Disbursements	802	392	9	1 203	145.8	63.1	128.6	102.1
Amortization payments	462	127	-	589	84.0	20.4	-	50.0
2. Short-term external financing	11	285	-9	287	2.0	45.9	-128.6	24.4
3. Domestic financing	199	71	7	277	36.2	11.4	100.0	23.5
Banking system	341	-262	-9	70	62.0	-42.2	-128.6	5.9
Deposits frozen in CRB ^b	-14	-	-	-14	-2.5	-	-	-1.2
Other financial intermediaries	-21	45	-	24	-3.8	7.2	-	2.0
Bonds ^c	-14	-13	-	-27	-2.5	-2.1	-	-2.3
Other	-93	301	16	224	-16.8	48.5	228.6	19.1
1983^d								
Deficit	-2 316	-784	-33	-3 133				
Financing	2 316	784	33	3 133	100.0	100.0	100.0	100.0
1. Medium- and long-term external financing	1 545	664	60	2 269	66.7	84.7	181.8	72.4
Disbursements	3 008	985	60	4 053	129.9	125.6	181.8	129.4
Amortization payments	1 463	321	-	1 784	63.2	40.9	-	57.0
2. Short-term external financing	21	-444	1	-422	0.9	-56.6	3.0	-13.5
3. Domestic financing	750	564	-28	1 286	32.4	71.9	-84.8	41.1
Banking system	2 265	112	-17	2 360	97.8	14.3	-51.5	75.3
Deposits frozen in CRB ^b	-1 367	-	-	-1 367	-59.0	-	-	-43.6
Other financial intermediaries	5	26	-	31	0.2	3.3	-	1.0
Bonds ^c	172	-6	-	166	7.4	-0.8	-	5.3
Other	-325	432	-11	96	-14.0	55.1	-33.3	3.1

Source: Central Reserve Bank of Peru (CRB).

^aIncludes social security, decentralized agencies, public welfare and municipalities.^bCRB = Central Reserve Bank of Peru.^cOther than those of the banking system and the Corporación Financiera de Desarrollo (COFIDE).^dPreliminary figures.

Unlike 1982, when the deficit of public enterprises surpassed that of the central government, in 1983 the latter grew rapidly (doubling in real terms and rising from 4% to 9% of the gross domestic product) to represent three-fourths of the total public deficit.

As regards fiscal income, it was estimated that in 1983 the tax burden would be reduced from 18% (obtained in 1981, 1982) to 16.8%. In fact, however, it only amounted to 14.3%. Among the major causes for this drop were the lower economic activity and its depressive effect on the levels of production, sales and income and, therefore, on tax revenue; the serious liquidity problems confronted by enterprises throughout the year, which resulted in unusually high levels of evasion; the effects of the natural disasters; and the erosion of the tax base stemming from a significant transfer of legally constituted economic activities to the so-called informal sector of the economy.

Among the various taxes, the only one whose yield did not decline in real terms was that on fuels (although even so the envisaged collection level was not attained). This was due to the fact that between February and September the price of 84-octane gasoline was maintained at the equivalent of US\$ 1.10 per gallon. The great speed with which revenue from this tax has grown in recent years has caused it to increase from 11% of the government's tax revenue in 1981 to 20% in 1983. This dynamism was in contrast with the behaviour of real receipts on account of income tax,²⁸ for these dropped by one-third and were one-fourth less than the budgeted amount. Thus, in 1983 they were equivalent to only 30% of those obtained three years earlier.

In the field of foreign trade, there were also big reductions in receipts. Taxes on imports contracted 29% in real terms, mainly due to a drop in the level of purchases from the exterior, even though the surcharge of 15% on customs tariffs in effect in 1982 was replaced by a surcharge equivalent to 10% of the CIF value (with the result that the effective coefficient of customs receipts remained in 1983 at the same 20% level of the preceding year). Likewise, export taxes contracted in real terms for the third consecutive year, this time by 61%, so that they were equal to only one-seventh of those collected in 1980. This resulted from both a reduction in sales to the exterior and the elimination in July —when the process of their gradual quarterly reductions was concluded— of taxes on exports of minerals and petroleum.

The public austerity programme caused a real contraction in government expenditure for the third time in a row, so that it stood at a level 14% below that attained in 1980. It was capital expenditure, however, which suffered the sharpest reductions, just as in 1982; in fact, it contracted 20%, compared with a reduction of 2% in current expenditure. As a result, capital expenditure in 1983 amounted to only 16% of total government expenditure, as against a budgeted 20%. The coefficient thus obtained was not only lower than its typical value in previous years (22 or 23%), but also stood even below the figure of 17% attained during the 1977-1978 economic crisis.

There were various major reasons for this sudden fall in investment expenditure. Firstly, cuts in capital expenditure offered a much more rapid and expedite way of bringing the level of fiscal expenditure in line with the amount of resources available. Secondly, there was a delay in external credit disbursements, resulting from a delay in payment of the required national counterparts. Finally, the natural disasters caused considerable delays in the fulfilment of the time schedules for investment projects in the affected areas. Thus, investment expenditure of the central government dropped from 3.9% to 3% of the gross domestic product; for the public sector as a whole, the corresponding decline with respect to the gross domestic product was from 10.3% to 7.9%. The areas most affected by restrictions were irrigation, highways and rural development, in contrast with an increase in the share of resources intended for the energy and mining sector and, especially, for housing. In the first case, the main projects were those involving hydroelectric power stations (Restitución, Carhuaquero), the regional electric system of Cuzco, the Mantaro-Pachachaca-Callahuanca transmission line, and the Tintaya mine and concentrating plant. As regards investment in housing, during 1983 more than 30 building programmes were implemented at the national level as part of the National Housing Plan, 1981-1985.

In contrast with the evolution of the central government accounts, the deficit of public enterprises declined from 4.5% to 3% of the gross domestic product between 1982 and 1983, due to the improved situation in some of them. In the cases of Petroperú and Mineroperú, the high

²⁸The change in the legislation regarding income tax and wage tax was the most important event in the field of taxation during the year. It consisted of entirely separating the two taxes —instead of considering the latter as a partial payment on account of the former— and increasing the tax scale. The system in force in 1982, in turn, had been the result of a change introduced at the end of 1981.

Table 28

PERU: CENTRAL GOVERNMENT OPERATION

	Billions of soles				Real growth rates			As a percentage of the GDP ^a		
	1981	1982	1983 budgeted	1983 actual ^a	1981	1982	1983 ^a	1981	1982	1983 ^a
A. Total income	1 523	2 493	4 255	3 732	-14.8	-0.5	-29.1	17.9	18.0	14.3
1. Current income	1 523	2 485	4 255	3 732	-14.8	-0.8	-28.9	17.9	18.0	14.3
a) Tax revenue	1 382	2 249	3 863	3 362	-16.3	-1.1	-29.2	16.3	16.3	12.9
Income tax	303	480	866	649	-41.8	-3.7	-36.0	3.6	3.5	2.5
Single income tax	232	369	634	435	-49.0	-3.3	-44.2	2.7	2.7	1.7
Natural persons	41	34	...	...	43.8	-49.6	...	0.5	0.2	...
Legal persons	191	335	...	...	-55.1	6.6	...	2.3	2.4	...
Wages tax	65	109	228	211	8.8	1.9	-8.3	0.8	0.8	0.8
Other	6	2	4	3	-25.0	-79.7	-28.9	0.1	0.0	0.0
Property tax	61	96	154	135	6.1	-4.3	-33.4	0.7	0.7	0.5
Export taxes	116	119	76	98	-46.3	-37.6	-61.0	1.4	0.9	0.4
Import taxes	320	475	826	714	15.2	-9.8	-28.8	3.8	3.4	2.7
Production and consumer taxes	630	1 170	2 139	1 933	-5.3	12.9	-21.7	7.4	8.5	7.4
Customs	186	348	601	445	16.5	13.7	-39.4	2.2	2.5	1.7
Fuels	156	306	719	676	-2.2	19.2	4.6	1.8	2.2	2.6
Other domestic taxes	288	516	819	812	-16.8	8.9	-25.5	3.4	3.7	3.1
Other tax revenue	50	83	181	118	-6.5	0.9	-32.7	0.6	-0.6	0.5
Less: credit documents ^b	-98	-174	-379	-286	-42.9	7.9	-22.1	-1.2	-1.3	-1.1
b) Non-tax revenue ^c	114	192	351	330	-3.0	2.4	-18.6	1.3	1.4	1.3
c) Own resources and transfers	27	44	41	41	36.4	-0.9	-55.9	0.3	0.3	0.2
2. Capital income	-	8	-	-	-	-	-	-	0.1	-
B. Total expenditure	1 938	3 043	4 636	6 048	-4.8	-4.5	-5.8	22.8	22.0	23.2
1. Current expenditure	1 504	2 456	3 719	5 059	-4.6	-0.7	-2.4	17.7	17.8	19.4
Remunerations	...	545	819	1 009	...	...	-12.3	...	3.9	3.9
Goods and services	...	69	155	153	...	...	5.0	...	0.5	0.6
Transfer payments	...	230	407	563	...	...	16.0	...	1.7	2.2
Public institutions	72	104	164	219	...	-12.2	-0.2	...	0.8	0.8
Local governments	17	20	20	43	...	-28.5	1.8	...	0.1	0.2
Pensions	...	70	92	185	...	...	25.2	...	0.5	0.7
Other	...	126	131	116	...	...	-56.4	...	0.9	0.4
Interest	382	557	802	1 376	1.9	-11.4	17.0	4.5	4.0	5.3
Domestic debt	203	259	315	492	26.1	-22.4	-10.0	2.4	1.9	1.9
External debt	179	298	487	884	-16.4	1.2	40.5	2.1	2.2	3.4
Defence and interior	...	1 055	1 536	1 958	...	...	-12.1	6.2	7.6	7.5
2. Capital expenditure	434	587	917	989	-5.7	-17.8	-20.2	5.1	4.2	3.8
Gross capital formation	351	440	619	619	12.4	-23.8	-33.4	4.1	3.2	2.4
Transfer payments	81	136	291	357	-45.2	2.1	24.3	1.0	1.0	1.4
Public enterprises	69	21	-	34	-46.6	-81.5	-23.3	0.8	0.2	0.1
Development corporations	-	101	266	303	-	-	42.1	-	0.7	1.2
Others	12	14	25	20	-36.4	-29.1	-32.3	0.2	0.1	0.1
Miscellaneous	2	11	7	13	-	234.3	-44.0	0.0	0.1	0.0
Savings on current account (A-B.1)	19	29	536	-1 327	-90.9	-7.2	-	0.2	0.2	-5.1
Economic deficit (A-B)	-415	-550	-381	-2 316	67.8	-19.4	99.5	-4.9	-4.0	-8.9

Source: Central Reserve Bank of Peru.

^aPreliminary figures. ^bMainly tax reimbursements for non-traditional exports, tax capitalization and tax payment promissory notes. ^cMainly property income, fines and deductions from pensions.

devaluation rate considerably increased their export earnings, while at the same time their capital expenditure decreased. In addition, Petroperú's earnings from domestic sales also increased, in spite of a lower turnover, due to the dynamic price policy.²⁹ On the other hand, the situation of the ENCI and ECASA enterprises³⁰ did not show significant variations, in spite of the price increases decreed: at the end of 1983 the sales prices for ENCI covered 87% of its costs (against 72% in 1982) and those for ECASA covered 78% of costs (against 59% the year before).

During the year, debates continued on the draft law regarding the role of the State as entrepreneur and its scope. These discussions have now been going on for five ordinary legislative sessions. The lack of a decision on this matter has been due, on the one hand, to the difficulty of arriving at a diagnosis of the real situation in the sector, and on the other, to the serious disagreements between the different political parties over its future reorganization, although there is consensus in relation to the origins of the problem (excessive initial indebtedness, price controls applied without concurrent measures, poor administrative and financial management, high financial costs, low international prices, etc.). At all events, the great importance of this discussion may be appreciated from the weight that public enterprises have in the national economy: three public enterprises (Petroperú, Centromín and Electroperú) account for 9% of the gross domestic product; three-fourths of total placements in the financial system are in State banks; the 50 main non-financial public enterprises employ 100 000 persons; public enterprises control two-thirds of exports and one-third of imports; and the 15 main public enterprises invoice 15% of total sales in the country.

²⁹ As mentioned above, between February and September the gasoline price remained at the equivalent of US\$ 1.10 per gallon, and although in the last quarter its rate of increase dropped by half, this price showed a total growth of 150% during the year. The price of domestic kerosene increased 246% between the end of 1982 and the end of 1983, even though it was frozen in the last four months of the year.

³⁰ Public food importing and marketing enterprises.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

During 1983, the gross domestic product grew by approximately 4%, which was one of the highest rates in the region. This increase was primarily due to the expansion in mining and construction — particularly residential construction — and, to a lesser degree, to the growth in crop-farming output for domestic consumption. Nevertheless, the economy continued to come under strong pressure, which was intensified by the effects of the adjustment programme instituted by the authorities in an attempt to lessen the fiscal and external imbalances. During the final quarter, these pressures culminated in a great deal of instability on the exchange market, which had an adverse effect on economic activity (see table 1 and figure 1).

The country's current difficulties are partly the result of the historical behaviour patterns of the Dominican economy and of the nature of its insertion in the international market. Between 1970 and 1977 the national economy showed great dynamism (the average annual rate of growth of the product reached 8%), helped along by the high level of both public and private investment and by favourable conditions on the external market. From 1978 onwards, however, external sales turned in a mixed performance, while imports rose sharply until 1980, at which point the trade deficit was nearly four times higher than in 1977. Moreover, unlike previous periods, production activity responded less strongly to the increase in exports which occurred during 1979-1981.

The worsening external imbalance made it necessary to resort to increased borrowing. This, in turn, exacerbated the current account deficit as a result of the larger interest payments it involved, particularly in the last few years with the rise in interest rates. In addition, delays began to occur in the reimbursement of foreign banks for drafts and letters of credit; besides increasing the cost of making purchases abroad, because of the interest charged to importers, this limited and ultimately prevented the opening of new lines of credit.

In response to this situation, the Central Bank placed increasing restrictions on the sale of foreign exchange and reduced the types of imports and payments that could be made at the official exchange rate. This pushed up the demand for foreign exchange on the parallel market and raised its price, although the rate of increase was moderate until 1981.

Meanwhile, the growth of private investment, which had been rapid until 1977 (13% annually), slowed to 2% in 1978 and 1980, and decreased in 1981 and 1982. In 1979, however, a significant upturn had been brought about by the reconstruction work undertaken to repair the damage caused by hurricane David and tropical storm Frederick.

This downward trend in private-sector capital formation was not offset by public investment because the administration which took office in mid-1978 found it necessary to opt for expanding current expenditure instead. Wages were raised after a long period of stagnation, and the number of workers on State payrolls was increased in order to ease unemployment. The rise in public spending resulted in growing fiscal deficits, which were at first financed with external credit and later, when the inflow of such loans slowed, through domestic borrowing.

The State's lowered financial ability to intervene in the economy has had significant repercussions, in view of the important role it has played in the performance of the economy by creating physical infrastructure, offsetting the lack of private investment in some basic sectors, mitigating the effects of changes in external demand or prices, encouraging domestic activities, etc.

The current government took office in mid-1982. Its immediate short-term policy was aimed at overcoming the critical situation which had arisen as a result of the growth in the external and fiscal deficits. Notwithstanding the austerity measures, which included the reduction of nominal wages in the public sector and a decrease in public investment, however, the current account deficit rose 10% that year and the budgetary deficit climbed 63% due to the sharp drop in income, particularly export earnings.

In the first nine months of 1983, economic performance was quite good despite the external sector restrictions, as evidenced by the trends in some variables compared with the same period of 1982. The gross domestic product grew 4%¹ as a result of the development of construction, mining and agriculture; prices increased 5.5%, compared to 7.4% in 1982; the fiscal deficit was reduced by 18%; and the deficit on the foreign trade in goods was slightly lower than during the same period of the preceding year.

In addition, the due dates of the external debt owed in respect of delays in the payment of drafts and letters of credit which had mounted up over the two preceding years were renegotiated and, in January, an agreement was signed with the International Monetary Fund under the extended facility which included a credit of US\$ 419 million, as well as US\$ 48 million in compensatory financing. The conditions of that agreement were satisfactorily met on the whole, despite the high political and social costs of the adjustment policy that had to be undertaken, which affected the levels of real income and demand in broad sectors of the population.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	3 011	3 147	3 338	3 474	3 530	3 660
Population (millions of inhabitants)	5.31	5.43	5.56	5.69	5.83	5.96
Per capita gross domestic product (1970 dollars)	567	580	601	611	606	615
Growth rates						
B. Short-term economic indicators						
Gross domestic product	2.1	4.5	6.1	4.1	1.6	3.9
Per capita gross domestic product	-0.2	2.2	3.6	1.7	-0.7	1.6
Gross income ^b	1.9	4.4	8.1	4.6	-1.4	4.3
Terms of trade (goods and services)	-3.5	1.0	13.5	3.8	-22.2	3.6
Current value of exports of goods and services	-10.7	37.1	12.0	19.0	-24.5	7.0
Current value of imports of goods and services	5.2	28.6	29.3	-5.2	-15.6	2.4
Consumer prices^c						
December-to-December	8.8	25.6	4.6	7.4	7.1	7.6
Variation between annual averages	7.1	9.2	16.8	7.5	7.6	5.1
Money	4.2	33.3	-3.0	13.8	10.8	13.2
Current income of government	-6.8	16.5	28.9	4.5	-18.0	21.6
Total expenditure of government	9.2	48.7	6.1	1.8	-4.8	16.1
Fiscal deficit/total expenditure of government ^c	14.4	32.9	18.5	16.3	27.9	24.4
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-326	-349	-647	-306	-393	-350
Balance on current account	-315	-360	-674	-416	-457	-454
Balance on capital account	276	358	708	454	311	276
Variation in net international reserves	-41	8	44	54	-160	-146
Total external debt	1 309	1 565	1 839	1 837	1 944	2 572

Source: ECLAC, on de basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cPercentages.

¹See Central Bank of the Dominican Republic, *Informe de la economía dominicana, enero-septiembre de 1983 y perspectivas*.

The relatively favourable situation during the first nine months of the year both in terms of economic activity and the smaller deficits underwent a change in the final quarter as a result of the mounting pressure on the exchange rate. Until September, the price of the dollar on the parallel market had increased slowly up to a level of 1.60 pesos by the end of that month, which was only 7% higher than its price in December 1982. Despite the increasing volume of imports paid for with foreign exchange bought on the parallel market, the agreements concluded between the monetary authorities and representatives of exchange houses and commercial banks were successful in obviating a rapid rise of the dollar.

By early October, however, the growing demand pressure on the price of foreign exchange could no longer be resisted. Therefore, as competition among the economic agents acting in the free exchange market escalated —primarily as a result of the reorganization of this market which was begun in 1982² the agreements which had maintained the exchange rate below its real value were broken, and the price jumped to 1.80 pesos and continued climbing until it reached nearly two Dominican pesos per dollar.

In response to these circumstances, in mid-October the Central Bank suspended all transactions on the parallel market, prompting a flight of capital and great speculative activity, whose effects were compounded by the fact that finance capital had ceased to be placed in productive investments and was thus further pushing up the exchange rate.

The monetary authorities attempted to ease the situation by intervening in the exchange market through the Reserve Bank and regulating the supply of foreign exchange in order to prevent sharp fluctuations in the exchange rate. In addition, business credit was restricted in order to decrease the amount of resources that were feeding speculation.

These measures were not successful in moderating the rise in the dollar's value, however. The monetary authorities suspended transactions on the exchange market once again in November for a week and prohibited the exchange houses from operating. They later ordered that foreign exchange could only be purchased from the commercial banks to pay for imports and established a US\$ 5 000 limit per person per year for travel or remittances abroad. Moreover, a portion of the foreign exchange obtained from traditional exports which was handed over to the producers for imports of capital goods and inputs was provided in national currency. When the exchange market was reopened, the exchange rate declined, but only to a level which was still nearly 50% higher than the price at the end of September.

The events of the final quarter slowed the pace of economic growth, for the increase in the exchange rate helped to make imported goods more expensive, thereby affecting manufacturing and business activity and raising domestic prices. The latter, which had increased by only 1% between December 1982 and September 1983, rose 7% during the last three months of the year.

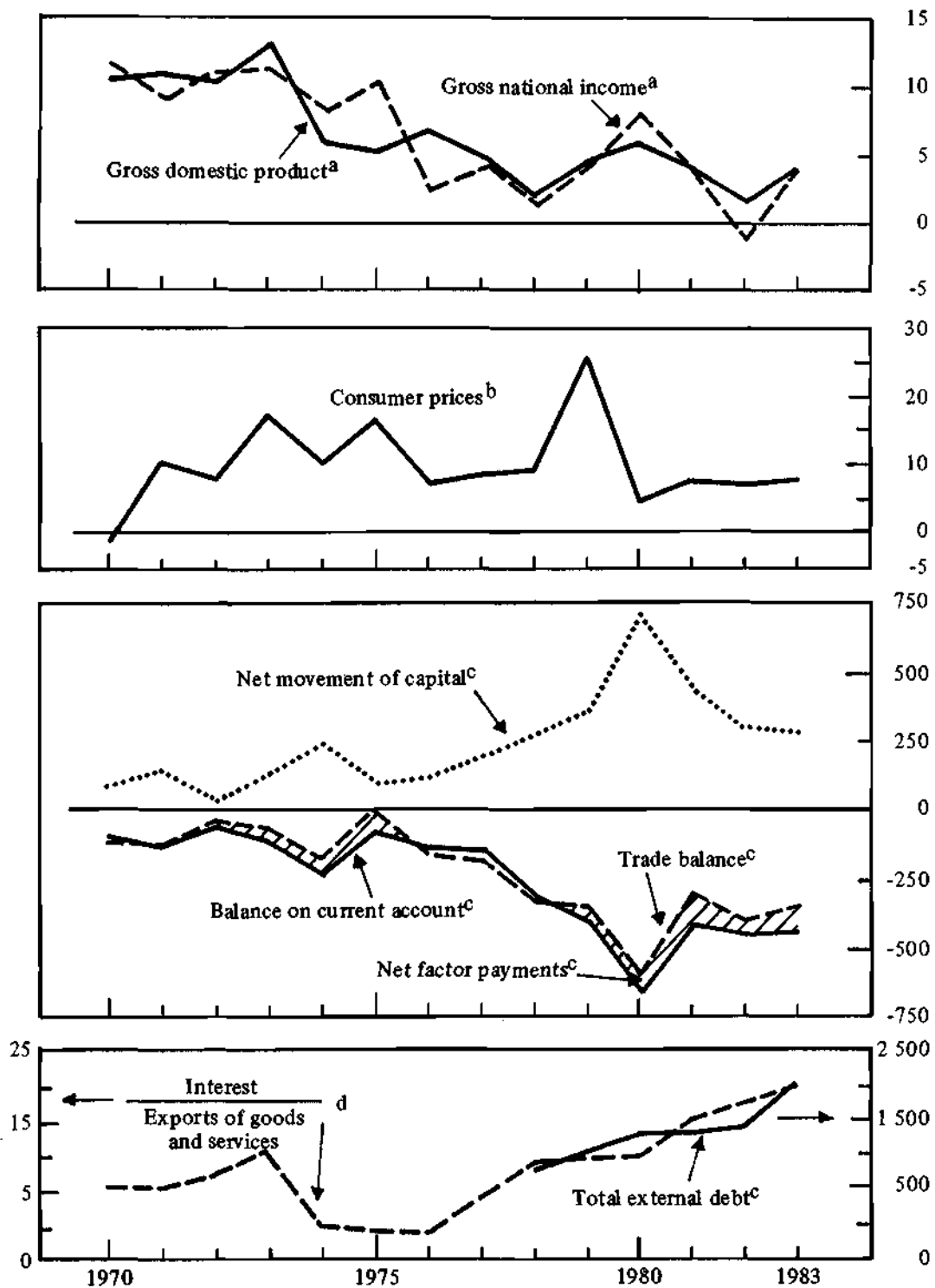
With respect to the balance of payments, even though the current account deficit was similar to that of the preceding year, the amortization of the debt, especially of short-term liabilities, caused the flow of net external financing to decrease by 11%. The net capital inflow was therefore insufficient to cover the deficit on the current account, forcing the authorities, as in 1982, to draw down international reserves, which were reduced by US\$ 146 million. Finally, the fiscal deficit —which had been lower than during the preceding fiscal year until September— increased slightly and domestic credit had to be used to finance more than 60% of it.

During 1983 the unemployment and underemployment situation continued to be serious, despite the fact that employment in absolute terms appears to have improved somewhat during the year thanks to the expansion of labour-intensive activities such as construction and agriculture. Nonetheless, the decline of nearly 5% in real wages, although at first it did no more than cause the virtual stagnation of per capita consumption, did more harm in the last quarter, when prices rose more rapidly.

Although economic policy in 1983 was largely aimed at stabilizing and reorganizing the exchange market, measures designed to put the public finances on a sounder footing were also adopted. The most notable steps taken in this area were the establishment of a 6% levy on transfers

²In late 1982 the monetary authorities began to allow commercial banks to operate on the open foreign exchange market. In May 1983, their role in the market increased as a result of the decision that only foreign currency acquired by companies from commercial banks could be taken into account for the purpose of income tax deductions. In addition, in August the Monetary Board ruled that exchange houses having a minimum of 300 000 Dominican pesos in subscribed and paid-up capital were to become exchange banks.

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.
^aAnnual growth rate. ^bDecember-to-December percentage variation. ^cMillions of dollars.
^dPercentages.

and imports of industrial goods and changes in income tax provisions. In order to strengthen and diversify external sales, exchange and fiscal incentives for non-traditional exports were increased, and credit concessions were used to spur the expansion of in-bond assembly industry in duty-free zones as a way of increasing employment and generating foreign exchange. Lastly, foreign investment was encouraged by raising the percentage of profits which could be repatriated from 10% to 25% and expanding the opportunities for the reinvestment of profits.

2. Trends in economic activity

a) *Total supply and demand*

Total supply increased 3.8% in response to a very similar rise in the gross domestic product and a somewhat smaller increase in the volume of imports of goods and services. This trend was a departure from the preceding year, when total supply had declined slightly due to a sharp drop in the volume of imports of goods and services (18%), which the small increase in the product (2%) was not able to offset (see table 2).

On the demand side, all the indicators showed an improvement. The volume of exports of goods and services climbed 4%, after having fallen 6% in 1982. Domestic gross investment and fixed gross investment also grew by approximately 4%, only partially making up for the decreases registered in 1981 and 1982.

The upturn in investment was associated with the expansion of construction activity. The greater production activity was a factor in the moderate increase in private consumption as well. On the other hand, general government consumption expenditure showed a much smaller rise, in real terms, than in 1981 and 1982.

b) *Evolution of the main sectors*

The gross domestic product, by kind of economic activity, showed a significant upturn in the goods-producing sectors, which increased 6.6% as a group, after having stagnated in 1982. While all goods-producing activities expanded, the greatest growth was in mining and construction (30% and 15%, respectively), whereas agriculture increased 4% and manufacturing grew less than 2% (see table 3).

Basic services expanded 1.5%, despite the recovery in the supply of electricity, which had declined during the preceding year because a number of plants were under repair. The increase in transport, storage and communications was also only slight.

Commerce likewise displayed little momentum during the year, and the same was true of other services with the exception of real estate, which increased 5%, and the financial, insurance and business services sector, which maintained the dynamism it had shown over the past three years (4%).

i) The agricultural sector. The agricultural product rose 4% in 1983 as a result of the 8% increase in crop-farming production for domestic consumption and the 5% expansion in livestock production, which more than made up for the 1% drop in export crops (see table 4).

The Government continued to give its main support to agricultural production destined for domestic consumption. The support prices for maize and sorghum were raised midway through the year, credit was allocated through the Banco Agrícola, and special support programmes were instituted for the production of certain crops, primarily maize, sorghum and rice. These measures fostered increases of 19% and 12% in the maize and rice crops, which made it possible to reduce imports of the former and to eliminate those of the latter.

The rest of the products for domestic consumption turned in a mixed performance. Bean production rose 4%, as compared to 12% during the preceding year, and the output of taro and plantains—staple foods—decreased 13% and 9%, respectively.

Production for export, which had already begun to decline in 1982, decreased further. Of the four main products of this type, three showed decreases and the only increase was in coffee production (7%), which had already grown considerably in 1982. These increases brought production to slightly higher levels than those attained prior to the 1979 hurricane.

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	4 073	4 019	4 173	121.3	119.9	113.8	6.3	1.8	-1.3	3.8
Gross domestic product at market prices	3 474	3 530	3 668	100.0	100.0	100.0	6.1	4.1	1.6	3.9
Imports of goods and services ^b	599	489	505	21.3	19.9	13.8	7.5	-9.9	-18.3	3.3
Total demand	4 073	4 019	4 173	121.3	119.9	113.8	6.3	1.8	-1.3	3.8
Domestic demand	3 608	3 582	3 718	106.2	107.1	101.0	10.1	0.9	-0.7	3.8
Gross domestic investment	757	716	746	19.1	25.3	20.3	7.0	-10.5	-5.3	4.1
Gross fixed investment	724	662	688	16.6	23.5	18.8	4.6	-7.8	-8.6	4.0
Construction	463	...	...	9.9	13.8	...	7.7	0.6	...	...
Machinery	261	...	...	6.7	9.7	...	0.4	-19.8	...	...
Public	158	...	...	5.2	5.2	...	12.7	-9.2	...	...
Private	566	...	...	11.4	18.3	...	2.5	-7.5	...	...
Changes in stocks	33	54	58	2.5	1.8	1.5	...	...	...	...
Total consumption	2 851	2 866	2 972	87.1	81.8	80.7	11.2	4.4	0.5	3.7
General government	324	348	353	11.6	9.1	9.6	23.5	7.1	7.4	1.5
Private	2 527	2 518	2 619	75.5	72.7	71.1	9.8	4.1	-0.3	4.0
Exports of goods and services ^b	465	437	455	15.1	12.8	12.8	-18.0	8.9	-6.1	4.1

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.^bThe figures for exports and imports of goods and services correspond to the balance-of-payments figures, which were converted to constant 1970 values using price indexes calculated by ECLAC.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	3 099	3 148	3 271	100.0	100.0	100.0	6.1	4.1	1.6	3.9
Goods	1 465	1 458	1 554	49.7	47.5	47.7	2.9	3.9	-0.5	6.6
Agriculture	581	602	625	25.8	18.6	19.2	4.9	5.5	3.6	3.8
Mining	153	110	143	1.7	4.8	4.4	-15.0	7.1	-28.1	29.9
Manufacturing	502	528	537	16.7	16.5	16.5	5.0	2.7	5.2	1.7
Construction	229	218	249	5.5	7.7	7.6	7.7	0.6	-4.9	14.5
Basic services	336	344	349	9.8	10.7	10.7	4.4	5.9	2.1	1.5
Electricity, gas and water	61	56	58	1.3	1.9	1.8	12.1	8.9	-9.3	4.4
Transport, storage and communications	275	288	291	8.5	8.8	8.9	2.8	5.2	4.7	1.0
Other services	1 289	1 330	1 359	40.5	41.8	41.6	10.7	3.9	3.1	2.3
Commerce ^c	416	431	438	12.7	13.4	13.4	4.8	4.4	3.6	1.7
Ownership of dwellings	229	227	238	7.6	7.7	7.3	6.5	0.4	-0.9	5.0
Community, social and personal services	644	672	683	20.2	20.7	20.9	16.5	4.8	4.3	1.6
Government services	345	362	367	11.5	10.8	11.2	19.9	7.1	4.8	1.5

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.^bAt factor cost. As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.^cIncludes financial institutions, insurance and real estate.

Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates ^b			
					1980	1981	1982	1983 ^a
Index of agricultural production (1970 = 100)	143.8	152.6	160.0	165.9	2.3	6.2	4.8	3.7
Crop farming	131.3	139.6	144.9	149.0	-1.4	6.3	3.8	2.8
For export	122.3	130.8	132.7	131.8	-4.9	7.0	1.5	-0.7
For domestic consumption	146.6	154.6	165.5	178.1	4.1	5.5	7.1	7.6
Stock-raising	164.7	174.5	185.4	194.3	7.5	6.0	6.2	4.8
Production of main crops^c								
For export								
Sugar cane	9 056	10 275	11 805	11 520	-12.1	13.5	14.9	-2.4
Cocoa	28	32	35	33	-20.7	11.7	9.8	-5.8
Coffee	120	110	127	136	-0.5	-8.8	15.8	7.1
Tobacco	52	56	34	34	16.8	7.4	-38.8	-1.8
For domestic consumption								
Rice	398	400	447	501	5.6	0.7	11.6	12.0
Beans	52	52	59	61	3.6	1.7	12.0	4.2
Maize	46	63	46	55	-4.8	37.4	-26.5	19.1
Plantains ^d	868	1 256	1 213	1 101	-5.6	44.7	-3.4	-9.2
Taro	48	50	56	49	15.4	5.9	11.2	-13.0
Yuca	116	126	109	112	-2.9	8.5	-13.0	2.0
Indicators of stock-raising production								
Slaughtering ^e								
Beef	49	55	60	63	11.3	11.6	8.5	6.3
Pork	23	1	2	2	-24.5	-97.2	145.1	46.7
Poultry	58	73	78	83	16.4	24.3	7.9	5.5
Milk production ^f	431	444	452	463	5.4	2.9	1.9	2.4

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bThe growth rates correspond to the totals, and not to the rounded figures.

^cThousands of tons.

^dThousands of bunches.

^eThousands of litres.

Sugar cane production dropped 2%. A reduction of 9% had been programmed due to the increase in stocks resulting from the excellent harvests of 1981 and 1982 and from external market conditions. However, the quota for sugar exports to the United States was raised.³

The tobacco yield was hurt by the reappearance of blue mould, and production dropped once again, but this time only by 2%, which was much less than in 1982 (39%).

The decline in international cocoa prices which had begun in 1980 was a contributory factor in the producers' neglect of the plantations and the damage done to output as a result. Despite the fact that prices began to recover, production fell 6%.

As regards livestock production, pork output jumped 47%, though it still did not exceed the mark of 2 000 tons slaughtered annually. The restocking programme was continued, thanks to which pig stocks are being brought back to the level they had before they were hit by fever outbreaks in 1978 and 1979. Nevertheless, it was not until 1983 that a greater domestic supply of maize and sorghum, which must be supplemented by imports, was made available for this programme.

The 6% growth in cattle slaughtering was less than in previous years and reflected the 26% drop in beef exports to the United States. Milk production maintained the slow rate of growth seen in recent years — around 2% — which has made it necessary to import powdered milk. In order to deal

³Due to some countries' non-fulfilment of their quotas, 50 000 tons of sugar were reassigned, 18 000 of which were allocated to the Dominican Republic.

with this situation, programmes were implemented to provide support for milk producers and to encourage forage production and storage.

Agricultural policy continued to assign priority to production for domestic consumption, although because of the public sector's limited resources, credits from the Banco Agrícola were kept to the same level as the preceding year. As part of the support policy for non-traditional exports (which include a large number of agricultural products), exporters were authorized to receive the total amount of foreign exchange earned from their sales abroad: quite different treatment from that applied to traditional exporters, who receive only a part of the value of their exports in foreign currency.

ii) *Mining*. In keeping with the uneven performance of mining during recent years, in 1983 the gross domestic product generated by this activity climbed 30%, after having dropped by a similar amount in 1982 (see table 5).

One factor in this recovery was ferronickel production, which rose from 14 000 tons to 54 000 tons after production returned to normal levels in October 1982 thanks to the reopening of a ferronickel plant which had been closed for nine months. It should be noted that the recovery in the international price for this mineral is still not sufficient to cover this plant's operating costs. The industry has not been working at full capacity in recent years.

Bauxite production has been stopped until 1986 because it has been rendered unprofitable by the sharp drop in international prices. For their part, gold and silver mining fell 8% and 40%, respectively, despite the fact that international prices improved in 1983.

In 1983 the measure taken in 1971 declaring mineral reserves to be State property and prohibiting the private sector from undertaking exploration was revoked.

iii) *Manufacturing*. The growth rate of manufacturing fell from 5% to less than 2% between 1982 and 1983. The output of the large food processing industry went down slightly, as sugar mill production dropped off by 6% and the growth of the grain milling industry slowed. In contrast, rice-milling output rose 12% and coffee processing increased 7% (see table 6).

Beverage production climbed 7%, primarily due to the higher beer output (16%), since rum production showed no major change. The output of the tobacco manufacturing industry, for its part, fell by 5%; this was apparently caused by a drop in domestic demand brought on by the increase in prices, which was in turn due to the higher taxes imposed on these products.

Construction-related industries showed substantial dynamism during the year. The production of reinforcing rods jumped 42%, cement output climbed 16% and that of paint rose 8%. Production dropped in the consumer durables manufacturing and assembly industries, however, which had difficulty in importing parts and raw materials.

A variety of economic policy measures taken during the year had implications for manufacturing. Thus, while the ban on imports of a number of goods helped domestic production,

Table 5

DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates ^b			
						1980	1981	1982	1983 ^a
Index of mining production ^c (1975 = 100)	100	135	144	103	134	-15.0	7.1	-28.2	30.0
Production of the main minerals									
Bauxite ^d	772	510	405	152	...	-2.6	-20.6	-62.5	...
Ferronickel ^d	71	43	50	14	54	-34.9	16.2	-71.2	277.7
Gold ^e	180	370	408	386	354	4.7	10.3	-5.3	-8.4
Silver ^e	89	1 623	2 034	2 198	1 329	-28.7	25.3	8.1	-39.5

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bThe growth rates correspond to unrounded figures.

^cBased on the production of bauxite, ferronickel, gold and silver.

^dThousands of tons.

^eThousands of troy ounces.

Table 6

DOMINICAN REPUBLIC: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Index of manufacturing production (1970 = 100)	162.8	205.0	210.4	221.4	225.1	5.1	2.6	6.2	1.7
Foodstuffs, beverages and tobacco	136.9	180.5	185.4	195.4	195.0	8.6	2.7	6.4	-0.2
Foodstuffs	133.9	188.6	193.7	206.3	203.2	8.5	2.7	6.9	-1.0
Beverages	149.0	158.1	162.4	169.3	180.8	5.4	2.7	4.3	6.8
Tobacco	141.4	147.8	151.8	154.4	146.4	16.1	2.7	1.7	-5.2
Other manufacturing industries	239.5	278.5	285.8	300.0	316.0	-1.0	2.6	4.9	5.3
Production of some major manufactures									
Raw sugar ^b	1 059	911	1 108	1 175	1 105	-14.8	21.6	6.0	-6.0
Refined sugar ^b	77	102	114	110	104	5.2	11.8	-3.5	-5.4
Hulled coffee ^b	51	60	52	63	68	-0.5	-13.1	21.2	7.9
Beer ^c	34	78	84	86	100	18.2	7.7	2.4	16.3
Cigarettes ^d	190	222	223	221	209	-1.3	0.5	-0.9	-5.4
Cement ^e	14	24	22	22	26	14.3	-8.3	-	18.2
Wheat flour ^f	2 656	3 346	3 198	3 994	3 875	10.5	-4.4	24.9	-3.0
Other indicators									
Consumption of electricity by industry ^g	430	719	758	673	719	8.7	5.3	-11.2	6.8

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bThousands of tons.

^cMillions of litres.

^dMillions of packets.

^eMillions of 42.5 kg sacks.

^fThousands of quintals.

^gMillions of kWh.

other measures such as the one laying down that many goods can only be imported by using dollars obtained on the parallel market made the inputs and intermediate goods for industry more expensive.

The industrial development policy applied by the Government during 1983 tended to encourage the growth of the in-bond assembly industry in the duty-free zones. These enterprises were provided with financing through the established banks in the country; the Investment Fund for Economic Development (FIDE) approved credits for constructing industrial parks and for the industries set up in them; and, lastly, the creation of two new duty-free zones was authorized in the provinces of Azúa and Barahona. By 1983 there were 88 companies in the duty-free zones of Santiago, San Pedro de Macorís and La Romana, providing around 19 000 jobs. These plants grew rapidly during the 1975-1979 period, but lagged somewhat as from 1980 and virtually stagnated in 1982.

iv) *Construction.* The value added by construction was 15% higher in 1983, thus representing an excellent recovery from the drop of the year before. The increases in public investment in housing construction contributed to that upturn. The National Housing Institute (INVI) put into operation a plan for the construction of about 17 000 dwellings, of which 1 911 were completed in 1983, the great majority of them in the city of Santo Domingo. The private sector, through mortgage associations, also participated actively in housing construction, mainly to satisfy the demand of middle- and high-income sectors (see table 7).

In addition, the public sector continued to urge forward the construction of infrastructure works. The major agricultural works were irrigation and drainage projects in the area served by the Valdesia Dam, and one of the canals was virtually completed. A total of 300 kilometres of highways were also constructed, including one joining Azúa and Barahona, as were approximately 1 000 kilometres of secondary roads. As part of the project to expand and improve the port of Haina, the docks on the east bank were completed.

3. The external sector

The balance-of-payments current account deficit remained as high in 1983 as it had been in the preceding year, i.e., approximately US\$ 450 million, which was equivalent to 37% of the exports of goods and services. It should be noted, however, that in 1980 this deficit had reached US\$ 670 million, which was equivalent to 53% of total exports.

The persistence of this negative balance was due to the fact that interest payments on the external debt, which account for a quarter of export earnings, rose 18% during the year; in contrast, the trade deficit was reduced by 11%.

The net capital inflow has diminished by 60% over the last three years; in 1983 it dropped 11%, and US\$ 146 million of the international reserves therefore had to be used to cover the imbalance on the current account. The reserves had already been drawn down by US\$ 160 million in 1982.

The drop in the prices of most agricultural exports and ferronickel was only just offset by the higher prices for cocoa, gold and silver, with the result that the unit value of exports rose less than 1% in 1983; even so, this was a considerable achievement after the sharp decline of the preceding year. Moreover, since the prices of imports decreased nearly 2%, the terms of trade improved by slightly over 2% and this helped to bring about the 3.7% growth in the purchasing power of exports which was registered in 1983 (see table 8).

The high and persistent external deficit shook the stability of the exchange market, especially towards the end of the year. It should be remembered that the official exchange rate was set at one peso to the dollar in 1962 and that subsequently, in response to the placing of limitations on the sale of foreign exchange for travel abroad, a parallel market emerged on which the exchange rate was very close to the official level. In 1964, in an attempt to regulate the inflow of foreign exchange from exports, a law was passed making it mandatory to hand over to the Central Bank all foreign currency earned by any means. The outflow of foreign currency for imports, service payments, dividends, the amortization of loans, etc., also had to have the approval of the Central Bank. In 1967, restrictions were placed on imports, the bringing in of some luxury goods was prohibited and quotas were established for others. Later on, imports of the merchandise which had been banned were authorized, provided that foreign currency obtained outside the official market was used for this purpose: thus, the parallel market was not only acknowledged and tolerated, but its scope was also expanded. The free exchange rate in that year was 1.10 pesos to the dollar.

Since that time, the exchange rate on the parallel market has risen to 1.60 pesos to the dollar (1983), which is very close to its real parity (adjusted for the variation in domestic prices, less imported inflation). Between 1972 and 1977, however, the two rates began to diverge, and in 1977 the free exchange rate reached the point where it was 18% below the real rate. This widening gap between the two exchange rates was possible so long as the Central Bank supplied foreign exchange

Table 7

DOMINICAN REPUBLIC: CONSTRUCTION INDICATORS

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Area constructed^b (thousands of m ²)									
Housing	1 191	1 179	857	968	...	4.9	-27.3	13.0	...
	878	879	604	726	780	3.3	-31.3	20.2	7.4
Production of some building materials									
Structural steel ^c	50	51	50	55	78	36.9	-2.0	10.0	41.8
Cement ^d	14	24	22	22	26	14.3	-8.3	-	18.2
Paint ^e	1 620	2 993	2 352	2 340	2 526	...	-21.4	-0.5	8.0

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bBuilding permits granted.

^cThousands of tons.

^dMillions of 42.5 kg sacks.

^eThousands of gallons.

Table 8

DOMINICAN REPUBLIC: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
	Growth rates					
Exports of goods FOB						
Value	-13.5	28.7	10.7	23.5	-35.4	2.0
Volume	-16.1	15.0	-23.2	13.2	-10.3	1.2
Unit value	3.2	11.8	44.2	9.1	-27.9	0.7
Imports of goods FOB						
Value	1.5	31.9	33.7	-4.5	-13.4	3.2
Volume	-6.3	19.5	8.7	-7.8	-15.3	4.9
Unit value	8.4	10.4	22.9	3.6	2.2	-1.7
Terms of trade (goods), FOB/CIF	-4.5	1.3	19.2	4.4	-29.5	2.4
	Indexes (1970 = 100)					
Terms of trade (goods), FOB/CIF	85.5	86.6	103.2	107.7	76.0	77.8
Purchasing power of exports of goods	140.8	163.9	150.0	177.2	112.1	116.2
Purchasing power of exports of goods and services	148.6	184.1	171.4	193.8	141.6	152.8

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^a Preliminary figures.

to pay for most transactions. In 1975, however, the supply of foreign exchange at the official price began to be restricted, and the volume of imports paid for with dollars from the parallel market increased. In 1978 the restrictions were tightened as the current account deficit grew, and the price of the dollar on the free market neared the real rate (see table 9).

During 1983 the amount of imports paid for with foreign currency from the parallel market grew. Nevertheless, the price of the dollar rose scarcely 7% between December 1982 and September 1983, due to the agreements in effect between the Central Bank and those offering foreign exchange on the free market. It seemed clear that the exchange rate could not be maintained at the agreed-upon level, however, and in October and November alone it climbed from 1.60 to 1.87 pesos per dollar (17%).

a) *Merchandise trade*

i) *Exports.* In 1983, exports of goods recovered slightly from the steep drop (35%) of the year before. The small upturn (2%) resulted from minimal improvements in both sales volume and prices (see table 10).

Ferronickel exports grew by a factor of 3.4 in 1983, but even so they did not make a complete recovery from the heavy fall suffered the preceding year. Sugar exports, which account for one-third of total export income, were largely unchanged during the year, as was also true of gold and silver exports (21% of the total), whereas coffee exports declined 16%. Of the remaining exports, cocoa rose 5% and tobacco increased only 2%, while molasses diminished 41% and no bauxite was exported. The noteworthy recovery of ferronickel exports was due to the fact that production conditions were brought back to normal with the resumption of operations in the plant which had been closed. In contrast, gold and silver exports showed no major variation during 1983, even though their average sale prices rose 11% and 46% respectively. Moreover, the mining of bauxite ceased and exports of this mineral were suspended as a result of the drop in its price on external markets.

Due to the reassignment of part of the United States import quota for sugar, the volume of Dominican sugar exports grew 10%; nonetheless, since the average sale price decreased by a similar amount, the value of exports declined slightly. The reduction in coffee exports, for its part, resulted from a 4% drop in prices and a 12% decrease in the volume exported, the latter being due to a reduction of 146 000 60-kilogramme bags in the quota assigned to the country by the International Coffee Organization. Furthermore, exports of roasted coffee, which had already dropped by one-third

Table 9

**DOMINICAN REPUBLIC: EVOLUTION OF THE EXCHANGE RATE
ON THE PARALLEL MARKET**

	Pesos per dollar	
	Parallel	Par value ^a
1970	1.15	1.15
1975	1.18	1.39
1978	1.25	1.50
1980	1.26	1.51
1981	1.28	1.47
1982	1.46	1.49
1983	1.60	1.55
I	1.51	
II	1.55	
III	1.59	
September	1.60	
October	1.75	
November	1.87	

Source: Central Bank of the Dominican Republic; International Monetary Fund, *International Financial Statistics*.

^a1970 exchange rate on the parallel market, extrapolated on the basis of the index of the ratio of domestic prices in the Dominican Republic and the United States.

Table 10

DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1975	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	1 188	768	783	100.0	100.0	100.0	10.7	23.5	-35.4	2.0
Main traditional exports	747	477	451	78.7	50.1	57.6	-8.0	54.9	-36.1	-5.4
Sugar	513	265	263	62.8	30.2	33.6	52.0	76.9	-48.3	-0.8
Coffee	62	91	76	3.9	5.4	9.7	-63.7	20.1	45.6	-15.8
Cocoa	45	53	56	2.8	5.3	7.1	-30.2	-12.3	18.2	4.9
Tobacco	66	21	22	3.8	3.6	2.8	-36.6	88.6	-67.3	1.8
Furfural	26	22	22	1.9	2.1	2.9	-23.6	27.7	-18.3	3.6
Molasses	19	20	12	1.6	1.6	1.5	8.0	23.8	4.9	-40.5
Bauxite	16	5	...	1.9	1.9	...	-11.4	-15.1	-66.6	...
Main non-traditional exports	441	291	332	21.3	49.9	42.4	39.2	-8.0	-34.1	3.3
Gold and silver	208	164	164	3.0	27.0	21.0	103.1	-19.9	-21.3	0.5
Ferro-nickel	110	24	81	11.4	10.5	10.4	-18.0	9.2	-78.1	235.3
Other products	123	103	87	6.9	12.4	11.1	27.2	3.3	-16.2	-15.5

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to the actual rather than the rounded-off figures.

Table 11

DOMINICAN REPUBLIC: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown ^b			Growth rates ^b			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total	1 450	1 256	1 297 ^b	100.0	100.0	100.0	38.7	-3.2	-13.4	3.3
Consumer goods	326	248	311	49.1	22.6	24.0	38.4	-3.8	-23.9	25.4
Raw materials and intermediate goods	894	829	798	33.6	61.3	61.5	33.5	-2.5	-7.3	-3.7
Petroleum and fuels	497	449	462	6.7	30.0	35.6	42.5	10.8	-9.7	2.9
Other	397	380	336	26.9	31.3	25.9	25.9	-15.3	-4.3	-11.6
Capital goods	230	179	188	17.3	16.1	14.5	64.1	-5.0	-22.2	5.0

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures. ^bThe percentage breakdown and growth rates correspond to the actual rather than the rounded-off figures. ^cNot including adjustments of coverage.

in 1982, ceased almost entirely in 1983, mainly as a result of its loss of competitiveness against other suppliers of semi-roasted coffee to the Puerto Rican market.

The rise in cocoa exports was linked to the higher price of this product (18%), while the increase in tobacco sales stemmed from the larger amount exported (12%).

In 1983 an effort was made to further the policy of providing incentives for non-traditional exports, especially agro-industrial products, which had been in effect since late 1979.⁴ A total of 86 crop-farming products were made entirely exempt from the requirement of surrendering foreign-currency export revenue to the Central Bank; until that time, approximately half of such earnings had to be handed over. Producers of containers for non-traditional exports were allowed to operate under the temporary importation system, and procedures were simplified so that exporters of non-traditional products could obtain the foreign exchange corresponding to them for the granting of Tax Allowance Certificates with a view to allowing them to benefit from other export incentives.

With respect to traditional exports, in October gold, silver and doré were added to the list of products eligible for Exchange Allowance Certificates (CAC).⁵ These certificates were eliminated in November when the Export Clearing Fund entered into operation. Through this Fund, exporters of raw sugar, molasses, green and semi-roasted coffee beans, cocoa beans, oil cake, cocoa butter and liquor, raw tobacco, gold and silver receive a sum in national currency equivalent to a percentage of the value of their exports FOB; that percentage is 20% for raw sugar and tobacco and 10% for the other products. The amount in national currency is calculated on the basis of the average exchange rate on the parallel market during the six-month period preceding the surrender date of the foreign exchange, taking total exports into account.

ii) *Imports.* After having decreased approximately 17% in value and 22% in volume during the two-year period 1981-1982, there were small increases of slightly over 3% in the value and nearly 5% in the volume of imports of goods in 1983 (see table 11).

In contrast with the significant increase in imports of consumer goods (25%), imports of raw material and intermediate goods decreased and those of capital goods rose only 5%. The rapid growth in imports of consumer goods was essentially due to the purchase of foodstuffs, and especially grain imports, which increased by nearly 70% and came to US\$ 54 million. Milk and oilseed imports also rose substantially (50% and 25%, respectively).

⁴This policy includes the exemption of temporary imports from duties and taxes, the granting of Tax Allowance Certificates (CAT), and total or partial exemption from the requirement of surrendering foreign exchange export earnings to the Central Bank.

⁵The Exchange Allowance Certificates were created in November 1982 with the object of supplying the exporters of major traditional export products with the foreign exchange they needed to acquire capital goods and imported inputs. These certificates could be exchanged for foreign currency, and were issued for the equivalent of 10% to 20% of the FOB export value, depending on the product.

The decrease in imports of intermediate goods and raw materials is attributable to products other than oil and fuels, since purchases of the latter rose slightly in 1983. Under the heading of oil and fuels, which accounts for over one-third of total imports, the volume of purchases of crude and reconstituted petroleum (which make up three-fourths of this category) climbed 20%. That growth is explained by the reopening of the ferronickel plant, whose oil purchases trebled; in contrast, the volume imported by the Dominican Oil Refinery, which accounts for 84% of external crude oil purchases, only increased 4%.

Growth in capital goods imports reflected the slight upturn in investment. Imports of machinery and electrical materials and equipment were 3% higher whereas those of transport equipment, including private automobiles, fell almost 25%; this coincided with the rise in the exchange rate on the open foreign exchange market, which made such imports more expensive.

With the exception of petroleum and petroleum products, imports of intermediate goods went down for the third year running. A large part of these goods, which had previously been imported using foreign exchange at the official rate, were transferred to the free market category and, with that change, their prices rose. This fact, in combination with the slow growth of economic activity, partly accounts for the steep decline of these imports.

The policy of containing imports initiated several years before continued to be applied strictly during 1983. The ban on imports of a long list of articles was maintained, and in September other goods were added to that list. Nevertheless, in November the ban on automobile imports was temporarily lifted, subject to the following conditions: purchases had to be paid for with the importers' foreign-currency holdings in foreign banks, import duties had to be paid before 31 December, and total imports were not to exceed US\$ 25 million.

In addition, the list of goods for which the Central Bank would not supply foreign exchange continued to be expanded. Pursuant to the agreement with the International Monetary Fund, US\$ 40 million corresponding to payment for imports was transferred to the parallel market, and a further US\$ 15 million was transferred in each of the three remaining quarters.

Lastly, the 10% value added tax on imports which had been established late in the preceding year was replaced by a 6% tax on imports of manufactures. Furthermore, it was stipulated that in the case of merchandise paid for with foreign exchange from the parallel market, tax would be calculated on the basis of the exchange rate at which the foreign exchange had been bought rather than the official rate, as had traditionally been done.

b) *Real services and factor payments*

The tourism surplus climbed from US\$ 180 million in 1982 to US\$ 250 million in 1983, since the outflow in respect of travel abroad fell 12%. The higher price of the dollar on the parallel market and the deterioration of income as a result of the recession have caused the number of trips abroad and the amount spent on such travel to decrease gradually since 1981 (see table 12).

Furthermore, there was an increase of approximately 10% in the number of travellers arriving by air from the United States, which is the country of origin of roughly 75% of foreign visitors; these travellers also spend more than the other tourists. Visits by Dominicans residing abroad also rose (6%), although the rate of increase was slightly less than in the preceding year and substantially lower than in 1981 (35%). On the other hand, the number of tourists arriving by cruise ship continued to decline (33%); however, the amount spent by these travellers while in the country is estimated at under US\$ 20 per day, and the drop in the number of such visitors therefore only represented a decrease of slightly less than US\$ 1 million in income from tourism.

The construction of six hotels was completed and another was expanded during the year, thus raising hotel capacity by 716 rooms. Of this, 72% is located in Puerto Plata, 24% in San Pedro de Macoris and only 4% in the capital city.

Net factor payments climbed 18% as a result of an increase of similar proportions in interest payments on the external debt, which amounted to US\$ 304 million, or a quarter of total exports of goods and services.

Finally, private transfer payments, which are mainly made up of remittances sent by Dominicans residing abroad, increased slightly during the year, reaching a total of nearly US\$ 200 million.

Table 12

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-132	-315	-360	-674	-416	-457	-454
Trade balance	-170	-326	-349	-647	-306	-393	-350
Exports of goods and services	927	828	1 135	1 271	1 513	1 142	1 222
Goods FOB	780	675	869	962	1 188	768	783
Real services ^b	147	152	266	309	325	374	439
Transport and insurance	19	20	22	26	31	21	27
Travel	92	92	124	173	206	266	326
Imports of goods and services	1 097	1 154	1 484	1 919	1 818	1 535	1 572
Goods FOB	849	862	1 137	1 520	1 452	1 257	1 297
Real services ^b	248	292	347	399	367	277	275
Transport and insurance	103	111	132	175	154	138	141
Travel	102	126	158	166	128	87	77
Factor services	-98	-136	-188	-210	-293	-254	-299
Profits	-29	-41	-57	-65	-	-	-
Interest received	12	21	32	42	12	4	5
Interest paid	-82	-116	-163	-187	-305	-258	-304
Others	-	-	-	-	-	-	-
Unrequited private transfer payments	136	146	177	183	183	190	195
Balance on capital account	181	276	358	708	454	311	276
Unrequited official transfer payments	4	4	29	5	10	15	20
Long-term capital	219	175	160	423	231	262	505
Direct investment (net)	71	64	17	93	80	-1	35
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	147	111	143	330	151	264	470
Official sector ^c	103	133	165	268	226	290	562
Loans disbursed	128	158	314	305	286	393	723
Amortization payments	-24	-25	-142	-37	-60	-103	-161
Commercial banks ^c	-1	-1	7	-	-7	-1	-
Loans disbursed	-	-	8	-	-	-	1
Amortization payments	-1	-1	-1	-	-7	-1	-1
Other sectors ^c	46	-21	-29	62	-68	-25	-92
Loans disbursed	105	56	53	163	29	26	15
Amortization payments	-60	-77	-82	-101	-97	-51	-107
Short-term capital	-24	29	241	250	198	34	-255
Official sector	-17	40	101	88	9	162	-97
Commercial banks	9	19	-16	92	193	-45	-271
Other sectors	-16	-30	156	71	-4	-83	113
Errors and omissions	-17	69	-73	30	15	-1	6
Global balance ^d	49	-39	-2	34	38	-146	-178
Total variation in reserves (- sign indicates an increase)	-50	41	-8	-44	-54	160	146
Monetary gold	-1	-	-	-5	-5	16	12
Special Drawing Rights	1	-	-3	9	-2	1	-
IMF reserve position	-	-	-	-	-	-	-8
Foreign exchange assets	-57	26	-81	27	-21	95	-34
Other assets	-12	12	-	-	-	-	-
Use made of IMF credit	19	3	77	-76	-25	48	176

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook* (March 1984, magnetic tape); 1983: ECLAC, on the basis of official data.

^aPreliminary figures.

^bReal services also include other official and private transactions, but not factor services.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

c) *The current account position and its financing*

The 1983 current account deficit was US\$ 454 million, an amount similar to that of the preceding year. It was equivalent to 37% of exports of goods and services and 5% of the gross domestic product (in 1982, these figures were 40% and 6%, respectively).

Net capital inflow has dwindled rapidly since 1980. In 1983, this revenue totalled only US\$ 276 million, which was 11% less than the year before. The net inflow of long-term capital nearly doubled, reaching its highest level in the last five years, but in contrast, there was a net outflow of short-term capital of US\$ 255 million, mainly attributable to commercial banks (US\$ 271 million) and, to a lesser extent, to the public sector (US\$ 97 million) (see table 12).

The flow of external credit to the public sector rose substantially during the year (84%), increasing much more than amortization payments, so that the net flow was nearly double the 1982 level.

The smaller net inflow of capital in 1983 was once again not enough to cover the current account deficit, thus forcing the authorities to draw down international reserves for the second year in a row —this time, by US\$ 146 million. This involved a US\$ 12 million reduction in the gold reserves and the use of an International Monetary Fund loan for US\$ 176 million. However, foreign exchange holdings climbed US\$ 34 million and reserves in the International Monetary Fund grew by US\$ 8 million.

d) *External indebtedness*

During 1983 the total external debt increased by 32% to a year-end figure of US\$ 2 570 million, which was two-thirds more than it had been at the end of the preceding decade. The expansion of the debt was due largely to the substantial disbursement of long-term external credit to the public sector, which was 90% greater than in 1982. This brought the external public debt to US\$ 2 230 million in December, or 87% of the total debt. In contrast, the private debt was reduced during the year. The total debt with a term of over one year rose by 40%, while short-term credit decreased by 16% (see table 13).

Table 13

DOMINICAN REPUBLIC: EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
Total external debt						
Balance	1 309	1 565	1 839	1 837	1 944	2 572
Medium- and long-term	1 133	1 425	1 569	1 605	1 780	2 434
Short-term	176	140	270	232	164	138
Disbursements	461	831	846	607	529	927
Service	358	738	758	914	680	603
Amortization payments	242	575	572	609	422	299
Interest payments ^b	116	163	186	305	258	304
External public debt						
Balance	877	1 085	1 357	1 408	1 554	2 230
Disbursements	384	675	607	512	472	894
Service	168	534	432	579	421	...
Amortization payments	129	467	335	461	326	218
Interest payments	39	67	97	118	95	...
Percentages						
Total external debt ratios						
External debt/gross domestic product	27.7	28.5	27.8	25.4	24.7	29.4
Service/exports of goods and services	43.2	65.0	59.6	60.5	59.5	49.3
Service/disbursements	77.7	88.8	89.6	150.6	128.5	65.0
Service/gross domestic product	7.6	13.4	11.4	12.6	8.6	6.9

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bCorresponds to the "interest paid" item of the balance-of-payments current account.

Table 14

DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983
Variation December to December						
Consumer price index	8.8	25.6	4.6	7.4	7.1	7.6
Food	11.2	32.6	-4.3	3.1	9.6	4.5 ^a
Variation between annual averages						
Consumer price index	7.1	9.2	16.8	7.5	7.6	5.1
Food	9.2	10.9	15.4	0.4	7.9	4.6 ^b

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aNovember-to-November variation.

^bVariation January-November with respect to the same period of the preceding year.

The considerable inflow of long-term external capital was linked to the partial renegotiation of the debt. The 11% decrease in the amount of debt service and the sharp rise in disbursements (75%) meant that there was a surplus of over US\$ 300 million, and this eased the pressure on the balance of payments. In 1981 and 1982, amortization and interest payments had exceeded loan disbursements.

Although the ratio between the external debt and the gross domestic product rose from 25% in 1982 to nearly 30% in 1983, the extension of its due dates brought down the ratio between the debt service and total exports from approximately 60% to 50%.

As regards medium- and long-term external financing for the public sector, 53% was obtained through debt renegotiation, 23% came from the International Monetary Fund and about 13% was supplied by credits from the Agency for International Development (US\$ 22 million), the Inter-American Development Bank (US\$ 44 million), the Banco Exterior de España (US\$ 27 million) and the Commodity Credit Corporation (US\$ 18 million).

Early in the year, an Extended Facility agreement was signed with the International Monetary Fund for US\$ 419 million over a three-year term, as well as another agreement for US\$ 48 million in compensatory financing. These credits, plus the liabilities already pending, brought total commitments to the Fund to nearly US\$ 250 million.

In September 1983, renegotiations were completed with the private banking system in respect of US\$ 565 million of the external debt which was to fall due in 1983. Short-term liabilities accounted for 82% of the rescheduled debt and nearly two-thirds of the renegotiated amount was to be used to make good the Central Bank's delays in reimbursing foreign banks for letters of credit and drafts issued to pay for imports. The debt renegotiation was for a six-year term, with a two-year grace period, at an interest rate of 2 1/4 points over LIBOR or 2 1/8 points over the prime rate, plus a once-only commission of 1 1/4%.

4. Prices, wages and employment

In 1983 the variation in the nation's consumer price index on the basis of annual averages was 5%, which was less than the year before (8%). When figured on a December-to-December basis, the variation rose to 7.6% due to the steeper increases occurring in the fourth quarter (see table 14).

In the period up to the end of September, prices rose at a rate of 0.1% per month, and they actually declined during four of those nine months; during the last three months of 1983, however, they rose at a pace of 2.2% per month. This acceleration stemmed from the higher exchange rate on the free foreign exchange market, which had a decisive effect on the costs and prices of manufactured goods.

As a result of the good supply of the main agricultural products which was available for domestic consumption, food prices rose less than did those of other products. The price index for clothing increased more rapidly, especially towards the end of the year. Housing rents, however, rose less than 2% in 1983 whereas they had increased 5% in 1982. The price of a gallon of gasoline

dropped 27 centavos in April (11%) and urban transport fares decreased 5 centavos (33%), thus helping to slow the increase in prices.

Minimum wages have remained unchanged since mid-1974. In real terms, they slipped 5% in 1983, and real wages have declined 22% since 1973 (see table 15).

The public sector's employment and wage policy was made more flexible in 1983. The staff was expanded slightly, and wage increases were granted to civil servants working in the judiciary branch and in the departments of income tax, internal revenue and the Customs.

Additionally, in order to promote greater use of manpower in private companies, a law was passed authorizing a deduction of 100 pesos per month from companies' taxable income for each new job created.

The problems of unemployment and underemployment continued to be serious. According to a survey taken in February 1983, the unemployment rate in the city of Santo Domingo was 21.4% of the economically active population, which was a slight increase over the 20.7% level recorded in June 1980. In absolute terms, the number of unemployed in the capital city amounted to 107 200 workers in 1983, or 21 000 people more than in 1980.

5. Monetary and fiscal policy

a) *Monetary policy*

In 1983, as in the previous year, monetary and financial policies were primarily directed towards halting the drop in international reserves and reducing the fiscal deficit. During the final months of the year, however, attention shifted to the adoption of measures for lessening the pronounced imbalances in the exchange market.

Thus, the list of prohibited imports continued to be expanded, stiff restrictions were placed on the kinds of products that could be imported using dollars bought at the official exchange rate, and a limit of US\$ 5 000 per person per year was set for the sale of foreign exchange for travel or remittances abroad. As a result of the transfer of imported goods to the parallel foreign exchange market which has been carried out in recent years, in 1983 nearly 60% of imports were paid for with foreign exchange bought at the free rate. In order to increase supply, the authorities gave more and more exporters of non-traditional goods the chance to receive the value of their sales abroad, either totally or partially, in foreign currency.

The basic objectives of the exchange measures were to reorganize the market, to stop the rise of the dollar, and to prevent speculation and the flight of capital. Some of the most important measures were the conversion of the exchange houses into exchange banks; the role assumed by the Reserve Bank in the parallel market in order to regulate the supply and demand of foreign exchange; and the extension of exchange concessions to commercial banks, which began to operate in the open foreign exchange market as from 1982.

Table 15

DOMINICAN REPUBLIC: EVOLUTION OF WAGES

	1980	1981	1982	1983
	Indexes (1978 = 100)			
Wages and salaries ^a				
Nominal	125.0	125.0	125.0	125.0
Real	98.1	91.2	84.7	80.6
	Growth rates			
Wages and salaries ^a				
Nominal	11.1	-	-	-
Real	-4.8	-7.0	-7.1	-4.8

Source: ECLAC, on the basis of official data.

^aAverage minimum wages.

Table 16

DOMINICAN REPUBLIC: MONETARY BALANCE

	End-year balance (millions of pesos)			Growth rates			
	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Money	660	731	781	-3	13.8	10.8	6.8
Currency outside banks	324	358	415	0.7	17.8	10.5	15.9
Demand deposits	336	373	366	-6.1	10.2	11.0	-1.9
Factors of expansion	2 016	2 283	2 927	12.8	11.8	13.2	28.2
Net international reserves	-303	-490	-308				
Domestic credit	2 319	2 773	3 235	19.8	18.1	19.6	16.7
Government (net)	845	1 093	1 377	24.4	53.6	29.3	26.0
Agricultural Bank and local government	265	273	291	36.4	10.4	3.0	6.6
Private sector	1 158	1 262	1 363	17.8	-0.7	9.0	8.0
Other	51	145	204	-74.2	537.5	184.3	40.7
Factors of absorption	1 356	1 552	2 146	22.3	10.8	14.5	38.3
Quasi-money (savings and time deposits)	677	804	895	7.0	13.8	18.8	11.3
Long-term foreign borrowing	356	501	975	72.5	29.0	40.7	94.6
Other items (net)	323	247	276	23.9	-8.5	-23.5	11.7

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

The persistence of the balance-of-payments current account deficit and the diminishing flow of capital were once again the main limitations on the money supply. Net international reserves declined steadily until November, and by the end of that month they registered a negative balance of over US\$ 570 million. When the year had almost come to an end the deficit was reduced to US\$ 308 million, however, thanks to the renegotiation of the external debt.

In view of the lack of external resources to finance public-sector activity, the authorities resorted, as in previous years, to borrowing from the banks, and this form of indebtedness climbed 22%. Domestic credit expanded 17%, and about 80% of this increase in credit went to the public sector. It is noteworthy that, during the period 1977-1983, the average annual increase in credit to the Government (26%) exceeded that received by the private sector (8%). As a result, the latter sector's share of total credit fell from 65% in 1977 to 42% in 1983 (see table 16).

The money supply grew only 7% during the year; this was 4% less than in 1982 (11%), and also four points less than the increase in the gross domestic product at current values. The amount of currency outside banks climbed 16% whereas demand deposits dwindled by 2%, the drop being particularly noticeable in December.

Savings and time deposits grew by 11%, which was less than in 1981 and 1982 (19% and 14%, respectively). In contrast, long-term foreign borrowing—which had increased scarcely 3% up to November—nearly doubled as a result of the renegotiation of the debt.

b) *Fiscal policy*

In observance of the agreement signed with the International Monetary Fund, a strict policy restraining government spending was followed during the year. Together with the expansion of tax revenue, this was aimed at reducing the fiscal deficit, and this purpose was achieved. Even though the 1983 deficit was slightly higher than that of the preceding year, in relation to the gross domestic product it fell to 3.4% compared with the 1982 figure of 3.7%.

The situation worsened in the final quarter of 1983 because the growth rate of income slowed. The rate of current saving became slightly negative, and the fiscal deficit jumped from 144 million pesos in September to 293 million pesos in December (see table 17).

Despite the events of the fourth quarter, however, budgetary operations showed certain favourable changes during the year; the decrease in the tax burden that had been occurring for several years was halted and it even grew slightly, from 8.6% in 1982 to 9.1% in 1983.⁶ Thanks to this, the fiscal deficit stayed at a level similar to that of the preceding year even though total expenditures rose 16%.

Tax revenue climbed 18% after having fallen 10% during the previous fiscal year. Tax receipts from foreign trade were up 31%, in contrast to the 32% decrease seen the year before. The main factor in that increase was the creation in late 1982 of a 10% tax on the value of imports, which caused the ratio between import duties and the value of imported goods —excluding petroleum and petroleum products— to move up from 22% in 1982 to 28% in 1983. It should also be noted that in November changes were made in the way of calculating *ad valorem* taxes on merchandise paid for with dollars acquired on the parallel market. From that date onward, these taxes were levied on the

Table 17

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	869	908	745	906	28.9	4.5	-18.0	21.6
Tax revenue	714	749	676	798	14.6	4.9	-9.7	18.0
Direct	204	210	206	224	35.1	2.9	-1.9	8.7
Indirect	189	238	253	296	13.9	25.9	6.3	17.0
On foreign trade	287	272	185	243	4.0	-5.2	-32.0	31.4
Other	34	29	32	35	13.3	-14.7	10.3	9.4
Non-tax revenue	155	159	69	108	203.9	2.6	-56.6	56.5
2. Current expenditure	729	776	792	909	12.3	6.5	2.1	14.8
Wages and salaries	376	404	430	450	20.5	7.5	6.4	4.7
Other expenditures	353	372	362	459	4.7	5.4	-2.7	26.8
3. Current saving (1 - 2)	140	132	-47	-3	460.0	-5.7		
4. Capital expenditure	337	309	241	290	-5.3	-8.3	-22.0	20.3
Real investment	128	121	98	109	32.0	-5.5	-19.0	11.2
Debt amortization payments	13	17	44	52	-48.0	30.8	158.8	18.2
Capital transfers	193	160	83	108	16.3	-17.1	-48.1	30.1
Other capital expenditure	3	11	16	21	...	266.7	45.5	31.3
5. Total expenditure (2 + 4)	1 066	1 085	1 033	1 199	6.1	1.8	-4.8	16.1
6. Fiscal deficit (1 - 5)	-197	-177	-288	-293				
7. Financing of deficit	197	177	288	293				
Domestic financing	93	101	194	196				
External financing	104	76	94	97				
	Percentages ratios							
Current saving/capital expenditure	41.5	42.7						
Fiscal deficit/total expenditure	18.5	16.3	27.9	24.4				
Tax revenue/GDP	10.8	10.4	18.6	9.1				
Total expenditure/GDP	16.1	15.0	13.1	13.7				
Fiscal deficit/GDP	3.0	2.5	3.7	3.4				
Domestic financing/deficit	47.2	57.1	67.4	66.9				
External financing/deficit	52.8	42.9	32.6	33.1				

Source: ECLAC, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic, Department of Economic Studies.

^aPreliminary figures.

⁶The ratio between tax revenue and the gross domestic product had dropped from 15.3% in 1971 to 10.8% in 1980.

value as calculated in terms of the parallel exchange rate rather than the official rate, as they had been before. This expanded the tax base considerably, since the price of foreign exchange on the open market was more than double the official exchange rate.

The collection of indirect taxes rose 17%. The differentials between the import and domestic prices for imported crude oil, gasoline and fuel oil grew by 27% despite the fact that the price of gasoline was reduced by 17 centavos per gallon. The prices of crude oil and fuel oil, for their part, held steady, and the volume of sales rose. This fiscal revenue, which represents 16% of tax receipts, would be eliminated if crude oil imports were paid for with dollars from the parallel market rather than dollars granted at the official exchange rate, as is currently the practice.

Taxes on the production of cigarettes and alcoholic beverages, which account for 44% of indirect taxes, increased 12% in total. The mid-year increase in the tax on cigarettes raised the income from that source 23%, whereas revenue from alcoholic beverages increased only 8%.

In addition, direct taxes expanded 9% due to the increased income tax receipts which resulted from the rise in the rates applied to dividends and income from professional activities.

Finally, non-tax revenue made a comeback from the sharp drop suffered the preceding year, thanks to the increased revenue produced by the State mining company Rosario Dominicana which extracts gold and silver, whose prices rose on the international market.

Central government spending, which had shrunk in 1982, picked up again in 1983. The 15% rise in current expenditure was due to the increase in interest payments on the debt (from 62 million pesos to 99 million pesos) and to the 21% increase in current transfers. Wages, however, rose only 5%. For its part, capital expenditure was up 20%, thus breaking with the negative trend which had prevailed since 1979. Of the 50 million peso increase, 51% corresponded to capital transfers to independent agencies, 22% to real government investment and 8% to the amortization of the debt.

A number of changes were made in income tax regulations during the year, and in order to encourage companies to recruit more employees, they were allowed to deduct 100 pesos per month from their taxable income for each new job they created. Moreover, attempts were made to give the municipalities greater economic autonomy by providing them with 20% of the fiscal income from income taxes. The most outstanding and controversial step, however, was the establishment of a tax on transfers and imports of manufactured goods. This is a value added tax with a limited scope, inasmuch as it is not levied on either the production and importation of basic consumer goods, including medicines and agricultural inputs, or on imports made by companies in the duty-free zones or by public bodies. Cigarettes, alcoholic beverages, soft drinks and matches are also exempt from it. The 6% level of the new tax is quite low, and though it is not designed to replace the general sales tax, it does take the place of the 10% tax on imports.

URUGUAY

1. Recent economic trends: Introduction and summary

The evolution of the economy of Uruguay in 1983 was characterized by an accentuation of the economic crisis, accompanied however by a relatively successful process of external and fiscal adjustment (see table 1 and figure 1).

Thus, the gross domestic product contracted for the second year running in what has been the worst recession in recent decades. Because of its contraction by almost 5%, global production in 1983 fell to a level 14% below that of two years earlier. In so far as gross domestic income was concerned, its decline (-8%) was even sharper, as the country's terms of trade suffered a considerable setback in 1983, aggravating the decline which had already taken place in this respect in the three preceding years. The drop in the product was less severe, however, than in 1982 because agriculture achieved a fairly marked expansion, and both manufacturing and the services sector experienced considerably lower contractions than in that year. The results in the spheres of agriculture and industry reflected to a considerable degree the effects of the higher real exchange rate prevailing in 1983 compared with the year before, since this had the effect of stimulating exports.

This increase in the real exchange rate (deriving from the drastic devaluation of the peso at the end of 1982) was also, however, a direct cause of the worsening of inflation. Thus, in 1983 prices rose by 52% after an uninterrupted decline in the rate of increase from 83% to 21% between 1979 and 1982. This resurgence of inflation was clearly related to the fact that until November 1982 exchange-rate policy had consisted of restraining the process of devaluation of the peso precisely in order to reduce inflationary pressures. When it was no longer possible to continue applying this policy due to problems in the inflow of external capital —which was needed to balance the acute current account deficit that had been generated— the Central Bank decreed the floating of the peso and withdrew from intervening in the exchange market. Thus, from a value of 14 pesos to the dollar at the end of November 1982, the exchange rate rose to more than 33 pesos per dollar by the end of the same year. This brought about an increase in prices of 9% in December after accumulated inflation of only 11% in the first eleven months of the year, and although it subsequently moderated to a certain extent, this situation of high inflation persisted throughout 1983.

The lack of dynamism in economic activity, the rapid rise in prices, and modification of the official wage policy brought about an appreciable contraction of wages in real terms. After having risen by more than 7% in 1981 and contracted only marginally in 1982, the real value of urban wages declined by over one-fifth in 1983. Added to this situation was a marked deterioration in the sphere of employment, since the unemployment rate climbed over a period of only two years from less than 7% to close on 16%. In addition to representing a grave threat to the living standards of the population, the decline in real wages and the growth of unemployment helped to depress domestic demand, and this in turn had a negative effect on the evolution of global production.

On the other hand, the authorities managed in 1983 to re-establish a state of equilibrium in the country's external accounts. The balance of trade in goods and services was positive for the first time in several years, with the result that the current account deficit, although not disappearing entirely (owing to higher net interest payments), contracted appreciably to a level of only US\$ 55 million after having averaged US\$ 450 million in the four preceding years. At the same time, the negative balance on the capital account in 1982 —after the considerable surpluses of previous years— disappeared in 1983 when a positive result was again obtained. The sharp drop of US\$ 500 million recorded in the level of international reserves in 1982 was thus checked, and reserves rose by US\$ 56 million in the year under review.

These positive results in the external field were the consequence of two factors: the continuation of the severe crisis in economic activity on the one hand, and the exchange-rate and monetary policy measures and those applied in the sphere of external indebtedness on the other.

The influence of the economic recession manifested itself primarily through the lower level of imports to which it gave rise. The value of imports fell by 29% and, although unit prices declined appreciably, the volume of imports also contracted to a marked extent (by 26% in the case of goods). This was due both to the smaller purchasing power of the population and to the drop in demand for inputs and capital goods by enterprises. On the other hand, the depressed situation of domestic markets and the critical financial situation of business concerns compelled them to develop a dynamic export marketing policy.

Implementation of this policy by enterprises was made possible by the economic policy changes already mentioned, for the considerable devaluation of the currency at the end of 1982 and the abandonment of the policy of deterioration in the effective real exchange rate led to an improvement in the profitability of external sales. The rapid decline in real urban and rural wages, too, was not unconnected with this greater profitability of exports.

The foreign exchange policy also helped to heighten the effect of the economic depression on imports, by raising their cost. To this, moreover, were added the consequences of a contractive monetary policy.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^d
A. Basic economic indicators						
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 686	3 913	4 148	4 227	3 816	3 638
Population (millions of inhabitants)	2.87	2.89	2.91	2.93	2.95	2.97
Per capita gross domestic product (in 1970 dollars)	1 283	1 354	1 426	1 444	1 295	1 226
Growth rates						
B. Short-run economic indicators						
Gross domestic product	5.3	6.2	6.0	1.9	-9.7	-4.7
Per capita gross domestic product	4.6	5.5	5.3	1.2	-10.3	-5.3
Gross national income ^b	5.9	7.7	5.5	1.4	-11.1	-7.5
Terms of trade (goods and services)	5.2	8.4	-2.3	-5.5	-2.4	-10.3
Current value of exports of goods and services	12.9	30.8	27.8	11.4	-9.6	-10.1
Current value of imports of goods and services	6.1	55.0	42.6	-2.1	-24.4	-28.7
Consumer prices						
December-December	46.0	83.1	42.8	29.4	20.5	51.5
Variation between annual averages	44.5	66.8	63.5	34.0	19.0	49.2
Money	65.6	88.5	50.7	12.5	20.4	7.6
Wages and salaries ^c	39.6	52.6	64.4	43.6	18.3	18.3
Unemployment rate ^d	10.1	8.4	7.4	6.7	11.9	15.5
Current government income	48.1	93.7	77.5	42.2	-8.0	50.8
Total government expenditure	49.5	74.7	79.3	43.7	43.8	19.9
Fiscal deficit/total government expenditure ^e	9.2	1.5 ^f	0.5 ^f	0.5	36.4	20.0
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-57	-309	-618	-397	-48	252
Balance on current account	-133	-363	-716	-468	-235	-55
Balance on capital account	262	453	811	494	-182	111
Variation in international reserves	183	25	174	51	-497	56
Total external debt	1 240	1 682	2 153	3 129	4 255	4 509

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect (goods and services).

^cVariation between annual

nominal wage averages.

^dAnnual average rate for Montevideo.

^ePercentages.

^fSurplus.

In addition to the foregoing, there was the refinancing of the external debt, after signature of an agreement with the International Monetary Fund.

Finally, mention should be made of the improvement recorded in the country's fiscal accounts. After the sharp decline of public sector income in real terms in 1982, it rose slightly in 1983. At the same time (and for the first time in recent years) the real value of fiscal outlays—for both current and capital expenditure—contracted. This favourable development did not however lead to the disappearance of the considerable imbalance recorded since 1982, since the fiscal deficit, measured as a proportion of total government expenditure, only declined from one-third in 1982 to 20% in 1983. In the period 1979-1981, in contrast, a small fiscal surplus had been obtained on average.

2. Trends in economic activity

a) *Total supply and demand*

Total supply and demand slackened considerably (by -7%) for the second year running. In the case of total supply, its two basic components—the gross domestic product and imports—were both lower than in the preceding year. Imports contracted due to the higher cost of foreign currency, the lower purchasing capacity of economic agents in general, and the depressed situation of the productive sectors. The proportion of imports in total supply thus fell from 17% in 1980 to 10% in 1983. The gross domestic product, for its part, contracted by nearly 5% on top of its 10% decline in 1982. This deterioration contrasted noticeably with the average 5% rate of growth recorded in the period 1978-1981. However, this trend in the gross domestic product was reversed, albeit only slightly, as from the third quarter of 1983. Disregarding seasonal effects, it expanded in that quarter by 0.6% and by 0.2% in the last quarter of the year. Among other reasons, this improvement was attributable to the greater competitiveness of Uruguayan products in external markets as a result of the considerable currency devaluation and the contraction in real wages.

Thus, an analysis of total demand shows that exports of goods and services increased in the year by more than 4%, this being the only demand component to exhibit this trend. Domestic demand contracted by 9%, reaching a level 25% below that of 1980. As in the two preceding years, the reduction of gross domestic investment was particularly acute, since it fell by 27%. The lower investment in machinery and equipment was attributable to high prevailing interest rates and heavy corporate indebtedness. Building investment, for its part, also declined owing to the high rates of interest and the policy of austerity in public expenditure. A further effect of this austerity was a decline in the level of public consumption, which compounded the simultaneous contraction of private consumption (see table 2).

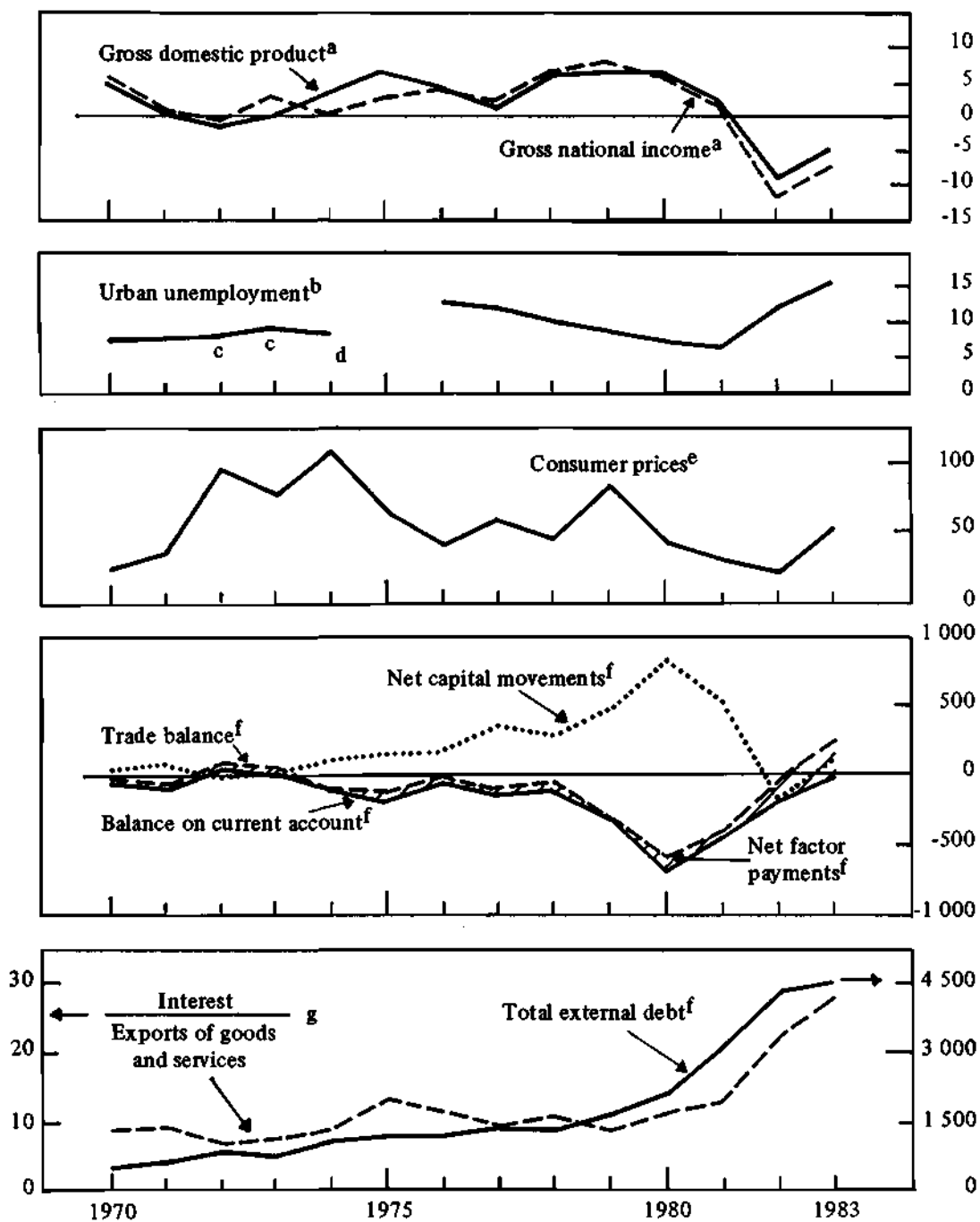
The part played by gross domestic saving in the financing of gross domestic investment increased appreciably. Thus, it financed four-fifths of investment costs, exceeding its share in previous years. The favourable evolution of gross domestic savings was particularly noteworthy in that it helped to offset the considerable deterioration in net external factor payments and the terms-of-trade effect (see table 3).

b) *Evolution of the main sectors*

The sharp contraction of production observed in 1982 continued in 1983. Activity declined in most of the sectors producing goods and services, with the notable exception of agriculture, whose product rose by almost 3% after a contraction of 11% the year before. This was due mainly to the growth of agricultural exports owing to their improved competitive position. The level of activity in manufacturing continued to recede, although much more slowly, but the product of the construction sector fell twice as fast as the year before. In the sphere of services, the declines observed since 1982 in commerce and in transport, storage and communications continued (see table 4).

i) *Agriculture.* The physical volume of agricultural output in 1983 declined slightly, since improved results in the livestock-raising and fishing sectors failed to offset completely the sharp drop in crop-farming output. This contraction occurred for the third successive year and was influenced to an important degree by the critical financial situation of the sector, deriving mainly from its heavy indebtedness and the high cost of credit (see table 5).

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Montevideo.

^cFirst half of year.

^dAugust 1974 - February 1975.

^ePercentage variation from December to December.

^fMillions of dollars.

^gPercentages.

Table 2

URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Total supply	4 845	4 314	4 007	110.4	116.6	110.1	7.3	0.1	-11.0	-7.1
Gross domestic product at market prices	4 227	3 816	3 638	100.0	100.0	100.0	6.0	1.9	-9.7	-4.7
Imports of goods and services	618	498	369	10.4	16.6	10.1	16.1	-10.6	-19.4	-25.8
Total demand	4 845	4 314	4 007	110.4	116.6	110.1	7.3	0.1	-11.0	-7.1
Domestic demand	4 283	3 760	3 429	101.0	104.0	94.2	7.4	-0.8	-11.2	-8.8
Gross domestic investment	745	573	404	11.2	19.7	11.1	5.4	-8.9	-23.1	-29.4
Gross fixed investment	734	590	429	11.2	18.2	11.8	6.3	-3.0	-19.6	-27.2
Construction	464	394	295	6.6	11.2	8.1	5.2	-0.2	-15.1	-25.1
Machinery and equipment	270	196	134	4.6	7.0	3.7	8.2	-7.4	-27.4	-31.4
Variations in stocks	11	-17	-25	-	1.5	-0.7				
Total consumption	3 538	3 187	3 025	89.8	84.3	83.1	7.9	1.1	-9.9	-5.1
General government	694	683	647	15.0	15.6	17.8	-1.3	7.5	-1.7	-5.2
Private	2 844	2 504	2 378	74.8	68.7	65.3	10.3	-0.4	-12.0	-5.0
Exports of goods and services ^b	562	555	578	9.4	12.6	15.9	6.5	7.8	-1.2	4.3

Source: ECLAC, on the basis of data from the Central Bank of Uruguay.

^aPreliminary figures.^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated for the purpose by ECLAC.

Table 3

URUGUAY: FINANCING OF GROSS DOMESTIC INVESTMENT

	Average 1975-1979	1980	1981	1982 ^a	1983 ^a
Percentages of gross domestic investment^b					
1. Gross domestic investment	100.0	100.0	100.0	100.0	100.0
2. Gross national savings (a + b + c)	71.7	59.9	66.0	53.1	79.2
a) Gross domestic savings	79.6	67.7	69.6	68.4	136.6
b) Net factor payments abroad	-9.6	-6.0	-4.9	-17.1	-40.5
c) Terms-of-trade effect	1.7	-1.8	1.3	1.8	-16.9
3. External savings	28.3	40.1	34.0	46.9	20.8
Percentages of gross domestic product^b					
1. Gross domestic investment	14.8	18.5	16.6	14.1	10.5
2. Gross national savings (a + b + c)	10.6	11.1	11.0	7.5	8.3
a) Gross domestic savings	11.8	12.6	11.6	9.7	14.3
b) Net factor payments abroad	-1.4	-1.1	-0.8	-2.4	-4.2
c) Terms-of-trade effect	0.2	-0.4	0.2	0.2	-1.8
3. External savings	4.2	7.4	5.6	6.6	2.2

Source: Central Bank of Uruguay.

^aPreliminary figures.^bThe original information is expressed in constant values, as in table 2.

Of the main crops, only maize and sugar beet showed increases (7% in both instances), while contractions were recorded in the rest of this product group. The output of wheat declined by 6% owing to the smaller area sown, despite an appreciable improvement in yields. Rice production, for its part, contracted by 23% in 1983 after rising by a total of 70% in the preceding three years. This negative result was due to a considerable decrease in yields, since adverse climatic conditions at the time of sowing delayed the whole production cycle. Finally, the output of oilseeds as a whole fell by more than 50% to only a fifth of the amount harvested in 1980. Various factors influenced this fall: the drop of 64% in the production of linseed was due to a reduction of 60% in area sown, which sank to only 7 400 hectares (after having amounted to 100 000 hectares in 1980), while the 61% lower production of sunflower seed was caused by a contraction of 57% in yield after a drop of 16% in 1982.

Livestock production expanded in 1983 by nearly 6% after declining by 8% in the previous year. It was thus the only important agricultural sub-sector whose level of activity did not decline. Wool production recorded the greatest increase (10%), making it the only livestock product to show constant expansion in the last four years. Wool exports in 1983 were 5% greater than in 1982 (when they contracted by 14%) and some new markets were gained, as in the case of exports of blankets to Taiwan. Meat production expanded at a rate only slightly below that of wool and represented —both in the case of beef and other meats— a significant turnaround from the declines recorded in 1981 and in particular in 1982. This result was strongly influenced by a considerable expansion of beef exports (which rose by 37% after contracting in 1982 by 4%) due to a combination of factors, including the depression of domestic prices —partly caused by illegal meat imports— and the need to cover rising local credit costs, both of which induced producers to increase their sales volume. Secondly, the considerable currency devaluation which came into force at the end of 1982 greatly improved the profitability of exports, which were also favoured by the penetration of new markets, particularly in the Middle East. Devaluation also stimulated the production of milk, since the milk industry normally sells more than a third of its output abroad.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1981	1982	1983 ^a	1970	1980	1983 ^a	1980	1981	1982	1983 ^a
Gross domestic product^b	3 595	3 244	3 092	100.0	100.0	100.0	6.1	1.9	-9.8	-4.7
Goods	1 373	1 170	1 081	40.0	39.9	34.7	9.2	-3.6	-14.8	-7.6
Agriculture	380	337	346	12.9	10.1	11.1	16.2	5.5	-11.4	2.6
Mining	757	629	585	23.1	23.4	18.8	7.9	-9.4	-16.9	-7.0
Manufacturing										
Construction	236	204	150	3.9	6.4	4.8	3.8	3.0	-13.6	-26.5
Basic services	373	341	329	10.2	10.4	10.5	8.2	0.2	-8.7	-3.5
Electricity, gas and water	61	62	63	1.5	1.6	2.0	7.7	5.4	1.2	2.5
Transport, storage and communications	312	279	266	8.7	8.8	8.5	8.3	-0.8	-10.6	-4.8
Other services	1 898	1 769	1 701	49.9	49.6	54.7	2.6	7.3	-6.8	-3.8
Commerce ^c	727	592	560	17.0	18.8	18.0	10.3	8.2	-18.6	-5.5
Ownership of dwellings	147	148	149	5.3	4.1	4.8	1.8	1.0	0.7	0.7
Community, social and personal services ^d	1 024	1 029	992	27.6	26.7	31.9	-2.0	7.6	0.5	-3.6

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bAs the individual activities and totals were calculated independently, the sum of the former does not correspond with the latter.

^cIncluding financial establishments, insurance and real estate, except ownership of dwellings.

^dIncluding restaurants, hotels and business services.

Table 5

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
Indexes of agricultural production (1978 = 100)									
Total	105.1	117.0	117.6	110.3	109.7	17.3	0.5	-6.2	-0.5
Crop farming ^b	118.5	122.6	118.2	114.7	102.6	26.0	-3.6	-3.0	-10.5
Stock-raising	97.3	113.8	117.3	107.7	113.7	12.4	3.1	-8.2	5.6
Marine fishing and hunting	37.0	164.2	193.8	166.0	191.7	13.7	18.0	-14.3	15.5
Production of main crops^{b,c}									
Rice	188.5	287.6	330.3	418.9	323.1	16.0	14.8	26.8	-22.9
Sunflower	51.4	47.6	45.0	46.2	18.8	-7.4	-5.5	2.7	-59.3
Linseed	39.3	65.1	21.4	11.0	4.7	108.6	-67.1	-48.6	-57.3
Maize	157.1	119.3	180.8	97.3	103.7	68.3	51.5	-46.2	6.6
Sugar beet	573.3	504.0	345.7	366.8	393.8	41.3	-31.4	6.1	7.4
Wheat	526.5	429.5	306.6	387.8	363.1	146.4	-28.6	26.5	-6.4
Indexes of volume of agricultural and livestock production (1978 = 100)									
Livestock	99.5	112.6	111.2	90.4	99.1	16.8	-1.2	-18.7	9.6
Cattle	98.7	112.2	109.0	85.5	95.3	19.7	-2.9	-21.6	11.5
Others	103.4	114.4	121.0	112.1	116.2	5.4	5.9	-7.4	3.7
Wool	94.7	115.4	121.8	127.7	140.6	7.6	5.5	4.8	10.1
Milk	99.0	109.0	110.4	112.2	115.2	4.7	1.3	1.6	2.7
Bee-keeping and poultry breeding	81.6	134.7	177.1	170.6	139.8	21.7	31.5	-3.7	-18.1
Volume of fishing ^c	26.2	120.4	144.9	123.2	142.3	11.3	20.3	-15.0	15.5

Source: Central Bank of Uruguay.

^aPreliminary figures.^bCrop years.^cThousands of tons.

Finally, the fishing industry recorded a production increase of 16%, thereby resuming its dynamic evolution of previous years (temporarily interrupted in 1982). Exports of fish, however, contracted slightly from 58% of total fishery production in 1982 to 50% in 1983. This proportion had risen steadily every year since 1973, when it amounted to only 9%. As regards individual products, exports of frozen fish declined by 12% while those of fish meal rose by 87%.

ii) *Manufacturing*. Manufacturing output fell for the third year running, making a total decline of 26% over this period. In the period 1975-1979, in contrast, its annual growth rate was consistently high (7% on average).

Three types of factors were mainly responsible for the negative evolution of this sector in the year under review, namely: problems of demand in domestic and foreign markets; the financial difficulties faced by producers; and finally, the lower availability of local raw materials.

Two-thirds of the enterprises covered by the industrial survey carried out by the Central Bank in the last quarter of 1983 referred to insufficient demand as a primary limiting factor in industrial activity throughout the year. In the sphere of domestic demand, the considerable decline in real wages—due to renewed rising prices—and the negative trend in general economic activity led to a contraction of 5% in global domestic private consumption, which came on top of the 12% decline experienced in 1982. This was, however, compensated to some extent by less competition from foreign suppliers (only 5% of the enterprises surveyed at the end of 1983 pointed to this as an important limiting factor compared with 13% of those consulted at the end of 1982 and 24% a year earlier). On the external front, for its part, difficulties were experienced due to the poor economic

situation in neighbouring countries, a revival of protectionism in foreign markets, and lower international prices. These features were blamed by a third of the exporting firms surveyed in the exercise already mentioned. However, many industrial concerns assigned much greater significance to the improved competitiveness of their products abroad as a result of the considerable devaluation effected at the end of 1982. In this respect, 23 of the 35 branches of industry exporting part of their output reported an increase in the proportion of their foreign sales. Viewed from another angle, the physical volume of production of firms exporting more than 25% of their output increased by 14% in 1983, whereas the rest of industry registered a 14% contraction in output; in 1982 both categories of enterprises had registered equal declines.

Financial difficulties deriving from the high cost and scarcity of credit and, in many instances, insufficient increases in domestic selling prices were referred to as important causes of problems in the sector by 20% of the firms responding to the above-mentioned survey. Partly for these reasons, the manufacturing firms affected found it necessary to resort to a reduction of stocks owing to their high maintenance cost, with the result that the level of production was cut back still further. More than half of the industrial firms surveyed reported lower stock levels in the last quarter of 1983 than in the same period of 1982.

Finally, problems connected with the supply of domestic raw materials were mentioned as a limiting factor by 8% of the firms surveyed, although in some sectors (producers of foodstuffs, beverages, textiles, footwear and clothing) this proportion rose to between 15% and 18%.

For the above reasons, a very high average level of idle production capacity (64%) was observed at the end of the year. In three sectors (metal products, electrical machinery, and transport equipment) this proportion exceeded 80%, and in six others (beverages, paper, printing, rubber products, chemical products and non-metallic minerals) it exceeded 70%. Even the most dynamic industrial sectors reported high levels of idle capacity in 1983: 44% in the foodstuffs industry, 48% in the leather industry and 53% in the textile, footwear and clothing manufacturing sectors.

The number of hours worked in manufacturing decreased by slightly more than 2% in the year. This meant a loss of labour productivity, since the level of production dropped by a proportion three times greater. The sector showing the greatest decline in productivity was the tobacco industry; in contrast, appreciable gains in productivity were recorded in the leather and rubber-products industries.

The sectoral evolution of industrial production reveals that output levels contracted in 11 of the 16 branches considered in the Uruguayan statistics. The greatest reduction (-48%) was recorded in the manufacture of electrical machinery, due partly to market saturation. Following this were contractions of between 21% and 25% in the industries manufacturing transport equipment, tobacco products, non-metallic minerals and metal products. In the case of transport equipment, the greatest decline in output occurred in the motor-vehicle sector (-64%). This drop affected all its products—automobiles, light commercial vehicles and trucks—and was due to lower demand and inventory adjustments. In the non-metallic minerals sub-sector, the drop in output was strongly influenced by lower building activity. In the important food-products industry, for its part, a reduction of only 2% was recorded (the same result as in 1982). Declines reported by the rice-processing and edible oil producers were due to shortages of domestic raw materials, while larger supplies of cattle, milk and fish influenced the output increases reported by the corresponding processors. Despite the small decrease in output in the year, the foodstuffs industry has not only been the most dynamic industrial branch in the past five years, but also the only one to report higher output levels in 1983 than in 1978, since its production in the period expanded by 13% while that of manufacturing as a whole was 19% less in 1983 than in that year (see table 6).

Other industrial branches recording increases in production in the year were textiles (35%), rubber products (22%), footwear and clothing (21%) and leather goods (15%). In the case of the first-named, there was a notable increase (of more than 50%) in the output of yarns and woollen fabrics—mainly due to higher demand from traditional producers of clothing for export—and in that of cotton and synthetic yarns and fabrics, for the same reason, also assisted by a general increase in exports of cotton products.

iii) *Construction.* The gross domestic product of this sector contracted for the second year running and this time the drop (-27%) was double the severe decline recorded in 1982. In the period 1974-1981, in contrast, the product of this sector had increased at an average annual rate of 13%.

Table 6

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates			
					1980	1981	1982	1983 ^a
Index of manufacturing production (1978 = 100)	109.7	104.7	87.0	80.9	2.4	-4.6	-16.9	-7.0
Foodstuffs	109.2	117.8	115.5	112.9	8.0	7.9	-2.0	-2.3
Beverages	114.5	124.3	107.1	90.5	-	8.6	-13.8	-15.5
Tobacco	117.9	128.8	119.4	92.9	-0.2	9.2	-7.3	-22.2
Textiles	118.4	106.5	62.4	84.2	1.4	-10.1	-41.4	34.9
Footwear and clothing	90.7	80.8	52.7	63.6	-1.3	-10.9	-34.8	20.7
Paper and paper products	118.5	103.2	83.8	84.5	3.4	-12.9	-18.8	0.8
Printing and publishing	122.2	126.4	107.4	91.0	8.6	3.4	-15.0	-15.3
Leather products	87.0	83.6	81.6	94.1	20.5	-3.9	-2.4	15.3
Rubber products	112.2	88.3	39.4	47.9	2.7	-21.3	-55.4	21.6
Chemical products	109.2	105.6	87.4	76.6	-14.2	-3.3	-17.2	-12.4
Petroleum products	94.4	88.9	89.4	74.1	-1.4	-5.8	0.6	-17.1
Non-metallic minerals	117.1	104.5	74.3	58.9	1.4	-10.8	-28.9	-20.7
Metal products	116.6	98.7	75.7	60.5	-7.6	-15.4	-23.3	-20.1
Electrical machinery	184.8	176.9	122.2	63.9	35.9	-4.3	-30.9	-47.7
Transport equipment	138.0	108.1	67.3	50.4	9.4	-21.7	-37.7	-25.1
Other manufacturing industries	121.6	96.6	79.2	74.2	-10.7	-20.6	-18.0	-6.3

Source: Central Bank of Uruguay.

^aPreliminary figures.

Unlike the preceding year, when there was a considerable recovery in the construction of public works which compensated to a large extent the decline in private building activity, both subdivisions recorded declines in 1983, the drop being greater in the case of the public sector. The consumption of cement in this latter sector decreased by 36% after rising by 44% in 1982, successive contractions being recorded in the first three quarters of the year. Events influencing this negative evolution were a severe contraction (of 52%) in the building of dwellings by the Uruguayan Mortgage Bank (Banco Hipotecario del Uruguay) and a reduction of 20% in works controlled by the Ministry of Transport and Public Works, owing to the policy of economies in public expenditure.

Private construction activity contracted for the second year running after having stagnated in 1981. The level of consumption of cement by the private sector in 1983 was the same as in 1977. There was a severe drop in construction financed by resources from the Mortgage Bank, which closed its lines of credit to all applicants except those holding savings accounts in this bank. There was also a drop in the rest of private building activity owing to the general shortage of credit. Saturation of the housing market in Montevideo and the absence of major new credits from Argentina for projects in Punta del Este complicated the situation still further (see table 7).

The increase in the index of construction costs (46%) was lower than that of inflation as measured by the variation in the consumer price index (52%). This situation contrasted with the preceding year, when the index of construction costs rose more than twice as fast as the consumer price index.

c) *Employment*

The trend towards rapid growth of unemployment observed throughout 1982 was accentuated in 1983 (see table 8). In the first quarter of the latter year the unemployment rate in the active population of Montevideo was 15.9% compared with 11.7% and 13.8% in the third and fourth quarters of 1982. In the period April-June 1983 this rate again rose, reaching the highest quarterly level (16.1%) recorded since statistics have been kept (the lowest quarterly rate on record (5.7%) had been registered only two years earlier). This was clear evidence not only of the severity of the

recession in Uruguay, but also of the rapidity with which it had developed. The unemployment situation began gradually to improve, however, in the third and fourth quarters of 1983 (15.2% and 14.6% respectively). The sectors most affected in the year were manufacturing and construction (17% unemployment at the year's end in each instance) and commerce (14%). Underemployment, for its part, affected almost 11% of the total work force in Montevideo at the end of the first half of 1983.

3. The external sector

a) *Merchandise trade*

The volume of external trade in goods decreased in 1983. That of imports showed a marked contraction (-26%) for the third consecutive year, so that it sank to a level only 45% of that recorded in 1980. Moreover, the volume of exports declined for the first time since 1979, although only to a comparatively small extent. As for unit values, both export and import prices fell sharply, in similar proportions. The terms of trade thus showed only a small variation of -1% (see table 9).

i) *Exports.* The sharp drop in the value of exports in 1983 (-10%) represented a serious reversal in this respect (see table 10). The last time that export earnings had shown a negative result was in 1971, after which they rose at an average annual rate of 18% until 1982.

The drop in the value of exports in 1983 was caused to an important extent by the difficulties facing domestic economic activity in general, and occurred despite the considerable incentive provided by the end-1982 devaluation. In the case of non-traditional exports, contractions were observed in almost all major products. Of particular significance was the decline of more than 50% in

Table 7

URUGUAY: CONSTRUCTION INDICATORS

	Domestic consumption of cement						Index of cost of construction (base year 1976 = 100) ^b
	Thousands of tons			Growth rates ^a			
	Public works	Private building	Total	Public works	Private building	Total	
1973	57.9	325.2	383.1	-24.8	-1.7	-6.0	...
1974	82.7	291.6	374.3	42.9	-10.3	-2.3	...
1975	164.9	293.3	458.2	99.4	0.6	22.4	...
1976	160.3	267.9	428.2	-2.8	-8.7	46.0	151.3
1977	195.8	295.1	490.9	22.1	10.2	14.6	224.5
1978	184.3	335.7	520.0	-5.9	13.8	5.9	319.3
1979	144.5	427.8	572.3	-21.6	27.4	10.1	620.2
1980	149.6	467.5	617.1	3.5	9.3	7.8	827.6
1981	112.9	468.7	581.6	-24.6	0.3	-5.8	948.4
1982	162.2	386.2	548.4	43.7	-17.6	-5.7	1 377.1
1983 ^c	104.5	296.3	400.8	-35.6	-23.3	-26.9	2 007.0
1982							
I	43.5	111.9	155.5	12.6	-3.8	0.3	964.2
II	35.8	91.5	127.2	-17.9	-18.3	-18.2	1 016.8
III	40.5	89.5	130.0	13.3	-2.2	2.2	1 051.6
IV	42.4	93.4	135.7	4.6	4.4	4.4	1 377.1
1983 ^c							
I	32.5	71.5	104.1	-23.2	-23.4	-23.3	1 607.3
II	27.3	75.2	102.4	-16.2	5.1	-1.6	1 655.8
III	22.2	70.9	93.1	-18.5	-5.7	-9.1	1 771.9
IV	22.4	78.7	101.1	0.9	11.3	8.6	2 007.0

Source: Central Bank of Uruguay.

^aIn the case of the quarterly figures the growth rate has been calculated with respect to the preceding quarter. ^bAt the end of the corresponding period.

^cPreliminary figures.

Table 8

URUGUAY: EVOLUTION OF UNEMPLOYMENT

	1977	1978	1979	1980		1981		1982		1983	
				Half year		Half year		Half year		Half year	
				I	II	I	II	I	II	I	II
Unemployment rate^a											
Montevideo	11.8	10.1	8.4	7.7	6.8	5.8	7.5	11.0	12.7	16.0	14.9
Inland urban	-	-	-	-	-	5.2	5.6	6.3	12.8	12.9	...
Total	-	-	-	-	-	5.6	6.9	9.5	12.7	14.6	...
Unemployment rate (Montevideo)^b	7.9	6.7	5.8	5.1	4.9	3.9	4.9	7.2	8.1	11.1	...
Employment rate (Montevideo)^c	47.4	47.2	47.8	49.4	51.7	51.5	52.2	50.2	49.4	47.6	...

Source: Department of Statistics and Censuses.

^aPercentage of unemployed persons in the total economically active population.^bExcludes those seeking work for first time.^cPercentage of employed persons in the total population aged 14 or more.

Table 9

URUGUAY: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
Growth rates						
Exports of goods						
Value	12.2	14.9	34.4	16.2	2.2	-10.4
Volume	4.6	-11.8	18.5	14.3	6.9	-1.5
Unit value	7.2	30.2	13.3	1.7	-4.4	-9.0
Imports of goods						
Value	3.4	64.3	43.0	-4.6	-34.8	-32.0
Volume	1.3	33.3	12.4	-13.9	-29.8	-25.8
Unit value	2.0	23.3	27.3	10.9	-7.1	-8.4
Terms of trade (goods)	4.9	6.3	-9.9	-8.1	1.7	-1.1
Indexes (1970 = 100)						
Terms of trade (goods)	84.7	90.1	81.2	74.6	75.8	75.0
Purchasing power of exports of goods ^b	139.9	131.2	140.2	147.1	159.9	155.8
Purchasing power of exports of goods and services ^b	149.4	162.9	169.5	172.6	166.5	155.7

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bVolume of exports of goods or of goods and services (as appropriate), adjusted in accordance with the corresponding terms-of-trade index.

exports of non-monetary gold. This product had not been exported before 1982 (with the exception of a very small amount in 1981), but its share in total exports rose from 1% in 1981 to 19% in 1982 and, despite a decline in 1983, still remained high (9%). Other important non-traditional products showing a drop in export sales included rice (mainly owing to marketing problems in Brazil) and fishery and leather products. The volume exported, however, increased in the last-mentioned instance.

Exports of textile manufactures, on the other hand, increased by 13%. Particular dynamism was shown in this context by sales of carded wool, the volume of which increased fourfold. Export sales of cotton products also rose appreciably, but those of synthetic products declined. Finally, exports of foodstuffs, beverages and tobacco increased considerably (by 67%) although their share in total non-traditional exports still came to less than 5%.

Traditional exports, for their part, rose by 20%, although sales of wool declined, in addition to the contraction experienced by this product in the non-traditional category. On the other hand, meat exports rose by 39%, partly offsetting the lower sales of wool. Foreign sales of meat became considerably more profitable for a number of reasons (especially the effects of the devaluation), and moreover they were very necessary in order to cover higher domestic production costs. The main overseas markets in this case were Brazil, the United Kingdom and Middle Eastern countries (Egypt, Iran, Iraq, and Israel).

As regards the destinations of exports as a whole, an abrupt decline was recorded in the proportion of shipments to Europe (from 38% in 1982 to only 32% in 1983) and in that of sales to the countries of the Latin American Integration Association (ALADI), which fell from 31% to 24%. In the latter group, the relative importance of the Argentine and Brazilian markets decreased by 17% and 18% respectively, while there was an even greater decline in that of the rest of the ALADI member countries (-41%), owing to generalized recessions in their economies and resurgence of protectionism. On the other hand, the Middle Eastern area became as important in this context as Europe, owing to growth of almost 140% in sales to Iran, which reached a value of more than US\$ 116 million in 1983 (by comparison, sales to Brazil —Uruguay's main trading partner— amounted to US\$ 121 million).

ii) *Imports.* In 1983, as in the preceding year, the value of total purchases abroad dropped sharply (by 36%). Declines were recorded in each of the three main groups of imports (see table 11).

Table 10

URUGUAY: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1981	1982	1983 ^a	1970	1983 ^a	1980	1981	1982	1983 ^a
Total	1 230	1 256	1 126	100.0	100.0	34.3	16.2	2.2	-10.4
Traditional exports	513	386	464	78.0	41.2	86.5	23.3	-25.0	20.2
Meat	246	177	246	36.7	21.8	73.2	40.6	-28.0	39.0
Wool	240	180	164	35.4	14.6	101.2	9.6	-25.0	-8.8
Others	27	29	54	5.9	4.8	66.9	22.7	7.4	86.2
Non-traditional exports	716	871	662	22.0	58.8	13.8	11.4	21.6	-24.0
Fishery products	58	46	39	-	3.5	34.2	20.8	-20.7	-15.2
Rice	109	92	73	2.0	6.5	5.2	70.3	-15.6	-20.7
Foodstuffs, beverages and tobacco	31	18	30	1.7	2.7	31.2	-6.0	-41.9	66.7
Minerals, ceramics and glass	16	12	8	2.5	0.7	-31.2	-27.3	-25.0	-33.3
Products of the chemical and allied industries	33	43	23	...	2.0	23.2	6.4	30.3	-46.5
Plastic materials and rubber products	26	19	12	...	1.1	4.5	23.8	26.9	-36.8
Processed hides and leather products	138	139	131	12.1	11.6	-18.7	-4.2	0.7	-5.7
Textile manufactures	89	83	94	2.7	8.3	23.0	2.3	-6.7	13.2
Transport equipment	12	6	6	-	0.5	17.5	-17.6	-50.0	-
Paper, paper-board and related manufactures	11	6	6	-	0.5	40.0	-15.4	-45.5	-
Iron, steel, machinery and electrical equipment	28	14	10	-	0.9	21.4	17.6	-50.0	-28.0
Non-monetary gold	14	234	111	-	9.9	-	-	1 571.4	-52.6
Miscellaneous	152	159	119	0.9	10.6	100.7	24.6	4.6	-25.1

Source: Central Bank of Uruguay.

^a Preliminary figures.

Table 11

URUGUAY: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983 ^a	1970	1983 ^a	1980	1981	1982	1983 ^a
Total	1 680	1 641	1 110	706	100.0	100.0	39.3	-2.3	-32.4	-36.4
Consumer goods	178	257	102	44	10.4	6.2	126.2	44.8	-60.2	-57.5
Foodstuffs and beverages	59	47	30	17	...	2.4	53.5	-19.4	-36.5	-44.9
Durables	86	166	42	11	...	1.6	300.5	94.2	-74.8	-73.8
Semi-durables	18	22	12	4	...	0.6	119.8	24.2	-44.8	-67.2
Others	16	22	18	12	...	1.7	44.4	38.5	-16.2	-33.7
Intermediate goods	1 227	1 141	853	586	64.9	83.1	28.7	-7.0	-25.2	-31.3
Petroleum	420	448	416	261	...	59.0	82.3	6.6	-7.1	-37.2
Fuels (distillates)	35	55	4	12	14.6	0.5	-41.7	59.1	-93.5	230.6
Parts and accessories of machinery and equipment	43	56	44	27	...	6.2	18.9	31.1	-22.1	-38.7
Basic foodstuffs and beverages	48	43	22	30	...	3.1	0.1	-10.9	-48.5	35.9
Parts and accessories for transport equipment	110	82	48	18	...	6.8	31.8	-25.7	-41.3	-62.4
Basic and processed industrial supplies	536	444	308	228	...	32.2	12.1	-17.2	-30.8	-26.0
Others	35	13	12	11	...	1.5	97.7	-62.1	-5.3	-12.9
Capital goods	276	243	154	76	24.7	21.9	58.3	-12.0	-36.4	-50.6
Machinery and equipment	202	182	92	67	...	9.5	43.8	-9.7	-49.4	-27.1
Transport equipment	74	60	62	9	...	1.2	118.7	-18.2	2.7	-85.8

Source: Central Bank of Uruguay.

^aPreliminary figures.

The value of external purchases of consumer goods contracted for the second year running. This time, the decline was approximately 60%, bringing it to a level similar to that recorded in 1978. As a result, the share of these goods in total Uruguayan imports dropped in 1983 from 16% to 6%. As in 1982, the drop in imports of durable consumer goods was particularly severe, after having been the most dynamic group in total imports in the period 1979-1981. From a value of less than US\$ 10 million in 1978 (1% of the total) they rose to US\$ 166 million in 1981 (10%) but contracted to only US\$ 11 million in 1983 (2% of total imports in the year). Imports of intermediate and capital goods also decreased considerably (by 31% and 51% respectively). In both instances this was the third consecutive annual contraction (in contrast, the high rate of increase in imports of consumer goods had continued in 1981), and it closely reflected the decline in global economic activity in 1982 and 1983. Between 1980 and 1983 imports of industrial inputs decreased by 58% while those of machinery and equipment fell by two-thirds in the same period. On the other hand, capital imports for the manufacturing sector declined by only 4% and accounted for 60% of the total in this import group. Significant increases were recorded in these imports in four industrial sectors: basic metal products (a fivefold increase), the paper and paperboard industry (threefold), bakeries (3.6 times) and sugar mills (2.4 times).

The composition of imports by areas of origin showed no appreciable change in the year as compared with 1982. The ALADI countries continued to be Uruguay's main supplying area (42%), although the shares of Argentina and Brazil within this group rose considerably to the detriment of the rest of the member countries. In this connection, a sharp drop was recorded in Uruguayan purchases of petroleum from Ecuador, Mexico and Venezuela.

b) *The balance-of-payments position and its financing*

Trade in goods and services showed a positive balance in 1983 for the first time in ten years. The surplus on merchandise trade increased significantly (by 93%) in comparison with 1982, while the services trade deficit contracted in real terms by 25% after increasing sevenfold in the previous year. The larger positive trade balance in goods was attributable to an abrupt drop in imports as a result of the severe process of economic contraction and the end-1982 devaluation. The contraction of imports was partly offset by a reduction in the value of exports. In the case of real services, the large deficit under the heading of travel continued and, although it went down by 30%, it again contrasted with the surplus traditionally obtained. On the other hand, trade in transport and insurance services showed only a very small negative balance (see table 12).

Two-fifths of the improvement in the trade balance was wiped out by higher net factor service payments. Net interest payments on the external debt, in particular, rose by 11% in 1983 after having expanded by 56% in 1982. The drop in interest received in 1983 on deposits of reserves abroad however, was greater than the increase in interest payments on the debt, whereas only the latter had represented a problem in 1982. Net interest payments, which in 1981 had been equivalent to 4% of the value of exports of goods and services, rose to 11% in 1982 and 23% in 1983. The negative current account balance thus diminished for the third consecutive year and stood at only US\$ 55 million (after having exceeded US\$ 700 million in 1980).

In so far as the capital account is concerned, there was a sharp increase in loans contracted abroad by the public sector (i.e., by the Central Bank—in order to alleviate the situation in the private banking system—the Mortgage Bank, and the central government). This increase came about as a result of the foreign debt refinancing negotiations. New private sector external indebtedness, on the other hand, decreased considerably, although the drop was insufficient to offset the larger external commitments of the public sector and, a positive balance was therefore recorded on the capital account. Nevertheless, this balance was equivalent to less than a quarter of the net average annual flow recorded in the 1977-1981 period.

c) *Evolution of the real exchange rate*

After the abandonment at the end of November 1982 of a stable exchange system—which had consisted of daily adjustments in the rate of exchange in accordance with a pre-established programme—official exchange policy underwent numerous changes. In the month referred to, and in accordance with a change in the global approach of economic policy, the Central Bank withdrew completely from the exchange market. This caused an immediate severe drop in the nominal parity of the peso (which, from a value of 14 to the dollar, rose to 33 by the year's end). Subsequently, in the first months of 1983, the Central Bank again intervened in the market by means of open market operations. Later—as from April—these operations were discontinued by the Central Bank, while the Banco de la República stepped up its participation in the exchange market. Finally, in November, the Central Bank adopted a number of measures designed to revive the "clean float" system, as a result of which the rate of devaluation in December reached 11.2% compared with an average monthly rate of 2.8% in the first eleven months of the year.

The devaluation process was nonetheless insufficient to prevent a decline in the effective real exchange rate throughout 1983. In terms of annual averages, however, that rate was appreciably higher (by 24%) than in the previous year,¹ since the big rise took place in December 1982 and thus had little effect on the average for the year. The index measuring the value of this variable recorded increases up to March, after which it contracted steadily (except in July) until November (see figure 2 and table 13).

d) *External indebtedness*

After rising at an average annual rate of 36% in the four preceding years, the country's external indebtedness increased by only 6% in 1983 (see table 14). As in 1982, this growth was due to a considerable increase in the public sector's external commitments, partly offset, as already mentioned, by a contraction in those of the private sector. As in previous years, the evolution of the

¹In terms of the effective real exchange rate for exports.

Table 12
URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-172	-133	-363	-716	-468	-235	-55
Trade balance	-106	-57	-309	-618	-397	-48	252
Exports of goods and services	809	913	1 194	1 526	1 701	1 537	1 382
Goods FOB	612	686	788	1 059	1 230	1 256	1 126
Real services ^b	197	227	406	468	471	281	256
Transport and insurance	36	44	72	89	92	81	73
Travel	117	137	268	298	283	106	96
Imports of goods and services	914	970	1 504	2 144	2 098	1 585	1 130
Goods FOB	687	710	1 166	1 668	1 592	1 038	706
Real services ^b	228	260	337	476	506	547	424
Transport and insurance	80	95	124	161	174	116	78
Travel	96	109	136	203	203	304	235
Factor services	-68	-77	-55	-100	-74	-197	-318
Profits	-2	-	-	-	-	-	-
Interest received	12	18	50	68	146	147	64
Interest paid	-77	-95	-108	-168	-220	-344	-382
Others	-	-	3	-	-	-	-
Unrequited private transfer payments	2	1	2	2	3	10	11
Balance on capital account	351	262	453	811	494	-182	111
Unrequited official transfer payments	5	6	6	7	7	-	...
Long-term capital	101	152	359	404	345	468	...
Direct investment (net)	66	129	216	289	49	-14	...
Portfolio investment (net)	21	-9	-31	-7	3	-7	...
Other long-term capital	14	32	174	122	294	488	...
Official sector ^c	-	38	154	108	246	419	...
Loans received	52	103	163	181	276	462	...
Amortization payments	-49	-57	-18	-66	-27	-39	...
Commercial banks ^c	-	-2	-3	5	-3	-5	...
Loans received	-	-	-	7	-	1	...
Amortization payments	-	-2	-2	-2	-2	-2	...
Other sectors ^c	13	-4	23	9	51	75	...
Loans received	36	53	41	26	65	107	...
Amortization payments	-23	-57	-18	-17	-14	-31	...
Short-term capital	203	-34	94	311	326	511	...
Official sector	16	-9	9	-23	-5	83	...
Commercial banks	74	-39	128	307	87	239	...
Other sectors	113	-7	-42	26	244	189	...
Errors and omissions, net	42	159	-5	90	-184	-1 161	...
Global balance ^d	179	129	91	95	26	-417	56
Total variation in reserves (minus sign indicates an increase)	-201	-183	-25	-174	-51	497	-56
Monetary gold	-1	-10	-46	-84	4	85	...
Special Drawing Rights	-6	-5	-20	1	-10	41	-2
IMF reserve position	-	-22	-	-13	1	33	-10
Foreign exchange assets	-140	-4	49	-50	-37	240	-122
Other assets	-28	-24	-9	-29	-9	3	...
Use made of IMF credit	-26	-119	-	-	-	96	142

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape), March 1984; 1983: ECLAC, on the basis of official data.

^aPreliminary figures.

^bReal services also include other official and private transactions, but exclude factor services.

^cIn addition

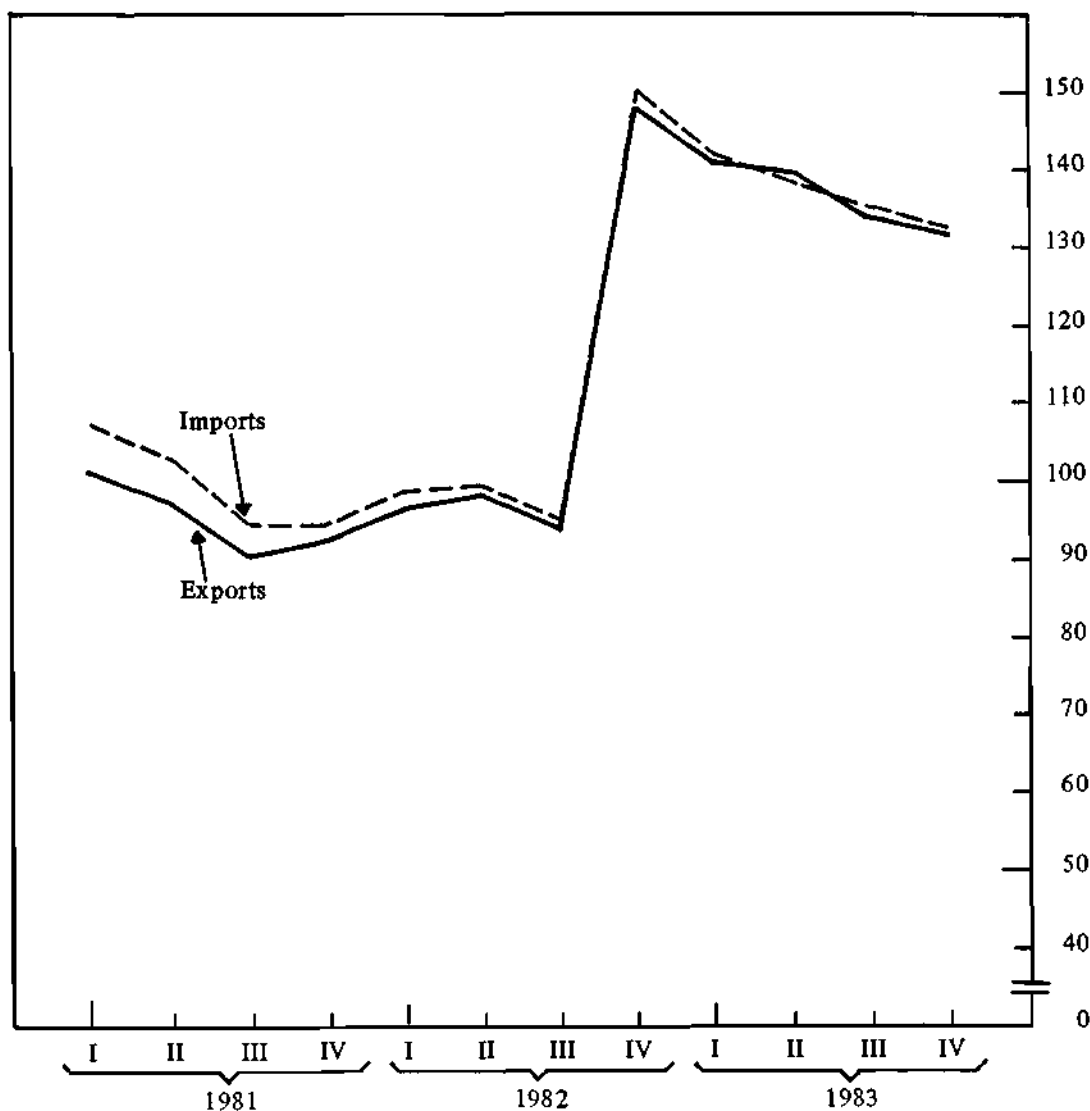
to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe global

balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

country's foreign indebtedness reflected the domestic situation and the turn of events in economic policy. In a first stage (1974-1976), the annual growth rate of the foreign debt had amounted to 16%, after a contraction of 7% in 1973. In that period, the external debt of the public sector, reflecting the preponderant role of the latter in the country's modest economic recovery, rose at an annual average rate of 21%. At the same time, the external debt of the private sector was going down by almost 2% per year, so that this sector's indebtedness dropped in that period from 25% of the national total in 1973 to only 15% in 1976. In 1977, however, this proportion began to rise rapidly, and continued to do so up to 1981. This second stage was marked by a more thorough-going liberalization of the economy, and in particular of the financial system. Big capital inflows were thus attracted, consisting mostly of deposits made in Uruguayan banks by Argentine nationals. Thus, deposits in private

Figure 2
**URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
 INDEXES FOR EXPORTS AND IMPORTS**
 (1980 = 100)



Source: ECLAC, on the basis of information supplied by the International Monetary Fund.

Table 13

URUGUAY: EVOLUTION OF NOMINAL AND EFFECTIVE REAL EXCHANGE RATE

(Averages per period)

	Official exchange rate (pesos per dollar)	Indexes of effective real exchange rate ^a		
		Exports	Imports	
			(1)	(2) ^b
1975	2.30	130.2	108.4	121.0
1976	3.40	136.5	117.6	132.4
1977	4.68	136.2	115.9	129.4
1978	6.06	133.8	112.0	127.5
1979	7.86	109.9	97.9	106.6
1980	9.10	100.0	100.0	100.0
1981	10.82	94.0	98.1	95.2
1982	13.91	110.1	111.5	110.0
1983	34.54	136.6	137.0	139.8
1981				
I	10.25	101.1	107.0	104.7
II	10.63	97.1	102.5	99.4
III	11.00	90.0	94.2	90.8
IV	11.40	92.0	94.0	92.1
1982				
I	11.80	95.9	98.1	97.1
II	12.25	97.8	99.1	98.5
III	12.87	94.1	95.0	93.4
IV	18.71	147.8	149.9	148.4
1983				
I	30.79	140.9	141.3	141.3
II	32.99	139.5	138.7	141.4
III	34.99	134.7	135.4	139.3
IV	39.40	132.0	132.6	136.7

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

^aRepresents the average of the real exchange rate indexes of the peso with respect to the currencies of Uruguay's main trading partners, weighted according to the relative importance of the exports to or imports from those countries. For further details of the method and sources employed, see the Statistical Appendix (Methodological Note) in the *Economic Survey of Latin America, 1981*. ^bExcluding the three main petroleum-exporting countries.

commercial banks, which accounted in 1976 for less than 7% of the country's external liabilities, rose by 1981 to the equivalent of 40%. Moreover, with the inclusion of supplier credits, private sector indebtedness grew almost tenfold in that period, while that of the public sector rose by only 50%. At the end of 1981, however, economic activity began to encounter severe difficulties closely related to the deterioration of the external indicators and unfavourable developments in neighbouring countries. Another factor was the greater difficulty of gaining access to international capital markets, which were indispensable for financing the heavy and growing current account deficit. Private sector indebtedness immediately began to contract in net terms (by 7% in 1982 and 15% in 1983), while the public sector made great efforts to take its place. These efforts were initially successful (the public debt rose by 85% in 1982 alone), but became increasingly difficult thereafter (public indebtedness expanded by only 18% in 1983, including the result of refinancing operations). The private sector debt, which had reached a level of 53% of total foreign indebtedness in 1981, thus fell to only 29% in 1983.

Debt-servicing costs rose at a very high rate, for the second successive year, reaching a value in excess of US\$ 570 million. This figure was equivalent to 42% of the 1983 exports of goods and services, after having amounted to 28% in 1982 and 16% in 1981.

The refinancing of the public sector external debt was completed in 1983. Earlier—in April—the International Monetary Fund had approved a two-year stand-by credit for 378 million Special Drawing Rights.² This agreement, concluded after 11 months of delays and amendments, was conditional on the undertaking in principle, on the part of the international private banks, to refinance the country's external public debt and provide new funds. The official agreement in this respect was signed at the end of July, when 90% of the country's short-term indebtedness was refinanced, together with the payments on the long-term debt falling due between March 1983 and December 1984. The total amount of this operation came to US\$ 693 million, of which four-fifths corresponded to the short-term debt. The terms of this transaction, also applicable to a new loan of US\$ 240 million, were for repayment over a period of 7 years with 2 years' grace, and interest at the rate of LIBOR plus 2.25%.

4. Prices and wages

a) *Prices*

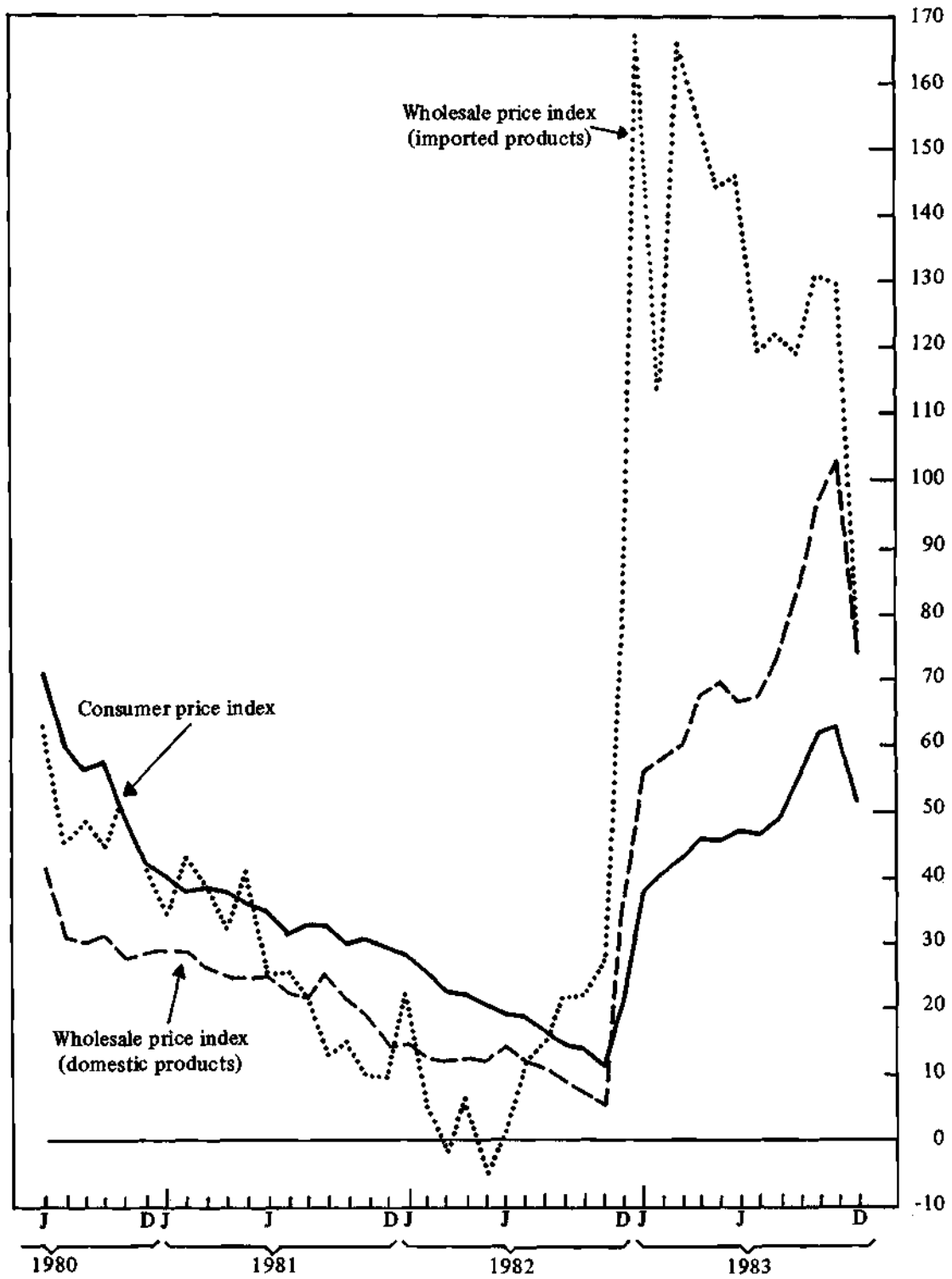
The rise of 52% in the consumer price index in 1983 marked the end of the downward trend in inflation registered in preceding years (see figure 3 and table 14). In a first phase the high rate of inflation of the period 1972-1975 (an average annual rate of 86%) was reduced to 56% in the following four years. In a second phase, in which the policy of delayed exchange-rate adjustments practiced since 1979 played an unquestionably significant part, the growth rate of consumer prices eased appreciably to an average annual rate of less than 31%, dropping from 83% in 1979 to 21% in 1982. Furthermore, the accumulated rate of inflation in the first 11 months of the latter year was only 11%. However, the inflow of foreign capital needed to compensate the current-account deterioration arising from that policy was less than expected, despite the policy of full openness of external financial operations, and the situation thus became extremely difficult at the end of 1982, when the Central Bank had to abandon the system of pre-established exchange rates and withdrew from the intervention in the exchange market. This brought about a rise of 100% in the rate of exchange in December and a 9% increase in prices in the same month (equivalent to five-sixths of that recorded throughout the rest of the year). In January 1983, the effect of the abrupt November devaluation was felt even more severely, with consumer prices rising in that month by more than 15%. Subsequent fluctuations of inflation were decidedly irregular, a rate of 4% or 5% being recorded in some months (February, April, September and October), in contrast with rates of almost zero in others (March and November). All components of the consumer price index evolved in a fairly similar way, with the exception of housing which rose at a much lower rate because rents were officially linked with past wage movements.

In contrast with the two preceding years, public service tariffs in 1983 were in most instances adjusted by considerably higher percentages than the rate of inflation, thus becoming yet another contributory cause of the latter. Tariff increases took place in particular in April (when inflation for the month reached 3.9%, after having amounted to 0.3% in March) and in September (when prices rose by 4.9% compared with 3.2% the month before). The reason for these increases was the need to reduce the growing public deficit by a direct attack on one of its fundamental causes (see table 16).

Wholesale prices in 1983 showed even higher increases than those of the consumer index. The causes were in general the same in both cases: as a result of the November 1982 devaluation, the wholesale price index for domestic products rose by 22% in December of that year and by 18% in January 1983, after having risen by only 9% in the first eleven months of 1982. In terms of the variation between annual averages, the rates of increase rose from 13% in 1982 to 74% in 1983 (see table 15). The biggest increase occurred in agricultural products, and in particular in the livestock-product group, owing to the considerable proportion of exportable products in these subdivisions and the logical consequences of devaluation. The latter also brought about a spectacular increase in the variation between annual averages of the wholesale price index for imported products, which rose eightfold between 1982 and 1983.

²Of this total, 94 million were supplied from the regular resources of the IMF and were loaned at an annual interest rate of 6.6%, with a repayment period of 7 years with 3 years of grace. The rest was obtained on loan from the IMF, repayable over 7 years with three years' grace and subject to payment of interest at the annual rate of 10.54%.

Figure 3
 URUGUAY: TWELVE-MONTH VARIATION IN DOMESTIC PRICES



Source: ECLAC, on the basis of official data.

b) *Wages*

There was a sharp deterioration in real wages in 1983 (see table 17). Contributory factors were the resurgence of inflation and a significant change in wage policy. After a general increase of 15% in public and private-sector wages in January — in accordance with the policy followed up to that time — the authorities announced that wages in the private sector would be established by free negotiation between employers and employees. The Government henceforth fixed only the minimum legal wage and public-sector remunerations. Comparing annual averages, nominal wages in the private sector rose in 1983 by less than one-fifth. This was the result of increases of 15% in January (already mentioned) and in September, with relative stagnation in the rest of the year. The real value of wages thus decreased by 20%, falling to only 57% of the level recorded in 1975. The situation in the Department of Montevideo was slightly worse than in the rest of the country. In the case of the public sector, the changes observed followed a similar trend; but the accumulated deterioration of wages over the last eight years (31%) was less than that of the private sector. Finally, rural wages evolved in a manner similar to those in urban areas, although their deterioration was less severe.

Table 14

URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars									
Total external debt	1 031	1 135	1 320	1 240	1 679	2 156	3 129	4 255	4 509
Of the public sector	861	962	1 028	910	1 008	1 182	1 464	2 705	3 198
Central Bank	...	...	...	...	164	145	162	673	1 177
Banco de la República	...	...	...	...	17	37	21	246	244
Mortgage Bank (Banco Hipotecario)	...	...	...	...	5	4	84	169	144
Non-financial public sector	...	...	...	...	822	996	1 197	1 617	1 632
Of the private sector	170	173	292	330	671	974	1 665	1 550	1 311
Suppliers	94	99	137	114	230	221	427	362	331
Commercial banks	76	74	155	216	440	752	1 237	1 188	980
Total service cost	295	229	171	343	166	271	279	428	574
Principal	228	150	93	248	58	105	59	84	192
Interest	67	79	77	95	108	166	220	344	382
Growth rates									
Total debt	8.0	10.1	16.3	-6.1	35.4	28.4	45.1	36.0	6.0
Of the public sector	17.3	11.7	6.9	-11.5	10.8	17.3	23.9	84.8	18.2
Of the private sector	-22.0	1.8	68.8	13.0	103.3	45.2	70.9	-6.9	-15.4
Total service cost	81.0	-22.4	-25.3	100.6	-51.6	63.3	3.0	53.4	34.1
Principal	82.4	-34.2	-38.0	166.7	-76.6	81.0	-43.8	42.4	128.6
Interest	76.3	17.9	-2.5	23.4	13.7	53.7	32.5	56.4	11.0
Percentages									
Public debt/total debt	83.5	84.8	77.9	73.4	60.2	54.8	46.8	63.6	70.9
Private debt/total debt	16.5	15.2	22.1	26.6	39.8	45.2	53.2	36.4	29.1
Service cost/exports of goods and services	14.7	32.9	21.1	37.6	13.9	17.8	16.4	27.8	41.5

Source: Central Bank of Uruguay.

^a Preliminary figures.

Table 15

URUGUAY: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1977	1978	1979	1980	1981	1982	1983
Variation between annual averages							
Consumer price index	58.2	44.5	66.8	63.5	34.0	19.0	49.2
Food	64.0	44.5	70.9	57.9	25.6	11.7	54.1
Clothing	46.8	39.6	72.5	52.3	23.3	9.8	50.7
Housing	59.3	54.7	58.9	77.8	51.9	30.9	34.3
Miscellaneous	52.4	37.6	64.5	65.6	35.9	21.3	59.4
Wholesale price index							
Domestic products	50.3	48.6	80.4	41.8	23.4	12.9	73.5
Agricultural products	52.1	78.0	102.6	18.7	9.8	7.6	89.2
Crop-farming products	35.5	81.5	58.8	49.9	14.0	12.4	84.9
Livestock products	65.9	75.7	133.5	3.8	6.9	4.1	92.5
Manufactured goods	49.8	40.2	72.4	51.6	28.0	14.4	69.3
Imported products	54.6	23.5	67.3	58.8	24.7	16.0	129.4
December to December variation							
Consumer price index	57.3	46.0	83.1	42.8	29.4	20.5	51.5
Food	59.5	48.4	86.0	33.5	25.2	13.3	59.7
Clothing	46.6	39.5	95.2	27.7	18.8	8.0	64.7
Housing	66.5	45.6	78.8	63.7	42.9	28.8	30.9
Miscellaneous	50.1	44.9	76.9	47.9	26.3	27.9	59.8
Wholesale price index							
Domestic products	44.8	59.6	77.1	28.6	14.9	33.5	73.8
Agricultural products	55.8	92.0	63.4	16.7	5.2	17.9	118.6
Crop-farming products	51.0	86.2	39.3	68.3	14.2	-5.5	111.1
Livestock products	59.1	95.6	78.0	-7.9	-2.7	41.9	123.8
Manufactured goods	41.7	49.3	82.7	32.9	18.1	37.9	62.9
Imported products	42.2	33.0	75.1	42.1	9.4	70.0	78.2

Source: Central Bank of Uruguay and Department of Statistics and Censuses.

5. Monetary and fiscal policy

a) *Monetary policy*

Until November 1982, the policy applied by the monetary authorities had, as its primary aim, the struggle against the severe inflationary process. An essential instrument in this direction was the progressive deterioration of the real exchange rate. It was hoped that the moderation of prices of internationally-tradeable goods, combined with their greater availability resulting from the liberalization of external trade, would succeed in checking the upward trend of domestic prices. For this policy to succeed, it was essential that the country's financial openness should attract considerable autonomous capital flows capable of compensating the balance-of-payments current account deficit. During 1979 and 1980 this scheme appeared to be working well, but in 1981 (and especially in 1982) the situation suffered a reversal: the inflow of foreign capital contracted in 1981 by 40% after having trebled in the preceding two years, and it actually became negative in 1982. Despite the reduction of the current account deficit in both years, it was not possible to prevent difficulties from arising in the sphere of international reserves. Thus, these reserves rose by only US\$ 26 million

in 1981 (only one-fifth of the average nominal increase recorded in the four preceding years), while they decreased by more than US\$ 400 million in 1982. Since the reserves form part of the monetary base, their evolution was a determining factor in the contraction of the latter in real terms: -19% in 1981 and -18% between January and November 1982. This became a factor of importance in the long term through its restrictive effects on liquidity after the severe recession of 1982. At the same time, conditions of access to international financial markets began to harden. The authorities therefore decided to abandon the anti-inflationary objective and concentrate their efforts on exercising direct control over the evolution of the money supply. It was hoped in this manner to secure an instrument serving both to direct the country's economic recovery and to restore equilibrium in its external accounts (by doing away with the unlimited availability of foreign exchange). However, after expanding by 8% in 1982 as a result of the end-year devaluation, the monetary base again contracted in 1983 (by 3%). Its evolution over the course of the year was extremely variable, since it recorded an annual growth rate of between 130% and 160% in January, March and July; a negative rate in February, April and August-November, and a growth rate of 270% in December.

Total liquidity and its components, after their high artificial rate of expansion in 1982 owing to the end-year devaluation, deteriorated considerably in real terms in 1983. Total real liquidity contracted by 25%, while the quantity of money and of quasi-money decreased by 29% and 25% respectively. Within the latter, the reduction of deposits held in foreign currency was relatively greater (see table 18).

As regards sources of liquidity, the real level of domestic credit fell, and the negative balance on the "other accounts" item increased sharply. This situation was partly mitigated by the increase in international reserves which came about as a result of the refinancing of the external debt, and by the sale of gold abroad.

Total net domestic credit (excluding the Mortgage Bank) diminished by almost a third in real terms in 1983. Credit received by the private sector contracted severely, aggravating the financial difficulties affecting enterprises and accentuating the recessive process. The effects of this contraction came on top of the negative evolution recorded in 1982. The real growth of 74% shown in table 19 is wholly artificial, and was due to the sharp end-1982 devaluation: up to October 1982 real credit to the private sector had contracted by 2%. The devaluation, on the other hand, brought about a sharp increase in the weight of foreign-currency indebtedness within the total corresponding to each

Table 16
URUGUAY: EVOLUTION OF PUBLIC SERVICE TARIFFS

	Nominal growth rates ^a						Real growth rates ^b					
	1978	1979	1980	1981	1982	1983	1978	1979	1980	1981	1982	1983
Electricity:												
Residential	32.0	55.5	60.6	15.5	21.5	74.7	-8.7	-6.8	-1.8	-13.8	2.1	17.1
Industrial and commercial	32.3	55.9	61.6	15.5	21.4	73.8	-8.4	-6.5	-1.2	-13.8	2.0	16.5
Water	32.9	41.0	67.5	35.8	18.3	50.4	-8.0	-15.5	2.4	1.3	-0.6	0.8
Gas	11.9	45.8	84.2	21.4	12.7	64.8	-22.6	-12.6	12.7	-9.4	-5.3	10.5
Gasoline:												
Regular	22.8	68.1	89.6	25.9	15.8	79.8	-15.0	0.8	16.0	-6.0	-2.7	20.5
Special	23.4	71.3	88.4	25.0	15.6	79.2	-14.6	2.7	15.2	6.7	-2.9	20.1
Diesel fuel	23.8	68.7	89.3	25.5	15.8	88.8	-14.3	1.1	15.8	-6.3	-2.7	26.5
Kerosene	24.4	68.3	89.4	25.7	15.6	80.7	-13.9	0.9	15.8	-6.2	-2.9	21.1
Rail transportation:												
Passengers	35.0	44.1	70.1	36.2	17.6	28.8	-6.6	-13.6	4.0	1.6	-1.2	-13.7
Freight	23.8	52.7	78.0	25.4	15.2	18.0	-14.3	-8.5	8.9	-6.4	-3.2	-20.9
Cattle	29.0	49.7	78.0	25.4	15.2	18.0	-10.7	-10.3	8.9	-6.4	-3.2	-20.9
Urban collective transport	47.7	58.3	58.2	40.7	24.7	60.6	2.2	-5.1	-3.2	5.0	4.8	7.6
Telephone	22.3	43.3	83.5	37.6	22.5	62.9	-15.4	-14.1	12.2	2.7	2.9	9.2

Source: Central Bank of Uruguay.

^aAnnual average variation.

^bAnnual average variation deflated by the annual average variation of the consumer price index.

Table 17

URUGUAY: EVOLUTION OF WAGES

(Variation between annual averages)

	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Nominal wages								
Urban wages ^b	42.0	39.0	39.6	52.6	64.4	43.6	18.3	18.3
Public sector	45.1	40.6	40.4	54.5	74.6	42.7	18.6	16.9
Private sector	39.4	37.6	38.9	50.8	54.6	44.6	17.8	20.0
In Montevideo	39.7	37.8	38.3	50.4	54.6	46.3	18.2	19.4
In rest of country	38.1	37.2	40.5	51.7	54.7	40.3	16.8	21.8
Rural wages	36.7	40.8	73.7	53.3	56.2	33.0	16.3	22.7
Real wages^c								
Urban wages	-5.7	-12.1	-3.4	-8.5	0.6	7.2	-0.6	-20.7
Public sector	-3.7	-11.1	-2.8	-7.4	6.8	6.5	-0.3	-21.6
Private sector	-7.4	-13.0	-3.9	-9.6	-5.4	7.9	-1.0	-19.6
In Montevideo	-7.2	-12.9	-4.3	-9.8	-5.4	9.2	-0.7	-20.0
In rest of country	-8.3	-13.3	-2.8	-9.1	-5.4	4.7	-1.8	-18.4
Rural wages	-9.2	-11.0	20.2	-8.1	-4.5	-0.7	-2.3	-17.8

Source: Central Bank of Uruguay and Department of Statistics and Censuses.

^aPreliminary figures. ^bCalculated on the basis of the minimum increases decreed by the Government up to October 1980, and of wages effectively paid thereafter. ^cDeflated by the consumer price index.

Table 18

URUGUAY: EVOLUTION OF MONETARY AGGREGATES

	Billions of pesos					Real growth rates				
	1979	1980	1981	1982	1983 ^a	1979	1980	1981	1982	1983 ^a
Total liquidity	19.9	34.3	52.2	91.6	103.7	4.3	20.7	17.6	45.6	-25.3
Sources:										
Net international reserves	8.0	9.8	14.4	-10.3	13.4	-28.5	-14.6	13.5		
Domestic credit	19.0	33.7	49.8	110.4	150.6	8.4	24.2	14.2	84.0	-10.0
Government (net)	0.8	1.2	2.3	15.9	25.9	-69.6	1.3	45.7	473.7	7.5
Public institutions	-0.8	-1.9	-0.7	-1.4	12.4					
Private sector	19.1	34.3	48.2	95.9	112.3	18.1	25.8	8.6	65.1	-22.7
Other accounts	-7.1	-9.2	-12.0	-8.5	-60.3					
Uses:										
Money	5.8	8.7	9.8	11.8	12.7	2.9	5.5	-13.1	0.1	-29.0
Currency outside banks	3.2	5.1	6.1	7.9	8.4	-3.9	12.1	-7.0	7.5	-29.8
Current account deposits	2.6	3.6	3.7	3.9	4.3	12.7	-2.5	-21.6	-12.5	-27.2
Quasi-money	14.1	25.6	42.4	79.8	91.0	4.9	27.1	28.0	56.2	-24.7
Time deposits in national currency	6.3	13.4	17.7	18.6	23.1	25.8	49.1	2.2	-12.8	-18.0
Deposits in foreign currency	7.8	12.2	24.7	61.2	67.9	-7.5	9.4	38.9	105.6	-26.8
Monetary base	5.5	7.9	8.2	10.7	15.7	-7.0	0.8	-19.3	8.0	-3.3
Monetary multipliers										
M ₁ /Monetary base ^b	1.06	1.11	1.19	1.10	0.81					
M ₂ /Monetary base ^c	3.64	4.34	6.35	8.56	6.62					

Source: Central Bank of Uruguay.

^aPreliminary figures.^bM₁ corresponds to money only.^cM₂ corresponds to money plus quasi-money, or total liquidity.

productive sector. For the private sector as a whole, this proportion rose from 48% in 1981 to 73% in 1982, declining marginally to 72% in 1983. The sectors with the highest foreign-currency indebtedness—representing four-fifths of their total debt—were manufacturing and construction, while in the case of livestock activity the proportion amounted to 55% (see table 20).

During 1983 the monetary authority found it necessary to refinance part of the above debts. Thus, by June, commitments amounting to US\$ 750 million had been rephased with resources provided by the Central Bank (US\$ 200 million), the Banco de la República (US\$ 150 million) and the private banking system. This operation covered 40% of the debt contracted in foreign currency by the productive sectors, and 23% of that incurred in national currency.

Credit to the public sector continued to expand rapidly, since the Government, in progressively assuming a more direct role in the operation of the economy in response to the various difficulties affecting it in recent years, needed a greater supply of resources. Thus, from representing only 1% of net domestic credit to the private and public sectors, credit to the public sector rose to 26% in 1983 (see table 19). Strongly influencing this development was the fact that the monetary authority undertook the role of principal lender of the refinanced external debt, as a result of which its assets against the public sector expanded considerably.

The delicate position of the private productive sector gave rise to a comparable situation in the case of the banking system. A number of measures were consequently instituted to relieve the situation. Firstly, the date on which the banks must reduce their capital by the amount of their uncollectable debts was postponed from 1 June 1983 to 1 January 1984. This gave them more time to reinstate their capital, in the event that it had fallen below established limits. Secondly, in view of the lack of bank liquidity, the Central Bank decreed that the basis for calculation of legal bank reserves would be the value of deposits held at the end of 1982, and granted five-day periods of grace to enable the banks to reconstitute their legal reserve levels and thereby avoid incurring penalties. At the same time, the Central Bank lifted the legal reserve requirement on inter-bank deposits of a duration of more than ten days. The Central Bank also offered funds directly to the banks at a rate of interest of 110% in order to reduce inter-bank interest rates, which had reached levels of 130%. Finally, in August, two banks were officially intervened (Pemar Sudamérica and, under less strict conditions, Investbanca).

Table 19

URUGUAY: EVOLUTION OF NET DOMESTIC CREDIT

	Millions of pesos			Percentage breakdown ^b				Growth rates		
	1981	1982	1983 ^c	1980	1981	1982	1983 ^c	1981	1982	1983 ^c
Central Bank, Banco de la República and private banks										
Net credit to public and private sectors	49 630	116 152	152 704	100.0	100.0	100.0	100.0	10.9	94.2	-13.2
To public sector	2 034	16 345	39 783	1.3	4.1	14.1	26.1	254.0	566.9	60.7
Central government	2 066	14 891	24 514	2.3	4.2	12.8	16.1	133.8	498.1	8.7
Rest of public sector	-32	1 454	15 269	-0.7	-0.1	1.3	10.0			593.2
To private sector	47 596	99 807	112 921	98.7	95.9	85.9	73.9	7.7	74.0	-25.3
In national currency	24 724	26 221	30 427	53.7	49.8	22.6	19.9	2.8	-12.0	-23.4
In foreign currency	22 871	73 585	82 493	45.0	46.1	63.4	54.0	13.6	167.0	-26.0
Other accounts ^c	-11 991	-34 545	-68 943							
Total net credit	37 639	81 607	83 761					11.1	78.7	-32.3
Mortgage Bank										
Net credit to public and private sectors	10 353	15 229	22 418	100.0	100.0	100.0	100.0	33.7	22.1	-2.8
To public sector	510	835	1 302	4.7	4.9	5.5	5.8	39.8	35.9	2.9
To private sector	9 843	14 394	21 116	95.3	95.1	94.5	94.2	33.4	21.4	-3.2
Other accounts ^c	-3 243	-1 399	-11 018							
Total net credit	7 110	13 830	11 400					24.2	61.4	-45.6

Source: Central Bank of Uruguay.

^aPreliminary figures.

^bExcluding "other accounts".

^cIncluding net inter-bank fees.

Table 20

URUGUAY: PRIVATE BANK CREDIT TO THE RESIDENT
PRIVATE SECTOR

	Millions of pesos			Percentage breakdown ^b				Growth rates		
	1981	1982	1983 ^a	1980	1981	1982	1983 ^a	1981	1982	1983 ^a
Crop farming										
Total	971	1 414	948	2.8	2.8	2.2	1.7	7.5	20.8	-55.7
In national currency	494	531	302	(52.3)	(50.9)	(37.6)	(31.9)	4.6	-10.8	-62.5
In foreign currency	477	883	646	(47.7)	(49.1)	(62.4)	(68.1)	10.7	53.6	-51.7
Livestock-raising										
Total	6 948	10 899	10 277	22.5	20.2	17.2	18.5	-3.6	30.2	-37.8
In national currency	5 073	5 210	4 622	(82.4)	(73.0)	(47.8)	(45.0)	-14.6	-14.8	-41.4
In foreign currency	1 875	5 689	5 655	(17.6)	(27.0)	(52.2)	(55.0)	47.9	151.8	-34.4
Manufacturing										
Total	10 967	22 133	21 786	34.8	31.8	35.0	39.2	-1.6	67.5	-35.0
In national currency	4 454	3 604	4 126	(43.7)	(40.6)	(16.2)	(18.9)	-8.7	-32.8	-24.4
In foreign currency	6 513	18 529	17 660	(56.3)	(59.4)	(83.7)	(81.1)	3.9	136.1	-37.1
Construction										
Total	1 211	2 525	2 441	3.5	3.5	4.0	4.4	7.6	73.0	-36.2
In national currency	505	513	451	(47.4)	(41.7)	(20.3)	(18.5)	-5.3	-15.7	-42.0
In foreign currency	706	2 012	1 990	(52.6)	(58.3)	(79.7)	(81.5)	19.1	136.5	-34.7
Commerce										
Total	7 385	13 901	11 621	20.7	21.4	22.0	20.9	11.5	56.2	-44.8
In national currency	3 576	3 185	2 998	(49.5)	(48.4)	(22.9)	(25.8)	9.2	-26.1	-37.9
In foreign currency	3 809	10 716	8 623	(50.5)	(51.6)	(77.1)	(74.2)	13.8	133.5	-46.9
Services										
Total	2 943	6 452	4 915	7.5	8.5	10.2	8.9	23.0	81.9	-49.7
In national currency	1 368	1 533	1 264	(57.5)	(46.5)	(23.8)	(25.7)	-0.5	-7.0	-45.6
In foreign currency	1 575	4 919	3 651	(42.5)	(53.5)	(76.2)	(74.3)	54.9	159.2	-51.0
Consumption										
Total	4 020	5 961	3 522	8.1	11.7	9.4	6.3	55.1	23.1	-61.0
In national currency	2 573	2 554	1 664	(56.8)	(64.0)	(42.8)	(47.2)	74.9	-17.6	-57.0
In foreign currency	1 447	3 407	1 858	(43.2)	(36.0)	(57.2)	(52.8)	29.1	95.4	-64.0
Total private bank credit to the private sector										
Total	34 444	63 285	55 510	100.0	100.0	100.0	100.0	7.7	52.5	-42.1
In national currency	18 043	17 129	15 428	(56.1)	(52.4)	(27.1)	(27.8)	0.6	-21.2	-40.5
In foreign currency	16 401	46 156	40 082	(43.9)	(47.6)	(72.9)	(72.2)	16.8	133.5	-42.7

Source: Central Bank of Uruguay.

^a Preliminary figures. ^b These columns show for each productive sector, the percentage of total private bank credit to the private sector received by it and, in figures between brackets, its composition as between national and foreign currency.

Bank interest rates for operations in national currency continued at high positive values in real terms, although at the end of the year these rates were equivalent to only half those ruling in the second half of 1982 (see table 21). The effects of this high cost of credit were thus added to the scarcity of lendable funds already referred to. Furthermore, the real interest rates on national currency deposits continued to be higher than the interest paid on foreign-currency deposits (this having been the case since the last quarter of 1980). Combined with uncertainty throughout 1983 concerning the exchange rate policy, and in the light of the low monthly rates of devaluation, the above circumstances brought about a considerable increase in peso deposits. Although these contracted in real terms, they did so at a lower rate than deposits in foreign currency (see table 18).

b) *Fiscal policy*

After the marked deterioration of the fiscal accounts in 1982 —when an unprecedented deficit equivalent to 8.6% of the gross domestic product was recorded— the situation improved in 1983. The fiscal deficit dropped to less than half in real terms and was equivalent to 4% of the gross domestic product (see table 22).

This result was mainly due to the programme of austerity in public expenditure. A sharp contraction (-23%) was thus recorded in investment expenditure, in contrast with the expansion of 20% in the preceding years, while current expenses shrank by 19% after the rapid growth of 45% registered in the same three-year period. The reduction in current expenses would have been greater had it not been for the rapid growth of public debt interest payments, which rose by 85% in real terms after having increased by 67% in the previous year. Thus, over a period of two years, the payments in question rose from 2% to 7% of total current expenditure. This increment was due to servicing costs on Treasury bills issued in foreign currency, which were used as a source of finance for the fiscal deficit. Expenditure on wages and social security contributions (which accounts for three-quarters of current fiscal outlays) fell sharply, as did that incurred in the purchase of goods and services.

The Government managed to avoid a severe contraction of income in the year under review. After a reduction of 23% in real terms in 1982, revenues rose marginally in 1983, by 1%. Although the collection of taxes of domestic origin declined by 7% (after dropping by 22% in 1982), proceeds from dues levied on foreign trade recovered appreciably, expanding by 15% after successive contractions of 13% and 30% in the two preceding years. The basic cause of growth in the latter instance was the reintroduction of export retentions under the terms of Law 15360 enacted at the end of 1982. Income under this heading represented almost 7% of fiscal revenues in 1983, whereas no income was obtained from this source in 1982. The devaluation, moreover, avoided a greater drop than that recorded in revenue from import dues, owing to the higher taxable base in national currency terms. Prominent in the sphere of domestic taxes was an increase of 21% in real terms in revenue from fuel taxes, income from this source having been strongly influenced by the adjustment of selling prices owing to the new exchange rate conditions (see table 16).

Table 21

URUGUAY: BANK INTEREST RATES^a

	Operations in national currency				Operations in foreign currency	
	Loans ^b		Deposits ^d		Loans ^b	Deposits ^d
	Nominal	Real ^c	Nominal	Real ^c		
1976	62.0	15.8	30.2	-6.9	12.0	7.4
1977	76.6	12.3	51.4	-3.8	13.8	7.5
1978	71.2	17.3	42.6	-2.3	14.2	8.0
1979	68.1	-8.2	50.6	-17.7	16.8	11.9
1980	65.1	15.6	50.3	5.3	18.5	14.6
1981						
I	63.7	18.0	46.0	5.3	18.4	12.5
II	57.4	16.8	43.3	6.3	19.9	15.5
III	58.6	19.5	45.8	9.9	20.1	16.6
IV	59.8	23.5	47.4	13.9	18.4	13.1
1982						
I	49.0	21.8	42.5	16.5	18.7	13.9
II	54.8	30.2	47.6	24.1	20.0	14.5
III	65.9	44.6	56.8	36.7	18.8	11.1
IV	76.3	46.3	66.2	37.9	18.2	10.2
1983						
I	105.5	43.8	80.8	26.5	17.6	10.3
II	102.0	37.2	66.6	13.2	16.8	9.8
III	85.0	19.3	65.2	6.5	17.0	9.8
IV	85.0	22.1	67.8	10.8	17.2	9.8

Source: Central Bank of Uruguay.

^aAverage of the most frequent interest rates of the five most representative institutions in each case, for fixed-term operations up to six months. ^bNormal rates at the end of the last month of the period considered. ^cNominal rates deflated by the accumulated 12-month variation in the consumer price index. ^dMost frequent normal rates contracted in the last three days of the final month of the period considered.

Table 22

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
1. Current income	14 955	21 260	19 552	29 486	8.5	6.1	-22.7	1.1
Internal taxes ^b	11 015	14 915	13 798	19 123	14.1	1.0	-22.3	-7.1
On production and consumption	9 287	13 514	12 758	16 753	8.8	8.6	-20.7	-12.0
Value added	5 676	8 515	7 971	9 718	26.2	12.0	-21.3	-18.3
Fuels	1 661	2 117	1 997	3 609	4.4	-4.9	-20.7	21.1
Tobacco	912	1 251	1 535	2 046	21.5	2.4	3.1	-10.7
Others	1 038	1 631	1 255	1 380	-38.8	17.3	-35.3	-26.3
On income	2 363	2 427	2 028	3 147	39.2	-23.3	-29.8	4.0
Net income in industry and commerce	1 744	2 284	1 991	2 986	37.5	-2.3	-26.7	0.5
Others	619	143	37	161	44.5	-82.8	-78.3	191.6
On net worth	725	1 094	1 293	2 074	57.2	12.6	-0.7	7.5
Other taxes	116	116	134	113	-12.4	-25.4	-2.9	-43.5
Less: documents received	-1 475	-2 236	-2 414	-2 964				
Taxes on foreign trade	2 753	3 199	2 669	4 582	5.4	-13.2	-29.9	15.1
Import surcharges	2 212	2 567	2 281	2 357	12.7	-13.4	-25.3	-30.7
Customs dues	536	630	388	274	-13.7	12.2	-48.2	-52.7
Drawbacks and retentions	6	3	-	1 951	-79.6	-62.7	-100.0	
Other income ^c	1 187	3 146	3 085	5 781	-21.3	97.8	-17.6	25.6
2. Current expenditure	13 081	18 817	27 503	33 159	10.2	7.4	22.8	-19.2
Remunerations	5 980	8 800	21 573	24 522	11.4	9.8	32.7	-23.8
Social security contributions	3 464	4 866			89.7	4.8		
Goods and services	2 466	3 766	3 526	4 112	8.0	14.0	-21.3	-21.8
Transfers ^d	794	886	1 482	2 146	-54.0	-16.7	40.6	-2.9
Interest on public debt	326	407	810	2 236	-44.6	-6.8	67.2	85.0
Allocated income	51	92	112	143	-36.2	34.6	2.3	-14.4
3. Current saving (1-2)	1 874	2 443	-7 951	-3 673	-1.4	-2.7		
4. Investments	1 799	2 559	3 258	3 738	5.8	6.2	7.0	-23.1
5. Total expenditure (2 + 4)	14 880	21 377	30 761	36 897	9.6	7.2	20.9	-19.6
6. Fiscal deficit or surplus (1-5)	75	-117	-11 210	-7 411			7 951.4 ^e	-55.7
7. Financing	-75	117	11 210	7 411			7 951.4	-55.7
Domestic	-14	212	11 410	7 854			4 422.8	-53.9
Central Bank credit ^f	-97	511	7 983	5 680			1 212.8	-52.3
Banco de la República credit	-71	-115	931	85				-93.9
Exchange differences	12	12	110	-42		-25.4	670.3	
Bond sales	-56	57	140	-639			106.4	
Net sales of bills	-162	-	1 543	2 198				-4.5
Other net sources	360	-253	703	572				-45.5
External	-61	-95	-200	-443				

Source: Up to 1981: Office of the Accountant-General. As from 1982: combined figures prepared by the National Treasury and the Office of the Accountant-General. The breakdown of internal taxes has been provided by the General Tax Department.

^aPreliminary figures. ^bCorresponds to tax collection: the difference with respect to information on total cash is shown under other income. ^cIncluding consular fees, other National Treasury receipts, allocated income, National Investment Fund, National Energy Fund, and difference between cash balances and tax collection information. ^dIncludes subsidies, advances and National Housing Fund. ^eReal growth rate of the deficit. ^fFor 1980, excludes financing for payment of the 200 million pesos wheat debt, assigned to the 1979 financial year.

The financing structure of the deficit was similar to that of the preceding year: three-quarters came from Central Bank funds and 30% from the net proceeds of the sale of Treasury bills, the latter mechanism being employed for the first time on this occasion. Credit received from the Banco de la República, on the other hand, decreased from the equivalent of 8% of the deficit in 1982 to only 1% in 1983. The other main difference was the evolution of net proceeds from the sale of bonds. Foreign financing, for its part, was negative, as had been the case in all recent years (see table 22).

VENEZUELA

1. Recent economic trends: Introduction and summary

For the economy of Venezuela the year 1983 represented both a culmination of trends observed in the preceding year and a radical change in some basic features. Thus, for example, the aggravation of pressures that had been building up since the end of 1981 on the external front made it necessary to modify the foreign-exchange system. The abandonment after almost 20 years of a fixed single exchange parity and of an exchange system totally devoid of quantitative restrictions and their replacement by a multiple exchange-rate system and a controlled foreign-currency market represented the initiation of a first phase in an abrupt and difficult adjustment process.

This measure contributed to the correction of the main external imbalances, since both the trade and the current accounts again showed positive results after the large deficits recorded in 1982 (see table 1 and figure 1). These results, however, were primarily due to a drastic drop of 52% in imports and the postponement of service payments on the external debt. Exports, for their part, continued to face unfavourable conditions and contracted by 15%. At the same time, the capital account again closed with a considerable deficit (US\$ 2 900 million), so that the slight increase of close on US\$ 470 million in the country's international reserves at the end of the period fell substantially short of compensating their contraction in the preceding year by more than US\$ 7 600 million.

In contrast with previous years, domestic economic activity failed to make up for the negative results in the external sector, and the gross domestic product therefore declined by 3% —its largest contraction in the entire period since the war. The per capita product, for its part, fell for the sixth consecutive year, so that it stood at a level 20% below that of 1977. At the same time, largely owing to the unusually high open unemployment rate (10%), average family income dropped to an even greater extent (see table 1).

This reduction in income levels helped to some extent to offset the effects of a 30% expansion in the money supply, with the result that the rate of inflation continued to decline for the fourth successive year. Similarly, the reduction of 9% in government expenditure contributed to a slight alleviation of the fiscal deficit, which thus sank to a level equivalent to less than 1% of the gross domestic product.

2. Trends in economic activity

a) *Total supply and demand*

The total supply of goods and services decreased by nearly 17% in 1983 as a consequence of unusually large contractions in both domestic activity and imports. As already noted, the gross domestic product registered the largest contraction since the war, decreasing by 3% in real terms to a level below that recorded in 1978. At the same time, external purchases decreased by more than 52%, so that the import coefficient —which during almost the whole of the preceding decade had shown a vigorous upward trend— fell from 35% in 1982 to less than 19% in 1983—a level equivalent to that of 1970 (see table 2).

Among the components of demand, investment was the most adversely affected. While gross fixed investment dropped by nearly 32%, stock levels declined by an amount equivalent to nearly 3% of total demand. Gross domestic investment consequently decreased by 49% to a level equivalent to only 17% of the gross domestic product —the lowest such proportion in the past 13 years (see table 3).

At the same time, substantial changes took place in the sources of investment. In the first place, the inflow of external resources showed a substantially negative balance, equivalent to more than 7% of the gross domestic product and to almost half the level of gross domestic investment. Domestic savings, on the other hand, whose participation in investment financing had shown a marked decline in 1981 and 1982, again contributed to an extent closer to that recorded in the second half of the 1970s (36%), but they were equivalent to only 6% of the gross domestic product—a level only slightly above that of net external factor payments. Domestic investment financing in 1983 consequently relied primarily on the terms-of-trade effect, although this was lower in relation to the gross domestic product (see table 3).

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of 1970 dollars)	19 817	20 081	19 682	19 623	19 757	19 164
Population (millions of inhabitants)	14.1	14.6	15.0	15.5	15.9	16.4
Per capita gross domestic product (in 1970 dollars)	1 408	1 380	1 310	1 267	1 239	1 169
Growth rates						
B. Short-run economic indicators						
Gross domestic product	2.1	1.3	-2.0	-0.3	0.7	-3.0
Per capita gross domestic product	-1.4	-2.0	-5.1	-3.3	-2.2	-5.7
Gross income ^b	-4.0	19.9	27.5	-1.6	-3.3	-5.2
Terms of trade (goods and services)	-10.2	29.6	27.1	-0.8	0.1	-7.4
Current value of exports of goods and services	-3.6	52.6	33.5	4.9	-16.1	-15.1
Current value of imports of goods and services	15.4	-6.4	6.5	13.1	14.8	-53.7
Consumer prices ^c						
December-December	7.0	20.5	19.6	10.8	7.7	7.1
Variation between annual averages	7.1	12.3	21.6	16.1	9.9	6.3
Money	21.0	6.7	13.7	7.1	-8.3	31.1
Wages and salaries ^d	9.5	2.2	-1.3	-5.4	-5.6	-6.2 ^e
Unemployment rate ^f	4.7	5.4	5.9	6.2	7.1	9.8 ^e
Current government income	-6.2	24.8	25.4	47.8	-15.6	-8.2
Total government expenditure	2.0	-3.5	43.0	31.9	-1.8	-9.2
Fiscal deficit/total government expenditure ^f	7.5	-	0.8	-	4.4	3.4
Fiscal deficit/gross domestic product ^f	1.9	-	0.2	-	1.2	0.9
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-5 366	760	4 839	3 835	-2 077	5 819
Balance on current account	-5 699	370	4 749	4 026	-4 222	3 532
Balance on capital account	4 635	3 729	-985	-4 047	-3 930	-2 866
Variation in net international reserves	-1 324	4 121	4 184	1 100	-7 635	473
External debt ^g	16 383	23 071	26 509	28 377	30 479	33 500

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect. ^cCost-of-living index for the Caracas metropolitan area. ^dAverage family income, deflated by the cost-of-living index for the Caracas Metropolitan area. ^eFirst half of year. ^fPercentage. ^gIncluding the public debt plus the non-guaranteed short- and long-term debt owed to financial institutions reporting to the Bank for International Settlements.

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1981	1982	1983 ^a	1970	1983 ^a	1981	1982	1983 ^a
Total supply	26 036	27 289	22 770	117.0	118.8	0.2	4.8	-16.6
Gross domestic product at market prices	19 623	19 757	19 164	100.0	100.0	-0.3	0.7	-3.0
Imports of goods and services ^b	6 413	7 532	3 606	17.0	18.8	1.7	17.5	-52.1
Total demand	26 036	27 289	22 770	117.0	118.7	0.2	4.8	-16.6
Domestic demand	24 217	25 612	21 205	95.8	110.7	0.7	5.8	-17.2
Gross domestic investment	5 726	6 314	3 208	30.1	16.6	-1.4	10.3	-49.2
Gross fixed investment	6 109	5 881	4 013	22.1	20.8	3.0	-3.7	-31.8
Public	3 711	4 066	...	5.2	...	27.1	9.6	...
Private	2 398	1 815	...	16.9	...	-20.4	-24.3	...
Construction	3 044	2 790	...	12.8	...	-3.6	-8.3	...
Machinery and equipment	3 065	3 091	...	9.3	...	10.6	0.8	...
Changes in stocks	-383	433	-805	8.0	-4.2			
Total consumption	18 491	19 298	17 997	65.7	94.1	1.3	4.4	-6.7
General government	3 710	3 675	3 326	12.7	17.3	5.5	-1.0	-9.5
Private	14 781	15 623	14 671	53.0	76.8	0.3	5.7	-6.1
Exports of goods and services ^b	1 819	1 677	1 565	21.2	8.1	-5.7	-7.8	-6.7

Source: ECLAC, on the basis of official data from the Central Bank of Venezuela.

^aPreliminary figures. ^bThe figures for imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current values, which were converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

Table 3

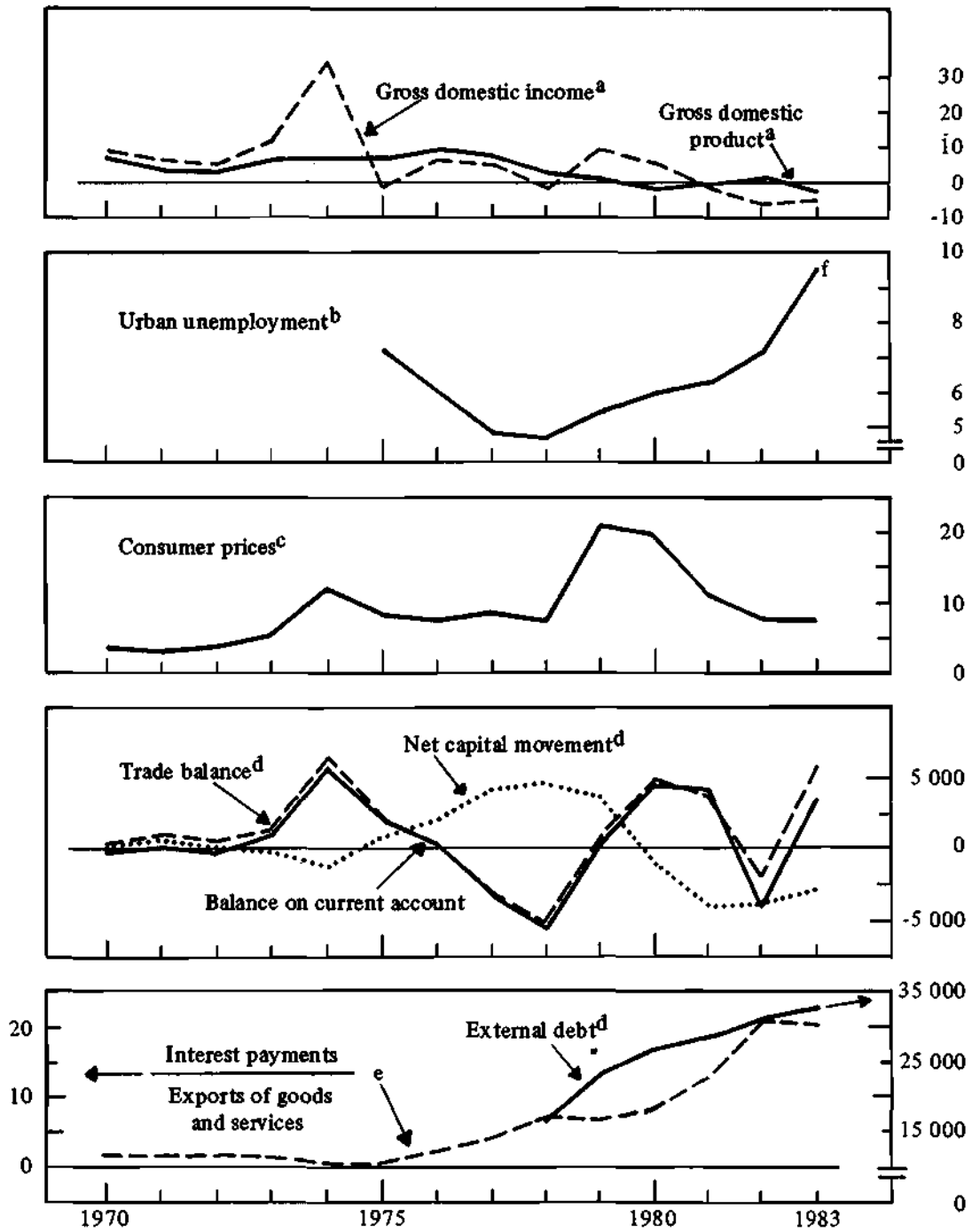
VENEZUELA: FINANCING OF GROSS DOMESTIC INVESTMENT

	Average 1976-1980	1981	1982	1983 ^a
Percentage of gross domestic investment^b				
1. Gross domestic investment	100.0	100.0	100.0	100.0
2. Gross national savings (a + b + c)	93.8	126.4	74.3	143.7
a) Gross domestic saving	36.0	19.8	7.3	36.4
b) Net external factor payments ^c	-1.2	-1.3	-13.0	-28.3
c) Terms-of-trade effect	59.0	105.3	80.1	135.6
3. External savings	6.2	-26.4	25.7	-43.7
As percentages of gross domestic product				
1. Gross domestic investment	38.6	29.2	32.0	16.7
2. Gross national savings (a + b + c)	36.2	36.9	23.8	24.1
a) Gross domestic savings	13.9	5.8	2.3	6.1
b) Net external factor payments ^c	0.5	0.4	4.2	4.7
c) Terms-of-trade effect	22.7	30.7	25.6	22.7
3. External savings	2.4	-7.7	8.2	-7.3

Source: ECLAC, on the basis of official statistics.

^aPreliminary figures. ^bThe original information is shown in constant values, identical with those of table 2. ^cIncludes unrequited private transfers.

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate for whole country. ^cPercentage variation, December - December, in the Caracas metropolitan area. ^dMillions of dollars. ^ePercentages. ^fFirst half of year.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1981	1982	1983 ^a	1970	1983 ^a	1981	1982	1983 ^a
Gross domestic product^b	18 553	18 680	18 119	100.0	100.0	-0.3	0.7	-3.0
Goods	7 037	6 964	6 723	46.2	34.1	-2.3	-1.0	-3.5
Agriculture	1 253	1 298	1 307	7.6	6.6	-1.9	3.6	0.7
Petroleum	1 563	1 449	1 410	21.1	7.1	-3.4	-7.3	-2.7
Extraction	1 265	1 145	1 086	17.3	5.5	-2.7	-9.5	-5.1
Refining	298	304	324	3.8	1.6	-6.4	2.1	6.6
Mining (excluding petroleum)	167	139	125	1.4	0.6	-1.4	-16.6	-10.1
Manufacturing ^c	2 884	3 007	2 925	11.9	14.8	-2.0	4.3	-2.7
Construction	1 170	1 071	956	4.2	4.8	-2.1	-8.4	-10.8
Basic services	3 196	3 355	...	12.6	...	5.5	5.0	...
Electricity, gas and water	549	616	684	1.7	3.5	15.7	12.3	11.0
Transport, storage and communications	2 647	2 739	...	10.9	...	3.6	3.5	...
Other services	10 087	9 931	...	43.4	...	0.4	-1.5	...
Commerce	1 707	1 751	1 709	11.0	8.7	-2.6	2.6	-2.4
Financial institutions, insurance, real estate, and business services	3 877	3 763	...	15.1	...	1.8	-2.9	...
Ownership of dwellings ^d	2 365	2 452	...	12.9	...	3.0	3.7	...
Community, social and personal services	4 503	4 417	...	17.3	...	0.5	-1.9	...
Government services	3 036	3 038	...	11.7	...	0.8	0.7	...
Less: imputed commission for bank services	147	127	...	2.2	...	19.3	-13.8	...

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Venezuela.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cExcludes petroleum refining.

^dRefers to real estate and business services.

The other two components of final demand — exports and consumption — showed less pronounced declines (-7%). While the contraction of consumption was the first recorded in the past 25 years, that of exports marked the continuation of the declines of the three preceding years. The volume of external sales of goods and services was thus 20% lower in 1983 than in 1979 (see table 2).

b) Evolution of the main sectors

Although exact details are not available, it seems reasonable to assume that the contraction of economic activity in 1983 affected the production of goods more than that of services. The construction sector was especially hard hit, since its product fell by almost 11% and thus stood, after five consecutive years of contraction, at a level barely 60% of that recorded in 1979. The increase of 7% in petroleum refining activity, for its part, failed to make up for the decline of 5% in oil extraction (see table 4).

i) *Agriculture.* Agricultural output virtually stagnated in 1983, since it increased by only 0.7%. This small increment was due to the increase of almost 3% in the livestock sector, which more than offset the drop of 3.6% in crop-farming production. Fishing and forestry also showed declines in their levels of activity, though without appreciably affecting global results in the sector owing to their modest relative weight (see table 5).

The production of most crops diminished in 1983, but the most marked declines occurred in the harvests of cereals. The output of maize fell by 14%, and that of rice and sorghum went down by about a quarter (-24% and -26% respectively). Credit restrictions were a decisive factor in this decline, since producers of cereals—who customarily absorb approximately half of the credit allocated to agriculture—received loans that were 20% lower than in 1982.¹

The volume of the sugar cane harvest also declined (by nearly 5%). This sector continued to be in a precarious financial situation due to the failure of the public sugar-refining enterprise (CERAZUCA) to pay its extremely high debts to producers.

On the other hand, the production of some other crops rose, representing in most instances a recovery from declines caused in the preceding year by adverse weather conditions. This was particularly so in the case of tropical export crops (coffee and cocoa), where the volumes harvested increased by 4% and 8% respectively (see table 5). Although the production of both these crops continued to be lower than in 1975, the financial results of these activities improved in 1983 because they received the benefit of the new higher exchange rate applicable to exports.

Table 5
VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983 ^a	Growth rates		
						1981	1982	1983 ^a
1. Index of agricultural production^b								
Crop farming	100	112	107	109	105	-5.2	2.6	-3.6
Stock-raising	100	121	124	129	133	2.7	4.2	2.8
Forestry	100	47	47	47	46	-	-	-2.6
Fisheries	100	125	110	117	116	-12.4	7.1	-1.7
2. Production of main crops^c								
For export								
Cocoa	20	13	14	13	14	12.9	-9.7	7.5
Coffee	65	58	64	59	61	9.2	-7.8	4.4
For domestic consumption								
Rice	363	656	681	670	509	3.8	-1.6	-24.1
Maize	653	519	452	501	429	-12.9	10.8	-14.3
Sorghum	70	403	347	377	280	-13.9	8.9	-25.7
Beans	25	23	18	18	19	-19.5	0.6	1.3
Sesame seed	65	57	45	53	51	-20.4	15.4	-2.3
Oranges	266	351	368	372	384	4.9	1.1	3.2
Tomatoes	101	150	126	146	130	-16.3	16.1	-10.9
Sugar cane	5 486	4 987	4 531	4 968	4 724	-9.1	9.6	-4.9
3. Indicators of livestock production								
Animal slaughtering ^d								
Cattle	1 067	1 411	1 397	1 355	1 721	-1.0	-3.0	27.0
Pigs	1 169	1 466	1 491	1 533	1 637	1.7	2.8	6.8
Sheep	79	105	109	78	90	3.7	-28.7	16.0
Other products								
Milk ^e	1 187	1 311	1 349	1 382	1 429	2.9	2.5	3.4
Eggs, for consumption ^f	1 604	2 034	2 072	2 252	2 232	1.9	8.7	-0.9
4. Volume of fishery products	153	186	175	190	187	-6.0	8.6	-1.8

Source: ECLAC, on the basis of statistics supplied by the Central Bank of Venezuela.

^aPreliminary figures.

^bCalculated on the basis of the gross value of production at 1968 prices.

^cThousands of tons.

^dThousands of head.

^eThousands of litres.

^fThousands of units.

¹The loans granted by the sectoral bodies as a whole (the Agricultural Credit Institute, the Agricultural Development Bank and the Agricultural Credit Fund) decreased to an even greater extent, since they contracted by 36% compared with the loans granted in 1982.

Table 6

VENEZUELA: MAIN INDICATORS OF PETROLEUM PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Crude oil										
(millions of barrels)										
Production	1 353.0	856.4	793.5	769.0	690.9	650.0	-7.7	-3.1	-10.2	-5.8
Exports	889.0	537.4	469.6	462.5	387.6	358.1	-8.2	-1.5	-16.2	-7.6
Refined products										
Production	471.0	316.0	337.0	313.5	316.0	330.3	-6.5	-7.0	0.8	4.5
Exports	378.0	224.1	212.3	179.6	179.2	187.6	-16.4	-15.4	-0.2	4.7
Domestic consumption ^b	73.1	77.1	133.9	137.6	143.9	140.9	13.8	2.8	4.6	-2.1
Reserves										
Proven ^c	14.0	18.4	19.5	20.2	24.6	25.5	5.4	3.2	22.0	3.8
Theoretical life ^d	10.0	21.5	24.6	26.2	35.5	39.2	14.4	6.5	35.5	10.4
Gas (billions of cubic metres)										
Gross production	48.4	38.0	35.5	34.9	33.3	30.4	-3.9	-1.8	-4.6	-8.7
Utilized ^e	61.9	88.7	93.6	94.5	94.6	94.7				
Wasted ^e	38.1	11.3	6.3	5.5	5.4	5.3				

Source: ECLAC, on the basis of information contained in the address by the President of Venezuela to the Congress of the Republic, January 1984.

^a Preliminary figures.

^b Includes industrial consumption, including that of the petroleum industry, and domestic uses.

^c Billions of barrels.

^d In years. Calculated by dividing total reserves by the production of crude oil in the corresponding year.

^e Percentage.

The new foreign exchange system also favoured the development of activities in the livestock-raising sector, which benefited from imports of inputs at subsidized prices and the establishment of strict quotas for external purchases of meat. All component activities in this sector expanded vigorously, prominent among them being the slaughtering of cattle (27%) and of sheep (16%). With regard to the latter, however, the effects of the sharp drop of 29% experienced in the preceding year were only partially compensated, and the number of animals slaughtered was less than that recorded in 1980 (see table 5).

Milk production, for its part, rose by 3%, continuing its moderate upward trend, while that of eggs dropped by 1%. Finally, fishery output contracted in volume by almost 2% and was barely equal to that of three years earlier.

ii) *The petroleum sector.* The petroleum sector product declined in 1983 by nearly 3%, basically as a result of the persistence of a decidedly unfavourable international situation. Some degree of stabilization of world markets due to factors influencing both supply and demand was nevertheless noted in the course of the year.

The significant recovery in the leading industrialized economies —especially in the United States— failed to bring about sufficient additional demand for petroleum to compensate for the contraction attributable to the energy-saving programmes instituted in those countries since 1973.² Nevertheless, there was an appreciable deceleration during the year in the rate of contraction of world oil consumption observed since 1978. Consumption in the member countries of the Organization for Economic Co-operation and Development (OECD) fell by only 2.7% in 1983 after declines of more than 5% in each of the three preceding years.

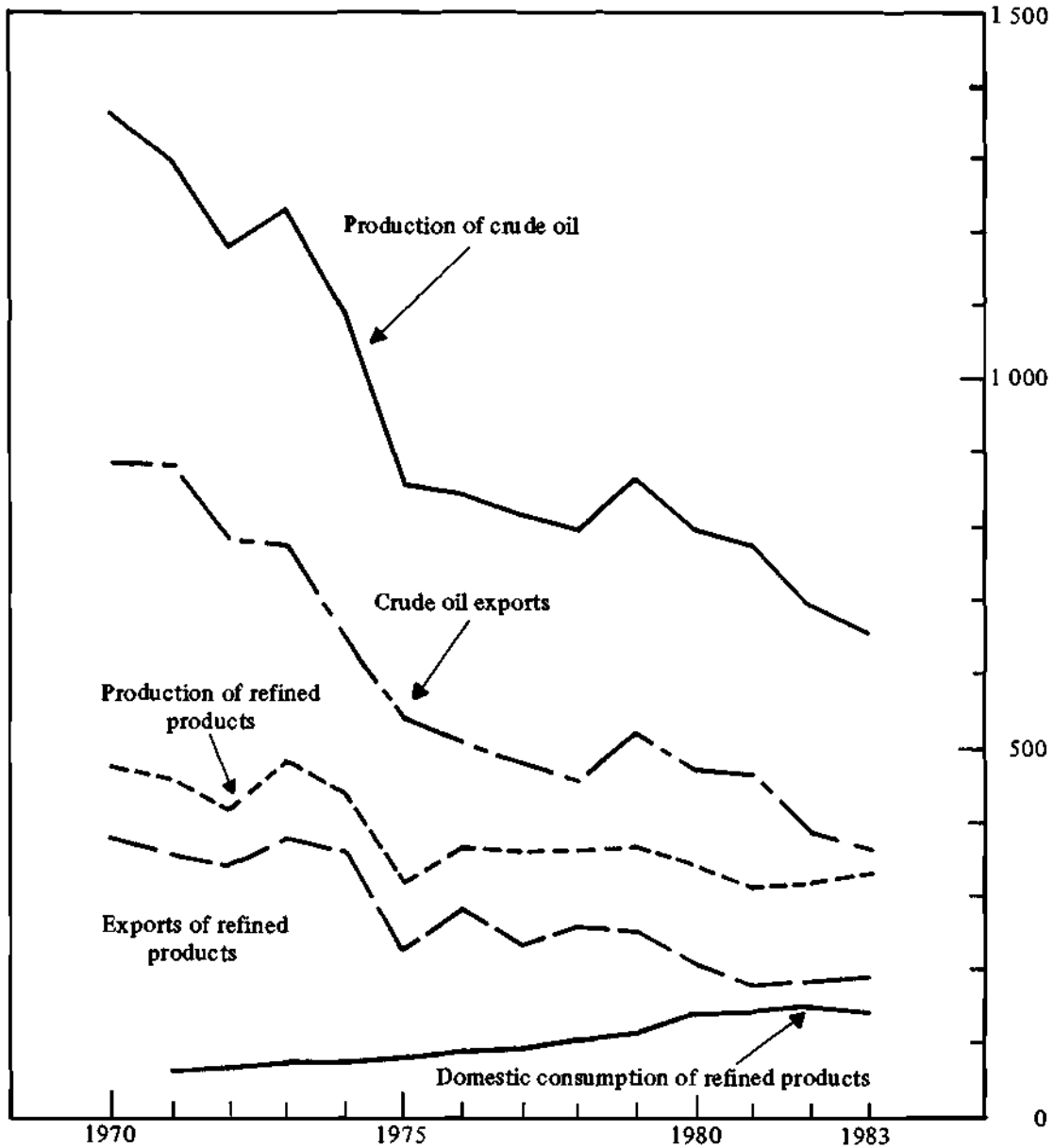
On the other hand, world petroleum production —which had fallen steadily in the three previous years— showed almost no variation in 1983. The rate of contraction in the production of the

² Energy-saving programmes and technological changes have considerably lowered the ratio of energy input per unit of production. Thus, fuel consumption in the OECD countries has fallen by half in the past ten years, while gasoline consumption has increased only marginally.

OPEC countries also declined considerably, since, after a drop of 18% in 1982, it went down by only 6% in 1983. The proportion of world production supplied by the OPEC countries, however, fell to 30%: well below the figure of 50% recorded ten years earlier.

The lower volume of OPEC production was the result of decisions adopted by the organization itself at an extraordinary meeting held in March 1983. On that occasion, in the light of an unprecedented tense situation on the international oil scene, the OPEC member countries managed to restore a consensus and agreed to reduce not only their volume of production, but also their reference

Figure 2
VENEZUELA: INDICATORS OF THE PETROLEUM INDUSTRY
(Millions of barrels)



Source: ECLAC, on the basis of official figures.

Table 7

**VENEZUELA: MAIN FINANCIAL INDICATORS RELATING
TO THE PETROLEUM INDUSTRY**

	1979	1980	1981	1982	1983	Growth rates				
						1979	1980	1981	1982	1983
Prices (US dollars per barrel)										
Selling price	17.69	26.44	29.71	22.47	25.31	46.9	49.5	12.4	-7.5	-7.9
Crude	16.65	25.64	29.42	26.76	23.58	39.2	54.0	14.7	-9.0	-11.9
Derivatives	19.78	28.21	30.46	29.01	28.13	62.4	42.6	8.0	-4.8	-3.0
Export values	19.88	32.69	38.21	34.73	31.64	44.3	64.4	16.9	-9.1	-8.9
Crude	19.27	31.94	38.23	33.27	...	40.3	65.7	19.7	-13.0	...
Derivatives	21.10	35.55	38.19	37.47	...	52.0	68.5	7.4	-1.9	...
Millions of bolívares										
Sales proceeds	60 593	80 780	84 387	70 710	63 619	54.5	33.3	4.5	-16.2	-10.5
External	58 519	78 328	81 723	67 068	59 100	56.3	34.5	4.3	-17.9	-11.9
Domestic	2 074	2 452	2 664	3 642	4 219	5.6	18.2	8.6	36.7	15.8
Net income of the corporation	12 480	14 813	14 234	10 897	7 582	100.6	18.7	-3.9	-23.4	-30.4
Gross fixed investment	5 881	8 878	12 353	15 615	12 156	53.8	51.0	39.1	26.4	-22.2

Source: ECLAC, on the basis of figures published by Petr6leos de Venezuela.

prices.³ Consequently, in order to comply with the quota of 1 675 000 barrels per day which had been assigned to it by OPEC, Venezuela had to cut back its oil production by 13% as from the second quarter of 1983. The volume of crude oil exports, however, only decreased by 7%, partly owing to sales of stocks accumulated by the petroleum industry in the preceding year. Even so, the volume exported failed to reach half of that recorded in 1970 (see table 6 and figure 2).

A further effect of drawing on oil stocks accumulated in previous years was that both production and exports of refined products rose in 1983 by nearly 5%. At the same time, domestic consumption of these products dropped for the first time in recent decades as a result of economic sluggishness and repeated increases in domestic fuel prices (see table 6).

For this last reason the value of sales in the domestic market rose by 16% and accounted for 6% of the total earnings of Petr6leos de Venezuela: the highest such proportion ever recorded (see table 7). In contrast, the average price of external sales fell by almost 8%.

The realization prices of exports of light and medium crudes, which are directly dependent on the OPEC crude oil reference price, dropped in 1983 by an even greater extent (-12%). The prices of heavy crude oils and residual fuels, which are not subject to administrative controls, were less affected and fell by only 3%. This was due, on the one hand, to their greater deterioration in the preceding year and, on the other, to the policy of more active co-operation applied by Mexico and Venezuela in the sale of residual fuels in the North American market. The joint fixing of prices and of corresponding export levels in this case led to certain improvement in market conditions, as a result of which it even became possible to institute small price rises in August and November 1983.

Due to the lower external prices, the operating surplus of the petroleum industry contracted substantially (-30%). Owing to this contraction and to those suffered in the two preceding years, the profits of the petroleum industry were barely half those obtained in 1980. A consequence of this decline was a reduction of almost 25% in the oil companies' gross fixed investment. As well as being of considerable magnitude, this reduction was the first registered in this form of investment in the past ten years (see table 7).

³The official price of light Arabian crude was reduced from 34 to 29 dollars per barrel, and a decline of approximately the same proportion (15%) affected other crudes included in the OPEC reference group. These reductions were the first to be established by OPEC since its formation.

iii) *Mining.* The non-petroleum mining product decreased by 10% in 1983 as a result of contractions in the levels of activity of almost all its component sections (see table 8). Particularly noteworthy was the drop of 8.5% in iron ore output which, after three consecutive years of decline, sank to a level equivalent to only two-thirds of the volume produced in 1980. Export sales of iron ore, on the other hand, rose by almost 5%, but nevertheless failed to make up for their drastic decline (-47%) in the preceding year.

Coal production, for its part, contracted by 13% as a result of a simultaneous drop in domestic demand and in prices. In contrast, although the volume of diamond production fell for the fourth successive year, its value rose by 32% due to a substantial price increase on the domestic market. Still more favourable were the results in the production of gold, which rose by 1% in volume and by 64% in value.

iv) *Manufacturing.* Manufacturing output fell by more than 2% in 1983. Particularly affected were the branches producing capital goods and, especially, motor vehicles. In spite of several measures introduced in its favour (such as a ban on the importation of buses and an authorization to raise prices by 14% to cover the effects of devaluation on costs), the production of commercial vehicles fell by almost two-thirds in 1983, while that of automobiles showed a more moderate decline of 4%. The output of other classes of machinery decreased by between 9% and 12% (see table 9).

The depressed level of domestic activity also had a negative effect on the production of inputs and intermediate goods. Reflecting the spectacular fall in activity in the building sector, output of basic iron and steel products declined by approximately 20%, while that of cement dropped by 24%. Likewise, the stagnation of agricultural activity and the consequent lower demand for fertilizers contributed to a decrease of 11% in the production of industrial chemicals and of 6% in that of petroleum products (see table 9).

Some sub-sectors, on the other hand, recorded rises in their levels of activity. This was especially the case in the group of public manufacturing enterprises. Steel production rose by almost 8%, since the considerable drop (-33%) in domestic demand was more than offset by an increase of 228% in external sales. To this greater sales volume were added the positive effects of the new exchange system,⁴ so that the public steel corporation SIDOR was able to reduce its operating loss by 39%. This loss nevertheless still amounted in the year to 486 million bolívares, mainly due to the heavy financial commitments undertaken by this enterprise.

The expansion of exports, and the benefits deriving from the modification of the exchange system, proved still more favourable in the case of aluminium production, which rose by 22% to its highest level of the past four years. Another favourable factor was the bringing into operation of the

Table 8

VENEZUELA: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1981	1982	1983 ^a	Growth rates			
							1980	1981	1982	1983 ^a
Iron ore^b										
Production	22.1	24.8	16.1	15.5	11.7	10.7	5.2	-3.7	-24.5	-8.5
Exports	21.1	21.7	11.8	12.4	6.6	6.9	-9.0	5.1	-46.7	4.5
Other mining products										
Gold ^c	694	570	430	865	902	894	-7.7	101.2	4.2	0.9
Diamonds ^d	509	1 060	666	491	435	360	-17.0	-26.3	-11.2	-17.3
Coal ^e	40	60	39	45	47	40	-28.8	14.7	2.9	-13.1

Source: ECLAC, on the basis of statistics prepared by the Ministry of Energy and Mines.

^aPreliminary figures.

^bMillions of tons.

^cKilogrammes.

^dThousands of carats.

^eThousands of tons.

⁴Under the new exchange system, the steel and aluminium industries were authorized to sell their foreign-currency export proceeds at the free market rate, with a view to favouring in this manner the restoration of the financial operating equilibrium of these State-owned corporations.

Table 9

VENEZUELA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983 ^a	Growth rates		
					1981	1982	1983 ^a
1. Index of manufacturing production^b	199	220	239	234	10.5	8.8	-2.3
Consumer goods							
Foodstuffs	204	232	259	276	13.6	11.8	6.6
Beverages	242	307	348	363	27.0	13.5	4.2
Tobacco products	274	287	303	289	5.0	5.5	-4.7
Textiles	122	137	127	133	11.6	-6.9	4.4
Clothing	141	129	132	142	-8.5	2.2	7.5
Footwear	195	225	264	241	15.7	17.0	-8.6
Furniture	186	146	157	154	-21.3	7.2	-1.7
Printing	162	174	198	198	7.3	13.7	-0.3
Professional equipment	244	265	272	304	8.6	2.6	11.9
Intermediate goods							
Petroleum derivatives	192	231	232	218	20.2	0.4	-6.0
Industrial chemicals	206	227	228	203	10.1	0.7	-10.9
Other chemical products	230	225	248	245	-2.0	9.9	-1.1
Rubber products	166	186	182	178	12.3	-2.5	-2.3
Plastic products	181	190	205	219	4.9	8.3	6.7
Glass	200	235	247	241	17.7	4.9	-2.4
Paper	224	266	292	315	18.4	10.1	7.6
Non-metallic minerals	240	257	292	238	7.0	13.8	-18.6
Basic iron and steel	262	294	347	279	12.1	18.2	-19.6
Non-ferrous metals	109	116	137	144	6.5	17.7	4.9
Capital goods							
Metal products	186	187	202	176	0.3	8.5	-12.8
Machinery	188	235	259	228	24.6	10.2	-12.0
Electrical machinery	203	205	210	191	1.0	2.7	-9.4
Transport equipment	168	200	204	164	19.1	2.0	-19.4
2. Output of some industrial products^c							
Sugar	323	303	364	348	-6.2	20.1	-4.4
Steel	1 784	1 818	1 990	2 146	1.9	9.5	7.8
Aluminium	156	314	273	332	101.3	-13.1	21.6
Ammonia	439	504	535	462	14.8	6.2	-13.6
Sulphuric acid	114	79	113	139	-30.7	43.0	23.0
Urea	276	315	372	390	14.1	18.1	4.8
Fertilizers	441	485	630	576	10.0	29.9	-8.6
Cement	4 842	4 876	5 432	4 151	0.7	11.4	-23.6
Vehicle tyres ^d	3 483	3 681	3 590	3 385	5.7	-2.5	-5.7
Vehicles ^d	155	154	155	112	-0.6	0.6	-27.7
Passenger	94	82	94	90	-12.8	14.6	-4.3
Commercial	61	72	61	22	18.0	-15.3	-63.9
Industrial electricity consumption ^e	15.1	14.3	14.4	...	-4.9	0.6	...
Employment ^f	1 336	1 356	1 346	...	1.5	-0.7	...

Source: ECLAC, on the basis of statistics supplied by the Central Bank of Venezuela.

^aPreliminary figures.^bBase: 1975 = 100.^cThousands of tons.^dThousands of units.^eBillions of kWh.^fThousands of persons.

INTERALUMINA corporation, which turned out 500 000 tons of alumina (the main input employed in the manufacture of aluminium). The consequent reduction of costs, together with the exchange-rate advantage already referred to, enabled the two public aluminium-producing companies, ALCASA and VENELUM, to end the year with the highest operating profits recorded since their establishment.

Finally, the manufacture of consumer goods showed variable results, since the incentives deriving from import restrictions and higher Customs tariffs did not in all cases make up for the unfavourable effects of the contraction of family income. The latter deterioration affected in particular the manufacturers of footwear and tobacco products, whose output dropped by 9% and 5% respectively (see table 9). In contrast, clothing production increased by approximately 8% — more than three times the previous year's growth rate. The foodstuffs and beverage industries, for their part, recorded positive growth rates of 7% and 4%, although these increases were much lower than those attained in the preceding year.

v) *Construction.* The building industry was undoubtedly that most affected by the recession in 1983. Its level of activity, which had already decreased in the four preceding years, fell by a further 11% in the year under review, so that its gross product was 40% lower in 1983 than it had been in 1979 (see table 10).

This negative result was basically due to the financial restrictions which severely limited activity in both the private and public sectors in 1983. In the case of the public sector, the drop in fiscal revenue and the tense financial situation of the quasi-autonomous institutions³ led to a considerable contraction in infrastructural works, which mostly affected the building sanitary and transportation facilities. Thus, the value of the latter was 70% less than in the preceding year.

Likewise, the number of new dwellings started by the public sector decreased by 40%, while private sector activity in this sphere also contracted severely (-36%) as a result of the decline in real incomes and the drop of nearly 50% in the financial resources granted to building companies (see table 10).

Table 10

VENEZUELA: INDICATORS OF CONSTRUCTION ACTIVITY

	Thousands of units					Growth rates			
	1975	1980	1981	1982	1983 ^a	1980	1981	1982	1983 ^a
Index of sectoral GDP ^b	100.0	125.9	123.2	112.8	100.7	-16.5	-2.1	-8.4	-10.8
Activity indicators									
Domestic sales of steel for building ^c	353	469	482	444	346	31.4	2.8	-7.9	-22.1
Domestic sales of cement ^c	3 455	4 843	4 876	5 432	4 151	18.0	0.7	11.4	-23.6
Employment ^d	...	375	381	409	340	1.8	1.5	7.2	-16.6
Loans received ^e	...	6 499	6 086	5 230	2 628	37.6	-5.9	-14.1	-49.8
Construction of dwellings (thousands of units)									
Total	61.4	84.1	91.4	99.0	61.3	23.9	8.8	8.3	-38.1
Public sector ^f	35.4	40.0	43.0	48.5	29.2	21.3	7.7	12.6	-39.8
Private sector	26.0	44.1	48.4	50.5	32.1	26.4	9.7	4.4	-36.4

Source: ECLAC, on the basis of information from the Central Bank of Venezuela and the Central Planning and Co-ordination Office (CORDIPLAN).

^a Preliminary figures. ^b Base: 1975 = 100. ^c Thousands of tons. ^d Thousands of persons. ^e Millions of bolívars. Loans to private-dwelling building concerns. ^f Including — in addition to dwellings — plots of land and loans for low-cost construction.

³ Up to 1982 these institutions had financed their projects by resorting to excessive increases in short-term indebtedness. However, since there were simultaneous reductions in 1983 in public revenue receipts, fiscal contributions, and access to external financing, they had to face enormous repayment commitments. The case of the National Institute for Sanitary Works (INOS) was particularly acute since, because of its inability to pay the interest commitments on its high external debt, it had to resort to emergency assistance from the central government to prevent legal collection proceedings from being started by its foreign creditors.

Table 11

VENEZUELA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	First half of year				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1980	1983 ^a	1980	1981	1982	1983 ^a
Total work force (thousands of persons)	4 421	4 561	4 685	4 806			4.8	3.2	2.7	2.6
Participation rate ^b (percentage)	29.4	29.5	29.4	28.6						
	Thousands of persons									
Total employment	4 149	4 272	4 351	4 337	100.0	100.0	3.7	3.0	1.9	-0.3
Primary sector	687	688	709	722	16.5	16.6	1.4	0.3	3.0	1.8
Agricultural activities	625	634	644	658	15.1	15.2	0.5	1.4	1.7	2.1
Hydrocarbons, mines and quarries	62	55	65	64	1.5	1.5	11.4	-11.5	18.5	-1.5
Secondary sector	1 085	1 102	1 132	1 031	26.2	23.8	1.8	1.5	2.7	-8.9
Manufacturing	661	673	673	631	15.9	14.6	1.4	1.7	-	-6.1
Construction	375	381	409	340	9.0	7.9	1.8	1.5	7.2	-16.6
Electricity, gas, water and sanitary services	49	49	51	59	1.2	1.4	6.3	-0.1	4.5	17.3
Tertiary sector	2 375	2 478	2 506	2 578	57.3	59.4	5.3	4.3	1.1	2.9
Commerce and financial institutions	955	1 002	1 018	1 033	23.0	23.8	7.6	4.9	1.6	1.4
Transport, storage and communications	293	315	313	321	7.1	7.4	5.5	7.5	-0.6	2.4
Other services	1 127	1 161	1 174	1 225	27.2	28.2	3.4	3.0	1.1	4.3
	Percentages									
Total unemployed	6.2	6.3	7.1	9.8						
Manufacturing	7.9	7.8	8.0	12.4						
Construction	11.7	11.8	12.9	20.8						
Commerce	4.6	4.8	5.6	7.4						
Other services	3.5	3.7	3.9	5.4						

Source: ECLAC, on the basis of data compiled by the Central Statistics and Information Office (OCEI), reproduced in the publication entitled *Encuesta de Hogares* (Household surveys).

^aPreliminary figures. ^bPercentage of total population in the work force.

c) *Employment and unemployment*

The level of 9.8% reached by the unemployment rate in the first half of 1983 marked the greatest point of deterioration in recent years, directly reflecting the decline in national economic activity (see table 11).

Although the work force expanded slightly less than in previous years, so that the participation rate declined by one percentage point, the level of employment showed a slight decrease (-0.3%) for the first time in five years. This contraction mainly affected the secondary employment sector, where an increase of 17% in the number of persons employed in public utility services failed to compensate for the contractions of 6% and 17% respectively in the number engaged in manufacturing and construction. The secondary sector thus accounted in 1983 for less than a quarter of total employment in the country.

Service activities consequently represented almost 60% of the employed population. In particular, employment under the sub-heading 'other services' rose by 4%, thereby reflecting the displacement of manual labour within the total number employed towards domestic service and informal activities in this recessionary period.

As was to be expected, the manufacturing and construction sectors recorded the highest unemployment rates (12% and 21% respectively). Labourers and artisans thus accounted for more than one-third of the unemployed. The unemployment rate in the commercial sector, for its part, although much less severe than in other activities, was more than double the level recorded in the same sector in 1979 (see table 11).

3. The external sector

a) *Exchange policy*

The radical modification of the foreign-exchange system considerably influenced external sector results in 1983. The replacement of a fixed single parity, which had been in force in Venezuela for 18 years, by a system of different exchange rates became necessary because of the persistence throughout the first two months of the year of the massive outflows of private capital which had been occurring since the beginning of the previous year. These outflows, together with the simultaneous contraction of normal foreign-currency earnings (especially those of the petroleum industry), provoked an initial decision to revalue and centralize the country's foreign currency reserves. This decision, adopted in September 1982, caused the country's international reserves to rise to more than US\$ 10 billion⁶ (see table 12 and 13).

Table 12

VENEZUELA: INTERNATIONAL RESERVES

(Millions of dollars)

	Central Bank				Venezuelan Investment Fund	Commercial banks	Total
	Foreign exchange	Gold	Others	Total			
At the end of:							
1976	6 874	472	1 224	8 570	641	74	9 285
1977	6 558	478	1 118	8 154	916	68	9 129
1978	5 051	481	906	6 438	873	288	7 599
1979	6 430	484	826	7 740	729	350	8 819
1980	5 635	484	906	7 025	1 483	377	8 885
1981	7 081	484	1 054	8 619	2 452	338	11 409
1982	5 386	3 439	1 214	10 039	1 521	64	11 624
1983	6 346	3 439	1 364	11 149	526	49	11 724
1981							
I	6 439	484	1 054	7 977			
II	7 912	484	1 001	9 397			
III	6 622	484	1 040	8 196			
IV	7 081	484	1 054	8 619			
1982							
I	5 647	484	1 109	7 240			
II	5 399	484	1 129	7 012			
III	3 348	3 439	1 178	7 965			
IV	5 386	3 439	1 214	10 039			
1983							
I	3 996	3 439	905	8 340			
II	4 710	3 439	1 300	9 449			
III	5 943	3 439	1 280	10 662			
IV	6 346	3 439	1 364	11 149			

Source: Central Bank of Venezuela.

⁶The revaluation of the price of the gold held by the Central Bank enabled the value of the reserves to rise from US\$ 484 million to US\$ 3 439 million, while the centralization in the same bank of the foreign-currency assets of *Petróleos de Venezuela* almost doubled the monetary institute's foreign currency holdings.

Table 13

**VENEZUELA: CENTRAL BANK FOREIGN EXCHANGE
RECEIPTS AND OUTGOINGS**

(Millions of dollars)

	Receipts					Outgoings					Balance	Central Banks foreign- exchange position ^a
	Petro- leum	Public sector	Vene- zuelan Invest- ment Fund	Others	Total	Finan- cial institu- tions	Public sector	Petró- leos de Vene- zuela	Others	Total		
1979	9 098	1 010	426	4 488	15 022	9 348	2 133	-	2 878	14 359	483	6 430
1980	12 641	2 095	632	2 511	19 266	12 355	3 241	-	4 475	20 071	-845	5 635
1981	18 961	402	2 019	3 727	25 109	15 257	3 557	-	4 770	23 584	1 525	7 081
1982	18 984	2 256	1 728	2 935	25 903	19 866	5 354	605	1 596	27 421	-1 518	5 386 ^b
I	7 741	734	354	634	9 463	5 368	1 355	605	108	7 436	2 027	5 647
II	3 630	949	587	728	5 894	4 467	1 250	-	377	6 094	-200	5 399
III	3 363	356	341	755	4 815	4 963	1 616	-	195	6 774	-1 959	3 348
IV	4 250	217	446	818	5 731	5 068	1 133	-	916	7 117	-1 386	5 386 ^b
1983	14 031	575	1 002	1 152	16 760	8 755	4 452	1 472	778	15 457	1 303	6 346
I	3 395	207	267	569	4 438	3 551	1 572	324	150	5 597	-1 159	3 996
II	3 561	59	280	234	4 134	1 581	938	469	346	3 334	800	4 710
III	3 481	94	360	186	4 121	1 447	1 070	338	48	2 903	1 218	5 943
IV	3 594	215	95	163	4 067	2 176	872	341	234	3 623	444	6 346

Source: Central Bank of Venezuela.

^aPosition at end of period, including adjustments.
petroleum industry.

^bIncluding the effect of centralization of the foreign-exchange assets of the

This measure failed to re-establish confidence, however, and private capital outflows rose still further, exceeding US\$ 60 million daily during February 1983. The Central Bank international reserves consequently fell by 14% in the first six weeks of the year to a level of US\$ 8 630 million on 18 February 1983. Within this total, only US\$ 3 500 million consisted of foreign-currency holdings: a quantity equivalent to the value of three months' imports, or no more than the level recorded before the reserves were centralized in September 1982.

In order to put an end to this situation and restore a more adequate level of international reserves, a multiple exchange system consisting of three basic rates was established on 28 February 1983. The previous exchange rate of 4.30 bolívars per dollar was maintained for imports regarded as essential. Venezuelan students' expenses abroad, and foreign-debt servicing payments. A second preferential rate, at 6 bolívars per dollar, was established for less essential imports; and, finally, other transactions (travel expenses, capital transfers) became subject to the rate deriving from the exchange operations on the Caracas Stock Exchange.

At the same time, a commission known as the Differential Exchange System (Régimen de Cambio Diferencial —RECADI) was set up and made responsible for issuing licences authorizing economic agents to obtain foreign currency from the Central Bank at the preferential rates. In practice, however, this process became characterized by vagueness and operational delays which severely limited the release of foreign currency by the authorities. This relative domestic shortage of foreign currency, combined with the depressed external conditions in both the petroleum and financial fields, brought about a rapid rise in the free exchange rate, which reached 7.50 bolívars per dollar in the first week of March, and continued to rise exceeding 14 bolívars by August. A small reduction in the latter rate took place in the last quarter of the year, and the level was 12.75 bolívars per dollar at the end of December. Owing to the large difference in value compared with the fixed preferential exchange rates, the previous over-valuation of the bolívar was appreciably reduced in the case of some transactions due to the increase of 180% in the effective real exchange rate (see table 14).

Sales of foreign currency at the old rate nevertheless continued to account for a significant proportion (81%) of the foreign currency outgoings of the Central Bank, with sales at the rate of 6 bolívares per dollar and at the free rate representing much lower proportions (6% and 12% respectively). The average exchange rate for the whole economy was thus 5 bolívares per dollar, which only exceeded the former ruling rate by 16%.

b) *Merchandise trade*

The modification of the foreign-exchange system naturally affected the trade in goods, causing the merchandise trade surplus to rise to nearly US\$ 7 200 million: more than double the level of the preceding year. Nevertheless, this positive balance was still lower than that obtained in 1980 and 1981, and was in practice the consequence of a drastic contraction (-48%) in the volume of external purchases, since the volume and value of exports were the lowest in the last five years. The terms of trade, for their part, deteriorated by 7% after two years of virtual stagnation (see table 15 and figure 3).

i) *Exports*. Although in 1983 there was a moderate drop in the volume of exports (-4%), the decline of 12% in their average unit value was the largest in the past ten years and was more than

Table 14

VENEZUELA: EVOLUTION OF THE EXCHANGE RATE

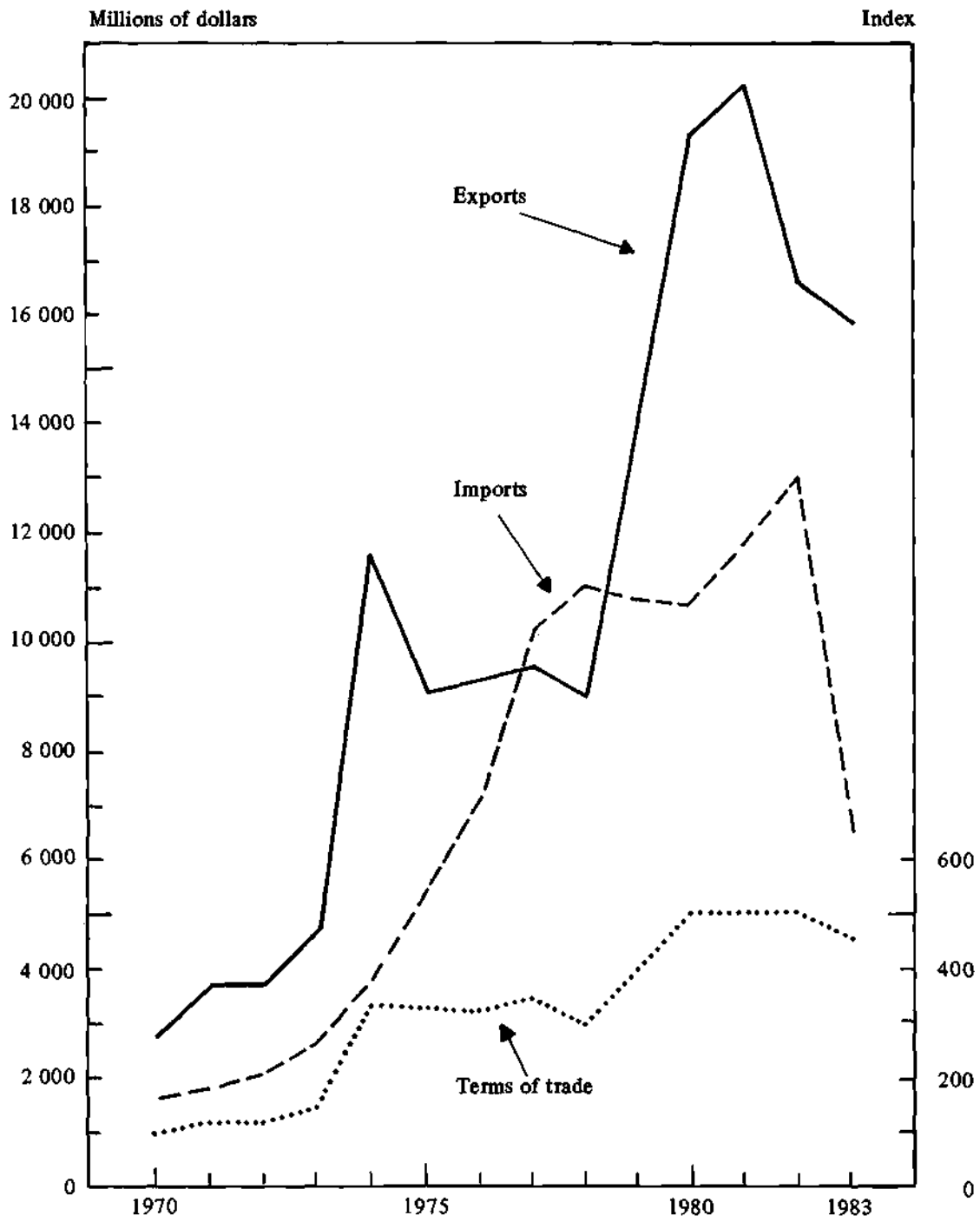
Annual and quarterly averages	Official exchange rate (bolívares per dollar)		Indexes of effective real exchange rate ^a			
			Exports		Imports	
1975	4.29		117.1		112.0	
1976	4.29		114.5		107.6	
1977	4.29		107.0		103.0	
1978	4.29		106.7		106.9	
1979	4.29		107.8		108.8	
1980	4.29		100.0		100.0	
1981	4.29		93.8		89.4	
1982	4.29		88.9		81.9	
1983	4.29		84.4		75.9	
1981						
I	4.29		97.2		95.5	
II	4.29		94.5		90.3	
III	4.29		91.1		85.3	
IV	4.29		92.7		87.6	
1982						
I	4.29		89.8		83.7	
II	4.29		89.0		82.7	
III	4.29		88.1		80.6	
IV	4.29		88.6		80.4	
1983	^b	^c	^b	^c	^b	^c
I	4.29	5.60	86.7	113.2	79.3	103.5
II	4.29	10.20	85.0	202.1	76.7	182.4
III	4.29	13.90	83.3	270.0	74.1	240.1
IV	4.29	12.75	82.6	246.5	73.8	220.2

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

^aCorresponds to the average of the indexes of the real exchange rate of the bolívar in relation to the currencies of Venezuela's main trading partners, weighed according to the relative importance of exports to and imports from those countries. For further information concerning the methods and sources used, see the Statistical Appendix (methodological note) to the *Economic Survey of Latin America, 1981*.

^bPreferential exchange rate ruling as from 28 February 1983 exclusively for imports regarded as essential, expenses of students abroad, and external debt commitments. ^cFreely floating exchange rate determined by transactions on the Caracas Stock Exchange; applicable as from 28 February 1983 to travel expenses and capital transfers.

Figure 3
VENEZUELA: EVOLUTION OF TRADE



Source: ECLAC, on the basis of official figures.

double the drop of 5% recorded the year before (see table 15). Because of these developments, the purchasing power of exports of goods diminished for the fifth consecutive year —on this occasion by 11%— so that it was only 20% above the level recorded in 1978 (i.e., before the second series of rises in international oil prices).

As was to be expected, this evolution was mainly attributable to the performance of external sales of hydrocarbon products, which, in spite of the unfavourable international situation, continued to represent more than 90% of the country's total exports of goods (see table 16). In this respect, the decisions adopted by OPEC in March 1983 brought about a drop of 7% in the volume of Venezuelan oil sales and of 9% in their average price. Their value thus contracted by nearly 13% to a total of less than US\$ 13 700 million —a figure barely higher than that recorded in 1978.

The external prices of other traditional export products also contracted considerably and consequently reduced earnings from external sales. Thus, for example, the increase of 5% in the volume of iron ore exports failed to compensate for the drop of more than 30% in their average external price. Foreign sales of coffee and cocoa also fell significantly (-33% and -20% respectively).

On the other hand, the new foreign-exchange system had a very favourable effect on non-traditional exports, and external sales by private sector enterprises rose by 43%. Agro-industrial exports —especially of rum, essential oils and poultry products— were prominent in this group, which benefited from the considerable difference between the preferential exchange rate affecting imports of inputs and the free rate applicable to the proceeds of external sales.

The public industrial enterprises also found favourable conditions for their non-traditional exports. External sales of aluminium rose by more than 50% as a consequence of the combined effects of the new exchange rate and higher international prices. Still more impressive was the growth of exports of iron and steel products, which increased almost fivefold from US\$ 53 million in 1982 to US\$ 253 million in 1983 (see table 16).

Finally, the expansion of non-traditional exports was reflected in the higher share (65%) of the OECD countries in total Venezuelan sales, since they were the largest purchasers of these products (see table 17).

ii) *Imports.* Exchange control had both a more direct and a quantitatively larger effect on the evolution of imports, which contracted by more than 50% to a level barely above that of 1977 (see table 15).

Table 15
VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983
Growth rates						
Exports of goods, FOB						
Value	-4.9	55.9	34.5	4.8	-18.2	-15.5
Volume	-1.2	11.8	-8.4	-5.4	-13.8	-4.0
Unit value	-3.8	39.5	46.9	10.8	-5.1	-12.0
Imports of goods, FOB						
Value	10.2	-11.0	8.7	11.5	12.0	-51.1
Volume	2.9	-17.0	-6.8	-0.4	18.8	-48.4
Unit value	7.1	7.3	16.6	11.9	-5.7	-5.3
Terms of trade in goods, FOB/CIF	-10.2	29.6	27.1	-0.8	0.1	-7.4
Indexes (1970 = 100)						
Terms of trade in goods, FOB/CIF	309.6	401.1	509.9	505.6	506.0	468.7
Purchasing power of exports of goods ^a	178.4	258.4	301.8	282.1	243.3	216.4
Purchasing power of exports of goods and services ^a	181.8	257.5	299.4	282.5	242.4	212.9

Source: ECLAC, on the basis of official figures.

^aVolume of exports of goods, or of goods and services (as appropriate), adjusted in accordance with the corresponding terms-of-trade index.

Table 16

VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1975	1983	1980	1981	1982	1983
Total	19 275	20 181	16 531	14 902	100.0	100.0	34.2	4.7	-18.1	-9.9
Traditional exports	18 486	19 284	15 760	13 739	97.6	92.2	33.9	4.3	-18.3	-12.8
Petroleum and derivative products	18 301	19 094	15 659	13 664	94.7	91.7	34.5	4.3	-18.4	-12.7
Iron ore	148	169	83	62	2.5	0.4	7.2	14.2	-50.9	-25.3
Coffee	8	3	3	2	0.2	-	-66.7	-62.5	-	-33.3
Cocoa	29	18	15	12	0.2	0.1	-12.1	-37.9	-16.7	-20.0
Non-traditional exports	799	877	771	1 163	2.4	7.8	43.9	9.8	-12.1	50.8
Public sector	524	670	478	707	...	4.7	...	27.9	-28.6	47.9
Aluminium	402	409	308	448	...	3.0	156.1	1.7	-24.7	45.5
Others	122	261	170	259	...	1.7	...	113.9	-34.9	52.4
Private sector	265	227	293	456	...	3.1	...	-14.3	29.1	55.6

Source: Central Bank of Venezuela; for 1983, Fifth Report to the National Congress ("V Mensaje al Congreso de la República").

In accordance with the foreign-exchange measures which came into force in February 1983, the rate of 4.30 bolívares per dollar remained valid for imports of goods classified as essential, namely food and basic pharmaceutical products, raw material inputs for the agricultural and manufacturing sectors, and capital goods. As already mentioned, other imports became subject to a second preferential exchange rate of 6 bolívares per dollar.

At the same time, direct restrictive measures were extended⁷ by the inclusion in the list of prohibited imports of most jewellery, watches and clocks, and electrical and other household appliances, and by the generalized use of prior licenses for external purchases.

Finally, the operational slowness of the new administrative process and shortages of foreign currency at the Central Bank, also contributed to the unusually large reduction of imports in 1983. Although the restrictions affected a wide range of products, consumer goods were —as might be expected— those that declined to the greatest extent (-58%), since purchases of goods classified as luxury items which came within this group fell by more than two-thirds (see table 18). The restrictions on imports of textiles and agro-industrial products had a particularly adverse effect on purchases from Colombia, which fell by 72% in the first ten months of the year, while the ban on imports of vehicles and domestic appliances had a similar negative effect on purchases from Japan (see table 17).

Purchases of raw materials, on the other hand, showed the smallest relative contraction (-43%), although special mention should be made, in this context, of the severe drop (-75%) in imports of inputs for the construction industry, which had the dual effect of raising the cost of imported building components and further restraining domestic activity in this sector.

c) *Services trade and factor payments*

The exchange-control measures provoked an even greater contraction (-68%) in foreign-currency outgoings for travel expenses. These amounted to only US\$ 940 million in the year and were consequently the lowest under this heading in the past seven years. The sharp upward trend of the deficit on the services account observed since 1974 was thus reversed, as it fell from US\$ 4 825 million in 1982 to US\$ 1 345 million in 1983 (see table 19).

⁷The importation of 146 items rated as luxury products (alcoholic beverages and some articles of clothing and electrical domestic appliances) had been prohibited at the end of 1982, while quantitative limits were imposed on other foreign purchases (fertilizers, motor vehicles and agro-industrial products).

Unrequited private transfer payments also decreased (by 57%), due to the lower dollar value of remittances abroad made by foreigners working in Venezuela.

Interest payments, for their part, decreased by 18% as a result of substantial delays in payment by both the public and private sectors. The repatriation of considerable public funds invested abroad in order to alleviate the heavy domestic demand for foreign currency provoked a simultaneous, but much greater, reduction (-49%) in income from external assets. The negative balance of interest-payment operations thus increased by 53%, leading to a net outflow of slightly more than US\$ 1 700 million.

d) *Current account and capital account balances*

As a result of the above developments, the current account showed a striking turnaround from a deficit of US\$ 4 200 million in 1982 to a surplus of US\$ 3 500 million in 1983 (see table 19). This amount, however, only exceeded by US\$ 670 million the negative capital account balance of nearly US\$ 2 900 million. The latter deficit —though 20% less than in 1982— was the result of an abrupt reversal of the external capital flow trends observed up to 1980. Thus, for the first time since 1974, there was a net outflow of long-term capital, and moreover this reached the unusually high level of US\$ 1 930 million, owing mainly to the drastic contraction in the external financing received. On the other hand, short-term capital movements showed a small positive balance (US\$ 630 million) which brought to an end a period of three successive annual deficits. This change was possibly due largely to delays in the disbursement of interest payments.

Table 17

VENEZUELA: ORIGIN OF IMPORTS, AND DESTINATION OF EXPORTS OF GOODS

	Millions of dollars (FOB value)			Percentage breakdown		Growth rates		
	1981	1982	1983 ^a	1975	1983 ^a	1981	1982	1983 ^a
Imports								
Total	12 123	13 584	6 636	100.0	100.0	11.5	12.1	-51.1
OECD	10 416	10 073	4 993	90.1	75.2	7.9	-3.3	-50.4
United States	5 844	5 207	2 813	47.6	42.4	9.2	-10.9	-46.0
EEC	2 396	2 494	1 163	25.8	17.5	5.0	4.1	-53.4
Japan	969	1 175	350	8.1	5.3	8.1	21.3	-70.2
Latin America	1 249	...	...	7.1	...	9.0	...	...
Brazil	254	470	108 ^b	2.1	...	36.6	85.0	-44.8 ^c
Colombia	386	401	94 ^d	1.5	...	24.7	3.9	-72.3 ^c
Central America	169	...	...	0.1	...	34.1	...	...
Netherlands Antilles	86	...	...	0.4	...	-8.5	...	...
Other origins	458	...	...	2.8	...	465.4	...	...
Exports								
Total	19 963	16 332	13 800	100.0	100.0	4.8	-18.2	-15.5
OECD	11 642	9 405	8 955	58.0	64.9	3.8	-19.2	-4.8
United States	5 114	4 506	4 705	33.9	34.1	-4.3	-11.9	4.4
EEC	3 021	2 183	2 596	9.3	15.4	20.7	-27.7	18.9
Japan	781	655	454	0.3	3.3	14.5	-16.1	-30.7
Latin America	7 327	...	...	33.6	...	1.7	...	...
Brazil	933	953	647 ^e	1.1	...	37.6	2.1	-32.1 ^c
Colombia	518	436	357 ^d	0.3	...	37.7	-15.7	-11.0 ^c
Central America	590	...	...	3.1	...	-10.5	...	...
Netherlands Antilles	4 308	...	...	20.6	...	-6.5	...	...
Other destinations	694	...	...	8.4	...	10.3	...	...

Source: ECLAC, on the basis of figures published by the IMF in *Direction of Trade Statistics*.

^aPreliminary figures.

^bJanuary-May.

^cGrowth rate in relation to the same period of the preceding year.

^dJanuary-October.

^eJanuary-June (estimate).

Table 18

VENEZUELA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates				
	1980	1981	1982	1983 ^a	1975	1983	1980	1981	1982	1983 ^b	
Total	10 877	12 123	13 166	3 123	100.0	100.0	-0.5	11.5	8.6	-54.5	
Consumer goods	2 588	2 913	3 108	677	13.2	21.7	26.6	12.6	6.7	-58.0	
Foodstuffs and beverages	890	1 159	1 067	268	...	8.6	16.4	30.1	-7.9	-54.0	
Other goods	1 697	1 754	2 041	408	...	13.1	32.7	3.4	16.4	-60.3	
Luxury items	678	699	829	121	...	3.9	51.4	3.1	18.6	-68.7	
Non-luxury items	1 019	1 055	1 212	287	...	9.2	22.8	3.5	14.9	-57.2	
Inputs and intermediate products	3 790	4 032	4 529	1 153	45.7	36.3	10.1	6.4	12.3	-52.7	
Auxiliary raw materials	3 260	3 291	3 160	954	40.8	30.5	12.5	1.0	-4.0	-42.9	
For industry	2 858	2 926	...	817	...	26.2	13.2	2.4	...	-45.8	
For the agricultural sector	226	267	...	59	...	1.9	47.3	18.1	...	-52.6	
Fuels and lubricants	177	97	...	77	0.5	2.5	170.3	-45.2	...	102.6	
Building materials	529	741	1 369	179	4.9	5.7	-24.4	40.1	84.8	-75.3	
Capital goods	4 498	5 117	5 530	1 313	41.1	42.0	-17.5	13.8	8.1	-54.0	
Machinery and tools	2 907	3 117	3 568	781	27.0	25.0	-13.3	7.2	14.5	-58.0	
Transport equipment	1 591	2 060	1 962	533	14.1	17.0	-24.5	29.5	-4.8	-46.3	

Source: ECLAC, on the basis of statistics of the Central Bank of Venezuela and —for 1983— "V Mensaje al Congreso de la República".
^aRefers to the period January-July. ^bJanuary-July, compared with the same period in 1982.

At the end of the year, therefore, the Central Bank was able to report an increase of US\$ 960 million in its foreign-exchange holdings. Its total international reserves also rose (by 11%), reaching the level of US\$ 11 150 million. The other components of the country's international reserves, however, showed a declining trend. In this respect, the net external assets of the Fondo de Inversión de Venezuela - FIV (Venezuela Investment Fund) recorded the largest decrease, contracting by 65%, while the foreign-currency holdings of the commercial banks decreased by 23% despite their already depressed level since the preceding year. Total international reserves, therefore, only expanded by 9%, reaching a level of US\$ 11 700 million at the year's end (see table 12).

e) *External indebtedness*

The country's external indebtedness showed a fairly ambiguous evolution in quantitative terms in 1983. Both the balance of the public debt and that of the total national debt showed relatively modest growth rates (12% and 10% respectively), while interest payments declined substantially (-18%) for the first time, after seven years of vigorous expansion (see table 20). This apparently favourable situation was largely due, however, to a moratorium agreed with the country's foreign creditors as from February 1983, and to delays in interest payments by public and private debtors. Despite these circumstances, the latter payments continued to represent more than 20% of the value of exports of goods and services, while the total foreign debt reached an unprecedented level equivalent to twice the value of external sales, or almost three-quarters of the gross domestic product.

Several factors combined to bring about this situation. On the one hand, the contraction of the oil market considerably reduced foreign-currency earnings (by 35%), while the international banks simultaneously cut back their net financing to the country. On the other, these same conjunctural difficulties revealed a number of shortcomings in the structure of the external debt, which had been characterized by its disorderly and sustained expansion (at an annual average rate of 35% in the 1975-

Table 19

VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983 ^a
Balance on current account	-3 127	-5 699	370	4 749	4 026	-4 222	3 532
Trade balance	-2 985	-5 366	760	4 839	3 835	-2 077	5 819
Exports of goods and services	10 164	9 803	14 959	19 968	20 938	17 557	14 902
Goods, FOB	9 556	9 085	14 159	19 050	19 963	16 332	13 800
Real services ^b	608	720	800	918	975	1 225	1 102
Transport and insurance	315	384	473	513	595	664	570
Travel	168	205	178	243	187	309	312
Imports of goods and services	13 150	15 169	14 199	15 129	17 104	19 634	9 083
Goods, FOB	10 194	11 234	10 004	10 877	12 123	13 584	6 636
Real services ^b	2 955	3 935	4 195	4 252	4 980	6 050	2 447
Transport and insurance	1 274	1 555	1 454	1 449	1 567	1 524	750
Travel	1 061	1 649	1 738	1 999	2 372	2 925	941
Factor services	89	38	-3	328	574	-1 530	-2 024
Profits	-292	-304	-313	-321	-350	-401	-300
Interest received	782	1 052	1 346	2 263	3 581	2 565	1 302
Interest paid	-402	-710	-1 036	-1 613	-2 657	-3 694	-3 026
Labour and ownership	-	-	-	-	-	-	-
Unrequited private transfers	-231	-371	-388	-418	-383	-615	-263
Balance on capital account	3 928	4 635	3 729	-985	-4 047	-3 930	-2 866
Unrequited official transfers	-53	-36	-19	-21	-26	-24	-10
Long-term capital	2 110	3 717	1 443	2 060	810	3 155	-1 931
Direct investment (net)	-4	68	88	55	184	253	106
Portfolio investment (net)	-41	124	-74	1 311	83	1 582	...
Other long-term capital	2 154	3 526	1 429	695	544	1 320	...
Official sector ^c	1 250	1 854	1 026	-290	-262	1 317	...
Loans received	1 719	2 441	1 857	787	781	2 741	...
Amortization payments	-393	-412	-776	-855	-891	-1 492	...
Commercial banks ^c	414	687	-655	220	555	-	...
Loans received	-	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	-	...
Other sectors ^c	489	984	1 058	765	250	3	...
Loans received	1 078	1 752	2 066	1 942	1 615	1 284	...
Amortization payments	-294	-570	-860	-1 007	-1 090	-1 068	...
Short-term capital	-406	-533	1 809	-1 896	-2 692	-4 914	627
Official sector	44	-8	-3	103	33	-57	...
Commercial banks	2	-210	-65	-27	35	916	...
Other sectors	-453	-316	1 876	-1 972	-2 760	-5 773	...
Errors and omissions	2 278	1 489	497	-1 128	-2 139	-2 146	-1 552
Global balance^d	801	-1 064	4 098	3 764	-21	-8 152	666
Total variation in reserves (- sign indicates an increase)	-652	1 324	-4 121	-4 184	-1 100	7 635	-473
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-19	-52	-135	9	-101	5	87
IMF reserve position	64	246	229	-87	-14	-113	-166
Foreign exchange assets	344	1 507	-1 379	795	-1 446	1 695	-960
Other assets	-1 041	-377	-2 835	-4 900	461	6 048	566
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1977-1982: International Monetary Fund, *Balance of Payments Yearbook*, March 1984 (magnetic tape); 1983: ECLAC, on the basis of official data.

^aPreliminary figures. ^bReal services also include other official and private transactions, but exclude factor services. ^cIn addition to loans received and amortization payments made, this item includes net loans granted and other assets and liabilities. ^dThe global balance is the sum of the current account balance plus the balance on capital account. The difference between the total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 20

VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983 ^a
Millions of dollars						
Medium- and long-term public external debt ^b						
Balances	7 265	8 230	9 672	9 531	12 279	13 707
Direct debt	6 041	5 544	6 764	6 376	6 865	7 876
Indirect debt	1 224	2 686	2 908	3 155	5 414	5 831
Service payments	973	1 428	2 125	2 284	2 923	2 011
Principal	570	867	1 170	942	1 607	846
Interest	403	561	955	1 342	1 316	1 165
Global external debt ^c						
Balances	16 383	23 071	26 509	28 377	30 479	33 500
Medium- and long-term	9 416	11 718	13 732	13 931	16 383	20 834
Short-term	6 967	11 353	12 777	14 446	14 096	12 666 ^d
Service payments						
Interest ^e	710	1 036	1 613	2 657	3 694	3 026
Percentages						
Ratios:						
Global external debt/ gross domestic product	50	64	68	69	69	74
Global external debt/ exports of goods and services	167	154	133	140	178	214
Service of global external debt/ exports of goods and services ^f	13.1	12.7	13.9	17.2	30.2	26.0
Interest payments/exports of goods and services	7.2	6.9	8.1	12.7	21.0	20.3

Source: ECLAC, on the basis of statistics compiled by the Central Bank of Venezuela and by international financial agencies.

^a Preliminary figures. ^b According to the Law governing Public Credit, direct debt is that deriving from loan contracts entered into by the State and from bonds sold on behalf of the State. Indirect debt comprises commitments deriving from loans contracted (with or without State guarantee) by autonomous public institutions and public enterprises, and those deriving from sales of securities issued by these bodies. ^c ECLAC estimates, including the public debt and the non-guaranteed long- and short-term debt owed to financial institutions reporting to the Bank for International Settlements. ^d Public debt only. ^e ECLAC estimates, based on the movement in the relevant balance-of-payment items. ^f The debt-servicing costs referred to in the calculation of this coefficient include public-debt amortization payments (as prescribed in the Law on Public Credit) and interest payments on the global debt.

1980 period). More specifically, the actual manner of contracting public credit⁶ encouraged the dispersal of the contracting organisms, incompatibilities between the repayment periods and destinations of loans and an excessive concentration of short-term maturities.

In the light of these circumstances, the Government attempted at the end of 1981 to draw up a general rephasing programme rather than deal with the various cases individually as hitherto. In a first stage it was sought to renegotiate an amount of US\$ 7 to 8 billion corresponding to the short-term debt of the central government and of some government agencies, with a view to converting these debts into longer-term commitments guaranteed by the State.

The growing international financial tensions, however, hampered the relevant negotiations, and it only proved possible to refinance part of these debts in 1982. In the meantime it became necessary to increase the total amount of loans for which refinancing was sought. Moreover, it

⁶ Although precise information in this connection is not available, it may reasonably be estimated that the public debt has come to represent between 80% and 90% of the total external debt, reflecting the considerable incidence of the Government in the Venezuelan economy in both real and financial terms. The country's legislative framework, however, is extremely strict in so far as long-term credits are concerned, since borrower enterprises and bodies are required to comply with a lengthy and fairly rigid administrative process including official approval by the Controller of the Republic. In the case of short-term loans, on the other hand, the law is far more flexible, as a result of which the contracting of loans of one year's duration, refinanced as they reach maturity, has been the form of indebtedness most resorted to by the decentralized public agencies.

became necessary at the outset to include in the public debt proper US\$ 7 billion of external indebtedness contracted by public financial institutions (government banks and credit funds) which had been severely affected by the exodus of private capital and the domestic monetary and exchange crisis. In addition, the central government was compelled to assume responsibility for the debts of various enterprises owing overdue commitments, since they were State-owned or mixed enterprises or private firms backed by guarantees issued by public institutions⁹ (see table 21).

The debt-maturity profile thus faced by the Government proved to be unmanageable, especially as almost three-quarters of the indebtedness contracted by public financial institutions was due for repayment in less than one year (see table 22). Had it not been possible to find an alternative solution, 48% of the total external public debt would have fallen due in 1983, involving amortization payments of US\$ 13 500 million, or almost 90% of the value of total exports.

Table 21

VENEZUELA: STRUCTURE OF THE EXTERNAL PUBLIC DEBT,
BY TYPE OF DEBTOR, 1983

	End-year balances in millions of dollars ^a			Percentage breakdown		
	Medium and long- term	Short- term	Total	Medium and long- term	Short- term	Total
Total	14 493	13 474	27 967	100.0	100.0	100.0
Central government	7 355	864	8 219	50.7	6.4	29.4
Public enterprises	4 094	4 172	8 266	28.2	30.4	29.6
Public financial and credit institutions	2 064	5 016	7 080	14.2	37.2	25.3
Other public agencies	980	3 422	4 402	6.8	25.4	15.7

Source: ECLAC, on the basis of statistics compiled by the Finance Ministry.

^aOwing to the different sources of information used, the totals do not tally exactly with those shown in table 20.

Table 22

VENEZUELA: PROFILE OF EXTERNAL PUBLIC DEBT MATURITIES

	Accumulated percentage at the end of each year				
	1983	1984	1985	1986	1987
Total external public debt	48.2	60.8	70.8	79.3	87.5
Central government	10.5	33.6	51.2	68.3	81.9
Public enterprises	50.5	55.7	60.9	68.8	78.6
Public financial and credit institutions	74.4	88.3	98.0	98.3	99.9

Source: ECLAC, on the basis of statistics compiled by the Finance Ministry.

⁹In its capacity as second guarantor, the Government had to assume responsibility in 1983 for commitments amounting to US\$ 1 350 million guaranteed by public bodies. Of this total, 44% had been backed by guarantees issued by the Corporación Venezolana de Fomento - CVF (Venezuelan Development Corporation), and another 30% by the Banco Industrial de Venezuela - BIV (Industrial Bank of Venezuela), both of these agencies themselves being in arrears in the settlement of their commitments.

Table 23

**VENEZUELA: STRUCTURE OF EXTERNAL PUBLIC DEBT,
BY TYPE OF CREDITOR, 1983**

	End-year balances in millions of dollars ^a			Percentage breakdown		
	Medium and long- term	Short- term	Total	Medium and long- term	Short- term	Total
Total	14 493	13 474	27 967	100.0	100.0	100.0
Multilateral financial institutions	161	212	373	1.1	1.6	1.3
World Bank	87	...	...	0.6	...	...
Inter-American Development Bank	72	...	...	0.5	...	...
Others	2	...	...	-	...	...
Bilateral financial institutions	104	381	485	0.7	2.8	1.7
Commercial banks	12 223	12 881	25 104	84.3	95.6	89.8
Suppliers and contractors	1 003	-	1 003	6.9	-	3.6
Bond holders	1 002	-	1 002	6.9	-	3.6

Source: ECLAC, on the basis of statistics compiled by the Finance Ministry.

^aOwing to the different sources of information used, the totals do not tally exactly with those shown in table 20.

The magnitude of this amount, together with the decreasing foreign currency availability, compelled the Venezuelan authorities in February 1983 to ask their creditors for a partial moratorium. By this means, the amortization payments corresponding to direct and indirect public external indebtedness contracted with commercial creditors were deferred. Payments corresponding to commitments with multilateral and bilateral financial bodies were not included in the moratorium, nor were the amortization payments on government bonds.¹⁰ However, due to the considerable concentration (90%) of the total debt in the commercial banks, the moratorium covered almost all the year's maturities (see table 23).

The moratorium was periodically extended in the following months, pending the initiation of negotiations with a commercial bank advisory committee in order to rephase the debt in a manner more consistent with the country's payment capacity. At the close of the year, however, no agreement had yet been reached and the negotiations continued to come up against two main obstacles. Firstly, uncertainty continued throughout the period with regard to the future official economic-adjustment policy and, more specifically, concerning the foreign-exchange system that would be applied to payments relating to the servicing of the private external debt.¹¹

Secondly, the international banks repeatedly stipulated that all outstanding interest payments must be settled as a preliminary condition for any renegotiation arrangement. Although, in so far as the public debt was concerned, these overdue payments were reduced by half between May and December 1983, they still amounted at the end of the year to US\$ 150 million, while overdue interest payments on the private debt rose in the meantime to US\$ 400 million.

4. Prices and wages

a) Prices

Prices rose moderately in 1983 despite the inflationary pressures that could reasonably be expected to derive from the devaluation, especially considering the high incidence of imports and exports in the Venezuelan economy. In fact, the consumer price index even showed some

¹⁰Neither was it necessary to resort to the Paris Club, since Venezuela has no direct debts with the governments of other countries. Finally, it is worth mentioning in this connection that the Government did not undertake to renegotiate the private external debt.

¹¹As already mentioned, the Government did not include the private external debt in its refinancing programme. However, the exchange regulations introduced in February 1983 envisaged the possibility that commitments arising from that debt might benefit from the preferential exchange rate of 4.30 bolívars per dollar, provided that the corresponding repayment schedule were renegotiated for a minimum period of three years. The international banking system, for its part, insisted that in order to carry out these refinancing operations, the debt must be backed by a government guarantee.

deceleration, both in the Caracas metropolitan area and in most of the country's main cities.¹² The 7% increment in that index in the capital city between December 1982 and December 1983 was the lowest in the past five years (see table 24 and figure 4). For the first time since 1979, however, it exceeded the variation between annual averages (6.3%), thereby reflecting a reversal of the slackening trend of retail prices prevailing since that year. The rate of growth of wholesale prices on a December-December basis, for its part, showed a marked acceleration, rising from 6% in 1982 to almost 11% in 1983 (see figure 5 and table 24).

Among the factors responsible for the moderate expansion of domestic prices, one of the most decisive was the sluggishness of domestic economic activity, both in terms of production and credit. Due to their unusual size, the contractions of domestic demand and of private consumption (-17% and -7% respectively) had a considerable restraining effect on domestic prices.

The consequences of this contraction of demand were compounded by the effects of the application of a price-control policy closely linked with the new foreign-exchange system. Thus, after freezing the prices of goods and services in the two months following the devaluation, the authorities established a more complex mechanism called the Sistema Administrado de Precios - SAP (Supervised Price System). This system, which covered the entire range of marketable products, operated in parallel with the differential exchange-rate system, and this also helped to limit domestic price increases. In particular, the maintenance throughout the year, for products classified as essential, of a preferential exchange rate at a level only half that prevailing in the free exchange market represented an indirect subsidy whose effect more than made up for the elimination of the direct subsidies formerly granted by the Government.

These factors helped to limit increases in the prices of certain products. Thus, prices of services rose by only 4.5%, as did those of semi-durable goods,¹³ while those of clothing and footwear increased even less (3.5%). In the latter two cases the use of the large stocks of imported products accumulated in 1982 influenced these results.

Table 24
VENEZUELA: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983 ^a
Variation from December to December						
Consumer price index ^b	7.1	20.5	19.6	11.0	7.3	7.1
Food	7.0	34.4	22.2	12.9	6.9	10.6
Clothing	12.9	40.2	45.4	-2.2	-3.0	3.5
Wholesale price index	5.8	15.5	16.9	11.3	6.2	10.8
Imported products	6.9	11.2	14.2	9.5	5.6	10.8
Domestic products	5.0	18.4	18.6	12.3	6.6	10.9
Agricultural products	0.6	30.3	17.2	13.9	4.1	20.6
Manufactures	7.0	11.5	16.2	10.1	6.2	8.9
Building materials	7.5	11.0	17.5	6.1	12.6	10.5
Variation between annual averages						
Consumer price index ^b	7.2	12.3	21.6	16.0	9.7	6.3
Food	9.3	16.6	33.1	18.5	9.7	7.8
Clothing	8.5	25.3	46.2	16.2	-2.7	0.2
Wholesale price index	7.4	9.2	20.1	13.8	8.1	7.0
Imported products	7.1	7.6	15.9	11.9	7.3	6.0
Domestic products	7.5	10.4	22.9	15.0	8.6	7.5
Agricultural products	5.0	12.6	27.4	19.8	5.3	14.2
Manufactures	7.6	8.1	17.4	11.9	8.4	5.4
Building materials	14.8	10.3	11.9	10.9	12.8	4.1

Source: Central Bank of Venezuela.

^aPreliminary figures.

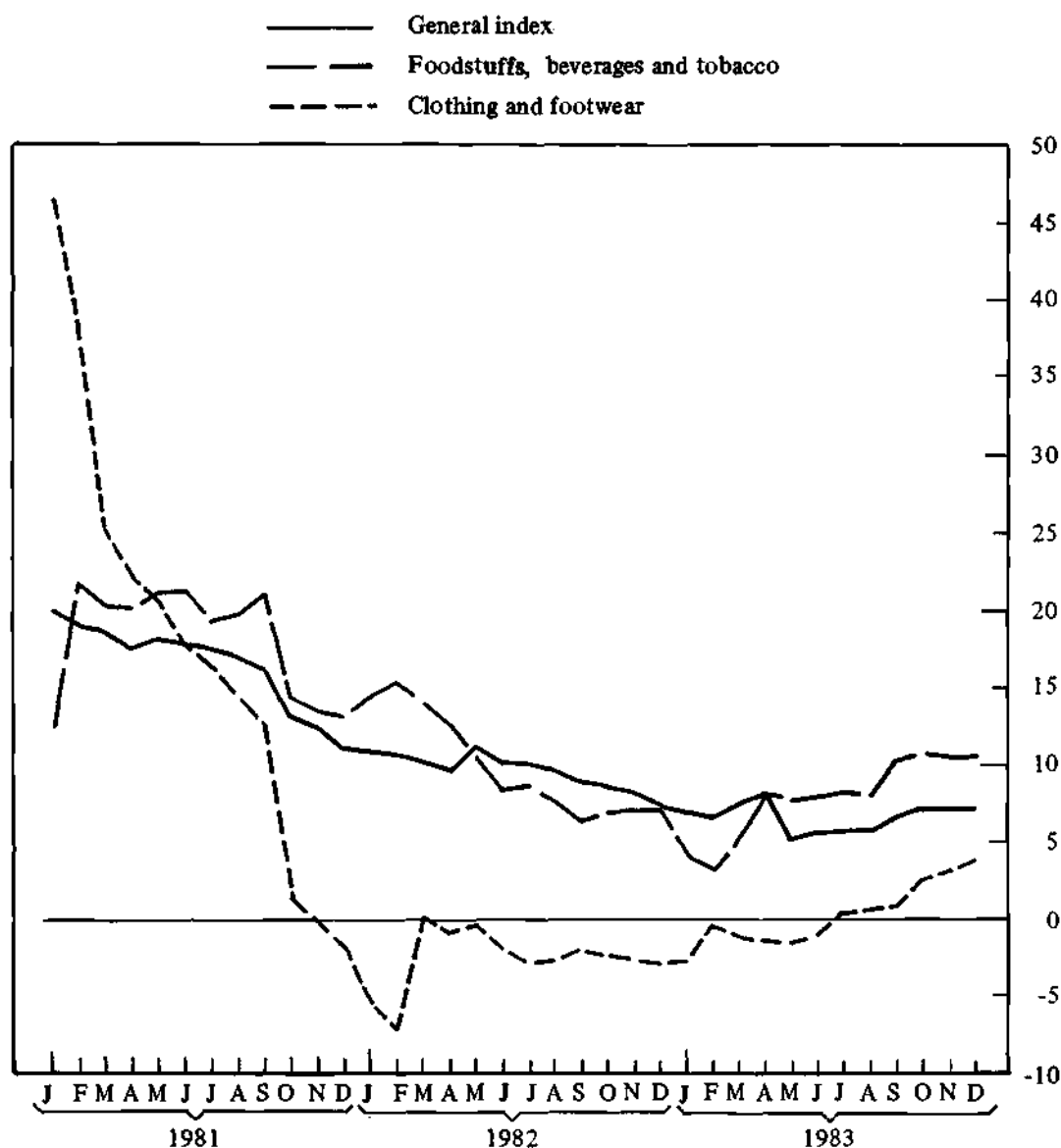
^bConsumer-price index for the Caracas metropolitan area, adjusted for seasonal factors.

¹²With the exception of Valencia and Puerto La Cruz, where preliminary information revealed an acceleration of inflation in 1983.

¹³These are preliminary data referring to the period October 1982-October 1983.

Figure 4

VENEZUELA: TWELVE-MONTH VARIATION IN CONSUMER PRICES



Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

The prices of some other goods, however, rose more appreciably. In the first place, devaluation brought to bear relatively greater inflationary pressures on internationally tradeable goods than on non-tradeables, and because of the greater incidence of the former in the wholesale price index, this indicator (in contrast with previous years) showed significantly larger variations than those in the consumer-price index (see table 24).

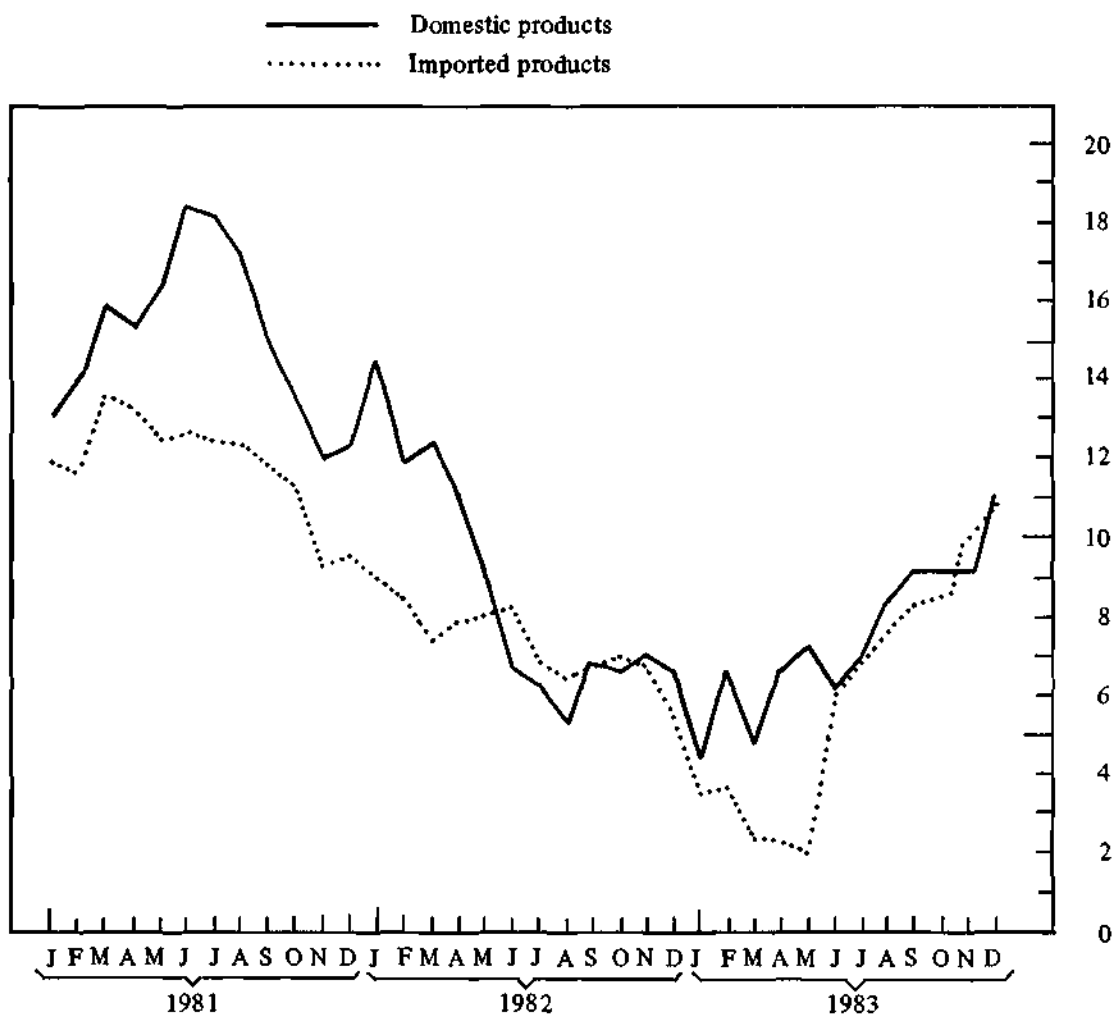
A further factor in this connection, and an additional consequence of the contraction of real incomes, was the greater concentration of family expenditure on consumer goods—a characteristic of which is their low income elasticity. Growing pressure was thus noted in the demand for agricultural products, the wholesale and retail prices of which rose considerably more than the average variation, i.e., by 21% and 11% respectively.

In the case of wholesale products, the higher prices of foodstuffs were the result of the suppression of some direct subsidies and of price increases authorized by the Government with a view to stimulating domestic production and avoiding supply shortages. The prices of locally-produced agricultural products consequently rose by more than 19% and were largely responsible for the 11% increase recorded in the prices of national products

The agricultural component in the prices of imported goods also rose substantially (by 16%), and its impact was compounded by that deriving from increments in the prices of tobacco and beverages (86%) and of chemical and pharmaceutical products (14%). These inflationary pressures were offset, however, by very moderate variations (5% on average) in the other components, because of the already-mentioned use of accumulated inventories and the prevalence of severely depressed demand. The prices of imported goods consequently did not reflect the full effects of the devaluation and tended to rise in a manner very similar to those of national products (see table 24 and figure 5).

Figure 5

VENEZUELA: TWELVE-MONTH VARIATION OF WHOLESALE PRICES



Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

Table 25

VENEZUELA: EVOLUTION OF INCOMES

	1979	1980	1981	1982	1983 ^a	Growth rates			
						1980	1981	1982	1983 ^a
In current bolívares									
Average family income	3 000	3 602	3 957	4 106	4 083	20.1	9.9	3.8	-0.6
Average per capita income	525	634	708	741	...	20.8	11.7	4.7	...
Average monthly wage ^b									
Manual workers	2 265	2 733	3 426	3 769	3 865	20.7	25.4	10.0	2.5
Non-manual workers	4 355	4 660	...	6 879	7 289	7.0	...	...	6.0
In 1979 bolívares									
Average family income	3 000	2 962	2 802	2 646	2 482	-1.3	-5.4	-5.6	-6.2
Average per capita income	525	522	501	477	...	-0.6	-4.0	-4.8	...
Average monthly wage ^b									
Manual workers	2 265	2 248	2 426	2 403	2 332	-0.8	7.9	-0.9	-3.0
Non-manual workers	4 355	3 832	...	4 432	4 420	-12.0	...	...	-0.3

Source: ECLAC, on the basis of household surveys carried out by the Central Statistics and Information Office (OCEI) and statistics compiled by the Central Planning and Co-ordination Office (CORDIPLAN).

^aFirst half year. ^bIn activities other than agriculture (except exports). As from 1982 the figures refer to the Federal District only.

b) *Wages and incomes*

In spite of the deceleration of inflation, real incomes contracted significantly in the year under review. As a result of the lower levels of economic activity and employment, average family incomes even diminished in nominal terms, while their real value was 17% lower than that recorded four years earlier (see table 25).

Although exact information in this connection is not available, the drop in the participation rate would seem to justify the assumption that average per capita income contracted to an even greater extent, due to the lower average number of persons employed in each family group.

Real wages in the modern sector of the economy showed less severe contractions, due basically to the greater degree of organization of the work force in these activities, where collective bargaining procedures are prevalent. Public employees, in particular, succeeded in obtaining wage adjustments higher than the rate of inflation during the year, which helped to limit to only 0.3% the contraction of real wages in the non-manual class as a whole. Manual workers' wages, on the other hand, fell by 3% in real terms (see table 25).

5. Monetary and fiscal policy

a) *Monetary policy*

As was to be expected, the modification of the foreign-exchange system had a significant effect on the country's domestic monetary aggregates, two clearly different periods being discernible in the evolution of these variables.

In the first period (from the beginning of the year to 18 February 1983), the contractive trends already noted in the preceding year became more marked. The monetary base contracted by 2%, so that it barely exceeded its 1980 level, while the exodus of private capital continued with exceptional vigour (see table 26).

This contraction of the means of payment was attributable primarily to the persistent stagnation of foreign-currency inflows, which, until 1981, had supported the expansion of both fiscal expenditure and the money supply. In order to counteract this negative factor, other forms of injection of money through fiscal channels were resorted to at the beginning of 1983. Thus, Treasury

bills amounting to 3 500 million bolívares were placed with the Central Bank in January and were followed by the use of more than 100 million bolívares deposited by the Treasury in the same Bank (see table 26).

This increase of fiscal expenditure failed, however, to have an expansive effect on the domestic monetary variables, since monetary liquidity (M_2) showed a decline of 2% in the first two months of the year, while money in circulation (M_1) contracted by 6% (see table 27). Although part of this contraction may be attributed to seasonal factors, the main determinant in this direction was the growth of demand for foreign exchange on the part of the public, either for speculative purposes or due merely to lack of confidence in national economic prospects. Current account deposits proved in practice to be an important source of financing for these foreign exchange operations, as a result of which these deposits contracted by 4% during the period.

In order to limit this channelling of the money supply towards the exterior, the Central Bank decided to abandon its expansive domestic credit policy applied since September 1982. It consequently reduced by more than 30% the balance of rediscounts and advances granted to the financial system, thereby provoking a contraction of almost 1% in the volume of credit transactions carried out by the commercial banks (see table 28).

Although this measure became an additional factor of contraction of the money supply, it failed to reduce significantly the exodus of private capital. Thus, by the end of the seventh week of the year, foreign exchange movements between the financial system and the Central Bank showed a negative balance of more than US\$ 2 800 million, which went a long way towards explaining the fall of more than US\$ 1 400 million in the net international reserves of the Central Bank in the same period (see table 26). The establishment at the end of February of a multiple foreign-exchange system—bringing to an end 18 years of unrestricted exchange freedom combined with a single fixed exchange parity—naturally had a marked influence on the evolution of the monetary variables. It also

Table 26

VENEZUELA: COMPOSITION OF THE MONETARY BASE

	Balances at end of period (billions of bolívares)						Growth rates						
	1979	1980	1981	1982	1983 ^a		1979	1980	1981	1982	1983 ^d		
					Feb.	Dec.					Feb. 1982/	Feb. 1983/	Dec. 1982/
1. Factors of expansion	40.6	38.4	47.8	48.5	46.0	64.0	21.5	-5.3	24.4	1.3	-5.2	39.1	32.1
Net international reserves	32.9	30.0	37.0	43.2	38.1	48.4	20.6	-9.0	23.5	16.9	-11.9	27.2	12.1
Government securities	0.9	0.3	0.3	3.2	3.4	2.1	76.6	-62.7	9.9	778.4	6.7	-37.4	-33.2
Rediscounts and advances	2.9	2.9	1.5	5.4	3.8	1.9	11.5	-1.5	-47.5	256.4	-30.5	-50.2	-71.0
Sales/investments of other assets	3.9	5.2	9.0	-3.3	0.7	11.6	29.0	36.7	70.5	...	...	...	...
2. Factors of contraction	15.3	11.2	16.2	20.1	17.7	24.4	38.7	-26.7	44.4	23.9	-11.7	37.9	21.6
National Treasury deposits	6.0	2.1	4.3	3.2	2.2	1.0	128.0	-64.3	102.0	-25.7	-33.2	-50.7	-67.1
Other government deposits	3.4	3.1	4.2	3.8	4.3	5.5	32.8	-8.6	35.6	-8.1	11.4	28.3	43.0
Special deposits ^b	1.5	0.4	0.3	8.5	6.8	7.3	-34.1	-75.5	-2.8	1 833.3	-20.3	8.0	-13.9
Paid-up capital and reserves	4.4	5.6	7.4	4.5	4.5	10.6	22.9	27.0	30.3	-24.6	-	32.8	32.8
3. Monetary base (1 - 2)	25.3	27.2	31.6	28.4	27.6	39.6	13.0	7.6	16.2	-10.3	-2.0	43.3	39.5

Source: Central Bank of Venezuela.

^aPreliminary figures.

^bIncluding the accounts of *Petróleos de Venezuela*, the Venezuelan Investment Fund and other special deposits.

Table 27

VENEZUELA: EVOLUTION OF THE MEANS OF PAYMENT

	Balances of end of period (billions of bolívares)				Growth rates				
	1981 De- cem- ber	1982 De- cem- ber	1983 ^a		1981	1982	1983 ^a		
			Feb.	Dec.			Feb. 1983/ Dec. 1982	Dec. 1983/ Feb. 1983	Dec. 1983/ Dec. 1982
Total means of payments (M ₁)	53.5	49.0	46.1	64.3	7.1	-8.3	-6.0	39.4	31.1
Current account deposits	40.2	36.1	34.7	49.7	6.2	-10.1	-3.8	43.0	37.6
Currency outside banks	13.3	12.9	11.4	14.6	10.1	-2.9	-12.0	28.4	13.0
Total quasi-money	71.2	80.1	80.2	99.6	32.3	12.5	0.1	24.1	24.3
Savings deposits	28.9	28.6	28.2	34.8	10.8	-1.0	-1.9	23.6	21.6
Time deposits	42.3	51.5	52.1	64.8	52.5	21.7	1.1	24.3	25.7
Monetary liquidity (M ₂) ^b	124.7	129.1	126.3	163.8	20.2	3.6	-2.2	29.7	26.9
Mortgage bonds	7.4	5.5	5.3	3.9	-28.5	-24.9	-5.8	-25.3	-29.7
Expanded liquidity (M ₃) ^c	132.1	134.7	131.5	167.8	15.8	2.0	-2.3	24.8	21.9
Monetary coefficients									
Public preference for cash ^d	0.120	0.110	0.104	0.102					
Public preference for money in circulation ^e	0.429	0.380	0.365	0.392					
Multipliers:									
Money in circulation ^f	1.69	1.73	1.67	1.62					
Liquidity ^g	3.95	4.55	4.58	4.14					

Source: Central Bank of Venezuela.

^aPreliminary figures. ^bMonetary liquidity (M₂) comprises money in circulation (M₁) plus quasi-money. ^cExpanded liquidity (M₃) comprises monetary liquidity (M₂) plus mortgage bonds. ^dRelation between currency outside banks (including private-sector sight deposits in the Central Bank) and monetary liquidity. ^eRelation between money in circulation and monetary liquidity. ^fRelation between money in circulation and the monetary base. ^gRelation between monetary liquidity and the monetary base.

induced a radical change in Central Bank policy which, from May onwards, placed less emphasis on the maintenance of external equilibrium and more on the revival of domestic credit. With the aim of expanding the money supply and at the same time favouring a decline in interest rates, the Central Bank reduced its rediscount rate from 13% to 11% and liberalized to a certain extent the procedures relating to these operations.

The effects of all these changes on the monetary variables were, however, contradictory. On the one hand, the foreign exchange restrictions completely halted the outflow of monetary resources, provoking a marked increase in deposits by the public in the banking system and a sharp recovery in monetary liquidity (see tables 26, 27 and 28). This reversal of the trend, however, failed to bring about either a reduction in the cost of money or a revival of activity in the credit market.

Between March and December 1983, monetary liquidity (M₂) expanded by approximately 30%, reaching a level of 163 800 million bolívares at the year's end (27% more than in December 1982). Within its components, both money in circulation (M₁) quasi-money increased appreciably, by 39% and 24% respectively. A more significant development, however, was the increase of money in circulation, since it contrasted with the drop of 8% recorded in 1982 and the further 6% decline in the period January-February 1983 (see table 27). This reversal of the trend was mainly the result of a considerable expansion of demand deposits, which rose by 43% in this second period, and by 38% in the whole year—the highest such rate registered in the last five years.

The 24% increase of quasi-money in comparison with December 1982, for its part, was due to increases both in time and savings deposits (26% and 22% respectively). Of particular significance was the growth of savings deposits, in view of the declining trend they had shown prior to February 1983.

This evolution in the structure of deposits reflected a certain preference on the part of the public to maintain assets capable of rapid conversion into liquid resources. The coefficient of public preference for ready money thus increased by 7%, thereby reversing the declining trend observed in this respect in recent years. The monetary multipliers contracted, however, on account of a certain stagnation in the capacity of the financial system to increase liquidity through the medium of the monetary base (see table 27).

The growth of the monetary aggregates between March and December 1983 was consequently mainly due to the expansion of primary money issues, which increased by more than 43% in relation to their February level and almost 40% compared with December 1982 (see table 26).

One factor that influenced this evolution was the establishment of the differential foreign-exchange system and the suspension of foreign-debt service payments. As a result of these measures, the international reserves became a source of monetary expansion, since they increased by 27% between March and December and ended the year at a level 12% higher than in December 1982.

However, a factor that influenced the expansion of money even more was the maintenance of a high level of fiscal expenditure, as reflected in the contraction of 51% between March and December in the deposits held in the account of the Treasury. The decline in these deposits for the whole year came to 67%. The monetary effects of this contraction were compounded by those generated by a new issue of Treasury securities amounting to 3 500 million bolívares, which were acquired by the Central Bank in April and paid for through the monetization of the accounting proceeds deriving from the revaluation of monetary gold in 1982.¹⁴

However, despite the above-mentioned measures of relaxation in monetary policy, the evolution of the domestic credit granted by the Central Bank continued to contribute to the contraction of the monetary base, since it decreased by 50% in this second period, thereby completing a contraction of 71% in the whole year.

As far as the commercial banking system was concerned, this lower demand for Central Bank credit was partly attributable to the considerable growth (27%) of deposits received between March and December, while the level of loans granted remained almost static, rising by only 3% (see table 28). The consequent accumulation of bank reserves caused an unprecedented expansion in surplus reserve funds, which increased by a factor of 13 during this period and to a large extent neutralized the expansive incidence of monetary policy.

The high level of bank reserves also prevented the Central Bank rediscount rate from acting as the governing variable in market rates. The latter showed little downward flexibility and, although rates on deposits fell slightly at the end of the year, rates on loans continued at high levels throughout the period, thereby restricting the effective demand for credit.

Several factors contributed to the maintenance of high interest rates. To begin with, there were the growing financial difficulties experienced by some enterprises as a consequence of the depressed level of real economic activity.¹⁵ These difficulties, in their turn, induced a more cautious attitude on the part of the banks and a consequent increase in the risk component of the interest rate. Uncertainty as to future developments in the foreign-exchange market was a further contributory factor in this connection. For the latter reason, and also because of the slowness of operation of the new differential foreign-exchange system, a considerable proportion of the banks' resources was held in reserve for the possible purchase of the foreign currency needed to meet external commitments, and consequently it could not be used to increase the supply of domestic credit. Finally, the high profitability of foreign-exchange transactions, which was well above the interest rate obtainable on local loans, encouraged the maintenance of a greater proportion of idle liquid resources and their diversion to the exchange market.

The preference of the public for highly liquid resources had an unfavourable effect on activity in the rest of the financial system. Although the total resources attracted by the institutions specializing in mortgage financing grew by 15%, there was simultaneously a substantial increase in the dependence of these financial intermediaries on short-term resources. Savings certificates thus came to account for more than 40% of deposit receipts in the mortgage-financing system by the end of 1983 after having amounted to only 33% one year before and to 12% at the end of 1980. Meanwhile,

¹⁴The first issue had been acquired in January by the commercial banking system, in partial substitution of the required legal reserves.

¹⁵This situation was reflected in a significant increase in overdue commitments and those subject to legal collection proceedings, the incidence of which in the total credit portfolio of the banking institutions rose from 5% in November 1982 to 18% in the same month of 1983.

Table 28

VENEZUELA: MAIN OPERATION OF THE FINANCIAL SYSTEM

	Balances of end of period (billions of bolívares)				Growth rates				
	1982 De- cem- ber	1982 De- cem- ber	1983 ^a		1981	1982	Feb. 1983/ Dec. 1982	Dec. 1983/ Feb. 1983	Dec. 1983/ Dec. 1982
			Feb.	Dec.					
Commercial banks									
Deposits	89.6	89.9	87.2	111.0	14.6	0.3	-3.0	27.3	23.5
Sight deposits	46.0	39.6	38.2	52.2	8.0	-13.9	-3.5	36.4	31.6
Savings deposits	18.8	18.9	18.9	26.6	10.4	0.6	-	41.1	41.1
Time deposits	24.8	31.4	30.1	32.2	33.7	26.5	-4.1	7.0	2.6
Loans	83.2	88.2	86.2	89.9	17.3	6.0	-2.3	4.4	1.9
Loans granted	73.1	80.8	80.1	82.7	9.5	10.5	-0.8	3.2	2.5
Investment in securities	10.1	7.5	6.1	7.3	141.3	-26.5	-18.4	19.3	-2.6
Legal reserves	15.0	13.7	13.1	22.2	30.4	-9.0	-4.1	69.1	62.1
Required	15.1	12.8	12.6	15.8	18.5	-15.1	-1.2	24.9	23.3
Surplus	-0.1	0.9	0.5	6.4			-45.9	238.1	624.3
Balance of rediscounts and advances owed to the Central Bank	0.6	3.9	2.5	1.3	-75.1	599.8	-34.1	-49.5	-96.7
Mortgage finance institutions^b									
Deposits	50.4	55.6	56.0	64.2	31.0	10.4	0.7	13.7	14.5
Savings certificates	10.8	18.6	19.4	26.5	39.8	72.2	4.3	36.3	42.2
Mortgage bonds	13.3	12.6	12.4	11.3	-3.3	-5.8	-1.2	-8.6	-9.7
Other time deposits	26.3	24.7	24.2	25.9	30.2	-6.1	-1.9	7.0	5.0
Loans	45.0	53.2	57.4	64.2	20.0	18.1	7.9	24.9	26.4
Mortgage loans	41.8	50.8	51.5	55.9	...	21.6	1.3	8.6	10.0
Other loans	3.2	2.4	6.0	8.3	...	-26.5	150.0	39.6	75.1
Balance of rediscounts and advances owed to the Central Bank	...	0.1	0.1	-	...	...	-10.9	-80.9	-83.0
Finance companies									
Deposits	19.5	22.1	21.5	22.6	25.3	13.3	-2.3	5.0	2.6
Savings certificates	2.5	5.3	5.6	9.3	430.5	114.9	5.8	66.1	75.7
Other receipts	17.1	16.8	16.0	13.4	12.9	-1.8	-4.8	-16.3	-20.3
Loans	21.0	23.9	23.9	23.8	17.9	13.8	-	-0.5	-0.5
Loans	18.3	20.8	20.6	19.9	18.9	13.2	-0.9	-3.2	-4.1
Investments in securities	2.7	3.2	3.3	3.9	11.7	16.8	5.7	16.1	22.8
Balance of rediscounts and advances owed to the Central Bank	0.1	0.4	0.4	0.1	...	598.3	7.2	-75.1	-73.3

Source: Central Bank of Venezuela.

^aPreliminary figures.^bIncludes mortgage banks and savings and loan associations.

and in spite of the assistance made available in this respect by the Central Bank,¹⁶ the participation of longer-term instruments —particularly of mortgage bonds— continued to contract (see table 28). The total value of loans granted for the building or purchase of dwellings consequently rose by only 10%, while their relative dependence on official financial assistance increased (60% of these loans were issued under the State subsidy system).

The situation of the finance companies in 1983 was even more unfavourable. On the one hand, the increase of 76% in their short-term receipts barely compensated for the contraction of 20% in

¹⁶In the first nine months of 1983 the Central Bank acquired mortgage bonds to the extent of 750 million bolívares.

their time-deposit holdings, as a result of which the total volume of resources attracted by this system rose by only 3%. The decline of 4% in the amount of credit granted by them, for its part, was due to their being affected to a greater extent than the rest of the financial system by the lower demand for credit, since these companies were traditionally more closely linked with transactions involving external payments (foreign tourism, motor-vehicle purchases, etc.). Finally, the high level of overdue commitments in the overall credit portfolio of some finance companies caused acute cash squeezes and in some instances made necessary the intervention of the Superintendency of Banks.

b) *Fiscal policy*

Fiscal management continued to face severely restrictive conditions in 1983 owing to the continuing decline of revenues from the main tax categories since the previous year.

Table 29

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolivares				Growth rates			
	1980	1981	1982	1983	1980	1981	1982	1983
1. Current income	62.7	92.7	78.2	71.8	25.3	47.8	-15.6	-8.2
Petroleum revenue	45.8	60.3	47.0	40.4	35.6	31.5	-22.1	-14.0
Income tax	37.9	52.1	39.1	32.4	48.3	37.3	-24.9	-17.1
Indirect domestic tax on petroleum products	0.5	0.6	1.1	1.7		19.7	82.8	49.7
Royalties	7.4	7.6	6.7	6.3	-4.4	2.3	-11.2	-6.5
Other tax revenue	12.7	27.6	21.4	15.4	18.7	117.7	-22.0	-28.5
Direct	7.2	21.2	13.0	10.4	12.9	195.3	-38.5	-20.1
Customs	3.2	4.0	5.2	3.0	24.2	25.2	30.5	-42.1
Indirect, domestic	2.3	2.4	3.1	2.0	32.1	5.0	28.7	-36.5
Other non-tax income	4.2	4.8	10.0	16.0	-24.9	14.9	107.3	61.3
2. Current expenditure	41.2	50.6	54.4	53.8	...	22.8	7.6	-1.2
Remunerations	16.3	19.6	19.2	19.2	27.4	20.0	-2.1	-0.2
Financial subsidies	0.7	3.7	3.1	1.7	-21.2	436.8	-16.6	-45.9
Interest payments	4.5	5.9	8.4	12.6	30.5	29.4	42.7	49.8
On external indebtedness	3.3	5.0	7.0	8.4	33.4	48.2	42.1	19.6
On domestic indebtedness	1.2	0.9	1.4	4.2	23.1	-22.5	46.2	204.8
Other current expenditure	19.6	21.4	23.8	20.4	...	9.1	10.9	-14.2
3. Current savings (1-2)	21.5	42.1	23.8	18.0	...	95.7	-43.4	-24.3
4. Capital expenditure	22.0	32.8	27.4	20.5	...	49.0	-16.2	-25.4
Real investment	3.8	4.3	6.1	4.5	...	12.3	41.6	-26.7
Other capital expenses	18.2	28.4	21.3	16.1	...	56.7	-25.0	-24.7
5. Total expenditure (2 + 4)	63.2	83.4	81.9	74.3	...	31.9	-1.8	-9.2
6. Surplus or deficit (1-5)	-0.5	9.3	-3.6	-2.5				
7. Financing of deficit	0.5	-9.3	3.6	2.5				
Domestic financing	-5.3	-8.6	5.5	6.1				
Central Bank	-	-	-	7.0				
Sale of securities	-	0.7	0.4	1.3				
Amortization	-1.0	-1.1	-0.9	-1.7				
Other forms of financing	-4.3	-8.9	6.0	-0.5				
External financing	5.8	-0.7	-1.9	-3.6				
Disbursements	8.8	1.5	3.4	0.4				
Amortization	-3.0	-2.2	-5.3	-4.0				

Source: ECLAC, on the basis of statistics compiled by the Central Bank of Venezuela and the Finance Ministry.

Table 30

VENEZUELA: SOME INDICATORS RELATING TO FISCAL ADMINISTRATION

	1970	1975	1980	1981	1982	1983 ^a
Income from the petroleum industry/ current income	60.8	78.1	73.1	65.1	60.0	56.2
Indirect income from the petroleum industry/ total indirect income	...	12.0	8.6	8.8	12.0	21.3
Customs revenue/indirect tax income	...	48.0	53.2	56.9	55.2	45.2
Interest payments/current expenditure	4.2	3.2	11.0	11.6	15.4	23.4
Current savings/capital expenditure	79.0	104.2	97.7	128.4	86.8	88.1
Fiscal deficit/total expenditure	6.1	...	0.8	...	4.4	3.4
Income from the petroleum industry/GDP	11.0	27.0	17.9	20.8	15.7	13.9
Non-petroleum tax revenues/GDP	6.2	4.5	8.2	9.5	7.2	5.3
Total expenditure/GDP	19.5	33.9	24.7	28.7	27.5	25.5
Fiscal deficit/GDP	1.2	...	0.2	...	1.2	0.9

Source: ECLAC, on the basis of information from the Central Bank of Venezuela.

^aPreliminary figures.

Income from the petroleum industry —by far the largest source of fiscal revenues— continued to be restrained by the depressed international energy scene, while additional contractive factors were the decisions adopted by OPEC at its extraordinary meeting in March 1983. The resulting lower volumes of production and exports and lower average selling prices caused a drop of 17% in official revenues from oil-industry income, thereby aggravating the already substantial contraction of 25% that had taken place in 1982 (see table 29).

This contraction was only compensated to a very slight extent by an increase of 50% in revenue from the domestic tax on petroleum-product consumption. Total oil-industry revenues consequently dropped by 14% and, even in nominal terms, failed to reach the level recorded in 1980, while their participation in the gross domestic product fell to 14%: a figure only slightly higher than that recorded in 1970 (see table 30).

At the same time, the contraction of other fiscal revenue sources was made more acute by the stagnating domestic economic situation and, to a certain extent, by the foreign-exchange measures instituted in February 1983. The latter particularly affected Customs receipts, which fell by 42% to their lowest level of the last four years. Other tax revenues also declined appreciably (by 37% and 20% in the case of indirect and direct taxes, respectively).

The fiscal effects of the foreign-exchange measures nevertheless had a positive aspect in view of the substantial profits accumulated by the Central Bank in its foreign-currency transactions. As a result of a foreign-exchange agreement signed in June 1983, the Central Bank delivered to the Government 10 500 million bolívars on this account. This amount was greater than that deriving from direct tax revenues other than from the petroleum sector, and enabled a considerable proportion of the drop in tax revenues to be offset, so that current central government income only decreased by 8% in 1983.

In these circumstances, an attempt was made to restrict fiscal expenses. This policy mainly affected capital expenditure, which fell by approximately 25% in the year, mostly as the result of a severe reduction (-45%) in government transfers to decentralized public agencies.

Current expenses, for their part, dropped by only a little over 1%. The effect of the contractive measures was concentrated on financial subsidies, the amount of which decreased by 46%. The impact of this considerable saving was however completely offset by a large increase in interest payments, which represented almost a quarter of current government expenditure (see table 30). The total amount of this expenditure was, moreover, much greater than that originally budgeted, since the Government had to assume the debt service commitments of some decentralized public agencies which had fallen into arrears. Interest payments on the domestic debt therefore increased more than threefold in this period.

As a consequence of the foregoing, current savings fell by a quarter in 1983 after a 40% decline in the preceding year. They were only sufficient to cover 88% of capital expenditure, with the result that the fiscal financial year closed with a deficit of 25 billion bolívares. This amount was nevertheless 30% less than in 1982, so that the incidence of the fiscal deficit as a proportion of the gross domestic product decreased slightly (see tables 29 and 30).

Despite this decrease in its financing needs, the fiscal authorities had to face a decidedly unfavourable financial market in 1983. On the one hand, external loans—which in previous years had usually covered all, or almost all, of the deficit—fell by 90% compared with the preceding year and only covered 16% of the 1983 fiscal financial deficit. At the same time, although the moratorium declared in February 1983 made it possible to reduce the amortization payments on the external debt by 25%, these outgoings were still nearly ten times as much as the loan disbursements received from abroad, with the result that a negative flow of 3 600 million bolívares was recorded in the year's operations (see table 29).

Amortization payments on the domestic debt, for their part, almost doubled owing largely to the inclusion in the central government budget of some payments normally corresponding to decentralized agencies. In order to cover these outgoings, the issue of public bonds to the value of 1 600 million bolívares and of Treasury bills for 7 billion bolívares was resorted to. The difficulties of placing these issues in the domestic financial market, however, meant that it was only possible to obtain 1 300 million bolívares from this source. The central government budget therefore continued to show a large financial deficit, which had to be covered by the Central Bank through the monetization of the revaluation of its gold reserves.

كيفية الحصول على منشورات الأمم المتحدة

يمكن الحصول على منشورات الأمم المتحدة من المكتبات ودور التوزيع في جميع أنحاء العالم. استعلم منها من المكتبة التي تتعامل معها أو اكتب إلى : الأمم المتحدة، قسم البيع في نيويورك أو في جنيف.

如何购取联合国出版物

联合国出版物在全世界各地的书店和经销处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Publications of the Economic Commission for Latin America and the Caribbean can be ordered from your local distributor or directly through:

United Nations Publications
Sales Section, — DC-2-866
Nueva York, NY, 10017
USA

United Nations Publications
Sales Section
Palais des Nations
1211 Geneva 10, Switzerland

Distribution Unit
CEPAL — Casilla 179-D
Santiago, Chile

