

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

**ECONOMIC SURVEY
OF LATIN AMERICA
AND THE CARIBBEAN
1984**



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CONTENT

Part One

THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1984

I. MAIN TRENDS	9
1. The recovery of economic activity, the evolution of employment and the increase in inflation	9
2. The reduction of the external imbalance and the transfer of resources abroad	9
II. PRODUCTION	11
1. The rate and structure of economic growth	11
2. Total supply and demand and domestic availability of goods and services ..	17
III. EMPLOYMENT AND UNEMPLOYMENT	19
1. Employment	19
2. Urban unemployment	22
IV. PRICES AND WAGES	29
1. Prices	29
2. Wages	33
V. THE EXTERNAL SECTOR	39
1. Foreign trade	39
2. The balance of payments	43
3. The external debt	51

Part Two

THE ECONOMIC EVOLUTION BY COUNTRIES

Argentina	61
Bolivia	93
Brazil	121
Colombia	159
Costa Rica	183
Cuba	209
Chile	243
Ecuador	283
El Salvador	311
Guatemala	335
Haiti	361

Honduras	383
Mexico	407
Nicaragua	439
Panama	473
Paraguay	493
Peru	535
Dominican Republic	563
Venezuela	589

Part Three

THE EVOLUTION OF THE ECONOMY AND ECONOMIC POLICY IN URUGUAY BETWEEN 1981 AND 1984

INTRODUCTION	617
I. ECONOMIC POLICY	619
A. The external context and economic policy between 1974 and 1982	619
B. The 1983-1984 readjustment programme	625
1. The period between November 1982 and June 1983	629
2. The period between July and November 1983	631
3. The period between December 1983 and October 1984	632
4. The period November to December 1984	633
II. ECONOMIC TRENDS	634
A. Economic activity	634
1. Total supply and demand	634
2. Evolution of the main sectors	636
3. Evolution of employment and unemployment	646
B. The external sector	647
1. Overall trends	647
2. External trade	649
3. External indebtedness	651
C. Prices and wages	654
1. Prices	654
2. Wages and salaries	655
D. Monetary and fiscal trends	657
1. Monetary trends	657
2. Fiscal policy	661
III. SOME BASIC MACROECONOMIC PROBLEMS	663
A. Underutilization of productive capacity	663
B. Inflation, public deficit and monetary imbalance	665
1. The public sector financial imbalance	665
2. Monetary imbalances	675
C. The financial sector and indebtedness of firms	678
1. Financial reforms and the crises of the banking system	678
2. The response of economic policy	680
3. The crises of the financial system and its implications for economic policy	681
D. The external bottleneck	683

PART ONE

**THE EVOLUTION OF THE
LATIN AMERICAN ECONOMY IN 1984**

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

THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1984

I. MAIN TRENDS

In 1984, the profound economic crisis which had begun in Latin America in 1981 slackened somewhat. After declining in the two previous years, economic activity recovered slightly and there was a marked improvement in the external sector results. Nevertheless, there was at the same time a sharp increase in inflation, unemployment rates continued to rise or remained at unusually high levels and the region had to make a large net transfer of resources abroad for the third consecutive year.

1. The recovery of economic activity, the evolution of employment and the increase in inflation

The gross domestic product of Latin America increased by 3.2% in 1984. This increase halted the persistent downward trend in growth rates registered since 1980, which in the two previous years had caused a contraction in absolute terms in overall economic activity for the first time in the entire postwar period (see table 1 and figure 1).

The recovery of economic activity was fairly widespread, as the gross domestic product increased in 15 of the 20 countries of the region. However, in most of them the recovery was very weak and as a result the per capita product declined in 10 of them. Consequently, Latin America's per capita product increased by only 0.9%, so that it was almost 9% lower than in 1980 and similar to the 1977 level.

The weak recovery showed also in the rise in unemployment rates in a number of countries and the persistence of very high levels of unemployment in others. Thus, the proportion of the labour force that was unemployed increased in Brasil and Costa Rica, reached unprecedented figures in Colombia, Peru and Venezuela, and remained very high in Honduras, Chile, Nicaragua, Uruguay and Bolivia.

Notwithstanding this, and despite the reduction in external inflationary pressures, the rate of increase of consumer prices rose for the sixth consecutive year and thus reached a record high. In fact, the simple average rate of increase of consumer prices rose from 74% in 1983 to 163% in 1984 and the average rate weighted by the population increased from 132% to 185%. Price increases were considerable in the majority of Latin American countries—in fact, there were only five countries in which the inflation rate did not reach 10% in 1985—and once again they reached extraordinarily high levels in Bolivia (almost 2 200%), Argentina (1 680%), Brazil (200%) and Peru (110%), while they were also very high in Uruguay (66%), Mexico (59%) and Nicaragua (50%).

2. The reduction of the external imbalance and the transfer of resources abroad

As a result of the noteworthy attempt at adjustment by many countries of the region and the more favourable development of world trade in 1984, Latin America was again able to reduce the balance-of-payments current account deficit. Between 1982 and 1983 this deficit declined from almost US\$ 41 billion to US\$ 7.4 billion, and in 1984 it fell again, this time to only US\$ 1.8 billion. The current account imbalance was thus 95% less than the average recorded during the 1981-1982 biennium and was equivalent to scarcely 1.5% of the value of exports of goods and services: a proportion which was not only much lower than the 37% recorded as the average for the 1981-1982 biennium but also lower than any during the 1970s.

This new reduction of the deficit on current account was due mainly to the increase in the surplus obtained in merchandise trade, which, after increasing from US\$ 9.1 billion in 1982 to US\$ 31.5 billion in 1983, reached the unprecedented level of US\$ 38.5 billion in 1984.

Furthermore, in contrast with what occurred in the two previous years, when the greater merchandise trade surplus was due entirely to a series of very sharp drops in the value of imports, the surplus registered in 1984 was due solely to the expansion of exports, which increased in value by almost 11% because of a 7% increment in their volume and a 3.5% rise in their unit value.

On the one hand, the recovery in exports made it possible to finance a modest 4.4% increase in the value of imports of goods —the first since 1981— while on the other the recovery more than offset the negative impact on the current account balance of the increase in net payments of profits and interest.

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Basic economic indicators												
Gross domestic product at market prices (billions of dollars at 1970 prices)	232	248	257	271	285	298	318	336	341	338	327	338
Population (millions)	288	295	302	310	318	326	334	342	350	358	367	375
Per capita gross domestic product (dollars at 1970 prices)	806	840	849	875	897	916	953	982	975	943	892	900
Per capita gross national income (dollars at 1970 prices)	804	852	848	875	898	910	951	985	963	911	858	865
Growth rates												
Short-term economic indicators												
Gross domestic product	8.1	6.9	3.6	5.7	5.1	4.7	6.5	5.6	1.7	-1.0	-3.1	3.2
Per capita gross domestic product	5.4	4.2	1.1	3.1	2.5	2.2	3.9	3.1	-0.7	-3.3	-5.4	0.9
Per capita gross national income	6.4	6.0	-0.5	3.2	2.6	1.3	4.5	3.6	-2.2	-5.4	-5.9	0.9
Urban unemployment rate ^c	...	6.9	7.2	7.7	7.4	6.8	6.2	6.2	6.6	7.0	8.1	8.2
Consumer prices ^d	36.6	40.3	59.0	63.0	40.4	39.2	54.6	56.5	58.2	85.3	132.1	186.3
Terms of trade (goods and services)	11.8	12.8	-11.8	3.1	2.7	-7.7	4.8	3.7	-5.5	-10.1	-7.4	2.8
Current value of exports of goods and services	40.9	50.7	-5.8	15.2	18.0	9.8	33.7	31.3	7.9	-11.1	-0.8	10.5
Current value of imports of goods and services	30.0	63.7	7.8	4.4	15.3	16.7	26.4	33.5	9.3	-18.8	-27.9	4.0
Billions of dollars												
External sector												
Exports of goods and services	28.9	43.6	41.1	47.3	55.8	61.3	82.0	107.6	116.1	103.2	102.4	113.2
Imports of goods and services	28.2	46.1	49.7	51.9	59.8	69.8	88.2	117.8	128.7	104.5	75.3	78.3
Trade balance (goods and services)	0.8	-2.5	-8.6	-4.6	-4.0	-8.5	-6.2	-10.1	-12.6	-1.3	27.0	34.9
Net payments of profits and interest	-4.1	-5.1	-5.6	-6.8	-8.2	-10.2	-13.1	-18.4	-28.1	-39.6	-35.0	-37.4
Balance on current account	-3.2	-7.5	-14.1	-11.0	-11.9	-18.3	-19.6	-28.1	-40.1	-40.9	-7.4	-1.8
Net capital inflow	7.9	11.4	14.2	17.8	17.2	26.1	29.0	29.5	37.3	19.8	3.0	9.8
Balance of payments position	4.6	4.0	0.1	6.8	5.3	7.8	9.4	1.4	-2.8	-21.0	-4.4	7.9
Official international reserves ^e	15.2	20.4	20.4	22.8	27.8	36.5	46.8	53.8	46.1	32.3	30.5	36.9
Balance of disbursed external debt												
Gross total external debt	...	...	76.2	99.7	118.8	150.9	182.0	222.5	277.7	318.4	344.0	360.1
Net total external debt ^f	...	...	55.0	75.8	89.4	112.7	130.8	168.7	231.6	286.1	313.5	323.2

Source: ECLAC, on the basis of official figures.

^aAll figures refer to the 20 countries listed in Table 2, except Cuba.

^bProvisional figures.

^cPercentages.

^dUp to 1978 this corresponds to the weighted average rate of 15 Latin American cities. From 1979, it represents the weighted average rate for the 25 largest cities in Latin America excluding Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala city (for want of comparable data).

^eDecember-to-December variation.

^fForeign exchange, plus Special Drawing Rights (SDRs), monetary gold valued at the London price per troy ounce fine, reserve position in the International Monetary Fund (IMF), less use of IMF credit.

^gGross total external debt, less official international reserves.

These payments climbed from US\$ 35 billion in 1983 to US\$ 37.4 billion in 1984, because of the increase in the external debt and in the average interest rates in the major international financial markets. Nevertheless, in 1984 the net payments of profits and interest absorbed a proportion of the value of exports of goods and services which, although very high (33%), was slightly lower than that recorded in 1983 (34.2%) and in 1982 (38.4%).

In 1984, the net capital inflow also increased and halted the sharp downward trend of the two previous years. In fact, after plummeting from its record high of US\$ 37.3 billion in 1981 to a mere US\$ 3 billion in 1983, the net amount of loans and investments secured by Latin America went up to US\$ 9.8 billion in 1984.

This increase, together with the reduction of the deficit on current account, led to a positive balance-of-payments position of more than US\$ 7.9 billion. This surplus —the first since 1980— made possible a partial recovery of the level of international reserves, which had dropped by more than US\$ 23 billion in the previous three years.

Even so, the net capital inflow remained much lower than the amount of net payments of profits and interest, and consequently in 1984 Latin America was forced to make a considerable net transfer of resources abroad for the third consecutive year (see figure 2). The amount transferred was close to US\$ 28 billion, and although this was lower than the US\$ 32 billion recorded in 1983 it reduced the region's importing capacity by the equivalent of more than 24% of the value of exports of goods and services.

In 1984, the gross external debt of Latin America continued to increase at a moderate rate. At the end of the year, the debt was slightly more than US\$ 360 billion; 4.7% more than the previous year. Its rate of increase was thus a good deal less than the 8% recorded in 1983 and much less than the 14% and 24% recorded for 1982 and 1981 respectively.

Moreover, as the external debt increased much more slowly than exports, in 1984 the debt/export ratio declined for the first time in the last four years. Even so, this ratio (3.2) not only remained very high in comparative international terms, but was also much higher than any recorded in Latin America up to 1982.

II. PRODUCTION

1. The rate and structure of economic growth

As indicated above, in 1984 the sharp downward trend which had been noted in the growth rate of economic activity in Latin America was halted, and the gross domestic product of the region —which had increased by only 1.7% in 1981 and had fallen by 1% in 1982 and by slightly more than 3% in 1983— rose by 3.2%.

In the region as a whole, however, the expansion of economic activity was only slightly more than the population growth, and the per capita product increased only 0.9% compared with the extremely low level to which it had dropped in 1983. In most cases, economic recovery was so weak that despite the expansion of global economic activity in 15 of the 20 countries under consideration, the per capita product fell in nine of them (see tables 2 and 3).

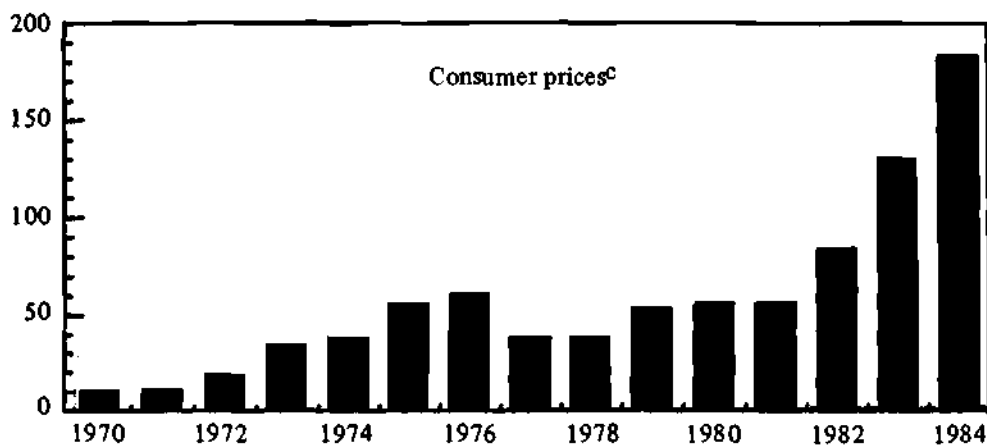
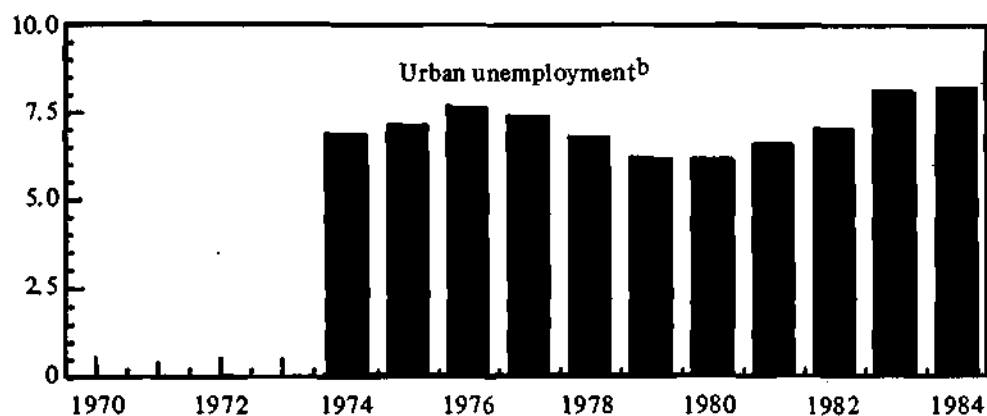
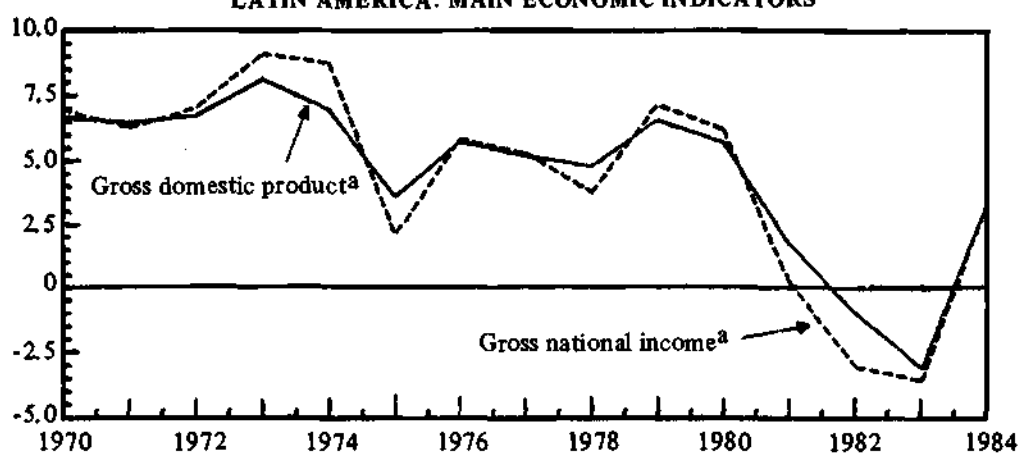
As a result of this new decline, and particularly because of the sharp reductions in the previous three years, there was a spectacular drop in the per capita product of many countries during the period 1981-1984. Thus, during this period the per capita product fell by more than 25% in Bolivia and 22% in El Salvador, 16% in Venezuela, Uruguay and Guatemala, 13% in Haiti, approximately 12% in Argentina, Peru and Costa Rica, 11% in Honduras, 10% in Chile and 8% in Brazil.

Moreover, the recovery in economic activity tended to be concentrated in the large and medium-sized economies of the region and was very weak in the majority of the smaller countries.

Thus, in Brazil —which alone generates around one-third of the gross domestic product of Latin America— economic activity increased by 4.5% and offset the decline of the previous year. The reversal of the downward trend that had been noted in productive activity since 1981 was due primarily to the new and spectacular growth of export volume which rose by 18%, mainly as a result of a considerable increase in sales to the United States. Recovery was further stimulated by greater import substitution based on the expansion of agricultural production by more than 4% and a recovery in manufacturing production, which, after having declined by more than 6% in 1983,

Figure 1

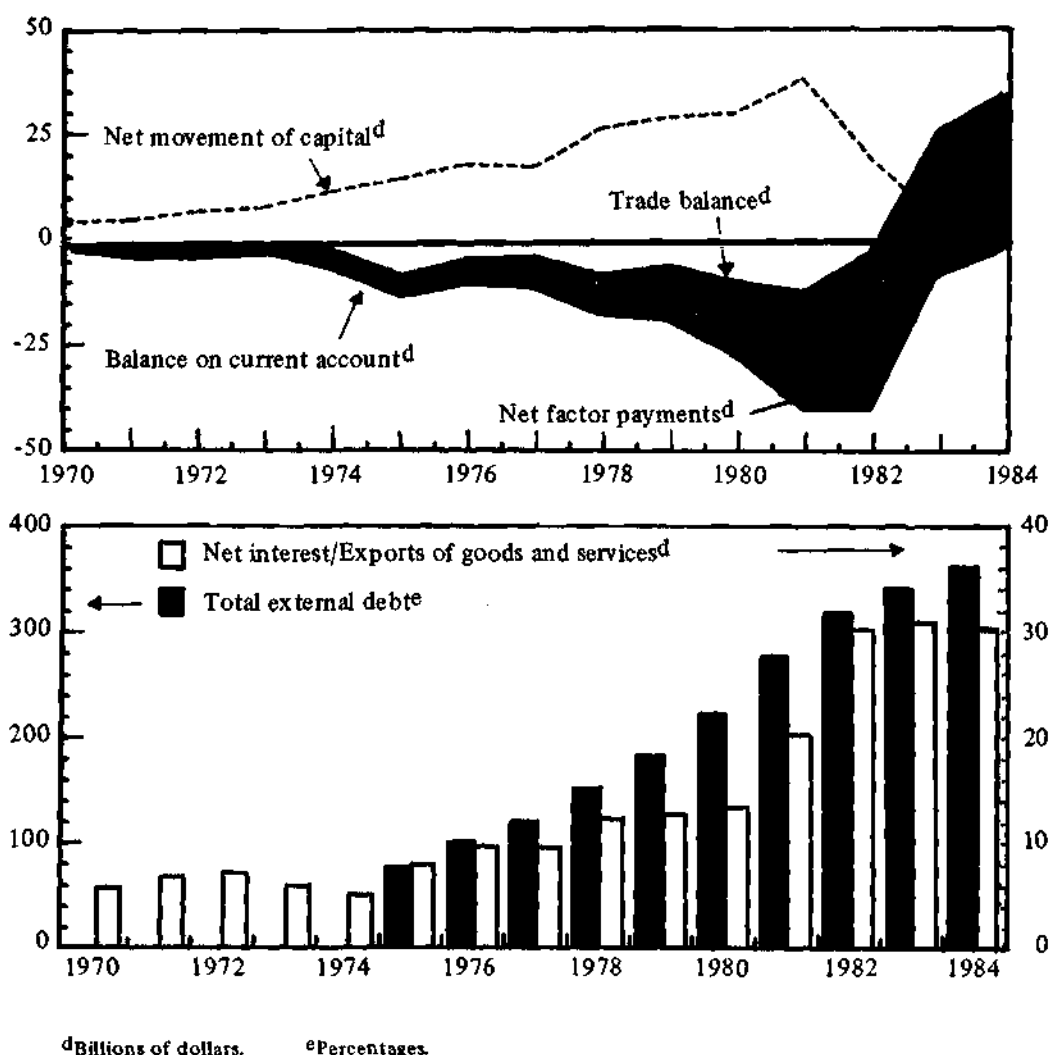
LATIN AMERICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate.
^bWeighted average annual rate for 18 of the 25 most populous cities of Latin America.
^cWeighted percentage variation from December to December.

Figure 1 (concluded)



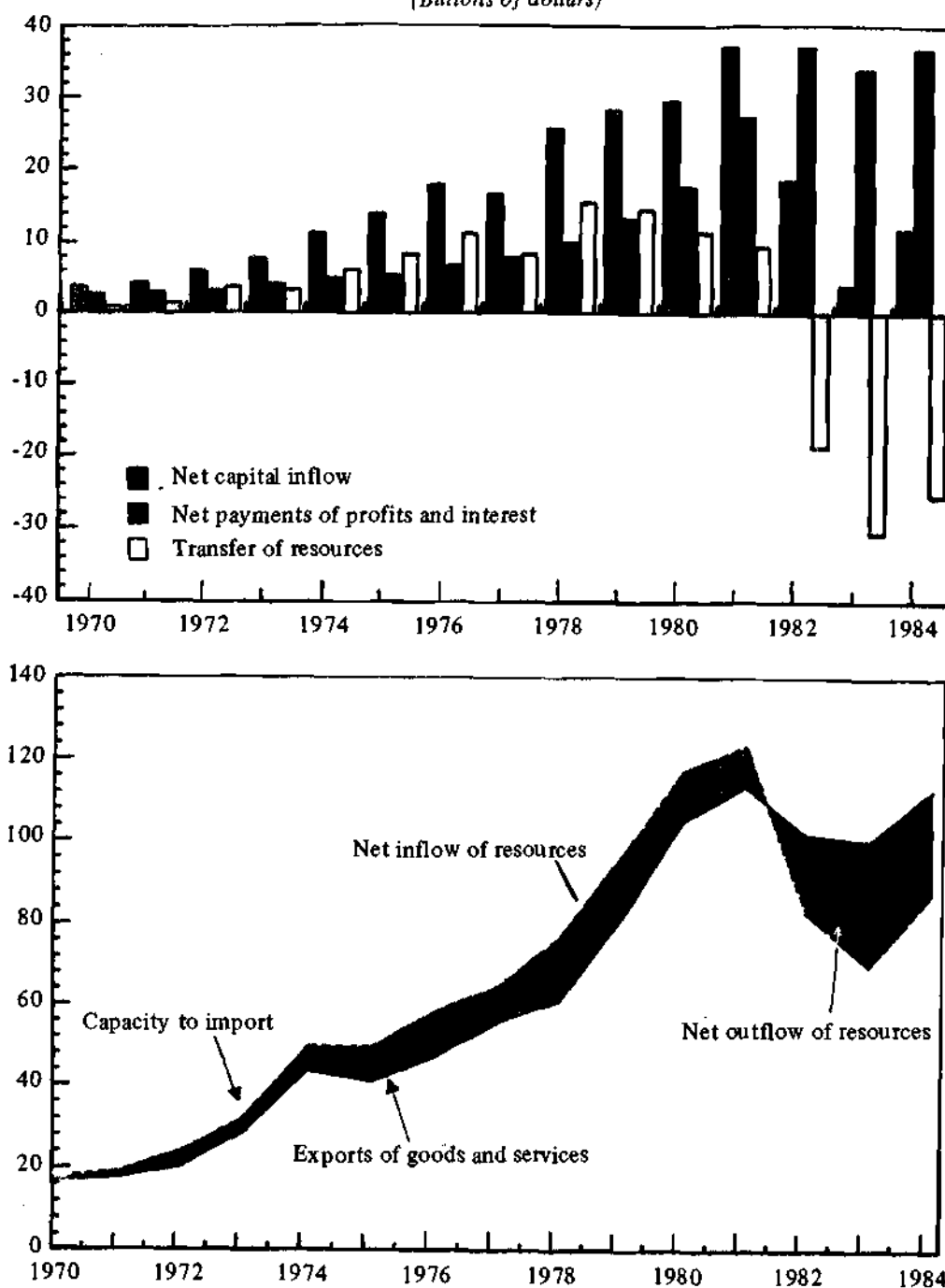
increased by 6% in 1984 and grew with particular vigour from the middle of the year. Construction, for its part, which had declined by 15% in 1983, improved slightly, while basic services increased by almost 8% (see table 4).

There was also a recovery of economic activity in Mexico in 1984. The increase of around 3.5% in the gross domestic product, however, did not compensate for the decline of over 5% during the previous year, although it was enough to offset the population increase. As in Brazil, the main impetus was given by exports of goods, the volume of which, after having increased by 40% during the previous two years, rose by over 5% in 1984. Recovery was also assisted by the greater availability of imports of goods. The volume of these, which had fallen by the extraordinary amount of 63% over the previous two years because of the decline in economic activity and especially the drastic measures taken to reduce the external imbalance, increased by 27% in 1984, so that stocks could be partially replenished and the activities dependent on imported inputs could also develop more normally.

The domestic product increased by 2% in Argentina. However, in contrast with Brazil and Mexico this increase reflected a continuation of the recovery which had begun the previous year, when economic activity increased by 3%, and moreover it was linked to higher domestic demand rather than to export growth. Domestic demand was stimulated particularly by the considerable increase in real wages during the first half of the year, but it tended to slacken during the last quarter,

Figure 2
LATIN AMERICA: NET CAPITAL INFLOW AND
TRANSFER OF RESOURCES

(Billions of dollars)



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

Table 2

LATIN AMERICA: EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1970- 1974	1975- 1978	1979- 1980	1981	1982	1983	1984 ^a	1981- 1984 ^{ab}
Latin America^c	7.0	4.8	6.1	1.7	-1.0	-3.1	3.2	0.6
Argentina	4.0	0.5	3.7	-6.2	-5.2	3.1	2.0	-6.5
Bolivia	5.6	5.1	1.2	0.7	-6.6	-8.6	-3.7	-17.2
Brazil	11.0	6.5	6.8	-1.6	0.9	-3.2	4.5	0.5
Colombia	6.6	4.9	4.7	2.3	0.9	1.0	3.0	7.4
Costa Rica	7.1	5.7	2.8	-2.3	-7.3	2.3	6.0	-1.7
Cuba ^d	8.7 ^e	6.0 ^f	3.2	15.1	3.1	3.8	7.4	32.4
Chile	0.9	1.7	8.0	5.5	-14.1	-0.7	6.3	-4.3
Ecuador	11.5	7.0	5.1	3.9	1.8	-3.3	3.0	5.3
El Salvador	4.9	5.5	-5.3	-8.3	-5.6	-0.7	1.5	-12.7
Guatemala	6.4	5.5	4.2	0.7	-3.5	-2.7	0.2	-5.3
Haiti	4.5	3.7	7.5	-2.8	-3.9	0.3	2.7	-3.8
Honduras	3.9	5.8	4.7	1.2	-1.8	-0.5	2.8	1.6
Mexico	6.8	5.3	8.8	7.9	-0.5	-5.3	3.5	5.3
Nicaragua	5.4	1.2	-10.0	5.3	-1.2	4.7	-1.4	7.4
Panama	5.8	3.5	9.7	4.2	5.5	0.4	-1.2	9.0
Paraguay	6.7	9.2	11.4	8.7	-1.0	-3.0	3.1	7.6
Peru	4.8	1.5	4.0	3.9	0.4	-10.9	4.8	-2.6
Dominican Republic	10.1	4.7	5.3	4.0	1.7	3.9	0.6	10.5
Uruguay	1.3	4.1	6.1	1.9	-9.4	-5.0	-1.8	-13.9
Venezuela	5.2	5.9	-0.3	-0.3	0.7	-5.6	-1.6	-6.8

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 period 1971-1974. These data are not comparable with those for 1976-1983, for methodological reasons. ^fRefers to 1976-1978.

when a more restrictive economic policy was applied in order to reduce the extraordinarily high rate of inflation. Even so, total consumption increased by almost 7% because of the greater purchasing power of wage-earners and the drop in real interest rates, which stimulated the purchase of durable consumer goods. On the other hand, investment declined sharply for the fourth consecutive year and the volume of exports fell by 2%.

The expansion of economic activity was a good deal greater in Chile, where the gross domestic product rose by more than 6%, thus partially recovering from its drop of almost 15% during the previous biennium. The most dynamic sector was manufacturing, where production increased by almost 10%, stimulated by a more expansive fiscal policy and by various measures designed to reduce the importation of a number of manufactured consumer goods. Greater public expenditure was primarily responsible for the 4% increase in construction, while agricultural production grew by 7% as a result of the marked recovery in the harvests of wheat and other traditional products and the increase of around 35% in the value of fruit exports.

The gross domestic product increased by about 5.1% in Peru, after falling by almost 11% the previous year. Basically, the increase achieved in 1984 was due to the recovery in the primary sectors, where production had been hard hit in 1983 by an unusual series of natural disasters. Thus, agricultural production grew by around 15%, compensating for its decline the previous year, fisheries production rose by 65% after having dropped by 46% in the triennium 1981-1983 and mining production—which had declined by nearly 8% in 1983—increased by almost 6%. On the other hand, industrial production increased by less than 4% thus regaining only a very small part of the ground lost in 1983, when it declined by 16%, and construction stagnated after having contracted more than 20% in 1983.

In 1984 the economic growth rate also increased in Colombia, where it had been steadily declining during the four previous years. The two sectors which contributed most to the 3% increase

in the gross domestic product were manufacturing, which grew by more than 6%, and construction, which increased by almost 5%. While manufacturing benefited from the increase in the real exchange rate and particularly from the tariff increases, construction was stimulated by the massive mobilization of financial resources for housing construction and by the increase in public expenditure. In Colombia too, however, the increase in economic activity occurred mainly in the first half of the year and weakened subsequently.

The evolution of economic activity in 1984 was relatively similar in Paraguay and Ecuador, which, like Peru, had experienced unusually severe climatic disasters in 1983. In Ecuador, the gross domestic product, which had declined by slightly more than 3% in 1983, increased by 3% in 1984, i.e., at much the same rate as the population. As in Peru, the product increase was mainly a consequence of the recovery of primary activities. Thus, agricultural production, which had dropped by 13.5% in 1983, following devastating damage caused by exceedingly heavy rains and floods, increased by 11.5%, while the fisheries output rose by 14% and more than compensated for its 4% decline the previous year. The total product of mining and petroleum activities increased by about 8.5%.

In Paraguay, the product also increased by 3%, which was virtually the same rate as the rate of decline the year before. However, the increase in overall productive activity was barely sufficient to offset the effect of the population increase and consequently the per capita product grew by only 0.1%. As in Ecuador, agriculture was the most dynamic sector and its production increased by around 6% after falling by 2.5% the previous year. Construction, however, which had expanded considerably between 1971 and 1984, continued to decline as it had in 1982 and 1983, although at a slower rate.

Table 3

**LATIN AMERICA: EVOLUTION OF PER CAPITA
GROSS DOMESTIC PRODUCT**

	Dollars at 1970 prices		Growth rates							
	1980	1984 ^a	1970- 1974	1975- 1978	1979- 1980	1981	1982	1983	1984 ^a	1981- 1984 ^{ab}
Latin America ^c	982	900	4.3	2.2	3.5	-0.7	-3.3	-5.4	0.9	-8.4
Argentina	1 334	1 170	2.3	-1.2	2.0	-7.7	-6.7	1.4	0.4	-12.3
Bolivia	382	284	3.0	2.4	-1.4	-1.9	-9.1	-11.0	-6.3	-25.6
Brazil	887	816	8.4	4.0	4.4	-3.8	-1.3	-5.3	2.2	-8.1
Colombia	824	812	4.2	2.7	2.5	0.1	-1.2	-1.2	0.9	-1.5
Costa Rica	974	861	4.4	2.6	-0.1	-4.9	-9.7	-0.3	3.3	-11.6
Cuba ^d	...	...	7.9 ^e	5.3 ^f	2.7	15.2	2.3	2.8	6.4	28.8
Chile	1 045	939	-0.9	0.2	6.5	3.9	-15.4	-2.3	4.7	-10.1
Ecuador	723	678	8.2	3.9	2.1	1.0	-1.1	-6.1	0.1	-6.1
El Salvador	433	337	1.9	2.5	-8.0	-10.9	-8.3	-3.5	-1.5	-22.3
Guatemala	589	498	3.5	2.6	1.4	-2.1	-6.2	-5.4	-2.6	-15.4
Haiti	114	98	2.2	1.3	4.9	-5.1	-6.2	-2.2	0.1	-13.0
Honduras	356	316	0.8	2.2	1.1	-2.3	-5.1	-3.8	-0.6	-11.3
Mexico	1 366	1 295	3.4	2.3	5.8	5.1	-3.1	-7.7	0.9	-5.2
Nicaragua	337	317	2.0	-1.6	-12.6	2.0	-4.4	1.2	-4.7	-5.9
Panama	1 174	1 173	2.9	0.9	6.2	1.9	3.2	-1.8	-3.4	-0.1
Paraguay	642	612	3.5	5.6	7.8	5.4	-3.9	-5.9	0.1	-4.7
Peru	690	605	1.9	-1.2	1.3	1.3	-2.2	-13.2	2.1	-12.3
Dominican Republic	601	605	7.0	2.2	2.9	1.6	-0.7	1.5	-1.7	0.7
Uruguay	1 426	1 195	1.1	3.6	5.4	1.2	-10.0	-5.6	-2.6	-16.2
Venezuela	1 310	1 089	1.6	2.2	-3.6	-3.3	-2.2	-8.2	-4.3	-16.9

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.

The evolution of overall production in 1984 was insufficient to avoid a decline in the per capita product in Bolivia, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic (see table 3). In most of these countries, productive activity continued to be adversely affected by the uncertainty and instability caused by the considerable political tensions and social conflicts, as well as by the unfavourable evolution of the international prices of some of the main export products such as sugar, bananas, cotton and tin.

Finally, in 1984 economic activity declined by a little under 2% in both Venezuela and Uruguay.

In Venezuela, this decline meant that the per capita product fell for the seventh year in a row, representing a cumulative decline of 24% in the period 1978-1984. The main causes of the new contraction experienced in economic activity in 1984 were the decline of around 6% in the petroleum industry and the drop of approximately 2% in the product of the remaining productive sectors. In 1984, the petroleum sector continued to face an unfavourable international situation and OPEC was forced to reduce the production quotas of its members towards the end of the year. In the case of Venezuela, it was agreed that production should be reduced by 7.5% in the last quarter. The decline in other activities was due mainly to the continued very low level of domestic demand and the uncertainty created by the changes in the exchange system and by the protracted negotiations with the foreign commercial banks for refinancing the external debt.

In Uruguay, the decline of almost 2% in the product recorded in 1984 followed much greater declines in the two previous years. The new drop in economic activity reflected both the very unfavourable performance of exports — whose volume fell by more than 14% — and the sluggishness of those sectors geared to meeting domestic demand, among which the dramatic contraction of about 21% in construction was particularly noteworthy. In general, economic activity was restricted by the limited financing available, the high level of indebtedness of companies and the wait-and-see attitude adopted by the industrialists with respect to the presidential elections held at the end of the year.

2. Total supply and demand and domestic availability of goods and services

After declining significantly in the previous two years, the total supply of goods and services increased by slightly more than 3% in 1984, as a result of the 3.2% rise in the gross domestic product and the increase of around 2% in the volume of imports (see table 5). In these circumstances, but mainly because of the phenomenal decline of almost 40% in the 1982-1983 biennium, the volume of external purchases in 1984 barely exceeded the level which it had reached eleven years before, whereas the import coefficient again declined, falling to the lowest level of the entire postwar period (see table 6 and figure 3).

As exports constituted by far the most dynamic component of total demand and as their volume grew at a rate of 8%, which was five times that of imports, the per capita domestic availability of goods and services increased a good deal less than the product, so that it only partially recovered from its decline in the previous two years. Accordingly, and also because of population growth, the domestic per capita availability of goods and services was still 13% lower in 1984 than in 1981.

The increased availability of goods and services in 1984 was very unevenly distributed between consumption and investment: whilst consumption rose by almost 3%, investment, which had contracted by more than 30% in the previous two years, increased by only 1%. As a result, the investment ratio decreased for the fourth year in a row and was only 16.5%: the lowest figure recorded in the last 40 years.

Furthermore, net external factor payments again increased. After growing at an extraordinary pace between 1979 and 1982, they had declined in 1983, but in 1984 they rose to an amount equivalent to 3.5% of the gross domestic product: double the level of only four years before and almost three times the amount reached in the middle of the past decade.

Notwithstanding this, the impact of the higher payments to foreign capital was offset in 1984 by the upturn in the terms of trade, which improved slightly after a steady sharp decline during the previous three years. The difference, therefore, between the domestic product and the national income, which had been expanding continually since 1980, remained unchanged in 1984 (see table 6).

Table 4

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY

(Growth rates)

	Agriculture			Mining and quarrying			Manufacturing			Construction			Subtotal goods			Basic services			Other services		
	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a
Latin America ^b	-0.1	0.4	3.5	3.0	-0.9	5.0	-2.3	-4.0	4.9	-5.0	-13.7	-1.9	-1.7	-3.8	3.8	1.6	-0.7	5.0	-0.5	-2.5	2.4
Argentina	7.3	0.7	2.6	0.3	2.1	-0.9	-4.7	10.8	4.3	-19.8	-6.8	-20.7	-2.8	4.9	1.0	-1.2	4.8	4.4	-9.4	0.2	2.4
Bolivia	3.5	-27.6	12.3	-5.5	-1.0	-15.7	-15.3	-3.4	-15.0	-10.7	-2.8	-15.7	-5.5	14.6	-4.1	-6.5	-6.1	-1.6	-7.5	-5.2	-0.6
Brazil	-2.5	2.2	4.3	6.7	14.5	27.3	0.2	-6.3	6.0	0.2	-15.0	1.3	-0.3	-5.3	5.4	5.8	2.4	7.9	1.7	-1.1	...
Colombia	-1.9	1.8	2.0	1.8	13.2	14.3	-1.4	0.5	6.3	4.0	5.1	4.7	-1.1	1.9	4.1	5.0	1.5	2.8	2.4	1.8	2.9
Costa Rica	-4.7	3.9	7.7	...	...	...	-11.4 ^c	1.2 ^c	9.0 ^c	-31.9	2.7	18.3	-11.0	2.7	9.3	0.5	4.3	2.4	-4.4	1.5	3.6
Cuba ^d	-2.4	-0.3	5.5	2.1 ^e	-10.7 ^e	-1.2 ^e	4.2 ^f	3.6 ^f	7.3 ^f	0.8	10.3	16.2	2.0	3.6	7.9	2.1	3.4	8.0	5.7 ^g	5.5 ^g	6.3 ^g
Chile	-1.2	-2.5	7.6	5.7	-1.9	4.4	-21.0	3.1	9.8	-23.8	-5.0	4.2	-11.5	-0.1	7.4	-8.8	0.2	6.3	-8.8	-7.6	...
Ecuador	2.2	-13.5	11.7	-0.6	12.3	8.4	7.0	2.1	0.9	-0.6	-12.0	0.5	4.0	-2.9	4.6	4.3	4.0	2.3	2.4	-3.3	1.7
El Salvador	-4.7	-3.2	1.2	-	-2.7	2.8	-8.4	-0.1	1.8	-2.1	2.0	-4.9	-5.7	-1.8	0.9	-5.6	5.7	2.8	-4.6	-0.6	1.1
Guatemala	-3.0	-3.7	1.0	13.6	12.0	-11.6	-5.2	-1.9	0.4	-11.6	-25.4	-17.9	-4.5	-5.2	-0.8	-4.1	0.3	0.7	-2.0	-0.7	0.9
Haiti	-4.2	-2.2	2.9	19.5	-93.2	2.8	3.8	5.6	-1.7	-9.7	6.0	0.1	-4.2	-1.6	1.2	-2.6	7.3	4.6	-3.1	2.0	4.7
Honduras	0.7	2.7	3.0	8.3	-	7.7	-5.7	-3.9	2.2	4.2	1.4	4.0	-0.6	0.5	3.1	-	-1.9	3.1	0.2	-2.8	1.4
Mexico	-0.6	2.9	2.4	9.2	-2.7	1.6	-2.9	-7.3	4.7	-5.0	-18.0	3.7	-1.7	-6.1	3.8	-2.3	-3.9	5.9	0.9	-4.4	2.9
Nicaragua	2.9	6.3	-5.3	-7.1	-5.1	-22.7	-1.7	4.6	0.2	-25.5	16.7	2.8	-0.4	5.9	-2.8	-2.0	-2.9	-4.0	-0.5	5.9	1.3
Panama	-1.5	5.0	-1.2	7.9	7.3	-	2.2	-2.1	-0.1	20.6	-31.1	-9.3	5.8	-8.6	-2.7	11.7	7.2	-5.5	1.3	0.9	2.3
Paraguay	0.4	-2.5	5.9	2.3	-7.3	1.0	-3.7	-4.2	4.5	-6.0	-5.7	-2.4	-1.8	-3.5	4.2	9.6	-1.5	3.0	-1.1	-2.4	1.7
Peru	2.1	-11.2	15.1	6.6	-7.7	5.9	-2.5	-16.0	3.9	2.3	-21.0	0.6	0.8	-13.6	7.4	0.7	-8.1	3.6	0.4	-3.2	...
Dominican Republic	4.3	3.4	-0.2	-36.3	46.6	8.4	5.2	1.7	-3.0	-4.0	14.8	2.8	-0.9	7.4	0.1	3.2	1.6	1.3	3.3	1.7	1.5
Uruguay	-7.3	-2.6	-5.2	...	...	...	-16.9 ^c	-7.0 ^c	2.8 ^c	-3.0	-31.2	-20.7	-11.9	-10.3	-3.1	-9.0	-2.5	-0.7	-7.5	-3.0	-0.9
Venezuela	3.6	0.4	2.0	-10.2	-7.8	3.7	4.1	0.3	2.8	-8.4	-13.3	-22.7	-1.0	-4.0	...	5.0	-10.3	...	-1.5	-1.0	...

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bExcluding Cuba.^cIncludes mining and quarrying.^dRefers to the social product concept.^eIncludes mining and metal production.^fExcludes metal production.^gRefers to commerce and other productive activities in the non-material sphere of the social product.

Table 5

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

	Billions of dollars at 1970 prices			Growth rates					
	1980	1983	1984 ^b	1979- 1980	1981	1982	1983	1984	1981- 1984 ^{bc}
1. Total supply (2 + 3)	376	352	363	6.7	1.8	-2.8	-5.4	3.1	-3.5
2. Gross domestic product at market prices	336	328	338	6.1	1.7	-1.0	-3.1	3.2	0.6
3. Imports of goods and services	41	24	25	11.9	2.6	-17.5	-27.4	1.7	-37.5
4. Exports of goods and services	31	35	38	9.1	7.3	-0.9	7.2	7.8	22.8
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	345	317	325	6.4	1.3	-3.0	-6.4	2.6	-5.9
6. Total final consumer expenditure ^d	267	261	269	6.6	1.9	-0.8	-3.2	2.9	0.7
7. Gross fixed capital formation	78	55	56	6.0	-0.9	-10.8	-20.0	1.0	-28.5
8. Terms-of-trade effect	7	-2	-1				...	...	...
9. Net factor payments to rest of world	6	11	12	16.6	44.4	35.3	-6.4	7.0	95.6
10. Real gross national income (2 + 8 - 9)	336	315	325	6.6	0.1	-3.1	-3.7	3.2	-3.5

Source: ECLAC, on the basis of official statistics.

^aNineteen countries. Of the Caribbean countries, only Haiti and the Dominican Republic are included.
^bRefers to the cumulative variation in the period.

^cProvisional figures.

^dIncludes variation in stocks.

III. EMPLOYMENT AND UNEMPLOYMENT

1. Employment

The evolution of employment levels in 1984 continued to be very uneven in the economies of the region. On the one hand, the uneven course of employment in manufacturing reflected the different levels of recovery of industrial activity in the various countries, while on the other it reflected the differences in the real capacity of industrial enterprises to absorb manpower. It was also due to the customary gap between increases in production and employment. Thus, although industrial activity expanded in all those countries which have a long and relatively homogeneous set of statistics on manufacturing employment, this type of employment increased only in Argentina, Costa Rica, Chile and Venezuela. In contrast, it decreased noticeably in Peru and fell at a moderate rate in Brazil, Colombia, Ecuador and Mexico (see table 7). Employment in the services sector, however, declined in only three of the countries under consideration (Colombia, Peru and Venezuela), while it increased by almost 10% in Mexico and by 1% to 3% in Brazil, Costa Rica and Chile (see table 8).

Colombia and Peru were thus the only countries in which employment fell in both industry and services. The fact is that the partial recovery of the Peruvian economy in 1984, after its dramatic fall the previous year, did not benefit the more labour-intensive branches of industry, and their situation continued to be rather unfavourable. Employment in manufacturing therefore fell by 10% to its lowest level in the last 10 years, while employment in the services sector fell by 2%.

The reduction in industrial employment was rather less (-1%) in Colombia. It was much less severe than in the previous three years and occurred only in the first half of the year. On the other hand, employment in commerce continued to contract throughout the whole year, although less markedly than in 1984.

The vigorous growth in manufacturing activity in 1984 in both Brazil and Mexico helped to halt the considerable decline in industrial employment registered in both countries in previous years, and industrial employment even increased in the last quarter. Consequently, although average industrial employment in Brazil was almost 3% lower in 1984 than in 1983, by the end of the year it had reached a slightly higher level than that registered 12 months before. Employment in the services sector expanded fairly well, so that its average level exceeded the level recorded for the previous year by almost 2%.

The evolution of industrial employment was very similar in Mexico, where the annual average level fell by 2% but there was an increase in the latter part of the year, thereby regaining the level reached at the end of the previous year. In contrast, employment in service activities expanded considerably (10%), although, as it had fallen very sharply the previous two years, at the end of 1984 it still only stood at its 1981 level.

The downward trend in industrial employment was also interrupted as from mid-1984 in Ecuador. Thus, although average employment in the manufacturing sector was slightly lower in 1984 than in 1983, by the end of the year its level regained that recorded before the recession (see table 7).

In the other countries, there was a clear increase in industrial employment. However, the 2% increase in manufacturing employment in Venezuela only partially compensated for its decline in previous years and did not permit the level recorded at the beginning of the decade to be regained. At the same time, employment in services, which had been steadily increasing, contracted slightly.

In Argentina, industrial employment increased for the second consecutive year by about 2%. However, because of the steady and considerable decrease in the previous seven years, at the end of 1984 it barely exceeded the level recorded in 1981, which was itself almost one-third lower than the 1975 level.

Table 6

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

(GDP = 100)

	Total final consumer expend- iture ^b	Gross fixed 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	80.0	20.2	100.2	9.0	9.2	100.0	-	1.4	98.6
1971	80.1	20.4	100.5	8.6	9.1	100.0	-0.2	1.4	98.4
1972	79.9	20.6	100.5	8.6	9.1	100.0	-	1.3	98.7
1973	79.5	21.2	100.7	8.8	9.5	100.0	1.1	1.4	99.7
1974	80.8	21.9	102.7	8.3	11.0	100.0	2.7	1.3	101.4
1975	79.6	23.1	102.7	7.8	10.5	100.0	1.0	1.1	99.9
1976	78.6	23.5	102.1	7.9	10.0	100.0	1.2	1.3	99.9
1977	79.1	23.1	102.2	8.2	10.4	100.0	1.4	1.3	100.1
1978	78.9	23.2	102.1	8.8	10.9	100.0	0.7	1.5	99.2
1979	79.3	22.8	102.1	9.2	11.3	100.0	1.4	1.6	99.8
1980	79.6	23.2	102.8	9.3	12.1	100.0	2.0	1.8	100.2
1981	79.8	22.6	102.4	9.8	12.2	100.0	1.3	2.6	98.7
1982	80.0	20.4	100.4	9.8	10.2	100.0	0.2	3.6	96.6
1983	79.9	16.8	96.7	10.9	7.6	100.0	-0.5	3.4	96.1
1984 ^c	79.7	16.5	96.2	11.3	7.5	100.0	-0.4	3.5	96.1

Source: ECLAC, on the basis of official figures.

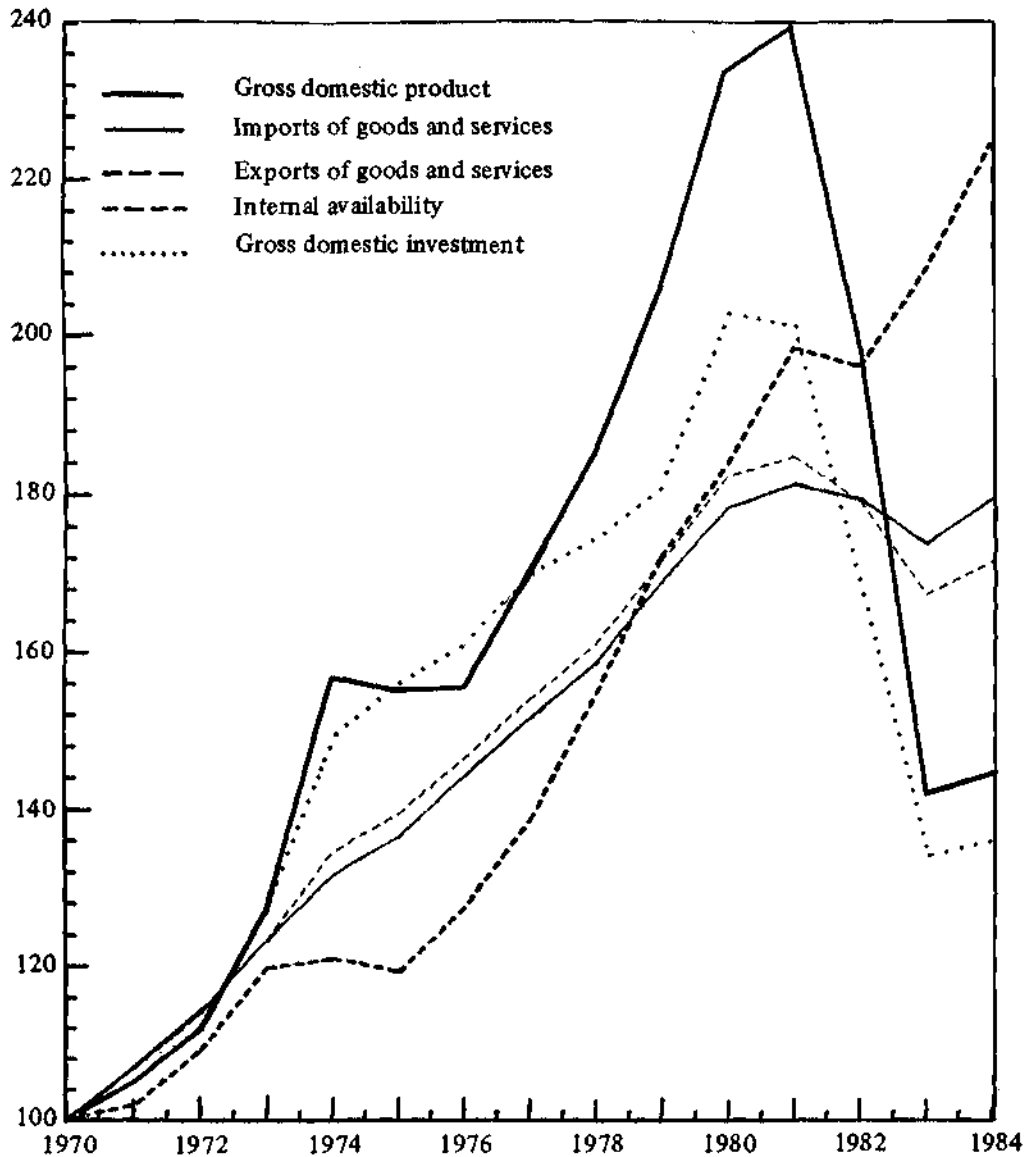
^aNineteen countries. Of the Caribbean countries, only Haiti and the Dominican Republic are included.

^bIncludes variation in stocks. ^cProvisional figures.

Figure 3

**LATIN AMERICA: INDEXES OF GROSS DOMESTIC PRODUCT,
INTERNAL AVAILABILITY OF GOODS AND SERVICES,
INVESTMENT, IMPORTS AND EXPORTS**

(1970 = 100)



Source: ECLAC, on the basis of official data.

Industrial employment experienced rapid growth (15%) in Chile, mainly because of a 10% recovery in the manufacturing product, but that growth could not offset the 23% contraction in industrial employment registered in the previous two years, so that such employment was still 12% lower than in 1981. At the same time, employment in services grew by almost 3%, which was an appreciable rate if the drastic reduction in the special employment plans of the government is taken into account. The expansion of these special plans had been responsible for much of the 16% growth shown in employment in services in 1983, but in 1984, they contracted by almost 50% absorbing 8% of the total labour force compared with 13% the previous year.

Finally, employment in manufacturing increased by about 7% in Costa Rica. This new expansion reflected the considerable growth (9%) in industrial production in 1984, but this growth was concentrated in the first half of the year and weakened noticeably afterwards. Thus, in November 1984 industrial employment was 2% less than in November 1983. On the other hand the growth rate of employment in the services sector not only surpassed the 1983 level but increased during the year.

2. Urban unemployment

After having increased steadily since 1981, the urban unemployment rate stabilized at a level slightly above 8% in 1984 (see table 9). The very slight variation in the unemployment rate for the region as a whole concealed the very different changes recorded in the various countries, however. Thus, in Colombia, Costa Rica, Honduras, Nicaragua, Peru and Venezuela the proportion of the labour force affected by unemployment grew enormously. In four other countries —Argentina, Bolivia, Brazil and Panama— there was almost no change in the level of unemployment, while in Chile, Mexico, Paraguay and Uruguay the rate of open unemployment declined (see table 10).

In Colombia, Honduras, Peru and Venezuela the urban unemployment rate reached the highest levels recorded since relatively reliable statistics have been available (see figure 4). The greatest relative deterioration occurred in Peru, where urban unemployment went up from 14% in 1983 to over 16% in 1984, although in Lima it remained at 9%. The deterioration in the employment situation was also observed in the increase in visible underemployment, which rose from 33% to 37%: the highest rate recorded in recent years (see table 11).

Table 7

LATIN AMERICA: EMPLOYMENT IN MANUFACTURING

(1980 = 100)

	1981	1982	1983	1984 ^a	1983				1984			
					I	II	III	IV	I	II	III	IV
Argentina ^b	87.4	82.8	85.5	88.0	87.0	85.8	83.4	85.6	88.3	87.4	87.1	88.9
Brazil ^b	92.6	86.3	79.7	77.6	82.0	81.0	78.7	77.3	76.9	77.6	77.6	78.5
Colombia ^b	95.5	90.5	84.5	83.6	85.5	84.5	83.6	84.2	82.7	83.3	83.8	84.6
Costa Rica ^c	100.4	102.1	123.6	131.8	101.8	...	132.2	137.6	128.8	...	...	134.7
Chile ^c	102.2	80.9	78.8	90.3	75.4	75.8	82.7	81.1	81.4	89.4	93.5	97.0
Ecuador ^b	108.5	110.1	105.3	104.5	105.4	104.7	105.5	105.4	103.5	101.8	106.2	106.5
Mexico ^b	105.6	103.0	93.1	91.3	94.5	94.1	92.7	91.2	90.6	90.8	91.9	91.9
Peru ^b	101.1	94.7	94.3	84.4	97.8	95.6	94.8	91.2	86.1	84.1	83.5	83.7
Venezuela ^c	102.4	102.3	96.8	98.0	...	96.6	...	97.0	...	96.9	...	101.1
Percentage variation ^d												
Argentina ^b	-12.6	-5.3	3.3	2.9	0.7	5.1	3.7	3.7	1.6	1.8	4.3	3.8
Brazil ^b	-7.4	-6.8	-7.6	-2.6	-5.2	-7.5	-9.0	-8.2	-6.2	-4.2	-1.4	1.6
Colombia ^b	-4.5	-5.0	-6.6	-1.1	-7.0	-7.3	-7.1	-5.5	-3.3	-1.4	0.2	0.5
Costa Rica ^c	0.4	1.7	21.4	6.6	-2.0	...	34.3	32.3	25.7	...	...	-2.1
Chile ^c	2.2	-20.8	-2.6	14.7	-17.0	-12.6	10.5	13.8	8.0	17.9	13.0	19.5
Ecuador ^b	8.5	1.4	-4.4	-0.7	-3.4	-3.2	-8.9	-1.7	-1.7	-2.8	0.7	1.1
Mexico ^b	5.6	-2.5	-9.6	-1.9	-10.8	-11.0	-9.6	-6.8	-4.1	-3.5	-0.9	-0.8
Peru ^b	1.1	-1.4	-5.4	-10.5	-2.2	-4.4	-6.5	-8.4	-11.9	-12.0	-9.9	-8.2
Venezuela ^c	2.4	-0.1	-5.4	2.3	...	-5.4	...	5.4	...	0.3	...	4.2

Source: ECLAC, on the basis of official figures.

^a Provisional figures.

^b Personnel employed in manufacturing, according to periodic sample surveys of enterprises.

^c Personnel

employed in manufacturing, according to household surveys.

^d Compared to the same period the year before.

Table 8

LATIN AMERICA: EMPLOYMENT IN THE SERVICES SECTOR

(1980 = 100)

	1981	1982	1983	1984 ^a	1983				1984 ^a			
					I	II	III	IV	I	II	III	IV
Brazil ^b	101.2	103.1	103.3	101.2	108.1	105.4	105.4	105.3	105.6	106.5	107.7	108.9
Colombia ^c	104.2	104.6	100.0	96.5	101.9	98.7	97.2	100.3	97.1	96.4	95.5	97.2
Costa Rica ^d	105.6	109.5	113.3	117.6	112.9	113.5	...	113.3	114.4	...	...	120.9
Chile ^e	101.4	103.3	120.2	123.6	113.2	116.7	130.6	120.0	118.5	125.6	123.1	127.0
Mexico ^f	116.9	108.2	102.6	112.6	101.3	101.7	106.7	104.8	107.8	111.3	113.3	117.8
Peru ^g	101.1	104.1	105.2	103.1	105.3	108.7	105.7	104.3	102.3	102.6	103.2	104.0
Venezuela ^h	103.6	105.5	110.1	109.5	110.2	...	109.9	...	110.6	...	108.4	...
Percentage variation ⁱ												
Brazil ^b	1.2	2.5	1.5	1.8	2.7	1.9	1.1	0.5	0.5	1.0	2.2	3.4
Colombia ^c	4.2	0.4	-4.4	-2.8	-1.6	-4.8	-5.4	-5.8	-4.7	-2.3	-1.7	-1.9
Costa Rica ^d	5.8	3.5	3.5	3.8	8.9	0.7	...	1.1	1.3	...	...	6.7
Chile ^e	1.4	1.9	16.4	2.8	14.9	24.1	24.2	4.4	4.7	7.4	-6.0	5.8
Mexico ^f	16.7	-7.9	-5.8	9.7	-14.0	-11.6	3.2	4.5	6.4	9.4	10.3	12.4
Peru ^g	1.1	3.0	1.1	-2.0	2.4	1.5	2.9	-0.7	-2.8	-2.9	-2.4	-0.3
Venezuela ^h	3.6	1.8	4.4	-0.5	4.8	...	2.3	...	3.6	...	-1.4	...

Source: ECLAC, on the basis of official figures.

^aProvisional figures.^bIn the principal cities.^cOnly in retail trade.^dValle Central.^eGreater Santiago.^fOn the

basis of the number of members registered in the Social Security Institute.

^gMetropolitan Lima.^hWholecountry. ⁱCompared to the same period the year before.

The employment situation also worsened noticeably in Venezuela, where the urban unemployment rate increased for the seventh consecutive year and reached a record high of almost 14% in 1984. At the same time, unemployment rose to 13.4% in Caracas: almost double the level recorded only two years before (see figure 2). Furthermore, the increase in unemployment was widespread and extended to all the main branches of economic activity, although it was particularly severe in the case of construction, where the proportion of unemployed, which had almost doubled in 1983, increased again in 1984 to an average of 29% (see table 12). The main cause of the new increase in unemployment was the contraction in economic activity for the fourth time in the last five years. The participation rate increased only very slightly and remained below the level recorded in 1980 (see table 13).

Urban unemployment also reached the unprecedented level of 13.5% in Colombia. The drop in employment in the manufacturing sector and in trade referred to above, as well as the increase in the urban participation rate, contributed to this increase. The rise in participation, in turn, reflected the growing rural-urban migration and the reduction of average real income. The worsening of the employment situation did not, however, affect all cities in Colombia in the same way. Thus, the average unemployment rate remained virtually unchanged in Barranquilla and dropped slightly in Medellín, despite the fact that the figure of 16% recorded in Medellín continued to be the highest in the country. On the other hand, there was a noticeable increase in unemployment in Cali and especially in Bogotá (see table 9).

The increase in unemployment was a good deal less pronounced in Honduras and Nicaragua, where unemployment had reached very high levels in 1983 (see figure 4). In Honduras, where unemployment had increased greatly in the previous three years, the proportion of unemployed persons went up from 23% in 1983 to 24% in 1984: the highest rate recorded in the whole group of Latin American countries for which relatively reliable data are available. In Nicaragua, the increase in unemployment from 15% in 1983 to 16% in 1984 stemmed from the drop in domestic activity, and the negative effect of this on the labour market was reinforced by rural-urban migration.

Open unemployment also increased in Costa Rica in 1984. In addition to reversing the downward trend which had been observed in unemployment since early 1983, this increase was also quite marked. At the end of 1984, the proportion of the labour force that was out of work was almost 11% in the urban centres and more than 12% in San José: the highest figure recorded since 1981.

In Argentina, Bolivia, Brazil and Panama, the open unemployment rate was virtually the same as in the previous year. Continuing the trend which had started in 1983, urban unemployment in Brazil increased slightly in 1984. However, unlike the previous year, the new rise occurred within the context of a noticeable recovery in economic activity. As was indicated above, the effect of this recovery on industrial employment was rather moderate, and was not sufficient to permit the levels attained in 1980 to be regained. Moreover, the recovery in production did not prevent unemployment rates from increasing in all the main sectors of the economy (see table 12). As in previous years, the highest unemployment rate (9%) was recorded in Recife. In contrast, average unemployment in São Paulo remained virtually the same as the previous year and at the end of 1984 showed the lowest

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

	1979	1980	1981	1982	1983	1984	1983				1984			
							I	II	III	IV	I	II	III	IV
Latin America ^a	6.2	6.2	6.6	7.0	8.1	8.2	8.2	8.3	8.2	7.9	8.6	8.3	8.4	7.6
Argentina ^b														
Capital and Greater														
Buenos Aires	2.0	2.3	4.5	4.7	4.0	3.8	...	4.9	...	3.1	...	4.0	...	3.6
Córdoba	2.2	2.4	3.8	4.4	5.0	4.8	...	4.3	...	5.6	...	4.4	...	5.1
Greater Mendoza	3.1	2.3	4.8	4.1	4.5	4.5	...	4.5	...	4.5	...	5.0	...	3.4
Rosario	2.9	3.4	5.8	8.4	6.3	6.7	...	6.3	...	...	...	9.0	...	6.3
Brazil ^c														
Rio de Janeiro	...	7.5	8.6	6.6	6.2	6.8	6.0	6.5	6.5	5.8	6.9	7.4	6.7	6.0
São Paulo	...	5.7	7.3	6.0	6.8	6.8	6.7	7.2	7.0	6.2	7.8	7.5	6.7	5.1
Recife	...	6.9	8.6	7.5	8.0	9.0	7.5	8.5	8.5	7.5	8.9	9.6	9.9	7.5
Porto Alegre	...	4.5	5.8	5.3	6.7	7.0	6.1	7.1	7.4	6.3	7.6	8.2	6.9	5.3
Colombia ^d														
Bogotá	6.6	7.9	5.5	7.4	9.4	12.2	7.9	9.4	8.9	11.3	12.6	12.0	11.8	12.4
Barranquilla	6.3	8.1	11.1	10.4	13.8	13.8	11.8	14.8	14.4	14.3	14.4	13.1	15.3	12.4
Medellín	14.3	14.7	13.1	13.3	17.0	16.4	17.1	18.2	16.1	16.7	16.1	17.1	15.3	17.1
Cali	10.7	10.0	9.0	9.6	11.6	13.3	11.6	11.8	11.8	11.3	13.4	12.9	14.5	12.5
Mexico ^e														
México City	5.7	4.3	3.9	4.0	6.3	5.8	6.8	5.5	6.4	6.3	5.4	5.3	6.4	6.2
Guadalajara	5.7	5.0	5.8	5.0	7.4	6.1	6.3	8.1	8.6	6.7	6.9	5.7	6.0	5.7
Monterrey	5.9	5.2	4.2	4.9	9.8	7.5	8.8	9.8	11.4	9.1	8.3	7.0	8.5	6.2
Asunción														
(Paraguay) ^f	5.9	3.9	2.2	5.6	8.4	7.4	...	...	...	8.4	...	...	7.4	...
Caracas (Venezuela)	...	6.7	5.7	7.0	9.9	13.4	...	10.1	...	9.7	13.5	12.8	14.0	13.2
La Paz (Bolivia) ^g	7.6	7.5	...	9.4	12.8	12.6	...	12.7	...	12.9	...	...	12.9	12.2
San José														
(Costa Rica) ^h	4.5	5.6	9.3	10.5	8.5	10.1	9.7	...	...	7.3	7.9	...	...	12.3
Santiago (Chile) ⁱ	13.6	11.8	11.1	22.1	22.2	19.3	23.9	22.7	21.9	20.4	21.7	18.4	20.9	15.9
Lima (Peru) ^j	6.5	7.1	6.8	6.6	9.0	8.9	...	9.0	...	...	...	8.9	...	...
Montevideo														
(Uruguay) ^k	8.4	7.4	6.6	11.9	15.5	14.0	15.9	16.1	15.2	14.6	14.6	14.1	14.7	12.7

Source: ECLAC, on the basis of official data.

^aWeighted average for the 25 largest cities in Latin America, excluding Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala City, for want of comparable data. ^bFigures for April and October. ^cQuarterly averages.

^dFigures for March, June, September and December.

^eIncluding Fernando de la Mora, Iambaré and the urban areas of Luque and San Fernando.

^f1978, second half of year; 1979, average for two halves; 1980, May-October; 1982 and 1983, June and December.

^gFigures for March, July and November.

^hFigures for March, June, September and December.

ⁱ1978, average for July-August; 1979, September; 1980, April; 1981, June.

^jSix-monthly averages for 1978, 1979 and 1980. Quarterly averages for 1981, 1982 and 1983.

Table 10

LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT

(Annual average rates)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Argentina ^a	...	4.2	3.7	4.9	3.3	3.3	2.5	2.6	4.7	5.3	4.6	4.6
Bolivia ^b	...	...	...	7.7	7.9	4.5	7.6	7.6	9.7	9.4	12.8	12.6
Brazil ^c	...	...	...	...	...	6.8	6.4	6.2	7.9	6.3	6.7	7.1
Colombia ^d	...	12.7	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5
Costa Rica ^e	...	...	...	5.4	5.1	5.8	5.3	6.0	9.1	9.9	8.5	9.3
Chile ^f	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3
Honduras ^g	...	...	...	...	...	...	...	15.2	18.3	21.1	22.9	23.9
Mexico ^h	7.5	7.4	7.2	6.8	8.3	6.9	5.7	4.5	4.2	4.1	6.8	6.0
Nicaragua ⁱ	...	...	...	...	...	...	21.4	18.3	15.8	19.9	15.2	16.3
Panama ^j	...	7.5	8.6	9.0	...	9.6	11.6	9.8	11.8	10.3	11.4	11.0
Paraguay ^k	...	...	...	6.7	5.4	4.1	5.9	3.9	2.2	5.6	8.4	7.4
Peru ^l	...	...	...	8.4	9.4	10.4	11.2	10.9	10.4	10.6	13.9	16.4
Uruguay ^m	8.9	8.1	...	12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0
Venezuela ⁿ	...	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	11.1	13.9

Source: ECLAC, on the basis of official figures.

^a National urban average. Average April-October.^b La Paz. 1976, July; 1977, September; 1978, second half; 1979, annual average; 1980,

May-October; 1981, urban national average; 1982, 1983 and 1984, average June-December.

^c Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, 1982 Salvador and Recife. Average for 12 months; 1980, average June-December.^d Bogotá, Barranquilla, Cali and Medellín. Average for March, June, September and December.^e National urban average. Average for March, July and November. 1984, average for March and November.^f Greater Santiago. Average for March, June, September and December.^g Official estimates for the whole country.^h Metropolitan areas of México City, Guadalajara and Monterrey. Average for four quarters.ⁱ National rate for non-agricultural activities.^j Urban national average. 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, metropolitan area.

^k Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo. 1981, first half; 1982, first quarter; 1983, average for September, October and November; 1984, average for August, September and October.^l Non-agricultural activities.^m Montevideo, average for two half-years.ⁿ Urban national average. Average for two half-years; 1984, first half.

Table 11

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

(Annual average rates)

	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Argentina ^c	6.5	4.1	5.2	4.0	5.6	6.4	6.8	4.8	4.6
Colombia ^d	16.3	14.0	14.3	14.0	16.0	11.4	10.9	12.1	14.6
Costa Rica ^e	9.3	8.1	10.0	13.8	15.6	19.3	24.2	17.6	14.7
Peru ^f	...	24.3	38.8	33.0	26.0	26.8	28.0	33.3	36.8

Source: ECLAC, on the basis of official figures.

^a Percentage of the labour force that would be willing to accept a longer working day than at present.^b Provisional figures.^c Greater Buenos Aires. Average April-October.^d Bogotá, Barranquilla, Cali and Medellín. Average for March, June, September and December. 1984, March-June.^e National urban total. Average for March, July and November. 1984, March.^f Metropolitan Lima.

levels since 1982. In general, because of seasonal factors on the one hand and a speeding-up of reactivation towards the end of the year, on the other unemployment dropped considerably in all the cities of Brazil during the last quarter (see figure 5).

Despite the reactivation of the economy in Argentina, the open unemployment rate in the cities remained virtually unchanged, and although on average it stood at a rather lower level than that of the triennium 1981-1983 it was almost double the rate recorded in the period 1979-1980. The increase in unemployment was particularly noticeable in construction, where the rate was the highest for the last

four years. Moreover, underemployment declined only slightly in Greater Buenos Aires, while it increased in most of the other cities.

In Bolivia and Panama, a slight drop in unemployment was recorded compared with the level recorded in 1983. For Bolivia, this meant that the unemployment rate remained at around 13%, which was almost double the figures recorded for the 1970s. In Panama, the decline in urban unemployment from 11.4% in 1983 to 11% in 1984 marked the continuation of the uneven course which it had followed since 1979.

In the other countries, the decline in open unemployment was much more noticeable, although it did not reach pre-recession levels in any of them.

The biggest relative drop occurred in Chile, where unemployment fell from an average of 22% in 1983 to 19% in 1984. Even so, this rate was much higher than those recorded during the 1970s. In addition, despite the fact that the decline in unemployment accelerated towards the end of the year, its

Table 12

LATIN AMERICA (SELECTED COUNTRIES): EVOLUTION OF URBAN UNEMPLOYMENT IN THE MAIN SECTORS OF ECONOMIC ACTIVITY

(Annual average rates)

	Commerce				Manufacturing				Construction			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Argentina ^b	3.2	3.2	3.3	2.9	4.9	4.6	2.8	3.0	8.9	11.2	9.3	12.1
Brazil ^c	...	...	6.8	7.2	...	...	6.4	7.1	...	...	11.7	12.8
Costa Rica ^d	5.1	8.8	7.9	6.3	7.1	10.0	7.3	6.2	11.7	15.0	14.6	13.3
Chile ^e	5.9	14.5	16.0	13.1	11.8	26.7	25.9	19.5	16.4	49.4	49.0	34.9
Uruguay ^f	5.9	7.7	13.3	11.3	7.0	13.0	16.6	13.3	5.7	9.7	16.6	17.5
Venezuela ^g	4.2	5.1	7.4	9.8	7.3	7.8	11.7	13.1	11.7	13.3	21.4	29.3

Source: ECLAC, on the basis of official data.

^a Provisional figures.

^b Greater Buenos Aires. Average for April-October, 1984, April.

^c Metropolitan areas of Rio de Janeiro, São

Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average for twelve months.

^d Valle Central. Data refer to March of each

year. ^e Greater Santiago. Average for March, June, September and December. Data from the Department of Economics of the University

of Chile. ^f Montevideo. Average for 4 quarters.

^g Whole country. Average for 2 half-years.

Table 13

LATIN AMERICA: TOTAL PARTICIPATION RATES^a

(Annual average rates)

	1970	1976	1980	1981	1982	1983	1984 ^b
Brazil ^c	58.8	58.1	61.0	62.0	61.9	60.5	60.9
Colombia ^d	...	49.8	54.4	52.3	53.0	54.6	56.2
Costa Rica ^e	44.9 ^f	50.2	50.2	49.3	50.9	48.7	48.7
Chile ^g	51.8	50.3	50.7	51.7	51.7	52.2	52.5
Mexico ^h	...	50.9	50.1	50.1	49.5	49.1	49.4
Panama ⁱ	...	55.0	51.3 ^j	...	53.8	55.9	55.8
Uruguay ^k	48.5	52.8	56.4	54.6	56.6	56.9	57.9
Venezuela ^l	43.4	...	55.0	54.7	54.4	54.2	54.7

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

^a Economically 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 corresponding footnotes). ^b Provisional figures. ^c Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Lower age limit 15 years. Average for 12 months.

^d Barranquilla, Bogotá, Cali, and Medellín. Lower age limit 12 years. Average for March, June, September and December. ^e National total. Lower age limit 12

years. March of each year. ^f According to the relevant national census. ^g Greater Santiago. Lower age limit 14 years. Average for

March, June, September and December. ^h Metropolitan areas of México City, Guadalajara and Monterrey. Lower age limit 12 years.

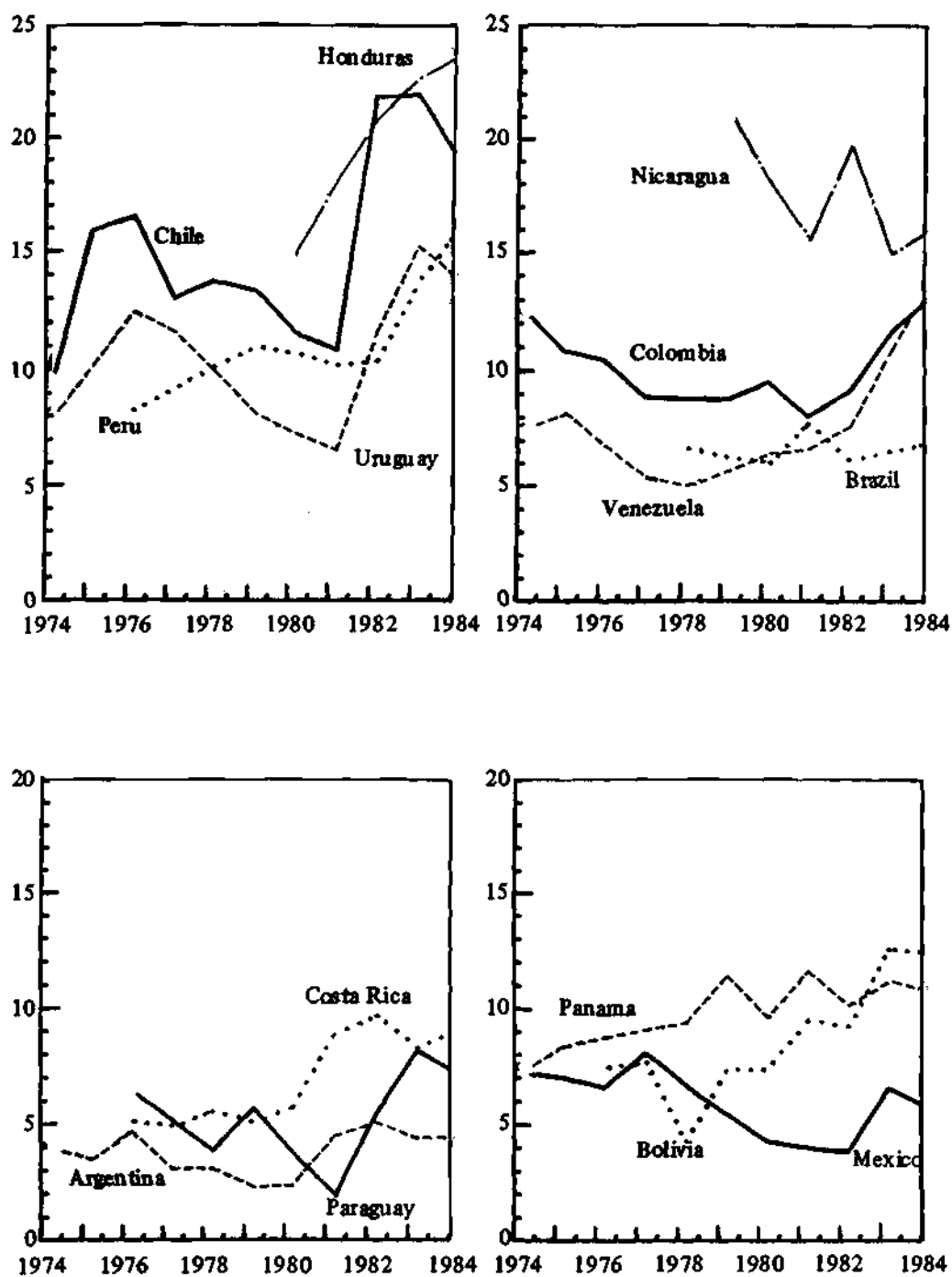
Average for four quarters. ⁱ National total. Lower age limit 15 years. ^j National total. Lower age limit 14 years. Average for four

quarters. ^k National total. Lower age limit 15 years. Average for two half-years. 1984, first quarter.

Figure 4

LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT

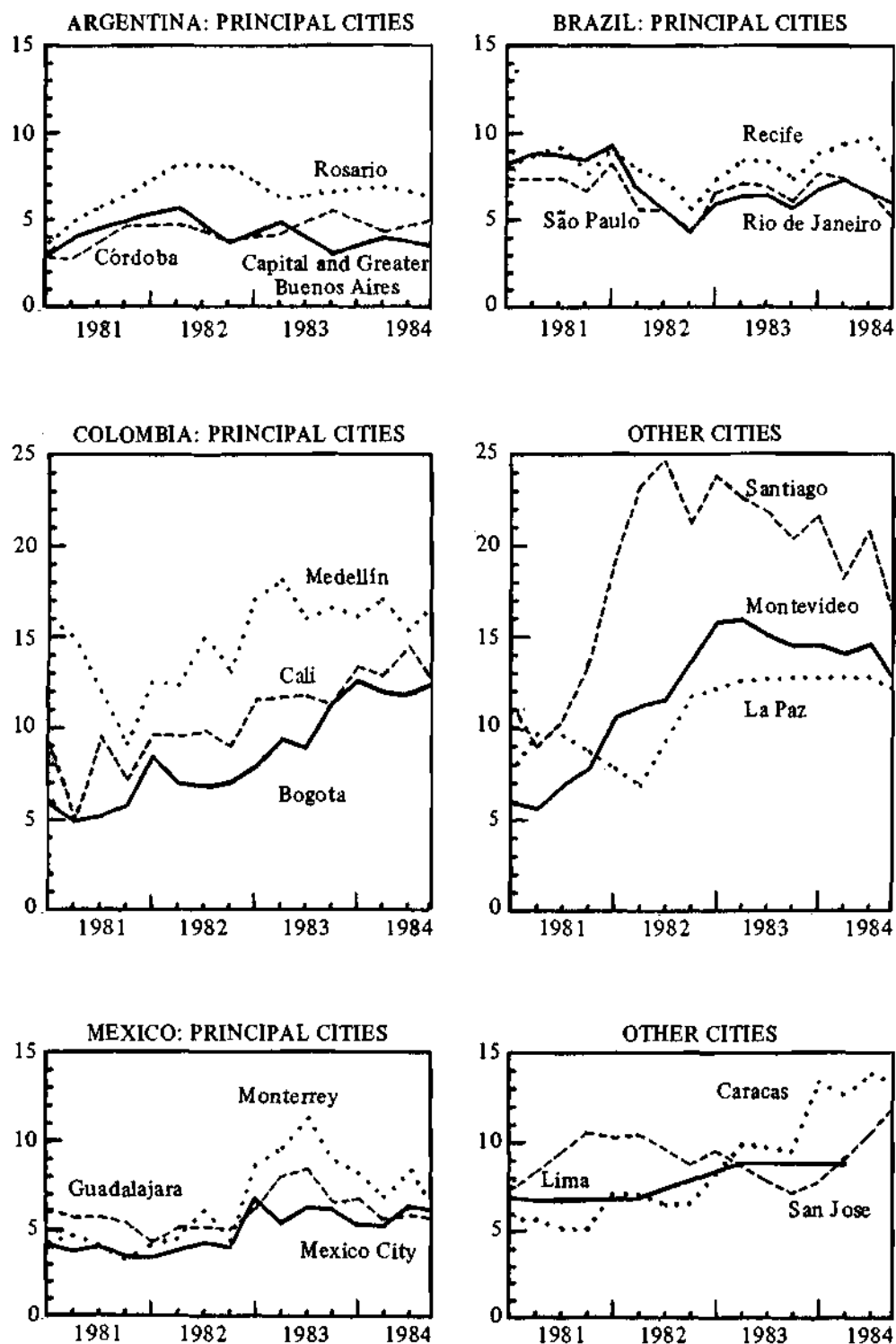
(Annual average rates)



Source: ECLAC, on the basis of official data.

Figure 5

**LATIN AMERICA: EVOLUTION OF UNEMPLOYMENT
RATE IN SOME MAJOR CITIES**



Source: ECLAC, on the basis of official data.

level in December (16%) was still much higher than the 11% recorded three years before (see tables 3 and 4). Finally, although unemployment fell in all sectors of economic activity it continued to affect more than one-third of the labour force in construction and almost one-fifth of the workers in manufacturing (see table 6). The fact that such a high level of unemployment was maintained despite the considerable reactivation of the economy in 1984 was largely due to the reduction in the special employment programmes of the government mentioned above. The slight increase in the participation rate also contributed to this.

In Uruguay, too, the decline in the rate of unemployment was not sufficient to enable the country to regain pre-recession levels. Thus, although there was a noticeable decline during the last quarter of the year, the rate of about 13% recorded in December 1984 was almost double that recorded in 1981. The drop in the unemployment rate went hand in hand with a new rise in the participation rate, which reached its highest level in 15 years, and with an increase in employment in industry and trade. On the other hand, unemployment in construction increased, and in this sector the unemployment rate exceeded 17%: more than three times the level recorded in 1981 (see table 12).

The upturn in domestic economic activity in Paraguay led to only a slight reduction in open unemployment. In fact, the annual average rate (7.4%) was the highest recorded since reliable statistics have been available, with the exception of the figure of 8.4% registered in 1983.

Finally, open unemployment in Mexico fell from almost 7% in 1983 to 6% in 1984. This latter figure, although a good deal higher than the figures recorded in the triennium 1980-1982, was lower than those for the period 1973-1978. The moderate improvement in the employment situation was reflected also in a slight increase in the participation rate, although this was still lower than those prevailing before 1982 (see table 7). While unemployment dropped in all the big cities of Mexico, the decrease was particularly marked in Monterrey, where it fell from 9% to 6% between December 1983 and December 1984. On the other hand, unemployment declined much less in Mexico City (where it even increased during the second half of the year) and in Guadalajara (see table 9).

IV. PRICES AND WAGES

1. Prices

Despite the weakness of the economic recovery in most of the countries of the region, of the increase in unemployment in many of them and the slackening of external inflationary pressures, the rate of price increases was higher in half of the economies of Latin America and reached a record high for the region as a whole in 1984. In fact, the simple average rate of consumer price increases went from 66% in 1983 to 163% in 1984 and the rate weighted by the population rose from 132% to 186% during this period.

Inflation reached extraordinarily high levels in Argentina and especially in Bolivia, and remained very high in Brazil and Peru. Although starting from very different levels, the rate of price increases accelerated greatly in Uruguay, Nicaragua, Paraguay, Costa Rica, Venezuela and the Dominican Republic. In Mexico, however, inflation declined, although it was still very high both in historic terms and in international comparative terms. It dropped sharply in Ecuador, maintained the same levels as the previous year in Chile and Colombia, and was very low in El Salvador, Haiti, Honduras and Panama (see table 14).

In Bolivia inflation reached a level unprecedented in the economic history of Latin America, with consumer prices climbing by almost 2 200% between December 1983 and December 1984. This extraordinary increase was decisively influenced by the successive devaluations of the peso (as a result of which the official rate increased from 500 pesos per dollar at the beginning of the year to 9 000 pesos in November), by the extraordinary magnitude of the fiscal deficit (which was equivalent to 35% of the gross domestic product), by the 1 800% expansion in the means of payment, and by the accentuation of inflationary expectations, which helped to speed up the velocity of circulation of money.

The speeding-up of the rate of inflation was also notable in Argentina. The average annual rate of increase in consumer prices, after soaring to 430% at the end of 1983, continued to climb with extraordinary speed in 1984, exceeding 680% by the end of the year. This intensification of the inflationary process was caused primarily by the wage policy applied at the beginning of the year, the

rise in interest rates in the unregulated markets, and the accentuation of the inflationary expectations of most of the economic agents.

Similarly, inflation continued to be very high in Brazil, where consumer prices increased slightly over 200% and the general price index rose by 225%, and in Peru, where the rate of increase in consumer prices exceeded the 100% mark for the second consecutive year (see figure 6). In Peru, the considerable expansion of the monetary supply and the continuous readjustments in the exchange rate, were largely responsible for the inflationary process while in Brazil, the high inflation rate reflected both the almost total indexation of the main variables that affect costs, and the removal of subsidies on the prices of oil and other basic goods.

Inflation rates rose sharply for the second consecutive year in Uruguay, Nicaragua, Paraguay and the Dominican Republic. Thus, in 1984 consumer prices rose by 66% in Uruguay, 50% in Nicaragua, almost 30% in Paraguay and 38% in the Dominican Republic.

Inflation also increased in Costa Rica, after its spectacular drop from the middle of 1982, while there was a marked rise in Venezuela. In both these countries, however, the inflation rate was around 18% at the end of the year and, in the case of Venezuela, was less than that originally forecast in the light of the devaluation of the bolívar and the changes introduced in the exchange system at the beginning of 1984.

Table 14

LATIN AMERICA: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Latin America^a	36.6	40.3	59.0	63.0	40.4	39.2	54.6	56.5	58.2	85.3	132.1	186.7
Countries with traditionally high inflation^a												
Argentina	43.9	40.1	334.9	347.5	150.4	169.8	139.7	87.6	131.2	209.7	433.7	688.0
Bolivia	34.8	39.0	6.0	5.5	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2
Brazil ^b	13.7	33.8	31.2	44.8	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3
Colombia ^c	25.0	26.9	17.9	25.9	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3
Chile	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0
Mexico	21.3	20.6	11.3	27.2	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2
Peru	13.8	19.2	24.0	44.7	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5
Uruguay	77.5	107.2	66.8	39.9	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1
Countries with traditionally moderate inflation^a												
Costa Rica	13.0	18.0	10.4	7.7	8.5	8.2	20.1	14.9	14.4	12.4	16.4	18.2
Ecuador ^d	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.4
El Salvador	20.6	21.2	13.2	13.1	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1
Guatemala	7.9	21.0	15.1	5.2	14.9	14.6	14.8	18.6	11.6	13.4	14.8	9.8
Haiti	17.5	27.5	0.8	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	8.4	5.2
Honduras	20.8	19.5	19.9	-1.4	5.5	5.5	15.4	15.3	16.4	6.2	12.2	6.1
Nicaragua	5.1	13.0	7.8	5.6	7.7	5.4	18.9	15.0	9.2	9.4	8.6	3.2
Panama			1.9	6.2	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2
Paraguay	9.7	16.7	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9
Dominican Republic	14.1	22.0	8.7	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8
Venezuela	17.2	10.5	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.1	9.8	38.2
	5.1	11.6	8.0	6.9	8.1	7.1	20.5	19.6	10.8	7.9	7.0	18.3

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

^aRepresents the variations for each country, weighted by each year's population.

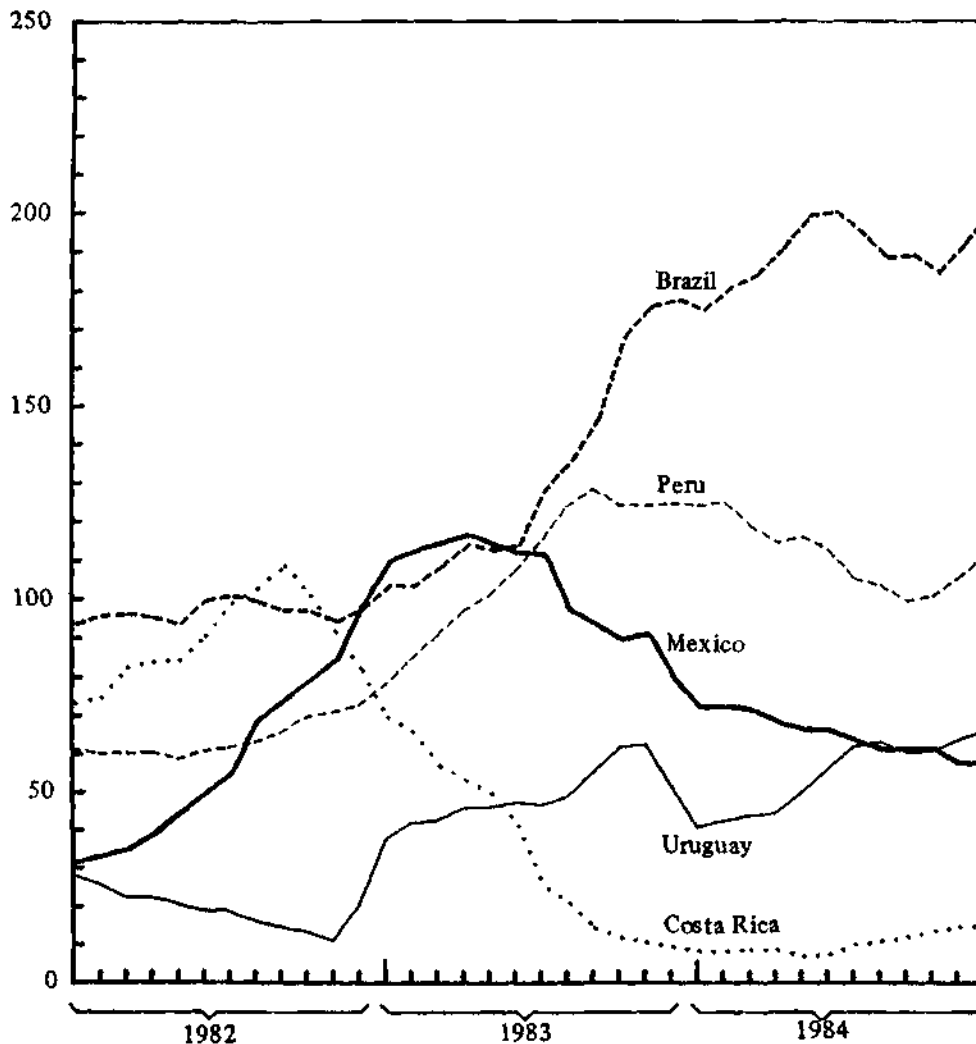
^bUp to 1979, corresponds to the consumer price index for the city of Rio de Janeiro; from 1980 onwards, corresponds to the variation in the national consumer price index.

^cUp to 1980, corresponds to the variation in the consumer price index for workers; from 1981 onwards, corresponds to the variation in the total consumer price index.

^dUp to 1982, corresponds to the variation in the consumer price index for the city of Quito; from 1983, corresponds to the national consumer price index.

Figure 6

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



The downward trend which had begun to be observed in inflation in Mexico since mid-1983 persisted in 1984, but the increase in consumer prices at the end of the year was still almost 60%. This increase, which was a good deal higher than the target of 40% set by the economic authorities, further reduced the purchasing power of wages and led to a swifter erosion than expected in the real level of the exchange rate, which forced an increase in the daily devaluation of the peso at the beginning of December.

Inflation dropped in Ecuador too, but much more sharply. Thus, after reaching a record high of more than 60% in September 1983, mainly as a consequence of a sharp drop in the supply of agricultural products caused by the floods that year, the inflation rate fell steadily afterwards, sinking to 25% by the end of 1984. This persistent decline in the rate of inflation was due largely to the normalization of food supplies and prices brought about by the recovery of agriculture and the application of a relatively restrictive monetary and fiscal policy.

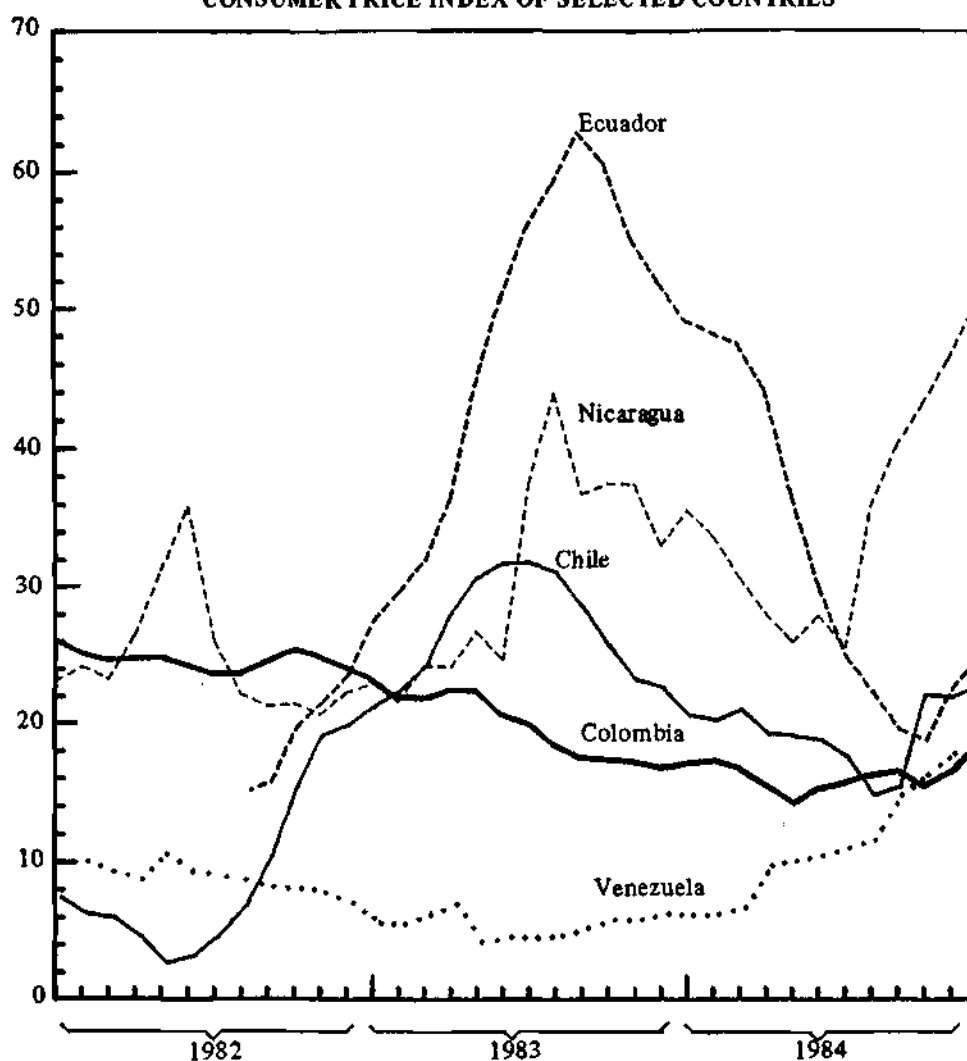
In contrast with what occurred in the countries considered above, inflation in Chile and Colombia was much the same at the end of 1984 as in 1983. In Chile, the increase in consumer prices remained at around 23%, but in Colombia inflation went up slightly from 16.5% in 1983 to a little

over 18% in 1984. The similarity in the annual figures for Chile, however, conceals the appreciable differences in the inflation rate during these two years. Thus, as shown in figure 7, the downward inflationary trend which had begun in the middle of 1983 persisted until August 1984 and during the first eight months of the year consumer prices rose by less than 8%. There was a reversal of this trend, however, after the decision was taken in September to increase the exchange rate by almost 24% and to raise tariffs. These two measures pushed prices sharply upward during the last quarter of the year.

In Colombia, on the other hand, the course of inflation was remarkably stable, as it had been in recent years. The rate of increase in prices continued to slacken gradually and almost continually during the first half of the year and increased slightly only at the end, essentially because of the adjustments made in the prices of a number of products (such as gasoline) which had been lagging behind.

Figure 7

**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE
CONSUMER PRICE INDEX OF SELECTED COUNTRIES**



Source: ECLAC, on the basis of official data.

Table 15

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

Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^e
Indexes (1976 = 100)														
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	162.8
Brazil ^c	78.1	85.7	86.4	88.3	96.8	100.0	102.3	107.3	108.9	110.6	117.2	128.7	117.6	117.5
Colombia ^b	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	133.5
Costa Rica ^d	102.5	99.4	97.1	91.6	88.3	100.0	109.4	119.0	124.7	125.7	110.9	89.1	98.8	106.5
Chile ^e	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	138.2
Guatemala ^d	145.9	146.4	128.2	111.6	102.3	100.0	94.2	100.1	100.3	99.6	110.9	117.6	109.0	108.2
Mexico ^f	83.8	84.3	84.7	87.2	92.0	100.0	101.6	98.9	97.3	93.1	94.2	94.9	70.6	51.5
Nicaragua ^d	114.4	115.9	97.9	100.0	95.3	100.0	97.9	98.7	84.6	69.0	69.9	61.0	53.3	48.6
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	85.5
Peru ^h	...	...	110.1	108.4	92.2	100.0	83.6	73.0	68.4	76.9	70.3	71.0	66.4	57.4
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	60.0
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	26.9
Brazil ^c	4.2	8.9	0.8	2.2	9.6	3.3	2.3	4.9	1.5	1.5	6.0	9.8	-8.6	-0.1
Colombia ^b	-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	7.5
Costa Rica ^d	10.9	-3.0	-2.3	-5.6	-3.7	-13.2	9.4	8.8	4.8	0.8	-11.8	-19.7	10.9	7.8
Chile ^e	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	0.3
Guatemala ^d	0.5	0.4	-12.5	-13.0	-8.2	-2.3	-5.2	5.7	0.1	-0.7	11.4	6.0	-7.3	-0.7
Mexico ^f	3.1	0.7	0.5	2.9	5.6	8.6	1.6	-2.7	-1.6	-4.3	1.2	0.7	-25.6	-27.1
Nicaragua ^d	3.1	1.3	-15.5	2.1	-4.7	4.9	-2.1	0.8	-14.3	-14.9	1.4	-12.9	-12.7	-8.8
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	-3.5
Peru ^h	...	...	...	-1.5	-14.9	8.5	-16.6	-12.7	-6.3	12.4	-8.6	2.0	-7.3	-13.5
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	-9.2

Source: ECLAC, on the basis of official data.

^a Provisional figures.

^b Wages of manual workers in manufacturing.

^c Average wages in industry in general.

^d Wages or salaries declared by members of the social security system.

^e Wages and salaries of workers and employees in the non-

agricultural sectors, excluding large-scale copper mining and the pulp and paper industries.

^f Average wages in manufacturing, 1984,

average for January-October and percentage variation compared with the same period for the year before.

^g Wages of workers in general

in Asunción. ^h Wages of private sector workers in the metropolitan area of Lima.

ⁱ Wages and salaries in the public and private

sectors in Montevideo and the interior.

2. Wages

In 1984, the adjustment process continued to affect real wages adversely in most of the Latin American economies. Thus, the information available shows that real wages either stagnated or declined in all the countries of the region except Argentina, Colombia and Costa Rica (see tables 15 and 16).¹ The size of these variations, however, differed greatly from one country to another, reflecting the great differences exhibited by the countries with respect to growth, inflation and wage policy.

As in 1983, the largest decrease in average real wages was in Mexico, where they fell by over 25% for the second year running and thus, in 1984, amounted to scarcely half of what they had been in 1977 (see figure 8). Although the decline in the purchasing power of the minimum urban wage (-6%) was smaller, when it was added to the decreases recorded in a number of previous years it brought this purchasing power to its lowest level in the past 15 years. This trend was basically a reflection of the implementation of a restrictive wage policy; in accordance with this policy, the two adjustments of the minimum wage which were put into effect in January and June 1984 were lower

¹ Bolivia has not been included in table 15 because complete statistical information on changes in real average wages was unavailable. Nonetheless, the partial data which were available and overall trends in the Bolivian economy during 1984 would appear to suggest that these wages dropped substantially. In addition, inasmuch as the minimum wage was not established until November 1982, the series is not of sufficient length to be included in table 2. In real terms, this wage was down by 21% in 1984 from the average of the preceding year.

Table 16

**LATIN AMERICA: EVOLUTION OF THE URBAN
REAL MINIMUM WAGE**

(1980 = 100)

Country	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Argentina ^b	104.0	99.7	81.0	85.3	100.0	97.8	97.2	136.9	163.7
Brazil ^c	...	...	97.7	97.5	100.0	104.4	104.9	93.0	86.0
Colombia ^d	75.1	77.9	89.5	97.5	100.0	98.9	103.2	107.9	113.5
Costa Rica ^b	79.5	86.2	96.0	98.5	100.0	909.5	85.7	99.3	104.5
Chile ^e	67.5	-79.6	100.7	99.8	100.0	115.9	116.6	93.9	80.2
Ecuador ^f	60.5	53.8	48.1	60.4	100.0	86.2	75.9	63.6	62.8
El Salvador ^g	100.8	90.3	40.3	87.7	100.0	92.8	83.1	73.5	73.7
Guatemala ^b	85.0	77.6	70.0	62.5	100.0	107.5	107.5	102.5	99.1
Haiti ^h	...	74.3	94.1	100.0	96.3	100.8	94.0	87.1	...
Honduras ⁱ	112.3	104.6	100.0	109.2	100.0	105.6	104.5	95.5	91.0
Mexico ^j	113.5	-112.5	108.6	107.2	100.0	101.9	92.7	76.6	72.3
Nicaragua ^k	116.1	118.1	119.8	112.7	100.0	90.2	74.4	56.7	63.6
Panama ^l	126.0	120.5	115.7	113.6	100.0	93.2	89.4	87.6	86.0
Paraguay ^m	100.6	92.0	94.8	92.4	100.0	103.2	101.1	93.6	43.4
Peru ⁿ	107.3	94.2	72.3	80.8	100.0	83.0	77.1	79.4	62.3
Dominican Republic ^b	...	...	94.7	105.0	100.0	93.0	86.3	80.8	82.2
Uruguay ^o	171.5	114.7	113.6	104.8	100.0	103.4	104.6	94.2	89.9
Venezuela ^p	78.9	73.2	68.2	60.7	100.0	86.1	78.6	73.9	65.8

Percentage variation

Argentina ^b	-48.2	-4.1	-18.8	13.7	17.3	-2.2	0.1	39.9	22.5
Brazil ^c	...	...	...	-0.2	2.6	4.4	0.4	-11.3	-7.5
Colombia ^d	-6.2	3.7	13.1	10.7	2.5	-1.1	4.4	4.5	5.2
Costa Rica ^b	14.8	8.4	11.4	2.6	1.6	-9.5	-5.3	15.9	5.2
Chile ^e	10.8	17.9	26.5	-0.9	0.2	15.9	0.7	-19.5	-14.6
Ecuador ^f	...	-11.2	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3
El Salvador ^g	9.5	-10.7	-	-2.9	8.6	-7.2	-10.5	-11.7	0.3
Guatemala ^b	-10.6	-8.7	-9.7	-10.7	59.9	7.5	-	-4.7	-3.3
Haiti ^h	...	...	26.6	-8.8	16.5	-3.7	4.3	-6.7	-7.3
Honduras ⁱ	-4.7	-6.9	-4.4	11.5	-8.3	5.1	-1.0	-8.2	-4.6
Mexico ^j	11.6	-0.9	-3.4	-1.3	-6.7	1.9	-9.0	-17.4	-5.6
Nicaragua ^k	3.1	1.7	1.4	-5.9	-11.3	-9.8	-17.5	-23.8	12.2
Panama ^l	-3.8	-4.4	-4.0	-1.8	-12.0	-6.8	-4.1	-2.0	-1.8
Paraguay ^m	...	-8.3	3.1	-2.5	8.2	3.2	-2.0	-7.5	-0.2
Peru ⁿ	...	-12.2	-23.2	11.7	27.8	-17.0	-7.1	2.9	-21.5
Dominican Republic ^b	...	...	...	9.7	-4.8	-7.0	-7.2	-6.4	1.7
Uruguay ^o	-3.1	-33.5	-0.5	-7.7	-4.6	3.4	1.2	-10.2	-4.6
Venezuela ^p	-7.1	-7.2	-6.8	-11.0	64.7	-13.9	-8.7	-6.0	-10.9

Source: ECLAC, on the basis of official data.

^a Provisional figures. ^b National minimum wage. ^c Minimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. ^d Minimum wage for upper urban sectors. ^e Minimum income. ^f Minimum overall living wage, calculated on the basis of annual minimum living wages and legal supplementary benefits. ^g Minimum wage for non-agricultural activities in San Salvador. ^h Minimum daily wage paid in industrial firms. ⁱ Minimum wage in the Central District and San Pedro Sula, for manufacturing. ^j Minimum wage in Mexico City, deflated by the corresponding consumer price index. ^k Minimum wage for industrial workers in the Department of Managua. ^l Minimum current wage for all activities except construction. ^m Minimum wage in Asunción and Puerto Stroessner. ⁿ Minimum wage in metropolitan Lima for non-agricultural activities. ^o National minimum wage for workers over 18 years of age. ^p National minimum wage for non-agricultural activities.

than the rate of inflation. Due to the slowdown in inflation which occurred during 1984, however, the deterioration of real wages eased during the second half of the year.

The drop in real wages was equally marked in Peru. Rapid inflation and a further deterioration in the employment situation played a part in lowering the various wage indexes, which fell to their lowest levels in the past 11 years. Thus, despite the three adjustments made in the minimum wage during 1984, its purchasing power fell 22% (see table 16).² Similarly, the various wage increases won by public employees after many long strikes did not even partially offset the extraordinary 1983 decrease of over 25%. In fact, real wages in the public sector continued to decline, although by less (-5%) than in previous years. Real average wages in the private sector fell almost 14% and amounted to scarcely half of what they had been ten years before.

Real wages also dropped again in Uruguay. Due to the stagnation of production activity and, above all, to the notable rise in inflation, wage adjustments (which have been granted every four months since late 1983) had to be supplemented in December with an additional wage hike of 22%. Even so, the real minimum wage dropped 5% below the 1983 average, while the average real annual wage fell 9%. The decreases were particularly marked in construction (-19%) and in the public sector (-13%), largely as a result of the reduction of both current fiscal spending and fiscal expenditure on investment.

The decline in economic activity and heightened inflationary tensions also contributed to the considerable decrease (-9%) of real average wages in Nicaragua for the third year running (see table 15). This brought their purchasing power down to just slightly more than two-thirds of what it had been in 1980 and to only 45% of what it had been in 1971-1972. At the sectoral level, the largest decrease was in commerce (-14%); in contrast, the decrease in real wages in agriculture and construction was slight (-1%). The situation with respect to the minimum wage was quite different. Reflecting the high priority attached to maintaining the purchasing power of the lowest income levels and to the reduction of wage dispersion, adjustments in both rural and urban minimum wages were far greater than the rate of inflation. The urban minimum wage thus rose 12% in real terms. Nonetheless, inasmuch as this wage had decreased sharply during the five preceding years, it was still just slightly over 50% of its 1978 level.

The drop in real wages was much smaller in Paraguay and Guatemala. In Paraguay, the two adjustments to the minimum wage enacted in July and September served to maintain its purchasing power, although at a level nearly 10% lower than what it had been in 1981. Smaller nominal increases were made in the average wages of manual workers, and they thus dropped nearly 4% in real terms. Particularly notable decreases were seen in the wages paid in the transport sector (-13%) and in agriculture (-19% for day labourers not provided with food on the job).

Wage dispersion increased, however, in Guatemala since minimum wages dropped more in real terms than average wages did. The latter decreased only 1%, although the drop became more marked late in the year as inflation speeded up sharply. Nominal minimum wages were not adjusted in 1984, and their real value therefore declined 3%. Public employees' wages were also frozen in nominal terms and therefore dropped by the same amount in real terms.

Only information on minimum wages is available for Ecuador, Haiti, Honduras and Panama. In the last three countries, minimum wages were not adjusted and thus dropped in real terms by amounts which varied with the rates of inflation in question. The largest decline was observed in Haiti, where the real minimum wage fell (by 7%) to its lowest level since 1979.³

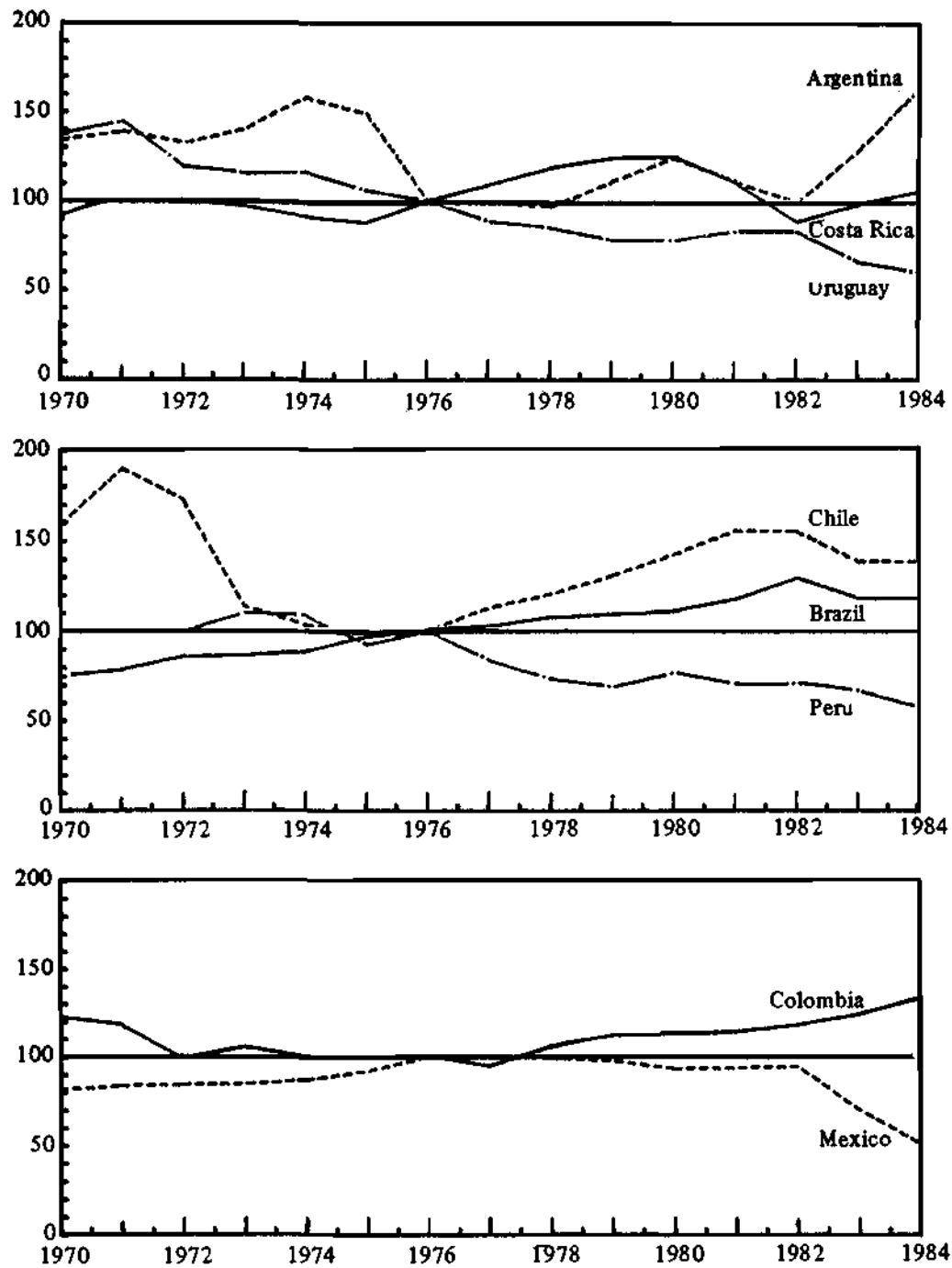
Real minimum wages shrank nearly 5% in Honduras. Nevertheless, as a result of the strong pressure exerted by the unions in collective negotiations, combined with a slowdown in the rate of inflation and a relative improvement in the level of activity, real average wages may have declined less than this. Indeed, real wages in some public services did not deteriorate, but neither did they regain their pre-crisis levels.

In Panama the real minimum wage dropped for the ninth year in a row to a level scarcely two-thirds of what it had been ten years earlier. Its decline has been slowed since 1983, however, by a notable drop in inflation, and in 1984 was thus only 2%. Moreover, adjustments were granted in a

² These adjustments affected what is known as the "supplementary allowance", which is added to the official minimum wage and to the wages paid to workers not included in collective negotiations.

³ Since the minimum wage usually serves as a benchmark for public-sector wages, the latter probably decreased by a similar percentage.

Figure 8
LATIN AMERICA: REAL AVERAGE WAGES
(Indexes 1976 = 100)



Source: ECLAC, on the basis of official data.

number of sectors during 1984, and it is therefore possible that real average wages held steady or even rose.

Finally, in Ecuador, the drop in the rate of inflation, in combination with a more active wage adjustment policy and the provision of supplementary bonuses and allowances,⁴ also made it possible to slow the deterioration which has been seen in the real minimum wage in that country since 1980. Even so, this wage went down by 1%, and its purchasing power in 1984 was scarcely two-thirds of what it had been in 1980 (see table 16).

In Chile and Brazil, average real wages showed almost no change in 1984, after having declined sharply the year before (see figure 1). The real minimum wage, however, dropped substantially in both countries (-15% and -8%, respectively).

Brazil's wage policy in 1984 continued to be directed towards curbing real wages. This was reflected by further decreases in the real minimum wage in most of its States⁵ and, especially, in the sharp drop (-41%) of real wages in the public sector. In contrast, the purchasing power of wages in industry held steady, primarily owing to the strong pressure exerted by trade unions in order to obtain higher nominal increases than those provided for by the government's wage adjustment plan.⁶

Chile's wage policy also continued to be quite restrictive: public employees' salaries were adjusted by only 15% (i.e., less than the rate of inflation in 1983 as well as in 1984) and nominal minimum income was not adjusted. Its real value therefore fell substantially for the second year running (-15%), reaching its lowest level in the past seven years. Average real wages, however, held to their 1983 level. The trend in this respect varied during the period in question, however. During the first half of the year, average real wages rose slightly due to an upturn in economic activity and a sharp decrease in inflation. The steeply rising rate of increase in consumer prices from September onwards, however, resulted in a considerable decrease in real wages during the final quarter (see figure 9). Wages in commerce and construction were particularly hard hit, and their real value as of December 1984 was far below what it had been twelve months earlier.

The incomplete information available indicates that in 1984 real wages stabilized in El Salvador too. An important factor in this regard was the adjustment of urban minimum wages which was put into effect in 1984 for the first time since 1981. Thus, after three consecutive years of decreases, the real value of this wage rose slightly in 1984, but it was still over 25% less than in 1980 (see table 16). Public employees' salaries increased 18% in nominal terms, and their purchasing power thus showed a small increase. In contrast, real wages in agriculture and agroindustry continued to fall due to the freeze placed on the minimum wage applying to these sectors.

In Argentina, Colombia, Costa Rica and the Dominican Republic real wages were up in 1984. In the Dominican Republic, the minimum wage rose nearly 2% in real terms, but was still 22% lower than it had been in 1979 (see table 16). Nevertheless, in view of the difficult situation within the domestic economy and the large percentage of the labour force working in the informal sector, it is unlikely that this increase would be applied to other wages.

Real wages rose more steadily in Colombia and Costa Rica due, in both cases, to the combined effect of a relatively expansionary wage policy and a decrease in inflation. In Costa Rica the wage policy established in late 1982 continued to be applied; this policy calls for nominal adjustments every six months based on the variation in the prices of a basket of basic goods. As a result, average real wages, which had risen by over 10% in 1983, increased nearly 8% in 1984. Because they had plummeted during the 1981-1982 biennium, however, they were still 15% lower than they had been in 1980. Smaller nominal adjustments were made in minimum wages and in the wages of public employees, and their purchasing power thus rose 5%.

Real wages also showed strong growth in Colombia. Real average wages in industry climbed nearly 8%, continuing the upward trend which made its first appearance in 1978, and thus reached

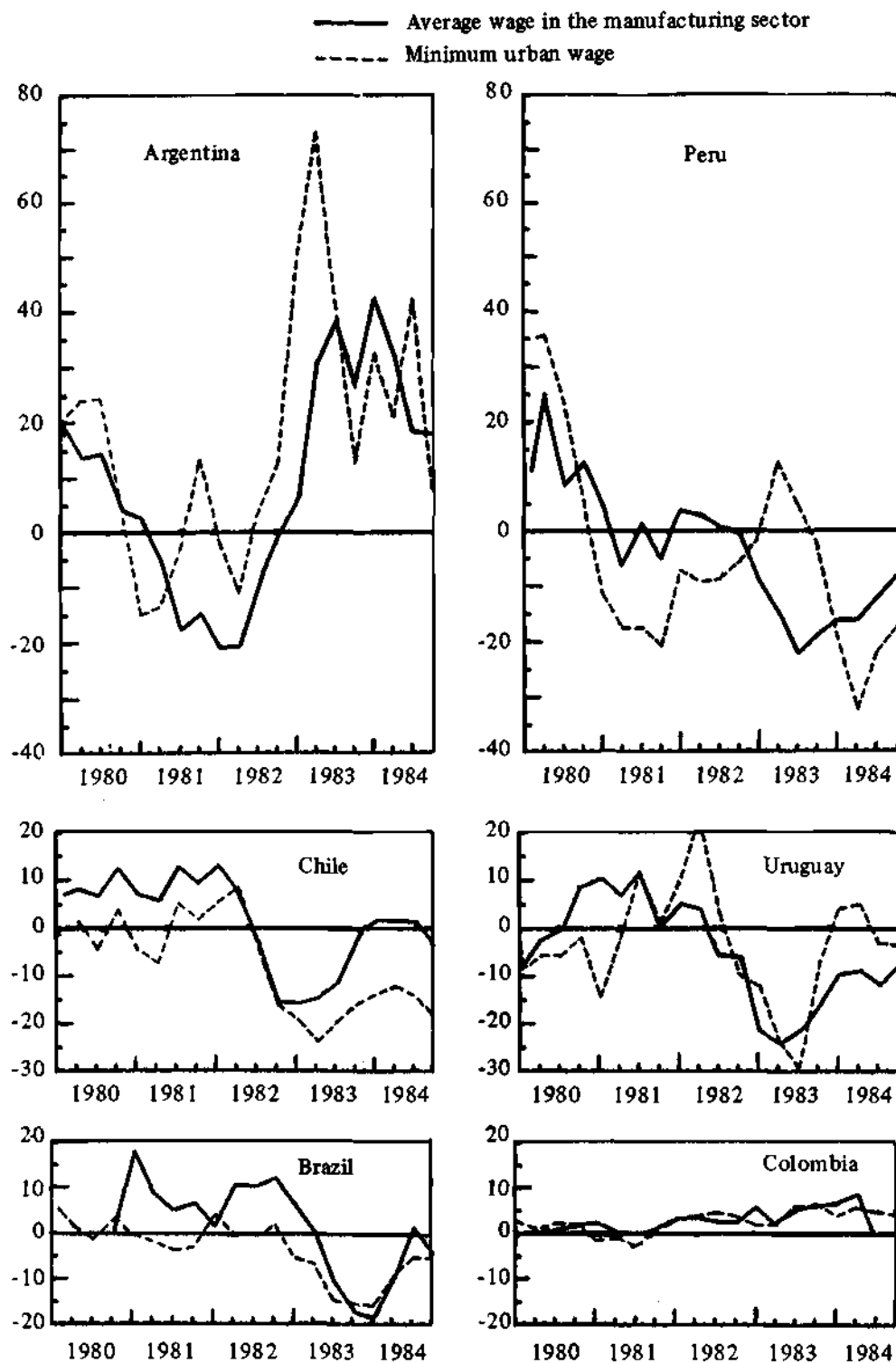
⁴The official minimum wage consists of the minimum wage for the corresponding sector and geographical area plus fixed monthly cost-of-living and transport allowances, a fixed annual supplementary allowance, and an annual bonus whose size varies according to the initial wage level.

⁵Differential adjustments to the minimum wages corresponding to the various regions of the country had been granted for several years in an attempt to gradually reach the point where a single minimum wage could be established for the entire country. This process was completed in May 1984 when the last two remaining categories were consolidated. This involved a nominal increase of 204% in what had previously been the lowest minimum wage (in effect throughout the Northeast, except Pernambuco and Bahia), which was more than enough to offset the effects of inflation. The minimum wage in effect in all other regions, however, was only increased by 175%, which was less than the increase in the nominal consumer price index.

⁶In October 1984, the government decided to expand this plan and make it more flexible.

Figure 9

**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN
REAL WAGES IN SELECTED COUNTRIES**



Source: ECLAC, on the basis of official data.

their highest level ever (see table 15). Real wages in commerce and construction expanded 3%, but the wages paid for agricultural day labour showed virtually no change in real terms. The overall upward trend was a reflection of the decrease in inflation seen during 1984 and of an expansionary policy in respect of the minimum wage. The percentage increase in the minimum wage was substantially greater than the rate of inflation, and the purchasing power of the urban minimum wage therefore rose 5%. In addition, the two different minimum wages which had previously been in effect were consolidated in 1984 into a single minimum wage applying to the entire country. This made the increase in the rural minimum wage even larger (10%). Since, at the same time, average wages in the agricultural sector showed no growth, the wage spread in this activity narrowed considerably in 1984.

Finally, real wages rose sharply once again in Argentina. Rising by over 22% for the second year in a row, both the urban minimum wage and average wages in industry reached their highest value in real terms of the past 15 years. The increases in average real wages in commerce and construction were similar in amount, whereas the real wages of public employees showed a more moderate increase, although it was still considerable (16%). These substantial increases were due, firstly, to the application of a wage policy designed to make up for the drop in wages seen during the 1981-1982 biennium and, secondly, to the strong labour pressure brought to bear by trade unions in collective negotiations within the private sector. Indeed, the monthly adjustment guidelines laid down by the government early in the year provided for rates higher than the projected increase in consumer prices. Since consumer prices actually rose more than had been expected, additional retroactive wage increases were granted during the first quarter. Nonetheless, from April onwards the authorities began to modify this policy with a view to limiting its inflationary effects. Accordingly, wage adjustments were only granted on a discretionary rather than an automatic basis, and there were only two compensatory increases (in July and September).⁷ By the end of the year, the real increase in wages had thus slowed down sharply (see figure 9).

V. THE EXTERNAL SECTOR

The economic adjustment effort made by many Latin American countries and the more dynamic environment in world trade resulted in a considerable improvement in the situation of the external sector in 1984. The merchandise trade surplus of the region as a whole was a record-breaking US\$ 38.4 billion, which was more than four times what it had been two years before. What is more, the larger surplus was achieved because exports grew more rapidly than imports, rather than because imports decreased more than exports, as had been the case during the two preceding years. The increase in the trade surplus also made it possible to reduce the deficit on current account for the second year in a row, with the result that it amounted to less than one-twentieth of what it had been in 1981 and 1982. The reduction of the deficit on current account and the increase in net capital inflows contributed to a balance-of-payments surplus of nearly US\$ 8 billion, representing a reversal of the downward trend seen in the international reserves since 1981. In addition, the growth rate of the external debt continued to slow in 1984, and the countries of the region saw an improvement in the terms under which they were renegotiating their obligations to international banks.

1. Foreign trade

a) *Exports of goods*

After falling 9% in 1982 and stagnating in 1983, the value of Latin America's exports of goods rose nearly 11% in 1984. This increase—which was even greater in the non-oil-exporting countries—was primarily due to the fact that the volume of exports expanded by 7%. The region's merchandise exports thus continued to show strong growth, as they have been doing since 1976, since which time they have more than doubled (see table 17).

In a departure from the three preceding years (during which the decreases seen in unit values more than offset or largely neutralized the effect of increased export volumes), in 1984 the rise in unit values reinforced the effect of the growth in the volume of exports.

⁷ Moreover, in the case of the public sector, the September wage adjustment was postponed until November.

Table 17

LATIN AMERICA: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America						
1970	9.2	1.0	8.1	14.2	9.2	4.5
1971	3.0	1.1	1.9	11.1	6.1	4.7
1972	16.4	6.5	9.2	13.8	7.1	6.3
1973	44.3	8.5	33.0	32.8	13.2	17.3
1974	54.7	-1.8	57.5	71.8	26.4	36.0
1975	-7.9	-2.4	-5.7	6.5	-2.2	8.8
1976	16.4	7.7	8.1	3.8	0.3	3.5
1977	19.3	8.0	10.6	15.1	10.1	4.5
1978	7.5	11.7	-3.7	13.9	6.1	7.4
1979	34.5	11.1	21.0	25.7	7.6	16.8
1980	32.3	9.1	21.2	34.9	14.0	18.3
1981	7.6	10.7	-2.8	7.8	2.2	5.5
1982	-8.9	2.7	-11.2	-19.8	-18.2	-1.9
1983	0.1	8.0	-7.4	-28.5	-27.1	-2.0
1984 ^a	10.7	7.0	3.5	4.4	6.3	-1.7
Oil-exporting countries^b						
1970	8.9	5.4	3.3	7.8	2.7	4.9
1971	16.4	-1.2	17.8	11.9	7.8	3.8
1972	4.4	-0.2	4.6	13.3	5.7	7.2
1973	51.4	9.3	38.5	21.0	10.6	9.3
1974	131.2	-10.0	156.8	57.8	37.5	14.7
1975	-19.9	-21.5	2.1	36.7	21.7	12.4
1976	9.2	2.8	6.3	7.4	3.0	4.2
1977	12.3	6.0	5.9	18.8	11.8	6.3
1978	8.4	15.0	-5.8	16.7	8.1	8.0
1979	53.7	14.4	34.5	16.1	3.8	11.9
1980	-42.3	6.0	34.3	32.5	15.3	14.9
1981	9.6	8.6	1.0	20.3	10.5	8.8
1982	-5.5	12.2	-15.8	-20.1	-19.0	-1.4
1983	-2.3	8.4	-9.9	-43.0	-41.1	-3.4
1984 ^a	8.0	4.4	3.3	16.0	15.3	0.6
Non-oil-exporting countries^c						
1970	9.2	-0.2	9.5	15.5	10.6	4.6
1971	-0.8	1.7	-2.5	10.9	5.8	4.9
1972	20.4	8.5	11.1	13.9	7.3	6.1
1973	42.2	8.3	31.3	35.2	13.8	18.8
1974	31.0	0.3	30.6	74.3	24.2	40.3
1975	-1.2	2.4	-3.6	1.7	-7.3	9.6
1976	21.9	9.8	11.0	1.4	-2.0	3.5
1977	24.2	8.7	14.3	12.5	8.5	3.6
1978	7.0	10.4	-3.1	11.7	4.1	7.3
1979	22.3	9.8	11.4	33.2	11.4	19.6
1980	24.3	10.5	12.5	36.5	12.9	21.0
1981	5.7	11.6	-5.2	-0.3	-5.5	5.5
1982	-12.0	-1.2	-10.9	-19.6	-17.5	-2.5
1983	2.4	7.0	-5.0	-17.2	-12.1	-5.7
1984 ^a	13.2	7.7	5.3	-2.0	-0.8	-1.2

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

the foregoing countries.

^bUp to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, includes Mexico and Peru in addition to

^cFrom 1976 onwards, does not include Mexico or Peru.

Table 18

LATIN AMERICA: EXPORTS OF GOODS

(Indexes: 1970 = 100 and growth rates)

	Value				Unit value				Volume			
	In-dex		Growth rate		In-dex		Growth rate		In-dex		Growth rate	
	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a
Latin America	715	-8.9	0.1	10.7	307	-11.2	-7.4	3.5	233	2.7	8.0	7.0
Oil-exporting countries												
Bolivia	371	-9.0	-8.8	-6.3	426	-5.7	-11.5	3.0	87	-3.5	3.1	-9.1
Ecuador	1 116	-7.9	0.9	10.8	450	-7.7	-7.8	-0.4	248	-0.2	9.5	11.2
Mexico	1 785	6.5	5.1	7.8	362	-13.1	-9.1	2.7	493	22.5	15.7	4.9
Peru	305	1.3	-8.4	4.3	293	-9.4	1.7	3.5	104	11.9	-9.9	0.8
Venezuela	612	-18.2	-10.8	9.6	1 224	-6.9	-8.1	4.9	50	-12.1	-2.9	4.4
Non-oil-exporting countries												
Argentina	457	-16.6	2.8	3.3	245	-17.1	-9.9	6.7	187	0.6	14.1	-3.1
Brazil	987	-13.3	8.6	23.3	239	-7.8	-4.3	4.2	413	-6.0	13.5	18.3
Colombia	442	-1.4	-4.6	17.5	303	3.3	-4.1	6.2	146	-4.6	-0.6	10.6
Costa Rica	416	-13.3	-0.7	11.3	260	-3.7	-4.7	5.0	160	-10.0	4.2	6.0
Chile	328	-3.4	3.3	-4.6	128	-16.7	-2.4	-4.4	256	16.0	5.8	-0.2
El Salvador	322	-11.8	4.5	3.1	266	2.2	-11.3	11.7	121	-13.6	17.7	-7.8
Guatemala	383	-9.4	-6.7	4.3	247	-7.8	-1.6	5.1	155	-1.7	-5.2	-0.7
Haiti	549	15.5	6.8	15.9	280	1.0	-4.1	7.4	196	14.4	11.4	7.9
Honduras	431	-13.7	2.6	10.3	266	-4.0	-6.5	4.0	162	-10.0	9.8	6.1
Nicaragua	220	-20.1	5.5	-8.3	204	-6.0	-9.5	7.4	108	-15.0	16.5	-14.6
Panama	1 291	-7.3	-30.2	2.4	269	-14.8	3.6	4.9	480	8.8	-32.6	-2.5
Paraguay	558	-0.6	-17.7	11.7	312	-12.7	-8.4	21.0	179	13.9	-10.2	-7.7
Dominican Republic	416	-35.4	2.3	13.5	272	-30.0	6.9	9.3	153	-7.7	-4.3	3.9
Uruguay	412	-16.9	2.2	-11.6	237	-6.5	-7.3	1.6	174	-11.1	10.3	-13.0

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

Even though the increase in the value of exports for the region as a whole was, to a large extent, due to the spectacular growth of Brazil's external sales (which were up 23%), the increase also reflected the rapid progress made by other countries in respect of exports. Thus, the value of exports was up by more than 15% in Colombia and Haiti, increased by between 10% and 13% in the Dominican Republic, Paraguay, Costa Rica, Ecuador, Honduras and Venezuela, and rose 8% in Mexico (see table 18). Indeed, the only countries in which the value of exports declined were Uruguay (-12%) and Nicaragua (-8%) —as a result of even larger decreases in export volume— and Bolivia (-6%) and Chile (-5%) —owing to the deterioration in unit value caused by the steep decrease in the international prices of tin, copper, fish meal and iron ore (see table 19).

b) *Imports of goods*

Imports expanded in 1984 for the first time since the beginning of the crisis. After plummeting by over 40% during the 1982-1983 biennium, their value climbed almost 4.5% and their volume expanded by somewhat more than 6% (see table 20).

These increases were the net result of very different types of changes in the various countries of the region: whereas the volume of imports rose 32% in Mexico, 19% in Chile and between 9% and 13% in Venezuela, Ecuador, Honduras, Costa Rica and Guatemala, it fell 5% in Colombia and the Dominican Republic, 10% in Brazil and 21% in Peru.

Even in Mexico and Chile, however, imports were a long way from returning to their pre-crisis levels. In fact, except in Costa Rica (where the volume of external purchases grew over 8% for the second year running and came near to equalling its 1981 mark), the supply of imported products in all the other economies of the region continued to be very limited, and, in many, import coefficients were just slightly higher than the all-time lows recorded the preceding year.

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

Following a substantial decline which had begun in 1981, the terms of trade improved by more than 5% in 1984 as a result of a slight increase in the unit value of exports and a decline of nearly 2% in the average price of imports (see tables 21 and 17).

As in 1983, the trend in the terms of trade was more favourable in the non-oil-exporting countries than in the oil-exporting economies. Nonetheless, since the former countries' terms of trade had deteriorated markedly in the 1978-1982 period, the corresponding index was still nearly 30% lower than it had been in the years preceding the second round of increases in the international prices of hydrocarbons. In the oil-exporting economies, however, even though the terms of trade were 24% below their 1980 peak, they were still 6% higher than they had been in 1978.

Furthermore, the improvement in the terms of trade was quite widespread. In 1984 they declined slightly in Mexico and in Ecuador, but Chile was the only country in which they showed a significant drop. This meant that Chile's terms of trade, which had already deteriorated by over 50% between 1970 and 1980, showed an additional cumulative decrease of 28% during 1981-1984. During this same period the terms of trade also fell 28% in Peru and by a smaller but still quite considerable amount in Ecuador, Mexico, Haiti, the Dominican Republic and all the Central American countries, with the exception of Costa Rica (see table 22).

Owing, in part, to the improvement in the terms of trade and, above all, to the rapid growth in the volume of external sales, the purchasing power of exports rose substantially (12.5%) for the first

Table 19
LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

	Annual averages (dollars at current prices)				Growth rates			
	1970- 1980	1982	1983	1984	1981	1982	1983	1984
Unrefined sugar ^a	12.8	8.4	8.5	5.2	-41.1	-50.3	1.2	-38.8
Coffee (mild) ^a	121.8	148.6	141.6	147.3	-18.7	2.3	-4.7	4.0
Cocoa ^a	86.3	79.0	96.1	108.7	-20.2	-16.1	21.6	13.1
Bananas ^a	11.8	18.4	20.4	19.0	1.6	-4.2	10.9	-6.9
Wheat ^b	125.1	163.0	158.0	153.0	0.6	-9.0	-2.5	-3.2
Maize ^b	127.5	137.4	162.2	167.3	-13.9	-24.1	18.0	3.1
Beef ^a	82.2	108.4	110.7	102.6	-10.9	-3.4	2.1	-7.3
Fish meal ^b	354.7	353.0	453.0	373.0	-7.1	-24.6	28.3	-17.7
Soya beans ^b	232.4	245.0	282.0	282.0	-2.7	-14.9	15.1	-
Cotton ^a	61.2	72.8	84.8	80.3	-9.5	-14.7	16.5	-5.3
Wool ^a	131.5	154.6	144.0	141.6	-8.4	-13.2	-6.9	-1.7
Copper ^a	69.6	67.2	72.2	62.5	-19.9	-14.9	7.4	-13.4
Tin ^c	3.9	5.8	5.9	5.6	-15.8	-9.4	1.7	-5.1
Iron ore ^b	18.3	27.1	25.2	23.8	-10.4	4.6	-7.0	-5.6
Lead ^d	25.3	24.8	19.3	20.1	-19.7	-24.8	-22.2	4.1
Zinc ^d	29.7	33.8	34.7	40.6	11.0	-12.0	2.7	17.0
Bauxite ^b	103.5	208.3	179.5	165.0	1.8	-3.7	-13.8	-8.1
Crude oil ^d								
Saudi Arabia	10.0	33.5	29.3	28.5	13.2	3.1	-12.5	-2.7
Venezuela	10.1	32.0	28.1	27.0	15.9	0.0	-12.2	-3.9

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplement 1960-1980 and August 1985. International Monetary Fund, *International Financial Statistics*, Yearbook 1981 and October 1985.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market. Coffee, colombian mild arabica, *ex-dock* New York. Cocoa beans, average of daily prices (futures), New York/London. Central American bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF Northern Europe. Wool, clean, combed, 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, No. 2, Hard Red Winter, FOB. Maize, Argentina, CIF, North Sea ports. Soya beans, United States, No. 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).

^aUS cents per pound.

^bDollars per metric ton.

^cDollars per pound.

^dDollars per barrel.

Table 20
LATIN AMERICA: IMPORTS OF GOODS
(Indexes: 1970 = 100 and growth rates)

	Value				Unit value				Quantum			
	In-dex			Growth rate	In-dex			Growth rates	In-dex			Growth rates
	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a
Latin America	460	-19.8	-28.5	4.4	309	-1.9	-2.0	-1.7	149	-18.2	-27.1	6.3
Oil-exporting countries												
Bolivia	345	-32.0	10.4	-1.3	305	-2.6	-3.4	2.8	113	-35.3	14.3	-4.0
Ecuador	633	-7.6	-35.4	12.2	248	-	-1.1	1.9	255	-7.6	-34.7	10.2
Mexico	503	-40.0	-40.7	31.6	281	3.0	-5.6	3.3	179	-41.7	-37.2	27.4
Peru	307	-2.1	-26.8	-21.4	313	2.0	3.3	1.8	98	-4.1	-29.2	-22.8
Venezuela	424	12.0	-52.8	13.3	238	-5.7	-5.6	-1.6	178	18.8	-50.0	15.2
Non-oil-exporting countries												
Argentina	282	-42.4	-15.2	1.9	282	-1.9	-7.1	-2.8	100	-41.2	-8.7	4.9
Brazil	556	-12.2	-20.4	-9.7	403	-3.6	-6.1	-4.1	138	-8.9	-19.2	-5.8
Colombia	530	13.3	-16.7	-5.0	260	-4.4	-6.4	2.6	204	18.5	-11.0	-7.4
Costa Rica	347	-26.2	11.6	10.8	304	-10.1	2.7	2.3	114	-17.9	8.7	8.3
Chile	385	-44.1	-22.7	19.1	374	-7.7	-7.9	1.7	103	-39.4	-16.0	17.1
El Salvador	447	-8.1	0.6	4.9	341	5.7	1.8	2.2	131	-13.0	-1.1	2.7
Guatemala	432	-16.6	-17.8	9.2	354	6.3	3.1	2.1	122	-21.6	-20.2	7.0
Haiti	701	-17.4	9.4	3.4	337	6.9	2.2	1.8	208	-22.7	7.0	1.5
Honduras	413	-24.2	11.7	11.0	323	1.0	-1.1	3.7	128	-25.0	12.9	7.0
Nicaragua	433	-21.6	7.6	-0.4	355	5.3	3.7	0.2	122	-25.5	3.7	-0.6
Panama	748	-8.2	-23.6	6.6	445	4.9	1.5	2.1	168	-12.4	-24.8	4.4
Paraguay	694	-7.9	-22.5	-3.6	289	3.7	-4.3	-9.5	240	-11.2	-19.0	6.5
Dominican Republic	439	-13.4	2.0	-5.2	325	2.2	-1.7	1.7	135	-15.3	3.7	-6.8
Uruguay	360	-34.8	-28.8	-0.9	316	-7.1	-8.5	-2.6	114	-29.8	-22.1	1.7

Source: ECLAC, on the basis of official data.

^a Provisional figures.

time since 1980. The increase was even greater (15.5%) in the non-oil-exporting countries (see table 23). Brazil, Paraguay and Colombia played a particularly important part in this increase, inasmuch as the purchasing power of their external sales was up 28%, 20% and 13%, respectively. On the other hand, the purchasing power of the exports of Bolivia, Uruguay and Nicaragua fell by around 10% as a result of very sharp decreases in volume (see tables 24 and 18).

2. The balance of payments

a) *The current account*

As the value of exports grew much more than that of imports, the merchandise trade surplus increased considerably (22%) once again in 1984. This brought it to a record level of nearly US\$ 38.5 billion, which was more than four times the size of the surplus just two years before (see table 25).

The most important contributing factor in this regard was the spectacular increase in Brazil's surplus, which more than doubled, rising from somewhat less than US\$ 6.5 billion in 1983 to slightly over US\$ 13 billion in 1984. It was also due, however, to the fact that Argentina and Venezuela improved upon their already-substantial 1983 surpluses, that Peru more than trebled its surplus, and to the fact that Colombia and the Dominican Republic managed to make considerable reductions in their deficits. These developments were more than enough to offset the notable decreases in the surpluses of Mexico, Chile and Uruguay (which fell by US\$ 1 billion, US\$ 700 million and US\$ 230 million, respectively) as well as the merchandise trade deficits recorded by all the Central American countries.

The merchandise trade surplus obtained by the region as a whole was therefore large enough to finance all net payments of interest and profits, despite the fact that such payments increased from

Table 21

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	97.4	-2.6	113.5	13.5	92.9	-7.1
1972	100.0	2.7	110.7	-2.5	97.3	4.7
1973	113.4	13.4	140.2	26.6	107.6	10.6
1974	131.4	15.9	313.8	123.8	100.1	-7.0
1975	113.8	-13.4	285.1	-9.1	88.1	-12.0
1976	118.9	4.5	290.5	1.9	94.5	7.3
1977	125.8	5.8	289.6	-0.3	104.2	10.3
1978	112.7	-10.4	252.8	-12.7	94.1	-9.7
1979	116.8	3.6	304.1	20.3	87.6	-6.9
1980	119.7	2.5	355.5	16.9	81.5	-7.0
1981	110.2	-7.9	329.9	-7.2	73.2	-10.2
1982	99.8	-9.4	281.7	-14.6	67.0	-8.5
1983	94.3	-5.5	262.8	-6.7	67.4	0.6
1984 ^c	99.3	5.3	269.9	2.7	71.8	6.5

Source: ECLAC, on the basis of official data.

^aFrom 1970 to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, includes Mexico and Peru in addition to the foregoing countries. ^bFrom 1976 onwards, does not include Mexico or Peru. ^cPreliminary figures.

Table 22

LATIN AMERICA: TERMS OF TRADE (GOODS)
(Indexes: 1970 = 100 and growth rates)

	Indexes					Growth rates				
	1980	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a	1981/ 1984 ^{ab}
Latin America	120	110	100	94	99	-7.9	-9.4	-5.5	5.3	-17.0
Oil-exporting countries										
Bolivia	139	132	131	139	140	-5.0	-1.0	6.7	0.2	1.0
Ecuador	239	215	199	185	181	-10.0	-7.7	-6.7	-2.2	-24.0
Mexico	164	160	135	130	129	-2.7	-15.7	-3.7	-0.5	-21.0
Peru	130	105	94	92	94	-19.2	-11.2	-1.6	1.6	-28.0
Venezuela	511	502	495	482	514	-1.8	-1.3	-2.7	6.7	1.0
Non-oil-exporting countries										
Argentina	93	97	82	79	87	3.9	-15.5	-3.1	9.8	-7.0
Brazil	66	56	53	55	59	-15.7	-4.5	2.1	8.6	-11.0
Colombia	126	102	110	113	117	-19.1	8.0	2.5	3.5	-7.0
Costa Rica	95	84	90	83	86	-11.8	7.2	-7.1	2.6	-10.0
Chile	47	38	34	36	34	-19.3	-9.7	5.8	-6.0	-28.0
El Salvador	92	85	82	71	78	-8.2	-3.2	-12.8	9.3	-15.0
Guatemala	93	82	71	68	70	-11.7	-13.3	-4.5	2.9	-25.0
Haiti	98	89	84	79	83	-9.4	-5.5	-6.3	5.4	-15.0
Honduras	105	91	87	82	82	-13.0	-5.0	-5.4	0.2	-22.0
Nicaragua	78	69	62	54	58	-11.3	-10.7	-12.7	7.1	-26.0
Panama	71	71	58	59	61	0.1	-18.7	1.9	2.9	-15.0
Paraguay	96	100	85	81	108	4.5	-15.8	-4.3	33.7	13.0
Dominican Republic	101	105	72	78	84	3.6	-31.5	8.6	7.4	-17.0
Uruguay	80	70	71	72	75	-11.7	0.5	1.3	4.3	-6.0

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bAccumulated percentage variations during the period.

Table 23

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	97.8	-2.2	112.1	12.1	94.5	-5.5
1972	107.0	9.4	109.1	-2.7	107.4	13.7
1973	131.9	23.3	151.1	38.5	128.6	19.7
1974	161.2	22.2	304.4	101.5	120.0	-6.7
1975	132.5	-17.8	217.1	-28.7	108.2	-9.8
1976	145.1	9.5	224.4	3.4	127.1	17.5
1977	162.1	11.7	235.1	4.8	150.6	18.5
1978	161.5	-0.4	235.8	0.3	149.4	-0.8
1979	191.4	18.5	327.5	38.9	154.3	3.3
1980	220.4	15.2	408.5	24.7	159.1	3.1
1981	219.3	-0.5	409.4	0.2	156.9	-1.4
1982	203.6	-7.2	388.2	-5.2	141.5	-9.8
1983	207.9	2.1	392.5	1.1	153.7	8.6
1984 ^c	234.1	12.6	421.2	7.3	177.5	15.5

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.

US\$ 35 billion in 1983 to US\$ 37.4 billion in 1984 as a result of the larger remittances of profits occasioned by the recovery of domestic economic activity and the increase in interest payments caused by the rise in interest rates on international financial markets.

Due to the above and to the further marked decrease in net service payments in 1984, the deficit on current account dropped to slightly over US\$ 1.8 billion, which was 75% less than the year before and less than one-twentieth the size of the deficit just two years before (see table 26).

In contrast to what occurred in 1983, when the reduction of the deficit was a reflection of a widespread trend within the region, the 1984 decrease was the result of the changes which occurred in a small number of countries. The country which exerted the greatest influence in this regard was Brazil, whose current account position underwent a dramatic turnabout from a deficit of over US\$ 6.8 billion in 1983 to a surplus of US\$ 170 million in 1984. Colombia, Paraguay, Peru and the Dominican Republic also contributed to the reduction in Latin America's deficit on current account by sharply reducing the deficits they had accumulated in 1983.

In contrast, Mexico and Venezuela—which in 1983 had made a decisive contribution to reducing the region's deficit by transforming their heavy 1982 deficits into equally large surpluses—earned lower surpluses in 1984, while in the case of the other Latin American economies, their current account deficit increased.

The huge contraction in the current account deficit of the region as a whole was also reflected in the further sharp decline in the ratio between that deficit and the value of exports of goods and services. After having declined from an all-time high of 40% in 1982 to 9% in 1983, this coefficient fell to barely 1.6% in 1984 (see table 27).

Nevertheless, the exceptionally low level of this regional average reflected even less than in previous years the prevailing situation in the various Latin American countries. Its value reflected neither the situation existing in Venezuela and Mexico—which earned current account surpluses equivalent to 25% and 13% of their exports, respectively, nor that of Brazil—which earned a small surplus—and even less the prevailing situation in the vast majority of the remaining countries in the region. Among these countries, for example, the current account deficit was for the fourth consecutive year higher than the total value of exports in Nicaragua, while it was equivalent to

approximately 60% of exports in Haiti, represented 48% of Chile's external sales, and fluctuated between 10% and 40% of exports in Colombia, Bolivia, Paraguay, Argentina, the Dominican Republic, Peru and the other Central American countries (see table 27).

b) The capital account and the net transfer of resources

In contrast with the two previous years, when the reduction of the current account deficit was accompanied and to a large extent caused by the sharp decline in net capital inflow, in 1984 it coincided with a recovery in the flow of loans and investments received by the region. Thus, after falling from almost US\$ 20 billion in 1982 to scarcely US\$ 3 billion the following year, the net capital inflow rose to nearly US\$ 9.8 billion in 1984 (see table 26). This reversal of the declining trend which had been displayed by the net flow of loans and investments since 1981 was mainly due to the far larger volume of resources attracted by Argentina and Chile in 1984, and to the strong decline in net capital outflows from Mexico and Venezuela. The inflow of loans and investments also rose in the other economies of the region, with the exceptions of Colombia, Ecuador, Paraguay, Peru and Nicaragua. However, the net inflow of external resources remained extremely high in this latter country, being 33% higher than the value of exports of goods (see tables 25 and 26).

Likewise in contrast with what occurred in the three-year period 1981-1983, in 1984 net capital inflow was higher than the current account deficit. Consequently, the year ended with the first balance-of-payments surplus since 1980.

Table 24
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1970 = 100 and growth rates)

	Indexes					Growth rates				
	1977	1979	1981	1983	1984 ^a	1981	1982	1983	1984 ^a	1981/ 1984 ^{ab}
Latin America	162	191	219	208	234	-0.5	-7.2	2.1	12.6	6
Oil-exporting countries										
Bolivia	164	150	155	135	120	-6.3	-7.6	-5.9	-10.5	-27
Ecuador	347	441	435	409	440	-6.6	-7.8	2.0	7.7	-5
Mexico	181	299	529	608	630	15.3	3.4	11.1	3.6	37
Peru	88	140	108	96	97	-22.8	-0.6	-11.0	1.2	-31
Venezuela	201	258	282	229	251	-6.2	-13.8	-6.1	9.8	-17
Non-oil-exporting countries										
Argentina	135	137	163	153	161	17.3	-15.1	10.4	5.4	16
Brazil	173	173	186	193	246	4.0	-10.2	15.3	27.7	38
Colombia	174	198	142	148	168	-25.6	2.7	1.5	13.7	-12
Costa Rica	167	154	137	126	135	-2.1	-4.6	-3.1	7.2	-3
Chile	82	109	83	95	88	-24.1	3.9	11.2	-7.5	-19
El Salvador	219	200	110	95	94	-25.6	-16.5	2.9	-0.4	-36
Guatemala	195	163	139	108	109	-19.2	-14.5	-9.3	0.8	-37
Haiti	166	139	129	147	163	-33.2	8.8	5.0	10.9	-15
Honduras	135	171	142	126	133	-13.2	-14.6	3.7	5.2	-19
Nicaragua	174	134	89	69	62	8.3	-23.8	1.9	-9.6	-24
Panama	92	89	504	309	301	7.7	-11.3	-31.0	-2.3	-36
Paraguay	237	228	194	159	191	-4.4	-4.0	-14.6	20.4	-6
Dominican Republic	176	164	177	117	128	18.1	-36.7	4.0	9.7	-15
Uruguay	128	131	147	145	130	4.9	-11.6	11.2	-10.0	-7

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bCumulative percentage variations in the period.

Table 25
LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments ^a			Trade balance		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
Latin America (19 countries)	87 415	87 479	96 828	78 270	55 949	58 370	9 142	31 528	38 458	10 463	4 508	3 591	-1 320	27 021	34 867
Oil-exporting countries	44 027	43 028	46 491	34 349	19 566	22 702	9 676	23 462	23 790	6 116	1 283	1 554	3 558	22 178	22 236
Bolivia	828	755	707	429	473	467	399	282	241	119	117	83	279	165	158
Ecuador	2 343	2 365	2 620	2 181	1 408	1 580	162	957	1 040	365	222	350	-203	735	690
Mexico	21 230	22 320	24 054	14 434	8 553	11 254	6 796	13 767	12 800	493	-727	-1 008	6 302	14 494	13 808
Peru	3 294	3 017	3 147	3 721	2 723	2 140	-428	294	1 007	314	254	221	-743	39	786
Venezuela	16 332	14 571	15 963	13 584	6 409	7 261	2 748	8 162	8 702	4 825	1 417	1 908	-2 077	6 745	6 794
Non-oil-exporting countries	43 388	44 451	50 337	43 921	36 383	35 668	-534	8 066	14 668	4 347	3 225	2 037	-4 878	4 843	12 631
Argentina	7 622	7 838	8 100	4 859	4 121	4 200	2 762	3 718	3 900	95	246	140	2 667	3 469	3 760
Brazil	20 172	21 906	27 005	19 395	15 434	13 937	777	6 472	13 068	3 574	2 394	1 714	-2 795	4 079	11 354
Colombia	3 113	2 970	3 488	5 358	4 464	4 243	-2 245	-1 495	-755	11	452	140	-2 254	-1 945	-895
Costa Rica	869	863	960	805	898	995	64	-36	-35	-10	-30	38	73	-5	-73
Chile	3 706	3 827	3 650	3 643	2 818	3 357	63	1 009	293	441	374	397	-379	635	-104
El Salvador	704	736	758	826	831	872	-122	-96	-114	96	92	149	-218	-187	-263
Guatemala	1 170	1 092	1 139	1 284	1 056	1 153	-114	36	-14	236	177	137	-348	-142	-151
Haiti	174	186	215	296	324	335	-122	-139	-120	73	70	98	-195	-209	-218
Honduras	677	694	766	681	761	844	-4	-67	-78	52	54	61	-56	-120	-139
Nicaragua	406	428	393	723	778	775	-317	-350	-398	65	112	92	-382	-462	-474
Panama	2 355	1 644	1 683	3 045	2 325	2 478	-689	-681	-795	-586	-765	-726	-104	85	-69
Paraguay	396	326	364	711	551	531	-315	-225	-167	131	7	42	-446	-233	-209
Dominican Republic	768	785	891	1 257	1 282	1 215	-490	-497	-324	-97	-158	-209	-393	-339	-115
Uruguay	1 256	1 156	925	1 038	740	733	218	417	191	266	200	-36	-48	217	227

^aExcluding net payments of profits and interest.

Table 26

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest ^a			Balance on current account ^b			Balance on capital account ^c			Total balance ^d		
	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984	1982	1983	1984
Latin America (19 countries)	-1 320	27 021	34 867	39 647	35 032	37 413	-40 879	-7 405	-1 824	19 840	3 019	9 764	-21 040	-4 386	7 939
Oil-exporting countries	3 558	22 178	22 236	16 809	13 989	14 999	-13 750	8 167	7 231	1 561	-5 738	-3 400	-12 188	2 430	3 831
Bolivia	279	165	158	418	421	480	-121	-216	-108	153	232	462	32	17	154
Ecuador	-203	735	690	1 012	863	860	-1 215	-128	-170	875	238	112	-340	110	-58
Mexico	6 302	14 494	13 808	12 815	9 466	10 218	-6 416	5 151	3 725	2 843	-3 118	-1 484	-3 573	2 033	2 241
Peru	-743	39	786	1 034	1 132	1 196	-1 776	-1 091	-410	1 634	1 026	697	-142	-66	287
Venezuela	2 077	6 745	6 794	1 530	2 107	2 245	-4 222	4 451	4 394	-3 944	-4 116	-3 187	-8 165	336	1 207
Non-oil-exporting countries	-4 878	4 843	12 631	22 838	21 043	22 414	-27 129	-15 572	-9 055	18 279	8 757	13 164	-8 852	-6 816	4 108
Argentina	2 667	3 469	3 760	5 054	5 922	6 260	-2 354	-2 436	-2 490	1 686	-13	2 710	-668	-2 449	220
Brazil	-2 795	4 079	11 354	13 509	11 025	11 360	-16 314	-6 842	166	11 119	4 943	5 065	-5 195	-1 899	5 231
Colombia	-2 254	-1 945	-895	808	963	1 080	-2 896	-2 763	-1 815	2 020	922	536	-876	-1 842	-1 279
Costa Rica	73	-5	-73	377	338	322	-274	-320	-371	400	367	414	125	47	43
Chile	-379	635	-104	2 035	1 800	2 055	-2 373	-1 116	-2 109	1 032	600	2 126	-1 340	-516	17
El Salvador	-218	-187	-263	105	121	116	-271	-256	-309	242	280	316	-29	24	7
Guatemala	-348	-142	-151	114	113	191	-400	-225	-314	362	276	353	-39	51	39
Haiti	-195	-209	-218	14	14	18	-160	-177	-191	115	144	177	-45	-33	-14
Honduras	-56	-120	-139	202	149	184	-249	-260	-311	204	213	301	-46	-47	-10
Nicaragua	-382	-462	-474	140	61	45	-514	-519	-517	416	586	539	-98	67	22
Panama	-104	85	-69	82	-69	95	-241	95	-226	225	-108	141	-15	-13	-85
Paraguay	-446	-233	-209	-53	21	-1	-391	-252	-207	329	255	122	-63	3	-85
Dominican Republic	-393	-339	-115	254	297	327	-457	-441	-237	311	303	325	-146	-139	88
Uruguay	-48	217	227	197	288	362	-235	-60	-124	-182	-11	39	-417	-70	-85

^aIncluding labour and ownership.^bIncluding net private unrequited transfers.^cIncluding long and short-term capital, official unrequited transfers and errors and omissions.^dVariation in international reserve (of opposite sign), including counterpart items.

Table 27

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

(Percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Latin America	17.0	34.2	23.3	21.1	29.8	23.7	26.6	35.5	40.3	8.8	1.6
Oil-exporting countries	-10.9	20.4	22.0	29.0	40.6	14.9	8.6	23.0	25.4	-14.6	-13.3
Bolivia	-21.3	28.8	10.3	18.8	50.2	46.6	15.9	30.8	13.3	31.6	38.4
Ecuador	-1.7	21.5	2.1	23.7	42.9	27.1	23.4	35.2	45.2	4.8	5.8
Mexico	47.8	67.1	50.2	24.0	30.3	36.7	35.4	48.7	22.0	-19.0	-12.6
Peru	40.8	93.2	71.5	45.8	10.2	-16.2	1.5	47.0	43.6	29.3	10.7
Venezuela	-50.1	-23.5	-3.3	30.8	58.1	-2.5	-23.8	-19.2	24.0	-23.4	-25.3
Non-oil-exporting countries	43.9	45.6	24.2	15.9	22.3	31.4	43.9	48.5	55.1	90.4	15.8
Argentina	-2.6	36.8	-14.2	-17.1	-24.5	5.8	48.3	43.4	25.6	26.2	25.3
Brazil	87.5	74.3	60.4	39.3	51.5	62.7	58.8	46.1	74.3	29.0	-0.6
Colombia	20.6	5.9	-6.9	-12.8	-7.4	-10.8	3.3	44.2	65.3	71.9	40.4
Costa Rica	49.9	36.5	28.9	23.6	36.1	50.5	54.9	34.6	27.3	31.3	30.4
Chile	12.9	27.1	-5.5	21.8	37.8	26.1	33.9	96.2	51.1	24.1	47.9
El Salvador	26.3	16.0	-2.2	-2.0	31.6	-1.2	-	29.4	32.9	27.4	34.6
Guatemala	14.5	8.3	8.1	2.8	20.9	14.2	9.5	39.7	31.3	19.2	25.3
Haiti	36.3	38.1	37.1	40.2	39.8	45.5	45.8	93.8	59.3	56.6	63.0
Honduras	37.0	36.3	25.3	23.9	24.7	24.4	35.1	36.3	32.5	32.6	35.5
Nicaragua	61.7	44.2	7.7	26.7	4.8	-13.4	99.2	103.1	115.0	112.2	121.3
Panama	37.2	25.1	27.8	20.4	25.6	32.1	24.1	30.9	33.6	20.0	19.3
Paraguay	26.4	38.3	29.7	15.2	27.2	40.9	50.1	66.7	63.4	52.9	35.0
Dominican Republic	33.3	7.8	15.8	14.2	38.1	31.7	53.0	27.5	40.0	35.5	16.9
Uruguay	27.3	35.9	11.8	21.2	14.5	30.4	46.9	27.5	15.3	4.3	6.3

Source: ECLAC, on the basis of official figures.

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

^bProvisional figures.

Brazil (which, after having recorded a US\$ 1.9 billion deficit in 1983 obtained a US\$ 5.2 billion surplus in 1984) made a particularly important contribution to this turnaround, as did Argentina (which over the same period transformed a US\$ 2 450 million deficit into a US\$ 200 million surplus) and Mexico and Venezuela (which considerably increased the surpluses they had earned in 1983). In 1984, in fact, only seven countries in the region registered a balance-of-payments deficit, and only in the case of Colombia was this deficit of substantial size (almost US\$ 1.3 billion), although even then it was considerably lower than the more than US\$ 1.8 billion deficit recorded the previous year.

In spite of the partial recovery in the net capital inflow, its level remained considerably lower than that of net payments of interest and profits. Consequently, as in the previous two years, Latin America could not avoid a sizeable transfer of resources abroad. This was between US\$ 25 and US\$ 28 billion: figures which, although lower than in 1983, signified a reduction in import capacity equivalent to between 22% and 24% of the value of exports of goods and services (see table 28).

Although the bulk of this transfer was accounted for by Mexico, Brazil, Venezuela and Argentina, it was also significant in relative terms in the cases of Colombia, Ecuador, Peru and Uruguay. On the other hand, Paraguay, Haiti and all the Central American countries continued to receive a considerable volume of resources from the exterior (see table 26).

c) *The international reserves*

In 1984 Latin America's international reserves rose for the first time since 1980. After having fallen from nearly US\$ 54 billion in that year to only US\$ 30.5 billion in 1983, they rose by 21% in 1984, although even so they totalled less than 70% of their 1980 level (see table 29).

Thanks to this increase, the ratio between the reserves and imports—which had undergone a continual decline between 1979 and 1982 but had made a partial recovery in 1983 as a result of the huge fall in external purchases—again rose in 1984, coming closer to the levels which had existed prior to the crisis (see table 30).

However, this improvement was far from reflecting a generalized trend in the region. The global growth of reserves was almost entirely due to their huge expansion in Mexico and, above all, in Brazil. In the first of these countries, after having increased by 160% in 1983, the reserves rose by a further 60% in 1984 to a level considerably higher than before the crisis. In Brazil, for its part, the reserves quadrupled during 1984. Despite this exceptional increase, however, the huge drop they had suffered in the two previous years meant that at the end of 1984 their level was only slightly higher than at the close of 1981. The reserves also increased considerably (64%) in Costa Rica and rather more moderately, but nonetheless significantly, in Peru and Bolivia. On the other hand, in Argentina, Colombia and Uruguay the reserves declined for the fourth year in a row, so that they stood at only 18%, 28% and 35% of their 1980 levels.

Moreover, the 1984 return to pre-crisis levels of the reserves/imports coefficient did not mean that the safety margin which they had then offered as regards balance-of-payments stability had been re-established. This was because of the exceptionally low level of imports still registered as late as 1984, and also because of the marked increase in interest payments as from 1979.

Table 28

LATIN AMERICA: NET INFLOW OF CAPITAL AND TRANSFER OR RESOURCES

(Billions of dollars and percentages)

	Effective net inflow of capital ^a	Unregis- tered trans- actions ^b	Net inflow of capital (1 + 2)	2/1	Net pay- ments of profits and in- terest	Transfer of resources		Exports of goods and services	6/8	7/8	Vari- ation in terms of trade
	(1)	(2)	(3)	(4)	(5)	(1 - 5)	(3 - 5)	(8)	(9)	(10)	(11)
1970	3.8	0.2	4.0	5.3	2.8	1.0	1.2	17.0	5.8	7.1	3.4
1971	4.9	-0.2	4.7	-4.1	3.0	1.9	1.7	17.7	10.7	9.6	-2.6
1972	6.1	1.0	7.1	16.4	3.1	3.0	4.0	20.5	14.6	19.5	2.7
1973	8.6	-0.7	7.9	-8.1	4.2	4.4	3.7	28.9	15.2	12.8	13.4
1974	12.7	-1.3	11.4	-10.2	5.0	7.7	6.4	43.6	17.7	14.7	15.9
1975	16.1	-1.9	14.2	-11.8	5.5	10.6	8.7	41.1	25.8	21.2	-13.4
1976	18.8	-1.0	17.8	-5.3	6.8	12.0	11.0	47.3	25.4	23.3	4.5
1977	15.4	1.7	17.1	11.0	8.2	7.2	8.9	55.9	12.9	15.9	5.8
1978	24.3	1.8	26.1	7.4	10.2	14.1	15.9	61.3	23.0	25.9	-10.4
1979	26.9	2.1	29.0	7.8	13.6	13.3	15.4	82.0	16.2	18.8	3.6
1980	35.0	-5.5	29.5	-15.7	17.9	17.1	11.6	107.6	15.9	10.8	2.5
1981	48.5	-11.2	37.3	-23.1	27.1	21.4	10.2	116.1	18.4	8.8	-7.9
1982	29.1	-9.3	19.8	-32.0	39.6	-10.1	19.8	103.2	-9.8	-19.2	-9.4
1983	6.2	-3.2	3.0	-51.6	35.0	-28.8	-32.0	102.4	-28.1	-31.3	-5.5
1984 ^c	12.8	-3.0	9.8	-23.4	132.4	-24.6	-27.6	113.2	-21.7	-24.4	5.3

Source: 1970-1983: International Monetary Fund, *Balance of Payments Yearbook*, 1984: ECLAC, on the basis of official data.

^aEquivalent to net inflow of capital minus unregistered transactions.

^bProvisional estimates.

^cCorresponds to balance-of-payments item "errors and omissions".

Table 29

LATIN AMERICA: EVOLUTION OF OFFICIAL INTERNATIONAL RESERVES^a

(Millions of dollars)

	End-of-December balances					Growth rates			
	1980	1981	1982	1983	1984 ^b	1981	1982	1983	1984 ^b
Latin America	53 777	46 132	32 335	30 499	36 935	-14.2	-29.9	-5.7	21.1
Oil-exporting countries	21 891	19 158	14 363	18 434	21 316	-12.5	-25.0	28.3	15.6
Bolivia	487	410	405	457	517	-15.8	-1.2	12.8	13.1
Ecuador	1 265	823	460	605	523	-34.9	-44.1	31.5	-13.6
Mexico	4 213	3 037	1 388	3 628	5 785	-27.9	-54.3	161.4	59.5
Peru	2 356	1 455	1 226	1 259	1 460	-38.2	-15.7	2.7	16.0
Venezuela	13 570	13 434	10 885	12 485	13 032	-1.0	-19.0	14.7	4.4
Non-oil-exporting countries	31 886	26 974	17 972	12 066	15 619	-15.4	-33.4	-32.9	29.4
Argentina	9 377	5 278	4 149	1 845	1 720	-43.7	-21.4	-55.5	-6.8
Brazil	6 913	7 616	3 434	1 939	7 852	10.2	-54.9	-43.5	305.0
Colombia	6 525	6 349	5 295	3 685	1 857	-2.7	-16.6	-30.4	-49.6
Costa Rica	142	42	152	157	257	-70.4	261.9	3.3	63.7
Chile	4 037	3 893	2 452	2 076	2 074	-3.6	-37.0	-15.3	-0.1
El Salvador	385	265	196	240	229	-31.2	-26.0	22.4	-4.6
Guatemala	762	278	202	290	312	-63.5	-27.3	43.6	7.6
Haiti	-	-2	-37	-96	-65	-	-	-	-
Honduras	144	56	14	-26	-1	-61.1	-75.0	-	-
Nicaragua	26	95	158	221	-9	265.4	66.3	39.9	-
Panama	95	27	17	14	-56	-71.6	-37.0	-17.6	-
Paraguay	783	822	752	695	555	5.0	-8.5	-7.6	-20.1
Dominican Republic	233	267	92	-43	38	14.6	-65.5	-	-
Uruguay	2 464	1 990	1 094	1 069	855	-19.2	-45.0	-2.3	-20.0

Source: International Monetary Fund, *International Financial Statistics*.^aForeign exchange plus monetary gold (valued at London price per ounce fine) and Special Drawing Rights (SDR), minus use of IMF credit.^bProvisional figures.

3. The external debt

a) Basic trends

At the end of 1984 Latin America's total external debt came to US\$ 360 billion, 4.7% higher than one year before. The trend towards a more moderate rate of growth of external indebtedness which had been initiated in 1982, therefore continued (see table 31). This change was particularly pronounced in the case of the petroleum-exporting countries, whose external indebtedness rose rather less than 2%. In the case of the remaining economies of the region as whole, the external debt rose at a rather higher rate (6.8%), but even so this was considerably lower than in previous years. This average was, however, the result of sharply contrasting rates of growth among the various countries in this group. Thus, while the external debt continued to rise extremely rapidly in Haiti and the Central American countries (with the exception of El Salvador), it rose by barely 2% in the Dominican Republic and Uruguay (see table 31).

The rate at which the debt grew in 1984 was also lower than that of exports of goods and services. The debt/export coefficient, which had continually risen over the three previous years,

consequently declined, although at 320% it remained extremely high in comparative international terms and in relation to the figure of approximately 230% recorded on average, in Latin America between 1978 and 1981. Moreover, there were marked differences in the debt/export ratio of the various countries in the region. Thus, in 1984 it reached an unprecedented level of more than 900% in Nicaragua, stood at approximately 500% for the second year running in Argentina, and rose to 430% in Chile, whereas it was less than 270% in Paraguay, Colombia, Ecuador, the Dominican Republic, Haiti and the other countries in Central America, with the exception of Costa Rica (see table 32).

Both as a result of the increase in the debt and of the rise which took place, as can be seen from figure 10, in average interest rates on the international financial markets in 1984, interest payments rose by 10%, i.e., rather less than exports of goods and services. As a result, the interest/exports coefficient declined slightly, from 36% in 1983 to 35% in 1984. The share of the value of exports absorbed by net interest payments was thus almost double the level of somewhat less than 18% which prevailed in the region before the crisis (see table 33). The interest/exports coefficient was considerably higher than the average in Bolivia (63%), Argentina (59%) and Chile (50%), but it was considerably lower in Colombia (24%) and particularly in Venezuela, Paraguay and the countries of Central America and the Caribbean.

Table 30

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

(Percentages)

	1973	1975	1977	1979	1980	1981	1982	1983	1984 ^a
Latin America	54	41	46	53	46	36	31	40	47
Oil-exporting countries	51	65	46	43	45	32	30	66	66
Bolivia	27	31	40	34	51	41	64	66	80
Ecuador	49	24	38	32	43	26	16	32	23
Mexico	31	23	18	15	16	9	7	29	37
Peru	41	19	11	55	61	30	25	34	48
Venezuela	90	144	72	76	90	79	55	137	123
Non-oil-exporting countries	56	25	47	60	46	39	32	26	34
Argentina	52	15	71	122	72	45	64	32	28
Brazil	83	29	51	44	25	28	14	10	45
Colombia	39	33	73	116	120	106	79	64	34
Costa Rica	11	3	15	6	9	3	15	14	20
Chile	10	8	9	43	57	47	49	52	46
El Salvador	20	24	27	24	33	23	19	23	20
Guatemala	46	42	52	48	39	14	12	22	22
Haiti	18	-	9	15	-	-1	-8	-19	-12
Honduras	14	17	27	23	13	5	2	-3	-
Nicaragua	26	18	18	19	3	9	19	24	-1
Panama	7	1	2	6	3	1	1	1	-2
Paraguay	36	41	62	85	93	84	71	98	69
Dominican Republic	16	13	14	10	12	15	6	-3	3
Uruguay	111	76	80	89	115	95	69	89	80

Source: ECLAC, on the basis of table 29 and official data.

^a Provisional figures.

Table 31

LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT^a

	End-of-year balances in millions of dollars							Growth rates		
	1978	1979	1980	1981	1982	1983	1984 ^c	1979-1981	1982-1983	1984 ^c
Latin America	150 893	181 957	222 497	277 701	318 430 ^b	344 030 ^b	360 124 ^b	22.2	9.0	4.7
Oil-exporting countries	64 390	77 585	93 675	121 233	138 436 ^b	147 534 ^b	150 337 ^b	23.5	7.4	1.9
Bolivia ^c	1 762	1 941	2 220	2 450	2 373	2 780	2 848	11.6	5.1	2.4
Ecuador	2 975	3 554	4 652	5 868	6 187	6 712	6 995	25.4	6.0	4.2
Mexico	33 946	39 685	50 700	74 900	88 300 ^{b,d}	92 100 ^{b,d}	95 900 ^{b,d}	30.2	8.6	4.1
Peru	9 324	9 334	9 594	9 638	11 097	12 442	13 304	1.1	11.3	6.9
Venezuela ^c	16 383	23 071	26 509	28 377	30 479	33 500	31 290	20.1	3.3	-6.6
Non-oil-exporting countries	86 503	104 372	128 822	156 468	179 994	196 496	209 787	21.8	10.3	6.8
Argentina	12 496	19 034	27 162	35 671	43 634	46 500	49 000	41.9	11.2	5.4
Brazil ^f	52 285	58 907	68 354	78 580	87 580	96 500	102 443	14.5	9.2	6.2
Colombia	4 247	5 222	6 300	7 885	9 410	10 405	11 336	22.9	12.9	8.9
Costa Rica	1 870	2 233	3 183	3 360	3 497	3 848	4 400	21.6	9.4	14.3
Chile ^g	6 664	8 484	11 084	15 542	17 153	17 431	18 877	32.6	6.7	8.3
El Salvador	986	939	1 176	1 471	1 710	1 891	1 968	14.3	10.2	4.1
Guatemala	821	934	1 053	1 385	1 802	2 019	2 374	19.0	19.7	17.6
Haiti ^c	210	248	290	372	410	551	607	21.0	17.7	10.2
Honduras	971	1 180	1 510	1 708	1 842	2 017	2 260	20.7	9.8	12.0
Nicaragua ^c	961	1 136	1 588	2 200	2 730	3 324	3 918	31.8	21.2	17.9
Panama ^c	1 774	2 078	2 266	2 379	2 820	3 392	3 719	10.3	16.1	9.6
Paraguay	669	733	861	949	1 204	1 469	1 580	12.4	18.5	7.6
Dominican Republic	1 309	1 565	1 839	1 837	1 947	2 560	2 617	12.0	12.5	2.2
Uruguay	1 240	1 679	2 156	3 129	4 255	4 589	4 688	36.1	14.4	2.2

Source: ECLAC, on the basis of official data. Brazil and Venezuela: ECLAC, on the basis of data from the Bank for International Settlements.

^aProvisional figures.

^bFigures not comparable with years prior to 1982, due to the conclusion of the debt of the Mexican commercial banks.

^cCorresponds to public debt.

^dIncludes debt of commercial banks. Estimates based on information provided by the Ministry of Finance and Public Credit.

^eIncludes public debt and the non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements.

^fIncludes total medium- and long-term debt plus short-term debt with financial institutions reporting to the Bank for International Settlements. 1984: Official data.

^gExcluding short-term commercial credit to the non-financial private sector.

b) *The process of renegotiation*

Renegotiations of the external debt, which began with the Mexican balance-of-payments crisis in August 1982, have gone through a number of stages or rounds. In each of these, the countries of Latin America have negotiated the rescheduling of their amortization payments for one or more years with the international private banks and have attempted to obtain further credit.

As has been pointed out in previous studies,⁸ the first round of rescheduling negotiations was marked by a sharp deterioration in the terms of indebtedness. In the second round, however, the countries obtained rather more favourable terms: in every case the spread over LIBOR and the commissions were lower and the amortization periods longer than in the first round of rescheduling operations (see table 34). Although the new terms of indebtedness continued to be burdensome in comparison with those on the normal credit market between 1980-1981, the relative deterioration in the terms obtained and the financial cost was far less marked than in the first phase of renegotiations.

⁸See, *Economic Survey of Latin America and the Caribbean*, 1983, Vol. I, pages 66-72.

These trends became more pronounced during the third round of rescheduling negotiations which a number of countries initiated during the second half of 1984. The terms of the preliminary agreements they reached with their respective bank committees were considerably more favourable than those of the agreements signed earlier. Thus, the maturities which were refinanced corresponded to periods of several years, the periods allowed for amortizing the loans were much longer, the spreads charged over the base rates of interest were lower, and in most cases commissions were suppressed.

The first of these "new agreements" —agreed upon by Mexico and its bank committee in August 1984 and signed with that country's almost 600 creditor banks in April 1984— possessed features hitherto unheard-of in the region. Thus, rather than reprogramming maturities corresponding to one or two years, amortization payments for the whole of the six-year period 1985-1990, amounting to US\$ 20 billion, were rescheduled. Moreover, the US\$ 23.7 billion which had already been refinanced in the first round of rescheduling were again restructured, and the US\$ 5 billion corresponding to the additional credit which the banks had granted at the aforesaid round were renegotiated. Thus, the total amount of credit renegotiated was in the region of US\$ 49 billion, equivalent to almost two-thirds of Mexico's total debt with commercial banks (see table 35).

Table 32

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

(Percentages)

	1978	1979	1980	1981	1982	1983	1984 ^a
Latin America	246	222	210	243	316	344	321
Oil-exporting countries	254	207	180	210	268	300	276
Bolivia ^b	251	227	213	242	260	324	355
Ecuador	175	147	162	201	230	254	237
Mexico	316	262	216	259	328	352	324
Peru	388	228	206	240	272	334	349
Venezuela	167	154	133	136	174	212	180
Non-oil-exporting countries	240	234	240	278	361	386	363
Argentina	167	207	275	329	475	500	497
Brazil	383	353	313	308	399	409	353
Colombia	107	115	119	184	212	273	252
Costa Rica	186	213	266	286	313	336	360
Chile ^c	227	184	186	310	370	379	430
El Salvador	107	74	97	159	208	217	220
Guatemala	63	63	61	96	141	172	191
Haiti ^b	100	116	95	155	152	191	200
Honduras	141	141	160	193	240	253	258
Nicaragua	133	169	321	404	611	718	915
Panama ^b	189	184	151	148	176	203	223
Paraguay	154	143	152	167	195	309	268
Dominican Republic	158	138	145	121	170	206	187
Uruguay	136	141	141	184	277	325	354

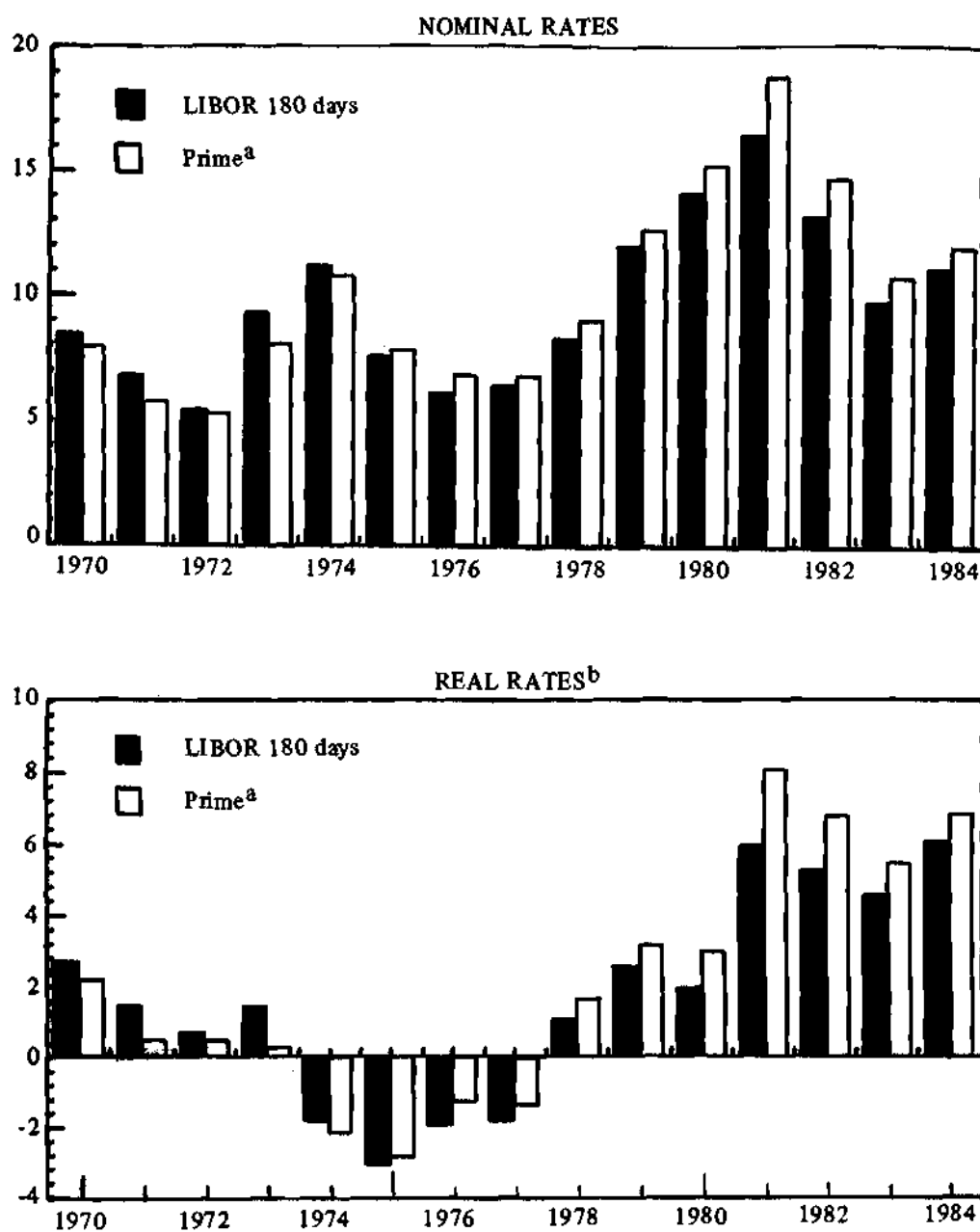
Source: ECLAC, on the basis of official data.

^a Provisional figures.

^b Relation between disbursed external public debt and exports of goods and services.

^c Information on total external debt excludes short-term commercial credit to the non-financial private sector.

Figure 10
INTERNATIONAL INTEREST RATES
(Percentages)



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

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

^b Nominal rate

deflated by the consumer price index of the industrialized countries.

Moreover, the period granted for the repayment of these maturities — 14 years — was not only much longer than those provided for by previous agreements but was also almost double that generally granted before the crisis. In addition, the profile of the maturities corresponding to 1985-1990 established by the new agreement was far more regular and compatible with the fulfilment of the aims of external equilibrium and economic growth than that which existed prior to the renegotiations. The average spread over LIBOR, for its part, came down to 1.1/8% and no commission was charged (see table 34). Finally, the average spread mentioned was to be obtained by charging a rate of only 7/8% in the first four years, 1.1/8% in the next five years and 1.1/4% in the last five. These improvements were partly offset by — and partly the result of — the fact that in the new agreements the banks did not undertake to provide further credit, so that they continued to progress towards their target of gradually reducing their commitments in Latin America in relative terms.

A similar case was that of Venezuela, which in October 1984 came to an agreement with its bank committee that was noteworthy because it was reached without the intervention of the International Monetary Fund. This agreement included the refinancing of somewhat more than US\$ 21 billion corresponding to maturities for 1983-1988, with a twelve and a half year repayment period. As in the case of Mexico, the spread over LIBOR was 1.13%, no commission was charged, but nor did the banks grant further credit.

As a consequence of these changes and, above all, of the far longer repayment periods agreed upon, the conditions subject to negotiation — spread over LIBOR, commission and repayment periods — were in fact more favourable in the agreements signed in 1984 by Mexico and Venezuela than in the biennium which preceded the crisis, while the real cost of the credits was only slightly higher than during that period.

Table 33

LATIN AMERICA: RELATION BETWEEN TOTAL INTEREST PAYMENTS AND EXPORTS OF GOODS AND SERVICES^a

(Percentages)

	1978	1979	1980	1981	1982	1983	1984 ^b
Latin America	15.5	17.4	19.9	27.6	40.5	35.9	35.2
Oil-exporting countries	16.0	15.7	16.6	22.6	35.1	32.4	32.2
Bolivia	13.7	18.1	24.5	32.1	43.5	44.4	63.1
Ecuador	10.3	13.6	18.2	24.3	30.1	27.4	27.8
Mexico	24.0	24.8	23.3	29.0	46.0	39.3	40.2
Peru	21.2	14.7	16.0	24.1	25.1	29.8	34.0
Venezuela	7.2	6.9	8.1	12.7	21.0	21.6	17.5
Non-oil-exporting countries	15.1	18.8	23.1	32.7	45.2	39.4	38.0
Argentina	9.6	12.8	22.0	35.5	53.6	58.4	58.7
Brazil	24.5	31.5	34.1	40.4	57.1	43.5	38.7
Colombia	7.7	10.1	11.8	21.8	25.8	26.5	23.6
Costa Rica	9.9	12.8	18.0	28.0	36.1	32.8	30.7
Chile	17.0	16.5	19.3	38.8	49.5	39.4	50.0
El Salvador	5.1	5.3	5.9	7.9	11.9	12.3	13.2
Guatemala	3.6	3.1	5.3	7.5	7.8	8.7	8.9
Haiti	2.8	3.3	2.0	2.5	2.2	2.4	5.3
Honduras	8.2	8.6	10.6	14.5	22.4	16.4	17.1
Nicaragua	9.3	9.7	17.8	22.2	32.2	14.3	11.7
Paraguay	8.5	10.7	14.3	16.4	15.6	16.4	14.3
Dominican Republic	14.0	14.4	14.7	20.2	22.6	24.5	19.2
Uruguay	10.4	9.0	11.0	12.9	22.4	24.8	33.8

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

^aIncluding interest on the short-term debt.

^bProvisional figures.

Table 34

**LATIN AMERICA: TERMS OF RESCHEDULING OF EXTERNAL DEBT
WITH PRIVATE BANKS: 1982/1984^a**

Country	First round 1982/1983			Second round 1983/1984			Third round 1984		
	Spread over LIBOR (percent-ages)	Repay-ment period (years)	Commis-sion	Spread over LIBOR (percent-ages)	Repay-ment period (years)	Commis-sion	Spread over LIBOR (percent-ages)	Repay-ment period (years)	Commis-sion
Argentina	2.16 ^b	6.8 ^b	1.25 ^b	-	-	-	1.44	11.5	0.15
Brazil	2.32	8.0	1.50	2.00	9.0	1.00	...	...	...
Costa Rica	2.25	8.0	1.00	-	-	-	...	...	...
Cuba	2.25	7.0	1.25	1.88	9.0	0.88	...	...	...
Chile	2.16	7.0	1.25	1.75	9.0	0.63	...	...	...
Ecuador	2.28	6.7	1.25	1.75	9.0	0.88	1.39	11.9	-
Honduras	2.38	7.0	1.38	-	-	-	...	...	...
Mexico	1.95	7.6	1.05	1.50	10.0	0.63	1.13	14.0	-
Panama	2.25	6.0	1.50	-	-	-	...	...	...
Peru	2.25	8.0	1.25	1.75 ^c	9.0 ^c	0.75 ^c	...	...	...
Dominican Republic	2.25 ^b	6.0 ^b	1.25 ^b	-	-	-	...	...	...
Uruguay	2.25	6.0	1.41	-	-	-	...	...	...
Venezuela	-	-	-	-	-	-	1.13	12.5	-

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

^a Each column sets out the terms granted by the banks for the rescheduled maturities and/or new credit. When the country negotiated both the rescheduling of maturities and the granting of fresh funds, the figure gives the weighted average for both elements. ^b This agreement never came into effect. ^c This agreement has not been concluded.

Table 35

**LATIN AMERICA: RESCHEDULING OF EXTERNAL DEBT
WITH PRIVATE BANKS: 1982/1984^a**

(Millions of dollars)

Country	First round 1982/1983			Second round 1983/1984			Third round 1984		
	Maturities		Fresh credit	Maturities		Fresh credit	Maturities ^b		Fresh credit
	Amount	Years	Amount	Amount	Years	Amount	Amount	Years	Amount
Argentina	13 000	Sep. 82-83 ^c	1 500	-	-	-	13 500	82-85	4 200
Brazil	4 800	83	4 400	5 400	84	6 500	...	...	...
Costa Rica	650	82-84	225	-	-	-	...	...	...
Cuba	150	Sep. 82-83	-	103	84	-	...	...	...
Chile	3 424	83-84	1 300	-	-	780	...	...	...
Ecuador	1 970	Nov. 82-83	431	900	84	-	4 630	85-89	200
Honduras	121	82-84	-	-	-	-	...	...	...
Mexico	23 700	Aug. 82-84	5 000	12 000 ^d	Aug. 82-84	3 800	48 700	85-90	-
Panama	180	83	100	-	-	-	...	...	...
Peru	400	83	450	662	84-Jul. 85	-	...	...	...
Dominican Republic	568 ^c	82-83 ^c	-	-	-	-	...	...	...
Uruguay	630	83-84	240	-	-	-	...	...	...
Venezuela	-	-	-	-	-	-	21 200	83-88	-

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

^a For each round the first column gives the amounts of amortization payments rescheduled, the second, the years for which amortization payments were restructured and the third, the further credit granted by private banks as an integral part of this rescheduling. ^b In some cases maturities which had already been rescheduled in 1982/1983 are included. ^c The agreement was never signed. ^d Private sector commitments.

Ecuador also obtained improved conditions in the preliminary agreement it reached with its committee of creditors in December 1984. This made it possible to refinance all the credits maturing between 1985 and 1989, whose value —US\$ 4.6 billion— was equivalent to approximately 90% of the country's total debt to international private banks. The banks also agreed to provide net additional credit worth US\$ 200 million. As was the case of the agreements reached by Mexico and Venezuela, the repayment periods for the new credit were longer than during the pre-crisis period and no commission was charged.

Finally, and after painstaking negotiations, in December 1984 Argentina also signed a preliminary agreement with its bank committee whose main features were slightly different from those of the agreements reached in the initial round of rescheduling operations. Thus, the maturities refinanced covered four years and their value was rather less than half Argentina's total debt to the commercial banks, while the latter undertook to grant US\$ 4.2 billion in net additional credit. However, the spread over LIBOR was rather higher than in the agreements signed by Mexico and Venezuela, and the banks also charged commission on the additional credit (see table 34).

PART TWO

ECONOMIC EVOLUTION OF THE INDIVIDUAL COUNTRIES

ARGENTINA

1. Recent economic trends: Introduction and summary

In 1984 the gross product again slightly increased (2%). This recovery—which suffered something of a setback towards the end of the year—was based on the expansion of consumer demand, which was stimulated by the improvement in real wages. In contrast, yet another sharp decrease in investment prolonged an already lengthy slump. The rate of inflation, for its part, speeded up, easily exceeding the unprecedented figures recorded the year before (see table 1 and figure 1).

In the external sector, the merchandise trade balance once more showed a substantial surplus, which covered about two-thirds of the interest payments on the external debt. At the same time, there was an improvement in the terms of trade, which had continuously deteriorated in the three preceding years. Thanks to this, the growth rate of gross national income was higher than that of the domestic product (see table 2).

When the constitutional government took office in December 1983, the economic problems were very serious indeed. After a series of economic policy experiments, the per capita product was similar to that of 15 years before, with the aggravating circumstance that national income was reduced by the heavy burden of interest payments on the external debt. Furthermore, there had been a marked downward trend in the generation of domestic savings and the available supply of external financing; the Government was operating with an appreciable deficit; wage-earners—whose real income had shot up in 1983, from very low values—attempted to regain long-lost levels of consumption, while the higher income groups tried to maintain their customary patterns of expenditure; and external creditors showed little willingness to refinance their loans, much less to issue new ones. In its turn, in a situation in which it was far from clear what productive activities offered worth-while opportunities of profit and the unstable evolution of the economy narrowed the decision-making horizon, the "investment spirit" was at a low ebb. This fact, in combination with the scarcity of funds, slowed down capital formation. In addition, import capacity prospects were uncertain, because the debt service payments that would have to be made were still undefined. Thus, despite the fact that aggregate production stood above the minimum level recorded in mid-1982, the possibilities of sustained growth looked dim. Again, the very rapid rate of inflation revealed a serious imbalance in public finance and an exacerbated distribution struggle. Lastly, the erratic behaviour of prices appreciably hampered economic activity and encouraged speculation in the financial and exchange markets.

The new authorities set up as their main objectives economic growth and income distribution. For the immediate present, the aim of reactivating production was announced, simultaneously with a moderate rise in real wages and an attenuation of price increases. To this end, special reliance was placed on the application of an income policy and on fiscal reorganization. This latter comprised two aspects. The first was a stepping-up of tax revenue, through stricter control which would make evasion difficult, and through heavier taxes, which would affect the higher income groups. Secondly, a reallocation of expenditure was projected with a view to diminishing the relative importance of items such as defence and security in favour of social outlays. In this way it was expected to supplement the increase in the direct income of wage-earners with an expansion of public services. The main object of price and wage policy, in its turn, was to make encouragement of production and of balanced distribution compatible with deceleration of inflation. It was hoped that, after an initial adjustment of relative prices, the rate of increase of costs could be reduced and expectations could be guided in a downward direction, so that price rises might be gradually modified in relation to the volume of production. This economic programme, once under way, would serve as a basis for debt negotiations with external creditors.

The initial decisions included a flat-rate wage increase, adjustments in public services tariffs, and the establishment of a system of control of industrial prices, followed by the announcement of norms for the growth of controlled prices, wages, the exchange rate and public services tariffs, as well as for the rate of interest during the next month (January 1984). These announcements indicated a price increase of 12% in January, and it was assumed that the succeeding monthly norms would follow a downward trend.

The early months of the year witnessed an increase in consumer expenditure, which was reflected in the product, and an improvement in real wages. In contrast, economic policy did not succeed in moderating inflation. At the same time, external debt negotiations entered upon a phase of stagnation.

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	35 047	37 397	37 675	35 326	33 488	34 515	35 220
Population (millions of inhabitants)	27.35	27.79	28.24	28.69	29.16	29.63	30.10
Per capita gross domestic product (1970 dollars)	1 282	1 346	1 334	1 231	1 149	1 165	1 170
B. Short-term economic indicators							
Growth rates							
Gross domestic product	-3.4	6.7	0.7	-6.2	-5.2	3.1	2.0
Per capita gross domestic product	-4.9	5.0	-0.9	-7.7	-6.7	1.4	0.4
Per capita national income	-4.8	5.8	-0.4	-10.0	-10.4	-	0.9
Rate of unemployment ^{bc}	2.8	2.0	2.3	4.5	4.8	4.2	3.9
Consumer prices							
December to December	169.8	139.7	87.6	131.3	209.7	433.7	688.0
Variation between annual averages	175.5	159.5	100.8	104.6	164.7	343.3	626.7
Industrial worker wages ^d		14.3	11.8	-10.2	-10.5	26.2	28.1
Money	170.3	145.5	97.8	68.6	222.5	370.6	540.0
Government current income	154.0	170.0	79.8	97.9	168.3	342.2	632.3
Total government expenditure	138.9	163.2	110.6	139.2	145.9	568.7	385.0
Fiscal deficit/total government expenditure ^e				54.5	50.4	67.2	50.5
Current value of exports of goods and services							
	13.6	22.6	7.8	10.0	-15.6	1.1	6.2
Current value of imports of goods and services							
	5.3	76.8	49.1	-11.7	-43.6	-10.7	4.8
Terms of trade (goods and services)	1.1	8.6	13.3	-3.2	-22.4	-2.8	8.6
C. External sector							
Millions of dollars							
Balance of trade (goods and services)	2 520	403	-3 191	-673	2 667	3 468	3 760
Net payments of profits and interest	-680	-921	-1 531	-3 706	-4 715	-5 407	-5 710
Balance on current account	1 836	-535	-4 774	-4 635	-2 354	-2 436	-2 490
Balance on capital account	302	4 760	2 176	1 579	1 686	-13	2 710
Variation in net international reserves	2 236	4 424	-2 666	-3 408	-806	-2 508	200
External debt ^e	12 496	19 034	27 162	35 671	43 634	46 500	49 000

Source: ECLAC, on the basis of official figures.

^aProvisional figures.

^bSimple average of results of surveys for each year in the Federal Capital and Greater Buenos Aires.

^cPercentages.

^dAnnual average variation in real wages.

^eTotal medium- and long-term external debt.

The rise in prices in January was close to what the authorities had envisaged. This, however, was a sporadic occurrence —probably influenced by the anticipatory increase in industrial prices towards the end of 1983— rather than symptomatic of a breach in the inflationary trend. Moreover, as the result did not suffice to create a definite expectation that price movements would slow down, neither the decisions relating to price formation nor those connected with demand for financial assets seem to have been guided by the hypotheses implicit in the norms established. Furthermore, aggregate demand went on rapidly rising, fed by the still high fiscal deficit, monetary expansion and the increased income of wage-earners. All this helped to enhance the frailty of the system of norms. A circumstantial event —the rise in the price of beef in February and March— contributed to a further acceleration of the upward trend of prices, which reduced the credibility of the anti-inflation plan. In addition, the further increase in the rates of inflation created appreciable disparities in evolution between the prices directly regulated by the Government and those that were not subject to any control. Thus, contrary to the authorities' intentions, during the early months of the year real values of the exchange rate and of public services tariffs deteriorated, while the controlled interest rate was definitely negative. On the other hand, the Government granted prescriptive increases in wages and the effective rate of inflation. This, combined with the increments separately negotiated by the trade unions, meant that real wages continued to rise.

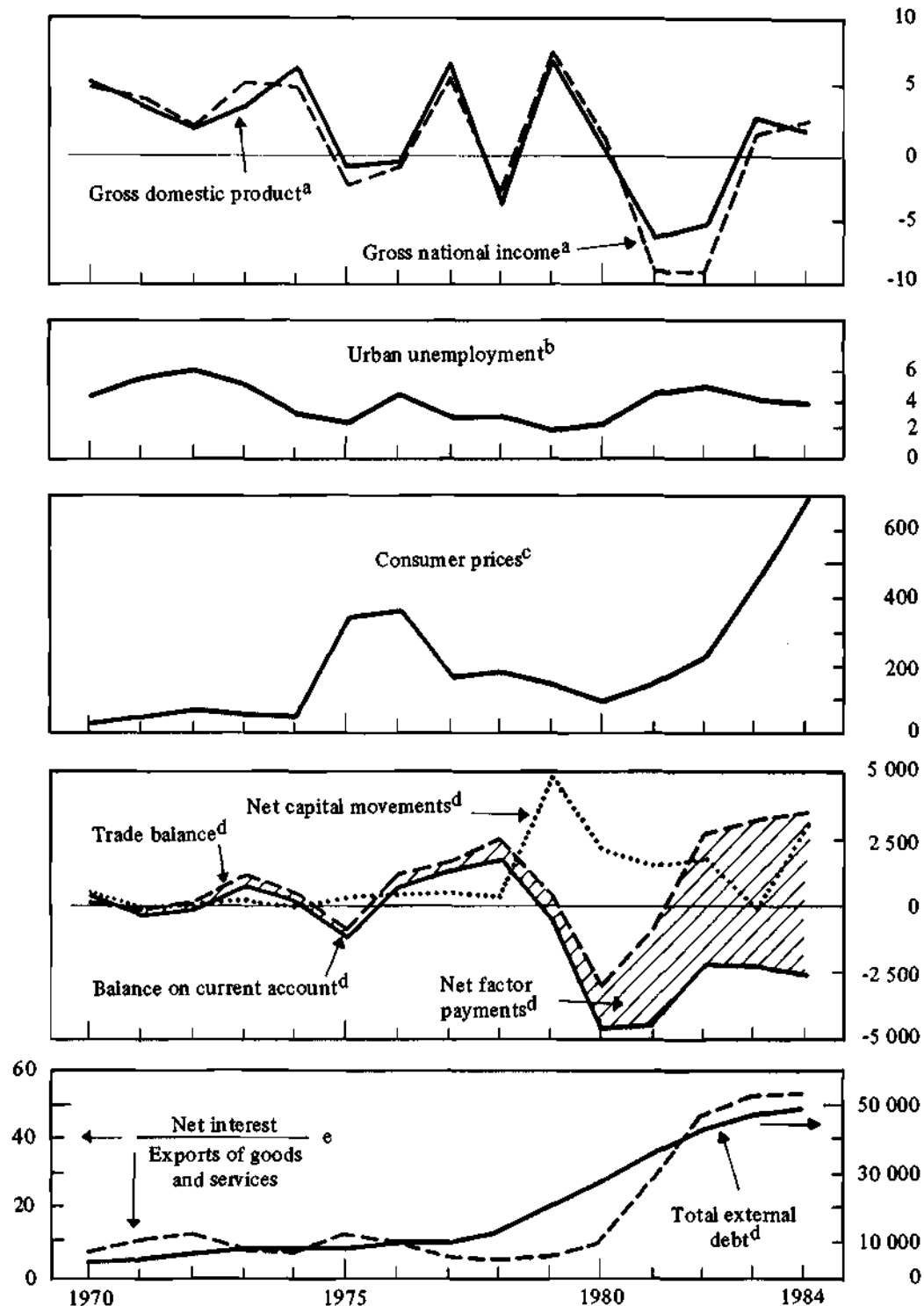
In the course of the first quarter no visible progress was made in external debt negotiations; the preceding administration had not complied with the terms of the stand-by credit programme in 1983 and the creditor banks were unwilling to renegotiate payments unless the Government came to a new agreement with the International Monetary Fund (IMF). This caused uncertainty, especially in so far as, at the end of March, sizeable interest commitments would shortly be maturing. In the end, the payments in question were covered by the use of reserves —which had increased thanks to the appreciable trade balance surplus— and of funds advanced by a group of Latin American countries and the United States.

In the following months, the Government stepped up the negotiations with IMF; in June came the announcement of a proposed letter of intent formulated by the Government and an agreement was reached at the end of September. By that time there had already been perceptible signs of the authorities' growing concern with the control of aggregate expenditure. Fiscal and monetary administration gradually became stricter. Despite the fact that tax revenue continued to decrease, the National Treasury's imbalance was reduced by virtue of a lag in real wages in the public sector, plus the fact that investment was curtailed and certain payments were deferred. The Central Bank, on its part, tried to maintain demand for deposits by raising the rate of interest in the regulated market. A change was also introduced in wage and price policy. As from March, the authorities abandoned the practice of granting retroactive wage increases every month in accordance with the difference between the inflation recorded and the norm; in June the Government decided on a non-retroactive increase to offset the discrepancy in the preceding quarter and in September a special wage increase was fixed (payable in the course of the next two months) which was not to be taken into account for the purposes of calculating future adjustments. Furthermore, an attempt was made to reverse some of the main changes in relative prices that had taken place in the early months of the year: prices of public services were put up and an attempt was made to raise the real exchange rate.

In this way, the authorities gradually conceded more importance to the regulation of aggregate demand, in circumstances which made it difficult to put income policy into effect; the norm for wages was not followed by a sizeable part of the private sector (apparently including manufacturing industry as a whole) and the system of industrial price controls encountered increasing opposition. The Government convened the trade unions and entrepreneurial groups with a view to establishing a concerted policy. This endeavour gave rise to a number of contacts between the authorities and the organizations in question, but produced no definite result.

During the second and third quarters of the year, industrial output showed a moderate upward trend, while real wages in the private sector stood at higher levels than at the end of 1983. In contrast, price increases were stepped up until they reached a monthly maximum of over 27% in September, when a further sharp upswing in quotations for beef (which had climbed more slowly in the preceding months) was added to the other inflationary factors. This strengthened the impression that the rate of inflation had risen to a new pitch, significantly higher than in the past.

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate in Federal Capital and Greater Buenos

Aires. ^cPercentage variation December - December. ^dMillions of dollars.

^ePercentages.

Table 2

ARGENTINA: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b + c + d)	34 230	31 179	31 674	32 540	-8.6	-8.9	1.6	2.7
a) Gross domestic product	35 326	33 488	34 515	35 220	-6.2	-5.2	3.1	2.0
b) Terms-of-trade effect	242	-628	-775	-491				
c) Net external factor payments	1 331	1 692	2 072	2 193	142.0	27.2	22.4	5.8
d) Net private transfer payments received from abroad	-7	11	6	4				

Source: ECLAC, on the basis of official figures.

^a Provisional figures.

The stand-by credit agreement negotiated with IMF established nominal targets for the main monetary and fiscal variables which implied a severe adjustment effort. This programme aimed at reducing the rate of inflation to 300% in the period between September 1984 and the same month in 1985, through a curtailment of government expenditure, higher public services tariffs, more tax revenue and less expansion of the money supply. Increases in the regulated interest rate were also contemplated, while the exchange rate was to be adjusted as much as should prove necessary to meet balance-of-payments objectives.

Accordingly, government policy tightened up in the last part of 1984. This was evidenced in the evolution of relative prices: tariffs and the exchange rate rose in real terms, while real wages declined. Moreover, in October and again in December conditions of illiquidity were observable in the financial markets, and were reflected in extremely high interest rates in the non-regulated segments. At the same time, demand and production weakened: discounting seasonal variations, the industrial product would seem to have declined in the fourth quarter, while inventories increased. Nevertheless, no rapid response was to be seen in prices: the monthly rate of variation of consumer prices, which had fallen in November to 15%, rose again to about 20% in December.

In short, during 1984 progress was made in external debt negotiations and an appreciable trade balance surplus was achieved. But the debt continued to represent a severe constraint on the economy. From the standpoint of growth, the heavy interest payments that have to be made reduce the capacity to import and also affect savings. The country will therefore have to make a great effort to recover the rates of investment recorded in the past. The debt also generates inflationary pressures, not only because by compressing income, it exacerbates the distribution struggle, but also because the servicing of the public debt calls for a large supply of available funds which it is not easy to obtain through taxes or reduction of expenditure. This joins with factors of domestic origin in accentuating price volatility, which, in turn, makes it hard to take production decisions.

Thus, at the end of 1984 Argentina was still confronting the problem of revivifying growth, with the handicaps of an economic system suffering the after-effects of a profound crisis and the constraints produced by indebtedness. The Government has announced economic policy lines for the next few years, aimed at obtaining an annual increase in the product of about 4%. To that end, the authorities have stressed the need to expand exports and increase investment. The Government proposes to encourage the former through a remunerative and stable real exchange rate and by means of fiscal incentives —such as, for example, the gradual replacement of export duties by a land tax—, while a recovery in private investment, supplemented by the public sector, is relied upon to reactivate capital accumulation. Although a renewal of foreign investment is hoped for, it is expected that external saving will continue to be scanty; this will necessitate a significant increase in domestic saving, and efforts will be made to render this compatible with an acceptable income distribution. As the authorities have pointed out, changes in the financial system will be necessary to ensure that saving is appropriately channelled.

From a shorter-term standpoint, an endeavour to moderate inflation is also posited. Inflation has indeed had a severely disturbing effect on the economy. Given its scale in Argentina in 1984, much of the public's effort is devoted to self-defence against price rises, or to making the best of them. One of the manifestations of this is the significant reduction in monetary wages. The peso has been substituted for foreign currencies as a unit of account and as the means of payment in a significant number of transactions, and practices tending to synchronize requests for payment and payment itself have become widespread. Not all the groups have the same possibilities of evading the effects of the devaluation of the currency; it is probably the wage-earners that bear the brunt of the costs. Furthermore, the erratic price movements make it impossible to formulate plans for more than a very short period, a circumstance which undoubtedly affects investment decisions. Accordingly, a prerequisite for a recovery of growth seems to be the attainment of some measure of price stability. But inflationary behaviour has struck deep roots in Argentina. In 1984 not only the resistance of prices to contractions of demand became visible, but also the difficulty of obtaining a consensus on the part of the social groups with regard to guidelines that will make it possible to attenuate the rise in nominal prices and income. Thus, by the end of the year, control of inflation constituted at once one of the most urgent priorities for economic policy and one of the challenges hardest to meet.

2. The evolution of economic activity

a) *Trends in global supply and demand*

In consequence of the far-reaching crisis in the external sector unleashed in the 1980s, Argentina had to grapple with the adjustment of its economy in such a way as to generate an appreciable trade balance surplus. The contraction of imports in the latter part of 1981 and the first half of 1982 was effected through a sharp reduction of all the components of domestic demand. At its lowest point, reached in mid-1982, the gross domestic product was 15% less than in the fourth quarter of 1980 (discounting seasonal effects). Particularly hard hit by the recession was

Table 3

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	35 670	36 552	37 357	106.3	111.9	106.1	-6.9	-9.1	2.5	2.2
Gross domestic product at market prices	33 488	34 515	35 220	100.0	100.0	100.0	-6.2	-5.2	3.1	2.0
Imports of goods and services ^b	2 182	2 037	2 137	6.3	11.9	6.1	-12.9	-44.1	-6.7	4.9
Total demand	35 670	36 552	37 357	106.3	111.9	106.1	-6.9	-9.1	2.5	2.2
Domestic demand	31 967	32 527	33 412	101.1	103.8	94.9	-8.4	-10.7	1.7	2.7
Gross domestic investment	5 617	5 143	4 203	20.2	22.9	11.9	-23.1	-15.3	-8.4	-18.3
Gross fixed investment	5 191	5 097	4 481	19.4	22.1	12.7	-17.2	-24.6	-1.8	-12.1
Construction	3 469	3 260	2 702	12.1	13.1	7.7	-13.1	-19.2	-6.0	-17.1
Public	1 437	1 485	912	4.1	5.4	2.6	-17.2	-15.0	3.1	-38.4
Private	2 032	1 775	1 790	8.0	7.7	5.1	-10.1	-22.0	-12.5	0.7
Machinery and equipment	1 722	1 837	1 779	7.3	9.0	5.0	-23.3	-33.4	6.7	-3.2
Changes in stocks	426	46	278	0.8	0.8	-0.8				
Total consumption	26 350	27 384	29 209	80.9	80.9	83.0	-4.3	-9.6	3.9	6.7
Exports of goods and services ^b	3 703	4 025	3 945	5.2	8.1	11.2	12.1	7.9	8.7	-2.0

Source: ECLAC estimates, based on figures supplied by the Central Bank of the Republic of Argentina.

^a Provisional figures.

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

manufacturing, in which activity had already begun to decline during the exchange-lag period, owing to the competition of imported goods: thus, the sector's product in the second quarter of 1982 was 33% below the peak figure attained in 1977.

From the second half of 1982 onwards, aggregate activity showed signs of recovery. This was compatible with the maintenance of a low volume of imports because, at the same time, there was a shift of demand in favour of local production, in view of the increase in the real exchange rate and the administrative restrictions on purchases from abroad. Domestic expenditure developed along very special lines in 1983: while consumer demand recovered quickly, investment continued to decline. This behaviour, which is in sharp contrast to the typical cyclical pattern, was again in evidence in 1984; global supply increased by little more than 2% and consumption rose by 6.7%, but, at the same time, gross capital formation decreased appreciably, by more than 18% (see table 3).

From a longer-term standpoint, it can be seen that in comparison with the corresponding average figures noted in the second half of the preceding decade, the product and imports were similar in volume in 1984, exports expanded by 40% and consumption was 10% higher; in contrast, gross domestic investment was only half what it had been in the years in question. In other words, there was a considerable decrease in domestic saving (and an even sharper drop in national saving if the burden of interest payments on the external debt is taken into account) and investment was brought down to a level which probably was not high enough to offset the depreciation of the existing stock of capital. All this indicates that the recovery of the product in the last two years had features which clearly distinguish it from earlier episodes and are also a mark of its precarious character.

An almost 5% increase in the volume of imports of goods and services accompanied the upsurge of internal activity. Additional factors operated in its favour were the deterioration of the real exchange rate during the first part of the year and the flexibility of an import régime designed with the object of guaranteeing a smoother flowing supply of imports. For its part, the drastic decrease in imports of capital goods reflected the decline in domestic investment.

Total consumption was the only dynamic component of global demand in 1984, inasmuch as it expanded by 6.5%, thanks to the increase in the purchasing power of wage-earners and the low level of real interest rates, which encouraged the sale of durable consumer goods. Both phenomena were observable mainly during the early months of the year.

As already noted, investment once again dwindled, mainly in consequence of a drop of over 38% in public construction. During the year no works of any considerable size were undertaken and the pace of those already in process of execution was slowed down, as part of the effort to control expenditure with a view to balancing the public accounts; influence was also exerted by the delay in approval of the Government's National Budget for 1984 (which was not adopted until September). In their turn, the meagre volume of credit available for the construction of new housing and the resulting high financial costs constituted the main disincentives to private construction. Investment in equipment and machinery fell by 3%, in consequence of a real decline of 15% in imports of equipment; in contrast, domestic production of machinery expanded slightly. The virtual stagnation of investment in goods of this type, at a level equivalent to barely 60% of that recorded in the second half of the preceding decade, was the result of uncertainty in relation to the economic future over the medium and long term, which led to the postponement of new undertakings and even of replacement of equipment.

Lastly, the volume of exports of goods and services contracted by 2%.

b) *Sectoral trends*

The 2% increase in the total product during 1984 was due to the relatively favourable performance of the agricultural sector (2.6%); manufacturing industry (4.3%); basic services (4.4%); and, to a lesser extent, other services (2.4%), an outstanding instance being the expansion of trade (4.4%). The mining sector, on its side, remained static, while construction continued to decline steeply (-20.7%), mainly owing to the decrease in public works, which were affected by budget restrictions (see table 4).

i) *The agricultural sector.* The agricultural product grew by 2.6%, in consequence of a 5% increase in the crop sector and a fall of 1.5% in the livestock production subsector (see table 5).

If the 1983/1984 grain harvest was larger in volume than in recent crop years, it was about 9% smaller than that of the preceding season. This decline was due to a reduction in yields, attributable to

adverse weather conditions, since there was no appreciable change in the area under cultivation (see table 6). The product worst affected was wheat; production of sorghum and other winter cereals also decreased. Thus, total output of cereals was reduced by about 9%, while the oilseed harvest increased by 33%. This was due in particular to the expansion of the area under cultivation and to the exceptionally high yields obtained in soya-growing.

Real prices of grains in the months during which the 1983/1984 crop was being marketed were mainly influenced by the evolution of international prices: wheat and sorghum quotations fell, the

Table 4

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

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	29 668	30 580	31 203	100.0	100.0	100.0	-6.2	-5.2	3.1	2.0
Goods	13 698	14 365	14 503	49.0	46.8	46.5	-9.8	-2.8	4.9	1.0
Agriculture	4 641	4 674	4 795	13.1	12.7	15.4	2.4	7.3	0.7	2.6
Mining	842	859	852	2.2	2.5	2.7	0.6	0.3	2.1	-0.9
Manufacturing	6 687	7 408	7 726	27.8	25.0	24.8	-16.0	-4.7	10.8	4.3
Construction	1 528	1 424	1 130	5.9	6.6	3.6	-13.8	-19.8	-6.8	-20.7
Basic services	4 574	4 792	5 002	13.6	14.3	16.0	-3.1	-1.2	4.8	4.4
Electricity, gas and water	1 214	1 311	1 382	2.9	3.6	4.4	-1.1	3.1	8.0	5.4
Transport, storage and communications	3 360	3 481	3 620	10.7	10.7	11.6	-3.7	-2.6	3.6	4.0
Other services	11 396	11 424	11 698	37.4	38.9	37.5	-3.1	-9.4	0.2	2.4
Trade	3 803	3 925	4 098	15.0	15.0	13.1	-6.8	-18.3	3.2	4.4
Financial institutions, insurance, real estate, and business services	2 542	2 353	2 359	7.1	9.1	7.6	-5.3	-11.5	-7.5	0.4
Ownership of dwellings	...	...	...	2.0	2.0	...	2.0	...	...	...
Community, social and personal services	5 051	5 146	5 241	15.3	14.8	16.8	2.0	-0.1	1.9	1.9
Government services	...	...	...	10.4	9.5	...	1.0	...	...	...

Source: ECLAC estimates, based on figures supplied by the Central Bank of the Republic of Argentina.

^aProvisional figures.

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

Table 5

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of argentinian pesos at 1970 prices				Growth rates		
	1981	1982	1983	1984 ^a	1982	1983	1984 ^a
Gross agricultural product at factor cost^b	1 276	1 369	1 379	1 414	7.3	0.7	2.6
Crop farming	758	831	831	873	9.5	-	5.0
Livestock production	480	495	501	493	3.1	1.1	-1.5
Fisheries	8	10	9	8	32.5	-8.5	-17.4

Source: Central Bank of the Republic of Argentina.

^aProvisional figures.

^bIncludes agricultural construction, hunting, forestry and lumbering.

Table 6

ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)				Production (millions of tons)			Growth rates of production		
	Average 1979/1980 1983/1984	1982/ 1983	1983/ 1984	1984/ 1985	Average 1979/1980 1983/1984	1982/ 1983	1983/ 1984	1982	1983	1984
Cereals	16.1	17.6	16.9	15.5	28.3	36.1	32.7	-9.1	33.2	-9.4
Wheat	6.5	7.4	7.2	6.0	10.3	15.0	12.3	3.8	18.1	-18.0
Sorghum	2.4	2.6	2.5	2.3	6.8	8.1	7.3	5.3	1.3	-9.9
Maize	3.6	3.4	3.5	3.7	9.5	9.0	9.5	-25.6	-6.3	5.6
Oilseeds	5.1	5.3	5.9	6.2	7.4	7.3	9.7	17.2	5.8	32.9
Linseed	0.9	0.9	0.8	0.7	0.7	0.7	0.7	-	1.7	-
Sunflower	1.8	1.9	2.1	2.4	1.9	2.4	2.2	53.8	20.0	-8.3
Soya	2.2	2.4	2.8	3.0	4.5	4.0	6.6	5.3	-4.8	65.0
Subtotal annual crops	24.2	25.2	25.3	24.2	...	...	...
Total area under cultivation	27.3	28.1	28.1	27.0	...	...	...

Source: Ministry of Agriculture and Livestock Production.

price of maize remained steady and sunflower-seed and soya prices rose. In the course of 1984, international prices and the exchange rate took an opposite turn: the former deteriorated in the case of all the staple grains as from the second half of the year, while exchange parity lagged behind domestic inflation up to the third quarter, when it began to recover.

Generally speaking, real domestic prices prevailing during the sowing of the 1984/1985 crop were significantly lower than in the preceding year. The biggest drop occurred in wheat and sorghum. This situation probably had something to do with the contraction of the area under seed to staple grains, which shrank by one million hectares, i.e., almost 5%. The area assigned to cereals was reduced by somewhat more than 8%, a decrease which the 5% expansion of the area allocated to oilseeds did not suffice to offset. In the first case a decisive role was played by the marked reduction of the area under wheat (1.2 million hectares) and in the second, by the increase in soya and sunflower.¹

Although the contraction of the area under wheat and other winter grains in the 1984/1985 crop year may be linked to the fall in international prices and to adverse weather conditions during seedtime, yet another influential factor seems to have been the increase in herds recorded in 1983 and the early part of 1984. The accumulation of this stock of cattle implied greater use of capital which—as is normal in such situations—must have been withdrawn from less profitable agricultural activities. Probably this effect was especially marked, in view of the shortage of financing for the sector and the deterioration of the relative price of wheat as against that of beef in the period of tilling the ground in readiness for the new crop season.

The product deriving from industrial crops diminished during 1984 because of the curtailment of activities connected with vine-, sugar cane- and cotton-growing. In contrast, production of fruit, especially apples, increased.

The decrease in livestock production was generalized: growth was registered only in the production of swine (which is passing through a phase of accumulation of stocks) and poultry-rearing, while the downward trend in the supply of wool and ovine species continued and milk supplies and output of beef contracted (-1.5%).

¹ Probably, however, the reduction of the area will not have adverse effects on the volume of the crop which began to be harvested in the summer of 1985, and which is likely to be larger than that of the 1983/1984 season, owing to the exceptional weather conditions during the growing period. These conditions were notably favourable to the growth and ripening of wheat, which will apparently yield a harvest bigger than that of the preceding crop year, despite the sizeable decrease in the area under cultivation.

Herds increased up to mid-1984 (2% between 1982 and 1983 and 1.5% between 1983 and 1984). As from the second part of the latter year a phase of reduction of inventories would seem to have begun. Although this evolution cannot be verified until 1985, when the results of a new estimate of stocks will be available, the behaviour of other cyclical indicators supports the hypothesis that a phase of liquidation is starting. Thus, slaughtering of cows and heifers and the proportion of total slaughtering it represented increased manifestly faster in the second part of 1984. Moreover, there was a rapid decrease in the yield of the animals slaughtered and in the real price of cattle (see table 7). The displacement of total demand for meat, due to the decline in external purchases, has played a decisive role in producing this change in the phase of the cycle. Although the stock —and, therefore, the potential supply— of cattle in mid-1984 was smaller than in the past (18% less, in per capita terms, than the previous peak figure reached in 1977), the downward shift of demand caused a substantial fall in prices and therewith an interruption of the phase of retention of cattle. In 1984 exports dropped to only 248 000 tons, which represented 10% of total slaughtering, as compared with 17% in 1983. This volume of exports was 40% smaller than in 1983 and 68% below the maximum reached in 1969.

This situation is hardly likely to change in the near future. As mentioned above, the price of cattle in constant terms perceptibly declined in the last half of 1984. The trend in question would seem to be continuing, as no favourable changes are observable either in domestic demand or in international markets. This fact, combined with the probable application of a support price policy for grains, may set limits to additional reductions in the area sown to wheat and prolong the phase of liquidation of cattle stocks. On the other hand, the switch-over in the use of the crop area to oilseeds and maize will presumably go on, while crops likely to lose relative importance will be wheat, sorghum, oats, barley and millet, which are less profitable at current international prices.

Table 7

ARGENTINA: CATTLE SLAUGHTERED AND PRICES

Period July June	Stocks (millions of head) ^a	Slaugh- tering (millions of head) ^b	Slaugh- tering rate (per- centage) ^c	Yield (kilo- grammes of dressed meat per head) ^d	Percent- age of cows and heifers in slaugh- tering analysed ^e	Annual per capita consump- tion (kilo- grammes) ^f	Steer prices in terms of:	
							Indus- trial prices ^g	Wheat prices ^h
1978-1979	58.4	16.4	28.1	195.2	35.5	87.8	0.82	5.16
1979-1980	56.9	13.8	24.3	204.2	32.8	79.1	0.95	6.48
1980-1981	55.8	14.4	25.8	203.0	31.9	86.7	0.71	4.86
1981-1982	54.2	14.1	26.0	202.6	33.4	78.8	0.71	4.15
1982-1983	52.7	11.5	21.8	211.6	33.1	64.0	0.89	5.67
1983-1984 ⁱ	53.8	11.7	21.7	212.4	35.1	69.9	0.79	6.36
1984-1985 ^j	54.7	...	...	...	...	...	...	...
First semester 1983 ^{ij}	...	5.8	...	212.7	33.4	67.0	0.82	6.50
Second semester 1983 ^{ij}	...	5.6	...	216.9	31.0	66.5	0.81	6.20
First semester 1984 ^{ij}	...	6.1	...	208.3	34.4	73.0	0.77	6.50
Second semester 1984 ^{ij}	...	6.0	...	207.7	32.6	73.6	0.74	7.20

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

^a As at 1 July. ^b Total slaughtering in the period (including total estimate of slaughtering *in situ*). ^c Slaughtering in the period as a percentage of stocks at 1 July. ^d Average for the period. ^e Slaughtering under control of the National Meat Board, which represents between 77% and 80% of total (registered) commercial slaughtering. ^f Relates to registered slaughtering, which differs from the total because it does not include estimates of slaughtering *in situ* (about 360 000 head per annum). ^g 1970 pesos. ^h Kilogrammes of wheat needed to purchase 1 kilogramme of live steer. ⁱ Provisional figures and projections. ^j Given their highly seasonal character, semestral values are comparable only with those of the same semester in the preceding year.

Table 8

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates		
					1982	1983	1984 ^a
Gross product of mining at factor cost (thousands of 1970 argentinian pesos)	247	248	253	251	0.3	2.1	-0.9
Production of some major minerals							
Petroleum (thousands of m ³)	28 852	28 470	28 474	27 855	-1.3	-	-2.2
Marketable coal (thousands of tons)	498	515	486	509	3.4	-5.6	4.7
Injected natural gas ^b (millions of m ³)	8 182	9 786	11 295	12 278	19.6	15.4	8.7

Source: Central Bank of the Republic of Argentina and Fuels Department.

^aProvisional figures.

^bAfter deducting imports.

ii) *Mining*. Mining activity as a whole has been sluggish since 1980 (see table 8). This behaviour is widespread, with two exceptions which offset each other: the steady growth of production of natural gas, permitted by the considerable expansion of reserves since the discovery of the Loma de la Lata deposit at the end of the preceding decade, and the persistent decline in the mining of non-metaliferous ores, linked with the deterioration in construction that has been going on for several years now.

In 1984, output of petroleum decreased by 2% in consequence of the lower level of activity of the contractor enterprises working for Yacimientos Petrolíferos Fiscales (YPF). This was directly connected with the renegotiation of the contract signed with these firms, initiated in 1983 and still pending at the end of 1984. This circumstance, plus YPF's lack of resources, also influenced the stagnation in proven reserves.

In contrast, injection of natural gas continued to increase at a rapid rate (9%). The relative abundance of gasiferous reserves has been serving as an incentive to various programmes for replacement of liquid fuels: thus, in 1984 the use of gas for the generation of electricity and for industrial purposes was expanded. Furthermore, there were plans for spreading the use of gas as household fuel; consideration is also being given to the construction of several fertilizer plants and circulation of gas-driven motor-cars will be encouraged.

iii) *Manufacturing*. In 1984 the manufacturing product increased by a little over 4%, accounting for half the increment in the total product (see table 4). Thus there was a continuance of the trend that had begun in mid-1982 and was prolonged during the following year. This recovery, however, only partly compensated for the slump that had occurred in the early years of the decade. The volume of production in 1984 was smaller than five years before and comparable with that of 1972. Moreover, by the end of the year the expansion had slowed down: in the fourth quarter output was reduced and stockpiles were built up.

The start of the recovery was linked to a resurgence of import substitution. With the rise in the real exchange rate and the imposition of restrictions on purchases from abroad, local industry regained parts of the market from which it had been ousted during the trade liberalization and exchange-lag period. In 1983, the dynamism of industry was due in a measure to this renewal of import substitution, but also to the upward trend of domestic consumption. The latter seems to have been the main driving force behind the growth of production in 1984. The rise in wage-earners' income found expression in increasing demand for the products of the non-durable consumer goods industries, which expanded more rapidly than the sector as a whole. The increase in sales of consumer goods was also reflected in the activity of the metalworking branches of industry, which likewise supplied a growing proportion of the depressed demand for equipment goods. In contrast, the industries linked to construction contracted. The shrinkage of demand in the latter part of the year,

probably connected with the greater monetary and fiscal rigidity, had a diffused effect: the product declined in all branches of industry, with the sole exception of the paper and paper product sectors.

Apart from the differences attributable to the diversity in the behaviour of demand, the situation in the various sectors of industry was also influenced by variations in the price régime and the evolution of the financial markets. Thus, given that the price norms laid down by the authorities were not in keeping with effective inflation, appreciable discrepancies seem to have occurred in relative prices and rates of return, according to whether activities were or were not subject to price control. Furthermore, the wide fluctuations in real interest rates probably caused significant differences between enterprises with greater and lesser credit requirements.

The branch that grew most in 1984 was the food industry (7.5%) (see table 9). The increase in cattle slaughtering contributed to this result. But the abrupt decline in exports of meat placed the cold storage industry in a difficult situation, since it is geared mainly to the external market. On the other hand, both oil-processing and milling followed an upward trend, as the bigger supply of raw materials made it possible to expand exports without affecting domestic supplies.

The textile sector, too, featured significant growth (5%), owing to the favourable evolution of demand and despite difficulties over supplies of natural fibres.² Moreover, several plants installed in the hinterland of Argentina under the aegis of special promotion régimes were brought into operation.

Processing of long-staple pulp and production of newsprint increased in 1984. This permitted the continuance of import substitution plus an appreciable expansion of exports, largely to Latin American countries.

Table 9

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates ^b		
					1982	1983	1984 ^a
Gross manufacturing product at factor cost (thousands of argentinian pesos at 1970 prices)(1)	2 071	1 973	2 186	2 281	-4.7	10.8	4.3
Food	515	467	492	529	-9.2	5.2	7.5
Textiles	196	195	219	229	-1.0	12.4	4.9
Wood	39	33	31	30	-15.3	-4.3	-3.2
Paper	100	106	113	117	5.5	7.0	3.2
Chemicals	338	334	368	388	-1.3	10.2	5.5
Non-metallic minerals	110	99	111	102	-9.3	11.6	-8.3
Basic metal industries	119	134	142	136	12.4	6.5	-4.5
Machinery and equipment	511	469	559	592	-8.2	19.1	6.0
Other industries	143	136	151	158	-4.7	10.8	4.4
Production of some important manufactures							
Pig-iron (thousands of tons) ^b (2)	1 720	1 894	1 862	1 818	10.1	-1.7	-2.4
Steel (thousands of tons)(2)	2 527	2 913	2 966	2 635	15.3	1.8	-11.1
Rolled products (thousands of tons) ^c (2)	2 193	2 667	2 896	2 711	21.6	8.6	-6.4
Motor vehicles (thousands of units)(3)	172	132	160	167	-23.3	21.0	4.7
Tractors (units)(4)	1 359	3 828	8 126	12 322	181.7	112.3	51.6

Source: (1) Central Bank of the Republic of Argentina.

(2) Centro de Industriales Siderúrgicos.

(3) Asociación de Fábricas de Automotores.

(4) Asociación de Fábricas Argentinas de Tractores.

^a Provisional figures.

^b Including sponge iron.

^c Total finished rolled products in terms of hot-rolled products.

² The difficulties derived from the loss of part of the cotton harvest as a result of floods in the North-East region, and from the unusually high death rate among sheep, also attributable to weather conditions.

The group formed by the chemical, petroleum and rubber industries grew by 5.5%. The processing of basic chemical products expanded in consonance with the brisker pace of activity in the consumer industries; there also seems to have been an increase in demand on the part of distributors for stockpiling purposes. The plants manufacturing petrochemical products once again operated, generally speaking, at nearly full capacity. Despite financial difficulties, work proceeded on several plants in the Bahía Blanca complex, such as those producing vinylic monomers and high-density polyethylene, which entered operation in 1985. The performance of plastics processing was likewise satisfactory. In contrast, production of fertilizers failed to increase, notwithstanding the measures to encourage use of such inputs; consequently, the additional demand was covered by imports. The tyre industry utilized most of its capacity. This was due to greater demand on the part of the motor-vehicle industry and also to an increase in sales for replacement purposes.

The reduction of activity in construction affected industries linked to this sector, such as the wood, paint and non-metallic minerals industries. Domestic demand for rolled products (non-flats) also contracted, a fact which influenced the evolution of the steel industry (see table 9). In the second half of the year sales of flats likewise decreased, in view of the decline in activity in the industries producing motor-vehicles and durable consumer goods. Moreover, exports—which had acquired increasing importance in recent years—were confronted with the restrictions imposed by the United States on the pretext that dumping existed. This situation led to postponement of the installation of SOMISA's second blast furnace. The result was some increase in imports of sheet, but as a counterpart there was a decrease in purchases of iron ore. In any event, the entry into operation of the continuous rolling process for sheet in 1985 will facilitate import substitution in respect of semi-processed flats to a value of over US\$ 50 million.

Production of primary aluminium remained high. Domestic demand was steady, with the exception of that deriving from construction. Furthermore, significant increases were achieved in exports of semi-finished products.

The almost 5% increment in production of motor vehicles was the result of larger sales in the first half of the year, both of automobiles and of commercial vehicles. Despite this growth, output is still far short of the peak levels reached in the past. During the last months of 1984 a decline in activity was observable; in the case of automobiles, it was influenced by the abrupt rise in prices which followed the Government's decision to free the prices of units with ordinary equipment at the end of August.

Production of tractors soared by about 52%. This remarkable increase was associated with the expansion of one enterprise, which supplied half the local market and in addition expanded its exports of non-assembled units. The rise in domestic demand was due to replacement requirements and to the agricultural sector's higher income in the first half of 1984; even so, sales contracted again towards the end of the year. Moreover, production of tractors in 1984 did not exceed one-half of the output registered ten years earlier. As for the agricultural machinery industry, it remained static.

Lastly, there was a boom in production of both electric and internal combustion engines. In particular, an appreciable increase in demand derived from the conversion to diesel of equipment originally provided with gasoline engines; this was due to the significant difference between the prices of the two fuels.

iv) *Construction.* The value added in the construction industry in 1984 once again sank by about 20%. After four years of successive downward movements, the sectoral product was equivalent to little more than half the 1980 maximum figure and was below the average for the latter quinquennium of the 1960s. During 1984, private construction remained as depressed as in the preceding year and was equivalent to barely 57% of that carried out in 1980; whereas public works dwindled by 38% and 55% in relation to 1983 and 1980, respectively.

The expansion of the construction product which culminated in 1980 was linked to heavy government expenditure on public works and to an inflow of copious private funds into the activity. Once the special conditions of the period of exchange lag and plentiful external financing had disappeared, speculative demand for property contracted abruptly, while at the same time credit for the purchase of housing was restricted. This caused a marked decrease in the initiation of new works and delays in the completion of buildings already begun (see table 10). Thus, as the recession in the sector grew worse, an increasingly large proportion of the construction of housing came to depend upon direct official action or upon credit support channelled through promotion systems. At the

beginning of 1984, the authorities had envisaged a significant increase in the volume of funds allocated to housing. These plans, however, came up against serious limitations as a result of the public sector's financial crisis. As regards public works, their decline in 1984 was much sharper than in the preceding years. This was because curtailment of investment became one of the main methods of reducing the financial imbalance in the Government accounts.

v) *Electricity*. Production of electricity went up by 5%. As had happened in the preceding year, generation by the nuclear power stations greatly increased (36%), particularly because that of Embalse de Río Tercero, inaugurated the year before, had reached its peak capacity. There was also an upswing in generation of hydroelectricity (7.7%). Thus generation by thermal power stations was reduced (-4.7%), its share in the total dropping by 50% (up to 1981 it had accounted for 0% of total generation).

In view of the budget constraints encountered by enterprises in the sector—as by the whole of the public sector—the progress of works under construction slowed down. Nevertheless, in May was inaugurated the first of the four turbines (250 MW each) of the Alicurá Power Station on the Middle Limay, and basic guidelines were laid down for the integration of the National Interconnected System. Furthermore, an investment programme for the next five years was drawn up. Investment was to be concentrated in works already begun—the hydroelectric power stations of Piedra de Águila and Yacyretá and the Atucha II nuclear power station—, no provision being made, in principle, for starting any new works before 1989.

3. The external sector

a) Overall trends

In 1984, for the third year running, trade in goods showed a considerable positive balance, this time amounting to about US\$ 3.9 billion, as against US\$ 3.7 billion in 1983 and about US\$ 2.8 billion in 1982 (see table 11). The better result obtained on the goods account was due to the behaviour of the terms of trade, which took a turn for the better, especially in the first part of the year, attributable

Table 10

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1981	1982	1983	1984 ^a	Growth rates		
					1982	1983	1984 ^a
Construction permits granted (thousands of square metres)(1)							
Federal Capital	1 430	1 016	781	998	-29.0	-23.1	27.8
Paraná	224	146	204	172	-34.8	39.7	-15.7
Rosario	424	362	332	214 ^b	-14.6	-8.3	...
Salta	166	150	133	150	-9.6	-11.3	12.8
Santa Fé	162	83	72	87	-48.8	-13.3	20.8
Deliveries of certain construction materials							
Sales of cement (to the domestic market)(thousands of tons)(2)							
Public works	6 535	5 395	5 518	5 161	-17.4	2.3	-6.5
Private works	1 794	1 225	972	806	-31.7	-20.7	-17.1
Private works	4 741	4 170	4 546	4 355	-12.0	9.0	-4.2
Sales of steel products for use in reinforced concrete (to the domestic market) (thousands of tons)(3)	396	324	310	298	-18.2	-4.3	-3.9

Source: (1) National Institute of Statistics and Censuses.

(2) Asociación de Fabricantes de Cemento Portland.

(3) Instituto Argentino de Siderurgia.

^a Provisional figures.

^b First seven months.

Table 11

ARGENTINA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	1 836	-535	-4 774	-4 635	-2 354	-2 436	-2 490
Trade balance	2 520	403	-3 191	-673	2 667	3 468	3 760
Exports of goods and services	7 483	9 177	9 891	10 877	9 183	9 287	9 860
Goods FOB	6 401	7 810	8 022	9 169	7 622	7 835	8 100
Real services ^b	1 083	1 366	1 870	1 709	1 560	1 453	1 760
Transport and insurance	475	605	810	888	713	754	810
Travel	278	266	345	413	610	453	440
Imports of goods and services	4 962	8 774	13 081	11 550	6 516	5 820	6 100
Goods FOB	3 488	6 027	9 394	8 414	4 859	4 119	4 200
Real services ^b	1 474	2 745	3 688	3 134	1 655	1 700	1 900
Transport and insurance	510	905	1 271	1 157	733	736	710
Travel	588	1 266	1 792	1 434	566	507	600
Factor services	-734	-973	-1 607	-3 941	-5 054	-5 920	-6 260
Profits	-274	-428	-585	-719	-317	-424	-440
Interest received	315	681	1 229	882	526	440	520
Interest paid	-720	-1 175	-2 175	-3 869	-4 926	-5 424	-5 790
Others	-54	-52	-76	-235	-339	-513	-550
Unrequited private transfer payments	48	35	23	-21	34	16	10
Balance on capital account	302	4 760	2 176	1 579	1 686	-13	2 710
Official unrequited transfer payments	21	22	-	-	-	-	-
Long-term capital	1 520	3 156	4 492	9 984	3 844	1 715	(268)
Direct investment (net)	273	265	788	932	257	183	
Portfolio investment (net)	102	223	153	1 128	1 888	1 139	
Other long-term capital	1 145	2 667	3 550	7 924	1 698	393	
Official sector ^c	-954	-	478	957	-44	376	
Loans received	47	50	510	1 029	230	2 496	
Amortization payments	-914	-43	-36	-46	-225	-2 109	
Commercial banks ^c	101	198	-65	367	267	38	
Loans received	124	236	89	404	737	264	2 710
Amortization payments	-22	-37	-155	-38	-469	-227	
Other sectors ^c	1 997	2 470	3 138	6 600	1 475	-22	
Loans received	3 745	3 157	4 231	8 822	2 602	2 446	
Amortization payments	-1 588	-857	-1 229	-1 693	-650	-2 294	
Short-term capital (net)	-1 246	1 341	-2 011	-8 192	-1 758	-1 288	
Official sector	335	180	313	239	2 682	-91	
Commercial banks	-27	-286	-365	35	351	311	
Other sectors	-1 554	1 447	-1 958	-8 466	-4 791	-1 508	
Errors and omissions (net)	9	243	-307	-213	-401	-440	
Global balance^d	2 138	4 225	-2 598	-3 056	-668	-2 449	220
Total variation in reserves							
(- indicates an increase)	-2 236	-4 424	2 666	3 408	806	2 508	-200
Monetary gold	-4	-3	-1	-	-	-	...
Special Drawing Rights	-121	-116	-1	-76	404	-	...
IMF reserve position	-169	-34	-133	57	178	100	...
Foreign exchange assets	-1 522	-4 272	2 801	3 426	225	1 234	...
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	-419	-	-	-	-	1 173	...

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official information.

^a Provisional figures.

^b Real services also include other official and private transactions; but exclude factor services.

^c In addition to loans received and amortization payments, net loans granted and other assets and liabilities are included.

^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.

largely to the recovery in oilseed prices. In contrast, towards the end of the year a decline was observable in the sale prices of exportable agricultural products, which affected foreign exchange income. Furthermore, the terms of trade were definitely lower in 1984 than at the beginning of the decade. This enhances the significance of the achievement of a trade balance surplus equivalent to about 5% of the gross domestic product.

On the real services account there was a deficit of US\$ 140 million, smaller than in the preceding year. The burden of interest payments, for its part, continued to increase: the negative balance of almost US\$ 5.3 billion once again represented over 50% of exports of goods and services and exceeded the trade surplus by 40%. Thus, although imports still fell below the figures reached at the beginning of the present decade, the deficit on current account amounted to almost US\$ 2.5 billion. At the same time, the external debt continued to grow, although at a much lower pace than it had maintained up to 1982. Even so, by the end of the year it was equivalent to five times the value of exports of goods and services. This proportion, only exceeded in the region by that registered in Nicaragua, was accordingly much higher than the figure for the period 1978-1980 (see table 12).

In contradistinction to what happened in 1983, IMF compensatory financing did not play an important role; on the contrary, a part (although a very small fraction) of the credits outstanding with that agency was paid off. The imbalance on current account was covered in the course of the year by means of several expedients. In the first place, loans were obtained from the United States Treasury and from Latin American governments, which contributed about US\$ 600 million. Furthermore, an appreciable change took place in the behaviour of commercial credit, which, after having caused a net outflow of capital in 1983, brought in almost US\$ 700 million in 1984. In this connection it was significant that commercial financing for imports was positive; noteworthy, too, was the inflow of capital linked to exports, apparently largely attributable to operations bearing on the sale of the 1984/1985 crop harvest. Besides negotiating the above-mentioned credits, the public sector issued external securities to an approximate value of US\$ 400 million. Debts amounting to about US\$ 900 million were also left unpaid at maturity. As a result of these capital movements, combined with a small contribution from direct investment and the procurement of certain financial loans by public enterprises, it was possible to pay off the private debt (in addition to the debt conversion discussed below) and to add US\$ 200 million to reserves.

In 1984, a further transfer of private debt to the public sector took place, relating to operations with exchange insurance. This system had been instituted in previous years with the object of stimulating the inflow of external funds, and mobilized a considerable quantity of foreign exchange, which was attracted by the prospect of profits resulting from the differential between the return on these operations and the international interest rate. When the maturity date for the debts contracted

Table 12

ARGENTINA: EXTERNAL DEBT AS AT THE END OF THE YEAR

	1978	1979	1980	1981	1982 ^a	1983 ^a	1984 ^{ab}
Millions of dollars							
Total	12 496	19 034	27 162	35 671	43 634	46 500	49 000
Public	8 357	9 960	14 459	20 024	28 616	32 230	...
Private	4 139	9 074	12 703	15 647	15 018	14 270	...
Percentages							
Coefficients							
External debt/exports of goods and services	167	207	275	329	475	501	497
Net interest payments/exports of goods and services	5	5	10	27	48	54	54

Source: Central Bank of the Republic of Argentina.

^aIncludes the registered external debt plus arrears under other heads.

^bProvisional estimates.

by the private sector in connection with this mechanism was reached, the need to renew the loans arose—in addition to the problem of domestic monetary policy generated by exchange differentials—,³ since not enough foreign exchange was available to meet the payments falling due. In the end, most of the original credits were paid off by the recipients and renewed on the government's account through the issue of securities and promissory notes. In 1984, the volume of these operations exceeded US\$ 2 billion. Another significant factor was the increase in foreign currency deposits in local banks, which, while it represented a transaction between residents (and, therefore, did not affect the net result of capital movements), implied an inflow into the financial system of foreign exchange previously hoarded.

In short, during 1984 Argentina managed to cope with the difficulties created by its ponderous debt servicing. But despite the government's efforts, the definitive bases for an agreement with creditors were not laid down. The means of financing used were largely of an exceptional character, and uncertainty still remained as to the future demands on the country that the debt would make.

The international negotiations undertaken in 1984 proved a difficult business. Early in the year the new authorities began conversations with the creditor banks, with a view to the rescheduling of the debt. Although it was to be expected that the political change implied by the inauguration of a constitutional government would create more favourable conditions for negotiation, rapid results were not obtained.

In fact, towards the end of the first quarter negotiations were seen to be more or less at a standstill; this created, in a section of the public, apprehensions that it might be impossible to cover the big payments falling due in the month of March, with the attendant risk to the country's creditworthiness. In the end, this eventuality was averted through an operation comprising a short-term loan from Latin American Central Banks and the participation of the United States Treasury.

Experience at the beginning of the year confirmed the idea that the banks would make a refinancing agreement conditional upon the government's obtaining IMF's approval of its economic policy. After lengthy discussions, a memorandum of understanding for a stand-by credit was signed. In the aspects of this document that were directly connected with the external sector, the Government provided for a gradual reduction of the deficit on current account, by means of export expansion. To this end there would be a recovery of the exchange rate, which had lagged behind domestic prices in the first three quarters (see table 13). The rate of devaluation would then be at least equal to the rate of the rise in prices. It was further agreed that by September 1985 outstanding service payments would have been defrayed (for which purpose the Fund's financing would be applied), and it was estimated that refinancing agreements would be concluded halfway through that year.

b) *External trade*

i) *Exports.* In 1984 the value of exports again rose by about 3%. In contrast to what happened in 1983, this expansion was due to price increases; the quantum, on the other hand, decreased by 3%, after having grown by 14% in 1983 (see table 14).

The export increment was mainly due to the enormous increase (73%) in the value of sales of oilseeds, oils and oleaginous by-products, which came to represent almost 30% of total exports of goods (see table 15). Exportable surpluses of these items considerably increased, in consequence of a significant rise in production which, in the case of soya, amounted to 65%. International prices of these products also went up in the course of the first three quarters of the year, i.e., the period in which Argentina effected or pledged the bulk of its sales.

In contrast, the value of sales of cereals dropped by 23%, as a result of a decrease in the volume exported (-28% in the case of wheat). This was due to the sharp contractions in the wheat and sorghum harvests. Prices as a whole remained slightly above their 1983 levels, the decline in the unit value of wheat being offset by the increase noted in that of maize.

Exports of livestock products shrank appreciably (-13%) for the third year in succession. The increase in sales of wool and hides did not suffice to offset the steep drop in exports of dairy products (-75%) and of meat (-35%). In fact, the volume of deliveries of meat (about 250 000 tons) was the lowest in the last 30 years and in 1984 the value of these sales represented less than 5% of total exports (see table 15).

³ See, in this connection, the chapter on Argentina in the *Economic Survey of Latin America*, 1983.

Numerous causes account for the decline in the sales of meat on the world market, although the most important was the contraction of external demand. This reflects, on one hand, the fall in the purchases of countries that have been big buyers in recent years, particularly the Soviet Union. In 1984 this last country imported only about 50 000 tons, 46% less than in 1983. But the factor that most influenced Argentina's loss of ground was the policy pursued by the European Economic Community, which made heavily subsidized sales to markets that had been traditionally supplied by Argentina, such as the Mediterranean countries. The contractions in sales to these countries account for almost half of the total decrease in 1984. Moreover, the restrictions imposed by the Community limited exports to that market itself (-36% in 1984). It was partly due to this behaviour of external demand that the areas assigned to stock-breeding in the pampa were reduced in favour of crop-growing and that the share of the domestic market in total slaughtering increased.

Sales of industrial products as a whole expanded by 9%. Sales of fuels, on the other hand, remained static. Within this group fuel oil was still the main export item (accounting for about 65% of the total). Among exports of other industrial products —which increased by 11%— an outstanding feature was the exceptional expansion of sales of transport equipment, which soared by 72%, particularly owing to the sale of grain boats to Poland. Exports of machinery rose by 16%; those of base metals and metal manufactures, on the other hand, fell by almost 3%.

Table 13

ARGENTINA: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (pesos per dollar)	Indexes of effective real exchange rate ^a	
		Exports	Imports
1975	0.004	192.3	195.9
1976	0.014	126.4	129.3
1977	0.04	163.6	166.1
1978	0.08	148.3	149.3
1979	0.13	112.0	111.4
1980	0.18	100.0	100.0
1981	0.51 ^b	131.2	136.2
1982	2.33 ^b	160.1	160.2
1983	10.53	155.2	163.5
1984	67.65	145.1	155.7
1982			
I	1.03	136.8	140.3
II	1.37	145.4	148.2
III	3.06	186.0	189.7
IV	3.86	159.2	162.8
1983			
I	5.75	164.4	168.8
II	7.82	164.2	170.7
III	10.73	149.2	158.0
IV	17.81	149.4	158.6
1984			
I	27.84	153.7	164.3
II	41.18	136.2	143.4
III	69.34	134.9	144.9
IV	132.24	155.0	170.2

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

^aRepresents an average of the real exchange rate indexes of the peso in relation to the national currencies of Argentina's main trade partners, weighted by the relative importance of exports or imports, as the case may be, to or from the countries in question. From 1975 to 1979 these weightings represent the average for those same years. As from 1980 they correspond to the average for the period 1980-1983. In the calculations use has primarily been made of wholesale price indexes. For the methodology and sources used, see the technical appendix to the *Economic Survey of Latin America, 1981*.

^bIn the second half of 1981 and 1982 use was made of an average of the commercial and financial exchange rates (50% each).

Table 14

ARGENTINA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	22.0	2.7	14.3	-16.9	2.8	3.4
Volume	-1.2	-12.6	13.9	0.3	14.1	-3.1
Unit value	23.6	17.5	0.4	-17.1	-9.9	6.7
Imports						
Value	72.8	55.9	-10.4	-42.3	-15.2	2.0
Volume	40.8	55.2	-7.4	-41.1	-8.7	4.9
Unit value	22.7	0.5	-3.3	-1.9	-7.1	-2.8
Terms of trade	0.8	16.8	3.9	-15.5	-3.1	9.8
Indexes (1970 = 100)						
Purchasing power of exports	137.1	139.1	163.6	138.4	152.8	161.1
Quantum of exports	169.0	147.8	168.2	168.7	192.5	187.7
Terms of trade	79.7	93.1	96.7	81.7	79.2	87.0

Source: ECLAC, on the basis of official information.

^aProvisional data.

Table 15

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown			Growth rates		
	1981	1982	1983	1984 ^a	1970	1980	1984 ^a	1982	1983	1984 ^a
Total	9 144	7 625	7 836	8 100	100.0	100.0	100.0	-16.5	2.8	3.4
Livestock products	1 799	1 464	1 171	1 020	39.5	21.8	12.6	-18.6	-20.0	-12.9
Meat	932	806	604	390	24.9	12.1	4.9	-13.5	-25.1	-35.4
Wool, animal hair, horsehairs	338	234	188	227	4.9	3.5	2.8	-30.8	-19.7	20.7
Hides and skins	388	298	264	305	5.5	4.5	3.8	-23.2	-11.4	15.5
Other livestock products	141	126	115	98	4.2	1.7	1.2	-10.6	-8.7	-14.8
Crops-growing products	4 863	3 645	4 899	5 210	46.7	49.8	64.3	-25.0	34.4	6.3
Cereals	2 920	1 903	2 992	2 311	31.0	21.7	28.5	-34.8	57.2	-22.8
Oilseeds	1 184	1 161	1 360	2 356	8.0	16.6	29.1	-1.9	17.1	73.2
Other crop-growing products	759	581	547	543	7.7	11.5	6.7	-23.5	-5.9	-0.7
Fish products	137	188	155	132	0.2	1.8	1.6	37.2	-12.2	-20.0
Industrial products	2 345	2 328	1 601	1 738	13.5	26.5	21.5	-0.7	-31.2	8.6
Fuels	618	551	349	350	0.4	3.5	4.3	-10.8	-36.7	0.3
Other industrial products	1 727	1 777	1 252	1 388	13.2	23.1	17.2	2.9	-29.5	10.9

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

^aProvisional figures.

At the end of 1984 the Legislative Power passed an Export Promotion Bill through which it is sought to define a new export profile combining different variables: technological level, local value added, utilization of raw materials and nature of the sector. This new law will benefit the agroindustrial and energy sectors and the branches making use of skilled labour and will be implemented mainly by tax rebate and deduction measures, barter trade and drawback.

ii) *Imports*. The downward trend in the value of external purchases which had been noted during the immediately preceding three-year period was reversed to a slight extent during 1984, when a 2% increment was recorded. An increase in volume (5%) was responsible for this improvement, since it is estimated that the unit value probably dropped by about 3% (see table 14).

The aforesaid increase was concentrated in intermediate goods and consumer goods (see table 16). The larger purchases of industrial inputs were connected with the stepping-up of manufacturing activity, which was concentrated mainly in the first half of the year, and with the reduction of the relative prices of imported goods, as well as with the introduction of a more flexible import régime (see table 17). These last two factors also had some incidence on the increase in purchases of consumer goods.

In contrast, for the fourth year running there was a slump in imports of capital goods (-26%), linked to the low level of gross fixed investment.

4. Prices, wages and employment

a) *Prices*

Once again in 1984 inflation greatly quickened its pace. The increase in the consumer price index (CPI) between the beginning and the end of the year reached an all-time high of almost 700% (see table 18). In addition, the rate of price variation showed a rising trend. Thus, in the second half of 1984, the CPI increased at a monthly rate of almost 21%, compared with 17% in the first part of the year and 15% in 1983 (see table 19 and figure 2).

These results aggravated a problem which has long been affecting the economy. In nine of the last ten years, the annual rate of price variations was more than 100% and in the last five years it has persistently speeded up.

Table 16

ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS

	Millions of dollars				Percentage breakdown			Growth rates		
	1981	1982	1983	1984 ^a	1970	1980	1984 ^a	1982	1983	1984 ^a
Total	9 430	5 337	4 505	4 600	100.0	100.0	100.0	-43.4	-15.6	2.1
Capital goods	2 059	950	769	570	21.5	22.7	12.4	-53.9	-19.1	-25.9
Fuel and lubricants	1 031	688	470	460	4.8	11.1	10.0	-33.3	-31.7	-2.1
Intermediate goods	4 706	3 304	3 057	3 340	68.9	48.6	72.6	-29.8	-7.5	9.3
Chemical, plastic and rubber products	1 272	1 086	1 142	...	15.3	12.9	...	-14.6	5.2	...
Pulp and paper	288	175	129	...	5.9	2.9	...	-39.2	-26.3	...
Metals and metal products, electrical equipment, and spare parts for machinery and transport equipment	2 224	1 505	1 267	...	32.6	21.9	...	-32.3	-15.8	...
Other intermediate goods	924	538	519	...	15.1	10.9	...	-41.8	-3.5	...
Consumer goods	1 632	395	209	230	4.8	17.6	5.0	-75.8	-47.1	10.0

Source: Central Bank of the Republic of Argentina and ECLAC, Buenos Aires Office.

^aProvisional figures.

Table 17

ARGENTINA: EVOLUTION OF EXCHANGE RATE AND PRICES^a

	Exchange rate ^{bc} (argentinian pesos per dollars)	Index of prices at the trade rate of exchange (in dollars) ^d		Relative prices ^e	
		Exports	Imports	Of exported goods	Of imported goods
1981	0.442	137.5	124.8	63.1	57.5
1982	2.193	113.8	122.7	75.5	81.7
1983	10.513	102.5	114.3	76.6	85.2
1984	67.500	108.7 ^f	112.0 ^f	73.2 ^f	76.1 ^f

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

^aThe base for the price indexes used is 1974 = 100. Since in that year multiple exchange rates were in force, the exchange rate indexes were calculated with reference (for 1974) to the "mixed" rates for non-promoted exports and imports.

^bDoes not include adjustments for taxes, surcharges, reimbursements or other tax or financial incentives.

^cIncludes, as from 13 September 1982, the effective exchange rate represented by a mix of the commercial exchange rate (85%) and the financial exchange rate (15%). As from 1 October 1982 the mix is of 80% and 20%, respectively. Since November 1982 the application of a single exchange rate has been reintroduced.

^dBased on new estimates of export and import price indexes.

^eThe deflator used is the wholesale price index for non-agricultural domestically-produced goods. Annual values are simple averages of quarterly relative prices.

^fProvisional figures.

Table 18

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

(Percentage growth rates)

	1981	1982	1983	1984 ^a
Variation from December to December				
Consumer prices	131.3	209.7	433.7	688.0
Food and beverages	135.8	218.4	415.2	713.2
Clothing	104.8	289.4	486.7	749.4
Housing, fuel and electricity	11.8	181.2	512.0	526.1
Wholesale prices	180.2	311.3	411.3	625.9
Imported products	237.5	497.3	342.1	661.5
Domestic products	177.5	300.7	417.1	622.6
Agricultural	212.8	314.0	392.3	619.8
Non-agricultural	166.6	295.9	426.6	624.4
Variation between annual averages				
Consumer prices	104.5	164.8	343.8	626.7
Food and beverages	99.2	178.4	339.0	638.8
Clothing	81.4	188.3	411.3	726.7
Housing, fuel and electricity	111.1	133.8	366.2	525.9
Wholesale prices	109.6	256.2	360.9	575.2
Imported products	157.6	377.1	335.7	568.9
Domestic products	107.4	249.2	362.9	575.5
Agricultural	93.9	293.4	373.5	553.0
Non-agricultural	112.2	234.8	358.8	588.6

Source: National Institute of Statistics and Censuses.

^aProvisional figures.

This evolution seems to be attributable to several causes. The devaluations carried out in 1981 and 1982 —the enforced consequences of the very serious external imbalance generated in the preceding period— and the 1982 financial reform —which by fixing an interest rate far below the expected rate of inflation, reduced demand for liquid assets— brought about abrupt price variations. To these episodic accelerations other impulses were added. The fiscal deficit increased to a notable extent in 1983 because the larger real wages paid in the public sector and the heavy burden of interest on the external debt were combined with a decrease in tax revenue. At the same time, price and wage pressures were accentuated in an unstable political situation, in which tensions became visible that had not previously found overt expression. Economic policy had few effective instruments for moderating price increases and was more prone to react defensively to the pressures that were being generated. Thus, at the end of 1983 prices rose steadily at a speed which formerly had been witnessed only in exceptional circumstances.

Accordingly, the authorities who took office in December 1983 were faced with very high and still rising inflation. Moreover, the public had acquired firmly established inflationary habits, and displayed scepticism as to proposals for a solution, nourished by long experience of widely varying programmes which had not produced the desired results. The Government announced its objective of reducing inflation in a way compatible with an increase in activity and in real wages. To this end, it adopted a gradual and flexible approach: thus the aim of abruptly and definitively decelerating prices was waived in favour of the possibility of making adjustments *en route* without causing brusque changes in the economy.

Notwithstanding the announcement of measures to reduce the fiscal deficit, in the early months of 1984 the weight of counter-inflationary policy was carried mainly by the monthly norms for increases in wages, tariffs and the exchange rate and by control over industrial prices. Apart from the transient initial effect which was to be noted in the January price indexes,⁴ the norms laid down did not exert much influence on expectations or on the real evolution of prices. In March, the CPI rose by more than 20%; this reflected not only a boom in the price of meat (associated with seasonal factors) but also an upward movement in prices as a whole. As the year went on, the system of norms grew weaker in the private sector, wages did not keep in line with official announcements, and the exchange rate and public utilities rates could not actively vary but were adapted to the other price movements. In effect, both the exchange rate and tariffs soared as from the second quarter, thus offsetting the lags that had occurred in the early months of the year (see table 19). As for the control

Table 19

ARGENTINA: QUARTERLY EVOLUTION OF THE MAIN PRICES

	Wholesale price index				Consumer price index	Industrial wages ^a	Public services tariffs ^b	Exchange rate ^c
	Total	Agricultural products	Domestic non-agricultural products	Imported products				
1983	14.6	14.2	14.8	13.2	15.0	17.5	16.6	14.1
1984	18.0	17.3	17.9	18.4	18.8	20.2	20.2	18.5
I	15.2	19.3	13.6	16.1	16.5	16.4	14.8	13.2
II	18.4	17.1	19.0	17.6	17.8	22.0	23.0	15.6
III	20.7	21.9	21.3	18.3	22.8	22.7	23.6	20.5
IV	17.6	13.4	18.0	21.8	18.0	19.4	19.7	24.9

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

^aNormal hourly wage of workers in manufacturing industry.
rate implicit in the import of goods.

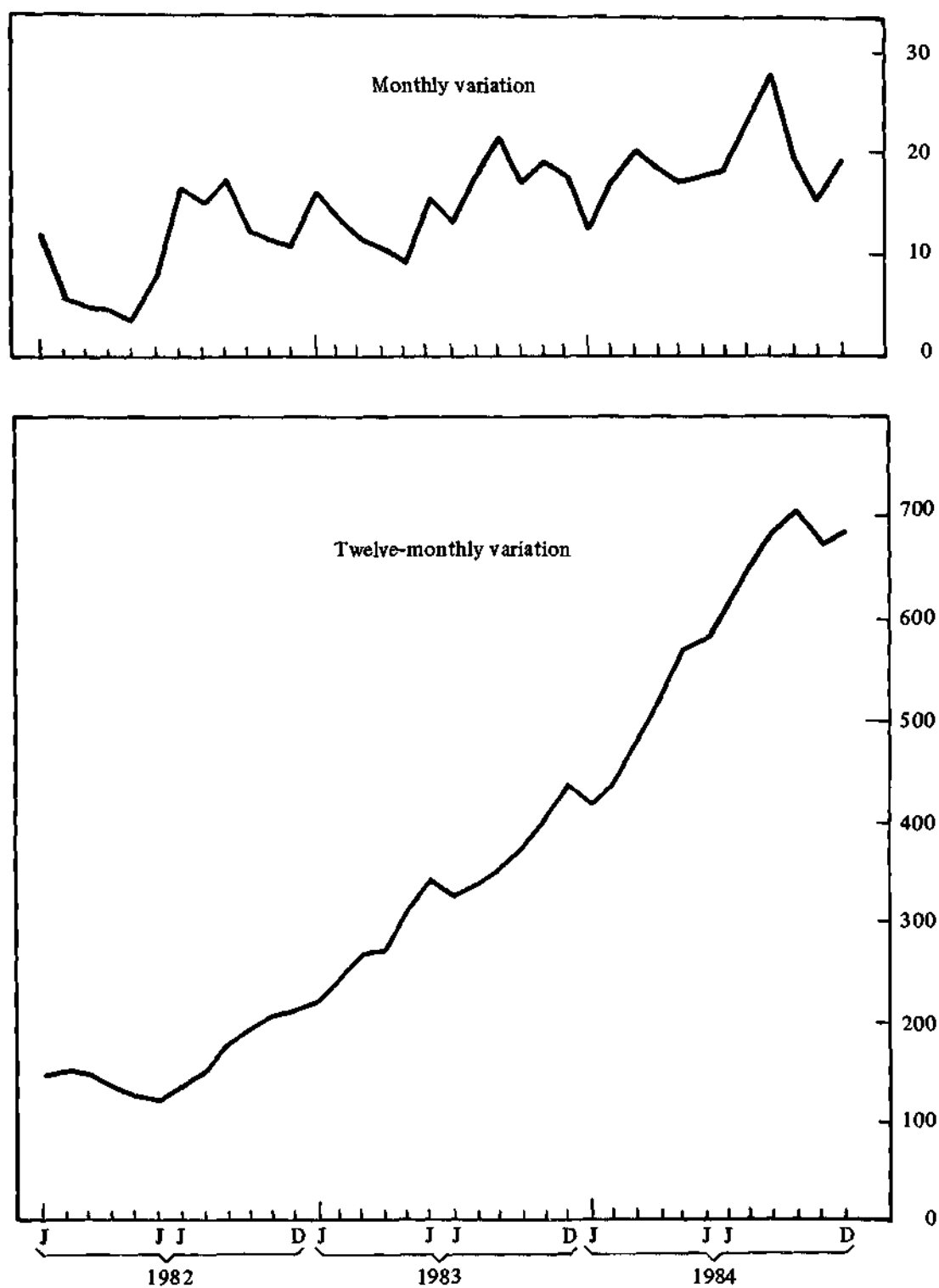
^bPrices and tariffs of public enterprises, overall level.

^cExchange

⁴In this month, the CPI increased by 12.5% and the WPI by 11%, as against the monthly averages for the last quarter of 1983, which had been 18% and 17%, respectively.

Figure 2

ARGENTINA: CONSUMER PRICE INDEX



of industrial prices, it seems mainly to have affected relative prices in manufacturing and, to a lesser extent, relative prices in the sector as a whole, without producing any manifest effect on the rate of inflation.

Gradually, policy switched its emphasis from the administration of prices and income to the regulation of aggregate demand. The fiscal deficit was reduced, mainly as a result of the fall in real wages in the public sector—the behaviour of which differed widely from that of wages and salaries in the private sector—and the decrease in investment. This somewhat enhanced the authorities' capacity to control the money supply, the growth of which slowed down in the third quarter. This, however, was not reflected in prices. Price indexes fluctuated sharply, especially under the influence of the evolution of meat prices,⁵ without any appreciable deceleration being noted. With the maintenance or even the accentuation of the inflationary trend, it became harder to go on pursuing a policy of contraction of nominal expenditure: it was probably partly due to the existence of this dilemma that expectations did not change.

In short, in the course of 1984 various systems for the control of inflation were applied, but no effective stabilisation policy was defined. In these circumstances, towards the end of the year, the public's economic decisions incorporated a presupposition that prices would rise by about 20% a month. With rates of inflation of such a magnitude, the operation of the economy became considerably different from what it might have been in more stable conditions. Thus, demand for money dropped to very low levels: in fact, bank notes, coin and deposits on current account (M_1) averaged only between 3% and 4% of the annual gross domestic product during 1984, while M_2 (which includes all-time deposits in national currency) did not exceed 15% of the product. As a counterpart, foreign exchange played an increasingly important role, not only as a medium for deposits that would not lose their value but also in the conduct of certain transactions: it was fairly common for the prices of certain goods (for instance, those of real estate) to be quoted directly in dollars and even, on occasions, for payment to be made in that currency as well. Thus, a sort of duality was generated, whereby an increasing proportion of the economy was "dollarized", while for another group of transactions (especially those linked to payment of wages and the expenditure of the lower-income groups) the use of the peso was maintained. Furthermore, the pricing horizon narrowed significantly: wages were adjusted every month and the prices of goods changed with still greater frequency. Although the economic agents thus attempted to avoid incurring losses through major changes in relative prices, the latter were highly volatile in 1984; moreover, wide discrepancies frequently existed between prices for one and the same good in different establishments.

Table 20

ARGENTINA: RELATIVE PRICE VARIATION WITH RESPECT
TO CONSUMER PRICE INDEX^a

End of	Wholesale price index				Public services tariffs ^c	Ex-change rate ^d	Measures of dispersion ^b	
	Total	Agri-cultural products	Non-agri-cultural products	Imported products			Difference between maximum and minimum variations	Standard deviation of variations
1981	21.1	35.2	15.3	45.9	18.3	64.9	64.9	21.7
1982	32.8	33.6	27.8	92.9	-10.5	86.2	103.4	39.3
1983	-4.2	-7.8	-1.3	-17.1	18.7	-8.8	35.8	11.1
1984	-7.9	-8.9	-8.1	-3.4	15.7	-3.0	24.6	8.6

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

^aPercentage variation from December to December.

^bThe method of calculating these measures took into account (besides the series shown in the table) a series with a constant value equal to zero, representing, for each period, the variation in the Consumer Price Index in relation to itself.

^cPublic enterprises, prices and tariffs, overall level.

^dImplicit exchange rate for import of goods.

⁵For example, in September, the CPI rose by 27.5%, pushed up by an almost 15% increase in the price of food; two months later, the variation was 15% in the CPI, and in food prices 12%.

Table 21

ARGENTINA: EVOLUTION OF WAGES

(Percentage variations)

	1981	1982	1983	1984	1984			
					I	II	III	IV
Total average real wages of workers in manufacturing								
Average variation	-9.6	-13.4	25.2	28.4	...	...	...	...
Variation from December to December	-18.5	-1.7	32.9	14.8	...	...	...	...
Norm for average real wages of workers in manufacturing ^a								
Average variation	-10.2	-10.5	26.2	28.1	-4.9	23.8	-1.1	1.6
Variation from December to December	-15.8	5.0	24.7	8.0	6.3	14.9	-7.2	-4.8

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

^aIncludes only wage components which do not show seasonal variations.

Apart from this "macroeconomic" variability, which seriously hampered transactions, changes in relative prices between broad categories of products were more moderate in 1984 (see table 20). This was mainly due to the attitude of the Government, which prevented abrupt changes in the prices under its control. Taking the year as a whole, there was a relative increase in public services tariffs, in consequence of the heavier taxes on fuel consumption. The exchange rate varied slightly less than consumer prices, but a little more than the wholesale price index. Its lag in the first part of the year was compensated by a rapid rate of devaluation towards the end of the period. As regards sectoral prices, the variation in the prices of agricultural products was much the same as in those of industrial goods if the whole year is considered, although there were appreciable discrepancies in the movements of the two groups of prices in the course of the period, in consequence of the above-mentioned fluctuations in the beef cattle market. Lastly, as had already happened in 1983, consumer prices rose faster than wholesale prices; the prices of services increased in relation to those of goods, and retailers' marketing margins also seem to have widened.

b) *Wages and employment*

In 1984 real wages again rose steeply. If real wages and salaries in manufacturing are considered, their average value in 1984 was 28% higher than in 1983, when it had already shown signs of vigorous recovery from its depressed levels in the preceding year (see table 21). This was yet another manifestation of the great volatility of real wages, which has characterized their evolution in recent years. Thus, wages in industry dropped 35% between 1975 and 1978, recovered by 23% between 1978 and 1980, fell again by 22% in the two following years and shot up by 61% between 1983 and 1984. As a result of these wide fluctuations, the real wage in industry in 1984 was similar to the maximum reached ten years previously.

However, within a general context of rapid ascent, during 1984 the behaviour of labour income in various sectors was marked by certain contrasts. For instance, average annual increases were 28% in manufacturing; 26% in commerce; 22% in construction; 17% in banks; 16% in the public administration; and 12% in public enterprises. These differences become still more notable when variations between the beginning and end of the year are taken into account, since, whereas in commerce and in manufacturing industry as a whole the increase was about 15% (with a wide dispersion among the various activities), in banks it was only 6%, and in the bulk of the public administration, in public enterprises and in construction decreases of 6%, 10% and 23%, respectively, occurred.

During 1984, the mechanisms for determining wages took different forms. In the first place, the government announced norms which, in principle, were supposed to be applicable for wage-earners as a whole in both the public and the private sectors. The purpose of these guidelines was to match the evolution of wages with the programmed deceleration of prices, in such a way as to secure an increase in real wages of between 6% and 8%. In practice, the norms were applied unswervingly in the central government, but not in the private sector in general. There deviations were brought about through the consultative Technical Commissions régime (a system created in 1983, under which wages and working conditions could be agreed upon between trade unions and enterprises, with the endorsement of the Ministry of Labour) and through enterprise-by-enterprise negotiations. The authorities also tried to put into operation a system of concerted agreement between trade unions and enterprises on income policies. Although this project gave rise to a number of consultations between the Government and the organizations convened, by the end of the year no definite results had been achieved.

In the course of the year variations were observable both in wage policy and in the effective behaviour of real wages and salaries. When the new authorities took office in December 1983, they granted a flat wage increase and changed the system of calculating the annual supplementary wage on lines which meant that it amounted to appreciably more than before. During the first quarter of 1984 monthly norms for wage increases were established (at nominal rates lower than the growth rate of prices in the last part of 1983, but higher than the increases in other prices controlled by the Government). These increments proved to fall short of the effective rates of inflation. To offset this discrepancy, at the end of each month additional rises were granted, retroactive to the beginning of the month, but payable together with the following period's wages. Given the characteristics of this régime, it produced considerable differences between the wages due in a given month and those effectively received; the latter, moreover, fluctuated widely in relation to the changes in the rate of inflation and to the payment of the retroactive increases. Generally speaking, however, it would seem that real wages rose during this period.

This behaviour pattern was repeated in the second quarter, with a significant difference: deviations began to play a more important part while wage policy was modified. From April onwards the practice of monthly retroactive increases was abandoned. As wages determined by the norms laid down increased definitely more slowly than prices, by the end of the quarter a compensatory

Table 22

ARGENTINA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

(Percentages of economically active population)

	1981		1982		1983		1984	
	April	October	April	October	April	October	April	October
Rates of unemployment								
Capital and Greater								
Buenos Aires	4.0	5.0	5.7	3.8	5.2	3.1	4.0	3.6
Córdoba	2.9	4.7	4.8	3.9	4.4	5.6	4.4	5.1
Greater Mendoza	4.2	5.3	4.8	3.3	4.5	4.5	3.3	3.9
Greater Rosario	4.9	6.5	8.4	8.0	6.3	...	7.0	6.3
Greater Tucumán	8.8	10.6	11.0	8.7	8.1	7.5	8.6	10.7
	1981	1982	1983	1984	1984			
					I	II	III	IV
Indexes, base (1970 = 100)								
Employment								
Manufacturing industries	77.1	73.0	75.4	77.6	77.9	77.1	76.8	78.4
Public sector (as at 1 January)	111.9	113.4	112.9	117.2	...	...	...	...

Source: National Institute of Statistics and Censuses and Ministry of Economic Affairs.

adjustment was granted, which was not retroactive. This led to a widening of the wage breach between those sectors which adhered to the system of norms and those where negotiations between parties prevailed.

As demand for labour gradually weakened in the second half of the year, an interruption of the rising trend of real wages could be noted; the available indicators even indicated a downturn in the fourth quarter. This period witnessed an accentuation of the difference between the evolution of wages in the public administration and in such sectors as manufacturing. The norms continued to underestimate price variations; in September an exceptional increase was granted, valid for that month alone and payable in two instalments. This increase did not hold good for the public administration; instead, provision was made for specific increments in the month of November, which took into account the category of the agents (the higher categories received bigger increases with the object of compensating for the "flattening" that had taken place in the preceding months) and the existence of special régimes within the administration: thus, in the groups benefiting by additional allocations the increases obtained were below the average.

In the field of employment, occupation in manufacturing continued to increase in 1984 (see table 22). Although a slight rise in the rate of unemployment was recorded in Greater Buenos Aires, it was accompanied by a decline in the rate of underemployment and by a moderate increase in the rate of participation (which reversed the trend noted between 1978 and 1983, when the size of the labour force in relation to the population appreciably decreased). Again, in manufacturing the growth rate of employment was higher than that of the number of hours worked, a circumstance which might be connected with the trade unions' stronger bargaining power.

In this connection, a significant event in 1984 was the beginning of normalization of the trade-union organizations, most of which had been placed under the control of the preceding government. This normalization gave rise to a heated political debate, both during the discussion of the régime by which it would be governed and in connection with the elections in each union. The existence of elected authorities, together with the absence of legal restrictions, gave impetus to trade-union activity.

5. Monetary and fiscal policies

a) *Monetary policy*

The money supply was enlarged by about 540% in the course of 1984, as against 370% in the preceding year. The rate of increase of quasi-money⁶ was also higher than in 1983 (570% in comparison with 456% the year before) (see table 23). Nevertheless, the rapid monetary expansion did not keep pace with the increase in prices: thus, once again the real value of liquid assets decreased.

At the end of 1984 the ratio between the money and quasi-money aggregate and the monetary base was somewhat higher than the figure shown a year before. Thus, bank reserve policy proved to be expansionary. As regards the determinants of the monetary base, operations with the external sector were a factor of contraction (as they had already been in earlier years), since the decline in international reserves in the last half of the year cancelled out the increases recorded in the first semester. Accordingly, generation of liquidity by the Central Bank was due exclusively to the increase in its domestic assets (see table 24).

The increase in Central Bank credits to the financial system (570%) represented more than 90% of the increase in the base. Total credit extended by the monetary authority to the Government rose by 430%. Advances and holdings of public securities (net of official deposits) grew by 220%, i.e., at a much slower rate than in 1983, reflecting the effort to compress monetary financing of the Treasury. Operations connected with remuneration of reserves and rediscounts —the result of which was imputed in the Cuenta de Regulación Monetaria (CRM) as credit to the official sector— were definitely more expansionary, since they increased by nearly 1 350%.⁷ The mechanics of monetary creation by this means merits special discussion.

⁶In the definition used here, quasi-money comprises deposit accounts in national currency, including interest accrued (but not yet paid) since the time when the deposits were placed. It does not, on the other hand, include bank acceptances, which, although they are commitments endorsed by the banks, do not represent bank liabilities.

⁷The presentation of statistical data in the Cuenta de Regulación Monetaria was altered in October 1984. Up to that date the account had recorded payments effectively made by the Central Bank under the head of interest on deposits placed by the banks in that institution. As from October 1984, statistics reflected the accrual of interest due on reserves and some rediscounts.

At the time of the 1977 financial reform it was decided to establish a single cash reserve for bank deposits of all types. At the same time, the CRM system was set up with the object of ensuring that the high cash requirements on deposit accounts did not greatly widen the margins between asset and liability rates. Under this system, the Central Bank was to pay interest (at a rate similar to that in force for deposits) on cash reserves set up in relation to time deposits and was to apply a charge on loan capacity resulting from sight deposits. This was tantamount to the constitution of a claim in the banks' favour for a value equivalent to the cash reserves on which interest was paid, while the Central Bank appropriated the income generated by the application of bank current-account funds. In the years immediately following the establishment of the régime, CRM showed big deficit balances (i.e., became a major source of creation of money). Subsequently, the expansionary effect of CRM was substantially reduced as the legal reserve rate gradually decreased.

In consequence of the financial crisis at the beginning of the 1980s, in July 1982 the Central Bank drew up a new system, intended to consolidate enterprises' debts to banks and to reduce the real value of the debts in question. The mechanism adopted—which included regulation of the interest rate on the most important segment of deposits and loans—consisted in the establishment of a cash reserve of 100% on sight and time deposits. Against this increase in the banks' deposits in the Central Bank, rediscounts were extended which were used to refinance loans to enterprises maturing in several years. In this way an appreciable discrepancy was created between the average maturity date of deposits in financial institutions (most of which were still concerted for thirty days or shorter terms) and that of the loan portfolio. Since amortization and interest payments on rediscounts were linked to those on consolidated credits, while the corresponding payments on reserves were made in relation to

Table 23

ARGENTINA: MONETARY POSITION

	End-year balance (billions of argentinian pesos)			Growth rates ^b		
	1982	1983	1984 ^a	1982	1983	1984 ^c
Money (M₁)	14.8	69.9	450.0	222.5	370.6	540.0
Notes and coins in circulation	8.7	46.3	320.0	189.2	430.5	580.0
Demand deposits	6.1	23.6	130.0	285.7	285.3	460.0
Factors of expansion	65.8	320.7	1 930.0	177.6	387.2	500.0
Net international reserves	-34.9	-183.7	-1 030.0	...	...	...
Domestic credit	100.7	504.4	2 960.0	224.2	400.9	490.0
Government and public institutions (net)	25.7	197.4	1 150.0	208.0	668.7	480.0
Advances to the Money Regulation Account (Cuenta de Regulación Monetaria) ^d	0.8	29.3	420.0	63.9	3 685.9	1 350.0
Loans to the government (net of deposits)	24.9	168.1	730.0	216.7	574.9	330.0
Private sector ^e	75.0	307.0	1 810.0	230.2	309.2	490.0
Factors of absorption	51.0	250.8	1 480.0	166.8	392.0	490.0
Quasi-money (savings and time deposits) ^f	26.4	146.8	980.0	122.6	456.2	570.0
Other items (net)	24.6	104.0	500.0	239.0	323.1	390.0

Source: Central Bank of the Republic of Argentina.

^aEstimated by ECLAC, Buenos Aires Office, on the basis of positions at 30 November 1984 and of partial data on variations during the month of December.

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

^cIn relation to the estimated positions at 31

December 1984; the figures are rounded.

^dTheir method of imputation was changes as from 31 October 1984. See table 21 and the text

of the corresponding section.

^eIncluding credits to financial institutions other than banks.

^fIncluding accrued resources; see the

corresponding note in the text.

Table 24

ARGENTINA: DETERMINANTS OF THE MONETARY BASE

	End-year positions (billions of argentinian pesos)			Growth rates		
	1982	1983	1984	1982	1983	1984
Monetary base	43.3	197.7	1 058.5	744.1	356.2	435.5
Money in circulation	11.6	66.2	470.8	193.6	470.4	611.8
Deposits of financial institutions	31.7	131.5	587.7	2 581.4	314.5	346.9
Factors of expansion	54.6	267.4	1 686.3	595.2	390.1	530.6
External sector (net)	-4.7	-29.6	-83.2	...	...	...
Official sector (net)	11.5	157.6	835.4	138.5	1 276.7	430.1
Advances for the Money Regulation Account (Cuenta de Regulación Monetaria)	0.8	29.3	423.8	63.9	3 685.9	1 345.8
Temporary advances and public security holdings net of deposits	10.7	128.3	411.6	146.7	1 102.0	220.9
Financial sector (net)	47.8	139.4	934.1	1 042.1	191.4	570.1
Factor of absorption	11.3	69.7	627.8	313.7	521.1	800.1
Net worth	1.3	7.3	183.0	224.3	473.1	2 392.8
Other accounts	10.0	62.4	444.8	329.0	527.3	612.7

Source: Central Bank of the Republic of Argentina.

the maturity date of deposits, the imbalance between payment and collection deriving from the difference in maturity dates was assumed by the Central Bank. In addition, the interest collected on some rediscounts was lower than the payments made against the minimum cash reserve. Operations linked with the readjustable deposits segment (which initially carried a 100% cash reserve) also generated applications for funds to the Central Bank. The expansion of the monetary base from these causes was imputed to CRM.

With respect to the evolution of the monetary system as a whole (i.e., the commercial banks consolidated with the Central Bank), the volume of credit to the Government (excluding CRM operations) rose by somewhat more than 330% in the course of 1984, that is, at a much slower rate than prices. Loans to the private sector increased by about 490% (see table 23). These results show that during 1984 there was a continuance of the downward trend of bank credit in real terms.

Monetary and financial policy was in some respects different in the first and second halves of the year. At the end of 1983, the money supply had boomed in consequence of the Government's heavy financing requirements as well as the appreciable increase in credit to the private sector. Although monetary expansion decelerated in the early months of 1984, liquidity continued to increase at high speed. Furthermore, the authorities decided to fix the interest rate so as to make it consistent with the reduction in the pace of inflation implicit in the norms announced for prices. Hence, when price adjustments did not follow the anticipated pattern, the real rate of interest on deposits and bank loans proved definitely negative. The expansion of the money supply and the relative unattractiveness of bank issues made themselves felt in the other markets for assets. Accordingly, in the first quarter, the non-regulated rate of interest (for inter-enterprise operations) appreciably declined, while demand for foreign exchange in the marginal market increased. Gradually, the Government exhibited a more counteractive attitude: an attempt was made to limit the public sector's demand for credit and regulated interest rates were raised, in an effort to bring them more closely into line with the upward trend of prices. This keynote was more clearly struck in the latter months of the year, after the signature of the agreement with IMF. Although the growth rate of monetary aggregates did not decrease, the sharp price increases and the greater seasonal

requirements of funds probably combined to create a feeling of illiquidity. Thus, during the last quarter and particularly in December, real interest rates in the free segment were easily positive.

One of the most significant characteristics of the financial markets, as had been observable since the 1982 reform, was a clear-cut segmentation with regard to maturities, returns and types of institution intervening in the various kinds of operation. The segment comprising deposits at the regulated interest rate decreased again in real terms, probably in response to the accelerated rise in prices, which was not offset by bigger returns. Nevertheless, except in the first quarter of the year, there was no major transfer of funds to readjustable deposits (index-linked to prices or to the official quotation for the dollar), with maturities exceeding 120 days, whose real value also declined in 1984. The Central Bank gradually enlarged (up to September) the quota of "acceptance" operations that the banks were allowed.⁸ Although the volume of acceptances increased substantially during the year, it did not succeed in offsetting the decrease in other types of bank operations. Thus, the institutionalized financial system continued to reduce its volume of transactions. In contrast, other channels of very short-term credit were widened; in particular, credits between individuals guaranteed by public securities (especially external bonds), and transit bill operations with the securities in question, came to play an important part. In this way, an appreciable portion of the market, in which the interest rate and the available supply of "marginal financing" for enterprises was determined, escaped the supervision of the Central Bank.

The structure and operation of the financial system continued to be subjects of discussion. One of the points on which most attention was concentrated in this connection was that of the costs of financial intermediation. During the period of liberalization at the end of the 1970s and in the early 1980s, the financial sector extended its operations and also its physical size. Then when the volume of transactions channelled through the system contracted, there was no parallel reduction in expenditure. In other words, the size of the sector does not seem to be consonant with the scale of the business it does: this discrepancy is manifested in the need for broad margins between asset and liability interest rates in order to prevent major operational losses. This means that the problem remains of finding a design for the financial system such as will permit reasonably smooth and low-cost intermediation and will not display the frailty and the tendency towards imbalance which have been so blatantly obvious in recent periods. In this connection, the Government has proposed to introduce changes in financial organization which would make for correction of the distortions exhibited by the sector.

b) *Fiscal policy*

The year 1984 witnessed a marked reduction in the National Treasury deficit (measured in constant values), as the result of a significant contraction of expenditure and despite the slight fall in income.⁹ The volume of resources obtained through Central Bank financing also declined (see table 25).

These figures reflect the effort made by the Government to reduce the fiscal imbalance. When the new authorities took over in December 1983 their objective was to reorient public expenditure and make the fiscal deficit appreciably smaller, through an increase in tax income and a moderate retrenchment in expenditure. In this last connection, it was proposed to curtail the allocations to defence and security (the growth of which in the preceding years had been obvious), while new programmes of social interest would be tackled, such as the National Food Plan (intended to provide food for the most needy sectors of the population) and the low-cost housing programme. Tax policy would be based on the combating of tax evasion and on more stringent direct taxation of the higher income groups.

⁸This is a system through which institutions issue to the public bills of debt of enterprises, with bank guarantees, at a rate of interest freely agreed upon.

⁹The current income of the Central Government increased by 632% in 1984. Since the average annual variation in prices was lower, the inference would seem to be that revenue collection increased in real terms. It must be borne in mind, however, that in periods of very high rates of inflation, the deflation of flows in current values accumulated over prolonged periods has no clearly-defined economic significance. A more precise indicator results from accrual of the real values obtained by deflation of flows in short periods: this gives a clearer idea of the evolution of the purchasing power (or of the physical volume) of the flows in question. In effect, if the calculation is made in this way current income shows a downward movement. When reference is made in the text to figures in constant prices, it should be understood that deflation is applied to series with the highest possible degree of periodicity (in this particular case, month by month).

Table 25

**ARGENTINA: INCOME AND EXPENDITURE OF
THE CENTRAL GOVERNMENT**

	Billions of argentinian pesos			Growth rates		
	1982	1983	1984	1982	1983	1984
1. Current income	9.1	40.2	294.2	168.3	342.2	632.3
Tax revenue	8.2	35.8	276.3	180.4	335.3	671.8
Non-tax revenue	0.9	4.4	17.9	89.9	408.0	309.7
2. Current expenditure	16.4	84.2	444.3	158.3	414.2	427.9
Wages and salaries	3.9	17.5	113.9	119.5	351.0	550.7
Non-personal goods and services	1.3	5.5	19.0	126.5	335.0	247.7
Interest	5.1	13.2	107.6	235.2	160.2	713.5
Transfers	5.6	45.1	197.5	130.8	705.3	338.2
Other current expenditure	0.6	2.9	6.3	653.4	426.2	118.1
3. Current savings (1 - 2)	-7.3	-44.0	-150.1			
4. Capital expenditure	1.9	38.3	149.7	75.4	1 868.1	290.6
Real investment	0.8	2.2	6.8	64.6	178.6	200.0
Loans (net of repayments)	1.2	36.1	142.8	83.7	3 033.9	295.0
5. Total expenditure (2 + 4)	18.3	122.5	594.0	145.9	568.7	385.0
6. Deficit (5 - 1)	9.2	82.3	299.8	127.3	791.8	264.2
7. Financing of deficit						
Central Bank	7.1	104.0	268.1			
Unified Official Account Fund	0.6	3.2	22.4			
Sales of securities	5.4	5.5	67.0			
Bond amortization payments	-2.1	-2.0	-56.6			
Amortization payments of other debts	-0.3	-28.2	-1.0			
Others	-1.4	-0.2	-0.1			

Source: National Treasury of Argentina.

There were considerable delays in 1984 in the legislative presentation and approval of the National Administration's General Budget. This created difficulties for the fiscal administration and partly accounted for the decrease in purchases of goods because of the absence of legal authorization to earmark funds.

The formulation of the new tax projects and the discussion of them in parliament also proved a complex business, so that some of the taxes programmed could not be applied in 1984. This was one of the reasons why the collection of tax revenue did not recover in 1984; others were that the level of activity fell short of what had been envisaged, that the acceleration of inflation increased the "lag effect", and that there was no improvement in compliance with tax obligations.

Revenue from the main taxes was notably reduced in constant values, except in the case of taxation on fuels, which, with a 30% increase, became the main source of Treasury income. In contrast, the other taxes on production, consumption and transactions contributed a significantly smaller volume: value added tax (-15%); unified domestic taxation (-10%). Another important factor was the decline in taxation on income and net wealth (about 30%) and on foreign trade (-13%).

Thus, the reduction of the deficit was achieved through a sharp adjustment in Treasury expenditure. With the exception of interest payments on the public debt (whose main component is

the servicing of the external debt) and expenditure on personnel, which increased by 8% and 4%, respectively, the other items showed decreases. In particular, there was a sharp contraction in investment, which can be regarded as generalized throughout the public sector as a whole. From the standpoint of Treasury expenditure, what was still more important was the marked reduction in transfers to other public bodies (-35%): the decrease in the amount of contributions to public enterprises (-54%) and to decentralized agencies (outstanding among which is the National Atomic Energy Commission) easily offset the slight increase (3%) in drafts to the provinces.

No complete data are available on the evolution of the finances of the public sector as a whole in 1984. It may be supposed likely, however, that just as was shown in the Treasury information, there was a decrease in the consolidated deficit. This downturn was probably especially appreciable in the second part of the year, when the effort to reduce expenditure was intensified and public services tariffs improved. In this period, also, delays in payments to suppliers would seem to have occurred, representing a temporary means of still further compressing financing from other sources.

There does not appear to have been any significant decrease in the financial imbalance of the provincial local governments. As regards their income, the amount of resources originating in the Federal Coparticipation Régime (Régimen de Coparticipación Federal - RCF) once again fell, while difficulties were experienced in increasing the provinces' own taxes, not only because of the narrowness of the potential taxable base but also because of deficiencies in tax administration. In some jurisdictions, moreover, there would seem to have been an increase in expenditure on personnel, which accounts for a significant proportion of total outlays. Thus, requirements of funds not met from local sources gave rise in 1984 to frequent requests for contributions from the National Treasury. In this connection, one of the main complaints of many provinces related to the system of coparticipation in taxes collected by the nation, since in recent years there has been an increase in the proportion represented by taxes in whose revenue the provinces had no share. Nothing has yet been done to formalize a new distribution régime, to replace the one that expired at the end of 1984.

The income of public enterprises rose in 1984, owing to an increase in the volume of sales and in their unit value. The higher income made it possible to finance the increment in expenditure on personnel, while at the same time the operational deficit and transfers from the Treasury were reduced.

In former years, the National Social Security System had been partly financed by means of funds deriving from the "coparticipated" taxes as a whole; this diverted resources from other segments of the public sector. In 1984 contributions of employers to pension funds were reintroduced, in order to make the financing of social security independent of the Treasury and release funds for other uses.

Accordingly, although not without difficulties, the Government pursued a policy of restriction of expenditure and reduction of the deficit. The effort was particularly marked in the case of the Central Administration and in the second part of 1984. Indubitably, some of the means used were stop-gap measures, such as the delaying of payments to suppliers and the contraction in investment. It would seem, however, that the authorities gradually improved their control over some of the sources of over-spending. On the other hand, the expected results in respect of resources were not obtained; thus, both changes in the tax structure and greater efficiency in tax administration remained to be achieved.

BOLIVIA

1. Recent economic trends: Introduction and summary

During 1984 the crisis in which Bolivia has been submerged since the beginning of the present decade continued to grow more and more profound.

Owing to the dizzy speed at which prices rose, to the imbalances in the external sector and to the problems deriving from debt servicing, from the maladjustments existing in the exchange market and from the financial straits of the public sector, the keynotes of the evolution of the economy during the year were hyperinflation and stagnation.

The forecasts made at the beginning of 1984 involved overcoming the considerable setback that had affected gross national income, global production, the per capita product, investment, exports, prices, unemployment and the fiscal variables in 1983. They envisaged a 2% upturn in the product, a recovery in agricultural and agro-industrial activities, and moderate increases in transport and communications, commerce, finance and the hydrocarbons industry. In contrast, the performance of construction, mining and manufacturing would remain negative. At the same time, a recovery in public enterprises and an improvement in the income of small producers was assumed. In short, it was thought that while inflation would slacken, there would be some measure of reactivation of the product and employment.

However, during the year the crisis became more and more acute. The gross domestic product fell by a little over 3.5% and gross national income by 5%. The 12-month variation in consumer prices verged on 2 200% in December, the variation between annual averages being close to 1 300%. Lastly, the central government current income/product coefficient was barely 3% (see table 1).

The drop in the gross domestic product for the third year running meant that the cumulative decline since 1982 amounted to 19%. Decreases of this magnitude had not been recorded in over two decades. The 1984 slump accentuated the progressive deceleration of the growth rate observed between 1976 and 1981 (see table 1 and figure 1).

In consequence of the falling-off in production plus population growth, the per capita product diminished for the sixth year in succession, so that its absolute level was the same as in 1966 (see table 1).

With the new contraction of gross national income (-5%), its cumulative deterioration since 1981 reached almost 24%. During that period, national income invariably declined more than the domestic product, and in 1984 all the determining factors militated against it. Thus, to the decrease in the product and the terms-of-trade effect were added a significant increase in net external factor payments and an appreciable reduction in private transfer payments from abroad (see table 2).

The 4% drop in production of goods, which came on top of a cumulative decrease of about 20% in the two-year period 1982-1983, was a generalized feature. The exception to the rule was the agricultural sector, which recovered nearly one-half of what it had lost in the preceding year.

The behaviour of prices was undoubtedly one of the indicators that most clearly revealed the magnitude of the macroeconomic disequilibria. Inflation soared to peaks unknown not only in the history of Bolivia but in that of Latin America.

Among the most significant causes of this speeding-up of inflation was the marked imbalance between the growth rate of the central government's current income (1 080%) and that of total expenditure (1 940%). Thus, the deficit/expenditure coefficient exceeded 92%, after having been 42% in 1981. In money at constant prices, the current income of the central government contracted by nearly 15%, whereas total expenditure went up by over 47%.

Given the impossibility of bridging this gap with funds from other financial sources, the Government had to resort to the Central Bank, which continued to be a permanent focus of inorganic issues of money. Indeed, the growth rate of the money supply outstripped anything that could have

been foreseen. The increase in M_1 was over 1 800% in nominal terms. This inordinate expansion was due both to the need to cover the public sector's financial imbalances and to the wage and salary policy applied.

In the first case, although the net domestic credit extended to the central government was notably reduced, sixteen times more than before was granted to the rest of the public sector. The funds provided to the private sector, for their part, increased by almost 1 000%.

In real terms, the aforesaid increases were smaller. Thus, M_1 expanded by 40%, while the credits received by the rest of the public sector rose by just on 16%. The funds provided to the private sector, on the other hand, were reduced by 21%.

Another of the elements that particularly influenced price increases was wage and salary policy. Owing to automatic wage reviews and to extra-economic factors, at the end of 1984 the minimum monthly wage amounted to 935 000 pesos, equivalent to US\$ 104 at the official rate of exchange. This meant a nominal rise of almost 1 900% in minimum wages.

Table 1

BOLIVIA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	2 078	2 116	2 128	2 143	2 002	1 830	1 761
Population (millions of inhabitants)	5.29	5.43	5.57	5.72	5.88	6.03	6.20
Per capita gross domestic product (dollars at 1970 prices)	393	390	382	375	341	303	284
Growth rates							
B. Short-term economic indicators							
Gross domestic product	3.4	1.8	0.6	0.7	-6.6	-8.6	-3.7
Per capita gross domestic product	0.7	-0.8	-2.1	-1.9	-8.1	-11.0	-6.3
Unemployment rates ^b	4.5 ^c	5.2 ^c	7.5 ^c	8.6 ^c	9.9 ^c	11.5	...
Consumer prices							
December to December	13.5	45.4	23.9	25.1	296.5	328.5	2 176.8
Variation between annual averages	10.3	19.7	47.2	32.1	123.5	275.6	1 281.3
Real wages and salaries ^d	0.3	-1.4	-5.4	-8.7	-27.0	...	-16.4
Money (M_1)	11.6	16.8	41.1	20.5	229.7	209.6	1 828.7
Current income of government	11.7	-1.8	40.6	19.3	37.3	143.3	1 083.5
Total government expenditure	5.3	30.3	43.1	12.8	436.4	173.5	1 939.0
Fiscal deficit/total government expenditure ^e	26.0	44.2	45.2	42.1	85.2	86.8	92.3
Fiscal deficit/gross domestic product ^b	3.9	7.2	7.6	6.7	28.5	23.2	35.3
Current value of exports of goods and services	1.2	21.5	22.1	-3.0	-9.8	-6.5	-6.0
Current value of imports of goods and services	24.6	14.3	-11.8	4.3	-36.4	13.6	-10.3
Terms of trade (goods and services)	0.1	0.4	19.4	-3.6	-3.6	3.6	2.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-242	-226	90	17	280	134	158
Net payments of profit and interest	113	181	261	339	414	423	486
Balance on current account	-353	-399	-166	-312	-121	-271	-308
Balance on capital account	269	417	19	319	153	252	462
Variation in international reserves	-55	24	-136	23	38	-14	155
External debt ^f	1 762	1 941	2 220	2 450	2 373	2 780	2 848

Source: ECLAC, on the basis of official statistics.

^a Provisional figures.

^b Percentages.

^c The rate represents "Total for capitals", except in 1983, when it relates to the cities of La Paz, Santa Cruz, Cochabamba and Oruro.

^d National average (pesos at 1970 prices). The figures for 1984 relates to the real average minimum wage.

^e Disbursements of the medium- and long-term public external debt.

The behaviour of the exchange market also spurred the headlong course of inflation. At the beginning of 1984 the net international reserves of the Central Bank showed a negative balance of almost US\$ 50 million. During the year, the growing demand for foreign exchange came up against a supply characterized by its inelasticity. Just as in the preceding financial years, the amount of foreign currency in the possession of the issuing institution was severely limited by the fall in the quantum of exports.

The economic agents, for their part, purchased foreign exchange with which to pay the external debt, import goods and save in a way that would protect their net wealth from being eroded by inflation.

In view of the shortage of foreign currency in the hands of the economic authorities, exchange control was continued. Furthermore, with the object of encouraging exports and narrowing the gap between the official and parallel market exchange rates, three devaluations were decreed. The official dollar quotation, which at the beginning of the year had been 500 pesos per dollar, reached 9 000 pesos in November.

Despite the exchange adjustments —one of which consisted in the creation of two foreign exchange markets depending upon the type of goods imported—, speculation with the dollar continued. Thus the difference in the value of the dollar on the parallel and on the official markets remained very great, the former being on occasion seven times higher than the latter.

Owing to the high degree of "dollarization" of the economy, the price of goods in general —both imported and domestically-produced— followed in practice a rising trend in keeping with the dollar quotation.

The current value of exports of goods and services contracted for a fourth year running, this time by 6%. However, as the decline in imports was much sharper (-11%), the trade balance surplus increased by nearly 18%.

As from the middle of the year, servicing of the debt with the international private creditors was discontinued. But the balance of payments remained subject to severe pressures, in consequence of the net disbursements of interest which derived from the servicing of the debt with other lenders. These outlays amounted to about US\$ 480 million, a figure equivalent to 60% of exports of goods and services.

Notwithstanding the trade balance surplus and the positive balance on private transfer payments, there was a deficit on current account slightly exceeding US\$ 300 million, i.e., nearly 14% more than in 1983, for which high factor payments were partly responsible.

Continuing the rising trend of the preceding year, inflows of capital shot up spectacularly (85%), reaching an all-time high.

All in all, international reserves climbed from a small negative balance to a long-unprecedented surplus of US\$ 155 million. Nevertheless, net reserves in the hands of the Central Bank remained very tiny, since at the end of the year they did not even amount to US\$ 120 million, a sum equivalent to less than three months' imports of goods and services.

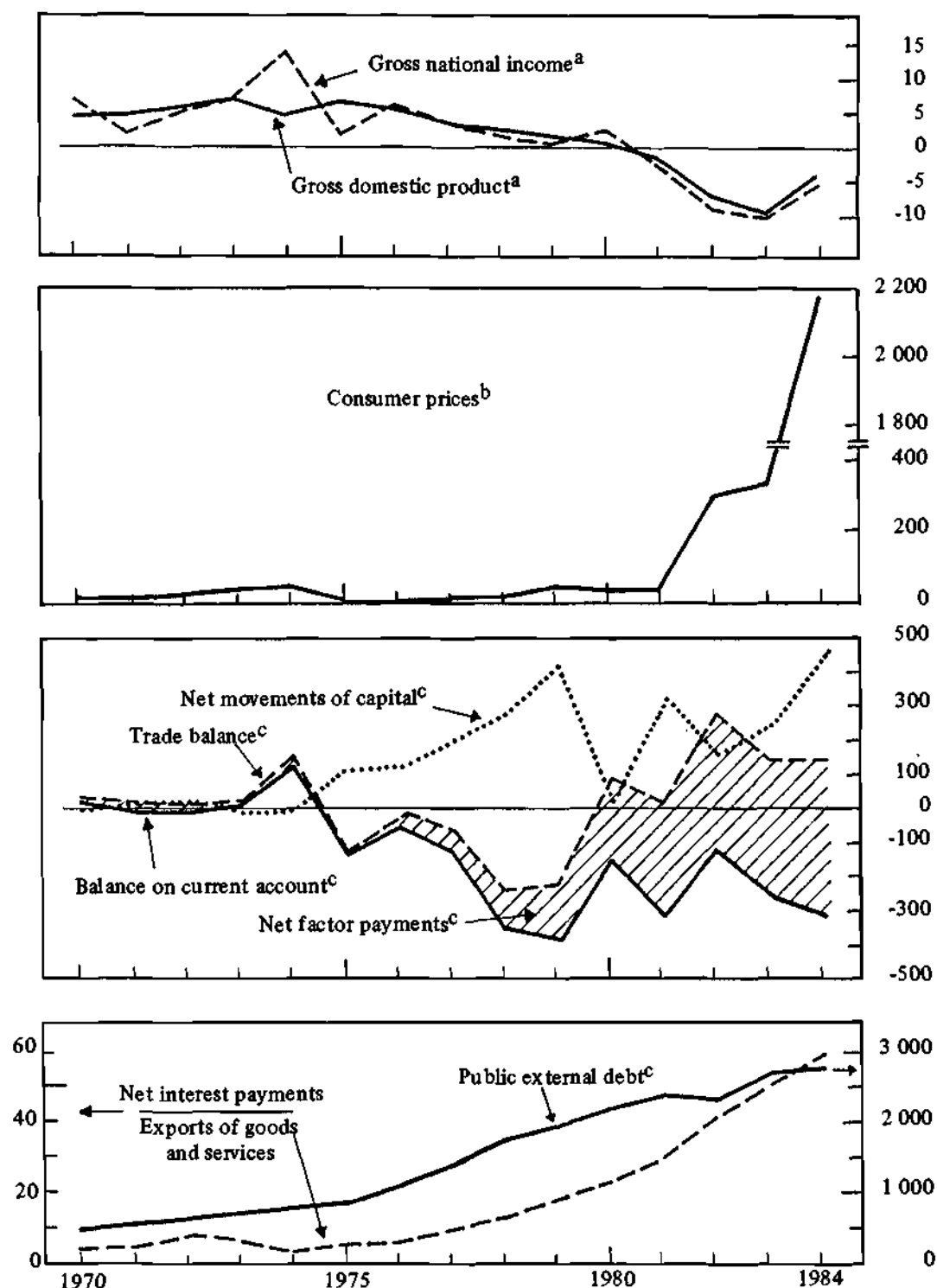
As regards economic policy, during the year three broad groups of measures were adopted. Through these, an attempt was made not only to exert direct influence on the evolution of economic activity, but also to impart continuity to the process of vigorous legal and administrative reorganization begun in the preceding year.

In April, a rise in prices was agreed upon for the goods included in the family shopping basket. The increases fluctuated between 150% in the case of sugar and 700% in that of rice. Fuel prices and electricity, telecommunications and postal rates, as well as passenger and goods transport tariffs, all went up to a similar extent.

Concurrently, the application of a sliding scale of wages was approved and a food allowance equivalent to US\$ 18 at the official exchange rate was issued, together with another for transport, while at the same time public enterprises began a study of levels of remuneration in accordance with professional categories.

Nominal rates of interest on the banking system's loan and deposit operations also rose. A Monetary Board (Junta Monetaria) was created, and temporarily became the central organ of economic policy, taking the place of the Stabilization and Development Board (Junta de Estabilización y Desarrollo) set up in November 1983 and later abolished. At the same time, the Exchange Operation and Supervision Department (Dirección de Operación y Supervisión

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bPercentage variation from December to December.

^cMillions of dollars. ^dPercentages.

Table 2

BOLIVIA: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	2 124	1 941	1 769	1 683	-1.0	-8.6	-8.9	-4.9
a) Gross domestic product	2 143	2 002	1 830	1 761	0.7	-6.6	-8.6	-3.7
b) Terms-of-trade effect	92	75	79	75	-14.9	-18.9	5.3	-4.4
c) Net external factor payments	116	142	146	158	25.2	22.1	2.9	8.1
d) Net private transfer payments received from abroad	5	6	6	5	60.7	26.7	8.8	-22.6

Source: ECLAC, on the basis of official statistics.

^a Provisional figures.

Cambiaria) and the Monitoring and Control of Financial Institutions Board (Gerencia General de Fiscalización y Control de Entidades Financieras) were constituted. The former was in charge of the allocation of foreign exchange to the public and private sectors, while the latter assumed the control and supervision of the entire financial system. Lastly, work began on the formulation of a new set of legal regulations for banking, financial, insurance and savings and loan institutions (Ley General de Bancos, Entidades Financieras, de Seguros y de Ahorro y Préstamos), since the legal norms in force were out of date.

With respect to the external debt, maximum decision-making powers were conferred on the Monetary Board. Thus, its authorization for the refinancing of credits or the contracting of new loans became obligatory if any public institution was involved in the operation. Entities or individuals in the private sector could act freely, always provided that they did not ask the Central Bank for foreign exchange to meet service payments on credits.

The State mining and metal-working enterprises were authorized to import inputs directly, as well as spare parts and food and pharmaceutical products. It was also decided that the Banco Minero should sell part of its stocks of gold on the external market. Lastly, a fund was set up for "warrant" credits to peasant organizations.

Midway through the year, in face of the shortage of money in circulation deriving from the phenomenal upswing in prices, the Central Bank put out an issue of banker's cheques which at first took the place of legal currency and later supplemented it.

An attempt was also made to implement a tax reform. Bills were sent to Congress which proposed levying taxes on legacies and donations, income of natural persons and net wealth, consumption of fuels and exports thereof, real estate and consumption of alcoholic beverages and tobacco. However, none of these bills was passed by the legislative organ, so that it became necessary to bring some of them into force as *decretos-leyes* (decrees with the force of law).

In June, the Government decided to allocate at the very most 25% of the value of its exports of goods and services to the servicing of the external debt. This involved falling into temporary arrears with payments on the debt contracted with the international private banks. In October, however, discussions with the private creditors were renewed in order to renegotiate commitments outstanding.

The second package of economic provisions was adopted in August 1984. These measures were designed to curb the rising trend of prices and the speculation unleashed in the foreign exchange market, since the two phenomena were building up a high degree of economic instability, were preventing the generation of domestic saving and were making the management of the main macroeconomic variables more difficult than ever.

In the external sector two exchange areas were created. In the one described as "essential" only such foreign exchange was traded as was considered indispensable for expanding domestic production of essential goods and carrying on export activities. In this area the exchange rate was

pegged at 2 000 pesos to the dollar. Other operations in foreign currency were conducted in the so-called complementary area, in which the rate of exchange went up to as much as 5 250 pesos.

Although it continued to be obligatory for exporters to surrender 100% of the value of their returns, they were given authorization for the automatic use of 30% of the foreign exchange for whatever imports they needed. The remaining 70% would be liquidated at the official exchange rate for the essential area.

In November, new measures were adopted. In the field of prices, the price of family-basket goods was once again raised. Bread went up by almost 330%, while the quintal of sugar did so by 700%. Similar increases affected fuels (premium —high-octane— gasoline, 500%), electric energy, transport and postal services.

Concurrently the minimum wage was raised and an additional increment was granted on account of the increase in the prices of essential goods. Self-management (equal participation of workers) was also established in six State enterprises.

Alongside reunification of the two exchange areas, the authorities put up the exchange rate for the third time in the year, the dollar thus being quoted at 9 000 pesos, while control over the black market in dollars was tightened.

State enterprises were still authorized to import goods and inputs directly. Thus, US\$ 4.5 million were allocated to the Corporación Minera Boliviana (COMIBOL) for purchases of food from Argentina.

Lastly, the National Insurance and Reinsurance Company (Empresa Nacional de Seguros y Reaseguros) and a National Council for Trade and External Financing (Consejo Nacional de Comercio y Financiamiento Externo) were created. The former was set up with a view to insuring State goods, while the second became the central organ of Bolivia's external trade.

Table 3

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1981	1982	1983	1984 ^a	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	2 480	2 217	2 078	1 973	115.8	112.0	0.7	-10.6	-6.3	-5.0
Gross domestic product at market prices	2 143	2 002	1 830	1 761	100.0	100.0	0.7	-6.6	-8.6	-3.7
Imports of goods and services ^b	337	215	248	212	15.8	12.0	0.5	-36.2	15.1	-14.5
Total demand	2 480	2 217	2 078	1 973	115.8	112.0	0.7	-10.6	-6.3	-5.0
Domestic demand	2 230	1 982	1 863	1 785	103.6	101.3	1.2	-11.1	-6.0	-4.2
Gross domestic investment	289	192	173	204	12.3	11.6	10.7	-33.5	-10.2	18.2
Gross fixed investment	279	232	226	199	12.6	11.3	4.0	-16.9	-2.5	-11.8
Construction	168	150	146	123	7.7	7.0	2.3	-10.7	-2.8	-15.7
Machinery	111	82	80	76	4.9	4.3	6.7	-26.3	-1.9	-4.8
Variation in stocks	10	-40	-53	5	-0.3	0.3				
Total consumption	1 941	1 790	1 690	1 581	91.3	89.7	1.8	-9.6	-5.6	-6.4
General government	297	268	261	261	13.3	14.8	4.6	-9.5	-2.7	-
Private	1 644	1 522	1 429	1 320	78.0	74.9	-0.9	-7.5	-6.1	-7.6
Exports of goods and services ^b	251	235	215	188	12.2	10.7	-3.1	-6.2	-8.5	-12.5

Source: ECLAC, on the basis of official statistics.

^aProvisional figures.

^bFigures on 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 dollars using price indexes calculated by ECLAC for that purpose.

Table 4

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

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1981	1982	1983	1984 ^a	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	1 980	1 849	1 690	1 627	100.0	100.0	0.7	-6.6	-8.6	-3.7
Goods	874	826	706	677	42.5	40.1	1.3	-5.5	-14.6	-4.1
Agriculture ^c	381	394	286	321	17.8	19.0	5.6	3.5	-27.6	12.3
Mining	109	103	102	86	5.3	5.1	1.3	-5.5	-1.0	-15.7
Manufacturing	305	258	249	218	15.6	12.6	-3.8	-15.3	-3.4	-15.0
Construction	79	71	69	58	3.8	3.4	2.3	-10.7	-2.8	-15.7
Basic services	285	267	250	247	14.0	14.6	0.7	-6.3	-6.4	-1.2
Electricity, gas and water	39	40	39	41	1.8	2.4	9.5	0.5	-0.5	3.4
Transport, storage and communications	246	227	211	206	12.2	12.2	-0.5	-7.6	-7.1	-2.5
Other services		836	792	787	45.2	46.8	-1.3	-7.5	-5.2	-0.6
Commerce, restaurants and hotels		260	226	222	15.7	13.2	-2.4	-16.4	-13.0	-1.7
Financial institutions, insurance, real estate and business services		202	194	188	10.5	11.2	-3.0	-2.5	-3.6	-3.1
Ownership of dwellings	160	159	154	150	8.0	8.9	-0.5	-1.0	-3.0	-2.7
Community, social and personal services		374	372	377	19.0	22.4	0.6	-3.1	-0.6	1.5
Government services	208	212	220	230	10.1	13.6	2.1	1.9	3.6	4.5
Minus: imputed bank service commission		29	27	26	1.7	1.5	-10.3	-6.6	-6.0	-4.5

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

^a Provisional figures.

^b As the individual activities and the total were extrapolated independently, the sum of the former does not correspond exactly with the latter.

^c Including products of agriculture, forestry and fishing.

2. Trends in economic activity

a) *Total supply and demand*

Total supply of goods and services contracted by 5%, which meant that the decrease accumulated since 1982 amounted to more than 22% (see table 3).

The decline in 1984 was due to the contraction not only in the gross domestic product, but also in imports of goods and services, which this time, in contrast to what had happened in the preceding year, failed to cushion the drop in the product.

Domestic demand, in its turn, diminished for the third year in a row, with no break in the systematic deterioration of its two components. Thus, investment in fixed capital fell by almost 12%. As in the two preceding years the cumulative decrease had amounted to over 19%, the investment/product coefficient was barely over 11%, the lowest level since 1961.

Total consumption, in its turn, shrank by nearly 7%, so that the cumulative deterioration since 1982 exceeded 21%. The 1984 result was partly attributable to the stagnation of public consumption, following upon a cumulative decline of more than 12% in the preceding two-year period, and a fresh reduction in private consumption (-7.5%), which meant that the decrease in 1981-1984 totalled more than 22%.

Lastly, in 1984 the export quantum once again contracted, for the seventh time in eight years, this time by 12%.

b) *Evolution of the main sectors*

Production of goods fell by about 4%, a decrease a good deal smaller than that of the year before and similar to that noted in 1982. Basic services and "other services" also declined, although less sharply (see table 4).

The drop in production of goods was the consequence of the scarcity of foreign exchange and the reduction of total consumption. The sectors hardest hit by the foreign currency shortage were those most dependent on imports, particularly mining and manufactures. Despite the nominal wage increases decreed in the course of the year, total consumption contracted, with the consequent impact on output. Finally, the climate of labour unrest prevailing in Bolivia was also bad for production.

The resurgence of agricultural activity, although considerable, made up for less than half the setback suffered in the preceding year, so that the product generated was barely equivalent to that of 1975. The other goods-producing activities (mining, manufacturing and construction) showed the most marked decreases since 1970 at least.

In the basic services area, the systematic decline in the transport, storage and communications product was attenuated. The 3.5% expansion shown by the electricity, gas and water services, on the other hand, more than compensated for the decrease in the preceding year, and placed them among the few activities with a relatively stable behaviour pattern over the past four years.

Lastly, the remaining services as a whole showed a slight contraction, on top of the cumulative deterioration of over 12% in the preceding two-year period.

i) *The agricultural sector.* Production revived again by more than 12% in this sector, which absorbs about 50% of the economically active population and generates almost one-fifth of the gross domestic product. It thus recovered part of what had been lost the year before (-27.5%) because of the serious climatic disturbances associated with the ocean current known as El Niño (see table 5).

In almost all crops production increased. The boom in the rice harvest (almost 220%) offset the decreases in preceding years by a wide margin, reaching a level almost twice as high as in 1981. Significant increments were also obtained in quinoa and wheat.

The increases in production were accompanied by extensions of the area under cultivation. The area allocated to rice was trebled, while that assigned to quinoa was doubled; and that used for wheat-growing was enlarged by 37%.

Yields shot up sharply in the rice crop (14%) and, above all, in wheat-growing (35%).

In the case of tubers, although the increase in the potato harvest exceeded 50%, it was nevertheless insufficient to counteract the deterioration in the preceding crop (see table 5).

Lastly, production of fruit and vegetables expanded in most cases. Particularly significant was the increase in production of onions and beans, which more than offset the 1983 losses.

Among other causes accounting for the relatively satisfactory performance of the agricultural sector were the stabilization of weather conditions and the official credits granted in 1983 to palliate the effects of the enormous natural disasters. Furthermore, in 1984 a fund of 2 000 million pesos was set up, earmarked for the extension of warrant credits to peasant organizations.

ii) *Mining.* The situation of this sector grew worse, since the drop of nearly 16% in the level of activity was superadded to the 6.5% cumulative decrease recorded in the preceding two-year period. The quantities of the various minerals produced dwindled to the lowest level since 1974.

Production of tin, one of the most important items in the Bolivian economy, plummeted by 25%, a downward plunge which occurred on top of the contractions of 10% and 11% that had taken place in 1982 and 1983 (see table 6). In its turn, the international price fell by about 6% in 1984, over and above the 8% accumulated in the preceding two years.

Output of zinc was also reduced. The small increment in 1983 was followed by a drop of nearly 19%, despite the fact that quotations on the international market improved by about 24%.

Although the international price of antimony soared by approximately 80%, the volume produced slightly decreased (-2%), after the steep decline of almost 30% recorded in 1983 (see table 6).

A reduction in 1984 brought the cumulative decrease in lead production since 1981 up to nearly 65%. As in the case of other minerals, the fall in output of lead in 1984 occurred in spite of a considerable rise (15%) in its price on the international market.

The setbacks suffered by production of gold and silver —30% and 25%, respectively— wiped out the progress noted in 1983. Since the output volumes of both had also contracted in 1982, their

Table 5

BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Production (Thousands of tons)								
Main crops								
Cereals								
Paddy rice	101	86	61	194	23.2	-14.8	-29.1	218.0
Maize	504	450	337	...	31.6	-10.7	-25.1	...
Quinoa	13	16	15	21	...	23.1	-6.3	30.0
Wheat	67	66	37	68	11.6	-1.5	-43.9	83.8
Roots and tubers								
Oca	50	45	30	29	...	-10.0	-33.3	-3.3
Potatoes	867	900	303	459	10.2	3.8	-66.3	51.5
Ulluco	19	20	6	13	...	5.3	-70.0	116.6
Fruit and vegetables								
Onions	37	35	18	28	...	-5.4	-48.6	55.5
Peaches	31	30	19	24	-	-3.2	-36.6	26.3
Beans	53	45	13	47	...	-15.1	-71.1	261.5
Tomatoes	22	32	24	17	-29.0	45.4	-25.0	-29.2
Industrial crops and stimulants								
Cotton fibre	7	4	3	1	-	-42.8	-25.0	-66.6
Parchment coffee	21	22	22	...	-	4.7	-	...
Sugar-cane	3 103	2 991	2 644	...	0.7	-3.6	-11.6	...
Coca	33	35	45	...	26.9	6.1	28.6	...
Area under cultivation (Thousands of hectares)								
Main crops								
Cereals								
Paddy rice	63	54	43	121	-4.5	-14.3	-20.4	181.4
Maize	313	286	261	...	6.8	-8.6	-8.7	...
Quinoa	23	25	24	46	...	8.7	-4.0	91.6
Wheat	96	96	65	89	-4.0	-	-32.3	36.9
Roots and tubers								
Oca	14	13	12	12	...	-7.1	-7.7	-
Potatoes	177	159	117	143	4.7	-10.2	-26.4	22.2
Ulluco	5	5	3	5	...	-	-40.0	66.6
Fruit and vegetables								
Onions	5	4	3	5	...	-20.0	-25.0	66.6
Peaches	6	7	6	7	-	16.6	-14.3	16.6
Beans	...	23	12	31	...	...	-47.8	158.3
Tomatoes	2	3	3	2	-33.3	50.0	-	-33.3
Industrial crops and stimulants								
Cotton fibre	14	6	4	1	-41.6	-57.1	-33.3	-75.0
Parchment coffee	24	24	24	...	4.3	-	-	...
Sugar-cane	70	69	67	74	2.9	-1.4	-2.9	10.4
Coca	27	31	38	...	...	14.8	22.6	...

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

^aProvisional figures.

average annual rates of reduction in the triennium ending in 1984 were about 19% in the case of gold and 11.5% in that of silver. The decreases in the volumes of production in 1984 were accompanied by slumps in international prices (13% for gold; 29% for silver).

Such abrupt downward movements in mining production were attributable to both domestic and external causes.

In the domestic sphere, the problems were connected with the successive wage increases and the rising prices of other inputs which significantly stepped up unit production costs.

Other factors that helped to account for the increased cost of imported inputs were the three devaluations carried out during the year, the shortage of foreign currency and the exchange control established for its management. Furthermore, as foreign exchange requirements could not be fully met in the official market, part of what was needed had to be purchased in the parallel market at a considerably higher price. Since, moreover, exports had to be liquidated at the official exchange rate, a widening gap was created between the income and costs of enterprises, with the resulting disincentive to the export and production of minerals.

Lastly, the degree of labour unrest prevailing during the year also made for reduced production and higher costs.

From the external standpoint, the constraints to which the sector was subjected derived from the atony pervading the international economy itself, as well as from the difficulty of shifting on to sales prices the increases in production costs.

In the field of mining policy, outstanding features were the authorization granted to State enterprises for directly importing the spare parts, inputs and food and pharmaceutical products that they needed, against payment of the corresponding tariff duties; and the allocation to the Corporación Minera Boliviana of US\$ 4.5 million for imports of food under the reciprocal agreement between Bolivia and Argentina.

iii) *Hydrocarbons*. In the first nine months of 1984 the volume of crude oil produced was almost 6% less than in the same period in the preceding year (see table 7). Except in 1982, production of petroleum has been systematically decreasing since 1974.

Domestic sales of almost all fuels fell. Consumption of gasoline declined for the second year in succession (-3%). Purchases of kerosene and fuel oil were also reduced; on the other hand, those of diesel oil increased by nearly 1%. The deterioration in economic activity and the sharp increases in hydrocarbon prices account both for the poor performance of these indicators and for the contraction undergone by demand for fuels for industrial and household use.

Lastly, the decline in gas production continued, although with some mitigation. Thus, the volume of output of gas was the lowest since 1973. The decrease in the quantum produced was accompanied by a drop of 15% in the prices quoted.

Table 6

BOLIVIA: INDICATORS OF MINING PRODUCTION

	Thousands of tons				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Production of some important minerals								
Antimony	15.3	13.9	9.9	9.7	-	-9.1	-28.7	-2.0
Copper	2.6	2.2	1.9	1.7	44.4	-15.3	-13.6	-10.5
Tin	29.7	26.7	23.7	17.8	9.2	-10.1	-11.2	-24.9
Silver ^b	205.0	173.7	191.2	142.3	7.9	-15.3	10.1	-25.6
Lead	16.7	12.4	12.1	8.0	-2.9	-25.7	-2.4	-33.8
Tungsten	3.4	3.2	3.0	2.6	3.0	-5.8	-6.2	-13.3
Zinc	47.0	45.6	47.1	38.3	-6.3	-2.9	3.3	-18.7
Gold ^c	2 064.0	1 249.0	1 582.0	1 104.0	41.5	-39.5	26.6	-30.2
Other minerals	...	8.0	4.0	3.1	...	...	-50.0	-22.5

Source: Asociación Nacional de Mineros Medianos.

^aProvisional figures.

^bTons.

^cKilogrammes.

Table 7

BOLIVIA: HYDROCARBON INDUSTRY INDICATORS

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Thousands of cubic metres								
Petroleum								
Production of crude petroleum	1 286	1 418	1 285	903	-7.0	10.3	-9.4	-5.9
Exports of crude petroleum ^b	-	-	1 039	...	-	-	-	...
Processing of petroleum products	1 352	1 373	1 242	913	-10.0	1.5	-9.5	1.5
Domestic sales of some fuels								
Gasoline	461	464	453	326	-0.2	0.6	-2.4	-3.1
Kerosene	105	101	110	80	-30.5	-3.8	8.9	-4.8
Diesel oil	299	260	246	183	-	-13.0	-5.4	0.8
Fuel oil	155	136	145	89	1.9	-12.3	6.6	-18.1
Millions of cubic metres								
Natural gas								
Production	4 969	5 320	5 041	3 662	3.9	7.1	-5.2	-1.6
Exports	2 196	2 297	2 227	1 687	7.6	4.6	-3.0	-0.4

Source: Central Bank of Bolivia.

^aProvisional figures for the period January-September. Rates of variation also relate to the same period.^bThousands of barrels.

In 1984, prices of hydrocarbons underwent two big nominal increases, in addition to those decreed in the preceding year. Thus, the price of high-octane (premium) gasoline rose from 100 pesos a litre in November 1983 to 1 800 pesos in November 1984. Kerosene prices were raised by 3 900% and those of diesel oil and fuel oil by 3 400%. Prices of other hydrocarbons went up by similar percentages.

Despite these increases, hydrocarbons were still extremely cheap in international terms. In April 1984 —when the exchange rate was switched from 500 to 2 000 pesos per dollar— a litre of premium gasoline was still costing barely 15 dollar cents, although the prices of all hydrocarbons had been put up. In November another devaluation took place, together with another rise in the price of fuels. On this occasion a litre of gasoline came to be sold at 20 dollar cents. If the exchange rate in the parallel market is considered, the price was still cheaper, which may have provided an incentive for the development of unregistered trade with other countries.

Lastly, the Government approved the payments agreements signed between Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and the foreign firms Canadian Occidental International and Bolivia Petroleum Company, by virtue of which the domestic enterprise pledged itself to pay US\$ 48.5 for purchases of petroleum and natural gas.

3. The external sector

a) General features

In 1984 export contractions, external indebtedness and fluctuations in the exchange rate continued to constitute the centre of gravity of the external sector and of the economy as a whole.

The trade balance showed an upturn of 18%, thus verging on US\$ 160 million, after the precipitous slump (-52%) in the preceding year. This was mainly because imports of goods and services were reduced more drastically (-10.5%) than exports (-6%).

Outlays under the head of factor payments increased by over 13%, and were responsible for the aggravation of the deficit on current account.

Nevertheless, thanks to a marked increase in inflows of short-term capital, the country succeeded in expanding its reserves of foreign exchange. It still had great difficulty, however, in simultaneously servicing the external debt and effecting the most indispensable imports. Consequently, it was obliged to let its commitments with the international private banks fall temporarily into arrears. Despite this decision, the debt servicing/exports of goods and services coefficient reached its highest figure in recent years.

Lastly, the exchange market was subject to great vicissitudes. Shortage of dollars and galloping inflation continued to mean that the dollar was in demand not only for the conduct of transactions, but also as a medium for hoarding and speculation. This complex set of circumstances and the scantiness of the foreign exchange reserves in the hands of the Central Bank account for the sweeping increases in the value of the dollar in the parallel market. The official exchange rate was devalued on three occasions, with the result that dollar quotations were eighteen times higher at the year's end than at its beginning.

b) *Foreign trade*

i) *Exports of goods.* The value of exports contracted by 6.5%, so that the cumulative decline since 1981 totalled about 27% (see table 8).

As in 1983, the fall in value of the goods exported was exclusively due to the contraction of the quantum (-9%), which completed a decrease of 34% in the quinquennium. The unit value, on the other hand, improved again by 3%.

The downward trend of exports was not only significant but also considerably widespread, the exceptions being tin concentrate, antimony and zinc, which notably expanded (see table 9).

The value of external sales of natural gas —a product which contributes half the returns on exports— remained virtually static, in consonance with what happened in respect of both price and quantum.

Exports of metallic tin —which represented rather more than one-fifth of total sales— decreased by nearly 3%. Thus the cumulative reduction since 1982 added up to as much as 40%. The

Table 8
BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
Growth rates							
Exports of goods							
Value	-1.1	21.4	23.6	-3.5	-9.0	-8.6	-6.5
Volume	-11.1	2.2	-7.3	-0.2	-5.7	-11.3	-9.3
Unit value	11.3	18.8	33.3	-3.3	-3.5	3.1	3.0
Imports of goods							
Value	25.0	12.6	-16.5	-	-37.0	12.4	-3.1
Volume	12.8	-6.9	-26.3	-1.9	-35.3	16.4	-5.7
Unit value	10.8	21.0	13.2	1.9	-2.6	-3.4	2.8
Terms of trade (goods)	0.5	-1.7	17.7	-5.0	-0.9	6.7	0.2
Indexes (1970 = 100)							
Quantum of exports	121.3	124.0	115.0	114.8	108.3	96.1	87.1
Terms of trade	120.1	118.0	138.9	131.9	130.6	139.4	139.7
Purchasing power of exports of goods	147.0	149.5	165.1	154.7	143.0	134.8	120.4
Purchasing power of exports of goods and services	157.4	162.9	179.5	167.7	151.6	143.7	128.9

Source: ECLAC, on the basis of official statistics.

^a Provisional figures.

Table 9

BOLIVIA: EXPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1981	1982	1983	1984 ^a	1974	1984 ^a	1981	1982	1983	1984 ^a
Total	995	898	817	763	100.0	100.0	-3.9	-9.7	-9.0	-6.6
Main traditional exports (minerals and hydrocarbons)										
Metallic tin	902	818	767	740	89.2	96.9	1.8	-9.3	-6.2	-3.5
Tin concentrate	266	237	175	170	26.7	22.3	11.3	-10.9	-26.2	-2.9
Silver	77	41	32	63	8.6	8.3	-44.6	-46.7	-21.9	96.8
Zinc	72	37	58	21	4.2	2.7	-38.9	-48.6	56.7	-63.8
Tungsten	40	38	33	37	5.8	4.8	8.1	-5.0	-13.2	12.1
Antimony	43	34	20	20	3.2	2.6	-8.5	-20.9	-41.2	-
Other minerals	34	18	16	19	4.5	2.5	30.7	-47.0	-11.1	18.7
Natural gas	24	14	13	9	6.4	1.2	-20.0	-41.6	-7.1	-30.7
Other hydrocarbons	337	388	378	380	4.4	49.8	52.5	13.3	-1.0	0.5
Main non-traditional exports	10	17	42	21	25.2	2.7	-58.3	70.0	147.1	-50.0
Sugar	93	80	50	23	10.7	3.0	-38.0	-13.9	-37.5	-54.0
Coffee	6	8	12	3	3.4	0.3	-88.2	33.3	50.0	-75.0
Wood	16	16	13	6	0.6	0.7	-23.8	-	-18.7	-53.8
Handicrafts	18	12	8	5	2.0	0.6	-41.9	-33.3	-33.3	-37.5
Others	5	1	1	-	-	-	25.0	-80.0	-	-
	48	33	16	9	4.7	1.2	26.3	-31.2	-51.5	-43.7

Source: Central Bank of Bolivia.

^a Provisional figures.

decline noted in 1984 was attributable exclusively to the deterioration in the unit value, since the volume took a very slight turn for the better (2%), after a drop of 27% the year before (see table 10). The average price of metallic tin fell by a little over 5%, thus cancelling out the preceding year's modest recovery (2%). In real terms the decline in tin quotations in 1984 was in the neighbourhood of 10% (see table 11).

Exports of tin concentrate, for their part, almost doubled, thanks to the 110% boom in the volume sold. The unit value, on the other hand, fell from US\$ 12.93 to US\$ 12.21 per ton of fine.

The other traditional exports followed a very unfavourable course. Those of silver, after the great recovery in 1983, dropped by almost 65%. This was due to the 50% decrease in the quantum sold, which was combined with a fall of about 30% in the unit value.

Non-traditional exports slumped once again, this time by 54%, with the result that their level was not even one-fourth as high as in 1981.

ii) *Imports of goods.* The value of imports fell by rather more than 3%, exclusively owing to the reduction of the quantum (-6%), since the unit value increased by nearly 3% (see table 8).

Owing to the decline in the value of external purchases in the years preceding 1983, the decrease in 1984 brought them to more or less the same level as in 1973.

Imports of raw materials and intermediate goods and of capital goods contracted by between 11% and 15%. In contrast, purchases of consumer goods expanded by somewhat more than 13% (see table 12).

A drop of over 18% in imports of raw materials and inputs for industry counteracted the upswing in the preceding year. Much the same thing happened in the case of purchases of capital goods, and particularly where transport equipment was concerned.

The increase in purchases of consumer goods was in any case insufficient to offset the substantial reductions in the preceding two-year period. Thus, their 1984 level represented barely one-fourth of that noted in 1981. Imports of durable consumer goods increased, but in absolute terms still stood extremely low. Purchases of non-durable goods continued to contract, although at a slower pace than in 1982-1983 (see table 12).

c) *The terms of trade*

The terms of trade remained unchanged, after rising by almost 7% in 1983 (see table 8).

The purchasing power of exports of goods fell for the fourth year running. The standstill in the terms of trade and the decline of almost 10% in the export quantum reduced the purchasing power of exports of goods by about 11%. Thus the cumulative deterioration since 1981 exceeded 30%.

Table 10

BOLIVIA: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Metallic tin	18.7	18.6	13.5	13.8	31.7	-	-27.4	2.2
Tin concentrate	5.5	3.2	2.5	5.2	-33.7	-41.8	-21.8	108.0
Silver ^b	204.0	151.0	158.0	80.0	15.9	-25.9	4.6	-49.4
Zinc	44.7	44.5	41.3	36.0	-3.2	-	-7.2	-12.8
Tungsten	3.1	3.3	2.6	2.6	-8.8	6.5	-21.2	-
Antimony	17.7	10.9	12.9	10.5	38.3	-38.4	18.4	-18.6
Other minerals	36.4	26.8	22.4	...	-11.8	-26.4	-16.4	...
Natural gas ^c	219.6	229.7	222.7	223.7	7.6	4.6	-3.0	0.4

Source: Central Bank of Bolivia.

^a Provisional figures.

^b Tons of fine.

^c Millions of cubic metres

Table 11

BOLIVIA: AVERAGE PRICE OF TIN ON THE LONDON METAL EXCHANGE

(Dollars per pound)

	Nominal price	Price index (1970 = 100)		Real price (1970 dollars)	
		United States wholesale price	Unit value of Bolivian imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)		
1979	7.0	87.6	256.4	7.9	2.7
1980	7.6	100.0	284.1	7.6	2.6
1981	6.4	109.1	294.9	5.8	2.2
1982	5.8	111.3	294.1	5.2	1.9
1983	5.9	112.7	290.1	5.2	2.0
1984	5.5	115.4	304.1	4.7	1.8

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

Table 12

BOLIVIA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1981	1982	1983	1984 ^a	1974	1984 ^a	1981	1982	1983	1984 ^a
Total	917	554	532	480	100.0	100.0	37.7	-39.6	-4.2	-9.7
Consumer goods	234	96	52	59 ^b	23.3	12.3	36.8	-58.9	-44.8	13.5
Durable	118	39	17	26 ^b	9.7	5.4	78.8	-66.9	-56.4	52.9
Non-durable	116	57	36	33 ^b	13.6	6.8	10.5	-50.8	-36.8	-8.3
Raw materials and intermediate goods	342	248	260	222 ^b	35.6	46.3	36.3	-27.5	4.8	-14.6
Fuels	14	9	9		1.0		600.0	-35.7	-55.5	
For agriculture	15	7	7		3.1		36.4	-53.3	-	
For industry	264	197	211	172 ^b	26.4	35.8	28.2	-25.4	7.1	-18.5
Construction materials	49	35	38	41 ^b	5.1	8.5	53.1	-28.6	8.6	7.9
Capital goods	334	199	211	187 ^b	40.3	38.9	38.5	-40.4	6.0	-11.4
For agriculture	20	5	7		1.5		42.8	-75.0	40.0	
For industry	195	139	152	148 ^b	17.9	31.0	33.6	-28.7	9.3	-2.6
Transport equipment	119	55	52	35 ^b	20.8	7.3	46.9	-53.8	-5.4	-32.7
Others	7	11	7	...	0.7	...	75.0	57.1	-36.4	...

Source: Central Bank of Bolivia.

^a Provisional figures.^b The broken down import data are calculated on the basis of total imports for the year and on the assumption that the behaviour of each item throughout 1984 was the same as it had been in the first half of the year.d) *The balance on current account and capital movements*

The deficit on current account was close to US\$ 310 million, or almost 14% more than in 1983 (see table 13).

The surplus on trade in goods —US\$ 240 million— decreased by 13%, solely on account of the poor performance of exports. Sales of goods contracted by 7%, much more than imports (-3%), notwithstanding which the latter dropped to one of the lowest levels since 1975.

The external imbalance deriving from real services transactions was reduced. The deficit on trade in invisibles declined by over 40%, basically in consequence of the downturn in imports.

Most service payments to the exterior corresponded to factor services. Under this head US\$ 480 million had to be paid out, i.e., 13% more than in 1983. Net disbursements of interest increased by 15%, reaching a level equivalent to 60% of exports of goods and services.

Thanks to an upswing of over 80%, net income on capital account amounted to about US\$ 460 million.

As inflows on the capital account were larger than the outflows on the current account, the country managed to raise its foreign exchange reserve by US\$ 155 million, an unprecedented sum, at least since 1970.

e) *The external debt*

The constraints imposed upon the economy by the high level of external indebtedness became yet more stringent in 1984. The difficulties reached such an extreme that by the middle of the year the Government adopted a decision to allocate at the most 25% of export earnings to debt servicing. This decision implied meeting only commitments contracted with multilateral agencies and the governments of certain countries.

Consequently, the Government decided temporarily to defer the servicing of its debt to the international private banks, which at the beginning of 1984 accounted for rather more than 20% of the total medium- and long-term public debt. This decision was opposed by the Central Obrera

Table 13

BOLIVIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-353	-399	-166	-312	-121	-271	-308
Trade balance	-242	-226	90	17	280	134	158
Exports of goods and services	703	855	1 043	1 012	912	853	802
Goods FOB	627	762	942	909	828	757	707
Real services ^b	76	93	101	103	85	96	95
Transport and insurance	15	29	32	34	26	36	34
Travel	35	37	40	36	30	40	39
Imports of goods and services	946	1 081	953	994	633	719	644
Goods FOB	724	815	680	680	429	482	467
Real services ^b	222	266	273	314	204	237	178
Transport and insurance	140	177	168	196	101	130	126
Travel	41	45	52	50	40	20	15
Factor services	-116	-183	-264	-343	-418	-424	-480
Profits	-18	-28	-19	-29	-24	-2	-3
Interest received	1	2	14	15	7	22	23
Interest paid	-96	-155	-256	-325	-397	-443	506
Others	-3	-3	-3	-3	-3	-	-
Unrequited private transfer payments	5	11	8	13	17	18	15
Balance on capital account	269	417	19	319	153	252	462
Unrequited official transfer payments	22	41	48	26	29	89	71
Long-term capital	293	257	252	473	182	436	-527
Direct investment (net)	12	18	41	60	37	43	7
Portfolio investment (net)	-	-	-3	-	-	-	...
Other long-term capital	281	240	213	413	145	393	...
Official sector ^c	114	89	264	310	123	417	...
Loans received	326	149	334	328	138	74	...
Amortization payments	-203	-57	-56	-53	-66	-66	...
Commercial banks ^c	-	77	-24	26	-12	-2	...
Loans received	-	87	13	10	7	4	...
Amortization payments	-	-10	-21	-6	-19	-5	...
Other sectors ^c	167	74	-26	77	33	-22	...
Loans received	275	151	94	96	66	21	...
Amortization payments	-108	-77	-90	-55	-37	-34	...
Short-term capital (net)	40	147	-20	148	-7	-331	...
Official sector	-53	192	-29	200	118	-243	...
Commercial banks	51	-11	-19	6	20	-16	...
Other sectors	42	-34	28	-58	-145	-72	...
Net errors and omissions	-85	-28	-260	-329	-51	59	...
Global balance^d	-84	19	-147	6	32	-19	154
Total variation in reserves (- sign indicates an increase)	55	-24	136	-23	-38	14	-155
Monetary gold	-2	-2	-2	-3	-2	-1	...
Special Drawing Rights	-11	18	-	-	-	-	-
IMF reserve position	-3	12	-	-	-	-	-
Foreign exchange assets	56	-39	72	6	-56	19	-92
Other assets	-4	-14	6	-17	5	-8	...
Use made of IMF credit	20	-	61	-9	15	3	-25

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, on magnetic tape up to March 1985; 1984: ECLAC, on the basis of official data.

^aProvisional figures.

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

^cIn addition to

loans received and the 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 the total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 14

BOLIVIA: MEDIUM- AND LONG-TERM EXTERNAL PUBLIC DEBT

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984*
Millions of dollars											
Total external debt	786	883	1 107	1 458	1 762	1 941	2 220	2 450	2 373	2 780	2 810
Yearly disbursements	129	171	295	439	541	323	430	396	187	312	161
Debt service	76	92	111	161	355	262	281	286	266	320	329
Amortization payments	54	65	71	101	271	144	122	104	99	95	131
Interest	22	27	40	60	84	118	159	182	167	225	198
Main indicators (percentages)											
External debt disbursed/ exports of goods and services	132.3	181.0	177.1	209.1	250.6	227.0	212.8	242.1	260.2	325.9	350.4
Debt service/exports of goods and services	12.8	18.8	17.7	23.1	50.5	30.6	26.9	28.3	29.2	37.5	41.0
Net interest payments/exports of goods and services	3.7	5.5	6.4	8.6	11.9	13.8	15.2	17.9	18.3	26.4	24.7
Debt service/annual disbursements	58.9	53.8	37.6	36.6	65.6	81.1	65.4	72.2	142.2	102.5	204.3

Source: ECLAC, on the basis of official data.

*Provisional figures.

Boliviana, which advocated postponement for an indefinite length of time. Once the Co-ordinating Committee of the Creditor Banks learnt of the official decision, it set a three-month deadline for the beginning of talks on renegotiation and the decision to suspend debt service payments was not implemented. Shortly after the expiry of the term fixed, negotiations were renewed.

Even so, disbursements in 1984 increased by almost US\$ 60 million, which meant that the medium- and long-term public debt outstanding amounted to a little over 2 800 million (see table 14).

Debt servicing represented nearly US\$ 330 million, a figure very similar to that of 1983. Amortization payments increased by almost 38%, exceeding 130 million; on the other hand, interest payments —200 million— fell by 12%.

Thus, the servicing of the medium- and long-term external public debt was equivalent to 41% of exports of goods and services, a percentage only lower than the 1978 figure (50%). Interest payments alone signified almost 25% of external sales of goods and services, a coefficient very similar in its turn to that of 1983. Moreover, the value of the total external debt was 3.5 times higher than that of exports. Lastly, amortization and interest payments approximately double the new credits effectively received (see table 14).

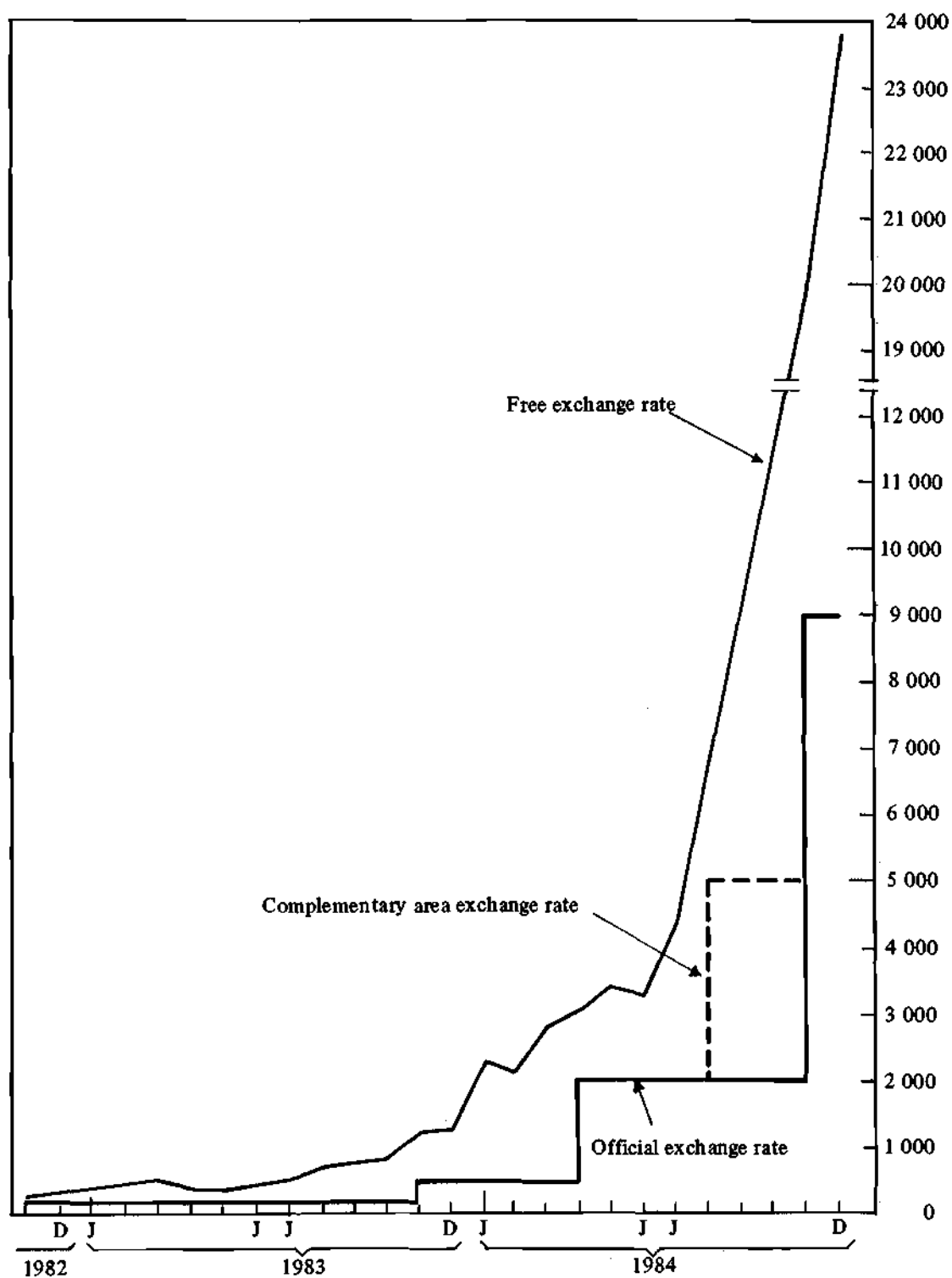
If all payments due on debts with the international private banks had been discharged, debt servicing would have amounted to US\$ 700 million, i.e., 87% of the total value of exports of goods and services.

One of the most vitally important measures adopted in 1984 with respect to external indebtedness was the investment of the Monetary Board with ample decision-making powers in matters relating to control both of the public external debt and of those loans applied for by the private sector in respect of which it was necessary to use foreign exchange from the Central Bank.

f) *The exchange rate*

The management of the exchange rate was another of the major difficulties with which the economic authorities had to grapple. The exchange market remained highly unstable and the fundamental problems noted in preceding years persisted. Thus, the essential factor was still the shortage of foreign exchange in the hands of the Central Bank. At the end of 1983 its net reserves of foreign currencies showed a negative balance of nearly US\$ 50 million.

BOLIVIA: OFFICIAL AND FREE EXCHANGE RATES



In such circumstances, the procurement of the most indispensable imports and debt servicing became objectives that could hardly be simultaneously fulfilled. With these factors were combined the economic agents' extreme sensitivity and increasingly widespread desire to keep their net wealth in the form of foreign assets in order to protect it against inflation.

The first of the 1984 devaluations was decreed in April and amounted to 76%, raising the official relation between the peso and the dollar from 500 to 2 100 pesos. Thus, the official exchange parity temporarily approximated to that prevailing in the parallel market (see figure 2).

A rise in the exchange rate on such a scale could not but be reflected in a recrudescence of inflation. The high rates of variation in domestic prices at the beginning of the year (a cumulative figure of over 50% in the first quarter) substantially accelerated. At the end of May, the cumulative rate for the first five months of the year was close to 300% and the variation over twelve months already exceeded 1 000%. In the following months the value of the dollar on the parallel market continued to rise, both by reason of speculation and because of the shortage of dollars itself and the stage reached by inflation (see figure 2).

In August, with the intention of stopping the dollar from escalating, new measures were adopted, whereby two exchange areas were created, one being dubbed essential and the other complementary.

In the first of these, the official exchange rate for the sale of foreign exchange by the Central Bank was still pegged at 2 000 pesos per dollar, plus taxes. It was stipulated that in this market only foreign exchange requirements for imports of essential goods would be met,¹ the public and private mining companies' export returns being used for this purpose.

In the complementary area, served by the banking system and the exchange houses, the sales value of the dollar was established at 5 250 pesos. The foreign exchange offered in this market was to come from non-traditional exports and from the funds made available to the State through the Central Bank, and would be earmarked for meeting demand on the part of private persons for the means of paying for other imports. The buyer quotation for the dollar in the parallel market, which in August had been close to 7 000 pesos, in October reached almost 15 000 pesos (see figure 2).

In August, too, exchange control was ratified. *Inter alia*, it made obligatory the surrender of 100% of export returns; however, exporters were authorized to make automatic use of 30% of the value of their sales for direct purchases from abroad. The remaining 70% was to be liquidated at the official rate of exchange for the essential area. With the object of compensating them for the losses incurred through the difference between the official and parity exchange rates,² they were to be given *Certificados de Reintegro Cambiario a la Exportación*,³ which at the end of 90 days would be convertible into gold savings certificates.⁴ In practice, however, these certificates were never issued, nor were the two exchange areas ever brought into operation.

As from August the rate of increase of prices put on a fresh spurt, jumping from 15% in that month to nearly 60% in October.

In November the third devaluation and the return to a single exchange area were decreed. The relation between the peso and the dollar rose from 2 000 and 5 250 pesos to 9 000, which implied increases of 350% and 71% in the essential and complementary markets, respectively.

The overall level of domestic prices more than doubled in the last two months of the year. The value of the dollar in the parallel market exceeded 23 000 pesos in December, a level 160% higher than the official figure (see figure 2).

In short, the nominal exchange rate climbed from 500 pesos per dollar at the end of 1983 to 9 000 pesos at the end of 1984, which implied a rise of 1 700%.

In so unstable an atmosphere, inflationary pressures and speculation influenced the behaviour of the effective real exchange rate, which despite the successive devaluations dropped to its lowest levels since 1975 at least. The annual averages indexes of effective real exchange rate indexes contracted by about 27% both for exports and for imports (see table 15).

¹The essential area comprised essential goods, construction materials for low-cost housing and social infrastructure, medical and educational material and equipment, and inputs and capital goods for the traditional and non-traditional export sector and for the production and distribution of electricity and hydrocarbons.

²The implicit assumption was that the parity exchange rate would be close to the value of the dollar in the complementary market. It was also decided that the parity exchange rate would be fixed at fortnightly intervals.

³These certificates could be used for the payment of tax, tariff and other official obligations.

⁴This was a new category of financial assets.

The April devaluation prevented an accentuation of the downward movement of the effective exchange rate indexes, which already by the end of March had dropped approximately 10% in relation to their level in the last quarter of 1983. Nevertheless, the pace at which prices were rising made for a renewed and systematic deterioration of the indexes in the course of the second semester.

4. Evolution of prices and wages

a) Price trends

In 1984 inflation attained a four-digit rate. The twelve-month variation in the overall consumer price index was almost 2 200% in December (see table 16 and figure 3). All its components underwent similar increases; food and clothing prices went up by 2 400% and 2 200%, respectively, in approximate terms, while housing and other prices rose by about 2 000%. The average annual variation was close on 1 300%, almost five times as much as in 1983.

Table 15

BOLIVIA: EVOLUTION OF EXCHANGE RATES

	Nominal exchange rates (pesos per dollar)		Indexes of effective real exchange rate ^c	
	Official exchange rate ^a (buyers)	Parallel market exchange rate ^b (buyers)	Exports	Imports
1975	20	...	96.6	102.7
1976	20	...	102.8	108.4
1977	20	...	99.1	106.4
1978	20	...	102.8	110.3
1979	20	...	104.8	107.5
1980	25	...	100.0	100.0
1981	25	...	69.8	77.5
1982	99 ^d	153	115.5	133.8
1983	230	646	76.8	87.9
1984	2 174	8 278	56.3	63.3
1982				
I	41 ^d	46	93.5	104.3
II	69 ^d	90	118.9	134.6
III	117 ^d	197	121.2	144.6
IV	170 ^d	244	116.9	134.5
1983				
I	196	416	107.8	123.3
II	196	398	82.6	93.7
III	196	663	59.3	66.5
IV	331	1 108	60.1	67.9
1984				
I	500	2 400	53.8	61.2
II	1 786	3 217	76.4	84.8
III	2 000	8 075	56.0	62.2
IV	4 411	19 418	38.8	44.8

Source: Central Bank of Bolivia; ECLAC, on the basis of official statistics; and International Monetary Fund, *International Financial Statistics*.

^a Exchange rates used in the banking system for converting foreign currency into domestic currency. ^b Quarterly average exchange rate.

^c These are the indexes of the real official exchange rate for the peso *vis-à-vis* the currencies of trading partners, the latter, in turn, being weighted according to the relative size of exports or imports, as the case may be, to or from those countries. From 1975 to 1979 these weightings correspond to the average for the same years, and as from 1980 to the average for the period 1980-1983. In making the calculations wholesale price indexes have been primarily used. In Bolivia's case the consumer price index was used. With respect to the methodology and sources used, see the Statistical Appendix to ECLAC, *Economic Survey of Latin America*, 1981.

^d During the period March-October 1982 use was made of an exchange rate obtained from the average of the official rate (weighted 40%) and of the open market rate (weighted 60%).

Table 16

BOLIVIA: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Variations from December to December										
Consumer price index	6.0	5.5	10.5	13.5	45.4	23.9	25.1	296.5	328.5	2 177.2
Food	3.0	5.3	10.3	14.8	45.4	22.6	26.6	313.2	343.6	2 188.9
Wholesale price index	...	11.4	9.5	18.6	43.5	35.2	27.9	406.1	517.8	2 237.7
Imported products	...	14.5	14.1	24.5	27.9	36.4	37.2	543.0	693.0	2 312.7
Domestic products	...	...	...	...	...	...	...	...	...	...
Agricultural products	...	13.4	12.0	29.1	44.4	36.2	14.4	274.6	601.1	1 648.1
Manufactures	...	8.8	5.6	9.1	53.5	33.8	31.1	395.8	344.7	2 521.4
Variations between annual averages										
Consumer price index	8.0	4.5	8.1	10.3	19.7	47.2	32.1	123.5	275.6	1 281.3
Food	5.3	2.4	8.1	10.0	18.6	47.6	35.2	123.9	303.7	1 315.6
Wholesale price index	...	6.6	10.2	15.6	23.9	49.3	35.5	227.9	415.9	1 695.4
Imported products	...	8.4	15.1	23.6	18.0	35.6	43.8	342.4	488.6	1 969.1
Domestic products	...	...	...	...	...	...	...	...	...	...
Agricultural products	...	6.3	13.9	20.5	27.8	54.6	24.7	139.7	517.6	1 190.2
Manufactures	...	6.0	5.4	8.4	25.5	54.5	37.6	211.1	311.6	1 701.5

Source: National Statistical Institute and Central Bank of Bolivia.

In the wholesale price index the increases were even sharper (a cumulative total of almost 2 250% from December to December). It was the prices of manufactures that rose most steeply (2 520%); next came imported products (2 300%); on the other hand, prices of agricultural products increased much less (1 650%).

The rapid growth rate of prices was kept up during most of the year. Only in January and July did the monthly rate of variation in the overall consumer price index fall below 10%. Thus, the twelve-month variation in the overall consumer price index showed, in general, a vigorous upward trend (see figure 3).

Among the causes of the price increases were factors relating to the shortage of foreign exchange for import purposes, the size of the public sector deficit, wage increments, the decline in the product and, lastly, the scarcity of food and the boom in unregistered trade with other countries.

In conclusion, the higher growth rate of wholesale prices of industrial products abruptly lowered the parity with the agricultural sector. Thus, the parity index, after increasing by 50% in 1983, was reduced by more than 18%, reflecting a transfer of income from the agricultural to the industrial sector.

b) *Wages and salaries*

In analysing the wage policy pursued during 1984 it must be recalled that during the preceding year both the criteria established by the authorities and the general circumstances themselves in which the economy had to function led to what was described as "wage fever", in addition to a narrowing of the wage spread. Furthermore, the fact that wages were raised in accordance with the past rate of inflation and not with the predicted rate of price increases gave still more impetus to upward pressures.

March 1984 saw the expiry of the term fixed by the authorities themselves for the application of a sliding scale for the minimum wage, a practice introduced the year before and implying six-monthly increases in accordance with the cumulative variation in the consumer price index. It was stipulated that thenceforward wages should be reviewed every four months, in view of the galloping pace of inflation. From then onwards, moreover, the sliding scale was to be made applicable not only to the

Figure 3

BOLIVIA: CONSUMER PRICE INDEXES

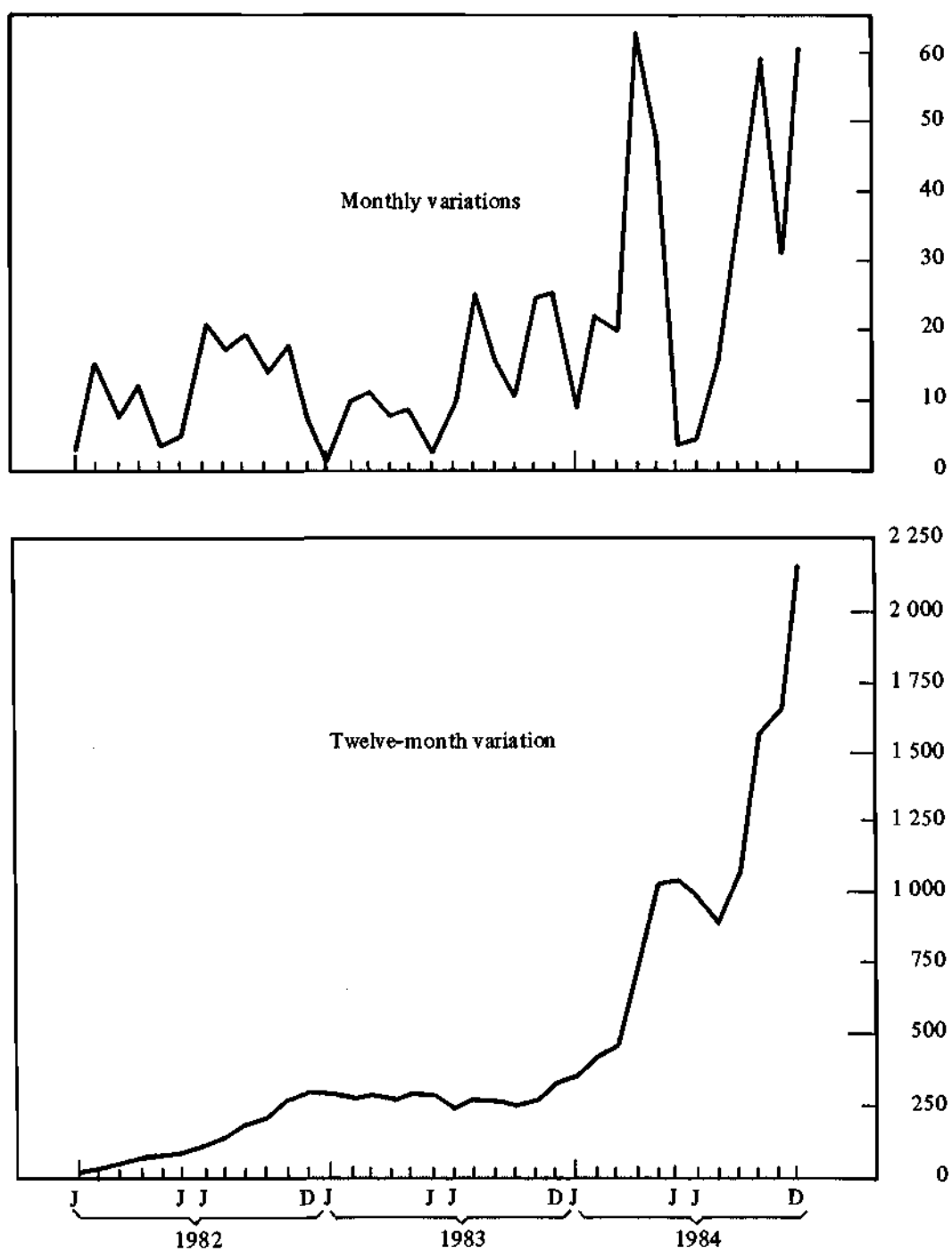


Table 17

BOLIVIA: EVOLUTION OF MINIMUM WAGES

(Pesos per month)

	Minimum wage nominal	Minimum wage real ^a
1982		
November-December	8 490	8 187
1983		
January-February	8 490	7 469
March-June	12 400	8 319
July-September	17 484	8 030
October-November	30 100 ^b	9 225
December	47 257	10 235
Annual average	18 874	8 416
1984		
January-March	47 257	7 735
April-July	108 691 ^c	6 536
August-October	123 813	3 968
November-December	935 000	11 599
Annual average	238 769	7 038

Source: ECLAC, on the basis of data supplied by the National Wages Commission (Comisión Nacional del Salario - CONASA) and the Analysis of Economic Policies Unit (Unidad de Análisis de Políticas Económicas - UDAPE).

^aThe base used for converting the nominal to the real wage was the consumer price index for the month of November 1982, at which time the value of the minimum wage was determined.

^bIn November a bonus of 22 500 pesos was added, payable on three occasions as from that month. ^cFor some days in the month of April, the minimum wage in force was the same as in March. The sum appearing in the table, however, corresponds to the adjustment which was effected in May, but was made retroactive to the 1 of April. In May, furthermore, a food allowance and another for transport were granted: the former for a sum of 35 723 pesos and the latter with variations depending upon the number of daily journeys to the place of work.

recipients of the minimum wage, but also to all wage-earning workers. It was also agreed that independent wage and salary increases, through agreements, arbitration, sectoral pacts, etc., should be taken into account in the overall increases granted through the four-monthly application of the sliding scale. It was also decided that in the future cost-of-living bonuses should be distributed, in whatever proportions were established, between a rise in each worker's monthly wage and a food allowance created *ad hoc*. Lastly, a review of wage curves and professional categories within the public sector was begun.

Early in April it was decided to maintain the minimum wage at the amount fixed in the previous December, adding two compensatory bonuses for workers in the public and private sectors. The first of these, a food allowance slightly exceeding 35 700 pesos,⁵ was granted in consequence of the rise in the price of certain essential goods.⁶ The amount represented by the transport allowance, in its turn, ranged from 5 480 to 14 080 pesos per month.⁷

The economic policy measures adopted in April affected the exchange rate, prices, wages, the monetary system, the fiscal system and the external sector. In face of the criticisms levelled at them by the trade unions and other organizations, the authorities had to open negotiations with the trade-union groups.

In May the wage measures decreed in April were rescinded. Workers in the public and private sectors were granted a rise in wages of 130%, and the food allowance became part of the minimum wage. The increase effectively granted was not 130%, but was equivalent to the difference between

⁵This sum was equivalent to US\$ 18 at the new exchange rate established in April.

⁶The amount of the allowance was to be readjusted every time there was a change in the price of one of the goods taken into consideration; it was to be paid independently of the monthly wage and in one year's time would be consolidated with the wage.

⁷The sum received varied in accordance with the number of journeys that each wage-earner had to make per day to reach his place of work.

the minimum wage, excluding the food allowance, and the sum resulting from consolidation of the allowance. The new minimum monthly wage was fixed at almost 110 000 pesos⁸ (see table 17).

In August, as a result of the four-monthly review of the sliding scale, a new wage increase had to be introduced, which this time amounted to 14%. As a result, the minimum wage for workers in the public and private sectors was fixed at almost 124 000 pesos; a similar percentage was accorded to other workers whose wages were above the minimum.

The cumulative rate of inflation between April and July was 162%, but as in that quarter a wage increase of 130% had been granted, only the difference was allowed, i.e., 14%. In the second place, it was stressed that the partial increases obtained between April and July should be considered as advances on what was then being approved.

In principle, the next wage review was not supposed to be carried out until December. But the trade-union pressures which were unleashed by the exchange and pricing measures adopted in mid-November made it necessary to decree new wage increases for workers in the public and private sectors. The minimum monthly wage was raised to nearly 410 000 pesos, a sum equivalent to US\$ 45 at the new exchange rate adopted at the time. Other wage-earners were granted an escalated increase, in order to maintain wage and salary differentials in keeping with professional categories. Lastly, in the face of further increases in the prices of some essential articles, an additional increment of 33% was granted for all workers, public and private, on the basis of the wage resulting from the adjustment that had been decided upon on this occasion. It was stipulated that this increase would be regarded as an advance on the next adjustment for which the application of the sliding scale provided.

However, in the days immediately following the promulgation of the corresponding decrees it was agreed to replace the aforesaid 33% increase by a fixed sum of about 399 000 pesos, which, added to the minimum wage, gave a total of about 800 000 pesos per month as the lowest income that workers in general could receive.

Early in December, the amount of the food allowance was again reviewed and raised to 527 145 pesos, with the result that the minimum monthly wage was 935 000 pesos. This adjustment came into force retroactively to 1 November. It was decided to reconstruct wage curves on the basis of this minimum wage, an effort being made to maintain the relative differences between the various professional categories.

The wage increases approved during the second half of the year generated distortions in the workings of the economy, since the wage increment was bigger than the rise in prices. Thus, between 1 August and 1 December the minimum wage went up by 655%, whereas the overall consumer price index did so by only 362%. The introduction into the economic system of a quantity of money

Table 18

BOLIVIA: MAIN MONEY INDICATORS

	End-year balance (billions of pesos)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Monetary base	16.2	63.7	194.8	3 336.1	18.3	293.2	205.8	1 612.5
Money (M ₁)	17.2	56.6	175.1	3 377.6	21.1	229.0	209.4	1 828.9
Quasi-money	12.4	41.9	90.9	891.2	40.9	237.9	116.9	880.4
Money plus quasi-money (M ₂)	29.6	98.5	266.0	4 268.8	28.1	232.7	170.0	1 504.8
Domestic credit	40.9	184.4	507.5	4 864.6	25.5	350.8	175.2	858.5
To the public sector	16.9	88.1	292.5	2 525.2	27.1	421.3	232.0	763.3
To the private sector	24.0	96.3	215.0	2 339.4	24.3	301.3	123.3	988.1

Source: Central Bank of Bolivia.

^aProvisional figures.

⁸The new agreements were made retroactive to the first of April. To give an approximate idea of the complexity this matter has acquired, suffice it to note that in April and May as many as three different agreements on wages came into force.

Table 19

BOLIVIA: STRUCTURE OF ANNUAL BANK INTEREST RATES^a

(Percentages)

	1981	1982	1983	1984
Loans				
Comercial and private activities				
Maximum effective nominal rate ^b	31.6	45.0	60.3	127.6
Real rate	...	-35.1	-57.3	-83.5
Productive activities				
Maximum effective nominal rate ^b	31.4	43.0	58.3	125.6
Real rate	...	-36.0	-57.8	-83.6
Deposits				
Savings bank deposits				
Minimum nominal rate	21.6	28.6	37.8	87.6
Real rate	-7.9	-42.5	-63.3	-86.4
Fixed-term deposits in domestic currency				
Minimal nominal rate	22.6	28.8	39.8	108.3
Real rate	-7.2	-42.4	-62.7	-84.9

Source: Central Bank of Bolivia.

^a Average annual rates of interest.^b Includes some taxes for the benefit of the Treasury and the universities.

equivalent to the rise in wages as a whole generated price increases and a significant resurgence of demand for dollars in the non-official market; hence the exchange rate rose sharply, and this in turn generated further inflationary pressures.

In short, despite the fact that the average nominal minimum wage rose in the course of the year by 1 165%, its real value deteriorated by over 16%.

Furthermore, as the rate of increase of prices was very rapid almost throughout the year, average real minimum wages suffered a persistent decline. Thus, in the period August-October they were practically 50% lower than in the first quarter. Nevertheless, in the two-month period November-December, thanks to the large wage increases approved, not only was this behaviour reversed, but the average real minimum wage reached its highest level since 1982.

5. Monetary and fiscal policies

a) *Evolution of the means of payment*

Management of the main monetary variables was hampered by the magnitude of the macroeconomic disequilibria. Thus, the monetary base was enlarged by rather over 1 600%, which meant that the already inordinately high 1983 rate (300%) was more than quintupled. Because of this rapid acceleration, the money supply (M_1) expanded still more (1 830%). As quasi-money, in its turn, increased by 880%, the aggregate money supply (M_2) grew by slightly more than 1 500% (see table 18).

These astronomical increases had their origin in the difficulties experienced by the monetary authority in controlling the factors of expansion of the means of payment. Domestic credit increased by almost 860%, similar proportions being channelled to the public sector (52%) and to the private sector (48%). The funds placed at the disposal of the public sector in its entirety rose by somewhat more than 760%, and those granted to the private sector by almost 1 000%.

The commercial banking system's effective nominal interest rates on both loans and deposits were raised on one occasion during the year from 70% and 45% per annum, respectively, to around 155% in the first case and 110-140% in the second. Their real deterioration, however, was enormous.

Indeed, the real effective interest rates charged by the banking system on the credits granted for commercial or productive activities proved negative, their annual average hovering around -83%. Nor did the maintenance of fixed-term deposits in savings banks hold out any attraction for private persons, since the real rate of interest they received was -85% (see table 19).

Accordingly, the cash/deposits coefficient, which at the end of 1983 had been a little below 2.5, was almost trebled.

The rates of reserve required in the case of money deposits in national savings banks, as well as those corresponding to fixed-term deposits in domestic currency in foreign and national banks, were reduced by 5 and 27 percentage points. On the other hand, no change was made in the obligatory reserves for sight, time, fixed-term and savings banks deposits, made independently in domestic or foreign currency and placed in national or foreign banks.

b) *Central government income and expenditure*

In much the same way as in preceding years, in 1984 a significant part of the macroeconomic disequilibria stemmed from the behaviour of the public sector.⁹

The traditional maladjustment between current income and total expenditure became more marked. The gap was financed primarily by means of credit granted by the Central Bank, with the result that further inflationary pressures were added to those already existing.

Table 20

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Billions of pesos				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Current income	14.0	19.2	46.9	555.9		37.2	144.3	1 085.3
Inland revenue	5.1	7.9	22.5	221.6	13.3	54.9	184.8	884.8
Customs revenue	3.1	3.8	5.8	122.8	24.0	22.6	52.6	2 017.3
Mining royalties	0.9	1.7	1.6	123.9	-47.1	88.8	-5.8	7 643.7
Petroleum royalties	2.4	4.2	4.5	60.1	33.3	75.0	7.2	1 235.5
Other income	2.5	1.6	12.5	27.5	127.3	-36.0	681.3	120.0
Total expenditure	24.2	130.2	356.1	7 264.8	12.5	438.1	173.5	1 940.1
Personal services	11.9	23.5	77.8	1 068.6	22.6	97.4	231.1	1 273.5
Non-personal services	1.1	2.6	4.7	56.8	22.2	136.4	80.8	1 108.5
Materials and supplies	2.5	3.3	10.5	121.7	66.6	32.0	218.2	1 059.0
Fixed and financial assets	1.6	1.6	5.5	102.1	23.1	-	243.7	1 756.4
Public debt	3.1	75.9	171.7	125.5	-18.4	2 348.4	126.2	-26.9
Transfers and contributions	2.7	5.9	30.7	419.8	8.0	118.5	420.3	1 267.4
Other expenditure	1.3	17.4	55.2	5 370.3	-18.7	1 238.5	217.3	9 628.8
Deficit	10.2	111.0	309.2	6 708.9	5.2	988.2	178.5	2 069.7
Main percentage ratios								
Deficit/total expenditure	42.2	85.3	86.8	92.3				
Deficit/gross domestic product	6.6	28.5	23.2	35.3				
Current income/gross domestic product	9.2	4.9	3.5	2.9				
Total expenditure/gross domestic product	15.8	33.5	26.7	38.2				

Source: Central Bank of Bolivia.

^aProvisional figures.

⁹However, the data available related only to the central government, which in the last few financial years collected approximately 30% of the consolidated public sector's total revenue and effected about 40% of total disbursements.

Table 21

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of pesos at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Current income	1 898	1 166	755	647	-9.7	-38.6	-35.2	-14.3
Inland revenue	685	480	362	258	-13.8	-29.9	-24.6	-28.7
Customs revenue	425	229	93	143	-7.0	-46.1	-59.4	53.7
Mining royalties	120	107	25	144	-62.0	-10.8	-76.6	476.0
Petroleum royalties	325	253	73	70	-1.5	-22.2	-71.1	-4.1
Other income	343	97	202	32	67.3	-71.7	108.3	-84.2
Total expenditure	3 276	7 862	5 725	8 450	-14.6	139.9	-27.2	47.6
Personal services	1 609	1 419	1 251	1 243	-6.9	-11.8	-11.8	-
Non-personal services	155	155	76	66	-8.3	-	-50.9	-13.2
Materials and supplies	342	202	169	142	26.6	-40.9	-16.3	-15.9
Fixed and financial assets	216	94	87	119	-10.0	-56.5	-7.4	36.8
Public debt	417	4 584	2 760	146	-38.7	999.2	-39.8	-94.7
Transfers and contributions	361	357	494	488	-20.6	-1.1	38.4	-1.2
Other expenditure	177	1 052	888	6 246	-39.6	494.4	-15.6	603.4
Deficit	1 378	6 696	4 970	7 803	-20.5	385.9	-25.7	57.0

Source: ECLAC, on the basis of official data.

^a Provisional figures.

In nominal terms, current income increased elevenfold. It was income deriving from mining royalties that went up most (by almost 7 650%), after which came income from customs revenue (2 000%) and from petroleum royalties (1 200%). Inland revenue rose by almost 900% (see table 20).

Notwithstanding the substantial increments in central government income, its outlays, expressed in current values, increased far more. Thus, total expenditure shot up by over 1 900%, which meant that it was approximately 300 times as high as in 1981 (see table 20).

With the exception of service payments on the public debt, all other components increased by over 1 100%, while the item termed "Other expenditure" did so by as much as 9 600%.

As a result of the dissimilar evolution of income and expenditure, the central government deficit expanded by over 2 050%, so that it was about 650 times larger than in 1981. The deficit/total expenditure ratio thus rose above the almost incredible level of 92%. In its turn, the deficit/gross domestic product coefficient went up to 35%, five times as much as in 1981.

Figures expressed in terms of currency at constant prices give a still more exact idea of the public finances situation. Central government current income decreased for the sixth year in succession, this time by 14%. Thus it amounted to one-third as much as in 1981.

This drastic decrease is attributable to the decline of inland revenue and the abrupt contraction in "other income". The former, dropping by almost 29%, sank to its lowest value since at least 1967; while the latter lost much of the increase obtained in the preceding year.

In contrast to what happened in the case of income, an expansion of almost 50% in real total expenditure easily outweighed the decrease noted in 1983. An increase on such a scale was possible because "other expenditure" rose by over 600%, whereas purchases of fixed and financial assets did so by 37%. Other items underwent significant setbacks (see table 21).

Owing to the dissimilar behaviour of real income and expenditure, the deficit —also measured in 1970 pesos— increased by 57%, which more than offset the contraction in the year before and was added to the great expansion of over 380% recorded in August 1982.

BRAZIL

1. Recent economic trends: Introduction and summary

The performance of the Brazilian economy in 1984 was in general satisfactory in comparison with the meagre results of the three preceding years. The chief improvements were the recovery of growth and the notable dynamism of the external sector, although high interest rates and the financial difficulties of the public sector continued to have adverse effects. The declining trend observed during the three preceding years in the employment levels of the formal sector and in wages and salaries was halted.

Nevertheless, the economic deterioration recorded in various sectors during the prolonged period of depression was so great that it could hardly be surmounted in a short time. Special mention must be made of the problems arising from the heavy indebtedness of the public corporations and certain private enterprises, the difficulties of the financial system which compelled the Central Bank to intervene in certain institutions of the sector, and the persistence of high levels of urban marginality. The results of 1984 were promising, but it cannot be claimed on this account that the country has now surmounted the profound economic and social crisis in which it was submerged at the beginning of the decade.

The gross domestic product expanded by 4.5%, recovering from a fall of somewhat more than 3% the previous year. For the first time in the course of the decade the level of activity exceeded that of 1980, before the onset of the recession. The per capita product went up by around 2%, after three successive years of decline in which the cumulative deterioration was over 10% (see table 1 and figure 1).

The growth of the product was largely due to the recovery (6%) of the manufacturing industrial sector, after a fall of equal magnitude the previous year. In the agricultural sector, moreover, production of most of the crops was favourable after the heavy losses caused by the adverse climatic conditions in the previous season. There was a slight upturn in construction after three years of pronounced contraction. Mining was once again notably successful as a result of the extraordinary dynamism of petroleum production on the continental shelf. Lastly, the trend of services was similar to that of the goods-producing activities as a whole.

Gross national income grew (4.4%) at the same rate as the product (see table 2). This was due, on the one hand, to the fact that, after six years of continuous decline, the terms of trade improved as a result of a rise in the quoted prices of some important export items (coffee, cocoa, soya, orange juice) and of the fall in the price of petroleum. On the other hand, there was only a slight rise in net factor payments, since the rate of expansion of the external debt went down and external interest rates remained stable.

The evolution of the external sector was very favourable. The exceptional dynamism of exports and the fall in purchases from abroad produced a surplus of US\$ 11.3 billion in the trade in goods and services: almost three times that recorded in the previous year. The striking dynamism of exports confirmed Brazil's high potential for penetrating external markets, especially as regards manufactured goods, and this was undoubtedly the main cause of the growth of the economy and especially of the industrial sector. The persistence in the fall of imports, for its part, despite the recovery of domestic activity levels, was mainly due to the efforts made in import substitution, especially in the energy field.

This adjustment of the external sector resulted in a positive balance of approximately US\$ 170 million on the balance-of-payments current account: a phenomenon which had not occurred for almost two decades. Thanks to this and to the more continuous procurement of domestic resources, it was possible to normalize the fulfilment of commitments with external banks. At the same time, international reserves were built up to the amount of US\$ 7 billion, which made good the fall recorded

during the financial crisis of the second half of 1982. Nonetheless, some negative facets persist in the balance of payments, especially the excessive weight of the servicing of the debt.

In contrast, no progress was made in the fight against inflation. The increment (224%) in the general price index in terms of domestic availability¹ was somewhat higher than that of the previous year. In contrast to what happened in 1983, however, there were no significant variations in the relative prices of the different types of goods. Supply problems did not arise in respect of staple

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (billions of 1970 dollars)	94.4	100.4	107.6	105.9	106.9	103.5	108.2
Population (millions of inhabitants)	115.9	118.6	121.1	124.1	126.9	129.8	132.7
Per capita gross domestic product (1970 dollars)	814	847	887	854	843	798	816
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.0	6.4	7.2	-1.6	0.9	-3.2	4.5
Per capita gross domestic product	2.6	4.0	4.8	-3.8	-1.3	-5.3	2.2
Per capita gross national income	1.7	3.4	3.8	-5.7	-2.6	-5.6	2.1
Unemployment rate ^b	...	...	6.3	7.9	6.3	6.7	7.1
Consumer prices ^c							
December to December	38.1	76.0	86.3	100.6	101.8	177.9	208.7
Variation between annual averages	38.6	52.7	82.8	105.6	98.0	142.0	196.7
Wages ^d	50.4	57.7	92.5	117.1	114.3	117.2	195.1
Money	42.2	73.6	70.2	74.7	69.7	92.0	203.5
Current income of government	43.8	46.0	139.2	85.4	104.2	145.5	198.1
Total expenditure of government ^e	...	...	126.3	101.1	89.4	123.7	...
Fiscal deficit/total government expenditure	...	40.0	36.5	41.5	36.9	25.2	...
Current value of exports of goods and services	5.1	22.3	30.8	16.8	-13.9	7.5	22.8
Current value of imports of goods and services	12.6	31.7	27.9	-2.1	-9.0	-21.1	-9.7
Terms of trade (goods and services)	-11.9	-7.3	-13.5	-13.1	-4.4	-2.6	6.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-2 830	-5 019	-5 935	-1 677	-2 795	4 078	11 354
Net payment of profits and interest	-4 233	-5 461	-7 032	-10 273	-13 495	-11 007	-11 360
Balance on current account	-7 039	-10 482	-12 848	-11 760	-16 314	-6 840	166
Balance on capital account	11 666	7 582	9 379	12 381	11 119	4 945	5 065
Variation in international reserves	4 640	-2 860	3 322	747	-4 157	-1 214	5 636
Total external debt	...	...	...	71 878	83 205	91 362	102 443

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bWeighted average of the rates of the main metropolitan regions.

^cConsumer price indexes in Rio de

Janeiro.

^dAverage nominal wage in industry.

^eIncluding financial expenses in respect of the public debt, except redemptions of

securities.

¹The general domestic price index, in terms of domestic availability, is derived from the sum of three indexes with the following weightings: wholesale price index, 60%; consumer price index in Rio de Janeiro, 30%; and index of construction costs in Rio, 10%.

products of mass consumption, nor was there an appreciable increase in the real exchange rate. The persistence of high inflation rates, despite the fact that most of the unfavourable exogenous factors of the previous year had disappeared, was due to the existence of a generalized indexation system, which introduces a marked inertia into the behaviour of prices.

The average unemployment rate in the main cities increased slightly to over 7%. The expansion of employment was somewhat higher than 2%, but this was lower than the growth rate of the labour force (3%). Employment in manufacturing showed a positive variation, but much below that of the product of the sector. This phenomenon is attributable to the greater productivity of the manufacturing enterprises, mainly private, as a result of the adjustments made since the beginning of the recession. This improvement in productivity was one of the factors responsible for the notable dynamism of exports of manufactured goods.

Economic policy remained basically subject to the criteria stipulated in the adjustment plan adopted by the government at the end of 1982 with the financial support of the International Monetary Fund. As in the preceding year, this was characterized by its ambivalence, for it was active in particular areas such as taxation, credit and the handling of the public debt, but in others, on the other hand, it remained passive, as in the case of financial control of State enterprises and of subsidies. This latter behaviour was due to the impossibility of implementing a definite set of measures with clear priorities. Thus, economic policy remained subject in practice to a multiplicity of objectives, which in many cases led to the adoption of contradictory measures.

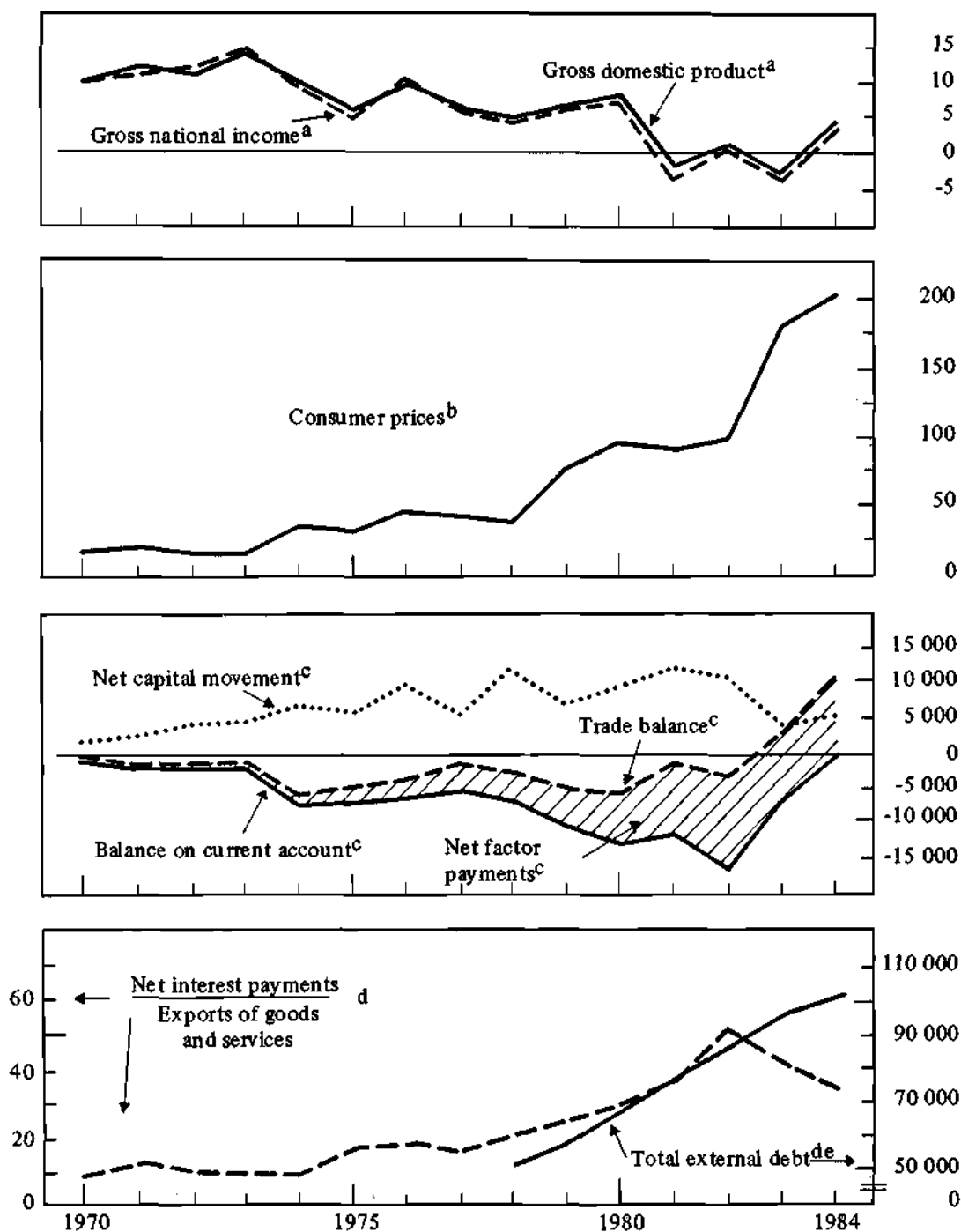
With regard to exchange policy, the basic line established the previous year was maintained. This consisted in the periodic adjustment of the exchange rate in relation to the United States dollar in accordance with the variation of the general domestic price index. The cumulative rise in the exchange rate in 1984 was therefore around 220%, a figure which was somewhat higher than that of consumer prices. Nonetheless the cruzeiro finally stood at a level representing a revaluation of 4% *vis-à-vis* a basket of currencies of the main trading partners of Brazil, as a result of the appreciation of the dollar in relation to the currencies of the remaining industrialized economies and the real devaluations in some Latin American countries.

The anti-inflationary policy was faced with serious restrictions in consequence of the generalized indexation system existing in the country, according to which there was a periodic and frequently increasing readjustment of the monetary values of most of the commitments of the private and public sectors, taking as reference the variation in domestic prices. The main concepts subject to readjustment are the exchange rate, the assets and liabilities of the financial system, personal wages and salaries, rents and legal debts. Recently, the value of many contracts has even been expressed in terms of Readjustable Obligations of the National Treasury (ORTN), which has meant the introduction of an automatic monthly readjustment. At the same time, the greater frequency of the devaluations of the cruzeiro helped to reduce the readjustment periods of the variables included in the indexation system.

These restrictions, in addition to the problems encountered by the authorities in the management of fiscal policy, compromised the stabilization programme. Furthermore, wages policy, which the previous year had been one of the main instruments for the control of inflation, lost force and ceased to be a significant factor at the end of the year. Likewise, the policy of price control became weaker in 1984, and there was also a reduction in the subsidies on the consumption of certain essential goods. As a result the anti-inflationary strategy was in practice limited to readjustments to the prices and tariffs of goods or services supplied by public enterprises, whose increases were lower than the evolution of the general price index, with the exception of liquid fuels.

The wage policy of 1984 was defined the previous year after difficult negotiations in the National Congress, which refused to approve a readjustability mechanism that did not consider the total variation of the national consumer price index. In accordance with the system which was finally adopted, wages and salaries in excess of three minimum wages were subject to readjustments below the increase of prices. During the year this wage policy encountered opposition from the unions, and many enterprises granted increases above those that had been laid down. In October, therefore, the wage policy was modified and an 80% readjustment was adopted for the income brackets which exceeded three minimum wages, but subject to the right to raise this percentage to 100% through free negotiation between workers and employers. The minimum wage continued to be fixed every six months in accordance with the variation in consumer prices at the national level. It was at the same

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bThe December-December percentage variation up to 1979 was based on the consumer price index for Rio de Janeiro and from 1980, for the whole country.

^cMillions of dollars.

^dPercentages.

^eIncludes the total medium- and long-term debt, plus the short-term debt with financial institutions reporting to the Bank for International Settlements. Hence this series differs from that presented in table 25.

Table 2

BRAZIL: EVOLUTION OF THE GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	99 828	99 893	96 448	100 679	-3.6	0.1	-3.4	4.4
a) Gross domestic product	105 938	106 923	103 541	108 200	-1.6	0.9	-3.2	4.5
b) Terms-of-trade effect	-3 595	-3 573	-4 224	-4 535				
c) Net factor payments to the exterior	2 562	3 454	2 897	3 032	33.3	34.8	-16.1	4.7
d) Net private transfer payments received from the exterior	47	-3	28	46				

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

time standardized for the whole of the country, so that wages in the Northeast region, which had previously been the lowest, received increments above the level of price increases.

The easing of wages policy was facilitated by the improvement of productivity in industry. In practice the real average wage in this sector remained stable after its sharp fall in the previous year. In the public sector, on the other hand, there was a further fall in real wages, since the criteria of government policy were applied more strictly.

The management of fiscal policy once again encountered heavy restrictions. There was a sharp drop in fiscal revenue, while the containment of public expenditure did not achieve the results expected by the authorities. The control of expenditure was only effective in the case of wages and salaries and the implicit subsidies granted through credit, which fell substantially in real terms. On the other hand, disbursements for the servicing of the debt and certain subsidies, such as those destined for the production of sugar cane and alcohol, showed a pronounced increase, which more than offset the reduction achieved in the two aforementioned items.

Taxation policy was very active during 1984, since the government tried to achieve a major increase in fiscal revenues, especially those derived from income tax. Although an appreciable increase in the collection of this tax was achieved, the global income suffered a fall of 7% in real terms. This was due to the fact that domestic sales, which represent the main source of taxation, remained depressed, while external sales, as in previous periods, contributed very little to fiscal revenues, owing to the prevailing system of fiscal incentives for exports.

In operational terms, i.e., excluding disbursements in respect of the monetary or exchange-rate correction of external and internal financial obligations, the fiscal accounts showed a surplus equal to 0.2% of the gross domestic product. On the other hand, from a nominal standpoint, i.e., taking all expenditure into account, these accounts showed a deficit equal to 20% of the product, which exceeded the percentage corresponding to 1983 and was far above the limit predicted in the agreements with the International Monetary Fund. This rise in the nominal deficit was due to the negative weight of the high level of indebtedness, as a result of which the financial situation of the public sector remained extremely straitened.

In view of the difficult situation of the fiscal accounts, the management of the monetary policy became very complex. Operations on the "open market" were fully utilized in the course of the year with the withdrawal from circulation of around 10 000 billion cruzeiros, a figure equivalent to around 70% of the average value of currency outside banks. This partly neutralized the marked expansion provoked by the accumulation of international reserves and the financing of the deficit of the public sector. Nonetheless, it was not feasible to control the expansion of the monetary variables. In fact, both the growth of the monetary base and that of the means of payment far exceeded the projections made at the beginning of the year.

The difficulties encountered by the monetary authorities were also due to the fact that they had to assume responsibility for the payment of various matured external-debt commitments of the public enterprises and to support the official banks, which suffered serious liquidity problems during the year. For these two latter concepts it was necessary to issue 10 300 billion cruzeiros, an amount somewhat higher than that obtained by the net placement of public-debt securities.

2. Trends in economic activity

a) *Total supply and demand*

Total supply grew by close on 4% during 1984, thus recovering part of the loss accumulated in the three preceding years (see table 3). The increase in supply was due solely to the expansion of the gross domestic product, since the volume of imports fell by 8%, maintaining the sharply declining trend of the three previous years. Hence the import coefficient once again declined, reaching its lowest level in the last twenty years.

The volume of exports of goods and services, on the other hand, recorded a vigorous increase of 18%. This strengthened the dynamic trend observed since 1968, a period in which the volume of external sales fell only in 1982 and their annual average growth rate has been over 10%. Exports were indeed the most dynamic variable in the economy, contributing around 1.7% to the growth of the gross domestic product.

The components of domestic demand evolved favourably, with the exception of government consumption, which stagnated. In 1983, on the other hand, all the variables had decreased. The best performance corresponded to gross fixed investment, which increased by around 5%. Nevertheless, this rise was far from compensating for the sharp falls in previous years. Thus the investment coefficient remained practically at the same level as in 1983, when it had been the lowest in the last 30 years. The rise in capital formation was mainly due to investment in machinery and equipment, which rose by 11%. There was only a slight increase in investment in construction, which consequently remained at the low level recorded in previous years. Finally, private consumption rose only slightly, in consonance with the trend of wages and salaries.

b) *Growth of the main sectors*

In 1984 the goods-producing sectors grew by a little over 5%, thus compensating for their fall in the previous year. This change was due to the continuing growth of exports of agricultural products, minerals and manufactured goods, as well as to the favourable harvests. Both factors

Table 3

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	113 254	108 676	112 909	108.6	107.0	104.4	-2.2	0.5	-4.0	3.9
Gross domestic product at market prices	106 923	103 541	108 200	100.0	100.0	100.0	-1.6	0.9	-3.2	4.5
Imports of goods and services ^b	6 331	5 135	4 709	8.6	7.0	4.4	-10.6	-6.7	-18.9	-8.3
Total demand	113 254	108 676	112 909	108.6	107.0	104.4	-2.2	0.5	-4.0	3.9
Domestic demand	104 065	48 245	100 634	102.2	99.5	93.1	-4.0	1.3	-5.6	2.4
Gross domestic investment	23 854	19 560	20 475	32.1	27.4	18.9	-12.0	-4.0	-18.0	4.7
Gross fixed investment	14 975	12 731	12 897	14.3	14.5	11.9	-4.2	0.2	-15.0	1.3
Construction	8 879	6 829	7 578	2.9	1.2	7.0	-21.7	-10.3	-23.1	11.0
Machinery	8 879	6 829	7 578	2.9	1.2	7.0	-21.7	-10.3	-23.1	11.0
Changes in stocks	80 211 ^c	78 685 ^c	80 159 ^c	70.1	72.1	74.2 ^c	-1.2 ^c	3.0 ^c	-1.9 ^c	1.9
Total consumption	80 211 ^c	78 685 ^c	80 159 ^c	70.1	72.1	74.2 ^c	-1.2 ^c	3.0 ^c	-1.9 ^c	1.9
Exports of goods and services ^b	9 189	10 431	12 275	6.4	7.5	11.3	22.7	-7.7	13.5	17.7

Source: ECLAC, on the basis of figures supplied by the National Accounts Centre of the Getúlio Vargas Foundation.

^aPreliminary figures.

^bThe figures on exports and imports of goods and services were obtained from balance-of-payments data in current dollars converted to constant 1970 values by means of price indexes calculated by ECLAC for the purpose.

^cChanges in stocks included in total consumption.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	89 994	87 163	91 071	100.0	100.0	100.0	-1.6	0.9	-3.2	4.5
Goods	40 221	38 074	40 146	44.5	44.2	41.6	-3.5	-0.3	-5.3	5.4
Agriculture	8 584	8 774	9 149	9.8	8.8	9.5	6.4	-2.5	2.2	4.3
Mining	653	748	952	0.7	0.6	1.0	0.2	6.7	14.5	27.3
Manufacturing	25 348	23 760	25 190	27.9	28.6	26.1	-6.5	0.2	-6.3	6.0
Construction	5 636	4 792	4 855	6.1	6.2	5.0	-4.3	0.2	-15.0	1.3
Basic services	9 713	9 941	10 721	7.7	9.6	11.1	1.1	5.8	2.4	7.9
Electricity, gas and water	2 880	3 104	3 439	2.2	2.8	3.6	3.4	6.3	7.8	10.8
Transport, storage and communications	6 833	6 837	7 282	5.5	6.8	7.5	0.2	5.6	0.1	6.5
Other services	44 772	44 263	...	47.8	46.2	...	0.8	1.7	-1.1	...
Commerce	14 987	14 460	14 980	17.1	16.3	15.5	-2.8	1.0	-3.5	3.6
Financial institutions, insurance and real estate, and business services	14 897	15 159	...	14.3	14.4	...	5.8	3.7	1.8	...
Community, social and personal services	14 888	14 644	...	16.4	15.7	...	-	0.6	-1.4	...
Government services	6 809	6 809	...	8.5	7.0	...	-	2.5	-	...

Source: ECLAC, on the basis of figures supplied by the National Accounts Centre of the Getúlio Vargas Foundation.

^a Preliminary figures.

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

stimulated the expansion of the industrial sector, which grew by 6%, although still not recovering its 1980 levels. On the other hand, with the exception of agricultural machinery, the industrial branches directed to the domestic market stagnated because of the negligible growth of demand (see table 4).

The expansion in the output of goods in turn promoted growth in the service-producing sectors, with particular emphasis on electricity, gas and water, whose growth rate of close on 11% was similar to that recorded in the 1970s.

i) *The agricultural sector.* The growth of slightly over 4% in the agricultural product was due to the increase in crop-farming production, which amply compensated for the fall in livestock production (see table 5).

This occurred despite the fact that the harvest of coffee—one of the most important crops—fell by 19%. The adverse climatic conditions and the spread, in some regions, of the practice of growing coffee in conjunction with maize caused a fall of 25% in the average productivity per hectare.

The remaining crops, primarily destined for export, had a favourable year. Stimulated by the recovery of international prices during the sowing period, the soya harvest surpassed its record of 1980. The area cultivated amounted to 9.4 million hectares (16% more than in 1983), but the effects of the expansion were neutralized in part by the relative shortage of rain and the unsuitability of the seeds and farming techniques used, especially in the new areas,² with the result that there was a fall of 8% in the yield.

There was a marked increase of 14% in the orange crop, continuing the rapid growth observed from the middle of the past decade. The area cultivated expanded, reflecting the rise in international prices deriving from losses in United States production. The main cause of the greater output,

² Around 80% of the expansion in the cultivated area between 1977 and 1984 is due to land situated in the States of Mato Grosso and Goiás, which are regions only recently incorporated into market agriculture.

however, was the rise of 13% in the yield per hectare generated by the improvement of cultivation techniques.

Cotton production expanded even more markedly (35%). Contributing to this result was the enlargement of the area planted with herbaceous cotton (24%) and the return of the rains in the Northeast, which contributed to a considerable increase in productivity.

There was also interesting growth in sugar-cane output (close on 12%), which must be attributed to the incentive given to this traditional export crop as an input in the production of alcohol as a motor-vehicle fuel for domestic consumption. Average productivity continued to rise (27% in recent years), as did the area planted, which has become increasingly concentrated in the State of São Paulo.

With the exception of wheat and yuca, the crops destined mainly for domestic consumption recovered their normal levels after the fall in the harvests of 1983.

The recovery of the rice crop, especially in the States of Rio Grande do Sul and Maranhao, was due to the favourable climatic conditions and to the good prices obtained by producers in the second

Table 5

BRAZIL: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of the agricultural product (1970 = 100)	136.0	170.0	176.3	180.3	188.0	6.4	-2.5	2.2	4.3
Production of main crops (thousands of tons)									
Export crops									
Coffee beans	2 545	2 122	1 854	3 331	2 706	91.5	-54.4	79.7	-18.8
Soya	9 893	15 156	12 835	14 582	15 537	-1.0	-14.5	13.6	6.5
Oranges ^b	31 566	54 459	57 939	58 661	66 858	4.6	1.7	1.2	14.0
Sugar cane	91 525	148 651	186 392	216 534	241 518	4.9	19.5	16.2	11.5
Cocoa	282	319	364	380	346	5.3	8.3	4.6	-8.9
Tobacco	286	405	422	395	415	-1.9	15.6	-6.2	5.1
Cotton	1 748	1 673	1 935	1 599	2 161	3.5	11.7	-17.1	35.1
Peanuts	442	483	317	284	248	-26.5	-10.7	-10.4	-12.7
Castor beans	354	281	192	172	225	3.9	-34.2	-10.8	30.8
Crops for domestic consumption									
Rice	7 782	9 776	9 716	7 741	9 023	-15.8	18.1	-20.3	16.6
Beans	2 282	1 968	2 906	1 587	2 621	18.9	24.1	-45.4	65.2
Maize	16 839	20 372	21 865	18 744	21 174	3.6	3.5	-14.4	13.0
Cassava	26 118	23 466	24 009	21 568	21 275	5.7	-3.2	-10.2	-1.4
Potatoes	1 655	1 940	2 148	1 818	2 210	-1.5	12.3	-15.3	21.6
Tomatoes	1 050	1 535	1 737	1 552	1 791	-5.4	19.6	-10.7	15.4
Wheat	1 788	2 702	1 849	2 236	1 830	-18.2	-16.3	20.9	-18.2
Selected livestock production (thousands of tons)									
Beef	1 790	2 084	2 393	2 441	2 246	1.2	12.9	2.0	-8.0
Pork	496	699	622	654	574	1.1	-12.0	5.1	-12.2
Mutton and goat meat	20	16	16	16	...	-6.3	6.7	-	...
Poultry meat	373	914	1 170	1 218	1 124	13.9	12.4	4.1	-7.7
Milk	7 708	9 945	10 366	10 729	...	8.3	-3.8	3.5	...

Source: Brazilian Geographical and Statistical Institute (IBGE), *Levantamento sistematico da produção agrícola*, December 1984.

^aPreliminary figures.

^bMillions of units.

Table 6

BRAZIL: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1981	1982	1983	1984 ^a	Growth rates				
								1980	1981	1982	1983	1984 ^a
Index of mining production (1970 = 100)	100.0	147.6	187.3	187.7	200.2	229.2	291.7	12.6	0.2	6.7	14.5	27.3
Production of important minerals (millions of tons)												
Oil ^b	9.7	10.0	10.6	12.4	15.1	19.1	26.8	9.3	17.3	21.8	26.9	40.2
Natural gas ^c	1.3	1.6	2.2	2.5	3.0	4.0	4.9	15.5	13.1	21.3	32.5	22.2
Coal	5.2	6.3	16.0	17.4	19.2	21.4	23.1	14.8	8.8	10.0	11.7	8.2
Iron ore	36.4	89.9	114.7	99.5	93.9	89.2	113.0	19.3	-13.2	-5.6	-5.0	26.7
Bauxite	0.5	10.0	4.7	4.7	4.2	5.0	...	117.4	-0.7	-9.9	19.0	...
Nickel	0.2	0.3	0.5	0.5	0.9	1.2	...	97.3	-1.5	80.6	36.3	...
Manganese	2.7	2.8	2.7	3.0	2.9	2.8	2.7	-3.0	12.5	-5.3	-2.9	-5.0

Source: Brazilian Geographical and Statistical Institute (IBGE), National Petroleum Council, National Department of Mineral Production and Central Bank of Brazil.

^a Preliminary figures.

^b Millions of cubic metres.

^c Billions of cubic metres.

half of 1983. Even so, the harvest was not sufficient to meet domestic consumption, and around 550 000 tons of government stocks had to be used.

The striking rise in bean production was largely due to the recovery from the sharp fall of the previous year. The performance of the productive areas of the Northeast played a decisive part in this upturn. The surface area assigned to maize remained unchanged and the harvest managed to recover its normal levels almost completely, in any case more than satisfying consumption demand, which contracted as a result of the fall in cattle and poultry production.

There were serious contractions (from 8% to 12%) in cattle and pig raising, and also in poultry keeping, as a result of the fall in domestic consumption and the deterioration in external demand for poultry. Only the dairy-cattle sector succeeded in growing slightly, thanks to the incentive of price readjustments.

ii) *Mining*. Mining output increased by 27%, mainly owing to the favourable results of petroleum, natural gas and iron ore production (see table 6).

The heavy investment made in the petroleum industry continued to produce excellent results. This has been going on since 1980, and production has doubled in barely three years, serving to supply 50% of national consumption. There was also continuing dynamism in the supply of natural gas, which is being used experimentally as an alternative fuel in urban buses. There was also an increase in reserves, which amounted to 2 500 million barrels of petroleum and gas equivalent, mainly from the deposits of the Cuenca Submarina de Campos and the natural gas deposits of the region of the river Yurúa in the State of Amazonas.

Production of iron ore made a vigorous recovery after the serious successive falls of the three preceding years. This was attributable to the recovery of the national iron and steel industry and the improvement of the iron and steel industry abroad, which resulted in a 20% increase in ore exports.

iii) *Manufacturing*. After three years of unfavourable results the manufacturing sector showed a partial upturn, with the result that sectoral production almost recovered the levels of 1981 (see table 7). The growth of 6% was due to the dynamism of exports and to the demand for capital goods and intermediate products generated, in part, by the good performance of the agricultural sector.

The capital-goods industries grew by close on 13%, though this was not enough to offset the falls in production levels in preceding years. Although the sector still suffered from the effects of the contraction of demand in the official sector, it had in its favour the growth in purchases of machinery and equipment for agricultural and petroleum activities, as well as the increase in exports of capital goods.

There was likewise a notable rise in the intermediate goods industries (10%), encouraged by the recovery of Brazilian industry and the growth in its external sales. In contrast, the consumer goods

industries continued to suffer from the depressed wage levels and the high interest rates charged to purchasers, which had an even more adverse effect on consumer durables.

The branches that showed the greatest dynamism were metallurgy, machinery, transport equipment, chemical products and rubber. In contrast, there was a decline in the textile, food-products and perfumery industries.

The growth of 13% in metallurgy succeeded in making up for a large part of the fall accumulated between 1981 and 1983. An outstanding factor was the vigorous expansion of the iron and steel industry (32%), which was due to the growth in the capital-goods industries, mainly dynamized by the demand for flat rolled products and to the uninterrupted rise in exports of non-flat rolled products, seamed and semi-finished tubes (see table 8). Crude steel production for the first time exceeded 18 million tons. This was partly due to the putting into operation of the iron and steel plant at Tubarao, whose production of plates (2.3 million tons in 1984) was mainly destined for export, as well as the Mendes Junior private iron and steel plant, with an installed capacity of 300 000 tons per year of non-flat rolled products. The construction of the ACOMINAS plant continued at a slow pace as a result of the restrictions on State investment.

Table 7

BRAZIL: INDICATORS OF MANUFACTURING PRODUCTION^a

	Indexes (1981 = 100)			Growth rates		
	1982	1983	1984	1982	1983	1984
Manufacturing production	99.7	93.8	99.4	-0.3	-6.3	6.0
Categories of goods						
Capital goods	86.8	69.9	78.9	-13.2	-19.8	12.8
Intermediate goods ^a	102.5	99.6	109.4	2.5	-2.8	9.8
Consumer durables	107.7	104.1	99.5	7.7	-3.3	-4.4
Consumer non-durables	102.0	96.9	98.0	2.0	-5.1	1.2
Industry						
Foodstuffs	101.1	105.3	104.4	1.1	4.2	-0.9
Beverages	96.6	90.0	90.1	-3.4	-6.8	0.1
Tobacco	101.9	99.0	99.6	1.9	-2.9	0.6
Textiles	104.6	94.4	91.3	4.6	-9.3	-3.2
Clothing	103.6	92.9	95.8	3.6	-10.3	3.1
Paper and paperboard	107.2	110.3	117.4	7.2	2.9	6.4
Petroleum products	102.8	98.6	105.7	2.8	-4.1	7.3
Other chemicals	112.5	104.9	115.0	12.5	-6.8	9.6
Pharmaceuticals	100.2	94.6	102.9	0.2	-5.6	8.8
Perfumery, soaps and candles	103.3	102.3	101.5	3.3	-1.0	-0.7
Rubber	93.4	93.7	105.5	-6.6	0.4	12.6
Plastic articles	109.2	97.3	98.5	9.2	-10.9	1.3
Non-metallic minerals	97.5	82.0	82.5	-2.5	-15.9	0.6
Metallurgy	97.9	96.6	109.4	-2.1	-1.3	13.3
Machinery	84.4	76.0	87.1	-15.6	-9.9	14.5
Electrical equipment	101.7	89.2	92.3	1.7	-15.3	3.5
Transport equipment	95.8	87.3	94.7	-4.2	-8.9	8.4
Other indicators of manufacturing production						
Industrial consumption of electricity ^b	52.8	56.8	63.2	2.4	5.9	11.2
Employment ^c	95.1	88.1	85.8	-6.7	-6.8	-2.2

Source: Brazilian Geographical and Statistical Institute (IBGE), *Anuário Estatístico 1982 and 1983 and Indicadores Conjunturais da Indústria*, December 1984.

^aIncluding mining

^bBillions of kWh consumed by the manufacturing sector.

^cIndexes, 1976 = 100.

Table 8

BRAZIL: PRODUCTION OF METALS

	Thousands of tons					Growth rates			
	1975	1980	1982	1983	1984	1981	1982	1983	1984
Iron and steel									
Pig iron	7 264	12 960	11 054	13 200	17 464	-15.0	0.3	19.4	32.3
Steel ingots	8 308	15 339	12 996	14 671	18 385	-13.7	-1.8	12.9	25.3
Rolled products	6 676	12 717	11 069	12 167	14 187	-13.7	0.9	9.9	16.6
Flats	3 139	7 080	6 150	7 152	7 924	-17.1	4.7	16.3	10.8
Non-flats	3 537	5 637	4 919	5 015	6 263	-9.5	-3.6	2.0	24.9
Steel alloy	256	539	553	578	682	2.4	-	4.5	18.0
Non-ferrous metals^a									
Aluminium	145	310	345	444	504	-6.6	17.7	28.4	13.6
Copper	33	63	63	103	97	-28.6	37.4	66.6	-5.5
Tin	7	9	9	13	19	-11.4	19.2	36.1	45.8
Nickel	2	3	5	11	13	-8.0	108.7	123.2	18.4
Lead	63	90	53	63	72	-22.6	-26.7	1.6	13.6
Zinc	39	96	110	111	114	15.5	-0.9	0.5	3.1

Source: Non-ferrous Metals and Iron and Steel Council (CONSIDER).

^aPrimary and secondary metal.

Table 9

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates			
	1975	1980	1982	1983	1984	1981	1982	1983	1984
Motor vehicles in general	979	1 165	860	896	864	-33.1	10.1	4.3	-3.6
Automobiles	547	601	475	576	538	-32.4	16.9	21.3	-6.6
Light trucks and utility vehicles ^a	339	448	328	278	270	-36.6	15.9	-15.1	-2.9
Trucks	83	102	47	36	49	-25.5	-38.2	-24.0	36.1
Buses	10	14	10	6	7	-7.4	-26.2	-36.9	16.7
Gasoline and alcohol-fuelled vehicles^b									
Gasoline-fuelled vehicles	886	795	565	263	247	-29.6	1.0	-53.5	-6.0
Alcohol-fuelled vehicles	-	254	238	592	561	-48.2	80.6	149.1	-5.1

Source: National Association of Motor Vehicle Manufacturers (ANFAVEA).

^aIncluding multi-purpose light commercial vehicles.^bOnly automobiles, light trucks and utility vehicles.

The production of non-ferrous metals rose sharply for the third year running, especially in the case of aluminium (owing to the increase in export-oriented installed capacity) and tin (attributable to the increase in external and domestic demand). Copper production, however, went down slightly owing to technical problems at the only refinery, after the dramatic increases obtained in 1981-1982.

The number of units produced by the motor-vehicle industry declined by 3.5% (see table 9). A decisive factor in this result was the fall in the output of motorcars and light trucks, especially those destined for the domestic market, which was adversely affected by the loss of purchasing power of the middle strata and the high interest rates charged on credit granted to buyers. This result was offset to some extent by the increase in domestic purchases of heavy vehicles and by exports. Even so, the production of light commercial vehicles and trucks was less than half that recorded in 1980. The growth of 16% in exports prevented a larger drop in motor-vehicle production.

As a result of the contraction in the domestic market, the output of alcohol-fuelled cars and light trucks went down by 5%, as also did that of gasoline-fuelled vehicles of this type.

In the machinery branch, the most outstanding growth occurred in agricultural machinery, thus halting the declining trend of the last seven years. There was a considerable increase in the production of wheeled tractors and grain harvesters, thanks to the good financial results of the grain producers and the need to replace stocks. The evolution of the output of road-building and construction machinery was also positive, attributable to the needs of replacement.

The increment of over 12% achieved by the rubber industry, basically in respect of tyres, is largely explained by the vigorous impulse arising from the demand for farm tractors, earth-moving machinery and trucks. The rise in the production of fertilizers contributed to the boom in the chemical industry, though this branch remained with a high degree of idle capacity.

Among the branches producing consumer goods, there was a shift of domestic demand towards substitute and/or cheaper goods owing to the fall in purchasing power of wages. The production of foodstuffs, beverages and tobacco virtually stagnated, as had been the case since 1981. In the textile and footwear branches and in some lines of the food industry the increase in exports helped to mitigate the fall in domestic demand.

iv) *Construction.* The slight increase of somewhat over 1% observed in 1984 followed three years of systematic decline in the level of activity, with a cumulative fall of approximately 25% (see table 10). This upturn was due to the boom in works of infrastructure and heavy engineering. The construction of buildings, however, fell substantially, as can be seen from the permits granted by municipalities.

Housing construction remained depressed through the lack of financial resources. The volume of credits supplied by the Banco Nacional de Habitação (BNH) contracted by 42% in real terms.

Table 10

BRAZIL: INDICATORS OF THE CONSTRUCTION INDUSTRY

	1980	1982	1983	1984	Growth rates			
					1981	1982	1983	1984
Index of the real product (1970 = 100)	235.0	235.5	200.1	200.4	-4.3	0.2	-15.0	1.3
Apparent consumption of some construction materials								
	Millions of cubic metres							
Floor tiling	70.4	61.3	57.1	58.0	-6.3	-7.1	-6.9	1.6
Tiles	68.8	61.5	54.0	60.0	2.7	-13.0	-12.2	11.1
	Thousands of tons							
Iron rods	1 669	1 520	1 019	1 030	-10.7	-2.3	-29.1	1.1
Cement	27 089	25 249	20 876	19 388	-3.6	-3.3	-17.3	-7.1
Hydrated lime	1 275	1 047	960	913	-14.3	-4.2	-8.3	-4.9
Flat glass	...	...	295	231	...	...	...	-21.7
Asphalt	1 230	1 119	827	...	-13.7	12.9	-31.0	...
Construction permits ^a								
	Millions of square metres							
Residential	19.9	18.6	14.6	4.2 ^b	-16.9	12.8	-21.5	-50.3 ^c
Non-residential	10.2	7.7	7.4	2.5 ^b	-33.9	14.6	-4.2	-41.2 ^c

Source: Genúlio Vargas Foundation (FGV), Non-Ferrous Metals and Iron and Steel Council (CONSIDER), National Cement Industry Association (SNIC), Industrial Development Council (CDI), National Petroleum Council (CNP), and National Commission for the Civil Construction Industry (CNIIC).

^aTotal number of permits granted by the Federal District government and by 25 state capital municipalities.

^bFirst half of 1984.

^cFirst half of 1984 in relation to the same period in 1983.

Table 11

BRAZIL: FINAL CONSUMPTION OF COMMERCIAL ENERGY^a

	Millions of PET ^b				Percentage breakdown		Growth rates			
	1981	1982	1983	1984 ^c	1973	1984 ^c	1981	1982	1983	1984 ^c
Electricity ^d	36.0	38.1	41.1	46.1	30.3	44.8	2.0	5.9	7.8	12.2
Coal and gas	4.8	5.7	6.9	8.9	3.5	8.6	-5.5	19.4	20.2	28.8
Charcoal	3.3	3.6	4.0	4.9	3.6	4.8	-8.4	9.3	11.4	23.6
Fuel oil	12.8	11.3	9.8	9.0	19.8	8.8	-21.1	-12.1	-13.2	-7.7
Diesel oil	15.1	15.5	15.2	15.5	15.1	15.1	-2.6	3.0	-2.1	2.1
Gasoline	8.3	7.9	6.7	6.0	19.8	5.8	-4.8	-4.7	-14.5	-11.0
Liquefied gas	3.2	3.5	3.6	3.7	3.4	3.6	5.2	11.3	3.6	1.2
Other petroleum products ^e	3.8	3.8	4.0	4.4	4.2	4.3	-1.8	1.0	5.2	10.7
Fuel alcohol	1.7	2.6	3.6	4.4	0.4	4.3	-11.7	48.3	39.3	23.7
Total ^f	88.8	91.9	94.9	102.9	100.0	100.0	-4.6	3.5	3.2	8.5
Petroleum products	43.1	42.0	39.3	38.6	62.2	37.5	-8.8	-2.5	-6.3	-1.8
Alcohol and gasoline	10.0	10.4	10.3	10.4	20.2	10.1	-6.1	4.5	-1.3	1.0
Energy-product ratio ^g (1971 = 100)	109.9	112.6	120.0	124.7	-	-	-2.7	2.5	6.6	3.9

Source: 1973-1983: Ministry of Mines and Energy, *Balanco Energético Nacional 1984*; 1984: ECLAC estimates, on the basis of figures supplied by ELETROBRAS, the Ministry of Industry and Commerce and the National Petroleum Council.

^aExcluding firewood and sugar-cane bagasse. ^bPET petroleum equivalent tons. ^cPreliminary figures. ^dApproximately 92% of electricity is produced by hydroelectric power and 8% by thermal power. Consumption of electricity in MWh has been converted to PET using the coefficient 0.29 PET/MWh, which reflects consumption of petroleum at thermal electric plants operating with petroleum in the country. ^eIncluding kerosene, naphtha and other energy products. ^fThe total figures may not coincide with the sum of the respective column owing to rounding. ^gCommercial energy consumption divided by the real gross domestic product.

Furthermore, the substantial readjustment of the nominal loans granted through the system of housing finance inhibited potential borrowers.

Restrictions on investment persisted in the public sector.

v) *Energy*. The final consumption of commercial energy expanded by almost 9%. This rate, the highest recorded since 1979, amply exceeded the growth of the gross domestic product, and the ratio between the two variables thus grew by close on 4%. Nevertheless, the consumption of petroleum products fell for the fifth year in a row, mainly owing to the replacement of gasoline by alcohol and of fuel oil by coal, charcoal and electricity (see table 11).

According to preliminary data supplied by ELETROBRAS, electricity consumption grew by over 12%: a much higher rate than that of the three preceding years. This was due to the economic recovery, the considerable reduction in tariffs, and other incentives granted to industrial enterprises to encourage them to replace fuel oil by electricity. Industrial consumption rose by 18%, while commercial consumption increased by 6% and residential by 4%.

Installed capacity for electricity generation increased from 40.1 to 42.3 million kW. Almost the whole of this increase was due to the entry into operation of the first two turbines at Itaipu (2 x 700 MW) and Tucuruí (2 x 330 MW).

c) *Employment and unemployment*

Employment in the formal market recovered slightly. In fact, the number of persons employed in the fourth quarter was 2.5% higher than that observed in the same period of the previous year.³ Nonetheless, this increment was lower than that of the labour force (3%). In addition, the levels of employment remained appreciably below those achieved in 1980, before the onset of the economic

³These variations were calculated on the basis of the statistics of the National Employment System of the Ministry of Labour. The variation of the fourth quarter of 1984 in relation to the same period in the preceding year is the only one presented, since the survey was completely reformulated in August 1983, with the result that the figures for the periods before and after that date cannot be compared.

recession. All the sectors except construction increased their employment levels, particularly the mining industry, where the increase was 11% (see table 12). The fall in construction for the fifth year running reduced the employment level in this activity to 60% of that recorded in 1979, confirming that this is the sector most affected by the economic recession.

The average level of employment in manufacturing was close on 3% lower than that of the preceding year, but as from the second quarter of 1984 there began to be a reversal of the prolonged declining trend (see table 13). The low absorption of labour in manufacturing was due, among other factors, to the fact that the dynamism of the sector was concentrated in capital-intensive activities, which reduced the average number of persons employed per production unit. Another determinant appears to have been the further improvement in labour productivity, which had already increased significantly during the economic crisis. Although this redounded in an improvement in the efficiency of enterprises, it reduced the possibility that the recovery of industrial activity might result

Table 12

**BRAZIL: INDEXES OF EMPLOYMENT, BY
SECTOR OF ECONOMIC ACTIVITY^a**

(Base: August 1983 = 100)

Sectors of activity	1983	1984				Annual average	Variation between annual averages ^b
	Quarter	Quarter					
	IV	I	II	III	IV		
Agriculture	99.8	98.2	98.8	101.4	101.3	99.9	1.5
Mining	99.9	103.8	109.1	110.2	111.7	109.8	11.8
Industry	99.9	98.7	99.6	101.1	103.0	100.6	3.1
Construction	97.7	92.7	91.5	92.0	92.3	92.1	-5.5
Electricity, gas and water	100.0	100.3	100.5	101.0	101.7	100.9	1.7
Trade	101.1	99.6	100.1	101.2	104.2	101.3	3.1
Services	100.5	100.8	101.7	102.8	103.9	102.3	3.4
Public administration	100.1	100.4	100.7	100.9	101.1	100.8	1.0
Others	100.0	98.6	101.5	107.6	113.6	105.4	13.6
Total	100.2	99.5	100.3	101.3	102.7	100.9	2.5

Source: Ministry of Labour, National Employment System (SINE).

^aNo data are given for the period before August 1983, since in that month the index was restructured and therefore the earlier figures are not comparable with the new series.

^bVariation of the average index of the fourth quarter of 1984 in relation to the same period of the preceding year.

Table 13

**BRAZIL: PRODUCTIVE EMPLOYMENT IN THE
MANUFACTURING SECTOR**

(Base 1976 = 100)

Quarter	1980	1981	1982	1983	1984
I	108.4	108.7	95.1	90.2	84.6
II	110.7	104.4	96.3	89.1	85.4
III	111.0	98.7	95.2	86.6	85.4
IV	109.7	95.9	93.2	85.0	86.3
Average	110.0	101.9	94.9	87.7	85.4

Source: Brazilian Geographical and Statistical Institute (IBGE), *Indicadores Conjunturais da Indústria*, several issues.

Table 14

BRAZIL: UNEMPLOYMENT RATES IN MAIN URBAN CENTRES

Main cities	1980	1981	1982	1983	1984	1983				1984			
						I	II	III	IV	I	II	III	IV
Rio de Janeiro	7.5	8.6	6.6	6.2	6.8	6.0	6.5	6.5	5.8	6.9	7.4	6.7	6.0
São Paulo	5.6	7.7	6.0	6.8	6.8	6.7	7.2	7.1	6.2	7.8	7.5	6.7	5.1
Belo Horizonte	7.6	9.0	7.0	7.8	8.3	7.6	7.9	7.8	7.8	8.9	9.1	8.0	7.1
Porto Alegre	4.6	5.8	5.2	6.7	6.9	6.1	7.1	7.4	6.3	7.6	7.9	6.9	5.3
Salvador	7.3	9.0	6.3	5.6	7.7	5.5	5.6	5.5	5.7	7.9	8.1	8.3	6.7
Recife	6.8	8.6	7.5	8.0	9.0	7.5	8.5	8.5	7.5	8.9	9.6	9.9	7.5
Average for urban centres ^a	6.3	7.9	6.3	6.7	7.1	6.5	7.0	7.0	6.3	7.7	7.9	7.1	5.8

Source: Brazilian Geographical and Statistical Institute (IBGE), monthly employment survey.

^aWeighted by the population of each city.

in an expansion of employment. Lastly, the modernization of important sectors of manufacturing in face of the economic crisis implied the incorporation of new technologies into the productive process, which possibly had an adverse effect on the labour market.

In these circumstances the annual average rate of unemployment in the urban areas grew slightly from 6.7% in 1983 to 7.1% in 1984. Despite this, the unemployment rate in the last quarter was lower than that of the same period in the previous year. The fall in the unemployment rate in the last months of the year was particularly significant in São Paulo and Porto Alegre (see table 14).

3. The external sector

a) General trends

The development of the external sector of the economy was very favourable. Mainly as a result of the spectacular rise in the trade surplus, it managed for the first time since 1966 to achieve a small surplus on the balance-of-payments current account, which in 1982 had shown a deficit of US\$ 16 billion. Moreover, the capital movements largely corresponded to the forecasts made within the framework of the second phase of renegotiation of the external debt, resulting in a marked rise in international reserves.

The external debt (registered and non-registered) rose from some US\$ 91 billion at the end of 1983 to over US\$ 102 billion at the end of 1984. This was possible because Brazil had no particular difficulty in procuring the loans envisaged within the programming of external financing. In addition, the increase in the debt was in line with the limit stipulated with the IMF (measured in terms of net disbursements), mainly owing to the favourable evolution of the current account.

For the third year running the country made a net transfer of financial resources to the exterior. In fact, net payments of interest and profits (US\$ 11.4 billion) were more than double the balance on capital account, so that the net transfer financed by Brazil to the exterior amounted to over US\$ 6 billion. In the period 1982-1984, these transfers bordered on US\$ 15 billion.

To safeguard the external competitiveness of export products the policy of compensating domestic inflation by frequent minidevaluations was maintained, so that the nominal exchange rate registered an increase of 220%. This made it possible to maintain the real exchange rate in relation to the United States dollar, but it did not prevent the appreciation of the cruzeiro in real terms *vis-à-vis* the currencies of most of the other main trading partners of Brazil. Hence the effective real exchange rate declined by around 4% (see tables 15 and 16). The rise in the real value of the cruzeiro intensified in the second half of the year in line with the appreciation of the dollar, so that in the fourth quarter the effective real exchange rate was close on 10% lower than in the last quarter of 1983. In fact, in this lapse of time the appreciation of the cruzeiro in relation to a basket of currencies of the largest countries in the European Economic Community amounted to 14%.

At the same time the values of export subsidies were considerably reduced. As from 1 January, the interest rates for the financing of working capital destined for the production of exportable goods were increased by an annual 3%, without prejudice to full monetary correction. In August the Central Bank instructed the banks to finance working capital for exportable production with their own resources, while real interest remained partially covered by the Federal Government. Lastly, in September the Minister of Finance decided to speed up the gradual reduction of the fiscal credit premium.⁴

b) *Merchandise trade*

i) *Exports.* The value of exports grew by 23%, achieving a record figure of US\$ 27 billion, which easily surpassed the initial forecasts of around US\$ 25 billion (see table 17).

This increment was partly due to favourable external factors and to the dynamism of United States imports, which were stimulated by that country's economic recovery and by the high value of the dollar.

In fact, exports to the United States rose by more than 50% and represented practically half of the total increase in external sales. The United States market absorbed 28% of the value of Brazil's exports: a proportion which had only been exceeded in the 1960s, before the full development of the

Table 15

BRAZIL: EVOLUTION OF THE EXCHANGE RATE AND OF PRICES

(Base 1980 = 100)

Annual and quarterly averages	Exchange rate		Wholesale price index, manufactures		Adjusted real exchange rate (2)×(4)/3 (5)
	Cruzeiros per dollar (1)	Index (2)	Brazil ^a (3)	United States (4)	
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	1 029.6	114.9	122.2
1984	1 848.03	3 506.0	3 334.5	117.4	123.4
1982					
I	137.87	261.6	314.4	113.4	94.3
II	160.18	303.9	379.1	112.8	90.4
III	189.65	359.8	461.0	113.9	88.9
IV	230.36	437.0	536.8	114.6	93.3
1983					
I	326.43	619.3	643.5	114.2	109.9
II	475.89	902.8	817.9	114.2	126.1
III	638.36	1 121.1	1 125.6	115.4	124.2
IV	867.50	1 645.8	1 531.8	115.9	124.5
1984					
I	1 140.67	2 164.0	2 017.2	116.7	125.2
II	1 514.42	2 873.1	2 623.9	117.6	128.8
III	2 004.75	3 803.4	3 629.7	117.6	123.2
IV	2 732.27	5 184.4	5 067.2	117.7	120.4

Source: International Monetary Fund, *International Financial Statistics*, and Getúlio Vargas Foundation, *Conjuntura*, February 1985.

^a Corresponds to the wholesale price index, based on the global supply from processing industries.

⁴ The corresponding value, which was equal to 11% of the adjusted FOB value up to 30 April 1985, was fixed as follows: 9% in November (of 1984), 7% in December, 5% in January (of 1985), 3% in March, 2% in April and nil subsequently.

Table 16

**BRAZIL: EVOLUTION OF THE REAL EXCHANGE RATE INDEXES
FOR EXPORTS AND IMPORTS^a**

(Base 1980 = 100)

Annual and quarterly averages	Exports		Total imports
	Totals (1)	Manufactures (2)	
1981	83.5	86.8	85.5
1982	75.5	77.6	77.4
1983	98.7	102.6	102.0
1984	95.1	98.5	98.9
1982			
I	81.6	84.7	83.5
II	76.7	79.2	78.6
III	71.6	73.3	73.5
IV	74.8	76.7	77.0
1983			
I	89.6	91.0	92.2
II	102.3	105.6	105.5
III	99.7	104.9	103.1
IV	99.9	105.1	103.4
1984			
I	99.3	103.3	102.5
II	101.3	104.3	104.7
III ^b	94.1	97.6	98.2
IV ^b	90.3	94.2	94.4

Source: International Monetary Fund, *International Financial Statistics*, Getúlio Vargas Foundation (FGV), wholesale price index, in relation to total supply, processing industries.

^aThese indexes are obtained by adding together the indexes of the real exchange rate with respect to Brazil's main trading partners, weighted according to the geographical distribution of Brazil's exports and imports. The countries included in the estimates are: United States, Canada, Japan, the Federal Republic of Germany, Belgium-Luxembourg, France, Italy, the Netherlands, the United Kingdom, Spain, Switzerland, Argentina, Chile, Mexico, Paraguay, Uruguay and Venezuela. All the indexes are for wholesale prices, preferably for national and industrial products. ^bThe price indexes for some countries were estimated on the basis of secondary sources.

notable diversification of markets for the country's exports. As a result the United States became the main export market, displacing the European Economic Community (EEC). Bilateral trade with the United States, which during the 1970s had produced a deficit, showed a surplus of over US\$ 5 billion and represented 40% of Brazil's merchandise trade surplus, exceeding the traditional bilateral surplus with the EEC. The extraordinary dynamism of exports to the United States market was also due to the frosts in Florida, which favoured Brazilian exports of frozen orange juice concentrate.

Sales to developing countries also showed considerable and generalized dynamism (28%). The substantial growth (38%) of exports to ALADI took place after two years of heavy falls, but it was still not enough to recover the values achieved in 1981 (see table 18).

The growth of exports was concentrated in industrial products (37%), with semi-finished goods in the lead (58%). In contrast, commodities rose by less than 3% (see table 19).

Among the main commodities, only coffee beans recorded substantial growth (23%). The value of exports of the coffee group (which includes processed coffee) grew by 21%, owing to a rise of 10% in the volume of coffee beans and better prices both for this and for processed coffee. Thanks mainly to a rise in Brazil's quotas in the International Coffee Organization (ICO), its exports in 1984 amounted to 19.6 million bags, the largest volume since 1974. As a result, Brazil's share in world coffee trade rose to 29%.

The value of exports in the sugar group—which includes raw sugar, crystallized sugar and refined sugar—rose by 8% in 1984, despite a new and heavy fall in international prices. The average

export price was less than half the guaranteed price which the Sugar and Alcohol Institute (IAA) paid to domestic producers, the resulting losses being estimated at over US\$ 300 million, which had to be borne by the National Treasury.

Outstanding among manufactured products was the evolution of frozen orange juice concentrate. Exports of this increased by 134% to over US\$ 1.4 billion, thanks to a rise of 54% in the volume exported and 42% in the average export price. Thus orange juice became Brazil's fourth export product, after coffee, soya meal and iron ore. Another dynamic line was footwear (51%), in which sales abroad exceeded US\$ 1 billion, mainly destined for the United States market.

Exports of manufactured iron and steel products grew by 24%, after a rise of 57% in the preceding year. During 1984 protectionist pressures against imports of this type of product intensified in the United States. Brazil attempted to avoid the application of antidumping and countervailing duties, which could lead to measures relating to prices (export taxes) and quantitative restrictions on exports. In May the Government of Brazil announced a three-year programme of limitation of exports of certain products to the United States. Subsequently, the United States authorities began to negotiate an agreement on the "voluntary" restriction of Brazilian exports. These attempts only achieved some measure of success at the end of the year.⁵ Brazil then renewed with the European Economic Community an agreement on the "voluntary" restriction of exports of pig iron.⁶

Table 17

BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Growth rates								
Exports of goods								
Value	19.7	4.6	22.2	32.1	15.6	-13.3	8.6	23.3
Volume	7.3	12.5	12.0	22.3	23.6	-6.0	13.4	18.0
Unit value	11.6	-7.0	9.1	8.0	-6.5	-7.8	-4.3	4.5
Imports of goods								
Value	-2.6	13.4	31.8	27.8	-3.8	-12.2	-20.5	-9.7
Volume	-5.1	5.9	9.9	-0.8	-13.2	-8.9	-15.2	-5.8
Unit value	2.6	7.0	19.9	28.8	10.9	-3.6	-6.1	-4.1
Terms of trade (goods)	8.5	-13.1	-8.8	-15.7	-15.8	-4.4	1.6	8.2
Indexes (1970 = 100)								
Terms of trade, goods	100.8	87.6	79.9	67.4	56.7	54.2	55.1	59.6
Purchasing power of exports of goods	173.4	169.5	173.2	178.7	185.9	167.0	192.5	245.9
Purchasing power of exports of goods and services	180.7	177.3	184.7	195.1	208.1	183.6	202.9	253.0

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

⁵In September 1984 the President of the United States authorized the limitation of imports of steel products to 18.5% of apparent consumption and asked the Special Representative for Trade to negotiate with the main supplier countries, within a period of 90 days, agreements for the "voluntary" restriction of exports. The negotiations with Brazil were unsuccessful in 1984. Only in February 1985 was an agreement reached limiting Brazil's annual exports to 0.8% of the apparent consumption of the United States for finished products and to 700 000 tons for semi-finished products. The agreement runs for five years as from 1 October 1984. In return, the countervailing and anti-dumping duties affecting the products covered by the agreement will be annulled.

⁶In recent years the EEC has attempted to negotiate with Brazil an agreement for the "voluntary" restriction of exports of a series of steel products, as it did with its main suppliers in the framework of the policy of the European Steel and Coal Commission. According to these agreements the exporting countries may, within quantitative limits, market steel products at prices between 4% and 6% lower than those that the European manufacturers have to charge, with the simultaneous suspension of possible anti-dumping duties. The negotiations failed because the Brazilian authorities did not accept the quantitative limits offered by the EEC. Only in March 1985 was an agreement reached which covers the exports for 1985, with a limit of 150 000 tons.

Table 18

**BRAZIL: EXPORTS OF GOODS, BY GROUPS OF
COUNTRIES OF DESTINATION**

	Millions of dollars FOB				Percentage breakdown		Growth rates		
	1981	1982	1983	1984 ^a	1980	1984 ^a	1982	1983	1984 ^b
Total	23 293	20 175	21 899	27 005	100.0	100.0	-13.4	8.5	23.3
Developed market economy countries	12 942	12 316	14 100	17 621	60.1	65.3	-4.8	14.5	25.0
United States, Canada, EEC and Japan	11 554	11 002	12 495	15 623	51.9	57.9	-4.8	13.6	25.0
United States ^c	4 111	4 034	5 064	7 483	17.4	27.7	-1.9	25.5	47.8
Canada	290	231	312	405	1.2	1.5	-20.3	34.9	29.8
EEC ^d	5 933	5 443	5 688	6 220	27.2	23.1	-8.3	4.5	9.4
Japan	1 220	1 294	1 431	1 515	6.1	5.6	6.1	10.6	5.9
Others ^e	1 388	1 313	1 604	1 998	8.2	7.4	-5.4	22.1	24.6
Eastern Europe	1 699	1 191	1 442	1 399	6.5	5.2	-29.9	21.0	-3.0
Developing countries^f	8 296	6 417	6 084	7 702	32.2	28.5	-22.6	-5.2	26.6
OPEC ^g	1 962	1 346	1 637	1 947	6.1	7.2	-31.4	21.7	18.9
Others	6 334	5 072	4 446	5 755	26.0	21.3	-19.9	-12.3	29.4
ALADI ^h	4 209	2 862	2 055	2 841	17.2	10.5	-32.0	-28.2	38.2
Argentina	880	666	657	859	5.4	3.2	-24.3	-1.4	30.7
Chile	640	289	192	278	2.2	1.0	-54.9	-33.7	44.8
Mexico	644	324	173	289	2.3	1.1	-49.6	-46.6	67.1
Paraguay	450	324	234	335	2.0	1.2	-27.8	-28.0	43.2
Uruguay	373	138	104	135	1.5	0.5	-63.1	-24.4	29.8
Andean Group	1 222	1 120	694	945	3.6	3.5	-8.4	-38.0	36.2
Rest of the developing countries	2 126	2 210	2 392	2 914	8.9	10.8	4.0	8.2	21.8
Supplies to ships and aircraft, undeclared exports	356	251	275	283	1.3	1.0	-29.5	9.5	2.9

Source: ECLAC, on the basis of data supplied by Banco do Brasil, Carteira do Comércio Exterior (CACEX).

^a Estimated based on information for period January-November.

^b Variation in January-November in respect of the same period in the previous year.

^c Including Puerto Rico.

^d European Economic Community (ten countries).

^e Australia, Austria, Finland, Iceland, Malta, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey and Yugoslavia.

^f Including socialist countries of Asia.

^g Organization of Petroleum Exporting Countries, except Venezuela and Ecuador.

^h Latin American Integration Association.

ii) *Imports.* The total value of imports of goods was close on US\$ 14 billion: almost 10% less than in 1983 and 40% less than in 1980 (see table 20).

The value of petroleum imports went down by nearly 15%. This decline was due partly to the reduced volume of imports—which fell from an average of 73000 barrels to some 680 000 barrels per day in 1984—and partly to the lower average price per barrel, which fell from US\$ 29.4 to US\$ 28.4, so that the value of imports of crude petroleum was practically US\$ 4 billion less than in 1981 (US\$ 10.6 billion). Hence in barely three years the value of imports declined by 36%, by virtue of a reduction of 23% in their volume and 17% in their average price. In the same period the percentage of the income from exports of goods absorbed by imports of crude petroleum declined from 46% to 25%.

The value of the remainder of imports declined for the third year running (5.5%), this being mainly attributable to a fall in prices. There was a further marked decline (12.6%) in imports of

capital goods, both through a fall in prices and because of the low level of investment and the continued import substitution process.

Purchases from developing countries, which represent more than half Brazil's imports, fell by 12%, i.e., more than the general average, a phenomenon which occurred for the second year in a row. The relative weight of imports from the developing world continued to be several percentage points higher in 1984 than in 1980, though there was a fall in the proportion of purchases from OPEC to the benefit of the rest of the developing countries. All this, of course, took place within the context of a drastic and sustained contraction of the country's total volume of imports during the last three years (see table 21).

iii) *The terms of trade and the purchasing power of exports.* After a period of marked decline up to 1982, the terms of trade in goods recovered notably in 1984 owing to the rise in export prices and the fall in the prices of imports. Since 1979 the terms-of-trade index has fallen by 25%. In the case of commodities the evolution of export prices in 1984 was uneven. There was a recovery in the average export prices of coffee, cocoa and soya beans, while those of sugar and iron ore declined. As regards imports, there were falls in the prices of crude petroleum (-3.5%) and wheat (-13%).

As in previous years the rise in value of the United States dollar was a determining factor in the depression of the prices of internationally marketed products expressed in this currency. With the improvement in the terms of trade the growth of the purchasing power of exports exceeded that of their physical volume, amounting to over 27% — a rate which came after the satisfactory 15% recorded the previous year.

Table 19

BRAZIL: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown			Growth rates		
	1981	1982	1983	1984 ^a	1970	1980	1984 ^a	1982	1983	1984 ^a
Total	23 293	20 175	21 899	27 005	100.0	100.0	100.0	-13.4	8.5	23.3
Commodities	8 920	8 238	8 535	8 766	74.8	42.2	32.5	-7.6	3.6	2.7
Coffee beans	1 517	1 858	2 096	2 582	34.3	12.3	9.6	22.5	12.8	23.2
Iron ore	1 748	1 847	1 428	1 444	7.7	7.8	5.3	5.7	-22.7	1.1
Soya meal and cake	2 136	1 619	1 793	1 464	1.6	7.2	5.4	-24.2	10.7	18.3
Soya beans	404	123	309	454	1.0	2.0	1.7	-69.6	151.2	46.9
Unrefined sugar	579	259	323	314	4.6	3.1	1.2	-55.3	24.7	-2.8
Others	2 536	2 532	2 586	2 508	25.6	9.8	9.3	-0.2	2.1	-3.0
Industrial products	14 000	11 686	13 057	17 929	24.3	56.5	66.4	-16.5	11.7	37.3
Semimanufactures	2 116	1 433	1 782	2 823	9.1	11.6	10.5	-32.3	24.4	58.4
Manufactures	11 884	10 253	11 275	15 107	15.2	44.8	55.9	-13.7	10.0	34.0
Processed coffee	244	256	252	268	1.6	1.4	1.0	4.9	-1.6	6.3
Orange juice	659	575	608	1 425	0.0	1.7	5.3	-12.7	5.7	134.4
Footwear	586	524	713	1 078	0.0	2.0	4.0	-10.6	36.1	51.2
Transport equipment	2 080	1 719	1 452	1 341	0.5	7.5	5.0	-17.4	-15.5	-7.6
Machinery, boilers and mechanical apparatus	1 550	1 198	1 106	1 401	1.8	6.9	5.2	-22.7	-7.7	26.7
Electrical machinery and equipment	561	406	448	597	0.6	2.3	2.2	-27.6	10.3	33.3
Manufactured iron and steel products	801	795	1 249	1 544	1.9	3.1	5.7	-0.7	57.1	23.6
Others	5 403	4 780	5 447	7 453	8.8	19.9	27.6	-11.5	14.0	36.8
Other products^b	373	251	307	310	0.9	1.3	1.1	-32.7	22.3	1.0

Source: Banco do Brasil, Carteira do Comércio Exterior (CACEX) and Central Bank of Brazil, *Relatório 1984*.

^aPreliminary figures.

^bIncludes consumption of aircraft and ships, re-exports and special transactions.

Table 20

BRAZIL: IMPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown			Growth rates		
	1980	1981	1982	1983	1984	1970	1980	1984	1982	1983	1984
Total	22 955	22 091	19 395	15 429	13 916	100.0	100.0	100.0	-12.2	-20.4	-9.8
Consumer goods	1 316	987	999	796	700	13.6	5.7	5.0	1.2	-20.3	-12.1
Intermediate goods	17 259	17 081	15 124	12 128	11 027	48.1	75.2	79.2	-11.5	-19.8	-9.1
Fuels and lubricants	10 200	11 340	10 457	8 607	7 345	7.0	44.4	52.8	-7.8	-17.7	-14.7
Others	7 059	5 741	4 667	3 521	3 682	41.1	30.8	26.5	-18.7	-24.6	4.6
Capital goods	4 381	4 023	3 272	2 505	2 189	38.3	19.1	15.7	-18.7	-23.4	-12.6

Source: Central Bank of Brazil.

c) *Trade in services and factor payments*

The traditional deficit on trade in real services fell to around US\$ 1.7 billion in 1984, which signified a decline of 28% as compared with the previous year. This was mainly due to larger revenues in respect of transport and reduced outlays for international travel and leasing of equipment.

In contrast, the negative balance on factor services grew by 3% to US\$ 11.36 billion as a result of an increase of US\$ 1 billion in interest payments, partly offset by a rise in interest payments received and a fall in remittances of profits. Unfortunately the period relating to the payment of interest on the greater part of the external debt in 1984—mid-1983 to mid-1984—coincided with a rise in the London Inter-Bank Offer Rate (LIBOR). Almost three-quarters of Brazil's registered external debt (US\$ 88 billion at the end of 1984) is contracted at variable interest rates: around 85% of this is adjusted in terms of the London Inter-Bank Offer Rate and the remaining 15% in accordance with the New York prime rate.

d) *The current account balance and its financing*

i) *The current account.* In 1984 there was a striking improvement in the current account for the second year in a row (see table 22). Thus, after a fall in the deficit from US\$ 16.3 billion in 1982 to US\$ 6.8 billion in 1983, a small surplus of close on US\$ 170 million was achieved in 1984. This was far above the initial forecast of a deficit of US\$ 6 billion, on which the second phase of the programming of external financing had been based. It was therefore possible substantially to increase (by US\$ 5.6 billion) the country's international reserves. The gross international reserves, for their part, increased by some US\$ 7.4 billion, a sum equivalent to the value of eight months of imports of goods and services. Lastly, the adjusted net international reserves of the monetary authority, which had been negative in 1982 and 1983, changed their sign at the end of 1984, recording a favourable balance of US\$ 3.7 billion (see table 23).

ii) *The external financing programme.* The terms of the loans negotiated at the end of 1983, as part of the second phase of the external financing plan agreed with the IMF and the foreign creditor banks, were more favourable to the country than those stipulated for the first phase (see table 24).

The four projects presented at the end of 1983 concerned: the procurement of new loans (Project A); the conversion of amortization payments maturing in 1984 into new loans (Project B); and the maintenance during 1984 of the short-term credit lines (Projects C and D).

The second phase of the financing plan also included the rescheduling of the interest and amortization payments on the debt deriving from direct governmental loans and from commercial loans covered by the guarantees or insurance of foreign governments and their institutions (Paris Club).

iii) *Evolution of the financing plan during 1984.* The aim of the financing plan for 1984 was to guarantee external resources in order to: a) cover a deficit on current account originally estimated at US\$ 6 billion; b) finance amortization payments to the estimated value of approximately US\$ 8.2 billion; and c) increase the international reserves (net of IMF financing and after eliminating the arrears of payment on the external debt) by around US\$ 1 billion.

The resources needed would be covered in part by the autonomous procurement of external resources basically stemming from direct investment and from international agencies and suppliers. It was hoped to obtain the rest through the negotiations to be effected within the framework of the second phase of the reprogramming of external financing, with US\$ 6.5 billion corresponding to Project A, US\$ 5.4 billion to Project B and US\$ 2 billion to the refinancing of the debt with the Paris Club.

Net direct foreign investment amounted to slightly over US\$ 1.5 billion in 1984, exceeding both the figure for 1983 and the original forecast. The credit obtained from international agencies and government institutions was somewhat over US\$ 2.4 billion, i.e., 7% less than in 1983.

In March 1984 the foreign commercial banks disbursed the first US\$ 3 billion corresponding to Project A. These resources, which Brazil had initially requested for 1983, made it possible to regularize the arrears of payment on the external debt, which at the end of 1983 amounted to

Table 21

**BRAZIL: IMPORTS OF GOODS, BY GROUPS
OF COUNTRIES OF ORIGIN**

	Millions of dollars FOB					Percentage breakdown		Growth rates		
	1980	1981	1982	1983	1984 ^a	1980	1984 ^a	1982	1983	1984 ^b
Total	22 955	22 090	19 395	15 408	12 634	100.0	100.0	-12.2	-20.6	-9.2
Developed market economy countries	10 625	9 158	7 507	5 940	5 036	46.3	39.9	-18.0	-20.9	-4.3
United States, Canada, EEC and Japan	9 495	8 256	6 635	5 326	4 605	41.4	36.5	-19.6	-19.7	-3.4
United States ^c	4 101	3 504	2 861	2 409	2 030	17.9	16.1	-18.3	-15.8	-3.1
Canada	814	534	453	493	469	3.5	3.7	-15.2	9.0	3.0
EEC ^d	3 513	2 978	2 441	1 863	1 596	15.3	12.6	-18.0	-23.7	-6.4
Japan	1 066	1 240	881	561	510	4.6	4.0	-29.0	-36.3	-0.5
Others ^e	1 131	902	872	615	430	4.9	3.4	-3.3	-29.5	-12.7
Eastern Europe	249	242	463	503	403	1.1	3.2	91.6	8.5	-10.2
Developing countries^f	12 081	12 691	11 424	8 964	7 195	52.6	57.0	-10.0	-21.5	-12.3
OPEC ^g	8 434	8 598	7 468	5 750	4 627	36.7	36.6	-13.1	-23.0	-13.5
Others	3 648	4 093	3 956	3 214	2 568	15.9	20.3	-3.3	-18.7	-10.1
ALADI ^h	2 692	3 126	3 287	2 204	1 892	11.7	15.0	5.1	-32.9	-2.9
Argentina	757	587	550	358	456	3.3	3.6	-6.2	-34.9	59.9
Mexico	431	784	789	709	551	1.9	4.4	0.7	-10.2	-18.2
Venezuela	570	969	970	663	478	2.5	3.8	0.2	-31.6	-17.4
Others	934	787	977	474	408	4.1	3.2	24.2	-51.5	-0.2
Rest of the developing countries	932	943	669	1 038	676	4.1	5.3	-29.0	57.3	-25.8

Source: ECLAC, on the basis of data supplied by the Banco do Brasil, Carteira do Comercio Exterior (CACEX).

^aJanuary-November.

^bVariation for January-November with respect to the same period in the preceding year.

^cIncluding Puerto Rico.

^dEuropean Economic Community (ten countries).

^eAustralia, Austria, Finland, Iceland, Malta, New Zealand, Norway,

Portugal, South Africa, Spain, Sweden, Switzerland, Turkey and Yugoslavia.

^fIncluding socialist countries of Asia.

^gOrganization

of Petroleum Exporting Countries, except Venezuela and Ecuador.

^hLatin American Integration Association.

Table 22

BRAZIL: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-10 482	-12 848	-11 760	-16 314	-6 840	166
Trade balance	-5 019	-5 935	-1 677	-2 795	4 078	11 354
Exports of goods and services	16 707	21 857	25 523	21 967	23 611	28 996
Goods FOB	15 244	20 132	23 275	20 172	21 898	27 005
Real services ^b	1 465	1 726	2 248	1 791	1 712	1 991
Transport and insurance	705	843	1 102	1 013	1 118	1 368
Travel	74	125	242	66	40	65
Imports of goods and services	21 725	27 792	27 200	24 762	19 533	17 642
Goods FOB	17 961	22 955	22 091	19 395	15 429	13 937
Real services ^b	3 764	4 838	5 109	5 365	4 104	3 705
Transport and insurance	2 104	2 758	2 786	2 460	2 025	2 214
Travel	310	367	407	913	430	215
Factor services	-5 478	-7 041	-10 274	-13 509	-11 021	-11 360
Profits	-1 356	-720	-1 112	-2 141	-1 452	-1 284
Interest received	1 157	1 146	1 144	1 198	707	1 159
Interest paid	-5 261	-7 456	-10 306	-12 550	-10 263	-11 235
Others	-17	-9	-1	-14	-13	-
Unrequited private transfer payments	12	128	189	-11	106	172
Balance on capital account	7 582	9 379	12 381	11 119	4 945	5 065
Unrequited official transfer payments	5	42	10	2	2	-
Long-term capital	6 466	7 104	11 659	8 011	1 851	8 903
Direct investment	2 223	1 544	2 313	2 534	1 372	1 535
Portfolio investment	659	354	-2	-1	-286	-
Other long-term capital	3 584	5 206	9 348	5 478	765	7 368
Official sector ^c	3 370	-14	60	1 744	3 131	...
Loans received	4 665	1 841	1 650	3 368	4 678	...
Amortization payments	-1 278	-1 366	-1 319	-1 286	-1 649	...
Commercial banks ^c	486	2 105	4 054	1 681	-1 519	...
Loans received	1 981	4 005	6 409	4 239	1 136	...
Amortization payments	-1 494	-1 917	-2 361	-2 559	-2 655	...
Other sectors ^c	-272	3 115	5 234	2 053	-847	...
Loans received	4 248	6 085	9 633	6 675	2 526	...
Amortization payments	-3 781	-3 394	-3 761	-4 264	-3 357	...
Net short-term capital	-122	2 572	1 132	3 476	3 681	-4 503
Official sector	274	-31	-6	3 879	4 755	...
Commercial banks	-422	608	1 039	-136	-710	...
Other sectors	26	1 996	99	-267	-364	...
Errors and omissions	1 233	-343	-418	-369	-588	215
Global balance ^d	-2 900	-3 469	621	-5 195	-1 895	5 231
Total variation in reserves						
(- sign indicates an increase)	2 860	3 322	-747	4 157	1 214	-5 636
Monetary gold	-	-103	-130	824	-156	...
Special Drawing Rights	-144	-1	-68	452	-	-1
IMF reserve position	-60	-103	80	-23	287	-
Foreign exchange assets	3 063	3 301	-844	2 245	-714	-7 150
Other assets	-	228	215	109	-297	...
Use made of IMF credit	-	-	-	550	2 094	1 796

Source: 1979-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official data.^a Preliminary 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 (of opposite sign) and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

US\$ 2.34 billion. This in turn enabled the centralization of exchange operations in the Central Bank to be revoked.⁷ The remaining disbursements, each of US\$ 875 million, as previously agreed, were made in April, June, September and December, in amounts equivalent to those that had been programmed. In 1984, therefore, the disbursements amounted to some US\$ 6.4 billion.

The refinancing of amortization commitments under the terms of Project B exceeded US\$ 4.7 billion. Out of a total of close on US\$ 8.9 billion in respect of amortization commitments on the medium- and long-term debt maturing in 1984, almost US\$ 6.2 billion were refinanced under Project B and through the Paris Club.

The amount of interest and amortization payments refinanced in this latter body bordered on US\$ 2.1 billion, of which US\$ 1.44 billion corresponded to amortization. Bilateral contacts were made during the year with a view to establishing the exact amounts of the debt covered by government guarantees and, in consequence, by the agreements made with the Paris Club.

In the course of 1984, moreover, Brazil made use of IMF credits for close on 1 750 million Special Drawing Rights (SDRs) in compensatory financing and some 1 500 million SDRs under the policy of increased access to the resources of the institution. These latter resources were disbursed in equal installments (around US\$ 390 million) at the end of each quarter.

Table 23

BRAZIL: VARIATION IN INTERNATIONAL RESERVES IN 1984

(Millions of dollars)

	Reserves at end of period				Variation	
	1981	1982	1983	1984	1983	1984
I. International liquidity^a	7 509	3 994	4 563	11 995	569	7 432
Reserves, excluding gold ^b	6 604	3 928	4 355	11 508	427	7 153
Special Drawing Rights	452	-	-	-	-	-
Reserve position in IMF	264	287	-	-	-287	-
Foreign exchange	5 888	3 641	4 355	11 508	714	7 153
Gold, national valuation	905	65	207	488	142	281
II. Net reserves of monetary authority^c						
A. Assets	...	3 250	3 757	11 033	507	7 276
B. Liabilities	...	6 134	7 053	6 791	919	-262
Short term	...	5 590	4 408	2 606	-1 182	-1 803
Use of IMF credit ^d	-	544	2 645	4 185	2 101	1 541
C. Net reserves (A-B)	...	-2 884	-3 296	4 242	-412	7 538
D. Counterpart adjustments	...	-	-	504	-	504
E. Net adjusted reserves (C-D) ^e	...	-2 884	-3 296	3 738	-412	7 034
Goal established with IMF	-	-2 884	-	2 404		

Source: ECLAC, on the basis of data presented in: IMF, *International Financial Statistics*; Central Bank of Brazil, *Relatório* 1985; Central Bank of Brazil, *BRAZIL - Programa Econômico Ajustamento Interno e Externo*. Vol. 6, February 1985.

^aData published by the Central Bank of Brazil. ^bData published by IMF. ^cMethod of calculation used to calculate the performance of the balance of payments in the framework of the corresponding goal agreed with IMF. ^dRepurchase obligations. ^eBalance of payments result according to the methodology agreed with IMF.

⁷Resolution 851 of the Central Bank of 29 June 1983 was mainly aimed at administering payments abroad in such a way as to keep the arrears of payment on the external and private debt within certain time limits in order to avoid the application of the "default" clause. The measure was revoked on 29 March 1984 by Resolution 899.

Table 24

**BRAZIL: CONDITIONS OF RESCHEDULING OF THE EXTERNAL
DEBT WITH THE PRIVATE BANKS**

	First phase	Second phase
Repayment periods (years)		
Total repayment period	8.00	9.00
Grace period	2.50	5.00
Costs (percentages)		
Spread		
Over London Interbank Offer		
Rate (LIBOR)	2.13	2.00
Over New York Prime Rate	1.88	1.75
Flat fee	1.50	1.00
Commitment fee	0.50	0.50

Source: Banco do Brasil, *Relatório do Setor Externo da Economia 1979/1984*. (February 1985).

e) *The external debt*

The public and private external debt, both registered and non-registered, amounted to US\$ 102.4 billion at the end of 1984, i.e., close on 12% more than one year before.^a The rate of growth was higher than in 1983, when Brazil received from the international commercial banks only part of the loans envisaged, but lower than the average (13.6%) recorded in the period 1979-1982 (see table 25). In general terms, the evolution of the external debt in 1984 was favourable. The proportion of the non-registered (or short-term) debt was reduced in favour of that of medium and long term, while the growth of the net external debt was mitigated thanks to an appreciable rise in international reserves.

The medium- and long-term debt increased by close on 16%, rising from US\$ 81.3 billion in 1983 to US\$ 94 billion in 1984. This large increment was partly due to the fact that some of the external financing requested during the second phase of programming to cover the needs of 1983 was only disbursed in March 1984.

The unregistered debt fell by 18%, from US\$ 10.3 billion in 1983 to US\$ 8.5 billion in 1984. The debt resulting from special operations connected with the international reserves was practically eliminated with the payment of almost all the arrears that had accumulated at the end of 1983, while the traditional short-term operations recorded an increase of barely 3%.

Furthermore, thanks to the extraordinary dynamism of external sales, the debt service/exports ratio—which was over 90% in the preceding two years—fell to 70% (see table 26).

4. Prices and wages

a) *Prices and anti-inflationary policy*

In 1984 the inflationary spiral of the preceding year increased its speed. The variation in the general price index (calculated on the basis of domestic availability) went up from 211% in December 1983 to 224% in December 1984, while the level of the national consumer price index more than trebled (see table 27).

The battle against inflation continued to be a cause of concern for the government. Contrary to the practice in previous years, however, no definite goals were adopted as regards reduction of the

^a Within the programme of economic and financial adjustments that Brazil has undertaken with the IMF a limit has been established, as one of the performance criteria, for the growth of the short- and long-term public and private external debt, in terms of net disbursements. The growth of US\$ 8.1 billion in 1984 was within the established limit (US\$ 10.8 billion). The fall in the ratio of registered debt to exports was the first since 1981 and amounted to close on 6%. For the second year running, moreover, there was a decline in the ratio of registered debt service to exports, which this time fell by over 20% to a level similar to that of 1981 and lower than that of 1979. The ratio of net interest to exports also fell for the second year in a row, reaching a level of under 35%. Still more striking was the 15% fall in the ratio of registered debt servicing to disbursements (see table 26).

Table 25

BRAZIL: EXTERNAL DEBT
(Millions of dollars at end of each period)

	1970	1979	1980	1981	1982	1983	1984	
							30th June	31st December ^a
Total external debt, registered and non-registered	...	...	...	71 878	83 205	91 362	97 181	102 443
I. Medium- and long-term debt (registered debt)								
Total	5 295	49 904	53 848	61 411	70 198	81 319	88 261	93 960
Public debt	...	34 035	37 270	41 789	46 858	60 292	...	68 080
Private debt	...	15 869	16 578	19 622	23 340	21 027	...	25 880
Compensatory loans	382	19	-	-	544	2 645	3 623	...
United States Government	314	19	-	-	-	-	-	...
International Monetary Fund	-	-	-	-	544	2 645	3 623	...
Others	68	-	-	-	-	-	...	...
Bonds	-	2 966	3 236	2 896	2 610	2 226	2 016	...
International Agencies	456	3 211	3 485	3 583	3 847	4 326	5 326	...
World Bank	258	2 181	2 246	2 264	2 341	2 588	3 556	...
Inter-American Development Bank	181	873	1 047	1 071	1 203	1 367	1 390	...
International Finance Corporation	16	157	192	248	301	303	297	...
Official Bilateral Agencies	1 247	3 219	3 485	3 894	4 160	4 855	5 808	...
Agency for International Development (AID)	870	1 077	1 050	1 019	989	967	1 002	...
Programme loans	604	531	512	490	470	449	442	...
Project loans	266	546	538	529	519	518	560	...
Wheat ^b	128	300	514	568	889	1 212	1 089	...
United States Exports Import Bank	190	929	931	955	934	981	1 034	...
Export Import Bank of Japan	-	399	489	508	477	502	488	...
Kreditanstalt für Wiederaufbau (FRG)	56	511	498	624	613	722	747	...
Others ^c	3	3	3	220	258	471	1 448	...
Supplier credits	611	5 673	5 651	5 894	5 983	7 513	6 880	...
Financial credits	2 285	34 625	37 820	44 984	52 918	59 626	64 482	...
Resolution Nº 63	653	7 724	9 924	13 456	16 146	15 115	14 486	...
Law Nº 4131	1 250	26 883	27 887	31 520	36 763	44 511	49 996	...
Other credits	313	191	171	160	136	128	126	...
II. Short-term debt (non-registered debt)								
Total	...	...	...	10 467	13 007	10 313	8 920	8 483
Traditional operations	...	...	...	...	9 292	7 973	8 508	8 203
Commercial credit lines	...	...	...	...	5 034	4 377	3 882	4 017
Brazilian commercial banks	...	...	...	...	4 306	3 596	4 626	4 186
Assets	...	...	...	...	2 099	1 924	1 840	2 569
Liabilities	...	...	...	...	6 405	5 520	6 466	6 755
Special operations	...	...	...	...	3 715	2 340	412	280
Bridging loans	...	...	...	...	3 715	-	-	-
Arrears in debt payment	...	...	...	...	-	2 340	-	-
Paris Club and other operations	...	...	...	...	-	-	412	280

Source: Central Bank of Brazil, *BRAZIL - Programa econômico - Ajustamento interno e externo*, February 1985.

Source: ECLAC, with data from the International Monetary Fund and the Central Bank of Brazil.

^a Preliminary figures.

^b Medium- and long-term loans and credits, plus amortization payments received, plus amortizations refinanced with the private banks (project B) and the Paris Club (see Central Bank, *Relatório 1984*, tables 5.2 and 5.20).

Table 26

BRAZIL: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983 ^a	1984 ^a
Millions of dollars						
Registered debt service	11 788	14 145	17 802	20 765	20 666	20 123
Amortization payments	6 527	6 689	7 496	8 215	10 403	8 888
Interest payments	5 261	7 456	10 306	12 550	10 263	11 235
Disbursements	11 907	11 419	17 424	14 207	14 518 ^b	16 799 ^b
Percentages						
Registered external debt/exports of goods and services	298.7	246.4	240.6	319.6	344.4	324.1
Registered external debt service/exports of goods and services	70.6	64.7	69.8	94.5	87.5	69.4
Net interest/exports of goods and services	24.6	28.9	35.9	51.7	40.4	34.8
Registered debt service/disbursements	99.0	123.9	102.2	146.2	142.4	119.8

Source: ECLAC, with data from the International Monetary Fund and the Central Bank of Brazil.

^aPreliminary figures. ^bMedium- and long-term loans and credits, plus amortization payments received, plus amortizations refinanced with the private banks (project B) and the Paris Club (see Central Bank, *Relatório 1984*, tables 5.2 and 5.20).

rate of price increases. In the economic programme, the priorities of the government were the adjustment of the external sector and the reduction of the public sector deficit. Thus, anti-inflationary policy was not given the priority it had in previous years, since the authorities realized that it was not feasible to obtain an appreciable fall in inflation as long as the imbalances in the external sector and the fiscal accounts persisted.

In 1984 prices were less heavily influenced than in the previous year by exogenous factors such as the bad climatic conditions which reduced the supply of foodstuffs. Moreover, and in contrast to what had occurred in 1983, when an extraordinary devaluation of the cruzeiro was decreed, the national currency appreciated slightly in 1984 in relation to a basket of the currencies of Brazil's main trading partners.

The inertia shown by the inflation rate in 1984 must therefore be largely attributed to the generalized indexation prevailing in the Brazilian economy. Another contributing factor was the continuation of the process of elimination of subsidies on the consumption of some agricultural products and petroleum derivatives. Lastly, the monetary policy did not fully achieve the contractive effect desired, since, in contrast with previous years, the growth rate of the main monetary aggregates more nearly approached that of prices.

The rate of increase of the price indexes slackened somewhat in the second quarter, mainly as a result of a smaller increase in the wholesale prices of agricultural products, but it rose again at the beginning of the second half of the year (see figure 2).

Among wholesale prices, the increment for agricultural goods (231%) was practically the same as that for industrial products (233%); among consumer prices, the rise in respect of food products (225%) was once again higher than the total rise (209%). Generally speaking, the different items that compose the general price index were much more consistent than in the previous year.

In the course of 1984 there was a gradual reduction in the number of products subject to control by the Interministerial Price Board (CIP). At the end of the year the products controlled directly or indirectly by the CIP represented 47% of the wholesale index and 26% of the consumer index. The authorities also went ahead with the gradual elimination of subsidies on certain agricultural products and petroleum derivatives, whose prices, in consequence, rose more than the general average.

As regards the tariffs and prices of public enterprises, the government carried out its intention to adjust them in accordance with the evolution of costs, with a view to avoiding a deficit or the unintentional granting of subsidies. Nevertheless, in view of the upsurge of inflation this policy was

only partially fulfilled, especially from the beginning of the second half of the year, when the government tried to control increases through the management of public tariffs. Thus, the prices of iron and steel products of the various State enterprises were increased on average by 196%, electricity charges by 209%, telecommunications by 185% and port service by 198%. Indeed, in the consumer price index public services recorded an even lower price increase (177%).

Another item which showed a price increase considerably lower than the average was housing, owing in part to the existence of the Rental Law, which limits the periodical adjustments of residential rents to 80% of the variation of the national consumer price index (INPC).

b) *Wages*

After suffering appreciable losses in 1983, mainly owing to a contractive wage policy and the intensification of inflation, the real wages of persons employed in manufacturing stabilized during 1984 (see table 28). On the other hand, real wages in the public sector suffered a further considerable fall.

Table 27

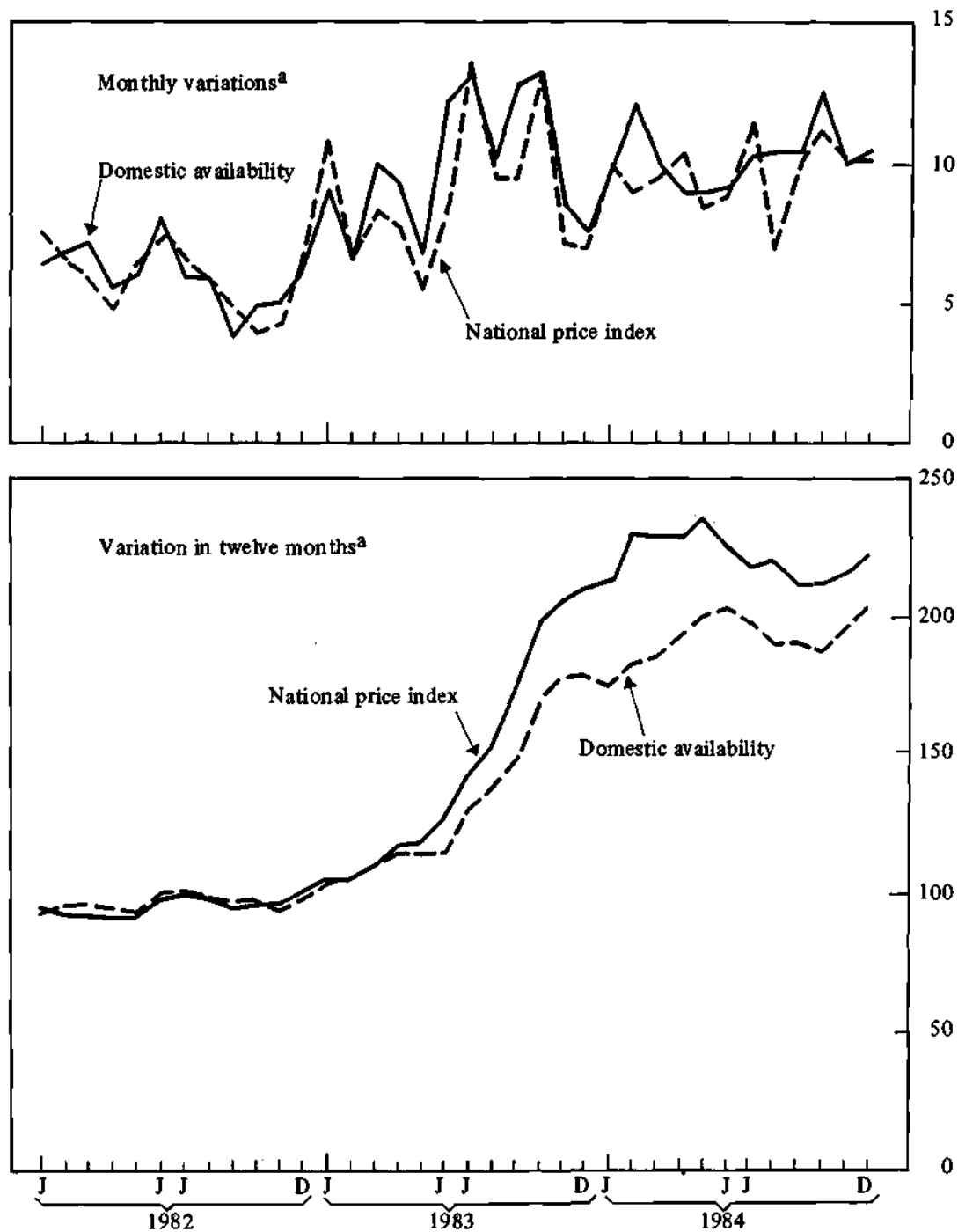
BRAZIL: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
December to December variation						
General price index ^a						
Total supply	76.8	108.5	92.8	99.2	212.9	225.6
Domestic availability	77.2	110.2	95.2	99.7	211.0	223.8
Wholesale price index						
Total supply	79.5	118.7	90.5	96.8	238.4	233.2
Agricultural products	80.5	138.2	70.7	89.0	335.8	230.5
Industrial products	78.8	110.3	99.7	99.8	200.5	233.2
Domestic availability	80.1	121.3	94.3	97.7	234.0	230.3
Raw materials	76.3	110.7	86.1	81.5	214.4	230.6
Foodstuffs	84.8	130.8	85.9	98.9	299.5	223.6
Consumer price index						
Rio de Janeiro	76.0	86.3	100.6	101.8	177.9	208.7
Food	86.4	90.9	96.0	99.9	256.9	224.5
Construction costs						
Rio de Janeiro	63.1	113.0	86.1	108.0	148.9	213.4
National consumer price index	...	95.3	91.2	97.9	172.9	203.3
Variation between annual averages						
General price index						
Total supply	54.3	98.4	106.8	94.2	156.3	222.5
Domestic availability	53.9	100.2	109.9	95.4	154.5	220.6
Wholesale price index						
Total supply	55.9	106.5	108.2	92.0	168.3	236.2
Domestic availability	55.4	109.2	113.1	94.0	164.9	232.9
Consumer price index						
Rio de Janeiro	52.7	82.8	105.6	98.0	142.0	196.7
Construction costs						
Rio de Janeiro	49.3	96.9	101.0	98.2	119.6	195.1
National consumer price index	...	...	99.8	96.8	134.8	191.1

Source: Getúlio Vargas Foundation, *Conjuntura Econômica*, and Central Bank of Brazil, *Informativo Mensal*, several issues.

^aThe price index is a weighted average of the indexes of wholesale prices (60%), the costs of living in Rio de Janeiro (30%) and construction costs in Rio de Janeiro (10%).

Figure 2
BRAZIL: VARIATION OF PRICE INDEX



^aPercentage variations.

During most of the year wage adjustments were effected in accordance with Legislative Decree No. 2065 of October 1983, which was finally ratified by the National Congress after negotiations lasting over four months. By virtue of this decree, workers' incomes were grouped in brackets, an adjustment of 100% of the increase in the national consumer price index being granted only in respect of that part of each wage which was equivalent to a maximum of three minimum wages, with decreasing adjustments (up to 50% of the variation of the INPC) paid in respect of the higher brackets. In the course of the year, however, as a result of heavy pressure from the trade unions, various productive sectors began to grant adjustments equal to 100% of the INPC increase on higher brackets or on the total wage, despite the fact that it was illegal to transfer these cost increases to prices.

In October 1984 a new wage law was passed which recognized the practice that was being followed in major sectors. The new scheme maintained the adjustment of 100% of the INPC increase for the wage brackets up to the equivalent of three minimum wages (as in the former case), but raised to 80% the adjustments authorized for all the remaining brackets, and it also provided that, through direct negotiations between employers and wage-earners, this coefficient might be raised to the total price index variation.

In May 1984 the process of standardization of the minimum wage throughout the whole country was completed, with the establishment of a monthly minimum wage of 97 200 cruzeiros (US\$ 67 at the current exchange rate). In November a new adjustment (71%) was granted. Thus in 1984 the annual average minimum wage was adjusted by 174% (with the exception of Recife, where it was increased by 204% in order to bring it into line with the prevailing national wage). In most of the States the adjustments implied further considerable reductions in the real minimum wage (see table 29).

The adjustments to hourly wages in the construction sector fluctuated between 172% and 215%, in accordance with occupational category. The annual average wages of civil servants employed by the federal Executive were increased by only 120%, a much lower figure than that of price increases, with the result that this became one of the sectors most affected by the wage policy applied by the government in 1983.

5. Monetary and fiscal policy

a) *Monetary policy*

The accumulation of international reserves and the problems that once again arose in the control of public expenditure resulted in a considerable expansion of the means of payment and of the monetary base. Hence the authorities had difficulty in carrying out the monetary policy.

Table 28

BRAZIL: AVERAGE WAGES IN INDUSTRY

(Base 1976 = 100)

	Average nominal wage		Consumer price index		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	6 929.3	117.2	5 896.9	137.7	117.5	-8.6
1984	20 446.4	195.1	17 619.9	198.8	116.0	-0.1

Source: Getúlio Vargas Foundation and Brazilian Geographical and Statistical Institute (IBGE).

^aCalculated on the basis of a simple average of the consumer price indexes for Rio de Janeiro, São Paulo, Belo Horizonte and Porto Alegre

Table 29

BRAZIL: COST OF LIVING AND MINIMUM WAGES

Main cities	Indexes (1978 = 100)				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984
Nominal wage								
São Paulo	580.0	1 153.4	2 474.0	6 788.8	102.9	98.9	114.5	174.4
Rio de Janeiro	580.0	1 153.4	2 474.0	6 788.8	102.9	98.9	114.5	174.4
Belo Horizonte	580.0	1 153.4	2 474.0	6 788.8	102.9	98.9	114.5	174.4
Porto Alegre	624.3	1 241.5	2 663.0	7 307.3	102.9	98.9	114.5	174.4
Distrito Federal	580.0	1 153.4	2 474.0	6 788.8	102.9	98.9	114.5	174.4
Recife	656.8	1 345.1	2 971.3	9 044.7	107.7	104.8	120.9	204.4
Consumer price index								
São Paulo	523.1	991.7	2 336.4	6 364.5	95.6	89.6	135.6	172.4
Rio de Janeiro	573.8	1 136.0	2 749.1	8 156.6	105.5	98.0	142.0	196.7
Belo Horizonte	687.5	1 345.3	3 178.9	10 592.2	104.6	95.7	136.3	233.2
Porto Alegre	622.5	1 225.7	2 953.9	8 652.1	112.0	96.9	141.0	192.9
Distrito Federal	656.3	1 352.5	3 443.5	10 950.2	112.8	106.1	154.6	218.0
Recife	708.3	1 463.8	3 914.2	11 879.6	118.2	106.7	167.4	203.5
Real minimum wage								
São Paulo	110.9	116.3	105.9	106.7	3.7	4.9	-9.0	0.7
Rio de Janeiro	101.1	101.5	90.0	83.2	-1.3	0.4	-11.4	-7.5
Belo Horizonte	84.4	85.7	77.8	64.1	-0.8	1.5	-9.2	-17.6
Porto Alegre	100.3	101.3	90.2	84.5	-4.3	1.0	-11.0	-6.4
Distrito Federal	88.4	85.3	71.8	62.0	-4.6	-3.5	-15.8	-13.7
Recife	92.7	91.9	75.9	76.1	-4.8	-0.9	-17.4	0.3

Source: ECLAC, on the basis of data supplied by the Central Bank of Brazil and the Getúlio Vargas Foundation

The means of payment showed a growth of over 200%, very near to that of inflation, in contrast with what had occurred in previous years, when the growth of money outside banks had remained far below the variation in prices. The monetary base expanded by over 240%, greatly exceeding the government's target, which was 50% for the whole year (see tables 30 and 31).

The monetary authorities operated actively on the open market in order to control the growth of the monetary base, but this was not enough to reduce the expansion generated by the external sector. The monetary impact caused by an accumulation of international reserves above that which had been foreseen was very difficult to neutralize, despite the severity of the measures adopted. Furthermore, the monetary authorities had to operate under severe restrictions, in view of the limited contribution that could be expected from fiscal policy.

Despite this pronounced expansion of the means of payment and the monetary base, the agreements with the International Monetary Fund were not affected, and the performance criteria laid down in the letters of intent were met with some margin to spare. Indeed, the evolution of the net domestic credit of the monetary authorities⁹ was always below the quarterly limits agreed with the Fund (see table 32).

The main factors behind the increase in emission were the exchange operations and the payments made by the monetary authorities in order to meet the commitments in respect of the external debt of the State enterprises. Among the exchange operations, besides the variation in the international reserves there was also a drop in foreign currency deposits in the Central Bank.¹⁰ Other factors of expansion of the monetary base were the credits of the Banco Do Brasil; the operations of

⁹ The net domestic credit of the monetary authorities corresponds to the difference between the monetary liabilities and the net international reserves of the monetary authorities.

¹⁰ Debtors in respect of foreign loans may have accounts in foreign currency in the Central Bank. These funds may only be used for the fulfilment of obligations with the foreign banks or for special cases expressly defined in the regulations in force.

the Central Bank associated with the maintenance of regulatory stocks; the fiscal and credit subsidies to wheat, sugar cane and the production of fuel alcohol; and the financing of the deficit of the social security system (see table 33).

In 1984 credits for exports were not a factor of expansion of the monetary base, in contrast with what occurred in previous years. This new situation is attributable to the modification of the credit system by virtue of a Central Bank regulation which at the end of 1983 raised the interest rates for loans granted to the export sector to 100% of the variation of the monetary correction index plus 3% annually.¹¹ Subsequently, in August, it was decreed that private and official commercial banks should finance the credits granted to exporters with their own resources. At the same time it was decided that there should be a subsidy in respect of the real interest on these transactions of up to 15 percentage points per year for the credit certificates issued between January and July 1984, and of 10 points for loans granted as from August.¹²

Table 30

BRAZIL: PRIVATE SECTOR LIQUIDITY
(Percentage variations between end-of-December balances)

	M ¹	M ²	M ³
1980	70.2	65.7	72.3
1981	87.2	104.7	120.0
1982	65.0	83.8	100.9
1983	95.0	135.5	170.2
1984	203.5	257.9	253.4

Source: Getúlio Vargas Foundation, *Conjuntura Econômica*, February 1985.

Note: M¹ = Means of payment (currency outside banks + demand deposits in the monetary system).

M² = M¹ + demand deposits in the public savings banks and the Banco Nacional de Crédito Cooperativo + time deposits.

M³ = M² + savings deposits.

Table 31

BRAZIL: MONETARY BASE AND MEANS OF PAYMENT
(Percentage variations)

	Monetary base		Means of payments	
	During the year	Over last 12 months	During the year	Over last 12 months
1982				
March	8.0	84.0	-8.3	86.7
June	22.3	83.1	11.7	84.4
September	39.4	81.5	23.7	87.6
December	87.3	87.3	65.0	65.0
1983				
March	8.4	87.9	-1.8	76.7
June	27.2	94.8	23.2	81.9
September	53.3	106.0	45.0	93.4
December	96.3	96.3	95.0	95.0
1984				
March	11.1	101.1	8.3	115.2
June	57.2	142.7	38.8	119.8
September	108.7	167.2	86.2	150.4
December	243.8	243.8	203.5	203.5

Source: Central Bank of Brazil, *Informativo mensal*, January 1985.

¹¹ Resolution 884 of 21 December 1983.

¹² To determine the real interest implicit in each operation, Resolution 950 established that the nominal interest should be deflated in accordance with the variation of the monetary correction index for the Readjustable Obligations of the National Treasury (ORTN).

Table 32

**BRAZIL: GOALS AND RESULTS OF SOME INDICATORS AGREED WITH
THE INTERNATIONAL MONETARY FUND FOR 1984**
(Billions of cruzeiros)

Quarter	Net domestic assets of the monetary authorities ^a		Financing needs of the public sector ^b	
	Goal	Achieved	Goal	Achieved
I	5 350	4 365	11 750	9 686
II	4 550	3 105	23 750	23 648
III	1 600	428	44 500	45 466
IV	-50	-859	67 800	79 800

Source: Central Bank of Brazil, *BRAZIL — Programa Econômico - Ajustamento Interno y Externo*, March 1985.

^aBalance at end of quarter.

^bAccumulated flow in the year.

Table 33

**BRAZIL: MAIN FACTORS OF EXPANSION AND CONTRACTION
OF THE MONETARY BASE**
(Variation in billions of cruzeiros)

	1981	1982	1983	1984 ^a
A. Factors of expansion	1 615	3 255	8 139	25 024
Credit to the agricultural sector	574	1 431	2 280	7 396
Crops	384	794	1 446	4 903
Marketing of wheat	65	284	517	1 544
Minimum prices	95	181	-139	2 611
Sugar: exports and cost equalization	32	172	456	688
Export credits	276	494	975	-260
Credit to the public sector	203	403	2 290	5 431
Public debt ^b	-	218	2 290	-
Special operations ^c	203	186	-	5 431
Credit from the Central Bank of Brazil	358	280	762	1 379
Special funds and programmes	227	77	458	425
Transfers to financial institutions	25	95	118	324
Others	106	108	186	630
Other credits from the Banco do Brasil	157	381	1 248	4 131
Credit to PROALCOOL	107	68	116	-
Exchange operations ^d	-	-	-	6 440
Other accounts (net variation)	-58	198	468	507
B. Factors of contraction	1 127	2 224	6 161	14 378
National Treasury	253	686	2 711	5 729
Cash balance	3	7	14	21
Transfers	250	680	2 696	5 708
Exchange operations	231	528	1 814	-
Resources of the Banco do Brasil	-	487	-	-
Fund and programme resources	-	336	8 101	812
Time deposits in the Banco do Brasil	91	110	304	1 204
Amortization of the social security system debt	-	77	-7	-1 386
Public debt	552	-	-	9 830
Obligatory deposit on time deposits	-	-	529	-1 811
C. Monetary base (A - B)	489	1 031	1 978	10 646

Source: Central Bank of Brazil, *Informativo Mensal*, January 1985 and Getúlio Vargas Foundation, *Conjuntura*, February 1985.

^aPreliminary figures.

^bNet purchases of Federal Government public debt securities.

^cRefers to the payments made by the Banco do

Brazil for the external debt of State enterprises and other National Treasury operations with the monetary authorities.

^dIncluded in other accounts.

^eRefers to reserve operations plus the variations in the deposits in foreign currency in the Central Bank.

The monetary authorities also sought to reduce the monetary impact of agricultural credits, which in former years had been one of the main factors of expansion of the monetary base. To this end, loans to the agricultural sector, which had traditionally included a high implicit subsidy, were made subject to full readjustment as regards monetary correction and an annual rate of interest 3%. Likewise, a change was made in the mechanism for calculating the minimum amounts that the commercial and investment banks must allocate to the agricultural sector.

Operations with the public debt were the main factor of contraction of the monetary base. Ten thousand billion cruzeiros — a sum equivalent to 70% of the average volume of currency outside banks — were withdrawn from circulation in the course of the year. This net flow in favour of the government was also very high in real terms, exceeding by far the amount recorded in previous years. Transfers from the National Treasury to the monetary authorities to meet the payments made by the latter on behalf of the Federal Government represented another major factor of contraction, although they were 30% lower in real terms than those of the previous year.

In contrast, the compulsory reserve in respect of time deposits in commercial banks did not this time have a contractive effect. Indeed, it had an appreciable expansive impact, since in September the mechanism for establishing its composition was changed to permit the use of federal public debt securities in place of paper money.

The measures adopted to control liquidity helped to maintain a high real interest rate, which encouraged the expansion (over 300%) of time deposits (see tables 34 and 35).

Other financial assets (such as readjustable deposits in savings banks and mortgage bonds) grew less, despite their high profitability, mainly owing to the difficulties encountered by the institutions of the Housing Finance System (SFH), which in several cases made necessary the intervention of the Central Bank. These problems were basically due to the increasing delay in the payment of the interest and amortization instalments on loans: a phenomenon which had already begun to appear in 1982 because the instalments continually went up as a result of the use of the monetary correction index applicable to the Readjustable Obligations of the National Treasury (ORTN), whereas the remunerations of the majority of the debtors were only partly readjusted. In order to cope with these difficulties, the readjustments and interest obtained in respect of deposits in savings banks were made exempt from income tax. Furthermore, a new system of amortization was introduced for the benefit of debtors and they were granted a subsidy to reduce the value of the instalments. This latter benefit, the cost of which was borne by the SFH, allowed an initial reduction of 15% in the instalments: a percentage which would gradually diminish.

The balance of the federal, State and municipal domestic public debt — excluding that corresponding to the monetary authorities — amounted at the end of 1984 to close on 58 400 billion cruzeiros (US\$ 18.4 billion), a level almost 400% higher than that of the previous December. The Readjustable Obligations of the National Treasury continued to represent more than 80% of the total

Table 34

**BRAZIL: DEPOSITS AND OTHER DOMESTIC OBLIGATIONS
OF THE FINANCIAL SYSTEM WITH THE PRIVATE SECTOR**

(Billions of cruzeiros)

	Balance at end of year				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Demand deposits	1 978	3 237	6 785	20 064	73.8	63.7	109.6	195.7
Fixed-term deposits	1 560	33 360	9 646	38 923	144.1	115.4	187.1	303.5
Saving deposits	2 485	5 720	18 163	61 329	152.3	130.2	217.5	237.7
Bills of exchange	494	1 785	4 677	14 515	79.6	261.3	162.0	210.3
Mortgage bonds	27	30	79	126	68.8	11.1	163.3	59.5
Total	6 544	14 132	39 350	134 957	114.4	116.0	238.3	243.0

Source: Central Bank of Brazil, *Boletim Mensal*, December 1984.

^a Preliminary figures.

Table 35

BRAZIL: MONTHLY INTEREST RATES^a

(Percentages)

	Deposits			Loans		Inflation rate ^c
	Open market operations	Deposit bonds	Savings deposits	Working capital	Consumer credit ^b	
1983						
January	6.6	9.4	6.5	9.7	8.4	9.0
February	6.9	9.8	7.2	10.5	8.1	6.5
March	8.2	10.1	9.6	11.0	8.2	10.1
April	11.9	10.3	9.6	11.1	8.6	9.2
May	9.7	10.6	8.5	11.3	9.3	6.7
June	9.7	10.8	8.3	11.3	9.4	12.3
July	10.6	10.4	9.6	11.0	9.3	13.3
August	9.5	11.1	9.0	11.3	9.4	10.1
September	9.2	11.5	10.0	12.0	9.5	12.8
October	8.9	11.7	10.3	12.4	9.7	13.3
November	9.5	11.8	8.9	12.4	9.8	8.4
December	8.2	12.2	8.1	12.3	9.9	7.6
1984						
January	9.0	12.3	10.3	12.6	9.8	9.8
February	11.3	12.4	12.8	11.7	9.9	12.3
March	11.6	12.3	10.6	11.5	10.6	10.0
April	9.8	12.1	9.4	11.8	11.4	8.9
May	8.5	12.2	9.4	12.8	11.9	8.9
June	10.0	12.4	9.7	12.9	12.1	9.2
July	11.4	12.5	10.8	13.0	11.9	10.3
August	10.1	12.4	11.1	13.5	12.4	10.6
September	11.5	12.6	11.0	13.6	12.9	10.5
October	10.9	12.8	13.2	14.5	13.3	12.6
November	10.7	12.5	10.4	14.5	13.5	9.9
December	11.1	12.4	11.1	14.3	13.7	10.5

Source: ECLAC, on the basis of official data.

^a Average monthly rates.^b For sale of automobiles.^c General Price Index, with reference to domestic availability.

of public bonds in circulation. The share of National Treasury Drafts (LTN), on the other hand, remained low, after the heavy fall recorded in 1982 when the authorities gave preference to readjustable securities. As a result of this high level of domestic public debt the burden of interest commitments continued to increase, so that the problem of the fiscal deficit became still more acute.

The total domestic public debt of States and municipalities increased by 220%: a lower figure than that for the federal public debt and similar to that of the monetary correction index. Hence, the local and State governments faced serious difficulties in financing their heavy deficits. This forced them to have recourse to credit from the State Banks, thus aggravating the liquidity problems of these institutions, which had to be assisted by the monetary authorities.

b) *Fiscal policy*

Fiscal policy once again became one of the central elements of economic policy, given the importance of the reduction of the public sector deficit in the adjustment plan which has been applied by the Brazilian Government, with the support of the International Monetary Fund, since the end of 1982. As in 1983, strict ceilings were established on the financing of the public sector. The government undertook to reduce the nominal deficit from 19% to 14% of the gross domestic

product. As regards operations,¹³ a small surplus was to be achieved, equivalent to 0.2% of the gross domestic product (see table 36).

The results obtained revealed that the goals proposed were only fulfilled in the operational field. In contrast, the nominal deficit in relation to the gross domestic product amounted to 20%, exceeding both that forecast at the beginning of the year and that recorded in 1983. This greater deficit was due to the high rate of inflation, which caused a rise in expenditure on monetary and exchange correction. Despite the good performance in the operational field, the financial situation of the public sector remained difficult, in view of the negative influence of the heavy internal and external indebtedness.

Another factor which had an adverse effect on the fiscal situation was the performance of the federal government revenues. These increased by close on 200%, which in real terms represented a fall of 7% (see table 37). This poor result is explained by the aforementioned drop in the collection of most taxes. The expansion of the level of activity had no impact on fiscal income, since it was mainly

Table 36

BRAZIL: FINANCING OF THE PUBLIC SECTOR

(Flows in billions of cruzeiros)

	1981	1982	1983	1984 ^a
A. Nominal financing	3 082	8 035	22 382	79 388
Domestic financing	2 725	6 603	22 023	75 908
Federal government	848	2 809	5 345	28 003
Public debt	1 536	2 591	4 406	4 666
Monetary authorities	-551	217	2 291	9 830
Commercial banks	-57	-106	52	-2 196
Other financial institutions	-239	-613	-2 609	-5 729
State enterprises	1 029	2 107	10 598	27 795
Monetary authorities	190	117	2 439	8 461
Payments of external debt ^b	173	64	2 246	6 742
Others	17	53	603	1 719
Commercial banks	389	892	3 908	11 699
Other financial institutions	514	1 089	2 878	8 816
Suppliers	15	205	394	428
Public debt	-79	-196	-389	-1 609
State and municipal governments	902	2 180	7 337	24 468
Public debt	263	621	1 641	5 832
Monetary authorities	13	13	170	887
Financial system	626	1 546	7 072	17 749
Decentralized agencies	19	249	734	1 916
Funds and programmes	-125	-621	-1 866	-7 041
Social security	52	-121	-125	767
External financing	357	1 432	359	3 480
B. Monetary and exchange correction	1 755	4 879	20 079	80 290
C. Operational financing (A-B)	1 327	3 156	2 303	-902
Percentages				
Nominal financing/gross domestic product	12.0	15.8	18.6	20.5
Operational financing/gross domestic product	5.2	6.2	1.9	-0.2

Source: Central Bank of Brazil, *Relatório 1984*, March 1985.

^aPreliminary figures.

^bPayments made by the Bank of Brazil in respect of the external debt of the public enterprises.

¹³Excluding outlays on monetary correction in respect of securities subject to readjustment and those deriving from the monetary devaluation on commitments expressed in foreign currency.

Table 37

**BRAZIL: CURRENT INCOME OF THE NATIONAL TREASURY AND OF
STATE AND MUNICIPAL GOVERNMENTS**

	Billions of cruzeiros				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Current income of National Treasury	2 261	4 618	11 336	33 788	85.4	104.2	145.5	198.1
Taxes	2 016	4 064	9 560	29 469	91.2	101.6	135.2	208.3
Income tax	640	1 355	3 494	12 046	108.6	111.5	158.0	244.7
Manufactured products	501	990	1 897	4 112	90.3	97.6	91.6	116.8
Financial operations	283	557	787	3 051	138.5	96.8	41.4	287.4
Electric energy	60	128	274	705	122.9	112.1	113.6	157.7
Lubricants and fuels	126	285	298	640	47.7	125.9	4.7	114.8
Imports	138	230	478	1 259	57.7	66.2	107.9	163.5
Exports	22	27	610	2 294	-63.1	27.0	2 132.6	276.4
Telecommunications	49	103	221	576	123.2	109.6	114.6	161.0
Taxes for social programmes	82	144	966	3 117	107.4	76.6	571.4	222.6
Other taxes	115	247	535	1 341	149.7	114.4	116.9	150.4
Other current income	245	553	1 776	4 319	48.6	125.9	220.9	143.2
Rates	85	152	320	759	54.0	78.5	109.8	137.7
Miscellaneous income	160	401	1 457	3 560	45.8	151.2	263.1	144.4
Current income of State governments ^b	1 469	3 015	6 663	21 487	97.5	105.2	121.0	222.4
Tax on goods traffic ^c	1 210	2 468	5 484	17 789	99.0	104.0	122.2	224.4
Sao Paulo	490	996	2 170	6 552	91.7	103.4	117.9	202.0
Rio de Janeiro	130	265	560	1 866	98.9	104.3	111.3	223.0
Minas Gerais	112	225	466	1 599	98.0	102.2	106.7	243.4
Southern Region ^d	229	456	1 026	3 406	104.7	99.2	125.0	232.1
Other States	250	526	1 263	4 366	109.8	110.2	140.2	245.8
National Treasury transfers for taxes destined for States	260	547	1 180	3 699	90.9	110.6	115.8	213.5
Current income of municipalities								
National Treasury transfers for taxes destined for municipalities	139	301	686	2 561	116.1	116.1	127.7	273.4

Source: Central Bank of Brazil, *Boletim mensal*, December 1984.

^aPreliminary figures. ^bIncludes only that collected for the two specified concepts. There are other taxes but the two given in the table represent a high proportion of the revenue of the States. ^cThe income from this tax for 1984 was estimated on the basis of real cumulative figures up to October. ^dComprises the States of Paraná, Santa Catarina and Rio Grande do Sul.

due to the rise in merchandise exports, which are exempt from taxation. In particular, it should be noted that revenue from the tax on processed products fell (-32%) as a result of the reduction of the rates on several products for which demand had plummeted in the three preceding years.

Revenue from income tax increased by close on 8% in real terms, with the result that its share, which had been 26% in 1981, rose to 36%. This result was due in part to the increase of 32% attributable to the changes whereby the tax was now collected at source.

The yield of the tax on financial operations increased substantially (21%) in real terms, with the inclusion from January 1984 of the exchange contracts for petroleum imports at a rate of 10%, which was later doubled. In October, in order to moderate the rises in domestic fuel prices, operations relating to petroleum were once again exempted from this tax.

The policy of containing public expenditure did not achieve the results expected, and total expenditure increased more than current income. Only in the cases of personal remunerations and subsidies on credit were the government targets achieved. Personal remunerations fell appreciably (-15%) in real terms, since the adjustments of wages and salaries were always lower than the inflation indexes.

Expenditure on the subsidies implicit in credit operations also showed a clear decline (-60%), attributable to the widespread elimination of loan transactions' with negative real interest rates. Loans to priority activities such as agriculture and exports, which formerly received heavy subsidies, were made subject to readjustment by the full amount of the monetary correction index for ORTN bonds.

Moreover, in order to help to reduce the fiscal deficit, the credit bonuses for exports began to be gradually reduced as from November, with their total elimination planned for March 1985.

Expenditure on the servicing of the domestic and external public debt, on the other hand, showed considerable real increases which seriously affected the control of public sector outlays. This eroded the effect of the restrictive measures applied to personal remunerations and subsidies to credit operations. The difficulties encountered with these expenses were due to the high level of indebtedness, to the severe readjustments of nominal loans resulting from the monetary and exchange correction, and to the high rates of interest.

Nor was there any fall in real terms in the public outlays made by the monetary authorities on behalf of the federal government (regulatory stocks, minimum prices, wheat subsidy, etc.), despite the intention of the government to eliminate expenditure outside the normal budgetary system. On the contrary, there was an increase of 27% in real terms as a result of the non-fulfilment of the programmes of gradual elimination of subsidies, due to a further upswing of inflation. It was also necessary to increase the subsidy for cane sugar production, owing to the plummeting of the price of this product in international markets.

The financial situation of the public enterprises remained extremely disturbing, owing to their enormous indebtedness and their difficulties in obtaining new resources from the international banks. These companies found themselves obliged to default on their commitments with the exterior, so that the Banco do Brasil had to take over the servicing of their debts, since these had been contracted under a National Treasury guarantee.

The State governments faced financial difficulties similar to the rest of the public sector, despite the fact that the sales tax —the main source of taxation resources at this level of administration— maintained its yield in real terms. Consequently their problems stemmed basically from the incapacity of the State authorities to apply measures to contain expenditure.

COLOMBIA

1. Recent economic trends: Introduction and summary

The Colombian economy recovered slightly during 1984. After having grown by around 1% in 1982 and 1983, the gross domestic product increased by 3% in 1984 (see table 1).

This expansion occurred especially in industry, construction and mining. The remaining sectors showed variations similar to those observed in previous years.

The industrial growth originated mainly in import activities which could most easily be substituted. The highest growth rates occurred in the production of consumer goods, intermediate goods of low technology and transport equipment. At the same time, there was a rise in output of those goods which could be exported through appreciable reductions in prices.

The agricultural sector grew by 2%, as in 1983, but the composition of production was very different. Whereas in 1984 coffee production fell abruptly, it had risen markedly in the previous year. At the same time activity shifted towards the most marketable crops: the output of oil plants, green vegetables and flowers increased while that of cereals diminished. The effects of this transformation on supply were offset by the enormous rise in potato production. At the end of the year, however, there began to appear some problems of supply and of a rise in the prices of foodstuffs.

The increase in unemployment, which began in 1982, continued and intensified during 1984, with the result that the rate of open unemployment in the four main cities of the country reached 13.5% (see figure 1). This behaviour is in line with the trends of the labour force and of the product. Whereas the former has grown by over 3% per year, the latter has reached this figure only sporadically during the last five years. Moreover, the apparent paradox that the increase in unemployment should coincide with economic reactivation is explained when the characteristics of the latter are taken into account. Owing to the regulations forbidding the immediate dismissal of workers, the industrial reactivation took place after a process of reduced production which did not entail a parallel fall in employment. The rise in output was therefore achieved by a greater utilization of the workers employed. Besides, the increase in the gross domestic product was moderate and did not occur in every activity. The performance of services and commerce, which are the urban activities contributing most to employment, was not very different from that of previous years. The dynamism stemmed mainly from the expansion of the industries concerned with import substitution and exports, which are carried on by large enterprises with a low capacity for labour absorption. Thus the reactivation took place in a way which reduced to the minimum the possibilities of employing new labour.

In 1982 and 1983 the country's trade deficit on current account was the largest in the region. Since 1983 various measures have been adopted to correct this imbalance: restrictions on the volume of imports were intensified, tariffs were raised and the rate of increase of the exchange rate was higher than that of domestic inflation. The first two measures were very effective and contributed to a fall of 22% in imports of goods between 1982 and 1984. In contrast, the effect of the devaluation has been relatively ambiguous. Its incidence on imports has been minimal, since the quantitative restrictions predominated. Moreover, the marked devaluation with respect to the dollar was largely offset by the revaluation of the latter in relation to the European currencies and the yen. There is no doubt that its impact on physical exports has been slight. The expansion of their volume in 1984 merely offset the falls recorded in the two previous years and was mainly represented by agricultural and mineral products, which could have achieved the same result with other less general incentives.

The drastic fall in imports and the recovery of exports helped to improve the external outlook. In 1984 the deficit on current account was US\$ 1.8 billion —that is, more than 1 billion less than that recorded in 1982— and the trade deficit was US\$ 900 million compared with one of close on US\$ 2.3

billion in 1982. The headlong fall in international reserves recorded since 1981 gradually slackened throughout the course of the year and at year's end showed clear signs of being halted.

On the other hand, the reduction of inflation, which had been the major achievement of the economic policy in the two preceding years, ceased midway through 1984. The rise in real wages that took place during the last two years and the increase in the exchange rate created heavy cost pressures which the enterprises succeeded in transferring to the consumers as demand increased. Hence the rise in the price index of industrial products, and particularly that of imports, far exceeded that of the global index. Similarly, the increased incomes deriving from the reactivation resulted in a rise in the demand for foodstuffs higher than that of production, creating at the end of the year an increase in their prices. All these factors caused the inflation rate to rise in the last months of the year and tend to remain above 25%.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	19 379	20 421	21 256	21 740	21 946	22 157	22 829
Population (millions of inhabitants)	24.71	25.25	25.79	26.36	26.93	27.52	28.11
Per capita gross domestic product (1970 dollars)	784	809	824	825	815	805	812
Growth rates							
B. Short-run economic indicators							
Gross domestic product	8.5	5.4	4.1	2.3	0.9	1.0	3.0
Per capita gross domestic product	6.2	3.2	1.9	0.1	-1.2	-1.2	0.9
Unemployment rate ^b	8.8	8.8	9.6	8.2	9.3	11.8	13.5
Consumer prices ^c							
December to December	17.8	29.8	26.5	26.7	23.9	16.7	18.3
Variation between annual averages	17.1	24.7	27.2	28.1	24.6	19.8	15.9
Real wages and salaries ^d	11.5	6.5	0.8	1.4	3.7	5.0	7.6
Money	30.3	24.2	27.9	21.2	25.4	25.6	23.2
Current income of government	32.6	36.3	32.5	18.6	21.2	25.8	25.6
Total expenditure of government	39.8	38.9	50.3	31.6	35.5	18.4	24.7
Fiscal deficit/total expenditure of government ^e	7.5 ^f	5.5 ^f	7.0	27.1	34.8	30.8	30.2
Current value of exports of goods and services	16.3	14.3	17.4	-19.3	3.3	-9.1	12.3
Current value of imports of goods and services	24.2	14.4	39.2	10.4	11.3	-9.2	-12.2
Terms of trade (goods and services)	-14.3	-10.4	-2.8	-14.6	6.4	3.5	0.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	532	606	-141	-1 733	-2 268	-2 054	-895
Net payment of profits and interest	301	256	198	425	787	839	1 064
Balance on current account	294	490	-159	-1 895	-2 897	-2 738	-1 815
Balance on capital account	154	969	1 213	2 328	2 021	828	536
Variation in net international reserves	676	1 552	1 311	199	-711	-1 782	-1 261
Total disbursed external debt	4 033	5 222	6 300	7 885	9 410	10 405	11 336

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bAnnual average rate in Bogotá, Barranquilla, Medellín and Cali.

^cReal wages of manual workers in manufacturing.

^dPercentage.

^eSurplus.

^fNational index for manual workers.

The fiscal policy has encountered great difficulties. The tax reforms adopted in 1983 and 1984 were conceived as a means of raising taxes and correcting the structural trend of the deficit. At the same time expenditure was increased during some years to expand domestic demand. Nevertheless, it was clear in 1984 that the two objectives had not been satisfactorily reconciled. The rigidity of expenditure forced the Government to introduce repeated tax adjustments aimed at rapidly raising income, which had a negative effect on fiscal progressiveness and made no appreciable reduction in the deficit.

The monetary policy was determined by the external sector, fiscal conditions and the demand for credit to cope with the difficulties of the enterprises and the maladjustments of the financing funds. In general terms, the monetary authority had not much power of discretion in regulating these sources of expansion. The excesses of liquidity counteracted them through the placement of securities in the open market and the increase of import deposits.

As a result of this situation the expansion of the means of payment came to close on 23%, a rather high figure in view of the Government's aim to reduce inflation.

The domestic interest rates remained excessively high. Indeed, no particular effort has been made to reduce them to appropriate levels. On the contrary, the exchange-rate policy and the policy of open-market operations helped to maintain the trend of previous years.

The Colombian economy has undoubtedly been confronted with a very complex situation. During 1982 and 1983 there occurred one of the most serious recessions in the last 50 years and a considerable imbalance in the external sector. In these circumstances it was indispensable to design and apply a policy which would reactivate the economy, correct the external disequilibrium, and avoid a recrudescence of inflation. It is certain that the Government contemplated the three objectives. At the outset priority was given to containing inflation, then to reactivation and finally to the adjustment of the external sector. Nonetheless, the general policy, which has been mainly based on quantitative restrictions on imports, the fiscal deficit and the rate of exchange, has been far from reconciling these objectives. This was only achieved, and no more than partially, with the quantitative restrictions, which initially reduced imports and enlarged the demand for import-substitution activities without seriously affecting the level of prices. Admittedly, these conditions changed as the possibilities of substitution were gradually exhausted. In contrast, the fiscal policy was exposed to serious errors of gradation and lacked the flexibility for adapting itself to external conditions. The fiscal deficit, instead of operating as a means of compensating the monetary contraction generated by the fall in the reserves, developed into a factor which stimulated it. Although it contributed to the reactivation of production, it nevertheless had an adverse effect on the reserves and inflation. In its turn, the exchange-rate policy had contradictory results. Its positive effect on exports was more than offset by the flight of capital, which was stimulated by the high yields of external placements. Moreover, the exchange policy had a powerful effect on the rise in prices of industrial products and to a lesser degree on those of agricultural products.

On the whole, the results were not satisfactory. None of the proposed objectives was fully achieved. The reactivation was weak and did not help to reduce unemployment; the adjustment of the external sector was slow and did not prevent the headlong fall of the reserves; and in the end inflation tended to accelerate.

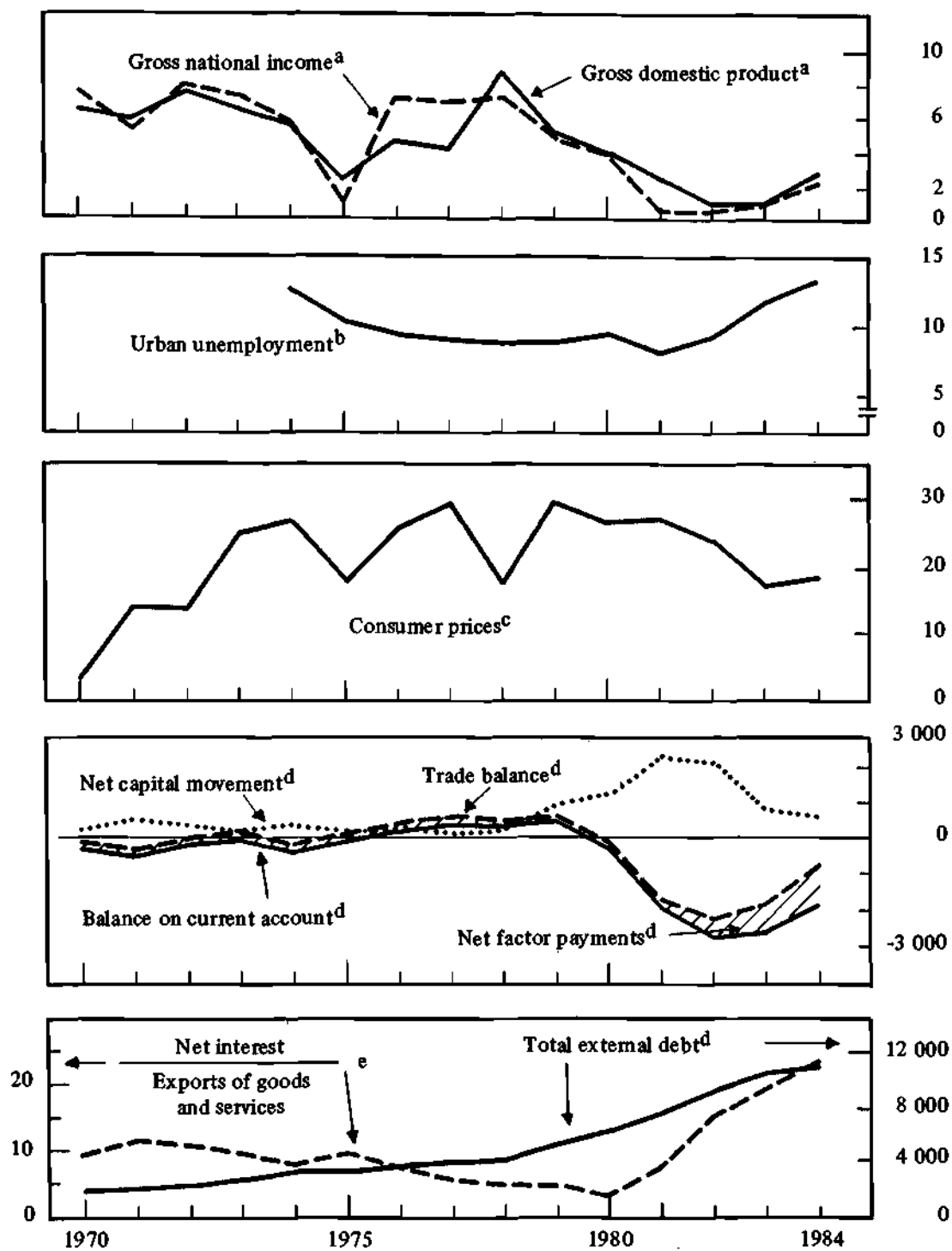
2. Trends in economic activity

a) *Total supply and demand*

Economic activity recovered slightly in 1984. The product increased by 3%, the highest rate recorded since 1981, while the national income rose by 2.5%. Thus there was a persistence of the trend initiated in 1981, since when the national income has grown at a lower rate than that of the gross domestic product. The country has destined a notable part of its production to the net payment of factors to the exterior, which have increased to a surprising extent. In fact, they rose by almost 42% in 1984 and were seven times as high in real terms as the level attained in 1980 (see table 2).

In 1984 the volume of imports of goods and services fell by over 14%. The increased domestic production was largely destined to replace imported goods. Hence the total supply increased by scarcely more than 1%, a lower rate than that of output and not very different from that of previous years (see table 3).

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAnnual average rate in Bogotá, Barranquilla, Medellín and Cali.

^cPercentage variation from December to December.

^dMillions of dollars.

^ePercentages.

Table 2

COLOMBIA: EVOLUTION OF THE GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	21 728	21 857	22 077	22 622	0.6	0.6	1.0	2.5
a) Gross domestic product	21 740	21 946	22 157	22 829	2.3	0.9	1.0	3.0
b) Terms-of-trade effect	46	144	185	202	-86.8	211.2	28.3	8.7
c) Net factor payments to the exterior	146	295	332	469	105.9	101.4	12.6	41.5
d) Net private transfers received from the exterior	88	62	67	60	37.2	-29.7	8.6	-11.2

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 3

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	24 427	24 511	24 845	107.4	109.9	108.7	2.4	2.1	0.3	1.4
Gross domestic product at market prices	21 946	22 157	22 829	100.0	100.0	100.0	2.3	0.9	1.0	3.0
Imports of goods and services ^b	2 481	2 354	2 016	7.4	9.9	8.7	3.1	13.9	-5.1	-14.4
Total demand	24 427	24 511	24 845	107.4	109.9	108.7	2.4	2.1	0.3	1.4
Domestic demand	22 930	23 137	23 364	98.3	101.9	102.2	3.5	2.3	0.9	1.0
Gross domestic investment	4 910	4 694	4 533	16.7	19.4	19.9	13.2	5.3	-4.4	-3.4
Gross fixed investment	4 044	4 029	3 969	16.0	17.4	17.4	6.3	2.7	-0.4	-1.5
Construction	2 075	2 072	2 170	8.8	8.6	9.5	7.8	5.6	-0.1	...
Machinery	1 969	1 957	1 799	7.2	8.8	7.9	4.8	-0.1	-0.6	...
Changes in stocks	866	665	564	0.7	2.0	2.5				
Total consumption	18 020	18 443	18 831	81.6	82.5	82.3	1.2	1.5	2.3	2.1
General government	2 485	2 573	2 625	9.3	10.8	11.5	3.7	4.6	3.6	2.0
Private	15 535	15 870	16 206	72.3	71.7	70.8	0.8	1.0	2.2	2.1
Exports of goods and services ^b	1 497	1 374	1 481	9.1	8.0	6.5	-11.7	-0.6	-8.2	7.7

Source: ECLAC, on the basis of 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 in dollars at current prices, converted to constant 1970 values using price indexes calculated by ECLAC for that purpose.

The expansion of total demand originated primarily in exports —whose volume, after having fallen in 1983, grew by close on 8%— and in consumption, which increased by 2%. In contrast, investment fell by over 3%.

The indicators of supply and demand taken together show a change in the structure of production towards import-substitution activities and in a lesser degree towards exports. In this connection the most favoured sectors have been consumer goods, raw materials and intermediate products of low technology and transport equipment. In contrast, investment has been seriously affected. The restrictions on imports of equipment machinery and the impossibility of replacing these goods locally caused a fall in gross investment for the second year running, which will affect the rate of future growth.

b) *Growth of the main sectors*

The recovery of the economy originated mainly in industry. In the other sectors there were no important changes in relation to the previous year (see table 4).

i) *Agriculture*. In 1984 agriculture grew at a rate of 2%, a figure similar to that of 1983 and lower than the historical average (see table 5). The sector continued to be affected by the problems of productivity which have hindered its expansion in the last five years. Nevertheless, the structure of production improved in comparison with that of previous years. Whereas the expansion of output in 1983 was mainly due to the appreciable rise in coffee production, in 1984 it originated in the remaining crops.

In 1984 the shift of agricultural activity towards the production of oil plants continued. Thus the production of cotton increased by 87% and that of African palm by 16%. In contrast, the output of rice and wheat diminished and that of maize and sorghum remained more or less constant. This performance was closely related to the exchange-rate policy. The increase in the exchange rate gave greater stimulus to the cultivation of oil plants since they are more marketable than cereals, within the administrative framework of the Colombian economy. Something similar occurred in the case of flowers and green vegetables, which grew at rates approaching 10%.

The fall in cereal output affected domestic supplies. This effect went unnoticed as a result of the good performance of subsistence products, especially potatoes, whose output increased by 13%. The fall in the price of potatoes, owing to their importance in the shopping basket, offset the rising trends in cereal prices. Thus the acceleration in the food price index was only noticed towards the end of the year.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982 ^a	1983 ^a	1984 ^a	1975	1980	1984 ^a	1981	1982 ^a	1983 ^a	1984 ^a
Gross domestic product ^b	20 086	20 286	20 895	100.0	100.0	100.0	2.9 ^c	0.9	1.0	3.0
Goods	9 252	9 428	9 814	49.4	46.9	46.0	2.0	-1.1	1.9	4.1
Agriculture	4 832	4 919	5 017	25.3	24.4	23.5	3.3	-1.9	1.8	2.0
Mining	210	237	271	1.4	1.0	1.3	5.3	1.8	13.2	14.3
Manufacturing	3 334	3 351	3 562	18.9	17.5	16.7	-1.2	-1.4	0.5	6.3
Construction	876	921	964	3.8	4.0	4.5	8.1	4.0	5.1	4.7
Basic services	2 837	2 879	2 959	11.8	13.1	13.8	5.5	5.0	1.5	2.8
Electricity, gas and water	331	346	365	1.5	1.6	1.7	5.3	3.2	4.3	5.7
Transport, storage and communications	2 506	2 533	2 594	10.3	11.5	12.1	5.6	5.2	1.1	2.4
Other services	8 914	9 070	9 331	41.6	42.7	43.7	4.2	2.4	1.8	2.9
Commerce	2 711	2 659	2 731	14.0	13.4	12.8	1.6	1.6	-1.9	2.7
Financial, insurance, real estate institutions and business services	3 059	3 157	3 255	14.0	14.3	15.2	5.7	3.1	3.2	3.1
Ownership of dwellings	1 466	1 524	1 588	7.2	7.0	7.4	3.6	3.2	4.0	4.2
Community, social and personal services	3 144	3 254	3 345	13.6	15.0	15.7	5.0	2.5	3.5	2.8
Government services	1 866	1 939	1 999	7.8	8.8	9.4	5.7	2.4	3.9	3.1
Minus: Commission for bank services	692	734	749	2.8	2.7	3.5	18.1	10.5	6.1	2.0

Source: ECLAC, calculations on the basis of figures supplied by the National Bureau of Statistics (DANE).

^a Preliminary figures. Estimated on the basis of the growth rates of the gross domestic product at market prices.

The total were extrapolated independently, the sum of the former does not correspond with the latter.

^b As the individual activities and the total were extrapolated independently, the sum of the former does not correspond with the latter.

^c The discrepancies between these growth rates and those shown in tables 1, 2 and 3 are due to the fact that they involve different measurements of the product: in this instance, the factor costs and in the other cases, market prices.

Table 5

COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of agricultural production (1970 = 100)	129.6	156.0	158.9	162.2	165.4	3.2	-1.9	1.8	2.0
Production of the main crops ^b (thousands of tons)									
Cereals									
Rice	1 614	1 798	2 018	1 780	1 695	-0.5	12.9	-11.8	-4.8
Maize	723	854	898	864	864	3.0	2.0	-3.8	-
Sorghum	335	431	576	595	590	23.4	8.3	3.3	-0.8
Wheat	39	46	71	78	59	34.8	14.5	9.9	-24.4
Oil plants									
Raw cotton	401	353	154	130	243	3.7	-57.9	-15.6	86.9
Soya	169	155	99	122	94	-42.6	11.2	23.2	-23.0
African palm ^{cd}	39	70	85	102	118	14.3	6.5	20.0	15.7
Subsistence foods									
Common beans	62	84	73	82	80	-11.9	-1.4	12.3	-2.4
Potatoes	1 320	1 727	2 149	2 188	2 463	21.8	2.1	1.8	12.6
Yucca ^c	2 021	2 150	1 552	1 615	1 675	-	-27.8	4.1	3.7
Others									
Sugar cane ^{ee}	...	1 164	1 331	1 351	1 178	-1.4	15.9	1.5	-12.8
Unrefined sugar cane (panela) ^c	806	988	884	780	825	-5.4	-5.5	-11.8	5.8
Coffee ^f	510	931	728	824	694	-13.2	-9.9	13.2	-15.8
Bananas ^c	559	944	1 147	964	1 106	77.6	3.3	-16.0	14.7
Tobacco ^c	58	47	49	48	44	6.4	-2.0	-2.0	-8.3

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 Production of raw sugar.

^f Coffee-growing year, 1 October to 30 September.

The performance of coffee production changed appreciably in 1984. In the first place, the harvest was brought forward by several months, so that the high rate of growth recorded in 1983 is partly explained by the harvesting of the crop which normally would have taken place in 1984; in the second place, the hard winter which afflicted the country in 1984 affected the coffee harvests; finally, the policies of price and diversification in coffee which have been adopted in the last four years appear to be producing their first effects. All this resulted in a fall of 16% in the coffee crop.

The coffee policy was affected by the rise in the exchange rate, which helped to increase the incomes of the producers in national currency. A large part of these resources was deposited in the National Coffee Fund through the retention of coffee stocks, which rose from an average of under 46% in 1983 to one of almost 68% in 1984 (see table 6). In the face of these surpluses it was not easy to maintain the policy of moderation in prices which had been applied for some time past to regulate production. In fact, in the last year the domestic price of coffee beans rose more than inflation.

The financial situation of the Agricultural Financing Fund affected agricultural policy. Its disbursements were covered by resources of emission and credit remained approximately constant in relation to the previous year. Moreover, the resources were directed in preference to marketable goods. Credit for traditional agriculture fell appreciably, adversely affecting the supply of foodstuffs and thus accelerating inflation.

In brief, the expansion of agricultural activity was based on oil plants, flowers and green vegetables and on subsistence foodstuffs. These advances, however, were not the result of a rise in productivity and the enlargement of the agricultural area but derived in the main from the shift from

other crops. Thus, the agricultural sector has not succeeded in overcoming the factors which have caused its growth in the last five years to be lower than the historical average.

ii) *Industry.* After falling continuously between 1981 and 1983, industrial production grew by around 10% in 1984 (see table 7). The recovery began midway through 1983, intensified in the first half of 1984, and declined in the second half of the year. The industrial recession, which began in 1981, had originated in a fall in demand caused by the shift of part of this demand from domestic production to imports, and through a fall in exports. Both factors have been gradually changing. The government's policy with regard to quantitative controls of imports and the increased cost of external products has fulfilled the aims proposed. Thus, the volume of imports of goods and services fell by 5% in 1983 and by 14% in 1984. On the other hand, the expansion of United States imports and the devaluation of the exchange rate caused a reaction in exports, whose volume rose by almost 8% in 1984.

The increased industrial demand found a satisfactory response on the production side. The greatest effects were obtained in those items which can be more easily replaced by domestic production or which can be exported. Thus the highest growth rates were recorded in consumer goods, in intermediate goods of mineral and chemical origin, and in transport equipment and material (see table 7).

The change in the structure of demand generated by the trade policy was reinforced by the expansion of the aggregate demand deriving from the fiscal deficit. In 1983 and 1984 the expansion of the means of payment exceeded the growth of nominal income. The excess of liquidity helped to increase industrial demand and, as will be seen further on, put pressure on the international reserves and the level of prices.

Table 6
COLOMBIA: TRENDS IN COFFEE PRICES AND THE
RETENTION QUOTA

Year	End of:	Prices			Retention quota ^{de}	Ad-valorem tax ^{ef}
		External ^a	Export receipt ^b	Domestic ^c		
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	205.5	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
1984	March	1.52	206.0	14 800	66	6.5
	June	1.47	209.0	15 200	68	6.5
	September	1.36	209.0	16 300	68	6.5
	December	1.43	201.4	17 000	68	6.5

Source: ECLAC, on the basis of data from the Banco de la República.

^a Dollars per pound. Corresponds to the prices on the New York exchange for the "other milds" variety, plus US\$ 0.02

70 kg sack green coffee.

^b Pesos per 125 kg load of parchment coffee.

^c Per 70 kg sack exported.

^d Dollars per

^e Percentages.

^f Tax on the value in foreign currency of the coffee exports receipts.

Table 7

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

(Growth rates)

	1981	1982	1983	1984 ^a
Total^a	-2.8	-3.1	-1.1	9.8
Consumer goods^b	-2.7	-4.5	0.4	8.8
Food	-6.5	-1.5	3.4	12.3
Beverages	-2.6	-6.1	6.1	4.4
Tobacco	8.1	4.9	1.9	13.8
Textiles	2.3	-6.5	-7.6	12.6
Articles of clothing	1.1	-7.8	-9.4	9.3
Leather and its products	2.9	-7.2	-18.9	2.2
Footwear	2.7	-9.9	1.6	-14.9
Wooden furniture	-8.5	-22.3	-14.6	4.5
Printing, publishing and allied activities	-5.9	1.8	-7.1	-18.3
Earthenware, crockery and porcelain articles	-4.0	-3.4	-9.3	5.2
Miscellaneous industries	-6.6	-26.1	12.3	23.4
Intermediate goods	-2.5	0.9	4.3	8.0
Wood industry	6.0	6.7	-3.8	1.3
Paper and its products	-2.1	-4.1	-1.7	12.1
Industrial chemical substances	-12.4	0.8	14.3	23.3
Other chemical products	-5.3	6.8	-3.7	7.4
Petroleum products	12.8	0.1	10.0	1.4
Other petroleum and coal products	-2.2	5.3	7.6	-0.5
Rubber products	5.5	-10.0	-6.1	8.6
Plastic products	-6.2	-	7.1	-7.1
Glass and its products	-2.9	-0.8	-3.5	-4.2
Other non-metallic mineral products	-2.1	4.1	-2.7	14.8
Basic iron and steel industries	3.9	5.5	8.9	-7.8
Basic non-ferrous metal industries	0.2	-9.6	0.4	-8.9
Capital goods	-3.5	-7.2	-11.3	20.1
Metal products, excepting machinery	-5.7	-5.4	-0.7	7.0
Machinery, excepting electrical articles	-1.1	-2.6	-16.6	-2.2
Machinery, electrical apparatus	7.2	-2.5	-15.7	0.8
Transport equipment and material	-11.6	-15.5	-13.7	55.5
Professional and scientific equipment	19.3	1.3	-0.7	28.4

Source: ECLAC, on the basis of data from the National Bureau of Statistics (DANE).

^aPreliminary figures.^bExcluding coffee beans.

The maintenance of the reactivation raises a serious question. The mechanisms which provoked it appear in many aspects exhausted. In fact, the prolonging of the quantitative restrictions would inevitably affect raw materials and capital goods which cannot be manufactured locally. Nor does the expedient of expanding aggregate demand through the fiscal deficit seem very promising. The excesses of liquidity arising from this measure have begun to generate inflationary effects and pressures on the external sector which reduce its efficacy and viability. Hence it is exports which come to be the main mechanism of expansion of industrial demand. Moreover, the normalization of industrial activity does not now depend solely on the evolution of demand. The fall in investment in machinery and equipment during the last two years may create serious bottlenecks in the future. For all these reasons, industrial reactivation depends mainly on the Government's capacity to reverse the weakening of investment and also on the evolution of the world economy.

iii) *Construction*. Construction has been one of the sectors favoured by the Government for encouraging the reactivation of the economy. To this end there was a massive shift of financial resources into the saving and housing corporations, whose placements in real terms grew by 24% in

1983 and 14% in 1984. The response of the sector to these incentives was uneven. Indeed, after expanding by 23% in 1983, the area corresponding to approved construction permits fell by 2% in 1984 (see table 8).

Furthermore, construction has not had the pulling capacity expected. Thus the high expansion of the sector in 1983 did not generate an expansion of the activities producing construction materials. Indeed, the sectors producing glass, non-metallic minerals and wood products declined in relation to the preceding year. This situation did not change appreciably in 1984. The only sector which in that year showed a notable growth was that of non-metallic mineral products (see table 7).

iv) *Mining*. Mining continued to be the most dynamic activity in the economy. Its value-added increased by 14% in 1984, having risen by 13% the previous year (see table 9). To the sustained expansion which has been observed for some time back in petroleum and gas were added the striking increases in the extraction of precious metals and coal. Gold production grew by 70%, silver by 16% and coal by 25%.

The rapid expansion of the extraction of crude and the changes introduced into the structure of refining have radically modified the petroleum outlook of the country. As can be seen in table 10, the volume of exports of derivatives in 1984 slightly exceeded the volume of imports of crude and

Table 8

COLOMBIA: CONSTRUCTION PERMITS APPROVED

	Thousands of square metres					Growth rates			
	1976	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total area	5 128	5 941	6 148	...	...	3.2	0.2	...	...
Ten principal cities	3 975	4 653	5 168	6 375	6 238	10.7	0.3	23.4	-2.1
Bogotá	1 949	1 893	2 321	2 714	2 483	1.1	21.3	16.9	-8.5
Barranquilla	326	218	243	423	172	8.7	2.5	74.1	-59.3
Bucaramanga	182	263	271	227	234	27.7	-19.6	-16.2	3.1
Cali ^b	605	763	600	776	1 326	17.9	-33.3	29.3	70.9
Cartagena	100	113	69	333	170	20.4	-23.3	382.6	-48.9
Cúcuta	72	97	120	84	83	-53.6	166.7	-30.0	-1.2
Manizales	100	163	123	225	136	15.3	34.5	82.9	-39.6
Medellín ^c	539	1 033	1 317	1 421	1 460	30.9	-2.5	7.9	2.7
Neiva	9	42	49	105	118	-31.0	69.0	114.3	12.4
Pasto	93	69	55	64	53	-15.9	-5.2	16.4	-17.2
46 other cities	1 153	1 287	980	...	...	-23.5	-	...	...
Total area of new housing	3 928	4 634	4 716	...	...	9.0	-6.6	...	...
Ten principal cities	2 966	3 670	3 916	5 142	5 271	14.3	-6.7	31.3	2.5
Bogotá	1 471	1 566	1 771	1 992	2 059	0.6	12.4	12.5	3.4
Barranquilla	241	178	128	382	144	-14.6	-15.8	198.4	-62.3
Bucaramanga	157	236	222	183	175	22.9	-23.4	-17.6	-4.4
Cali ^b	463	563	511	699	1 205	36.2	-33.4	36.8	72.4
Cartagena	48	60	41	268	160	21.7	-43.8	553.7	-40.3
Cúcuta	55	53	95	63	72	-37.7	187.9	-33.7	14.3
Manizales	81	136	78	186	111	14.0	-49.7	138.5	-40.3
Medellín ^c	388	787	986	1 213	1 202	36.9	-8.4	23.0	-0.9
Neiva	8	39	34	99	92	-38.5	41.7	191.2	-7.1
Pasto	55	54	50	54	48	-7.4	-	8.0	-11.1
46 other cities	962	964	800	...	...	-11.2	-6.5	...	...

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^a Preliminary figures.

^b Includes the permits approved in the metropolitan area of Yumbo.

^c Includes the permits approved in the metropolitan areas of Bello, Envigado and Itagüí.

^d Includes the permits approved in the

Table 9

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Gross mining product ^b	204	196	210	238	272	5.4	1.8	13.2	14.3
Petroleum ^c	57.3	45.9	51.6	54.2	60.8	6.5	5.5	5.0	12.2
Iron ore ^d	537.4	491.0	445.4	436.1	443.8	-16.4	8.5	-2.1	1.8
Gold ^e	311.3	497.0	459.6	431.0	730.7	-3.9	-11.0	-6.2	69.5
Silver ^f	87.6	140.5	124.2	132.4	153.4	-5.1	-6.8	6.6	15.9
Platinum ^g	22.1	14.3	11.9	10.3	10.1	3.5	-19.7	-13.4	-1.9
Salt ^d	926.1	887.1	423.0	538.0	639.9	-19.3	-40.9	27.2	18.9

Source: ECLAC, on the basis of data supplied by the Ministry of Mining and Energy and the Banco de la República.

^aPreliminary figures.^bThousands of dollars at 1970 prices.^cMillions of 42-gallon barrels.^dThousands of tons.^eThousands of troy ounces.

Table 10

COLOMBIA: PETROLEUM INDUSTRY INDICATORS

	1980	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Millions of barrels								
Production								
Extraction of crude oil	45.9	51.6	54.2	60.8	6.5	5.5	5.0	12.2
Production of petroleum products	59.3	62.6	68.5	71.9	6.7	-1.1	9.4	5.0
External trade								
Imports of crude oil	7.3	7.3	13.8	9.8	5.5	-5.2	89.0	-29.0
Imports of petroleum products	13.0	11.0	7.5	5.7	-15.4	-	-31.8	-24.0
Exports of petroleum products	9.4	12.0	15.6	16.8	10.6	15.4	30.0	7.7
Millions of dollars								
Imports of crude oil	220	233	382	269	21.4	5.9	63.9	-29.6
Imports of petroleum products	491	425	257	243 ^b	-15.1	-13.4	-39.5	-5.4
Exports of petroleum products	240	213	434	449	12.9	-11.3	103.8	3.5
Energy balance	-471	-445	-205	-63				

Source: ECLAC, on the basis of data supplied by the Banco de la República and the Ministry of Mining and Energy.

^aPreliminary figures.^bIncludes only gasoline.

derivatives and the value of the exports of the former was similar to that of the imports of the latter. In this way the country approached the long-standing objectives of self-sufficiency in petroleum and its products. In fact, the deficit on the petroleum balance amounted to barely US\$ 60 million, a figure equivalent to 30% of that relating to 1983 and to less than 15% of that recorded on average in the biennium 1981-1982. Even more important is the fact that the trend clearly indicates that in the coming years Colombia will be a net exporter of hydrocarbons.

Results in the exploration field were likewise highly favourable. Despite the reduction in exploratory wells, the last year witnessed new and valuable deposits in the eastern plains, so that the known reserves amounted to 1 250 million barrels at the end of the year.

The supply of energy-related products was also favoured by the initiation of coal production in the Cerrejon coal field, which led to exports in the amount of somewhat more than US\$ 40 million.

Table 11

COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1981	1982	1983	1984	1983				1984			
					March	June	Sep-tem-ber	De-cem-ber	March	June	Sep-tem-ber	De-cem-ber
Rate of unemployment	8.2	9.2	11.8	13.5	10.8	12.2	11.4	12.7	13.6	13.5	13.3	13.4
Bogotá	5.5	7.4	9.4	12.2	7.9	9.4	8.9	11.3	12.6	12.0	11.8	12.4
Barranquilla	11.1	10.4	13.8	13.9	11.8	14.8	14.4	14.3	14.5	13.3	15.3	12.4
Medellín	13.0	13.3	17.0	16.4	17.1	18.2	16.1	16.7	16.1	17.1	15.3	17.1
Cali	8.9	9.6	11.6	13.3	11.5	11.8	11.8	11.3	13.4	12.9	14.5	12.5
Bucaramanga	...	...	...	9.9	8.5	...	9.2	...	10.3	10.6	8.2	10.4
Manizales	...	...	...	14.9	12.8	...	13.3	...	15.6	16.1	15.5	12.4
Pasto	...	...	...	12.2	13.8	...	11.6	...	11.9	12.7	13.5	10.8
Gross rates of participation	38.9	39.2	40.7	42.0	39.6	40.7	40.6	42.0	41.2	41.4	42.0	43.2
Bogotá	38.9	40.0	41.8	43.5	40.1	41.7	41.3	44.2	42.9	42.9	43.1	45.2
Barranquilla	36.4	34.5	36.4	37.2	36.7	35.4	36.9	36.6	37.6	36.8	37.1	37.2
Medellín	39.3	38.8	40.1	41.1	39.7	40.6	40.2	39.9	39.5	41.1	41.6	42.0
Cali	40.5	41.0	41.2	41.9	40.5	41.3	41.5	41.4	41.4	41.0	42.7	42.6
Bucaramanga	...	...	...	40.9	39.6	...	41.1	...	41.1	40.6	39.6	48.2
Manizales	...	...	...	39.1	35.3	...	39.4	...	39.1	39.7	39.9	37.7
Pasto	...	...	...	40.8	42.7	...	40.3	...	41.0	40.9	39.9	41.2

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

c) *Employment*

The unemployment rate has been steadily increasing during the last three years, rising from 8.2% in 1981 to over 9% in 1982, to close on 12% in 1983 and to 13.5% in 1984 (see table 11).

As already indicated, this unemployment trend is in line with the evolution of the main economic variables. The labour force has grown at an annual average rate of over 3% and the economic growth during the last five years has only approached that figure in one or two years. Thus the rate of expansion of the labour supply has systematically exceeded that of the creation of new job opportunities. At first sight, however, the figures for 1984 may seem surprising considering that the reactivation of production in that year coincided with a new rise in unemployment. This coincidence is particularly striking in the industrial sector, in which production rose by 10% and employment fell by 1.5%.

These behaviour patterns are closely linked with the nature and characteristics of the reactivation. This has been only moderate and has not penetrated to all the activities of the economy. The growth of commerce and services, which are the sectors that contribute most to urban employment, was not very different from that of the preceding years. In fact, the rise in output was mainly due to industrial expansion and this originated in a change in the structure of production in favour of import substitution and exports, activities which are in the hands of large enterprises characterized by a low level of job creation. Moreover, in view of the prevailing circumstances, a proportionate rise in output and employment was not to be expected. On the contrary, in an economy in which the possibility of reducing the number of workers is limited by institutional restrictions, there is an inevitable lag, which may be significant, when a situation of recession changes to one of expansion. Thus, during the period 1980-1983, the employers could not reduce employment at the same rate as the fall in production. Consequently, when the recession ended, the enterprises were faced with a situation in which they could not fully use their available workers and were in a position to increase production with the same or even with a smaller workforce. The reluctance to increase the hiring of workers was aggravated, besides, by the doubts of the employers as to the permanence of the reactivation process. In these circumstances, their efforts were mainly directed to achieving increased production by increasing the working hours of the existing personnel. Finally, the rise in urban wages in relation to rural and the growth of housing without an initial quota acted as factors of attraction of labour towards the cities.

Table 12

COLOMBIA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	9.4	15.8	-20.8	-0.1	-6.6	16.2
Volume	18.7	-1.0	-7.9	-3.3	-5.9	9.4
Unit value	-7.9	17.0	-14.0	3.3	-0.8	6.2
Imports						
Value	16.9	43.5	10.8	13.5	-12.0	-10.8
Volume	9.7	18.9	4.3	18.7	-6.0	-13.0
Unit value	6.5	20.7	6.2	-4.4	-6.3	2.6
Terms of trade	-13.7	-2.5	-19.2	7.6	5.6	2.8
Indexes (1970 = 100)						
Purchasing power of exports	201.2	194.2	144.7	150.5	149.6	168.3
Quantum of exports	155.3	153.8	141.7	137.0	129.0	141.1
Terms of trade	129.6	126.3	102.1	109.9	116.0	119.3

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

3. The external sector

a) *Merchandise trade*

The balance of merchandise trade has been negative since 1980. Nonetheless the deficit, after reaching a record maximum of almost US\$ 2.3 billion in 1982, fell in the following years to something under US\$ 900 million in 1984. The change in trend is mainly explained by the reduction in imports which has occurred since 1982 and to a lesser degree by the recovery of exports in 1984.

i) *Exports*. The volume of exports of goods, which had fallen continuously from 1980, recovered partially in 1984, with an increase of over 9% (see table 12). This development was closely related to the performance of world activity. The fall in the quantum of exports coincided with the recession in the world economy and its increase with the international recovery.

The rise in exports was concentrated in coffee, fuels, flowers, cotton and ferronickel (see table 13). One of the chief aims of the Government's economic policy has been to increase exports. The mechanisms employed for this have been of different types and have undergone considerable modifications. At first, export subsidies were employed and later the raising of the exchange rate. In the last two years the Government has maintained a policy of devaluation in relation to the dollar exceeding domestic inflation. In table 14 it will be seen, however, that this device has been offset by the revaluation of the dollar in relation to the other main currencies. Indeed, the real exchange rate in respect of the weighted average of the currencies of Colombia's main trading patterns has not varied significantly in the last two years.

In general terms, the effects of the exchange policy on exports have been very modest. The increase in exports only occurred when world trade expanded and has been a relatively generalized phenomenon in the region. Moreover, the growth is concentrated in some few products, which would no doubt have reacted in the same way if selective policies had been used.

ii) *Imports*. The adjustment of the external sector has been mainly achieved through imports of goods, whose volume shrank by 6% in 1983 and 13% in 1984 (see table 12).

The behaviour of imports has been the result of deliberate action. The Government resorted to the restriction of licenses, the increase of tariffs and the rise in the exchange rate in order to reduce them. However, the measures of a quantitative type were more effective than those of prices, which is confirmed by the fact that the imports made are much lower than those desired by the entrepreneurs.¹

¹ These last are reflected in the amount of import permits requested.

Table 13

COLOMBIA: EXPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1984 ^a	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	4 296	3 397	3 282	3 147	3 658	100.0	100.0	-20.9	-3.4	-4.1	16.2
Coffee	2 208	1 507	1 515	1 443	1 737	51.4	47.5	-31.7	0.5	-4.8	20.4
The rest	2 088	1 890	1 767	1 704	1 921	48.6	52.5	-9.5	-6.5	-3.6	12.7
Petroleum and its products	100	34	213	434	449	2.3	12.3	-66.0	526.4	103.8	3.5
Coal	10	9	14	17	34	0.2	0.9	-10.0	55.6	21.4	100.0
Ferronickel	-	-	-	46	66	-	1.8	-	-	-	43.5
Gold	310	239	169	177	244	7.2	6.7	-22.9	-29.3	4.7	37.9
Others	1 668	1 608	1 371	1 030	1 128	38.9	30.8	-3.6	-14.7	-24.9	9.5

Source: Banco de la República.

^aPreliminary figures.

Table 14

COLOMBIA: EVOLUTION OF THE EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (pesos per dollar)	Indexes of the real effective exchange rate ^a	
		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	92.1	96.1
1982	64.10	86.3	89.9
1983	78.86	87.5	90.9
1984	100.82	88.8	95.3
1982			
I	60.24	89.5	93.1
II	62.65	86.8	90.3
III	65.14	85.1	88.7
IV	68.38	84.6	88.2
1983			
I	72.14	87.1	90.1
II	76.34	85.0	87.8
III	80.87	87.0	90.7
IV	86.07	90.4	94.6
1984			
I	91.61	89.5	95.0
II	97.44	87.7	94.1
III	103.80	88.0	95.0
IV	110.47	89.8	97.1

Source: ECLAC, on the basis of data supplied by the International Monetary Fund, International Finance Statistics.

^aThis corresponds to the average of the indexes of the real exchange rate of the peso with respect to the currencies of the main trading partners of Colombia, weighted according to the relative importance of exports or imports, as the case may be, to or from those countries. From 1975 to 1979 these weightings correspond to the average of those same years and from 1980 to the average of the period 1980-1983. In the calculations the use of wholesale price indexes has been preferred. For information regarding the methodology and sources used see the technical appendix in the *Economic Survey of Latin America, 1981*.

Table 15

COLOMBIA: IMPORTS OF GOODS

	Millions of dollars					Percentage breakdown		Growth rates			
	1980	1981	1982	1983	1984 ^a	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	4 283	4 730	5 358	4 464	3 980	100.0	100.0	10.4	13.3	-16.7	-10.8
Consumer goods	570	605	675	487	390	13.3	9.8	6.1	11.6	-27.9	-19.9
Intermediate goods	2 257	2 460	2 711	2 286	2 161	52.7	54.3	9.0	10.2	-15.7	-5.5
Petroleum	561	723	657	639	445	13.1	11.2	28.9	-9.1	-2.7	-30.4
Others	1 696	1 737	2 054	1 647	1 716	39.6	43.1	2.4	18.2	-19.8	4.2
Capital goods	1 456	1 665	1 972	1 691	1 429	34.0	35.9	14.4	18.4	-14.2	-15.5

Source: Banco de la República.

^aPreliminary figures.

The measures to regulate imports were not uniform. At first they were directed to consumer goods and raw materials which could be produced locally. In table 15 it will be seen that in 1983 the greatest fall occurred in consumer goods, then in intermediate goods and finally in capital goods. In this way the contraction of imports had expansive effects in that it helped to increase demand for domestic goods which were produced in conditions of excess capacity. Nevertheless, as the possibilities of substitution were exhausted and the conditions of the external sector worsened, the restrictions were transferred to raw materials which could not be easily produced and particularly to capital goods. The policy of import regulation thus helped to create a marked fall in investment.

b) *The balance of payments*

The reduction of the deficit on trade in goods and services was partly offset by the rise in net interest payments, which between 1982 and 1984 rose from US\$ 650 million to US\$ 1 billion. The deficit on current account thus declined less than the trade deficit, from US\$ 2.9 billion in 1982 to US\$ 1.8 billion in 1984 (see table 16). Even so, it was the largest deficit in Latin America and involved the country in serious difficulties.

The negative balance on current account was financed in part by the net entry of capital in the amount of 540 million, a figure equal to little more than half the payments in respect of interest. The rest was covered by international reserves which fell by 1.26 billion, thus continuing their declining trend to the previous years. In fact, between 1981 and 1984 the level of reserves fell from US\$ 5.6 to 1.8 billion.

c) *External debt*

Colombia has on the whole pursued a more prudent policy of external debt than the other countries in the region. Even so, the balance of the debt more than doubled between 1979 and 1984 and the same happened with the ratio between the debt and the value of exports (see table 17). Consequently the interest on the debt and its amortization have risen steadily.

The ratio between the servicing of the debt and exports of goods and services was 36% in 1984. This figure is not excessive, but neither is it low, and may be regarded as the limit of what might be a prudent coefficient of indebtedness. In these conditions it would not be expedient to increase indebtedness beyond the possibilities of export expansion. Fortunately the prospects of the country in the trading field are favourable. The discovery of petroleum resources and the strengthening of Colombia's position in the coffee markets provide solid bases for expecting an expansion of exports in the coming years at least equal to the average for the last twenty years. Indebtedness might increase, therefore, by around 5% in real terms, which is equal to a net flow of credit slightly less than the payment in respect of interest.

Table 16

COLOMBIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	294	490	-159	-1 895	-2 897	-2 738	-1 815
Trade balance	532	606	-141	-1 733	-2 268	-2 054	-895
Exports of goods and services	3 959	4 526	5 315	4 292	4 436	4 031	4 495
Goods FOB	3 206	3 506	4 062	3 219	3 215	3 002	3 488
Real services ^b	752	1 019	1 253	1 073	1 221	1 029	1 007
Transport and insurance	305	335	433	480	437	398	462
Travel	283	358	402	376	382	402	393
Imports of goods and services	3 427	3 920	5 456	6 026	6 704	6 085	5 390
Goods FOB	2 564	2 996	4 300	4 763	5 404	4 757	4 243
Real services ^b	863	924	1 156	1 263	1 299	1 328	1 147
Transport and insurance	421	432	648	728	794	781	697
Travel	229	236	224	254	213	284	246
Factor services	-283	-216	-184	-404	-796	-857	-1 080
Profits	-121	-49	-42	-121	-139	-74	-76
Interest received	124	249	471	632	498	185	75
Interest paid	-304	-456	-627	-936	-1 146	-950	-1 063
Other	19	40	14	21	-9	-18	-16
Unrequited private transfer payments	45	99	165	243	167	173	160
Balance on capital account	154	969	1 213	2 328	2 021	828	536
Unrequited official transfer payments	28	1	-	-	2	-	45
Long-term capital	95	725	798	1 623	1 610	1 331	1 571
Direct investment (net)	68	105	48	212	338	285	411
Portfolio investment (net)	-3	-12	-3	-1	-7	-	-3
Other long-term capital	30	632	752	1 411	1 278	1 045	1 160
Official sector ^c	30	397	505	772	323	131	...
Loans received	155	601	679	1 007	506	330	...
Amortization payments	-103	-189	-128	-185	-178	-199	...
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	-	235	247	639	955	914	...
Loans received	208	512	437	990	1 208	1 359	...
Amortization payments	-208	-276	-190	-351	-253	-445	...
Net short-term capital	14	176	40	389	347	-237	-625
Official sector	15	-22	-56	35	38	92	...
Commercial banks	14	376	172	189	131	-4	...
Other sectors	-15	-178	-75	165	178	-325	...
Errors and omissions (net)	19	68	375	316	64	-265	-455
Global balance^d	448	1 459	1 054	433	-875	-1 909	-1 279
Total variations in reserves							
(- sign indicates an increase)	-676	-1 552	-1 311	-199	711	1 782	1 261
Monetary Gold	-56	-75	-324	-289	-169	-177	...
Special Drawing Rights	-18	-45	-14	-31	-40	-19	198
IMF reserve position	2	-6	-49	-30	-16	-81	274
Foreign exchange assets	-604	-1 425	-925	151	936	2 060	53
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official data.^a Preliminary figures.^b Real services also include other official and private transactions, but exclude factor services.^c In addition to loans received and their amortization, 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 of reserves marked with a minus sign and the global balance represents the value of counterparts entries: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 17

COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Total external debt						
Balances	5 222	6 300	7 885	9 410	10 405	11 336
Public	3 456	4 179	5 168	6 078	6 958	7 735
Private	1 766	2 121	2 717	3 332	3 447	3 601
Servicing of debt	916	960	1 314	1 576	1 586	1 627
Amortization payments	460	333	378	430	636	496
Interest ^b	456	627	936	1 146	950	1 131
Public external debt						
Servicing	649	542	668	936	980	1 182
Amortization payments	418	258	266	336	415	562
Interest	231	284	402	600	565	620
Percentages						
Ratios						
Total external debt/exports of goods and services	115.4	118.5	183.7	212.1	258.1	250.4
Servicing of debt/exports of goods and services	20.2	18.1	30.6	35.5	39.3	35.9
Net interest ^c /exports of goods and services	4.6	2.9	7.1	14.6	19.0	22.5

Source: ECLAC, on the basis of data from the Banco de la República and table 15.

^aPreliminary figures.^bCorresponds to the item interest paid on the balance-of-payments current account.^cInterest paid less interest received.

4. Prices and wages

a) *Prices*

Inflation in 1984 was similar to that of 1983. The consumer price index barely rose from one year to the other, from 17% to 18%, and the wholesale price index rose from 18% to 21% (see table 18).

The apparent stabilization of the inflation rate observed in the average indexes changed halfway through the year. In general, during 1982 and 1983 the recession did not allow the entrepreneurs to transfer to prices the higher costs stemming from the rise in the exchange rate and the increase in wages. The expansion of industrial demand in 1984 changed these conditions. Hence, in the last months of the year there was a rise in the prices of manufactured goods and particularly of imported products. Moreover, the increase in incomes together with the surpluses of liquidity generated by fiscal imbalances caused a rise in the demand for foodstuffs which could not be met by the agricultural sector, whose output rose by barely 2% and was primarily directed towards exports. Thus in the second half of the year food prices rose considerably. At the end of the year it was obvious that the stage of decline in prices was coming to an end and the rate of inflation was rising rapidly to a level of over 25% (see figure 2).

b) *Wages*

Nominal industrial wages increased by 23% in 1984, which meant that its growth rate continued the declining trend of previous years. Despite this and as a result of the lower inflation, wages rose by more than 6% in real terms. Commercial wages and particularly agricultural day-wages

rose more moderately. The former increased by 2.5% in real terms and the latter remained practically constant (see tables 19 and 20).

The wage structure is the result of rigidities in the labour market. Industrial wages were adjusted more slowly than the rest to the fall in inflation. Consequently they have increased in real terms in recent years at a greater rate than the rest. This behaviour has had regressive effects on the structure of wages, since the workers in the large industrial enterprises find themselves in higher income brackets. Moreover these had had an adverse effect on employment. The high industrial wages have stimulated the introduction of more capital-intensive techniques and the relative improvement in urban wages has incentivated migrations to the cities.

The trend in wages described above has been created, in part, by the Government's wages policy. This is based on the establishment of a minimum wage and of public sector salaries, which have a major effect on industrial remunerations. Industrial wages are largely the result of the Government's incapacity to adjust trend-setting wages in relation to inflation. Thus, as can be seen from the figures of tables 19 and 21, industrial wages move in line with the minimum wage. It is clear from this that the relative trend of wages could be reversed by applying a more moderate policy of adjustment to the minimum wage. It must be recognized, however, that this measure runs into serious institutional difficulties when the inflation rate slows down. Thus the rise in the inflation rate, with all its attendant disadvantages, may possibly help to correct the inadequate adjustments of relative wages.

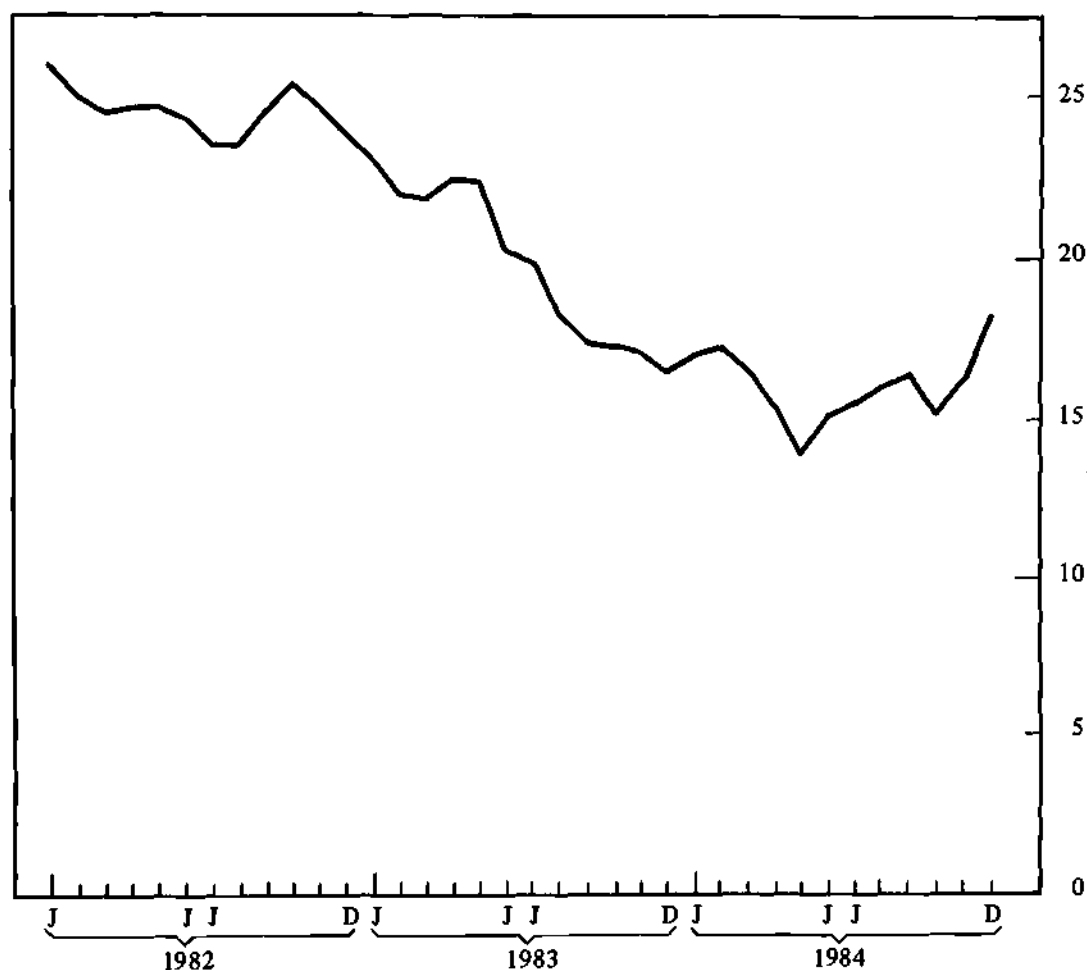
Table 18
COLOMBIA: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1979	1980	1981	1982	1983	1984
Variation from December-December						
Consumer price index ^a						
Total for manual workers	29.8	26.5	26.7	23.9	16.7	18.3
Food	32.1	25.4	28.2	24.9	17.2	19.6
Total for non-manual workers	26.5	24.5	25.6	24.5	16.5	18.3
Food	32.1	26.7	28.8	25.1	17.4	18.6
Wholesale price index	27.4	25.4	23.5	24.6	18.0	21.2
Imported products	20.6	23.6	22.4	18.5	23.4	35.6
Domestic products	28.7	26.5	25.3	27.0	18.4	19.3
Agricultural products	28.3	21.3	29.3	32.3	18.5	17.8
Manufactures	33.3	30.0	20.9	20.2	16.1	22.0
Residential building cost index						
Whole country	30.0	26.9	22.0	21.7	24.6	21.5
Bogotá	29.7	27.4	20.2	22.0	17.1	21.1
Variation between annual averages						
Consumer price index ^a						
Total, manual workers	24.7	27.2	28.1	24.6	19.8	15.9
Food	22.7	28.7	28.5	25.4	20.6	15.7
Total, non-manual workers	23.8	24.9	26.0	24.5	19.5	16.0

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.

^aNational average.

Figure 2
COLOMBIA: CONSUMER PRICE INDEX



Source: ECLAC, on the basis of official data.

5. Monetary and fiscal policy

a) *Monetary policy*

In 1984 the means of payment grew by 23%. This performance was the result of an increase of 18% in the monetary base and a rise of 4% in the bank multiplier (see tables 22 and 23).

The national budget, as in previous years, was the main source of expansion of the monetary base. The greater part of the financing of the fiscal deficit was carried out through credit from the Central Bank to the Government, which rose by 150 billion pesos.

The rediscount was another major source of creation of the monetary base. In this way large emissions were made in order to extend the credit lines of the banks with the Banco de la República and the imbalances between the receipts and disbursements of the financing funds. The practice introduced in 1983 of employing emission to deal with the difficulties of the financing entities and the needs of credit for development was consolidated in 1984. The emission by the two procedures amounted to 33 billion pesos.

The main emission for the private sector was counterbalanced by the accumulation of prior import deposits and open-market operations. Through these two channels a contraction of 50 billion

Table 19

**COLOMBIA: EVOLUTION OF WAGES AND SALARIES
IN INDUSTRY AND COMMERCE**

(Growth rates)

	1978	1979	1980	1981	1982	1983	1984 ^a
Nominal wages							
Industry							
Non-manual workers	24.5	25.9	26.6	29.0	27.8	25.2	22.3
Manual workers	30.4	32.8	28.1	29.7	28.8	26.2	24.6
Commerce	26.5	28.3	32.1	26.3	30.9 ^b	19.4	18.8
Real wages							
Industry							
Non-manual workers ^b	4.1	1.6	1.4	2.5	2.6	4.4	5.5
Manual workers ^c	11.5	6.5	0.8	1.4	3.7	5.0	7.5
Commerce ^c	6.8	3.8	2.6	-0.6	4.8	-0.2	2.5

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aPreliminary figures.

^bDeflated by the consumer price index for non-manual workers.

^cDeflated by the consumer price index for manual workers.

Table 20

**COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE
AND STOCK-RAISING**

	Pesos					Real growth rates ^a				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Crop farming										
Cold (upland) areas										
With food	125	158.3	188	234	269	0.8	-3.1	-0.8	3.9	-0.8
Without food	182	227.0	268	328	385	-0.6	-5.0	-2.1	2.2	1.3
Hot (lowland) areas										
With food	137	172	202	249	281	-1.5	-4.6	-1.2	2.9	-2.6
Without food	195	241	284	346	401	1.4	-5.9	-1.8	1.7	-
Stock-raising										
Cold (upland) areas										
With food	126	161	191	235	273	0.7	-2.7	-1.0	2.7	0.2
Without food	182	229	272	329	389	-0.4	-3.8	-2.1	1.0	2.0
Hot (lowland) areas										
With food	147	184	216	264	304	3.8	-4.4	-2.3	0.9	-0.6
Without food	207	256	301	364	428	2.2	-5.6	-2.5	0.9	1.5

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aDeflated by the consumer price index for manual workers.

Table 21

COLOMBIA: MINIMUM DAILY LEGAL WAGES

(Averages)

	Pesos					Real growth rates ^a				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Rural wages ^b	140	177	234	292	371	5.4	0.4	5.5	4.2	9.6
Urban sector ^c										
High ^d	150	190	247	308	377	3.0	0.6	3.7	4.1	5.6
Low ^e	140	177	234	292	371	5.4	0.4	5.5	4.2	9.6

Source: ECLAC, on the basis of data supplied by the Banco de la República and the National 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.

Table 22

COLOMBIA: EVOLUTION OF THE PRINCIPAL
MONETARY AGGREGATES

	Year-end balance (billions of pesos)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Means of payments (M ₁)	259.7	325.7	408.9	503.8	21.2	25.4	25.5	23.2
Currency	100.6	129.1	165.9	209.1	20.8	28.4	28.5	26.0
Current account deposits	159.1	196.6	243.0	294.7	21.5	23.5	23.6	21.3
Quasi-money (M ₂)	335.6	417.8	561.8	730.2	56.7	24.5	34.5	30.0
Deposits in housing corporations	122.2	172.2	244.5	330.7	46.8	40.9	42.0	35.2
Saving deposits	72.7	84.3	106.0	128.7	24.6	16.0	25.7	21.4
Time deposit certificates	140.7	161.3	211.3	270.8	93.8	14.6	31.0	28.2
Extended money supply (M ₁ + M ₂)	595.3	743.5	970.7	1 234.0	39.0	24.8	31.5	27.1

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

pesos was effected. This performance was clearly inconsistent with the proposals to expand the financing of the private sector in order to reactivate the economy and suggests that the emission generated by the loans to the Government and the rediscount exceeded the overall objectives. Thus the monetary authorities found themselves obliged to take back with one hand what they gave with the other, which in the long run had an adverse effect on economic activity. Further, the rise in prior import deposits and the expansion of the placement of bonds in the open market helped to raise the interest rates.

The policy of cash reserves was expansionist. The monetary authorities continued the policy of increasing the bank multiplier. This measure was less general, however, than in 1982 and 1983.

The expansion of credit to the private sector stemmed from the net loans of the development agencies, the credit lines for enterprises and banks and the reduction of the cash reserve; the contraction derived from the prior import deposits and the open-market transactions.

The exchange policy did not facilitate a fall in interest rates, which remained excessively high (see table 24). Indeed, the adjustment of the exchange rate coupled with the interest rates prevailing in the international markets signified a high nominal profitability in external operations (close on

40%). Additionally, the Central Bank offered bonds with similar interest rates. In these conditions, the banks found themselves obliged to offer and charge real interest rates of over 13% to remain competitive with the Government and the exterior.

In table 25 it can be seen that the growth rate of transferable saving has fallen in recent years. This behaviour indicates that individuals have transferred their holdings to the exterior. The same table shows that a large part of the increment in transferable saving derives from the bonds issued by the Banco de la República to offset the monetary effect of the credit granted to the Government to finance the budget and from public debt securities. In this way, domestic saving tends to be displaced abroad and to finance the national budget.

Table 23

COLOMBIA: ORIGIN OF THE MONETARY BASE

	Year-end balance (billions of pesos)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Monetary base	207.1	243.7	276.7	327.5	21.8	17.7	13.5	18.4
Assets of the Banco de la República	288.6	357.8	373.7	501.5	17.2	24.0	4.4	34.2
Net international reserves	309.7	318.0	234.0	161.6	19.1	2.7	-26.4	-30.9
Domestic credit	-0.8	61.6	140.2	327.5			127.6	133.6
Treasury	-16.5	29.8	76.9	220.4			158.1	186.6
Rest of the public sector	-18.9	-9.9	-14.7	-10.5				
Commercial banks	13.2	21.2	43.2	50.0	21.1	60.6	103.8	15.7
Finance funds	-6.6	-12.9	-10.7	10.6				
Other financial intermediaries	18.1	21.6	31.3	44.3	14.6	19.3	44.9	41.5
Private sector	9.5	11.7	14.1	13.2	53.2	23.2	20.5	-6.4
Exchange difference	-18.7	-22.5	-0.4	16.3				
Other net assets	-1.2	0.7	-0.1	-4.0				
Non-monetary liabilities of the Banco de la República	83.6	117.5	102.8	181.0	7.3	40.5	-12.5	76.1
Commercial banks	0.7	0.4	0.5	21.6	-12.5	-42.9	25.0	4 220.0
Other financial intermediaries	0.3	1.0	0.8	3.1	-25.0	233.0	-20.0	287.5
Private sector	20.3	21.1	38.4	53.4	6.3	3.9	82.0	39.1
Money market operations	45.2	73.6	37.5	49.3	2.0	62.8	-49.0	31.5
Long-term external operations	17.3	21.7	25.7	29.7	27.2	25.4	18.4	15.6
Other liabilities	-0.4	-0.4	-0.4	-0.4	-	-	-	-
Treasury currency in circulation	2.1	3.5	5.8	6.4	16.7	66.6	65.7	19.0
Bank multiplier	1.25	1.34	1.48	1.54	-0.5	6.5	10.6	4.1
Means of payment	259.7	325.7	408.9	502.7	21.8	17.7	25.6	22.9

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

Table 24

COLOMBIA: BANK INTEREST RATES^a

	1980	1981	1982	1983	1984
Effective nominal rate	36.4	38.6	35.9	34.2	34.4
Inflation rate	26.5	26.7	23.9	16.7	18.3
Effective real rate	7.8	9.4	9.7	15.0	13.6

Source: ECLAC, on the basis of data from the Banco de la República.

^aCorresponds to time deposit certificates.

Table 25

COLOMBIA: TRANSFERABLE SAVING

	Billions of pesos				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	443.7	582.5	732.8	919.4	48.3	31.3	25.8	25.5
Financial system	388.1	494.8	665.3	826.4	58.5	27.5	34.5	24.2
Savings deposits	72.7	84.3	106.0	128.7	27.1	16.0	25.7	21.4
Time deposit certificates	140.7	161.0	211.3	273.2	101.3	14.4	31.2	29.3
CAV ^b deposits	122.2	171.8	244.5	303.7	45.8	40.6	42.3	24.2
Promissory notes of commercial financing companies	36.6	44.7	56.1	63.1	94.7	22.1	25.5	12.5
Mortgage certificates	12.0	14.1	16.0	27.7	8.1	17.5	13.5	73.1
Coffee bonds	4.0	4.0	4.7	5.0	-	-	17.5	6.4
Coffee certificates	-	14.8	20.6	17.9	-	-	39.2	-13.1
Electricity certificates	-	-	6.0	7.1	-	-	-	18.3
Securities of the Banco de la República	51.3	84.3	48.0	68.8	4.3	64.3	-43.1	43.3
Participation bonds	18.6	17.9	3.5	-	-13.1	-3.8	-80.4	-
Negotiable bonds	9.7	24.0	13.8	26.9	2.1	147.4	-44.4	94.9
Agroindustrial bonds	6.2	10.6	10.4	11.5	24.0	71.0	-1.9	10.6
Exchange certificates	16.8	31.9	20.3	30.4	25.4	89.9	-36.4	49.8
National Government securities	4.2	3.3	19.5	24.3	-17.6	-21.4	490.9	24.6
Economic development bonds	4.2	3.3	2.5	0.3	-17.6	-21.4	-24.2	-88.0
National savings certificates	-	-	17.0	23.9	-	-	-	40.6

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^a Preliminary figures.^b Savings and housing corporations.

The failure to compatibilize the exchange, monetary and fiscal policies observed in 1982 and 1983 continued and even intensified in 1984. Obviously the substantial deficit on current account that arose in 1982 could not be corrected overnight. The monetary contraction that it occasioned had to be offset by the expansion of credit to the private sector and to the budget in order to avoid a fall in the money supply, which would have plunged the economy into a profound recession. Nonetheless, this objective was gradually reversed. The loss of control over the fiscal deficit and domestic credit generated an excess of liquidity which has been mobilized towards the exterior in order to obtain the high yields resulting from the raising of the exchange rate above inflation and the external interest rates. Thus the fiscal and monetary policies, instead of offsetting the recessive effects of the weakening of the external sector have hampered and delayed the adjustment. Consequently the loss of reserves was higher than was prudent and the fiscal deficit greater than planned.

b) *Fiscal policy*

The objectives of the fiscal policy have been considerably modified in the last three years. The attitude of the Government authorities towards the deficit has undergone very frequent changes, and this has caused an appreciable number of adjustments in the fiscal structure.

At the end of 1982 the Government introduced various measures intended to raise revenue from income tax and complementary taxes. The results were less effective than had been envisaged since the revenues rose by 50% in 1983 and 20% in 1984. Halfway through 1983, however, the Government applied an expansive expenditure policy to counteract the fall in international reserves (see table 26).

The failure of the fiscal adjustments to raise direct taxes led the Government to propose to Congress a review of the sales tax. Indeed, at the end of 1983 the replacement of the sales tax by the value-added tax was approved and new classifications were introduced. The adjustments, taken together, were aimed at raising tax receipts. The figures for 1984 show that the income obtained from

Table 26

COLOMBIA: EFFECTIVE INCOME AND EXPENDITURE OF THE
CENTRAL GOVERNMENT

	Billions of pesos				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Current income	156.6	189.8	238.7	299.8	18.6	21.2	25.8	25.6
Tax revenue	152.8	184.8	231.6	289.0	18.4	20.9	25.3	24.8
Income and complementary taxes	53.0	65.2	97.8	117.8	12.5	23.0	50.0	20.4
Sales taxes	40.3	49.6	58.7	79.0	32.8	23.1	18.3	34.6
Customs duties and surcharges	29.4	36.6	37.8	46.6	18.5	24.4	3.3	23.3
Coffee taxes	7.3	6.6	3.8	2.6	-28.4	-9.6	-42.4	-31.6
Gasoline taxes	18.1	20.1	24.7	30.6	60.2	11.0	22.9	23.9
Others	4.8	6.7	8.8	12.4	-2.0	39.6	31.3	40.9
Non-tax revenue	3.8	5.0	7.1	10.8	26.7	31.6	42.0	52.1
Current expenditures	153.8	211.0	262.9	334.6	26.8	37.1	24.6	27.3
Current savings	2.8	-21.2	-24.2	-34.8				
Investment	61.1	80.2	81.8	95.1	45.5	31.3	2.0	16.3
Total expenditure	214.9	291.2	344.7	429.7	31.6	35.5	18.4	24.7
Fiscal deficit (or surplus)	-58.3	-101.4	-106.0	-129.9	86.3	73.9	4.5	22.5
Financing of deficit								
External credit	19.5	14.9	9.9	3.0				
Domestic credit	38.8	86.5	96.1	126.9				

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

the value-added tax increased by 35%, a lower figure than had been envisaged. Even so, it nonetheless contributed to the improvement of tax revenues. Thanks to these the total revenue went up by close on 26%, a higher rate than the increase in nominal income.

Table 26 indicates likewise that the expenses of administration rose by 27%, those of investment by 16% and total expenditure by 25%. As in previous years the increase in revenue was accompanied by a rise in real expenditure. In real terms the fiscal deficit was almost 6% higher than the year before, with the added disadvantage that the level of international reserves available no longer offset the monetary effect of the fiscal imbalance with an external deficit. This situation, which involved serious risks of inflation, forced the Government to adopt a new fiscal reform at the end of 1984. In this respect an import tax was introduced, the value-added tax was extended to certain popular consumer groups currently exempt, and the high-income economic agents were compelled to invest in public debt securities which yielded a low interest rate.

The difficulties of the fiscal policy have resulted from failures in co-ordination between long- and short-term goals. The tax adjustments have been adopted within a long-term perspective destined to achieve a balance between income and expenditure. In contrast, the increments in outgoings were aimed at expanding aggregate demand. In practice, however, it was found that increased expenditure generates a dynamic very difficult to contain. Hence the Government found itself involved in a process in which it had to raise taxes to compensate for the expenditure previously authorized to cope with the recession. In these circumstances, the initial aim of improving the tax structure was replaced by that of increasing revenue. Initially the Government had recourse to indirect taxes, then to the value-added tax graduated in accordance with the characteristics of the goods, and finally to a series of indirect charges which fell mainly on popular consumer goods. In the long run this process seriously affected the progressiveness of the fiscal system. The weight of the reform ended by falling mainly on the middle-income groups and even came to affect the poorest groups.

COSTA RICA

1. Recent economic trends: Introduction and summary

The recovery of the Costa Rican economy continued in 1984 within a relatively stable financial framework. Gross domestic product increased (6%) for the second year in a row, although it remained well below the levels it had attained at the end of the previous decade. The increase in per capita product (3%), which brought it back up to its 1972 level, was the first recorded in the 1980s (see table 1 and figure 1).

Domestic demand, which was stimulated by an intense expansion of private consumption and, in particular, by a revival of fixed capital investment, was the root cause of this recovery. External demand also followed a dynamic path, and this was reflected by the increase in the volume of exports of both goods and services. A moderate increase in the average price of external sales was also recorded, and this, together with the lower effective level of external factor payments, made possible a considerable recovery (7%) in gross national income (see table 2).

This expansion was achieved at the expense of some deterioration in external accounts. Current account deficit increased for the second year in a row, and rose to US\$ 370 million. In addition, and notwithstanding the existence of a stable exchange market —and the virtual absence of parallel markets— a shortage of foreign exchange occurred during the second semester of the year, obliging the Government to postpone servicing a portion of the foreign debt. Had these obligations been fully met, the current account deficit would have exceeded US\$ 450 million and the balance of payments would also have shown a deficit.

In addition, while the supply of external resources on concessionary terms, together with the foreign exchange earned from exports, proved enough to finance the volume of imports required by expanding overall demand, financial flows proved irregular. As intense negotiations with the International Monetary Fund continued without a new standby loan agreement being reached, it became increasingly difficult for the country to obtain fresh resources from multilateral finance organizations and in particular from private banks, despite the increased financial backing it had obtained from the United States. In addition, international monetary reserves of some US\$ 60 million were built up during the year, but their level remained insufficient at the end of the period.

The volume of external financing made available proved sufficient to allow an adequate flow of foreign trade, but there was not enough left over to permit the timely servicing of the foreign debt. In other words foreign exchange earnings were barely adequate, particularly at certain periods of the year.

As a result of the austerity of the adjustment programme which has been in effect since 1982, the Government played a restricted role in stimulating overall demand, but nevertheless it increased both its capital and operating expenditure. In addition it adopted an active policy to provide production incentives and to control those variables which had an adverse effect upon the decisions of the entrepreneurial sector.

Thus, financial stability and economic revival were favoured by, among other things, the efforts made in the field of fiscal policy and in the management of monetary policy. In the fiscal sector the capacity to attract resources was strengthened, and the rate of growth of expenditure was brought down. Consequently, for the first time in several years, the current account showed a saving, while the rate of growth of the deficit dropped significantly. As far as monetary policy is concerned, the rate of growth of means of payment was brought down, financial savings were increased, the velocity of monetary circulation was slowed down and the line taken with respect to the management of credit was a moderate one.

By minimizing the effect on prices, wage policy managed to partially restore the purchasing power of a wide section of the population. This helped to strengthen domestic demand and

stimulated production as well as helping to take up idle capacity. In line with this, monetary policy favoured credit for the private sector, but only within certain limits so as not to revive inflationary pressure. In addition, a series of promotional measures helped to revive production.

As far as overall supply is concerned, most of the productive sectors evolved favourably—in particular the agricultural and industrial sectors, which showed considerable growth. This led to a moderate increase in employment, and this was another factor which helped to increase demand.

Nevertheless a number of adverse factors remained, and these may have a negative effect in the near future. The economy was clearly unable to grow without widening the gap in the country's external accounts, which would suggest that the recovery which has been recorded may be simply of a conjunctural nature, rather than constituting a sound basis for sustained growth.

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	2 099	2 202	2 220	2 170	2 012	2 059	2 182
Population (millions of inhabitants)	2.15	2.21	2.28	2.34	2.41	2.47	2.53
Per capita gross domestic product (1970 dollars)	977	995	974	926	836	834	861
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.3	4.9	0.8	-2.3	-7.3	2.3	6.0
Per capita gross domestic product	3.0	1.9	-2.1	-4.9	-9.7	-0.3	3.3
Per capita gross national income	-1.4	1.4	-3.4	-11.3	-13.5	1.3	4.8
Rate of unemployment ^b	4.6	4.1	5.3	8.3	8.5	7.9	6.4
Consumer prices							
December to December	8.1	13.1	17.8	65.1	81.7	10.7	17.4
Average annual variation	6.0	9.2	18.1	37.0	90.1	32.6	12.0
Real wages and salaries ^c	8.8	4.5	0.8	-11.7	-19.8	10.9	7.8
Money	22.0	9.4	15.0	52.2	67.5	35.9	15.5
Current income of government	17.9	5.7	21.0	41.8	73.7	62.6	29.6
Total government expenditure	27.2	20.3	26.8	9.8	64.4	69.7	26.3
Fiscal deficit/total government expenditure ^d	30.5	39.0	41.8	24.8	20.5	23.9	21.9
Fiscal deficit/gross domestic product ^d	6.0	8.0	9.1	4.3	3.4	5.2	5.0
Current value of exports of goods and services	5.1	8.9	9.2	-1.9	-5.1	1.6	7.7
Current value of imports of goods and services	13.7	19.2	9.1	-21.4	-19.9	10.0	12.8
Terms of trade (goods and services)	-15.5	-1.3	-2.4	-23.1	-7.5	0.7	-0.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-266	-422	-459	-127	73	-14	-73
Net payment of profits and interest	-110	-146	-216	-304	-404	-365	-322
Balance on current account	-364	-554	-658	-408	-305	-358	-371
Balance on capital account	391	436	749	358	430	411	414
Variation in net international reserves	18	-113	33	-65	125	-28	58
Total disbursed external debt	1 870	2 233	3 183	3 360	3 497	3 848	4 400

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Estimated percentages based on the average rate of open unemployment in the surveys carried out three times each year (March, July and November), with the exception of 1984, when no survey was carried out in July.

^c Average real wage, based upon data provided by the Costa Rican Social Security Fund.

^d Percentages.

In addition, inflationary pressures, which had been declining, picked up during the second semester as a result of the unavoidable readjustments to the prices of certain products and services, together with the tax changes made in order to balance the fiscal budget and the wage increases which were granted. This could also mean that those factors which stimulated the economy, may, as a result of structural limitations, have caused tension in the productive apparatus and have become a new source of price instability. All in all the average variation in prices was only 12%, i.e., almost a third of that of the previous year and less than a seventh of that recorded in 1982.

Nevertheless, in spite of these wage increases, the average worker's real income was still below its 1980 level. This has led to a lowering of the living standards of a broad section of the population, as well as the possible deterioration of social services provided by the State, particularly in the fields of health and education. This is particularly significant in Costa Rican society, as it has achieved a relatively high and homogenous standard of living, and its requirements are translated into widespread social demands, this being one of the demonstrations of the deeply-rooted national democratic system.

Finally, foreign borrowing has come to represent a fundamental factor for the external sector and for exchange stability. The problem is that in spite of the restructuring of payments for 1984, it became clear as the year went on that the country was less able to count on additional fresh financing. In point of fact, external credit has tended, for the most part, to be increased in order to cover servicing of the external debt, thus reducing its availability for productive ends. In addition to this it must be pointed out that the State is still significantly dependent for its financing on foreign loans, and in particular on bilateral transfers which restrict its degree of liberty in deciding domestic economic policy.

As a matter of fact the Government has been obliged to accept the introduction of a series of restrictions upon its economic policy in order to obtain new loans from multilateral and bilateral financial organizations. In practice these restrictions have not been structured into a programme of adjustment—control of the fiscal deficit, of monetary variables, the role of the State and the freeing of market forces—, but instead have been superimposed one upon another in a disorganized fashion in response to the diverse demands made by the various bodies. These conditions fall into two categories: those laid down in the agreements made with the different multilateral and bilateral financial bodies¹ and those which refer to specific measures of economic policy and to the very style of development pursued. For example, in the latter case, certain loans and official grants were subject to the resources being exclusively used by the private sector and to various aspects of this sector's participation in the economy being strengthened.² Likewise, approval for other loans has been subject to the alteration of tariffs—with the aim of rationalizing protection of productive activity—, to the transfer of certain State-owned enterprises to the private sector, as well as to the lifting of price controls and the application of a "prudent" wage policy. In the case of one particular loan it was even specified that where payments involving transfers abroad and imports were concerned no new restrictions should apply nor should those in existence be broadened.

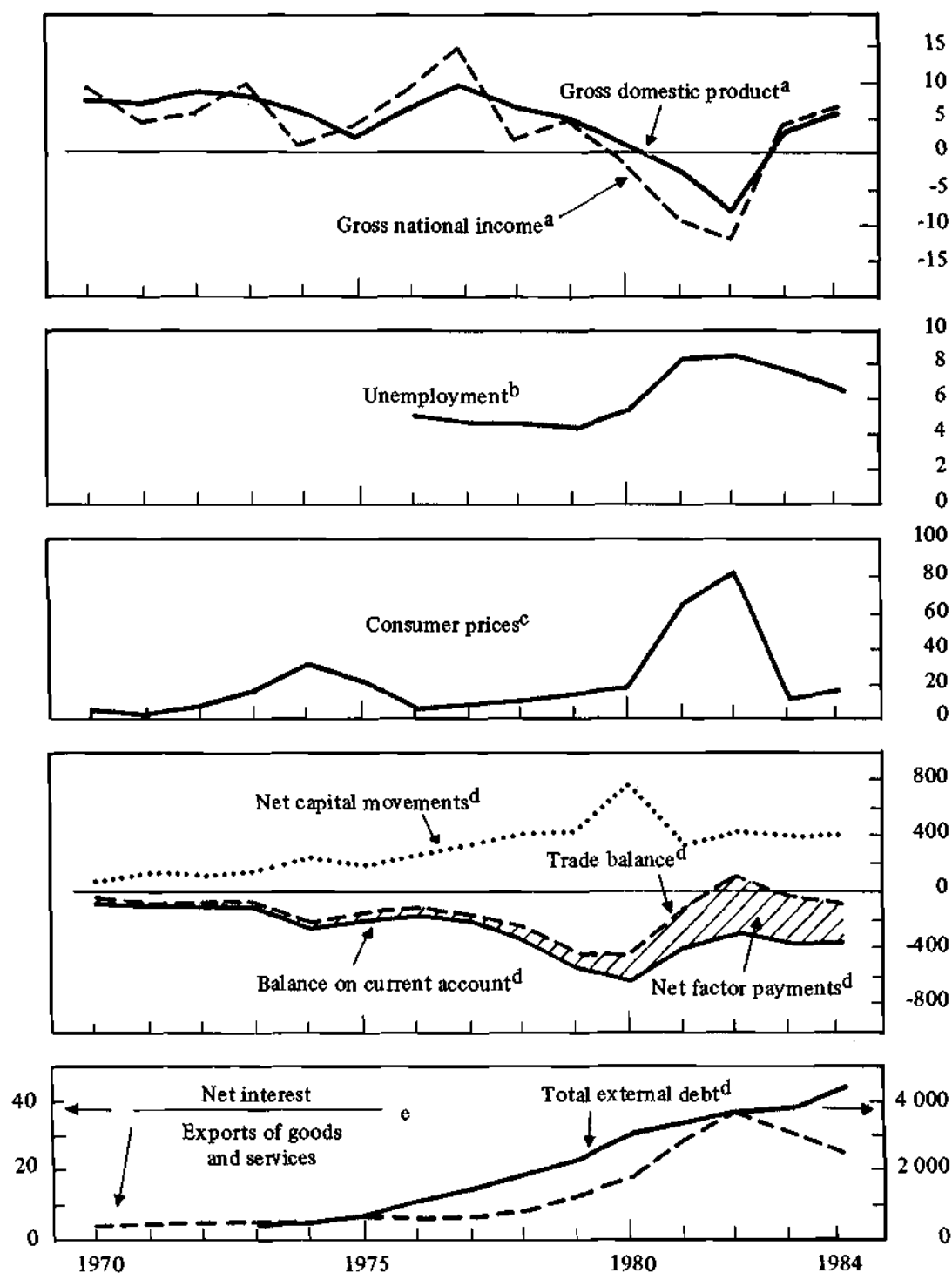
The principle that the cost of the recovery should be borne equally by the various economic agents, or at least that the present distribution of income should be maintained, has been the object of internal debate. Efforts to draw up an economic policy corresponding to these aims revived old arguments which reflect the diverse interests at large in society.

Intensification of relations with the outside world has been required and will continue to be required if the crisis is to be overcome. Thus, for example, access to new markets is sought together with increased participation in the bodies connected with international economic policy, as well as external financing from a variety of sources for many different purposes. In the internal sphere, the

¹ In the case of one official bilateral financing agency, release of funds was subject to the country's signing a stabilization agreement with the IMF. For its part, the Fund took the position that the standby credit agreement would be signed on the condition that the structural adjustment loan with the World Bank was signed simultaneously; it also stipulated that the standby credit agreement required, among other things, the negotiation of an additional line of credit for US\$ 75 million with private international commercial banks and the signing, through the Paris Club, of an agreement covering the restructuring of official debt obligations. In turn, the World Bank not only requested that the agreement be signed with the IMF before the structural adjustment loan was granted, but it also laid down deadlines for various proceedings. International commercial banks indicated that their financial backing would be contingent upon agreements being reached with the IMF and the World Bank. The release of funds by the latter was also tied to release of funds by the former institutions.

² Facilities for the import of inputs, spare parts and construction materials; increased backing for private banking agents' financial intermediation, and measures for the progressive transfer to this sector of services which are normally provided by the Government, such as road repairs or the improvement of water works and domestic sewerage.

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual rate of growth.
from December to December.

^bAverage annual rate nationwide.
^dMillions of dollars.

^cPercentage variation
^ePercentages.

Table 2

COSTA RICA: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	1 934	1 723	1 789	1 919	-9.0	-10.9	3.8	7.3
a) Gross domestic product	2 170	2 012	2 059	2 182	-2.3	-7.3	2.3	6.0
b) Terms-of-trade effect	-147	-173	-167	-177				
c) Net factor payment abroad	98	125	110	93	-32.8	27.4	-12.3	-15.5
d) Net private transfer payments from abroad	9	9	7	7	29.9	4.5	-24.2	-

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Government is obliged to maintain an ongoing dialogue with the various economic agents regarding their participation and the effects of the crisis upon each of them. These factors have made it necessary to modify the structure, formulation and application of economic policy, a need which has run up against the State's own financial limitations, among other obstacles.

It is worth emphasizing the importance of the 1984 revival, since it occurred at a time when the international economy was still unsteady, the political situation in Central America was subject to strong tensions and the structural limitations which are characteristic of the Costa Rican economy persisted.

2. Trends in economic activity

a) *Total supply and demand*

Following the large decreases recorded between 1980 and 1982, overall supply grew considerably (over 6%) owing to a real increase of 6% in the domestic product and an expansion of almost 9% in the volume of external purchases.

The shortage of foreign exchange and the adjustment effort have led to a sharp contraction of imports in recent years; as a result imports have represented a smaller share of total supply. Thus, in spite of the revival of imports, in 1984 the corresponding coefficient was barely 17%, considerably below its level at the beginning of the decade (see table 3).

As far as overall demand is concerned, the main stimulus was provided by components of domestic demand. Among these, investment was once again particularly dynamic and grew by 16%, although this represented only a partial recovery from the spectacular contraction it had undergone in the 1981-1982 biennium. The 28% increase in fixed capital investment, especially in machinery and equipment, was of particular importance. The private sector apparently made the greatest investment effort (39%), particularly in the agricultural, industrial and transport sectors. This impetus was probably due to the policy designed to stimulate the private sector, as well as to the external financing which had been received for this purpose. The revival in the construction sector should also be considered, as it is an important element of investment and has a multiplier effect as regards economic revival.

As far as public investment is concerned, its growth was more moderate, but nonetheless significant, if we take into account the austerity and spending-rationalization policy which the Government has had to follow in its adjustment programme, together with the large outlays required to cover debt obligations.

Following upon a cumulative drop of some 10% during the previous triennium, governmental consumption grew very slowly (3%), which was also a consequence of the austerity policy. This led to some deterioration of the major social services provided by the sector which significantly contribute to the population's well-being.

Private consumption was one of the variables which gave most drive to the productive apparatus. It increased by 5%, after having ceased to follow its previous declining trend in 1983. This increase accounted for almost half of the expansion in domestic demand and was due to an improvement in employment, as well as to a partial strengthening of the real income of wage earners.

b) *Behaviour of the main sectors*

The economic revival was widespread, but the production of goods showed greater-than-average growth (9%). Basic services, which as a whole had developed positively even in the most difficult moments of the crisis of previous years, grew rather more slowly (2.5%). The "other services" category showed a 4% upturn in which financial and personal services were influential factors (see table 4).

i) *The agricultural sector.* The substantial increase in the product of this sector helped to strengthen the recovery recorded in 1983 (see table 5).

These results were achieved not only thanks to favourable weather conditions, but also thanks to governmental policies designed to sustain and stimulate the sector, particularly in the fields of marketing and credit, complemented by external funds. It is probably true, particularly in the case of the traditional exports sector, that the profits in national currency derived from exchange modifications also had an influence.

Coffee production grew at a 5% average annual rate, as a result of a moderate 1983/1984 harvest and a plentiful harvest in 1984/1985. Favourable weather conditions, greater technical assistance to coffee producers on plantations and the renovation of the plantations contributed to this improvement. The increase in output is considered to have more than made up for the higher costs borne by the farmers in order to combat plant rust.³

Table 3
COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Annual growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	2 332	2 401	2 554	122.8	125.2	117.0	-7.0	-9.8	3.0	6.4
Gross domestic product at market prices	2 012	2 059	2 182	100.0	100.0	100.0	-2.3	-7.3	2.3	6.0
Imports of goods and services ^b	320	342	372	22.8	25.2	17.0	-25.9	-22.9	6.8	8.8
Total demand	2 332	2 401	2 554	122.8	125.2	117.0	-7.0	-9.8	3.0	6.4
Domestic demand	1 817	1 896	2 027	100.3	105.7	92.8	-12.1	-12.0	4.4	6.9
Gross domestic investment	298	373	432	20.8	29.0	19.8	-37.7	-25.5	24.9	15.8
Gross fixed investment	304	317	405	20.8	25.3	18.6	-24.9	-27.8	4.2	27.7
Construction	195	191	227	11.5	14.9	10.4	-24.8	-21.8	-1.9	18.5
Machinery	109	126	178	9.3	10.4	8.2	-25.0	-36.5	15.2	41.7
Changes in stocks	-6	56	27	-	3.7	1.2				
Total consumption	1 519	1 523	1 595	79.5	76.7	73.0	-2.4	-8.7	0.3	4.7
General government	287	278	286	13.7	14.0	13.1	-5.6	-2.5	-2.9	2.7
Private	1 232	1 245	1 309	65.8	62.7	59.9	-1.7	-10.1	1.1	5.2
Exports of goods and services ^b	515	505	527	22.5	19.5	24.2	20.3	-1.1	-2.0	4.5

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

^a Preliminary figures.

^b Figures relating to exports and imports of goods and services were obtained from balance-of-payments data expressed in current dollars, converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

³ The Oficina del Café is carrying out an intensive programme to control the disease and producers receive credit backing to prevent and fight against it.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	1 787	1 829	1 939	100.0	100.0	100.0	-2.3	-7.3	2.3	6.0
Goods	756	777	848	45.4	43.9	43.5	-1.6	-11.0	2.7	0.3
Agriculture	369	384	413	22.1	18.7	21.2	5.1	-4.7	3.9	7.7
Mining	311	315	343	17.3	17.9	17.6	-0.5	-11.4	1.2	9.0
Manufacturing	76	78	92	6.0	7.2	4.7	-21.7	-31.9	2.7	18.3
Construction	199	208	214	8.4	9.9	11.0	1.4	0.5	4.3	2.4
Basic services	53	64	67	2.2	2.4	3.4	7.8	4.2	20.2	3.9
Electricity, gas and water	146	144	147	6.2	7.5	7.6	-0.7	-0.8	-1.5	1.8
Transport, storage and communications	840	851	882	46.2	46.2	45.5	-3.3	-4.4	1.3	3.6
Other services	237	245	245	14.6	15.2	15.2	-10.6	-11.7	3.6	4.7
Commerce, restaurants and hotels	280	285	285	14.1	14.1	14.1	-0.1	0.8	1.9	1.6
Financial institutions, insurance, real estate and business services	146	147	149	7.9	7.2	7.7	1.7	0.9	0.9	1.6
Ownership of dwellings	323	321	327	17.5	16.9	16.9	0.5	-3.1	-0.5	1.7
Community, social and personal services	237	233	234	12.5	12.1	12.0	1.8	-2.9	-1.6	0.5
Government services										

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

^a Preliminary figures.^b As the individual activities and the totals were calculated independently, the sum of the former does not exactly correspond to the latter.

In spite of low world market prices, sugar-cane production rose by more than 15%, the highest rate of the last 11 years. This was to a large extent due to the provision of greater technical assistance on the plantations, to the improvement of prices paid to growers and to an increase in yields. The Liga de la Caña⁴ played its part in this through a research and extension programme. As external demand for sugar is unlikely to grow in the future, steps have been taken to use part of the output for other purposes, particularly in the production of alcohol for export or as fuel.

The production of bananas —the country's second most important export— grew by scarcely 1%. This low rate, similar to that of previous years, was largely due to the proliferation of sigatoka, a disease which has destroyed a large number of plantations, and to the serious labour problems encountered by a foreign firm which farms 3 000 hectares in the Pacific region. These problems reached their peak in the second half of 1984 when the firm was again paralyzed by a strike; this led it to decide unilaterally to withdraw from production (some 22 000 tons) four years before the expiry of the contracts it had signed in 1938.

The Government considered that the withdrawal of the transnational company "had serious implications for the country's stability, increased internal security problems within the country's South Pacific region in the face of the present difficult circumstances there, and affected Costa Rica's democratic institutional system". As a consequence, negotiations involving the possibility of a wholesale revision of the contract signed in the late 1930s were started with the firm at the end of the year.⁵

⁴ An autonomous semi-State institution responsible for regulating activities connected with this product.⁵ Among other things, the Executive branch called attention to the need to stop lay-offs, draw up leases aimed at safeguarding banana plantations and production, to open up negotiations for the purchase of company land, and to undertake a joint examination of all necessary steps, including the possibility of a comprehensive renegotiation with the aim of signing new banana and African palm contracts. See The Office of the President, *Propuesta Oficial del Gobierno de Costa Rica*.

Cocoa production and productivity, which had declined considerably in previous years, recovered in 1984 thanks to a special support programme and to the recovery of prices on the international market.

In almost every case crop production for domestic consumption expanded. The largest increases were those of beans (45%) and sorghum (39%), which were stimulated by special programmes to ensure self-sufficiency in these staple crops.

Table 5
COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of agricultural production (1970 = 100)	123.1	134.9	128.8	134.2	144.5	3.2	-7.5	4.2	7.7
Crop farming	122.8	131.5	138.7	154.5	160.8	2.1	-3.3	11.4	4.1
Stock-raising	118.5	133.8	125.3	117.1	136.8	8.6	-13.8	-6.5	16.8
Forestry	139.4	142.9	107.2	78.7	82.6	-5.0	-21.0	-26.6	5.0
Fisheries	197.7	270.2	191.3	172.6	232.3	-18.8	12.8	-9.8	34.6
Production of the main crops^b									
For export									
Coffee	85	106	115	123	129	6.3	1.8	6.7	5.1
Bananas	1 221	1 108	1 153	1 153	1 165	3.0	1.1	-	1.0
Sugar cane	2 324	2 516	2 446	2 543	2 936	0.2	-3.0	4.0	15.4
Cocoa	7	5	4	2	3	-4.1	-30.7	-39.6	58.0
For domestic consumption									
Rice	179	231	146	261	255	-3.5	-34.3	78.6	-2.2
Maize	68	75	82	95	105	9.9	-0.6	15.8	10.0
Beans	15	12	16	14	21	6.7	32.8	-12.0	44.7
Sorghum	20	42	27	30	42	-25.9	-11.7	10.7	39.5
Tobacco	3	2	1	2	2	5.5	-23.9	64.7	-6.1
Plantains	67	90	98	101	105	-0.2	8.9	3.1	4.0
Indicators of stock-raising production									
Number of stock ^c									
Cattle	1.8	2.2	2.3	2.4 ^a	...	4.2	0.2	3.6	...
Poultry	...	16.2	11.1	14.5 ^a	...	-26.0	-7.8	31.2	...
Animals slaughtered ^b									
Cattle	128	118	120	96	123	24.6	-19.0	-19.5	28.0
Pigs	10	19	18	19	22	6.8	-14.8	5.8	19.0
Poultry	5	5	4	5	6	-12.2	-17.6	36.5	21.5
Other products									
Milk ^d	251	308	298	316	342	0.7	-4.0	6.0	8.4
Eggs ^e	344	430	321	278	316	-0.1	-25.3	-13.3	13.7
Indicators of forestry production									
Wood ^f	671	687	516	379	398	-4.9	-21.0	-26.6	5.0
Volume of fishery production^b	14	19	13	12	16	-18.8	-12.9	-0.9	34.6

Source: ECLAC, on the basis of official figures. The figures on stock-raising inventories were provided by SIECA.

^a Preliminary figures.

^b Thousands of tons.

^c Millions of units.

^d Millions of litres.

^e Millions of units.

^f Thousands of cubic metres.

Production of white maize, which is a major component of the Costa Rican diet, grew by 10% due, among other things, to the fact that the increase in guaranteed prices led to the sowing of a larger surface area during the 1984 agricultural year.

With the exception of sorghum, the country moved from a deficit situation to one of self-sufficiency in basic grains. Rice was the only crop which experienced a drop in production. This was a result of stock accumulation following the particularly large 1983 harvest and of the difficulties encountered in placing the surplus on outside markets at reasonable prices. Another factor was that, in view of these circumstances, parallel substitution policies were limited and credit for this crop was deliberately reduced.

The basic-grain support policy was the subject of intensive debate. The financial backing granted in particular by bilateral co-operation agencies in 1983 and 1984 was subject to, among other things, a change of policy in this respect. Essentially, the system provided for a support mechanism both for the producer and the consumer. The changes referred to aimed specifically at reducing the deficits of the regulatory body and at adjusting prices to market circumstances; in this way the policy of subsidies which had been applied would be eliminated. In the public controversy about this issue it has been argued that the financial deficit of the regulatory body is generated by the exportation of surpluses at international prices and that, consequently, subsidies to the producer are much larger than those received by the consumer. The sale of surpluses would thus be out of line with the policy of the regulatory body.

Stock-raising output, and in particular cattle production, recovered considerably. The problems experienced with respect to prices in 1983 led producers to hold livestock back from sale; as prices improved they offered a larger number of head for sale, thus making an ample supply of meat available for export. Even though 1984 saw the largest increase of the last five years, the number of cattle slaughtered was still below what it had been in the 1970s.

Similar trends were recorded for pork and poultry. In previous years, the lack of dynamism in these subsectors had been linked to the increase of production costs resulting from the sudden devaluation of the colón and restrictions affecting the acquisition of foreign exchange for the purchase of inputs. The good 1984 maize harvest, approximately 15% of which was yellow maize for fodder, together with measures adopted to facilitate the import of inputs, stimulated livestock production.

Milk and egg production also revived considerably, even though they failed to return to the levels recorded during the 1970s.

Fisheries, which had also been affected by the domestic crisis, experienced extremely high growth (almost 35%). This was mainly due to the larger catches of sardines and tunnyfish. The acquisition of 179 extra boats was largely responsible for this increase.

ii) *The industrial sector.* The limited growth of the industrial sector which had been recorded in 1983 strengthened in 1984, reaching the rate of 9%, in marked contrast with the period of contraction between 1980 and 1982.⁶ Nevertheless the sectoral production index remained several points below the level recorded at the beginning of the decade (see table 6). The rapid growth seen in 1984 was a widespread phenomena. Foodstuffs, beverages and tobacco sector grew by 9%; chemicals and rubber by 7%, and petroleum refining by 32%. These rates are significant because these activities together generate 70% of the gross value of the sector's output.

In line with the above, industrial electricity consumption again increased by more than 10%. Employment in the sector increased by a little more than 3%.

The revival of construction and the recovery of real income, together with the consequent strengthening of demand, contributed to this favourable evolution in the industrial sector.

iii) *The construction sector.* This sector's rapid rate of growth was the result of the increase in the building of dwellings for the private sector and in public works (see table 7). The relative stability of the prices of basic inputs as well as the fact that the prices of construction materials grew at reasonable rates also seem to have had their influence. In addition, according to various sources, the

⁶ Figures concerning the industrial sector up to 1983 are provided by the Costa Rican Central Bank. The 1984 figures for the agricultural industry are provided by the same source. Figures provided by the University of Costa Rica on the physical volume of production broken down into sectors of activity, were used for the whole of this year. See, M.C. Palacios B., *Evolución de la industria en Costa Rica durante el año 1984 y perspectivas para el primer semestre de 1985*, Instituto de Investigaciones en Ciencias Económicas, Universidad de Costa Rica, No. 81, January 1985.

average real wage in the construction sector tended to stabilize or to grow moderately. The sectoral level of unemployment was lower than that of 1983, although it remained higher than it was in the 1981-1982 biennium. The marked growth of imports of construction materials (21%) is another indicator of the dynamism of this activity in 1984.

iv) *The electricity sector.* Energy production increased by 5%, while exports of electricity to Nicaragua and Honduras, which had begun in 1982, almost doubled (see table 8). This was to a large extent due to the revival of economic activity, and in particular to the growth of demand for electricity in the industrial sector. The trend in domestic electricity consumption was more moderate probably as a result of the increases in rates which have been authorized since 1983.

v) *Other sectors.* Mining, like industry and agriculture, also grew at a rapid rate. This was largely due to the expansion of gold mining, an activity which has been subject to new incentives and regulations (see table 9). Basic services expanded slowly, while the activities classified as "other services", in particular those linked to trade, finance, insurance and business services, evolved at a rate in line with that of the economic revival.

Government services increased the least due to the contraction of public expenditure which was one component of the adjustment policy in force (see table 4).

Table 6
COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Index of value added (base 1977 = 100)	111.5	98.7	99.9	108.9	-0.5	-11.4	1.2	9.0
Consumer goods								
Food, beverages and tobacco	120.0	108.3	110.2	120.0	3.2	-9.8	1.8	8.9
Coffee processing	142.7	145.5	155.3	163.2	6.3	2.0	6.7	5.1
Meat	156.3	119.4	100.5	127.2	21.9	-23.6	-15.8	26.6
Sugar	109.0	99.4	106.0	127.9	4.6	-8.8	6.6	20.7
Other foodstuffs	114.2	99.4	102.7	110.4	-2.4	-13.0	3.3	7.5
Textiles, leather and footwear	106.0	111.7	111.9	116.5	0.3	5.4	0.2	4.1
Furniture and wood	113.6	82.3	72.5	78.8	-3.9	-27.6	-11.9	8.7
Printing, publishing and related industries	12.7	90.3	120.5	151.5	-7.3	-19.9	33.5	25.7
Other	72.9	62.5	61.9	67.0	-9.7	-14.3	-1.0	8.2
Intermediate goods								
Paper and paper products	147.4	142.3	176.1	173.5	1.7	-3.5	23.8	-1.5
Chemicals and rubber	125.5	90.9	91.4	97.8	1.4	-27.6	0.6	7.0
Petroleum refining	223.9	186.7	165.8	218.2	6.5	-16.6	-11.2	31.6
Non-metallic minerals	112.3	83.5	102.4	146.2	-12.4	-25.6	22.6	42.8
Metal manufactures and machinery	116.4	76.1	72.3	82.1	-16.1	-34.6	-5.0	13.6
Other indicators of manufacturing production								
Consumption of electricity by industry (1970 = 100)	265.3	249.1	319.2	359.1 ^b	-15.7	-6.1	28.1	12.5 ^b
Employment (1968 = 100)	177.4	173.9	180.5	186.3	-5.4	-1.9	3.8	3.2

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica and, in particular for 1984, the University of Costa Rica, Institute of Economics, *Encuesta de Coyuntura Industrial*.

^a Preliminary figures.

^b Estimates on the basis of the variation for the January-October period.

Table 7

COSTA RICA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1981	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Area constructed^b (thousands of m ²)									
Total	1 110	934	903	826	1 005	-15.8	-3.3	-8.5	21.7
Dwellings ^c	344	738	740	595	804	114.5	0.3	-19.6	35.1
Cement production^d									
Total	539	694	424	390	...	28.8	-38.9	-8.0	...
Sales for domestic consumption	545	508	354	351	446	-6.8	-30.3	-0.8	27.1
Indexes									
Prices of basic inputs and labour (1976 = 100)									
In dwelling construction	...	281.7	520.2	597.2	673.3	...	84.7	14.8	12.7
In building construction	...	322.5	576.0	673.7	767.5	...	78.6	17.0	13.9
Average real wage ^e (1977 = 100)	114.8	97.7	75.8	91.6	...	-14.9	-22.4	20.8	...
Unemployment rates									
Total									
March	10.5	15.8	22.0	21.4	18.6				
July	11.4	20.9	25.3	20.0	...				
November	14.4	22.3	21.0	14.7	...				
Open									
March	5.7	11.3	14.2	14.5	12.3				
July	7.5	16.7	15.8	14.5	...				
November	10.3	16.0	12.2	9.8	...				
Equivalent ^f									
March	4.8	4.5	7.8	6.9	6.3				
July	3.9	4.2	9.5	5.5	...				
November	4.1	6.3	8.8	4.9	...				

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security, the Statistics and Census Bureau of Costa Rica, the Central Bank of Costa Rica and the Statistics Department of SIECA.

^aPreliminary figures. ^bOn the basis of building permits granted. ^cEstimated on the basis of the proportion of the total constituted by dwellings, according to SIECA figures. ^dThousands of tons. ^eOn the basis of average annual figures from the national household employment and unemployment surveys which are carried out in March, July and November each year. ^fUnderemployed population expressed in terms of open unemployment.

c) *Employment and unemployment*

Total unemployment reached 17% in March, 3 percentage points less than that recorded for the same month of the previous year. Decreases were recorded both in open unemployment and in underemployment. In fact, the former dropped from an average of 7.8% in 1983 to 6.4% in 1984 (see table 10).

Open unemployment is greater in cities than in rural areas and as a general rule rises in urban zones where industrial plants are situated (the central valley and the metropolitan area). However, in the countryside the index of underemployment is higher and, within certain limits, relatively stable. In urban areas underemployment exceeded open unemployment only in 1982, the year in which the crisis was at its worst; during the other years of the decade it has been lower and has tended to follow the same trends as open unemployment.

In conclusion, total unemployment diminished in 1984 as a result of the economic revival, and the unemployment situation was thus similar to what it had been in 1981. Throughout the whole of the crisis period, labour adapted itself to temporary underemployment, above all in the urban areas. The cyclical increase of underemployment generated by agricultural workers between harvests was another factor in this phenomenon. The growth of total unemployment during these years has given rise to an increase in informal and in what are known as underground activities.

3. The external sector

a) *Introduction*

The upturn in the export price index put a halt to the sustained tendency towards a deterioration in the terms of trade; this, together with new inflows of external funds helped make external operations run more smoothly.

In spite of temporary shortages of foreign exchange, which even forced the Government to fall behind in its payment of the foreign debt, imports of inputs and capital goods were expedited. Nevertheless the extremely liberal exchange policy pursued, together with the recovery of domestic economic activity, led to a revival of external purchases of consumer goods. Thus, in spite of a revival of exports, the foreign trade disequilibrium increased for the second year running, although it did not reach even one-sixth of that recorded, for example, in the 1979-1980 biennium.

Apart from these factors linked to the current account, the capital flow and the favourable consequences of debt renegotiation led to the external disequilibrium being more adequately financed in 1984 and to the expansion of international reserves by some US\$ 60 million.

However, other phenomena developed, and it is necessary to refer to these in view of their effect upon the definition of economic policy. In fact, it became clear that there was no direct correlation between the ever-increasing payment obligations falling due and the inflow of foreign exchange for exports. In addition, capital inflows in the form of loans and grants which had been anticipated for specific months of the year did not materialize as a result of the difficulties encountered in concluding negotiations with the various sources of financing. This eroded exchange stability, led to delays in the amortization of debt payments and engendered speculation in the case of an insufficient cash flow to meet payments on time.

Table 8
COSTA RICA: ELECTRICITY PRODUCTION,
CONSUMPTION AND EXPORTS

	Millions of kWh				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Production	2 305	2 411	2 860	3 011	7.8	4.5	18.5	5.3
Hydroelectricity	2 275	2 377	2 817	2 966	-36.3	14.5	26.5	5.4
Thermal	30	34	43	45	6.9	4.6	18.6	5.3
Consumption	2 029	2 060	2 203	2 320 ^b	7.7	1.5	6.9	5.3 ^b
Residential	898	945	1 007	1 047 ^b	6.5	5.2	6.6	4.0 ^b
Industrial	628	532	610	677 ^b	1.7	-15.1	14.5	11.0 ^b
Public lighting	67	74	74	77 ^b	44.9	9.2	0.5	3.8 ^b
Shops and business ^c	436	509	512	519 ^b	16.0	16.7	0.6	1.4 ^b
Exports	-	108	477	520 ^b	-	-	343.4	9.1 ^b
Consumption plus exports	2 029	2 168	2 680	2 840 ^b	7.8	6.8	23.6	6.0 ^b

Source: ECLAC, on the basis of figures provided by the Costa Rican Institute of Electricity (ICE) and the Central Bank of Costa Rica.

^aPreliminary figures.

^bEstimated based on figures for January-October in comparison to the same period of the preceding year.

^cIncluding electricity consumed in ICE construction projects.

Table 9

COSTA RICA: INDICATORS OF MINING PRODUCTION

	1975	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Index of mining production (1981 = 100)	...	139.3	100.0	136.9	266.0	344.5	-28.2	36.9	94.3	29.5
Production indexes of some important minerals (1981 = 100)										
Gold exports ^b	...	...	100.0	290.7	855.1	1200.0	...	190.7	294.2	40.3
Extraction of stone, clay and sand	128.9	157.7	100.0	85.0	125.5	145.5	-36.6	-15.0	47.6	15.9
Salt mining	152.9	179.2	100.0	203.3	316.8	400.0	-44.2	103.3	55.8	26.3

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

^aPreliminary figures.

^bThe index is based on direct purchases from the Central Bank of Costa Rica.

The Executive branch's initiative to develop closer relations with the European Economic Community (EEC) represented one of the major efforts undertaken in 1984 to improve the role played by the external sector. This made it possible to draw up agreements among the Central American Common Market, the EEC and Panama and to sign economic, trade, financial and technical co-operation and assistance pacts. Bilateral agreements between the EEC and its member countries were also drawn up with Costa Rica. Of particular note are those involving support in the fields of health and education, co-operation in strengthening the municipal system and others linked to agriculture.

b) *Trends in the exchange rate*

The aim which had been set by the Government of establishing a single system of exchange for free and inter-bank transactions was achieved at the end of 1983. Variations in the exchange rate during 1984 made it possible to adjust the real value of the national currency in line with variations in internal and external inflation (see table 11). Thus, and in particular during the second semester, these devaluations constituted a relative stimulus for exports and a brake on imports.

c) *Merchandise trade*

Although it was slight, the improvement in the terms of trade during 1984 interrupted the steady deterioration which had been recorded since 1978. The volume of exports once again revived vigorously. As a consequence of both of these factors, the purchasing power of exports, which had been declining since the end of the 1970s, revived considerably² (see table 12).

The disequilibrium in merchandise trade increased slightly. This was a result of the substantial climb in imports, a phenomenon which may be explained by the need to sustain the revival and by the considerable investment effort undertaken.

i) *Exports.* The rapid growth of exports (10%) counteracted the slack results of the previous triennium during which they had dropped by almost 13%. The recovery was due, to an equal extent, to the greater volume of exports and to the increase of their unit value.

Traditional exports which make up almost 60% of the total, grew by 9%. Exports of non-traditional goods outside Central America proved even more dynamic (47%), principally as a consequence of the sale of a wide variety of new products. On the other hand, exports to the rest of the Central American Common Market once again declined (see table 13).

Coffee considerably improved its position among traditional export goods. External sales of this product increased by 13%, almost exclusively as a result of the price increase (12%).

²This is of considerable importance in view of the fact that, unlike ACP countries within the framework of the Lomé Convention and Cuba within CAME, the smaller Latin American countries do not possess intergovernmental schemes for providing financial compensation in the case of international fluctuations in the prices of their export commodities.

As far as bananas are concerned, and in spite of the difficulties which production had to face, it was the volume variable which influenced the increase in total value exported (4%), as the price remained constant. In the case of beef exports, slaughtering increased in a spectacular fashion. This was to a large extent in response to expectations of higher export prices.

In contrast with this, the value of sales of sugar declined by more than 21%, a decline which was attributable to a dramatic drop in the average price, as the volume grew by more than 20%.

As has been pointed out earlier, exports of non-traditional commodities underwent dynamic growth as a result of exports to the rest of the world. In contrast, exports to the Central American Common Market dropped by 10%, in line with the overall decline of intra-regional trade.

The role played by new products, such as ornamental plants and flowers, in the expansion of non-traditional exports to countries outside the area is worth mentioning. Sales of fish, leather goods, cement, plastic and wood products also grew. Thus, for the first time, sales to countries outside the region exceeded those to the Central American Common Market. In addition, the export promotion policy was intensified in 1984: preferential rates were established for certain basic services and for those linked to exports; inputs necessary for the manufacture of exports were exempted from customs duties, and steps were taken to promote other activities such as the establishment and use of free trade zones and free ports together with the development of cross-border subcontracting.

All these efforts were also linked to an improvement in the conditions of access to markets, thanks to the signing of trade agreements with the Dominican Republic and to complementarity agreements with Argentina, Colombia, Mexico and Venezuela. At a later date, the United States unilaterally opened up its market to products from countries and territories in the Caribbean in accordance with the Caribbean Basin Initiative.⁸

Table 10

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT^a

	1980	1981	1982	1983	1984	1983			1984 ^b	
						March	July	November	March	November ^c
Thousands of persons										
Labour force	780	819	849	844	862	812	844	877	835	888
Employment	738	752	777	778	807	739	768	827	770	844
Unemployment	42	68	72	66	54	73	76	50	65	43
Unemployment rates ^d	...	17.3	21.8	18.1	...	20.1	19.9	14.3	16.8	...
Open	5.3	8.3	8.5	7.9	6.4	9.0	9.0	5.7	7.8	4.9
Rural	4.7	7.5	7.1	7.2	6.1	8.2	8.7	4.8	7.6	4.5
Urban	6.0	9.1	9.9	8.6	6.6	9.9	9.3	6.7	7.9	5.2
Central valley	5.6	8.8	10.0	8.1	6.2	9.5	8.7	6.1	7.7	4.7
Metropolitan area	...	9.3	10.5	8.5	6.5	9.7	...	7.3	7.9	5.0
Equivalent ^e	8.2	9.1	13.3	10.2	...	11.1	10.9	8.6	9.0	...
Rural	9.3	10.5	13.3	12.0	...	13.6	12.5	9.8	10.7	...
Urban	6.9	7.3	13.1	8.4	...	8.7	9.1	7.3	7.3	...
Central valley	6.3	7.0	11.2	8.9	...	10.7	8.8	7.1	6.7	...
Metropolitan area	...	6.4	10.4	7.1	...	7.9	...	6.3	6.8	...
Participation rate ^f	35.1	36.1	36.6	35.5	35.4	34.4	35.5	36.6	34.6	36.2

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security and the Statistics and Census Bureau.

^aFigures obtained from household surveys on employment and unemployment.

^bThe survey was not carried out in July.

^cPreliminary figures from a manual count.

^dPercentage of unemployment in the labour force.

^ePercentage of

labour force represented by the underemployed population expressed in terms of open unemployment.

^fLabour force as a percentage of

total population.

⁸In this case, it is necessary to meet a large number of political and economic conditions in order to enjoy access to the United States market. In addition, the law in question grants wide discretionary powers to the President of the United States to weigh the conditions laid down therein in order to decide whether the applicant country is eligible for the benefits in question. This to a large extent depends upon the advantages accruing to the economy or security of the United States.

Table 11

COSTA RICA: EVOLUTION OF EXCHANGE RATES

Yearly and quarterly averages	Nominal exchange rate (colones per dollar)			Effective real exchange rate indexes ^a		
	Exports		Imports	Export		Imports
	(1) ^b	(2) ^c	(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		100.1
1980	9.20		9.27	100.0		100.0
1981	21.15		20.01	147.5		142.2
1982	38.62		39.23	136.0		133.3
1983	42.24		42.16	123.0		114.6
1984	44.53		44.53	129.6		119.1
1982						
I	36.24	32.45	35.04	158.1	142.3	152.5
II	36.45	32.64	39.77	138.7	124.8	145.7
III	40.14	35.95	40.30	125.1	112.6	118.5
IV	41.64	37.29	41.81	122.5	110.3	117.0
1983						
I	41.64	37.29	41.96	119.0	107.1	113.2
II	41.69	37.33	41.78	120.6	108.5	112.9
III	42.70	38.24	42.07	126.2	113.6	115.3
IV	42.93	38.44	42.84	126.0	113.4	117.5
1984						
I	43.40	39.06	43.40	125.4	112.9	117.3
II	43.53	39.18	43.53	127.1	114.4	117.9
III	44.23	39.72	44.13	129.6	116.6	117.7
IV ^d	46.98	42.28	46.98	136.9	123.2	123.4

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

^aCorresponds to the average of real exchange rate indexes for the colón in respect of the currencies of the principal countries with which Costa Rica trades, weighted by the relative importance of exports or imports to or from these countries, as the case may be. Between 1975 and 1979 these weightings correspond to the average for these same years; from 1980 onwards, they correspond to the average for the 1980-1983 period. Wholesale price indexes were primarily used in the calculations. Regarding the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America, 1981*.

^bExchange rates supplied by the Central Bank of Costa Rica, except for 1984, when data from the IMF was used. References relate to the official exchange rate until September 1980. As from October 1980 they correspond to exchange rates weighted on the basis of real transactions carried out on the different markets.

^cExchange rates for goods and services less the exchange rate differential between this exchange rate and the official rate, which as a weighted average is somewhat greater than 10%.

^dPreliminary estimate.

ii) *Imports*. For the second year running imports of goods experienced a high rate of growth following upon the 1981 and 1982 contraction, which had brought down the levels attained in 1980 by more than 45% (see table 14).

Figures available for 1984 only cover the first two-thirds of the year, but they seem to indicate considerable revival (56%) in capital goods imports after years of substantial decline, which mirrors the dynamic behaviour of gross investment in 1984. Imports of intermediate goods and raw materials, however, expanded rather moderately (8%), due, to a large extent, to the substantial fall in petroleum purchases. Purchases of consumer goods experienced a vigorous recovery, although their level remained well below that of five years before, following the cumulative 1981 and 1982 drop of approximately 70%.

Table 12

COSTA RICA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	9.0	6.2	0.2	-13.3	0.2	10.3
Volume	3.6	-5.9	11.3	-11.3	5.3	5.0
Unit value	5.2	12.9	-10.0	-2.3	-4.9	5.0
Imports						
Value	19.8	9.4	-20.7	-26.2	10.9	11.5
Volume	12.5	-6.8	-24.5	-30.1	7.9	9.3
Unit value	6.5	17.3	5.0	5.6	2.8	2.0
Terms of trade	-1.6	-2.8	-14.8	-7.0	-7.1	1.1
Indexes (1970 = 100)						
Purchasing power of exports	155.3	142.1	134.6	111.0	108.7	115.4
Volume of exports	157.5	148.2	164.9	146.4	154.2	162.0
Terms of trade	98.6	95.8	81.6	75.9	70.5	71.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 13

COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^b
Total	869	871	960	100.0	100.0	100.0	0.2	-13.3	0.2	10.2
Main traditional exports	545	526	575	71.2	58.2	59.9	3.4	-9.2	-4.0	9.3
Coffee	237	230	260	19.6	24.8	27.1	-3.1	-1.3	-2.9	13.0
Bananas	228	234	244	29.2	20.7	25.4	8.3	1.5	2.5	4.3
Meat and livestock	53	31	47	7.8	7.2	4.9	6.5	-28.5	-43.9	51.6
Sugar	17	24	19	9.8	4.1	1.9	3.2	-60.5	44.0	-20.8
Fertilizers	8	6	4	3.7	1.0	0.5	56.0	-49.4	-30.4	-33.3
Cocoa	2	1	1	1.1	0.4	0.1	-35.7	-11.1	-62.5	-
Main non-traditional exports	324	345	385	28.8	41.8	40.1	-4.4	-19.1	6.6	11.6
To Central America	167	191	174	21.7	27.0	18.2	-11.9	-29.7	14.2	-8.9
To the rest of the world	157	154	211	7.1	14.8	21.9	11.0	-5.0	-1.5	37.0

Source: ECLAC, on the basis of official figures.

^aEstimates based on data covering the period from January to November.^bVariation between January-November 1984 and January-November 1983.

Table 14

COSTA RICA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	893	988	1 174	100.0	100.0	100.0	-20.7	-26.1	10.6	18.8
Consumer goods	167	215	267	20.8	25.5	21.9	-35.1	-33.7	28.9	24.2
Non-durables	134	168	183	14.1	16.1	15.4	-32.5	-18.5	24.8	8.9
Durables	33	47	85	6.7	9.4	6.5	-39.4	-62.5	46.0	80.1
Raw materials and intermediate goods	551	616	668	53.1	51.9	58.4	-13.0	-20.0	11.7	8.4
Agriculture	44	51	54	3.0	3.3	5.1	-13.0	-0.5	14.6	5.8
Industry	391	428	506	38.1	37.6	44.2	-8.7	-25.2	9.3	18.2
Construction materials	29	37	45	5.2	4.7	3.7	-36.2	-36.8	27.7	21.1
Fuels and lubricants	87	100	63	6.8	6.3	5.4	-20.9	14.7	15.5	-37.3
Capital goods	167	152	237	25.6	21.3	19.4	-20.5	-35.3	-9.2	56.4
Agriculture	10	16	27	2.8	1.6	1.8	-43.3	-29.6	65.3	66.3
Manufacturing, mining and construction	51	71	105	10.8	9.5	8.5	-33.1	-47.1	39.5	47.2
Transport	61	31	53	7.5	5.5	4.6	-22.4	-6.7	-49.6	71.7
Other	45	34	53	4.5	4.7	4.5	14.9	-45.2	-25.0	56.7
Miscellaneous	8	5	3	0.5	1.3	0.3	-52.6	-15.2	-34.6	-26.5

Source: ECLAC, on the basis of official figures.

^a Estimated figures based on data for the period January-August.

The Central Bank took a number of regulatory measures towards the middle of the year, the most important of which was an increase from 50% to 100% for prior deposits on imports; trade with the rest of Central America was exempted from this regulation. The preferential status as regards access to foreign exchange which had existed for firms whose exports to the rest of the world exceeded half a million dollars per year was also suppressed.

iii) *Inter-Central American trade.* The contraction of trade with the rest of Central America exhibited two essential features: although exports remained higher than imports, they declined progressively, while the value of imports remained relatively stable. This permitted the accumulation of favourable although declining balances and accentuated Costa Rica's position as a creditor.

Up to November, exports had shown a 10% drop. As far as imports are concerned their level was 2% below that of the previous year. As a result, the balance of goods, which was once again in the country's favour, exceeded US\$ 50 million and was largely sustained by trade with Honduras and Guatemala.

It is calculated that including interest, the trade debts of the other member countries of the Central American Common Market had reached some US\$ 300 million towards the end of the year.⁹ Numerous efforts have been made to eliminate this hurdle to regional trade, but these have not yet met with a satisfactory response from members of the international community.

In 1983 Costa Rica pursued intense regional and bilateral negotiations with the aim of solving this problem. The regional negotiations made it possible to introduce greater flexibility into the payment mechanisms of the Central American Clearing House, while the bilateral negotiations led to payment agreements with other Central American countries as well as undertakings to keep track of the balances owed. Among the innovations adopted, it is worth mentioning the intensification of barter together with a number of countertrade arrangements.

⁹ In July 1984 the registered (legally recognized) debt reached US\$ 155 million, and the interest due for payment amounted to US\$ 17 million; the unregistered debt is estimated to be some US\$ 70 million.

So as not to affect national producers and exporters, the Central Bank has been reimbursing them for the value of their sales. Such settlements were initially paid in colones. It was later agreed that they should be made in convertible currencies.

Finally, it is worth pointing out that in December of 1984 Costa Rica adopted, with the backing and direct participation of the industrial sector, a national position towards the new Central American customs and tariff policy.

d) *Trade in services and factor payments*

Trade in services underwent an unfavourable evolution, both as a result of stagnation in foreign exchange earnings and of the rise in external payments for services, which rose from around US\$ 250 million to US\$ 300 million between 1983 and 1984. Thus, the previous year's small favourable balance was transformed into a deficit of some US\$ 40 million, equivalent to more than half the trade deficit (see table 15).

The negative balance of factor services declined by 13%, which to a large extent reflects the decline in the amount of interest paid, which was exclusively due to the delay mentioned above, and to the increase in the amount of interest earned, which was mainly due to the positive trade balance which Costa Rica maintains within the Central American Market. Consequently, while during the previous biennium the factor payments deficit had exceeded the current account disequilibrium, in 1984 the latter was some 15% higher than the former.

e) *Balance on current account and its financing*

The negative balance on the current account of the balance of payments reached US\$ 370 million, a level which was almost 4% higher than that of the previous year. This may be explained by the behaviour of the trade balance, which reached a deficit of more than US\$ 70 million, and by net payments to factors of more than US\$ 320 million. This figure was also affected by delays in payments of interest on the external debt: had the country been able to count on sufficient international liquidity and had it met this obligation, the current account deficit would have exceeded US\$ 450 million, a level close to that at which it had stood at the beginning of the adjustment process.

Since the beginning of the decade, net payments to factors have been the principal element exerting pressure towards external disequilibrium, as a result of the greater volume of external debt and the adverse conditions under which this has been contracted.

The US\$ 414 million recorded as net income on the capital account was sufficient to finance the current account deficit for 1984. An increase of almost US\$ 60 million in international reserves was thus built up. The inflow of long-term financing represented the most significant source. Net credit received by the official sector (US\$ 175 million) stood out in this respect, although it was to some extent offset by the outflow of private capital from other sectors and by a decline in foreign investment. Short-term capital provided an income of some US\$ 60 million. Foreign aid, in the form of official transfers, verged on US\$ 90 million, a figure which was double that of the previous year.

To sum up, in 1984 renegotiation of the debt had a beneficial short-term effect upon the balance of payments. The favourable results were sustained by an increase in net external borrowing and in the flow of transfers. In addition certain debt obligations were postponed or not met. As a whole, and in the face of a revival of production and consumption, the country's external situation deteriorated in relative terms.

f) *The external debt*

In 1983 Costa Rica had managed to carry out an initial renegotiation of its external debt. Essentially, this allowed it to extend by four years the repayment periods for servicing the debt, including those which corresponded to 1984, and even to count on a plan for the liquidation of overdue interest payments.

Nevertheless, capital inflow in 1984 was not as high as expected. In addition, negotiations with the respective financial bodies took longer than anticipated. The country was obliged to suspend interest payments for a number of months, and by the end of the year it had accumulated a backlog of amortization and interest of US\$ 180 million. Nor did it prove possible to pay the debt to Mexico, which had to be renegotiated.

Table 15

COSTA RICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-364	-554	-658	-408	-305	-358	-371
Trade balance	-266	-421	-459	-127	73	-14	-73
Exports of goods and services	1 008	1 097	1 198	1 175	1 116	1 133	1 221
Goods, FOB	864	942	1 001	1 002	869	871	960
Real services ^b	144	156	197	173	248	262	261
Transport and insurance	28	33	48	33	57	60	63
Travel	72	74	85	96	133	133	109
Imports of goods and services	1 274	1 519	1 657	1 302	1 043	1 147	1 294
Goods, FOB	1 049	1 257	1 375	1 091	805	894	995
Real services ^b	225	262	283	213	238	254	299
Transport and services	129	155	177	128	130	134	151
Travel	62	63	60	48	44	52	53
Factor services	-113	-150	-218	-308	-407	-368	-322
Profits	-27	-17	-16	5	5	-3	-2
Interest received	16	11	16	20	24	-39	55
Interest paid	-100	-140	-216	-329	-433	-401	-375
Other	-3	-4	-2	-4	-3	-3	-
Unrequited private transfer payments	16	17	20	27	30	23	24
Balance on capital account	391	436	749	358	430	411	414
Unrequited official transfer payments	1	-4	-5	-	6	42	89
Long-term capital	353	353	402	215	-90	1 401	153
Direct investment	47	42	48	66	26	50	31
Portfolio investment	21	-	122	-2	-2	-3	-
Other long-term capital	285	311	232	152	-115	1 354	122
Official sector ^c	114	221	83	117	-147	1 370	175
Loans received	241	304	112	169	126	1 422	265
Amortization payments	-120	-79	-23	-45	-260	-50	-90
Commercial banks ^c	-12	35	9	-18	-20	-7	-8
Loans received	12	63	32	11	6	1	1
Amortization payments	-23	-28	-23	-29	-26	-8	-9
Other sectors ^c	182	55	140	53	52	-10	-45
Loans received	333	357	267	186	168	69	52
Amortization payments	-151	-302	-127	-133	-116	-79	-97
Short-term capital (net)	88	6	422	45	239	-1 343	64
Official sector	57	2	287	48	428	-871	98
Commercial banks	2	6	32	5	42	-78	-
Other sectors	29	-2	104	-8	-231	-395	-34
Errors and omissions	-51	80	-71	98	276	311	108
Global balance^d	27	-119	92	-50	126	52	43
Total change in reserves (- sign indicates an increase)	-18	113	-33	65	-125	-60	-58
Monetary gold	-	-	-	28	-7	-1	...
Special Drawing Rights	3	-2	6	-	-	-3	3
IMF reserve position	-10	-	10	-	-	-	-
Foreign exchange assets	4	77	-43	14	-95	-170	-97
Other assets	-11	12	-5	-23	-14	15	...
Use made of IMF credit	-4	26	-1	46	-10	99	-36

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official figures.^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 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.

As a result of the 1983 renegotiation, of the backlog incurred in 1984 together with the accumulation of requests for foreign exchange for imports,¹⁰ debt servicing was reduced and a greater percentage was devoted to amortization than to interest payments. In this fashion, the proportion of debt servicing declined from 62% to 48% of income from exports of goods and services; in the case of interest payments, the decline was from 48% to 20%. Nevertheless, if the country had been able to meet all its obligations, the coefficient of debt servicing to exports would have reached 70% (see table 16).

Nevertheless, the increases in unrequited transfers, in the official debt and in the flow of private capital from outside made it possible to maintain exchange stability and to facilitate purchases from the rest of the world.

Thanks to the intensification of negotiations, during the course of 1984 Costa Rica came to an agreement with its principal creditor banks which provided for a renegotiation of the debt to these institutions in April 1985, including payments for 1985 and 1986. Modifications to the 1983 renegotiation agreement will be introduced, and a new loan of US\$ 75 million will be taken out to sustain the balance of payments.

Table 16

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979 ^a	1980 ^a	1981 ^a	1982 ^a	1983 ^a	1983 ^b	1984 ^b
Millions of dollars							
Total external debt							
Outstanding balances	2 233	3 183	3 360	3 497	3 848	...	4 400 ^c
Disbursements	603	1 217	413	295	525	...	...
Servicing	362	477	507	313	687	713	585
Amortization payments	240	267	236	158	174	161	347
Interest	122	210	271	155	513	552	238
Public external debt							
Outstanding balances	1 463	2 140	2 413	2 860 ^d	3 096	3 613	3 878
Disbursements	455	755	413	254 ^e	330 ^e	302	267
Servicing	196	251	311	278	367	637 ^f	531 ^f
Amortization payments ^g	104	78	140	158	94	108	313 ^h
Interest ⁱ	92	173	171	120	473 ^j	529	218
Percentages							
Ratios							
Total external debt/exports of goods and services	203.4	265.7	286.0	313.4	334.6	...	360.4
Debt servicing/exports of goods and services	33.0	39.8	43.1	28.0	59.7	62.0	47.9
Interest/exports of goods and services	11.1	17.5	23.1	13.9	44.6	48.0	19.5
Debt servicing/disbursements	60.0	39.2	122.8	106.1	130.9	210.9 ^k	198.9 ^k

Source: ECLAC, on the basis of official figures.

^aSeries for the country's external debt towards the end of 1983.

^bRevised figures for 1983 and official estimates for 1984.

^cRevision of private debt had not been initiated at the end of January 1985; it is estimated that it reached some US\$ 500 million at the end of 1984.

^dIncludes US\$ 351 million in certificates of deposit.

^eDoes not include US\$ 351 million in certificates of deposit for 1982 or refinancing of the principal (US\$ 475 million) in 1983.

^fDoes not include US\$ 5 million of arrears in 1980, US\$ 238 million in 1981, US\$ 125 million in 1982 and US\$ 106 million in 1983 (a total of US\$ 475 million) which were renegotiated in 1983.

^gAs of 31 December 1984, arrears of US\$ 179 million in the servicing of the public external debt were acknowledged; of this figure, US\$ 98 million corresponded to amortization payments on the principal and US\$ 81 million corresponded to interest.

^hDoes not include arrears of US\$ 121 million in 1981 and US\$ 250 million in 1982.

ⁱCorresponds to total interest payments, including accumulated arrears.

^jCalculated on the basis of the public external debt.

^kFor example, in September 1984, foreign exchange applications totalling almost US\$ 100 million had been accumulated, US\$ 25 million of which concerned payment for imports of goods and the rest corresponded to payments to international creditors.

Table 17

COSTA RICA: EVOLUTION OF DOMESTIC PRICES^a

	1979	1980	1981	1982	1983	1984
Variation December to December						
Consumer price index	13.1	17.8	65.1	81.7	10.7	17.4
Food	14.7	18.7	70.4	101.1	8.2	15.7
Wholesale price index	24.0	19.3	117.2	79.1	5.9	12.2
Imported products	31.7	21.8	154.6	66.9	3.0	20.0 ^b
Domestic products	19.8	17.3	93.3	89.4	8.1	17.0 ^b
Variation between annual averages						
Consumer price index	9.2	18.1	37.0	90.1	32.6	12.0
Food	12.6	21.8	36.7	113.6	32.2	8.8
Wholesale price index	16.1	23.7	65.3	108.3	26.2	7.7
Imported products	19.4	27.6	90.4	109.2	18.0	6.1
Domestic products	14.2	21.5	49.5	107.5	32.7	8.8

Source: ECLAC, on the basis of official figures.

^aCorresponds to medium- and low-income consumers in the San José metropolitan area.^bPreliminary figures

In addition, during the year an agreement was reached with the World Bank for the signing within the near future of a structural adjustment agreement which would allow financing of some US\$ 300 million over a three-year period. Negotiations were also continued for the conclusion of a new standby agreement with the International Monetary Fund which would provide some US\$ 55 million in order to strengthen the balance of payments. Finally, an agreement was reached with the Inter-American Development Bank for a US\$ 60 million loan to stimulate production. In conclusion, when these and other agreements which were negotiated in 1984 bear fruit, the country will be able to count upon considerable capital resources, some US\$ 500 million, for servicing of the external debt.

4. Prices and wages

a) Prices

The variation between annual averages in the consumer price index (12%) continued to fall rapidly, as it was around one-seventh of that recorded in 1982 (see table 17). Nevertheless, and above all in the second semester of 1984, inflationary pressures regained strength, and the variation recorded at the end of the year was considerably higher than that recorded at the end of 1983 (see figure 2).

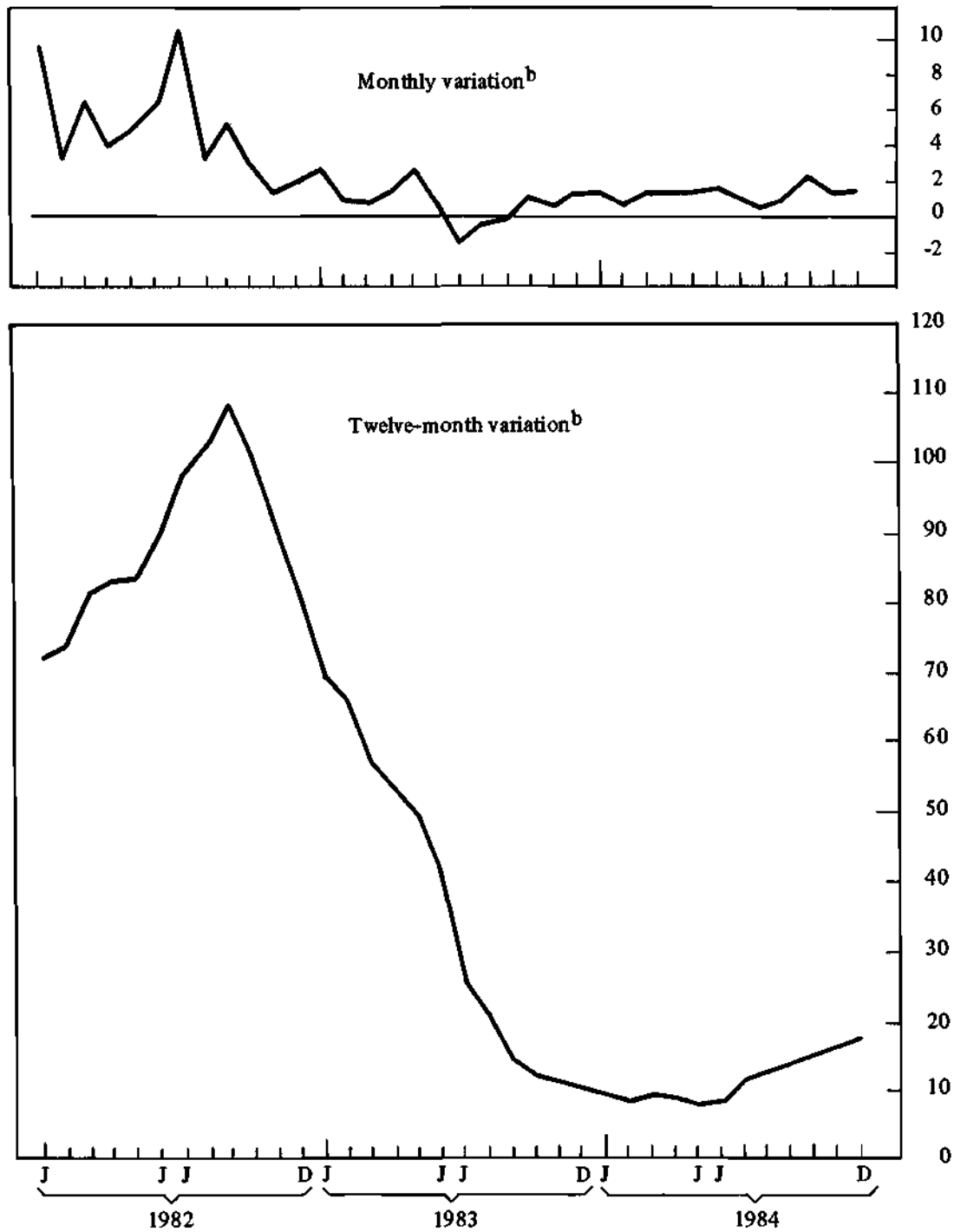
The average variation in the wholesale price index dropped from 26% to 8%. This latter figure represents one-seventh of the figure recorded for 1982, which is proof of the progress made towards stability. Nevertheless, the December-to-December variation showed a disquieting increase, as it was double what it had been the previous year.

Price increases in 1984 were affected, *inter alia*, by the policy followed in indirect taxation, by the adjustments which were allowed for essential consumer goods and for other goods regulated by the Government, as well as by increases in the rates for certain basic services, such as electricity, together with the effect of wage adjustments upon costs.

The aim of the price adjustments decided upon by the Government (sugar, black beans, white maize, maize tortillas, together with milk, coffee and butter) aimed at stimulating production and guaranteeing supply without any disproportionate effects being felt by the consumer. Among the increases of prices of non-regulated services, the most significant were rises in medical care, education, transport, entertainment and other personal services.

In conclusion, inflationary pressures principally sprang from increases in the prices of consumer goods (of agricultural, agroindustrial and manufactured origin) and of services, both in the sector of regulated as well as of non-regulated goods.

Figure 2
COSTA RICA: EVOLUTION OF CONSUMER PRICES^a



Source: ECLAC, on the basis of official figures.

^aConsumer price index for middle- and low-income consumers in the San José metropolitan area.

^bPercentages.

Table 18

COSTA RICA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1970 = 100)				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Average wages and salaries^b									
Total (nominal)	251.8	384.2	565.0	682.1	19.1	20.9	52.6	47.1	20.7
Public sector	242.0	350.5	510.5	600.3	22.0	16.3	44.8	45.6	17.6
Central government	241.7	348.1	481.0	581.8	29.7	8.9	44.0	38.2	21.0
Autonomous institutions	241.3	350.6	528.7	607.6	17.0	21.6	45.3	50.8	14.9
Private sector	253.0	405.9	604.2	734.5	16.1	25.4	60.4	48.9	21.6
Total (real) ^c	124.7	100.0	110.9	119.6	0.8	-11.7	-19.8	10.9	7.8
Public sector	119.8	91.3	100.2	105.3	3.4	-15.2	-23.8	9.8	5.1
Central government	119.7	90.6	94.4	102.0	9.8	-20.5	-24.3	4.2	8.1
Autonomous institutions	119.5	91.3	103.8	106.5	-0.9	-11.3	-23.6	13.7	2.6
Private sector	125.2	105.7	118.6	128.8	-1.7	-8.5	-15.6	12.2	8.6
Minimum wage									
Nominal									
Upper level	188.6	318.7	459.6	541.0	16.1	21.8	69.0	44.2	17.7
Lower level	263.5	475.4	729.5	858.8	19.8	23.9	80.4	53.4	17.7
Real ^c									
Upper level	93.4	83.0	90.2	94.9	-1.7	-11.0	-11.1	8.7	5.2
Lower level	130.4	123.8	143.2	150.6	1.4	-9.6	-5.1	15.7	5.2

Source: ECLAC, on the basis of figures provided by the Technical Department of the Ministry of Labour and Social Security.

^a Preliminary figures.

^b Estimates based on tabulations of the Costa Rican Social Security Fund.

^c Deflated by the consumer price index for middle- and low-income consumers in the San José metropolitan area.

b) Wages

The Government pursued its policy of widespread readjustment of nominal wages which it had started the year before in response to social pressure. Such pressure had been the consequence of the serious deterioration of purchasing power caused by the high inflation of 1981-1982.

The average real wage rose once again in 1984, this time by 8%, a phenomenon which to a large extent explains the revival of domestic demand and the consequent stimulus to production. The public sector, in line with the austerity policy, was that which adjusted real wages the least (see table 18).

Whatever the case, the rise in wages has not been great enough to bring them back up to the real wage levels which existed at the beginning of the present decade. This differential has been described as "the labour contribution" to the adjustment policy pursued in order to overcome the crisis.

This slow recovery of salaries has been the fruit of understanding and agreements between the Government and workers. Negotiations held since 1982 have established a sliding scale for wages which allows them to rise in line with the prices of a market basket of basic goods. Since that date, the rises which have been granted each semester have also incorporated an advance compensation for the expected increases in the prices of regulated goods and basic services.¹¹

5. Monetary and fiscal policy

a) Fiscal policy

Fiscal policy aimed at continuing to strengthen income and limiting public expenditure with the purpose of reducing the fiscal deficit and its pressure upon monetary variables. This represents one of the most conflictual and strategic aspects of the adjustment programme in respect of which conditions have been imposed by bilateral and international financial bodies.

¹¹ The decree under which this system of periodic adjustments is put into effect also covers the procedures to be used as well as its administrative organization. In 1984 the Government increased the number of products included in the basic market basket.

Tax revenue rose by nearly 30%, and although this rate was lower than those of the previous three years, it was well beyond the rise in prices and the rise in gross product. It is estimated that the tax burden rose from 16% to 18%, largely as a result of the increased level of economic activity and of alterations to taxation introduced during the course of the second semester of the year.

Within the framework of the policy designed to reduce the fiscal deficit, increases were authorized in selective consumer taxes, bank surcharges on more than 50 consumer goods were increased and import surcharges were imposed: a general surcharge of 3% upon the value of imports and a specific one, of 10%, upon the value of imports of raw materials exempted in accordance with the laws designed to stimulate industrial development.

Expenditure also moderately reflected the effects of stabilization efforts, in spite of the burden constituted by amortization of the external debt. In this way current outlays increased by 21%, a high rate, but well below that of the previous biennium. Capital expenditure increased particularly (45%), as a result of the disparate tendencies of its various components. Thus, while debt payments rose by 144% and real investment grew by 50%, the outlays classified as "other capital expenditure", which are mostly transfers to the rest of the public sector, dropped by 14% (see table 19). As the momentum

Table 19

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	7 454	12 948	21 057	27 281	41.8	73.7	62.6	29.6
Tax revenues	6 933	12 281	19 870	24 426	48.1	77.1	61.8	22.9
Direct	1 555	3 014	4 860	4 895	45.5	93.8	61.2	0.7
Indirect	2 255	3 573	6 264	19 531	9.5	58.4	131.3	50.1
On foreign trade	3 123	5 694	6 746		101.2	82.3	18.5	
Non-tax revenues	521	667	1 187	2 855	-9.7	28.0	78.0	140.5
2. Current expenditure	7 938	13 108	21 514	25 999	17.7	65.1	64.1	20.8
Wages and salaries	3 483	5 131	7 524	8 850	17.4	47.3	46.6	17.6
Other current expenditure	4 455	7 977	13 990	17 149	17.9	79.1	75.4	22.6
3. Current savings (1-2)	-484	-160	-457	1 282				
4. Capital expenditure	1 973	3 186	6 142	8 932	-13.6	61.5	92.8	45.4
Real investment	1 201	1 444	2 843	4 252	10.6	20.2	96.9	49.6
Debt amortization payments	420	-807	1 164	2 839	10.5	92.1	44.2	143.9
Other capital expenditure	352	935	2 135	1 841	-56.9	165.6	128.3	-13.8
5. Total expenditure (2 + 4)	9 911	16 294	27 656	34 931	9.8	84.4	69.7	26.3
6. Fiscal deficit (1 - 5)	-2 457	-3 346	-6 599	-7 650	-34.9	36.2	97.2	15.9
7. Financing of deficit								
Domestic financing	1 551	1 967	4 731	5 165	-50.5	26.8	104.5	9.2
Central Bank	4 696	-1 533	-836	...	...	...	-45.5	...
Sale of securities	1 532	1 935	4 032	...	-45.7	26.3	108.4	...
Other	-4 677	1 565	1 535	...	...	...	-1.9	...
External financing	906	1 379	1 868	2 485	41.8	52.2	35.5	33.0
Percentages								
Ratios								
Current savings/capital expenditure	-24.5	-5.0	-7.4	14.4				
Fiscal deficit/total expenditure	24.8	20.5	23.9	21.9				
Tax revenue/GDP	12.1	12.6	15.7	16.1				
Total expenditure/GDP	17.4	16.7	21.9	23.0				
Fiscal deficit/GDP	4.3	3.4	5.2	5.0				
Domestic financing/deficit	63.1	58.8	71.7	67.5				
External financing/deficit	36.9	41.2	28.3	32.5				

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

^a Preliminary figures.

Table 20

COSTA RICA: MONETARY POSITION AND INDICATORS

	Balance at end of year (billions of colones)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money (M₁)	10.8	18.1	24.6	28.4	52.2	67.5	35.9	15.5
Currency outside banks	3.5	5.4	6.9	8.6	55.3	55.3	27.7	23.7
Demand deposits	7.3	12.7	17.7	19.8	50.7	73.3	39.5	12.3
Factors of expansion^b	17.2	30.4	61.8	75.2	-13.3	76.8	103.3	21.7
Net international reserves	-6.8	-1.9	4.6	8.3	...	...	...	...
Domestic credit	24.0	32.3	57.2	66.9	14.3	34.7	77.1	16.9
Public sector	10.7	14.0	29.6	34.4	20.1	30.8	110.7	16.4
Central government (net)	6.6	6.4	9.0	10.0	18.3	-2.1	40.0	11.0
Public institutions	4.2	7.6	20.6	24.4	23.2	82.7	170.5	18.8
Private sector	13.3	18.3	27.6	32.5	10.0	37.9	51.3	17.4
Factors of absorption^b	6.4	12.3	31.2	46.8	-49.9	92.6	202.7	25.8
Quasi-money (savings and time deposits) ^c	20.6	31.6	40.1	46.3	96.8	53.5	27.0	15.3
Long-term external loans	25.5	30.8	76.3	89.1	426.7	21.1	147.3	16.9
Other items (net) ^d	-39.7	-50.1	-79.2	-88.6	1 446.5	26.4	58.0	11.9
Other indicators^e								
Monetary base ^f	4.1	6.8	10.9	13.1				
Money (M ₁)	8.1	13.6	20.1	25.5				
Money plus quasi-money (M ₂)	24.6	39.8	59.6	69.0				
Coefficients^e								
Monetary multipliers								
M ₁ /monetary base	1.98	2.01	1.85	1.95				
M ₂ /monetary base	6.04	5.86	5.49	5.27				
Velocity of circulation								
GDP/M ₁	7.09	7.16	6.28	5.94				

Source: ECLAC, on the basis of official figures.

^a Preliminary figures. ^b The value of accounts in foreign currency were calculated at an exchange rate of 8.50 colones per dollar in 1980, 36 colones per dollar in 1981, 45 colones per dollar in 1982 and 1983 and 43.15 colones per dollar in 1984. ^c Includes bonds. ^d Includes adjustments for variations in the rate of exchange. ^e Calculated on the basis of the annual averages for the monetary base, money (M₁) and money plus quasi-money (M₂). ^f For the purposes of this table, the monetary base is defined as monetary issue plus demand deposits by commercial banks with the Central Bank of Costa Rica.

of expenditure declined, the participation of the public sector in overall domestic demand also diminished. Nevertheless, the central government managed to put into effect a policy on real investment favourable to development. The growth in the construction of public buildings was approximately 18% while port and road construction grew by 45%. Thus, current and capital expenditure grew at a combined rate of about 26%, far lower than those of the previous two years.

As a consequence of this, the central government's fiscal deficit, which had increased by 36% in 1982 and 97% in 1983, rose by 16% during 1984.¹² Thus, for the first time in many years, public finance showed savings in the current account, while the ratio between the fiscal deficit and gross domestic product declined slightly from 5.2% in 1983 to 5.0% in 1984.

The effort undertaken in the field of public finance was complemented by the changes recorded in expenditure and finance policy. The rate of growth of the flow of external resources to the Government (33%) was far higher than that of domestic financing (9%). External credit to the

¹² For the consolidated non-financial public sector, the overall deficit represented barely one-third of what it had been in 1982 and slightly more than 25% of its 1983 level.

consolidated non-financial public sector was ten times higher than domestic financing, after having been six times higher during the previous year. In line with these circumstances, which indicate increased external dependence, broad efforts have been made to reduce the direct participation of the Costa Rican Central Bank in domestic financing. In 1982 the State set up a dynamic investment securities policy, achieving a strong rate of expansion in this type of financing. The high rate of interest together with the great liquidity of such investments was one of the factors which contributed to this phenomenon.

To sum up, in 1984 a certain number of changes occurred which bolstered efforts previously undertaken by the public sector as a whole and the central government. In the first place, government financing was increasingly separated from Central Bank issues. Secondly tax-based domestic financing was stimulated and savings were oriented by the sale of bonds, constituting parallel means of backing monetary policy and stabilizing prices. Apparently progress was made in efforts to rationalize expenditure, and the process of improving the means and mechanisms of tax collection was continued. In addition to this the structure of external credit has been gradually modified with the progressive reduction in short-term loans, particularly as a consequence of the reprogramming of the external debt.

The Government's decision to sell off the majority of the subsidiaries of the Costa Rican Development Corporation (CODESA) was one of the major elements in the rationalization of public expenditure. This was one of the conditions which was imposed in agreements with certain financial bodies. It led to fear in certain circles that the State's efforts to sustain growth in the productive sector within fields in which the private sector had shown no inclination to invest would be neutralized.

b) *Monetary policy*

Monetary policy aimed at softening the effects of excessive expansion of means of payment upon the inflationary pressures which have built up. This was achieved in part, as money grew by 16%, a far lower rate than that of the two previous years (see table 20).

The factors of absorption grew at a higher rate (26%) than the factors of expansion (22%). The policy of stimulating the purchase of State bonds, together with the increase in time deposits and foreign currency accounts made a decisive contribution to this. Domestic credit was managed as a means of balancing and stimulating revival. Credit to the private sector, which grew by 17% (a higher rate than that of public sector credit), made up almost half of domestic credit; this was a consequence of the adjustment policy and of the agreements made with international financial bodies.

Public sector credit also increased, but far less than in the previous two years. Limitation of credit to the central government, in contrast with other public institutions, was of significance here. The expansion of net international monetary reserves, which accounted for 28% of the increase in factors of expansion, was also moderate when it is considered that the proportion of all such factors represented by reserves only rose from 7% to 11%.

In the first part of the year domestic credit went beyond the guidelines which had been laid down;¹³ during the second semester it settled down to within the limits which had been originally planned and the rates of portfolio recovery improved.

In the monetary and banking fields, intense controversy surrounded the reforms to the law governing currency and to the organic law affecting the Central Bank, which took effect in August. Essentially, the new legislation makes it possible to carry out operations expressed in foreign currency between the Central Bank and private banks where funds involving external loans are concerned. It also makes it possible to issue securities in other currencies than the national currency. Among their other effects the new measures restrict the financial capacity and the intermediary role of CODESA as well as considerably affecting the resources of the State banks, as the external funds are particularly intended for private banks in accordance with the terms laid down by the lending institutions. In addition, the "dollarization" of inter-bank transactions considerably increased the exchange risks both for the Central Bank and for commercial banks.

¹³ Loans actually granted grew by 15% between December 1983 and June 1984, while wholesale prices increased only 5%; in contrast, net credit grew at the same pace as prices between June and November of this same year. In addition, financing to industry showed the steadiest growth of all the sectors of production increasing from 13% between December 1983 and June 1984 to 25% in September and 28% in November. As a percentage it grew from 27% to 28% between December 1983 and November 1984, attaining the same level as agriculture.

CUBA

1. Recent economic trends: Introduction and summary

In 1984 the Cuban economy grew for the third year in a row, far exceeding the aims set by the Single Socio-economic Development Plan. This unusual dynamism is worthy of particular attention, as it occurred at a time when the country's principal export, sugar, was encountering largely unfavourable world market conditions. The global social product expanded by 7.4%, allowing the per capita product to grow by 6.4%, a rate which was more than twice as high as that of the previous biennium (see table 1). Nevertheless, this result was achieved at the cost of a marked increase in the trade deficit, which rose from less than 700 million pesos in 1983 to almost 1 750 million in 1984. The government set a modest growth target for 1985 so as to attenuate this disequilibrium.¹

This expansion may be explained by three main factors.

First of all, while the value of total exports declined slightly (-1%), the inflow of external financing—mostly from member countries of the Council for Mutual Economic Assistance (CMEA), and in particular from the Union of Soviet Socialist Republics—allowed the country to increase the value of its imports by almost 16%. Such co-operation was not restricted to the capital account; a number of trade agreements ensure preferential treatment in the prices Cuba receives for its main export commodities (in particular sugar), as well as in those it pays for its imports (in particular petroleum). In fact, the system of price indexation adopted in co-operation agreements between Cuba and the Soviet Union made it possible to compensate for losses caused by the sharp fall in the quotation of sugar sold to market economy countries. As a result, the terms of trade remained stable and a greater drop in the global value of exports was avoided, in spite of the fact that sales to market economy countries declined by 200 million pesos.

Nevertheless, the country had to face restrictions of convertible currency. The current account deficit for these transactions reached 210 million pesos in 1984, in contrast with a more than 260 million pesos surplus in the previous year. This deficit would have been far greater had it not been for two attenuating factors. The first of these was the fact that the trade agreements with the Soviet Union make it possible to re-export, in convertible currency, petroleum which it has been possible to save as a result of policies to rationalize and find substitutes for liquid energy sources; this agreement alone produced a net income of approximately 490 million pesos in convertible currency. The second was the lightening of servicing of the external debt owed to market economy countries thanks to the prior renegotiation of payments due in 1984.

To sum up, the country was adequately supplied with imported products, particularly raw materials and capital goods, thanks to massive external co-operation, reflected in both the current and capital accounts. Consequently, external purchases of these commodities grew by 18% and 15%, respectively, strengthening the rapid expansion of the global social product.

Secondly, better use was made of capital resources during 1984, as levels of productivity continued to rise following the economic and management reforms adopted since 1976, in particular those applied with greater vigour during the last biennium. These reforms were essentially based upon a series of decisions whose aim was to improve the efficiency of the prevailing economic system through: a) introducing greater flexibility into the centralized control of economic management so as to transfer greater responsibility to factories and production units, simultaneously introducing self-management and self-financing into their running, thus granting them increased freedom and initiative in these areas and in production; b) greater worker participation in the nation's economy through the use not only of moral and ideological stimuli but also increasingly of material incentives

¹ See Fidel Castro, "Discurso en la clausura del XII Período Ordinario de Sesiones de la Asamblea del Poder Popular celebrada el 28 de diciembre de 1984", *Granma*, Resumen semanal, 13 January 1985.

to encourage greater individual and collective effort in the work place;² c) extension of the role played by supply and demand in the consumer goods market; to achieve this end, in accordance with the increase in State production, free and controlled markets on which consumer goods are sold without any restriction as to quantity, but at prices above those on the rationed market, have been opened and expanded, and d) the strengthening of monetary policy in close association with fiscal policy so as to streamline financial interrelations between firms and organisms, making it possible to assess their profitability with greater accuracy. This last condition is necessary to allow the transfer of the free administration of part of the surplus produced to the units and institutions themselves as well as to strengthen the State's income and make it free to direct its fiscal attention to points of detail in the management of firms and institutions.³ As a whole, the adoption of policies associated with the system of economic management allowed average productivity to increase by almost 4%.

Table 1

CUBA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
Basic economic indicators							
Global social product (billions of 1981 pesos) ^b	18.09	18.71	19.26	22.17	22.86	23.71	25.50
Population (millions of inhabitants) ^c	9.64	9.72	9.72	9.72	9.80	9.90	9.99
Per capita global social product (1981 pesos)	1 876	1 925	1 980	2 280	2 333	2 398	2 551
Growth rates							
Global social product	7.0	3.4	2.9	15.1	3.1	3.8	7.4
Per capita global social product	5.9	2.6	2.9	15.2	2.3	2.8	6.4
Current State income	...	...	2.8	15.0	-7.5	21.4	-4.2
Total State expenditure	...	...	5.4	20.0	-12.2	12.2	-1.3
Budgetary deficit/total State expenditure ^d	...	...	2.6	6.7	1.7	-6.5	-3.3
Budgetary deficit/global social product ^d	...	...	1.5	3.5	0.7	-3.0	-1.4
Average annual wage	2.1	2.6	3.1	14.7	3.8	1.8	3.7
Current value of exports of goods							
Total	17.9	1.7	13.4	6.5	16.8	12.0	-1.1
Sugar	22.3	0.9	10.4	14.3	9.5	7.8	0.6
Current value of imports of goods							
Total	3.2	-0.3	25.5	10.5	8.2	12.4	15.9
Petroleum and petroleum products	34.3	16.7	20.5	27.6	29.9	...	...
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	...	...
Millions of pesos							
External sector							
Trade balance (goods)	-134	-188	-660	-980	-597	-695	-1 745
Soviet Union	168	-143	-651	-876	-459	-372	-838
Other socialist countries	-101	-26	-175	-149	-271	-278	-328
Rest of world	-200	-19	166	45	133	-46	-580
Balance on current account ^e	-523	-139	-45	51	297	263	-207
Balance on capital account ^e	484	133	60	-52	-539	-74	101
Variation in international reserves ^e	-39	-6	14	-1	-242	189	-106
Disbursed external debt ^e	...	3 267	3 227	3 170	2 669	2 790	3 033

Source: ECLAC, on the basis of data supplied by the State Statistical Committee, the National Bank of Cuba and other international statistics.

^aPreliminary figures.

^bSee footnote " of table 4.

^cAnnual average, taking migratory movements into

account. ^dPercentages.

^eIn freely convertible currency. Excludes much of the trade with member countries of the Council for Mutual Economic Assistance (CMEA).

²In 1981 a wages reform was introduced which considerably raised the aggregate of wages and linked these to the levels of achievement of the "labour productivity standard" and to the level of profitability attained by the firms. In addition, other measures for individual and collective stimulus were adopted in relation to the saving of fuel, electricity, and raw materials, the renovation of spare parts and import substitution.

³For further details see the chapter on Cuba in ECLAC, *Economic Survey of Latin America 1983*, *op.cit.*

Thirdly, global production capacity, in particular in the manufacturing, agricultural and electricity sectors, was strengthened by the finalization of investment projects planned in previous years.

As mentioned above, the dynamic performance of the economy was accompanied by a high and growing deficit in external trade transactions, particularly in those with market economy countries. Other adverse factors acted in conjunction with the decline in the sugar price, such as the well-known closure of certain markets, which in 1984 came to include certain Caribbean markets, to Cuban goods for both non-economic and protectionist motives. In addition, although payments due on debt servicing were rescheduled, it proved particularly difficult to obtain fresh net credit from the capitalist countries. All these factors led the government to review the priorities which had been set by the 1985 Single Socio-economic Development Plan, and to grant the highest possible priority to those projects likely to earn convertible currency.

Material production⁴ expanded by 8% in 1984 and provided 70% of the growth in the global social product. The associated expansion of industry and construction accounted for four-fifths of the increase in total material production.

The greater availability of supplies resulting from the evolution of national production and foreign trade also made it possible for gross investment to increase by 14% and reach almost 4 billion pesos, equivalent to 16% of the global social product. Simultaneously, personal and social consumption grew by almost 10% as a result of the relatively high increase in personal consumption of goods and services, and of a lower increase in social consumption, which was nevertheless higher than in 1983. In the face of this rapid expansion of consumption the government decided, towards the end of the year, to bring down the rate of expansion of per capita consumption and to direct a larger proportion of material production towards economic development with the aim of reducing the trade deficit and raising the levels of domestic saving.

The increase in real demand in 1984 was the result of an 11% expansion in central government expenditure on education, health, culture, science and housing, together with a more than 7% increase in budgetary backing for the activities of Poder Popular (Popular Power) and an almost 10% increase in personal consumption of goods and services.

Such increased demand was financed by a more than 10% increase in public expenditure on the various productive activities; a 9% increase in the population's monetary income together with a 15% expansion in personal consumer credit granted by the banking system. The use of capital stock by firms to finance their investment also made a significant contribution.

In addition to expanding financial services to the population, the banking system, in conjunction with the State Finance Committee, strengthened its supervision, control and joint management of the system of self-management in firms through cash administration plans and other means. The banking system also intensified technical and financial control over investments and continued preparing itself to play an increasing role in the granting of investment credits to firms. Thanks to a vigorous campaign aimed at developing personal saving, deposits were 10% higher than in the previous year.

While no precise State statistics exist, the average price of consumer goods is considered to have increased slightly in 1984, as a result of the considerable growth of sales in the controlled and free markets, where goods are sold without any restriction as to quantity, but at higher prices than on the rationed market.

As far as legal ordering of the economy is concerned, two fairly important laws were passed: the labour law, assembling and harmonizing the various decisions taken in this field over the past quarter of a century, and the housing law which lays down standards and procedure by which it is possible to acquire effective ownership of housing.

Finally a certain number of trade and technical co-operation pacts and agreements were made with various countries during the year. The most important of these was the "Long-term programme for the development of economic, scientific and technical co-operation between the Republic of Cuba and the Union of Soviet Socialist Republics until the year 2000", which both countries signed in October. This programme —the result of several years of preparation— linked Cuba's strategy for economic and social development until the end of the century to collaboration and economic integration with the member countries of the CMEA.

⁴This represents the total production of the agricultural, forestry, fisheries, manufacturing, mining, energy and construction sectors.

To sum up, the Cuban economy experienced significant growth during 1984. This was the result of both external and domestic factors. As far as external factors are concerned, Cuba's trade agreements with the CMEA countries, and in particular the Soviet Union, allowed it to remain relatively unaffected by the adverse economic phenomena present in the international economy during 1984, as it possessed, among other things, defence mechanisms against the deterioration of its terms of trade, as well as sufficient resources to ensure external supplies for its rapidly expanding economy. As regards domestic factors, it is worth underlining that the application of reforms to the systems of economic management and administration have made it possible gradually to raise productivity.

Nevertheless, this dynamic performance was achieved, as has been indicated, at the expense of a considerable external disequilibrium, and led in addition to a whole range of shortages.⁵ This is why, towards the end of the year, it was announced that there would be significant adjustments made to economic policy with the aim of correcting the aforementioned disequilibrium—involving increases in production of exportable goods and services and rationalization of sectoral growth, favouring those likely to ensure import substitution and to maintain the population's present standard of living—, increasing efficiency, accelerating the investment process, raising levels of accumulation and improving the systems of material and technical supplies.

2. Trends in economic activity

a) *Use of global social product*

Estimations made of the use of the global social product suggest that final consumption grew by 10% at current prices, while consumption by those agencies which satisfy collective needs grew by 12%. In turn, the population's nominal consumption grew by 8% and within this figure personal consumption went up by 9%, well above the 5% recorded in 1983. This increase includes the rise in the price of consumer goods which resulted from the transfer of certain products from the rationed market to the controlled and free markets. Nevertheless, the population's real consumption grew for the second year running. This phenomenon affected almost all the principal food items (with the exception of slight falls in the consumption of fats, fish and sugar and a more pronounced drop in fruit consumption). Consumption of durables also continued to rise. Thus, between 1980 and 1984 the number of television sets per 100 homes rose from 53 to 76, that of refrigerators from 29 to 39, that of washing machines from 24 to 46, and that of radio-receivers from 108 to 125 (see table 2).

In addition, there was a greater increase in net capital formation. As a result, its participation ratio in the global social product rose to 12.5%, well surpassing that for the previous two years (see table 3). Investments in the productive sector increased their dynamism. Among them, industrial investment grew by 32%, followed by those in trade (19%) and construction (17%). In contrast, investments in communications (-32%), agriculture (-20%)⁶ and transport (-2%) declined. Although investments in the non-productive sphere grew rather more slowly, there was a notable increase in infrastructure for education and health.

Within the capital formation process, emphasis was placed upon the completion of buildings and upon giving an impetus to industrial and agricultural production together with the provision of exportable services. Two new thermalpower stations came on line during the year. Within the industrial sector new plants went into operation, helping to renew or increase production intended for export or to replace imports. Such investments represented 315 million pesos and were mainly devoted to the processing and packing of citrus fruits, the manufacture of nickel products and structures, rubber processing, the production of synthetic wood from cane bagasse, the manufacture of parts and equipment for the sugar industry and the setting up of two sugar processing plants.

In addition, the National Bank of Cuba exercised greater financial and technical control over investments, giving increasing preference to those which made it possible to avoid imports from

⁵See Humberto Pérez, Vice-President of the Council of Ministers and President of JUCEPLAN, "Discurso ante la Asamblea Nacional del Poder Popular, para presentar el proyecto de ley del Plan Único de Desarrollo Económico y Social para 1985, 28 de diciembre de 1984", *Granma*, Resumen Semanal, 13 January 1985.

⁶In 1984 investments in sugar-cane cultivation are included in the industrial sector, which partly explains the unequal behaviour of capital formation in the two sectors.

Table 2

CUBA: INDICATORS OF PER CAPITA CONSUMPTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Foodstuffs									
Calories ^b	2 622	2 867	2 873	2 929	2 963	0.6	-0.4	1.9	1.2
Proteins ^c	71.4	75.0	76.2	77.0	79.8	4.0	-2.3	1.0	3.6
Meat ^d	33.1	36.4	39.3	40.5	41.1	4.1	3.7	3.1	1.5
Fish ^d	...	12.3	15.6	16.6	16.4	17.9	7.6	6.4	-1.2
Milk and milk products ^d	...	157.9	152.9	150.5	154.5	1.6	-4.7	-1.6	2.7
Eggs (units)	...	233.0	226.0	247.0	249.0	1.7	-4.6	9.3	0.8
Cereals ^d	...	108.9	108.3	109.5	111.7	1.1	-1.6	1.1	2.0
Fats ^d	...	17.3	17.9	17.9	17.8	1.2	2.3	-	-0.6
Vegetables ^d	...	52.3	59.2	52.4	56.7	27.5	-11.2	-11.5	8.2
Roots and tubers ^d	...	80.4	72.8	79.5	83.9	4.1	-13.0	9.2	5.5
Fruits ^d	...	60.7	62.4	62.8	56.8	2.5	0.3	0.6	-9.6
Beans ^d	...	10.7	11.0	11.7	12.5	7.5	-4.3	6.4	6.8
Sugar ^d	...	51.7	54.0	54.6	53.8	0.4	4.0	1.1	-1.5
Industrial products									
Textiles (m ²)	...	30.3	28.2	...	...	-4.6	-2.4	...	...
Outer clothing (units)	...	5.2	4.7	4.7	...	-7.7	-2.1	-	...
Underclothing (units)	...	6.8	7.6	6.6	...	1.5	10.1	-13.2	...
Footwear (pairs)	...	2.3	3.0	2.9	...	17.4	11.1	-3.3	...
Durable goods^e									
Television sets	...	53	67	74	76	11.3	13.6	10.4	2.7
Refrigerators	...	29	36	36	39	10.3	12.5	-	8.3
Washing machines	...	24	37	42	46	29.2	19.4	13.5	9.5
Radios	...	108	122	125	125	6.5	6.1	2.5	-

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^a Preliminary figures.^b Units per day.^c Grammes per day.^d Kilogrammes.^e Ownership per 100 homes, in units.

market economy countries or to provide exports to this zone, as well as to those which strengthened exports to the socialist countries.⁷

b) *Evolution of the main sectors*

The 7.4% increase in the global social product was the result of an 8% increase in material production and an almost 7% growth in non-material production. Within the first sector, agriculture grew by 5.5% after two years of decline in almost every field; industrial production went up by 7% and construction by 16% (see table 4).

The sustained recovery of transport stood out in non-material production, though it is still deficient in moving both freight and passengers in the urban areas, particularly in Havana. Also worthy of note was the persistent growth of "other productive activities", which, although of little specific importance in the total product, are composed of important back-up services to investment and production, such as the drawing up of projects, computerized data services and other similar items.

i) *The agricultural sector.* In contrast with 1983, when livestock raising expanded while agriculture shrank, in 1984 all items in the sector expanded, the increases more than making up for the losses in production of the previous biennium (see table 4).

⁷ Fidel Castro, "Discurso de clausura del Primer Forum Nacional de Energia", 4 December 1984, *Granma*. Resumen Semanal, 16 December 1984.

While there were no climatic disturbances like those which had caused considerable losses to agriculture and agricultural installations in 1983, the sugar-cane yield was affected by rainfall, and a subsequent drought harmed some crops and livestock.

Excluding sugar cane, the area under harvest was 1.8 million hectares (4% less than in 1983), of which almost 500 000 were sown with seasonal crops, i.e., 20 000 hectares more than in the previous year. Nevertheless, it did not succeed in compensating for the reduction of almost 100 000 hectares in the area devoted to permanent crops—which was 1 270 000 hectares. This decrease was almost completely due to a drop in the cultivation of grazing and fodder. Some 37% of the area sown in seasonal crops (186 000 hectares) was accounted for by the non-State sector (private farmers and agricultural co-operatives), while the State accounted for 89% of permanent crops.

Owing to an increase of 8% in yield, cereal production reached 590 000 tons. Of these 94% consisted of rice whose production rose by 7%; on the other hand the maize harvest declined slightly (see table 5). Vegetable production reached 506 000 tons, 11% more than in 1983. The tomato harvest increased by 49% and thus made up in part for its sharp drop in the two previous years. In turn, the root and tuber harvest expanded by 9%, mainly owing to increases in the output of potato and malanga, which nonetheless failed to recover their 1981 levels. After its recovery from the damage caused by the weather in the previous year and following the success of measures against tobacco mildew, the tobacco harvest grew by almost 50%, partly offsetting its considerable falls in the previous biennium. In addition, the coffee plantations were less affected by rust than in 1983, allowing the harvest to reach 23 000 tons, more than 25% higher than in the previous year but still 20% below the 1982 level.

Excluding citrus fruit, fruit production increased by 15% and reached 600 000 tons. Progress made in the banana and pineapple harvests was of particular note while citrus fruit production (600 000 tons) dropped by 5% as a result of the substantial losses suffered in orange and grapefruit production. This poor result was due to an insufficient use of fertilizers and to drought. This latter phenomenon also affected grazing and fodder cultivation, as 90% of these are sown on unirrigated lands (see table 5).

The importance of the non-State sector (co-operative and private) is particularly noteworthy in the case of certain crops. For example, in 1984, this sector was responsible for 75% of the tobacco harvest, 40% of the coffee harvest, 65% of cocoa, 63% of vegetables, 52% of bananas, 16% of citrus fruit and 10% of cereals. The non-State co-operative sector was also subject to more effective control

Table 3

CUBA: USE OF GLOBAL SOCIAL PRODUCT AT CURRENT PRICES

(Percentages)

	1978	1979	1980	1981	1982	1983 ^a	1984 ^b
Global social product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intermediate consumption	42.8	43.9	44.9	47.4	47.3	46.9	46.5
Final consumption	45.9	47.2	47.0	42.2	44.5	46.0	47.0
Consumption of the population	42.3	43.4	43.6	39.0	40.8	41.6	42.2
Personal consumption	37.5	38.1	37.8	33.6	35.4	35.9	36.6
Consumption of organizations serving the population	4.8	5.3	5.8	5.5	5.4	5.7	5.8
Consumption of organizations meeting collective needs	3.6	3.0	3.4	3.1	3.8	4.4	4.6
Net capital formation	13.5	11.3	11.6	13.0	10.5	10.4	12.5
Fixed capital	9.2	8.4	8.3	9.8	7.8	8.4	...
Stocks	4.3	2.9	3.3	3.2	2.6	2.0	...
Losses	0.1	0.1	0.1	0.2	0.2	0.2	-
Exports minus imports ^c	-0.9	-1.1	-2.9	-3.8	-2.8	-3.0	-6.2
Statistical discrepancies	-1.5	-1.4	-0.7	-0.9	0.3	-0.5	0.2

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee, the National Bank of Cuba and other official data.

^a Preliminary figures.

^b Estimated by ECLAC.

^c Of productive goods and services.

Table 4

CUBA: GLOBAL SOCIAL PRODUCT BY ECONOMIC SECTORS^a

	Millions of Cuban pesos at 1981 prices			Percentage breakdown ^c			Growth rates ^c			
	1982	1983	1984 ^b	1970 ^d	1980	1984 ^b	1981	1982	1983	1984 ^b
Global social product	22 862	23 731	25 498	100.0	100.0	100.0	15.1	3.1	3.8	7.4
Material product	15 260	15 747	16 984	67.8	66.5	66.6	16.2	2.5	3.2	7.9
Agriculture, forestry and fishing	3 698	3 687	3 889	14.7	17.3	15.3	13.0	-2.4	-0.3	5.5
Agriculture	3 371	3 319	3 489	13.9	16.0	13.7	13.0	-3.6	-1.6	5.1
Sugar-cane agriculture	1 056	970	1 014	6.7	5.0	4.0	17.7	-7.7	-8.1	4.5
Non-sugar-cane agriculture	890	849	899	3.1	3.9	3.5	21.6	-1.7	-4.6	5.9
Stock-raising	1 391	1 465	1 539	4.1	7.0	6.0	4.5	-1.7	5.3	5.0
Agriculture services	35	33	36	-	0.1	0.1	33.2	-	-4.9	8.4
Forestry	84	108	115	0.2	0.4	0.5	16.5	4.9	28.6	7.0
Fishing	243	261	285	0.6	1.0	1.1	12.7	14.6	7.3	9.2
Industrial	9 707	10 075	10 795	47.9	41.4	42.3	16.9	4.3	3.8	7.1
Electric energy	488	502	544	1.5	2.0	2.1	16.0	7.9	2.9	8.2
Mining and metallurgy	250	277	273	0.8	1.0	1.1	10.4	2.1	10.7	-1.2
Manufacturing	8 969	9 296	9 978	45.5	38.4	39.1	17.2	4.2	3.6	7.3
Construction	1 802	1 988	2 310	5.2	7.8	9.0	19.3	0.8	10.3	16.2
Non-material product	7 602	7 984	8 514	32.2	33.5	33.4	13.1	4.3	5.0	6.6
Transport	1 618	1 662	1 787	9.4	7.2	7.0	17.9	-0.3	2.7	7.5
Communications	187	206	228	0.8	0.8	0.9	9.0	8.9	15.4	10.6
Commerce ^e	5 686	5 987	6 353	22.0	25.1	24.9	11.6	5.6	5.3	6.1
Other productive activities ^f	111	129	147	-	0.3	0.6	25.6	10.5	16.4	13.7

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 sources "the basic criterion for recognizing gross production and a scribing it to a given sector, branch and sub-branch is the nature of the basic activities carried out 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 adopted by the United Nations in the ISIC), the conclusions at sectoral and branch levels would be different. Thus the data on the agricultural sector include secondary production of industry and construction not computed in these sectors. Nevertheless, these differences are cancelled out in the total material product.

^bPreliminary figures. ^cThis corresponds to real figures and not rounded-off figures. ^dAt 1965 prices. ^eIncludes public food supply, external trade, technical and material supplies, agricultural inventories, collection of scrap iron and useful raw materials as well as domestic wholesale and retail trade. ^fIncludes: work on technical projects, mechanical and automatic data processing and other productive activities.

by the National Bank through the credits granted, a factor which has helped to improve its standards of management.

In the case of sugar-cane cultivation, production went up by 4.5%,⁸ a rate of growth somewhat lower than had been planned. Nevertheless the harvest proved to be one of the largest in recent decades. Seventy-eight million tons of cane were cut, almost 14% more than in 1983. In accordance with the policy which had been adopted prior to 1984, further steps were taken in the use of technology in this field, in which the authorities claim major progress has been made. As an illustration, since the 1979/1980 season, cutting operations have been fully mechanized and in 1983/1984 the number of loaders reached 11 186; there were 2 550 combined harvesters for cutting and cleaning operations in 1979/1980, a number which rose to almost 3 650 in 1983/1984. This

⁸This includes by-products produced by the sugar-cane enterprises and co-operatives.

Table 5

CUBA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates ^b			
						1981	1982	1983	1984 ^a
Crop production^c									
Grains									
Rice	447	478	461	518	555	-3.5	12.8	-0.4	7.2
Maize	20	23	22	30	29	-0.9	-7.2	38.7	-2.0
Beans	3	9	12	13	12	-12.9	48.9	4.6	-7.9
Vegetables									
Tomatoes	169	207	227	153	228	50.7	-27.3	-32.3	49.1
Onions	9	10	15	10	14	68.7	-7.1	-32.9	39.6
Peppers	20	45	35	23	26	-24.1	1.4	-33.7	15.7
Roots and tubers									
Potatoes	121	239	258	207	259	14.0	-5.4	-20.0	25.5
Boniato	82	228	177	201	163	-12.4	-11.2	13.3	-19.1
Malanga	30	161	46	45	52	-38.5	-54.1	-0.8	15.7
Fruits									
Citrus fruit	170	444	530	631	599	6.0	12.6	19.1	-5.1
Oranges	121	298	339	400	374	-13.6	31.5	18.0	-6.5
Lemons	12	25	41	30	48	21.0	34.2	-26.4	60.1
Grapefruit	26	84	128	165	151	73.9	-11.1	29.2	-8.4
Bananas	183	233	272	313	393	11.7	4.2	15.4	25.3
Mangoes	33	59	52	39	38	-2.5	-8.7	-25.3	-1.5
Guavas	18	46	43	50	51	-6.2	-	17.8	0.4
Tobacco	42	8	45	30	45	564.3	-17.7	-32.7	47.7
Coffee	20	19	29	18	23	13.9	32.5	-35.8	25.0
Cocoa	1	1	2	2	2	10.1	-2.3	16.9	11.1
Fibre crops									
Kenaf	22	10	16	20	20	61.9	-4.5	26.1	-0.5
Henequen	276	206	209	228	230	-35.2	56.4	9.2	-
Cultivated pasture, fodder	39	43	40	38	34	-7.2	0.9	-	-9.8
Livestock^d									
Stocks									
Dairy cows ^e	359	398	417	412	408	3.2	1.7	-1.3	-1.0
Swine ^e	600	765	853	911	1 009	9.8	1.5	6.7	10.8
Poultry ^f	18	25	23	26	27	-2.5	-3.9	11.7	3.7
Animals slaughtered ^g									
Cattle	240	293	300	303	302	3.9	-1.4	0.9	-0.3
Swine	43	58	71	76	82	18.2	3.7	7.2	8.2
Poultry	57	91	76	90	107	13.0	-26.1	18.4	18.6
Other production									
Milk ^h	591	889	929	948	943	4.2	0.3	2.1	-0.6
Eggs ^h	1 851	2 327	2 247	2 493	2 558	1.5	-4.8	11.0	2.6
Honey ^{ij}	6	7	10	10	9	20.3	13.5	1.0	-16.7

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^a Preliminary figures.^b Growth rates correspond to real, not rounded figures.^c Thousands of tons, with the exception of henequen expressed in millions of bunches, and cultivated pasture and fodder in millions of tons.^d In State farms.^e Thousands of head.^f Millions of head, final stock.^g Thousands of tons.^h Millions of units.ⁱ Tons.^j Including the non-State sector.

mechanization made it possible to reduce the number of cutters from 131 000 in 1979/1980 to only 80 000 in 1983/1984. Moreover, in 1984 the decision taken the year before to integrate State sugar-cane enterprises and sugar plants into agroindustrial units came fully into effect; their number reached 142 and as a result all the stages necessary to produce sugar became vertically integrated.

Livestock raising increased by 5%, a similar percentage to that of the previous year. This growth was partly based upon the expansion of pig farming—the number of animals exceeded 1 million and produced 82 000 tons of meat—and partly on the contribution of poultry farming, whose numbers are estimated to have increased by 1 million, making a contribution of 107 000 tons of meat to the food supply (19% more than in 1983).

On the other hand, as far as cattle are concerned, slaughtering and the equivalent number of dressed carcasses declined slightly, as was the case with milk production, which was affected by the drought (see table 5). The 4 000 head decline in dairy cows (-9%) between 1983 and 1984 may be explained by the decision to increase the number of meat cattle which led to a greater number of thoroughbred cows being used solely for raising calves. In addition, stocks of cattle remained stable, around 5.1 million head, 75% of which belong to the State sector and the remaining 25% to private breeders and co-operatives.

Through 1984, the policy of grouping private farmers and cattle breeders within co-operatives with the aim, among others, of setting up satisfactory conditions for increasing the use of technology in the sector and for achieving economies of scale, was continued. As a result the number of agricultural co-operatives declined from 1 472 in 1983 to 1 419 in 1984⁹ with the creation of some new ones and the merger of several already in existence. The area of agricultural land under co-operative management reached 974 000 hectares, 4% higher than in 1983.¹⁰ Credit granted to co-operatives rose to 200 million pesos, 9% more than the previous year.

Finally, the agricultural sector—with the exclusion of cane sugar cultivation which is now integrated into the industrial sector—saw its percentage of total employment decline from 11.8% in 1983 to 11.3% in 1984. On the other hand, the average wage paid increased by 4.7% and productivity rose by 5.6%. Despite this progress, the sector continued to show considerable signs of backwardness in comparative terms. While the average wage paid was only 12% lower than the average wage for the productive sphere and 14% lower than the average industrial wage, agricultural productivity was barely 60% of the general average and was 52% lower than industrial productivity.

ii) *Fisheries*. Fishery activity grew by 9% in 1984. The total catch was barely 0.5% higher but its make-up was favoured by products of higher value. Thus, while fish declined by 1%, shellfish increased by more than 10%.

This activity has been given such an impetus since the middle of the 1960s that at the beginning of 1984 the fishing fleet was made up of 187 boats. In addition, 24 ferro-cement boats were built in 1984. The sector has made a major contribution to the domestic food supply. Between 1980 and 1984 the volume of fresh and frozen fish distributed to the population rose from 40 000 to 48 000 metric tons while during the same period deliveries of canned fish and shellfish rose from 3 200 to 6 200 tons. In addition, both in 1983 and in 1984 the sector contributed 11% of non-sugar external sales and the value of its exports was exceeded only by that of mining and citrus exports.

iii) *Mining and metallurgy*.¹¹ Following the healthy average growth of 8% achieved in the 1981-1983 triennium, the mining sector's output declined somewhat more than 1% (see table 4). This decline was mainly caused by the 16% drop in nickel and cobalt production, which was essentially due to the stoppage of the Moa and Nicaro plants, which required overall repairs. A 60% decline in natural gas extraction and a 7% decline in ordinary steel production should also be taken into account (see table 6).

On the other hand, crude oil extraction increased by 4%, reaching 770 000 tons. In addition, the programme aimed at increasing proven reserves so as to ensure an extraction of 2 million tons of crude oil towards the end of the decade was continued. This programme is being pursued with the assistance of Soviet, Venezuelan and Mexican technicians. In addition, the work in progress in the refineries of Havana and Santiago de Cuba added a further refining capacity of almost one million

⁹These included 433 sugar-cane co-operatives, 271 coffee co-operatives, 198 vegetable co-operatives and 192 cattle co-operatives.

¹⁰Of this surface, 395 000 hectares corresponded to sugar-cane co-operatives, 185 000 to coffee co-operatives, 110 000 to vegetable co-operatives and 133 000 to livestock co-operatives.

¹¹In Cuban terminology, ferrous and non-ferrous mining are grouped with the metallurgy of both types of mineral.

tons to the 7 million tons which already existed. Construction of another refinery in Cienfuegos, with a capacity of 3 million tons of oil which may later be expanded to 6 million tons was also continued. It is hoped that this refinery will enter production in 1985. Efforts were intensified to complete and bring into operation in 1985 the Punta Gorda nickel plant, which is being constructed with the assistance of the Soviet Union, while construction of a second laterite processing plant in Camariocas, which is being carried out with the technical and financial co-operation of the CMEA member countries, was speeded up. Each plant will possess a production capacity of 24 000 tons of nickel plus cobalt.¹²

iv) *Manufacturing industry.* Industrial output expanded by more than 7% in 1984. Production of consumer durables and capital goods increased by 14%, sustaining the high levels of growth recorded in the previous three years. In turn, after a decline in 1982 and a recovery in 1983, output of intermediate goods climbed 5.6% in 1984. Finally, non-durable consumer goods increased by 5.5%, thus improving upon the slack increase of the previous year (see table 7).

Imports of raw materials from market economy countries grew by 30% and those of capital goods by 80%. These purchases, together with those made in the two previous years with the aim of constituting minimum strategic reserves, provided the manufacturing sector with an adequate margin of supply to achieve the levels of growth indicated. Nevertheless, the availability of the supplies led to excessive consumption of inputs and apparently no selective policy as to their use was adopted, which led to the application of corrective measures for both deficiencies.¹³

Nonetheless, the campaign to produce and recover spare parts was vigorously continued and in value terms grew by 15% in comparison with the previous year. Of the total amount, 26% were devoted to agriculture and a similar percentage to manufacturing, while the sugar industry absorbed 18%, transport 16% and the other activities the remaining 14%. It is generally considered that the progress made in this field allowed 40 million pesos in imports to be saved.

Table 6

CUBA: PRINCIPAL PETROLEUM, MINING AND METALLURGICAL PRODUCTION

	Thousands of tons					Growth rates			
	1975	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Petroleum and petroleum products									
Crude petroleum extraction	226	274	541	742	770	-7.5	13.7	37.2	3.8
Crude petroleum refining	5 976	6 333	6 573	6 582	6 603	2.2	1.6	0.1	0.3
Petroleum fuel	2 822	3 026	3 198	3 414	3 415	3.5	2.2	6.8	-
Diesel fuel	1 083	1 099	1 118	1 060	1 026	1.8	-0.1	-5.2	-3.2
Natural gas ^b	17	18	11	8	3	-25.3	-19.5	-22.4	-59.0
Gasoline	947	807	847	890	982	22.5	-14.4	5.1	10.4
Ferrous mining and metallurgy									
Refractory chromium	36	29	27	34	38	-28.1	33.2	23.1	12.8
Ordinary steel	298	304	301	364	338	8.5	-8.6	20.8	-7.0
Textured steel bars	243	260	204	241	271	5.7	-26.0	18.4	12.2
Non-ferrous mining and metallurgy									
Nickel plus cobalt (metal content)	37	38	38	39	33	5.4	-6.6	4.4	-15.5
Copper concentrate ^c (metal content)	2 777	3 305	2 645	2 667	2 700	-12.0	-9.0	0.8	1.2

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aPreliminary figures.

^bMillions of cubic metres.

^cTons.

¹²In the agreements signed with the countries referred to it is specified that 50% of the production obtained will be assigned to amortization of the credit received for the construction of these plants; the rest will be exported to the market economy countries.

¹³See Humberto Pérez, "Discurso ante la...", *op.cit.*

Table 7

CUBA: INDICATORS OF MANUFACTURING PRODUCTION

	Index of material production (1975 = 100)				Growth rates ^b			
	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total^c	117.2	143.1	148.3	159.2	17.2	4.2	3.6	7.3
Non-durable consumer goods industry	118.1	146.0	146.3	154.3	16.5	6.1	0.2	5.5
Foodstuffs (excluding sugar)	121.9	146.7	154.2	159.6	14.8	4.9	5.1	3.5
Sugar and sugar products	120.3	144.3	140.2	145.4	16.0	3.4	-2.8	3.7
Beverages and tobacco	109.7	147.5	141.6	154.5	21.9	10.3	-4.0	9.1
Ready-made clothing	138.6	162.3	184.7	186.9	18.9	-1.5	13.8	1.2
Printed matter	129.2	107.5	111.2	128.2	-25.0	11.0	3.4	15.2
Intermediate goods industry^c	102.2	109.9	115.0	121.5	12.9	-4.8	4.7	5.6
Textiles	96.0	107.8	118.6	118.6	12.3	-	10.0	-
Chemicals	999.9	106.3	116.6	129.8	22.7	-13.2	9.6	11.4
Fuels	97.9	105.1	106.2	107.2	3.7	3.5	1.0	1.0
Construction materials	117.3	126.2	126.3	133.7	12.1	-4.1	-	5.9
Consumer durable and capital goods industry	146.9	199.6	240.4	274.5	21.3	12.0	20.4	14.2
Construction of non-electrical machinery	172.2	240.5	280.4	336.5	20.1	16.3	16.6	20.0
Electrotechnical and electronic goods	88.6	96.4	148.3	124.0	23.6	-11.9	53.8	-16.4
Metal products	130.9	182.7	214.5	242.7	24.6	12.0	17.4	13.1
Other manufactures^{cd}	120.4	157.0	171.4	135.5	26.6	3.0	9.2	8.2

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aPreliminary figures.^bCorrespond to real, not rounded, figures.^cExcluding basic metals.^dIncluding, *inter alia*, the leather, glass and pottery, paper and pulp and forestry and timber processing industry.

The sector's installed capacity, which had already been strengthened in 1983 by the addition of 16 new plants, expanded in 1984 when, among others, two new citrus-fruit processing plants, one in Ciego de Avila —with a production capacity of 31 700 tons of preserves, 285 tons of essential oils and 17 400 tons of dehydrated fodder— and another in Matanzas —with a processing capacity of 81 000 tons of citrus fruit; two new sugar plants, one in Camaguey and another in Villa Clara, each capable of milling 6 800 tons of cane per day; a plant in Holguin with a capacity of 9 500 tons of metallic structures in nickel and 5 000 tons of parts made from the same metal; a boiler factory; two plants for retreading tires with a joint capacity of 142 000 units; two synthetic board factories with a total capacity of 153 cubic metres of board per day; a plant for manufacturing spare parts and equipment for the sugar industry and a steam boiler factory all came into operation. In the plan which was drawn up in 1984 for the 1986-1990 five-year period it is planned to invest 600 million pesos in new strategic industrial plants for exports and two thermoelectric power stations.¹⁴

The 54% increase in refrigerator production was outstanding in the durable consumer goods field and, in the capital goods field, the 19% increase in the assembly of buses and the 24% increase in that of fishing boats which has already been mentioned, are worthy of note. In the manufacture of intermediate goods the expansion of urea and nitrate production was of particular importance. Finally, as regards the manufacture of non-durable consumer goods (with the exception of sugar), the most noteworthy growth was achieved in the production of canned meat, fruit and vegetables, and alcoholic drinks (see table 8).

¹⁴Sixty-two percent of this investment would be assigned to these two power stations, 16% to basic industry, 15% to fishing, 5% to light industry and 2% to food and other branches of industry.

In the 1983/1984 harvest 8.2 million tons of raw sugar were obtained, a volume similar to that of the 1981/1982 cycle. The harvest was consequently the second highest in Cuban history after that of 1969/1970. Nevertheless, the level of growth, 15%, was lower than that which had been set by the existing annual plan. This shortfall between the amount produced and that planned (700 000 tons) had considerable repercussions on foreign trade.

Some 78.4 million tons of cane were milled in the season. Although this amount was 1% higher than planned, since the yield was 10% lower than had been hoped for, it proved impossible to achieve the target which had been set for sugar production. Nonetheless, although the ratio of effective number of days of milling to days of harvest was one of the lowest since 1980 (which reflects the climatic conditions), the volume of cane milled per actual day reached 620 000 tons, the highest ever recorded (see table 9).

Table 8

CUBA: MAIN INDUSTRIAL PRODUCTS

	Thousands of tons					Growth rates			
	1975	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Non-durable consumer goods									
(excluding sugar)									
Canned meat	26	35	49	55	61	19.3	17.6	13.3	11.0
Wheat flour	176	271	386	428	423	30.6	9.0	11.0	-1.2
Canned fruit and vegetables	98	122	131	148	161	17.1	-7.9	12.6	8.8
Alcoholic beverages ^b	320	402	570	586	657	-4.3	48.2	2.7	12.1
Twisted tobacco ^c	383	167	358	333	302	38.3	55.6	-7.1	-9.4
Fisheries									
Gross catch	143	186	195	198	199	-11.7	18.7	1.6	0.5
Total catch unloaded	113	152	152	165	171	-17.5	21.4	8.0	3.5
Outer clothing ^c	47	44	51	52	51	4.3	10.7	2.4	-2.3
Intermediate consumer goods									
Textiles ^d	144	159	153	170	174	9.3	-10.8	11.1	2.1
Gray cement	2 083	2 831	3 163	3 231	3 347	12.8	-3.9	2.1	3.6
Paints, enamels and varnishes ^b	241	149	67	162	236	-3.3	-53.4	140.4	45.8
Sulphuric acid 98%	418	402	333	356	336	2.6	-19.4	7.0	-5.7
Sodium hydroxide	4	3	11	16	18	130.4	39.3	46.5	7.3
Superphosphate	43	18	22	9	10	58.8	-22.8	-60.6	10.6
Ammonium nitrate	208	312	207	176	336	14.2	-42.0	-15.1	91.3
Complete fertilizers	749	1 059	1 026	1 082	1 036	0.8	-3.8	5.4	-4.2
Urea	3	16	28	32	65	213.3	-43.0	13.8	101.6
Bottles ^c	201	176	233	187	265	-10.3	47.9	-19.5	41.4
Unbleached and corrugated cardboard	28	22	26	21	19	16.0	4.4	-19.0	-11.7
Consumer durables and capital goods									
Refrigerators ^c	50	26	18	16	24	56.1	-56.5	-11.4	54.1
Radio-receivers ^c	113	200	239	273	253	28.0	-6.6	14.3	-7.3
Television sets ^c	26	40	50	91	92	93.1	-35.2	80.4	0.8
Sugar-cane combines ^f	-	501	602	650	631	20.8	-0.5	8.0	-2.9
Buses ^f	1 718	1 846	1 602	1 862	2 219	-10.8	-3.8	16.2	19.2
Uninsulated electric wire and cable ^g	1 332	2 547	1 424	2 033	2 100	-4.4	-41.5	42.8	3.3
Insulated electric wire and cable ^g	27	38	34	42	52	40.9	-37.4	24.5	24.9
Sanitary appliances ^c	160	298	358	350	336	6.4	12.8	-2.4	-3.9

Source: ECLAAC, on the basis of figures supplied by the State Statistical Committee.

^a Preliminary figures.

^b Thousands of hectolitres.

^c Millions of units.

^d Millions of square metres.

^e Thousands of units.

^f Units.

^g Thousands of kilometres.

Table 9

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons) ^a		Industrial yield (base 96 ^a) (percentages)	Days		Sugar-cane milled per day (tons)	
	Sugar-cane milled	Raw sugar (base 96 ^a)		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 943	12.51	103	88	466 289	542 344
1965	56 687	6 156	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	526 922
1977	56 149	6 435	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	149	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	594 100
1983	68 687	7 109	10.35	160	113	429 600	608 900
1984 ^b	78 358	8 207	10.47	166	126	471 101	620 218

Source: 1960-1970: Central Planning Board, Statistical Bureau, *Boletín Estadístico*. 1970, 1975-1983, *Anuario Estadístico de Cuba*. 1983, and for 1984, data provided by the State Statistical Committee.

^aHarvest year (end of November in one year to beginning of May in the following year).

^bPreliminary figures.

More than 500 000 tons of petroleum was saved in raw-sugar production thanks to modifications allowing the ovens to use bagasse as an energy source. This fuel-saving technique is also being applied to refined sugar production.

In spite of the discouraging prospects for the sugar industry in the free world market, it has been assigned an important role in future plans for economic development as a source of employment and a means of earning external resources. Consequently, during 1984 efforts were made not only to adapt, modernize and introduce technology into the plantations and plants, but also to expand raw and refined sugar production capacity so as to make it possible to put into operation in 1985 a refinery in Santiago de Cuba (with a 90 000 ton capacity) and a plant in las Tunas (capable of milling 6 800 tons of cane per day) and to complete extensions to 14 plants which will provide an extra capacity of 115 000 tons of refined sugar.

Finally, the government let it be known that the campaigns carried out among managers and workers in the sector helped to raise the real productivity of labour by 4.4%. As a result of this, in addition to the material stimuli distributed, the workers in this activity received a 3% rise in their average wage. In addition, employment in the sugar industry grew by 2.7%.

v) *Construction.* The rate of growth of output in the construction industry, which had already been very high (10%) in 1983, increased to 16% in 1984. This result reflected on the one hand the strong impetus given to investment and, on the other, a greater availability of construction material. Maintenance work on productive apparatus and basic infrastructure also made a considerable contribution to this sector's dynamism.

In addition to the factors already mentioned, a certain number of measures were taken at the organizational and administrative level which accelerated the process of construction. Principally, these measures meant that firms constructing dwellings in the city of Havana and those carrying out highway constructions merged, without losing their legal identity, into a number of "joint ventures" and "territorial joint ventures", with the aim of achieving greater co-ordination between the different stages of construction, timely supplies of materials, and efficient movement and transfer of machinery and equipment.

Construction firms employ external technology and financing in many important projects. Such is the case in projects related to nickel, thermoelectricity and a nuclear electricity generating

plant. Likewise, in 1984 Cuban firms completed the construction of a sugar plant in Nicaragua and a cement plant with a production capacity of 300 000 tons per year in Ethiopia.

Industrial construction and assembly grew by 18% and represented more than one-fifth of the sector's total. The 15 manufacturing and energy producing plants already mentioned were completed, and advances of between 80 and 99% were recorded in the building work on another 92 large projects. Construction and modernization of railway track and installation was 40% higher than the average achieved in the previous biennium, and construction of roads, bridges and highways increased by 22%. As a result of the greater availability of material, equipment and spares, the volume of maintenance work on productive apparatus and basic infrastructure increased. Such work expanded by 27%, a similar rate to that of 1983.

Table 10

CUBA: INDICATORS OF CONSTRUCTION

	Gross production (thousands of pesos at 1981 prices)			Percentage breakdown ^b			Growth rates ^b			
	1982	1983	1984 ^a	1970	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	1 801	1 988	2 310				19.3	0.8	10.4	16.2
Construction and assembly	1 634	1 787	2 081	100.0	100.0	100.0	15.9	-0.9	9.4	16.4
Agriculture	24	39	42	9.6	4.5	2.0	-0.5	-58.5	60.6	8.4
Housing and urbanization	128	154	180	5.0	8.1	8.7	22.5	-9.7	20.4	16.6
Education	40	49	65	2.3	7.6	3.1	-26.1	-51.0	23.2	31.9
Industry	314	378	445	15.2	22.9	21.4	12.8	-14.4	20.2	17.9
Hydraulic works	72	71	62	10.7	7.9	3.3	-9.0	-29.0	-2.2	-3.9
Highways (excluding railways)	138	147	179	13.4	8.0	8.6	27.1	-4.9	5.9	22.1
Railways	31	34	45	0.4	4.4	2.2	-21.5	-35.7	9.2	31.1
Hydrological works	25	30	35	1.9	1.9	1.7	1.1	-7.7	20.6	15.2
Maritime facilities	41	36	46	0.9	2.1	2.2	34.0	0.5	-18.5	29.0
Health facilities	49	38	43	...	2.3	2.1	...	1.5	-22.2	13.8
Electricity networks	16	19	19	1.9	1.0	0.9	-29.8	0.6	15.5	2.3
Communication networks	14	15	14	-	0.4	0.7	181.6	-13.3	6.9	-8.9
Maintenance	244	310	393	22.4	10.4	18.9	32.5	24.6	27.0	26.8
Other buildings	328	274	286	...	10.3	13.7	...	48.6	-16.5	4.3
Other production marketed	168	193	220	-	7.6	10.6	28.5	21.0	14.9	13.9
Geological exploration, drilling and geodysic surveys	101	132	150				125.0	26.5	30.7	13.3
Design of construction projects	66	69	80				49.0	12.6	4.5	15.5
Production of selected building materials										
Corrugated steel bars ^c	204	241	271				5.7	-26.0	18.4	22.2
Steel bars ^c	255	297	271				15.0	-10.8	16.5	-8.5
Gray cement ^c	3 163	3 231	3 300				16.3	-3.9	2.1	2.1
Prefabricated concrete products ^d	780	848	905				5.6	2.3	8.7	6.8
Clay bricks ^e	111	125	128				3.9	-5.5	12.5	2.5
Tiles ^e	50	58	66				-1.8	-24.8	17.0	13.8
Sheet glass ^f	283	345	284				-53.2	120.2	21.9	-17.6

Source: ECLAC, on the basis of data from the State Statistical Committee, *Anuario Estadístico de Cuba, 1983*.

^aPreliminary figures. ^bCorrespond to real, not 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	1984 ^a	1981	1982	1983	1984 ^a
Gross generation	4 888	6 583	9 895	11 070	11 551	12 291	6.7	4.8	4.4	6.4
Ministry of the Electricity Industry	3 609	5 413	8 679	9 647	10 107	10 803	6.0	4.8	4.8	6.9
Ministry of the Sugar Industry	881	756	954	1 046	1 085	1 125	2.2	7.2	3.8	3.7
Enterprises producing nickel	237	239	170	266	270	252	52.3	3.0	1.5	-6.8
Other producers	160	175	92	111	89	112	31.6	-8.0	-19.9	25.3
Consumption ^c	4 048 ^d	5 404	7 330	8 045	8 100	8 691	5.9	9.8	0.7	7.3
Industrial	1 829 ^d	2 477	3 003	3 640	3 621	3 955	19.6	21.2	-0.5	9.2
Agricultural	37 ^d	204	312	217	169	184	-23.7	-30.4	-22.6	9.1
Commercial	1 100 ^d	1 277	1 851	1 886	1 884	1 942	-1.3	1.9	-0.1	3.1
Residential	1 019 ^d	1 343	2 087	2 195	2 312	2 484	-3.7	5.2	5.3	7.4
Others	63 ^d	103	77	107	115	126	28.6	39.0	7.5	9.6

Source: ECLAC, on the basis of statistics supplied by the State Statistical Committee.

^a Preliminary figures.

^b Correspond to real, not rounded, figures.

^c Excluding the consumption of the Ministry of the Sugar Industry, the nickel-producing enterprises and that corresponding to "other producers".

^d Corresponds to 1971.

Geodesic activities, geological exploration and prospection maintained the high rhythm of growth of the last triennium. The rate of expansion in the designing of construction projects was equally high (see table 10). In addition, historical and urban monuments in the colonial centre of Havana benefited from intensive restoration and repair work.

A total of 37 441 dwellings were constructed during the year, a similar number to that for 1983. Of these, 18 539 were built by State-run builders (4.6% more than in the previous year); firms other than construction firms, co-operatives and the population itself built an additional 18 902 units. In addition the population built 30 000 housing projects.¹⁵

The housing law was passed in 1984 providing for: i) the transfer on 1 July 1985, after legal payment, of the ownership of a dwelling to those who are currently living in it on onerous terms of usufruct or as its legal occupants; ii) the transfer of ownership to those provided with dwellings constructed by the State; iii) the promotion of construction, conservation, rebuilding and extension of dwellings by the population's own efforts; and iv) the possibility, in certain cases and under certain circumstances, of renting rooms. On the other hand, the law prohibits the ownership of two or more dwellings by one person, except in special cases for agricultural workers. It also establishes —on the basis of the age of the property, of the rental rate paid and the time over which this has been paid— the property's legal value and the proportion of this value which the occupier, now the owner, still has to pay. It also lays down the rights and obligations which the new Banco Popular de Ahorro (Popular Savings Bank) will assume as the representative of the State in the legal and financial fields connected with the transfer of house ownership.

vi) *Electrical energy.* Gross electricity generation grew by 6.4%, reaching an unprecedented level of almost 12 300 GWh. Of this total 88% was produced by public generating plants, those installed in sugar plants provided 9% while the remaining 3% was produced by plants operating outside the grid system. Total consumption increased by 7%, in contrast with the less than 1% increase achieved the previous year; industrial and agricultural consumption rose considerably, but whereas the former was higher in absolute terms than that recorded in previous years, the latter barely exceeded that of the previous year (see table 11).

¹⁵ This figure apparently includes construction work to add extra rooms to houses and even rebuilding and large-scale repairs. In most cases buildings constructed in this way do not meet the technical specifications of those built by the State.

At the end of 1983, generating capacity was 2 415 MW; two new thermal generating plants with a joint capacity of 250 MW came into production during 1984. In addition, a thermoelectric plant which when completed will add a further 1 300 MW is under construction in La Habana del Este. A further thermoelectric plant, with a 400 MW capacity, is under construction in Matanzas. Work also began on the country's first nuclear power station, situated in Cienfuegos, which will be equipped with four reactors, each having a capacity of 417 MW. Once in operation, this will save 2.4 million tons of petroleum, or in other terms US\$ 500 million at present prices. The first reactor in this plant will come into service in 1989.

3. The external sector

A direct consequence of the marked increase in product was the considerable growth of the trade deficit, both with CMEA member countries and with market economy countries. As a whole, the negative balance rose from less than 700 million pesos in 1983 to more than 1 750 million in 1984. This also meant that in 1984 a considerable increase in external saving was achieved, which in turn allowed the volume of imports to rise appreciably.

As has been explained in earlier notes,¹⁶ a number of difficulties encountered in trade with market economy countries, the fall in the international prices of sugar and other export commodities, together with the deepening of the international financial crisis in 1982, forced the Cuban authorities in this same year to renegotiate the most immediate payments due on the external debt. As a result of these unfavourable factors, exports to these markets fell off dramatically and hence the country was obliged to cut down imports from these same countries. In addition to this, and in spite of the relief provided by debt renegotiation, credits received were lower than amortizations both in 1982 and in 1983, which led to a net transfer of resources to market economies equivalent to 613 million pesos in the capital account, which, with the interest paid, reached 1 202 million pesos. In 1984, credits received were barely sufficient to cover debt servicing.¹⁷ As a consequence Cuba was obliged to reduce its international reserves in convertible currency in order to finance its trade deficit with market economies.

This circumstance also led to a further increase in the relative importance of trade and financial relations with the CMEA member countries, and in particular with the Soviet Union. This is partly the result of the preferential prices which Cuba is paid by these countries for its export commodities —which are established on the basis of international prices, but which are in fact set by periodic agreements. It is also due to the fact that these relations provide for preferential prices for various imported items, such as petroleum, and various forms of payment in convertible currency.

Finally, trade negotiations were intensified during 1984. A barter agreement was signed with Guyana and other trade agreements with Ecuador and Mexico, a trade protocol was signed with Spain, another with Nicaragua and a trade agreement with Zambia. Various long-term co-operation agreements were also signed with some member countries of the CMEA, including the already mentioned "Long-term programme for the development of economic, scientific and technical co-operation between the Republic of Cuba and the Union of Soviet Socialist Republics until the year 2000" which both countries signed in October.

a) *Trade in goods*

i) *Exports of goods.* The total value of external sales of goods declined by 1%, as a result of the sharp 26% fall in exports to market economy countries which was not fully made up by the 3% increase in the value of exports to socialist countries. As re-exports of petroleum declined to a similar extent (-1.2%) exports as such also dropped by 1% (see table 12).

Sugar exports increased their share of total external sales from 74% in 1983 to 76% in 1984.¹⁸ Shipments of sugar abroad were slightly more than 7 million tons, practically the same amount as that shipped in 1983 (see table 13). Nevertheless, their value (4 100 million pesos) increased by 1% in comparison with the previous year, as a result of a slight rise in the average price of sugar exported.

¹⁶See the chapters relating to Cuba in the *Economic Surveys of Latin America* for 1982 and 1983.

¹⁷National Bank of Cuba, *Informe Económico*, February 1985.

¹⁸Nevertheless, if we exclude the value of re-exported petroleum from total exports, the share of sugar in the total rises from 81% to 83% between these two years.

Table 12

CUBA: TRENDS IN EXPORTS

	Millions of pesos				Percentage breakdown		Growth rates			
	1980	1982	1983	1984 ^a	1980	1984	1981	1982	1983	1984 ^a
Total	3 967	4 933	5 523	5 462	100.0	100.0	6.5	16.8	12.0	-1.1
Soviet Union	2 253	3 290	3 874	3 938	56.8	72.1	4.6	39.6	17.8	1.7
Other socialist countries	534	882	880	955	13.5	17.5	53.9	-	-0.2	8.5
Other countries	1 180	761	769	569	29.7	10.4	-11.4	-27.2	1.1	-26.0
Re-exports^b	96	262	493	486	2.4	8.9	69.8	60.7	87.8	-1.2
Rest of sales	3 871	4 671	5 030	4 976	97.6	91.1	4.4	15.0	7.7	-1.1
Soviet Union	2 157	3 028	3 382	3 452	54.4	63.2	1.7	38.0	11.7	2.1
Other socialist countries	534	882	880	955	13.5	17.5	53.9	-	-0.2	8.5
Other countries	1 180	761	769	569	29.7	10.4	-11.4	-27.2	1.1	-26.0
Sugar sales	3 279	3 808	4 084	4 126	82.7	75.5	0.7	15.4	7.2	1.0
Soviet Union	2 026	2 767	3 086	3 169	51.1	58.0	-4.3	42.7	11.5	2.7
Other socialist countries	428	703	725	772	10.8	14.1	52.3	7.8	3.1	6.5
Other countries	825	338	274	186	20.8	3.4	-13.9	-52.4	-18.1	-31.1
Non-sugar sales	592	863	946	850	14.9	15.6	28.9	13.6	9.6	-10.0
Soviet Union	131	261	296	284	3.3	5.2	94.7	2.4	13.4	-4.2
Other socialist countries	102	179	155	183	2.6	3.4	-19.6	118.3	-13.4	18.3
Other countries	359	423	495	383	9.0	7.0	17.8	-	17.0	-22.5
Metallic minerals and scrap	191	300	299	301	4.8	5.5	75.9	-10.7	-0.3	0.7
Tobacco	36	104	103	56	0.9	1.0	58.3	82.5	-1.0	-45.6
Citrus fruit	41	98	118	118	1.0	2.2	87.8	25.6	20.4	-
Fishery products	89	99	107	92	2.2	1.7	10.3	3.1	8.1	-14.0
Naphta	72	66	70	32	1.8	0.6	-77.8	312.5	6.1	-54.3
Coffee, cocoa and others	23	39	47	19	0.6	0.3	30.4	30.0	20.5	-59.6
Alcoholic beverages	25	26	29	35	0.6	0.6	-36.0	62.5	11.5	20.7
Others	117	131	173	198	2.9	3.6	11.4	3.1	32.1	14.5

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.^b Re-exports of fuel to the Soviet Union in freely convertible currency.

The value of sugar sales to market economy countries declined for the fourth year running, this time by 31%, as a result of a 10% drop in the volume shipped—which was 1.4 million tons—and a 28% decline in the average price paid. This price was 6.46 US cents per pound, only one-quarter of that paid in 1980.

In contrast, sugar exports to socialist countries rose by 3.4% as a result of a 3% increase in volume (3.7 million tons to the Soviet Union and 1.9 million to the other socialist countries) and a slight 0.4% increase in the average price. Although the price paid by the Soviet Union went down slightly, it was almost seven times higher than that received by Cuba in convertible currency and 8.5 times higher than the price on world markets. In turn, the price paid by the other socialist countries rose by 3%, as the composition of exports altered to favour those countries with which higher prices had been agreed upon.

These figures illustrate the contradictory trends which prevail on these two sugar markets and the diverging effects they have upon the Cuban economy. As is well known, international sugar prices are extremely slack in the market economy countries and this has had adverse effects upon Cuba. In addition to this, prospects on these markets are far from encouraging, owing to the stagnation of consumption, to an increasing use of artificial sweeteners, and to the maintenance of stocks which are 16 percentage points above the 25% of consumption which is considered a normal level. There is also the fact that developed countries, which are traditional net importers, have become exporters, as is the case of the member countries of the European Economic Community.

On the other hand, thanks to the sugar agreements signed with the socialist countries and principally with the Soviet Union, sales to these countries were not affected by sharp price fluctuations but in fact rather showed a systematic tendency to increase (see table 13). In fact these agreements provide for compensation whenever any deterioration in exchange prices occurs. They also specify, for long periods, the annual amounts of sugar which Cuba is to sell on these markets, amounts which however have not always been met.¹⁹

If we consider the features of both markets, it is understandable that Cuba should have devoted increasing amounts of its sugar exports to the socialist countries. As a result of this process the share of market economy countries in the volume exported has dropped from 35% in 1980 to 20% in 1984, while its importance in the value of such sales has declined from 25% to only 4% over the same period (see table 14). Faced with the decline in sugar prices in the market economy countries, Cuba decided in the 1983-1984 biennium to redirect a total of 1.7 million tons of sugar towards the socialist countries, thus earning 1 656 million pesos. Had this amount been sold at prevailing prices on the international market, it would have earned barely 219 million pesos. Consequently the price difference meant an extra income of 1 437 million pesos for the country.²⁰

The sugar export policy followed in 1984 involved adjusting stocks (once domestic consumption had been satisfied), without however modifying the level of strategic and tactical reserves, which increased by 39 000 tons to reach a level of 656 000 tons. Efforts were also made to satisfy the undertaking made to supply sugar to the Soviet Union, which in addition earned higher income for the country as a result of the already mentioned price difference. Thus in 1984 some 900 000 tons which had been intended for sale to market economy countries were redirected towards this market, earning 816 million more pesos than would have been earned if it had been sold on the

Table 13

CUBA: PRODUCTION, EXPORTS AND EXPORT PRICES OF SUGAR

	Thousands of tons ^a		US cents per pound		
	Sugar production ^b	Sugar exports	Price paid by the Soviet Union	Price received by Cuba in freely convertible currency ^c	Price on the world markets ^d
1970	7 559	6 906	5.94	...	3.68
1971	5 950	5 511	6.41	...	4.50
1972	4 688	4 140	6.45	...	7.27
1973	5 383	4 797	11.82	...	9.45
1974	5 926	5 491	19.30	...	29.66
1975	6 427	5 744	26.36	...	20.37
1976	6 151	5 764	27.43	...	11.51
1977	6 953	6 238	26.94	...	8.10
1978	7 662	7 197	36.71	...	7.82
1979	7 800	7 199	37.17	...	9.65
1980	6 805	6 170	47.39	24.20	28.15
1981	7 926	7 055	35.10	...	16.88
1982	8 039	7 727	39.00	11.20	8.38
1983	7 460	7 011	46.00	9.00	8.56
1984 ^e	7 783	7 017	44.00	4.64	5.18

Source: ECLAC, on the basis of figures from the *Anuarios Estadísticos de Cuba*; the State Statistical Committee; the *Statistical Yearbook of the Soviet Union* and other international data.

^aRaw sugar, base 96° of polarization. ^bCalendar year. ^cPrice of shipments of sugar in the current year, occasionally agreed upon previously at fixed prices. ^dPrices of the International Sugar Agreement. ^ePreliminary figures.

¹⁹ Nevertheless, from 1985 onwards, fulfilment of these undertakings will be a prime objective in economic plans. See Fidel Castro, "Discurso de clausura en el Primer Forum Nacional de Energía", 4 December 1984, *Granma*, Resumen Semanal, 16 December 1984.

²⁰ See National Bank of Cuba, *Informe...*, *op.cit.*

Table 14

CUBA: VALUE AND VOLUME OF SUGAR EXPORTS BY COUNTRIES

(Percentage breakdown)

	1978	1979	1980	1981	1982	1983	1984 ^a
Value	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	79.7	76.1	61.8	58.7	72.7	75.9	77.4
Rest of socialist countries	11.7	14.0	12.7	13.9	18.4	17.5	18.2
Rest of world	8.6	9.9	25.5	27.4	8.9	6.6	4.4
Volume	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	54.4	52.9	44.2	45.4	57.3	50.5	52.1
Rest of socialist countries	17.3	18.8	20.5	20.8	22.3	26.8	27.6
Rest of world	28.3	28.3	35.5	33.8	20.4	22.7	20.3

Source: ECLAC, on the basis of figures from the State Statistical Committee.

^aPreliminary figures.

world market. Likewise, and with the aim of satisfying its obligations towards the Soviet Union, Cuba used 100 million pesos in convertible currency to purchase sugar on the world market and then supply it to the Soviet Union. This operation earned a net income of 912 million pesos which was assigned to the payment of the equivalent of 2.5 million tons of petroleum. Since it proved possible to save and re-export 2.4 million tons of this energy source during the year, an income of 486 million pesos in convertible currency was earned, still leaving 45 000 tons of petroleum for domestic consumption.

After having grown rapidly during the three previous years, the value of non-sugar exports declined by 10%. As a result, their share of total external sales of goods dropped from 17% in 1983 to 15.5% in 1984. This slackening was particularly affected by the pronounced decline in sales of tobacco (-46%) and coffee (-60%). The first was due to losses in the 1983 harvest (essentially as a result of unfavourable weather), which affected production of twisted tobacco and cigarettes, while the second was caused by the decline in the coffee harvest which occurred in 1983 as a result of rust.

Non-sugar exports were also affected by other factors both of an external and domestic nature. Among the former, it is worth mentioning the protectionist policies practised by several countries, the boycott affecting Cuban products which, in the case of nickel, affected both the volume and the selling prices, together with the loss of certain markets in the Caribbean region for non-economic reasons. Among the domestic factors, the delays which had affected certain important investments intended to expand exports—such as nickel for example, with the failure to complete the Punta Gorda plant—as well as other examples of inefficiency recorded in export production were of particular importance.

Finally, re-exporting of petroleum continued to provide considerable external resources, thanks to the petroleum supply contract signed with the Soviet Union which remained in force until 1985 and has been renewed up to 1990. In accordance with this contract, Cuba is entitled to re-export at market prices and in freely convertible currency all the fuel it is capable of saving in its use of petroleum acquired from the Soviet Union. Energy-saving campaigns have proved successful as the value of re-exports rose from 96 million pesos in 1980 to 486 million in 1984 (see table 12).

ii) *Imports of goods.* In 1984 external purchases of goods were slightly higher than 7 200 million pesos, an amount which was 16% above that of the previous year. Imports from the Socialist countries increased by 12%, while those from other countries grew at the spectacular rate of 41% (see table 15).

In spite of the efforts made since the beginning of the 1970s to decrease the degree of dependency on external supplies, the coefficient of imports within the global social product has continued to rise; thus it rose from 25% in 1980 to 28% in 1984.

The high rate of growth of imports was in contrast with the decline in the value of exports and was made possible by the availability of external financing, essentially provided by the member countries of the CMEA. Growth of imports made a major contribution to the progress of various

construction projects underway, as well as making it possible to reconstitute stocks and in general to facilitate the growth of domestic production of goods and services.

Imports of intermediate goods—which make up two-thirds of total external purchases—increased for the fifth consecutive year at an extremely high rate (18%). Purchases of capital goods also rose sharply (15%), and came to represent 22% of total imports. On the other hand, imports of consumer goods grew by barely 4% (see table 16). Since the middle of the 1970s it has been policy to ensure that supplies of consumer goods rely on domestic production; in spite of this, the share of such goods in total imports declined only from 13% in 1975 to 11% in 1984.

During the course of the year measures aimed at saving and at import substitution continued to be adopted, with special emphasis on those imports which were paid for in convertible currencies. Nevertheless, the value of external purchases in convertible currency rose considerably. As a result, the share of imports of goods originating from market economy countries in the global social product, which had declined from 6% in 1980 to 3.3% in 1983, climbed to 4.5% in 1984. Despite this increase, in 1984 imports paid for in convertible currency continued to represent a relatively smaller share in total external purchases than previously. Thus, whereas in 1975 they represented 46% of imports, in 1980 their share had dropped to 22% and fell to only 11% in 1982. However, as a result of their strong growth in the 1983-1984 period this share rose to 16% in 1984.²¹

Imports from the Socialist countries continued to represent five-sixths of total external acquisitions. They provide a similar proportion of imports of intermediate goods and more than 80% of external purchases of capital goods (see table 17). Within this item, as from 1980 more than 40% of imports have been devoted to investments in complete plants purchased as "turn-key" facilities (see table 16). The enormous scale of annual supplies for this purpose (intended for nickel, metallurgy, thermoelectricity, nuclear energy, chemicals, etc.) reflects the magnitude of the technology transfer involved in the complete factories which are contracted, although Cuban firms play a major role in their installation.

iii) *The terms of trade.* While no indicators were available relating to the prices of exports and imports, nor data making it possible to assess them on an individual basis—especially in the case of imports—some trends may be inferred.

Table 15

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

	Millions of pesos					Growth rates				
	1975	1980	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Total exports	2 952	3 967	4 933	5 523	5 462	13.4	6.5	16.8	12.0	-1.1
Soviet Union	1 662	2 253	3 290	3 874	3 938	-4.9	4.6	39.6	17.8	1.7
Rest of socialist countries	341	534	882	880	955	3.9	53.9	-	-0.2	8.5
Rest of world	949	1 180	761	769	569	91.9	-11.4	-27.2	1.1	-26.0
Total imports	3 113	4 627	5 531	6 218	7 207	25.5	10.5	8.2	12.4	15.9
Soviet Union	1 250	2 904	3 744	4 246	4 776	15.6	11.0	15.8	13.4	12.5
Rest of socialist countries	407	709	1 164	1 157	1 282	31.3	24.3	32.3	-0.6	10.8
Rest of world	1 456	1 014	623	815	1 149	57.7	-1.4	-37.7	30.8	41.0
Overall balance	-161	-660	-598	-695	-1 745					
Soviet Union	412	-651	-454	-372	-838					
Rest of socialist countries	-66	-175	-282	-277	-328					
Rest of world	-507	166	138	-46	-580					

Source: ECLAC, on the basis of data from the State Statistical Committee, the National Bank of Cuba and other international sources including *Comercio Exterior* (Soviet Union).

^a Preliminary figures.

²¹ The Cuban Government is prepared to increase this level of participation still further within "mutually advantageous conditions". See National Bank of Cuba, *Informe...*, *op.cit.*

Table 16

CUBA: IMPORTS OF GOODS, CIF

	Millions of pesos				Percentage breakdown			Growth rates			
	1980	1982	1983	1984 ^a	1975	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	4 627	5 531	6 218	7 207	100.0	100.0	100.0	10.5	8.3	12.4	15.9
According to use and economic purpose											
Consumer goods	535	763	757	787	13.3	12.2	10.9	25.6	13.5	-0.8	4.0
Intermediate goods	2 823	3 501	4 082	4 833	63.1	65.6	67.1	13.5	9.3	16.6	18.4
Petroleum and petroleum products	898	1 481	1 831	...	9.9	29.4	...	27.8	28.3	23.6	...
Fertilizers	81	112	121	...	2.9	1.9	...	25.4	9.7	8.1	...
Herbicides and pesticides	60	76	110	...	1.7	1.8	...	19.8	5.0	45.2	...
Rolled steel	114	139	178	...	3.9	2.9	...	24.1	-1.7	27.8	...
Accessories and spare parts	86	105	129	...	3.0	2.1	...	17.4	4.0	22.9	...
Remainder	1 584	1 588	1 713	...	41.8	27.5	...	3.5	-3.1	7.9	...
Capital goods	1 269	1 266	1 379	1 587	23.6	22.2	22.0	-2.3	2.2	8.9	15.1
Complete plants	535	535	589	...	6.1	9.5	...	11.3	-10.3	10.2	...
Tractors	37	73	61	...	0.4	1.0	...	33.5	49.6	-17.3	...
Buses and lorries	115	161	163	...	2.4	2.6	...	12.2	24.8	1.2	...
Remainder	582	497	566	...	14.7	9.1	...	-20.1	6.9	13.9	...
On the basis of ISIC categories											
Food and live animals	746	811	788	...	19.1	12.7	...	2.8	5.7	-2.7	...
Beverages and tobacco	16	10	9	...	-	0.1	...	-29.7	-11.5	-5.3	...
Inedible raw materials, except fuels	188	185	202	...	5.9	3.2	...	14.3	-15.9	9.2	...
Fuels and lubricants, minerals and related products	912	1 498	1 845	...	10.3	29.7	...	27.9	28.4	23.2	...
Animal and vegetable oils and fats	57	48	65	...	1.3	1.0	...	-0.7	-16.6	36.2	...
Chemical products	291	358	421	...	7.9	6.8	...	7.8	14.0	17.7	...
Manufactured goods, classified chiefly by material	679	717	763	...	18.4	12.3	...	11.1	-4.9	6.4	...
Machinery and transport equipment	1 639	1 712	1 895	...	31.2	30.5	...	4.9	-0.4	10.6	...
Miscellaneous manufactured articles	99	193	229	...	5.8	3.7	...	11.1	74.5	19.0	...

Source: ECLAC, on the basis of figures from the State Statistical Committee.

^a Preliminary figures.

In its trade with market economy countries, Cuba could not escape the declining trend in terms of trade between developing countries and the industrialized economies. On the one hand, the average price of Cuban sugar on the international market dropped by 48% (see table 13). In view of the amount of sugar sold, the loss for the country was equivalent to 62 million pesos. In addition, and in spite of the fact that international nickel quotations were not subject to sharp fluctuations,²² Cuba was forced to make concessions over the prices of this metal in certain cases where the national interest was at stake. Moreover, the average prices of other export products such as citrus fruit and shellfish declined. In contrast to this, during 1984 Cuba had to face rises in the prices of some of its imports from market economy countries. Nonetheless, the planning mechanism for external prices²³ produced a saving of US\$ 50 million in 1984.

Since trade with the Socialist countries provides for compensation in the case of falls in the terms of trade,²⁴ it may be assumed that no serious fluctuations have occurred in this respect with these countries, which provide 85% of Cuban imports and receive 90% of its exports.

iv) *The balance of trade in goods.* As from 1982 the global trade deficit started to increase, attaining 1 750 million pesos in 1984, an unprecedented figure in the country's economic history. Almost 1 170 million pesos of this amount, i.e., two-thirds, was represented by the Socialist countries and slightly more than 580 million by market economy countries.

²² The average price on the Canadian market was US\$ 3.2 per pound, both in 1983 and 1984.²³ On this mechanism, see ECLAC, *Economic Survey of Latin America, 1983*, op.cit., p. 255.²⁴ In trade with the Soviet Union, compensatory payments are effected by a system of adjustment which is applied to a sliding price for sugar.

The deficit with the Socialist countries has been financed in the following manner: i) payment of balances accumulated up to 1972 was deferred, without interest, until 1986; in 1984 this same debt was favourably renegotiated; ii) later deficits were refinanced through the CMEA, with the inclusion of triangular compensatory agreements, and iii) in certain cases these provide for payment to market economy countries for exports made to Cuba using transferable rubles instead of convertible currencies.

b) *The balance of payments in freely convertible currency*

Within the methodology adopted by Cuba, this balance covers commercial and financial transactions with market economy countries together with Cuban exports to the Soviet Union and other member countries of the CMEA which are paid for in transferable rubles or in freely convertible currency.

After generating a surplus in 1982 and 1983, the current account for transactions made in freely convertible currency showed a deficit of almost 210 million pesos in 1984 (see table 18). The value of exports was close on 1 140 million pesos, while sales to market economy countries only attained 623 million pesos. The difference of slightly more than 510 million pesos presumably corresponds to Cuban exports which the Socialist countries paid for in freely convertible currency. In turn, the greater part of this sum was accounted for by re-exports of petroleum to the Soviet Union worth 486 million pesos. On the other hand, in imports there was only a 7% difference between the total (1 060 million pesos) and the purchases from market economy countries (1 150 million pesos). Therefore, if only transactions made with market economy countries had been recorded, in place of a surplus of 73 million pesos on the merchandise account, there would have been a deficit of some 440 million pesos. This difference highlights, in its turn, the importance for Cuba of trade with the Socialist countries, since it makes it possible to refinance a considerable proportion of its imports from other countries.

Table 17

**CUBA: IMPORTS OF GOODS CIF, BY AREAS OF ORIGIN,
USE AND ECONOMIC PURPOSE**

	1983				1984 ^a			
	Total	Consumer goods	Intermediate goods	Capital goods	Total	Consumer goods	Intermediate goods	Capital goods
Millions of pesos								
Total	6 218	757	4 082	1 379	7 207	788	4 833	1 587
Soviet Union	4 246	348	3 087	811	4 776	343	3 567	866
Other socialist countries	1 157	351	395	412	1 283	363	483	437
Market economy countries	815	58	600	157	1 149	83	782	284
Growth rates								
Total	12.4	11.1	15.9	10.6	15.9	4.1	18.3	15.0
Soviet Union	13.4	...	...	...	12.5	-1.4	15.5	6.8
Other socialist countries	-0.6	...	...	...	10.8	3.4	22.2	6.1
Market economic countries	30.8	...	...	...	41.0	43.1	30.3	80.9
Percentages								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	68.4	46.0	75.6	58.8	66.3	43.5	73.8	54.6
Other socialist countries	18.6	46.4	9.7	29.9	17.8	46.1	10.0	27.5
Market economy countries	13.0	7.6	14.7	11.4	15.9	10.5	16.1	17.9

Source: ECLAC, on the basis of figures from the State Statistical Committee.

^aPreliminary figures.

Table 18

CUBA: BALANCE OF PAYMENTS IN FREELY CONVERTIBLE CURRENCY^a

(Millions of pesos)

	1978	1979	1980	1981	1982	1983	1984 ^b
Balance on current account	-523	-139	-45	51	297	263	-207
Merchandise balance	-136	99	367	285	606	441	73
Exports FOB	595	680	1 248	1 406	1 356	1 234	1 136
Imports FOB	-731	-581	-881	-1 121	-750	-793	-1 063
Services balance	-393	-237	-414	-233	-306	-179	-289
Income	148	227	237	344	267	342	275
Transport and insurance	-	72	95	126	121	125	124
Tourism	8	6	30	38	42	53	67
Interest received	-	17	34	28	23	32	23
Other	140	132	78	152	81	132	61
Expenditure	-541	-464	-651	-577	-573	-521	-565
Transport and insurance	-101	-122	-173	-181	-184	-190	-190
Interest paid	-143	-176	-263	-338	-341	-248	-241
Other	-297	-166	-215	-58	-48	-83	-134
Other net transfers	6	-1	2	-	-2	1	10
Balance on capital account	484	133	60	-52	-297	-74	101
Long-term capital	387	86	-16	-116	-136	93	117
Loans received	606	187	80	26	29	253	273
Amortization payments	-219	-101	-96	-142	-166	-160	-156
Official sector	...	6	7	-	1	3	3
Private banks	...	179	18	-92	-84	66	-12
Other sectors	...	-99	-42	-24	-54	24	126
Short-term capital	98	47	76	64	-403	-167	-15
Loans received	165	173	134	203	119	98	249
Amortization payments	-67	-126	-58	-139	-522	-265	-264
Official sector	...	-	-	69	-50	8	1
Commercial banks	...	68	-20	47	-408	-68	-59
Other sectors	...	-21	96	-53	56	-106	42
Total variation in reserves (- sign indicates an increase)	39	6	-14	1	242	-189	106

Source: ECLAC, on the basis of figures from the National Bank of Cuba.

^aIncludes all commercial and financial movements with market economy countries but only some of the movements with socialist countries. ^bThese balances also include the net movements of other assets and liabilities in freely convertible currency, along with the adjustments for variations in the exchange rates of the currencies in which they are expressed.

The already traditional deficit on the balance of services grew by 62%. Expenditure increased by 8%, solely in consequence of the growth of imports of services other than transport. On the other hand, interest payments reached a figure slightly higher than 240 million pesos, the lowest figure since 1980. In addition, income declined by more than 20% as a result of a more than 50% drop in sales of services other than transport, which the 30% increase in income from tourism failed to offset.

This latter activity has received preferential treatment in view of its ability to earn convertible currency. Between 1981 and 1984 the number of foreign tourists handled by the firms belonging to the Instituto Nacional de Turismo (INTUR) grew at an annual rate of 23%, reaching close on 170 000 visitors in 1984. Of this total, 19% came from Canada, 22% from Mexico and other Latin American countries, 12% from Spain and 47% from other European countries, particularly the Federal

Republic of Germany, Italy and France. At the beginning of 1984 hotel capacity amounted to some 15 000 rooms (of which 7 500 were of sufficient standard to accommodate foreign tourists).

In order to make provision for the regular growth of this activity, a project has been put into effect to increase the accommodation capacity by some 5 000 beds over the next five years in the most popular tourist centres such as Varadero, Havana and Cayo Largo. During 1984 feasibility studies contracted with a Federal German firm for the tourist development of Cayo Largo and for the construction of the Hotel Nacional in Havana were completed; in addition, negotiations were started with foreign firms for carrying out studies on the integrated tourist development of the country. Similarly, at the beginning of 1984 a contract was signed with an Argentinian company for the construction of eight "turn-key" hotels (of some 2 000 rooms) which will be built in Varadero, at a cost of US\$ 120 million. This operation is backed by a US\$ 600 million credit granted by the Argentinian government. Finally, in order to improve the efficiency of services, a Spanish firm was given a consultancy contract in the fields of hotel administration and management and is already working in four hotels in Varadero.

In contrast to what occurred in the previous triennium, during which a net transfer abroad of more than 420 million pesos was made on the balance of the capital account, in 1984 this account generated a surplus of 101 million pesos. This result was due to the procurement of net long-term credits of 117 million pesos and a new reduction —of 15 million pesos— in the short-term debt with commercial banks (see table 18). Nevertheless, this capital income was insufficient to cover the current account deficit, as a result of which international reserves in convertible currency of more than US\$ 100 million were lost. On the other hand, reserves of gold and precious metals remained at the same level as in 1983 (13.5 million pesos) and those of transferable rubles increased by 76%. Thus, gross international reserves, which at the end of 1983 were slightly over 330 million pesos, declined to little more than 260 million pesos in 1984 (see table 19).

In international transactions the Cuban peso experienced a slight devaluation in comparison with the dollar (3.7%) and a slightly more marked devaluation in comparison with the Japanese yen (4%). On the other hand, it gained 10% in relation to the pound sterling and 9% in relation to the West German mark and the Swiss franc (see table 20).

c) External indebtedness in freely convertible currency

During 1984 external indebtedness in freely convertible currency increased by 8.7%, taking it beyond 3 000 million pesos at the end of the year. While this figure was 10% higher than the average for the 1982-1983 biennium, it was lower than the average debt balance for the 1980-1981 period (3 225 million pesos). In any case, in confirmation of the economic policy of strengthening links with market economy countries without resorting to excessive indebtedness, the coefficient of the share of total debt repaid in the global social product decreased from an average of almost 19% in the 1979-1980 period to somewhat less than 12% in the 1981-1984 triennium (see table 21).

Table 19

CUBA: STRUCTURE OF GROSS INTERNATIONAL RESERVES

(Millions of pesos)

	1981 ^a	1982 ^a	1983 ^a	1984 ^a
Total^b	403.4	139.2	332.2	262.8
Gold and precious metals	14.4	15.2	13.5	13.5
Cash and deposits in freely convertible currency in foreign banks	323.6	80.6	271.4	165.8
Deposits in transferable rubles in foreign banks	65.4	43.4	47.3	83.5

Source: ECLAC, on the basis of statistics from the National Bank of Cuba.

^a Preliminary figures.

^b End-of-year balance in millions of pesos.

Table 20

CUBA: EVOLUTION OF EXCHANGE RATE

(Pesos per unit of foreign currency)

	US dollars	Pounds	Swiss francs	German marks	Yen ^a
Averages					
1980	0.71	1.64	0.43	0.40	0.31
1981	0.78	1.60	0.40	0.35	0.36
1982	0.83	1.47	0.41	0.34	0.34
1983	0.86	1.32	0.41	0.34	0.36
1984	0.89	1.19	0.38	0.31	0.38
1984					
I	0.88	1.25	0.40	0.32	0.38
II	0.88	1.22	0.39	0.32	0.38
III	0.90	1.16	0.37	0.31	0.37
IV	0.92	1.11	0.37	0.30	0.37

Source: ECLAC, on the basis of figures from the National Bank of Cuba.

^a 100 yen.

Table 21

CUBA: INDICATORS OF EXTERNAL INDEBTEDNESS
IN FREELY CONVERTIBLE CURRENCY^a

(Millions of pesos)

	1980	1981	1982	1983	1984 ^b
Total disbursed debt	3 227	3 170	2 669	2 790	3 032
Bilateral official debt	1 354	1 294	1 276	1 333	1 527
Multilateral official debt	8	15	18	25	20
Suppliers	27	33	47	97	221
Financial institutions	1 837	1 826	1 327	1 335	1 264
Medium-term bilateral loans and loans from consortia	563	505	417	495	480
Short-term deposits	1 238	1 282	860	789	699
Credits for current imports	36	39	50	50	86
Other credits	1	1	1	1	-
Disbursements^c	214	229	148	351	522
Service^d	417	619	1 029	673	661
Interest paid	263	338	341	248	241
Amortization payments on long-term debts	96	142	166	160	156
Amortization payments on short-term debts	58	139	522	265	264
Percentages					
Ratios					
Total disbursed debt/global social product	18.5	14.3	11.6	11.5	11.7
Total debt service/exports of goods and services	20.1	35.4	63.4	42.7	46.8
Total debt service/disbursements	194.9	270.3	693.3	191.7	126.6
Total debt service/global social product	2.4	2.8	4.5	2.8	2.5

Source: ECLAC, on the basis of data from the National Bank of Cuba.

^a Includes commitments falling due one year or less after date of issue.^b Preliminary figures.^c Includes long- and short-term loansreceived, according to the balance of payments. ^d Relates to service payments which appear in the balance of payments (see table 18).

Of the total amount of the debt in convertible currency, 51% represented debt to official institutions, and the remaining 49% represented loans granted by private bodies. In 1979 these proportions had been 39% and 61% respectively, which illustrates the declining role of private international sources of credit in financing the development of the Cuban economy. At the same time, the share of the developed market economy countries in the increase of official credit has given place to loans granted by a small group of underdeveloped countries, which are also facing financial difficulties. Thus, 50% of this increase in 1984 was provided by these countries.

Viewed from another angle, medium- and long-term indebtedness reached 2 034 million pesos, i.e., it constituted more than two-thirds of the total, while short-term indebtedness reached 998 million pesos, or 323 million less than in 1981. A study of the trends of these credits reveals a lesser share of short-term deposits and an increase of financing linked to imports, a factor which has helped to increase the price of indebtedness.

Although the debt renegotiation carried out in Cuba helped in 1982, 1983 and 1984 to lighten for a time the burden of servicing loans, it did not meet the requirements of economic development which would place the country in a better position to satisfy these obligations. This was due to the fact that the renegotiation was linked to purely financial criteria, and failed to take into account the need to finance national economic development. In point of fact, the gradual reopening of credit which has been possible since the renegotiation only seeks to facilitate trade, although at a higher financial cost. Consequently, during 1984 the National Bank of Cuba formulated new bases for commercial and financial links which will be put to the creditors at the time of renegotiating the payments falling due in 1985 which correspond to the medium- and long-term debt in force in August 1982, and the postponement of short-term deposits worth almost 470 million pesos. The payments up for renegotiation represent 29% of total debt servicing in 1985 whereas in 1983 and 1984 this coefficient was 50% and 40% respectively.

The proposition referred to is based on the criterion that Cuba's economic relations with developed market economy countries must be less costly and constitute "a favourable element for the economic development of the debtor country and in this way contribute to the sustained growth of trade in conditions of mutual interest".²⁵

In order to achieve this aim, Cuba hopes to obtain the collaboration of its creditors in ensuring that towards 1990 non-sugar exports will be 1 100 million pesos above the level they reached in 1984. In order to achieve this it is necessary, on the one hand, for market economy countries to broaden the number of products covered by the Generalized System of Preferences as well as the margins affecting them, to eliminate non-customs restrictions which limit the country's export potential,²⁶ and to support services which provide income in convertible currency, especially tourism. In addition, it is hoped that the financial organizations will contribute to the preparation of pre-investment and feasibility studies and, later, to the execution of these same projects, particularly those which earn foreign currency.

For its part, Cuba would undertake to: i) guarantee sufficient income of convertible currency to satisfy its international financial obligations and to increase by up to 25% its imports payable in these currencies; ii) adopt a policy of austerity in public consumption and adjust the investment process to comply with the priorities which have been defined with the aim of strengthening export capacity, and iii) build up a 60 million peso fund, with a contribution of 30 million pesos from its creditors, to finance pre-feasibility studies and/or pre-investment studies on 120 projects included in the proposition with the aim of achieving, on the one hand, maximum benefit from existing capacity and creating additional capacity so as to strengthen exports, and on the other, creating a frame of reference which will help to guide investment efforts in future years.

4. Wages, employment, prices and productivity

In Cuba wages are the basic source of income for the population. Consequently an increase in real wages is an essential instrument in directly redistributing that part of the economic surplus which is intended for the population and which depends on total employment and productivity. In turn, given

²⁵See National Bank of Cuba, *Informe...*, *op.cit.*

²⁶The proposition contains a list of products to which these measures would apply in the following markets: Japan, Canada, Spain, Switzerland, Austria, member countries of the European Economic Community, Sweden and Denmark.

Table 22
CUBA: TRENDS IN AVERAGE WAGES AND SALARIES*

	Averages wages and salaries (pesos)			Growth rates			
	1982	1983	1984 ^b	1981	1982	1983	1984 ^b
Total	2 113	2 159	2 230	14.7	3.8	1.8	3.3
Productive sphere	2 120	2 173	2 252	16.7	3.2	2.5	3.6
Agriculture	2 000	1 890 ^c	1 979 ^c	26.5	4.0	-3.5	4.7
Forestry	1 986	1 989	2 097	12.2	4.0	1.5	5.4
Industry	2 209	2 241 ^d	2 307 ^d	13.5	3.3	1.4	2.9
Construction	2 241	2 347	2 468	13.9	-0.1	4.7	5.2
Transport	2 479	2 551	2 606	10.8	3.2	2.9	2.2
Communications	2 021	2 041	2 106	11.9	3.1	1.0	3.2
Commerce	1 895	1 959	2 034	12.7	4.4	3.4	3.8
Other activities	2 380	2 482	2 472	4.9	6.2	4.3	-0.4
Non-productive sphere	2 095	2 126	2 178	9.7	5.5	1.5	2.4
Community and personal services	1 864	1 900	1 966	10.8	2.8	1.9	3.5
Science and technology	2 402	2 396	2 416	4.8	6.7	-0.2	0.8
Education, culture and art	2 102	2 148	2 193	9.9	7.2	2.2	2.1
Public health and social welfare, sports and tourism	2 216	2 027	2 077	10.0	13.4	-8.5	2.5
Finance and insurance	2 213	2 210	2 194	5.4	4.5	-0.1	-0.7
Administration	2 243	2 262	2 346	8.8	5.7	0.8	3.7
Other activities	2 059	2 184	2 260	15.6	-	6.1	3.5

Source: ECLAC, on the basis of figures from the State Statistical Committee.

*Includes only civilian employment in the State sector.

^bPreliminary figures.

^cDoes not include most of the workers in the sugar-cane industry who are incorporated into agro-industrial sugar complexes.

^dIncludes most of the workers in the sugar-cane industry who are incorporated into agro-industrial sugar-cane complexes.

the planned level of prices, the relationship between wages and productivity establishes the profitability of firms. As a matter of fact, failure to maintain the equilibria and interrelationships between wages, prices and productivity led in previous years to serious economic problems.²⁷ For this reason, in the "economic and social outlines" of the 1981-1985 plan the government included standards to regulate the interrelationships between wages and productivity on the one hand and prices, productivity and profitability on the other.

a) Wages and employment

Within the framework of the economic reforms which were started in 1976 and the above-mentioned outlines, during 1984 increased emphasis was placed upon the application of standards relating wages to productivity. The aim of this reform was to lay the stress upon better use of labour capacity, stimulate productive activity and improve the living standards of the population. Material stimuli for the workers were employed, within a specific framework of labour organization and work standardization, as the principal means of achieving these aims.

The general fund of wages paid within the civilian sphere of the State sector increased by 7.5% in 1984, compared with 6% in 1983. The average wage of civilians employed within the State sector grew by 3.3%, almost doubling the rate for the previous year. In the productive sectors the rate of expansion was slightly higher (3.6%), as a result of which in absolute terms the average wage reached 2 230 pesos per year,²⁸ while in the non-productive sphere the increase was slightly lower (see table 22).

²⁷ On the one hand, until 1981 the disequilibrium between total aggregate wages and the planned level of retail prices led to an increase in liquidity leading to "black markets" in goods and excess demand for certain services; on the other, the disequilibrium between wages and labour productivity, given the system of wholesale prices, led to confusion in the level of profitability of enterprises, which, among other things, made it impossible to establish the effective level of economic efficiency at which the physical volume of production was being obtained, and created difficulty in establishing the required relationship between wages and productivity.

²⁸ This sum does not include payment of bonuses to workers for having exceeded the established standards of production — whose total volume grew by 20% in comparison with 1983 — nor bonuses granted in reward for saving raw materials, spare parts, quality, etc., which increased by 40% in value.

The number of workers employed in the State civilian sector rose by 3.8% and reached 3.1 million pesos. Employment in the productive sphere grew at a lower rate (3.4%). In turn, employment in the sphere of non-productive services rose by 5% (see table 23).

No figures were available for open unemployment, which is apparently very low.²⁹ Nevertheless, labour problems exist, such as absenteeism, excess personnel in certain services such as restaurants and tourism and even in manufacturing plants, as well as friction caused by job transfer.

b) Prices

No sharp fluctuations were recorded in either wholesale or retail prices during 1984. Under the legislation in force, price changes were approved by the State Price Committee (CEP), after prior investigation of production costs, where wholesale prices were concerned, and distribution and operating costs in the case of retail prices.

The population has access to four different markets: a) the rationed market; b) the controlled State market, on which rationed goods are sold without any limitation as to quantity but at higher prices; c) the free State market on which goods are sold without restriction as to quantity or price, and d) the free peasant market. Prices evolved differently on each of these markets. Thus, prices remained stable on the rationed market with only downward trends in the prices of some food products such as beans (-10%) and boned beef (-3%). On the controlled State market rises were few

Table 23

CUBA: EVOLUTION OF THE AVERAGE NUMBER OF WORKERS^a

	Thousands of workers			Percentage breakdown			Growth rates			
	1982	1983	1984 ^b	1975	1980	1984 ^b	1981	1982	1983	1984 ^b
Total	2 882	3 000	3 115	100.0	100.0	100.0	3.3	2.0	4.1	3.8
Productive sphere	2 037	2 106	2 177	72.6	72.0	69.9	2.0	1.5	3.4	3.4
Agriculture	616	355 ^c	353 ^c	28.6	22.8	11.3 ^c	-0.9	-0.5	-42.4	-0.6
Forestry	21	26	27	...	0.7	0.9	4.0	-1.0	25.6	3.5
Industry	600	871 ^d	895 ^d	19.7	20.0	28.7 ^d	5.5	4.1	45.2	2.7
Construction	261	284	309	8.7	10.0	9.9	-2.6	-2.1	8.8	8.8
Transport	180	185	187	6.9	6.3	6.0	5.5	-0.8	2.8	1.1
Communications	24	25	26	1.0	0.8	0.8	4.1	3.5	4.7	3.7
Commerce	324	348	367	7.5	11.1	11.8	2.8	4.3	7.3	5.6
Other activities	13	14	14	0.2	0.3	0.4	17.9	15.2	7.8	3.6
Non-productive sphere	845	893	938	27.4	28.0	30.1	6.7	3.4	5.7	5.0
Community and personal services	86	97	108	...	3.4	3.5	-2.5	-5.6	13.1	11.5
Science and technology	21	23	26	...	0.7	0.8	6.8	4.9	5.6	13.3
Education, culture and art	392	408	418	...	13.2	13.4	5.6	3.2	4.1	2.5
Public health and social welfare, sports and tourism	153	170	185	...	4.6	5.9	9.1	11.2	10.5	8.9
Finance and insurance	13	15	17	...	0.4	0.5	10.2	11.8	11.3	14.9
Administration	152	155	156	...	5.2	5.0	7.5	-0.3	2.2	0.8
Other activities	27	27	28	...	0.5	0.9	60.3	16.7	-2.6	5.6

Source: ECLAC, on the basis of figures from the State Statistical Committee.

^a Includes only civilian employment in the State sector.

^b Preliminary figures.

^c Does not include most of the workers in the sugar-

cane industry who are incorporated into agro-industrial sugar complexes.

^d Includes most of the workers in the sugar-cane industry who are incorporated into agro-industrial sugar cane complexes.

²⁹ According to population censuses, the rate of unemployment was 1.3% in 1970 and 3.4% in 1981. See JUCEPLAN, *Censo de la población y viviendas, 1970: esencial population data*, Havana, Instituto del Libro, pp. 79-97, and CEE, *Censo de población y vivienda, 1981*, Havana, July 1983, Vol. I, p. viii. In considering these last figures it should be borne in mind that between 1981 and 1984 employment provided by the State civilian workers increased by 10%, while the population grew by 3%.

but sharp, as in the case of vegetable oil (40%) and beans (20%). On the free State market the only increase recorded was an 18% rise in the price of bread and a number of inventories were made at lowered prices. Finally, contrasting fluctuations occurred on the free peasant market: while the prices of milk, rice and garlic increased (3%, 6% and 20% respectively), those of onions (-36%) and plantains (-5%), decreased.

Overall, it may be assumed that a slight increase in prices occurred as a result of the transfer of sales from the rationed market, where low prices prevail, to the other markets on which prices are higher. The rationed market's share of total sales declined from 44.5% in 1983 to 40% in 1984, while the joint share of the controlled State and free State markets rose from 54.5% to 58.7% and the free peasant market increased its share from 1% to 1.3%.

c) *Productivity*

After having slightly declined in 1983, real productivity per worker increased by 3.9% in 1984. In the agricultural sector productivity grew by 5.7%; factors which contributed to this were, on the one hand, the vigorous expansion in the production of vegetables, tubers, rice and particularly tobacco and coffee and, on the other, the appreciable increase in pork and poultry production. Although productivity in industry grew at a slower rate (4.3%), it grew in 19 of its 21 branches.

The 14% increase in productivity of investment support activities was also significant, as was that in the sectors of economic management and administration. Productivity in the construction field grew by 6.8% as a result of the expansion of construction and the intensive effort expended on the general repair, maintenance and reconstruction of dwellings and public buildings. On their side, communications and transport increased their productivity by 6.4% and 5.6% respectively.

Greater labour productivity and the close relationship between this and increased profitability have been proclaimed as key objectives in the economic management and administration of enterprises. Hence the definition of the tools and the choice of the appropriate methods for using them efficiently and measuring their impact precisely are considered to be tasks of strategic importance. To achieve the first aim, material stimuli were used to complement the moral incentives to individual and collective work in enterprises. In order to assess the efficiency with which labour is used, "production standards" were adopted, and towards the end of 1983 the JUCEPLAN had already laid these down for 90% of jobs capable of being thus controlled.³⁰ This percentage did not appreciably increase in 1984, but on the other hand almost all the standards were reviewed in order to ensure greater precision. More than 1.5 million workers, i.e., 25% more than in 1983, worked under a wages and bonus system linked to the standards, and slightly more than a million received bonuses for having exceeded the standards laid down, i.e., 16% more workers than in 1983 which, as has already been mentioned, involved a 20% increase in bonuses paid under this scheme.

5. Monetary and fiscal policy

As the Cuban economy is a centrally planned one, monetary policy does not seek to stimulate or hold back the various sectors of production, consumption and investment, nor is exchange-rate policy used to encourage or discourage foreign trade in a discriminatory fashion. Monetary policy is rather used as a specific tool to: i) facilitate and measure in a homogeneous fashion economic interrelationships between production units, enterprises and institutions; ii) furnish a suitable unit for measuring the economic surplus generated within these entities; iii) distribute the surplus thus generated among the population, for its individual use, and between the municipal and central government, for collective use and for purposes of national defence, and iv) exercise control over the amount of money in circulation. In the external sphere, efforts are still pursued to mitigate the excessive influence of the sharp fluctuations of international prices upon internal production costs and consumer prices.

It follows from this that the banking system which is responsible for executing and controlling the monetary policies decided upon by JUCEPLAN is different in terms of structure and in the instruments it employs from those which prevail in the other countries of the region.³¹

³⁰ By its very nature, it is not possible to establish standards of hourly work performed in all tasks, for example, in an office or in a medical centre.

³¹ For further details on this subject see the chapter relating to Cuba in ECLAC, *Economic Survey... op.cit.*

Up to 1981 problems had appeared between the application of monetary policy and the execution of production, consumption and investment policies within the country's economic evolution. In 1984, in order to increase the efficacy of the system of self-management which was being partially applied under the system of economic planning and administration on the basis of the economic reforms of 1976, significant measures were adopted relating to the financial categories in all spheres of national economic life. Thus, all the relevant measures which had been adopted in previous years were assembled and broadened in scope and made compulsory by the legislative decree No. 84 of 13 October 1984. This decree defines the national banking system and specifies the competence of the National Bank of Cuba as an organism responsible for directing, executing and controlling the monetary and credit policy of the State and government.

a) *Monetary policy*

The monetary policy adopted in 1984 was directed at maintaining control over money in circulation, measuring and supervising the profitability of production units and, in certain cases, supervising the financial aspects of the investment process. In addition, credit assistance was given to enterprises for the purpose of fixed working capital formation and to the population, for purposes of consumption and for housing construction and repair. Simultaneously, important organizational measures were decided upon within the banking system.

As a result of the aforementioned controls, money in circulation grew moderately³² (see table 24). Furthermore, savings in operating expenses of enterprises reached an average of 2.5% in 1984. Their improved profitability was reflected in the fact that the average coefficient of investment financing with capital stock in enterprises and productive institutions rose from 16% in 1983 to 28% in 1984 (in 1981 and 1982 these coefficients were 1% and 13% respectively).

The balance of credit granted to the State's productive sector reached 7 130 million pesos, 25% higher than that for the same date in 1983. Financing directed towards agricultural activities declined by 74 million pesos whereas credit intended for stock formation rose by 78 million, that for working

Table 24

CUBA: MONETARY LIQUIDITY

	Millions of pesos				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Expansion factors	8 047	8 576	9 144	9 885	18.9	6.5	6.7	8.1
Workers' income	6 392	6 842	7 330	7 928	18.3	7.0	7.1	8.2
Private sector income ^b	516	518	535	561	51.8	0.4	3.3	5.0
Other income ^c	1 138	1 216	1 280	1 395	11.2	6.8	5.3	9.0
Contraction factors	7 606	8 467	9 076	9 704	11.0	11.3	7.2	6.9
Expenditure on goods and services	7 264	8 086	8 654	9 242	10.5	11.3	7.1	6.8
Other expenditure ^d	343	381	422	462	21.2	11.1	10.8	9.5
Variation in liquidity	411	109	69	181	...	...	...	...
Cash	305	-80	-6	89	...	...	...	...
Savings deposits	136	189	75	92	...	...	...	...

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bIncludes income earned by peasants, carriers, and artisans from sales of goods and services to the State, to co-operatives and other organizations.

^cIncludes retirement benefits, pensions, grants to individuals, loans granted by the banking system, interest on savings, foreign currency exchange by bank draft and transfer received.

^dIncludes amortization and interest on loans, subscriptions to political, sporting and social organizations, savings deposits and drafts and transfers.

^eIn the application of the "cash plan", which is the financial expression for the production plans of enterprises, cash outflows are only occasioned by: a) payment of wages, bonuses and retirement benefits and pensions, and b) payment to individuals for work contracted for by State enterprises and institutions and for purchases made by the State from co-operatives and private farmers.

Table 25

**CUBA: THE BANKING SYSTEM AND PERSONAL SAVINGS
AND CREDIT OPERATIONS**

	1979	1980	1981	1982	1983	1984 ^a
Number of banking agencies specialized in service to the public at end of year						
Municipal	74 ^b	...	192	326	421	448
Auxiliary	25	...	69	115	143	154
Savings banks	47	...	63	71	76	77
Non-specialized	2	...	60	140	185	206
					17	11
Monetary savings of the population (1974 = 100)	105	101	120	147	157	172
Number of credits to the population (thousands)	190	178	252	215	268	296
Electrical appliances	165	139	212	166	216	237
Motor vehicles	15	15	12	17	18	15
Construction material and house repairs	...	9	11	10	11	18
Others	9	14	17	22	23	26
Value of personal credits (millions of pesos)	96	104	160	146	161	185
Electrical appliances	80	70	117	92	114	137
Motor vehicles	13	17	16	27	22	21
Construction material and housing repair	...	9	13	12	10	15
Others	3	8	14	15	35	12
Other items (millions of pesos)						
Payments collected	108	107	115	124	139	156
Balances due	181	176	217	233	249	272

Source: ECLAC, on the basis of statistics from the People's Savings Bank.

^aPreliminary figures. ^bUp to 30 June 1978.

capital by 64 million, and credit for trade by 35 million, a sum which absorbed 29% of the total. Moreover, credit granted to the peasant sector increased from 45 million at the end of 1983 to 412 million in 1984 as a result of the activities undertaken by this sector to recover from the disasters caused by the highly unfavourable climatic conditions experienced in 1983. On the other hand the co-operative sector increased its liabilities by only 16 million pesos. Loans to the population, on their side, increased from 160 million in 1983 to 184 million in 1984. Interest rates remained stable around an average of 7%.

In addition the National Bank of Cuba adopted significant internal measures in order to ensure the efficient use of expenditure in the investment process, a task for which it was formally made responsible by the legislative decree No. 84. It took 100 new financial experts on to its specialized staff for this purpose. It also adopted internal administrative measures and the relevant regulations for assuming an increasingly important role in the assignment of credit to finance the investments of enterprises and institutions.

The People's Savings Bank (BPA), which was set up in 1983 by the legislative decree No. 69, continued to consolidate its structure and organization, both in attracting savings and in providing other banking services, such as personal credit, to the population. Thus it expanded the number of its branches from 421 to 448,³³ with the result that the number of inhabitants served by each branch dropped from 24 200 in 1983 to 22 500 in 1984. Similarly, the bank strengthened its branches with trained personnel and better physical and technical installations and intensified measures for encouraging saving, as a result of which saving increased by almost 10% (see table 25). Finally, the BPA carried out a major internal reorganization so as to act as State agent in conveyancing for dwellings inhabited on terms of usufruct and granting financial facilities to the population for the construction, repair and rebuilding of housing.

³³ As a result of this, only 15 of the 169 urban districts are without bank branches in their main towns. In 1978 there were 144 main towns without bank branches.

b) *Fiscal policy*

In 1984 the State Finance Committee (CEF) continued to improve the fiscal instruments in co-ordination with those of monetary policy, so as to ensure that within the period of the 1981-1985 five-year plan the national budget would be able to fulfill the two basic functions assigned to it by the new system of economic management and planning: to increase its participation in the national income and raise its level of efficiency in redistributing it, as well as helping to control the operation of the national economy.

The principal instruments used were: the cash plan for production enterprises and units; the national accounting system for enterprises and institutions, and the national auditing system. As these continued to improve, the system of economic and financial self-management in firms was further extended and became more efficient. For the same purpose the standards and procedures which firms have to observe in order to control the operation of this system were also broadened: these involved establishing and meeting their tax obligations; efficiently managing the part of the surplus left for their free use, and submitting their respective cash plans to supervision and examination.

The adoption of this policy made it possible on the one hand for the proportion of national income redistributed to the population by budgetary means to rise from 54% in 1983 to 55% in 1984. In addition, the extension of the system of self-management meant that, in spite of the considerable growth of the global social product, the fiscal support needed by the productive apparatus declined from 19% in 1983 to 15% in 1984.

Table 26

CUBA: BUDGET OF STATE INCOME AND EXPENDITURE

	Programed			Actual performance						
	(millions of pesos)			Millions of pesos			Growth rates			
	1982	1983	1984 ^a	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Current income	9 413	10 496	11 471	9 987	12 128	11 616	15.0	-7.5	21.4	-4.2
Contributions from the State sector	9 289	10 324	...	9 854	...	...	...	...	...	...
Taxes and other contributions from the non-State sector	14	16	...	23	...	...	...	...	...	...
Taxes and duties paid by the population	110	157	...	110	...	...	...	...	...	...
Total expenditure	9 834	10 300	11 250	10 159	11 394	11 248	20.0	-12.2	12.2	-1.3
Productive sphere	3 180	3 558	3 535	3 822	4 592	3 765	25.5	-33.3	20.1	-18.0
Housing and community services	483	508	731	473	623	799	19.4	1.3	31.7	28.3
Education and public health	2 040	2 158	2 405	2 097	2 210	2 380	12.8	4.5	5.4	7.9
Other socio-cultural and scientific activities	1 546	1 524	1 767	1 495	1 683	1 847	5.8	6.6	12.6	9.7
"Poder Popular", Central State Government, Tribunals and Public Prosecutor's Office	621	635	659	620	610	653	30.1	3.9	-1.6	7.0
Defence and domestic law and order	924	1 116	1 169	1 109	1 133	1 404	22.7	19.1	2.2	23.9
Other activities	544	450	527	543	542	397	21.6	22.3	-0.2	-26.8
Reserves	496	350	457	-	-	-	-	-	-	-
Surplus (or deficit)	-421	196	222	-172	735	367	203.9	-77.8	...	-50.1

Source: ECLAC, on the basis of figures from the State Statistical Committee, the National Bank of Cuba and the State Finance Committee.
^a Preliminary figures.

The 1984 fiscal exercise closed with a surplus of 367 million pesos. This was the second favourable year in a row, after five years of deficit, and, as in the previous year, was due to the energetic savings campaigns and to a lesser transfer of State resources to the productive sphere.

Budgetary income declined by 4% as a result of the process of decentralization in the economic management of State firms, which, operating more autonomously, now devote a proportion of the sums which they previously contributed to the budget to financing their investments and to funds for providing material stimuli. Although as a result of this fiscal income declined by 590 million pesos, the State sector provided 98% of total budgetary income.

Treasury contributions to the productive sphere declined by 18% (see table 26) and backing for the "social redistribution of the surplus" was mainly provided in the field of housing and the provision of community services with a 28% increase in treasury expenditure. In addition, as in previous years, fiscal expenditure on public health, education and socio-cultural and scientific activities continued to absorb most (38%) of the total expenditure. Moreover, public expenditure on defence rose by 24%, bringing its share in the whole from an average 10% in the previous triennium to 12% in 1984. Finally, it is worth noting that the budget plan for 1984 was almost fully adhered to (see table 26).

CHILE

1. Recent economic trends: Introduction and summary

After having suffered a profound crisis in the period 1982-1983, the Chilean economy evolved favourably during most of 1984. The gross domestic product—which had fallen by almost 15% in the previous two years—increased by 6.3%, thus more than fulfilling the goal originally set. At the same time, the employment situation tended to improve, inflation remained at the level of the year before, and the balance of payments closed with a small surplus in contrast with the results of the previous two years, when the international reserves had gone down by over US\$ 1.5 billion (see table 1 and figure 1).

These advances represented the net result of very uneven changes which took place during the year, however. Generally speaking, the evolution was less favourable in the second half of the year than in the first, especially in the external sector. This was reflected in the gradual accumulation of a balance-of-payments current account deficit much greater than had been planned and increasingly difficult to finance. In view of this, as from September the authorities made substantial changes in the policies they had been applying, so that in the last quarter of the year the economy began a new process of adjustment.

Although the recovery in economic activity was fairly general, it was particularly marked in manufacturing, agriculture and fisheries. Thus, the industrial product—which had already begun to recover in the middle of the previous year from the dramatic contraction of 21% suffered in 1982—grew by almost 10%, while agricultural production rose by 7% and fishery activity expanded by 11.5%.

In most sectors production was stimulated by the expansionary fiscal policy followed by the Government (which was reflected in a considerable increase in public investment); by the decline in real interest rates (which were the lowest registered for the last ten years), and by the reprogramming of the debts of enterprises with the banking system, which enabled them to respond more quickly to the incentives generated by the expansion of domestic demand brought about by the fiscal policy. Activities which compete with imports also benefited from the maintenance of a high real exchange rate, from the introduction early in the year of customs surcharges on some 240 products, and from the raising of the general level of import duties in September from 20% to 35%.

The rapid expansion of economic activity also helped to relieve to some extent the employment problems, which had become much more severe during the crisis. Thus, for the country as a whole, the rate of open unemployment went down from an average of rather more than 22% in 1983 to one of less than 19% in 1984, and at the end of the year it stood at only 14%. This decline took place even though at the same time there was a substantial reduction in the number of participants in the Government's special employment programmes, which are more or less equivalent to a form of underemployment. At the end of 1983, these programmes absorbed almost 14% of the labour force, but one year later they employed only 8% of it. The progress made in the field of employment was very uneven, however. The biggest progress was made in the southern part of the country, where the unemployment rate in the last quarter of the year fell below 9%, but much less progress was made in Santiago and Valparaíso, where almost one-fifth of the labour force was unemployed at the end of the year.

Due to the abundant excess capacity generated in most economic sectors by the enormous contraction suffered in the two-year period 1982-1983, and also because of the restrictive wage policies applied by the Government, the expansion in production was accompanied up to August by a steady decline in the rate of inflation. Thus, in the first eight months of the year consumer prices rose by less than 8% and their annual growth rate, which had come to 32% one year before, went down to 15% in August.

This tendency was abruptly reversed, however, after the devaluation of the peso and the rise in customs tariffs decided upon in mid-September. Because of these changes, consumer prices increased by more than 12% in the two-month period September-October alone, and the annual rate of inflation rose rapidly and persistently (see figure 2).

Essentially, the raising of the exchange rate from 93 to 115 pesos per dollar and the increase in the general level of customs tariffs from 20% to 35% represented the response of the economic authorities to the evolution of the merchandise trade balance and interest payments, which was much less favourable at that point in the year than had been planned.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	9 960	10 785	11 624	12 267	10 539	10 464	11 127
Population (millions)	10.81	10.96	11.13	11.30	11.48	11.67	11.85
Per capita gross domestic product (dollars at 1970 prices)	922	984	1 045	1 086	918	897	939
Growth rates							
B. Short-run economic indicators							
Gross domestic product	8.2	8.3	7.8	5.5	-14.1	-0.7	6.3
Per capita gross domestic product	6.7	6.7	6.2	3.9	-15.4	-2.3	4.7
Per capita gross national income	6.1	5.5	3.4	2.8	-22.9	-3.1	5.0
Rate of unemployment ^b							
Greater Santiago	14.0	13.6	11.8	11.1	22.1	22.2	19.3
Nation-wide	13.6	13.5	12.2	11.7	21.1	22.3	18.8
Consumer prices							
December - December	30.3	38.9	31.2	9.5	20.7	23.1	23.0
Variation between annual average	40.1	33.4	35.1	19.7	9.9	27.3	19.9
Real wages and salaries ^b	6.4	8.3	9.0	9.1	-0.4	-10.6	0.3
Money	60.5	59.1	77.9	2.1	-19.7	21.1	7.1
Current income of government	7.6	15.5	15.3	7.3	-15.7	-6.6	6.9
Total expenditure of government	3.3	3.9	21.0	14.9	-12.3	-1.2	7.7
Fiscal deficit/total expenditure of government ^b	3.6	7.2 ^c	2.1 ^c	4.5	8.2	13.2	13.8
Fiscal deficit/gross domestic product ^b	0.8	-1.7	-0.6	1.2	2.3	3.8	4.0
Current value of exports of goods and services	13.0	57.1	29.2	-16.1	-7.3	-0.4	-4.9
Current value of imports of goods and services	26.1	44.1	34.6	17.5	-39.2	-20.6	13.0
Terms of trade (goods and services)	-4.4	5.8	-5.5	-15.1	-9.8	-0.1	-8.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-680	-598	-1 056	-3 245	-379	639	-104
Net payments of profits and interest	489	675	929	1 463	1 921	1 703	1 955
Balance on current account	-1 111	-1 205	-2 020	-4 805	-2 373	-1 111	-2 109
Balance on capital account	1 854	2 261	3 341	4 941	1 032	594	2 126
Variation in net international reserves ^d	683	1 061	1 331	164	-1 112	-424	33
General external debt (gross)	6 664	8 484	11 084	15 542	17 153	17 431	18 466
General external debt (net) ^e	5 606	6 170	7 010	11 767	14 575	15 408	16 411

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bPercentages.

^cSurplus.

^dExcluding variation in reserves due to revaluation of gold.

^eIncluding

variation in reserves due to revaluation of gold.

Thus, the economic programme agreed upon with the International Monetary Fund had assumed that in 1984 a trade surplus of nearly US\$ 1 billion would be obtained. The achievement of that goal assumed, in its turn, that the value of imports would rise by 11% and the total value of exports would increase by nearly 7%. This latter increase depended partly upon the hypothesis adopted with regard to the price of copper, which was expected to increase from an average of 72 US cents per pound in 1983 to 75 cents per pound in 1984. In the event, however, the international price of copper did not rise but sank to an annual average of 62 US cents per pound. Because of this decline—which caused the price of this metal to drop to its lowest level in real terms for more than half a century—effective sales of copper were US\$ 240 million less than estimated and the terms of trade suffered a marked deterioration for the eighth time in the last twelve years.

The negative effect which this had on the trade balance was aggravated by a much greater increase in the value of imports than had been planned. Under the stimulus both of the expansion of economic activity (which was likewise a good deal more rapid than programmed) and of the expectations of exchange rate rises and substantial changes in the tariff régime, imports of goods in the first eight months of the year were 25% greater than those registered in the same period of the year before. Thus, the positive monthly balances obtained on foreign trade were not only much smaller than those planned and actually obtained in 1983, but even showed a clear tendency to disappear altogether as from the middle of the year, being replaced in August by a considerable deficit. The balance-of-payments current account results were also adversely affected by the bigger payments of interest that had to be made because of the continuous considerable increases in international interest rates.

In these circumstances, it became clear that the economy would have to begin a new process of adjustment designed to enable it to bring the external imbalance down to a level that could be financed in a normal manner. To this end, and also with a view to fulfilling the commitments entered into with the International Monetary Fund in fiscal and monetary matters, the authorities not only raised the exchange rate and tariffs but also imposed restrictions on the expansion of credit and public spending in the last quarter. They also allowed the sharp rise in price levels consequent upon the devaluation to erode the purchasing power of wages, which had increased to a moderate extent up to then.

One result of this change in the basic orientation of economic policy was the reduction of the growth rate of the economy. Thus, although the gross domestic product registered in the last quarter of the year was 4% greater than that of the corresponding period of the year before, it was barely greater than that of the third quarter.

In contrast, the measures adopted did not have an immediate effect on the evolution of the external sector. Thus, the year closed with a merchandise trade surplus of only a little over US\$ 280 million—less than 30% of the 1983 figure—while the current account deficit, which had been reduced from US\$ 4.8 billion to US\$ 1.1 billion in the previous two years, exceeded US\$ 2.1 billion. However, in contrast with 1982 and 1983 it was financed entirely from the net inflow of capital, which rose considerably, thanks above all to the bigger resources obtained from public international financial institutions and the increased short-term indebtedness of State enterprises.

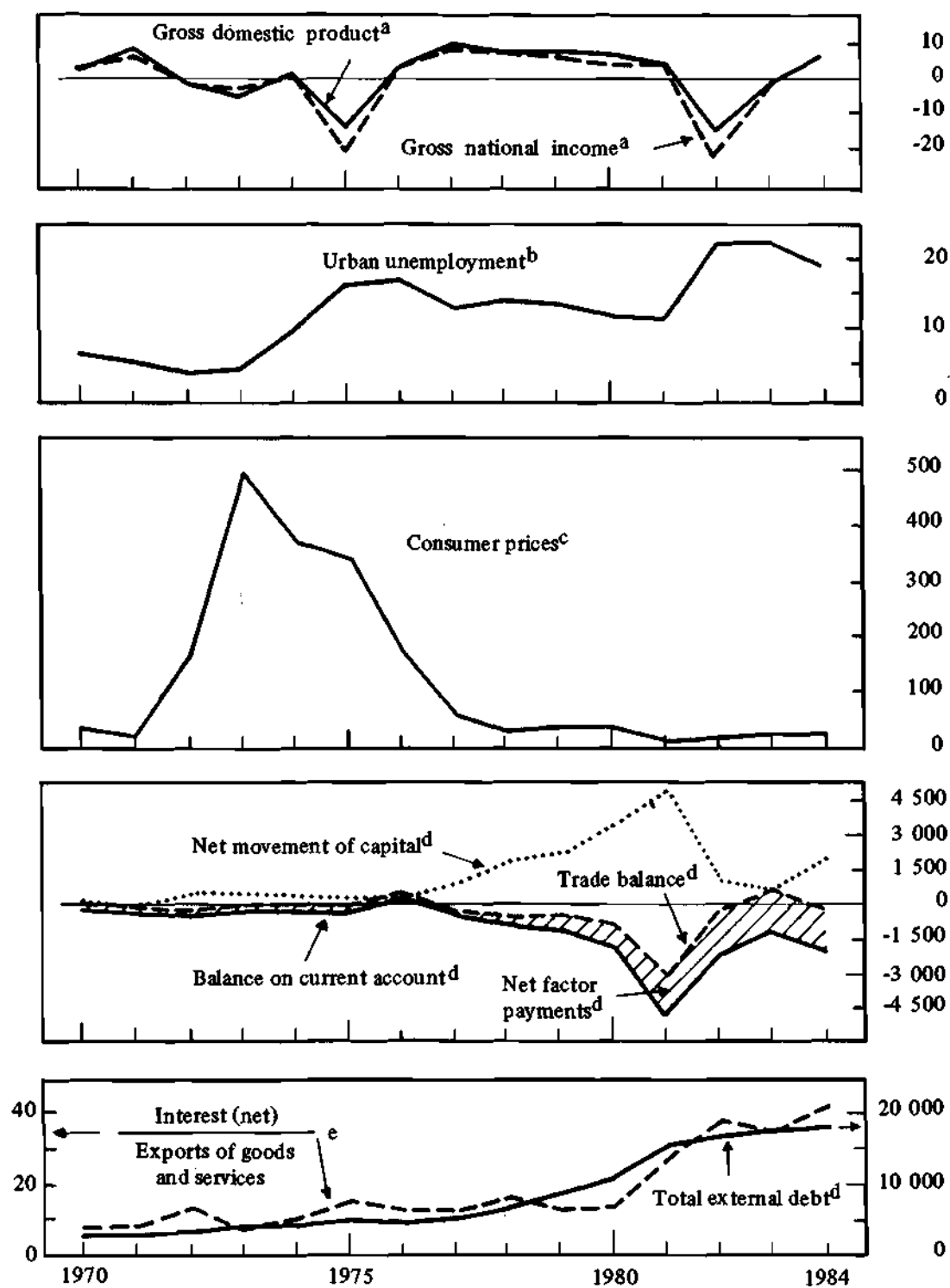
Naturally, the counterpart of the almost fourfold increase in the total net inflow of capital was a considerable increase in the growth rate of the external debt, from 1.6% in 1983 to 6% in 1984. As a result of this and of the 5% decline in the value of exports of goods and services, at the end of 1984 the debt was equivalent to 420% of the total value of external sales: more than twice the ratio registered on average before the crisis. As at the same time there was a sharp increase in net payments of interest, these likewise absorbed a record proportion (42%) of the value of exports of goods and services (see figure 1).

2. Trends in economic activity

a) *The product and income*

After a profound recession which had lasted seven quarters, economic activity began to recover as from September 1983 (see figure 2). This recovery was maintained and increased during the first three quarters of 1984, so that there was a total increase in the gross domestic product of 6.3% during the year. After the substantial changes made in September in foreign exchange, tariff and monetary

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAnnual average rate for Greater Santiago.

^cPercentage

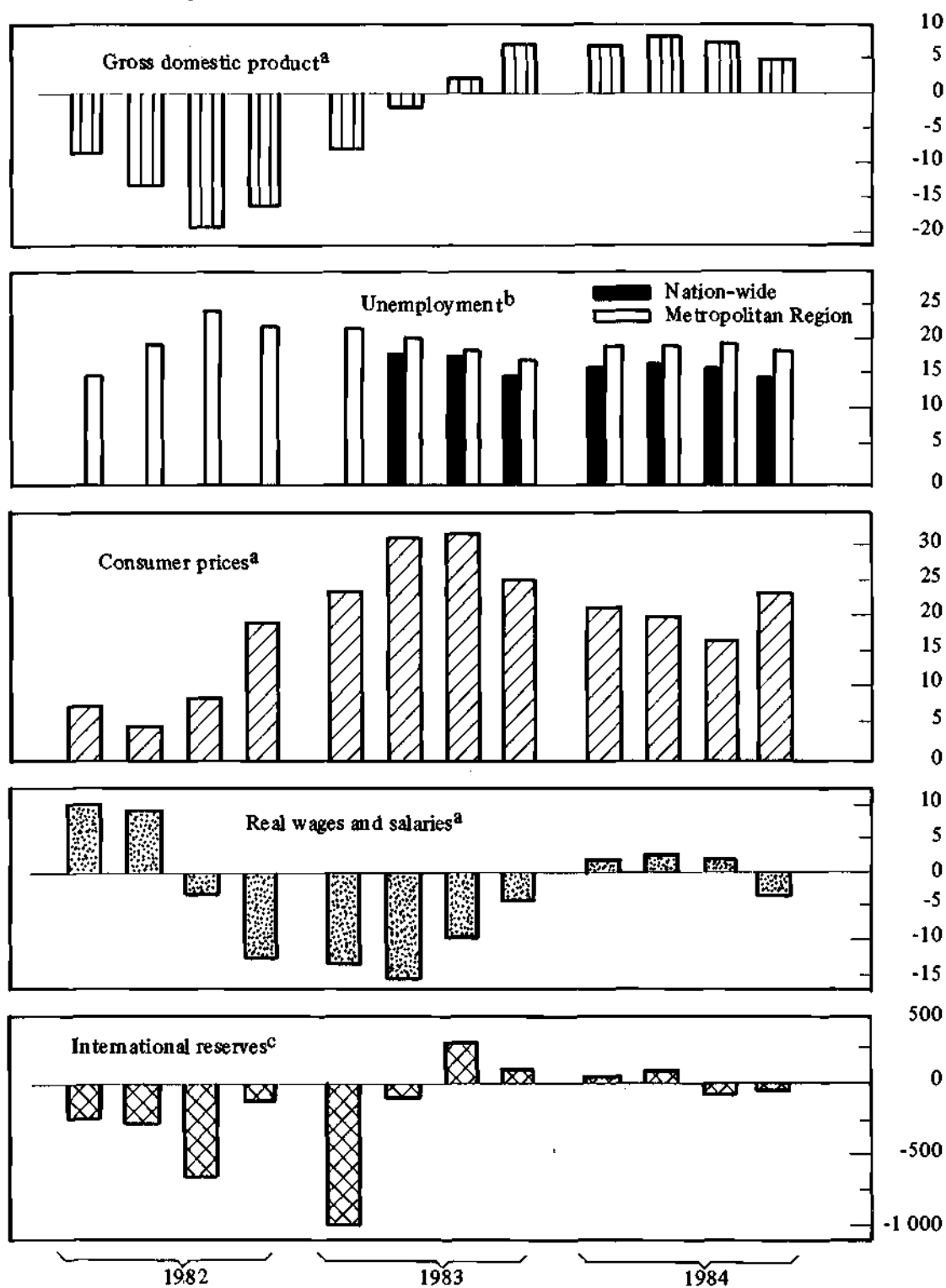
variation from December to December.

^dMillions of dollars.

^ePercentage.

Figure 2

CHILE: QUARTERLY EVOLUTION OF MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aPercentage variation with respect to corresponding quarter of previous year.^bAverage rate.^cVariation, in millions of dollars, with respect to the preceding quarter.

policies, however, the recovery tended to slow down, and although the level of activity in the fourth quarter was 4.3% higher than in the corresponding period of 1983, it barely represented any increase over that of the third quarter.

Furthermore, a new decline in the terms of trade—which thus deteriorated for the fifth year running—reduced national income by the equivalent of 0.8% of the product. At the same time, because of the rise in international interest rates, net factor service payments increased by over 9% in real terms. The direct effect of these two changes was to reduce national income by 1.7%.¹ As this had already gone down very markedly in previous years because of the unfavourable evolution of the terms of trade and the rapid growth of net payments of interest and profits, however, it nevertheless expanded slightly more than the product² (see table 2).

b) *Total supply and demand*

The growth of economic activity was accompanied by a somewhat larger expansion (6.5%) in total supply. This was because, after having fallen by 46% in the previous two years, the volume of imports of goods and services rose by over 8% in 1984. This increase reflected above all the significant expansion of imports of goods, whose volume increased by 16%. Even so, however, the import coefficient continued to be very low (see table 3).

Both the recovery of the supply of imports and the greater inflow of external financing which made it possible were at the same time causes and effects of the recovery of economic activity and domestic demand. The key element in the expansion of the latter was the vigorous increase in gross investment, which grew by 75% compared with the very low level to which it had fallen during the recession. Even so, however, gross domestic investment in 1984 was only 50% of that effected in 1981.

Most of the increase in domestic investment came from the turnaround which took place in the evolution of stocks. Thus, after these had gone down by an amount equivalent to more than 6% of the gross domestic product in 1982-1983, considerable stocks were built up in 1984. This change was due not only to the natural need to restore stocks after two years in which they had gone down sharply, but also to the generalized expectations of rises in tariffs and in the exchange rate, which encouraged the advance purchase and accumulation of imported goods.

At the same time, there was a 9% recovery in gross fixed investment, although this was probably not enough to make up for the depreciation in the stock of capital.

Table 2

CHILE: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	10 154	7 959	7 837	8 356	4.3	-21.6	-1.5	6.6
a) Gross domestic product	12 267	10 539	10 464	11 127	5.5	-14.1	-0.7	6.3
b) Terms-of-trade effect	-1 700	-2 015	-2 107	-2 200	5.4	18.5	4.5	4.4
c) Net external factor payments	423	577	535	585	42.4	36.6	-7.3	9.4
d) Net private transfers from the exterior	10	12	15	14	-47.3	19.6	25.9	-2.7

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

¹ The magnitude of the negative effects of the continual deterioration in the terms of trade and the considerable increase in payments of interest and profits was reflected in the fact that whereas in 1984 the gross domestic product was equivalent to a little over 90% of that registered before the 1982-1983 recession, national income was equivalent to less than 82% of the 1981 income.

² If the terms of trade had not deteriorated and net factor service payments had not increased, national income would have grown by 8.4% in 1984.

Table 3

CHILE: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	11 964	11 649	12 410	112.9	117.4	111.5	5.9	-12.3	-2.6	6.5
Gross domestic product at market prices	10 539	10 464	11 127	100.0	100.0	100.0	5.5	-14.1	-0.7	6.3
Imports of goods and services ^b	1 425	1 185	1 283	12.9	17.4	11.5	7.9	-34.8	-16.8	8.3
Total demand	11 964	11 649	12 410	112.9	117.4	111.5	5.9	-12.3	-2.6	6.5
Domestic demand	8 632	8 168	8 956	92.0	88.7	80.5	10.8	-24.5	-5.4	9.6
Gross domestic investment	827	682	1 196	9.9	16.8	10.7	22.0	-65.3	-17.6	75.5
Gross fixed investment	1 163	990	1 079	11.3	13.0	9.7	16.8	-33.9	-14.9	9.0
Changes in stocks	-336	-308	117	-1.4	3.8	1.0				
Total consumption	7 805	7 486	7 760	82.1	71.9	69.8	8.1	-13.7	-4.1	3.7
General government	1 461	1 452	1 475	17.0	13.2	13.3	-3.1	-1.3	-0.6	1.5
Private	6 344	6 034	6 285	65.1	58.7	56.5	10.7	-16.1	-4.9	4.2
Exports of goods and services ^b	3 332	3 481	3 454	20.9	28.7	31.0	-9.3	10.1	4.5	-0.8

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 index calculated by ECLAC for the purpose.

Private consumption, for its part, rose by a little over 4% after two years of marked declines, while government consumption increased by 1.5%, thus partly recovering from the drops registered in the previous three years.

In contrast, the volume of exports, which had expanded vigorously in the two-year period 1982-1983, went down by almost 1% in 1984. This occurred in spite of the considerable rise in the effective real exchange rate in recent years and was due to the fact that much of the positive effect expected from the improvement in the exchange rate was neutralized by the successive drops in the prices of the country's main export products. Thus, while the effective exchange rate rose by 38% between 1981 and 1984, the average price of the country's exports of goods went down by over 22% over the same period.

c) *Investment and saving*

The marked recovery in gross domestic investment was due both to the expansion of State capital expenditure and the bigger investments made by the private sector. Thus, while the State increased its real investment by 56%, private investment more than doubled. A large part of the increase in public sector investment was due to the execution of the Colbún-Machicura hydroelectric project. The whole of the growth of private investment, for its part, was due to the building up of stocks, since private investment in construction and machinery and equipment went down once again. Thus, for the first time in many years, State investment exceeded that of the private sector (see table 4).

Although public sector saving almost trebled compared with the depressed level of the year before and private saving grew by nearly 50%, most of the increase gross investment was financed with external savings. These were used mainly to finance the expansion of the public sector deficit, which came to the equivalent of 4.4% of the gross domestic product in 1984. In contrast, the private sector—which had had a heavy deficit during the boom years, amounting to almost 11% of the gross domestic product in 1981—registered an imbalance of only 1% in 1984. This adjustment was due mainly to the very severe contraction in private sector investment in the two-year period 1982-1983,

however, and not to an increase in that sector's saving. Thus, between 1981 and 1984 the proportion of the product represented by private investment fell from 15.5% to less than 5%, while private saving went down from 4.6% to 3.9% (see table 4).

d) *Evolution of the main sectors*

Although the recovery registered in 1984 was quite widespread, the main impulse behind it came from the expansion of manufacturing, which grew by almost 10%. The other sectors which grew more than the economy as a whole were agriculture, fisheries and basic services. In contrast, the reactivation was relatively less marked in construction, mining and commerce (see table 5).

i) *Agriculture*. The value added in agriculture increased by a little over 7% in 1984, thus more than recovering from the drop suffered during the 1982-1983 recession (see table 5). Of the sectors which were affected by the recession, agriculture was the only one which registered real expansion in 1984. Although the decline in agricultural production was less marked and less widespread than that suffered by the rest of the economy in those two years, its recovery began after that of the other sectors, since it was only registered as from the first quarter of 1984.

The growth registered by agricultural activity as a whole was reflected above all in the notable recovery of the traditional crop-farming sector, whose output increased by 45% in real terms. This progress was headed by wheat, the harvest of which increased by 69% after six years of steady decline. Even so, however, wheat production was still around 20% lower than that registered on average between 1963 and 1972 and was equivalent to only 72% of the record harvest achieved in 1971. The considerable increases in the harvests of other main crops such as sugar beet (34%) potatoes (52%), maize (41%) and rice (43%) also aided decisively in the recovery of output. The harvests of almost all the other traditional crops also rose more or less markedly, registering increases that ranged from 11% in the case of oats to 116% in that of chickpeas. Only the production of barley and rye, which failed to show any increase, departed from this tendency, (see table 6).

The unprecedented increase in the output of traditional crops made up for the steady fall suffered in previous years, bringing production of these crops to its highest level since 1971. On the other hand, although the area devoted to the production of these items was 20% greater than in 1983,

Table 4

CHILE: ORIGIN, COMPOSITION AND FINANCING
OF GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)^a

	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Gross domestic investment	10.2	11.6	13.8	16.8	19.4	7.8	6.5	10.7
Private sector	5.3	7.1	9.9	12.7	15.5	4.3	2.5	4.9
Public sector	4.9	4.5	3.9	4.1	3.9	3.5	4.0	5.8
Construction	4.8	5.0	5.5	6.2	6.9	6.3	6.1	5.9
Machinery and equipment	5.0	5.7	6.0	6.8	7.5	4.8	3.4	3.8
Changes in stocks	0.4	1.0	2.3	3.8	5.1	-3.2	-2.9	1.1
Gross domestic saving	19.6	20.1	24.1	28.1	26.2	25.9	28.5	30.2
Net factor payments to rest of world	1.9	1.3	1.9	2.4	3.4	5.4	5.0	5.1
Terms-of-trade effect	-14.3	-11.3	-12.2	-13.9	-13.9	-19.1	-20.1	-19.8
Gross national saving	3.4	7.5	10.1	11.8	8.9	1.1	3.4	5.3
Private sector	-1.7	1.8	3.2	3.6	4.6	1.7	2.9	3.9
Public sector	5.1	5.8	6.9	8.2	4.3	-0.6	0.5	1.4
External saving	6.6	4.1	3.7	5.0	10.5	6.7	3.1	5.4

Source: ECLAC, on the basis of data from the Central Bank of Chile, the Ministry of Finance of Chile, and the World Bank.

^aAt market prices, in constant 1970 dollars, at the parity exchange rate.

^bPreliminary figures.

^cIncludes unrequited private transfers.

Table 5

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	9 074	9 009	9 580	100.0	100.0	100.0	5.5	-14.1	-0.7	6.3
Goods	4 312	4 308	4 625	46.8	46.3	47.2	5.7	-11.5	-0.1	7.4
Agriculture	693	668	715	8.4	7.0	7.4	2.2	-2.2	-3.7	7.1
Fisheries	71	77	86	0.4	0.5	0.9	18.6	9.6	8.7	11.5
Mining	1 279	1 255	1 311	11.8	11.3	13.4	7.7	5.7	-1.9	4.4
Manufacturing	1 883	1 942	2 131	22.0	23.3	21.7	2.6	-21.0	3.1	9.8
Construction	386	366	382	4.2	4.2	3.9	21.1	-23.8	-5.0	4.2
Basic services	962	963	1 024	9.6	10.4	10.4	1.9	-8.8	0.2	6.3
Electricity, gas and water	267	278	298	2.7	2.6	3.0	2.1	0.1	4.3	7.0
Transport, storage and communications	695	685	726	6.9	7.8	7.4	1.8	-11.8	-1.5	6.0
Other services	4 664	4 307	...	46.3	49.1	...	4.1	-8.8	-7.6	...
Commerce	1 301	1 256	1 319	10.8	15.1	13.5	4.3	-17.3	-3.5	5.0
Financial institutions, insurance, real estate and business services	1 664	1 328	...	13.0	15.9	...	...	...	...	...
Ownership of dwellings	541	544	...	6.9	5.3	...	1.5	1.0	0.6	...
Community, social and personal services	1 699	1 723	2 838	22.5	18.1	28.9	...	...	...	5.4
Government services	584	596	...	8.4	6.1	...	-1.8	-2.9	2.1	...
Less: Imputed bank services charges	434	358	...	2.7	5.8	...	34.0	-44.2	-17.4	...

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.

it was still well below the levels of the 1970s. This meant that yields were much higher than those achieved in previous years, and in fact they increased markedly in the case of 10 of the 14 traditional crops as a result of favourable weather conditions, more intensive use of fertilizers and pesticides, and the use of land which had been left fallow for several seasons. The increase in the yield per hectare was 29% for wheat, for example, 25% for potatoes, 20% for maize and between 3% and 9% for another seven crops. Sugar beet was in fact the only one of the main crops where the principal reason for the increased output was expansion of the cultivated area (see table 6).

A major factor in the increased production and higher yields obtained for the traditional crops was the substantial recovery in the real prices at the producer level as from 1983, after the severe drop suffered in the period 1980-1982. During this period, the real price of maize went down by over 13%, that of wheat by 12.5% and that of rice by rather more than 10%, while the drop was even greater in the case of such products as beans, lentils, rape and chickpeas, the prices of which deteriorated by between 23% and 54%. This trend was interrupted in an abrupt and generalized manner in 1983, when there were rises in the prices of 10 of the 12 crops which had suffered declines in the previous two years. In the case of eight crops, these rises fully made up for the previous declines. Furthermore, the prices of sugar beet and potatoes—which were the only crops whose prices did not go down in real terms in the period 1980-1982—rose once again in 1983 (see table 7).

The evolution of prices was influenced decisively by the exchange and tariff policies. Thus, the successive devaluations of the peso as from June 1982, the application of tariff surcharges on certain goods, and the raising of the general level of tariffs decreed in 1983 and 1984 raised the relative prices

of internationally tradeable goods. Moreover, guaranteed minimum prices were fixed for such products as wheat and sugar beet.

The economic policy also contributed to the expansion of production through other measures taken as from mid-1982, such as the rescheduling of debts -which benefited half the farmers—, the establishment of special lines of credit, the opening of official purchasing centres for some products, and the reactivation of the sugar refineries, which had been closed during the period when the exchange rate was fixed and tariffs stood at only 10%.

In 1984 there was a further increase in fruit production, which generates nearly 10% of the value added in the agricultural sector and around 70% of total agricultural exports. The increase was headed by the production of table grapes, which rose by nearly 15% in 1984 after having grown by 130% between 1980 and 1983, and that of apples, which increased by over 12%. Production of pears and plums also registered appreciable growth rates. Indeed, production of lemons was the only item that went down in 1984. On the other hand, however, although the area devoted to fruit production increased once again, its growth rate went down slightly for the fourth year running (see table 8).

Table 6
CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Production of the 14 traditional crops										
Value ^b	135.5	135.7	130.4	122.7	113.8	165.0	-3.9	-5.9	-7.3	45.0
Volume ^c										
Wheat	1 002.4	966.0	686.0	650.5	586.0	988.3	-29.0	-5.2	-9.9	68.7
Oats	131.1	172.6	130.7	117.6	146.3	163.0	-24.3	-10.0	24.4	11.4
Barley	120.6	105.0	91.4	117.9	73.2	73.5	-13.0	29.0	-37.9	0.4
Rye	11.1	10.4	9.2	6.1	4.5	4.4	-11.5	-33.7	-26.2	-2.2
Rice	76.3	95.4	99.7	131.2	115.6	165.0	4.5	31.6	-11.9	42.7
Maize	329.0	405.2	518.2	484.1	511.6	721.4	27.9	-6.6	5.7	41.0
Potatoes	737.9	903.1	1 007.3	841.6	683.6	1 036.2	11.5	-16.5	-18.8	51.6
Beans	74.1	84.2	138.2	162.5	84.4	94.1	64.1	17.6	-48.1	11.5
Lentils	12.1	26.8	17.7	15.8	13.8	16.0	-34.0	-10.6	-12.7	15.9
Peas	6.3	13.6	11.0	7.4	5.7	6.3	-19.1	-32.4	-23.0	10.5
Chickpeas	4.9	11.6	6.4	4.1	3.2	6.9	-44.8	-35.9	-22.0	115.6
Sugar beet	1 616.7	450.2	1 460.5	963.0	1 642.8	2 194.0	224.4	-34.1	70.6	33.6
Rape	61.4	73.4	26.9	13.2	2.9	4.1	-63.4	-50.8	-78.0	41.4
Sunflower	17.8	38.3	7.4	5.4	4.6	7.4	-80.7	-27.0	-14.8	60.9
Area sown with the 14 traditional crops^d	1 248	1 237	1 079	945	871	1 051	-12.8	-12.5	-7.8	20.7
Wheat	686	546	432	374	359	471	-20.9	-13.5	-4.0	31.2
Oats	94	92	80	68	85	96	-13.0	-15.0	25.0	12.9
Barley	66	49	46	58	38	33	-6.1	26.1	-34.5	-13.2
Rye	9	8	9	6	5	4	12.5	-33.3	-16.7	-20.0
Rice	23	41	31	37	30	40	-24.4	19.4	-18.9	33.3
Maize	92	116	126	107	118	138	8.6	-15.1	10.3	16.9
Potatoes	72	89	90	77	67	81	1.1	-14.4	-13.0	20.9
Beans	68	111	118	122	86	85	6.3	3.4	-29.5	-1.2
Lentils	21	53	48	39	23	24	9.4	-18.8	-41.0	4.3
Peas	9	18	18	12	10	10	-	-33.3	-16.7	-
Chickpeas	8	21	16	10	8	12	-23.8	-37.5	-20.0	50.0
Sugar beet	42	11	37	22	36	48	236.4	-40.5	63.6	33.3
Rape	45	50	24	10	3	4	-52.0	-58.3	-70.0	33.3
Sunflower	13	32	5	3	3	5	-84.4	-40.0	-	66.7

Source: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of pesos at 1974 prices.

^cThousands of tons.

^dThousands of hectares.

Table 7

CHILE: INDEXES OF WHOLESALE PRICES
OF TRADITIONAL CROPS

	Indexes (1978 = 100)					Growth rates				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Nominal prices										
Wheat	165.6	184.0	190.0	334.6	423.4	24.5	11.1	3.3	76.1	26.5
Oats	115.1	195.7	184.6	240.4	289.5	-6.1	70.0	-5.7	30.2	20.4
Barley	174.4	192.1	186.6	275.7	410.6	26.5	10.1	-2.9	47.7	48.9
Rice	125.2	178.6	159.8	208.9	301.5	14.5	42.7	-10.5	30.7	44.3
Maize	165.6	162.0	181.1	312.3	393.5	29.6	-2.2	11.8	72.4	26.0
Potatoes	281.2	257.2	375.7	592.1	442.0	25.6	-8.6	46.1	57.6	-25.3
Beans	688.6	640.0	313.7	516.4	781.5	176.9	-7.1	-51.0	64.6	51.3
Lentils	152.7	136.9	108.3	200.7	259.9	36.0	-10.4	-20.9	85.3	29.5
Chickpeas	80.1	66.1	87.0	187.9	211.1	-30.8	-17.5	31.6	116.0	112.3
Sugar beet	249.4	241.8	274.3	461.2	580.8	92.9	-3.0	13.4	68.1	25.9
Rape	130.1	139.2	105.9	158.3	319.8	0.4	7.0	-23.9	49.5	102.0
Sunflower	172.4	224.7	181.8	253.6	493.4	51.3	30.3	-19.1	39.4	94.6
Real prices										
Wheat	79.4	80.8	77.9	94.3	96.0	-10.8	1.8	-3.6	21.1	1.8
Oats	55.2	86.0	75.7	67.8	65.6	-32.8	55.8	-12.0	-10.4	-3.2
Barley	83.6	84.4	76.5	77.7	93.1	-9.3	1.0	-9.4	1.6	19.8
Rice	60.0	78.5	65.5	58.9	68.4	-17.9	30.8	-16.6	-10.1	16.1
Maize	79.4	71.2	74.3	88.0	89.2	-7.1	-10.3	4.4	18.4	1.4
Potatoes	134.9	113.0	154.1	166.9	100.2	-9.9	-16.2	36.4	8.3	-40.0
Beans	330.3	281.3	128.7	145.5	177.2	98.5	-14.8	-54.2	13.3	21.8
Lentil	73.2	60.2	44.4	56.6	58.8	-2.7	-17.9	-26.2	27.5	3.9
Chickpeas	38.7	29.1	35.7	53.0	47.9	-50.0	-24.8	22.7	48.5	-9.6
Sugar beet	119.6	106.3	112.5	130.0	131.7	38.3	-11.1	5.8	15.6	1.3
Rape	62.4	61.2	43.4	44.6	72.5	-28.0	-1.9	-29.1	2.8	62.6
Sunflower	82.7	98.8	74.6	124.0	111.9	8.5	19.4	-24.5	66.2	-9.8

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

In contrast with the favourable performance of traditional crops and the fruit-growing sector, there was a decline in production in almost all the main areas of the livestock sector in 1984. Thus, after having increased considerably in the previous three years, cattle slaughtering went down by over 5%, while production of poultry meat and mutton continued to decline sharply and pork production showed no change. At the same time, there was a drop for the third consecutive year in milk production—although it went down much more slowly than in previous years—and there was only a small recovery in egg production, which had also fallen markedly in the period 1982-1983 (see table 9).

In the forestry sector, the afforested area once again increased considerably, thanks to the intensified work of the National Forestry Corporation (CONAF). This Corporation afforested an area almost twice as big as in 1983, thus more than making up for the decline in private afforestation, the area of which went down for the third year running even though the Central Bank opened a special line of credit to promote this activity (see table 10).

ii) *Fisheries*. As in previous years, fisheries were the most dynamic sector in 1984 also. The product of this sector—which is the only one that grew strongly during the 1982-1983 recession—increased by 11.5%, so that it has almost doubled its share in the economy over the last four years (see tables 5 and 11).

The total catch grew by 12% due to the big expansion in the catch of fish and shellfish for industrial processing. In contrast, the catch of fish to be consumed fresh went down for the third year running, as did the catch of shellfish for the same purpose. In 1984 there was also a decline in the collection of seaweed, the volume of which had almost trebled over the previous three years.

In 1984 there was also a vigorous increase (15%) in the output of the fish processing industry, which had suffered a slight decline in 1983 after several years of rapid and sustained expansion. This increase was due mainly to the rise of almost 24% in the output of fish meal —by far the most important item— and the enormous growth (222%) in fish oil production (see table 11).

iii) *Mining.* The value added in the mining sector rose by 4.3% in 1984, thus more than making up for its slight decline in 1983 (see table 12).

The recovery in mining activity was headed by the coal industry, whose output grew by over 21%, and by iron ore mining, where the output of iron ore rose by 19% and that of pellets by 10%. There were also substantial increases in the production of nitrates (14.5%), sodium sulphate (10.5%), and molybdenum (10.5%). In contrast, petroleum production, which had already gone down by 8% in 1983, dropped by a further 2%, while the output of iodine and gold went down by around 5% in each case.

Although in 1984 the international price of copper dropped to its lowest level in real terms for at least half a century, production of this metal increased by 2.6% to a record volume of almost 1.3 million tons. In addition to the unusually adverse situation faced as regards prices, the copper industry was also threatened by the possible application of severe protectionist measures in the United States market, since 11 copper corporations of that country —whose production costs are double those of the Chilean large-scale mining industry— asked the International Trade Commission of the United States to restrict copper imports from Chile to 121 000 metric tons, equivalent to only 42% of the 1983 level. Although the International Trade Commission accepted the request by the United States

Table 8
CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1977	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Production (thousands of tons)										
Plums	13.8	17.0	17.2	18.4	20.8	22.5	1.2	7.0	13.0	8.2
Apricots	14.8	12.6	13.0	13.2	12.9	13.3	3.2	1.5	-2.3	3.1
Peaches	93.5	78.2	81.0	82.6	83.5	85.0	3.6	2.0	1.1	1.8
Lemons	68.7	66.7	70.7	71.6	69.6	58.0	6.0	1.2	-2.8	-16.7
Apples	140.0	245.0	298.4	345.0	365.0	410.0	21.8	15.6	5.8	12.3
Oranges	48.0	59.2	58.8	65.4	66.5	68.6	-0.7	11.2	1.7	3.2
Avocados	17.3	21.7	25.0	27.7	29.6	31.5	15.2	10.8	6.9	6.4
Pears	37.5	43.1	45.5	50.6	47.6	52.3	5.6	11.2	-5.9	9.9
Table grapes	68.9	85.0	121.7	162.7	196.4	225.0	43.2	33.7	20.7	14.6
Area planted (thousands of hectares)										
Total	53.4	62.5	65.7	69.0	71.7	74.6	5.3	4.9	4.2	3.9
Plums	2.3	3.2	3.7	4.5	4.8	5.2	15.9	19.7	8.9	6.2
Apricots	1.6	1.4	1.3	1.3	1.3	1.3	-7.9	1.0	0.2	1.6
Peaches	8.1	6.4	6.2	6.0	6.0	6.0	-2.7	-3.2	0.7	0.1
Lemons	7.4	6.0	5.7	5.3	5.4	5.5	-5.0	-6.7	2.3	0.9
Apples	13.0	15.8	16.7	17.6	17.8	18.0	5.6	5.5	1.3	1.1
Oranges	4.8	5.2	5.3	5.7	5.8	5.9	3.4	6.4	2.0	1.8
Avocados	5.1	6.7	7.1	7.3	7.6	7.7	7.0	2.4	3.7	1.3
Pears	2.7	3.3	3.7	3.9	4.2	4.2	11.5	6.2	6.9	0.2
Table grapes	8.4	14.5	16.0	17.4	18.8	20.8	10.2	8.8	8.4	10.5

Source: Ministry of Agriculture, Agricultural Planning Office (ODEPA).

^aPreliminary figures.

Table 9

CHILE: INDICATORS OF LIVESTOCK PRODUCTION

	1970	1975	1980	1981	1982	1983	1984 ^a	Growth rates				
								1980	1981	1982	1983	1984 ^a
Production of main livestock items ^b												
Beef	176.1	215.5	162.3	184.6	194.6	208.1	196.8	-3.1	13.7	5.4	6.9	-5.4
Poultry meat	61.6	43.8	102.0	122.5	114.0	86.5	74.1	29.3	20.1	-6.9	-24.1	-14.3
Pigmeat	44.4	30.0	49.7	55.8	57.7	59.2	59.1	16.9	12.3	3.4	2.6	-0.2
Mutton	22.4	18.1	15.5	15.6	14.9	13.3	11.9	-12.4	0.6	-4.5	-10.7	-10.5
Milk ^c	895.1	956.1	1 080.0	1 200.0	1 056.0	900.0	880.0	13.3	11.1	-12.0	-14.8	-2.2
Eggs ^d	1 205.8	1 196.8	1 425.0	1 442.8	1 312.8	1 187.0	1 201.0	17.1	1.2	-9.0	-9.6	1.2
Greasy wool	20.2	18.8	20.6	21.6	21.6	21.6	21.4	5.1	4.9	-	-	-0.9

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 10

CHILE: AREA AFFORESTED

(Thousands of hectares)

	1973	1975	1977	1979	1980	1981	1982	1983	1984 ^a
Total	30.3	82.6	93.2	52.0	72.3	93.2	68.6	76.3	84.4
National Forestry Corporation (CONAF)	27.4	44.1	44.6	0.4	0.2	0.1	-	21.8	40.2
Private enterprises	2.9	38.5	48.6	51.6	72.1	93.1	68.6	54.5	44.2

Source: National Forestry Corporation (CONAF).

^aPreliminary figures.

Table 11

CHILE: INDICATORS OF FISHERY PRODUCTION

	1975	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Fishery product ^b	24.5	54.7	64.9	71.1	77.3	86.2	18.6	9.6	8.7	11.5
Fishing catch ^c	899	2 892	3 503	3 846	4 168	4 674	21.1	9.8	8.4	12.1
Fish	804	2 700	3 291	3 577	3 852	4 363	21.9	8.7	7.7	13.3
Fresh consumption	71	75	149	64	55	54	98.7	-57.0	-14.1	-1.8
Industrial processing	733	2 625	3 142	3 513	3 797	4 309	19.7	11.8	8.1	13.5
Shellfish	95	117	102	96	126	136	-12.8	-5.9	31.3	7.9
Fresh consumption	33	54	46	44	48	44	-14.8	-4.3	9.1	-8.3
Industrial processing	62	63	56	52	78	92	-11.1	-7.1	50.0	17.9
Seaweed	-	75	110	173	190	175	46.7	57.3	9.8	-7.9
Output of fishery products ^d	197.6	734.6	860.5	1 025.2	978.9	1 123.3	17.1	19.1	-4.5	14.8
Frozen	6.9	13.5	15.4	60.8	52.4	51.2	14.1	294.8	-13.8	-2.3
Canned	9.0	38.0	29.5	23.5	41.7	49.2	-22.4	-20.3	77.4	18.0
Fishmeal	155.1	571.9	688.3	795.8	827.7	1 022.7	20.4	15.6	4.0	23.6
Fish oil	25.8	111.0	127.3	145.0	57.0	184.0	14.7	13.9	-60.7	222.8
Other	0.8	0.2	-	0.1	0.1	0.2	-	-	-	100.0

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.

corporations and recommended the application of restrictive measures—a tariff surcharge or the introduction of quotas—the Executive rejected the proposal. Nevertheless, during the period in which this process was taking place (from January to September) copper prices suffered a marked decline, and moreover protectionist pressures did not weaken.

The volume of Chile's copper reserves—which are equivalent to about 30% of total world reserves—rose to some 220 million metric tons in 1984 as a result of the revision of the figures for the reserves in the La Escondida deposit, discovered in 1981.

In June 1984, zinc began to be exported from two new mines located in the region of Aysén. With the exploitation of these deposits, it is estimated that total production will reach 50 000 tons per year and Chile will become the fourth largest producer of this metal in the world.

In the middle of the year, a start was also made on the mining of lithium in the Salar de Atacama. Chile possesses approximately 55% of the world reserves of this metal, and the level of production scheduled for 1985 was 7 000 tons, equivalent to about 15% of total world production. The company engaged in this work, 45% of which belongs to the Production Development Corporation (CORFO) and 55% to a United States firm, will also produce potassium sulphate and boric acid.

Like other sectors, mining benefited in 1984 from a further and more extensive rescheduling of its debts. Furthermore, the National Mining Corporation continued to increase its arrangements to purchase the outputs of the medium-sized and small-scale mining sectors. Finally, the further rise in the exchange rate helped to keep up the profitability of mining activities.

iv) *Manufacturing.* After having increased by 3% in 1983, the value added in manufacturing rose by almost 10% in 1984. Even so, it was still almost 11% below the 1981 level (see table 13).

The recovery of manufacturing activity was particularly marked (29%) in the production of durable goods. As this line of activity had been one of those most seriously affected by the 1982-1983 recession, however, this level was still only 46% of that registered in 1981. There were also substantial increases in the production of intermediate goods for construction (16%), miscellaneous

Table 12

CHILE: INDICATORS OF MINING PRODUCTION

	Production						Growth rates				
	1975	1980	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Mining sector product ^b	866	1 124	1 214	1 283	1 257	1 311	5.2	8.0	5.7	-2.0	4.3
Copper ^c	828	1 068	1 081	1 241	1 257	1 290	0.5	1.2	14.8	1.3	2.6
Large-scale mining	683	905	894	1 033	1 012	1 050	-0.5	-1.2	15.5	-2.0	3.7
Medium and small-scale mining	146	163	188	208	245	240	7.9	15.3	10.6	17.8	2.0
Iron ore ^c											
Ore	11 007	8 835	8 514	6 470	5 974	7 116	7.4	-3.6	-24.0	-7.7	19.1
Pellets	...	3 179	3 266	3 377	3 072	3 375	12.9	2.7	3.4	-9.0	9.9
Coal ^d	1 460	1 024	1 169	997	1 095	1 328	7.0	14.2	-14.7	9.8	21.3
Nitrate ^d	726	620	624	517	623	713	-0.2	0.6	-7.5	8.0	14.4
Iodine ^e	1 962	2 601	2 688	2 597	2 793	2 661	7.9	3.3	-3.4	7.5	-4.7
Sodium sulphate ^e		70 100	58 320	47 610	51 300	56 700	2.0	-16.8	-18.4	7.8	10.5
Petroleum ^f	1 423	1 933	2 401	2 484	2 284	2 237	60.8	24.2	3.5	-8.1	-2.0
Molybdenum ^f	9 091	13 668	15 360	20 048	15 267	16 861	0.8	12.4	30.5	-23.8	10.4
Gold ^g	3 997	6 836	12 456	16 907	17 760	16 797	97.2	82.2	35.7	4.8	-5.4
Silver ^g	194	299	361	382	468	491	9.9	20.7	5.8	22.5	4.9

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 13

CHILE: INDICATORS OF MANUFACTURING ACTIVITY

	Indexes (1969 = 100)					Growth rates				
	1975	1980	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Industrial product ^b	1 613	2 323	1 883	1 942	2 131	6.2	2.6	-21.0	3.1	9.8
Industrial output										
INE	77.9	110.2	93.8	98.4	108.3	5.9	0.3	-15.1	4.9	10.1
SOFOFA	85.0	129.2	106.6	111.5	120.9	4.0	0.1	-17.6	4.6	8.4
Mass consumption goods	84.6	120.1	106.3	115.7	126.1	0.3	-0.9	-10.7	8.8	9.0
Consumer durables	88.1	122.1	59.2	48.2	62.0	28.4	10.4	-56.1	-18.6	28.6
Transport equipment	53.6	109.7	59.5	42.7	42.0	19.8	-13.8	-37.1	-28.2	-1.6
Intermediate products										
for industry	113.1	155.2	146.3	154.7	156.6	1.2	-0.8	-5.0	5.7	1.2
Intermediate products										
for construction	65.1	145.7	99.4	99.3	115.0	7.6	-2.0	-30.4	-0.1	15.8
Miscellaneous manufactures	67.4	108.0	93.4	102.6	118.4	1.7	12.2	-22.9	9.9	15.4
Industrial sales	85.9	128.6	109.3	110.9	117.9	4.7	-0.5	-14.5	1.5	6.3

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.

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

manufactures (15.5%) and everyday consumer goods (9%). In contrast, the production of intermediate goods for industry, which had gone down relatively less during the recession, grew only marginally, while the production of transport equipment, which had fallen by somewhat over 60% between 1980 and 1983, continued to go down.

As in 1983, industrial sales increased less vigorously than production. This situation was reversed as from September, however, when industrial production tended to stagnate and this checked the process of the restoration of stocks, which until then had been an important factor in stimulating the recovery of the manufacturing sector.

Like other activities competing with imports, various branches of industry benefited in 1984 from the rises in the exchange rate and tariff rates. Moreover, the production of intermediate goods for construction was stimulated by the marked expansion of public sector investment. Finally, the rescheduling of the debt and the decline in interest rates freed resources for working capital, thus facilitating greater utilization of installed capacity.

v) *Construction.* After having dropped sharply in the previous two years, the value added in construction registered a slight recovery of 4% in 1984. Even so, the level of activity in the sector continued to be very low and was only equivalent to 75% of that registered in 1981 (see table 14).

Although the activity of this sector—the hardest hit by the recession—reached its lowest level in the first quarter of 1983, its recovery was only weak and irregular, at least up to the third quarter of 1984. Thus, after a modest increase of 5.5% between June 1983 and March 1984, the product contracted once again in the following quarter and only expanded vigorously (11%) in the last three months of 1984.

Although the value added in construction increased by only a little over 4% in 1984, the total area constructed grew by almost 14%, while the area of housing construction grew by nearly 16%. The number of dwellings whose construction was approved and begun, for its part, increased by over 21% to almost 41 700 units, equivalent to 84% of the figures registered before the recession. Finally, both sales of intermediate goods for construction and deliveries of cement and, above all, reinforcing rods for construction expanded much more than the product of the sector (see table 13).

Both the reactivation of housing construction and the change towards the construction of lower-cost dwellings were stimulated by the application of specific policies which involved the granting of considerable subsidies to the construction sector. Thus, after the establishment in 1983 of machinery for promoting the sale of the large available stock of unsold non-residential and residential

buildings, in 1984 the Government markedly increased its expenditure on housing, setting itself the target of the construction of 48 000 dwellings and 15 000 basic kitchen/bathroom nuclei. The State undertook to finance about 29% of the cost of carrying out this plan, through 21 000 direct subsidies and substantial indirect subsidies and through its financial support for housing loans and the renegotiation of the debts of building firms. In addition, the Government obtained substantial external resources to finance the housing plan and set up the housing savings system with a view to mobilizing domestic private sector resources.³ Finally, the construction sector also benefited from the considerable expansion in government spending on public works.

e) *The employment situation*

After having deteriorated sharply from mid-1981 onwards, the employment situation improved in 1984. Thus, open unemployment continued the downward trend begun in August 1983, and in all the periods for which comparable data are available it registered figures below those of 1983.⁴ For the country as a whole, unemployment during the last quarter was 14%: the lowest figure registered since the beginning of the recession. At the same time, there was a slight increase in the participation rate and a considerable reduction in the proportion of the labour force employed in the Government's special employment programmes (see table 15).

Table 14
CHILE: MAIN INDICATORS OF CONSTRUCTION ACTIVITY

	1970	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Construction product ^b	455	418	506	386	366	381	21.1	-23.7	-5.2	4.2
Building materials										
Deliveries of cement for the domestic market ^c	30.8	35.4	43.5	27.0	29.6	32.9	22.9	-37.9	9.6	11.1
Deliveries of round bars for construction ^d	86.1	107.6	83.8	40.9	45.6	65.6	-22.1	-51.2	11.5	43.9
Index of real sales of intermediate goods for construction (1969 = 100)	101.4	151.2	148.4	107.8	103.8	115.0	-1.9	-27.4	-3.7	15.8
Building										
Total area (thousands of m ²)	2 272	4 297	5 118	2 080	2 412	2 744	19.1	-59.4	15.9	13.8
Public sector ^e	498	265	183	139	119	13	-30.9	-24.0	-14.4	-90.1
Private sector ^f	1 774	4 032	4 935	1 941	2 293	2 731	22.4	-60.7	18.1	19.1
Residential	1 570	3 058	3 705	1 330	1 832	2 122	21.2	-64.1	37.7	15.8
Non-residential	702	1 239	1 413	750	580	622	14.0	-46.9	-22.8	7.2
Total number of dwellings	21 344	43 310	49 802	24 139	34 322	41 670	15.0	-51.5	42.2	21.4
Public sector ^e	3 552	1 589	534	314	845	145	-66.4	-41.2	169.1	-83.0
Private sector ^f	17 792	41 721	49 268	23 825	33 477	41 525	18.1	-51.6	40.5	24.0

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).

^a Preliminary figures.

^b Millions of dollars at 1970 prices.

^c Millions of bags.

^d Thousands of tons.

^e Building starts in 80 communes, except for 1970, when figures refer to only 60 communes.

^f Permits approved.

³ Under this programme, the Government grants direct subsidies to persons who can accumulate certain amounts of saving and gives its backing to the granting of mortgage loans to them.

⁴ The National Statistical Institute began to carry out a monthly national survey as from the second half of 1983. The Department of Economics of the University of Chile, for its part, has carried out a twice-yearly national survey since 1980. Although the rates given by these two surveys do not coincide because of differences in the methodologies and the definition of concepts used in them, both series showed similar trends in 1984.

Table 15

CHILE: RATES OF PARTICIPATION AND UNEMPLOYMENT, BY REGIONS

	1980	1981	1982	1983	1984 ^a	1983				1984 ^a			
						I	II	III	IV	I	II	III	IV
Global participation rate^b													
Whole country	47.5	47.9	47.8	48.4	48.6	47.8	...	49.1	...	48.4	...	48.8	...
Greater Santiago	50.7	51.7	51.7	52.2	52.5	51.5	51.4	54.0	51.8	53.1	51.7	53.3	52.0
Unemployment rate (according to Department of Economics of the University of Chile)^c													
Whole country	12.2	11.7	21.1	22.3	18.8	22.0	...	22.5	...	19.1	...	18.5	...
Urban	13.0	12.6	22.7	23.8	20.3	23.7	...	23.8	...	20.7	...	19.8	...
Rural	9.0	8.3	14.5	15.4	12.5	14.4	...	16.4	...	12.3	...	12.6	...
Unemployment rate (according to National Statistical Institute)^d													
Whole country	10.4	11.3	19.6	14.6	14.0	...	17.8	17.6	14.6	15.5	16.2	15.7	14.0
Northern zone (Regions I - IV)	11.8	12.4	18.4	14.7	11.5	...	17.1	18.3	14.7	16.1	14.6	13.9	11.5
Central zone (Regions V - VII)	10.6	12.1	19.4	15.1	13.4	1...	20.9	21.3	15.1	15.9	18.5	16.7	13.4
Southern zone (Regions VIII - XII)	10.5	10.8	14.3	12.0	8.9	...	14.5	14.0	12.0	10.8	11.6	10.8	8.9
Greater Santiago	10.1	11.0	21.9	17.1	18.7	21.7	18.7	18.3	17.1	18.9	18.9	19.6	18.7
Greater Valparaíso	...	13.8	...	19.5	21.0	...	26.2	24.6	19.5	22.4	26.4	21.4	21.0
Greater Concepción	...	...	...	12.4	11.0	...	16.9	14.8	12.4	12.0	13.9	12.1	11.0

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bLabour force, as a proportion of the population aged 14 or over.^cOn the basis of surveys carried out in

March and September of each year.

^dThe annual data correspond to the period October-December of each year, as complete information on each year is not available before the second half of 1983. In the case of 1982, the period covered is October-November. For 1983, the quarterly data correspond to averages for the periods May-July, July-September and October-December. For 1984 they correspond to the average for each quarter.

The decline in unemployment was due essentially to the increase of almost 4% in total employment brought about by the recovery of economic activity. The biggest increases in employment were in construction and manufacturing, and as a result the rates of unemployment among former workers in these activities who had lost their jobs went down by 14 and 6 percentage points, respectively (see table 16). Because of the very unfavourable employment situation which was prevailing in those sectors in 1983, however, the rates in question still continued to be very high (35% and 20%, respectively). The rates also went down in commerce and personal services, although less markedly (from 16% to 13% in both sectors). In contrast, the reduction in the Government employment programmes brought about an increase in open unemployment in certain categories of public services. Furthermore, the less favourable evolution generally displayed by unemployment in the services sectors was reflected in the still high percentage (31%) of non-manual workers in the total unemployed (see table 16).

The drop in open unemployment which took place in 1984 is even more significant when it is borne in mind that it coincided with a substantial reduction in the number of persons enrolled in the official employment programmes. Thus, the number of participants in such programmes, which went up by 64% in 1983, went down by one-third in 1984 (see table 17). As a result, the Government employment programmes, which had come to absorb over 13% of the total labour force of the country in 1983, employed only 8% of it at the end of the following year (see table 18). Thus, "self-

sustaining" productive employment—that is to say, total employment, less that provided by the employment programmes—increased at a very rapid rate in 1984.

At the same time, there was a substantial favourable change in the structure of these employment programmes, for the bulk of the reduction in the number of persons enrolled concerned the Minimum Employment Programme (PEM), the workers in which generally carry out low-productivity activities and receive a very low wage. In contrast, the number of participants in the Employment Programme for Heads of Households (POJH)—which is both more varied and more productive than the PEM and in which considerably higher wages are paid—increased by almost 5%. The increase in the POJH, however, essentially benefited the Metropolitan Region, which continued to concentrate almost 70% of the total participants in that programme; in the rest of the country, in contrast, it was the PEM which absorbed the bulk (70% to 80%) of the participants in government employment programmes, although the number of members of the POJH did increase slightly in those areas during the last quarter (see figure 3).

The evolution of employment was also uneven in the different regions of the country. The sharp recovery in agricultural activities led to a marked decline in rural unemployment. Due partly to this and partly to the execution of various public works in this area, the southern region of the country registered an unemployment rate of 9% at the end of 1984: the lowest figure in the last five years and well below the national average (see table 15).

In contrast, the employment situation was much less favourable in the central region. Although the recovery in economic activity made it possible to bring down the total unemployment rate of this region from 15% to 13.5%, the main urban centres continued to suffer from very high levels of

Table 16

CHILE: UNEMPLOYMENT RATES IN GREATER SANTIAGO

(Percentages)

	Annual averages									
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Total rate of unemployment										
Department of Economics of the University of Chile	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3
National Statistical Institute	15.0	17.0	13.9	13.8	13.4	11.8	9.0	20.0	19.2	19.0
Rate of unemployment among the established labour force^b (i.e., excluding persons seeking work for the first time)										
Total	11.9	12.6	9.9	10.5	10.1	8.7	8.5	18.8	18.4	15.7
Industry	14.8	15.5	11.8	11.8	13.1	11.9	11.8	26.7	25.9	19.5
Construction	31.6	34.1	38.7	23.5	24.5	16.5	16.4	49.4	49.0	34.9
Commerce	9.1	9.7	7.4	8.8	8.3	6.4	5.9	14.5	16.0	13.1
Government and financial services	5.8	6.5	6.0	7.5	5.4	5.8	5.9	9.9	11.7	15.8
Personal and household services	12.5	13.7	8.5	10.8	8.9	8.4	7.0	12.9	15.6	12.5
Community and social services	6.1	6.0	6.8	7.0	5.9	5.6	4.8	10.3	10.7	11.0
Non-manual workers	7.4	8.3	6.7	8.0	7.5	5.3	6.3	15.6	17.9	14.3
Manual workers	20.6	20.7	16.3	16.5	16.0	14.5	14.4	28.9	24.9	22.0
Own-account workers	8.4	8.5	5.7	6.0	6.1	4.5	3.1	9.1	10.3	9.3
Percentage breakdown of unemployed										
Non-manual workers	22.7	22.4	25.0	25.9	25.2	25.0	26.7	30.1	34.3	31.2
Manual workers	64.0	65.7	64.8	63.1	63.3	64.9	66.0	61.1	56.3	57.6
Own-account workers	12.9	11.6	10.0	10.9	11.3	9.7	7.1	8.3	8.9	10.7

Source: Department of Economics of the university of Chile and National Statistical Institute (INE).

^aPreliminary figures.

^bAccording to data of the Department of Economics of the University of Chile.

Table 17

CHILE: GOVERNMENT EMPLOYMENT PROGRAMMES

(Thousands of participants)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Minimum Employment Programme										
Total	72.7	157.8	187.7	145.8	133.9	190.7	175.6	225.3	341.6	167.6
Metropolitan Region	19.6	34.9	36.4	29.0	21.8	28.1	23.2	35.6	80.8	13.0
Rest of country	53.1	122.9	151.2	116.8	112.1	162.6	152.4	189.7	260.8	154.6
Programme for Heads of Households										
Total	-	-	-	-	-	-	-	81.2 ^b	161.2	168.7
Metropolitan Region	-	-	-	-	-	-	-	30.5 ^b	110.6	117.7
Rest of country	-	-	-	-	-	-	-	50.7 ^b	50.6	51.0

Source: National Statistical Institute (INE).

^aPreliminary figures.^bThis programme was set up in October 1982, so that the figures for that year correspond to the average for the last quarter.

Table 18

CHILE: EMPLOYMENT, UNEMPLOYMENT AND THE GOVERNMENT EMPLOYMENT PROGRAMMES

	Thousands of persons ^a					Percentages of the labour force		
	Labour force	Employed	Unemployed	PEM ^b	POJH ^c	Unemployed (3)/(1)	PEM ^a (4)/(1)	POJH ^b (5)/(1)
1975	3 112.0	2 661.0	451.0	118.8	-	14.5	3.8	-
1976	3 181.9	2 777.2	404.7	188.1	-	12.7	5.9	-
1977	3 199.5	2 820.7	378.8	179.6	-	11.8	5.6	-
1978	3 469.0	2 979.6	489.4	123.1	-	14.1	3.6	-
1979	3 477.4	3 003.3	474.1	152.2	-	13.6	4.4	-
1980	3 635.5	3 257.1	378.4	209.4	-	10.4	5.8	-
1981	3 594.0	3 191.4	402.6	171.4	-	11.2	4.8	-
1982	3 660.7	2 943.1	717.6	315.8	70.4	19.6	8.6	1.9
1983	3 687.6	3 139.5	538.1	274.9	225.2	14.6	7.5	6.1
1984 ^d	3 798.4	3 268.0	530.4	115.9	194.4	14.0	3.1	5.1

Source: ECLAC, on the basis of data from the National Statistical Institute (INE).

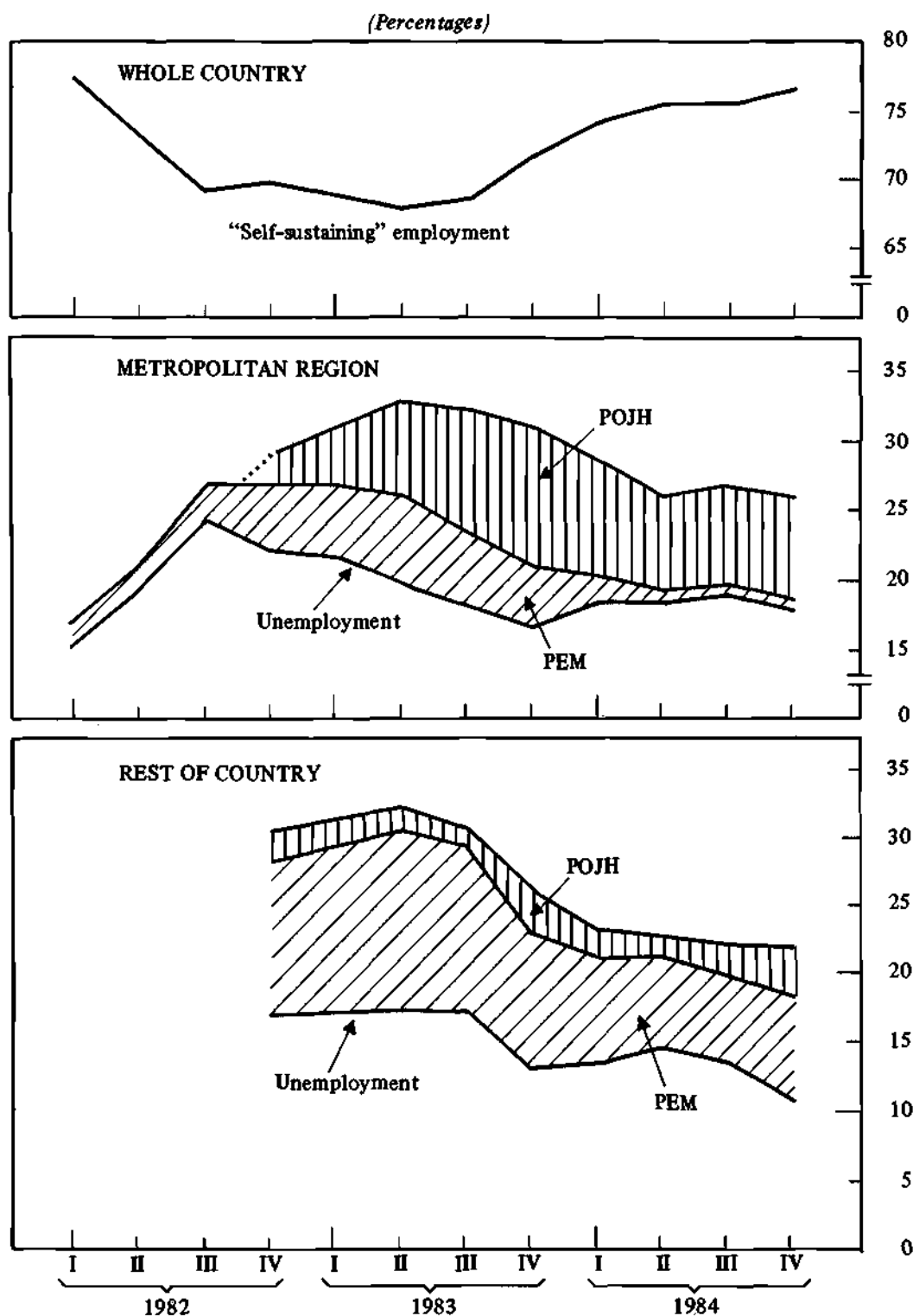
^aOctober-December of each year. For 1982, October-November.^bMinimum Employment Programme.^cProgramme for Heads

of Households.

^dPreliminary figures.

unemployment. The situation was particularly serious in Valparaíso, where unemployment was even higher in the last quarter of 1984 (21%) than in the same period of the previous year (19.5%). The evolution of unemployment in Greater Santiago also compared unfavourably with the developments at the national level. Thus, open unemployment in the capital reached an annual average of 19%, which was only slightly below that registered in 1983 (see table 16). Contributory factors in this were the faster growth of the labour force in the Metropolitan Region than in the rest of the country as a result of the process of emigration of labour to the capital, and the fact that the Government employment programmes, although concentrated in the employment programme for heads of households, absorbed a smaller percentage of the active population in the Metropolitan Region than in the rest of the country.

Figure 3
CHILE: EMPLOYMENT, UNEMPLOYMENT AND THE
GOVERNMENT EMPLOYMENT PROGRAMMES



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

Table 19

CHILE: MAIN EXTERNAL SECTOR INDICATORS

	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Indexes (1970 = 100)								
Volume of exports of goods and services ^b	173.0	186.7	232.1	267.4	242.7	267.2	279.2	277.0
Purchasing power of exports of goods and services ^b	93.5	96.5	126.8	138.1	106.4	105.6	110.2	100.5
Net real factor payments to rest of world ^c	90.8	69.0	107.4	143.5	212.8	291.6	268.4	294.4
Net real inflow of capital	158.9	376.4	397.9	495.8	675.0	183.5	104.7	313.0
Total import capacity	102.4	207.9	163.5	186.5	183.3	116.1	109.5	129.2
Volume of imports of goods and services	112.0	129.0	155.6	176.5	190.4	124.1	103.2	111.8
International reserves ^d								
Index (real)	40.3	144.9	260.1	393.5	346.5	266.1	218.9	218.0
In terms of months of imports ^e	1.8	3.6	4.5	5.3	4.7	4.3	6.1	5.5
Real disbursed gross external debt	107.8	127.1	134.3	150.7	204.3	249.2	265.4	275.7
GDP = 100^f								
Volume of exports of goods and services ^b	23.4	23.4	26.8	28.7	24.7	31.6	33.3	31.0
Terms-of-trade effect	-10.8	-11.3	-12.2	-13.9	-13.9	-19.1	-20.1	-19.8
Net factor payments to rest of world ^c	-1.5	-1.3	-1.9	-2.4	-3.4	-5.4	-5.0	-5.2
Purchasing power of net imports of capital	3.4	7.3	7.2	8.3	10.7	3.4	2.0	5.5
Total import capacity	20.2	19.5	21.9	23.1	21.5	15.9	15.1	16.8
Volume of imports of goods and services	14.0	14.9	16.6	17.4	17.8	13.5	11.3	11.5
Trade balance ^g	9.5	8.5	10.3	11.3	6.8	18.1	21.9	19.6
Balance on current account	-2.8	-4.6	-3.8	-5.0	-10.4	-6.4	-3.2	-5.4
Global balance	0.6	2.8	3.4	3.3	0.4	-3.0	-1.2	-
International reserves ^h	3.3	6.9	11.2	14.8	11.6	10.6	11.8	12.1
Disbursed gross external debt ⁱ	38.9	42.9	40.9	40.2	47.6	70.5	101.6	109.1

Source: ECLAC, on the basis of data from the International Monetary Fund and the Central Bank of Chile.

^aPreliminary figures.^bNon-factor.^cIncluding unrequited private transfers.^dExternal assets of the Central Bank, less its

liabilities to the International Monetary Fund. Gold is valued at its market price and mutual credit agreements are taken at their net value.

^eInternational reserves and imports of goods and non-factor services for each year.^fAt market prices in 1970

dollars.

^gExcluding the terms-of-trade effect.^hIn nominal prices at the market exchange rate.

3. The external sector

a) *Main trends*

In contrast with the previous two years, when a very sharp reduction in external financing made necessary an abrupt and profound adjustment of the economy and caused a heavy loss of international reserves, in 1984 the inflow of capital from the exterior increased spectacularly (see table 19).

Thanks to this, it was possible to increase the volume of imports considerably without making use of the international reserves in spite of the further deterioration in the terms of trade, the stagnation of the volume of exports and the rise in international interest rates. Taken together, however, these changes led to a marked increase in the current account deficit.

The increase in external purchases was both cause and effect of the recovery of economic activity. It was also promoted by the successive adjustments in economic policy and the need to restore stocks of imported products, which had gone down enormously in the previous two years.

The macroeconomic programme for 1984 sought to bring about the recovery of economic activity and to reduce unemployment and inflation against a background of overall equilibrium of the external accounts. In the course of the year, however, the effective values of key variables such as the price of copper, external interest rates and imports of goods departed substantially from the assumptions used when the programme was being prepared.

Thus, instead of increasing slightly to 75 US cents per pound, the average price of copper fell from 72.2 US cents in 1983 to 62.3 cents in 1984. This decline caused the income from exports of copper to go down by around US\$ 240 million, equivalent to over 60% of the difference between the target set for external sales of goods and the results actually obtained. Moreover, the international interest rate applicable to the country's debts was more than 2 percentage points higher than had been assumed (9.6%), so that payments of interest were nearly US\$ 390 million greater than the year before and around US\$ 425 million higher than the figure projected for 1984. Finally, the actual growth of imports of goods (18%) was likewise greater than the projected rate (11%), and this faster expansion added another US\$ 240 million to the current account deficit.

As a result of these deviations, the current account deficit came to over US\$ 2.1 billion, which was some US\$ 860 million more than the target. Nevertheless, because of the considerable increase in the net inflow of capital, the overall balance of payments closed with a small surplus.

The sharp increase in imports was largely a consequence of the application of strongly expansionary fiscal and monetary policies. Thus, although the expansion of the money supply (M_1) was well below inflation, both domestic credit by the banking system and M_2 rose faster than the targets set in the monetary programme, so that they increased markedly in real terms. At the same time, there was an unusually large increase (56%) in real public sector capital expenditure.

Imports were also encouraged, however, by the expectations aroused as a result of the change in the economic authorities in April, the less favourable evolution of exports and interest rates than had been expected, and the relatively widespread belief that the exchange rate and tariffs would be raised. Indeed, as it became obvious that the trade surplus targets would not be reached, the pressure to change the policy of uniform low tariffs became more intense. Thus, in January 1984 minimum import prices for footwear and various textile products came into force, and in July, after a fruitless attempt to increase taxation on luxury goods, a tariff surcharge of 15% was established for more than 240 products. Finally, in September all tariffs were set at 35%. The reason given in justification of this rise was the need to counteract the effect of the drop in the price of copper on the public sector income and deficit. Although it was proposed to make up, at least partly, for the higher implicit tax on exports represented by the raising of tariffs through direct monetary payments to exporters, at the end of the year it was announced that the so-called "drawback" system would not be applied. At the same time it was announced that the overall tariff would be reduced to 30% on 1 July 1985 and to 25% in the first half of 1986.

In view of the marked expansion in the current account deficit, the authorities also devalued the peso on the same day that they raised tariffs. Thus, the main official exchange rate was raised by almost 25% from 93 pesos to 215 pesos per dollar, which was the level prevailing at that time on the parallel market. Although this new adjustment in exchange parity more than made up for the deterioration in the effective real exchange rate which had taken place in the previous two quarters, the annual averages for the effective real exchange rate were similar in 1984 and 1983 (see table 20).

Nevertheless, the faster expansion of imports also had a good deal to do with the achievement of a stronger recovery than had been expected. As we have already seen, the increase in the gap between domestic spending and national income was due mainly to external factors. In contrast, the extremely large increase in external financing was due mainly to domestic measures such as the intensive use of commercial lines of credit, the encouragement of short-term indebtedness on the part of the State enterprises, the greater use made of swap-type of operations, greater procurement of deposits in dollars, and the acceleration of public investment projects which had external financing.

b) *External trade*

i) *Exports of goods.* After the modest recovery registered the year before, the value of external sales of goods contracted by 5% in 1984, so that it was now equivalent to less than 78% of the 1980 peak. The main cause of this decline was the further fall in the unit value of exports, which went down for the fourth year running and thus registered a total drop of over 30% since 1980. Moreover, the

Table 20

CHILE: EVOLUTION OF EXCHANGE RATE

Annual and quarterly averages	Nominal exchange rates ^a			Effective real exchange rate indexes ^d			
	Official		Parallel	Exports		Imports	
	Main ^b	Preferential ^c		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			89.1	82.0	93.3	85.8
1982	50.91	...	...	105.3	93.8	112.8	100.5
1983	78.84	64.87	91.94	111.7	110.9	121.0	120.1
1984	98.66	77.73	112.60	110.8	112.9	118.8	121.0
1982							
I	39.00			92.6	78.1	98.2	82.8
II	40.34		...	95.9	80.2	102.2	85.5
III	55.01	50.49 ^e	...	111.4	100.2	120.2	108.1
IV	69.28	55.43	76.50	116.1	112.5	125.1	121.2
1983							
I	74.96	59.95	98.50	123.1	117.1	131.8	125.3
II	75.34	62.55	90.67	112.0	108.8	120.7	117.3
III	79.75	66.19	85.67	105.1	108.2	114.4	117.8
IV	85.31	70.79	93.00	108.5	109.6	118.7	119.9
1984							
I	88.05	73.41	97.00	114.3	111.3	122.9	119.7
II	90.00	75.35	113.33	109.6	109.6	115.7	115.7
III	95.63	78.38	115.67	105.1	109.3	112.7	117.2
IV	120.95	83.77	124.33	114.3	121.3	123.9	131.5

Source: ECLAC, on the basis of information from the Central Bank of Chile and the International Monetary Fund.

Note: A: For deflation, the domestic products sub-index of the wholesale price index was used.

B: For 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. ^bApplicable to all approved operations except those referred to in note ^c below. ^cFor the payment of foreign currency commitments contracted prior to 6 August 1982.^dThese indexes correspond to the average of the real peso exchange rate indexes (main official) *vis-à-vis* the currencies of Chile's main trading partners, weighted by the relative importance of the exports to or imports from those countries. From 1975 to 1979, these weightings correspond to the average for the same years, while from 1980 on they correspond to the average 1980-1983. For further details on the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America*, 1981.^eAverage for August and September.

volume of exports—which had been expanding with notable vigour since 1976, except in 1978 and 1981—went down slightly too in 1984 (see table 21).

As in previous years, the unfavourable evolution of the unit value of exports was closely linked with developments in the price of copper, which went down by around 14%, falling in real terms to its lowest level for more than half a century (see table 22). As a result, the value of external sales of copper also went down by nearly 14%, so that its share in total exports continued to decrease.

Among the other main export products, there were also appreciable drops in sales of non-traditional mining products (-20%), manufactures produced by basic metal industries (-14%), nitrates and iodine (-12%) and fish meal (-10%), while there was a slight decline in iron ore sales and those of timber remained unchanged (see table 23). As in the case of copper, the international prices of fish meal, iron ore and timber deteriorated notably in 1984.

Table 21

CHILE: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	55.9	22.7	-18.5	-3.4	3.9	-5.2
Volume	19.1	9.2	-5.9	16.0	6.5	-0.8
Unit value	30.9	12.4	-13.4	-16.7	-2.4	-4.4
Imports						
Value	45.2	30.5	19.1	-44.1	-22.1	18.3
Volume	18.2	4.7	10.9	-39.4	-15.4	16.3
Unit value	22.8	24.6	7.4	-7.7	-7.9	1.7
Terms of trade	7.3	-8.3	-19.4	-10.5	5.1	-7.2
Indexes (1970 = 100)						
Purchasing power of exports	108.6	108.7	82.5	85.7	95.9	88.2
Volume of exports	203.3	221.9	208.9	242.4	258.0	255.8
Terms of trade	53.4	49.0	39.5	35.4	37.2	34.5

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 22

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)
	(1)	(2)	(3)	(4)	(5)
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
1975-1984	71.0	225.2	291.4	31.5	24.4
1980	99.2	243.4	346.6	40.8	28.6
1981	79.0	265.5	377.5	29.8	20.9
1982	67.2	271.1	352.4	24.8	19.1
1983	72.2	274.8	336.4	26.3	21.5
1984	62.3	286.6	351.0	21.7	17.7
First quarter	65.1	282.1	...	23.1	...
Second quarter	64.3	285.3	...	22.5	...
Third quarter	60.0	288.4	...	20.8	...
Fourth quarter	59.6	290.5	...	20.5	...

Source: Central Bank of Chile, International Monetary Fund, and ECLAC estimates.

Table 23

CHILE: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown			Growth rates			
	1981	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total exports of goods	3 906	3 110	3 836	3 650	100.0	100.0	100.0	-16.4	-5.0	3.4	-4.7
Traditional	2 403	2 429	2 538	2 297	74.5	62.4	62.8	-17.5	1.1	4.5	-9.5
Copper	1 715	1 731	1 836	1 587	57.4	46.1	43.4	-20.3	0.9	6.1	-13.6
Iron ore	162	158	112	111	5.9	3.4	3.0	2.5	-2.5	-29.1	-0.9
Nitrates and iodine	83	75	84	74	3.5	1.9	2.0	-6.7	-9.6	12.0	-11.9
Fishmeal	202	256	307	276	1.9	5.0	7.5	-13.7	26.7	19.9	-10.1
Wood pulp	204	173	157	196	3.7	4.9	5.4	-11.7	-15.2	-9.2	24.8
Paper and paperboard	37	36	42	53	2.1	1.1	1.5	-24.5	-2.7	16.7	26.2
Non-traditional	1 503	1 282	1 298	1 362	25.5	37.6	37.2	-14.5	-14.7	1.2	4.9
Mining products	302	192	265	211	0.6	8.0	5.8	-19.0	-36.4	38.0	-20.4
Agricultural and marine products	365	375	327	429	5.5	7.2	11.7	7.4	2.7	-12.8	31.1
Crop farming products	268	278	254	346	3.8	5.2	9.5	9.8	3.7	-8.6	36.2
Livestock products	29	34	26	29	1.1	0.8	0.8	-21.6	17.2	-23.5	11.5
Forestry products	2	2	2	2	0.3	-	-	-	-	-	-
Fishery products	66	61	45	52	0.4	1.2	1.4	15.8	-7.6	-26.2	15.6
Manufactured products	836	715	706	722	19.3	22.4	19.7	-20.0	-14.5	-1.3	2.3
Food and beverages	141	123	128	145	5.0	3.5	4.0	-13.5	-12.8	4.1	13.3
Wood	163	122	116	116	1.6	6.3	3.2	-44.4	-25.2	-4.9	-
Chemicals and petroleum products	148	140	110	124	3.0	3.5	3.4	-9.2	-5.4	-21.4	12.7
Basic metal industries	230	245	285	244	5.7	6.0	6.7	-17.6	6.5	16.3	-14.4
Metal products, machinery, electronic articles, etc.	44	36	20	20	2.7	1.4	0.5	-31.2	-18.2	-44.4	-
Transport equipment	74	23	29	42	0.5	0.9	1.1	72.0	-68.9	26.1	44.8
Other	36	26	18	31	0.8	0.8	0.8	-10.0	-27.8	-30.8	72.2

Source: Central Bank of Chile, *Indicadores de Comercio Exterior*, December 1984, December 1983 and December 1982.^aPreliminary figures.

In contrast, there was a strong expansion in exports of agricultural products (36%), paper and paperboard (26%) and wood pulp (25%), as well as in transport equipment (45%) and fishery products (16%).

Altogether, the current value of traditional exports went down by 9.5%, while that of non-traditional exports increased by almost 5%.

ii) *Imports of goods.* In contrast with the unfavourable evolution of the value of exports, the total value of purchases from abroad rose by 18% in 1984. Even so, this increase only partly made up for the enormous drops registered in the previous two years, when both the value and the volume of imports fell by over 50% (see table 21).

The increase in imports was headed by purchases of capital and intermediate goods. The value of imports of the former increased by nearly 52%, while that of the latter rose by 20%, although the total amount of imports of fuels and lubricants barely showed any increase. In contrast, purchases of consumer goods only grew by a little over 2%, because of the opposing trends displayed by their components. Thus, whereas imports of non-food products increased by almost 12% (in spite of the further sharp drop in purchases of automobiles), the value of food imports went down by a little over 6% (see table 24).

This growth pattern of imports was due to the nature of the recovery, which was promoted mainly by the reactivation of manufacturing, the sharp increase in agricultural production, a considerable rise in public investment and the restoration of stocks.

iii) *The terms of trade.* The evolution of the economy was affected once again by the deterioration in international relative prices, which went down by rather more than 7%. With this further decline, the deterioration of the terms of trade amounted to nearly 35% over the last five years and to 65% between 1970 and 1984.¹

In contrast with the previous two years, however, in 1984 the effect of the further deterioration in the terms of trade on the import capacity was more than offset by the greater net inflow of external credits. Thanks to this, the total import capacity increased by more than 17% (see table 19) in spite of the stagnation of the volume of exports, the increase in payments of interest and profits, and the deterioration in international relative prices.

c) *The current account position and capital movements*

In the macroeconomic programme for 1984, a surplus of US\$ 995 million on the merchandise accounts was set as a goal: a similar figure to that of the year before. As the hoped-for increase in external sales did not materialize and imports considerably exceeded the planned figure, however, the merchandise trade surplus barely exceeded US\$ 290 million. There was a reversal in the trade balance, which turned in a deficit of a little over US\$ 100 million after having registered a surplus of US\$ 640 million the year before: a figure equivalent to more than 39% of net payments of interest. Since at the same time interest payments increased sharply, the deficit on current account exceeded US\$ 2.1 billion, thus interrupting the downward trend of the previous two years (see table 25). This expansion in interest payments would of course have been smaller if there had not at the same time been a marked increase in external financing. In fact, the inflow of capital from abroad grew by almost 260%, totalling a figure slightly greater than the deficit on the current account.

Table 24

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates			
	1981	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	7 318	4 094	3 160	3 739	100.0	100.0	100.0	19.1	-44.1	-22.2	18.3
Consumer goods	2 727	1 484	1 019	1 044	25.6	33.7	27.9	31.7	-45.6	-31.3	2.5
Non-food	1 904	894	494	552	5.3	20.7	14.8	49.8	-53.0	-44.9	11.7
Motor vehicles	428	124	31	27	...	3.3	0.7	110.8	-71.0	-75.0	-12.9
Goods of industrial origin	1 476	770	463	525	...	17.4	14.0	38.2	-47.8	-39.9	13.4
Food	823	590	525	492	20.3	13.0	13.2	3.0	-28.3	-11.0	-6.3
Intermediate goods	3 144	1 913	1 747	2 097	58.6	45.6	56.1	12.2	-39.2	-8.7	20.0
Fuels and lubricants	956	632	581	594	14.2	15.7	15.9	-0.7	-33.9	-8.1	2.2
Raw materials	757	450	505	608	20.4	10.3	16.3	19.8	-40.6	12.4	20.4
Spare parts and intermediate industrial products	1 431	831	661	895	24.0	19.6	23.9	18.7	-41.9	-20.5	35.4
Capital goods	1 447	697	393	597	15.8	20.7	16.0	13.6	-51.8	-43.6	51.9

Source: Central Bank of Chile.

^a Preliminary figures.

¹ The unusual intensity and persistence of the decline in the terms of trade suggests that this may be due to causes of a permanent nature, in which case it would be necessary to make much greater changes in the structure of domestic production in order for the economy to begin to grow again in a rapid and sustained manner.

Generally speaking, this large increase in external financing reflected the turnabout as regards the balance of short-term capital movements, which moved from a deficit of over US\$ 690 million to a surplus of almost US\$ 780 million. In contrast, the net inflow of long-term capital was a little less than that of 1983 (see table 25).

The radical change in the net movements of short-term capital was influenced by the greater short-term indebtedness of State enterprises and the transfer of their external deposits to the Central Bank, the procurement by the latter of greater dollar deposits, more intensive use of credit from the Bank for International Settlements, an increase in trade credit —due largely to the growth of imports itself—, swap-type operations and the smaller outflow of private capital.

Although the commercial banks reduced their long-term loans from US\$ 1.3 billion in 1983 to US\$ 780 million in 1984, disbursements from bilateral and multilateral sources increased markedly, due mainly to the faster execution of public investment projects. Furthermore, there was a marked reduction in amortization payments on the debt owed to the commercial banks, because of the reprogramming of part of the maturities corresponding to 1984.

Although the international reserves (according to the Central Bank definition) increased slightly to US\$ 2 055 million, which was enough to finance five and a half months of imports of goods and services at the 1984 level, the net international reserves (according to the International Monetary Fund definition) went down to US\$ 1 123 million, which was only enough to cover three months of such imports.

d) *The external debt*

Because of the considerable increase in the net inflow of capital, there was naturally also a rise in the growth rate of the external debt, which, after having increased by less than 2% in 1983, grew by 6% in 1984. Even so, its growth rate was appreciably lower than that observed before 1983, the terms were more favourable, and the manner in which it was used —i.e., to finance the recovery— was socially more productive.

Thus, at the end of 1984 the disbursed gross external debt came to nearly US\$ 18.5 billion. At the same time, there was a marked change in its profile, both as regards its distribution between the public and private sectors and as regards the distribution of the maturities in time. As a result of these changes —due mainly to the renegotiation of the debt with the commercial banks— the long-term officially guaranteed public and private debt increased from US\$ 6.7 billion in 1983 to US\$ 10.6 billion in 1984, while the private debt without State guarantee went down over this period from US\$ 8.1 billion to US\$ 6.4 billion. At the same time, the short-term external debt went down from US\$ 2.6 billion to US\$ 1.4 billion (see table 26).

Also as a result of the renegotiation —and in spite of the rise in international interest rates and the drop in the price of copper— the proportion of exports of goods and services absorbed by the servicing of the external debt went down from 70% to 57% between 1983 and 1984. However, the proportion of export income that had to be devoted to net payments of interest reached a record level of over 42%, and the ratio between the total amount of the debt and the value of exports of goods and services also reached an unprecedented level of 420% (see table 26).

4. Prices and wages

a) *Prices*

In 1984, consumer prices rose by 23%: a similar rate to those registered in the previous two years (see table 27). Furthermore, the variations between the annual averages of all the price indexes except that for building costs were less than those for 1983, the biggest decline —from 46% to 24%— being that displayed by the growth rate of wholesale prices.

However, these figures do not adequately reflect the course of inflation over the year. Thus, the growth rate of domestic prices, which had been showing a clear downward trend since mid-1983, accelerated sharply in the last quarter of 1984, mainly as a result of the devaluation and the rise in customs tariffs decreed in September (see figure 4).

As was to be expected, the biggest increase was that in the prices of imported products (51%) and, within national production, of mining products, many of which are exported, so that their

Table 25

CHILE: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-1 111	-1 205	-2 020	-4 805	-2 373	-1 111	-2 109
Trade balance	-680	-598	-1 056	-3 245	-379	639	-104
Exports of goods and services	2 941	4 619	5 968	5 008	4 641	4 624	4 400
Goods FOB	2 460	3 835	4 705	3 836	3 706	3 851	3 650
Real services ^b	482	784	1 262	1 172	936	774	750
Transport and insurance	233	348	433	373	318	269	255
Travel	109	150	174	200	125	95	92
Imports of goods and services	3 621	5 217	7 023	8 253	5 020	3 985	4 504
Goods FOB	2 886	4 190	5 469	6 513	3 643	2 837	3 357
Real services ^b	735	1 027	1 554	1 740	1 377	1 148	1 147
Transport and insurance	421	584	872	941	624	511	604
Travel	130	165	200	221	195	214	213
Factor services	-506	-696	-1 028	-1 595	-2 035	-1 800	-2 055
Profits	-33	-41	-82	-121	-128	-77	-100
Interest received	41	127	305	601	506	187	345
Interest paid	-497	-761	-1 152	-1 943	-2 299	-1 813	-2 200
Others	-16	-21	-99	-132	-114	-97	-100
Unrequited private transfer payments	75	88	64	37	41	49	50
Balance on capital account	1 854	2 261	3 341	4 941	1 032	594	2 126
Unrequited official transfer payments	23	17	49	72	68	43	49
Long-term capital	1 510	1 786	2 243	3 579	1 680	1 214	1 192
Direct investment (net)	177	233	171	362	384	152	67
Portfolio investment (net)	-	50	-	-	-	-	-
Other long-term capital	1 333	1 503	2 072	3 217	1 296	1 063	25
Official sector ^c	167	96	-193	-496	134	1 149	...
Loans received	587	581	280	154	296	1 300	...
Amortization payments	-421	-485	-472	-641	-162	-151	...
Commercial banks ^d	290	525	1 438	2 496	327	-9	...
Loans received	295	593	1 617	2 730	701	135	...
Amortization payments	-4	-50	-147	-216	-309	-161	...
Other sectors ^e	876	882	826	1 217	836	-78	...
Loans received	1 439	1 693	1 645	2 205	1 613	511	...
Amortization payments	-562	-810	-819	-961	-788	-589	...
Short-term capital (net)	449	470	1 000	1 190	-647	-694	778
Official sector	14	4	100	126	15	112	...
Commercial banks	58	39	469	252	68	-410	...
Other sectors	378	428	431	811	-731	-396	...
Errors and omissions	-128	-13	51	100	-70	30	107
Global balance	744	1 056	1 321	136	-1 340	-516	17
Total variation in reserves (- sign indicates an increase)	-683	-1 061	-1 331	-164	1 112	424	-33
Monetary gold	-1	-44	-90	-	-2	46	...
Special Drawing Rights	39	-2	25	-15	-1	14	-6
IMF reserve position	-50	1	-33	7	-3	78	-
Foreign exchange assets	-654	-848	-1 177	-81	1 160	-313	-261
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	-18	-169	-57	-74	-42	600	173

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: 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 26

CHILE: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^b
Millions of dollars						
A. Balances						
I. Total external debt (II + III) ^{bc}	8 484	11 084	15 542	17 153	17 431	18 466
II. Medium- and long-term external debt ^b	7 507	9 413	12 553	13 815	14 832	17 032
1. State-guaranteed public and private debt	4 771	4 720	4 415	5 157	6 689	10 605
2. Private debt	2 736	4 693	8 138	8 658	8 143	6 427
a) Supplier credits	201	303	463	413	318	...
b) Lines of credit for importation of capital goods	175	325	499	457	404	...
c) Financial credits ^d	2 360	4 065	7 176	7 788	7 421	...
III. Short term external debt ^{bc}	977	1 671	2 989	3 338	2 599	1 434 ^e
Public sector	292	343	1 050	1 503	1 705	1 265
Private sector	685	1 328	1 939	1 835	894	169
IV. Net international reserves ^f	2 314	4 074	3 775	2 578	2 023	2 025
V. Net total external debt (I - IV)	6 170	7 010	11 767	14 575	15 408	16 441
B. Total servicing	1 959	2 335	3 134	3 041	3 261 ^g	2 502 ^g
Principal	1 325	1 488	1 792	1 248	1 635 ^h	647 ^h
Interest ⁱ	634	847	1 342	1 793	1 626	1 855
C. Total disbursements	3 127	4 230	6 425	2 943	1 948	1 682
Percentages						
D. Ratios						
Total external debt/exports of goods and services	183.7	185.7	310.3	369.6	377.0	419.7
Servicing/exports of goods and services	42.4	39.1	62.6	65.5	70.5	56.9
Net interest ^j /exports of goods and services	13.7	14.2	26.8	38.6	35.2	42.2
Servicing/disbursements	62.6	55.2	48.8	103.3	167.4	148.8

Source: Central Bank of Chile, *Deuda externa de Chile*, 1983; Informe del Ministro de Hacienda, 2 July 1984, and data supplied by the Central Bank of Chile.

^a Preliminary figures.

^b Amounts disbursed and pending payment at 31 December of each year.

^c Excluding short-term credits for

external trade operations of the non-financial private sector, estimated at US\$ 780 million at end of 1982, US\$ 550 million at end of 1983, and US\$ 600 million at end of 1984.

^d Credits entering under articles 14, 15 and 16 of the International Exchange Law and credits under Decree-Law 600.

^e The drop is due to the conversion of US\$ 1 217 million of short-term debt to medium- and long-term debt. Of this amount, US\$ 470 million went to increase the State-guaranteed public and private debt and US\$ 747 million went to increase the private debt.

^f Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. Gold is valued at market prices and mutual credit agreements are taken at their net value.

^g The servicing is lower because of the renegotiation of the external debt.

^h Before the renegotiation of the external debt, amortization payments came to US\$ 2 063 million in 1983 and US\$ 1 666 million in 1984.

ⁱ Interest paid, less interest received, according to the balance of payments current account.

domestic prices tend to reflect exchange rate variations rapidly. In contrast, the prices of food and agricultural products showed much smaller variations (19% and 20%, respectively).

b) Wages

As in the year before, a relatively restrictive wages policy was applied in 1984. Thus, the wage readjustment granted at the beginning of the year⁶ was only 15 %, which was below both the level of inflation registered in 1983 (23%) and the 20% inflation foreseen for 1984 according to the targets initially announced by the Government. Moreover, the minimum wage was kept during the whole year at the level fixed in July 1983, so that its purchasing power suffered a substantial decline for the second consecutive year (see table 28). Finally, there was no increase during 1984 in the allowances paid to participants in the Government employment programmes, so that these allowances fell to their lowest level since those programmes were set up (see table 29).

The negative effect of wages policy on real wages was partially offset, however, by the granting of selective subsidies to the poorest sectors of the population. This policy was intensified after the exchange and tariff measures taken in September, and a monthly bonus of 400 pesos for each dependent was granted to persons with wages below 30 000 pesos per month.⁷

Table 27

CHILE: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Variation from December to December										
Consumer price index	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.1	23.0
Food	321.3	167.4	59.4	25.5	41.9	30.8	0.1	16.3	26.8	19.8
Corrected consumer price index ^a	343.3	197.9	84.2	37.2						
Wholesale price index	410.0	151.5	65.0	38.9	58.3	28.1	-3.9	39.6	25.2	36.5
Imported products	363.8	130.1	79.2	22.2	67.5	12.5	0.5	49.5	33.1	51.3
Domestic products	424.9	157.1	61.7	43.2	56.3	31.9	-4.8	37.5	23.3	32.7
Agricultural products	565.2	148.6	53.0	48.9	52.2	27.7	-14.5	41.7	27.1	19.3
Mining products	381.8	147.7	46.6	40.6	85.6	37.8	12.1	33.9	23.5	48.2
Manufactures	350.7	165.7	70.8	39.6	55.3	33.9	-0.9	35.6	20.9	38.6
Index of building costs	328.1	195.1	78.1	43.7	44.8	31.8	14.5	5.2	10.3	18.9
Variation between annual averages										
Consumer price index	374.7	211.9	92.0	40.1	33.4	35.1	19.7	9.9	27.3	19.9
Food	359.6	212.8	86.2	34.6	31.1	36.1	14.2	3.6	25.8	21.1
Corrected consumer price index ^a	379.2	232.8	113.8	50.0						
Wholesale price index	482.0	221.1	86.0	42.9	49.4	39.6	9.1	7.2	45.5	24.3
Imported products	445.9	201.6	99.8	34.9	41.7	37.7	4.4	10.9	62.6	31.8
Domestic products	486.0	226.1	82.8	45.0	51.3	40.0	10.1	6.4	41.8	23.3
Agricultural products	567.2	245.9	79.3	34.7	51.8	41.4	2.7	0.7	51.3	21.0
Mining products	478.8	191.7	73.2	51.1	70.1	54.0	22.3	7.3	40.0	27.4
Manufactures	420.7	215.5	87.4	52.7	48.3	41.3	13.3	9.9	36.5	24.1
Index of building costs	333.9	233.2	109.0	54.9	42.7	40.7	22.5	5.6	9.7	12.9

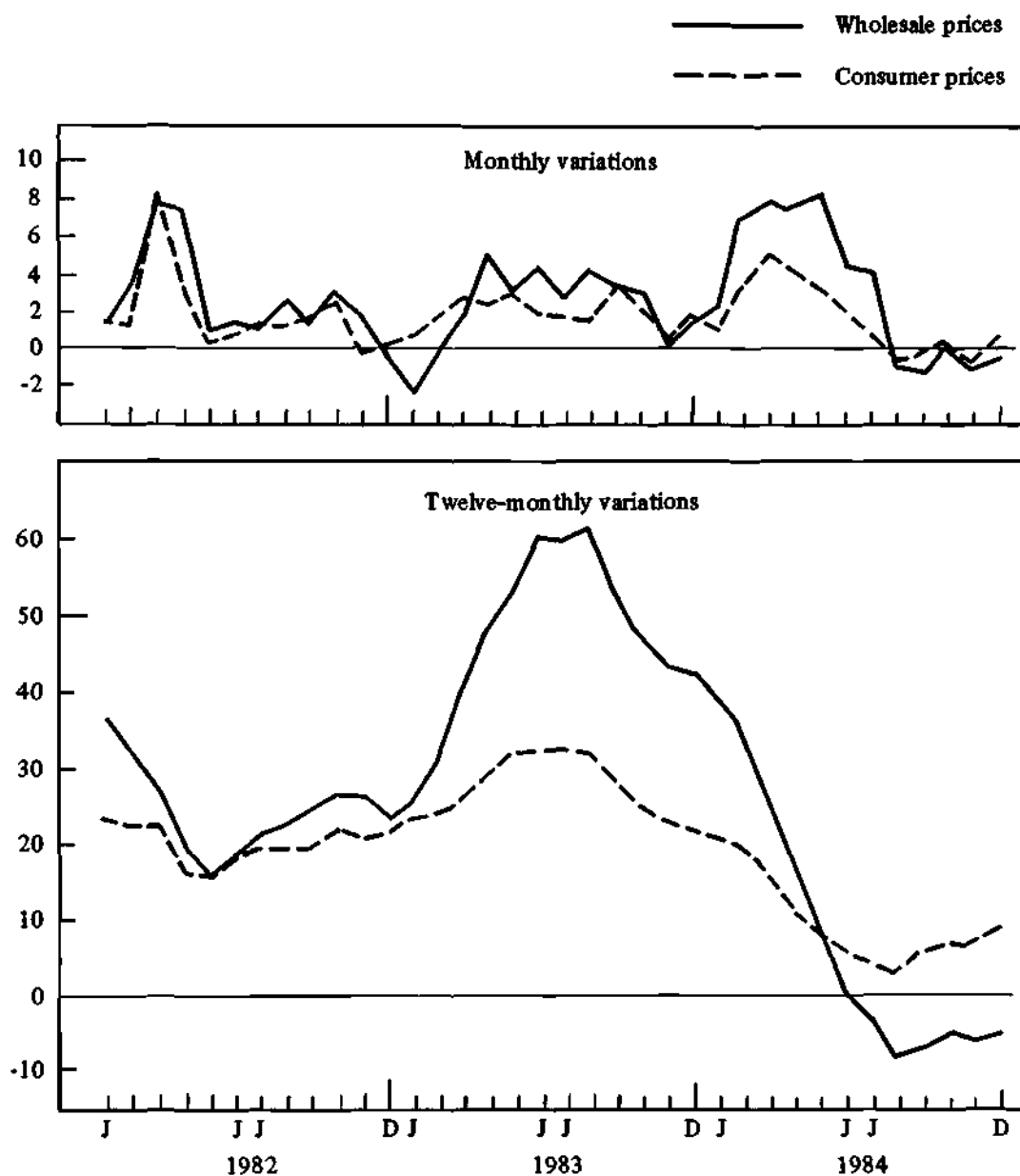
Source: National Statistical Institute; Cámara Chilena de la Construcción; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977", in *Comentarios sobre la situación económica*, Department of Economics of the University of Chile; and René Cortázar and Jorge Marshall, "Índice de precios al consumidor en Chile: 1970-1978", *Estudios CIEPLAN*, No. 4, November 1980.

^a 1975-1978: based on the index of Cortázar and Marshall.

⁶ This readjustment was only binding in respect of the wages of public sector workers not in a position to engage in collective negotiations. However, it serves to some extent as a reference indicator for use in the collective negotiations carried out in the other sectors.

⁷ Converted at the official exchange rate, this was equivalent to US\$ 248. According to official estimates, the subsidy benefited 2.3 million persons or 60% of the economically active population.

Figure 4
CHILE: EVOLUTION OF DOMESTIC PRICES



Source: ECLAC, on the basis of information from the National Statistical Institute (INE).

For their part, average real wages remained almost completely unchanged (see table 28). Their evolution gradually changed in the course of the year, however. Thus, during the first half of the year they showed an increase of 2% with respect to the same period of the previous year, due partly to the decline in the rate of inflation registered during that period and partly to the reactivation of the economy. The resurgence of inflation which followed the devaluation and the rise in tariffs, however, helped to bring about a sharp decline in real wages. Thus, during the last quarter of the year they went down by almost 8% with respect to the average level during the previous nine months and by almost 4% with respect to the corresponding quarter of 1983 (see figure 5).

Table 28

CHILE: EVOLUTION OF REAL WAGES AND SALARIES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Indexes (1980 = 100)^b										
Minimum wage ^c	60.9	67.5	79.6	100.7	99.8	100.0	115.9	116.6	93.9	80.2
Average wages	69.5	70.5	79.6	84.7	91.8	100.0	109.1	108.7	97.1	97.4
Mining	76.4	79.7	91.0	88.7	97.5	100.0	103.2	94.8	90.0	92.4
Manufacturing	61.8	66.9	75.3	83.3	89.9	100.0	109.6	105.4	94.6	93.8
Electricity, gas and water	70.0	70.6	70.7	79.1	88.8	100.0	114.7	111.6	101.5	101.5
Community and social services	84.6	73.8	83.9	86.6	93.1	100.0	109.0	116.3	100.2	101.1
Percentage variation										
Minimum wage ^c	1.1	10.8	17.9	26.4	-0.8	0.2	15.9	0.7	-19.5	-14.6
Average wages	-3.3	0.5	12.9	6.4	8.3	9.0	9.1	-0.4	-10.6	0.3
Mining	21.9	4.3	14.1	-2.5	9.9	2.6	3.2	-8.2	-5.1	2.6
Manufacturing	-9.6	8.2	12.5	10.5	7.9	11.2	9.6	-3.8	-10.2	-0.9
Electricity, gas and water	-4.4	0.8	0.1	11.9	12.3	12.6	14.6	-2.7	-9.1	-0.1
Community and social services	9.7	-12.8	13.7	3.2	7.5	7.4	8.9	6.7	-13.9	0.9

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

^aPreliminary figures.^bDeflated on the basis of the consumer price index given in table 26. From 1975 to 1978: average for January, April, July and October. Subsequently, average for 12 months.^cApplicable to private sector manual and non-manual workers not subject to special arrangements.

Table 29

CHILE: MINIMUM WAGE, AND ALLOWANCES PAID IN GOVERNMENT EMPLOYMENT PROGRAMMES

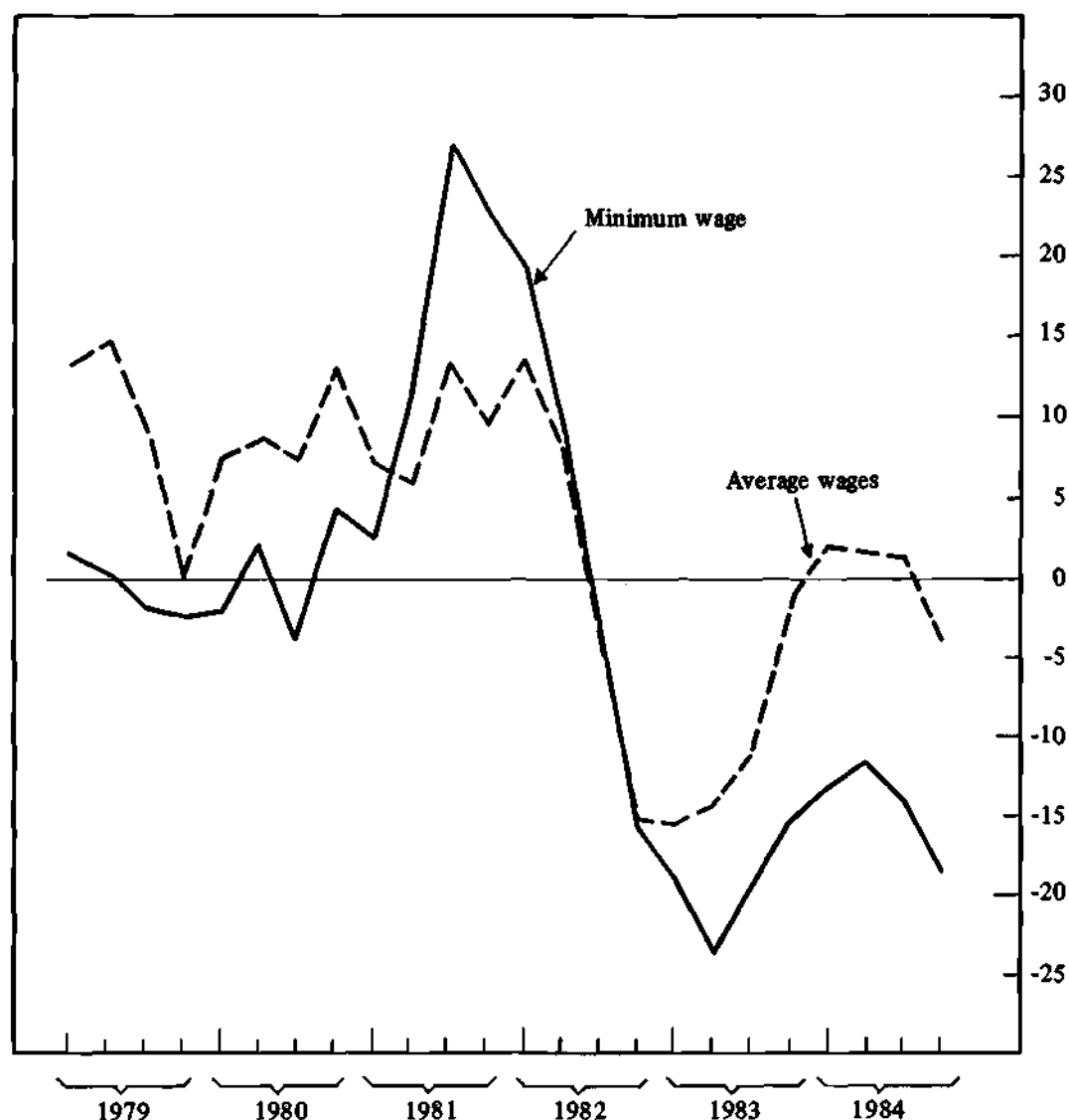
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Minimum monthly wage										
Nominal ^b	163	565	1 279	2 265	2 996	4 056	5 625	6 223	6 378	6 534
Real ^c	...	2 073	2 195	2 592	2 511	2 515	2 914	2 933	2 362	2 019
Monthly allowance paid in Minimum Employment Programme										
Nominal ^b	153	461	704	834	992	1 275	1 300	1 650	2 000	2 000
Real ^c	1 863	1 690	1 209	954	831	791	674	778	741	618
Monthly allowance paid in Employment Programme for Heads of Households										
Labourers										
Nominal ^b	-	-	-	-	-	-	-	4 000	4 000	4 000
Real ^c	-	-	-	-	-	-	-	1 690	1 481	1 236
Foremen										
Nominal ^b	-	-	-	-	-	-	-	8 000	8 000	8 000
Real ^c	-	-	-	-	-	-	-	3 380	2 963	2 472
Supervisors										
Nominal ^b	-	-	-	-	-	-	-	15 000	15 000	15 000
Real ^c	-	-	-	-	-	-	-	5 456	4 634	4 634
Senior Staff										
Nominal ^b	-	-	-	-	-	-	-	30 000	30 000	30 000
Real ^c	-	-	-	-	-	-	-	10 911	9 269	9 269

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

^aPreliminary figures.^bPesos.^cPesos of December 1978, on the basis of the corrected consumer price index given in table 27.

Figure 5

CHILE: TWELVE-MONTHLY VARIATION OF REAL WAGES



Source: ECLAC, on the basis of data from the National Statistical Institute (INE).

While the acceleration of inflation affected the purchasing power of wages in almost all sectors, its impact was greatest in commerce and construction. For their part, real wages in manufacturing went down for the third year running, although much more moderately this time (-0.9%). In contrast, wages in the mining sector increased by 2.6%, although this rise—which reflected to some extent the greater wage bargaining capacity of the mining labour force—nevertheless did not succeed in making up for the declines suffered in the previous two years, so that the wage level was still below that registered in 1980 (see table 28).

5. Monetary and fiscal policy

Monetary and fiscal policy during 1984 was conditioned explicitly by the agreement with the International Monetary Fund and implicitly by the need to reactivate the economy in a context characterized by severe external constraints. In order to increase the level of activity it was necessary,

on the one hand, for the fiscal deficit to be greater than in 1983, while on the other hand it was necessary to solve the financial crisis which was affecting both the banking system and its debtors. In order to achieve the latter objective, the authorities decided to carry out a fresh rescheduling of domestic debts (which it was hoped would be the last such exercise), promoted the conversion of debts expressed in dollars, and took measures to put the officially intervened banks on a sounder basis and return them to private hands. These decisions largely determined the features of monetary and fiscal policy in 1984.

Table 30

CHILE: FINANCIAL INDICATORS OF LIMITED COMPANIES

(Percentages)

	December			
	1981	1982	1983	1984
Agricultural and mining enterprises				
Profits				
Capital and reserves	-1.9	-16.6	-22.5	-10.4
Financial costs				
Operating expenditure	13.6	48.0	21.7	14.3
Total assets				
Total liabilities	70.0	54.0	50.0	51.0
Industrial enterprises				
Profits				
Capital and reserves	-1.9	-11.3	-4.4	0.0
Financial costs				
Operating expenditure	10.9	12.6	10.5	10.0
Total assets				
Total liabilities	54.0	47.0	47.0	44.0
Miscellaneous services enterprises				
Profits				
Capital and reserves	4.5	-9.6	-3.8	4.0
Financial costs				
Operating expenditure	4.4	6.7	8.0	7.5
Total assets				
Total liabilities	70.0	61.0	61.0	60.0
General average				
Profits				
Capital and reserves	0.8	-10.9	-5.3	1.1
Financial costs				
Operating expenditure	8.4	11.4	9.8	9.1
Total assets				
Total liabilities	61.0	52.0	53.0	50.0

Source: Santiago Stock Exchange, *Análisis Sectorial*, quarterly reports at 31 December 1983 and 31 December 1984.

Table 31

CHILE: CRITICAL VARIABLES OF SOUNDNESS OF
DOMESTIC PRIVATE BANKING SYSTEM

(Billions of pesos)

	December	
	1983	1984
Total loans	794	1 062
Overdue loans	80	124
Loans sold to Central Bank	105	148
Capital and reserves	71	87
Provisions	39	97
Operating results	-34	-69
Loans overdue or sold	1.7	1.5
Capital, reserves and provisions		

Source: Superintendency of Banks and Financial Institutions, *Información Financiera*, December 1984a) *The conditioning factors*

i) *The agreement with the International Monetary Fund.* As already noted, after having fallen markedly in 1982, the gross domestic product stood in the second half of 1983 at a level 15% below that registered in 1981. Moreover, the net inflow of capital in 1983 did not amount to even US\$ 600 million, which was only 12% of the inflow registered in 1981 and less than 60% of that received in 1982. Thus, any reactivation —no matter how slight it might be— would call for a bigger inflow of capital, at least until the world recovery took hold and the heavy devaluations decreed in the period 1982-1983 began to have their effects. In these circumstances, the 1984 agreement with the International Monetary Fund provided for a sharp increase in credit from international organizations which would more than make up for the further (although moderate) reduction foreseen in long-term loans from the commercial banking system. Thus, it was expected that the country would receive US\$ 500 million extra in long-term credits, while the commercial banking system also undertook to increase the access to short-term credit for trade purposes. It was assumed that this, together with the greater leeway permitted in the areas of both the fiscal deficit —which could amount to as much as 4.5% of the gross domestic product instead of the 3% agreed in 1983— and domestic credit —which could increase by 48%— would make it possible: a) for the economy to grow by 4%; b) for a current account deficit equivalent to about 6% of the gross domestic product to be financed (compared with one of 5.4% in 1983), and c) for inflation to be kept down to around 20%.

ii) *The reprogramming of the domestic debt.* In order for the reactivation to be brought about in reality, however, it was essential not only to enjoy easier external conditions but also to settle the domestic financial crisis as soon as possible. Indeed, if the situation of the officially intervened banks were not clarified, and above all if the critical financial situation affecting most of the units of production were not corrected, the private sector would not be able to respond with any promptness to the stimuli provided by the reactivation policy. In that event, the fiscal sector would be responsible not only for initiating the reactivation, but also for keeping it going. This is why it was so important to free the private sector from its heavy financial burden, which jeopardized not only the liquidity position but even the solvency of many enterprises.

To this end, as from May measures were taken to reprogramme a large part of the debt of the productive sectors as well as that originating in consumer credits and mortgage loans. Generally speaking, the smaller the amount of the debt, the more favourable the conditions offered as regards interest rates, repayment terms and amounts that could be reprogrammed.

In the case of credit granted to the productive sectors —which made up the major part of the bank debt— the real interest rates were to be reduced to a maximum of 5% in the first two years, 6% in the following three years, and either 7% or a variable rate three points higher than that payable on

savings accounts from the sixth year onwards. As regards repayment of principal, there was to be two years' grace and the total term for the repayment would be between 5 and 15 years, depending on the amount to be reprogrammed. The repayment terms were also extended in the case of consumer credits and mortgage loans, while the installments to be paid in the first few years were likewise reduced by being capitalized for payment at the end of the term at a maximum real interest rate of 6% to 8% per year. For debts taken out in foreign currency, a system was set up which permitted them to be converted into the readjustable units of account known as "Unidades de Fomento", at real interest rates at the order of 5% per year. The main attraction of this option was that it eliminated the exchange risk for the debtor.

In line with the limits laid down for the maximum amounts that could be reprogrammed, approximately 40% of the total debt and around one-third of the debt of the productive sectors was eligible for refinancing on these terms. In practice, however, only 62% of the total reprogrammable debt was refinanced in 1984 (i.e., 25% of the total existing debt).

As a result of the reprogramming, in 1984 there was a decline in the ratio of financial costs to operating expenditure of limited companies. This was achieved, however, at the cost of increasing their indebtedness, so that the ratio between the net worth of the enterprises and their total liabilities also went down (see table 30). Thanks to the financial relief represented by the reprogramming exercise and the reactivation of the economy, however, most of the sectors showed profits in 1984—something that had not occurred since the end of 1981. Thus, 11 of the 21 productive sectors considered showed a profit, while in nine of the ten remaining sectors the losses were reduced.

Up the September devaluation, the reprogramming transactions had called for the disbursement of credits of the order of US\$ 250 million: equivalent to 35% of the total expansion of domestic credit authorized for the whole year in the agreements signed with the International Monetary Fund.

Table 32

CHILE: MONETARY INDICATORS

	December averages for each year, in billions of pesos			Growth rates			
	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money issue (E)	61.7	70.1	82.5	-6.8	-29.3	13.6	17.6
Total money supply	114.5	138.7	148.6	2.1	-19.7	21.1	7.1
Private sector (M ₁)	75.0	95.2	102.4	8.7	-9.1	26.8	7.6
Public sector (PS)	39.5	43.5	46.2	-5.7	-34.3	10.3	6.1
Term deposits (TD) ^b	273.6	262.2	347.8	71.8	11.9	-4.2	32.6
From 30 to 89 days	221.5	128.2	159.9	141.0	7.1	-42.1	24.7
From 90 to 365 days	28.4	80.2	132.4	-66.2	127.2	182.4	65.1
Readjustables	24.4	73.6	121.1	-90.6	838.5	202.0	64.6
Non-readjustable	4.0	6.6	11.3	6.5	-59.6	-31.1	70.1
Over one year	23.7	53.8	55.5	29.1	-6.3	127.4	3.1
Private money + term deposits (M ₂ = M ₁ + TD)	348.6	357.4	450.2	49.8	6.6	9.6	26.0
Bank quasi-money (D ₂) ^c	334.5	366.2	484.3	55.8	9.5	9.6	32.3
Term deposits	273.6	262.2	347.8	71.8	11.9	20.7	32.6
Savings deposits	47.8	80.1	101.2	10.6	8.6	67.6	26.3
Loans by the banking system							
National currency	537.0	654.4	947.9	64.0	1.3	25.9	44.9
Foreign currency ^d	6 441.0	4 893.0	3 825.0	35.9	-19.0	-24.8	-21.0

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 33

CHILE: BANK INTEREST RATES

	1979	1980	1981	1982	1983	1984	1984 ^a			
							I	II	III	IV
Nominal										
Short-term deposits	45.0	37.4	40.8	47.8	27.9	26.1	15.6	17.5	17.4	58.4
Short-term loans	62.0	46.9	51.9	63.1	42.7	37.2	27.1	29.1	27.8	68.9
Real										
Non-readjustable operations										
Short-term deposits ^b	4.6	4.7	28.6	22.4	3.9	2.3	5.1	0.2	1.0	4.3
Short-term loans ^b	16.6	12.0	38.7	35.1	15.9	11.4	17.9	10.2	8.6	11.1
Readjustable operations										
Deposits	14.5	8.4	13.1	12.0	7.7	8.4	7.6	6.7	9.0	10.4
Loans	23.0	15.4	14.5	16.9	9.8	9.0	8.4	8.1	9.3	10.1

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 27, and the consumer price index of the National Statistical Institute (period 1979-1982).

Furthermore, at the end of 1984 the contents of the new law on commercial banks were announced. According to the provisions of this law, steps were to be taken to capitalize a sufficient proportion of the debt owed by the commercial banks to the Central Bank in order to generate in each bank the surpluses needed to pay off the balance of the debt to the Central Bank and recover the portfolio of overdue debts, to acknowledge the accumulated losses, and to place the banks in a position to resume the payment of dividends to their shareholders within a space of seven to nine years. Once the official intervention of the banks in question had been raised, they could sell their high-risk and overdue portfolio to the Central Bank on the same terms as the banks which had not been intervened. Furthermore, in order to ensure the return of the banks to private hands, the Central Bank was obliged to sell the shares which had been obtained through the capitalization of its credits, within a period of no longer than five years.

Despite the relief represented by the reprogramming transactions, and also despite the reactivation of the economy, the situation of the national private banking system as a whole continued to be very delicate. Thus, in 1984 its losses were double those of the year before, while the ratio between the overdue portfolio or that sold to the Central Bank and their capital, reserves and provisions was 1.5%, which was almost as much as the very high ratio (1.7) registered the year before (see table 31).

b) *Monetary policy*

After three years in which most of the monetary aggregates suffered drops in real terms, this process was reversed in 1984, except in the case of the money supply, the real level of which went down by 13%, mainly because of the September devaluation and the acceleration of inflation caused by it (see table 32). Domestic credit, however, grew significantly throughout the year, especially in the second quarter (when the figure was almost double that of the first quarter) and the fourth quarter (when a large part of the external debt of the private sector was dedollarized after the devaluation). In fact, 85% of the increase in domestic credit during 1984 was due to two programmes —that for the reprogramming of debts, and that for subsidizing the dollar made available on preferential terms. For its part, around 70% of the credit devoted to the reprogramming of debts originated in dedollarization operations (i.e., the conversion of debts in foreign currency into debts expressed in "Unidades de Fomento").^a

^a The fact that such a high percentage of the total expansion of credit was concentrated in the reprogramming of debts shows, on the one hand, the rigidity that the authorities had to face in their handling of monetary and credit matters, while on the other it suggests that if socially productive activities do not coincide with the most highly indebted activities, their expansion will be restricted by the shortage of credit available for purposes other than that of reprogramming.

Despite the big increase in domestic credit, this did not give rise to significant losses of international reserves, since at the same time there was a sharp increase in the net inflow of capital, especially of short-term credits obtained by public enterprises, which they deposited in the Central Bank. In this way, it was possible to comply with the letter of the agreement signed with the International Monetary Fund.

Another important change which took place in 1984 in the financial field was the significant decline in real interest rates on non-readjustable operations, both loans and deposits. As a result, the rate for loans reached its lowest level (a little over 11% per year) since the financial liberalization process began in 1975, while the rate for deposits reached its lowest level (a little over 2%) since 1976. At the same time, although the spread between these two rates was still high at nine percentage points, it was the smallest registered since 1980 (see table 33).

On the one hand, this decline in interest rates reflected the bigger supply of credit, while on the other it reflected the reduction in the demand for loans attributable to the reprogramming operations, the elimination of related credits, and the upturn in economic activities. Indeed, since part of the demand for credit which had existed previously was only for the purpose of financing interest commitments, while another part was due to the cash needs of enterprises which were deeply indebted and facing declining demand, the demand for credit was bound to go down when interest rates declined and sales increased.

However, the real interest rate rose again in the fourth quarter. This was due partly to the devaluation and the uncertainty and inflationary expectations generated by it, and partly to the contraction in credit to the private sector (except for that destined for the reprogramming of debts) on account of the Government's attempt to comply with the targets agreed with the International Monetary Fund when the short-term external credits had been exhausted. The rise in the rates on loans was limited by the sharp reduction in the spreads charged, which went down steadily from over twelve percentage points in the first quarter of the year to less than seven points in the last quarter. A decisive factor in this result was the direct control exercised by the public sector on the operations of a large part of the private banking system.

c) *Fiscal evolution*

In 1984 the fiscal deficit reached its highest level (equivalent to 4% of the gross domestic product) since 1974. This did not have any major inflationary effects, however, because of the existence of abundant idle capacity in the economy. In fact, the fiscal deficit might have been even higher had it not been for the restrictions imposed on the reactivation process by the limited availability of external resources.

Although the deficit was larger than that of the previous year, the reason this time was not—as in the biennium 1982-1983—that income fell faster than expenditure, but rather to the fact that expenditure rose more than income. In other words, in 1984 the deficit was due to a deliberately reactivating fiscal policy and not, as in the previous two years, to a recessionary fiscal policy. Thus, in the earlier period mentioned, the increase in the imbalance on the fiscal accounts coincided with very sharp drops in fiscal expenditure and income, of 13% and 21% respectively. In 1984, in contrast, expenditure increased almost 8%, while income rose by only 7% in real terms. This increase in income occurred in spite of the drop of almost one-third in the income from copper. In contrast, tax revenue increased by over 12% in real terms, in spite of the reductions in income tax rates (see table 34).

Although the real wages of government employees went down and there was also a reduction in expenditure on programmes such as the PEM and POJH, fiscal investment increased markedly. Thus, fiscal expenditure (in national currency) on public works grew by 30% in real terms during 1984 and real spending on housing rose by 64%. This means that in 1984 priority was given to policies designed to increase employment rather than wages (investment rather than current expenditure) and to promote productive employment (public works and housing) rather than low-productivity employment such as the PEM and POJH.

Despite the increases in 1984, the only item of fiscal expenditure which exceeded the 1980 level in real terms during the year was spending on social programmes (which increased by 11%). However, 80% of the real increase in such spending was accounted for by the rise in social security payments due to the larger number of retired persons and the bigger transfers which the Government

Table 34

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
A. Income and expenditure in national currency (Billions of current pesos of each year)									
1. Current income	25.2	57.6	100.4	157.1	239.4	319.9	300.7	348.3	442.3
Direct taxes	6.5	14.7	24.7	45.3	65.6	81.1	80.1	70.0	86.5
Indirect taxes	18.0	41.1	69.6	104.3	154.1	203.7	190.7	260.3	339.6
Non-tax revenue	0.7	1.8	6.1	7.5	19.7	35.1	29.9	18.0	16.2
2. Total expenditure	24.1	57.0	94.5	151.2	226.4	291.5	323.4	400.3	501.3
Service of public debt	0.3	1.0	1.2	7.8	15.8 ^b	2.9	4.2	13.0	34.6
Other expenditure	23.8	56.0	93.3	143.4	210.6	288.7	319.2	387.3	466.7
3. Deficit (1-2)	1.1 ^c	0.6 ^c	5.9 ^c	5.9 ^c	13.0 ^c	28.4 ^c	22.7	52.0	59.0
4. Deficit/total expenditure (percentage)	4.6 ^c	1.0 ^c	6.2 ^c	3.9 ^c	5.8 ^c	9.7 ^c	7.0	13.0	11.8
B. Income and expenditure in foreign currency (Millions of dollars at current prices)									
1. Current income	383	374	360	864	1 007	523	439	548	422
Copper	352	353	331	840	976	449	402	518	361
Other	31	21	29	24	31	74	37	30	61
2. Total expenditure	695	624	675	679	1 178	1 550	564	648	667
Service of public debt	544	445	507	524	958 ^d	1 270 ^e	410	462	369
Other expenditure	151	179	168	156	220	280	154	186	298
3. Deficit (1-2)	312	250	315	184 ^c	171	1 037	125	100	245
4. Deficit/total expenditure (percentage)	44.9	40.1	46.7	27.1 ^c	14.5	66.9	22.2	15.4	36.7
C. Consolidate income and expenditure (Millions of dollars at 1976 prices)									
1. Current income	2 313	2 499	2 688	3 104	3 579	3 842	3 239	3 025	3 235
Copper	352	314	253	509	519	219	192	244	166
Direct taxes	515	564	604	752	842	915	809	559	598
Indirect taxes	1 384	1 553	1 681	1 717	1 963	2 291	1 926	2 070	2 337
Non-tax revenue	62	68	150	126	255	417	312	152	134
2. Total expenditure	2 540	2 699	2 788	2 896	3 504	4 025	3 528	3 485	3 753
Service of public debt	566	435	418	446	710 ^f	652 ^g	238	321	407
Other expenditure	1 974	2 264	2 370	2 450	2 797	3 373	3 290	3 164	3 346
3. Deficit (1-2)	227	200	100	208 ^c	75 ^c	183	289	460	518
D. Coefficients (Percentages)									
4. Deficit/total expenditure	8.9	7.4	3.6	7.2 ^c	2.1 ^c	4.5	8.2	13.2	13.8
5. Deficit/gross domestic product	2.3	1.8	0.8	-1.7 ^c	-0.6 ^c	1.2	2.3	3.8	4.0
6. Current income/gross domestic product	23.5	23.1	23.0	24.5	26.3	26.7	26.2	24.6	24.8
7. Total expenditure/gross domestic product	25.8	24.9	23.8	22.8	25.7	27.9	28.5	28.4	28.8

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.

had to make to the social security system in order to make up for the drop in the latter's income as a result of the reform in the pensions scheme.

Finally, the deficit of the Government social security system came to the equivalent of almost 8% of the gross domestic product. It is estimated that half of this deficit would have occurred even if the old system of pensions had continued (because of the increase in the number of pensioners in both absolute and relative terms); the other half, however, was due to the 1980 pension reform measures, which maintained or even increased public expenditure on pensions but reduced the income of the Government social security system by transferring the bulk of pension contributions to privately-operated pension funds. In reality, the impact of the pension reform measures on the public finances has been substantial, since if the reform had not been made the 1984 fiscal deficit would have been almost zero.

ECUADOR

1. Recent economic trends: Introduction and summary

Auspicious signs of recovery could be glimpsed in the Ecuadorian economy in 1984. After the rapid deterioration of the economic position which culminated in a crisis in 1983, the gross domestic product improved by 3%. This was essentially because agriculture and fishing recovered from the severe losses suffered on account of floods and heavy seas in the preceding year, and the petroleum industry once again considerably increased its production. Rates of inflation substantially declined, while creditworthy estimates detected a slight fall in levels of unemployment.

In the per capita product, however, which had been reduced by 7% in the two preceding years, no variation was observable in 1984, and its level was only a very little higher than it had been in 1977 (see table 1 and figure 1).

Furthermore, national income increased somewhat less than the product (2.4%). Bigger interest payments on the external debt and growing remittances of profits cancelled out part of the increment in the product and the favourable effect of the terms of trade, which had shown no previous improvement since 1980 (see table 2).

In gross fixed investment there was an upturn of nearly 8%. Although this was a tiny improvement alongside the cumulative decrease of about 45% in the preceding triennium, it was the first that had occurred since 1980. It took place, moreover, in an atmosphere of political ferment and uncertainty deriving from the long-drawn-out process of the presidential election and its implications in terms of possible changes in economic policy. The dynamism of investment was generated chiefly by the public works that were still under construction and by the rehabilitation of infrastructure damaged by the torrential rains, floods and heavy seas of the winter of 1982-1983.

Consumer expenditure, in contrast, increased very little in real figures, in particular private consumption, which in per capita terms again contracted. Government consumer expenditure, on the contrary, breaking all the bounds that had been imposed on it in the last two years, expanded by over 6%.

The rate of inflation started to slacken in the last quarter of 1983, when, thanks to imports, the supply of food and other basic products, which had been affected by the aforesaid natural disasters, began to return to normal. Measured from December to December, the consumer price index dropped to less than half —by 52.5%— while the variation between annual averages declined from 48 to 31%. The deceleration of the inflationary process was likewise furthered by the relatively moderate increase in the means of payment in the first eight months of the year, the deterioration of real wages and the restrictive fiscal policy applied by the authorities.

The means of payment increased by about 40% from December to December, but their expansion was concentrated in the last four months of 1984, so that on an average they grew by only 28% during the year, a rate which was lower than the average variation in prices.

Yet another contraction of the minimal real wage brought its loss of purchasing power in the course of the 1980s up to 30%. This followed upon the spectacular increase of over 70% which was recorded in 1980.

The trade balance showed a surplus for the second year running, this time verging on US\$ 700 million. Exports expanded by almost 12%, thanks to the recovery of the sales levels of agricultural and marine products and to the appreciable increase in sales of hydrocarbons, notwithstanding the persistent downward trend of petroleum prices. Imports grew at a similar rate, but owing to the precipitous fall they had suffered in the preceding year, their 1984 level was approximately 70% of that attained in 1981, when they reached a record figure (see table 1 and figure 1).

Despite the larger trade balance surplus, the deficit on current account increased by almost one-third. In any event, the imbalance of US\$ 170 million was equivalent to approximately one-seventh

of the sum recorded in 1981-1982. The deterioration of the balance-of-payments current account in 1984 was due partly to the 13% increase in the already swollen interest payments on the external debt—which came to represent 28% of the new amount of export earnings—and partly to the bigger outflow of net remittances of profits.

Furthermore, the net inflow of capital shrank to less than half. As no new credit came in from the international private banks, the upshot was that international reserves dwindled by about US\$ 60 million.

By the end of 1984 Ecuador's external debt had climbed to US\$ 7 billion, a sum 4% higher than that reached in December 1983. But at all events the rate of increase declined for the third year in succession, since the interruption of the inflow of credit from the international banks. In fact, it went down from 25% per annum in the three-year period 1979-1981 to 6% during the last three years.

The new credit disbursed came from governments, international agencies and, to a lesser extent, suppliers. The authorities succeeded in renegotiating with the international banks the payment of commitments amounting to about US\$ 900 million and maturing in 1984. Of this sum,

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	5 313	5 595	5 869	6 100	6 207	6 001	6 181
Population (millions of inhabitants)	7.67	7.89	8.12	8.36	8.60	8.85	9.11
Per capita gross domestic product (1970 dollars)	693	709	723	730	722	672	678
Growth rates							
B. Short-term economic indicators							
Gross domestic product	6.6	5.3	4.9	3.9	1.8	-3.3	3.0
Per capita gross domestic product	3.6	2.3	2.0	1.0	-1.1	-6.0	-
Consumer prices							
December to December	11.8	9.0	14.5	17.2	24.4	52.5	25.1
Variation between annual averages	11.7	10.3	13.0	16.0	16.3	48.4	31.2
Real minimum wage ^b	-7.5	21.1	71.6	-13.8	-9.7	-8.3	-1.7
Money ^c	10.2	27.4	27.7	15.3	18.3	30.1	41.2
Current income of government	15.8	20.7	62.3	5.2	15.2	30.4	67.1
Total expenditure of government	17.2	7.8	68.7	24.9	12.0	11.6	56.8
Fiscal deficit/total expenditure of government ^d	27.1	18.1	20.9	33.8	32.5	18.9	12.7
Fiscal deficit/gross domestic product ^d	3.7	2.2	3.4	5.8	5.2	2.5	1.9
Current value of exports of goods and services	7.0	41.5	18.9	1.6	-7.7	-1.7	11.6
Current value of imports of goods and services	22.1	25.1	11.2	6.8	-5.0	-33.5	11.2
Terms of trade (goods and services)	-8.7	18.8	9.5	-9.0	-8.0	-5.5	-4.1
Millions of dollars							
C. The external sector							
Trade balance (goods and services)	-463	-299	-147	-304	-368	610	690
Net payments of profits and interest	279	356	525	722	847	738	860
Balance on current account	-730	-654	-672	-1 027	-1 215	-128	-170
Balance on capital account	736	698	942	656	875	238	110
Variation in net international reserves	13	87	291	-381	-328	127	-58
Total external debt	2 975	3 554	4 652	5 868	6 186	6 712	6 995

Source: ECLAC, on the basis of official figures.

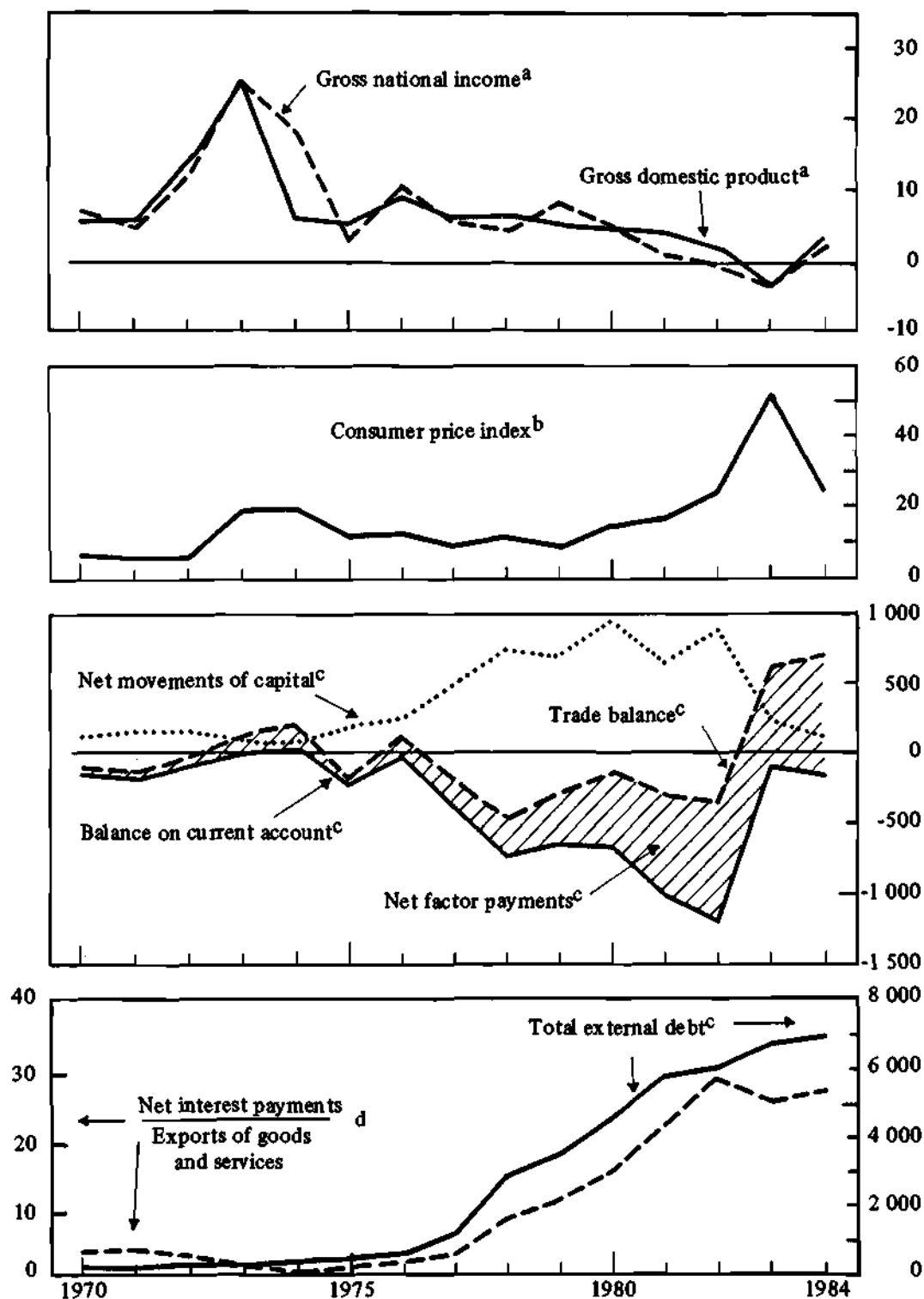
^aProvisional figures.

^bIncluding various gratuities and bonuses.

^cFrom December to December.

^dPercentages.

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.

approximately US\$ 500 million corresponded to the private debt, for which the State had assumed responsibility. With the Club of Paris a moratorium was obtained on payments of about US\$ 150 million which should have been made in the first half of 1984.

The main principles of monetary, exchange, fiscal and other policies, set forth in the Economic Stabilization Programme of March 1983 and coincident with the proposals set forth in the letter of intent submitted to the International Monetary Fund (IMF) in that year, remained operative in 1984.

In September, shortly after the new administration had taken office, an important set of measures was introduced, reflecting some of the key objectives of short-term policy.

The schedule of products subject to the fixing and control of maximum consumer prices was substantially reduced. At the same time, that of goods for which minimum support prices were payable to the producer —mainly exportable agricultural products and industrial inputs— was expanded with the aim of encouraging their production.

Following up the previous government's initiation of the practice of gradually bringing domestic prices closer to those quoted on the international market, at the end of December the prices of fuels were raised: those of gasoline by about 65% and those of diesel oil and fuel oil by 90%. This policy sought to reduce government subsidies, as well as the high domestic consumption of fuels and, in addition, contraband, thus increasing the surpluses available for export.

Although the system of daily minidevaluations was brought to an end, exchange rates were not unified. The official parity rate was fixed at 66.50 sucres per dollar and the Central Bank rate was stabilized at 95-96.50 sucres. Meanwhile, the price of the dollar on the free market rapidly rose and by November had reached over 120 sucres.

At the same time it was decreed that all foreign trade transactions were to be effected at a higher exchange rate, that of the Central Bank, except in the case of petroleum and petroleum products and imports of a group of essential goods. Up to September the official rate of exchange had been in force for exports of hydrocarbons and half of the remainder; the other 50% had been liquidated at the Central Bank rate. Where imports were concerned, foreign exchange at the official rate had been granted for the most indispensable items.

The new exchange measures increased the profitability of exports and improved their competitiveness on external markets. Imports became dearer, the assumption being that this would help to rationalize them. It was also hoped that the raising of the exchange rates would discourage contraband, under-invoicing of exports and over-invoicing of imports. These irregularities were attaining inordinate proportions, estimated at about US\$ 600 million.

The exchange measures were accompanied by the lifting of the ban —in force since October 1982— on imports of a number of goods. The importing of motor vehicles, however, was still prohibited.

The fiscal deficit/gross domestic product ratio fell from 2.5% to 1.9%, and that corresponding to the public sector declined from 3.8% to 2.5%. This progress was achieved despite the fact that total government expenditure expanded by nearly 60% in nominal terms. The explanation lies in the fact that current income increased at a rate of about 70%.

Table 2

ECUADOR: EVOLUTION OF GROSS NATIONAL INCOME

	In national currency at constant prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c)	6 376	6 339	6 132	6 282	1.2	-0.6	-3.3	2.4
a) Gross domestic product	6 101	6 208	6 001	6 183	3.9	1.8	-3.3	3.0
b) Terms-of-trade effect	565	465	421	426	-13.3	-17.8	-9.5	1.4
c) Net external factor payments	290	334	290	327	28.1	15.1	-13.3	12.8

Source: ECLAC, on the basis of information supplied by the Central Bank of Ecuador.

^a Provisional figures.

Table 3

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	7 414	6 799	7 042	119.7	122.2	113.9	3.1	0.3	-8.3	3.6
Gross domestic product at market prices	6 208	6 001	6 183	100.0	100.0	100.0	3.9	1.8	-3.3	3.0
Imports of goods and services ^b	1 206	798	859	19.7	22.2	13.9	-0.7	-6.7	-33.8	7.7
Total demand	7 414	6 799	7 042	119.7	122.2	113.9	3.1	0.3	-8.3	3.6
Domestic demand	6 818	6 183	6 347	108.6	112.3	102.7	3.0	0.4	-9.3	2.7
Gross domestic investment	976	700	753	21.0	20.9	12.2	-13.4	-8.1	-28.3	7.6
Gross fixed investment	908	646	697	17.9	18.3	11.3	-7.2	-8.9	-28.9	7.9
Construction	489	429	431	8.9	8.3	7.0	-0.9	0.5	-12.3	0.5
Machinery	419	217	266	9.0	10.0	4.3	-12.6	-17.9	-48.3	22.6
Changes in stocks	68	54	56	3.1	2.6	0.9				
Total consumption	5 842	5 483	5 594	87.6	91.4	90.5	6.8	2.0	-6.2	2.0
General government	866	784	835	13.2	14.6	13.5	2.4	-1.4	-9.5	6.5
Private	4 976	4 699	4 759	74.4	76.8	77.0	7.6	2.6	-5.6	1.3
Exports of goods and services ^b	596	616	695	11.1	9.9	11.2	3.9	-1.4	3.5	12.8

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

^a Provisional figures.

^b The figures for exports and imports of goods and services were obtained from the balance of payments in dollars at current prices converted to constant 1970 prices by means of price indexes calculated by ECLAC to that effect.

Lastly, with the aim of wiping out the surplus liquidity observable in September, the Monetary Board raised the bank reserve from 20 to 22% and decreed that payment for imports should be made to the Central Bank prior to customs clearance. Rates of interest were put up in June and in December, each time by two percentage points, leaving the rate on 30-day deposits at 20%. Furthermore, the rate of interest on 90-day deposits of more than one million sucres was allowed to float, the aim being to boost domestic savings and attract capital invested abroad.

2. Trends in economic activity

a) Total supply and demand

All the components of supply and demand improved in 1984 in relation to the low levels to which they had sunk in 1982 and especially in 1983. Although important activities and domestic demand remained depressed, the economy began to return to normal (see table 3).

Total supply picked up by nearly 4%, after its fall of more than 8% in 1983 and its stagnation in 1982, which had left it at levels far below those recorded at the beginning of the decade. The recovery was influenced both by the upturn in the domestic product, which virtually offset the previous year's decline, and by the evolution of imports. The latter increased by approximately 8%, after a cumulative decrease of over 40% during the preceding biennium.

Exports, the only component of demand which was not affected by the hardships of the crisis in 1983, expanded by almost 13% in 1984 in terms of quantum. This result was obtained thanks to an exceptional recovery in sales of cocoa, marine products and petroleum products, together with a fresh increase in exports of crude oil.

The domestic supply of goods and services only partly regained the levels it had reached prior to its substantial contraction (-9%) in 1983. This was because exports continued to absorb most of the increase achieved in the supply of goods and services.

Gross domestic investment and fixed investment increased by about 8% in 1984. Of particular importance was the recrudescence of the latter, the level of which had dropped by 40% between 1980 and 1983.

On the other hand, consumer expenditure expanded but little, notwithstanding that in general government expenditure there was an appreciable real increase, unprecedented in recent years, when strict austerity measures had been applied. The recuperation was very slight in the case of private consumption, the decline in which, in per capita terms, had totalled 10% in the last three years.

b) *Evolution of the main sectors*

The increase in the gross domestic product was significant not only because it almost completely offset the downward movement recorded the year before, but also because it apparently put an end to the gradual loss of dynamism in economic activity which had already begun in 1978.

The 1984 recovery, however, was still far from generalized. Strictly speaking, it was possible solely thanks to the recrudescence of agricultural production and fishing —as weather conditions went back to normal— and to the persistent vigour of the petroleum industry (see table 4).

Activities as important as manufacturing and construction, which had made a decisive contribution to the dynamism noted up to the beginning of the 1980s, did not even succeed in

Table 4

ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product ^b	5 653	5 464	5 630	100.0	100.0	100.0	3.9	1.8	-3.3	3.0
Goods	2 534	2 459	2 571	49.1	45.4	47.7	8.4	4.0	-2.9	4.6
Agriculture	832	719	804	19.6	15.4	14.9	6.8	2.2	-13.5	11.7
Mining and petroleum industry ^c							6.3	-3.3	24.5	10.3
Manufacturing							8.8	6.9	-1.9	0.9
Construction	176	155	156	4.1	3.4	2.9	4.8	-0.6	-12.0	0.5
Basic services	547	560	570	8.9	10.2	10.6	4.4	4.3	4.0	2.3
Electricity, gas and water	55	66	69	1.0	1.0	1.3	0.2	13.2	19.8	4.9
Transport, storage and communications	492	494	501	7.9	9.2	9.3	4.8	3.1	0.4	1.5
Other services	2 501	2 418	2 460	44.1	48.0	45.8	2.9	2.4	-3.3	1.7
Commerce	837	725	732	16.0	16.7	13.6	1.0	0.3	-13.4	1.0
Financial institutions, insurance, real estate and business services	748	766	779	12.3	14.3	14.5	3.3	2.5	2.5	1.7
Ownership of dwellings	240	243	248	5.4	4.6	4.6	2.9	2.8	1.3	2.1
Community, social and personal services	916	927	948	15.8	17.0	17.7	4.5	4.3	1.2	2.4
Government services	509	515	527	9.7	7.1	9.8	2.1	1.7	1.2	2.3
Less: imputed charges for banking services	185	210	219	2.1	3.6	4.1	1.1	1.8	13.7	4.3

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^aProvisional data.

^bAs the individual activities and the totals were calculated independently, the sum of the activities does not correspond with the totals.

^cOil-refining was included in the petroleum industry and excluded from manufacturing. The original values in millions of sucres at 1970 prices are as follows:

	1981	1982	1983	1984
Mining and petroleum industry	15 992	15 471	19 261	21 245
Manufacturing (excluding oil-refining)	29 159	31 178	30 586	30 865

recouping during 1984 what they had lost in previous years. Similarly sluggish was the performance of the services sector, particularly in the case of commercial and financial activities and transport, storage and communications services.

Lastly, the growth of the product of basic services (electricity, gas and water), although moderate, continued to be positive, unlike that of all the other sectors, whose levels of activity had been hard hit during the crisis.

i) *Agricultural production and fishing.* During 1984 agriculture recovered from the enormous damage inflicted by the rainstorms and floods of 1982-1983. In its turn, fishing, which had been seriously affected by the heavy seas and other adverse phenomena that the ocean current known as El Niño had brought in its train, expanded significantly (see table 5).

All the major crops showed considerable production increments which, apart from activating the other sectors of the economy and alleviating unemployment, gave an impulse to exports and made possible a notable reduction in imports of food and of inputs for industry.

Among agricultural products for export, bananas substantially recouped the losses incurred in the preceding year. This was mainly due to improvements in productivity, since it was possible to rehabilitate only part of the area under this crop that had been flooded in 1983, and of the 3 000 hectares by which it had been hoped to expand the area under cultivation in the province of Esmeraldas, less than half was actually planted.

The return of normal weather conditions also raised coffee yields per hectare and production increased by about 11%. Thus advantage could be taken of the favourable international coffee prices and the increase in the export quota assigned to Ecuador by the International Coffee Organization. During the year, some plantations were renewed and others were rehabilitated, but rust laid waste about 25 000 hectares in the provinces of El Oro, Loja and Napo.

Cocoa only half recovered from its drastic decline in 1983. The persistence of pests and the cold wave delayed flowering in some provinces, reducing the incidence of the high yields obtained in others. Approximately 5 000 hectares of cocoa plantations were rehabilitated or planted, and it is estimated that production increased by about 15%.

Among products for domestic consumption, noteworthy results were achieved in short-cycle crops along the coastal belt. Since soya production exceeded the 1980-1982 crop, which had already been quite satisfactory, by 57% the Government had to reduce the price paid to the farmer. The African palm, used likewise for oil, also significantly expanded.

There were also substantial increases in the rice and hard maize crops, thanks to the favourable weather conditions which made it possible to improve yields and to the larger area allocated to the crops in question. The increases in wheat and barley production were sizeable but insufficient to allow the levels reached in other years to be regained.

The increase in the 1984 sugar-cane harvest was large enough to permit recoupment of half the cumulative decrease in production between 1980 and 1983. This result was due to the restoration of an extensive area affected by floods and to a rise in yields.

Production of cotton, another important industrial input which had been declining since 1980, considerably increased. However, this increase was insufficient to meet the needs of the textile industry, which had to go on importing part of its raw material.

The livestock sector kept up its uninterrupted expansion, but this time at a more leisurely rate (3%). It is estimated that the growth rate of beef production fell short of this average, whereas that of milk doubled it. The poultry industry apparently succeeded in recuperating from the enormous losses in livestock and the damage to installations suffered in the preceding year.

According to estimates, forestry barely achieved a slight recovery after its sharp contraction in 1983, although exports of lumber increased in terms of volume by 27%.

During the year the agricultural sector enjoyed the support of a volume of bank credit amounting to about 60 billion sucres, 8% more in real terms than had been granted in 1983.

When the exchange rate for exports was raised in September agricultural production for export was benefited and encouraged. Similarly, the reduction in the number of basic consumer goods, mainly food, subject to the fixing of maximum prices, and the fixing of minimum support prices at the producer level for a group of agricultural products, constituted an incentive to the development of agricultural production.

Table 5

ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1981	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Millions of sucres at 1975 prices									
Agricultural product	21 198	22 647	23 138	20 015	22 357	6.8	2.2	-13.5	11.7
Crop farming	10 831	11 703	11 291	8 233	10 028	8.1	-3.5	-27.1	21.8
Livestock production	7 216	7 578	8 067	8 283	8 531	5.0	6.5	2.7	3.0
Forestry	1 540	1 593	1 754	1 543	1 574	3.4	10.1	-12.0	2.0
Fishing and hunting	1 611	1 773	2 026	1 956	2 230	10.1	14.3	-3.5	14.0
Thousands of tons									
Main products									
Bananas	2 269	2 010	1 999	1 642	1 855	-11.4	-0.5	-17.9	13.0
Coffee	69	92	84	81	90	33.3	-8.7	-3.6	11.0
Cocoa	91	85	97	55	63	-6.6	14.1	-43.3	14.5
Sugar-cane	3 862	3 596	2 461	1 640	2 730	-6.9	-31.6	-33.4	66.5
Cotton	40	39	25	5	21	-2.5	-35.9	-80.0	320.0
Soya	34	35	37	14	55	2.9	5.7	-62.2	292.9
African palm	245	349	309	354	390	42.5	11.5	14.6	10.2
Rice	381	434	384	274	350	13.9	-11.5	-28.6	27.7
Wheat	31	41	39	27	29	32.3	-4.9	-30.8	7.4
Hard maize	196	261	269	185	280	33.2	3.1	-31.2	51.4
Soft maize	45	51	55	44	55	13.3	7.8	-20.0	25.0
Barley	24	27	35	30	32	12.5	29.6	-14.3	6.7
Potatoes	323	321	416	345	400	-0.6	29.6	-17.1	15.9
Primary products									
Beef	89	92	96	97	99	2.8	5.2	1.0	2.1
Poultry meat	36	42	46	30	42	16.7	9.5	-34.8	40.0
Milk (millions of litres)	897	916	935	965	1 019	2.1	2.1	3.2	5.6
Thousands of hectares									
Bananas	70.5	61.6	65.0	59.3	61.0	-12.6	5.5	-8.8	2.9
Coffee	288.0	320.9	321.9	339.0	342.0	11.4	0.3	5.3	0.9
Cocoa	269.9	270.0	277.0	270.0	275.0	-	2.6	-2.5	1.9
Sugar cane	50.9	50.0	31.6	22.0	35.0	-1.8	-36.8	-30.4	59.1
Cotton	19.4	22.4	17.4	10.4	14.3	15.5	-22.3	-40.2	37.5
Soya	24.9	25.0	21.3	10.1	32.1	0.4	-14.8	-52.6	217.8
African palm	18.0	25.4	26.8	28.5	31.0	41.1	5.5	6.3	8.8
Rice	126.6	130.1	131.7	98.8	120.0	2.8	1.2	-25.0	21.5
Wheat	32.1	36.2	33.1	25.8	27.0	12.8	8.6	-22.0	4.7
Hard maize	166.7	169.0	155.4	145.3	160.0	1.4	-8.0	-6.5	10.1
Soft maize	59.2	65.1	61.1	60.6	65.0	10.0	-6.1	-0.8	7.3
Barley	26.2	28.6	33.9	29.8	31.5	9.2	18.5	-12.1	5.7
Potatoes	30.4	40.0	35.1	30.0	35.0	31.6	-12.2	-14.5	16.7
Total	1 182.8	1 244.3	1 211.3	1 129.6	1 229.0	5.2	-2.7	-6.7	8.8

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador, the Ministry of Agriculture, and the National Development Council.

^a Provisional figures.

Furthermore, the new government expressed a desire to promote investment of foreign capital in non-traditional export agriculture and in industrial crops, as well as to set limits to State intervention in the marketing of agricultural products.

ii) *Fishing.* With the passing of the storms and heavy seas and the normalization of the temperature and salinity of the sea, a recovery took place in fishing levels, which had plummeted in 1983. On the other hand, the shrimp-raising drive encountered serious problems resulting from a shortage of larvae.

The volume of exports of shrimp decreased slightly in 1984. In contrast, that of frozen fish and processed marine products almost completely recuperated from the substantial decline it had suffered in the preceding year (see table 6).

iii) *The petroleum industry.* Output of crude oil again expanded, this time by a little over 8%, which brought it up to almost 94 million barrels, in comparison with 77 million a couple of years before. This increase was made possible by the incorporation of five new oilfields, the development of others and the use of secondary recovery techniques.

Average extraction (257 thousand barrels) was 8% higher than the 1983 figure. Moreover, towards the end of the year output passed the 270 thousand barrels daily mark. The start of operations in the Dureno, Cuyabeno, Sansahuari, Tetete and Bermejo oilfields made an approximate contribution of an additional 15 000 barrels daily. The larger supply of petroleum took up the entire capacity of the pipeline which conveys the oil to the port of Balao, with the result that emergency pumping units had to be used.

Output of petroleum products was also substantially expanded, in an effort to regain the levels from which it had fallen in 1983. The increase was especially notable in production of gasoline and diesel oil, which had appreciably declined since 1980, and that of liquefied gas. To obtain such a result utilization of refining capacity (about 96 000 barrels daily) had to be raised to the maximum, despite the technical and maintenance problems which affected the Esmeraldas plant (see table 7).

Alongside the noteworthy increase in production of crude oil and petroleum products, there was a further contraction in domestic consumption of fuels (-2%), which made it possible to continue expanding export volumes and at the same time substantially to reduce (-39%) imports of fuels, mainly diesel oil and gasoline.

The decline in domestic consumption of fuels was associated both with the economic recession and with the steady rise in the prices of petroleum and petroleum products. The increases decreed at the end of the year, i.e., 6.5% for gasoline and 90% for diesel oil and fuel oil, were additional to others, on a similar scale, which had taken place at the beginning of 1981, in October 1982 and in March 1983. This policy sought to bring domestic prices for these products closer to international market quotations and thus to reduce the high governmental subsidy, discourage contraband—which according to estimates came to represent one-sixth of demand for light fuels—and to rationalize consumption.

Moreover, the closing-down of many thermoelectric plants, owing to the entry into operation of the Paute hydroelectric power station, also lessened consumption of fuels.¹ Thus, in the first seven months of the year domestic demand for fuel oil and diesel oil shrank by over 11%.

Thanks to the expansion of production and the contraction in domestic consumption, a new enlargement of the exportable surplus was possible.² The available supply of crude oil increased by 10% and that of petroleum products by about 50%.³

The upswing in extraction of petroleum during the last two years was not backed by an expansion of proven reserves, which remained at about 1.1 billion barrels. Not until January 1985 was an initial risk contract signed, under the new hydrocarbons law, with a private firm (Occidental) for

¹ In 1984, with the incorporation into the system of two new generating units of 100 MW each, phases A and B of the Paute hydroelectric project were completed, with a total of 500 MW. The entry into the system of this new installed capacity ousted a significant number of old thermal plants whose yield was low.

² At the end of December 1984, prices of 80-octane and 90-octane gasoline—which had been frozen since October 1982—went up from 32 to 50 sucres and from 42 to 65 sucres a gallon, respectively. The price of diesel oil rose from 21 to 40 sucres a gallon and that of fuel oil from 13 to 25 sucres. In terms of dollars, at the free market rate, the price of 80-octane gasoline, which is the quality in most common use, had risen in February 1981 from a little over 4 dollar cents a litre to 13 cents; with the November 1982 increase the price in dollars had remained the same; with that of December 1984, it dropped to 11 cents.

³ In October OPEC decided to lower its members' maximum levels of petroleum production, with the aim of halting the fall in international prices. Ecuador's quota was reduced to 183 000 barrels daily (-8.5%), a figure far below its present levels of output.

the exploration and exploitation of an area in the Oriente region for which tenders had been invited. At that date, negotiations were well under way for the signing of two other contracts, one with the Exxon-Hispanoil consortium, which will operate in the Oriente region, and the other with the BELCO company, which will undertake explorations in a continental shelf area of 400 000 hectares.

On the other hand, at the end of 1984, the State enterprise CEPE suspended, for want of positive results and because of its high cost, the in-depth drilling operation which it was carrying out in the Sacha oilfield.

Table 6

ECUADOR: INDICATORS OF FISHING PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Millions of sucres at 1975 prices								
Gross fishing product	1 773	2 026	1 956	2 230	10.1	14.3	-3.5	14.0
Thousands of tons								
Catch								
Shrimps	20.1	29.5	36.6	33.0 ^b	35.9	46.8	24.1	-9.8
Tunnyfish	21.6	22.2	16.0 ^b	19.2 ^b	-6.5	2.8	-28.0	20.0
Other fish	682.9	596.6	230.0	528.0 ^b	14.4	-12.6	-61.4	129.6
Exports								
Shrimps	12.1	17.0	23.5	21.3	26.0	40.5	38.2	-9.4
Frozen fish	10.0	6.5	5.1	7.8	-46.5	-35.0	-21.5	52.9
Canned fish	36.2	36.8	23.7 ^b	32.0	3.7	1.7	-35.6	35.0
Fish meal	89.4	102.1	16.1 ^b	98.3	8.4	14.2	-84.2	510.6

Source: CONADE, Ichthyological Resources Programme; Ministry of Agriculture, Department of Fishing; National Fishing Institute.

^aProvisional figures.

^bEstimates.

Table 7

ECUADOR: INDICATORS OF THE PETROLEUM INDUSTRY

	Thousands of barrels				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Crude oil								
Production	77 062	77 072	86 691	93 868	3.0	-	12.5	8.3
Exports	45 449	36 179	54 420	59 600	15.4	-20.4	50.4	9.5
Processed in refineries	32 411	32 950	27 521	32 498	-4.6	1.7	-16.5	18.1
Percentage of total production	42.1	42.8	31.7	34.6				
Production of main petroleum products	31 187	31 637	26 588	30 420	-5.7	1.4	-16.0	14.4
Gasoline	7 802	7 564	6 119	7 868	-5.2	-3.1	-19.1	28.6
Fuel oil	14 322	14 491	12 484	12 737	-4.3	1.1	-13.8	2.0
Diesel oil	5 015	5 224	4 374	5 413	-11.6	4.2	-16.3	23.8
Turbo fuel	1 147	1 065	907	1 045	6.4	-7.2	-14.8	15.3
Kerosene	2 207	2 530	2 059	2 279	-2.6	14.6	-18.6	10.7
Liquefied gas	694	763	643	1 078	-17.7	9.9	-15.7	67.7
Imports of petroleum products	5 480	5 570	6 898	4 192	19.3	1.6	23.8	-39.2
Exports of petroleum products	5 846	5 341	4 111	5 812	-26.5	8.6	-23.0	41.4
Domestic fuel sales	28 650	29 538	27 877	26 929 ^b	7.8	3.1	-5.6	-2.0

Source: Central Bank of Ecuador.

^aProvisional figures.

^bEstimate based on apparent consumption of petroleum products.

Table 8

ECUADOR: GROSS MANUFACTURING PRODUCT

	Millions of sucres at 1975 prices				Growth rates				
	1981	1982	1983	1984 ^a	1975- 1980	1981	1982	1983	1984
Manufacturing	29 157	31 178	30 586	30 865	9.3	8.8	6.9	-1.9	0.9
Food	8 865	8 936	8 944	9 438	8.1	5.9	0.8	0.1	5.5
Beverages and tobacco	3 312	3 493	3 332	3 121	9.8	2.8	5.5	-4.6	-6.3
Textiles, clothing and leather goods	6 395	7 063	7 294	7 221	8.7	12.0	10.4	3.3	-1.0
Wood and wood products	1 489	1 532	1 205	1 217	7.5	0.7	2.9	-21.3	1.0
Paper and printed matter	1 770	1 878	1 796	1 823	9.6	6.8	6.1	-4.4	1.5
Chemical and rubber products	1 901	2 286	2 259	2 282	9.3	9.3	20.3	-1.2	1.0
Basic metal and non- metallic products	3 557	3 941	3 687	3 695	10.9	19.6	10.8	-6.4	0.2
Machinery, equipment and transport material	1 870	2 049	2 069	2 069	3.3	10.8	9.6	1.0	-

Source: Central Bank of Ecuador, Economic Budgets, 1984 and 1985. November 1984: CONADE, estimates of growth of value added in manufacturing in 1984.

^aProvisional figures.

iv) *Manufacturing*. In 1984 manufacturing enjoyed a slight recovery, of about 1%, after the modest decline it had experienced in the preceding year. This reactivation, however, was virtually confined to the food industry, whose output increased by over 5%. The increments noted in other industries were a good deal smaller (see table 8).

There was a considerable recrudescence of industrialization of agricultural and fishing products. Outstanding in this connection were the sugar (10%), meat and fish processing (7%), milling and bakery (5%), vegetable oils and fats industries, and those producing balanced animal feeds. This recovery helped to normalize the supply of inputs and to expand the output of so important a branch of production as food.

The tobacco industry also raised its output; in contrast, that of beverages notably declined, in consequence of strikes.

During the year industry continued to be beset by numerous problems. The economic situation of many firms grew worse and worse because of the rising cost of imports of inputs and raw materials, attributable in its turn to the devaluation of the currency, the increase in interest rates and the insufficient economic recovery which kept demand below its normal levels. Some industries, such as that producing electrical household appliances, for example, were also faced with the restriction of regional markets.

The conjunctural surveys jointly carried out by the Central Bank and CONADE show that in 1984 the situation was good for 46% of the manufacturing sector; normal for 5%; worrying for 27%; and critical for the remaining 12%. Conditions in general were less favourable than in 1983. Moreover, the surveys showed that employment in the sector slightly decreased during the year. The decline occurred mainly in the first semester, a measure of recovery being observable in the second.

The intention of the Government which took office in August is to introduce radical changes in industrial development strategies. Among these, special mention should be made of the gradual elimination of subsidies and reduction of tariff protection levels, as well as openness to foreign investment, which would imply the concession of great freedom to transfer remittances of profits abroad and, moreover, abandonment of the principles laid down in the Cartagena Agreement respecting the treatment of foreign capital (Decision 24).

v) *Construction*. This sector, so much the hardest hit by the crisis that its level of activity declined by over 12% in 1982-1983, showed some signs of reactivation. This was attributable to the

works undertaken for the rehabilitation of highways, roads, bridges and other facilities damaged during the winter of 1983.

The emergency resources of the disposal of the Ministry of Public Works included credit granted by international agencies for the replacement of the road infrastructure affected. Private construction, on the other hand, remained depressed (or dropped even lower), overwhelmed by a variety of problems.⁴

Apparently the financial situation of construction firms deteriorated on account of the increase in domestic and external interest rates, the devaluation of the currency (the sector has a heavy external debt) and the rise in costs. On top of this came the delay in the payment of adjustments for inflation corresponding to works contracted with the public sector, which represent a high percentage of total consumption. The extension of external debt maturities on favourable terms and its conversion into sucres would not seem to have greatly relieved the companies' situation.

Steel production dropped because of the financial problems of the State steel-making enterprise. The result was a shortage of this input for construction and a drastic increase in its prices, which rose still more when the product was excluded from the schedule of those subject to official control. Cement prices, which were liberalized in September, also went up.

Towards the end of the year government authorities signed contracts for the construction of 20 000 housing units to a value of 13.8 billion sucres. These form part of the "Plan Techo", which envisages the erection of 120 000 dwellings measuring 21 to 45 square metres in a space of four years.⁵

3. The external sector

a) *Merchandise trade*

Exports grew at a rate of about 11% —a valuable achievement. Once the consequences of the disaster suffered in the preceding year had been overcome, the export volumes of most of the main agricultural, agroindustrial and marine products expanded considerably. Similarly, the big new increase in petroleum extraction, added to the larger output of petroleum products and smaller domestic consumption of fuels, significantly boosted external sales of crude oil and petroleum products.

Indubitably, this dynamism was to some extent attributable to the measures which the Monetary Board adopted in September, and by virtue of which all exports, except those of petroleum and petroleum products, were subject to a higher rate of exchange, which enhanced the profitability and competitiveness of Ecuador's sales abroad.

Imports, too, increased by 12%, although their cost had risen owing to the higher price of foreign exchange. The recrudescence of economic activity implied a powerful incentive for imports, as did also the gradual suppression, during the latter months of the year, of many of the restrictions that had affected them since 1982.

The increments in imports and exports had their origin mainly in increases in quantum. Unit values fell slightly in the case of exports and rose very little in that of imports. Thus, the terms of trade worsened for the fourth year running, their cumulative deterioration totalling nearly 25% (see table 9).

This persistent downward trend of the terms of trade was counteracted for the second year in succession by significant increases in the quantum of exports, which gave rise to a worth-while recovery in their purchasing power. However, the index for 1984 was lower than that of 1980.

i) *Exports of goods.* The value of exports of goods rose by nearly 11%, or by approximately 16% if permits are taken into account, as can be seen in table 10. Not since 1980 had so favourable an evolution been recorded.

In contrast with what had happened the year before, the increase in external sales was very generalized in 1984. Exports of crude oil and petroleum products, which constituted about 70% of the

⁴ According to information available on private investment in building activities, it would seem to have declined by about 5% in 1984. On the other hand, provisional data on the projected construction area in Quito, Guayaquil and Cuenca show an increase of 15%.

⁵ In the course of the period 1981-1984 the National Housing Board (Junta Nacional de la Vivienda - JNV) and the Ecuadorian Housing Bank (Banco Ecuatoriano de la Vivienda - BEV) bought about 21 800 housing units and other dwellings. In their turn, the Social Security Institute (Instituto de Seguridad Social) and the savings and loan (or mutual benefit) societies financed 16 900 and 4 500 housing units, respectively. Similarly, BEV pressed on with its programme of loans for the reconstruction of dwellings destroyed by the floods.

Table 9

ECUADOR: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	40.6	18.3	-	-7.9	0.9	10.8
Volume	-0.9	-5.9	4.2	-0.2	9.5	11.2
Unit value	41.9	25.7	-4.0	-7.7	-7.8	-0.4
Imports						
Value	23.1	6.9	5.3	-7.6	-35.4	12.2
Volume	5.9	-4.8	-1.3	-7.6	-34.8	10.2
Unit value	16.2	12.3	6.7	-	-1.0	1.9
Terms of trade	22.1	11.9	-10.0	-7.7	-6.9	-2.3
Indexes (1970 = 100)						
Purchasing power of exports	436.5	459.6	431.0	397.0	404.7	439.7
Quantum of exports	208.1	195.9	204.0	203.6	222.8	247.8
Terms of trade	213.7	239.1	215.2	198.6	185.3	181.2

Source: ECLAC, on the basis of official information.

^aProvisional figures.

Table 10

ECUADOR: EXPORTS OF GOODS, FOB

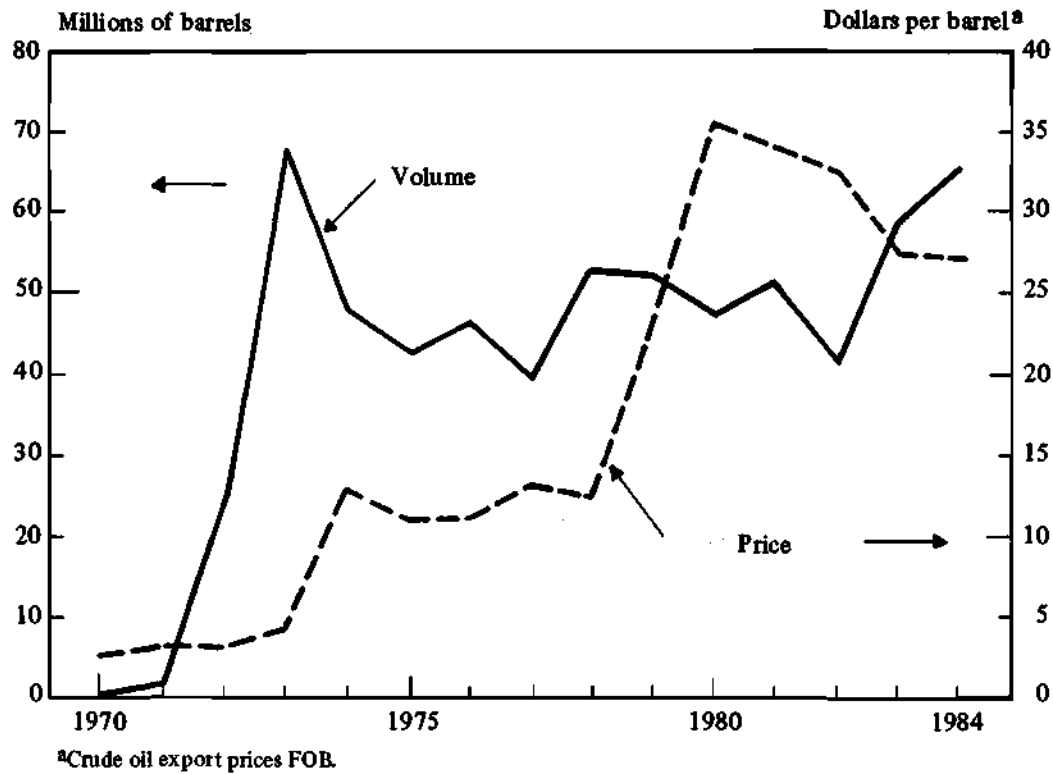
	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total^b	2 128	2 224	2 581	100.0	100.0	100.0	1.4	-15.8	4.5	16.1
Primary products	1 746	2 013	2 218	89.6	75.5	85.9	7.7	-13.1	15.3	10.2
Petroleum	1 174	1 503	1 623	60.3	55.6	62.9	11.9	-24.1	28.0	8.0
Coffee	139	149	175	6.8	5.2	6.8	-18.5	31.1	7.2	17.4
Shrimps	122	175	160	1.5	2.3	6.2	36.2	57.8	43.4	-8.6
Bananas	213	153	133	14.2	9.5	5.1	-12.2	2.5	-28.2	-13.1
Cocoa	63	8	96	4.3	1.2	3.7	46.7	46.5	-87.3	100.0
Others	35	25	31	2.5	1.7	1.2	7.1	-11.1	-28.6	24.0
Manufactured products	382	211	363	10.4	24.5	14.1	-17.9	-24.0	-45.1	72.0
Petroleum products	136	106	175	0.1	7.7	6.8	-13.5	-18.0	-22.1	65.1
Processed marine products	81	27	64	0.7	3.6	2.5	10.0	-17.2	-66.7	137.0
Processed cocoa products	56	26	50	3.1	7.2	1.9	-41.4	-47.2	-53.6	92.3
Others	109	52	74	6.5	6.0	2.9	-12.0	-18.0	-52.3	42.3

Source: Central Bank of Ecuador.

^aProvisional figures.^bThe data are based on export permits; consequently the totals do not necessarily match those of the balance of payments.

Figure 2

ECUADOR: EXPORTS OF PETROLEUM AND PETROLEUM PRODUCTS



total, expanded by 8%, despite a slight fall in their prices. Exports of cocoa and of processed marine products made an extraordinary recovery. Sales of coffee, moreover, which had increased both in 1982 and in 1983, went up once again, this time by 17%, thanks to the rise in international market prices. In contrast, exports of bananas pursued the downward trend which has reduced their value at the beginning of the decade by 44%, while external sales of shrimp suffered an interruption of their dynamic expansion in the three-year period 1981-1983.

Thanks to the increase in extraction of crude oil and the decrease in domestic consumption of fuels, the volume of exports rose to nearly 60 million barrels, after having climbed from 36 to 54 million barrels in the preceding year. No major marketing problems arose and only towards the end of 1984 was there any need to resort to the spot market. The average sales price of crude petroleum fell just a little, from US\$ 27.60 to US\$ 27.20 per barrel (see figure 2).

Meanwhile, sales of fuel oils soared by over 50% by virtue of a substantial increase in the volume exported, which, nevertheless, was far from equalling its 1979 and 1980 levels (see table 11).

Exports other than petroleum products expanded by 27%. Particular dynamism (72%) was shown by exports of manufactures, after the substantial declines experienced in the preceding triennium, with a cumulate total of close to 90%.

Among traditional export products, the upswing of 17% in the value of coffee sales was due to a significant rise in coffee prices (more than 20%), whereas the volume declined by 5%. This decrease was more than offset when in September the International Coffee Organization raised the export quota assigned to Ecuador by almost 75 000 tons.

The value of exports of cocoa beans, which had sunk to one-eighth, mainly in consequence of the heavy rainfalls and floods which ravaged the plantations in 1983, this time increased more than elevenfold. The volume of exports was octupled. Prices in their turn rose by 35%, because of the deterioration of production in the African countries, thus providing an incentive for the rehabilitation of the cocoa plantations and the production of cocoa in processed forms, exports of which were almost doubled.

Table 11

ECUADOR: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Petroleum ^b	45.4	36.2	54.4	59.6	-11.5	15.4	-20.4	50.4	9.5
Coffee	56.0	73.9	75.0	71.5	-34.2	3.8	32.0	1.6	-4.7
Bananas	1 195.0	1 224.0	871.0	863.0	3.7	-14.8	2.4	-28.8	-0.9
Cocoa	27.2	42.5	5.6	46.9	-8.7	98.3	56.3	-86.9	744.5
Shrimps	11.3	16.5	21.6	21.3	47.6	39.5	46.2	30.9	-1.3
Processed cocoa products	48.1	47.8	27.3	28.5	-0.2	-21.7	-0.6	-43.0	4.4
Petroleum products ^b	5.8	5.3	4.1	6.2	7.2	-26.5	-8.6	-23.0	51.9
Processed marine products	131.0	134.0	40.0	130.0	16.7	4.0	2.3	-70.1	225.0

Source: Central Bank of Ecuador.

^a Provisional figures.^b Millions of barrels.

The exceptional recovery in sales of processed marine products (137%) was achieved by virtue of the fact that the volume of exports more than trebled, easily making up for the fall in average prices (-27%).

Unlike other export products, bananas failed to recuperate from the damage caused by the natural disasters of the two preceding years. The volume of exports remained at its low 1983 levels, and in addition prices fell by 12%.

In its turn, the volume of shrimp exports, which had quintupled between 1977 and 1983, diminished slightly in 1984, while their average sales price dropped by about 8%.

ii) *Imports of goods.* Imports, which had dwindled by almost 40% in 1982-1983 in consequence of the recession, showed an upturn of approximately 17%, attributable to the recovery observed in capital formation and in major sectors of production. In quantum terms, these purchases abroad expanded by 10%, i.e., less than one-fourth of the decrease suffered in the preceding four-year period.

In the last few months of 1984 imports were encouraged by the derogation of some prohibitions and the attenuation of others which had been affecting them since October 1982.⁶ Authorization was given for the entry into the country of various non-essential consumer goods and about 75% of the capital goods that had been under a ban. These could now be purchased by means of five-year credits or barter arrangements. Similarly, import duties on certain products were halved. Moreover, special schedule I, which had initially comprised a small group of essential goods, was gradually extended to include some 500 articles, which could consequently be purchased at the official rate of exchange.

These measures partly offset others, also adopted during the year, such as the one which drastically restricted the number of goods that could be imported with preferential foreign exchange, and which had just been brought into force in September, or like the one which compelled importers to pay for their purchases before obtaining customs clearance.

Lastly, the increase in purchases abroad was likewise encouraged by the Central Bank's expressed concern about getting up to date with the payment of the import reimbursements owed. At the end of the year these arrears still amounted to some US\$ 250 million.

According to the figures on permits granted, the biggest increments were shown by capital goods (46%), in particular those for agriculture, which more than doubled. Imports of transport equipment, which had been reduced to one-fourth in 1982 and 1983, expanded again by 35% (see table 12).

Furthermore, in the course of the year a recovery took place in purchases of raw materials and intermediate goods—except those intended for construction—, which shot up again by 28%, after having decreased by two-thirds during the preceding three-year period.

⁶ At that time, owing to the rapid loss of international reserves and the drastic restriction of external credit, a number of measures had been adopted to reduce imports. Among other prohibited import items were 120 of those classed as more necessary (schedule I) and 510 goods on schedule II. In the preceding year a ban had already been placed on imports of motor-vehicles.

In contrast, imports of consumer goods declined again, although less sharply than the year before, their decrease since 1980 totalling more than 60%. The downward trend of external purchases of durable consumer goods was again accentuated, completing a reduction in the four-year period equivalent to that of total consumer goods.

b) *The deficit on the balance-of-payments current account and its financing*

According to what is still provisional information, exports of goods and services would seem to have verged on US\$ 3 billion and imports on US\$ 2.3 billion. Hence there was a trade surplus of approximately US\$ 700 million, 13% larger than that recorded in 1983 (see table 13).⁷

Although imports of goods increased at a somewhat faster rate than the corresponding exports, the exceptional positive balance shown by merchandise trade in 1983 was improved upon and slightly exceeded US\$ 1 billion. Surpluses of this order had been unknown up to 1983, even in the years of the petroleum boom.

On the other hand, during the year there was an increase in remittances of profits abroad and, in particular, in net interest payments. The latter went up by over 13%, thus reaching US\$ 820 million, a figure equivalent to 28% of total exports. In this way, despite the trade surplus, a gap of US\$ 170 million appeared on current account, almost one-third larger than the 1983 deficit. This negative balance, however, is not even as much as one-seventh of that recorded in 1981.

Alongside the increase in the imbalance on current account, the net inflow of capital shrank to only about US\$ 110 million (-54%), giving rise to a balance-of-payments deficit and a loss of international reserves amounting to almost US\$ 60 million.⁸

Funds coming in by way of transfer payments and direct investment were estimated to be much the same as in the preceding year. In contrast, it is calculated that net receipts under the head of loans were halved, dropping from US\$ 560 million to US\$ 280 million.

Table 12

ECUADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984	1975	1980	1984	1981	1982	1983	1984
Total^a	1 988	1 465	1 716	100.0	100.0	100.0	-0.2	-11.5	-26.3	17.1
Consumer goods	225	284	143	13.1	11.1	8.3	-19.2	11.4	-18.2	-49.6
Non-durable	128	111	93	7.0	5.5	5.4	-15.4	23.1	-13.3	-16.2
Durable	96	73	50	6.1	5.6	2.9	-22.8	-2.0	-24.0	-31.5
Raw materials and intermediate goods	944	863	983	43.8	42.9	57.3	-1.8	2.3	-8.6	13.9
For agriculture	60	62	83	4.8	2.6	4.8	8.6	-4.8	3.3	33.9
For industry	797	741	827	29.6	34.0	48.2	0.7	3.5	-7.0	11.6
For construction	61	40	51	7.5	5.3	3.0	-25.0	-32.2	-34.4	27.5
Fuels and lubricants	26	19	22	1.9	1.0	1.3	13.0	-	-26.9	15.8
Capital goods	816	403	589	42.6	45.1	34.3	-2.8	38.1	-50.6	46.2
For agriculture	37	15	31	3.6	1.7	1.8	15.8	-15.9	-59.5	106.7
For industry	513	266	393	23.9	25.3	22.9	-4.0	-6.2	-48.1	47.7
Transport equipment	266	122	165	15.1	18.1	9.6	21.1	-46.2	-54.1	35.2

Source: Central Bank of Ecuador.

^aBased on import permits granted. The total includes unclassified imports of little significance.

⁷ There are well-founded suspicions of the existence of considerable under-invoicing of exports and over-invoicing of imports. Economic authorities estimate that these misrepresentations may have signified about 600 million dollars in 1984, and have engaged the services of a foreign firm of consultants to look into the problem and propose measures for dealing with it.

⁸ According to information supplied by the Central Bank of Ecuador, its net international reserves were enlarged by US\$ 19 million in 1984, owing to a decrease in short-term obligations.

Table 13

ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-730	-654	-672	-1 027	-1 215	-128	-170
Trade balance	-463	-299	-147	-304	-368	610	690
Exports of goods and services	1 703	2 411	2 866	2 913	2 690	2 643	2 950
Goods FOB	1 529	2 151	2 544	2 544	2 343	2 365	2 620
Real services ^b	174	260	322	369	347	278	330
Transport and insurance	49	109	113	151	139	95	105
Travel	65	80	131	131	131	120	140
Imports of goods and services	2 167	2 710	3 014	3 218	3 058	2 033	2 260
Goods FOB	1 704	2 097	2 242	2 362	2 181	1 408	1 580
Real services ^b	463	613	772	856	877	625	680
Transport and insurance	283	295	328	368	164	112	125
Travel	97	156	228	250	250	152	165
Factor services	-279	-356	-525	-722	-847	-738	-860
Profits	-116	-94	-111	-100	-80	-60	-80
Interest received	37	68	109	87	44	45	40
Interest paid	-176	-329	-523	-709	-811	-723	-820
Others	-24	-	-	-	-	-	-
Unrequited private transfer payments	12	-	-	-	-	-	-
Balance on capital account	736	698	942	656	875	238	110
Unrequited official transfer payments	29	29	30	25	20	24	20
Long-term capital	782	690	763	1 077	162	1 383	330
Direct investment	49	63	70	60	40	50	50
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	733	626	693	1 017	122	1 333	-
Official sector ^c	352	344	609	898	-261	2 275	-
Loans disbursed	498	952	795	1 283	192	2 646	-
Amortization payments	-139	-601	-176	-378	-437	-358	-
Commercial banks ^c	63	1	5	2	-	-7	-
Loans disbursed	64	2	8	7	8	-	-
Amortization payments	-1	-1	-1	-1	-1	-1	-
Other sectors ^c	319	281	79	117	383	-935	-
Loans disbursed	469	593	496	462	1 112	150	-
Amortization payments	-88	-374	-416	-345	-728	-1 084	-
Short-term capital	-120	-24	217	-360	921	-1 073	-
Official sector	3	9	-30	1	585	-520	-
Commercial banks	3	-10	-17	-5	50	7	-
Other sectors	-126	-22	264	-356	286	-560	-
Errors and omissions	44	3	-68	-86	-228	-96	-240
Global balance ^d	5	44	270	-370	-340	110	-60
Total variation in reserves (- sign indicates an increase)	-13	-87	-291	381	328	-127	58
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-4	-11	1	-9	34	-	-
IMF reserve position	-10	-2	-15	-1	29	-12	12
Foreign exchange assets	2	-73	-277	391	266	-328	22
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	213	25

Source: International Monetary Fund, *Balance-of-Payments Statistics*, 1984: ECLAC, on the basis of provisional data supplied by the Central Bank of Ecuador.

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

During the year there were no disbursements of new credit on the part of the international private banks. The flows received stemmed from international agencies, governments and suppliers.

c) *The external debt*

The external debt rose from US\$ 6.7 billion to US\$ 7 billion, i.e., somewhat more than 4%. The reduction of the inflow of new credits since 1982 has significantly slowed down the rate of expansion of external indebtedness, which had soared to over 25% per annum in the three-year period 1979-1981 (see table 14).

Of the total external debt, at the end of 1984 about US\$ 4.9 billion corresponded to sums owed to the international private banks, US\$ 1.5 billion to commitments with international agencies and about US\$ 600 million to credits granted by governments and suppliers.

For the first time in many years the debt/exports ratio, which had reached 254% in 1983, was slightly reduced. This was the result of the slower growth rate of the debt and the greater dynamism of exports. Furthermore, the considerable alleviation of debt servicing, deriving from the extension of maturities, continued to make itself felt. Thus, the service/exports coefficient dropped to 29%,

Table 14
ECUADOR: EXTERNAL DEBT

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Total external debt ^b	3 554	4 652	5 868	6 186	6 712	6 995
Balances ^b						
Public	2 848	3 530	4 416	4 558	6 042	6 893
Private	706	1 122	1 452	1 625	670	102
Long- and medium-term	3 343	4 157	5 272	5 365	6 686	6 995
Short-term	211	495	596	821	26	-
Disbursements ^c	1 851	1 950	2 768	2 245	2 807	1 425
Service	1 606	1 422	2 222	2 696	2 972	1 962
Amortization payments ^c	1 277	899	1 513	1 885	2 249	1 142
Interest payments ^d	329	523	709	811	723	820
External public debt ^b	2 848	3 530	4 416	4 558	6 042	6 893
Disbursements ^c	1 269	1 103	1 522	903	2 672	1 425
Service	1 147	731	1 057	1 283	1 646	1 314
Amortization payments ^c	906	417	598	719	1 156	574
Interest payments	241	314	459	564	490	740
Percentages						
Ratios						
Total external debt/exports of goods and services	147.4	162.3	201.4	230.0	254.0	237.1
Service/exports of goods and services ^d	66.6	49.6	76.3	99.5	40.1	29.1
Net interest payments ^e /exports of goods and services	10.8	14.4	21.4	28.5	25.7	26.4
Service/disbursements ^d	86.8	72.9	80.3	120.1	105.9	137.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^aProvisional figures.

^bEnd-of-year balances, excluding the debt to the International Monetary Fund.

^cBoth disbursements and amortization payments include refinancing of part of the debt. In 1982 payments to an amount of US\$ 19 million which ought to have been made were transferred to 1983. In 1983 US\$ 1 910 million were renegotiated, and 1.1 billion in 1984. Of the last two figures US\$ 972 million and US\$ 348 million corresponded to the public debt to the international private banks; US\$ 854 and US\$ 606 million to the private debt for which the State had assumed responsibility; and US\$ 86 and US\$ 150 million to the debt refinanced with the Club of Paris.

^dService does not include the amounts refinanced.

^eRelates to the corresponding entry in the balance of payments.

after having been 100% in 1982 and 40% in 1983. Even so, the sum of disbursements under the head of amortization and interest payments still exceeded the flow of new credit. Interest payments once more fell within the range that has been normal since 1981, i.e., between US\$ 700 and 800 million yearly.

The credits disbursed during the year were reduced by one-half and only a small proportion represented new resources; the greater part was tied to the refinancing of the debt. Of the US\$ 1 425 million disbursed, a little over 1.1 billion had to be allocated to amortization payments.

During 1984 the payment of about US\$ 900 million which fell due in the course of the year was renegotiated with the international private banks. Of this sum, about US\$ 350 million corresponded to public debt and 550 million to private debt, which the Government had underwritten via the expedient of "sucretization", or in other words, the conversion into national currency of commitments contracted in foreign currency.

It should be recalled that in 1983 the economic authorities had decided to take over the external private debt and established the terms on which debtors could reimburse it in sucres. Up to October 1984 debts to an amount of US\$ 1.4 billion had been converted. Table 14 shows that by the end of the year almost the whole of the external debt had become public. At that time the maturities of the "sucretized" debt were extended from 3 to 7 years, the commission for exchange risk was annulled for this additional period and it was decided to keep the annual interest rate at 16%.

The US\$ 350 million corresponding to the public debt were renegotiated for a term of 8 years, with 4 grace years and interest at 1.75% over LIBOR or 1.5% over the prime rate. Of the private debt taken over by the State, US\$ 270 million were refinanced for a term of five years, with interest payments at 2.25% over LIBOR or 2.13% over the prime rate.

The last instalment (US\$ 43 million) of the stand-by credit for about US\$ 170 million granted by the International Monetary Fund had just been transmitted to the country in July 1984, i.e., upon the expiry of the agreement signed with that agency a year before. The signing of a new agreement with the IMF was the responsibility of the Government that assumed power in August, and the agreement in question materialized in March 1985.

The new government applied to the international banks for a loan of US\$ 350 million to cover the country's balance-of-payments deficit. It was envisaged that 200 million would be used to pay import reimbursements in arrears and 150 million to serve the 10% of the debt that had been refinanced in 1983. According to plan, this should have been effected in four instalments during 1984, but of these only the first was paid. The credit was finally granted in 1985.

The Club of Paris agreed to a moratorium on the payment of about US\$ 150 million, under the head of amortization payments that should have been made between mid-1983 and mid-1984. In April 1985, moreover, the countries members of the Club agreed to the restructuration of total payments of capital and interest that had matured or were to mature between June 1984 and the end of 1985; of 85% of what ought to be paid in 1986; and of 70% of the 1984 maturities, all which totalled about US\$ 400 million. Each tranche was refinanced for an 8-year period with four grace years.

The Government which took office in August immediately initiated talks with the International Monetary Fund with the aim of obtaining a new stand-by credit. At the same time, it launched negotiations with the international banks for the refinancing of about US\$ 4.6 billion which had to be paid during the quinquennium 1985-1989, and in which amount was included the debt that had been renegotiated or had been left pending in 1984.

In April 1985 it was decided to reschedule the payment of this debt over a period of 12 years, including three grace years, and on terms a good deal more favourable than those arranged hitherto: an annual interest rate of 1 3/8% over LIBOR and no surcharge under the head of commission or renegotiation expenses. Payments were to be made in increasing proportions, beginning with 2.5% of the amount renegotiated in 1985 and ending with 17% in 1996.

The renegotiation includes approximately US\$ 450 million corresponding to a credit granted in 1983, which had just been extended to eight years, as from April 1987, with an interest rate of 1 5/8% over LIBOR.

The new agreement with the International Monetary Fund was signed in March 1985 and a stand-by credit of about US\$ 105 million was approved, to be disbursed in five quotas, conditionally upon fulfilment of the economic proposals and targets for 1985 contained in the letter of intent

submitted to the Fund. The signing of the agreement made it possible for a credit of US\$ 350 million to be granted by the international banks, of which 200 million were to be allocated to cover import payments in arrears, and for a commercial credit line of US\$ 700 million to be renewed.

d) *Exchange policy*

The system of daily devaluations established in March 1983 continued to be applied, with slight variations, up to the beginning of September 1984, when the new monetary authorities brought it to an end and fixed the official exchange rate at 66.50 sucres to the dollar and the price of the Central Bank free market dollar at 95/96.50 sucres. Thenceforward the gap between these two quotations and that of the free market proper began to widen.

Between the end of 1983 and September 1984, the official exchange rate rose by 23% (from 54 to 66.50 sucres to the dollar) and the Central Bank free rate by 10% (from 88 to 96.50 sucres). In the meantime, the dollar quotation on the free exchange market increased by 11% up to the beginning of September (from 90 to 100 sucres) and by 34% up to December (121 sucres).⁹ It should be recalled for purposes of comparison that domestic prices went up by 25% from December to December (see table 15 and figure 3).

Apart from the gradual devaluation of the currency which occurred between March 1983 and September 1984, during that period various import goods were transferred from one schedule to another; this made them subject to a higher exchange rate, and in practice was tantamount to a devaluation.

Table 15

ECUADOR: EVOLUTION OF EXCHANGE RATES

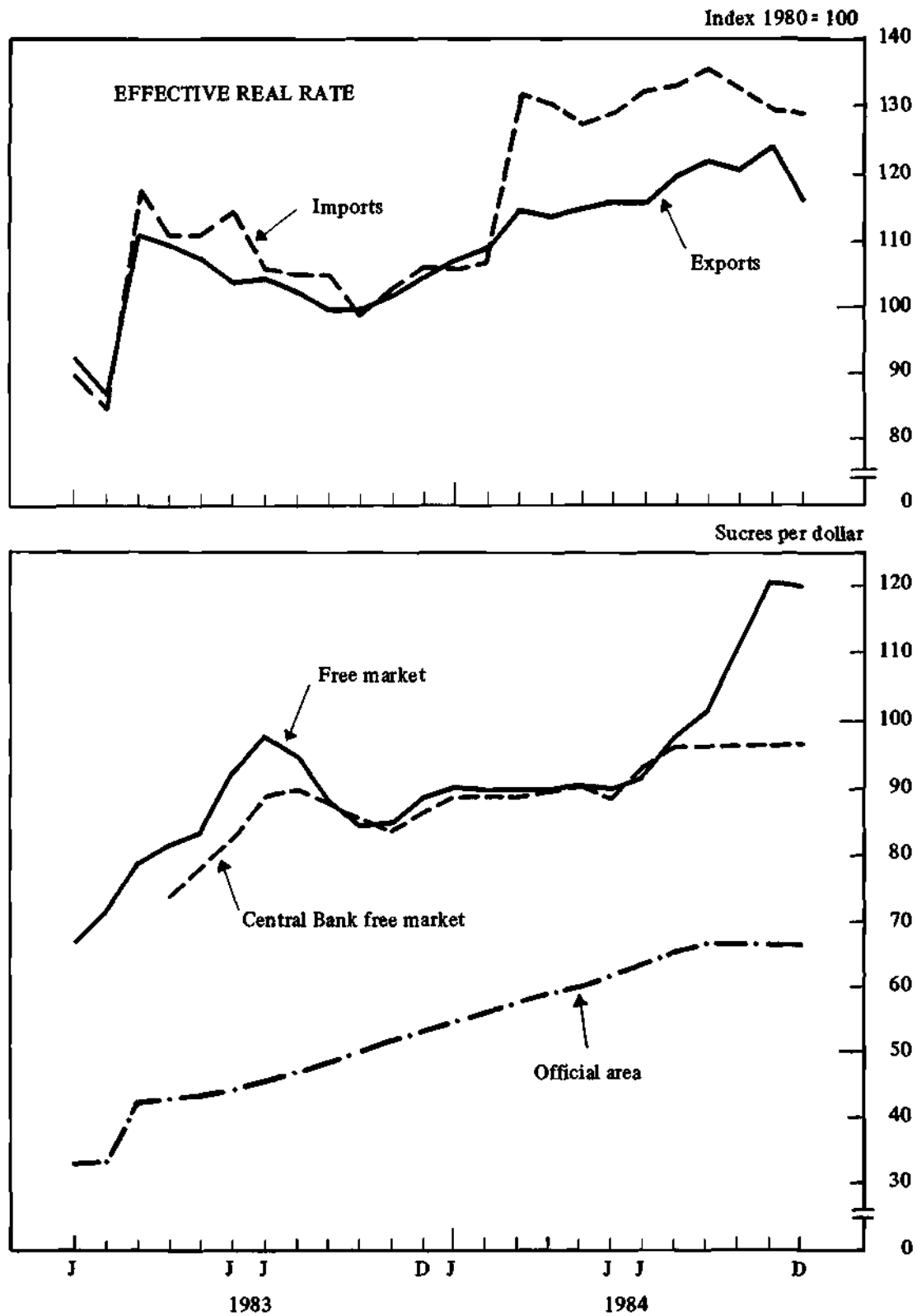
Annual and quarterly averages	Exchange rates ^a (sucres per dollar)					Indexes of effective real exchange rate ^b	
	Official	Central Bank free ^c	Free	Exports	Imports	Exports	Imports
1975	25.00		25.40			111.5	109.0
1980	25.00		27.78			100.0	100.0
1981	25.00		30.76			95.6	92.6
1982	30.57		51.03	29.55	30.42	97.0	96.3
1983	44.64		84.79	46.30	49.23	102.2	104.5
1984	62.26		98.69	68.47	78.78	116.1	127.1
1983							
I	36.07		72.63	36.40	37.93	98.2	99.1
II	43.46	78.80	86.36	45.13	49.37	106.0	111.5
III	47.22	89.53	94.03	49.87	53.53	101.5	104.1
IV	51.80	85.47	86.14	53.80	56.07	102.9	102.8
1984							
I	56.37	89.23	90.48	59.91	65.34	110.5	115.5
II	60.88	90.00	90.29	65.67	77.50	115.0	130.0
III	65.29	95.00	97.00	71.63	84.37	119.7	133.5
IV	66.50	96.50	116.95	76.66	87.89	119.2	129.3

Source: ECLA/C, on the basis of Central Bank of Ecuador, *Información Estadística*; and of IMF, *Supplement of Exchange Rates and International Financial Statistics*.

^aRelates to the buyer's rate in the case of the official market and to the seller's rate in those of the Central Bank free market and the free market proper. Under the headings of exports and imports appear the average exchange rates used for these operations. ^bThese are indexes of the exchange rates used in foreign trade operations with respect to the currencies of countries with which Ecuador carries on trade, weighted by the relative importance of exports or imports, as the case may be, to or from those countries. As from 1980 these weightings correspond to the average for the period 1980-1983. 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. ^cQuotation at which the foreign exchange corresponding to a part of exports and imports has been bought and sold since March 1983.

⁹The rise in the free market dollar quotation was far from regular in the last third of the year. On 6 November, for example, it reached its maximum of 127 sucres to the dollar.

Figure 3
ECUADOR: EXCHANGE RATES



Thus, at the end of January the Monetary Board decreed that 50% of non-petroleum export returns should be liquidated at the Central Bank rate of exchange. Thereafter all imports were to be paid for at that price, with the exception of the most indispensable items, included in schedule I A, and the basic foods and pharmaceutical products, comprised in special schedule I, which were still to be purchased with official area dollars. After the measures adopted in September, this last schedule began to expand again, until it came to include about 500 goods.

Alongside these measures, which raised the average foreign exchange quotation for external trade, a beginning was made on the gradual elimination of the restrictions that had been applied to imports as from October 1982.

As a result of this policy, the average exchange rate for exports rose by 34%, from 55.60 sucres to the dollar at the end of 1983 to 74.40 sucres in December 1984. In the case of non-petroleum exports, the increase was 60%, from 59.20 sucres per dollar at the end of 1983 to 95 sucres per dollar at the close of 1984. This constituted a powerful incentive to export growth; thus, non-petroleum exports expanded by 80% in the last four months of the year.

The average cost of imports, on the other hand, rose by 50%. The corresponding exchange rate went up from 58.30 to 87.60 sucres between December 1983 and the same month in 1984.

It is assumed that the transfer of non-petroleum exports and most imports to an exchange area close to that of the free market largely put an end to the problem of under-invoicing of exports and over-invoicing of imports. Possibly, however, the rapid increase undergone by the free market dollar in the latter months of the year may have made for a reappearance of the problem.

With the aim of curbing the upswing in the free market dollar, the Monetary Board decreed in October that foreign exchange for imports, which up to then could be bought in the free market, must be purchased from the Central Bank. Similarly, a limit was set to the amount of the banks' foreign exchange assets.

As can be seen in table 15 and figure 3, during 1984 there was a marked rise in the effective real exchange rate for foreign trade operations. The rate for imports reached its maximum in September (an increase of 28% in relation to the end of 1983), while the export rate was highest in November (an increment of 19%).¹⁰ On an average, the effective real exchange rate during the year rose by 22% for imports and 14% for exports, which meant that the latter, like import-substituting products, gained in competitiveness.

4. Prices and wages

a) *Evolution of domestic prices*

Measured from December to December, the rate of inflation was reduced to one-half, and to two-thirds if calculated in terms of annual averages. Nevertheless, the increases noted in the course of the year (25 and 31%, respectively) were higher than any that had been known up to 1982 (see table 16).

Table 16

ECUADOR: CONSUMER PRICE INDEX^a

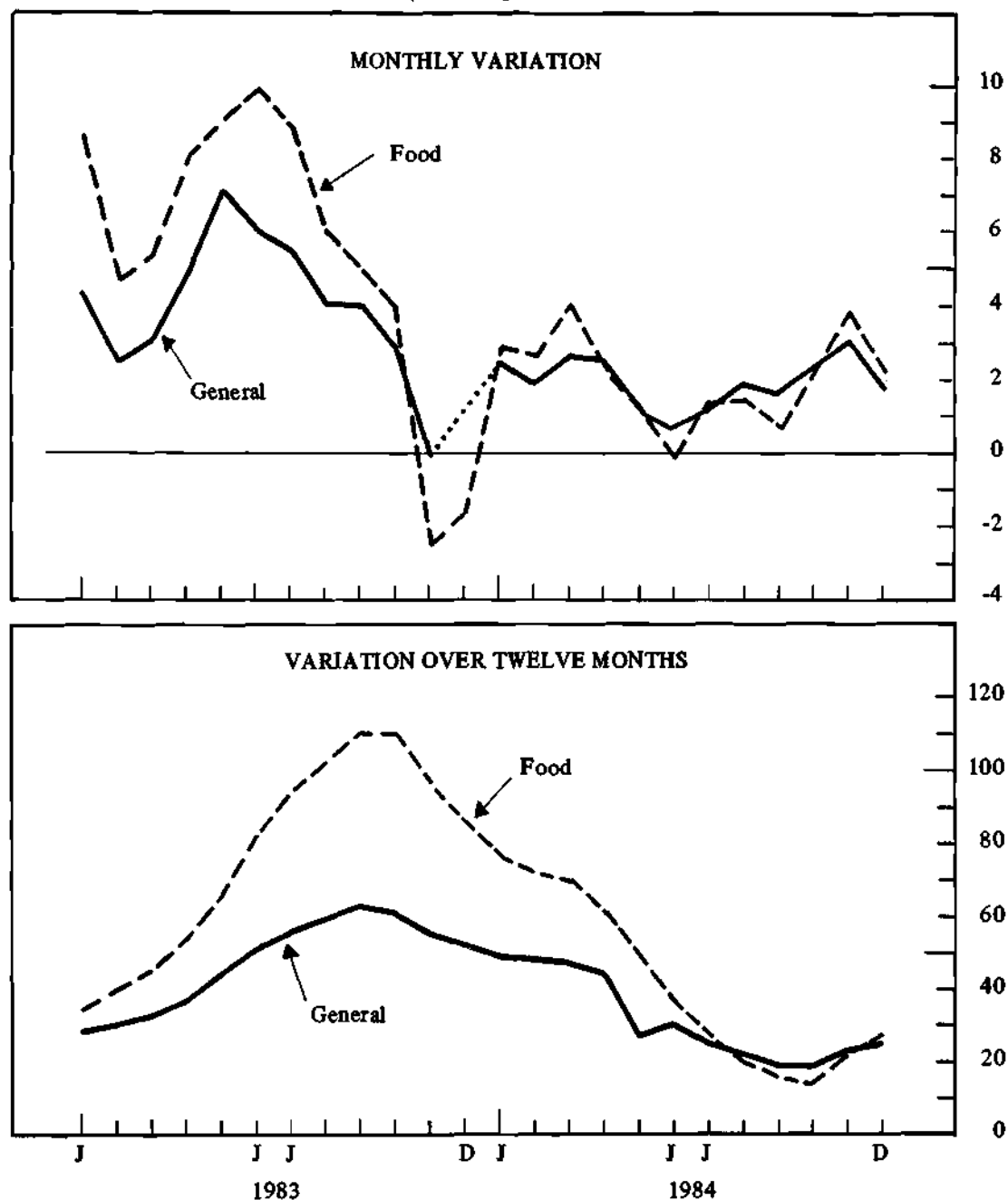
	1978	1979	1980	1981	1982	1983	1984
Variation from December to December							
Consumer price index	11.7	9.0	14.5	17.2	24.4	52.5	25.1
Food	10.6	7.0	12.3	16.8	26.3	86.1	27.1
Variation between annual averages							
Consumer price index	11.7	10.3	13.0	16.0	16.3	48.4	31.2
Food	10.2	10.0	11.0	13.9	17.1	77.9	37.0

Source: Central Bank of Ecuador and National Institute of Statistics and Censuses.

^a Up to 1980, corresponds to the consumer price index for Quito. As from 1981, the entry refers to the national consumer price index, urban area.

¹⁰ Notwithstanding that the exchange rate was fixed in September, its average value continued to rise until December. This was due to the vigorous impulse given in those months to non-petroleum exports, the rate of exchange for which was 95 sucres to the dollar.

Figure 4
ECUADOR: CONSUMER PRICE INDEX
(Percentages)



Analysis of what happened in respect to inflation necessitates somewhat detailed consideration of price trends in 1983. The acute shortage of food products and of inputs for manufacturing industry which occurred at that time in consequence of natural disasters resulted in marked increases. Between May and July the food price index showed monthly increments of approximately 9%. From that month onwards, however, the monthly rate went down rapidly and in November and December no major variation was apparent, while the index for food products became negative (see figure 4). This happened mainly because the supply of agricultural and fishing products was restored to normal.

In the first four months of 1984 the growth rate of prices once more gained some impetus (2.3% per month), owing to the fact that the exchange measures adopted at the beginning of the year raised the cost of imports of a number of products that had become subject to a higher exchange rate.

After decreasing between May and September, the rate of inflation speeded up again in October and November. This was largely due to the rapid upward trend of the free market dollar. Furthermore, a large number of export and import products had been transferred in September from the official area (66.50 sucres to the dollar) to the area controlled by the Central Bank, where the dollar was dearer.

Furthermore, the new authorities began to put into effect their policy of liberalization of real prices and elimination of subsidies. The number of basic products subject to fixing and control of maximum consumer prices was reduced to only six, while the number of those to which support prices for the producer were allotted was increased to 21.¹¹

Other factors which helped to push up domestic prices in 1984 were the increase in the interest rate and the greater monetary liquidity existing in the second half of the year.

Table 17

ECUADOR: EVOLUTION OF MINIMUM MONTHLY WAGES

	Sucres at current and constant 1980 prices ^a				Growth rates				
	1981	1982	1983	1984	1980	1981	1982	1983	1984
Workers in general									
Nominal	4 000	4 100	5 100	6 600	100.0	-	2.5	24.4	29.4
Real	3 448	3 039	2 547	2 513	77.0	-13.8	-11.9	-16.2	-1.3
Agricultural workers, Sierra region									
Nominal	2 500	2 617	3 550	4 400	85.2	-	4.7	35.7	23.9
Real	2 155	1 940	1 773	1 675	63.9	-13.8	-10.0	-8.6	-5.5
Agricultural workers, Coastal region									
Nominal	3 000	3 100	4 000	5 000	100.0	-	3.3	29.0	25.0
Real	2 586	2 298	1 998	1 904	77.0	-13.8	-11.1	-13.1	-4.7
Agricultural workers, Oriente region									
Nominal	2 500	2 617	3 550	5 000	66.7	-	4.7	35.7	40.8
Real	2 155	1 940	1 773	1 904	47.5	-13.8	-10.0	-8.6	7.4
Small-scale industry									
Nominal	3 000	3 100	3 750	5 000	...	-	3.3	21.0	33.3
Real	2 586	2 298	1 873	1 904	...	-13.8	-11.1	-18.5	1.7
Artisan-type workers									
Nominal	2 800	2 900	3 775	4 600	80.6	-	3.6	30.2	21.9
Real	2 414	2 150	1 886	1 751	59.9	-13.8	-10.9	-12.3	-7.2
Domestic servants									
Nominal	1 500	1 617	2 450	3 000	66.7	-	7.8	51.5	22.4
Real	1 293	1 199	1 224	1 142	47.4	-13.8	-7.3	2.1	-6.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^a Real wages are expressed in 1980 sucres and the method of calculating them was to deflate nominal wages by the national consumer price index, urban area.

¹¹ The sharp rise in fuel prices decreed at the end of 1984 influenced the variation in the price index for January 1985, which rose by 6.5%.

b) *Wages*

The minimum living wage of 5 600 sucres in force since mid-1983 was raised to 6 600 sucres in January 1984, a level at which it remained throughout the year. On average it was 29% higher than in 1983, which meant that it deteriorated slightly in real terms (-1%). Thus, since 1980, real wages have been reduced by one-third (see table 17).

Much more serious were the losses in real terms suffered in 1984 by other wage-earners, whose wages are also determined by the authorities. Thus, the minimum wages of artisan-type workers and of domestic servants declined by 7%, and those payable to agricultural workers in the Sierra and Coastal regions by about 5%. In contrast, the minimum wages of workers in small-scale industry and of agricultural wage-earners in the Oriente region increased by a little over 2% and 7%, respectively.

If account is taken of the gratuities and bonuses supplementing low wages, the minimum wage reached a little over 10 600 sucres. Thus in 1984 this global income increased in a proportion similar to the minimum wage, having deteriorated by 20% in real terms since 1980.¹²

For several years now the so-called Wage Commissions have been in existence; they are formed by representatives of workers, employers and the Government and their function consists in establishing wage and salary scales for various activities. In 1984 98 commissions were in operation, but they regulated the wages of a relatively low percentage of workers.

5. Monetary and fiscal policies

a) *Monetary developments*

In contrast to what happened in the period 1981-1983, and mainly in the last of those years, the expansion of the money supply easily exceeded the rise in prices. It was decidedly irregular, however, with sharp upward movements in July, September and, above all, in December, in which month the increase was more than 14%. Thus, on an average the means of payment grew by only 28% during 1984, i.e., at a rate much lower than that of the gross domestic product in current prices, which was approximately 35%. In the first half of the year, in particular, there was an obvious lack of liquidity and the speed of circulation, which had already been high in 1983, rose still farther (see table 18).

Until the middle of the year, the monetary authorities placed special emphasis on containing any over-expansion of the money in circulation that might encourage price increases or the rise of the free market dollar. During this period the money supply virtually did not increase (1% between December and June 1984), whereas in the second half of the year it grew by 40%. To some extent this must have contributed to the vigorous upswing in free market dollar quotations from August onwards.

The various measures adopted in the last months of 1984 helped to absorb surplus liquidity. The bank reserve was raised from 20% to 22%. The rule under which importers were obliged to pay for the merchandise imported before obtaining customs clearance operated in the same direction.

Likewise, on two occasions during the year interest rates were raised: in June, interest rates on short-term loans, from 19% to 21%, and on deposits, from 16% to 18%; and at the beginning of December by two points more, on loans from 21% to 23%, and on deposits from 18% to 20%. Furthermore, in December the rate of return on securities and on bank promissory notes for more than one million sucres, with minimum maturities of 90 days for the former and 270 days for the latter, was allowed to float.

Interest rates, especially those on short-term operations, remained, despite everything, definitely negative in real terms. Apart from the fact that the effects of the December increase would only just make themselves felt in 1985, a notable increase in savings and time deposits — quasimoney— helped to delay the expansion of the money supply (see table 19).

The expansion of domestic credit, by about 45%, was the variable that gave impetus to the creation of money. Ninety per cent of the credit was destined to the private sector, for which the supply available increased by 47%. Net credit to the Government still showed negative balances,

¹² As from the beginning of September 1983, annual gratuities have represented three minimum monthly wages, plus 100% of a wage of up to 6 000 sucres and 40% of anything over. Furthermore an annual supplementary bonus of one monthly minimum wage is paid, another for cost-of-living bonus of 1 050 sucres monthly, and a third for transport expenses, which in September rose from 240 to 320 sucres a month.

which this time more than trebled those of the preceding year. The root cause of this was a slight decrease in gross credit and an increase in government deposits in the Central Bank.

In the period January-November the bank system issued credits for an amount 43% larger than in the same period in 1983. Only credit for agriculture, which represented barely one-seventh of the total, increased at such a rate. The flows directed towards industry and commerce (31% and 25% of the total) did so at a more leisurely pace.

b) *Government income and expenditure*

In the fiscal area, the Government that took office in August indicated that in essentials it was in accord with the broad outlines of the policy which had been applied since 1982 and which had made it possible to improve the public sector's budget situation and to reduce the fiscal deficit/gross domestic product ratio. What was more strongly emphasized was the endeavour to lessen State participation in economic activities that could be the responsibility of the private sector. Similarly, attention was drawn to the desirability of continuing to raise the real prices and tariffs of public enterprises, in order to reduce not only their losses but also the substantial State subsidies.

Table 18

ECUADOR: MONETARY INDICATORS

	End-of-year balance (billions of sucres)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Monetary base	35.9	39.0	48.2	68.4	6.5	8.6	23.6	41.9
Money (M ₁)	61.8	73.1	95.1	134.3	15.3	18.3	30.1	41.2
Quasimoney	13.9	20.5	22.9	41.7	10.4	47.5	11.6	82.3
Money plus quasimoney (M ₂)	75.7	93.6	118.0	172.5	14.4	23.7	26.0	46.2
Domestic credit	76.8	106.7	169.8	246.0	30.4	38.8	59.2	44.9
Central government and local authorities (net)	-7.8	-2.7	-11.1	-36.0	109.5	-65.6	313.5	225.0
Private sector	72.2	94.3	151.0	222.0	33.1	30.7	60.0	47.1
Financial institutions	12.3	15.0	29.9	60.0	46.7	22.0	99.5	100.7
Net international reserves	15.8	9.5	15.1	12.7	-31.2	-39.7	58.7	-16.0
Coefficients ^b								
Monetary multipliers								
M ₁ /Monetary base	1.68	1.90	1.96	1.91				
M ₂ /Monetary base	2.08	2.41	2.40	2.50				
Speed of circulation	6.27	6.15	6.69	7.03				

Source: Central Bank of Ecuador, *Análisis Económico Coyuntural*, January 1985, *Información Estadística*, several issues; International Monetary Fund, *Yearbook of Financial Statistics*, several issues.

^a Provisional figures.

^b Calculated on the basis of annual averages.

Table 19

ECUADOR: SHORT-TERM BANK INTEREST RATES

	1980	1981	1982	1983	1984
Nominal					
On loans	12.0	12.0	15.0	16.4	20.2
On deposits	6.0	7.6	12.0	13.4	17.2
Real					
On loans	-0.9	-3.4	-1.1	-21.6	-8.4
On deposits	-6.2	-7.2	-3.7	-23.6	-10.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

Table 20

ECUADOR: GOVERNMENT BUDGET INCOME AND EXPENDITURE

	Millions of sucres				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
1. Total income ^b	39 297	44 889	60 187	101 610	63.0	4.4	14.2	34.1	68.8
Current income	40 510	46 680	60 850	101 700	62.3	5.2	15.2	30.4	67.1
Traditional	25 379	25 735	31 900	48 600	23.5	6.1	1.4	24.0	52.4
Tax revenue	23 744	24 433	30 519	46 610	21.7	5.8	2.9	24.9	52.7
Direct	6 137	6 101	7 153	9 428	22.2	46.9	-0.6	17.2	31.8
Indirect	8 098	9 856	12 733	20 532	32.0	-6.0	21.7	29.2	61.3
On foreign trade	9 509	8 476	10 633	16 650	-13.5	-1.5	-10.9	25.4	56.6
Other income	1 635	1 302	1 381	1 990	58.6	11.2	-20.4	6.1	44.1
From petroleum	15 131	20 945	28 950	51 200	227.1	6.3	38.4	38.2	76.9
Transfer payments	-	-	-	1 900					
2. Total expenditure	59 395	66 536	74 234	116 374	68.7	24.9	12.0	11.6	56.8
3. Deficit (1-2)	-20 098	-21 647	-14 047	-14 764	94.3	102.5	7.7	-35.1	5.1
4. Financing	16 838	21 647	14 047	-236					
Net indebtedness	8 301	19 543	13 900	-3 648					
Foreign	7 658	9 988	-2 266	-8 837					
Domestic	643	9 555	16 166	5 189					
Use of special resources	9 757	1 823	-	-					
Cash balance ^c	-1 220	281	147	3 412					
Difference (3 - 4) ^d	3 260	-	-	15 000					

Source: Central Bank of Ecuador.

^aProjections based on data for nine months.^bTotal net income. Taxes paid with tax certificates and agrarian reform bonds have been deducted.^cUse or net accumulation of funds during the financial year, according to whether the balance is positive or negative.^dPayments deferred to the next year, minus payments made in respect of expenditure in the preceding year.

In 1984 government expenditure again expanded significantly: by about 57%, i.e., 20% in real terms. Nominal income, in its turn, soared still higher (69%), under the impetus of a noteworthy increase in contributions from the petroleum industry. At all events, the fiscal deficit was slightly larger, although its importance in relation to the gross domestic product, which was less than 2%, decreased for the third year running. The public-sector deficit also represented a smaller proportion of the gross domestic product (2.5%) than in 1983 (3.8%) (see table 20).

The provisional data available on the central government show that there was an exceptional upsurge (80%) in real investment, attributable to the works undertaken for the rehabilitation of the road, port and rail infrastructure, public buildings and housing, etc., which had been destroyed during the winter of 1982-1983. To this must be added the continuance of the works in progress in connection with the Daule-Peripá project, with the construction of the Agoyán hydroelectric power station and with that of the national interconnected electricity network.

Expenditure on wages and salaries increased by about 54%, owing to the improvement decreed at the beginning of 1984 and the reallocation of posts. Furthermore, interest payments on the public debt rose by 44%.

The contributions of the petroleum industry for the first time exceeded traditional budget revenue under this head. The significant increases in petroleum extraction, refining and exports of hydrocarbons boosted petroleum earnings by about 77%. The rise in fuel prices occurred at the end of the year and exercised no major influence in this respect.

Traditional sources of income, and particularly tax revenue, increased by 53%. The biggest increments were to be seen in indirect taxation and import duties; income tax rose only by much the same percentage as domestic prices, but a good deal higher than in the two preceding years.

The raising of the tax on mercantile transactions from 5 to 6% and the higher rates applied to beer helped to enlarge revenue from indirect taxation. In the case of import duties, influence was exerted both by the expansion of imports of goods and by the rise in the exchange rate.

Amortization payments on the debt shot up from 6.2 billion sucres to 14 billion, thus exceeding the disbursement of credits. In this way the fiscal deficit increased by about 15 billion sucres, and had to be transferred to the next financial year.

EL SALVADOR

1. Recent economic trends: Introduction and summary

For the sixth consecutive year the situation of the economy of El Salvador continued to be characterized by an extremely low level of economic activity due to a combination of economic and other factors.¹ Nevertheless, after the sharp drop recorded between 1979 and 1983, there was a change in the trend in 1984, when the gross domestic product expanded by 1.5%. Since the incessant migration, due to economic factors and the prolonged internal conflict, had resulted in a moderate rate of population growth, the per capita product rose by close to 1%; however, its persistent deterioration in the five preceding years meant that the level recorded in 1984 was barely comparable to that attained two decades ago. As for the national income, it recovered significantly as a result of an improvement in the terms of trade —the first to occur after a period of systematic decline— and lower factor payments to the exterior (see tables 1 and 2 and figure 1).

The year was full of contrasts and contradictions. The conflict which had shaken the country over a prolonged period continued and in some respects worsened, but at the same time a constitutionally elected civil government was installed. The two main economic activities of the country (the cultivation of coffee and cotton) contracted significantly, but the economy as a whole showed moderate growth. Lastly, a moderately expansionary economic policy was followed in terms of wages, credit and public expenditure, but at the price of a further aggravation of the long-standing external imbalance.

These contradictions were partly the result of the severe civil conflict and the complex reactions to it in the behaviour of the country's economic agents, and of diverse external factors which affect the evolution of the internal variables.

Among the causes of the slight recovery in the product, mention should be made, in the first place, of the holding of elections during the first half of 1984, which resulted in the election of a civil government with a term of four years and an apparently expansionary economic policy programme,² which changed the outlook in some respects. Although it is difficult to weigh the real importance of this phenomenon, a number of private economic agents showed some willingness to reactivate investment (private investment grew by 4%). This improvement may have been favoured by the announcement and subsequent initiation of negotiations between the government and the armed opposition.

Secondly, the reactivation of the international economy, especially that of the United States of America, imparted some dynamism to the economy of El Salvador which was reflected, *inter alia*, in a rise of 8% in the terms of trade index.

Finally, perhaps the most significant factor was the growing support provided by the international financial community and especially by the United States, which took the form of a substantial injection of new resources into the economy, increasing its capacity to import and thereby making it possible to increase global supply and demand. Net inflows of capital fell, but the increase in the value of unilateral transfers received from abroad made it possible to defray partially both the cost of the economic policy measures applied throughout the year and the increasing expenditure on the war.³

¹ See the chapter on El Salvador in ECLAC, *Economic Survey of Latin America and the Caribbean, 1983: El Salvador: Main features of its recent economic performance* (E/CEPAL/PLEN.17/L.2), 28 May 1984, and Report of the Seventeenth Session of the Committee of the Whole (LC/G.1327, PLEN.17/L.15/Rev.1), 12 September 1984.

² See Ministerio de Planificación y Coordinación del Desarrollo Económico y Social, *Programa de Reactivación Económica —Segundo Semestre de 1984*, San Salvador, July 1984.

³ Total financial assistance from the United States amounted to US\$ 400 million a year in the past biennium. In 1984 this amount was similar to the deficit of the central government (at the official exchange rate).

The main economic objectives of the new authorities was explicitly to provide impetus for domestic demand and stimulate the global supply of goods and services.

The demand side was affected primarily by the abolition of the Economic Stabilization Law under which the general lines of the adjustment policy agreed with the International Monetary Fund had been established. This policy, which had been applied very rigorously since 1982, had resulted, among other things, in the freezing of nominal wages for over two years, which was reflected in a deterioration in real purchasing power. In 1984 this trend was interrupted when significant increases in wages and salaries were granted in the public sector and, as far as minimum wages were concerned, were extended to some private industrial and commercial activities.

The increase in the flow of private transfers, in the form of remittances made by nationals living abroad, also had a favourable repercussion on the personal income of the people of El Salvador.

The wage policy was accompanied by an increase in public consumption, partly to cover the increasingly high outlays for defence and security.

Table 1

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^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	1 787	1 814
Population (millions of inhabitants)	4.52	4.66	4.76	4.84	4.88	4.91	4.93
Per capita gross domestic product (dollars at 1970 prices)	512	489	437	394	369	364	367
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.4	-1.7	-8.7	-8.3	-5.6	-0.7	1.5
Per capita gross domestic product	-3.2	-4.6	-10.6	-9.8	-6.5	-1.3	0.8
Per capita gross domestic income	-3.7	-4.7	-13.3	-11.0	-7.5	-2.8	2.3
Unemployment rate ^b	...	6.7	16.1	25.0	30.0	...	...
Consumer prices							
December-December	14.6	14.8	18.6	11.6	13.4	14.8	9.8
Variation between annual averages	13.3	15.9	17.4	14.7	11.7	13.1	11.7
Real wages and salaries ^c	-5.9	1.7	-6.1	-12.9	-10.5	-11.7	-10.9
Money	9.9	21.6	7.2	-0.8	4.7	-1.5	17.3
Current income of government	-13.1	18.3	-14.4	6.4	0.3	13.7	19.3
Total expenditure of government	12.2	12.8	17.6	13.3	4.6	50.0	-10.1
Fiscal deficit/total government expenditure ^b	11.3	7.0	32.3	36.4	39.0	53.8	38.7
Fiscal deficit/gross domestic product ^b	1.7	1.1	5.6	7.3	7.9	15.1	8.5
Current value of exports (goods and services)	-15.2	37.1	-4.0	-23.9	-11.0	7.3	1.4
Current value of imports (goods and services)	12.9	3.9	-6.8	-0.8	-10.4	3.0	8.9
Terms of trade (goods and services)	-24.0	-4.9	-12.5	-8.7	-2.9	-10.3	7.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-285	10	45	-237	-218	-190	-273
Net payments of profits and interest	-60	-77	-94	-100	-129	-196	-176
Balance on current account	-292	15	-1	-272	-271	-239	-30.9
Balance on capital account	348	-149	-74	223	242	418	316
Variation in international reserves	57	-128	-69	-43	-27	41	7
Global disbursed external debt	...	939	1 176	1 471	1 710	1 891	1 968

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Percentages.

^c Real minimum wages of agricultural workers, except for harvesting of coffee, sugar cane and cotton.

Table 2

EL SALVADOR: EVOLUTION OF GROSS NATIONAL INCOME

	In constant-value national currency				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	1 871	1 748	1 708	1 753	-9.5	-6.6	-2.3	2.6
a) Gross domestic product	1 906	1 800	1 787	1 814	-8.3	-5.6	-0.7	1.5
b) Terms-of-trade effect	-23	-35	-67	-47				
c) Net factor payments to the exterior	25	33	46	35	14.7	33.6	38.9	-24.6
d) Net private transfers received from the exterior	13	16	34	21	120.0	24.2	112.5	-38.2

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

The global supply of goods and services expanded by nearly 2%, breaking the pattern of substantial deterioration registered in 1981 and 1982 and the virtual stagnation of 1983. This change in trend was backed up by an increase in the volume of imports (see table 3).

Favourable climatic factors, a moderately expansionary credit policy and the availability of foreign currency for importing indispensable inputs made possible an upturn in crop production. This was achieved in spite of the sharp drop in the production of coffee and cotton (to a large extent caused by the upsets associated with the civil conflict) and the changes in the patterns of production attributable to the process of agrarian reform. The increase in the supply was also due to the reduction in interest rates during the first half of the year and, later, to the refinancing by the Central Bank of arrears of credit repayments which had been accumulating in some of the main productive activities (particularly agricultural activities).

In the same way, manufacturing activities —particularly those relating to the production of consumer goods— began to react favourably to the greater availability of credit and foreign currency, thus also providing incentives for services closely associated with production.

The mild reactivation of the economy was, however, not enough to reduce the considerable open unemployment which had prevailed in the country during the last five years. Some of the more heavily labour-intensive activities (the cultivation of coffee and cotton and the building sector) were, in fact, among the most depressed, which may explain the lack of progress as far as employment is concerned.

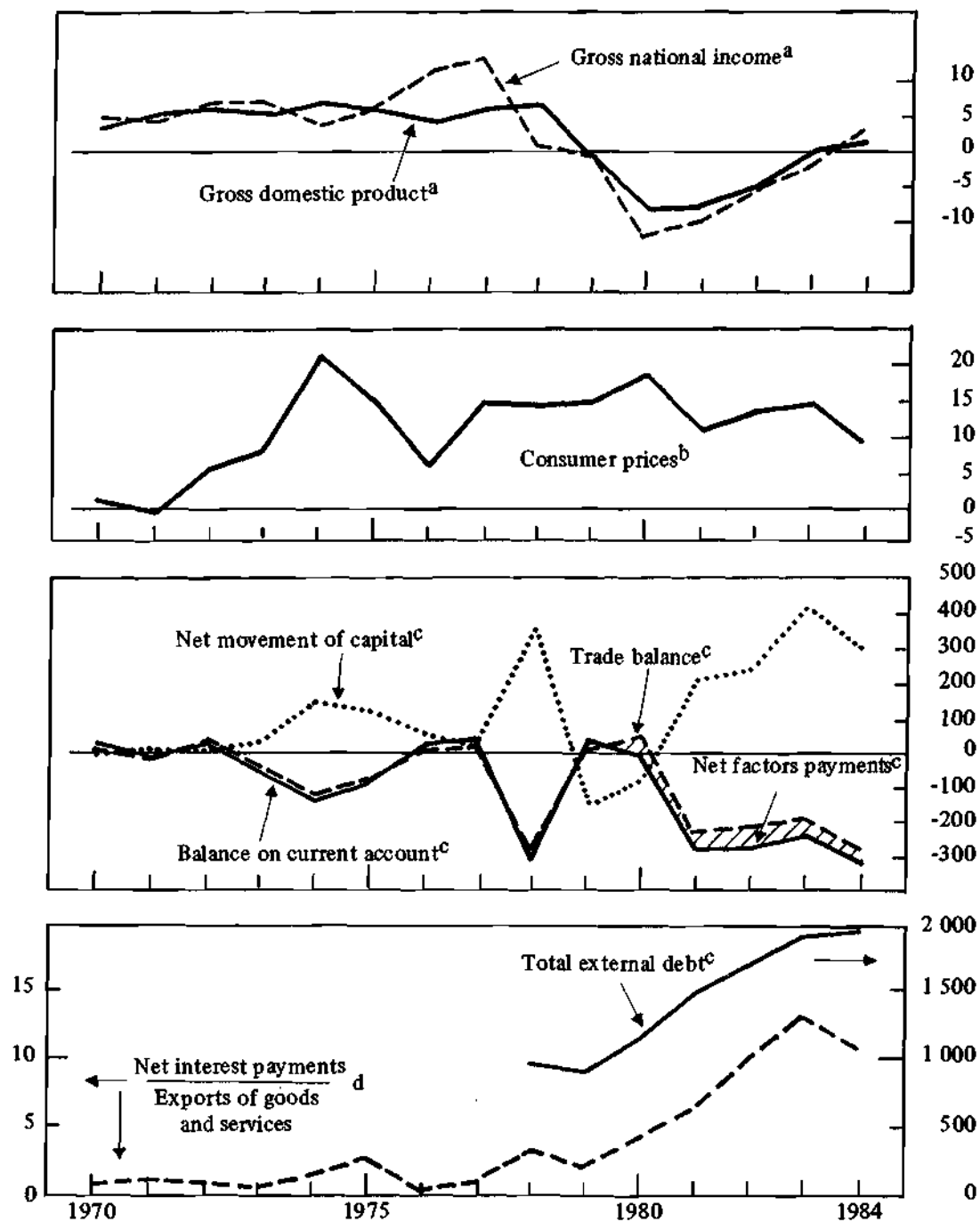
Part of the rural population of the area affected by the armed conflict has moved to the main cities of the country, which has not only swelled marginal settlements in urban areas and given rise to the concomitant problem of the supply of basic services, but has also been partially responsible for the spread of informal economic activities, which play an important role in relieving the severity of the employment problem.⁴

The effects of the armed conflict in terms of disarticulating the economy have not resulted in uncontrollable or excessive inflationary pressures. During the past three years, the average variations in consumer prices have been moderate and have not fluctuated greatly, remaining in the neighbourhood of about 12%. The 1984 results were influenced by the measures to control the prices of goods and services in the basic consumer basket and by the slight decline in the prices of imported articles.

The vigorous recovery in the value of imports (9%) was offset only to a small extent by the slight increase in both income from sales abroad and private unrequited transfers, thus making it the basic cause for the increase in the trade deficit. Consequently, despite the fact that net factor payments showed a slight decline, the deficit on current account reached unprecedented heights, approaching US\$ 310 million, which is equivalent to 7% of the gross domestic product (see table 1).

⁴It is estimated that in 1984 the problem of population shift affected 500 000 persons, or 10% of the population of El Salvador.

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 3

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	2 130	2 123	2 163	118.8	119.4	119.3	-7.4	-7.3	-0.3	1.9
Gross domestic product at market prices	1 800	1 787	1 814	100.0	100.0	100.0	-8.3	-5.6	-0.7	1.5
Imports of goods and services ^b	330	336	349	18.8	19.4	19.3	-3.1	-15.5	1.7	3.9
Total demand	2 130	2 123	2 163	118.8	119.4	119.3	-7.4	-7.3	-0.3	1.9
Domestic demand	1 833	1 783	1 846	100.2	99.5	101.8	-5.1	-6.6	-2.8	3.6
Gross domestic investment	234	240	256	16.9	13.8	14.1	-3.9	-15.0	2.3	6.8
Gross fixed investment	236	240	250	18.4	14.2	13.8	-10.8	-10.6	1.7	4.4
Construction	108	110	104	...	6.3	5.7	-16.0	-2.2	2.0	-5.3
Machinery	128	130	146	...	7.9	8.1	-6.6	-16.7	1.5	12.6
Public	116	118	123	6.7	7.5	6.8	-7.5	-19.7	1.5	5.0
Private	120	122	127	11.7	6.7	7.0	-14.5	0.3	1.9	3.8
Variation in stocks	-2	-	6	-1.5	-0.4	0.3				
Total consumption	1 599	1 543	1 590	83.3	85.7	87.7	-5.3	-5.2	-4.5	3.1
General government	278	257	268	10.6	13.1	14.8	3.5	-1.6	-7.6	4.6
Private	1 321	1 286	1 322	72.7	72.6	72.9	-6.9	-5.9	-2.6	2.8
Exports of goods and services ^b	297	340	317	18.6	19.9	17.5	-19.1	-11.5	14.8	-7.0

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.

The external trade gap was covered thanks to the greater availability of external financing through credit and donations, so that the level of international reserves rose slightly for the second consecutive year.

Although during 1984 the foreign debt showed only moderate growth, debt servicing continued to represent a considerable financial burden, since it absorbed half of the income generated by exports of goods and services. The shortage of foreign currency thus continued to represent a limiting factor, and for that reason the monetary authorities continued to allocate foreign exchange on the basis of certain criteria of priority. The importance attached to the parallel exchange market gradually increased in the course of the year, and in December the monetary authorities suddenly decided to move a greater volume of goods —both intermediate and capital— to that market. Approximately 35% of total imports were thus subjected to a rate of exchange higher than the official rate.⁵

Behind the moderate upturn observed in 1984 and the factors responsible for it lay the same phenomena which had caused the economy of El Salvador to fall into a deep depression at the beginning of this decade. The consequences of the civil conflict on the economy have been enormous: they have provoked serious disturbances in the production apparatus, displacement of persons, loss of human life and material damage and a reorientation of public expenditure towards activities not precisely related to economic development. In spite of a favourable change in expectations, serious social and political tensions are still discouraging investment and encouraging the flight of capital and also, in some cases, an exodus of human resources. In the last analysis, the civil conflict has kept the country geographically and economically fragmented, seriously restricting production activities, employment and the earnings of the population.

⁵In recent months the rate on the tolerated parallel market was about 3.95 colones per dollar. Although there were no major changes in this market's exchange rate with respect to 1983, the new structure is tantamount to a devaluation of approximately 20%.

In addition, the financing of the war has tied up increasingly large amounts of public resources. It is estimated that during 1984 defence and security expenditure represented a quarter of total central government outlays and nearly 5% of the global gross domestic product.⁶ Mention should also be made of the expenditure which the central government and its decentralized agencies had to incur for restoration of physical assets damaged or destroyed by the internal armed opposition, particularly in the fields of energy, transport and road infrastructure.⁷ In this way, the fiscal deficit in 1984 rose to the equivalent of 8.5% of GDP. All this aggravated the situation as regards public sector finances: one of the weakest aspects of the total macroeconomic picture of El Salvador.

In spite of the improvement in the terms of trade, the terms prevailing in the international markets for the main export commodities of El Salvador (coffee, cotton, sugar cane) remained rather discouraging for the expansion of these crops. The export quota reductions decided in 1984 by the International Coffee Organization (ICO) and, in the case of sugar, by the United States of America, had a particularly severe impact. Moreover, Central American trade (primarily in manufactures) remained depressed owing to the economic conditions prevailing in the other countries of the region.

For years the main economic activities have been facing financial problems which are impeding their operation and jeopardizing the situation of the credit institutions. There are heavy bad debts in the areas of the main export crops, the construction sector and the reformed agricultural sector, so that a considerable proportion of the credit mobilized during the past two years has had to be devoted to the refinancing of overdue debts.

Finally, although the reactivation policy was greeted relatively favourably by the private sector, large segments continued to maintain a cautious attitude, which has taken the form of reluctance to undertake large investments in production. This phenomenon is partially due to the high degree of idle installed capacity in a number of activities and especially to the general political situation and the uncertainty concerning the future fate of the institutional changes which began to be introduced in 1979 (agrarian reform, nationalization of banking and of foreign marketing).

In summary, in 1984 the economic policy was in some respects different from that applied in previous years, and its background was one in which political events and the internal armed confrontation are also undergoing changes as a consequence of the electoral process and an incipient effort to overcome the conflict through dialogue.

The expiry of the agreements with the International Monetary Fund during 1983 seemed to offer some possibilities for the reorientation of certain aspects of economic policy. However, these possibilities may have led to increased disequilibria in both public finances and the balance of payments. The reorientation did indeed materialize to some extent in 1984 in that there was some recovery of wages, the share of the dual exchange rate in the parallel foreign currency market was increased, credit was expanded as interest rates diminished, overdue debts were refinanced and military expenditure received higher priority. The reorientation proved viable thanks to the rise in external financing from bilateral sources in the United States (loans or donations, whose volume was close to the equivalent of the government's deficit in 1984). This permitted a slight upturn in global activity (a trend already hinted at in the final months in 1983), but only at the cost of a worsening of the external disequilibrium.

2. Trends in economic activity

a) *Global supply and demand trends*

The availability of goods and services rose by nearly 2% in comparison with 1983: a very low figure when viewed in the light of the 28% contraction accumulated since 1979, but one which marked a turning point in the trend observed since then. The rise in supply during 1984 was partially attributable to the expansion shown both in the gross domestic product—owing to the upturn in nearly all the economic sectors—and in the volume of total imports (see table 3).

⁶In 1980 defence expenditure represented 14% of total spending, according to data supplied by the Ministry of Planning and Co-ordination of Economic and Social Development.

⁷It is estimated that from 1979 to 1984 the economic losses associated with the armed conflict totalled US\$ 1 billion, of which approximately US\$ 150 million related to the infrastructure.

Table 4

**EL SALVADOR: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	1 662	1 651	1 675	100.0	100.0	100.0	-8.3	-5.6	-0.7	1.5
Goods	847	832	839	52.1	50.5	49.3	-8.4	-5.7	-1.8	0.9
Agriculture	512	496	502	29.4	29.6	29.5	-6.4	-4.7	-3.2	1.2
Mining	3	3	3	0.2	0.1	0.2	-2.6	-	-2.7	2.8
Manufacturing	270	270	274	17.8	17.0	16.1	-10.5	-8.4	-0.1	1.8
Construction	62	63	60	4.7	3.8	3.5	-15.3	-2.1	2.0	-4.9
Basic services	144	152	156	7.5	8.6	9.2	-8.4	-5.6	5.7	2.8
Electricity, gas and water	50	53	54	2.0	2.8	3.2	-3.0	-3.9	5.1	3.0
Transport, storage and communications	94	99	102	5.5	5.8	6.0	-11.0	-6.5	6.0	2.7
Other services	701	698	705	40.4	40.9	41.5	-7.0	-4.6	-0.6	1.1
Commerce, financial insti- tutions and insurance	258	256	256	19.9	17.3	15.1	-14.1	-10.4	-0.8	0.1
Ownership of dwellings	85	87	88	3.7	4.1	5.2	2.9	2.6	2.0	1.6
Community, social and personal services ^c	358	355	361	16.8	19.5	21.2	-2.9	-1.5	-1.0	1.8
Government services	230	225	230	8.6	11.4	13.5	1.2	3.0	-1.8	2.0

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures. ^bAs the individual activities and the total were calculated independently, the sum of the former does not necessarily tally with the latter. ^cIncludes restaurants, hotels and business services.

The increase in global supply was basically absorbed by domestic demand, since the volume of exports contracted by 7%. The poor performance of exports of goods is attributable to the recurrent difficulties encountered in the production of coffee and cotton, which is concentrated in the area where the armed conflict was being waged. Exports of services also contracted.

The expansion of consumption, both public and private, was responsible for a certain amount of dynamism of domestic demand. The higher public consumption was, to a greater extent than in the past, attributable to an increase in current military expenditure, while private consumption was strengthened by the steady increase in remittances received from abroad and by the moderate recovery of urban real wages.

The greater availability of foreign currency for the importation of intermediate and capital goods made it possible to build up stocks in certain production activities, especially in trade and manufacturing.

The reactivation of production and the greater flow of resources from abroad caused a marginal change in the action of the economic agents in capital formation. Thus, fixed investment expanded by over 4% in real terms, consolidating the trend of the preceding year, after having recorded very low levels ever since the armed conflict began. Although private industry in general maintained large margins of idle capacity, some of its obsolete fixed assets had to be replaced. The public sector also increased its investment expenditure in order to replace works and facilities damaged or destroyed in acts of sabotage. Fewer resources were allocated to the agricultural sector, however, especially for the cultivation of coffee. Construction remained depressed because of the lack of investment in both industry and housing.

b) *Evolution of the main sectors*

Productive activity experienced a slight but generalized improvement, from which only construction was excluded (see table 4).

i) *Agriculture*. The increase in the level of activity was very small (1%), but it marked a reversal in the acute and persistent downward trend, although even so in 1984 the sectoral product was 12% lower than that recorded in 1978 (see table 5).

As livestock activity continued to deteriorate, reactivation was based on crop raising. Adequate rainfall and various kinds of official support more than compensated for the negative effects of the armed conflict, which were especially marked in the coffee and cotton growing regions and were reflected in the sizeable decrease in investment in the maintenance of crops.

International coffee prices improved, whereas the prices of sugar and cotton declined substantially. The prices of the three main export items, however, stood at levels which were generally acceptable to domestic producers.

Coffee production contracted yet again (by nearly 3%), thereby continuing the downward trend initiated in 1980, so that the accumulated reduction amounted to nearly 20%. Thus, while in 1979 about 185 000 tons were produced, in 1984 the harvest amounted to only some 150 000 tons. This performance has been a factor in the financial insolvency threatening this activity for some time past which has made necessary official refinancing support for debtors who have fallen behind on their payments. For the same reasons, producers have cut investments in maintenance, which mobilizes large numbers of workers, and have reduced the application of intermediate inputs. This has resulted in the proliferation of coffee diseases such as rust, and has led to a significant decline in the yield per hectare. Due to the drop in the volume of production over the last two years, in order to satisfy export requirements it was necessary to have recourse to the stocks, which have traditionally been kept high.

Table 5

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of agricultural production (1978 = 100)	95.4	104.6	92.3	87.1	88.1	-8.2	-3.9	-5.6	1.2 ^b
Crop farming	97.3	107.4	95.0	90.3	91.7	-8.3	-3.5	-5.0	1.5 ^b
Livestock raising	90.0	88.3	76.5	69.2	67.2	-7.4	-6.4	-9.6	-2.9 ^b
Production of main crops^c									
For export									
Coffee	163	186	172	156	152	-6.6	-0.8	-9.4	-2.8
Cotton	73	61	40	40	28	-29.8	-8.2	1.8	-29.2
Sugar cane	3 166	2 564	2 372	3 016	3 402	-11.7	4.8	27.2	12.8
For domestic consumption									
Maize	434	520	408	437	520	-4.8	-17.8	7.0	19.0
Beans	38	39	38	41	48	-2.1	-0.7	10.4	15.5
Milled rice	39	39	23	27	43	-17.4	-29.3	22.1	55.3
Sorghum	172	138	122	121	139	-3.0	-8.5	-0.9	14.7
Stock-raising indicators									
Number of animals slaughtered									
Cattle ^d	187	185	149	147	...	-20.0	0.7	-1.3	...
Pigs ^d	115	126	143	155	...	-4.0	17.4	9.2	...
Poultry ^e	...	35	...	...	...	2.9	...	...	...
Other products									
Milk ^f	253	331	267	208	...	-3.0	-16.8	-22.1	...
Eggs ^g	599	819	844	849	...	3.1	-	0.6	...

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. ^cThousands of tons.

^dThousands of head. ^eMillions of pounds of meat. ^fMillions of bottles. ^gMillions of units.

The situation with regard to the cultivation of cotton was even more dramatic. The volume of cotton harvested contracted by close to 30%, amounting to 28 000 tons —only 37% of the amount produced in 1978. These results were largely due to a reduction of close to 30% compared with the area sown the year before (67% by comparison with 1978). The tension prevailing in the cotton-growing area has caused a large number of producers to cease operations. Cotton producers have been experiencing financial problems ever since 1979, so that a vicious circle has been set up and the situation is becoming increasingly serious. It is estimated that by the end of 1984 the refinancing of their debts with the financial system had probably increased by 50%. With a view to supporting this activity, the monetary authorities allowed some of the earnings generated by cotton exports to be exchanged in the parallel market.

Sugar cane, the third export crop, was in a relatively more favourable situation, and the volume produced grew by nearly 13%. Between the 1983/1984 growing season and the 1984/1985 season, the surface planted rose by 10% to 55 000 manzanas. This crop is helped by the fact that most of the area planted is located in the western part of the country, which is outside the area of armed conflict. In addition, three-quarters of the sugar produced is sent to the United States, which in 1983 raised the quota allocated to El Salvador at preferential prices to offset the reductions in the Nicaraguan quota. This measure had its greatest impact on the production of El Salvador in the 1983/1984 season.

The unfavourable effect which the contractions in the coffee and cotton crops had during 1984 on production and employment were offset to some extent by the results obtained in basic grains. As from the preceding year the crops associated with the staple diet of the population had already shown significant improvement (see table 5), so that the availability of grains rose notably.

The official support provided through the credit system and the fixing of guaranteed prices encouraged crop growing considerably. It is probable, however, that the expansion of the area sown with basic grains in order to make up for reductions in the cultivation of cotton may have been of even greater importance. This would seem to be so in the light of the substantial increases in productivity. Thus, maize production surpassed that of the preceding year by nearly 20%, totalling 520 000 tons, comparable to the satisfactory levels reported for the period 1978-1980. In the case of beans, the harvest was the best for the past 10 years: the 15% increase helped to recover the levels attained in 1980-1982.

Rice production expanded by a spectacular 55%, resulting in the highest level in the last fifteen years. This was due to the notable increase in both the area cultivated and the productivity. The trend was also favourable in the case of sorghum.

The livestock subsector index continued the decline begun in 1980, although the intensity of its deterioration was less. The situation with regard to the number of cattle has been particularly adverse in that it is estimated to have decreased from 1 300 000 head in 1979 to 600 000 head in 1984. The loss of assets which this activity has experienced on account of contraband and illegal slaughtering is only one of the ills attributable both to the war and to the uncertainty felt by producers concerning the agrarian reform policy. As a result, the productivity of the land devoted to stock-raising has decreased substantially, and the results in terms of beef and milk supplies have been those which were to be expected.

ii) *Manufacturing.* Like economic activities as a whole, the manufacturing sector showed signs of levelling-off, albeit at a low level of operation, equivalent to only 70% of that reported in 1978 and comparable to that achieved about a decade ago. This confirmed the interruption, begun in 1983, in the downward trend initiated five years ago which resulted in the closure of a number of enterprises and in the dismissal of a large number of workers.

The comparative dynamism which characterized domestic demand during 1984 gave some impetus to manufacturing and raised the level of activity by close to 2%. This performance was to a large extent attributable to the relatively greater availability of foreign currency. The Industrial Recovery Fund (FRI) devoted a large share of the foreign resources provided by IDB (which have made up a total inflow of US\$ 100 million since 1982) to imports of raw materials, capital goods and other inputs for the manufacturing sector.

During the year some machinery and equipment was also replaced although investment in fixed assets for the sector was in general discouraged by the existence of ample margins of idle capacity, estimated to amount to 25% overall. For example, some 60% of the installed capacity for the processing of cotton fibre remained idle, and the same was true of the manufacture of edible oil from cotton seed.

The limited information available on the performance of the various branches of manufacturing shows a higher level of activity in those producing food, beverages and tobacco; clothing and footwear, and electric home appliances. The rate of activity in intermediate goods showed dissimilar behaviour between branches: the production of non-metallic minerals, for example, continued to exhibit a downward trend associated with the fact that the building situation remained depressed; on the other hand, the manufacture of chemicals and petroleum products showed favourable results. In line with the foregoing, the consumption of electric power by the manufacturing sector rose by nearly 3% (see table 6).

The slight recovery of the industrial sector occurred in spite of the fact that little incentive was provided by trade with the Central American Common Market owing to the rather similar economic problems from which the other countries of the subregion are suffering. On the other hand, the exchange measures adopted towards the end of 1984, under which commercial transactions with the rest of Central America were transferred to the parallel market for foreign currency, gave rise to important changes in the profitability of exports to that area, but their impact will be fully felt only during 1985.

iii) *Construction.* The persistence of the drop in this sector's activity (-5%) must have had repercussions on the level of employment and the economy as a whole, in view of the multiplier effect which construction had traditionally had. The depression in the sector may well be a significant indicator of the situation prevailing in the economy of El Salvador with regard to the allocation of resources for fixed capital formation.

The public sector as a whole incurred substantial expenditure in replacing the infrastructure damaged in the armed conflict. Public works were slowed down, however, by the general conditions prevailing in the economy and, in particular, by the situation of the public finances.

Table 6

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of value added (1970 = 100)	138.2	140.1	115.0	113.8	115.8	-10.4	-8.4	-1.0	1.8
Foodstuffs, beverages and tobacco	144.0	162.8	142.8	143.2	148.9	-7.4	-5.3	0.3	4.0
Textiles, clothing and leather products	95.8	80.6	56.0	55.0	56.1	-12.5	-20.6	-1.8	2.0
Textiles	64.7	55.4	30.1	30.9	...	-19.7	-32.4	2.7	...
Leather, clothing footwear and other products	131.6	108.8	92.3	87.8	...	-5.2	-10.5	-4.9	...
Wood and paper	129.0	169.1	123.2	122.1	...	-7.3	-21.4	-0.1	...
Wood and its manufactures	136.3	196.4	184.1	181.0	...	3.0	-9.0	-1.7	...
Paper and paper products	123.1	151.2	86.7	86.7	...	-15.2	-32.4	-	...
Chemicals and petroleum and rubber products	126.7	92.1	76.4	54.8	58.1	-13.9	-3.6	-28.3	6.0
Chemical products	113.2	53.5	50.7	50.9	53.4	-8.2	3.3	2.9	5.0
Petroleum and rubber products	148.0	139.4	109.2	93.6	100.2	-15.9	-6.8	-14.3	7.0
Non-metallic mineral products	140.5	144.0	120.6	120.3	104.7	-13.7	-3.0	-0.2	-13.0
Machinery and metal products	158.6	133.7	81.0	79.6	...	-26.6	-17.4	-1.7	...
Metal products	175.9	129.5	83.7	83.7	...	-23.0	-16.0	-	...
Machinery and equipment	151.1	136.6	80.1	90.9	...	-28.3	-18.3	13.5	...
Other manufactures	114.9	74.4	46.7	46.9	...	-25.9	-15.2	0.4	...
Other indicators									
Consumption of electricity by industry ^b	410	557	484	482	494 ^c	-2.3	-11.0	-0.4	2.5 ^c

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Millions of kWh.

^c Estimated on the basis of the variation in the period January-October.

Table 7

**EL SALVADOR: INDICATORS OF ELECTRICITY
PRODUCTION AND CONSUMPTION**

	Millions of kWh				Growth rates			
	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Production	1 540	1 489	1 600	1 681	-1.8	-1.5	7.5	5.1
Total consumption	1 338	1 289	1 354	1 442	-1.2	-2.6	5.0	6.5
Residential	387	401	435	463	-1.3	5.0	8.5	6.4
Commercial	174	171	191	205	-4.6	3.0	11.7	7.3
Industrial	557	484	482	494	-2.3	-11.0	-0.4	2.5
Government and other	220	233	247	280	5.0	0.9	6.0	13.4

Source: ECLAC, on the basis of data supplied by the Department of Mining and Energy Resources.

^aPreliminary figures estimated on the basis of the variation in the period January-October.

Owing to the low levels of activity in recent years, private investment in both industrial and service-related works has contracted notably. Something similar has happened in the case of housing: a large number of building projects in various stages of progress have been suspended for years. Moreover, the unfavourable situation as regards the earnings of the population has made it difficult to market completed constructions. It is estimated that in 1984 the unsold inventory of high-cost dwellings was keeping some 125 million colones (about US\$ 50 million) immobilized in the financial system, chiefly affecting the savings and loan system.

iv) *Basic services.* The supply of basic services registered an increase of the order of 3%, making this sector one of the most dynamic during 1984. This increase was partially attributable to the greater activity of nearly all the other production sectors.

The generation of electric power increased by 5% (see table 7), but a rise was recorded in the costs of both production and distribution, owing to the need to replace more equipment and transmission lines destroyed by acts of sabotage. It is estimated that up to the end of 1983 damage in the electricity sector amounted to 75 million colones. Moreover, the effectiveness of the operations in this sector was adversely affected by the difficulties encountered in ensuring the maintenance of the equipment installed in the eastern part of the country.

The transport sector, for its part, suffered losses due to the destruction of a large number of buses, trucks and railway equipment. Passenger transport therefore remained deficient, especially in rural areas.

c) *Employment*

According to official estimates, the serious level of unemployment (of the order of 30%) from which the labour force has been suffering since the beginning of this decade seems to have undergone no major variation in 1984.

The lower levels of activity in the cultivation of coffee and cotton (the main export items) have adversely affected the employment of manpower in rural areas. However, the depressive effects of this situation have to some extent been offset by the substantial increase in the production of basic grains during the past biennium.

As regards urban areas, the improvement in the rate of activity of the economy probably halted the downward trend in employment in industry and services. Conversely, construction — an activity which absorbs a large amount of labour — remained depressed.

The numerous groups of migrants coming to marginal areas of the main cities because of the recrudescence of civil strife in the eastern part of the country had a worsening effect on the problem of urban unemployment, although the incorporation of these groups into the informal economy has somewhat alleviated the pressures exerted by the marginal population on structured activities.

3. The external sector

a) *Introduction*

Although El Salvador experienced a further deterioration in its economic relations with the exterior in 1984, which was reflected in the increase in the trade deficit, this imbalance was largely offset by the relatively favourable performance of financial flows, due in particular to the outstanding contribution of both private and official transfers.

The upturn displayed by the main developed economies of the capitalist world was reflected only in weak incentives to the export activity of El Salvador (as regards the improvement in the terms of trade, for example). This is attributable to the country's export structure. Moreover, the increase in external sales was by no means commensurate with the expansion in the value of imports. The improvement in the terms of trade reversed the trend of the past six years and made it possible to increase the volume of purchases in the exterior per unit exported, but did not prevent the trade deficit from showing an increase of over 40%. This negative result was compounded by the traditional deficit on the factor services account, so that the overall external deficit increased to nearly US\$ 400 million. To a large extent, this gap was covered by unrequited transfers, both private and official, most of which came from the United States.

On the other hand, the net inflow of capital diminished, thus perceptibly reducing the rate of indebtedness. The total external debt reached a figure close to US\$ 2 billion: an amount which represents 45% of the gross domestic product and is twice as high as the country's foreign exchange earnings from exports. However, while the increase in the debt was more moderate, the cost of its servicing continued to increase substantially, to such a point that it absorbed 50% of the foreign currency generated by exports of goods and services and exceeded total disbursements of foreign capital during the year.

Finally, towards the end of the year the lines along which commercial activity functioned were changed when a considerable proportion of both imports and exports were transferred to the parallel foreign exchange market. This measure, which was dictated partly by the scarcity of foreign exchange, had a particularly marked effect on trade with Central America.

Table 8

EL SALVADOR: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	41.2	-5.0	-25.8	-11.8	3.9	3.6
Volume	30.4	-12.1	-18.5	-13.6	17.1	-7.3
Unit value	8.3	8.1	-8.9	2.2	-11.3	11.7
Imports						
Value	0.4	-6.0	0.2	-8.1	-2.8	8.6
Volume	-14.7	-27.9	1.0	-13.0	-4.4	6.2
Unit value	17.7	30.3	-0.8	5.7	1.7	2.3
Terms of trade	-7.5	-15.8	-8.7	-3.3	-12.6	7.9
Indexes (1970 = 100)						
Purchasing power of exports	200.1	148.0	110.1	91.9	94.2	94.2
Volume of exports	180.0	158.1	128.8	111.2	130.3	120.8
Terms of trade	111.2	93.6	85.5	82.6	72.3	78.0

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 9

EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	704	732	758	100.0	100.0	100.0	-25.8	-11.8	4.0	3.6
Central America	174	168	170	27.6	27.5	22.4	-30.2	-15.6	-3.5	1.2
Rest of world	530	564	588	72.4	72.5	77.6	-24.1	-10.5	6.4	4.3
Main traditional exports	482	511	529	66.6	71.2	69.8	-29.9	-10.3	6.2	3.5
Coffee	403	402	473	33.7	60.9	62.4	-30.9	-11.0	-	17.7
Cotton	45	55	9	14.9	7.9	1.2	-36.7	-15.7	22.8	-83.6
Sugar	16	40	30	16.0	1.2	4.0	11.1	7.0	152.4	-25.0
Shrimps	18	14	17	2.0	1.2	2.2	24.9	13.5	-24.4	21.4
Main non-traditional exports	40	36	36 ^b	6.0	5.9	4.7	-32.6	-7.8	-7.9	- ^c
Perfumery, toiletries and cosmetics	9	9	10 ^b	1.6	1.4	1.3	-36.2	-6.0	7.9	11.1 ^c
Insecticides, fungicides and disinfectants	-	5	5 ^b	0.9	0.6	0.7	51.3	-	...	- ^c
Cotton yarn and thread	10	12	13 ^b	0.9	1.0	1.7	-28.2	19.4	24.7	8.3 ^c
Clothing	21	10	8 ^b	2.6	2.9	1.1	-32.2	-1.4	-53.9	-20.0 ^c
Others	182	185	193 ^b	27.4	22.9	25.5	-11.3	-16.5	5.3	4.3 ^c

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^a Preliminary figures.^b Estimated on the basis of the variation in the period January-September.^c Variation January-September

compared with the same period the preceding year.

b) *Merchandise trade*

i) *Exports.* The current value of merchandise exports showed an increase of close to 4% for the second consecutive year. This was due primarily to shipments to markets outside the Central American area (see tables 8 and 9).

Unlike what had happened in 1983, when the increase in earnings was due to an appreciable increase in the volume of goods marketed, the determining factor in 1984 was the 12% rise in unit prices.

The significant increase in the value of exports of coffee alone was sufficient to account for the global evolution of external sales and offset the marked drop observed in other traditional export items (cotton and sugar) which, together with coffee, have brought in close to 70% of export earnings during recent years. The volume of coffee exports was kept at the satisfactory levels obtained in 1983, thanks to the sale of some of the stocks accumulated in past years. The expansion in coffee sales in 1984 was primarily associated with the 16% rise in the prices prevailing in international markets. Finally, attention should be drawn to El Salvador's success, relatively speaking, in marketing this commodity, which is its main export item, in markets outside the International Coffee Organization, although this may have represented some deterioration in the terms of sale.

As for the value of cotton exports, this has contracted sharply during the course of the past five years. The US\$ 9 million obtained in 1984 did not amount to even a small part of the figure achieved in 1978. Production and export volumes have declined by similar magnitudes, owing to the deterioration in the profitability of this crop in El Salvador. The exchange measures adopted at the end of 1984 by the monetary authorities are aimed at the revitalization of this activity by transferring some of the earnings from cotton exports to the parallel foreign exchange market.

Conditions in the international sugar market remained unpromising. During the past five years, prices have experienced a pronounced decline, and the only reason why the income generated by sugar exports did not collapse was that there was a reallocation among the Central American

producing countries, at the expense of Nicaragua, of the quotas earmarked for the United States market, where the countries of the area are paid a much higher price than in the international market. Notwithstanding the increase in El Salvador's quota, however, its income from its sugar exports decreased by 25% owing to the smaller volumes sold and the drop in prices.

On the other hand, the value of shrimp sales almost totally recovered from the appreciable decrease experienced the preceding year. This product has risen to third place in El Salvador's exports.

Finally, non-traditional exports—in particular, manufactures, a significant proportion of which are exported to Central America—virtually stagnated after having contracted by over 40% during the three preceding years.

ii) *Imports.* The value of merchandise imports rose by close to 9% as a result of the policy adopted to revitalize domestic supply and the rise of slightly over 2% in their unit value. Broadly speaking, imports from both within and outside Central America showed a similar pattern of behaviour (see table 10).

Purchases of raw materials and intermediate goods showed the most growth, accounting for nearly two thirds of the US\$ 77 million expansion in imports. The increased volume of purchases of intermediate goods was due to a wide range of productive activities in both manufacturing (chemicals and textiles, for example) and agriculture. Imports of capital goods, in particular those needed for manufacturing and agriculture, increased significantly (12%). These purchases were to a large extent for the replacement of equipment.

The greater availability of foreign exchange also made it easier to increase imports of consumer goods, and this made retail trade somewhat more dynamic, especially in the second half of the year. All in all, however, in view of the system of selective allocation of foreign exchange it is estimated that the non-authorized foreign exchange market tended to play a more active role in imports.

iii) *Terms of trade and the purchasing power of exports of goods.* Thanks to the higher prices paid for El Salvador's exports during 1984 and the moderate rise in import prices, the country's

Table 10

EL SALVADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	857	891	968	100.0	100.0	100.0	2.3	-13.0	4.0	8.6
Central America	261	234	252	22.9	33.3	26.0	-4.8	-14.4	-10.4	7.9
Rest of world	596	657	716	77.1	66.7	74.0	6.0	-12.3	10.4	8.8
Consumer goods	262	263	276	24.6	31.9	28.5	-1.4	-13.5	0.6	5.0
Durables	26	29	34	20.4	3.5	3.5	-22.5	-0.3	10.8	18.2
Non-durables	236	234	242	4.2	28.4	25.0	1.1	-14.8	-0.6	3.3
Raw material and intermediate products	507	524	575	50.7	56.6	59.4	4.5	-10.8	3.4	9.7
Petroleum and fuels	134	127	131	7.7	15.7	13.5	-1.6	-9.9	-5.7	3.4
Construction materials	46	51	54	6.1	5.9	5.6	5.1	-23.0	12.3	5.0
Others	327	346	390	36.9	35.0	40.3	7.2	-9.2	5.9	12.7
Capital goods	100	104	116	25.7	11.6	12.1	2.3	-13.1	4.6	12.2
Manufacturing	32	38	44	9.3	4.7	4.5	-13.4	-17.8	17.0	16.8
Transport	37	35	37	7.8	3.5	3.8	24.9	-11.0	-7.3	6.4
Agriculture	7	10	14	2.7	0.8	1.4	6.1	-11.0	45.3	41.7
Construction	8	6	4	2.9	1.3	0.4	-35.0	-2.4	-31.3	-27.5
Others	16	16	18	2.9	1.4	1.9	-32.5	-13.6	8.2	9.5

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

economy registered an improvement of 8% in its terms of trade with the exterior. This meant that in spite of the contraction of slightly more than 7% in the volume of merchandise exports, their purchasing power remained the same. However, the progress observed in 1984 compensated only partially for the deterioration suffered by these indicators in the preceding year. Thus, in 1984 the purchasing power of exports was 35% lower than in 1980. This drop was due both to the decline in the volumes marketed and to the adverse behaviour of international prices (see table 8).

c) *The services trade and factor payments*

The traditional negative balance in respect of both real and factor services increased from just over US\$ 250 million in 1983 to nearly US\$ 290 million in 1984. This was due basically to the deficit on real services, which rose from US\$ 120 million to US\$ 160 million, since the negative balance on factor services declined slightly (see table 11).

Sales of services to the exterior declined by 9%, owing primarily to the contraction in the volumes of goods exported. On the other hand, imports of services increased, which is attributable to the greater volume of imports of goods and to increased expenditure in other areas (travel, for example).

Finally, the smaller volume of factor payments to the exterior was partially responsible for the reduction in interest payments, particularly those associated with the short-term debt, which dropped substantially during 1983.

d) *The current account balance and its financing*

As a result of the dissimilar behaviour of total exports and total imports, the deficit on the trade balance grew by over US\$ 70 million, which explains the rise in the negative balance on current account (see table 11).

Net inflows of capital declined by nearly 25%. In spite of that, the US\$ 315 million recorded in 1984 was enough to cover the current account deficit and even to expand the country's international reserves for the second consecutive year (see table 11).

During the past three years, the structure of the capital account has been changing, in that unrequited official transfer payments have been acquiring greater importance. Whereas their magnitude was quite limited up to 1981, they have since become one of the main stabilizing items in the balance of payments. For reasons largely associated with the support received from the United States, official transfer payments amounted to over US\$ 190 million in 1984: a figure 55% higher than that for long-term net capital inflows.

The latter declined dramatically, since the less than US\$ 125 million which entered the country in 1984 did not amount to even half the average inflow recorded in the two preceding years. The transactions recorded refer to central government operations, including in particular the US\$ 60 million credit received from IDB to expand the Industrial Recovery Fund (FRI). In contrast, the Central Reserve Bank and the private sector registered small negative flows.

e) *External indebtedness*

During 1984, the external debt showed the smallest absolute increase in recent years, in that it rose by only US\$ 77 million as compared with the average annual increases of US\$ 240 million recorded between 1980 and 1983. The global balance thus came close to US\$ 2 billion, the equivalent to twice the amount of exports of goods and services in 1984 (see table 12).

This increase in the external debt had its origin primarily in the credit obtained by the public sector and, more specifically by the central government. The private sector's liabilities with the exterior have remained constant at around 10% of the total external debt.

The flow of external resources during the past biennium has led to a very favourable change in the debt repayment structure: long-term balances have increased, while those for less than one year have decreased in absolute terms. This improvement in the structure, which has reduced the pressure on available international reserves, has been due in part to the restructuring of the Central Reserve Bank's debt agreed upon in 1983. This restructuring, in combination with the low levels of commercial indebtedness incurred by the private sector, brought the share represented by the short-term debt balances down from 16% in 1982 to 11% in 1984.

Table 11
EL SALVADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-292	15	-1	-272	-271	-239	-309
Trade balance	-285	10	45	-237	-218	-190	-273
Exports of goods and services	923	1 266	1 215	924	822	882	894
Goods, FOB	802	1 132	1 075	798	704	732	758
Real services ^b	121	133	140	126	118	150	136
Transport and insurance	23	24	25	20	23	46	30
Travel	37	25	13	14	20	22	26
Imports of goods and services	1 208	1 255	1 170	1 161	1 041	1 072	1 167
Goods, FOB	951	955	897	898	826	803	872
Real services ^b	257	301	273	263	215	269	295
Transport and insurance	98	107	84	113	72	117	127
Travel	103	117	106	69	60	64	76
Factor services	-52	-40	-63	-74	-105	-134	-130
Profits	-26	-45	-41	-40	-45	-80	-78
Interest received	15	40	18	13	14	15	20
Interest paid	-49	-72	-72	-73	-98	-131	-118
Others	8	37	31	26	24	62	46
Unrequited private transfer payments	45	45	17	39	52	85	94
Balance on capital account	348	-149	-74	223	242	418	316
Unrequited official transfer payments	7	6	31	21	119	148	192
Long-term capital	176	78	174	126	255	270	124
Direct investment	23	-10	6	-6	-1	-	-
Portfolio investment	4	-6	-1	-	-1	-	-
Other long-term capital	148	94	169	131	257	270	124
Official sector ^c	115	83	167	131	251	146	110
Loans received	127	100	201	205	358	173	156
Amortization payments	-10	-16	-29	-69	-87	-27	-46
Commercial banks ^c	-	-	3	-	-	128	-22
Loans received	-	-	4	-	1	268	136
Amortization payments	-	-	-1	-	-1	-140	-158
Other sectors ^c	33	11	-1	-	6	-	-
Loans received	54	22	36	28	36	...	...
Amortization payments	-31	-11	-37	-28	-30	...	...
Short-term capital (net)	195	-127	38	76	-36	4	36
Official sector	24	-15	194	96	-65	...	...
Commercial banks	4	-2	-67	-11	29	...	...
Other sectors	167	-110	-89	-10	-	...	...
Errors and omissions	-29	-106	-317	-	-95	...	...
Global balance ^d	55	-134	-75	-49	-29	41	7
Total variation in reserves							
(- sign indicates an increase)	-57	128	69	43	27	-41	-7
Monetary gold	-	-	-	-	-	-	...
Special Drawing Rights	-	-7	17	-	-2	2	-
IMF reserve position	-5	-	11	-	-	-	-
Foreign exchange assets	-51	135	34	6	-35	-53	-6
Other assets	-	-	-	-	-	...	...
Use of IMF credit	-	-	7	37	64	11	-13

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Real services include other official and private transactions, but exclude 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

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.

Table 12

EL SALVADOR: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Total external debt^b						
Balances	939	1 176	1 471	1 710	1 891	1 968
By institutional sectors						
Public	597	1 030	1 252	1 516	1 706	1 790
Central Reserve Bank of El Salvador	199	555	599	700	711	678
Central government and quasi-autonomous agencies	398	475	653	816	995	1 112
Private	389	146	219	193	184	178
By repayment periods						
Medium and long	...	...	...	1 443	1 733	1 835
Public	591	762	1 019	1 309	1 611	1 718
Private	...	...	...	134	122	117
Short	...	...	...	267	148	133
Public	6 ^c	268 ^c	233 ^c	208	95	72
Private	...	...	...	59	63	61
Loans received	...	304 ^c	392 ^c	357 ^c	625	386
Public	...	...	...	...	607	386
Central Reserve Bank of El Salvador	...	...	...	...	404	223
Central government and quasi-autonomous agencies	75	97	193	184	203	163
Private	...	...	...	...	18	...
Servicing costs	99	139	170	216	576	427
Amortization payments	27	67	97	118	445	309
Interest payments	72	72	73	98	131	118
Percentages						
Total external debt/exports of goods and services	74.2	96.8	159.2	207.8	205.3	200.2
Servicing costs/exports of goods and services	7.8	11.4	18.4	26.2	62.5	47.8
Interest payments/exports of goods and services	5.7	5.9	7.9	11.9	14.2	13.2
Servicing costs/loans received	...	45.7	43.4	60.5	92.2	110.6

Source: ECLAC, on the basis of official data.

^a Preliminary figures.^b End year balances for the disbursed debt.^c Estimated figures.

These capital movements were reflected in the unusual expansion of public sector disbursements in 1983 and in their severe contraction the following year. The burden of debt servicing dropped substantially (-26%) to less than US\$ 430 million, falling from 62% to 48% of the income from exports of goods and services.

4. Prices and wages

a) Prices

In spite of the fact that internal strife continued and even showed a tendency to increase, inflationary pressures remained relatively moderate. Consumer prices showed an annual average rise of close to 12%: a figure which has remained more or less constant over the past three years (see table 13).

There are a number of reasons for this behaviour. They include, first and foremost, the downward trend of international inflation, particularly in those economies where El Salvador makes most of its purchases. This phenomenon was reflected in the performance of the wholesale price index, which in recent years has been a good deal more moderate than that of the retail price index.

On the other hand, the partial wage adjustments made in 1984 were not enough to offset the contractions experienced by real earnings as a result of the freeze to which minimum wages have been subject since 1982. This was compounded by the measure imposing a freeze on the prices of some private services which play a big role in family budgets.

Contrary to what might have been expected, the armed conflict has not caused a pronounced shortage of basic farm commodities, although food prices regularly show a somewhat higher variation than that of goods and services as a whole (see table 13 and figure 2).

However, the variation of wholesale prices up to December 1984 showed a sizeable increase of nearly 37%, which was over four times as high as that accumulated at the end of the preceding year. The performance of this index basically reflected the impact of the exchange measures adopted at the end of the year, under which a considerable percentage of the imports of inputs and other raw materials were transferred to the parallel market. The impact of these measures on consumer prices did not yet show up in December.

b) Wages

Although in 1981 Stabilization Act providing for the freezing of minimum wages remained in force, some wage increments were reported in 1984 in both the private (mainly industry, commerce and services) and the public sector (see table 14). In agricultural and agro-industrial activities, however, nominal wages remained at the 1980 level.

The wage increases were partially due to the reactivation policy promoted by the new government in order to halt the persistent economic deterioration which had been taking place since the end of the 1970s. They can also be attributed, at least in the case of the wage readjustments granted by the public sector, to strong labour pressure exerted during the first half of 1984. Rises were first granted in some departments but were later extended to all government employees, who obtained a nominal rise of about 18% on average. Following the trend set by the public sector, the private sector also made some changes in the wages paid, although these were not so large and their size varied.

Table 13
EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

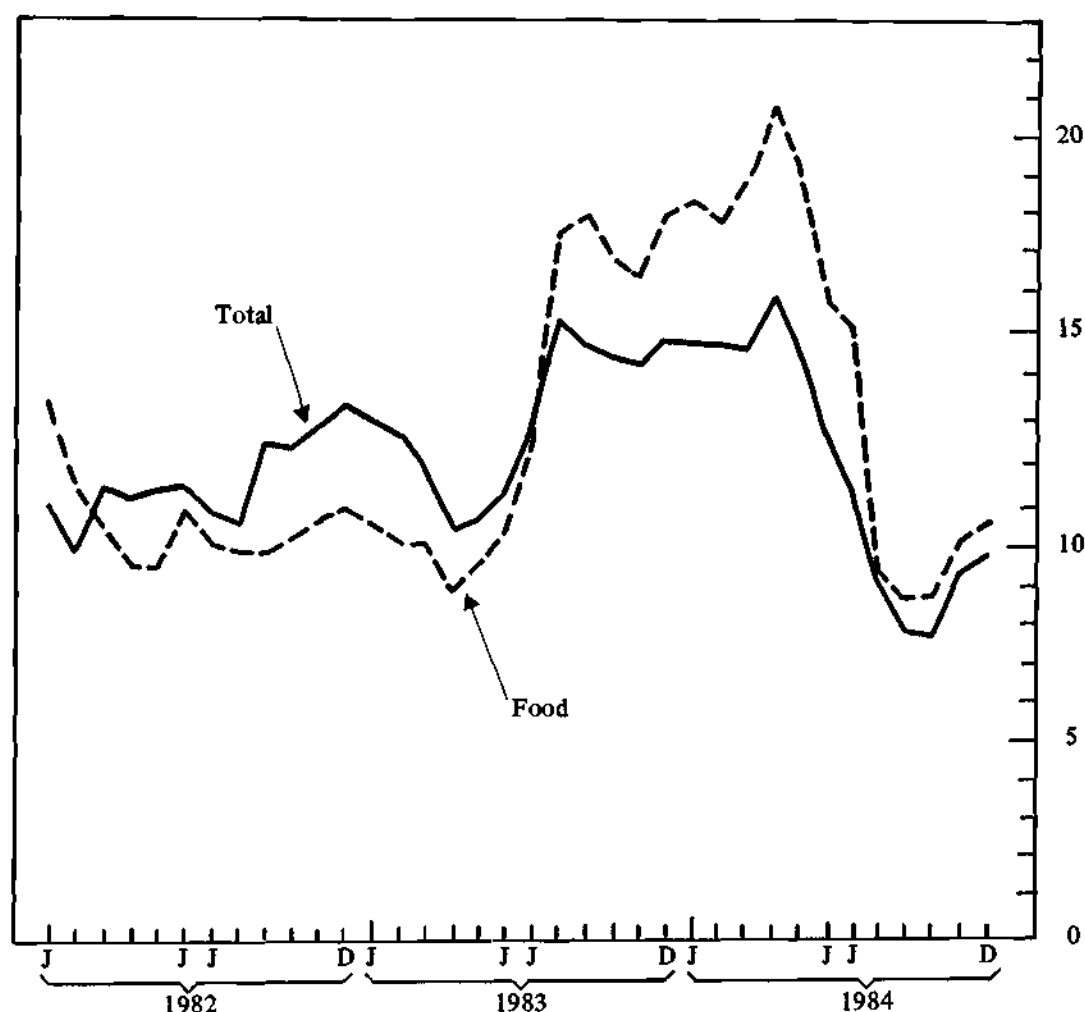
	1979	1980	1981	1982	1983	1984
Variation from December to December						
Consumer price index ^a	14.8	18.6	11.6	13.4	14.8	9.8
Food	13.7	22.5	14.4	11.0	17.9	10.6
Wholesale price index ^b	14.1	16.7	10.0	9.2	8.0	36.7
Imports	17.9	12.1	7.3	12.7	3.7	5.0
National products	14.9	24.0	14.8	7.6	12.2	39.2
Variation between annual averages						
Consumer price index ^a	15.9	17.4	14.7	11.7	13.1	11.7
Food	14.8	19.7	17.7	10.6	13.4	14.1
Wholesale price index ^b	10.1	18.3	12.5	8.4	8.0	7.1
Imports	12.1	17.3	8.1	12.0	5.4	5.0
National products	9.0	23.5	18.4	7.4	10.5	6.8

Source: ECLAC, on the basis of official data.

^aBase December 1978 = 100.

^bBase January 1978 = 100 (excludes coffee).

Figure 2



Source: ECLAC, on the basis on official data.

The wage increase received by urban employees barely compensated for the effects of the rise in consumer prices in 1984. The accumulated deterioration of real minimum wages in urban areas since 1980 thus amounted to 17%.

Workers in the agricultural and agro-industrial sector suffered the entire impact of the rise in the prices of basic goods and services in 1984, so that their real income declined by somewhat more than 10%. This means that in the past four years the accumulated deterioration of real minimum wages in these activities verged on 30% (see table 14).

5. Fiscal and monetary policy

a) *Public finances*

As in 1983, the evolution of public finances was very much affected by the growing outlays associated with the civil conflict on the one hand and the large transfers of resources received from the exterior, and in particular from the United States, on the other. The introduction of these two variables in the public account during the past few years has drastically altered the traditional pattern of origin and destination of the resources managed by the State.

The performance of the real sectors also affected the development of public finances, especially in the area of fiscal income, where considerable dynamism was noted. The current income of the central government increased significantly for the second consecutive year, in contrast with the general situation of near economic stagnation (see table 15). The tax changes introduced in the middle of 1983 allowed the indirect tax revenue to expand appreciably (18%) in that year and even more (28%) in 1984, when in addition to the fact that the effect of the higher taxes on commercial transactions and consumption was fully felt, the improvement observed in the general economic performance also began to be noted. Thus, the tax coefficient rose from 11.1% in 1983 to 11.8% in 1984.

The increase in revenue from indirect taxes was also due to the favourable performance of indirect taxes on foreign trade transactions, which rose by 30%. The substantial rise in the value of imports led to an increase of over 50% in tax earnings under this heading. Export taxes also showed marked growth (28%), mainly because of the expansion of coffee sales and the collection of deferred taxes on coffee commission sales. The other tax items developed slowly, in line with the general economic picture.

As regards outgoings, expenditure on defence and public security increased by 50% to over 400 million colones. Consequently, this item absorbed close to one sixth of the central government's total

Table 14

EL SALVADOR: EVOLUTION OF WAGES

	Indexes (1970 = 100)					Growth rates				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Nominal minimum wages										
Agricultural workers	231.1	231.1	231.1	231.1	231.1	10.2	-	-	-	-
Harvesting										
Coffee	529.7	527.7	529.7	529.7	529.7	36.2	-	-	-	-
Sugar cane	425.8	444.4	444.4	444.4	444.4	86.8	4.4	-	-	-
Cotton	377.8	388.9	388.9	388.9	388.9	47.8	2.9	-	-	-
Seasonal agricultural industries										
Coffee processing	560.0	560.0	560.0	560.0	560.0	82.5	-	-	-	-
Sugar refining	320.0	320.0	320.0	320.0	320.0	24.2	-	-	-	-
Cotton processing	320.0	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	385.3	34.0	6.5	-	-	12.1
Commerce	295.1	314.3	314.3	314.3	352.3	27.5	6.5	-	-	12.1
Real minimum wages										
Agricultural workers	82.9	72.2	64.6	64.6	57.9	-6.1	-12.9	-10.5	-11.7	-10.4
Harvesting										
Coffee	190.0	165.6	148.3	148.3	132.8	16.1	-12.8	-10.5	-11.7	-10.5
Sugar cane	152.7	138.9	124.4	124.4	111.3	59.1	-9.0	-10.5	-11.7	-10.5
Cotton	135.5	121.6	108.9	108.9	97.5	25.9	-10.3	-10.5	-11.7	-10.5
Seasonal agricultural industries										
Coffee processing	200.9	175.1	156.8	156.8	140.4	55.5	-12.8	-10.5	-11.7	-10.5
Sugar refining	114.8	100.0	89.5	89.5	80.2	5.8	-12.9	-10.5	-11.7	-10.5
Cotton processing	114.8	100.0	89.5	89.5	80.2	2.8	-12.9	-10.5	-11.7	-10.5
Other activities in San Salvador										
Industries and services	115.8	107.5	96.2	96.2	96.5	14.2	-7.2	-10.5	-11.7	0.3
Commerce	105.8	98.2	87.9	87.9	88.2	8.6	-7.2	-10.5	-11.7	0.3

Source: ECLAC, on the basis of official data.

Table 15

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	1 107	1 110	1 262	1 505	6.4	0.3	13.7	19.3
Tax revenue	990	952	1 080	1 311	0.1	-3.8	13.4	21.4
Direct	297	294	306	322	-4.8	-1.0	4.0	5.2
Indirect	693	658	734	989	2.3	-5.1	17.6	27.8
On foreign trade	322	279	279	361	-14.0	-13.5	-0.1	29.4
Non-tax revenues	117	158	182	194	131.1	35.0	15.4	6.8
2. Current expenditure	1 233	1 347	1 493	1 623	14.5	9.2	10.8	8.7
Remunerations	657	728	789	950	6.4	10.8	8.3	20.4
Purchase of goods and services	180	169	227	231	12.8	-6.8	35.0	1.9
Interest payments	98	161	182	135	148.4	64.1	12.7	-25.7
Transfers and others	298	289	295	307	14.3	-2.9	2.1	3.9
3. Current savings (1 - 2)	-126	-237	-231	-118	...	...	...	...
4. Capital expenditure	507	472	1 238	832	-4.3	-6.9	162.3	-32.8
Real investment	381	298	366	476	0.2	-21.7	22.8	29.9
Debt amortization	60	77	607	271	157.5	28.7	686.7	-55.3
Other capital expenditure	66	97	265	85	-48.3	47.6	173.3	-68.1
5. Total expenditure (2 + 4)	1 740	1 820	2 731	2 455	13.3	4.6	50.0	-10.1
6. Fiscal deficit (1 - 5)	-633	-710	-1 469	-950	27.6	12.2	106.9	-35.3
7. Financing of deficit								
Domestic financing	375	448	596	239				
Central Bank	176	-	...	...		
Sale of securities	299	333	...	...		
Others	-100	115	...	...		
External financing	258	262	873	711				
Percentages								
Ratios								
Current savings/capital expenditure	-24.8	-50.2	-18.7	-14.2				
Fiscal deficit/total expenditure	36.4	39.0	53.8	38.7				
Tax revenue/GDP	11.5	10.6	11.1	11.8				
Total expenditure/GDP	20.1	20.3	28.0	22.1				
Fiscal deficit/GDP	7.3	7.9	15.1	8.5				
Domestic financing/deficit	59.2	63.1	40.6	25.2				
External financing/deficit	40.8	36.9	59.4	74.8				

Source: ECLAC, on the basis of data supplied by the Ministry of Finance and the Central Reserve Bank of El Salvador.

^a Preliminary figures.

expenditure —25% if operating expenditure is taken as the reference point. The proportion of disbursements relating to the civil conflict has become more and more of an obstacle to the allocation of resources for purposes of development.

In the area of current expenses, wages and salaries were the most dynamic item. Their 20% increase was due to wage adjustments and to an increase in the staff appointed to public security and defence jobs. The relative austerity which prevailed in other spheres of the central government meant that both expenditure on the purchase of goods and services and other outlays rose very moderately. Interest payments, for their part, declined appreciably (-26%) as a result of the restructuring of the public debt undertaken in 1983 and 1984.

Capital expenditure evolved abnormally for the second consecutive year because of the early payment by the central government in 1983 of heavy internal debt amortizations. The resources obtained from the Agency for International Development (AID) during 1983 and 1984 made it possible to pay off a part of the internal debt, in particular that part represented by public investment bonds, with the result that disbursements in respect of amortization payments rose substantially, while those made in 1984 were very much lower than in the preceding year (see table 15). The AID credits were also used to strengthen the finances of government development institutions, especially in the agricultural sector.

In spite of the lack of new projects designed to expand the infrastructure, there was some real investment activity in the agricultural and health sectors and especially in the public works sector, including expenditure on reconstructing works which had suffered damage caused by the war.

As a result of the increased dynamism shown by income, the volume of the central government's dissavings was halved, although their amount —about 120 million colones— was still high. The share of the gross domestic product represented by total expenditure and the fiscal deficit (22% and 9%, respectively) was more in line with the trend observed at the beginning of the decade, whereas in 1983 the figures had been very much higher (see table 15).

Table 16

EL SALVADOR: MONETARY BALANCE

	End-year balance (millions of colones)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money	1 404	1 470	1 448	1 699	-0.8	4.7	-1.5	17.3
Currency outside banks	703	732	725	835	-2.2	4.2	-1.0	15.2
Demand deposits	701	738	723	864	0.6	5.3	-2.0	19.5
Factors of expansion	4 255	5 089	5 529	6 195	15.3	19.6	8.6	12.0
Net international reserves	-373	-197	304	322	...	...	...	5.9
Domestic credit	4 628	5 286	5 225	5 873	19.8	14.2	-1.2	12.4
Government (net)	1 059	1 520	1 375	1 631	153.3	43.5	-9.5	18.6
Official entities	1 133	1 016	832	920	-1.0	-10.3	-18.1	10.6
Private sector	2 436	2 750	3 018	3 322	5.9	12.9	9.7	10.1
Factors of absorption	2 851	3 619	4 080	4 496	25.4	26.9	12.7	10.2
Quasi-money	1 397	1 633	2 004	2 496	23.1	16.9	22.7	24.6
Savings deposits	787	893	904	1 016	22.4	13.5	1.2	12.4
Time deposits	610	740	1 100	1 480	24.0	21.3	48.6	34.5
Bonds	205	246	263	294	7.9	20.0	6.9	11.8
Long-term foreign borrowing	922	1 239	1 572	1 518	27.2	34.4	26.8	-3.4
Other items (net)	327	501	241	188	46.6	53.2	-51.9	-22.0
Other indicators^b								
Monetary base	1 238	1 336	1 407	1 482				
Money (M ₁)	1 227	1 247	1 269	1 357				
Quasi-money	1 273	1 554	1 818	2 229				
Money + quasi-money (M ₂)	2 500	2 801	3 087	3 586				
Coefficients^b								
Monetary multipliers								
M ₁ /monetary base	0.99	0.93	0.90	0.92				
M ₂ /monetary base	1.03	1.16	1.29	1.50				
Velocity of circulation								
GDP/M ₁	7.0	7.2	7.7	8.2				

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Annual averages.

As in the preceding year, a high percentage of the 1984 deficit was covered with resources received from abroad, such as the assistance provided by the United States Agency for International Development, so that the need for domestic financing shrank considerably.

In brief, the financial situation of the central government improved, but it continued operating with a deficit equivalent to 8.5% of the gross domestic product. The existence of such a large imbalance in the public finances was to a large extent associated with the expenditure caused by the prevailing state of war. However, the unfavourable effects of the disequilibrium both on the finances of the central government and on the current account of the balance of payments were mitigated thanks to external financial support.

b) *Monetary policy*

During 1984 the monetary and credit policy took on slightly expansionary features, in contrast with those which had characterized the preceding year. The majority of the credit resources available to the financial system were used to cover the high deficit of the central government. The growth of time deposits and of the money supply amply exceeded that of economic activity in general.

During 1984 emphasis was placed on the allocation of financial resources to a broad range of productive activities in order to supplement the reduction of between 1.0 and 1.5 percentage points in the interest rate on loans decreed by the monetary authorities during the first quarter. Within the same series of measures to facilitate access to resources for production, the operating rules of the Economic Development Fund managed by the Central Reserve Bank were changed, and new lines of credit were created for individual and agricultural activities. In addition, the Industrial Recovery Fund (FRI) was expanded by US\$ 60 million with resources from IDB. The rediscount rate for pre-export and export activities relating to non-traditional products was also reduced.

As a result, the domestic credit balance at the end of the year showed an increase of 12%, which was similar to the rate of increase of domestic prices but represented a substantial change compared with the contraction experienced in 1983 (see table 16). The public sector absorbed over half of these resources, using most of them to finance the central government deficit. The use of domestic credit through the issue of bonds increased substantially, in contrast with what happened the preceding year.

The rate of expansion of the domestic debt of the private sector (10%) remained constant. The nominal growth of credit in the private sphere mainly benefitted activities relating to traditional crops, such as coffee, cotton, sugar cane and basic grains. The opening of new lines of credit was directed towards assisting the harvesting and of some non-traditional activities. In the case of non-agricultural activities, manufacturing and commerce mobilized large volumes of new financial resources.

However, the operations of the domestic credit system ran up against the problem of financial insolvency which has been plaguing a number of productive activities since the beginning of this decade, especially in the agricultural sector. The incidence of accumulated debt has been increasing, so that in 1984 refinancing loans represented one-third of the credit granted by commercial banks, in comparison with 13% in 1978. It is because of this that the monetary authorities have adopted a scheme for refinancing producers who had fallen behind with their payments, consisting of extending the debt amortization periods and reducing interest rates.

The other monetary variables performed fairly dynamically. The money supply increased by 17%, under the impetus of the mild economic upturn, the expansion of domestic credit, and the public and private transfers received from abroad. Thus, currency outside banks and sight deposits registered a higher rate of growth than the economy, in current terms, in contrast with the reduction they experienced the preceding year.

With regard to the factors of monetary absorption, the growth of quasi-money, and particularly of time deposits, was even more notable. The latter grew considerably for the second consecutive year, so that the 1982 balance was doubled. Savings deposits also increased substantially (12%) in spite of the fact that during most of 1984 the interest rates applied to deposits and certificates maturing in less than 60 days were lower than those which had hitherto prevailed. It would seem that the purpose of this reduction, decreed by the monetary authority, was to attract more resources with longer maturities, since the yield of these latter instruments was not altered. In all likelihood the dynamism

shown by quasi-money resulted both from the general situation through which the economy was passing (which was not yet providing incentives for investors to change their preference for financial deposits) and from the difficulties in obtaining access to a larger volume of foreign exchange.

The net international reserves again showed an increase, after having declined persistently between 1979 and 1982. However, the shortage of foreign exchange was still one of the major restrictions on the economy of El Salvador. The greater availability of foreign exchange during 1984 (due mainly to official and private transfers) prevented excessive pressure on the exchange rates prevailing in markets outside the banks, although it is believed that the relative share of those markets in the total purchase and sale of foreign exchange tended to grow.

One of the most notable measures adopted by the monetary authorities was the transfer, at the end of the year, of a considerable share of imports to the parallel market, where an exchange rate 60% higher than the official rate is in force. As a result, approximately one-third of all imports became subject to the parallel foreign exchange market, which was tantamount to a devaluation of approximately 20%, on average.

GUATEMALA

1. Recent economic trends: Introduction and summary

A very slight upturn in Guatemala's gross domestic product in 1984 marked a departure from the decline in its economic activity seen during the two preceding years. Moreover, for the first time in the last six years, the initial signs of a revival in private investment were observed. Nonetheless, real per capita income decreased for the fourth year in a row; the country's domestic and external financial imbalances persisted; and unemployment, rose to the point where it became one of the most dramatic manifestations of the deep and prolonged recession being experienced by Guatemala. Although the change in the dominant trends afforded some relief from the situation that has prevailed in recent years, it would be an exaggeration to say that this change marked a turning point which would usher in a real economic recovery (see table 1 and figure 1).

The factors playing a part in the continuation of the recession were the same ones which have been affecting the nation's economy for some time now. For the first time in several years, however, there was a slight improvement in the terms of trade for goods and services; in large part, this phenomenon—in conjunction with a relatively satisfactory crop year—accounts for the change in the overall trend. The value of total exports, for its part, made a considerable, albeit partial, recovery. At the same time, however, the country had increasing difficulties in gaining access to fresh external financing (both public and private) and the burden of servicing the public external debt continued to be an important factor in the country's shortage of foreign exchange. The extreme scarcity of foreign exchange or its increased cost on non-bank markets hampered production activities by making it difficult or even impossible to import spare parts, raw materials and other inputs.

Trade within Central America, which accounts for over one-fourth of Guatemala's total exports, continued to decline gradually in 1984. The widespread depression in the subregion, compounded by problems during the past few years with respect to reciprocal payments and by bilateral trade difficulties with some countries (especially Honduras), contributed to a drop of over 8% in the value of sales to the rest of Central America which had a particularly serious impact on the manufacturing sector.

The financial imbalances faced by the public sector and especially the central government grew worse. This led to a sharp cutback in capital expenditures, which traditionally have been a stimulus for economic activity. Investment by the central government decreased more than 33%, but even so the fiscal deficit rose and thus was a source of pressure for monetary expansion.

Despite the fact that a Constituent Assembly was elected midway through the year, which may well mark the beginning of a return to a civil and constitutional system, persisted political and social tensions continued to feed the feeling of uncertainty about the country's economic future, which naturally affected the decisions taken by private agents.

It is therefore likely that the nearly 7% increase in private investment (the fastest growing factor in total demand) was largely due to the fact that private capital formation had reached the lowest level at which the stock of capital could be maintained, rather than to a deliberate decision to expand production capacity. (The private investment coefficient in 1984 was 6% as compared to an average of 11% during the 1970s.) Although some investments were made in new activities (almost all of which were connected with non-traditional exports), the percentage of idle industrial capacity remained high, and construction continued to decline.

There were no major variations in private consumption, and its per capita level decreased once again. This fact, which fits in with the higher unemployment level and slight drop in real wages, may well be a reflection of a continued deterioration in the pattern of distribution.

Paradoxically, the relatively satisfactory performance of the agricultural sector, especially as regards the production of staple foods, seems to have magnified the crisis' regressive effects on

income distribution. The output of maize and beans, which are the two most important crops in the diet of the country's population, rose nearly 10% and over 5%, respectively. In addition to making the country self-sufficient in these products (as well as in rice), this higher level of production also made surpluses available for export. However, due to the size of the harvests and to severe limitations on the National Agricultural Marketing Institute's (INDECA) ability to pay the guaranteed price that had been announced, the prices of both products dropped considerably; this worked to the benefit of urban consumers, but was a disadvantage for farmers.

The manufacturing industry remained at virtually the same depressed level as in 1983 due to the slowdown in trade within Central America and the constraints on total domestic demand. Furthermore, no significant progress has yet been made in placing manufactures in new markets despite the potential opportunities offered by the Caribbean Basin Initiative of the United States Government and the new tax incentives for exports enacted in 1984.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 750	3 926	4 074	4 101	3 955	3 850	3 857
Population (millions of inhabitants)	6.54	6.73	6.92	7.11	7.32	7.52	7.74
Per capita gross domestic product (dollars at 1970 prices)	573	584	589	577	541	512	498
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.0	4.7	3.8	0.7	-3.5	-2.7	0.2
Per capita gross domestic product	2.1	1.9	0.9	-2.1	-6.2	-5.4	-2.7
Consumer prices							
December-December	9.1	13.7	9.1	8.7	-2.0	8.4	5.2
Variation between annual averages	7.9	11.5	10.7	11.4	0.2	4.7	3.4
Nominal salaries and wages	6.1	14.5	10.9	31.2	6.2	-2.9	2.7
Money	8.9	10.9	2.5	4.1	1.4	5.1	-9.4
Current income of government	11.7	1.0	11.8	-0.8	-1.5	1.5	-11.7
Total expenditure of government	15.9	15.3	29.4	24.3	-15.2	-12.8	-4.6
Fiscal deficit/total expenditure of government	17.3	27.5	37.4	50.0	42.0	32.5	37.5
Fiscal deficit/gross domestic product ^b	...	3.7	5.7	8.6	6.0	3.9	4.2
Current value of exports of goods and services	-2.8	13.5	17.5	-16.4	-11.6	-8.3	5.9
Current value of imports of goods and services	15.2	8.5	9.3	3.3	-19.7	-19.2	6.0
Terms of trade (goods and services)	-4.6	-12.7	-1.0	-8.0	-13.2	-3.7	1.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-354	-320	-228	-578	-348	-142	-151
Net payments of profits and interest	32	13	45	86	114	113	191
Balance on current account	-271	-209	-165	-574	-400	-225	-314
Balance on capital account	339	183	-93	273	361	276	353
Variation in international reserves	68	-19	-251	-305	-16	64	39
External debt ^c	...	602	722	1 084	1 421	1 994	2 354

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Percentages.

^c Disbursed public external debt plus State-guaranteed private and Central Bank debt of a term of over one year.

After having risen substantially between 1980 and 1983, oil production fell by more than 30% as a result of the depletion of some wells. No improvement is expected in the short run due to the major cutbacks in exploration activities which have been made in response to the uncertain outlook on international oil markets and to new legislation in Guatemala that has apparently done nothing to stimulate prospecting. Finally, the value added by construction declined sharply (although this trend improved slightly late in the year) thus compounding the effects of the reduction in this sector's activity since 1982; the restriction of public investment has been the chief factor in this phenomenon.

The main changes made in the country's economic policy during the second half of 1983¹ and in 1984 were designed to deal with Guatemala's persistent and indeed worsening financial imbalances of both external and domestic origin. In August and September 1983, the government enacted a tax reform whose central component was the replacement of the stamp tax on sales (which was of a cumulative nature, i.e., a cascading tax) with a value added tax. A letter of intent was also signed with the International Monetary Fund for the use of a standby credit. One component of this programme was an adjustment effort involving commitments with respect to Guatemala's policies on fiscal matters (including the above-mentioned tax reform), income, monetary affairs and the external debt.

The tax measures which were adopted did not have the expected results. Far from bringing in additional revenue, the new legislation—in conjunction with the effects of the widespread depression—contributed to a sharp decline in tax receipts. The value added tax had originally been set at a rate of 10% and only a few products were made exempt from it; however, the rate was later lowered and the list of exemptions was expanded. If, in addition to the above, the administrative difficulties which are naturally involved in applying any new tax are taken into consideration, it will come as no surprise that during the first ten months receipts were less than half the projected amount, and were not even enough to make up for the loss of income associated with the repeal of the stamp tax. Another factor contributing to the decrease in revenue was that the income tax changes which were made provided for a less progressive corporate rate and the gradual elimination of export duties (a reduction of 50% in the first year, 75% in the second, and their total removal in the third). The tax reform further reduced an already light tax burden (6.3% in 1983, 5.3% in 1984). The latter figure represents a tax burden that is almost half what it was in the mid-1970s. The government thus found it necessary to implement an extreme austerity policy, especially with respect to investment. The decline in tax revenues also accounts for the persistence of the fiscal deficit and the public sector's greater share, in relative terms, in total credit activity.

In response to the evident deterioration in the central government's financial situation, in September 1984 the authorities opted for a "tax readjustment". This measure basically consisted of reducing the list of products exempted from the value added tax to a minimum and making the collection of the tax more efficient. The stamp tax was also re-established (or the prevailing rate was raised) on a series of services and documents. These provisions, in conjunction with the government's growing experience in administering the value added tax, began to have the desired effect, inasmuch as the monthly income from this source was considerably higher during the last few months of the year.

In the external sector, the deficit on current account bordered on US\$ 315 million, which was 40% higher than it was the year before. This deepening deficit, whose relative size was over 3% of the gross domestic product, can primarily be attributed to the increasing burden of factor payments. Nonetheless, the import coefficient remained extremely low for an economy as open as Guatemala's.

The country had more and more difficulties in obtaining external financing. Net inflows of official and bank capital, excluding matured ("captive") liabilities, dropped from US\$ 320 million in 1983 to US\$ 150 million in 1984. Net capital inflows were greater than the deficit on the balance-of-payments current account and the country was able to amass nearly US\$ 40 million in international monetary reserves, but this was only possible thanks to the sale of stabilization bonds issued by the Central Bank to some suppliers. The country's net reserve position continued to be very poor, however, since the above-mentioned increase in assets was offset by a rise of over US\$ 120 million in external liabilities.

These financial imbalances (the external and public-sector deficits) persisted despite the adjustment programme which had been initiated with the International Monetary Fund's support

¹See ECLAC, *Economic Survey of Latin America and the Caribbean*, 1983, volume I, Santiago, 1985, particularly the chapter on Guatemala.

In summary, 1984 marked the fourth year of an already long and deep recession which has begun to result in major structural maladjustments. These include the gradual erosion of the country's stock of capital due to undermaintenance, a further deterioration in the pattern of distribution and the discouragement of private agents. Although the country did manage to avoid a further decline in the gross domestic product, the per capita product fell, and the cumulative nature of this additional decrease meant that by late 1984 real per capita income was scarcely equal to its 1971 level.

National income dropped again, although only slightly (since 1980 it has fallen nearly 10%); in this instance, the decline was due to a higher level of net factor payments to the exterior (see table 2). Moreover, even though prices remained exceptionally stable during most of the year, Guatemala's domestic and external financial imbalances remained at the same level or even worsened, and this was reflected in a severe shortage of foreign exchange and in growing financial constraints on the public sector. It was not until the final quarter of 1984 that the government took decisive action to deal with these imbalances by formulating a series of measures which are discussed in detail later on in this chapter.

2. Trends in economic activity

a) *Total supply and demand*

As already noted, in 1984 the gross domestic product remained at a virtual standstill, which meant that the per capita gross domestic product shrank nearly 3% in real terms, bringing it to a level 15% lower than that of 1980 (see table 1).

The two components of demand which had traditionally lent dynamism to Guatemala's economy—capital formation and exports—were the greatest contributing factors to the persistence of its recessionary situation (see table 3).

Table 3

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	4 465	4 247	4 262	113.8	117.1	110.5	0.2	-6.6	-4.9	0.4
Gross domestic product at market prices	3 955	3 850	3 857	100.0	100.0	100.0	0.7	-3.5	-2.7	0.2
Imports of goods and services ^b	510	397	405	13.8	17.1	10.5	-2.8	-24.9	-22.2	2.0
Total demand	4 465	4 247	4 262	113.8	117.1	110.5	0.2	-6.6	-4.9	0.4
Domestic demand	3 952	3 776	3 788	97.0	101.6	98.2	2.4	-6.8	-4.5	0.3
Gross domestic investment	465	384	386	12.8	12.2	10.0	15.3	-19.1	-17.5	0.6
Gross fixed investment	503	367	350	12.3	12.9	9.1	7.8	-10.9	-27.0	-4.7
Construction	231	174	143	3.8	5.6	3.7	15.3	-12.0	-24.8	-18.0
Machinery	272	193	207	8.5	7.3	5.4	1.9	-9.9	-28.9	7.2
Public	229	155	123	2.8	5.2	3.2	34.3	-20.4	-31.1	-20.6
Private	274	212	227	9.5	7.6	5.9	-10.5	-1.1	-22.7	6.9
Changes in stocks	-38	17	36	0.5	-0.7	0.9				
Total consumption	3 487	3 392	3 402	84.2	89.4	88.2	0.6	-4.9	-2.7	0.3
General government	342	346	349	7.2	8.1	9.0	4.4	-1.2	1.4	0.6
Private	3 145	3 046	3 053	77.0	81.3	79.2	0.3	-5.2	-3.2	0.3
Exports of goods and services ^b	513	471	474	16.8	15.5	12.3	-14.6	-4.8	-8.3	0.6

Source: ECLAC, on the basis of data supplied by the Banco de Guatemala.

^a Preliminary figures.

^b The statistics on exports and imports of goods and services were taken from the figures denominated in current dollars appearing in the balance of payments, which were then converted to constant 1970 values based on price indexes calculated by ECLAC.

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	3 695	3 596	3 603	100.0	100.0	100.0	0.7	-3.6	-2.7	0.2
Goods	1 749	1 658	1 646	47.6	47.8	45.6	1.0	-4.5	-5.2	-0.8
Agriculture	1 024	986	996	30.9	27.5	27.6	1.2	-3.0	-3.7	1.0
Mining	13	15	13	0.1	0.5	0.4	-36.7	13.6	12.0	-11.9
Manufacturing	539	528	531	14.0	15.5	14.7	-3.1	-5.2	-1.9	0.4
Construction	173	129	106	2.6	4.3	2.9	18.9	-11.6	-25.4	-17.9
Basic services	206	207	208	5.1	5.8	5.7	-1.7	-4.1	0.3	0.7
Electricity, gas and water	47	47	48	1.0	1.3	1.3	-0.4	-2.1	-0.9	2.2
Transport, storage and communications	159	160	160	4.1	4.5	4.4	-2.1	-4.7	0.7	0.3
Other services	1 754	1 742	1 759	47.2	46.4	48.7	1.5	-2.0	-0.7	0.9
Commerce ^c	978	943	948	26.6	26.9	26.2	0.8	-4.8	-3.6	0.5
Ownership of dwellings	198	204	208	6.6	5.0	5.8	2.6	2.6	2.7	2.0
Community, social and personal services ^d	578	595	603	14.0	14.5	16.7	2.5	1.6	3.0	1.2
Government services	314	333	339	7.3	7.6	9.4	4.3	3.9	6.2	1.8

Source: ECLAC, on the basis of data supplied by the Banco de Guatemala.

^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.

^dIncludes restaurants and hotels and business services.

In the export sector, the average prices of a variety of products rose, but apparently not enough to spark an increase in exportable production. After having fallen off sharply during the preceding three years, the volume of exports held practically steady; this can be attributed to constraints on external demand (sugar, meat) as well as to a number of phenomena which affected supply (petroleum, cardamom). It is in the export sector that the main cause of the Guatemalan economic crisis is to be found: the volume of exports in 1984 was only 75% of what it was in 1980; this was compounded by the fact that the terms of trade have deteriorated considerably (-36%) since 1978. It is therefore easy to understand how the problems of the external sector have had such an impact on the other variables of supply and demand.

The upturn in private investment was not great enough to offset the decrease in public investment, and gross fixed investment therefore declined by over 4.5%, thus continuing the downward trend of preceding years, which has not only affected total demand, but may also have worrisome implications for production capacity in the future. The fixed gross investment coefficient has dropped steadily (from 14% in 1981 to 9% in 1984) and has now reached so low a level that the country's stock of capital is probably being eroded due to a lack of replacement and maintenance. This phenomenon has largely been due to the public sector's austerity policy, which has had a much greater impact on capital expenditures than on outlays to cover operating costs. A series of other factors (idle capacity, the shortage of foreign exchange, an atmosphere of uncertainty, low levels of domestic savings) have also contributed to the drop in private investment.

This austerity policy also accounts for the virtual stagnation of the general government's expenditure on consumption and of private consumer spending, in addition to having resulted in a slight decrease in real wages.

On the supply side, although the volume of imports of goods and services was up slightly (2%) for the first time in the 1980s, the coefficient for this variable remained very low for an economy that has traditionally been so open as Guatemala's. This phenomenon, which is associated with the

suspended in 1980 in response to the predominantly adverse conditions prevailing on the international market.

iii) *Construction*. Construction was the most depressed activity in the whole economy; the 18% decrease in the value added by this sector followed upon large declines in 1982 and 1983 as well. This was primarily due to the sharp reduction in public investment, which was largely a result of the financial constraints mentioned earlier. The fact that some major industrial projects came to an end, especially in the hydroelectric sector, was another contributing factor.

Private construction also experienced substantial setbacks. Private building permits in Guatemala City were down considerably (14% in terms of surface area and 16% in value) during the first eight months of the year in comparison to the same period of 1983. Commercial buildings showed a grater decrease than housing (30% and 9%, respectively). Cement use fell 14%. Nonetheless, short-term indicators for the last three months of the year point to a partial reversal of these trends, inasmuch as the authorization of new building permits increased significantly⁷ (see table 7).

iv) *Manufacturing*. Unfortunately, little quantitative information is available on trends in the manufacturing sector in 1984, and even less on individual branches of activity. Qualitative assessments by entrepreneurs and government authorities are to be had, however, as well as the results of a survey conducted by the Central Bank.

Table 6

GUATEMALA: INDICATORS OF MINING PRODUCTION

	Index of value added (1979 = 100)					Growth rates			
	1980	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	171.2	108.9	122.8	125.3	110.8	-36.4	12.8	2.0	-11.6
Petroleum	263.1	261.4	364.1	418.7	290.2	-0.6	39.3	15.0	-30.7
Minerals	193.7	63.6	67.7	43.0	41.1	-67.2	6.5	-36.5	-4.5
Gravel and sand	116.5	128.5	116.8	119.1	127.0	10.3	-9.1	2.0	6.6
Salt	88.9	111.1	133.3	166.6	159.9	25.0	20.0	25.0	-4.0

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 7

GUATEMALA: CONSTRUCTION INDICATORS

	1980	1981	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Built-up surface area^b (thousands of m ²)									
Total	228	151	221	219	204 ^c	-33.8	46.4	-0.9	-6.9 ^c
Housing	128	87	147	126	125 ^c	-32.0	69.0	-14.3	-0.4 ^c
Cement production (1972 = 100)	228.4	227.2	205.4	183.3	157.7	-0.5	-9.6	-10.8	-14.0
Employment^d (thousands of persons)	27.7	23.4	26.9	17.8	13.0	-15.5	14.7	-33.8	-26.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bRefers to private building permits granted in the capital.

^cEstimates are based on data for January.

October compared with the same period of the preceding year.

^dPersons covered by social security.

⁷In terms of surface area, private building permits in Guatemala City were up 35% in September and 48% in October in comparison to the same months of 1983.

Table 8

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1981	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of manufacturing production (1977 = 100)	119.3	115.7	109.2	107.3	107.7	-3.0	-5.6	-1.7	0.4
Foodstuffs	121.7	116.0	105.8	104.1	...	-4.7	-8.8	-1.6	...
Textiles	113.6	104.9	95.0	96.7	...	-7.7	-9.4	1.8	...
Clothing	109.3	108.2	103.3	99.7	...	-1.0	-4.5	-3.5	...
Chemicals	117.6	122.7	111.2	110.5	...	4.3	-9.3	-0.6	...
Other	120.9	119.1	116.8	114.5	...	-1.5	-1.9	-2.0	...
Other indicators of manufacturing production									
Consumption of electricity by industry (GWh)	515.0	485.0	386.4	372.9	380.0	-5.8	-20.3	-3.5	1.9
Employment (thousands of persons)	83.1	76.7	73.9	77.8	69.5	-11.3	0.2	5.4	-10.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Taken as a whole, these data indicate that the sector grew at a very slow rate. It is estimated that the value added by manufacturing rose only 0.4%. The sale of electricity to Guatemalan industries as of November was less than 2% greater than during the preceding year (see table 8). The performance of the few industries for which there are specific indicators was even poorer; in terms of volume, the production of cigarettes dropped almost 12% and beer output fell nearly 3%.

In a survey of entrepreneurs, 37% of the respondents said that their sales volume was lower during the first half of the year than it was during the same period of the preceding year. Only 27% reported that production increased. The most severely affected branches of activity appear to have been wearing apparel, textiles and metal products (see table 9). Furthermore, whereas 51% of the respondents to the 1983 survey indicated that their plants were operating at less than 60% of their installed capacity, this figure rose to nearly 64% in the 1984 survey.

There were a variety of reasons for these poor results. Firstly, the reduction in trade within Central America (90% of which is made up of manufactures) naturally affected the industrial sector. Although it is true that part of the decrease in the value of exports was offset by the substitution of imports from the rest of the area, the overall decline in reciprocal trade did have an impact on the volume of production. Secondly, domestic demand also suffered the consequences of the generalized recession; this was compounded by the fact that the production costs of certain manufactures rose when many companies found it necessary to turn to the non-bank foreign exchange market in order to finance raw material imports. Finally, the increase in exports of manufactures to markets outside the region, although significant in terms of percentages, was not enough in absolute terms to offset the weakening of domestic and Central American demand.

In the sphere of development policy, the government enacted a new Export Industry Incentive Law designed to promote this activity by providing tax incentives and re-export arrangements.⁸ This law was intended to complement the incentives provided for by the Caribbean Basin Initiative, which offers non-reciprocal tariff preferences for the entry of certain goods into the United States market. One rather negative event relating to industrial policy was that the National Finance Corporation (COREFINA) —a public financial institution which is responsible, *inter alia*, for promoting manufacturing—suspended the bulk of its activities due to problems in connection with its financial solvency.

v) *Other sectors.* The remaining activities, which are basically services, grew very slowly and, in some cases (transport and commerce), came to a virtual standstill. These sectors' performance was thus in keeping with the overall economic picture (see table 4).

⁸Export Industry Incentive Law, Decree Law 21-84.

Table 9

**GUATEMALA: RESULTS OF THE SURVEY OF ENTREPRENEURS CONCERNING
INDUSTRIAL ACTIVITY DURING THE FIRST HALF OF 1984**

(Percentages)

Branch of activity	Production volume						Wages		
	Same period of preceding year			Previous six months					
	In- creased	Same	De- creased	In- creased	Same	De- creased	In- creased	Same	De- creased
Manufacturing industry	26.7	33.9	39.4	25.6	34.7	39.7	37.7	62.1	0.2
Food industry	33.7	40.0	26.3	28.7	43.8	27.5	43.8	56.2	-
Beverages and tobacco	20.0	40.0	40.0	40.0	20.0	40.0	33.3	66.7	-
Textiles	2.1	35.4	62.5	4.2	45.8	50.0	35.4	64.6	-
Wearing apparel and leather goods industry	11.2	30.4	58.4	12.3	27.0	60.7	21.4	76.4	2.2
Wood and furniture industry	31.6	21.0	47.4	24.6	36.8	38.6	12.3	86.0	1.7
Paper, printing and publishing industry	33.3	38.5	28.2	35.9	35.9	28.2	41.0	59.0	-
Rubber and plastics industry	15.0	42.5	42.5	12.5	32.5	55.0	37.5	62.5	-
Manufacture of chemicals	38.2	20.6	41.2	27.9	29.4	42.7	42.6	57.4	-
Glass and non-metallic minerals industry	33.4	25.6	41.0	23.0	38.5	38.5	28.2	71.8	-
Basic metals industries	5.0	55.0	40.0	5.0	40.0	55.0	55.0	45.0	-
Manufacture of metal products	19.7	27.3	53.0	19.7	27.3	53.0	31.8	68.0	-
Other industries	15.4	15.4	69.2	15.4	15.4	69.2	23.1	76.9	-

Branch of activity	Employment level			Use of installed capacity					
	In- creased	Same	De- creased	< 50	51- 60	61- 70	71- 80	81- 90	91- 100
Manufacturing industry	17.0	61.7	21.3	34.8	28.5	12.8	12.7	5.3	5.9
Food industry	20.0	63.7	16.3	32.5	38.8	2.5	12.5	8.7	5.0
Beverages and tobacco	10.0	63.3	26.7	30.0	26.7	13.3	20.0	-	10.0
Textiles	22.9	50.0	27.1	35.4	20.8	20.8	6.3	6.3	10.4
Wearing apparel and leather goods industry	13.5	33.7	52.8	41.6	18.0	21.3	14.6	1.1	3.4
Wood and furniture industry	21.1	52.6	26.3	29.8	29.8	19.3	15.8	-	5.3
Paper, printing and publishing industry	30.8	61.5	7.7	10.3	41.0	12.8	12.8	2.6	20.5
Rubber and plastics industry	-	67.5	32.5	17.5	17.5	35.0	25.0	5.0	-
Manufacture of chemicals	23.5	67.7	8.8	30.9	26.5	23.5	5.9	7.3	5.9
Glass and non-metallic minerals industry	10.3	64.1	25.6	71.8	15.4	7.7	2.6	-	2.5
Basic metals industries	5.0	65.0	30.0	35.0	30.0	15.0	20.0	-	-
Manufacture of metal products	13.6	56.1	30.3	42.4	19.7	7.6	19.7	10.6	-
Other industries	-	84.6	15.4	15.4	15.4	46.1	23.1	-	-

Source: Banco de Guatemala.

Table 10

GUATEMALA: EMPLOYMENT INDICATORS

	1981	1982	1983	1984 ^a	1982	1983	1984 ^a
	Thousands of persons				Percentage breakdown		
Total ^b	591.0	609.1	576.7	594.9	100.0	100.0	100.0
Production activities (goods)	326.2	319.6	298.8	290.2	52.5	51.8	48.8
Agriculture	225.7	215.7	199.8	205.5	35.4	34.6	34.5
Manufacturing and mining	77.1	77.0	81.2	71.7	12.6	14.1	12.1
Construction	23.4	26.9	17.8	13.0	4.4	3.1	2.2
Production activities (services)	264.8	289.5	277.9	304.7	47.5	48.2	51.2
Commerce	58.9	61.3	63.4	59.4	10.1	11.0	10.0
Other services ^c	205.9	228.2	214.5	245.3	37.5	37.2	41.2
	Indexes (1975 = 100)				Growth rates		
Total ^b	113.5	117.0	110.8	114.2	3.1	-5.3	3.2
Production activities (goods)	94.4	92.5	86.5	84.0	-2.0	-6.5	-2.9
Agriculture	86.8	82.9	76.8	79.0	-4.4	-7.4	2.9
Manufacturing and mining	119.5	119.3	125.8	111.1	-	5.5	-11.7
Construction	112.2	128.9	85.4	62.3	15.0	-33.8	-27.0
Production activities (services)	151.1	165.2	158.6	173.9	9.3	-4.0	9.6
Commerce	154.1	160.3	165.9	155.4	4.1	3.4	-6.3
Other services ^c	150.3	166.6	156.6	179.1	10.8	-6.0	14.4

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.^b Number of persons registered with the Guatemalan Social Security Institute.^c Includes government services.c) *Employment and unemployment*

Exact information on employment and unemployment levels in Guatemala was not available. The most satisfactory data which could be obtained refer to the number of persons registered with the Guatemalan Social Security Institute. Although not all workers are members, this indicator is a good reflection of employment trends in the formal sector of the economy. The figures for 1984 show a 3.2% increase in the total number of affiliated workers, which compensated for only part of the more than 5% decrease recorded in 1983 (see table 10). Moreover, the expansion in the number of jobs in absolute terms (around 18 000) seems small when compared to the number of people joining the ranks of the active population each year in the country (approximately 80 000). What is more, almost all the new jobs came under the heading "other services", a residual item which includes government service. The number of registered workers in the remaining sectors declined 3.5%. This suggests that the growth of employment, which was slower than that of the economically active population, was concentrated in tertiary activities whose productivity is presumably low. It may thus be posited that, in keeping with the economic picture described above, both open unemployment and underemployment climbed once again in 1984.

3. The external sector

For the fourth year running, the country's external transactions on both the current and capital accounts were severely restricted, especially with regard to its import capacity. This situation played a very important part in the slowdown of the country's overall rate of economic activity. The 5% increase in the unit value of exports was far too small to compensate for the effect of the previous decreases in this variable and the succession of increases in the price of imports. Accordingly, the terms of trade for goods improved by only 1.5%, an insignificant figure when measured against the steady deterioration seen in these terms since 1978. At the same time, the volume of exports

diminished slightly. Imports grew relatively rapidly, but not enough to offset the decreases of preceding years. The import coefficient therefore remained below its normal level, giving rise to a substantial unsatisfied demand for goods and services from abroad.

The deficit on current account was considerably larger than it was in 1983, in that the country's position with respect to both the trade balance and the services account deteriorated; factor payments had a great deal to do with this phenomenon. Gross international monetary reserves rose to US\$ 39 million, so the current account deficit was more than covered by the increase in forced short-term credits associated with a new series of stabilization bonds issued by the Banco de Guatemala. Subtracting this item from the total appreciably lowers the figure representing net inflows of official and bank capital and long-term private capital, thus pointing up the increasing difficulty the country had in gaining access to external credit.

a) *Merchandise trade*

The value of exports of goods rose slightly more than 4% as a result of an improvement in the prices brought by exports which was only partially counteracted by a slight drop in the volume of foreign sales (see table 11).

The above-mentioned improvement refers to the higher prices received for coffee,⁹ cotton, bananas and cardamom; there was a drop in the value of sugar, meat and especially oil exports, however. Non-traditional exports which are grouped under the heading "other" expanded particularly rapidly. The 30% increase in these export products raised their relative share in the total value of foreign sales from 10% in 1983 to nearly 13% in 1984. These products included a wide range of different goods such as sesame, articles of clothing, textiles, shrimp, flowers, tobacco, green vegetables and honey (see table 12).

It does not seem likely that the country's greater access to the United States market played a decisive role in the relatively satisfactory performance of non-traditional exports. In the past, the terms offered under the Generalized System of Preferences for the types of products in question were comparable to those now provided for in the legislation associated with the Caribbean Basin

Table 11

GUATEMALA: MAIN FOREIGN TRADE INDICATORS (MERCHANDISE)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	11.8	24.4	-15.0	-9.4	-6.7	4.3
Volume	12.4	8.3	-11.5	-1.8	-6.6	-0.7
Unit value	-0.5	14.9	-4.0	-7.7	-0.1	5.1
Imports						
Value	9.2	5.1	4.6	-16.6	-17.8	9.2
Volume	-8.0	-11.9	-	-21.6	-20.3	7.0
Unit value	18.6	19.2	4.6	6.3	3.1	2.1
Terms of trade	-15.7	-2.7	-8.7	-12.9	-2.9	1.6
Indexes (1970 = 100)						
Purchasing power of exports	163.1	172.0	139.0	118.9	107.8	108.7
Volume of exports	169.3	183.4	162.3	159.4	148.8	147.8
Terms of trade	96.4	93.8	85.7	74.6	72.4	73.6

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

⁹ The effective export quota assigned to the country by the International Coffee Organization (ICO) for the 1983/1984 harvest was raised by 7.8%.

Table 12

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	1 200	1 092	1 139	100.0	100.0	100.0	-14.5	-7.6	-9.0	4.4
Exports to Central America	337	321	295	26.4	29.0	25.9	-14.1	-11.1	-4.9	-8.1
Exports to the rest of the world	863	771	844	73.6	71.0	74.1	-14.6	-6.2	-10.6	9.5
Traditional	601	541	568	63.8	50.6	49.8	-13.8	-9.3	-10.1	5.0
Green coffee	374	309	357	25.6	30.6	31.3	-30.0	15.0	-17.6	15.4
Ginned cotton	95	67	72	11.6	10.7	6.3	7.3	-45.5	-29.1	6.8
Bananas	71	54	55	5.4	2.9	4.8	13.3	42.0	-25.0	3.0
Meat	17	16	13	2.6	1.9	1.1	-	-41.4	-7.1	-18.6
Sugar	44	95	71	18.6	4.5	6.3	23.2	-48.2	118.1	-25.2
Non-traditional	262	230	276	9.8	20.4	24.3	-16.8	-1.9	-12.2	20.2
Cardamom	44	59	97	1.6	3.7	8.6	-39.3	29.4	34.4	64.0
Petroleum	46	60	34	-	1.6	3.0	-8.3	109.1	30.2	-42.8
Other	172	111	145	8.2	15.1	12.7	-12.1	-14.8	-35.5	30.9

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Initiative. Nor is it clear that the new export promotion legislation which entered into force in March 1984 has had any major impact, since as the regulations corresponding to this new law were not adopted until late August. The most probable explanation is that some investments requiring a long lead time (especially the subcontracting of electronics and the processing of vegetables) came on stream and that other companies used their idle capacity to open up new markets outside the region. The rise in the value of exports was due to the fact that products which had already gained access to certain markets (their total contribution to foreign sales having already surpassed 14% in 1981) made a partial recovery from the sharp declines of preceding years.

There was an upturn in both the volume and value of imports (see tables 11 and 13). This increase was a generalized phenomenon. The rise in the value of purchases of intermediate and capital goods was considerable, while that of consumer goods was very slight.

The value of exports and purchases within the Central American Common Market was down, which is not surprising in view of the severity and length of the economic crisis that, to differing degrees, has affected all the countries of the subregion and dampened their total demand.¹⁰ This situation has been compounded by the obstacles to trade within this zone posed by the abnormal way in which payments arrangements have been functioning in Central America, the establishment of quantitative restrictions, the adoption of exchange policies that differ from one country to another, and the difficulties encountered in even transiting some of the countries.¹¹ Hence, what is surprising is not so much that Guatemala's exports to the rest of Central America dropped 8% (from US\$ 320 million in 1983 to US\$ 295 million in 1984), but rather that exports continue to show signs of a certain degree of vitality.

Central America's relative share in total Guatemalan trade diminished from slightly over 29% in 1983 to 26% in 1984, but it continued to be extremely important. If Guatemala's trade with each of the countries in the subregion is examined on an individual basis, it may be seen that its sales to Costa Rica and El Salvador climbed by around 5.5%. The overall decline was due to very special restrictions

¹⁰ See the chapters concerning the various Central American countries in ECLAC, *Economic Survey...*, *op. cit.*¹¹ See, for example, ECLAC, *Evolución de la integración centroamericana en 1983* (E/CEPAL/MEX/1984/L.12), 29 March 1984.

on trade with Nicaragua¹² and, in particular, to the fact that the expiration in April of the bilateral treaty between Honduras and Guatemala virtually paralysed trade with that country during most of the year. The two countries had still not succeeded in renewing the treaty by the end of the year, despite intensive negotiations to that end.¹³ Imports from the rest of the region also fell (-11%). Guatemala's intra-regional trade balance has thus remained at its 1983 level.

Finally, the improvement in the terms of trade for goods was minimal when viewed against the backdrop of its deterioration during preceding years. The terms of trade index was thus 36% below its 1978 level. However, the steady decline seen in the purchasing power of exports during the period 1981-1983 did come to a halt (see table 11).

Since the value of imports grew much more rapidly than the value of foreign sales, the trade balance for merchandise showed a deficit of US\$ 14 million, in contrast to the preceding year's US\$ 36 million surplus (see table 14).

b) *Services trade and factor payments*

Although there has traditionally been a deficit on the services account, it has been even larger in recent years. This is at least partly due to the fact that exports of services apparently are shown as being much lower than their actual value because this item and transfers are those which most lend themselves to transactions on the non-bank foreign exchange market. For example, the tourism and travel account, which provided an input of between US\$ 60 million and US\$ 80 million even in extremely depressed years during "normal" periods, has accounted for less than US\$ 12 million in the past three years.¹⁴

Table 13
GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	1 388	1 135	1 240	100.0	100.0	100.0	4.7	-17.1	-18.2	9.3
Consumer goods	299	254	257	22.4	21.3	20.7	0.1	-12.5	-15.0	1.1
Durable	76	68	...	7.3	7.7	...	-5.0	-34.6	-11.2	...
Non-durable	223	186	...	15.1	13.6	...	3.0	-1.0	-16.3	...
Intermediate goods	822	744	837	53.6	59.8	67.5	5.9	-18.7	-9.5	12.5
Petroleum and fuels	297	250	...	14.0	21.2	...	9.0	-19.6	-15.7	...
Building materials	79	54	57	5.1	5.8	4.6	7.9	-20.9	-31.1	4.8
Other	446	439	...	34.5	32.8	...	3.5	-17.7	-1.5	...
Capital goods	257	127	142	23.4	17.9	11.5	5.1	-14.5	-50.5	12.0
For agriculture	9	7	...	2.6	1.2	...	-12.4	-46.0	-22.7	...
For industry	210	94	...	13.6	12.1	...	14.5	-5.1	-55.1	...
For transport	38	26	...	7.2	4.6	...	-15.1	-39.2	-31.4	...
Miscellaneous	10	10	4	0.6	1.0	0.3	26.1	-50.0	-6.7	-61.9

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

¹² Due to the Banco de Guatemala's large credit balance with the Central Bank of Nicaragua, the Banco de Guatemala decided to make sales to Nicaragua contingent upon their being paid in dollars; this was one of the factors which caused exports to drop to half of what they were the year before.

¹³ During the first ten months of 1984, Guatemalan exports to Honduras amounted to US\$ 30 million as compared to nearly US\$ 48 million during the same period of 1983. Imports slid from US\$ 22.8 million to US\$ 9.6 million.

¹⁴ Nevertheless, indexes of hotel occupancy and the records of travellers entering the country do not show such large decreases.

Table 14

GUATEMALA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-271	-209	-165	-574	-400	-225	-314
Trade balance	-354	-320	-228	-578	-348	-142	-151
Exports of goods and services	1 298	1 473	1 730	1 446	1 278	1 172	1 241
Goods FOB	1 092	1 221	1 520	1 291	1 170	1 092	1 139
Real services ^b	205	251	211	155	107	80	102
Transport and insurance	33	40	43	33	26	18	16
Travel	67	82	62	30	12	7	11
Imports of goods and services	1 651	1 792	1 958	2 024	1 626	1 313	1 392
Goods FOB	1 284	1 402	1 473	1 540	1 284	1 056	1 153
Real services ^b	368	390	486	484	342	257	239
Transport and insurance	142	161	187	188	139	99	120
Travel	108	120	164	133	100	89	61
Factor services	-32	-13	-45	-86	-114	-113	-191
Profits	-35	-45	-42	-49	-41	-39	-93
Interest received	50	78	75	55	20	27	10
Interest paid	-47	-46	-92	-109	-100	-102	-110
Others	-	-	14	17	7	-	2
Unrequited private transfer payments	115	123	109	89	62	30	28
Balance on capital account	339	183	-93	273	361	276	353
Unrequited official transfer payments	1	3	1	1	1	1	-
Long-term capital	268	258	247	398	339	283	194
Direct investment (net)	127	117	111	127	77	45	38
Portfolio investment (net)	12	5	4	-	1	77	-
Other long-term capital	129	135	132	270	262	161	156
Official sector ^c	102	112	106	201	147	167	76
Loans received	117	130	121	228	186	310	145
Amortization payments	-15	-18	-18	-27	-37	-143	-69
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	27	23	26	69	114	-6	80
Loans received	58	60	25	100	124	11	147
Amortization payments	-41	-47	-10	-42	-15	-18	-67
Short-term capital (net)	129	-33	-323	-130	39	29	159
Official sector	8	2	59	54	40	24	...
Commercial banks	1	24	2	-7	14	71	-71
Other sectors	121	-59	-384	-178	-14	-67	...
Errors and omissions	-59	-44	-18	4	-18	-37	-
Global balance ^d	68	-26	-258	-301	-38	51	39
Total variation in reserves							
(- sign indicates an increase)	-68	19	251	305	16	-64	-39
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-1	-9	2	20	3	-1	-1
IMF reserve position	-2	-2	-0	18	10	-8	8
Foreign exchange assets	-70	56	259	257	25	-89	-71
Other assets	5	-26	-1	-102	-15	-	15
Use made of IMF credit	-	-	-	111	-6	35	10

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, (magnetic tape), January 1985; 1984: ECLAC, on the basis of official reports.

^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 the total variation in reserves (of opposite sign) and the global balance represents counterpart items: the monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Within the context of this undervaluation of inflows (and a probable overvaluation of outflows), the worsening trend as regards the deficit on the services account continued. There was a notable increase in factor payments, which rose to US\$ 190 million, i.e., slightly more than 15% of the value of total exports of goods and services. Slightly over 50% of this item corresponded to interest on the external debt (see table 14).

The services account thus continued to show a marked deficit which, in turn, was the main reason for the balance-of-payments current account deficit.

c) *The current account balance and its financing*

As a result of the trends described above, the deficit on the balance-of-payments current account rose to US\$ 314 million; this figure, which was equivalent to 3.3% of the gross domestic product, was much higher than it was in 1983.

The entire deficit was financed with capital inflows, a high percentage of which were short term. The sale of over US\$ 200 million in stabilization bonds to suppliers provided more than 50% of the net inflows of official and bank capital. The pervasive decline in direct foreign investment during recent years and the reduction in oil exploration activities were reflected in the extremely low level of direct investment (US\$ 38 million) (see table 14).

With respect to the mobilization of official capital, if the figure for stabilization bonds is excluded from the calculations, it may then be seen that short- and long-term net inflows were 32% lower than in 1983. This is a reflection of the continuing rise in the service on the cumulative public debt and particularly of the country's difficulties in gaining access to fresh financing as a result of the widespread reluctance of international private banks to undertake new operations in Central America. In the specific case of Guatemala, the suspension of disbursements of the International Monetary Fund standby credit did not have adverse consequences. The investment programme cutbacks which went along with the central government's financial restrictions were counterbalanced by the fact that there were fewer investment projects of the type that could be financed with the help of international agencies. All in all, the main sources of external public financing in 1984 were the Inter-American Development Bank, the Venezuelan Investment Fund¹⁵ and the Agency for International Development of the United States Government. In addition, the Banco de Guatemala used some lines of medium-term credit for which arrangements had previously been made with private banks.

In sum, net capital inflows amounted to slightly over US\$ 350 million, which was enough to cover the deficit on current account and to build up international monetary reserves by US\$ 39 million. The fact bears repeating, however, that more than half of these capital inflows came from the sale of stabilization bonds to suppliers (a spurious source of financing) and that the increment in international assets was accompanied by an even greater increase in liabilities.

d) *External indebtedness*

The public external debt, particularly the medium-term lines of credit contracted by the Central Bank, has grown substantially in recent years. It has all but quadrupled since 1979 and the service on this debt, measured as a percentage of the country's exports of goods and services, grew from somewhat less than 3% in 1979 to 19% in 1984 (see table 15). If short-term public liabilities are counted among Guatemala's foreign commitments, the corresponding service would then be equivalent to nearly 35% of the foreign exchange generated by the country.

The service on the medium- and long-term public external debt was lower in 1984, however, both in nominal terms and in relation to exports of goods and services. This was due to the fact that the due dates for payments were to some degree concentrated in the period 1982-1983 (see table 15). Nonetheless, the external debt service has followed a clearly upward trend, which may have disquieting implications for the future. Guatemala is one of the few Latin American countries which has not begun to reschedule the due dates of its commitments, partly because a large although decreasing percentage of the debt has been contracted with official multilateral and bilateral financing bodies and thus does not lend itself to renegotiation.

¹⁵ These inflows are related to co-operation in the field of energy (provided for in the San José Agreement) which Mexico and Venezuela make available to the Central American and some Caribbean countries. Guatemala received approximately US\$ 15 million in net financing from Venezuela and about US\$ 2 million from Mexico.

Table 15

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Total external debt^b						
Balance	934	1 053	1 385	1 802	2 019	2 374
Service	111	120	243	263	268	232
Principal	65	28	134	162	166	122
Interest	46	92	109	101	102	110
Public and State-guaranteed private external debt^c						
Balance	602	722	1 084	1 421	1 994	2 354
Service	41	54	127	231	268	232
Principal	17	21	77	152	166	122
Interest	24	33	50	79	102	110
Percentages						
Total external debt service/exports of goods and services	7.5	6.9	16.7	20.1	22.8	18.7
Total public debt service/exports of goods and services	2.8	3.1	8.7	17.7	22.8	18.7
Total external debt/exports of goods and services	63.4	60.9	95.8	141.0	172.3	191.3

Source: ECLAC, on the basis of data supplied by the Banco de Guatemala and the World Bank.

^aPreliminary figures.^bDisbursed.^cIncludes the Banco de Guatemala; commitments for a term of over one year.

4. Prices and wages

a) *Prices*

The main source of inflation in the Guatemalan economy during 1984 was, indirectly the non-bank foreign exchange market, which pushed up the cost in quetzales of imported products. According to the estimates of the Banco de Guatemala, 6.7% of the increase in the unit value of imports can be attributed to the existence of this market. The reason why the relative cost of foreign exchange was higher was basically that a larger percentage of total transactions were carried out on the non-bank market in 1984 than in 1983 and that the price paid for foreign currency on this market was slightly higher than it had been the preceding year. Given the country's low import coefficient, however, the impact of the higher cost of external purchases on the price level and structure was ultimately a rather modest one.

Between October 1983 and October 1984, the consumer price index therefore climbed only 1.9%, while the variation between annual averages during the same period amounted to 3.2%. This trend is a reflection of the favourable price trend in the international economy: the deflator for imports of goods and services, if no adjustment is made for imports financed on the non-bank foreign exchange market, went up less than 1%. This also reflects the favourable trend in food prices, a major component of the market basket of merchandise. If these prices rose less than the overall average, it was mainly owing to the drop in basic grain prices.¹⁶

Between January and October the increase in prices slowed down so much that in October the annual variation in the consumer price index was the lowest it had been in many years. In November, however, the monetary authorities adopted a package of exchange measures which seem to have awakened greater inflationary expectations. The effects of these measures were heightened by those

¹⁶This price drop is in turn a reflection of the large basic grain harvest. According to official figures, the price of maize fell from 9 centavos per pound in June to slightly over 6 centavos in December, while the price of beans declined from 26 to 21 centavos.

of the "tax adjustment" of September, which significantly shortened the list of products exempted from the value added tax; as a result, during the last few months of the year a series of goods became subject to this tax for the first time. Thus, in November and December alone, the consumer price index rose 3.5%,¹⁷ which was more than it had grown during the first ten months combined (see table 16).

Faced with mounting inflationary pressures, in late 1984 the authorities were studying a consumer protection law whose aim would be to control and prevent too great an increase in the prices of essential goods and services.¹⁸

b) *Wages*

As a whole, the average wages earned by workers belonging to the social security system rose 2.7%, i.e., somewhat less than the average variation in the consumer price index. Overall, real wages therefore declined slightly, after having dropped sharply in 1983 (see table 17).

Table 16
GUATEMALA: DOMESTIC PRICE TRENDS

	1978	1979	1980	1981	1982	1983	1984 ^a
Variation December to December							
Consumer price index	9.1	13.7	9.1	8.7	-2.0	8.4	5.2
Food	8.2	13.3	8.2	4.8	-2.6	5.5	7.6
Wholesale price index	5.1	18.7	12.0	4.0	-4.4	0.4	3.9 ^b
Imported products	2.3	25.5	6.8	10.8	4.2	-2.8	3.7 ^b
Domestic products	5.4	18.1	12.4	3.4	-5.3	0.8	5.2 ^b
Building materials	12.0	30.4	3.5	-3.0	-1.3	0.4	...
Variation between annual averages							
Consumer price index	7.9	11.5	10.7	11.4	0.2	4.7	3.4
Food	4.6	10.3	11.2	11.3	-2.8	3.3	2.0
Wholesale price index	3.6	10.3	16.0	11.7	-5.8	0.9	5.2 ^c
Imported products	1.6	15.2	19.0	10.1	3.8	4.9	4.9 ^c
Domestic products	3.8	10.3	15.7	11.9	-6.7	0.8	3.7 ^c
Building materials	15.7	13.8	12.4	4.7	-5.2	0.1	...

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bOctober-October variation.

^cJanuary-October variation.

Table 17
GUATEMALA: TRENDS IN WAGES AND SALARIES

	Indexes (1975 = 100)					Growth rates				
	1980	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Average wages and salaries^b										
Nominal	148.5	194.8	206.8	200.8	206.2	10.9	31.2	6.2	-2.9	2.7
Real	89.4	105.2	111.5	103.4	102.7	0.1	17.6	6.0	-7.3	-0.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bCalculated on the basis of data supplied by the Guatemalan Social Security Institute on the number of members and the salaries and wages drawn by them.

¹⁷ Using an index based on a different and more limited market basket of goods, the Banco of Guatemala estimated the variation in consumer prices between October and December 1984 at 5%.

¹⁸ This legislation entered into force in mid-January 1985 pursuant to Decree Law 1-85, entitled the Consumer Protection Law, which establishes penalties for "economic offenses".

The situation appears to be much worse if the "other services" entry is not included in the calculations because this sector, which covers the wages paid in government service, received the greatest raises, both in terms of the sum total of wages and average wages. In fact, the average wage in all other activities (primary, secondary, commerce, public services, and transport, storage and communications) fell 6.4% in nominal terms and over 10% in real terms.

No government service wage adjustments were granted during the year, nor were any changes made in the minimum wages set for different branches of activity.

5. Fiscal and monetary policy

a) *Fiscal policy*

The public sector's financial imbalance has been one of the Guatemalan economy's weakest points in recent years. Taxation, which is exceptionally low as a ratio of the gross domestic product, has continued to be relatively inelastic. In addition, the ratio between operating costs and the product is also very low—far too low for providing the basic services demanded by the population—while capital outlays after skyrocketing during the first two years of the decade, have been dropping rapidly and steadily ever since. These trends deepened in 1984.

Revenue declined considerably. Tax receipts fell from 570 million quetzales in 1983 (6.3% of the GDP) to 500 million quetzales in 1984 (5.3%). This decrease can be attributed to the widespread recession and, to an even greater extent, to the reduced revenues which were the net result of the tax reforms enacted in August 1983. At that time, changes were made in the taxes on sales, consumption, profits and exports.¹⁹ The main change was the replacement of the stamp tax on sales (a 3% cumulative, i.e., "cascading" tax) by a value added tax. It was initially set at a 10% rate, but in response to various sorts of pressure, it was reduced to 7% and the list of exempt products was expanded only one month later, in September 1983. Another modification was that the corporate income tax rate and scale were made separate from those of the personal income tax; this change tended to increase the relative importance of the latter, which is the most difficult to administer. Furthermore, with a view to stimulating the export sector, the authorities gradually and progressively rolled back taxes on external sales: 50% the first year, 75% the second, and their total elimination in the third.

It was estimated that the net impact of these measures, together with the increase in some selective excise taxes, would augment 1984 receipts by 200 million quetzales (2% of the gross domestic product). These projections were not borne out, however, partly because receipts from the value added tax were less than the revenue which would have been provided by the repealed stamp tax. In September 1984 the authorities announced a "tax adjustment" which basically consisted of reducing the list of products exempted from the value added tax to a minimum, making its administration and collection more efficient, and re-establishing the stamp tax (and even raising the rate in effect on a list of services and documents).²⁰ These provisions, which expanded tax coverage, constituted a major economic policy move, and they apparently soon began to produce results, because the receipts from this source rose considerably during the last few months of the year, even after taking seasonal variations into account.

Nonetheless, the measures announced in September were not well-timed or extensive enough to ease the deteriorating situation with respect to central government revenues. For example, receipts decreased 25% on sales, nearly 30% on exports and 38% on income tax.²¹ Non-tax revenue also dropped (8%) largely due to the severe decline in petroleum-related activity, in which the government's share amounted to 55% (see tables 18 and 19).

In sum, the 1984 taxation coefficient was half that of 1978, which serves to illustrate the extent to which the tax system has been eroded. As a result, a severe austerity policy on spending was followed as part of the adjustment programme adopted by the government with the support of the International Monetary Fund. Operating expenditures grew scarcely 2%; indeed, if the interest on

¹⁹See ECLAC, *Economic Survey...*, *op. cit.*

²⁰Decree Laws 96-84 and 97-84 of 13 September 1984.

²¹This decrease was greater than it would otherwise have been because of a special provision included in the reforms enacted in 1983 which required an advance payment during 1983 of a portion of the income taxes due for the 1984 calendar year. During the final quarter of 1983, an estimated 30 million quetzales corresponding to the 1984 fiscal year were collected. If it had not been for this measure, the revenue from income taxes would have been slightly higher.

the public debt and the country's increased allocations for defense spending are excluded from the picture, it may be seen that the rest of the component items showed decreases, even in nominal terms, with respect to 1983. Furthermore, capital expenditure once again dropped substantially (-33%). To a great extent, this decrease was deliberate, although part of it is also attributable to the completion of some large-scale projects during the preceding fiscal year (e.g., the Chixoy hydroelectric project,²² the major portion of El Quetzal, the new port on the Pacific, and various works in the health sector) and to the need to delay the execution of projects which, although they did have external financing, lacked local counterpart funds.

The ratio between expenditure and the gross domestic product fell from 12.1% in 1983 to 11.2% in 1984. This was not enough to offset the drop in tax receipts, however, and the central government's financial deficit therefore rose by more than 10%, increasing from 3.9% of the product to 4.2% (see table 18).

Detailed statistics are unavailable on the rest of the public sector, which accounts for nearly 40% of the central government's current income and operating expenses. Nevertheless, the trends towards a financial imbalance in the central government were also evident throughout the rest of the public sector, with the exception of a few enterprises.

Table 18

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of quetzales)

	Millions of quetzales				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	741	730	741	654	-0.8	-1.5	1.5	-11.7
Tax revenue	652	626	573	499	-3.9	-3.9	-8.5	-12.9
Direct	110	108	134	85	9.4	-1.8	24.1	-36.6
Indirect	542	518	439	414	-6.2	-4.4	-15.3	-5.7
On foreign trade	171	125	106	108	-34.0	-26.9	-15.2	1.9
2. Current expenditure	759	710	721	735	11.9	-6.5	1.5	1.9
3. Current saving (1 - 2)	-18	20	20	-81				
4. Capital expenditure	724	548	376	311	40.6	-24.3	-31.4	-17.3
Real investment ^b	621	432	316	211	41.8	-30.4	-26.9	-33.2
Debt amortization payments	103	116	60	100	33.8	12.6	-48.3	66.7
5. Total expenditure (2 + 4)	1 483	1 258	1 097	1 046	24.3	-15.2	-12.8	-4.6
6. Fiscal deficit (1 - 5)	-742	-528	-356	-392	66.4	-28.8	-32.6	10.1
7. Financing of deficit	742	528	356	392	66.4	-28.8	-32.6	10.1
Domestic financing ^c	634	416	256	347	93.3	-34.4	-38.5	35.5
External financing	108	112	100	45	-8.5	3.7	-11.1	-55.0
Percentages								
Ratios								
Current saving/capital expenditure	-2.5	3.6	5.3	-5.8				
Fiscal deficit/total expenditure	50.0	42.0	32.5	37.5				
Tax revenue/gross domestic product	7.6	7.2	6.3	5.3				
Total expenditure/gross domestic product	17.2	14.4	12.1	11.2				
Fiscal deficit/gross domestic product	8.6	6.0	3.9	4.2				
Domestic financing/deficit	85.4	78.8	71.9	88.5				
External financing/deficit	14.6	21.2	28.1	11.5				

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Includes other capital expenditure

^c Includes other capital inflows.

²² However, this project—which was to provide a substitute for nearly one-third of fuel imports—did not enter into operation because one of its intake tunnels was severely damaged during testing. It is estimated that repairs may take over 12 months.

Table 19

GUATEMALA: CURRENT INCOME OF THE CENTRAL GOVERNMENT
(Millions of quetzales)

	1978	1979	1980	1981	1982	1983	1984 ^a
Total	661	668	747	741	730	741	654
Tax income	621	621	678	652	626	573	499
Direct	102	97	100	110	108	134	85
Income tax	94	91	95	104	102	128	79
Land tax	8	6	5	5	5	5	6
On legacies and donations	1	-	-	1	1	1	1
Indirect	519	524	578	541	519	439	414
Imports	106	115	110	103	76	66	79
Exports	158	126	146	68	49	40	29
Alcohol	40	43	47	43	42	34	41
Tobacco	14	17	21	21	23	24	23
Stamps and stamped paper	151	171	200	261	284	182	32
Petroleum products	24	28	24	21	19	24	44
Miscellaneous	25	24	27	25	26	69	166
Value added	-	-	-	-	-	45	142
Non-tax income	40	47	68	89	104	168	155

Source: Banco de Guatemala.

^aPreliminary figures.

b) Monetary policy

One facet of the monetary picture was an excess of liquidity among the banks of the system during the first nine months of the year. As a result of a package of measures adopted by the authorities, which included the issuance of stabilization bonds, liquidity was considerably reduced by the end of the period (up until September, the means of payment had grown by 16% with respect to September 1983). The increase in demand deposits and quasi-money was to some extent the counterpart of the growing amount of foreign exchange applications for which the monetary authorities' authorization was still pending. During the same period, credit activity expanded by 14.5%, most of which went to satisfy the public sector's mounting demand for credit. In late September, the cash reserve coefficient was just slightly over 15%.

By the end of December, the means of payment had expanded by 9% despite an increase of 13% in lending activity, and the cash reserve coefficient had dropped to 14%. A total of 60% of the increase in lending activity during 1984 was taken up by the public sector, which needed it to cover its large deficit. The extension of credit to the private sector, however, expanded much less, reflecting the low level of economic activity and the slow rate of capital formation (see table 20). The public sector became a net creditor of the system's banks, and the Central Bank was therefore its only source of credit.

Although external assets grew by approximately US\$ 39 million, external liabilities and outstanding ("captive") commitments grew much faster; net international monetary reserves consequently dwindled (actually, their minus value rose), thereby partly offsetting the expansionary effect of domestic credit.

Demand deposits shrank 8% as a result of the recession and the corporate preference for placing liquid funds in time accounts. Quasi-money thus rose 17%. The other net assets acting as factors of absorption were the stabilization bonds, as they are called, which were used to document outstanding foreign exchange commitments: nearly US\$ 300 million in such bonds were sold in 1983 and over US\$ 200 million in 1984. The issue authorized in 1984 amounted to US\$ 300 million over a five-year term at an annual interest rate of 1.5% over that of United States Treasury Bonds if they were accepted by foreign creditors, or at an annual rate of 6% if they remained in the safe-keeping of the Banco de Guatemala.

This sale of securities formed part of a series of major decisions taken by the monetary authorities around the middle of November following the adoption of some minor restrictions such as the establishment of deposits as collateral for letters of credit and the reduction of the foreign exchange quotas allowed for foreign travel. The former were associated with the implementation of the second part of the Emergency Régime on International Transfers, which legalized and institutionalized the dual exchange system which had been operating up until that time on a *de facto* basis in the non-bank foreign exchange market. On the official exchange market, a limited list was drawn up of what were considered to be essential goods for which foreign exchange could be obtained at the traditional rate of exchange for the quetzal (at parity with the dollar). Official-sector foreign exchange was also to be used to service the external public debt. The foreign currency for the official exchange market was to come from exports of coffee and sugar under the respective quota systems, bananas, cardamom and oil, as well as 80% of the foreign exchange earnings from exports of cotton, of sugar sold outside the quota system, meat and the rest of exports to other countries. The remaining 20% of the proceeds from the latter category of exports, as well as 100% of those obtained from exports of coffee made outside the quota system and of exports to other Central American countries was to be channelled to the free exchange market, as were inflows from family remittances and other invisibles, along with private capital inflows.

Some imperfections persisted during the first few weeks of operation in this new dual system. The exchange rate on the free market, as it is called, fluctuated around 1.48 quetzales to the dollar, i.e., there was no significant departure from the rate prevailing before that time on the non-bank market, which continued to function.

The Banco de Guatemala authorities also continued to follow the main policies that had been adopted in 1983. The bank reserve requirement remained the same (35% on demand deposits and 10% on savings deposits). They also continued to follow the same interest rate policy as the year before of holding the maximum interest rate on loans to 12% and the rate on deposits to 9%. During the final week of the year, however, the country's monetary legislation was amended to permit the use of variable interest rates for the first time. Albeit belatedly, this step brought interest rates into line with the prevailing practices on international financial markets.

Table 20
GUATEMALA: MONETARY BALANCE
(Millions of quetzales)

	Balance at end of year (millions of quetzales)			Growth rates			
	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money	749	788	713	4.1	1.4	5.1	-9.4
Currency outside banks	403	436	389	6.3	-0.2	8.3	-10.7
Demand deposits	346	352	324	1.6	3.4	1.5	-7.8
Factors of expansion	2 415	2 805	3 120	10.6	12.8	16.1	11.3
International reserves (net)	-351	-302	-408	...	258.2	-13.9	34.7
Domestic credit	2 766	3 107	3 528	39.2	17.0	12.3	13.5
Public sector	1 097	1 254	1 509	125.9	36.7	14.3	20.4
Private sector	1 669	1 853	2 019	16.3	6.8	11.0	8.9
Factors of absorption	1 666	2 017	2 407	14.0	9.0	21.1	19.3
Quasi-money (savings and time deposits)	1 532	1 540	1 809	15.8	21.5	0.6	17.4
Other items (net)	134	477	598	6.3	-50.0	254.4	25.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Finally, approximately midway through the year, the International Monetary Fund suspended its disbursements of the standby credit which formed part of the stabilization programme that had been agreed upon in September 1983 because the Fund felt that not all of the programme's goals were being met, particularly those relating to fiscal matters. Although some consultations were held between government and Fund authorities during the second half of the year, the formal periodic review process was suspended when only half of the resources originally approved (SRD 115 million) had been paid out. This added to the shortage of foreign exchange which had such a strong impact on Guatemala's economic performance, not only because of the shortfall resulting from the Fund's refusal to disburse the remainder of the standby credit, but also because of its indirect effects on the country's relations with the international financial community.

HAITI

1. Recent economic trends: Introduction and summary

In 1984 the Haitian economy achieved a slight recovery after three years of recession and standstill.¹ The gross domestic product, which between 1980 and 1983 had fallen by over 6%, rose in 1984 by 2.7%. In the present crisis this recovery did not signify any improvement in the per capita gross domestic product, which since 1980 has declined by approximately 13% (see table 1 and figure 1).

There was a recovery of the national income similar to that of the product during 1984. A small improvement in the terms of trade reduced its negative effect and counteracted the higher net factor payment to the exterior and the lower inflow of private transfers; both variations were very slight (see table 2).

During the biennium 1982-1983 the evolution of the economy remained subject to a severe adjustment programme arranged by agreement with the International Monetary Fund, so that the behaviour of the main economic variables was influenced by financial constraints, the intention to reduce public participation in productive activities and the greater control over government use of external and internal resources. Despite the contraction of domestic production in those years and the deterioration of world market conditions, total exports grew by 12% in 1982 and 7% in 1983, the trade deficit fell from US\$ 277 million in 1981 to US\$ 195 million in the two following years and there was also a parallel drop in the deficit on the balance-of-payments current account. In the same two-year period, the notable contraction in public expenditure caused a significant fall in the ratio between fiscal deficit and gross domestic product, which had amounted to 9% in 1981. In 1983 the agreement with the IMF was renewed for two years from October in that year, which authorizes the disbursement of 60 million in Special Drawing Rights.

The symptoms of recovery in the world economy were reflected in a rise in prices and a certain upswing in world demand which favoured the main export products of the country. There was in addition a greater inflow of foreign capital and of the bilateral aid received by Haiti. Nonetheless, the imbalances in trade and on the balance-of-payments current account increased in 1984 and there was a further fall in international reserves.

Moreover, government expenditure acquired special dynamism and consumption expenditure in particular rose by close on 13% in real terms, thus deviating from the original adjustment proposal and provoking, *inter alia*, the halting from May onwards of the stand-by credit disbursements of the IMF. The greater part of the rise in expenditure was destined for public works and outlays for security and defence, while that allocated to education and health did not vary greatly in real terms.

Investment in machinery and equipment was another of the components of domestic demand which increased more rapidly (by almost 7% in real terms) owing to the dynamism achieved by technical assistance projects in agriculture and to the expansion of some assembly industries. On the other hand, construction remained stationary despite the greater expenditure on public works, since foreign investors were not induced to take much interest in sharing in the advantages agreed within the framework of the Caribbean Basin Initiative (CBI).² Direct foreign investment fell to a third in 1984. In brief, gross capital formation was confined to the acquisition of machinery and equipment and the restoration of the stocks which had declined in the preceding years.

Furthermore, the new fall in real wages (the real minimum wage in industry went down by 7%) and the growing unemployment meant that the overall private consumption level remained

¹ The annual information included in this report refers to the period October-September and the year indicated corresponds to that of this latter month.

² This regional project, promoted by the United States Government, seeks to dynamize the flow of exports from the Caribbean on the basis of the regional division of labour and the utilization of the comparative advantages of local production, through the development of the subcontracting industry.

practically unchanged in 1984 and there was a decline in per capita consumption, which has fallen by 20% in the last four years. The deterioration in the income and living conditions of the population was the cause of the serious disturbances that occurred in May in the city of Cap Haïtien, in the north of the country.

On the side of total supply, the moderate rise in the gross domestic product originated in the reactivation of the agricultural sector (3%) —especially in the output of basic consumption crops— and in the dynamism achieved by government services (11%). In contrast with the previous year, manufacturing production fell by 2% in 1984 and construction remained stationary. The fall in manufacturing output for the domestic market could not be totally halted by the favourable results of the subcontracting industry. At the same time, the quantum of imports of goods and services increased by 4%, as a result of which total supply grew by 3%.

Table 1

HAITI: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	571	613	660	641	616	618	635
Population (millions of inhabitants)	5.53	5.67	5.81	5.95	6.10	6.26	6.42
Per capita gross domestic product (1970 dollars)	103	108	114	108	101	99	99
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.8	7.3	7.7	-2.8	-3.9	0.3	2.7
Per capita gross domestic product	2.4	4.7	5.1	-5.2	-6.2	-2.2	0.2
Per capita national income	1.1	3.3	6.6	-6.4	-7.1	-3.0	0.2
Consumer prices							
September to September	2.3	18.6	9.5	4.7	6.2	12.2	6.1
Variation between annual averages	-2.9	9.7	18.1	7.6	9.0	8.8	8.0
Real minimum wage ^b	26.8	-8.9	16.6	-3.7	4.7	-6.7	-7.3
Money	25.1	22.0	11.1	21.3	14.9	-1.8	17.9
Current income of government	15.1	12.0	14.0	-4.4	15.5	10.8	8.0
Total expenditure of government	31.6	14.7	19.3	23.8	-1.6	1.1	31.8
Fiscal deficit/total expenditure of government ^c	40.6	42.2	42.5	50.1	41.4	35.8	47.4
Fiscal deficit/gross domestic product ^c	7.6	7.7	7.2	9.0	7.3	5.8	9.0
Current value of exports of goods and services	21.3	0.8	43.5	-21.3	12.2	6.9	5.2
Current value of imports of goods and services	17.4	6.9	46.5	6.9	-10.1	4.0	7.9
Terms of trade (goods and services)	-7.6	-9.0	3.6	-6.7	-1.9	-2.7	1.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-98	-117	-178	-277	-195	-195	-218
Net payment of profit and interest	15	13	14	13	14	14	18
Balance on current account	-84	-97	-140	-225	-160	-163	-191
Balance on capital account	98	105	111	168	115	130	177
Variation in net international reserves	6	24	-26	-50	-3	-24	-14
Disbursed public external debt	210	248	290	372	410	551	607

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Industrial minimum wage.

^c Percentages.

Table 2

HAITI: EVOLUTION OF THE GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	658	624	622	639	-3.2	-5.2	-0.3	2.7
a) Gross domestic product	641	616	618	635	-2.8	-3.9	0.3	2.7
b) Terms-of-trade effect	-1	-3	-6	-4				
c) Net factor payments to the exterior	5	5	5	6	-13.2	-	-	19.6
d) Net private transfers received from the exterior	23	16	15	14	16.5	-27.4	-7.9	-8.6

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

The slight recovery in world trade, and specifically the improvement in the prices of raw materials and agricultural products as against those of manufactured and capital goods, enabled the terms of trade in goods, which had fallen by 30% since 1979, to recover a little of that loss (6%). The purchasing power of exports grew by something approaching 11%, thanks to the fact that the improvement in the terms of trade went hand in hand with a growing volume of exports of goods, which has risen by 38% in only the last three years. The terms of trade in goods and services rose, in contrast, by only 1.3%.

The servicing of the public external debt came to represent 12% of exports of goods and services, which was not particularly serious. The amount of the external debt is equivalent to a third of the gross domestic product and twice the value of total exports.

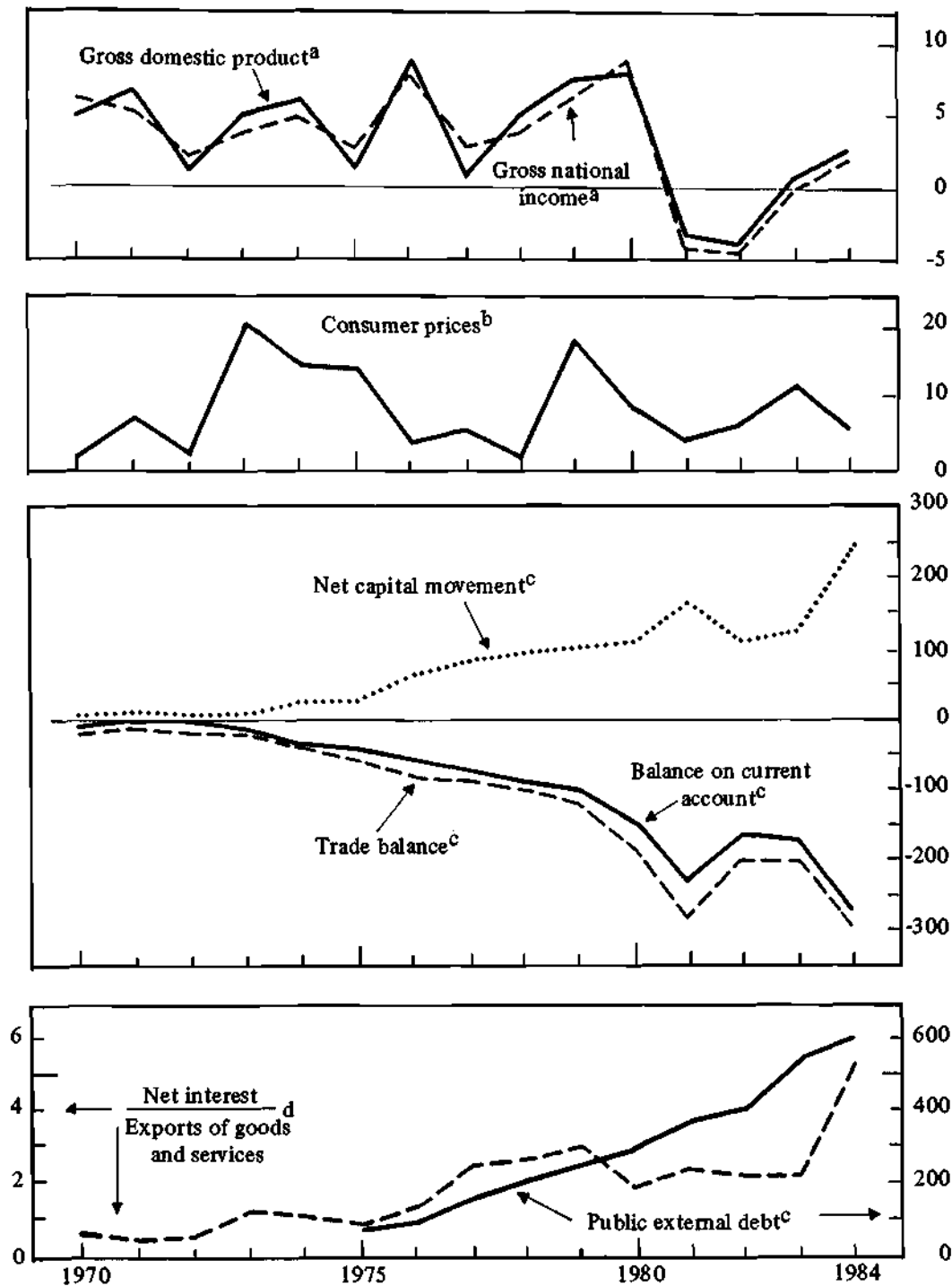
During 1984 there was considerable liquidity in the economy. Money increased by 18% from September to September, much more than the rise in the production of goods and services valued at current prices. The expansion of money was influenced by the greater deficit of the public sector which had to be financed and which had not been foreseen. There was a relatively small increase in time deposits, of the order of 7%, considerably less than that of domestic credit (13%). In 1983 the latter had increased proportionally more, and mainly that directed to the central government, which caused a fall in the credit assigned to the private sector. In 1984, in contrast, the absorption of credit by the public sector grew more slowly, enabling the private sector to have access to bank financing after two years of contraction in credit. At the same time, the factors of disequilibrium could once again be controlled and the situation of the exchange market remained unaltered with the external aid, which was reflected in the rise in the reserves of the commercial banks.

Though subject to the exigencies of the financial adjustment programme, the fiscal deficit once again, as already stated, reached levels far above those that had been foreseen: 9% of the gross domestic product instead of the 1% agreed with the IMF. This result was produced by the combined effect of a growth of only 8% in current income and an increase of 32% in total expenditure. Owing to the misuse of the funds of the IMF—whose resources employed during the first three quarters of 1984 totalled slightly more than 20 million in Special Drawing Rights—without any priority as to social policy, the agreement concluded at the beginning of the year was brought to a halt. However, despite the fact that this probably reduced the support of the international financial community, external aid and bilateral co-operation increased by 13% as against the standstill of 1983; but even so the deficit had to be largely financed by domestic credit.

It should be noted that the increase in production in 1984, principally in agriculture and the subcontracting industry, was largely due to external co-operation and the slight reactivation of foreign demand. The influence of government economic policy was less decisive.

Notwithstanding the expansion of the means of payment, which was higher than the rise in total output, the negative financing of public expenditure and the rigidity in the supply of goods and

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation from September to September.

^cMillions of dollars.

^dPercentages.

Table 3

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	772	776	799	167.8	127.3	125.9	-2.1	-6.2	0.5	3.0
Gross domestic product at market prices	616	618	635	100.0	100.0	100.0	-2.8	-3.9	0.3	2.7
Imports of goods and services ^b	156	158	164	17.8	27.3	25.9	0.6	-14.2	1.3	3.9
Total demand	772	776	799	117.8	127.3	125.9	-2.1	-6.2	0.5	3.0
Domestic demand	679	676	699	105.7	111.0	110.1	0.6	-7.9	-0.4	3.4
Gross domestic investment	123	130	135	16.2	19.3	21.3	12.8	-14.1	5.0	4.4
Gross fixed investment	121	123	125	15.3	18.3	19.7	16.4	-13.9	1.7	1.9
Construction	85	90	90	11.6	13.8	14.2	3.5	-9.7	6.0	0.1
Machinery	36	33	35	3.8	4.5	5.5	56.0	-22.3	-8.6	6.9
Changes in stocks	2	7	10	0.4	1.0	1.6				
Total consumption	556	546	564	89.5	91.7	88.8	-1.9	-6.5	-1.6	3.1
General government	128	119	135	13.7	17.6	21.2	5.8	3.5	-6.4	12.7
Private	428	427	429	75.8	74.1	67.6	-3.8	-9.0	-0.2	0.5
Exports of goods and services ^b	93	100	100	12.1	16.3	15.7	-20.6	9.1	7.1	-

Source: ECLAC, on the basis of figures provided by the Haitian Statistical Institute.

^a Preliminary figures.

^b The figures on 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 through price indexes calculated by ECLAC for the purpose.

services, domestic prices increased only half as much as in 1983, measured from September to September, and the variation of the annual average was also slightly lower.

The real minimum wage in industry fell for the second year running, each time around 7%. It is assumed that a fall in real wages should be attractive to foreign investors; nonetheless, the low qualifications and skill of local labour conspires against its productivity and offsets the advantage that there might be in its low cost. In fact, the conditions of employment in general continue to deteriorate and, coupled with these, the conditions of income.

In sum, the economic activity of Haiti showed some dynamism in 1984 at global level, owing mainly to the impetus of agriculture and of government expenditure —both aided by a considerable degree of external co-operation— which resulted in a noticeable recovery of domestic demand. Nonetheless, the fiscal and balance-of-payments imbalances increased, per capita consumption fell and real wages once again declined; all this in an economy which does not adequately meet the basic needs of the population.

2. Trends in economic activity

a) Total supply and demand

In 1984 the Haitian economy recorded a slight recovery in productive activity after the marked contraction experienced in 1981 and 1982 and the stagnation observed in 1983. The gross domestic product increased by 2.7%, which signified an extremely low per capita growth; since 1980 the per capita product has declined by 13%. Total supply grew slightly more than output and for the first time in the decade slightly exceeded the growth of the population. The other component of supply, imports of goods and services, increased by close on 4% in terms of volume, despite the efforts made to contain them (see table 3).

The growth in total demand, on its side, derived entirely from its domestic components; the volume of exports of goods and services showed no variation in 1984. The rise of 8% in the volume of

goods exported was annulled by the marked fall in tourist revenues, which still represent more than a fifth of the total revenues of exports of goods and services.

Both gross domestic investment and consumption —the two components of domestic demand— increased in 1984: the former by slightly more than 4%, as the sole result of a change in stocks, and the latter by approximately 3%. This has been the first positive result observed in consumption since 1980. During the three years 1981-1983 consumption expenditure declined by 10%.

Surprisingly, the consumption expenditure of the general government increased by close on 13% in 1984 in real terms, despite the fact that in the agreement with the IMF the intention was expressed of severely controlling this expenditure. In the meantime, the consumption expenditure of the private sector varied hardly at all and per capita expenditure fell by 2%. Since 1980 per capita private consumption has declined by 20%.

The increase in fixed gross investment did not reach 2% in 1984: much less than in the preceding year. The performance of the construction and machinery components was divergent: while construction —which had achieved an appreciable recovery in 1983— remained stagnant, investment in machinery and equipment rose by almost 7%, after a fall of close on 30% in the two preceding years.

No major public works were undertaken during the year; the remodelling of the airport of Port-au-Prince, initiated in 1983, was finished. The bilateral agreements signed with the Governments of France and the Federal Republic of Germany were basically confined to the sphere of co-operation in the development of agricultural products; the works of infrastructure which are contemplated are secondary. With respect to investment in machinery, its acquisition and that of transport equipment was carried out in accordance with agricultural co-operation projects, with some government participation, and to a lesser degree with the support of the private investment provided by the project Caribbean Basin Initiative.

b) *Evolution of the main sectors*

The gross domestic product achieved a growth rate of around 3% during the year. The performance of the productive sectors was uneven. The output of goods barely rose above 1%, while services grew at a rate of close on 5%. Since midway in the 1970s the relative weight of the goods-producing sectors has declined from 64% to 57% (see table 4).

The slight recovery of the goods-producing sectors was determined, in its turn, by the growth of the agricultural sector at a rate of around 3%, which represented an achievement considering that during the past three years it had persistently declined. Although agriculture is the most important activity, the increase in its output was offset by the fall in the production of manufactures (2%), while construction remained stagnant and mining is of no importance.

The basic services increased at a rate of around 5%, which was lower than that of 1983 and was caused by the deceleration in transport and communications. The rise in the value added by services of electricity, gas and water was moderately higher than that of the previous year, probably because of the conclusion of the network of electricity transmission lines in the areas adjacent to the capital and through the starting up of the hydroelectric plant at Saut-Mathurine.

The growth of "other services", which was also close on 5%, was entirely due to government services, which after remaining virtually stagnant in the two preceding years increased by almost 11% in 1984. In contrast, commercial activity, which had shown some recovery in 1983, grew very little in 1984, owing in part to the depressed tourist activity during the year, which had a drastic effect on the services in view of the relative weight of tourism, approximately 40%, in the value added by these sectors.

i) *Agriculture.* The mere attainment of a growth in agricultural output during 1984 was an outstanding event, owing to the importance of this sector in the country's economic activity as a whole, since it produces a third of the total output. Another notable fact was that the growth in output occurred mainly in crops destined for domestic consumption; production for export and even less livestock production had little effect on the sector's evolution. This is the result of the efforts that are being made to develop the production of foodstuffs for domestic consumption.

Table 4

HAITI: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product ^b	567	568	584	100.0	100.0	100.0	-2.8	-3.9	0.3	2.7
Goods	328	323	326	63.5	59.6	56.5	-4.5	-4.2	-1.6	1.2
Agriculture	191	187	192	42.4	33.7	33.3	-1.4	-4.2	-2.2	2.9
Mining	8	-	-	1.6	1.3	-	-11.5	19.5	-93.2	2.8
Manufacturing	97	102	100	14.2	19.0	17.4	-11.8	-3.8	5.6	-1.7
Construction	32	34	34	5.3	5.6	5.8	3.5	-9.7	6.0	0.1
Basic services	17	18	19	2.5	2.8	3.3	4.7	-2.6	7.3	4.6
Electricity, gas and water	5	5	5	0.5	0.7	0.9	6.2	6.6	3.7	5.0
Transport, storage and communications	12	13	14	2.0	2.1	2.4	4.2	-5.7	8.6	4.5
Other services	218	222	232	340	37.6	40.2	-0.7	-3.1	2.0	4.7
Commerce, restaurants and hotels	104	106	107	17.4	19.4	18.5	-6.2	-5.3	2.5	0.7
Financial institutions, insurance, real estate and business services	32	33	33	6.2	5.2	5.8	1.9	1.9	2.4	1.6
Ownership of dwellings	30	31	32	5.9	4.9	5.5	1.8	1.8	1.9	1.9
Community, social and personal services	82	83	92	10.4	13.0	15.9	6.4	-2.2	1.5	10.7
Government services	64	64	70	7.7	10.1	12.2	4.6	1.8	-1.5	10.5

Source: ECLAC, on the basis of figures provided by the Haitian Statistical Institute.

^a Preliminary figures.

^b At factor cost. As the individual activities and total were calculated independently, the sum of the former does not correspond exactly with the latter.

Though in 1983 export crops had managed to surmount the decline of the previous two years, in 1984 they showed no major variations. Thus the coffee crop increased by less than 2%, so that it has not even recovered the level of volume harvested in 1980, a reverse which had a marked effect on the trade balance, since no advantage was taken of the favourable prices of this product in the world market. Since coffee is the chief agricultural export product, its cultivation has enjoyed the financial support and express promotion of the government; nonetheless, various other factors intervened to prevent a larger output.

The meagre increase in the cotton crop was partly due to the poor results obtained in the region of Gonaïves, where the growers are experimenting with new cultivation techniques to increase productivity. Meanwhile, cocoa production maintained a growth rate similar to that of the preceding year, that is, something over 2% (see table 5).

The termination of the first stage of the programme of agricultural aid and reclamation in the valley of l'Artibonite, promoted by the Inter-American Development Bank (IDB),¹ and covering an area of 3 600 hectares, was the basis of the recovery of production for domestic consumption. In effect, the Organization for the Development of the Valley of l'Artibonite (ODVA) undertook a programme of food production which resulted in a rise of around 8% in rice production, in contrast with the falls experienced in this crop during the three years 1981-1983, and in increases of close on 9% in maize production and 11% in sorghum. In contrast, the production of beans remained stationary, as did that of sugar cane, which in 1983 had risen by more than 4% with the initiation of

¹ This programme, which was started seven years ago, had an overall cost of US\$ 5.9 million, of which 5 million was contributed by the IDB and 0.9 million by the Haitian Government. At present the second stage is being prepared at an approximate cost of US\$ 22 million, of which the IDB will provide US\$ 17.6 million, OPEP 1.8 million and the government 2.7 million.

the sugar mill at Léogane. Only banana production showed a fall (of almost 2%) owing to the drought in the plain of Cul du Sac (Arcahaie), a region devoted mainly to this crop.

At the same time, the phytosanitary regulations of the United States for the importation of certain fruits caused considerable falls in fruit production. The recovery of the crops of domestic demand, mainly basic grains, helped to curb the alarming deterioration in the nutritional levels of the majority of the population and to moderate the rise in prices. Nonetheless, this upturn has been insufficient and midway through 1984 there was a renewal of the PL480 agreement with the United States for the supply of wheat, flour and edible vegetable oil to the value of around US\$ 11 million. Moreover, the World Food Programme provided aid in the amount of around US\$ 8 million. In addition, it should be emphasized that the greater part of the bilateral co-operation agreements signed during the year were connected with projects for agricultural development, the improvement of crops and expansion of irrigation zones in different regions of the country.

The beginning of 1984 saw the inauguration of the National Agro-Industrial Development Bank (BNDAI), which during the year promoted pilot programmes of agricultural experimentation involving finance in an amount of slightly over US\$ 1 million. Later on this bank will support more far-reaching projects in agriculture.

As regards livestock production, it was only in February 1984 that the campaign to eradicate swine fever came to an end. This campaign, which was initiated in 1981 and meant the elimination of the stocks of pigs, involved a cost of US\$ 23 million. A pilot project was launched under the auspices of the IDB to restore the pig population with species imported from the United States. During 1984 some 500 pigs were imported for this purpose. It is estimated that the replacement of the 400 000 animals, roughly speaking, which were sacrificed during the campaign may be achieved in a minimum of some five years.

Table 5

HAITI: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Production of the main crops								
For export								
Coffee	42.9	32.3	36.0	36.6	-22.5	-3.0	11.6	1.7
Cotton	5.9	5.4	6.0	6.1	-3.6	-5.1	11.1	0.8
Cocoa	3.4	4.5	4.6	4.7	-35.1	102.3	2.4	2.4
For domestic consumption								
Rice	124.1	115.8	113.4	121.9	-3.5	-3.3	-2.1	7.5
Maize	186.2	175.7	170.9	186.0	-3.8	-1.9	-2.7	8.8
Sorghum	125.2	117.8	106.6	118.2	-3.5	-2.5	-9.5	10.9
Beans	52.6	50.3	46.7	47.2	-3.5	-1.0	-7.2	1.1
Bananas	519.7	504.1	509.6	500.4	-3.5	-0.5	1.1	-1.8
Sugar cane	5 640.8	5 440.0	5 674.4	5 700.0	-3.5	-0.1	4.3	0.5
Livestock production								
Total for meat	69.4	70.9	92.3	41.0	-11.9	15.9	30.2	-55.6
Beef	18.0	19.8	19.9	...	3.3	6.5	0.5	...
Pork	43.9	29.3	-	...	-20.5	-16.3	-100.0	...
Goat meat	4.1	6.3	6.0	...	-	53.7	-4.8	...
Poultry	3.4	15.5	66.4	...	-	355.9	328.4	...
Other productions								
Eggs	17.6	17.7	18.6	18.9	1.6	-0.8	5.0	1.9

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti.

^a Preliminary figures.

Although there is not much information available on the subject, it seems that the attempts to replace pig production by poultry raising has not had the hoped-for results. Besides, egg production grew by only 2% in 1984.

As for the raising of bovine cattle and goats, this ran into difficulties because of the high costs of production and the lack of programmes to develop these lines. It was only at the end of June 1984, in the context of the research sponsored by USAID, that a grant was received in the amount of US\$ 1 million for use in a programme of improvement of goat raising in the region of the central plateau.

Finally, it should be noted that the upturn in agricultural output is in general still weak, and the level reached is still insufficient even for the basic nutritional needs of the population, which have to be partially covered by imports and donations of foodstuffs.

ii) *Manufacturing*. Manufacturing output underwent a change in 1984. In fact, after achieving an approximate growth of 6% in 1983, it declined by somewhat less than 2% in the following year. There was a difference between the performance of the industries producing for the domestic market and those producing for export. On the one hand, the subcontracting industries, whose output is destined for the external market, raised their production by 8%. The recovery of the United States demand was decisive for these industries. Although its influence is still minimal, it should be noted that Haiti was recognized as participating in the first group of nations benefiting from the trade prerogatives granted by the United States under the system of the Caribbean Basin Initiative, as from January 1984.⁴

In the case of manufacturing production for the domestic market, there was a notable decline. In particular, the important food industry reduced its production by around 19%, after having grown by 33% in 1983. The industries producing edible oils and sugar were among those with the greatest fall in output, owing, *inter alia*, to import competition. Midway through 1984 the monopoly for sugar imports was suppressed, which, coupled with the decline in its international price, discouraged domestic production in the last quarter (see table 6).

Meanwhile, the beverage industry raised its production by 9%, thanks to the growth of alcoholic drinks for export, such as rum, and despite the heavy fall in the production of beer and the slight decline in that of carbonated beverages.

The tobacco industry was also affected by the facilities granted to imports, which caused a decline of somewhat over 2% in its production. In contrast, textiles, clothing and leather products grew by 2%, mainly in the industries which export preferentially to the United States market.

The output of the chemical industry has fallen in the last two years, 11% in 1983 and 15% in 1984. While there was an increase in the output of goods such as soap and detergents destined for the domestic market, there was a decline in some important export products such as essential oils, which fell by 28%.

There was also a drop in processing of non-metallic minerals (2%), although the production of cement merely reduced the high growth rate recorded in 1983, as a result of the scant dynamism shown by construction.

Lastly, the metalworking industries exhibited an upturn in 1984, to add to the fluctuating trend of recent years. Several industries grouped under this heading, corresponding mainly to subcontracting industries which make and assemble toys, sports articles, electronic products, etc., experienced an extraordinary growth in 1984.

To the various difficulties affecting the manufacturing industry, there was added during the year the reduction of import charges. Moreover, to encourage a greater participation of foreign investment in production, the authorities offered a series of advantages to the foreign enterprises (within the Caribbean Basin Initiative agreement) among which the most important are the exemption from charges for 15 years, maintenance of the minimum wage and the application of the bilateral investment agreement with the United States as legal safeguard.

iii) *Construction*. The lethargy shown by this activity in 1984 reflects the situation of recession in which the economy is still submerged. In 1984 no important public works or constructions were undertaken. The only projects in execution were the works on the Baradere-Jérémie highway and the construction of a bridge over the river Grande Rivière de Nippes. Similarly, private building permits did not vary much in relation to the preceding year.

⁴Under this system, the products coming from the member countries are able to enter the United States exempt from customs duties.

iv) *Electricity generation.* Financing difficulties meant that the second stage of the construction of the electrical network and substations in the areas near to Port-au-Prince could only be resumed towards the end of 1984, with a contribution of some US\$ 160 thousand from the French government. Thus the only activity of importance in this field was the termination, towards the end of October 1983, and starting up of the hydroelectric power station at Saut-Mathurine (departments of the Grand'Anse and of the South).⁵ As a result the generation of electricity increased by around 4% during 1984.

Table 6

HAITI: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Indexes (1976 = 100)								
Indexes of value added	146	124	131	129	-11.8	-3.7	5.6	-1.7
Foodstuffs	132	123	164	133	2.1	-8.5	32.7	-18.8
Beverages	143	136	129	141	-6.1	1.0	-4.6	9.0
Tobacco	152	133	129	126	-5.0	-7.5	-3.3	-2.3
Textiles, clothing and leather products	99	88	91	93	-6.9	-4.1	3.3	2.0
Chemicals	187	118	105	89	-45.1	14.8	-11.2	-15.0
Non-metallic minerals	110	94	101	99	0.1	-14.4	6.9	-1.8
Metalworking products	268	243	199	206	-14.2	5.5	-18.1	3.7
Miscellaneous	126	82	84	132	-23.8	-13.8	1.8	57.7
Thousands of tons								
Production of some important manufactures								
Flour	85	88	118	114	42.5	-26.8	33.9	-3.9
Sugar	54	50	49	43	-4.3	-2.3	-2.8	-12.2
Lard	3	3	3	3	-6.1	-9.7	7.1	6.7
Edible oil	19	17	13	8	29.6	-30.2	-25.7	-33.9
Carbonated beverages (millions of bottles)	74	62	73	72	-13.6	-2.2	16.8	-0.7
Beer (millions of bottles)	5	6	6	4	6.1	-0.4	8.2	-28.2
Cigarettes (millions of units)	1 064	965	932	938	-19.9	13.2	-3.4	0.6
Shoes (thousands of pairs)	795	588	519	528	-33.6	11.3	-11.7	1.7
Soap	13	13	13	14	-10.7	8.5	0.8	9.4
Detergents (tons)	579	586	692	936	-11.3	14.2	18.1	35.1
Toilet soap (tons)	253	376	469	470	2.0	45.7	24.7	0.2
Essential oils (tons)	242	234	286	206	-14.7	12.0	22.5	-27.9
Cement	243	206	225	230	-1.0	-14.4	9.0	2.5
Other indicators								
Commercial and industrial electricity consumption (millions of kWh)	156	153	149	162	-2.6	0.3	-2.1	8.4

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and of the Haitian Statistical Institute.

^a Preliminary figures.

⁵ This project, at an overall cost of US\$ 8 million, was jointly financed by the Haitian Government and the Federal Republic of Germany. It provides electricity for the populations of Cayes Marceline and Camp Perrin.

c) *Employment trends*

Between 1980 and 1983 employment levels fell and the situation of the labour market worsened as a result of the gradual fall in economic activity. According to official estimates the open unemployment rate amounted to 14% in 1982. The stagnation of production in the following year and especially the fall in agricultural activity aggravated the situation. In 1984, although economic activity in general improved slightly, only a few sectors were benefited. Agriculture was one of these and the subcontracting industry was another, which leads to the assumption that the employment situation has not improved much since 1982. In 1984 it was estimated that the number of unemployed had increased by 4 000 persons and that underemployment exceeded 50% of the active population.

The importance accorded to the Caribbean Basin Initiative agreement lies precisely in the need to create new sources of employment. The low qualifications of available labour is a factor hampering the increase in the levels of employment. It is thought that only 27% of the workers can read and that the percentage of employees with more schooling than the primary level is only 8%. A little under 2% of employed workers have had the opportunity of learning a trade, while —according to official information— less than 1% of the employed population obtains technical and professional training. This situation is more dramatic in the country than in the city, which makes it even worse. The solution of the employment problem entails a continuing task which is beyond the financial possibilities of the country.

3. The external sector

a) *Introduction*

During 1984 the behaviour of the external sector underlined the disequilibria now characteristic of the Haitian economy, whose openness to the exterior has been accentuated in recent years. Despite the instrumentation of measures aimed at improving the trade situation, the restrictions imposed on the foreign exchange market and on imports and the arrangements adopted to contain the expansion of external indebtedness, the rising trend of the trade deficit and that of the balance-of-payments current account could not be halted.

Although the improvement in world trade and reactivation of the North American economy contributed to the extraordinary rise in exports of goods and to the improvement in the terms of trade, there was on the other hand a notable increase in imports, mainly those of goods and services, which accentuated still further the trade imbalance. This, added to the increased interest payments on the external debt, caused the deficit on current account to rise from slightly over US\$ 160 million in 1983 to US\$ 190 million in the last year. Notwithstanding the increase in the external resources that entered the country, the net international reserves fell again for the fifth year running, although in a much lower proportion than in former years.

In general the attempts to relieve the situation of payments to the exterior did not succeed owing to the fact that the efforts made to improve the trade balance were not backed up by domestic production.

b) *Trade in goods and terms of trade*

Trade in goods achieved a marked increase of around 16%, more than doubling the growth of imports, which was slightly over 7%. Thus there was a slight fall in the negative balance on trade in goods, from US\$ 127 million to 120 million.

Exports of goods rose by 8% in terms of volume, which represented a slowdown in comparison with the two preceding years. Unit values, on their side, recorded an appreciable upturn (over 7%), which was fortunately complemented by the increment in volume.

The more moderate growth in imports of goods was determined in 1984 by a slight rise in the unit value (2%) and by an increase of 5% in the volume of goods imported. The manifest difference in the price rises of exports and imports caused an improvement of over 5% in the terms of trade which, coupled with the increase in the volume of goods exported, resulted in a notable recovery in the purchasing power of exports (see table 7).

i) *Exports.* The significant increase in exports of goods in 1984 derived from very uneven results in respect of products or groups of products. Among agricultural products (whose sales rose by close on 8%), sales of traditional exports fell by 7% owing to the fall in export volumes, while non-traditional products increased their exports by 29%. This rise is especially commendable in view of the fact that up to May exports of fruit and green vegetables to the United States were paralysed owing to that country's regulation prohibiting the import of such products which were not disinfected with specific pesticides.

The virtual stagnation of agricultural export production, coupled with a fall in supplies for the domestic market and the lack of stocks, prevented the country from exporting more of these goods and taking advantage of the marked upturn in their international prices. On the other hand, the increase in exports of manufactures, both from the free zone and the handicraft industry —33% and 13% respectively— counterbalanced the standstill in the sales of agricultural products (see table 8).

Among the traditional export products there was a major loss of relative weight in coffee, which nevertheless remains the principal product sold abroad. This product has not been able to recover from the drastic fall in 1981, even though since then the natural conditions have not been particularly unfavourable. Furthermore, the country failed to take advantage of the notable rise in coffee prices in 1984; the volume of coffee exported fell by 20% owing, among other causes, to the scant increase in output.

All the remaining exports of traditional agricultural products, albeit of little commercial importance compared with coffee, suffered even greater falls in the volumes exported. The international prices of some of these products also fell, with the result that there were marked declines in the values exported, as in the case of sugar. The drop to less than half in the price of this product, added to a diminution in volume of 30%, produced a fall of 70% in the value exported. In contrast, in the cases of cocoa and essential oils, price rises of around 50% compensated in part for the fall in the quantum exported, but nonetheless the value of sales fell by 2% and 27% respectively.

With regard to meat, this was a product which at the beginning of the decade gave some promise of export possibilities which were soon lost. As against the erratic trend of export agriculture, the promotion of certain food products has had encouraging results. Exports of green vegetables and legumes, for example, have gradually increased during recent years, achieving a growth of 29% in 1984.

Table 7

HAITI: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	-8.0	56.3	-30.3	15.5	6.8	15.9
Volume	-3.9	35.3	-25.5	14.4	11.4	7.9
Unit value	-4.2	15.5	-6.4	1.0	-4.1	7.4
Imports						
Value	6.0	45.0	12.3	-17.4	5.5	7.2
Volume	-5.0	27.3	8.8	-22.7	3.2	5.2
Unit value	11.6	13.9	3.2	6.9	2.2	1.9
Terms of trade	-14.2	1.4	-9.4	-5.5	-6.3	5.4
Indexes (1970 = 100)						
Purchasing power of exports	138.9	192.9	128.8	140.1	147.1	163.2
Volume of exports	141.5	191.5	142.6	163.2	181.7	196.1
Terms of trade	96.9	98.3	89.1	84.2	78.9	83.2

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 8

HAITI: EXPORTS OF GOODS, FOB

	1982	1983	1984	Percentage breakdown			Growth rates			
				1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Millions of dollars										
Total	177	187	215	100.0	100.0	100.0	-30.3	17.2	5.4	15.0
Agricultural products	76	103	110	51.9	60.1	51.4	-52.2	22.2	35.2	7.7
Coffee	36	52	54	22.8	42.1	25.1	-63.6	8.5	46.2	2.5
Cocoa	2	5	5	6.0	2.1	2.1	-24.4	-35.3	113.6	-2.1
Sugar	-	2	1	13.2 ^b	3.0	0.2	-	-	-	-70.6
Sisal	2	-	-	3.9	0.7	0.1	-68.1	273.9	-89.5	-
Essential oils	6	8	5	6.0	2.5	2.6	-9.3	16.3	35.1	-27.3
Meat	2	1	-	-	0.8	0.2	131.1	-58.2	-65.5	-40.0
Others	28	35	45	-	8.9	21.1	-3.1	13.3	23.2	29.3
Manufactured articles (free zone) ^c	48	47	63	22.3	25.3	29.3	0.2	-11.9	-2.1	32.8
Handicraft manufactures	36	37	42	14.7	9.8	19.3	2.8	64.5	3.1	12.5
The rest ^d	17	-	-	11.1	4.8	-	21.2	37.3	-	-
Thousands of tons										
Coffee	14.7	23.7	18.7				-45.6	8.1	61.2	-21.1
Cocoa	1.5	3.7	2.4				13.0	-42.3	146.7	-35.1
Sugar	-	7.1	5.0				-	-	-	-29.6
Sisal	2.5	0.3	0.3				-72.7	177.8	-88.0	-
Essential oils	0.2	0.4	0.2				-	-	100.0	-50.0
Meat	0.7	0.2	0.2				87.5	-53.3	-71.4	-
Manufactured articles (free zone)	14.0	13.6	16.8				-11.7	2.9	-2.9	23.5
Handicraft manufactures	5.2	5.2	6.0				-25.5	-25.7	-	15.4

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

^aPreliminary figures.^bIncluding molasses.^cNet values, and excluding imports of inputs and parts.^dIncluding cement and bauxite.

As an immediate effect of the recovery of the North American market, export manufactures under the free zone régime made an appreciable recovery (33%), which was particularly noticeable among the products manufactured by the assembly enterprises operating in the country. The unit value of these exports rose by around 8%, and the volume exported by close on 24%, there being substantial increases in the sales of clothing and electrical transformers and switches, reaching 36% and 73% during 1984.

At the same time articles manufactured with local raw materials and destined for the North American market went up in value by around 13%, owing to the increase in volume (15%), since the unit value of these products fell slightly (-3%). Outstanding among these exports were articles of leather and wood, and also of typical handicrafts which increased by 28, 13 and 12% respectively.

It should be stressed that there is a need for an external trade policy which will co-ordinate and stimulate the national production of agricultural and manufactured products and their sale to external markets. Despite the expressed intentions of the authorities to support and foster the expansion of exports during 1984, the performance of the latter remained largely subject to the vicissitudes of the international market.

ii) *Imports.* Imports of goods increased by around 7% in 1984, a rate exceeding that of the previous year.⁶ The volume of imports of goods grew by slightly over 5%, while the unit value

⁶This information, which is taken from the balance of payments, does not coincide with that given in table 9, which refers to values CIF.

increased by almost 2%. The importers ran into increasing difficulties in the course of the year owing to the increased cost of foreign currency in the parallel market, in which the prices were over 15% higher than the official exchange rate. The rise in the exchange rate was due to difficulties arising in June with the IMF in the disbursement of the promised funds. Imports fell to a minimum in the last quarter of the year (see table 9).

Lastly it should be noted that the volume of imports of foodstuffs for basic consumption remained practically stationary, whereas their prices increased by close on 7%.⁷

c) *Trade in services and factor payments*

The negative balance on trade in real services increased by 44% during 1984, which was a factor in the rise of the deficit on the trade in goods and services from US\$ 195 million to 218 million (see table 10).

Revenues from transport and insurance showed little variation and those deriving from travel fell by around US\$ 17 million owing to the fall in the number of visitors to the country and probably to a reduction on average in their length of stay and expenditure. In contrast, the greater outflow of foreign exchange for these services, some US\$ 15 million more than in 1983, was entirely due to the greater expenditure on transport and insurance; expenditure on travel abroad showed little increase. To the restrictions that had to be adopted through the shortage of foreign exchange were added higher charges on imports and travel. Nonetheless, these constraints did not succeed in reducing these outlays, which continued high.

At the same time, interest payments more than doubled in 1984, reaching an amount of US\$ 16 million. This movement was partly offset by a marked reduction in remittances of profits.

Transfers received from Haitians living abroad amount to a considerable sum, equivalent to 15% of the income from exports of goods and services. Even so, in the last three years this item has gradually declined.

Table 9

HAITI: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	399	455	490	100.0	100.0	100.0	26.0	-13.6	14.0	7.7
Foodstuffs, beverages and tobacco	73	82	89	23.1	16.9	18.1	32.4	-11.1	12.9	7.9
Hydrocarbons	58	71	77	9.1	16.7	15.7	11.2	-15.5	23.8	7.8
Oils and fats	16	31	34	5.5	7.0	6.9	7.0	-40.2	90.5	7.6
Chemicals products	36	40	43	8.4	8.4	8.8	14.4	2.3	10.9	8.2
Manufactured articles ^b	72	86		16.3	20.7		9.5	-13.8	19.6	
Machinery and transport equipment	89	86	223	19.8	17.4	45.4	64.8	-15.6	-3.9	7.8
Miscellaneous manufactured articles ^c	38	35		14.0	8.2		36.8	-7.9	-7.4	
Others ^d	17	24	24	3.8	4.7	5.1	13.9	-9.1	34.4	4.7

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic Haiti.

^aPreliminary figures.

^bIncluding manufactures of textiles, leather, rubber, wood, paper and metallic and non-metallic mineral product.

^cIncluding articles of clothing, footwear, travel goods, furniture, professional instruments and sanitary and electro-domestic articles.

^dIncluding non-edible raw materials

⁷In the middle of June the agreement PL480 (Title I) with the United States Government was renewed in the amount of US\$ 11 million, which made possible the purchase of wheat, flour and vegetable oil.

Table 10

HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-84	-97	-140	-225	-160	-163	-191
Trade balance	-98	-117	-178	-277	-195	-195	-218
Exports of goods and services	211	213	306	240	270	288	303
Goods FOB	150	138	216	150	174	186	215
Real services ^b	61	75	90	90	96	103	88
Transport and insurance	2	3	6	7	7	7	8
Travel	53	65	76	75	80	85	68
Imports of goods and services	309	330	484	517	465	483	521
Goods FOB	207	220	319	358	296	313	335
Real services ^b	102	110	165	159	169	171	186
Transport and insurance	49	48	83	89	77	86	95
Travel	28	33	41	31	41	39	40
Factor services	-15	-13	-14	-13	-14	-14	-18
Profits	-9	-7	-8	-7	-8	-8	-2
Interest received	-	-	1	1	1	1	-
Interest paid	-6	-7	-6	-6	-6	-7	-16
Unrequited private transfer payments	29	34	52	64	49	46	45
Balance on capital account	98	105	111	168	115	130	177
Unrequited official transfer payments	39	42	37	74	61	64	78
Long-term capital	50	59	67	93	43	53	63
Direct investment	10	12	13	8	7	15	5
Other long-term capital	40	47	54	85	36	38	58
Official sector ^c	34	40	52	28	33	32	58
Loans received	26	29	47	32	38	35	84
Amortization payments	-	-3	-2	-4	-5	-3	-26
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	6	8	3	57	4	6	-
Loans received	6	11	10	61	8	12	17
Amortization payments	-	-4	-7	-4	-5	-7	-17
Short-term capital (net)	-4	-1	-1	-6	-8	-6	...
Official sector	-	1	2	-	-	-	...
Commercial banks	-1	-2	-3	-6	-8	-6	...
Other sectors	-	-	-	-	-	-	...
Error and omissions	12	5	8	7	19	19	36
Global balance ^d	14	8	-29	-57	-45	-33	-14
Total variation in reserves							
(- sign indicates an increase)	-6	-24	26	50	3	24	14
Monetary gold	-	-5	-4	2	1	-	-
Special Drawing Rights	-3	-2	4	3	-	-	1
IMF reserve position	-3	-3	6	-	-	-	-
Foreign exchange assets	-	-11	22	15	-16	-5	...
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	-	-2	-3	30	18	28	19

Source: 1978-1983: International Monetary Fund; *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official figures.^aPreliminary figures. ^bIncluding other non-factor services. ^cIncludes net loans granted and other assets and liabilities.^dEquivalent to the total variation in reserves (of opposite sign) plus the counterpart entries for monetization or demonetization of gold, allocation or cancellation of SDR and variations through revaluation of other reserves.d) *The current account position and its financing*

The now chronic deficit on the current account rose in 1984 to US\$ 191 million, 28 million more than in 1983, despite the efforts made to reduce it. This rise was mainly due to the greater deficit on the trade balance, US\$ 23 million more than in the preceding year. Despite the marked increase in interest payments, the net payment of profits and interest increased by only US\$ 4 million during 1984 (see table 11).

In the meantime there was a net inflow of capital in the amount of US\$ 177 million, higher than that in 1983 but lower than the deficit on the current account, so that the international reserves suffered a further fall, this time amounting to US\$ 14 million; in the last five years there has been a loss in reserves of US\$ 117 million. The entry of capital consisted mainly of a greater inflow of grants and long- and short-term loans. Official transfers grew by US\$ 14 million, the main contribution being US\$ 45 million from the United States Government, which constituted the largest amount of aid from that source granted to the country in a single year. Additionally, net long-term loans went up by US\$ 20 million and short-term loans by around 17 million. Even so, the amount of direct investment fell to a third.

The inflow of new resources increased by around US\$ 30 million during the year, but this time it was reduced by more than 40% through amortization payments.

e) *External indebtedness*

At the end of 1984, the external public debt amounted to US\$ 607 million, which was double the value of exports of goods and services during the year. Nevertheless, its increase was considerably lower than it had been in 1983. Amortization and interest payments accounted for the outflow of US\$ 36 million, that is, 57% more than in 1983 and already in that year these payments had increased by 35%. In other words, in the last two years the amount of the servicing of the external public debt and in particular that of amortization payments more than doubled; interest payments, on the other hand, fell in 1984 as a result of the improved terms of negotiation. The ratio between servicing of the public debt and exports of goods and services rose from 6% in 1982 to 12% in 1984 (see table 11).

According to balance-of-payments data, interest on the total external debt paid in 1984 amounted to US\$ 16 million, more than double the amount paid in 1983 (see table 10).

In October 1983 a new agreement was signed with the IMF in respect of a stand-by loan of 60 million in Special Drawing Rights, for a period of two years and subject to a strict control of government expenditure.

Table 11

HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS^a

	1979	1980	1981	1982	1983	1984 ^b
Millions of dollars						
Public external debt disbursed						
Balances	248	290	372	410	551	607
Government	183	223	248	282	402	454
Public enterprises	65	67	124	128	149	153
Disbursements	46	52	93	48	47	83
Servicing	11	15	16	17	23	36
Amortization payments	7	10	11	10	12	27
Interest payments	4	5	5	7	11	9
Percentages						
Ratios						
Public external debt/exports of goods and services	116.5	94.9	154.3	150.2	198.9	201.4
Servicing/exports of goods and services	5.1	4.9	6.8	6.0	8.3	11.9
Net interest payments ^c /exports of goods and services	3.0	1.9	2.4	1.8	2.2	5.3
Servicing/disbursements	23.8	29.0	17.6	34.4	48.6	43.2

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

^a Amount of the external debt disbursed at 30 September of each year and for a period of over a year.

^b Preliminary figures. ^c Refers to interest on the global debt.

Table 12

HAITI: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984 ^a
Variation from September to September						
Consumer price index	18.6	9.5	4.7	6.2	12.2	6.1
Food	26.4	13.9	6.7	1.6	13.4	5.8
Variation between annual averages						
Consumer price index	9.7	18.1	7.6	9.0	8.8	8.0
Food	9.9	26.7	9.4	4.7	7.2	8.5

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and the Haitian Statistical Institute.

^a Preliminary figures.

In February 1984, the government disbursed 7 million in Special Drawing Rights to meet the costs of the municipal elections, and at the end of April another 14 million were disbursed. Exceptional costs attributable to this largely political process caused a substantial increase (77%) in the disbursements made during the first three quarters of the year. Some argument on the justification and destination of these funds caused the IMF to suspend the payment of the rest of the loan agreed, so that in the last months of the year there was an absolute lack of new resources, which had an impact on domestic activity.

4. Prices and wages

For the second year running the growth rate of consumer prices slackened, measured between annual averages. From September 1983 to September 1984, however, the rate of price increases fell to half, from 12% to only 6%. The important food component of the price index increased by very similar percentages (see table 12).

Only the stagnation of per capita real income and the contraction of per capita private consumption, associated with a fall in the purchasing power of wages, would explain the weakening of the gross rate of domestic prices. Other occurrences during the year, such as the rapid growth of government expenditure (32%), which raised the fiscal deficit and created a domestic financing which more than trebled that of 1983; the sufficiency of liquidity in the economy, the means of payment which rose by 18%, and the higher prices of imported goods, etc., were factors which led to a rise in the rates of inflation.

The minimum industrial wage did not vary during 1984, which meant that in real terms it declined by somewhat more than 7%. Since 1980 it has lost 13% of its purchasing power (see table 13).

Since January 1982, when the minimum day wage was fixed at 13.20 gourdes (approximately 2.65 dollars), which implied an increase of somewhat more than 4% over that which had been in force since July 1981, there has been no modification in this wage. It should be noted that the readjustment of this minimum wage only applies to industrial enterprises, and although it serves as a frame of reference for the salaries of public officials which range between this amount and 20% above, it is not an indicator of wide coverage when one considers that more than two thirds of the employed population work in the rural area.

The period during which the minimum wage was frozen coincided with the incorporation of Haiti in the discussions of the Caribbean Basin Initiative; the low cost of labour may be an attractive factor for foreign investment. The decline in real wages, the impoverishment of workers in general and the failure to satisfy the minimum needs of a large part of the population weigh heavily on the development of the national economy.

5. Monetary and fiscal policies

a) *Monetary policy*

The impact on the monetary sphere of the renegotiation of the private debt and the inflow of external loans from foreign commercial banks was of an expansive nature, although there still persisted during 1984 the restrictions deriving from the position of international reserves and of the credit granted to the public administration and institutions. The monetary programme adopted at the beginning of the year aimed at strengthening the international liquidity of the Central Bank and of the system in general, an objective which was fulfilled during the first half of the year thanks to the strict control over the foreign-currency reserves, the balance of which increased by 22 million

Table 13

HAITI: EVOLUTION OF WAGES AND SALARIES

	1980	1981	1982	1983	1984
Gourdes					
Minimum daily wage ^a	11.00	11.40	13.00	13.20	13.20
Indexes (1980 = 100)					
Wage ^a					
Nominal	100.0	103.6	118.2	120.0	120.0
Real ^b	100.0	96.3	100.8	94.0	87.1
Growth rates					
Wage ^a					
Nominal	37.6	3.6	14.1	1.5	-
Real ^b	16.6	-3.7	4.7	-6.7	-7.3

Source: ECLAC, on the basis of figures supplied by the Haitian Statistical Institute.

^aRefers to the minimum day wage paid in industrial enterprises.

^bDeflated with the consumer price index.

Table 14

HAITI: MONETARY INDICATORS

	September balances (millions of gourdes)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Monetary base	943	1 112	1 018	1 368	21.6	17.9	-8.4	34.3
Money (M ₁)	827	949	932	1 099	21.3	14.9	-1.8	17.9
Quasi-money	998	1 078	1 166	1 253	7.5	8.0	8.1	7.4
Money plus quasi-money (M ₂)	1 825	2 027	2 098	2 352	13.3	11.1	3.5	12.1
Domestic credit ^b	2 500	2 763	3 214	3 634	19.6	10.5	16.3	13.1
To the public sector	1 314	1 586	2 093	2 413	27.2	20.7	32.0	15.3
Central government (net)	1 085	1 299	1 911	2 228	41.2	19.8	47.1	16.6
Public institutions	229	287	182	185	-13.6	25.2	-36.4	1.4
To the private sector	1 186	1 177	1 121	1 221	12.2	-0.8	-4.8	9.0
Coefficients								
Monetary multipliers								
M ₁ /monetary base	0.88	0.85	0.92	0.80				
M ₂ /monetary base	2.08	1.94	2.06	1.72				
Velocity of circulation								
GDP/M ₁	8.88	7.77	8.75	8.28				

Source: ECLAC, on the basis of figures supplied by the Bank of Republic of Haiti.

^aPreliminary figures.

^bExcluding interbank operations.

Table 15

HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of gourdes				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Current income	661	763	846	914	14.0	-4.4	15.5	10.8	8.0
Tax income	645	710	831	897	27.3	2.9	10.2	17.1	7.9
Direct	116	136	128	141	7.2	32.5	17.0	-5.2	10.0
Indirect	250	321	408	509		40.6	28.6	27.1	24.5
On external trade	279	253	295	247	48.0	-22.7	-9.0	16.2	-16.0
Current expenditure	797	817	807	909	47.7	32.7	2.5	-1.3	12.6
Wages and salaries	355	402	418	491	...	7.5	13.2	4.0	17.6
Purchase of goods and services	123	78	62	87	...	...	-36.5	-20.4	39.7
Other expenditure	319	337	327	331	...	...	5.7	-3.1	1.1
Current saving	-136	-54	39	5					
Capital expenditure	528	486	511	828	-4.2	12.4	-7.9	5.1	62.1
Real investment	365	173	105	150	...	127.4	-52.5	-39.3	43.1
Other expenditure ^b	163	313	406	678	...	-47.3	91.9	29.7	67.0
Total expenditure	1 325	1 303	1 318	1 737	19.3	23.8	-1.6	1.1	31.8
Fiscal deficit	-664	-540	-472	-823	-30.2	75.1	-18.7	-12.6	74.5
Financing of deficit									
Net domestic financing	290	70	33	404	...	225.8	-75.8	-52.6	1 118.1
Credit received ^c	341	209	126	413	52.7	99.1	-38.7	-39.7	227.9
(-) Amortization	-51	-139	-93	-9	-28.7	-37.7	171.2	-33.3	-90.6
Net external financing	49	124	92	28	25.3	-54.1	151.6	-25.7	-70.0
Credit received ^c	106	172	151	162	29.9	-32.6	62.8	-12.4	7.6
(-) Amortization	-57	-48	-59	-134	41	13.9	-14.7	21.6	129.6
Donations	325	346	347	391	-12.0	77.6	6.5	0.1	12.8
Percentages									
Ratios									
Current saving/capital expenditure	(25.8)	(11.0)	7.7	0.6					
Fiscal deficit/total expenditure	50.1	41.4	35.8	47.4					
Tax revenues/GDP	8.8	9.6	10.2	9.9					
Total expenditure/GDP	18.0	17.7	16.2	19.1					
Fiscal deficit/GDP	9.0	7.3	5.8	9.0					
Domestic financing/deficit	43.6	13.0	7.0	49.1					
External financing/deficit	7.4	22.9	19.5	3.4					

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bIncluding capital transfers.^cIncluding placement of securities.

gourdes. The substantial resources which entered the country as a result of the bilateral co-operation agreements signed with France and the Federal Republic of Germany helped to strengthen these reserves. Nonetheless, in the second half of the year the overspill of public expenditure and the imbalance of the external sector redounded in a fall of 68 million gourdes in the international monetary reserves.

Despite the appreciable growth of money in public hands, the monetary multiplier contracted in relation to the preceding year owing to the marked increase in the monetary base (34%), which reversed the decline in this variable recorded in 1983. The expansion of the monetary base was influenced by the change in the reserve position of the commercial banks, which from a negative balance of 10 million gourdes at the beginning of 1984 rose to a positive balance of 228 million at the end of the year (see table 14).

The growth of the money supply was due more to the expansion of deposits on current account than to the increase in money in public hands. The former, amounting to 18%, easily exceeded the increase in the gross domestic product at current prices. This phenomenon was due to the recovery of current deposits in the commercial banks and to the issue of circulating money to the amount of 20 million gourdes at the beginning of the period. The evolution of savings and time deposits went along with this trend with a moderate increase of slightly over 7% in nominal values, probably owing to the stability of the interest rates.

Hence the factors of monetary expansion rose by slightly less than 12%, since, although domestic credit grew by 13%, net international reserves diminished. Public administration received a substantial part of the expansion of domestic credit, so that it was able to finance a major portion of its substantial deficit. Credit granted to the public enterprises remained virtually static, while that conceded to the private sector rose by 9%.

The exchange rate of the dollar remained unchanged during the year. The price of this currency in the parallel market, however, varied between 17% and 20% above the official rate.

Table 16

HAITI: CENTRAL GOVERNMENT CURRENT EXPENDITURE

	Millions of gourdes				Growth rates		
	1981	1982	1983	1984 ^a	1982	1983	1984 ^a
Total current expenditure^b	797	817	807	909	2.5	-1.3	12.6
Administrative functions^b	544	528	537	579	-3.0	1.8	7.8
Ministry of the Interior and Armed Forces	104	102	103	129	-2.6	1.5	25.2
Ministry of Economic and Finance	93	83	85	98	-9.9	2.2	14.8
Services to productive sectors	87	85	79	121	-1.5	-7.9	52.9
Agriculture	32	29	28	31	-7.9	-4.1	12.9
Public works	38	36	32	69	-3.4	-12.9	116.1
Social services	166	204	191	209	22.7	-6.3	9.6
Public education	78	86	87	93	9.7	1.6	7.0
Public health	61	93	82	90	52.8	-12.6	10.4
Wages and salaries	355	402	418	491	13.2	4.0	17.6
Administrative functions	162	168	183	216	4.3	8.6	17.9
Ministry of the Interior and Armed Forces	62	66	69	74	6.3	3.9	8.5
Ministry of Economy and Finance	43	42	45	53	-3.9	7.4	19.0
Services to productive sectors	64	68	67	96	5.3	-0.3	42.9
Agriculture	26	26	27	29	-1.2	4.3	9.0
Public works	25	26	25	51	3.6	-5.0	105.3
Social services	129	166	168	179	28.3	1.1	7.2
Public education	72	79	81	84	10.5	3.0	3.4
Public health	40	69	71	78	72.1	3.1	10.2
Other operational expenditure^c	189	167	133	188	-12.1	-19.9	41.1
Administrative functions	129	110	98	133	-15.0	-10.9	35.8
Ministry of the Interior and Armed Forces	42	36	35	55	-15.2	-2.8	57.6
Ministry of Economy and Finance	49	42	40	44	-15.3	-3.1	9.9
Services to productive sectors	23	18	12	25	-20.7	-36.5	111.3
Agriculture	6	4	1	2	-39.1	-64.1	90.0
Public works	13	11	7	18	-17.6	-32.1	154.0
Social services	37	39	23	30	3.2	-38.4	27.1
Public education	7	7	6	9	1.0	-14.2	56.1
Public health	21	25	11	12	16.6	-56.3	12.8

Source: ECLAC, on the basis of figures supplied by the Treasury.

^a Preliminary figures. ^b Including operational costs of the Caja Central de Amortizaciones (Central Amortization Fund - CCA).

^c Excluding operational costs of the CCA, but including quotas and subsidies to the ministries.

b) *Fiscal policy*

The strict fiscal policy followed in the years 1982 and 1983, which succeeded in containing government expenditure and reducing the high fiscal deficit by 30%, eased surprisingly in 1984. In fact, in this year total expenditure increased by 32% and income by only 8%, so that the fiscal deficit rose from 470 million gourdes in 1983 to 820 million in 1984. The ratio deficit/gross domestic product, which had been reduced from 9% in 1981 to 5.8% in 1983, rose once again to 9% in 1984 (see table 15).

Tax revenues recorded an increase of only 8%, showing practically no variation in real terms. This was due to a fall of 16% in the collection of charges on external trade, mainly attributable to the abolition of the 10% tax on coffee exports. It should be noted that the elimination of this tax forms part of the policy designed to encourage exports. In contrast, income deriving from direct taxes increased by 10%. In addition, the continuity and strict application of the reforms on indirect taxes, especially the sales tax,^a was reflected in a growth of almost 25% during 1984, which constituted the main source of current income for the government.

The rapid increase in current expenditure was caused for the most part by the increased expenditure on wages (almost 18%, mainly because of the doubling of the outlays for the hiring of labour for public works) and, to a lesser degree (19%), by the cost of the restructuring of the Ministry of Economy and Finance.

The remaining operating costs rose by 41%. The most important of these were the payments destined for the Ministry of the Interior and the Armed Forces; expenditure on public works, agriculture and public education also rose more than in previous years (see table 16).

The upturn observed in government disbursements was particularly noticeable in capital expenditure, which increased by 62%, being forced up by the sharp rise in transfers and other costs. Real investment, which rose in lesser proportion (43%), was the factor which suffered the greatest constraints in 1982-1983 while the financial adjustment programme was in force. In 1984 the government assumed the counterpart of some infrastructure projects, such as drainage works in the capital, the repair of the airport and the building of ports and access bridges, together with research projects for the improvement of crops, which began with the co-operation and assistance of the German and French governments. National credit covered 31% of the expenses incurred in the public investment programme.

It should be mentioned once again that in May 1984 the disbursements of the stand-by loan granted by the International Monetary Fund were suspended because some of the terms of the agreement were not being fulfilled, in particular those relating to the restriction of public expenditure and the reduction of the deficit. This situation hampered the financing of the substantial fiscal imbalance, almost half of which had to be met from domestic resources. The other half of the deficit was financed almost entirely by donations and to a very small extent by external credit. The share of this last was very much reduced by the large amount of amortization payments (see table 15).

^aIn November 1982 the sales tax was established, with a uniform rate of 7% for all products, which was to be raised to 10% in October 1984.

HONDURAS

1. Recent economic trends: Introduction and summary

In 1984 the gross domestic product of Honduras increased by approximately 3% after an accumulated drop of slightly more than 2% in the previous biennium. Nevertheless, the per capita product again declined, falling to its lowest level of recent years. The already high level of unemployment continued to rise, financial disequilibria —both external and fiscal— deepened and private investment fell for the fourth year in a row, with the resulting harmful effects on the productive apparatus. The modest improvement in product seems to have been of a conjunctural nature, and did not set off a period of marked recovery (see table 1).

Meanwhile the gross national income recorded a slightly lower increase than that of the gross domestic product —after having fallen by more than 5% in the 1981-1983 triennium— as a result of a revival of interest payments and remittance of profits abroad (see table 2 and figure 1).

On the demand side, the main factors which spurred economic activity were exports of goods and services and public investment.

Exports of the former increased by 6.5%, sustained by the higher international prices of some traditional export products, principally coffee, and by a slight increase in the volume exported. The purchasing power of exports grew as a result of a slight (1%) improvement in the terms of trade and the increase in the volume exported. Import capacity consequently grew. Potential for revival was nevertheless somewhat hampered, as the greater facilities offered to imports led to a pronounced increase in purchases of non-durable consumer goods abroad.

As a result of the culmination of a number of major projects —including the "El Cajón" hydroelectric plant, the Puerto Castilla project on the Atlantic coast, and the purchase of equipment for the Bonito Oriental forestry complex in Olancho— public investment came to represent 15% of the product.

In addition, the almost doubling of transfers and the considerable increase of official loans helped to foment economic revival, in particular through increased public spending.

As regards supply, agricultural activity grew slightly (3%), as a result of the revival of the production of bananas and other products, both for domestic consumption and export. Nonetheless, growth of the latter lagged behind population growth, and had unfavourable repercussions on the nutritional levels.

The slight (2%) revival in industrial activity, following upon the considerable drop of recent years, was in response to the increased requirements of construction, the growth of non-traditional external sales and the expansion of credit available for the sector. It was also favourably influenced by the ease with which import permits were obtained and the possibility of resorting to "self-financing" for external purchases.¹ Nevertheless the use made of industrial installed capacity remained at a low level.

Mining activity experienced a high level of growth owing to the expansion of installed capacity which had taken place several years previously and to the fiscal incentives introduced in 1982.

Elsewhere, a number of adverse factors which had appeared in the past remained active in 1984.

First of all, the negative trend in private investment, which had started in 1981, persisted, as a result of the contraction of domestic and external demand, the harsh restrictions affecting external finance, the growing production costs and the climate of uncertainty hinging on non-economic factors, in particular the deterioration of the country's relations with neighbouring Nicaragua.

Although investments and diversification of exports were stimulated within the context of the Caribbean Basin Initiative, in 1984 no appreciable risk-capital inflows or new national investments

¹ This concerns imports which are made with foreign currency from outside the national banking system.

were recorded. On the contrary, in recent years there has been a trend among firms set up by external capital to finance their activities by resorting to domestic saving, *inter alia*, as a means of shielding themselves against possible currency devaluations.

Private consumption, moreover, though remaining virtually constant at the overall level, fell in per capita terms, with the resulting harmful effects upon the population's well-being. Those most affected seem to have been the urban wage workers, as the contractive policy led to a new decline in real earnings. Nonetheless, basic consumption and above all food consumption were less affected as a result of a normal supply of grain.

Finally the country's links with the subregion remained precarious. National exports encountered new obstacles, as a result of the expiry of some bilateral trade treaties, problems in the multilateral system of payments, the loss of competitiveness of Honduran products and a variety of measures adopted by the neighbouring countries.

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^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	1 301	1 337
Population (millions of inhabitants)	3.44	3.56	3.69	3.82	3.96	4.09	4.23
Per capita gross domestic product (1970 dollars)	349	359	356	348	331	318	316
Growth rates							
B. Short-run economic indicators							
Gross domestic product	7.4	6.8	2.7	1.2	-1.8	-0.5	2.8
Per capita gross domestic product	3.6	3.1	-0.8	-2.3	-5.1	-3.8	-0.6
Per capita national income	2.8	0.4	-0.5	-5.0	-7.1	-3.5	-1.1
Rate of unemployment ^b	...	...	15.2	18.3	21.1	22.9	23.9
Consumer prices							
December to December	5.3	22.5	11.5	9.2	9.4	8.6	3.2
Variation between annual averages	5.7	12.1	18.1	9.4	9.4	8.9	4.8
Real minimum wages							
Agriculture	-5.4	34.0	0.7	17.1	2.7	-8.2	-4.6
Manufacturing	-5.4	11.5	-8.3	5.1	-1.0	-8.2	-4.6
Money	13.6	14.9	10.8	4.4	10.7	14.3	4.1
Current income of government	7.8	16.7	20.1	-2.3	3.9	1.1	21.9
Total government expenditure	22.4	8.3	38.7	-	26.1	-3.1	22.6
Fiscal deficit/total government expenditure ^b	38.3	30.7	40.0	41.4	51.7	49.6	49.9
Fiscal deficit/gross domestic product ^b	8.5	6.4	10.2	9.9	14.8	13.0	14.8
Current value of exports of goods and services							
	18.4	22.0	12.3	9.2	-9.4	13.1	6.5
Current value of imports of goods and services							
	18.6	19.8	21.1	-5.8	-22.4	11.4	10.6
Terms of trade (goods and services)	-0.5	-8.2	2.7	-12.0	-3.8	-4.5	0.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-89	-92	-185	-177	-56	-120	-139
Net payment of profits and interest	-85	-120	-153	-153	-202	-149	-184
Balance on current account	-170	-205	-331	-321	-249	-260	-311
Balance on capital account	180	225	253	249	203	213	301
Variation in net international reserves	10	25	-73	-69	-53	-39	-10
Total external debt	971	1 180	1 510	1 708	1 842	2 017	2 260

Source: ECLAC, on the basis of official data.

^a Preliminary figures. ^b Percentages.

Table 2

HONDURAS: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	1 256	1 210	1 206	1 234	-1.6	-3.7	-0.3	2.3
a) Gross domestic product	1 331	1 307	1 301	1 337	1.2	-1.8	-0.5	2.8
b) Terms-of-trade effect	-27	-34	-49	-50				
c) Net factor payments to the exterior	51	66	49	57	-6.3	30.5	-25.9	17.4
d) Net private transfers received from the exterior	3	3	3	4	7.4	-	10.3	15.6

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

In spite of the readjustment policy applied by the government, the deepening of the disequilibrium in public finances could already be foreseen at the beginning of the year. In May, therefore, the government obtained approval from the National Congress for tax measures to increase the central government's current income.² The counterpart of these measures was an increase in budgeted expenditure, in particular on defence and security, education and public health and debt servicing.

Both labour and business sectors reacted unfavourably to these measures, and requested their review, as they considered that they would have adverse effects on prices (by increasing costs) and on earnings, at the expense of productive activity. Consequently, the law was altered in August to restore tax and other exemptions contained in previous laws, with a view to developing specific activities. In November some other taxes were increased.³

Fiscal policy decisions had a favourable effect upon current central government income, which rose substantially (22%). In spite of these and the attempt to reduce public spending, the fiscal deficit increased as a result of greater expenditure on the items already mentioned, although it remained constant around the equivalent of 15% of the gross domestic product.

In contrast to previous years, deficit financing was mainly covered by medium-term external credit. This reduced the pressure on domestic finance, but considerably increased the public debt, which was already high. More than 43% of foreign currency earned by exports of goods and services had to be employed in servicing the external debt.

The other marked financial imbalance concerned the external sector. It was apparent in the persistent deficits on the trade and balance-of-payments current account, as well as in the successive losses of international monetary reserves. As from 1982 the government adopted an import control policy, along with a number of complementary monetary and fiscal measures, to deal with these maladjustments. It received financial backing from the International Monetary Fund until August 1983, when negotiations began over a new programme on which no agreement was reached, chiefly because of fiscal and exchange discrepancies. Preservation of the lempira exchange rate remained one of the main goals of economic policy in 1984.

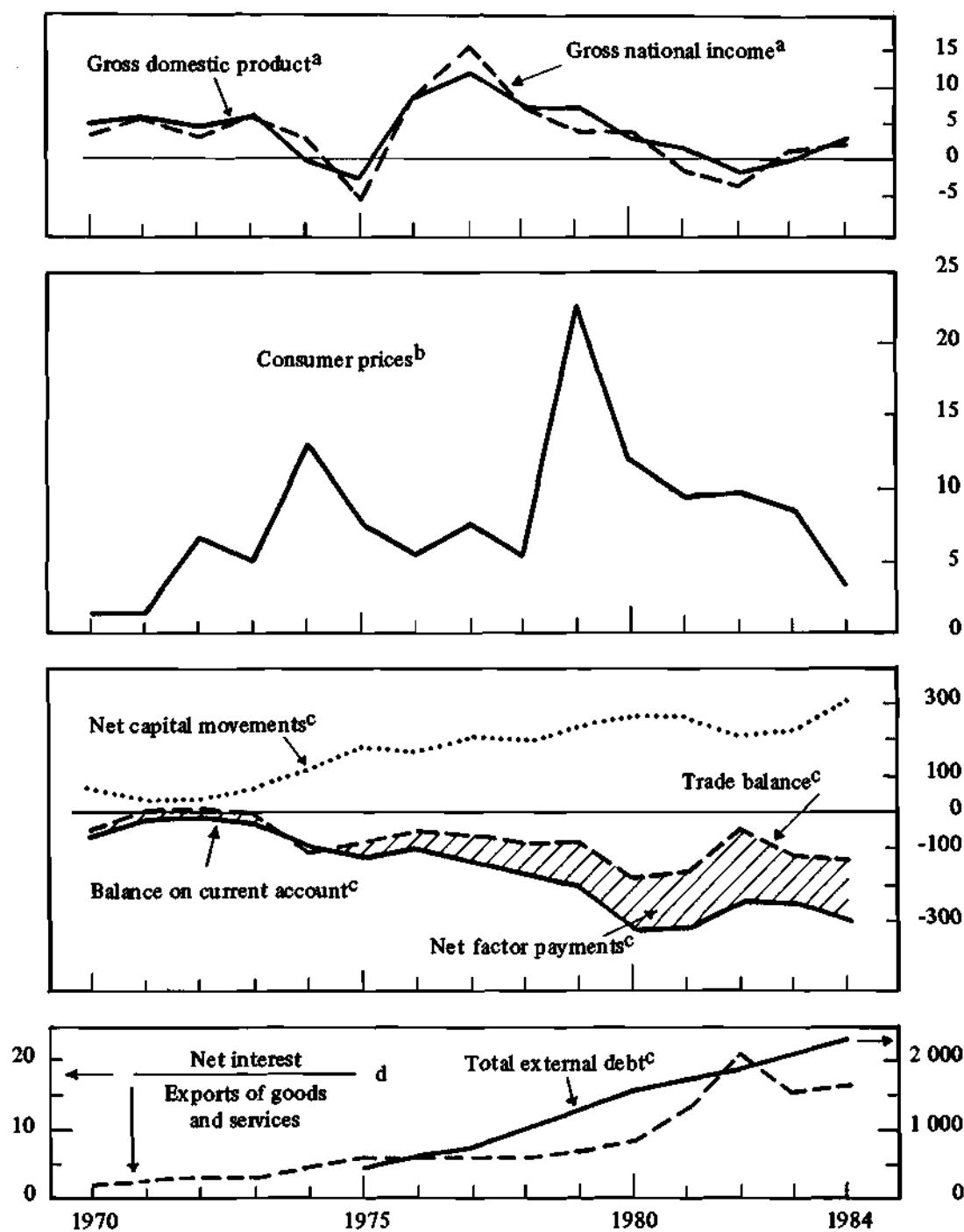
With a view to promoting an increase and diversification of exports the government made adjustments to the law on the subject and approved norms for the development of the subcontracting industry. It also made efforts to keep in force its bilateral trade treaties with the other Central American countries, although in the case of Guatemala it finally failed to renew the agreement which expired in April.

In addition controls on imports were eased by the granting of permission to finance them with foreign currency from the domestic non-banking system (self-financing). Work continued on the

² See the Law for the Financial Adjustment of the Public Sector of May (Decree 85-84) and the modifications approved in August (Decree 136-84).

³ Decree No. 204-84 raised the rates of taxes on the production and consumption of beer and alcoholic beverages.

Figure 1
HONDURAS: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation, December to December.

^cMillions of dollars.

^dPercentages.

definition of a new schedule of customs duties, and the country participated as an observer in meetings at which the Central American Tariffs and Customs Agreement was discussed.

As regards external finance, the government reached an agreement in principle with the Coordinating Committee of International Private Banks concerning the renegotiation of some US\$ 220 million —approximately 10% of the country's total external debt— which essentially include payments due on debt contracted by decentralized institutions in the public sector and credits guaranteed by the State. The amortization period agreed upon was eleven years, with a three-year period of grace. The rates of interest were $1\frac{7}{8}$ above LIBOR until 1986 and $1\frac{1}{2}$ above LIBOR for the rest of the period.

Nonetheless, the external imbalance persisted. The value of exports of goods and services showed considerable growth, but this proved insufficient to finance imports, leading to an increase in the trade deficit, which thus reached US\$ 140 million. If increased factor payments, essentially made up of interest, are added to this, a current account deficit of over US\$ 310 million is reached, almost 20% higher than in 1983. This gap had to be financed mainly by official long-term loans and grants. Nevertheless, capital inflow failed to make up for the current account deficit, which led to a further decline in international reserves (US\$ 10 million).

Moreover, a variety of problems in external relations persisted throughout the year. The apparent overvaluation of the lempira in relation to the currencies of the country's principal trade partners —including the Central American countries— continued, resulting in a loss of competitiveness in exports and the encouragement of external purchases. In spite of the measures adopted to facilitate imports, approval of a significant number of permits remained pending ("trapped"). Finally, a parallel exchange market remained in operation.

Monetary policy was aimed at reducing the financing disequilibria, maintaining control over liquidity, and stimulating production by means of preferential interest rates and *ad hoc* lines of credit for industrial revival and development. The application of the monetary policy was to a certain extent facilitated by the falling off of inflationary trends, apparently as a result of the combination of a low rate of international inflation, the stability of the lempira, the drop in interest rates for some activities, a relatively adequate supply of grains and an excess of demand, which was covered by imports.

Notwithstanding the increased economic activity, unemployment rose and some signs of social unrest appeared. Domestic political tension was reduced, but relations with Nicaragua and the military exercises carried out jointly by North American and Honduran forces sparked off new disagreements.

To sum up, the Honduran economy was marked in 1984 by a moderate yet precarious improvement in its activity, which was apparent in the increase in product, greater external purchases and a high level of public investment, as well as in the fall in the rate of inflation. Nonetheless, the main financial imbalances of recent years, such as the fiscal and balance-of-payments disequilibria, persisted, and even worsened. The high levels of unemployment continued and real wages declined. Use of installed capacity remained low, as did the levels of private investment and consumption. In addition, the size of the conjunctural problems contributed to the gradual decline in the attention given to the priorities of medium-term economic policy.

2. Trends in economic activity

a) *Total supply and demand*

Economic activity underwent a relative improvement as total supply expanded by slightly more than 3%, in consequence of a certain degree of dynamism in the gross domestic product and a considerable increase in the value of imports (5%), which thus continued to recover from the sharp falls experienced at the beginning of the decade.

Nonetheless, the per capita product again declined for the fifth year running and imports of goods and services —above all raw materials— remained at levels far below those necessary to ensure dynamic economic growth (see table 3).

On the demand side, the growth of public investment was a spur to economic activity and more than made up for the fall in private investment for the fourth year in a row. This latter phenomenon, added to the decapitalization due to the closure of several firms, especially industrial ones, has led to a

considerable deterioration in the country's productive capacity during recent years and jeopardizes the potential for productive growth in the medium term.

The increase in fixed capital formation (7%) mainly reflected the construction and external purchases of equipment for the "El Cajón" hydroelectric plant and for the sawmill and other installations of the lumber complex situated in Bonito Oriental.

Despite the austerity aims of fiscal policy, general government consumption grew by 3%, essentially because of increased expenditure on defence and security and servicing the public debt.

For its part, private consumption stagnated in absolute terms and again declined in per capita terms, with the resulting deterioration of the population's already depressed standard of living.

Finally, external sales of goods and services —a key variable in the evolution of economic activity— marked a moderate (4%) increase, mainly as a result of the rise in coffee prices and the increase in the volume of bananas exported.

b) *Evolution of the main sectors*

The product grew at a slower rate than the other components of supply and of total demand. The aggregate value of the goods-producing sectors rose by 3%, as a result of the improvement in agricultural production and construction. Manufacturing industry also revived after two years of decline (see table 4).

Oddly enough, this evolution coincided with the tight restrictions placed on the principal productive sectors, which in some cases tended to become even more severe, causing a weakening of installed capacity. In particular, there were difficulties in obtaining supplies of raw materials and increased costs of inputs; restrictions on internal and external demand; low levels of profitability; the gradual loss of competitiveness both at the Central American and world level, and the overall climate of uncertainty.

Table 3

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	1 575	1 601	1 653	126.7	130.1	123.6	-1.8	-6.3	1.6	3.3
Gross domestic product at market prices	1 307	1 301	1 337	100.0	100.0	100.0	1.2	-1.8	-0.5	2.8
Imports of goods and services ^b	268	300	316	26.7	30.1	23.6	-11.5	-23.4	11.8	5.3
Total demand	1 575	1 601	1 653	126.7	130.1	123.6	-1.8	-6.3	1.6	3.3
Domestic demand	1 291	1 291	1 331	104.2	105.9	99.5	-2.2	-5.2	-	3.1
Gross domestic investment	208	224	261	18.2	29.1	19.5	-17.6	-34.2	7.7	16.6
Gross fixed investment	238	243	261	22.2	27.5	19.5	-18.8	-19.0	2.1	7.1
Construction	192	194	202	11.3	14.8	15.1	-12.2	12.6	1.2	4.0
Machinery	46	49	59	10.8	12.8	4.4	-26.4	-62.5	5.7	19.4
Public	170	181	201	8.3	13.4	15.0	-5.2	1.7	6.5	10.7
Private	68	62	60	13.9	14.1	4.5	-31.7	-46.3	-9.0	-3.6
Changes in stocks	-30	-19	-	-4.0	1.6	-	-	-	-	-
Total consumption	1 083	1 067	1 070	86.0	76.8	80.0	3.6	3.5	-1.5	0.3
General government	184	185	190	12.3	13.9	14.2	2.4	-1.7	0.7	3.0
Private	899	882	880	73.7	62.9	65.8	3.9	4.7	-2.0	-0.3
Exports of goods and services ^b	284	310	322	22.5	24.2	24.1	0.2	-10.9	9.1	4.1

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

^aPreliminary figures.

^bThe figures on 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 4

HONDURAS: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product ^b	1 176	1 164	1 193	100.0	100.0	100.0	0.7	-0.3	-1.0	2.5
Goods	586	589	608	49.5	49.8	50.7	0.4	-0.6	0.5	3.1
Agriculture	329	338	348	27.5	27.2	29.0	1.7	0.7	2.7	3.0
Mining	24	24	26	2.4	2.0	2.2	-5.3	8.3	-	7.7
Manufacturing	170	163	167	14.1	15.2	13.9	0.3	-5.7	-3.9	2.2
Construction	63	64	67	5.5	5.4	5.6	-4.1	4.2	1.4	4.0
Basic services	118	116	120	10.4	9.6	10.1	5.2	-	-1.9	3.1
Electricity, gas and water	26	26	27	2.0	2.1	2.3	8.8	-2.7	-	2.8
Transport, storage and communications	92	90	93	8.4	7.5	7.8	4.2	0.8	-2.4	3.3
Other services	479	465	471	40.1	40.6	39.2	-0.1	0.2	-2.8	1.4
Commercial ^c	197	191	195	15.9	17.1	16.3	0.3	-2.6	-3.0	2.4
Ownership of dwellings	94	93	93	8.7	8.0	7.8	-0.7	-	-0.7	-
Community, social and personal services ^d	188	181	183	15.5	15.5	15.2	-0.3	3.5	-3.7	1.0
Government services	59	59	59	3.4	4.6	4.9	4.7	3.3	-	1.1

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

^aPreliminary figures.

^bValued at factor cost. As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncludes financial institutions, insurance and real estate, with the exception of ownership of dwellings.

^dIncludes restaurants and hotels and business services.

Basic services grew at a rate similar to that of goods, partly influenced by the production of the latter, while "other services" grew hardly at all (1%).

i) *Agriculture*. The agricultural sector grew by 3%, no doubt an encouraging rate, but it was once again lower than the rate of population growth.

The revival of banana production made a decisive contribution to the favourable trend in agricultural production, which was affected by a series of adverse factors. Banana cultivation almost completely recovered from the effects of the 1983 floods, and its yields tended to improve with the introduction of new varieties and progress made in combating pests and diseases. Finally, the arrival of a new transnational corporation, which marketed the fruit with a more favourable price policy towards the producer, helped to stimulate banana production (see table 5).

Coffee production was affected by diseases. According to official estimates, coffee rust and the coffee berry beetle affected 73% and 29% respectively of the area under cultivation. The efforts made by the Honduran Coffee Institute to combat these diseases were hampered by the low profitability of the crop at the producer level, owing to international market conditions, the arrears in the portfolio of loans to the sector, which limited access to credit assistance, and the considerable dispersion of the small farms.

Sugar cane production and the processing industry continued to be affected by problems deriving from the persistent decline in international prices. Many producers decided to turn their land over to other uses, a factor which, together with the reduction in credit and the pests and diseases which affected cane during the year, would explain the fall in the harvest.

As far as cotton is concerned, expectations of improved prices for producers and a policy of development pursued by the government, which was reflected in greater credit support, produced an increase both in the area sown and in the yields.

Production for domestic consumption, especially in basic grains, continued to receive credits at preferential rates, guaranteed prices and a form of technical assistance directed primarily to the

farmers. Maize production grew considerably (11%) and rice cultivation increased again after reaching unprecedented levels the year before which saturated the markets and brought down prices.

The area of greatest problems, which will probably have repercussions on supply in 1985, was in bean production, which declined by 23%.

In recent years, the favourable climatic conditions and the policy of support for the supply of basic grains have made it possible to achieve adequate levels of production to satisfy demand. It has nonetheless proved impossible to overcome the problems of profitability, the inadequate marketing mechanisms, the small scale of cultivation and the low technological levels which restricted the potential for sustained growth in the supply of basic grains. The reduction (-17%) of credit granted by the National Bank for Agricultural Development may be perceived as a sign both of a change in governmental priorities and of an intention to finance more profitable activities, in view of the problems which continue to arise at the various stages of the supply of basic grains.

Finally, plantain production grew very slightly, and was affected by black sigatoka despite the efforts made to combat this fungus. In the case of the African palm, both the surface under cultivation and the yields from the plantations continued to rise.

Table 5

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of agricultural production (1970 = 100)	102.9	183.4	187.3	192.4	196.4	1.4	0.7 ^c	2.7 ^b	3.0 ^b
Production of the main crops^c									
For export									
Bananas	786	1 428	1 389	1 189	1 338	-7.3	4.8	-14.4	12.6
Coffee	51	73	70	86	87	0.1	-3.4	21.9	0.9
Sugar cane	1 557	2 871	3 059	3 157	3 097	0.5	6.0	3.2	-1.9
Cotton	15	25	19	8	13	-14.5	-12.3	-55.9	57.3
Tobacco	5	7	7	7	8	1.4	-	-	4.1
For domestic consumption									
Maize	343	367	405	434	480	12.0	-1.3	7.1	10.8
Beans	48	45	50	52	40	13.6	-3.1	5.1	-22.9
Rice	22	29	35	39	41	9.9	6.8	13.9	3.6
Plantains	83	146	153	162	164	4.1	1.2	6.0	1.2
African palm	51	72	121	124	128	24.2	35.2	2.9	2.9
Indicators of stock-raising production									
Stock^d									
Cattle	1 238	2 337	2 468	2 550	2 674	0.9	4.7	3.3	4.9
Pigs	690	703	711	712	714	0.4	0.7	0.1	0.3
Sheep and goats	26	24	26	23	23	-	8.3	-10.8	-1.3
Slaughtering									
Cattle	54	62	63	67	69	-1.6	3.2	6.3	3.0
Pigs	6	8	9	9	9	-	12.5	-	4.4
Poultry	6	12	14	15	16	16.7	-	7.1	6.6
Other products									
Milk ^e	226	269	279	284	291	0.7	2.9	1.7	2.5
Eggs ^f	32	39	43	45	47	2.8	-2.2	4.6	4.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bEstimated on the basis of variation of value added.

^cThousands of tons.

^dThousands of head.

^eThousands of litres.

^fMillions of dozens.

Table 6

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984 ^a	Annual growth rates	
					1980-1983	1984 ^a
Index of manufacturing value added (1978 = 100)	81.6	107.0	106.3	108.6	-0.6	2.2
Food	73.6	125.2	124.7	127.2	2.7	2.0
Beverages	88.1	109.2				
Tobacco	96.7	127.4				
Textiles and clothing	70.1	90.1	73.7	75.3	-18.2	2.2
Leather and footwear	66.3	118.1	77.0	...	-34.8	...
Wood and wooden furniture	80.6	96.7	107.6	110.0	11.3	2.2
Paper and printing	92.4	104.3	95.8	...	-8.1	...
Chemicals	67.6	106.5	106.1	108.3	-6.4	2.1
Petroleum, rubber and plastic	78.3	117.9				
Non-metallic minerals	71.1	110.6				
Basic metals	23.2	222.5	569.5	580.9	156.0	2.0
Metal products, machinery and equipment	62.4	97.2	96.4	...	-0.8	...
Other manufactured goods	57.6	127.5	102.3	105.3	-19.8	2.9
Other indicators of manufacturing production						
Consumption of electricity by industry ^b	241	379	439	462	15.8	5.2

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bMillions of kWh.

In the livestock subsector, production of beef was less dynamic than in the previous year, as a result of the setbacks suffered by the industry, which were largely linked to the low prices on the international market. The stock of cattle increased, both through a lower growth of slaughtering and through the reproduction of the herd together with the entry of cattle from abroad. The increased credit support granted by the National Bank for Agricultural Development should also be emphasized, as should the creation of the Livestock Fund, a mixed capital enterprise aimed at developing this activity.

It should also be noted that the production of poultry meat expanded steadily and dual-purpose cattle herds were increasingly used for milk production.

As regards agrarian reform, the allocation (20 000 hectares) and adjudication (23 000) of land continued, although at a slower rate, and the priority granted by the present government to the latter procedure was maintained.

With respect to peasant organization, the State finally granted legal recognition to one of the three organizations with most members in the Honduran peasant sector, which had been claiming such recognition for years.

ii) *Manufacturing*. Following an accumulated drop of 10% in the last two years, industrial value-added grew slightly (2%) in 1984, in what would appear to have been a fairly uniform fashion (see table 6).

The food-producing sector suffered passing interruptions to its activity in the canning and sugar-milling industries. The vegetable-oil industry, on the other hand, continued to increase its output and exports. Beverages and tobacco expanded more rapidly than during the previous year.

Textiles and clothing tended to expand mainly in line with domestic demand, since the restrictions affecting regional trade had unfavourable effects on exports.

Cement production grew considerably in response to the increased demand stimulated by the construction of the "El Cajón" hydroelectric plant and the revival of residential, commercial and

industrial construction. On the other hand, the severe financial problems affecting one of the major cement manufacturers, which had obtained considerable guarantees from the State, obliged it to reduce its share capital by 95 %, and transfer its management and administration to the public sector.

Subsidiaries of the Honduran Forestry Development Corporation and the Olancho Industrial Corporation (CORFINO), which runs the large Bonito Oriental sawmill, were affected by financial, administrative, technical and supply problems, with the resulting harmful consequences.

In previous years, the National Investment Corporation (CONADI), a State undertaking responsible for developing industrial activity, had been extremely active in granting credits, but had failed to examine closely the feasibility of the projects. The corporation, which was plunged into a financial crisis, had to concentrate on recovering arrears on its loans at the expense of the development of new activities or the recovery of the crippled firms.

Trade problems with certain countries in the region also affected the production, employment and external sales of several firms in the sector and made it advisable, in some cases, to redirect production in part towards the national market. In the case of firms importing raw materials and finished products from Guatemala, attempts were made to ensure supplies from other countries in the subregion or beyond.

iii) *Construction.* According to provisional estimates, construction grew by 4%, an improvement which was largely attributable to the investments in the "El Cajón" hydroelectric plant and the extension of the road network.

Housing construction increased owing to the execution of low-cost housing projects by the National Housing Institute and a housing project for teachers. Nevertheless, building permits for commercial and industrial buildings declined in number and have remained at still very low levels (see table 7).

iv) *Basic services.* The dynamism of basic services was on average higher than that of economic activity as a whole. The transport, warehousing and communications sector grew by slightly more than 3%, as a result of the expansion of goods-producing activities. Although no indicators of electricity generation are available, an increase in demand for electrical energy was recorded, principally as a result of increased industrial and commercial activity (see table 8).

Electricity-generating capacity increased during the year with the completion of the Puerto Cortés thermal plant and the extension of several transmission and distribution systems.

c) *Evolution of employment and unemployment*

In recent years, the slump in economic activity has led to an aggravation of one of the major structural problems facing the Honduran economy, which is its inability to generate productive jobs at a rate compatible with the growth of its labour force.

Table 7

HONDURAS: INDICATORS OF CONSTRUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Area constructed^b (thousands of m ²)									
Total	225	322	332	198	277	-19.0	27.3	-40.4	39.9
Residential	130	238	268	154	195	-16.2	34.6	-42.5	26.3
Production of some construction materials									
Cement (thousands of bags)	...	7 229	6 528	11 422	12 613	1.2	-10.8	75.0	10.4
Fibre-cement panels (m ²)	...	2 030	1 538	1 878	2 089	-17.2	-8.5	22.1	11.2

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^a Preliminary figures.

Sula and La Ceiba.

^b This refers to applications for building permits for private urban constructions in the Central District, San Pedro

Table 8

HONDURAS: ELECTRICITY CONSUMPTION

	Millions of kWh					Growth rates			
	1975	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	436	759	850	920	973	10.2	1.6	8.2	5.8
Residential	103	211	264	281	291	13.6	9.9	6.6	3.3
Commercial	64	117	131	137	151	5.6	6.1	4.7	10.1
Industrial	241	379	401	439	462	9.6	-3.4	9.4	5.3
Street lighting	12	19	19	25	28	-9.0	8.9	29.5	13.4
Government	15	32	31	38	41	20.5	-20.5	21.6	8.8
Other systems	1	1	4	-	-	-	144.9	-	-

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

^a Preliminary figures.

Table 9

HONDURAS: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984 ^a
Labour force					
Thousands of persons	1 083	1 124	1 166	1 210	1 256
Index	100.0	103.8	107.7	111.7	115.9
Employment					
Thousands of persons	918	918	920	933	956
Index	100.0	100.0	100.2	101.6	104.1
Unemployment					
Thousands of persons	165	206	246	277	300
Index	100.0	124.7	149.2	168.0	182.0
Rates of unemployment					
Total	15.2	18.3	21.1	22.9	23.9
Agricultural sector	...	...	35.5	36.9	37.1

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

There are no reliable indicators of unemployment in the country, but official estimates indicate that the rate of equivalent unemployment⁴ rose to 24% of the labour force, since the economically active population grew at a higher rate (4%) than employment (2.5%) (see table 9).

The scarcity of new investment and the reduction in the activity of foreign firms in certain crops (such as pineapple) led to a greater level of unemployment in agriculture, despite the fact that its product grew.

In the manufacturing industry, the slight growth of production and the opinions expressed by entrepreneurs linked to this sector suggest that there was a slight increase in employment. Nevertheless, the shortage of raw material, restrictions affecting the domestic and regional market and/or the loss of international competitiveness entailed the temporary suspension of workers, mainly in certain sugar mills, in firms engaged in the preparation, canning and export of meat, and in the timber industry.

The encouraging performance of construction made it possible to hire more labour. One of the greatest demands for labour came from the "El Cajón" hydroelectric plant, which was completed in 1984.

⁴The rate of equivalent unemployment is defined as the ratio between the jobs required by productive activity during the year and the economically active population.

3. The external sector

The evolution of the external sector was more dynamic than in the two previous years. Nevertheless, the growth of exports of goods and services failed to make up for the increase of external purchases, thus accentuating the disequilibrium in the balance of trade. The high deficit in factor servicing helped the current account deficit to rise once again, so that it exceeded US\$ 310 million, 20% higher than in 1983 (see table 13 below).

An increased flow of long-term capital, above all of loans to the official sector, as well as the utilization of supplier credits and transfers, almost completely financed the current-account disequilibrium. The loss in international reserves thus declined for the fifth year in a row, amounting this year to US\$ 10 million.

a) *Merchandise trade*

i) *Exports.* The value of exports increased by slightly more than 10%, as a result of increases of around 5% both in unit value and in the volume exported.

The improved dynamism of traditional exports (10%) was mainly due to the positive trend in external sales of coffee, metals and bananas. In the case of the last, the revival of production more than made up for the drop in prices. Exports of coffee benefited from a 24% increase in prices, but the fall in domestic production was reflected in a drop in the volume exported (see table 10).

The steep decline in sales of wood abroad is due to deep-lying causes which have been accumulating over a number of years in the different phases of the forestry industry. Problems of an institutional nature, as well as the existence in the domestic market of prices higher than those paid by the Honduran Forestry Development Corporation (COHDEFOR),³ have discouraged exports. This

Table 10

HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	677	695	766	100.0	100.0	100.0	-7.8	-13.7	2.6	10.3
Central America	50	64	57	11.9	9.9	7.5	-22.0	-24.3	27.8	-10.2
Rest	627	631	709	88.1	90.1	92.5	-6.1	-12.7	0.6	12.3
Main traditional exports	518	532	587	76.0	73.1	76.6	-12.6	-3.1	2.7	10.3
Bananas	218	211	222	21.0	26.8	29.0	-6.4	2.3	-3.0	5.2
Coffee	153	157	178	19.4	24.0	23.2	-15.3	-11.4	2.8	13.0
Wood	45	42	37	13.2	4.2	4.8	19.2	3.5	-6.6	-11.9
Chilled meat	34	33	28	6.2	7.2	3.6	-23.5	-27.5	-3.8	-15.2
Zinc	12	17	37	5.5	1.2	4.8	22.5	-2.5	43.3	113.4
Shrimp and lobster	28	38	41	3.5	2.7	5.3	11.5	6.5	33.9	9.1
Silver	9	18	21	3.8	3.8	2.8	-50.4	-41.0	102.2	17.0
Cotton	8	5	12	1.5	1.5	1.6	-13.4	-37.4	-43.8	166.7
Tobacco	11	11	11	1.9	1.7	1.4	-2.6	-19.5	1.8	-0.9
Non-traditional exports	159	163	179	24.0	26.9	23.4	0.4	-30.9	2.1	9.8
Wood manufactures	10	10	9	0.5	1.4	1.2	-26.8	-17.2	-	-7.0
Unrefined sugar	22	29	27	2.4	5.5	3.5	58.6	-52.2	31.8	-8.3
Soap	10	12	10	1.4	1.5	1.3	-36.6	-24.9	15.0	-16.7
Others	117	112	133	19.7	18.5	17.4	-3.1	-26.0	-4.4	18.7

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^a Preliminary figures.

³ This corporation is a State enterprise responsible, among other functions, for marketing timber abroad, for which it purchases production from private sawmills for export.

Table 11

HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	712	804	895	100.0	100.0	100.0	-5.8	-25.8	13.0	11.3
Consumer goods	159	173	195	22.6	23.3	21.8	-0.1	-33.0	8.7	12.8
Durable	55	50	51	7.8	8.2	5.7	-6.2	-28.8	-9.2	1.2
Non-durable	104	123	144	14.8	15.1	16.1	3.8	-35.0	18.2	17.5
Raw materials and intermediate goods	435	504	546	52.0	50.8	61.0	-2.5	-13.9	15.9	8.4
Fuels and lubricants	170	166	189	1.8	16.4	21.1	-4.7	4.2	-2.3	13.8
Materials for agriculture	47	53	53	4.7	4.6	4.6	20.2	-14.9	13.7	5.6
Materials for industry	192	236	357	41.6	24.7	39.9	-2.2	-22.1	22.9	5.6
Materials for construction	26	49	49	3.9	5.1	5.1	-17.7	-36.3	88.4	5.6
Capital goods	115	125	154	25.1	25.7	17.2	-17.8	-46.7	9.3	23.1
For agriculture	9	10	...	3.6	2.2	...	-23.5	-50.4	18.8	...
For industry	83	96	...	15.5	17.5	...	-12.1	-47.2	16.0	...
For transport	23	19	...	6.0	6.0	...	-32.4	-43.2	-18.0	...
Other products	3	2	-	0.3	0.2	-	43.3	55.8	-39.4	(-)

Source: ECLAC, on the basis of figures provided by the Central Bank and CONSUPLANE.

^a Preliminary figures.

has coincided with a decline in falling, attributable to the reduced potential of the forests and the conservation policy pursued by COHDEFOR. As regards external trade, sales to the Caribbean fell through competition from countries offering more attractive prices and payment periods. The customs measures adopted by Venezuela raised the price of Honduran exports to such a point that it was impossible to export to this country in 1984.

External sales of meat dropped by 15% in comparison with the already low level of 1983. The fall in the international price of meat, the non-tariff restrictions imposed by the main purchasing countries and the limitations to external financing have plunged this industry into a state of crisis.

The growth in exports of zinc, silver and lead was partly due to the expansion of the installed capacity of the El Mochito mine, which raised its levels of production and consequently the volume of the three products exported and, in the case of lead and zinc, to an improvement in international prices.

The policy of conservation and controlled extraction of resources applied by the government seems, in recent years, to have promoted an increase in the volume of prawns and lobsters exported, which, together with a higher unit export price, increased the value of exports of these products in 1984.

As far as cotton is concerned, its growth reflects the greater volumes exported. The producers' expectations of better prices remained unsatisfied.

The main non-traditional exports declined. The value of sugar exports dropped as a result of a decline in the volume, as the quota granted to the country on the North American market was reduced. The contraction in regional trade affected the external sales of other non-traditional products, such as soap, which had acquired some importance in the past. The other non-traditional exports evolved rather more favourably, as for example pineapple, canned fruit and other agricultural products or their by-products.

During the last quarter of the year, in order to stimulate these non-traditional sales, the government approved the Export Promotion Law, which had been promulgated towards the end of 1983, and issued a decree on the Temporary Import System, which exempts from any tax or surcharge

imports of raw materials, capital goods and any other good used to produce articles destined for export to countries beyond Central America.

ii) *Imports.* The value of external purchases of goods rose considerably (11%) for the second year in a row, in spite of which it remained well below the 1980 levels (see table 11).

This recovery was made possible by an increase availability of foreign currency and the simplification of the controls on imports, which could be made with foreign exchange obtained outside the banking system. The non-selective nature of these measures led, nevertheless, to an indiscriminate increase in imports. This explains the substantial rise in purchases of non-durable consumer goods, which in general include a high proportion of non-essential products.

Moreover, the import coefficient was around 20%, which was lower than in 1980. It is possible, therefore, that certain activities have failed to meet their raw material and capital goods requirements.

iii) *Regional trade.* The information available for the first eight months of the year reveals a decline in exports (-14%) and an increase in purchases by the country from the rest of Central America. The marked rise in the trade deficit (46%) seems to be partly due to the loss of competitiveness in Honduran products as against those of the neighbouring countries.

This phenomenon would seem also to reflect the consequences of the suspension of trade with Guatemala, the country's main partner within the subregion, following the expiry of the bilateral treaty in April 1984. The new agreement was signed only in November, but almost immediately denounced, since the exchange measures adopted by Guatemala affected transactions with Honduras, by diverting trade settlements on to the parallel market.

iv) *The terms of trade.* Mainly as a result of the increase in the price of coffee, the terms of trade in goods showed a slight improvement after three years of systematic and substantial deterioration. The 1984 index was 17 percentage points lower than in 1970 (see table 12).

The purchasing power of exports of goods again recovered, mainly as a result of the 5% increase in volume.

b) *The balance of trade and factor payments*

Exports of goods and services increased by almost 10%, equivalent to half the 1983 rate and lower than that of imports, which was in the region of 11%. Thus, the trade deficit rose from US\$ 120 to 140 million (see table 13). Net transfer of profits and net interest payments also increased during

Table 12

HONDURAS: PRINCIPAL INDICATORS OF EXTERNAL TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	20.8	12.4	-7.8	-13.7	2.6	10.3
Volume	23.9	-6.6	0.2	-10.0	9.8	5.1
Unit value	-2.4	20.4	-8.0	-4.0	-6.5	5.0
Imports						
Value	19.7	21.8	-5.8	-24.2	11.7	11.0
Volume	11.8	3.1	-10.9	-25.0	12.9	7.0
Unit value	7.0	18.1	5.8	1.0	-1.1	3.7
Terms of trade	-8.8	1.9	-13.0	-5.0	-5.4	1.2
Indexes (1970 = 100)						
Purchasing power of exports	170.9	164.1	142.4	121.6	126.1	132.6
Volume of exports	165.2	154.3	154.5	139.0	152.6	160.3
Terms of trade	102.9	104.8	91.2	86.6	81.9	82.9

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

the year. Outflow under these two headings was over US\$ 180 million, 20% higher than in the previous year. Payment of interest on the external debt alone required US\$ 150 million, equivalent to one-sixth of the income from exports of goods and services.

c) *The current-account balance and its financing*

With the worsening of the trade balance and the increased net transfer of profits and interests, the deficit on the balance-of-payments current account rose from US\$ 260 million to 310 million (see table 13). Financing of the deficit was achieved essentially by the inflow of capital, particularly long-term capital, and grants, both of an official nature. Nevertheless, these flows failed to cover the deficit, making necessary a further, although slight, reduction in international reserves, bringing the loss accumulated since 1980 to more than US\$ 240 million.

Unrequited official transfers increased considerably thanks to grants received from the United States Government, within the framework of the Economic Recovery Programme for the Caribbean Basin.

Official long-term capital was devoted to financing public investment projects: the construction and purchase of equipment for the "El Cajón" hydroelectric complex; extension of the infrastructure and purchase of equipment for the Bonito Oriental sawmill, belonging to the Olancho Forestry and Industrial Corporation; extension of the telecommunications system; expansion of agricultural credit programmes and road improvements. The inflow of official long-term capital also includes US\$ 57 million corresponding to the renegotiation of private debt guaranteed by the State.

Furthermore, various credit lines were opened and used during the year to finance imports and promote industrial revival, as well as compensatory credits worth US\$ 30 million.

By covering the large deficit on the current account, external financing has provided a temporary solution to structural problems which in the future could increase the already high cost of servicing the external debt.

d) *External indebtedness*

The total external debt approached US\$ 2.3 billion towards the end of 1984, 94% of which corresponded to medium- and long-term loans (see table 14).

The government continued to renegotiate payment of its debt and in December managed to reach an agreement in principle with the Co-ordinating Committee of Creditor Banks, which accepted the refinancing of some US\$ 220 million, with a three-year grace period and an eleven-year period for amortization. The rate of interest agreed for payments until June 1986 was 1 7/8% above LIBOR; and for the period after this date 1.5% above LIBOR.

This negotiation, coupled with the greater deployment of resources for public investment projects, again considerably increased the public external debt, which thus rose beyond US\$ 2.05 billion. Thus servicing the overall external debt came to represent 45% of exports of goods and services. Similarly, over the last three years an average of 85% of the disbursements have returned abroad in the form of debt servicing.

Finally, an agreement was reached in April with the foreign bank creditors of one of the Honduran financial institutions, which had declared itself insolvent, thus solving one of the problems which had caused the restriction of credit by private international banks to the country.

4. Prices and wages

a) *Prices*

The annual average variation of the consumer price index, which in the three previous years had been below 10%, fell to less than half this in 1984. A decisive contribution to this result was made by the almost imperceptible rise in food prices, whose index for the last six months reached negative rates for the first time in a long period (see table 15 and figure 2).

Table 13
HONDURAS: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-170	-205	-331	-321	-249	-260	-311
Trade balance	-89	-92	-185	-177	-56	-120	-139
Exports of goods and services	687	838	942	884	767	797	875
Goods FOB	626	757	850	784	677	694	766
Real services ^b	61	81	91	100	90	102	109
Transport and insurance	22	30	40	39	37	44	45
Travel	17	21	24	31	25	22	24
Imports of goods and services	777	930	1 126	1 061	823	917	1 014
Goods FOB	655	783	954	899	681	761	844
Real services ^b	122	147	172	162	142	156	170
Transport and insurance	64	79	98	90	69	78	74
Travel	23	29	31	27	23	21	22
Factor services	-85	-120	-153	-153	-202	-149	-184
Profits	-47	-68	-78	-44	-45	-30	-46
Interest received	18	20	24	18	15	12	12
Interest paid	-56	-72	-100	-127	-172	-131	-150
Unrequited private transfer payments	5	7	8	9	9	10	12
Balance on capital account	180	225	253	249	203	213	301
Unrequited official transfer payments	13	14	14	19	21	35	68
Long-term capital	176	180	266	209	168	180	245
Direct investment	13	28	6	-4	14	21	7
Portfolio investment	-1	-	-	-	-	-	-
Other long-term capital	163	152	260	213	155	159	238
Official sector ^c	50	56	53	23	77	52	305
Loans received	73	79	94	77	125	104	291
Amortization payments	-20	-19	-30	-41	-38	-43	-54
Commercial banks ^c	1	-15	2	5	-2	-2	-2
Loans received	17	9	12	18	3	2	1
Amortization payments	-17	-23	-11	-14	-5	-5	-2
Other sectors ^c	112	110	205	186	80	109	-65
Loans received	160	205	278	245	142	173	54
Amortization payments	-43	-95	-72	-78	-62	-64	-118
Short-term capital (net)	-21	51	12	28	19	-25	16
Official sector	-6	-1	-9	49	39	-38	-
Commercial banks	-17	43	-8	-35	18	8	-
Other sectors	2	10	29	14	-37	5	16
Errors and omissions	13	-20	-39	-7	-5	22	-28
Global balance ^d	10	20	-78	-72	-46	-47	-10
Total variation in reserves (- sign indicates an increase)	-10	-25	73	69	53	39	10
Monetary gold	-	-	-	-	-	-	...
Special Drawing Rights	1	-6	10	-2	-	-	2
IMF reserve position	8	-	8	-	-	-4	4
Foreign exchange assets	3	-19	41	50	-11	3	...
Other assets	-	-	-1	-3	-2	-2	...
Use made of IMF credit	-5	-	15	23	66	43	-11

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: 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 their amortizations payments, 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 (opposite sign) and the global balance represents the value of the counterpart items: monetary gold, allocation of Special Drawing Rights and variation due to revaluation.

Table 14

HONDURAS: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
External public debt						
Balance outstanding	864	1 107	1 288	1 516	1 791	2 053
Medium- and long-term	692	872	1 055	1 328	...	...
Short-term	172	235	233	188	...	...
Disbursements ^b	193	201	241	...	259	341
Global external debt						
Balance outstanding ^c	1 180	1 510	1 708	1 842	2 017	2 260
Medium- and long-term	1 008	1 275	1 475	1 654	1 915	2 142
Short-term	172	235	233	188	108	118
Disbursements ^b	300	381	333	284	432	475
Service ^b	189	190	243	262	...	...
Service ^d	209	214	261	277	371	382
Amortization payments ^e	137	114	133	105	112	174
Interest ^f	52	76	110	157	...	...
Interest ^f	72	100	128	172	131	150
Percentages						
Ratios^g						
Global external debt/exports of goods and services	140.8	160.3	193.2	240.2	253.1	258.3
Servicing of global external debt/exports of goods and services ^h	22.6	20.2	27.5	34.2	46.6	43.7
Net interest/exports of goods and services	6.2	8.1	12.3	20.5	14.9	15.8
Servicing of global external debt/disbursements	63.0	49.9	73.0	92.3	85.9	80.4

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^a Preliminary figures. ^b Medium- and long-term for 1979-1982. ^c Including total external public debt and medium- and long-term private debt for 1979-1982. ^d Excludes amortization of the private short-term debt. ^e Medium- and long-term. ^f Total interest paid. ^g Estimated on the basis of the balance and disbursements of the global medium- and long-term external debt. ^h Estimated on the basis of service which includes the total interest paid and total medium- and long-term amortization.

The fall in international inflation, the stability of the lempira, the drop in interest rates for some forms of credit and finally the channelling of excess demand —the fiscal deficit— towards imports also helped to relieve pressure on domestic prices.

As a result of the negotiations between the government and workers which are examined later in this report, it was agreed during the year to lengthen the list of products subject to price control. In certain cases (for example, eggs), this may have held down a tendency to rise.

The evolution of the wholesale price index was even more moderate, since its annual average variation was below 2%. The main changes corresponded to imported products (4%) and manufactures (3%). The annual average variation in construction materials was well below the average for the last five years, which may have spurred this activity.

The contraction of wholesale agricultural prices favoured consumers, particularly in the cities, but led to lower incomes for broad sectors of the peasantry and, in the case of basic grains, discouraged production in the immediate future.

b) *Wages*

Official minimum wages remained frozen at their 1982 level, despite the 14% increase which had affected consumer prices since that date (see table 16).

Negotiations induced by various sectors of organized labour led to wage increases in 1984 which, although they failed to offset the accumulated loss of purchasing power, prevented a further decline in real income. Particularly noteworthy were the negotiations carried out by the unions of public sector institutions (National Electric Energy Corporation, Honduran Social Security Institute and the Honduran Forestry Development Corporation). Within the central government, primary school teachers obtained salary increases in the region of 6% after more than a year of negotiations. As regards the private sector, collective bargaining went on in firms in the mining and banana industries.

In the agricultural exports sector, on the other hand, the problems affecting pineapple finally led to a reduction in wages. In some government departments which were affected by budgetary restrictions, it was decided to dismiss personnel.

The debate over the projected Law for the Financial Adjustment of the Public Sector prompted the presentation of a series of claims by workers and entrepreneurs. The aim of these was to avoid price rises and deductions from the wages of public employees (through the compulsory purchase of bonds) and in general to eliminate or reduce measures which led to a decline in the real income of wage-earners. Finally, certain exemptions were maintained, the obligation to purchase bonds was removed and the list of prices subject to control was lengthened.

It should finally be mentioned that in recent years increased preference has been shown for hiring temporary labour, to the detriment of permanent labour, which has had a harmful effect upon the level of wages and payments.

Table 15
HONDURAS: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
Variation December to December						
Consumer price index	22.5	11.5	9.2	9.4	8.6	3.2
Food	20.3	12.3	5.2	7.3	2.4	1.7
Wholesale price index ^b	...	11.4	8.4	12.1	6.2	-0.9 ^c
Imported products	...	8.9	16.1	17.9	9.4	0.3 ^c
Domestic products	...	12.8	4.8	9.3	4.3	-1.6 ^c
Agricultural	...	13.5	2.4	6.1	4.7	-6.6 ^c
Manufactured	...	12.4	6.4	11.4	4.4	1.7 ^c
Construction material	...	16.1	8.5	4.1	3.3	1.2 ^c
Variation between annual averages						
Consumer price index	12.1	18.1	9.4	9.4	8.9	4.8
Food	11.4	17.1	7.3	6.7	5.3	0.4
Wholesale price index	9.7	14.5	8.6	10.1	7.8	1.8 ^d
Imported products	8.0	6.9	16.8	15.7	11.1	4.0 ^d
Domestic products	10.5	18.2	5.1	7.4	6.1	1.2 ^d
Agricultural	7.6	17.7	3.1	2.6	7.5	-1.5 ^d
Manufactured	12.5	18.7	6.4	10.6	5.2	2.8 ^d
Construction material	9.8	15.5	12.1	3.3	5.5	1.6 ^d

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

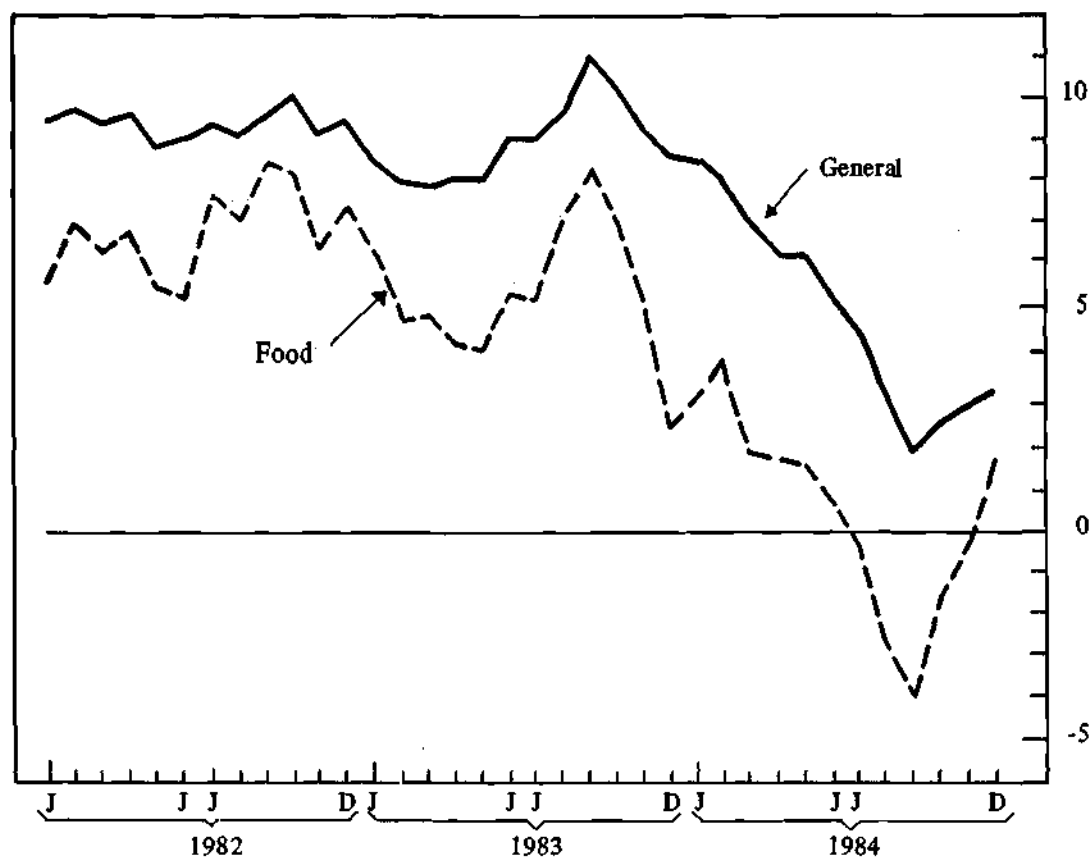
^a Average for the first three quarters.

^b This gives the variation in the final quarter of the year in comparison with the final quarter of the previous year.

^c Third quarter 1984 in relation to third quarter 1983.

^d Average for the first three quarters of 1984 in relation to the average for the same period in 1983.

Figure 2
HONDURAS: VARIATIONS OVER TWELVE MONTHS IN CONSUMER PRICES
(Percentage)



Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

5. Fiscal and monetary policy

a) **Fiscal policy**

The rate of growth of current income was more than treble that of expenditure; nonetheless as a result of the seriousness of the disequilibria of previous years and the increase in the size of the fiscal deficit, which in 1984 represented 15% of the GDP, the situation remained critical (see table 17).

In May the National Congress approved the Law for the Financial Adjustment of the Public Sector, whose principal measures included:

- A rise (6 to 10%) in the tax rate on sales of alcoholic drinks and tobacco products;

- An increase in taxes and tariffs on specific services (entertainment, automobile traffic);
- Rises in the price of stamped paper and fiscal stamps;
- Introduction of a 5% rate on customs services; and

- Reforms to the income and expenditure budget of the central government. Increases were made in the amount set aside to finance the electoral process, teachers' wages, expenditure on defence and security and debt servicing, while on the other hand a reduction in the budget for central government expenditure was decreed. Measures were also taken to rationalize the finances of decentralized institutions: reduction in expenditure, plans to recover arrears in their credit portfolios; establishment of a Control and Evaluation Commission for the Financial Management of each of them.

The law was modified at a later date, in response to propositions made by labour and entrepreneurial sectors of the country, mainly to maintain the system of exemptions granted in various general and specific laws of the country.⁶

Within the governments's current income, tax income increased substantially (24%) after three years of stagnation, and the tax burden reached 14% of product.

This result was mainly attributable to the improvement in economic activity and, above all, external trade in goods and services, coupled with the progress achieved in tax administration, particularly in respect of customs control and income tax. The Public Sector Financial Adjustment Law, which made it possible to increase current income by slightly more than 20%, is particularly noteworthy.

Current expenditure increased at a rate of around 7%. The policy to cut spending in most central government departments was overwhelmingly defeated by wage rises granted to various groups of government employees and the increased expenditure on defence and security, which were reflected in the purchase of non-personal goods and services.

Table 16

HONDURAS: EVOLUTION OF WAGES

	1980	1981	1982	1983	1984
Indexes (1976 = 100)					
Official minimum wages ^a					
Nominal					
Agriculture and stock-raising	179	228	256	256	256
Manufacturing industry and mining	135	155	168	168	168
Artisanal activities	140	165	181	181	181
Construction	147	168	179	179	179
Commerce and services	130	153	169	169	169
Real					
Agriculture and stock-raising	118	138	142	130	124
Manufacturing industry and mining	89	94	93	85	81
Artisanal activities	92	99	99	91	87
Construction	97	101	98	90	86
Commerce and services	86	92	91	84	80
Growth rates					
Official minimum wages ^a					
Nominal					
Agriculture and stock-raising	19.3	28.2	12.4	-	-
Manufacturing industry 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	-8.9	-4.8
Manufacturing industry and mining	-8.3	5.1	-1.0	-8.9	-4.8
Artisanal activities	-6.2	7.9	-	-8.9	-4.8
Construction	-6.7	4.8	-2.7	-8.9	-4.8
Commerce and services	-7.9	7.7	0.9	-8.9	-4.8

Source: ECLAC, on the basis of official figures.

^aThe minimum wages correspond to annual average in the Central District and San Pedro Sula. After 1974 they were updated in December 1978, May 1980, June 1981 and during 1982.

⁶Decree No. 136-84 of 21 August 1984 partly modified some articles of the law, in particular those relating to the Stamped Paper and Fiscal Stamp Law; the exemptions from payments of tax on sales of oils, fats and edible by-products of animal or vegetable origin were re-integrated, and application of the 5% rate for customs administrative services was removed from inputs for the pharmaceutical industry, powdered whole milk, pesticides and fertilizers.

Table 17

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	741	770	778	948	-2.3	3.9	1.1	21.9
Tax revenue	695	715	711	879	-0.3	3.0	-0.6	23.6
Direct	186	206	197	242	-21.2	10.7	-4.3	22.7
Indirect	509	509	514	637	10.4	0.2	0.9	24.0
On foreign trade	312	272	279	344	12.2	-13.0	2.9	23.2
Non-tax revenue	46	55	67	69	-25.4	17.4	22.9	3.4
2. Current expenditure	791	865	978	1 044	7.8	9.4	13.0	6.8
Wages and salaries	468	498	478	503	16.3	6.5	-4.0	5.4
Purchase of non-personal goods and services	150	165	253	297	-15.3	10.1	53.3	17.3
Interest	64	81	116	143	18.8	25.3	43.1	23.9
Transfers	109	121	131	101	8.5	11.0	7.7	-22.2
3. Current saving (1-2)	-50	-95	-200	-96				
4. Capital expenditure	473	729	567	850	-10.7	54.0	-22.2	49.9
Real investment	133	178	167	165	-32.0	33.9	-6.2	-1.1
Debt amortization payments	114	144	170	190	7.2	26.1	18.7	11.4
External	22	25	31	43	16.4	14.5	23.4	38.3
Domestic	92	119	139	147	5.3	28.8	17.7	5.4
Other capital expenditure	226	407	230	495	-1.0	79.9	-43.7	115.5
5. Total expenditure	1 265	1 594	1 545	1 894	-	26.1	-3.1	22.6
6. Fiscal deficit (1-5)	-525	-824	-767	-946				
7. Financing of the deficit								
Domestic financing	248	423	485	357	6.4	70.6	14.6	-26.2
Central Bank	276	409	488	271	42.1	47.9	19.3	-44.4
Others	-28	14	-3	86				
External financing	276	401	282	589	1.0	45.7	-29.8	108.7
Percentages								
Ratios								
Current saving/capital expenditure	-10.6	-13.1	-35.2	-11.3				
Fiscal deficit/total expenditure	41.4	51.7	49.6	49.9				
Tax revenue/GDP	13.1	12.8	12.1	13.8				
Total expenditure/GDP	23.9	28.6	26.2	29.7				
Fiscal deficit/GDP	9.9	14.8	13.0	14.8				
Domestic financing/deficit	47.3	51.3	63.2	37.8				
External financing/deficit	52.7	48.7	36.8	62.2				

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^a Preliminary figures.

Interest payments on the public debt continued their rising trend, reaching 14% of current expenditure. Payment of the internal debt, especially that in the form of financial bonds which carry relatively high rates of interest, became a heavy burden. The same occurred with the interest on the private and public debt of decentralized institutions guaranteed by the central government.

Furthermore, the considerable increase in capital expenditure was essentially due to transfers and loans made to the National Electric Energy Corporation to finance the final stages of construction of the "El Cajón" hydroelectric plant. In addition, the amortization, above all of short-term internal debt, affected the expansion of capital expenditure. Real central government investment was, moreover, focused on the extension of the road network and on drinking water supply projects, rural sanitation and hospital construction.

The marked growth in capital expenditure was reflected in a far greater deficit than that of the previous year. The maladjustment was this time largely covered by external funds (62% of the total). It is easy to understand that the fiscal deficit remains one of the principal financial problems which the Honduran economy has to face.

As regards the public sector, despite the austerity measures adopted, the deficit increased by almost 10% and amounted to 18% of the product (see table 18).

b) *Monetary policy*

The coefficient of liquidity of the Honduran economy tended to increase in 1984, as the rate of expansion of money and quasi-money was higher than that of the gross domestic product at current prices. The rates of growth were nevertheless far lower than in 1983. Currency outside banks and demand deposits rose by 6% and 2% respectively, and quasi-money grew by 13%. This increased liquidity seems to have had no marked effect upon the general level of prices (see table 19).

The measures taken by the monetary authorities to restrict net financing from the banking system to the central government and public sector institutions in general brought down the rate of expansion of public sector credit by half. Nonetheless, it continued to be the most dynamic of the internal expansionary factors and once again exceeded the increase in credit to the private sector.

Savings and term deposits as well as purchases of bonds also tended to increase. One of the main sources of the growth of quasi-money seems to be the counterpart of the "trapping" of foreign currency. In addition, although nominal interest rates were unchanged, the lessening of inflationary

Table 18

**HONDURAS: CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR
INCOME AND EXPENDITURE**

	Millions of lempiras				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total income	1 234	1 335	1 455	1 669	5.4	8.1	9.0	14.7
Current	1 224	1 317	1 406	1 612	5.2	7.5	6.8	14.6
Capital (excluding credit)	10	18	49	57	38.0	83.7	172.2	16.1
Total expenditure	1 906	2 365	2 524	2 842	3.6	24.1	6.7	12.5
Current	1 134	1 293	1 452	1 545	7.7	14.1	12.3	6.4
Consumption	1 078				7.1			
Capital	772	1 072	1 072	1 297	-2.0	38.9	-	20.9
Real investment ^b	463	524	673	868	-9.4	13.2	28.4	28.8
Financial investment	107	253	114	105	40.5	137.9	-54.9	-8.1
Amortization	197	273	272	321	6.7	38.6	-0.4	18.0
Transfers	5	22	13	3	-65.4	291.1	-42.5	-76.2
Deficit	-672	-1 030	-1 069	-1 173	31.4	53.3	3.8	9.7
Percentages of GDP	12.7	18.5	18.1	18.4				
Deficit financing								
Domestic	280	563	616	404				
External	392	467	453	769				
Percentages								
Deficit/total expenditure	35.3	43.6	42.4	41.3				
Total expenditure/GDP	36.0	42.4	42.8	44.6				
Deficit/GDP	12.7	18.5	18.1	18.4				
Domestic financing/deficit	41.7	54.7	57.6	34.4				
External financing/deficit	58.3	45.3	42.4	65.6				

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

^aPreliminary figures.

^bIncludes part of the financial investment and preinvestment.

Table 19

HONDURAS: MONETARY BALANCE AND INDICATORS

	Year-end balance in millions of lempiras				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money (M₁)	632	699	799	832	4.4	10.7	14.3	4.1
Currency outside banks	297	307	355	377	10.5	3.3	15.5	6.1
Demand deposits	335	392	444	455	-0.5	17.2	13.3	2.4
Factors of expansion	1 985	2 037	2 401	2 711	4.0	2.6	17.9	12.9
Net international reserves	-20	-205	-241	-260	...	...	-17.5	-8.2
Domestic credit	2 005	2 242	2 642	2 971	12.4	11.8	17.8	12.5
Public sector	443	504	676	793	38.8	13.7	34.2	17.4
Central government (net)	421	474	601	719	47.1	12.6	26.9	19.6
Official entities	22	30	75	74	-33.6	35.2	151.0	-0.1
Private sector	1 562	1 738	1 966	2 178	6.6	11.3	13.1	10.8
Factors of absorption	1 353	1 338	1 602	1 879	3.8	-1.2	19.8	17.3
Quasi-money (savings and time deposits)	608	750	931	1 054	15.3	23.4	24.1	13.2
Bonds	68	67	75	89	-33.9	-1.6	11.2	19.2
Long-term foreign borrowing	528	539	536	590	8.9	2.1	-0.5	10.1
Other items (net)	149	-18	60	146	-21.0	...	...	143.4
Other indicators^b								
Monetary base	371	340	380	443				
Money (M ₁)	601	601	671	780				
Money plus quasi-money (M ₂)	1 177	1 254	1 510	1 787				
Coefficients^c								
Monetary multipliers								
M ₁ /monetary base	1.62	1.77	1.77	1.76				
M ₂ /monetary base	3.17	3.69	3.98	4.03				
Velocity of circulation GDP/M ₁	8.81	9.29	8.78	7.80				

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras and the International Monetary Fund.

^a Preliminary figures. ^b Annual averages.

pressure meant an increase in real rates. The private sector took advantage of this circumstance to make financial investments in high-yield activities, at a time when real investment was contracting because of a variety of factors which heightened uncertainty.

Credit to the private sector expanded by almost 11%, and was mainly devoted to financing trade, agriculture and industry. A surprising development was the high growth again recorded in credit to trade—which has some impact on imports—, especially as the economy was subject to an adjustment policy.

MEXICO

1. Recent economic trends: Introduction and summary

During 1984, the second year in which the programme of stabilization and adjustment of the Mexican economy had been in operation, the marked disequilibria which had appeared in 1982 continued to lessen, and some revival, though precarious, was achieved in production. As a result of less restraint in public sector current expenditure, a revival of private investment and an increase in external demand, the gross domestic product grew by 3.5%, a higher rate than that forecast by the authorities at the beginning of the year. Thus, after two years of sharp decline, the per capita product expanded by almost 1%, although its level was barely equal to that of 1979 (see table 1 and figure 1).

The success achieved in the area of economic reorganization, which was mainly reflected in the external accounts, and to a lesser extent in public finances and in the slowing down of inflation, had as its counterpart considerable social costs, particularly in the form of a further drop in real wages.

The huge financial burden which payment of interest on the external debt represents for the country reached almost US\$ 12 billion. These disbursements had a considerable influence on the structure of trade and financial flows with the exterior and on that of public finances, seriously restricting the margin of manoeuvre for development policy. They forced on the country a massive export drive and a severe constraint on imports and investment programmes. At all events, the balance of payments targets were more than met, and progress was made towards financial adjustment, although it did not prove possible to reduce the public sector deficit as much as planned.

For the second year running a considerable trade surplus was obtained, amounting to almost US\$ 14 billion, which, in spite of the substantial payments to external factors, provided a basis for generating a surplus of some US\$ 3.7 billion on the current account. All in all, in order to offset outflows from the capital account, it was necessary to resort to almost the same amount of additional external financing, as a result of which the outstanding balance on the external debt rose to around US\$ 96 billion. In this way the international monetary reserves were increased to over US\$ 8 billion, a sum which, in relation to the value of imports, is unprecedented in the postwar period.

These results were achieved despite the stagnation of the international petroleum markets, the predominating protectionism of the industrialized countries (which particularly affected sales of steel to the United States), and the virtual stabilization —after an aggregate drop of 21% in the 1982-1983 biennium— of the terms of trade. This phenomenon in conjunction with the increased net factor payments caused the rate of growth of the gross national income to fall once again below that of the gross domestic product, although on this occasion the gap between the two was very small (see table 2).

Non-petroleum exports rose by 20% and became the main source of economic growth. The extent to which the peso was undervalued during the first months of the year together with the curbing of domestic consumption during the same period, as well as the high idle capacity in many sectors of activity, favoured the production and sale of exportable surpluses. Total imports, on their side, grew by more than 25%, under the impetus of the moderate revival of the economy and the need to rebuild stocks after the drastic contraction in external purchases during the previous biennium. In spite of this recovery, the import coefficient remained extremely low and was even lower than it had been prior to the opening up of the economy which accompanied the 1977-1981 petroleum boom.

Servicing the internal and external debt represented 37% of total public sector expenditure. If the external debt alone is considered, this proportion was 20%, a figure equivalent to total public sector capital expenditure. In view of the size of this financial burden, and in the hope of reducing the public sector deficit to the target of 6.5% of the gross domestic product, attempts were made to restrict current expenditure and above all investment, which were held stationary in real terms.

Simultaneously, the prices and tariffs of goods and services provided by State enterprises continued to be revised, although less rigorously than in the previous year. The taxes paid by Mexican Petroleum (PEMEX) fell substantially as a result of the drop in their foreign currency income, which was due to the slackness of international petroleum markets and the relatively slow rise in the exchange rate. The utilization in the middle of the year of the Contingency Fund for the Revival of Economic Activity, in an amount equivalent to 1% of the gross domestic product, involved increased current expenditure which to a certain extent stimulated domestic demand and employment. Nevertheless, a large proportion of this fund was used to meet the increased payments resulting from the rise in interest rates during the first half year.

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (billions of 1970 dollars)	80.1	87.5	94.8	102.3	101.8	96.4	99.8
Population (millions of inhabitants)	65.7	67.5	69.4	71.3	73.2	75.1	77.0
Per capita gross domestic product (1970 dollars)	1 220	1 295	1 366	1 436	1 391	1 284	1 295
Growth rates							
B. Short-term economic indicators							
Gross domestic product	8.1	9.2	8.4	7.9	-0.5	-5.3	3.5
Per capita gross domestic product	5.1	6.2	5.5	5.1	-3.1	-7.1	0.9
Per capita national income	5.0	6.7	6.8	4.6	-4.8	-7.5	0.6
Rate of unemployment ^{b,c}	6.9	5.7	4.5	4.2	4.2	6.8	6.0
Consumer prices							
December to December	16.2	20.0	29.8	28.7	98.8	80.8	59.2
Variation between annual averages	17.5	18.2	26.3	27.9	58.9	101.9	65.4
Real wages and salaries ^d	-3.4	-1.3	-6.7	2.4	-4.3	-23.0	-6.4
Money ^e	32.7	33.1	33.5	32.8	62.1	41.4	63.9
Current income of government	33.3	35.9	65.6	36.7	63.9	107.6	55.3
Total government expenditure	27.1	57.0	56.5	62.9	101.7	73.3	45.8
Fiscal deficit/total government expenditure ^b	19.7	20.0	16.4	30.3	44.1	30.8	25.8
Public sector financial deficit/GDP ^b	5.3	5.4	6.5	14.5	17.6	8.9	7.4
Current value of exports of goods and services	37.9	40.8	55.1	23.1	-6.9	-1.8	12.0
Current value of imports of goods and services	47.9	47.4	53.8	30.6	-36.5	-41.0	25.6
Terms of trade (goods and services)	2.1	10.0	22.1	2.7	-10.0	-10.9	0.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-593	-1 575	-2 225	-4 658	5 584	13 848	13 808
Net factor payments	2 771	4 108	6 209	9 531	11 598	8 993	10 218
Balance on current account	-3 259	-5 553	-8 305	-14 074	-5 922	4 966	3 725
Balance on capital account	3 692	5 835	9 330	14 775	1 812	-2 945	-1 484
Variation in international reserves	433	282	1 025	700	-4 110	2 021	3 201
Total external debt	33 900	39 700	50 700	74 900	88 300	92 100	95 900

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Percentages.

^c Weighted average for the metropolitan areas of México City, Guadalajara and

Monterrey.

^d This refers to minimum wages and annual averages.

^e Money in circulation, notes and checking accounts.

All in all, the public sector deficit was equivalent to 7.4% of the gross domestic product, which exceeded the maximum set for the year.¹ This gap required an external credit of US\$ 2.2 billion, an amount which was considerably lower than the US\$ 4 billion authorized. At the same time, as the public sector absorbed a lower percentage of resources from the banking system, it proved possible to channel increasing credit flows towards the private sector.

Public administration was characterized by insistence on rationality and increased efficiency. This led to considerable progress in the planning and formulation of economic policies for the rest of the six-year presidential term, which ends in 1988.

The year also saw the consolidation of the redefinition of the relationship between the public and private sectors, which had begun in 1983 following the uncertainty caused by the nationalization of banking. In addition to having offered 34% of the shares of these institutions to their former owners and paying them the corresponding indemnities, the process of handing over the subsidiaries of the financial groups which had disappeared was brought to a conclusion. Furthermore, towards the end of the year the bases were laid down for the sale of some State-owned firms to private individuals for reasons of profitability or of their lack of economic importance. At the same time, greater flexibility was introduced into the standards governing foreign investment. These measures were complemented by a series of fiscal and exchange-rate benefits which the government made available to the private sector as part of its plan to protect the productive apparatus. All this led to a more favourable climate for private investment, which increased by 9%. Nevertheless, as a result of its dramatic decline in the two previous years, its real value was still much lower than that of 1981.

Considerable alterations were also made to the regulations affecting the banking system, and the Bank of Mexico was given increased powers. These include the establishment of an annual maximum ceiling for public sector financing and the virtual replacement of the legal reserve by operations on the open market as an instrument of credit regulation. As a general rule, the new measures tend to strengthen the capital market and to encourage the development of stockbroking firms, most of which are private. They also tend to prevent State intervention in firms which are set up by the national credit corporations.

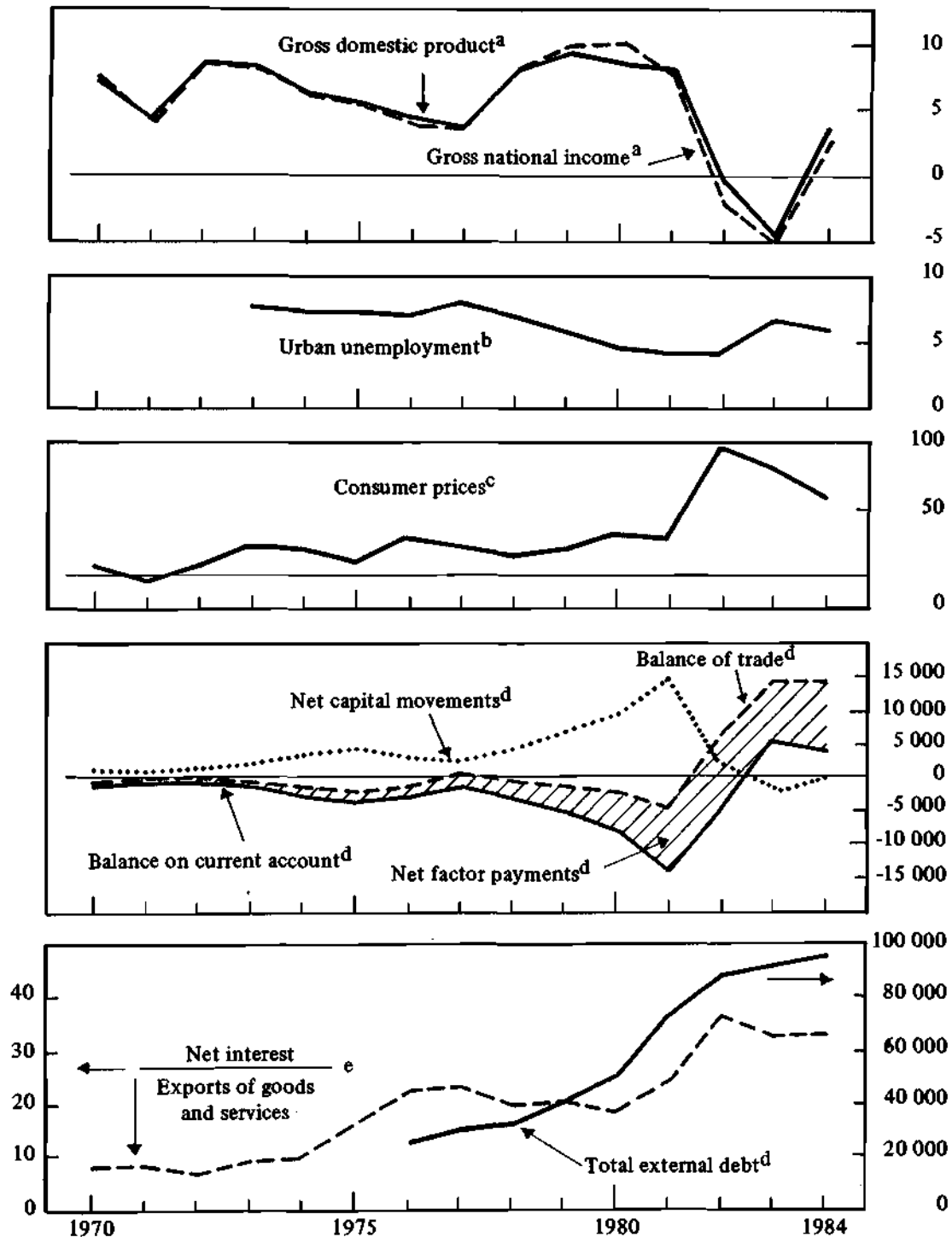
Generally speaking, the financial outlook was encouraging. The policy on interest rates succeeded in making them attractive both domestically and externally, as a result of which the banks received sufficient deposits to recover to a large extent the financial role that they had lost during the previous biennium. In addition, as the correction of the exchange rate was far lower than the rate of inflation, it proved possible to maintain the high margin of competitiveness of domestic rates. This policy brought down the nominal interest rates on deposits, and consequently those on loans. In point of fact, the latter dropped more as the gap between the two narrowed, without much sacrifice of profits on the part of the banks. This was partly achieved by the fall in the relative importance of subsidized credits. The smaller relative demand for finance for the public sector and the decline in the nominal rates of interest, which in any case remained high in real terms, favoured a greater flow of credit to the private sector, where it was increasingly assigned to the construction of low-cost housing, trade, primary activities and the manufacturing industry.

On the other hand, although control of inflation had been given the highest priority among the economic policy objectives, progress in this field was less than had been forecast. Although the change in the consumer price index fell from 80 to 60% as a result of the stabilization programme, it remained well above the 40% target.

The causes of this persistent inflation were in general a continuation of those in force in the previous year, in so far as they reflected upward cost pressures which were magnified by inertia and inflationary expectations. Nevertheless, in contrast with what happened in the previous year, the increase in the exchange rate was well below that of the level of prices, and wage adjustments were also lower than inflation. On the other hand, the rise in prices and tariffs for public utilities was slightly higher than inflation, although far less intense than in the previous year. Similarly, while interest rates remained high in 1984 and had a marked impact on the costs of the enterprises, they did not rise beyond those in force in 1983. The high level of costs was also affected by the fact that many factories continued operating with a high level of idle capacity.

¹ The figure which was initially set in the Immediate Economic Reorganization Programme and the Agreement with the International Monetary Fund was 5.5% for 1984. Nevertheless, use of the Contingency Fund for the Revival of Economic Activity was contemplated, for a further 1%, should it prove possible to finance it with non-inflationary resources.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate in the cities of México, Guadalajara and Monterrey.

^cDecember - December percentage variation. ^dMillions of dollars.

^ePercentages.

Table 2

MEXICO: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	102 047	99 809	94 389	97 519	7.4	-2.2	-5.4	3.3
a) Gross domestic product	102 338	101 784	96 416	99 791	7.9	-0.5	-5.3	3.5
b) Terms-of-trade effect	3 177	2 105	1 203	1 325				
c) Net external factor payments	3 510	4 113	3 271	3 628	42.4	17.2	-20.5	10.5
d) Net private transfers from abroad	42	33	41	47	-19.3	-22.6	24.8	16.0

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Nonetheless, the social costs of the crisis and of the adjustment policies adopted to meet it were lower than in 1983. The recovery of economic activity involved increased absorption of paid labour, although this was still slightly lower than the growth of the labour force. Consequently, the phenomenon of unpaid labour together with unemployment increased for the third year running, although in moderation. Open unemployment in turn declined slightly both in Mexico City and in Guadalajara and Monterrey, the other two major cities in the country.

In 1984 a new drop (-6.5%) occurred in the purchasing power of the minimum wage, which consequently fell to its level of 17 years ago. As a result the share of wages in the gross domestic product dropped to around 27%, a far lower proportion than the 38% recorded before the outbreak of the crisis.

Private consumption rose by more than 3%, after its marked fall in 1983. Despite this, per capita consumption increased very little. It is probable besides, that the consumption of large sectors of the population has undergone a considerable decline. In point of fact, the consumer price index relating to those individuals who earn the minimum wage was higher than the national index, so that it appears that the real erosion of the income of this group was around 8%. It may be that consumption has also declined in certain rural areas as a result of the poor performance of the agricultural sector and the dearth of many products. Such tendencies may have been mitigated, nevertheless, by the higher prices paid to farmers. On the other hand, the increasing flow of tourists abroad and the high profit margins of many firms registered on the stock exchange suggest relative improvements in the incomes of the upper strata of society.

In addition, if the various regions of the country are considered, there were considerable differences in economic performance in 1984. Most noteworthy was the boom in subcontracting for export, mostly situated in a strip along the northern frontier. Within the framework of a broader "industrial redeployment", the revival of some medium-sized cities was also worthy of note. Finally, the boom which had started in 1983 in the coastal tourist region continued, although at a lower level.

From the sectoral viewpoint also the economic revival showed different trends. The manufacturing industry recovered its role as the driving force of the economy in growing by almost 5%. This result is largely attributable to the performance of the automobile industry, which greatly benefited from the overall revival and from a treasury regulation allowing a rapid depreciation of assets, which gave firms an incentive to purchase vehicles. The growth of external demand for other manufactured products was another favourable factor. The petroleum industry, on the other hand, remained virtually stagnant, this time as a result of the deliberate policy of supporting international prices, and of the low level of domestic demand for fuels.

The most dynamic activities were basic services: electricity, gas and water (7%) and transport and communications (6%). In contrast, the agricultural sector grew by 2.4%, a somewhat lower rate than that of the population. This was due to the reduction of the area sown, which in turn was the result of the rise in the price of inputs which reduced the profitability of major basic crops, such as maize, beans and oilseeds. Mining, for its part, recovered slightly (3.4%), as did construction (almost 4%), which had declined dramatically in 1983. Encouraged by increased flows of credit, trade also made a perceptible recovery (3%), though this was not sufficient.

To sum up, during the second year of operation of the stabilization and adjustment programme agreed upon with the International Monetary Fund (IMF), which coincided with the present government's Immediate Programme of Economic Reorganization (PIRE), progress was made in improving the external accounts and, to a lesser extent, in the financial adjustment and control of inflation, while at the same time production revived. This progress facilitated renegotiation of the external debt and contributed towards the gradual re-establishment of confidence among some sectors of private, national and foreign investors. This recovery was also due to the considerable transfers granted to the private sector in the form of tax and exchange-rate benefits, as well as indemnities paid by the banks.

In any case, it is too early to infer that the principal effects of the crisis have been overcome and sound bases established for sustained future growth. Considerable hurdles still remain, the most noteworthy of which are the heavy financial burden of the external debt and the excessive dependence of export income on petroleum, which is itself facing difficulties on external markets. This is compounded by the absence of large-scale government investment projects, owing to budgetary austerity, and the contraction of consumption in the largest sectors of the population, with the consequent aggravation of social disparities.

2. Trends in economic activity

a) *Total supply and demand*

Following two years of deep depression, which meant considerable falls in most of the components of total supply and demand, at the beginning of 1984 the economy underwent a revival which became more pronounced in the second half of the year.

Total supply increased by somewhat more than 4% as a result of the 3.5% recovery of the gross domestic product and the almost 21% growth in the volume of imports of goods and services. These were stimulated by the rebuilding of stocks and by the economic reactivation. Nevertheless, as they had declined dramatically during the previous biennium, their share of the gross domestic product (5.5%) represented little more than half that of 1980 (see table 3).

Outstanding among the components of total demand was the striking advance made by the physical volume of exports for the second year running. This result was attributable to the considerable growth of non-petroleum exports, as exports of crude oil remained virtually stagnant owing to the unfavourable international market situation. The curbs on domestic consumption provided surpluses which many entrepreneurs immediately exported, taking advantage of the high exchange rate in force during the first months of the year. To this must be added the completion of projects previously initiated in this same field of exports of manufactured goods.

In marked contrast to the previous biennium, domestic demand rose by 4%, the result of a 5.5% increase in investment and an almost 4% increase in consumption.

The dynamism of investment was almost exclusively due to the performance of private investment, which grew by almost 9%, in consequence of the renewal of confidence in entrepreneurial circles, brought about by the redefinition of their field of action, and the fiscal benefits granted to them. The fiscal contributions made by the government to the depreciation of assets were added to those which already existed in relation to the reinvestment of profits, geographical decentralization and payment of the external liabilities of enterprises. Public investment, on the other hand, barely exceeded the extremely low level of the previous year, as a result of the austerity policy and the resources which the sector had to devote to servicing the debt. From another angle, the increase of investments in machinery (9%) was higher than that of construction (3.5%).

Despite the austerity policy, public consumption underwent considerable expansion (7%). This was helped by use of the Contingency Fund for the Revival of Economic Activity, which was to a large extent devoted to financing current payments instead of expenditure on investment. Private consumption grew by rather more than 3%, a slightly higher rate than that of population growth. Hence its per capita level remained practically static and it is probable that as a result of distortions in the structure of distribution, the levels of consumption of broad sectors of the population again declined.

Table 3

MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	109 341	100 989	105 309	107.3	110.8	105.5	9.2	-4.7	-7.6	4.3
Gross domestic product at market prices	101 784	96 416	99 791	100.0	100.0	100.0	7.9	-0.5	-5.3	3.5
Imports of goods and services ^b	7 557	4 573	5 518	7.3	10.8	5.5	21.1	-38.8	-39.5	20.7
Total demand	109 341	100 989	105 309	107.3	110.8	105.5	9.2	-4.7	-7.6	4.3
Domestic demand	101 909	92 582	96 293	102.4	103.7	96.5	9.1	-5.0	-9.2	4.0
Gross domestic investment	21 902	16 447	17 335	24.7	28.0	17.4	15.6	-28.7	-24.9	5.4
Gross fixed investment	21 432	15 455	16 290	21.7	23.4	16.3	14.7	-15.9	-27.9	5.4
Construction	12 444	9 972	10 331	11.8	12.4	10.4	11.3	-5.1	-19.9	3.6
Machinery	8 988	5 483	5 959	9.9	11.0	5.9	18.6	-27.5	-39.0	8.7
Public	9 492	6 409	6 447	9.0	10.1	6.5	15.8	-14.2	-32.5	0.6
Private	11 940	9 046	9 843	12.7	13.3	9.8	13.9	-17.3	-24.2	8.8
Inventory changes	470	992	1 045	3.0	4.6	1.1				
Total consumption	80 007	76 135	78 958	77.7	75.7	79.1	6.7	4.6	-4.8	3.7
General government	9 509	9 385	10 032	8.9	8.9	10.1	10.1	2.4	-1.3	6.9
Private	70 498	66 750	68 926	68.8	66.8	69.0	6.2	4.9	-5.3	3.3
Exports of goods and services ^b	7 432	8 407	9 016	4.9	7.1	9.0	11.2	-0.4	13.1	7.2

Source: ECLAC, on the basis of data provided by the Ministry of Programming and the Budget.

^a Preliminary figures.

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

b) Evolution of the main sectors

Revival of the productive apparatus was widespread. The greatest dynamism was to be found in activities producing basic services (6%) and goods (4%), while the rest of the services increased by slightly less than 3% (see table 4).

The sector of greatest growth was electricity, gas and water (7%). Nonetheless, as a result of its greater weight in the economy as a whole, the almost 5% increase in the product of the manufacturing industry proved decisive. The almost 4% revival of construction was also significant because of its potential bearing on employment, following the sharp drop in the 1982-1983 biennium. Contrary to what occurred in 1978-1982, petroleum extraction was the activity with the lowest growth. Finally, agriculture again recorded a lower rate of growth than that of the population.

i) *Agriculture*. This sector grew by barely 2.4% in 1984, as a result of the meagre increases obtained in crop farming and livestock raising and the virtual stagnation of forestry. The effects of the slow evolution of these subsectors could not be offset by the exceptional (10%) growth of hunting and fishing, an item of little relative weight (see table 5).

The scant increase in agricultural production took place despite abundant rainfall, which ensured a satisfactory spring-summer season and provided the reservoirs with greater water resources than in 1983. Nonetheless, the number of disasters caused by excessive humidity increased in some regions, while there were occasional very local droughts in others.

Agricultural policy continued to encourage the cultivation of basic products and selective import-substitution, in addition to promoting exports, above all of vegetables. Although the guaranteed price policy was energetically pursued, the rise in price of almost all strategic inputs caused a rise in production costs, which reduced the profitability of the main crops and finally led to a contraction of more than 5% of the area under cultivation. Credit policy was able to call on

considerable funds which were used to promote the sowing of rice, wheat, sorghum and oilseeds, to the relative detriment of maize and beans. Nevertheless, the credits were not always handed over opportunely. Thus, despite considerable increases in per hectare productivity, the agricultural product expanded by only 2.4%.

Although the guaranteed price of maize, an essential grain in the people's diet, increased by 77%, its production rose by only slightly over 2%. This disappointing result was due to the decline in the area under cultivation caused by the rise in costs and the losses caused by drought in certain regions, and floods in others. Bean production fell by 28%, thus persisting in its irregular trend of previous years. Its cultivation was affected by an unfavourable guaranteed price policy, as the National Company for Public Supplies (CONASUPO) had accumulated considerable surpluses.

Wheat production on the other hand rose by 28%, reaching an unprecedented figure of 4.4 million tons. Rice production also grew, although at a much lower rate (2%). All in all the harvest of basic grains reached 19.3 million tons, a 5% greater volume than in the previous year. In turn, the sorghum harvest rose by 4%, owing to the increases in per hectare productivity, the review of its guaranteed prices and the credit provided. On the other hand, oilseed production appreciably declined, as a result of the smaller areas devoted to cultivating safflower and sesame seed.

Export crops as a whole evolved very favourably, their sales rising to around US\$ 1.4 billion, 35% more than the amount recorded in 1983. Most noteworthy of these were the 10% increase in the

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	96 826	91 719	94 929	100.0	100.0	100.0	7.9	-0.5	-5.3	3.5
Goods	40 792	38 312	39 749	42.5	42.7	41.9	8.0	-1.7	-6.1	3.8
Agriculture	8 938	9 196	9 417	10.8	9.4	9.9	6.1	-0.6	2.9	2.4
Mining	3 566	3 470	3 525	2.4	3.1	3.7	15.3	9.2	-2.7	1.6
Oil production	2 365	2 330	2 346	1.0	1.9	2.5	18.7	14.5	-1.5	0.7
Rest of mining	1 201	1 140	1 179	1.4	1.2	1.2	10.1	-0.6	-5.1	3.4
Manufacturing	22 820	21 162	22 157	23.7	24.4	23.4	7.0	-2.9	-7.3	4.7
Construction	5 468	4 484	4 650	5.6	5.7	4.9	11.8	-5.0	-18.0	3.7
Basic services	8 844	8 496	8 998	7.6	9.1	9.5	10.4	-2.3	-3.9	5.9
Electricity, gas and water	1 404	1 414	1 513	1.2	1.3	1.6	8.4	6.7	0.7	7.0
Transport, storage and communications	7 440	7 082	7 485	6.4	7.8	7.9	10.7	-3.8	-4.8	5.7
Other services	48 464	46 328	47 650	51.1	49.6	50.2	7.5	0.9	-4.4	2.9
Trade, restaurants and hotels	23 888	21 500	22 081	25.1	24.9	23.3	8.5	-1.9	-10.0	2.7
Financial institutions, insurance, real estate and business services	9 538	9 739	9 982	10.9	9.8	10.5	4.9	2.9	2.1	2.5
Ownership of dwellings ^c	7 456	7 599	7 774	9.1	7.8	8.2	3.3	2.9	1.9	2.3
Community, social and personal services	15 038	15 089	15 587	15.1	14.9	16.4	7.5	4.4	0.3	3.3
Government services	3 553	3 659	...	3.6	3.5	...	9.1	4.4	3.0	...
Less: commission on bank services	1 411	1 471	1 565	1.2	1.4	1.6	11.3	2.5	4.2	6.4

Source: ECLAC, on the basis of figures provided by the Ministry of Programming and the Budget.

^a Preliminary figures.

^b The sum of activities does not coincide exactly with the total as the individual activities and the total were calculated independently.

^c This refers to real estate.

Table 5

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983 ^a	1984 ^a	Growth rates			
						1981	1982	1983 ^a	1984 ^a
Index of agricultural production (1970 = 100)	115.9	139.9	147.5	151.8	155.4	6.1	-0.6	2.9	2.4
Agriculture	113.2	138.4	145.3	151.4	154.8	8.1	-2.9	4.2	2.3
Livestock	119.4	138.2	146.3	149.1	152.2	3.1	2.7	1.9	2.1
Forestry	109.6	135.5	136.1	135.4	136.9	-0.4	0.1	-0.5	1.1
Hunting and fishing	153.1	245.6	290.8	276.3	303.3	11.6	6.1	-5.0	9.8
Production of main crops ^b									
For export									
Unginned cotton	206	329	196	229	252	1.9	-41.3	16.4	10.3
Coffee	228	193	313	313	272	26.4	28.4	-	-13.0
Tomatoes	1 056	1 458	645	1 472	...	-26.3	-40.0	128.4	...
For domestic consumption									
Maize	8 449	12 383	10 129	13 191	13 497	19.2	-31.4	28.9	2.3
Beans	1 027	971	943	1 296	940	51.2	-35.8	37.4	-27.5
Wheat	2 798	2 785	4 462	3 463	4 426	14.5	39.9	-22.4	27.8
Sorghum	4 126	4 812	4 717	4 827	5 032	30.8	-25.1	2.3	4.3
Sugar cane	35 841	36 480	34 066	34 109	...	-4.3	-2.4	0.1	...
Soya	599	312	648	687	692	128.4	-9.0	6.0	0.7
Lucerne	14 260	18 360	15 039	15 261	...	-12.9	-6.0	1.5	...
Indicators of livestock production									
Slaughter ^b									
Beef cattle	763	1 016	1 201	1 030	...	10.8	6.6	-14.2	...
Pigs	810	1 250	1 365	1 486	...	4.5	4.4	8.8	...
Sheep and goats	21	22	24	22	...	2.8	2.7	-5.3	...
Poultry	296	399	450	469	...	6.8	5.5	4.2	...
Other products									
Milk ^c	5 809	6 742	6 924	7 053	7 139	1.7	1.0	1.9	1.2
Eggs ^d	6 790	9 666	10 355	10 729	11 104	3.0	4.0	3.6	3.5

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.^b Thousands of tons.^c Thousands of litres.^d Millions of units.

production of cotton and the exceptionally high growth of exports of fruit and vegetables, which made up almost 80% of the total supply.

The slack growth of the livestock subsector (2%), far below that planned, was essentially due to the high production costs, the absence of capitalization, and the recurrent problems in the supply mechanisms, in particular for bovine cattle. Milk production rose for the fifth year in a row at a rate far below that of the population, while egg production rose by 3.5%, a similar rate to that recorded in the three previous years (see table 5).

The growth of forestry was also slack (1%), a fact attributable, among other factors, to the technological backwardness of many production units. This is in turn the cause of irrational methods of exploitation, which involve a high level of waste and which squander the considerable potential of this branch.

Fishing, on the contrary, evolved very satisfactorily, growing by almost 10%. This expansion was due to official encouragement, a more adequate marketing system and the expansion of the fishing fleet.

ii) *Mining.* The increased availability of credit, the accomplishment of some projects, and the expansion of demand jointly helped mining production to make a slight recovery of a little over 2%,

after its downturn of the previous biennium (see table 6). In the domestic sphere, the revival of the metal-products industry represented an incentive to iron mining, while external sales of silver remained stable, although at lower prices than in previous years.

Production of precious metals increased by almost 4%, a much lower rate than that recorded in the previous year. Production of industrial non-ferrous metals in turn recorded a slight drop as a result of the heavy falls in the extraction of copper, bismuth and cadmium, which were not offset by the increases in the production of zinc and lead, the other two important metals in the group. Among minerals for steel-making, production of manganese showed a marked recovery and that of iron increased by 4%. Non-metallic minerals were those which showed greatest dynamism.

iii) *Petroleum*. As a result of the slackness in both domestic and external demand, petroleum activity remained stagnant, following its almost 3% decline in the previous year (see table 7).

The physical volume of crude petroleum exports fell slightly, as the previously planned production of 1.5 million barrels was deliberately reduced by 100 thousand barrels per day during the last quarter. Nevertheless, the value of crude oil exports grew slightly, as the structure of the different types of petroleum marketed was modified in favour of the most expensive.

Table 6
MEXICO: INDICATORS OF MINING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
General indexes of mining production (1970 = 100)									
Precious metals	112.6	148.5	163.7	158.2	161.5	11.5	-1.1	-3.4	2.1
Non-ferrous industrial metals	87.4	109.6	114.9	140.8	146.1	11.6	-6.1	22.5	3.8
Metals and minerals for the iron and steel industry	102.8	154.6	186.6	174.1	170.8	16.9	3.2	-6.7	-1.9
Non-metallic minerals	140.7	184.7	194.5	185.8	197.4	5.8	-0.5	-4.5	6.2
	135.2	125.3	103.8	93.2	105.5	0.3	-17.4	-10.2	13.2
Production of some important minerals									
Precious metals									
Gold ^b	4 501	6 096	6 104	6 930	7 063	3.7	-3.4	13.5	1.9
Silver ^c	1 183	1 473	1 550	1 911	1 986	12.4	-6.3	23.3	3.9
Non-ferrous industrial metals									
Lead ^d	163	146	146	167	183	8.1	-7.3	14.4	9.0
Copper ^d	78	175	239	206	190	31.4	4.3	-13.8	-7.8
Zinc ^d	229	238	232	257	292	-11.2	9.7	10.8	13.3
Bismuth ^c	445	770	606	545	419	-14.8	-7.6	-10.1	-23.2
Cadmium ^c	1 581	1 791	1 444	1 341	1 100	-20.0	0.8	-7.1	-18.0
Metals and minerals for the iron and steel industry									
Coke ^d	2 088	2 409	2 450	2 425	2 376	0.7	1.0	-1.0	-2.0
Iron ^d	3 369	5 087	5 382	5 306	5 519	4.1	1.7	-1.4	4.0
Manganese ^d	154	161	183	133	197	29.3	-12.0	-27.3	48.5
Non-metallic minerals									
Sulphur ^d	2 164	2 102	1 815	1 602	1 820	-1.2	-12.6	-11.8	13.6
Fluorite ^d	1 089	916	631	557	636	1.0	-31.8	-11.7	14.3
Barite ^d	300	269	324	357	388	18.0	1.9	10.2	8.7

Source: ECLAC, on the basis of figures provided by the Ministry of Programming and the Budget.

^a Preliminary figures.

^b Kilogrammes.

^c Tons.

^d Thousands of tons.

Table 7

MEXICO: INDICATORS OF PRETOLEUM ACTIVITY

	1980	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Index of extraction of crude oil and natural gas (1970 = 100)	381.8	529.1	515.1	514.4	19.3	16.1	-2.7	-0.1
Production of main items								
Petroleum ^b	779	1 096	1 070	1 077	19.6	17.6	-2.4	0.7
Crude and condensate	708	1 003	973	983	19.1	18.8	-3.0	0.7
Gas liquids	71	93	97	94	24.5	5.5	4.3	-2.9
Natural gas ^c	36 772	44 123	41 897	38 887	14.1	20.0	-6.0	-7.2
Refined products ^b	417	462	467	505	10.3	10.8	-1.1	8.1
Gasoline	120	127	130	133	9.8	5.8	2.4	2.4
Diesel	89	86	82	85	10.2	-3.4	-4.7	4.3
Fuel-oil	113	130	128	137	12.2	15.0	-1.5	7.4
Others	95	119	127	150	11.1	25.3	6.7	18.1
Exports								
Crude oil ^b	302	545	560	556	32.7	35.9	2.8	-0.8
Natural gas ^c	2 903	2 684	2 244	1 534	3.6	-9.9	-16.4	-31.8
Other indicators^b								
Proven reserves	60 126	72 008	72 500	71 750	19.8	-	0.7	-1.0
Domestic consumption of petroleum	477	551	510	521	11.4	3.8	-7.4	2.2

Source: ECLAC, on the basis of figures supplied by Petróleos Mexicanos.

^a Preliminary figures.^b Millions of barrels.^c Millions of cubic metres.

The reduced purchases of gas by the United States caused a 32% contraction in the physical exports of liquid gas. In fact, the far from encouraging prospects on the petroleum markets have made it advisable to adopt a cautious policy on extraction to avoid a further fall in international prices.

In consequence of the economic revival, domestic consumption of petroleum increased by slightly more than 2%. The rise in domestic prices prevented this increase from being higher. External demand for refined products —mainly gasolines and fuel oil— on the other hand showed a most dynamic trend. As a whole, production of refined products grew by 8%.

With this exception, the unfavourable international petroleum outlook led to the adoption of a cautious policy on extraction and made it unnecessary to open up new deposits, although the prospection programme was continued, with positive results. Nonetheless, the year's extraction slightly reduced the proven reserves of petroleum, bringing them down to 71 750 million barrels. For these reasons, Mexican Petroleum pursued a tight investment programme, in accordance with the general tone of the public sector, which allowed it to reorganize its finances, make profits and pay off part of its external debt.

iv) *Manufacturing*. The production of the industrial sector increased by more than 4%, after a biennium of sharp decline. As a result, its level in 1984 was similar to that recorded four years previously (see table 8).

As the revival of this sector, which mainly took place in the last months of 1984, followed a period of sharp contraction in demand which forced most firms to operate with a minimum of their productive capacity in 1982-1983, it required no major investments, although it needed increased financing and considerable replacement of stocks.

The increases in domestic demand and in exports were the driving factors, although they had different effects on the various branches. Thus, those branches directed towards mass consumption, such as food and clothing, languished and even declined in per capita terms, as a result of the effects of the austerity policy on the incomes of the broadest sectors of the population. On the other hand, the

iron and steel industry, the production of non-metallic minerals, the manufacture of machinery and the automobile industry proved extremely dynamic, as a result of an effort at capitalization, and the increased demand for vehicles among middle- and high-income groups and also firms owing to the tax incentive provided by the accelerated depreciation of assets which was used to stimulate the sector.

The expansion of exports of manufactured goods was of particular importance. External sales of petroleum by-products, chemicals, petrochemicals and metallic products, including machinery and equipment, were outstanding both in absolute terms and in terms of their growth, which was in some cases spectacular. The curbing of domestic consumption and the undervaluation of the Mexican peso during the first months of the year helped to achieve these results.

Government policy was initially concentrated on the Programme for the Defence of Productive Plant and Employment, as an emergency step for confronting the crisis, and then on establishing the bases of the National Programme for Industrial Development and External Trade 1984-1988, which lays down a strategy for structural change. The first of these programmes was applied particularly in 1983, when it was necessary to face the problems of the indebtedness of enterprises, the lack of foreign exchange and the slackness of demand. The second programme, which came into operation in 1984, laid down criteria for industrial development over the following two years, and sought to establish a new pattern for industrialization which was better integrated domestically and more competitive than the previous one.²

Table 8

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of manufacturing production (1970 = 100)	140.7	198.8	206.5	189.8	198.0	7.4	-3.3	-8.1	4.3
Food, beverages and tobacco	128.4	166.6	182.3	176.9	178.5	5.1	4.1	-3.0	0.9
Textiles and clothing	130.6	168.6	169.6	161.0	165.2	6.7	-5.7	-5.1	2.6
Wood	132.6	180.0	193.6	199.2	207.2	3.9	3.5	2.9	4.0
Paper and printing	126.1	192.2	203.7	195.4	207.9	3.6	2.3	-4.1	6.4
Chemicals, rubber and plastics	160.1	242.7	267.5	267.5	281.1	8.1	2.0	-	5.1
Non-metallic minerals	145.2	193.4	194.7	168.0	176.6	8.0	-6.8	-13.7	15.9
Basic metals	139.5	202.1	190.8	180.1	203.7	3.5	-8.6	-5.6	13.1
Metal products and machinery	157.4	242.8	232.9	169.7	174.3	11.4	-13.9	-27.1	2.7
Production of some important manufactures									
Beer	136.0	187.2	195.4	169.6	180.1	7.2	-2.6	-13.2	6.2
Basic petrochemical products	206.5	325.3	426.7	538.5	541.7	16.6	12.5	26.2	0.6
Fertilizers	149.3	190.5	301.9	289.3	275.8	23.6	28.2	-4.1	-4.7
Cast iron	128.0	227.7	220.5	217.5	230.0	4.1	-7.0	-1.4	5.7
Motor-vehicles	208.1	300.3	269.9	159.2	199.1	22.6	-26.7	-41.0	25.1
Other indicators of manufacturing production									
Consumption of electricity by industry ^b	21.4	28.7	33.2	34.3	36.5	10.3	4.8	3.1	6.4

Source: ECLAC, on the basis of figures supplied by the Ministry of Programming and the Budget, and the Banco de México.

^a Preliminary figures.

^b Billions of kWh. Does not include pumping of water.

² In order to achieve these aims, it is hoped, on the one hand, to consolidate and broaden the industrial sector by integrating the productive chains of basic goods and inputs and, on the other, to modify the pattern of specialization in international trade by providing capital goods and intermediate inputs and strengthening the industrial export sector. In addition, efforts are being made to increase integration of the import-substitution industrial sector by means of selective promotion aimed above all at improving the technology used.

Table 9

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of volume of construction (1970 = 100)	142.1	208.2	220.3	175.4	181.9	11.5	-5.1	-20.4	3.7
Production of the main inputs									
Cement	161.7	228.3	270.0	238.8	258.1	10.5	7.0	-11.6	8.1
Reinforcing rod	159.1	262.9	252.9	233.5	242.8	7.4	-10.4	-7.7	4.0
Structural profiles	155.6	269.7	208.3	166.7	181.5	2.7	-24.8	-20.0	8.9
Seamless steel tubes	116.4	129.7	142.2	126.4	176.2	4.8	4.6	-11.2	39.4
Flat, smooth and worked glass	189.6	238.6	243.1	186.6	175.8	11.0	-11.5	-23.2	-5.8
Refractory bricks and panels	134.3	136.9	89.5	112.5	131.9	3.7	-36.2	25.7	17.2

Source: ECLAC, on the basis of figures provided by the Banco de México and the Ministry of Programming and the Budget.

^aPreliminary figures

Among the main instruments of the programme which came into operation in 1984 the most important were the rationalization of protection, the development of exports, and the granting of special treatment to the frontier strips. Gradual adjustments of the levels of protection are planned which will in the short term eliminate the need for prior import permits for capital and intermediate goods not produced in the country, while in the long term it is hoped to transform customs duties into the principal instrument of protection, reducing the number of rates to eight. During 1984 fractions representing 8% of imports were freed from the requirement of a prior permit, while a further segment of similar size became subject to a system of automatic permits. In turn, fiscal and financial backing will be provided to develop industrial exports, and the policy of maintaining a realistic rate of exchange will be pursued. Furthermore, temporary imports for the subcontracting industry—which has experienced remarkable growth in recent years—will be encouraged, and the frontier zones will be provided with adequate infrastructure.

v) *Construction.* The virtual paralysis of public sector expenditure on construction and the absence of large-scale projects comparable to those which traditionally existed in similar previous six-year periods largely explain the slackness of this sector, which grew by less than 4% in 1984, after suffering a 25% drop in the previous biennium (see table 9). In point of fact public sector activities were limited to maintenance and repair work and to the continuance of the lines of the "metro" in Mexico City at a much slower rate than in the past.

Activity in the private sector, on the other hand, was stimulated by the growing volumes of finance devoted to the construction of low-cost housing. Thanks largely to this, and to the moderate revival of investment, production of inputs for construction tended to recover, following the strong aggregate fall of the previous two years.

vi) *Basic services.* This was the most dynamic sector in 1984, with a 6% growth, as a result of the simultaneous and more or less parallel recovery of its two components. As a result of the plentiful rainfall, gross electricity generation increased by more than 6%, sufficient to satisfy the expansion of consumption. Furthermore, the transport, storage and communication sector also recorded considerable growth (5.7%), a logical result of the increased economic activity and the boom in external trade.

The dynamism of the railways was exceptional, as a result of the coming to fruition of investments which enabled the railway network to expand by more than 20%, thus reaching almost 26 000 kilometers of track in operation. This was principally due to the rehabilitation of stretches of track in need of repair. Provisional data indicate that both goods transported and the number of passengers increased by approximately 5%.

The progress made by air transport was even greater (23%), mainly owing to the increase in international cargo transport. The number of passengers carried by air on national routes fell by 3%, while on the international routes it grew by 7%, as a result of the larger number of Mexican tourists travelling abroad. In contrast, cargo carried by sea fell by 4%.

Finally, the Mexico City "metro", whose network was enlarged from 93 to 99 kilometers, carried approximately 3.5 million passengers per day, 12% more than in 1983.

vii) *Other services.* The recovery of these activities, which produce approximately half the gross domestic product, was slower than that of the economy as a whole. The recovery of trade, which contributes slightly less than one quarter of the global product, and which after a 10% drop in 1983, revived by less than 3% in 1984, was particularly weak. This performance was a consequence of the gradual contraction in demand for consumer goods caused by the continuing deterioration of real wages, which affected both purchases of basic goods and those of consumer durables. Banking was the sole activity within the sector which showed a relatively satisfactory trend. In contrast, the property market remained depressed, its growth being virtually stagnant. Social and personal community services reacted slightly better, as a result of the priority they were given in public expenditure.

3. The external sector

a) *General features*

The greatest success of economic policy in 1984 was the adjustment of the external accounts. In spite of the considerable recovery of the value of imports, a substantial trade surplus —around US\$ 14 billion— was again earned, which made it possible to face debt servicing payments and to rebuild in part gross international monetary reserves, which consequently rose to more than US\$ 8.1 billion.³

The results obtained in 1982-1983 within the framework of the agreement on the extended financing service signed with the IMF provided a basis for the negotiations undertaken with the international financial community. Aimed at rescheduling debt payment, they culminated in the inclusion of the last US\$ 48.5 billion of the public debt, whose payment schedule was extended until 1998. Thus Mexico could again resort to the international capital markets in search of further financial resources worth US\$ 3.8 billion, of which only US\$ 2.2 billion were in fact used. Consequently, towards the end of 1984, the balance of the total external debt bordered on US\$ 96 billion, a figure more than treble the value of exports of goods and services. The servicing of this debt continued to represent a source of vulnerability for the Mexican economy and one of the main obstacles to its future development.

Despite the pronounced revival of the North American economy, the international economic situation remained unfavourable for Mexico and required further sacrifices at the domestic level. In fact, the depressed state of the international petroleum market led to the stagnation of the country's principal export item and of fiscal income. In addition, the further increase in interest rates on the international financial markets during the first six months involved an even greater demand for foreign currency. Finally, the terms of trade in goods deteriorated for the fourth consecutive year, although less drastically on this occasion.

The real exchange rate continued to decline throughout 1984. The degree of undervaluation which had previously affected the Mexican peso gradually disappeared until, during the final quarter of 1984, the real exchange rate on the free market was slightly more than half that recorded at the beginning of the previous year and that on the controlled market fell by almost one-third during this period (see table 10). In these circumstances the government decided to raise the daily growth rate of exchange parity from 13 to 17 centavos.

In spite of the unfavourable evolution of the external market and the decline in the effective real exchange rate, a substantial trade surplus was obtained. This was helped by the maintenance of the large volume of crude petroleum exports reached in previous years, the new and very substantial

³ These reserves would make it possible to cover more than six months of imports of goods and services, an aim which in recent decades was only surpassed during the boom of the closing years of the second world war. Nevertheless, if the far greater weight of current interest payments is borne in mind, this coefficient is less significant than in the past.

Table 10

MEXICO: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Official exchange rate (pesos per dollar)		Indexes of the effective real exchange rate ^a			
	Free	Controlled ^b	Exports		Imports	
			A	B	A	B
1975	12.50		103.9		102.5	
1976	15.43		109.4		107.6	
1977	22.57		120.7		119.2	
1978	22.77		114.1		114.8	
1979	22.81		109.1		109.0	
1980	22.95		100.0		100.0	
1981	24.52		90.3		90.8	
1982	57.18		131.8		133.1	
1983	150.29	120.17	173.2	135.4	176.9	138.4
1984	185.19	166.77	124.7	113.0	127.3	115.4
1982						
I	34.37		105.0		105.8	
II	46.78		123.6		124.6	
III	67.42	59.75	148.9	132.0	150.4	133.3
IV	80.13	55.91	149.8	103.3	151.8	104.8
1983						
I	148.72	102.39	214.4	147.1	218.5	149.9
II	148.62	114.16	175.6	134.9	179.3	137.8
III	148.39	126.10	155.5	132.2	159.2	135.3
IV	155.30	138.02	147.5	131.1	150.8	134.0
1984						
I	167.33	149.91	134.9	120.9	137.8	123.5
II	179.16	161.74	125.6	113.5	128.2	115.8
III	191.10	173.68	122.1	111.0	124.6	113.3
IV	203.17	185.75	116.6	106.6	119.0	108.8

Source: ECLAC, on the basis of information provided by the Banco de México and the International Monetary Fund, *International Financial Statistics*.

Note: A: Calculated on the basis of the free exchange rate.

B: Calculated on the basis of the controlled exchange rate.

^aThis corresponds to the average for the real peso exchange rate indexes against the currencies of Mexico's main trading partners, weighted by the relative importance of exports or imports, as applicable, towards or from these countries. Between 1975 and 1979 these weightings correspond to the average for these years and from 1980, to the average for the 1980-1983 period. Preference has been given to wholesale prices in the calculations. For the methodology and sources used, see the technical appendix in the *Economic Survey of Latin America, 1981*. ^bAs from August 1982 a dual exchange rate was adopted, known first as the "preferential" and later as the "controlled" rate.

expansion in exports of petroleum products, and the vigorous growth of non-traditional exports for the second year running.

The boosting of non-petroleum exports and the increase in exportable surpluses represented one of the most positive aspects of the evolution of the external sector, although the production of such surpluses was to a certain extent a result of the restriction of domestic demand, particularly during the first months of the year.

The low level of imports still redounded in a considerable saving of foreign currency, although the incipient reactivation of the domestic economy, the reconstitution of stocks and the drop in the effective real exchange rate caused them to increase by more than 30% in comparison with their low 1983 level.

The gradual but persistent decline in the real exchange rate, induced as an anti-inflationary measure, also contributed to the reversal of trends in those services most sensitive to variations in exchange parity, such as frontier trade and tourism. Nonetheless, Mexico no longer continued to offer

comparative advantages, as a result of which methods of reinsertion in the international economy which favour the setting up of subcontracting industries and, in general, the entry of foreign investment continued to be sought. For its part, the increased flexibility accorded to direct foreign investment as regards its percentage share bore its first fruit. Indeed, the investment projects approved exceeded US\$ 1.5 billion, a figure 50% higher than planned.

b) *Merchandise trade*

Policy on external merchandise trade was to some extent a follow-up of that of 1983, when the stabilization programme was adopted. Its basic aim continued to be the generation of a substantial trade surplus through the promotion of exports and the reduction of imports. Nonetheless, in 1984 difficulties sharpened as the petroleum market stagnated and imports grew considerably owing to the incipient economic recovery and the need to rebuild stocks. Thus, it was the dynamic trend of non-petroleum exports that produced the trade surplus.

The terms of trade in goods again deteriorated, this time by slightly more than 1%, which came on top of the fall of approximately 22% in the previous triennium. The price conditions of external trade were therefore approximately the same as those which existed in 1978, before the petroleum boom (see table 11). In contrast, the volume exported increased by more than 5%, mainly thanks to the satisfactory performance of non-petroleum products. As regards imports, their volume rose much more sharply (27%), following the enormous drop of more than 60% in the previous biennium. Nonetheless, the trade surplus again exceeded US\$ 13.8 billion.

The value of merchandise exports reached US\$ 24 billion, 8% higher than in 1983. Exports of hydrocarbons grew slightly (3.5%), thanks to the maintenance of crude petroleum sales and the almost 70% increase in exports of petroleum products. Sales of gas to the United States, on the other hand, fell by almost 35%. Thus the share of hydrocarbons in total exports was over two-thirds (see table 12).

External sales of non-petroleum products rose by almost 20%. This was due not only to traditional, but particularly to non-traditional sales. In this category, the dynamism of external sales of metallic products, machinery and equipment (95%) and car components (42%) was particularly noteworthy.

The maturing of investments made in previous years, within the framework of the "industrial redeployment" strategy of transnational corporations, was the root cause of the export boom in

Table 11

MEXICO: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	48.9	72.8	24.1	10.7	0.7	8.2
Volume	17.5	23.6	18.8	27.4	10.8	5.4
Unit value	26.7	39.8	4.5	-13.1	-9.1	2.7
Imports						
Value	51.8	55.8	27.2	-40.0	-40.7	31.6
Volume	33.7	37.9	18.4	-41.7	-37.2	27.4
Unit value	13.6	13.0	7.5	3.0	-5.6	3.3
Terms of trade	11.7	24.0	-2.9	-15.6	-3.9	-1.3
Indexes (1970 = 100)						
Purchasing power of exports	299.1	458.4	528.6	568.6	605.1	629.6
Volume of exports	225.7	278.9	331.3	422.2	467.8	492.9
Terms of trade	132.5	164.3	159.6	134.7	129.4	127.7

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 12

MEXICO: EXPORTS OF GOODS, FOB^a

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^b	1975	1980	1984 ^b	1981	1982	1983	1984 ^b
Total exports (merchandise FOB)	22 081	22 235	24 054	100.0	100.0	100.0	24.1	10.7	0.7	8.2
Hydrocarbons	16 362	15 881	16 441	16.0	64.1	68.3	40.1	13.3	-2.3	3.5
Crude petroleum	15 623	14 793	14 968	15.2	58.7	62.2	41.1	17.4	-5.3	1.2
Petroleum by-products	261	738	1 244	0.8	2.7	5.1	43.1	-67.3	182.7	68.6
Natural gas	478	350	229	-	2.8	1.0	16.7	-8.8	-26.8	-34.6
Non-petroleum products	5 719	6 354	7 613	84.0	35.9	31.7	-4.6	4.0	11.1	19.8
Main traditional exports	1 670	1 694	1 924	25.2	10.5	8.1	-4.7	4.0	1.4	13.6
Coffee beans	345	385	424	6.4	2.6	1.8	-19.6	3.3	11.6	10.1
Shrimps	368	380	402	4.8	2.4	1.7	-8.9	5.7	3.3	5.7
Silver	296	397	335	...	...	1.4	...	...	34.1	-15.6
Tomatoes	154	112	221	4.3	1.2	0.9	7.0	-22.3	-27.3	97.3
Cotton	184	116	208	6.0	2.0	0.9	-3.7	-40.5	-37.0	79.3
Pulses and fresh vegetables	178	149	179	0.8	1.0	0.7	15.7	-10.6	-16.3	20.1
Sulphur	74	108	93	1.5	0.7	0.4	27.4	-45.2	45.9	-13.9
Fresh fruit	71	47	80	1.4	0.6	0.3	-20.4	-13.4	-33.8	70.2
Main non-traditional exports	2 037	2 700	4 076	25.8	12.7	16.9	-1.7	1.6	32.5	51.0
Metal products, machinery and equipment	888	1 063	2 074	9.4	5.9	8.6	-4.7	-0.7	19.7	95.1
Motor-vehicle parts	374	816	1 157	6.1	1.6	4.8	-3.5	52.6	118.8	41.8
Automobiles and trucks	81	123	148	0.3	0.8	0.6	-15.5	-25.7	51.9	20.3
Chemical products	442	628	755	6.8	2.5	3.1	15.7	-3.3	-42.1	20.2
Food and beverages ^c	339	344	419	7.0	2.4	1.7	-14.7	2.1	2.4	13.4
Iron and steel products	112	319	378	1.3	0.4	1.6	-9.9	75.0	184.8	18.5
Non-metallic mineral products	140	210	289	0.9	0.8	1.2	-3.1	12.0	50.0	37.6
Petrochemical products	116	136	161	0.3	0.7	0.7	13.7	-12.8	17.2	18.4
Rest	2 012	1 960	1 613	33.0	12.7	6.7	-7.4	6.5	-2.6	-17.6

Source: ECLAC, on the basis of figures supplied by the Banco de México.

^aExcluding subcontracting.^bPreliminary figures.^cExcluding deep-frozen shrimps.

certain branches, such as automobiles. Furthermore, faced with the slackening of the domestic market, large numbers of national entrepreneurs attempted to sell their output abroad, often successfully.

For their part, merchandise imports increased by 32% over 1983, but their value (US\$ 11.25 billion) was less than half that recorded in 1981 (US\$ 24 billion). Contrary to what occurred in 1983, private sector purchases were higher in absolute terms and more dynamic than those of the public sector (see table 13).

Imports of consumer goods, which had been the most affected during the previous biennium, were those which showed the highest recovery level (38%). Even so, it failed to reach even one-third of the 1981 level. Purchases of intermediate goods, which make up almost 70% of the total, also rose by more than 36%, thanks to the vigorous expansion of imports of steel and metallic products, with assembly equipment for the automobile industry prominent among the latter. On the other hand, imports of agricultural products, which had doubled during the previous year, fell off slightly. Recovery was more moderate in the case of imports of capital goods, as a result of the stagnation of public sector investment.

As already said, in order to protect the productive apparatus and employment, shipments which in total made up 16% of imports were exempt from control or subject to the automatic permit system. This policy was nonetheless selective, in that imports of non-essential goods were controlled.

c) *The services trade and factor payments*

Largely owing to the reduction in the undervaluation of the peso, imports of services grew more than exports. An exception to this trend was the highly dynamic behaviour of transformation services performed by the subcontracting industries. Despite the relative rise in prices of national inputs due to the exchange policy, these, and above all labour, continued to be competitive. Thanks to this and to

Table 13

MEXICO: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total imports (merchandise FOB)	14 434	8 554	11 254	100.0	100.0	100.0	27.2	-40.0	-40.7	31.6
Public sector	5 400	4 307	4 790	...	43.3	42.6	7.8	-38.8	-20.2	11.2
Private sector	9 034	4 244	6 464	...	56.7	57.4	42.0	-40.7	-53.0	52.3
Consumer goods	1 517	614	848	9.1	12.8	7.5	15.8	-46.0	-59.5	38.1
Food products	486	381	286	...	5.0	2.5	-5.9	-45.4	-21.7	-24.9
Milk	145	111	89	0.6	1.0	0.8	-32.3	15.1	-23.4	-19.9
Sugar	141	188	73	...	3.0	0.6	-35.9	-60.9	33.3	-61.2
Meat	47	17	45	...	0.1	0.4	155.5	-31.9	-63.8	164.7
Butane and propane gas	109	41	227	...	0.8	2.0	-1.4	-23.8	-62.4	453.5
Intermediate goods	8 415	5 740	7 833	44.1	58.4	69.6	22.8	-37.9	-31.8	36.5
Agricultural product	775	1 576	1 553	...	8.0	13.8	16.9	-56.2	103.4	-1.5
Soybeans	156	218	403	...	1.6	3.6	15.3	-56.1	39.7	84.8
Maize	37	630	367	6.0	3.1	3.3	-25.0	-91.5	1 602.7	-41.7
Sorghum	195	434	363	1.8	0.9	3.2	165.0	-54.9	122.6	-16.4
Paper, printing and publishing	343	250	315	2.4	2.7	2.8	4.8	-35.0	-27.1	26.0
Petroleum by-products	257	184	235	4.4	0.8	2.1	24.6	14.7	-28.4	27.7
Petrochemical products	453	385	468	...	2.8	4.2	19.1	-28.9	-15.0	21.6
Chemical products	1 218	863	1 176	11.7	7.5	10.4	16.1	-26.3	-29.1	36.3
Chemical products for industry	206	158	202	0.7	1.2	1.8	21.2	-23.4	-23.3	27.8
Chemical products for pharmaceuticals	85	77	101	0.1	0.6	0.9	8.7	-24.8	-9.4	31.2
Fertilizers	129	62	106	1.2	0.5	0.9	65.3	-17.8	-52.0	71.0
Iron and steel products	1 039	418	738	8.1	9.4	6.6	22.1	-52.3	-59.8	76.6
Metal products, machinery and equipment	3 025	1 378	2 189	...	18.7	19.5	27.6	-32.9	-54.4	58.9
Automobile equipment	972	357	573	...	7.6	5.1	17.3	-42.7	-63.3	60.5
Capital goods	4 502	2 197	2 573	36.3	26.6	22.9	5.1	-40.6	-51.2	17.1
Metal products, machinery and equipment	4 389	2 114	2 453	29.2	26.1	21.8	50.9	-40.9	-51.8	16.0
Vessels	321	309	383	...	1.8	3.8	-12.3	10.3	-3.8	23.9
Machinery for metals	580	249	239	...	2.1	2.1	77.8	-16.8	-51.1	-4.0
Other unclassified goods	-	3	-	10.5	2.2	-	...	...	...	...

Source: ECLAC, on the basis of figures provided by the Banco de México.

^a Preliminary figures.

the revival of the North American economy, subcontracting grew by more than 40% and earned an income of more than US\$ 1.15 billion in foreign exchange.

Tourism and frontier transactions, on the other hand, changed in the direction expected because of the relative rise in costs within the country. Tourism earned a surplus of US\$ 1.05 billion, 10% below that recorded in 1983. This was due to the fact that the number of tourists who left the country grew by 37% and their average expenditure by 7%, while the number of visitors rose by only 2%, although their average expenditure increased by 23%. As regards frontier purchases on the Mexican side, they grew by 18% while those of Mexicans on the United States side grew by 30%, as a result of which the deficit on this item approached US\$ 200 million.

In turn, net payments for factor services rose to US\$ 10.2 billion. Prominent among these was the 23% rise in interest payments, mainly as a result of the increase in international interest rates. These payments thus reached an unprecedented figure of US\$ 11.9 billion. This was further increased by US\$ 450 million in transfers of profits from foreign investment. Thus, despite the maintenance of the trade surplus at around US\$ 14 billion, the current account surplus fell from almost US\$ 5 billion in 1983 to slightly more than US\$ 3.7 billion in 1984 (see table 14).

d) *The capital account*

As a whole the capital account produced a deficit of around US\$ 1.5 billion since net income of long-term capital worth US\$ 2.6 billion proved insufficient to offset the outflow of short-term capital worth US\$ 4 billion. The diminution of the external financial requirements of the public sector was reflected in a lower net capital inflow into the country. The credit of US\$ 3.8 billion granted to the government by a consortium of more than 500 banks proved sufficient for the above requirements and for the continued amortization of the external debt of the official sector and the commercial banks. In sum, long-term funds attracted by the official sector (including the development banks), exceeded US\$ 4.8 billion, while the amortization payments made by the latter and by the commercial banks approached US\$ 2.8 billion. Furthermore, direct foreign investment brought in approximately US\$ 400 million in foreign exchange, in consequence of new projects worth almost US\$ 550 million, reinvestments of more than US\$ 200 million, and the purchase of foreign companies by Mexicans for more than US\$ 350 million.

The swollen deficit on the short-term capital account came mostly from the private sector. It is difficult to give a precise estimate of the size of the outflow of speculative capital, which was more pronounced during certain months of the year, since this account is made up of different items of assets and liabilities which are frequently unspecified. This latter category included private debt payments worth almost US\$ 1.8 billion made through the intermediation of the Trust Fund for the Cover of Exchange Risk (FICORCA) and various transfers by foreign-capital firms amounting to almost 600 million.

At all events, in 1984 the Mexican economy exported capital for the second year in a row.

e) *The external debt*

In 1984 the third round of negotiations took place to improve conditions of payment for some US\$ 48.5 billion of the public debt which had not been rescheduled. Amortization and interest payments were successfully rescheduled up to 1998, raising hopes of reducing disbursements for interest payments by more than US\$ 5 billion, thanks to the change from the United States prime rate to the LIBOR. The negotiations, which were almost completed in 1984, meant the virtual disappearance of extremely short-term bonds which matured that year (see table 15).

In 1984 the public sector was granted a net supplementary indebtedness of US\$ 4 billion, despite which the amount that appeared in the records was 6.8 billion. In fact, the government was obliged to take over the debt of other public institutions which had previously been excluded from the consolidated budget, as well as that of banking institutions and even private firms, in an amount estimated at US\$ 3 billion. The rest was effectively made up by a loan of US\$ 380 million from a consortium of some 500 banks.

Since records of the debt of the private sector and banking system were not as accurate in the past as those of the public sector, data referring to the total external debt of the country give only a

Table 14
MEXICO: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-3 259	-5 553	-8 305	-14 074	-5 922	4 966	3 725
Trade balance	-593	-1 575	-2 225	-4 658	5 584	13 848	13 808
Exports of goods and services	10 743	15 129	23 458	28 884	26 895	26 422	29 604
Goods, FOB	6 246	9 300	16 067	19 938	22 081	22 228	24 054
Real services ^b	4 497	5 829	7 390	8 947	4 815	4 193	5 550
Transport and insurance	250	321	446	476	425	478	530
Travel	3 208	4 185	5 243	6 347	3 500	3 039	3 650
Imports of goods and services	11 336	16 704	25 683	33 542	21 311	12 575	15 796
Goods, FOB	7 992	12 130	18 897	24 038	14 434	8 554	11 254
Real services ^b	3 344	4 573	6 789	9 505	6 877	4 021	4 542
Transport and insurance	779	1 121	1 934	2 389	1 730	1 224	1 350
Travel	2 152	2 931	4 174	6 155	3 205	1 900	2 600
Factor services	-2 771	-4 108	-6 209	-9 531	-11 598	-8 993	-10 218
Profits	-676	-945	-1 387	-1 898	-1 332	-308	-450
Interest received	405	696	1 022	1 386	1 324	1 066	2 050
Interest paid	-2 576	-3 709	-5 476	-8 384	-11 264	-9 863	-11 900
Others	77	-150	-368	-635	-328	112	-82
Unrequited private transfer payments	104	130	132	114	92	112	135
Balance on current account	3 692	5 835	9 330	14 775	1 812	-2 945	-1 484
Unrequited official transfer payments	88	94	144	175	169	243	242
Long-term capital	5 121	5 200	7 776	13 044	11 056	4 309	2 630
Direct investment	824	1 332	2 185	2 537	1 399	496	391
Portfolio investment	737	-393	-75	987	654	-544	...
Other long-term capital	3 560	4 261	5 666	9 521	9 003	4 357	2 239
Official sector ^c	362	-180	655	618	2 775	4 249	2 462
Loans received	857	1 752	1 149	1 803	3 158	5 193	4 815
Amortization payments	-495	-1 933	-494	-1 185	-384	-943	-2 353
Commercial banks ^c	1 006	1 269	1 134	2 973	2 170	-39	-428
Loans received	3 338	3 454	2 559	4 736	3 204	963	-
Amortization payments	-2 331	-2 183	-1 425	-1 764	-1 034	-1 001	-428
Other sectors ^c	2 192	3 172	3 877	5 929	4 059	147	205
Loans received	4 246	6 124	5 491	7 912	6 775	2 154	...
Amortization payments	-2 037	-2 968	-1 627	-1 624	-3 387	-2 172	...
Short-term capital (net)	-1 421	-58	5 180	10 147	-1 932	-5 044	-4 054
Official sector	-1	-	67	-16	-137	-	-25
Commercial banks	-837	1 077	2 317	6 127	-440	796	158
Other sectors	-583	-1 135	2 796	4 036	-1 355	-5 839	-4 187
Errors and omissions	-98	598	-3 770	-8 594	-7 483	-2 454	-302
Global balance^d	433	282	1 025	700	-4 110	2 021	-2 241
Total variation in reserves (- sign indicates an increase)	-411	-356	-938	-762	3 469	-2 050	-3 201
Monetary gold	-6	-3	-4	-7	7	-10	...
Special Drawing Rights	1	-144	56	-34	172	-17	20
IMF reserve position	-	-	-128	-60	187	-95	95
Foreign exchange assets	-194	-46	-727	-662	2 881	-2 967	-3 487
Other assets	-1	-	-	-	-	-	...
Use made of IMF credit	-211	-163	-136	-	222	1 039	1 100

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*; March 1985; 1984: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Real services also include other official and private transactions, but exclude factor services.

^c In addition to loans received and amortization payments on these, this entry includes net loans granted and other assets and liabilities.

^d The global balance is the sum of the balances on the capital and current accounts. The difference between the total variation in reserves with the opposite sign and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

Table 15
MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Billions of dollars						
External public debt						
Balances outstanding	29.8	33.8	53.0	58.9	62.6	69.4
Medium- and long-term	28.3	38.3	42.2	49.6	52.8	69.0
Short-term	1.5	1.5	10.8	9.3	9.8	0.4
Disbursements	5.4	4.5	20.4	6.3	4.6	7.8
Servicing	4.7	4.5	6.6	8.8	8.2	9.6
Amortization payments	1.9	0.5	1.2	0.4	0.9	1.0
Interest payments	2.8	4.0	5.4	8.4	7.3	8.6
Total external debt^b						
Balance outstanding	39.7	50.7	74.9	88.3	92.1	95.9
Disbursements	12.9	14.5	28.8	18.2	7.9	7.8
Servicing	10.8	9.0	13.0	16.1	14.0	15.7
Amortization payments	7.1	3.5	4.6	4.8	4.1	4.0
Interest payments	3.7	5.5	8.4	11.3	9.9	11.7
Percentages						
Ratios						
Total external debt/exports of goods and services	262.4	216.1	259.3	328.3	348.4	332.9
Servicing/exports of goods and services	71.4	38.3	22.9	59.8	53.0	53.0
Net interest/exports of goods and services	19.9	19.0	24.2	37.0	33.3	32.8
Servicing/disbursements	83.7	62.1	45.1	88.5	177.2	201.3

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit, the Banco de México and the International Monetary Fund.

^a Preliminary figures.

^b Figures calculated on the basis of official estimates of private debt and, from 1982, that of the banks taken over by the State. Part of the increase in these two items in 1982 and 1983 was due to the incorporation into official records of debts which had not been accounted for in the past and not to a real increase of the debt.

rough idea of its size.⁴ Although its total amount at the end of 1984 —US\$ 95.9 billion— was barely 4% higher than that recorded in the previous year, it continued to represent more than three times the value of annual exports of goods and services. Furthermore, its servicing doubled the amount of new disbursements, while net interest payments were equivalent to one-third of total external sales (see table 15).

4. Prices, wages and employment

a) Prices

In order to counter the inflationary outbreak of 1982, the new government introduced a stabilization programme in 1983 whose main aim was to bring about a dramatic reduction in effective demand by a process, among other measures, of substantially reducing the public deficit and sharply decreasing real wages. Nevertheless, the effects of these measures upon inflation were cancelled out in the short term, partly by the repercussions of the brusque devaluation of the peso which had just been carried out, and partly by the marked increase in the prices and tariffs of public goods and services. Nonetheless, the rate of inflation fell from 100% in 1982 to 80% at the end of 1983, although this latter figure was well above the 60% target set by government economists.

⁴For this reason, the growth in total external debt which appears for 1982 and 1983 in table 15 corresponds more closely to the incorporation of already existing debts, than to real supplementary indebtedness.

As in the previous year, the target initially set for 1984 —40%— was far from reached, although inflation again declined significantly. In fact, the variation in the consumer price index for December fell below 60%, while the variation between annual averages declined by approximately one-third, as did that of wholesale prices (see table 16 and figure 2).

Although there were some changes in comparison with 1983, many of the factors which hindered more rapid progress towards stabilization during the previous year persisted. Thus, the maintenance of high interest rates continued to exert considerable pressure on costs, which were also affected by the continuing underutilization of installed capacity in many firms, which were therefore unable to take advantage of potential economies of scale. The oligopolies which existed in certain productive sectors also continued to affect the level of prices. On the other hand, in contrast with what happened in 1983, cost pressures caused by the adjustment of the exchange rate were lower, since this rose considerably less than inflation.⁵ Moreover, although the average increase of prices and tariffs for public sector supplies (70%) was slightly higher than the average price variation, it was lower than in 1983. In fact, in the case of some of these goods and services, although it had been forecast that rises in their prices would be equivalent to inflation, they actually lagged behind as effective inflation was higher than expected.⁶ Additionally, as in 1983, wages did not represent an autonomous source of inflation, since they rose considerably less than consumer prices.

Food prices increased by 75%, thus exceeding the 65% average variation in the consumer price index. This reversed the trend of previous years. It is probable that this increase was influenced by the more active character assumed by the guaranteed price policy for some products,⁷ even though the provision of subsidies prevented its effects from being directly transmitted to urban consumers.⁸ During the year, however, there were successive increases in the prices of basic products, as a result of which rises in prices of goods subject to governmental price control were as a whole higher than those

Table 16
MEXICO: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
December to December variation						
Consumer price index ^a	20.0	29.8	28.7	98.8	80.8	59.2
Food	20.1	29.4	24.7	89.8	77.9	70.6
Wholesale price index ^b	19.9	26.4	27.2	92.6	88.0	63.2
Consumer goods	20.9	30.1	28.9	72.6	76.8	65.0
Food	20.6	32.7	27.9	65.6	72.5	72.4
Others	21.8	24.4	31.2	88.3	85.0	51.6
Producer goods	18.2	20.5	24.3	127.6	102.8	61.0
Variation between annual averages						
Consumer price index ^a	18.2	26.3	27.9	58.9	101.9	65.4
Food	18.4	25.0	26.2	53.5	91.1	74.9
Wholesale price index ^b	18.3	24.5	24.5	56.1	107.4	70.3
Consumer goods	19.9	26.9	27.3	49.2	87.4	67.0
Food	19.9	28.2	28.1	42.6	80.0	74.3
Others	19.9	23.7	25.4	64.0	101.9	54.2
Producer goods	15.5	20.7	19.8	68.0	138.3	74.4

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aNational.

^bIn México City.

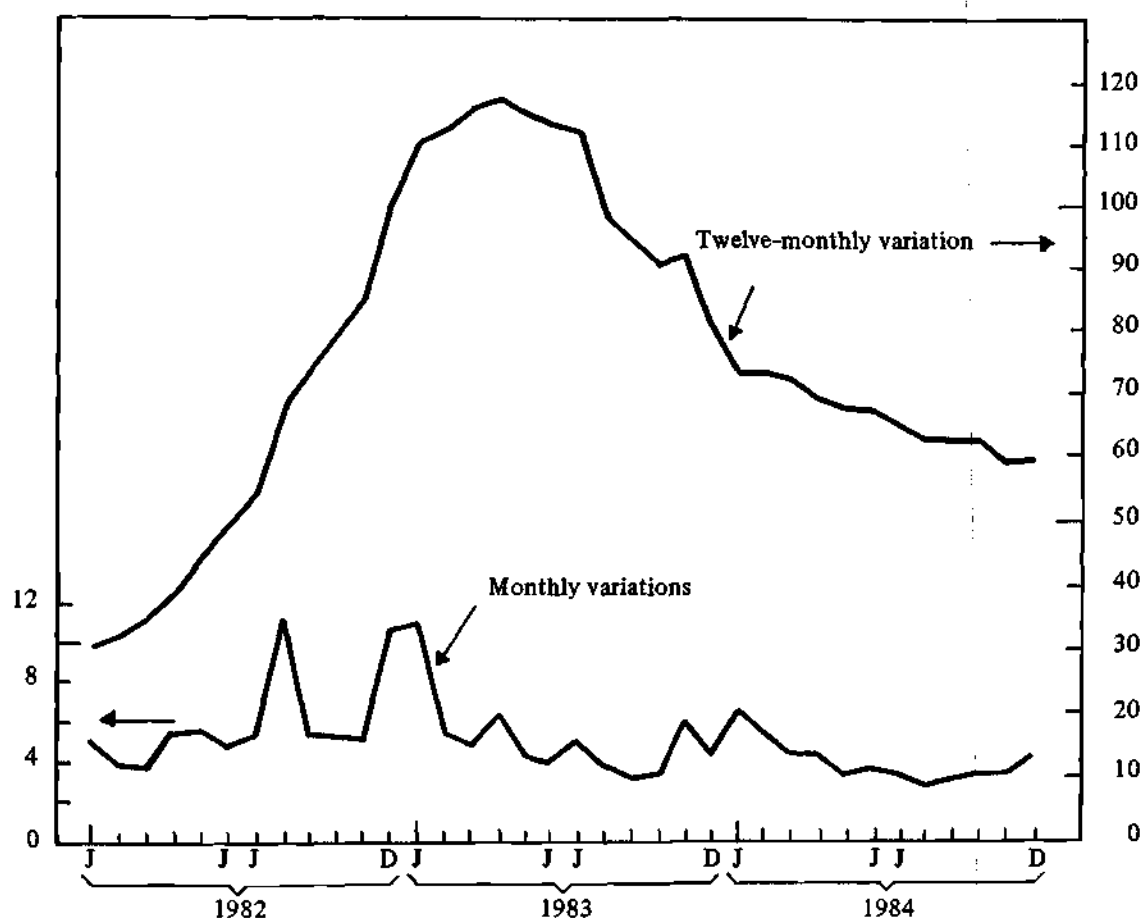
⁵The average increase in the free exchange rate was 23%, while the average variation in consumer prices was 65%.

⁶Thus, the price of the cheapest gasoline rose by 55% and that of high octane gasoline by 45%. On the other hand, the average tariff for electricity went up by 76%.

⁷The planting of maize and sorghum was encouraged by increasing the respective guaranteed prices by 77% and 95%. On the other hand, the guaranteed prices of beans and wheat rose less than the rate of inflation (48% and 57% respectively).

⁸This was the case with the maize tortilla, the staple food in the popular diet, whose average price rose by 49% in 1984, although towards the end of the year it tended to rise very rapidly. On the other hand, the price of white bread rose by 78%, considerably more than the consumer price index.

Figure 2
MEXICO: EVOLUTION OF THE NATIONAL CONSUMER PRICE INDEX
 (Percentage variation)



Source: ECLAC, on the basis of figures provided by the Banco de México.

of uncontrolled prices. This was the case with meat, milk, eggs and oil.⁹ Within the general price index, those items which grew less were housing (52%) and transport (57%). In general, non-durable consumer goods rose most, and services least, this latter feature being influenced by the sluggish increase in wages.

The wholesale price index, which is based solely on data for the capital, recorded for the second year running a higher variation (70%) than the consumer price index, thus making up its lag accumulated over the previous four years.

b) Wages

After a squeeze of approximately 23% in real minimum wages in 1983, the government decided to halt their decline. This aim was based on the progress already made in achieving the targets of financial rationalization and on the forecast recovery of the productive apparatus. Nevertheless, as inflation fell less than had been budgeted for, real minimum wages again declined, this time by 6%.

⁹In consequence of this phenomenon, by December the national consumer price index relating to individuals whose income was equivalent to the minimum wage rose by 63%, and that relating to individuals whose income was between one and three times the minimum wage rose by 60%, i.e., more than the global index (59.2%). The index for individuals with higher incomes, on the contrary, rose by 58%, less than the global index.

This decline occurred despite the fact that a further wages review was made in June, in addition to the annual one in January, to correct any deterioration.¹⁰ In consequence of this loss and those which had followed one another almost without interruption since 1977, the purchasing power of the minimum wage —excluding allowances— was almost 38% lower than its all-time high in 1976.

The nominal 30% increase granted in January was followed by a 20% readjustment in June. This brought the average increase of the minimum wage to almost 55% (see table 17).

Furthermore, to mitigate in part the erosion of the workers' income, a number of general measures were taken, as well as specific ones aimed at protecting the income of low-income groups. Of particular importance in the first group was the suspension in the second half year of the monthly increase in the charges for domestic electricity and gas and the reduction of the fixed quota for the telephone service, and among the second, the extension of production and distribution of milk by CONASUPO, adjustments to subsidies for cornmeal "tortillas", and the 20% reduction in the price of the popular varieties of beans distributed by the above institution.

As a result of the persistence of the tight wages policy, inequalities in the structure of distribution became even more marked in 1984. Thus, the share of wages in the gross domestic product, which had been 38% before the crisis broke and which had fallen to 29% in 1983, declined to 27% in 1984.¹¹

c) *Employment*

The revival of economic activity and the public expenditure policy aimed at creating jobs had a favourable impact on employment, thus reversing the negative trends in the number of wage-earners employed during the previous biennium. Although the growth of the economically active population had dwindled in recent years, its rate of growth was still 2.9%.¹² Thus the rate of creation of paid jobs,

Table 17
MEXICO: EVOLUTION OF WAGES AND SALARIES

	1980	1981	1982 ^a	1983	1984
Indexes (1976 = 100)					
Minimum wages and salaries					
Annual averages					
Nominal	199.5	261.2	397.3	617.4	955.5
Real	88.1	90.2	86.4	66.5	62.2
Month of December					
Nominal	171.6	224.6	391.3	565.4	887.7
Real	78.4	79.7	70.0	55.9	55.1
Growth rates					
Minimum wages and salaries					
Annual averages					
Nominal	17.8	30.9	52.1	55.4	54.8
Real	-6.7	2.4	-4.3	-23.0	-6.4
Month of December					
Nominal	17.8	30.9	74.2	44.5	57.0
Real	-9.3	1.7	-12.2	-20.1	-1.4

Source: ECLAC, on the basis of figures provided by the National Commission on Minimum Wages and the Banco de México.

^aIn calculating the annual average it was assumed that the recommendation of the 30% increase in minimum wages as from 18 February was complied with by 40% of the firms and that the adjustment was gradually generalized until it became universal on 1st November.

¹⁰This figure is obtained by deflating the arithmetical average of general minimum wages by the variation between annual averages in the consumer price index. As the price index relating to individuals whose income is equivalent to the minimum wage increased more than the general index, the erosion of the real minimum wage comes to be 7.9%, if this index is employed.

¹¹On the basis of data provided by the Ministry of Programming and the Budget, *Sistema de Cuentas Nacionales de México*. The 1984 estimate was provided by ECLAC and is based on a 6.4% decline in average wages and a 2.7 increase in employment.

¹²Federal Government estimates, *Programa Nacional de Capacitación y Productividad*, Mexico, 1984.

estimated at 2.7% in 1984, proved insufficient to absorb even the new members of the labour force. It is assumed, therefore, that the gap between these two variables, which includes open unemployment and unpaid labour, widened slightly. In Mexico this latter category covers large contingents of labour which find refuge in the informal sector of the economy. This gap, which had narrowed to 12% in 1981, widened to almost 19% in 1984 (see table 18).

The 2% reduction in personnel employed by the manufacturing industry constituted one of the main reasons for the insufficient dynamism of waged employment.¹³ On the other hand, during the first nine months of the year the number of personnel employed in the subcontracting industry increased. It is estimated that as a whole total employment in the manufacturing sector expanded by 0.6%. It is likely that this rate was higher in the service sector, on which the government's job creation policy was concentrated.

Although it covers a narrower but nation-wide spectrum, the number of persons covered by the Mexican Social Security Institute—which mainly covers workers in the private sector—constitutes a valuable indicator of employment trends. In 1984 it rose by almost 5%, largely as a result of the increased incorporation of permanent members.¹⁴ The largest increases related to construction workers, the processing industry and trade (10%, 8% and 6% respectively).¹⁵ Growth of community and social services was considerably higher (31%) as a result of the government's job creation policy.

Finally, according to the Ongoing Occupational Survey, open unemployment fell to approximately 6% both in Mexico City and in Guadalajara and to 7.5% in Monterrey.

5. Monetary and fiscal policies

a) *Monetary policy*

The main problem confronting the monetary authorities in 1984 was the attempt to attain objectives which are frequently hard to reconcile. Management of interest rates continued to be the most difficult policy instrument to administer, as efforts were made to render them attractive in order to draw increased resources—which meant that they should be competitive with the rates in force externally—and at the same time to prevent their becoming a source of additional inflationary pressure. Attempts were also made to activate credit policy in order to stimulate the revival of specific sectors.

In spite of the existence of exchange control, it did not prove possible to isolate domestic interest rates from those outside. The minimum level of the former was consequently dependent on that of the latter and on the rate of devaluation. Thus, in order to stimulate saving, interest rates on deposits had to be managed so as to offer a yield which was not only nominally attractive to savers, but which was also positive in real terms, taking forecast inflation into account. On the other hand, as the average cost of deposits in banks constitutes the basis for setting the rates for loans, and as in 1984 it was particularly desirable for the latter to be brought down in order to stimulate credit, attempts were made to keep them as low as possible.

In practice some reduction, though still not enough, was made in the interest rates on loans, which had been at extremely high real levels since 1983.¹⁶ Success was also achieved in increasing credit for economic activity, largely owing to a reduction in the difference between the interest rates on loans and on deposits¹⁷ and the reduction of rates on loans to the minimum level acceptable.¹⁸ Nevertheless, as inflation was finally much higher than initially forecast, the latter proved negative in real terms at different stages of the year (see table 19). They continued however to be competitive with rates abroad as the rate of devaluation was kept well below that of domestic inflation.

¹³ This drop is based on data provided by the Banco de México. According to the Monthly Industrial Survey of the Ministry of Programming and the Budget, the contraction was even greater (-3.3%).

¹⁴ This larger number of members also includes voluntary members, not necessarily employees. It also includes workers previously without insurance.

¹⁵ The increase in members from the construction and processing industries reveals discrepancies with the growth of the branch, in the first case, and with the results of the Monthly Industrial Survey, in the second case.

¹⁶ Effective rates (which include commissions and other expenses) fell from 91.2% in December 1983 to 63.7% in December 1984, a figure which was still high in real terms (around 13%).

¹⁷ The difference between effective rates and the average cost of deposits in banks fell from 34.8% in December 1983 to 16.2% in December 1984. Despite this, the banking sector maintained a high level of profits (62 billion pesos).

¹⁸ The average cost of deposits in banks fell from 56.4% in December 1983 to 47.5% in December 1984.

Table 18

MEXICO: INDICATORS OF EMPLOYMENT

	Thousands of persons				Percentage breakdown				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
National total												
Economically active population	22 706	23 364	24 042	24 739	100.0	100.0	100.0	100.0	2.9	2.9	2.9	2.9
Paid employment^b	20 043	19 863	19 572	20 100	88.3	85.0	81.4	81.2	6.6	-0.9	-1.5	2.7
Agricultural	5 189	5 035	5 245	...	22.8	21.6	21.8		5.9	-3.0	4.2	...
Mining and petroleum	263	270	267	...	1.2	1.2	1.1		9.7	2.6	-1.3	...
Manufacturing	2 543	2 485	2 309	2 324	11.2	10.6	9.6	9.4	5.2	-2.3	-7.1	0.6
Subcontracting	130	122	151	207	0.6	0.5	0.6	0.8	9.6	-5.9	23.2	37.2
Rest ^c	2 413	2 363	2 158	2 117	10.6	10.1	9.0	8.6	5.0	-2.1	-8.7	-1.9
Construction	1 881	1 785	1 420	1 473	8.3	7.6	5.9	6.0	11.5	-5.1	-20.4	3.7
Services	10 167	10 288	10 331	...	44.8	44.0	43.0		...	1.2	0.4	...
Difference^d	2 663	3 501	4 479	4 639	11.7	15.0	18.6	18.8	-18.4	31.5	27.7	3.8
Affiliated to the Mexican Social Security Institute	6 795	7 128	6 987	7 330	32.7	33.0	31.2	31.5	13.4	4.9	-2.0	4.9
Permanent	5 543	5 842	5 840	6 174	26.6	27.0	26.1	26.5	11.8	5.4	-	5.7
Casual	1 252	1 286	1 147	1 156	6.1	6.0	5.1	5.0	21.4	2.6	-10.8	0.8
Urban unemployment^e												
México City					3.9	4.0	6.3	5.8				
First quarter					4.2	3.5	6.8	5.4				
Second quarter					3.8	3.9	5.5	5.3				
Third quarter					4.1	4.4	6.4	6.4				
Fourth quarter					3.6	4.1	6.3	6.2				
Guadalajara					5.8	5.0	7.4	6.1				
First quarter					6.2	4.4	6.3	6.9				
Second quarter					5.8	5.2	8.1	5.7				
Third quarter					5.8	5.3	8.6	6.0				
Fourth quarter					5.5	5.1	6.7	5.7				
Monterrey					4.2	4.9	9.8	7.5				
First quarter					4.5	4.3	8.8	8.3				
Second quarter					4.8	4.7	9.8	7.0				
Third quarter					4.2	6.2	11.4	8.5				
Fourth quarter					3.4	4.5	9.1	6.2				

Source: ECLAC, on the basis of figures provided by the National Institute of Statistics, Geography and Data Processing, of the Ministry of Programming and the Budget.

^aPreliminary figures. ^bEstimated by the National Institute of Statistics, Geography and Data Processing, System of National Accounts. ^cEstimated on the basis of the difference between paid work in manufacturing and that estimated for subcontracting industries. ^dIncludes open unemployment and unpaid employment. ^eRates of open unemployment on the basis of the ongoing surveys of unemployment in the principal cities of the country.

Table 19

MEXICO: RATES OF BANK INTEREST

	Rates of interest on deposits ^a		Rates of interest on loans ^b	
	Nominal	Real ^c	Nominal	Real ^d
1980	20.7	0.3	33.7	4.5
1981	28.6	-14.5	46.0	-8.1
1982	43.6	-8.3	62.2	-20.1
I	33.9	-5.9	49.0	-30.0
II	41.6	-8.5	56.6	-27.0
III	51.2	-6.8	71.8	-14.5
IV	47.8	-11.8	71.2	-8.7
1983	56.7	-0.1	92.4	16.0
I	53.6	-1.1	84.5	6.7
II	56.0	1.8	96.3	16.9
III	58.2	1.7	97.1	20.7
IV	56.8	-2.7	91.7	19.5
1984	51.1	-1.0 ^e	73.9	14.2 ^f
I	54.7	-0.6	83.8	16.3 ^f
II	50.5	1.9	72.3	12.7 ^f
III	50.7	1.4	72.6	14.5 ^f
IV	48.4	-3.9 ^e	66.7	13.2 ^f

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aThis refers to three-month deposits, the most common in Mexico in recent years.

^bEffective rates are given, i.e., the nominal rates plus all the expenses the user must incur to obtain the credit (cost of opening the account, interest payment in advance, etc.), assuming that credit conditions will remain constant throughout a year.

^cDeflated using the national consumer price index on a quarterly basis.

^dDeflated using the national consumer price index on an annual basis.

^ePreliminary figures.

^fFigures estimated using a projected annual inflation of 45% to December 1985. These should consequently be taken as tentative.

As a whole, monetary and credit policy remained cautious, although less restrictive than in the previous year. In fact, thanks to the interest rate policy, several items improved considerably, including international monetary reserves and deposits in national currency in the banking system. This produced an increase in the amount of credit, which was mainly channelled into the private sector.

The money supply expanded more slowly than the gross domestic product at current prices, as a result of which the velocity of circulation of money increased. The disproportionate growth of the issue of notes and coins tended to cover the slight real contraction of current account deposits, since these tended to be placed in liquid savings in order to earn interest.

Domestic credit declined slightly, as a result of the decreased finance (-14% in real terms) granted to the public sector. Although the deficit of the latter remained high in constant terms, it was lower than in 1983. On the other hand, credit granted to the private sector increased substantially, by approximately 17% in real terms (see table 20).

On the whole, credit granted to public and private enterprises showed a marked preference for trade, the construction of low-cost housing, mining and primary activities (see table 21).

Deposits in banks in national currency increased by 7%. Hence, following the financial crisis in 1982 and the consequent flight of capital, the banks, which are now nationalized, began to recover their importance in financial intermediation. Within this item deposits for a very short term took precedence over those for a longer term. This phenomenon was due to the fact that the interest rate policy gave a relative advantage to liquid savings. The meagre nominal growth of dollar deposits in the banks was mainly due to exchange effects (see table 20).

November 1984 saw the culmination of the reforms to the financial system which had begun with the nationalization of the banks in September 1982.¹⁹ The alterations restructured the financial

¹⁹These changes involved the promulgation of four new laws: the Law Regulating the Banking and Credit Public Service; the General Law on Credit Organizations and Auxiliary Credit Activities; the Organic Law of the Banco de México, and the Law on Investment Companies. Modifications were also made to the law on the Security Market, the General Law on Insurance Institutions and the Federal Law on Financial Institutions.

system, setting the national credit corporations at the centre, in the form of multipurpose banks (merchant and development), which have continued to merge in order to become more efficient and sound.²⁰

In accordance with its new Organic Law the Bank of Mexico can set limits on domestic financing and refuse to acquire directly from the federal government securities charged against it, unless these are backed with cash deposits not withdrawable before their maturity, and constituted in the bank from the sale of these same securities. In this way the Central Bank is able to rely on a stock of governmental securities to back its monetary controls through operations on the open market. For similar reasons the legal reserve was reduced from 50 to 10% of liabilities and the amount which the Bank must maintain in assets distinct from this reserve, was raised from 28 to 65%. Consequently, the latter will act solely as a mechanism of monetary regulation, and not as a form of government financing.

As regards the security market law, the role of stockbrokers, who are separated from the banking system, was defined, requiring them to be incorporated as *private companies or companies with majority State participation*. In practice, almost all stockbroking firms are privately owned and their influence has grown as a result of the increased resources they now manage. Of particular importance among these are the federation treasury certificates (CETES), which are exclusively placed by them.

Table 20
MEXICO: MONETARY BALANCE

	End-year balance (billions of pesos)			Growth rates			
	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money	992	1 403	2 221	32.8	62.1	41.4	58.3
Currency outside banks	504	678	1 140	44.7	78.7	34.5	68.1
Current account deposits	488	725	1 081	24.1	47.9	48.6	49.1
Factors of expansion	7 070	11 205	17 214	52.4	126.3	58.4	53.6
Net international reserves	274	807	1 609	41.9	107.6	194.5	99.4
Domestic credit	6 796	10 398	15 605	52.9	127.2	53.0	50.1
Government ^b	3 648	5 578	7 564	68.1	200.5	52.9	35.6
Official institutions	1 579	2 314	3 357	57.2	172.4	46.5	45.1
Private sector	1 569	2 506	4 684	38.3	30.9	59.7	86.9
Factors of absorption	6 078	9 802	14 993	58.1	142.0	61.3	53.0
National currency	3 034	5 345	9 191	52.5	119.4	76.2	72.0
Quasi-money	767	1 220	3 792	32.8	145.9	59.1	210.8
Time instruments	1 390	2 558	2 804	62.1	103.1	84.0	9.6
Miscellaneous liabilities	877	1 567	2 595	54.8	127.0	78.7	65.6
Foreign currency	3 466	5 354	7 344	67.3	171.7	54.5	37.2
Quasi-money	37	53	106	54.4	-58.6	43.2	100.0
Time instruments	136	110	130	95.6	-49.4	-19.1	18.2
Long-term external liabilities	3 041	4 749	6 372	69.8	269.8	56.2	34.2
Other liabilities	252	442	736	15.5	159.8	75.4	66.5
Other items (net)	-422	-897	-1 542	82.5	189.0	112.6	71.9
Coefficients							
Monetary multipliers							
M ₁ /monetary base	0.47	0.45	0.47				
M ₂ /monetary base	0.50	0.46	0.48				
Circulation velocity							
GDP/M ₁ ^c	13.30	16.60	18.50				

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aPreliminary figures. ^bIncludes the Federal Government, the state and municipal Governments and the Federal District Department. ^cFor purpose of comparison with GDP average annual balances of M₁ were adopted.

²⁰Under the first restructuring, carried out in August 1983, the number of institutions fell from 60 to 29. Under the second, which culminated in March 1985, it fell to 20: six with national coverage, eight multiregional and six regional ones.

Table 21
**MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES
 AND INDIVIDUALS^a**

	End-year balances (billions of pesos)			Growth rates			
	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	2 855	4 619	7 593	43.5	71.4	61.8	64.4
Primary activities	385	564	1 111	36.7	59.1	46.9	97.0
Agriculture	311	430	839	34.4	42.0	38.3	95.0
Mining and others	74	134	272	64.3	221.7	81.1	103.0
Industry	1 462	2 186	3 285	43.7	123.5	49.5	50.3
Energy sector	599	875	1 182	54.3	234.6	46.1	35.1
Manufacturing	751	1 126	1 830	43.0	94.6	49.9	62.5
Construction	112	185	273	29.0	25.8	65.2	47.3
Low-cost housing	48	168	349	44.1	-2.0	250.0	107.5
Services and other activities	647	1 243	1 844	41.8	59.0	92.1	48.4
Commerce	313	458	1 004	51.0	-0.3	46.3	119.2

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aIncludes public and private enterprises. Excludes Banco de México financing.

^aPreliminary figures.

b) *Fiscal policy*

A tight fiscal policy continued to be applied during 1984 in order to rationalize public finances and hold down inflation. Nevertheless, thanks to the progress made in controlling the public deficit, which declined from almost 18% of the gross domestic product in 1982 to 9% in 1983, there was more room for manoeuvre during this second year of the stabilization plan. Advantage was taken of this to deal with some of the most pressing social and economic demands which had had to be sacrificed in the austerity programme.

Thus, the bill on the income and expenditure budget of the Federation for 1984 incorporated among its policy objectives a 1% growth in the product and the maintenance of the level of employment. To this end the creation of a Contingency Fund for the Revival of Economic Activity was considered, which would be used if non-inflationary financial resources were available and economic recovery in the first months proved insufficient.

The enormous burden represented by the service of the domestic and external debt —37% of the total expenditure budget—²¹ is a factor which distorts the structure of public spending, restricts increases in productive expenditure and amplifies the sacrifice required by the adjustment process. Nevertheless, in 1984 it proved possible to prepare a budget which envisaged a reactivation of public expenditure, within the framework of the above-mentioned containment plan, and full payment of the debt service on renegotiated bases.

As regards income, no noteworthy tax adjustments were introduced in 1984 and policy aimed rather at combating tax evasion. Moreover, the policy of reviewing the prices and tariffs of public services was continued, on the grounds that it would add an extra 1.5% to the gross domestic product.²²

Simultaneously, special emphasis was placed on rationalizing expenditure, to which end particular stimulus was given to planning. Twenty-three programmes were drawn up during the year in agreement with the National Development Plan: these comprised 15 sectoral plans, 4 regional plans, 2 special plans and 2 State and municipal plans. Most noteworthy in the first group, because of the influence they may exert on economic activity, are the National Programme for Financing Development, of global scope, and the National Programme for Industrial Development and

²¹ Approximately 60% of this corresponds to external debt.

²² In order to avoid generating new inflationary pressures and as a result of the sharp increases in 1983, an attempt was made to adjust the prices of gasoline solely on the basis of the average aggregate variation in prices. In contrast, higher increases were applied to highway tolls, postage costs and the rates for foreign transport in general.

External Trade, which provides for a series of changes of crucial importance for industrial policy and the insertion of the country in the international economy.

Furthermore, significant reforms were made to various laws with the purpose of achieving greater control over government expenditure and raising efficiency in the public sector.²³ Increased resources were devoted to education, trade, communications and transport, as well as to rural development and health and social security, to the detriment of the industrial and energy sectors. Priority was given to the use of local inputs and labour in public investment programmes.

Table 22

MEXICO: CONSOLIDATED PUBLIC SECTOR INCOME AND EXPENDITURE

	Billions of pesos				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
Total income^b	2 045	3 619	7 769	12 553	62.7	35.4	77.0	114.7	61.6
Budgetary income	1 959	3 503	7 615	12 280	65.3	35.4	78.8	117.4	61.3
Federal government	935	1 532	3 181	4 943	65.6	36.7	63.9	107.6	55.3
Contributing bodies and enterprises	1 024	1 971	4 434	7 337	64.9	34.4	92.5	115.0	70.0
PEMEX	449	968	2 545	3 990	106.4	25.8	115.6	162.9	56.7
Others	575	1 003	1 889	3 347	40.1	42.0	74.4	88.3	77.2
Income from the sector outside the budget ^c	86	116	154	273	20.8	34.4	34.9	32.8	77.4
Total expenditure^b	2 841	5 146	9 195	14 321	62.4	57.2	81.1	78.7	55.7
Budgetary expenditure	2 686	4 882	8 913	13 820	63.2	57.9	81.8	82.6	55.1
Federal government	1 335	2 703	4 599	6 718	59.1	63.2	102.5	70.1	46.1
Contributing bodies and enterprises	1 351	2 179	4 314	7 102	67.2	53.0	61.3	98.0	64.6
PEMEX	673	1 103	2 217	3 486	100.0	60.2	63.9	101.0	57.2
Others	678	1 076	2 097	3 616	45.6	46.4	58.7	94.9	72.4
Expenditure by the sector outside the budget ^c	155	264	282	501	49.3	46.2	70.3	6.8	77.5
Economic deficit	796	1 527	1 426	1 768	60.5	168.0	91.8	-6.6	24.0
Budgetary deficit	726	1 379	1 298	1 540	52.7	184.7	89.9	-5.9	39.2
Federal government	400	1 171	1 418	1 775	31.4	198.5	192.8	21.1	18.6
Contributing bodies and enterprises	326	208	-120	-235	86.2	169.4	-36.2	...	95.8
PEMEX	224	135	-328	-504	70.2	255.5	-39.7	...	53.7
Others	102	73	208	269	103.6	78.9	-28.4	184.9	29.3
Deficit of the sector outside the budget ^c	70	148	128	228	133.3	66.7	111.4	-13.6	78.1
Financial intermediation	69	129	95	399	4.9	60.5	87.0	-26.4	320.0
Financial deficit	865	1 656	1 521	2 167	45.9	154.4	91.4	-8.2	42.4
Financial deficit/GDP^d	14.5	17.6	8.9	7.4					
Financing									
Domestic	363	1 304	1 011	1 787					
Banco de México	256	700	911	1 100					
Others	107	604	100	687					
External	502	352	510	380					

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and the Banco de México.

^a Preliminary figures.

^b Not including compensated operations.

^c Includes Teléfonos de México, Sistema de Transporte Colectivo, Departamento del Distrito Federal and, until the end of 1983, Alcos Hornos de México, S.A.

^d Percentages.

²³ This was the reason for the reforms to the Public Works Law, the Law on Acquisitions, Renting and Warehouses and the Budgetary, Accounting and Federal Government Expenditure Law, among others. A Career Civil Service was also set up.

Table 23

MEXICO: FEDERAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates				
	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
1. Current income	935	1 532	3 181	4 943	65.6	36.7	63.9	107.6	55.3
Income from PEMEX	234	458	1 170	1 708	264.4	42.7	95.7	155.5	46.0
Income excluding PEMEX	701	1 074	2 011	3 235	41.3	34.8	53.2	87.2	60.9
Tax revenue	647	967	1 828	3 013	39.8	33.4	49.5	89.0	64.8
Direct	339	464	727	1 207	42.8	37.2	36.9	56.7	66.0
Indirect	241	418	1 015	1 672	33.1	24.9	73.4	142.8	64.7
On foreign trade	67	85	86	134	58.6	45.7	26.9	1.2	55.8
Non-tax revenue	54	107	183	222	75.0	54.3	98.1	71.0	21.3
2. Current expenditure	937	2 182	3 916	5 810	57.3	54.4	132.9	79.5	48.4
Wages and salaries	225	399	580	958	32.5	41.5	77.3	45.4	65.2
Interest	174	891	1 595	2 159	35.1	126.0	412.1	79.0	35.4
Transfers	289	504	997	1 327	67.9	28.4	74.4	97.8	33.1
Other current expenditure	249	388	744	1 366	94.7	70.5	55.8	91.8	83.6
3. Saving on the current account (1 - 2)	-2	-650	-735	-867					
4. Capital expenditure	381	476	691	908	54.2	88.6	24.9	45.2	24.6
Real investment	90	145	139	244	78.9	32.3	61.1	-4.1	79.1
Capital transfers	244	253	441	549	41.9	132.4	3.7	74.3	24.9
Other capital expenditure	47	77	111	115	52.6	62.1	63.8	44.2	3.6
5. Total expenditure (2 + 4)	1 318	2 658	4 607	6 718	56.5	62.9	101.7	73.3	45.8
6. Budget deficit (1 - 5)	383	1 126	1 426	1 775	-18.8	206.4	194.0	26.6	24.5
7. Account not under budgetary control	17	46	3	-7					
8. Total deficit (6 + 7)	400	1 172	1 429	1 768	-12.0	200.8	193.0	21.9	23.7
9. Financing of the deficit									
Domestic financing	376	981	928	...					
Banco de México	265	918	782	...					
Others	111	63	146	...					
External financing	24	191	501	...					
Percentages									
Ratios									
Current saving/capital expenditure	-0.5	-136.6	-106.4	-95.5					
Fiscal deficit/total expenditure	30.3	44.1	31.0	26.3					
Tax revenue (with PEMEX)/GDP	15.2	15.1	17.5	16.8					
Tax revenue (excluding PEMEX)/GDP	10.5	10.3	10.7	10.2					
Total expenditure/GDP	22.4	28.2	26.9	22.8					
Fiscal deficit/GDP	6.8	12.4	8.3	6.0					
Domestic financing/deficit	94.2	83.7	64.9	...					
External financing/deficit	5.8	16.3	35.1	...					

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public credit and the Banco de México.

^aPreliminary figures.

A particularly adverse factor for public finances was the 12% drop in real terms in the taxes paid by PEMEX and in its income from external sales. This was due not only to the stagnation of the firm's exports, but also to the accounting effects on its income in pesos caused by the adjustment of the exchange rate at a rate considerably below that of domestic prices.

The rise in interest rates on the international market during the first months of the year was another disturbing factor which altered the expenditure and deficit forecasts, although the effects caused by exchange rate policy in this case proved favourable. Nonetheless, in order to offset this increased expenditure it was necessary to resort to the Contingency Fund for Economic Recovery, and allocate 161 billion pesos to payment of interest owed by the federal government and the rest to various items, particularly food supplies and social development. In addition, the public sector spent more on consumption than forecast.

All in all, financing of the public sector deficit reached 2 200 billion pesos, equivalent to 7.4% of the gross domestic product. While this proportion was lower than that of 1983, it exceeded the 5.5% forecast set by the PIRE, plus the 1% which resulted from use of the contingency fund. It nevertheless proved possible to cover this deficit by making use of only US\$ 2.2 billion out of the 4 billion in authorized external funds, together with a contribution of approximately 1.1 billion pesos from the Central Bank. The balance was provided by the sale of government securities. Furthermore, the increased expenditure on consumption by the public sector had a favourable effect on economic recovery, helping to achieve an increase in the gross domestic product higher than the 1% initially forecast (see table 22).

The relative failure to meet the targets set was due to a certain slackness over current expenditure, as well as to a contraction in income. While the economic revival in principle implied an increased fiscal income for the federal government, in practice this was neutralized by the exemptions which were granted. This was compounded by the contraction in contributions from PEMEX, although this was somewhat mitigated by the rise in gasoline taxes.

As a whole, current federal government income grew by 55%, which represented a real contraction of the order of 6%. Tax policy continued to rely more on indirect than on direct taxes, thus accentuating their regressive nature. Moreover, if taxes paid by PEMEX are excluded, the virtual stagnation of the tax burden in recent years is revealed. As regards non-tax revenue, this underwent a marked contraction in real terms, as many tariffs had not been reviewed (see table 23).

In the case of the income of public enterprises, the most prominent features were the increases in rail fares, electricity and airport taxes, as well as the increased income of steel firms. The higher contributions made to the Social Security and Social Service Institute for State Workers (ISSSTE) were also noteworthy. PEMEX income, which was of considerable weight in the total, declined by 6% for the above-mentioned reasons, while those of other agencies and enterprises increased by 7%. It is estimated that as a whole consolidated public sector income reached 12 400 billion pesos, a figure which represents a real shrinkage of 4%.

Moreover, total public sector expenditure reached 14 000 billion pesos, a real drop of 8%, which may be attributed to the 12% decline in federal government expenditure.

The reduction in federal government disbursements was caused by a considerable tightening of capital expenditure (-16%), mainly caused by the shrinkage in capital transfers and fiscal debts from previous financial years. Transfers within current expenditure also declined. A similar phenomenon affected interest payments, while wages remained unchanged in real terms and support to the states increased.

Within the expenditure of the semi-State sector, an increase in current expenditure was recorded, as a result of the growing interest payments and above all the increase in the "other expenditure" item, which includes the debts from previous financial years. On the other hand, capital expenditure came down by 13%.

As a whole, expenditure on physical investment by the public sector remained stagnant. As has already been mentioned, its value was equivalent to the interest on the external debt, which was paid in full. In 1984 no large-scale investment projects were begun. The most important activities undertaken during the year included repair work to railway track, bridges and roads, the construction of some airports and the continuation of work on the "metro", at a much slower rate than previously. From the standpoint of financial reorganization, the abandoning of public investment projects was perhaps one of the greatest sacrifices which had to be made, in view of its possible effects upon the country's medium-term economic development.

NICARAGUA

1. Recent economic trends: Introduction and summary

It is difficult to assess economic trends in Nicaragua during 1984 on the basis of the principles and methodologies which are conventionally used to examine the crisis. The country was plunged into an armed confrontation of even greater intensity than during the previous year, and this has had a decisive impact both on the aims of economic policy and on its application and the results achieved.¹ Consequently, the examination of the present economic crisis, of its causes and most significant symptoms, as well as of the results of the main indicators of activity, employment and other variables, can only be undertaken if circumstances well beyond the normal scope of economic activity are taken into account.

It would be superfluous to attempt to determine whether economic or non-economic factors have had most incidence on economic performance. It was doubtless the joint impact of both, reinforcing each other's harmful effects. Thus, Nicaragua had to face the same negative phenomena originating in the international economy whose dramatic repercussions have been felt in the evolution of the other economies of the region. Moreover, it has had to bear the considerable costs of reconstruction of the 1979 war, as well as the consequences, harder to evaluate but equally significant, which the policy change made that year has had upon the expectations and behaviour of the various economic agents. Furthermore, it has been affected by the gradual restriction of access to financing from official bodies, particularly multilateral ones, and by the overwhelming weight of servicing a swollen external debt as well as by contingent factors, such as a highly abnormal rainfall pattern in 1982.² To all this must be added the direct and indirect repercussions on the economy of the armed harassment affecting the country and the consequences of having to give top priority to defence expenditure.

This latter phenomenon perhaps explains at least in part why, in contrast with most Latin American countries, which in 1983 showed signs of stagnation or depression and in 1984 a slight revival, the Nicaraguan economy, after growing during the first of these two years, suffered a decline in the second.³ The gross domestic product fell by 1.4%, while the per capita product declined by almost 5%. As a result of this drop and of the sluggishness of the economy in previous years, particularly in 1979, the per capita product was similar in 1984 to that which had been recorded in 1965. Nonetheless, as the terms of trade improved and net factor payments diminished in 1984, gross national income rose by 1%⁴ (see tables 1 and 2 and figure 1).

The fairly widespread decline in the various fields of economic activity went hand in hand with a continuation, and even an aggravation, of the marked domestic and external financial disequilibria which the economy had experienced in recent years. Thus, the current account deficit remained at a similar level to the already extremely high level recorded in the previous year and would have been higher if Nicaragua had met all its commitments relating to interest payment on the external debt. The equally spectacular central government deficit diminished slightly thanks to a policy involving relatively sharp cutbacks in public expenditure together with particularly effective tax collection, but

¹ The balance of the losses —both human and material— is so high that it has been considered pertinent to give a detailed presentation in an appendix at the end of this chapter.

² See ECLAC, *Repercusiones de los fenómenos meteorológicos de 1982 sobre el desarrollo económico y social de Nicaragua* (E/CEPAL/MEX/1983/L.1), 5 January 1983, and *Nicaragua: the floods of May 1982 and their effects on the social and economic development of the country* (E/CEPAL/MEX/1982/R.2/Rev.1), 2 July 1982.

³ Growth in 1983, which was quite satisfactory in quantitative terms, was essentially based on the expansion of three sectors of activity: agriculture, government services and, to a lesser extent, construction. The dynamism generated by these sectors was complemented during that year by a considerable external financial flow, from non-traditional sources, which it proved to a great extent possible to direct towards the productive spheres.

⁴ However, had the total interest due been paid in 1984, national income would have fallen by 1.3%.

it nonetheless continued to represent more than 20% of the gross domestic product. Finally, inflationary tensions increased considerably, rising from 33% to more than 50% between December 1983 and December of the following year.

As has been observed, the recession in the Nicaraguan economy and the serious financial disequilibria set out above are the result of the coalescence of various phenomena which reinforced one another. As regards factors of an essentially economic nature, the drop in supply was not only due to unfavourable conditions affecting external demand, but also to a set of additional factors which discouraged production. Of special note among these are the reluctance of important entrepreneurial sectors to invest in order to extend—or even to maintain—their activities and the problems of various kinds, including organizational ones, which firms belonging to the "Area de Propiedad del Pueblo" had to overcome in order to operate with reasonable efficiency, notwithstanding some noteworthy achievements in specific industrial plants and agricultural enterprises. The shortage of foreign exchange constituted another major obstacle to the productive sectors' activity.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	1 155	850	935	984	973	1 018	1 004
Population (millions of inhabitants)	2.62	2.69	2.77	2.86	2.96	3.06	3.16
Per capita gross domestic product (1970 dollars)	442	316	337	344	329	333	317
Growth rates							
B. Short-run economic indicators							
Gross domestic product	-7.8	-26.4	10.0	5.3	-1.2	4.7	1.4
Per capita gross domestic product	-10.3	-28.4	6.7	2.0	-4.4	1.2	-4.7
Rate of unemployment ^b	14.5	22.9	22.4	19.0	22.2	18.9	19.9
Consumer prices							
December to December	4.3	70.3	24.8	23.2	22.2	32.9	50.2
Variation between annual averages	4.6	48.2	35.3	23.9	24.8	31.1	35.4
Real wages and salaries ^c	-5.9	-13.6	-15.0	1.4	-12.7	-12.7	-8.8
Money	-1.6	28.0	15.0	24.3	23.0	64.2	78.5
Current government income	-9.7	16.7	139.2	21.4	34.6	40.9	55.8
Total government expenditure	6.8	-9.3	113.4	32.2	32.1	80.8	25.7
Fiscal deficit/total government expenditure ^b	50.7	36.5	30.3	36.0	34.8	49.1	36.9
Fiscal deficit/gross domestic product ^b	...	13.3	8.8	11.8	13.0	27.7	20.3
Current value of exports of goods and services	0.1	-6.7	-26.4	11.8	-19.2	-0.3	-3.9
Current value of imports of goods and services	-21.8	-22.3	77.9	14.1	-20.0	9.3	-0.5
Terms of trade (goods and services)	-12.0	-11.7	-6.1	-10.5	-8.7	-11.5	6.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	62	162	-414	-484	-382	-461	-474
Net payment of profits and interest	94	72	-89	-93	-140	-61	-45
Balance on current account	-34	90	-491	-563	-514	-518	-517
Balance on capital account	-49	-95	297	635	623	607	539
Variation of net international reserves	-83	9	-225	61	77	70	22
External debt ^d	961	1 136	1 588	2 200	2 730	3 324	3 918

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bPercentages.

^cReceived by members of the Nicaraguan Social Security and Welfare Institute.

^dDisbursed in the medium- and long-term. Includes the public and private State-guaranteed debt.

Table 2

NICARAGUA: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	892	863	907	917	2.5	-3.3	5.1	1.1
a) Gross domestic product	984	973	1 018	1 004	5.3	-1.2	4.7	-1.4
b) Terms of trade effect	-67	-70	-94	-75				
c) Net external factor payments	29	42	18	13	-0.7	44.0	-57.8	-27.5
d) Net private transfers from abroad	4	2	1	1	2.4	-42.9	-58.3	-40.0

Source: ECLAC, on the basis of official statistics.

^a Preliminary figures.

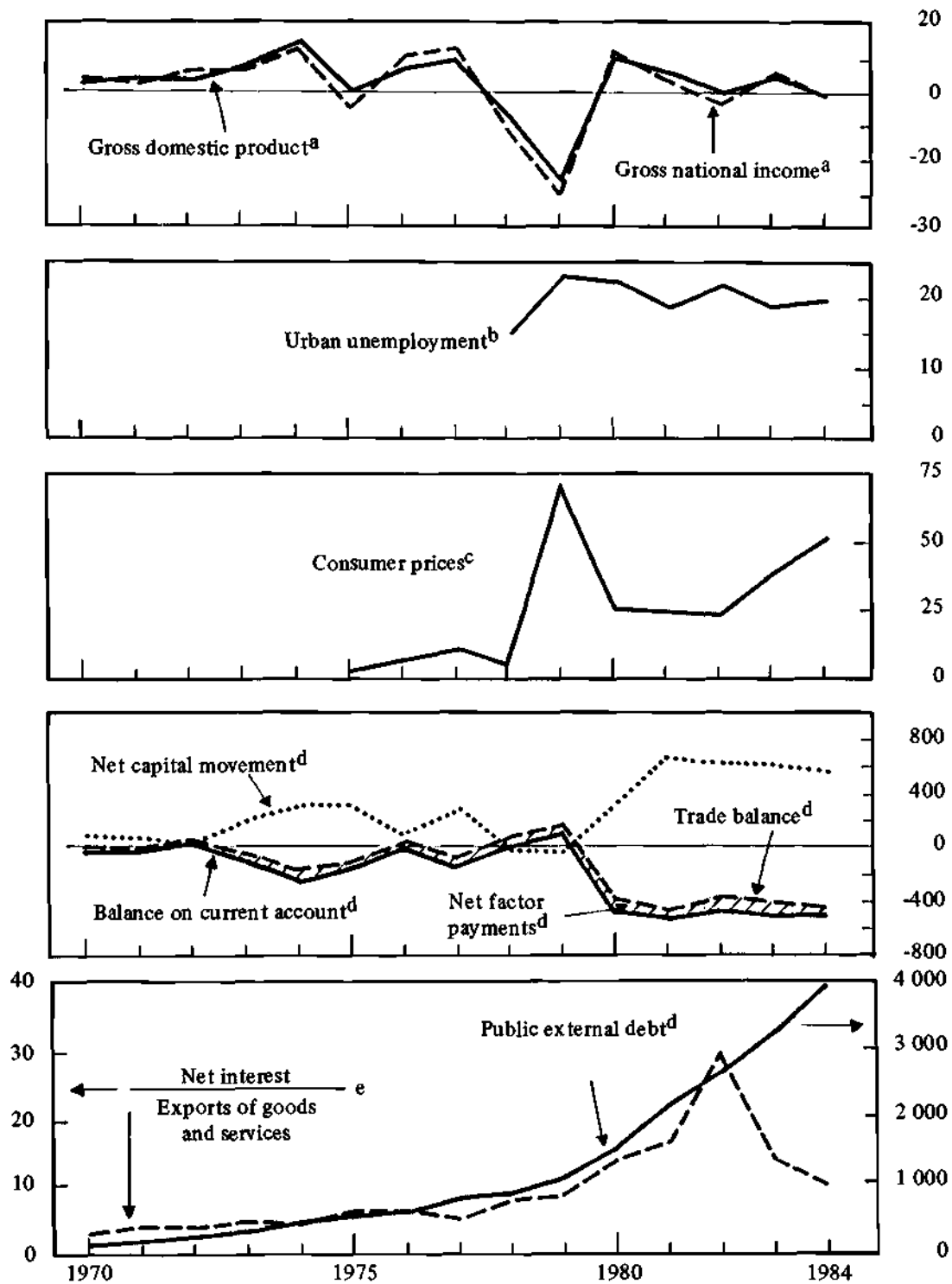
For most of the year, economic policy simply accentuated the above-mentioned disincentives to production and financial disequilibria. As an illustration, a system of extremely rigid multiple exchange rates was maintained for a high percentage of foreign currency movements, while the ratio of domestic prices over external ones rose substantially. The overvaluation of the córdoba and the multiplicity of exchange rates not only discouraged the supply of goods for export but also caused serious distortions in the allocation of resources. Moreover, these became one of the causes of the swollen public sector financial deficit when the Central Bank took over responsibility for the considerable difference between the average purchasing price and the average selling price of foreign currencies. Similarly, a policy of subsidies was pursued for some basic products — particularly basic grains— which, while it was to the benefit of the consumer, failed to stimulate production and led to speculative movements (particularly towards neighbouring countries) which helped to create shortages of these products. This policy of subsidies once again weighed significantly in the fiscal deficit. Finally, interest rate policy, highly negative in real terms, contributed to the collapse of domestic saving, although this was also influenced by other factors. Quasi-money only grew by 34% —which meant a drop in real terms— while the means of payment increased by almost 80%. It was only towards the end of the year that measures started to be taken to correct these maladjustments, and which were applied with increasing intensity at the beginning of 1985.

The recession in the productive sectors and the profound financial disequilibria were noticeably amplified by the non-economic factors mentioned above. The violent opposition to the Government of specific groups, which enjoyed significant external backing, led to losses of human lives and damage to harvests and to mining, fishing and forestry activity; to material losses caused by acts of sabotage and the armed conflict itself; to damage to ports, roads and capital assets, and to an increasing diversion of human, financial and material resources from the task of development to that of defence. The military mobilization also helped to aggravate the financial disequilibria and presented the Government with the dilemma of subordinating the reorganization of the economy to the problem of survival.

The external harassment was also apparent in the growing difficulty encountered by the Government in obtaining external finance, and even access for its traditional export products to certain markets.³ This phenomenon strengthened those tendencies which have come to characterize the country's external relations. Thus, as far as the trade balance is concerned, the inadequacies of the supply available for export were seriously aggravated by the depressed international demand for those products which the country traditionally exports. Although the terms of trade made a partial recovery, their index still remained 28% below that of 1978. Similarly, the change in the geographical distribution of external trade became more pronounced with a clear drop in the relative importance of bilateral trade with the United States and an increase in trade with other Latin American countries and with the member countries of the CMEA.

³For example, the country has been explicitly excluded from the potential benefits of the "Caribbean Basin Initiative", taken by the Government of the United States of America. It has also virtually lost the special treatment which it enjoyed in previous years, for selling sugar and meat to the United States under quota systems.

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate for whole country. ^cPercentage variation from December to December. ^dMillions of dollars. ^ePercentages.

Table 3

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	1 223	1 284	1 263	129.7	132.2	125.8	6.2	-6.8	5.0	-1.7
Gross domestic product at market prices	973	1 018	1 004	100.0	100.0	100.0	5.3	-1.2	4.7	-1.4
Imports of goods and services ^b	250	266	259	29.7	32.2	25.8	8.9	-23.8	6.5	-2.6
Total demand	1 223	1 284	1 263	129.7	132.2	125.8	6.2	-6.8	5.0	-1.7
Domestic demand	1 019	1 060	1 065	102.4	110.4	106.1	3.6	-4.8	4.1	0.5
Gross domestic investment	200	218	202	17.0	16.7	20.2	54.6	-17.3	8.7	-7.0
Gross fixed investment	179	187	182	19.1	14.5	18.2	62.8	-19.0	4.4	-2.3
Construction	43	51	52	8.9	5.1	5.2	20.7	-24.1	16.9	2.8
Machinery	136	136	130	9.2	9.4	13.0	85.4	-17.3	0.4	-4.2
Changes in stocks	21	31	20	-2.1	2.2	2.0				
Total consumption	819	842	863	95.4	93.7	85.9	-5.5	-1.2	3.0	2.4
General government	313	429	459	10.3	25.2	45.7	13.4	16.9	37.1	7.0
Private	506	413	404	75.1	68.5	40.2	-12.5	-9.8	-18.1	-2.3
Exports of goods and services ^b	204	224	198	27.3	21.8	19.7	19.1	-15.6	9.7	-11.7

Source: ECLAC, on the basis of figures provided by the Nicaraguan Ministry of Planning.

^aPreliminary figures.

^bFigures relating to exports and imports of goods and services were obtained from the balance of payments in current dollars, converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

One export item worthy of particular mention is trade with the rest of Central America, which, although it grew in 1984, remained extremely slack in comparison with the levels it had attained towards the end of the 1970s. This phenomenon was the result of a gradual return to bilateral arrangements in trade with the other members of the Central American Common Market, including compensated trade, as the capacity of the multilateral financial mechanisms and the central banks of the countries with a surplus in interregional trade to extend their credit lines to Nicaragua had been virtually exhausted. As a result, the trade deficit with the rest of the region fell spectacularly (from US\$ 90 million in 1983 to US\$ 33 million in 1984), while the relative share of sales to the rest of Central America in the country's total exports grew from 8% to 12% over these two years. Nonetheless, the depressed level of total demand throughout the region, the exchange and payment restrictions in force, together with the abnormal operation of the free trade system, were signs of the widespread regional economic crisis.

The adverse external conditions affecting Nicaraguan trade were even more pronounced in the financial sphere. In order to fully cover the interest payments and amortization of maturities on its external debt which had already been renegotiated, the country would have required an amount of foreign exchange equivalent to more than 80% of the total value of its exports of goods and services. In these circumstances and in view of the decreasing receptiveness of the international financial community, the country had to continue to negotiate the restructuring of the maturities of this debt, and even to transform part of the interest into capital. The fact that the country was carrying a sluggish portfolio and was in arrears in servicing the debt with certain multilateral financial organizations, in conjunction with the extra-economic factors already described, rendered its access to fresh external financing increasingly difficult. Indeed, the income recorded on the balance-of-payments capital account is increasingly made up of accounting operations related to the periodic reschedulings—agreed or unilateral—of payments due on the external debt and to "tied" financing for the supply of specific items, in particular capital goods. In other words, while such income was an important support for the process of capital formation, it contributed no freely convertible international resources, as a result of which the country's foreign exchange shortage grew steadily more acute.

As the total central government income represented almost 35% of the gross domestic product in 1984 (and tax revenue 30%) it would prove difficult to correct the fiscal disequilibrium by means of increased taxation. Nevertheless, the possibility of reducing expenditure depends only partly on economic policy decisions, since approximately 40% of the budget is devoted to defence, an item to which the government has given inalienable priority. Although the austerity policy was applied to other budgetary items and payment for servicing the external debt was postponed, the fiscal deficit continued to exceed 20% of the gross domestic product. As a counterpart to this deficit, domestic credit for the central government grew by more than 50%, and became the main factor of expansion of the monetary base, which considerably restricted the increase of credit for private activity. This expansionary monetary policy — which was not matched by a corresponding increase in the attraction of deposits — in turn exerted pressure on the level of imports and prices.

Finally, despite the increased mobilization for defence purposes and the population movements and emigration caused by the armed conflict, the sluggish evolution of the economy prevented the available labour from being fully absorbed, as a result of which the levels of open and hidden unemployment appear to have grown. Nonetheless, during some months of the year and in specific areas of the country there was a serious labour shortage for the coffee and cotton harvests, which led to the mobilization of volunteers.

The negative effect of the increase in unemployment on demand was compounded by the further fall in real wages. Nevertheless, this phenomenon was not widespread, since the adjustment of the minimum wage, together with the price policy for the basic shopping basket, allowed the real wages of the lowest-paid sectors to rise, and led to a considerable increase in demand for a limited number of popular consumer goods. This fact, in conjunction with the rigidity of supply, aggravated the serious supply problems which existed throughout the year.

2. Trends in economic activity

a) *Total supply and demand*

In 1984 it did not prove possible to maintain the dynamism achieved by domestic activity during the previous year. An even greater decline in external supply came on top of the almost 1.5% drop in the gross domestic product, as a result of which the total supply of goods and services declined by almost 2%. Nevertheless, the import coefficient remained extremely high (26%) (see table 3).

The very weak growth of domestic demand was more than offset by the pronounced drop in the volume of exports (-12%). Among those factors which contributed to this deterioration in the volume exported, most noteworthy were the armed attacks on various production sectors — particularly coffee and lumber — as well as the government's decision to suspend activity in some of these, transferring the inhabitants to quieter zones; also of decisive influence were the shortage of foreign exchange, the economic, financial and administrative problems linked to foreign trade, the damage to the infrastructure — such as the mining of ports — which hampered supplies of vital inputs for exportable production, and the understandable disruption caused by the adjustment of the various economic agents — both private and public — to the changing circumstances which have characterized Nicaragua since 1979.

The sluggishness of domestic demand must be attributed to opposing trends both in capital formation and in consumption. Among the components of fixed investment, construction rose by almost 3% as the public sector was able in some cases to pursue and in others complete major economic projects. Nonetheless, some projects had to be postponed in view of the need to deal with defence works, particularly new roads penetrating into the insecure regions in the northeast of the country and a new airport to the north of the Managua lake. The relative dynamism of investment in construction was more than counterbalanced, however, by the decline in investment in equipment — particularly in industrial machinery and transport equipment.

Consumption for its part grew at a slightly lower rate than the population, as a result of the contrasting trends for the fourth year running of the behaviour of general government consumption and that of the private sector. In fact, while government consumption rose by 7%, private consumption declined by rather more than 2%. As a result of this and of the changes which had occurred in the previous three years, government consumption in 1984 was almost double its 1980 level, while private consumption fell by 37% over the same period. Thus, government consumption,

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	891	933	920	100.0	100.0	100.0	5.3	-1.2	4.7	-1.4
Goods	465	493	479	52.2	49.9	50.2	6.9	-0.4	5.9	-2.8
Agriculture	250	266	252	27.0	25.2	26.4	10.1	2.9	6.3	-5.3
Mining	2	2	1	0.6	0.2	0.1	5.9	-7.1	-5.1	-22.7
Manufacturing industry	197	206	207	19.5	22.3	21.7	2.8	-1.7	4.6	0.2
Construction	16	19	19	5.1	2.2	2.0	10.4	-25.5	16.7	2.8
Basic services	76	74	70	7.5	8.8	7.4	-0.1	-2.0	-2.9	-4.0
Electricity, gas and water	19	16	13	1.7	2.5	1.4	-11.0	-2.6	-16.8	-15.0
Transport, storage and communications	57	58	57	5.8	6.3	6.0	4.2	-1.8	1.7	-1.0
Other services	376	400	404	40.3	41.2	42.3	4.9	-0.5	5.9	1.3
Commerce ^c	173	178	176	20.7	19.6	18.4	5.2	-4.2	2.4	-0.9
Ownership of dwelling	45	46	46	5.0	4.7	4.8	4.7	4.7	2.0	0.3
Community, social and personal services ^d	158	176	182	14.6	16.9	19.1	4.7	2.5	10.8	3.7
Government services	111	127	135	7.8	11.5	14.2	5.1	4.4	14.9	6.2

Source: ECLAC, on the basis of figures provided by the Nicaraguan Ministry of Planning.

^aPreliminary figures.

^bThe sum of activities does not correspond to the total as the individual activities and the total were calculated independently.

^cIncludes financial institutions, insurance and real estate, except ownership of dwelling.

^dIncludes restaurants and

hotels and business services.

which in the 1970s had represented less than 10% of the gross domestic product, was equivalent to 25% in 1980 and 46% in 1984. Public expenditure —and particularly current expenditure— has therefore constituted the most dynamic element in demand; its real growth has in some degree been a benefit to society (owing to the greater expenditure in the social sphere); nevertheless, expenditure on defence (either in the form of pay or for the purchase of non-personal goods and services) has come to represent an ever-increasing portion of public expenditure.

Finally, the crisis led to a further drop in personal consumption and also to a deterioration in the satisfaction of the most basic needs. As a result of the problems of distribution and prices, this decline in personal consumption had different effects upon the various strata of the population. In turn, a considerable share of food and other basic goods have had to be devoted to the forces involved in defence, a fact which partly explains the increase in government consumption to the detriment of private consumption.

b) *Growth of the main sectors*

Within the disparate and heterogeneous behaviour of the various activities, the decline in the agricultural sector was outstanding because of its effects. Although its decline was not the most pronounced, it had a decisive effect upon the overall behaviour of the economy as a result of its large share of the total product (26%).

Mining —which is of little relative importance— also fell off sharply as did electricity, while the decline was substantially less in transport, storage and communications, as well as in trade (see table 4).

Among the sectors that grew, expansion was most rapid in governmental services, while construction grew by almost 3%. As has already been mentioned, the dynamism of both activities may be to a large extent attributed to government expenditure on security and defence.

i) *The agricultural sector.* This sector was affected by sharply contrasting factors, the most outstanding of which were the acts of violence which caused sharp drops in the production of coffee (-30%) and forestry (-26%). It proved impossible to counterbalance the unusual reductions in these two items by the increases recorded in livestock production and in the other crop-farming products. Thus, although production of important items such as cotton and sugar cane increased by 7% and tobacco by 18% and despite the fact that production of the majority of crops for domestic consumption also rose, the product of the crop-farming subsector fell by almost 2% (see table 5).

The policy which had been initiated in previous years with the aim of broadening the range of exportable production and improving the population's diet was continued throughout 1984. To this end long-term investments were made, although at a lower rate than in previous years. Distribution of land continued, although in this case at a faster rate, and close on 700 000 hectares were allotted during the year, which brought the total area allotted to 1.3 million hectares. Similarly, efforts were continued to improve the technical and administrative conditions of firms involved in the agrarian reform.

In addition to a revision of the subsidies policy, in 1984 private producers were given encouragement by an increase in the prices of export items and payment to cattle breeders in foreign currency for part of their sales to the State's packing firms. In addition, the prices of milk and other items for domestic consumption were reviewed.

Notwithstanding these incentives, and the favourable rainfall pattern, production encountered serious obstacles, the most outstanding of which was the armed conflict, which affected different sectors of production. The drop in agricultural production was also influenced by the dearth of inputs caused by the shortage of foreign exchange, the lack of technicians and managers and the reduction in subsidies.

Although it was expected that the coffee harvest would be larger than in 1983, because of the favourable climatic conditions, the higher yields expected—as a result of the investments made in previous years to improve the coffee plantations in the Pacific Zone—and the incentive provided by the prices granted to private producers, not only did it prove impossible to achieve the forecast target, but production fell by 30%. This was due to the losses caused by armed attacks on coffee plantations and installations and to the failure to carry out management, cultivation and pruning operations on some 12 000 hectares because of the dangers arising from the war.

In contrast, cotton production increased by 7% despite the fact that the area under cultivation was similar to that of the previous year. The growth in production may be attributed to the effects of the year's favourable rainfall and the improved efficiency of the institutions responsible for this activity, both as regards production and the provision of services.

Sugar-cane production also rose by 7%, although in this case the main cause of the increase was the expansion of the area under cultivation. In the future it will benefit from the installation of a new sugar mill, which started operating at the beginning of 1985. The area of sugar cane under cultivation will be expanded by some 10 000 hectares; 3 000 of these are already under production while the remainder will be sown once the completion of the river Malacatoya dam has made it possible to irrigate some 7 000 hectares.

Production of blond tobacco rose by 18%, as a consequence of the expansion of the area under cultivation in accordance with a national programme for increasing exports of this item, which has encouraging market prospects in the socialist countries. The increase in this item was achieved despite the losses caused by the armed violence which destroyed plants and stocks in the north of the country.

Banana production, on its side, remained virtually stable, following two years of decline, as a result of modifications in trading which is now carried on with foreign companies independent of the major transnational corporations.

Among crops intended for domestic consumption, increases were obtained in all the basic grains, although they were less than that of the population in maize and rice. In contrast, production of sorghum increased by more than 23% and beans by 5.5% (see table 5).

The increase in the production of basic grains was achieved despite the losses caused by armed attacks, which prevented some 18 000 hectares sown with maize and beans in the north of the country from being harvested. The increase was achieved because maize and bean cultivation has to a certain extent been transferred to land near the Pacific where more advanced technology is applied. In

Table 5

NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Indexes (1980 = 100)									
Agricultural production	117.9	100.0	113.4	121.9	120.7	8.3	4.7	7.5	-1.0
Crop farming	125.3	100.0	123.4	139.2	136.6	22.2	1.0	12.8	-1.9
Livestock	110.0	100.0	100.7	101.1	103.5	-9.9	11.7	0.4	2.4
Forestry	...	100.0	137.0	143.0	106.5	103.5	-32.7	4.4	-25.5
Thousands of tons									
Production of main crops									
For export									
Cotton	118.0	34.8	67.1	81.0	86.7	106.2	-6.5	20.7	7.0
Cotton seed	189.4	52.6	100.8	120.4	129.1	103.6	-5.9	19.5	7.2
Coffee (green)	42.4	55.8	63.0	64.5	44.9	3.1	9.4	2.4	-30.4
Sugar cane	2 304.0	2 233.0	2 750.0	2 789.0	2 975.0	12.6	9.4	1.4	6.7
Bananas	169.5	121.7	140.6	128.1	127.9	25.3	-7.8	-8.9	-0.2
Havana tobacco	1.5	1.6	1.3	1.3	1.6	-31.2	17.5	5.3	18.5
Sesame	3.9	9.4	5.0	10.7	11.2	-22.5	-30.6	111.5	5.4
For domestic consumption									
Maize	189.4	194.2	177.7	218.2	219.3	1.9	-10.2	22.8	0.5
Rice (green)	58.3	55.2	91.2	97.8	100.2	34.6	22.7	7.1	2.5
Beans	43.7	38.4	49.9	57.2	60.5	42.5	-8.6	14.6	5.6
Sorghum	60.4	90.2	56.6	89.0	109.7	-8.0	-31.8	57.3	23.3
Blonde tobacco	1.5	2.0	1.4	3.3	2.7	-29.2	-3.2	135.9	-16.6
Indicators of livestock production									
Variation in stocks									
Beef cattle ^b	...	56	65	...	...	...	16.1	...	...
Pigs ^b	...	40	48	47	45	...	20.0	-2.1	-4.3
Poultry ^c	...	243	425	449	455	...	74.9	5.6	1.3
Slaughtering ^b									
Beef cattle ^b	325	372	311	341	345	-26.8	14.1	9.5	1.2
Pigs ^b	168	204	279	270	279	18.8	15.1	-3.4	3.5
Poultry ^c	...	8.6	12.2	12.9	14.4	26.9	19.2	-2.4	11.2
Other products									
Milk ^d	433	346	315	301	322	-11.5	2.8	-4.7	7.1
Eggs ^e	...	29	43	42	44	10.4	33.6	-0.5	3.3

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aPreliminary figures.^bThousands of head.^cTons.^dMillions of litres.^eMillions of dozens.

addition, the land distributed to the peasants—in accordance with the agrarian reform programme—is to a large extent devoted to the cultivation of basic grains.

Livestock production also improved its performance with an increase in the slaughter of cattle, pigs and poultry. Beef production was stimulated by the higher prices paid to producers, part of which was paid in foreign currency. The growth of this item would have been even greater if it had not also been affected by the pillage and clandestine killings in the areas affected by violence. Production of poultry and milk also rose as a result of the stimulus given by government programmes.

The sharp drop in forestry was caused by the armed attacks which led to the destruction of two large sawmills situated on the country's Atlantic seaboard and the burning of more than 40 hectares of woodland on estates in this same zone.

ii) *Fishing*. In spite of the obstacles it had to face, fishing grew by slightly more than 4% (see table 6). Nonetheless, the level of production reached was only slightly more than one-third of 1975 production and 60% of 1980 production.

The rise in production was the result of a combination of contrasting trends among its main branches; while catches of shrimps rose, those of lobsters stagnated and those of fish declined. Moreover, the efforts undertaken by the Nicaraguan Fishing Institute (INPESCA) to expand production have encountered hurdles which are hard to cross. Although to a lesser extent than in previous years, in 1984 it proved impossible to obtain the spare parts required for the operation of the fishing fleet. Nevertheless, although this obstacle was partially overcome, it was the armed conflict which most prevented the achievement of production targets. In fact, some fishing vessels were damaged by acts of sabotage and most of them were transferred to the defence of the country, particularly as a means of transport.

iii) *Mining*. Mining production experienced a sharp drop (-23%) for the third year in a row (see table 7). The main cause of this decline was the armed insurrection; the main mines are situated in the mountainous region close to areas of conflict and a number of acts of sabotage damaged extraction and

Table 6

NICARAGUA: INDICATORS OF FISHERY PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Indicators of fishery production (1975 = 100)	100.0	57.8	38.9	33.0	34.4	-15.9	-20.0	-15.2	4.2
Catch^b									
Fish	10.02	7.41	8.64	10.82	10.45	16.6	-	25.3	-3.4
Shellfish									
Shrimps	3.42	2.64	1.61	0.91	1.05	-16.2	-27.2	-43.6	15.0
Lobsters	0.84	0.74	0.40	0.45	0.45	-33.8	-18.0	12.5	-
Exports^b									
Shrimps, lobsters, fish and others	6.68	3.43	1.89	1.27	1.32	-33.1	-17.6	-32.7	3.6

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^a Preliminary figures. ^b Tons.

Table 7

NICARAGUA: INDICATORS OF MINING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Indexes of mining production (1970 = 100)	63.3	56.4	53.2	48.3	37.3 ^b	1.6	-7.1	-9.3	-22.7 ^b
Production of some major minerals (thousands of Troy ounces)									
Gold	69	60	54	47	34 ^c	3.2	-12.4	-13.1	-28.5 ^c
Silver	142	164	84	58	50 ^c	-14.6	-40.2	-31.8	-13.6 ^c

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^a Preliminary figures.

^b Estimated on the basis of the variation in aggregate value.

^c Estimated on the basis of the January-September variation.

Table 8

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of 1980 córdobas						Growth rates			
	1975	1980	1981	1982	1983	1984 ^a	1981	1982	1983	1984
Total value	5 592	5 492	5 648	5 552	5 807	5 819	2.8	-1.7	4.6	0.2
Food	1 932	1 815	1 818	2 027	1 945	1 945	0.2	11.5	-4.0	-0.3
Beverages	509	898	915	848	920	993	1.8	-7.3	8.5	7.9
Tobacco	312	462	444	382	409	435	-4.0	-13.2	7.0	6.3
Textiles	429	246	320	328	397	396	29.9	2.7	20.9	-0.2
Footwear and clothing	353	455	462	395	402	340	1.6	-14.5	1.7	-15.3
Wood and cork	266	133	139	119	107	92	4.4	-14.1	-10.5	-13.9
Furniture and fittings	47	42	43	38	38	34	2.4	-13.2	1.1	-10.0
Paper and paper products	13	9	13	17	19	19	44.6	25.6	12.0	2.7
Printing, publishing and allied industries	114	125	172	179	195	215	37.5	4.4	8.8	10.0
Leather and leather products	36	37	35	38	32	29	-5.9	7.7	-16.0	-7.9
Rubber products	8	19	23	24	21	23	23.8	2.6	-14.2	10.2
Chemicals and chemical products	478	397	414	372	372	413	4.3	-10.1	-	11.0
Petroleum by-products	307	326	299	255	224	211	-8.3	-14.7	-12.3	-5.7
Non-metallic minerals	302	227	214	202	276	300	-5.6	-5.4	36.3	8.8
Metal products	254	162	162	179	218	227	-0.2	10.7	21.8	4.2
Electrical and non-electrical machinery	84	48	66	52	69	59	37.6	-22.0	33.8	-14.2
Transport equipment	23	16	17	13	17	15	9.6	-26.3	36.5	-12.2
Miscellaneous	125	74	92	83	90	70	23.9	-9.6	8.2	-21.7
Other indicators of manufacturing production										
Industrial consumption of electricity ^b	258	258	285	275	311	327	10.7	-3.6	13.1	5.2

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aPreliminary figures.^bMillions of kWh.

prospection equipment. The shrinkage in production was also caused by the exhaustion of some mines and the malfunctioning of relatively obsolete equipment which had been badly maintained for lack of spare parts.

iv) *Manufacturing*. Manufacturing production remained virtually stagnant after its 5% recovery in 1983 (see table 8). Although it was 9% below its 1978 maximum, it was 25% higher than in 1979.

The effects of governmental measures to improve the efficiency of State or mixed industrial enterprises (which belong to the "Area de Propiedad del Pueblo"), were hampered by various stumbling blocks. The constraints imposed on supplies of raw material and other essential industrial inputs by the shortage of foreign exchange were augmented by two other restrictions. The first of these was that caused by the mining of the port of Corinto at the beginning of the year and by other acts of sabotage which prevented some basic inputs from being channelled through that port; this caused considerable delays and rises in costs, as other means of transport and longer routes had to be used (for example, the goods were unloaded in neighbouring countries and then transported by land). The second was the depression of domestic and foreign demand.

A further obstacle was the distortion of the structure of prices and wages, which became more pronounced in 1984. The financial problems which some State and private enterprises faced were aggravated because part of their technical staff, attracted by the opportunity to raise their income, chose one of two options: to work independently for higher salaries or to give up industrial work and join the sector of informal traders.

According to preliminary estimates of the evolution of each manufacturing sector a recovery may have occurred for the second year running in beverages, tobacco, printing and non-metallic minerals. On the other hand production is estimated to have declined in items which have a high incidence on employment such as textiles, clothing and footwear (principally because of restrictions on raw material supplies) and in the wood and furniture industries (as a result of the sharp plunge and in some cases discontinuation of lumbering as a result of armed violence). Similarly, a marked fall occurred in the production of the metalworking sector. In contrast, industrial consumption of electricity continued to rise at a faster rate than production, which suggests that some industries have been gradually changing their source of energy (see table 8).

v) *Construction.* The aggregate value of construction increased at a rate of around 3%, more or less recovering its 1980 level (see table 4). Other partial statistical data corroborate the existence of a certain dynamism in this sector. Firstly, the area covered by building permits granted in the city of Managua grew by 14%, after having increased by 10% in 1983.

The variations in housing construction in those two years were 63% and -69% respectively. Nevertheless, these preliminary figures are not necessarily representative of the construction actually carried out, as frequently, once the permits have been requested and obtained, the actual construction is put off or postponed. At all events, population movements within the country —spontaneous or as the result of governmental decisions taken because of the armed conflict— led to the establishment of new settlements. Although such settlements have been given official backing in the form of projects for blocks of housing for several families, they have been rather disorganized and have led to demands for sewerage and electricity services which it has only been partly possible to satisfy.

Although public sector development projects slowed down appreciably, cement production increased spectacularly (almost 70%), partly as a result of the construction of defence works (see table 9).

vi) *Electricity.* Taking advantage of the Central American Isthmus electrical grid, the country satisfied part of its demand with imports from Costa Rica. These imports have made it possible to offset the shortfalls in production in 1982 and 1983 caused by shortages of oil for the thermal plants or by the lack of rainfall in the case of hydroelectric plants. The fourfold increase in 1984 of electricity from a new source —geothermal energy— not only raised total electricity production and replaced part of that of thermal origin and a certain amount of hydroelectricity and imported energy, but also brought down costs (see table 10).

Industrial consumption of electricity grew during the year as did residential consumption (partly as a result of the extension of the network to areas of low-cost housing). In turn the decline of

Table 9

NICARAGUA: INDICATORS OF CONSTRUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Area built up									
(thousands of m ²) ^b									
Total	270	20	43	47	53 ^c	178.6	-21.1	9.5	13.7 ^c
Housing	171	11	54	17	28 ^c	464.7	-14.4	-68.8	62.9 ^c
Production of construction materials									
Constructional steel									
(thousands of tons)	...	20.8	26.2	32.6	...	4.8	20.1	24.4	...
Cement (thousands of tons)	...	172	183	265	447 ^c	6.4	-0.3	44.8	68.7 ^c
Paving stones for roads									
(millions of units)	...	4.0	5.6	9.9	...	-11.5	58.7	74.6	...

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget and the Central Bank of Nicaragua.

^a Preliminary figures.

^b Corresponds to permits granted in the city of Managua.

^c Estimated on the basis of the January-October

variation.

Table 10

NICARAGUA: ELECTRICITY GENERATION AND CONSUMPTION

	1975	1980	1981	1982	1983	1984 ^a	Growth rates			
							1981	1982	1983	1984 ^a
Generation^b	821	971	1 011	970	853	876	4.2	-4.1	-12.0	2.6
Hydroelectric	355	499	485	412	239	212	-2.7	-15.1	-42.1	-11.2
Thermal	466	461	513	544	537	391	11.4	5.9	-1.2	-27.2
Geothermal	-	-	-	-	67	262	-	-	...	292.9
Diesel and gas	-	11	13	14	11	11	12.4	14.2	-26.2	0.9
Purchases of electricity^b	-	-	-	111	337	292	-	-	204.5	-13.5
Consumption of fuel oil to produce electricity^c	...	884	972	1 045	1 068	761	10.0	7.5	2.2	-28.8
Electricity consumption^b	681 ^d	764	835	881	971	993	9.3	5.5	10.2	2.3
Residential	132	219	240	251	271	288	9.3	4.7	7.9	6.3
Commercial	61	69	67	68	73	69	-2.5	1.5	7.2	-4.7
Industrial	258	258	285	275	311	327	10.8	-3.6	13.1	5.2
Government	28	71	94	110	120	114	32.0	16.3	9.2	-5.3
Public lighting	14	21	25	24	26	23	15.3	-1.2	6.5	-10.7
Irrigation	41	74	68	92	108	106	-7.2	35.3	16.3	-1.0
Pumping	30	52	56	60	62	65	6.7	7.7	4.2	4.0

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^a Preliminary figures.

^b Millions of kWh.

^c Thousands of barrels.

^d Includes 117 million kWh distributed by intermediaries with no indication of use.

electricity consumption in the public sector, in street lighting and in commerce was due to the new austerity measures and the change in trading hours introduced as a means of saving energy.

vii) *Other sectors.* The decline in the activity of transport, trade and finances was caused by the behaviour of the goods-producing and foreign trade sectors.

The decline in transport was caused by the armed violence and the lack of spare parts. Trade was also affected by peculiar circumstances in 1984, such as the excessive proliferation of the informal sectors, brought about by the opportunity to make large profits through speculative activities.

Of particular note among the other sectors was the 6% growth of governmental services, which was the most dynamic activity in 1984. This expansion was fundamentally due to the increase in manpower engaged in the defence of the country. Nonetheless, despite the delays in the completion and even the interruption of certain projects for the construction of health centres and stations, there was an improvement in several health indicators, such as those which reflect the coverage of various vaccinations, the diminution of infectious and contagious diseases, the increase in medical care, etc.

c) *The evolution of employment*

According to official estimates, during 1984 the number of unemployed at the national level increased by 9%, as a result on the one hand of the decline in overall economic activity, and on the other hand of the increase in the labour force. This brought the rate of unemployment to almost 20% (see table 11).

Apart from the figures given, which reflect the average behaviour of these variables over the year, certain events must be mentioned —an inkling of some of which could be gathered in 1983— which caused distortions in the occupational structures by region, sector or qualification and which contributed to a shortage of labour during the harvest despite the overall unemployment.

First of all, the military operations made it necessary to shift numerous settlements for security reasons, and even totally to uproot some small urban centres. This led to a shortage of labour for certain harvests or industrial activities and services and on other occasions prevented part of the transferred labour force from participating in production. In turn the shortage of labour for the

harvests—in particular the coffee harvest at the end of the year—caused the government to decide upon the transfer of many detachments of civil servants, students and other volunteers for this purpose while assigning better trained personnel to defence.

Secondly, and also as a result of destabilization and armed violence, labour which was usually engaged in production had to be incorporated in the defence and security forces, a process which gradually intensified as the year went on.

Thirdly, the attractive profits which could be made in certain trades and the downward trend of real wages helped to cause greater upsets in employment. In fact, in the hope of increasing their income, some workers from industry and services chose to give up their often skilled jobs in favour of others in the sector of informal trade intermediation and distribution.

Finally, the armed conflict itself led to internal shifts and even emigration from the country which perturbed the labour supply. Among other aspects, this was reflected in the increased migration of part of the labour force traditionally devoted to agricultural tasks from certain regions towards the main cities. As such workers generally possess few qualifications, they had little opportunity of finding employment in manufacturing industry or construction, and consequently tended to swell the ranks of those involved in informal activities.

Table 11

NICARAGUA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984 ^a
Thousands of persons					
Labour force	872	904	936	973	1 010
Agriculture	380	386	392	399	406
Other activities	492	518	544	574	604
Employed	677	732	728	789	809
Agriculture	275	296	292	302	304
Other activities	402	436	436	487	505
Unemployed	195	172	208	184	201
Agriculture	105	90	100	97	102
Other activities	90	82	108	87	99
Indexes					
Labour force	100.0	103.7	107.3	111.6	115.8
Employed	100.0	101.6	103.2	105.0	106.8
Unemployed	100.0	105.3	110.6	116.7	122.8
Rates					
Unemployed	22.4	19.0	22.2	18.9	19.9
Agriculture	27.6	23.3	25.5	24.3	25.1
Other activities	18.3	15.8	19.9	15.2	16.3
Manufacturing	9.4	9.8	12.5	...	...
Construction	47.3	44.4	60.3	...	...
Commerce	8.9	8.2	17.1	...	...

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^a Preliminary figures.

Table 12

NICARAGUA: MAIN INDICATORS OF EXTERNAL TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	-4.7	-26.9	12.8	-20.1	1.3	-4.5
Volume	-1.0	-36.6	22.6	-15.0	12.1	-11.1
Unit value	-3.7	15.4	-8.0	-6.0	-9.6	7.5
Imports						
Value	-29.7	106.5	14.9	-21.6	5.2	1.9
Volume	-38.7	71.2	10.7	-25.5	1.4	1.7
Unit value	14.6	20.6	3.8	5.3	3.7	0.2
Terms of trade	-15.9	-4.3	-11.3	-10.7	-12.8	7.3
Indexes (1970 = 100)						
Purchasing power of exports	133.5	81.7	88.5	67.4	66.0	62.1
Volume of exports	163.7	103.8	127.3	108.2	121.3	107.8
Terms of trade	81.2	77.7	68.9	61.5	53.6	57.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

3. The external sector

The results of the external sector in 1984 were comparable with those of the previous year, both in terms of the trade balance and the balance on current account. The repetition of the serious external disequilibrium recorded in 1983 occurred despite the fact that, after six consecutive years of decline, the index for the terms of trade reflected a certain improvement. Nevertheless, the scale of the recovery —slightly more than 7%— was insignificant in the light of the aggregate deterioration of around 50% in the 1977-1983 period (see table 12).

As in previous years, attempts were again made to renegotiate the external debt, although without much success, owing to the high proportion of debt servicing unpaid both as regards principal and interest. The response from traditional creditors was not as flexible as in previous periods, and for the first time since 1979 credit support was not forthcoming from the Inter-American Development Bank (IDB), despite the fact that negotiations over a loan for agricultural development had been almost completed.

The dramatic decline in the physical volume of the main exports and the increasing undervaluation of the exchange rate also helped to worsen the results of the balance of payments.⁶

a) *Merchandise trade*

i) *General trends.* From the beginning of the decade, the government's international policy was to open up and diversify trade with other countries, a trend which had to be intensified as a result of the measures taken by the United States government. These measures took many forms: in the economic field, among other measures, they drastically reduced the country's sugar import quota; in the financial field, they exerted pressure to prevent international institutions, such as the IDB, from approving a loan for agricultural development in 1984; and, finally, in the political field, they encouraged and supported the armed violence. In view of this, it is easy to understand that the change in the structure of Nicaraguan foreign trade in terms of country of origin and destination has become more marked, and that the United States, which in 1980 received 36% of exports, should have absorbed only 10% in 1984, while the share of imports from this country should have fallen from something less than 30% in 1980 to only 15% in 1984.

⁶This situation led to the adoption of drastic adjustments to the exchange policy in the opening months of 1985, as part of a series of new economic policy measures.

Table 13

**NICARAGUA: EXPORTS, IMPORTS AND BALANCE OF
GOODS BY COUNTRY**

	Millions of dollars						Percentage breakdown		
	1977	1980	1981	1982	1983	1984 ^a	1977	1980	1984 ^b
Exports FOB	637	450	508	406	429	425	100.0	100.0	100.0
CACM ^c	134	75	71	52	33	47	21.0	16.7	8.6
ALADI ^d	17	-	11	15	9	...	2.6	0.1	...
Argentina	-	-	-	-	-	...	-	-	...
Brazil	-	-	-	-	-	...	-	-	...
Mexico	8	-	9	14	9	8	1.2	-	1.9
Venezuela	9	-	1	-	-	-	1.4	-	...
Others	-	-	1	-	-	...	-	-	...
EEC ^e	181	129	99	95	111	122	28.4	28.8	31.4
United States	145	162	131	89	78	51	22.7	36.0	10.0
Japan	70	13	57	45	66	95	11.0	2.8	26.5
Canada	3	28	26	18	6	20	0.4	6.3	2.8
CMEA ^f	6	8	37	30	55	28	1.0	1.9	5.5
Others	82	35	76	62	71	...	12.9	7.4	...
Imports CIF	762	887	999	776	819	808	100.0	100.0	100.0
CACM	164	301	211	117	124	75	21.6	33.9	9.4
ALADI	113	180	260	212	189	...	14.7	20.3	...
Argentina	1	3	9	3	5	58	0.1	0.4	3.9
Brazil	5	5	37	8	13	...	0.7	0.5	...
Mexico	15	20	120	155	160	71	2.0	2.2	9.3
Venezuela	87	149	87	40	5	7	11.4	16.8	0.6
Others	4	3	7	5	6	...	0.6	0.3	...
EEC	96	70	114	109	78	102	12.6	7.9	13.1
United States	220	244	262	147	157	133	28.8	27.5	15.1
Japan	77	29	28	19	19	29	10.1	3.3	2.9
Canada	6	11	24	13	20	37	0.7	1.2	3.8
CMEA	2	2	33	89	134	198	0.3	0.2	26.2
Others	85	50	67	71	98	...	11.2	5.6	...
Balance of goods	-125	-437	-491	-370	-390	-383	100.0	100.0	100.0
CACM	-30	-226	-140	-65	-91	-28	24.0	51.7	10.4
ALADI	-96	-180	-249	-196	-180	...	76.8	41.2	...
Argentina	-1	-3	-9	-3	-5	...	0.8	0.7	...
Brazil	-5	-5	-37	-8	-13	...	4.0	1.1	...
Mexico	-7	-20	-111	-141	-151	-63	5.6	4.6	19.9
Venezuela	-79	-149	-86	-41	-5	-7	63.2	34.1	1.7
Others	-4	-3	-6	-5	-6	...	3.2	0.7	...
EEC	85	59	-15	-14	33	20	-68.0	-13.5	-13.3
United States	-75	-82	-131	-58	-79	-82	60.0	18.8	22.4
Japan	-7	-16	29	26	47	66	5.6	3.7	-31.1
Canada	-3	17	2	5	-14	-17	2.4	-3.9	5.0
CMEA	4	6	4	-59	-79	-170	-3.2	-1.4	56.0
Others	-3	-15	9	-9	-27	...	2.4	3.4	...

Source: ECLAC, on the basis of figures provided by the Ministry of Foreign Trade.

^aEstimated on the basis of the January-September variation.^bJanuary-September.^cCentral American Common Market.^dLatin American Integration Association.^eEuropean Economic Community.^fCouncil for Mutual Economic

Assistance.

Table 14

NICARAGUA: FOREIGN TRADE WITH CENTRAL AMERICAN COUNTRIES

	Millions of dollars						Percentage breakdown		
	1977	1980	1981	1982	1983	1984	1977	1980	1984 ^{ab}
Exports FOB	134	75	71	52	33	49	100.0	100.0	100.0
Costa Rica	48	37	34	25	16	19	36.1	48.6	42.1
El Salvador	34	10	9	5	3	3	25.1	13.2	7.3
Guatemala	35	16	16	14	11	22	25.9	21.6	41.2
Honduras	17	12	11	6	3	5	12.9	16.6	9.4
Imports CIF	164	301	211	117	124	77	100.0	100.0	100.0
Costa Rica	58	117	80	46	36	19	35.5	38.9	28.7
El Salvador	38	51	34	18	19	12	23.3	16.8	14.9
Guatemala	52	103	77	45	58	30	31.8	34.2	37.5
Honduras	16	30	20	8	11	16	9.4	10.1	18.9
Balance of goods	-30	-226	-140	-65	-91	-28	100.0	100.0	100.0
Costa Rica	-10	-80	-46	-21	-20	-	33.3	35.4	12.0
El Salvador	-4	-41	-25	-12	-16	-9	13.3	18.1	24.0
Guatemala	-17	-87	-61	-31	-47	-8	56.7	38.5	36.0
Honduras	1	-18	-9	-1	-8	-11	-3.3	8.0	28.0

Source: ECLAC, on the basis of figures provided by the Ministry of Foreign Trade.

^a Preliminary figures.^b January-September.

Moreover, trade with the countries of the European Economic Community, with which Nicaragua enjoyed a surplus in the last three years, has remained fairly slack. Indeed, Nicaragua has received only technical assistance from some of these countries.

On the other hand, trade has grown with the CMEA countries as a whole, with Japan and certain Latin American nations, especially Mexico, and to a lesser extent Venezuela, owing mainly to the role played by these countries in supplying petroleum by virtue of the San José Agreement (see table 13).

In turn, trade with the member countries of the Central American Common Market has slackened off considerably, partly a result of the widespread slump in the region and partly because of the payment problems arising from the deficits built up in this trade. Nevertheless, although imports from all these countries (with the exception of those from Honduras) declined sharply between January and September 1984, exports to Guatemala increased (doubling in value), as did those to Honduras (see table 14). These encouraging trends were nonetheless counterbalanced by the high deficit which exists between Nicaragua and the other member countries of the CACM, although this diminished in 1984. The so-called "buhonero" trade, which partly accounts for the improvement in exports, involves a certain amount of barter and operations which started spontaneously and became regularized by a measure which allows goods to be taken out of or brought into the country through the customs, and on only one occasion, up to a value of US\$ 500 per person. In this fashion a variety of handicrafts and other small industrial products were able to be sold in other countries in exchange for articles which were in very short supply within the country. The benefits of these operations—which on some occasions involved large amounts—were nonetheless counterbalanced as they led to speculation on the products which were scarce and simultaneously stimulated a parallel and illegal foreign currency market, with all its inherent drawbacks.

ii) *Exports.* On the export side, the 1984 results were unsatisfactory both at the global level and as regards most of the principal items. The value of sales of coffee—a product which was the main source of foreign exchange between 1980 and 1983—dropped sharply by almost 23% (see table 15). This was solely due to the drop in volume produced. In the case of sugar, the volume exported barely changed, but the disastrous conditions of the international market caused a 35% fall in the value of sales.

Exports of cotton and meat, on the other hand, grew considerably, although they failed to offset the consequences of the falls in coffee, sugar and bananas. In 1984 exports of both products increased in volume and the price of cotton also rose.⁷

Finally, external sales of seafood products fell off sharply while those of gold completely disappeared. This latter feature was largely the result of the government's decision to devote most of the gold output to increasing the country's international reserves.

iii) *Imports.* The value of imports declined slightly in 1984. This was caused by the contrasting trends of the main items. Thus, while external purchases of raw materials and intermediate goods rose by almost 6%, those of consumer goods fell by around 17% and those of capital goods remained stable (see table 16). In the first category, purchases of inputs for agriculture and livestock production (fertilizers, pesticides and medicines) increased remarkably while those of oil and fuel rose more moderately. On the other hand, for the second year in a row purchases of construction material declined.

The various components of purchases of capital goods also behaved in extremely contrasting ways. While imports of capital goods for the agricultural sector, particularly tractors, showed a marked recovery, purchases of transport equipment fell by 17% and those of capital goods for industry dropped by 2%.

Finally, while total imports of consumer goods declined, purchases of durable consumer goods rose by 13%, after having fallen in the previous two years. Imports of non-durable consumer goods on the other hand fell off sharply for the third time in the last four years (see table 16).

iv) *The terms of trade.* The 7% increase in the terms of trade was caused by the combined effects of a 7.5% improvement in the unit value of exports — mainly due to the rise in coffee prices — and the almost total stability in the average prices of imports. Nevertheless, this recovery in the terms of trade was more than offset by the marked shrinkage in the volume of exports. Consequently, the purchasing power of exports continued to slide (see table 12).

Table 15

NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates			
	1981	1982	1983	1984 ^a	1970	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	508	406	429	393	100.0	100.0	100.0	12.9	-20.1	5.7	-8.4
Central America	71	52	33	...	25.8	16.8	...	-6.0	-26.5	-36.7	...
Rest of world	437	354	396	...	74.2	83.0	...	16.8	-19.0	11.9	...
Main exports	434	357	384	355	68.7	86.2	90.3	11.9	-17.7	7.6	-7.6
Cotton	122	87	110	134	19.1	6.7	34.1	300.8	-28.5	25.7	22.1
Coffee	136	124	154	119	18.0	36.9	30.3	-17.7	-9.1	24.0	-22.8
Sugar	49	36	32	20	5.5	4.4	5.1	138.0	-25.2	-13.5	-35.2
Meat	21	34	27	31	14.9	13.1	7.9	-63.8	61.4	-21.4	16.7
Shrimps, lobsters and other fishery products	18	22	17	17	3.4	6.0	4.3	-33.0	21.3	-22.7	-1.8
Gold	24	15	10	-	2.3	7.3	-	-27.7	-36.6	-33.3	...
Sesame	8	6	6	9	-	1.3	2.3	29.6	-28.3	-0.7	60.3
Bananas	21	10	15	13	0.2	1.8	3.3	149.1	-53.2	51.2	-12.2
Molasses	6	3	1	2	-	1.3	0.5	-2.0	-45.6	-55.7	84.6
Chemicals	29	20	12	10	5.3	7.3	2.5	-12.0	-32.8	-40.5	-16.7
Rest	74	49	45	38	31.3	13.8	9.7	19.4	-33.8	-8.2	-15.6

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget, the Central Bank of Nicaragua and the Ministry of Foreign Trade.

^a Preliminary figures.

⁷ As already indicated, prospects for cotton are encouraging. On the other hand, the abnormal situation which the country is experiencing has caused the slaughter of cattle in large areas of the territory, and made it impossible to adopt any policy to expand the livestock herd. Similarly, the distortion of price structures has spurred the smuggling of live cattle to some neighbouring countries.

Table 16

NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates			
	1981	1982	1983	1984 ^a	1970	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	999	776	819	816	100.0	100.0	100.0	12.6	-22.4	5.6	-0.4
Central America	211	117	124	...	25.2	33.9	...	-29.7	-44.5	7.8	...
Rest of world	788	659	695	...	74.8	66.1	...	34.2	-16.6	5.6	...
Consumer goods	243	160	175	146	29.2	29.1	17.9	-5.7	-34.0	9.4	-16.6
Durable	47	43	39	44	10.2	4.8	5.4	10.0	-8.9	-8.1	12.8
Non-durable	196	117	136	102	19.0	24.3	12.5	-8.9	-40.4	16.6	-25.0
Raw materials and intermediate goods	555	449	437	462	47.6	58.5	56.6	6.9	-19.1	-2.7	5.7
Petroleum and fuels	197	179	156	165	5.7	19.6	20.2	13.3	-9.4	-12.9	5.8
Others	358	270	281	297	...	38.9	36.4	3.8	-24.6	4.1	5.7
For agriculture	56	35	59	73	...	7.0	8.9	-9.7	-37.3	70.5	23.7
For manufacturing	262	187	199	206	...	27.8	25.3	5.8	-28.3	6.2	3.5
For construction	34	47	22	18	...	3.4	2.2	14.1	37.8	-52.0	-18.2
Miscellaneous	6	1	1	-	...	0.7	-	...	...	...	...
Capital goods	201	167	207	208	23.2	12.4	25.5	82.8	-16.9	23.8	0.5
For agriculture	30	25	15	26	1.8	2.7	3.2	23.7	-16.5	-41.1	73.3
For manufacturing	121	109	150	147	17.0	6.9	18.0	98.2	-9.9	37.5	-2.0
For transport	50	33	42	35	4.4	2.8	4.3	102.0	-34.2	27.5	-16.7

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget, the Central Bank of Nicaragua and the Ministry of Foreign Trade.

^a Preliminary figures estimated on the basis of data relating to January-October.

b) *Services trade and factor payments*

The balance on real services improved slightly in comparison with the previous year as a result of the reduction in imports brought about by a tighter use of foreign exchange. Nevertheless, it only partly made up for the increase in the deficit on merchandise trade, which was almost equal to the total of exports of goods. In turn, net payments for factor services declined for the second year in a row. Nevertheless, had payment of all the interest due been made, it would have reached close on US\$ 160 million, equivalent to 37% of the value of exports of goods and services.

c) *The balance on current account and its financing*

In 1984 the current account deficit remained around US\$ 520 million, a similar level to the average for the previous four-year period (see table 17).

For the fourth year running, net capital income and official transfers exceeded the current account deficit. Credit obtained by the official sector was once again predominant, and within this the financing of oil supplies was the most outstanding item here. The facilities for the importation of oil which had been granted in previous years by Venezuela and in particular Mexico, in accordance with the San José Agreement, were complemented in other forms by financing and supplies provided mainly by the Soviet Union.

Greater difficulties were encountered in 1984 than in previous years in obtaining fresh international funds. Consequently, as access to traditional sources of funds became increasingly restricted, the effective entry of long-term capital was increasingly tied to external purchases—particularly of capital goods—, through the opening of credit lines.⁸

⁸ Import financing by credit lines was 10% in 1980, 19% in 1983 and almost 25% in 1984.

Table 17

NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-34	90	-491	-563	-514	-518	-517
Trade balance	62	162	-414	-484	-382	-461	-474
Exports of goods and services	720	672	495	553	447	445	428
Goods FOB	646	616	450	508	406	411	393
Real services ^b	74	56	44	45	41	34	35
Transport and insurance	28	22	13	15	12	10	4
Travel	25	18	22	23	20	5	4
Imports of goods and services	658	511	909	1 037	829	907	902
Goods FOB	553	389	803	922	723	761	775
Real services ^b	104	122	106	114	106	146	127
Transport and insurance	56	31	51	58	49	49	46
Travel	60	48	31	15	20	7	6
Factor services	-97	-73	-89	-93	-140	-61	-45
Profits	-35	-13	-21	-	-5	-1	-
Interest received	8	6	19	28	9	7	5
Interest paid	-67	-65	-88	-121	-144	-66	-50
Others	-3	-1	-	-	-	-	-
Unrequited private transfers	-	1	12	13	8	3	2
Balance on capital account	-49	-95	297	635	623	607	539
Unrequited official transfers	9	90	112	57	43	67	74
Long-term capital	135	125	343	591	432	553	488
Direct investment	7	3	-	-	-	8	2
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	128	122	343	591	432	546	486
Official sector ^c	123	69	326	509	425	552	509
Loans received	152	85	344	566	469	580	526
Amortization payments	-24	-17	-18	-57	-44	-28	-17
Commercial banks ^c	-7	56	17	82	20	33	8
Loans received	-	56	22	86	29	38	20
Amortization payments	-	-	-4	-4	-8	-4	-12
Other sectors ^c	12	-2	-	-	-14	-40	-31
Loans received	58	15	-	-	-	-	-
Amortization payments	-46	-17	-	-	-14	-40	-31
Short-term capital	-184	-267	-137	-37	-49	-20	-33
Official sector	-13	-	-	-	-	-	-
Commercial banks	55	-	-	-	-	-	-
Other sectors	-227	-267	-137	-37	-49	-20	-33
Errors and omissions	-10	-44	-20	25	197	7	10
Global balance	-84	-5	-194	72	108	89	22
Total variation in reserves (- sign indicates an increase)	83	-9	225	-61	-77	-70	-22
Monetary gold	-	-1	-	-	-	-	-
Special Drawing Rights	-1	6	-	-	-1	1	-
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	99	-75	120	-47	-59	-86	-
Other assets	-15	7	113	10	-11	20	-
Use made of IMF credit	-	55	-8	-25	-5	-5	-5

Source: 1978-1988: International Monetary Fund, *Balance of Payments Yearbook*; March 1985; 1984: ECLAC, on the basis of official figures.^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 item 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 accounts. 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 variation due to revaluation.

Table 18

NICARAGUA: MEDIUM- AND LONG-TERM EXTERNAL DEBT

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Balance ^b	1 136	1 588	2 200	2 730	3 324	3 918
Public debt	1 131	1 583	2 195	2 725	3 319	3 913
Non-financial sector	...	1 294	1 706	2 144	2 352	2 607
Central Government	...	1 175	1 582	2 009	2 221	2 470
Rest	...	119	124	135	131	137
Financial sector	...	289	489	581	967	1 306
Central Bank	...	201	319	391	744	1 059
Rest	...	88	170	190	223	247
Private debt guaranteed by the State	5	5	5	5	5	5
Disbursements ^c	188	265	424	458	367	334
Servicing						
Commitments	...	201	208	252	313	357
Amortization payments	...	130	97	113	157	171
Interest	...	71	111	139	156	186
Paid	60	80	171	169	83	119
Amortization payments	18	42	71	59	40	46
Interest	42	38	100	110	43	72
New debt contracted						
Amount	...	528	687	542	337	283 ^d
Average conditions						
Interest (percentages)	...	4.3	10.5	6.1	6.0	4.5 ^e
Payment periods (years)	...	24.5	10.0	11.4	12.5	9.5 ^e
Percentages						
Ratios						
Total external debt/exports of goods and services	169.0	321.0	397.8	610.7	747.0	915.4
Servicing paid/exports of goods and services	8.9	16.2	30.9	37.8	18.6	27.8
Interest paid/exports of goods and services	6.3	7.7	18.1	24.6	9.7	16.8
Servicing paid/disbursements	31.9	30.2	40.3	36.9	22.6	35.6

Source: BOLAC, on the basis of figures provided by the Central Bank of Nicaragua.

^aPreliminary figures. ^bEnd-of-year balance of the debt disbursed (including public debt and private debt guaranteed by the State).^cExcludes debts due to renegotiation.^dUp to 30 September 1984.

Finally, since the outbreak of the revolution the country has received major grants. During the 1979-1984 period these attained the sum of some US\$ 500 million, 90% of which came from official sources. During 1984 official grants represented US\$ 74 million, a figure which, as in 1983, represented 14% of the current account deficit. Most of these grants were received in kind (food, basic inputs and equipment), their contribution in terms of international liquidity being relatively small. Nevertheless, the qualitative significance of the grants which have continued to be received from some traditional sources in the industrialized market economy countries as well as from the socialist countries is worthy of note.⁹

⁹The total amount of this was received in kind in 1984.

d) *External indebtedness*

The balance of the medium- and long-term external debt was around US\$ 4 billion at the end of 1983 —a figure 18% higher than the year before. This considerable increase was mainly due to "theoretical" disbursements corresponding to servicing in arrears —which generate accounting income and expenditure—¹⁰ and partly to the new credit received, particularly through bilateral relations.

In the face of the increasingly restricted possibility of generating foreign exchange, the major problem of indebtedness in 1984 lay in the fact that the necessary search for financing to cover the deficit on current operations was compounded by the pressing problem of debt servicing. Consequently the country fell more and more into arrears. These circumstances further hindered the new attempts at renegotiation in an international context which, if not hostile, was certainly somewhat reluctant to grant further funds.

Nevertheless, in some spheres and in spite of the difficulties encountered, certain conditions improved. Thus the average rate of interest on the new debt fell from 6% in 1983 to 4.5% in 1984; on the other hand, its average term was shortened from 12 to 9 years (see table 18).

In these circumstances, attempts were made from the middle of the year to adjust the policy on payments of the debt, seeking to renegotiate external commitments, particularly those with the other Central American countries and with oil suppliers, which were gradually increasing.

At all events, the conditions affecting external indebtedness are extremely burdensome in terms of the present payment capacity, and even in terms of potential capacity should the economy revive in the future. In fact, while effective servicing of the external debt in terms of exports was 28% in 1984, this coefficient would have risen to 84% if all the payments which matured during the year had been met. Moreover, the debt was worth more than nine times the value of exports of goods and services, a coefficient which is not only the highest in Latin America,¹¹ but which has multiplied more than five-fold over the last five years (see table 18).

4. Prices and wages

a) *Prices*

In 1984 inflation soared for the second year in a row. The variation in consumer prices from December to December rose from 22% in 1982 to 33% in 1983 and 50% in 1984. Moreover, the rate at which prices increased accelerated conspicuously in the closing months of the year (see figure 2). Consequently, the variation between annual averages in consumer prices rose much more gradually than that measured between extremes (see table 19).

Once again, and for the sixth year running, the cost of food rose more than that of other products, a fact which had greatest impact on low-income strata of the population, as this item represents a greater part of their overall consumption. Nevertheless, this impact was partly mitigated by the increase in the distribution of consumer goods at controlled prices through the "commissariats" at work places and by the increased attention paid to satisfying other basic needs —such as health and education.

A variety of factors contributed to the rise in the rate of inflation. First, the high fiscal deficit and a fairly expansionary credit policy led to considerable growth in the means of payment. The excess demand thus generated, although partly cancelled out by the high level of imports, strengthened rising price pressures.

These tensions were complemented by other phenomena, in particular the following:

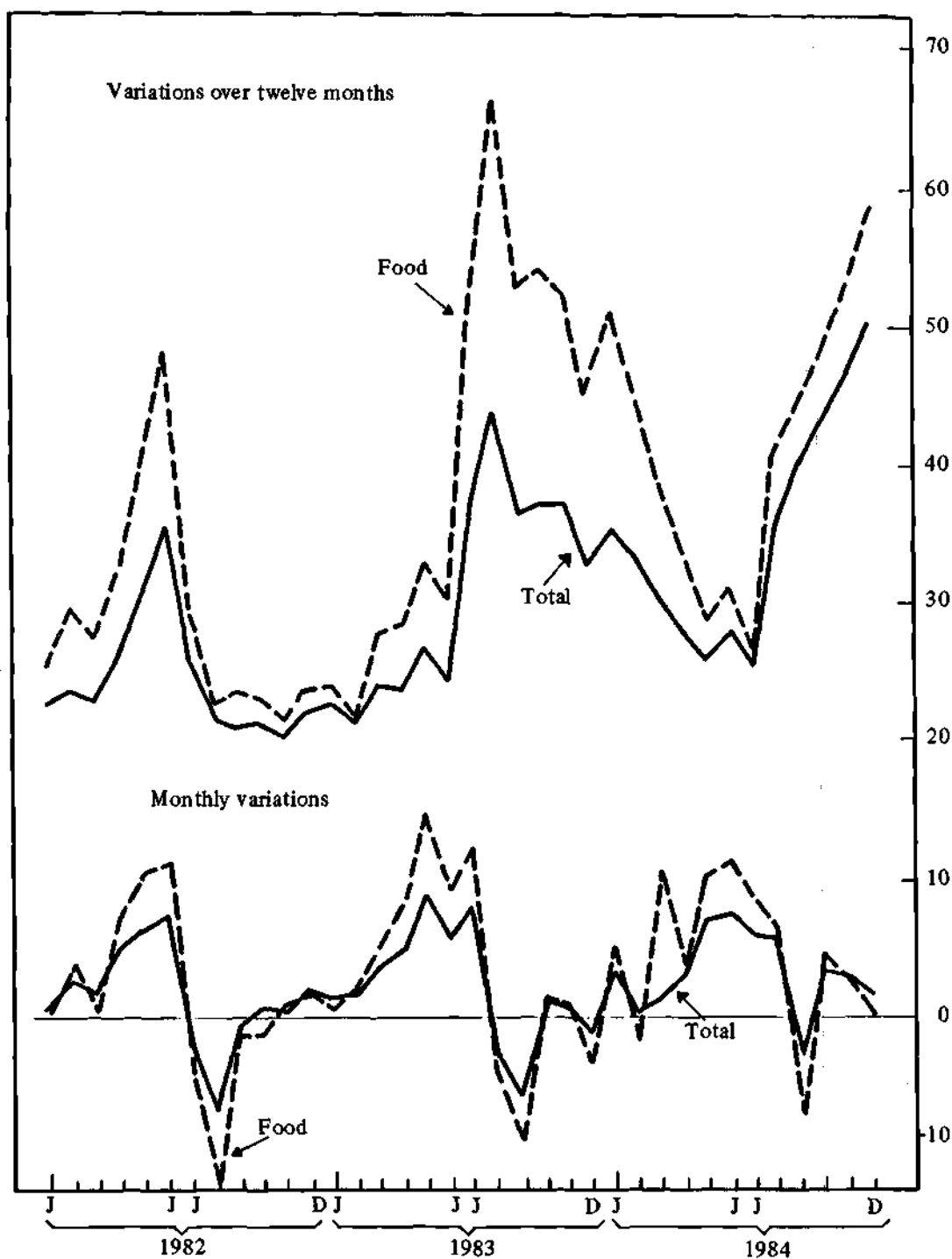
- a) The slackening of global supply of goods and services;
- b) The increased costs of some imported products whose purchase was financed by foreign currency from the parallel currency market, on which the rate of exchange is much higher than on the official market;
- c) Speculation. Although several essential products (such as rice, beans, maize, oil, soap, salt, sugar and sorghum) were sold at regulated prices and in some cases under the system of rationing

¹⁰This situation has continued at varying levels of intensity since 1980.

¹¹In 1984 the second highest coefficient was that of Argentina (5.0) while the average coefficient for the region was 3.2.

Figure 2

NICARAGUA: EVOLUTION OF CONSUMER PRICES,
TOTAL AND FOOD SINCE DECEMBER 1981



introduced in 1983 on official markets, supply restrictions, distribution bottlenecks and a certain difficulty in applying the official controls in the other centres of distribution encouraged speculation in informal trade.¹²

d) The increase in personnel devoted to defence meant that the amount of goods intended for them (above all food, clothing and footwear) increased, to the detriment of the civilian population, a fact which naturally tended to raise prices;

e) The withdrawal of certain subsidies. While this policy only began to be pursued energetically at the beginning of 1985, some subsidies, such as that granted to basic grains, had already been reduced in 1984. As a consequence, the price of the latter rose rapidly. For example, prices of rice and sugar rose by 72% and 59% respectively between the end of 1983 and the end of 1984.

b) Wages

Although during the initial years of the revolution which began in 1979 a number of measures were taken to rationalize work standards so as to improve labour relations, it proved impossible to introduce radical changes in the existing organization. Nonetheless, at the beginning of 1984, after a long process of analysis of the different types of work, carried out in 1983, the new System of Work Standards and Wages (SNOTS) was initiated. This system, which is designed as a regulatory mechanism for wages for different categories and jobs, sought to base itself on the criterion of "equal pay for equal work". The system was first applied within the productive sectors and was later extended to the services.

Table 19

NICARAGUA: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
December-December variation						
Consumer price index ^a	70.3	24.8	23.2	22.2	32.9	50.2
Per item of expenditure						
Food, beverages and tobacco	97.7	36.8	25.9	23.9	45.1	58.6
Clothing	46.0	21.0	24.0	22.5	24.2	64.7
Housing	35.3	9.7	23.7	21.6	14.3	43.2
Miscellaneous	65.6	14.3	16.0	17.9	18.0	24.0
Per origin of product						
National	...	...	22.3	21.8	36.3	53.2
Imported	...	...	26.7	30.2	7.6	24.5
Variation between annual averages						
Consumer price index ^a	48.2	35.3	23.9	24.8	31.1	35.4
Per item of expenditure						
Food, beverages and tobacco	63.3	49.1	29.0	29.1	41.5	41.5
Clothing	26.3	31.8	21.1	27.3	18.1	45.0
Housing	29.9	13.9	20.6	21.3	16.0	28.6
Miscellaneous	45.2	28.2	15.2	16.5	17.6	18.3
Per origin of products						
National	48.4	34.9	24.0	24.3	33.1	37.0
Imported	46.4	38.6	22.9	28.5	16.8	16.4

Source: ECLAC, on the basis of figures provided by the Nicaraguan Institute of Statistics and the Census.

^aIn the metropolitan area of Managua.

¹²For this reason, the selling price of a single product increased, often rapidly.

Table 20

NICARAGUA: EVOLUTION OF WAGES

	Indexes 1981 = 100				Growth rates			
	1980	1982	1983	1984	1981	1982	1983	1984
Registered with the INSSBI^a								
National								
Nominal	79.6	108.9	124.6	138.8 ^b	25.6	8.9	14.4	11.4 ^c
Real	98.6	87.3	76.2	69.5 ^b	1.4	-12.7	-12.7	-8.8 ^c
Agricultural								
Nominal	74.8	115.1	125.2	151.1 ^b	33.7	15.1	8.8	20.7 ^c
Real	92.7	92.2	76.5	75.7 ^b	7.9	-7.8	-17.0	-1.0 ^c
Manufacturing								
Nominal	84.7	113.1	136.6	150.7 ^b	18.1	13.1	20.8	10.3 ^c
Real	105.0	90.6	83.5	75.5 ^b	-4.8	-9.4	-7.8	-9.6 ^c
Construction								
Nominal	81.1	118.1	159.3	193.2 ^b	23.3	18.1	34.9	21.3 ^c
Real	100.5	94.6	97.4	96.8 ^b	-0.5	-5.4	3.0	-0.6 ^c
Commerce								
Nominal	85.2	118.9	143.7	153.2 ^b	17.4	18.9	20.9	6.6 ^c
Real	105.6	95.3	87.8	76.8 ^b	-5.3	-4.7	-7.9	-13.5 ^c
Central Government								
Nominal	...	...	...	...	...	...	...	11.4 ^c
Real	...	...	...	...	...	...	...	-8.7 ^c
Same legal minimum wages								
Managua Department								
Industrial workers								
Nominal	...	102.9	102.9	156.3	...	2.9	-	51.9
Real	...	82.5	62.9	70.6	...	-17.5	-23.8	12.2
Rural workers								
Nominal	...	100.0	100.0	155.8	...	-	-	55.8
Real	...	80.1	61.1	70.3	...	-19.9	-23.7	15.1
Other main towns								
Nominal	...	100.0	100.0	193.2	...	-	-	93.2
Real	...	80.1	61.1	87.2	...	-19.9	-23.7	42.7
Rest of country								
Nominal	...	101.6	101.6	158.3	...	1.6	-	55.8
Real	...	81.4	62.1	71.5	...	-18.6	-23.7	15.1

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aNicaraguan Institute of Social Security and Welfare. ^bJanuary-July average. ^cJanuary-July 1984 variation compared with the same period of the previous year.

The application of SNOTS implied a widespread and far-reaching adjustment of minimum wages. Despite this, they failed to recover the purchasing power they possessed three years previously. In most cases their real level was almost 30% below that of 1981 (see table 20).

Furthermore, the distortion caused by the rise of prices of certain products on the informal market encouraged certain sectors of wage-earners who were dissatisfied with their wages to join, either partly or completely, this same market.

Moreover, the readjustment of the legal minimum wage failed to prevent the decline in real wages received by workers contributing to the Nicaraguan Social Welfare and Insurance Institute (INSSBI), a body which has gradually increased its scope of action and raised the number of workers registered. This loss was around 9% at the national level, in the manufacturing industry and in the central government. It was considerably higher in trade (-13.5%) and far lower (-1%) in agriculture and construction (see table 20).

Finally, as a result of the wages policy applied between 1980 and 1984, the spread of the wages structure was narrowed (see table 21).

5. Monetary and fiscal policy

a) *Monetary policy*

The far-reaching reforms carried out in 1979 exerted considerable pressure on the financial and in particular the banking system from the very beginning. This system —which was soon nationalized— had to face, in addition to the problems originating in the process of change, a whole series of difficulties, including the exceptional rise in interest rates on the international financial markets. These difficulties were heightened by the effects of an inflationary process without precedent in the country, under conditions which frequently forced the monetary authorities to set political before economic rationale, generally in order to satisfy the financial requirements of the government, and in particular of public enterprises. A further distortion had its roots in the exchange field, where a system of multiple exchange rates remained in operation, characterized by a very slow rise in the nominal exchange rate and by a marked drop in real parity.

Thus the evolution of the financial system was simultaneously affected by several factors: the growing fiscal and public sector deficit, exchange losses, sluggish —and in some cases irretrievable— credit. As a result, while growth of money in circulation had more or less kept pace with the evolution of nominal income in the 1981-1982 biennium, in the two following years the expansion of the former was far greater. This phenomenon —which was a stimulus to inflation— brought down the velocity of circulation in 1984 for the fourth consecutive year (see table 22).

As in the two previous years, in 1984 cash outside banks increased far more rapidly than sight deposits, which in turn expanded more than quasi-money. Such a trend was to be expected in view of the prevailing tensions and circumstances, whose effects on the public's willingness to hold various monetary assets could not be counterbalanced by the measures taken by the government. In an attempt to make the holding of term deposits more attractive, the government slightly raised interest rates on deposits and adopted a system of draws and prizes for depositors, giving away in particular consumer durables which were fairly scarce in the country.

Table 21

NICARAGUA: LEVEL OF WAGES AND SALARIES^a

(Córdobas)

	1980	1981	1982	1983	1984
Registered with the INSSBI^b					
National	2 012	2 529	2 754	3 152	3 511 ^c
Agriculture	2 035	2 719	3 129	3 404	4 108 ^c
Mining and quarrying	1 811	2 154	2 354	2 773	3 195 ^c
Manufacturing	2 137	2 523	2 854	3 447	3 802 ^c
Construction	1 722	2 123	2 508	3 382	4 102 ^c
Electricity, gas and water	2 904	3 151	3 286	3 786	4 065 ^c
Transport	1 973	2 404	2 403	3 373	3 844 ^c
Commerce	2 394	2 811	3 341	4 039	4 306 ^c
Finance	3 166	3 542	3 782	4 312	4 693 ^c
Central Government	...	...	...	2 376	3 125 ^c
Other services	2 178	2 400	2 376	3 276	3 613 ^c
Minimum legal wages					
Managua Department					
Industrial workers	...	1 088	1 120	1 120	1 700
Rural workers	...	770	770	770	1 200
Other main towns	...	880	880	880	1 700
Rest of country	...	758	770	770	1 200

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^a Monthly averages of wage earners.

^b Nicaraguan Institute of Social Security and Welfare.

^c Relates to the monthly average for

January-July.

Table 22

NICARAGUA: MONETARY INDICATORS

	End-of-year balance (millions of córdobas)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money	5 626	6 920	11 363	20 286	24.3	23.0	64.2	78.5
Money outside banks	2 376	3 085	5 426	11 306	18.7	29.9	75.8	108.4
Current account deposits	3 250	3 835	5 937	8 980	28.7	18.0	54.8	51.2
Expansion factors	16 059	20 204	30 371	44 551	51.6	25.8	50.3	46.7
Net international reserves	-3 336	-4 513	-3 808	-3 357	...	...	...	...
Gross international reserves	1 765	1 998	2 204	2 324	149.3	13.2	10.3	5.4
Less short-term external loans	-5 101	-6 511	-6 012	-5 681	...	...	...	...
Domestic credit	19 394	24 717	34 179	47 907	27.7	27.4	38.3	40.2
Central Government		6 282	14 347	21 571			128.4	50.4
Local government and official bodies ^b	3 177	344	316	338	26.8	108.6	-8.3	7.2
State trading firms	1 795	1 379	731	752	81.3	-23.2	-47.0	3.0
Productive sectors	14 422	16 711	18 786	25 245	23.3	15.9	12.4	34.4
Area de Propiedad del Pueblo	9 417	6 673	8 395	13 371	...	-29.1	25.8	59.3
Private sector	5 005	10 038	10 391	11 874	...	100.6	3.5	14.3
Absorption factors	10 433	13 284	19 008	24 265	71.9	27.3	43.1	27.7
Quasi-money	3 395	3 724	5 128	6 864	85.0	9.7	37.7	33.9
Savings deposits	...	1 293	1 776	2 492	...	...	37.3	40.3
Term deposits	...	2 431	3 352	4 372	...	...	37.9	30.4
Long-term external loans	6 310	7 543	14 080	18 881	151.2	19.5	86.7	34.1
Other accounts (net)	728	2 017	-200	-1 480	-57.7	177.1	...	...
Coefficients^c								
Monetary multipliers								
M ₁ /monetary base	1.79	1.59	1.48	1.39				
M ₂ /monetary base	2.72	2.50	2.20	1.92				
Velocity of circulation: GDP/M ₁	4.5	3.6	2.6	1.5				

Source: ECLAC, on the basis of figures provided by the Central Bank of Nicaragua and the Ministry of Planning and the Budget.

^a Preliminary figures.^b Excluding State trading firms.^c Through lack of information, these were estimated only on the basis of the average of the sums at the beginning of January and the end of December each year.

The main cause of the considerable expansion of money was once again the growth of domestic credit. Its structure was nevertheless somewhat different from that of previous years. Thus, after having doubled both in 1982 and in 1983, central government credit increased by 50%. In contrast, loans to firms which make up the Area de Propiedad del Pueblo, which had fluctuated wildly during the two previous years, increased by around 60% in 1984. Lastly, credit for private borrowers declined notably in real terms for the second year in a row (see table 22).

Finally, the structure of the external liabilities of the financial system changed in 1984. The importance of short-term commitments within the whole fell from 30% to 23%, partly as a result of the process of debt renegotiation and partly owing to the new use of lines of "tied" credit and other income for investment.

b) *Fiscal policy*

The fiscal deficit had already represented one of the main problems in 1983. Hence in drawing up the 1984 budget the government planned a series of measures to reduce it.

As armed harassment had gradually increased during 1983, the 1984 central government budget gave priority to the country's defence, allocating more than proportional increases to the Ministries of the Interior and of Defence as well as to expenditure on infrastructure projects linked with defence. It was also decided to maintain the nominal level of subsidies so as to avoid upsets to the supply and prices of certain basic goods and services. Attempts were also made to establish stricter criteria than in previous years for selecting investments, with the aim of expanding production as quickly as possible. As a result of these restrictions, it was hoped to bring down the fiscal deficit by limiting current expenditure as far as possible, increasing tax revenue by improved administrative control and changing some rates of taxation, without however affecting the lower-income groups.

During the budgetary exercise, the effort made to include new tax payers, increase tax collection from enterprises in the Area de Propiedad del Pueblo, in particular in the agricultural sector, and to achieve improved fulfilment of tax commitments was worth particular note. Similarly, in April and May some reforms were made to the Law on the General Sales and Selective Consumption Tax and to the regulations concerning the Vehicle Registration Law.¹³ Furthermore, during the last week of the year major reforms and measures were adopted in the tax field, which in some cases involved a far-reaching change in the tax structure.¹⁴

As regards expenditure, during the phase of implementation of the budget, policies were adopted with the aim of: a) rejecting requests for increased allocations, unless the expenditure in question was considered imperative; b) refusing to authorize new investment; c) sharply reducing subsidies for basic grains and d) restructuring wages on the principle of "equal pay for equal work".

Despite the efforts made to increase income and to exercise greater caution over expenditure, the 1984 results continued to reflect a very serious fiscal position. Nevertheless, some progress was made. The deficit fell by almost 6% between 1983 and 1984, so that it represented far lower proportions of total expenditure and of the gross domestic product. The first of these coefficients declined from 49% to 37%, while the second fell from 28% to 20%.¹⁵ Deficit financing was also very different from that of previous years. While domestic financing—which had been growing rapidly—declined by almost 16%, external financing grew by almost 46% (see table 23).

In the case of current income, the policy applied in 1983 and the complementary measures taken in 1984 meant that in both years tax revenue rose far more than prices. This phenomenon was more pronounced in direct than in indirect taxes. Hence the tax burden increased considerably, from 21% in 1982 to 25% in 1983 and more than 31% in 1984.

On the other hand, as regards expenditure it proved difficult to achieve the targets. Although interest on the external debt ceased to be paid and the interest on the domestic debt was brought down in real terms, expenditure on consumption had to be increased, mainly because of the armed conflict. As a result it is estimated that defence expenditure amounted to some 40% of total expenditure (see table 24). At the same time, although subsidies declined in real terms and the number of firms receiving State transfers fell, the nominal value of such expenditure rose.

Furthermore, while the nominal value of capital expenditure as a whole remained unaltered, its various components evolved in extremely contrasting fashion. Thus, while investment rose by 65%, amortization of the domestic debt increased only by 21% and that of the external debt fell slightly.

Finally, although information was insufficient on the consolidated balance of the broadened public sector (including enterprises in the "Area de Propiedad del Pueblo"), the basic criteria of the policy applied in 1984 included: a) undertaking only those investment projects for which funds were

¹³The rates affecting foreign air travel were raised from 15% to 25%, those on services in general from 10% to 15% and the rates for automobile licence plates increased.

¹⁴These reforms include the following changes: a) introduction of the General Value Tax and the Selective Consumption Tax and the repeal of the General Sales and Selective Consumption Tax Law; b) introduction of the Capital Gains Tax; c) the Law on Assumed Income; d) the Company Law; e) the Law on Trading Permits, and f) reforms to the Stamp Tax Law. Naturally the effects of these changes only began to be felt in 1985.

¹⁵This last ratio may seem excessive as it is probable that the gross domestic product at current prices is underestimated because the implicit deflator of the product rose at far lower rates than the consumer price index in recent years. This would explain the high ratio of fiscal deficit over product, as well as the heavy tax burden. With regard to this, see the chapter on Nicaragua in the *Economic Survey of Latin America and the Caribbean*, 1983.

Table 23

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	5 382	7 246	10 213	15 913	21.4	34.6	40.9	55.8
Tax revenue	4 576	5 766	8 533	13 835	17.5	26.0	48.0	62.1
Direct	1 199	1 303	1 849	3 216	9.1	8.7	41.9	73.9
On income	628	790	1 283	2 423	67.5	25.8	62.4	88.9
On property	300	332	274	468	-6.5	10.7	-17.5	70.8
On exports	182	18	4	11	-28.9	-90.1	-87.8	175.0
Others	89	163	288	314	-39.5	83.1	76.7	9.0
Indirect	3 377	4 463	6 683	10 619	20.8	32.2	49.7	58.9
On sales	743	823	1 177	1 946	43.4	10.8	43.0	65.3
On imports	678	710	739	1 050	6.6	4.7	4.1	42.1
On consumption and production	1 867	2 296	3 494	6 023	19.9	23.0	52.2	72.4
Others	89	634	1 273	1 600	4.7	612.4	100.8	25.7
Non-tax revenue	806	1 480	1 680	2 078	49.3	83.6	13.5	23.7
2. Current expenditure	6 986	9 090	12 698	17 844	30.1	-23.1	39.7	40.5
Wages and salaries	1 904	2 189	2 774	4 127	20.1	15.0	26.7	48.8
Goods and services	3 016	3 899	6 708	9 660	38.8	29.3	72.0	44.0
Transfers	1 220	1 618	2 186	2 767	60.1	32.6	35.1	26.6
Interest	846	1 384	1 030	1 290	73.4	63.6	-25.6	25.2
Domestic debt	196	525	769	884	27.3	167.9	46.5	15.0
External debt	650	859	261	406	94.6	32.2	-69.6	55.6
3. Current savings (1-2)	-1 604	-1 844	-2 485	-1 931	179.9	15.0	34.8	-22.3
4. Capital expenditure	1 426	2 019	7 385	7 391	5.2	41.6	265.8	0.1
Real investment	882	1 135	2 216	3 651	8.0	28.7	95.2	64.8
Debt amortization payments	274	310	399	446	61.2	13.1	28.7	11.8
Domestic debt	81	111	235	285	15.7	37.0	111.7	21.3
External debt	193	199	164	161	93.0	3.1	-17.6	-1.8
Others	270	574	4 770	3 194	26.8	112.6	731.0	-33.0
5. Total expenditure (2 + 4)	8 412	11 109	20 083	25 235	32.2	32.1	80.8	25.7
6. Fiscal deficit (1-5)	-3 030	-3 863	-9 870	-9 322	57.1	27.5	155.5	-5.6
7. Deficit financing								
External financing	934	1 542	1 659	2 416	-32.7	65.1	7.6	45.6
Credit	...	1 233	1 256	2 136	...	...	1.9	70.1
Grants	...	309	403	280	...	...	30.4	-30.5
Domestic financing	2 096	2 321	8 211	6 906	287.4	10.7	253.8	-15.9
Central Bank	1 971	3 418	8 214	7 202	338.0	73.4	140.3	-12.3
Other sources	125	-1 097	-3	-296				
Percentages								
Ratios								
Current savings/capital expenditure	-112.5	-91.3	-33.6	-26.1				
Fiscal deficit/total expenditure	36.0	34.8	49.1	36.9				
Tax revenue/GDP	18.8	20.7	25.0	31.5				
Total expenditure/GDP	32.6	37.4	56.4	55.1				
Fiscal deficit/GDP	11.8	13.0	27.7	20.3				
Domestic financing/deficit	69.2	60.1	83.2	74.1				
External financing/deficit	30.8	39.9	16.8	25.9				

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and the Central Bank of Nicaragua.

^a Preliminary figures.

available and which were considered to be of priority by the central government; b) maintaining the rates and prices of essential public services (electricity, communications, water and transport) and for the sale of basic grains; c) maintaining the level of employment in the administration, and d) making greater use of installed capacity.

Appendix

Economic consequences of the military harassment

Throughout this chapter the importance of the military harassment as a factor which has had strongly negative effects on the performance of the Nicaraguan economy in recent years, and in particular in 1984, has been emphasized. Although it is impossible to isolate the results of this phenomenon from those of others which have also hindered the growth of the economy, they have had far-reaching effects.

The damage directly caused by the armed movements, in addition to the losses in human lives—which according to Nicaraguan government estimates amount to around 8 000 dead and 4 000 wounded, along with a considerable number of prisoners and persons who have disappeared—are apparent in the destruction of capital assets. Nevertheless, its effect has been greatest in the losses of production caused either by the direct consequences of the fighting, or by the decision to abandon enterprises in view of the lack of security in the danger zones.

Table 24

NICARAGUA: GOVERNMENT EXPENDITURE BY MAIN FUNCTIONS

	Millions of córdobas			Percentage breakdown		
	1982	1983	1984 ^a	1982	1983	1984 ^a
Total	11 109	20 083	19 825	100.0	100.0	100.0
Social sector	2 691	3 749	4 284	24.2	18.7	21.6
Education and culture	1 213	1 732	...	10.9	8.6	...
Health and welfare	1 228	1 522	...	11.1	7.6	...
Housing	250	495	...	2.2	2.5	...
Infrastructure and production	2 296	6 642	3 579	20.7	33.1	18.1
Primary activities	...	4 343	...	...	21.6	...
Manufacturing	...	419	...	...	2.1	...
Construction	...	1 192	...	...	5.9	...
Transport	...	688	...	...	3.4	...
Commerce and tourism	589	1 478	1 373	5.3	7.3	6.9
General administration and defence	2 842	5 269	7 324	25.6	26.2	36.9
Governing Council	590	1 384	...	5.3	6.9	...
Defence	1 250	2 169	...	11.3	10.8	...
Interior	846	1 457	...	7.6	7.2	...
Others	156	259	...	1.4	1.3	...
Others	2 691	2 945	3 265	24.2	14.7	16.5
Public debt servicing	1 641	1 381	912	14.8	6.9	4.6
Ministries of Finance, Planning and Labour	396	687	1 578	3.5	3.4	8.0
Legislature and justice	75	96	115	0.7	0.5	0.6
Rest ^c	579	781	660	5.2	3.9	3.3

Source: ECLAC, on the basis of figures provided by the Ministry of Finance.

^a Budgetary figures. It is estimated that actual expenditure in 1984 reached 25 235 million córdobas.

^b According to official information "40% of the national budget is devoted to defence". See: Mensaje de la Dirección Nacional del Frente Sandinista de Liberación Nacional, *Barricada*, 9 February 1985.

^c Including among other bodies the Ministries of Planning, Finance and Labour, the Supreme Court and the Ministry of Justice, the National Institute of Statistics and the Census, the Nicaraguan Institute of Territorial Studies, the Council for the Reconstruction of Managua and the Nicaraguan Atlantic Coastal Institute. Also including public debt servicing payments, which reached 1 641 millions córdobas, 1 381 million and 912 million in 1982, 1983 and 1984 respectively.

Table 25

NICARAGUA: PHYSICAL DAMAGE AND PRODUCTION LOSSES

(Millions of dollars)

	Total	1981	1982	1983	1984
Total	392.9	7.0	31.3	143.5	187.5
Physical damage	92.5	2.7	9.0	41.1	16.1
Agriculture	10.1	-	-	5.0	5.1
Timber and forestry	29.2	-	-	24.1	5.1
Fishing	11.0	2.2	1.7	5.4	1.7
Mining	4.3	0.5	1.7	1.5	0.6
Construction	14.3	-	5.6	5.1	3.6 ^a
Services	23.6	...	...	...	...
Production losses	300.4	4.3	22.3	102.4	171.4
Agriculture	90.8	-	-	34.8	56.0
Timber and forestry	77.2	-	-	25.0	52.2
Fishing	34.0	2.1	4.3	11.3	16.3
Mining	8.4	2.2	3.0	1.3	1.9
Construction	90.0	-	15.0	30.0	45.0

Source: ECLAC, on the basis of official figures.

^aIncluding bridges destroyed since 1981.

In addition to these quantifiable aspects, the economy was hampered by indirect effects of the armed conflict, including the diversion of resources from the task of development to that of defence, the lack of access to external financing and markets, the insecurity in international maritime transport (with the consequent effect on costs) and the multiple setbacks which the atmosphere of insecurity predominant in the country has caused to the expectations of various economic agents.

As far as damage to fixed assets and capital of firms is concerned, the Nicaraguan authorities estimate that the losses amount to US\$ 92 million. The most substantial of these affected the lumbering and forestry sector (US\$ 29 million), construction (US\$ 14 million), fishing (US\$ 11 million) and agriculture (US\$ 10 million). The figures for other activities are lower, except in the case of services, where losses have been set at US\$ 24 million. As regards damage to production, the activities most affected are agriculture and construction; such damage is also high in the lumbering and forestry sector (see table 25). The activities most affected are those which are carried out in rural areas. Even the damage to construction generally took place in isolated campsites away from the urban centres. According to these statistics, the year in which capital losses were heaviest was 1983, while the highest losses to production occurred in 1984.

Considerable losses were also due to delays in projects which failed to start operating in the 1983-1984 biennium in consequence of the armed movements. This occurred mainly in lumbering and forestry as well as in road construction. Fishing and coffee projects abandoned were of lesser significance.

Finally, it should be mentioned that most of the damage took place in areas of the country close to the Honduran frontier, i.e., in the area known as region 1, consisting of the departments of Madriz and Nueva Segovia, which possess a broad frontier strip and in which tobacco, timber, livestock and grains are produced; in region 6, consisting of Jinotega —along the Honduran frontier— and Matagalpa, an area producing coffee, livestock and basic grains. Lumbering has also been affected in the Zelaya Norte region, which also borders on Honduras. Damage has been more limited in the areas and regions along the southern frontier, with some losses to lumbering in Zelaya Sur and to livestock-raising in the San Carlos department. Damage was also caused in the Atlantic and Pacific seaports, where installations, in particular fuel stores, were destroyed and boats were damaged or sunk.

a) *The agricultural sector*

According to government estimates, agricultural activity has been affected by more than US\$ 10 million worth of damage to its capital stock and production losses totalling US\$ 91 million.

Damage to fixed assets was mainly borne by installations, as tobacco curing houses, coffee stores, basic grain warehouses, workers' dwellings and a certain number of stables were destroyed or damaged. Losses in machinery and equipment mainly involved means of transport and the equipment destroyed in the coffee stores and in basic grain storage silos.

In addition to the above, agricultural activity has been jeopardized by the neglect of coffee plantations and by the abandonment of land suitable for cultivation in combat zones. This explains why 12 000 hectares of coffee plantations have been neglected, the sowing of tobacco and basic grains has ceased on some 5 000 hectares and grazing-land situated close to the frontier has been abandoned.

The damage caused to capital stock and the inherent danger in combat zones directly affect production levels. In the case of coffee, the losses are estimated at 552 000 quintals of green coffee (worth US\$ 69 million at the international prices prevailing in 1983 and 1984). These losses are the result of attacks on 18 coffee processing plants where stocks were lost. To this must be added the coffee which was not harvested on 12 000 hectares of abandoned coffee plantations and the coffee which was not moved in time from the estates to the processing plants as well as the losses caused by transport shortages resulting from attacks on vehicles.

As regards losses to tobacco, which are set at US\$ 3.5 million, these occurred in the stores and on the plantations which were not attended at harvest time because of damage to the curing plants.

Losses to basic grains were estimated at US\$ 11 million through the neglect of some 25 000 maize and bean fields which were abandoned in 1983 and 1984 in the regions of Jinotega and Nueva Segovia as a result of the attacks on agricultural co-operatives in this sector. Losses also occurred to grains in storage owing to the destruction of silos and warehouses.

Finally, it is estimated that approximately 18 000 head of beef cattle were lost, most of which were fattened calves ready for slaughtering, worth more than US\$ 7 million.

b) *The wood and forestry industry*

The wood and forestry industry was one of those most affected by the armed conflict. Total losses to fixed assets are estimated at US\$ 29 million. In addition projects representing investments of US\$ 71 million have been postponed, which when completed would have generated an output of around US\$ 80 million. The greatest losses in this sector were situated in forest areas close to the Honduran frontier. In 1983 a sawmill in the Nueva Segovia region was burnt down as well as another in Zelaya Norte. The highest losses were recorded in the pine plantations of Zelaya Norte where 44 000 hectares of pine planted as part of the reforestation project for the northeast of the country were destroyed by fire. Losses are estimated at US\$ 22 million. Moreover, according to official statistics, forestry machinery and equipment (US\$ 1 million), vehicles (US\$ 2 million) and installations (US\$ 2 million), were destroyed. The most serious damage to construction affected lumber camps and control towers.

Moreover, the fighting has delayed some projects which were under way. Thus the forestry plant in the Northeast, which was to start operating during 1983 and produce some 50 000 m³ of sawn wood, was already affected in 1982 by the destruction of road building equipment and the sinking of a ship which in that same year was carrying construction material for the buildings of the enterprise. Similarly, delays occurred in projects meant to produce pine resin and turpentine.

It is estimated that the destruction of sawmills, the postponement of projects and the impossibility of pursuing forestry activities in regions where armed conflict is common, have caused production losses of US\$ 77 million. This figure also includes any losses affecting the output of firms such as Plywood de Nicaragua, which was cut off from its supplies of logs as a result of the paralysation of felling.

c) *Fishing*

The authorities estimate that fishing has suffered US\$ 11 million worth of losses to its assets, while output worth more than US\$ 34 million was also lost.

The capital losses consisted of 19 shrimp or lobster boats which, according to Nicaraguan authorities, were highjacked, set on fire or sunk by mines. In addition, machinery and equipment in

packing plants in the ports was damaged, and some boats have been turned over to defence, and have had to cease fishing for long periods.

The losses in production relate to the shrimps, lobsters and fish which are no longer caught together with that lost through the commandeering of boats for defence tasks.

d) *Mining*

Mining has been affected by losses since the very beginning of the military harassment. According to the authorities there have been six attacks on mining centres since 1981, which have caused US\$ 4 million worth of material damage to installations and the loss of 22 000 ounces of gold worth US\$ 8 million.

e) *Construction and physical infrastructure*

The construction industry has been affected in those activities which are carried out in the combat zones. For example, it is estimated that losses caused by the damage or destruction of machinery and equipment amount to US\$ 5 million. Furthermore, it is considered that attacks on construction camps and stores have caused further losses worth US\$ 7 million. In addition to the above, bridges with an estimated replacement value of US\$ 3 million have been damaged or destroyed.

Apart from the insufficient maintenance work carried out on the country's road network as a result of the prevailing abnormal situation, it is considered that the destruction of machinery and equipment has prevented 300 km of secondary roads from being constructed, which would have meant an investment of US\$ 90 million, a figure which includes material lost during attacks on different construction camps.

f) *Services*

It is estimated that services were hampered as a result of US\$ 23 million worth of losses affecting the infrastructure. In the case of transport machinery and equipment, it has been necessary to repair planes damaged on the ground, installations, various civilian airports within the country and in particular the international airport at Managua on two occasions. Energy and oil supplies were also affected by the attacks on the port of Corinto, where the storage infrastructure was destroyed and the stored fuel was lost.

As regards commercial services, losses mainly affected silos and stores of basic grains in the combat zones as well as coffee stores in the ports that were attacked.

In the case of social services, such as health and education, the losses were principally caused by the sinking of a ship belonging to the Ministry of Education, used for transporting personnel and material in a frontier region. Health and educational centres were also destroyed. This damage has considerably affected the medical and educational attention provided for the peasantry, as teachers and medical personnel were obliged to leave the combat zones.

Finally, damage to financial services was caused by the destruction of furniture and equipment, as well as the pillaging of rural branches of the country's banks.

PANAMA

1. Recent economic trends: Introduction and summary

After growing at an annual rate of close on 5% in the biennium 1981-1982, the gross domestic product of Panama grew hardly at all in 1983 and declined slightly (-1.2%) in 1984, with the result that there were falls of around 2 and 3% in the per capita product in the last two years. Meanwhile, the gross national income, which had managed to maintain some growth up to 1983, fell by 4% in 1984, and by around 6% per capita, basically owing to the renewed outflows of resources in respect of factor payments. The negative effect of the terms of trade on the other hand, improved slightly (see tables 1 and 2 and figure 1).

Despite the high degree of openness to external trade, especially in the provision of services, which characterizes the Panamanian economy, the impact of the deterioration in economic activity and international trade was late in affecting the country. Only in 1983 did production cease to grow and only in 1984 did it record a fall. Up to then the effects of the world crisis had been counteracted by the construction of a number of large projects, such as the La Fortuna hydroelectric power station, the oil pipeline traversing the country, and the municipal centre in Panama City. These works, which were initiated in the early years of the decade, gave a powerful impulse to an economy as small as that of Panama. Nevertheless, these dynamizing effects showed signs of exhaustion in 1984, as did those that had arisen with the gradual incorporation of the Panama Canal and its operation into the national patrimony. It should be remembered, besides, that up to 1982 the country had the benefit of a large international financial centre, whose activity and dynamism irradiated the rest of the economy. In the last two years there was a notable decline in financial activity.

In past years, partly as a result of the high outlays of public capital required by projects of the type mentioned above, the effect on import capacity of the growing balance-of-payments current deficit was mitigated by an increasing mobilization of external resources, which led to a substantial rise in the external debt and in the burden imposed by its current servicing.

The growing financial imbalances —internal and external— compelled the country, midway through 1983, to adopt a stabilization programme supported by a stand-by loan agreement with the International Monetary Fund and by a structural adjustment loan from the World Bank. The programme proposals included the need to limit the public sector deficit, reduce the external indebtedness with the commercial banks and sell some industrial and service enterprises hitherto in government hands. The application of this programme, especially the cutback in public expenditure, led to a contraction in economic activity, a reduction in the external imbalance and a slight improvement in the financial situation of the central government. Even so, despite the agreements with the IMF and the World Bank, the year 1984 witnessed a serious fall in the net inflow of capital, which in the end resulted in a loss of international reserves (see table 1).

In 1984 the government placed strict limits on its current expenditure and its investments. Many of the austerity measures were difficult to apply and did not always produce the results expected. Moreover, fiscal dispositions that the government attempted to apply —and that in the end did not materialize— led to a confrontation with the more organized sectors of society which culminated in November 1984 in a widespread protest movement.

On the supply side, the fall in the gross domestic product affected practically all economic activities, except some services such as financial and insurance services, real estate and community, social and personal services. Agriculture and manufacturing declined slightly and construction fell to a much greater extent and for the second year in a row. At the same time there was a decline in basic services which have always been dynamic in character, especially those of transport, storage and communications.

In the crisis of 1984 there was an intensification of certain changes in economic policy, designed to achieve a more careful and controlled use of public resources, while the pressure of State intervention was relaxed. In this connection it was decided that the public sector should reduce its expenditure, with the result that the participation of the State as employer was reduced.

The reduction of public expenditure affected the services granted to the public, particularly to the lower-income sectors, and the fall in economic activity increased unemployment and underemployment. There were also other changes of direction in economic policy. The new authorities have placed special emphasis on the development of the goods-producing sectors and on construction rather than on services. Likewise, in view of the small size of the domestic market, investment is being directed towards the production of goods for export.

In brief, after several years of satisfactory economic growth, there was a virtual standstill in 1983, followed by a slight fall in 1984. The recession has been general. With the exception of some services, all the activities suffered in greater or lesser degree the effects of the contraction and the

Table 1

PANAMA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of dollars at 1970 prices)	1 909	1 995	2 297	2 393	2 525	2 535	2 504
Population (millions of inhabitants)	1.84	1.88	1.96	2.00	2.04	2.09	2.13
Per capita gross domestic product (1970 dollars)	1 040	1 062	1 174	1 197	1 236	1 214	1 173
Growth rates							
B. Short-term economic indicators							
Gross domestic product	9.8	4.5	15.1	4.2	5.5	0.4	-1.2
Per capita gross domestic product	7.2	2.1	10.5	1.9	3.2	-1.8	-3.4
Per capita national income	8.2	1.0	7.6	3.2	1.2	-0.2	-5.8
Unemployment rate ^b	8.1	8.8	8.2	...	8.4	9.7	9.4
Consumer prices							
December to december	5.0	10.0	14.4	4.8	3.7	2.0	0.9
Variation between annual averages	4.2	7.9	13.8	7.3	4.2	2.1	1.8
Real salaries and wages ^c	11.0	5.9	2.5	2.7	9.2	3.3	...
Current income of government	13.8	23.4	42.0	13.5	7.3	6.8	-2.2
Total expenditure of government	19.2	44.2	14.1	14.3	33.5	-15.7	-4.1
Fiscal deficit/total expenditure of government ^b	38.7	47.5	34.6	35.1	47.8	33.9	32.6
Fiscal deficit/gross domestic product ^b	9.7	15.8	10.4	11.0	18.2	10.6	9.9
Current value of exports of goods and services	4.4	20.4	33.1	6.8	-0.2	4.2	-0.4
Current value of imports of goods and services	10.4	24.9	22.3	9.6	1.4	-11.3	-1.5
Terms of trade of goods and services	-3.4	-6.7	-4.9	1.2	-3.4	0.6	-0.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-156	-236	-167	-225	-253	25	44
Net payment of profits and interest	49	76	141	217	225	294	304
Balance on current account	-240	-363	-363	-496	-538	-335	-321
Balance on capital account	327	335	375	423	524	332	251
Variation in net international reserves	78	-21	17	-66	-9	-3	-70
Public external debt	1 881	2 078	2 266	2 379	2 820	3 392	3 719

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Percentages.

^c Salaries and wages at national level.

Table 2

PANAMA: EVOLUTION OF THE GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	2 225	2 298	2 349	2 254	5.2	3.2	2.2	-4.0
a) Gross domestic product	2 393	2 525	2 535	2 504	4.2	5.5	0.4	-1.2
b) Terms-of-trade effect	-151	-190	-202	-198				
c) Net factor payments abroad	28	50	-1	65	-34.9	76.8		
d) Net private transfers received from abroad	11	13	15	13	98.2	15.0	12.3	-13.0

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

same happened with important variables of global supply and demand. For the second year running there was a marked fall in investment, which was undoubtedly influenced by the uncertainty habitually created by a change of government.

2. Trends in economic activity

a) *Total supply and demand*

Total supply declined for the second successive year by slightly under 2%. The slight fall in the gross domestic product (1.2%) was accompanied by a fall in imports of goods and services of around 4%. Already in 1983 imports had declined by 10% and since 1980 had fallen 13% in terms of volume, the ratio between imports and gross domestic product, which in 1980 was 29%, having fallen to only 23% (see table 3).

As regards demand, there was a contraction in all its components, particularly in respect of fixed investment. This, which had already suffered a marked contraction in 1983 (-23%), fell by around 13% in 1984, a downturn which apparently removes all possibility of a speedy reactivation of production. The fall of a third in capital formation in the last two years reflects the profound and widespread effect of the economic recession through which the country is passing, to which was added in the last year the uncertainty which an electoral process always creates in plans for investment.

The contraction of fixed capital investment occurred both in the public and the private sector. In addition to the fall for the second year running in the construction component (36% in the two years), investment in machinery fell for the third time (still leaving a margin of idle capacity). Since 1981 it has fallen by 40%.

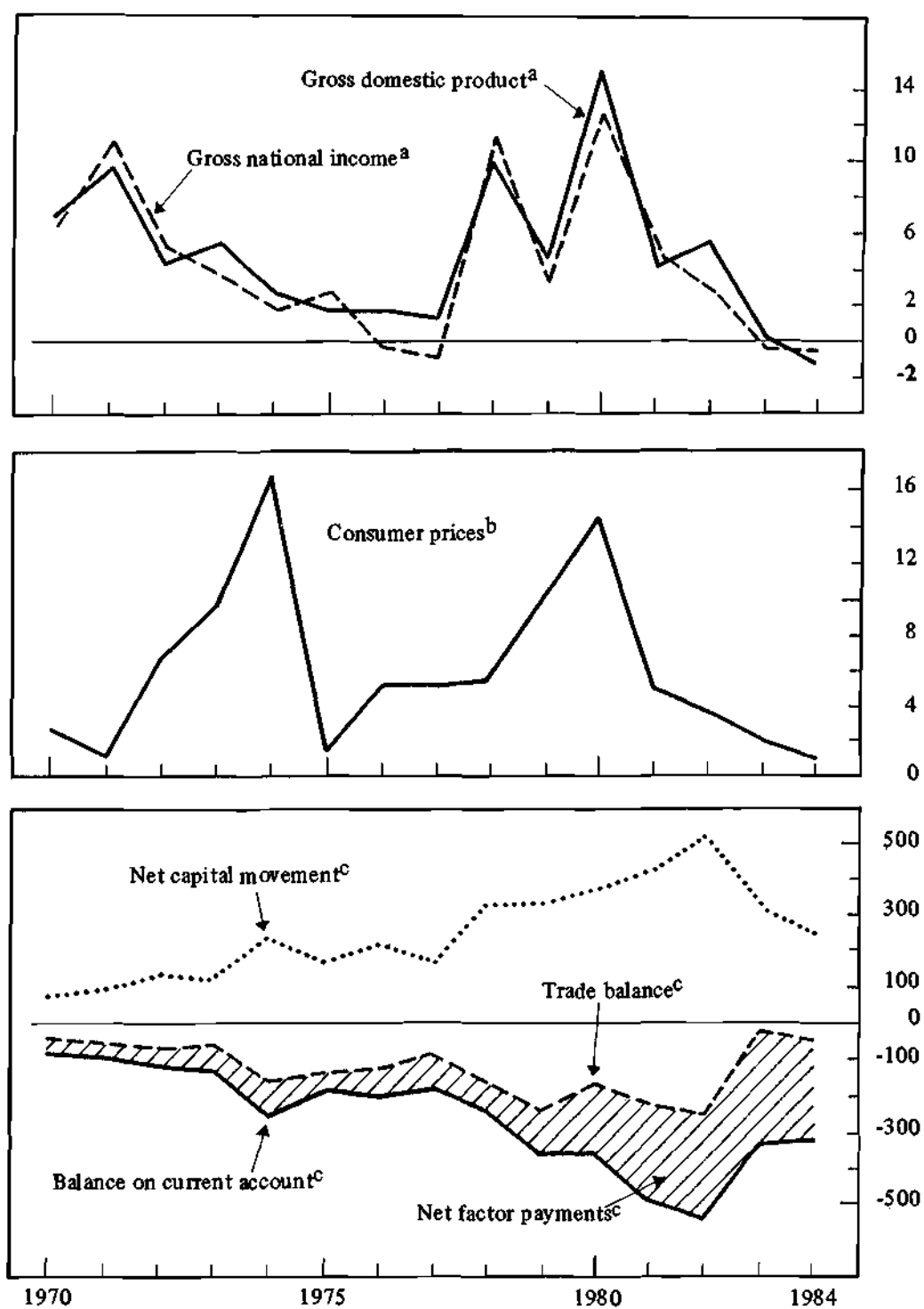
Moreover, global consumption fell by somewhat less than 2% and in a proportion similar to that of private consumption, which means that per capita consumption declined by around 4%. The causes of this decline lie in the recession, in the real fall of the minimum wage combined with higher unemployment, and in the reduced domestic supply of goods and services. The fall in the consumption expenses of the general government was not so high, amounting to less than 1%. This was the result of the policy of curtailing public expenditure, which was designed to stabilize the budget.

With regard to external demand, the volume of exports of goods and services fell by 2.6%, a decline much more pronounced in the case of goods than services, which have a high weighting in the total exports of the country.

b) *Evolution of sectoral production*

The slackening of overall production in 1984 was reflected in an almost general stagnation or deterioration in the sectors. Only certain services showed some growth.

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official information.

^aAnnual growth rate.
dollars.

^bDecember - December percentage variation.

^cMillions of

Table 3

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	3 200	3 141	3 084	131.2	129.1	123.2	3.2	4.6	-1.8	-1.8
Gross domestic product at market prices	2 525	2 535	2 503	100.0	100.0	100.0	4.2	5.5	0.4	-1.2
Imports of goods and services ^b	675	606	581	31.2	29.1	23.2	-0.2	1.4	-10.3	-4.1
Total demand	3 200	3 141	3 084	131.2	129.1	123.2	3.2	4.6	-1.8	-1.8
Domestic demand	2 400	2 335	2 298	103.6	95.8	91.8	5.4	3.5	-2.7	-1.6
Gross domestic investment	567	455	449	29.5	23.6	17.9	12.6	-7.1	-19.7	-1.4
Gross fixed investment	566	438	382	28.1	20.9	15.3	16.6	0.9	-22.6	-12.8
Construction	381	269	242	16.3	12.8	9.7	11.0	16.3	-29.3	-9.9
Machinery	185	169	140	11.8	8.1	5.6	25.6	-20.7	-8.7	-17.4
Public	226	162	...	13.5	8.6	...	-10.7	28.1	28.2	...
Private	340	276	...	14.6	12.3	...	35.7	-11.5	-18.8	...
Changes in stocks	1	17	48	1.4	2.7	1.9				
Total consumption	1 833	1 880	1 849	74.1	72.2	73.9	3.0	7.3	2.6	-1.6
General government	481	501	496	18.2	16.3	19.8	17.6	9.1	4.1	-0.8
Private	1 352	1 379	1 353	55.9	55.9	54.1	-1.2	6.6	1.9	-1.8
Exports of goods and services ^b	800	806	786	27.6	33.3	31.4	-3.1	8.0	0.8	-2.6

Source: ECLAC calculations on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^aPreliminary figures.

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

Among the goods-producing sectors, while agriculture and manufacturing suffered slight falls in their added values, the decline in construction was over 9%, which, added to that of the previous year, represents a fall of 38% in the last two years. Basic services, especially those of transport, storage and communications, suffered an unusual contraction as compared with the traditional dynamism of these activities.

The progressive reversion of the Canal to Panamanian sovereignty has notably increased the share of the transport, storage and communications sector in the overall product. Its share of 25% in 1984 was equal to that of the agricultural, manufacturing and construction sectors put together (see table 4).

i) *Agriculture.* Agricultural output declined slightly in 1984 as a result of a fall of somewhat over 2% in crop farming and a negligible increase in stock farming. Among export crops, bananas and sugar cane recorded slight increases in production, while the coffee crop fell by approximately 3%. With regard to production for domestic consumption, only rice recorded a slight increase in output, considerably less than it had achieved in 1983 (see table 5).

The government tried to maintain the sugar-cane activity in full production during the year to safeguard employment levels. The year 1984 saw the first steps in diversification of the use of sugar cane. Consideration is being given to the installation of an alcohol plant whose output will be exported to the United States, and another similar plant is being projected to produce fuel for domestic use.

The guaranteed price of rice went down from 14 to 13 balboas per quintal, owing to the plentiful stocks accumulated. Rice growing has been technified in recent years with a resulting improvement in yields and production which despite increased consumption has caused an accumulation of surpluses that cannot be exported because production costs are still too high to compete in the international markets.

In the case of maize and beans, besides the effect of a short drought, the high cost of inputs and the low yields caused farmers to reduce the areas of cultivation. In contrast, there was a rise in the imports of grains which has increased the costs of producing concentrated foods and thus has affected the raising of animals and poultry.

There have been difficulties in fomenting pig production. For one thing, there has been little increase in the demand for pork, particularly for fresh meat where consumption is low, and in addition there has been a considerable rise in the price of fodder.

The programmes for promoting milk production have also failed to achieve their aims, mainly owing to problems of relative costs; since cattle breeding for meat is more profitable, the importing of milk and dairy products has had to continue.

ii) *Mining*. Apart from its negligible importance, there was little variation in mining during 1984. There has still been no progress with the "Cerro Colorado" copper-mining project, which would produce an extraordinary expansion and diversification of exports. In past years considerable resources were devoted to feasibility studies on this mining-industrial complex and it has been regarded as a major project for the development of the country.

iii) *Manufacturing*. Similarly there has been little change in manufacturing output in 1984. Since the beginning of the decade there has been a further reduction in its importance in relation to the overall gross domestic product, which was already low. The economic recession of the last two years has helped to keep down the domestic demand for manufactured goods and there are few industrial products that can compete in the international markets (see tables 6 and 4).

Only the industries of wood and furniture, clothing and footwear, paper and cardboard products and metal products recorded some growth. The food, beverages and tobacco industries showed a

Table 4

PANAMA: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product ^b	2 356	2 366	2 337	100.0	100.0	100.0	4.2	5.5	0.4	-1.2
Goods	653	596	580	31.5	27.8	24.9	2.7	5.8	-8.6	-2.7
Agriculture	225	236	233	12.1	9.8	10.0	8.3	-1.5	5.0	-1.2
Mining	5	5	5	0.2	0.2	0.2	22.6	7.9	7.3	-
Manufacturing	221	216	216	11.3	10.3	9.3	-3.3	2.2	-2.1	-0.1
Construction	202	139	126	7.9	7.5	5.4	3.2	20.6	-31.1	-9.3
Basic services	649	696	658	12.2	25.5	28.2	5.6	11.7	7.2	-5.5
Electricity, gas and water	77	85	85	3.1	3.2	3.6	5.1	5.3	11.0	-0.3
Transport, storage and communications	572	611	573	9.1	22.3	24.6	5.7	12.6	6.7	-6.2
Other services	1 144	1 154	1 179	58.8	49.6	50.7	5.2	1.3	0.9	2.3
Commerce	303	284	281	14.4	14.3	12.1	-1.4	-0.8	-6.3	-0.8
Financial establishments, insurance, real estate and business services	327	340	348	14.4	13.6	14.9	7.2	3.7	4.1	2.5
Ownership of dwellings	167	172	177	8.7	7.3	7.6	2.7	3.2	3.0	2.6
Community, social and personal services	514	530	550	30.0	21.9	23.7	8.3	1.0	3.0	3.8
Government services	153	160	...	7.8	6.6	...	3.5	4.1	4.4	...
Less: imputed commission for banking services	89	85	88	2.5	2.9	3.8	14.9	25.7	-4.8	3.4

Source: ECLAC, on the basis of information supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^a Preliminary figures. ^b At factor cost. As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 5

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Indexes (1970 = 100)								
Index of agricultural production	144.0	157.6	163.4	166.0	9.4	-	3.7	-1.2
Crop-farming	149.0	161.2	172.5	172.7	10.4	-1.5	7.0	-2.3
Stock-raising	138.3	152.7	151.9	157.7	6.9	3.4	0.5	0.4
Thousands of tons								
Production of main crops								
For export								
Bananas	1 032	1 057	1 070	...	1.2	1.1	1.2	...
Sugar cane	2 062	2 094	2 134	...	25.7	-19.2	1.9	...
Coffee	7	8	9	8	-	14.3	12.5	-3.0
For domestic consumption								
Rice	171	176	199	202	14.0	-9.7	13.1	1.5
Maize	54	62	69	68	5.6	8.8	11.3	-1.0
Runner beans	2	2	3	3	50.0	-33.3	50.0	-3.0
Thousands of head								
Indicators of stock-raising production								
Stocks								
Cattle	1 405	1 456	1 459	1 452	1.5	2.1	0.2	-0.5
Pigs	212	206	197	195	2.9	-5.5	-4.4	-1.0
Poultry	4 797	4 545	5 702	6 005	25.2	-24.3	25.5	5.3
Number of animals slaughtered								
Cattle	215	277	279	284	11.1	15.9	0.7	1.8
Pigs	121	130	120	...	9.9	-2.3	-7.7	...
Other products								
Milk ^b	91	89	84	83	-1.1	-1.1	-5.5	-1.0
Eggs ^c	284	275	300	335	2.8	-5.8	9.1	11.7
Fishery catch ^d	189	84	147	154	-33.3	-33.3	75.0	4.3

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office, and by the Ministry of Agricultural Development.

^a Preliminary figures.

^b Millions of litres.

^c Millions of units.

^d Tons.

moderate fall, despite the notable increase in sugar production and, to a much lesser degree, the tomato and beer industries. The fall in non-metallic mineral products, particularly cement, reflected the adverse situation of construction.

iv) *Construction*. For the second year running this activity suffered a major fall, 31% in 1983 and a little over 9% in 1984. The pronounced deterioration in construction was caused both by the contraction of government expenditure (16% in 1983 and 4% in 1984), and by the rapid worsening of the economic situation. The falls of 44% in 1983 and 10% in 1984 in construction permits in square metres granted in Panama City clearly illustrate the second cause of the fall in construction (see table 7).

At the beginning of the year the construction works on the La Fortuna hydroelectric power station had been completed. In order to avoid an even greater fall in construction, the government adopted various measures in 1984. It earmarked a budgetary allocation of 86 million balboas for the construction of 12 000 low-cost dwellings in rural and urban areas, which benefited over 60 000 persons. It also passed some laws to promote construction. In November 1984 a law was enacted

conceding fiscal incentives, and among other attractions permitting the deduction of a thousand balboas from the net taxable income for the first sale of each new dwelling of a social (low-cost) type. The concern of the government to promote an activity of such importance as construction must be stressed, since it has dynamizing effects on different branches of manufacture and makes great use of labour, while at the same time attenuating the serious social problem created by the lack of housing.

v) *Basic services.* In contrast to their dynamic growth in previous years, basic services suffered an appreciable fall in 1984. In fact, while the services of electricity, gas and water did not vary appreciably, those of transport, storage and communications fell by a little over 6%.

With the fall of economic activity in the last two years and the starting up of the trans-Isthmian oil pipeline, there was a marked reduction in Canal operations in 1984. From 1982, the year of its maximum use on record, traffic through the Canal went down from over 14 000 vessels and 186 million tons to 11 384 vessels and 146 million tons in 1984. There was also a fall in the direct income obtained by the State from Canal operations.¹ Although up to the present the revenues from the oil

Table 6

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Indexes (1971 = 100)								
Index of manufacturing production	132.8	130.3	138.0	136.7	-4.1	2.4	5.9	-0.9
Food, beverages and tobacco	159.8	159.7	168.2	166.0	-2.4	2.4	5.3	-1.3
Footwear, clothing and leather products	146.0	138.0	123.0	126.1	-2.2	-3.4	-10.9	2.5
Wood, furniture and fittings	85.8	84.4	75.5	81.2	-3.5	2.4	-0.5	7.5
Paper, printing and publishing	115.0	110.7	138.9	140.5	-8.7	5.2	25.5	1.1
Chemicals and petroleum products	111.9	110.0	126.2	125.6	-4.5	2.9	14.7	-0.5
Non-metallic minerals	110.6	108.2	110.2	98.0	-5.7	3.7	1.8	-11.1
Basic metallic industries	122.9	107.0	77.4	77.6	-14.2	1.5	-27.7	-
Metal products	111.6	106.0	114.8	117.3	-11.0	6.7	8.3	2.1
Other manufactures	87.1	84.8	160.7	161.1	20.4	-19.2	89.5	-
Thousands of tons								
Production of important manufactures								
Fish oil	17.7	2.1	5.5	7.3	-65.8	-65.9	65.4	32.0
Fish meal	35.2	15.1	26.1	21.9	-37.3	-31.7	73.1	-16.2
Sugar ^b	3.8	4.3	3.9	5.5	-3.1	16.4	-9.5	40.1
Tomato products	6.4	5.4	7.3	7.5	30.6	-35.8	35.9	2.2
Rectified alcohol ^c	4.0	6.1	5.3	6.3	54.1	-0.8	-13.6	18.8
Beer ^c	67.0	71.3	70.8	73.3	3.6	2.6	-0.7	3.5
Evaporated, condensed and powdered milk	24.9	16.7	18.0	17.8	-23.9	-11.7	7.8	-0.9
Other indicators								
Industrial consumption of electricity ^d	162	218	219	219	16.0	15.9	0.5	-

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^aPreliminary figures. The indexes of manufacturing production for 1984 have been estimated on the basis of information available up to September, in comparison with the period January-September 1983. ^bMillions of quintals. ^cMillions of litres. ^dMillions of kWh.

¹In accordance with the Treaty of 1977, the Government of Panama receives part of the revenues from the operation of the Canal; an annual sum of US\$ 10 million and another of 10 million balboas in return for taking charge of the public services in the zones which were restored to the country. In addition, it has a share of up to US\$ 10 million per year in the surpluses obtained from the operation of the Canal.

Table 7

PANAMA: INDICATORS OF CONSTRUCTION

	Thousands of m ²				Growth rates			
	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Built-up area^b								
Total	401	574	323	291	-1.1	44.6	-43.7	-9.9
Housing	208	304	186	...	24.7	16.9	-38.8	...

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office, and by the Panamanian Chamber of Construction.

^aPreliminary figures.

^bRefers to building permits granted in the District of Panama.

Table 8

PANAMA: INDICATORS OF ELECTRICITY PRODUCTION AND CONSUMPTION

	Millions of kWh					Growth rates			
	1980	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Production	1 812	1 897	2 088	2 238	2 220	4.7	10.1	7.2	-0.8
Hydroelectric	964	1 334	1 074	865	1 035	38.5	-19.5	-19.5	19.6
Thermal	848	563	1 014	1 373	1 685	-33.6	80.1	35.4	-13.6
Total consumption	1 469	1 554	1 675	1 851	1 786	5.8	7.8	10.5	-3.5
Residential	444	475	499	528	518	7.0	5.1	5.8	-1.9
Commercial	443	498	532	568	564	12.4	6.8	6.8	-0.7
Industrial	162	188	218	219	219	16.0	15.9	0.5	-
Public lighting	25	33	35	37	35	32.0	6.1	5.7	-5.3
Government and municipal	248	287	311	337	313	15.7	8.4	8.4	-7.1
Others	147	73	80	162	138	-49.0	9.6	102.5	-14.8

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office and by the Institute of Water Resources and Electrification.

^aEstimate based on information for six months. The growth rates have been calculated in relation to the same period in the previous year.

pipeline have compensated for the losses of fuel freight, it must be borne in mind that the use of the Canal has a greater impact on economic activities in the country than that of the oil pipeline.

In order to study the possible problems that may arise in the flow of traffic through the Canal, Panama, Japan and the United States have set up a permanent advisory committee. Among various alternatives studied, they have considered the creation of a second canal parallel to the existing one; the enlargement of the existing canal and its entry points; and, thirdly, the construction of other forms of passage such as oil pipelines, pipe systems for liquids and solids and land bridges. Japanese and United States authorities appear to be willing to provide two-thirds of the capital needed for feasibility studies, the cost of which is estimated at something between US\$ 17 and 21 million a year. The Government of Panama would be responsible for the remaining third.

Electricity generation declined by around 1%, through a fall in demand partly owing to climatic causes² (see table 8). As already stated, the La Fortuna hydroelectric power station entered into operation in March 1984, and the country obtained a major part of its electrical supplies from the starting up of the first turbine of a hundred MW of generating capacity. Two more turbines of 300 MW will shortly be put into operation, making it possible to abandon all imports of petroleum for the production of electricity, which will result in a saving of US\$ 80 million a year.

²The mildness of the climate resulted in a fall in expenditure on electricity in 1984 through the reduced use of refrigeration systems.

vi) *The other services.* This sector mainly includes commercial and financial activities which together recorded a fall of 2.3%.

From the provisional information available it can be seen that economic activity in the Colón Free Zone may have begun to recover towards the end of 1984, which would contrast with the stagnation of domestic trade and the scant activity of the international financial centre attributable to a reduced supply of capital. The inflow of external resources declined owing to the recessive situation still affecting Latin America and to the maladjustment provoked by the high levels of the financial commitments of the region.

c) *Unemployment*

Despite the slight fall in overall production, the information available shows a small increase in employment in 1984 and a slight fall in open unemployment. In these conditions the productivity of the employed labour force would appear to have diminished (see table 9).

In effect, during 1984 productivity per person employed appears to have fallen by 4%, and it is thought that approximately 28% of the Panamanian labour force is at present affected by employment problems. Of this percentage, 9% would correspond to unemployed and the remaining 19% to underemployed.

In 1984 the unemployment rate, which was close on 7%, exceeded the historic rates for the country.

Unemployment mainly affects the young population and female labour (60% of young persons between 15 and 24 years of age and 13% of economically active women). Almost 60% of the unemployed have lost their jobs and the metropolitan area concentrated 65% of all the unemployed in the country. In order to encourage the hiring of labour by enterprises the government enacted a law in 1984 which permitted the deduction from the tax declaration of a monthly sum of 75 balboas the first year, 40 the second and 15 the third for each new job created.

3. The external sector

a) *The external imbalance*

During the five-year period 1978-1982 the gross domestic product grew at an annual rate of 7.7% and along with this the external imbalance was increasing. In 1982 the deficit on the balance-of-payments current account amounted to US\$ 540 million and came to be a serious obstacle to the continued growth of the economy. In 1983 adjustment measures had to be applied and the expansion of the product sacrificed. Fiscal expenditure was reduced by 16%, domestic price increases fell,

Table 9

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	August			
	1980	1982	1983	1984 ^a
Thousands of persons				
Labour force	548	613	661	680
Employed	503	561	597	617
Unemployed	45	52	64	63
Participation ^b	...	53.8	55.9	55.8
Unemployment rates				
National	8.2	8.4	9.7	9.4
Urban	9.8	10.3	11.4	11.0
Rural	6.0	5.9	7.4	7.4

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^a Preliminary figures.

^b Economically active population as a percentage of the population of working age (15 years and over).

Table 10

PANAMA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	17.8	5.3	-8.3	0.4	-0.5	-2.9
Volume	-2.6	-13.7	-10.7	18.3	-4.0	-5.9
Unit value	20.9	22.1	2.7	-15.1	3.6	3.2
Imports						
Value	25.9	21.3	9.4	-	-12.2	-1.8
Volume	3.0	-2.0	6.4	-4.6	-13.4	-4.0
Unit value	22.3	23.8	2.9	4.9	1.5	2.3
Terms of trade	-1.1	-1.4	-0.1	-19.0	2.1	0.8
Indexes (1970 = 100)						
Purchasing power of exports	88.6	77.3	68.1	65.5	64.4	59.6
Volume of exports	117.7	101.5	90.6	107.2	102.9	96.8
Terms of trade	72.6	71.6	71.5	57.9	59.1	59.6

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 11

PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1974	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	345	343	333	100.0	100.0	100.0	-8.3	0.4	-0.6	-2.9
Main traditional exports										
Sugar	22	41	40	11.0	17.6	12.9	-20.1	-57.6	74.3	-1.6
Bananas	66	75	71	19.8	16.4	25.3	12.3	-4.6	13.6	-5.7
Coffee beans	12	15	9	1.7	2.9	2.5	30.8	-11.0	25.6	-41.0
Fresh shrimps	53	51	47	6.1	11.7	17.0	-2.9	23.2	-2.8	-6.9
Beef	9	4	2	...	...	0.8	...	...	-56.4	-48.3
Fish meal	2	6	3	0.5	2.7	1.2	-57.4	-62.8	243.7	-51.9
Petroleum products	70	36	...	34.5	21.9	...	-28.6	20.0	-48.1	...
Main non-traditional exports										
Bovine cattle	2	2	2	...	...	0.8	...	...	-	-21.4
Scrap metal	1	1	2	...	...	0.8	...	...	-	58.3
Articles of clothing	17	8	10	...	...	2.9	...	...	-53.0	25.4
Remainder	53	70	76	23.9	24.9	22.0	-9.8	-41.3	32.1	8.4

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^aPreliminary figures. Estimates on the basis of information for ten months. The growth rates were calculated in relation to the same period in 1983.

imports went down by 11% and the trade balance became positive, and finally there was a 40% reduction in the deficit on current account. In 1984 the adjustment measures were applied less rigorously and notwithstanding the aforementioned fall in exports there was a further improvement in the trade balance and the deficit on the balance-of-payments current account was reduced to US\$ 320 million.

Nonetheless, the net inflow of capital once again diminished in 1984, which resulted in a new fall in international reserves (see table 13).

b) *Merchandise trade*

The balance of payments of Panama has regularly presented a high deficit on its merchandise trade—over US\$ 900 million in 1984—which is counterbalanced by a surplus, even higher in the last two years, on the provision of services.

Exports of goods went down by around 3% owing to a decline of approximately 6% in the volume exported. This fall was basically caused by the deterioration in external demand for the two main export products, bananas and sugar. Meanwhile, the unit values of exports rose by slightly over 3%. Imports of goods fell once again, this time by 2%, as a result of a diminution of 4% in the volume imported and an increase of around 2% in prices (see table 10).

Table 12

PANAMA: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	1 441	1 266	1 243	100.0	100.0	100.0	21.5	-	-12.1	-1.8
According to economic use										
Consumer and intermediate goods	775	732	373 ^b	46.0	55.2	59.0	11.3	-5.8	-5.5	...
Foodstuffs	104	197	212	6.8	7.5	8.1	1.0	6.1	2.9	7.4
Remainder	671	625	322 ^b	39.2	47.6	50.9	12.8	-7.4	-6.8	...
Crude petroleum	374	324	312	39.6	29.9	26.0	-10.2	7.8	-13.4	-3.7
Capital goods	292	210	177	14.4	14.9	15.0	41.5	7.7	28.1	-15.5
According to tariff sections										
Food products	104	107	115	6.8	7.3	8.1	25.6	6.1	2.9	7.4
Beverages and tobacco	9	8	10	0.6	0.6	0.6	7.1	8.0	-7.7	19.3
Non-edible raw materials, except fuels	8	7	7	0.5	0.6	0.7	16.9	-7.6	-8.6	5.3
Fuels and lubricants, minerals and allied products	410	375	389	41.0	31.5	30.1	29.9	-1.9	-8.5	3.6
Oils and fats of animal and vegetable origin, except margarines and edible fats	15	15	10	1.2	1.4	0.8	23.3	12.7	5.5	-36.1
Chemical products	143	148	157	9.1	10.0	12.7	15.6	2.9	3.5	6.3
Miscellaneous manufactured articles	261	205	216	15.1	17.8	16.9	11.3	-1.1	-21.5	5.5
Machinery and transport material	364	281	252	19.2	19.6	20.7	20.5	13.8	-22.8	-10.3
Others	127	120	119	6.5	11.2	9.4	21.1	-25.7	-5.5	-1.1

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^a Preliminary figures. Estimates based on information for the first six months. The growth rates have been calculated in relation to the first half of 1983.

^b Corresponds to the first half of 1984.

Table 13

PANAMA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-240	-363	-363	-496	-538	-335	-321
Trade balance	-156	-236	-167	-225	-253	25	44
Exports of goods and services	938	1 130	1 504	1 606	1 603	1 671	1 665
Goods FOB	302	356	375	343	345	343	333
Real services ^b	636	774	1 129	1 263	1 258	1 328	1 332
Transport and insurance	105	128	507	579	574	608	623
Travel	201	214	168	171	172	170	180
Imports of goods and services	1 094	1 366	1 671	1 831	1 856	1 646	1 621
Goods FOB	862	1 086	1 317	1 441	1 441	1 266	1 243
Real services ^b	232	280	354	390	415	380	378
Transport and insurance	127	160	218	239	243	210	208
Travel	37	48	56	65	78	72	72
Factor services	-51	-87	-143	-223	-231	-300	-310
Profits	-16	-38	-52	-31	-35	-40	-50
Interest received	795	1 435	2 107	2 822	2 816	2 200	...
Interest paid	-832	-1 495	-2 199	-3 019	-3 017	-2 466	...
Others	3	11	2	6	6	6	6
Unrequited private transfer payments	-34	-39	-54	-49	-55	-60	-55
Balance on capital account	327	335	375	423	524	332	251
Unrequited official transfer payments	31	52	41	78	85	100	...
Long-term capital	453	314	295	275	1 385	...	...
Direct investment (net)	-1	50	45	37	277	...	...
Portfolio investment (net)	70	204	16	25	262	...	...
Other long-term capital	383	60	234	212	846	...	...
Official sector ^c	341	114	215	84	368	...	...
Loans received	685	225	284	217	553	...	...
Amortization payments	-344	-111	-66	-131	-183	...	...
Commercial banks ^c	-33	43	42	134	256	...	...
Loans received	-	43	42	135	256	...	...
Amortization payments	-33	-	-	-	-	...	...
Other sectors ^c	76	-97	-23	-6	222	...	...
Loans received	213	99	113	140	334	...	...
Amortization payments	-144	-196	-136	-146	-113	...	...
Short-term capital	-156	391	-429	-151	-1 309	...	...
Official sector	5	-3	2	2	5	...	...
Commercial banks	-162	433	-385	-85	-630	...	...
Other sectors	1	-38	-46	-68	-684	...	...
Errors and omissions	-2	-421	467	221	364	...	...
Global balance ^d	86	-27	11	-74	-14	-3	-70
Total variation in reserves							
(- sign indicates an increase)	-78	21	-17	66	9	3	70
Monetary gold	-	-	-	-2	-	-	-
Special Drawing Rights	-	-	4	-2	-1	4	-
IMF reserve position	-5	2	-7	10	-	-9	9
Foreign exchange assets	-75	30	5	-11	20	-100	-18
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	1	-11	-18	71	-10	109	79

Source: 1978-1982: International Monetary Fund, *Balance of Payments Yearbook*, March 1983; 1983-1984: ECLAC, on the basis of official figures.

^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 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.

The greater increase in the unit value of exports than in that of import prices somewhat improved the terms of trade, whose level is 17% lower than at the beginning of the decade and 40% lower than in 1970.

i) *Exports of goods.* The sales of all the main traditional export goods fell in the first ten months of 1984 as compared with the same period in 1983. The greatest falls occurred in the products of less relative importance, such as coffee, meat and fish meal. Major products such as sugar, bananas and shrimps declined in smaller proportion. There was no information available on the export of petroleum products, which mainly has to do with the heavy fuel sold to the vessels passing through the Canal (see table 11).

In the case of bananas, the contraction in the export price and an added loss of competitiveness in the Panamanian product as against other producers led the transnational enterprises established in the country to request a reduction of the export tax, a petition which was not granted. The banana-exporting company COMUNBANA did no trading during the year, so that the marketing was carried out by foreign banana enterprises. As regards sugar, the fall in its international price was a decisive factor in the drop in sales.

With reference to beef, despite the fact that Panama has been granted an export quota of 5 million pounds to the United States, it was only able to export 2.5 million in 1984 owing to the meagre increase in output, which has been affected by problems of cost. Up to the present there has been no estimate of the results of the efforts made to promote production and raise the productivity of meat destined for export.

ii) *Imports of goods.* There was also a fall in imports of goods (1.8%) in 1984. Already in 1983 imports had dropped by 12% and in 1982 they had remained stationary. Since 1981 there has been a fall of 14% in terms of value and 20% in terms of volume. The measures adopted to curb imports with a view to reducing the external imbalance have produced results. The greatest contractions in 1984—according to the records for the first half year—occurred in capital goods and the purchase of crude petroleum. The former was influenced by the reduction in public expenditure, particularly in investment and also in the termination of the building of the La Fortuna hydroelectric power station. The reduced purchase of crude petroleum, on the other hand, was apparently related to the economic recession and the diminished generation of thermal electricity (see table 12).

Finally it should be underlined that 1984 saw the conclusion of the gradual process of replacement of import quotas by tariffs, a measure of enormous economic importance.

Table 14

PANAMA: EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984 ^a
Millions of dollars					
Public external debt					
Balances	2 266	2 379	2 820	3 392	3 719
Disbursements	391	334	731	803	635
Servicing	466	493	614	517	613
Amortization payments	214	214	282	235	308
Interest payments	252	279	332	282	305
Percentages					
Ratios					
Public external debt/gross domestic product	65.0	61.3	65.9	77.5	85.6
Servicing/exports of goods and services	31.0	30.2	38.3	30.9	36.8
Servicing/disbursements	119.2	147.6	84.0	64.4	96.5
Servicing/gross domestic product	13.4	12.7	14.3	11.8	14.1

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^a Preliminary figures.

Table 15

PANAMA: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
Variation from December to December						
Consumer price index	10.0	14.4	4.8	3.7	2.0	0.9
Food	8.8	15.6	6.5	4.9	1.3	1.3
Wholesale price index	15.7	13.8	8.9	7.4	1.3	2.0
Imported products	9.4	11.6	13.4	4.0	5.3	0.2
National products						
Agricultural	15.9	16.2	0.8	10.7	4.0	...
Manufactured	20.7	14.6	8.4	8.8	-2.3	...
Variation between annual averages						
Consumer price index	7.9	13.8	7.3	4.2	2.1	1.8
Food	10.2	12.6	9.2	5.9	2.3	1.5
Wholesale price index	14.0	15.3	10.4	8.3	2.4	0.3
Imported products	7.4	14.3	12.8	5.7	3.9	2.4
National products						
Agricultural	17.2	8.0	8.2	9.8	4.0	...
Manufactured	19.2	17.9	8.5	9.6	0.8	...

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

c) *Trade in services*

The surplus on services, which amounted to US\$ 954 million, barely offset the disequilibrium of the trade in goods (US\$ 910 million) and was the same as that obtained in 1983. There was no recovery in Canal operations and commercial and financial trade fell or remained depressed particularly that carried on with Latin American countries. In contrast, the income obtained from tourism increased by close on 6%, thus fulfilling the efforts made by the government in previous years, particularly in the hotel industry and in the building of a conference centre (see table 13).

d) *External indebtedness*

At the end of 1984 the external debt of the public sector exceeded US\$ 3.7 billion. This represented a rise of close on 10% over that of 1983 and of more than 60% over that of 1980. Hence the public debt has come to represent 86% of the gross domestic product and its servicing is a serious obstacle in the way of a speedy recovery of the economy, even more so because a large part of the debt was contracted with private banks on commercial terms, taking advantage of the high liquidity of the operations of the national financial centre set up in the country (see table 14).

The plentiful supply of funds went along with the growing needs of the public sector up to 1982, thus attenuating the first effects of the crisis but as a result of the rapid increase in the debt its servicing also accelerated and came to represent 37% of the exports of goods and services in 1984 and 14% of the gross domestic product. The amount of the external debt is relatively low compared with that of other countries in the region, but the per capita debt is extremely high.

The heavy burden of the debt servicing led the government, at the end of 1984 to petition the creditors for an extension of three months in the payments due at the beginning of 1985, a request that was accepted.

The agreements signed by Panama in 1983 with the International Monetary Fund and the World Bank terminated at the end of 1984, so that the government has embarked on new negotiations.

4. Prices and wages

a) *Domestic prices*

From a rate of around 14% in 1980 the growth in prices gradually lost momentum until it reached 1.8% in 1984. The close relationship of Panama with the international economy gives rise to the ready adoption of the price trends mainly of the industrialized countries and especially of the United States, its leading trading partner. Furthermore, the strength of the dollar has had favourable repercussions on the level of domestic prices (see table 15).

In addition to the aforesaid factors there are the efforts made to avoid a rise in the prices of certain foodstuffs, supplemented by the work of the Agricultural Marketing Institute (IMA) with regard to the supply of basic grains. The wage policy has been another factor in the discouragement of price rises, together with the marked contraction in private consumption.

Measured from December to December, the increase in the consumer price index was negligible, amounting to less than 1%.

b) *Wages*

The stabilization policy adopted by the government has supported the freezing of wages, but some increases took place in the private sector, as agreed between the parties. The minimum wage has remained constant for several years, from which it can be deduced that the purchasing power of wage-earners has diminished (see table 16).

5. Fiscal and financial policies

a) *Central government income and expenditure*

The high degree of openness of the Panamanian economy to external trade and the peculiarity of its monetary system, which lacks an issuing institution, have prevented the government from resorting to the more usual instruments of monetary, credit and exchange policies. The management of public finances is thus a central element of economic policy, and the financing of the public sector deficit is directly related to the external indebtedness; that is, public outlays which have no counterpart in the fiscal resources have to be mainly financed by external credit.

Table 16

PANAMA: EVOLUTION OF WAGES

	Indexes (1980 = 100)				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984
Salaries and wages at national level								
Nominal	110.2	125.3	132.1	...	10.1	13.7	5.4	...
Real	102.7	112.1	115.8	...	2.7	9.2	3.3	...
Minimum salaries and wages								
Nominal								
In general ^a	100.0	100.0	100.0	100.0	-	-	-	-
Construction sector ^b	104.7	111.2	118.7	...	4.7	6.2	6.7	...
Real								
In general ^a	93.2	89.4	87.6	86.1	-6.8	-4.1	-2.0	-1.8
Construction sector ^b	97.5	99.5	104.0	...	-2.5	2.1	4.5	...

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Welfare of Panama.

^aWith the exception of workers in the construction sector, the last minimum wage readjustment dates from September 1979.

^bRefers to the arithmetical average of the minimum wage per hour of a bricklayer, electrical assistant and trainee painter. The last readjustment was made at the end of June 1983.

Table 17

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	790	848	906	886	13.5	7.3	6.8	-2.2
Tax revenue	582	615	661	635	15.5	5.7	7.5	-3.9
Direct taxes	315	332	366	321	22.1	5.4	10.2	-8.8
Indirect taxes	267	238	295	314	8.5	6.0	4.2	6.4
On foreign trade	99	106	115	121	8.8	7.1	8.5	5.2
Non-tax income	208	233	245	251	8.3	12.0	5.2	2.4
2. Current expenditure	771	930	929	828	0.6	20.6	-	-10.6
Wages	298	319	356	552	-	7.0	11.6	-14.0
Purchase of non-personal goods and services	246	299	286			21.5	-4.3	
Interest payments	227	312	287	276	0.9	12.6	-8.0	-3.8
3. Current saving (1-2)	-19	-82	-23	58	-72.9	331.6	-71.9	...
4. Capital expenditure	446	695	441	486	49.2	55.8	-36.5	10.2
Amortization of the debt	109	199	201	240	28.2	82.6	1.0	19.4
Real investment	66	112	102	246	57.5	70.0	-8.9	2.5
Other capital expenditure	271	384	138					
5. Total expenditure (2+4)	1 217	1 625	1 370	1 314	14.3	33.5	-15.7	-4.1
6. Fiscal deficit (1-5)	-427	-777	-464	-428	15.7	81.9	-40.3	-7.8
Percentages								
Ratios								
Current saving/capital expenditure	-4.3	-11.8	-5.2	13.0				
Fiscal deficit/total expenditure	35.1	47.8	33.9	32.6				
Tax revenue/gross domestic product	15.0	14.4	15.1	14.6				
Total expenditure/gross domestic product	31.4	38.0	31.3	30.2				
Fiscal deficit/gross domestic product	11.0	18.2	10.6	9.9				

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office, and by the Exchequer.

^a Preliminary figures.

When at the end of 1982 the fiscal deficit came to represent 18% of the gross domestic product, the government began to adopt measures to reduce it, committing itself with the International Monetary Fund —through an agreement signed in mid-1983— to reduce the said ratio to 6% in that year and to 5.5% in 1984. In 1983 there was a notable reduction in the fiscal deficit, but its ratio with the gross domestic product remained above 10%. In 1984 the deficit continued to diminish and the ratio with the product fell to almost 10%, a percentage very much above the goal proposed (see table 17).

The efforts to reduce the fiscal deficit would certainly have achieved better results if the programme of fiscal reforms proposed by the government to Congress in mid-November 1984 had been successfully applied. The law approved on that occasion established a tax of 7% on a wide range of services, and another of 2% on transfers of real estate; there was also a suspension for two years of wage increase in public institutions. These arrangements did not come into force in practice since in mid-December they were annulled owing to widespread public opposition.

The fiscal deficit went down by 8% in 1984, even though current income fell by slightly more than 2%. This fall was entirely due to the drop in the collection of direct taxes. Indirect taxes, on the other hand, increased by a little over 6%, a result which must certainly have been influenced by the replacement of the import quota system by tariff charges.

Current expenditure fell in the meantime by around 11%, having already remained constant in 1983. The fall was especially pronounced in the case of wages and the purchase of non-personal goods and services, although there was also a fall in the payment of interest on the external debt, no doubt as

a result of the postponement of payments as requested by the governments. Nevertheless, outflows in respect of amortization payments on the debt increased by 19% in 1984 and as a result capital expenditure went up by 10%. Government investment expenditure and other capital outlays increased in more modest proportion (2.5%) despite the fact that in 1983 the reduction in expenditure which brought about the marked fall in the fiscal deficit had been concentrated in these areas.

b) *Financial activity*

Both the activities of the national banking system and those of the international financial centre³ remained depressed in 1984, reflecting the adverse economic situation of the country.

The balances of the national banking system revealed an appreciable fall in liquid assets (25%) at the end of 1984, coupled with a plunge in the external portfolio (18%) and a decline of 15% in investment in securities (see table 18).

Table 18

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

	Year-end balance (millions of balboas)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Assets	28 642	31 207	31 363	26 401	28.7	9.0	0.1	-15.8
Liquid	5 702	7 085	8 722	6 552	7.4	24.3	17.0	-24.9
Cash	98	...	75	81	8.9	...	-	8.0
Other domestic liquid assets	235	...	1 221	148	6.4	...	300.3	-87.9
Other external liquid assets	5 369	6 808	7 426	6 323	8.0	26.8	4.9	-14.9
Sight deposits in banks	122	...	432	298	-56.7	...	-39.8	-31.0
Time deposits in banks	5 073	6 186	6 970	6 013	14.6	21.9	12.9	-13.7
Deposits in IMF	13	...	20	4	-27.8	...	53.8	-80.0
Other	161	...	4	8	33.7	...	-97.7	100.0
Investments	21 350	22 524	21 331	18 359	34.1	5.5	-2.6	-13.9
Credit portfolio	20 446	21 233	19 984	17 220	33.8	3.8	-3.4	-13.8
Domestic	3 146	3 351	3 503	3 733	24.3	6.5	5.2	6.6
External	17 300	17 882	16 481	13 487	35.7	3.4	-5.0	-18.2
Securities	904	1 291	1 347	1 139	39.7	42.8	9.5	-15.4
Other assets	1 590	1 598	1 310	1 490	55.0	0.5	-33.9	13.7
Liabilities and capital^b	28 642	31 207	31 363	26 401	28.7	9.0	0.1	-15.8
Sight deposits	1 072	1 123	1 257	1 474	14.5	4.8	-1.1	17.3
Private	354	375	375	332	7.6	5.9	15.3	-11.5
Official entities	194	222	240	251	53.5	13.8	31.9	4.6
Foreign individuals	285	257	341	296	18.7	-9.8	42.1	-13.2
Foreign banks	238	269	301	595	-0.8	13.0	-42.6	97.7
Time and savings deposits	24 905	26 485	26 078	20 866	28.3	6.3	-0.3	-20.0
Individuals	1 387	1 574	2 609	1 798	20.9	13.5	67.7	-31.1
Foreign individuals	3 411	3 846	3 895	4 273	46.8	12.8	7.8	9.7
Foreign banks	20 197	21 065	19 574	14 795	26.2	4.8	-6.7	-24.4
Bonds	462	736	1 002	1 353	98.3	59.3	67.3	35.0
Other liabilities, capital and reserves	2 203	2 863	3 026	2 708	30.6	30.0	-9.2	-10.5

Source: ECLAC, on the basis of figures supplied by the General Comptrollership of the Republic, Statistics and Census Office.

^a Preliminary figures. ^b Excluding transactions among local banks.

³ The national banking system comprises approximately 70 commercial banks, in addition to the Credit and Savings Bank and the National Bank of Panama. The international financial centre embraces all the banks operating in Panama, approximately 120.

Time and savings deposits fell by 20%, there being a notable difference between the deposits of national individuals and those of foreigners; the former fell by 31%, while the latter increased by almost 10%.

Deposits of the same type by foreign banks also plummeted (24%) and phenomena similar to those of the national banking system were observed in the international financial centre.

The domestic credits granted by the banking system expanded much less than in 1983. The decentralized public bodies maintained a certain pressure on the system, probably to cover financial imbalances.

There was a notable increase during the year in loans granted to fisheries, probably linked with the promotion of the catching and exporting of shrimps. In contrast, credit assigned to commerce and agriculture fell for the second year running. There was also a modest increase in loans assigned to housing, in marked contrast with the expansion recorded in the previous year.

The external credit portfolio and external time deposits in the banks incorporated in the international financial centre suffered a considerable decline in 1983, and this occurred again in 1984. The same trend was recorded in these variables in the consolidated balance of the national banking system, although the deterioration accelerated in 1984. These circumstances would seem to indicate that, although the international crisis had a drastic effect in 1983 on the banks forming the international financial centre, the national banking system was to some extent able to withstand its impact, thanks to the fact that the few projects undertaken in those years (the beginning of the functioning of the oil pipeline, the construction of the La Fortuna dam and other works), together with several other signs of dynamism, gave some impulse to economic activity, and thereby to the domestic financial movement. Since these effects were exhausted in 1984, the activity of the national banking system suffered a marked decline.

PARAGUAY

1. Recent economic trends: Introduction and summary

Overall economic activity increased moderately in 1984 following a recession of over two years. Although unemployment was down, inflation rose markedly once again. The country proceeded with its economic adjustment for the third year running, but nonetheless saw another substantial decrease in its international reserves. The growth rate of its gross external debt did slow down considerably, however (see table 1 and figure 1).

In a departure from the situation during the preceding two and one-half years, in 1984 the external environment spurred the expansion of the Paraguayan economy. International price trends were also highly conducive to domestic price stability. The country failed to take full advantage of the opportunities presented by the international economy, however, due to a number of persistent shortcomings in its domestic economic policy.

The domestic product grew slightly more than 3%, surpassing the goal of 2.5%.¹ Crop-farming production was at the forefront of this incipient recovery with an increase of 7.5%. The harvests of three crops (cotton, soya and wheat) accounted for 39% of the increase in the gross domestic product. The agricultural sector as a whole was responsible for around 56% of the expansion in economic activity. Another substantial percentage (23%) of this growth was attributable to the manufacturing industry, whose output was up 4.5%. Construction, however, declined for the third year running, while the other sectors turned in poor performances.

Thanks to the improvement in the terms of trade and the elimination of the factor services deficit the percentage increase of gross national income was much higher than that of the product. As a result per capita income climbed significantly even though the per capita product remained at a standstill.

Despite the fact that the growth of the product was slower than the rate of expansion of the labour force seen between 1972 and 1982, official figures show a drop in unemployment levels. Real wages and salaries decreased for the third year in a row, even though the increases in the minimum wage were greater than inflation. A decisive factor in this situation was the sharp rise in inflation, which climbed from 14% in December 1983 (the variation over a 12-month period) to 19% in June 1984 and to nearly 30% in December 1984 (see table 1).

Domestic expenditure grew more than the domestic product did. Nonetheless, the deficit on current account was reduced substantially owing to the favourable trend in relative international prices and to the steep drop in profit remittances abroad. The deficit trade balance was also reduced. Nevertheless, in terms of constant prices the trade deficit deepened, since the volume of imports of goods and non-factor services expanded more than foreign sales did. The 13% increase in the corresponding volume of exports was wholly due to the fact that the number of visitors to the country doubled. Indeed, the marketing of merchandise abroad actually declined in real terms according to the records of the Central Bank.

Despite the increase in expenditure and in imports, gross domestic investment fell for the third consecutive year. This drop—which, however, was far smaller than the cumulative decrease seen in 1982/1983—was discernible both in construction and in capital formation in machinery and equipment. Excluding the Itaipú and Yacretá dam projects from the picture, private investment made a notable recovery, but this was more than outweighed by the steep drop in public-sector capital expenditure and the lower demand for investment in the construction projects of the Itaipú Binational Enterprise.

¹ The sources for the 1984 targets were the Ministry of Finance, the Central Bank of Paraguay, the Technical Planning Department and the Banco Nacional de Fomento *Plan 1984*, Vol. I (preliminary version), Asunción, Paraguay, October 1983.

Gross national savings declined once again due to the marked decrease of private saving in domestic financial assets, despite an increase of nearly 5% in gross national income. Public-sector saving, however, showed a notable increase over its depressed level of the year before.

Although the deficit on current account in 1984 was small (the decrease in domestic investment being greater than the drop in national savings), the balance of payments again showed a deficit. International reserves were drawn down by almost three times as much as the year before due to the settlement of some payments that had been in arrears. By the end of 1984, gross international

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	1 639	1 825	2 034	2 211	2 189	2 124	2 189
Population (millions of inhabitants)	2.97	3.07	3.17	3.27	3.37	3.47	3.58
Per capita gross domestic product (1970 dollars)	552	595	642	677	650	612	612
Growth rates							
B. Short-run economic indicators							
Gross domestic product	11.3	11.4	11.4	8.7	-1.0	-3.0	3.1
Per capita gross domestic product	7.7	7.8	7.9	5.4	-3.9	-5.9	0.1
Per capita gross national income	6.5	7.9	6.7	6.4	-4.2	-7.4	1.6
Unemployment rate ^{bc}	4.1	5.9	3.9	2.2	5.6	8.4	7.4
Consumer prices							
December to December	16.8	35.7	8.9	8.1	8.9	14.1	29.8
Variation between annual averages	10.6	28.2	22.4	14.0	6.8	13.5	20.3
Real salaries and wages ^d	3.5	-6.5	0.7	5.3	-2.7	-7.1	-3.5
Money	39.5	24.5	25.8	0.1	-3.8	26.4	29.7
Current income of central government	30.2	27.1	18.3	14.9	15.0	-3.8	29.0
Total expenditure of central government	32.0	23.6	30.4	14.5	22.2	14.4	2.8
Global balance/total expenditure of central government ^b	11.6	7.4	-2.6	-25.1	-14.4	-35.2	-19.2
Global balance of central government/GDP ^b	1.2	0.9	-0.3	-3.4	-1.7	-4.3	-1.9
Global balance of public sector/GDP ^b	-0.3	1.8	0.4	-3.2	-3.7	-5.3	-2.9
Current value of exports of goods and services	11.4	18.2	10.2	0.1	9.0	-22.9	23.8
Current value of imports of goods and services	22.1	38.6	15.1	16.2	8.7	-33.3	12.6
Terms of trade in goods and services	-8.5	-5.7	-7.0	5.0	-7.2	-6.0	15.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-93	-218	-276	-412	-446	-233	-209
Factor services	-25	4	-11	31	53	-21	1
Balance on current account	-118	-210	-283	-378	-391	-252	-206
Balance on capital account	296	372	434	421	329	257	121
Variation in international reserves (net)	179	165	153	43	-121	-48	-138
Gross external debt disbursed ^e	669	733	861	949	1 204	1 469	1 580
Net external debt disbursed ^f	234	146	97	146	530	825	1 270

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bPercentages.

^cAnnual average rate in Greater Asunción.

^dReal wages of the workers in Greater

Asunción.

^eMedium- and long-term public and State-guaranteed private debt.

^fGross external debt disbursed less holdings of

net foreign assets in the economy.

reserves still totalled approximately US\$ 540 million, enough to finance eight months of (recorded) imports of goods and non-factor services. Net international reserves minus external delinquent payments amounted to around US\$ 290 million, however, which would be enough to cover four months of imports. The periods of time which potentially could be covered were thus considerably shorter than in 1983.

The rate of increase of the gross disbursed external debt slowed to less than 8% after having run at over 70% between 1980 and 1983. The 17.5% rise in the net external debt, however, brought it to around US\$ 1.4 billion, which was 14 times greater than in 1980, when the country had a large volume of foreign assets.

The marked expansion or recovery of the United States, Japanese, and Brazilian economies, booming tourism in border areas and favourable weather conditions all contributed to the upturn in Paraguay's economic activity and the decrease in its deficit on current account. The briskness of the international economy resulted in notable improvements in the prices of the main export products. Furthermore, the course taken by the Brazilian economy and the relative increase in Argentine prices at the prevailing exchange rates caused the number of tourists to soar 200%.

Moreover, the low level of inflation in the main central economies and the further rise of the dollar resulted in a substantial decrease in the country's import prices; this bolstered its revenues, put its balance of payments on a better footing and partially counteracted the effects of domestic sources of inflation.

The marked reduction in the expenditures of the Itaipú Binational Enterprise within the country and, hence, in external financing limited the growth of the product, played a part in the unfavourable turn taken by the balance of payments and created inflationary pressure. These events were also the result, however, of the country's domestic economic policy, which had anomalous effects on the level of activity, hurt the external sector and fueled inflation.

Firstly, the exchange policy continued to discriminate against exports without providing any countervailing benefit for the country although, after the adjustments made in May, the real effective exchange rate did improve, the gap between the official and market exchange rates narrowed, and the production of other marketable goods and services ceased to be at a disadvantage. In addition, the multiple exchange rate system gave rise to the creation of a large quantity of means of payment; until May, this was mainly by virtue of the fact that the purchase rate was higher than the selling rate, while during the following months the major vehicle was the subsidy provided for the public sector in the form of a preferential rate for the servicing of its external debt.

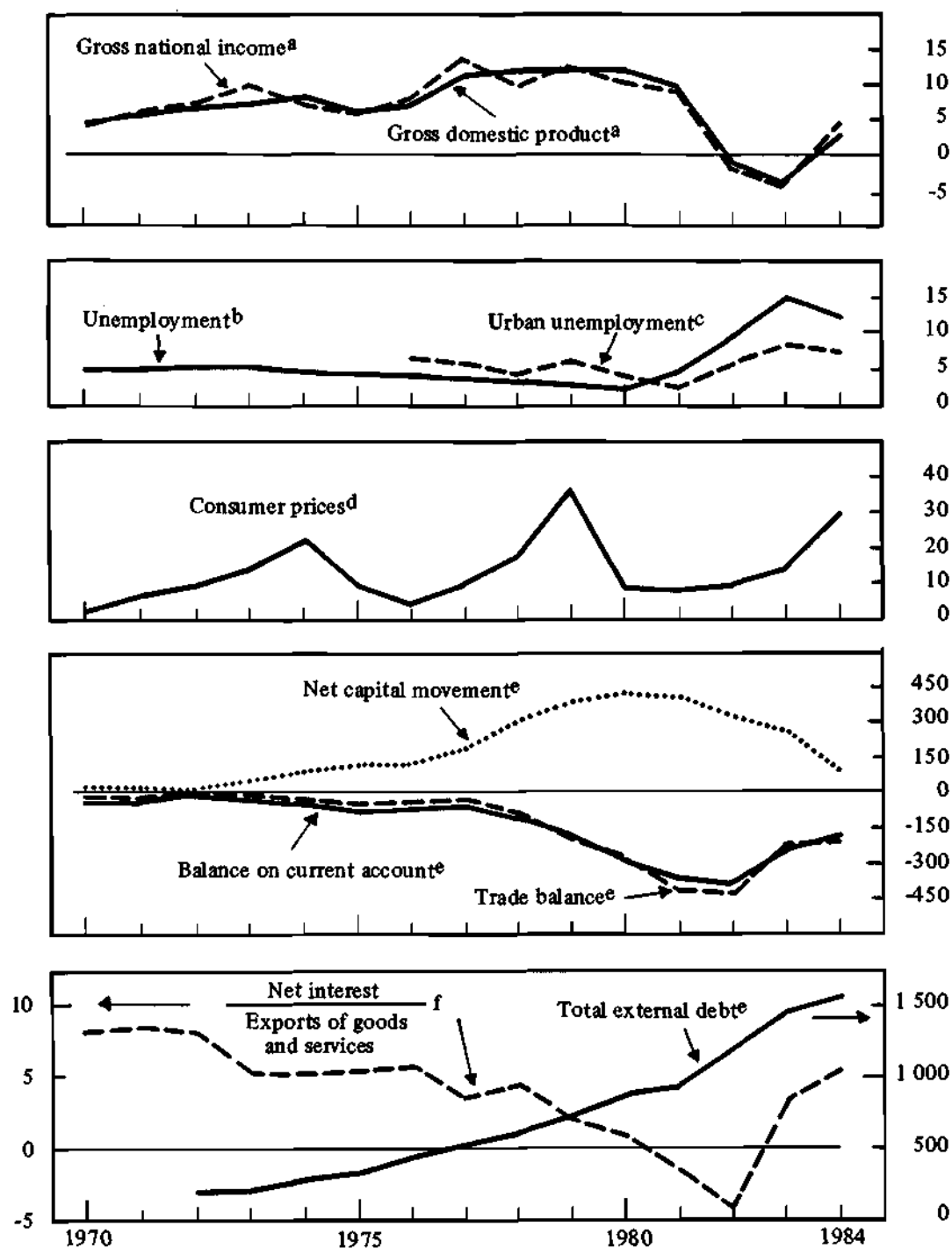
Efforts to reduce the total non-financial public-sector deficit succeeded in bringing it down to less than 3% of the gross domestic product from the preceding year's level of approximately 5.5%. Nevertheless, a large percentage of the resulting decrease in the public sector's demand for credit was offset by the increase in the Central Bank subsidy for public-sector transactions. These operations therefore continued to exert pressure on price levels and the balance of payments.

Despite plans to the contrary, the financial management of the non-financial public sector did not stimulate domestic activity. With a 10% cutback in real terms in capital outlays, it tended to have a dampening effect instead. Furthermore, it prompted a substantial decline in long-term external capital inflows. Nonetheless, the restriction of capital expenditure accounted for a great deal of the reduction in the public deficit, made it possible to slow down the rate of expansion of gross external borrowing considerably, and did not pose an obstacle to the economy's incipient recovery.

The country's monetary policy contributed to the upturn in economic activity by providing credit support for the crop-farming sector and commercial banks. However, it also contributed to the upsurge of inflation, discouraged private saving in domestic financial assets and had an adverse impact on the balance of payments.

Along with a liberal rediscount policy, the Central Bank retained the same interest rate structure in 1984 despite the accelerating rate of price increases. As a result, virtually all interest rates became negative in real terms. Given these circumstances, the level of net domestic assets held by the Central Bank climbed over 60%, mainly due to the creation of credit for the private financial sector. The monetary base expanded much less (18%), partly because of the decline in international reserves. M_1 increased 30%, however, due to the strong recovery of the private sector's demand for credit. In contrast, quasi-money grew by less than 10%.

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bTotal annual average rate for the country. ^cAnnual average rate in Greater Asunción (data from household survey). ^dPercentage variation from December to December. ^eMillions of dollars. ^fPercentages.

Table 2

PARAGUAY: SOME FIGURES ON THE PRODUCT, INCOME AND EXPENDITURE

(Millions of dollars at constant 1970 prices)^a

	1980	1981	1982	1983 ^b	1984 ^b	Growth rates				
						1980	1981	1982	1983 ^b	1984 ^b
Gross domestic product at market prices	2 034	2 211	2 189	2 124	2 189	11.5	8.7	-1.0	-3.0	3.1
Indirect taxes, less subsidies	148	161	160	156	160	11.3	8.8	-0.6	-2.5	2.6
Gross domestic product at factor cost	1 886	2 050	2 029	1 968	2 029	11.5	8.7	-1.0	-3.0	3.1
Net imports of goods and services	105	153	150	71	93	-6.2	45.7	-2.0	-52.7	31.0
Net factor payments to rest of world ^c	3	-11	-18	6	-1					
Terms-of-trade effect	11	18	6	-5	22					
Gross domestic expenditure	1 991	2 203	2 179	2 039	2 122	10.4	10.6	-1.1	-6.4	4.1
Gross national product	1 883	2 061	2 047	1 962	2 030	11.1	9.5	-0.7	-4.2	3.5
Gross national income	1 894	2 079	2 053	1 957	2 052	10.1	9.8	-1.3	-4.7	4.9

Source: ECLAC, on the basis of official data.

^a At parity exchange rate.^b Preliminary figures.^c Includes private unrequited transfer payments. The minus (-) signifies net income.

2. Trends in economic activity

a) *The product and income*

With a growth rate of somewhat more than 3% according to official data, economic activity began to make a recovery from the 1982-1983 recession (see table 2).² Gross national income, which had diminished more than the product had during the recession, rose 4.9%. This divergence is primarily a reflection of fluctuations in the terms of trade.

b) *Supply and demand*

The turnabout in the trend of relative international prices (in large part due to the drop in the unit value of imports of goods) was accompanied by an increase of nearly 20% in the volume of external purchases of goods and non-factor services, according to Central Bank figures. The increase in the volume of recorded imports of goods, however, was much lower (6.5%).³ Be that as it may, owing to its multiplier effects in activities such as commerce and transport, the expanded supply of imports constituted an additional factor in the upturn shown by the product.⁴

² The national accounts prepared for Paraguay's economy suffer from some inaccuracies. Traditionally, the main problems have been in the statistics on the external sector (which have represented underestimations of up to 50%) and on expenditure and its financing. (For an analysis of this matter, see Richard Lynn Ground, "Las Cuentas Nacionales del Paraguay", *Revista Paraguaya de Sociología*, year 19, No. 5, September-December 1982.)

Lately, the statistics on the product have also been questioned. For example, whereas the Central Bank of Paraguay calculated that the gross domestic product (at 1977 prices) had decreased 2% in 1982 and 3.7% in 1983, another source estimated the declines at 5.5% and 10%, respectively. (See United States Department of Commerce, *Foreign Economic Trends and Their Implications for the United States* (Paraguay), Washington, D.C., November 1984, pp. 3-4.)

At 1982 prices the Central Bank figures, which were used in preparing table 2, indicate a reduction in the product of 1% in 1982 and of 3% in 1983.

³ The difference is almost entirely accounted for by the "other services" category.

⁴ Preliminary estimates of the International Monetary Fund indicate that the value at current prices of total domestic imports of goods dropped 2%. This calculation excludes the external purchases of the Itaipú and Yacretá Binational Enterprises, but includes unrecorded imports. If the above proves to be accurate, and given the official figure for the unit value of external purchases of merchandise, the volume of total domestic imports of goods will have increased over 8%.

The volume of exports of goods and non-factor services also rose considerably. This was entirely due to the striking recovery made by income from tourism, which even surpassed its 1980 peak. This highly positive upset, the excellent harvests and the improvements seen in key international prices were the decisive factors in the recovery.

Thanks to the higher level of earnings from the country's main export products and from tourism, domestic expenditure also made a recovery, despite the further retreat of fixed domestic investment, and in turn helped to spark the upsurge in economic activity. The expansion of domestic demand was due solely to the exceptional dynamism shown by private consumption, inasmuch as investment fell nearly 4% and general government consumption, in real terms, declined 15% (see tables 3 and 4). The restriction of public expenditure —after several years of mounting deficits— was one of the main components of the adjustment policy applied in 1984.

c) *Investment and savings*

Gross domestic investment decreased once again (-4%), although at a much slower rate than it had during the recession; this brought the cumulative decline for the three-year period to nearly 40%.³ The events of 1984 reflected a drop in both public and private investment. Investment in construction and in machinery and equipment was also down. Although the gross domestic investment coefficient remained quite high, capital formation in machinery and equipment reached very low levels (see table 5).

The fallback of domestic investment was partly the result of a factor outside the sphere of economic policy, i.e., a decrease in the investments made by the Binational Enterprises. Expenditure

Table 3
PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total supply	2 531	2 533	2 355	2 463	8.8	0.1	-7.1	4.6
Gross domestic product at market prices	2 211	2 189	2 124	2 189	8.5	-1.0	-3.0	3.1
Imports of goods and services ^b	320	344	231	274	11.5	7.4	-33.0	19.0
Total demand	2 531	2 533	2 355	2 463	8.8	0.1	-7.1	4.6
Domestic demand	2 364	2 339	2 195	2 282	10.3	-1.0	-6.2	4.0
Gross domestic investment	804	668	546	526	11.7	-17.0	-18.2	-3.7
Gross fixed investment	769	628	515	493	12.1	-18.4	-17.9	-4.4
Change in stocks	35	40	31	33				
Total consumption	1 560	1 671	1 649	1 756	9.7	7.2	-1.4	6.5
General government	157	161	166	141	22.0	2.2	3.2	-15.0
Private	1 403	1 510	1 483	1 615	8.5	7.7	-1.9	8.9
Exports of goods and services ^b	167	194	160	181	-8.5	16.0	-17.7	13.3
Effect of variation in terms-of-trade	18	6	-5	22				

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

^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.

³The official figures underestimate domestic investment because they do not include a large percentage of the investment expenditures of the Itaipú and Yacyretá Binational Enterprises. If these expenditures are included in the calculations, then the figures indicate a drop of over 9% in gross domestic investment, following the decrease of nearly 28% during the preceding year, according to IMF computations. The official figures show a decline of somewhat less than 4% following a drop of over 18% in 1983 (see table 3).

Table 4

PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND

(As a percentage of the gross domestic product)^a

	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Total supply	111.7	114.2	115.1	116.2	114.3	114.7	115.7	110.9	112.5
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	11.7	14.2	15.1	16.2	14.3	14.7	15.7	10.9	12.5
Total demand	111.7	114.2	115.1	116.2	114.3	114.7	115.7	110.9	112.5
Domestic demand	102.9	104.5	104.8	106.2	105.2	107.2	106.9	103.3	104.2
Gross domestic investment	25.4	27.8	30.5	33.2	34.4	35.4	30.5	25.7	24.0
Total consumption	77.6	76.7	74.3	73.0	70.8	71.7	76.3	77.6	80.2
General government	6.1	6.0	6.4	6.2	6.0	6.7	7.4	7.8	8.3
Private	71.5	70.7	67.9	66.9	64.8	65.0	69.0	69.8	71.9
Exports of goods and services ^c	8.8	9.7	10.3	10.0	9.1	7.6	8.9	7.5	8.3
Terms-of-trade effect	0.9	3.1	2.1	1.4	0.5	1.0	0.3	-0.2	0.2

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

^aAt market prices in constant 1970 dollars, using the parity exchange rate.^bPreliminary figures.^cThe 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 through deflation with price indexes calculated by ECLAC for the purpose.

Table 5

PARAGUAY: ORIGIN, COMPOSITION AND FINANCING OF GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)^a

	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Gross domestic investment	25.4	27.8	30.5	33.2	34.4	35.4	30.5	25.7	24.0
Origin									
Private sector	16.3	18.9	22.5	26.2	30.1	31.3	23.8	19.4	18.6
Public sector ^c	9.1	8.9	8.0	7.0	4.3	4.1	6.7	6.3	5.4
Composition									
Construction	11.0	12.8	15.1	17.8	20.2	21.7	21.1	21.2	20.1
Machinery and equipment	12.3	14.1	13.7	13.9	12.8	12.4	7.6	3.0	2.4
Changes in stocks ^d	2.1	0.9	1.7	1.5	1.4	1.3	1.8	1.5	1.5
Financing									
Gross domestic saving	22.4	23.3	25.7	27.0	29.2	28.3	23.7	22.4	19.8
Net factor payments to rest of world ^e	0.8	0.6	0.8	-0.2	0.1	-0.5	-0.8	0.3	-
Terms-of-trade effect	0.9	3.1	2.1	1.4	0.5	1.0	0.3	-0.2	1.0
Gross national saving	22.5	25.9	27.1	28.5	29.6	29.8	24.7	21.8	20.8
Private sector	19.3	20.3	20.6	21.2	25.9	26.8	22.1	20.6	17.9
Public sector	3.2	5.6	6.5	7.4	3.7	3.0	2.6	1.2	2.9
External saving	2.9	1.9	3.4	4.7	4.8	5.7	5.8	3.9	3.2

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Technical Planning Office.

^aAt market prices in constant 1970 dollars at the parity exchange rate.^bPreliminary figures.^cIncludes State enterprises, except Itaipú Binacional and Yaciretá Binacional.^dRefers to livestock sector only.^eIncluding private unrequited transfer payments. The minus sign (-) signifies net income.

on investment in Itaipú and Yacyretá, which had already dropped 42% in 1983, fell by a similar amount again, bringing this variable down to scarcely one-third of what it had been in 1982. In Itaipú, construction work is approaching completion, which accounts for the size of the decrease. In the case of Yacyretá, however, the budget cuts are due to the financial problems being experienced by Argentina, Paraguay's partner in the construction of this hydroelectric plant.

Apart from the Itaipú and Yacyretá projects, domestic investment held steady at its 1983 level (a year in which it had fallen 24%) despite the almost 11% cutback in public investment. The turnaround in interest rates, which became markedly negative in real terms, served as an incentive for private borrowing.

In contrast, the policy of refraining from making any changes in the structure of interest rates despite worsening inflation discouraged private saving in domestic financial assets, which dropped nearly 10% in real terms. Nonetheless, thanks to the improvement in the public sector's financial standing, national savings even rose slightly, although they again declined in relation to the gross domestic product. The drop in gross domestic investment was greater, so the deficit on current account was reduced further (see table 5).

d) *Sectoral trends*

Nearly 56% of the growth in the gross domestic product was accounted for by the agricultural sector, whose gross domestic product expanded almost 6%. The manufacturing industry showed a 4.5% increase and commerce was up somewhat less than 2%, while the value added by community, social and personal services fell slightly. Transport and electricity also exhibited moderate growth rates. The product of the construction sector, however, decreased for the third year running (see table 6).

Table 6

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	2 029	1 968	2 029	100.0	100.0	100.0	8.7	-1.0	-3.0	3.1
Goods	1 088	1 049	1 093	53.8	52.8	52.7	9.4	-1.8	-3.5	4.2
Agriculture	592	577	611	34.1	27.9	29.5	10.1	0.4	-2.5	5.9
Mining	14	13	13	0.3	0.6	0.6	15.0	2.3	-7.3	1.0
Manufacturing	313	300	314	15.5	16.3	15.1	4.3	-3.7	-4.2	4.5
Construction	169	159	155	3.9	8.0	7.5	16.7	-6.0	-5.7	-2.4
Basic services	156	154	158	6.6	7.1	7.6	3.9	9.6	-1.5	3.0
Electricity, gas and water	64	63	64	1.8	2.6	3.1	5.1	22.9	-1.9	2.2
Transport, storage and communications	92	91	94	4.8	4.6	4.5	3.2	2.0	-1.2	3.6
Other services	828	808	822	39.6	40.1	39.6	9.1	-1.1	-2.4	1.7
Commerce, financial institutions and insurance	397	385	392	18.3	19.5	18.9	8.4	-2.2	-3.1	1.8
Ownership of dwellings	56	54	54	2.9	2.8	2.6	6.9	-2.0	-4.7	-
Community, social and personal services	375	369	376	18.5	17.8	18.1	10.1	0.2	1.3	-0.9
Government services	90	88	90	4.2	3.7	4.3	22.8	4.0	-2.1	2.4

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

^a Preliminary figures.

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

Table 7

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaraníes at 1982 prices				Growth rates		
	1981	1982	1983	1984 ^a	1982	1983	1984 ^a
Total	188.8	189.6	184.9	196.0	0.4	-2.5	6.0
Crop farming	113.9	114.7	111.4	119.7	0.6	-2.8	7.5
Stock raising	55.4	56.5	55.5	57.8	2.0	-1.8	4.1
Forestry	19.5	18.4	18.0	18.5	-5.7	-1.8	2.8
Thousands of tons							
Production of the main lines							
Cotton	317	260	228	320	-18.0	-12.3	40.2
Rice	49	63	35	38	28.6	-44.4	8.6
Sweet potatoes	213	220	227	205	3.3	3.2	-9.7
Sugar cane	2 298	2 216	2 823	2 541	-3.6	27.4	-10.0
Maize	413	553	360	414	33.9	-34.9	15.0
Cassava	2 140	2 401	1 933	1 741	12.2	-19.5	-9.9
Beans	32	43	64	47	34.4	48.8	-26.6
Soya	769	757	650	748	-1.6	-14.1	15.0
Wheat	61	84	107	130	37.7	27.4	21.5
Bananas	...	...	16	17	...	...	6.3
Coconuts	248	243	417	430	-2.0	71.6	3.1
Oranges	...	...	1 435	1 363	...	...	-5.0
Pineapples	...	...	23	24	...	...	4.3
Tung	95	100	140	147	5.3	40.0	5.0
Bovine cattle ^b	...	6 552	6 651	6 795	...	1.5	2.2
Pigs ^b	...	1 023	1 065	1 109	...	4.1	4.1
Poultry ^b	...	11 839	12 413	12 863	...	4.8	3.6
Round logs	1 791	1 754	...	...	-2.1	...	...
Firewood	2 800	2 791	...	...	-0.3	...	...

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^a Preliminary figures. ^b Thousands of units.

i) *Agriculture.* In the wake of the natural disasters which occurred during the 1982/1983 season,⁶ agricultural activity was boosted by favourable weather conditions, increases in the prices of key products (such as cotton and soya) and the expansion of the institutional supply of credit being offered on very favourable terms. These factors accounted for the increase of over 7% in crop-farming output, which surpassed the decrease of the preceding year by wide margin. Stock-raising production also showed considerable growth, while the forestry subsector exhibited a modest upturn following the sharp cumulative decline it had undergone during the two preceding years (see table 7).

Cotton was the most dynamic element of all in the agricultural sector. The cotton harvest increased by the striking figure of 40%, thus besting its 1981 peak level by a slight amount. Cotton contributed around 40% of the increase in the value added (at constant prices) by the sector and 20% of the expansion of the gross domestic product. Since the international price of cotton also improved, real income from this crop rose still further.

Soya and wheat also made major contributions to the growth of the agricultural sector and to the recovery of overall economic activity. Soya output expanded 15%, while the wheat crop was over 21% larger, thus exceeding its previous record level by an ample margin. These increases directly accounted for 11% and 8%, respectively, of the growth in the value of the gross domestic product.

The performance of the cotton crop was primarily the result of a 28% increase in the yield of the land that was harvested, since the land area under cultivation scarcely increased at all, while the

⁶ See the chapter on Paraguay in ECLAC, *Economic Survey of Latin America and the Caribbean*, 1983.

land area harvested was almost 12% greater. In contrast, the larger soya and wheat harvests resulted from an expansion of the utilized surface area, in that the soya harvest's yield rose very little, while the productivity of the wheat crop was notably lower. Furthermore, a significant portion of the land sown with wheat was, in the end, not harvested (see table 8).

Another key factor was the persistence of the exceptionally favourable trend in the producer prices of the main crops. For example, the average price for cotton, which had already risen 85% in 1983, climbed 42% in 1984, i.e., 63% and 18% in real terms (see table 9).

International market performance and modifications in exchange policy were both factors in the increase of crop prices. The great improvement seen in external prices beginning in 1983 was maintained. During the first half of the year (the harvest season), the official exchange rate applying to exports was raised twice.

Table 8

**PARAGUAY: AREA CULTIVATED, AREA HARVESTED
AND YIELDS OF THE MAIN CROPS**

	1981	1982	1983	1984	Growth rates		
					1982	1983	1984
Area cultivated ^a							
Cotton	243	290	298	302	19.4	2.9	1.3
Rice	24	32	35	37	32.6	8.5	7.5
Sweet potatoes	11	12	12	12	7.7	3.2	3.1
Sugar cane	48	-	-	-	...	...	...
Maize	263	375	418	448	42.6	11.6	7.0
Peanuts	34	36	38	39	4.5	5.6	2.9
Cassava	178	179	186	191	3.0	3.5	2.7
Beans	45	52	52	55	14.8	1.0	5.2
Soya	397	533	650	679	34.2	21.9	4.5
Wheat	49	70	80	125	42.5	13.5	56.6
Area harvested ^a							
Cotton	244	246	263	294	0.8	6.7	12.0
Rice	...	31	34	37	...	8.0	7.7
Sweet potatoes	...	12	12	12	...	3.7	3.0
Sugar cane	...	-	-	-	...	3.8	5.4
Maize	...	369	399	436	...	8.1	9.1
Peanuts	...	35	37	38	...	4.9	3.5
Cassava	...	179	180	182	...	0.3	1.3
Beans	...	50	51	54	...	1.8	6.1
Soya	395	502	568	639	27.1	13.1	12.5
Wheat	49	70	80	106	42.2	14.3	32.6
Yield ^b							
Cotton	1 295	1 057	867	1 088	-18.4	-18.0	25.5
Rice	2 025	1 980	2 099	2 143	-2.2	6.0	2.1
Sweet potatoes	6 429	7 147	7 307	7 450	11.2	2.2	2.0
Sugar cane	48	44	44	45	-8.3	-	2.3
Maize	1 572	1 497	1 552	1 676	-4.8	3.7	8.0
Peanuts	1 049	1 018	1 104	1 101	-3.0	8.4	-0.3
Cassava	12 021	13 379	13 963	14 000	11.3	4.4	0.3
Beans	719	850	860	862	18.2	1.1	0.2
Soya	1 947	1 508	1 144	1 171	-22.5	-24.1	2.4
Wheat	1 245	1 200	1 338	1 226	-3.6	11.5	-8.4

Source: Central Bank of Paraguay and Ministry of Agriculture.

^aThousands of hectares. ^bKilogrammes per hectare.

Table 9

**PARAGUAY: NOMINAL AND REAL PRODUCER PRICES
OF THE MAIN CROPS**

(1970 = 100)

	Rice	Cotton	Sweet potatoes	Maize	Cassava	Soya	Sugar cane	Coconuts	Tung	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
1982	400.0	348.1	466.7	440.0	333.3	333.3	368.3	466.7	275.0	340.4
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
1984	710.0	912.7	638.5	1 304.0	480.8	797.4	450.6	746.7	471.8	498.9
I	770.3	833.7	558.0	1 608.5	525.0	686.7	368.3	553.4	750.9	437.1
II	686.8	938.5	500.1	1 066.7	354.9	889.3	410.0	748.2		
III	394.4	955.5	769.0	1 186.0	556.6	813.8	495.7	846.7	572.4	
IV	675.0		776.7	1 300.3	500.0		528.1	820.0	570.0	583.6
Real prices^{d,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
1982	96.0	83.5	112.0	105.6	80.0	80.0	88.4	112.0	66.0	81.7
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
1984	124.8	160.5	112.3	229.3	84.5	140.2	79.2	131.2	82.9	87.7
I	149.7	162.0	108.4	312.6	102.0	133.4	71.5	107.5	145.9	84.9
II	127.6	174.4	92.9	198.2	65.9	165.2	76.2	139.0		
III	67.5	163.5	131.6	202.9	95.2	139.3	84.8	144.9	97.9	
IV	105.8		121.7	203.8	78.4		82.8	128.5	89.3	91.5

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture and Livestock, Department of Agricultural Marketing and Economics, and by 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 annual

averages may not coincide with the quarterly owing to the frequency of the observations or errors in rounding.

^cTwo months

only. ^dCalculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

Wheat —the item that has expanded the most in recent years— has benefited from a special pricing system under which it brings a higher price than the going rate on the international market. In addition, wheat producers have received credits at preferential rates.

The prices of stock-raising and forestry land showed a further deterioration in real terms. The price of crop land, however, rose. This marked a reversal in the trend seen during the three previous years. Nonetheless, the amount of accumulated assets in landholdings remained much lower than it had been before the recession (see table 10).

In connection with the programme for the settlement of the agricultural frontier, the Institute for Rural Welfare awarded over 5 000 properties in 1984, the largest amount in the past few years. Property awards covered an area of over 820 000 hectares, which was far greater than the amount of land awarded in recent years. Over 4 800 of these tracts were suitable for agricultural use and 200 were appropriate for stock-raising. In terms of area, the former totalled slightly over 60 000 hectares while the latter amounted to approximately 760 000 hectares. Nearly 4 700 final title deeds were also granted (see table 11).

ii) *Manufacturing*. In 1984, manufacturing activity was up 4.5%, after a cumulative decrease of 8% during the two preceding years. This recovery was led by food production, which expanded over 16%, and by the textile industry, in which the value added climbed around 11% (see table 12).

This turnabout was largely a result of the tourism boom which was brought about by price and exchange-rate adjustments in the countries of the Plate basin. Another contributing factor was the increased domestic demand which grew out of the dynamism of the crop-farming sector and the improvement in the terms of trade, as well as the greater domestic supply of raw materials.

The upturn in manufacturing output was buttressed by a more intensive utilization of installed capacity. Rather than showing any growth, investment declined once again. For example there was a further decrease (of 18%) in the value of investment projects provided for by Investment Promotion Law 550 and the volume of manpower hiring dropped (-35%).

iii) *Construction*. Notwithstanding the upturn in overall activity, the value added by construction continued to shrink (-2.4%). Once again, the decisive factor was the slowdown in the construction of hydroelectric works, whose value fell 40% in 1984 after having diminished 55% during the preceding two years. The reasons for this decrease are that construction work is approaching completion at Itaipú and is being carried out much more slowly than planned at Yacretá due to Argentina's financial problems.

This sector's level of activity was further depressed by the existence of a large reserve of residential and commercial properties, especially in the capital and in Ciudad Presidente Stroessner.

Table 10

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
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
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
1984	1 917.1	2 569.4	1 432.1	337.0	451.7	234.3
I	1 657.3	2 447.2	1 262.6	314.8	464.9	239.9
II	2 176.9	2 691.7	1 601.4	356.2	440.4	262.0

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture and Livestock, Department of Agricultural Marketing and Economics, and by the Central Bank of Paraguay.

^a Calculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

Table 11

PARAGUAY: AGRARIAN REFORM INDICATORS

	1956-1983	1978	1979	1980	1981	1982	1983	1984
Total awards								
Numbers of lots	96 678	2 837	2 506	3 931	4 316	3 036	2 604	5 026
Surface area (thousands of hectares)	8 578	176	422	717	473	598	302	816
Average (hectares)	89	62	168	182	110	197	116	162
Agricultural awards								
Numbers of lots	...	2 727	2 313	3 720	4 163	2 898	2 505	4 817
Surface area (thousands of hectares)	...	51	38	51	49	39	28	62
Average (hectares)	...	19	16	14	12	13	11	13
Stock-raising awards								
Numbers of lots	...	110	193	211	153	138	99	209
Surface area (thousands of hectares)	...	125	385	666	424	560	273	755
Average (hectares)	...	1 128	1 994	3 155	2 773	4 058	2 756	3 612
Final title deeds								
Numbers	94 349	3 500	3 814	3 836	4 054	4 224	4 093	4 660
Surface area (thousands of hectares)	6 259	177	284	719	729	460	410	488
Average	66	50	74	187	180	109	100	105
Communal fields								
Numbers	133	...	...	...	8	7	2	6
Surface area (thousands of hectares)	63	...	...	...	16	5	a	2
Nationalized and expropriated lands (thousands of hectares)	1 504	...	...	...	...	19	25	...
Nationalized	579	...	...	...	...	-	-	...
Expropriated	403	...	...	...	...	-	13	...
Occupied	521	...	...	...	...	19	12	...

Source: ECLAC, on the basis of data from the Institute for Rural Welfare, *Report (several years)* and Juan Manuel Frutos, *Con el hombre y la tierra hacia el bienestar rural*, Cuadernos Republicanos, Asunción, 1982, and from the Institute for Rural Welfare, Department for Land and Colonies.

^a 339 hectares.

iv) *Basic services.* The value added by basic services climbed 3%, while it rose nearly 4% in the transport and communications sector; the electricity, gas and water sector expanded somewhat more than 2%.

After showing a substantial decrease the year before, the generation of electricity increased almost 13% in 1984; this made it possible to stabilize imports of electric power, since consumption grew by 10% (see table 13). In October, the Itaipú Binational Enterprise began to supply electricity to Brazil. It is projected that Paraguay will earn about US\$ 20 million from sales of power to Brazil in 1985.

e) *Trends in employment and unemployment*

According to the household survey conducted by the Bureau of Statistics and Censuses, the unemployment rate in Asunción and its environs slid from 8.4% to 7.4% of the labour force between September-November 1983 and August-October 1984 (see table 14).⁷

There are no official figures indicating the level of unemployment nationwide. Central Bank estimates extend no further than 1983, when a sharp increase in unemployment was observed. Unofficial calculations place the national unemployment rate at 12.5%. This would indicate that, rather than slackening, unemployment levels have continued to be several times higher than the traditional rate.

⁷In 1983 the household survey was reduced from 2 000 to 1 000 households, while its geographic coverage was expanded.

3. The external sector

a) *Introduction*

Total import capacity expanded in 1984 for the first time in five years. The increase of over 10% resulted from the improvement of relative external prices and the boom in tourism, inasmuch as the volume of exports of goods and net capital inflows once again declined. Nonetheless, import capacity continued to be more than one-third less than it was prior to the recession (see table 15).

The increase in the volume of imports of goods and services was much larger. In combination with a smaller backlog of payments in arrears, this caused international reserves to be drawn down by a substantial amount once again. On the other hand, the growth rate of the gross disbursed external debt slowed considerably.

Table 12

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1982 = 100)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total	103.8	100.0	93.3	101.2	4.3	-3.7	-6.7	8.5
Foodstuffs	95.7	100.0	90.4	103.5	13.8	4.5	-9.6	14.5
Beverages	89.4	100.0	83.2	92.5	11.9	11.9	-16.8	11.2
Tobacco	99.3	100.0	121.5	127.5	16.0	0.7	21.5	4.9
Articles of clothing	97.0	100.0	95.5	115.9	12.5	3.1	-4.5	21.4
Shoes	97.1	100.0	103.0	106.1	21.1	3.0	3.30	3.0
Furniture	94.8	100.0	121.3	126.2	13.9	5.5	21.3	4.0
Printing and publishing	93.0	100.0	82.9	88.5	11.8	7.5	-17.1	7.1
Handicrafts	95.2	100.0	100.5	127.5	15.0	5.0	0.5	26.9
Leathers and furs except shoes	99.9	100.0	115.1	93.4	8.5	0.1	15.1	-18.9
Wood	100.4	100.0	94.0	92.1	-25.1	-0.4	-5.9	-2.0
Paper and paper products	92.4	100.0	91.1	93.7	21.3	8.2	-8.9	2.9
Textiles	118.9	100.0	86.4	110.3	25.2	-15.9	-13.6	27.7
Chemical industry	44.5	100.0	101.3	115.2	-11.4	124.7	1.3	13.7
Other chemical products	11.8	100.0	95.3	130.3	-4.3	-10.6	-4.7	36.7
Petroleum and its products	174.4	100.0	98.3	78.7	-1.9	-42.7	-1.7	-19.9
Plastic products	97.0	100.0	97.1	120.0	12.8	3.1	-2.9	23.6
Non-metallic mineral products	112.4	100.0	106.4	98.2	8.2	-11.0	6.4	-7.7
Metallic products excluding machinery	103.6	100.0	102.8	121.5	3.2	-3.5	2.8	18.1
Machinery, electrical domestic appliances and transport equipment	96.8	100.0	96.9	128.9	12.6	3.3	-3.1	33.0
Others	95.5	100.0	164.5	173.9	13.6	4.7	64.5	5.7
Production of some of the main manufactures (thousands of tons)								
Cotton cloth	15.9	9.2	5.8	6.1	-4.0	-42.1	-37.0	5.2
Cotton fibres ^b	105.9	90.8	77.2	105.3	41.0	-14.3	-15.0	36.4
Tannin	13.2	10.7	12.9	11.2	-16.0	-18.9	-20.6	-13.2
Husked coconuts	4.6	6.5	4.5	8.2	-9.8	41.3	-30.8	82.2
Tung	12.1	12.8	17.0	9.0	19.0	5.8	32.8	-47.1
Cement	156.1	111.2	153.0	109.0	-11.7	-28.8	37.6	-28.8
Cigarettes ^c	37.8	37.9	46.6	43.9	17.0	0.3	23.0	-5.8
Carbonated beverages ^d	145.7	160.3	122.1	137.3	25.0	10.0	-23.8	12.4
Wheat flour	100.7	96.8	100.2	89.9	23.0	-3.9	3.5	10.3
Sugar	76.5	81.1	98.2	85.2	-14.0	6.0	21.1	-13.2
Leather	9.5	9.5	11.0	8.3	6.0	-	15.8	-24.6
Absolute alcohol ^e	5.4	12.6	9.3	11.0	-	133.3	-26.2	18.3

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^a Preliminary figures.

^b Thousands of metres.

^c Thousands of packets.

^d Thousands of litres.

^e Millions of litres.

Table 13

**PARAGUAY: INDICATORS OF THE CAPACITY, GENERATION
AND CONSUMPTION OF ELECTRIC ENERGY**

	1970	1976	1978	1979	1980	1981	1982	1983	1984 ^a
Installed potential ^b	123.7	219.4	270.7	272.1	272.5	274.1	274.1	274.1	274.4
Hydraulic	90.0	140.0	190.0	190.0	190.0	190.0	190.0	190.0	170.0
Thermal	33.7	79.4	80.7	82.1	82.5	84.1	84.1	84.1	84.4
Electric energy generation ^c									
Gross	159.2	540.9	491.1	618.2	697.4	720.4	916.0	793.0	894.4
Net	154.2	536.7	482.9	611.4	692.1	716.8	912.7	790.5	891.8
Net imports of electric energy ^c	-	-166.0	-15.1	-25.6	5.4	103.0	-40.0	202.0	223.4
Domestic electric energy supply ^c									
Gross	159.2	375.0	476.8	592.9	703.1	824.0	876.0	995.0	1 117.8
Net	154.2	370.7	467.8	585.8	697.5	819.8	872.6	992.5	1 115.1
Domestic electric energy consumption ^c	129.8	307.0	438.3	544.8	658.0	751.7	800.6	827.2	907.3
Residential	76.4	173.2	237.6	273.9	344.3	390.7	473.9	492.2	540.7
Industrial	33.8	101.7	156.0	224.9	263.3	300.1	253.3	260.1	286.1
ANDE	5.0	4.3	9.0	7.1	5.6	4.2	3.4	2.5	2.7
Other ^d	14.6	27.8	35.7	38.9	44.8	56.7	70.0	72.4	80.5
Percentage of population receiving electric energy service	10.9	21.2	24.2	26.6	29.0	31.5	37.7	39.5	41.2

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 kW.

^dIncluding street lighting.

Table 14

PARAGUAY: OPEN UNEMPLOYMENT RATES

(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
The whole country	4.2	3.7	3.1	2.6	2.1	4.6	9.4	15.0	12.5 ^b
Asunción ^c	6.7	5.4	4.1	5.9	3.9	2.2 ^d	5.6	8.4 ^e	7.4 ^f

Source: On the basis of data supplied by the Central Bank of Paraguay and the Ministry of Finance, Department of Statistics and Censuses, *Encuesta de Hogares* (several issues), and information supplied to ECLAC.

^aPreliminary figures.

^bEstimates.

^cIn addition to Asunción, includes Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo.

^dFirst half of year.

^eAverage of the months of September, October and November.

^fAverage of the months of August, September and October.

Table 15

PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1977	1978	1979	1980	1981	1982	1983	1984 ^a
1970 = 100 ^b								
Volume of exports of goods and services ^c	159.6	188.0	201.5	204.6	187.2	217.2	178.8	202.6
Purchasing power of exports of goods and services ^c	210.5	226.9	229.2	216.3	207.8	223.7	173.4	226.7
Net factor payments to rest of world ^d	80.4	113.7	e	25.7	e	e	60.8	e
Purchasing power of net imports of capital	310.1	521.3	562.5	560.2	519.4	328.9	250.2	156.9
Total import capacity	248.1	311.1	338.0	321.1	316.7	288.5	190.9	210.7
Volume of imports of goods and services ^c	211.7	250.1	296.1	292.1	325.6	349.7	230.5	274.3
Gross international reserves								
Index	733.4	1 189.2	1 379.6	1 477.8	1 499.4	1 359.1	1 365.3	1 058.4
In months of imports ^f	7.4	10.2	10.0	10.9	9.9	8.3	11.5	8.1
Gross external debt disbursed	163.9	204.7	191.6	192.9	203.9	255.6	313.8	356.3
Growth rates								
Volume of exports of goods and services ^c	24.8	17.8	7.2	1.5	-8.5	16.0	-17.7	13.3
Purchasing power of exports of goods and services ^c	50.0	7.8	1.0	-5.6	-3.9	7.7	-22.5	30.7
Purchasing power of net imports of capital	38.4	68.1	7.9	-0.4	-7.3	-36.7	-23.9	-37.3
Total import capacity	50.0	25.4	8.7	-5.0	-1.4	-8.9	-33.8	10.4
Volume of imports of goods and services ^c	36.7	18.1	18.4	-1.4	11.5	7.4	-34.1	19.0
Gross international reserves	57.5	62.1	16.0	7.1	1.5	-9.4	0.5	-22.5
Gross external debt disbursed	5.9	24.9	-6.4	0.7	5.7	25.4	22.8	13.5
Gross domestic product = 100 ^g								
Volume of exports of goods and services ^c	9.7	10.3	10.0	9.1	7.6	9.1	7.5	8.3
Terms-of-trade effect	3.1	2.1	1.4	0.5	1.0	0.3	-0.2	1.0
Net factor payments to rest of world ^d	0.6	0.8	-0.2	0.1	-0.5	-0.8	0.3	-
Purchasing power of net imports of capital	5.6	8.5	8.3	7.4	6.4	4.1	3.1	1.9
Total import capacity	17.9	20.2	19.9	16.9	15.4	14.3	10.4	11.2
Volume of imports of goods and services ^c	14.2	15.1	16.2	14.3	14.7	16.2	10.9	12.5
Trade balance ^h	-4.5	-4.8	-6.2	-5.2	-7.2	-6.8	3.3	-4.3
Current account balance	-1.9	-3.4	-4.7	-4.8	-5.7	-5.9	3.9	-3.2
Global balance	3.7	5.1	3.6	2.6	0.7	-1.8	0.8	-1.3
Gross international reserves	8.8	12.9	13.5	13.0	12.1	10.4	11.3	8.5
Gross external debt disbursed ⁱ	26.1	29.4	23.1	23.0	22.6	33.5	57.6	58.1

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^b1970 prices.^cNon-factor.^dIncluding private unrequited transfers.^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 the terms-of-trade effect.ⁱAt the parallel exchange rate.

After making some marginal adjustments in the exchange system during January and February and after raising and aligning the exchange rate for exports in March, the government proceeded to modify it extensively in May.

The exchange rate for exports, which had been raised from 143-179 to 208 guaraníes to the dollar in March,⁸ was lifted to 240 guaraníes; the exchange rate for imports of petroleum and petroleum products moved up from 143 to 160 guaraníes; the price for dollars to be used for external purchases of "essential goods", "agricultural imports and industrial inputs for companies which process national materials", and for purchases made by the public sector pursuant to the General National Budget was set at 240 guaraníes. The exchange rate for all other imports was allowed to be freely determined by market forces, as were the rates applying to non-factor services and profit remittances. The exchange rate applying to the interest on the public-sector external debt and to public capital movements was set at 160 guaraníes to the dollar. Payments on the principal and on the interest of the private external debt which would otherwise have gone to "the production of goods" and capital inflows to the private sector were assigned a parity of 240 guaraníes to the dollar. Lastly, the exchange rate designated for the foreign exchange earnings of the Itaipú and Yacyretá Binational Enterprises was 160 guaraníes to the dollar (see table 16).⁹

In addition to these changes, the requirement for advance deposits on imports was eliminated and commercial banks were authorized to operate in the free exchange market. These modifications, which were the last to be made during the year, reduced the number of different exchange rates and narrowed the gap between the official and market rates. Various discriminatory effects and distortions persisted, however. One such problem that continued to affect the export sector was that the exchange rate applying to export earnings was 240 guaraníes to the dollar, while the sector had to pay for its imports at the free exchange rate, which fluctuated between 400 and 420 guaraníes during the second half of the year.¹⁰ Another distortion hurt the private sector in general, inasmuch as the exchange rates to which the public sector was subject were far lower than the going rate on the market.

The real effective exchange rate for exports rose by an average of 13%. It continued to be somewhat lower than it had been in 1981/1982, however, and was approximately 16% lower than it had been in 1980. The average increase in the real effective exchange rate for imports between 1982 and 1984 was, of course, much greater (32%). In contrast, the free exchange rate dropped (see table 17).

Another factor contributing to the reduction in the deficit on current account in 1984 was the improvement in international economic conditions, particularly as regards prices. In addition, changes in the regional situation sparked the boom in tourism.

Nonetheless, a further substantial cutback in the expenditures of the Itaipú Binational Enterprise in Paraguay and the outflow of private capital produced a considerable deficit on the balance of payments. Another factor was that the public sector took in a smaller amount of external credit as a result of the restriction of its capital expenditures.

b) Trade

i) *Exports of goods.* The value of exports at current prices recorded by the Central Bank rose nearly 25%, after having fallen 18.4% in 1983 (see table 18).¹¹ This increase is mainly attributable to the rapid expansion in exports of cotton fibres and oil-bearing seeds, which increased by 50% and 18%, respectively.

The fact that the harvest season coincided with significant hikes in the international prices brought by the main export products accounts for the entire recorded increase (see table 19). Volume diminished, despite the narrower gap between the official exchange rate for exports and the parallel exchange rate and despite the larger harvests of such products as cotton and soya.

⁸ The exchange rate actually received may have been higher than 208 guaraníes, inasmuch as any difference between the valuation price established by the Central Bank and the real price was paid at the rate of 300 guaraníes to the dollar.

⁹ See also Central Bank of Paraguay, DC, Circular No. 28/84, Asunción, 25 May 1984.

¹⁰ In practice, almost all private-sector imports had to be conducted at the free exchange rate.

¹¹ In addition to unrecorded exports of merchandise, Paraguayan sales to the Binational Enterprises are also excluded from this figure. These sales are included, however, in the balance-of-payments statistics shown in table 23. According to an IMF estimate, the value at current prices of exports of merchandise, including unrecorded goods but excluding sales to the Binational Enterprises, rose 3% after having dropped over 13%.

Table 16

PARAGUAY: OFFICIAL EXCHANGE RATES

(Guaraníes per dollars at the end of each period)

	1981	1982	1983				1984			
			I	II	III	IV	I	II	III	IV
Traditional exports of goods	126	144	149	165	161	156	180	227	240	240
Wood	126	143	143	143	178 ^a	178 ^a	208	240	240	240
Oils	126	143	143	178 ^b	178 ^b	178 ^b	208	240	240	240
Livestock products	126	160	178	178	178	178	208	240	240	240
Others	126	143 ^c	143	143	143	143	208	240	240	240
Non-traditional										
Cotton fibres	126	143	167	180 ^d	180 ^d	180 ^d	208	240	240	240
Oilseeds (soya) ^e	126	143	165	177	177	177	208	240	240	240
Fruits and vegetables	126	160	160	160	160	160	208	240	240	240
Others	126	143	143	143	143	143	208	240	240	240
Imports of goods	126	141	146	144	146	147	146	198	306	328
Consumer goods										
Basic										
Wheat	126	126	143	143	143	143	143	240	240	240
Others	126	160	160	340	410	342	368	406	410	382
Non-basic	126	160	160	340	410	342	368	406	410	382
Intermediate goods										
Petroleum and its products	126	126	143	143	143	143	143	160	160	160
For agriculture and industry	126	126	126	160	160	160	160	240 ^f	240 ^f	240 ^f
Capital goods	126	126	160	340	410	342	368	406	410	382
Non-factor services										
Travel	173	239	240	340	410	342	368	406	410	382
Others	126	160	160	340	410	342	368	406	410	382
Factor services										
Public sector	126	126	126	126	126	126	126	160	160	160
Private sector										
Registered ^g	126	160	160	160	160	160	160	240	240	240
Non-registered	173	239	240	340	410	342	368	406	410	382
Capital										
Public sector	126	126	126	126	126	126	126	160	160	160
Private sector										
Registered ^h	126	160	160	160	160	160	160	240	240	240
Non-registered	126	239	240	340	410	342	368	406	410	382
Transactions of the binational entities	126	126	126	126	143	143	143	160	160	160
Parallel market	173	239	240	340	410	342	368	406	410	382

Source: ECLAC, on the basis of official statistics.

^aPeroba wood only; 143.0 for the rest. ^bTung oil only; also applies to silk worm cocoons. ^cExcluding certain exports to which an exchange rate of 126.0 applied. ^dAlso applies to cotton waste (including rags), uncarded and uncombed. ^eIncluding derivatives and subproducts of soya. ^fIncluding only agricultural imports and industrial inputs for enterprises which process national raw materials and imports of the public sector appearing in the General Budget of the Nation. ^gIncluding only interest on external debt which has been destined for the production of goods with the authorization of the Central Bank, and the remittances of dividends and profits. ^hIncluding only imports of capital and amortization payments on the external debt which have been destined for the production of goods, with the authorization of the Central Bank.

Table 17

**PARAGUAY: EVOLUTION OF THE 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	84.6	88.5	99.7	107.7
1982	86.7	86.6	125.6	133.9
1983	74.3	69.3	154.7	154.7
1984	83.8	91.5	142.0	148.8
1982				
I	78.1	76.3	92.0	98.1
II	91.8	88.5	104.9	113.6
III	93.2	95.9	147.1	157.8
IV	89.2	90.5	164.1	174.2
1983				
I	83.0	82.0	139.8	137.9
II	79.3	69.2	144.2	138.5
III	69.4	63.6	173.7	175.0
IV	67.1	64.0	154.6	159.2
1984				
I	78.2	64.6	150.4	154.2
II	93.8	82.8	155.0	160.2
III	88.0	111.6	150.9	160.0
IV	75.1	100.0	119.0	127.4

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund, *International Financial Statistics*.

^aCorresponds to the average of the indexes of the real exchange rate of the guaraní in relation to the currencies of Paraguay's main trading partners, weighted by the relative importance of the registered trade flows to or from the said countries, as applicable. From 1975 to 1979 these weightings correspond to the average for those years and from 1980 to the average for the period 1980-1983. In the calculations official exchange rate have been used and preferably wholesale price indexes. For the methodology and sources used, see the technical appendix in the *Economic Survey of Latin America, 1981*. ^bFrom 1982 to 1984 the average exchange rate was used. ^cFrom 1982 to 1984 the average exchange rate was used. However, the reference is to those imports handled through the Central Bank, that is, it does not represent the real average rate. ^dThese indexes represent a weighted average of the indexes of the real exchange rate respecting the Federal Republic of Germany, Argentina, Brazil, the United States, Japan, Italy and France, in accordance with the relative participation of the non-registered trade flows between Paraguay and the countries mentioned. To calculate these indexes the parallel market exchange rate was used.

ii) *Imports of goods.* The value of recorded imports of goods at current prices increased somewhat more than 7%.¹² The only reason, virtually, for this increase was the expansion of nearly 290% in imports of transport equipment and accessories (see table 20).

iii) *Services.* The tourism boom was a crucial factor in the recovery of economic activity and in the strengthening of the country's balance-of-payments position. The number of tourists nearly doubled, thus approaching the record levels of 1979/1980. Income from this source also doubled, equalling the (recorded) returns on soya exports. Around two-thirds of this expansion was accounted

¹²In addition to unrecorded imports of merchandise and imports by the Binational Enterprises, this figure also excludes imports tied to external loans, to unrequited official transfer payments and to direct foreign investment. These last three categories are, however, included in the balance-of-payments statistics which appear in table 23. This datum indicates a decrease of nearly 4% in imports of merchandise. According to IMF estimates, imports of goods (including unrecorded foreign purchases but excluding those of the Binational Enterprises) fell 2% after having decreased 15% in 1983.

Table 18

PARAGUAY: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1981	1982	1983	1984	1974	1984	1981	1982	1983	1984
Total	296	330	269	335	100.0	100.0	-4.7	11.6	-18.4	24.3
Main traditional exports	101	96	83	89	76.9	26.3	-24.2	-3.5	-13.9	5.7
Livestock products	7	9	13	12	23.6	3.5	53.5	32.3	40.5	-6.7
Timber	36	44	20	22	14.5	6.7	-45.2	20.5	-53.5	9.1
Oils	29	22	21	22	12.8	6.6	10.8	-23.4	-4.4	4.0
Tobacco	6	6	10	15	6.7	4.6	-36.3	-7.9	71.0	50.0
Quebracho extract	6	5	5	6	0.5	1.7	26.9	-10.7	8.1	4.9
Other exports	17	10	14	12	18.8	3.2	-22.7	-35.5	25.8	-18.7
Main non-traditional exports	195	234	186	246	23.1	73.7	12.5	19.3	-20.2	32.6
Cotton fibre	129	122	85	131	9.7	39.2	22.2	-5.3	-30.5	54.1
Oilseeds (soya beans)	48	90	84	99	8.8	29.7	12.9	88.5	-5.8	17.6
Feed-cake and expellers	14	13	14	12	3.0	3.7	-35.1	-11.6	9.7	-10.5
Fruits and vegetables	4	9	3	4	1.6	1.1	-47.4	96.1	-68.5	40.9

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aIncludes only exports appearing in the exchange record.

Table 19

PARAGUAY: EVOLUTION OF THE EXTERNAL PRICES
OF THE MAIN EXPORT PRODUCTS

(1970 = 100)

	Soybeans ^a		Soya oil ^c		Cotton ^d		Wood ^e	
	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b
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
1982	202.5	55.6	156.3	42.9	237.3	65.2	385.9	106.0
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
1984	235.0	69.7	253.2	75.2	261.7	77.6	349.2	103.6
I	253.3	75.1	242.8	72.0	283.1	84.0	370.0	109.8
II	266.6	79.1	294.8	87.5	280.3	83.2	362.5	107.5
III	215.8	64.0	241.3	71.6	245.4	72.8	338.5	100.4
IV	204.4	60.6	234.0	69.4	238.2	70.7	325.7	96.6

Source: ECLAC, on the basis of UNCTAD, *Monthly Commodity Price Bulletin*, various volumes and International Monetary Fund, *International Financial Yearbook*, various issues.^aUnited States, No. 2 yellow, CIF, Rotterdam.^bThe nominal prices were deflated by the world export prices.^cAll origins, crude oil,

FOB, ex-works, Netherlands.

^dMexican medium grade, CIF, North Europe.^eTropical, wholesale price, United Kingdom.

Table 20

PARAGUAY: IMPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1981	1982	1983	1984	1974	1984	1981	1982	1983	1984
Total	506	581	478	513	100.0	100.0	-2.1	14.9	-17.7	7.3
Consumer goods	156	158	119	113	33.1	22.2	2.3	1.4	-24.4	-4.6
Non-durable	121	118	90	82	26.3	16.2	2.5	-2.2	-23.0	-8.4
Foodstuffs	33	24	31	14	8.4	2.8	35.4	-26.7	30.8	-54.2
Beverages and tobacco	37	38	15	25	6.6	5.0	-6.2	2.6	-59.2	63.7
Other ^b	51	56	44	43	11.3	8.4	-5.9	10.1	-21.3	-1.3
Durable ^c	35	40	29	31	6.8	6.0	1.7	13.4	-28.5	7.3
Automobiles	17	12	7	16	2.9	3.1	-8.2	-25.7	-44.7	127.7
Electric appliances	18	28	22	15	3.9	2.9	12.7	48.9	-21.2	-31.0
Intermediate goods	145	228	187	175	33.4	34.1	-13.3	57.8	-18.3	-6.0
Fuels and lubricants	95	154	120	138	24.4	26.8	-27.0	63.1	-22.2	14.6
Other ^d	50	74	67	37	9.0	7.3	34.4	47.9	-10.2	-43.2
Capital goods	175	157	144	198	28.8	38.6	3.3	-9.7	-8.7	37.6
Machinery, equipment and motors	108	105	108	92	16.3	18.0	35.1	-2.2	2.3	-14.5
Transport elements and accessories ^e	49	35	22	87	8.0	16.9	-35.0	-27.8	-35.9	285.7
Other ^f	18	17	14	19	4.5	3.7	27.2	-5.6	-20.7	39.2
Unclassified	31	38	28	27	4.7	5.1	6.8	21.1	-24.5	-8.9

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aOnly includes imports which appear in the exchange record, plus imports with deferred payments and those carried out with long-term external loans.

^bIncludes paper and cardboard products, pharmaceutical and chemical products, and textiles and textile manufactures.

^cIncludes jeeps and rural vans.

^dIncludes iron and iron manufactures (with the exception of hardware), ordinary metals and their manufactures, stones, earth and earth manufactures, cement, asphalt and wood and its manufactures.

^eExcludes automobiles, jeeps and rural vans.

^fIncludes agricultural implements and accessories, hardware and live cattle.

for by Argentine tourists, which trebled in number. The number of visitors from Brazil also was significantly higher (see table 21).

Since the amount spent on foreign travel by Paraguayans did not rise, there was an eight-fold increase in the surplus from travel, which was over US\$ 40 million; this accounts for most of the reduction in the deficit on current account (see table 22).

iv) *The terms of trade.* Whereas import prices declined again, the unit value of exports rose. This resulted in an improvement of approximately 15% in the terms of trade (see table 23).

c) *The current account position*

The US\$ 206 million deficit on current account was 18% lower than the deficit for 1983, according to Central Bank data¹³ (see table 22).

Unlike what occurred in the recession years of 1982 and 1983, this new adjustment of the economy was reflected in an increase in exports of goods and services. Imports of goods showed a very small decrease, while the total external purchase of goods and services actually increased, according to official figures.

¹³If unrecorded trade is included, the deficit on current account drops to US\$ 250 million after having totalled, according to IMF estimates, approximately US\$ 320 million in 1983 and US\$ 360 million in 1982. These figures, as well as those given in table 23, cover Paraguayan exports to the Binational Enterprises but do not include any adjustment whatsoever for the imports of the binational enterprises of other countries.

Another element which helped to narrow the gap between national savings and domestic investment was the improvement in the factor services balance. The US\$ 21 million deficit recorded in 1983 was turned into a small surplus thanks to the steep drop in remittances of profits abroad.

The adjustment was achieved despite a sharp drop in sales of goods and services to the Binational Enterprises, which were off by one-third. If such transactions are not included in the calculations, then the deficit on current account was reduced by nearly 25% to a figure of slightly over US\$ 310 million according to Central Bank figures (see table 24).

d) *The capital account and the balance of payments*

According to data compiled by the monetary authority, the total balance-of-payments deficit amounted to US\$ 85 million.¹⁴ Gross international reserves were drawn down by nearly US\$ 140 million, however. The difference is partly accounted for by the approximately US\$ 35 million reduction in payments in arrears.

Although gross international reserves still totalled some US\$ 540 million at the end of 1984, which was equivalent to slightly over eight months' worth of recorded imports, net international reserves were down 26%, dropping to US\$ 455 million by year's end. If net reserves are adjusted for payments in arrears, the results show that the sum total of payments in arrears decreased from US\$ 646 million in 1982 to US\$ 418 million in 1983 and US\$ 293 million in 1984. This last figure is equivalent to four months' worth of recorded imports (of 1984).

Table 21

PARAGUAY: INDICATORS OF TOURISM

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Number of tourists (thousands) ^{a,b}	115.2	176.9	201.9	301.9	302.1	267.1	178.4	147.8	292.0
From Argentina	38.5	68.1	86.8	132.2	132.6	122.5	56.9	47.1	141.3
From Brazil	43.0	65.3	68.2	106.9	104.8	92.1	93.8	70.3	97.6
From United States	3.5	3.2	4.4	3.6	3.3	4.3	3.9	3.5	7.5
From Japan	2.5	4.2	4.0	5.1	3.9	2.5	1.0	1.9	2.7
From Uruguay	4.4	3.7	4.6	3.6	3.9	7.5	5.4	3.1	10.2
From other countries	23.3	36.1	33.9	50.5	53.6	38.2	17.9	22.1	32.7
Average stay (days)	3.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3	3.0 ^d
Average expenditure (dollars)	122	200	200	230	300	300	330	332	329
Total expenditure (millions of dollars)	14.0	35.4	40.4	69.5	90.7	80.2	59.0	49.0	96.0
Supply of rooms (number) ^c	2 187	2 279	2 442	2 326	2 750	2 769	3 076	3 177	3 280
Supply of beds (number) ^c	5 120	5 314	5 691	5 434	6 329	6 243	6 806	6 985	6 938
Average rate of occupation									
Of rooms (percentage)	43.3	63.8	68.0	117.3	99.3	87.2	52.4	42.1	73.2 ^d
Of beds (percentage)	18.4	27.4	29.1	50.2	43.2	38.7	23.7	19.1	34.6 ^d

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 1972, the distribution refers to the nationality of the tourists; subsequently it refers to their point of departure. ^cRefers to hotels, motels, hostels and boarding houses regarded by the Department of Tourism as "of tourist level". ^dPreliminary figures.

¹⁴A preliminary IMF estimate indicates that the total balance-of-payments deficit amounted to US\$ 145 million, which was 45% less than that of the preceding year. Part of the discrepancy is due to unrecorded capital inflows, which are the counterpart of net unrecorded imports of goods and services. The difference is also attributable to the accounting treatment of the payments in arrears accumulated since 1983.

Table 22

PARAGUAY: ANNUAL GROWTH OF TRADE IN GOODS AND SERVICES

(In percentages)

	1978	1979	1980	1981	1982	1983	1984 ^a
Exports of goods							
Value	8.8	8.0	4.1	-0.4	-0.6	-17.7	11.7
Volume	19.4	1.1	0.3	-7.7	13.9	-9.2	-7.7
Unit value	-8.9	6.8	3.8	7.9	-12.7	-9.4	21.0
Exports of services ^b							
Value	24.3	64.9	28.3	1.4	31.6	-32.3	50.3
Volume	12.4	29.3	5.1	-10.5	22.2	-40.1	97.3
Unit value	10.6	27.5	22.1	13.3	7.7	13.0	-23.8
Exports of goods and services ^b							
Value	11.4	18.2	10.2	0.1	9.0	-22.9	23.8
Volume	17.9	7.1	1.5	-8.5	16.0	-17.7	13.3
Unit value	-5.5	10.3	8.5	9.4	-6.1	-6.4	9.3
Imports of goods							
Value	20.0	33.6	17.0	14.4	-7.9	-22.5	-3.6
Volume	16.7	11.7	-1.3	10.8	-11.2	-19.0	6.5
Unit value	2.8	20.1	18.5	3.2	3.7	-4.3	-9.5
Imports of services ^b							
Value	32.6	61.1	8.1	23.4	71.1	-55.3	69.6
Volume	24.3	47.6	-1.7	13.5	63.6	-55.9	56.6
Unit value	6.6	9.2	10.0	8.7	4.6	1.5	8.3
Imports of goods and services ^b							
Value	22.1	38.6	15.1	16.2	8.7	-33.3	12.6
Volume	18.2	18.4	-1.4	11.5	7.4	-33.0	19.0
Unit value	3.3	17.0	16.7	4.2	1.2	-0.4	-5.4
Terms of trade (goods)	-11.4	-10.1	-11.3	3.6	-15.7	-6.0	30.5
Terms of trade (goods and services)	-8.5	-5.7	-7.0	5.0	-7.2	-6.0	15.5
Purchasing power of exports of goods and services	7.8	1.0	-5.6	-3.9	7.7	-22.6	30.9

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bNon-factor.

The amount of the total deficit on the balance of payments plus the further decline in reserves was similar to the amount of the reduction in the surplus that is attributable to the operations of the Binational Enterprises, which fell from US\$ 315 million in 1983 to US\$ 213 million in 1984; only two years earlier, it had reached US\$ 450 million (see table 24).

Even though the total deficit on the balance of payments (excluding the operations of the Binational Enterprises) decreased once again, there was also a further outflow of short-term capital from the non-financial private sector. This outflow was equal to 40% of the net inflow of long-term capital and was exactly the same amount as the total balance-of-payments deficit (see table 23).

e) The external debt

After expanding very rapidly (by over 70%) during the three preceding years, the rate of increase in the gross external debt slowed to approximately 8%. The contracted debt bordered on US\$ 2.5 billion while the disbursed debt amounted to US\$ 1.6 billion (see table 25).¹⁵ The slower rate of increase exhibited by the contracted debt reflected both an express decision by the government and the difficulties that were encountered in obtaining fresh external credits. The slower expansion of the disbursed debt was due to the restriction of public-sector expenditure.

¹⁵ This refers to the public and State-guaranteed private debt of a term of over one year. According to IMF, the private external debt for which there was no State guarantee (of a term of over one year) fell from US\$ 400 million in 1983 to US\$ 360 million in 1984.

Table 23

PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-118	-210	-283	-378	-391	-252	-206
Trade balance	-93	-218	-276	-412	-446	-233	-209
Exports of goods and services	434	514	566	566	617	476	589
Goods FOB	356	384	400	399	396	326	364
Real services ^b	78	129	166	168	221	150	225
Transport and insurance	2	3	4	5	2	2	2
Travel	40	69	91	80	59	49	96
Imports of goods and services	528	731	842	978	1 063	709	798
Goods FOB	432	577	675	772	711	551	531
Real services ^b	96	154	167	206	352	157	267
Transport and insurance	64	93	104	118	106	75	81
Travel	20	31	35	38	42	44	45
Factor services	-25	4	-11	31	53	-21	1
Profits	-42	-18	-54	-38	-13	-39	-11
Interest received	18	45	77	102	122	63	55
Interest paid	-37	-55	-81	-93	-95	-78	-84
Others	36	33	48	60	39	33	41
Unrequited private transfer payments	1	3	3	2	2	1	1
Balance on capital account	296	372	434	421	329	257	121
Unrequited official transfer payments	5	4	2	3	4	5	6
Long-term capital	167	136	192	168	266	289	210
Direct investment (net)	20	50	32	32	37	5	7
Portfolio investment (net)	-	-	-	7	8	3	-
Other long-term capital	147	85	160	129	221	281	202
Official sector ^c	56	10	85	39	60	139	-
Loans received	65	21	98	60	83	162	-
Amortization payments	-9	-11	-12	-20	-22	-23	-
Commercial banks ^c	-	3	1	11	11	7	-
Loans received	6	9	7	17	16	10	-
Amortization payments	-6	-6	-6	-6	-6	-3	-
Other sectors ^c	91	72	74	79	150	135	-
Loans received	118	113	135	141	217	168	-
Amortization payments	-28	-41	-60	-61	-52	-33	-
Short-term capital (net)	108	223	261	263	74	-43	-
Official sector	7	15	3	12	10	22	-
Commercial banks	9	-9	-14	-13	1	7	-
Other sectors	92	218	271	264	62	-73	-85
Errors and omissions	17	9	-20	-13	-14	6	-10
Global balance ^d	178	162	151	44	-63	4	-85
Total variation in reserves (- sign indicates an increase)	-179	-165	-153	-43	121	48	138
Monetary gold	-	-4	-	-	-	-	-
Special Drawing Rights	-1	-4	-2	-3	-9	-6	-3
IMF reserve position	-	-2	-8	-10	-1	-3	2
Foreign exchange assets	-180	-154	-143	-30	133	60	138
Other assets	2	-1	-	-	-2	-4	-
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: 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 24
**PARAGUAY: EFFECTS OF THE BINATIONAL ENTITIES ITAIPU
 AND YACYRETA ON THE BALANCE OF PAYMENTS^a**
(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Current account								
Total	-59	-118	-210	-284	-378	-391	-252	-206
Binational entities	75	126	148	178	150	158	158	107
Itaipú	72	115	116	121	139	126	141	82
Yacyretá	3	12	32	57	73	24	17	24
Remainder	-134	-244	-358	-462	-589	-541	-410	313
Capital account								
Total	171	297	372	434	421	329	257	121
Binational entities	75	126	149	217	237	184	158	107
Itaipú	72	115	116	146	159	159	141	82
Yacyretá	3	12	33	71	78	25	17	24
Remainder	96	170	223	218	184	145	99	14
Global balance								
Total	112	178	162	151	44	-63	4	-85
Binational entities	149	252	297	395	449	338	315	213
Itaipú	143	229	231	267	298	289	281	164
Yacyretá	6	23	65	129	151	48	34	49
Remainder	-37	-74	-135	-244	-405	-400	311	-298
International reserves^c								
Total	268	449	609	762	806	739	680	542
Binational entities ^d	273	525	822	1 217	1 666	2 003	2 319	2 532
Itaipú ^d	259	488	720	986	1 284	1 573	1 854	2 018
Yacyretá ^d	14	37	102	231	382	430	465	513
Remainder ^e	1	-73	-208	-452	-857	-1 257	-1 578	-1 990

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aDoes not include imports of goods and services by the binational entities, which are imputable to the balance of payments, with the exception of profits from investments by the binational entity Itaipú in Paraguay. Similarly, it does not include the capital flows which finance those imports (which are also imputable to the balance of payments). Therefore, the accounting system used for this table is the same as that used for table 24, on the balance of payments, the original source of which is the Central Bank of Paraguay. ^bPreliminary figures. ^cGross minus gold. ^dShows the accumulated effects on the balance of payments. ^eIncludes the counterpart items for monetization and demonetization of gold; allocation/settlement of SDR; and variations through revaluation of other reserves.

Nonetheless, the growth rate of the net external debt was more than twice that of the gross external debt, as net external assets fell by more than 50%. In net terms, the debt exceeded US\$ 1.4 billion in 1984, whereas in 1980 it had not even reached the US\$ 100 million mark; from there, it had risen to US\$ 530 million in 1982 and to slightly over US\$ 1.2 billion the following year.

Meanwhile, the debt structure became less favourable, with commercial banking's share rising from 40% of the total in 1980 to 56% in 1984.

Moreover, changing external conditions, the slowdown in the execution of hydroelectric works and a domestic economic policy which undermined the economy's competitiveness increased the relative burden represented by the external debt. In terms of its value at the official exchange rate and in relation to the gross domestic product, the gross debt climbed, in effect, from 17% in 1981 to nearly 36% in 1984, while the net amount of the debt rose from 5% to 32%. In terms of its value at the parallel exchange rate, the gross debt grew from 23% in 1981 to 58% in 1984, while its net amount jumped from 7% to 52% (see table 26).

Outlays for amortization and interest payments on the external debt increased significantly (32%) to nearly US\$ 200 million; the sole reason for this was the steep rise in amortization payments. Nonetheless, thanks to the recovery made by exports, the amount of the debt service as a percentage of foreign exchange earnings from recorded external sales only rose from 31.3% to 33.5%. Because of the large decrease in reserves during the past three years, however, the net service on the debt climbed from 8% to 24% of exports between 1982 and 1984 (see table 26).

4. Prices and wages

a) Prices

There was a further intensification of the inflationary process. The level of consumer prices rose nearly 30% in twelve months, which was more than double the figure for 1983 and substantially more than three times the 1982 level. The wholesale price index also reflected a rise in inflation (44%), following an increase of 33% the preceding year and a drop of 7% in 1982 (see table 27).

An examination of monthly price changes indicates that inflation had eased off during late 1983 and early 1984. For example, after approaching 19% in September 1983, the twelve-month variation in the consumer price index for January 1984 was only slightly over 13%. Inflation later intensified in what might almost be termed a systematic fashion, especially beginning in the second half of the year; this was primarily a result of the fact that the new exchange system entered into force (see figure 2).

The rise in the cost of living was basically due to the behaviour of food prices, which soared by over 40%. Clothing prices also rose more than the overall index did. After two years of relative stability, housing prices began to show the effects of inflation.

As in 1983, one of the determinants of price dynamics was the rise in the exchange rate. The adjustments made in May raised the (mean) official exchange rate for importing from 149 guaraníes to 295 guaraníes to the dollar. By the end of the year it had reached approximately 340 guaraníes to the dollar. In contrast, the 11% increase over a twelve-month period in the parallel exchange rate as of the end of 1984 was substantially lower than the 35% increase recorded in 1983.

The rapid expansion in the means of payments of domestic origin also continued. The monetary authority's holdings of net domestic assets increased over 60% and its creation of (net) domestic credit rose by more than 40%, after having more than doubled in 1983. Nevertheless,

Table 25

PARAGUAY: AMOUNTS OF THE EXTERNAL DEBT

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984 ^a
External debt contracted ^b	732	952	1 299	1 323	1 641	1 939	2 272	2 458
Public sector	643	842	1 139	1 152	1 490	1 766	2 101	2 308
Private sector	89	109	160	170	151	173	171	150
Gross external debt disbursed ^b	518	669	733	861	949	1 204	1 469	1 580
Public sector	432	562	574	691	798	1 031	1 299	1 430
Non-financial	340	461	468	574	671	868	1 168	1 234
Central government	131	210	203	277	317	369	502	580
State enterprises	209	252	265	297	353	499	614	654
Financial	92	100	107	117	127	162	182	196
Private sector	87	107	159	170	151	173	171	150
Net foreign assets	265	435	587	764	803	674	644	310
Public sector ^c	260	439	592	744	776	646	418 ^e	293 ^e
Private sector ^d	5	-4	-5	20	27	28	13	17
Net external debt	253	234	146	97	146	530	1 209	1 420
Public sector	172	123	-18	-53	22	385	1 051	1 287
Private sector	82	111	164	150	124	145	158	133
Gross external debt services	60	79	113	160	180	175	149	197
Amortization payments	34	42	58	79	87	80	71	113
Interest	26	37	55	81	93	95	78	84
Net external debt services ^f	48	61	68	83	78	53	86	142

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aPreliminary figures.

^bMedium- and long-term public and State-guaranteed private debt; end-year balance.

^cForeign assets of the

Central Bank less short-term foreign liabilities of the Central bank.

^dForeign assets less short-term foreign liabilities of the private

commercial banks.

^eAdjusted by overdue payments.

^fInterest and amortization paid less interest received.

Table 26

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Indexes (1970 = 100)									
Disbursed gross external debt ^a									
At current prices	298.9	340.0	438.8	480.7	564.9	622.4	790.0	963.9	1 036.8
Deflated by export prices	141.0	124.2	169.6	168.4	182.4	180.8	248.3	324.1	325.6
Deflated by import prices	154.8	163.9	204.7	191.6	192.9	203.9	255.8	313.8	356.3
Disbursed net external debt									
At current prices	195.0	178.2	172.9	129.9	117.5	145.0	346.6	539.6	633.8
Deflated by export prices	98.0	65.1	66.8	45.5	38.0	42.1	108.9	181.6	194.6
Deflated by import prices	101.0	85.9	80.7	51.8	40.1	47.5	112.2	175.6	217.8
As a percentage of GDP									
Disbursed gross external debt									
At official exchange rate ^b	26.8	24.8	26.1	21.4	19.4	16.9	22.9	27.4	35.6
At parallel exchange rate ^c	28.9	26.1	29.4	23.1	23.0	22.6	33.5	57.6	58.1
Disbursed net external debt									
At official exchange rate ^b	22.3	16.6	13.1	7.4	5.1	5.0	10.1	22.6	32.0
At parallel exchange rate ^c	24.1	17.5	14.8	8.0	5.5	6.8	14.8	47.4	52.3
As a percentage of exports ^d									
Gross external debt service	19.4	15.4	18.2	22.0	28.3	31.2	27.9	31.3	33.5
Amortization	9.9	8.7	9.7	11.3	14.0	15.4	13.0	14.9	19.2
Interest	9.5	6.7	8.5	10.7	14.3	15.9	14.9	16.4	14.3
Net external debt service ^e	15.7	12.3	14.0	16.2	14.7	13.2	8.1	18.1	24.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aMedium- and long-term public and State-guaranteed private debt; end-year balances. ^bBy the Central Bank, at current prices. For 1982 and exchange rate of 140 guaraníes per dollar was used, for 1983, 153 and for 1984, 234. ^cOn the parallel. ^dExports of goods and services, excluding income in respect of interest from abroad. ^eInterest and principal paid, less interest received.

inasmuch as the domestic assets held by the Central Bank are a relatively small percentage of the total means of payment, and since the present legal reserve requirement is very high (42%), the expansion in the money supply (M_1) proved to be considerably less (approximately 30%).

Unlike what occurred in 1983, the main reason for the increase in liquidity was the expansion of the amount of credit extended to the private sector. Despite worsening inflation, the Central Bank made no changes in the interest rate structure, with the result that interest rates became negative in real terms. Furthermore, the Central Bank continued to apply a liberal rediscount policy at an interest rate (8%) far below that of inflation. Under these conditions, private-sector demand for credit roused itself considerably after two years of marked sluggishness.

The non-financial public-sector deficit was cut substantially, from 5.3% to 2.9% of the gross domestic product. All in all, the public sector's demand for credit was equal to approximately 57% of the expansion in the monetary base. In addition, there was a significant increase in the subsidies provided to the public sector by the Central Bank in the form of preferential exchange and interest rates; these subsidies came to represent around 1.5% of the gross domestic product, with the consequent monetary effects.

Another important factor was the change in wage policy. Between May 1981 and July 1983, the minimum wage had been raised only once, and the percentage increase was far below the rise in price levels. In 1984, however, two increases were instituted—one in June and one in August—both of which were greater than the cumulative level of inflation as of the dates in question.

The increase in production and the improvement in the external prices for the main export products also helped to buttress domestic demand. Meanwhile, the decline in import prices, which averaged over 5%, helped to ease inflationary pressures.

b) *Wages*

With the 15% increases decreed in June and August, the legal minimum wage rose over 32% between late May and the end of August. Between the increase of July 1983 and May 1984, cumulative inflation had been 12%, according to the consumer price index; between May and August 1984, it was 10%. The average minimum wage, however, did not improve in real terms; in fact, it showed a slight decline, which brought it down to a level almost 10% lower than that of 1981 (see table 28).

The hike in the mean nominal wage for workers in Asunción was lower than the increase in the minimum wage, and it therefore dropped by 3.5% in real terms, following a decline of about 10% during the period 1981-1982.¹⁶

Finally, daily wages for agricultural workers increased little, and therefore showed a sharp decrease in real terms (see table 28).

5. Fiscal and monetary policy

a) *Fiscal policy*

The General National Budget froze total central government expenditure for the 1984 fiscal year. Based on the projected inflation rate, this would entail a drop of 22% in real terms.

The budget provided for a small reduction in current outlays and a modest increase in capital expenditure. It also projected an increase of over 13% in current revenue. This would make it possible to balance the current transactions of the central government, which had shown dissavings in 1983 equivalent to 1.2% of the gross domestic product. The total deficit, which had been on the order of 4.4% of the gross domestic product in 1983, would thus be about 2.5% of the projected gross domestic product for 1984. This would lower overall financing requirements by 25%. Since external credit was

Table 27

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Variation between annual averages									
Consumer prices index ^a	4.6	9.3	10.6	28.3	22.4	14.0	6.8	13.5	20.3
Food	4.2	11.2	12.9	29.6	18.9	10.4	3.5	17.1	28.9
Housing	3.2	7.9	6.4	22.3	22.7	20.2	8.4	3.6	7.0
Clothing	5.9	7.5	11.7	23.1	21.2	11.6	6.0	20.8	26.7
Miscellaneous expenses	5.5	6.8	7.6	31.1	32.1	13.4	9.4	17.2	20.0
Wholesale price index ^b	1.1	8.0	12.8	26.3	7.8	12.2	3.5	32.9	28.3
Agricultural	2.5	8.3	21.5	38.4	2.7	13.7	3.5	39.7	18.6
Index of implicit prices of the gross domestic product ^c	5.0	11.1	10.0	19.8	16.8	16.1	5.2	14.4	23.1
Variation from December to December									
Consumer price index ^a						8.1	8.9	14.1	29.8
Food						6.9	5.4	19.4	42.5
Housing						12.3	6.4	2.7	15.9
Clothing						5.0	15.5	20.9	32.2
Miscellaneous expenses						4.4	14.0	17.0	25.4
Wholesale price index ^b	-1.2	6.9	23.7	33.0	-1.9	19.6	-6.8	32.9	43.8
Agricultural	-11.2	6.4	44.4	43.0	-10.6	30.9	-15.7	39.7	39.1

Source: Central Bank of Paraguay.

^aBase year: 1980.

^bBase year: 1972.

^cAt market prices. Base year: 1982.

¹⁶ The application of the legal adjustment is based on the amount of the minimum wage. Higher wage levels are therefore subject to proportionally smaller adjustments.

PARAGUAY: VARIATION OF PRICE INDEX IN TWELVE MONTHS

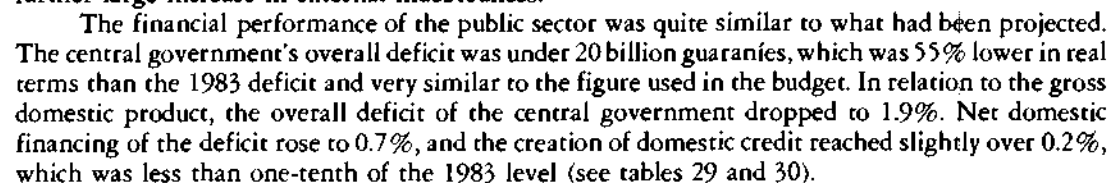


Table 28
PARAGUAY: EVOLUTION OF WAGES

	Index 1970 = 100					Growth rates				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Nominal										
Wages of workers in Asunción^a										
General	284.5	341.7	354.7	374.0	433.9	23.2	20.1	3.8	5.4	16.0
Manufacturing	283.9	341.4	348.3	364.6	435.9	24.6	20.3	2.0	4.7	19.6
Construction	318.1	379.7	381.5	383.2	472.1	17.7	19.4	0.5	0.4	23.2
Electricity, gas and water	259.1	310.8	333.8	375.9	420.2	22.8	20.0	7.4	12.6	11.8
Transport, storage and communications	287.5	343.4	377.6	401.1	421.3	20.9	19.4	10.5	6.2	5.0
Commerce	300.5	374.2	380.7	404.4	492.6	42.6	24.5	1.7	6.2	21.8
Other services	296.9	360.9	361.1	387.6	509.5	32.0	21.6	0.1	7.3	31.5
Average agricultural daily wages										
With meals	460.9	522.9	547.2	675.3	676.2	12.5	13.5	4.6	23.4	0.1
Without meals	435.8	487.3	521.7	597.1	581.5	9.1	11.8	7.1	14.5	-2.6
Minimum legal wages										
Asunción and Puerto Stroessner	313.8	370.4	387.4	406.8	488.2	32.3	18.0	4.6	5.0	20.0
Other cities	313.4	368.8	385.6	404.9	485.6	32.2	17.7	4.6	5.0	19.9
Agriculture	314.7	370.6	387.6	407.0	488.2	32.6	17.8	4.6	5.0	20.0
Real^b										
Wages of workers in Asunción										
General	83.1	87.5	85.1	79.1	76.3	0.7	5.3	-2.7	-7.1	-3.5
Manufacturing	82.9	87.4	83.6	77.1	76.6	1.8	5.4	-4.3	-7.8	-0.6
Construction	92.9	97.3	91.5	81.0	83.0	-3.8	4.7	-6.0	-11.5	2.5
Electricity, gas and water	75.6	79.6	80.1	79.5	73.9	0.3	5.3	0.6	-0.7	-7.0
Transport, storage and communications	83.9	88.0	90.6	84.8	74.1	-1.4	4.9	3.0	-6.4	-12.6
Commerce	87.7	70.2	91.3	85.5	86.6	16.8	-20.0	30.1	-6.7	1.3
Other services	86.7	92.4	86.6	82.0	89.6	7.8	6.6	-6.3	-5.3	9.3
Average agricultural daily wages										
With meals	134.5	133.9	131.3	142.8	118.9	-9.4	-0.4	-1.9	8.8	-16.7
Without meals	127.2	124.8	125.2	126.3	102.2	-10.7	-1.9	0.3	0.9	-19.1
Minimum legal wages										
Asunción and Puerto Stroessner	91.6	94.9	92.9	86.0	85.8	8.0	3.6	-2.0	-7.5	-0.2
Other cities	91.5	94.5	92.5	85.6	85.4	8.0	3.3	-2.1	-7.5	-0.2
Agriculture	91.9	94.9	93.0	86.0	85.8	8.4	3.3	-2.0	-7.5	-0.2

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay, Department of Economic Studies; Ministry of Agriculture, Department of Agricultural Marketing and Economics; and Ministry of Justice and Labour, Department of Human Resources.

^aAverage of months of June and December. ^bThe nominal values were deflated by the consumer price index.

Table 29

PARAGUAY: CENTRAL GOVERNMENT FINANCIAL OPERATIONS

	Billions of guaraníes				Growth rates				
	1982	1983	1984		1981	1982	1983	1984	
			Esti- mated ^a	Actual				Esti- mated ^a	Actual
Current income	68.2	65.6	74.4	84.6	14.9	15.0	-3.8	13.4	29.0
Tax revenue	60.9	53.1	60.2	70.1	13.0	13.2	-12.8	13.4	32.0
Direct taxes	20.5	18.8		20.9	33.1	15.8	-8.3		11.1
On personal income	-	-	-	-					
On corporate earnings	13.2	10.7		10.9	24.4	12.8	-18.9		1.9
On patrimony	7.3	8.1		10.0	53.8	21.7	11.0		23.5
Indirect taxes	31.7	25.7		37.2	4.9	13.2	-18.9		44.7
On external trade	12.5	9.8		11.0	-	-18.3	-21.6		12.2
Imports	8.9	7.4		7.9	-	-20.5	-16.6		6.8
Exports	0.4	0.3		0.6	-25.0	33.3	-25.0		100.0
On exchange transactions	3.2	2.1		2.4	-	-15.8	-34.4		14.3
On domestic trade	18.3	15.1		25.3	9.2	53.8	-17.5		67.6
On the payroll	0.9	0.8		0.9	60.0	12.5	-11.1		12.5
Others	8.8	8.9		12.0	5.3	10.0	1.1		34.8
Non-tax income	7.3	12.5	14.3	14.4	34.1	32.7	71.2	14.4	15.2
Current expenditure	65.1	75.1	74.6	78.8	26.5	20.8	15.4	-0.7	4.9
Consumption	38.7	43.5		45.2	36.7	19.4	12.4		3.9
Wages and salaries	28.3	32.9		33.9	40.6	25.8	16.3		3.0
Goods and non-personal services	10.4	10.6		11.3	28.6	5.1	1.9		6.6
Interest payments	2.5	2.7		5.3	16.7	19.0	8.0		96.3
Transfers	19.7	23.2	26.6	22.8	35.9	85.8	17.8	14.7	-1.7
To the private sector	15.4	18.3	19.1	18.0	36.7	129.9	18.8	4.3	-1.6
To the public sector	4.3	4.9	4.5	4.6	34.4	10.3	14.0	-8.2	-6.1
Others	4.2	5.6		5.6	-6.4	-52.3	33.3		-
Saving	3.1	-9.5	-0.2	5.8	-40.0	-42.6			
Capital income	-	0.1	-	0.2					100.0
Capital expenditure	21.9	24.4	25.5	23.5	31.1	26.6	11.4	4.5	-3.7
Capital formation	14.5	17.8	17.2	17.8	37.4	-1.4	22.3	-3.4	-
Purchase of assets	-	-		-	100.0	-	-	-	-
Transfers	7.4	6.5		5.7	-	208.3	-12.2		-12.3
To the public sector	6.9	5.4			29.4	213.6	-21.7		-
Others	0.5	1.1		-	-57.1	66.6	120.0		-
Net loans	-6.3	2.1		2.1	276.4				-
Global balance	-12.5	-35.8	26.5	-19.7	208.5	-31.3	186.4		-45.0
Financing (net)	12.5	35.8		19.7	208.5	-31.3	186.4		-45.0
Domestic (net)	5.8	19.1	15.0	6.8	...	-56.1	229.3	-21.5	-64.4
Banks	3.2	17.3		2.7	...	-73.1	440.6		-84.4
Central Bank	3.2	17.1		2.5	...	-73.1	434.4		-85.4
Rest of banking system	-	0.2		0.2	-	-	-		-
Others	2.6	1.7		4.0	...	100.0	-34.6		135.3
External	6.6	16.8	11.5	12.8	-52.4	32.0	154.5	-31.5	-23.8
Disbursements	9.2	19.7		18.7	-38.0	22.7	114.1		-5.1
Amortization	-2.6	-2.9		75.8	56.3	4.0	11.5		100.0

Source: Paraguay, Ministry of Finance, Technical Secretariat and Budget Department and the IMF.

^a Budgeted amounts.

The overall deficit of the consolidated non-financial public sector was only two-thirds of the projected figure (and of the level actually recorded the preceding year). In real terms, the deficit was 44% smaller; as a proportion of the GDP, it declined to 2.9%, which was only slightly more than half of the figure for 1983. Since the net external financing received was substantially less than what had been projected, the decrease in the public sector's demand for domestic credit was not so marked. Nonetheless, it fell to an amount equivalent to 1% of the gross domestic product, which was scarcely half as much as the creation of credit. In contrast, in 1983 the financing of the deficit had required the creation of domestic credit equivalent to 2.4% of the product, although only 1.5% was covered with net domestic financing (see table 30 and 31).

Table 30

**PARAGUAY: SUMMARY OF THE FINANCIAL OPERATIONS
OF THE PUBLIC SECTOR**

(Percentage of gross domestic product)^a

	1980	1981	1982	1983	1984 ^b
Central Government					
Current income	9.2	8.4	9.3	8.0	8.1
Current expenditure	7.6	7.6	8.8	9.2	7.6
Transfers to the public sector	0.5	0.6	0.6	0.6	0.4
Saving	1.6	0.7	0.4	-1.2	0.6
Capital income	-	-	-	-	-
Capital expenditure	2.4	2.4	3.0	3.0	2.3
Transfers to the public sector	0.2	0.2	0.9	0.6	0.5
Net loans	0.3	0.9	-0.9	0.3	0.2
Global balance	-1.1	-2.6	-1.7	-4.3	-1.9
Net domestic financing	-0.8	1.9	0.8	2.3	0.7
Net external financing	1.9	0.7	0.9	2.1	1.2
Social Security					
Current income	1.5	1.5	1.6	1.8	1.4
Transfers from the central government	-	-	-	-	-
Current expenditure	1.1	0.9	1.1	1.1	1.2
Saving	0.4	0.6	0.5	0.7	0.2
Capital income	-	-	-	-	-
Net loans	-	-	-	0.1	-
Global balance	0.1	0.3	0.2	0.3	-
Net domestic financing	-	-	-	-	-
Net external financing	-0.1	0.3	0.2	0.3	-
Other decentralized bodies					
Current income	0.4	0.5	0.5	0.5	0.4
Transfers from the central government	0.3	0.4	0.4	0.4	0.3
Current expenditure	0.4	0.4	0.4	0.5	0.4
Saving	0.1	0.1	-	-	-
Capital income	-	-	-	0.1	-
Transfers from the central government	-	-	-	-	-
Capital expenditure	0.1	0.1	-	-	-
Net loans	-	-	-	-	-
Global balance	-	-	-	-	-
Net domestic financing	-	-	-	-	-
Net external financing	-	-	-	-	-

(Table 30 concluded)

	1980	1981	1982	1983	1984 ^b
Municipalities					
Current income	0.5	0.5	0.5	0.6	0.5
Transfers from the central government	-	-	-	-	-
Current expenditure	0.3	0.3	0.4	0.4	0.3
Saving	0.2	0.1	0.2	0.2	0.2
Capital income	-	-	-	-	-
Capital expenditure	0.3	0.3	0.3	0.3	0.3
Net loans	-	-	-	-0.1	-
Global balance	-	-	-	-	-
Net domestic financing	-	-	-	-	-
Net external financing	-	-	-	-	-
State Enterprises					
Current income	5.6	5.1	10.2	9.7	8.4
Transfers from the central government	0.1	0.1	0.1	0.1	0.1
Current expenditure	4.2	3.8	8.8	8.2	6.5
Saving	1.3	1.3	1.4	1.5	1.9
Capital income	0.2	0.2	1.1	0.8	0.5
Transfers from the central government	0.2	0.2	0.9	0.6	0.5
Capital expenditure	2.1	1.8	4.7	3.8	3.4
Net loans	-	-	-	0.1	-
Global balance	-0.6	-0.3	-2.3	-1.3	-1.0
Net domestic financing	0.1	-0.7	-0.2	-0.5	0.3
Net external financing	0.5	0.9	2.4	1.7	0.7
Consolidated non-financial public sector					
Current income	16.9	15.4	21.5	20.0	18.4
Current expenditure	13.2	12.4	18.9	18.8	15.5
Saving	3.7	2.9	2.6	1.2	3.0
Capital income	-	-	0.3	0.4	0.2
Capital expenditure	4.9	4.6	7.4	6.7	5.8
Net loans	0.4	1.0	-0.9	0.3	0.3
Global balance	-1.5	-2.6	-3.7	-5.3	-2.9
Net domestic financing	-0.9	0.9	0.4	1.5	1.0
Central Bank				2.6	0.3
Rest of banking system				-0.2	0.2
Others				-0.9	0.5
External financing	2.4	1.6	3.3	3.8	1.9
Disbursements	3.3	2.3	3.9	4.4	3.0
Amortization	-0.9	-0.6	-0.6	-0.6	-1.1

Source: IMF and the Central Bank of Paraguay.

^aCurrent market prices.^bPreliminary figures.

These figures represent a considerable overestimation of the reduction in the public-sector deficit, however. The level of subsidies for the public sector, which are provided in the form of a preferential exchange rate for the servicing of its external liabilities and a preferential interest rate on its debt with the Central Bank, rose sharply (from approximately 5.6 billion guaraníes to 16.5 billion guaraníes, i.e., from around 0.7% to 1.6% of the product. If the figures are adjusted to take these subsidies into account, then the public sector's deficit was reduced from 6% to 4.5% of the product in 1984. Although the latter figure was only slightly higher than the level provided for in the budget, its monetary effect was similar in magnitude to that of the year before, i.e., around 2.2% of the product.

Table 31

PARAGUAY: SUMMARY OF THE FINANCIAL OPERATIONS OF THE PUBLIC SECTOR

	Billions of guaraníes					Growth rates				
	1981	1982	1983	1984		1981	1982	1983	1984	
				Esti- mated	Actual ^a				Esti- mated	Actual ^a
Central Government										
Current income	59.3	68.2	65.6		84.6	14.9	15.0	-3.8		29.0
Current expenditure	53.9	65.1	75.1		78.8	26.5	20.7	15.4		4.9
Transfers to the public sector	3.9	4.3	4.9		4.6	50.0	10.2	14.0		-6.1
Saving	5.3	3.1	-9.5		5.8	-41.2	-41.5			
Capital income	-	-	0.1		0.2					100.0
Capital expenditure	17.3	21.9	24.4		23.5	31.1	26.6	11.4		-3.7
Transfers to the public sector	1.3	6.6	5.1		5.3	44.4	407.7	-22.7		3.9
Net loans	6.4	-6.3	2.1		2.1	276.5				-
Global balance	-18.2	-12.5	-35.0		-19.6	208.4	-31.3	180.0		-44.0
Net domestic financing	13.2	5.8	19.1		6.8	...	-56.1	229.3		-64.4
Net external financing	5.0	6.6	16.8		12.8	-52.4	32.0	154.5		-23.8
Social Security										
Current income	10.7	11.8	14.7		14.7	24.4	10.3	24.6		-
Transfers from the central government	0.1	0.1	0.1		0.1	-	-	-		-
Current expenditure	6.3	8.0	9.3		12.2	3.3	27.0	16.3		31.2
Saving	4.4	3.7	5.4		2.5	76.0	-15.9	45.9		53.7
Capital income	0.2	0.3	0.3		0.4	...	50.0	-		33.3
Net loans	0.6	0.5	0.7		0.4	100.0	-16.7	40.0		-42.9
Global balance	2.2	1.3	2.7		-0.2	175.0	-40.9	107.7		...
Net domestic financing	-	-	-		-					
Net external financing	-2.2	1.3	2.7		0.2	175.0	...			
Other decentralized bodies										
Current income	3.5	3.8	4.3		4.5	40.0	8.6	13.2		4.7
Transfers from the central government	2.7	2.9	3.3		3.5	58.8	7.4	13.8		6.1
Current expenditure	2.8	3.3	4.2		4.0	40.0	17.9	27.3		-4.7
Saving	0.7	0.5	-		0.5	40.0	-28.6	...		...
Capital income	0.2	0.1	0.7		0.3	-	50.0	600.0		-57.1
Transfers from the central government	0.1	0.1	0.1		-	-	-	-		-
Capital expenditure	0.7	0.3	0.2		0.3	16.7	-57.1	-33.3		50.0
Net loans	-0.1	-0.1	0.5		0.4	-				-20.0
Global balance	0.3	0.5	0.1		-0.2	-	66.7	-80.0		...
Net domestic financing	-0.2	-0.4	-0.2		0.1	-	100.0	-50.0		
Net external financing	0.1	-	0.1		0.1					

(Table 31 concluded)

	Billions of guaranies					Growth rates				
	1981	1982	1983	1984		1981	1982	1983	1984	
				Esti- mated	Actual ^a				Esti- mated	Actual ^a
Municipalities										
Current income	3.4	4.0	4.7		5.4	25.9	17.6	17.5		14.9
Transfers from the central government	0.1	0.2	0.3		0.1	-	100.0	50.0		-66.7
Current expenditure	2.3	2.7	3.2		3.3	53.3	17.4	18.5		3.1
Saving	1.0	1.3	1.6		2.1	-16.7	30.0	23.1		31.3
Capital income	0.2	0.4	0.5		0.6	-	100.0	25.0		20.0
Capital expenditure	1.8	2.1	2.1		3.2	20.0	16.7	-		52.4
Net loans	-	-0.3	-1.0		0.2	...	...	-66.7		...
Global balance	-0.5	-0.2	0.1		-0.3	400.0	-60.0			
Net domestic financing	0.3	0.1	-0.1		0.3	200.0	-66.7			
Net external financing	0.1	0.1	-		-					
State Enterprises										
Current income	36.1	75.3	79.2		87.7	15.7	108.6	5.2		10.7
Transfers from the central government	0.9	0.8	1.0		0.7	28.6	-11.1	25.0		-30.0
Current expenditure	26.7	64.7	67.0		67.7	12.2	142.3	3.6		1.0
Saving	9.4	10.6	12.2		20.0	27.0	12.8	15.1		63.9
Capital income	1.3	7.8	6.9		5.6	44.4	500.0	-11.5		-18.8
Transfers from the central government	1.3	6.5	4.9		5.3	44.4	400.0	-24.6		8.2
Capital expenditure	12.6	35.0	30.8		35.5	7.7	177.8	-12.0		15.3
Net loans	-	-	1.2		-					
Global balance	-1.9	-16.6	-10.6		-9.9	-44.1	773.7	-36.1		-6.6
Net domestic financing	-4.7	-1.2	-3.8		2.9	...	-74.5	216.7		
Net external financing	6.5	17.7	14.3		7.0	124.1	172.3	-19.2		-51.0
Consolidated non-financial public sector										
Current income	109.2	158.2	163.6		192.3	15.3	44.9	3.4		17.5
Current expenditure	88.2	139.5	153.9		161.4	19.2	119.4	10.3		4.9
Saving	20.9	19.2	9.8	30.2	30.9	1.0	-8.1	-49.0	208.2	215.3
Capital income	0.6	2.0	3.5	1.5	1.6	50.0	233.3	75.0	-57.1	-54.3
Capital expenditure	32.8	54.9	54.7	76.1	60.0	19.3	67.4	-0.4	39.1	9.7
Net loans	6.9	-6.3	2.1		2.6	213.6				23.8
Global balance	-18.1	-27.4	-43.5	-44.4	-30.2	110.5	51.4	58.8	2.1	-30.6
Net domestic financing	6.5	3.0	12.3	12.6	10.3		-53.8	310.0	2.4	-16.3
Central Bank			21.4		3.5					-83.6
Rest of banking system			-1.5		1.7					
Others			-7.6		4.8					
External financing	11.6	24.4	31.2	31.9	19.9	-14.1	110.3	27.9	2.2	-36.2
Disbursements	16.2	29.1	36.1		31.0	-13.4	79.6	24.1		-14.1
Amortization	-4.6	-4.7	-4.9		-11.1	-11.5	2.2	4.3		126.5

Source: Paraguay, Ministry of Finance, Technical Secretariat and Budget Department and the IMF.

^aPreliminary figures.

The bulk of this expansion was a result of the increase in the exchange subsidy which went into effect in May as part of the modifications made in exchange policy.¹⁷

The large reduction made in the overall deficit of the central government was made possible by the fact that current revenue was far greater than had been foreseen and by compliance with the restrictions on the growth of expenditure (see table 29).

Current revenue increased 29%, as opposed to a projected figure of approximately 13% and a nominal expansion in the gross domestic product of nearly 27%. Tax receipts increased by an amount which exceeded the decrease of the preceding year, climbing by 32% due to the increase by a factor of two-thirds in receipts from taxes on domestic commerce. In turn, this increase was mainly a reflection

Table 32

PARAGUAY: MONETARY PROGRAMME

	Billions of guaraníes				Growth rates			
	1982	1983	1984		1982	1983	1984	
			Pro-grammed	Actual ^a			Pro-grammed	Actual ^a
Monetary base	84.6	109.9	126.2	129.5		29.9	14.8	17.8
Sources								
Net foreign assets	89.3	88.3	86.0	94.6		-1.1	-2.6	7.1
Assets	95.2	97.7	92.5	119.0		2.6	-5.3	21.8
Without adjustments	105.4	105.5	...	...		0.1	...	...
Adjustment for exchange subsidy	1.6	4.3	13.6	14.9		168.8	216.3	246.5
Adjustment for revaluation	-11.8	-12.1	...	...		2.5	...	...
Liabilities	-5.9	-9.4	-6.5	-24.3		59.3	-30.9	158.5
Net domestic assets	-4.1	21.6	40.2	34.9			86.1	61.6
Net domestic credit	27.0	55.3	82.1	78.2		104.8	48.5	41.4
Public sector	18.5	40.9	66.3	52.0		121.1	62.1	27.1
Central Government	-2.7	15.9	32.4	20.4			104.8	28.3
Credit	3.5	21.4	38.3	29.5		511.4	79.0	37.9
Deposits	-6.2	-5.5	-5.9	-9.0		-11.3	7.3	63.6
Other public bodies	21.2	25.1	33.9	31.6		18.4	35.1	25.9
Financial	11.9	12.8	17.9	14.8		7.6	39.8	15.6
Non-financial	9.3	12.3	16.0	16.8		32.2	30.0	36.6
Private sector	8.5	14.4	15.9	26.1		69.4	10.4	81.3
Financial	7.4	13.2	13.9	24.2		78.4	5.3	84.9
Non-financial	1.1	1.2	2.0	2.0 ^b		9.1	66.7	66.7
Other net domestic assets	-31.1	-33.7	-42.0	-43.2		8.4	24.6	28.2
Capital and reserves	-15.5	-17.0	-18.6	-17.7		9.7	9.4	4.1
Deposits	-6.0	-7.6	-9.2	-11.6		26.7	21.1	52.6
Public sector	-1.3	-2.7	-3.1	-5.3		107.7	14.8	96.3
Private sector	-4.7	-5.0	-6.1	-6.3 ^b		6.4	22.0	26.0
Others	-9.6	-9.3	-14.2	-14.0		-3.1	52.7	50.5
Uses								
Currency in circulation	36.1	41.8	43.0	53.7		15.8	2.9	28.5
Currency outside banks	33.2	38.5		48.6		16.0		26.2
Commercial bank reserves ^{c,d}	48.5	68.1	83.2	75.8		40.4	22.2	11.3

^aPreliminary figures.
and notes in banks.

^bEstimate.

^cIncludes the commercial department of the National Development bank.

^dExcluding coins

¹⁷ The amount of the interest-rate subsidy was calculated on the basis of the difference between the rate applying to the State (5%) and the preferential rate (14.5%) paid by the private sector to commercial banks under the system of Minimum Portfolio Regulations. The amount of the subsidy received through the applicable exchange rate was calculated on the basis of the difference between the rate of 160 guaraníes to the dollar paid by the public sector on the servicing of its external debt and the rate of 240 guaraníes to the dollar paid by the private sector on the servicing of the registered external debt. The service on that portion of the private external debt which did not have Central Bank authorization had to be paid at the free exchange rate.

of the expansion in the revenue from taxes on petroleum, which was as much a result of changes in oil prices as it was of increases in the rates of taxation.

The revenue received from other taxes either showed no growth or increased less than the rise in value at current prices of the gross domestic product. Nevertheless, in a number of instances receipts were appreciably greater than they had been the year before owing, presumably, to the start-up of the recovery. A new tax on services also began to generate substantial income.

Outlays rose only 5% in terms of current prices, and thus dropped nearly 15% in real terms. This reduction was mainly made possible by the freeze placed on the salaries and wages of civil servants.

This resulted in a savings of 5.8 billion guaraníes, which was equivalent to 6.8% of current revenue and 0.6% of the product. This was higher than the projected figure and represented an improvement over 1983 of more than 16 billion guaraníes.

Although current outlays were a bit higher than what had been budgeted, capital expenditure was 2 billion guaraníes lower than the budget figure and, hence, 1 billion guaraníes less than the year before. In real terms, capital outlays fell 22%.

The total expenditures of the central government were therefore only 2.2% higher than what had been budgeted and 2.8% higher than in 1983. In real terms they dropped 16.5% and, as a proportion of the gross domestic product, they dropped to less than 10%, whereas they had exceeded 12% in 1983 (see tables 29 and 30).

The reduction in the overall deficit of the consolidated non-financial public sector was achieved by attaining the budgetary target figure for savings and by holding capital expenditures down to a level far below the amount that was originally programmed.

In addition to the improvement in the central government's performance with respect to its current transactions, another factor in the sharp rise in savings (which climbed from 1.2% to 3% of the product) was the large increase in State enterprises' operating profits. The growth of State companies' current surplus was primarily made possible by changes in the rates charged for basic services and in oil prices.

Capital expenditure increased somewhat less than 10%, as opposed to the budgeted increase of 39%. In real terms, capital outlays were down 11%.

In summary, although a significant reduction was made in the deficit in public finances, the financial management of the public sector continued to exert pressure on price levels and the balance of payments, in large part because of the notable increase in the subsidies for public-sector operations provided by the Central Bank. Furthermore, contrary to what had been planned, its management did not provide any stimulus for domestic activity. This did not hinder the incipient recovery, however, and permitted the rate of expansion in external borrowing to be reduced considerably.

b) *Monetary policy*

The Central Bank set a growth target for the monetary base of nearly 15% in 1984, which represented a marked slowdown from the 1983 rate of expansion. Although this would not entail any decrease in the means of payment in real terms at the prevailing rate of inflation as of late 1984, it was less than half of the growth rate projected for the gross domestic product at current prices.

The achievement of a 50% reduction in the growth rate of the monetary base hinged upon a considerable cut in the overall public-sector deficit and a sharp reduction in the extension of additional credit to the private financial sector. Nonetheless, the monetary programme called for an expansion of nearly 49% in the amount of net domestic credit held by the monetary authority, primarily as a result of the creation of means of payment inherent in the financing of the public-sector deficit. As a proportion of the monetary base, however, this increase was substantially smaller (24.3%). Furthermore, it was partly offset by an increase in various liabilities, and the overall expansion in net domestic assets as a percentage of the monetary base as of late 1983 therefore went down to 17% (see table 32).

It was projected that this expansion would be coupled with a considerable loss of foreign exchange, even though the amount of guaraníes generated by international reserve holdings would hardly decrease at all due to the monetary effect of the system of multiple exchange rates.

Between the end of 1983 and the end of 1984, the monetary base expanded almost 18%. In addition to the fact that this expansion exceeded the target by four percentage points, its origin

Table 33

PARAGUAY: INTEREST RATES

	Nominal rates ^a										Real rates ^b									
	1982		1983				1984				1982		1983				1984			
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Active rates																				
Central Bank																				
From rediscount																				
Minimum portfolio	8	8	8	8	8	8	8	8	8	8	-0.9	-4.7	-5.3	-9.3	-16.8					
Special development fund	5	13	5	13	5	13	5	13	5	13	-3.6	3.8	-7.3	-0.3	-8.0	-1.0	-11.8	-5.1	-19.1	-12.9
To the public sector																				
Central government	5	5	5	5	5	5	5	5	5	5	-3.6	-7.3	-8.0	-11.8	-19.1					
National Development Bank ^c	8	6	6	6	6	6	6	6	6	6	-0.9	-6.4	-7.1	-11.0	-18.3					
Other public bodies	8	8	8	8	8	8	8	8	8	8	-0.9	-4.7	-5.3	-9.3	-16.8					
National Development Bank																				
Agriculture	15.6	18	15.6	18	15.6	18	15.6	18	15.6	18	6.2	8.4	2.0	4.1	1.3	3.4	-2.9	-0.9	-10.9	-9.1
Commerce	20.2	24	20.2	24	20.2	24	20.2	24	20.2	24	10.4	13.9	6.1	9.4	5.3	8.7	0.9	4.1	-7.4	-4.5
Commercial banks																				
Minimum portfolio	13.5	14.5	13.5	14.5	13.5	14.5	13.5	14.5	13.5	14.5	4.2	5.1	0.2	1.1	-0.5	0.4	-4.7	-3.9	-12.6	-11.8
Special development fund	14.5	19.5	14.5	19.5	14.5	19.5	14.5	19.5	14.5	19.5	5.1	9.7	1.1	5.5	0.4	4.7	-3.9	0.3	-11.8	-7.9
Commercial portfolio	24	30	18	30	18	30	24	24	24	24	13.9	19.4	4.1	14.7	3.4	13.9	4.1		-4.5	
Saving and loans associations	21	25 ^d	14	18	18	18	18	18	18	18	11.1	14.8	0.6	4.1	3.4		-0.9		-9.1	
Financial	24	47	24	47	33	33	33	33	33	33	13.9	35.0	9.4	29.7	16.6		1.7		2.5	
Passive rates																				
Commercial banks																				
Saving (demand deposits)	6	11	6	11	6	11	6	11	6	11	-2.7	1.9	-6.4	-2.0	-7.1	-2.7	-11.0	-6.8	-18.3	-14.5
Fixed time deposits	13	15	13	15	13	15	13	15	13	15	3.8	5.6	-0.3	1.5	-1.0	0.8	-5.1	-3.4	-12.9	-11.4
Savings and loans associations																				
Demand deposits	14.5 ^d	11	11	11	11	11	11	11	11	11	5.1	-2.0	-2.7	-6.8	-11.4					
Fixed time deposits	8	11	13	15	13	15	13	15	13	15	-0.9	1.9	-0.3	1.5	-1.0	0.8	-5.1	-3.4	-12.9	-11.4
Financial	13	25	13	25	13	25	13	25	13	25	3.8	14.8	-0.3	10.3	-1.0	9.6	-5.1	5.0	-12.9	-3.7

Source: Central Bank of Paraguay and the International Monetary Fund.

^aIncludes "commissions" and "premiums", as applicable. Does not include any other charge or payment. From the second half of 1983 the Central Bank has fixed all the rates of interest, commissions and premiums of the financial system. ^bAt the current inflation rate (in twelve months). ^cWheat programme. ^dIncludes a monetary readjustment.

Table 34

PARAGUAY: MONETARY INDICATORS

	End-year balances in billions of guaraníes				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984
Monetary base	85.2	84.6	109.9	129.5	21.0	-0.7	30.0	17.8
Money (M ₁)	62.6	60.2	76.1	98.6	0.1	-3.8	26.4	29.7
Quasi-money	94.0	103.6	116.8	129.3	33.0	10.2	12.8	10.7
Money (M ₂)	156.7	163.8	192.9	228.0	17.7	4.5	17.8	18.2
Domestic credit	115.4	127.9	154.7	188.7	34.9	10.8	20.9	22.0
To public sector	5.0	8.9	30.1	38.7	...	78.0	238.2	28.6
Central government (net)	-4.9	-2.6	16.0	20.6				
Other public bodies	9.9	11.5	14.1	18.1	16.5	16.2	22.6	28.4
To private sector	110.4	119.1	124.6	150.0	17.5	7.9	4.6	20.4
Other net domestic assets	-12.0	-4.4	2.0	1.5				
Coefficients								
Currency outside banks/demand deposits	0.99	1.23	1.02	0.97				
Currency outside banks/total deposits	0.25	0.25	0.25	0.27				
Bank reserves/demand deposits	1.72	1.55	1.90	1.62				
Bank reserves/total deposits	0.43	0.39	0.46	0.45				
Monetary multipliers:								
M ₁ /Monetary base	0.74	0.71	0.69	0.76				
M ₂ /Monetary base	1.84	1.94	1.76	1.76				
Velocity of circulation								
GDP/M ₁	5.49	6.19	5.44	5.27				
GDP/M ₂	2.19	2.28	2.14	2.28				

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

proved to be quite different from what had been projected. Whereas the creation of credit to meet the public sector's demand for financing, excluding subsidies, rose by 27%, which was much less than had been expected (62%), the financing extended to the private financial sector increased 85% as opposed to the 5% level set in the monetary programme. This expansion in the flow of credit to the private financial sector was equivalent to nearly 83% of the growth in holdings of net domestic assets and 56% of the expansion in the monetary base (see table 32).

Although the public sector's open demand for credit was considerably less than expected, its total absorption of financing was an important factor in the expansion of the assets of the monetary authority.

The sharp increase in credit to commercial banks reflected the upsurge in the private sector's demand for credit and the monetary authority's decision to sanction it. This reactivation began to become apparent in mid-1983, following the heavy flooding that had affected the country and the liberalization of monetary policy; it mainly consisted of increasing the proportion of the minimum portfolio which could be rediscounted from 30% to 50%.¹⁸ In addition, despite worsening inflation, the Central Bank ruled that under the Minimum Portfolio Regulations commercial banks could only charge interest and commissions on overdue loans; it also reduced the maximum interest rate (including commissions) from 28% to 24% on loans not included in the minimum portfolio, stepped up its supervision of the interest rates and commissions charged by banks, and lowered the rediscount

¹⁸ The system of Minimum Portfolio Regulations was created in 1972 and provides that at least 50% of commercial banks' portfolio has to be allocated to financing for agriculture, manufacturing and exports.

rate from 8% to 6% for loans granted to wheat producers by the Banco de Fomento. However, in October it reduced the percentage of the minimum portfolio which could be rediscounted from 50% to 40%.

The reactivation, which had gathered steam during the final quarter of 1983 with the large wheat harvest, became considerably more intense during the first half of 1984 when the other main crops also yielded abundant harvests.

Along with the changes in exchange rates introduced in May, the Central Bank eliminated the requirement for prior deposits on imports. In addition to this relaxation of monetary policy, the structure of interest rates and commissions was maintained as it was throughout the rest of the year, despite the rise in inflation produced by exchange adjustments and the increase in liquidity (see table 33).

Under these conditions, virtually all interest rates became negative in real terms during the course of the last half of the year, and the private sector's demand for credit continued to expand at an increasing rate, although more slowly than inflation.

Another important factor in the expansion of the monetary base during the first half of 1984 was the exchange system, inasmuch as the mean rate of exchange for the sale of foreign currency was far higher than the purchase rate. The adjustments made in May closed off this source of means-of-payment creation, but the subsidy given to the public sector in the form of a preferential exchange rate was maintained and, in the course of 1984, it increased to an amount equivalent to 56% of the expansion in the monetary base (see table 32).

As was also the case with respect to the origin of the increase in the monetary base, its utilization was also quite different from what had been expected. The increase in the amount of money in circulation (28.5%) was nine times greater than what had been programmed (less than 3%). The growth of bank reserves (excluding banknotes and coins) was scarcely half the projected rate (22%).

A decrease was seen in the non-bank public's preference for keeping its monetary balances (M_1) in the form of cash as well as in the ratio between the reserves and (demand) deposits of commercial banks, with the result that M_1 expanded much more (nearly 30%) than the monetary base. In contrast, the increase in quasi-money was considerably less than that of the monetary base. These circumstances resulted in an increase of somewhat over 18% in M_2 , which was slightly greater than the growth of the monetary base (see table 34).

There was a significant slowdown in the circulation of money (M_1). Mean holdings of monetary balances in real terms rose over 11%, which was far greater than the expansion in real income, despite expectations of higher inflation. This also reflected the creation of means of payment through

Table 35

PARAGUAY: INDICATORS OF THE PORTFOLIO OF THE COMMERCIAL BANKS^a

(At end of each year)

	Billions of guaraníes				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984
Total portfolio	111.5	120.3	130.0	155.5	8.9	7.9	8.1	19.6
Portfolio of overdue debts	11.0	18.0	26.2	26.4	74.6	63.6	45.6	0.8
Capital and reserves	28.0	36.1	38.7	36.4	28.4	28.9	7.2	-5.9
Insurances ^b	2.5	3.2	4.4	5.7	47.1	28.0	37.5	29.6
Percentages								
Overdue debts/total portfolio	9.9	15.0	20.1	16.9				
Overdue debts/capital and reserves	39.4	50.0	67.6	72.4				
Capital and reserves/total portfolio	25.1	30.0	29.8	23.4				
Insurances ^b /overdue debts	23.2	17.6	16.8	21.4				

Source: Superintendency of banks.

^aIncludes the National Development Bank.

^bIncludes the additional insurance required by the superintendency of banks.

Table 36

**PARAGUAY: DESTINATION OF CREDIT GRANTED TO THE PRIVATE SECTOR,
BY KIND OF ECONOMIC ACTIVITY^a**

	End-year balances in billions of guaraníes				As percentage of gross domestic product ^b				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984
Total	121.7	133.6	139.5	164.0	17.2	18.3	17.1	15.8	18.3	9.3	4.4	17.6
Agriculture	34.4	41.3	47.4	58.6	19.6	24.9	22.4	21.3	24.0	20.0	14.8	23.6
Crop farming	20.6	23.0	27.4	37.6	17.1	20.0	21.5	22.2	25.3	11.6	19.1	37.2
Stock raising	13.8 ^c	18.3	19.9	21.0	24.9	32.4	31.7	26.8	22.0 ^c	32.5	8.7	5.5
Industry	28.5	32.2	36.6	41.3	17.2	18.5	19.3	17.3	21.6	12.8	13.7	12.8
Manufacturing	27.0	31.0	35.5	41.2	22.8	25.6	27.3	24.0	21.8	14.4	14.5	16.1
Construction	1.5	1.2	1.1	0.1	3.2	2.4	2.0	0.1	18.3	-18.0	-8.3	-90.9
Commerce (domestic)	38.1	41.5	35.3	43.8	20.2 ^d	18.0 ^d	16.3 ^d	16.1 ^d	26.0	8.8	-14.9	24.1
Exports	13.8	12.4	15.2	15.5	26.7	20.3	18.5	14.9	-9.6	-9.9	22.6	2.0
Others	6.9	6.3	4.9	4.9					11.1	-8.7	-22.2	-

Source: ECLAC, on the basis of the Central Bank of Paraguay, *Boletín Estadístico* (various issues).

^a Credits granted by the National Development Bank, the Stock-raising Fund and commercial banks.

^b At market prices.

^c Estimates.

^d Including finance.

the exchange system, which partly offset the monetary effect of the drop in international reserves and the reactivation of the private sector's demand for credit. Be that as it may, with the more rapid rise in price levels and the slowdown in the growth rate of the means of payment throughout the second half of the year, the M_1 money supply remained constant in real terms.

Furthermore, the fact that interest rates were negative in real terms boosted the demand for credit but discouraged private saving in domestic financial assets. Indeed, the increase in quasi-money was not even one-third as great as inflation. If a broader measurement of money (e.g., M_2) is used, then the circulation of money actually slowed down.

Commercial banks' total portfolio expanded nearly 20%, which was similar to the rate of increase of credit in the banking system and far greater than the amount by which it had increased during the three preceding years. In contrast, the commercial banks' portfolio of preceding overdue loans scarcely increased at all, after having shown a spectacular increase during the period 1981/1983 (see table 35).

The crop-farming sector led the reactivation of the private sector's demand for credit, with an expansion of over 37%. The commerce sector also showed a relatively high rate of growth. Nonetheless, the increase in credit to the private sector was less than the rise in the nominal value of the gross domestic product (see table 36).

In summary, monetary policy encouraged the recovery of economic activity by providing credit support to the crop-farming sector and commercial banks, but it also exacerbated inflation, discouraged private saving in domestic financial assets and, therefore, weakened the external sector. The country's exchange policy had similar harmful effects inasmuch as, apart from dampening domestic activity, it resulted in the creation of means of payment and the loss of international reserves.

PERU

1. Recent economic trends: Introduction and summary

During 1984 the Peruvian economy remained in the throes of one of the deepest crises in its history. The gross domestic product grew by 4.8%, but this took place after the pronounced deterioration (-11%) that it had suffered the previous year, which had in turn followed a year of virtual stagnation. Moreover, as the rate of population growth had remained above 2.5% per year, the per capita product in 1984 was barely equal to that achieved two decades previously. The recovery in 1984 was not only inadequate, but precarious since it was largely based on a conjunctural revival of primary production sectors, which had suffered major climatic catastrophies during the previous year (see table 1 and figure 1).

Gross national income revived at a lower rate (4.4%) than the product, following its sharp drop in 1983, a year which marked the culmination of a period characterized by marked deterioration in the terms of trade and a substantial increase in net factor payments. In 1984 the former item was affected by a further decline, but the rate of expansion of net factor payments abroad was considerably more restrained (see table 2).

Despite the revival of economic activity, the national rate of unemployment rose by 3 percentage points, and reached 16.4%, the highest rate recorded since reliable records on employment have been kept. Real salaries and wages declined for the second year running, this time by 8 and 13% respectively. Similarly, almost all indexes of real remunerations in 1984 were lower than in 1979. As a result of these increased constraints on the labour market, the number of man-hours lost through strikes fell by almost one-third, a fact which contributed to the rise in production in some sectors.

Inflation remained at the three-digit level, although its rate (110% up to December) was lower than in the previous year (125%). This decline in the rate of inflation was mainly due to the normalization of agricultural supplies, which had plummeted after the climatic disasters of 1983.

The sharp increase in prices in 1984 was partly connected with monetary policies and with fluctuations in the exchange rate. On the other hand, money supply expanded for the first time in four years in real terms (6%).

The accumulated devaluation of the national currency, which had reached 130% during the previous year, rose to 150% in 1984. Furthermore, it is probable that the transfer of the fluctuations in the exchange rate to domestic prices has intensified as a result of the progressive "dollarization" of the economy. Deposits in foreign currency, which in 1981 and 1983 had constituted 30 and 43% of the expanded money supply, reached 53%, a phenomenon which may be attributed to the marked differential in yield between the sol and the dollar. As a result of the growing role played by this latter currency within the country, the link with the sol has become increasingly clear to economic agents, and consequently decisions concerning prices, expenditure and savings in soles have become even more sensitive to variations in the exchange rate.

The adjustment of the external sector went ahead. The trade surplus was 20 times higher than in the previous year and the highest since 1979. The scale of the turnaround is better appreciated if it is realized that a deficit of US\$ 870 million in the 1981 trade balance was transformed into a surplus of almost US\$ 790 million in barely three years. This effort was reflected in the decline in the current account deficit, which fell from US\$ 1.9 billion to US\$ 410 million over this period (see table 1). This rapid adjustment was vital as the country had to face heavy external factor servicing in circumstances in which foreign creditors were extremely reluctant to provide further finance.

Nevertheless, the surplus obtained on the trade account involved a high social cost. Most of the weight of the adjustment was borne by imports, which fell by 18% after having declined by 25% in 1982-1983. Although this shrinkage to some extent concerned non-essential purchases, such as arms,

which fell sharply, it also affected purchases of intermediate and capital goods. As a result, gross fixed investment fell to the level reached eleven years previously.

Although exports grew by somewhat more than 2% in 1984, their value was still 18% below that of 1980. The most serious aspect is that the trend in exports was unsatisfactory even before the crisis broke. At the beginning of the decade their per capita value was lower than 20 years before. Their dynamism has been hampered, *inter alia*, by the lack of stability in the regulations affecting direct foreign investment. Non-traditional exports on their side, have been affected by the insufficient co-ordination of administrative policies and the ineffectiveness of promotion measures to complement the effects of exchange policy and the granting of subsidies. The evolution of external

Table 1

PERU: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	11 035	11 491	11 932	12 396	12 440	11 089	11 616
Population (millions of inhabitants)	16.41	16.85	17.30	17.76	18.23	18.71	19.20
Per capita gross domestic product (1970 dollars)	672	682	690	698	683	593	605
Growth rates							
B. Short-run economic indicators							
Gross domestic product	-0.5	4.1	3.8	3.9	0.4	-10.9	4.8
Per capita gross domestic product	-3.1	1.4	1.2	1.3	-2.2	-13.2	2.1
Rate of unemployment ^{bc}	10.4	11.2	10.9	10.4	10.6	13.3	16.4
Consumer prices							
December-December	73.7	66.7	60.8	72.7	72.9	125.1	111.5
Variation between annual averages	57.8	67.7	59.2	75.4	64.5	111.1	110.2
Real remunerations							
Salaries			10.3	1.5	9.2	-14.4	-8.1
Wages			12.5	-1.7	2.3	-16.7	-13.2
Money (M ₁)	46.2	78.7	71.3	48.3	35.8	90.8	124.5
Current government income	71.1	109.1	84.6	49.5	63.7	49.6	146.9
Total government expenditure	49.7	68.2	97.6	67.1	57.0	99.4	105.4
Fiscal deficit/total government expenditure ^b	24.4	6.0	12.2	21.4	18.1	38.7	26.3
Public sector deficit/gross domestic product ^b	6.2	1.1	4.7	8.3	9.1	11.8	7.9
Current value of exports of goods and services	-15.3	31.1	8.8	-13.6	1.4	-8.6	2.4
Current value of imports of goods and services	-23.0	20.8	55.3	25.8	-1.4	-23.5	-17.8
Terms of trade (goods and services)	-15.3	31.0	8.8	-14.6	-9.9	2.1	-3.9
Millions of dollars							
C. External sector							
Trade balance (goods and services)	330	1 599	763	-869	-744	39	786
Net payment of profit and interest	-519	-936	-835	-1 020	-1 034	-1 134	-1 196
Balance on current accounts	-244	-663	-72	-1 889	-1 777	-1 092	-410
Balance on capital account	268	414	725	1 166	1 638	1 026	697
Variation in net international reserves	6	1 066	607	-565	-122	-33	287
Total external debt	9 324	9 334	9 594	9 638	11 097	12 442	13 304

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bPercentage.

^cRefer only to the non-agricultural sector.

sales has also been impaired by exogenous factors such as the low international price of copper and other minerals, the protectionism practised by the industrialized countries and natural phenomena which have diminished the natural supply of certain sea products.

Thus, the unsatisfactory performance of exports has aggravated the vulnerability of the external sector. This became clearly apparent in 1982, when the net flow of capital essential to cover the imbalance in the balance of payments declined sharply. The net capital inflow in 1984 (US\$ 700 million) was almost 60% lower than it was two years before (see table 1).

There were two basic explanations for the trend of the capital flows. On the one hand, external creditors proved reluctant to increase the size of their loans to Peru and, more generally, to Latin America. Although the country managed to maintain a fairly stable level of long-term capital flows, thanks to roll-over funds which various creditors were obliged to grant, the availability of short-term credit shrank considerably. On the other hand, a substantial net outflow of capital occurred through non-registered transactions. Although the exact figure for 1984 is not yet known, in the previous year the errors and omissions item, which includes, among other variables, capital flight, showed a deficit of US\$ 430 million, equivalent to 35% of the net inflow of long-term capital over the same period.

Despite the shrinkage in external financing, in 1984 an overall balance-of-payments surplus of almost US\$ 290 million was obtained. This partly counteracted the accumulated deficits of US\$ 930 million in 1981-1983. At the end of 1984 net international reserves rose to US\$ 1.1 billion, equivalent to slightly more than four months' imports of goods and services.

The overall amount of the external debt exceeded US\$ 13.3 billion, generating debt-service requirements of US\$ 3.3 billion (2.0 billion in amortization and 1.3 billion in interest). This figure, representing 87% of the value of exports of goods and services, was clearly untenable. Hence, as had already occurred during the previous year, the government entered into negotiations with the various creditors in order to reschedule public sector payments, which made up approximately 80% of the total (including short-term commitments).

During the first half of 1984 a preliminary agreement was reached with private banks to reschedule maturities worth some US\$ 660 million, corresponding to the period between March 1984 and July 1985, and to convert almost US\$ 1 billion of short-term debt into medium-term liabilities. Although the package did not involve the provision of further credit, as had been the case in the rescheduling agreement reached during the previous year, the conditions which the country obtained relating to the differential over the LIBOR rate, to commissions and to amortization periods for the rescheduled maturities were more favourable. The authorities also reached an agreement in principle for the restructuring of commitments to governments which belonged to the Paris Club.

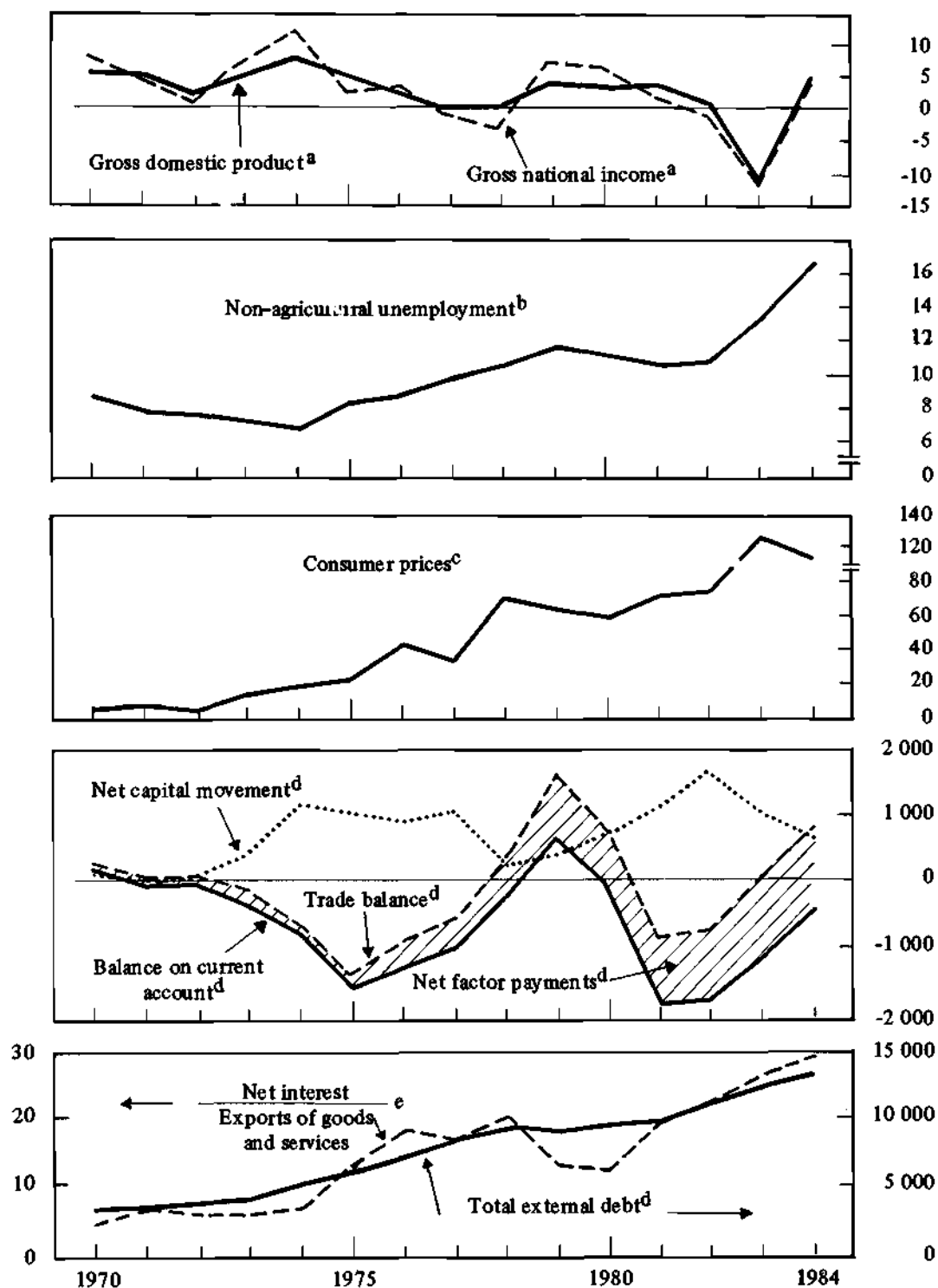
Nevertheless, these agreements were not concluded, since before signing them the creditors required Peru to meet the targets of a contingency credit agreed with the IMF. When during the year the government exceeded the maximum fiscal deficit allowed by the Fund, the new agreements which had been negotiated with creditors were immediately suspended. As the debt servicing proved unsustainable, the government had no option but to negotiate an extension of the temporary moratoria, or to accumulate unofficial arrears, which at the end of the year amounted to some US\$ 370 million. Thus as a result of the formal or informal refinancing of public debt servicing, barely one-fifth of the US\$ 2.5 billion which should have been paid was in fact met.

In spite of unpropitious cyclical factors, it proved possible to bring down the relative size of the deficit on the consolidated public-sector accounts as a proportion of the product from 12% in 1983 to 8% in 1984. Nonetheless, the imbalance remained considerable and proved to be a troublesome problem.

The reduction of the deficit was basically achieved through an improvement in the central government's accounts. Income increased by almost 18% in real terms, while expenditure fell by 2%. The shrinkage in expenditure reflected a generalized austerity policy, particularly affecting defence, on which expenditure declined by 17% at constant value. In turn, tax collection benefited, among other factors, from a rationalization of income taxes and the application of selective taxes on consumption. On the other hand, the yield from taxation on external trade fell by 52% in real terms, mainly as a result of the decline in the level of imports.

In the field of fiscal policy, the government lowered the general sales tax from 18 to 8%, while at the same time intensifying control, in the hope that in the long run the revenue would equal or exceed that previously attained.

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.

Table 2

PERU: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	12 068	11 967	10 634	11 105	1.3	-0.8	-11.1	4.4
a) Gross domestic product	12 396	12 440	11 089	11 616	3.9	0.4	-10.9	4.8
b) Terms-of-trade effect	33	-117	-76	-123				
c) Net external factor payments	361	356	379	388	13.1	-1.5	6.5	2.3
d) Net private transfer from abroad	-	-	-	-				

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 3

PERU: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	14 099	12 323	12 598	117.0	112.5	108.5	5.3	-0.2	-12.6	2.2
Gross domestic product at market prices	12 440	11 089	11 616	100.0	100.0	100.0	3.9	0.4	-10.9	4.8
Imports of goods and services ^b	1 659	1 234	982	17.0	12.5	8.5	16.5	-4.2	-25.6	-20.4
Total demand	14 099	12 323	12 598	117.0	112.5	108.5	5.3	-0.2	-12.6	2.2
Domestic demand	12 578	10 999	11 238	108.1	100.1	96.8	6.7	-1.2	-12.6	2.2
Gross domestic investment	1 791	1 286	1 451	20.8	15.1	12.5	17.0	-15.1	-28.2	12.9
Gross fixed investment	2 039	1 486	1 406	20.9	15.2	12.1	15.3	-2.3	-27.1	-5.4
Construction	1 058	840	843	9.9	8.0	7.3	10.1	1.0	-20.6	0.3
Machinery	981	646	563	11.0	7.2	4.8	21.1	-5.6	-34.2	-12.8
Public	802	...	...	7.6	5.5	...	14.5	6.9	...	...
Private	1 237	...	...	13.3	9.7	...	15.8	-7.5	...	...
Changes in stocks	-248	-200	45	-0.1	-0.1	0.4				
Total consumption	10 787	9 713	9 787	87.3	85.0	84.3	4.9	1.5	-10.0	0.8
General government	1 841	1 681	1 546	13.7	14.0	13.3	3.1	7.2	-8.7	-8.0
Private	8 946	8 032	8 241	73.6	71.0	71.0	5.2	0.4	-10.2	2.6
Exports of goods and services ^b	1 521	1 324	1 360	8.9	12.4	11.7	-6.2	9.3	-12.9	2.8

Source: ECLAC, on the basis of figures provided by the National Institute of Statistics (INE).

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

2. Trends in economic activity

a) *Trends in overall supply and demand*

The slight growth of supply (2%) made it possible to recover a small part of that lost in 1983 (-13%). The revival was exclusively based on domestic production, which rose by 5%. On the other hand, the volume of imports fell by 20%, cancelling out approximately half the revival in supply attributable to the increased economic activity. After three years of successive and substantial declines in external purchases, the per capita level of imports in 1984 was lower than that recorded in 1960 (see table 3).

Domestic demand continued to follow the course of global supply. Gross domestic investment rose by 13%, but apart from the fact that it took place after an accumulated drop of almost 40% in the previous two years, this was merely the result of a variation in stocks. Gross capital formation fell by 5% after a total drop of approximately 30% in the two previous years; consequently, this variable was a level similar to that of the early years of the last decade.

Overall consumption remained virtually stagnant. Central government consumption fell by some 8% for the second year in a row. Private consumption, on its side, increased by 3%, a slight improvement after the harsh contraction (-10%), which it had undergone during the previous year.

As regards exports, their volume increased by almost 3% after a drastic drop of 13%, which brought it close to its 1978 level. In per capita terms external sales of goods and services were lower than they had been in 1960.

b) *Evolution of the main sectors*

The growth achieved by the product (5%) was spurred by a revival in agricultural and fishery production, and to a lesser extent in mining and manufacturing (see table 4).

i) *Agriculture*. The agricultural sector expanded by 11%, thanks to the recovery in the level of activity of the crop-farming subsector, which in 1983 had been afflicted by major natural disasters on the coast and in the highlands.¹ Livestock production, on the other hand, which had been constantly rising, experienced a drop of around 5% (see table 5).

Table 4
PERU: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY,
AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	11 413	10 173	10 657	100.0	100.0	100.0	3.9	0.4	-10.9	4.8
Goods	5 205	4 499	4 832	45.3	44.9	43.4	3.1	0.8	-13.6	7.4
Agriculture, forestry and fishing	1 536	1 363	1 569	13.5	12.2	14.1	10.7	2.1	-11.2	15.1
Mining	933	861	912	5.7	8.1	8.2	-3.1	6.6	-7.7	5.9
Manufacturing industry	2 273	1 909	1 983	22.0	20.9	17.8	-0.2	-2.5	-16.0	3.9
Construction	463	366	368	4.1	3.7	3.3	11.1	2.3	-21.0	0.6
Basic services	1 092	1 004	1 040	8.0	9.2	9.3	6.1	0.7	-8.1	3.6
Electricity, gas and water	190	182	196	1.1	1.5	1.8	9.6	5.6	-4.3	7.4
Transport, storage and communications	902	822	844	6.9	7.7	7.6	5.5	-0.3	-8.9	2.7
Other services	5 620	5 443	...	48.5	48.1	...	4.2	0.4	-3.2	...
Commerce	1 675	1 646	1 464	16.1	14.7	13.1	5.7	-3.3	-1.7	-11.0
Financial institutions, insurance, real estate and business services	1 544	1 465	...	12.4	13.0	...	4.0	2.7	-5.1	...
Ownership of dwellings	766	775	...	6.9	6.7	...	1.4	1.2	1.2	...
Community, social and personal services	2 401	2 332	...	20.0	20.4	...	3.2	1.7	-2.9	...
Government services	1 364	1 364	1 360	10.9	11.4	12.2	4.0	2.7	-	-0.3
Less: imputed commission for banking services	238	225	...	1.8	2.2	...	5.7	-6.7	-5.3	...

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.

¹ For further details, see ECLAC, *Economic Survey of Latin America*, 1983, Vol. 1, pp. 563-568.

Table 5

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Indexes of agricultural production^b (1977 = 100)								
Total	105.9	108.9	98.5	108.9	11.4	2.9	-9.6	10.5
Crop farming	105.8	107.8	93.9	109.2	12.2	1.8	-13.8	17.6
Stock raising	105.9	111.0	112.8	107.1	9.9	4.8	1.6	-5.1
Thousands of tons								
Production of the main crops								
Raw cotton	286	256	105	200	11.5	-10.4	-59.0	90.5
Rice	712	776	798	1 134	69.4	8.9	2.8	42.1
Coffee	95	90	91	92	-	-5.3	1.1	1.1
Sugar cane	5 129	6 509	6 381	7 206	-8.4	26.9	-2.0	12.9
Beans	44	43	35	48	10.9	-0.7	-18.6	37.1
Soft maize	197	233	173	207	29.7	18.3	-25.8	19.7
Hard maize	390	398	412	576	29.5	2.2	3.5	39.8
Potatoes	1 705	1 800	1 200	1 364	23.6	5.5	-33.3	13.7
Sorghum	44	38	12	43	26.6	-13.5	-68.4	258.3
Soya	14	8	2	2	30.8	-41.4	-75.0	-
Wheat	119	101	76	88	53.8	-15.0	-24.8	15.8
Production of the main livestock products								
Poultry meat	183	205	206	182	27.1	12.2	0.5	-11.7
Mutton	19	20	21	19	-9.2	8.5	5.0	-9.5
Pork	59	59	58	55	7.6	-0.8	-1.7	-5.2
Beef	90	91	111	104	7.5	1.3	22.0	-6.3
Eggs	64	65	68	65	6.3	1.3	4.6	-4.4
Fresh milk	785	805	752	780	0.6	2.6	-6.7	3.7
Thousands of hectares								
Area harvested								
Cotton	157	134	84	96	5.4	14.6	-37.3	14.3
Rice	150	169	195	240	56.3	12.7	15.4	23.1
Sugar cane	39	46	45	53	-20.4	17.9	-2.2	17.8
Maize	316	348	340	374	14.9	10.1	-2.3	10.0
Potatoes	202	217	156	172	4.1	7.4	-28.1	10.3
Wheat	102	84	81	78	47.8	-17.6	-3.6	-3.7

Source: Ministry of Agriculture.

^aPreliminary figures.^bCalculated on the basis of values at 1979 prices.

The revival in the main crop-farming products was partly the result of favourable climatic conditions. Nevertheless, some products failed to recover their 1982 level of production. This was the case with cotton, mainly as a result of the outbreak of the pink bollworm, which stimulated the replacement of this crop. Nor did the potato crop—a staple food for the population—recover completely. The persistent drought in the country's southern highlands damaged fields sown with this and other traditional products in the region.

Rice and flint maize proved exceptionally dynamic, despite the fact that they had not been affected by the falls of the previous year. Rice production, favoured by good weather on the northern coast and the availability of irrigation water, increased by 42%, almost trebling its 1980 level. Flint maize also expanded vigorously (40%), thanks to its high price on both domestic and international markets. Finally, the sugar cane harvest increased by 13%; production, however, which reached 7.2 million metric tons, was still lower than the amount generally produced during the second half of the 1970s.

In the livestock subsector production slackened in every item, with the exception of milk (see table 5). After a period of sustained growth in recent years, production of poultry meat declined by 12% in volume, as a result of rises in production costs and a fall-off in demand. In turn, beef production in 1984 was affected by the compulsory slaughtering resorted to during the previous year's drought. Nevertheless, the decline in the number of head made a greater area of natural grazing land available, which facilitated an improved yield per unit in milk production, which thus returned to its 1980 levels.

ii) *Fishing*. The return of more favourable climatic conditions favoured a vigorous revival in the volume of the catch (65%), after a period during which adverse natural factors, including a rise in the temperature of sea water, had appreciably reduced the level of activity of this subsector. Even so, the index of production was lower than it had been in 1980 (see table 6).

Particularly noteworthy were the increases in production of frozen fish (165%), as were those in species intended for fishmeal (116%). The first of these benefited from a new fishing agreement with the Soviet Union, under which boats from that country may operate in Peruvian waters in exchange for the delivery of part of their catch to Peru. The second item was stimulated by the successful replacement of anchoveta by sardines, in spite of which the catch for fishmeal production reached barely 80% of its 1982 level.

Finally, although the catch intended for canning increased by 24%, the new volume was only one-quarter of what it had been in 1980 (see table 6).

iii) *Mining*. The 6% growth recorded by this sector failed to make up for the decline experienced during the previous year. The real value of output was consequently below that of 1982 (see table 4).

The metal-mining subsector showed a slight recovery (1%). Lead and zinc extraction was to some extent hampered by strikes and labour problems, which caused falls of between 3 and 4%. The volume of iron production fell (1%) for the third year in a row, and reflected a shrinking of demand for this product on international markets (see table 7).

Copper, on the other hand, proved extremely dynamic. The 12% increase more than made up for the drop which had occurred the previous year. The decline in the number of hours lost through

Table 6
PERU: INDICATORS OF FISHERY PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Index of fishery production^b (1977 = 100)	129.8	119.6	74.9	123.2	-6.6	-7.9	-37.4	64.5
Thousands of tons								
Deep sea fishing	2 701	3 452	1 453	2 963	0.1	27.8	-57.9	103.9
For direct human consumption	851	585	354	592	-12.4	-31.3	-39.5	67.2
Fresh fish	147	155	138	201	-5.8	5.4	-11.0	45.7
Frozen fish	106	49	79	209	-51.8	-53.8	61.2	164.6
Canned fish	566	352	115	143	-0.2	-37.8	-67.3	24.3
Dry salted fish	32	29	22	39	14.3	-9.4	-24.1	77.3
For fishmeal and oil	1 850	2 867	1 099	2 371	7.2	55.0	-61.7	115.7
Anchoveta	1 225	1 726	118	23	70.1	40.9	-93.2	-80.5
Other species	625	1 141	981	2 348	-37.9	82.6	-14.0	139.3
Inland fishing	16	12	24	24	28.2	-25.0	100.0	-
Fresh fish ^c	7	6	13	12	28.9	-14.3	116.7	-7.7
Dry salted fish	9	6	11	12	27.7	-33.3	83.3	9.1

Source: Ministry of Fisheries.

^a Preliminary figures.

^b Calculated on the basis of values at 1979 prices.

^c Includes river shrimps.

Table 7

PERU: INDICATORS OF MINING PRODUCTION

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Index of mining production^b (1977 = 100)								
Total	115.5	123.7	114.0	119.3	-2.4	7.0	-7.8	4.6
Mining of metals	103.7	112.6	110.0	111.2	-2.7	8.5	-2.3	1.1
Hydrocarbons	212.6	214.9	189.0	203.4	-1.3	1.1	-12.1	7.6
Thousands of tons								
Main metal-mining products								
Copper	342	369	336	375	-6.7	8.0	-8.9	11.6
Iron	4 008	5 672	2 762	2 723	6.0	-6.0	-51.3	-1.4
Silver ^c	1 470	1 660	1 738	1 758	5.7	12.9	4.7	1.2
Lead	193	212	213	205	1.9	9.9	0.5	-3.8
Zinc	499	556	577	558	2.3	11.4	3.8	-3.3
Millions of barrels								
Hydrocarbons								
Petroleum	70	71	63	67	-1.3	1.4	-11.3	6.3
By producer zone:								
Coast	15	16	11	12	5.9	6.7	-31.3	4.1
Continental shelf	10	10	9	10	-4.4	-	-10.0	11.1
Eastern region	45	45	43	45	-2.9	-	-4.4	4.7

Source: Ministry of Energy and Mines.

^aPreliminary figures.^bCalculated on the basis of values at 1979 prices.^cKilogrammes.

strikes, the improvement in the mineral content of ore from the Toquepala deposit and the operation at full capacity of a new unit of the State's CENTROMIN enterprise helped to achieve this result.

In the case of petroleum, the increase in the volume produced (6%) made up half the decline which had occurred in 1983. This was essentially due to the increased contribution from the Oriente fields, which is where petroleum operations are concentrated, and the normalization of extraction on the Coast. Moreover, in 1984 Royal Dutch Shell signed a new contract to explore blocks in the jungle close to the frontier with Bolivia.

iv) *Manufacturing*. Production in this sector revived by 3%, a very modest rate following the accumulated drop of more than 23% recorded during the previous biennium. The intensity of the crisis experienced by the industry was apparent in the fact that its index of global production for 1984 was barely equal to that reached during the first half of the previous decade (see table 4).

The revival was based on those subsectors linked with the production of primary resources, which partly, and in some cases more than fully, recovered the volume lost during the previous year. This accounts for the dynamic performance of fishmeal (108%), and for the increased production of foods (6%), of basic metals (13%), and of industrial chemical goods. This last item, which includes fertilizers (26%) and petroleum refining (12%), was stimulated by the opening up of markets in the Andean countries (see table 8).

The other manufacturing subsectors proved more vulnerable to the effects of the prolonged recession. Thus, production declined in machinery and metal products (-3%) as well as in non-metallic mineral products (-14%). Production of textiles and clothing suffered from some protectionist measures taken by the United States, and declined by 4%.

Domestic industry benefited from an intensified protectionist policy. Imports of some products, including ten textile items and five types of footwear, was suspended from July. Imports of chocolates, wines and some automobile models were also prohibited. Products from the Andean Group, however, were not affected by these measures.

v) *Construction.* After the sharp drop which occurred in 1983, this sector's level of activity stagnated, a phenomenon which was reflected also in the indicators of sales of construction material (see tables 4 and 9).

The number of dwellings built increased by 3 000 units, as a result of greater activity in the public and private sectors. The severe restrictions on the public sector budget reduced the number of dwellings constructed by the State to only one-sixth of those built in 1981.

c) *Employment*

Although the gross domestic product revived by almost 5% in 1984, the employment situation deteriorated markedly for the second year in a row. According to preliminary estimates, the rate of unemployment in non-agricultural activities rose by 3 percentage points, thus reaching 16%, the highest level recorded since reliable statistics have been kept. At the same time underemployment increased from 46% to more than 50%. There is thus reason to conclude that in 1984 only one out of every three workers had a full-time occupation (see table 10).

Table 8
PERU: INDICATORS OF MANUFACTURING PRODUCTION^a
(1979 = 100)

	1981	1982	1983	1984 ^{ab}	Growth rates			
					1981	1982	1983	1984 ^{ac}
Total manufacturing production	108.9	103.2	84.7	87.0	3.6	-5.2	-17.9	3.2
Fish meal	69.4	96.6	31.8	62.9	3.3	39.2	-67.1	107.6
Food, beverages and tobacco	106.8	104.3	95.3	94.3	1.1	-2.3	-8.6	0.1
Food	102.8	101.4	87.9	92.6	2.5	-1.4	-13.3	6.2
Beverages	114.1	107.8	110.6	98.1	3.1	-5.5	2.6	-9.9
Tobacco	115.8	117.0	101.9	98.7	5.3	1.0	-12.9	-2.7
Textiles and clothing	102.6	106.8	89.0	85.5	4.7	4.1	-16.7	-3.5
Textiles	100.8	108.0	90.1	86.8	5.7	7.1	-16.6	-3.7
Footwear and leather	104.7	81.9	59.4	58.2	-5.7	-21.8	-27.5	0.8
Paper, printing and publishing	120.7	102.8	93.5	95.8	-0.1	-14.8	-9.0	-0.5
Paper and paper products	108.2	78.1	70.8	71.3	-11.2	-27.9	-9.3	-1.2
Printing and publishing	133.6	128.3	...	...	11.5	-4.0	...	...
Chemical products	114.8	108.5	91.7	94.0	3.6	-5.5	-15.5	2.6
Industrial chemicals	113.0	107.3	82.2	102.3	7.1	-5.0	-23.4	25.6
Other chemical products	114.4	103.3	93.6	76.5	-3.1	-9.7	-9.4	-19.5
Petroleum refining	111.4	112.2	104.9	116.0	8.2	0.7	-6.5	11.5
Rubber products	115.8	102.5	92.3	99.4	-4.4	-11.5	-10.0	9.9
Plastic products	124.4	124.0	89.9	89.6	13.7	-0.3	-27.5	-0.1
Non-metallic mineral products	115.5	109.0	88.8	76.4	6.5	-5.6	-18.5	-14.1
Pottery and china	115.0	116.5	87.0	44.4	23.0	1.3	-25.3	-51.2
Glass and glass products	103.4	124.7	85.2	90.6	0.2	20.6	-31.7	6.1
Non-metallic mineral items	119.7	102.4	90.2	77.1	6.2	-14.5	-11.9	-14.1
Basic metal products	91.8	89.0	78.3	88.0	-6.1	-3.1	-12.0	13.4
Iron and steel	81.2	67.6	56.2	64.0	-27.6	-16.7	-16.9	12.0
Non-ferrous metals	94.5	94.6	84.1	94.2	-	0.1	-11.1	13.7
Machinery and metal products	147.3	115.2	70.0	68.0	18.7	-21.8	-39.2	-2.7
Plain metal products	121.7	99.4	68.1	68.5	0.9	-18.3	-31.5	2.0
Non-electrical machinery	138.9	105.9	66.3	49.7	14.6	-23.8	-37.4	-26.1
Electrical machinery	138.2	116.5	81.5	83.3	17.6	-15.7	-30.0	2.9
Transport equipment	209.3	143.8	53.7	53.0	35.3	-31.3	-62.7	-3.7

Source: Ministry of Industry, Trade, Tourism and Integration.

^a Preliminary figures.

^b January-November.

^c January-November 1984 in relation to the same period in 1983.

Table 9

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^a
Sales of construction material								
Index of volume (first quarter of 1977 = 100)	108.0	106.9	79.9	79.3 ^b	5.3	-1.0	-25.3	-
Sales of some construction materials ^d								
Cement	2 421	2 448	1 959	1 935	16.6	1.1	-20.0	-1.2
Iron bars for construction	209	148	116	116	49.3	-29.2	-21.6	-
Index of prices of construction materials ^e (1977 = 100)	978	1 935	4 050	8 511	77.5	97.9	109.3	110.0
Thousands of units								
Dwellings built^f								
Total	31	23	15	18	107.7	-25.8	-34.8	26.7
Public sector	12	6	1	2	400.0	-50.0	-83.3	100.0
Private sector	19	17	14	16	58.3	-10.5	-17.6	14.3

Source: National Institute of Statistics and Peruvian Chamber of the Construction Industry (CAPECO).

^aPreliminary figures.^bJanuary-September.^cJanuary-September 1984 in relation to the same period in 1983.^dThousands of tons.^eCalculated on the basis of values at 1973 prices.^fOfficially constructed.

Table 10

PERU: EVOLUTION OF UNEMPLOYMENT AND UNDEREMPLOYMENT^a

(Percentages)

	1980	1981	1982	1983	1984 ^b
Total for the country					
Unemployment	10.9	10.4	10.6	13.3	16.4
Underemployment	43.0	40.3	43.9	46.3	53.0
Metropolitan Lima					
Unemployment	7.1	6.8	6.6	9.0	8.9
Underemployment	26.0	26.8	28.0	33.3	36.8

Source: Ministry of Labour and Social Welfare.

^aIn the non-agricultural sector.^bPreliminary figures.

In Metropolitan Lima the index of employment declined in the three main economic activities: services (-2%); trade (-8%); manufacturing industry (-10%). The unemployment rate in the country's capital is estimated to have remained around 9%, the highest level in the last ten years. At the same time, more than one-third of the economically active population was affected by underemployment (see table 10).

Strikes, involving almost 700 thousand workers, led to a loss of 13.7 million man-hours, a noticeably lower figure than in 1983 and the lowest for five years (see table 11). This made a major contribution to the satisfactory evolution of some sectors, such as mining and fishing.

3. The external sector

a) *The current account*

The decline in the deficit on the balance-of-payments current account, which fell for the third year in a row, was far more pronounced this time (-62%). Thus, from the unprecedented figure of some US\$ 1.9 billion recorded in 1981, it dropped to 410 million (see table 12).

This drastic reduction in the deficit in so short a period was mainly due to the sustained decline in imports. While in 1981 they had verged on US\$ 4.9 billion, they fell for the third year running, this time by 18%, and represented barely more than US\$ 3 billion. Exports, in contrast, although they increased slightly (2%), remained considerably below the levels reached at the beginning of the decade. As a result, the country succeeded in accumulating a surplus of almost US\$ 800 million on its trade balance, while barely two years previously it had recorded a deficit of almost 750 million.

The huge and widespread fall (-21%) in the value of goods purchased abroad in 1984 was due to a shrinkage in volume, as their unit value rose slightly (see table 13). Increases in domestic production made possible considerable reductions in imports of food and petroleum by-products, and purchases of equipment for national defence, which is included in the item "miscellaneous items and adjustments" also declined substantially (see table 14).

The behaviour of imports also was influenced by more general or permanent factors. On the one hand, the degree of protection provided for industry —by means of tariff policy and the exchange rate— rose considerably, and was close to the levels recorded at the beginning of the 1970s (see

Table 11

PERU: EVOLUTION OF LABOUR DISPUTES^a

	1981		1982		1983		1984 ^b		Growth rates ^c	
	Work- ers af- fected	Man- hours lost	Work- ers af- fected	Man- hours lost	Work- ers af- fected	Man- hours lost	Work- ers af- fected	Man- hours lost	1983	1984 ^b
Total	857	19 974	572	22 751	786	20 300	697	13 698	-10.8	-32.5
By economic activity:										
Agriculture and fishing	6	600	5	405	34	885	2	101	118.5	-88.6
Mining	90	5 403	61	3 464	84	7 853	92	4 353	126.7	-44.6
Manufacturing industry	93	6 414	95	6 680	63	2 602	31	1 788	-61.0	-31.3
Construction	5	203	155	7 557	32	1 514	13	674	-80.0	-55.5
Transport, storage and communications	65	1 234	27	376	60	1 407	37	1 105	274.2	-21.5
Commerce and banks	94	1 067	82	1 567	69	1 350	56	1 194	-13.8	-11.6
Others	504	5 053	147	2 702	444	4 689	466	4 483	73.5	-4.4
By causes:										
Remunerations	176	9 446	248	14 631	161	11 280	103	6 197	-22.9	-45.1
Reinstatement to work	58	2 792	65	2 766	27	468	10	553	-83.1	18.2
Economic and financial policy of the enterprise	9	453	16	207	63	1 004	8	205	385.0	-79.6
Non-fulfillment of collective agreements	20	479	22	667	63	2 500	50	1 725	274.8	-31.0
Solidarity	23	882	58	1 470	12	474	8	175	-67.8	-63.1
Rise in the cost of living	459	3 593	-	-	380	3 036	393	3 143	...	3.5
Regional of local reasons	77	1 358	50	545	33	542	105	935	-0.6	72.5
Others	35	971	113	2 465	47	996	20	765	-59.6	-23.2

Source: Ministry of Labour and Social Welfare.

^aAll values are expressed in thousands.

^bPreliminary figures.

^cOf man-hours lost.

Table 12
PERU: BALANCE OF PAYMENTS
(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-224	663	-72	-1 889	-1 777	-1 092	-410
Trade balance	330	1 599	763	-869	-744	39	786
Exports of goods and services	2 401	4 101	4 650	4 019	4 076	3 727	3 817
Goods FOB	1 941	3 519	3 899	3 250	3 294	3 015	3 147
Real services ^b	461	582	751	770	782	711	670
Transport and insurance	179	255	284	286	293	262	273
Travel	141	175	292	263	252	209	209
Imports of goods and services	2 071	2 502	3 887	4 889	4 820	3 687	3 031
Goods FOB	1 600	1 955	3 062	3 803	3 721	2 722	2 140
Real services ^b	469	547	825	1 087	1 097	966	891
Transport and insurance	263	319	433	559	525	446	350
Travel	33	45	107	175	205	191	182
Factor services	-579	-936	-835	-1 020	-1 034	-1 132	-1 196
Profits	-84	-393	-292	-252	-118	-137	-54
Interest received	14	56	201	204	109	114	157
Interest paid	-509	-601	-743	-970	-1 025	-1 110	-1 299
Others	-	-	-	-	-	-	-
Unrequited private transfer payments	4	-	-	-	-	-	-
Balance on capital account	268	414	725	1 166	1 638	1 026	697
Unrequited official transfer payments	54	122	134	166	171	223	158
Long-term capital	265	698	273	429	1 143	1 237	1 233
Direct investment	26	70	27	125	48	38	-89
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	238	628	246	304	1 095	1 199	1 322
Official sector ^c	225	660	182	170	937	1 284	1 436
Loans received	1 102	1 684	1 581	1 613	2 043	2 576	3 063
Amortization payments	-868	-1 008	-1 391	-1 439	-1 106	-1 292	-1 627
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	14	-32	64	134	158	-85	-114
Loans received	96	89	181	294	378	131	100
Amortization payments	-83	-119	-117	-160	-221	-217	-214
Short-term capital (net)	-101	-370	501	59	-113	-6	-
Official sector	-37	-300	90	-17	-263	61	-
Commercial banks	-66	-53	13	78	27	-2	-694
Other sectors	2	-18	398	-2	123	-66	-
Errors and omissions	53	-36	-186	-509	438	-427	-
Global balance ^d	24	1 076	653	-723	-139	-66	287
Total variation in reserves (- sign indicates an increase)	-6	-1 066	-607	565	122	33	-287
Monetary gold	-	-64	-173	-118	-	-	-
Special Drawing Rights	-3	-100	94	1	-22	32	-22
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	-30	-1 030	-553	769	-119	-48	-243
Other assets	-101	-29	43	-	-	-	-
Use made of IMF credit	128	158	-17	-87	262	48	-22

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Real services also include other official and private transactions, but exclude factor services.

^c In addition

to loans received and amortization payments on these, this entry includes net loans granted and other assets and liabilities.

^d The global

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

Table 13

PERU: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports						
Value	81.3	10.8	-16.6	1.3	-8.4	4.4
Volume	20.8	-11.4	-4.2	11.9	-9.9	-1.2
Unit value	50.1	25.0	-13.0	-9.4	1.7	5.6
Imports						
Value	22.2	56.6	24.2	-2.1	-26.9	-21.4
Volume	9.9	39.7	15.2	-4.1	-29.2	-22.8
Unit value	11.2	12.1	7.8	2.0	3.3	1.8
Terms of trade	35.1	11.5	-19.2	-11.2	-1.6	3.7
Indexes (1970 = 100)						
Purchasing power of exports	141.3	140.1	108.1	107.4	95.5	96.7
Quantum of exports	120.5	106.8	102.3	114.5	103.1	101.9
Terms of trade	117.0	130.4	105.3	93.5	92.0	95.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 14

PERU: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1981	1982	1983	1984 ^a	1980	1984 ^a	1982	1983	1984 ^a
Total	3 802	3 721	2 722	2 140	100.0	100.0	-2.1	-26.8	-21.4
Consumer goods	603	495	349	255	13.3	11.9	-17.9	-24.8	-26.9
Private sector	355	416	252	217	...	10.1	24.2	-39.4	-13.9
Public sector	248	79	97	38	...	1.8	-68.1	102.1	-60.8
Rice	59	17	40	11	3.0	0.5	-71.2	135.3	-22.5
Sugar	99	-	27	3	1.0	0.1	-100.0	-	-88.9
Others	90	62	30	24	...	1.2	-31.1	-3.2	-20.0
Intermediate goods	1 376	1 290	1 026	949	37.2	44.3	-6.3	-22.3	-7.5
Private sector	918	926	584	625	...	29.2	0.9	-36.9	7.0
Public sector	458	364	442	324	...	15.1	-20.5	11.9	-26.7
Wheat	167	155	152	142	4.6	6.6	-7.2	-1.9	-6.6
Maize and sorghum	50	56	61	11	2.1	0.5	12.0	8.9	-82.0
Soya oil	30	28	46	33	0.8	1.5	-6.7	64.3	-28.3
Petroleum by-products	22	32	76	27	0.8	1.3	45.5	137.5	-64.5
Fertilizers	14	10	12	14	0.5	0.7	-28.6	20.0	16.7
Other	160	83	95	97	...	4.5	-48.1	-16.7	2.1
Capital goods	1 454	1 411	900	771	35.2	36.0	-3.0	-36.2	-14.3
Private sector	990	893	443	371	20.2	17.3	-9.8	-50.4	-16.3
Public sector	464	518	457	400	15.0	18.7	11.6	-11.8	-12.5
Grants		65	100	70		3.3		53.8	-30.0
Miscellaneous items and adjustments^b	} 369	460	347	95	} 14.4	4.5	} 42.3	-24.6	-72.6

Source: Central Reserve Bank of Peru.

^aPreliminary figures.^bDefence equipment, non-monetary gold and other public sector imports.

Table 15

PERU: INDEX OF PROTECTION^a

(1978 = 100)

1970- 1973 ^b	1974- 1977 ^b	1978	1979	1980	1981	1982	1983	1984
97.0	101.8	100.0	83.7	80.7	79.5	82.0	85.2	94.6

Source: Central Reserve Bank of Peru.

^aThe index includes the level of tariffs and the effect of the real rate of exchange.^bThe level of the index remained constant during this period.

Table 16

PERU: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1981	1982	1983	1984 ^a	1975	1980	1984 ^a	1982	1983	1984 ^a
Total	3 255	3 293	3 015	3 147	100.0	100.0	100.0	1.2	-8.4	4.3
Traditional products	2 562	2 531	2 460	2 421	92.8	78.7	76.9	-1.2	-2.8	-1.6
Fish meal	141	202	79	137	12.6	4.9	4.4	43.3	-60.9	73.4
Crop-farming products	170	218	196	198	27.9	5.8	6.3	28.2	-10.1	1.0
Cotton	64	85	44	23	4.0	1.8	0.7	32.8	-48.2	-47.7
Sugar	-	20	35	49	20.2	0.3	1.6	-	75.0	40.0
Coffee	106	113	117	126	3.7	3.6	4.0	6.6	3.5	7.7
Mining products	1 425	1 257	1 509	1 301	44.3	44.9	41.3	-11.8	20.0	-13.8
Copper ^b	529	460	443	442	13.8	19.3	14.0	-13.0	-3.7	-0.2
Iron	93	108	75	58	3.9	2.4	1.8	16.1	-30.6	-22.7
Refined silver	312	205	391	227	6.9	8.0	7.2	-34.3	90.7	-41.9
Lead ^b	219	216	293	233	7.4	9.8	7.4	-1.4	35.6	-20.5
Zinc	272	268	307	341	12.3	5.4	10.9	-1.5	14.6	11.1
Petroleum and petroleum by-products	692	719	544	618	3.1	20.3	19.6	3.9	-24.3	13.6
Others ^c	134	135	132	167	4.9	2.7	5.3	0.7	-2.2	26.5
Non-traditional products	693	762	555	726	7.2	21.3	23.1	10.0	-27.2	30.8
Agricultural	60	70	56	74	0.9	1.8	2.4	16.7	-20.0	32.1
Textiles	231	281	186	258	0.9	5.9	8.2	21.6	-33.8	38.7
Fisheries	106	98	80	167	1.3	3.1	5.3	-7.5	-18.4	108.8
Metal products and machinery	58	50	43	47	1.1	1.4	1.5	-13.8	-14.0	9.3
Chemicals	80	65	45	44	0.7	2.2	1.4	-18.8	-30.8	-2.2
Iron and steel products	48	71	55	59	1.8	2.1	1.9	47.9	-22.5	7.3
Non-metallic minerals	45	34	17	17		1.5	0.5	-24.4	-50.0	-
Others ^d	65	93	73	60	0.5	3.5	1.9	43.1	-21.5	-17.8

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.

table 15). Moreover, the persistent recession meant that a large part of industry's installed capacity lay idle, reducing the demand for intermediate and capital goods. Finally, restrictions affecting the national budget had negative consequences on public investment and thereby on the import of products linked with this activity.

As regards exports, their 2% growth was based on goods, as real services diminished. The value of the former grew by 4%, equal to half the decline recorded the previous year. This revival was due to improvements in prices on the external market, since the volume of goods exported declined for the second year in a row (see table 13).

While exports revived in global terms, a more detailed analysis reveals highly diverse situations. Traditional sales fell for the third year running, this time by almost 2%, while those of non-traditional products exhibited a certain dynamism, expanding by 31% after falling 27% during the previous year (see table 16).

Traditional exports suffered from the low prices affecting many of them: copper, iron, silver, lead and fish meal (see table 17). The government has estimated that the country lost approximately US\$ 200 million in 1984 solely as a result of the fall in the prices of mining products compared with their levels during the previous year.

Table 17

PERU: VALUE, VOLUME AND PRICES OF
MAIN EXPORTS PRODUCTS^a

	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Fish meal								
Value	179	192	256	192	141	202	79	137
Volume	430	483	657	416	285	616	205	401
Price ^c	416.3	397.1	389.7	460.6	494.7	328.8	386.7	342.4
Cotton								
Value	48	38	49	72	64	85	44	23
Volume ^d	462	394	434	701	685	1 287	670	246
Price ^e	104.0	96.5	113.7	102.1	92.8	66.1	66.4	92.5
Sugar								
Value	74	52	34	13	-	20	35	49
Volume	390	291	181	53	-	60	89	116
Price ^f	8.8	8.2	8.7	11.4	-	15.2	17.9	19.4
Coffee								
Value	196	168	245	141	106	113	117	126
Volume	43	54	70	44	46	44	56	51
Price ^g	210.0	144.6	162.1	147.0	107.4	119.6	96.8	112.7
Copper								
Value	398	412	674	752	529	460	443	442
Volume	331	343	373	350	322	335	292	337
Price ^h	54.5	54.3	81.9	97.4	74.7	62.3	68.8	59.4
Iron								
Value	91	74	85	95	93	108	75	58
Volume ⁱ	6.1	4.8	5.7	5.7	5.3	5.7	4.3	4.1
Price ^j	14.8	15.5	14.8	16.5	17.7	19.1	17.5	14.1
Refines silver								
Value	116	118	234	312	312	205	391	227
Volume ^k	25.1	22.5	24.8	15.9	28.0	26.0	32.7	26.8
Price ^l	4.6	5.3	9.4	19.6	11.1	7.9	11.9	8.5
Lead								
Value	132	175	294	383	219	216	293	233
Volume	172	177	164	154	146	177	191	180
Price ^m	34.8	44.8	81.0	112.8	68.0	55.2	69.6	58.7
Zinc								
Value	164	133	171	210	272	268	307	341
Volume	434	437	418	438	499	491	522	512
Price ⁿ	17.1	13.8	18.6	21.8	24.7	24.8	26.7	30.2
Petroleum and derivatives								
Value	52	180	646	792	692	719	544	618
Volume ^o	4.1	13.8	23.6	22.4	19.9	22.7	20.5	23.5
Price ^p	12.7	13.1	27.4	35.3	34.7	31.6	26.6	26.3

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 long tons.

^hDollars per long ton. ⁱMillions of troy ounces. ^jDollars per troy ounce. ^kMillions of barrels. ^lDollars per barrel.

Table 18

PERU: EVOLUTION OF THE EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (soles per dollar)	Indexes of the real effective exchange rate ^a (1980 = 100)					
		Exports			Imports		
		A	B	C	A	B	C
1975	44	76.6	67.2	78.1	76.1	66.8	77.6
1976	57	80.7	73.7	86.5	81.5	74.5	87.4
1977	84	90.4	85.0	98.6	90.3	84.9	98.5
1978	156	113.1	113.0	120.5	112.8	112.7	120.1
1979	225	106.9	108.9	103.2	107.3	109.3	103.5
1980	289	100.0	100.0	100.0	100.0	100.0	100.0
1981	423	86.5	86.8	101.2	85.5	85.8	100.1
1982	698	89.4	85.7	106.1	88.5	84.8	105.0
1983	1 625	93.1	94.2	107.3	91.5	92.6	105.5
1984	3 465	88.8	94.7	...	87.6	93.4	...
1982							
I	540	84.4	83.2	...	83.6	82.4	...
II	628	87.7	84.2	...	87.1	83.6	...
III	736	90.1	85.8	...	89.3	85.0	...
IV	887	93.0	88.1	...	92.2	87.3	...
1983							
I	1 100	95.0	90.5	...	93.5	89.0	...
II	1 432	97.2	93.8	...	95.0	91.7	...
III	1 846	94.3	96.4	...	92.8	94.8	...
IV	2 122	88.7	94.6	...	87.2	93.0	...
1984							
I	2 448	86.0	90.8	...	84.6	89.3	...
II	3 024	88.8	93.6	...	87.7	92.4	...
III	3 707	87.7	95.1	...	86.6	93.9	...
IV	4 681	93.0	99.2	...	91.9	98.0	...

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

Nota: A: The sub-index for domestic products in the wholesale price index was adopted.

B: The consumer price index was adopted.

C: The implicit deflator for the prices of tradeable sectors of the gross domestic product was adopted (series in national currency).

^aCorresponds to the average real exchange rate indexes for the *sol vis-à-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 these countries. Between 1975 and 1979 these weightings correspond to the average for these same years, and from 1980 to the average for the 1980-1983 period. Preference was given to wholesale prices in the calculations. For the methodology and sources used see the technical appendix of the *Economic Survey of Latin America, 1981*.

The volumes of a variety of products exported also declined, in particular cotton, silver and lead. On the other hand, the volume of exports of fish meal, copper, sugar and petroleum increased considerably in comparison with the preceding year. Exports of fish meal received a stimulus from a new agreement with the Soviet Union, under which payment of the external debt owed to that country was set against this product, with the result that 60 000 tons was sold on that particular market. The vertical drop in the international price of copper, from 72 centavos per pound in 1983 to 63 centavos in 1984, was only partially offset by increased sales abroad. Finally, the increase in shipments of petroleum—which once again attained their all-time high of 1979—was possible thanks to the normalization of production of by-products in domestic refineries (see table 17).

For their part, non-traditional goods proved far more dynamic. This performance was helped by the revival in agriculture and fishery production, more suitable marketing, and finally by the introduction of greater incentives, involving subsidies and a higher real exchange rate. With regard to the latter item, during the year the government increased the number of devaluations with the deliberate aim of recovering the competitiveness lost in previous months (see table 18).

Figure 2
**PERU: MONTHLY VARIATIONS IN THE CONSUMER PRICE
 INDEX AND THE EXCHANGE RATE**
(Percentages)

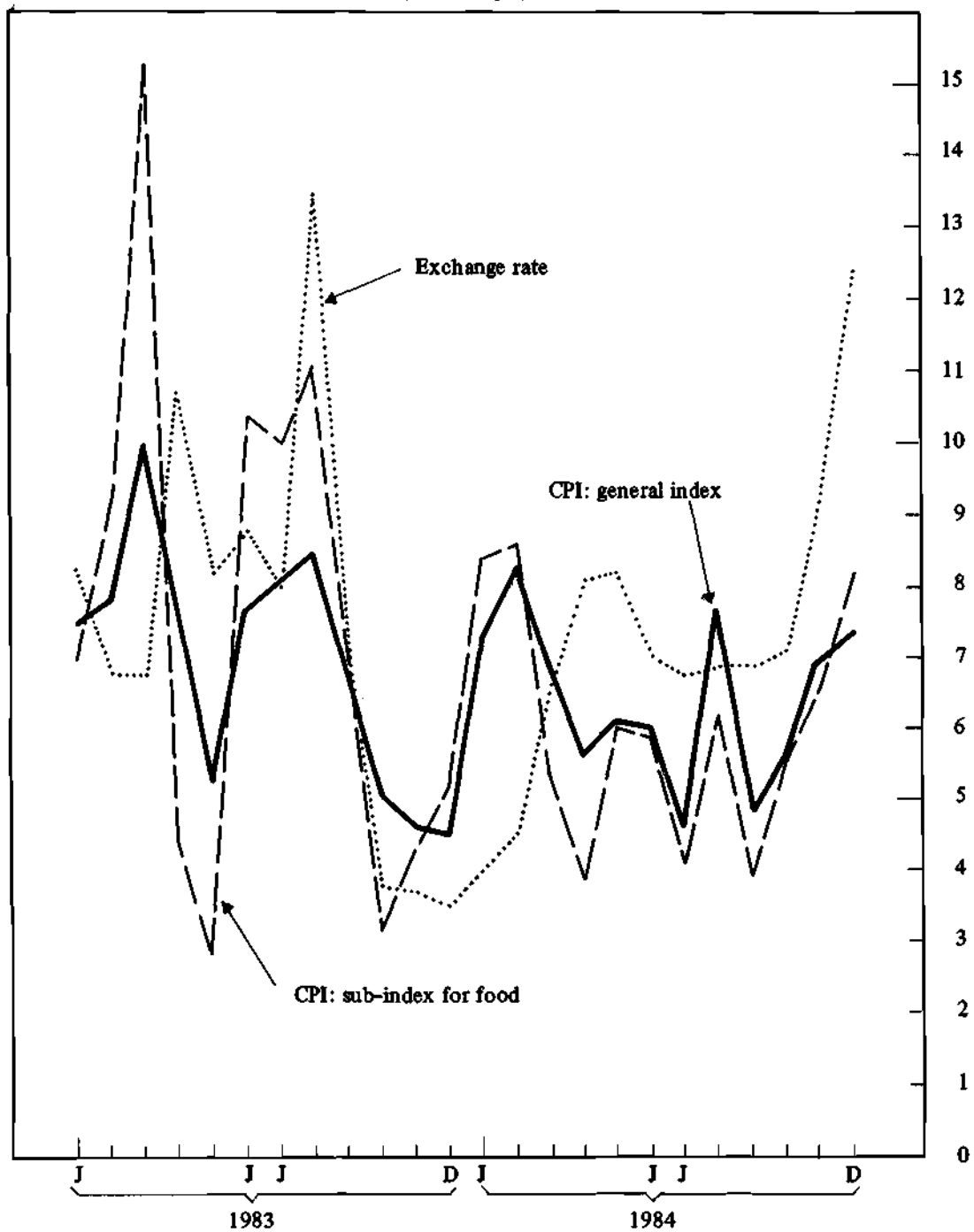


Table 19

PERU: EVOLUTION OF INTERNATIONAL RESERVES

(Millions of dollars at end of period)

	International assets			Total	International liabilities ^d	Net international reserves	Net international reserves as a percentage of imports of goods and services
	Gold ^a	DEG ^b	Assets in foreign currency ^c				
1975	80	43	345	468	352	116	3.8
1976	80	4	284	368	1 120	-752	-28.6
1977	80	3	374	457	1 558	-1 101	-40.9
1978	75	11	506	592	1 617	-1 025	-49.5
1979	175	118	1 565	1 858	1 304	554	22.1
1980	432	44	2 077	2 553	1 277	1 276	32.8
1981	432	40	1 351	1 823	1 051	772	15.8
1982	432	61	1 536	2 029	1 133	896	18.6
1983	432	27	1 616	2 075	1 219	856	23.2
1984	432	46	1 810	2 288	1 185	1 103	36.4
I	432	49	1 608	2 089	1 294	795	
II	432	63	1 660	2 155	1 262	893	
III	432	47	1 806	2 285	1 244	1 041	
IV	432	46	1 810	2 288	1 185	1 103	

Source: Central Reserve Bank of Peru.

^aGold held by banks, either in vault of custody abroad, and the country's gold contribution to the International Monetary Fund (IMF).^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. These last have 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.

The agreement with the Soviet Union also helped to stimulate non-traditional exports, in particular products of the textile industry.

Among sales of real services, travel remained at its low 1983 level owing to the adverse impact on the tourist industry of internal security problems and a dispute with the United States concerning landing rights of the respective national airlines (see table 12).

Net payments of profits and interest rose by 6%. Outflows of profits fell by some US\$ 80 million, which was more than offset by the increase in payments of interest on the external debt. Two-thirds of the substantial deficit on factor servicing were financed with the surplus obtained on the trade balance.

b) *The capital account*

The surplus of around US\$ 700 million recorded on this account was 32% lower than in the previous year and less than half that which had been generated in 1982. Long-term transactions remained at approximately the same level, and the shrinkage was consequently due to a net outflow of almost US\$ 700 million of short-term capital. Part of the outflow was the result of the reduction in credit lines for trade. However, in view of the enormous deficit on "errors and omissions", an item which includes among other things the flight of capital in 1983, it cannot be excluded that a considerable flow of funds abroad has again taken place (see table 12). Nonetheless, the net inflow of capital was markedly higher than the current account deficit. A surplus of some US\$ 290 million was thus generated on the balance of payments, in contrast with the deficit of the three preceding years, which reached a total of more than US\$ 930 million. As a result of this surplus, net international reserves increased by approximately 29%, and rose to more than US\$ 1.1 billion, sufficient to finance 2.8 months of imports (see table 19).

Table 20

PERU: EVOLUTION OF EXTERNAL INDEBTEDNESS

	1970	1976	1980	1981	1982	1983	1984 ^a
Millions of dollars							
Total external debt^b	3 681	7 384	9 594	9 638	11 097	12 442	13 304
Medium-long term	2 190	5 250	8 125	8 172	9 279	11 006	12 102
Public sector ^c	945	3 554	6 043	6 210	6 908	8 339	9 775
Central Reserve Bank	41	385	710	455	707	1 088	862
Private sector	1 204	1 311	1 372	1 507	1 664	1 579	1 465
Short term	1 491	2 134	1 469	1 466	1 818	1 436	1 202
Public and private enterprises ^d	1 460	1 399	902	870	1 392	1 050	878
Banking system	31	735	567	596	426	386	324
Central Reserve Bank	1	101	25	24	39	23	6
Other banks	30	634	542	572	387	363	318
Medium-long term external public debt							
By source^{bc}							
Public agencies and government	223	990	1 847	1 617	1 379	1 321	1 509
Disbursements	39	236	257	149	215	315	330
Amortization payments	13	71	201	199	167	291	181
International agencies	171	268	610	784	949	1 106	1 305
Disbursements	26	37	177	186	237	200	260
Amortization payments	11	15	30	84	38	111	68
Socialist countries	-	361	985	930	925	1 076	1 090
Disbursements	-	113	136	118	71	364	218
Amortization payments	-	21	67	106	70	277	230
Suppliers	394	420	1 065	1 110	1 586	2 347	2 819
Disbursements	110	149	307	314	573	930	902
Amortization payments	71	118	220	236	324	492	533
International banks	157	1 515	1 536	1 769	2 069	2 489	3 052
Disbursements	15	260	331	853	838	745	985
Amortization payments	26	57	313	606	340	620	615
Other debts^e	-	-	-	-	-	22	368
Billions of dollars							
Debt servicing^f							
Total^g	0.2	0.7	2.3	2.7	2.3	2.6	3.3
Principal	0.1	0.4	1.6	1.7	1.3	1.5	2.0
Interest	0.1	0.3	0.7	1.0	1.0	1.1	1.3
Public sector (medium- and long-term)	0.2	0.5	1.3	1.7	1.6	1.9	2.5
Principal	0.1	0.3	0.8	1.2	1.1	1.2	1.6
Interest	0.05	0.2	0.5	0.5	0.6	0.7	0.9
Coefficients^h							
ED/X	3.0	4.2	2.1	2.4	2.7	3.3	3.5
i/X	6.0	19.3	16.0	24.1	25.2	29.8	34.0
Servicing of ED/X	16.7	41.2	48.9	67.5	56.1	70.2	86.8
Servicing EPD/X	16.7	29.4	27.7	42.5	39.0	51.4	65.8

Source: Central Reserve Bank of Peru.

^a Preliminary figures.^b Up to 1982, includes adjustment due to variation in the exchange rates of foreign currencies.^c Comprises

central government and public enterprises.

^d With or without the guarantee of the banking system.^e Accumulated arrears relating

to interest servicing.

^f The government keeps accounts of debt servicing by special payment schedules. Should it receive relief in the form

of rescheduling or refinancing, this appears as a new loan.

^g Repayments of principal on the medium- and long-term loan plus interest

paid on the total debt.

^h ED = total external debt; EPD = external public debt; X = exports of goods and services FOB; GDP = gross

domestic product and i = interest.

c) *The external debt*

At the end of the year the balance of the total external debt was slightly over US\$ 13.3 billion, 7% more than at the end of 1983. At all events, this rate of growth was considerably lower than the average recorded for the two previous years (13.5%). The increase that took place in 1984 sprang from medium- and long-term liabilities, which expanded by 10%, while short-term liabilities declined in absolute terms (see table 20).

The more restrained accumulation of external liabilities was essentially due to the restrictive attitude adopted by creditors towards Peru, and more generally, towards Latin America. It was also influenced by the revival of agriculture, which led to a shrinkage in the financing of food imports; by the self-imposed restrictions on the contracting of loans for purchasing military equipment and by the economic recession, which reduced the need for new lines of short-term credit.

In turn, servicing of the external debt exceeded US\$ 3 billion, a figure 27% higher than in 1983. These payments made up 87% of the value of exports; outflows for payments of interest alone absorbed the equivalent of 34%.

As in the preceding year, the economy was unable to face payments on this scale, and it was consequently necessary to refinance them, either directly through rescheduling agreements with the creditors, or indirectly by informally building up arrears. Of the US\$ 2.5 billion which service of the public sector debt represented in 1984, almost 80% (US\$ 1.3 billion in amortization and 600 million in interest) were "rolled over" by some of the methods mentioned.

The government was active on various fronts in order to reschedule the payment of its commitments. In the case of private banks, to which approximately 40% of the public debt was owed (and 45% of the total debt), the government reached a preliminary agreement for the rescheduling of the payments due in 1984 and 1985.² The preliminary agreement stipulated:

i) The rescheduling of amortization payments on the public medium- and long-term debt corresponding to the period between March 1984 and July 1985 involving some US\$ 660 million, of which 530 million should have been paid in 1984;

ii) The conversion of US\$ 955 million of short-term working capital debt into medium-term liabilities;

iii) The renewal of short-term credit lines for external trade for a period of 18 months, until November 1985; and

iv) The disbursement of US\$ 200 million, corresponding to the last two tranches of a further credit of US\$ 450 million agreed with the banking sector in the previous year's rescheduling.

For the restructuring of both medium- and long-term commitments and the working-capital debt a nine-year period of repayment was obtained, including five years' grace. These two operations also provided for identical margins over LIBOR (1.75%), plus a commission of 0.75 for rescheduling the medium- and long-term debt. The renewal of short-term trade credit lines was provided at an interest rate of 1.25% over LIBOR. Hence, the terms were in general much more favourable for the country than those granted in the first round, held in 1981/1983.³ Nevertheless, this provisional agreement never became a formal contract with the banks. The creditors required the country to meet the terms of the adjustment programme agreed upon with the International Monetary Fund, which Peru proved unable to do.

In view of the difficulties encountered in complying with the agreement made with this body in 1982, in January 1984 the government began to negotiate a new adjustment agreement with the IMF, which was signed in April. This led to the granting of US\$ 264 million in contingency credit and a compensatory funding loan worth US\$ 75 million.

In August, however, in the field of fiscal deficit Peru overstepped one of the five variables laid down in the agreement, as a result of which the Fund decided not to disburse the third tranche of contingency credit. This was compounded by the accumulation of arrears in interest payments on the banking debt from June onwards. This caused the second rescheduling of the debt with the private banks to be blocked. Thus they did not disburse the final tranche of US\$ 100 million of the 450 million

² In June 1983 Peru managed to persuade its banking creditors to agree to reschedule amortization payments on the medium- and long-term debt which matured between March 1983 and March 1984. For further details, see ECLAC, *Economic Survey of Latin America*, 1983, Vol. I, pp. 591-592.

³ For further information on the restructuring of Latin America's external debt, see ECLAC, *Economic Survey of Latin America*, 1983, Vol. I, pp. 66-72.

of credit which they had granted in the first round of negotiations. In the final months of the year Peru continued to accumulate arrears in external debt payments, which heightened uncertainty with regard to the banks and the IMF.

Moreover, in June 1984 a new round of negotiations was held with the Paris Club, after Peru had succeeded, during the previous year, in postponing commitments for US\$ 440 million. On this occasion it was decided in principle to reschedule commitments worth some US\$ 380 million, which effectively made it possible to extend the restructuring period up to July 1985. Similarly, a repayment period of nine years, with five years' grace, was agreed upon, and the rate of interest was negotiated bilaterally with the governments. Unfortunately, the negative effects of the failure to meet the terms of the agreement with the Fund and the accumulation of arrears with creditors made themselves felt in this area also, and the final contract was not signed.

Finally, in 1984 there came into effect an interesting renegotiation of commitments with the Soviet Union agreed upon during the previous year. The USSR agreed to reschedule maturities worth US\$ 330 million for the 1983-1985 period and, in turn, to receive Peruvian products, mainly non-traditional exports (75%) in payment. In 1984 difficulties of an administrative nature led to a failure to achieve the target of exporting US\$ 8 million each month.

4. Prices and remunerations

a) Prices

In 1983 Peru reached a new level of inflation, when for the first time the rate of price increases reached three digits. One of the main goals of economic policy in 1984 was to avoid a repetition of this level of inflation. The rise in the level of prices slowed down, but was once again above 100%. In Metropolitan Lima, both the accumulated and annual average variations in consumer prices were in the region of 110%. As in 1983, wholesale prices more than doubled (see table 21).

Table 21
PERU: EVOLUTION OF DOMESTIC PRICES^a

	1978	1979	1980	1981	1982	1983	1984 ^b
Accumulated variation from December to December							
Consumer price index	73.7	66.7	60.8	72.7	72.9	125.1	111.5
Foods ^c	77.7	75.1	38.1	68.2	72.1	135.8	102.5
Wholesale price index	95.7	60.9	53.0	66.1	64.2	136.5	115.6
Imported products	113.3	49.0	41.7	48.2	63.5	83.6	140.6
Agricultural			56.7	42.3	47.7	300.3	105.7
Manufactured			41.1	48.5	64.2	75.7	143.5
Domestic products	88.5	66.4	57.7	72.7	64.5	153.2	109.9
Agricultural	67.4	79.7	89.4	58.4	54.0	135.1	104.1
Manufactured	100.0	60.4	41.5	82.2	70.8	163.6	112.7
Variation between annual averages							
Consumer price index	57.8	67.7	59.2	75.4	64.5	111.1	110.2
Food ^c	59.7	74.2	58.8	76.4	52.9	125.7	106.3
Wholesale price index	76.0	70.4	53.1	68.1	56.3	113.1	120.1
Imported products	96.9	73.9	45.4	47.5	54.2	82.5	114.4
Agricultural	56.2	73.2	69.4	47.4	31.0	212.6	133.4
Manufactured	101.0	72.0	44.6	47.6	55.2	77.8	113.2
Domestic products	68.2	69.6	56.3	76.1	57.0	122.9	121.6
Agricultural	44.3	75.7	78.7	78.4	48.3	109.3	108.6
Manufactured	82.2	66.7	45.3	74.6	62.2	130.7	128.5

Source: National Institute of Statistics (INE).

^aMetropolitan Lima.

^bPreliminary figures.

^cIncludes food, beverages and tobacco.

Table 22

PERU: EVOLUTION OF REAL AVERAGE REMUNERATIONS

	1980	1981	1982	1983	1984 ^a
Remunerations (indexes 1979 = 100)					
Private sector					
Metropolitan Lima ^b					
Salaries ^c	110.3	112.0	122.3	104.7	96.2
Wages ^d	112.5	110.6	113.1	94.2	81.8
Minimum wage	127.8	106.1	98.6	101.4	79.6
Collective bargaining ^e					
Salaries	93.0	87.1	84.6	65.6	54.7
Wages	103.2	103.7	105.2	83.8	70.0
Central government	117.0	118.6	117.4	93.5	83.3
Growth rates					
Private sector					
Metropolitan Lima					
Salaries	10.3	1.5	9.2	-14.4	-8.1
Wages	12.5	-1.7	2.3	-16.7	-13.2
Minimum wage	27.8	-17.0	-7.1	2.8	-21.5
Collective bargaining					
Salaries	-7.0	-6.3	-2.9	-22.5	-16.6
Wages	3.2	0.5	1.4	-20.3	-16.5
Central governments	17.1	1.4	-9.4	-20.4	-10.9

Source: Ministry of Labour.

^aPreliminary figures.^bSurvey covering establishments with ten or more workers.^cSoles per month.^dSoles per day.^eDoes not include unilateral increases decided by the employer.

The slight slackening off of inflation was almost entirely due to the lower rate of increase in the prices of agricultural products, which make up almost 40% of the general index. Their more satisfactory behaviour was mainly due to the normalization of food production following the disastrous harvests in 1983. Despite this, the accumulated variation in food prices remained 30 points above its 1982 level. This suggests the presence throughout 1984 of underlying inflationary pressures whose intensity equalled or exceeded those of the previous year.

Although the factors which account for Peruvian inflation are extremely complex, in 1984 monetary policy played the leading role. During the second half of the year, the government allowed a substantial expansion in the money supply, which grew in real terms for the first time in the present decade.

Another explanatory factor was undoubtedly the exchange rate policy. The focal point of the government's attention had shifted in 1983 from the balance of payments to domestic prices, as a result of which the tempo of devaluations slowed down after the middle of 1983, leading to some deterioration in the real exchange rate. Nevertheless, towards the second quarter the quest for equilibrium in the balance of payments and an increase in the level of international reserves, once again became priority targets. This led to an acceleration of devaluations, above all in the final quarter of the year (see table 18 and figure 2). The repercussions upon domestic inflation were unfavourable, as is revealed by the sharp increase in the level of wholesale prices for imported products (see table 21).

b) *Wages*

Within a context of soaring inflation and deepening unemployment, it is far from surprising that the wages of workers should have declined in real terms for the second year in a row. Furthermore, an unprecedented situation came about, as all the indexes for the different remunerations fell below the level recorded in 1979 (see table 22).

In Metropolitan Lima real salaries and wages in the private sector fell by 8% and 13% respectively. Thus their cumulative decline over the last two years reached 21% and 28%. The basic minimum wage, for its part, declined by 22% after its slight increase in 1983.

The erosion of real remunerations agreed upon through collective bargaining in the private sector was even harsher. The index for salaries declined by 17% after having fallen 23% in the previous year, a similar trend to that recorded for wages. Nevertheless, the latter underwent slight increases at the beginning of the decade, in contrast with negotiated salaries, which have systematically deteriorated. Thus, in 1984 the latter failed on average to reach even 55% of their 1979 level. The salaries of public employees also continued to decline. The index of remunerations for the central government fell by 11% in 1984, following an accumulated depreciation of 30% during the previous biennium (see table 22).

As far as wages policy is concerned, in 1984 the government allowed three increases in the "supplementary bonus", in addition to the basic minimum wage, which remained at 135 000 soles throughout the year. The remunerations of workers not covered by collective bargaining were subject to the same adjustments. As has been pointed out, these measures were nonetheless insufficient to avoid a marked erosion in real remunerations.

5. Monetary and fiscal policy

a) *Monetary policy*

In 1984 the government attempted to continue the tight monetary policy of previous years, designed to control inflation and maintain international reserves. Nonetheless, the nominal growth in the money supply was 125%, a figure which reflected a brisk expansion in real terms (6%), the first since 1980 (see table 23).

Table 23

PERU: MONETARY INDICATORS^a

	End-of-year balance (billions of soles)				Real growth rates ^b			
	1981	1982	1983	1984 ^c	1981	1982	1983	1984 ^c
Monetary base^d	789	924	1 819	3 504	-14.7	-32.4	-12.3	-9.2
Money (M₁)^e	804	1 092	2 084	4 679	-14.0	-21.5	-15.3	6.1
Quasimoney	1 392	2 735	5 449	13 753	14.8	13.6	-11.5	19.2
National currency	726	1 250	2 134	3 995	33.3	-0.2	-24.1	-11.6
Foreign currency	666	1 485	3 315	9 758	-0.3	28.8	-0.8	39.1
Money plus quasimoney (M₂)^e	2 196	3 827	7 533	18 432	2.3	0.8	-12.6	15.7
Domestic credit	2 003	3 358	6 835	13 860	31.1	-3.0	-9.6	4.1
To the public sector	772	951	2 346	626	15.8	-28.9	9.7	-87.4
Central government (net)	578	1 014	2 303	1 179	4.7	1.5	0.9	-75.8
Public bodies	194	-63	43	-553	69.7	...	...	...
To the private sector	1 587	3 106	6 274	14 300	22.7	13.2	-10.3	7.8
Other accounts	-356	-699	-1 785	-1 066	...	...	...	...
Coefficients								
Monetary multipliers:								
M ₁ /Monetary base	1.02	1.19	1.15	1.34				
M ₂ /Monetary base	2.78	4.14	4.14	5.26				
Velocity of circulation: GDP/M ₁	10.57	12.96	12.59	12.55				

Source: Central Reserve Bank of Peru.

^aDrawn from the monetary accounts of the banking system.

^bDeflated using the consumer price index.

^cPreliminary

figures. ^dKnown as "primary issue" in Peru's monetary accounts.

^eM₁ corresponds to money within the banking system and M₂ corresponds to the total of M₁ plus quasimoney within the banking system.

Table 24

PERU: EVOLUTION OF INTEREST RATES^a

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Nominal rates										
Loans ^b										
Rate	12.0	13.8	17.2	22.4	32.4	32.5	48.3	47.5	51.7	60.3
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	7.0	7.0	8.5	17.0	17.0	11.3	0.0	0.0	5.5
Deposits ^d	9.0	10.0	13.3	19.9	32.9	33.0	51.4	55.0	56.7	60.3
Effective rates										
Loans										
For banks ^e	15.3	17.4	21.7	28.5	43.3	43.5	71.2	69.6	78.0	96.8
For users ^f	15.3	26.4	31.1	40.9	73.4	73.6	86.7	69.6	78.0	105.0
Deposits ^g	9.3	10.4	13.9	21.4	37.2	37.3	62.2	67.4	69.9	75.4
Real effective rates										
Loans										
For banks	-7.0	-19.0	-8.1	-26.0	-14.0	-10.8	-0.8	-1.9	-20.9	-7.0
For users	-7.0	-12.7	-1.0	-18.9	4.0	7.9	8.1	-1.9	-20.9	-3.1
Deposits	-11.9	-23.8	-14.0	-30.1	-17.7	-14.6	-6.1	-3.2	-24.5	-17.1

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 tax.^gCorresponds to a quarterly capitalization of the nominal rate.

The increase in money mainly took place during the second half of the year, during which period the monetary base underwent the major part of its considerable nominal expansion in 1984. Moreover, although the base in question shrank in real terms for the fourth year in a row, the contractive impact of this trend was more than cancelled out by the secondary expansion which took place through banking operations. This phenomenon was in turn reflected in the increase in the monetary multiplier from 1.15 to 1.34 at the end of 1983 and 1984 respectively.

During most of 1984 the commercial banks reduced their cash surpluses in order to increase their loans, as a result of which their average rate of cash reserves fell from 21% in December 1983 to only 9% in September the following year. The government reacted by establishing a legal cash reserve of 15% in October, which was raised to 50% in December. This made it possible to absorb the banking system's cash surpluses, which virtually disappeared at the end of the year.

After its 12% drop in 1983, quasi-money expanded by 19% in real terms. As a result of the deterioration of accounts denominated in soles in comparison with deposits made in foreign currency, the process of dollarization of the economy intensified. Term deposits in soles fell by 12% in real terms, while accounts in dollars grew by 39%. Consequently, liquidity in dollars, which had constituted 30% and 44% of the total in the economy in 1981 and 1983, reached 53% at the end of 1984 (see table 23).

Most noteworthy among the various factors which contributed to the growing importance of accounts in foreign currency was the interrelation between exchange rate policies and the rates of interest. On the one hand, the government attempted to maintain a high real exchange rate, subjecting the sol to periodic devaluations. On the other hand, the rate of interest on deposits in soles has been extremely negative in real terms (see table 24), while the contrary was the case with foreign currency accounts. As an example, the real rate of interest on deposits in soles was -25% and -27% in 1983 and 1984 respectively, while that obtained on deposits in dollars fluctuated around 5%. This differential, together with the heavy devaluations, constituted a form of implicit tax on accounts in domestic currency, thus stimulating the growth of savings in dollars.

Credit policy was designed to support private activities, and consequently restricted funds for the public sector. The measure, which attempted to reverse the process observed during the previous year, proved quite successful, in that in 1984 credit granted to State bodies declined by almost 90% in

real terms. On the other hand, financing made available to the private sector expanded by only 8%.

Credit for the private sector aimed at providing special backing to both non-traditional exports and the agricultural sector. This ranking of priorities by the Central Bank also helps to account for the rise in the legal reserve of the banking system which was decreed at the end of the year.

b) *Fiscal policy*

The overall deficit of the consolidated public sector was equivalent to 8% of the gross domestic product, four percentage points less than in 1983 (see table 25). This improvement in the public government finances sprang essentially from a pronounced reduction in the central government's deficit. Nevertheless, the deficit in the public sector accounts remained enormous and constituted one of the most troublesome problems which the government had to face in the field of economic management.

The monetary authorities endeavoured to reduce domestic financing intended to fill the gap between expenditure and income. Consequently, only a quarter of the deficit was financed by domestic credit, compared with rather more than 40% in 1983. All the external funds contracted for this purpose were medium- and long-term loans, since the public sector wrote off its short-term credit lines. Moreover, around 55% of net external credit originated from the informal accumulation of arrears with foreign creditors.

As regards the central government's financial management, its deficit fell from 9% to 5.6% of the gross domestic product. However, the deficit was some two and a half points above that which had been initially projected. It proved impossible to comply with the budgetary plan for the year since the level of expenditure did not fall as far as has been expected (see table 25).

The strengthening of the central government's financial position was the result of an 18% rise in income and a slight fall (-2%) in expenditure, in real terms in both cases (see table 26). Collection

Table 25

PERU: DEFICIT AND FINANCING OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR

	Billions of soles				Percentage breakdown			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Total deficit	-709	-1 288	-3 110	-4 640	100.0	100.0	100.0	100.0
Central government	-415	-558	-2 351	-3 281	58.5	43.3	75.6	70.7
Public enterprises	-291	-723	-708	-1 461	41.0	56.1	22.8	31.5
Rest of public sector	-3	-7	-51	102	0.5	0.1	1.6	-2.2
Deficit financing	709	1 288	3 110	4 640	100.0	100.0	100.0	100.0
External, medium- and long-term	278	671	2 313	3 884	39.2	52.1	74.4	83.7
External, short-term	-55	362	-504	-365	-7.7	28.1	-16.2	-7.9
Domestic	486	255	1 301	1 121	68.5	19.8	41.8	24.2
Banking system	286	55	2 505	1 348	40.3	4.3	80.5	29.1
Deposits frozen in the CRB	73	-14	-1 367	-833	10.3	-1.1	-43.9	-18.0
Other financial intermediaries	47	30	36	-40	6.6	2.3	1.2	-0.9
Bonds	-4	-27	163	196	-0.5	-2.1	5.2	4.2
Others	84	211	-36	450	11.8	16.4	-1.2	9.8
Coefficient of deficit/GDP (percentage)								
Total deficit	8.3	9.1	11.8	7.9				
Central government	4.9	3.9	9.0	5.6				
Public enterprises	3.4	5.1	2.7	2.5				
Rest of public sector	-	0.05	0.1	0.2 ^b				

Source: Central Reserve Bank of Peru.

^aPreliminary figures.

^bSurplus.

Table 26

PERU: CENTRAL GOVERNMENT OPERATIONS

	Billions of soles				Real growth rate			Percentage of GDP ^a	
	1982	1983	1984 Budgeted	1984 Actual ^a	1982	1983	1984 ^a	1983	1984 ^a
A. Total income	2 493	3 732	8 301	9 215	-0.5	-29.1	17.5	14.3	15.7
1. Current income	2 485	3 732	8 301	9 183	-0.8	-28.9	17.1	14.3	15.6
a) Tax revenue	2 249	3 361	7 556	7 950	-1.1	-29.2	12.5	12.9	13.5
Income tax	480	649	1 244	1 422	-3.7	-36.0	4.3	2.5	2.4
Property tax	96	135	289	283	-4.3	-33.4	-	0.5	0.5
Tax on external trade	942	1 257	1 484	1 290	-12.4	-40.7	-51.5	2.6	2.2
Production and consumer taxes	822	1 488	3 625	3 594	7.1	-19.6	14.2	5.7	6.1
Other tax revenue	83	118	314	524	0.9	-32.7	110.6	0.5	0.9
Less: credit documents ^b	-174	-286	-586	-662	7.9	-22.1	10.2	-1.1	1.1
b) Non-tax revenue ^c	192	330	658	1 119	2.4	-18.6	61.5	1.3	1.9
c) Own resources and transfers	44	41	87	114	-0.9	-55.9	33.3	0.2	0.2
2. Capital income	8	-	-	32	-	-	-	-	0.1
B. Total expenditure	3 051	6 083	10 201	12 496	-4.5	5.6	-2.3	23.2	21.3
1. Current expenditure	2 456	5 065	8 224	10 140	-0.7	-2.3	-4.8	19.4	17.3
Remunerations	545	1 009	1 712	2 208	-	-12.3	4.0	3.9	3.8
Goods and services	69	153	277	320	-	5.0	-0.6	0.6	0.5
Transfers	230	563	928	1 310	-	16.0	10.7	2.2	2.3
Interest	557	1 411	2 312	2 937	-11.4	19.9	-1.0	5.3	5.0
Domestic debt	259	492	319	467	-22.4	-10.1	-54.9	1.9	0.8
External debt	298	919	1 993	2 470	1.2	46.1	27.8	3.4	4.2
Defence and interior	1 055	1 929	2 995	3 365	-	-13.5	-17.0	7.5	5.7
2. Capital expenditure	595	1 018	1 977	2 356	-17.8	-20.2	10.1	3.8	4.0
Gross capital formation	440	599	1 203	1 478	-23.8	-35.5	17.3	2.4	2.5
Transfers	144	407	755	872	2.1	33.7	1.9	1.4	1.5
Others	11	12	19	-	-	-	-	-	-
Savings on current account (A-B.1)	29	-1 333	77	-957	-7.2	-	-65.9	-5.1	1.6
Economic deficit (A-B)	-558	-2 351	-1 900	-3 281	-19.4	99.6	-33.6	-9.0	-5.6

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.

of virtually all taxes increased. Thus, there was a 4% improvement in income tax, which is of great importance within the tax system. This was mainly due to the introduction in May of a more progressive scale affecting remunerations. For its part, the yield from the tax on production and consumption was stimulated by rises in the selective consumption tax applied to a variety of products. Furthermore, the decision to grant a tax amnesty proved successful, as it led to an increase in government income.

Tax income from external trade, in contrast, dropped sharply (-52%) in real terms. The reduction in the rates applicable to the sale of traditional products caused a decline in income from taxes on exports. In addition, tax refunds which are part of the official programme to promote external sales led to a decline in tax income, as a result of the increase in non-traditional exports.

Revenues derived from taxes on imports, on their side, slackened off because of tight domestic restrictions on external purchases, exemptions and/or evasion. This was only partly offset by the increase in tariffs and surtaxes on specific imported goods.

The contraction in real central government expenditure resulted from changes in current expenditure, as capital expenditure rose by 10%. The determining factor in the overall behaviour of current expenditure was expenditure on defence which declined by 17% owing to reduced purchases of equipment abroad. There was also a slight fall in interest payments, since the erosion in the cost of servicing government bonds placed on the domestic market more than offset the considerable expansion in payments on these linked with the external debt. The factors of expansion were remunerations —which improved by 4% in real terms after falling by 12% during the previous year— and transfers, which rose notably as a result of additional payments to people receiving State pensions (see table 26).

Finally, the deficit of public enterprises declined to a level equivalent to 2.5% of the gross domestic product, slightly lower than in the previous year and half that recorded in 1982 (see table 25). The improvement was essentially associated with a fall in the deficit of ELECTROPERU, achieved by a reduction in its capital expenditure, and in those of public bodies importing food, which adopted more dynamic price policies.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

The growth rate of the economy of the Dominican Republic in 1984 (0.6%) was less than one-sixth that recorded the preceding year, so that the per capita product fell by nearly 2%. Gross national income and per capita income performed similarly in 1984 in that although net factor payments to the exterior increased by 7%, the negative effect of the terms of trade diminished while the value of net transfers received from the exterior remained relatively constant (see tables 1 and 2 and figure 1).

These results were largely due to the continued application of the adjustment programme which had been initiated the preceding year as agreed with the International Monetary Fund, in order to secure a steady decrease in the balance-of-payments disequilibrium. The exchange, fiscal, monetary and incomes policies were all made to serve this end. This gave rise to repeated displays of opposition by various sectors, in a climate of severe social tensions.

In view of the scant progress achieved in 1983 as regards the reduction of the fiscal deficit and the balance of payments disequilibrium, the Fund requested that the adjustment programme be applied more rigorously and rapidly. Consequently, during the first months in 1984, progress was made in the unification of the exchange market. Payments for imports of basic foodstuffs and medicines were transferred to the parallel market, leaving only purchases of petroleum subject to special treatment. In order for this devaluation to have the desired effect on the structure of supply, a general price rise was decreed in the case of the articles involved, including goods and services produced by State enterprises. The impact of these measures on the purchasing power of wages, on top of the high rates of unemployment and underemployment, unleashed violent mass protests.

Negotiations with the Fund were affected by this climate of political and social instability, but the country had to resume them in view of the contraction in the inflow of capital from abroad and the urgent need to reschedule the external debt. Thus, the adjustment programme contained in the "bridging agreement" guaranteed by the Fund continued to be applied. Although this agreement did not involve disbursements on the part of the Fund, it was viewed as providing a guarantee for the international banking system and making possible a resumption of the flow of credit, though this finally came about only during the last months of the year.

During the months which intervened between the interruption of talks with the Fund and the entry into force of the "bridging agreement", there was a certain amount of relaxation in the adjustment policy. Thus, the amount of domestic credit extended to the government increased slightly, and payments to foreign banks for letters of credit were delayed even further.

In August, the adjustment policy was reactivated. Payments on petroleum imports began to be made with foreign exchange from the parallel market, except in the case of the fuel used by the Dominican Electricity Corporation, and this resulted in a rise in domestic fuel prices, which soon had repercussions on economic activity, stepping up inflationary pressures.

In view of the impossibility of controlling the monetary base, which had expanded substantially due to the increase in the dollar exchange rate applied to exports as from the second quarter, the expansion of credit was severely limited. Then end-year balances show that credit flows to the public and private sectors rose by 10% and 11%, respectively. As the inflation (December-December) came close to 40%, these rates meant a severe contraction in real terms.

In order to reduce the deficit on the fiscal accounts, capital expenditure was cut. Current outlays rose somewhat, but not enough to give impetus to the economy. This situation was accompanied by an increase in tax collection, thanks to measures adopted at the end of 1983. At the same time, the financial situation of the public enterprises was put on a sounder basis: their efficiency was increased, and the prices of the goods and services they produced was raised.

The minimum wage was raised by 40% in May after having remained the same since the middle of 1979. In the light of the inflation accumulated by the end of the year, however, the real rise in the minimum wage was slightly less than 2%. It should be noted that remunerations of civil servants remained frozen, in spite of the fact that in 1982 they had been reduced, even in nominal terms, as a result of the austerity policy.

Although the adjustment programme made it possible to reduce the current account imbalance by 46% and to bring the fiscal deficit down to nearly a quarter of what it had been the preceding year, this was achieved at the price of a lower rate of economic activity.

The balance-of-payments deficit was adjusted by reducing the trade deficit, though this was partially offset by a 10% increase in net factor payments. Exports of goods and services rose by 13%, owing fundamentally to the rise in the average prices of goods and to the expansion of tourism. The value of imports fell by 4% or, in terms of volume, by close to 6%. This drop affected not only consumer goods but also intermediate and capital goods, which are vital for supporting economic

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	3 011	3 147	3 338	3 471	3 530	3 668	3 690
Population (millions of inhabitants)	5.31	5.43	5.56	5.69	5.83	5.96	6.10
Per capita gross domestic product (1970 dollars)	567	580	601	610	606	615	605
Growth rates							
B. Short-term economic indicators							
Gross domestic product	2.1	4.5	6.1	4.0	1.7	3.9	0.6
Per capita gross domestic product	-0.2	2.2	3.6	1.6	-0.7	1.5	-1.7
Per capita national income	-0.9	1.8	5.4	1.2	3.5	2.4	-1.7
Consumer prices							
December-to-December	8.8	25.6	4.6	7.3	7.2	7.7	38.2
Variation between annual averages	7.1	9.2	16.8	7.6	7.6	7.0	24.4
Real wages and salaries ^b	...	...	-4.8	7.0	-7.2	-6.4	1.6
Money	4.2	30.7	-3.1	13.3	13.3	6.7	49.6
Current income of government	-6.7	16.5	28.9	4.5	-18.0	21.6	30.7
Total expenditure of government	9.2	48.7	7.5	1.4	-7.5	15.6	9.3
Fiscal deficit/total expenditure of government ^c	14.4	32.9	17.5	15.0	24.6	20.7	5.1
Fiscal deficit/gross domestic product ^c	1.7	5.6	2.8	2.2	3.1	2.7	0.6
Current value of exports of goods and services	-10.7	37.1	12.0	19.0	-24.5	8.8	13.0
Current value of imports of goods and services	5.2	28.6	29.3	-5.2	-15.6	3.0	-4.0
Terms of trade (goods and services)	-3.5	1.0	13.5	2.6	-23.8	8.7	2.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-326	-349	-647	-306	-393	-339	-115
Net payments of profits and interest	136	188	210	293	254	297	327
Balance on current account	-315	-360	-674	-416	-457	-441	-237
Balance on capital account	276	358	708	454	311	311	325
Variation in net international reserves	-41	8	44	54	-160	-147	83
Total external debt ^d	1 309	1 565	1 839	1 837	1 947	2 560	2 617 ^e

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bNational average for non-agricultural activities.

^cPercentages.

^dDisbursed external public and private debt.

^eAs at 30 June.

Table 2

DOMINICAN REPUBLIC: EVOLUTION OF GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	3 462	3 423	3 579	3 602	3.6	-1.1	4.6	0.6
a) Gross domestic product	3 471	3 530	3 668	3 690	4.0	1.7	3.9	0.6
b) Terms-of-trade effect	28	-87	-56	-50				
c) Net factor payments to the exterior	97	81	96	103	32.6	-16.1	18.3	7.3
d) Net private transfers received from the exterior	60	61	63	65	-5.2	0.7	3.8	2.5

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

activity and investment. The decline was attributable both to the rise in the cost of foreign exchange and to the contraction of domestic demand, owing to the drop in investment and consumption.

The rate of variation of domestic prices accelerated notably because of rises in the exchange rate and increases in the rates charged by public enterprises and in the price of fuels, all measures forming part of the adjustment programme. These increases more than offset the stabilizing effect of credit and fiscal restrictions.

In short, economic activity in 1984 virtually stagnated. The increase in external sales was not high enough to activate the economy, while the supply also stagnated, basically because of a deterioration in imports as a result of the contraction of domestic demand and the shortage of foreign exchange. The economic policy applied made it possible to reduce the external and fiscal imbalances, but it was intensely contractionist. The deterioration of real wages and of the degree to which basic needs of the population were met, which had been the trend for a number of years, was compounded by a marked resurgence of the inflationary process which aggravated social tensions.

2. Trends in economic activity

a) *Total supply and demand*

The decline in the volume of imports of goods and services (-6%) and the scanty growth of the product (less than 1%) were responsible for the stagnation of overall supply, in sharp contrast with the situation of the preceding year (see table 3).

The performance on the demand side was uneven. In global terms, demand remained stagnant (-0.3%), while domestic demand climbed by a little more than 1%. The volume of exports of goods and services rose by nearly 8%, six times the growth rate (1.3%) recorded in 1983. This was partly a result of the increased volume of goods sold in the exterior, but was primarily due to the expansion of tourism, whose services were cheaper for visitors from abroad because of the devaluation of the Dominican peso.

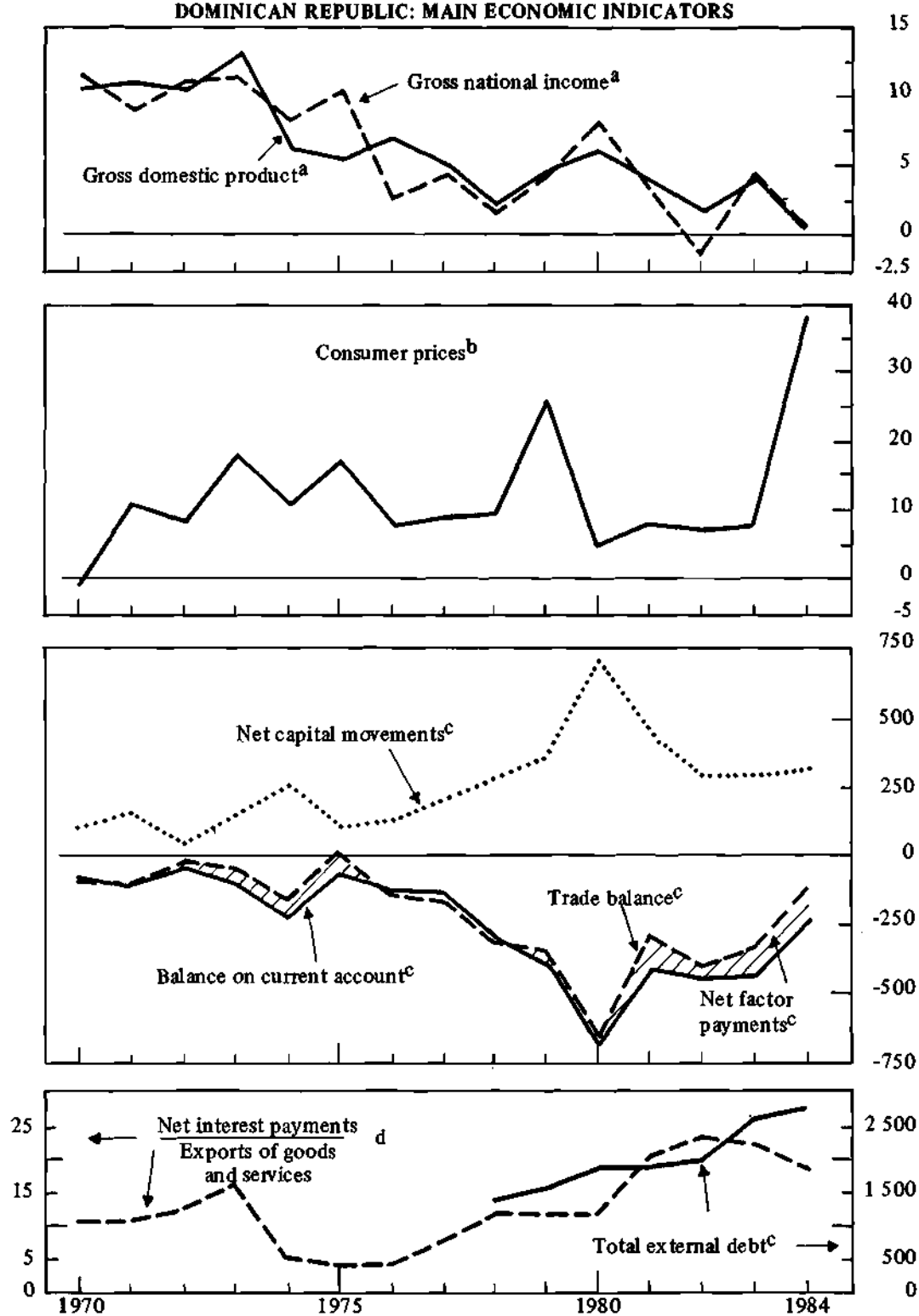
Domestic demand, on the other hand, fell by slightly more than 1%, as a result of a drop of 3% in investment and of the virtual stagnation of consumption.

As a result of the depression in both public and private investment, gross domestic investment fell by nearly 5%, after increasing by close to 4% in 1983. This drop was attributable to a decline, for the fourth consecutive year, in investment in machinery and equipment (21%). Building activity, which in 1983 had grown rapidly (15%), making it possible to offset the negative effects of the drop in accumulation of capital goods, saw its growth rate fall in 1984 by only 3%.

The meagre growth of the economy, the scant recovery of the minimum wage and the deterioration in employment levels were reflected in a slight decline in private consumption, which

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.

Table 3

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	4 019	4 178	4 167	121.2	119.9	112.9	1.7	-1.2	3.9	-0.3
Gross domestic product at market prices	3 530	3 668	3 690	100.0	100.0	100.0	4.0	1.7	3.9	0.6
Imports of goods and services ^b	489	510	477	21.2	19.9	12.9	-9.9	-18.3	4.3	-6.4
Total demand	4 019	4 178	4 167	121.2	119.9	112.9	1.7	-1.2	3.9	-0.3
Domestic demand	3 568	3 721	3 675	106.4	107.1	99.6	0.7	-0.9	4.3	-1.2
Gross domestic investment	698	724	689	26.7	25.3	18.7	-10.9	-7.3	3.6	-4.8
Gross fixed investment	637	676	653	25.0	23.5	17.7	-8.6	-11.2	6.1	-3.4
Construction	439	503	517	13.5	13.8	14.0	-0.6	-3.9	14.6	2.8
Machinery	198	173	136	11.5	9.7	3.7	-19.8	-24.0	-12.8	-21.3
Public	130	...	...	8.7	5.2	...	-9.2	-17.4	...	...
Private	507	...	...	16.3	18.3	...	-8.4	-9.5	...	...
Changes in stocks	61	48	36	1.7	1.8	1.0	...	...	...	...
Total consumption	2 870	2 997	2 987	79.7	81.8	80.9	4.2	0.8	4.4	-0.3
General government	401	421	429	7.8	9.0	11.6	25.5	5.9	4.9	1.9
Private	2 469	2 576	2 558	71.9	72.8	69.3	1.6	-	4.4	-0.7
Exports of goods and services ^b	451	457	492	14.8	12.8	13.3	10.2	-4.2	1.3	7.5

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^a Preliminary figures.^b The figures for exports and imports of goods and services correspond to balance-of-payments figures in current dollars, which were converted to constant 1970 values using price indexes calculated by ECLAC for that purpose.

in per capita terms, however, was significant (-3%). The rate of expansion of government consumption expenditure dropped again, amounting to a bare 2%: a rate very much lower than that recorded in recent years.

b) *Evolution of the main sectors*

The scant dynamism of the economy was due primarily to the slow growth (of the order of 1%) of basic and other services. The production of goods remained unchanged as a result of the drop of 3% in the manufacturing product and the stagnation of the agricultural product, which were not offset by the growth in mining production (8%) and construction (3%) (see table 4).

The basic services sectors evolved unevenly. The product of transport, storage and communications declined by 1%, while electricity, gas and water increased by nearly 13%.

Except for commerce, where activity fell by 1% as a result of the decline in consumption, activities in the "other services" category grew and in some cases surpassed the rate achieved the preceding year.

i) *The agricultural sector.* After having expanded during the three-year period 1981-1983 at an average rate of over 4%, agriculture stagnated in 1984 as a result of a 6% drop in production for export, which was not offset by the gain of 5% in production for domestic consumption. This uneven growth was due to the interaction of a number of factors, some of them opposing, such as the rise in the cost of inputs, insufficient credit, inadequate guaranteed prices and the low prices prevailing on the international market for some exportable goods.

The export crops which suffered the greatest deterioration were sugar cane and tobacco, production of which declined by 11% and 18%, respectively. Coffee and cocoa, for their part, both recorded an increase of 6% (see table 5).

The performance of the sugar cane subsector was associated with the decrease of close to 20% in the area planted, as a result of the drop in the price of sugar on the international market.¹ In the medium term, the persistent contraction in North American demand for this commodity, which is being replaced by other sweeteners, makes it reasonable to think that prices will remain low and that sales to that market will continue to decline.

To cope with this situation, the Ministry of Agriculture has initiated a programme to replace the cultivation of sugar in the areas of lowest productivity by that of other commodities, such as maize. This action has been supplemented with other measures promoted by the State Sugar Council (CEA).²

In accordance with the trend of recent years, the production of tobacco declined by 18% to 28 000 tons, or only half the harvest in 1981. This drop was attributable to the damage done by blue mould (a disease which it has proved impossible to eradicate), the drought which hit the country, and the low support prices offered to farmers.

The rehabilitation and development programme put into effect by the Ministry of Agriculture has helped to raise productivity on cocoa and coffee plantations, allowing the production of both crops to increase by 6%.

Table 4

**DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT,
BY KIND OF ECONOMIC ACTIVITY**

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product ^b	3 149	3 272	3 292	100.0	100.0	100.0	4.0	1.7	3.9	0.6
Goods	1 450	1 556	1 558	49.9	47.5	47.3	3.7	-0.9	7.4	0.1
Agriculture	607	627	626	19.5	18.6	19.0	5.5	4.3	3.4	-0.2
Mining	98	143	155	6.0	4.8	4.7	7.2	-36.3	46.6	8.4
Manufacturing	528	537	521	16.9	16.5	15.8	2.7	5.2	1.7	-3.0
Construction	217	249	256	7.5	7.6	7.8	-0.5	-4.0	14.8	2.8
Basic services	347	353	357	10.4	10.7	10.9	5.9	3.2	1.6	1.3
Electricity, gas and water	56	58	65	1.5	1.9	2.0	8.9	-9.3	4.0	12.5
Transport, storage and communications	291	295	292	8.9	8.8	8.9	5.2	6.0	1.1	-0.9
Other services	1 333	1 355	1 369	39.7	41.8	41.8	3.8	3.3	1.7	1.1
Commerce, financial establishments and insurance ^c	437	441	439	13.6	13.4	13.3	4.4	5.0	1.0	-0.5
Ownership of dwellings	227	238	242	7.3	7.7	7.3	0.4	-0.9	5.0	1.6
Community, social and personal services	669	676	688	18.8	20.7	21.2	4.8	3.7	1.0	1.9
Government services	359	364	370	9.8	10.9	11.4	7.0	3.9	1.5	1.6

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^a Preliminary figures.

^b At factor cost. As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^c Restaurants and hotels and business services are included under "Community, Social and Personal Services".

¹ The unit value of sugar exports was higher than that of 1983, but this was only a temporary phenomenon, for the reasons given in the section on the external sector.

² CEA has signed two agreements: one with FRUDOCA, a United States-Dominican agroindustrial company, and the other with INDUSPALMA, an enterprise which cultivates African palms and processes their oil. Under the first of these agreements, the Council has leased land for a period of twelve years for the purpose of planting pineapples. In 1986 FRUDOCA will construct a plant for the export of fresh and processed fruit. As for INDUSPALMA, CEA has a 25% share in its capital and has undertaken to supply 15 000 hectares of arable land.

Table 5

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1981	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of agricultural production (1970 = 100)	143.8	152.6	160.0	165.9	164.4	6.2	4.8	3.8	-0.9
Crop farming	131.3	139.6	144.9	149.0	146.9	6.3	3.8	2.8	-1.4
For exports	122.3	130.8	132.7	131.8	123.4	7.0	1.5	-0.7	-6.4
For domestic consumption	146.6	154.6	165.5	178.1	186.6	5.5	7.1	7.6	4.8
Stock-raising	164.7	174.5	185.4	194.3	193.7	6.0	6.2	4.8	-0.3
Production of main crops ^b									
For export									
Sugar cane	9 056	10 275	11 805	11 520	10 271	13.5	14.9	-2.4	-10.9
Cocoa	28	32	35	33	35	11.7	9.8	-5.8	6.2
Coffee	120	110	127	136	144	-8.8	15.8	7.2	5.9
Tobacco	52	56	34	34	28	7.4	-38.8	-	-17.8
For domestic consumption									
Rice	398	400	447	501	507	0.7	11.6	12.2	1.1
Beans	52	52	59	61	67	1.7	12.0	3.4	9.7
Maize	46	63	46	55	83	37.4	-26.5	19.6	50.0
Plantains ^c	868	1 256	1 213	1 101	1 124	44.7	-3.4	-9.2	2.1
Taro	48	50	56	49	51	5.9	11.2	-12.5	4.1
Yuca	116	126	109	112	124	8.5	-13.0	2.8	10.7
Indicators of stock-raising production ^b									
Slaughtering									
Beef	49	55	60	63	66	11.6	8.5	5.0	4.8
Pork	23	1	2	2	7	-97.2	145.1	-	236.4
Poultry	58	73	78	83	84	24.3	7.9	6.4	1.2
Milk production ^d	431	444	452	463	418	2.9	1.9	2.3	-9.7

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.^bThousands of tons.^cThousands of bunches.^dThousands of litres.

Except in the case of rice, the growth rate of the production of grains for domestic consumption rose as a result of a policy aimed at finding substitutes for imports of agricultural commodities. Thus, the production of maize increased by over 50%, resulting in the availability of more raw material for use in the manufacture of animal feed. Production of beans and yuca grew by close to 10%, while that of taro and plantains, which had dropped in 1983, rose by 2% and 4% respectively in terms of volume harvested, in spite of the fact that the latter commodity was affected by the sigatoka disease.

In contrast, production of rice—one of the main elements in the diet of the people—rose by only 1%, after two years in which the growth rate had been of the order of 12%. Rice cultivation has a large technical component and calls for a substantial volume of imported inputs, so that the increase in the exchange rate raised the costs involved substantially. Since the guaranteed price did not rise proportionately (in spite of the fact that it was increased by close to 30% after having remained at the same level for a number of years), the area sown was reduced.

Livestock activity remained at virtually the same levels as the preceding year, while milk production, which in the previous three years had been growing a little more slowly than the population, experienced a substantial reduction of nearly 10% in 1984. On the other hand, slaughtering of pigs rose more than threefold thanks to restocking programmes, while that of cattle increased by 5% and that of poultry by slightly more than 1%.

Dairy and poultry farming also depend greatly on imported inputs. Thus, since the 40% increase in the cost of milk production was not accompanied by a similar rise in consumer prices,

farmers redirected their operations towards the raising of beef cattle, the price of which promised greater profits and possibilities for sale on the North American market.

ii) *Mining*. Mining grew by slightly more than 8% —only a quarter of the rate achieved the preceding year. This was attributable to the fact that the continued favourable trend in the production of ferronickel (which, after a dramatic drop in 1982, was characterized by unexpected dynamism) was offset by the persistence of the 1983 trend in gold and silver production, which fell by 4% and 9%, respectively, as a result of the drop in prices on the external market (see table 6).

In spite of the upturn in mining over the past two years, its medium-term outlook is not very promising. In March the transnational enterprise which had been mining the bauxite deposits gave up the State concession granted to it two decades ago, since it considered that the operation lacked economic viability. Management of the mine and its stocks (140 000 tons of bauxite) was temporarily transferred to the State enterprise Rosario Dominicana and to the Ministry of Mines.

As for the foreign-owned concessionary enterprise which mines ferronickel, it has accumulated losses over four consecutive years although they have tended to decrease in the past two years because of the rise in international prices and in the efficiency of the production process. The enterprise will not, however, overcome its deficit situation unless prices rise more than they have done so far.

With regard to gold, the metal content of the ore has begun to decline, and it is believed that the mine will be worked out by the end of the decade. At present, a study is being carried out to determine whether the processing by oxidation of the residues left from the smelting of gold and silver can be profitable.

iii) *Manufacturing*. The manufacturing section, which declined by 3%, was affected by the climate of widespread uncertainty caused by the adjustment policies. The sharp increase in the prices of some imported inputs; insufficient supplies of national and imported raw materials; credit restrictions applied by banks, which made it necessary for entrepreneurs to seek credit at higher interest rates in the informal financial sector; the drop in investment because resources were channelled to more lucrative and less risky activity; the contraction of domestic demand and, finally, the deterioration of conditions on the external market in the case of one of the leading export products were factors which contributed to the deterioration of this sector (see table 7).

Up to a certain point, the poor domestic performance of the manufacturing sector is attributable to some of its structural characteristics. In the first place, the process of substitution has still not gone beyond the initial phase. The manufacture of foodstuffs, beverages and tobacco is still the mainstay of industrial deployment, and not even in these branches has self-sufficiency been reached.³ Thus, local supply has been incapable of responding to the stimuli provided by the decline in availability and the increase in the prices of imported manufactures. In addition, the sector's low level of integration and the limited progress it has made in the manufacture of inputs makes it extremely dependent on imports and on the fluctuations in their prices.

Table 6

DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
Index of mining production ^b (1970 = 100)	535.3	548.0	412.3	547.9	594.0	8.8	-30.8	32.9	8.4
Production of the main minerals									
Bauxite ^c	772	510	152	-	-	-20.6	-62.4	-	-
Ferronickel ^c	71	43	14	52	64	16.2	-71.2	263.8	23.3
Gold ^d	180	370	386	354	338	10.3	-5.3	-8.4	-4.4
Silver ^d	89	1 623	2 198	1 329	1 207	25.3	8.1	-39.5	-9.1

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures. ^bBased on the production of the four leading metals; excludes the extraction of stone, sand and clay; salt mining, and the production of gypsum and stone. ^cThousands of tons. ^dThousands of troy ounces.

³About 20% of the domestic supply of foodstuffs, excluding sugar, is covered through imports.

Table 7

DOMINICAN REPUBLIC: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1982	1983	1984	Growth rates			
						1981	1982	1983	1984 ^e
Index of manufacturing production (1970 = 100)	162.8	205.0	221.3	223.9	217.2	2.7	5.1	1.2	-3.0
Foodstuffs, beverages and tobacco	137.0	180.5	201.2	199.0	193.9	2.7	8.5	-1.1	-2.0
Foodstuffs	134.1	188.7	189.0	184.7	176.0	2.7	-2.5	-2.3	-4.7
Sugar and sugar products	115.1	113.0	131.0	123.3	115.6	2.6	12.9	-5.9	-6.2
Other foodstuffs	147.8	243.4	231.0	229.1	219.7	2.7	-7.6	-0.8	-4.1
Beverages	148.9	158.1	278.4	285.5	306.2	2.7	71.4	2.6	7.2
Tobacco	141.4	147.8	169.1	168.8	148.8	2.6	11.4	-0.1	-11.8
Other manufacturing industries	242.8	281.2	283.5	301.0	289.3	2.7	-1.8	6.2	-3.9
Production of some major manufactures									
Raw sugar ^a	1 059	911	1 175	1 097	1 022	21.6	6.0	-6.6	-6.8
Refined sugar ^b	77	102	110	104	108	11.8	-3.5	-5.4	3.8
Hulled coffee ^b	51	60	63	68	72	-13.3	21.2	7.9	5.9
Beer ^c	34	78	86	100	95	7.7	2.4	16.3	-5.0
Cigarettes ^d	190	222	221	209	185	0.4	-0.9	-5.4	11.5
Cement ^e	14	24	22	26	27	-4.2	-4.4	18.2	3.8
Wheat flour ^f	2 656	3 346	3 994	3 875	3 737	-4.4	24.8	-3.0	-3.6
Other indicators									
Consumption of electricity by industry ^g	430	719	673	719	662	5.4	-11.2	6.8	-7.9

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 packs.^eMillions of 42.5 kg. sacks.^fThousands of quintals.^gMillions of kWh.

Table 8

DOMINICAN REPUBLIC: CONSTRUCTION INDICATORS

	1975	1980	1982	1983	1984	Growth rates			
						1981	1982	1983	1984
Area constructed (thousands of m²)^a	981	1 163	968	1 175	...	-25.3	11.4	21.4	3.0 ^b
Housing	878	879	726	780	...	-31.3	20.2	7.4	...
Production of some building materials									
Structural steel ^c	50	51	55	76	79	-1.1	9.2	38.8	3.2
Cement ^c	...	1 015	948	1 104	1 143	12.3	-16.8	16.4	3.5
Bricks ^d	...	2 678	2 316	2 661	...	-2.7	-11.1	14.9	...
Paint ^e	1 620	2 993	2 340	2 526	2 180	-21.4	-0.5	8.0	-13.7

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aBuilding permits granted.^bCorresponds to the period January-September with respect to the same period the preceding year.^cThousands of tons.^dThousands of units.^eThousands of gallons.

The decrease in prices on the international market meant that, for the second consecutive year, the production of sugar and its derivatives (which constitute close to one-seventh of the manufacturing product) dropped by 6%. In view of the uncertain future of this industry, the United States enterprise which produces a third of the output of raw sugar decided to sell its assets.

The shortage of national and imported inputs had an impact on the processing of milk and the milling of rice and wheat, while the rise in the price of raw materials affected the production of soya oil, paints and electrical household appliances in particular.

The only manufacturing activities to show growth were the processing of coffee, thanks to the increase in the production and foreign sales of this commodity; production of rum, because of the expectation in the first half of the year that taxes on its manufacture would be raised; manufacture of pasta, because this is used as a substitute for other high-priced foods, and production of reinforcing rods and cement, which was due to the expansion of construction and domestic demand.

As in the preceding year, the subcontracting industry further expanded its activities with the installation of 26 new enterprises which generated close to 4 000 jobs, stimulated by the prospects opened up by the Caribbean Basin Initiative.

In addition, approval was given for 13 agroindustrial projects designed to produce a range of goods involving different degrees of industrial processing.⁴

Industrial policy continued to give preferential support to the subcontracting and agroexports industries, but it also showed renewed concern for traditional manufactures. The Investment Fund for Development (FIDE) initiated the Industrial Reactivation Programme by granting credit to entrepreneurs for the purchase of imported inputs and capital goods. Of the US\$ 62 million making up this Programme's initial funds, US\$ 50 million came from a loan from the Inter-American Development Bank (IDB).

iv) *Construction.* In 1984 the product generated by construction grew by 3%, which was only one-fifth of the rate recorded the preceding year. This performance is in line with the evolution of building permits and the production of basic construction inputs, such as cement and steel (see table 8). The slowdown observed in this sector was attributable to the drop in public investment (in which

Table 9

DOMINICAN REPUBLIC: ELECTRIC POWER GENERATION AND CONSUMPTION

	Millions of kWh				Growth rates			
	1981	1982	1983	1984	1981	1982	1983	1984
Power generated ^a	2 230	2 225	2 825	2 932	-3.0	-0.2	27.0	3.8
Hydroelectric	38	47	326	436	-20.8	23.7	593.6	33.7
Thermal	1 909	1 888	2 209	2 020	-4.2	-1.1	17.0	-8.6
Diesel	6	6	11	10	-45.4	-	83.3	-9.1
Gas	277	284	279	466	11.7	2.5	-1.8	67.0
Generation by other enterprises	669	739	456	415	51.0	10.5	-38.3	-9.0
Total generation	2 788	2 849	3 135	3 202	6.0	2.2	10.0	2.1
Consumption	2 085	1 891	1 963	2 210	8.9	-9.3	3.8	12.6
By industry	758	673	719	662	5.4	-11.2	6.8	-7.9
By commerce	256	228	223	245	10.8	-10.9	-2.2	9.9
By households	818	733	738	840	13.0	-10.4	0.7	13.8
By government	227	231	254	380	5.6	1.8	10.0	49.6
For public lighting	26	26	29	83	4.0	-	11.5	186.2
Percentage of losses	25.2	33.6	37.4	31.0				

Source: ECLAC, on the basis of data supplied by the Dominican Electricity Corporation.

^aPower generated by the Dominican Electricity Corporation.

⁴The main activities of the projects approved include the breeding and processing of saltwater shrimps in captivity, the production of crude and refined coconut and soya oil, and the cultivation and packing of melons and taro for export.

the share of construction is over 75%) and the slower growth of private sector building due to the marked increase in the prices of building materials.

v) *Electric energy.* The value added by the electricity, gas and water sector rose by over 12%. This growth is a reflection of an increase in consumption rather than in supply, particularly in the case of electricity. The enforcement of a number of control measures made possible a substantial reduction in losses due to illegal connections and free supplies and brought the official figures much closer to the real levels of consumption (see table 9).

Such rationalization measures also had an impact on the structure of consumption. Thus, sales for residential use increased by 14%, those for public lighting nearly trebled and sales to the government rose by 50%. The latter figure is also partly explained by the fact that in May some companies in the State Enterprises Corporation (CORDE) were moved from the "industrial consumption" category to the "government" category. This also helps to explain the drop (-8%) experienced by consumption in the manufacturing sector, which was also due to the depressed economic situation of that sector.

Following the trend evidenced the preceding year, the electric power supplied by the Dominican Electricity Corporation grew more diversified in 1984. The share of hydroelectricity in total generation rose to 15%, after having been only 2% at the beginning of the decade. During the year, the CDE brought into operation the thermal power station ITABO I, which works simultaneously with petroleum and coal and will increase the generating capacity by 125 000 kW. The Hatillo, Jimenoa and Távera-Bao hydroelectric projects also went into operation, with a total capacity of close to 100 000 kW.

3. The external sector

The balance-of-payments current account deficit of nearly US\$ 240 million was equivalent to only one-sixth of exports of goods and services, whereas in 1983 the proportion had been more than one-third. In absolute terms, the size of the gap was about 54% of that recorded the preceding year (see table 14 below).

The reduction of the external imbalance was the result of a 13% increase in the value of exports of goods and services, accompanied by a 5% decrease in the value of imports. Thus, the deficit on the trade balance fell to US\$ 115 million: only one-third of the figure reported the preceding year. As the negative balance for factor services, which was already disproportionately large in 1983, rose by 10%, however, the deficit on current account was more than double the trade deficit.

A net inflow of capital which was 4% higher made it possible to cover the current account imbalance and increase the international reserves by some US\$ 80 million. For most of the year, however, the latter remained under the level achieved at the end of the preceding period, surpassing it only in December.

The value of exports of goods rose by nearly 14% as a result of an increase of 8% in unit value and one of 5% in the volume exported. Of the eight leading export commodities, there was a rise in the prices of coffee, sugar, molasses, cocoa and ferronickel, and only furfural, tobacco and doré suffered price declines.

Conversely, imports of goods fell once again (by 5%) after the modest upturn experienced in 1983 which had temporarily broken the downward trend observed since the beginning of the decade. The performance in 1984 was due to a drop of 7% in the volume imported and a slight (2%) rise in prices.

The more dynamic performance of the unit value of exports as compared with that of imports gave rise to an increase of more than six percentage points in the terms of trade (goods). This, in combination with the increase in volume, allowed the purchasing power of exports of goods to rise by nearly 12% (see table 10).

a) *The exchange rate*

The rate of exchange on the parallel market experienced marked changes, rising from an average annual level of 1.6 to 2.9 pesos per dollar, i.e., by close to 80% (see table 11). The intensification of inflationary pressures, the limitations imposed on the supply of foreign exchange at

the official rate and the uncertainty caused by the difficult negotiations with the IMF were responsible for the rise in the parallel dollar.

The existence of two exchange rates, one at parity and a higher one on the parallel market, has made it possible to supplement exchange policy proper with measures providing export incentives and subsidies for basic commodities and mass-consumption goods.

At the beginning of the year, the Central Bank did away with the commission created for the purpose of setting the exchange rate, which thus became subject to the supply and demand for foreign currency on the parallel market. At the same time, with a view to promoting non-traditional exports, it was decreed that 85% of the value of such exports would be exchanged at the parallel market rate, and the supply of foreign exchange for the purchase of imports was suspended altogether.⁵ Dollars at the parity rate only continued to be provided for purchases of newsprint, petroleum and petroleum products, wheat, oats, and imports effected by the Institute for Price Stabilization (INESPRE).

In spite of these measures, the exchange rate on the parallel market rose from a monthly average of 2.21 pesos per dollar in January to 3.10 pesos per dollar in February. In March and April, however, the rate fell to 2.87 and 2.80, respectively, and remained at about those levels until September.

In mid-April, the Central Bank decided to grant foreign exchange at the official rate only for imports of petroleum and petroleum products. At the same time, it freed exporters of non-traditional goods from the obligation of changing the foreign currency derived from their operations in the Central Bank, while exporters of traditional goods were given a preferential rate of 1.48 pesos for their sales.

At the end of August, following the resumption of the talks with the IMF which had been suspended in May, an emergency programme was initiated which, among other things, involved an increase in the rate of exchange to 1.50 pesos per dollar for petroleum imports, with the exception of direct fuel purchases made by the Dominican Electricity Corporation. In September the rate of

Table 10

DOMINICAN REPUBLIC: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports FOB						
Value	28.6	10.7	23.5	-35.4	2.3	13.5
Volume	15.0	-23.2	15.0	-7.7	-4.3	4.7
Unit value	11.8	44.2	7.4	-30.0	6.9	8.4
Imports FOB						
Value	31.9	33.6	-4.5	-13.4	2.0	-5.2
Volume	19.5	8.7	-7.8	-15.3	3.8	-6.9
Unit value	10.4	22.9	3.6	2.2	-1.8	1.8
Terms of trade	1.3	17.4	3.6	-31.5	8.8	6.4
Indexes (1970 = 100)						
Purchasing power of exports	163.9	150.0	177.2	112.1	116.4	129.9
Volume of exports	189.3	145.4	167.2	154.3	147.6	154.5
Terms of trade	86.0	101.0	104.6	71.7	78.0	83.0

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

⁵Since 1979 the Central Bank has been reducing the number of imports for which foreign currency was supplied at the official exchange rate.

Table 11

DOMINICAN REPUBLIC: EVOLUTION OF THE EXCHANGE RATE

	Exchange rate ^a	Exchange-rate index	Price index		Ratio (3/4 = 5)	Parity exchange rate ^a (1.15 x 5)	Index of under- or over-valuation of the exchange rate (6/1)
			Domestic	Foreign			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970	1.15	100.0	100.0	100.0	100.0	1.15	100.0
1971	1.14	99.1	104.3	104.3	100.0	1.15	100.9
1972	1.12	97.4	112.5	107.7	104.5	1.20	107.1
1973	1.13	98.3	129.5	114.4	113.2	1.30	115.0
1974	1.14	99.1	146.5	127.0	115.4	1.33	116.7
1975	1.18	102.6	167.7	138.6	121.0	1.39	117.8
1976	1.20	104.4	180.9	146.6	123.3	1.42	118.3
1977	1.22	106.1	204.1	156.2	130.7	1.50	123.0
1978	1.25	108.7	218.6	168.1	130.0	1.50	120.0
1979	1.23	107.0	238.6	187.0	127.6	1.47	119.5
1980	1.26	109.6	278.6	212.3	131.2	1.51	119.8
1981	1.28	111.3	299.6	234.4	127.8	1.47	114.8
1982	1.46	127.0	322.5	248.6	129.7	1.49	102.0
1983	1.60	139.1	344.8	256.7	134.3	1.55	96.9
1984	2.83	246.1	428.9	267.7	160.2	1.84	65.0

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic and the International Monetary Fund.

^aPesos per dollar.

exchange remained at more or less the same level as the preceding month, but in October it began to climb steadily, reaching 3.09 in December. This rise was influenced by the insufficiency of export earnings and financial assistance.

With the rise in the exchange rate on the parallel market, the gap with the parity rate widened from slightly over 3% in 1982 to 54% in 1984 (see table 11).

b) *Merchandise trade*

i) *Exports.* Exports of goods grew nearly 14%: a very much higher rate than in the preceding year (2%). In general, all the main items showed positive growth except gold, silver and, to a lesser extent, fufural (see table 12).

The value of raw sugar exports rose by nearly 5% as a result of a price increase of slightly less than 15%, since the volume exported fell by 9%. The rise in unit value, at a time when sugar prices on the world market had gone down, is explained by the expansion of sales to the United States, which pays countries it wishes to help a price which, in 1984, amounted to five times that prevailing on the world market.

Sales to that country represented 68% of the total volume exported and close to 80% of the value, compared with 58% and 73%, respectively, in 1983. So far, the Dominican Republic had been favoured with one of the biggest sugar import quotas assigned by the United States,⁶ and this even increased by a further 5% in the fiscal year October 1983-October 1984. However, the outlook for the near future is not very promising, since the decrease in the external demand of the United States will reduce the Dominican Republic's quota for the fiscal year 1984/1985 by 5%.

Refined sugar exports, which were under 1 000 tons in 1983, rose to over 22 000 tons and generated an income of more than US\$ 12 million. The rise was due to the preferential treatment

⁶In addition, in accordance with the provisions of the Caribbean Basin Initiative, the Dominican Republic is exempt from the import tax (FEE), which amounts to US\$ 2.81 per 100 pounds.

enjoyed by this product as from May, when authorization was given for 85% of the value of the exports to be changed at the parallel market exchange rate. These sales were to the United States market, which meant a rise of 45% in the price.

The value of coffee exports rose by 25% owing to a price increase of 7% and an expansion of 16% in volume. The saturation of the quota assigned by the International Coffee Agreement prevented the sale of some of the stocks. Government agencies responsible for foreign trade are exploring the possibility of bartering this commodity for some raw materials needed by the country.

In spite of the fact that the production of cocoa increased and its price on the international market rose for the second consecutive year, the volume exported fell by 6%. The accumulation of stocks could mean higher earnings in the future, since a substantial rise in price is expected owing to insufficient world production.

Total external sales of minerals fell by 3%. This was due to the decline of 20% in the value of exports of doré (an alloy of gold and silver) because of the drop in international prices. This decrease was too large to be offset by the 30% rise in exports of ferronickel, which have been recovering for the past year as a result of the incentive provided by an improvement in prices.

The exports which showed the greatest dynamism (75%) are those in the category "other products", which in the preceding two years had suffered a cumulative drop of the order of 45%. This category includes a wide range of agricultural and agroindustrial products, semi-manufactured and manufactures, and has come to represent one-sixth of total sales to the exterior (see table 12). These goods have been the subject of special treatment by agricultural, manufacturing, foreign trade and exchange rate policies, and this has had a positive impact on their growth. The possibility of their entering the United States market thanks to the provisions of the Caribbean Basin Initiative has not changed the situation significantly, since the great majority of these goods already had free access under the Generalized System of Preferences.

As already noted, support was provided for "non-traditional" exports, but traditional export commodities (coffee, sugar, cocoa, tobacco, gold and silver), on the other hand, failed to receive special treatment. Thus, although in April authority was given for earnings from these exports to be exchanged at a rate of 1.48 pesos per dollar, there was still a very large gap between that rate and the price of foreign currency on the parallel market. This has discouraged production, especially since the

Table 12

DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total	768	785	891	100.0	100.0	100.0	23.5	-35.4	2.3	13.5
Main traditional exports	472	451	499	76.8	48.2	56.0	57.6	-35.5	-4.3	10.5
Raw sugar	265	264	276	62.8	30.2	31.0	76.9	-48.3	-0.7	4.5
Coffee	91	76	95	3.9	5.4	10.7	20.1	45.6	-15.8	24.6
Cocoa	53	55	70	2.8	5.3	7.9	-12.3	18.2	4.9	26.2
Tobacco	21	22	24	3.8	3.6	2.7	88.6	-67.3	1.8	11.1
Furfural	22	22	20	1.9	2.1	2.2	27.7	-18.3	3.6	-11.7
Molasses	20	12	14	1.6	1.6	1.6	23.8	4.9	-40.5	21.9
Main non-traditional exports	188	248	241	14.4	37.5	27.0	-11.7	-41.0	32.0	-3.1
Gold and silver	164	165	132	3.0	27.0	14.8	-19.9	-21.3	-0.5	-19.9
Ferronickel	24	83	109	11.4	10.5	12.2	9.2	-78.1	244.8	30.0
Other products	108	86	151	6.9	12.4	17.0	0.8	-22.0	-20.6	75.6

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

Table 13

DOMINICAN REPUBLIC: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1977	1980	1984 ^a	1981	1982	1983	1984 ^a
Total ^b	1 256	1 279	1 215	100.0	100.0	100.0	-3.2	-13.4	1.8	-5.0
Consumer goods	248	268	241	26.9	22.6	19.8	-3.8	-23.9	8.1	-10.1
Raw material and intermediate goods	829	858	852	54.7	61.3	70.1	-2.5	-7.3	3.5	-0.7
Petroleum and fuels	452	461	507	22.2	30.0	41.7	10.8	-9.0	2.0	10.0
Others	377	397	345	32.5	31.3	28.4	-15.3	-5.0	5.3	-13.1
Capital goods	179	153	122	18.4	16.1	10.1	-5.0	-22.2	-14.5	-20.3

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bNot including adjustments of coverage.

prices of inputs for agriculture and processing plants increased considerably when the price of the dollar went up. This situation has given rise to tension between some producers and the State.⁷

In view of the need to increase exports, new forms of trade, including in particular barter,⁸ have been tried out. Proposals have been received from Venezuela, Spain and Ecuador in connection with transactions of this type.

ii) *Imports.* After the slight growth registered the preceding year, the value of imports fell by 5%. This was entirely due to a drop of 7% in volume, since the unit value experienced a slight rise of 2%. It should be noted that if the value of petroleum imports is not taken into account, the decline in terms of current values amounts to 13%. This performance reflects the slowdown in economic activity, the drop in investment, the rise in the price of foreign exchange, the increase in taxes and the import containment policy.

With the exception of petroleum and petroleum products, the intensity of the drop differed in all the merchandise groups, regardless of their destination (see table 13).

Thus, imports of durable and non-durable consumer goods fell by 10%. However, purchases of foodstuffs made by the Price Stabilization Institute rose by over US\$ 20 million, and imports of automobiles for private use grew by over US\$ 5 million. Raw materials, which, following a decline of 20% in the 1981-1982 biennium, had grown by 5% in 1983, fell by 13% in 1984. Imports of capital goods were those which were affected the most, however (-20%). Following the boom they experienced in 1980 (64%) their value has been declining steadily, so that in 1984 it amounted to only half what it had been in 1980 and their share in total imports fell from 16% to 10%.

Purchases of petroleum and petroleum products increased by 10%, i.e., by some US\$ 46 million. About 90% of that figure was attributable to an increase in purchases of crude, whose share in the total exceeded 70%. The expansion of the demand for crude was due to the restoration of the stocks of the Dominican Petroleum Refinery and, to a lesser extent, to the increased activity of the enterprise which produces ferronickel. The rise in fuels was basically due to an increase in purchases of heavy gas oil by the Dominican Electricity Corporation (CDE).

During 1984 the import containment policy initiated years ago was continued and the prohibition on the purchase in the exterior of a long list of articles remained in force. Temporary authorization was given, however, for the purchase of vehicles. All commodities (with the exception of petroleum, 75% of which was purchased at a preferential rate of exchange) were purchased with foreign currency obtained on the parallel market.

⁷The Casa Vicini, which produces 6% of the crude and one-third of the refined sugar, refused to hand over the foreign exchange from its export sales to the Central Bank, to which the State's response was to deny it an export licence. Agreement was reached at the end of the year.

⁸For example, one transaction involved bartering 4 000 tons of refined sugar for 14 trucks and 20 trailers, with spare parts.

The gradual devaluation of the currency led to a number of distortions in the fiscal field, since in spite of the fact that a large proportion of imports were purchased with foreign currency from the parallel market, the tax base was calculated at the official rate of exchange. During 1984 the fiscal policy placed emphasis on the establishment of a real tax base, although efforts were made to do this gradually, so that there would be a steady rise in the exchange rate used to calculate the value of imports until the real prevailing rate was reached. This had an impact on the cost of foreign purchases, however, and led to tension between importers and the tax authorities.

c) *Real services and factor payments*

The favourable balance of travel-related services rose by 30% to a little over US\$ 300 million in 1984. The rise in the price of the dollar made services cheaper in the country, attracting a larger number of tourists, while at the same time it raised the cost of travel and living expenses abroad, thereby discouraging the travel of Dominican Republic nationals to the exterior. The good performance of tourism was also attributable to exogenous factors, such as the favourable development of the economy of the United States, where three-fourths of the tourists to the Caribbean region come from.

In 1984 nearly 800 rooms were added to the hotel capacity, only 25% of them in Santo Domingo. The effort made during the present decade to develop the tourist infrastructure has borne fruit in the form of an appreciable increase in the supply of hotel facilities and a change in their profile. In 1980 the country had 3 800 rooms, only 18% of which were located in beach areas,⁹ whereas by 1984 the number of rooms had risen to 6 350, of which only 43% were located in the capital city.

The Department for Development of Tourist Infrastructure (INFRATUR) obtained a loan from the Inter-American Development Bank for US\$ 37 million for the construction of hotels and the expansion of related services. The total cost of the works involved will be US\$ 53 million.

Net factor payments rose by 10%. Their ratio to exports of goods and services, although high, remained at a similar level to that reached the preceding year (23%). The rise experienced was due to an increase of 90% in the remittance of profits; the amount paid in interest was similar to that of the preceding year.

Finally, private transfer payments, which mainly come from Dominicans residing abroad, increased by 5% to US\$ 205 million, which is equivalent to 15% of the country's exports of goods and services.

d) *The current account position and its financing*

The current account deficit of close to US\$ 240 million was 46% lower than that of the preceding year, while its proportion to the value of exports of goods and services fell from 36% to 17% (see table 14).

The net inflow of capital, which had remained unchanged in the biennium 1982-1983, rose by 4% to US\$ 325 million. This slight upturn was caused by the increase in the volume of unrequited official transfer payments (donations), which nearly trebled. Conversely, the net value of the remaining capital account items fell by 8%.

Although the net inflow of capital was similar to that of 1983, it was very irregular, since an appreciable share of the funds entered the country in the last months of the year because of the delay in signing the agreement with the IMF. Long-term capital contracted by 35%. The outflow of short-term capital, however, also fell substantially to nearly one-fourth that of the preceding year, or just over US\$ 60 million.

Direct investment increased by 44% and was channelled, in particular, to agroindustry and tourist services.

The net inflow of capital more than covered the current account deficit of the balance of payments and made it possible to increase the international reserves by US\$ 83 million, after they had fallen by close to US\$ 300 million in the preceding biennium. This meant an increase of US\$ 90 million in foreign exchange assets, although gold reserves and reserves in the International Monetary Fund fell by US\$ 24 million and US\$ 8 million, respectively. At the same time, liabilities with the Fund decreased by US\$ 25 million.

⁹Although Santo Domingo is a port, it lacks beaches, which reduces its attraction for tourists.

Table 14

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-315	-360	-674	-416	-457	-441	-237
Trade balance	-326	-349	-647	-306	-393	-339	-115
Exports of goods and services	828	1 135	1 271	1 513	1 142	1 242	1 403
Goods FOB	675	869	962	1 188	768	785	891
Real services ^b	152	266	309	325	374	457	512
Transport and insurance	20	22	26	31	21	28	28
Travel	92	124	173	206	266	321	388
Imports of goods and services	1 154	1 484	1 919	1 818	1 535	1 581	1 518
Goods FOB	862	1 137	1 520	1 452	1 257	1 282	1 215
Real services ^b	292	347	399	367	277	299	303
Transport and insurance	111	132	175	154	138	150	188
Travel	126	158	166	128	87	88	86
Factor services	-136	-188	-210	-293	-254	-297	-327
Profits	-41	-57	-65	-	-	-34	-65
Interest received	21	32	42	12	4	7	7
Interest paid	-116	-163	-187	-305	-258	-270	-269
Unrequited private transfer payments	146	177	183	183	190	195	205
Balance on capital account	276	358	708	454	311	311	325
Unrequited official transfer payments	4	29	5	10	15	20	57
Long-term capital	175	160	423	231	262	505	331
Direct investment	64	17	93	80	-1	48	69
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	111	143	330	151	264	457	262
Official sector ^c	133	165	268	226	290	542	...
Loans received	158	314	305	286	393	679	...
Amortization payments	-25	-142	-37	-60	-103	-192	...
Commercial banks ^c	-1	7	-	-7	-1	9	...
Loans received	-	8	-	-	-	11	...
Amortization payments	-1	-1	-	-7	-1	-2	...
Other sectors ^c	-21	-29	62	-68	-25	-94	...
Loans received	56	53	163	29	26	17	...
Amortization payments	-77	-82	-101	-97	-51	-111	...
Short-term capital (net)	29	241	250	198	34	-237	-61
Official sector	40	101	88	9	162	-385	...
Commercial banks	19	-16	92	193	-45	24	...
Other sectors	-30	156	71	-4	-83	124	...
Errors and omissions	69	-73	30	15	-1	23	-2
Global balance ^d	-39	-2	34	38	-146	-130	88
Total variation in reserves							
(- sign indicates an increase)	41	-8	-44	-54	160	147	-83
Monetary gold	-	-	-5	-5	16	13	24
Special Drawing Rights	-	-3	9	-2	1	-	-
IMF reserve position	-	-	-	-	-	-8	8
Foreign exchange assets	26	-81	27	-21	95	-34	-90
Other assets	12	-	-	-	-	-	-
Use made of IMF credit	3	77	-76	-25	48	176	-25

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: 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 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.

e) *External indebtedness*

Up to June 1984 the external debt had increased by only 2%, after having risen by over 30% the preceding year. This slight increase corresponded to the expansion of the long-term public sector debt (3%) since, in accordance with the trend followed since 1980, private sector and short-term indebtedness continued to decrease (see table 15).

In the middle of the year the external debt amounted to slightly over US\$ 2.6 billion, 88% of which corresponded to the public sector. This figure does not include some US\$ 590 million in respect of Central Bank arrears in payments for letters of credit.

Of the total external public debt, 50% was contracted for periods of more than eight years and 47% for periods of between one and eight years. The remainder is made up of short-term credits. Of the total resources, 37% were granted by multilateral bodies, 30% under bilateral agreements and 33% by private entities.

The renegotiation of the debt in December 1983 made it possible to defer the payment of some US\$ 500 million (65% in respect of delays in payment for letters of credit and the remainder in respect of overdue loan repayments) for five years, including one year of grace ending in January 1985. Two further renegotiations were underway —one in respect of loans granted by the governments represented in the Paris Club and the other relating to credits granted by international private banks. The latter would include rescheduling of the amortization payments agreed in the 1983 renegotiation.

During the year the Inter-American Development Bank (IDB) approved loans for US\$ 50 million for the industrial reactivation programme, US\$ 7.5 million for financing preinvestment studies, US\$ 4 million for geological studies and US\$ 73 million for the completion of the

Table 15

DOMINICAN REPUBLIC: EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars						
Total external debt						
Balances	1 565	1 839	1 837	1 947	2 560	2 617
Public	1 085	1 357	1 408	1 554	2 250	2 315
Private	480	482	428	393	310	302
Long- and medium-term	1 425	1 569	1 604	1 772	2 434	2 518
Short-term	140	270	232	164	126	99
Disbursements	831	846	607	532	967	165
Service	738	759	914	680	627	485 ^b
Principal	575	572	609	422	357	216 ^b
Interest ^c	163	187	305	258	270	269 ^b
External public debt						
Balance	1 085	1 357	1 408	1 554	2 250	2 315
Disbursements	675	607	512	472	930	146
Amortization payments	467	335	461	326	236	81
Percentages						
Total external debt ratios						
Total external debt/exports of goods and services	137.9	144.7	121.3	170.5	206.1	191.0 ^b
Service/exports of goods and services	65.0	59.7	60.4	59.5	50.5	34.5 ^b
Net interest payments/exports of goods and services	14.4	14.7	20.2	22.5	21.7	19.0 ^b
Service/disbursements	88.8	89.7	150.6	127.8	64.8	...

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aAs at 30 June.

^bEstimates at 30 December.

^cCorresponds to the "interest paid" item of the balance-of-payments current account.

Table 16

DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981	1982	1983	1984
Variation December to December						
Consumer price index	25.6	4.6	7.3	7.2	7.7	38.2
Food, beverages and tobacco	32.6	-4.3	3.1	9.5	4.0	40.3 ^a
Housing	...	...	18.6	4.7	12.3	23.6 ^a
Wearing apparel and footwear	...	...	5.9	11.6	20.6	64.6 ^a
Other	...	...	5.1	2.9	7.2	45.8 ^a
Variation between annual averages						
Consumer price index	9.2	16.8	7.6	7.6	7.0	24.4
Food, beverages and tobacco	10.9	15.3	0.4	7.9	6.5	21.1 ^b
Housing	7.8	10.3	22.1	9.4	8.2	21.8 ^b
Wearing apparel and footwear	8.4	20.4	8.2	9.6	14.4	45.4 ^b
Other	6.2	31.8	10.0	3.9	4.1	26.5 ^b

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^a November-to-November variation.^b Variation January-November with respect to the same period of the preceding year.

rehabilitation works in connection with the Sabaneta dam. IDB also granted a loan of US\$ 150 million for financing the expansion of the water supply system of the capital city (Project Madrigal). The implementation of this project was, however, finally rejected by the Chamber of Deputies.

In the fiscal year ending in September 1984, the Government of the United States granted financial aid amounting to nearly US\$ 110 million. Of this amount US\$ 34 million was used to relieve balance-of-payments pressures and US\$ 30 million for development programmes; US\$ 29 million was used to purchase farm surpluses under programme PL-480, US\$ 8 million represented a donation for the purchase of foodstuffs, and US\$ 6 million was granted as military aid.

The financial assistance programmed by the United States for the fiscal year 1984-1985 amounts to US\$ 161 million. Its disbursement, however, was made dependent on the signing of the agreement with IMF. Only at the end of December was a donation of US\$ 50 million received for the purpose of redressing the balance of payments.

The negotiations with the International Monetary Fund took up a large part of the year and were the topic around which the country's economic life revolved. The main point of disagreement related to the gradualness with which the adjustment policy should be applied, especially as regards the transfer of payments for imports to the parallel market. It should be noted that at the beginning of the year close to 60% of imports, comprising certain industrial and agricultural inputs, basic foodstuffs, medicines and petroleum, were still paid for with foreign currency at parity, so obviously their transfer to the parallel market would have considerable repercussions on both the price of the dollar and domestic prices.

4. Prices, wages and employment

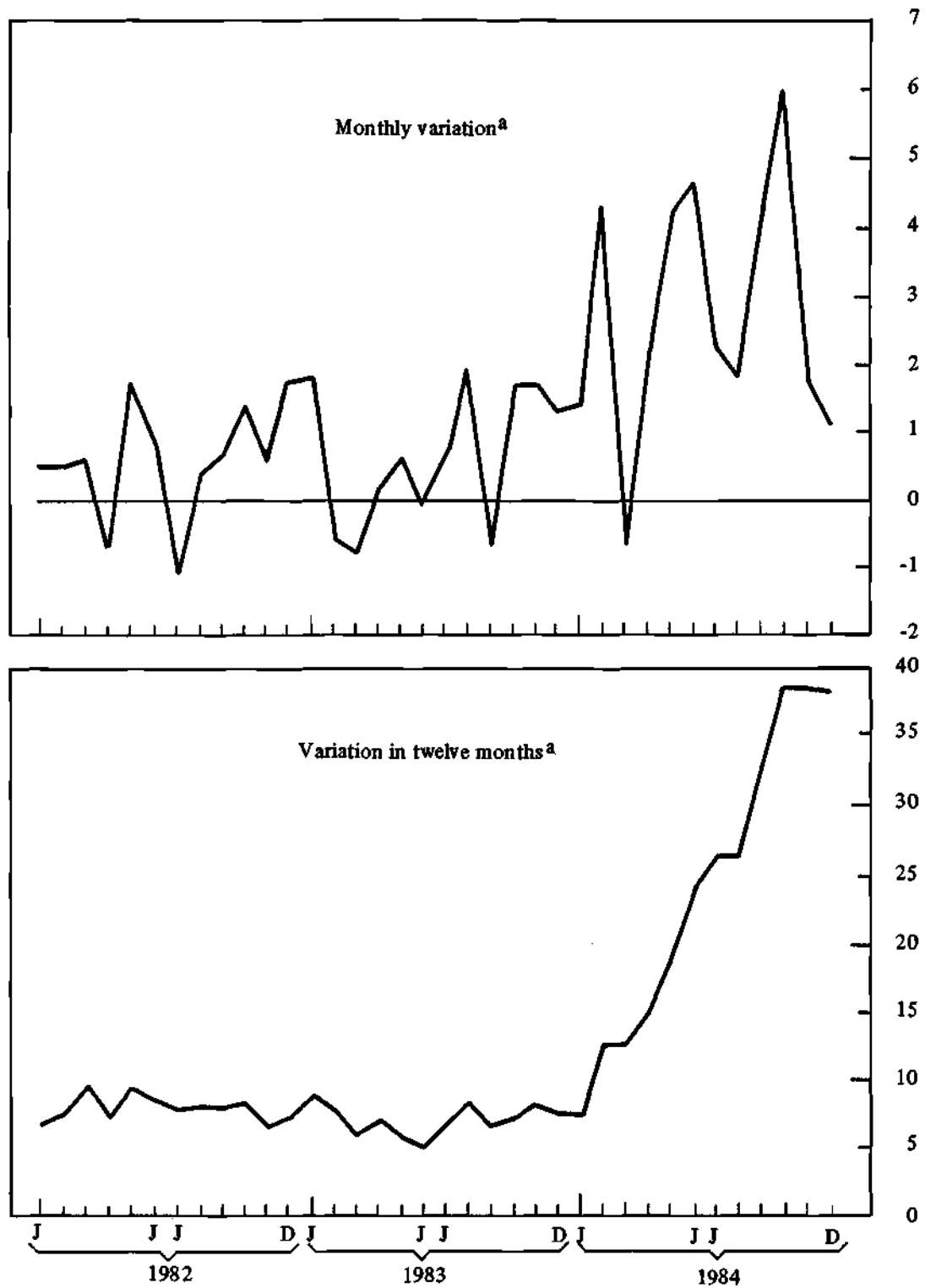
The national consumer price index registered an annual average variation of 24% — a rate 3.5 times higher than that of 1983 (7%). When measured on a December-to-December basis, the variation (38%) was nearly 5 times higher than the preceding year (8%) (see table 16).

The faster growth of prices was basically related to the adjustment policy to which the economy was subjected; to the fact that the price of imports rose because of the increase in the exchange rate; to fiscal policy measures, and, to a lesser extent, to the increase in minimum wages.

Although prices rose almost continually throughout the year, the biggest increases were those coinciding with the exchange rate policy measures applied in April and September (see figure 2).

The use of a higher exchange rate for the importation of basic foodstuffs by the Price Stabilization Institute necessitated an adjustment in the domestic prices of basic foodstuffs such as

Figure 2
DOMINICAN REPUBLIC: CONSUMER PRICE INDEX



^aIn percentage points.

Table 17

DOMINICAN REPUBLIC: EVOLUTION OF THE MINIMUM WAGE

	1980	1981	1982	1983	1984
Pesos					
Minimum monthly wage	125	125	125	125	158 ^a
Indexes					
Nominal	100.0	100.0	100.0	100.0	126.4
Real	100.0	93.0	86.3	80.8	82.1
Growth rates					
Nominal	-	-	-	-	26.4
Real	-4.8	-7.0	-7.2	-6.4	1.6

Source: ECLAC, on the basis of official data.

^aRaised to 175 pesos as from May.

bread, milk, oil, flour, rice and sugar. This, in combination with the rise in the prices of other foodstuffs and beverages, caused the food, beverages and tobacco index (which has a weighting of 52% in the total index) to rise by 21%.

In September the prices of petroleum products rose by between 28% for gasoline and 171% for fuel oil.¹⁰ This had a generalized inflationary effect, in that it was reflected in the cost of manufactures, transport and fuels for home consumption. The increase in gasoline prices and hence in the cost of transport, as well as in the price of medicines, was reflected in a rise of 27% in the "other items" category.

The prices of clothing and shoes rose by 45%, basically as a result of the rise in the exchange rate. It should be noted that the production of these articles, in addition to being insufficient for meeting the demand, has a high imported content.

In response to many demonstrations by the population protesting the rise in the cost of living, the government made a few concessions. Tariffs on agricultural inputs and milk for infants were reduced by 50%, the prices of 30 prime commodity articles were frozen for three months and basic medicines were exempted from taxation. The minimum wage, which had remained unchanged since mid-1979, was raised from 125 to 175 pesos a month. Wages higher than 175 pesos but lower than 300 pesos were raised 10%, while those higher than 300 pesos but not exceeding 330 pesos were raised by 30 pesos. Finally, the daily legal minimum wage of farm workers was readjusted from 3.50 pesos to 5 pesos. Given the high percentage of the labour force employed in the informal area, the effect of these increases was limited (see table 17).

The adjustment in the minimum wage resulted in a nominal average increase of 26%, but the real rise was under 2%, owing to the resurgence of price rises.

5. Monetary and fiscal policy

a) *Monetary policy*

The monetary policy and financial policy was directed towards unifying the exchange rate, putting the public finances on a sounder basis and changing the manner of financing them, and promoting domestic savings.

During the year the expansion of credit for the public sector was controlled by applying portfolio ceilings to keep the fiscal deficit from being financed through the issue of currency.

In order to strengthen the position of the Central Bank, measures were adopted for the gradual elimination of loopholes in the reserve requirements of the Reserve Bank,¹¹ since the public sector

¹⁰Increases in respect of other petroleum products were: gas oil, 99%; kerosene, 106%, and liquified gas, 36%.

¹¹The Reserve Bank is an independent State agency which carries out the typical transactions of a commercial bank and also acts as a financial agent of the government.

deposits it received were free of any such requirement. In addition, in order to expand its resources, steps were taken to obtain external financial assistance in the amount of US\$ 60 million.

In order to ensure greater control over the banking system's liquidity, the limits imposed on the Central Bank regarding the issue of stabilization bonds were eliminated. These securities are being sold to commercial banks and other credit institutions and may be used to cover the legal reserve requirements.

In order to promote savings and keep them from being diverted to the informal financial market, changes were introduced in the relatively high-yield Financial Certificates which had begun to be issued at the end of 1982. The minimum denomination of these certificates was reduced significantly, their period of maturity was cut back to six months and the interest they yield was increased to a minimum of 9.5% and a maximum of 18%.

The credit policy was directed towards restricting loans granted to the government, commercial banks and some sectors of the economy. It was decided that applications submitted by commercial banks to the Central Bank for loan renewals would be approved for only 60 days, with no possibility for extension. Credit restrictions on merchants and importers were also continued. Pursuant to provisions approved by the Monetary Board in October 1983, the commercial banks had to keep their loans to such borrowers down to an amount equivalent to 25% of their sight and time deposits.

As a result of the increase in the exchange rate for export receipts, both currency outside banks and demand deposits expanded considerably (43% and 57%, respectively). The expansion of the money supply (50%) was twice that of the gross domestic product at current values (see table 18).

To reduce this excess liquidity, an attempt was made to apply demonetization mechanisms. Stabilization bonds for 50 million pesos were placed on the market, and the granting of credit by the Central Bank to the commercial banks was temporarily suspended.

The reduction in the current account deficit of the balance of payments and the slight upsurge in the inflow of capital from the exterior, especially during the final quarter of the year, allowed the negative balance of the net international reserves to be brought down from some 470 million pesos in 1983 to about 380 million in 1984.

Table 18

DOMINICAN REPUBLIC: MONETARY BALANCE

	End-year balance (millions of pesos)					Growth rates			
	1980	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Money (M ₁)	571	647	733	782	1 170	13.3	13.3	6.7	49.6
Currency outside banks	275	324	359	415	593	17.8	10.8	15.6	42.9
Demand deposits	296	323	374	367	577	9.1	15.8	-1.9	57.2
Factors of expansion	1 967	2 160	2 235	3 001	3 441	9.8	3.5	34.3	14.7
Net international reserves	-241	-391	-702	-466	-377				
Domestic credit	2 208	2 551	2 937	3 467	3 818	15.5	15.1	18.0	10.1
Public sector	923	1 265	1 612	1 941	2 130	37.1	27.4	20.4	9.7
Central government (net)	433	580	747	892	1 037	34.0	28.8	19.4	16.3
Public institutions	266	426	591	762	796	60.2	38.7	28.9	4.5
Other public institutions	224	259	274	287	297	15.6	5.8	4.7	3.5
Private sector	1 285	1 286	1 325	1 526	1 688	0.1	3.0	15.2	10.6
Factors of absorption	1 396	1 513	1 502	2 218	2 271	8.4	-0.7	47.7	2.4
Quasi-money (savings and time deposits)	595	677	804	895	1 010	13.8	18.8	11.3	12.9
Long-term foreign borrowing	199	259	322	823	878	30.2	24.3	55.6	6.7
Other items (net)	602	577	376	500	383	-4.2	-34.8	33.0	-23.4

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

Table 19

DOMINICAN REPUBLIC: LOANS GRANTED BY COMMERCIAL BANKS^a

	End-year balance (millions of pesos)		Percentage breakdown		Growth rates (1984) ^b
	1983	1984 ^b	1983	1984 ^b	
Total	1 746	1 907	100.0	100.0	9.2
Agriculture	138	160	7.9	8.4	15.5
Sugar industry	29	42	1.7	2.2	41.9
Manufacturing	427	472	24.5	24.8	10.4
Construction	68	79	3.9	4.1	16.5
Commerce	217	217	12.4	11.4	-
Tourism	38	42	2.2	2.2	8.5
Government	570	595	32.6	31.2	4.4
Exports	100	132	5.7	6.9	32.1
Imports	70	73	4.0	3.8	4.3
Others	89	95	5.1	5.0	6.7

Source: ECLAC, on the basis of data from the Central Bank of the Dominican Republic.

^aLoans granted and approved.

^bPreliminary figures.

Domestic credit grew by 10%, a rate eight points lower than that of the preceding year and 15 points lower than the growth rate of the product in current terms. Financing granted by the Central Bank, which in 1983 had increased by 25%, grew by barely 2% and was directed basically towards the public sector, since that provided to the commercial banks fell by nearly 20%. On the other hand, the credit granted by the commercial banks increased by 12%: a similar rate to that of the preceding year. This meant that only one-eighth of the total financing received came from the Central Bank (compared with 57% in 1983).

The growth rate of credit to the public sector (10%) was somewhat lower than that of financing directed to the private sector (11%). This marked a reversal of the trend towards the securing of a larger proportion of the credit flow by the public sector, which had prevailed since the end of the 1970s.

The credit policy measures were reflected in the distribution of the financing granted by the commercial banks. Commercial and import activities received virtually no new flows, while of the increase in credit during the year (9%, equivalent to some 160 million pesos), 28% went to manufacturing; 26% to export activities; 15% to the government; 14% to the agricultural sector; 8% to the sugar industry and 7% to commerce (see table 19).

Savings and time deposits expanded by only 13%. The existence of a non-regulated financial market which offers interest rates on deposits very much higher than those prevailing in the formal financial system meant that fewer resources were captured by the latter.

Long-term external loans increased by only 7%, since the disbursement of many of the credits approved was contingent upon the signing of an agreement with the International Monetary Fund.

b) *Fiscal policy*

The public finance adjustment policy initiated the preceding year with the objective of reducing the fiscal deficit was intensified in 1984. To this end, tax revenue was expanded for the second consecutive year, and the growth of expenditure was contained by cutting capital outflows. Consequently, the fiscal deficit fell from some 240 million pesos to only 64 million and the ratio of the deficit to the gross domestic product dropped from 3% to less than 1% (see table 20).

As a consequence of the 39% growth in tax revenue, current income increased by 31%, which in real terms represented a rise of 15%. Non-tax revenue, on the other hand, suffered a nominal drop of nearly 20%.

The expansion of tax revenue (close to 40%) was obtained by simultaneously raising the various taxes. Indirect taxes brought in about 45% of the increase in receipts, and taxes on external trade, 3%.

The 45% increase registered in the collection of indirect taxes was secured through an increase of over 50% in the collection of taxes on petroleum and petroleum products, through both a rise in the domestic prices of these commodities and a change in the tax rates. Also of great significance were the earnings of 40 million pesos from the industrial goods transfer tax, which began to be collected in 1984.

Foreign trade taxes grew by over 40% in nominal terms. In particular, receipts from taxes on imports rose by 37%. The main explanation for this is the gradual devaluation of the peso. Because of this, the import tax, which until 1983 was calculated on the basis of the value of the merchandise at the parity exchange rate, began to be figured more realistically. Thus, the exchange rate applied rose from 1.70 pesos in January to 2 and 3.11 pesos in November. In spite of the fact that export taxes were trebled, this resulted in only a scant increase in the amount collected.

Table 20
DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos					Growth rates				
	1980	1981	1982	1983	1984 ^a	1980	1981	1982	1983	1984 ^a
1. Current income	869	908	745	906	1 184	28.9	4.5	-18.0	21.6	30.7
Tax revenue	696	735	661	782	1 084	14.8	5.6	-10.1	18.3	38.6
Direct	220	225	223	243	313	34.2	2.3	-0.9	9.0	28.8
Indirect	189	238	253	296	428	13.9	25.9	6.3	17.0	44.6
On foreign trade	287	272	185	243	343	4.0	-5.2	-32.0	31.4	41.2
Non-tax revenue	173	173	84	124	100	198.3	-	-51.4	47.6	-19.4
2. Current expenditure	729	776	792	878	1 004	12.3	-6.4	2.1	10.9	14.4
Wages and salaries	376	404	430	444	498	20.5	7.4	6.4	3.3	12.2
Current transfers	167	158	151	188	224	19.3	-5.4	1.9	16.8	19.2
Other current expenditure	186	214	201	246	282	-5.6	15.0	-6.1	22.4	14.6
3. Current saving (1-2)	140	132	-47	28	180	460.0	-5.7			542.9
4. Capital expenditure	324	292	196	264	244	-2.1	-9.9	-32.9	34.7	-7.6
Real investment	128	121	98	116	78	33.3	-5.5	-19.0	18.4	-32.8
Capital transfers	193	160	83	118	116	16.3	-17.1	-48.1	42.2	-1.7
Other capital expenditure	3	11	15	30	50	-91.3	266.7	36.4	100.0	66.7
5. Total expenditure (2 + 4)	1 053	1 068	988	1 142	1 248	7.5	1.4	-7.5	15.6	9.3
6. Fiscal deficit (1-5)	-184	-160	-243	-236	-64					
7. Financing of deficit										
Net domestic financing	93	101	193	197	-33					
Net external financing	91	59	50	39	97					
Credit received	103	69	91	96	125					
Less amortization payments	13	17	44	58	33					
Other sources	1	7	3	1	5					

Percentages

Ratios

Current saving/capital expenditure	43.2	45.2	...	10.6	73.8
Fiscal deficit/total expenditure	17.5	15.0	24.6	20.7	5.1
Tax revenue/GDP	10.5	10.2	8.4	8.9	9.9
Total expenditure/GDP	15.9	14.8	12.5	13.1	11.4
Fiscal deficit/GDP	2.8	2.2	3.1	2.7	0.6
Domestic financing/deficit	50.5	63.1	79.4	83.5	-51.6
External financing/deficit	49.5	36.9	20.6	16.5	151.6

Source: ECLAC, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic.

^aPreliminary figures.

The growth rate of direct taxes bordered on 30%. This substantial increase was a result of higher revenue from income tax, due primarily to the raising from 60% to 80% of the advance tax payments made by enterprises; the withholding of tax on fees charged by professionals, and the inclusion of pensioners as taxpayers.

Non-tax revenue, which had expanded by 48% in 1983, contracted by nearly 20%. One important reason for this was the deterioration in international gold prices, which caused the receipts from the State mining enterprise Rosario Dominicana to go down by 45%.

Total expenditure increased by only 9%, a rate which was lower than that recorded the preceding year and represented a drop in real terms. While current expenditure rose by approximately 14%, capital expenditure fell by 8%.

The increase in wages at the lower end of the scale and the rise in the prices of materials and supplies (which together represent two-thirds of the total) contributed to the expansion of 14% in operating expenditure. Current transfers also rose (19%), in particular those to town councils. On the other hand, interest payments on the public debt fell by 18%, and their share in current spending dropped from one-tenth to one-fourteenth.

The contraction in capital expenditure was due exclusively to the drop of 33% in investment, since capital transfers remained similar to those of the preceding year and the items included in "other expenditure" increased by nearly 70%. The pronounced drop in public investment was attributable to the combination of a decrease in the flow of capital from the exterior, the lack of counterpart resources for carrying forward some of the projects financed with external credit and, of course, the policy of seeking to put the public finances on a sounder basis, which was part and parcel of the adjustment programmes.

The fiscal deficit was fully covered by external resources in 1984, representing a dramatic reversal in the trend observed since the end of the previous decade towards growing participation of domestic resources in the financing of this deficit.

During the year the efficiency of some public enterprises improved. The Dominican State Enterprises Corporation (CORDE) recorded a surplus; the State Sugar Council (CEA) decreased its deficit by nearly 75%, thanks to the rise in the exchange rate at which it changed its export receipts and the increase in the domestic price of sugar, and the Dominican Electricity Corporation (CDE) came close to balancing its accounts by substantially reducing its losses due to illegal connections and free services. It should be noted that this enterprise continued paying for its petroleum imports at the official exchange rate.

In contrast, the Price Stabilization Institute (INESPRE) saw its deficit rise two and a half times over, in spite of the adjustment of the sales prices of the staple foodstuffs it imports. This result was largely due to the fact that social pressures forced it to subsidize medicines, some foodstuffs and fertilizers, with a consequent rise in its costs.

The ratio between the deficit of the non-financial public sector and the product was reduced. The share of the global deficit as a percentage of the product, however, rose from 4.8% to 5.7% as a result of the heavy exchange and operating losses suffered by the Central Bank.

VENEZUELA

1. Introduction and summary

The year 1984 saw the consolidation of the adjustment of the Venezuelan economy which had been begun the preceding year. The aim of this adjustment process was to restore the economy's external balance, put the finances of the public sector on a sound footing and adapt the production apparatus to the new conditions prevailing in the international economy. As in 1983, priority was given to the country's external adjustment: the year opened with a large currency devaluation. In combination with a slight improvement in the terms of trade, this helped to augment Venezuela's already highly positive trade balance (see table 1). The balance on current account consequently showed a surplus of almost US\$ 4.4 billion. Since the net outflow of capital diminished as well (from US\$ 3.5 billion to US\$ 3.2 billion), the country was able to increase its international reserves considerably; by year's end, reserves exceeded US\$ 12 billion, which was by far the highest level in the region. Finally, the fact that a preliminary agreement was reached in September 1984 between the Government and its main foreign creditors concerning the rescheduling of the service on the public debt also helped to create a more favourable external framework for the economy.

The second objective of the adjustment policy applied in 1984 was to reorganize public finances, which had been showing large deficits for a number of years both in the fiscal areas and in the accounts of State enterprises. The 40% devaluation raised the exchange rate applying to foreign exchange earnings from oil exports and increased current government revenue by the same percentage. There was thus a dramatic turnabout in fiscal accounts: after running a deficit of 2.5 billion bolívares in 1983, they showed a surplus of over 10 billion bolívares, which was equivalent to 3% of the product (see table 1). In addition, the non-financial public sector as a whole was able to show a surplus for the first time in several years thanks to a reorganization of the management of State enterprises.

The adjustment policy was less successful on the domestic front. In combination with various measures aimed at a relaxation of the domestic price control system, the devaluation gave rise to a marked acceleration of inflation, which reached the point where it was similar to 1979-1980 levels. Furthermore, in addition to the fiscal austerity measures which were taken, the monetary policy that was applied was quite restrictive and, indeed, actually resulted in a decrease in the monetary base. With this shrinkage of domestic demand, the gross domestic product diminished for the second year running (1.6%), although the decrease was smaller than it had been in 1983 (-5.6%), while urban unemployment reached a record level of 14% during the first half of the year (see figure 1). The per capita product, which contracted for the seventh consecutive year, was thus even smaller than it had been in 1970.

2. Trends in economic activity

a) *Total supply and demand*

The improvement in the terms of trade was cancelled out by the decline in domestic activity, and gross national income therefore showed virtually no change in 1984, remaining at a level similar to that of 1979 (see table 2). The slight upturn in the volume of imports of goods and services offset the decrease in the gross domestic product and made it possible to maintain the level of total supply recorded in 1983, which in any case was quite low. The volume of exports expanded 14% after four years of steady decline. Domestic demand diminished again, but this time by only a slight amount (-1%), whereas it had plummeted (-19%) in 1983 (see table 3).

b) *Sectoral trends*

The drop in domestic activity did not affect all sectors equally. There were substantial declines in the level of activity in construction and in commerce, both of which have been troubled by severe monetary constraints. In contrast, the new conditions prevailing with respect to foreign exchange rates and the application of other incentive and support measures led to an improvement in the competitiveness of the agricultural and manufacturing sectors (see table 4).

i) *Agriculture.* In an effort to boost the domestic supply of crop-farming products and to cut food imports, the producer prices of a number of goods were raised (particularly meat, fish and milk) and a subsidy of almost 50% on the price of fertilizers was provided. Furthermore, in keeping with

Table 1
VENEZUELA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984 ^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	18 647	18 347
Population (millions of inhabitants)	14.07	14.55	15.02	15.49	15.94	16.39	16.85
Per capita gross domestic product (in 1970 dollars)	1 408	1 380	1 310	1 267	1 239	1 137	1 089
Growth rates							
B. Short-run economic indicators							
Gross domestic product	2.1	1.3	-2.0	-0.3	0.7	-5.6	-1.6
Per capita gross domestic product	-1.4	-2.0	-5.1	-3.3	-2.2	-8.2	-4.3
Urban unemployment rate ^b	5.1	5.8	6.6	6.8	7.8	11.1	13.9 ^c
Consumer prices ^d							
December - December	7.0	20.5	19.6	11.0	7.3	7.0	18.3
Variation between annual averages	7.1	12.3	21.6	16.0	9.7	6.3	12.2
Real wages and salaries ^e	8.9	2.6	-6.6	-5.4	-0.1	-7.2	-5.2
Money	21.0	6.7	13.7	7.1	-8.4	31.2	7.3
Current government income	-6.2	24.8	25.4	47.8	-15.6	-8.2	38.2
Total government expenditure	2.0	3.5	43.0	31.9	-1.8	-9.2	19.3
Fiscal deficit/total government expenditure ^b	7.5	20.1 ^f	0.8	11.2 ^f	4.4	3.4	11.9 ^f
Fiscal deficit/gross domestic product ^b	1.9	6.1 ^f	0.2	3.3 ^f	1.2	0.9	3.2 ^f
Current value of exports of goods and services	-3.6	52.6	33.5	4.9	-16.1	-9.2	8.9
Current value of imports of goods and services	15.4	-6.4	6.5	13.1	14.8	-50.0	7.7
Terms-of-trade (goods)	-10.2	29.6	27.1	-1.7	-1.9	-3.2	5.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-5 366	760	4 839	3 835	-2 077	6 128	6 794
Net payments of profits and interest	-38	3	-328	-574	1 530	2 226	2 245
Balance on current account	-5 699	370	4 749	4 026	-4 222	3 707	4 394
Balance on capital account	4 635	3 729	-985	-4 047	-3 944	-3 552	-3 187
Variation in net international reserves	-1 324	4 121	4 184	1 100	-7 635	98	1 217
External debt ^g	16 383	23 071	26 509	28 377	30 479	33 500	31 290

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

^b Percentages.

^c First half of the year.

^d In the Caracas metropolitan area.

^e Average income

per employed person, deflated by the aggregate consumer price index.

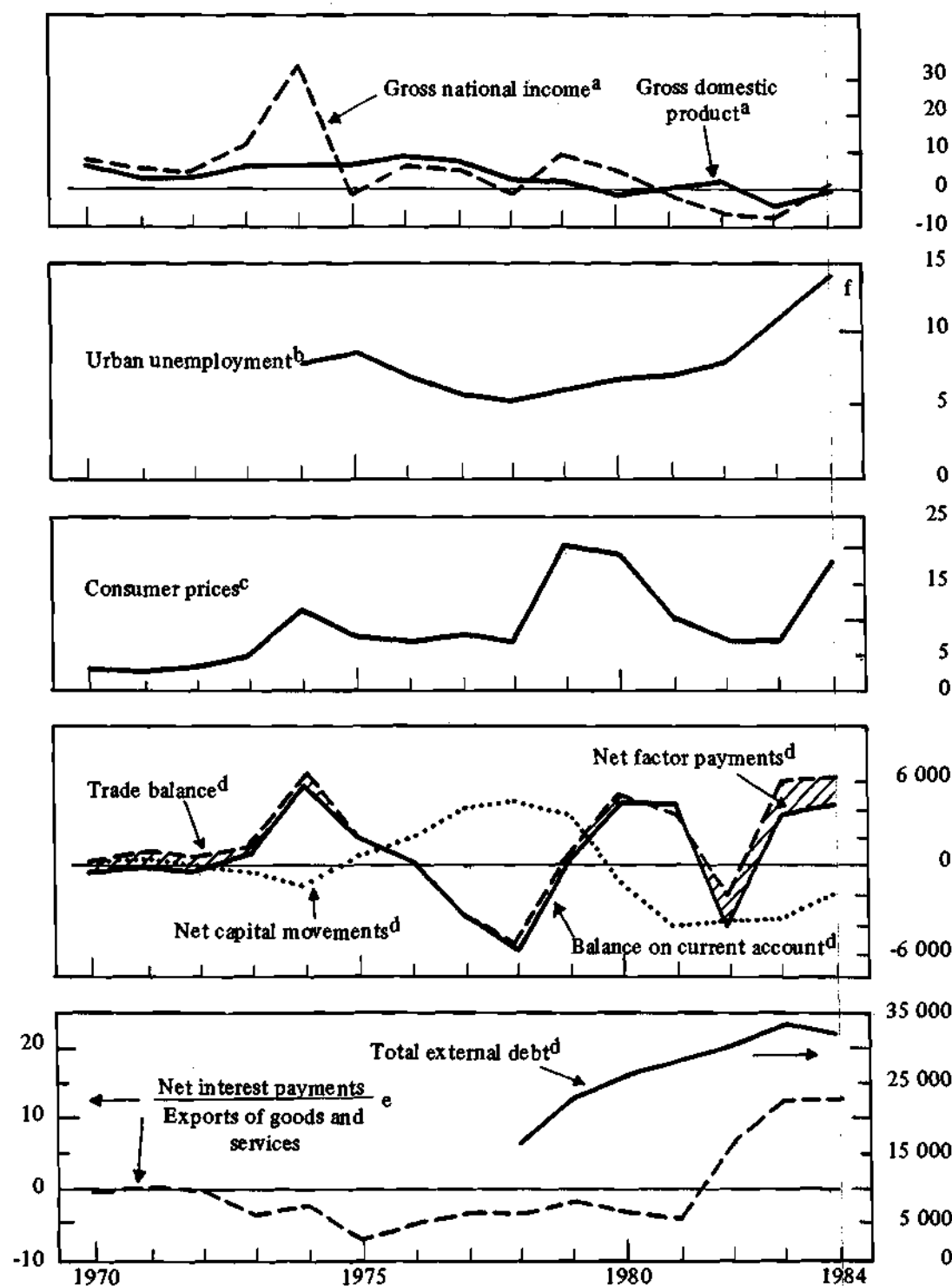
^f Fiscal surplus.

^g Including the public debt plus the non-

guaranteed short- and long-term debt owed to financial institutions reporting to the Bank for International Settlements.

Figure 1

VENEZUELA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. ^bTotal average annual rate of urban unemployment nationwide. ^cPercentage variation, December - December. ^dMillions of dollars.

^ePercentages. ^fFirst half of the year.

the high priority assigned to the sector, commercial banks were required to allocate a minimum of 17% of their loans to crop-farming activities, while the applicable interest rate was lowered substantially (from 14% to 8.5%)¹ (see table 5).

These financial incentives contributed to the growth (almost 2%) of crop-farming activities. Performance varied a great deal from one product to another, however. The most significant increase was seen in cereals (10%). In contrast, pulses and vegetables were seriously affected by adverse weather conditions. The substantial rise (45%) in the producer prices of cocoa did not discourage the smuggling of this product, with the result that officially recorded output fell 13% to the lowest level so far this decade.

Table 2
VENEZUELA: GROSS NATIONAL INCOME

	Millions of dollars at 1970 prices				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Gross national income (a + b - c + d)	25 713	23 958	22 311	22 294	-1.2	-6.8	-6.9	-0.1
a) Gross domestic product	19 623	19 757	18 647	18 347	-0.3	0.7	-5.6	-1.6
b) Terms-of-trade effect	6 019	5 024	4 622	4 888	-5.8	-16.5	-8.0	5.8
c) Net external factor payments	-215	587	581	880				
d) Net private transfers received from the exterior	-144	-236	-77	-61				

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 3
VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Total supply	27 289	22 531	22 494	127.0	132.0	122.6	0.2	4.8	-17.4	-0.2
Gross domestic product at market prices	19 757	18 647	18 347	100.0	100.0	100.0	-0.3	0.7	-5.6	-1.6
Imports of goods and services ^b	7 532	3 884	4 147	27.0	32.0	22.6	1.7	17.5	-48.4	6.7
Total demand	27 289	22 531	22 494	127.0	132.0	122.6	0.2	4.8	-17.4	-0.2
Domestic demand	25 577	20 844	20 572	115.0	122.2	112.4	0.6	5.7	-18.5	-1.3
Gross domestic investment	6 314	3 208	...	35.9	29.5	...	-1.4	10.3	-49.2	...
Gross fixed investment	5 881	4 013	...	30.1	30.1	...	3.0	-3.7	-31.8	...
Construction	2 791	...	...	15.2	16.0	...	-3.6	-8.3	...	...
Machinery	3 090	...	...	14.9	14.1	...	10.6	0.8	...	...
Public	4 066	...	...	10.7	14.8	...	27.1	9.6	...	...
Private	1 815	...	...	19.4	15.3	...	-20.4	-24.3	...	...
Changes in stocks	433	-805	...	5.8	-0.6	...				
Total consumption	19 263	17 636	...	79.1	92.7	...	1.2	4.2	-8.4	...
General Government	3 675	3 608	...	16.6	17.9	...	5.5	-1.0	-1.8	...
Private	15 586	14 028	...	62.5	74.8	...	0.2	5.6	-10.0	...
Exports of goods and services ^b	1 712	1 687	1 922	12.0	9.8	10.2	-5.1	-6.5	-1.4	13.9

Source: ECLAC calculations based on data provided by 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 prices, which were converted to constant 1970 values using price indexes calculated by ECLAC for the purpose.

¹ Another measure which helped to put the sector on a sound financial footing was the payment of nearly all (97%) of the debt owed to producers by various State food-processing companies (cereals, sugar, milk, etc.).

Table 4

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984 ^a	1981	1982	1983	1984 ^a
Gross domestic product^b	18 680	17 630	17 346	100.0	100.0	100.0	-0.3	0.7	-5.6	-1.6
Goods	6 807	6 535	...	38.2	35.7	...	-2.3	-1.0	-4.0	...
Agriculture	1 298	1 303	1 329	7.1	6.3	7.7	-1.9	3.6	0.4	2.0
Petroleum and natural gas extraction	1 145	1 019	1 029	8.6	6.4	5.9	-2.7	-9.5	-11.0	1.0
Mining	139	121	...	1.3	0.8	...	-1.4	-16.5	-12.8	...
Manufacturing ^c	3 154	3 163	3 251	15.2	16.2	18.7	-2.5	4.1	0.3	2.8
Construction	1 071	929	718	6.0	5.9	4.1	-2.1	-8.4	-13.3	-22.7
Basic services	3 355	3 008	...	14.9	15.0	...	5.5	5.0	-10.3	...
Electricity, gas and water	616	641	671	2.3	2.4	3.9	15.7	12.3	4.0	4.7
Transport, storage and communications	2 739	2 367	...	12.6	12.6	...	3.6	3.5	-13.6	...
Other services	9 931	9 828	...	52.2	49.9	...	0.4	-1.5	-1.0	...
Commerce	1 751	1 780	1 530	11.7	8.7	8.8	-2.6	2.6	1.7	-14.0
Financial institutions, insurance, real estate and business services	3 763	3 756	...	19.0	18.9	...	1.8	-2.9	-0.2	...
Ownership of dwellings ^d	2 452	2 508	...	13.0	11.4	...	3.0	3.7	2.3	...
Community, social and personal services	4 417	4 292	...	21.5	22.3	...	0.5	-1.9	-2.8	...
Government services	3 038	2 082	...	14.1	14.9	...	0.8	0.7	-1.8	...
Less: imputed commission for bank services	127	48	...	5.3	0.6	...	19.3	-13.8	-62.3	...

Source: ECLAC calculations based on official figures provided 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. ^cIncludes oil refining. ^dRefers to real estate and business services.

The increased producer prices for beef and milk did not boost the domestic supply of these products either, which fell 4% and 2%, respectively. Some of the reasons for this were the increase in production costs, delays in the granting of credits and the changes in the composition of demand which were prompted by price adjustments. The remaining stock-raising activities did quite well, however, and the total product for this subsector therefore grew by 2% (see table 5).

The volume of fishery output expanded once again, reaching a high for the 1980s; the level was nevertheless far below what it had been a decade earlier.

ii) *The petroleum sector.* The international situation with respect to the oil industry remained extremely unstable in 1984. The increasing lack of cohesion among producers, low inventories in the consumer countries and, in general, the great uncertainty existing with respect to the international oil market resulted in increased vulnerability to short-term factors. Ultimately, mounting pressure for a price reduction during the final quarter of 1984 forced OPEC to lower its production ceiling once again (this time by 9%); as a result, Venezuela's quota dropped from 1 675 000 to 1 555 000 barrels per day.

Despite the continued sluggishness of the world market for hydrocarbons, the Venezuelan oil industry made a good showing in 1984. This was partly due to the high percentage of heavy crude oil and by-products in its total foreign sales, since the demand for these products increased, as did their prices. Hence, although the country's output of crude and refined petroleum decreased (by 6% and 7%, respectively), exports of both of these products rose by around 4% and 1% (see table 6 and figure 2).

In addition, a number of measures associated with the domestic adjustment policy benefited the oil industry a great deal. In March 1984, the exchange rate applying to foreign exchange earnings from oil exports was raised from 4.30 to 6 bolívars to the dollar, at the same time that increases in domestic fuel prices were instituted. The structure of fuel prices was also modified with a view to encouraging the substitution of natural gas for domestic use in the place of liquid hydrocarbons. These changes contributed to a substantial increase (120%) in the oil industry's earnings from domestic sales. In turn, the 6% decline in the volume of domestic consumption made a greater volume available for export.

As a result of all of these factors in combination with a quite strict control of operating costs, the earnings of *Petróleos de Venezuela* doubled. Finally, the further decrease of over 20% in investment expenditure generated a financial savings —for the first time since 1981— of more than 6 billion bolívars (see table 7).

Table 5

VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
1. Index of agricultural production^b	88.0	100.0	106.0	104.3	106.2	2.2	3.7	-1.6	1.8
Crop farming	89.6	100.0	98.7	95.7	97.2	-2.3	1.0	-3.1	1.6
Stock raising	79.9	100.0	112.3	109.3	111.4	5.8	6.2	-2.7	1.9
Forestry	82.7	100.0	126.5	252.7	227.6	50.5	-16.0	99.8	-9.9
Fisheries	226.8	100.0	103.1	111.5	125.9	-5.8	9.4	8.2	13.0
2. Production of the main crops^c									
For export									
Cocoa	20	15	13	14	12	-1.3	-10.1	5.3	-12.9
Coffee	65	58	58	59	61	2.4	-2.7	1.7	3.4
For domestic consumption									
Cereals	1 087	1 547	1 487	1 302	1 428	-4.3	0.5	-12.5	9.7
Pulses	42	39	36	36	30	-2.1	-5.6	0.6	-17.6
Textiles and oil-bearing seeds	343	280	243	267	258	-11.8	-1.5	9.7	-3.2
Root crops and tubers	561	602	612	655	717	-1.5	3.4	7.0	9.7
Fruit	1 803	2 034	2 101	2 141	2 164	4.0	-0.7	1.9	1.1
Vegetables	231	365	358	344	330	-12.1	11.5	-4.0	-4.0
Other	5 583	5 041	5 432	4 872	5 024	-8.8	18.2	-10.3	3.1
3. Indicators of stock-raising production									
Slaughtering ^d									
Cattle ^e	1 382	1 663	1 717	1 726	1 665	3.0	0.2	0.5	-3.5
Pigs ^e	1 253	1 776	1 863	1 909	2 125	-4.6	9.9	2.4	11.3
Sheep	79	125	93	108	122	-12.5	-15.5	16.0	13.3
Poultry ^f	110	159	209	183	199	14.9	14.8	-12.5	8.3
Other products									
Milk ^g	1 187	1 311	1 427	1 464	1 441	6.4	2.3	2.6	-1.6
Eggs, for consumption ^h	1 604	2 034	2 436	2 253	2 285	8.3	10.6	-7.5	1.4
4. Volume of fishery products	153	177	214	231	264	-1.2	22.0	8.3	14.6

Source: ECLAC, on the basis of statistics supplied by the Ministry of Agriculture.

^aPreliminary figures. ^bCalculated on the basis of the gross value of production at 1968 prices; inasmuch as different sources were used, these figures do not correspond exactly to those given in table 4. ^cThousands of tons. ^dThousands of head. ^eIncludes changes in number of livestock. ^fMillions of head. ^gMillions of litres. ^hMillions of units.

Table 6

VENEZUELA: MAIN PHYSICAL INDICATORS OF PETROLEUM PRODUCTION

	Millions of barrels						Growth rates			
	1970	1975	1980	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Crude oil										
Production	1 353.0	856.4	793.5	691.7	657.3	618.5	-3.0	-10.1	-5.0	-5.9
Exports	889.0	537.4	472.6	386.6	356.5	368.9	-2.3	-16.2	-7.8	3.5
Refined products										
Production	471.0	316.0	338.6	318.5	328.4	305.6	-7.2	1.4	3.1	-6.9
Exports	378.0	224.1	206.7	173.8	185.4	186.7	-15.9	-	6.7	0.7
Domestic consumption ^b	73.1	77.1	133.9	143.1	140.3	131.6	6.1	0.7	-2.0	-6.2
Capacity										
Production potential	...	...	908.5	936.2	914.3	914.3	-0.1	3.1	-2.3	-
Refining capacity	...	567.7	538.5	516.6	516.6	485.2	-1.7	-2.4	-	-6.1
Reserves										
Proven ^c	14.0	18.4	19.5	24.6	25.8	28.0	3.2	22.0	5.1	8.5
Theoretical life ^d	10.0	21.5	24.6	35.5	39.3	42.3	6.5	35.5	10.7	7.6
Gas^e										
Gross production	48.4	38.0	36.5	33.3	31.8	32.5	-4.9	-4.1	-4.5	2.3
Domestic consumption	...	9.3	14.4	15.2	15.3	17.0	-0.7	6.3	-0.7	11.1

Source: ECLAC, on the basis of statistics provided by the Ministry of Energy and Mines.

^aPreliminary figures.^bCovers domestic and industrial use, including that of the petroleum industry.^cBillions of barrels.^dIn years. Calculated by dividing total reserves by crude oil production in the corresponding year.^eBillions of cubic metres.

iii) *Mining*. Although data is not available on the real increase in the mining product, its nominal value is estimated to have risen over 40%. This was due to considerable increases in the volume of iron ore and gold production, as well as to the higher prices in local currency caused by the devaluation. Iron ore output jumped nearly 42%, thereby putting a halt to four years of continual and substantial declines, although production was still below its 1980 level. The equally striking increase (40%) in gold production was, in contrast, mainly due to the implementation of a programme for the supervision and monitoring of mining activities which diminished the illegal gold trade and raised the reported production volume (see table 8).

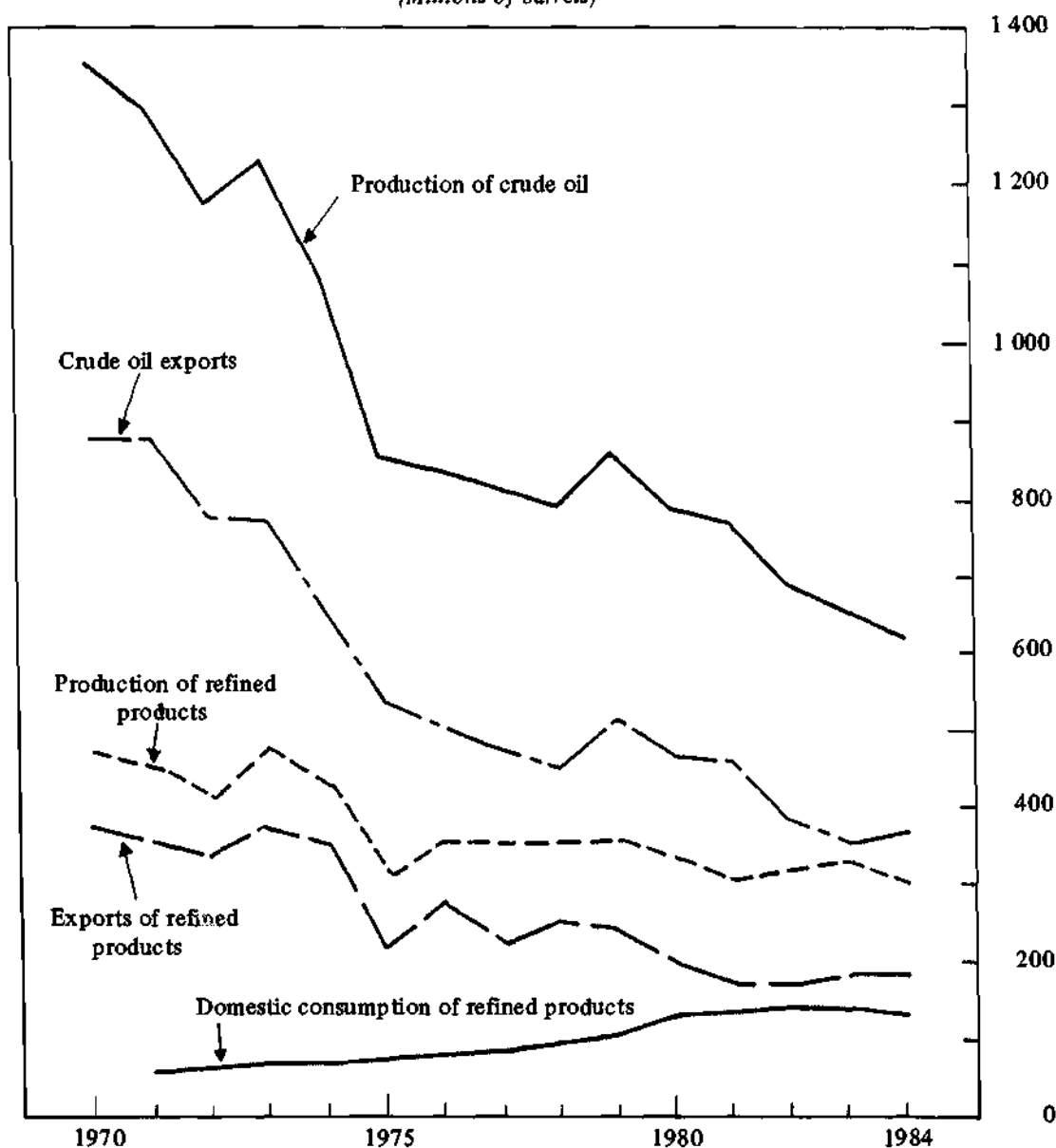
iv) *Manufacturing*. Preliminary estimates indicate that the level of manufacturing activity climbed 3%, in contrast to the decrease of the preceding year (see table 9). This was partly the result of the positive effect of the new exchange system, which encouraged import substitution and provided an indirect export subsidy by virtue of the large differential existing between the exchange rates applying to the purchase of inputs and foreign sales. The relaxation of domestic price controls also had a favourable impact. This prompted a slight increase in the utilization of the manufacturing sector's installed capacity which, however, was still rather low (66%).

Nonetheless, the reactivation was not an all-embracing phenomenon. The sectors producing consumer goods were the most dynamic, particularly the textile, clothing and food industries. The production of intermediate goods expanded with equal speed both in private companies (paper, rubber) and in public enterprises (steel, aluminium, petrochemicals). It should be noted here that the progressive reorganization of the management of such public enterprises allowed them to make a substantial reduction in the operating deficit which they had been running for quite some time. The industries involved in the production of capital goods fared less well owing to the decline in both public and private investment in 1984. Within this subsector, automobile production was the most severely affected; its sales volume has fallen to half its former level over the last six years (see table 9).

v) *Construction.* The downturn seen in the construction sector since 1979 worsened in 1984 (see table 10). Its real product dropped almost 23% due to another drop (20%) in housing sales and the scarcity of mortgage credit. Consequently, even though housing construction was off by one-third in 1984, the number of unsold dwellings was reduced by only 3% and thus amounted to almost one-half of the housing units built in 1984.

Construction was also hurt by a drastic cutback (-75%) in non-residential public construction works and in the investment expenditure of public enterprises.

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

	1980	1981	1982	1983	1984 ^a	Growth rates				
						1980	1981	1982	1983	1984 ^a
Prices (US dollars per barrel)										
Reference price	26.44	29.71	27.47	25.31	26.70	49.5	12.4	-7.5	-7.9	5.5
Crude oil	25.64	29.42	26.76	23.72	25.36	54.0	14.7	-9.0	-11.4	6.9
Petroleum products	28.21	30.46	29.01	28.35	29.34	42.6	8.0	-4.8	-2.3	3.5
Export value	32.69	38.21	34.73	31.64	33.88	64.4	16.9	-9.1	-8.9	7.1
Crude oil	31.57	38.23	33.83	29.65	31.70	63.8	21.1	-11.5	-12.4	6.9
Petroleum products	35.15	38.19	36.68	35.44	36.68	66.6	8.6	-4.0	-3.4	3.5
Millions of bolívares										
Proceeds from sales	80 780	84 387	70 710	64 019	95 421	33.3	4.5	-16.2	-9.5	49.1
External	78 328	81 723	67 068	59 948	86 454	33.9	4.3	-17.9	-10.6	44.2
Domestic	2 452	2 664	3 642	4 071	8 967	18.2	8.6	36.7	11.8	120.3
Corporate profits	14 813	14 234	10 897	7 582	15 713	18.7	-3.9	-23.4	-30.4	107.2
Gross fixed investment	8 878	12 353	15 615	12 156	9 514	23.6	39.1	26.4	-22.2	-21.7

Source: ECLAC, on the basis of data provided by the Central Bank of Venezuela and Petróleos de Venezuela, S.A.

^aPreliminary figures.

Table 8

VENEZUELA: INDICATORS OF MINING PRODUCTION

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
1. Indexes of mining production (1970 = 100)	125.9	157.2	129.3	112.7	...	-1.4	-16.5	-12.8	...
2. Production of some important minerals									
Iron ^b									
Production	24.8	16.1	11.7	9.4	13.3	-3.7	-24.5	-19.7	41.5
Exports	21.7	11.8	6.6	6.3	8.0	5.1	-46.8	-4.5	27.0
Gold ^c	570	430	902	1 084	1 521	101.2	4.3	20.2	40.3
Diamonds ^d	1 060	666	435	279	258	-26.3	-11.2	-35.9	-7.6
Coal ^e	60	39	47	39	49	14.7	2.9	-15.7	25.0

Source: ECLAC, on the basis of statistics provided by the Ministry of Energy and Mines.

^aPreliminary figures.^bMillions of tons.^cKilograms.^dThousands of carats.^eThousands of tons.c) *Employment and unemployment*

As was to be expected, the slackening of domestic economic activity had an adverse effect on employment levels. The open unemployment rate, which had already shown a steady increase in 1983 when it had reached 10%, climbed to 13% in 1984, the highest level in recent years (see table 11). In keeping with past trends, unemployment was higher in construction and manufacturing (29% and 13% of the respective labour forces). Unemployment levels in the services sector rose considerably.

Open unemployment jumped from 10% in December 1983 to 14% in February 1984. A number of measures were taken to curb this trend, including a compulsory 10% expansion in the work force of companies employing 10 or more workers. A national employment plan was also developed with a view to bolstering indirect government employment through maintenance works. According to official figures, 84 000 jobs (equivalent to 1.5% of the labour force) were created in this way. This was not even enough, however, to match the growth of the active population (2.5%) and the national unemployment rate therefore remained high, fluctuating between 12% and 14%.

3. The external sector

The adjustment programme in effect in 1984 yielded quite positive results in so far as the external sector was concerned. For the second year in a row, Venezuela had a trade surplus as well as surpluses on current account and on the global balance.

a) *Exchange policy*

The first economic measure to be applied in 1984 was another devaluation, which raised the official parity from 6.00 to 7.50 bolívars to the dollar.² Nonetheless, the authorities retained the system of multiple exchange rates and even added a fourth level. The rate of 4.30 bolívars to the dollar was maintained for amortization payments on the public and private external debts and for the

Table 9

VENEZUELA: INDICATORS OF MANUFACTURING AND ELECTRICAL POWER PRODUCTION

	1975	1980	1982	1983	1984	Growth rates			
						1981	1982	1983	1984 ^a
1. Index of manufacturing production	100	199	239	234	...	10.5	8.8	-2.3	...
2. Output of some industrial products ^b									
Sugar	469	323	364	348	389	-6.2	20.1	-4.4	11.8
Paper and cardboard	384	501	481	486	558	-	-4.0	1.0	14.8
Ammonia	180	439	535	462	572	14.8	6.2	-13.6	23.8
Sulphuric acid	117	414	113	139	158	-30.7	43.0	23.0	13.7
Urea	27	276	372	390	460	14.1	18.1	4.8	17.9
Liquid caustic soda	7	22	30	34	27	13.6	20.0	13.3	-20.6
Fertilizers	444	441	630	576	759	10.0	29.9	-8.6	31.8
Steel	919	1 784	1 990	2 146	2 511	1.9	9.5	7.8	17.0
Aluminium	52	156	273	332	377	101.3	-13.1	21.6	13.6
Cement	3 455	4 842	5 432	4 304	4 783	0.7	11.4	-20.8	11.1
Reinforcing rods	213	469	444	364	492	2.8	-7.9	-18.0	35.2
Tyres ^c	2 669	3 483	3 590	3 385	2 985	5.7	-2.5	-5.7	-11.8
Vehicles ^c	144	155	155	112	110	-0.6	0.6	-27.7	-1.8
Passenger	92	94	94	90	88	-12.8	14.6	-4.3	-2.2
Commercial	52	61	61	22	22	18.0	-15.3	-63.9	-
3. Electricity									
Installed capacity ^d	4.6	7.7	9.7	9.8	11.3	9.1	15.1	1.7	15.3
Generation ^e	19.6	32.5	35.0	38.3	40.2	4.1	3.6	9.3	5.0
Total consumption ^e	19.5	28.2	29.3	31.3	34.1	3.0	0.8	7.1	8.9

Source: ECLAC, on the basis of statistics supplied by the Central Bank of Venezuela.

^a Preliminary figures.

^b Thousands of tons.

^c Thousands of units.

^d Millions of kWh.

^e Billions of kWh.

² The first devaluation, which came after 18 years of a completely stable exchange rate for the United States dollar, took place in February 1983. The official rate rose from 4.30 to 6.00 bolívars to the dollar and a system of multiple exchange rates was introduced.

Table 10

VENEZUELA: CONSTRUCTION INDICATORS

	1975	1980	1982	1983	1984 ^a	Growth rates			
						1981	1982	1983	1984 ^a
1. Index of sectoral GDP (1970 = 100)	202.2	254.5	228.3	197.9	153.0	-2.0	-8.4	-13.3	-22.7
2. Activity indicators									
Domestic sales of structural steel ^b	449	485	452	285	328	8.0	-6.8	-39.4	15.1
Domestic sales of cement ^b	5 065	5 438	5 667	4 163	3 633	7.4	4.2	-26.6	-12.7
Domestic sales of hardware and building materials ^c	...	100	90	95	93	-12.8	3.2	6.3	-4.3
Loans received ^d	...	6 466	5 230	3 328	3 499	-5.9	-14.1	-36.4	5.1
3. Housing construction (thousands of units)									
Total	61.4	77.1	92.4	57.4	38.2	8.5	10.5	-37.8	-33.6
Public sector ^e	35.4	40.0	48.5	28.3	18.6	7.7	12.6	-41.5	-34.4
Private sector	26.0	37.1	43.9	29.1	19.6	9.3	8.2	-33.7	-32.7

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aPreliminary figures.^bThousands of tons.^cIn the Caracas metropolitan area. Index in real terms, 1980 = 100.^dMillions

of bolívars.

^eIn addition to dwellings, includes low-cost plots of land and urban renewal tracts.

expenditures made by Venezuelan students abroad. The use of this rate in commerce was restricted, however, to imports of a very small group of food and pharmaceutical products. The prior commercial exchange rate of 6.00 bolívars to the dollar was applied only to the operations of the petroleum and iron ore sector, which had previously been subject to an exchange rate of 4.30 bolívars to the dollar. The basic rate in the system (7.50 bolívars to the dollar) was applied to most imports and to interest payments on the external debt. Finally, under the revised system the foreign exchange needed for all other external transactions had to be acquired on the free market.

Particularly because of the streamlining of administrative procedures, these exchange modifications had a much greater impact than the changes made the year before. Thus, whereas 88% of external transactions were made at the preferential exchange rate of 4.30 bolívars to the dollar in 1983, this proportion dropped to just 22% in 1984, while most transactions became subject to exchange rates of 6.00 and 7.50 bolívars to the dollar (see table 12). This raised the average exchange rate for the economy as a whole (which had risen only 16% in 1983) by 30%, from 5.00 to 6.50 bolívars to the dollar (see table 13).

Lastly, during the second half of the year the Central Bank implemented a much firmer policy of intervention in the free foreign exchange market and thereby succeeded in reducing the free exchange rate by a considerable amount: the price of the dollar, which had reached a peak of 16 bolívars in late May due to what were essentially speculative factors, dropped to only 12 bolívars by the end of the year, which was slightly lower than the level recorded in late 1983.

b) Foreign trade

Exports of merchandise showed a substantial increase (9%) in 1984 after two consecutive years of steep decline (see table 14). This was primarily due to the aforementioned 8% rise in the value of foreign sales of hydrocarbons. The structure of these exports was modified so that they were more in keeping with the price trends of the various products on the international market, and this was also reflected in an increase of nearly 5% in the unit value of exports (see table 15). Incipient non-traditional exports showed very rapid growth, expanding 64% in the space of two years (see table 14). The increases recorded for exports of petrochemicals (78%), steel (25%) and aluminium (12%) were particularly striking.

The expansion seen in external purchases was quite moderate (7%), especially in view of the fact that in 1983 they had fallen to less than half of what they had been the preceding year. Nonetheless, imports CIF climbed steadily (19%) until September, but their rate of expansion slowed during the fourth quarter as a result of the stagnation of production activity and the very depressed level of demand (see table 16).

The most significant increase (46%) corresponded to external purchases of raw materials and intermediate goods; this reflected the difficulties involved in substituting domestic products for these items. Imports of food and beverages were also up substantially (26%). Imports of building materials, however, shrank 36%, thus dropping to one-tenth of what they had been two years before. This is another indication of the severe slowdown seen in construction activity (see table 16).

Table 11

VENEZUELA: EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984 ^a	Percentage breakdown		Growth rates		
						1980	1984	1982	1983	1984
Work force										
(thousands of persons)	4 938	5 120	5 305	5 536	5 673			3.6	4.4	2.5
Net participation rate (percentage)	55.0	54.7	54.4	54.2	54.7 ^c					
Thousands of persons										
Employment	4 646	4 803	4 928	4 937	4 942	100.0	100.0	2.6	0.2	0.1
Primary sector	756	760	781	830	866	16.2	17.5	2.7	6.4	4.4
Agricultural activities	683	694	710	757	792	14.7	16.0	2.3	6.6	4.6
Hydrocarbons, mines and quarries	71	66	71	73	75	1.5	1.5	7.5	4.1	1.5
Secondary sector	1 242	1 276	1 302	1 189	1 156	26.7	23.4	2.0	-8.7	-2.8
Manufacturing	752	770	769	728	744	16.2	15.1	-0.1	-5.4	2.3
Construction	434	449	469	393	345	9.3	7.0	4.5	-16.2	-12.3
Electricity, gas, water and sanitary services	56	57	64	69	67	1.2	1.3	11.7	7.4	-2.8
Tertiary sector	2 648	2 763	2 846	2 913	2 917	57.0	59.0	3.0	2.3	0.2
Commerce	868	907	932	938	947	18.7	19.2	2.7	0.6	1.0
Transport, storage and communications	342	366	375	374	348	7.4	7.0	2.3	-0.3	-7.0
Other services	1 439	1 489	1 539	1 601	1 623	31.0	32.8	3.4	4.0	1.3
Percentages										
Open unemployment										
Nationwide total	5.9	6.2	7.1	10.0	12.9					
Previously employed	5.1	5.3	6.0	8.5	11.0					
Seeking work for the first time	0.8	0.9	1.1	1.5	1.9					
Rural areas	3.7	4.0	4.8	5.7	6.9 ^c					
Urban areas	6.6	6.8	7.8	11.1	13.9 ^c					
Caracas metropolitan area	6.7	5.7	7.0	10.5	11.0 ^c					
Unemployment by economic sector										
Manufacturing	5.1	5.3	6.0	8.5	11.0					
Construction	7.3	7.3	7.8	11.7	13.1					
Commerce	11.3	11.7	13.3	21.4	29.3					
Other services	4.2	4.2	5.1	7.4	9.8					
	3.5	3.9	4.2	6.7	8.9					

Source: ECLAC, on the basis of data obtained from household surveys conducted by the Central Statistics and Information Office (OCEI).
^aPreliminary figures. ^bWork force as a percentage of the population aged 15 years and over. ^cFirst half of the year only.

Table 12

**VENEZUELA: FOREIGN EXCHANGE MOVEMENTS,
BY EXCHANGE RATE**

	Millions of dollars				Percentage breakdown ^a	
	1983		1984 ^b		1983	1984 ^b
	Inflows	Outflows	Inflows	Outflows		
Exchange rate for the US dollar						
4.30	16 203	12 453	2 423	4 966	87.6	22.2
6.00	392	1 081	13 274	2 420	4.5	47.1
7.50	-	-	962	7 104	-	24.2
Free rate	165	1 923	699	1 481	7.9	6.5
Total	16 760	15 457	17 368	15 971	100.0	100.0

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aOf total foreign exchange transactions.

^bPreliminary figures.

The rise in the unit value of exports, in combination with a drop in the unit value of imports for the third year running, resulted in a 5% improvement in the terms of trade. As a result, merchandise trade yielded a surplus of over US\$ 8.7 billion, which was the largest ever recorded. In turn, the trade surplus bordered on US\$ 6.8 billion, thus improving on the preceding year's already large surplus by 11% (see table 17).

c) *The balance of payments*

This expansion in the trade surplus was more than enough to finance the increase (23%) in interest payments, which exceeded US\$ 4.2 billion primarily as a result of the fact that payments in arrears were brought up to date. The balance on current account once again showed a surplus, which on this occasion amounted to US\$ 4.4 billion.

The trend of the capital account was also favourable. The deficit on this account was reduced by 10% from US\$ 3.55 billion to US\$ 3.2 billion in 1984. Exact figures are not available, but it may be assumed that this was basically a result of a large drop in unrecorded short-term private capital outflows; the notable decrease in the movements included in the "errors and omissions" entry would appear to corroborate this explanation (see table 17).

As a result of all these factors, the international reserves held by the Central Bank increased by over US\$ 1.3 billion to approximately US\$ 12.5 billion, which was almost double the value of imports of merchandise (see table 18).

d) *External indebtedness*

For the first time, at least in recent memory, the external debt decreased. Its 1984 level of US\$ 31.2 billion represented a decline of 6% with respect to the preceding year and was less than double the value of exports (see table 19). The main reason for this decrease was the fact, as already mentioned, that interest payments in arrears were brought up to date, thus reducing the short-term debt by nearly US\$ 1.7 billion. The service on the total debt, in contrast, rose sharply, reaching a level equivalent to almost one-third of the country's exports of goods and services. This was the highest ratio seen in Venezuela during recent times, but it was still modest in comparison to those recorded by the other countries of the region.

The regularization of the situation with respect to interest payments and, in general, the affirmation of the adjustment process helped to expedite negotiations on the external debt. In late September a preliminary agreement was reached between the Government and foreign banks after almost three years of negotiations and a 20-month suspension of amortization payments. It is noteworthy that this agreement was reached without there being any concomitant agreement with

the International Monetary Fund, although the Fund did make it known that it approved of the Venezuelan Government's adjustment policy.

Over two-thirds of the total external debt was renegotiated (US\$ 20 750 000 000). Debts owed to non-banking institutions and the external debt of the private sector were not included. The renegotiations thus covered the public debt payments falling due between 1983 and 1988, which were rescheduled over a twelve and one-half year term. Amortization payments were to be recommenced on a quarterly basis beginning in the second quarter of 1985.

The agreement also provided for the replacement of the United States prime rate with the LIBOR as the benchmark rate and for the suppression of the banks' commissions on the renegotiation. An effective interest of 1 1/8% over the LIBOR was thus established; based on this rate, according to official estimates, the servicing of the renegotiated debt would require annual payments of around US\$ 4.5 billion.

There continued to be uncertainty with respect to the renegotiation of the private external debt, however. Since the process of administrative registration was not completed in 1984, it was not even

Table 13

VENEZUELA: CHANGES IN THE EXCHANGE RATE

Annual and quarterly averages	Nominal exchange rate (bolívars to the dollar)	Indexes of the real effective 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	91.4	91.2
1982	4.29	85.1	84.2
1983	4.97 ^b	91.3	90.8
1984 ^c	6.47 ^b	103.0	102.8
1982			
I	4.29	86.7	86.1
II	4.29	85.7	84.9
III	4.29	84.1	83.2
IV	4.29	84.1	83.0
1983			
I	4.35 ^b	83.3	82.9
II	5.13 ^b	95.1	94.9
III	5.70 ^b	103.2	102.7
IV	4.87 ^b	87.0	86.5
1984			
I	5.45 ^b	94.6	94.2
II	6.94 ^b	114.6	114.5
III	6.77 ^b	103.8	103.6
IV ^d	6.79 ^b	97.2	96.8

Source: ECLAC, on the basis of information provided by the International Monetary Fund, *International Financial Statistics*.

^a Corresponds to the average of the indexes relating to the real exchange rate for the bolívar with respect to the currencies of Venezuela's main trading partners, weighted according to the relative magnitude of exports to or imports from these countries, as appropriate. From 1975 to 1979, the weightings correspond to the average for those same years; from 1980 onwards, they correspond to the average for the period 1980-1983. These calculations have been conducted primarily on the basis of wholesale price indexes. For information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America*, 1981.

^b Average exchange rate for the economy as a whole, weighted on the basis of the foreign exchange movements recorded by the Central Bank.

^c January-November

^d October-November average.

Table 14

VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1975	1980	1984	1981	1982	1983	1984 ^a
Total	16 332	14 654	15 963	100.0	100.0	100.0	4.7	-18.1	-10.3	8.9
Main traditional exports^b	15 760	13 880	15 026	98.0	95.9	94.1	4.3	-18.3	-11.9	8.3
Petroleum	15 659	13 778	14 910	94.6	94.9	93.4	4.3	-18.0	-12.0	8.2
Iron ore	83	80	86	3.0	0.8	0.5	14.2	-50.9	-3.6	7.5
Main non-traditional exports	572	774	937	2.0	4.1	5.9	9.8	-19.1	35.3	21.1
Public sector	528	619	748	...	2.7	4.7	27.9	-17.4	17.2	20.8
Aluminum	307	344	385	0.1	2.0	2.4	1.7	-24.8	12.1	12.1
Steel	119	121	151	0.1	...	0.9	...	-28.3	1.7	24.8
Other	102	154	212	...	...	1.3	...	59.4	51.0	37.7
Private sector	44	155	189	...	1.4	1.2	-14.3	-35.3	252.3	21.9

Source: ECLAC, on the basis of data provided by the Central Bank of Venezuela and the Central Statistics and Information Office (OCEI).

^aPreliminary figures.^bAlso includes coffee and cocoa.

Table 15

VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1979	1980	1981	1982	1983	1984 ^a
Growth rates						
Exports of goods, FOB						
Value	55.9	34.5	4.8	-18.2	-10.3	8.4
Volume	11.8	-8.4	-4.7	-12.1	-2.4	3.8
Unit value	39.5	46.9	9.9	-6.9	-8.1	4.9
Imports of goods, FOB						
Value	-11.0	8.7	11.5	12.0	-50.1	7.1
Volume	-17.0	-6.8	-0.4	18.8	-47.2	8.9
Unit value	7.3	16.6	11.9	-5.7	-5.6	-1.7
Terms of trade for goods	29.6	27.1	-1.7	-1.9	-3.2	5.1
Indexes (1970 = 100)						
Terms of trade for goods	509.9	501.4	492.1	476.1	500.5	
Purchasing power of exports of goods ^b	258.4	300.8	282.1	243.3	229.9	250.9
Purchasing power of exports of goods and services ^b	257.5	299.4	282.5	242.4	227.0	245.1

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bVolume of exports of goods or of goods and services, as appropriate, adjusted in accordance with the corresponding terms-of-trade index.

possible to ascertain the exact amount of such external liabilities. The interest payments in arrears on this portion of the debt continued to build up, and by mid-1984 they totalled US\$ 1 billion. During the second half of the year a number of steps were taken to expedite the sale of foreign exchange for these payments at a preferential rate, however, while some financial relief was also given to the hardest-pressed debtor companies. Payments in arrears were thus reduced slightly, but they nevertheless totalled US\$ 700 million at the end of the year.

4. Prices and wages

a) *Prices*

The upward trend in domestic prices became considerably more marked during 1984. The December-December variation in consumer prices was 18%, which was more than double that of the preceding year. The increase in wholesale prices was considerably greater (24%) for the second year running (see table 20 and figure 3).

The higher rate of inflation also showed up in the variation between annual averages. The consumer price index doubled, while the increase in the wholesale price index was even larger.

The devaluation of February 1984 was one of the causes of this phenomenon. Another was the progressive relaxation of the price control system which was carried forward as a means of reducing fiscal expenditure on subsidies and setting producer prices at levels more in keeping with cost trends. Accordingly, the prices of various products (particularly milk, beef, electricity and petroleum products) were adjusted on a number of occasions. Since the elimination of subsidies had a greater impact on agricultural products, the increase in food prices was considerably higher than the average (31%).

Table 16

VENEZUELA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1982	1983	1984 ^a	1976	1980	1984 ^a	1981	1982	1983	1984 ^b
Total	11 650	5 786	5 552	100.0	100.0	100.0	10.8	-1.2	-50.3	18.5
Consumer goods	2 761	1 290	1 172	15.9	23.8	21.1	9.4	-2.2	-53.3	15.3
Foodstuffs and beverages	944	559	526	14.2	8.2	9.5	29.2	-16.3	-40.7	25.5
Other consumer goods	1 817	731	646	1.7	15.6	11.6	2.7	6.5	-59.8	5.8
Durables	819	287	227	0.8	7.8	4.1	-2.2	1.1	-65.0	5.6
Non-durables	998	444	419	0.9	7.8	7.5	7.5	11.3	-55.5	10.7
Raw materials and intermediate goods	4 006	2 368	2 600	73.7	34.5	46.8	-15.9	2.1	-40.9	46.4
Raw materials	2 732	1 970	2 323	56.6	28.4	41.8	2.9	-12.1	-27.9	57.2
For industry	2 543	1 808	2 125	52.5	26.3	38.3	1.7	-10.7	-28.9	56.7
For agriculture	189	162	198	4.1	2.7	3.6	17.8	-27.8	-14.1	32.9
Fuels and lubricants	67	152	152	2.8	1.6	2.7	-46.1	-28.2	126.2	33.3
Building materials	1 207	246	125	14.3	4.5	2.3	39.2	67.2	-79.6	-32.4
Capital goods	4 883	2 129	1 780	10.4	41.4	32.1	84.3	-3.0	-56.4	11.4
Machinery and tools	3 157	1 259	1 050	5.0	26.7	18.9	6.5	4.1	-60.1	11.2
Transport equipment	1 726	870	730	5.4	14.6	13.1	28.6	-13.8	-49.6	11.8

Source: ECLAC, on the basis of data provided by the Central Statistics and Information Office (OCEI).

^aJanuary-September.

^bJanuary-September in comparison to the same period of the preceding year.

Table 17

VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984 ^a
Balance on current account	-5 699	370	4 749	4 026	-4 222	3 707	4 394
Trade balance	-5 366	760	4 839	3 835	-2 077	6 128	6 794
Exports of goods and services	9 803	14 959	19 968	20 938	17 557	15 944	17 368
Goods FOB	9 085	14 159	19 050	19 963	16 332	14 654	15 963
Real services ^b	720	800	918	975	1 225	1 289	1 405
Transport and insurance	384	473	513	595	664	746	812
Travel	205	178	243	187	309	312	340
Imports of goods and services	15 169	14 199	15 129	17 104	19 634	9 817	10 574
Goods FOB	11 234	10 004	10 877	12 123	13 584	6 779	7 261
Real services ^b	3 935	4 195	4 252	4 980	6 050	3 039	3 313
Transport and insurance	1 555	1 454	1 449	1 567	1 524	1 044	1 118
Travel	1 649	1 738	1 999	2 372	2 925	1 051	1 145
Factor services	38	-3	328	574	-1 530	-2 226	-2 245
Profits	-304	-313	-321	-350	-401	-202	-
Interest received	1 052	1 346	2 263	3 581	2 565	1 400	1 981
Interest paid	-710	-1 036	-1 613	-2 657	-3 694	-3 424	-4 226
Unrequited private transfers	-371	-388	-418	-383	-615	-193	-155
Balance on capital account	4 635	3 729	-985	-4 047	-3 944	-3 552	-3 187
Unrequited official transfers	-36	-19	-21	-26	-24	-	-
Long-term capital	3 717	1 443	2 060	810	3 155	264	-1 097
Direct investment (net)	68	88	55	184	253	-62	...
Portfolio investment (net)	124	-74	1 311	83	1 582	531	...
Other long-term capital	3 526	1 429	695	544	1 320	-205	100
Official sector ^c	1 854	1 026	-290	-262	1 317	81	...
Loans received	2 441	1 857	787	781	2 741	973	200
Amortization payments	-412	-776	-855	-891	-1 492	-840	-1 560
Commercial banks ^c	687	-655	220	555	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	984	1 058	765	250	3	-286	163
Loans received	1 752	2 066	1 942	1 615	1 284	505	...
Amortization payments	-570	-860	-1 007	-1 090	-1 068	-702	...
Short-term capital (net)	-533	1 809	-1 896	-2 692	-4 914	-879	-1 070
Official sector	-8	-3	103	33	-57	-17	...
Commercial banks	-210	-65	-27	35	916	-566	...
Other sectors	-316	1 876	-1 972	-2 760	-5 773	-296	-1 070
Errors and omissions (net)	1 489	497	-1 128	-2 139	-2 161	-2 937	-1 020
Global balance^d	-1 064	4 098	3 764	-21	-8 165	155	1 207
Total variation in reserves (- sign indicates an increase)	1 324	-4 121	-4 184	-1 100	7 635	-98	-1 217
Monetary gold	-	-	-	-	-	-	...
Special Drawing Rights	-52	-135	9	-101	5	87	-23
IMF reserve position	246	229	-87	-14	-113	-166	106
Foreign exchange assets	1 507	-1 379	795	-1 446	1 695	-960	-1 344
Other assets	-377	-2 835	-4 900	461	6 048	941	...
Use made of IMF credit	-	-	-	-	-	-	...

Source: 1978-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1985; 1984: ECLAC, on the basis of official data.^a Preliminary figures.^b Real services also include other official and private transactions, but exclude factor services.^c In addition to loans received and amortization payments made, this item 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 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.

Finally, in November 1984 the Supervised Price System which had been in effect since 1983 was abolished. The prices of 137 goods and services regarded as being essential remained under State control, however. The prices of all other products were thenceforth allowed to be freely determined, although any increase had to be announced at least 60 days in advance.

b) *Income and wages*

The available data indicate that average income per employed person dropped in real terms for the fifth year running; in 1984, the decrease was approximately 5% (see table 21). The postponement of the adjustment in the minimum wage for agricultural workers until November contributed to the 6% deterioration in the purchasing power of the average income per employed person in rural zones. The decline was even greater in urban areas (-10%) owing, *inter alia*, to the wage freeze in the public sector. The Government applied a number of measures in order to mitigate the impact of this phenomenon, including a special transport allowance for persons on the lower end of the wage scale and the mandatory establishment of industrial cafeterias in companies having ten or more workers.

5. Fiscal and monetary policy

a) *Fiscal policy*

The Government's fiscal management yielded a large surplus (around 10.6 billion bolívars), in a departure from the deficits recorded during the two preceding years. This turnabout was mainly due to the substantial increment (38%) in fiscal revenue which can be attributed to the new exchange system. As a result of the fact that the exchange rate for the dollar applying to petroleum-related transactions was raised from 4.30 to 6.00, the revenue from this source almost doubled, and thus once again accounted for over 60% of total current fiscal income (see table 22). Income in respect of exchange profits also was up considerably (42%).

Table 18

VENEZUELA: CENTRAL BANK FOREIGN EXCHANGE RECEIPTS AND OUTLAYS

(Millions of dollars)

	Receipts				Outlays					Balance	Reserve position of the Central Bank of Venezuela ^c	Total international reserves ^c
	Petroleum	Public sector	Other ^a	Total	Imports of goods and services	External debt		Other ^b	Total			
						Public	Private					
1980	12 641	2 189	4 436	19 266	10 877	2 125	1 007	6 062	20 071	-845	5 635	7 025
1981	18 961	402	5 746	25 109	12 123	2 284	1 463	9 414	25 584	1 525	7 081	8 619
1982	18 984	2 256	4 663	25 903	13 584	2 923	1 839	9 075	27 421	-1 518	5 386 ^d	10 039 ^d
1983	14 481	1 177	1 902	17 560	6 558	4 770	625	4 130	16 083	1 477	6 570	11 149
I	3 740	216	606	4 562	1 674	1 629	342	1 989	5 634	-1 072	4 116	8 769
II	3 561	302	389	4 252	1 316	1 118	259	833	3 526	726	4 916	9 495
III	3 481	403	583	4 467	1 338	1 095	19	791	3 243	-1 224	6 140	10 719
IV	3 699	256	324	4 279	2 230	928	5	517	3 680	599	6 570	11 149
1984	15 227	689	1 365	17 281	7 664	5 218	382	2 707	15 971	1 310	7 890	12 469
I	3 526	132	229	3 887	2 201	1 160	26	593	3 980	-93	6 492	11 071
II	3 931	193	314	4 438	1 679	1 314	61	586	3 640	798	7 295	11 874
III	3 602	186	419	4 207	2 190	1 192	126	324	3 832	375	7 665	12 244
IV	4 168	178	403	4 749	1 594	1 552	169	1 204	4 519	230	7 890	12 469

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela.

^aIncludes receipts from the Venezuelan Investment Fund of US\$ 632 million in 1980, US\$ 2 019 million in 1981, US\$ 1 728 million in 1982, US\$ 1 002 million in 1983, and US\$ 77 million in 1984. ^bIncludes Central Bank sales of foreign exchange on the free market.

^cPosition at the end of the period, including adjustments for changes in exchange rates for Special Drawing Rights and reserve currencies with respect to the US dollar. ^dIncludes the effect of the centralization of the foreign-exchange assets of the petroleum industry.

Table 19

VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1978	1979	1980	1981	1982	1983	1984 ^a
Millions of dollars							
Total external debt^b							
Balances	16 383	23 071	26 509	28 377	30 479	33 500	31 290
Medium- and long-term	9 416	11 718	13 732	13 931	16 383	17 413	16 858
Short-term	6 967	11 353	12 777	14 446	14 096	16 087	14 432
Service payments							
Interest ^c	710	1 036	1 613	2 657	3 694	3 424	4 226
Medium- and long-term public external debt^d							
Balances	7 265	8 230	9 672	9 531	12 279	13 707	13 152
Direct debt	6 041	5 544	6 764	6 376	6 865	7 681	7 525
Indirect debt	1 224	2 686	2 908	3 155	5 414	6 026	5 627
Service payments	973	1 428	2 125	2 284	2 923	2 011	2 959
Principal	570	867	1 170	942	1 607	846	1 412
Interest	403	561	955	1 342	1 316	1 165	1 547
Percentages							
Ratios:							
Total external debt/ exports of goods and services	167	154	133	135	174	210	180
Service on total external debt/ exports of goods and services ^e	13.1	12.7	13.9	17.2	30.2	26.8	32.5
Net interest payments/exports of goods and services	-3.5	-2.1	-3.3	-4.4	6.4	12.7	12.9

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela and International Financial Agencies.

^aPreliminary figures. ^bECLAC estimates. Includes the public debt plus the non-guaranteed long- and short-term debt owed to financial institutions reporting to the Bank for International Settlements. ^cECLAC estimates based on the relevant balance-of-payments entries. ^dAccording to the Law on 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 State enterprises and those deriving from the sale of securities issued by these bodies. ^eThe debt-servicing costs used in calculating this coefficient consist of public-debt amortization payments (as prescribed in the Law on Public Credit) and interest payments on the total debt.

In contrast, total expenditure rose only 19%, which was less than the rate of inflation. A portion of this increase was attributable to interest payments on the public debt; such payments climbed 29% to over 16 billion bolívares, which was almost double their 1982 level. This, in turn, was due to the effect of the devaluation and to the fact that the central government found it necessary to assume the external debt service of some decentralized public bodies which were experiencing financial difficulties.

The large fiscal surplus made it possible to expand treasury reserves by almost 40%, thus bringing them to over 12 billion bolívares (nearly 4% of the gross domestic product) by year's end. The remainder was used to service the large public debt and, in particular, to regularize the situation in respect of payments to domestic suppliers, which had reached the figure of approximately 15 billion bolívares according to official estimates. The Government began to issue bonds in order to refinance a portion of this debt, while the most pressing obligations were paid off.

With a view to improving fiscal management as well, various plans were put into effect to reorganize a number of non-financial public enterprises which had been showing heavy losses for

Table 20

VENEZUELA: DOMESTIC PRICE TRENDS

	1979	1980	1981	1982	1983	1984 ^a
Variation from December to December						
Consumer price index ^b	20.5	19.6	11.0	7.3	7.0	18.3
Food	34.4	22.2	12.9	6.9	10.6	31.1
Clothing	40.2	45.4	-2.2	-3.0	3.5	7.7
Wholesale price index	15.5	16.9	11.3	6.2	10.8	24.4 ^c
Imported products	11.2	14.2	9.5	5.6	10.8	22.4 ^c
Domestic products	18.4	18.6	12.3	6.6	10.9	25.6 ^c
Agricultural products	30.3	17.2	13.9	4.1	20.6	21.9 ^c
Manufactures	11.5	16.2	10.1	6.2	8.9	24.4 ^c
Building materials	11.0	17.5	6.1	12.6	10.5	35.1 ^c
Variation between annual averages						
Consumer price index ^b	12.3	21.6	16.0	9.7	6.3	12.2
Food	16.6	33.1	18.5	9.7	7.8	17.2
Clothing	25.3	46.2	16.2	-2.7	0.1	8.2
Wholesale price index	9.2	20.1	13.8	8.1	7.0	16.9 ^d
Imported products	7.6	15.9	11.9	7.3	6.0	17.4 ^d
Domestic products	10.4	22.9	15.0	8.6	7.5	16.5 ^d
Agricultural products	12.6	27.4	19.8	5.3	14.2	16.0 ^d
Manufactures	8.1	17.4	11.9	8.4	5.4	17.1 ^d
Building materials	10.3	11.9	10.9	12.8	4.1	19.1

Source: Central Bank of Venezuela.

^aPreliminary figures.^bConsumer price index for the Caracas metropolitan area, adjusted for seasonal factors.^cCorresponds to

the variation between November 1984 and November 1983.

^dCorresponds to the variation between the averages for the periods

January-November 1984 and January-November 1983.

Table 21

VENEZUELA: TRENDS IN INCOME

	1981	1982	1983	1984 ^a	Growth rates			
					1981	1982	1983	1984 ^b
In bolívares at current prices								
Average income per employed person								
Nationwide total	2 198	2 415	2 386	2 463	9.8	9.9	-1.2	3.2
Urban areas	2 494	2 576	2 701	2 639	9.2	3.3	4.9	-2.3
Rural areas	1 438	1 498	1 476	1 508	12.3	10.6	-4.3	2.3
In bolívares at 1980 prices^c								
Average income per employed person								
Nationwide total	1 893	1 894	1 758	1 667	-5.4	-0.1	-7.2	-5.2
Urban areas	2 148	2 020	1 990	1 786	-5.9	-6.0	-1.5	-10.3
Rural areas	1 238	1 175	1 088	1 021	-3.4	-5.1	-7.4	-6.2

Source: ECLAC, on the basis of household surveys conducted by the Central Statistics and Information Office (OCEI).

^aFirst half of the year.^bVariation with respect to the same period of the preceding year.^cDeflated by the aggregate consumer

price index.

Figure 3
VENEZUELA: PRICE TRENDS
(Twelve-month variation)

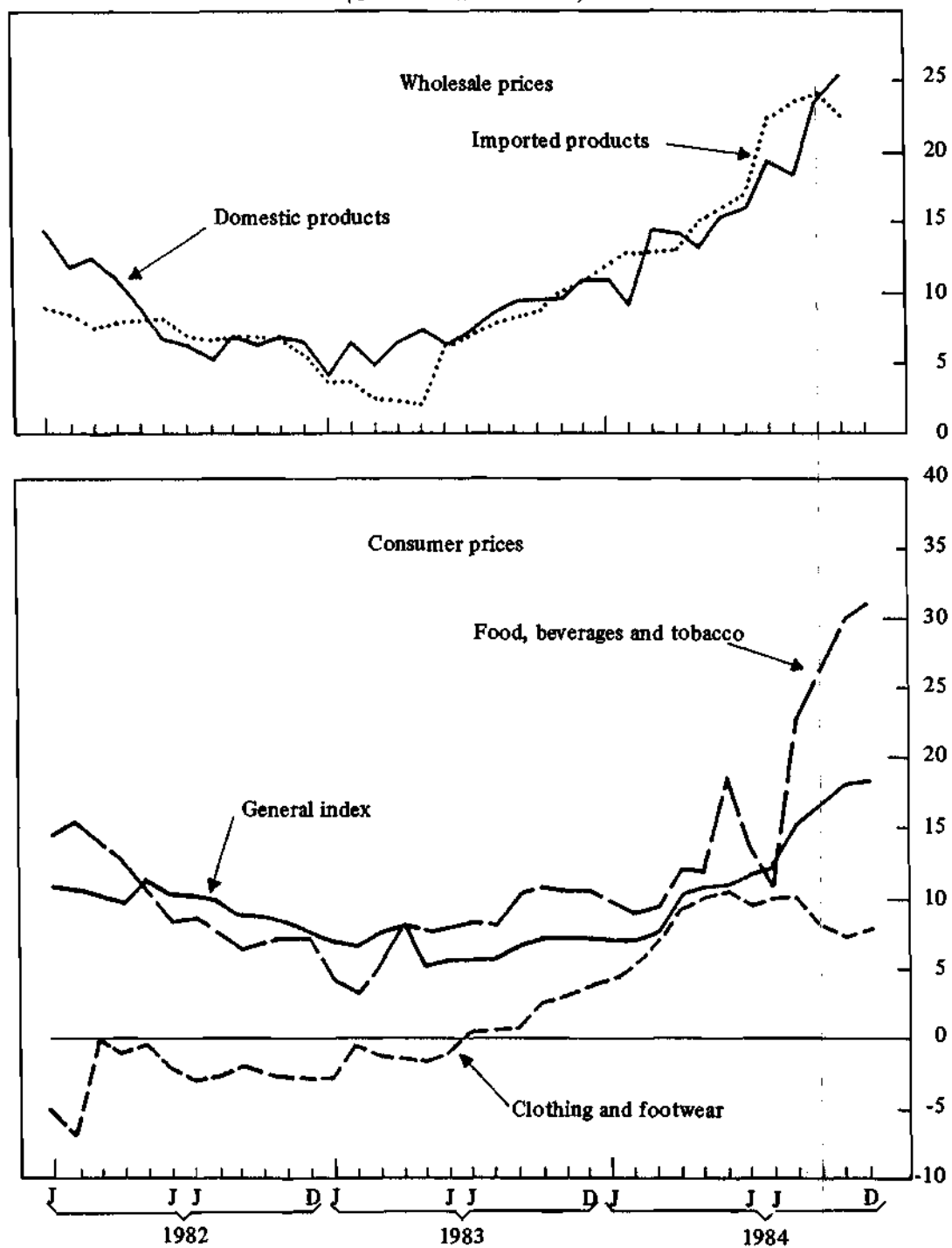


Table 22
VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolívars			Growth rates			
	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
1. Current income	78.2	71.8	99.3	47.8	-15.6	-8.2	38.2
Petroleum revenue	47.0	42.0	62.1	31.5	-22.1	-10.6	47.8
Income tax	39.1	34.0	51.5	37.3	-24.9	-13.0	51.2
Indirect domestic tax on petroleum products	1.1	1.5	1.5	19.7	82.8	29.4	2.2
Royalties	6.7	6.5	9.1	2.3	-11.2	-3.6	40.5
Other tax revenue	21.5	24.6	30.8	117.7	-22.0	14.0	25.5
Direct	13.0	8.8	10.2	195.3	-38.5	-32.5	17.7
Customs	5.2	2.5	2.8	25.2	30.5	-52.0	13.1
Indirect, domestic	3.1	3.2	3.3	5.0	28.7	1.9	4.8
Other non-tax income	10.0	15.4	20.7	14.9	107.3	54.8	34.7
Exchange profits	-	10.1	14.3	...	...	...	42.0
2. Current expenditure	54.4	54.0	63.8	22.8	7.6	-1.2	18.5
Remunerations	19.2	19.2	20.4	20.0	-2.1	-0.2	6.4
Financial subsidies	3.1	1.7	2.3	436.8	-16.6	-45.9	40.2
Interest payments	8.4	12.6	16.2	29.4	42.7	49.8	29.0
On external debt	7.0	8.4	11.6	-48.2	42.1	19.6	37.6
On domestic debt	1.4	4.2	4.0	-22.5	46.2	204.8	11.8
Other current expenditure	23.8	20.4	24.8	9.1	10.9	-14.2	21.7
3. Current savings (1-2)	23.8	18.0	35.5	95.7	-43.4	-24.3	97.0
4. Capital expenditure	27.4	20.5	24.9	49.0	-16.2	-25.1	21.4
Real investment	6.1	4.5	4.7	12.3	41.6	-26.7	4.6
Other capital expenditure	21.3	16.1	20.3	56.7	-25.0	-24.7	26.0
5. Total expenditure (2 + 4)	81.9	74.3	88.7	31.9	-1.8	-9.2	19.3
6. Fiscal deficit (or surplus) (1-5)	-3.6	-2.5	10.6				
	Percentage breakdown						
7. Financing of deficit	3.6	2.5	-10.6	100.0	100.0	100.0	100.0
Use of domestic surplus	5.5	6.1	-4.4	92.5	152.8	244.0	42.1
Central Bank	-	7.0	-3.0	-	-	280.0	28.4
Sale of securities	0.4	1.3	3.6	-7.5	11.1	52.0	-33.7
Amortization	-0.9	-1.7	-4.9	11.8	-25.0	-68.0	46.4
Other forms of financing	6.0	-0.5	-0.1	95.7	166.7	-20.0	1.0
External financing	-1.9	-3.6	-6.1	7.5	52.8	-144.0	57.9
Disbursements	3.4	0.4	-	-16.1	94.4	16.0	-
Amortization	-5.3	-4.0	-6.1	23.7	-147.2	-160.0	57.9
	Ratios (percentages)						
	1970	1975	1980	1981	1982	1983	1984 ^a
Oil revenues/current income	60.8	78.1	73.1	65.1	60.0	56.2	62.5
Customs revenue/indirect tax revenue	...	48.0	53.2	56.9	55.2	35.2	37.1
Interest payments/current expenditure	4.2	3.2	11.0	11.6	15.4	23.4	25.5
Current savings/capital expenditure	79.0	104.2	97.7	128.4	86.8	87.7	142.3
Fiscal deficit/total expenditure	6.1	2.0 ^b	0.8	11.2 ^b	4.4	3.4	11.9 ^b
Oil revenues/GDP	11.0	27.0	17.9	20.8	15.7	13.9	18.5
Non-oil tax revenue/GDP	6.2	4.5	8.2	9.5	7.2	5.3	9.2
Total expenditure/GDP	19.5	33.9	24.7	28.7	27.5	25.5	26.5
Fiscal deficit/GDP	1.2	0.7 ^b	0.2	3.3 ^b	1.2	0.9	3.2 ^b

Source: ECLAC, on de basis of data supplied by the Central Bank of Venezuela and the Ministry of Finance.

^aPreliminary figures.

^bFiscal surplus.

Table 23

**VENEZUELA: CONSOLIDATED NON-FINANCIAL
PUBLIC SECTOR INCOME AND EXPENDITURE^a**

	Billions of bolívares			Growth rates	
	1982	1983	1984 ^b	1983	1984 ^b
Total income	173.7	149.5	194.7	-13.9	30.3
Current	163.0	139.0	184.9	-14.7	33.0
Capital (except credit)	10.7	10.5	9.8	-2.4	-6.6
Total expenditure	180.2	169.9	191.7	-5.7	12.8
Current	121.4	119.6	139.4	-1.5	16.6
On consumption	98.0	96.7	104.1	-1.4	7.7
Transfers to the private sector	9.3	8.5	11.1	-9.1	31.4
Interest	14.1	14.5	24.2	2.8	67.0
Capital	58.9	50.3	52.2	-14.5	3.8
Real investment	53.4	45.1	42.6	-15.6	-5.6
Financial investment	4.0	4.6	9.1	13.3	100.5
Transfers	1.4	0.7	0.5	-52.8	-17.6
Deficit (or surplus)	-6.5	-20.4	3.0		
As a percentage of GDP	2.2	7.2	0.9		
Financing of deficit					
Credit received	11.4	18.5	22.3		
(-) Amortization payments	-9.5	-16.9	-29.2		
Sale of bonds	1.7	1.1	1.3		
Other sources	3.0	17.7	2.5		

Source: ECLAC, on the basis of figures supplied by the Central Office of the Budget (OCEPRE).

^aIncludes the central administration, independent non-commercial institutes, federal bodies, municipal councils and the fifty largest non-financial public enterprises (including Petróleos de Venezuela). ^bPreliminary figures.

Table 24

VENEZUELA: MONETARY INDICATORS

	Year-end balances (billions of bolívares)				Growth rates			
	1981	1982	1983	1984 ^a	1981	1982	1983	1984 ^a
Monetary base	31.6	28.4	39.6	38.1	16.2	-10.3	39.5	-3.7
Money (M₁)	53.5	49.0	64.3	69.0	7.1	-8.4	31.2	7.3
Quasi-money	71.2	80.1	99.0	108.5	32.3	12.5	23.5	9.6
Money plus quasi-money (M₂)	124.7	129.1	163.3	177.4	20.2	3.6	26.4	8.7
Domestic credit	158.7	174.8	180.6	202.8 ^b	20.1	10.1	3.3	9.4 ^c
To central government	12.3	8.6	8.7	16.1 ^b	464.4	-30.3	1.2	22.4 ^c
To private sector	146.4	166.2	171.9	186.8 ^b	12.6	13.6	3.4	8.4 ^c
Coefficients^d								
Monetary multipliers								
M ₁ /Monetary base	1.85	1.79	1.65	1.77				
M ₂ /Monetary base	4.27	4.64	4.37	4.83				
Velocity of circulation:								
GDP/M₁	6.01	6.05	5.27	5.48				

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aPreliminary figures.

^bBalance as of 31 November 1984.

^cVariation with respect to the same date of the preceding year.

^dAnnual averages.

years; these plans even provided for the liquidation of those enterprises judged to be unprofitable.³ Thanks to this effort and to the upturn in some companies' sales, the public sector as a whole—which had accumulated a deficit of 20 billion bolívars—managed to show a surplus of 3 billion bolívars in 1984 (see table 23). Nonetheless, State enterprises (excluding the oil companies) ran a deficit of nearly 20 billion bolívars—6% of the gross domestic product—primarily as a result of their steeply climbing interest payments.

b) *Monetary policy*

The fiscal austerity programme referred to earlier, in combination with a rather severe monetary policy, magnified the devaluation's contractive effect on domestic liquidity and limited the traditionally expansionary influence of the public sector. Thus, in contrast to what had occurred the year before, in 1984 the expansion in monetary aggregates was rather modest. During the last few months of the year the Central Bank softened its policy slightly, stepping up its provision of credit assistance to the financial system and its operations on the open market. By the end of the year, however, the monetary base had nevertheless shrunk by 4% in comparison to December 1983 (see table 24). In large part, this was due to the sharp increase (140%) in the Central Bank's non-monetary liabilities, particularly those on the accounts of *Petróleos de Venezuela* and the National Treasury.

Despite this reduction in the monetary base, domestic liquidity (M_2) showed a moderate increase (9%) in nominal terms and thus decreased in real terms. The monetary multiplier rose slightly, reflecting the substantial drop (-16%) in bank reserves and the public's reduced preference for money. In a reversal of the situation in 1983, quasi-money expanded more rapidly than money did (10% and 7%, respectively) owing to the greater attraction of resources in the form of low-denomination instruments with a relatively short-term maturity. Among these instruments, the greatest growth was seen in savings certificates, which were up almost 20%.

This expansion did not, however, ease the difficult situation of the Venezuelan financial system; ever since the first modification of the exchange régime, the financial system has been in a relatively unfavourable position.⁴ Indeed, the attraction of other resources increased scarcely 8% in

Table 25

VENEZUELA: SHORT-TERM BANK INTEREST RATES

	1981	1982	1983	1984	1984 ^e			
					I	II	III	IV
Nominal								
Deposits ^b	14.5	15.1	13.9	12.8	12.2	11.8	13.7	13.7
Loans ^c	18.8	16.4	16.3	15.2	15.5	14.3	15.6	15.6
Real^d								
Deposits ^b	3.2	7.3	6.3	-4.6	5.7	-8.6	-10.3	-4.9
Loans ^c	7.0	8.5	8.6	-2.6	8.9	-6.5	-8.8	-3.3

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^a Annual rates (quarterly averages).

^b Rates on time deposits set by the commercial banking system.

^c Rates for commercial bank

loans and discounts.

^d Deflated by the consumer price index for the Caracas metropolitan area.

³ This primarily involved companies and organizations engaged in marketing (such as *Corpomercadeo*, *Adagro*, etc.) or lending activities (such as the *Corporación Venezolana de Fomento*).

⁴ During the period in question the Government has had to intervene in the management of five banks and found it necessary to order a complete suspension in June of the operations of the *Banco Nacional de Descuento*, the seventh largest bank in the country in terms of the volume of its transactions.

nominal terms. The credit instruments placed on the market increased at a similar rate. The volume of credit therefore diminished in real terms, thereby exerting pressure for a rise in domestic interest rates. In order to hold them down, the system of floating interest rates in effect since August 1981 was replaced by a system under which the Central Bank was directly responsible for setting these rates. Hence, from February onwards different ceilings were set for interest rates on loans according to the economic sector involved. In June the Central Bank also began to establish minimum levels for interest rates on deposits with a view to dampening the demand for foreign exchange on the free market. Domestic interest rates, both on loans and on deposits, thus rose during the second half of the year. The increase was not enough to offset the effect of inflation, however. As a result, for the first time in several years these rates were negative in real terms during most of 1984 (see table 25).

PART THREE

**THE EVOLUTION OF THE ECONOMY AND
ECONOMIC POLICY IN URUGUAY BETWEEN 1981 AND 1984**

Part Three

THE EVOLUTION OF THE ECONOMY AND ECONOMIC POLICY IN URUGUAY BETWEEN 1981 AND 1984¹

Introduction

So far this decade, like the majority of countries in the region, Uruguay has been going through its worst economic crisis since the dark years of the Great Depression. This deep crisis was sparked off both by external factors and domestic economic policy decisions. The combination of these two sets of causes led to a serious deterioration of the economic situation over the last three years and early in 1983 made it necessary to adopt a harsh readjustment programme, whose aims, characteristics and results are analysed in this survey.

In the three years between 1982 and 1984 the gross domestic product fell by 15%, bringing the per capita product down by almost 18% over the same period. In 1982 the external debt also rose with extraordinary intensity. Although it increased to a far lesser extent over the following years, by the end of 1984 it represented some US\$ 4.7 billion, equivalent to 3.6 times the value of exports of goods and services. Simultaneously inflation rose sharply, reaching a rate of 66% at the end of 1984, more than three times its 1982 level. These circumstances had a very adverse effect on social conditions: the real wage fell by approximately 30% over the last three years, while the rate of open unemployment in Montevideo rose from the minimum of 6% recorded at the beginning of 1981 to an average of more than 15% in 1983 and around 14% in 1984.

This highly unfavourable evolution of the main economic variables was partly the result of the negative trend of certain external factors. Of special note among these, as in other countries of America, were the deterioration in the terms of trade, the extremely high real interest rates in force in the international financial markets, and the sharp contraction in external bank credit from 1982, after its record availability in previous years.

Nevertheless, the roots, intensity and duration of the economic crisis were also influenced by domestic elements. Without taking into account the structural factors which have for many years restricted Uruguayan development, and the overall orientation of the economic policies applied during the last ten years, a factor worth mentioning was decisive influence exerted by the lag in the exchange rate in the period 1979-1982 and the multiple harmful repercussions of the replacement of the policy of pre-established exchange rates at the end of 1982. The sharp change in exchange-rate policy reinforced the deterioration which had already been apparent in the financial position of numerous firms, leading to repercussions on the liquidity of banking portfolios and even on the solvency of the financial system.

The excessive domestic indebtedness of many firms and the precarious situation of the banking system constitute one of the outstanding and most difficult features of the present economic recession, whose solution is further complicated by the extraordinarily high proportion of financial assets and liabilities denominated in foreign currency.

In these circumstances, it is clear that the revival of the economy must constitute an essential factor in any readjustment policy. The recession has not only had a very harmful effect on the country's social indicators, but, should it continue, would become a crucial obstacle to the fulfilment of the country's external commitments and, even more important, to the consolidation of the democratic system. To sum up, revival is of prime importance both for purely economic and for social and political reasons. A policy of revival is made more viable by the abundant idle resources, both

¹ This survey is a revised version of the report with the same title prepared by the Secretariat of ECLAC in January 1985 and presented to the Government of Uruguay in February of the same year.

human and capital, available in the country. Moreover, it should be borne in mind that the availability of installed capacity is not only due to the drop in demand but also to the major investments made by the country in the years preceding the present crisis in certain basic sectors —such as energy, transport infrastructure and housing— and in some industrial activities which as a result have considerably modernized their productive structures.

Another encouraging element in the present crisis is provided by two external factors, which, should they continue, would have favourable effects upon the balance-of-payments position in 1985. The first of these is the recent decline in international interest rates. Precisely because of the extremely high ratio of debt to exports in Uruguay, each point of reduction in interest rates has an effect on the balance of payments equivalent to a very considerable expansion (of around 3.5%) in the value of exports. It follows that, should the fall of almost three points in the international interest rates in the final months of 1984 persist for a whole year, the increase in country's import capacity would be equivalent to an increase of somewhat more than 10% in the value of exports of goods and services.

The second external factor that may encourage the revival of economic activity is the persistent weakness in the world petroleum market in recent months, which has led to a gradual decline in the effective international price of hydrocarbons. As in the case of interest rates, the fact that external purchases of petroleum represent a high proportion of imports of goods would make a drop in its price all the more favourable for the terms of trade and import capacity.

Nevertheless, it is quite clear that expansion and diversification of exports must play a vital role in the policy of revival and above all in development strategy. A sharp and sustained rise in the value of exports will stimulate the rest of the economy and also expand domestic demand and production, without causing the increased import requirements resulting from the expansion to create untenable imbalances in the external sector. In other words, in view of the dimension and productive structure of the Uruguayan economy, the capacity of domestic demand to act as a stimulus to growth is closely linked to sustained expansion of exports.

The possibilities of revival, however, are at present severely restricted by three factors. These are the exceptionally low level of imports, the existence of considerable inflationary pressures and the persistent excessive indebtedness of many firms.

The first of these elements once again reveals the key role of the external sector in any future recovery and growth. Imports have already been compressed as far as feasible. It follows that in order to increase the level of activity and the rate of expansion of the economy it is essential that import capacity should be rapidly expanded. In turn, its expansion will depend both on the scale and intensity of the effort to export and on the possibility of achieving more room for manoeuvre in the servicing of the debt.

Consequently, the elimination of the present bottleneck requires:

a) A massive effort to increase exports, which needs coherent and effective policies designed to increase exportable surpluses and also a systematic effort to negotiate abroad in order to open up new markets or to expand existing ones.

b) A renegotiation of the external debt which not only makes it possible to reschedule all amortization payments but which also allows for the financing of a considerable proportion of the interest payments.

c) An intensive and systematic programme for obtaining new funds from the official international financing system to provide resources to raise domestic investment and finance programmes designed to set on a sound footing those national firms which are at present facing problems caused by their excessive indebtedness in the past, but which possess the capacity to expand their levels of production, employment and exports within the short term.

d) Greater co-operation in the provision of fresh funds by private international banks, particularly those which are established in the country and are closely linked to the Uruguayan financial system.

Another key factor which restricts the intensity of the revival process is inflationary pressure, which may even increase if coherent and suitable economic policies are not applied simultaneously on all fronts and if active concertation is not established between all the national economic sectors.

In order to progress towards revival without simultaneously raising the level of inflation, it is essential to reduce the deficit of the public sector as a whole. To achieve this not only is it essential to

Table 1

**URUGUAY: SHARE OF PETROLEUM IN THE TOTAL VALUE
OF IMPORTS OF GOODS**

Year	Percentage	Year	Percentage
1970	11.7	1978	26.6
1971	13.7	1979	19.1
1972	14.8	1980	25.0
1973	15.7	1981	27.3
1974	29.0	1982	39.3
1975	29.5	1983	34.5
1976	27.3	1984	34.9
1977	25.5		

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

reduce the central government deficit by increasing tax revenue or diminishing the weight of external debt servicing, but also to reduce the imbalances which appear in the accounts of the Central Bank and Banco Hipotecario, which together have considerable weight in the overall public sector deficit.

Another essential component of any anti-inflationary policy which is both effective and socially fair is the establishment of a suitable income policy. In so far as such a policy is based on broad national concertation, it may be possible to reduce the cost of the conflict over distribution of wealth and achieve the necessary increases in remunerations together with simultaneous increases rather than falls in productivity. Should these two processes take place simultaneously, nominal increases in wages will be reflected in an improvement in real standards of living rather than merely being mechanisms which pass on and reinforce inflationary pressures.

Thirdly, the possibility of stimulating the economy is also limited by the heavy domestic indebtedness of a large number of productive firms, which at present seriously hampers the effective use of the available productive capacity. Consequently in order to progress along the path to revival selective solutions for the rapid reduction of this excessive indebtedness must be found, which would at the same time make a major contribution towards setting banking portfolios on a sound footing.

Naturally, progress towards these fundamental economic and social goals will require the application of coherent and mutually reinforcing macroeconomic, sectoral and social policies. If it does not prove possible to instrument economic policies in fundamental areas such as the monetary, fiscal, exchange, income and domestic debt fields, economic policy will become increasingly dependent on monetary instruments alone, with their inevitable immediate sequel of financial contraction and high rates of interest and their unfavourable medium-term effects on levels of economic activity and employment and on income distribution.

This is why, in order to strengthen the government's action on the various fronts, it is essential for it to obtain broad support for its basic policy targets by means of a steadfast effort at national concertation, which will in turn help to reduce the costs of readjustment and to reach a more rapid solution to the main economic and social problems which Uruguay is facing today.

1. ECONOMIC POLICY

A. THE EXTERNAL CONTEXT AND ECONOMIC POLICY BETWEEN 1974 AND 1982

The external worldwide and regional context has been a prime determining factor in the evolution of the Uruguayan economy in the 1970s as well as up to the present in the 1980s. A significant role was also played by certain contradictory domestic policies —such as the maintenance of an undervalued real exchange rate as part of a development strategy directed towards the exterior— and conjunctural factors which amplified the expansionary and contractive stimuli deriving therefrom—as was the case with the initiation and completion of two major hydroelectric dams during this period.

Following almost twenty years' stagnation in production, a high level of inflation and considerable domestic and external imbalances, the sharp increase in the international price of petroleum in 1973 put the country in a difficult balance-of-payments position. Since Uruguay imports 100% of its hydrocarbon requirements, the rise in price meant a trebling of the petroleum account, which in 1974 came to represent almost 30% of the value of imports as against less than 15% at the beginning of the 1970s (see table 1).

In these circumstances, economic policy aimed at increasing exports, taking into account the rigidity of the structure of imports, more than 90% of which consisted of purchases of raw materials, intermediate and capital goods which were needed to maintain the level of domestic activity.

A number of features of the external market favoured this decision. Forecasts made at the time suggested that there would be increasing demand for the main export product —beef— and that its international price would tend to rise.

In this context, an attempt was made to develop a new form of insertion of the Uruguayan economy in the world setting on the basis of a policy involving an opening up of trade and finance towards the exterior. The main mechanisms adopted to achieve this were a rapid liberalization of the exchange market and a progressive liberalization of trade by means of a programme of tariff reductions spread over a period of six years.

Nevertheless, this new approach towards the insertion of Uruguay within the world economy was not reflected in practice through the application of a unified strategy throughout the 1974-1982 period. There were in fact two quite distinct stages which can be defined taking into particular account the different ways in which the exchange policy was used. During the first stage, which lasted from 1974 to 1978, attempts were made to establish an effective rate of exchange which would mainly operate to promote exports; in contrast, during the second stage—which covers the period 1979 to 1982—the rate of exchange was essentially used to control inflation.

During the first stage, the rate of exchange was corrected by means of a system of mini-devaluations which took into account past inflation, so as to maintain adequate competitiveness for exports. Simultaneously, subsidies were granted to exports of manufactured goods, which encouraged enterprising behaviour on the part of certain industrial groups which took advantage of the favourable evolution of demand in the developed countries and the wealth of funds made available by the recycling of surplus earnings from petroleum by the international private banks. In addition, a system for prefinancing exports was set up, with subsidized interest rates, which facilitated the financing of working capital in export firms. Finally, a wages policy that produced a marked decline in the real wage—which fell by 33% between 1973 and 1979—was applied, representing a particularly important stimulus for exports of goods produced by labour-intensive techniques.

As a result of these measures the structure of exports changed substantially, as non-traditional items rapidly increased their share of total external sales, whose value in turn rose strikingly. Thus the share of non-traditional exports rose from 27% in 1973 to 72% in 1979, while the total value of external sales grew at an average annual rate of 16%. As a result, the coefficient of external trade over product reached 38% in the five-year period 1975-1979, far in excess of its average level in the previous five-year period.

Towards the end of 1978 the adjustment of the external sector had taken place. In these circumstances, the economic authorities decided to undertake an anti-inflationary programme involving the prior announcement of the rate of exchange, which it was hoped would influence the expectations of the economic agents. This introduced the second stage mentioned above.

During the period 1978-1980 the considerable overvaluation of the Argentinian currency was a factor of great importance for the Uruguayan economy, as it led to abundant extra demand on the domestic market. This helped to create a marked increase in economic activity—the gross domestic product rose by 18% in this period—and also a significant increment in the level of consumer prices—which rose by 83% in 1979. Another offshoot of the Argentinian situation was the major contribution made by its residents to housing construction—especially in resorts—which in turn had rapid and considerable expansionary effects on a large number of other activities.²

²The close relationship between the Uruguayan market and Argentinean demand means that in certain circumstances almost all Uruguayan goods and services constitute marketable production—visible or invisible—which creates a highly dependent and potentially volatile overall context for economic and financial policy.

Table 2

**URUGUAY: CREDIT FROM THE CONSOLIDATED BANKING SYSTEM
TO THE PRIVATE SECTOR^{ab}**

	National credit (in billions of pesos)	Consumer price index	Actual credit	
			Billions of 1978 pesos	Index
1978	8.8	100.0	8.8	100.0
1979	19.1	183.1	10.4	118.4
1980	34.2	261.6	13.1	148.5
1981	47.6	338.3	14.1	160.1
1982 (Nov.)	63.8	375.4	17.0	193.3
1982 (Dec.)	99.8	407.8	24.5	278.5
1983	112.9	617.9	18.3	207.9
1984	170.4	1 026.5	16.6	188.6

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aExcluding the Banco Hipotecario del Uruguay. ^bEnd of period.

Simultaneously, the increase in the income of medium- and high-income groups together with the plentiful finance available stimulated demand for automobiles, for which there existed a large potential market, since the cars on the road were among the oldest in Latin America. The budding automobile assembly industry was thus given a strong stimulus, which increased its production by 83% between 1978 and 1980, stimulating in the process some sectors of industry which supplied it with inputs, such as the leather and rubber industries.

Use of the exchange rate as an instrument to hold back inflation was clearly apparent during 1979, when, as has been indicated, a rise of more than 80% was recorded in domestic prices and the exchange rate was adjusted by barely 20%.

Moreover, between the end of the previous decade and the beginning of the present one a number of events occurred which affected the external context within which the Uruguayan economy operated. The further oil crisis of 1979-1980, the increase in inflation and the loss of productive dynamism in the industrialized countries, together with the high rates of interest in force in the international financial markets altered the worldwide economic outlook.

As a result of this, a change of direction also occurred in economic policy in the industrialized countries, giving priority to the domestic and external readjustment of their economies. This involved a different response to that essayed by these countries on the occasion of the previous oil crisis.

Simultaneously, the financial surpluses generated by the increase in the price of petroleum were recycled by transnational commercial banks, essentially by means of short- and medium-term loans. The Latin American market, on which there had always been a demand for external savings, was a natural area for the absorption of such surpluses. As far as Uruguay itself is concerned, the financial liberalization facilitated a smooth flow of external funds which financed the growing current account deficit of the balance of payments and a continual increase in the international reserves of the Central Bank.

Domestic financial liberalization —the rate of interest ceased to be managed in 1979— together with the free rate of exchange and conversion of domestic currency jointly contributed to an increase in savings channelled through the financial system and to a substantial growth of secondary creation of money by the banking system. Finally, measures which allowed for an increased ratio of liabilities against banking capital also contributed to the continual increase in the system's credit capacity, with the result that banking credit to the private sector almost doubled in real terms between 1978 and November 1982 (see table 2).

A feature of particular relevance during the period between 1977 and 1982 was the high rate of interest charged on credit in domestic currency. This rise was the result of the far greater decline in

the rate of increase in prices compared with the nominal rate of interest. Thus, while during the first half of 1979 the real annual rate of interest was approximately -20%, in the following years positive real rates of interest were recorded reaching levels beyond 40% per year in 1981 (see table 3).

Nevertheless, the fiscal equilibrium achieved between 1979 and 1981 made possible a certain domestic stability, despite the existence of some circumstances which had a negative impact on the expectations of economic agents.

First of all, convergence between domestic and external interest rates was not achieved nor did their trend suggest that they would converge within a reasonably short period. The difference between the two rates was higher than that which constitutes a normal country-risk premium, confirming the gloomy expectations of the public. Moreover, at the regional level, at the beginning of 1981 Argentina modified its exchange policy by means of a heavy devaluation of the peso and the creation of a twin commercial and financial exchange market. This sharply altered the competitive capacity of Uruguayan production *vis-à-vis* that of Argentina, leading to a pronounced reversal in the direction of trade in merchandise and tourism between the two countries.

Table 3
URUGUAY: REAL RATE OF INTEREST
(In national currency)

Period	Nominal rate	Price variation ^a	Real rate
1979			
I	69.0	113.8	-20.9
II	62.0	96.5	-17.4
III	62.6	33.7	21.6
IV	68.1	33.1	26.3
1980			
I	67.4	29.1	29.7
II	68.3	35.6	24.0
III	65.6	33.7	23.8
IV	65.1	37.0	20.5
1981			
I	63.7	14.1	43.5
II	57.4	35.5	16.2
III	58.6	-8.8	73.9
IV	59.8	12.4	42.2
1982			
I	49.0	18.4	25.8
II	54.8	20.8	28.1
III	65.9	125.4	-26.4
IV	76.3	99.9	-11.8
1983			
I	105.5	43.0	43.7
II	102.0	66.4	21.4
III	85.0	48.0	25.0
IV	85.0	101.0	-8.0
1984			
I	84.4	100.2	-7.9
II	82.0	53.6	18.5
III	82.0	90.0	-4.4
IV	84.1	95.1	-5.6

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aAnnualized variation in the wholesale price index for manufactured goods in the following quarter.

Expectations played a major role in Uruguay during the first years of the present decade. As already indicated, between 1979 and 1982 economic policy attempted to influence public behaviour towards the expected rate of inflation, by prior announcement of the rate of exchange up to six months in advance. The rate of devaluation established by the economic authorities assumed a decline in the rate of growth of domestic prices. The public nevertheless had other expectations, as it assessed the future rate of inflation by projecting the rate of variation in prices during the previous period, and adding a high risk premium because of a lack of confidence in the maintenance of the exchange policy.

This divergence between the expectations of the economic authorities and those of the public, as well as those felt by different groups of economic agents, had a highly significant influence on the evolution of the real rate of interest. On the one hand, peso depositors were prepared to provide funds at a positive real *ex ante* rate, which implied high nominal rates of interest. Simultaneously, borrowers agreed to pay these high rates, as they expected a more rapid evolution in prices in the future which, should it occur, would lead to negative real interest rates.³

The facts confirmed the official forecasts, leading to *ex-post* real interest rates which were extremely positive, involving considerable changes both in the structure of the financial costs of firms and in their level of indebtedness.

The year 1982 marked the period of greatest divergence between the government's expectations and those of the private sector. At this stage the cost/price ratio of tradeable goods and services had considerably altered on account of the different rates of evolution of external prices on the one hand and of wages and rates of interest in dollars on the other. Consequently, during this year, the unit value of exports declined by 10% while the average wage valued in dollars was 70% higher than in 1978 and the rate of interest in foreign currency fluctuated around 19%. Other macroeconomic indicators revealed signs of imbalance, such as pre-established exchange rates assuming a declining rate of inflation in circumstances in which there existed a growing fiscal deficit and a marked decline in the Central Bank's international reserves. In addition, the decision to give up the tabular system taken by Argentina the previous year constituted an informative element to which economic agents gave great weight, in view of the significant repercussion which they considered that economic events in Argentina would have on the national market.

Furthermore, after Poland's financial difficulties, The Falklands (Malvinas) conflict and the Mexican decision to suspend for a time the servicing of its external debt led to the declaration of the whole of Latin America as a "high risk area" by the international private banks, which sharply reduced their credit to the region.

All of these factors helped to create an extremely unstable financial situation during 1982. On the one hand, The Falklands (Malvinas) conflict accentuated the flow towards Uruguay of Argentine capital, which had already been plentiful during the previous year.⁴ Thus, towards the middle of 1982 the financial system possessed savings or term deposits in foreign currency worth US\$ 2.5 billion,⁵ four times more than at the end of 1977 (see table 4).

Furthermore, the compulsory conversion of foreign currency deposits into pesos decreed in Mexico partially affected this process and led to a new change in the expectations of financial investors. Moreover, both residents and non-residents modified their expectations during the year, anticipating the abandonment of the system of advance exchange-rate announcements.

This change reinforced the trend towards the "dollarization" of the economy: deposits in domestic currency gradually dwindled as the year went by, while those in foreign currency increased (see table 5). In turn, the banking system persuaded borrowers to accept a change in the currency of their contracts so as to avoid or reduce the imbalance between the amount of their deposits and their credits in dollars and to transfer the exchange risk on to the former. The borrowers accepted this change as they did not possess sufficient liquidity to pay off their commitments. Simultaneously, credits were renewed automatically, including principal and interest. Finally, the real rates of interest in domestic currency were higher than 25%, while those charged on credits in foreign currency did not follow the drop recorded on the world market and remained above 18%.

³ This assumption coincided with the effective pattern of real interest rates during most of Uruguay's recent economic history and had developed a mode of entrepreneurial financing privileging the use of external capital rather than domestic in the structure of the liabilities of the majority of firms.

⁴ Mainly as a result of Argentinean economic policy, deposits in foreign currency grew by 74% in 1981, rising from US\$ 1 225 million at the end of 1980 to US\$ 2 135 million in December 1981.

⁵ Some 40% of these deposits belonged to non-residents.

It was in such circumstances that in November the Central Bank announced that it was withdrawing from the exchange market and that the price of foreign currency would henceforth be set on a free market basis. The immediate consequence of this measure was a sharp increase in the rate of exchange, which rose from 14 to 28 pesos per dollar between the middle of November and the end of December.

The first major consequence of this pronounced rise in exchange parity was observed in the structure of the financial assets and liabilities of the banks, with a sharp change in the ratio between debts in domestic currency and in foreign currency. Thus, whereas towards the middle of the year each currency represented half, at the end of 1982 indebtedness in domestic currency represented 26% of the total and liabilities in foreign currency represented the remaining 74%.

This fact naturally caused a significant change both in the relative position of firms producing different goods and in the expectations of the public and of the economic agents. Thus, those firms which manufactured goods for export or to substitute or compete with imports were in principle able to maintain the ratio of indebtedness over sales existing before the exchange adjustment. In contrast, firms involved in producing goods and services which were not tradeable on the international market and which owed debts in foreign currency experienced a sharp rise in their debt/sales coefficient.

Table 4

URUGUAY: PRIVATE SECTOR LOANS AND DEPOSITS IN FOREIGN CURRENCY WITHIN THE BANKING SYSTEM
(Millions of dollars)

Balance at end of	Loans					Deposits						
	BROU	Private banks			Total	Savings deposits				Total	Other depos- its	Total depos- its
						BROU	Private banks					
		R ^a	NR ^b	Total			R ^a	NR ^b	Total			
1973	29	52	-	53	82	3	29	6	35	38	4	42
1974	32	62	-	62	94	5	43	9	51	56	6	62
1975	51	100	-	100	151	12	85	23	108	120	4	123
1976	75	154	1	155	230	33	188	46	234	267	10	277
1977	106	295	2	297	403	57	347	62	409	467	36	503
1978	161	394	17	411	572	71	407	161	569	640	17	657
1979	234	732	50	782	1 016	97	540	275	814	911	18	929
1980	422	1 054	77	1 131	1 554	138	566	473	1 040	1 178	47	1 224
1981	463	1 393	119	1 512	1 976	235	932	872	1 804	2 039	97	2 136
1982	504	1 474	137	1 611	2 115	322	719	701	1 420	1 742	82	1 824
1983	456	1 020	105	1 125	1 580	311	601	601	1 201	1 513	72	1 584
1982												
I	461	1 429	119	1 548	2 009	260	1 030	917	1 947	2 207	95	2 302
II	471	1 452	120	1 572	2 043	315	1 150	1 056	2 206	2 521	111	2 632
III	494	1 530	162	1 692	2 186	358	1 065	989	2 054	2 412	91	2 503
IV	504	1 474	137	1 611	2 115	322	719	701	1 420	1 742	82	1 824
1983												
I	468	1 366	126	1 492	1 959	286	668	576	1 244	1 530	73	1 602
II	467	1 263	105	1 368	1 836	286	622	605	1 226	1 512	77	1 589
III	479	1 182	101	1 283	1 762	305	639	553	1 192	1 497	65	1 562
IV	456	1 020	105	1 125	1 580	311	601	601	1 201	1 513	72	1 584
1984												
I	477	972	104	1 076	1 552	366	615	619	1 235	1 600	63	1 663
II	475	887	125	1 011	1 486	384	622	591	1 213	1 597	64	1 661
III	463	817	114	931	1 394	379	595	538	1 133	1 511	62	1 576
IV	455	755	149	903	1 359	356	556	473	1 029	1 385	55	1 440

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.
^aResidents. ^bNon-residents.

Table 5

URUGUAY: MONETARY LIABILITIES OF THE CONSOLIDATED BANKING SYSTEM

(Billions of new pesos)

Balance at end of	In circulation	Deposits in national currency				Total national currency	Foreign currency deposits			Total monetary liabilities
		Private sector			Others ^a		Private sector	Others ^a	Total	
		Sight	Term	Total						
1974	0.3	0.2	0.2	0.4	-	0.6	0.1	-	0.1	0.9
1975	0.5	0.3	0.4	0.7	0.1	1.3	0.3	-	0.3	1.6
1976	0.8	0.5	0.7	1.2	0.2	2.2	1.1	-	1.1	3.3
1977	1.1	0.7	1.1	1.8	0.3	3.1	2.5	0.1	2.6	5.7
1978	1.8	1.3	2.7	4.0	0.7	6.5	4.5	0.2	4.7	11.2
1979	3.2	2.6	6.3	8.9	1.5	13.6	7.7	0.4	8.1	21.7
1980	5.1	3.6	13.4	17.0	1.5	23.6	11.8	0.7	12.5	36.1
1981	6.1	3.5	17.9	21.4	0.7	28.2	23.6	0.8	24.4	52.5
1982	7.9	3.6	18.6	22.2	1.7	31.8	58.4	1.1	59.4	91.3
1983	8.4	4.4	23.1	27.5	1.3	37.2	65.0	1.5	66.6	103.7
1982										
I	5.5	3.1	18.0	21.1	0.6	27.3	26.4	1.1	27.5	54.8
II	5.4	3.0	17.5	20.5	0.8	26.7	31.4	0.8	32.3	58.9
III	5.3	2.6	17.2	19.8	0.6	25.8	31.9	1.0	32.9	58.6
IV	7.9	3.6	18.6	22.2	1.7	31.8	58.4	1.1	59.4	91.3
1983										
I	7.5	2.8	20.1	22.9	2.9	33.3	49.7	1.0	50.8	84.1
II	6.1	8.2	22.7	25.9	4.3	36.3	48.8	1.5	50.3	86.6
III	5.9	3.5	22.4	25.9	3.4	35.1	54.7	0.2	55.0	90.1
IV	8.4	4.4	23.1	27.5	1.3	37.2	65.0	1.5	66.6	103.7
1984										
I	8.4	4.4	28.0	32.4	1.4	42.2	88.0	1.8	89.8	132.0
II	9.1	4.6	29.9	34.5	1.5	45.0	85.8	2.0	87.9	132.9
III	9.4	4.2	32.8	37.0	1.2	47.9	88.0	1.7	89.8	137.7
IV	12.1	7.5	33.6	41.1	1.5	54.7	102.5	2.3	104.8	159.5

Source: Central Bank of Uruguay.

^aIncluding deposits of the Banco Hipotecario, public enterprises and exchange institutions.

To sum up, the recessionary factors and the financial imbalance which had started to appear midway through 1981 became more pronounced during 1982. By the end of the year there had been a sharp drop of almost 10% in the gross domestic product, a heavy fiscal deficit equal to almost 9% of the gross domestic product, together with a major capital flight of around US\$ 1.2 billion and heavy rises in external indebtedness—which rose from US\$ 3.1 billion at the end of 1981 to US\$ 4 250 million at the end of 1982—and above all in the public sector's external debt—which almost doubled, rising from US\$ 1 460 million to US\$ 2.7 billion (see table 6 and figure 1).

B. THE 1983-1984 READJUSTMENT PROGRAMME

When taking the decision to allow the peso to float freely, the economic authorities took steps to refinance the external debt and reach a contingency credit agreement with the International Monetary Fund. This was signed at the beginning of 1983 as part of a two-year economic programme which was to close with the arrival of a new government during the second quarter of 1985. Application of this programme constituted the backbone of economico-financial management during 1983 and 1984.

The programme reasserted the principles of a market economy which had underlain economic policy in previous years. The priority goals were the achievement of a tenable balance-of-payments position in the medium term, a return to a measure of stability in domestic prices (once the corrective adjustment linked to the liberalization of the exchange market had come about), and a recovery of positive rates of growth in production and employment.

In order to achieve these aims, a set of policies was instrumented covering the external, fiscal, financial and income fields. In the external sector, the programme had in fact started in November 1982 with the decision to abandon the system of prior announcement of the rate of exchange and exchange insurance which was managed by the Banco de la República Oriental del Uruguay (BROU) and to replace it by a floating exchange rate system. It was hoped that this would eliminate the loss of reserves and simultaneously foment a change in the relative prices of tradeable and non-tradeable goods, thereby re-establishing the competitiveness of activities devoted to exports and to import substitution.

In combination with the decision to float the peso, tariff and fiscal measures were adopted affecting external trade which altered the direct impact of exchange fluctuations on the effective rate of exchange of imports and exports. Thus, special tariffs were reduced, the programme of trade liberalization was brought to an end, subsidies granted to exports of non-traditional goods were

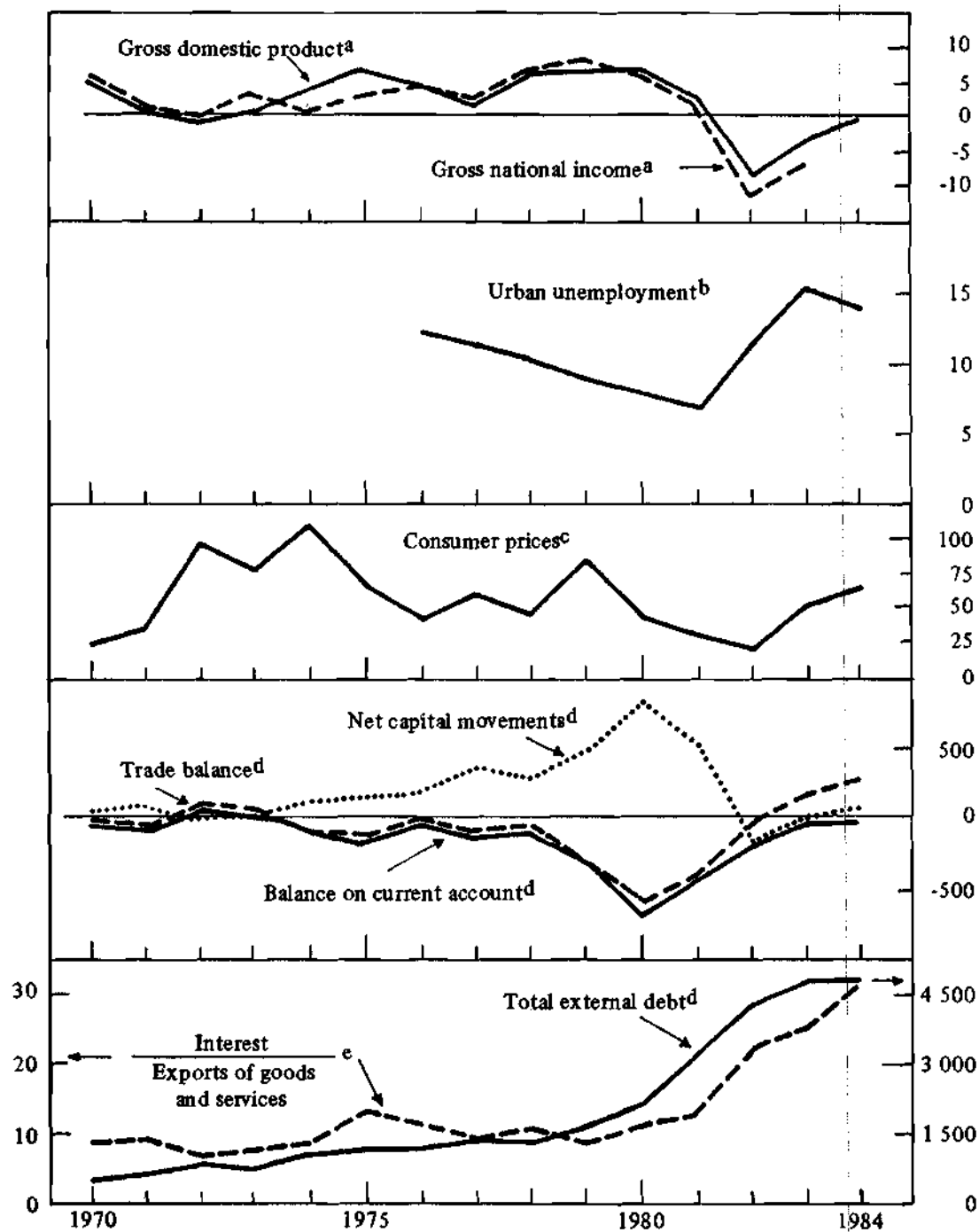
Table 6
URUGUAY: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Basic economic indicators										
Gross domestic product at market prices (millions of 1970 dollars)	3 328	3 461	3 501	3 686	3 913	4 148	4 227	3 830	3 640	3 573
Population (millions of inhabitants)	2.83	2.84	2.86	2.87	2.89	2.91	2.93	2.95	2.97	2.99
Per capita gross domestic product (1970 dollars)	1 176	1 218	1 226	1 283	1 354	1 426	1 444	1 300	1 226	1 195
Growth rates										
Short-term economic indicators										
Gross domestic product	5.9	4.0	1.2	5.3	6.2	6.0	1.9	-9.4	-5.0	-1.8
Per capita gross domestic product	5.1	3.3	0.8	4.8	5.5	5.3	1.2	-10.0	-5.7	-2.5
Gross domestic income	3.9	4.4	-0.6	6.0	6.5	5.3	1.5	-9.4	-7.4	-0.8
Terms of trade (goods and services)	-26.5	1.5	-9.5	4.2	1.7	-3.5	-8.3	0.2	-9.4	5.6
Current value of exports of goods and services	10.4	26.3	16.1	12.9	30.8	27.8	11.5	-24.0	-0.2	
Current value of imports of goods and services	14.0	4.3	29.6	6.1	55.1	42.5	-2.1	-24.4	-24.7	
Consumer prices										
December-December	66.8	39.9	57.2	46.0	83.1	42.8	29.4	20.5	51.5	66.1
Variation between annual averages	81.4	50.6	58.2	44.5	66.8	63.5	34.0	19.0	49.2	55.3
Money										
Wages and salaries	51.9	62.5	38.5	72.2	87.1	50.0	10.3	19.8	11.3	56.2
Rate of unemployment	66.3	42.0	39.0	39.6	52.6	64.4	43.6	18.3	18.3	41.0
	...	...	11.8	10.1	8.4	7.4	6.7	11.9	15.5	14.3
Current government income	67.6	74.7	70.6	48.0	93.7	77.5	42.2	-8.0	50.8	35.0
Total government expenditure	70.8	51.8	55.2	49.5	74.7	79.3	43.7	43.9	19.9	50.3
Fiscal deficit/total government expenditure	-26.9	-15.9	-7.6	-8.4	1.5	0.5	-0.5	-36.4	-20.1	-28.3
Millions of dollars										
External sector										
Balance of trade (goods and services)	...	...	-106	-57	-309	-618	-397	-48	217	227
Current account balance	...	...	-172	-133	-363	-716	-468	-235	-60	-124
Variation in international reserves ^b	...	...	201	183	25	174	51	-497	-115	-70
Total external debt	1 031	1 135	1 320	1 240	1 682	2 153	3 129	4 255	4 589	4 688

Source: ECLAC, on the basis of official figures.

^a Preliminary figures. ^b (+) Increase.

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.
from December to December.

^bAverage annual rate in Montevideo.
^dMillions of dollars.

^cPercentage variation
^ePercentages.

replaced by refunds of indirect taxes, and taxes were applied to traditional exports. It was hoped that these measures would rapidly strengthen the balance of payments.

The programme also included the management of external indebtedness in a manner compatible with the external debt position of the public sector and the conditions prevailing at the time on the world financial market. These two factors implied that the possibilities of obtaining further external funds were rather restricted, which in turn meant that the readjustment would have to be based mainly on domestic factors.

In the fiscal field a drastic reduction in the public sector deficit was planned, in particular by means of an increase in the tax burden, restrictions on expenditure and a realistic policy towards the establishment of rates for public services. The non-financial public sector deficit, which had amounted to rather more than 10% of the gross domestic product during 1982, was to be considerably reduced in 1983 (to a maximum of 3% of the gross domestic product) and then to be gradually diminished throughout 1984, so as to reach equilibrium at the end of the programme.

Management of the Central Bank's net domestic credit pursued a restrictive monetary policy consistent with the balance of payments and prices targets; in order to achieve this attempts would be made to reduce financial aid from the Central Bank to the public sector and the non-financial private sector. One feature which to a large extent conditioned domestic financing laid down in the monetary programme was the behaviour of demand for financial assets denominated in pesos. This tended to decline—a trend which had been reinforced by the loss of confidence caused by the exchange measures taken in November—which restricted the use made of Central Bank financing.

Moreover, the programme included the abandonment of the practice of fixing private sector wages, with the exception of the national minimum wage, and the establishment of the remunerations of civil servants and of social security transfers on the direct basis of fiscal possibilities.

In quantitative terms, the programme set the following goals for 1983:

- i) A loss of Central Bank reserves amounting to no more than US\$ 100 million;
- ii) A deficit of no more than 2% of the gross domestic product for the central government and no more than 3% for the non-financial public sector as a whole;
- iii) An increase of approximately 5 billion Uruguayan pesos in net domestic credit during 1983, equivalent to an increase of some 40% in comparison with December 1982, and
- iv) A ceiling of US\$ 460 million on net external indebtedness.

These targets might be exceeded within certain pre-established limits should it not prove possible to obtain all the projected external financing. A ceiling was also set on the increase in short-term external debt, including treasury bills held by the non-financial private sector, with the aim of restricting the possibility of increasing public sector liabilities in the very short term.

Although they were not included as specific goals, fluctuations in prices and in the exchange rate constituted essential elements of the programme. Consequently, the aforesaid quantitative goals were set on the hypothesis of increases of around 30% in domestic prices and in the exchange rate during 1983, which meant average annual increases of somewhat less than 40% in prices and almost 100% in the exchange rate. This in turn implied a sharp increase in the average real exchange rate.

As regards the real economy, it was hoped that these measures would lead to a slight increase of 1% in the gross domestic product in 1983 and a 4% expansion in 1984, based mainly on the dynamism of the export sector.

The 1984 programme was to be finally drawn up towards the end of 1983, in the light of the behaviour of the economy during the first year of the agreement. Generally speaking, nevertheless, it was hoped that the domestic and external balances would be achieved towards the end of the agreed period. To this end, during the two years in question loans worth 378 million in Special Drawing Rights would be granted (equivalent to rather more than US\$ 400 million), disbursed on a quarterly basis.

The main features of the original programme remained in force throughout almost all the 1983-1984 biennium. There were several reasons for this.

First, the government promised the group of foreign banks with which it had agreed on the refinancing of the external debt to maintain the adjustment programme drawn up jointly with the International Monetary Fund, which, as is usual in such cases, was to act as supervisor and guarantor of the fulfillment of the programme.

Simultaneously, the domestic political situation gradually evolved towards the conclusion of the period of governmental management at the beginning of 1985. Within this context, the political events of 1984 helped to produce, in practice, a transition period which determined, in the economico-financial field, the maintenance of the main lines of the programme begun the previous year, despite the fact that since the end of 1983 it had not been possible to achieve the fiscal target.

Nevertheless, even though there was in essence a single programme in force during the whole of 1983-1984, it is possible to distinguish four subperiods depending on the type of instruments used and, particularly, on the expectations prevailing during each of them. These four subperiods are:

1. November 1982-June 1983;
2. July-November 1983;
3. December 1983-October 1984;
4. November and December 1984.

1. The period between November 1982 and June 1983

As has already been mentioned, the exchange rate adjustment in November 1982 had a strong impact on the behaviour of both public and private economic agents.

Initially, there was a sharp decline in confidence in the maintenance of the policy of free exchange and convertibility of the national currency, a fact which led to a rapid and continual decline in deposits in dollars within the financial system. Thus, in the month of December alone such deposits, fell by 430 million equivalent to 19% of the balance existing at the end of November.

Nevertheless, the banking system gave an important indication of its soundness during the months following the exchange adjustment. The banks in which foreign capital had a share made significant contributions of funds transferred from their head offices to meet the withdrawal of deposits which in general were sight deposits or with a term of between 30 and 90 days.

At the end of April the hemorrhage had been stemmed, after a fall of US\$ 710 million in deposits (32% higher than the November balance), leaving the financial system with a gap of almost US\$ 400 million between deposits and loans in foreign currency equivalent to 25% of its dollar deposits. Since the exchange adjustment heavily reduced the repayment capacity of the borrowers in foreign currency, the vulnerability of the system was greatly increased.

The adjustment of the economy was carried out even more intensively than planned during the seven months covered by this subperiod. This was due to the fact that net external financing obtained by the public sector was considerably lower than forecast, making it necessary to restrict the expansion of Central Bank credit more than foreseen.

Moreover, the abandonment of the system of a pre-established exchange rate caused a major adjustment of peso-dollar parity in the first months of the floating exchange system. During December and the first days of January 1983 an enormous increase was observed in the price of the dollar, the result of a kind of overshooting. Although the rise in the exchange rate was foreseeable, it was reinforced by a considerable increase in the emission of money in December, when it grew by 38%, as a result of the demand for credit from the Central Bank by the Treasury and the Banco Hipotecario del Uruguay (BHU).

Moreover, the alteration of the exchange system also led to another major change, as monetary policy became an instrumental variable of prime importance in place of the practice of fixing the exchange rate.

Under the new system, the high liquidity caused by the growth of emission became a source of pressure on the exchange rate. To cope with this, in mid-January the monetary authorities adopted a set of measures for the rapid absorption of this surplus liquidity. They ordered a doubling of the coefficients of cash reserves which the banking system had to keep against deposits in national currency⁶ and carried out open market operations at high nominal rates of interest (around 100% per year).

The market responded rapidly in the way foreseen. In particular, the monetary regulation bonds issued by the Central Bank represented an attractive asset for the financial system, in view of the fact that the level of confidence in the repayment of the private sector's debt to the banking

⁶The base rate rose from 5 to 10% and the marginal from 20 to 40%.

system had declined sharply and therefore the banks had no interest in increasing their credit to private firms. Purchase of short-term high interest Central Bank bonds thus constituted a suitable mechanism for channelling liquidity within the system, making possible a rapid absorption of funds and setting monetary policy within the programme originally planned.

Nevertheless, during this subperiod management of the programme in the monetary sphere faced problems caused by a certain lack of coherence between the behaviour of the Central Bank and that of the Banco de la República, which affected the financial and exchange markets.

As the BROU already channels approximately half the value of exports, its supply of foreign currency constitutes a singularly important contribution within the country's exchange transactions as a whole. During the whole of this subperiod, the BROU pursued a policy of limited participation in the market, restricting its sales of dollars. Thus, demand for foreign currency did not encounter a fluid supply and the price of the dollar rose sharply, from 14 pesos on 25 November to a maximum of 45 pesos during the first days of January, and stabilized between March and June somewhere between 31 and 34 pesos. This signified a rise of almost 150% over the price prevailing when the policy of prior announcement of the exchange rate ended.

The new system, which seemed to allow a clean float—as the BCU did not intervene in the exchange market—was in practice a hybrid mechanism, since the monetary authorities met part of the public sector's foreign currency requirements without making up the consequent loss of reserves on the market. Thus, despite the fact that a floating exchange rate system was in force, the BCU continued to lose reserves, although at a lower rate than during the previous period.

One fact of undoubted importance within this subperiod was the refinancing of the public sector's external debt to the international creditor banks as a whole. The agreement reached involved a refinancing over seven years (with two years of grace), for all the credit granted to the public sector up to February 1983. The agreement included 90% of amortization payments due in 1983 and 1984 and US\$ 240 million in "fresh funds", bringing the total to US\$ 930 million. The amount of the new additional financing was directly linked to the programme agreed upon with the IMF.

At the end of the first half of the year the different variables which made up the programme's goals were below the pre-established ceilings. On the whole this result was easily achieved, with the exception of the central government's deficit. There were some difficulties in meeting this subsidiary target,⁷ mainly as a result of lower tax revenues than forecast, since a considerable adjustment took place in expenditure, with a decline of some 23% in real terms. The successive tariff corrections made during the period, together with a major reduction in petroleum stocks—within the framework of a policy of stock management which took into account the declining trend of the international price of hydrocarbons—made it possible to meet the forecasts for the rest of the non-financial public sector. Consequently the overall result for the first six months of the programme showed a dramatic adjustment in the public sector accounts.

Nevertheless, a number of major problems remained.

First of all, and despite the fact that, as already said, the financial system responded favourably to the drain on foreign currency deposits, some banking firms continued to show signs of weakness. This led the Central Bank to recommend the sale of five banks, which were purchased by external financial groups, once their loan portfolios had been put on a sounder footing by the Central Bank acquisition of hard-to-recover loans, worth US\$ 386 million.⁸ Moreover, in the face of difficulties in obtaining external resources essential for the fulfilment of the programme, the Central Bank obtained external funds by means of loan operations linked to the purchase of the matured portfolios of certain banks. The total value of credit to the private sector held by the Central Bank as a result of both types of operation reached approximately US\$ 600 million midway through 1983.

Secondly, inflationary expectations increased. At the beginning of 1983 private economic agents assumed that there would be strong inflationary pressure in the future, since they tended to extrapolate the rate of inflation associated with the immediate impact of the adjustment of the exchange rate and had no confidence in the maintenance of the adjustment policy. Simultaneously the Central Bank paid high nominal rates of interest—in the region of 100%—on its open market operations. In turn, the greater part of the credit granted to the private sector by the financial system

⁷ The generally adopted target is the overall deficit of the non-financial public sector.

⁸ Of which US\$ 127 million were discounted for financial assistance.

was automatically renewed, including the interest, in view of the impossibility of paying off the loans within a context of widespread decline in the value of assets and consequently of the corresponding collateral.

Within this overall context, and once the initial corrective impact of devaluation on prices had worn off, the real rate of interest was highly positive: from March onwards interest rates of more than 20% in real terms reappeared (see table 3).

2. The period between July and November 1983

At the beginning of the third quarter a change occurred in the management of the exchange policy. After heavy pressure on the peso and in view of the fact that the Banco de la República had considerably increased its international reserves during the first six months of the year, it was decided that the latter should intervene on the exchange market with foreign exchange obtained from external trade. In practice this established a mechanism of daily mini-devaluations which implied an increase of approximately 45% per year in the exchange rate.

During this subperiod, the different variables evolved as had been forecast, with the exception of tax yield, which showed a tendency to decline in real terms as a direct result of the procyclical nature of the tax structure—in which indirect taxes strongly predominate—and of the fall in economic activity and external trade.

Even though there was an impressive reduction in fiscal expenditure—outlays by the central administration declined by 20% in real terms—the even more pronounced decline in revenue meant that the central government's deficit, excluding extraordinary income, was equivalent to approximately 4% of the gross domestic product. However, receipt of extraordinary non-tax revenue kept this variable within the limits set by the programme.

Towards the end of the third quarter the economy displayed a number of important features:

- i) the capacity for adjustment within the fiscal sector had been exhausted;
- ii) adjustment of external sector was mainly achieved by a contraction in imports, without any revival, in nominal terms, of exports;
- iii) there was widespread refinancing of credit from the financial system for the private sector—partly through a refinancing mechanism set up by the government and partly as a result of the policy which the banks in practice pursued;
- iv) the competitiveness of Uruguayan products on the external market had been restored, particularly in neighbouring countries;
- v) after the initial corrective inflationary impact, the rate of price increases had declined considerably;
- vi) the decline in domestic activity seemed to have come to a halt.

Generally speaking, during October and November the main features of the third quarter were maintained, with the exception of the central government deficit which, now without the benefit of extraordinary extrabudgetary revenue, increased considerably.

Furthermore, during the whole of 1983 the behaviour of the Banco de la República was a major factor in monetary contraction. Broadly speaking, the money circuit within the economy during the first year of the floating exchange rate (December 1982 to November 1983) displayed the following main features:

- i) the Central Bank monetized both the fiscal deficit and that of the Banco Hipotecario del Uruguay;
- ii) the resulting issue was mainly used to purchase foreign currency, which reflected the flight of capital from the banking system;
- iii) after July 1983 the main supplier of foreign currency to the exchange market was the Banco de la República, as a result of its high level of participation in the country's external trade and the earning of a trade surplus of around US\$ 220 million, and
- iv) finally, the expansionary impact of the counterpart in national currency obtained by the BROU for sales of foreign currency was to a large extent cancelled out by deposits in the Central Bank, which at the end of 1983 were equivalent to 60% of issue.

3. The period between December 1983 and October 1984

As in the previous year, the month of December 1983 has to be included in a period distinct from that of the calendar year. It was at the beginning of this month that a new Minister of Economy and Finance took over and exchange policy was again altered, involving a return to a system of relatively authentic floating rate. This meant the suspension of intervention by the Banco de la República on the exchange market while operations relating to the foreign currency requirements of the non-financial public sector were concentrated within the Central Bank. This meant that the Central Bank became the net purchaser on the exchange market and that the BROU was restricted to its functions as a commercial bank. A consequence of this was a rise of around 10% in the price of the dollar, which was the market's assessment of the exchange rate's lag at the time.

Moreover, the public sector's financial deficit for the fourth quarter of 1983 exceeded the goal which had been set, thus causing the suspension of the contingency credit agreement with the International Monetary Fund.

At the beginning of 1984 a 3% guideline for growth of the means of payment was announced. It was also hoped to continue to reduce the fiscal deficit, which was to be covered with real resources and without financial assistance from the Central Bank; henceforth the adjustment was to be achieved by means of an increase in effective fiscal pressure, as it was considered that the potential for reduction in expenditure had been practically exhausted.

At the same time it was hoped to revive the real economy and achieve a growth of approximately 5% in the gross domestic product, mainly as a result of the reversal of the trend in the balance of non-factor services, which would contribute approximately US\$ 250 million more than in 1983.

According to the adjustment plan proposed in the original programme, the non-financial public sector was to reach equilibrium at the end of 1984, with a deficit of no more than 1% of the gross domestic product. As already said, the financial deficit had already been stabilized at 4% of the gross domestic product, so that new measures were needed to return to the basic programme.

As the rates and prices of the public enterprises were adjusted so as to maintain an adequate level in real terms, their overall balance remained around financial equilibrium. In contrast, the problem remained in the central administration, in which, in view of the structure of expenditure, there was now little room for manoeuvre to reduce expenditure, while effective fiscal pressure showed a tendency to decline.

Towards the middle of September the authorities granted a wage increase to public employees, readjusted pensions and increased the national private sector minimum wage. Some changes were also made in the tax system, with an increase in VAT, the creation of a new tax on transactions in foreign currency, the reorganization of taxation affecting agriculture by a reduction in the tax on traditional exports (known as withdrawals) and the creation of a tax on income from agricultural activities. Nevertheless, the net result of these changes did not reduce the fiscal gap as far as had been planned in the original programme.

Inflation was another field in which the programmed goals were not achieved in 1984. During the first ten months of the year prices increased at an annual rate of 70%, owing to a corrective increment of 7% in January—a result of the liberalization of the exchange rate, the marked increase in emission in December, and the rise in wages decreed in January—along with an average monthly increase of 4% up to October. This rate of inflation, however, meant a considerable fall in the real rate of interest for borrowers of national currency, which steadied at around 7% at the end of the year.

Moreover, towards the third quarter of 1984 productive activity showed no signs of revival. There were two main reasons for this situation.

First of all, the programme was designed to strengthen the external competitiveness of domestic production so as to promote a revival of industry stemming from an increase in the manufacture of exportable goods. Although the aim of raising Uruguayan competitiveness was achieved quite rapidly, in particular for major markets such as Argentina, Brazil and the United States, the preservation or intensification of import restrictions—which were particularly pronounced in the regional sphere—prevented a growth of industrial exports in line with the competitiveness of the supply.

Moreover, the programme assumed that the private sector would receive a certain level of financing, which it never obtained, so that enterprises found their expansion potential restricted by a lack of timely credit. This was true both for external and domestic financing. In fact, the lines laid down by the programme included a set of goals for the public sector and another for the economy as a whole; in both cases the goals assumed a certain level of financing, as to which the programme only specified the net domestic credit from the Central Bank and the increase in the public sector's external indebtedness, leaving implicit the credit envisaged for the private sector. In practice, however, a number of factors intervened to prevent it from ever reaching the level of financing required.

First of all, the commercial banking sector was not prepared to increase the risk on its loans, and would only provide credit for firms which seemed obviously sound and virtually froze credit for the rest of the private sector. Secondly, as from July the Banco de la República maintained a high level of deposits with the Central Bank, which constituted a substantial cash surplus and withdrew funds from the market. Thirdly, domestic private sector financing was lower than forecast since the public sector did not behave as planned and financed its additional deficit by marketing treasury bills in dollars at attractive rates on interest ($\text{LIBOR} + 2.75\%$) and with credit obtained through regulations adopted by the Central Bank which obliged the private banking system to hold a fixed proportion of its national and foreign currency deposits in special treasury bills. Finally, the targets for external indebtedness included in the programme were never attained, which represented a major contractive factor for the economy as a whole.

4. The period November to December 1984

The evolution of the economy during the last two months of the year was strongly influenced by the national elections.

During November, the possibility of a substantial change in economic and financial policy exerted considerable influence over the behaviour of economic agents. Consequently, foreign currency deposits of more than US\$ 100 million were withdrawn from commercial banks (equivalent to approximately 7% of the total) and there was a marked decline in the renewal of treasury bills in foreign currency. At the same time the increase in the demand for dollars during the first three weeks led to a 7.5% increase in the exchange rate within a climate of pessimism which made it difficult for the Central Bank to act on the exchange market without increasing pressure on the exchange rate. Thus the international reserves of the Central Bank fell by more than US\$ 130 million during the period between the end of October and 25 November, when the elections took place.

The result of the election changed the setting, causing a reversal in expectations, the return of deposits in dollars to the financial system and a lively demand for government securities in foreign currency. As a result, the Central Bank finally lost only US\$ 70 million from its international reserves.

In contrast, the fiscal deficit showed a strong tendency to grow towards the end of the year. On the one hand, the central government increased its financial assistance to the Banco Hipotecario, while the increase in the exchange rate had a direct effect on debt servicing. Simultaneously, rates for public services fell behind as their prices were not adjusted in consonance with the exchange rate, as a result of which public enterprises as a whole went into deficit. Finally, in December increases of 22% in public sector wages and 10% in pensions were granted, without any new tax measures being adopted. Although the rates of public services were simultaneously increased by 9.5%, this was insufficient to prevent a rise in their deficit as the rate of exchange had increased by approximately 25% since the previous price adjustment.

Monetary policy during the last two months of 1984 was strongly influenced by the behaviour outlined above. The increase in the non-financial fiscal deficit and in the assistance given to the Banco Hipotecario del Uruguay involved an increase in liquidity which immediately exerted pressure on the exchange rate. In order to check the growth of this liquidity, the monetary authority resorted to successive increments in the legal cash reserve and to regulations which obliged the financial system to absorb official bills in pesos and in foreign currency, in an attempt to neutralize the general effects of the growing fiscal imbalance by contracting the means of payment.

II. ECONOMIC TRENDS

A. ECONOMIC ACTIVITY

1. Total supply and demand

After reaching in 1981 its highest level since statistical records have been kept by the country, the overall supply of goods and services declined continuously in the next three years and in 1984 fell to a level 20% below that recorded in 1981 and similar to that already reached in 1977 (see table 7).

The first cause of this decline was the drop in the gross domestic product, which fell by approximately 16% between 1981 and 1984, as a result of declines of almost 10% in 1982, 5% in 1983 and of somewhat less than 2% in 1984. However, it was also the result of a contraction in the volume of imports of goods and services, which declined even more markedly after the 1981 peak. In fact it was 40% lower in 1984 than in 1981, while the import coefficient was the lowest in the last 14 years.

As regards the volume of exports of goods and services, after recovering in 1983 from its sharp drop in the previous year it increased by 1.5% in 1984. This increase was entirely due to the growth of tourism since exports of goods fell by 13% in real terms.

During 1984 domestic demand also fell by more than 3%. As a result of this shrinkage and of the even more pronounced drops which had occurred during the two previous years, its level in 1984 was 24% lower than in 1981. There was a substantial contraction in both consumption and investment. The latter in particular was considerably affected by the crisis of the last three years. As a result, after growing at an extremely high average annual rate of some 17% between 1974 and 1980, it fell sharply and without interruption from 1981, and accumulated a drop of approximately 60% in the four years between 1981 and 1984.

As regards the evolution of investment in construction, the influence of Argentina was crucial. Up to 1980-1981, the overvaluation of this country's currency directed a considerable demand for housing towards areas of tourism in Uruguay, particularly in Punta del Este. This demand fell sharply when the rate of exchange rose. The initiation and completion of two large-scale hydroelectric complexes —Salto Grande and Palmar— was another factor of undoubted importance both in the initial growth and the later crisis of investment in construction. Finally, a third factor which influenced the construction crisis was the reduction in housing programmes financed by the Banco Hipotecario del Uruguay after 1983, caused by the domestic and external financial crisis affecting the country.

Investment in machinery and equipment, for its part, showed signs of weakness from the beginning of the decade, as a result of the high real rates of interest, the continuing fall in the cost-price ratio of exportable goods, the unfavourable trend in external demand, the sharp drop in domestic demand, the high level of indebtedness of the majority of firms and the difficulties they had in obtaining new funds.

In view of these changes, the coefficient of gross fixed investment over domestic product at current values declined rapidly from a high of 17.3% in 1979-1980 to less than 10% in 1983-1984 (see table 8). This not only meant that the coefficient fell below the low levels recorded at the end of the 1960s, but also implied that in the last two years net investment was inexistent or even slightly negative.

The fall in investment went hand in hand with major changes in its sources of finance: while external saving financed an average of around 40% of gross domestic investment between 1980 and 1982, in the two following years its share fell to 20 and 5% respectively.

Moreover, external factors had unfavourable effects upon the contribution of domestic saving to investment financing, as the aggregate effect of the increased external indebtedness and the high international interest rates led to a marked growth in external factor payments. Simultaneously, there was a notable deterioration in the terms of trade. In these circumstances, the attempt to increase domestic saving made from 1983, thanks to which this rose from less than 11% of the gross domestic product in 1982 to 14% in 1984, proved insufficient even to cancel out the drastic reduction caused by the adverse trend of external factor payments and the terms of trade. As a result, the share of domestic

Table 7
URUGUAY: TOTAL SUPPLY AND DEMAND

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Billions of new 1978 pesos										
Total supply	33.2	34.5	35.3	37.2	40.5	43.0	43.8	39.3	36.0	35.1
Gross domestic product at market prices	27.9	29.1	29.4	30.9	32.8	34.8	35.5	32.1	30.5	30.0
Imports of goods and services	5.3	5.4	5.9	6.3	7.7	8.2	8.3	7.2	5.5	5.1
Total demand	33.2	34.5	35.3	37.2	40.5	43.0	43.8	39.3	36.0	35.1
Domestic demand	29.1	29.5	29.9	31.7	34.6	36.9	37.3	33.5	29.4	28.4
Gross domestic investment	3.1	3.7	4.3	5.0	6.1	6.5	5.9	4.8	3.2	2.6
Gross fixed investment	3.1	4.0	4.3	4.9	5.1	6.3	6.1	5.2	3.6	2.7
Construction ^b	2.1	2.4	2.4	3.2	3.7	3.8	3.9	3.7	2.6	2.1
Machinery and equipment	1.0	1.7	1.9	1.7	2.2	2.4	2.2	1.5	1.0	0.6
Variation in stocks	-0.1	-0.3	-	-	0.3	0.2	-0.2	-0.4	-0.3	-
Total consumption	26.1	25.8	25.6	26.7	28.5	30.5	31.4	28.7	26.1	25.8
General government	3.3	3.6	3.5	3.8	4.3	4.2	4.6	4.5	4.1	4.2
Private	22.8	22.2	22.2	22.9	24.2	26.2	26.9	24.3	22.0	21.6
Exports of goods and services	4.1	4.9	5.3	5.5	5.9	6.1	6.5	5.8	6.6	6.7
Percentage breakdown										
Total supply	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross domestic product at market prices	84.0	84.3	83.3	83.1	80.3	80.9	81.0	81.7	84.7	85.5
Imports of goods and services	16.0	15.7	16.7	16.9	18.7	19.1	19.0	18.3	15.3	14.5
Total demand	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand	87.7	85.7	85.0	85.1	84.6	85.8	85.2	85.2	81.7	80.9
Gross domestic investment	9.2	10.7	12.3	13.3	15.0	15.0	13.5	12.2	8.9	7.4
Gross fixed investment	9.4	11.7	12.3	13.3	14.3	14.5	13.9	13.2	10.0	7.7
Construction ^b	6.3	6.9	6.9	8.6	8.9	8.9	8.9	9.4	7.2	6.0
Machinery and equipment	3.1	4.8	5.4	4.7	5.4	5.6	5.0	3.8	2.8	1.7
Variation in stocks	-0.2	-1.0	-	-	0.7	0.5	-0.4	-0.9	-0.8	-
Total consumption	78.5	75.0	72.7	71.8	69.6	70.8	71.7	73.0	72.5	73.5
General government	10.0	10.4	9.8	10.2	10.5	9.9	10.4	11.4	11.4	12.0
Private	68.5	64.6	62.9	61.6	59.1	60.9	61.3	61.8	61.1	61.5
Exports of goods and services	12.3	14.3	15.0	14.9	14.4	14.2	14.8	14.8	18.3	19.1
Growth rates										
Total supply	3.9	3.7	2.2	5.6	10.0	6.3	1.7	-10.3	-8.4	-2.5
Gross domestic product at market prices	4.4	4.0	1.2	5.3	6.2	6.0	1.9	-9.5	-5.0	-1.8
Imports of goods and services	-	2.3	8.3	7.1	21.6	7.6	1.0	-13.3	-23.6	-7.3
Total demand	3.9	3.7	2.2	5.6	10.0	6.3	1.7	-10.3	-8.4	-2.5
Domestic demand	2.4	1.3	1.5	5.8	9.2	6.8	1.0	-10.1	-12.2	-3.4
Gross domestic investment	24.7	21.0	17.2	14.2	23.9	5.4	-8.9	-18.6	-33.4	-18.8
Gross fixed investment	36.8	28.3	7.2	14.4	19.0	6.3	-3.0	-14.8	-30.8	-25.0
Construction ^b	23.3	12.4	2.6	32.4	13.8	5.2	1.2	-5.1	-29.7	-19.2
Machinery and equipment	80.5	60.6	13.7	-8.7	28.6	8.3	-9.7	-31.8	-33.4	-40.0
Variation in stocks	...	...	...	...	...	...	...	...	...	...
Total consumption	...	-1.0	-0.8	4.4	6.5	7.1	3.1	-9.6	-9.1	-1.1
General government	3.0	7.5	-3.3	10.3	12.6	-1.3	7.5	-2.2	-8.9	2.4
Private	-0.6	-2.3	-0.4	3.4	5.4	8.6	2.4	-9.7	-9.5	-1.8
Exports of goods and services	17.9	21.0	7.2	4.3	6.6	3.6	6.2	-10.8	13.4	1.5

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aPreliminary estimates.^bIncluding plantations and permanent crops.

saving in the gross domestic product fell substantially from 1982, dropping from an average of 11% in 1980-1981 to 8.3% in 1984 (see table 9).

Finally, total domestic consumption fell off sharply (-10%) between 1982 and 1984. Private consumption, which fell by over 11%, was particularly affected, while expenditure on government consumption declined at a slower rate than the other variables, as a result of which its share in the gross domestic product rose from 12% in 1980 to 14% in 1984 (see table 7).

2. Evolution of the main sectors

The scant contribution made by the external sector, which had been expected to represent the main driving force of the economy, together with the hesitant attitude of entrepreneurs in view of the imminence of a change of government which might result in a considerable alteration of the rules of the economic policy game which had been in force over the past ten years, made up the framework which largely determined the action of economic agents in 1984, especially in the second half of the year.

Table 8

URUGUAY: COEFFICIENT OF INVESTMENT^a

Year	Percentage	Year	Percentage
1965	11.3	1979	17.3
1970	11.5	1980	17.3
1975	13.5	1981	15.4
1976	14.8	1982	14.4
1977	15.2	1983	11.0
1978	16.8	1984	8.7

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aRatio of gross domestic investment to gross domestic product at current prices.

Table 9

URUGUAY: FINANCING OF GROSS DOMESTIC INVESTMENT

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Percentage of gross domestic investment										
Gross domestic investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross national saving	53.3	83.9	73.2	76.1	69.0	59.9	66.0	57.8	79.9	94.9
Gross domestic saving	62.5	88.8	87.7	85.5	72.0	67.7	69.6	72.2	138.0	161.5
Net external factor										
payments	-15.2	-13.1	-9.6	-9.4	-4.6	-6.0	-4.9	-16.1	-36.1	-52.3
Terms-of-trade effect	6.0	8.2	-4.9	-	1.6	-1.8	1.3	1.7	-22.0	-14.3
External saving	46.7	16.1	26.8	23.9	31.0	40.1	34.0	42.2	20.1	5.1
Percentage of GDP										
Gross domestic investment	10.9	12.7	14.8	16.0	18.7	18.5	16.6	15.0	10.5	8.7
Gross national saving	5.8	10.6	10.8	12.2	12.9	11.1	11.0	8.7	8.4	8.3
Gross domestic saving	6.8	11.3	12.9	13.7	13.5	12.6	11.6	10.8	14.5	14.1
Net external factor										
payments	-1.7	-1.7	-1.4	-1.5	-0.9	-1.1	-0.8	-2.4	-3.8	-4.6
Terms-of-trade effect	0.7	1.0	-0.7	-	0.3	-0.4	0.2	0.3	-2.3	-1.2
External saving	5.1	2.1	4.0	5.8	5.8	7.4	5.6	6.3	2.1	0.4

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

As already said, the adjustment programme applied in 1983 was designed to increase the competitiveness of exports in order to stimulate external sales and spark off a chain reaction in the other productive activities.

In fact, competitive capacity compared with the neighbouring countries changed rapidly and the price of labour in dollars fell to levels well below those of previous years (see figures 2 and 3). Nevertheless, mainly because of protectionist practices in force in world and regional markets, little progress was made in the direction chosen.⁹ Hence the contraction of the domestic market had greater effects than had been foreseen and prevented a reversal of the declining trend in the level of activity which had started midway through 1981.

The scant amount of financing obtained also had a contractive effect. The high level of the domestic indebtedness of enterprises together with the high real rates of interest which remained in force throughout almost the whole of 1983 and 1984 constituted serious obstacles to a recovery of production.

As a result, the agricultural sector, construction, trade and financial services continued to operate within an unfavourable context and failed to make up for the sharp loss which had affected them in the two previous years. Some export industries, on the other hand, managed to revive. In particular textiles, footwear and clothing maintained a satisfactory level of activity during 1984, as a result of which the manufacturing industry was the sole sector among goods-producing activities which recorded a rise (see table 10).

a) *The agricultural sector*

Agricultural production has undergone considerable vicissitudes in the last ten years. After growing at an annual average rate of 3% between 1975 and 1977, it fell by 7% in the period 1978-1979, rose spectacularly (22%) in 1980-1981 and fell once again over the following three years. Thus, in 1984 it was at a similar level to that of 1976.

This evolution was a result of the quite distinct behaviour of two main groups of products. The first of these —which showed a clear rising trend— was made up of relatively new items, such as rice and dairy products, and by a traditional item, wool. All of these items enjoyed accessible external markets and maintained continuous growth, which was only interrupted in 1983 in the case of rice for climatic reasons. Thus, between 1978 and 1983 wool production grew by 40%, milk rose by 15% and rice by 44%, despite the fact that, for the reason already mentioned, output of the latter had fallen by 23% in 1983. Poultry production also experienced rapid growth (21% per year) between 1978 and 1981, but the contraction in domestic and external demand led later to a sharp fall in its output. Even so, in 1983 its level was almost 40% higher than in 1978 (see table 11).

The second group of products consisted of the remaining traditional agricultural products, whose output underwent considerable variations. Among these, the raising of beef cattle was notable both for its considerable relative importance and in view of its evolution. The policy of liberating prices and markets for beef which had begun in August 1978 and the pronounced rise in the international price of this product during the following year —which, as can be seen in table 12, increased by 57% between the end of 1978 and the end of 1979— encouraged the efforts of stock-breeders. Generally speaking, these began to extend their grazing land and made investments to modernize production and shorten the stock-raising cycle. As a result, in 1980 the livestock sector's product rose by 12.5%. Later on, conditions both on the world and domestic markets changed appreciably: the international price declined sharply —from US\$ 1 700 per ton at the end of 1979 to US\$ 1 160 during the last quarter of 1982— and the European Economic Community started actively competing on the world market, offering meat at highly subsidized prices, which robbed the country of its purchasers. At the domestic level, the deep indebtedness of the producers at high real rates of interest and the pronounced decline in meat prices led to an extremely unfavourable cost-price ratio. Consequently, between 1982 and 1983 there was a rapid decline in the number of head of cattle, a considerable rise in the slaughtering of breeding cattle and a widespread fall in the level of activity, with obviously adverse effects on the availability of cattle suitable for slaughtering in 1984-1985.

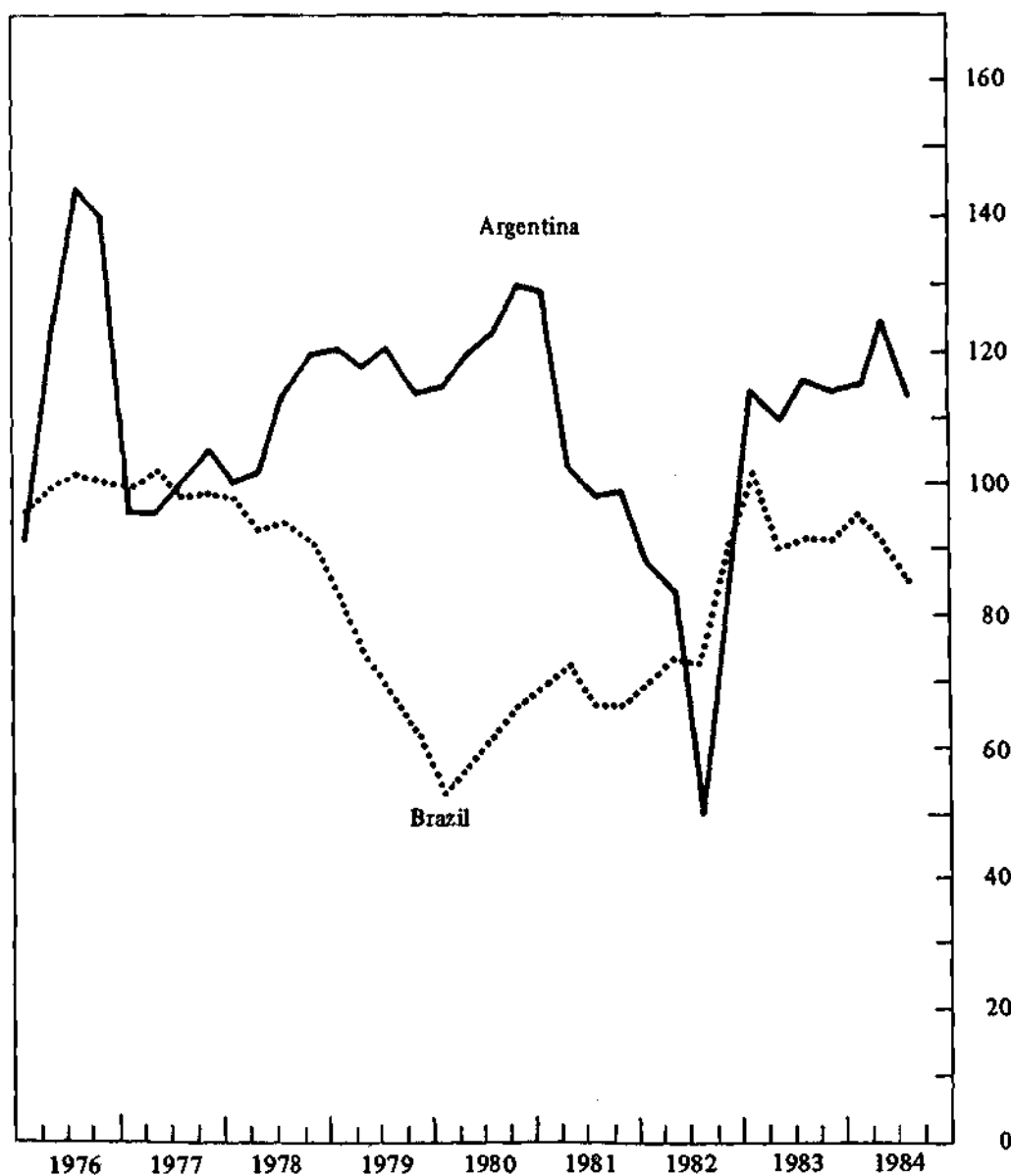
Despite this, following the adjustment in the exchange rate at the end of 1982, the domestic price of beef cattle rose far more rapidly than that of other prices within the economy, a fact which

⁹Exports to the United States increased considerably, but faced quotas which prevented further expansion.

acted as a stimulus to the rebuilding of the sector's productive capacity. Thus, while the wholesale price index for cattle production increased fivefold between December 1982 and the end of 1984, the general price index only trebled (see table 13). In these circumstances, during 1984 the sector's activity centred on the reconstitution of stocks.

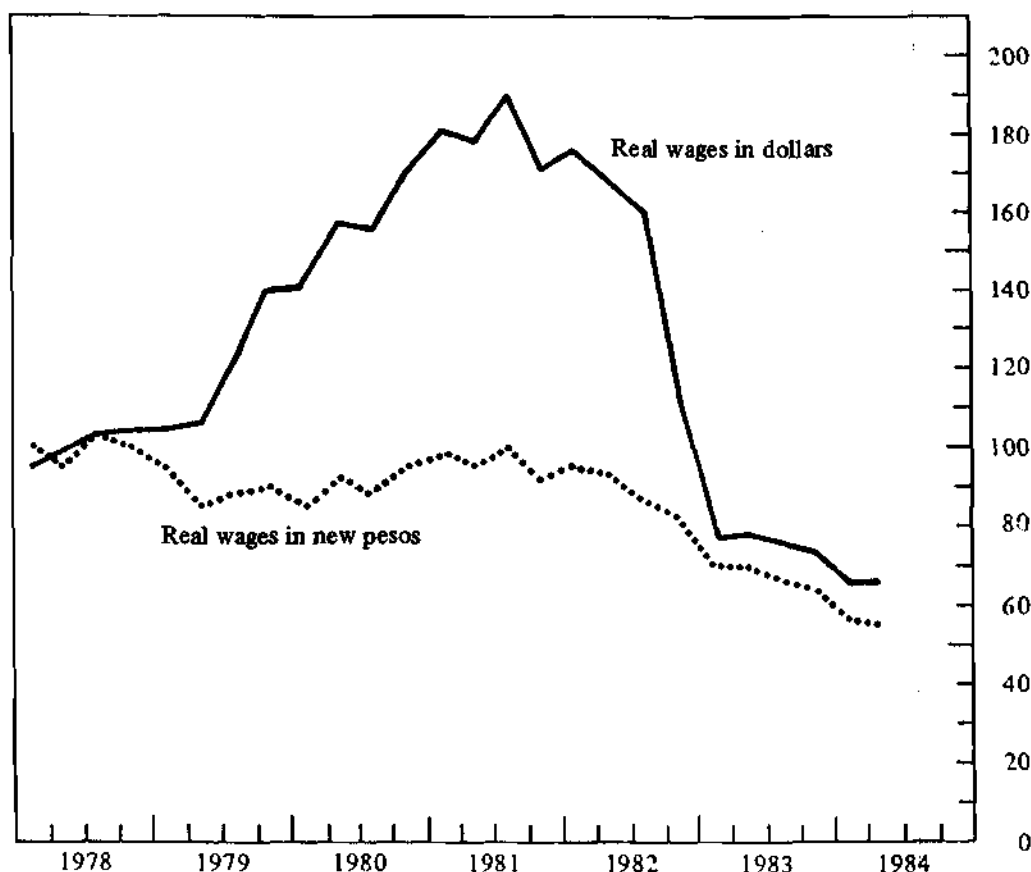
Production of cereals, oil-seed and industrial crops fluctuated according to the prices obtained and the prevailing climate, without any clear trend, and sowing was carried out to supply the domestic market.

Figure 2
URUGUAY: INDEXES OF COMPETITIVENESS IN TRADE
WITH ARGENTINA AND BRAZIL
(1977 = 100)



Source: ECLAC, on the basis of official data.

Figure 3
URUGUAY: INDEXES OF REAL WAGES IN DOLLARS AND IN NEW PESOS
 (1978 = 100)



Source: ECLAC, on the basis of official data.

This latter tendency was also observed in recent years in fruit and vegetable cultivation, following very special cases of high production of certain items which were exported during the boom. Citrus fruits —whose production was stimulated by the favourable evolution of external demand— represented one of the most dynamic items in this category.

In 1984 agricultural production declined by 5% as a result of the considerable contraction in cattle-raising. This fell by 8%, mainly as a result of the poor performance of beef production (-18%) and milk (-2%). Production of wool was also lower than in the previous year, as a result of a higher than normal mortality rate caused by harsh climatic conditions, which also affected the health of the flocks.

On its side, crop production remained at a similar level to that of the previous year. This was the net result of slight increases in cereal and oil-seed harvests, a drop in wine-grape production (for climatic reasons) and stability in other products which remained at the levels of 1983.

b) *Fishing*

The fishery sector was another dynamic area of primary production which, after expanding rapidly up to 1981, has had to face major problems in recent years. After a period of rapid development sparked off by the application of the Fishery Plan, which led to a fivefold expansion of the physical volume of the catch between 1976 and 1981 and a twelvefold increase in the value of

Table 10

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

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Millions of new 1978 pesos										
Gross domestic product	23 746	24 700	24 974	26 292	27 914	29 600	30 173	27 319	25 964	25 486
Goods	9 438	9 755	10 190	10 635	11 238	11 934	11 851	10 413	9 456	9 215
Agriculture	3 001	3 058	3 156	2 946	2 933	3 408	3 596	3 332	3 245	3 078
Manufacturing industry ^b	5 561	5 708	6 019	6 368	6 815	6 980	6 662	5 536	5 148	5 294
Construction	876	989	1 015	1 326	1 490	1 546	1 593	1 545	1 063	843
Basic services	1 877	1 988	2 050	2 075	2 264	2 449	2 455	2 237	2 182	2 167
Electricity, gas and water	314	324	338	366	379	408	430	435	446	450
Transport, storage and communications	1 563	1 664	1 712	1 709	1 885	2 041	2 025	1 802	1 736	1 717
Other services	12 431	12 957	12 734	13 582	14 412	15 217	15 867	14 669	14 326	14 104
Commerce	3 644	3 975	4 063	4 359	4 677	5 183	5 327	4 185	3 849	3 679
Real estate	1 746	1 742	1 764	1 789	1 798	1 830	1 848	1 859	1 871	1 884
Other sectors	7 041	7 240	6 907	7 434	7 937	8 204	8 692	8 625	8 606	8 541
Percentage breakdown										
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Goods	39.8	39.5	40.8	40.4	40.3	40.3	39.3	38.1	36.4	36.2
Agriculture	12.7	12.4	12.6	11.2	10.5	11.5	11.9	12.2	12.5	12.1
Manufacturing industry ^b	23.4	23.1	24.1	24.2	24.4	23.6	22.1	20.3	19.8	20.8
Construction	3.7	4.0	4.1	5.0	5.4	5.2	5.3	5.6	4.1	3.3
Basic services	7.9	8.0	8.2	7.9	8.1	8.3	8.1	8.2	8.4	8.5
Electricity, gas and water	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.6	1.7	1.8
Transport, storage and communications	6.6	6.7	6.8	6.5	6.7	6.9	6.7	6.6	6.7	6.7
Other services	52.3	52.5	51.0	51.7	51.6	51.4	52.6	53.7	55.2	55.3
Commerce	15.3	16.1	16.3	16.6	16.8	17.5	17.7	15.3	14.8	14.4
Real estate	7.4	7.1	7.1	6.8	6.4	6.2	6.1	6.8	7.2	7.4
Other sectors	29.6	29.3	27.6	28.3	28.4	27.7	28.8	31.6	33.2	33.5
Growth rates										
Gross domestic product	5.9	4.0	1.1	5.3	6.2	6.0	1.9	-9.5	-5.0	-1.8
Goods	8.2	3.4	4.5	4.4	5.7	6.2	-0.7	-12.1	-9.2	-2.5
Agriculture	5.6	1.9	3.2	-6.6	-0.4	16.2	5.5	-7.3	-2.6	-5.1
Manufacturing industry ^b	6.3	2.6	5.4	5.7	7.1	2.4	-4.5	-16.9	-7.0	2.8
Construction	33.9	12.9	2.6	30.6	12.4	3.7	3.0	-3.0	-31.2	-20.7
Basic services	5.0	5.9	3.1	1.2	9.1	8.2	0.2	-8.9	-2.5	-0.7
Electricity, gas and water	10.6	3.2	4.3	8.3	3.6	7.7	5.4	1.2	2.5	0.9
Transport, storage and communications	4.0	6.5	2.9	-0.2	10.3	8.3	-0.8	-11.0	-3.7	-1.1
Other services	4.4	4.2	-1.7	8.8	6.1	5.6	4.3	-7.6	-2.3	-1.5
Commerce	5.2	9.1	2.2	7.3	7.3	10.8	2.8	-21.4	-8.0	-4.4
Real estate	0.1	-0.3	1.3	1.4	0.5	1.8	1.0	0.6	0.6	0.7
Other sectors	5.2	2.8	-4.6	7.6	6.8	3.4	5.9	-0.8	-0.2	-0.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aPreliminary figures.^bIncludes mining.

Table 11
URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Index of agricultural production (1978 = 100)	...	...	...	100.0	99.7	117.0	117.6	110.3	107.8	102.6
Crop-farming ^b	118.4	125.3	117.8	100.0	97.4	122.5	118.2	114.7	111.7	111.5
Stock-raising	97.4	97.3	103.6	100.0	101.2	113.8	117.3	107.7	105.6	97.4
Production of the main crops^{bc}										
Wheat	526.5	455.7	504.9	173.2	174.3	429.5	306.6	387.8	363.1	418.7
Rice	188.5	216.5	228.3	225.6	248.0	287.6	330.3	418.9	323.1	339.8
Linseed	39.3	61.7	46.4	39.8	31.2	65.1	21.4	11.0	4.7	7.4
Sunflower	51.4	77.1	34.4	71.6	51.4	47.6	45.0	46.2	18.8	25.9
Maize	157.1	210.4	121.0	171.7	70.9	119.3	180.8	97.3	103.7	111.8
Sugar beet	573.3	833.1	596.9	375.9	356.7	504.0	345.7	366.8	393.8	271.2
Indicators of livestock production										
Beef cattle production ^d	726.0	588.0	666.0	642.0	682.0	704.0	741.0	623.0	711.0	583.0
Wool production ^e	55.2	60.4	62.2	58.3	62.5	67.3	71.1	74.5	82.0	81.7
Milk production ^f	723.0	742.0	708.0	730.0	760.0	795.0	805.0	818.0	840.0	825.0
Slaughtering^d										
Beef cattle	674.0	806.0	684.0	627.0	522.0	648.0	756.0	790.0	878.0	601.0
Pigs	32.5	32.5	31.0	31.0	31.0	27.7	28.3	27.0	26.0	...
Sheep	109.5	95.0	100.0	99.0	75.0	74.4	125.7	131.1	102.6	101.0
Other productions										
Poultry ^g	10.7	13.4	16.1	15.8	20.1	24.2	28.8	26.8	18.9	...
Eggs ^h	303.0	310.0	315.0	332.9	327.2	381.8	354.4	343.8	317.0	...
Growth rates										
Index of agricultural production (1978 = 100)	...	...	...	...	-0.3	17.3	0.5	-6.2	-2.3	-4.8
Crop-farming ^b	4.4	5.8	-6.0	-15.1	-2.6	25.8	-3.5	-3.0	-2.6	-0.2
Stock-raising	0.3	-0.1	6.5	-3.5	1.2	12.5	3.1	-8.2	-1.9	-7.8
Fisheries and maritime hunting	...	30.0	38.7	49.9	44.4	13.7	18.0	-15.9	-18.9	-10.2
Production of the main crops^{bc}										
Wheat	77.4	-13.4	10.8	-65.7	0.6	146.4	-28.6	26.5	-6.4	15.3
Rice	19.4	14.9	5.5	-1.2	9.9	16.0	14.8	26.8	-22.9	5.2
Linseed	49.4	57.0	-24.8	-14.2	-21.6	108.7	-67.1	-48.6	-57.3	57.4
Sunflower	6.2	50.0	-55.4	108.1	-28.2	-7.4	-5.5	2.7	-59.3	37.8
Maize	-30.2	33.9	42.5	41.9	-58.7	68.3	51.6	-46.2	6.6	7.8
Sugar beet	33.6	45.3	-28.4	-37.0	-5.1	41.3	-31.4	6.1	7.4	-31.1
Indicators of livestock production										
Beef cattle ^d	...	-19.0	13.3	...	6.3	3.2	5.3	-15.9	14.1	-18.0
Wool ^e	...	9.4	3.0	-6.3	7.2	7.7	5.6	4.8	10.1	-0.4
Milk ^f	...	2.6	-4.6	3.1	4.1	4.6	1.3	1.6	2.7	-1.8
Slaughtering^d										
Beef cattle	...	19.6	-15.2	-8.2	-16.8	24.2	16.7	4.5	11.1	-31.5
Pigs	...	-	-4.6	-	-	-10.6	2.2	-22.6	-	...
Sheep	...	-13.2	5.3	-1.0	-24.2	-0.8	69.0	4.3	-21.7	-1.6
Other productions										
Poultry ^g	...	25.2	20.1	-1.9	27.2	20.4	19.0	-6.9	-29.5	...
Eggs ^h	...	2.3	1.6	5.7	-1.7	16.7	-7.2	-3.0	-7.8	...

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aPreliminary figures.

^bAgricultural year.

^cThousands of tons.

^dThousands of tons on the hoof.

^eMillions of litres.

^fMillions of units.

exports, Brazilian demand declined while domestic demand reached a limit linked to changes in consumer habits. Moreover, during 1984 there was a widespread conflict between the fishermen and the owners of the vessels, which led to a 10% fall in the physical output (see table 14). During this year activity in the fishery sector was also affected by the restrictions imposed by Brazil on imports of industrial products with the aim of redirecting demand towards imports of fresh fish so as to increase the use of its processing industry's installed capacity.

c) *Manufacturing*

After reaching an all-time peak in 1980 and then continually declining in the three following years, industrial production increased by 2.8% in 1984. However, as a result of its pronounced contraction in the previous three years, its level was still below that of 1975 (see table 15).

During the five years between 1975 and 1979 the sector proved extremely dynamic, growing at an average annual rate of 5.4%. This behaviour was moreover quite widespread, with the exception of the food- and beverage-producing sectors, which represent approximately one quarter of total industrial production and which expanded at the considerably lower rate of around 2% per year.

Nevertheless, after 1980, and even more markedly in 1981, the decline both in external and internal demand led to a substantial change, with the result that most industrial activities were successively reduced.

Table 12

URUGUAY: INTERNATIONAL PRICE OF BEEF^a

(Dollars per ton)

	US\$	Variation between annual averages	Index 1978 = 100
1977	930		84.5
1978	1 100	18.3	100.0
1979	1 727	57.0	157.0
1980	1 500	-13.1	136.4
1981	1 350	-10.0	122.7
1982	1 159	-14.1	105.4
1983	1 100	-5.1	100.0
1984 ^b	1 000	-9.1	90.9

Source: Central Bank of Uruguay. The world market for beef.

^a Average for the fourth quarter of each year.

^b Preliminary.

Table 13

URUGUAY: INDEX OF DOMESTIC WHOLESALE PRICES
FOR BEEF CATTLE

December of each year	Beef cattle	Agricultural products	General	Ratio cattle/ general
1978	100.0	100.0	100.0	1.00
1979	200.0	163.4	177.1	1.13
1980	168.1	190.7	227.6	0.74
1981	144.2	200.0	261.7	0.55
1982	215.2	236.6	349.3	0.62
1983	534.2	517.2	607.2	0.88
1984	1 081.6	984.0	1 117.4	0.97

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 14

URUGUAY: INDICATORS OF FISHERY PRODUCTION

	Catch	Exports	
	Thousands of tons	Thousands of tons	Millions of dollars
1973	17.5	1.7	0.8
1974	16.0	2.8	1.2
1975	26.2	8.0	3.4
1976	33.6	11.0	5.2
1977	48.3	17.7	10.3
1978	74.2	32.7	22.5
1979	108.1	47.8	36.2
1980	120.4	67.0	50.3
1981	144.9	82.2	60.5
1982	123.2	71.2	44.5
1983	144.1	71.1	45.0
1984	129.3	57.7	49.0

Source: ECLAC, on the basis of figures provided by the National Institute of Fishing (Instituto Nacional de Pesca).

Thus, production of machinery and electrical equipment, transport equipment, construction material, metal products and rubber fell sharply between 1981 and 1984 as a result of the decline in domestic demand for housing, automobiles and household electrical appliances.

External demand for manufactured goods also shrank, as problems of external payment affected the country's main trading partners and the overvaluation of the peso lessened the competitiveness of Uruguayan exports.

During 1982 almost all sectors of industrial activity were affected by the crisis, as a result of which manufacturing production fell by 17%. The downward trend persisted until approximately the middle of 1983. As from the second half of that year industrial activity fluctuated, with a slight revival in exports of the most competitive sectors—such as textiles, clothing and footwear—and an increase in sales on the domestic market, mainly owing to a change in competitiveness in comparison with neighbouring countries.

The high degree of competitiveness of Uruguayan products at the international level also provided the main stimulus for the manufacturing industry during 1984. On the other side, the factors which had the most adverse effects were the maintenance and intensification of import restrictions imposed by some countries in the region, particularly during the first half of the year, and the difficulties in obtaining supplies of raw materials experienced by the cold-storage industry and fishing. Production in this latter sector was affected, as has been mentioned, by a drawn-out conflict. At the same time, the low point in the beef-production cycle led to a substantial fall in raw materials for the cold-storage industry, after two years of plentiful supply caused by a livestock policy of intensive stock reduction. As a whole, the contraction in these two sectors of industry is estimated to have caused a 2.6% drop in total manufacturing production (see table 16).

In contrast, the industries which sell more than 40% of their production on the external market, generally in highly industrialized countries, increased their output by 8.9%. On the other hand, the industries which export between 25% and 40% of their total production, despite their satisfactory performance during the second half of the year, recorded a drop of almost 4%. Finally, those sectors which only supply the domestic market—or export very small amounts—increased their production by 5.5%.

The food and beverage industries were the only ones in which output fell sharply during 1984. In the first of these, the above-mentioned declines in meat and fish production were compounded by drops in milk and sugar products, as a result of which their total output fell by around 10%. The beverage industry continued the declining trend of previous years, with a fall of 9.5%.

On the other hand, production of textiles, footwear and clothing —which as a whole rose by almost 20%— were the main beneficiaries of the increase in external demand —mainly from the United States— and of purchases by tourists. Production of electrical machinery and equipment also increased considerably (27%), as did paper and cardboard (22%) and rubber (14%). Nonetheless, production in all these activities was appreciably lower than that achieved during the previous five-year period.

Table 15
URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION
(Index 1978 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Index of manufacturing production	87.4	89.7	94.6	100.0	107.1	109.7	104.7	87.0	80.9	83.2
Industrial branches										
Food	97.7	100.8	100.9	100.0	101.1	109.2	117.8	115.5	112.9	102.2
Beverages	105.2	93.0	95.3	100.0	114.5	114.5	124.3	107.1	90.5	81.9
Tabacco	95.8	101.2	98.5	100.0	118.1	117.9	128.8	119.4	92.9	100.8
Textiles	84.8	83.6	93.7	100.0	116.8	118.4	106.5	62.4	84.2	102.0
Footwear and clothing	71.8	80.7	90.3	100.0	91.9	90.7	80.8	52.7	63.6	74.2
Paper and paper products	67.4	71.5	81.4	100.0	114.6	118.5	103.2	83.8	84.5	103.4
Printing and publishing	79.9	80.3	96.2	100.0	112.5	122.2	126.4	107.4	91.0	86.9
Leather	62.1	84.1	100.1	100.0	72.2	87.0	83.6	81.6	94.1	90.1
Rubber	90.8	74.4	90.0	100.0	109.3	112.2	88.3	39.4	47.9	54.8
Chemical products	83.1	84.2	88.3	100.0	127.3	109.2	105.6	87.4	76.6	82.4
Petroleum products	103.5	99.1	93.8	100.0	95.7	94.4	88.9	89.4	74.1	74.8
Non-metallic minerals	86.0	86.3	97.3	100.0	115.5	117.1	104.5	74.3	58.9	58.7
Metal products	75.6	85.7	99.2	100.0	126.2	116.6	98.7	75.7	60.5	61.1
Electrical machinery	72.1	83.8	100.7	100.0	136.0	184.8	176.9	122.2	63.9	81.1
Transport equipment	76.2	77.6	79.3	100.0	126.2	138.0	108.1	67.3	50.4	59.0
Other industrial activities	...	...	...	100.0	136.2	121.6	96.6	79.2	74.2	81.9
Growth rates										
Index of manufacturing production	...	2.6	5.5	5.7	7.1	2.4	-4.6	-16.9	-7.0	2.8
Industrial branches										
Food	8.0	3.2	0.1	-0.9	1.1	8.0	7.9	-2.0	-2.3	-9.5
Beverages	-	-11.6	2.5	4.9	14.5	-	8.6	-13.8	-15.5	-9.5
Tobacco	1.0	5.6	-2.7	1.5	18.1	-0.2	9.2	-7.3	-22.2	8.5
Textiles	22.6	-1.4	12.1	6.7	16.8	1.4	-10.1	-41.4	34.9	21.1
Footwear and clothing	-8.8	12.4	11.9	10.7	-8.1	-1.3	-10.9	-34.8	20.7	16.7
Paper and paper products	-7.6	6.1	13.8	22.8	14.6	3.4	-12.9	-18.8	0.8	22.4
Printing and publishing	-0.2	0.5	19.8	4.0	12.5	8.6	3.4	-15.0	-15.3	-4.5
Leather	22.5	35.4	19.0	-	-27.8	20.5	-3.9	-2.4	15.3	-4.3
Rubber	5.0	-18.1	21.0	11.1	9.3	2.6	-21.3	-55.4	21.6	14.4
Chemical products	-11.5	1.3	4.9	13.2	27.3	-14.2	-3.3	-17.2	-12.3	7.6
Petroleum products	9.8	-4.2	-5.3	6.6	-4.3	-1.3	-5.8	0.6	-17.1	0.9
Non-metallic minerals	4.7	0.3	12.7	2.8	15.5	1.4	-10.8	-28.9	-20.7	-0.3
Metal products	-5.1	13.3	15.7	0.8	26.2	-7.6	-15.4	-23.3	-20.1	1.0
Electrical machinery	5.4	16.2	20.2	-0.7	36.0	35.9	-4.3	-30.9	-47.7	26.9
Transport equipment	-0.9	1.8	2.2	26.1	26.2	9.3	-21.7	-37.7	-25.1	17.1
Other industrial activities	...	...	...	...	36.2	-10.7	-20.6	-18.0	-6.3	10.4

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aPreliminary estimates using data up to September.

Table 16

URUGUAY: GROWTH OF MANUFACTURING INDUSTRY IN 1984^a

Group	Ratio exports/ sales	Percentage variation	Incidence on total production
I	Over 40%	8.9	2.1
II	Between 25 and 40%	-3.7	-0.2
III	Meat and fish	-29.9	-2.6
IV	Others	5.5	3.5
Total		2.8	2.8

Source: ECLAC, on the basis of official data.

^aNine months.

Manufactures linked to construction remained depressed, with the exception of ceramics—mainly tiles—which benefited from the trebling of exports. Finally, in 1984 there was a partial recovery in the automobile industry, where production, despite having risen 17%, remained at a far lower level than in the ten previous years.

d) *Construction*

In the ten years between 1975 and 1984 the trend in the construction sector was an element of primordial importance in the changes which occurred both in employment and in the activity of a subgroup of industries linked to it as suppliers of inputs and household equipment. After a striking increase between 1975 and 1980, when it grew at an average annual rate of 16%, construction fell off in 1981 and declined sharply and uninterruptedly over the next three years. Consequently, its level in 1984 was lower than in 1975.

The main explanations for this extremely irregular evolution were the construction of two major hydroelectric dams, the Argentinian demand for seasonal tourist accommodation in coastal resorts, and the housing programme carried out with official bank financing.

In the opening years of the 1970s work was begun on the bi-national Salto Grande hydroelectric complex, with a generating capacity of 1 890 MW and construction costs of approximately US\$ 2 billion. The 1973 oil crisis prompted the government to reduce its dependence on hydrocarbons for generating energy, and work began on a second hydroelectric dam (Palmar) capable of generating 330 MW. This provided the construction sector with a singularly important commitment which represented almost 55% of the total value of its output between 1976 and 1979 (see table 17).

From 1975 onwards, the expansionary effect created by the building of the dams was amplified by the substantial investment made by Argentinians, particularly in Punta del Este. Construction at this coastal resort in 1980 represented 21% of the total value of the sector's output. The exceptionally large investment in the dams and in housing in Punta del Este reached its peak in 1978, when they jointly contributed 73% of the total value of construction.

Between 1980 and 1982, the two aforesaid factors lost their dynamism. On the one hand, the change in the Argentine exchange rate at the end of 1980 and the beginning of 1981 eliminated the overvaluation of the peso and dramatically changed the direction of demand between the two countries. Furthermore, in 1982 work on the two dams was virtually completed.

The adverse effect of the abrupt withdrawal of both sources of demand was only partly softened in 1981 and 1982 by a housing programme financed by the Banco Hipotecario del Uruguay, based on short-term external indebtedness and credit from the Central Bank, which monetized the corresponding deficit. Nevertheless, the public sector's external debt crisis cancelled out this option too at the end of 1982.

In these circumstances, construction activity fell by half during the last three years, falling by 4% in 1982, 30% in 1983 and more than 18% in 1984.

e) *Other sectors*

Electricity production grew by 1% in 1984. Although the substantial generating capacity of the Salto Grande and Palmar hydroelectric dams has considerably increased the domestic supply of electricity, a bottleneck still exists in transmission, on account of the age of most of the transmission lines which link the power stations to the centres of consumption. The price of the service is competitive in comparison with consumption of petroleum products, although it has to bear most of the heavy cost of the debt incurred by the country for the purpose of building the two hydroelectric complexes.

As regards commercial operations and transport, which had jointly declined by 24% between 1981 and 1983, they again declined in 1984 by 3.4%, as a result of the slight slackening off in domestic production and the heavy drop in imports. As a result, in 1984 the real level of commercial activity was similar to that of 1975.

3. Evolution of employment and unemployment

The Uruguayan rate of employment underwent a major change between 1980 and 1982. The boom which took place at the beginning of the 1980s and the decline in the real wage in the previous decade led to a significant increase in demand for labour, with the result that the rate of employment in Montevideo rose from an average of 47.5% during the three years between 1977 and 1979 to 52.2% in the second half of 1981. This led to an increased participation of women in the labour market, which in turn brought about a substantial change in women's socioeconomic status. The recession which followed caused this indicator to fall back to its traditional level. Thus during the first half of 1983 the coefficient of employment once again fell below 48% (see table 18).

Naturally, the rate of unemployment showed an opposite trend, with a minimum of 5.8% during the first half of 1981 and a sharp climb up to the first half of 1983, when it reached 16% in Montevideo and 14.6% at the national level. The halt in the fall in economic activity midway through this year, however, gradually reduced the unemployment level, although it still remained very high. This trend persisted throughout 1984, with an upturn in the rate of employment and a gradual drop in that of unemployment.

The sector in which unemployment remained most serious was construction, in which it rose again in 1984 owing to the further reduction in the sector's activity. Consequently, towards the middle of the year the coefficient of unemployment in construction reached a maximum of 24%. In the manufacturing industry and in commerce the coefficients of unemployment were lower and showed some signs of decline, despite which they remained very high in comparison with the past.

Table 17

URUGUAY: CONSTRUCTION INDICATORS

	Percentage variation in gross value of production	Percentage share of individual projects in the value of production		
		Hydroelectric	Punta del Este	Total
1974	7.0	33.6	2.5	36.1
1975	32.4	44.4	5.0	49.4
1976	13.0	50.1	7.8	57.9
1977	2.4	54.4	8.1	62.5
1978	31.7	60.2	10.6	72.8
1979	13.3	49.0	17.8	66.8
1980	6.2	36.2	20.6	56.8
1981	2.2	39.4	10.7	50.1
1982	-4.0	22.8	3.5	26.3
1983	-30.0	7.8	1.4	9.2
1984	-18.5	...	...	...

Source: ECLAC, on the basis of official data.

Table 18

URUGUAY: EVOLUTION OF UNEMPLOYMENT

Period	Rate of unemployment			Rate of employment
	Montevideo	Inland urban	Total	Montevideo
1977	11.8	...	...	47.4
1978	10.1	...	...	47.2
1979	8.4	...	...	47.8
1980				
I half	7.7	...	...	49.4
II half	6.8	...	...	51.7
1981				
I quarter				51.5
II quarter	5.8	5.2	5.6	51.5
III quarter	7.0			52.5
IV quarter	7.9	5.6	6.9	
1982				
I quarter	10.6			50.6
II quarter	11.3	6.3	9.5	49.9
III quarter	11.9			50.5
IV quarter	13.8	12.8	12.7	48.3
1983				
I quarter	15.5			47.3
II quarter	16.1	12.9	14.6	48.0
III quarter	15.3			47.9
IV quarter	14.8			49.2
1984				
I quarter	14.5			49.2
II quarter	14.2			49.4
III quarter	14.5			49.6
IV quarter	13.1			50.7

Source: ECLAC, on the basis of official figures.

B. THE EXTERNAL SECTOR

1. Overall trends

a) *The 1982 exchange-rate crisis*

The serious external account problems which sharpened after the 1974 oil crisis seemed to have been overcome four years later, when the Central Bank had obtained US\$ 135 million in reserves, and external indebtedness and its servicing were at acceptable levels. In these circumstances as already indicated, it was decided to give priority to the struggle against inflation rather than attempting to achieve equilibrium on the balance of payments. To this end a policy of prior announcement of devaluations was adopted in order to influence expectations, and tariffs were reduced with a view to increasing the supply of imported goods and thus restricting price rises on the domestic market.

The change in strategy mentioned above took place towards the end of 1978 and was consolidated in 1979. At the same time, however, the satisfactory trend of competitiveness with regard to Argentina led to an exceptional flow of tourists from this country that considerably raised domestic demand for goods and services, which, together with the excessive protection existing in

some industrial branches, helped to generate an increase in domestic prices of some 80%, doubling that recorded the previous year. Since the rate of devaluation did not change —the rise in the exchange rate was only 20%— there was a notable appreciation of national currency in that same year.

Moreover, in 1980 another factor helped to weaken incentives to export and thereby affected prospects for the balance of payments and the level of activity: namely, the strengthening of the dollar against European currencies. As the peso was once again devalued by 20% that year against the dollar while the latter was revalued by 30% against European currencies, the Uruguayan currency underwent a *de facto* revaluation of 10% against those of its most important trading partners.

Finally, a third factor of great significance for the evolution of the export sector's competitiveness was the divergence between criteria employed in setting the exchange rate, on the one hand, and wages on the other: while the first was set on the basis of a target of declining inflation, in the wages policy the past level of inflation was taken into account. The result of the two policies was that the average cost of wages measured in dollars almost doubled between 1978 and 1981 (see figure 3).

Throughout most of 1982 the policy lines applied since 1978, based on prior announcement of the exchange rate and opening up of the economy, remained in force. Nevertheless, it was clearly apparent to economic agents that the evolution in the exchange rate bore no relation to the behaviour of domestic and external prices. Consequently, as the year went by there was a growing lack of confidence in the exchange rate, while at the same time considerable growth took place in the Central Bank's domestic credit as a result of the aid which it had to provide for the central government and the Banco Hipotecario. Within the framework of a planned exchange rate and a fall in demand for national currency, the consequent excess money supply took the form of a sustained and growing demand for international reserves. Thus, the replacement by the general public of national currency by foreign currency meant that, despite the growth of domestic credit, the monetary base declined by 11% in comparison with its level at the beginning of the year. This also led to a loss in reserves which the monetary authorities found untenable. In fact, external indebtedness and the loss of reserves financed a capital flight of some US\$ 1.3 billion.

The evolution of the external sector was also affected by two exogenous changes of great importance. The first of these was the sharp reversal in the flow of net external finance and the second was the drop in the demand for imports in the industrialized countries, particularly for imports from the region. The reversal in the financial flow was on such a scale that in terms of net financing it signified a variation of more than US\$ 800 million in the 1981-1982 biennium, equivalent to approximately 85% of exports of goods and approximately 15% of the gross domestic product (see table 19).

In these circumstances, as already said, the authorities decided that the rate of exchange should be fixed by the free interplay of supply and demand. At the same time they entered into negotiations with the International Monetary Fund with a view to signing a contingency credit agreement which would in turn facilitate the refinancing of the country's external debt.

Table 19

URUGUAY: NET EXTERNAL FINANCING

(Millions of dollars)

Year	Net capital movement	Net factor payment	Net external financing
1979	453	55	398
1980	811	100	711
1981	494	74	420
1982	-182	197	-379
1983	-10	288	-298
1984	37	362	-325

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

b) *Adjustment of the external sector*

The overall position of the external sector improved in 1983 and 1984. The current account deficit declined from US\$ 235 million in 1982 to US\$ 60 million in 1983 and US\$ 124 million in 1984 (see table 20). Simultaneously the Central Bank's international reserves, which had declined by almost US\$ 500 million in 1982, fell by US\$ 115 million in 1983 and only US\$ 70 million in 1984. Moreover, renegotiation of commitments to international banks for 1983-1984 lightened the pressure of payments generated by the growth of the debt in 1982.

The sole cause of the improvement in the current account, however, was the drastic contraction of imports of goods and services, whose value fell from almost US\$ 1 590 million in 1982 to rather less than US\$ 1.2 billion in 1983 and US\$ 1 060 million in 1984. In spite of the incentive provided by the increase in the real exchange rate and the drop in wages, the value of exports fell by 16% between 1982 and 1984. At the same time, interest payments on the debt tended to grow, and in 1984 represented more than one-third of the value of exports of goods and services.

2. External trade

a) *Exports*

As already indicated, during 1983-1984 the value of exports of goods failed to evolve as planned in the adjustment programme; on the contrary, after a partial revival in 1983 from the sharp drop which had occurred in 1982, external sales again declined by 11.5% in 1984. The value of exports of goods was thus 10% lower in 1984 than in 1982 (see table 21).

This drop mainly reflected the unfavourable evolution of external prices. As can be seen from table 22, the unit value of exports fell by 7% in 1983 and rose by less than 2% in 1984. The physical volume of exports evolved most unevenly: following a 10% increase in 1983 —mainly as a result of the growth of traditional exports and in particular of beef— it declined by 13% in 1984. This shrinkage largely reflected the adverse trend of traditional exports. This was in turn due to the notable fall in meat exports caused by the reduced supply of cattle suitable for slaughtering and to the sales made by the European Economic Community at highly subsidized prices, which led to the loss to Uruguayan beef of the important markets of Egypt and Iran.

As far as non-traditional exports are concerned, they showed no signs of revival, with the exception of textiles and clothing, for which there was a lively demand —although subject to quotas— on the United States market. In these conditions, non-traditional items increased their share to 63% in 1984, thus recovering the relative weight they possessed three years previously (see table 22). Nevertheless, this rise mainly reflected the impact of the reduction in beef sales rather than a major rise in non-traditional exports.

Moreover, trade by destination revealed considerable growth of exports towards non-traditional markets, which in 1983 came to represent more than one-third of the total as a result of sales —mainly of food products— to Egypt and Iran. Nevertheless, the aforementioned competition from the European Economic Community displaced Uruguay from these markets, as a result of which their share returned to its traditional level.

b) *Imports*

As already stated, the adjustment of the balance-of-payments current account was mainly achieved by reducing imports of goods, whose value both in 1983 and 1984 was less than half that recorded on average between 1980 and 1981.

Moreover, the sharp drop in imports between 1982 and 1983 was wide-ranging, although purchases of consumer and capital goods were particularly affected, and declined by 74% and 63% respectively. Imports of intermediate goods and petroleum also shrank considerably by some 50% and 40%. In 1984 the value of imports of capital goods again declined by approximately 32% while those of consumer goods grew by 9.5% and those of raw materials and intermediate goods by somewhat less than 3% (see table 23).

Table 20

URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Balance on current account	-198	-82	-172	-133	-363	-716	-468	-235	-60	-124
Trade balance	-125	-9	-106	-57	-309	-618	-397	-48	217	227
Exports of goods and services	551	696	809	913	1 194	1 526	1 701	1 537	1 411	1 289
Goods FOB	385	565	612	686	788	1 059	1 230	1 256 ^a	1 156 ^b	925
Real services	166	131	197	227	406	468	471	281	255	365
Transport and insurance	27	28	36	44	72	89	92	81	71	
Travel	98	68	117	137	268	298	283	106	90	210
Imports of goods and services	676	705	914	970	1 504	2 144	2 098	1 586	1 194	1 062
Goods FOB	494	537	687	710	1 166	1 668	1 592	1 038	740	733
Real services	182	168	228	260	337	476	506	547	455	329
Transport and insurance	82	78	80	95	124	161	174	116	85	
Travel	62	60	96	109	136	203	203	304	259	154
Factor services	-71	-72	-68	-77	-55	-100	-74	-197	-288	-362
Profits	-4	-	-2	-	-	-	-	-	-	-
Interest received	4	7	12	18	50	68	146	147	63	87
Interest paid	-71	-79	-77	-95	-108	-168	-220	-344	-350	-449
Others	-	-	-	-	3	-	-	-	-	-
Unrequited private transfer payments	-2	-1	2	1	2	2	3	10	11	10
Balance on capital account	136	156	351	262	453	811	494	-182	-10	37
Unrequited official transfer payments	8	9	5	6	6	7	7	-	-	
Long-term capital	135	78	101	152	359	404	346	468	644	30
Direct investment (net)	-	-	66	129	216	289	49	-14	6	3
Portfolio investment (net)	110	33	21	-9	-31	-7	3	-7	-16	-7
Other long-term capital	25	45	14	32	174	122	294	424	654	20
Official sector	8	5	-	38	154	108	246	419	329	46
Loans received	82	64	52	103	163	181	276	462	531	90
Amortization payments	-55	-52	-49	-57	-18	-66	-27	-38	-198	-44
Commercial banks	-5	4	-	-2	-3	5	3	-5	37	-1
Loans received	-	4	-	-	-	7	-	1	43	-
Amortization payments	-5	-	-	-2	-3	-2	-2	-2	-9	-1
Other sectors	22	36	13	-4	23	9	51	75	287	-25
Loans received	29	45	36	53	41	26	65	107	346	62
Amortization payments	-7	-9	-23	-57	-18	-17	-14	-32	-58	-87
Short-term capital (net)	30	83	203	-54	94	311	326	511	-359	158
Official sector	19	9	16	-9	9	-23	-5	90	-	-
Commercial banks	26	-36	74	-39	128	307	87	239	-67	67
Other sectors	-15	110	113	-7	-42	26	243	189	-333	43
Net errors and omissions	-38	-13	42	159	-5	90	-185	-1 161	-294	-151
Global balance	-62	73	179	129	91	95	26	-417	-70	-87
Total variation in reserves (- sign indicates an increase)	44	-132	-201	-183	-25	-174	-51	497	115	70
Monetary gold	-	-	-1	-10	-46	-84	4	85	52	-8
Special Drawing Rights	13	-2	-6	-5	-20	1	10	41	-2	-1
IMF reserve position	-	-	-	-22	-	-13	1	33	-10	10
Foreign exchange assets	19	-139	-140	-4	49	-50	-37	240	-79	65
Other assets	-27	-19	-28	-24	-9	-29	-9	3	12	12
Use made of IMF credit	39	28	-26	-119	-	-	-	96	141	-8

Source: 1975-1983: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape), March 1984; 1984: ECLAC, on the basis of official data.

^aIncluding sales of gold worth US\$ 234 million.

^bIncluding sales of gold worth US\$ 111 million.

Table 21

URUGUAY: EXPORTS FOB

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	546.5	607.0	686.1	788.1	1 058.5	1 215.4	1 022.8^a	1 045.1^b	924.6
Traditional	246.9	261.0	248.6	222.7	415.9	513.0	435.4	469.8	338.8
Non-traditional	299.6	346.0	437.4	565.5	642.7	702.3	587.5	575.3	585.8
Principal sections									
Live animals and animal products	142.9	139.1	138.3	168.5	264.0	361.9	290.3	365.0	228.7
Beef	108.8	100.4	78.2	94.9	155.5	213.6	170.3	222.8	129.6
Mutton	5.7	5.4	9.1	2.8	14.6	25.3	21.0	15.1	7.1
Others	28.4	33.3	51.0	70.8	93.9	123.0	98.9	127.0	91.9
Vegetable products	52.9	61.0	70.4	88.6	108.0	185.6	152.5	139.3	129.1
Rice	26.1	32.0	35.0	61.0	64.2	109.3	92.4	76.6	57.8
Others	26.8	28.6	35.4	27.6	43.8	76.4	60.1	62.7	71.3
Fats and oils	11.8	11.0	9.1	10.6	18.6	8.0	5.5	8.7	6.9
Food products, beverages and tobacco	38.4	23.0	27.6	25.0	32.8	31.5	18.2	30.2	27.6
Mineral products	21.2	19.9	15.9	14.0	12.8	19.7	4.1	1.7	4.1
Plastics and rubber manufactures	5.9	11.0	13.6	20.0	20.9	26.1	18.9	12.2	10.3
Hides, skins and leather products	92.7	109.1	129.6	148.7	143.9	138.2	139.5	139.2	146.5
Skins and leathers	32.5	27.9	30.3	47.0	40.2	50.7	72.8	75.4	91.6
Processed hides	37.5	47.0	59.4	47.7	52.0	44.7	38.1	39.3	30.5
Furs and fur products	22.7	34.2	38.1	53.9	51.7	42.8	28.7	24.5	24.4
Textiles and textile manufactures	131.3	165.6	190.7	177.6	306.6	331.2	292.5	266.6	281.7
Unwashed wool	32.9	56.4	62.2	29.4	102.6	115.8	112.9	74.2	51.8
Washed wool	15.2	14.1	16.8	13.6	23.0	21.9	15.0	27.4	16.6
Tops	52.5	50.5	53.1	58.4	87.2	98.4	77.2	66.9	90.1
Others	30.7	44.6	58.7	76.2	93.9	95.1	87.5	98.0	117.2
Footwear and others	16.5	25.6	30.5	28.4	20.0	13.6	10.0	9.2	10.1
Others	32.7	41.7	60.5	106.9	131.0	99.4	91.3	73.0	79.6

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aExcluding sales of gold worth US\$ 234 million.^bExcluding sales of gold worth US\$ 111 million.c) *The terms of trade*

The slight rise in the unit value of exports and the fall in the unit value of imports helped to bring about a 4% increase in the terms of trade in 1984. This increase only slightly offset the severe fall which affected the terms of trade in 1980-1981. Consequently the 17% deterioration in the terms of trade which occurred between 1979 and 1984 cancelled out the impact of the expansion in the volume of exports, as a result of which their purchasing power in 1984 was similar to that recorded five years previously (see table 22).

3. External indebtedness

The problem of the external debt appeared as a major constraint in 1982. As recently as 1981 the situation had not been pressing and the various coefficients which are traditionally used to measure the debt burden had steadily improved after the 1974 crisis. As an example, the ratio of total external indebtedness against exports had declined from 1.87 in 1975 to 1.41 in 1980 and the ratio of the public sector debt against exports declined by half during the same period, falling from 1.56 to 0.77 (see

table 24). Nevertheless, a particularly sharp reversal occurred in this trend after 1982. In that year the public sector debt increased by 85% while the number of maturities of less than one year was four times that of the previous twelve months (see table 25).

The pronounced increase in the external debt in 1982 originated mainly in the financial sector, through loans which the Central Bank was obliged to obtain in order to meet the demand for foreign exchange which exerted pressure on its cash requirements in foreign currency. The indebtedness of the Banco de la República and the Banco Hipotecario also increased for reasons of an operational nature.

In turn, the increase in the debt burden was due on the one hand to financial loans obtained by the Central Bank and on the other to the radical change which took place on the international capital markets. The assessment of the international commercial banks as to the desirability of continuing to

Table 22

URUGUAY: MAIN INDICATORS OF EXTERNAL TRADE IN GOODS

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Growth rates										
Exports										
Value	0.9	46.8	8.2	12.2	14.9	34.3	16.2	-16.9	2.2	-11.6
Volume	16.8	45.0	-0.9	4.6	-11.8	18.2	18.7	-11.1	10.3	-13.0
Unit value	-13.6	1.2	9.2	7.2	30.2	13.7	-2.1	-6.5	-7.3	1.6
Imports										
Value	14.0	8.6	28.0	3.4	64.3	43.0	-4.6	-34.8	-28.8	-0.9
Volume	-6.3	6.7	27.8	1.3	33.3	12.4	-13.9	-29.8	-22.1	1.7
Unit value	21.7	1.8	0.2	2.0	23.3	27.3	10.9	-7.1	-8.5	-2.6
Terms of trade	-29.0	-0.5	9.1	5.1	5.6	-10.7	-11.7	0.6	1.3	4.3
Indexes (1970 = 100)										
Purchasing power of exports ^b	82.8	118.7	127.5	139.9	131.2	140.2	147.1	130.1	144.7	130.2
Quantum of exports	109.8	159.3	157.8	165.1	145.7	172.1	204.3	181.7	200.5	174.4
Terms of trade	74.1	73.7	80.4	84.5	89.2	79.7	70.4	70.8	71.7	74.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bQuantum of exports, adjusted by the respective terms-of-trade index.

Table 23

URUGUAY: IMPORTS OF GOODS, CIF

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Total	556.5	587.2	729.9	757.3	1 206.3	1 680.3	1 641.1	1 110.0	787.5	775.7
Consumer goods	17.5	24.2	30.3	41.5	78.6	177.8	257.4	102.4	46.4	50.8
Raw materials and intermediate goods	481.1	461.8	561.7	600.7	953.5	1 226.9	1 141.2	853.4	638.2	655.1
Petroleum and fuels	172.9	173.2	199.3	209.6	290.0	454.9	503.0	419.6	213.1	270.4
Others	308.2	288.6	362.4	391.1	663.5	772.0	638.2	433.8	425.1	384.7
Capital goods	57.8	101.2	137.9	115.2	174.2	245.6	242.6	154.2	102.9	69.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aPreliminary figures.

Table 24

URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Total external debt	1 031	1 135	1 320	1 240	1 682	2 155	3 129	4 255	4 589	4 688
Public debt	861	962	1 028	910	1 012	1 182	1 464	2 705	3 197	3 180
Financial sector	335	328	336	165	177	186	267	1 088	1 565	1 497
Non-financial sector	526	634	692	745	835	996	1 197	1 617	1 632	1 683
Private debt without government security	170	173	292	330	670	974	1 665	1 520	1 392	1 508
Debt servicing	295	229	168	343	165	270	279	512	536	545
Amortization payments	224	150	93	248	58	105	59	168	186	96
Interest payments	71	79	75	95	106	165	220	344	350	449
Percentages of exports of goods and services										
Debt servicing	53.50	32.90	20.80	37.60	13.80	17.60	16.40	33.30	38.00	42.30
Public sector external debt	1.56	1.38	1.27	1.00	0.85	0.77	0.86	1.76	2.27	2.47
Total external debt	1.87	1.63	1.63	1.36	1.41	1.41	1.84	2.77	3.25	3.64

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^a Figures up to September 30, 1984.

Table 25

URUGUAY: AMOUNTS MATURING ON THE PUBLIC SECTOR
SHORT-TERM DEBT

(Balances in millions of dollars at end of year)

1981	1982	1983	1984
172.7	780.5	382.5	322.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

increase their loans outside the industrialized countries was affected first by the Polish crisis and then by that of Mexico. The realization that Latin America represented a high-risk area increased as a result of the war between Argentina and the United Kingdom, a change which particularly affected Uruguay. Thus, medium-term loans which were being negotiated and even others which were on the point of being granted for Palmar and the Banco Hipotecario were cancelled. In order to avoid paralyzing work which had already started it was necessary to take out short-term loans.

In such circumstances, it became essential to renegotiate the external debt. Renegotiation was based on refinancing for 90% of short-term debts and those long-term debts which matured between the beginning of March 1983 and the end of 1984. The operation covered a sum of US\$ 693 million with a seven-year repayment period and two years' grace at an interest rate of 2 1/4 points above LIBOR or 2 1/8 points above the prime rate, whichever the creditors preferred.

The growth rate of the external debt slackened considerably in 1983, when the debt increased by 8%, and again in 1984, when it rose by barely 2%. Nevertheless, the decline in exports of goods and services meant that the ratio of debt against exports continued to rise. This coefficient was 3.6 in 1984, easily doubling the figure of 1.4 recorded barely four years previously (see table 24).

The principal factor that determined the evolution of the total debt between 1982 and 1984 was the financial public sector's indebtedness, which rose by almost 38%. In contrast, the external debt of

the non-financial public sector grew by barely 4% over the same period and that of the private sector fell slightly.

The growth of the debt of the official financial sector, however, took place solely in 1983, when it increased by almost US\$ 480 million, a rise of 44% over the balance at the end of 1982. In 1984, on the other hand, the external debt of the financial sector declined by 4.5%. Despite this, at the close of the year its level was almost US\$ 1.5 billion, equal to more than five and a half times the balance at the end of 1981.

Thus, at the end of 1984 the country's external indebtedness reached almost US\$ 4.7 billion, of which two-thirds were owed by the public sector. Debt servicing consumed 42% of exports of goods and services, a far higher proportion than those recorded in the eight previous years, but below that of 1975. Interest payments made up 80% of servicing and amortization the remaining 20%.

C. PRICES AND WAGES

1. Prices

Price stabilization was one of the main targets of economic policy in the 1980s. The policies adopted to achieve this were successful during the first years of the decade, with the result that the rate of consumer price increases tended to decline until the freeing of the exchange rate at the end of 1982.

Table 26
URUGUAY: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Variation between annual averages										
Consumer price index	81.4	50.6	58.2	44.5	66.8	63.5	34.0	19.0	49.2	55.3
Food	70.8	47.7	64.0	44.5	70.9	57.9	25.6	11.7	54.1	68.8
Clothing	67.3	47.7	46.8	39.6	72.5	52.3	23.3	9.8	50.7	65.2
Housing	97.9	56.8	59.3	54.7	58.9	77.8	57.9	30.9	34.3	31.2
Miscellaneous	93.7	52.0	52.4	37.6	64.5	65.6	35.9	21.3	59.4	56.5
Wholesale price index (domestic)										
Agricultural products	72.4	50.6	50.3	48.6	80.4	41.8	23.4	12.9	73.5	77.4
Crop-farming products	47.4	37.8	52.1	78.0	102.6	18.7	9.8	7.6	89.2	90.2
Livestock products	75.9	24.7	35.5	81.5	58.8	49.9	14.0	12.4	84.9	65.4
Manufactured goods	26.5	51.2	65.9	75.7	133.5	3.8	6.9	4.1	92.5	109.1
December to December variation										
Consumer price index	66.8	39.9	57.2	46.0	83.1	42.8	29.4	20.5	51.5	66.1
Food	53.1	38.5	59.5	48.4	86.0	33.5	25.2	13.3	59.7	77.5
Clothing	68.0	36.4	46.6	39.5	95.2	27.7	18.8	8.0	64.7	89.6
Housing	88.6	43.6	66.5	45.6	78.8	63.7	42.9	28.8	30.9	38.9
Miscellaneous	77.2	41.1	50.1	44.9	76.9	47.9	26.3	27.9	59.8	68.1
Wholesale price index (domestic)										
Agricultural products	65.0	45.1	44.8	59.6	77.1	28.6	14.9	33.5	73.8	84.0
Crop-farming products	35.8	45.3	55.8	92.0	63.4	16.7	5.2	17.9	118.6	90.3
Livestock products	43.6	10.8	51.0	86.2	39.3	68.3	14.2	-5.5	111.1	70.5
Manufactured goods	27.9	84.1	59.1	95.6	78.0	-7.9	-2.7	41.9	123.8	103.0
	75.9	45.0	41.7	49.3	82.7	32.9	18.1	37.9	62.9	82.0

Source: Central Bank of Uruguay and Department of Statistics and Censuses.

Table 27

URUGUAY: EVOLUTION OF WAGES^a*(Variation between annual averages)*

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Nominal wages	79.5	65.4	42.0	39.0	39.6	52.6	64.4	43.6	18.3	18.3	41.0
Public sector	...	...	45.1	40.6	40.4	54.5	74.6	42.7	18.6	16.9	35.3
Private sector	...	...	39.4	37.6	38.9	50.8	54.6	44.6	17.8	20.0	47.5
Real wages	1.3	-8.8	-5.8	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.2
Public sector	...	...	-3.7	-10.9	-3.0	-7.1	5.9	7.1	-0.1	-21.6	-12.9
Private sector	...	...	-7.4	-12.8	-4.1	-9.0	-6.3	7.9	-0.7	-19.7	-5.0

Source: Department of Statistics and Censuses.

^aCalculated on the basis of the minimum increases decreed by the government up to October 1980 and wages actually paid thereafter.

In turn, the adjustment policy pursued in the 1983-1984 programme implied accepting an initial corrective inflationary impact, which it was hoped would be followed by a return to a situation in which growth of domestic prices would be determined by international inflation and the evolution of exchange parity. However, and in spite of the tight monetary policy pursued during these two years, inflation was considerably higher than forecast: during 1983 consumer prices rose by 51.5% compared with a planned rise of 29%, and in 1984 they increased at an even higher rate (66%) which again exceeded the forecast target (45%). Increases in wholesale prices were even higher: 74% in 1983 and 84% in 1984. Clothing and food were the items which experienced the highest rises, increasing by 90% and 77% respectively; housing, in contrast, rose least (39%) (see table 26).

The high rate of price increases in food was partly due to a rise in the prices of livestock production. This can be seen more clearly at the wholesale level: the price index for domestic products rose by 220% between December 1982 and December 1984, while prices of cattle production grew by 354% over the same period. Within this category, the price of beef experienced the highest rise: 403%.

The contrasting evolution of prices was most apparent in 1983, while during 1984 price increases were more balanced, with 84% overall, 82% for manufactured goods and 90% for agricultural products. Among the latter, livestock products increased appreciably more than the overall level (103%) while crops rose far less (70%).

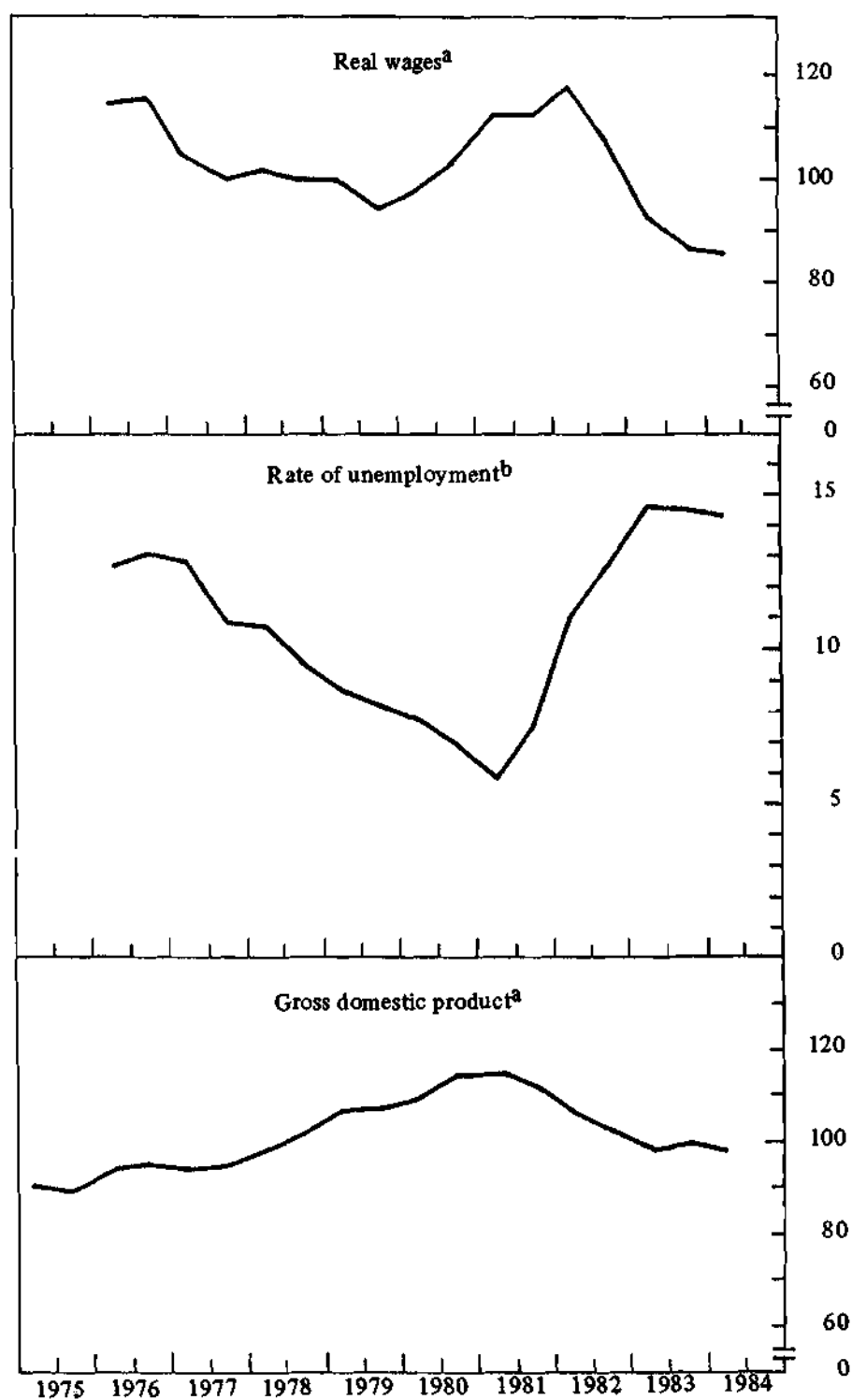
2. Wages and salaries

After their continuous decline between 1974 and 1980, when they fell by one-third, and a 7.5% increase in 1981, real average wages again underwent a marked decline of some 30% between 1982 and 1984. As a result, their 1984 level was barely more than half that recorded ten years before (see table 27).

The sharp decline in real remunerations over the last decade was to a large extent the consequence of economic policy. The real wage was used, first, as a variable in the policy to combat inflation; secondly, as an instrument to raise the profitability of export activities and, finally, as a means of raising domestic saving by a redistribution of the national income in favour of the high-income groups.

Moreover, the analysis of the trends in product, real wages and employment reveals several periods in which behaviour varied (see figure 4). Between 1976 and the end of 1979 a vigorous growth of the product and a substantial fall in unemployment went hand in hand with a decline in real wages. Throughout 1980 and up to the middle of 1981, the product continued to grow and unemployment to decline, but the real wage rose. It continued to do so until the second half of 1982, despite the fact that the level of activity had begun a sharp decline. Both of these factors worked together to generate a rapid growth of unemployment. In these circumstances, a sharp deterioration in the real wage started in the second half of 1982 while unemployment continued to rise. In 1984 the

Figure 4
URUGUAY: INDEXES OF REAL WAGES, RATES OF
UNEMPLOYMENT AND GROSS DOMESTIC PRODUCT



Source: ECLAC, on the basis of official data
^a1978 = 100. ^bMontevideo.

Table 28

**URUGUAY: EVOLUTION OF TOTAL WAGES PAID IN THE
MANUFACTURING INDUSTRY**

	Index of real effective wage		Index of industrial employment	Index of total real wages
	Index	Variation		
	(1)	(2)	(3)	(4) = (1) x (3)
1976	113.4		89.6	101.6
1977	101.7	-10.3	95.4	97.0
1978	100.0	-1.7	100.0	100.0
1979	95.4	-4.6	110.1	105.0
1980	101.2	6.0	108.6	109.9
1981	111.2	10.0	100.8	112.1
1982	111.5	0.3	75.2	83.8
1983	88.5	-20.6	71.6	63.4
1984	81.7	-7.7	75.8	61.9

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

real wage underwent a further sharp drop within a context of stagnating production and a slight decline in the extremely high level of unemployment recorded the previous year. In such circumstances, the government decreed in December a 22% increase in public-sector wages and in the national minimum wage of the private sector, as a result of which wage readjustments granted during the whole of the year were slightly higher than the rise in consumer prices (66%). Even so, the average annual real wage declined by 9%.

Generally speaking, the trend in effective real wages in the manufacturing industry followed the above course, although it was more favourable during the opening years of the present decade. As can be seen in table 28, the effective real wage paid in industry fell sharply between 1976 and 1979, then recovered almost all of this loss between 1980 and 1982 and again fell rather more in recent years.

There was nevertheless a major difference between the two periods mentioned in which the real wage underwent a decline. The drop recorded between 1976 and 1979 coincided with a period of vigorous growth in production and employment, as a result of which overall wages rose. In contrast, in the last two years the decline in the effective real wage coincided with an increase in unemployment, causing a sharp decline in total wages as a result of the combined effect of both factors. Consequently, an index of real wages received by wage-earners in industry, and based on figures relating to the effective real wage and industrial employment shows a 10% growth in the total wages of wage-earners between 1976 and 1981 and a 45% drop between 1981 and 1984 (see table 28).

D. MONETARY AND FISCAL TRENDS

1. Monetary trends

As already mentioned, the adjustment programme pursued in 1983 and 1984 was designed to correct the external deficit by redirecting domestic demand from marketable to non-marketable goods and to increase production of the former by making use of the resources which it was hoped would be freed by the sectors producing domestic goods as a result of the change in relative prices caused by the correction of exchange parity. Monetary policy was to back up this process through contractive measures aimed at reducing overall demand and avoiding an inflationary process which would restore the structure of relative prices existing at the time of devaluation.

The main instruments used in managing monetary policy during 1983-1984 were cash reserves, open-market operations, compulsory sale of treasury bills to the private banking system, and the setting of a ceiling to the net foreign currency position of each private bank.

Throughout the whole of 1982 the non-financial public sector and the Banco Hipotecario del Uruguay had been the source of an active demand for credit from the Central Bank. As a result, at the beginning of 1983 liquidity was excessive, exerting heavy pressure on the exchange market. As a result of this a cash reserve of approximately 14% was applied to deposits in national currency and the Central Bank issued monetary absorption bonds at annual rates of interest of some 100%. These measures helped to lighten pressure on the exchange rate, but stimulated a rapid rise in the rate of interest, which rose from around 65% in November 1982 to 105% in January of the following year.

Moreover, the change in expectations had a direct impact on all the monetary variables during 1983, sparking off a reduction in the demand for money. This in turn led to significant drops in the real value of the two main monetary aggregates; thus, between the end of 1982 and the end of 1983 the nominal value of means of payment increased by barely 11%, implying a real decline of 25% (see table 29).

Following the measures taken in November 1982 there was also a considerable drop in deposits in foreign currency. The alteration of exchange policy created serious doubts among the public as to the maintenance of the free exchange rate and of convertibility of domestic currency into foreign currency. As a result, there was a massive withdrawal of dollar deposits, which declined by almost US\$ 560 million (25%) during December and January.

However, the financial system showed signs of sufficient solvency during this period, mainly as a result of the support it was given by private foreign banks linked to the financial institutions operating in Uruguay. Nevertheless, the Central Bank of Uruguay intervened in a number of banks which had already shown signs of difficulties, taking over their highest-risk portfolios.

The deterioration of bank portfolios took place largely because the 1982 recession put a large number of the country's private firms in a tight financial position. The sharp rise in the price of the dollar during the first months of 1983 aggravated these problems, particularly for those firms which sell their products in domestic currency but which owed debts in foreign currency. As a result, the financial system's portfolio was very sluggish, while the average term of deposits shortened rapidly. Within this context, the Central Bank took a number of measures designed to bolster the financial system and to provide productive firms with a sufficiently long payback period to enable them to restore their economic position and meet their credit commitments.

The instruments used to achieve this were of three kinds:

- i) Generalized refinancing;
- ii) Purchase of portfolios bearing a certain degree of risk from banking firms, which were nevertheless under the obligation to obtain loans in foreign currency from their head offices for the Central Bank, worth approximately twice the value of the documents purchased; and

Table 29

URUGUAY: MAIN MONETARY VARIABLES

(In billions of new pesos)

End of	Money outside banks (1)	Current account deposits (2)	Money $M_1 =$ (1) + (2) (3)	Time deposits m/n (4)	Subtotal $M_2 =$ (3) + (4) (5)	Deposits (6)	Total $M_3 =$ (5) + (6) (7)
1975	0.5	0.4	0.9	0.4	1.3	0.3	1.6
1976	0.8	0.5	1.3	0.9	2.2	1.0	3.2
1977	1.1	0.7	1.8	1.3	3.1	2.6	5.7
1978	1.8	1.3	3.1	3.4	6.5	4.7	11.2
1979	3.2	2.6	5.8	7.8	13.6	8.0	21.6
1980	5.1	3.6	8.7	14.9	23.6	12.5	36.1
1981	6.1	3.5	9.6	18.5	28.1	24.4	52.5
1982	7.9	3.6	11.5	20.4	31.9	59.4	91.3
1983	8.4	4.4	12.8	24.4	37.2	66.6	103.8
1984	12.1	7.7	19.8	38.0	57.8	109.6	167.4

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

iii) The acquisition of hard-to-recover financial claims as a means of stimulating the purchase of local banks by foreign capital interested in setting up on the Uruguayan financial market.

In the first case, the private banks granted their debtors refinancing over seven years with two years' grace; during these two years the debtor companies only had to pay 60% of the interest, while the remaining 40% was capitalized; in turn the Central Bank advanced this sum to the private banks, with interest. In the other two cases, the Central Bank transferred to the banks instruments in dollars with a five-year repayment period at the LIBOR rate plus 1.5%. The size of the portfolio acquired by the Central Bank was slightly over US\$ 600 million, of which US\$ 386 million corresponded to the sale of five banks. Since the external loans received by the Central Bank on carrying out these operations were greater than the portfolio purchased, the bonds issued by the monetary authority amounted to around US\$ 820 million.

During the second quarter of 1983, the granting of an IMF loan of 378 million in Special Drawing Rights and the refinancing of the public sector's external debt in the amount of US\$ 693 million helped to create a climate of greater confidence.

Within the monetary field, the programme agreed with the IMF included a predicted growth in Central Bank emission from January to December similar to that forecast for domestic prices (29%). Although this variable was not one of the programme's targets, its trend, together with that of the Central Bank's net international reserves, determined the ceiling for net Central Bank domestic credit. As it was planned to reduce reserves by US\$ 100 million, the target for the variation in the Central Bank's net domestic assets meant a 41% growth over the December balances. The main expansion factors were to be credit for the non-financial public sector and the Banco Hipotecario del Uruguay, financing for private productive sectors through purchase of portfolios from the banking system, and pre-financing of exports. In turn, the main absorption factors were external loans which would be received (US\$ 240 million in fresh funds obtained as part of external debt refinancing)¹⁰ and the increase of the banking system's cash reserves.

At the beginning of the second half of 1983 a significant change occurred in the monetary field as a result of the Banco de la República decision to intervene on the exchange market. As already mentioned, this intervention meant in practice the introduction of a mechanism of daily minidevaluations at an annual rate of 45%. Moreover, since the national currency received by the Banco de la República in exchange for its sales of foreign currency on the market was sterilized by deposits in the Central Bank, there was a marked fall in the emission required from the Bank to finance the public sector.¹¹ This behaviour on the part of the BROU made it possible for the growth of net Central Bank domestic credit to remain within the limits set by the programme agreed with the IMF.

Thus the main elements which set the economic scene up to the end of 1983, and which had to be taken into account in formulating the 1984 monetary programme, were:

i) The non-financial public sector seemed to have reached its maximum level of adjustment, signifying a deficit of approximately 4 to 5% of the gross domestic product.

ii) The authorities had decided to reduce the demand from the Banco Hipotecario for Central Bank credit.

iii) The private sector was maintaining an expectant attitude. Although requests for cheap credit and refinancing continued, a generalized refinancing was in fact taking place. At the same time the likely change of government began to influence the expectations of entrepreneurs.

iv) The sluggishness of external demand made it impossible to take advantage of the increase in competitiveness resulting from by the rise in the real exchange rate, so that the growth of the exports was lower than forecast.

v) The situation on the international financial market did not augur well for a growth in external credit.

vi) The demand for money in national currency had continued to decline.

Within this context, the new economic authorities who took over towards the end of 1983 announced that they would continue to pursue the aims included in the biannual programme agreed upon with the IMF concerning fiscal, monetary and balance-of-payments policies.

¹⁰This amount included the credit associated with the above-mentioned portfolio purchase.

¹¹The BROU's deposits with the Central Bank were equivalent to 60% of the money emission existing at the end of 1983.

The exchange system was to operate on a clean float basis in 1984. The monetary programme laid down guidelines for monetary growth with a 3% target for monthly variation, signifying an annual growth of 42.5%, which was considered compatible with the target of a 45% increase in domestic prices. A number of measures were taken to achieve this aim, the most important being the elimination of remuneration on deposits made by the banking system with the Central Bank, the management of cash reserves and the obligation for private banks to possess government bonds equal to fixed proportions of their national and foreign currency deposits.

The first of these measures was designed to reduce an expansionary factor which had begun to loom large among the monetary authority's commitments; the other measures sought in their turn to keep the creation of money within the limits that had been announced, to which end measures were successively adopted in accordance with the level of liquidity prevailing on the market. Moreover, the compulsory purchase of Treasury Bills was designed to finance the fiscal deficit by means of a managed credit mechanism.

Furthermore, ceilings were set on the foreign currency position of private banks, obliging them to sell their daily surplus on the currency market.

Generally speaking, the actual behaviour of the monetary variables during the first nine months of 1984 remained within the limits set by the programme, in particular as a result of the close control exercised by the Central Bank over the level of liquidity. This approach led to successive —and surprising— measures which increased the sterilization of funds, by means of rises in cash reserves and sale of Treasury Bills. It had as its counterpart a rather erratic effect on the rate of exchange. In this respect, private economic agents "felt" that with their monetary intervention the authorities were again controlling the exchange rate and that a certain lag was building up therein. Since the evolution of prices over the last few months, of around 70% per year, was far higher than planned.

Nevertheless, during the last quarter the public sector made increased calls on Central Bank financing, while monetary policy continued along the same lines, with the aim of reducing the negative impact of the increased fiscal deficit on prices and the exchange rate by means of monetary restrictions.

In consequence of the foregoing, Central Bank issue rose by N\$ 6.4 billion. This increase was entirely due to the increment of N\$ 8.2 billion in net domestic credit, since the international reserves fell by N\$ 1.8 billion.

The change in issue (60%) was therefore lower than the increase in prices (66%), and consequently underwent a further contraction in real terms. This shrinkage was more apparent if it is borne in mind that up to 15 December issue had grown by only 32%, while in the last fortnight of the year it increased by 22%.¹²

On the whole, the monetary target for monthly growth in the means of payment was also met until November. Nevertheless the heavy increase in issue in the last fortnight of the year caused a considerable growth of money. As a result the increase in the means of payment for the whole year was 56%, appreciably higher than the 47% ceiling initially planned.¹³

In addition, as a result of the economic agents' expectations of increased inflation, in 1984 the process of demonetization of the economy continued. Thus, the ratio between money and gross domestic product, which was 8.2% in 1982, was only 5.5% in 1984 (see table 30). Quasi-money behaved similarly during these last three years, although as a ratio of product in 1984 it doubled even that recorded towards the middle of the previous decade. For its part, the peso equivalent of deposits in foreign currency has evolved differently, having undergone a far lower decline as a ratio of product while the latter remains at levels five and a half times higher than those calculated towards the middle of the previous decade. This growing dollarization of the economy clearly reflected the huge increase —from 35% in 1980 to 65% in 1984— of the share of deposits in foreign currency in relation to M_3 , a monetary aggregate which includes money, quasi-money and foreign currency deposits (see table 30).

Furthermore, the real rate of interest declined considerably in 1984. This was due to the fact that while the nominal rate of interest remained around 82% throughout most of the year —as a

¹² In absolute terms, this meant that of the N\$ 6.4 billion by which issue increased during the year, 3 billion corresponded to the expansion which took place in the last fortnight of December. This in part reflected a seasonal pattern.

¹³ The programme allowed for a deviation of ± 0.25 of the 3% monthly growth, as a result of which the maximum growth forecast for the whole of the year was 47%.

Table 30

URUGUAY: MAIN MONETARY RATIOS

(Percentage of gross domestic product)^a

	Money outside banks	Money	Time deposits	Deposits	Percentages of M ₂	
					Time deposits	Deposits
1976	5.2	8.7	5.2	5.2	27.1	27.1
1977	4.8	7.8	5.5	9.0	24.7	40.4
1978	4.7	7.9	7.6	11.8	27.8	43.2
1979	4.3	7.7	9.7	11.0	34.1	38.7
1980	4.5	7.9	12.3	11.1	39.3	35.5
1981	4.6	7.5	13.6	15.1	37.7	41.6
1982	5.4	8.2	15.1	32.6	27.1	58.3
1983	4.4	6.5	12.0	33.8	23.0	64.6
1984	3.5	5.5	10.6	29.8	23.0	65.0

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aOn the basis of annual averages calculated from end-of-year data.

result of tacit agreement between private banks and the Central Bank—domestic prices rose at a rate of approximately 66%. This brought the real rate of interest to less than 10%, a far lower level than the 40% and over recorded in previous years. Moreover, towards the end of the year the Central Bank set the maximum nominal rate of interest on loans at 87%, thus ending five years of free interest rates.

2. Fiscal policy

After balancing its accounts between 1979 and 1981, the central government had a deficit equal to almost 9% of the gross domestic product and 36% of its total expenditure at the end of 1982. The heavy increase in expenditure—which rose from less than 18% of product in 1981 to 24% in 1982—and the reduction in revenue—which fell by 8% in nominal terms—caused this substantial change in financial performance.

The sharp increase in expenditure was essentially due to a rise in wages and transfers to the social security system, which as a whole increased by 58% in nominal terms. On the other hand, other expenditure increased by only 15%. As far as revenue is concerned, the contraction of the level of activity and of imports affected the tax base of the main taxes.

In these circumstances, reduction of the fiscal imbalance to levels compatible with the production, stabilization and balance-of-payments goals became a priority target for the programme of action agreed upon with the International Monetary Fund at the beginning of 1983.

A dramatic adjustment took place during the first nine months of the programme, reducing the central government's fiscal deficit to barely 2% of the gross domestic product. Nevertheless, it proved impossible to keep up this performance and as from the last quarter of that year the fiscal disequilibrium was equivalent to 4 or 5% of the gross domestic product.

Constraints on a further reduction of the deficit operated on the side of revenue and expenditure alike.

As already pointed out, indirect domestic taxes and charges on external trade are major components of the tax system: if extraordinary revenue is excluded, the former represent approximately 54% of total revenue and the latter, 20%; the rest is made up of income taxes and taxes on wealth. Consequently, the contraction of overall economic activity and the even more pronounced decline in external trade in recent years have contributed to a reduction in the tax base and led to a decline in tax revenue in real terms.

Fiscal expenditure also declined in real terms during 1983, so that in 1984 it seemed to have reached a practically irreducible level. On the one hand, 56% of total consolidated central government

expenditure corresponds to wages and liabilities; on the other, such expenditure underwent a real decline of approximately 30% in 1983-1984; finally, in recent years payment of interest on the public debt, which generally has to be made in foreign currency, has taken an increasingly large share.

Tax adjustments and extraordinary revenue were resorted to in order to reduce the fiscal deficit to the programmed level. The main changes involved an increase in value-added tax—which rose from 18% to 20%—, an increment in the tax on petroleum products and the introduction of a charge on exchange transactions. A tax was also introduced on income from agriculture, at the same time as a reduction in the tax on traditional exports. Finally, rebates of indirect taxes to exporters were ended.

Despite these changes, in 1984 revenue increased by only 35% in nominal terms, which meant a real drop of 13%. A major part of this decline was the drop in extraordinary income, which had represented more than 20% of total central administration revenue in 1983 (see table 31).

Taxes on external trade declined by a greater proportion in real terms (17%) than total revenue. This was due, first, to the fact that the exchange rate rose less rapidly than domestic prices

Table 31

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1977	1978	1979	1980	1981	1982	1983	1984
Current income	2 938	4 350	8 424	14 955	21 260	19 552	29 486	39 797
Internal taxes	2 092	3 256	5 704	10 695	14 804	13 487	18 214	28 187
On production and transactions	2 046	3 067	5 221	9 287	13 514	12 758	16 753	27 259
Value added	1 002	1 526	2 751	5 676	8 515	7 970	9 718	15 942
Fuels	431	582	973	1 661	2 117	1 997	3 609	5 908
Tobacco	204	297	459	912	1 251	1 535	2 046	2 672
Other indirect taxes	409	662	1 038	1 038	1 631	1 256	1 380	2 737
On income	349	569	1 038	2 363	2 427	2 028	3 147	2 942
On wealth	171	211	282	725	1 094	1 293	2 074	1 935
Others	56	59	81	116	116	134	113	169
Less: documents received	-377	-527	-717	-1 475	-2 235	-2 414	-2 964	-4 021
Adjustments	-153	-122	-198	-320	-111	-311	-909	-97
Taxes on external trade	424	550	1 597	2 753	3 199	2 669	4 582	5 917
On imports	301	374	1 200	2 212	2 567	2 281	2 357	4 337
On exports	18	13	17	6	3	-	1 951	1 066
Customs and other duties	105	163	380	536	630	388	274	515
Other income	422	544	1 123	1 507	3 257	3 396	6 690	5 693
Current expenditure	2 796	4 024	7 260	13 081	18 817	27 503	33 159	50 560
Remunerations		1 948	3 282	5 980	8 800			
Social security contributions and assistance	1 836	665	1 117	3 464	4 866	21 573	24 522	31 420
Purchase of goods and services	457	765	1 397	2 466	3 766	3 526	4 112	6 944
Interest on public debt	202	263	360	325	407	810	2 236	5 285
Others	311	383	1 104	846	978	1 594	2 289	6 911
Current saving	142	307	1 163	1 874	2 443	-7 951	-3 673	-10 763
Investment	382	708	1 040	1 799	2 559	3 258	3 738	4 913
Total expenditure	3 178	4 731	8 301	14 880	21 377	30 761	36 897	55 473
Total deficit (-) or surplus (+)	-241	-401	123	75	-117	-11 210	-7 411	-15 676
Financing	241	401	-123	-75	117	11 210	7 411	15 676
Domestic	275	433	-90	-14	212	11 410	7 854	16 612
Net Central Bank/BROU credit	287	159	206	-168	396	8 915	5 765	7 470
Net sale of bills	78	151	-287	-220	54	1 680	1 557	9 413
Others	-90	123	-9	374	-238	815	532	-271
External	-34	-32	-33	-61	-95	-201	-444	-936

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay and the Ministry of Economy and Finance.

during a considerable part of the year; and second, to the decline in taxation on exports caused both by a shrinkage in the tax base —mainly as a result of lower meat exports— and by a drop in the rate —which fell from 15% in 1983 to 5% at the end of 1984. On the other hand, changes in domestic taxes allowed revenue from this source to remain at the same level as in the previous year in real terms.

Current expenditure declined by 2% at constant value, while its internal composition changed: there was an increase in the share of interest payments on the public debt —which rose from 7% in 1983 to 10.5% in 1984— and in transfers to public enterprises and to the Banco Hipotecario del Uruguay. These rises took place to the detriment of remunerations and social security transfers, which represented 74% in 1983 and 62% in 1984. The share of capital expenditure within total expenditure declined, falling from 10.5% in 1982 to barely 8.8% in 1984.

A particularly important feature during 1984 was the manner in which the fiscal deficit was financed. Both in 1982 and 1983 this had been mainly financed by credit from the Central Bank, which thus monetized the deficit and applied the inflationary tax. The 1984 monetary programme attempted to make as little use as possible of this mechanism, with the result that financing was obtained by attracting savings, mainly of domestic origin, through the sale of Treasury Bills in dollars. At the beginning of the year a considerable volume of funds was obtained by this means, and investors were offered an attractive rate of interest ($\text{LIBOR} + 2\frac{3}{4}$) with anticipated interest payment and a six month payback period. Nevertheless, towards the middle of the year the proximity of the elections affected the net sale of bills, as a result of which their payback period was reduced to three months in order to make their purchase more attractive. However, towards the end of the year renewal became sluggish and net sales of these bills to the private sector declined.

Moreover, the central government's financial imbalance had greater repercussions than planned on net Central Bank domestic credit, so that monetary expansion was also higher than envisaged. In order to reduce this expansion and at the same time provide financing for the central government, successive measures were taken obliging the financial system to purchase Treasury Bills for fixed percentages of their total deposits (in national and foreign currency), with the exception of off-shore operations. The net sale of governmental paper during the year constituted the main instrument for financing the budgetary deficit, since it contributed 60% of the total, while the Central Bank-BROU together contributed 48% and there was a contraction in external credit equivalent to 6% of the total imbalance.

III. SOME BASIC MACROECONOMIC PROBLEMS

A. UNDERUTILIZATION OF PRODUCTIVE CAPACITY

The simultaneous underutilization of productive capacity and of labour is at the present time the central problem in the real Uruguayan economy.

This is true, in the first place, because of its adverse effects on the population's standard of living. As has already been observed, from 1981 there was a pronounced decline both in employment and in real remunerations, which are the two factors that most directly affect the population's level of consumption. In such circumstances, private consumption shrank by more than 22% over the last three years and in 1984 fell to a level similar to that of 1970.

Underutilization of productive capacity also constitutes a fundamental problem if the prospects for medium-term economic growth are considered. As is well known, this depends to a large extent —although certainly not exclusively— on capital accumulation. And, as is also well known, investment is precisely that component of domestic demand which falls most markedly during periods of shrinkage in economic activity. In this respect, recent Uruguayan experience is highly revealing: over the last four years the real level of capital formation fell by 60% while investment in machinery and equipment in 1984 was barely one quarter of the 1980 figure. As a result of this, the investment coefficient, which had continuously risen between 1974 and 1980 and which in 1979-1980 was over 17%, was barely more than 8% in 1984, a level which is probably insufficient to preserve the capital stock. Consequently, in addition to worsening the present living conditions of the population, the recent economic crisis has jeopardized any possibility of a marked improvement in the medium term.

Finally, the underutilization of productive capacity represents a crucial problem in view of its negative repercussions on the fiscal balance and thereby on the possibilities of bringing down the high rate of inflation. As is explained in greater detail below, the central government deficit remains extremely high, despite the fact that in the last two years remunerations of civil servants, transfers to the social security system and public investment have fallen drastically in real terms. In these circumstances it is quite clear that in the near future it will be impossible to achieve a reduction in the fiscal deficit by further cuts in government expenditure, and any reduction will have to rely mainly on increased revenue. Because of the existing tax structure, however, such revenue is in turn closely linked to the levels of domestic economic activity and external trade. Consequently, if the former fails to recover, there will be no significant increase in tax revenue, which will make it hard to reduce the deficit on the government's accounts and the inflationary pressure that this tends to generate.

Nevertheless, the vital importance of the present underutilization of installed capacity does not only lie in its negative effect on the levels of consumption, employment and investment, but also in its extraordinary scale. While it is difficult to calculate exactly the degree of underutilization of productive capacity which existed at the beginning of 1985, a rough estimate may be made on the basis of the extent to which economic activity and employment has fallen since 1980. In this respect, it should be borne in mind that between 1980 and 1984 the gross domestic product declined by 14% while industrial production shrank by 24% and construction fell by 45%. In its turn, the rate of unemployment rose from less than 6% in the first half of 1981 to more than 14% in 1984. Thus, merely to recover the levels reached before the crisis broke it would be necessary to achieve increases of 16% in the gross domestic product, 30% in manufacturing and over 80% in construction.

These figures no doubt represent a preliminary and very rough estimate of the extent of underutilization of existing productive resources at the end of 1984. During crises as prolonged and profound as that suffered by Uruguay in recent years many firms cease operating and a considerable number go bankrupt or disappear completely; at the same time the teams that managed them break up and a number of skilled workers decide to emigrate. All this means that as the recession continues not only does production decline but productive capacity also dwindles. The latter is even more likely to have occurred in Uruguay as the scant investment made in recent years may have been insufficient to offset the depreciation of existing capital stock. This phenomenon, however, may have been to some extent offset by two features of the capital formation process in the period preceding the crisis. The first was the considerable investment made in infrastructure —and particularly in hydroelectricity generation— during the second half of the last decade; the second was the extraordinary expansion of imports of capital goods from 1976 and especially in 1980-1981. During this latter period the value of imports of capital goods was more than double the average recorded between 1976 and 1978, which in turn was easily more than double the figure for the previous three years. This meant that in practice a considerable proportion of imported machinery and equipment was in place and ready to produce precisely when the crisis broke and demand fell dramatically, so that full use was never made of them. As a result, it is probable that the productive capacity of the economy towards the end of 1981 was appreciably higher than the actual level of production achieved in 1980 and that therefore the drop in production from this year underestimates the degree of underutilization of installed capacity at the beginning of 1985.

All in all, whatever its exact scale, there is no doubt that at the present time the degree of utilization of available productive resources is low and that it would be possible to achieve marked increases in production without its being necessary to make any major increment in fixed capital investment.

Nevertheless, this does not mean that such increases could be achieved in the short term merely through measures designed to raise domestic demand. Any policy of revival based solely on such measures would have to face at least three fundamental restrictions.

The first of these derives from the extremely high level of current inflation and on the existence of a substantial public sector deficit, which, for the reasons set out below, will tend to continue generating strong inflationary pressures in 1985.

The second restriction is associated with the excessive domestic indebtedness of the majority of productive enterprises, the deterioration caused by this indebtedness within the financial system and the limits which this situation has placed on the supply of credit to the private sector.

Finally, the third but by no means the least important restriction which a policy of revival based on initial expansion of domestic demand would face is the existence of external bottlenecks. As is explained in the final section of this survey, in so far as it proved successful in increasing domestic production and income, any policy of this type would immediately exert pressure upon imports and thereby tend to accentuate the external imbalance, with the consequent damaging effects on international reserves and the level of the exchange rate. Thus, as is also examined in the final section, the prospect of an economic recovery based on the simultaneous existence of considerable idle installed capacity and high unemployment depends, *inter alia*, on a marked increase in import capacity, which in turn requires a rescheduling of the external debt and a vigorous expansion of exports.

B. INFLATION, PUBLIC DEFICIT AND MONETARY IMBALANCE

One of the major challenges facing the Uruguayan economy at the present time and hampering the application of expansionary policies to speed up overall economic activity is the high and increasing rate of inflation. The annual consumer price index rose from 20.5% in 1982 to 51.5% in 1983 and exceeded 66% in 1984. The deterioration in public finances which began in the second half of 1981 and acquired particular intensity in 1982, together with the failure of the stabilization plan linked to the evolution of the table of exchange rates and the subsequent floating of the peso, to a large extent explains this upsurge of inflation.

As will be seen below, this rise in the rate of price increases proved particularly disquieting in view of the still considerable size of the public sector deficit and of the special and largely unrepeatable measures adopted to finance it in 1984.

1. The public sector financial imbalance¹⁴

a) *The fiscal deficit*

In spite of the notable progress made in 1983 towards reducing the fiscal deficit—which then represented 4% of the gross domestic product as against almost 9% the previous year—, central government accounts continued to show a sizable imbalance. In 1984 the fiscal deficit was in the region of N\$ 16 billion, more than double the deficit recorded in 1983 and equal to approximately 5% of the gross domestic product.

Furthermore, if the structure of government expenditure—a large part of which is made up of remunerations and payments to the non-productive sector and in which government debt servicing is of increasing importance—is taken into account together with the heavy real decline which has already affected the former, it is quite clear that in the near future it will be difficult to reduce the fiscal deficit by further contractions in expenditure. As a proportion of the gross domestic product, the latter underwent a drastic shrinkage in recent years: from 24% in 1982 it fell to 20% in 1983 and approximately 19% in 1984 (see table 32).

Among expenditure, those items which declined in real terms in 1984 were remunerations and social security payments—which fell by 17%— and investment—which declined by 15%. On the other hand interest payments on the public debt increased enormously, and were far higher than expenditure on investment.

The fact that the fiscal adjustment has been based on a fall in real wages and pensions and on a decline in capital accumulation is certainly a matter for concern, both in view of its implications for the present standard of living and the outlook for economic growth, and because of the rigidities which it introduces into the potential for future development.

The structure of fiscal expenditure. The rising trend of government expenditure in relation to the gross domestic product during the first years of the 1970s and in 1981 may be accounted for by the growing size and relative weight of social security transfers, by the importance of investment expenditure up to 1980 and the ever-increasing burden of interest on the public debt.

¹⁴The public sector includes the central government, public enterprises and official financial institutions.

Remunerations and social security. Despite their recent fall, expenditure on remunerations and social security still absorb a large part of fiscal expenditure: in 1982 they made up 70% of total expenditure, 66% in 1983 and approximately 57% in 1984 (see table 33). While it reflects the considerable effort at adjustment made in the fiscal sector, the sharp decline in the share of such expenditure in recent years also demonstrates the pronounced drop in real terms which has affected wages and pensions.

As can also be seen in table 33, one of the most outstanding features of the evolution in the structure of central government expenditure in the last ten years has been the enormous growth of transfers to the social security system. Until the close of the previous decade such transfers represented less than 14% of total government expenditure, but rose at amazing speed from 1980 onwards, and in 1982-1983 made up approximately 30% of total expenditure, equal to 80% of total remunerations paid by the central government.

Table 32

URUGUAY: CENTRAL GOVERNMENT CASH POSITION

Financial year	Thousands of New Uruguayan \$			Percentage of GDP		
	Income	Expenditure	Balance	Income	Expenditure	Balance
1970	82	92	-9	13.8	15.4	-1.6
1971	103	145	-42	14.3	20.2	-5.9
1972	167	196	-29	13.5	15.8	-2.3
1973	370	398	-28	14.5	15.6	-1.1
1974	587	788	-200	12.9	17.3	-4.4
1975	985	1 348	-362	12.1	16.5	-4.4
1976	1 719	2 031	-311	13.6	16.1	-2.5
1977	2 937	3 163	-225	14.8	15.9	-1.1
1978	4 349	4 722	-372	14.1	15.3	-1.2
1979	8 423	8 257	166	14.6	14.3	0.3
1980	14 955	14 848	107	16.2	16.1	0.1
1981	21 260	21 369	-109	17.6	17.7	-0.1
1982	19 552	30 761	-11 209	15.2	23.9	-8.7
1983	29 285	36 855	-7 570	15.7	19.7	-4.0
1984	39 797	55 473	-15 676	13.5	18.8	-5.3

Source: ECLAC, on the basis of data provided by the Department of National Accounts.

Table 33

URUGUAY: STRUCTURE OF CENTRAL GOVERNMENT EXPENDITURE

(Percentages)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a
Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Remunerations and contributions	62.0	62.2	57.7	55.3	53.3	48.3	39.1	37.8	37.3	26.4
Social security transfers	16.7	14.4	11.8	13.2	13.7	18.5	24.9	32.3	29.3	30.2
Interest	5.6	7.2	6.4	5.6	4.4	2.2	1.9	2.6	6.1	9.5
Public sector transfers	2.4	2.8	1.8	1.9	2.6	2.5	2.0	2.5	2.7	12.2
Transfers to Intendencies	0.7	0.6	-	-	-	-	0.4	0.7	0.4	
Capital expenditure	10.4	11.5	12.4	15.6	17.8	17.1	16.4	9.6	9.7	8.9
Rest	2.2	1.3	9.8	8.3	8.2	11.5	15.3	14.5	14.6	12.8

Source: ECLAC, on the basis of data provided by the Department of Planning and Co-ordination (SEPLACODI) and the Department of National Accounts.

^a Figures through September only.

Table 34

**URUGUAY: EVOLUTION OF SOCIAL SECURITY
INCOME AND EXPENDITURE**

(As a percentage of GDP at market prices)

	1973- 1976	1977- 1979	1980	1981	1982	1983
Current income	8.2	8.3	6.7	6.2	7.4	7.0
Expenditure	8.7	8.4	8.8	11.0	13.2	11.4
Financial position	-0.5	-0.1	-2.1	-4.8	-5.8	-4.4
Deficit as a percentage of expenditure	5.2	1.1	23.5	43.8	43.8	39.1

Source: ECLAC, on the basis of data provided by the Department of Social Security (DGSS).

The increasing weight of transfers to the social security system sprang from the 1979 tax reform, which involved the partial replacement of direct contributions paid into the social security system by indirect taxation collected by the central government.¹⁵ This change in turn involved an undertaking by the government to finance part of social security expenditure by means of transfers.

Although the tax reform proved effective in so far as it replaced what was basically a tax on employment by a tax comparable to VAT, which is neutral as regards its impact on the use of the various factors of production, nevertheless, in separating the financing of the social security system from the income generated by contributions raised on salaries, it stimulated a policy of benefits which was incompatible with the financial resources. In fact, prior to the reform a balance was achieved essentially on the side of expenditure: benefits could not exceed the system's own revenue. The tax reform broke this fundamental link.¹⁶

Consequently, between 1979 and 1982 social security expenditure increased more than sevenfold in nominal terms, which meant an annual increase of 16.5% in real terms. This enormous expansion in expenditure had as its counterpart a rapid rise in the social security system's deficit, which rose from barely 1% of expenditure between 1977 and 1979 to more than 23% in 1980 and over 40% in the three years between 1981 and 1983. The increase in the social security deficit as a proportion of the product was also impressive: from an insignificant percentage during the closing years of the previous decade to an average of around 5% between 1981 and 1983 (see table 34).

Thus, in recent years the financial imbalance of the social security system has acquired similar importance to that of the central government and has come to constitute a major factor in the overall public sector deficit. Moreover, the financial imbalance of the social security system partly represents the monetary forecast of a real imbalance which is clearly shown by the figures in table 35: at the present time the number of beneficiaries of the system is equal to 55% of the economically active population.

Investment. From 1975, central government expenditure on investment increased to a point which in 1978-1981 was far higher than the average figure recorded during the ten previous years. This considerable expansion was one of the factors which explain the increased share taken by central government expenditure in the gross domestic product in the 1970s. As a percentage of its expenditure, however, central government investment declined regularly from 1979 —when it was almost 18%— to 16.5% in 1981, to less than 10% in 1982-1983 and to barely 8.5% in 1984.

Interest. Another important feature of recent trends in the structure of government expenditure has been the growth in expenditure on interest, in particular from 1983. Between 1973 and 1980, interest represented on average 4.5% of total central government expenditure and, as a share of this expenditure, followed a clearly declining path between 1976 and 1981. However, a

¹⁵The employer's contribution was brought down from 28% to 17% in January 1980 and fell to 14% in June of the same year, while the employee's contribution fell from 12 to 10%.

¹⁶This argument concerns the budgetary aspect alone. It in no way denies the favourable impact of the tax reform in setting the prices of factors on the basis of their relative scarcity, and thus helping to increase employment.

reversal occurred in this trend in 1982 and became dramatic in the two following years. Thus, between 1981 and 1984 the share of total expenditure devoted to interest payments rose from less than 2% to more than 9%. In 1984 interest payments were 10% higher than investment and increased by approximately 50% in real terms over 1983.

The marked increase in interest payments was a consequence of the government's financial imbalances in the last three years and of the policy of financing part of them through borrowing by placing bonds and treasury bills at very high rates of interest.

b) *The para-fiscal deficit*

As has been observed, despite the adjustments and advances made in the last three years, the evolution of the fiscal deficit and the structure of central government expenditure continue to exert strong pressure on their alternative sources of finance: international reserves, internal and external indebtedness and monetary expansion.

Nevertheless, as a result of the 1982 recession and the monetary, credit and public debt policies applied during the last three years, the scale of what is known as the para-fiscal deficit has reached extraordinary levels,¹⁷ even surpassing in size the central government deficit. This is why, in order fully to appreciate the scale and impact of the overall public sector imbalances—which is what ultimately affects inflationary pressure, the balance-of-payment result and the rates of interest—it is necessary to add the para-fiscal deficit to the traditional fiscal deficit. In 1982 and 1983 the amount of the former was greater than that recorded by central government accounts and preliminary estimates indicate that in 1984 it represented approximately 90% of the fiscal deficit.

The para-fiscal imbalance for the last three years was mainly caused by the financial deficit of the Banco Hipotecario del Uruguay and by the debt servicing contracted by the Central Bank to support the private banking system and thus save many banks from bankruptcy, as well as by interest payments on the bonds which the Central Bank issued to the banks when it purchased their overdue portfolios.¹⁸

The deficit of the Banco Hipotecario del Uruguay. From 1980, the Banco Hipotecario pursued an ambitious loan programme. This policy was not only complied with the expansion of the bank's normal activities, but also fulfilled aims of a social nature and others designed to maintain economic activity in accordance with overall political considerations. As a result of this, between the 1977-1979 triennium and the period 1980-1982, credit from the Banco Hipotecario to the private sector increased by almost 90% in real terms (see table 37).

Table 35

URUGUAY: SOCIAL SECURITY BENEFICIARIES^a

(Thousands)

	Retired	Pensioners	Total	EAP ^b	Percentage (3) : (4)
	(1)	(2)	(3)	(4)	(5)
1964	174.9	102.1	277.0	1 003.0	28
1967	208.0	195.0	403.0	1 022.8	39
1978	279.0	267.0	546.0	1 098.7	50
1980	303.0	275.0	578.0	1 113.1	52
1983	340.0	285.0	625.0	1 135.1	55

Source: ECLAC, on the basis of figures provided by the DGSS and SEPLACODI.

^a Excluding Armed Forces. As from 1975, the Police Fund is excluded, so that after this date the figures underestimate the total by approximately 20 000 beneficiaries.

^b Economically active population. On the basis of census data for 1963 and 1975, using the growth rate calculated by interpolation of both figures.

¹⁷ The para-fiscal deficit includes the deficits of the Central Bank and the Banco Hipotecario.

¹⁸ The public-sector deficit includes in addition the deficit of non-financial public enterprises. However, in contrast with other countries in the region, such enterprises have not generally constituted major sources of financial imbalance in Uruguay. With the marked exception of 1982—when their joint deficit reached a level of some importance—in the last ten years it has on average been below 1% of the gross domestic product (see table 36).

Table 36

URUGUAY: RESULTS OF STATE NON-FINANCIAL ENTERPRISES

(Percentage of GDP)

	AFE	ANCAP	ANP	ANTEL	INC	OSE	PLUNA	UTE	Total
1973	-0.61	0.07	-0.06	0.09	-0.01	-0.16	-0.10	0.35	-0.43
1974	-0.55	-0.80	0.05	-0.23	0.01	-0.11	-0.01	-0.47	-2.08
1975	-0.28	0.81	0.19	0.02	-	-0.04	-0.01	-0.65	0.04
1976	-0.52	-0.32	0.05	-0.10	-	-	-0.01	0.11	-0.76
1977	-0.81	-1.41	0.27	-0.10	0.07	0.01	0.02	0.15	-1.83
1978	-0.40	0.11	0.06	-0.16	0.01	0.01	-0.23	0.14	-0.47
1979	-0.40	-0.47	0.12	-0.11	0.01	-0.03	-0.03	0.37	-0.53
1980	-0.39	-0.08	0.17	-0.15	-	-0.04	0.03	0.25	-0.13
1981	-0.47	0.13	0.14	-0.25	-	-0.02	-0.04	-0.77	-1.29
1982	-0.56	-1.49	-0.06	0.06	-	-0.11	-0.87	-0.80	-3.23
1983	-0.42	0.25	-0.03	0.12	0.01	-	-0.21	-0.97	-1.25

Source: SEPLACODI: *Aborro-Inversión y Financiamiento del Sector Público*.

AFE: State Railways; ANCAP: National Administration of Fuels, Alcohol and Cement;

ANP: National Ports Administration; ANTEL: National Telecommunications Administration; INC: National Institute of Settlements; OSE: State Sanitary Works; PLUNA: Uruguayan Airlines; UTE: Electricity Plants and Distribution.

Table 37

URUGUAY: BANCO HIPOTECARIO DEL URUGUAY, MAIN INDICATORS OF CREDIT AND COMMITMENT

(Millions of UR)^a

	Public sector credit	Private sector credit	Net inter-bank rights	Securities and bonds	Deposits in n/c	Deposits in f/c
1977	1.3	45.4	5.8	24.9	15.4	-
1978	2.7	39.7	13.2	29.6	13.8	-
1979	1.2	40.2	22.2	33.8	12.4	-
1980	2.9	58.0	10.9	30.0	15.0	-
1981	4.0	76.8	-6.0	28.4	19.3	5.8
1982	5.9	100.9	-49.9	25.4	16.4	67.1
1983	6.7	109.5	-108.1	23.8	19.8	66.1
June 1984	5.2	107.6	-113.1	24.7	23.3	80.2

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

^aThe UR (readjustable unit) evolves in accordance with the average index for wages calculated by SEPLACODI.^bFigures for deposits in foreign currency are in millions of dollars.

Furthermore, the expansion in the outlays of the BHU coincided with a period which saw a decline in its ability to attract funds on the market by means of its two main instruments: readjustable mortgage bonds and deposits indexed on the evolution of such bonds. This was partly because in 1981 mortgage bonds offered a lower return than financial assets such as bank deposits in national and foreign currency, which made them less attractive to investors. Moreover, in January 1980, as part of its overall policy of replacing income taxes by VAT, the government abolished the 2% tax on salaries which was designed to finance Banco Hipotecario operations, as a result of which the latter's resources declined still further.

The gap which these changes produced in its banking operations forced the BHU to resort to debt instruments whose cost proved higher than the income obtained from its investments. Together with this a change also occurred in the structure of the institution's liabilities —ranging from

mortgage bonds to external loans and deposits in national currency and dollars— which harmed its operating results.

In order to bring down the institution's deficit, in 1982 it was decided to reduce the loan programme. Nevertheless, in view of the nature of housing construction, it was only in 1984 that the decision showed any significant impact on the size of the institution's disbursements. During the intervening period, the Banco Hipotecario coped with its financial imbalances by increasing its indebtedness (both domestic and external) in foreign currency, by means of credit received from the Central Bank, and with the backing of the Treasury. Obviously only this latter item was reflected in the central government accounts. The others, as well as the service on its debt, only contributed towards increasing the para-fiscal deficit.

As can be seen from table 38, the Central Bank and the Treasury have provided substantial financial support to the BHU in the last three years. In 1982 this financial assistance—whose size is nevertheless not identical with the deficit of the Banco Hipotecario— was equivalent to 7.5% of the gross domestic product and approximately 85% of the fiscal deficit. However, the relative size of this assistance fell by almost half in 1983 and it is estimated that, as a result of the increased control of expenditure and BHU financing, its financial requirements in 1984 amounted to 1.5% of the gross domestic product.

The deficit of the Central Bank of Uruguay. During 1982 and 1983 the Central Bank of Uruguay provided assistance to the financial sector involving it in external indebtedness of more than US\$ 800 million.

This assistance took two forms and pursued two distinct aims. The first of these was the purchase of holdings from certain banks which were in dire economic straits in order to save them from bankruptcy and make possible their subsequent sale. In order to finance this type of operation the Central Bank borrowed somewhat more than US\$ 280 million (see table 39).

Table 38

URUGUAY: FINANCING OF THE BANCO HIPOTECARIO DEFICIT

	1982		1983		1984	
	Millions of N\$	Percentage of GDP	Millions of N\$	Percentage of GDP	Millions of N\$	Percentage of GDP
Treasury financing	-	-	-	-	2 793	0.9
Central Bank financing	9 665	7.5	7 208	3.9	1 420	0.5
Total financing	9 665	7.5	7 208	3.9	4 213	1.4

Source: Vegh Villegas, Alejandro, *Fiscalidad y Para-fiscalidad*. El País, 22 December 1984.

Table 39

URUGUAY: CENTRAL BANK PORTFOLIO PURCHASES IN 1982-1983

(Millions of dollars)

	Portfolio purchased	Loans received
Linked to loans	215.0	540.4
Linked to sales of banks	413.2	280.8
Total	628.2	821.2

Source: ECLAC, on the basis of the report by the inter-party commission *Deuda Externa Uruguaya*.

Table 40

**URUGUAY: VARIATION IN PUBLIC-SECTOR INDEBTEDNESS
IN FOREIGN CURRENCY**
(Millions of dollars)

	Debt in f/c	Working capital			Net debt	Variation in debt in f/c
		Central Bank	BROU	Total		
1977	1 282	233	89	322	960	
1978	1 142	232	120	352	790	-170
1979	1 155	323	130	453	702	-89
1980	1 382	384	148	531	850	149
1981	1 881	409	129	539	1 342	493
1982	3 267	76	102	178	3 088	1 745
1983	3 967	174	112	287	3 680	592
June 1984	4 149	202	108	309	3 840	160

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

The second operation involved the purchase of hard-to-realize portfolios from banking institutions, which had to obtain from their head offices long-term loans for the Central Bank for a higher sum than that paid for the purchase of the portfolio. Operations under this last heading involved the Central Bank in a debt of US\$ 540 million. At the same time, the Central Bank transferred dollar bonds in exchange for the portfolios acquired from the commercial banks. Servicing on the external credits received by the Central Bank and on the bonds which it transferred to the private banks constitute the two main sources of the Central Bank's deficit. They also represent one of the major components of the overall public sector deficit.

c) The public sector deficit

The significance which the public sector deficit has acquired in the last three years warrants an attempt at quantification. The amount is estimated below, by measuring the deficit through its financing. It should be borne in mind, however, that this is a rough methodology and provides no information at all on the origin of the imbalances.

Table 40 sets out the inflation calculated by the Central Bank on the evolution of the public sector's indebtedness in foreign currency, both with residents and non-residents. Since part of the indebtedness in foreign currency may have been used to constitute reserves, the last column of table 40 corrects the variation in indebtedness in foreign currency by the changes in the working capital funds of the Central Bank and the Banco de la República.

Again, the instruments which the public sector can rely on to obtain financing in national currency are the following: Central Bank issue; sight deposits in national currency made by private banks with the Central Bank (which are mainly composed of the cash reserves); deposits in national currency with the Banco de la República and the Banco Hipotecario del Uruguay; issue of debentures and bonds by the Banco Hipotecario del Uruguay and Treasury Bills in national currency. Information on the attraction of funds by the public sector by means of all these instruments is set out in table 41.

However, since part of this indebtedness represents a counterpart to the credits which the official financial institutions provide for the private sector in the course of their normal banking operations, in order to estimate the scale of the public sector deficit it is necessary to deduct the changes in credit granted to the private sector by the BHU and the BROU from the variation in their indebtedness. This is done in table 42. It also corrects the variations in total public sector indebtedness by the changes in the available gold reserves of the Central Bank and the Banco de la República.¹⁹ The final result of these operations provides an estimate of the public sector deficit and is set out in the last column of table 43 as a proportion of the gross domestic product for each year.

¹⁹This is essential since sales of gold were significant both in 1982 and in 1983. The variations are valued at the average price of gold in the respective years.

The first conclusion which may be drawn from the analysis of the figures concerns the extraordinary changes which have affected the public sector's financial position so far this decade. After achieving a small surplus in 1980, the public sector closed the following year with a deficit equivalent to 2.3% of the gross domestic product. This reversal in trend became much more pronounced in 1982, when the public sector's deficit amounted to more than 18% of the gross domestic product. In consequence of the readjustment policies pursued after 1983, however, the overall public sector deficit declined both during that year and in 1984. Nevertheless, it was estimated that even during the latter year it was equivalent to approximately 9% of the product.

A second conclusion concerns the enormous difference that has existed in recent years between the overall public sector deficit and the central government deficit, which reveals the growing

Table 41

**URUGUAY: VARIATION IN PUBLIC-SECTOR INDEBTEDNESS
IN NATIONAL CURRENCY**

(Millions of new pesos)

	Issue	Private bank sight deposits with Central Bank	Issue of BHU bonds	Deposits in n/c with BHU	Deposits in n/c with BROU	Treasury bills in n/c	Total	Variation of indebtedness in n/c
1977	1 369	358	535	328	379	229	3 200	
1978	2 065	457	1 078	498	761	405	5 266	2 066
1979	3 736	207	2 116	765	1 405	150	8 381	3 144
1980	5 953	174	2 951	1 465	2 395	251	13 193	4 811
1981	7 148	197	3 642	2 470	3 449	20	16 929	3 736
1982	8 805	328	3 624	2 141	4 227	454	19 582	2 652
1983	9 453	1 867	4 599	3 347	6 253	176	25 798	6 215
June 1984	10 362	541	5 781	4 543	9 646	2 217	33 092	7 293

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 42

**URUGUAY: VARIATION IN TOTAL PUBLIC-SECTOR DEBT CORRECTED BY
PRIVATE SECTOR CREDIT FROM THE BROU AND BHU AND BY
THE VARIATION IN THE AVAILABILITY OF GOLD**

(Millions of N\$)

	Variation in total public-sector debt	Variation in private-sector credit from the BROU and BHU	Variation in debt (excluding private-sector credit) (1) - (2)	Variation in gold holdings (-) indicates purchase	Total (3) + (4)	Total as a percentage of GDP (-) indicates a surplus
	(1)	(2)	(3)	(4)	(5)	(6)
1978	1 033.3	1 426.9	-393.6	-14.5	-408.1	-1.3
1979	2 419.4	3 186.0	-766.6	-356.4	-1 123.0	-1.9
1980	6 165.4	5 980.8	184.6	-778.1	-593.5	-0.6
1981	9 056.1	6 344.5	2 711.6	116.9	2 828.5	2.3
1982	26 967.7	6 361.6	20 606.1	2 731.3	23 337.4	18.2
1983	26 662.6	8 376.0	18 286.6	4 983.4	23 270.0	12.5
June 1984	15 385.7	5 557.4	9 828.3	11.2	9 839.5	9.0 ^a

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^a Annualized.

Table 43

**URUGUAY: EVOLUTION OF THE CENTRAL GOVERNMENT DEFICIT
AND OF PUBLIC SECTOR INDEBTEDNESS**

(As a percentage of GDP)

	Central Government deficit ^a	Deficit of rest of public sector ^a	Public sector indebtedness ^b
1978	-1.2	2.5	-1.3
1979	0.3	1.6	-1.9
1980	0.1	0.5	-0.6
1981	-0.1	-2.2	2.3
1982	-8.7	-9.5	18.2
1983	-4.0	-8.5	12.5
1984 ^c	-5.0	-4.0	9.0

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^a(-) sign indicates a deficit.

^b(-) sign indicates debt amortization.

^cPreliminary estimates.

importance acquired by the para-fiscal deficit during these years. This trend and its contrast with the situation prevailing until 1980 stand out quite clearly in table 43. Between 1978 and 1980, the rest of the public sector earned surpluses which allowed the public sector as a whole to amortize its debt and increase its reserves during each of these three years. From 1981, on the other hand, not only did the surplus in the accounts of the rest of the public sector become a deficit, but the imbalance in the latter became far more pronounced than the deficit of the Treasury (with the exception of 1984) and reached substantial proportions in relation to the gross domestic product.

After its dramatic increase in 1982, the years which followed saw a decline in the public sector deficit of almost 10 points of the gross domestic product. This drop is mainly accounted for by the containment of expenditure by the fiscal sector—which, as has already been seen, led to a sharp real fall in investment, wages and pensions, as well as by a realistic policy on prices and rates charged by public enterprises and by the reorganization of the activities of the Banco Hipotecario.

d) The public debt

In accordance with the figures in tables 40 and 41, at the end of 1983 the total public sector debt was approximately US\$ 4 430 million (see table 44). Approximately 90% of this total was made up of debt in foreign currency, which in the last three years has grown far more rapidly than debt in national currency. In turn, three-quarters of the public sector debt in foreign currency is external debt, i.e., it has been contracted with non-residents (see table 45).

This is of considerable importance since servicing on the external debt which is not financed by new external loans requires a real transfer of resources abroad, which implies that an equivalent amount of savings generated within the country, instead of financing domestic capital formation, finances expenditure in the rest of the world. Moreover, the high level of the overall public sector debt also creates the need to finance a considerable flow of interest payments.

Thus, assuming an average interest rate of 10%, the amount of interest paid by the public sector will be in the region of US\$ 440 million in 1984, a figure which represents more than 8% of the gross domestic product. This reveals that the amount of the interest payments of the public sector as a whole is far higher than would appear from the fact that interest payments by the central government represent approximately 10% of its total expenditure. In terms of such expenditure, global public sector interest payments are equal to approximately 45%. In other words, the interest on the overall public debt, excluding that within the province of the central government, was in 1984 equal to three and a half times the amount of the latter.

It is equally important to distinguish debt servicing which is the responsibility of the central government and the Central Bank from that due on the debt owed by the rest of the public sector. Servicing of the latter may be financed by a suitable policy on prices and rates for the goods and

services produced by State enterprises. On the other hand, interest owed by the Treasury or the Central Bank can only be financed by taxation, emission of money, the liquidation of international reserves and/or the sale of gold, or by further indebtedness. Thus, irrespective of the size of the commitments undertaken by the Central Bank and of their legal status within the national patrimony, the economic effects which derive from its indebtedness and the restrictions it imposes on economic policy are the same as if they had been contracted by the central government.

In addition, these interest payments involve considerable sums. Given the debt which was owed at the end of 1983 by the Treasury and the Central Bank, it can be estimated that they must amount to some US\$ 270 million in 1984, a figure which represents more than 28% of total central government expenditure and which is equal to approximately 5% of the gross domestic product.

Table 44

**URUGUAY: DEBT BORNE BY THE CENTRAL GOVERNMENT
AND THE CENTRAL BANK***

	Millions of dollars
Total debt	4 427
Debt of the Banco de la República	623
Debt of the Banco Hipotecario	296
Debt of public enterprises	827
Debts of the Central Government and Central Bank	2 681

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

*At the end of 1983.

Table 45

URUGUAY: PUBLIC SECTOR COMMITMENTS IN FOREIGN CURRENCY

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total public sector commitments in foreign currency	921.2	1 078.2	1 281.7	1 142.3	1 154.9	1 382.1	1 881.4	3 266.5	3 956.6	4 216.0
Gross public sector external debt	860.5	961.8	1 027.9	909.7	1 011.9	1 182.2	1 464.6	2 705.1	3 197.5	3 180.4
Commitments in foreign currency to the resident private sector	60.7	116.4	253.8	232.6	143.0	199.9	416.8	561.4	759.1	1 035.6
Central Bank	25.4	36.8	165.8	131.9	27.8	37.4	91.5	166.7	422.5	573.5
To private banks	25.4	36.8	165.8	131.9	27.8	37.4	91.5	166.7	422.5	573.5
To the private non-banking sector	-	-	-	-	-	-	-	-	-	-
Banco de la República	13.4	35.3	61.2	75.2	98.8	142.5	245.2	207.9	199.1	263.0
To private banks	1.2	0.3	0.3	0.4	0.6	2.0	0.5	1.6	0.5	0.2
To the non-banking private sector	12.2	35.0	60.9	74.8	98.2	140.5	244.7	206.3	198.6	262.8
Banco Hipotecario	-	-	-	-	-	-	55.8	139.1	66.1	99.3
To private banks	-	-	-	-	-	-	50.0	72.0	-	0.2
To the non-banking private sector	-	-	-	-	-	-	5.8	67.1	66.1	99.1
Non-financial public sector	21.9	44.3	26.8	25.5	16.4	20.0	24.3	47.7	71.4	159.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

This fact is of crucial importance for two major reasons. On the one hand, the greater part of the interest has to be paid in foreign currency and consequently inflation is unable to reduce it in real terms. This is in contrast with what occurred when the government's financial imbalances were mainly the result of nominal increases in the wages of government employees. In this case, the very inflation caused by the fiscal deficit ended by reducing in real terms the burden which the nominal increase in wages and pensions represented for the government.

The other important element deriving from the growing importance of interest payments within overall public expenditure is the fact that they mainly relate to interest on the external debt and therefore involve a transfer of real resources abroad, with the consequent adverse effect upon the availability of goods and services within the country itself.

2. Monetary imbalances

a) *The public sector deficit and monetary policy in 1984*

According to preliminary estimates, the overall public sector deficit in 1984 was approximately N\$ 26 billion, equivalent to 2.5 times the emission which existed at the beginning of the year. Hence it is in principle surprising that in 1984 inflation was not higher nor was the imbalance of the external sector more pronounced. In other words, it is difficult to grasp that a public deficit equal to 250% of money issue has caused neither a three-digit inflation nor a much higher rise in the exchange rate than the 70% which took place in 1984.

Basically, the explanation for this apparent paradox lies in the way in which the public sector's deficit was financed. Although this financing came partly from the Central Bank, it placed far greater reliance on other sources of funds. During 1984 issue expanded by 61 %, i.e., by N\$ 6.4 billion rather less than half of which corresponded to the increase which took place in December alone. Thus, issue financed less than one quarter of the overall public sector deficit. In turn, the loss in international reserves, the external indebtedness and other less important items financed approximately N\$ 5 billion, i.e., another 19% of the overall deficit.

In practice the principal mechanism by which the deficit was financed was by sale of Treasury bills and bonds, largely within the private banking system and which the latter purchased partly voluntarily and partly in fulfilment of compulsory measures taken by the Central Bank. These means provided some N\$ 9.6 billion of financing which made a significant contribution to increasing the public sector's internal indebtedness.

Finally, the successive rises in the legal cash reserves and the cash surpluses which private banks and the Banco de la República maintained with the Central Bank provided approximately N\$ 5 billion worth of funds.

To sum up, in 1984 domestic financing —with the exception of that from the Central Bank— provided more than 55% of the public sector's funding requirements.

The policy of increasing cash reserves and compulsory purchase of government securities by commercial banks also helped to maintain the rate of growth in means of payment within the planned limits up to the middle of December, and also made it possible for the public sector to obtain the foreign currency required to meet its obligations.

In practice, whenever monetary expansion was higher than planned, or when the exchange rate tended to rise rather rapidly, or the public sector required further funding, the economic authorities adopted measures which compelled the banking system to increase its holdings of bills and bonds issued by the Treasury.

Nevertheless, as will be seen below, the size which domestic indebtedness reached during 1984 and the nature of the monetary policy pursued during this year not only make it unlikely that the deficit can be financed by the same means in 1985, but also introduce harsh restrictions into the management of monetary policy in the future.

Apparently, the argument which carried decisive weight in the economic authorities' decision to make a significant call on domestic bank and non-bank finance was its assessment of trends both in the real sector and in the financial sector of the economy. As the real sector was stagnant and the financial system was pursuing a restrictive policy towards credit for productive activities, the authorities considered that financing the public sector by means of domestic indebtedness would not have too great an impact on private activity but on the contrary would help to avoid a deeper recession and higher inflation.

b) *Monetary policy in 1985: basic restrictions*

The emphasis placed recently on domestic indebtedness as a mechanism for financing the public sector, together with other features of Uruguay's fiscal, monetary and balance-of-payments position, such as the high degree of dollarization of the economy, the strong and growing rates of inflation and the huge government and Central Bank commitments in foreign currency, constitute a set of major restrictions to the design of macroeconomic policy in general, and monetary policy in particular.

First, public debt servicing already weighs heavily on the Treasury and Central Bank budgets and will become an even heavier burden in the near future. As already seen, the preliminary estimates available suggest that the deficit of the fiscal sector in 1984 was 5% of the gross domestic product. This figure is very similar to the share of the gross domestic product represented by issue, which reflects the serious implications this deficit has for the monetary budget. In order to appreciate the potential impact of the fiscal imbalance on monetary evolution, it is sufficient to remember that if in 1985 the nominal amount of the 1984 fiscal deficit —of approximately N\$ 16 billion— were maintained, and this were entirely financed through the Central Bank, issue would increase by almost 95% to cover this item alone. If, as seems more likely, it is assumed that the deficit which will have to be covered is that of the public sector as a whole and it is again assumed that it remains constant in nominal terms, its entire financing through issue would imply that this would have to grow by approximately 150% in 1985.²⁰

In these circumstances it is clear that, if inflation is to be contained, the financing of the public sector's imbalance cannot rely exclusively on an increment in emission, and that recourse must be had to domestic and/or external public indebtedness, to a loss of reserves, or to an increase in tax revenue. The already excessive level of domestic indebtedness and the present international reserve position indicate that financing from these sources will be limited.

A second element that considerably restricts the field of action of macroeconomic policy is the fact that most of the public sector deficit has been financed by marketing government securities which generate commitments in foreign currency. Two-thirds of the US\$ 300 million which represented the financial requirements of the public sector during the first half of 1984 were covered by debts in foreign currency. Since during this period the external debt of the public sector declined by US\$ 34.4 million, the additional public sector indebtedness in foreign currency was entirely contracted with residents. In turn, it was possible to obtain this financing because of the existence of a considerable volume of foreign currency deposits in banks and the public's willingness to purchase bonds denominated in dollars at internationally competitive rates of interest.

The dollarization of the public sector's commitments and its swollen deficit, together with the fact that most of the public debt in foreign currency is external debt, indicates that a third major area of concern in the near future will be connected with what has become known as the "budgetary problem" and the "problem of transfer".

The budgetary problem relates to the public sector's need to obtain the necessary funds to service its debt. In turn, the problem of transfer is linked with the need to transform the funds obtained in local currency into foreign currency in order to be able to make payments on the external debt.

While the scale of the budgetary problem affects the public sector as a whole, it is particularly complex in the cases of the central government and the Central Bank, since the only possible source of funds to service its debt is a surplus on its other operations, and "inflation-tax" or increased domestic indebtedness.

As already seen, in recent years a major effort has been made to adjust the public sector, mainly by reducing central government expenditure. It seems highly unlikely that it will be possible to go any further in this direction, owing, on the one hand, to the scale of the adjustment already carried out—which has involved sharp drops in remunerations, liabilities and investment—and, on the other hand, to the rigidity of the present structure of government expenditure. Consequently, it is vital to increase central government tax revenue, a prospect which, by the very nature of the tax system, is closely linked with the growth of domestic economic activity and external trade.

²⁰Needless to say, the assumption that the nominal size of the public sector's fiscal imbalance remains unchanged in turn assumes an enormous real drop in the respective deficits.

In turn, the prospects of obtaining funds for the public sector by means of the inflation-tax are extremely limited because of the high degree of dollarization and demonetization (in national currency) of the Uruguayan economy and the high and ever-increasing rates of inflation recorded during the last three years. In 1984 money issue represented 4.7% of the gross domestic product, and this coefficient has been declining at an average rate of 17% in the last two years. In fact, during the last three years the funds obtained by means of increases in issue have not exceeded an average of 1.5% of the gross domestic product.²¹ Unless there is a vigorous revival of economic activity, and should the rate of inflation rise even more, it is most likely that the demand for national currency will continue to decline and, consequently, procurement of funds for the public sector by means of the inflation-tax will be even more restricted.

The difficulty of solving the "budgetary problem" indicates the need to make more decisive progress towards reducing the Central Bank's deficit—which in turn requires more vigorous action to recover assets acquired by the Central Bank through its operations of portfolio purchase from the private banks—to keep a close watch on government expenditure and above all to establish conditions for an increase in the level of economic activity so as to raise tax revenue and narrow the fiscal gap.

Nevertheless, even if the "budgetary problem" were heading towards a solution, the "transfer problem" would still remain.

There are three basic options in this respect. The first of these would be to obtain the necessary foreign currency by resorting to international reserves or sales of gold. Nevertheless, in addition to being hard to repeat, this option would restrict the viability and scale of the recovery in economic activity. A recovery would inevitably require a fairly large increase in imports, which would be restricted should reserves decline to any large extent.

The second option would involve increasing the trade surplus, which would require the adoption of policies on aggregate demand and relative prices designed to stimulate production of internationally marketable goods and to discourage domestic expenditure on them. Nevertheless, in view of the enormous fall in imports of goods since 1981, this would require an enormous expansion in the value of exports, which, although not impossible in the medium term, would be difficult to achieve in the short term.

The third choice would involve obtaining the necessary foreign currency through increased net external indebtedness. In the present circumstances prevailing on international capital markets, this would require, on the one hand, a greater contribution from international governmental financial bodies and, on the other hand, relief in the servicing of external commitments through a renegotiation of the external debt with the international private banks.²²

In view of the existing difficulties in generating the necessary surplus on the fiscal and Central Bank accounts, if no relief were forthcoming on external debt servicing the pressure exerted by the Treasury and/or the Central Bank on the exchange market and on prices would be very pronounced. For example, if an attempt were made to satisfy merely the funding requirements of the interest payments of the central government and Central Bank—which amount to around US\$ 270 million—by resorting to the exchange market through an increase of issue, at the exchange rate in force at the end of 1984, the emission would have to expand by approximately 20 billion pesos. This would mean a 115% increase on the issue existing at the end of 1984.

Besides, even if the public sector managed to attract the required volume of foreign currency through a rapid expansion of issue, this would be at the expense of lowering the balance of foreign currency available to meet the private sector's foreign currency needs, either for imports or for servicing its external debt.

To sum up, in order to be able to cope with the budgetary and transfer problems and reduce the costs of adjustment, there are two fundamental requirements: on the one hand, an economic revival providing a large enough surplus of goods for sale on international markets, and, on the other hand, a lightening of the burden of external debt servicing.

²¹ The "inflation tax" paid by economic agents on money has been higher, in the region of 2.5% to 3% of the gross domestic product. Nevertheless, the difference was not received by the government, but by the official and private banking system, through the creation of deposits in domestic currency.

²² This relief could no doubt also be provided by a drop in international interest rates. Such a drop would be particularly favourable for Uruguay in view of its high ratio of external debt against exports. Nevertheless, it is quite clear that changes in international interest rates are independent of Uruguay's economic policy.

A fourth significant restriction deriving from the nature of public-sector financing in 1984 is linked with its effect on the structure of the assets of the banking system and the latter's role as a financial intermediary.

As has already been pointed out, approximately half of the overall public sector deficit was financed in 1984 by funds obtained from the banking system through the voluntary or compulsory sale of Treasury bills and bonds and the increase in cash reserves. Such measures tend to reduce the possibilities of granting credit to the productive sectors, or to denaturalize the function of the domestic financial system, and to introduce excessive rigidity into the composition of its assets.

Such restrictions are particularly serious if the need to achieve a considerable revival in economic activity together with major expansion of production of internationally marketable goods within the near future is taken into account. In order to achieve these goals it is essential to free credit resources so as to facilitate revival and growth in those sectors which must necessarily lead the process of economic revival. In order to manage this, without any simultaneous excessive expansion of means of payment, it is vital for the government to reduce its demand for bank funds.

Finally, two further elements restrict the effectiveness of the monetary policy in the near future.

On the one hand, the demonetization which is affecting Uruguay and the dominant role played by foreign currency, together with the recent high and growing rates of inflation, have caused the velocity of circulation of money to be extremely high. The importance of this phenomenon is such that in 1984 each peso of increase in money emission generated more than 21 pesos of extra expenditure. Barely two years previously this ratio was 14.5. No doubt, if prevailing expectations were for greater inflation in 1985 than in 1984, there would probably be a further decline in the demand for national currency, which would strengthen the inflationary impact of any given increase in the means of payment. Of course, such a change would not come about or would be more moderate if there were a simultaneous recovery in economic activity with the consequent increase in demand for money.

Moreover, as a result of the monetary policy applied in 1984, which, as already indicated, considerably increased the legal cash reserves which banks must maintain, it has tended to become more difficult to control secondary creation of means of payment through this mechanism.

To sum up, it is evident that in 1985 it will be far more difficult to finance the fiscal deficit by the means used in 1984, which made it possible to prevent such funding from causing a drastic expansion of issue. In fact, as there are limits to the possibility of increasing the public debt and the legal cash reserves of banks, the "non-inflationary" mechanisms by which the government deficit was financed in 1984 will no longer be available in 1985 or, if so, to a far lesser extent. Consequently, unless external resources are made much more available through renegotiation of the external debt, or unless productive activity can be substantially increased with the consequent favourable impact on demand for money and tax revenue, the Uruguayan economy will face the dilemma of carrying out a further and painful adjustment of the public sector or requiring so huge an increase in money issue that it will be difficult to avoid a rise in the already extremely high level of inflation.

C. THE FINANCIAL SECTOR AND INDEBTEDNESS OF FIRMS

1. Financial reform and the crisis of the banking system

From 1974 the Uruguayan economy embarked on a process of financial liberalization and intensification, both domestic and external. This was reflected in a growing integration of the domestic capital market with the international financial market and in the deregulation of the domestic financial system.

The opening up of finance to the outside was achieved by eliminating exchange controls, authorizing the free convertibility of the peso, and legalizing the use of foreign currency in transactions or investments as well as allowing external investors and financiers to freely repatriate capital, credit, profits and interest.

In turn, financial deregulation was applied by liberating interest rates and relaxing or eliminating quantitative and selective controls, legal cash reserves and special taxes affecting banks, and by reducing the restrictions on the establishment of new financial intermediaries. By the end of

1981 the financial system had been almost completely liberalized: it was possible to have dollar deposits in Uruguayan banks, pesos and dollars circulated freely, interest rates were set by the market and specific taxes on banking profits and marginal cash reserves on deposits had been eliminated.

Up to the third quarter of 1981 the foreseeable advantages of the reform process, together with an abundance of international credit and a strong dose of confidence in the Uruguayan financial system, were reflected in an increase in financial saving and in the rate of real investment.

Nevertheless, as has already been mentioned, the country began to suffer a deep economic recession from the end of 1981. This was caused by domestic and external factors and had a strong impact on the productive sectors and on family incomes, which in turn led to repercussions on the state of the financial system.

Outstanding among the external causes of the crisis were the sharp fluctuations in international capital flows and the equally pronounced changes in the economic policies of Argentina and Brazil. In particular, the adjustments to the monetary and exchange policies of the two large neighbouring countries had adverse effects on the competitiveness of trade and on net income from tourism as well as on the relative profitability of deposits and financial investments made in Uruguay.

In turn, among the domestic causes those of a macroeconomic nature should be distinguished from those linked with the financial sector. Among the former, a decisive role was played by certain policies which exacerbated the inflow of short-term capital. The resulting excess liquidity gave rise to two booms ("bubbles") in the price of assets within a short period of time. The first of these booms concerned the agricultural sector and reached its peak in the 1978-1979 biennium. When it entered its recessive stage—at the beginning of 1980—it had a strong impact on the position of banks, owing to the effect of the fall in the price of land on the real value of the collateral on loans granted to the agricultural sector. The other major boom was mainly concentrated in the construction sector and in its recessive phase involved not only mortgage debtors but also construction firms and industries, many of which were unable to meet their commitments to the financial system. This state of affairs, which came about mainly between April 1982 and the beginning of 1984, was aggravated by the exchange policy and the maxi-devaluations carried out in Argentina at the beginning of 1982, as well as by the rise in the interest rates on loans, a phenomenon which reflected the growing expectations of a breakdown in the exchange rate table. The impact of these factors was compounded by the lack of co-ordination between exchange and fiscal policy, the exchange risk and, more generally speaking a certain inconsistency between the prices of some important macroeconomic variables such as the interest rates, the rate of exchange and real wages within the Uruguayan economy, as well as in comparison with those in force in Argentina and to a lesser extent in Brazil. All these factors helped to heighten the impact of both the ascendant phase and the contractive stage of the second boom.

Major problems also existed in connection with the management of the financial system: namely, the inadequacy of the inflation and governmental supervision of the financial sector and the relative lack of experience of some banks, which to a certain extent facilitated widespread and excessive indebtedness on the part of firms and families as a result of liberal credit policies. The badly adjusted credit policy pursued by some banks was also reflected in an analysis of the risks which to a large extent relied on a simplistic and short-term view of the real value of the assets offered by the debtors as collateral for their commitments.

The asymmetry of the risks associated with the banks' assets and liabilities in foreign currency also contributed to the emergence of the crisis. Whereas between 1976 and 1978 only 11% of the private sector's deposits were in dollars, in 1980 this share had risen to 39%, in 1981 to 50%, and tended to settle at approximately 70% in the following years. The credit granted by the system was also affected by increasing dollarization, which, instead of representing a change in the make-up of bank loans in favour of the goods-exporting sector, reflected the financial system's policy of passing the exchange risk on to its debtors.

Finally, it seems clear that both suppliers (depositors) of credit and clients (enterprises) behaved unwisely. This partly reflected a certain inertia linked with past experience prior to the process of financial reforms. This experience had been marked by negative real interest rates, qualitative and quantitative credit control exercised by the economic authorities, and a relative unfamiliarity with financial management of resources in foreign currency. In such circumstances, depositors had made little use of the banking system—with the exception of current accounts—, risk analysis was easier for the financial intermediaries and the debtors, and firms tended to maximize the

debt-capital ratio so as to benefit as much as possible from the implicit subsidy in the negative real interest rates.

The process of financial liberalization caused a sharp change in the existing rules of the game and required new patterns of behaviour on the part of all the economic agents involved in the financial system.

All these factors meant that when the value of assets began to decline and the economic cycle entered its recessive phase, a spiral of domestic indebtedness was created which increasingly involved the productive sectors and families and threatened the stability of the financial system. At the outset, however, this growing indebtedness —private sector credit was 140% higher in real terms in 1984 than in 1974— did not seem to pose any problems, owing to the overvaluation of the real collateral during the expansionary phase of the "bubbles".

2. The response of economic policy

Towards the middle of 1981 it was becoming clear that the inflow of capital and the expenditure on tourism —mainly by Argentines— had started a sharp decline, which prompted a loss of confidence in the pre-established exchange rate table, a reaction further aggravated by the growing fiscal deficit. This was compounded by the loss of competitiveness of Uruguayan firms when Argentina abandoned its own table of advance exchange rates in March 1981.

Thus there began a recessionary process which was felt particularly keenly in 1982 and which caused serious debt servicing problems for firms and families. As the counterpart of the domestic indebtedness of firms and individuals consists mainly of the assets of the financial system, the difficulties experienced by the real sector of the economy were gradually transferred to the financial sector and led to a rapid growth in the level of arrears affecting the assets of banking institutions.

In these circumstances, the banks encountered increasing difficulties in recovering their loans and in obtaining sufficient profitability from them, which finally led to insolvency in the case of some financial institutions.

This state of affairs was also partly caused by the high risks in the banking system resulting from the undermining of currencies and payment periods and, to a lesser extent, of interest rates between loans and deposits. This was partly due to the formal (though not real) absence of medium- and long-term loans and to the growing dollarization of liabilities.

The deterioration of the banks' situation made Central Bank intervention necessary, which, in addition to attempting to improve the profile of the private banking system's assets, reintroduced some regulations, particularly as regards the maximum acceptable proportion of banking debt (depositors) to capital. To this end, the Central Bank carried out two rescue operations.

a) *The first rescue operation*

The first of these operations originated from the economic authorities' fear that the widespread failure of firms might cause massive capital flights.²³ Faced with this situation, the economic authority decided to dispose of or liquidate those banks which were not considered viable. Nevertheless, in order to carry out these operations the Central Bank had to provide financial backing for these banks.

In practice this rescue operation took the form of a "purchase" of the most burdensome portfolios of the six banks facing the greatest problems. One of them was liquidated and the other five were sold to foreign commercial banks, in the absence of domestic purchasers. This operation involved the Central Bank in the purchase of portfolios of bad debts worth US\$ 413 million in exchange for which it issued securities worth US\$ 386 million. According to the Central Bank, thanks to the result of the recovery of US\$ 127 million, the net cost of this operation meant that the funds contributed by the Central Bank amounted to US\$ 259 million.

²³ The net international reserves of the Central Bank were approximately US\$ 200 million and dollar deposits alone within the banking system represented US\$ 2.7 billion. However, this figure underestimates the real level of reserves as it adopts a value of US\$ 155 per troy ounce for gold.

b) *The second rescue operation*

However, the passage of time did not help to relieve the plight of the financial system and from October 1982 the overall imbalance of the economy and in particular the public sector's foreign currency deficit became more pronounced. The Central Bank's loss of reserves and the fiscal deficit, together with the central government's currency requirements and the abrupt withdrawal of international credit, persuaded the monetary authority to attempt to restore its foreign currency position by means of two main mechanisms: sale of gold and —what constituted the second financial rescue operation— purchase of portfolios from the private banks in exchange for external loans from their head offices to the Central Bank.

This portfolio purchase linked with the external loans covered 18 private banks and banking firms. Some private banks did not take part in the portfolio sale to the Central Bank or did so only marginally, largely because of their difficulty in obtaining external credit.²⁴

The external loans required as a counterpart to the portfolio purchase were inversely proportional to the percentage estimated as recoverable of the portfolio sold to the Central Bank.²⁵ This procedure meant that the banks had to reconcile the interests of portfolio recovery with the availability of fresh external resources, so that they could not dispose of their overdue credits in the amounts desired.

Between October 1982 and February 1984 the operations carried out involved portfolio purchases of US\$ 215 million and an external indebtedness on the part of the Central Bank of US\$ 540 million, with a seven-year repayment period and one and a half years' grace at a rate of LIBOR + 1 1/2%.

Following the two rescue operations which were designed mainly to restore the position of the private banks, the economic authority attempted to alleviate the problem of the domestic indebtedness of enterprises through two principal mechanisms: the refinancing of their debts and the fixing of maximum interest rates on loans.

3. The crisis of the financial system and its implications for economic policy

The period between 1974 and 1981 saw not only a process of increasing dollarization of the Uruguayan economy but also an increase in credit granted by the financial system. Thus, while the ratio between bank credit and the gross domestic product rose from 16% in 1974 to 39% in 1981, the share of credit in domestic currency declined from 82% to 52% over this same period (see table 46).

The decision to abandon the system of prior announcement of the rate of exchange and the sharp adjustment in exchange parity at the end of 1981 led to a drastic variation in the ratio of total credit obtained by the domestic private sector to the gross domestic product. Thus the credit-product coefficient rose from 39% in 1981 to 65% in 1982, while the share of loans in dollars rose from 48% to almost 75%. This increasing indebtedness of enterprises was reflected in a deterioration in the profitability and solvency of the banking system.

Essentially, the present difficulties of the financial sector derive from the existence of a high level of arrears and the asymmetry between the illiquidity of its assets and the short-term structure of its liabilities. This tends to increase the real cost of financial intermediation, with the consequent contraction in the supply of credit to the private sector.

In order to face this situation the banks have recently started to compete sharply in order to attract new deposits, with the intention of partly offsetting the smaller returns from their loans. In addition to its implications for the financial system itself, this type of procedure tends to raise the interest rate on loans charged to those solvent debtors who are able to pay. This in turn tends to delay economic recovery, since it does not allow viable firms sufficient margin to reinvest in productive capital and, from the point of view of the banks, seriously restricts the possibility of offering further credit to profitable activities.

²⁴Neither the BROU nor the BHU took part in this portfolio sale.

²⁵The Institution rejected those portfolios whose percentage of recovery was in its view lower than 66%.

Moreover, the Central Bank is at present facing difficulties in recovering the portfolio in its possession. This has obliged it to resort to domestic indebtedness and money issue in order to service its external debt and the commitments in foreign currency which it accepted as a counterpart for the portfolio purchase operation. In view of the means, analysed above, by which a considerable part of these funds were obtained, the private sector's access to bank credit was further restricted in 1984.

The main problem arising from the present situation of the financial system is that the increase in public domestic debt and the recent monetary policy of the Central Bank have led to a rigidity in the structure of the system's assets, hampering its possibilities of increasing fresh flows of domestic credit to viable productive enterprises.

In this respect, it should be remembered that domestic credit to the private sector as a percentage of the gross domestic product trebled between 1976-1977 and 1982-1983 alone. This increase, however, which a simplistic approach could take as reflecting the advantages deriving from the "financial intensification", strictly speaking represents a very different state of affairs, i.e., the accumulation of unrecoverable loans and the capitalization of a large part of the corresponding interest, with the consequent impact on the financial burden of economic agents. This charge, defined as the *ex-ante* value on interest on the domestic debt as a percentage of the gross domestic product, has steadily grown from approximately 6% in 1976-1978, to 11% in 1980-1981, more than 15% in 1982 and over 18% in 1983. This situation affects the profit margins of firms and the real ability of individuals to service debt. To a large extent, it explains why in 1984 the financial system offered no significant fresh credit to the private sector nor did the latter seem anxious to obtain it.

In 1984 the financial system became even more rigid as a result of the foreign currency requirements of the public sector and the Central Bank, which, as already observed, led to the application of a monetary policy which, in conjunction with the purchase of portfolios mentioned above, helped to stiffen the structure of the banking system's assets. By various means, which in fact constituted cash reserve policies, the banks, financed the funding requirements of the Central Bank and the public sector. The compulsory holding of Treasury bills and bonds, most of them in foreign currency, by the private banks, means that they receive an appreciable return for acquiring assets which are practically risk-free. Nevertheless, it also means that their capacity to grant loans to the productive private sector is reduced. In other words, the financial system is increasingly becoming an intermediary which attracts funds from residents and non-residents and transfers them to the public sector through the purchase of securities issued by the latter in order to finance the imbalance between its income and expenditure.

Table 46

**URUGUAY: CREDIT PROVIDED BY THE BANKING SYSTEM
TO THE PRIVATE SECTOR^a**

(Percentages)

	Credit in relation to product	Percentage breakdown of credit over total ^b	
		National currency	Foreign currency
1975	15.0	73.9	26.1
1976	17.0	66.0	34.0
1977	19.4	56.2	43.8
1978	22.3	53.9	46.1
1979	24.2	54.9	45.1
1980	28.9	45.6	54.4
1981	33.4	51.9	48.1
1982	57.3	26.3	73.7
1983	56.5	26.9	73.1
1984	48.0	25.4	74.6

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aExcluding the Banco Hipotecario del Uruguay. ^bEnd-of-year figures.

A final significant problem concerns the impact on the budget —mainly in foreign currency— of the public sector deriving from the portfolio purchases made by the Central Bank and from the present monetary policy, since the Central Bank credits are not being recovered at an acceptable rate.

In the middle of 1984 the debt owed by the private sector to the banking system (including the BHU) was almost N\$ 160 billion, equivalent to approximately US\$ 2 960 million. At the present time 55% of this debt is with official creditors, a proportion which was no more than 37% four years previously. This increase is principally the outcome of the portfolio purchase operations carried out by the Central Bank. If the debt with the Central Bank is subtracted from total debt it can be seen that the private debt with the BROU at the end of June 1984 represented 23% of the total and the debt with the BHU 16%, reflecting a very slight rise in comparison with the respective percentages in 1980-1981. The particular situation of the private Uruguayan banks —which is closely linked with the problem of the excessive domestic indebtedness of enterprises— must be taken together with the deterioration of the official banks. As far as the Central Bank is concerned, its deterioration is due to the fact that the purchase of overdue portfolios was carried out by creating liabilities in foreign currency. Hence, if the bank fails to obtain funds from the recovery of the portfolio which will enable it to service the debt contracted, it will be obliged to increase its external or domestic indebtedness in foreign currency, as it already did in 1984.

D. THE EXTERNAL BOTTLENECK

As in other Latin American countries, in Uruguay the external bottleneck constitutes one of the major restrictions confronting policies designed to revive the economy and raise the rate of economic growth.

This may seem surprising at first sight, in view of the overall results of the balance of payments in recent years. In 1983-1984 the total loss of international reserves was less than US\$ 200 million while the current account deficit was barely US\$ 60 million in 1983 and US\$ 124 million in 1984. The deficit on current operations was thus equivalent to 4.2% of the value of exports of goods and services in 1983 and 9.6% in 1984. Moreover, it had followed a declining trend since 1980, when it reached the unprecedented sum of more than US\$ 700 million, equivalent to almost 47% of the global value of exports. It is therefore clear that in the last four years considerable progress had been made towards reducing the inordinate external imbalance recorded in 1980.

This does not mean, however, that the external bottleneck affecting development has been overcome. In fact, the drastic reduction in the current account deficit was wholly due to the spectacular decline in imports of goods and services, whose value fell from an average of more than US\$ 2.1 billion in 1980-1981 to barely more than US\$ 1 060 million in 1984. During this period the volume of imports of goods also fell by half (see tables 20 and 21).

In contrast, exports made no contribution whatsoever towards closing the external gap. Their value steadily declined from US\$ 1.7 billion in 1981 to less than US\$ 1.3 billion in 1984. At the same time, net payments of interest and profit multiplied fourfold, rising from an average of rather less than US\$ 90 million in 1980-1981 to US\$ 360 million in 1984.

To sum up, had it not been for the enormous contraction in the volume of imports, the current account deficit, instead of falling, would have considerably increased.

In addition, the shrinkage in imports went hand in hand with a significant change in their structure. Between 1981 and 1984 the share of imports of capital goods declined from 15% to 9% and that of consumer goods fell even more sharply: from 16% to 7%. These falls had as their natural counterpart a rise in the relative weight of purchases of raw materials and intermediate goods, from less than 70% in 1981 to 84% in 1984. Despite this, the absolute value of imports of raw materials and intermediate goods was 47% lower in 1984 than in 1980.

The implications of these changes in the size and structure of imports for the possibilities of carrying out a significant revival of the economy are clear. The first is that, since the adjustment of the external sector was exclusively based on the sharp contraction in imports, it was also bound to cause a significant decline in domestic economic activity. The secondly —and more crucial— is the fact that, unless it proves possible to accelerate the increase in exports or to reduce the weight of servicing the external debt, the relative balance in the external accounts achieved in recent years will only be sustainable if the present extremely low levels of production, income and employment persist.

In view of the currently very low absolute volume of imports and the high proportion of these made up of purchases of raw materials and intermediate goods, any attempt to carry out further adjustment of the external sector by decreasing imports would cause new falls in domestic economic activity. For these same reasons, if economic policy proved successful in raising the domestic levels of production and income it would be necessary to make a significant increase in external purchases, a move which would tend to aggravate the balance-of-payments deficit. In other words, the revival of the economy, and above all the return to a sustained process of growth, necessarily call for a substantial increase in imports. This explains the vital importance at the present time of policies designed to increase exports, to reduce servicing of the external debt and to attract a higher net amount of foreign loans and investment.

In the immediate future, the possibility of achieving a marked rise in imports is restricted by the high proportion of exports committed to the service of the debt. As already indicated, the immoderate growth of external indebtedness between 1981 and 1983, the high rates of interest prevailing in international financial markets, and the continuing decline in the value of exports, have caused amortization and interest payments in 1984 to absorb around 45% of the overall value of external sales of goods and services. Should the present repayment schedules be maintained, this proportion would remain extremely high over the next few years, restricting the possibility of increasing imports and consequently of raising the rate of economic growth.

However, as approximately 80% of the external debt has been contracted at variable rates of interest, the actual amount of debt servicing will depend on the future evolution of international interest rates. Currently, each one point rise or fall in these rates has an effect equivalent to an increase (or decline) of approximately 3.5% in the value of exports of goods.²⁶ It follows that, should the recent fall of almost three points recorded in interest rates continue for a whole year, the country would save approximately 10% of the value of exports of goods as a result of lower interest payments. Moreover, since these exports are already higher than imports, the latter could then increase by an even greater proportion without having any adverse effect on the current account deficit.

It is clear nonetheless that the evolution of international interest rates depends on external factors which cannot be affected by the decisions of the Uruguayan economic authorities. Moreover, recent experience reveals the erratic and unpredictable character of the fluctuations of the international interest rates. It would therefore be unwise to rely on their possible decline as the main mechanism for reducing debt servicing.

Consequently, in order to reduce the weight of this service and thereby increase the amount of foreign currency available to finance higher imports, it is essential to renegotiate the external debt within the short term. The essential aims of any such renegotiations must be to reschedule amortization payments due in the next few years and to persuade the creditor banks to refinance a considerable portion of the interest payments. If this were successfully achieved, the country would not have to earn such a large trade surplus in order to cover interest payments and could thus raise the level of imports, without thereby generating a higher balance-of-payments deficit and suffering a more substantial loss of international reserves.

However, it is clear that the definitive solution to the problem of the external bottleneck, and, all things considered, the only one compatible with a more stable, efficient and autonomous development of the Uruguayan economy, lies in the expansion and diversification of exports.

For the reasons given, any revival based on an expansion of domestic demand, unless it were accompanied by an increase in exports or a significant reduction of debt servicing, would lead to a rapid deterioration in the external sector and would therefore have to be followed by a programme of adjustment which would once again depress the levels of production, remuneration and employment.

Moreover, in view of its small size, a necessary —but by no means sufficient— condition for the Uruguayan economy to achieve satisfactory growth is its ample insertion into the international market on the basis of a dynamic and diversified supply of exports.

Finally, it is evident that, among other conditions, an increase in the autonomy of national development requires a reduction in the very high proportion of export income currently devoted to

²⁶Strictly speaking the impact of a fall in the rate of interest is more favourable from the balance-of-payments point of view than that produced by the increase in exports mentioned above, since, in so far as the latter may be due to a growth in volume, it would also require a certain increase in imports.

the service of the debt. As already noted, this can be achieved in the short term by negotiating with the creditor banks. Nevertheless, although these negotiations may make it possible to postpone repayments of principal until such time as, it is assumed, more favourable conditions will prevail, they do not in themselves change the nature of the problem. The seriousness of this may persist or even intensify, since a considerable part of the interest is paid by contracting new debt. It follows, therefore, that the most effective way to reduce the weight of debt servicing is by a substantial expansion of exports.

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