

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

**ECONOMIC SURVEY
OF LATIN AMERICA
AND THE CARIBBEAN
1985**



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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.

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THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1985

I. GENERAL TRENDS

The evolution of the Latin American economy in 1985 was marked by sluggish growth which was, moreover, limited to a small number of countries, the deterioration of the external sector, the generalization and sharpening of inflation; and the progress made during the second half of the year in the struggle against inflation in some of the economies where it had reached extraordinarily high levels.

1. The slowdown of the economic recovery and the generalization of inflation

Following a steady and marked decline between 1979 and 1983 and a slight recovery in 1984, the rate of economic growth again weakened in 1985. Latin America's gross domestic product increased by 2.8% (less than the 3.4% recorded during the previous year) and as a result, the per capita product rose by barely 0.4%. It was consequently 9% lower than in 1980 —the year before the onset of the crisis— and was only slightly higher than in 1976 (see table 1 and figure 1).

Moreover, contrary to 1984 —when economic activity intensified in most of the countries of the region— in 1985 the region's economic growth came from only a few countries. The only marked expansion of overall economic activity took place in Brazil (8.3%) and Cuba (4.8%) while growth was either sluggish or negative in Central America, Venezuela, Bolivia, the Dominican Republic, and Argentina. Consequently, if Brazil is excluded, the per capita product of the region underwent a further decline of slightly more than 2%.

As a result of the adverse evolution of the terms of trade (which fell by 5% thereby accumulating a 15% drop over the 1981-1985 period), the rise in national income was once again lower than that of the domestic product. Per capita national income —which provides a better indicator of the population's standard of living than the per capita product— was stagnant in 1985, as a result of which its level was 13.5% lower than in 1980 and equal to that recorded towards the middle of the previous decade.

As in preceding years, in 1985 the region's unsatisfactory overall economic performance was accompanied by an even less satisfactory trend in fixed capital formation. Fixed capital formation, which had undergone an enormous decline of almost 30% between 1980 and 1984, rose by just 2.6% in 1985. Consequently, the coefficient of gross investment —which was around 22% prior to the crisis—was barely more than 15% in 1985 and was thus the lowest recorded during the whole of the postwar period.

Inflation continued to rise and to spread throughout the region in spite of the sluggishness of economic recovery, the persistence of high rates of unemployment in most countries, the shrinkage of real remunerations in almost all of them, and the further reduction of external inflationary pressure. The simple average rate of increase of consumer prices rose from 164% in 1984 to 507% in 1985, while the average rate weighted by the population rose from 185% to 275%. These increases were, of course, heavily influenced by the extraordinarily high level of inflation in Bolivia (almost 8 200%). Nevertheless, the average rate of price increases in the other economies of the region was also very high (142%). Simultaneously, inflation became more generalized, as is illustrated by the fact that in 1985 consumer prices rose by less than 10% in only three of the 19 countries for which data were available and rose rapidly in many economies in which inflation had traditionally been very low.

However, towards the end of 1985, inflationary pressure diminished in several countries in the region and experienced a spectacular decline in Argentina, Peru and Bolivia, where the rate of price increases had been growing extremely rapidly, thanks to their application of drastic stabilization programmes in the second half of the year.

2. The deterioration of the external sector

Contrary to what occurred in 1984, the slight progress made by economic activity in 1985 was accompanied by a marked deterioration in the performance of the external sector. As a consequence of the sluggishness of world trade—which increased by 3 % in volume, after having expanded by 9% in 1984—and of the sharp drops in the international prices of commodities, the value of Latin

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS"

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985"
Indexes (1980= 100)										
Basic economic indicators										
Gross domestic product at market prices	81.8	86.0	89.0	94.9	100.0	100.5	99.1	96.7	99.9	102.6
Gross national income	81.2	85.9	88.0	94.3	100.0	98.8	94.3	91.5	95.0	97.2
Population (millions)	310	318	326	334	342	350	358	367	376	384
Per capita gross domestic product	90.2	92.5	93.3	97.3	100.0	98.2	94.5	90.1	90.9	91.3
Per capita gross national income	89.5	92.3	92.3	96.6	100.0	96.5	89.9	85.3	86.5	86.5
Growth rates										
Short-term economic indicators										
Gross domestic product	4.8	5.2	3.5	6.8	5.4	0.5	-1.4	-2.4	3.4	2.8
Per capita gross domestic product	2.2	2.6	1.0	4.2	2.9	-1.8	-3.7	-4.6	1.0	0.4
Per capita gross national income	2.6	3.3	-	4.7	3.6	-3.5	-6.8	-5.1	1.5	0.1
Urban unemployment rate ^r	7.7	7.4	6.8	6.2	6.2	6.6	7.0	8.1	8.2	7.5
Consumer prices ^r	13.0	40.4	392	54.6	56.5	58.2	85.3	132.1	186.3	274.5
Terms of trade (goods and services)	4.3	5.6	-6.1	5.7	5.6	-4.8	-12.0	-3.8	4.7	-5.1
Current value of exports of goods and services	15.2	18.0	9.8	33.8	31.3	7.9	-11.1	-0.8	11.4	-4.4
Current value of imports of goods and services	4.4	15.3	16.7	26.5	33.3	9.6	-18.8	-27.9	3.9	-1.6
Billions of dollars										
External sector										
Exports of goods and services	47.3	55.8	61.3	82.0	107.6	116.1	103.2	102.4	112.9	108.6
Imports of goods and services	51.9	59.8	69.8	88.2	117.8	128.7	104.5	75.4	78.9	77.6
Trade balance (goods and services)	-4.6	-4.0	-8.5	-6.2	-10.0	-12.8	-1.4	26.2	332	30.7
Net payments of profits and interest	-6.8	-8.2	-10.2	13.8	18.5	28.1	39.7	34.4	36.0	35.0
Balance on current account	11.0	-11.9	-18.4	-19.7	-28.0	-40.3	-41.0	-7.6	-1.9	-3.2
Net capital inflow	17.8	17.2	26.2	29.1	29.4	37.5	20.0	3.2	10.2	6.0
Balance of payments position	6.8	5.3	7.8	9.4	1.4	-2.8	-21.0	-4.4	8.3	2.8
Official international reserves	22.8	27.8	36.5	46.8	53.8	46.1	32.3	30.5	37.1	33.5
Balance of disbursed external debt										
Gross total external debt	102.7	122.0	155.2	187.1	230.4	287.8	330.7	350.8	367.3	373.7
Net total external debt*	79.9	94.2	118.7	140.3	176.6	241.7	298.4	320.3	330.2	340.2

Source: EC LAC, on the basis of official figures.

"All figures refer to the 20 countries listed in table 2, except Cuba.

Provisional figures.

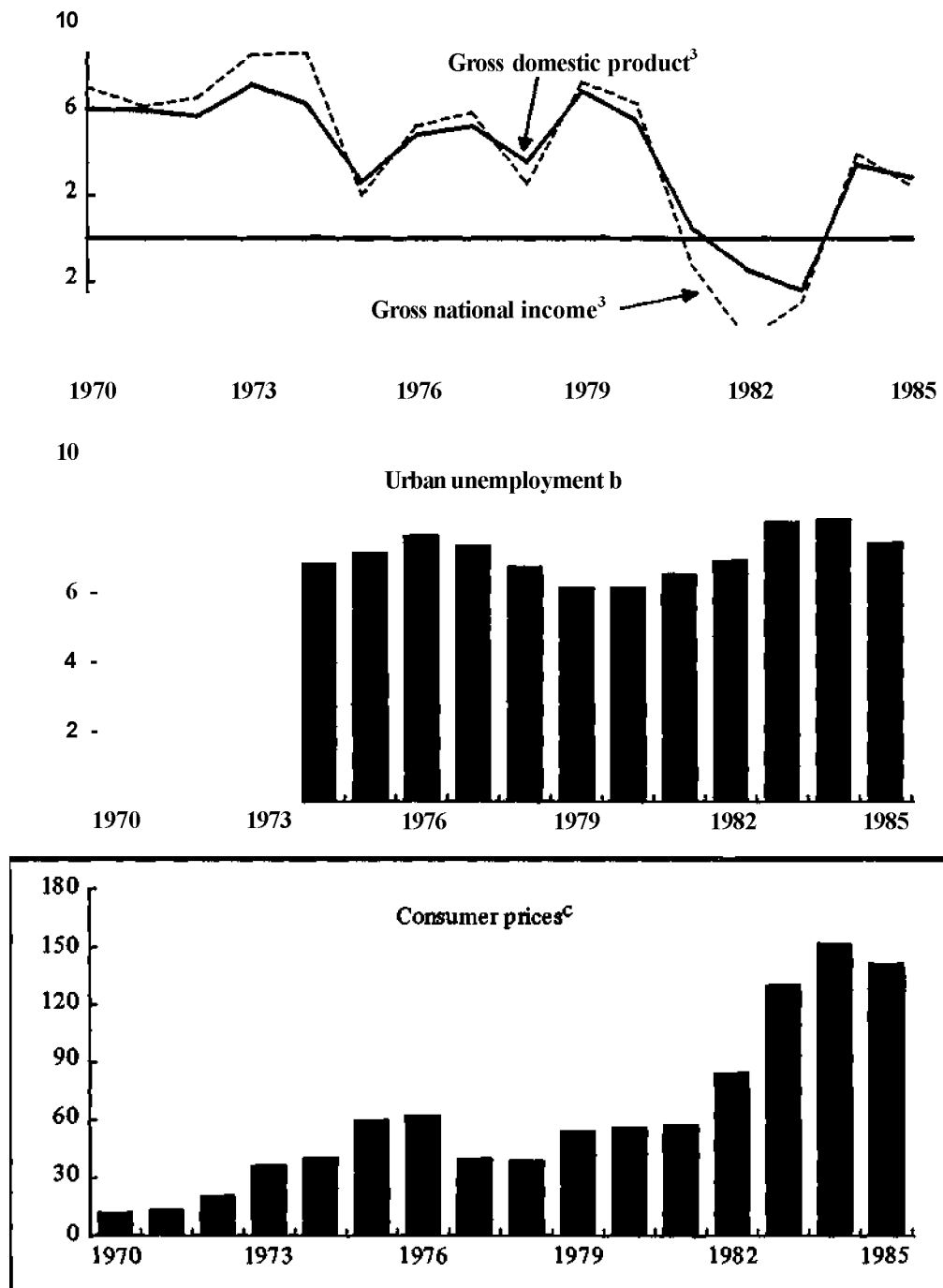
^rPercentages.

Up 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). ^rDecember-to-December variation.

Foreign 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.

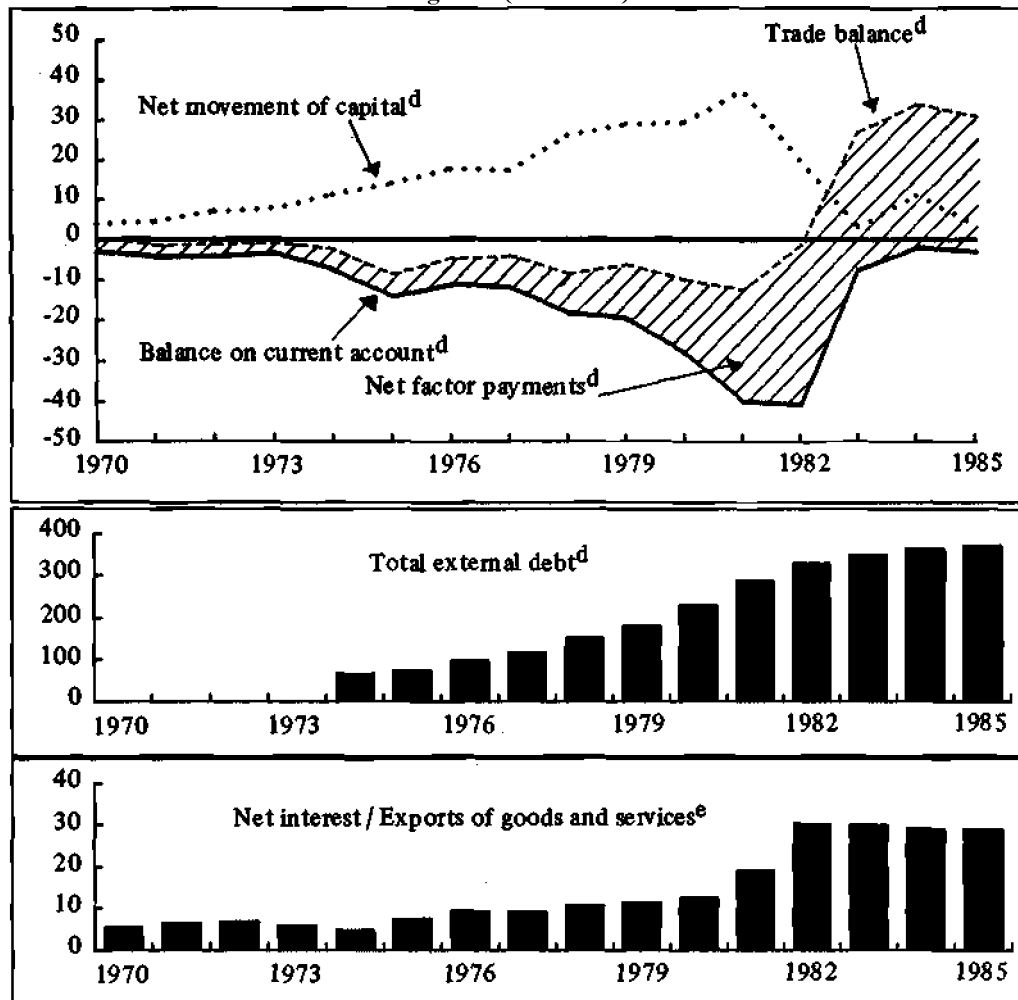
*Gross total disbursed external debt, less official international reserves.

Figure 1
LATIN AMERICA: MAIN ECONOMIC INIHCATORS



Source: ECLAC, on the basis of official data,
^aAnnual growth rate. ^bWeighted average annual rate for 18 of the 25 most populous cities of Latin America. ^cPercentage variation from December to December; 1984 and 1985: excluding Bolivia.

Figure 1 (concluded)



American exports of goods fell by nearly 5%, even though their volume increased by almost 2% for the region as a whole and continued to expand vigorously in the case of the non-petroleum-exporting countries.

As a result of this shrinkage in the value of exports, the trade surplus declined despite the 2% decrease in the amount of imports. After having increased more than fourfold between 1982 and 1984, when it reached the unprecedented figure of US\$ 38 billion, the trade surplus fell to US\$ 34.5 billion in 1985.

Moreover, the fall in the trade surplus was sharper than the decrease in net transfers of profits and interest and the drop in net payments for services combined. Consequently, the current account deficit, which had plummeted from US\$ 41 billion in 1982 to barely US\$ 1.9 billion in 1984, rose to US\$ 3.2 billion in 1985. While for the region as a whole the current account deficit was equal to only 3% of the value of exports of goods and services (considerably lower than the more than 35% recorded in 1981-1982, reflecting the enormous adjustment effort carried out by a large number of the Latin American economies), in Bolivia, Paraguay and the countries of Central America and the Caribbean, the current account deficit continued to represent a very high proportion of external sales.

The unfavourable external environment was also apparent in the decline in net capital inflow, which in 1984 had partially recovered from its enormous slump of the previous biennium. Its level of

US\$ 6 billion was only slightly higher than the current account deficit. Consequently, the balance of payments, which had showed a surplus of US\$ 8.3 billion the year before, closed with a surplus of US\$ 2.8 billion in 1985.

The net figure for loans and investment was also lower than that of net transfers of profits and interest. As a result, for the fourth year running Latin America was obliged to transfer resources abroad. The amount transferred was US\$ 29 billion, which represented a diminution of the region's import capacity equal to approximately 27% of the value of exports of goods and services. Hence, the total transfer of resources abroad resulting from financial movements was US\$ 106 billion for the 1982-1985 period (see figure 2).

In view of the huge relative size of this transfer, its restrictive impact upon import capacity and the considerable drain on domestic savings which it entailed, the transfer of resources abroad continued to represent the principal impediment to the renewal of a process of sustained economic growth.

Of course, the diminution in the inflow of loans also meant that the rate of growth of the external debt continued to decline sharply in 1985. At the end of the year the external debt was approximately of US\$ 374 billion. Consequently, its rate of growth was only 1.7%, considerably lower than the almost 5 % rate reached in 1984, and in even sharper contrast to the levels of 10% and 23% recorded on average in 1982-1983 and 1979-1981, respectively. Moreover, this very limited expansion of the debt meant that in 1985 it fell in real terms for the first time in the region's recent history.

In spite of the scant increase in the external debt, in 1985 the debt/export ratio again rose as a result of the decline in exports of goods and services. This coefficient, which had fallen to 3.26 in 1984, rose to 3.45 in 1985, a figure which is only comparable to that of 1983 and which was far higher than those registered prior to the crisis. The shrinkage in the value of external sales also meant that, in spite of the fall in interest payments, the interest/exports ratio remained at a very high level of around 35% for the third consecutive year.

II. PRODUCTION

1. The rate and structure of economic growth

As already mentioned the rate of growth of economic activity slackened in 1985. The gross domestic product increased by 2.8%, somewhat less than the 3.4% recorded the previous year. Consequently, the per capita product—which had undergone a continual decline between 1981 and 1983, but had risen by 1% in 1984—grew by just 0.4% in 1985.

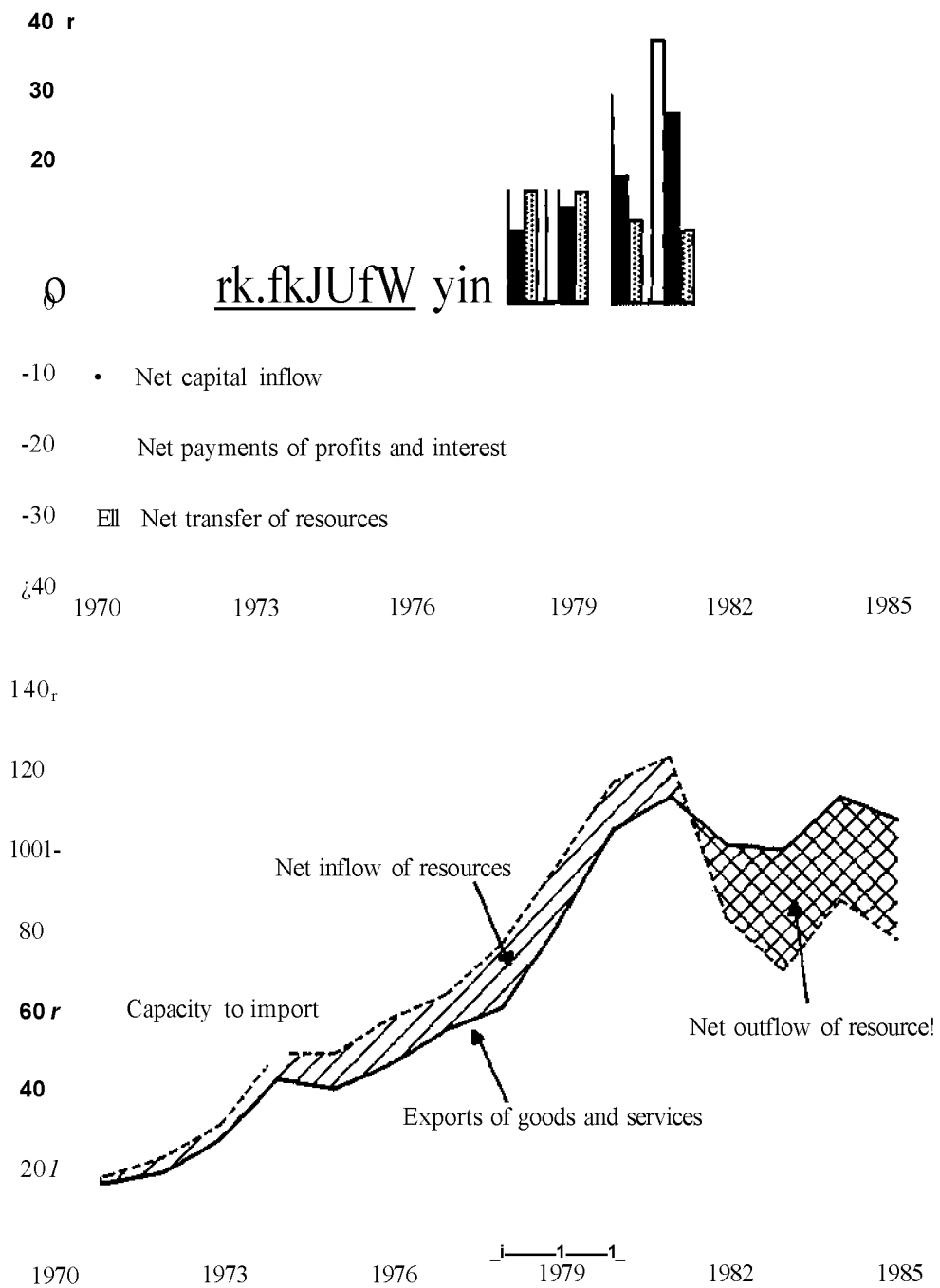
However, even more so than on previous occasions, these regional averages masked considerable differences in the evolution of economic activity in the various Latin American countries. If Brazil (which grew by more than 8% and which was alone responsible for approximately 30% of regional production of goods and services) were excluded, there would have been no increase at all in the overall product in 1985 and the per capita product, rather than having risen slightly, would have fallen by somewhat more than 2% (see table 2).

The sluggishness of the economy was, moreover, widespread. A perceptible increase in per capita product occurred only in Brazil and Cuba, while in Ecuador, Panama, Paraguay, Haiti and Chile it increased by approximately 1%; it remained practically stable in Colombia, Mexico and Uruguay and fell in the 10 other economies of the region for which figures were available (see table 3).

Thus, in 1985 the already pronounced shrinkage in the per capita product registered as from 1981 in a large number of Latin American countries grew even sharper. During the five years between 1981 and 1985, this indicator fell by approximately 22% in El Salvador, Bolivia and Venezuela; by more than 18% in Argentina, Uruguay and Guatemala; by between 13% and 15% in Peru, Haiti and Honduras; and by over 11 % in Nicaragua and Costa Rica. The per capita product also diminished in all of the remaining economies in the region during this period, with the exception of Cuba—where it rose considerably—and Panama and Colombia, where it remained virtually unchanged.

In Brazil, overall production—which had already made a partial recovery from its decline in the 1981-1983 period—rose thanks to the generalized expansion of the main economic activities.

Figure 2
LATIN AMERICA: NET CAPITAL INFLOW AND TRANSFER OF RESOURCES
(Billions of dollars)



Source: ECLAC, on the basis of official data.

Table 2

LATIN AMERICA: TOTAL GROSS DOMESTIC PRODUCT

	Annual growth rates						Cumulative variation	
	1975-1978	1979-1980	1981	1982	1983	1984	1985"	1981-1985"
Latin America	4.0	6.1	0.5	-1.4	-2.4	3.4	2.8	2.5
Argentina	0.6	4.2	-6.7	-6.2	3.0	2.3	-4.4	-12.0
Bolivia	3.9	0.7	0.4	-2.8	-6.5	-0.8	-1.7	-11.3
Brazil	6.0	7.6	-1.9	1.5	-2.6	4.9	8.3	9.9
Colombia	4.8	4.8	2.3	1.1	12	3.7	2.5	11.1
Costa Rica	5.6	2.8	-2.3	-7.2	2.8	7.3	1.7	1.3
Cuba'	6.0 ^a	0.5	16.0	3.8	4.9	7.3	4.8	42.1
Chile	2.0	7.7	5.2	-13.0	-0.5	6.2	2.4	-1.2
Ecuador	6.4	4.9	3.8	1.2	-1.2	4.5	4.4	13.0
El Salvador	5.4	-5.3	-8.4	-5.6	0.6	1.5	1.4	-10.6
Guatemala	5.7	4.5	1.0	-3.3	-2.7	0.3	-1.0	-5.9
Haiti	3.7	7.4	-2.7	-3.4	0.7	0.5	3.5	-1.8
Honduras	5.8	4.7	0.7	-0.5	-1.2	2.6	1.7	3.0
Mexico	5.6	9.2	8.4	-	-5.1	3.6	2.5	8.9
Nicaragua	1.5	-10.9	5.4	-0.8	4.5	-1.4	-2.6	4.8
Panama	3.5	9.7	4.0	5.0	-	-0.3	3.4	12.2
Paraguay	8.8	11.3	8.7	-0.6	-2.9	3.3	4.1	12.5
Peru	1.4	4.7	4.0	0.1	-11.9	4.2	1.7	-3.0
Dominican Republic	4.7	5.2	4.0	1.4	4.4	0.5	-2.1	8.1
Uruguay	4.2	6.1	1.5	-10.0	-6.0	-2.1	0.6	-15.6
Venezuela	3.0	-0.3	-0.9	-1.2	-5.5	-1.0	-1.1	-9.7

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Average, excluding Cuba.

'Refers to global social product.

"Refers to period 1976-1978.

Particularly noteworthy were the revival in manufacturing and construction, the expansion of mining and petroleum extraction, and the rise in agricultural production (see table 4). In contrast with the previous year —when the main stimulus to growth was provided by the extraordinary expansion of exports— in 1985 the increase in production was the consequence of greater domestic demand resulting from the rise in employment and in real wages, which made it possible to utilize the idle capacity existing in a large number of sectors at the beginning of the year. Moreover, the further considerable shrinkage in imports did not act as a brake on the expansion of economic activity. This fact —which seems surprising at first glance in view of the almost 40% drop in the volume of imports between 1980 and 1984— was accounted for by the sharp change which took place in the structure of external purchases. The decline in the total amount of imports was exclusively due to the sharp contraction in purchases of fuel resulting from the increase in the production of crude oil, the shrinkage in domestic consumption of petroleum products and the fall in the international price of hydrocarbons. Imports of other intermediate and capital goods were up sharply, thereby facilitating economic recovery and growth.

Economic activity increased at relatively satisfactory rates in Cuba (4.8%), Ecuador (4.4%) and Paraguay (4.1%). In Cuba the growth of the global social product thus met the target set by the authorities for 1985. Growth was led by an expansion of more than 7 % in the industrial sector (which in the statistics compiled by Cuba includes not only manufacturing but also mining, metallurgy and the production of electricity). In contrast, construction, which had expanded rapidly during the previous two years, grew by just 2.5 % and the agricultural sector by only 1 % following an increase of 6.6% in 1984. Expansion was facilitated by the growth of imports —which rose considerably for the sixth year in a row— and by the improvement and better use made of capital stock.

The growth of overall economic activity in Ecuador was stimulated, on the demand side, by a further intense expansion of the volume of exports and by the moderate recovery of investment. It was also supported by the dynamism of the petroleum industry and the upturn in exportable agricultural production and fishing. On the other hand, the product of the manufacturing industry again fell, while construction was stagnant following its sharp decline of the preceding year.

In Paraguay, the 4% increase in the product reflected the continuation of the recovery which had begun the year before following a decline in economic activity during the 1982-1983 biennium. In contrast to 1984, growth in 1985 was based on a more or less even expansion of industry, agriculture, mining and services, which showed increases of between 4% and 5%. Construction, however, declined for the fourth year in a row, although the fall of 1% was far smaller than those which had occurred in the three previous years.

In 1985 economic activity expanded by approximately 2.5% in Colombia, Chile and Mexico. This represented a slowing down of the economic growth achieved in these three countries during the previous year and resulted in a very slight increase in the per capita product (see tables 2 and 3).

In Mexico, growth was faster during the first half of the year, as domestic expenditure, industrial production and construction underwent a considerable expansion and imports of goods rose by 36% as against the same period of the previous year. However, the marked decline in the trade surplus brought about by this rise in external purchases and the simultaneous drop in exports, as well as the persistence of a high rate of inflation, prompted the economic authorities to raise the controlled rate of exchange by 19% in July and to adopt restrictive monetary and fiscal policies. As a result of these measures, together with the uncertainty resulting from the devaluation, the weakness of the world petroleum market, and the damage caused by the earthquakes which struck the central region of the country in September, the rate of economic growth fell off during the second half of the year.

Table 3
LATIN AMERICA: PER CAPITA GROSS DOMESTIC PRODUCT

	Annual growth rates						Cumulative variation	
	1975-1978	1979-1980	1981	1982	1983	1984	1985"	1981-1985°
Latin America	1.5	3.6	-1.8	-3.7	-4.6	1.0	0.4	-8.8
Argentina	-1.1	2.5	-8.2	-7.7	1.4	0.7	-5.8	-18.7
Bolivia	1.3	-1.9	-2.2	-5.3	-9.0	-3.5	-4.3	-22.4
Brazil	3.6	5.2	-4.1	-0.8	-4.7	2.6	6.0	-1.6
Colombia	2.5	2.6	0.1	-1.1	-0.9	1.5	0.4	-0.2
Costa Rica	2.6	-0.1	-5.0	-9.7	0.1	4.6	-0.9	-11.2
Cuba ^c	5.3"	0.1	16.0	3.0	3.9	6.3	3.7	36.8
Chile	0.5	6.2	3.6	-14.4	-2.1	4.6	0.8	-8.6
Ecuador	3.4	1.9	0.9	-1.7	-4.0	1.6	1.4	-2.1
El Salvador	2.4	-8.1	-11.0	-8.3	-2.2	-1.4	-1.6	-22.8
Guatemala*	2.8	1.6	-1.8	-6.0	-5.4	-2.5	-3.7	-18.2
Haiti	1.3	4.8	-5.0	-5.8	-1.8	-2.0	0.9	-13.8
Honduras	2.2	1.0	-2.7	-3.9	-4.5	-0.7	-1.6	-13.0
Mexico	2.5	6.2	5.5	-2.6	-7.5	1.0	-	-4.3
Nicaragua	-1.4	-13.5	2.1	-4.0	1.0	-4.6	-5.8	-11.3
Panama	1.1	6.2	1.8	2.7	-2.2	-2.5	1.2	0.7
Paraguay	5.3	7.8	5.4	-3.6	-5.8	0.3	1.1	-3.2
Peru	-1.3	2.0	1.4	-2.4	-14.1	1.5	-0.9	-14.8
Dominican Republic	2.2	2.7	1.5	-1.0	1.9	-1.8	-4.4	-4.0
Uruguay	3.7	5.4	0.8	-10.6	-6.7	-2.8	-0.1	-18.5
Venezuela	-0.6	-3.6	-3.9	-4.0	-8.1	-3.7	-3.8	-21.6

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Average, excluding Cuba.

^cRefers to global social product.

[°]Refers to 1976-1978.

Table 4

LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY
AT 1980 MARKET PRICES

(Growth rates)

	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal, goods		Basic services		Other services	
	1984	1985°	1984	1985°	1984	1985°	1984	1985°	1984	1985°	1984	1985°	1984	1985°
Latin America	3.6	3.9	4.1	1.0	5.2	2.8	-5.1	3.4	3.5	2.9	4.9	3.1	2.8	2.5
Argentina	3.9	-3.4	0.4	-3.2	4.0	-10.4	-20.1	-0.5	0.9	-7.2	4.9	-2.3	2.8	-2.3
Bolivia	18.7	3.1	-13.8	-11.9	-11.8	-9.2	-6.7	2.6	-2.0	-4.3	0.8	0.9	-0.2	0.1
Brazil	4.3	8.8	27.3	11.5	6.0	8.3	1.9	11.3	5.5	8.8	8.0	9.3	3.2	6.9
Colombia	1.1	1.8	24.0	30.7	8.0	3.0	12	-	5.4	4.0	2.7	2.0	2.7	1.7
Costa Rica	7.3	1.0	-	-	11.6°	1.7°	22.5	0.4	10.5	1.3	2.4	-1.0	5.3	2.3
Cuba'	6.6	1.1	-2.2'	9.4°	9.1	8y	16.0	2.5	9.2	5.9	3.6	2.6	14.2*	5.8*
Chile	7.6	5.6	4.4	2.2	9.8	12	4.2	16.1	7.4	3.9	6.3	4.8	4.0	1.4
Ecuador	8.8	4.8	9.6	8.5	-3.0*	-3.2*	-3.9	0.9	5.3	4.8	5.4	1.8	1.6	0.8
El Salvador	12	-2.4	2.7	-	1.3	4.5	-5.8	12.0	0.7	0.8	2.7	3.2	2.0	1.7
Guatemala	2.0	-0.8	-17.0	-16.7	0.5	-1.3	-29.6	-0.8	-1.2	-1.1	3.0	1.3	1.4	-1.2
Haiti	3.5	0.5	6.4	18.0	-5.8	7.2	1.8	12.7	0.5	3.7	-7.8	-5.0	1.8	3.1
Honduras	3.0	1.8	7.7	4.1	2.2	-2.2	4.0	-1.5	3.1	0.3	3.1	3.1	1.9	2.9
Mexico	2.5	2.2	1.8	1.0	4.8	5.8	3.4	2.5	3.6	3.8	6.5	3.3	3.0	1.0
Nicaragua	-6.4	0.2	-22.9	-25.1	0.4	-5.2	8.7	8.6	-2.7	-2.2	2.2	-8.4	-0.4	-2.2
Panama	0.2	2.9	-23.5	-3.9	-0.6	1.0	-11.3	-1.1	-3.0	1.2	-3.5	5.2	2.6	2.7
Paraguay	5.9	4.6	1.0	5.0	4.5	5.0	-2.4	-1.0	4.5	4.1	3.0	5.3	1.7	3.8
Peru	11.8	2.8	6.8	4.1	6.8	3.6	0.9	-10.1	7.4	2.8	-2.1	1.3	1.5	1.6
Dominican Republic	-0.2	-3.3	8.4	-0.1	-3.0	-4.1	2.9	-11.2	0.2	-4.4	-0.1	-1.8	0.8	0.1
Uruguay	-6.8	5.1	-0.4	-1.8	2.8	-1.6	-19.0	-10.0	-2.1	-0.4	-0.5	-0.2	-2.4	1.4
Venezuela	0.8	7.0	1.9	-4.9	4.6	3.3	-34.4	-17.4	-0.8	-1.2	-2.6	-0.8	1.8	-0.2

Source: ECLAC, on the basis of official figures.

'Preliminary figures. Excluding Cuba.

°Includes mining and quarrying. _____ Refers to social product.

*Includes mining and metal production.

_____ Excludes metal

production.

* Refers to other productive activities in the non-material sphere of the social product.

Includes petroleum refining which official figures include under crude oil extraction.

In Colombia, the evolution of the economy was overshadowed by the need to reduce the considerable external imbalance recorded in 1984. To achieve this end, the authorities adopted an adjustment programme which, among other measures, included sharp cutbacks in current government expenditure, increases in tax revenue, a restrictive monetary policy, the gradual but rapid increase of the real exchange rate, and tighter import controls. Although these policies helped to bring down the current account deficit, they had a negative short-term impact on the growth of economic activity and on employment. The postponement of a large number of public works contributed to the stagnation of the construction sector, while the control over domestic expenditure limited commercial activity. The restrictive policies adopted in the fiscal and monetary spheres together with the decreased in real wages also tended to weaken the growth rate of industrial production, although it benefited somewhat from the reorientation of overall demand away from imports and towards local suppliers. Thus, as in the preceding two years, mining was the only sector to expand rapidly.

The dynamism of the economy fell off rather more markedly in Chile, with the growth rate dropping from over 6% in 1984 to 2.4% in 1985. As in Colombia, this resulted from the adoption of an adjustment and stabilization programme aimed at diminishing the huge current account deficit recorded in 1984 and at controlling inflation, which had taken off sharply in the closing months of that year. Under these circumstances, the rate of economic growth, which had already begun to slacken during the second half of 1984, continued to decline in the first semester of 1985. Although it later recovered, the only activities whose performance was satisfactory in 1985 were construction (which rose by 16%) and the agricultural sector (which grew by around 6%). In contrast, mining rose by 2% and industrial output grew only 1%. The trends followed by the components of total demand also differed widely. While fixed capital investment rose by 15% —thereby continuing the recovery which had begun the previous year— and the volume of exports increased by almost 9%, consumption fell by 2%.

In all the remaining countries of the region, with the exception of Panama and Haiti, the expansion of overall economic activity was insufficient to offset the impact of population growth. This situation was particularly serious in Bolivia and the Central American countries, where the decline in the per capita product in 1985 followed upon an almost uninterrupted series of shrinkages in this indicator since the end of the previous decade, thereby contributing to a further reduction of the levels of per capita income, which, with the sole exception of Costa Rica, were even then the lowest in the region. Nevertheless, in 1985, the per capita product also fell in Uruguay, Venezuela and Argentina, which have some of the highest per capita incomes of Latin America.

Overall economic activity rose by barely 0.6% in Uruguay, which resulted in a slight fall in the per capita product. The decline was much smaller, however, than those recorded in the preceding three years. The stagnation of economic activity during most of 1985 was linked to the rapid contraction, as in the preceding three years, of investment and to a further dwindling of imports. As in 1984, the sector most affected by the crisis was construction, but manufacturing also declined in 1985. On the other hand, the agricultural sector underwent a vigorous recovery following its decline of the previous year. Nevertheless, productive activity revived noticeably during the last quarter of the year.

In Venezuela, the per capita product fell for the eighth year in a row as the result of a slight decline in economic activity. In turn, the principal cause of this decline was the weakening of the international petroleum market from April onwards, which made it necessary to diminish the production of crude oil and which brought the value of exports and government income to below the levels initially forecast by the Government. In view of this situation, the authorities adopted a restrictive fiscal and monetary policy and postponed part of the expenditure called for by the public investment programme which had been drawn up to foster economic recovery. Consequently, construction shrank considerably for the seventh consecutive year, service activities stagnated and the rate of growth of manufacturing slowed. Thus, with the exception of agriculture and mining—which performed most satisfactorily—the recovery which had begun to take shape towards the end of the previous year in the other sectors was interrupted.

The most pronounced fall in economic activity in 1985 took place in Argentina. The country's gross domestic product, which during the two preceding years had partially recovered from its sharp contraction of the 1981-1982 period fell by 4.4%. This downturn—which had begun towards the

beginning of the year but which persisted after the implementation of the stabilization plan in June— was particularly pronounced in manufacturing (-10%), had a far-reaching impact on investment in machinery and equipment (-19%) and a less marked but nonetheless considerable effect on total consumption (-5%).

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

After having recovered in 1984 from its fall of the two previous years, total supply grew by 2.3% in 1985. This rise was solely due to the increase in the product, since the volume of imports fell by almost 2% (see table 5). With this decline, but mainly as a result of the huge shrinkage of almost 40% which took place in the 1982-1983 biennium, the volume of external purchases was similar to that which had been recorded 12 years previously, while the import coefficient again fell, reaching its lowest level for the whole of the postwar period (see table 6).

As there was a simultaneous increase in the volume of exports, the domestic supply of goods and services again increased considerably less than the product. As a result of this and of the growth in population, the per capita domestic availability of goods and services—which is ultimately what determines the population's standard of living— was 14% lower in 1985 than in 1981.

In contrast with the previous year, the increase in the availability of goods and services in 1985 was distributed very evenly between consumption and investment. Nonetheless, the growth of investment was once again lower than that of the product. Consequently, the investment coefficient fell for the fifth year in a row and was only 15.3%, the lowest figure recorded in the last 40 years.

In 1985 net external factor payments fell off slightly. However, as a result of their extraordinary growth between 1979 and 1982, they still represented more than 4% of the gross domestic product, which was more than double the share recorded in the second half of the preceding decade. Moreover,

Table 5

LATIN AMERICA: TOTAL SUPPLY, DOMESTIC DEMAND AND GROSS NATIONAL INCOME AT 1980 MARKET PRICES"

	Indexes (1980= 100)			Growth rates					Cumulative variation
	1983	1984	1985*	1981	1982	1983	1984	1985*	1981- 1985*
1. Total supply (2 + 3)	92.2	95.4	97.6	0.8	-3.7	-5.0	3.5	2.3	-2.4
2. Gross domestic product at market prices	96.6	99.8	102.5	0.5	-1.4	-2.4	3.4	2.8	2.5
3. Imports of goods and services	61.6	65.3	64.1	2.9	-19.3	-25.8	5.9	-1.8	-35.9
4. Exports of goods and services	114.4	121.8	123.7	6.6	0.4	6.9	6.4	1.6	23.7
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	89.3	92.0	94.2	-	-4.3	-6.7	3.1	2.4	-5.8
6. Total final consumer expenditure ^f	94.6	98.3	100.6	0.6	-2.2	-3.8	3.8	2.4	0.6
7. Gross fixed capital formation	69.9	69.5	71.2	-2.2	-12.1	-18.6	-0.7	2.6	-28.8
8. Terms-of-trade effect									
9. Net factor payments to rest of world	182.5	191.2	185.9	43.4	38.5	-8.1	4.8	-2.8	85.9
10. Real gross national income	91.5	95.0	97.2	-1.2	-4.6	-2.9	3.9	2.4	-2.8

Source: ECLAC, on the basis of official statistics.

^fNineteen countries.

^ePreliminary figures.

^gIncludes variation in stocks.

the impact of the decrease in these payments was more than offset by the deterioration in the terms of trade. As a result, the gap between the domestic product and national income—which has been widening almost uninterruptedly since 1980—again grew and was equal to somewhat more than 5 % of the former (see table 6).

III. EMPLOYMENT AND UNEMPLOYMENT

In 1985 there was a slight improvement in the employment situation in the region as a whole. Manufacturing employment increased for the first time since 1980, although the increase was below

Table 6

LATIN AMERICA: RELATIVE SHARES OF COMPONENTS OF GROSS DOMESTIC PRODUCT AND OF GROSS NATIONAL INCOME AT 1980 MARKET PRICES"

(GDP = 100)

	Total final consumer expenditure	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
1971-1975	77.6	20.3	97.9	14.6	12.5	100.0	-3.3	1.6	95.1
1976-1978	77.7	22.4	100.1	13.0	13.1	100.0	-1.1	1.9	97.0
1979	78.3	21.9	100.2	13.6	13.8	100.0	-0.8	2.2	97.0
1980	79.2	22.1	101.3	13.3	14.6	100.0	-	2.3	97.7
1981	79.3	21.5	100.8	14.1	14.9	100.0	-0.7	3.3	96.0
1982	78.7	19.1	97.8	14.4	12.2	100.0	-2.4	4.7	92.9
1983	77.5	16.0	93.5	15.8	9.3	100.0	-3.2	4.4	92.4
1984	77.9	15.4	93.3	16.3	9.6	100.0	-2.7	4.5	92.8
1985 ^c	77.7	15.3	93.0	16.1	9.1	100.0	-3.3	4.2	92.5

Source: ECLAC, on the basis of official figures.

^aNineteen countries.

Includes variation in stocks.

^cPreliminary figures.

Table 7

LATIN AMERICA: MAIN EMPLOYMENT INDICATORS"

(Percentages)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Urban employment (growth rates)									
Industry		0.2	1.4	0.5	-4.8	-6.1	-6.2	-0.8	0.8
Services		5.5	6.3	5.1	5.5	-0.4	-0.3	3.1	4.3
Unemployment									
Urban		7.4	6.8	6.0	6.2	6.6	7.0	8.1	7.5

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 and Guatemala City (for want of comparable data). In view of the lack of consistent statistical data, Montevideo is not included in the index of industrial employment nor is Buenos Aires included in the index for the services sector.

Table 8

LATIN AMERICA: URBAN UNEMPLOYMENT

(Average annual rates)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985"
Argentina	3.7	4.9	3.3	3.3	2.5	2.6	4.7	5.3	4.6	4.6	6.1
Bolivia'				4.5	5.2	5.8	9.7	10.5	14.2	15.1	18.0
Brazil				6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3
Colombia	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5	14.1
Costa Rica		5.4	5.1	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.7
Chile*	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3
Honduras						8.8	9.0	9.2	9.5	10.7	11.7
Mexico'	7.2	6.8	8.3	6.9	5.7	4.5	4.2	4.1	6.7	6.0	4.8
Nicaragua'						18.3	15.8	14.0	15.2	18.4	24.2
Panama	8.6	9.0		9.6	11.6	9.9	11.8	10.3	11.5	11.0	15.2
Paraguay		6.7	5.4	4.1	5.9	4.1	2.2	5.6	8.4	7.4	5.2
Peru" ¹		8.4	9.4	10.4	11.2	10.9	10.4	10.6	9.2	10.9	11.8
Uruguay"		12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1
Venezuela"	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3

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

"Preliminary figures. National urban rate, April-October average. 'National average. Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife, 12-month average; 1980: June-December average. 'Bogotá, Bacranquilla, Medellin and Cali, average for March, June, September and December. 'National urban rate, average for March, July and November; 1984: average for March and November. 'Greater Santiago, average for March, June, September and December. National average. 'Metropolitan areas of Mexico City, Guadalajara and Monterrey, four-quarter average. *Non-agricultural activities. National urban rate for August of each year; 1980 corresponds to urban unemployment recorded by that year's population census and 1981 to the metropolitan area. Asunción, Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo, annual average; 1981: first semester; 1982: first quarter; 1983: average for September, October and November; 1984: average for August and September; 1985: November-December average. "Non-agricultural activities. "Montevideo, four-quarter average. Up to 1981: two-semester average. " National urban rate, two-semester average.

1% and was far from cancelling out the sharp shrinkages recorded in the four previous years. Employment in services—which had begun to recover in 1984—grew by 4%. As a result of these changes, the rate of open urban unemployment fell from slightly more than 8% in the 1983-1984 period to 7.5%, thereby interrupting the rising trend seen since 1980. Nevertheless, it was still considerably higher than the level recorded in the period prior to the crisis (see table 7).

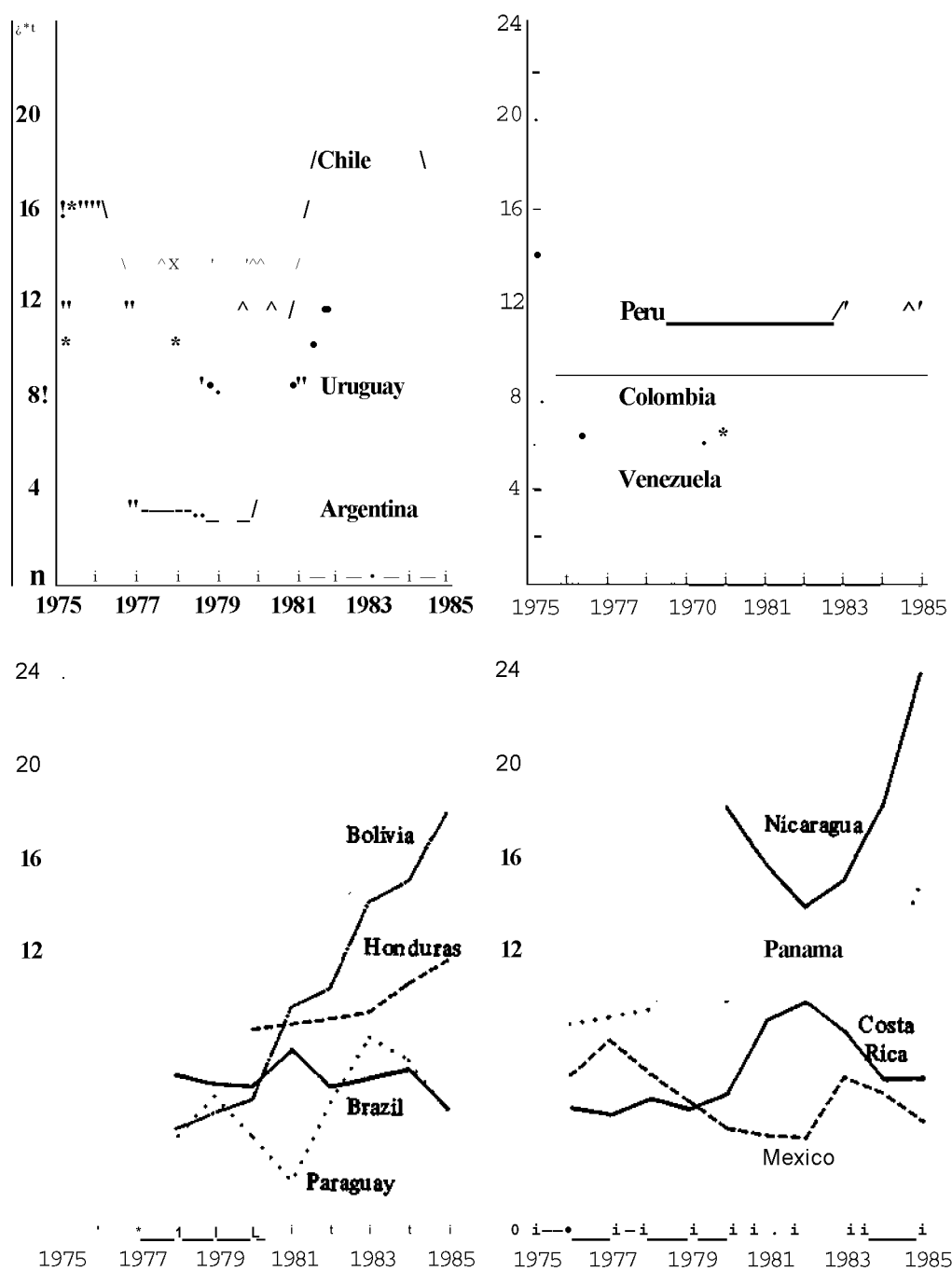
The fall in the average rate of unemployment in the region was the net outcome of the quite different changes which took place in the various countries. While there was a marked drop in unemployment in Brazil, Chile and Paraguay and a more gradual decline in Mexico and Uruguay, it remained unchanged in Costa Rica and Venezuela and reached unusually high levels in Nicaragua, Bolivia, Panama, Colombia, Honduras and Argentina (see table 8 and figure 3).

The decrease in unemployment was noteworthy in Brazil, where the average urban rate of 5.3% was the lowest recorded since reliable records have been kept. The most marked shrinkages occurred in Rio de Janeiro and Sao Paulo, where the rate of unemployment at the end of 1985 was equal to just slightly over half that recorded two years earlier (see table 9). The reduction in unemployment was mainly brought about by the considerable dynamism of all the main urban activities in 1985, together with the impact of the simultaneous fall in the rate of participation (see table 10). The drop in unemployment was particularly sharp in the goods producing sectors and rather more gradual in commerce.

The improvement in the employment situation in Paraguay was also a consequence of the revival which occurred in domestic economic activity for the second year in a row. As a result, the rate of urban unemployment—which had fallen to 7.4% in 1984—shrank to just over 5% at the end of 1985, the lowest figure in the last four years.

The decrease in open unemployment was also marked in Chile, although it fell from far higher levels than in Brazil and Paraguay. The average number of members of the labour force without a job in greater Santiago declined from 19% in 1984 to 16% in 1985. The drop gathered speed towards the

Figure 3
LATIN AMERICA: URBAN UNEMPLOYMENT IN SELECTED COUNTRIES
(Annual average rates)



Source: ECLAC, on the basis of official data.

Table 9

LATIN AMERICA: UNEMPLOYMENT RATE IN LARGEST CITIES

	1980	1981	1982	1983	1984	1985 ^a	1984				1985 ^a			
							I	II	III	IV	I	II	III	IV
Latin America	6.2	6.6	7.0	8.1	8.2	7.5	8.5	8.3	8.4	7.5	8.2	7.7	7.5	6.5
Argentina ^b														
Capital and Greater														
Buenos Aires	2.3	4.5	4.7	4.2	3.8	5.3		4.1		3.5		5.7		4.9
Cordoba	2.4	3.8	4.4	5.0	4.8	5.0		4.4		5.1		5.3		4.7
Greater Mendoza	2.3	4.8	4.1	4.5	3.5	3.7		3.3		3.7		3.6		3.7
Rosario	3.4	5.8	8.4	6.3	6.5	10.7		6.8		6.2		10.9		10.2
Brazil ^b														
Rio de Janeiro	7.5	8.6	6.6	6.2	6.8	4.9	6.9	7.4	6.7	6.0	6.0	5.4	4.5	3.6
Sao Paulo	5.6	7.3	6.0	6.8	6.8	5.0	7.8	7.5	6.7	5.1	6.1	5.7	4.8	3.5
Recife	6.8	8.6	7.5	8.0	9.0	7.2	8.9	9.6	9.9	7.5	7.8	8.4	7.3	5.3
Porto Alegre	4.6	5.8	5.2	6.7	7.0	5.4	7.6	8.2	6.9	5.3	5.8	6.2	5.6	3.9
Colombia ^c														
Bogotá	7.9	5.5	7.4	9.4	12.2	12.8	12.6	12.0	11.8	12.4	13.7	13.2	12.6	11.7
Barranquilla	8.1	11.1	10.4	13.8	13.8	15.7	14.4	13.1	15.3	12.4	14.3	17.9	17.5	13.1
Medellin	14.7	13.1	13.3	17.0	16.4	16.0	16.1	17.1	15.3	17.1	16.1	16.5	15.6	15.7
Cali	10.0	9.0	9.6	11.6	13.3	14.4	13.4	12.9	14.5	12.5	13.4	15.4	15.2	13.7
Mexico														
México city	4.3	3.9	4.0	6.3	5.8	4.9	5.4	5.3	6.4	6.2	5.7	4.3	5.2	4.4
Guadalajara	5.0	5.8	5.0	7.4	6.1	3.4	6.9	5.7	6.0	5.7	3.9	3.5	3.9	2.4
Monterrey	5.2	4.2	4.9	9.8	7.5	5.4	8.3	7.0	8.5	6.2	6.9	5.1	5.4	4.0
Asunción														
(Paraguay) ^d	3.9	2.2	5.6	8.4	7.4	5.2			7.4					5.2
Caracas (Venezuela)	6.7	5.7	7.0	10.5	11.3	13.2		11.0		11.6		13.2		
Lima (Peru) ^e	7.1	6.8	6.6	9.0	8.9	10.1		8.9				10.1		
La Paz (Bolivia) ^f	7.5		9.4	12.8	12.6				12.9	12.2				
Montevideo														
(Uruguay)	7.4	6.6	11.9	15.5	14.0	13.1	14.6	14.1	14.7	12.7	13.7	13.2	13.6	12.0
San José														
(Costa Rica)	5.6	9.3	10.5	8.5	6.6	6.5	7.9			5.2	6.3		7.4	5.9
Santiago (Chile) ^{g,h}	11.8	11.1	22.1	22.2	19.3	16.3	21.7	18.4	20.9	15.9	18.0	16.2	17.4	13.8

Source: ECLAC, on the basis of official data.

^aPreliminary figures. • Weighted 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. 1985: March, July, September and December. ^eMetropolitan areas. Quarterly averages. ^fIncluding, Fernando de la Mora, Lambaré and the urban areas of Luque and San Fernando. 1981: first semester; 1982: first quarter, 1983: average for September, October and November; 1984: average for August, September and October; 1985: November-December average. ^gMetropolitan area. Two-semester average. 1985: first semester. ^hMetropolitan area; 1980: April; 1981: June; 1982: July; 1985: December; 1984: August. ⁱ1980: May-October; 1982-1984: average for June-December. * 1980: two-semester average; 1981 to 1985: quarterly average. ^jFigures for March, July and November; 1984: only March and November; 1985: March. ^kGreater Santiago, figures for March, June, September and December.

end of the year, when the rate recorded in the capital fell below 14%. However, while these figures were considerably lower than those recorded for the three preceding years, they remained well above those prevalent before the crisis (see figures 3 and 4). Given these circumstances, even though the rates of unemployment in industry and construction were 40% lower than the extreme levels recorded two years previously, they were still very high (see table 11). The relative improvement in the employment situation was also reflected in the considerable decrease in the numbers of people registered in the Government's emergency employment programmes—which, after having represented 13.6% of the labour force in 1983, equalled slightly more than 7% in 1985—and in the persistence of a high net rate of participation.

The path followed by the rate of unemployment was similar in Uruguay, where, as in Chile, it had risen extremely rapidly beginning in mid-1981 and had then begun to fall during the second half of 1983. This trend persisted throughout 1985, as a result of which the proportion of the labour force without work in Montevideo at the end of the year was 12%, the lowest figure recorded since 1982. Nonetheless, this rate was more than double those recorded before the onset of the crisis. The decline in unemployment—which was accompanied by a rise in the rate of participation—was concentrated in industry and finance, while unemployment remained virtually unchanged in the other activities.

Urban unemployment also fell for the second consecutive year in Mexico, although it was slightly higher than the average recorded in the 1980-1982 triennium. The most marked falls occurred in Monterrey and in Guadalajara. In Mexico City, on the other hand, the decline in unemployment was rather more gradual. This decrease in unemployment was achieved in spite of the considerable rise in the rate of participation, which reached its highest level of the last 10 years (see tables 9 and 10).

In contrast to what occurred in the countries discussed above, the rates of unemployment remained virtually unchanged in Costa Rica and Venezuela in 1985. However, in Costa Rica this stability followed upon two years during which urban unemployment had declined considerably, whereas in Venezuela it represented the persistence of the unprecedented level that unemployment had reached in 1984.

In Costa Rica, unemployment followed a rather uneven path during the year (see figure 4). Nevertheless, the average rate of unemployment fluctuated between 6% and 7.5 % and, at least at the beginning of the year, fell noticeably in manufacturing and construction. On the other hand, the relative stagnation of employment in the services sectors prevented a similar fall in unemployment from occurring in these sectors. Underemployment—which had declined in the two preceding years after reaching an exceptionally high level in 1982—rose slightly (see table 12).

In Venezuela, the rate of unemployment remained in excess of 14%, by far the highest figure recorded since 1975 (see table 8). Construction continued to be the activity with the highest level of unemployment (30%), while it remained at approximately 13% in industry and around 11% in commerce. Moreover, while the rate of urban unemployment declined slightly in the country as a whole during the second semester, its level at the end of 1985 was still far above the level recorded two years earlier.

Table 10
LATIN AMERICA: NET PARTICIPATION RATES"

(Annual average rates)

	1970	1976	1980	1981	1982	1983	1984	1985 ⁶
Bolivia ^{*7}	47.3"	48.1	49.6	49.2	49.1	49.0	48.9	48.7
Brazil'	58.8	58.1	61.0	62.0	61.9	60.5	61.3	60.7
Colombia		49.8	54.4	52.3	53.0	54.6	56.2	56.6
Costa Rica*	44.9 ^a	50.2	50.2	49.3	50.9	48.7	48.7	49.3
Chile"	51.8	50.3	50.7	51.7	51.7	52.2	52.5	52.3
Mexico'		50.9	50.1	50.1	49.5	49.1	49.4	52.6
Panama'		55.0	52.0		53.7	56.1	55.9	56.8
Uruguay	48.5	52.8	56.4	54.6	56.6	56.9	57.9	58.5
Venezuela	43.4 [*]		55.0	54.7	54.4	54.2	55.3	56.1

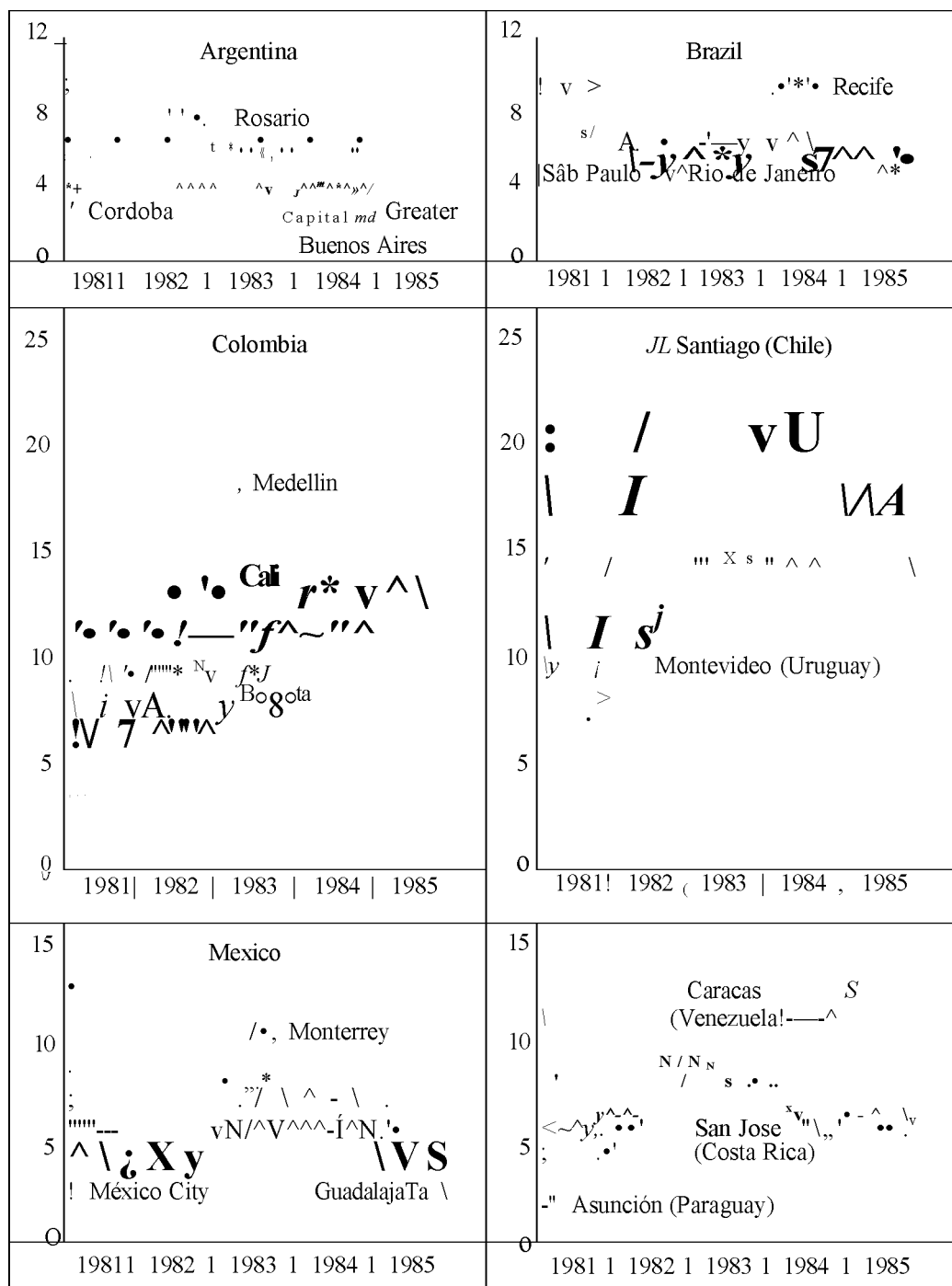
Source: ECLAC and PREALC, on the basis of official data.

"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). Preliminary figures. ^cNational total. Lower age limit 10 years.

^d According to relevant-national census data. ^eMetropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Lower age limit 15 years. Average for 12 months. Barranquilla, Bogotá, Cali, and Medellín. Lower age limit 12 years.

Average for March, June, September and December. ^fNational urban. Lower age limit 12 years, March of each year. Greater Santiago. Lower age limit 14 years. Average for March, June, September and December. Metropolitan areas of México City, Guadalajara and Monterrey. Lower age limit 12 years. Average for four quarters. ^hNational total. Lower age limit 15 years. National total. Lower age limit 14 years. Average for four quarters. Up to 1981, average for two semesters. National total. Lower age limit 15 years. Average for two semesters.

Figure 4
LATIN AMERICA: UNEMPLOYMENT RATE IN SOME MAJOR CITIES



Source: ECLAC, on the basis of official data.

In all the other countries for which reliable statistics were available, unemployment climbed in 1985 to new heights. In Argentina, the rate of unemployment rose to 6.1 %, a figure which no doubt seems moderate within the regional context, but which was far in excess of the 4.6% recorded during the two previous years and more than double that recorded on average in the 1978-1980 triennium. Although this rise was a consequence of the increase in the average rate of unemployment in the country's four main urban centres, it was particularly marked in Buenos Aires and, above all, in Rosario. The worsening of the employment situation was also reflected in the rise of visible underemployment in the first of these cities.

Table 11

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

(Annual average rates)

	Manufacturing			Construction			Commerce		
	1983	1984	1985 ^o	1983	1984	1985 ^o	1983	1984	1985 ^o
Argentina	2.8	3.2		9.3	10.1		3.3	3.2	
Brazil ¹	7.8	7.1	5.2	11.7	12.8	7.7	6.8	6.5	5.6
Costa Rica		6.4	4.7		14.0	8.4		6.6	6.3
Chile ¹	25.9	19.5	14.9	49.0	34.9	27.9	16.0	13.1	11.1
Uruguay	16.6	13.3	12.3	16.6	17.5	17.5	13.3	11.3	11.1
Venezuela ²	11.7	13.0	13.2	21.4	29.3	30.2	7.8	10.3	10.7

Source: LCLAC, on the basis of official data.

¹Preliminary figures.

Greater Buenos Aires. Average for April-October.

¹ Metropolitan areas of Rio de Janeiro, Sato Paulo, Belo

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

Metropolitan area of San Jose. Data refer to March of each

year. ²Greater Santiago. Average for March, June, September and December.

Montevideo. Average for four quarters.

²Whole

country. Average for 2 semesters.

Table 12

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

(Average annual rates)

	1978	1979	1980	1981	1982	1983	1984	1985 ^o
Visible underemployment^b								
Argentina ¹⁷	5.2	4.0	5.6	6.4	6.8	4.8	4.6	6.0
Colombia	14.3	14.0	16.0	11.4	10.9	12.1	14.6	
Costa Rica ^e	10.0	13.8	15.6	19.3	24.2	17.6	16.4	13.7
Peru ⁷	8.3	3.1	1.4	3.0	4.0	3.8	2.9	3.3
Invisible underemployment[*]								
Brazil ²					7.8	8.5	9.7	9.7
Costa Rica ^e	10.7		10.2	10.0	21.5	12.1	8.1	13.4
Peru ⁷	30.0	28.6	24.2	21.4	24.0	29.5	33.9	39.2

Source: ECLAC, on the basis of official data.

¹⁷Preliminary figures.

Percentage of the labour force that would be willing to accept a longer working day that at present.

^eGreater Buenos Aires. April-October average.

Bogota, Barranquilla, Cali and Medellin. Average for March, June,

September and December; 1984: average for March, June and December.

⁷National urban total. Average for March, July and

November; 1985: November only; 1984: average for March and November; 1985: March.

²Metropolitan Lima. Excluding home

workers.

^{*}Percentage of wage earners receiving less than the minimum wage.

Weighted average for the metropolitan areas of

Rio de Janeiro, Sato Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife; 12-month average; 1982: second semester; 1985: first semester.

Table 13

LATIN AMERICA: CONSUMER PRICES
(Variations from December to December)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Latin America"	62.3	40.0	39.0	54.1	56.1	57.6	84.8	131.1	185.2	275.3
Latin America, excluding Bolivia	63.2	40.5	39.5	54.3	56.6	58.2	81.3	127.8	152.0	141.8
Argentina	347.5	150.4	169.8	139.7	87.6	131.2	208.7	433.7	688.0	385.4
Bolivia	5.5	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5
Brazil	44.8	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	228.0
Colombia	25.9	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3
Costa Rica	4.4	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1
Chile	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4
Ecuador	13.1	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4
El Salvador	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8
Guatemala	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	5.2	31.5
Haiti	-1.4	5.5	5.5	15.4	15.3	16.4	4.9	11.2	5.4	17.4
Honduras	5.6	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2
Mexico	27.2	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7
Nicaragua	6.2	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3
Panama	4.8	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4
Paraguay	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1
Peru	44.7	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3
Dominican Republic	7.0	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4
Uruguay	39.9	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0
Venezuela	6.9	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	5.7

Source: ECLAC, on the basis of International Monetary Fund, *International Financial Statistics* (March 1986) and official data provided by the countries.

"The totals for Latin America represent the average variations in the countries, weighted by their respective populations in each year.

Unemployment also increased, but starting from considerably higher levels, in Colombia, Honduras, and Peru, where the employment situation had grown considerably worse in previous years. Thus, in Colombia, the average rate of unemployment in the country's four main cities rose for the fourth consecutive year and for the first time, climbed to beyond 14%. The rise was particularly marked both in Barranquilla and in Cali and was rather more moderate in Bogotá. On the other hand, the rate of unemployment fell slightly in Medellín, in spite of which this city continued to be the one most severely affected by unemployment (see table 9). Theriseinjoblessness was partly the result of the clear loss of dynamism in industry and commerce and the stagnation in construction, and partly of the continuing increase in the urban rate of participation, which rose to beyond the already high figures of the previous year.

Unemployment also reached unusually high levels both in Lima and in the other cities of Peru. Non-agricultural unemployment rose from almost 11 % in 1984 to approximately 12% in 1985. Since a marked rise occurred in underemployment as well, the percentage of workers with adequate employment in Lima fell below 50% for the first time (see tables 9 and 12).

Unemployment also rose from 11% in 1984 to 12% in 1985 in Honduras. This rise—which followed upon increases in the previous four years as well— resulted from the slow growth of overall economic activity and, in particular, from the contractions in both manufacturing and construction, as well as reflecting the annual growth rate of almost 4% in the labour force.

The increases in unemployment were even sharper in Panama, Bolivia and Nicaragua. In Panama, urban unemployment rose above 15%, after having fluctuated around 11% during the previous three years. In Bolivia, the rate of unemployment climbed for the seventh consecutive year, reaching 18%, which was more than three times the level recorded up to 1980. Finally, in 1985 the percentage of the urban labour force without work in Nicaragua past 24%, and was thus the highest in the region (see table 8 and figure 3).

IV. PRICES AND WAGES

1. Prices

In 1985 inflation again reached extraordinarily high levels in Latin America: the simple average rate of consumer price increases rose from 164% in 1984 to 507% in 1985, while the rate weighted by the population climbed from 185% to 275% in the same period. Although these increases were strongly affected by the enormous scale of inflation in Bolivia —where it increased almost fourfold, rising from somewhat less than 2 200% in 1984 to nearly 8 200% in 1985— the average rate of price increases was also very high (142%) in the other economies of the region as a whole (see table 13).

Simultaneously, inflation —which had previously affected a small number of Latin American countries— became more generalized. In 1985 consumer prices rose by less than 10% only in Honduras, Panama and Venezuela. In the remaining 16 countries the rate of inflation was considerably higher, and reached enormously high levels in Peru (160%), Brazil (230%), Nicaragua (335%) and Argentina (385%). The generalization of inflation was also reflected in the fact that in 1985 the rate of consumer price increases rose in 12 countries and fell in only seven.

Nevertheless, during the second half of 1985 considerable progress was made in the struggle against inflation in more than a few countries in the region. Success was particularly marked in Argentina, Bolivia and Peru —where inflation had soared during the first six or nine months of the year— and much less noteworthy, but nonetheless significant, in Chile, Colombia, the Dominican Republic, Ecuador, Costa Rica and Venezuela.

The first country in which inflation underwent a sharp turnaround was Argentina, where the rate of price increases, after having risen sharply and continually over the four previous years, soared even higher during the first semester of 1985. Beginning in January, consumer prices increased at an average monthly rate of 25%, and rose even faster during the first half of June. Thus, in May the 12-month variation in the consumer price index was in excess of 1 000% for the first time in Argentine history and in June it climbed to over 1 100%, bringing the country to the brink of hyperinflation.

Faced with this dramatic situation, the Government —which in the preceding weeks had sharply increased the prices and rates charged by State enterprises as well as raising the exchange parity by 18%— announced a new economic programme on 14 June designed to sharply reduce the rate of price increases. Essentially, the plan attempted to sharply diminish the inertial component in inflation and the expectations of a continuing sharp rise in prices by freezing the exchange rate, wages, the rates of public utilities, prices and rents, and by introducing a new currency —the austral— whose value in pesos was initially slated to increase at a monthly rate of 30% (previous inflation), thereby, in practice, de-indexing financial contracts. Simultaneously, with the aim of discouraging the speculative purchase of both dollars and goods, the rate of interest on deposits was set at 4% for the first month that the plan would be in force and various measures were taken to reduce the share of the product represented by the public sector deficit from 12% in 1984 to 2.5% in 1985. In order to reinforce the impact of these measures on the expectations of economic agents, the Government also announced that the public sector deficit would be covered entirely by external financing, as a result of which there would be no issue of currency for this purpose.

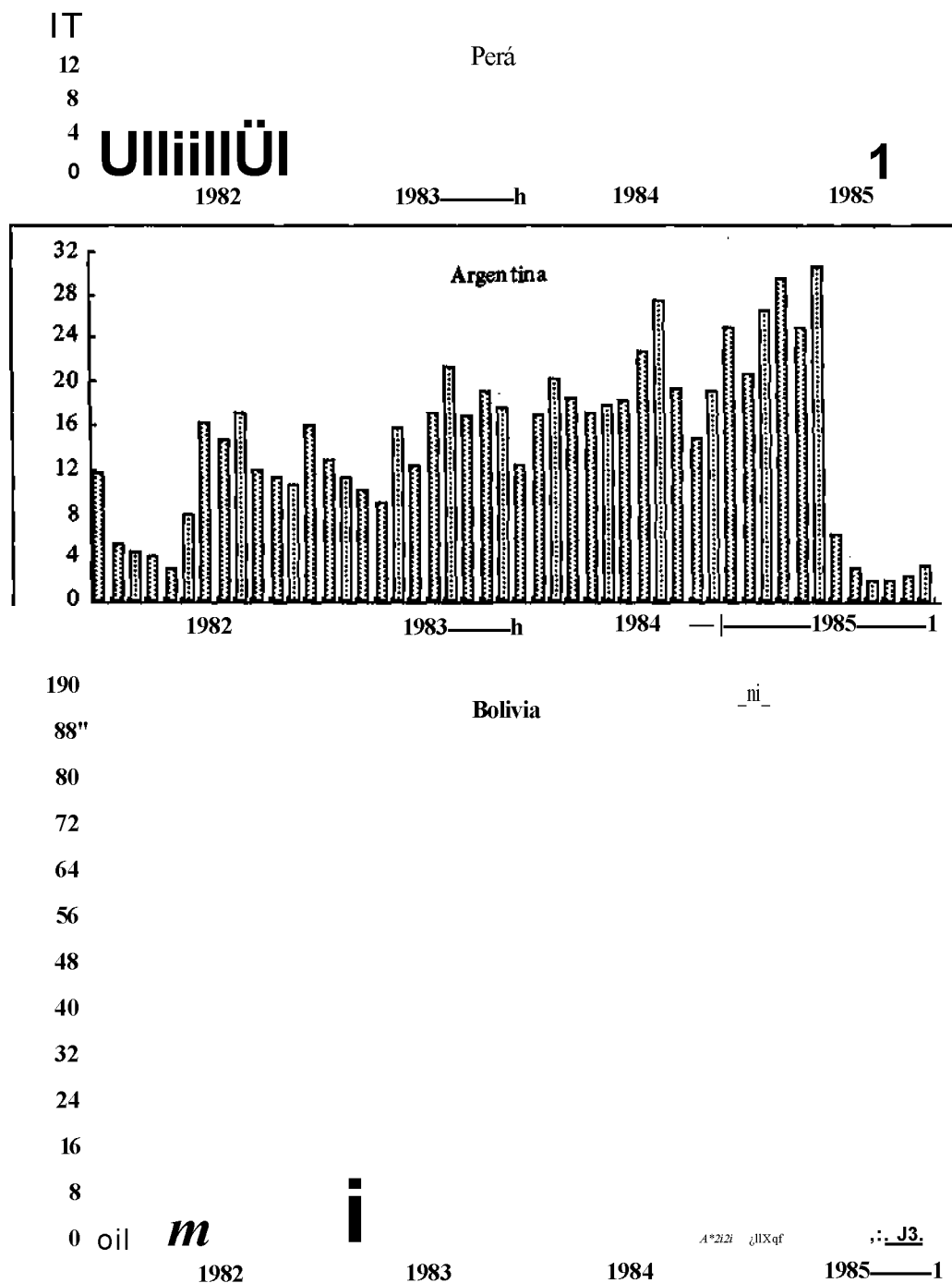
The initial impact of the plan was a sharp reduction in inflationary expectations and in the enormous inertial component of Argentine inflation. This was reflected in a steep drop in the rate of consumer price increases from more than 30% in June to a monthly average of just slightly over 2% in the September-December period (see figure 5).

Inflation followed a similar path in Peru, although its level was lower and the changes which took place were of a lesser magnitude than in Argentina. In Peru the rate of price increases climbed so sharply in early 1985 that, beginning in April the monthly rate of inflation was over 10%. Consequently, the 12-monthly variation in the consumer price index rose steadily from 111% at the end of 1984 to almost 185% in July 1985.

Faced with these circumstances, the new government which took office at the end of July rapidly applied a series of measures designed to reduce inflation, revived the economy and diminish the external imbalance. At the beginning of August, the Government devalued the sol by 12% and authorized a parallel exchange market. In addition, foreign currency deposits within the financial system were frozen for 90 days; the minimum wage was adjusted by 50%, the wages of government

Figure 5
MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX
OF ARGENTINA, BOLIVIA AND PERU

(Percentages)



Source: ECLAC, on the basis of official data.

employees by 15 % and those of teachers by 22 % ; the price of gasoline was increased by 33 % ; and the rates and prices charged by a variety of public enterprises were increased. These measures were then reinforced by a reduction of interest rates from an effective level of over 200% to a legal maximum of 110% and by the decision to freeze prices, the exchange rate, wages and rents until the end of the year.

The immediate result of these measures was a sharp fall in the rate of inflation. Although consumer prices rose by 11% in August, mainly as a result of the devaluation, the readjustment of wages and the increase in the price of fuels, they subsequently rose much less. Thus, after five consecutive months during which the variation in the consumer price index had been higher than 10%, as from September it climbed at an average monthly rate of 3%.

During the final quarter there was also a radical change in the pattern of inflation in Bolivia, which was then experiencing the first case of hyperinflation in the history of Latin America. The annual rate of price increases, after having risen persistently from 25% at the end of 1981 to almost 2 200% at the close of 1984, continued to gather speed during the first eight months of 1985 until by August it had reached the figure of 20 500%, which was unprecedented in the region. The readjustments of the prices of fuels and of public services and rises in the exchange rate had a decisive impact upon this extraordinarily sharp increase in inflation. For example, in February alone —when the rate of exchange was raised from 9 000 to 45 000 pesos per dollar and the rates charged for electricity and public transport as well as the price of fuels were readjusted by between 250% and 500%— the level of consumer prices almost trebled. However, the main cause of the sharpening of inflation was the close link which, in practice, existed between the inflationary expectations of economic agents and the price of the dollar on the parallel market. As uncertainty increased and the economic situation continued to worsen, the price of the dollar increased at an exponential rate, climbing to above 1 million pesos in August and dragging the other prices along in its wake.

It was in these circumstances that, as a result of the change in government, economic policy underwent a sharp turnaround. Within the framework of a markedly liberal programme, in September the new government decided to raise the official rate of exchange from 75 000 to approximately 1 100 000 pesos per dollar —a figure which coincided with the going rate at the time on the parallel market— and announced that in the future the rate of exchange would be set by means of public sales of currency by the Central Bank. Simultaneously, a system of unrestricted imports was established, prices were completely freed (with the exception of the prices of gasoline, electricity, and urban passenger and railway transport), and it was decided that private sector wages would henceforth be established by free negotiation between the parties, while the wages of public-sector workers were frozen until the end of the year.

Although the immediate result of the new price measures was a further sharp rise (56%) in the consumer price index in September, they proved successful in considerably altering inflationary expectations. Thus, in October consumer prices fell by 2% and in November they rose by just over 3%. Consequently, the 12-month variation in the consumer price index —which in September had reached a new all-time high of more than 23 400%, fell to less than 8 200% in December.

The slackening off of inflation after the middle of 1985 was of course much less pronounced in Colombia, Chile and Ecuador, where the rate of price increases had sped up during the first semester largely as a result of policies designed to raise the real rate of exchange in these countries. Thus, in Colombia, while consumer prices had increased at an average monthly rate of 3.5% during the first semester, they remained almost stable between July and December. The trend was similar although less pronounced in Chile —where the average monthly variation of consumer prices fell from 3.2% during the first half of the year to 1.3% during the following six months— and in Ecuador —where the monthly rate of inflation dropped from 2.5 % during the first semester to 1 % in the second. Thus, by the end of the year, the rate of inflation in these three countries tended towards a level of between 23 % and 26%. These levels represented a slight fall in the annual rate of consumer price increases in Ecuador and a small rise in Colombia and Chile in comparison with the figures for 1984 (see figure 6).

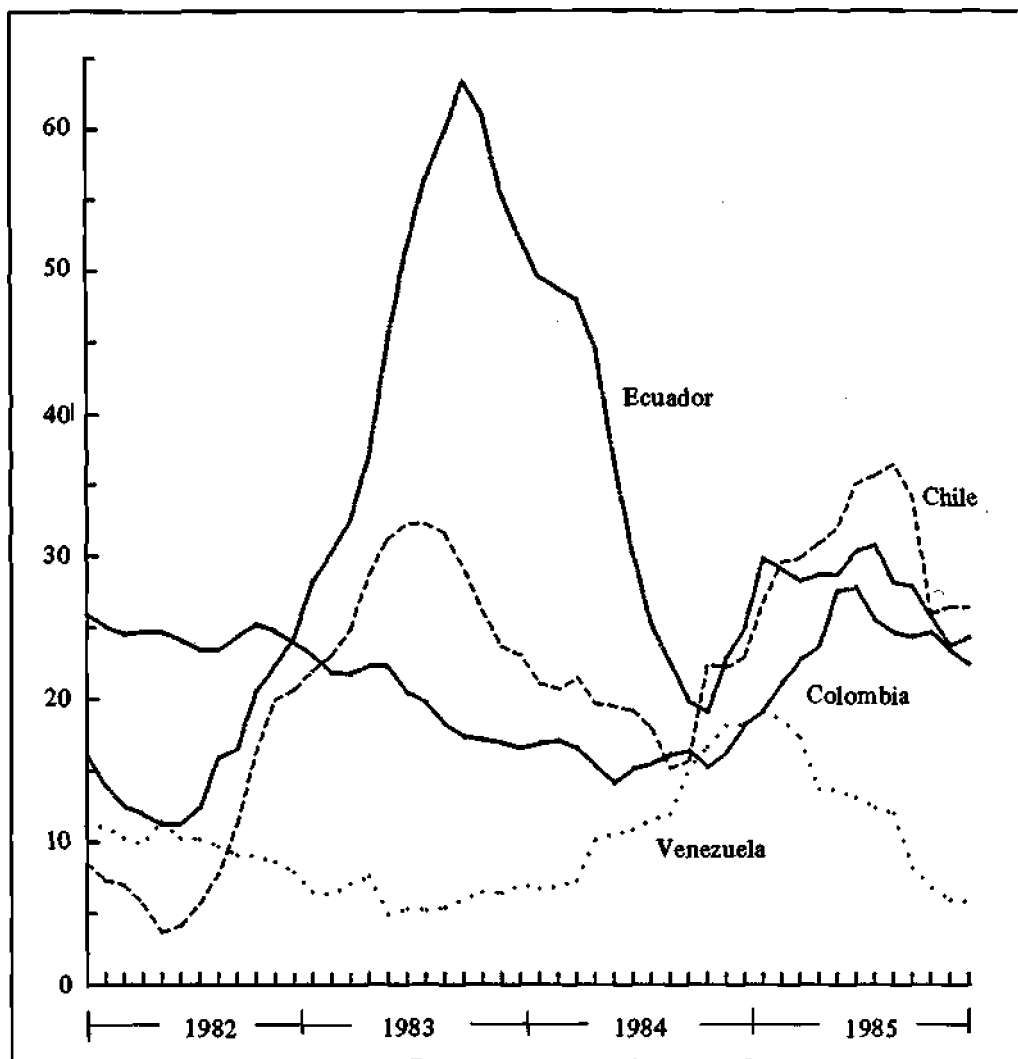
During 1985 there was also a turnaround in the upward path followed by inflation since the middle of 1983 in Venezuela and since the beginning of 1984 in the Dominican Republic and Costa Rica.

The change was quite marked in Venezuela, where consumer prices, after having risen by more than 18% in 1984, increased by less than 6% in 1985. This decline in the rate of inflation was influenced by the restrictive fiscal and monetary policy implemented by the Government, the sluggishness of economic activity and the high level of unemployment, which more than offset the

Figure 6

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

(Percentages)



Source: EC LAC, on the basis of official data.

upward pressure generated by the increases in a number of agricultural prices that were authorized in 1985 and by the elimination of the preferential exchange rate which had been used in importing some essential products.

In the Dominican Republic, after having risen steadily from less than 10% at the beginning of 1984 to almost 50% in March 1985, inflation then fell almost without interruption to slightly more than 23% at the end of the year (see figure 7). The path followed by inflation was closely connected to the evolution of exchange parity and to the adjustment and stabilization policies implemented by the economic authorities. Thus, the acceleration of the rate of price increases at the beginning of the year largely sprang from the unification of the different exchange rates in January and from the decision which was taken at the same time to allow the market to freely set the rate of exchange. It was also affected by the increases in interest rates, in electricity prices and in the prices of fuels and foodstuffs

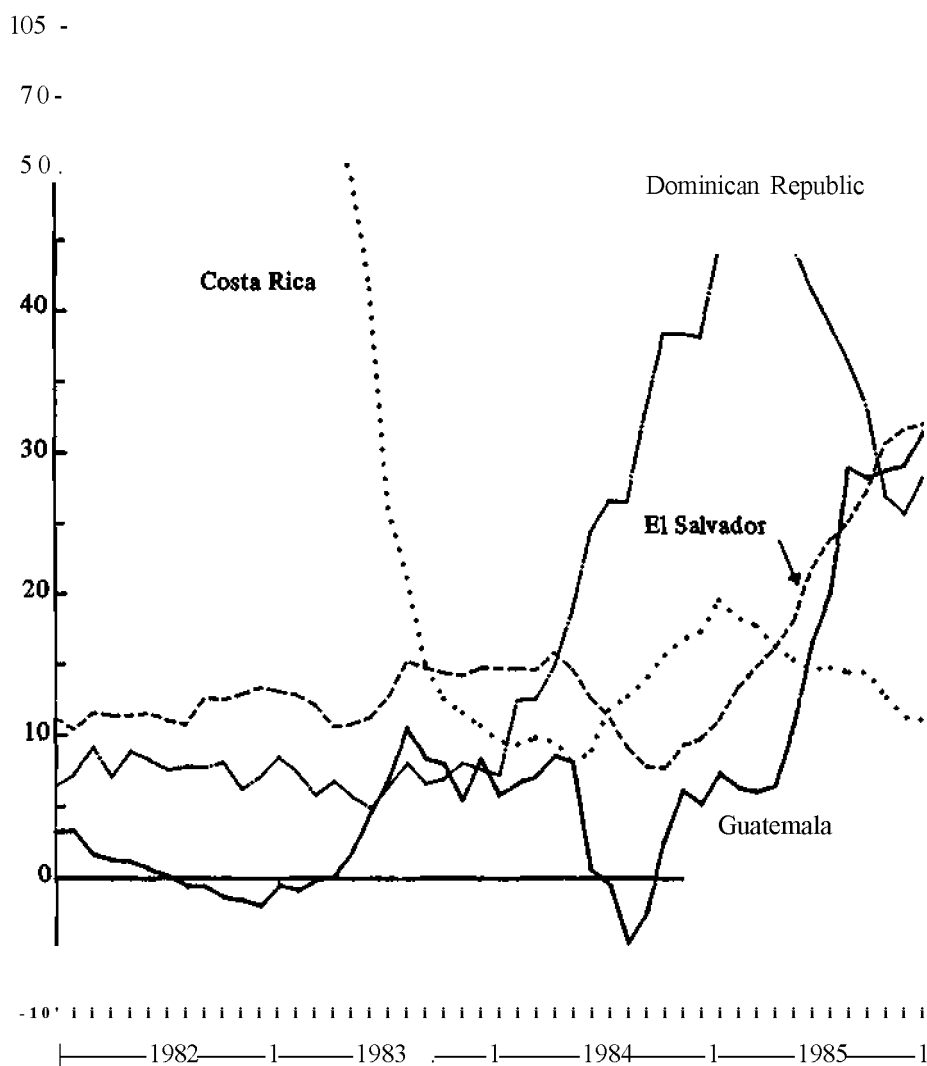
which were subject to price controls. In turn, the subsequent downturn in the rate of inflation was influenced by the fall and later stabilization of exchange parity and the extremely restrictive nature of monetary and credit policy.

The implementation of a stricter monetary policy than in the past and the postponement of new public investment projects were also major causes of the slackening of inflation in Costa Rica from over 17% in 1984 to less than 11% in 1985. This decrease was also facilitated by the relatively moderate readjustments authorized by the Government for controlled prices, which rose considerably less than free prices.

Figure 7

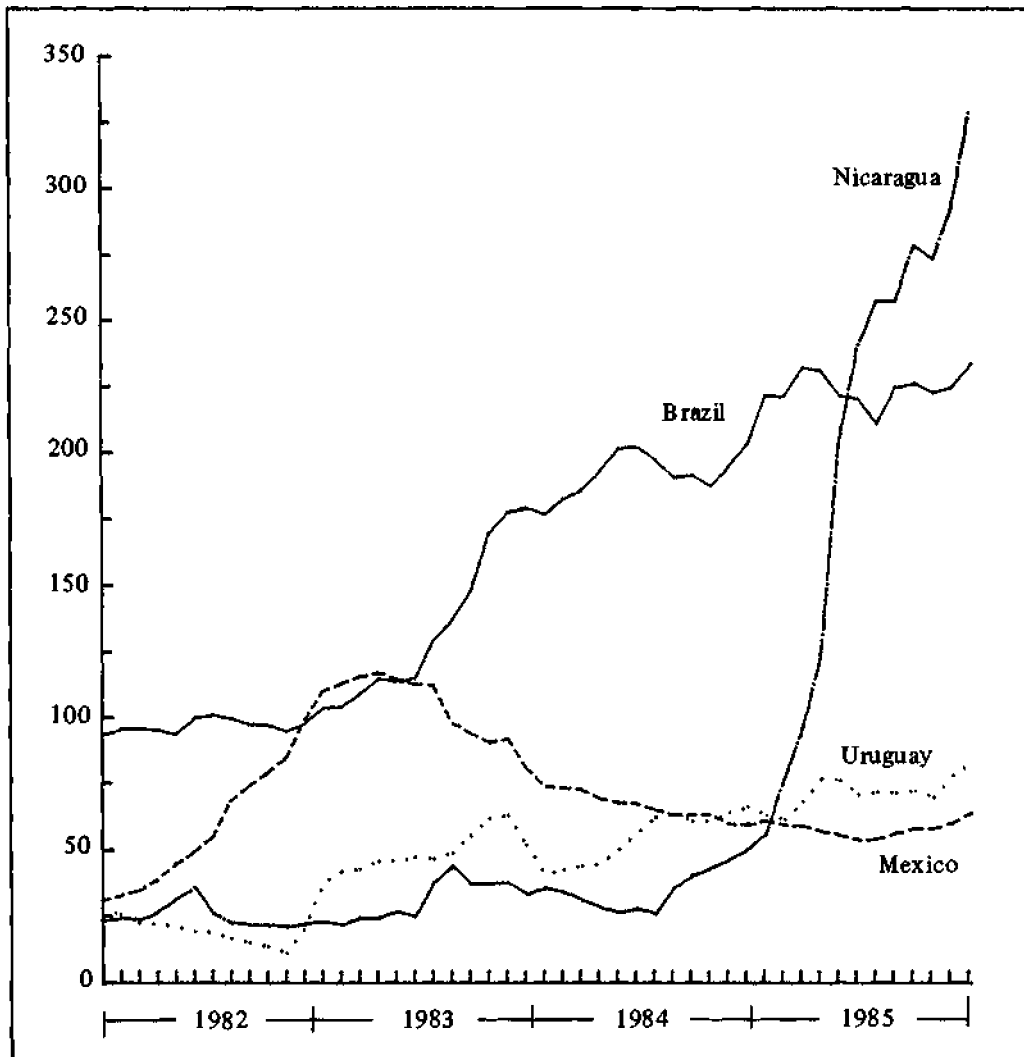
**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE
CONSUMER PRICE INDEX OF SELECTED COUNTRIES**

(Percentages)



Source: ECLAC, on the basis of official data.

Figure 8
**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE
 CONSUMER PRICE INDEX OF SELECTED COUNTRIES**
(Percentages)



Source: ECLAC, on the basis of official data.

In contrast, inflation continued to rise rapidly in Brazil and Uruguay, while the downward trend it had followed in Mexico since the beginning of 1983 was reversed. In Brazil, the 12-month variation in the national index of consumer prices—which had gradually risen during 1984 from 175% to 203%—fluctuated around 220%, both at the beginning and end of 1985 (see figure 8). As in previous years, the persistence of inflation continued to be deeply influenced by the expectations of the vast majority of economic agents and the extensive system of indexation of almost all the main cost components. However, the impact of these factors—which account for the high inertial component in Brazilian inflation—was compounded by an extremely rapid expansion of the means of payment and a 6.5% increase in real remunerations in 1985.

Inflation increased for the third consecutive year in Uruguay in 1985: consumer prices rose by 83%, a figure which is comparable only to that of 1979. Nevertheless, this increase was within the

forecasts of the new government's financial programme, which succeeded in considerably reducing the public sector deficit. However, this change did not only result from a major increase in taxes, but also from sharp readjustments in the prices and rates charged by public enterprises, which in the short term contributed to an increase in the rate of inflation. Inflation was also affected by the evolution of average real wages, which rose by 14% in spite of the stagnation of economic activity and the persistence of a high rate of unemployment.

In Mexico, inflation, which reached 64%, was slightly higher than the 59% recorded in 1984. However, this similarity masks the differences in the inflationary trends seen in these two years. In 1984, the rate of inflation fell gradually but regularly, and this trend persisted, although the decline became slower and slower, until the middle of 1985. However, from then on, and mainly as a result of the sharp devaluation of the peso which took place in July, the trend was reversed and the rate of consumer price increases rose rapidly.

Finally, in 1985 inflation rose sharply in El Salvador and Guatemala and extraordinarily so in Nicaragua. In the first two countries—which had been among the few in the region with inflation of below 10% in 1984—consumer prices rose by approximately 31%, the highest figure ever recorded there. In Nicaragua—where inflation had already risen considerably in 1984—it soared after the first few months of 1985 as a result of a large increase in the official rate of exchange in February, the reduction of the subsidies granted by the Government for a series of basic consumer goods, and the upheavals caused by the armed conflict in the country. As a result, prices rose steeply and the 12-month variation in the consumer price index reached an all-time high of 335% (see figure 8).

2. Wages

The evolution of real wages in the various countries of the region was extremely uneven in 1985, thereby reflecting the disparate trends of their economies and their rates of inflation, as well as the differences in the wages policies they implemented. Thus, while real wages again fell in the majority of the countries, the sizes of the decreases differed considerably. The shrinkage in the purchasing power of wages was noteworthy in Argentina, Nicaragua, Peru, Guatemala and El Salvador; in all these countries inflation was extremely high and economic activity either declined or only increased very slightly.¹ In five other countries—Colombia, Chile, Ecuador, Honduras and the Dominican Republic—real wages clearly fell, although rather more moderately. On the other hand, the purchasing power of salaries and wages did not change significantly in Mexico, Panama, Paraguay or Venezuela, while in Brazil, Costa Rica and Uruguay, real wages rose markedly (see figure 9)-

In Argentina the sharp drop observed in all basic wages came after two years during which they had experienced equally noteworthy rises (see tables 14 to 17). Actually, real wages had begun to fall sharply in late 1984 as a result of both the acceleration of inflation and the shrinkage of productive activity. In accordance with the Austral Plan, wages were frozen as from July and the previous system of automatic indexation was abandoned. However, the clear slowdown in the rate of inflation which, as has already been mentioned, was brought about by the Plan helped to curb the drop in wages somewhat during the second semester (see figure 10). Although industrial wages showed a real shrinkage of over 13%, this was considerably smaller than the decrease in other wages. Moreover, in view of the extraordinary increase in wages in 1983 and in 1984, their purchasing power was still well in excess of the level recorded between 1976 and 1983. Real average public sector wages fell by almost 18% while the purchasing power of both the minimum urban wage and the average construction wage fell by 30%. Nevertheless, the real value of all of these wages remained higher than it had been three years previously.

The shrinkage in real wages was also very marked in Peru. However, in contrast with the situation in Argentina, this decrease followed upon other declines in previous years. Although in August and October general wage increases were granted, the acceleration of inflation during the first semester and the stagnation of domestic activity during the same period led to a decline in wages in

¹Although no precise data are available in this respect, it would seem reasonable to assume that real remunerations also fell considerably in Bolivia, where inflation was unusually high in 1985 and where the per capita product fell by more than 4%. In spite of the four readjustments granted during the year, the minimum wage fell by 46% in real terms. Bolivia was not included in table 14 due to the insufficient length of the statistical series covering the minimum wage, which was only established in October 1982.

Figure 9
 LATIN AMERICA: AVERAGE REAL WAGES IN SELECTED COUNTRIES
 (Indexes: 1980'-100)

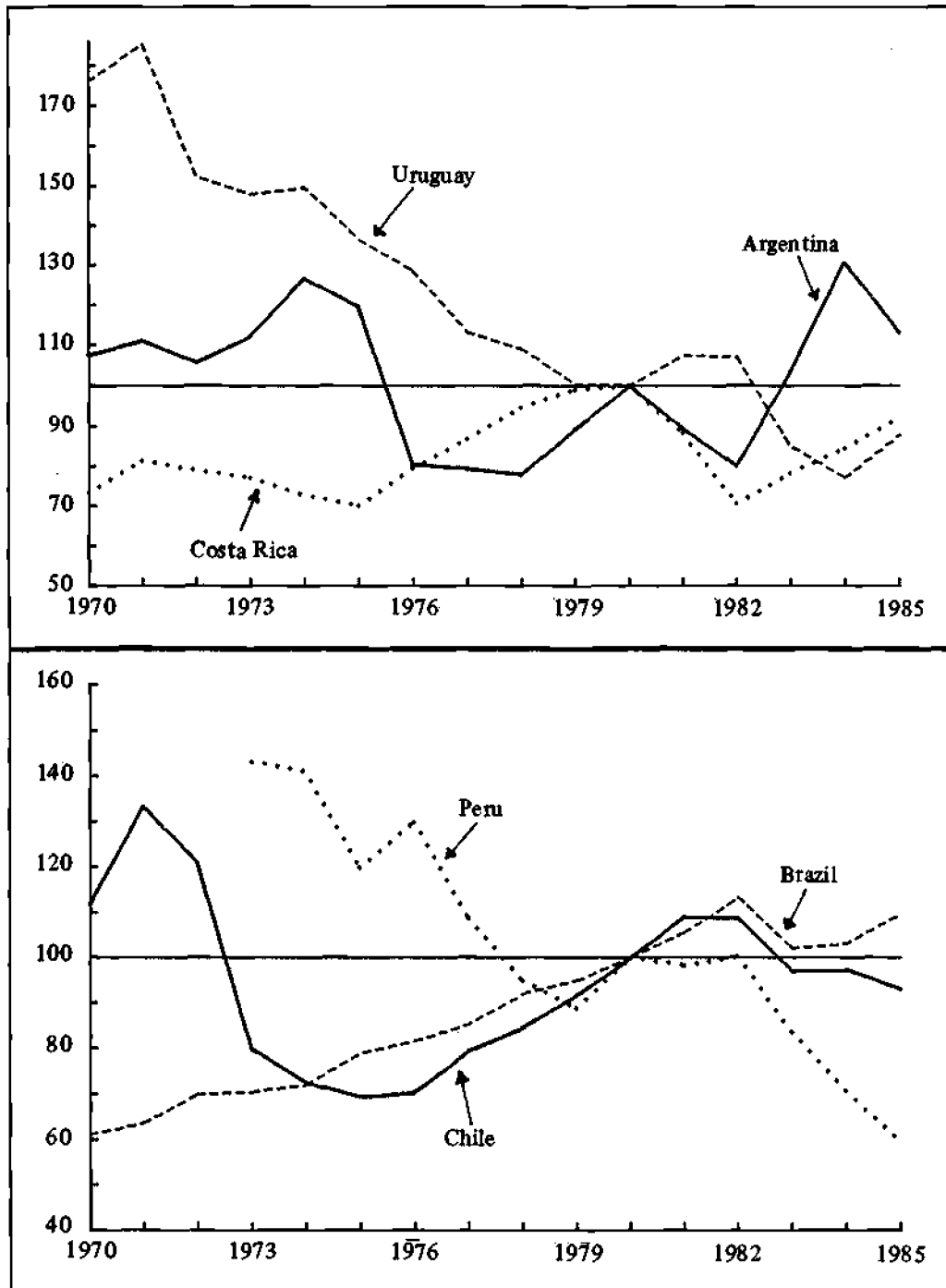
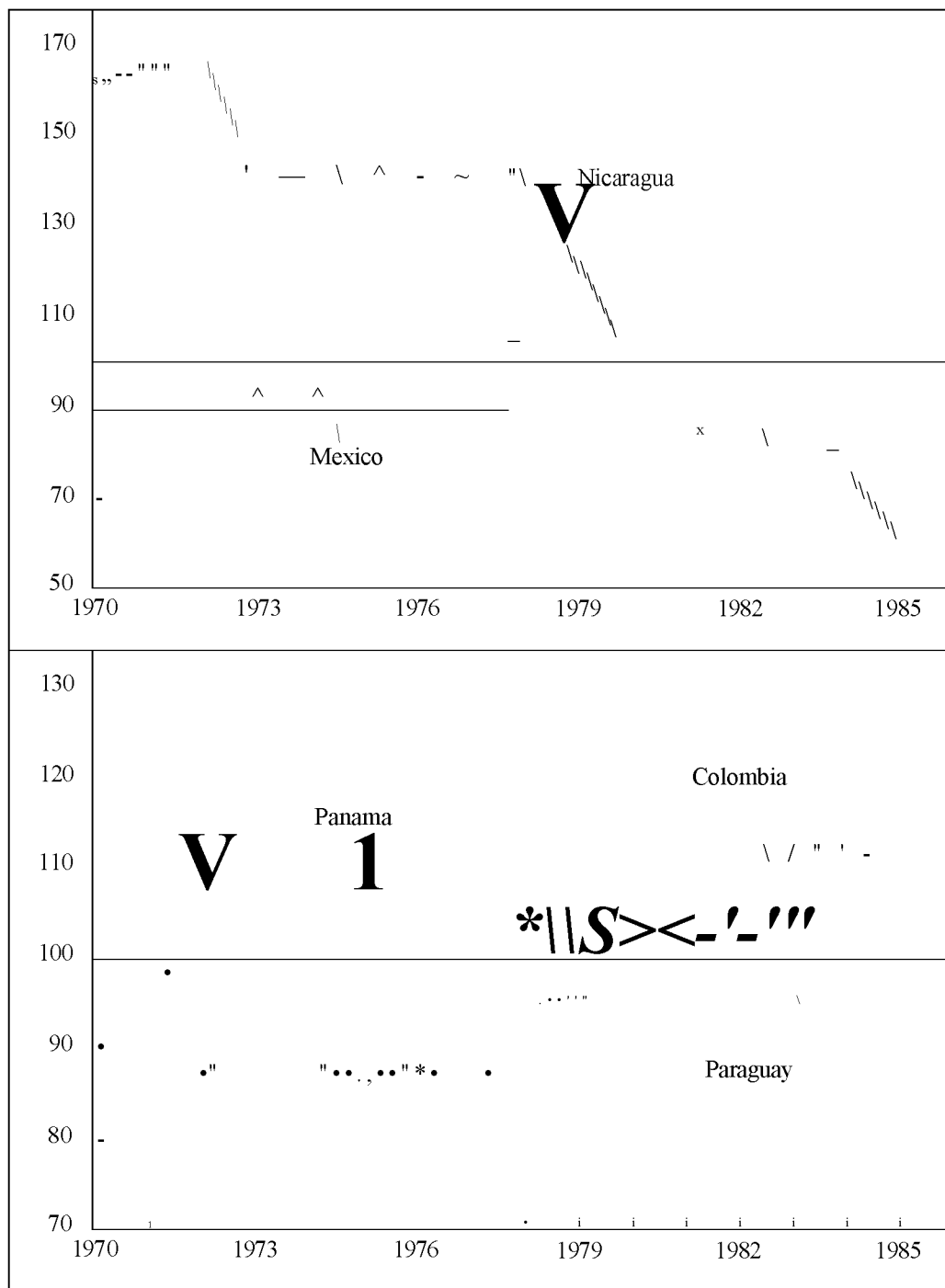


Figure 9

LATIN AMERICA: AVERAGE REAL WAGES IN SELECTED COUNTRIES (concluded)

(Indexes: 1980 = 100)



Source: ECLAC, on the basis of official data.

Table 14

LATIN AMERICA: REAL URBAN MINIMUM WAGE

	1979	1980	1981	1982	1983	1984	1985°
Average annual indexes (1980 = 100)							
Argentina	85.3	100.0	97.8	97.8	136.9	167.7	117.1
Brazil'	97.5	100.0	104.4	104.9	93.0	86.0	88.8
Colombia	97.5	100.0	98.9	103.2	107.6	113.3	109.1
Costa Rica	98.5	100.0	90.4	85.9	99.3	104.4	112.2
Chile'	99.8	100.0	115.9	116.6	93.9	80.3	76.1
Ecuador	60.4	100.0	86.2	75.9	63.6	62.8	60.8
El Salvador*	87.7	100.0	96.8	86.6	76.5	76.8	66.3
Guatemala	62.5	100.0	89.8	89.6	85.5	82.8	69.8
Haiti*	85.8	100.0	96.3	100.8	94.0	87.1	
Honduras'	109.2	100.0	105.6	104.5	96.6	92.1	88.8
Mexico ⁷	107.2	100.0	101.9	92.7	76.6	72.3	71.7
Nicaragua	112.7	100.0	90.2	74.4	56.7	63.6	45.1
Panama	113.6	100.0	116.5	111.8	129.2	127.2	125.7
Paraguay" ¹	92.4	100.0	103.6	101.4	93.9	93.7	100.1
Peru"	80.8	100.0	83.4	77.1	79.0	61.1	53.4
Dominican Republic	105.0	100.0	93.0	86.4	80.8	82.0	80.2
Uruguay"	104.8	100.0	103.4	104.6	89.6	89.9	94.1
Venezuela"	60.7	100.0	83.7	76.0	71.0	61.8	80.3
Percentage variation'							
Argentina	13.7	17.3	-2.2	0.1	39.9	22.5	-30.2
Brazil	-0.2	2.6	4.4	0.4	-11.3	-7.5	3.3
Colombia	10.7	2.5	-1.1	4.3	4.3	5.3	-3.7
Costa Rica	2.6	14	-9.6	-5.1	15.7	5.2	7.4
Chile	-0.8	0.2	15.9	0.7	-19.5	-14.6	-5.1
Ecuador	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.2
El Salvador	-2.9	8.6	-3.2	-10.5	-11.7	0.4	-13.6
Guatemala	-10.7	59.9	-10.2	-0.2	-4.6	-3.2	-15.7
Haiti	-8.8	16.5	-3.7	4.7	-6.7	-7.3	
Honduras	11.5	-8.3	5.0	-0.5	-7.7	-4.5	-3.3
Mexico	-1.3	-6.7	1.9	-9.0	-17.4	-5.6	-0.9
Nicaragua	-5.9	-11.3	-9.8	-17.5	-23.8	12.1	-29.1
Panama	-1.8	-12.0	16.5	-4.0	15.6	-1.6	-1.0
Paraguay	-2.5	8.0	3.6	-2.0	-7.5	-0.2	6.9
Peru	11.7	27.8	-16.6	-7.6	2.4	-22.6	-12.5
Dominican Republic	9.7	-4.8	-7.0	-7.1	-6.5	1.5	-2.2
Uruguay	-7.7	-4.6	3.4	1.2	-14.3	0.3	4.7
Venezuela	-11.0	64.7	-16.3	-9.2	-6.6	-13.0	30.0

Source: ECLAC, on the basis of official data.

"Preliminary figures. National minimum wage. ° Minimum wage for the dry of Rio de Janeiro, deflated by the corresponding consumer price index. 'Minimum wage for upper urban sectors. 'Minimum income. Minimum overall living wage, calculated on the basis of annual minimum living wages and legal supplementary benefits. 'Minimum wage for non-agricultural activities in San Salvador. Minimum daily wage paid in industrial firms. 'Minimum wage in the Central District and San Pedro Sula, for manufacturing. 'Minimum wage in Mexico City, deflated by the corresponding consumer price index. Minimum wage for industrial workers in the Department of Managua. 'Minimum wage applying to all activities except construction and domestic service. "Minimum wage in Asunción and Puerto St roes s ne r "Minimum wage in Metropolitan Lima for non-agricultural activities. "National minimum wage for workers over 18 years of age. ^National minimum wage for non-agricultural activities. *In comparison to the same period of the previous year.

almost all sectors. The sharpest decrease was recorded in construction, where the average wage fell by 22%, after having dropped by 15% both in 1983 and in 1984. Thus, its real level in 1985 was 43% lower than in 1982. The evolution of wages paid in the public sector was even more negative, as they fell sharply for the fifth year in a row, thereby accumulating a drop of 56% between 1980 and 1985. The special readjustments granted in the minimum wage helped to ensure that the fall in its purchasing power was somewhat less pronounced (-13%). Nevertheless, as this wage had also decreased sharply during the previous four years, its purchasing power in 1985 was barely more than half that of 1980 (see table 14).

The deterioration in real wages in Nicaragua was even more pronounced. The readjustments granted in February, March and May proved incapable of checking the unfavourable impact of the sharp rise in inflation upon the purchasing power of the minimum wage, which fell by 29% and was consequently worth barely 40% of what it had been six years before. The real average wages of individuals covered by social security dropped by approximately 17%, thereby continuing their sharp and sustained decline of the previous six years (see figure 9).

Real wages also fell considerably in Guatemala and El Salvador. In the first of these countries, the purchasing power of the minimum wage decreased by 16% as the result of the maintenance of an extremely restrictive wage policy² and of the acceleration of inflation. The wages of State employees

Table 15

LATIN AMERICA: REAL AVERAGE WAGES

	1979	1980	1981	1982	1983	1984	1985"
Average annual indexes (1980 = 100)							
Argentina	89.5	100.0	89.4	80.1	103.6	131.0	113.4
Brazil ^f	95.0	100.0	105.5	113.3	101.9	103.0	109.7
Colombia"	99.3	100.0	101.4	105.2	110.4	118.7	114.9
Costa Rica ^g	99.2	100.0	88.3	70.8	78.5	84.7	92.2
Chile'	91.8	100.0	109.1	108.7	97.1	97.4	93.0
Mexico*	102.9	100.0	103.6	104.4	80.7	75.7	76.6
Nicaragua	122.7	100.0	101.3	91.8	84.5	75.8	60.4
Panama ^h	104.8	100.0	98.6	100.4	104.6	108.1	
Paraguay ⁷	99.4	100.0	105.3	102.4	95.2	91.8	89.9
Peru	88.9	100.0	98.2	100.4	83.6	70.8	59.6
Uruguay	100.4	100.0	107.5	107.1	84.9	77.1	88.0
Percentage variation¹							
Argentina	14.3	11.8	-10.6	-10.4	29.3	26.4	-13.4
Brazil	3.3	5.3	5.5	7.4	-10.1	1.1	6.5
Colombia	6.5	0.8	1.4	3.7	5.0	7.5	-3.2
Costa Rica	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9
Chile	8.3	9.0	9.1	-0.4	-10.6	0.3	-4.5
Mexico	-1.4	-2.9	3.6	0.8	-22.7	-6.2	12
Nicaragua	-14.3	-18.5	1.3	-9.4	-7.8	-10.3	-17.5
Panama	-0.1	-4.6	-1.4	1.8	4.1	3.4	
Paraguay	-6.5	0.7	5.3	-2.7	-7.1	-3.5	-2.1
Peru	-6.3	12.4	-1.8	2.2	-16.7	-15.3	-15.8
Uruguay	-8.1	-0.4	7.5	-0.3	-20.7	-9.2	14.1

Source: ECLAC, on the basis of official data.

"Preliminary figures. ^fWages of manual workers in manufacturing. ^gAverage wages in manufacturing, deflated by the consumer price index for Rio de Janeiro. Wages of manual workers in manufacturing. ^hWages or salaries declared by persons covered by social security. Average wages of workers in non-agricultural sector. ⁷Average wages in manufacturing. Average wages of persons covered by social security; 1985: January-October average. ⁷Average industrial wage in the distrias of Panama and Colón. ⁷Wage of manual workers in Asunción. Wages of private-sea or manual workers in Metropolitan Lima. Index of average real wages. ¹In comparison with the same period of the previous year.

²Since 1980 neither urban nor rural minimum wages have been readjusted.

Table 16

LATIN AMERICA: REAL WAGES IN THE CONSTRUCTION SECTOR

	1978	1979	1980	1981	1982	1983	1984	1985°
Average annual indexes (1980 = 100)								
Argentina	84.7	84.6	100.0	91.3	82.5	125.6	149.0	104.3
Brazil ¹	107.0	99.3	100.0	96.0	94.2	83.0	80.0	82.8
Colombia	78.9	89.0	100.0	105.6	105.9	111.3	115.2	108.4
Costa Rica ¹	94.7	103.3	100.0	85.1	66.0	79.8	86.8	95.6
Chile ⁷	84.8	91.9	100.0	105.6	100.2	75.0	73.4	61.4
Guatemala*	88.4	95.2	100.0	122.2	121.7	109.5		
Honduras*	89.7	107.2	100.0	104.5	102.2	94.4	90.1	87.1
Mexico ¹	103.9	104.6	100.0	103.3	101.1	78.0	72.7	69.5
Nicaragua ⁷	137.1	116.8	100.0	99.5	94.1	96.9	94.9	78.6
Panama			100.0	100.2	101.5	106.0	107.8	109.0
Paraguay	116.9	103.8	100.0	104.7	98.5	87.2	89.3	93.1
Peru ¹	93.0	95.1	100.0	99.0	108.5	91.6	78.0	61.6
Uruguay ¹	120.5	108.3	100.0	110.5	104.9	80.1	64.7	70.9
Venezuela ¹	100.7	100.8	100.0	90.8	80.1	80.7	57.7	
Percentage variation ¹								
Argentina	-29.9	-0.1	18.2	-8.7	-9.6	52.2	18.6	-30.0
Brazil	-2.8	-7.2	0.7	-4.0	-1.3	-12.4	-3.6	3.5
Colombia	14.9	12.8	12.3	5.6	0.3	5.1	3.5	-5.9
Costa Rica	8.8	9.1	-3.2	-14.9	-22.4	20.8	8.7	10.2
Chile	4.3	8.4	8.8	5.6	-5.1	-25.2	-2.2	-16.4
Guatemala	-1.7	7.7	5.0	22.2	-0.4	-10.0		
Honduras	-5.4	19.0	-6.7	4.5	-2.2	-7.7	-4.5	-3.3
Mexico	-	0.7	-4.4	3.3	-2.1	-22.8	-6.8	-4.5
Nicaragua	2.2	-15.2	-14.0	-0.5	-5.4	3.0	-2.1	-17.2
Panama			0.2	13	4.4	17	1.1	
Paraguay	6.3	-11.1	-3.8	4.7	-6.0	-11.5	2.5	4.2
Peru	12.1	2.3	5.2	-1.0	9.6	-15.5	-15.1	-22.3
Uruguay	-4.8	-10.1	-7.7	10.5	-5.0	-23.6	-19.2	9.5
Venezuela	6.3	0.2	-0.2	-9.2	-1.1	2.0	-28.5	

Source: ECLAC, on the basis of official data.

¹Preliminary figures. Average cost of labour, including social security contributions, in the Federal Capital; 12-month average. ²Hourly labourer's wage in Rio de Janeiro; 12-month average. ³Average cost of labour in Bogota; 12-month average. ⁴Average wage according to household surveys. Average for March, June and November; 1981-1: average for March and November. ⁵Up to 1983: salaries and wages for average construction work; from 1984: average wage in the sector; 12-month average. ⁶Average wage of persons covered by social security; annual average. ⁷Minimum wage for construction in the Central District and San Pedro Sula. ⁸Average cost of labour in the country; 12-month average. ⁹Average wage of persons covered by social security; 12-month average; 1985: January-October average. ¹⁰Collective agreement wage in Panama City; annual average. ¹¹Average wage of manual workers in Asuncion; average for June and December. ¹²Average wage in the Lima metropolitan area; average for February, May, August and November; 1985: average for February, May and August. ¹³Average cost of labour in the country; 12-month average. ¹⁴Average wage of manual and office workers. ¹⁵In comparison with the same period of the previous year.

—whose nominal level had remained constant since 1979— underwent a similar decline in real terms. In El Salvador, the sharper rate of price increases led to a 14% shrinkage in the real minimum urban wage, which fell to its lowest level of the last ten years. While no precise statistical data on other wages were available, it is likely that they also declined considerably, since, for example, the wages of public employees were frozen for most of the year and they received a special bonus of only 10% in December.

Real wages also fell, although far more moderately, in Colombia and Chile. In Colombia, the 3% decline in average wages was the first to be recorded since 1977 (see figure 9). In view of the sharp deterioration which took place in employment in 1985, real income dropped most sharply in construction and in commerce (6% and 5%, respectively). The purchasing power of the minimum

wage decreased 4%, mainly as a result of the quickening of inflation during the first semester of the year.

The almost 5 % reduction in real average wages in Chile also largely reflected the impact of the sharper rate of price increases during the first months of the year. As a result of this shrinkage, the purchasing power of average wages fell to its lowest level since 1979. The minimum wage underwent a similar decrease in real terms. However, as it had fallen even more steeply than average wages had during the previous two years, it was 35% lower in 1985 than in 1982. The decline in real wages in construction, which fell by 16%, was sharper, and the cumulative decrease was thus more than 40% over the last four years. However, both average and minimum wages recovered to some extent towards the end of the year. This was a result of the decline in inflation during this period as well as of the less restrictive nature of wage policies during the last quarter of the year. As from September, a number of premiums and bonuses, were granted, most of them on a progressive scale so as to be of greatest benefit to those earning the lowest wages. In addition, the annual readjustment of the minimum wage and of the salaries of public employees was brought forward to December.

In Ecuador, Honduras and the Dominican Republic —for which information was available only on the minimum wage— the purchasing power of this wage fell slightly. Although in Ecuador the minimum urban wage was readjusted in March, its real value decreased for the fifth year running, as a result of which it has declined by 40% over the last five years. In the Dominican Republic too, the 40% increase in the minimum wage in July failed to totally offset the impact of growing inflation and, as a consequence, its purchasing power fell by 2%. In Honduras —where the minimum wage has remained unaltered since 1981 and public sector wages have been frozen since 1982— the purchasing power of the minimum wage fell by 3%. As a result of this shrinkage and of those which had taken place during four of the previous five years, the real value of the minimum wage was almost 20%

Table 17

LATIN AMERICA: AVERAGE REAL PUBLIC-SECTOR WAGES

	1978	1979	1980	1981	1982	1983	1984	1985"
Average annual indexes (1980 = 100)								
Argentina	81.2	84.6	100.0	96.7	77.0	95.6	107.4	88.4
Brazil	114.8	115.3	100.0	111.1	110.8	102.7		
Costa Rica	105.5	108.0	100.0	84.8	64.7	71.0	74.6	83.6
Chile'	86.6	93.1	100.0	109.0	116.3	100.2	101.1	95.2
Mexico			100.0	106.1	95.1	75.2		
Panama ⁸			100.0	100.3	98.1	105.1	107.0	
Peru	67.6	73.3	100.0	89.8	81.6	60.6	53.0	43.7
Uruguay'	101.7	94.4	100.0	107.1	106.9	83.8	73.2	83.5
Venezuela'	104.5	98.9	100.0	90.4	89.4	84.0	76.8	73.7
Percentage variation								
Argentina	9.9	4.3	18.2	-3.3	-20.4	24.3	12.3	-17.8
Brazil	15.4	0.4	-13.3	11.1	-0.3	-7.3		
Costa Rica	9.6	2.4	-7.4	-15.2	-23.8	9.8	5.1	12.1
Chile	3.2	7.5	7.4	8.9	6.7	-13.9	0.9	-5.8
Mexico				6.1	-10.4	-20.9		
Panama				0.3	-2.2	7.1	1.8	
Peru	-22.5	8.5	36.4	-10.2	-9.1	-25.7	-12.5	-18.8
Uruguay	-3.0	-7.1	5.9	7.1	-0.1	-21.6	-12.7	14.1
Venezuela	6.3	-5.3	1.1	-9.6	-1.1	-6.0	-8.6	-4.0

Source: ECLAC, on the basis of official data.

"Preliminary figures. Total wage in the middle grade of government service. ^c According to national accounts. ^d Includes central government and autonomous institutions. ^e Total government service; 12-month average. ^f According to national accounts. ^g Total public sector. Central government employees; for-quarter average. ^h Total public sector; 12-month average. ⁱ Total government service. In comparison with the same period of the previous year.

lower in 1985 than in 1979. However, during the second half of the year the wages of some public-sector employees (doctors and teachers) rose, and the wages of workers in the banana-producing sector were also increased.

In Venezuela, wage policy was more expansionary in 1985 than in previous years and included a sharp rise in the minimum wage. Thanks to this readjustment and to the marked slackening of inflation, the purchasing power of the minimum wage increased by 30%. Nevertheless, as a consequence of considerable contractions in the previous four years, its real value was still 20% lower than in 1980. On the other hand, the purchasing power of the wages of public employees—which had also declined continually during the previous four years—again fell in 1985, for a cumulative drop of almost 25% since 1980 (see table 17).

Real wages evolved less unfavourably in Mexico, Panama and Paraguay. The real value of industrial wages rose in Mexico for the first time since the onset of the crisis, although the rise was small (1%). However, owing to their dramatic drop in the previous two years, their purchasing power was barely equal to three-quarters of its value in the 1980-1982 triennium. As for the real value of the minimum wage, it fell for the fourth consecutive year, although this time more moderately (-1%). Finally, real wages in construction—which had already declined considerably in the previous three years—were down 5%.

In Panama, the real minimum wage fell slightly for the second year running, after having risen appreciably in 1981 and 1983. Consequently, its purchasing power was still 26% higher than in 1980. Real wages in construction rose by 1%, thereby continuing their slight upward trend of the previous four years (see tables 14 and 16).

The change in real wages was more pronounced, but also more varied, in Paraguay. Thus, while in real terms the minimum wage rose by 7%—as it was readjusted in February and October—the purchasing power of average wages fell by 2%. As this drop came on top of those which had taken place in previous years, purchasing power was 10% lower in 1985 than in 1980. The decrease in real wages was far more pronounced in the agricultural sector (-14%) than in transport (-4%) and industry (-3%) but they increased for the second year running in services (8%) and construction (4%).

Finally, there was an appreciable and widespread rise in wages in Brazil, Costa Rica and Uruguay. In Brazil industrial wages rose by 6.5% in real terms, thereby largely recovering from their shrinkage in 1983. Despite the quickening of inflation, these wages continued to increase steadily throughout the year (see figure 10). This was to a large extent accounted for by the considerable bargaining power of the unions, which managed to have the periods between wage adjustments shortened.³ The rise in real wages in construction—although more moderate (4%)—put an end to their sustained downturn of the three previous years and allowed them to almost completely recover their 1983 level. On the other hand, the purchasing power of the minimum wage climbed by only 3%, after having fallen sharply in 1982 and 1983.

In Costa Rica, the policy in this area was designed to increase real wages and thus offset the drops which had affected them in the early years of the decade. The readjustments decreed in January and July particularly favoured those wage-earners with the lowest incomes. As a result, the real minimum wage rose by more than 7% and reached a new all-time high (see table 14). On the other hand, the increase which occurred in real average wages for the third consecutive year, while higher (9%), failed to completely offset the huge decline of the 1981-1982 biennium (see figure 9). The real incomes of wage-earners in construction and the public sector rose even more (10% and 12%, respectively), although in the case of government employees, their real wages remained 16% lower than in 1980.

Finally, the most striking increases in real wages in 1985 were recorded in Uruguay. Following two years of substantial decreases, the purchasing power of average wages rose by 14%. The real wages of government employees increased by a similar amount, while those of workers in the construction sector rose slightly less but nevertheless appreciably (10%). These rises were attributable, first of all, to the general increase in remunerations decreed in December 1984 and, secondly, to the outcome of quarterly negotiations carried out within the wage councils.⁴ However, owing to the

³According to law these periods were set at six months. However, in 1985 the period was, in practice, shortened to three months in most large industrial enterprises.

⁴Wage councils, established in June 1985, are tripartite commissions for negotiating wages. On these councils, the government lays down overall guidelines for increases, but gives the enterprises and unions the possibility of setting higher percentage adjustments. In practice, during 1985 the increases agreed upon in these negotiations were always higher than the guidelines.

sharp fall of average real wages in the previous three years, in 1985 they were still 12% lower than in the years before the crisis. This gap was still wider in the case of the income of government employees and even more so in that of construction workers.

Table 18

LATIN AMERICA: VARIATIONS IN EXPORTS AND
IMPORTS OF GOODS

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America						
1971	3.1	0.1	3.1	11.2	7.8	3.1
1972	16.3	4.4	11.4	13.8	7.9	5.6
1973	44.3	8.1	33.3	32.8	13.8	16.6
1974	54.9	-6.5	65.7	72.1	19.3	44.2
1975	-8.0	-10.3	2.6	6.4	-3.4	10.2
1976	16.4	8.3	7.5	3.9	2.6	12
1977	19.4	1.9	17.2	15.1	6.8	7.7
1978	7.6	7.2	0.3	13.8	4.4	9.1
1979	34.5	9.7	22.7	25.8	7.6	16.9
1980	32.2	4.5	26.6	24.9	11.1	21.4
1981	7.6	8.6	-0.9	7.8	2.4	5.2
1982	-8.8	12	-9.9	-19.8	-18.6	-1.5
1983	-	7.6	-7.1	-28.5	-24.7	-5.1
1984	10.6	6.9	3.5	5.1	8.5	-3.1
1985"	-4.7	1.7	-6.3	-1.8	-0.8	-0.9
Oil •exporting countries						
1971	16.4	-1.5	18.2	11.9	8.6	3.0
1972	4.4	-2.1	6.6	13.3	3.3	9.7
1973	51.4	10.5	37.0	21.0	3.9	16.5
1974	131.2	-12.2	163.3	57.8	20.5	31.0
1975	-19.9	-23.0	4.0	36.7	25.0	9.4
1976	9.3	6.6	2.3	7.4	6.5	0.8
1977	12.4	-1.3	13.8	18.8	11.2	7.0
1978	8.3	6.5	1.8	16.7	4.3	11.9
1979	53.7	11.8	37.5	16.1	4.4	11.3
1980	42.3	0.2	42.0	32.4	16.5	13.6
1981	9.7	4.5	4.9	20.3	15.2	4.4
1982	-5.6	5.6	-10.6	-20.1	-18.6	-1.9
1983	-2.3	6.0	-7.8	-43.0	-41.3	-2.9
1984	7.8	5.4	2.3	19.0	19.0	0.1
1985"	-8.3	-3.6	-4.9	3.5	5.2	-1.6
Non-oil-exporting countries'						
1971	-0.8	1.7	-2.5	10.9	7.7	3.0
1972	20.4	10.6	8.9	13.9	8.6	4.9
1973	42.2	6.2	33.9	35.2	16.6	16.0
1974	31.0	-1.6	33.1	74.3	19.1	46.3
1975	-1.2	-0.1	-1.1	1.7	-7.3	9.7
1976	22.0	10.1	10.8	1.5	0.4	1.1
1977	24.1	5.2	18.1	12.4	4.3	7.8
1978	7.0	7.8	-0.8	11.7	4.4	7.1
1979	22.4	7.8	13.5	33.2	9.5	21.5
1980	24.3	8.6	14.4	36.5	7.9	26.6
1981	5.7	12.3	-5.9	-0.3	-5.8	5.9
1982	-11.8	-2.5	-9.6	-19.6	-18.6	-1.2
1983	2.4	9.1	-6.1	-17.2	-11.4	-6.5
1984	13.3	8.3	4.6	-2.3	3.1	-5.2
1985"	-1.4	6.2	-7.1	-5.2	-4.5	-0.8

Source: ECLAC, on the basis of official data.

"Preliminary figures.

"Up to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, includes Mexico and Peru in addition to the foregoing countries.

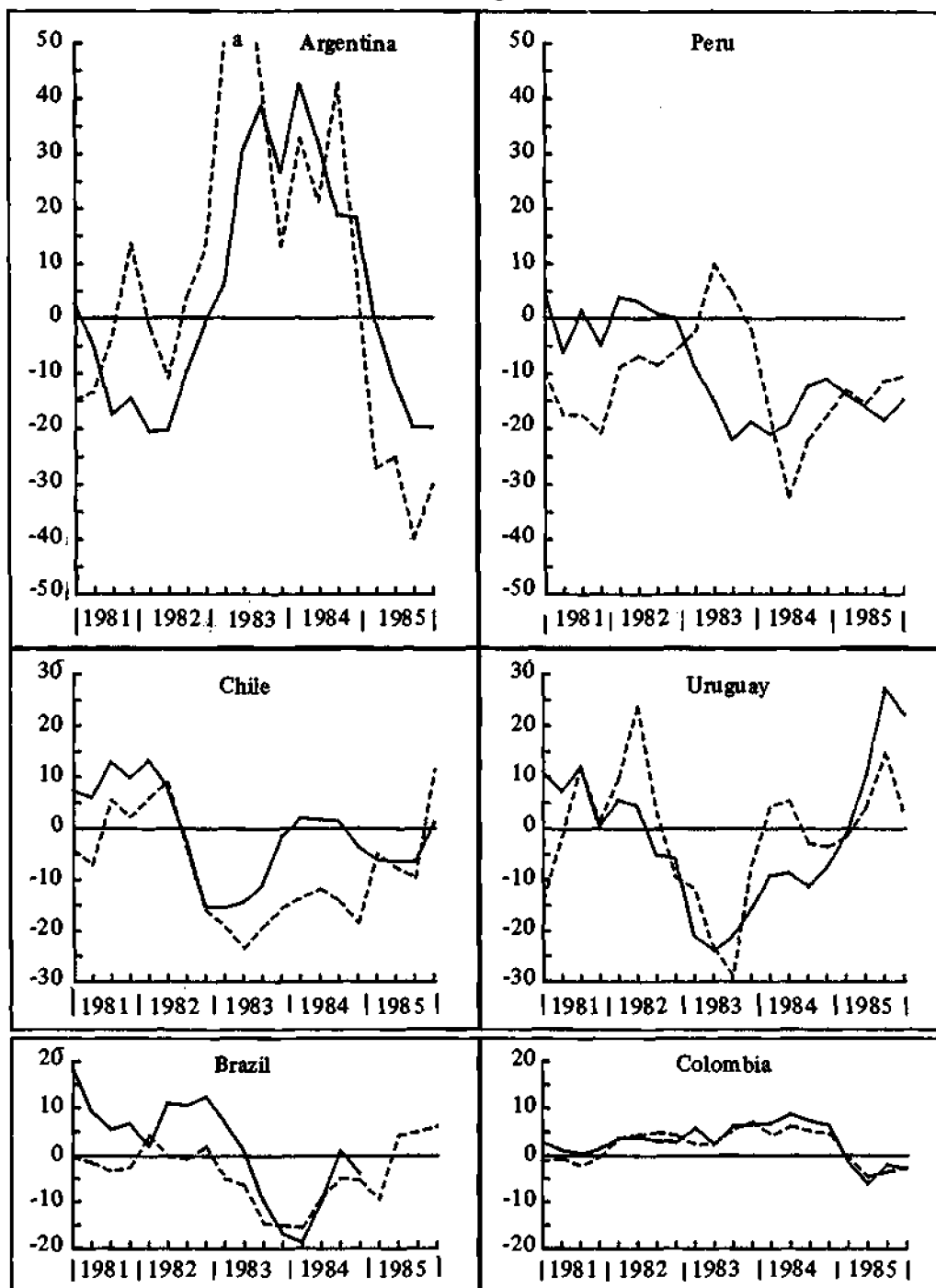
'From 1976 onwards, does not include Mexico or Peru.

Figure 10

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

Average wage in the manufacturing sector

Minimum urban wage



Source: ECLAC, on the basis of official data.

^aDuring the second quarter of 1983, the variation was 73.5 per cent

V. THE EXTERNAL SECTOR

The clear loss of dynamism in world trade —whose volume, after increasing by 9% in 1984, rose by approximately 3% in 1985— and the sharp and widespread fall in the international prices of commodities helped account for the discouraging turnaround in the results of the Latin American external sector in 1985. During the year, the distinct rising trend shown by the merchandise trade surplus since 1982 was reversed. Consequently, the current account deficit —which had fallen from US\$ 41 billion to just US\$ 1.9 billion between 1982 and 1984— rose to US\$ 3.2 billion in 1985. As there was a simultaneous sharp decline in the net capital inflow, the balance of payments showed a surplus of just over US\$ 2.8 billion, after having recorded a surplus of US\$ 8.3 billion the previous year. The contraction in the net inflow of loans and investment was, moreover, considerably higher than the drop in net transfers of interest and profits, as a result of which the transfer of resources abroad by Latin America rose substantially. On the other hand, as a result of the small amount of loans received, the external debt of Latin America grew by less than 2% and consequently shrank in real terms for the first time in the region's recent history.

1. External trade

a) *Exports of goods*

After having increased by approximately 11% in 1984, the value of Latin American exports of goods declined by almost 5% in 1985. The reason for this fall was the drop of more than 6% in the unit value of exports, which more than offset its slight recovery in 1984. On the other hand, the volume of exports rose by 2%, thus rounding off ten years of continued expansion. In contrast to 1984, this rise was accounted for solely by the non-petroleum-exporting countries as they continued to vigorously expand the volume of their exports (see table 18).

Although in 1985 the value of exports fell in 12 of the 19 countries for which information was available, the overall decline in external sales was mainly due to the sharp decreases recorded in Mexico, Venezuela, Brazil, the Dominican Republic, Bolivia and Nicaragua (see table 19).

In absolute terms, the sharpest decline took place in Mexico, whose exports fell from US\$ 24 billion in 1984 to US\$ 21.9 billion in 1985. This contraction was caused both by the considerable expansion of domestic demand and the fall in the real rate of exchange which took place in the first semester (which helped account for a 4% decline in the volume exported) as well as by the decrease in the international price of petroleum (which was the main reason for the 5% reduction in the unit value of external sales). The sluggishness of the petroleum market also proved to be the determining factor in the shrinkage of volume (-7%) and of the average price (-4%) of Venezuelan exports, which fell by more than US\$ 1.6 billion.

In Brazil (whose exports had expanded at the exceptional rate of 23% in 1984), however, the 5% shrinkage recorded in 1985 was exclusively due to the fall in unit value. This was also the sole reason for the sharp contraction in the value of the exports of the Dominican Republic (-15%) and of Uruguay (-8%). On the other hand, the 24% slump in Nicaragua's external sales —the largest in the region— was accounted for by the 6% fall in unit value and, above all, by the 19% reduction in the volume exported.

In contrast, in Argentina, Colombia, Chile, Ecuador, Haiti, Honduras, Panama and Paraguay the volume of exports expanded strikingly. Nevertheless, in all of these countries except Haiti, the decline in the average price of exports largely cancelled out the impact which the real expansion of exports had on their value.

b) *Imports of goods*

In 1985 the value of imports fell by almost 2%, after a weak recovery in 1984 following the sharp drop of the preceding two years. This decline corresponded both to a small drop in unit value and a very slight shrinkage in the volume imported.

The reduction in the amount of the external purchases made by the region as a whole reflected the net result of highly different changes in the imports of the various countries. Thus, while the value of imports rose by 19% in Mexico —after having increased by 32% in 1984— and by

Table 19
LATIN AMERICA: EXPORTS OF GOODS FOB
(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
	1985°	1983	1984	1985°	1985°	1983	1984	1985°	1985°	1983	1984	1985°
Latin America	103	-	10.6	-4.7	81	-7.1	3.5	-6.3	129	7.6	6.9	1.7
Oil-exporting countries	100	-2.3	7.8	-8.3	84	-7.8	2.3	-4.9	119	6.0	5.4	-3.6
Bolivia	66	-8.8	-4.1	-13.9	99	-0.7	-0.4	0.7	67	-8.1	-3.7	-14.5
Ecuador	113	0.9	10.9	9.5	81	-7.7	-0.4	-4.1	139	9.4	11.3	14.2
Mexico	136	5.1	7.7	-9.0	81	-9.1	2.7	-5.0	169	15.7	4.9	-4.3
Peru	76	-8.4	4.4	-5.8	71	3.3	-3.5	-9.2	107	-11.4	8.1	3.8
Venezuela	75	-10.8	8.8	-10.4	95	-7.5	3.8	-3.7	79	-3.5	4.8	-7.0
Non-oil-exporting countries	107	2.4	13.3	-1.4	78	-6.1	4.6	-7.1	137	9.1	8.3	6.2
Argentina	105	2.8	3.0	4.1	71	-9.4	5.7	-10.7	148	13.6	-2.6	16.6
Brazil	128	8.6	23.5	-5.2	79	-7.0	4.6	-6.5	161	16.8	18.1	1.4
Colombia	101	-4.6	23.5	10.0	89	-1.9	6.2	-5.0	113	-2.8	16.3	15.8
Costa Rica	93	-1.9	9.4	-0.5	89	-3.3	5.0	3.0	104	1.5	4.2	-3.4
Chile	80	3.3	-4.6	2.5	63	-0.8	-4.5	-6.6	126	4.1	-0.1	9.8
El Salvador	67	4.5	-1.3	-0.4	86	-17.2	10.2	-4.5	78	26.1	-10.4	4.3
Guatemala	70	-6.7	3.5	-6.1	83	-3.5	7.2	-7.0	85	-3.3	-3.4	0.9
Haiti	103	6.8	7.1	12.2	84	-9.8	20.1	2.7	123	18.4	-10.9	9.3
Honduras	97	2.6	10.3	7.2	93	-2.5	4.0	-1.5	104	5.2	6.1	8.8
Nicaragua	65	5.5	-10.1	-23.9	82	-8.0	7.2	-6.0	80	14.6	-16.1	-19.0
Panama	86	-30.6	0.5	15.8	90	-0.5	5.1	-2.0	96	-30.3	-4.3	18.2
Paraguay	81	-17.7	10.8	-10.6	76	-8.9	26.1	-29.1	106	-9.7	-12.1	26.0
Dominican Republic	77	2.3	10.5	-14.9	72	6.9	8.2	-17.0	106	-4.3	2.2	2.6
Uruguay	81	-8.0	-20.1	-7.6	78	-7.2	0.5	-9.0	104	-0.8	-20.4	1.5

Source: ECLAC, on the basis of official data.

° Preliminary figures.

approximately 10% for the second consecutive year in Ecuador and Honduras and by more than 12% in Bolivia, it fell by between 9% and 31% in Guatemala, Chile, Peru, Venezuela, Argentina and Paraguay. Despite the substantial recovery in the value of the external purchases of Mexico, Ecuador, Honduras and Bolivia did not recover the level they had reached in 1980 in any of these countries. Only in El Salvador, Haiti, Nicaragua and Honduras (which for non-economic reasons possessed relatively plentiful external financing) and Colombia, did the volume of imports exceed the levels recorded in 1980. In the remaining countries —and in particular Argentina, Uruguay, Brazil, Chile, Venezuela, Peru and Mexico— the volume of imports remained considerably lower than before the crisis (see table 20).

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

Despite a decline in the unit value of imports for the fourth year running, the terms of trade fell by more than 5% in 1985, thereby totalling a 15% drop in the last five years (see table 21).

The sole cause of this further shrinkage was the more than 6% reduction in the unit value of exports, which was in turn caused by the pronounced and widespread drop that occurred in 1985 in the international prices of the main commodities exported by Latin America. These prices —which had already fallen sharply in 1984 despite the huge expansion in world trade observed during this year— decreased even more markedly in 1985. The only two products whose prices rose were coffee —which increased by 6%— and copper —which was up 3% after having fallen sharply in previous years. Among the other sixteen products taken into consideration, the reductions in prices were particularly striking in the case of cereals, zinc, soya beans and, above all, sugar, cotton and fish meal (see table 22).

Table 20
LATIN AMERICA: IMPORTS OF GOODS FOB
(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Quantum			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
		1985°	1983	1984		1985°	1985°	1983		1984	1985°	1985°
Latin America	64	-28.5	5.1	-1.8	94	-5.1	-3.1	-0.9	68	-24.7	8.5	-0.8
Oil-exporting												
countries	67	-43.0	19.0	3.5	98	-2.9	0.1	-1.6	69	-41.3	19.0	5.2
Bolivia	68	10.4	-12.8	12.2	91	-4.8	-5.6	-3.5	75	16.0	-7.6	16.3
Ecuador	77	-35.4	11.3	10.0	98	13.1	-5.0	-1.2	79	-42.9	17.2	11.3
Mexico	71	-40.7	32.0	19.2	104	-6.3	3.4	-3.0	69	-36.7	27.6	22.9
Peru	61	-26.8	21.4	-12.7	90	-1.4	-4.0	-4.3	68	-25.8	-18.0	-8.8
Venezuela	61	-52.8	22.9	-16.3	90	-3.4	-2.2	-2.0	67	-51.2	25.7	-14.6
Non-oil-exporting												
countries	61	-17.2	-2.3	-5.2	92	-6.5	-5.2	-0.8	67	-11.4	3.1	-4.5
Argentina	36	-15.2	0.3	-17.7	87	-5.1	-3.8	-1.4	42	-10.6	4.3	-16.6
Brazil	57	-20.4	-9.7	-5.4	94	-5.5	-7.6	-1.9	61	-15.8	-2.3	-3.5
Colombia	94	-16.7	-10.8	12	91	-9.9	-6.1	1.6	104	-7.5	-5.1	-0.4
Costa Rica	73	11.6	10.1	0.8	92	-5.9	-1.5	-2.0	79	18.6	11.8	2.9
Chile	54	-22.7	19.1	-12.0	86	-10.3	2.4	-0.3	63	-13.8	16.3	-11.7
El Salvador	106	0.6	8.9	5.4	94	-5.5	-5.2	-1.5	114	6.5	14.9	7.0
Guatemala	73	-17.8	12.0	-8.6	95	-6.6	-2.5	-0.5	77	-11.9	14.9	-8.1
Haiti	108	9.4	0.3	6.1	99	0.9	-4.9	0.3	110	8.4	5.4	5.8
Honduras	99	11.7	11.0	12.0	98	-20	-2.7	2.4	101	14.0	14.0	9.3
Nicaragua	95	7.6	-2.2	0.3	92	-5.0	-6.9	2.0	103	13.2	5.0	-1.7
Panama	87	-23.7	6.7	5.0	94	-9.2	0.5	-2.1	92	-16.0	6.2	7.3
Paraguay	66	-22.5	17.7	-31.0	73	-6.0	-18.5	-4.6	91	-17.6	44.5	-27.7
Dominican Republic	85	2.0	-2.0	2.3	102	-2.3	-0.7	0.2	83	4.4	-1.3	2.1
Uruguay	42	-28.8	-0.9	-4.9	87	-2.5	-3.1	-2.5	48	-26.9	2.3	-2.5

Source: ECLAC, on the basis of official data.
°Preliminary figures.

Table 21
LATIN AMERICA: TERMS OF TRADE FOB/FOB (GOODS)
(1980 = 100)

Year	Latin America		Oil-exporting countries		Non-oil-exporting countries	
	Index	Variation	Index	Variation	Index	Variation
1976	91.4	6.2	66.8	1.5	116.7	9.6
1977	99.4	8.8	71.2	6.6	127.8	9.5
1978	91.4	-8.0	64.7	-9.1	118.5	-7.3
1979	95.9	4.9	80.1	23.8	110.6	-6.7
1980	100.0	4.3	100.0	24.8	100.0	-9.6
1981	94.2	-5.8	100.5	0.5	88.9	-11.1
1982	86.2	-8.5	91.6	-8.9	81.4	-8.4
1983	84.4	-2.1	87.0	-5.0	81.7	0.4
1984	90.2	6.9	89.0	2.3	90.2	10.4
1985°	85.3	-5.4	86.0	-3.4	84.4	-6.4

Source: ECLAC, on the basis of official data.
°Includes Bolivia, Ecuador, Mexico, Peru and Venezuela. Includes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay. °Preliminary figures.

Table 22
LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

	Annual averages				Growth rates			
	1970-1980	1983	1984	1985	1982	1983	1984	1985
Unrefined sugar ^a	12.8	8.5	5.2	4.1	-50.3	12	-38.8	-21.1
Coffee (mild) ^b	121.8	141.6	147.3	155.9	2.3	-4.7	4.0	5.8
Cocoa ^c	86.3	96.1	108.7	102.3	-16.1	21.6	13.1	-5.9
Bananas ^d	11.8	20.4	19.0	18.4	-4.2	10.9	-6.9	-3.2
Wheat ^e	125.1	158.0	153.0	138.0	-9.0	-2.5	-3.2	-9.8
Maize	127.5	162.2	167.3	135.3	-24.1	18.0	3.1	-19.1
Beer	82.2	110.7	102.6	97.7	-3.4	2.1	-7.3	-4.8
Fish meal	354.7	453.0	373.0	280.0	-24.6	28.3	-17.7	-24.9
Soya beans	232.4	282.0	282.0	225.0	-14.9	15.1	-	-20.2
Cotton ^f	61.2	84.8	80.3	61.7	-14.7	16.5	-5.3	-23.2
Wool ^g	131.5	144.0	141.6	140.7	-13.2	-6.9	-1.7	-0.6
Copper ^h	696	72.2	62.5	64.3	-14.9	7.4	-13.4	2.9
Tin ⁱ	3.9	5.9	5.6	5.4	-9.4	1.7	-5.1	-3.6
Iron ore ^j	17.6	23.7	22.4	22.0	4.6	-3.3	-5.5	-1.8
Lead ^k	25.3	19.3	20.1	17.7	-24.8	-22.2	4.1	-11.9
Zinc ^l	29.7	34.7	40.6	34.3	-12.0	2.7	17.0	-15.5
Bauxite	103.5	179.5	165.0	164.3	-3.7	-138	-8.1	-0.4
Crude oil								
Saudi Arabia	10.0	29.3	28.5	28.0 ^m	3.1	-12.5	-2.7	-1.8
Venezuela	10.1	28.1	27.0	26.4	-	-12.2	-3.9	-2.2

Source: UNCTAD, *Monthly Bulletin of Commodities Prices, Supplements*, 1960-1980 and July 1986; International Monetary Fund, *International Financial Statistics*, Yearbooks, 1981 and October 1986.

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*5/-/-* CIF Northern Europe. **Wool**, clean, combed, 50's quality United Kingdom. **Beef**, frozen, boneless, all sources. United States ports. **Fish meal**, all sources (>17% 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**, Liberia, C.6I Fe, CIF, North Sea ports. **Bauxite**, Guyana (Baltimore). Oil, Venezuela (Tia Juana).

^aUS cents per pound. Dollars per metric ton. ^mDollars per pound. Dollars per barrel. ⁿJanuary-September average.

Largely as a result of this overall fall in international commodity prices, the decline in the terms of trade affected almost all the countries in the region. The terms of trade improved slightly only in Bolivia and Haiti, while they remained virtually unchanged in Panama and Venezuela, worsened considerably in Paraguay and the Dominican Republic and also underwent a marked deterioration in the 13 other economies in the region (see table 23).

As a result of the worsening of the terms of trade and despite the increase in the volume exported, the purchasing power of exports—which had grown vigorously in 1984—fell by almost 3% in 1985 (see table 24 and figure 11). Most of this shrinkage was accounted for by the main petroleum-exporting countries (with the exception of Ecuador), by the fall of over 3% in the purchasing power of Brazil's exports and by those of Nicaragua (-25%) and the Dominican Republic (-15%). On the other hand, the purchasing power of external sales increased by 18% in Panama, by 11.5% in Ecuador and Haiti and by more than 8% in Colombia (see table 25).

2. The balance of payments

a) *The current account*

As the value of exports fell more sharply than that of imports, in 1985 the clear rising trend which had been apparent in the merchandise trade surplus since 1982 came to an end. After having risen from US\$ 9.1 billion in 1982 to US\$ 38 billion in 1984, it fell to US\$ 34.5 billion (see table 26).

Table 23
LATIN AMERICA: TERMS OF TRADE FOB/CIF (GOODS)
(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1975	1981	1982	1983	1984	1985°	1982	1983	1984	1985°
Latin America	85	94	86	84	88	84	-8.8	-2.5	5.7	-5.4
Oil-exporting countries	65	100	91	86	87	84	-9.3	-5.4	1.3	-3.3
Bolivia	51	95	94	97	100	104	-1.3	3.5	2.9	4.0
Ecuador	64	100	98	81	83	81	-1.6	-18.1	2.9	-2.4
Mexico	69	97	82	79	78	76	-15.6	-3.5	-1.3	-2.3
Peru	88	85	79	82	82	77	-7.0	4.5	-0.5	-5.5
Venezuela	62	109	104	99	103	102	-4.8	-5.0	4.8	-1.4
Non-oil-exporting countries	105	88	81	81	88	83	-8.7	-0.1	9.3	-6.7
Argentina	99	96	85	81	88	83	-11.8	-4.9	8.3	-9.7
Brazil	118	85	79	78	88	84	-6.5	-1.7	12.6	-4.7
Colombia	68	84	85	92	103	96	2.2	8.1	11.8	-6.4
Costa Rica	86	86	83	85	89	93	-2.9	2.0	5.0	4.7
Chile	89	86	76	83	77	72	-11.9	9.9	-7.3	-6.5
El Salvador	88	90	93	81	93	90	3.4	-12.8	14.8	-3.3
Guatemala	94	87	81	84	91	85	-6.3	2.7	8.4	-6.7
Haiti	82	70	73	65	79	81	3.0	-11.0	22.4	2.0
Honduras	96	88	92	91	96	92	3.7	-0.9	5.8	-4.3
Nicaragua	90	91	85	82	94	86	-5.7	-3.5	13.7	-7.9
Panama	170	93	82	89	91	91	-11.4	8.1	2.5	-0.4
Paraguay	124	106	93	89	134	99	-12.3	-3.5	49.3	-26.0
Dominican Republic	160	104	71	77	83	69	-31.5	8.9	7.6	-17.3
Uruguay	99	101	96	92	95	88	-4.3	-4.9	3.3	-6.9

Source: ECLAC, on the basis of official data.
°Preliminary figures.

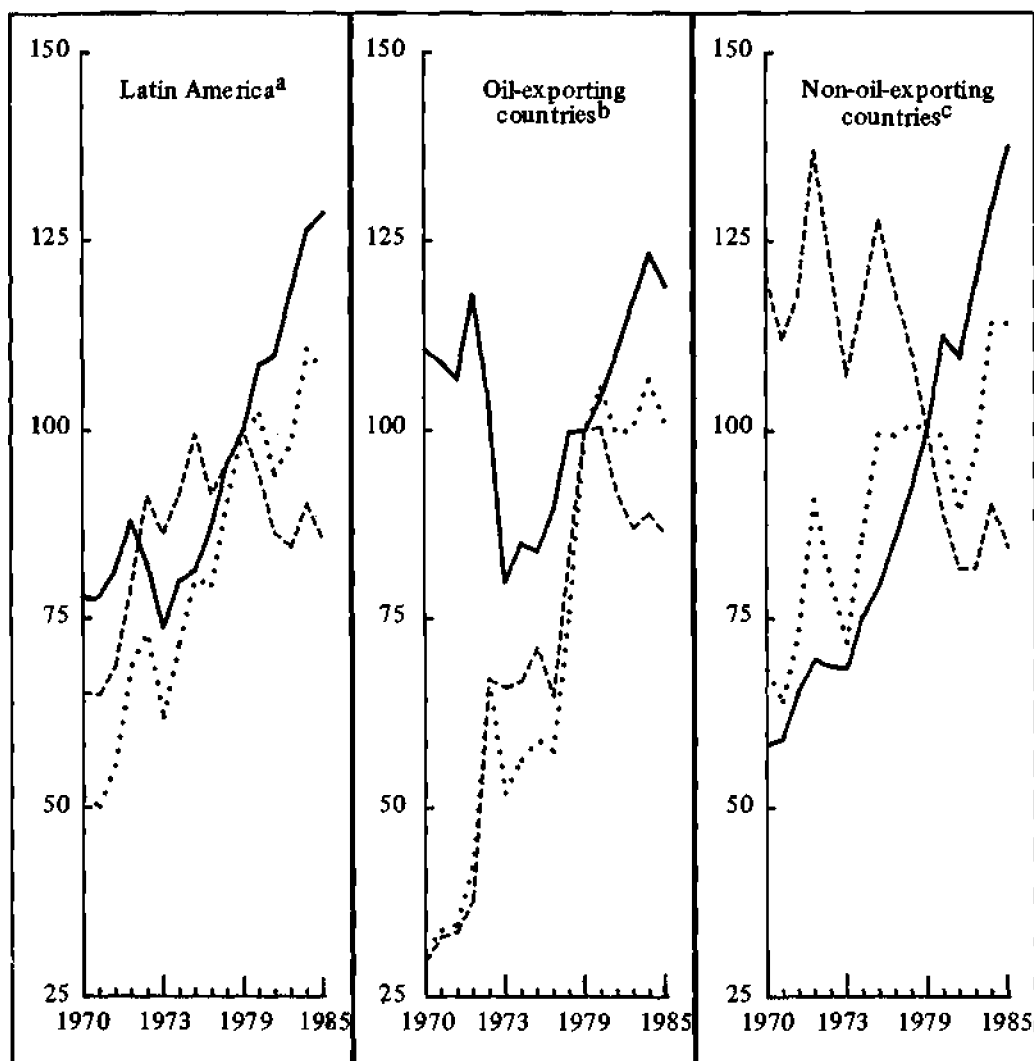
Table 24
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS
(1980 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries	
	Index	Variation	Index	Variation	Index	Variation
1976	71.9	16.0	56.4	-17.3	86.1	21.0
1977	80.2	11.5	59.0	4.6	99.5	15.5
1978	79.4	-1.0	57.5	2.5	99.3	-0.2
1979	90.7	14.2	79.6	38.4	100.8	1.5
1980	100.0	10.3	100.0	25.6	100.0	-0.8
1981	102.2	2.2	105.6	5.6	99.2	-0.8
1982	94.1	-7.9	99.5	-5.8	89.1	-10.2
1983	98.4	4.6	100.3	0.8	96.7	8.6
1984	110.7	12.5	106.8	6.5	114.1	18.0
1985°	107.6	-2.8	100.6	-5.8	114.0	-0.1

Source: ECLAC, on the basis of official figures.
^aIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela. ^Includes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay. °Preliminary figures.

Figure 11
LATIN AMERICA: SELECTED EXTERNAL TRADE INDICATORS
(Indexes: 1980 = 100)

- Volume of exports of goods
- . Terms of trade, (goods)
- .. Purchasing power of exports of goods



Source: ECLAC, on the basis of official data.

^aNineteen countries. ^bFrom 1970 to 1975 includes Bolivia, Ecuador and Venezuela; as from 1976 also includes Mexico and Peru. ^cFrom 1970 to 1975 includes sixteen countries; as from 1976, excludes Mexico and Peru.

The slump mainly affected Mexico, Brazil and Venezuela. The decline was particularly pronounced in the case of Mexico, where the trade surplus fell from almost US\$ 12.8 billion in 1984 to US\$ 8.4 billion in 1985 as a result of the 19% expansion in the value of imports and the 9% shrinkage in exports. In Brazil, where the merchandise trade surplus had doubled in 1984, reaching the unprecedented figure of more than US\$ 13 billion, it fell to less than US\$ 12.5 billion in 1985. The surplus also shrank by almost US\$ 400 million in Venezuela as a result of the sharp drop in exports, in spite of a noteworthy decrease in imports as well.

In contrast, between 1984 and 1985 Argentina expanded its surplus from US\$ 3.9 billion to US\$ 5 billion, Chile increased its positive balance from US\$ 300 million to approximately US\$ 800 million, and Colombia earned a small surplus, after having recorded considerable deficits in the previous five years.

Unlike the year before, in 1985 the region's merchandise trade surplus failed to fully cover its transfers of profits and interest, even though they declined by US\$ 1 billion as a result of the drop in international interest rates. Consequently, despite the fact that net payments for services fell for the second consecutive year, the current account deficit rose to US\$ 3.2 billion. This put an end to the sharp downward trend observed in this deficit between 1982 and 1984, when it fell from US\$ 41 billion to just US\$ 1.9 billion.

The increase in the current account deficit was the net outcome of the contrasting changes which took place in the economies of the region. The country which had the most to do with this increase was Mexico, where the surplus of US\$ 3.7 billion earned in 1984 fell to barely US\$ 300 million in 1985. Other factors contributing to the increase in the Latin American deficit were the change that took place in Brazil (which, after earning a small surplus in 1984 recorded a US\$ 650 million deficit), the shrinkage of Venezuela's surplus by over US\$ 1 billion, and the higher deficits recorded by Bolivia, the Dominican Republic and all of the Central American countries except Guatemala and Panama. However, the impact of these changes was partly offset by the noteworthy reductions in the balance-of-payments deficits on current account in Argentina and Chile in 1985 as well as by the lower but nevertheless considerable falls in the deficits recorded by Colombia, Peru and Ecuador (see table 27).

Table 25
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1975	1981	1982	1983	1984	1985 ^a	1982	1983	1984	1985 ^a
Latin America	62	102	94	98	111	108	-8.0	4.6	12.5	-2.8
Oil-exporting countries	52	106	100	100	107	101	-5.8	0.8	6.6	-5.9
Bolivia	68	89	83	78	78	69	-7.3	-5.0	-0.7	-11.2
Ecuador	60	102	98	88	101	113	-3.5	-10.4	14.4	11.5
Mexico	28	115	119	133	138	129	3.5	11.7	3.5	-6.5
Peru	55	80	85	78	84	83	6.0	-7.3	7.5	-1.9
Venezuela	70	104	87	80	88	80	-16.4	-8.3	9.8	-8.3
Non-oil exporting countries	71	99	89	97	114	114	-10.2	8.6	18.0	-0.1
Argentina	57	113	98	106	111	117	-14.0	8.0	5.5	5.2
Brazil	81	104	91	104	139	134	-12.8	14.7	33.0	-3.4
Colombia	63	76	74	78	101	109	-3.4	5.2	30.0	8.3
Costa Rica	78	96	85	88	96	97	-11.3	3.5	9.3	1.1
Chile	85	81	83	95	88	90	2.6	14.5	-7.4	2.6
El Salvador	80	69	61	68	69	70	-10.6	9.9	2.7	0.9
Guatemala	72	79	73	72	76	72	-7.1	-0.7	4.7	-5.8
Haiti	53	67	77	82	89	99	15.5	5.4	9.1	11.5
Honduras	64	85	78	82	92	95	-8.3	4.2	12.3	4.1
Nicaragua	143	108	87	97	92	69	-19.2	10.7	-4.6	-25.4
Panama	26	101	100	75	74	87	-1.3	-24.6	-1.9	17.8
Paraguay	76	98	98	86	112	105	0.2	-12.9	31.3	-6.9
Dominican Republic	148	119	75	79	86	73	-36.7	4.1	9.9	-15.2
Uruguay	59	119	125	118	97	92	4.7	-6.1	-17.8	-5.4

Source: ECLAC, on the basis of official figures.

^a Preliminary figures.

Table 26

LATIN AMERICA: TRADE BALANCE*(Millions of dollars)*

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments"			Trade balance		
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
Latin America (19 countries)	87 497	96 805	92 256	55 945	58 813	57 798	31 552	37 992	34 458	5 363	4 706	3 196	26 189	33 286	30 662
Oil-exporting countries	43 027	46 388	42 523	19 566	23 284	24 108	23 461	23 104	18 415	1 485	1 470	1 682	21 976	21 634	16 733
Bolivia	755	724	624	473	412	463	282	312	161	119	144	149	163	168	12
Ecuador	2 365	2 622	2 870	1 408	1 567	1 723	957	1 055	1 147	347	441	291	610	614	856
Mexico	22 320	24 042	21 866	8 553	11 287	13 460	13 767	12 755	8 406	-647	-1 082	-491	14 414	13 843	8 897
Peru	3 017	3 149	2 966	2 723	2 141	1 869	294	1 008	1 097	255	221	148	39	787	949
Venezuela	14 570	15 851	14 197	6 409	7 877	6 593	8 161	7 974	7 604	1 411	1 752	1 585	6 750	6 222	6 019
Non-oil-exporting countries	44 470	50 417	49 733	36 379	35 529	33 690	8 091	14 888	16 043	3 878	3 236	2 114	4 213	11 652	13 929
Argentina	7 838	8 072	8 400	4 120	4 132	3 400	3 718	3 940	5 000	760	770	650	2 958	3 170	4 350
Brazil	21 906	27 050	25 639	15 434	13 936	13 189	6 472	13 114	12 450	2 407	1 749	1 710	4 065	11 365	10 740
Colombia	2 970	3 668	4 036	4 464	3 980	4 027	-1 494	-312	9	496	618	454	-1 990	-930	-445
Costa Rica	853	933	928	898	989	997	-45	-56	-69	-26	-13	-3	-19	-43	-66
Chile	3 827	3 650	3 743	2 818	3 357	2 955	1 009	293	788	471	496	284	538	-203	504
El Salvador	735	726	723	831	905	954	-96	-179	-231	82	102	106	-178	-281	-337
Guatemala	1 092	1 131	1 062	1 056	1 183	1 081	36	-52	-19	177	153	68	-141	-205	-87
Haiti	186	199	223	324	325	345	-138	-126	-122	70	81	86	-208	-207	-208
Honduras	694	766	821	761	844	945	-67	-78	-124	54	61	79	-121	-139	-203
Nicaragua	428	385	293	778	761	763	-350	-376	-470	112	88	57	-462	-464	-527
Panama	1 674	1 683	1 949	2 322	2 478	2 603	-648	-795	-654	-741	-716	-1 065	93	-79	411
Paraguay	326	361	323	551	649	448	-225	-288	-125	-26	85	25	-199	-373	-150
Dominican Republic	785	868	739	1 282	1 257	1 286	-497	-389	-547	-158	-202	-274	-339	-187	-273
Uruguay	1 156	925	854	740	733	697	416	192	157	200	-36	-63	216	228	220

Source: ECLAC, on the basis of official data.

"Excluding net payments of profits and interest.

Table 27

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest"			Balance on current account			Balance on capital account'			Total balance		
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
Latin America (19 countries)	26189	33 286	30 662	34 417	36 022	35 032	-7 626	-1 907	-3 191	3 219	10 206	6 030	-4 407	8 299	2 839
Oil-exporting countries	21976	21 634	16 733	13 787	13 899	13 096	8 167	7 787	3 752	-5 758	-3 689	-4 144	2 409	4 098	-392
Bolivia	163	168	12	419	434	363	-216	-238	-325	232	465	343	16	227	18
Ecuador	610	614	856	738	882	966	-128	-268	-110	238	187	135	110	-81	25
Mexico	14414	13 843	8 897	9 386	10 312	8 807	5 151	3 704	298	-3 118	-1 570	-2 722	2 033	2 134	-2 424
Peru	39	787	949	1 132	1 199	1 010	-1 091	-412	-61	1 006	662	379	-85	250	318
Venezuela	6 750	6 222	6 019	2 112	1 072	1 950	4 451	5 001	3 950	-4 116	-3 433	-2 279	335	1 568	1 671
Non-oil-exporting countries	4 203	11 652	13 929	20 630	22 123	21 936	-15 793	-9 694	-6 943	8 977	13 895	10 174	-6 816	4201	3 231
Argentina	2 958	3 170	4 350	5 408	5 715	5 300	-2 436	-2 542	-950	-13	2 686	3 600	-2 449	144	2 650
Brazil	4 065	11 365	10 740	11 012	11 482	11 540	-6 842	43	-650	4 943	5 367	664	-1 899	5 410	14
Colombia	-1 990	-930	-445	1 176	1 269	1 323	-3 022	-2 020	-1 364	1 180	741	1 687	-1 842	-1 279	323
Costa Rica	-19	-43	-66	333	324	331	-330	-342	-371	377	271	463	47	-71	92
Chile	538	-203	504	1 703	1 955	1 873	-1 116	-2 118	-1 322	600	2 210	1 219	-516	92	-103
El Salvador	-178	-281	-337	131	163	150	-256	-313	-341	280	320	388	24	7	47
Guatemala	-141	-205	-87	113	205	179	-225	-383	-247	276	397	316	51	14	69
Haiti	-208	-207	-208	14	18	20	-177	-182	-179	144	154	155	-33	-28	-25
Honduras	-121	-139	-203	149	184	188	-260	-311	-378	213	301	389	-47	-10	11
Nicaragua	-462	-464	-527	61	46	44	-519	-508	-569	586	518	592	67	10	23
Panama	93	-79	411	-109	85	267	143	-227	91	-156	141	200	-13	-86	291
Paraguay	-199	-373	-150	54	74	79	-252	-444	-221	255	429	63	3	-15	-158
Dominican Republic	-339	-187	-273	297	241	286	-441	-223	-317	303	321	342	-138	98	25
Uruguay	216	228	220	288	362	356	-60	-124	-125	-11	39	96	-71	-85	-29

Source: ECLAC, on the basis of official data.

"Excluding labour and ownership.

Including net private unrequited transfers.

'Including long-and short-term capital, official unrequited transfers and errors and omissions.

balance is equal to variation in international reserves (of opposite sign) plus counterpart items.

"Total

Table 28

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

(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985*
Latin America	23.3	21.1	29.8	24.0	26.2	34.6	39.7	7.5	1.7	3.0
Oil-exporting countries	22.0	29.0	40.6	14.9	8.6	23.0	26.8	-16.3	-14.4	-7.5
Bolivia	10.3	18.8	50.2	46.6	15.9	30.8	13.3	25.2	29.1	45.0
Ecuador	2.1	23.7	42.9	27.1	23.4	35.2	45.2	4.8	9.3	3.4
Mexico	50.2	24.0	30.3	36.7	35.4	48.7	24.5	-19.0	-12.3	-1.1
Peru	71.5	45.8	10.2	-14.8	1.6	47.0	43.6	29.3	10.8	1.7
Venezuela	-3.3	30.8	58.1	-2.5	-23.8	-19.2	24.0	-28.1	-30.0	-26.2
Non-oil-exporting countries	24.2	15.9	22.3	31.5	42.6	46.1	52.5	30.3	16.5	11.9
Argentina	-14.2	-17.1	-24.5	5.8	48.3	43.4	25.6	26.2	25.5	9.6
Brazil	60.4	39.3	51.5	62.7	58.8	46.1	74.3	29.0	-0.2	2.4
Colombia	-6.9	-12.8	-7.4	-9.6	3.9	45.7	69.1	79.9	45.1	27.3
Costa Rica	28.9	23.6	36.1	50.5	54.9	34.7	24.6	29.2	28.3	30.9
Chile	-5.5	21.8	37.6	26.1	33.9	96.0	51.1	24.2	47.1	29.4
El Salvador	-2.2	-2.0	31.6	-1.2	-	29.4	32.9	29.3	36.3	39.4
Guatemala	8.1	2.8	20.9	14.2	9.5	39.7	31.3	19.2	31.2	20.9
Haiti	37.1	40.2	39.8	45.5	45.8	93.8	59.3	61.5	60.9	55.8
Honduras	25.3	23.9	24.7	24.4	35.1	36.3	32.5	32.6	35.5	40.3
Nicaragua	7.7	26.7	4.8	-13.4	99.2	101.8	115.0	112.2	120.4	161.2
Panama	27.8	20.4	25.6	31.9	11.2	0.6	4.3	-4.8	7.6	-2.8
Paraguay	29.7	15.2	27.2	40.9	50.0	66.7	63.4	52.9	81.2	44.2
Dominican Republic	15.8	14.2	38.1	31.7	53.0	27.5	40.0	35.5	16.3	24.1
Uruguay	11.8	21.2	14.5	30.4	46.9	27.5	15.3	4.3	9.6	10.0

Source: UCLAC, on the basis of official figures.

*Negative figures indicate a surplus on the balance-of-payments current account.

Preliminary figures.

As a consequence of the increased deficit on current account and the shrinkage in the value of exports of goods and services, the ratio between the deficit and external sales rose slightly, after having plummeted during the previous two years. Nevertheless, the value of this coefficient (3%) remained far below the levels recorded up to 1983 and was equal to less than one-tenth of those recorded during the 1981-1982 crisis (see table 28).

Although to a lesser extent than in 1984, the quantitative relationship between the deficit and exports was quite different in the various countries. Thus, whereas Venezuela accumulated a surplus equal to 26% of its external sales, while Panama and Mexico also turned in small surpluses on their current accounts and the Brazilian deficit was equal to just slightly more than 2% of the value of its exports, Nicaragua had a deficit equal to 160% of its exports, and the deficits of Paraguay, Bolivia and Haiti were equal to 44%, 45% and 56% of the value of their respective external sales. The deficit on current account represented rather lower but nonetheless considerable percentages of exports of goods and services in all the remaining Central American economies as well as in Chile and Colombia, although in these last two countries the proportion was substantially lower than in 1984 (see table 28).

b) The capital account and the net transfer of resources abroad

The increase in the current account deficit coincided with a sharp shrinkage in net capital inflow. The net value of loans and investments received by the region—which had been slightly

above US\$ 10 billion in 1984, thereby partly recovering from the sharp drop of the preceding biennium—represented barely US\$ 6 billion.

However, this dwindling of external funds was concentrated in a very small number of countries. Indeed, it was wholly due to the sharp shrinkage in the net external financing received by Brazil and Chile in 1985 (which fell by US\$ 4.7 billion and US\$ 1 billion, respectively), the considerably smaller but noteworthy drop in the net external financing obtained by Paraguay and Peru and the increase of more than US\$ 1.1 billion in Mexico's net capital outflow.

In contrast, both in Argentina and in Colombia the value of loans and investments received from abroad rose by more than US\$ 900 million. Net capital inflows also increased in all the remaining countries of the region except Guatemala and once again reached exceptionally high levels in Nicaragua, where it was more than double the value of exports of goods.

As a result of the increase in the current account deficit and of the fall in net capital inflows, the balance-of-payments surplus declined sharply. It fell from US\$ 8.3 billion in 1984 to barely more than US\$ 2.8 billion in 1985, mainly as a result of the abrupt changes which took place in Mexico and Brazil. In Mexico the balance of payments underwent a marked turnaround, passing from a US\$ 2.15 billion surplus in 1984 to a deficit of over US\$ 2.4 billion in 1985. In Brazil, the US\$ 5.4 billion surplus earned the previous year was completely wiped out in 1985 as a result of the equally sharp slump in the net inflow of loans and investments.

On the other hand, in most of the remaining countries the balance of payments turned in more satisfactory results in 1985 than in 1984. The improvement was particularly noteworthy in Argentina—where the balance-of-payments surplus rose from US\$ 150 million to US\$ 2 650 million—and in Colombia which, after having recorded huge deficits in the preceding three years, earned a surplus of slightly more than US\$ 300 million in 1985 (see table 27).

The fall in net capital inflows was, moreover, far greater than the drop in net payments of interest and profits; consequently, the already huge transfer of resources from Latin America to the exterior increased considerably in 1985. This transfer amounted to US\$ 29 billion, which represented a reduction in import capacity equal to 27% of the value of exports of goods and services. Consequently, in the 1982-1985 period the aggregate transfer of resources totalled almost US\$ 105 billion (see tables 29 and 30).

Table 29

LATIN AMERICA: NET INFLOW OF CAPITAL AND TRANSFER OF RESOURCES

(Billions of dollars and percentages)

	Effective net inflow of capi- tal" (D)	Unregis- tered trans- actions (2)	Net inflow of capi- tal (1+2) (3)	2/1 (4)	Net pay- ments of profits and in- terest (5)	Transfer of resources (1 - 5) (3 - 5) (6) (7)		Exports of goods and services (8)	6/8 (9)	7/8 (10)
1976	18.9	-1.0	17.9	-5.3	6.8	12.1	11.1	47.3	25.6	23.5
1977	15.5	1.7	17.2	11.0	8.2	7.3	9.0	55.8	13.1	16.1
1978	24.3	1.8	26.1	7.4	10.2	14.1	15.9	61.3	23.0	25.9
1979	26.9	2.2	29.1	8.2	13.6	13.3	15.5	82.0	16.2	18.9
1980	35.0	-5.5	29.5	-15.7	17.9	17.1	11.6	107.6	15.9	10.8
1981	48.4	-11.1	37.3	-22.9	27.1	21.3	10.2	116.1	18.4	8.8
1982	29.1	-9.2	19.9	-31.6	38.7	-9.6	-18.8	103.2	-9.3	-18.2
1983	6.2	-2.9	3.3	-46.8	34.4	-28.2	-31.1	102.4	-27.5	-30.4
1984	12.7	-2.5	10.2	-19.7	36.0	-23.3	-25.8	112.9	-20.6	-22.9
1985°	9.8	-3.8	6.0	-38.8	35.0	-25.2	-29.0	108.6	-23.2	-26.7

Source: 1976-1984: International Monetary Fund, 1985: ECLAC, on the basis of official data.

"Equivalent to net inflow of capital minus unregistered transactions.
omissions". Preliminary estimates.

Corresponds to balance-of-payments item "errors and

Table 30

LATIN AMERICA: NET TRANSFER OF RESOURCES"

	Net transfer of resources (millions of dollars)					Relation between the net transfer of resources and exports of goods and services (percentages)				
	1980- 1981	1982	1983	1984	1985 ^a	1980- 1981	1982	1983	1984	1985 ^a
Latin America^c	9 477	-20 358	-32 212	-26 565	-29 497	2.1	-19.7	-31.5	-23.5	-27.2
Argentina	-922	-3 368	-5 935	-3 449	-2 150	-8.2	-36.7	-63.9	-36.0	-21.6
Bolivia	-135	-266	-189	29	-20	-13.0	-29.1	-22.0	3.5	-2.8
Brazil	2 223	-2 389	-6 082	-6 117	-10 876	9.5	-10.9	-25.8	-21.1	-39.4
Colombia	1 168	1 226	-17	-570	335	25.3	27.7	-0.4	-12.7	6.7
Costa Rica	291	23	39	-59	125	24.3	2.1	3.4	-4.9	10.4
Chile	2.830	-1 003	-1 200	159	-712	52.8	-21.6	-26.1	3.5	-15.8
Ecuador	84	-137	-625	-836	-941	3.0	-5.1	-23.6	-28.9	-29.1
El Salvador	6	137	159	204	268	2.4	16.6	18.2	23.7	30.9
Guatemala	25	248	163	188	136	2.5	19.4	13.9	15.3	11.5
Haiti	126	101	130	136	148	48.2	37.4	45.1	45.5	43.3
Honduras	98	.2	64	117	201	10.7	0.3	8.0	13.4	21.5
Mexico	4 336	-9 972	-12 584	-11 909	-11 484	16.3	-38.1	-46.3	-39.7	-41.5
Nicaragua	362	276	525	472	548	67.5	61.7	113.4	111.8	155.2
Paraguay	108	-10	-18	355	-11	19.0	-1.6	-3.8	65.4	-2.2
Peru	46*	571	-126	-537	-631	2.6	14.0	-3.4	-14.1	-17.5
Dominican Republic	330	57	6	80	56	24.9	5.0	0.5	5.8	4.2
Uruguay	566	-380	-299	-323	-260	35.7	-24.7	-21.2	-25.1	-20.8
Venezuela	-2 065	-5 474	-6 223	-4 505	-4 229	-10.0	-31.2	-39.3	-27.0	-28.0

Source: ECLAC, on the basis of data provided by the International Monetary Fund, *Balance of Payments Yearbook*, 1986.^aThe net transfer of resources is equal to net capital inflow minus payments for factor services.
Panama.

Preliminary figures.

excluding

As in 1984, the bulk of this transfer was accounted for by Mexico, Brazil, Venezuela and Argentina, although in relative terms a considerable portion also came from Ecuador, Peru, Uruguay and Chile. In contrast, Colombia and, above all, Haiti and the Central American countries (with the exception of Panama), received a sizeable net transfer of resources from abroad (see table 30).

3. The external debt**a) Basic trends**

At the close of 1985 the total external debt of Latin America represented approximately US\$ 374 billion. It had thus increased by less than 2%, thereby strengthening the trend towards a more moderate expansion of external indebtedness which began in 1982 (see table 31). Indeed, the increase in the debt was so slight that in 1985 it fell in real terms for the first time in the region's recent history. This meant that the region actually carried out a "hidden" amortization of part of its debt during the year.

Although the trend towards a more gradual increase in the debt was quite generalized, its growth rate for the region as a whole concealed extremely dissimilar trends in the various countries. While in 1985 the debts of Venezuela, Panama and Brazil diminished slightly and that of Mexico barely increased at all, those of Bolivia, Nicaragua, Colombia and Honduras rose appreciably. However, particularly in the case of the first two of these countries and, to a lesser extent, in that of Honduras, these increases were accounted for by the capitalization of arrears on interest payments. Thus, Colombia was the only country whose external indebtedness grew rapidly in 1985 as a result of normal financial operations.

Although the noteworthy decline in the growth rate of the debt was partly the result of decisions taken by national economic authorities, its principal cause was the scant supply of loans from international commercial banks. This was reflected in the extremely sharp contraction in the volume of syndicated international loans, which until 1982 had constituted the main source of Latin America's external financing. In the world as a whole, the amount of such medium and long-term loans granted in 1985 was US\$ 42 billion, which was less than half the US\$ 98 billion recorded in 1982. For the developing economies as a group, the fall in such credits was even sharper: from US\$ 33 billion in 1982 to only US\$ 13 billion in 1985.

In spite of the marked reduction in the growth rate of the debt, in 1985 the debt/export ratio rose as a result of the drop in the value of exports. This coefficient, which had fallen in 1984 for the first time since 1980, attained a new all-time high of 345% in 1985, well above the figure of approximately 230% recorded on average in the 1978-1981 period. Moreover, in 1985 the debt/export ratio rose in all the countries in the region (with the exception of Argentina, Ecuador, Haiti and Panama) and only in Brazil was it significantly lower than in 1982, when economic adjustment policies began to be implemented in most of the Latin American economies (see table 32). Nonetheless, considerable differences remained among the debt/export ratios of the various countries in the region. In the case of Nicaragua, this coefficient attained the truly exceptional figure of 1 400%, it remained around 490% for the third year running in Argentina and rose to 450% in Chile and to 430% in Bolivia. However, the figure was below 300% in all the other countries of Central America (with the exception of Costa Rica), as well as in the Caribbean countries and in Colombia, Ecuador and Venezuela.

Table 31

LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT

	End-of-year balances in millions of dollars						Annual growth rates			
	1980	1981	1982	1983	1984	1985 ^a	1979-1981	1982-1983	1984	1985 ^a
Latin America	230 358	287 758	330 708	350 806	367 275	373 679	22.9	10.4	4.7	1.7
Oil-exporting countries	96 894	126 489	142 690	152 185	155 056	156 534	25.0	9.7	1.9	1.0
Bolivia	2 340	2 622	2 502	3 156	3 165	3 600	12.9	9.7	1.9	1.0
Ecuador	4 652	5 868	6 187	6 790	6 949	7 440	25.4	7.6	2.3	7.1
Mexico	50 700	74 900	87 600	93 800	96 700	97 800	30.2	11.9	3.1	1.1
Peru	9 594	9 688	11 340	12 442	13 389	13 794	1.3	13.3	7.6	3.0
Venezuela ^b	29 608	33 411	35 061	35 997	34 853	33 900	25.9	3.8	-3.2	-2.7
Non-oil-exporting countries	133 464	161 269	188 018	198 621	212 219	217 145	21.3	11.0	6.8	2.3
Argentina	27 162	35 671	43 634	45 087	46 903	48 312	41.9	12.4	4.0	3.0
Brazil ^c	70 025	79 946	91 035	95 520	102 039	101 920	14.4	9.3	6.8	-0.2
Colombia	6 300	7 885	9 410	10 405	11 551	12 856	25.0	14.9	11.0	11.3
Costa Rica	3 183	3 360	3 497	3 848	3 955	4 084	21.6	7.0	2.8	3.3
Chile ^d	11 207	15 591	17 159	18 037	19 659	20 376	30.5	7.6	9.0	3.6
El Salvador	1 176	1 471	1 710	1 891	1 949	2 003	14.3	13.4	3.1	2.8
Guatemala	972	1 305	1 560	2 130	2 493	2 570	16.7	27.8	17.0	3.1
Haiti/ ^e	290	372	410	551	607	599	22.8	21.7	10.2	-1.3
Honduras	1 510	1 708	1 986	2 162	2 392	2 615	20.7	12.5	10.6	9.3
Nicaragua	1 825	2 566	3 139	3 788	4 362	4 936	20.5	21.5	15.2	13.2
Panama	4 756	5 047	5 960	5 924	6 537	6 500	9.0	8.3	10.3	-0.6
Paraguay	861	949	1 204	1 469	1 654	1 773	12.4	24.4	12.6	7.2
Dominican Republic	2 059	2 286	3 076	3 237	3 447	3 701	19.8	19.0	6.5	7.4
Uruguay	2 138	3 112	4 238	4 572	4 671	4 900	35.9	21.2	2.2	4.9

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Total medium- and long-term debt.

^bPublic debt plus the unguaranteed long- and short-term debt with

financial institutions reporting to the Bank for International Settlements.

reporting to the Bank for International Settlements.

according to information given to the World Bank. From 1984 onwards corresponds to the total debt according to official statistics.

^cShort-, medium- and long-term debt, including debt with the IMF but excluding short-term credit for foreign trade

operations by the non-financial private sector.

Public debt.

Table 32

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

(Percentages)

	1975	1978	1980	1981	1982	1983	1984	1985"
Latin America	191	253	214	248	321	343	326	345
Oil-exporting countries	163	278	186	219	278	303	286	311
Bolivia	182	259	274	251	247	346	369	428
Ecuador	(A) ^b	175	162	201	230	254	240	226
Mexico	279	316	216	259	335	345	322	354
Peru	370	388	206	241	278	334	350	381
Venezuela	61	171	148	160	200	227	209	225
Non-oil-exporting countries	214	251	240	276	363	381	362	373
Argentina	225	167	275	329	475	485	490	486
Brazil	281	391	320	313	414	404	352	370
Colombia	164	102	118	184	213	275	258	257
Costa Rica	109*	186	266	286	313	340	327	340
Chile	288	238	188	311	370	392	437	453
El Salvador	66"	107	97	159	208	217	226	231
Guatemala	31 ^b	63	56	90	122	182	203	217
Haiti ^f	54	100	95	155	152	191	203	201
Honduras	106*	141	160	193	259	271	273	279
Nicaragua	133	203	369	464	702	818	1 034	1 398
Panama	91	160	141	137	166	200	219	198
Paraguay	150	154	152	167	195	309	305	370
Dominican Republic	80	161	162	151	269	261	252	281
Uruguay	187	136	140	183	276	324	362	392

Source: ECLAC, on the basis of official data.

"Preliminary figures. Relation between the disbursed medium- and long-term external debt and exports of goods and services.

*Relation between the external public debt and exports of goods and services.

Thanks to the sharp reduction which, as can be seen from figure 12, occurred in international interest rates in 1985, the total interest payments made by Latin America fell by 6% during the year. They thus decreased somewhat more than exports of goods and services and, as a result, the interest/exports ratio dropped slightly from 35% in 1984 to 34.5% in 1985. Nevertheless, this figure was still almost double the coefficient of under 18% recorded in the region prior to the onset of the crisis. As in previous years, the interest/exports ratio was considerably higher than the regional average in Argentina (52%), Bolivia (49%), Chile (43%) and Brazil (42%) and was, on the contrary, considerably lower in Colombia, Venezuela, Paraguay and the countries of Central America and the Caribbean (see table 33).

b) *The renegotiation process*

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.

This process gathered considerable speed between the middle of 1984 and the end of 1985. During this period 11 Latin American countries negotiated with commercial banks over the rescheduling of amortization payments due in 1984 or 1985 and thereafter. By the end of the year, four countries — Argentina, Chile, Ecuador and Mexico — had signed final agreements on the reschedul-

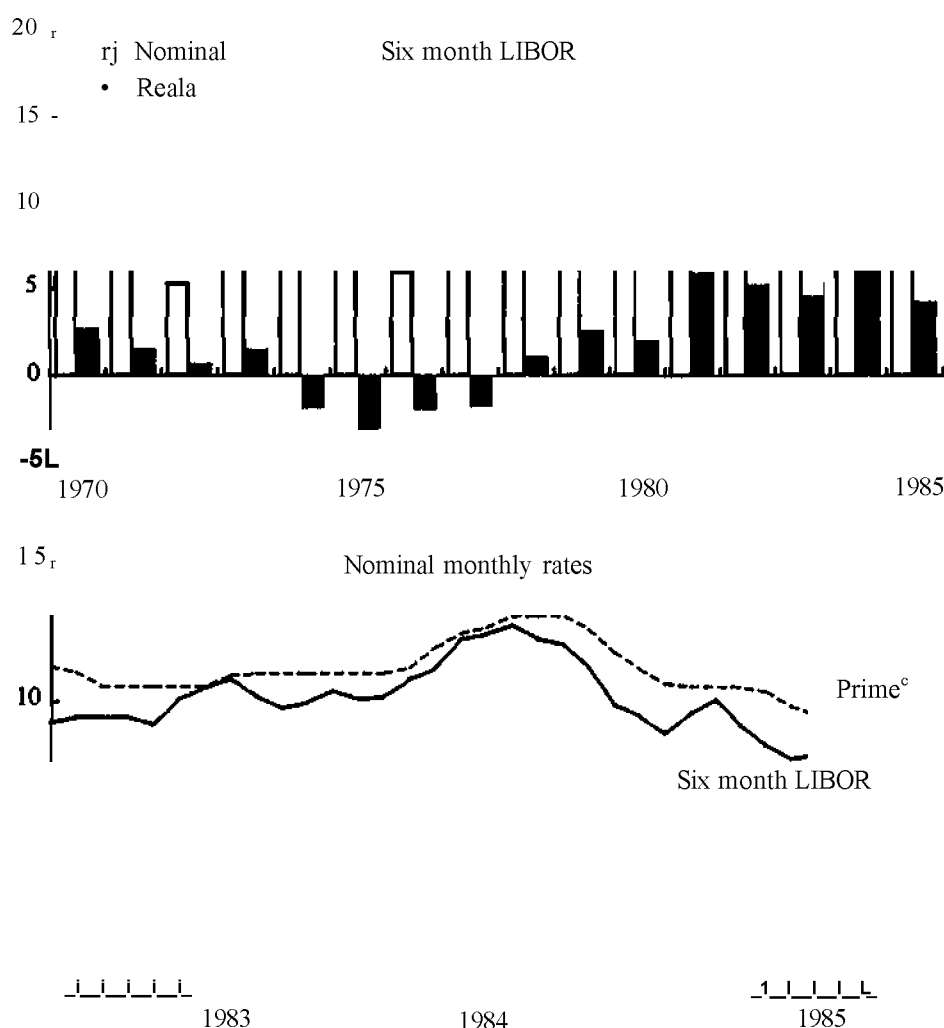
ing of their debt, while Costa Rica, Cuba, Honduras, the Dominican Republic, Panama, Uruguay and Venezuela had signed preliminary "agreements (see table 34).

Of the countries which did not sign rescheduling agreements during 1985, Brazil was authorized by private banks to defer amortization payments until the end of 1985 —as a result of which it only paid interest— and continued to receive short-term commercial credit lines worth US\$ 10 billion and inter-bank lines of credit worth US\$ 6.5 billion. Nicaragua reached an agreement to postpone its amortization payments until June 1986, which included the capitalization of interest, while Bolivia —which suspended the servicing of its debt with private banks in April 1984— requested a term of 15 years for its amortization payments and of 10 years for its interest payments at

Figure 12

INTERNATIONAL INTEREST RATES

(Percentages)



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

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

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

Table 33

**LATIN AMERICA: RELATION BETWEEN TOTAL INTEREST PAYMENTS AND
EXPORTS OF GOODS AND SERVICES"**

(Percentages)

	1975	1978	1980	1981	1982	1983	1984	1985*
Latin America	11.2	15.5	19.5	27.1	39.6	35.1	35.1	34.5
Oil-exporting countries	7.9	16.0	16.6	22.6	35.6	31.7	32.5	31.6
Bolivia	6.4	13.7	24.5	32.1	43.5	44.4	50.7	48.9
Ecuador	2.4	10.3	18.2	24.3	30.1	27.4	30.7	27.0
Mexico	18.0	24.0	23.3	29.0	47.3	37.8	39.7	35.9
Peru	15.5	21.2	16.0	24.1	25.1	29.8	34.1	33.2
Venezuela	0.6	7.2	8.1	12.7	21.0	21.6	18.5	23.3
Non-oil-exporting countries	14.1	15.1	22.3	31.6	43.5	38.4	37.5	37.1
Argentina	13.4	9.6	22.0	35.5	53.6	58.4	57.9	52.3
Brazil	19.8	24.5	34.1	40.4	57.1	43.5	39.5	42.4
Colombia	11.7	7.7	11.8	21.8	25.8	26.7	26.7	24.1
Costa Rica	6.9	9.9	18.0	28.0	36.1	33.1	27.9	29.0
Chile	15.3	17.0	19.3	38.8	49.5	39.4	48.0	43.2
El Salvador	3.9	5.1	5.9	7.9	11.9	12.3	12.2	12.6
Guatemala	3.8	3.6	5.3	7.5	7.8	8.7	12.4	11.7
Haiti	1.0	2.8	2.0	2.5	2.2	2.4	5.4	5.6
Honduras	7.0	8.2	10.6	14.5	22.4	16.4	17.1	15.5
Nicaragua	8.7	9.3	17.8	21.9	32.2	14.3	12.1	13.0
Paraguay	8.1	8.5	14.3	16.4	15.6	16.4	17.5	21.6
Dominican Republic	4.0	14.0	14.7	20.2	22.6	24.5	18.0	15.2
Uruguay	12.9	10.4	11.0	12.9	22.4	24.8	34.8	34.2

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

*Including interest on the short-term debt.

Preliminary figures.

a fixed rate of 6% per year. The new Peruvian Government declared that it would only devote 10% of its export earnings to interest payments and requested private banks to postpone its amortization and interest payments until 31 January 1986. Finally, Colombia remained the only Latin American country with a relatively large debt which had not refinanced it.

Generally speaking, the conditions which were agreed upon at the third round of rescheduling negotiations represented a certain improvement upon the highly unsatisfactory terms granted under previous agreements, and also included a number of major innovations. First of all, private international banks did not in all cases continue to insist upon making the rescheduling agreement conditional upon prior signature by the debtor country of an adjustment programme with the International Monetary Fund, which had always been required in previous refinancing agreements, except those reached with Cuba and Nicaragua. Thus, Venezuela (which had not rescheduled its debt in the previous two rounds) reached an agreement with the banks without signing an adjustment programme with the International Monetary Fund, as did Mexico without renewing the agreement it had signed with the IMF at the end of 1982. In the case of Uruguay, the creditor banks agreed to refinance amortization payments over a longer period (1985-1989) than that covered by the stand-by credit agreement reached with the Fund (1985-1986).

A second major change lay in the considerable increase in the amounts covered by the rescheduled amortization payments. This was particularly noteworthy in the agreement with Ecuador (under which the amortization payments rescheduled were equal to 95% of its total debt with private international banks), and in those reached with Uruguay and Mexico (in which the figure was approximately 70%) and Argentina (55%). In total, the amounts rescheduled by the 11

countries that signed agreements represented almost US\$ 100 billion, which was equivalent to approximately 65% of their combined debt with private international banks.

A third innovation was the rescheduling, in some cases, of amortization payments over much longer periods than in previous rounds. For example, Mexico, the Dominican Republic and Venezuela rescheduled maturities for six years and Ecuador and Uruguay for five. Argentina rescheduled maturities for four years (although these included those for the 1982-1983 period) and Chile for three. The remaining countries refinanced amortization payments for two years, with the exception of Cuba, which only rescheduled those for 1985.

Moreover, these innovations went hand in hand with more satisfactory conditions with regard to terms, rates of interest and commissions. The spread over LIBOR charged by the banks for the rescheduled credits—which had dropped from an average of 2.25% in the first round of renegotiations to 1.85 % in the second— was reduced to 1.38% in the third round; the lowest level (1.13 %) was in the agreements signed by Mexico and Venezuela and the highest (1.66%) in the rescheduling of Costa Rica's debt. Repayment periods were considerably lengthened, and varied between a minimum of 10 ten years in the cases of Costa Rica and Cuba and a maximum of 14 years in that of Mexico (see table 35). Grace periods were shortened, from an average of five years in the second round of rescheduling to three years in most of the agreements signed in 1985, with the exception of Cuba and Chile—which obtained six years— and Mexico and Venezuela—to whom the banks did not grant grace periods, but whose amortization payments will be very low during the initial years. Finally, unlike previous rounds, no commission was charged in this round for the rescheduling of amortization payments, with the exception of the agreements reached with Costa Rica (1%), Honduras (0.88%) and Cuba (0.38%).

However, the favourable impact of the relative improvement in the conditions applying to the rescheduling of amortization payments was somewhat offset by the reduction of fresh credits granted

Table 34

LATIN AMERICA: RESCHEDULING OF EXTERNAL DEBT WITH
PRIVATE BANKS: 1982/1985^a

(Millions of dollars)

Country	First round 1982/1983			Second round 1983/1984			Third round 1985/1985		
	Maturities		credit	Maturities		credit	Maturities		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	-	-	-	280	85-86	75
Cuba	130	Sep. 82-83	-	103	84	-	82	85	-
Chile	3 424	83-84	1 300	-	-	780	5 700	85-87	7U-ill ^d
Ecuador	1 970	Nov. 82-83	431	900	84	-	4 800	85-89	200
Honduras	121	82-84	-	-	-	-	220	85-86	-
Mexico	23 700	Aug. 82-84	5 000	12 000'	Aug. 82-84	3 800	48 700	85-90	-
Panama	180	83	100	-	-	-	603	85-86	60
Peru	400	83	450	662	84-Jul. 85	-	-	-	-
Dominican Republic	568'	82-83 ^c	-	-	-	-	790	82-85	-
Uruguay	630	83-84	240	-	-	-	2 130	85-89	-
Venezuela	-	-	-	-	-	-	21 200	83-88	-

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

^aFor each round the first column gives the amounts of amortization payments rescheduled, the second indicates the years for which amortization payments were restructured and the third shows the fresh credit granted by private banks as an integral part of this rescheduling. The table does not include information on the maintenance of short-term lines of credit and bridging credits granted by the United States Treasury Department, the Bank for International Settlements, etc. In some cases includes maturities already rescheduled in 1982/1983.

^cThe agreement was never signed and the maturities were included in the new 1984/1985 agreement.

The figures correspond to 1985 and 1986, respectively. They included US\$ 150 million guaranteed by the World Bank.

^dPrivate-sector commitments.

Table 35

**LATIN AMERICA: TERMS OF RESCHEDULING OF EXTERNAL DEBTS WITH
PRIVATE BANKS: 1982/1985"**

Country	First round 1982/1983			Second round 1983/1984			Third round 1984/1985		
	Spread over LIBOR (percent- ages)	Repay- ment period (years)	Commis- sion ^b	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 ^c	6.8 ^c	1.25 ^c	-	-	-	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	-	-	-	1.66	9.4	1.00
Cuba	2.25	7.0	1.25	1.88	9.0	0.88	1.50	10.0	0.38
Chile	2.16	7.0	1.25	1.75	9.0	0.63	1.42	12.0	0.08
Ecuador	2.28	6.7	1.25	1.75	9.0	0.88	1.39	11.9	-
Honduras	2.38	7.0	1.38	-	-	-	1.58	11.0	0.88
Mexico	1.95	7.6	1.05	1.50	10.0	0.63	1.13	14.0	-
Panama	2.25	6.0	1.50	-	-	-	1.40	11.7	0.05
Peru	2.25	8.0	1.25	1.75 ^d	9.0 ^e	0.75 ^d	-	-	-
Dominican Republic	2.25 ^c	6.0 ^c	1.25 ^c	-	-	-	1.38	13.0	-
Uruguay	2.25	6.0	1.41	-	-	-	1.38	12.0	-
Venezuela	-	-	-	-	-	-	1.13	12.5	-

Source: ECLAC, Economic Development Division, on the basis of official data provided by the countries and by a variety of national and international sources.

^aEach column represents the terms agreed upon with 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 represents a weighted average of the two. Calculated as a percentage of the total amount of the transaction and paid once only when the loan contracts were signed. ^fThis agreement never came into effect. The corresponding maturities were ultimately incorporated into the agreement which formed part of the third round.

^dThis agreement has not been concluded.

by the banks. Banks remained reluctant to make any significant increase in their commitments in Latin America and agreed to grant further loans worth just US\$ 4.75 billion in 1985, an amount which was not only lower than the fresh credit granted in previous rounds, but also far lower than the interest which the countries of Latin America paid them in 1985.

Moreover, as can be seen in table 34, only five of the 11 countries which signed agreements during the year received fresh credits, and almost 90% of the total went to Argentina, which in previous years had received only short-term bridging credits from private banks. In 1985 Chile received US\$ 714 million in fresh credit—a smaller amount than the US\$ 1.3 billion and US\$ 780 million granted in 1983 and 1984, respectively—while Ecuador obtained US\$ 200 million, Costa Rica US\$ 75 million and Panama US\$ 60 million.

Furthermore, conditions under which the fresh credit was granted by banks were, in general, harsher than those of the rescheduled amortization payments: the average repayment period was 9.5 years; the periods of grace fluctuated between a minimum of two years in the case of Costa Rica and a maximum of five in that of Chile, and commissions averaged 0.5%.

PART TWO
ECONOMIC EVOLUTION OF THE
INDIVIDUAL COUNTRIES

ARGENTINA

1. Recent economic trends: Introduction and summary

The Argentine economy has been passing through a long period of stagnation and intense fluctuations. In 1985 the gross domestic product declined by 4.4%, owing mainly to the fall in domestic demand, for consumption contracted after two years of growth, while investment expenditure suffered another marked fall. There was thus a continuation of the trend which has led to very low levels of capital formation. The trade surplus, for its part, rose for the fourth year running and reached the record sum of US\$ 4.8 billion. At the same time inflation went down sharply from 690% in 1984 to 385% in 1985, with its rates falling abruptly in the second half of the year (see table 1 and figure 1).

There was a marked difference in the performance of the economy from one half-year to the other (see table 2). In the first half the trends prevailing at the end of 1984 were accentuated: the product and real wages declined, while inflation continued to soar. Indeed, the latter reached extraordinarily high levels, with the consumer price index rising at an average rate of around 26% per month. Although the situation did not become as critical as in the hyperinflationary episodes of a number of countries after the two World Wars, the functioning of the economy was seriously affected. The dizzy rise in prices created a climate of great uncertainty which appreciably shortened the horizon of decisions, thus hampering action in respect of economic policy as well as private sector activities. Moreover, there seemed to be a danger of a further increase in inflation, and this fact, combined with the decline in real income, was causing serious social tensions and threatening to produce political turbulence.

In mid-June the government announced a stabilization programme known as the "Plan Austral". The official diagnosis stressed the need for rapid stabilization: a gradual approach might mean that inflation would remain too long at untenable levels and involve the risk of a prolonged contraction of productive activity. From previous unsuccessful national attempts to curb inflation the authorities deduced that the monetary and fiscal measures for slowing down the rise in nominal demand should be combined with an incomes policy to co-ordinate the transition of price levels to a much less inflationary course. It was also considered essential to achieve a reversal of expectations, so that the curbing of inflation would not cause excessive upsets.

Thus the programme of 14 June included policies designed to influence prices both directly and through costs, demand and expectations, with the aim of achieving a sharp cutting down of inflation. Similarly, a system of conversion of contracts was introduced in order to neutralize possible transfers of wealth caused by an abrupt change in price dynamics. Under this system, changes were decreed in the real value of future commitments contracted in nominal terms or with certain adjustment clauses.

From a fiscal and monetary standpoint, the programme envisaged a drastic reduction of the public sector deficit (to the point where the projected imbalance for the second half of the year was lower than the interest payable on the external public debt) and it was announced that the government would cease to seek financing from the Central Bank.

The adjustment proposed in the fiscal accounts was based in particular on:

- the reduction of investment and personal expenditure (real wages in the public sector had fallen substantially in the first half of the year);
- the increase in tax revenue, thanks to the drop in the inflation rate (taking into account the lag between the time when taxes fall due and the time when they are received) and to the application of higher taxes on foreign trade and fuels;
- the rise in the real values of public service charges (which took place gradually during the first half of the year), and

- the lightening of the financial burden borne by the Central Bank as a result of the fall in the nominal interest rate and, consequently, in the amount of interest payments in respect of the cash reserves of the commercial banks.

On the other hand, it was decided not to reduce social expenditure or effect mass dismissals of personnel.

The incomes policy, for its part, was to be initially based on a general freeze of prices, service charges, the exchange rate and wages. In this last case the increase of 22.6% which was due to come into force in June in accordance with the previous adjustment clause was still allowed.

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Indexes (1980 = 100)							
A. Basis economic indicators							
Gross domestic product at market prices	98.4	100.0	93.3	87.4	90.0	92.0	88.0
Gross national income	98.4	100.0	91.2	82.8	84.5	86.8	81.1
Population (millions of inhabitants)	27.8	28.2	28.7	29.2	29.6	30.1	30.6
Per capita gross domestic product	100.0	100.0	91.8	84.6	85.8	86.3	81.3
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.7	1.6	-6.7	-6.3	3.0	2.2	-4.4
Per capita gross domestic product	5.0	-	-8.2	-7.8	1.4	0.6	-5.8
Gross national income	7.7	1.6	-8.8	-9.2	2.1	2.9	-5.7
Unemployment rate ^c	2.0	2.3	4.5	4.8	4.2	3.8	5.3
Consumer prices							
December to December	139.7	87.6	131.3	209.7	433.7	688.0	385.4
Variation between annual averages	159.5	100.8	104.6	164.8	343.8	626.7	672.1
Industrial workers' wage			-10.8	-14.5	22.8	25.3	-12.1
Money	145.5	97.8	68.6	222.5	370.6	521.6	593.3
Current income of government	170.0	79.8	97.9	168.3	342.2	632.3	1 501.3
Total expenditure of government	163.2	110.6	139.2	145.9	568.7	385.0	1 175.8
Fiscal deficit/total expenditure of government'			54.5	50.4	67.2	50.5	37.8
Current value of exports of goods and services	22.6	7.8	9.7	-15.4	12	3.1	3.9
Current value of imports of goods and services	76.8	49.1	-11.2	-43.9	-10.7	2.8	-14.0
Terms of trade (goods and services)	13.4	4.2	-6.6	-22.4	»2.1	-1.3	-11.7
Millions of dollars							
External sector							
Trade balance (goods and services)	403	-3 191	-757	2 667	3 469	3 591	4 800
Net payments of profits and interest	-973	-1607	-3 932	-5 054	-5 922	-6 135	-5 750
Balance on current account	-535	-4 774	-4 712	-2 354	-2 436	-2 542	-950
Balance on capital account	4 760	2 176	1 519	1686	-13	2 686	3 600
Variation in net international reserves	4 424	-2 666	-3 408	-806	-2 379		2 500
External debt'	19034	27 162	35 671	43 634	45 087	46 903	48 312

Source: ECXAC, on the basis of official figures.

"Preliminary figures. "Simple average of the results of surveys for each year in the Federal Capital and Greater Buenos Aires.

'Percentages. ^Variation between annual averages of real wages. "Total medium- and long-term external debt.

Before the launching of the programme, the government made major adjustments to the exchange rate and public sector charges, in order to increase them in real terms, while it considerably relaxed the controls on industrial prices; similarly, it stimulated the recovery of meat prices. These measures were designed to establish the set of main relative prices that would prevail after the freeze. At the time, however, such measures could also have been interpreted as the prelude to a new upswing of inflation. Hence it is probable that in mid-June the greater part of the population expected a worsening of the economic situation.

The announcement of the stabilization plan created a turnaround in the attitude of the general public and a less appreciable change in that of the social and political organizations. A symptom of this phenomenon was the widespread renewal of bank deposits, despite the fall from 28% to 4% per month in the nominal interest rate in the regulated segment. This did not imply a stabilization of expectations, but certainly a clear-cut change with respect to the situation prior to the announcement of the programme. Besides this, the demand of consumers that the prices in force when the plan was launched should be respected played an important part in the abrupt slackening of inflation, despite the initial difficulties encountered in administering the freeze. In the second half of the year the wholesale price index varied by only 0.6% per month, although consumer prices, influenced by the increase in the prices of services and some primary products, rose more rapidly (3.1%). Thus, inflation in the second half of 1985 was in marked contrast to its rapid rise in the previous period, and it was much below the average for any of the ten preceding years.

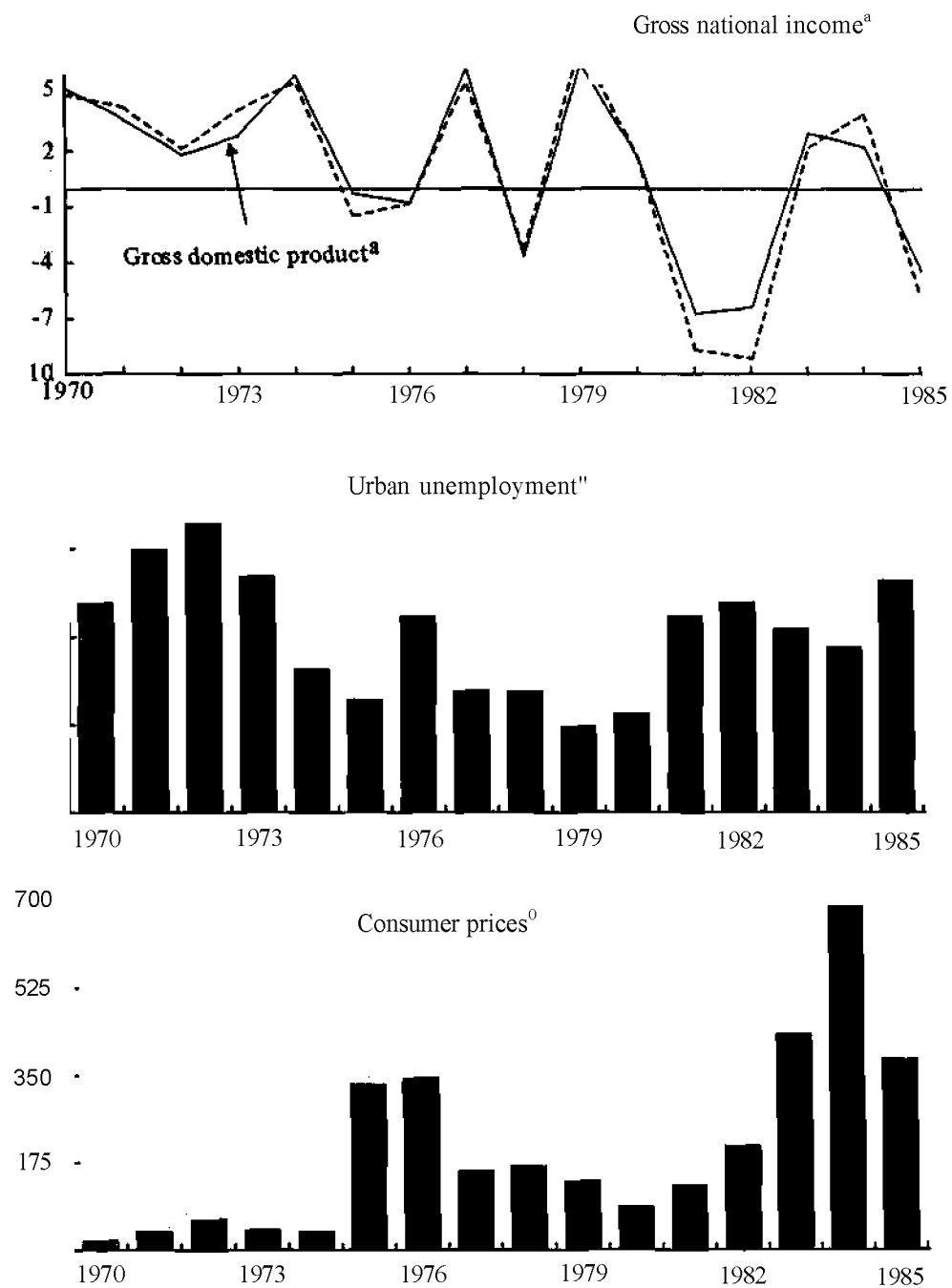
The real product, which had already been declining, showed a marked additional fall in the third quarter. Industrial production in particular was affected by various contractive factors: the initial uncertainty concerning the authorized prices, which had a particularly strong influence on intermediate transactions; the decline in consumers' incentives to hasten purchases; and the reduced demand for stocks. Nevertheless, a gradual recovery was observed in industrial sales which made possible the absorption of surplus stocks and was soon afterwards reflected in production. In the fourth quarter growth in activity was appreciable and widespread, so that, discounting seasonal factors, the product of that period, though still below that of the last quarter of 1984, was the highest of the year. Thus, apart from the initial impact, the pronounced fall in the inflation rate was not accompanied by an intensification of the recession.

The behaviour of real wages in 1985 has given rise to controversy, mainly connected with the manner of measuring the effect of inflation on the purchasing power of wages. According to the traditional method of calculating real wages, these would have declined in the second half of the year; nonetheless, if account is taken of the lag between the time when incomes become due and when they are paid, and between the latter time and the "average" moment of expenditure, the decline in industrial wages may have been slight, or even non-existent, according to the hypothesis employed. At all events, at the end of 1985 real wages were clearly below the values they had attained in 1984, but they were higher than the averages for recent years, except probably in certain areas of the public service and in sectors such as construction and commerce.

Despite the weakness of international demand for the main agricultural export products, the trade surplus was unusually high. This was due to the rise in the volume of external sales, especially of industrial goods, and to the low level of imports. Even so, owing to the heavy burden of interest payments the balance on current account was once again negative. Despite this, the refinancing of debt maturities —after the agreements made with the IMF— and the capital inflows observed from June onwards made possible a significant increase in the international reserves.

In turn, the rise in the reserves and the higher rediscounts granted to the financial system produced a considerable expansion in the money supply in the second half of the year, despite the sharp fall in the expansion created by credit to the government. At the same time, the demand for assets in national currency grew vigorously. In particular, the weakening of inflationary expectations induced the public to maintain a much greater volume of cash surpluses. There was also an increase in time-deposit holdings, especially in the segment of non-regulated rates; in contrast, indexed deposits were frequently cancelled on maturity. Non-regulated interest rates settled down in mid-June at around 9% per month, a much lower level than previously, but considerably higher than the inflation rate implicit in the freeze. This situation might be viewed as a symptom of inflationary expectations not fully dissipated, and also as a reflection of a greater demand for money. As the months passed, nominal interest rates slowly declined, although they remained higher than the inflation rates. In

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



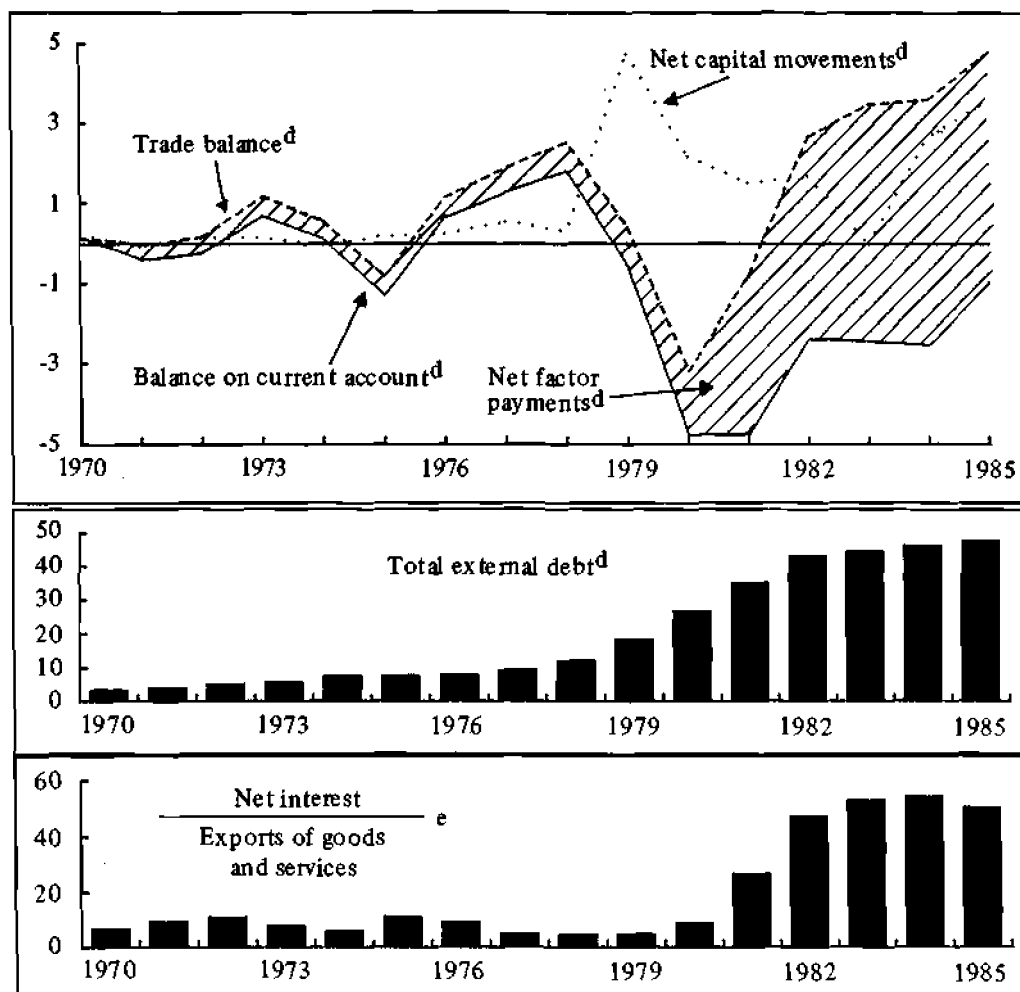
Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^b> Average annual rate in the Federal Capital and Greater Buenos Aires.

^cPercentage variation from December to December.

Figure 1 (conclu dt. J)



^dBillions of dollars. ^ePercentages.

other words, the *ex-post* cost of credit came to be high, especially for those sectors in which the freeze was applied more rigorously. Although this was a curb on economic revival, it is probable that the low initial values of indebtedness have limited the incidence of the high real interest rates on net worth.

In sum, the "Plan Austral" caused a drastic slowdown in price rises and led to a gradual but manifest normalization of the economy. Towards the end of 1985 the danger of hyperinflation, which was clearly perceptible prior to the programme, seemed to have been surmounted. The main problems facing the economy were the maintenance of low inflation rates and the restoration of growth. As regards the former, the intention was to seek more permanent bases for sustaining fiscal equilibrium and to define a prices and incomes policy with a longer horizon than could be foreseen for the freeze, taking into account the intensity of the distribution struggle.

From the standpoint of real activity, the reduction of the uncertainty regarding inflation was undoubtedly a major factor. At all events, aside from the recovery of the product observed towards the end of 1985, the economy had to set about changing a long-standing tendency to stagnation. External conditions were not favourable: although there was a noticeable fall in international interest rates, the debt burden remained very heavy and the terms of trade showed an adverse trend. One of the main issues in debate was how to increase the severely reduced volume of resources destined for

capital accumulation and how to administer them in order to optimize their dynamizing effect on the economy. Within the budgetary restrictions, the government was concentrating its support on certain sectors considered to have growth potential and on specific projects which fulfilled conditions of adequate productivity and where most of the capital investment was contributed by the private sector.

2. Trends in economic activity

a) *Total supply and demand*

The adaptation of the economy to the great crisis that broke out at the beginning of the 1980s gave rise to marked fluctuations in economic activity, within the context of a trend towards stagnation or regression. The GDP fell sharply in 1981 and 1982 and rose slightly in the two following years. This cyclical recovery had some special features: imports remained depressed and investment continued to fall, while consumption became the most dynamic component of demand. In 1985 this growth in consumption was reversed and activity once again declined. The recession reached its peak in the third quarter, but, in contrast to other occasions, it was not precipitated by an acute scarcity of foreign exchange, since although the external debt remained a chronic problem the balance-of-payments situation was not particularly serious. On the contrary, the setback in production seemed to be associated in this case with the acute inflation observed up to June and with a number of temporary effects of the policies aimed at combating it. In the second half of the year there was a manifest,

Table 2

ARGENTINA: QUARTERLY EVOLUTION OF SOME OF THE MAIN ECONOMIC INDICATORS

	1984				1985 ^a			
	I	II	III	IV	I	II	III	IV
Fiscal deficit/total expenditure of Central Government (percentages)	67.2	52.1	48.9	46.8	35.6	66.8	4.1	-9.7'
Unemployment rate		4.1		3.5		5.7		4.9
Terms of trade (index 1980 = 100) ^p	94.0	100.0	93.5	85.3	83.5	78.3	83.9	85.6
Trade balance (goods) (in millions of dollars)	1 294.3	1 349.1	755.1	124.1	826.9	1 642.6	1 330.5	800.0
Growth rates in relation to the previous quarter								
Gross domestic product of manufacturing at factor cost (de-seasonalized)	0.4	6.1	1.0	-4.8	-5.6	-4.2	-5.7	13.7
Consumer prices	58.3	63.6	85.3	64.2	91.0	111.4	11.6	7.7
Normal hourly wage of industrial workers (real)*	6.4	6.2	-1.7	3.9	-9.6	-2.5	-2.0	-1.6
Money	48.4	64.5	36.2	86.9	43.9	135.0	41.2	45.2

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

^a Preliminary figures.

Based on data supplied by the General Treasury of the Nation. ' excludes the regularization of arrears in the servicing of the guaranteed external debt registered in the accounts in December through the transfer of external loans from the Central Bank to the Treasury; this allocation considerably raises both the deficit and the total expenditure for December (and for the quarter), although it reflects operations which took place during the whole of the year and even in previous financial years; such regularization is included, the ratio rises to -1.1.V?.

* Surveys taken in April and October in the Federal Capital and Greater Buenos Aires. ' Based on new estimates of foreign trade price indexes.

Variation between the last month of a quarter and the last month of the preceding quarter.

* Variation in quarterly averages of monthly values, deflated by the average of the CPI in the month when the wage is payable and the following month.

' Variation in end-of-quarter balances.

Table 3
ARGENTINA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	86.5	88.5	84.2	108.5	103.8	-8.9	2.4	2.3	-4.8
Gross domestic product at market prices	90.0	92.0	88.0	100.0	100.0	-6.3	3.0	2.2	-4.4
Imports of goods and services	45.0	46.7	39.7	8.5	3.8	-43.0	-8.7	3.8	-14.9
Total demand	86.5	88.5	84.2	108.5	103.8	-8.9	2.4	2.3	-4.8
Domestic demand	83.5	85.9	80.1	102.1	92.9	-10.5	2.1	2.9	-6.8
Gross domestic investment	61.1	53.5	44.5	22.7	11.5	-16.3	-5.1	-12.4	-16.8
Gross fixed investment	62.0	56.0	51.2	22.2	12.9	-24.6	-0.7	-9.6	-8.6
Construction	66.0	54.8	52.8	15.5	9.3	-19.2	-6.0	-17.0	-3.7
Machinery and equipment	52.7	58.9	47.6	6.7	3.6	-39.3	18.8	11.7	-19.1
Public									
Private									
Total consumption	90.0	95.3	90.4	79.3	81.4	-9.1	3.7	5.9	-5.2
General government									
Private									
Exports of goods and services	133.9	128.5	149.6	6.4	10.9	10.8	5.6	-4.0	16.4

Source: ECLAC, on the basis of official figures.

Note: The figures for exports and imports of goods and services were taken from the IMF balance of payments data in current dollars and converted to constant 1980 values using unit value indexes calculated by ECLAC for the purpose.

"Preliminary figures.

though still incipient, revival of activity, which suggested the possibility of a return to more normal conditions in the functioning of the economy.

Exports were the only component of aggregate demand that grew in 1985, and their increase was considerable (16.5%) (see table 3). The greater volumes were based on an increment in both traditional exports and manufactures. The former expanded owing to the good harvest obtained in the 1984/1985 season, whereas the industrial exports were partly due to the contraction of domestic demand. In contrast, there was a substantial fall in imports (15%), owing in particular to the reduced purchases of intermediate goods. Thus the degree of openness of the economy, measured by the ratio of exports of goods and services/gross domestic product, rose to 11% —a much higher value than was traditional in the country— whereas the coefficient of imports did not reach 4%, a level similar to that recorded in the 1970s. In other words, the trade surplus in real goods and services amounted to 7% of the product, which shows the magnitude of the resources transferred abroad and withdrawn, in particular, from domestic investment.

Consumption declined by over 5% after two years of growth. This was partly due to the fall in real wages (perceptible above all in the public sector) and, immediately after the start of the stabilization programme, to the postponement of purchases on the part of families. This effect was of short duration: after a time there was a noticeable rise in expenditure, stimulated in part by a greater supply of credit for sales of durable goods, so that the level of consumption in the fourth quarter (net of seasonal influences) was probably the highest of the year.

Gross capital formation fell once again, as had happened year after year since 1980. The reduction in stocks was an important factor in this decline. In the first part of the year the stocks of industrial products probably increased, as is typical in periods of recession. The launching of the anti-inflationary programme created powerful incentives for the liquidation of stocks; however, and

this helped to depress aggregate demand in the third quarter. Subsequently, before the revival of spending, enterprises adjusted their output more slowly, so that there appeared to be a significant absorption of stocks. At the same time, gross fixed investment went down by 8.6%, causing the coefficient of fixed investment to fall to 13% (see table 3). This fall, moreover, was widespread, since it affected both public and private investment, construction activities and expenditure on equipment.

In construction, which was at a very depressed level, the fall was concentrated in works destined for the private sector, demand for which was weakened by the drop in aggregate income and the now chronic dearth of financing. Public construction, on the other hand, seems to have risen slightly, even though it was limited by severe budgetary constraints.

The contraction in purchases of equipment was partly due to conjunctural causes, especially the reduced use of installed capital and probably the high cost of credit. Nevertheless, the pronounced fall in reproduction expenditure is a longer-term phenomenon and reflects the serious operational problems which have characterized the economy. On the side of funding, the drainage of resources caused by external debt servicing has been a negative factor which has not been offset either by the scant flow of external credit or by an increase in local saving. Moreover, the willingness of firms to invest has been depressed: economic instability and the uncertainty produced by inflation stimulated the search for short-run gains and made still more difficult the quest for profitable investment opportunities. Again, the financial system has not been effective in its role of channelling funds for accumulation, while the productivity of the projects that actually materialized has been low. All this has undoubtedly affected the capacity for economic growth.

b) *Evolution of the main sectors*

In contrast with what occurred in the 1982 recession, the contraction in 1985 affected practically all productive activities. In fact, the year witnessed a fall not only in the output of goods but also in that of basic services and other services (see table 4).

i) *The agricultural sector.* The agricultural product declined by over 3%, mainly owing to the contraction of crop-farming production (-4%) and, in lesser degree, to a slight fall in livestock production (see table 5).

As regards crop farming, there were falls in the subsectors of cereals, industrial crops and fruit; in contrast, the production of oilseeds was maintained and that of green vegetables and pulses increased. The livestock product, for its part, declined by 0.6%, owing to the reduction in beef-cattle raising which could not be offset by the increase in dairy farming and poultry rearing.

In the crop-farming year 1984/1985 there was a record production of grains (34 million tons), a harvest almost 8% higher than that of the previous year (see table 6). This was due to the favourable weather conditions, which made possible high yields despite the fact that the area sown in 1984 went down for the second successive year.

The fall in the area sown was mainly due to the adverse trend of prices. Although the real exchange rate went up in 1985 and export duties were on average lower, the continuous marked deterioration in international prices pushed down domestic prices of cereals and oilseeds. Outstanding amid the general decline in real prices were the cases of wheat and sorghum, whereas the producer prices of maize, soya and sunflower evolved less adversely.

The fall in prices hit not only grains but also most of the other exportable agricultural products. Moreover, there was less incentive to employ resources in permanent crops. This, coupled with the unfavourable weather conditions, resulted in a fall in the area sown and a decline in the output of several major crops.

Cattle production diminished owing to the liquidation of stocks initiated in the preceding year. Between July 1984 and June 1985 the stock of cattle fell by 0.7%, i.e., by some 400 000 head (see table 7). Slaughtering rose once again by 11% in the stock-raising year 1984/1985, and it may be assumed that there will be a further growth of around 3% in 1985/1986. The rate of extraction of the cattle stock was 23.6% in 1984/1985, and is expected to be around 24.5% in 1985/1986; this would imply a continuation of the liquidation phase of the stock-raising cycle. The fall in the yield of meat per animal slaughtered and the decline in the real price of cattle in 1985 seem to confirm this hypothesis (see table 7).

ii) *Mining.* Mining output went down by somewhat over 3% owing to reduced activity in fuel extraction and in the production of minerals for construction (see table 8).

Table 4

ARGENTINA: GROSS DOMESTIC PRODUCT BY
TYPE OF ECONOMIC ACTIVITY"

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985*	1982	1983	1984	1985*
Gross domestic product	90.0	92.0	88.0	100.0	100.0	-6.3	3.0	2.2	-4.4
Goods	90.0	90.8	84.3	43.0	41.2	-4.1	5.6	0.9	-7.2
Agriculture'	111.0	115.3	111.5	8.6	10.9	6.9	1.9	3.9	-3.3
Mining	102.5	102.9	99.6	2.4	2.7	0.7	12	0.4	-3.2
Manufacturing	88.7	92.2	82.7	25.0	23.5	-4.7	10.8	4.0	-10.4
Construction	64.4	51.5	51.2	7.1	4.1	-19.8	-6.8	-20.1	-0.5
Basic services	99.6	104.5	102.1	10.2	11.8	-1.1	5.1	4.9	-2.3
Electricity, gas and water	110.1	117.3	118.9	2.5	3.4	3.1	8.0	6.5	1.4
Transport, storage and communications	96.1	100.3	96.4	7.7	8.4	-2.6	4.1	4.3	-3.8
Other services	88.0	90.4	88.4	46.8	47.0	-9.2	0.2	2.8	-2.3
Trade, restaurants and hotels	79.1	82.9	76.6	18.0	15.7	-17.9	3.5	4.8	-7.6
Financial institutions, insurance, real estate and business services	82.5	83.5	82.3	18.7	12.8	-9.0	-5.6	12	-1.3
Ownership of dwellings	105.3	106.6	107.5	5.0	6.1	1.8	1.4	1.2	1.2
Community, social and personal services	103.7	105.9	108.1	15.1	18.5	0.2	1.8	2.0	1.9
Government services	103.4	105.3	108.4	11.1	13.6	1.0	1.4	1.8	2.0

Source: ECLAC, on the basis of official figures.

"At constant 1980 market prices.

Preliminary figures.

includes the livestock sector, forestry and fishing.

Table 5

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Austral at 1970 prices				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Gross product of agricultural sector, at factor cost	1369	1 394	1 448	1 400	7.3	1.9	3.9	-3.4
Crop farming	832	849	914	877	9.5	2.1	7.7	-4.1
Stock raising	494	498	487	484	3.1	0.9	-2.3	-0.6
Fishing	10	9	7	9	32.5	-8.5	-23.1	30.2

Source: Central Bank of Argentina.

"Preliminary figures.

Also includes agricultural construction, hunting, forestry and lumbering.

Table 6

ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)			Production Millions of tons				Growth rate		
	<i>iHiimi</i>	<i>TMV</i>	<i>^</i>	1985 _i	<i>i w i</i>	<i>TMV</i>	<i>W</i>	1983	1984	1985
	1984/1983	1984	1987	1986	1984/1985	1984	1985			
Cereals	16.7	16.9	15.3	14.1	31.1	31.0	33.4	33.2	-14.1	7.7
Wheat	6.7	7.2	6.0	5.6	11.5	13.0	13.6	18.1	-13.3	4.6
Sorghum	2.5	2.6	2.1	1.5	7.4	6.9	6.2	13	-14.8	-10.1
Maize	3.7	3.5	3.8	3.9	10.7	9.5	11.9	-6.3	5.6	25.3
Oilseeds	5.4	6.0	6.5	7.1	8.5	10.1	10.5	5.8	38.4	4.0
Linseed	0.8	0.8	0.7	0.8	0.6	0.7	0.6	1.7	-	-14.3
Sunflower	19	2.1	2.4	2.8	2.2	2.2	3.3	20.0	-8.3	50.0
Soya	2.5	2.9	3.3	3.3	5.0	7.0	6.5	-4.8	25.0	-7.1
Total annual crops	23.5	24.3	23.2	22.4						

Source: Ministry of Agriculture.

Table 7

ARGENTINA: CATTLE SLAUGHTERING AND PRICES

Season July- June	Stocks (millions of head)"	Slaugh- tering (millions of head)	Slaugh- tering rate (%) ^c	Yield in kilo- grammes of dressed meat per head"	Proportion of cows and heifers in typifies slaugh- tering (%) ^f	Annual per capita consump- tion (kilo- grammes	Prices of steers in terms of	
							Indus- trial prices ^g	wheat prices ^h
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	53.8	11.6	21.6	213.2	32.8	69.9	0.79	6.40
1984-1985	54.6	12.9	23.6	203.9	34.4	77.0	0.57	5.90
1985-1986	54.2	13.3	24.5	203.4		79.0	0.55	5.70
1st half 1984"		6.1		208.3	34.4	72.5	0.80	6.62
2nd half 1984"		6.0		209.8	32.5	73.8	0.74	7.21
1st half 1985 [^]		7.0		199.0	35.9	80.2	0.44	4.62
2nd half 1985"		6.5		206.0	33.0	77.0	0.52	5.61

Source: National Meat Board, Ministry of Agriculture and the ECLAC Office in Buenos Aires, on the basis of official data.

"To 1 July. *Total slaughtering for the period. 'Slaughtering for the period as a percentage of the stocks at 1 July. "Average for the period. 'Slaughtering controlled by the National Meat Board, which represents between 77% and 80% of the total (registered) commercial slaughtering. 'Refers to registered slaughtering, which differs from the total because it does not include the estimated slaughtering *in situ*, (around 360 000 head per year). *1970 pesos. Kilogrammes of wheat needed to buy one kilogramme of live steer. 'Preliminary figures and projections. 'Given the importance of seasonal factors, the six-monthly figures are only comparable with those of the same six months of the previous year.

Table 8
ARGENTINA: INDICATORS OF MINING PRODUCTION

	1982	1983	1984	1985 ^o	Growth rates			
					1982	1983	1984	1985 ^o
Gross mining product at factor cost (australs at 1970 prices)	249	252	253	245	0.3	1.2	0.4	-3.2
Production of some important minerals								
Petroleum	28 470	28 474	27 833	26 693	-1.3	-	-2.3	-4.1
Marketable coal (tons) ^c	515	486	508	398	3.4	-5.7	4.6	-21.6
Injected gas	9 786	11 295	12 217	12 657	19.6	15.4	8.2	3.6

Source: Central Bank of Argentina and Department of Fuels.

^aPreliminary figures.

^bMillions of cubic metres.

^cThousands of tons.

^dAfter deduction of imports.

There was a downturn both in petroleum output (-4%) and in the consumption of petroleum products. Despite the marked fall in international prices, progress was made in the negotiation of prospecting and operating contracts with private companies, which were the subject of heated discussions, especially as regards the form of payment.

The volume of natural gas injected rose by 3.6%. This result was in accord with the energy programme, which aims at increasing the use of gas in industry and electricity generation, in place of other less abundant fuels. In this connection negotiations continued with a view to obtaining external financing for the expansion of gas pipelines. In addition there was continued encouragement of the use of gas as a fuel for other purposes (e.g., in vehicles for public transport). In contrast, the amount of coal mined fell sharply (-22%).

iii) *Manufacturing*. Industrial activity, which had already shown signs of weakness at the end of the preceding year, contracted sharply during the first nine months and especially in the third quarter. As a result, the manufacturing product fell by 10% in 1985 (see table 9). While the fall between the third quarter and the same period in 1984 was close on 19%, in the period October-December of 1985 there was an appreciable revival of activity. Thus, the industrial product in the fourth quarter (net of seasonal effects) was the highest of the year.

This trend was due to the different behaviour of demand and supply in respect of industrial products throughout the year. In the first half of the year, demand was affected by the fall in real wages, the scarcity of credit for the purchase of durable goods and the marked contraction of investment; moreover, the price policy of many firms was apparently aimed at recovering profit margins rather than stimulating sales. After the announcement of the Plan Austral, the recession temporarily worsened owing to uncertainty regarding price trends, the postponement of consumption expenditure and the reduced incentive to maintain stocks. After a time consumer demand revived with the surmounting of the initial shock and, probably, with the improvement of the payment terms offered in the sales of durable goods. Thus stocks were absorbed and supply was normalized.

In line with the usual pattern, the metalworking industries suffered the sharpest fluctuations and food production was the branch that varied least. The basic metalworking industries—which destined a considerable part of their output for the external market—declined only slightly. In contrast, the downturn in the product of the textile industry and of the sectors linked with construction was considerable.

The product of the food, beverages and tobacco sector remained stagnant (see table 9). The meat-packing industry operated at reduced levels of activity, owing in particular to the difficulties in selling meat abroad.¹

¹ The problems of this sector are chronic, since they largely originate in restrictions on access to export markets. Taking into account the state of the industry, projects are in hand to alleviate its crisis on the basis of the granting of credits, the merging of enterprises and the contribution of new private funds.

As regards dairy products, the industry was favoured by a more flexible price policy in the first half of the year and by the application of the National Food Plan. In contrast, the production of edible oils fell owing to the decline in domestic consumption; at the end of the year there was also a notable decline in exports as a result of the fall in international prices.

The manufacture of textiles and clothing suffered a sharp contraction in the first six months, in the face of the rapid fall in demand. This was intensified immediately after the introduction of the stabilization programme, but in the last part of the year consumption revived, making it possible to absorb stocks and to begin to raise output from the depressed levels prevailing at the time.

The aggregate product of the chemical industry declined by close on 6%. The output of acids and bases followed more or less the pattern of the manufacturing sector as a whole. In contrast, the output of basic petrochemical products remained constant, despite the reduced demand for processed derivatives. Consequently, a growing part of these products went for export. In this sector progress was made in some important investment projects, especially in connection with the satellite plants of *Petroquímica Bahía Blanca*. There were also advances in the projects for expanding the production of aromatics and in the design of projects for the manufacture of fertilizers from natural gas. Respecting fuel production, domestic demand declined, owing not only to the general contraction of expenditure but also to the pronounced increase in the relative prices of these items; on the other hand, exports grew considerably, as a means of reducing the volume of stocks. There was a fall in the production of tyres, as a result of the decline in the demand for replacements and the reduced purchases of the motor-vehicle industry.

Throughout the first half of the year most of the industries requiring iron and steel inputs—construction, motor vehicles, household appliances—reduced their output. In view of this downturn in sales to the domestic market there was a pronounced increase in exports, especially of flat rolled products. Something similar occurred in the aluminium industry, whose exports were almost

Table 9

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Gross manufacturing product at factor cost (australs at 1970 prices)	1973	2 186	2 274	2 038	-4.7	10.8	4.0	-10.4
Food	468	492	529	528	-9.2	5.2	7.6	-0.3
Textiles	195	219	224	174	-1.0	12.4	2.5	-22.3
Wood	33	32	29	25	-15.3	-4.3	-6.5	-14.4
Paper	106	113	114	111	5.5	7.0	1.1	-3.3
Chemicals	334	368	387	365	-1.3	10.2	5.2	-5.7
Non-metallic minerals	99	111	103	80	-9.3	11.6	-7.3	-22.2
Basic metal industries	134	143	138	131	12.4	6.5	-3.4	-5.0
Machinery and equipment	469	559	592	484	-8.2	19.1	6.0	-18.4
Other industries	136	151	157	141	-4.7	10.8	4.0	-10.4
Production of some important manufactures								
Pig iron	1 894	1 862	1 818	1 310	10.1	-1.7	-2.4	-27.9
Crude steel	2 913	2 966	2 635	2 976	15.3	1.8	-11.2	12.9
Finished rolled products	2 667	2 896	2 711	2 287	21.6	8.6	-6.4	-15.6
Motor vehicles'	132	160	167	138	-23.3	21.2	4.4	-17.4
Tractors*	3 828	8 125	12 381	6 777	181.7	112.3	52.4	-45.3

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

"Preliminary figures. "'Thousands of tons. includes sponge iron. Total of finished rolled products in terms of hot-rolled products. 'Thousands of units. 'Units sold. ⁸Sold on the domestic market.

Table 10

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Gross construction product at factor cost (australs at 1970 prices)	451	420	336	334	-19.8	-6.8	-20.1	-0.5
Construction permits granted (thousands of square metres)								
Federal Capital	1 016	781	998	1 256	-290	-23.1	27.8	25.9
Paraná	146	204	172	98	-34.8	39.7	-15.7	-43.0
Rosario	362	332	514	376*	-14.6	-8.3	54.8	
Salta	150	133	137	161	-9.6	-11.3	3.0	17.5
Santa Fe	83	72	94	65	-48.8	-13.3	30.6	-30.9
Supply of some construction materials								
Deliveries of cement to the domestic market	5 395	5 518	5 161	4 513	-17.4	2.3	-6.5	-12.6
Public works	1 225	972	806	652	-31.7	-20.7	-17.1	-19.1
Private works	4 170	4 546	4 355	3 861	-12.0	9.0	-4.2	-11.3
Deliveries to the domestic market of steel products for reinforced and prestressed concrete'	324	310	298	253	-18.2	-4.3	-3.9	-15.1

Source: National Institute of Statistics and Censuses; Asociación de Fabricantes de Cemento Portland and Instituto Argentino de Siderurgia.
 "Preliminary figures. Cumulative figures for 9 months. 'Thousands of tons.

double those of 1984. In the last part of the year iron and steel production revived, in keeping with the incipient recovery of domestic demand.

The product of the metal goods and machinery industries suffered a drastic fall. This was most notable in the motor-vehicle sector, in which the number of units produced fell by over 17%. Demand followed the general pattern: a fall in the first half of the year, a sharp downturn at the commencement of the stabilization plan and, later, quite a rapid recovery with a diminution of stocks. Something similar took place in the case of household appliances, an important factor being the increased supply of credit for consumer purchases, facilitated by the stabilization of prices. The reduced demand in the agricultural sector affected the production of tractors, despite the rise in exports. In general, the revival of the capital goods industry in the second half of the year was vigorous, although the level of activity was still low towards the end of the period.

In aggregate terms, at the end of 1985 the gross industrial product was around 7.5% below the cyclical maximum of the previous year; the basic metal and paper industries had by then exceeded the level of the third quarter of 1984, while the output of the textile industry, the manufacture of non-metallic mineral products and, to a lesser degree, the metals industry still remained appreciably below that of the aforesaid period.

iv) *Construction.* The construction industry declined for the fifth year in a row, although this time the contraction was small (-0.5%). This intensified the depression of the sector, whose product fell to its lowest level since 1970 (see table 10).

The causes of this performance were similar to those observed in recent years. In the first six months, budgetary restrictions provoked a sharp downturn in government investment; in the second half of the year, however, there appears to have been a recovery in public construction attributable to projects carried out by provinces and municipalities. For its part, private investment in construction

was affected by the decline in income, as well as by the scarcity and high cost of financing. Contrary to what happened in other sectors, expenditure on private construction made no appreciable recovery in the second half of the year.

Nevertheless, towards the end of the year some signs of revival appeared in the industry, perhaps as a reflection of the more stable conditions and despite the persistently high interest rates. In addition, credit mechanisms were introduced with longer payment terms than had previously applied, with a view to stimulating the sale of finished dwellings and the completion of those in construction.

v) *Electricity.* The growth of electricity generation (1.6%) was lower than in preceding years. The share of thermal power stations in the total again declined (to 36%), while hydroelectricity continued to account for around half the power generated. The remaining 14% came from nuclear power stations, which considerably increased their output (by 24%).

Maintaining the policy applied in 1984, investment was concentrated on the projects already started. Funds were allocated to the Piedra del Águila (Neuquén) and Caleta Córdoba (Chubut) projects, and the turbines missing at Alicura were installed, while work continued on Atucha II and Yaciretá. Besides this, the Department of Energy conducted studies aimed at replacing liquid fuels by gas in electricity generation, making use of the large gas reserves available.

3. The external sector

a) *Overall trends*

From 1981 onwards trade in goods began to show a substantial surplus. This was exceptionally high in 1985, when it bordered on US\$ 5 billion: a figure close to the total imports of goods and services. This result was obtained in adverse external market conditions: in fact, contrary to what occurred in 1984, the terms of trade fell sharply, reducing the index to its lowest level since 1979. Hence the rise in the surplus on transactions in goods was due to the bigger volumes exported, coupled with a marked reduction in purchases from abroad. At the same time, the burden of debt servicing was slightly relieved by the fall in international interest rates. In consequence of both effects and of the slight deficit on transactions in real services, the negative balance on current account fell to US\$ 950 million, by far the lowest figure recorded in the last six years. This deficit was more than covered by capital inflows, so that the international reserves rose by US\$ 2.5 billion (see table 11).

At the beginning of the year the IMF decided to interrupt the implementation of the stand-by credit agreement in force since 1984, and this affected discussions with the creditor banks. In June, after several months of new negotiations, a memorandum of understanding between the government and the IMF was announced, which was modified somewhat later to include the changes introduced by the stabilization programme. Subsequently a refinancing agreement was reached which included the restructuring of somewhat more than US\$ 10 billion of the public sector debt; the refinancing of the private debt and the granting of US\$ 4.2 billion in new credits. Some of the funds disbursed under these agreements were used to pay back earlier loans and to pay off arrears.

Through the issue of securities by the Central Bank, the conversion of the external private debt into public liabilities continued in 1985. In the second half of the year there was a large inflow of private capital, stimulated by the gap between the interest rate and the devaluation rate. This flow derived from strictly financial transactions as well as from advance payments from exports. The authorities sought to discourage the entry of highly volatile funds; hence they increased the minimum maturity term for external credits and reduced the authorized period for the sale of foreign exchange received for exports before shipping.

All in all, capital operations, including the variation of deposits in foreign currency in local banks, signified a net inflow of foreign exchange of around US\$ 3.6 billion. A considerable part (of the order of US\$ 2.2 billion) represented compensatory financing, but there were also appreciable sums of net credit to the national government.

The high surplus on trade in goods and the refinancing obtained led to an improvement in the external payments situation: the reserves went up and the settlement of existing credits was gradually regularized. Towards the end of the year the positive trend in the exchange market was manifest not only in transactions involving the Central Bank but also in the narrowing of the gap between the

Table 11

ARGENTINA: BALANCE OF PAYMENTS*(Millions of dollars)*

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-535	-4 774	-4 712	-2 354	-2 436	-2 542	-950
Trade balance	403	-3 191	-757	2 667	3 469	3 591	4 800
Exports of goods and services	9 177	9 891	10 854	9 183	9 291	9 578	9 950
Goods FOB	7 810	8 022	9 142	7 622	7 838	8 072	8 400
Real services	1 366	1 870	1 710	1 560	1 454	1 505	1 550
Transport and insurance	605	810	887	713	755	830	860
Travel	266	345	413	610	453	440	450
Imports of goods and services	8 774	13 081	11 610	6 516	5 822	5 987	5 150
Goods FOB	6 027	9 394	8 432	4 859	4 120	4 132	3 400
Real services	2 745	3 688	3 180	1 655	1 700	1 855	1 750
Transport and insurance	905	1 271	1 164	733	737	900	760
Travel	1 266	1 792	1 472	566	507	600	600
Factor services	-973	-1 607	-3 932	-5 054	-5 922	-6 135	-5 750
Profits	-428	-585	-738	-317	-424	-437	-400
Interest received	681	1 229	887	526	440	264	
Interest paid	-1 175	-2 175	-3 851	-4 926	-5 425	-5 542	
Others	-52	-76	-233	-339	-514	-420	-450
Unrequited private transfer payments	35	23	-21	34	16	2	-
Balance on capital account	4 760	2 176	1 519	1 686	-13	2 686	3 600
Unrequited official transfer payments	22	-	-	-	-	"*	
Long-term capital	3 156	4 492	9 965	3 844	1 715	277	
Direct investment (net)	265	788	943	257	183	269	
Portfolio investment (net)	223	153	1 123	1 888	1 140	754	
Other long-term capital	2 667	3 550	7 899	1 698	393	-746	
Official sector ^c	-	478	962	-44	376	2 034	
Loans disbursed	50	510	1 034	230	2 497	2 935	
Amortization payments	-43	-36	-48	-225	-2 110	-548	
Commercial banks'	198	-65	363	267	38	-32	
Loans disbursed	236	89	399	737	264	8	
Amortization payments	-37	-155	-37	-469	-227	-40	>3 600
Other sectors ^c	2 470	3 138	6 574	1 475	-22	-2 748	
Loans disbursed	3 157	4 231	8 795	2 602	2 447	281	
Amortization payments	-857	-1 229	-1 696	-650	-2 295	-2 854	
Short-term capital (net)	1 341	-2 011	-8 244	-1 758	-1 289	2 462	
Official sector	180	313	299	2 682	-91	1 298	
Commercial banks	-286	-365	24	351	311	-523	
Other sectors	1 447	-1 958	-8 567	-4 791	-1 509	1 687	
Errors and omissions (net)	243	-307	-205	-401	-440	-52	
Global balance	4 225	-2 598	-3 193	-668	-2 450	144	2 650
Total variation in reserves (- sign indicates an increase)	-4 424	2 666	3 408	806	2 379		-2 500
Monetary gold	-3	-1	-	-	-	-	
Special Drawing Rights	-116	-1	-76	404	-		
IMF reserve position	-34	-133	57	178	100		
Foreign exchange assets	-4 272	2 801	3 426	225	1 105		
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-	-	-	-	1 174		

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, (March 1986); 1985: ECLAC, on the basis of official data.

"Preliminary figures.

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

' In addition to

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

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: monetización of gold, allocation of Special Drawing Rights, and variations due to revaluation.

official and the parallel exchange rates, thus discouraging evasion of foreign exchange regulations through the over- or underdeclaration of trading operations.

Despite the alleviation of external constraints and the improvement in the terms of negotiation after the adoption of the stabilization programme, the external debt remained a serious problem. In fact, it amounted to almost five times the total value of exports of goods and services, which suggests that, as in the three preceding years, net interest payments must have absorbed close on half the total value of exports (see table 12).

b) *Exchange policy*

The exchange policy was very different in the two halves of the year. In the first half, the authorities greatly increased the prices of foreign exchange in an effort to raise the real exchange rate. The policy of daily adjustments of parity at a rate which came to exceed 1 % per day, coupled with the 18% devaluation decided upon at the beginning of June, achieved this objective. As can be seen from table 13, in the second half of the year the real effective exchange rate reached its highest value in the last ten years (with the sole exception of the third quarter of 1982).

The price freeze announced on 14 June also affected the exchange rate: this remained at 0.8 australs per dollar until the end of the year. Given that in the second half of the year there was a rise in the level of domestic prices, the real exchange rate in relation to the dollar was somewhat eroded. Nonetheless, as nominal parity with the dollar remained fixed and United States currency was devalued in respect of the yen and the European currencies, the effective exchange rate remained relatively stable.

For fiscal reasons, import and export duties were raised together with the devaluation in June. During the second half of the year, however, export duties were gradually reduced in order to lessen the effect of the lower international prices of primary products and to improve the incentives for selling industrial goods abroad.

c) *External trade*

i) *Exports.* The value of exports rose once again, this time by 4%. Contrary to what happened the previous year, the expansion of external sales in 1985 was due to the vigorous growth in the volume exported (17%), since prices fell by around 11% (see table 14). Another noteworthy feature was that this increase originated entirely in sales of non-traditional products, which expanded to a remarkable extent (50%), thus more than compensating for the decline of 8% in the value of

Table 12
ARGENTINA: REGISTERED EXTERNAL DEBT AT END OF YEAR

	1979	1980	1981	1982"	1983"	1984"	1985"
Millions of dollars							
Total	19 034	27 162	35 671	43 364	45 087	46 903	48 312
Public	9 960	14 459	20 024	28 616	31 706	36 139	39 868
Private	9 074	12 703	15 647	15 018	13 381	10 764	8 444
Percentages							
Coefficients							
External debt/export of goods and services	207	275	329	472	485	490	486
Net interest/exports of goods and services	5	10	27	48	54	55	

Source: Central Bank of Argentina.

"Includes the registered external debt plus arrears for other items.

"Preliminary estimates.

Table 13

ARGENTINA: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (australs per dollar)	Indexes of real effective exchange rate"	
		Exports	Imports
1975	0.000004	192.3	195.9
1976	0.000014	126.4	129.3
1977	0.00004	163.6	166.1
1978	0.00008	148.3	149.3
1979	0.00013	112.0	111.4
1980	0.0002	100.0	100.0
1981	0.0005*	131.0	136.0
1982	0.0023 ⁶	156.9	160.4
1983	0.0105	156.8	164.1
1984	0.0677	144.8	155.4
1985	0.6018	168.1	180.8
1982			
I	0.0010	136.9	140.5
II	0.0014	145.4	148.2
III	0.0031	186.0	189.8
IV	0.0039	159.3	163.0
1983			
I	0.0058	164.4	168.8
II	0.0078	164.2	170.7
III	0.0107	148.9	157.8
IV	0.0178	149.5	158.8
1984			
I	0.0278	154.1	165.0
II	0.0412	136.6	143.9
III	0.0693	135.0	145.1
IV	0.1322	153.6	167.6
1985			
I	0.2495	159.3	174.2
II	0.5567	162.2	179.3
III	0.8005	174.3	186.8
IV	0.8005	176.6	183.0

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

"Corresponds to the average of the indexes of the real exchange rate of the austral in relation to the currencies of Argentina's main trading partners, weighted by the relative importance of exports or imports to or from these countries. From 1975 to 1979 these weightings correspond to the average for these same years. From 1980 they correspond to the average for the period 1980-1983. In making the calculations wholesale price indexes have been preferred. For the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America, 1981*. In the second half of 1981 and 1982 an average of the financial and commercial exchange rates was used (50% for each).

agricultural exports. Hence the share of industrial products in the export total rose to almost 30% (see table 15).

The performance of agricultural exports was adversely affected by the pronounced fall in the prices of meat and of cereals and oilseeds. Nonetheless, there was an increase in the volume of sales.

In the case of cereals, whose average price declined by around 20%, there was a notable rise in the volume of wheat and maize exported, owing to the good results of the 1984/1985 harvest; in contrast, there was a fall in sales of sorghum.

The value of oilseed exports, which had shown great dynamism in previous years, contracted by around 12% owing to the lower prices, despite the fact that the overall volume shipped remained practically constant.

Table 14

ARGENTINA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1979	1980	1981	1982	1983	1984	1985"
Growth rates							
Exports							
Value'	22.0	2.7	14.0	-16.6	2.8	3.0	4.1
Volume	-5.5	-13.8	17.5	-2.1	13.6	-2.6	16.6
Unit value	29.1	19.2	-3.0	-14.8	-9.4	5.7	-10.8
Imports							
Value	72.8	55.9	-10.2	-42.4	-15.2	0.3	-17.7
Volume	45.1	30.9	-10.6	-40.1	-10.6	4.3	-16.5
Unit value	19.1	19.0	0.3	-3.7	-5.1	-3.8	-1.5
Terms of trade	8.6	0.6	-3.7	-11.8	-4.9	8.3	-9.7
Indexes (1980 = 100)							
Purchasing power of exports	115.4	100.0	113.3	97.7	105.5	111.3	117.1
Volume of exports	116.0	100.0	117.5	115.0	130.6	127.2	148.3
Terms of trade	99.4	100.0	96.3	85.0	80.8	87.5	79.0

Source: ECLAC, on the basis of official data.

"Preliminary information.

Table 15

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS

	Millions of dollars at current prices				Percentage breakdown		Growth rates		
	1982	1983	1984	1985"	1980	1985"	1983	1984	1985"
General total	7 625	7 836	8 107	8 400	100.0	100.0	2.8	3.5	3.6
Total, agricultural products	5 297	6 235	6 471	5 940	73.4	70.7	17.7	3.8	-8.2
Livestock products	1 464	1 171	1000	880	21.8	10.5	-20.0	-14.6	-12.0
Meat	806	604	406	372	12.1	4.4	-25.1	-32.8	-8.4
Wool, animal hair and horsehair	234	188	216	183	3.5	2.2	-19.7	14.9	-15.3
Hides and skins	298	264	305	265	4.5	3.2	-11.4	15.5	-13.1
Other livestock products	126	115	73	60	1.7	0.7	-8.7	-36.5	-17.8
Crop-farming products	3 645	4 899	5 313	4 910	49.8	58.4	34.4	8.5	-7.6
Cereals	1 903	2 992	2 326	2 196	21.7	26.1	57.2	-22.3	-5.6
Oilseeds	1 161	1 360	2 384	2 104	16.6	25.0	17.1	75.3	-11.7
Other crop-farming products	581	547	603	610	11.5	7.3	-5.9	10.2	12
Fishery products	188	165	158	150	1.8	1.8	-12.2	-4.2	-5.1
Non-traditional industrial products	2 328	1 601	1636	2460	26.6	29.3	-31.2	2.2	50.4
Fuels	551	349	347	690	3.5	8.2	-36.7	-0.6	98.8
Other non-traditional industrial products	1 777	1 252	1 289	1 770	23.1	21.1	-29.5	3.0	37.3

Source: ECLAC Office in Buenos Aires, on the basis of data from the National Institute of Statistics and Censuses, the National Meat Board and other sources.

"Preliminary figures.

Table 16

ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS

	Millions of dollars at current prices				Percentages breakdown			Growth rates		
	1982	1983	1984	1985"	1970	1980	1985"	1983	1984	1985"
General total	5 337	4 504	4 585	3 800	100.0	100.0	100.0	-15.6	1.8	-17.1
Capital goods	950	769	643	610	21.5	22.7	16.1	-19.1	-16.4	-5.1
Fuels and lubricants	688	470	490	440	4.8	11.1	11.6	-31.7	4.3	-10.2
Intermediate goods	3 304	3 056	3 202	2 540	68.9	48.6	66.8	-7.5	4.8	-20.7
Chemical, plastic and rubber products	1 086	1 142	1 170	1 010	15.3	12.9	26.5	5.2	2.5	-13.7
Paper and pulp	175	129	85	73	5.9	2.9	1.9	-26.3	-34.1	-14.1
Metals and metal products, electrical equipment and components, spares for machinery and transport equipment	1 505	1 267	1 393	1 082	32.6	21.9	28.5	-15.8	9.9	-22.3
Other intermediate goods	538	518	554	375	15.1	10.9	9.9	-3.7	6.9	-32.3
Consumer goods	395	209	250	210	4.8	17.6	5.5	-47.1	19.6	-16.0

Source: ECLAC Office in Buenos Aires, on the basis of data supplied by the Central Bank of Argentina.

"Preliminary figures.

In 1985 the declining trend of meat exports observed since the beginning of the decade persisted. In fact, their value declined by over 8% and represented barely 4.5% of total exports.

Among non-traditional exports, sales of fuels doubled (see table 15). This was mainly due to a more active export policy which sought to utilize the stocks accumulated as a result of the downturn in domestic demand. Sales of crude oil were made and there was a marked increase in exports of gasoline, gas oil, fuel oil and residual carbon.

Exports of the remaining industrial products rose by more than 37% to US\$ 1.77 billion. Particularly significant was the increment in sales of iron and steel products, which bordered on a million tons, in comparison with 550 000 tons in 1984. Similarly, exports of chemicals and petrochemical products were substantial, though sales of plastics diminished.

To a large extent the dynamism of industrial exports in 1985 was due to the contraction of local demand. For some of the main export products, however (iron and steel and especially petrochemicals), the trend of international prices was unfavourable. There were also continuing restrictions on access to the markets of the industrialized countries. Even so, efforts were made to take advantage of existing export opportunities and the authorities expressed their desire to promote industrial production destined for foreign markets. Although fiscal incentives were reduced in June they were subsequently increased again and credit assistance was granted. Additionally, regulations were established for the system of export consortia and co-operatives and rules were laid down to stimulate marketing companies. Similarly, the authorities announced their intention to reduce the costs of export goods, mainly through improvement of the system for the temporary admission of inputs, and special export programmes were devised for various sectors.

ii) *Imports*. The value of external purchases fell sharply, by close on 17%. This was basically due to the fall in volume, since average prices showed only a slight decline (see table 14). The trend which has persisted since the beginning of the decade, with the sole exception of 1984, thus continued. As a result, the value of imports represented less than 40% of the record level reached in 1980.

The drop in imports affected all categories of goods, in keeping with the reduced levels of activity and investment (see table 16). Purchases of capital goods, which had contracted very sharply between 1982 and 1984, again declined, although their fall (-5%) was slighter than in previous years.

As usual, purchases of intermediate goods declined more rapidly than the domestic product. Even taking into account the contraction of sectors which make more intensive use of imported materials, it is probable that stocks have been run down. This hypothesis is supported by the increased cost of inputs due to the rise in the real exchange rate, the imposition of a 10% surcharge in June, and the persistence of high interest rates. Especially pronounced were the falls in imports of metalworking inputs and spares (-22%) and of chemical products (-14%). Fuel imports also declined (-10%), especially in connection with the fulfilment of the agreement on the supply of gas with Bolivia and purchases of coal.

Purchases of consumer goods, for their part, went down to approximately US\$ 200 million and continued to be of little importance.

4. Prices, wages and employment

a) *Prices*

In 1985 there was a marked fall in inflation. After increasing by almost 700% the previous year, consumer prices rose by 385% while the rate of increase of wholesale prices fell from 624% to 364% (see table 17).

The slackening of inflation, however, occurred only in the second half of the year. In fact, during the first half inflation soared despite the efforts of the economic authorities to curb it. What is more, in that period the impression that it would be very difficult to moderate the process led to the revival

Table 17
ARGENTINA: EVOLUTION OF DOMESTIC PRICES
(Growth rates)

	1982	1983	1984	1985
Variations from December to December				
Consumer prices	209.7	433.7	688.0	385.4
Food and beverages	218.4	415.2	713.2	366.9
Clothing	289.4	486.7	749.4	283.3
Housing, fuel and electricity	181.2	512.1	526.1	420.9
Wholesale prices	311.3	411.3	624.0	363.9"
Imported products	497.3	342.2	661.5	405.7"
National products	300.7	417.1	620.5	360.0"
Agricultural	314.0	392.3	604.9	336.4"
Manufactured	295.9	426.6	624.4	363.9"
Variation between annual averages				
Consumer prices	164.8	343.8	626.7	672.1
Food and beverages	178.4	339.0	638.9	624.1
Clothing	188.3	411.3	726.7	486.3
Housing, fuel and electricity	133.8	366.2	525.9	768.1
Wholesale prices	256.2	360.9	574.8	662.9"
Imported products	377.1	335.7	568.9	766.6"
National products	249.2	362.9	575.1	653.4"
Agricultural	293.4	373.5	550.7	490.0"
Manufactured	234.8	358.8	588.6	686.3"

Source: National Institute of Statistics and Censuses.

"Preliminary figures.

Table 18

ARGENTINA: EVOLUTION OF THE MAIN NOMINAL VARIABLES"

Period	Index of wholesale prices				Consumer price index	Industrial wages ^b	Public service charges ^c	Exchange rate ^d	M ₁	M ₂
	Total	Agricultural	National non-agricultural	Imported products						
1984	17.9	17.6	17.9	18.4	18.8	20.1	20.2	18.4	16.4	17.2
1985	13.6	13.1	13.6	14.5	14.1	11.9	14.1	14.3	17.5	15.1
I	22.2	14.3	23.2	23.4	24.1	19.1	20.1	23.9	12.9	17.4
II	34.9	26.5	35.5	38.7	28.4	28.4	37.9	33.9	33.0	30.6
III	0.4	8.6	-0.6	-	3.7	-0.6	2.3	2.9	12.2	6.4
IV	0.8	4.0	0.4	0.3	2.5	3.1	-	-	13.2	7.4

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

"Monthly rates, equivalent to variation between extremes for each period, in percentages. Normal hourly wage of workers in manufacturing. "Prices and charges of public enterprises, general level. "Exchange rate implicit in imports of goods.

of expectations that prices would continue to rise at increasingly rapid rates. Thus, in the first six months the consumer price index went up at an average rate of 26% per month (equivalent to more than 1 500% per year), while the wholesale price index rose even more dizzily (28% per month, equal to 1 900% per year) (see table 18 and figure 2).

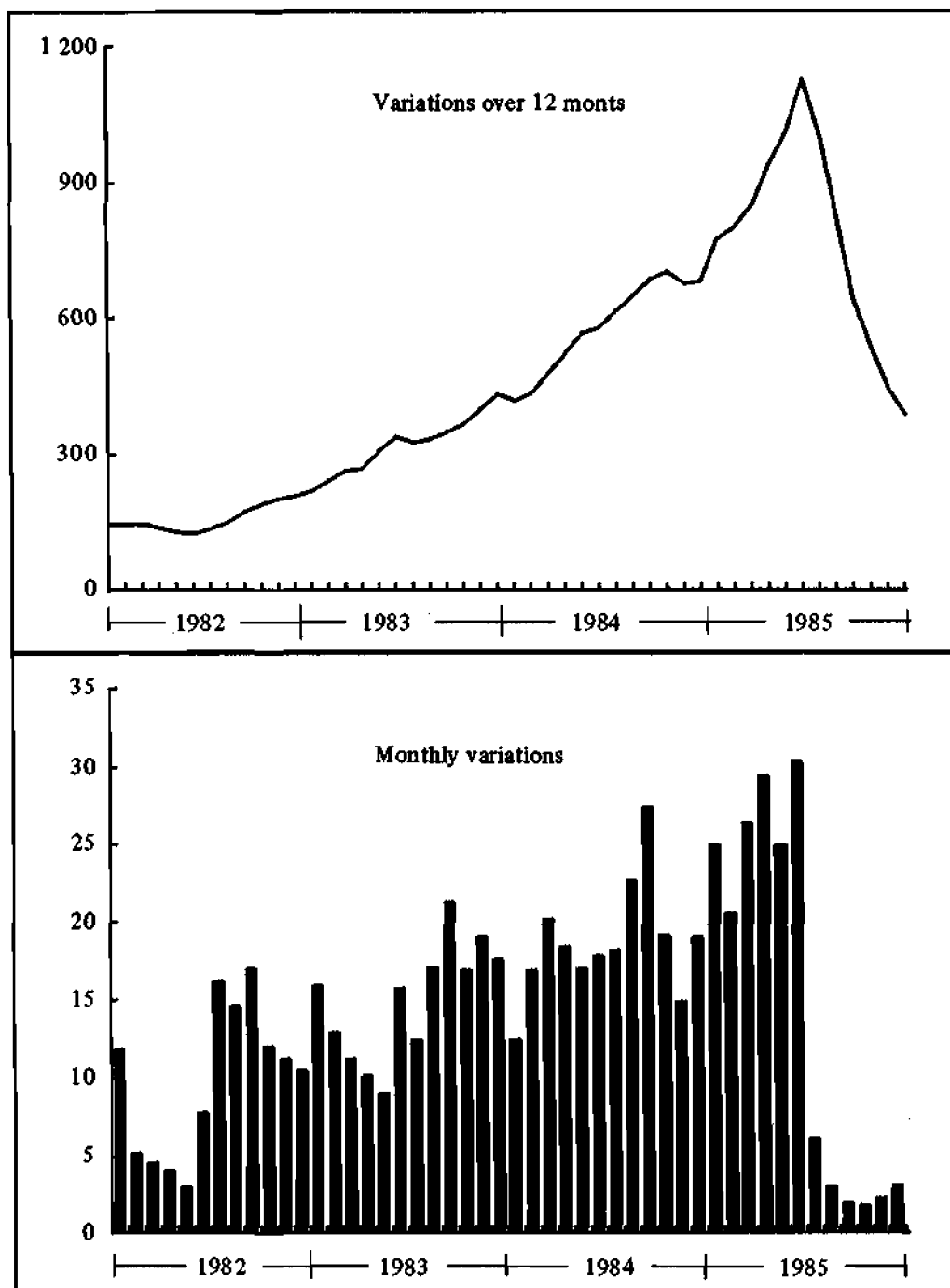
This new price acceleration was due to several factors. The mechanisms of the propagation of inflation, generated by expectations and by the rules (explicit or implicit) of price and wage adjustment, tended to impart ever-greater speed to this phenomenon, encouraged, for example, by the price rises of such main variables as public service charges and the exchange rate, which went up in real terms, especially in the second quarter of 1985. At the same time industrial prices soared, partly as a result of the relaxation of the controls hitherto in force. Besides this, the substantial fiscal deficit and the consequent monetary expansion resulted in a rapid rise in nominal expenditure, although at a slower rate than prices.

During the first six months the rise in prices was rapid and disordered. The variation in agricultural prices was notably slower than that of the total; this applied both to exportable goods from the pampa and to fruit and vegetables. In contrast, imported products became much more costly, as a result of the rapid rise in the exchange rate. The prices of industrial goods, for their part, rose in relative terms, especially in comparison with the rise in wages (see tables 18 and 19).

At all events, the severe inflation made the changes in relative prices confusing. It was extremely difficult for consumers to compare different options in view of the frequent changes in prices, which prevented the setting up of reference standards. In some markets (such as real estate or second-hand vehicles) it became the practice to fix sales prices in foreign currency, which made it easier to express the terms of offer. But this did not create a "dollar standard" in these markets in the strict sense, and the practice was not extended to articles in common use. Businesses, for their part, were faced with the problem of distinguishing between the more or less permanent changes in the relative prices of their inputs and in the prices charged by other firms, on the one hand, and the erratic variations due to advances or lags in adjustments, on the other. Likewise, the firms had to define "rules" for price setting on the basis of very unreliable information and in a rapidly changing context. Thus decision-taking on "systematic" bases became practically impossible for both buyers and sellers and prices lost much of their usefulness as guidelines for action.

The inflation of this period may perhaps be regarded as a special case, distinct from the traditional two-digit annual inflation and also from the historic cases of hyperinflation. It differed from the former because of the amount of disturbance that it caused, the frequency of price changes (which involved increasing synchronization of the adjustments of the various categories of prices), and the widespread use of indexation mechanisms. Nonetheless, in contrast with the cases of

Figure 2
ARGENTINA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

Table 19

**ARGENTINA: PRICE VARIATIONS WITH RESPECT
TO CONSUMER PRICE INDEX"**

At end of	Wholesale price index				Public services charges	Ex- change rate ^c	Measurements of dispersion	
	Total	Agri- cultural	Domestic non- agri- cultural	Imported products			Difference between maximum and minimum variations	Standard deviation of variations
1982	32.8	33.7	27.8	92.9	-10.5	86.2	103.3	39.3
1983	-4.2	-7.8	-1.3	-17.2	18.7	-8.8	35.9	11.1
1984	-7.9	-8.7	-8.1	-3.4	15.7	-4.0	24.4	8.6
1985	-4.4	-10.1	-4.4	4.2	0.1	2.6	14.3	4.9

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

"Variation from December to December (per cent).
implicit in imports of goods.

Prices and charges of public enterprises, (general level).

^cExchange rate

In calculating these measurements account was taken (besides the series shown in the table) of a series with constant value equal to zero which represents, for each period, the variation in the consumer price index in relation to itself.

hyperinflation, the national currency continued to be used as a unit of account in an appreciable number of transactions, apart from the fact that the rules of adjustment frequently led to price changes with marked time-lags, in view of the velocity of inflation. One of the consequences was that prices in general did not conform to a standard "pattern" whose stabilization could be reliably expected to steady prices. In other words, considerable elements of inflationary inertia remained.

The aim of the stabilization programme announced in June was to combine measures designed to break the inflationary inertia with a slowing-down of the growth in nominal demand. The price freeze decreed on that occasion tended to attack the inertia of prices. The government presented this measure as a means of co-ordinating stabilization, so that the uncertainty of individual price-setters concerning the probable conduct of the other economic agents would not perpetuate increases and impose a costly adjustment through a further decline in activity.

In accordance with the provisions of the programme, the freeze was to affect the prices of all goods and services, with the exception of primary articles of fluctuating supply (such as fruit and pulses), in which case the maximum trading margins were fixed. However, in controlling prices the administration ran into initial difficulties in defining the set of values that would in principle be fixed.

In the first place, the freeze was applied to the prices in force on 12 June, so as not to validate the marked increases recorded in the days prior to the introduction of the programme. This meant the reduction of some nominal prices. Besides this, in the case of products already subject to control there had to be a decision on prices awaiting approval and on increments agreed to in those prior days. Apart from the administrative questions involved the problem was to ensure that the initial relative prices would not create great pressures on the markets when the freeze began.

In the second place, the listed prices corresponded in general to sales with deferred payment, which therefore included implicit financial charges commensurate with the excessive nominal interest rates hitherto in force. Usually the maintenance of cash prices required a reduction in the list prices; otherwise, considerable gaps might arise between different firms or groups of products, according to the method of purchase or sale. The solution of these questions took several weeks, during which there was uncertainty about the prices that would apply. Apparently this mainly affected intermediate transactions, since there were no great upsets in the supply of consumer goods.

In general terms, it is probable that industrial margins were relatively high at the outset of the programme, despite the increases in costs (caused by the rises in the exchange rate) as well as in import charges and public service prices. It is also probable that the prices fixed when the freeze began were frequently higher than the actual trading prices. In contrast with the variation of over

350% during the first half of the year, wholesale prices of manufactured goods remained practically constant in the second half, although there are indications that there was a rise in actual prices in the form of reductions in discounts and bonuses. This increase was probably of limited importance, however, and had no great effect on supply. The stabilization of the prices of industrial products was also reflected in the consumer prices of these goods.²

Between June and December the Consumer Price Index (CPI) went up by 20% (a monthly average of 3%), which was a substantially lower rate than that of the preceding period.⁵ A particular feature of the growth of prices in the second six months was its concentration in some groups of goods of agricultural origin and in services. Indeed, if the period July-December is considered (to avoid the carry-over effect), it will be seen that the prices of fruit, vegetables and pulses rose by over 130% (i.e., at a rate of 18% per month, which was higher than that of the first six months), while meat went up by 30% and professional medical services by 45%. Thus these three items—whose weight in the index basket does not reach 25%—accounted for almost three-quarters of the total variation of the Consumer Price Index. In other words, a significant proportion of the rise in prices in the second half of the year was due to substantial increases in certain articles of atomized supply, some of which—like fruit and pulses and meat—had relatively low prices in June.

In sum, as can be clearly seen from figure 2, the trend of prices in the second half of 1985 showed a marked change, not only in relation to the extremely rapid rise in the preceding months, but also in comparison with recent history. In fact, the rate of variation of the CPI in the second six months was lower than in the same period in any year since 1973. However, at the end of 1985 it seemed clear that a great effort would be needed to maintain the inflation rate at such moderate levels. For the time being, a section of the public seemed concerned about a possible upsurge of inflation when the freeze was lifted; expectations appeared to have diminished compared with those prevailing at the start of the programme, but they were probably still higher than the current inflation. At the same time, the distribution struggle remained acute and some problems persisted in respect of fiscal management. From the standpoint of relative prices, although inflation was slow it was still appreciable and had eroded the real value of the exchange rate, of public service charges and industrial prices. This had not created serious lags, since initially those prices were relatively high, but the continuance of this trend might lead to difficulties. Thus the problem was to define more permanent policies that would extend the horizon of stabilization and enable the economy gradually to adjust to a régime of slower and more stable inflation than in the past.

b) *Wages and employment*

After two successive years of marked increases, real wages declined in 1985 and once again became extremely volatile (see table 20). After reaching their peak in the second half of 1984 they began to fall sharply until the middle of 1985; after that time, owing to the pronounced fall in inflation, the variations in relative prices (including real wages) slackened appreciably. Generally speaking, towards the end of 1985 the purchasing power of wages was considerably lower than it had been a year before, although it was well above the minimum values prevailing at the beginning of the decade and, except among the employees of the Central Administration, appeared to be higher than the historical averages.

Within this overall performance, the differences between sectors were considerable.

In manufacturing, the fall in wages in the first six months was compounded by the contraction of activity during the third quarter. This was reflected in an appreciable reduction in man-hours worked and caused falls in the nominal level of wages received by the workers, thus increasing the deterioration in their purchasing power. In contrast, the notable recovery of activity in the fourth quarter not only raised the incomes of industrial workers (with the restoration of the normal working day) but also gave rise to more or less concealed readjustments in wages, despite the freeze that officially applied to them.

² Exceptions included clothing, the prices of which rose appreciably with the change of season in October.

⁵ Part of the increase in the CPI in the second six months is due to a statistical effect: given that the index shows monthly averages of prices, the variation of 6.2% recorded in July reflects the difference between the average of prices in June and the (higher) prices in force at the time of the freeze; i.e., it incorporates the increases made earlier. If it is assumed that this "carry-over" effect accounts for the whole of the increase in the CPI in July, the total growth in prices between mid-June and December would drop to only 13.2%.

Table 20

ARGENTINA: EVOLUTION OF WAGES IN MANUFACTURING"*(Growth rates in relation to the preceding period)*

	A. Total average real wage per worker							
	1981	1982	1983	1984	1985			
Variation between averages	-10.8	-14.5	22.8	25.3	-12.1			
Variation between extremes	-21.2	-3.6	35.1	8.3	-5.3			
	B. Normal average real wage per hour							
	1984				1985			
	I	II	III	IV	I	II	III	IV
Variation between averages	6.4	6.2	-1.7	3.9	-9.6	-2.5	-2.0	-1.6
Variation between extremes	-3.1	11.2	-0.7	1.0	-13.3	11.4	-10.2	1.2

Source: ECLAC Office in Buenos Aires, on the basis of data supplied by the National Institute of Statistics and Censuses.

'Deflated by the average CPI for the month of receipt and for the following month; this implies measuring the purchasing power of wages received monthly at the time of collection or that of wages received fortnightly and spent uniformly over the period.

The normal wage excludes the components which show seasonal variations.

In the public administration the fall in wages during the first six months was greater than in the private sector. In the second half of the year the freeze was rigorously applied, so that apparently the purchasing power of remunerations continued to decline owing to the constant, though moderate, rise in prices. It is probable, however, that the incomes of certain groups of public officials subject to special regulations followed a different trend.

Finally, in some public enterprises (especially those in the energy field) the decline in real wages in the first half of the year was probably less marked than in other activities. Moreover, in the second six months remunerations increased, in some cases because the courts accepted the workers' claims for wage adjustments that had been due to them for some time past. It is likely, therefore, that at least in some cases these workers' wages were an exception to the general decline in remunerations characteristic of 1985.

At all events, the quantification of the changes in real wages in 1985 is hampered by the brusque change that took place in the trend of inflation midway through the year. In cases like this, more importance must be given to assumptions about the actual time of wage collection and the time profile of expenditure: premises which in turn affect the criteria for deflation of nominal values. Traditionally, the nominal wage is compared with the consumer price index of the month in which the wage becomes due, the implicit (and unrealistic) assumption being that the worker spends his wage in that same period (i.e., that the wage is received and spent as soon as it becomes due). If the rate of inflation remains constant, the "skew" implicit in this assumption is unimportant in the case of time comparisons; it is a different matter, however, if—as happened when the stabilization plan was introduced—the rate of inflation is drastically changed.

In keeping with the policy in force before the freeze, the government decreed a wage increase of 22.6% from 1 June. Since the CPI showed an increment of 30.5% up to June, the traditional measurement of the real wage would indicate a fall of 6%. If a different assumption (also extreme) is adopted—namely, that the worker spends his wage in a uniform manner throughout the month following payment—however, the opposite result is obtained: the variation in the Consumer Price Index during July was only 6.2% and therefore the purchasing power of the wages due in June would have been 15% higher than that of May. This discrepancy appears in varying degrees in comparing, by both methods, the wages of any one month subsequent to June with those of any month prior to June. The series of real wages that figure in table 20 reflect an intermediate criterion: purchasing power is measured by comparing nominal wages with the average of the Consumer Price Index in the month of payment and the following month. This would roughly reflect the purchasing power of

wages collected monthly when they were due, and also that of wages collected at the end of each two-week period with a uniform expenditure over time. This deflation methodology suggests that the stabilization of prices in June involved a rise of 5% in the real wage.

In 1985 the wages policy was subordinated to the more general aims of economic policy. During the first two months the plan in force in 1984 continued to be applied, i.e., monthly increases were decreed in line with the assumption that inflation would gradually decline. In March, in addition to recognizing part of the discrepancy between the real variation of prices and that originally projected for January, the government set up an automatic system by which wages would rise by 90% of the variation of the CPI in the preceding month. At all events, it is probable that in some firms in the private sector special wage negotiations took place, or perhaps "full" indexation was agreed. Moreover, despite the very high inflation, the periods of wage adjustment and dates of wage payments were not changed.

The stabilization programme meant the abandonment of automatic indexation and a general wage freeze. This was rigorously applied in the government administration and less strictly in private and public enterprises.

The fall in the level of activity, which was particularly noticeable in the third quarter of the year, gave rise to concern about employment prospects, since the demand for labour had declined persistently since the end of 1984. Indeed, there was a marked fall in the number of hours worked, coupled with layoffs and suspensions of some importance. In the second half of 1985, however, the incipient recovery of the product gave rise to an increase in hours worked and apparently, to the hiring of new personnel, although the number of workers employed in industry remained at the very low levels existing midway through the year. The unemployment rate, for its part, exceeded 6% in April—an unusually high percentage for the country—and was a little below 5% in October⁴ (see table 21).

In brief, towards the end of the year the employment situation was showing some improvement, in a context still characterized by a low level of activity. Many firms were cautious about hiring new staff and coped with the greater demand (once surplus stocks had been absorbed) by modifica-

Table 21
ARGENTINA: EVOLUTION OF EMPLOYMENT

	A. Unemployment rates							
	1982		1983		1984		1985	
	April	October	April	October	April	October	April	October
Qpital and Greater								
Buenos Aires	5.7	3.8	5.2	3.1	4.1	3.5	5.7	4.9
Córdoba	4.8	3.9	4.4	5.6	4.4	5.1	5.3	4.7
Greater Mendoza	4.8	3.3	4.5	4.5	3.3	3.7	3.6	3.7
Greater Rosario	8.4	8.0	6.3		6.8	6.2	10.9	10.2
Greater Tucumán	11.0	8.7	8.1	7.5	8.5	10.6	12.2	11.4
	B. Employment in industry and in the public sector							
	1982	1983	1984	1985	1985			
					I	II	III	IV
Manufacturing	73.0	75.4	77.6	74.7	81.4	75.6	70.7	71.2
Public sector (at 1 January)	113.4	112.9	117.2					

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

⁴ Comparison between the two measurements is affected by seasonal factors.

tions in the hours worked. As regards wages, remunerations in the different sectors of the public administration remained low as a result of the severe budgetary constraint. In both public and private enterprises wage demands were put forward, some of which began to be accepted. The authorities were faced with the task of reconciling demands for wage increases with the execution of the stabilization programme and with the drawing up of more permanent regulations for application once it was decided to lift the freeze.

5. Monetary and fiscal policy

a) *Monetary and financial policy*

In 1985 the means of payment grew by approximately 590%, while the amount of money and quasi-money rose by 435%, both these figures being below those recorded in 1984 (see table 22).

Both the velocity of monetary expansion and its determinants were appreciably different in the two halves of the year. In the first half the money supply rose rapidly, pushed up by credit to the government and advances to financial institutions. Even so, the monetary aggregates expanded less than prices, reflecting the dizzy rise in inflation, which discouraged the holding of assets in national currency. In particular, the volume of currency outside banks fell in the second quarter to an extremely low level (around 2.5% of the GDP), which shows how serious the "flight of money" had become. This tendency to minimize real balances was associated with major changes in the organization of transactions: both individuals and firms made great efforts to synchronize payments and collections, in order to avoid the "inflation tax". In view of the fact that these practices generally involve the conduct of financial operations, which were only accessible to certain segments of the public, it is probable that the demand for money was largely "sustained" by the wage-earners, since the wage payment period remained unaltered.

Towards the end of 1984, the monetary policy had become more contractive; this was reflected in a brusque increase in non-regulated interest rates, which exceeded 30% per month in December. Throughout the first half of 1985 the situation on the credit markets was changeable. From the above-mentioned extremely high level, nominal rates fell to begin with but then rose again because of the sharpening of inflationary expectations and, apparently, the increased scarcity of credit. The authorities progressively raised the regulated rates, which in May reached 30% per month on 30-day times deposits; even so, however, the yields on deposits (whose real value declined) were lower than the rate of inflation. Given the segmentation of the markets and the appreciable differences in the velocity of increase in the different categories of prices, the dispersion between real interest rates remained considerable. For example, the average *ex-post* yield of deposits at the regulated rate (compared with the CPI) was around -3.6% per month in January-May, while the cost of credit among firms reached a real 2 % per month if the comparison is made with the CPI, or -0.7 % if the wholesale price index is used as reference.

The operational rules of the financial markets were modified in April. The aim of the changes was to put credit activities in order and change the system of bank reserves. As regards the former, a segment of bank deposits and credits at non-regulated interest rates was again set up with a view to replacing "acceptances" (private instruments guaranteed by the financial institutions) and "pass" transactions (transactions combining the sale and future repurchase of public bonds). The purpose of this measure was to direct towards the financial system operations conducted by other intermediaries, whose authority to arrange "passes" was withdrawn. At first, the free-rate segment of deposits operated without legal reserves, but with a variable quota of transactions determined by the volume of deposits at the regulated rate and the net worth of each institution; these free-rate deposits would not be guaranteed by the Central Bank.

Furthermore, it was decided to make a substantial reduction in the reserve requirements on the total of time deposits and to eliminate the interest paid on the funds held in reserve, as established in the "Monetary Regulation Account". In order to avoid the expansive effects of this measure, however, it was decreed that the institutions concerned should take out a "Non-available Bond", issued by the Central Bank, equivalent to the difference between the old and new level of reserves. It was also announced that the issue of these bonds would be extended, in the event that they were required in the future for monetary policy needs. The most important differences between this system and the

previous one were, on the one hand, the less automatic character of sterilization via investment in the Central Bank debt and, on the other, the method of calculating the interest on the new bonds. The interest would become due over the period up to maturity, which was linked with the payment period of the rediscounts already granted, instead of paying interest on the reserves as a function of the maturity of the deposits; in this way an attempt was made to reduce the cash deficit of the Central Bank.⁵

In april the Central Bank decided to liquidate an important private bank, thus highlighting once again the fragility of the Argentine financial system in recent years. This fragility was very clear in the financial crisis of 1980, whose consequences persisted in the ensuing years. As from 1982, the fall in the real value of the credits (and liabilities) of the system, owing to the maintenance of regulated interest rates lower than the variation in prices, improved the financial situation of the debtors. Even so, this did not mean that the problems of the quality and immobilization of bank portfolios had been surmounted. Despite the fact that the bank in difficulties was eventually reopened, the episode created uncertainty as to the availability of (non-guaranteed) deposits in foreign currency in the system as a whole, and this gave rise to an incipient run on the banks, which the authorities halted by freezing deposits in foreign currency for 120 days.

To sum up, in the first half of the year the financial markets reflected the problems of a structurally weak system which was operating in a climate of soaring inflation, with the resulting uncertainty. The greater part of new operations were limited to extremely short payment periods,

Table 22

ARGENTINA: MONETARY BALANCE

	End-year: balances (millions of australs)				Growth rates ¹		
	1982	1983	1984	1985	1983	1984	1985
Money (M.)	14.8	69.9	434.8	3 014.3	370.6	521.6	593.3
Currency outside banks	8.7	46.3	313.4	2 022.3	430.5	576.3	545.3
Current account deposits	6.1	23.6	121.4	992.0	285.3	414.2	717.1
Factors of expansion	65.8	332.1	2 062.4	11 165.5	404.5	521.1	441.4
Net international reserves	-34.9	-183.7	-1 139.6	-5 397.3			
Domestic credit	100.7	515.8	3 202.0	16 562.8	412.2	520.8	417.3
Government and public institutions	25.7	208.8	1 205.3	7 250.0	713.0	477.3	501.5
Advances for the Monetary Regulation Account	0.8	40.7	423.8	2 412.3	5 154.8	941.6	469.2
Loans to Government (net of deposits)	24.9	168.1	781.5	4 837.7"	574.9	364.9	519.0
Private sector ^c	75.0	307.0	1 996.7	9 312.8	309.2	550.4	366.4
Factors of absorption	51.0	262.2	1 627.6	8 151.2	414.3	520.9	400.8
Quasi-money (savings and time deposits)	26.4	146.8	1 024.5	4 834.6	456.2	598.0	371.9
Other items (net)	24.6	115.4	603.1	3 316.6	368.8	422.9	450.0

Source: Central Bank of Argentina.

¹The growth rates were calculated on the basis of non-rounded figures.

Includes external financing to the Central Government and the

final allocation of the funds assigned before 15 February 1985 for the payment of external liabilities of the Central Government. Includes credits to non-bank financial institution!;

Includes resources due.

²The change in reserve requirements modified the accounting of the Central Bank: formerly the monetary base included the total of institutional deposits in the Central Bank, but from April onwards they ceased to be registered as part of the base of funds placed in the non-available bond. Hence the series is not strictly homogeneous.

with fields subject to major fluctuations. Alongside the markets for credit in national currency, the parallel foreign-exchange market retained enormous and probably increasing importance, not only as a source of assets maintained by the public, even for very short periods, but also as a frequently used indicator for the formation of expectations.

The stabilization programme involved a drastic fall in the price variation rate. This was hazardous, since the abrupt change in the inflation rate would in itself create an equally sudden change in the real conditions of existing commitments. Hence, the programme included a system of debt conversion, linked with a monetary reform.

The principle of this system was as follows. Under the previous inflation the nominal sums committed for future payment depreciated (in real terms) at a rate of close on 1 % per day. In other words, the estimated value in "money of constant purchasing power" of a given nominal amount declined in proportion to the deferment of the moment of payment. Now, by curbing price increases (which was implicit in the freeze announced in the programme), debts would in fact be paid off in a currency whose real value diminished only slowly over time. Hence, in order that the real value of payments would represent that which it would have reached in the previous inflationary conditions, the nominal amounts had to be corrected in proportion to the erosion that the purchasing power of the currency would have suffered in the said situation. This conversion system was based on the establishment of a new monetary unit (the austral). Liabilities payable (currency outside banks, sight deposits, savings deposits) were automatically converted into australs at the rate of 1 000 pesos per austral. Future payments deriving from debts originally denominated in Argentine pesos (that is, contracted before the reform) would be made in australs at a rate implying a daily devaluation of the peso. In other words, in the final analysis, the system retained the sums in pesos stipulated in each specific contract and defined an exchange rate, valid for the settlement of debts, which varied daily and was fixed in advance between the two currencies.

The aim of this mechanism was to prevent the nominal interest rates (explicit in the contracts or implicit in time deposits), which were extremely high, from being converted into real rates of similar magnitude when the inflation was curbed. Its objective was to "neutralize" the possible effect of the stabilization on the payments committed and thus avoid a potentially large transfer of wealth. In liabilities with adjustment clauses based on price indexes a similar problem occurred, since these clauses normally incorporated lags between the time of price identification and the time when the indexes were used for the adjustments. This meant that the high inflation prior to the reform would be "carried over" into the subsequent adjustment of payments.⁶

The mechanism was intended for general application (except for the payment of wages and pensions corresponding to June), since the idea was to correct the effect of the change in the inflation rate without affecting the specific terms of individual contracts. The application of the system was facilitated by the fact that, despite the intense fluctuations in prices in the phase prior to the reform, the average inflation rate remained for several months at a figure of around 25% to 30%, aside from the fact that most of the contracts made in nominal terms were of short duration.

In the hypothetical case of a type of inflation uniform over time and completely anticipated, a conversion system such as that employed in the Argentine monetary reform would have precisely validated the real terms originally envisaged by the parties signing the contracts. In practice, it is probable that the expectations maintained by different agents at different points in time diverged considerably; hence there appeared to be no uniform method of validating the original forecasts, or those that individuals had been adopting throughout the period when the contract was in force. Again, the drastic price changes linked with inflation before the reform was applied had progressively modified the real values of the commitments contracted, particularly in cases where the terms of the agreement were not well "adapted" to the inflationary conditions: an attempt to correct these effects would have required a detailed review of the vast number of existing contracts. The criterion implicit in the conversion mechanism was to take as a datum the state of the contracts at the time of application of the monetary reform and to see that the real values of the payments committed

⁶ For example, a commitment for 30 days subsequent to the reform, adjustable with a price index for June 1985, might be over 30% higher than the payment made in June, although prices had risen only very slowly. The criterion adopted in the conversion system to correct the effect of these lags was to consider that the amounts updated with price variations prior to the monetary reform (e.g., indexes for June) constituted sums in pesos and were therefore subject to conversion according to the scale.

corresponded approximately to those that would have been obtained by "extrapolating" the inflation of the previous months, without attempting to intervene case by case to review possible contractual imperfections or to reverse transfers that had already been made. The conversion system sought to avoid a case-by-case reconsideration of liabilities in the light of the sudden change in the inflation rate.

The mechanism was applied extensively to the settlement of debts between private parties, but there also appears to have been a considerable number of renegotiations. At the same time the authorities issued complementary rules applicable to government debts, and especially to contracts for public works, which are generally long-term, in order to take into account the individual features of these operations.

Another problem that arose with the introduction of the stabilization programme was the identification of a level of interest rates that would maintain the demand for financial assets yet be compatible with a low inflation rate. On 14 June the authorities announced that the regulated rate of interest on time deposits of 30 days would fall from 28% to 4% per month. The latter rate continued to be high, considering that prices were simultaneously frozen, but it involved a very substantial drop in nominal returns. It remained to be seen whether the public would adjust their expectations quickly enough for the funds to remain in the financial system or whether these would be transferred to the foreign exchange or goods markets. As a matter of fact, most deposits were renewed and the price of foreign exchange in the parallel market fell sharply. In the financial segment with non-regulated interest rates, at the outset these stood at 9% per month; values of this magnitude can be regarded as a symptom of scarcity of funds, but they also suggest that expectations of inflation still remained high (although much lower than before the announcement of the programme) in view of the uncertainty concerning the outcome of the stabilization policies.

There was considerable monetary expansion in June. In the first half of the month the public sector demanded a large volume of funds (destined in part to form a reserve against possible cash requirements in the ensuing weeks). In the second half there were copious inflows of foreign currency, owing to the enormous gap between the local interest rate and the zero variation in the exchange rate implicit in the official announcements. To forestall the occurrence of substantial movements of volatile capital of government extended the minimum repayment period for funds brought in through foreign loans. At all events, the rise in international reserves, mainly as a result of the big surplus on the trade account, was a major source of money generation in the second half of 1985.⁷ Contrary to what happened in the previous phase, net credit to the government was not an expansive factor, since the Treasury was able to dispense with financing from the Central Bank⁸ and official deposits increased considerably.

In contrast, the rediscounts of the Central Bank to the financial system grew appreciably in the second half of 1985, owing in some cases to the changes in the demand for assets which will be referred to later on. By means of increases in the bank reserve requirements the authorities sterilized part of the money generation deriving from the external sector and the rediscounts. Nonetheless, the money supply expanded considerably, although at a slower rate than before the inception of the stabilization programme. As a counterpart of this, credit to the private sector showed a marked increase that easily exceeded that of prices.

The growth in the supply of financial assets corresponded with an increase in demand. The brusque fall in the inflation rate weakened the incentives to minimize holdings of monetary balances, and the public thus decided to increase its precarious stocks of liquid money: the quantity of means of payment expanded vigorously in real terms, although it remained below historical values, in a typical response during periods of stabilization. There was also a rise in the volume of time deposits, both in the segment of regulated rates and in that of non-controlled yields, where the authorities gradually increased the quotas permitted. In contrast, there was a fall in demand for indexed deposits, whose

⁷The figures on the external position corresponding to December 1985 which appear in the monetary balance are influenced by the allocation of foreign exchange payments made by the Central Bank on behalf of the government before 15 February 1985. This accounting allocation also affects the figures on financing provided to the government.

⁸The data on credit to the public sector in December 1985 reflect the allocation mentioned in the previous note. As from June, on the other hand, the figures on government financing included the concept "External credit to the national government". This records the external credit operations of the Central Bank whose funds are destined for the public sector.

yield was much lower than that of fixed-interest assets.⁹ This shift in demand, linked with the fact that indexed loans generally had longer maturities than deposits, induced the authorities to offer rediscounts (also adjustable) to avoid imbalances in the portfolios of the institutions. The sterilization of these funds through greater reserve requirements on time deposits had its cost, since the interest on the reserves was greater than the adjustment of the rediscounts.

The larger supply of funds, and probably also the slackening in inflationary expectations with the perceptible fall in the rate of price increases, caused a gradual decline in nominal interest rates. These, however, remained markedly above the rate of price increases, especially in those sectors where the freeze was more rigorously observed. Moreover, despite the expansion in the volume of financial assets, the margins between the interest rates on loans and on deposits remained very wide. The extremely high cost of credit was undoubtedly a constraint on the recovery of production and investment. However, it is probable that the low initial value of the debt attenuated the possible overall financial effects of the high interest rates.

In general terms, in the second half of 1985 the financial system expanded its volume of operations and the markets showed a very different trend from that prevailing in the previous phase. Despite this, the normalization of financial activity was only partial: transactions remained largely confined to the shorter terms and real interest rates were still very high. At the same time, there remained the functional problems of a financial system with very complex operational rules, high costs, and recovery portfolios which were in many cases seriously compromised.

b) *Fiscal policy*

In 1985 there was a marked fall in the financing needs of the public sector; these amounted to around 5.5 % of the gross domestic product, a very much lower figure than in recent years. Indeed, the non-financial public sector deficit was only slightly higher than the total interest on the external debt of the official institutions, which highlights the magnitude of the adjustment made in the fiscal accounts.

The reduction in the disequilibrium was particularly significant in the central government administration, which generated an appreciable surplus before transfers to other components of the public sector. A fall in the deficit, although on a smaller scale, was also observed in the public enterprises and the provinces.

This result was mainly due to a pronounced real increase in current resources, which occurred both in tax revenue and in income from sales of goods and services. At the same time, expenditure on personnel declined while investment appears to have remained at the same low level as in the previous year.

In the first half of 1985, and especially in the period immediately before the announcement of the programme, the real values of prices and public charges rose substantially, while the remuneration of public employees lagged behind inflation. In June there was also a devaluation, coupled with a rise in foreign trade charges. These measures were designed to increase tax revenue, though their effect was partly offset by higher real interest commitments on the external debt.

One of the central points of the June programme was the announcement of a drastic reduction in the fiscal deficit and the termination of credits from the Central Bank to the Treasury. To achieve this the authorities based their plans in the immediate future on the drop in expenditure already put into effect, since they did not contemplate staff layoffs (a freeze on vacancies had been previously determined) and it was intended to maintain expenditure of a social nature. A marked rise in revenue was expected: in addition to the measures already adopted regarding tariffs and taxes on foreign trade there would be a compulsory deposit to be made by payers of direct taxes and, above all, the effect of the fall in the inflation rate on the real value of the revenue, through the sudden drop in the importance of the "fiscal lag". Aside from this effect on the public sector proper, the influence of lower inflation on nominal interest rates would also help to alleviate the "quasi-fiscal" deficit.

In the event, in the second half of 1985 a marked increase was indeed observed in fiscal revenues. Available data on taxes collected by national agencies (including Customs and the Social

⁹The fall affected both the deposits adjustable by price indexes and those indexed by the official price of the dollar. There was also a decline in deposits in foreign currency, which were unfrozen in the second half of the year.

Security System) show a variation of close on 30% in real terms as compared with the same period in the previous year. Of particular importance were the increased revenues derived from foreign trade and social security contributions; there was also an increase in income from VAT and other taxes, but the yield from the charge on fuel transfers was smaller than in the second half of 1984, although it rose considerably in comparison with the low values of the first half of 1985.

There was also an appreciable change from June onwards in the trend of the income and expenditure of the General Treasury. In fact, in the period from July to November the Treasury's financing needs were negative, owing mainly to the increased revenues, which included the collection of the compulsory saving in November. In December an operation of large scale and special features was carried out; the Central Bank transferred to the Treasury an external credit of over US\$ 2 billion (against the purchase of a public bond in foreign currency), which was mainly used to regularize pending foreign debts. This operation, which in practice meant the conversion of one foreign liability into another, was entered under the heading "other expenditure", with the counterpart item of a Central Bank credit, thus giving rise to a substantial increase in the recorded deficit (see table 23).

Table 23

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of australs			Growth rates		
	1983	1984	1985	1983	1984	1985
Current income	40	294	4 711	342.2	632.3	1 501.3
Tax revenue	36	216	4 134	335.3	671.8	1 396.4
Non-tax revenue	4	18	577"	408.0	309.7	3 116.0
Current expenditure	83	444	4 259	414.2	427.9	858.4
Wages and salaries	18	114	917	351.0	550.7	705.5
Non-personal goods and services	5	19	211	335.0	247.7	1 013.4
Interest	13	108	984 ⁶	140.2	713.5	813.8
Transfers	45	198	2 067	705.3	338.2	946.4
Others	3	6	79	426.2	118.1	1 157.4
Current saving (1-2)	-44	-150	453			
Capital expenditure	38	150	3 320	1 868.1	290.6	2 117.8
Real investment	2	7	33	178.6	209.0	375.0
Loans (net of repayments)	36	143	3 287"	3 033.9	295.6	2 201.3
Total expenditure (2 + 4)	122	594	7 578	568.7	385.0	1 175.8
Deficit (5 - 1)	82	300	2 867	791.8	264.2	856.3
7. Financing of deficit						
Central Bank	104	268	1 034			
Unified Official Accounts Fund	3	22	42			
Issue of securities	5	67	842			
Amortization of securities	-2	-57	-749			
Amortization of other debts	-28	-1	-1			
Others	-0.2	-0.1	1746 ⁶			

Source: National Treasury of Argentina.

"Includes 261 million australs of financing for theeconomicemergency (compulsory saving). Includes 430 million australs for regulationof arrears. 'Includes 1371 million australs for regulation of arrears in respect of guaranteed debts (especially public enterprises).

Includes 1 912 million australs for external financing granted to the Central Government, net of government deposits in the Central Bank in foreign currency.

Without this effect, the need for credit in December would have been positive, though small, and this would not have differed greatly from the trend of the preceding months.

In general terms, and in the light of figures which are still of a preliminary nature, the second half of 1985 saw a very marked fall in the public sector deficit, although the reduction was probably somewhat less than had been envisaged at the outset. Apparently the main difficulties arose in the public enterprises and to a lesser degree in provincial finances.

All in all, public sector expenditure and financing continued to present critical problems. In an economy with a limited capital market and scant monetization, as well as volatile expectations, the maintenance of a low fiscal deficit is probably one of the main conditions for holding down inflation. But domestic demands and the burden of external interest payments hamper budgetary equilibrium. Towards the end of 1985, the main tensions were observed in the low values of real wages in the public sector (although some groups of government officials had obtained special increases in their salaries) and in certain difficulties in harmonizing the action of enterprises and provinces with that of the Central Administration. Longer-term issues, such as public investment and the role and functional procedures of the governmental machinery in general were also the subject of debate. The aim of government policy was to improve the allocation of public resources within the now more explicit budgetary restrictions. In the case of public enterprises in particular, the object was to rationalize their administration (though not through mass dismissals) and to identify new mechanisms for financing investment (such as advance payment by users for the installation of telephone services). In addition, the government announced its intention of privatizing non-strategic public enterprises in order to obtain funds for industrial development programmes.

BOLIVIA

1. Recent economic trends: Introduction and summary

The two main factors affecting Bolivia's economic performance in 1985 were the persistence of hyperinflation throughout most of the year and the launching of a new economic policy by the government which assumed office in August.

Most of the problems which had brought on the economic crisis that began in the early 1980s also persisted, and new problems arose as well. Public-sector financial difficulties, external-sector imbalances, the demands associated with the servicing of the external debt, and maladjustments in the exchange market continued to constitute the framework within which economic activity took place. Consequently, the inflationary spiral tightened and almost all macroeconomic variables showed a further deterioration.

In the last four months of the year, the new government undertook a comprehensive plan of reforms aimed at restoring the basic macroeconomic balances. This plan was dealt a heavy blow, however, by the suspension of the activities of the International Tin Council and the subsequent drop in international tin prices.

For the second year in a row, worsening inflation was the most outstanding feature of the economy. The variation between annual averages in the general consumer price index bordered on the record level of 11 800%, while the December-to-December rate of inflation neared 8 200% (see table 1).

The gross domestic product shrank by around 1.5%; when combined with the decreases observed during the three preceding years and the stagnation of the product in 1981, this added up to an overall decline of approximately 12% between 1981 and 1985 (see table 1 and figure 1). As a result of the drop in production and the growth of the population, the per capita product fell for the fifth consecutive year; this brought its value in absolute terms down to the lowest level recorded since at least 1970.

Gross national income stagnated, so that the cumulative decline during the past four years came to 12.5%. National income was only prevented from deteriorating even further by the substantial reduction in net external factor payments.

Production of goods was down for the fourth year in a row (-4.2 %) while the output of basic and other services showed almost no change.

The sharp imbalance between the rates of expansion in the public sector's current income and total expenditure was one of the main causes of the outbreak of hyperinflation. The ratio between the public-sector deficit and the total expenditure of the central government neared an incredible 95%, while it exceeded 75% when expressed as a percentage of the gross domestic product.

The adverse circumstances affecting the external sector also helped to speed up inflation.

Exchange controls were maintained throughout most of the year. In addition, three devaluations were approved in an attempt to promote exports and eliminate the gap between the official and parallel exchange rates. This raised the official price of the dollar from 8 500 pesos at the beginning of the year to almost 1 600 000 pesos by its end.

Nonetheless, the value of exports decreased and, despite the efforts of the authorities, there was intensive speculation in the United States dollar. As economic agents tried to protect their assets from being eroded by the mounting inflationary process, an artificial demand for dollars was created that was many times greater than what was needed to pay for imports and to service the external debt. The differential between the value of the dollar on the parallel and official markets remained very high, with the value on the former nearing 14.5 times what it was on the latter at some points.

Due to the economy's high degree of "dollarization", it became customary for the prices of goods and services, whether imported or domestic, to rise in accordance with the exchange rate for the dollar on the parallel market.

Wage policy was another factor which fuelled hyperinflation. The various wage adjustments which were approved raised the minimum monthly wage to 30 million pesos by the end of 1985: a

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
A. Basic economic indicators							
Gross domestic product at market prices (1980 = 100)	96.9	100.0	100.3	97.5	91.1	90.3	88.7
Population (millions of inhabitants)	5.43	5.57	5.72	5.88	6.03	6.20	6.37
Per capita gross domestic product (1980 = 100)	99.5	100.0	97.7	92.5	84.1	81.1	77.6
Growth rates							
B. Short-run economic indicators							
Gross domestic product	0.9	3.2	0.3	-2.8	-6.6	-0.9	-1.7
Per capita gross domestic product	-1.7	0.5	-2.3	-5.4	-9.0	-3.5	-4.4
Gross national income				-5.0	-6.5	-0.8	-0.1
Per capita gross national income	-1.7	1.6	-4.0	-7.5	-8.9	-3.4	-2.8
Unemployment rate		5.8	9.7	10.5	14.2	15.1	18.0
Consumer prices							
December-December	45.4	23.9	25.1	296.5	328.5	2 176.8	8 170.5
Variation between annual average	19.7	47.2	32.1	123.5	275.6	1 281.3	11 749.6
Real wages	-1.4	-5.4	-8.7	-27.0	2.9	-16.4	-46.0
Money (M _t)	16.8	41.1	20.5	230.9	209.4	1 782.1	5 940.5
Current income of central government	-1.8	40.6	19.3	35.7	147.4	1 091.5	34 370.5
Total expenditure of central government	30.3	43.1	12.8	423.9	172.5	2 206.4	24 538.7
Fiscal deficit/total expenditure of government [^]	44.2	45.2	44.0	85.5	86.8	93.2	94.8
Fiscal deficit/gross domestic product ⁰	7.2	7.6	7.1	28.9	23.0	42.1	76.4
Current value of exports of goods and services	21.5	22.1	-3.0	-9.8	-6.0	-4.7	-11.7
Current value of imports of goods and services	14.3	-11.8	4.3	-36.4	9.5	-6.5	9.6
Terms of trade (goods and services)	9.5	9.3	-3.7	-3.6	2.4	2.2	-0.3
billions of dollars							
C. External sector							
Trade balance (goods and services)	-226	90	17	279	165	170	12
Net payment of profits and interest	183	264	343	418	421	436	363
Balance on current account	-399	-166	-312	-121	-216	-238	-325
Balance on capital account	417	19	319	152	232	465	343
Variation in international reserves	24	-136	23	38	-1	256	28
External debt	2 036	2 340	2 622	2 502	3 156	3 165	

Source: IICLAC, on the basis of official figures.

"Preliminary figures. "Nacional average in pesos at 1970 prices. The rates for the period 1985-1985 were calculated on the basis of the consumer price index for November 1982, when the value of the minimum wage was determined; this is therefore the wage referred to here. ' Percentage. ^Disbursed balances of the medium- and long-term external public debt and the long-term non-guaranteed private debt.

nominal increase of over 3 100%. As measured by the official exchange rate for December, however, this was equal to less than US\$ 20.

In the final analysis, the country's runaway inflation was made possible by the fact that the rate of expansion of the monetary variables surpassed all expectations. M_1 grew nearly 6 000% and M_2 rose over 7 200%. These increases stemmed from the need to cover the public sector's financial balances by means of artificial issues because this could not be accomplished by using tax revenues.

For this reason, up until August the net amount of domestic credit extended to the public sector increased at nearly 40% per month, which was similar to the growth rate in the volume of funds made available to the private sector. During the final four months of the year, the amount of credit provided to the public sector decreased substantially as a result of the stabilization plan.

Bolivia's small trade surplus and the limited amount of private transfers were not large enough to offset its payments for factor services (US\$ 360 million), even though disbursements under this heading were 17% less than the year before. The country thus built up a US\$ 325 million deficit on current account, which was 36% more than in 1984 and the largest since 1980.

The current value of exports of goods and services fell almost 12%, making 1985 the fifth consecutive year in which a decrease was recorded. Since imports grew nearly 10%, the trade surplus was US\$ 10 million, which was equivalent to just 7% of the surpluses for 1983 and 1984.

Even though debt service payments to private international creditors remained suspended, the balance of payments was once again subject to intensive pressure. The service payments on the external debt made to the country's other creditors amounted to approximately US\$ 250 million, and although this was 18% less than in 1984, it was nonetheless equivalent to over one-third of the value of Bolivia's exports of goods and services.

The inflow of capital slowed down considerably (-25%). This was basically due to the fact that the long-term capital account showed a deficit of nearly US\$ 240 million for the first time since 1970. Short-term capital movements reflected a net inflow of foreign exchange, but in practice the whole of this inflow corresponded to refinanced and overdue debts.

Overall, the international reserves rose slightly, by nearly US\$ 30 million. The level of net reserves held by the Central Bank remained extremely low, however; by the end of the year they amounted to less than US\$ 120 million, which was equivalent to scarcely two months' imports of goods and services.

Meanwhile, the unemployment rate continued to climb (18%), reaching a level three times as high as it had been at the beginning of the decade.

Two clearly-differentiated stages can be identified in the economic policy that was applied during the year.

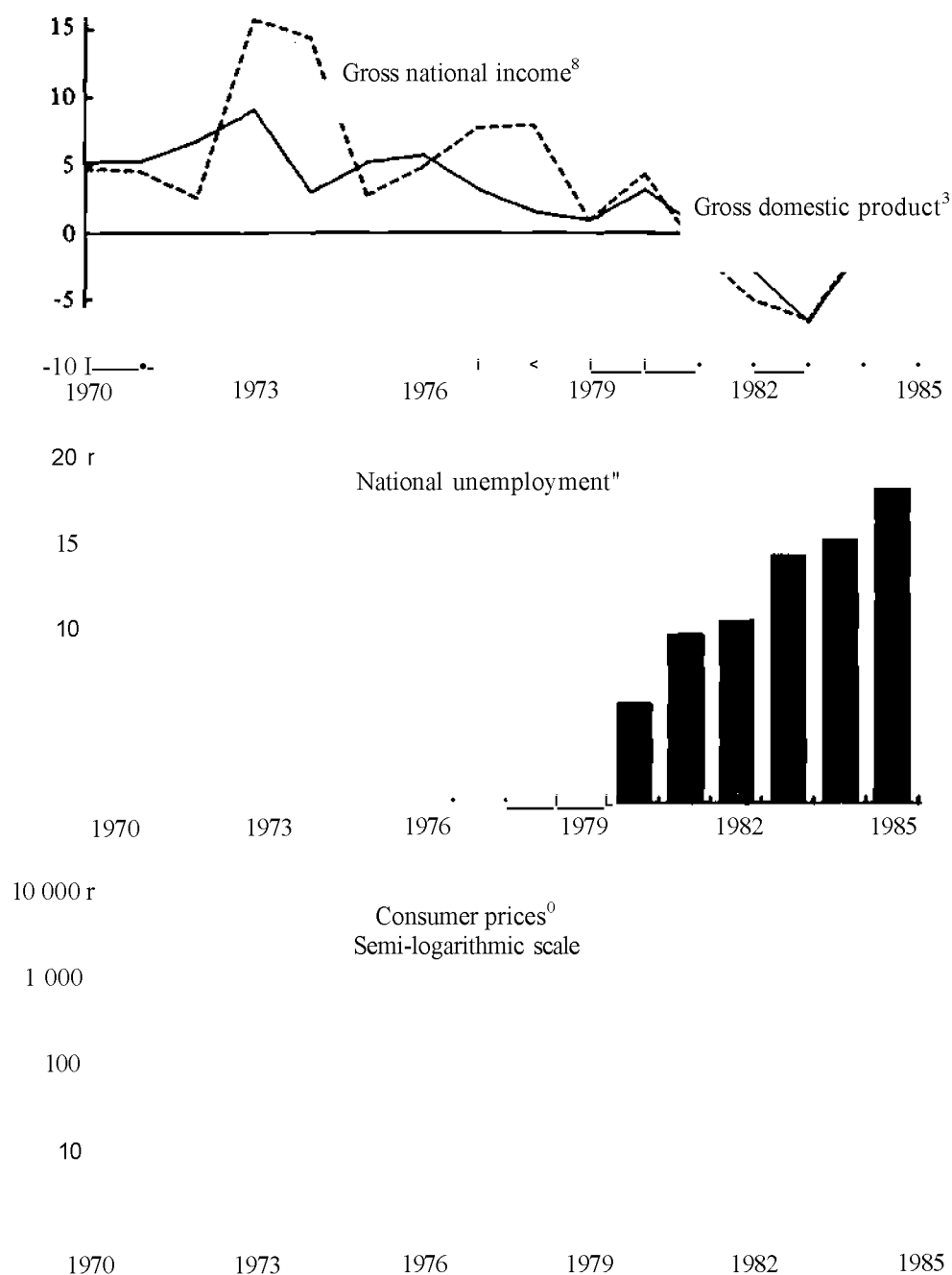
During the first stage, which lasted until July, the authorities continued to follow the same policy as in preceding years. The main features of the measures approved in February and May were increases in the exchange rate, some relaxation of foreign exchange controls, hikes in the prices and charges for essential goods and services, wage increases, and the indexation of delinquent tax payments in accordance with the movement of the consumer price index.

At the end of August, the new government attempted to restore the principal economic balances by embarking upon a comprehensive austerity plan. The steps it took were designed to control monetary issues, which were the immediate cause of price increases. To this end, it attempted to increase the importance of the market's role as a resource-allocation mechanism while at the same time reducing State participation in economic activity.

In the case of the public sector, the measures approved pointed in three directions: a wage freeze, the decentralization of the main State enterprises and the launching of a major tax reform.

In respect of the external sector, a single exchange rate was established, along with new procedures for the sale of foreign exchange by the Central Bank. In addition, the surrender of the total value of receipts from traditional and non-traditional exports, both public and private, to the Central Bank was once again made mandatory. The complete decontrol of foreign exchange was decreed, and all restrictions on exports and imports were lifted. At the same time, certain taxes on foreign trade were approved and the Central Bank received permission to convert the assets it held in precious metals into free reserves. Finally, the signing of any type of contract expressed in foreign currency was authorized so long as it included a constant-value clause.

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS



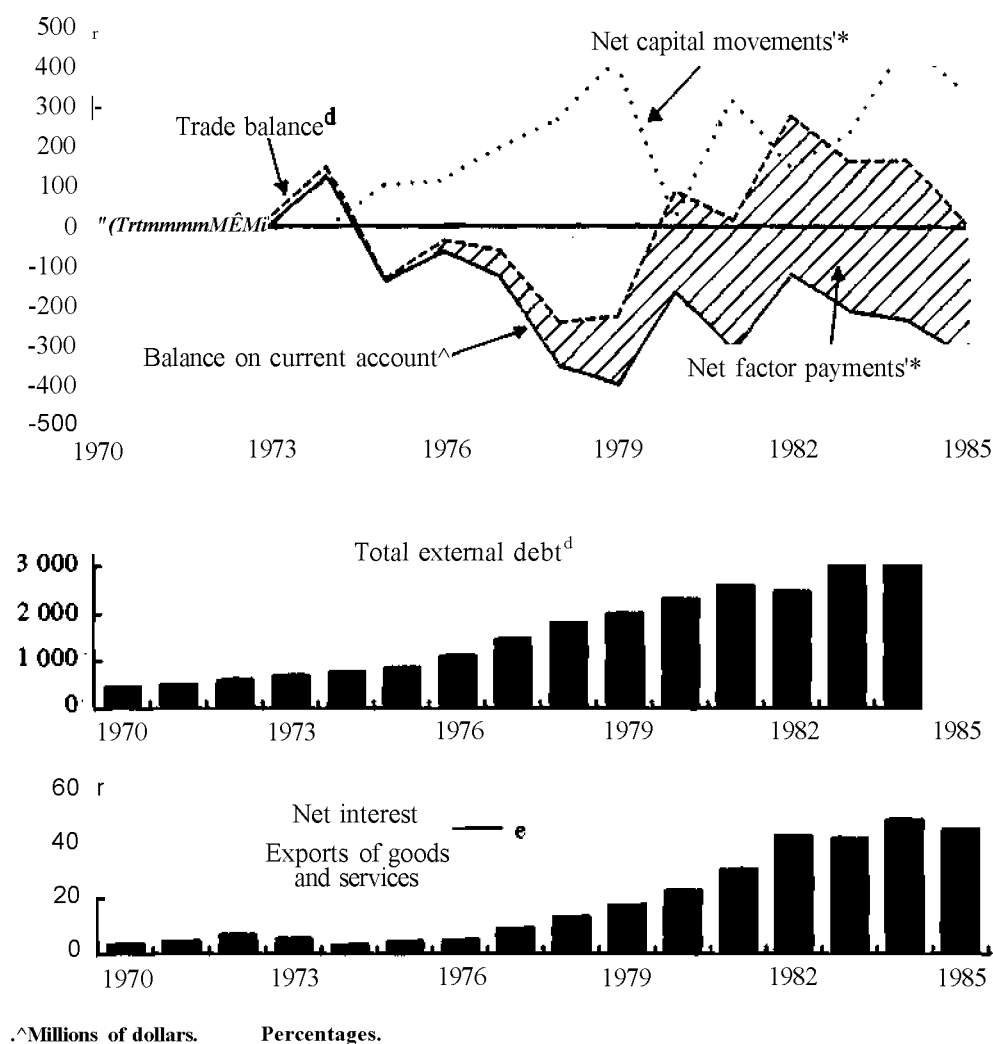
Source: ECLAC, on the basis of official data.

^aAnnual growth rates.

^bAnnual nationwide rate.

^cPercentage variation from December to December.

Figure 1 (concluded)



This relaxation of contract restrictions also applied to the monetary and financial system and was supplemented by the announcement of a monetary reform and the creation of the "potosi" as a new unit of account. The freeing of interest rates on loans was confirmed, while deposits were guaranteed a minimum rate of return no less than LIBOR.

Civil servants' wages were frozen, while private-sector wages were made subject to free negotiation among the parties involved. The system of company stores was prohibited and payment in kind was abolished. Finally, in order to rationalize and simplify the wage structure, payroll headings were reformulated and all bonuses or allowances received by workers were integrated into their basic wages except for those in respect of seniority, production and remote-zone allowances.

In order to raise employment, the new government held that in addition to reestablishing the macroeconomic balances it was necessary to make the rules governing the recruitment of manpower more flexible. To that end, both public and private companies were authorized to cancel labour contracts as required. In order to compensate those affected by this measure, it established unemployment insurance which would run until the end of the year, in addition to payment of the other social benefits.

A variety of complementary measures were later approved which had an impact on wages, tax revenues and employment levels.

A retroactive increase in minimum wages going back to August was instituted, at the same time that the government continued with its rationalization of the various payroll components and set the amounts that would be available until mid-1986 for the payment of wages by the various units of the public sector. In addition, new wage scales for the different levels of the public sector were established.

The new policy sought to increase the percentage of fiscal revenue to be provided by domestic taxes. The size of authorized discounts was increased, the ceiling on deductible items was eliminated, and steps were taken to proceed with tax indexation. A "tax unit" expressed in minimum wage units was established for use in determining tax payments, and a new schedule for the tax on earned income was instituted. Finally, the government approved the application of a type of capital tax which was referred to as a "mandatory loan"; revenue from this tax would be paid into the Social Emergency Fund.

This Fund would be used to help workers who had lost their jobs as a result of the economic crisis or of the staff rationalization plan that had been applied to government service. However, the Fund would pay what was called the "relocation benefit" only to former employees of the central government to whom the General Labour Law did not apply and who had been laid off between December 1985 and May 1986.

In the midst of this major economic reform process, the paralyzation of the International Tin Council and the suspension of operations on the London Metals Exchange caused the price of tin to plummet. This exacerbated Bolivia's already critical economic situation.

2. Trends in economic activity

a) *Total supply and demand*

The total supply of goods and services stagnated, bringing the cumulative decrease in the supply since 1980 to nearly 17%.

The fact that the supply stagnated rather than decreased was wholly due to the increase in import volume (12%), inasmuch as the gross domestic product declined for the fourth year running, this time by slightly over 1.5%, giving a cumulative loss of 12% during the 1982-1985 period (see table 2).

The 1.5% growth of domestic demand, for its part, reversed the trend of the three preceding years, during which the cumulative drop in demand was over 13%.

Investment in fixed capital showed practically no growth, after having deteriorated steadily since 1979. The investment coefficient (12%) thus hit one of its lowest points in the past twenty-five years, even though it was slightly higher than in 1984.

The expansion of private consumption for the second year in a row (by 30%) was a contributing factor in the 2.5% growth of total consumption. Public-sector consumption decreased once again, however, bringing the cumulative drop for the past four years to over 7% (see table 2).

Finally, the volume of exports of goods and services shrank still further (-9.5%), giving a cumulative decline since 1980 bordering on 40%.

b) *Evolution of the main sectors*

The production of goods showed a decline for the fourth consecutive year; it was therefore approximately one-fifth lower than it had been in 1981. In contrast, a slight upturn was observed in the product generated by basic and other services (see table 3).

The deterioration in the production of goods had a relatively greater impact on those sectors which depended most on imports. The shortage of foreign exchange and, to a lesser extent, difficulties in connection with labour relations and the climate of unrest surrounding the elections contributed to the 12% and 9% drops in mining and manufacturing output, respectively.

Agricultural production rose 3% following the strong upturn of the preceding year, but it still did not regain its 1982 levels. The slight upward trend in construction (2.5%) was the first to be observed in this activity since 1978.

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND*(At 1980 market prices)*

	Index 1980 = 100				Percentage breakdown		Growth rates			
	1982	1983	1984	1985°	1980	1985°	1982	1983	1984	1985
Total supply	91.8	87.6	86.3	86.2	119.0	115.4	-8.0	-4.6	-1.5	-0.1
Gross domestic product at market prices	97.5	91.0	90.2	88.7	100.0	100.0	-2.8	-6.6	-0.9	-1.7
Imports of goods and services	61.1	68.5	64.4	72.1	19.0	15.4	-36.4	12.2	-6.0	11.9
Total demand	91.8	87.6	86.3	86.2	119.0	115.4	-8.0	-4.6	-1.5	-0.1
Domestic demand	92.7	88.7	88.2	89.6	98.2	99.2	-8.3	-4.3	-0.6	1.6
Gross domestic investment	83.2	67.3	63.7	61.3	14.7	10.1	-26.4	-19.1	-5.3	-3.8
Gross fixed investment	84.9	80.9	75.0	74.7	14.2	12.0	-12.9	-4.7	-7.3	-0.4
Construction	86.8	82.9	77.4	79.4	8.8	7.8	-2.4	-4.5	-6.7	2.6
Machinery	82.0	77.9	71.4	67.4	5.5	4.2	-26.2	-5.0	-8.4	-5.5
Total consumption	94.5	92.6	92.6	94.7	83.5	89.1	-4.6	-2.0	-	2.3
General government	107.4	104.5	103.6	101.4	12.9	14.8	-1.6	-2.7	-0.9	-2.1
Private	92.1	90.3	90.5	93.4	70.6	74.3	-5.3	-1.9	0.2	3.2
Exports of goods and services	86.7	81.6	76.5	69.2	20.8	16.2	-6.5	-5.9	-6.2	-9.6

Source: ECLAC, on the basis of official figures weighted according to the 1980 current price structure.

°Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were then converted to constant 1980 values based on price indexes calculated by ECLAC for that purpose. They do not include the adjustments made in national account series to reflect unrecorded transactions.

In the area of basic services, an increase was recorded in the output of electricity, gas and water, but it was less than that recorded in 1984, while transport, storage and communications completed their third year of gradual recovery.

The "other services" category also increased its product. This was primarily due to the expansion of commerce and financial activities, since community services diminished.

i) *Agriculture*. Almost all the harvests showed an increase, and those of root crops, fruits and vegetables, some cereals and certain industrial crops continued the recovery which they had begun to make the year before (see table 4).

The biggest increases were in cotton, tomatoes and potatoes. In addition, a larger amount of land was put under cultivation, especially in the cases of root crops, fruits and vegetables and cotton. Generally speaking, however, yields were down, since output increased less than the amount of land under cultivation did (see table 4).

ii) *Mining*. The 12% drop in the mining product brought the cumulative decrease for the past four years to nearly one-third, and the sector's share in the gross domestic product thus fell to its lowest level since at least 1970; this was partly due to the deterioration in the metal content of the minerals in question, the failure to discover new veins of ore, and the obsolescence of mining machinery and equipment.

Tin production, which is one of the most important activities in the Bolivian economy, fell 15.5%, which brought the cumulative decrease for 1982-1985 to nearly 60% (see table 5). Tin prices on international markets were 3-5% lower than the year before, but this average figure does not fully reflect the impact of the crisis which broke out during the final months of the year.

Due to a complex set of circumstances, the International Tin Council (ITC) called a halt to its operations in October, and the price of tin plunged approximately 80%. This huge decline lowered

the value of the exports made during the last few months of the year and had a severe impact on the operations of mining enterprises.

Bolivia's tin mining costs are among the highest in the world, and only 15% of the tin mining companies in the country recorded average costs that were lower than the international price of tin even before it plummeted. The outbreak of the crisis aggravated this situation to such an extent that the very economic feasibility of continuing to mine for tin was called into question.

Even though the international price of antimony was up nearly 7 %, there was a further decline in the amount produced (-4%), thus making the cumulative decrease approximately 50% over the past four years.

Another drop (12%) in lead production lowered output levels to half of what they were in 1982. The very sharp decrease in gold output (-55%) lowered its production level to less than one-third of what it had been in 1983, and this was compounded by a cumulative deterioration of approximately 25% in the international price during the same period.

Since 21% less silver was produced in 1985, the cumulative decrease during the past two years came to over 45%. The price of silver was 25% lower than in 1984, in which year it had already dropped nearly 30%.

Table 3

BOLIVIA: GROSS DOMESTIC PRODUCT, BY BRANCHES OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES

	Index 1980 = 100				Percentage breakdown		Growth rates			
	1982	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Gross domestic product	97.5	91.0	90.2	88.7	100.0	100.0	-2.8	-6.6	-0.9	-1.7
Goods	93.9	82.0	80.5	77.1	52.4	45.4	-2.9	-12.7	-1.9	-4.2
Agriculture'	105.9	77.7	92.2	95.1	18.4	19.6	6.9	-26.6	18.8	3.1
Mining	94.5	93.4	80.6	71.1	15.8	12.6	-4.9	-1.2	-13.8	-11.8
Manufacturing	79.9	74.6	65.9	60.0	14.6	9.8	-13.9	-6.6	-11.7	-9.1
Construction	87.0	83.0	77.5	79.5	3.7	3.3	-2.4	-4.5	-6.6	2.6
Basic services	107.0	109.1	109.9	110.9	6.6	8.3	-4.6	1.9	0.8	1.0
Electricity, gas and water	114.6	114.2	115.7	116.4	0.7	0.9	0.5	-0.4	1.4	0.6
Transport, storage and communications	106.3	108.5	109.4	110.5	6.0	7.4	-5.1	2.1	0.8	1.0
Other services	100.2	99.8	99.7	99.9	39.9	44.7	-1.2	-0.4	-0.1	0.2
Commerce, restaurants and hotels	102.7	98.6	97.6	99.6	10.8	12.1	-5.2	-4.0	-1.0	2.1
Financial institutions, insurance, real estate and business services	96.2	96.7	97.2	98.1	14.0	15.5	0.8	0.6	0.5	0.9
Ownership of dwellings	99.7	99.9	99.9	99.9	8.2	9.3	0.3	0.2	0.1	0.1
Community, social and personal services	102.3	103.5	103.4	101.5	15.0	17.2	0.3	1.2	-0.1	-1.8
Government services	104.5	107.6	108.1	106.1	10.5	12.5	1.7	3.0	0.5	-1.9
Less: imputed bank service charges	77.8	78.7	79.5	81.2	1.6	1.4	1.5	1.2	1.0	2.1
Plus: import duties	96.3	95.4	98.3	103.2	2.7	3.1	-15.7	-0.9	3.0	5.0

Source: IICLAC, on the basis of official figures weighted according to the 1980 current price structure. Due to this weighting, the trends reflected here may not correspond exactly with those calculated by the Central Bank at constant prices.

'Preliminary figures. As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter. 'Includes the livestock sector, forestry and fishing.

Table 4

BOLIVIA: INDICATORS OF CROP-FARMING PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985 ^a
	Production (thousands of tons)							
Main crops								
Cereals								
Rice	86.6	61.7	193.9	184.3	-14.3	-28.7	214.2	-4.9
Maize (hard and soft)	449.6	337.1	488.8	553.9	-10.7	-25.0	44.9	13.3
Quinoa	15.7	11.7	21.1	21.1	21.0	-25.8	80.5	-
Wheat	66.0	40.3	68.4	67.7	-0.9	-38.8	696	-1.0
Roots and tubers								
Oca	45.2	18.9	29.3	37.8	-9.3	-58.0	54.4	29.0
Potatoes	900.0	316.4	663.4	720.7	3.8	-64.8	1096	8.6
UUCU	19.6	5.7	12.5	14.1	1.9	-70.6	117.8	12.2
Fruits and vegetables								
Onions	39.7	18.4	28.1	35.3	7.2	-53.5	52.3	25.7
Peaches	30.4	23.9	24.0	20.7	-1.3	-21.4	0.5	-13.7
Broad beans	45.0	14.8	47.2	50.5	-16.5	-67.0	218.7	7.0
Tomatoes	32.0	24.2	16.5	28.5	42.8	-24.2	-31.8	72.7
Industrial crops								
Cotton fibre	3.9	3.2	0.9	1.7	-40.1	-17.4	-70.8	87.3
	Area under cultivation (thousands of hectares [^])							
Main crops								
Cereals								
Rice	54.2	43.5	120.8	119.7	-14.3	-19.7	177.3	-7.5.
Maize (hard and soft)	285.7	260.8	321.7	348.9	-8.7	-8.7	23.3	8.4
Quinoa	24.9	43.0	45.8	47.9	8.2	72.8	6.3	4.6
Wheat	96.4	70.5	88.8	93.1	0.5	-26.8	25.9	4.8
Tubers and roots								
Oca	13.2	7.2	11.9	14.5	-7.0	-45.5	65.2	21.5
Potatoes	159.3	108.1	142.5	198.2	-10.0	-32.1	31.8	39.0
Ullucu)	5.0	3.5	4.5	4.7	-	-30.6	29.4	5.8
Fruits and vegetables								
Onions	4.6	3.5	4.6	5.6	-	-23.4	31.0	22.0
Peaches	6.3	6.3	6.5	5.6	-	-	3.6	14.4
Broad beans	23.0	12.5	31.2	38.5	-12.2	-45.3	148.0	23.6
Tomatoes	2.5	2.5	2.3	4.2	8.7	-	-8.0	82.6
Industrial crops								
Cotton fibre	6.1	3.7	0.8	3.8	-57.5	-39.3	-78.1	369.2

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

"Preliminary figures.

Even though the gold which was produced was sold at the unofficial dollar rate, production continued to slide (-55%) to scarcely one-third of its 1983 level. In addition, the international price dropped 12% after having already decreased 13% the year before.

The only two minerals whose output did not decline were zinc and copper. Zinc output showed a minimal upturn after having fallen 20% in 1984, and its international price decreased 16%. In the

case of copper, neither output nor prices showed any change in 1985, after the almost 45% drop in output between 1982 and 1984.

iii) *Hydrocarbons*. During the first nine months of the year, crude oil production decreased almost 3% with respect to the same period in 1984. Since declines had also been recorded in the two preceding years, the cumulative drop for the 1983-1985 period was around 18% (see table 6).

At the same time, domestic sales of all fuels fell for the second consecutive year. While gasoline consumption stagnated, purchases of diesel oil were down and those of kerosene and fuel oil shrank even more. The depressed level of economic activity and the sharp rise in fuel prices caused energy demand for industrial and domestic uses to slacken.

Table 5
BOLIVIA: INDICATORS OF MINING PRODUCTION

	Thousands of tons				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Production of some important minerals								
Antimony	13.9	9.9	9.2	8.8	-9.1	-28.7	-7.0	-4.3
Copper	2.2	1.9	1.6	1.6	-15.3	-13.6	-15.8	-
Tin	26.7	23.7	18.5	15.6	-10.1	-11.2	-21.9	-15.6
Silver*	173.7	191.2	141.8	111.9	-15.3	10.1	-25.8	-21.0
Lead	12.4	12.1	7.4	6.5	-25.7	-2.4	-38.8	-12.1
Tungsten	3.2	3.0	2.3	1.7	-5.8	-6.2	-23.3	-26.1
Zinc	45.6	47.1	37.7	38.2	-2.9	3.3	-19.9	1.3
Gold'	1 249.0	1 582.0	1 270.0	575.3	-39.5	26.6	-19.7	-54.7
Other minerals	8.0	4.0	3.1	4.6		-50.0	-22.5	48.3

Source: National Association of Medium-Scale Miners.

"Preliminary figures.

Tons.

'Kilogrammes.

Table 6
BOLIVIA: HYDROCARBON INDUSTRY INDICATORS

	Thousands of cubic metres				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Petroleum								
Production of crude petroleum	1 418	1 288	1 211	876	10.3	-9.2	-5.9	-2.9
Exports of crude petroleum	-	1 039	310	-	-	-	-70.2	-
Refining of petroleum products	1 373	1 242	1 235	914	1.5	-9.5	-	-
Domestic sales of same fuels								
Gasoline	464	453	434	329	0.6	-2.4	-4.2	-
Kerosene	101	110	104	73	-3.8	8.9	-5.5	-8.7
Diesel oil	260	246	238	179	-13.0	-5.4	-3.3	-2.2
Fuel oil	136	145	116	67	-12.3	6.6	-20.0	-26.4
Natural gas								
Production	5 320	5 041	4 905	3 489	7.1	-5.2	-2.7	-4.7
Exports	2 297	2 227	2 210	2 216	4.6	-3.0	-	0.3

Source: Central Bank of Bolivia.

"Preliminary figures, for the period January- September. The rates of variation refer to the same period.

Millions of cubic metres.

Although natural gas continued to be far and away the country's main export product, the volume of this fuel which was produced also declined (-4.5%). This slump brought the cumulative decrease during the past three years to nearly 13%.

In 1985, the government's policy of bringing prices closer to their real levels also had an impact on fuels. In February, the price of a litre of gasoline was increased by 540% (the prices of the other fuels rose by similar amounts), and this pushed it up to a level equivalent to US\$ 0.25 at the official change rate. At the rapidly rising parallel exchange rate, however, the price of gasoline went down to US\$ 0.09.

In the ensuing months, the gap between the two exchange rates continued to widen; this may have worked as an incentive to the growth of unrecorded sales of fuel to other countries.

Under the stabilization plan that was approved at the end of August, fuel prices soared (gasoline prices increased 2 500%). The most important measure that was adopted in this connection, however, was a provision stipulating that the price of gasoline in national currency would thereafter be equivalent to US\$ 0.30 per litre. In addition to keeping the domestic price within a range similar to that of other countries (and thereby discouraging illicit trade in this product), this measure was an attempt to improve the financial position of the State oil company, Yacimientos Petrolíferos Fiscales Bolivianos. This enterprise also underwent a major administrative reorganization, one of whose components was the transfer of responsibility for distributing and marketing petroleum and petroleum products to the private sector.

3. The external sector

a) *Overall trends*

The constraints affecting the external sector in 1985 were much the same as they have been since the beginning of the decade. The drop in exports, the reduction of external financing, the mounting burden of the debt service and the widely-fluctuating exchange rate were once again the main bottlenecks in this sector, as well as in the rest of the economy.

The trade surplus went down by over 90%. Although factor service payments were lower than in 1984, the deficit on current account rose nearly 40% to US\$ 325 million.

Since the inflow of capital (especially long-term capital) diminished as well, Bolivia remained unable to service its external debt and at the same time import the most essential goods.

Consequently, service payments on the debt owed to private creditors remained suspended. Nonetheless, the ratio between the debt service and exports of goods and services continued to be very high.

Furthermore, speculation persisted because of the economic agents' desire to protect their liquid assets from erosion by hyperinflation. This took the form of a runaway demand for dollars, and this currency thus became the main medium used for hoarding and for turning a quick profit.

Both the official and unofficial exchange markets therefore came under great pressure. By the end of the year, the three major devaluations which were decreed one after another had pushed up the official rate for the dollar to a level 185 times higher than what it had been at the beginning of the year. Even so, the parallel exchange rate was usually far higher than the official rate (in August it was 14.5 times greater), and it was not until the final quarter, after implementation of the stabilization plan had begun, that this differential was reduced substantially, to such a point that occasionally the parallel rate was lower than the official rate.

b) *Foreign trade*

i) *Exports of goods.* The value of merchandise exports slumped 14%, giving a cumulative decrease of approximately 40% since 1981 (see table 7).

Unlike what had occurred during the three preceding years, the decrease in the value of merchandise exports was wholly due to a drop in their volume of somewhat more than 14%. This decline was one of an unbroken line of decreases since 1980, and the cumulative loss since that year thus totalled over 42%.

The upturn of almost 1 % in the unit value of exports offset the small decrease recorded in 1984. Nonetheless, the downward trend seen in unit values since 1982 continued to provide a contrast with the upward trend seen during the second half of the 1970s.

The slump in exports was not only significant but widespread as well (see table 8). External sales of natural gas (which accounted for more than half of all recorded exports) showed almost no growth for the second year in a row. This was due to the fact that output scarcely rose at all, even though the price of natural gas rose 16%.

Exports of metallic tin (which accounted for one-fifth of the total) dropped nearly 30% due to a 6.5% decrease in the unit value and a 25% decline in volume (see table 9). This brought the overall decrease during the 1982-1985 period to almost 60%, despite the upturn seen in tin exports in 1984. The price of tin on the London exchange continued to drop in nominal terms (-3.6%) (see table 10).

Sales of tin concentrates (the country's third largest export product, representing 8% of the total) fell 7% due to decreases in both the unit value (-2.5%) and the volume (-4%).

The trends in Bolivia's other traditional exports were just as unfavourable as they had been in preceding years.

Non-traditional exports made a strong recovery (21%), but this was not enough to offset the decreases recorded in previous years. Their level was therefore not even one-half of what it had been in 1982.

ii) *Imports of goods.* The value of merchandise imports rose somewhat more than 12%; this was entirely due to an increase of over 16% in the volume, since their unit value fell 3.5% (see table 7).

In 1985 the volume of imports was the highest it had been in the 1982-1985 period, but it was nonetheless only the same as in 1974; this provides an indication of the scope of the economic adjustment process which has been carried out.

Table 7
BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Growth rates							
Exports of goods							
Value	21.4	23.6	-3.5	-9.0	-8.8	-4.1	-13.9
Volume	10.7	-3.6	-6.3	-6.1	-8.1	-3.7	-14.5
Unit value	9.7	28.2	3.0	-3.1	-0.7	-0.4	0.7
Imports of goods							
Value	12.6	-16.5	-	-37.0	10.4	-12.8	12.2
Volume	14.6	-29.7	-7.6	-35.2	16.0	-7.6	16.3
Unit value	-1.7	18.8	8.2	-2.7	-4.8	-5.6	-3.5
Terms of trade (goods)	11.7	7.8	-4.8	-0.4	4.3	5.5	4.4
Indexes (1980 = 100)							
Volume of exports	103.7	100.0	93.7	88.0	80.9	77.9	66.6
Terms of trade	92.7	100.0	95.2	94.8	98.9	104.3	108.9
Purchasing power of exports of goods	94.8	100.0	89.0	82.5	78.4	77.8	69.1
Purchasing power of exports of good and services	95.5	100.0	89.3	80.4	77.4	74.2	66.9

Source: ECLAC, on the basis of official data.

"Preliminary figures.

Table 8

BOLIVIA: EXPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985°	1975	1985°	1982	1983	1984	1985°
Total	898	818	782	673	100.0	100.0	-9.7	-8.9	-4.4	-13.9
Main traditional exports	818	767	753	638	88.0	94.8	-9.3	-6.2	-1.8	-15.3
Metallic tin	237	175	191	134	9.8	19.9	-10.9	-26.2	9.2	-29.8
Tin concentrate	41	32	57	53	23.0	7.8	-46.7	-21.9	78.1	-7.0
Silver	37	58	21	10	5.5	1.5	-48.6	56.7	-63.8	-52.4
Zinc	38	33	37	29	7.7	4.3	-5.0	-13.2	12.1	-21.6
Tungsten	34	20	19	10	4.2	1.5	-20.9	-41.2	-5.0	-47.4
Antimony	18	16	23	16	3.3	2.4	-47.0	-11.1	43.7	-30.4
Other minerals	14	12	16	11	4.8	1.6	-41.6	-14.3	33.3	-31.3
Natural gas	382	378	376	373	8.0	55.4	13.3	-1.0	.	-
Other hydrocarbons	17	42	13	2	21.7	-	70.0	147.0	-69.0	-84.6
Main non-traditional exports	80	50	29	35	12.0	5.2	-13.9	-37.5	-42.0	20.7
Sugar	8	12	7	2	3.3	-	33.3	50.0	-41.6	-71.4
Coffee	16	13	7	14	1.3	2.1	-	-18.7	-46.2	100.0
Wood	12	8	6	6	2.1	-	-33.3	-33.3	-25.0	-
Handicrafts	1	-	-	-	-	-	-80.0	-	-	-
Other	43	17	9	13	5.3	1.9	-10.4	-60.5	-47.0	44.4

Source: Central Bank of Bolivia.

°Preliminary figures.

Table 9

BOLIVIA: EXPORT VOLUMES OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Metallic tin	18.6	13.5	15.6	11.7	-	-27.4	15.5	-25.0
Tin concentrate	3.2	2.5	4.6	4.4	-41.8	-21.8	84.0	-4.3
Silver	151.0	158.0	80.0	51.0	-25.9	4.6	-49.4	-36.2
Zinc	44.5	41.3	36.8	33.9	-	-7.2	-10.9	-7.8
Tungsten	3.2	2.5	2.4	1.6	6.6	-2.2	-4.0	-33.3
Antimony	10.8	12.9	10.8	7.7	-38.9	19.4	-16.3	-28.7
Other minerals	26.8	22.4	11.1	7.1	-26.4	-16.4	-50.4	-36.0
Natural gas'	2 297.0	2 227.1	2 210.3	2 216.1	4.6	-3.0	-	0.3

Source: Central Bank of Bolivia.

°Preliminary figures.

Metric tons fine.

'Millions of cubic metres.

Imports of consumer goods showed the largest increase (43.5%). Within this category, the sharp expansion in consumer durables (60%), when added to the growth seen in 1984, made up for the huge decreases recorded in 1982 and 1983. Although imports of non-durables also rose substantially, this was not enough to offset the sharp decreases which had occurred during the preceding three years (see table 11).

External purchases of raw materials and intermediate goods and imports of capital goods expanded 6% and 7.5 %, respectively, but in this case too the increases were not enough to offset the declines of preceding years. This was true of all the component items in these two groups, with the exception of imports of capital goods for agriculture, which grew for the third year in a row (see table 11).

iii) *The terms of trade.* The terms of trade improved for the third consecutive year, although the increase of nearly 4.5% recorded in 1985 was somewhat lower than the figure for 1984. The purchasing power of merchandise exports diminished 11%, however, thereby cancelling out a large part of the upturn observed in 1984. Since there was an improvement in the terms of trade, that decrease was wholly due to the drop in export volumes (-15%) (see table 8).

c) *The balance of payments*

The deficit on the balance-of-payments current account amounted to US\$ 325 million in 1985, which was an increase of 36% over 1984 (see table 12). This was primarily a result of the considerable decrease in the merchandise trade surplus, since the trade deficit on real services increased only minimally and factor service payments were substantially lower.

The merchandise trade surplus (approximately US\$ 160 million) was almost 50% lower than in 1984. The value of exports of goods fell by US\$ 100 million to a level similar to that of 1978, while imports rose slightly more than US\$ 50 million; they thus followed much the same trend as in earlier years, but were still far from reaching the levels achieved in the late 1970s.

The trade deficit on real services was up slightly (US\$ 7 million) due to the fact that both income and payments rose by very similar percentages.

Net payments of profits and interest dropped by somewhat more than US\$ 70 million, mainly because of the decrease in net interest payments. Income under this heading expanded by US\$ 8 million, while the amount of interest paid out dropped by around US\$ 60 million (see table 12).

Table 10
BOLIVIA: AVERAGE PRICE OF TIN ON THE
LONDON METAL EXCHANGE
(Dollars per pound)

	Nominal price	Price indexes (1980 = 100)		Real price (1970 dollars)	
		United States wholesale prices	Unit value of Bolivian imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)		
1979	7.0	87.6	85.8	8.1	8.2
1980	7.6	100.0	100.0	7.6	7.6
1981	6.4	109.1	108.7	5.8	5.8
1982	5.8	111.3	108.8	5.2	5.3
1983	5.9	112.7	106.2	5.2	5.5
1984	5.5	115.4	101.2	4.7	5.4
1985	5.3	114.9	95.5	4.6	5.5

Source: UNCTAD, International Monetary Fund (IMF) and ECLAC estimates based on official figures.

Table 11

BOLIVIA: IMPORT OF GOOD, CIF

	Millions of dollars				breakdown		Growth rates			
	1982	1983	1984	1985"	1975	1985"	1982	1983	1984	1985"
Total	577	588	487	550	100.0	100.0	-42.8	1.9	-17.2	12.9
Consumer goods	96	65	92	132	22.9	24.0	-58.9	-32.3	41.5	43.5
Durable	39	19	50	80	10.7	14.5	-66.9	-51.3	163.2	60.0
Non-durable	57	46	42	52	12.2	95	-50.8	-19.3	-8.7	23.8
Raw materials and intermediate goods	248	282	203	215	40.0	39.0	-27.5	13.7	-28.0	5.9
Fuels	9	4	2	2	1.2	-	-35.7	-55.5	-50.0	-
For agriculture	7	11	17	14	3.7	2.5	-53.3	57.1	54.5	-17.6
For industry	197	224	152	166	30.6	30.2	-25.4	13.7	-32.1	9.2
Construction materials	35	43	32	33	4.5	6.2	-28.6	22.8	-25.6	3.1
Capital goods	199	222	184	198	35.5	36.0	-40.4	11.5	-17.1	7.6
For agriculture	5	7	13	14	1.2	2.5	-75.0	40.0	85.7	7.7
For industry	139	156	103	110	16.6	20.0	-28.7	12.2	-33.9	6.8
Transport equipment	55	59	68	74	17.7	13.5	-53.8	7.3	15.3	8.8
Other (including unregistered imports)	34	19	8	5	1.6	1.0	-66.0	-44.1	-57.9	-37.5

Source: Central Bank of Bolivia.

"Preliminary figures.

A surplus of about US\$ 340 million (26% less than in 1984) was recorded on the capital account. Long-term movements reflected an outflow of nearly US\$ 240 million. The size of this outflow was greater than at any time since 1971 and was associated with the trend in net long-term loans. Whereas Bolivia had received US\$ 155 million in net terms in 1984, it had to payout nearly US\$ 250 million the following year. This was due to the sharp reduction in the loans received by the official sector and to the fact that loan amortization payments were more than three times higher than the level of new loans received.

In contrast short-term capital movements yielded a surplus of US\$ 375 million. Almost all of this income (97%), however, corresponded to refinanced and overdue debts not paid at the time they reached maturity.

As a result of these changes, the international reserves rose by nearly US\$ 30 million in 1985.

d) The external debt

In an effort to mitigate the severe constraints stemming from Bolivia's high level of indebtedness, during 1985 the authorities held to the decision they had taken the year before to service only those debts that had been incurred with multilateral agencies and with the governments of some countries.

New medium- and long-term loans obtained by the public sector amounted to US\$ 110 million; this increased the total amount of medium- and long-term external public debt by 16%, to nearly US\$ 3 280 million (see table 13).

The service on the public debt totalled US\$ 250 million, which was 20% less than in 1984. Payments of principal expanded 30% to US\$ 160 million, but interest payments, were less than one-half their former level.

The total medium- and long-term external public debt was thus 4.5 times the value of the country's exports of goods and services. The service on this debt was equivalent to slightly over

Table 12
BOLIVIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985 ^a
Balance on current account	-399	-166	-312	-121	-216	-238	-325
Trade balance	-226	90	17	279	165	170	12
Exports of goods and services	855	1 043	1 012	913	858	818	722
Goods FOB	762	942	909	828	755	724	624
Real services	93	101	103	85	103	93	98
Transport and insurance	29	32	34	27	35	35	38
Travel	37	40	36	30	42	32	30
Imports of goods and services	1 081	953	994	633	693	648	710
Goods FOB	815	680	680	429	473	412	463
Real services	266	273	314	204	220	235	247
Transport and insurance	177	168	196	101	128	121	149
Travel	45	52	50	40	20	30	30
Factor services	-183	-264	-343	-418	-421	-436	-363
Profits	-28	-19	-29	-24	-59	-36	-35
Interest received	2	14	15	7	22	18	26
Interest paid	-153	-256	-325	-397	-381	-415	-353
Other	-3	-3	-3	-3	-2	-2	-
Private unrequited transfers	11	8	13	17	40	28	26
Balance on capital account	417	19	319	152	232	465	343
Official unrequited transfers	41	48	26	28	66	60	54
Long-term capital	257	252	473	182	61	161	-237
Direct investment (net)	18	41	60	37	1	7	10
Portfolio investment (net)	-	-3	.	-	.	-	-
Other long-term capital	240	213	413	145	60	154	-247
Official sector ¹	89	264	310	254	64	351	-203
Loans received	149	334	328	491	393	737	97
Amortization payments	-57	-56	-53	-66	-324	-379	-300
Commercial banks ¹	77	-24	26	-44	-	-38	-9
Loans received	87	13	10	9	39	11	1
Amortization payments	-10	-21	-6	-20	-39	-49	-9
Other sectors ¹	74	-26	77	-65	-4	-159	-35
Loans received	151	94	96	66	154	43	8
Amortization payments	-77	-90	-55	-37	-157	-202	-43
Short-term capital (net)	147	-20	148	-7	18	250	376
Official sector	192	-29	200	119	148	66	365 ^a
Commercial banks	-11	-19	6	20	-32	-4	-12
Other sectors	-34	28	-58	-145	-98	188	23
Errors and omissions (net)	-28	-260	-329	-51	81	-7	150
Global balance ¹	19	-147	6	31	16	226	18
Total exchange in reserves							
(- sign indicates an increase)	-24	146	-23	-38	1	-256	-28
Monetary gold	-2	-2	-3	-2	-1	-1	-
Special Drawing Rights	18	-	-	-	-	-	-1
IMF reserve position	12	-	-	-	-	-	-
Foreign exchange assets	-39	72	6	-56	19	-116	31
Other assets	-14	6	-17	5	-20	-114	-46
Use made of IMF credit	-	61	-9	15	3	-25	-12

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: liCLAC, on the basis of official data.
^aPreliminary figures. Real services also include other official and private transactions, but not factor services. ¹ in addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. ² Includes special financing (refinanced and deferred debts in the amount of USS 215 million and debts in arrears in the amount of USS 111 million) and liabilities representing USS 5 million in reserves of foreign authorities.

³The 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 13

BOLIVIA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985"
Millions of dollars										
Total disbursed external debt	1 132	1 478	1 822	2 036	2 340	2 622	2 502	3 156	3 165	
Disbursed medium- and long-term external public debt	1 107	1 458	1 762	1 941	2 248	2 542	2 373	2 780	2 825	3 277
Disbursements in each year	295	439	541	323	430	354	187	86	158	109
Long-term non-guaranteed private debt	25	20	60	95	92	80	129	376	340	
Service on the medium- and long-term public debt	112	161	355	262	281	279	246	262	304	248
Amortization payments	72	101	271	144	122	103	96	95	122	159
Interest payments	40	60	84	118	159	176	150	167	182	89
Main indicators (percentages)										
Total disbursed external debt/exports of goods and services	181.1	212.0	258.4	238.2	224.4	259.1	274.0	367.8	386.9	
Total disbursed public external debt/exports of goods and services	177.7	209.8	250.6	227.0	215.5	251.2	259.9	324.0	345.4	453.8
Public debt service/exports of goods and services	17.9	23.2	50.4	30.6	26.9	27.6	26.9	30.5	37.2	34.4
Public debt service/annual public debt disbursements	37.9	36.7	65.6	81.1	65.3	78.8	131.5	304.6	192.4	221.7
Total interest (net)/exports of goods and services	5.3	9.4	13.5	17.9	23.2	30.6	42.7	41.8	48.5	45.3

Source: ECLAC, on the basis of official figures. The data on the private debt were obtained from the International Monetary Fund, *International Financial Statistics*, Supplement on economic indicators.

"Preliminary figures. "The figures for total net interest payments were taken from the balance of payments and therefore include the interest on the short-, medium- and long-term public debt and the long-term non-guaranteed private debt.

one-third of such exports and was more than double the amount of the loans disbursed during the year. This signalled the reappearance of the steady upward trend in this coefficient, which had been interrupted only in 1984 (see table 13).

Total net interest payments were equivalent to 45% of all exports, a slight increase over the 40% average recorded for the period 1982-1984.

If all obligations with the private international banking system had been met in 1985, the service on the external debt would have risen by around US\$ 1 billion (roughly the amount by which the country is in arrears).

Talks with private creditors concerning the rescheduling of unpaid loans continued during the year. As is usually the case in such instances, the success of the negotiations was contingent upon the signing of an agreement with the International Monetary Fund. The Fund made the granting of additional assistance subject to two requirements: the imposition of certain limits on the public sector budget for the following fiscal year, and a sweeping fiscal reform, whose first components were the tax and wage measures agreed upon before the year's end.

e) *Exchange and foreign trade policy*

Stabilizing the exchange market continued to be one of the main objectives of economic policy in 1985. At the beginning of the year, the net foreign exchange reserves held by the Central Bank totalled US\$ 100 million. Although this was considerably more than the amount that had been available at the start of 1984, it was still far less than what was needed to meet the needs of the economy.

The importation of the most essential goods and the payment of the external debt therefore fended to be incompatible objectives. Moreover, the economic actors' desire to protect their liquid assets from inflation and the extreme instability of the prevailing expectations created a mood of mounting uncertainty which, *inter alia*, affected the exchange rate on the parallel market.

Three major devaluations of the official exchange rate were carried out in an effort to lessen the imbalances affecting the external sector and to ease the speculative inflationary pressures stemming from the enormous gap between the official and parallel rates for the dollar. As a result, by the end of the year the official exchange rate was almost 190 times higher than it had been at the beginning of 1985.

The first devaluation (425%) came in February. The differential between the parallel and official exchange rates (in January the parallel rate was 7 times higher than the official rate) was reduced in the weeks that followed to a factor of between 2 and 3.5.

The gap widened again in May, when a 50% devaluation was instituted in an effort to dampen expectations and promote exports.

Presidential elections were held soon thereafter. The elections gave rise to a climate of uncertainty which continued to push up the value of the dollar on the parallel market. In August, the parallel exchange rate was more than 16 times the official rate (see figure 2).

In view of this situation, the new government launched an emergency plan designed to reduce hyperinflation. The first step taken with respect to exchange and foreign trade policy was the establishment of a single, real, flexible exchange rate based on a system whereby the rate would be determined in accordance with a weighted average of the official sales to the public made by the Central Bank. In the following months, the price of the dollar came to be determined on a daily basis using a procedure similar to that of an auction, i.e., the price was fixed as a function of a base price established by the authorities and the prices offered by agents prior to the opening of what was referred to as the "mini-exchange market".

The result was that the price at which the United States dollar was sold began to soar until it reached a level similar to that of the parallel market (1 100 000 pesos). In the ensuing months, however, the official exchange rate was somewhat more stable than before, with the result that it only depreciated by around 50%, whereas the value of the dollar on the parallel market stayed at virtually the same level. On those occasions when there was any difference at all between it and the official rate for the dollar, it was less than 10%.

The average value of the real effective exchange rate rose 5.5 % for exports and 9% for imports. These average figures cloak the very different situations which existed at various points during the year, however (see table 14).

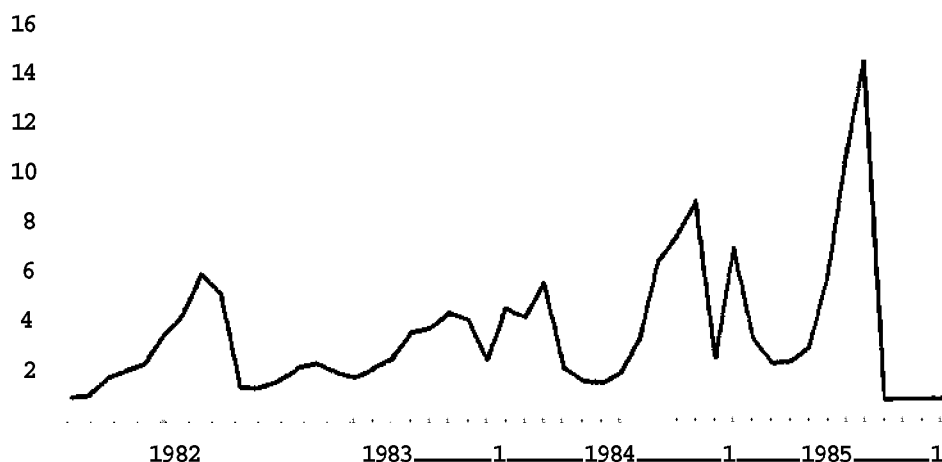
The devaluations made prior to August were unsuccessful in preventing the steady deterioration of the real effective exchange rate by hyperinflation, and during the first nine months of the year the corresponding indexes hit their lowest levels since 1975. This discouraged exports and encouraged imports that were paid for with foreign exchange purchased at the official rate. Indeed, during the four-month period from May to August, exporters' earnings in Bolivian currency fell to record lows, while imports became increasingly cheap. In August, the indexes corresponding to the real effective exchange rates for exports and imports fell to almost unbelievably low levels (10 and 11.5, respectively).

As a consequence of the sharp increase in the official exchange rate which was decreed at the end of August and the slowdown in inflation which began in October, the trends in both indexes changed radically during the final months of the year. In December, the index of the real effective exchange rate for exports rose to 119 and the index for imports climbed to 139, which was much higher than those indexes had been in earlier years.

Under the new economic policy, it once again became mandatory to surrender all foreign currency obtained from exports made by the public and private sectors to the Central Bank. At the same time, foreign exchange transactions were completely decontrolled, thus allowing the financial system to purchase or sell foreign exchange on its own responsibility. Public-sector entities needing foreign currency to pay for imports were to obtain it from the Central Bank.

As a complementary measure, private importers were required to make a 10% deposit in respect of the foreign exchange they acquired and a 10% levy was applied to both public- and private-sector exporters. This latter measure was abolished shortly afterwards, however.

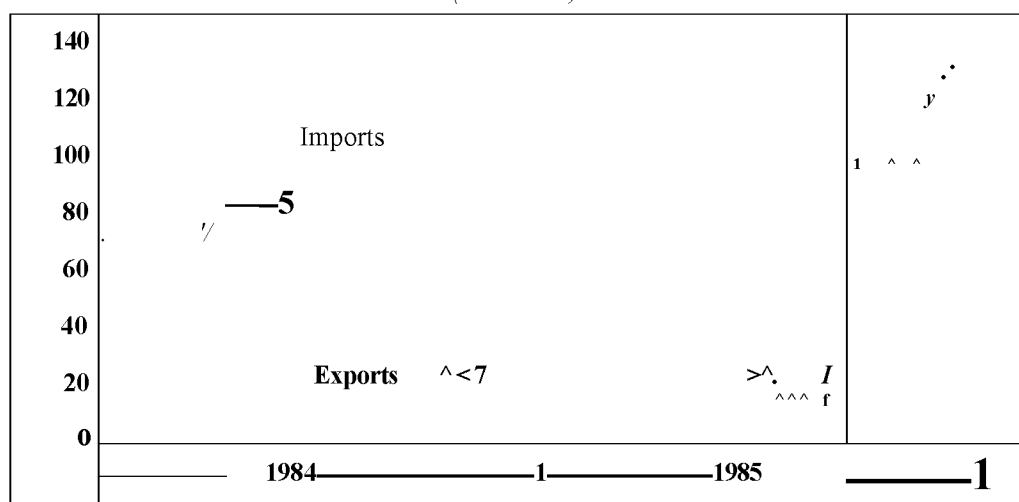
Figure 2
BOLIVIA: RELATION BETWEEN THE PARALLEL-MARKET
AND OFFICIAL EXCHANGE RATES



Source: ECLAC, on the basis of official figures and data supplied by the International Monetary Fund.

BOLIVIA: INDEXES OF THE REAL EFFECTIVE EXCHANGE
RATES FOR EXPORTS AND IMPORTS

(1980=100)



Source: ECLAC, on the basis of official figures and data supplied by the International Monetary Fund.

As regards merchandise trade, a free import system was established and a 10% across-the-board tariff on the CIF value was approved.

In general, exporters were able to sell goods and services abroad without having to obtain any prior permits or licenses. The usual surcharges still had to be paid on traditional exports but these charges were revised. Non-traditional exports were made free of any tax, duty or surcharge whatsoever.

Authorization was also given for the unrestricted signing of contracts expressed in Bolivian currency which contained a clause designed to keep the value constant in terms of foreign currency.

4. Prices and wages

a) Prices

Four-digit inflation persisted in 1985. The variation between annual averages in the general consumer price indexes was 11 750%, while the 12-month variation neared 8 200% (see table 15).

All the components of the index rose by similar amounts. The cost of housing and miscellaneous items showed average annual increases of 13 100% and 14 200%, respectively, while food rose 11 300% and clothing climbed 11 800%.

Wholesale prices followed similar trends. The annual increase in the general index was nearly 10 500%, while the 12-month (December to December) variation was of the order of 8 000% (see table 15).

The prices of domestically-produced goods rose more, on average, than imports did. Thus whereas, the prices of agricultural products and manufactures increased 11 700% and 13 800%, respectively, import prices rose 7 540%.

Table 14
BOLIVIA: EVOLUTION OF EXCHANGE RATE

	Nominal exchange rate (pesos per dollar)		Indexes of real effective exchange rate ^c	
	Official rate" (purchase)	Parallel market rate (purchase)	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		71.4	79.3
1982	99 ^{ff}	153	110.5	127.2
1983	230	646	76.3	86.6
1984	2 314	8 278	56.7	63.7
1985	452 742	680 103	59.8	69.4
1984				
I	500	2 400	52.7	59.9
II	1 800	3 217	75.6	84.0
III	2 000	8 075	55.0	61.1
IV	4 956	19 418	43.3	49.6
1985				
I	31 452	101 418	44.5	51.6
II	62 634	277 962	35.1	40.0
III	409 944	975 331	51.2	59.4
IV	1 306 937	1 365 702	108.4	126.4

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

"Exchange rate used by the banking system to convert foreign currency into national currency. Quarterly average exchange rates.

^cIndexes of the real exchange rate for the peso vis-a-vis the currencies of trading partners, weighted according to the relative importance of exports to or imports from those countries, as appropriate. From 1975 to 1979, these weightings correspond to the average for those same years; from 1980 onward, they correspond to the average for the period 1980-1983. Wholesale price indexes were usually used in the calculations. In the case of Bolivia, the consumer price index was used. For more information on the methodology and sources used, see the statistical appendix to the *Economic Survey of Latin America, 1981*.

^dThe exchange rate used for the period from March to October 1982 was obtained from the average of the official rate (weighted 40%) and the average open-market exchange rate (weighted 60%).

Table 15

BOLIVIA: DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Variation December-December										
Consumer price index	5.5	10.5	13.5	45.4	23.9	25.1	296.5	328.5	2 176.8	8 170.5
Food	5.3	10.3	14.8	45.4	22.6	26.6	313.2	343.6	2 188.9	8 033.5
Wholesale price index	11.4	9.5	18.6	43.5	35.2	27.9	406.1	517.8	2 237.7	7 952.4
Imported products	14.5	14.1	24.5	27.9	36.4	37.2	543.0	693.0	2 312.7	5 698.3
Domestic products										
Agricultural products	13.4	12.0	29.1	44.4	36.2	14.4	274.6	601.1	1 648.1	9 017.4
Manufactures	8.8	5.6	9.1	53.5	33.8	31.1	395.8	344.7	2 521.4	10 404.9
Variation between annual averages										
Consumer price index	4.5	8.1	10.3	19.7	47.2	32.1	123.5	275.6	1 281.3	11 749.6
Food	2.4	8.1	10.0	18.6	47.6	35.2	123.9	303.7	1 315.6	11 275.6
Wholesale price index	6.6	10.2	15.6	23.9	49.3	35.5	227.9	415.9	1 695.4	10 446.9
Imported products	8.4	15.1	23.6	18.0	35.6	43.8	342.4	488.6	1 969.1	7 540.0
Domestic products										
Agricultural products	6.3	13.9	20.5	27.8	54.6	24.7	139.7	517.6	1 190.2	11 735.5
Manufactures	6.0	5.4	8.4	25.5	55.5	37.6	211.1	311.6	1 701.5	13 831.5

Source: National Statistical Institute and Central Bank of Bolivia.

The inflationary process passed through two clearly-differentiated stages.

Between January and September, the trends seen the year before sharpened. While the monthly rates of variation in the general price index fluctuated between 30% and 60% during the last part of 1984, in January 1985 the rate approached 70% and in February it was above 180%. Price increases slowed down somewhat during the three following months, but began to gather speed again in June. Thus, the cumulative rate up to September was approximately 6 900% and the 12-month rate neared 23 500% (see figure 3).

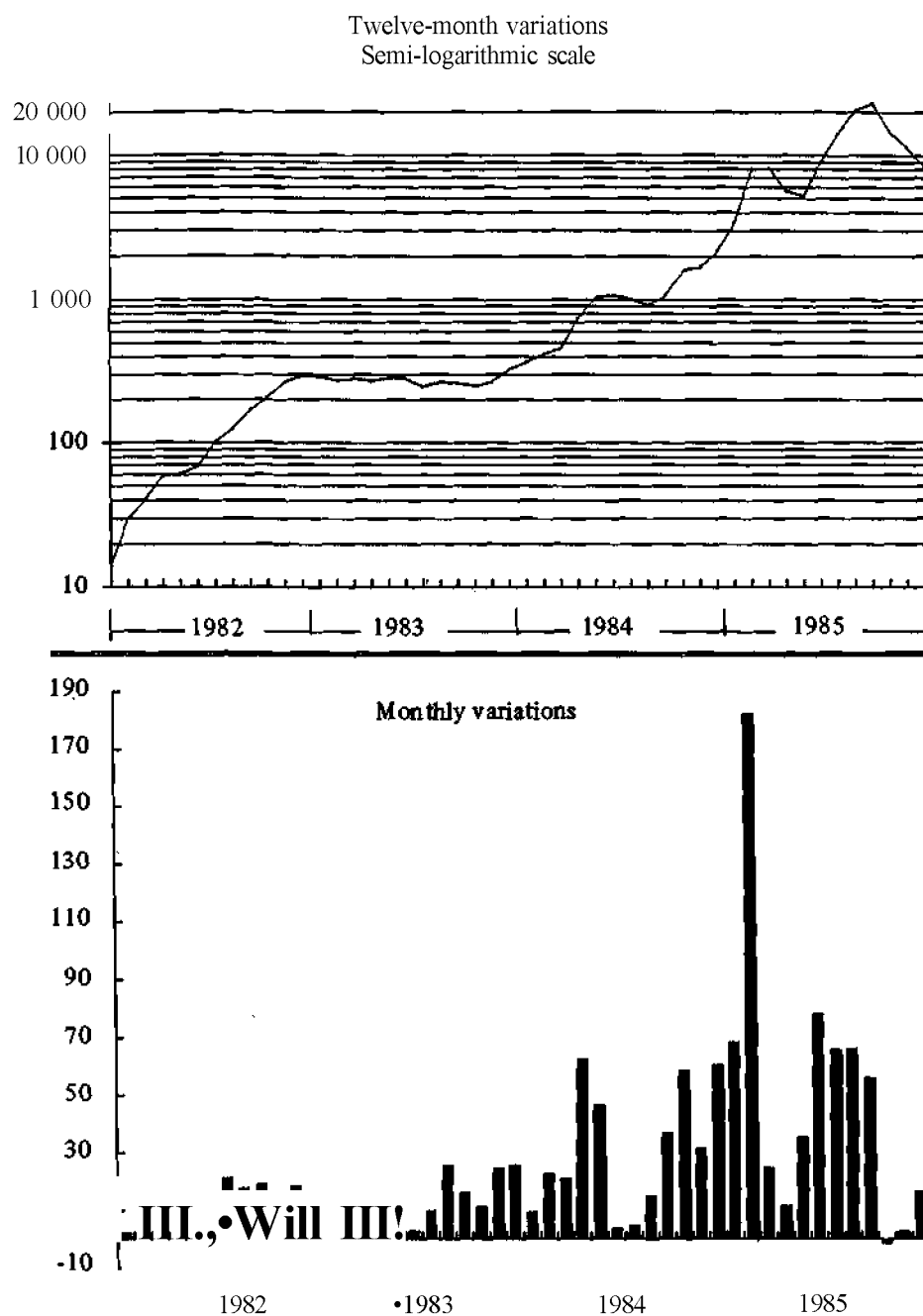
Under the new economic policy, the inflationary process reached an important turning point during the final quarter, as shown by the fact that the cumulative increase in October-December was only 18%. This brought the 12-month variation down from 23 500% in September to 8 170% in December.

The country's hyperinflation was the result of a whole range of factors, especially the inertial nature of the process once it had started, which added more fuel to inflationary expectations and speculation in dollars on the parallel market. The value of the United States dollar came to be the point of reference used by the economic agents in their transactions. Other factors which contributed to the runaway increase in prices were the enormous size of the public-sector deficit, the large wage increases granted during some months of the year and the flourishing of unrecorded trade and other types of activities.

As regards price policy, some criteria which had begun to be used in preceding years became more firmly entrenched during 1985. In February, fuel prices were raised by an average of over 500%, the rates charged for electricity were increased between 250% and 450%, and the rates for passenger and freight transport were raised by similar percentages. The prices of essential goods also climbed by a substantial amount. The charges for some goods and public services were adjusted once again in May.

Beginning in August, the prices of almost all goods and services were completely decontrolled, the only exceptions being the rates for public services (transport, electricity and telephone service), hydrocarbon fuels and medicines. Gasoline prices were to be readjusted each month to the equivalent in Bolivian currency of US\$ 0.30 at the average official exchange rate.

Figure 3
BOLIVIA: CONSUMER PRICE INDEX



Source: ECLAC, on the basis of official data.

Table 16

BOLIVIA: MINIMUM WAGES*(Pesos per month)*

	Nominal minimum wage	Real minimum wage"
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*	9 225
December	47 257	10 235
Annual average	18 874	8 416
1984		
January-March	47 257	7 735
April-July	108 691 ^e	6 536
August-October	123 813	3 968
November-December	935 000	11 599
Annual average	238 769	7 038
1985		
January-February	935 000	3 566
March-April	4 035 000	6 097
May-June	6 240 000	5 120
July-October	10 171 000	2 140
November-December	30 000 000	3 739
Annual average	10 258 867-	3 800

Source: ECLAC, on the basis of data supplied by the National Commission on Wages (CONALSA) and the Economic Policy Analysis Unit (UDAPE).

"The consumer price index for November 1982 (which was when the value of the minimum wage was determined) was used as a basis for the conversion of nominal wages into real wages. In November a bonus of 22 500 pesos was added; this bonus was payable in three installments, the first of which was to be paid that same month. ^eDuring several days in April, the minimum wage in force was that corresponding to March. The figure shown in the table, however, corresponds to the wage adjustment made in May, which was retroactive to 1 April. In addition, food and transport allowances were granted in April as well. The former amounted to 35 723 pesos, while the latter varied according to the number of daily trips to the place of work.

At the same time, all taxes on the movement of products within Bolivian territory were eliminated.

Finally, the Ministry of Industry, Commerce and Tourism was empowered to import essential goods in order to guarantee a supply for the domestic market at competitive prices.

b) *Wages*

Wage trends provided further evidence of the seriousness of the imbalances observed in the economy during 1985. The real average minimum wage dropped 46%, on top of the 16% decrease which had occurred the year before (see table 16).

Wage policy also went through two clearly-defined stages: before and after the implementation of the new economic policy.

Between January and August, the wage policy's most outstanding feature was its extreme complexity.

In order to offset the increases in the exchange rate and in the prices of essential goods, in February a one-time compensatory bonus was granted to all workers which was equivalent to 331%

of the minimum wage. This put the minimum wage at somewhat more than 4 million pesos; at the new exchange rate, this was nearly US\$ 90, but at the foreign exchange rate on the parallel market, it was equivalent to less than US\$ 34.

For a short time, this increase allowed wage-earners to regain the purchasing power they had lost in previous months. The dizzying speed of price increases, however, soon resulted in a substantial deterioration in their wages once again.

A 55 % readjustment which was decreed in May raised the minimum wage to nearly 6 250 000 pesos. According to the official exchange rate at the time, this was slightly over US\$ 80, but only US\$ 25 according to the going rate on the parallel market.

In July, as a result of pressure by the unions, minimum wages were raised once again. This time the increase was 63%, which brought the minimum wage to almost 10 200 000 pesos (less than US\$ 13 at the exchange rate being offered on the parallel market at the time).

One of the main objectives of the new government that took office in August was to continue to rationalize wages policy and to put it in order. All the emergency measures that were adopted were aimed at preventing wages from becoming one of the mechanisms which kept the inflationary spiral going, as they had been during most of the preceding period.

To this end, the wages of workers in the public sector were frozen until the end of the year. It was also decided that private-sector wages would be subject to free bargaining among the parties involved.

The system of company stores (under which some essential goods were distributed at subsidized prices) was done away with both in public and private enterprises. To compensate workers for this, it was stipulated that they would receive a wage increase equivalent to the difference between the subsidized prices and the market prices for the goods in question. Total or partial payment of salaries in kind was also banned at the same time.

In addition, all bonuses or allowances, whether they were paid by public or private companies, were incorporated into the basic wage. The only exceptions were production, seniority and remote-zone bonuses.

Shortly before the end of the year the following decisions were taken as a means of carrying forward the reforms which had been undertaken:

- i) To set the minimum wage for public and private workers at 30 million pesos. This increase was made retroactive to 1 August;
- ii) To reduce the number of monthly wages received per year to 12;
- iii) To stipulate that production bonuses would only be given under piece-work contracts;
- iv) To lower the amount of the seniority bonus by providing that henceforward it would be calculated on the basis on the minimum wage rather than the total remuneration;
- v) To establish a freeze, effective until 1 June 1986, on the total amount available each month for the payment of wages by each unit of the public sector;
- vi) To establish new wage scales with a view to widening the wage range. This measure, too, was to remain in effect until 1 June 1986.

In summary, the first part of the government's strategy was to freeze wages during the final four months of the year. Once inflation had slowed down, all wages were then readjusted retroactively to August. It was also decided that wages were to remain frozen at these new levels until the second half of 1986.

5. Monetary and fiscal policy

a) *The money supply*

In the final analysis, the persistence and gathering speed of inflation during most of 1985 were due to the complete subordination of monetary policy to the needs of the public sector.

In 1985 the monetary base expanded nearly 5 600%, with the result that the money supply (M₁) increased even more (5 940%). Since quasi-money, for its part, soared by approximately 13 500%, the expanded money supply (M₂) grew by around 7 250% (see table 17).

The trends in these variables changed a great deal during the period in question, however. From January to September, the increase in the monetary base was 3 240%, 3 030% in the M₁ money

Table 17

BOLIVIA: MAIN MONETARY INDICATORS

	Year-end balance (billions of pesos)			Growth rates		
	1983	1984	1985	1983	1984	1985
Monetary base	195	3 345	190 078	204.7	1 615.4	5 582.5
Money supply (M ₁)	175	3 296	199 066	207.0	1 783.4	5 939.6
Quasi-money	91	690	93 805	116.6	658.2	13 494.9
Money plus quasi-money (M ₂)	266	3 986	292 871	168.7	1 398.5	7 247.5
Variables determining M ₂ :						
International reserves (ilet)	(51)	337	156 080			46 214.5
Credit to public sector (net)	276	2 927	(84 345)	236.6	960.5	
Central government	11	(409)	(318 372)			
Local governments	8	110	28 199	100.0	1 275.0	25 535.4
Public enterprises	258	3 226	205 828	200.0	1 150.4	6 280.3
Credit to private sector	192	2 624	405 983	110.9	1 266.6	15 371.9
Other variables	(150)	(1 902)	(184 847)			

Source: Central Bank of Bolivia.

supply and almost 3 400% in M₂; this was equivalent to monthly rates of the order of 45%. During the final quarter of the year, in contrast, the changes that had been made in economic policy resulted in a substantial slowdown in the rate of variation of the main monetary indicators. Thus, between October and December the monetary base grew by only 70%, while M₁ and M₂ expanded 92% and 110%, respectively.

These sharp fluctuations in the monetary variables were, in turn, a result of the trend in domestic credit seen during the year.

Despite the steady decrease observed up until August in the resources made available to the central government, the amount of net credit granted to the public sector expanded nearly 40% per month due to the steady increase in the funds made available to local governments and public enterprises. Credit to the private sector also rose at a rate of 40% per month during this period.

As from September, the amount of credit provided to almost all the subdivisions of the public sector decreased very considerably. The funds extended to the private sector, however, continued to grow rapidly.

As in previous years, the rapid rise in prices and the fact that interest rates were set by the administration at artificially low levels made saving in national currency unattractive.

During the first quarter, average real interest rates on deposits and loans fluctuated between -30% and -34% per month (see table 18).

The need to deal with mounting speculation and the "explosion" of the means of payment made it necessary for the authorities to modify the various instruments used to control the monetary variables. Beginning in March, the restrictions applying to interest rates on loans were relaxed, while interest rates on deposits remained at their set levels until July.

This measure made it possible for there to be a positive rate of return, although it was not very high, on the financing of commercial and production activities during the second quarter. Between July and September, however, bank loan rates became markedly negative once again. From October onwards, after the stabilization plan had been put into effect, the average real interest rate on loans was slightly over 5% per month (see table 18).

The rate of return on deposits was extremely negative during most of the year (see table 18). It was not until the fourth quarter that the yield on clients' deposits in the financial system became positive, thanks to the increase in real interest rates; nonetheless, the yield was still below 1% monthly (see table 18).

Because of the above and the increase in hyperinflation, the economic agents avoided maintaining their assets in deposits; the velocity of the circulation of money thus continued to rise until it was twice as rapid as it had been just three years earlier.

Minimum reserve requirements were modified several times during the year. Reserve requirements were lowered to 50% for demand deposits and were raised from around 60% at the beginning of the year to 100% by its end for time deposits in national currency.

In line with its policy of liberalizing the economy, the new government announced a monetary reform which included the creation of a new unit of account (the *potosí*) and confirmed that interest rates would be determined by the market.

In conjunction with the foregoing, minimum reserve requirements were modified once again and an automatic rediscounting system was established. Finally, the economic agents were authorized to conclude any sort of contract expressed in foreign currency provided it contained a constant-value clause.

b) *Central government income and expenditure*

As was also true in preceding years, many of the macroeconomic imbalances affecting the country stemmed from the behaviour of the public sector and from the difficulties encountered in obtaining parliamentary approval for an emergency tax reform.

Throughout most of 1985, the long-standing imbalance between current income and total expenditure grew even more pronounced. The deficit was financed with Central Bank issues and this, in turn, strengthened the other forms of inflationary pressures.

The imbalance between income and spending was exacerbated both by the decline in revenues resulting from the runaway rate of inflation and by the unavailability of certain expenditures. The time lag involved between a taxable transaction and the moment in which the tax was actually paid caused the Treasury's financial position to deteriorate as taxpayers paid much less in real terms.

Table 18
BOLIVIA: AVERAGE ANNUAL BANK INTEREST RATES"
(Percentages)

	1983	1984	1985		1985		
						III	IV
Loans							
Business and private activities							
Maximum effective nominal rate	60.3	127.6	470.9	16.9	38.6	36.7	11.2
Real rate	-57.3"	-83.5"	-86.7	-29.9	0.8	-16.4	5.4
Productive activities							
Maximum effective nominal rate	58.3	125.6	456.0	16.8	38.4	36.5	11.1
Real rate	-57.8"	-83.6"	-86.8 ^d	-30.0	0.6	-16.5	5.3
Deposits							
Deposits in savings banks							
Minimum nominal rate	38.6	87.6	418.5	10.9	21.6	20.6	5.9
Real rate		-86.4 ^a	-95.6 ^a	-34.4	-11.4	-26.1	0.4
Fixed-term deposits in national currency							
Minimum nominal rate	40.6	108.3	440.6	11.7	21.6	20.6	6.4
Real rate	-62.6"	-84.9"	-95.4 ^c	-34.0	-11.4	-26.1	0.8

Source: Central Bank of Bolivia.

"Average annual interest rates calculated on the basis of the number of months in the year during which each change in the rate was in effect. They include some treasury and university taxes. ^b Monthly capitalizable average rates. Real rates were deflated according to the monthly variations in the consumer price index. ^c Interest rates on loans were allowed to float from March onward; interest rates on deposits remained fixed until July, at which time the restrictions applying to them were lifted. The figures therefore correspond to the average rates. ^d Deflated according to the variation between annual averages of the consumer price index.

Table 19

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Billions of pesos				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985"
Current income	19	47	560	193 035	35.7	147.4	1091.5	34 370.5
Inland revenue	8	23	216	23 452	60.0	187.5	839.1	10 757.4
Customs revenue	4	6	123	22 702	33.3	50.0	1 950.0	18 356.9
Mining royalties	2	2	83	5 885	100.0	-	4 049.9	6 990.4
Petroleum royalties	4	5	79	127 811	100.0	25.0	1 480.0	161 686.0
Other income	1	11	59	13 185	-66.6	1 000.0	436.4	22 247.4
Total expenditure	131	357	8 234	2 028 751	423.9	172.5	2 206.4	24 538.7
Personal services	24	78	1 730	124 332	100.0	224.9	2 117.9	7 086.8
Non-personal services	3	5	101	14 542	200.0	66.6	1 919.9	14 298.0
Materials and supplies	3	11	175	14 816	-	266.6	1 490.9	8 366.3
Fixed and financial assets	2	5	110	8 201	-	150.0	2 099.9	7 355.5
Public debt	76	172	546	36 037	2 433.3	126.3	217.4	6 500.2
Transfers and contribution	6	31	4 481	14 408	100.0	416.6	14 354.8	221.5
Other expenditure	17	55	1 091	1 816 415	1 600.0	223.5	1 883.6	166 390
Deficit	112	310	7 674	1 835 716	918.2	176.3	2 375.5	23 821.2
Percentages								
Main ratios								
Deficit/total expenditure	85.5	86.8	93.2	94.8				
Deficit/gross domestic product	28.9	23.0	42.1	76.4				
Current income/gross domestic product	4.9	3.5	3.1	8.0				
Total expenditure/gross domestic product	33.8	26.5	45.2	84.4				

Source: Central Bank of Bolivia.

°Preliminary figures.

The deficit/product ratio continued to rise until it was over 75%. In 1984, this ratio had already doubled its 1983 value, and in 1983 it had more than trebled its 1981 level. Meanwhile, the deficit/total expenditure ratio, which had not gone below 85% in preceding years, reached nearly 95% (see table 19).

The items in the central government budget showed spectacular increases in nominal terms, but in real terms, the increases were much smaller.

Current income was equivalent to 8% of the gross domestic product: more than double the ratio recorded during the preceding biennium.

Although total current income expanded 190% in terms of constant values, the trends of each of its components were very different from one another. Receipts from domestic income tax declined for the fourth consecutive year (by 8%), thus dropping to just 12% of total government revenue, which was only one-third to one-fourth of the share they had represented between 1981 and 1984.

Real income from mining royalties also fell sharply (-40%): the share of total income that it represented therefore dropped to 3%, which was one-fifth of what it had represented the year before.

As a result of the paralyzation of International Tin Council operations and the decrease in the price of tin, mining companies requested that they be temporarily exempted from the payment of royalties; this exemption was approved until such time as the market situation stabilized.

Finally, oil royalties soared 1 260% in real terms, so that their share in total income trebled (rising to over 65%) and was four times as great as the level recorded (15%-20%) in the period

1981-1984. The main cause of this increase was the government's decision to peg the domestic sale price of gasoline to the equivalent of US\$ 0.30 per litre in Bolivian currency.

Through these and related measures, the government was able to put State enterprises on a more solid financial footing and to obtain a substantial amount of resources, which permitted it to undertake the stabilization plan that had been approved in late August. This was the reason why the oil royalties received by the central government during the final quarter amounted to 99% of its total income from this source for the entire year.

Despite the enormous increase in nominal expenditure, hyperinflation caused virtually all components of total expenditure to drop sharply in real terms (see tables 19 and 20).

On the basis of the year-end levels reached by the main items, one of the most significant features was the decrease in the proportion of expenditure represented by wage payments (6%), which was less than one-third of what it had been in earlier years. The largest disbursements made during the year were transfer payments, which alone accounted for over 90% of total outlays.

As also occurred in other spheres of economic activity, public finances went through two very distinct phases during the year. The greatest imbalances were concentrated in the period between January and September. On average, expenditure during this period was 17 times greater than income. This imbalance reached its most severe point in February, when the corresponding ratio reached nearly 35.

Due to the rise in the central government's income from October onward, the imbalance between outflows and inflows decreased during the last three months of the year to the point where the former were only 13 times the latter. The financial relief which this afforded would have been even greater if it had not been for the sharp reduction in mining royalties as from November.

A variety of measures were decreed between January and May with a view to increasing public-sector revenue. These included:

- i) The pegging of overdue tax payments to the consumer price index. Shortly thereafter, a monthly surcharge of 4.5% was applied to delinquent taxes;

Table 20

BOLIVIA: MOVEMENTS OF NATIONAL TREASURY FUNDS

	Millions of pesos of 1970				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Current income	1 146	755	651	1 894	-39.2	-34.1	-13.7	190.9
Inland revenue	482	369	251	230	-28.4	-23.3	-31.9	-8.3
Customs revenue	241	96	143	222	-40.3	-59.9	49.1	55.2
Mining royalties	120	32	97	58	-9.9	-73.2	201.7	-40.2
Petroleum royalties	241	80	92	1 254	-10.3	-66.6	14.8	1 263.0
Other income	60	176	69	129	-85.0	194.6	-61.0	86.9
Total expenditure	7 905	5 736	9 577	19 914	134.5	-27.4	66.9	107.9
Personal services	1 448	1 253	2 012	1 220	-10.5	-13.4	60.6	-39.6
Non-personal services	181	80	117	142	35.1	-55.6	46.8	21.4
Materials and supplies	181	176	203	145	-55.2	-2.4	15.7	-28.6
Fixed and financial assets	120	80	127	81	-55.1	-33.1	59.9	-36.2
Public debt	4 586	2 763	635	353	1 035.3	-39.7	-77.0	-44.4
Transfers and contributions	362	498	5 212	141	-10.4	35.6	946.6	-97.3
Other expenditure	1025	883	1 269	17 830	665.6	-13.8	43.7	1 305.0
Deficit	6 759	4 981	8 926	18 019	355.8	-26.3	79.2	101.8

Source: HCLAC, on the basis of official figures.

"preliminary figures.

- ii) The setting of a presumptive profit of 30% on the sale price of goods and services for purposes of the profits tax;
- iii) The creation of "tax units" as a means of making automatic adjustments for wage-earning taxpayers.

The effort to reduce public spending was mainly centred on wage policy; all units of the public sector were required to follow the overall guidelines laid down by the government and therefore had to abandon the independently-developed procedures which had become so widespread in the recent past.

Public enterprises' budgets were made subject to periodic review; these companies were permitted to raise the prices and charges for the goods or services they offered and to import directly what they needed for their normal operations.

As part of the economic reforms promoted by the new government from September onwards, the wages of all employees in government service were frozen until the end of the year and a policy of rationalizing State enterprises was undertaken. This involved the decentralization of the two largest enterprises: the State mining company COMIBOL and the State oil company YPFB.

In both cases, it was decided that the assets of the new companies would be provided by the parent company's contributions to each enterprise's geographical area of operations. The liabilities would be regarded as spending obligations of the parent company and would be paid, after their rescheduling, with the surpluses generated by the subsidiaries.

It was also decided that YPFB would adjust the domestic sale price of gasoline to the equivalent of US\$ 0.30 per litre twice a month, while the responsibility for marketing fuel was transferred to the private sector. It was also agreed that this company's income, in both foreign exchange and national currency, would be deposited directly into the Central Bank, which would then retain the corresponding taxes and royalties. The balance, in national currency, would be placed at the disposal of the parent company and its subsidiaries.

In addition, four State enterprises were reorganized. The national smelting company Empresa Nacional de Fundiciones - (ENAF), and the Karachipampa metallurgical complex were transferred to decentralized units of the Corporación Minera Boliviana (COMIBOL). The national automotive transport company (Empresa Nacional de Transporte Automotor) was decentralized at the municipal level. The national development corporation, Corporación Boliviana de Fomento (CBF), was transferred to the regional development corporations (Corporaciones Regionales de Desarrollo), except for CBF's shares in the national electricity company, Empresa Nacional de Electricidad (ENDE), which remained in the hands of the State. In all these cases, the companies' liabilities were assumed directly by the National Treasury and their assets were transferred to the new management units.

While the announced fiscal reform was awaited, two important tax provisions were approved. The first raised the level of rebates and modified the ceiling applied in calculating the basic deductions, adjusted the income tax schedules applying to individuals (fifth category) and created a new tax unit whose value was pegged to the prevailing minimum wage.

Along with the foregoing, a new form of taxation was established (the Empréstito Forzoso, or "mandatory loan") according to which persons holding real assets must pay the State a certain percentage of the value of their assets. In the case of real estate, the tax was fixed at 1% of the self-determined value of the property. Different rates were set for the other types of assets (rural properties, mining leases, the assets of private companies, recreational vehicles and pleasure craft). At the end of one year, the revenue obtained from this capital tax would be paid back at its updated value. In those cases where the State decided to expropriate assets, the amount of compensation to be paid would be determined on the basis of the owner's own appraisal of their worth. The resources obtained in this way would be used to finance the Social Emergency Fund, which was set up to absorb unemployed manpower.

BRAZIL

1. Recent economic trends: Introduction and summary

In 1985 the economy of Brazil expanded very vigorously and the gross domestic product increased by 8.3 %• This increase not only exceeded the average growth rate of 7 % per year recorded between 1945 and 1980, but also made it possible to recover the production and income levels lost between 1981 and 1983- The economic policy thus succeeded in consolidating the extraordinary adjustment of the country to the smaller volume of external resources available. However, it did not succeed in slowing the rise in the price index; on the contrary, the index soared from 190% to almost 225% (see table 1).

Unlike what had occurred the previous year, when the economic recovery was supported by the increase in exports, in 1985 the main dynamic factor was domestic demand, which rose more than 8%, as a result of both the sharp expansion of consumption brought on by the increase in real wages and the larger volume of investments. All branches of the industrial sector expanded significantly, with the overall average being over 8%. Commerce, transport and communications grew at similar rates. Agriculture obtained excellent results in wheat, coffee and cocoa, and the remaining crops maintained the unparalleled production levels reached in 1984. Moreover, the reactivation of domestic demand made it possible to create close to 2.1 million new jobs, so for the first time in recent years, employment exceeded the demand created by the annual increase in the labour force. The urban unemployment rate thus fell to 5.3%, the lowest figure so far recorded in the present decade (see figure 1).

The external sector of the economy did not show the same dynamism as in 1984, when, for the first time in 17 years, a positive balance on current account was recorded and the trade surplus almost trebled. In fact, the value of exports of goods and services and of imports fell by nearly 5%. The decline in external purchases, however, was exclusively due to the 20% decline in the value of fuel imports. On the other hand, spurred by the dynamism of production activities and by the increase in consumption, imports of capital goods increased by 15% and those of consumer goods rose by 13%. The poorer performance of exports did not, however, lead to greater pressure on the country's external liquidity since the trade surplus of US\$ 10.7 billion enabled Brazil to pay all of the interest on its external debt, while its amortization payments were rolled over by its creditors. The net inflow of external capital was minimal, however. Indeed, as the external debt was not renegotiated with foreign commercial banks and as the loans granted under the expanded agreement with the International Monetary Fund were suspended, the capital account of the balance of payments showed a net balance that was 90% less than in 1984 and was equivalent to no more than 5% of the balance recorded in 1981.

In 1985, economic policy was marked not only by a change of government, but also by an initial lack of clarity concerning the priority assigned to its principal objectives: greater economic growth, the renegotiation of the external debt, the restructuring and financing of the public sector, and controlling inflation. In fact, in the first economic team of the new government, differences of opinions arose over how to treat the issue of the adjustment of the public sector within the framework of the proposed anti-inflationary policy, as well as over the cost that this might entail in terms of the growth of the product. The team which replaced the first one in September, on the other hand, gave clear priority to maintaining the growth rate, co-ordinated policy actions with the aim of preventing inflationary pressures from worsening and decided on fiscal and monetary measures to control the public deficit.

2. Trends in economic activity

a) *Total supply and demand*

While the gross domestic product increased somewhat more than 8%, the volume of purchases abroad declined for the fifth consecutive year. As a result, the import coefficient barely exceeded 6%, which was equivalent to just slightly more than half of the coefficient recorded in 1980 (see table 2). This severe contraction reflected the magnitude of the adjustment made by the Brazilian economy during this decade. The dimension and cost of the adjustment process was also revealed in the

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
A. Basic economic indicators							
Gross domestic product at market prices (index: 1980 = 100)	92.7	100.0	98.0	99.5	96.9	101.6	109.9
Gross national income	93.9	100.0	95.6	95.3	92.7	97.7	105.6
Population (millions of inhabitants)	118.5	121.3	124.1	126.9	129.8	132.7	135.6
Per capita gross domestic product (index: 1980 = 100)	94.9	100.0	95.8	95.1	90.5	92.9	98.4
Growth rates							
B. Short-run economic indicators							
Gross domestic product	7.3	7.9	-1.9	1.5	-2.6	4.9	8.3
Per capita gross domestic product	4.9	5.4	-4.1	-0.8	-4.7	2.6	6.0
Gross national income	6.5	6.5	-4.4	-0.3	-2.7	5.5	8.1
Unemployment rate		6.3	7.9	6.3	6.7	7.1	5.3
Consumer prices ^c							
December to December		94.6	92.7	103.3	164.4	208.9	233.7
Variation between annual averages		94.6	98.6	100.4	133.2	188.8	223.5
Wages	57.7	92.5	117.1	112.6	117.7	199.6	248.1
Money	73.6	70.2	74.7	69.7	92.0	203.5	307.6
Current income of government	46.0	139.2	85.4	104.2	145.5	198.1	298.0
Current value of exports of goods and services	22.3	30.8	16.8	-13.9	7.5	22.7	-4.9
Current value of imports of goods and services	31.7	27.9	-2.1	-9.0	-21.1	-9.8	-4.4
Terms of trade (goods and services)	-7.8	-16.5	-13.8	-7.3	-4.1	10.1	-5.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-5 019	-5 935	-1 677	-2 795	4 079	11 367	10 740
Net payment of profits and interest	-5 461	-7 032	-10 273	-13 495	11 012	•11482	-11 540
Balance on current account	-10 482	-12 848	-11 760	-16 314	-6 842	43	-650
Balance on capital account	7 582	9 379	12 381	11 119	4 943	5 367	664
Variation in net international reserves	-2 860	-3 322	747	-4 157	-1 214	6 105	-14
Total external debt ^f			71 878	83 205	91 362	99 765	99 648

Source: ECLAC, on the basis of official data.

"Preliminary figures.

^Weighted average of the rates in the main metropolitan regions.

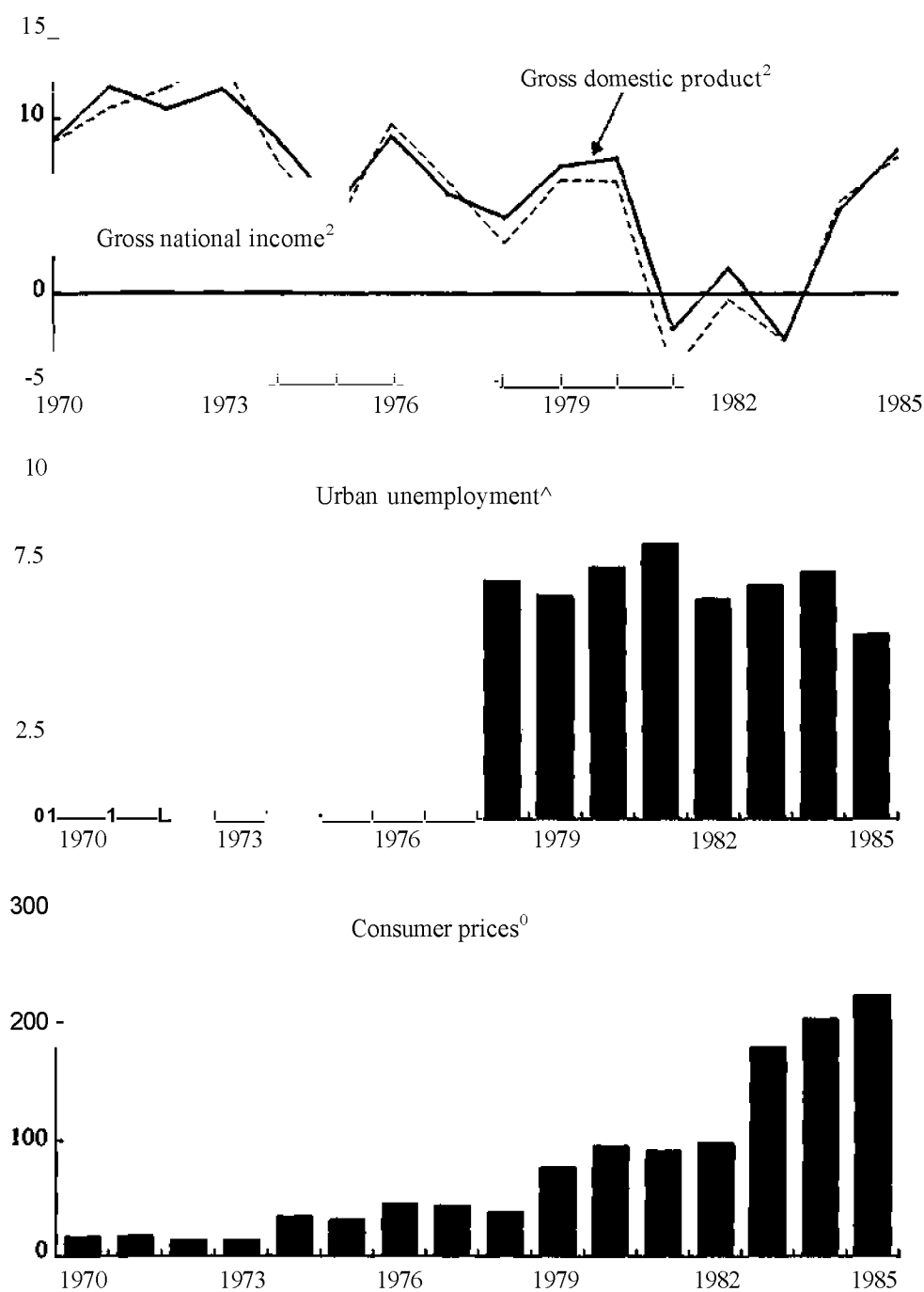
'Extended national consumer price

•indexes.

Average nominal wage in industry.

'Registered and unregistered.

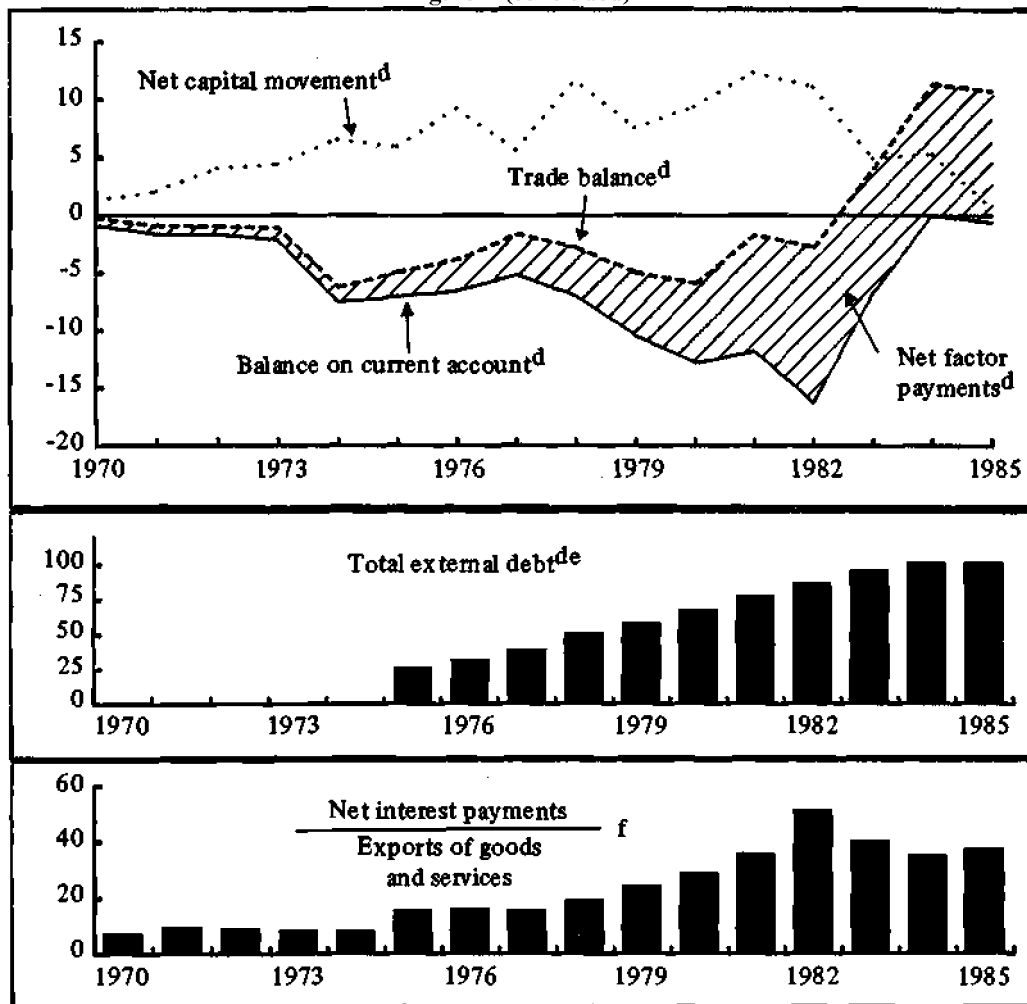
Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. [^]Average annual rates in the metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. ⁰Percentage variation from December to December. Up to 1979, this corresponds to the consumer price index for Rio de Janeiro; as from 1980, to the consumer price index for the whole country.

Figure 1 (concluded)

^aBillions of dollars.^cIncludes the total medium- and long-term debt plus the short-term debts with financial institutions reporting to the Bank for International Settlements. 1984 and 1985 on the basis of official data.^fPercentages.

increase in the export coefficient —from less than 9% in 1980 to close to 13% in 1985— and, above all, in the very considerable volume of the real transfer of resources abroad —which in 1985 equalled 6.5% of the gross domestic product (see table 2).

All the components of domestic demand showed significant increases. The increase in gross fixed investment was particularly sharp: it grew almost 12% as a result of the recovery in civil construction and the increase in the purchase of capital goods by the other sectors. However, the coefficient of gross fixed investment (16%) was still much lower than the 26.5% average reached during the 1970s. Consumption increased by 7.5%, due to the improvement in both employment and real wages.

b) *The main production sectors*

In 1985, the production of goods increased by almost 9%, thus exceeding the levels achieved in 1980 for the first time in the decade. This increase was the result not only of the sustained dynamism of mining production but also of the excellent performance of the crop-farming sector, the recovery

Table 2

BRAZIL: TOTAL SUPPLY AND DEMAND

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985 ^o	1980	1985 ^o	1982	1983	1984	1985 ^o
Total supply	93.3	97.2	104.5	111.1	106.1	0.4	-3.9	4.2	7.5
Gross domestic product at market prices	97.0	101.7	110.2	100.0	100.0	1.5	-2.6	4.9	8.3
Imports of goods and services	65.5	62.3	60.0	11.1	6.1	-9.7	-18.1	-4.8	-3.7
Total demand	93.3	97.2	104.5	111.1	106.1	0.4	-3.9	4.2	7.5
Domestic demand	90.5	92.8	100.4	102.4	93.5	1.4	-5.9	2.5	8.2
Gross domestic investment				22.5					
Gross fixed investment	69.3	72.5	81.0	21.8	16.0	-4.0	-18.0	4.7	11.7
Construction	81.6	82.7	92.0	12.5	10.4	0.2	-15.0	1.3	11.3
Machinery	52.6	58.8	66.1	9.3	5.6	-11.0	-23.7	11.7	12.5
Changes in stocks ¹				0.8					
Total consumption	96.3	98.4	105.7	79.8	77.4	2.7	-3.1	2.1	7.5
Exports of goods and services	131.2	154.6	158.3	8.8	12.6	-7.9	16.4	17.8	2.4

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

^oPreliminary figures. 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 1980 values using price indexes calculated by HCLAC for the purpose. ¹Changes in stocks are included in total consumption.

of construction and the increase in manufacturing output which, assisted by the favourable evolution of the domestic market, finally managed to regain the level it had achieved before the crisis (see table 3).

The growth of basic services was again more dynamic than the growth of the production of goods, while activity in the other services expanded by 7%. Among these, commerce increased by almost 9%, spurred by the rise in the population's purchasing power. The greater availability of indexed instruments, within a context of high and rising inflation, as well as the increase in the level of activity, enabled the product of the financial sector to expand by almost 7%.

i) *The agricultural sector.* Despite the only moderate performance of the livestock subsector, there was exceptional growth in agricultural production in 1985. In fact, its expansion of close to 9% doubled its past growth rate (see table 4). This result was obtained despite the fears harboured as a result of the radical change in crop-farming policy during the sowing season corresponding to the crop year 1984/1985.¹ In addition to the possible effects of those changes, other factors were the consequences of a still-depressed domestic market as well as the deterioration of external prices and the decreased use of some modern inputs of major importance in agriculture (as a result of which lower yields were expected).

Despite these fears, harvests in the 1984/1985 crop year were the best in a long time. To a large extent this result was due to the extremely favourable climatic conditions which prevailed in the central southern region. The new minimum pricing policy also had a favourable impact. It apparently offset the negative effects that were to be expected from the decline in the availability of loans for agriculture.

¹ These changes included a substantial ratio of the credit supply—which traditionally had been very abundant—and the institution of a relatively broad system of minimum price guarantees for a large number of products.

The wheat harvest (almost 120% higher than in the preceding crop year) was the largest ever obtained in the country. The coffee harvest approached 3.8 million tons, which was 40% more than in 1984 and very satisfactory in terms of past performance. The cotton, peanut, cocoa, soya and orange harvests also recorded significant increases and unprecedented levels. For its part, the sugar-cane harvest increased considerably for the fifth consecutive year and bordered on 250 million tons. Furthermore, productivity increases were achieved in all these crops, foremost among which were those obtained in the cultivation of grains, rice, soya, cocoa, coffee and castor-oil beans.

The crops linked to the external market once again performed better than those geared primarily to the domestic market, so the pattern of performance observed in recent years was further consolidated. Accordingly, the area cultivated with exportable products expanded by 6.6%, which far exceeded the increase in the area devoted to the production of industrial crops (2.1%) and basic foods (2.6%). If wheat, whose performance was exceptional, is excluded from the comparison, however, the land area used for basic food crops shows a decline of 4%. Consequently, the downward trend, which had begun in 1980, in the domestic supply of foods for human consumption continued in 1985.

ii) *Mining.* After showing extraordinary growth in the previous two years, mining production increased by 11.5% in 1985. This expansion was once again influenced by the considerable increase in petroleum production—which rose by 18%, after having doubled during the three preceding years—and by the growth in natural gas production—which increased by 12%, thus more than doubling the level recorded four years earlier (see table 5). This highly satisfactory performance was due basically to offshore production, which accounted for around 60% of Brazil's petroleum and natural gas output.

Table 3

BRAZIL: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY"

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985*	1982	1983	1984	1985*
Gross domestic product	97.0	101.7	110.2	100.0	100.0	1.5	-2.6	4.9	8.3
Goods	92.9	98.0	106.7	47.3	45.8	-0.5	-4.2	5.5	8.8
Agriculture	106.2	110.9	120.7	13.1	14.3	-2.4	2.3	4.4	8.8
Mining	122.5	156.0	173.9	0.7	1.1	6.7	14.5	27.3	11.5
Manufacturing	88.0	93.3	101.1	28.7	26.4	0.2	-6.2	6.0	8.4
Construction	81.7	83.2	92.6	4.8	4.0	0.2	-14.9	1.9	11.3
Basic services	109.0	117.8	128.8	6.6	7.7	5.8	2.0	8.1	9.3
Electricity, gas and water	118.6	133.2	146.8	1.6	2.1	6.4	7.8	12.3	10.2
Transport, storage and communications	106.0	113.0	123.2	5.0	5.6	5.6	0.1	6.6	9.0
Other services	101.1	104.3	111.6	51.1	51.8	1.7	-1.3	3.2	7.0
Commerce, restaurants and hotels	94.8	98.2	106.8	20.0	19.4	1.0	-3.5	3.6	8.7
Financial institutions, insurance, real estate and business services	111.7	114.6	122.3	15.3	16.9	3.7	1.8	2.6	6.7
Ownership of dwellings	107.2	108.9		8.4		3.0	0.1	1.6	
Community, social and personal services	98.7	102.1		15.9		0.4	-1.8	3.5	
Government services	102.8	105.6	109.0	6.2	6.1	2.6	0.1	2.7	3.2
Adjustment for banking services	122.4	113.6		-5.0	-5.3	-7.2	1.3	-1.2	

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

"At constant 1980 market price.

"Preliminary figures.

Table 4

BRAZIL: INDICATORS OF AGRICULTURAL PRODUCTION

	1982	1983	1984	1985"	Growth rates				
					1981	1982	1983	1984	1985°
Index of the agricultural product (1970 = 100)	177.9	181.8	189.9	206.6	6.8	-2.5	2.2	4.3	8.8
Production of main crops (thousands of tons)									
For export									
Coffee beans	1 854	3 331	2 679	3 753	91.5	-54.4	79.7	-18.8	40.1
Soya	12 835	14 582	15 536	18 278	-1.0	-14.5	13.6	6.5	17.7
Oranges	57 939	58 661	64 613	70 996	4.6	1.7	12	14.0	9.9
Sugar cane	186 392	216 534	222 716	245 904	4.9	19.5	16.2	11.5	10.4
Cocoa	364	380	345	419	5.3	8.3	4.6	-8.9	21.5
Tobacco	422	395	415	411	-1.9	15.6	-6.2	5.1	-1.0
Cotton	1935	1 599	2 158	2 836	3.5	11.7	-17.1	35.1	31.4
Peanuts	317	284	247	339	-26.5	-10.7	-10.4	-13.7	37.3
Castor beans	192	172	225	416	3.9	-34.2	-10.8	30.8	84.9
For domestic consumption									
Rice	9 716	7 741	9 022	9 019	-15.8	18.1	-20.3	16.6	-
Beans	2 906	1 587	2 614	2 547	18.9	24.1	-45.4	65.2	-2.6
Maize	21 865	18 744	21 174	22 017	3.6	3.5	-14.4	13.0	4.0
Cassava	24 009	21 568	21 289	23 073	5.7	-3.2	-10.2	-1.4	8.4
Potatoes	2 148	1 818	2 172	1989	-1.5	12.3	-15.3	21.6	-8.4
Tomatoes	1 737	1 552	1 820	1932	-5.4	19.6	-10.7	15.4	6.2
Wheat	1 849	2 236	1 956	4,247	-18.2	-16.3	20.9	-18.2	117.1
Selected livestock production (thousands of tons)									
Beef	2 393	2 441	2 096	2 136	1.2	12.9	2.0	-10.3	1.9
Pork	622	654	559	558	1.1	-12.0	5.1	-12.2	-
Poultry meat	1 170	1 218	1 372	1 500	13.9	12.4	4.1	-7.7	9.3
Milk	10 366	10 729	8 010	7 865	8.3	-3.8	3.5	-25.3	-1.8

Source: IBGE, *Levantamento sistemático de produção agrícola*.

"Preliminary figures.

The extraction of iron ore increased by almost 9%, thus consolidating the recovery seen the previous year. This was a consequence of the larger volume exported and the increase in iron and steel production, which amounted to 20 million tons of steel ingots.

iii) *Manufacturing*. After a partial recovery in 1984 from its sharp contraction during the period 1981-1983, manufacturing production increased by 8% in 1985. In contrast to what had occurred the previous year, the dynamism of the sector was principally sustained by the increase in domestic demand rather than an expansion of exports. Furthermore, although the rate of growth varied, it took place in all branches of the industrial sector rather than only some, as had occurred in 1984 (see table 6).

During the first quarter, industrial expansion continued to stem primarily from the push of external demand. Beginning in April, industrial growth rates slowed considerably because of the loss

of dynamism in external demand and widespread domestic strikes.² The production of capital goods and consumer durables and, in particular, the output of the automobile industry were the most affected. However, during the second half of the year industrial output once again expanded at a considerable rate due to the recovery of domestic demand, which began to be the main driving force of growth. This was primarily manifested in more purchases of durable consumer goods and in a strong demand for capital goods as investment in various sectors was resumed. In fact, during the second half of the year, the output of consumer durables grew by 26% and output of capital goods by more than 15% compared with the same period of the preceding year. The production of intermediate goods increased by almost 5% during the year, thereby creating a picture of generalized growth in all branches of the industrial sector (see tables 6, 7 and 8).

However, because of the low levels of investment in the manufacturing sector in recent years and the marked upswing in the growth of production during the biennium 1984-1985, installed capacity in various branches of industry was on the verge of being used up by the end of 1985.

iv) *Energy*. The final consumption of commercial energy increased by 6.5 % in 1985, which was a slightly lower rate than the one recorded the previous year. The consumption of petroleum products rose for the first time in five years due to a 5 % increase in diesel-oil consumption. On the other hand, gasoline continued to decline in importance as a source of energy because of the deliberate efforts made to substitute other products for it; this also explains the considerable and sustained growth of alcohol fuel consumption (see table 9).

Electricity consumption increased by around 10%, which was similar to the average rate recorded for the two previous years and was further evidence of the energy substitution process. Electricity provided 46% of the energy consumed by the country in 1985, compared with somewhat less than 41 % in 1982 and with only 16% in 1973. Industrial consumption of electricity increased by 14%, mainly because the rates were subsidized, and this provided an incentive to use electricity instead of fuel oil. Residential and commercial consumption, on the other hand, increased by only 5 %, which was much less than in the past, due to the increase in the rates charged.

Table 5

BRAZIL: INDICATORS OF MINING PRODUCTION

	1981	1982	1983	1984	1985 ^a	Growth rates				
						1981	1982	1983	1984	1985 ^a
Index of mining production (1970= 100)	187.7	200.2	229.2	291.7	325.2	0.2	6.7	14.5	27.3	11.5
Production of some important minerals (thousands of tons)										
Petroleum	12.4	15.1	19.1	26.8	31.7	17.3	21.8	26.9	40.2	18.3
Natural gas ^c	2.5	3.0	4.0	4.9	5.5	13.1	21.3	32.5	22.2	12.2
Coal	17.4	19.2	21.4	22.8	24.6	8.8	10.0	11.7	6.5	7.7
Iron ore	99.5	93.9	89.2	113.0	123.0	-13.2	-5.6	-5.0	26.7	8.8
Bauxite	4.7	4.2	5.0			-0.7	-9.9	19.0		
Nickel	0.5	0.9	1.2			-1.5	80.6	36.3		
Manganese	3.0	2.9	2.8	2.7	2.4	12.5	-5.3	-2.9	-5.0	-11.1

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

^aPreliminary figures. ^bMillions of cubic metres. ^c Billions of cubic metres.

^aThe industrial growth rate in the second half of 1985 was one-fourth of that recorded in the first quarter.

Table 6

BRAZIL: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes" (1981 = 100)				Growth rates			
	1982	1983	1984	1985	1982	1983	1984	1985
Manufacturing production	99.7	93.8	99.4	107.4	-0.3	-6.3	6.0	8.0
Categories of goods								
Capital goods	86.8	69.9	78.9	87.9	-13.2	-19.8	12.8	11.4
Intermediate goods	102.5	99.6	109.4	117.3	2.5	-2.8	9.8	4.7
Consumer durables	107.7	104.1	99.5	114.8	7.7	-3.3	-4.4	15.4
Consumer non-durables	102.0	96.9	98.0	105.5	2.0	-5.1	12	7.7
Industry								
Foodstuffs	101.1	105.3	104.4	103.5	1.1	4.2	-0.9	0.9
Beverages	99.6	90.0	90.1	104.0	-3.4	-6.8	0.1	15.4
Tobacco	101.9	99.0	996	108.2	1.9	-2.9	0.6	8.6
Textiles	104.6	94.4	91.3	102.9	4.6	-9.3	-3.2	12.7
Clothing	103.6	92.9	95.8	99.1	3.6	-10.3	3.1	3.4
Paper and paperboard	107.2	110.3	117.4	123.4	7.2	2.9	6.4	5.1
Petroleum products	102.8	98.6	105.7	106.1	2.8	-4.1	7.3	0.4
Other chemicals	112.5	104.9	115.0	127.6	12.5	-6.8	9.6	11.0
Pharmaceuticals	100.2	94.6	102.9	107.8	0.2	-5.6	8.8	4.8
Perfumery, soaps and candles	103.3	102.3	101.5	114.0	3.3	-1.0	-0.7	12.3
Rubber	93.4	93.7	105.5	113.2	-6.6	0.4	12.6	7.3
Plastic articles	109.2	97.3	98.5	109.8	9.2	-10.9	1.3	11.5
Non-metallic minerals	97.5	82.0	82.5	87.7	-2.5	-15.9	0.6	6.3
Metallurgy	97.9	96.6	109.4	117.4	-2.1	-1.3	13.3	7.3
Machinery	84.4	76.0	87.1	92.0	-15.6	-9.9	14.5	5.6
Electrical equipment	101.7	89.2	92.3	111.8	1.7	-15.3	3.5	21.1
Transport equipment	95.8	87.3	94.7	108.1	-4.2	-8.9	8.4	14.1
Other indicators of manufacturing production								
Industrial consumption of electricity*	63.9	68.0	80.3	91.1	4.6	6.4	18.2	13.5
Employment	95.1	88.1	85.9	87.0	-6.7	-6.8	-2.2	1.3

Source: Brazilian Geographical and Statistical Institute (IBGE).

*The indexes were calculated on the basis of figures at constant 1978 prices.
"indexes: 1976 = 100.

"includes mining.

*Billions of kWh consumed by the

In 1985, the first nuclear plant in Brazil, Angra I, began operation. The plant, which took 12 years to build and which required an investment on the order of US\$ 1.8 billion, has a generating capacity of 626 000 kilowatts.

The Brazilian petroleum company (PETROBRAS) increased its production of crude by 18%. The proven reserves of the country exceeded 2.1 billion barrels, a figure which was some 70 million higher than that of the previous year.³

c) *Employment and unemployment*

The evolution of employment was favourable in 1985. For the first time in recent years, the economic sectors created enough jobs to meet the increase in the economically active population and

³Proven reserves are expected to double in the near future because of the discovery of large quantities of petroleum in deep-water areas of the Bahia de Campos in the State of Rio de Janeiro.

to absorb part of the labour force which had become unemployed during the recession. As a result of this, the unemployment rate in the major urban centres showed a substantial decline, falling to its lowest level (5.3%) in the entire decade and to 25 % less than in 1984. Furthermore, during the course of the year the unemployment rate showed a clearly downward trend and in the last quarter it fell to 3.8%, which was the lowest figure ever recorded in the country (see table 10).

Table 7

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Motor vehicles	780	860	896	865	967	-33.1	10.1	4.3	-0.1	18.5
Automobiles	406	475	576	538	759	-32.4	16.9	21.3	-6.8	40.5
Light trucks and utility vehicles	285	328	278	272	134	-36.6	15.9	-15.1	2.2	-28.7
Trucks	76	47	36	49	65	-25.5	-38.2	-24.0	36.1	32.7
Buses	13	10	6	7	8	-7.4	-26.2	-36.9	16.7	14.3
Vehicles fueled by alcohol"	132	238	592	561	642	-48.2	80.6	149.1	-5.1	18.7
Exports of vehicles	213	173	169	196	208	35.4	-18.5	-2.7	16.4	5.8

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

"Included in the total number of vehicles. Includes exports of CKD vehicles.

Table 8

BRAZIL: PRODUCTION OF METALS

	Thousands of tons					Growth rates				
	1982	1983	1984	1985"	1981	1982	1983	1984	1985"	
Iron and steel										
Pig iron	11 054	13 200	17 464	19 245	-15.0	0.3	19.4	32.3	10.2	
Steel ingots	12 996	14 671	18 385	20 450	-13.7	-1.8	12.9	25.3	11.2	
Rolled products										
Flats	6 150	7 251	7 924	8 239	-19.0	5.3	16.9	9.3	4.0	
Non-flats	4 668	4 581	5 725	6 264	-13.8	-9.9	-1.1	25.0	9.4	
Steel alloy	580	578	666	743	3.4	-1.4	-0.3	15.2	11.6	
Non-ferrous metals										
Aluminium	345	443	504	595	-6.6	17.7	28.4	13.8	18.1	
Copper	62	103	97	143	-28.6	37.4	66.6	-5.8	47.4	
Tin	9	13	19	25	-11.4	19.2	36.1	46.2	31.6	
Nickel	5	11	13	13	-8.0	108.7	123.2	18.2	-	
Lead	48	49	72	82	-22.6	-26.7	1.6	46.9	13.9	
Zinc	110	111	114	121	15.5	-0.9	0.5	2.7	6.1	

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

"Preliminary figures. Primary and secondary metals.

Table 9

BRAZIL: FINAL COMMERCIAL ENERGY CONSUMPTION"

	Millions of TPE ⁴				Percentage breakdown		Growth rates			
	1982	1983	1984	1985 ^c	1973	1985	1982	1983	1984	1985 ^c
Electricity	38.1	41.6	46.2	50.9	30.1	46.0	5.9	9.2	11.2	10.2
Coal and gas	6.2	7.4	8.8	9.3	3.6	8.4	21.1	20.1	19.2	6.4
Charcoal	3.6	4.0	5.2	5.3	3.7	4.8	9.2	11.2	30.8	2.8
Fuel oil	11.3	9.5	8.5	8.3	19.6	7.5	-12.1	-16.0	-9.6	-2.4
Diesel oil	15.5	15.2	15.4	16.2	15.0	14.6	3.0	-2.1	1.7	5.0
Gasoline	7.9	6.7	6.0	5.7	19.6	5.2	-4.7	-14.5	-11.4	-3.8
Liquified gas	3.5	3.7	3.7	3.7	3.3	3.4	11.3	4.0	0.5	1.0
Other petroleum products	5.2	5.8	6.1	6.0	4.6	5.4	10.9	11.5	3.8	-1.2
Fuel alcohol	2.6	3.6	4.3	5.3	0.4	4.8	49.3	39.3	19.6	23.7
Total	93.8	97.4	104.1	110.9	100.0	100.0	4.1	3.8	6.9	6.5
Petroleum products	43.4	40.9	39.7	40.0	62.2	36.1	-1.4	-5.8	-2.9	-0.8
Alcohol and gasoline	10.4	10.3	10.2	11.0	20.1	9.9	4.5	-1.3	-0.7	7.7

Source: 1973-1984: Ministry of Mines and Energy, *Balanço energético nacional*, 1984 and 1985; 1985: Estimates prepared by ECLAC on the basis of figures provided by ELETROBRAS, the Ministry of Industry and Commerce and the National Petroleum Council.

"Excluding firewood and sugar-cane bagasse. Tons of petroleum equivalent. Preliminary figures. "Approximately 92% of electricity is produced by hydroelectric power and 8% by thermal energy. Electricity consumption in MWh has been converted to TPE by applying the coefficient 0.29 TPE/MWh, which reflects petroleum consumption at the country's petroleum-fueled thermoelectric plants. Includes kerosene, naphthas and other energy products.

Table 10

BRAZIL: UNEMPLOYMENT RATES IN MAIN URBAN CENTRES

Major cities	1980	1981	1982	1983	1984	1985	1984				1985			
							I	II	III	IV	I	II	III	IV
Rio de Janeiro	7.5	8.6	6.6	6.2	6.8	4.9	6.9	7.4	6.7	6.0	6.0	5.4	4.5	3.6
São Paulo	5.6	7.7	6.0	6.8	6.8	5.0	7.8	7.5	6.7	5.1	6.1	5.7	4.8	3.5
Belo Horizonte	7.6	9.0	7.0	7.8	8.3	5.7	8.9	9.1	8.0	7.1	7.5	6.2	5.2	4.1
Porto Alegre	4.6	5.8	5.2	6.7	6.9	5.4	7.6	7.9	6.9	5.3	5.8	6.2	5.6	3.9
Salvador	7.3	9.0	6.3	5.6	7.7	6.0	7.9	8.1	8.3	6.7	6.8	6.0	6.3	4.9
Recife	6.8	8.6	7.5	8.0	9.0	7.2	8.9	9.6	9.9	7.5	7.8	8.4	7.3	5.3
Average for urban centres"	6.3	7.9	6.3	6.7	7.1	5.3	7.7	7.9	7.1	5.8	6.3	5.9	5.1	3.8

Source: Brazilian Geographical and statistical Institute (IBGE), *Monthly employment survey*.

"Weighted according to the economically active population of each city.

The improvement in the employment situation was also reflected in urban employment in the formal sector, where 2.1 million new jobs were created, which was substantially more than the increase in the labour force (close to 1.7 million). In industry, commerce and services, employment rose at a rate above 5% (see table 11). In industry, the increases observed in the branches of machinery, rubber, tobacco, textiles and transport equipment were noteworthy. Nevertheless, indicators of the number of people directly employed in industrial production showed an average

growth of only 1.3% (see table 12). This was due to the adjustment made by this sector to increase manpower productivity.⁴

The increase in employment occurred throughout the entire country, although it tended to be concentrated in the south-eastern region (which provided 66% of the new jobs). Of the metropolitan areas of the country, Belo Horizonte and São Paulo showed the most significant growth.

Table 11
BRAZIL: INDEX OF URBAN UNEMPLOYMENT IN DECEMBER 1985
(December 1984 = 100)

Regions and metro- politan areas	Sectors of economic activity					
	Agriculture ^a	Industry	Construction	Commerce	Services	Total ^c
Brazil	98.7	107.0	103.8	106.0	105.1	104.8
North	104.5	111.0	85.3	107.3	106.4	103.9
North-east	103.5	105.5	107.8	106.6	105.6	104.5
South-east	97.1	107.5	105.5	106.8	105.0	105.3
South	99.1	105.6	99.1	103.7	104.5	103.9
Central/West	103.0	107.2	106.0	105.6	106.1	104.6
Metropolitan areas	97.4	107.1	102.9	106.2	105.0	104.7
Belem	99.0	101.1	96.2	107.2	106.0	103.0
Fortaleza	110.2	107.3	119.7	107.1	105.2	105.2
Recife	98.9	108.8	99.1	106.9	106.9	104.9
Salvador	105.7	101.1	97.4	105.2	105.1	102.5
Belo Horizonte	101.2	110.4	115.6	107.0	107.5	106.8
Rio de Janeiro	80.6	104.8	98.0	104.3	103.0	102.7
São Paulo	101.4	108.5	105.6	107.6	105.7	106.1
Curitiba	95.6	110.3	103.3	105.8	104.0	105.5
Porto Alegre	96.2	102.4	84.1	105.1	104.3	102.4

Source: *Cadastro geral de empregados e desempregados* - Law 4.923, Ministry of Labour.

^aIncludes other primary activities.

^bProcessing industries.

^cThe total also includes the sectors of mining, public services and government service.

Table 12
BRAZIL: PERSONNEL EMPLOYED IN PRODUCTION
IN THE MANUFACTURING SECTOR
(Base: 1976 = 100)

Quarter	1980	1981	1982	1983	1984	1985
I	108.4	108.7	95.1	90.2	85.2	86.2
II	110.7	104.4	96.3	89.1	86.0	86.5
III	111.0	98.7	95.2	86.6	85.6	86.4
IV	109.7	95.9	93.2	85.0	86.4	88.9
Average	110.0	101.9	94.9	87.7	85.9	87.0

Source: Brazilian Geographical and Statistical Institute (IBGE), *Indicadores conjunturais da indústria*, (several issues).

¹ Nevertheless, during the second half of the year, the number of persons employed in industrial production increased steadily, so that at the end of the year, the level was 3.4% higher than that of December 1984.

Table 13

BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980	1981	1982	1983	1984	1985"
Growth rates								
Exports of goods								
Value	4.6	22.2	32.1	15.6	-13.3	8.6	23.5	-5.2
Volume	10.5	9.8	21.0	23.1	-6.7	16.8	18.1	1.4
Unit value	-5.3	11.3	9.2	-6.1	-7.1	-7.0	4.6	-6.5
Imports of goods								
Value	13.4	31.8	27.8	-3.8	-12.2	-20.4	-9.7	-5.5
Volume	3.9	7.9	-4.3	-13.2	-11.5	-15.8	-2.3	-3.5
Unit value	9.2	22.1	33.6	10.8	-0.8	-5.5	-7.6	-2.0
Terms of trade (goods)	-13.1	-8.7	-17.8	-15.3	-6.5	-1.7	12.6	-4.7
Indexes (1980 = 100)								
Terms of trade of goods	133.2	121.6	100.0	84.7	79.2	77.8	87.6	83.5
Purchasing power of exports of goods	100.3	100.6	100.0	104.3	91.0	104.4	138.8	134.1
Purchasing power of exports of goods and services	97.5	99.2	100.0	105.6	90.2	100.6	130.4	125.0

Source: ECLAC, on the basis of official data.

"Preliminary figures.

3. The external sector**a) General trends**

As in the preceding year, in 1985, Brazil had a large enough surplus to finance all its interest payments on the external debt. The trade surplus of goods and services was, however, 5 % lower than in 1984. This decline was due basically to the reduction in the value of merchandise trade caused by a decrease of around 5% in both exports and imports. The trend in merchandise trade thus contrasted with that of 1984, when the value of exports grew by 23%, while the value of imports fell by almost 10% (see table 13).

The relative stability of the trade surplus permitted a level of liquidity compatible with the fulfilment of the country's external obligations despite the fact that in 1985 Brazil received no additional resources from private international banks or from the International Monetary Fund. The agreement signed in 1984 with the banks remained in force; this agreement provided for the maintenance of inter-bank deposits and commercial lines of credit and for the automatic roll-over of the amortization payments falling due. Brazil received no additional loans from the IMF because it had failed to meet the targets set at the end of the previous year and because the new government had been unwilling to agree on 1985 targets with the Fund.

Despite the fact that current transactions showed a deficit of US\$ 650 million (which was the reverse of the result obtained the previous year) and that net capital inflow was the lowest since 1970 and equalled only 12% of the inflow received in 1984, the balance of payments ended in a position of equilibrium and international reserves were kept above US\$ 11 billion (see table 14).

The exchange rate policy underwent major changes during the year with the implementation of successive indexation scales. During the first quarter, the cruzeiro was subject to progressive mini-devaluations which were equivalent to the monthly variation in the general price index of domestic supply calculated by the Getulio Vargas Foundation. Starting in May, the mini-devaluations became daily, pre-determined devaluations which were based on the geometric average of the monthly variation in the general price index during the three preceding months. In September, the system of daily devaluations of the cruzeiro based on the monthly rate of inflation was resumed, although for

Table 14
BRAZIL: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985"
Balance on current account	-12 848	-11 760	-16 314	-6 842	43	-650
Trade balance	-5 935	-1 677	-2 795	4 079	11 367	10 740
Exports of goods and services	21 857	25 523	21 967	23 619	28 986	27 579
Goods FOB	20 132	23 275	20 172	21 906	27 050	25 639
Real services	1 726	2 248	1 791	1 712	1 936	1 940
Transport and insurance	843	1 102	1 013	1 119	1 309	1 370
Travel	125	242	66	40	66	60
Imports of goods and services	27 792	27 200	24 762	19 540	17 619	16 839
Goods FOB	22 955	22 091	19 395	15 434	13 936	13 189
Real services	4 838	5 109	5 365	4 106	3 683	3 650
Transport and insurance	2 758	2 786	2 460	2 025	2 071	2 000
Travel	367	407	913	431	218	450
Factor services	-7 041	-10 274	-13 509	-11 025	-11 484	-11 540
Profits	-720	-1 112	-2 141	-1 453	-1 270	-1 140
Interest received	1 146	1 144	1 198	707	1 252	1 300
Interest paid	-7 456	-10 306	-12 550	-10 267	-11 463	-11 700
Others	-9	-1	-14	-13	-2	.
Unrequited private transfer payments	128	189	-11	106	161	150
Balance on capital account	9 379	12 381	11 119	4 943	5 367	664
Unrequited official transfer payments	42'	10	2	2	10	-
Long-term capital	7 104	11 659	8 011	1 850	6 381	3 048
Direct investment (net)	1 544	2 313	2 534	1 372	1 555	800
Portfolio investment (net)	354	-2	-1	-286	-272	-
Other long-term capital	5 206	9 348	5 478	764	5 097	7 248
Official sector'	-14	60	1 744	3 132	7 921	
Loans received	1 841	1 650	3 368	4 679	9 305	
Amortization payments	-1 366	-1 319	-1 286	-1 650	-1 532	
Commercial banks'	2 105	4 054	1 681	-1 520	-1 412	
Loans received	4 005	6 409	4 239	1 136	1 230	
Amortization payments	-1 917	-2 361	-2 559	-2 656	-2 639	
Other sectors'	3 115	5 234	2 053	-848	-1 411	
Loans received	6 085	9 633	6 675	2 527	2 076	
Amortization payments	-3 394	-3 761	-4 264	-3 358	-4 149	
Short-term capital (net)	2 572	1 132	3 476	3 682	-1 430	-1 648
Official sector	-31	-6	3 879	4 756	1 471	
Commercial banks	608	1 039	-136	-710	982	
Other sectors	1 996	99	-267	-364	-3 883	
Errors and omissions (net)	-343	-418	-369	-592	406	-736
Global balance	-3 469	621	-5 195	-1 899	5 410	14
Total variation in reserves (- sign indicates an increase)	3 322	-747	4 157	1 214	-6 105	
Monetary gold	-103	-130	824	-156	-336	
Special Drawing Rights	-1	-68	452	-	-1	
IMF reserve position	-103	80	-23	287	-	
Foreign exchange assets	3 301	-844	2 245	-714	-7 173	
Other assets	228	215	109	-297	-144	
Use made of IMF credit	-	-	550	2 094	1 549	

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.

"Preliminary figures. 'Real services also include other official and private transaction but not factor services. 'In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. 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.

Table 15

BRAZIL: EVOLUTION OF THE EXCHANGE RATE AND OF PRICES*(Base: 1980 = 100)*

Annual and quarterly averages	Exchange rate		Wholesale price index, manufactured goods		Real exchange rate
	Cruzeiros per dollar (1)	Index (2)	Brazil ⁰ (3)	United States (4)	(2)X(4)/(3) (5)
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
1985	6 200.63	11 763.7	10 919.4	117.9	127.0
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	114.9
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	5 183.6	5 067.2	117.7	120.3
1985					
I	3 762.8	7 138.7	7 064.0	117.4	118.6
II	5 232.1	9 926.2	8 949.9	118.2	131.1
III	6 797.7	12 896.4	11 494.9	117.8	132.2
IV	9 009.9	17 093.3	16 168.8	118.2	125.0

Source: International Monetary Fund (IMF), *International Financial Statistics*, February 1986 and Getulio Vargas Foundation, *Conjuntura*, February 1986.

⁰Corresponds to the wholesale price index, based on the global supply from processing industries.

the purpose of determining the exchange rate, the period considered became the one extending from the 15th of each month to the 15th of the following month. Finally, in December, the exchange rate was indexed to the movement of the extended national consumer price index.⁵

The result of these changes was that the real exchange rate for the dollar underwent abrupt changes, with a 10% increase between the first and second quarters and a drop of around 5% between the third and the fourth. Notwithstanding these fluctuations, the annual average of both the real exchange rate for the dollar and the effective exchange rate was slightly higher in 1985 than in 1984 (see tables 15 and 16).

The country's export promotion policy also underwent changes during the year, including the elimination of the "fiscal credit premium" for sales of manufactured goods in May. Subsequently, the monetary correction financing system was confined to paying a spread which initially was restricted to 10% but which was raised to 15% in July.

⁵This change was a result of the decision to use the extended consumer price index (IPCA) as the only indicator for readjustments in the economy (see section i).

b) *External trade*

i) *Exports of goods.* The 5% decline in the value of exports was mainly due to the lower prices of agricultural products and the protectionist measures taken by various industrialized countries against some manufactures. According to preliminary calculations, the unit value appeared to have fallen by 6.5%, while the volume of exports apparently increased by almost 1.5% (see table 13).

The value of commodity exports declined by 2.5%. Exports of all the main crop-farming products except soya beans declined as a result of the sharp deterioration in their average annual prices.⁶ However, because of the good harvests reaped in the 1984/1985 season, the exportable supply increased, thus compensating for the drop in prices.⁷ Mineral exports, however, did not experience any great fluctuations because Brazil has negotiated long-term contracts for this type of product (see table 17).

Table 16

BRAZIL: EVOLUTION OF THE INDEXES OF THE EFFECTIVE REAL EXCHANGE RATE"

(Base: 1980 = 100)

Annual and quarterly averages	Exports	Imports	
		(1)	(2)
1980	100.0	100.0	100.0
1981	83.1	88.8	86.5
1982	80.1	85.9	83.7
1983	95.0	99.8	100.8
1984	88.9	92.6	93.8
1985	89.7	93.7	95.2
1983			
I	92.8	98.0	97.3
II	101.5	105.8	107.3
III	94.4	99.3	100.8
IV	91.3	96.1	97.7
1984			
I	91.0	94.8	96.2
II	91.5	94.1	95.5
III	88.4	92.2	93.3
IV	84.5	89.2	90.1
1985			
I	82.5	88.1	88.9
II	92.2	97.2	98.7
III	93.0	96.6	98.3
IV	91.2	92.8	95.0

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

"Corresponds to the average of the real exchange rate indexes of the cruzeiro with respect to the currencies of Brazil's main trading partners, weighted in accordance with 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 for these same years. As from 1980, the weighting corresponds to the average for the period 1980-1983. Wholesale price indexes have been used in the calculations whenever possible. For the methodology and sources used, see the technical appendix in ECLAC, *Economic Survey of Latin America, 1981*. Excludes the following petroleum-exporting countries: Saudi Arabia, Iraq and Kuwait.

"Reductions in average prices compared with the previous year were 17% for coffee, 27% for unrefined sugar, 10% for cocoa, 25% for soya beans and 29% for soya cake.

"Increases in the exportable supply amounted to 60% for cocoa, 35% for soya beans and 15% for soya cake.

Table 17

BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total	20 175	21899	27 005	25 639	100.0	100.0	-13.4	8.5	23.3	-5.1
Commodities	8 238	8 535	8 755	8 533	42.2	33.3	-7.6	3.6	2.6	-2.5
Coffee beans	1 858	2 096	2 564	2 338	12.3	9.1	22.5	12.8	22.3	-8.8
Iron ore ^{fc}	1847	1438	1445	1412	7.8	5.5	5.7	-22.7	12	-2.3
Soya meal and cake	1 619	1793	1460	1 177	7.2	4.6	-24.2	10.7	-18.6	-19.4
Soya beans	123	309	454	764	2.0	3.0	-69.6	151.2	46.9	68.3
Unrefined sugar	259	323	326	166	3.1	0.6	-55.3	24.7	0.9	-49.1
Others	2 532	2 586	2 506	2 676	9.8	10.4	-0.2	2.1	-3.1	6.8
Industrial products	11 685	13 057	17 955	16 822	56.5	65.6	-16.5	11.7	37.5	-6.3
Semimanufactures	1433	1782	2 824	2 760	11.6	10.8	-32.3	24.4	58.5	-2.3
Manufactures	10 253	11 275	15 131	14 062	44.8	54.8	-13.7	10.0	34.2	-7.1
Processed coffee	256	252	292	269	1.4	1.0	4.9	-1.6	15.9	-7.9
Orange juice	575	608	1415	753	1.7	2.9	-12.7	5.7	132.7	-46.8
Footwear	524	713	1072	964	2.0	3.8	-10.6	36.1	50.4	-10.1
Transport equipment	1 719	1452	1 354	1688	7.5	6.6	-17.4	-15.5	-6.7	24.7
Machinery, boilers and mechanical apparatus	1 198	1 106	1396	1574	6.9	6.1	-22.7	-7.7	26.2	12.8
Electrical machinery and equipment	406	448	591	580	2.3	2.3	-27.6	10.3	31.9	-1.9
Manufactured iron and steel products	795	1249	1 548	1362	3.1	5.3	-0.7	57.1	23.9	-12.0
Others	4 780	5 447	7 463	6 872	19.9	26.8	-11.5	14.0	37.0	-7.9
Other products"	251	307	295	284	1.3	1.1	-32.7	22.3	-3.9	-3.7

Source: Banco do Brazil, Carteira de Comércio Exterior (CACEX) and Central Bank of Brazil.

"Preliminary figures.

"Excluding itabirite.

"Includes consumption on board ships and aircraft, re-exports and special transactions.

The decline in the value of manufactured exports was due not only to the fall in these prices, but also to the increasingly protectionist practices of the industrialized countries and to the recovery of the domestic market.⁸

Protectionist measures affected sales of iron and steel products, textiles and footwear in particular. Not until August was the country able to conclude negotiations with the Government of the United States concerning the establishment of export quotas for textile products. For much of the year, footwear sales on the United States market were threatened because of the recommendation by the International Trade Commission that five-year quotas should be established, but this was finally rejected by President Reagan. Furthermore, during the year, the United States and the European Economic Community set quotas on exports of Brazilian rolled steel.

In addition, the recovery of the domestic market limited Brazil's exports of chemicals, paper and pulp, and wood. These constraints were mainly due to the exhaustion of the country's production capacity for these items and the lack of large stocks because of the high financial cost involved in maintaining them.

The excellent performance of the production of transport equipment was reflected in the significant increase in these exports: 19% in the case of automobiles, 48% for cargo vehicles, and

⁸ Orange juice, whose exports fell by 47 % constituted a case apart because its drastic decline was mainly due to a drop in external demand.

113% for aircraft. The vigorous growth (16%) of automobile engine exports also boosted sales of machinery and appliances abroad.

ii) *Imports of goods*. The value of imports again fell (-5.5%), as it had each year since 1981, but with the difference that it was not an across-the-board decrease in terms of either value or physical quantity. Hence, whereas the imports of capital and consumer goods rose by 15% and 13% respectively, the value of fuel and lubricant imports declined by almost 20% because of the drop in both the quantity (-17%) and prices of petroleum imports. The result was that the share of these imports in total external purchases, which had reached an all-time record of almost 56% in 1983, declined to 41% in 1985 (see table 18).

The increase in imports of capital goods reflected the recovery in industrial investment, especially during the second half of the year. The purchases of machinery for the textile and electronics industries (digital logic and numerical control) were particularly noteworthy. Moreover, the greater external liquidity of the country permitted it to modernize its airlines through the purchase of new aircraft.

iii) *The pattern of foreign trade*. The increase in imports of capital goods and the restrictions imposed on the entry of some Brazilian manufactures into the United States' market produced substantial changes in the destinations of Brazil's foreign trade. Brazilian exports to the United States market declined by 12% while imports increased by 14%, thereby creating a very different picture from the one observed in 1984, when Brazilian sales to the United States soared 52% and purchases fell by 5%. Thus, although the United States continued to be Brazil's major trading partner in 1985, the surplus in Brazil's trade with that country was reduced by more than US\$ 1 billion. Brazil's surplus with the other industrialized nations also declined slightly, by around 3% (see tables 19 and 20).

This was partially offset by a reduction of US\$ 800 million in Brazil's deficit with the OPEC countries (excluding Venezuela and Ecuador). Factors contributing to this result were not only the drop in prices and in the amount of petroleum imported, but also the increase in Brazilian exports to Iraq (81%) and Nigeria (29%).

Trade with Latin America continued to decline. Imports from the ALADI countries fell by 25% and exports to them decreased by 21%. The People's Republic of China on the other hand, became an important trading partner: exports to that country increased by 80%, reaching US\$ 820 million, while imports approached US\$ 420 million.

In short, in 1985 the response of the economy to the challenge of generating a huge trade •surplus continued to be extraordinary. The maintenance of its export capacity and the decline in its

Table 18

BRAZIL: IMPORTS PF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total	19 395	15 429	13 916	13 150	100.0	100.0	-12.2	-20.4	-9.8	-5.5
Consumer goods	999	796	700	793	5.7	6.0	12	-20.3	-12.1	13.3
Intermediate goods	15 124	12 128	11 065	9 880	75.2	75.1	-11.5	-19.8	-8.8	-10.7
Fuels and lubricants	10 457	8 607	6 735	5 418	44.4	41.2	-7.8	-17.7	-21.7	-19.6
Others	4 667	3 521	4 330	4 462	30.8	33.9	-18.7	-24.6	23.0	3.0
Capital goods	3 272	2 505	2 151	2 477	19.1	18.8	-18.7	-23.4	-14.1	15.2

Source: Central Bank of Brazil.

"Preliminary figures.

Table 19

BRAZIL: EXPORTS OF GOODS, BY GROUPS
OF COUNTRIES OF DESTINATION

	Millions of dollars FOB				Percentage breakdown		Growth rates			
	1982	1983	1984	1985	1980	1985	1982	1983	1984	1985
Total	20 175	21 899	27 005	25 639	100.0	100.0	-13.4	8.5	23.3	-5.1
Industrialized market economy countries	12 316	14 100	17 591	16 404	60.1	64.0	-4.8	14.5	24.8	-6.7
United States, Canada, EEC and Japan	11 002	12 495	15 790	14 760	51.9	57.6	-4.8	13.6	26.4	-6.5
United States"	4 034	5 064	7 710	6 801	17.4	26.5	-1.9	25.5	52.2	-11.8
Canada	231	312	408	414	12	1.6	-20.3	34.9	30.8	1.6
EEC ⁶	5 443	5 688	6 157	6 152	27.2	24.0	-8.3	4.5	8.2	-0.1
Japan	1 294	1 431	1 515	1 394	6.1	5.4	6.1	10.6	5.9	-8.0
Others ⁰	1 313	1 604	1 801	1 644	8.2	6.4	-5.4	22.1	12.3	-8.7
Eastern Europe	1 191	1 442	1 359	992	6.5	3.9	-29.9	21.0	-5.7	-27.0
Developing countries	6 417	6 084	7 772	7 354	32.2	28.7	-22.6	-5.2	27.8	-5.4
OPEC	1 346	1 637	1 983	2 176	6.1	8.5	-31.4	21.7	21.1	9.7
Others	5 072	4 446	5 790	5 178	26.0	20.2	-19.9	-12.3	30.2	-10.6
ALADI ¹	2 862	2 055	2 829	2 234	17.2	8.7	-32.0	-28.2	37.7	-21.0
Argentina	666	657	853	548	5.4	2.1	-24.3	-1.4	298	-35.8
Chile	289	192	281	239	2.2	0.9	-54.9	-33.7	46.5	-15.0
Mexico	324	173	285	220	2.3	0.9	-49.6	-46.6	64.5	-22.8
Paraguay	324	234	333	299	2.0	1.2	-27.8	-28.0	42.4	-10.2
Uruguay	138	104	136	140	1.5	0.5	-63.1	-24.4	30.3	3.3
Andean Group	1 120	694	942	788	3.6	3.1	-8.4	-38.0	35.7	-16.3
Rest of the developing countries	2 210	2 392	2 961	2 944	8.9	11.5	4.0	8.2	23.8	-0.5
Supplies to ships and aircraft; undeclared exports	251	275	283	889	1.3	3.5	-29.5	9.5	3.1	213.8

Source: ECLAC, on the basis of data from Banco do Brasil, Carteira de Comércio Exterior (CACEX).

¹Includes Puerto Rico.²European Economic Community (10 countries).³South Africa, Australia, Austria, Spain, Finland, Iceland,

Malta, Norway, New Zealand, Portugal, Sweden, Switzerland, Turkey and Yugoslavia.

⁴includes socialist countries of⁵Asia. ⁶Organization of Petroleum Exporting Countries, except Venezuela and Ecuador.⁷Latin American Integration Association.

import coefficient were both notable achievements. The country succeeded in generating surpluses in its trade operations with virtually all regions of the world except for the petroleum-exporting countries with which, however, its deficit has been substantially reduced.

c) *The balance of payments*

Although the country obtained no additional external resources and its current transactions showed a deficit of US\$ 650 million, Brazil did not encounter great difficulties during the year in meeting its external obligations. The balance of payments closed with a small surplus of US\$ 14 million, so it was able to maintain reserves of over US\$ 11.5 billion, a level equivalent to more than 10 months of merchandise imports (see tables 14 and 21).

The capital account showed an inflow on the order of US\$ 660 million which was the lowest since 1970. External resources came only from official sources and direct investments and amounted to almost 50% less than in 1984.

This drop in the supply of resources was a result of the fact that a new agreement was not reached with international creditor banks during the year on the external debt and the fact that the country did not have access to International Monetary Fund drawing rights provided for in the extended agreement for the period 1983/1986.

However, in February, May and August, the international creditor banks and official agencies renewed the country's commercial lines of credit, inter-bank deposits (in the amount of US\$ 16 billion) and the mechanism for refinancing amortization payments.⁹

Early in the year, the government that was about to leave office, put forward a proposal to the banks for a multi-annual agreement to cover the period 1985/1991 which would provide for the roll-over of amortization payments, a reduction in the spread, the use of the LIBOR as a reference rate and

Table 20

BRAZIL: IMPORTS OF GOODS, BY GROUPS OF COUNTRIES OF ORIGIN

	Millions of dollars FOB				Percentage breakdown		Growth rates			
	1982	1983	1984	1985	1980	1985	1982	1983	1984	1985
Total	19 395	15 429	13 916	13 168	100.0	100.0	-12.2	-20.4	-9.8	-5.4
Industrialized market economy countries	7 507	5 934	5 552	5 908	46.3	44.9	-18.0	-21.0	-6.4	6.4
United States, Canada, EEC and Japan	6 635	5 326	5 086	5 434	41.4	41.3	-19.6	-19.7	-4.5	6.8
United States"	2 861	2 409	2 297	2 616	17.9	19.9	-18.3	-15.8	-4.7	13.9
Canada	453	493	510	398	3.5	3.0	-15.2	9.0	3.3	-21.9
EEC*	2 441	1 863	1 726	1 870	15.3	14.2	-18.0	-23.7	-7.3	8.3
Japan	881	561	553	550	4.6	4.2	-29.0	-36.3	-1.3	-0.6
Others'	872	608	466	474	4.9	3.6	-3.3	-30.3	-23.4	1.8
Eastern Europe	463	503	421	334	1.1	2.5	91.6	8.5	-16.4	-20.6
Developing countries	11 424	8 992	7 944	7 261	52.6	55.1	-10.0	-21.3	-11.7	-8.6
OPEP'	7 468	5 751	5 005	4 389	36.7	33.3	-13.1	-23.0	-13.0	-12.3
Others	3 956	3 975	2 939	2 871	15.9	21.8	-3.3	0.5	-26.1	-2.3
ALADI ⁷	3 287	2 204	2 141	1 614	11.7	12.3	5.1	-32.9	-2.9	-24.6
Argentina	550	358	511	469	3.3	3.6	-6.2	-34.9	42.7	-8.3
Mexico	789	709	630	387	1.9	2.9	0.7	-10.2	-11.1	-38.6
Venezuela	970	663	542	258	2.5	2.0	0.2	-31.6	-18.3	-52.4
Others	977	474	458	500	4.1	3.8	10.4	-51.5	-3.4	9.2
Rest of the developing countries	669	1 038	798	1 258	4.1	9.6	-29.0	55.1	-23.1	57.5

Source: ECLAC, on the basis of data from Banco do Brasil, Carteira de Comercio Exterior (CACEX).

"Includes Puerto Rico.

European Economic Community (10 countries).

'South Africa, Australia, Austria, Spain, Finland, Iceland,

Malta, Norway, New Zealand, Portugal, Sweden, Switzerland, Turkey and Yugoslavia.

Includes socialist countries of

Asia. 'Organization of Petroleum Exporting Countries, except Venezuela and Ecuador.

'Latin American Integration Association.

⁹This refinancing totalled US\$ 9 billion, one-ninth of which corresponded to loans from the Club of Paris

Table 21

BRAZIL: INTERNATIONAL RESERVES*(Balances in millions of dollars at the end of each year)*

	1982	1983	1984	1985"	Absolute variation		
					1983	1984	1985°
I. International liquidity	3 994	4 563	11 995	11 608	569	7 432	-387
Reserves, excluding gold°	3 928	4 355	11 503	10 863	427	7 153	-645
Special Drawing Rights							
IMF reserve position	287				-287		
Foreign exchange	3 641	4 355	11 508	10 863	714	7 153	-645
Gold, national valuation	65	207	488	745	142	281	257
II. Net reserves of monetary authority"							
A. Assets	3 250	3 757	11 033	10 631	507	7 276	-402
B. Liabilities	6 134	7 053	6 791	5 917	919	-262	-874
Short-term	5 590	4 408	2 606	1 309	-1 182	-1 803	-1 297
Use of IMF credit'	544	2 645	4 185	4 608	2 101	1 541	423
C. Net reserves (A-B)	2 884	-3 296	4 242	4 714	-412	7 538	472
D. Counterpart adjustments	-	-	-	458	-	504	458
E. Net adjusted reserves (C-D)'	-2 884	-3 296	4 242	4 256	-412	7 034	14

Source: Central Bank of Brazil, *Brazil, Programa Econômico. Ajustamento Interno e Externo*, Vol. 10, February 1985.

'Preliminary figures.

"Data published by the Central Bank of Brazil.

'Data published by the IMF.

°Method of calculation

employed to determine balance-of-payments performance in the framework of the corresponding goal agreed with the IMF.

'Re-purchase commitments.

Balance-of-payments result according to the methodology agreed with the IMF.

the absence of any obligation on the part of the international banks to channel new resources to Brazil. For its part, the country would agree to make full payment of the interest on its external debt and accept supervision of its economy by the IMF until the year 2000. This formula did not meet with success, however, since the new government refused to carry out an adjustment programme that was compatible with the guidelines laid down by the IMF.

Negotiations resumed in May. The new Brazilian proposal suggested the denouncement of the extended financing agreement and its replacement by stand-by credit arrangements amounting to some US\$ 12 billion. However, no agreement was reached on the targets for the economy especially as regards the public sector on that occasion either.

In September the government, which had appointed a new economic team, began talks with the creditor banks with the aim of achieving a direct agreement that would eliminate the need for signing a prior agreement with the Fund. The excellent results that the country was able to show in its trade balance and the implementation of major reforms in the public sector made it possible for an agreement to be reached between the parties. The agreement was formally signed in early 1986.

d) *The external debt*

In 1985, the total external debt showed a slight absolute decline (US\$ 117 million less) for the first time in two decades. The medium- and long-term debt increased by US\$ 1 billion, whereas the short-term debt was reduced for the third consecutive year; it thus amounted to US\$ 7.5 billion, which was equivalent to less than 60% of the debt recorded only three years previously (see table 22).

Notwithstanding this, the debt indicators showed a slight deterioration because of the decline in the value of exports of goods and services. Thus, the ratio between debt servicing and total exports, which between 1982 and 1984 had declined from 95% to 69%, mounted to almost 78%, while the ratio of debt servicing/disbursements rose from 120% in 1984 to almost 180% in 1985 and the debt/exports ratio reached 334%, which was lower only than that recorded in 1983 (see table 23).

Table 22

BRAZIL: EXTERNAL DEBT*(Millions of dollars at end of each year)*

	1979	1980	1981	1982	1983	1984	1985"
Total external debt, registered and unregistered		...	71 878	83 205	91 362	99 765	99 648

I. Medium- and long-term debt (registered)

Total	49 904	53 848	61 411	70 198	81 319	91 091	92 112
Compensatory loans	19	-	-	544	2 645	3 967	
United States Government	19	-	-	-	-	-	
International Monetary Fund	-	-	-	544	2 645	3 967	
Others	-	-	-	-	-	-	
Bonds	2 966	3 236	2 896	2 610	2 226	1 737	
International agencies	3 211	3 485	3 583	3 847	4 326	5 714	
World Bank	2 181	2 246	2 264	2 341	2 588	3 905	
Inter-American Development Bank	873	1047	1071	1 203	1 367	1 397	
International Finance Corporation	157	192	248	301	303	285	
Official bilateral agencies	3 219	3 485	3 894	4 160	4 855	6 603	
Agence for International Development (USAID)	1 077	1 050	1 019	989	967	895	
Programme loans	531	512	490	470	449	429	
Project loans	546	538	529	519	518	466	
Wheat*	300	514	568	889	1 212	1 375	
United States Export-Import Bank	929	931	955	934	981	789	
Export-Import Bank of Japan	399	489	508	477	502	384	
Kreditanstalt für Wiederaufbau (FRG)	511	498	624	613	722	644	
Others'	3	3	220	258	471	2 516	
Supplier credits	5 673	5 651	5 894	5 983	7 513	6 492	
Financial credits	34 625	37 820	44 984	52 918	59 626	66 467	
Resolution No. 63	7 724	9 924	13 456	16 146	15 115	13 630	
Law No. 4131	26 883	27 887	31 520	36 763	44 511	52 830	
Other credits	191	171	160	136	128	111	

II. Short-term debt (unregistered)

Total	10 467	13 007	10 313	8 674	7 536
Traditional operations		9 292	7 973	8 374	7 536
Commercial lines of credit		5 034	4 377	3 779	3 537
Brazilian commercial banks	...	4 306	7 596	4 595	3 999
Assets		2 099	1924	2 274	2 274
Liabilities		6 405	5 520	6 869	6 273
Special operations		3 715	2 340	300	-
Bridging loans		3 715	-	-	-
Arrears in debt payment	..		2 340	-	-
Club of Paris and other transaction	..		-	300	-

Source: Central Bank of Brazil, *Brazil, Programa Econômico. Ajustamento Interno e Externo*, Vol. 10, February 1986.

"Preliminary figures. "United States Law 480, loans from the Canadian Wheat Board and other credits for wheat.

* Most of this item

represents financing which, until 1980, was recorded under the heading "supplier credits".

Table 23

BRAZIL: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984	1985"
Millions of dollars							
Registered debt service	11788	14 145	17 802	20 765	20 066	20 123	21418
Amortization payments	6 527	6 689	7 496	8 215	10 403	8 888	9 718
Interest payments	5 261	7 456	10 306	12 550	10 263	11 235	11 700
Disbursements	11907	11419	17 424	14 207	14 518	16 799	11966
Percentages							
Registered external debt/exports of goods and services	298.7	246.4	240.6	319.6	344.4	324.1	334.0
Registered external debt service/exports of goods and services	70.6	64.7	69.8	94.5	87.5	69.4	77.7
Net interest/exports of goods and services	24.6	28.9	35.9	51.7	40.4	34.8	37.7
Registered debt service/disbursements	99.0	123.8	102.2	146.2	142.4	119.8	179.0

Source: ECLAC, using data from the International Monetary Fund and the Central Bank of Brazil.

"Preliminary figures.

Table 24

BRAZIL: PUBLIC EXTERNAL DEBT"

(Millions of dollars)

	1981	1982	1983	1984	1985*
Total	49601	53 894	69 139	79 386	79 563
Registered debt	40 575	45 502	58 975	70 569	72 018
Federal government	5 454	5 510	9 015	13 468	13 611
States and municipalities	2 680	3 058	3 213	3 787	3 961
Autonomous, public and semi-public enterprises	32441	36 934	46 747	53 314	54 446
Unregistered debt ^c	5 394	4 475	3 869	3 473	3 000
Registered deposits of the private sector in foreign currency	3 632	3 917	6 295	5 344	4 545

Source: Central Bank of Brazil, *Brazil. Programa Económico. Ajustamento Interno e Externo*, Vol. 10, February 1986.

"Excludes State Banks.

Preliminary figures.

^cCommercial lines of credit.

At the same time, the process of transferring responsibility for the external debt from the private sector to the State continued. Thus, the proportion of the total debt represented by the public external debt rose to 80% compared with 69% in 1981 (see table 24). The renegotiation of the debt and the procurement of new IMF loans increased the external debt of the federal government by 150% between 1981 and 1985. The private sector's deposits in foreign currency recorded in the Central Bank were another important mechanism for implementing this transfer.

4. Prices and wages

a) *Prices*

In 1985, inflation increased for the fourth consecutive year, verging on 240% in terms of the December-to-December variation in the general price index of domestic supply (IGP/DI) (see table 25).¹⁰

The absence of any sharp changes in crop produce supply or in imports during the first ten months of the year facilitated control of the pressures that would tend to speed up inflation. However, this situation changed beginning in November when the prices of crop produce were affected by the drought which hit the central-southern region.

Various anti-inflationary policies were implemented during the year. Although they affected the rate of price increases, they did not succeed in eliminating the inertial force of inflation, which stemmed from the widespread process of the indexation of the economy.

The third quarter saw the continuation of the policy of liberalizing and updating public rates and charges which had been started during the second half of 1984.¹¹ This policy led to an average monthly rate of inflation of 12% for the quarter (measured by the IGP/DI), which indicated an increase in inflation of close to 300% for the year (see figure 2).

Beginning in March, the new government implemented an anti-inflationary policy which was based upon rigorous price controls. Public rates and charges as well as the prices that were administered by the public sector—especially those of fuels and automobiles—were frozen, while the prices of the other industrialized products remained under the control of the Interministerial Price Board. This policy remained in force until July and permitted the reduction of the average monthly increase in industrial prices from 13% during the first quarter to 6% in the second. This period coincided with the harvesting of the main agricultural crops, whose prices rose at around 9% per month, with the result that average monthly inflation between April and July fell to 8%.

The possibility of maintaining the freeze on public prices and the strict control of the prices of manufactured goods was jeopardized by the inconsistency of these mechanisms with the economy's generalized indexation and the policy of internal interest rates. The monetary correction mechanism for public bonds, which is the basic indicator for contract indexation, was changed in April. Until then, the monthly correction had been based on the variation in the general price index (IGI/DI). From May onward, the monthly correction was pre-established according to the geometrical average of the monthly variation in the index during the three preceding months.

As monthly inflation dropped sharply as a result of the freezing of public prices and the control of industrial prices, the monthly correction calculated on the new scale for the period April-July was substantially higher (12%) than the increase in the general price level. This indexation scale drastically increased financial costs, whose real interest rate was pushed upward by the sale of public bonds on a very large scale as an expression of the government's intention to control monetary expansion.

In addition to the increase in financial costs, enterprises were faced with an increase in the costs of their imported raw materials, as the exchange rate was subject to the same indexation scale. Enterprises therefore pressed for a review of the price policy. Although the government attempted to prevent the transfer of these pressures to the price liberation process which had been started in July, inflation reached 14% in August.

At the end of August, the new economic team decided to revert to the former indexation system, which was based on the monthly change in the general price index.

The application of the price control policy from April to June coincided with a period of substantial wage increases in the industrial and public sectors. Thus, domestic demand entered a phase of strong recovery in the second half of the year. In some sectors which had limited inventories, the demand pressures were rapidly felt. The government attempted to control the subsequent

¹⁰ At the end of the year, a new official index was adopted for calculating inflation. This was termed "the extended national consumer price index" (IPCA) and had been developed by the Brazilian Geographical and Statistical Institute. The main difference from the index used previously was that its weightings included the expenditures of families with incomes lower than 30 minimum wages. The national consumer price index (INPC), on the other hand, covers the expenditure of families whose incomes equal a maximum of five minimum wages.

¹¹ For example, the removal of the subsidy on wheat was speeded up, whereupon its price rose by more than 180% between November 1984 and March 1985.

Table 25

BRAZIL: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
December-to-December variation						
General price index"						
Total supply	108.5	92.8	99.2	212.9	225.6	241.4
Domestic availability	110.2	95.2	99.7	211.0	223.8	235.1
Wholesale price index						
Total supply	118.7	90.5	96.8	238.4	233.2	234.6
Agricultural products	138.2	70.7	89.0	335.8	230.5	267.7
Industrial products	110.3	99.7	99.8	200.5	233.2	221.1
Domestic availability	121.3	94.3	97.7	234.0	230.3	225.7
Raw materials	110.7	86.1	81.5	214.4	230.6	198.6
Foodstuffs	130.8	85.9	98.9	299.5	223.6	238.1
Consumer price index						
Rio de Janeiro	86.3	100.6	101.8	177.9	208.7	248.5
Food	90.9	96.0	99.9	256.9	224.5	265.9
Building costs						
Rio de Janeiro	113.0	86.1	108.0	148.9	2134	2836
National consumer price index'						
Restricted INPC	95.3	91.2	97.9	172.9	203.3	228.4
Extended IPCA	94.6	92.7	103.3	164.4	208.9	233.7
Variation between annual averages						
General price index						
Total supply	98.4	106.8	94.2	156.3	222.5	229.4
Domestic availability	100.2	1099	95.4	154.5	220.6	225.5
Wholesale price index						
Total supply	106.5	108.2	92.0	168.3	236.2	228.9
Domestic availability	199.2	113.1	94.0	164.9	232.9	223.4
Consumer price index						
Rio de Janeiro	82.8	105.6	98.0	142.0	196.7	227.0
Building costs						
Rio de Janeiro	96.9	101.0	98.2	1196	195.1	241.3
National consumer price index'						
Restricted INPC		99.8	96.8	134.8	191.1	218.2
Extended IPCA	94.6	98.6	100.4	133.2	188.8	223.5

Source: Getulio Vargas Foundation, *Conjuntura econômica*, and Central Bank of Brazil, *Informativo mensal*, various issues.

'The price index is a weighted average of the indexes of wholesale prices (60%), the cost of living in Rio de Janeiro (30%) and building costs (10%). Up to February 1985, this entry corresponds to the index of building costs in Rio de Janeiro. From March onwards, it refers to building costs in Brazil.

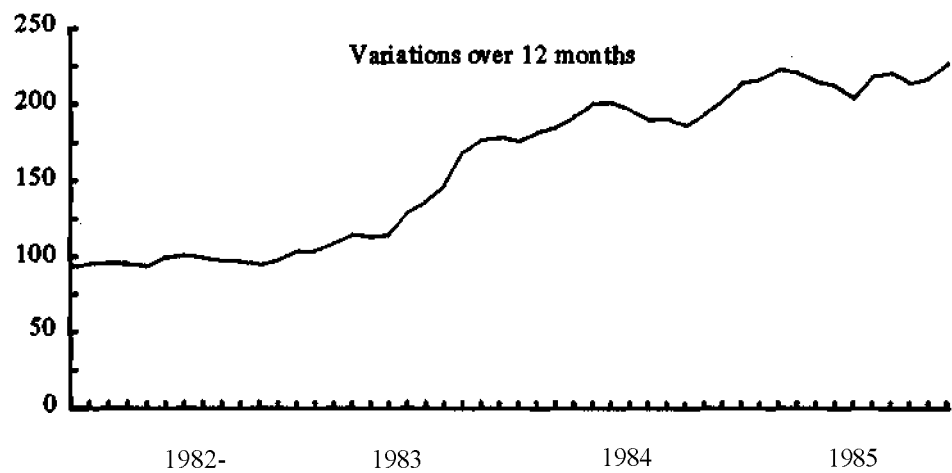
'The two concepts take different aspects into account in their weighting. The weightings of the restricted INPC include the expenditures of families with incomes of up to five minimum wages, whereas the extended IPCA is weighted for the expenditures of families with incomes of up to 30 minimum wages.

increases by reducing the maximum period for consumer credits to 12 months in October. Finally, in the last two months of the year, agricultural prices rose faster because of the drought in the central-southern region of the country.

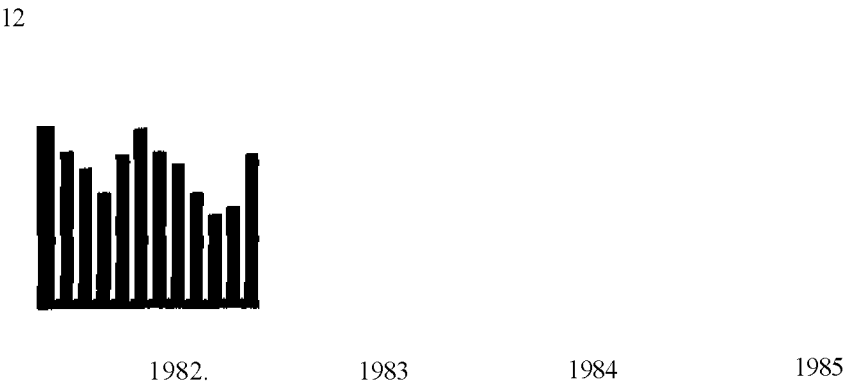
Beginning in November, a new indexation methodology was introduced with the use of a single index for readjusting exchange rate, wages and the monetary correction for public securities. These readjustments would be calculated on the basis of the monthly variation in the extended national consumer price index (IPCA). With the adoption of this single index, the relative prices of the economy could gradually be synchronized, thus making possible the implementation of the stabilization plan of February 1986.

Figure 2

BRAZIL: NATIONAL CONSUMER PRICE INDEX



16 Monthly variations



Source: ECLAC, on the basis of official data.

Table 26

BRAZIL: AVERAGE WAGES IN INDUSTRY

(Base 1981 = 100)

	Average nominal wage		Consumer prices"		Average real wage	
	Index	Variation	Index	Variation	Index	Variatio
1980	46.1	92.5	50.4	94.6	91.5	-1.1
1981	100.0	117.1	100.0	98.6	100.0	9.3
1982	212.6	112.6	200.4	100.4	106.1	6.1
1983	462.9	117.7	467.4	133.2	99.0	-6.7
1984	1 386.8	199.6	1 350.0	188.8	102.7	3.8
1985	4 827.8	248.1	4 367.1	223.5	110.5	7.6

Source: Cielutlio Vargas Foundation and Brazilian Geographical and Statistical Institute (IBGe).

"Extended national consumer price index.

b) *Wages*

Economic growth and the new government's wage policy led to a substantial improvement in real wages (8% in the industrial sector and 4% for the minimum wage), which permitted a partial recovery from the losses sustained during the recession (see table 26). These improvements were the result of lengthy negotiation processes and strong trade-union pressure.

The new government promoted a policy of gradually re-establishing the purchasing power of the minimum wage. To this end, the two readjustments of the minimum wage that were granted were higher than the variation in the national consumer price index. However, the recovery of the average purchasing power of the minimum wage was only significant in the metropolitan areas of Rio de Janeiro, São Paulo, Porto Alegre and the Federal District (see table 27).

The government also permitted a partial recovery to be made by the wages of public servants and employees of State enterprises. This particularly favoured the highest wages which, in relative terms, had been most affected in previous years by the application of readjustment percentages that were lower than inflation.

On the other hand, the government refrained from intervening in private-sector wage negotiations, thus encouraging free negotiations between the parties, with the mediation of the labour arbitrator to resolve conflicts. However, it opposed shortening the readjustment periods to less than six months, which was something that the trade unions regarded as a priority. In those cases where it was established that wage readjustments should take place at more frequent intervals, the government prevented the resulting higher costs from being transferred to prices.

Those sectors which had a more organized trade-union structure, such as industry, transport and banks, were able to obtain readjustments equal to the total variation in the IN PC increases for higher productivity and, in particular, more frequent readjustments.¹ This enabled average wages to rise, notwithstanding the price increases which occurred late in the year. For the industrial sector, the average wage increase reached 8% and in the State of São Paulo it was 22% according to that State's Federation of Industries. In other sectors of the economy, wages were generally readjusted by an amount equal to 100% of the INPC variation and were made subject to a real increase close to that made in the minimum wage (4%).

In November, a change in the wage policy was announced. The readjustment to be awarded the following January would be calculated according to the IPCA variation, and the lag between the period of calculation and its application would be reduced to one month. Thus, the January adjustment would take as its basis the IPCA variation between July and December rather than the May-to-November variation.

¹ - The shortening of the readjustment period usually took the form of quarterly advances whose payment was stipulated in wage agreements.

5. Fiscal and monetary policy

During the course of the year substantial changes were made in fiscal and monetary policy; these changes stemmed from the authorities' relative lack of clarity at the beginning of the year in respect of the priority objectives of the economic policy. The fiscal and monetary policy was, on the whole, a passive one which only just permitted the supply of the necessary liquidity to enable the economy to function.

a) *Monetary policy*

Monetary policy, especially during the second half of the year, was directed towards maintaining a level of liquidity compatible with the gradual reduction of interest rates. Continuing the trend which began in the second half of 1984, the expansion in the means of payment was greater than the rise in price levels, thus increasing the real liquidity in the economy. The expansion of the means of payment was a result of the dynamism of economic activity and of the increased monetization of the public deficit (see tables 28 and 29).

The main factors in the expansion of the monetary base were credit to the agricultural sector and exchange operations (see table 30). The excellent wheat yield generated a greater demand on the part of the agricultural sector for government resources to purchase grain and to pay for the subsidy granted to this product. Furthermore, the variation in foreign-currency deposits in the Central Bank and the surplus generated in the trade balance influenced exchange operations. The Treasury's

Table 27

BRAZIL: COST OF LIVING AND MINIMUM WAGES

Major cities	Indexes (1978 = 100)				Growth rates			
	1983	1984	1985	1981	1982	1983	1984	1985
Nominal wage								
Sao Paulo	2 474	6 789	22 923	102.9	98.9	114.5	174.4	237.7
Rio de Janeiro	2 474	6 789	22 923	102.9	98.9	114.5	174.4	237.7
Belo Horizonte	2 474	6 789	22 923	102.9	98.9	114.5	174.4	237.7
Porto Alegre	2 663	7 307	24 673	102.9	98.9	114.5	174.4	237.7
Federal District	2 474	6 789	22 923	102.9	98.9	114.5	174.4	237.7
Recife	2 971	9 045	30 540	107.7	104.8	120.9	204.4	237.7
Consumer price index								
Sao Paulo	2 336	6 364	19 208	95.6	89.6	135.6	172.4	201.8
Rio de Janeiro	2 749	8 157	29 029	105.5	98.0	142.0	196.7	227.0
Belo Horizonte	3 179	10 592	40 801	104.6	95.7	136.3	233.2	285.2
Porto Alegre	2 954	8 652	28 180	112.0	96.9	141.0	192.9	225.7
Federal District	3 443	10 950	36 398	112.8	106.1	154.6	218.0	232.4
Recife	3 914	11 328	42 094	118.2	106.7	167.4	189.4	271.6
Real minimum wage								
Sao Paulo	105.9	106.7	119.3	3.7	4.9	-9.0	0.7	11.8
Rio de Janeiro	90.0	83.2	79.0	-1.3	0.4	-11.4	-7.5	4.7
Belo Horizonte	77.8	64.1	56.2	-0.8	1.5	-9.2	-17.6	-12.3
Porto Alegre	90.2	84.5	87.6	-4.3	1.0	-11.0	-6.4	3.7
Federal District	71.8	62.0	63.0	-4.6	-3.5	-15.8	-13.7	1.6
Recife	75.9	79.8	72.6	-4.8	-0.9	-17.4	5.1	-9.0

Source: ECLAC, on the basis of data supplied by the Central Bank of Brazil and the Cielulio Vargas Foundation.

Table 28

BRAZIL: PRIVATE SECTOR LIQUIDITY*(Percentage variations between end-of-December balances)*

	M¹	W	M₂
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	201.6	260.8	252.6
1985	307.6	276.3	260.7

Source: Getulio Varagas Foundation, *Conjuntura econômica*, February 1983.Note: M¹ = means of payment (currency outside banks + demand deposits in the monetary system).M' = M¹ + demand deposits in public savings banks and the National Co-operative Credit Bank + time deposits.M¹ = M' + savings deposits.

Table 29

BRAZIL: MONETARY BASE AND MEANS OF PAYMENT*(Percentage variations)*

	Monetary base		Means of payment	
	During the year	Over last 12 months	During the year	Over last 12 months
1983				
March	7.6	86.0	-2.7	78.0
June	26.0	92.5	24.8	87.4
September	45.7	95.3	45.8	99.0
December	89.1	89.1	92.0	92.0
1984				
March	8.3	115.1	11.1	101.1
June	38.8	119.8	57.2	142.7
September	86.2	150.4	108.7	167.2
December	203.5	203.5	243.8	243.8
1985				
March	14.1	253.1	10.2	207.3
June	50.9	208.1	55.6	238.3
September	109.5	245.1	128.2	270.1
December	251.3	251.3	307.6	307.6

Source: Central Bank of Brazil, *Informativo mensal*, January 1986.

contribution covered only a part of the operations carried out by the monetary authorities by means of special lines of credit and, therefore, the sale of public debt bonds on the market was widely used.

In 1985, the financial system encountered serious difficulties. On the one hand, there were problems with the loans granted to sectors —such as ship building and agricultural co-operatives— which had deteriorated considerably during the crisis of the past few years. On the other hand, in March, the Central Bank was forced to intervene in six financial groups, three of which were among the ten largest private national banks in the country. Different solutions were adopted: two of the

liquidated groups —both with headquarters in the southern region of the country— were merged to form a new public bank by means of a capital contribution from the federal government. The agencies of the other three groups were purchased by the other private national banks. The Central Bank did not assume the external obligations of the latter; instead, the foreign creditors of these institutions were treated on the same basis as the national ones.

The difficulties faced by the financial system caused deposits to be channelled to public or foreign banks operating in the country. The difficulties also caused the private national banks to manage their lending operations more cautiously. Thus, there was a reversal of the trend of recent years, when private financial institutions had increased their participation in the loans granted to the private sector. In contrast, the loans granted by the Banco do Brasil to the private sector showed a real expansion for the first time in the decade (see table 31).

Table 30

BRAZIL: MAIN FACTORS OF EXPANSION AND CONTRACTION
OF THE MONETARY BASE

(Variations in billions of cruzeiros)

	1982	1983	1984	1985 ^a
A. Factors of expansion	3 254.9	8 139.1	25 024	100 823
Credit to the agricultural sector	1 431.1	2 280.0	7 396	35 862
Crops	794.1	1 446.4	4 903	11 776
Marketing of wheat	284.0	516.7	1 544	11 657
Minimum prices	180.6	-139.1	261	3 797
Sugar: exports and cost equalization	172.4	456.0	688	4 134
Export credits	493.7	974.5	-260	4 498
Credit to the public sector	403.4	2 290.3	5 431	6 589
Public debt ^b	217.6	2 290.3	-	-
Special operations ^c	185.8	-	5 431	6 589
Credit from the Central Bank	280.2	761.9	1 379	950
Special funds and programmes	77.0	458.1	425	
Transfers to financial institutions	95.2	117.9	324	
Others	108.0	185.9	630	
Other credits from the Banco do Brasil	380.6	1 248.4	4 131	11 790
Credit to PROALCOOL	68.3	116.0	^d	^d
Exchange operations ^e	-	-	6 440	36 178
Other accounts (net variation)	197.6	468.0	247	4 956
B. Factors of contraction	2 223.7	6 161.1	14 378	63 089
National Treasury	686.2	2 710.6	5 729	20 711
Cash balance	6.6	14.3	21	13 255
Transfers	679.6	2 696.3	5 708	7 456
Exchange operations	527.8	1 813.5	-	
Resources of Banco do Brasil	487.3	-	-	
Fund and programme resources	335.5	810.6	812	
Time deposits in Banco do Brasil	110.4	304.0	1 204	16 689
Amortization of the social security system debt	76.5	-6.9	-1 386	
Public debt			9 830	25 689
Obligatory deposit on time deposits		529.3	-1 811	
C. Monetary base (A - B)	1 031.2	1 978.0	10 646	37 734

Source: Centra) Bank of Brazil, *Informativo mensal* January 1986, and Getulio Vargas Foundation, *Conjuntura econômica* * February 1986.

^a Preliminary figures. Net purchases of Federal Government public debt securities. ^b Refers to payments by the Banco do Brasil on the external debt of State enterprises and other operations of the National Treasury with the monetary authorities. ^c Included in other accounts. ^d Refers to reserve operations plus variations in foreign currency deposits in the Central Bank of Brazil.

Table 31

BRAZIL: LOANS BY THE FINANCIAL SYSTEM TO THE PRIVATE SECTOR"*(Billions of cruzeiros)*

	Year-end balances			Growth rates		
	1983	1984	1985	1983	1984	1985
Banking sector	19 294	58 897	215 040	115.4	205.3	265.1
Banco do Brasil	6 729	15 637	62 530	94.9	132.4	299.9
Commercial banks	12 565	43 260	152 510	128.2	244.3	252.5
Public	3 570	9 604	30 502	130.8	169.0	217.6
Private	8 995	33 656	122 008	127.1	274.2	262.5
Non-banking sector	34 453	105 311	350 751	162.2	205.7	233.1
Finance corporations	5 642	18 123	59 684	146.5	221.2	229.3
Investment banks	4 716	16 395	46 686	149.0	247.6	184.8
National Housing Bank (BNH)	2 207	6 084	20 650	235.4	175.7	239.4
Real estate credit corporations	8 003	25 191	85 771	176.5	214.8	240.5
Savings and loans associations	1 153	1 575	4 113	126.1	36.6	161.1
Federal Savings Bank (CEF)	7 079	22 459	80 777	166.5	217.3	259.7
State savings banks	2 714	7 801	22 833	154.1	187.4	192.7
National Economic and Social Development Bank (BNDES)	1 267	4 177	13 001	167.9	229.7	211.3
State development banks	1 381	3 244	16 436	141.0	134.9	406.7
National Co-operative Credit Bank	292	262	800	129.9	-10.3	205.3
Official sector	26 123	74 788	268 867	139.1	186.3	259.5
Private sector	27 624	89 420	296 924	147.2	223.7	232.1
Total	53 747	164 208	565 791	143.2	205.5	244.6

Source: Central Bank of Brazil, *Bntetim iivnsal*.

"Revised figures exclude State enterprises.

Includes the Social Integration Programme and the Social Assistance Fund.

Changes in the method of monetary correction were a disincentive to the growth of time deposits and passbook savings accounts and led to a substantial expansion (42%) of demand deposits. This greater liquidity preference was not caused by greater public confidence in the purchasing power of the currency but was instead a result, of the dynamism of the economy and of the supply of overnight loans backed by public securities (see table 32).

Real interest rates increased significantly in the first eight months of the year (see table 33). During this period, close to 27 billion cruzeiros were withdrawn from circulation by means of the sale of public bonds. Beginning in September, as a result of the new direction that was given to economic policy, the public debt strategy was modified. In order to reduce the real interest rate, the government made net sales of public bonds amounting to around one billion cruzeiros during the last four months of the year.

The starting point of the economic policy applied during the first eight months was the belief that in order to maintain sales of public bonds, it was necessary to increase their yield. Consequently, the monetary authorities allowed bondholders to be paid at a real interest rate of close to 23% per year. The new authorities, on the other hand, felt that this increase in interest rates was unnecessary. As they saw it, the supply of resources for administering the debt was inelastic in respect of the interest rate, so agents had no other alternative but to hold these short-term resources as cash funds. They also questioned the mounting net sale of public bonds, since this operation would merely postpone the payment of interest to subsequent fiscal years, thus placing constraints on the future management of public finances. Given the widespread confidence in the country's new economic leadership, the real interest rate rapidly fell to 17% per year without thereby impairing the management of the debt.

Table 32

**BRAZIL: DEPOSITS AND OTHER DOMESTIC OBLIGATIONS
OF THE FINANCIAL SYSTEM WITH THE PUBLIC**

(Billions of cruzeiros)

	Year-end balances				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Total	14132	39 350	138 071	482 501	116.0	238.3	250.8	249.5
Demand deposits	3 237	6 785	19 833	82 890	63.7	1096	192.3	333.1
Fixed-term deposits	3 360	9 646	39 986	141 955	115.4	187.1	314.5	255.0
Savings deposits	5 720	18 163	62 510	215 234	130.2	217.5	244.2	244.3
Bills of exchange	1 785	4 677	15 607	42 295	261.3	162.0	233.7	171.0
Real-estate bonds	30	79	135	127	11.1	163.3	70.9	-5.9

Source: Central Bank of Brazil, *Boletim mensal*, January 1986.

"Preliminary figures.

Table 33

BRAZIL: MONTHLY INTEREST RATES"

(Percentages)

	Rates on deposits			Rates on loans		Inflation rate ^c
	Open market operations	Certificates of deposit	Savings deposits	Working capital	Consumer credit*	
1983						
I	7.2	9.8	7.8	10.4	8.2	8.5
II	10.4	10.6	8.8	11.2	9.1	9.4
III	9.8	11.0	9.5	11.4	9.4	12.1
IV	8.9	11.9	9.1	12.4	9.8	9.8
1984						
I	10.6	12.3	11.2	11.9	10.1	10.7
II	9.4	12.2	9.5	12.5	11.8	9.0
III	11.0	12.5	11.0	13.4	12.4	10.5
IV	10.9	12.6	11.6	14.4	13.5	11.0
1985						
I	14.1	13.2	12.4	14.7	14.6	11.8
II	10.9	12.3	10.9	14.0	14.7	7.6
III	9.5	10.8	8.9	12.5	13.5	10.7
IV	10.8	11.5	11.7	12.8	13.9	12.4

Source: ECLAC, on the basis of official data.

"Monthly average for each quarter.

*For sale of automobiles; 1985, credit in general.

^cGeneral price index with reference to domestic availability.

b) *Fiscal policy*

Using the operational concept of public-sector financing, the deficit of this sector increased to a figure equal to 3.2% of the gross domestic product, a proportion that was double the one recorded the previous year (see table 34).

The origin of the public deficit and the methods for bringing it down were the main subject of the debate on fiscal policy. Some analysts stressed the financial nature of the deficit and the "problem of transfer" involved in securing the necessary foreign exchange for servicing the public external debt. The basic argument was founded on the assertion that the public sector was the main party responsible for the external debt and therefore required a large volume of dollars to service it. As the sector did not generate sufficient foreign exchange to meet its obligations, it had to obtain the remainder from the private sector, which did have an external surplus. In order to obtain these resources, the Treasury, in addition to issuing currency, sold public bonds, thereby increasing the domestic debt. Therefore, if the public deficit was to be reduced, it was absolutely necessary, according to this line of reasoning, to alleviate the financial burden (through lower domestic and external interest rates) and/or seek new external resources.¹³

Another group of analysts, while not questioning the financial origin of the fiscal debt, argued that the adjustment should be pursued by reducing the current expenditure and investment outlays of the public sector (mainly of State enterprises), which would reduce the pressure on interest rates. However, the magnitude by which these costs would have to be reduced would be such as to jeopardize the fulfilment of the growth target, an objective to which the government gave high priority. The economic authorities therefore decided to reduce the real interest rate on the public debt and gradually increase the tax burden.

The country's economic growth and the adoption of fiscal policy measures (advancing the date of tax collection, increasing capital gains tax and eliminating the fiscal subsidies on exports) brought about real increases in public revenue. Thus, the federal government's revenue rose by 17.5% in real terms through the collection of more income taxes and higher taxes on manufactured goods, while State and municipal governments received larger transfers from the National Treasury and from the real increase in revenues from the taxes on the circulation of merchandise (see table 35).

In turn, the National Treasury's outlays increased in real terms by 6%, mainly because of the higher expenditure on personnel and of the transfers to state governments and municipalities.

State enterprises exercised considerable influence on fiscal policy. In exchange for the freeze on their prices and rates during the April-to-june period and for the decision not to make larger cuts in their expenditures, State enterprises made ample use of the mechanism of transferring the payment of their external debts to the Banco do Brasil.

In November, the government decided to reduce current public and investment expenditures, especially by State enterprises. It defined, furthermore, the method to be used for the privatization of various enterprises, which would be capitalized through the stock market.

These measures for controlling public expenditure formed part of a vast fiscal restructuring to be undertaken in 1986, the aim of which was to reduce the public deficit. The main instruments to be used were the changes introduced into the system for collecting personal and corporate income tax. For persons, a system based on current prices was instituted in an attempt to lessen the differences between the tax withheld at the source and the computation of the tax owed. In this way available personal income increased by eliminating the annual refund of taxes collected. The tax calculation table was made more progressive, so that the higher income brackets (over 40 monthly minimum wages) assumed a larger percentage of the tax burden.

With respect to corporations, the semi-annual payment of income tax was introduced for profits of over 40 000 readjustable national treasury bonds (ORTNs). Measures to reduce tax evasion were also adopted. Finally, a 40% tax was imposed at the source on gains obtained from financial investments. This rate could rise to 45 % in cases where negotiations were held before the securities matured.

¹³Ninety-six percent of the cash deficit of the monetary authorities (76 billion cruzeiros) was derived from the financial costs of the domestic and external debt.

An emergency tax reform was also instituted in order to improve the distribution of resources to state governments and municipalities. The latter's share of the total obtained from income tax and from the tax on manufactures rose from 16% to 17%. There was also an increase from 20% to 70% in their share of the tax on road transport services, and the collection of revenue from the payment of annual licences by the owners of automobiles was transferred to the state governments.

c) *The public debt*

Given the characteristics of the public sector—which includes everything from the central government and other government divisions to State corporations, each having its own budget and its own estimates of future inflation—it is very difficult to estimate the magnitude of its deficit. The same holds true therefore, in respect of the total debt of the sector.

Table 34

BRAZIL: FINANCING OF THE PUBLIC SECTOR

	1982	1983	1984	1985"
Billions of cruzeiros				
Nominal financing	8 035	23 891	84 371	355 809
Domestic financing	6 603	23 237	80 311	348 873
Federal government	2 809	5 833	30 644	170 242
Public debt	2 591	6 708	30 934	163 424
Monetary authorities	217	991	3 522	18 890
Commercial banks	-106	60	-2 194	-2 686
Official banks	-613	2 609	5 730	20 711
State enterprises	2 107	12 910	35 368	151 120
Monetary authorities	117	3 742	7 486	60 286
External debt payments	64	3 168	6 010	56 453
Others	53	574	1 476	3 833
Commercial banks	892	4 006	11 595	39 950
Other financial institutions	1 089	4 957	16 237	54 198
Suppliers	205	594	1 659	3 837
Public debt	-196	-389	-1 609	-7 151
State and municipal governments	2 180	5 780	19 023	74 171
Public debt	621	1 453	4 371	15 526
Monetary authorities	13	134	486	4 166
Financial system	1 546	4 193	14 166	54 479
Decentralized agencies	249	631	2 152	5 849
Funds and programmes	-621	-1 792	-7 277	-47 673
Social security	-121	-125	408	-4 836
External financing	1 432	654	4 060	6 936
Monetary and exchange correction	4 879	20 262	78 202	311 874
Operational financing (A-B)	3 156	3 629	6 169	43 935
Percentages				
Nominal financing/gross domestic product	15.8	19.9	21.8	26.2
Operational financing/gross domestic product	6.2	3.0	1.6	3.2

Source: Central Bank of Brazil.

"Preliminary figures. *Payments made by the Banco do Brasil in respect of the external debt of public enterprises.

Table 35

**BRAZIL: CURRENT INCOME OF THE NATIONAL TREASURY AND
OF STATE AND MUNICIPAL GOVERNMENT**

	Billions of cruzeiros				Growth rates			
	1982	1983	1984	1985	1982	1983	1984	1985
Current income of national Treasury	4 620	11 336	33 787	134 464	104.2	145.5	198.1	298.0
Taxes	4 064	9 560	29 469	110 093	101.6	135.2	208.3	273.6
Income tax	1 355	3 494	12 046	52 904	111.5	158.0	244.7	339.2
Manufactured products	990	1 897	4 112	19 178	97.6	91.6	116.8	366.4
Financial operations	557	787	3 051	7 182	96.8	41.4	287.5	135.4
Electrical energy	128	274	705	2 496	112.1	113.6	157.7	254.0
Lubricants and fuels	285	298	640	1 923	125.9	4.7	114.7	200.5
Imports	230	478	1 259	4 746	66.2	107.9	163.5	277.0
Exports	27	610	2 294	3 349	27.0	132.6	276.4	46.0
Telecommunications	103	221	576	455	109.6	114.6	160.9	-21.0
Taxes earmarked for social programmes	144	966	3 177	10 246	76.6	571.4	228.8	222.5
Other taxes	247	535	1 669	7 614	114.4	116.9	211.7	356.2
Other current income	553	1 776	4 318	24 371	125.9	220.9	143.1	464.4
Rates	152	320	759	2 164	78.5	109.8	137.6	185.1
Miscellaneous income	401	1 457	3 559	22 207	151.2	263.1	144.4	524.0
Current income of state governments ¹	3 015	6 663	22 081	87 663	105.2	121.0	231.4	297.0
Tax on circulation of merchandise	2 468	5 484	18 339	70 864	104.0	122.2	234.4	286.4
São Paulo	996	2 170	6 880	27 088	103.4	117.9	217.1	293.7
Rio de Janeiro	265	560	1 920	6 800	104.3	111.3	242.9	254.2
Minas Gerais	225	466	1 643	6 594	102.2	106.7	252.7	301.3
Southern region	456	1 026	3 446	13 435	99.2	125.0	236.0	289.9
Other states	526	1 263	4 450	16 947	110.2	140.2	252.4	280.8
National Treasury transfers for taxes destined for states	547	1 180	3 742	16 799	110.6	115.8	217.2	348.9
Current income of municipalities								
National Treasury transfers for taxes destined for municipalities	301	686	2 560	12 933	116.1	127.7	273.3	405.2

Source: Central Bank of Brazil, *Boletim mensal*, December 1985.

¹Includes only that collected under the two headings specified. There are other taxes but the two given in the table represent a high proportion of the revenue of the states. ²Comprises the States of Paraná, Santa Catarina and Rio Grande do Sul.

In 1985, the Central Bank conducted a study to establish the true size of this variable; according to the study, at the end of that year the net public debt would have reached close to US\$ 106 billion, more than 60% of which was accounted for by the adjusted net external debt.¹⁴

Two processes characterized the evolution of the public external debt: firstly, growing State participation in the external debt of the country (which went from 69% in 1981 to 80% in 1985); and secondly, a progressive replacement of external debt by domestic debt. During the past two years, the domestic debt grew by 34%, a rate which was five times higher than that recorded for the public external debt.

¹⁴The total public external debt reached US\$ 79.6 billion. In calculating the net external debt, international reserves (US\$ 11.6 billion) as well as the external resources which both the public sector and the official banks had at their disposal (US\$ 5.0 billion) were subtracted.

COLOMBIA

1. Recent economic trends: Introduction and summary

The growth rate of Colombia's economy slowed in 1985. After having climbed 3.6% in 1984, the gross domestic product increased only 2.5% in 1985 (see table 1).

The dominant factor in setting the economy's recent course has been the external sector. Between 1981 and 1984, the current account closed with deficits ranging from US\$ 1.9 billion to US\$ 3 billion. In addition, the decrease in the country's international reserves (from US\$ 4.8 billion to US\$ 1.8 billion between 1982 and the end of 1984) sparked expectations of a devaluation and an exchange crisis which exacerbated the situation. A large outflow of capital was also observed during these years.

Early in 1985, the economic authorities agreed upon a harsh adjustment programme with the International Monetary Fund with a view to obtaining a US\$ 1 billion loan from the international private banking system and to halting the decline in Colombia's international reserves. To this end, beginning in April the authorities proceeded to devalue the peso at a much faster pace than the rate of inflation, with the result that the real exchange rate rose by around 25% during the year. They also decided to eliminate export subsidies and to even out tariffs gradually. Furthermore, various fiscal measures were introduced to raise revenues and cut spending. As a result, the cash shortfall in the national budget went down 37% in real terms. Finally, the minimum wage and public sector salaries were raised by smaller percentages than the rate of inflation in 1984.

These measures had a major impact on the economic recovery which had begun in 1984. The shrinkage of demand prompted by the adjustment programme was reflected in a progressive slowdown in the various branches of manufacturing, almost all of which expanded less than they had in preceding years. Quantitative import restrictions affected supply, especially in the case of those activities involving a greater degree of national integration, such as the production of capital goods. The growth rate for industrial production thus fell from 10% in 1984 to 3% in 1985.

Agricultural output, for its part, increased only 2%. This was partly due to the decline in coffee production and partly to the progressive deterioration which most of the other crop-farming activities have been evidencing for some time now. The amount of land under cultivation and investment in the preparation of land have declined during the past five years. Concurrently, a shift was to be observed towards the more commercial crops. Whereas rice, maize, potato and yuca harvests either decreased or remained at roughly the same levels, the output of cotton, African palm, soya, wheat and flowers expanded considerably.

The increase in the exchange rate had a relatively limited effect on the current account. The substantial increase in exports of goods (10%) was primarily due to larger external sales of coffee, coal and ferronickel, while the lack of growth in imports was mainly caused by the quantitative restrictions which have been in place for some time. Exchange policy did, however, have an enormous impact on the capital account. The rapid rise in the exchange rate early in the year and the progressive slowdown, from May onwards, in the devaluation of the peso served to lessen expectations of any further major increases in exchange parity. Moreover, there was some indication that the outflow of capital slowed down considerably during the year, inasmuch as the net balance of short-term capital movements plus errors and omissions (which yielded a combined deficit of around US\$ 1 billion in 1983-1984) dropped to half of that level in 1985. Thus, the trend in the exchange rate helped to check the outflow of speculative capital, while the adoption of a policy agreed with the International Monetary Fund gave the country greater access to international financial markets.

The rise in the exchange rate caused the price index to soar in April and May. Nonetheless, the government managed to control outbreaks of inflation in the following months by importing more food, freezing administered prices (such as the rates for public services and gasoline prices) and

instituting some price controls. As a result, the annual rate of inflation—which was nearing 30% at mid-year—declined steadily during subsequent months until it reached 22% in December.

Exchange and wage policies had the combined effect of lowering wages. Real wages for industrial workers fell 3%, those of agricultural day labourers dropped 35%, and the real wage earned by employees in commerce was down 5%.

The sluggishness of production prevented any progress from being made in reducing unemployment. In fact, once again the product grew more slowly than the labour force did. Furthermore, the highest growth indexes were in industry and mining, which typically have low rates of manpower absorption. Unemployment levels therefore rose for the fourth year in a row, reaching an annual average of 13.9%, which is the highest level recorded since statistics began to be compiled (see

Table 1

COLOMBIA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ¹
A. Basic economic indicators							
Gross domestic product at market prices (1980 = 100)	95.9	100.0	102.3	103.3	104.6	108.4	111.1
Gross national income (1980 = 100)	95.8	100.0	100.1	99.9	100.1	104.2	107.1
Population (millions of inhabitants)	25.25	25.79	26.36	26.93	27.52	28.11	28.71
Per capita gross domestic product (1980 = 100)	98.0	100.0	100.1	99.0	98.0	99.4	99.8
Growth rates							
. Short-run economic indicators							
Gross domestic product	5.3	4.3	2.3	1.0	1.2	3.6	2.5
Per capita gross domestic product	3.0	2.1	0.1	-1.1	-1.0	1.4	0.4
Gross national income	3.2	4.4	0.1	-0.1	0.1	4.1	2.8
Unemployment rate	8.8	9.6	8.2	9.3	11.8	13.5	13.9
Consumer prices							
December to December	29.8	26.5	26.7	23.9	16.7	18.3	22.7
Variation between annual averages	24.7	27.2	28.1	24.6	19.8	15.9	24.6
Real wages and salaries ²	6.5	0.8	1.4	3.7	5.0	7.5	-3.2
Money	24.2	27.9	21.2	25.4	25.5	23.2	27.2
Current government income	36.3	32.5	18.6	21.2	25.8	26.8	47.1
Total government expenditure	38.9	50.3	31.6	35.5	18.4	34.8	23.1
Fiscal deficit/total government expenditure³	5Y	7.0	27.1	34.9	30.8	34.8	22.1
Current value of exports of goods and services	15.5	17.3	-19.4	3.2	-14.5	18.4	11.6
Current value of imports of goods and services	15.2	38.9	10.5	11.3	-14.0	-6.7	0.9
Terms of trade (goods and services)	-15.0	-1.9	-12.5	2.8	-2.2	6.6	-2.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	612	-126	-1 726	-2 269	-1 970	-888	-417
Net payments of profits and interest	276	245	478	954	1 197	1 311	1 352
Balance on current account	435	-207	-1 962	-3 056	-3 022	-2 020	-1 364
Balance on capital account	1 078	1 109	1941	2 180	1 180	741	1 687
Variation in international reserves (net)	1 554	1 298	149	-711	-1782	-1 261	284
Total disbursed external debt	5 222	6 300	7 885	9 410	10 405	11 551	12 856

Source: ECLAC on the basis of official figures.

¹Preliminary figures. Percentages.

²Average annual rate in Bogotá, Barranquilla, Medellín and Cali.

³National index for manual workers.

⁴Real wages of manual workers in manufacturing.

⁵Surplus.

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	104.7	107.4	109.5	116.3	114.7	2.1	-0.1	2.5	2.0
Gross domestic product at market prices	104.6	108.4	111.1	100.0	100.0	1.0	1.2	3.6	2.5
Imports of goods and services	105.7	101.3	100.2	16.3	14.7	8.4	-7.6	-4.2	-1.1
Total demand	104.7	107.4	109.5	116.3	114.7	2.1	-0.1	2.5	2.0
Domestic demand	108.5	109.8	110.5	100.4	99.9	2.7	0.6	1.2	0.7
Gross domestic investment	114.0	107.4	97.6	18.7	16.4	5.3	-4.4	-5.8	-9.1
Gross fixed investment	108.7	107.1	98.5	16.8	14.9	3.0	-0.6	-1.5	-8.0
Construction	113.7	115.0	115.0	9.1	9.4	3.9	1.5	1.2	-
Machinery and equipment	103.0	97.8	79.2	7.7	5.5	1.8	-3.2	-5.0	-19.0
Changes in stocks	160.4	110.0	89.7	1.9	1.5				
Total consumption	107.2	110.3	113.5	81.7	83.5	2.0	1.9	2.9	2.9
General government	112.4	114.6	116.8	10.1	10.6	4.6	3.6	2.0	1.9
Private	106.5	109.7	113.0	71.6	72.9	1.6	1.6	3.0	3.0
Exports of goods and services	80.9	92.2	103.3	15.9	14.8	-2.2	-6.0	14.0	12.0

Source: ECLAC, on the basis of official figures.

Note: The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using unit value indexes calculated by ECLAC for this purpose.

"Preliminary figures.

figure 1). Moreover, the jobs which were created continued to be in the informal sector, while the number of salaried jobs scarcely increased at all.

Fiscal management was one of the central aspects of the adjustment policy. Corrective measures were taken which affected both taxes and expenditure. Firstly, the government won Congressional approval of a variety of measures designed to increase tax receipts: an 8% tax was levied on imports, the sales tax was extended to include a larger number of products, and tax withholding systems were strengthened. These measures were very effective, since receipts from customs duties soared 56%, those from the sales tax jumped 57% and total tax revenues climbed 47%. Secondly, a severe austerity policy was applied. Thus, operating expenses increased by only 16.5%, investment expenditure rose 47% and total spending was up 23%.

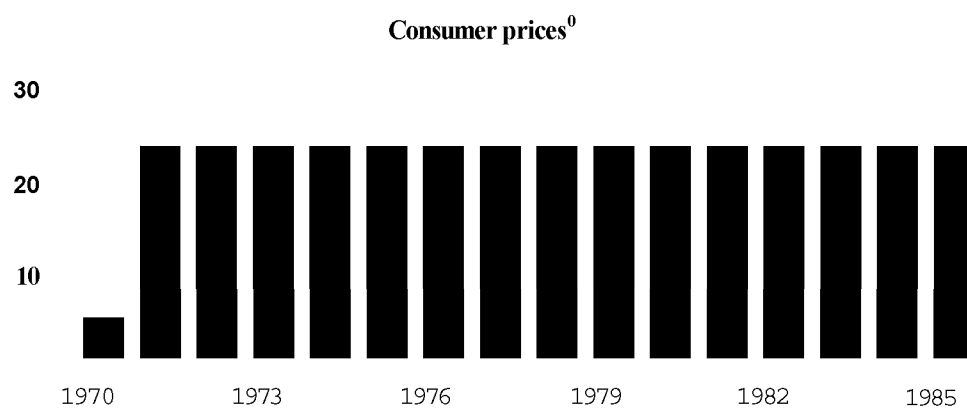
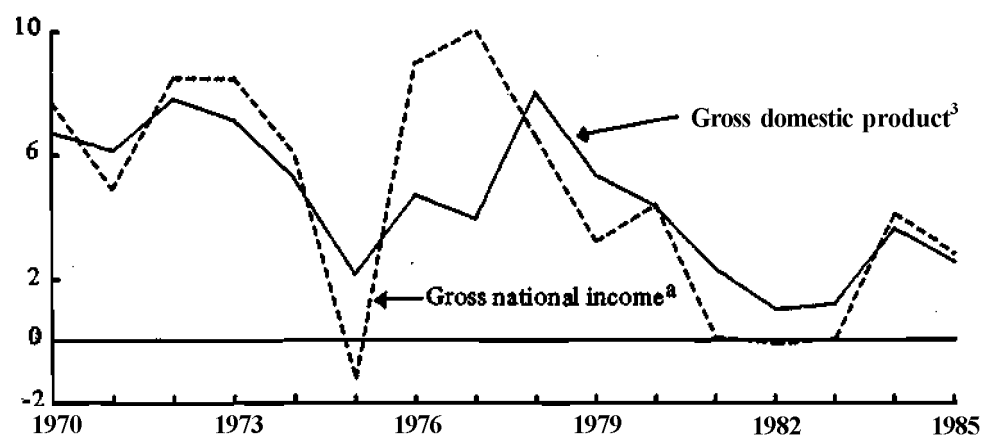
One of the main aspects of the economic picture in recent years has been the existence of deficits on both the balance-of-payments and the government accounts. Under these circumstances, the monetary expansion created by the fiscal imbalance was offset by the effects of the country's loss of international reserves. The rise in coffee prices that was prompted by the drought in Brazil moderated this situation somewhat by contributing to Colombia's international reserves. Since the monetary authorities were unable to make a large enough reduction in the fiscal deficit, the means of payment expanded rapidly in December, giving rise to heavy demand pressures.

2. Recent economic trends

a) *Total supply and demand*

After making a slight recovery in 1984, the rate of expansion of economic activity slackened in 1985. The product grew by only 2.5% and, consequently, the per capita product scarcely rose at all, remaining at a level similar to that of 1980 (see table 1). At the same time, imports of goods and services declined in volume for the third year running, which caused the import coefficient to fall once again.

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



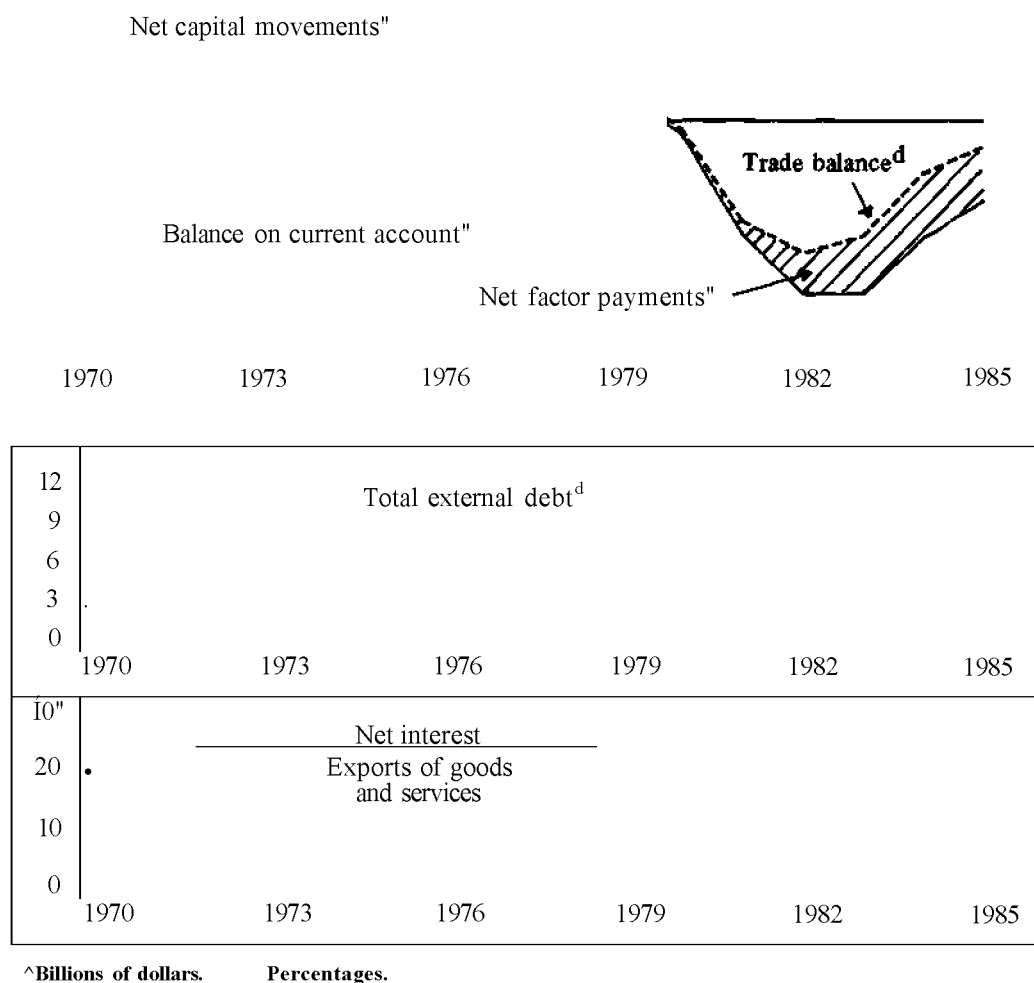
Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Bogotá, Barranquilla, Medellín and Cali.

^cPercentage variation, December-December.

Figure 1 (concluded)



The growth observed in total demand was mainly accounted for by the 12% increase in the volume of total exports and, to a lesser extent, by the 3% rise in consumption. In contrast, gross domestic investment fell 9%, after having decreased at an average rate of 5% during the two preceding years (see table 2).

The trend in total supply and demand over the past few years has reflected a shift in the structure of production towards import substitution and exports. This process has been focused on the production of consumer goods and raw materials using intermediate level technology. The restrictions placed on imports of capital goods, however, have had a heavy impact on investment.

b) *The main sectors of production*

All sectors of production except for mining and agriculture grew more slowly in 1985 than they had in 1984. Industry, construction, commerce and services showed the biggest downturns (see table 3).

i) *Agriculture*. The agricultural product rose 2%; this rate was similar to those of the two preceding years but was lower than the past average. This poor showing was due partly to the 2.6% drop in coffee production and partly to the slow expansion seen in the other crops as a whole. The low level of investment during the past five years was another important factor in the sector's unsatisfactory performance.

As in 1984, the structure of crop-farming production underwent major changes as the rise in the exchange rate caused production to shift towards more commercial activities. Whereas the harvests of maize, sorghum, potatoes and yuca were down sharply and the rice harvest held nearly steady, cotton production jumped 40%, the output of soya rose 10% and that of African palm increased 7% (see table 4).

The drop in the output of cereals and subsistence crops affected domestic supply, and the rise in food prices was therefore much more rapid than the average.

The policy aimed at diversifying production in coffee-growing areas and the slackening rate of domestic price adjustments tended to discourage the planting of coffee. Following a 16% drop in 1984, output fell nearly 3% in 1985. The future application of this policy has been seriously jeopardized, however, by the drought which hit Brazil late in the year. International coffee prices rose

Table 3

**COLOMBIA: GROSS DOMESTIC PRODUCT BY
KIND OF ECONOMIC ACTIVITY"**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985 ⁶	1982	1983	1984	1985 ⁶
Gross domestic product	104.6	108.4	111.1	100.0	100.0	1.0	1.2	3.6	2.5
Goods	102.1	107.7	112.0	49.6	50.1	-0.9	2.1	5.4	4.0
Agriculture ¹	103.1	104.2	106.1	19.4	18.5	-1.9	1.8	1.1	1.8
Mining	121.3	150.5	196.7	2.3	4.1	1.8	13.2	24.0	30.7
Manufacturing	96.5	104.2	107.3	23.3	22.5	-1.4	0.5	8.0	3.0
Construction	117.1	118.5	118.5	4.7	5.0	4.0	5.1	1.2	-
Basic services	108.7	111.6	113.9	10.2	10.5	4.9	-0.4	2.7	2.0
Electricity, gas and water	111.2	117.5	123.9	1.3	1.5	3.2	4.3	5.7	5.4
Transport, storage and communications	108.3	110.7	112.4	8.9	9.0	5.2	-1.1	2.2	1.5
Other services	108.6	111.5	113.5	39.9	40.8	2.4	1.7	2.7	1.7
Commerce, restaurants and hotels	101.3	103.9	104.4	13.3	12.5	1.6	-1.9	2.5	0.5
Financial institutions, insurance, real estate and business services	113.2	116.4	119.4	13.7	14.7	3.1	3.2	2.8	2.6
Ownership of dwellings	111.2	115.9	120.6	7.0	7.6	3.2	4.0	4.3	4.0
Community, social and personal services	111.1	114.2	116.5	12.9	13.6	2.5	3.5	2.9	2.0
Government services	112.6	116.1	118.4	7.7	8.2	2.4	3.9	3.1	2.0
Import duties	106.1	92.3	77.4	2.8	1.9	10.0	-8.7	-13.0	-16.2
Less: adjustments for bank services	138.5	140.3	141.7	2.5	3.2	10.5	6.1	1.3	1.0

Source: ECLAC, on the basis of official figures.

¹At constant 1980 market prices.

²Preliminary figures.

³Includes stock raising, forestry and fishing.

Table 4

COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1982	1983	1984	1985"		1981	1982	1983	1984	1985"
Index of agricultural production (1970 = 100)	129.6	156.0	158.9	162.2	165.4	168.7		3.2	-1.9	1.8	2.0	2.0
Production of main crops*												
(thousands of tons)												
Cereals												
Rice	1 614	1 798	2 018	1 780	1 695	1 698		-0.5	12.9	-11.8	-4.8	0.2
Maize	723	854	898	864	864	763		3.0	2.0	-3.8	-	-11.7
Sorghum	335	431	576	595	590	499		23.4	8.3	3.3	-0.8	-15.4
Wheat	39	46	71	78	59	76		34.8	14.5	9.9	-24.4	28.8
Oilseeds												
Raw cotton	401	353	154	130	243	339		3.7	-57.9	-15.6	86.9	39.5
Soya	169	155	99	122	94	104		-42.6	11.2	23.2	-23.0	10.6
African palm ^c	39	70	85	102	118	126		14.3	6.5	20.0	15.7	6.8
Staple foods												
Common beans	62	84	73	82	80	99		-11.9	-1.4	12.3	-2.4	23.8
Potatoes	1 320	1 727	2 149	2 188	2 463	1 910		21.8	2.1	1.8	12.6	-22.5
Yuca ^c	2 021	2 150	1 552	1 615	1 675	1 435		-	-27.8	4.1	3.7	-14.3
Other												
Cane sugar"		1164	1 331	1 351	1 178	1 318		-1.4	15.9	1.5	-12.8	11.9
Brown cane sugar (panela) ^c	806	988	884	780	825	988		-5.4	-5.5	-11.8	5.8	19.8
Coffee'	510	931	728	824	694	676		-13.2	-9.9	13.2	-15.8	-2.6
Bananas'	559	944	1 147	964	1 104	1 029		77.6	3.3	-16.0	14.7	-6.7
Tobacco'	58	47	49	48	44			6.4	-2.0	-2.0	-8.3	

Source: ECLAC, on the basis of statistics supplied by the Ministry of Agriculture, the Banco de la República and the Nacional Coffee-Growers' Federación.

'Preliminary figures. 'Agricultural year. 'Calendar year. Producción of oil pulp.
'Producción of raw sugar. 'Coffee-growing year (1 October to 30 September).

considerably as a result of the drought, and this put heavy pressure on domestic prices. The government had to raise the price in December and pledged to increase it further in the early part of the following year (see table 5).

Stock-raising, which represents 40% of the agricultural product, was sluggish. Poultry and milk production were down, while beef output showed no change.

ii) *Manufacturing*. Industrial output (which had declined steadily between 1981 and 1983 but which had grown 10% in 1984) rose only 3%. This was accompanied by a marked change in its sectoral composition. The production of capital goods (which had grown much more rapidly than had the output of consumer and intermediate goods in 1984) plunged by 14%, whereas the production of consumer and intermediate goods expanded only slightly more slowly than the year before (see table 6).

The fluctuations in industrial production stemmed from the situation at the international level as well as from domestic policy. The recovery made by production in 1984 was fuelled by the increase in exports of manufactures and by the growth of import substitution, both of which slackened in 1985. On the one hand, the decrease in imports by the United States and the devaluation of the dollar hindered the development of exports, which increased less than they had in 1984. On the other hand, import substitution activities also expanded more slowly. Quantitative restrictions on external purchases—which had been one of the main forces stimulating national production—proved to be a

less effective mechanism than before in shifting domestic demand towards national production and, indeed, became instead one of the factors which limited its expansion.

The above situation was compounded by the effects of the adjustment policy. While the devaluation pushed up production costs, the reduction of the fiscal deficit tended to dampen domestic demand, and the combination of these two factors prompted a decline in the effective demand for goods.

Industrial performance during the past few years has attested to industry's ability to act as a leader of the rest of the economy, however. Variations in the total domestic product have come very close to mirroring those of industrial production. Moreover, industrial performance has not been an isolated phenomenon which can be accounted for by price mechanisms alone. Industrial activity has, to a large extent, been determined by effective demand, which, in turn, has been determined by external markets, domestic policy and the food supply. This sector's frequent ups and downs have been the result of external fluctuations and changes in economic policy.

Table 5
COLOMBIA: TRENDS IN COFFEE PRICES AND
IN THE RETENTION QUOTA

End of	Prices			Retention quota	Ad valorem tax ⁷
	External ¹	Export repayment	Domestic ²		
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
1985 March	1.42	206.0	18 100	68	6.5
June	1.39	209.0	19 350	68	6.5
September	1.26	204.0	20 700	68	6.5
December	2.33	315.0	24 375	68	6.5

Source: ECLAC, on the basis of statistics supplied by the Banco de la República.

¹Dollars per pound. Corresponds to the prevailing price on the New York commodities exchange for the "other milds" variety, plus US\$ 0.02. ²Dollars per 70-lb sack of green coffee. ³Pesos per 125-kg load of parchment coffee. ⁴Per 70-kg sack exported. ⁵Percentages. ⁶Tax on the value in foreign currency of the coffee export repayment price.

Table 6

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION*(Growth rates)*

	1981	1982	1983	1984	1985"
Total	-2.8	-3.1	-1.1	9.8	3.0
Consumer goods	-2.7	-4.5	0.4	8.8	6.0
Foodstuffs	-6.5	-1.5	3.4	12.3	9.7
Beverages	-2.6	-6.1	6.1	4.4	6.8
Tobacco	8.1	4.9	1.9	13.8	6.7
Textiles	2.3	-6.5	-7.6	12.6	4.9
Clothing	1.1	-7.8	-9.4	9.3	-9.9
Leather and leather products	2.9	-7.2	-18.9	2.2	-2.3
Footwear	2.7	-9.9	1.6	-14.9	-2.6
Wooden furniture	-8.5	-22.3	-14.6	4.5	4.8
Printing, publishing and related activities	-5.9	1.8	-7.1	-18.3	-8.0
Articles of clay, pottery and china	-4.0	-3.4	-9.3	5.2	9.7
Miscellaneous industries	-6.6	-26.1	12.3	23.4	9.5
Intermediate goods	-2.5	0.9	4.3	8.0	7.0
Lumber industry	6.0	6.7	-3.8	13	2.2
Paper and paper products	-2.1	-4.1	-1.7	12.1	7.8
Industrial chemicals	-12.4	0.8	14.3	23.3	8.8
Others chemicals	-5.3	6.8	-3.7	7.4	14.4
Petroleum products	12.8	0.1	10.0	14	4.6
Other petroleum and coal products	-2.2	5.3	7.6	-0.5	22.9
Rubber products	5.5	-10.0	-6.1	8.6	3.1
Plastic products	-6.2	-	7.1	-7.1	-7.9
Glass and glass products	-2.9	-0.8	-3.5	-4.2	23.2
Other non-metallic mineral products	-2.1	4.1	-2.7	14.8	-2.7
Basic iron and steel industries	3.9	5.5	8.9	-7.8	1.8
Basic non-ferrous metals industries	0.2	-9.6	0.4	-8.9	-0.1
Capital goods	-3.5	-7.2	-11.3	20.1	-14.0
Metal products, except machinery	-5.7	-5.4	-0.7	7.0	-1.5
Machinery, except electrical appliances	-1.1	-2.6	-16.6	-2.2	-28.4
Electrical machinery and appliances	7.2	-2.5	-15.7	0.8	-3.1
Transport equipment	-11.6	-15.5	-13.7	55.5	-20.0
Professional and scientific equipment	19.3	1.3	-0.7	28.4	13.2

Source: ECLAC, on the basis of data supplied by the National Bureau of statistics (DANE).

"Preliminary figures. Does not include coffee hulling.

One of the most surprising developments has been the drop in industrial employment, which has declined during the past few years regardless of whether production has increased or decreased. Changes in production have therefore apparently been accompanied only by changes in productivity. This is partly because the statistics on industrial employment do not adequately reflect the use of temporary manpower and therefore underestimate employment while overestimating increases in productivity. Even so, there is no question that various industrial activities have undergone a modernization process in recent years which has tended to lower their utilization of manpower. This was one of the reasons why corporate profits were substantially higher in 1985 despite the fact that the manufacturing sector expanded by only 3%.

iii) *Construction*. Construction has been one of the sectors for which the government has done the most. In 1983, it launched an effort through the Institute of Land Credit to promote the expansion of low-income housing. To this end, the Institute's budget was increased and steps were taken to

channel financial resources to it. Thanks to these measures, housing construction rose 31% in 1983, while total construction increased by 23% in the country's ten largest cities (see table 7). In 1984, however, the expansion of low-income housing was, to some extent, accomplished at the cost of other construction activities, with the result that the total area constructed during the year diminished by 2%. In 1985, in contrast, both housing construction and total building grew rapidly, expanding by around 10%. The government thus achieved its purpose of channelling funds towards low-income housing, the annual supply of which has grown considerably during the past three years. It was unable, however, to make the sector serve as a force for reactivation. The cycles of housing construction, which have been based on variations in the available financing, have not helped to create a stable framework for a sustained economic recovery, and furthermore in 1985 the expansion of housing construction was offset by the decrease in public investment, with the result that the product of the construction sector as a whole showed no change (see table 3).

iv) *Mining*. Mining continued to be the fastest-growing activity in the economy. Its value added climbed by nearly 31%, following increases of 13% in 1983 and 24% in 1984. The greatest strides were made in the production of gold, ferronickel and coal. The extraction of crude oil, however, which had risen 12% in 1984, increased less than 2% (see table 8).

Table 7

COLOMBIA: APPROVED CONSTRUCTION PERMITS

	Thousands of square metres					Growth rates				
	1980	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
Total surface area	5 941	6 148		...		3.2	0.2		...	...
Ten major cities	4 653	5 168	6 375	6 238	6 930	10.7	0.3	23.4	-2.1	11.0
Bogotá	1 893	2 321	2 714	2 483	2 996	1.1	21.3	16.9	-8.5	20.7
Barranquilla	218	243	423	172	138	8.7	2.5	74.1	-59.3	-19.8
Bucaramanga	263	271	227	234	267	27.7	-19.6	-16.2	3.1	14.1
Cali*	763	600	776	1 326	1 078	17.9	-33.3	29.3	70.9	-18.9
Cartagena	113	69	333	170	253	20.4	-23.3	382.6	-48.9	48.8
Cúcuta	97	120	84	83	97	-53.6	166.7	-30.0	-1.2	16.9
Manizales	163	123	225	136	124	15.3	34.5	82.9	-39.6	-8.8
Medellin ^e	1 033	1 317	1 421	1 460	1 731	30.9	-2.5	7.9	2.7	18.6
Neiva	42	49	105	118	106	-31.0	69.0	114.3	12.4	-10.2
Pasto	69	55	64	53	136	-15.9	-5.2	16.4	-17.2	156.6
Total surface area of new housing	4 634	4 716		...	...	9.0	-6.6			
Ten major cities	3 670	3 916	5 142	5 271	5 749	14.3	-6.7	31.3	2.5	9.1
Bogotá	1 566	1 771	1992	2 059	2 410	0.6	12.4	12.5	3.4	17.0
Barranquilla	178	128	382	144	97	-14.6	-15.8	198.4	-62.3	-32.6
Bucaramanga	236	222	183	175	198	22.9	-23.4	-17.6	-4.4	13.1
Cali*	563	511	699	1 205	973	36.2	-33.4	36.8	72.4	-19.2
Cartagena	60	41	268	160	207	21.7	-43.8	553.7	-40.3	29.4
Cúcuta	53	95	63	72	68	-37.7	187.9	-33.7	14.3	-5.5
Manizales	136	78	186	111	90	14.0	-49.7	138.5	-40.3	-18.9
Medellin ^f	787	986	1 213	1 202	1 473	36.9	-8.4	23.0	-0.9	27.5
Neiva	39	34	99	92	97	-38.5	41.7	191.2	-7.1	5.4
Pasto	-54	50	54	48	132	-7.4	-	8.0	-11.1	17.5

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

°Preliminary figures. Includes permits approved in the metropolitan area of Yumbo. Includes permits approved in the metropolitan areas of Bello, Envigado and Itagüí.

Table 8

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Gross mining product (indexes 1980 = 100)	104.1	100.0	121.4	138.8	181.1	1.8	13.2	14.3	30.7
Petroleum	57.3	45.9	54.2	60.8	61.8	5.5	5.0	12.2	1.6
Coal ^c		3 900	5 000	6 600	9 706	10.3	13.6	32.0	47.1
Iron ore ^c	537	491	436	444	439	8.5	-2.1	1.8	-1.1
Gold ^d	311	497	431	731	1 142	-11.0	-6.2	69.5	56.5
Silver/	87.6	140.5	132.4	153.4	168.7	-6.8	6.6	15.9	10.0
Platinum	22.1	14.3	10.3	10.1	11.5	-19.7	-13.4	-1.9	13.9
Salt ^d	926	887	538	664	49	-40.9	27.2	23.2	25.4

Source: ECLAC, on the basis of data supplied by the Ministry of Mines and Energy and the Banco de la República.

°Preliminary figures.

Millions of 42-gallon barrels.

^cThousands of tons.

Thousands of troy ounces.

Table 9

COLOMBIA: PETROLEUM INDUSTRY INDICATORS

	1980	1982	1983	1984	1985°	Growth rates				
						1981	1982	1983	1984	1985°
Millions of barrels										
Production										
Extraction of crude oil	45.9	51.6	54.2	60.8	61.8	6.5	5.5	5.0	12.2	1.6
Output of petroleum product	59.3	62.6	68.5	69.8	68.6	6.7	-1.1	9.4	5.0	-1.7
External trade										
Imports of crude oil	7.3	7.3	13.8	9.8	6.8	5.5	-5.2	89.0	-29.0	-30.6
Imports of petroleum products	13.0	11.0	7.5	5.7	9.1	-15.4		-31.8	-24.0	59.0
Exports of petroleum products	9.4	12.0	15.6	16.8	19.7	10.6	15.4	30.0	7.7	17.2
Millions of dollars										
Imports of crude oil	220	233	382	269	182	21.4	5.9	63.9	-29.6	-32.3
Imports of petroleum products	491	425	257	174*	274	-15.1	-13.4	-39.5	-5.4	57.5
Exports of petroleum products	240	213	434	449	457	12.9	-11.3	-103.8	3.5	1.8
Energy balance	-471	-415	-205	-6	1					

Source: ECLAC, on the basis of data supplied by the Banco de la República and the Ministry of Mining and Energy.

°Preliminary figures.

Gasoline only.

Nonetheless, the trade balance for petroleum improved slightly, with export earnings totalling US\$ 457 million and outgoings amounting to US\$ 456 million. The country thus marked up a surplus on the petroleum account for the first time in the last ten years. The output of petroleum products declined nearly 2% due to changes in the refineries' production structure (see table 9). Fuel consumption rose 3%; this rate was the highest recorded since 1978 and was greater than the growth rate for the product. One contributing factor was the deterioration in real fuel prices seen throughout 1985.

Colombia's prospects in so far as petroleum is concerned are highly encouraging. Discoveries made in recent years have increased the country's known oil reserves significantly. In addition, there was an upsurge in activity in partnership contracts in 1984 and 1985, following a very slack period in this respect in 1983. The newly-discovered oil reserves provide grounds for forecasting a significant increase in petroleum extraction during the next few years. The exact volumes involved, however, will be dependent upon physical factors and policy elements, which may change as a result of recent developments regarding external prices: the low oil prices may very well discourage exportation, and it is likely that both State enterprises and private companies will postpone their plans for making external sales. Indeed, the forecasts made a few years ago which indicated that oil exports would dramatically improve the balance of payments have been overtaken by events. Foreign exchange earnings will be lower than had been initially expected, due to the drop in both prices and export volumes.

The investments made midway through the decade in coal production activities have begun to bear fruit. In 1985, output rose 43% and was more than double the production level of just three years before. The efforts made to substitute coal for other energy sources, however, have thus far met with no more than moderate success. Coal consumption rose only 7%, which is not very much for a country with Colombia's production potential. The increase in coal production sparked a substantial rise in exports, however, which totalled US\$ 130 million in 1985 (more than three times the 1984 level). Nevertheless, the outlook is uncertain. While coal prices had ranged around US\$ 45 per ton early in the decade, in 1985 they fluctuated near US\$ 30 per ton. In addition, even though they have decreased more slowly than oil prices, in the long run the prices of these two commodities are linked to one another. This will be a continuing source of serious problems for the coal industry, since the current price is very close to the minimum level needed to ensure an acceptable level of profitability for new projects.

c) ***Employment and unemployment***

In 1985 the rate of unemployment rose for the fourth year in a row, reaching an average of 13.9%, which was the highest level recorded since statistics began to be compiled. Unemployment levels dropped in all the country's major cities except Manizales and Pasto during the second half of the year, however (see table 10).

This trend of unemployment was in keeping with that of economic activity as a whole. During the past four years the gross domestic product has grown more slowly, on average, than the labour force (at about 3 %). Furthermore, the relatively limited expansion which has been observed recently has mainly taken place in industry and mining, which typically generate few jobs. The growth rates of commerce and services, on the other hand, have been lower than the overall average. In addition, the uncertain outlook as regards the reactivation process has caused entrepreneurs to refrain from increasing the number of permanent jobs they offer. As a result, increases in production have primarily been achieved through more intensive utilization of existing personnel. At the same time, the quality of the jobs which are available has deteriorated, since the increase in employment has mainly been in informal activities.

3. The external sector

a) ***The adjustment policy and the balance of payments***

The management of economic affairs in 1985 was dominated by external-sector adjustment policy. Ever since 1982 the country has been running a large trade deficit, and it has not managed to gain greater access to external credit. The international reserves dropped from approximately US\$ 4.8 billion in late 1982 to US\$ 1.8 billion by the end of 1984. By early 1985, the government had therefore begun to suffer from serious problems of liquidity. These problems prompted it to reach an agreement with the International Monetary Fund for the introduction of a strict adjustment programme aimed at reducing the deficit on the current account of the balance of payments and at paving the way for US\$ 1 billion in loans from the international banking system.

Table 10

COLOMBIA: TRENDS IN EMPLOYMENT AND UNEMPLOYMENT

	1981	1982	1983	1984	1985	1984				1985			
						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	13.9	13.6	13.5	13.3	13.4	14.0	14.5	14.0	12.9
Bogotá	5.5	7.4	9.4	12.2	12.8	12.6	12.0	11.8	12.4	13.7	13.2	12.6	11.7
Barranquilla	11.1	10.4	13.8	13.9	15.7	14.5	13.3	15.3	12.4	14.3	17.9	17.5	13.1
Medellin	13.0	13.3	17.0	16.4	16.0	16.1	17.1	15.3	17.1	16.1	16.5	15.6	15.7
Cali	8.9	9.6	11.6	13.3	14.3	13.4	12.9	14.5	12.5	13.4	15.4	15.2	13.7
Bucaramanga				9.9	10.5	10.3	10.6	8.2	10.4	11.9	10.8	10.6	8.7
Manizales				14.9	16.4	15.6	16.1	15.5	12.4	15.9	17.7	14.9	17.4
Pasto				12.2	12.7	11.9	12.7	13.5	10.8	11.0	11.5	15.8	12.5
Gross rates of participation	38.9	39.2	40.7	42.0	42.2	41.2	41.4	42.0	43.2	42.5	43.0	41.5	41.9
Bogotá	38.9	40.0	41.8	43.5	43.6	42.9	42.9	43.1	45.2	44.5	44.8	42.1	42.9
Barranquilla	36.4	34.5	36.4	37.2	38.1	37.6	36.8	37.1	37.2	36.6	36.6	37.2	42.0
Medellin	39.3	38.8	40.1	41.1	41.2	39.5	41.1	41.6	42.0	42.0	41.1	40.3	41.3
Cali	40.5	41.0	41.2	41.9	44.4	41.4	41.0	42.7	42.6	42.6	46.2	44.6	44.3
Bucaramanga				40.9	41.3	41.1	40.6	39.6	42.2	41.2	40.9	41.5	41.5
Manizales				39.1	38.2	39.1	39.7	39.9	37.7	38.5	39.3	36.1	38.8
Pasto				40.8	41.6	41.0	40.9	39.9	41.2	40.7	42.0	42.4	41.4

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

The programme provided for a much faster rate of devaluation and a drastic cut in the fiscal deficit. It also included the phasing out of quantitative import controls and export subsidies. Finally, the increases in the minimum wage and in the salaries of public employees to be granted under this programme were to be lower than the rate of inflation.

The devaluation process was accelerated within the framework of the same gradual system which has been in use in Colombia for the past 20 years. The rate of increase in the exchange rate rose sharply during the early months of the year, but gradually slowed down thereafter. The real effective exchange rate thus rose considerably in comparison to the year before (see table 11). This had little effect on the trade balance, but had an enormous influence on the capital account. Although the initial acceleration of the devaluation heightened the outflow of capital, the subsequent slowdown tended to reverse this process. Thus, from May onward an inflow of speculative capital was observed, as indicated by the rapid growth of financial assets and the deferral of import payments.

This change was also clearly reflected in the balance-of-payments capital account: the combined total of net short-term capital movements plus errors and omissions, which amounted to nearly -US\$ 1 billion in 1984, dropped to slightly over one-half that figure in 1985.

The staunching of the outflow of capital was probably the most influential factor in improving the country's balance-of-payments position in 1985. The increase in official-sector capital revenues and the reduction in the deficit on current account also made a major contribution. Since the surplus on capital account was larger than the deficit on current account, the international reserves climbed by US\$ 280 million, after having dropped by nearly US\$ 2 billion in 1983 and by almost US\$ 1.3 billion in 1984 (see table 12).

b) *Merchandise trade and the current account*

There has been a considerable improvement in the trade balance since 1982: the trade deficit for goods and services, which totalled US\$ 2.9 billion in that year, decreased steadily from then on until it disappeared entirely in 1985. This achievement was the result of a sharp drop in imports during the 1983-1984 biennium and the growth of exports in 1984-1985.

i) *Exports*. Following a steady decline between 1980 and 1983, the volume of exports made a strong comeback in 1984 and 1985, expanding at an average annual rate of around 16% (see table 13).

As in 1984, most of the increase in exports was accounted for by coffee, coal, ferronickel, gold and flowers. The value of Colombia's other exports rose nearly 7%, while the amount of external sales of petroleum and petroleum products fell by the same percentage (see table 14).

The substantial rise in the effective exchange rate was partly responsible for the expansion of exports. The largest increases were in Colombia's exports of ferronickel, coal and gold, however, which are relatively insensitive to this variable in the short term. In addition, the exchange policy's

Table 11
COLOMBIA: TRENDS IN EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (pesos per dollar)	Indexes of real effective exchange rate"	
		Exports	Imports
1975	30.93	118.2	119.5
1976	34.70	112.0	113.1
1977	36.78	102.0	102.0
1978	39.10	103.1	103.4
1979	42.55	99.3	98.6
1980	47.28	100.0	100.0
1981	54.49	92.1	96.1
1982	64.08	86.5	90.0
1983	78.85	87.4	90.7
1984	100.82	88.7	95.3
1985	142.30	102.3	108.6
1982			
I	60.24	89.5	93.1
II	62.65	86.8	90.3
III	65.14	85.0	88.6
IV	68.31	84.5	88.1
1983			
I	72.13	87.1	90.0
II	76.35	85.0	87.7
III	80.87	87.0	90.6
IV	86.07	90.4	94.6
1984			
I	91.61	89.5	95.0
II	97.43	87.7	94.1
III	103.80	88.0	95.0
IV	110.44	89.5	96.9
1985			
I	118.88	89.1	96.3
II	135.38	96.2	102.6
III	150.28	105.6	111.5
IV	164.65	118.4	124.1

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

"Corresponds to the average of the indexes of the real exchange rates for the peso with respect to the currencies of Colombia's main trading partners, weighted according to the relative significance of exports to those countries or imports from them, as appropriate. For the period 1975-1979, the relative weights assigned correspond to the average for those years; from 1980 onward, they correspond to the average for the period 1980-1983. Wholesale price indexes were the indexes used in the calculations whenever possible. For information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America, 1981*.

Table 12

COLOMBIA: BALANCE OF PAYMENT

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	435	-207	-1962	-3 056	-3 022	-2 020	-1 364
Trade balance	612	-126	-1 726	-2 269	-1 970	-888	-417
Exports of goods and services	4 532	5 318	4 289	4 424	3 784	4 482	5 000
Goods FOB	3 441	3 987	3 158	3 113	2 970	3 668	4 036
Real services	1 090	1 331	1 131	1 309	815	814	964
Transport and insurance	335	432	480	436	390	340	369
Travel	422	478	437	484	235	270	297
Imports of goods and services	3 920	5 444	6 015	6 693	5 754	5 370	5 416
Goods FOB	2 978	4 283	4 730	5 358	4 464	3 980	4 027
Real services	942	1 161	1 284	1 335	1 290	1 390	1 389
Transport and insurance	432	648	726	794	639	553	531
Travel	255	239	287	259	315	260	240
Factor services	-276	-245	-478	-954	-1 197	-1 311	-1 352
Profits	-109	-87	-185	-300	-437	-183	-211
Interest received	249	471	631	498	272	110	91
Interest paid	-450	-629	-937	-1 147	-1 011	-1 196	-1 203
Other	32	-1	14	-4	-21	-42	-29
Unrequited private transfer payments	99	164	242	167	145	179	405
Balance on capital account	1 078	1 109	1 941	2 180	1 180	741	1 687
Unrequited official transfer payments	3	1	1	2	19	26	59
Long-term capital	755	816	1 641	1 615	1 528	1 672	2 200
Direct investment (net)	103	51	228	337	514	411	729
Portfolio investment (net)	-12	-3	-2	-7	-2	-3	-5
Other long-term capital	663	768	1416	1 285	1 016	1 264	1 476
Official sector ^c	406	472	650	329	102		
Loans received	614	639	761	505	290		
Amortization payments	-190	-128	-143	-172	-188		
Commercial banks'	-	-	-	-	-		
Loans received	-	-	-	-	-		
Amortization payments	-	-	-	-	-		
Other sectors'	257	295	766	956	914		
Loans received	514	430	1 176	1 208	1 360		
Amortization payments	-257	-135	-410	-252	-446		
Short-term capital (net)	221	129	275	349	-391	-835	-210
Official sector	-22	-59	29	36	90	-186	
Commercial banks	413	200	86	116	58	-414	-445
Other sectors	-171	-13	159	197	-539	-235	
Errors and omissions (net)	98	164	24	215	25	-122	-362
Global balance	1 513	902	-21	-875	-1 842	-1 279	323
Total variation in reserves (- sign indicates an increase)	-1 554	-1 298	-149	711	1 782	1 261	-284
Monetary gold	-78	-311	-239	-169	-177		
Special Drawing Rights	-45	-14	-31	-40	-19		
IMF reserve position	-6	-49	-30	-16	-81		
Foreign exchange assets	-1 425	-925	151	936	2 060		
Other assets	-	-	-	-	-		
Use made of IMF credit	-	-	-	-	-		

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.

"Preliminary figures. 'includes other non-factor services. 'Includes net loans granted and other assets and liabilities.

'Equivalent to the total variation in reserves (of opposite sign) plus counterpart items.

effects on crop-farming exports were partly cancelled out by supply factors. Even though the production of tradable goods grew more than food output did, the overall expansion was not enough to generate exportable surpluses. Moreover, the incentive which the higher exchange rate provided for industrial exports was partly offset by the reduction in the growth rate of worldwide trade and, especially, by the slackening of United States imports in 1985.

Table 13
COLOMBIA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985°
Growth rates						
Exports						
Value	15.9	-20.8	-1.4	-4.6	23.5	10.0
Volume	-2.8	-8.5	-5.4	-2.8	16.3	15.8
Unit value	19.2	-13.4	4.3	-1.9	6.2	-5.0
Imports						
Value	43.8	10.4	13.3	-16.7	-10.8	12
Volume	17.3	6.7	11.2	-7.5	-5.1	-0.4
Unit value	22.6	3.4	1.9	-9.9	-6.1	1.6
Terms of trade	-2.3	-16.6	2.2	8.1	11.8	-6.4
Indexes (1980= 100)						
Purchasing power of exports	100.0	76.3	73.7	77.5	100.8	109.2
Volume of exports	100.0	91.5	86.5	84.1	97.8	113.2
Terms of trade	100.0	83.4	85.3	92.2	103.1	96.4

Source: LCLAC, on the basis of official figures.
°Preliminary figures.

Table 14
COLOMBIA: EXPORTS OF GOODS, FOB

	Millions of dollars						Percentage breakdown			Gro'wth rates			
	1980	1981	1982	1983	1984	1985	1980	1985	1981	1982	1983	1984	1985
Total	4 296	3 397	3 282	3 147	3 658	4 036	100.0	100.0	-20.9	-3.4	-4.1	16.2	10.3
Coffee	2 208	1 507	1 515	1443	1 737	1844	51.4	45.7	-31.7	0.5	-4.8	20.4	6.2
Remainder	2 088	1 890	1 767	1 704	1921	2 192	48.6	54.3	-9.5	-6.5	-3.6	12.7	14.1
Petroleum and petroleum products	100	34	213	434	449	417	2.3	10.3	-66.0	526.4	103.8	3.5	-7.1
Coal	10	9	14	17	34	129	0.2	3.2	-10.0	55.6	21.4	100.0	279.0
Ferronickel	-	-	-	46	66	75	-	1.9	-	-	-	43.5	13.6
Gold	310	239	169	177	244	365	7.2	9.0	-22.9	-29.3	4.7	37.9	49.5
Other	1 668	1 608	1 371	1030	1 128	1 206	38.9	29.9	-3.6	-14.7	-24.9	9.5	6.9

Source: Banco de la República.

Table 15
COLOMBIA: IMPORTS OF GOODS

	Millions of dollars						Percentage breakdown		Growth rates				
	1980	1981	1982	1983	1984	1985	1980	1985	1981	1982	1983	1984	1985
Total	4 283	4 730	5 358	4464	3 980	4 027	100.0	100.0	10.4	13.3	-16.7	-10.8	12
Consumer goods	570	605	675	487	390	380	13.3	9.4	6.1	11.6	-27.9	-19.9	-2.6
Intermediate goods	2 257	2460	2 711	2 286	2 161	2 247	52.7	55.8	9.0	10.2	-15.7	-5.5	4.0
Petroleum	561	723	657	639	445	436	13.1	10.8	28.9	-9.1	-2.7	-30.4	-2.0
Other	1696	1 737	2 054	1647	1716	1811	39.6	45.0	2.4	18.2	-19.8	4.2	5.5
Capital goods	1456	1665	1972	1691	1429	1400	34.0	34.8	14.4	18.4	-14.2	-15.5	-2.0

Source: National Bureau of Statistics (DANE).

Table 16
COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984	1985"
Millions of dollars							
Total external debt							
Balances	5 222	6 300	7 885	9 410	10 405	11 551	12 856
Public	3 456	4 179	5 168	6 078	6 958	8 090	9 351
Private	1 766	2 121	2 717	3 332	3 447	3 461	3 505
Servicing	916	960	1 314	1 576	1 586	1 644	1 856
Principal	460	333	378	430	636	446	653
Interest ¹	456	627	936	1 146	950	1 196	1 203
Public external debt							
Servicing	649	542	668	936	980	1 182	1426
Principal	418	258	266	336	415	562	594
Interest	231	284	402	600	565	620	832
Percentages							
Ratios							
Total external debt/exports of goods and services	115.4	118.5	183.7	212.1	258.1	250.4	254.2
Servicing/exports of goods and services	20.2	18.1	30.6	35.5	39.3	36.5	36.6
Net interest payments ^c /exports of goods and services	4.6	2.9	7.1	14.6	19.0	26.6	23.8

Source: ECLAC, on the basis of data supplied by the Banco de la República, and table 12.

^a Preliminary figures.

^c Corresponds to the entry for interest payments in the current account of the balance of payments.

Interest paid, minus interest received.

ii) *Imports*. Up until 1984, the adjustment of the external sector was mainly based on the reduction of imports of goods, whose value increased only 1% in 1985 after having fallen 17% in 1983 and 11% in 1984. As was also the case in 1984, the only imports which expanded were those of intermediate goods other than petroleum (see table 15).

The country's trade policy has played a major role in orienting its economic policy during the past three years. In 1983 and 1984, it was based on a selective scheme to strengthen protectionist measures. Tariffs were adjusted and quantitative restrictions were tightened with a view to reducing imports of those capital goods and raw materials which lent themselves most readily to substitution. This approach was chosen in an attempt to cut imports while increasing industrial activity or at least maintaining it at its previous level.

The main thrust of the country's trade policy began to change as the loss of international reserves became more severe. The principle of selectivity was gradually abandoned, and in 1985 the authorities established an 8% across-the-board tax on all imports and extended quantitative controls to include all goods. The effort to reduce imports was therefore extended to include raw materials and non-domestic capital goods, and this affected the supply for production. Consequently, the lack of growth in the volume of imports in 1985 also helped to slow the growth rate of industrial production.

As in 1984, the reduction in the trade deficit for goods and services was partly offset by the increase in interest payments. Even so, the deficit on current account dropped from US\$ 2.0 billion to US\$ 1.3 billion between 1984 and 1985 (see table 12).

c) *The external debt*

In 1985, the total external debt rose by about 11% for the third year running. Its year-end balance thus neared US\$ 13 billion, which was over double its level of just five years before. The increase in the external debt was almost entirely due to the sharp rise in public borrowing, as was also true in 1984 (see table 16). The debt increased more than interest payments did, as well as growing more rapidly than in most of the other Latin American countries. Inasmuch as the growth rates for the external debt and for exports of goods and services were similar, both the debt/exports ratio and the percentage of export earnings which went to debt servicing remained virtually constant. Both of these coefficients were much higher in 1985 than they had been in the 1979-1980 biennium, however (see table 16).

4. Prices and wages

a) *Prices*

The rate of increase in the consumer price index climbed from 18.3% in 1984 to 22.7% in 1985, while in the case of the wholesale price index it rose from 21.2% to 23% (see table 17).

The upsurge in inflation was linked to the exchange policy. As already mentioned, the authorities speeded up the rate of devaluation to such an extent during the first six months of the year that by May and June it had reached an annual rate of 60%. Prices reflected this almost immediately, with the result that the annual rate of inflation rose progressively, peaking at 28% in June. The government tried to control inflation by raising food imports, freezing administered prices and extending price controls. This policy had the desired effect: the inflation rate declined steadily during the second half of the year, reaching an annual rate of 22.5% in December (see figure 2).

Towards the end of the year, however, the rise in coffee prices interfered with the country's stabilization policy. The authorities were unable to cope in the final two months of the year with the expansion in the money supply caused by the increase in international reserves and the fiscal deficit. As a result, after having increased at a rate of less than 24% during the preceding four years, the growth rate of the means of payment rose steadily, reaching 28% by December.

Thus, at year's end the economy was marked by an excessive growth in demand, an insufficient food supply and a high real exchange rate. The combination of these factors gave rise to severe inflationary pressures which the government held in check only at the cost of major imbalances: the decision to hold down the rates charged for public services and gasoline prices caused public service enterprises and the State oil company to run large deficits.

b) *Wages*

Wages deteriorated during the year. Real wages dropped 3% for industrial workers, 5% for employees in commerce and 4% for agricultural day labourers. In general, real wages fell between 3% and 5% (see tables 18 and 19).

Table 17

COLOMBIA: DOMESTIC PRICE TRENDS

(Percentages)

	1979	1980	1981	1982	1983	1984	1985
Variation from December to December							
Consumer price index"							
Total for manual workers	29.8	26.5	26.7	23.9	16.7	18.3	22.7
Food	32.1	25.4	28.2	24.9	17.2	19.6	27.9
Total for non-manual workers	26.5	24.5	25.6	24.5	16.5	18.3	21.8
Food	32.1	26.7	28.8	25.1	17.4	18.6	28.2
Wholesale price index	27.4	25.4	23.5	24.6	18.0	21.2	23.0
Imported products	20.6	23.6	22.4	18.5	23.4	35.6	33.1
Domestic products	28.7	26.5	25.3	27.0	18.4	19.3	22.6
Agricultural products	28.3	21.3	29.3	32.3	18.5	17.8	24.4
Manufactures	33.3	30.0	20.9	20.2	16.1	22.0	20.0
Housing construction cost index							
Nationwide	30.0	26.9	22.0	21.7	24.6	21.5	28.1
Bogotá	29.7	27.4	20.2	22.0	17.1	21.1	22.4
Variation between annual average							
Consumer price index"							
Total for manual workers	24.7	27.2	28.1	24.6	19.8	15.9	24.6
Food	22.7	28.7	28.5	25.4	20.6	15.7	31.3
Total for non-manual workers	23.8	24.9	26.0	24.5	19.5	16.0	22.5

Source: ECLAC, on the basis of data supplied by the national Bureau of Statistics (DANE) and the Banco de la República.

"National average.

The trend in real wages was an effect of the adjustment policy. One of its main provisions was to limit pay hikes for public employees to 10% and the increase in the minimum wage to 18% (see table 20). In addition, the policy encouraged a rise in the exchange rate which pushed the rate of price increases up above its traditional level.

The effectiveness of the government's policy on devaluation was clearly linked to its wage policy. The increased cost of imports was compensated for by the reduction in labour costs. Real wages were therefore one of the basic variables used to ensure that the rise in the nominal exchange rate would not be offset by parallel increases in inflation.

The validity of the relation between the real exchange rate and real wages is beyond question. There is a great deal of evidence that the greater the decrease in real wages, the greater the effect of raising the nominal exchange rate above its real level. The procedure used to achieve this result, however, was not the most appropriate one. The drop in real wages was not the result of a co-ordinated policy, but rather of the money illusion which inflation usually produces. Anything achieved under these conditions cannot be very long-lasting, and it is reasonable to expect that, after a time, a strong reaction will be forthcoming from workers as they attempt to make up for past losses. Something along these lines occurred in December, when the government approved increases in the minimum wage and in public-sector wages which were slightly higher than the year-end inflation rate.

Moreover, the distribution of wage variations points up the regressive effects of the adjustment which has been made. In most companies, the productivity of labour increased sharply at the same time that real wages declined. The increase in corporate profits therefore did not stem from faster growth, but rather from a deterioration in wages in relation to productivity. Furthermore, wages in

crop farming and commerce fell more than they did in industry, which means that the decrease in real wages was greater for lower-income groups.

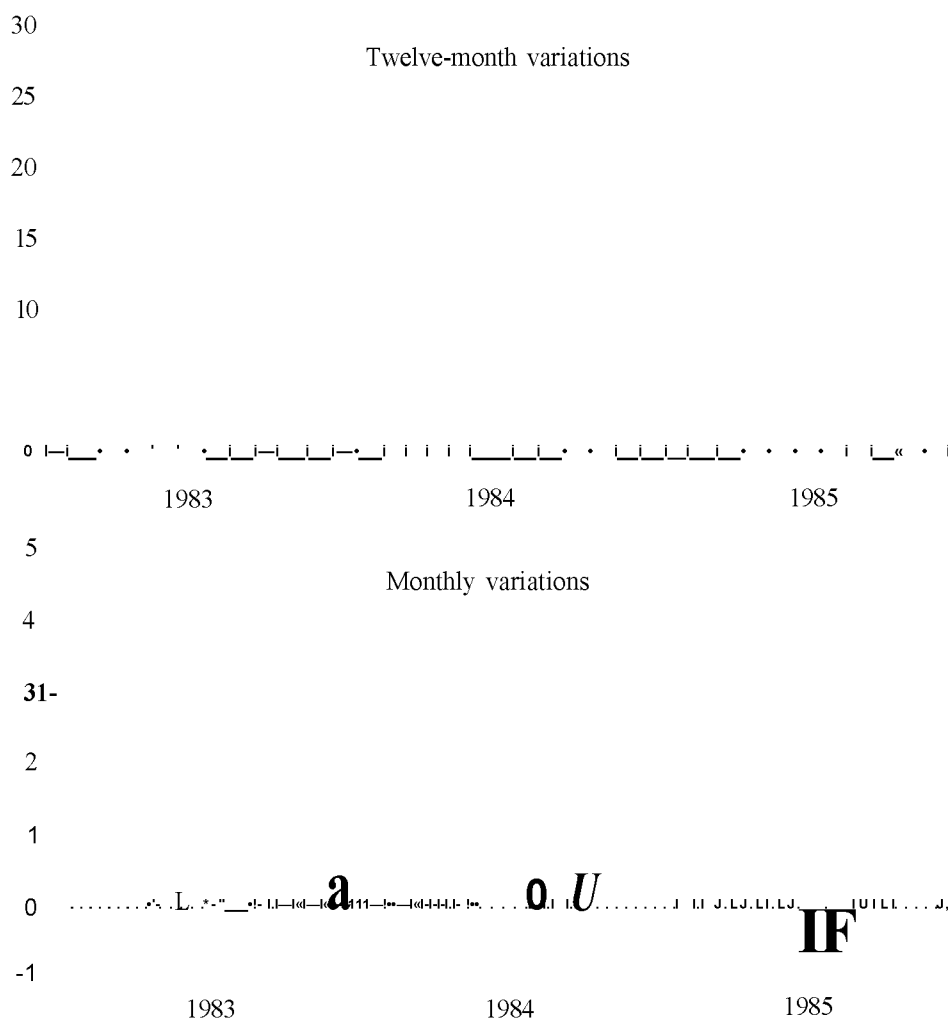
5. Monetary and fiscal policy

a) *Monetary policy*

The means of payment expanded 27.5%. This was the result of a 26% increase in the monetary base and a slight rise in the bank multiplier (see tables 21 and 22).

Although the international reserves had exerted a contractive influence during the past few years, in 1985 they became one of the main forces behind the expansion of the money supply. In contrast, the amount which credit granted to the Treasury added to the monetary base fell from 150 billion pesos in 1984 to 2 5 billion in 1985. Rediscounting continued to be used extensively as a means

Figure 2
COLOMBIA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

Table 18

COLOMBIA: WAGES AND SALARIES IN
INDUSTRY AND COMMERCE

(Growth rates)

	1978	1979	1980	1981	1982	1983	1984	1985"
Nominal wages								
Industry								
Non-manual workers	24.5	25.9	26.6	29.0	27.8	25.2	22.3	20.6
Manual workers	30.4	32.8	28.1	29.7	28.8	26.2	24.6	20.9
Commerce	26.5	28.3	32.1	26.3	30.9*	19.4	18.8	17.5
Real wages								
Industry								
Non-manual workers	4.1	1.6	1.4	2.5	2.6	4.4	5.5	-1.7
Manual workers ⁷	11.5	6.5	0.8	1.4	3.7	5.0	7.5	-3.2
Commerce [^]	6.8	3.8	2.6	-0.6	4.8	-0.2	2.5	-5.0

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Preliminary figures.
manual workers.

Deflated by the consumer price index for non-manual workers.

*Deflated by the consumer price index for

Table 19

COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE AND STOCK-RAISING

	Pesos						Real growth rates ^a						
	1980	1981	1982	1983	1984	1985	1980	1981	1982	1983	1984	1985	
Agriculture													
Cold (upland) areas													
With food	125	158.3	188	234	269	314	0.8	-3.1	-0.8	3.9	0.8	-4.9	
Without food	182	227.0	268	328	385	453	-0.6	-5.0	-2.1	2.2	1.3	-4.1	
Hot (lowland) areas													
With food	137	172	202	249	281	337	-1.5	-4.6	-1.2	2.9	-2.6	-2.2	
Without food	195	241	284	346	401	479	1.4	-5.9	-1.8	1.7	-	-2.6	
Stock-raising													
Cold (upland) areas													
With food	126	161	191	235	273	321	0.7	-2.7	-1.0	2.7	0.2	-4.2	
Without food	182	229	272	329	389	456	-0.4	-3.8	-2.1	1.0	2.0	-4.5	
Hot (lowland) areas													
With food	147	184	216	264	304	364	3.8	-4.4	2.3	0.9	-0.6	-2.4	
Without food	207	256	301	364	428	513	2.2	-5.6	-2.5	0.9	1.5	-2.3	

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Deflated by the consumer price index for manual workers.

of solving the private sector's problems. The government granted a large amount of subsidized credit to textile, metallurgical and coal companies, and generous loans were also provided as a way of supplying capital to financial institutions. Issues of this type amounted to 15 billion pesos.

Monetary policy went through a period of transition in 1985. In earlier years, the increase in the amount of credit furnished to the government in order to finance the budget and to the private sector in order to make up for the losses recorded by large companies was offset by the shrinkage of the

money supply caused by the decrease in Colombia's international reserves. The increase in external credit and the rise in coffee prices which took place late in 1985 altered this situation, however. Thus, during the final part of the year the public, private and external sectors all contributed heavily to the expansion of the money supply.

The authorities tried to neutralize the situation by placing securities on the market, thanks to which it was possible to withdraw approximately 60 billion pesos from it. Despite this enormous effort, however, the expansion in the means of payment exceeded the government's goal as well as the levels recorded during the four preceding years.

The aggressive stance taken by the authorities in carrying out transactions on the open market and the devaluation of the peso affected interest rates, which continued to be excessively high. The real interest rate on time deposits fluctuated around 11% while the interest rate on loans was about 15% (see table 23).

Transferable savings went up sharply. The balance, which had risen by about 25% during recent years, jumped 40% in 1985. This means that there was to some extent a return of capital into

Table 20

COLOMBIA: MINIMUM LEGAL DAILY WAGES

(Averages)

	Pesos						Real growth rates ^a					
	1980	1981	1982	1983	1984	1985	1980	1981	1982	1983	1984	1985
Rural wages	140	177	234	292	371	452	5.4	0.4	5.5	4.2	9.6	-0.7
Urban sector ^c												
High ^b	150	190	247	308	377	452	3.0	0.6	3.7	4.1	5.6	-2.2
Low ^b	140	177	234	292	371	451	5.4	0.4	5.5	4.2	9.6	-0.9

Source: EC LAC, 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.

^cAll other economic activities.

^dIn the departmental capital cities and adjacent municipalities.

^eIn all other municipalities.

Table 21

COLOMBIA: TRENDS IN THE MAIN MONETARY AGGREGATES

	Year-end balance (billions of pesos)					Growth rates				
	1981	1982	1983	1984	1985 ^a	1981	1982	1983	1984	1985 ^a
Means of payment (M ₁)	259.7	325.7	408.9	503.8	642.2	21.2	25.4	25.5	23.2	27.5
Currency	100.6	129.1	165.9	209.1	262.8	20.8	28.4	28.5	26.0	25.4
Current account deposits	159.1	196.6	243.0	294.7	379.4	21.5	23.5	23.6	21.3	28.7
Quasi-money (M ₂)	335.6	417.8	561.8	700.6	972.4	56.7	24.5	34.5	30.0	38.8
Deposits in housing corporations	122.2	172.2	244.5	303.6	436.5	46.8	40.9	42.0	35.2	43.8
Savings deposits	72.7	84.3	106.0	127.8	172.0	24.6	16.0	25.7	21.4	34.6
Time-deposit certificates	140.7	161.3	211.3	269.2	363.9	93.8	14.6	31.0	28.2	35.2
Expanded money supply (M ₁ + M ₂)	595.3	743.5	970.7	1 204.4	1 614.1	39.0	24.8	31.5	27.1	34.0

Source: ECLAC, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

Table 22

COLOMBIA: ORIGIN OF THE MONETARY BASE

	Year-end balance (billions of pesos)					Growth rates				
	1981	1982	1983	1984	1985"	1981	1982	1983	1984	1985"
Monetary base	207.1	243.7	276.7	327.5	412.2	21.8	17.7	13.5	18.4	25.9
Assets of the Banco de la República	288.6	357.8	373.7	501.5	688.8	17.2	24.0	4.4	34.2	37.3
Net international reserves	309.7	318.0	234.0	161.6	320.4	19.1	2.7	-26.4	30.9	98.3
Domestic credit	-0.8	61.6	140.2	327.5	373.8			127.6	133.6	14.1
Treasury	-16.5	29.8	76.9	220.4	245.3			158.1	186.6	11.3
Rest of the public sector	-18.9	-9.9	-14.7	-10.5	-16.8					
Commercial banks	13.2	21.2	43.2	50.0	64.4	21.1	60.6	103.8	15.7	28.8
Finance funds	-6.6	-12.9	-10.7	10.6	-7.1					
Other financial intermediaries	18. U	21.6	31.3	44.3	49.2	14.6	19.3	44.9	41.5	11.1
Private sector	9.5	11.7	14.1	13.2	38.8	53.2	23.2	20.5	-6.4	93.9
Exchange difference	-18.7	-22.5	-0.4	16.3	7.4					
Other net assets	-1.2	0.7	-0.1	-4.0	-12.7					
Non-monetary liabilities of the Banco de la República	83.6	117.5	102.8	181.0	284.8	7.3	40.5	-12.5	76.1	57.3
Commercial banks	0.7	0.4	0.5	21.6	31.1	-12.5	-42.9	25.0	4220.0	44.8
Other financial intermediaries	0.3	1.0	0.8	3.1	2.3	-25.0	233.0	-20.0	287.5	25.8
Public Investment Fund	-	-	-	18.7	18.7	-	-	-	-	-
Exchange Stabilization Fund	-	-	-	5.4	-	-	-	-	-	-
Private sector	20.3	21.1	38.4	53.4	70.2	6.3	3.9	82.0	39.1	31.5
Money market operations	45.2	73.6	37.5	49.3	108.4	2.0	62.8	-49.0	31.5	199
Long-term external operations	17.3	21.7	25.7	29.7	54.3	27.2	25.4	18.4	15.6	82.8
Other liabilities	-0.4	-0.4	-0.4	-0.4	-0.2	-	-	-	-	-
Treasury currency in circulation	2.1	3.5	5.8	6.4	8.1	16.7	66.6	65.7	19.0	26.5
Bank multiplier	1.25	1.34	1.48	1.54	1.56	-0.5	6.5	10.6	4.1	1.0
Means of payment'	259.7	325.7	408.9	502.7	642.2	21.8	17.7	25.6	22.9	27.5

Source: ECLAC, on the basis of data supplied by the Banco de la República.

"Preliminary figures.

Table 23

COLOMBIA: BANK INTEREST RATES"

	1980	1981	1982	1983	1984	1985
Effective nominal rate	36.4	38.6	35.9	34.2	34.4	35.9
Inflation rate	26.5	26.7	23.9	16.7	18.3	22.7
Effective real rate	7.8	9.4	9.7	15.0	13.6	10.8

Source: ECLAC, on the basis of data supplied by the Banco de la República.

"Corresponds to time-deposit certificates.

the country in 1985. Apparently, this capital was primarily used to purchase financial securities. Particularly rapid growth was observed in Banco de la República exchange certificates and in the national savings bonds offered by the government. Altogether, private-sector securities showed an increase of 33%, which can be considered satisfactory (see table 24).

b) *Fiscal policy*

The authorities have made heavy use of fiscal policy during the past three years, even though it has not been the result of systematic advance planning. Indeed, fiscal policy has swung from an expansionary to a restrictive orientation within excessively short periods of time.

One of the main components of the adjustment policy was the reduction of the fiscal deficit. Nonetheless, it was not until 1985 that determined action was taken to achieve this goal. The government obtained Congressional approval for a modification of the tax structure, extended the value added tax to include various mass-consumption goods, and levied an 8% tax on imports. In addition, it followed an overall policy aimed at reducing expenditure. Perhaps the most important part of this policy was the measure restricting increases in the wages of civil servants to 10%. The customary procedures for delaying expenditures and payments were also applied. This policy was even more successful than expected. Fiscal revenue rose 47%, operating expenses increased only 16%, and expenditure on investment climbed 47%. Thus, while income rose in real terms, the real level of operating expenses dropped. Consequently the fiscal deficit, which had been equivalent to 35% of total government spending in 1984, was slashed to only 22% of such expenditure in 1985 (see table 25).

Table 24
COLOMBIA: TRANSFERABLE SAVINGS

	Billions of pesos					Growth rates				
	1981	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
Total	443.7	582.5	732.8	942.0	1 305.9	48.3	31.3	25.8	25.5	38.6
Financial system	388.1	494.8	665.3	826.4	1 103.9	58.5	27.5	34.5	24.2	33.4
Savings deposits	72.7	84.3	106.0	128.7	172.0		16.0	25.7	21.4	33.6
Time-deposit certificates	140.7	161.0	211.3	273.2	372.2		14.4	31.2	29.3	36.2
CAV deposits	122.2	171.8	244.5	303.7	436.5		40.6	42.3	24.2	43.7
Commercial finance										
company promissory notes	36.6	44.7	56.1	63.1	76.2	94.7	22.1	25.5	12.5	20.8
Mortgage notes	12.0	14.1	16.0	27.7	34.8	8.1	17.5	13.5	73.1	25.6
Coffee bonds	4.0	4.0	4.7	5.0	1.1	-	-	17.5	6.4	
Coffee certificates		14.8	20.6	17.9	0.6			39.2	13.1	
Electricity certificates	-	-	6.0	7.1	10.5	-	-		18.3	47.9
Banco de la República securities	51.3	84.3	48.0	91.3	129.8	4.3	64.3	-43.1	43.3	42.2
Share securities	18.6	17.9	3.5	-	-	-13.1	-3.8	-80.4		
Exchangeable securities	9.7	24.0	13.8	35.7	42.6	2.1	147.4	-44.4	94.9	19.3
Agro-industrial securities	6.2	10.6	10.4	11.5	12.1	24.0	71.0	-1.9	10.6	5.2
Exchange certificates	16.8	31.9	20.3	44.1	75.1	25.4	89.9	-36.4	49.8	70.2
National government securities	4.2	3.3	19.5	24.3	72.2	-17.6	-21.4	490.9	24.6	197.0
Economic development bonds	4.2	3.3	2.5	0.3	-	-17.6	-21.4	24.2	-88.0	-
National savings bonds			17.0	23.9	72.2				40.6	202.1

Source: ECLAC, on the basis of data supplied by the Banco de la República.
°Preliminary figures. Savings and housing corporations.

Table 25

**COLOMBIA: EFFECTIVE INCOME AND EXPENDITURE
OF THE CENTRAL GOVERNMENT**

	Billions of pesos				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985"
Current income	189.7	238.7	302.7	445.3	21.2	25.8	26.8	47.1
Tax revenue	184.8	231.6	291.2	430.1	20.9	25.3	24.8	47.7
Income and complementary taxes	65.9	98.2	118.2	157.9	23.0	49.0	20.4	33.6
Other	0.6	0.4	0.4	3.3	-	-	-	-
Sales taxes	496	58.7	79.1	124.0	23.1	18.4	34.8	56.8
Customs duties and surcharges	36.6	37.9	48.3	84.0	24.4	-38.7	-5.3	55.6
Coffee taxes	6.2	3.8	3.6	5.6	-9.6	-42.4	-31.6	
Gasoline taxes	20.1	24.7	30.6	37.7	11.0	22.9	23.9	23.2
Other	6.4	8.3	12.2	20.9	39.6	12.7	52.1	80.6
Non-tax revenue	4.9	7.1	10.7	15.2	31.6	-	16.7	-
Current expenditure	211.0	262.9	362.4	421.8	37.1	24.6	37.8	16.5
Current savings					-9.0			
Investment	80.2	81.8	102.4	150.3	31.3	2.0	25.2	46.8
Total expenditure	291.2	344.7	464.6	572.1	35.5	18.4	34.8	23.1
Deficit	101.5	106.0	161.9	126.8	73.9	4.4	52.7	-21.7
Financing								
External credit	15.0	9.4	3.0	8.1				
Domestic credit	86.5	96.1	126.4	118.7				

Source: ECLAC, on the basis of data supplied by the Banco de la República.

"Preliminary figures.

The weak point of the fiscal policy applied during the past four years has been the lack of planning. There was no valid reason for promoting an increase in the fiscal deficit in 1982 and 1984, only to cut it sharply in 1985. Moreover, the sense of urgency surrounding the effort to make a rapid reduction in the fiscal deficit prevented the authorities from using the most appropriate mechanisms for this purpose. The means used to raise fiscal revenue involved expanding tax receipts at the cost of reduced progressivity. The impacts of both the across-the-board tax on imports and the expansion of the value added tax have tended to hit medium- and low-income groups the hardest. The advisability of maintaining these burdens over the long run is questionable. It would appear to be illogical, for example, to retain the tax on imports once foreign exchange conditions have eased.

The situation was much the same as regards the policy on public spending. The reduction in public expenditure was not the result of a process aimed at making cuts in lower-priority activities. Instead, it was brought about by the deterioration in civil servants' real wages and by a widespread effort to postpone expenditures and payments. This course of action is not one which would allow the reduction in expenditure to be maintained over a long period of time, but instead is likely to generate pressures aimed at making up for previous losses at a later date. Indeed, something along these lines occurred towards the end of the year, when, as already mentioned, the government authorized increases in the wages of public employees and in the minimum wage which exceeded the rate of inflation. Furthermore, the budget allocations approved by Congress for the following fiscal year provided for an increase in spending which would be greater than the rate of inflation, thus making it likely that the fiscal deficit would grow again.

COSTA RICA

1. Recent economic trends: Introduction and summary

In 1985 a significant slowdown occurred in Costa Rica's economy, with the gross domestic product, increasing 1.6%, compared to a rate of 7.3% the year before. This sluggish rate led to a 1% decline in the per capita product and revealed the vulnerability of economic performance. Nevertheless, the average increase in the domestic product over the last three years was 4%, one of the highest rates in Latin América. The improvement in the terms of trade enabled gross national income to increase by 3% (see table 1 and figure 1).

Economic performance was marked by the stagnation of the export sector and the maintenance of some degree of dynamism in domestic demand, as regards both consumption and investment.

The government found it necessary to draw up a readjustment programme, in conjunction with various international bodies, in order to obtain a further restructuring of maturities and thereby lighten the burden of the external debt service. This fact, to a large extent, determined both economic policy and the results achieved.

The influence of the stand-by arrangement, signed in January with the International Monetary Fund (IMF), made itself felt in fiscal, monetary, external trade and wage policies. In the fiscal area, a ceiling of 1.5 % of the gross domestic product was set on the public sector deficit; this was to be made possible by means of an increase in income, curbs on expenditure and a reduction of the budgetary imbalances of autonomous institutions. In addition, a reduction of domestic credit for the public sector, to be made up for by greater participation on the part of external sources in its financing, was planned.

Monetary policy provided for flexible exchange rates in line with the situation on international markets, while priority was given to the private sector in granting credit.

As regards wages, readjustments were to continue to be made on the basis of the increases in the prices of a basic market basket. In addition, an effort was to be made to allow prices to be set by the interaction of market forces, through the minimization of subsidies and direct controls.

Trade policy was to be structured around a unified exchange rate and a gradual readjustment that would be carried out on the basis of the balance-of-payments results and the behaviour of domestic prices. Debt servicing payments were to be met and restrictions affecting external transfer payments and imports were to be removed. Moreover, the government committed itself to restructuring tariffs.

During the course of the year, the authorities adopted further measures as they went along in order to moderate wage adjustments and speed up the increase in the exchange rate.

The Structural Adjustment Agreement with the World Bank remained in force. This agreement makes access to financing subject to the adoption of a new tariff policy and to a reduction of the public sector deficit by means of the sale of State enterprises, thereby reinforcing the conditions agreed upon with the IMF.

In addition, financial support was obtained from the Agency for International Development (IDA), with the proviso that the funds should be directed towards the private sector for the purchase of State enterprises.

Quantitative goals were largely met. However, the implementation of the relevant measures was an issue which sparked off considerable domestic controversy, and not all of them were put into practice. Consequently, a number of the disbursements which were due to be made by international financial agencies were either suspended or postponed to 1986.

The agreements in question involved a considerable capital flow (US\$ 370 million) which made it possible to cover the growing current account deficit, to maintain the dynamism of domestic demand and to increase gross international reserves by almost US\$ 70 million. Consequently, for the

third year running exchange stability was achieved, and this had a positive impact on the behaviour of productive agents.

Central government expenditure increased moderately, mainly as a result of a shrinkage in capital expenditure. The growth of tax revenue was sluggish, however, and failed to diminish the central government deficit. Consequently, the fiscal deficit constituted 4% of the product, a higher coefficient than the 3% recorded in 1984. Nevertheless, a substantial decline occurred in the public sector deficit as a whole, which met the target of 1.5% of the gross domestic product.

As in previous years, wage policy involved readjusting remunerations on the basis of the rise in prices of the products and services making up a basket market basket. By these means, an effort was made to ensure that wages did not exert inflationary pressure, and at the same time to maintain purchasing power, at least as far as essential goods were concerned. The authorities also planned to gradually restore the standard of living of those workers whose standard had declined substantially since the onset of the present crisis.

The rate of open unemployment (6.2) remained virtually unchanged in comparison with 1984, and was, in any case, considerably lower than during the 1982-1983 biennium.

In spite of the efforts made to achieve stabilization, the average fluctuation in the consumer price index (15%) was higher than in the previous year (12%). Wholesale prices followed a similar trend. In the second semester, however, the rate of price rises slowed down.

External indebtedness remained one of the most consequential factors in the country's economic, social and political behaviour. Short-term stabilization was helped by the lightening of debt servicing, achieved by means of periodic renegotiations and by the financial support provided by international agencies. However, these factors were apparently not enough to achieve more dynamic growth.

To sum up, the Costa Rican economy continued to grow, albeit at a slower rate than during the previous biennium. Fiscal and external disequilibria became more pronounced, as did inflationary pressure, although the imbalances were of lesser magnitude than those recorded at the beginning of the decade. The satisfactory results which were achieved were made possible by increasing external transfers and financing, while the precarious situation deriving from the huge burden of external debt and the sluggishness of the export sector persisted. Economic policy thus had to adhere to the restrictions imposed by the various sources of financial assistance, which have narrowed the country's freedom of action in defining its own development guidelines.

2. Trends in economic activity

a) *Total supply and demand*

The gross domestic product increased by 1.6% the lowest rate in the last three years (the 1984 and 1983 figures had been 7% and 3% respectively). Nonetheless, and in spite of the unfavourable international circumstances which the Costa Rican economy continued to face, growth occurred for the third year in a row, after the serious crisis of 1979-1982 (see table 2).

Total supply grew by 1.7% and showed a tendency to adapt imports to the behaviour of the product within a less dynamic conjuncture. The factors underlying this result were the efforts made to adapt the economic system to circumstances of slow growth and stability.

The expansion of total demand was upheld, as in 1983 and 1984, by the performance of its domestic component, given the real shrinkage in exports of goods and services. Traditional exports encountered particularly slack markets, while new exports developed both slowly and erratically.

The economic growth achieved in 1985 was largely made possible by consumption and investment. With regard to the latter variable, while construction was stagnant, investment in machinery and equipment continued to rise. For their part, private and public consumption increased at virtually the same rate (2%).

b) *Behaviour of the main sectors*

The rate of growth of most economic activities declined. This was particularly true of the goods-producing sectors, which as a whole grew by only 1% as against 11% the previous year. A shrinkage also occurred in the production of basic services as a result of the considerable contraction in the electricity, gas and water sector (see table 3).

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^a
A. Basic economic indicators							
Gross domestic product at market prices (index: 1980 = 100)	99.3	100.0	97.6	90.5	93.0	99.7	101.3
Gross national income (index: 1980 = 100)	100.1	100.0	895	80.1	84.3	92.6	95.4
Population (millions of inhabitants)	2.21	2.28	2.34	2.41	2.47	2.53	2.60
Per capita gross domestic product (index: 1980 = 100)	102.3	100.0	95.0	85.7	85.8	89.7	88.8
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.9	0.8	-2.4	-7.3	2.7	7.3	1.6
Per capita gross domestic product	1.8	-2.2	-5.0	-9.7	0.1	4.6	-1.0
Per capita gross national income	-1.9	-2.9	-12.9	-12.9	2.6	7.0	0.4
Rate of open unemployment ^c	4.1	5.3	8.3	8.5	7.9	6.4	6.2
Consumer prices							
December to December	13.1	17.8	65.1	81.7	10.7	17.4	10.9
Variation between annual averages	9.2	18.1	37.0	90.1	32.6	12.0	15.0
Real wages and salaries	4.5	0.8	-11.7	-19.8	10.9	7.8	8.9
Money (M.)	9.4	15.0	52.2	67.5	35.9	15.5	10.1
Current income of government	5.7	21.0	41.8	73.7	62.6	29.6	6.3 ^c
Total expenditure of government	20.3	26.8	9.8	64.4	69.7	26.1	12.1 ^e
Fiscal deficit/total government expenditure ^h	39.0	41.8	24.8	20.5	23.9	21.8	11.1 ^e
Fiscal deficit/gross domestic product	8.0	9.1	4.3	3.4	5.1	4.8	4.1 ^e
Current value of exports of goods and services							
	8.9	9.2	-1.9	-5.1	1.6	6.8	-0.7
Current value of imports of goods and services							
	19.2	9.1	-21.4	-19.9	10.2	8.5	1.1
Terms of trade (goods and services)	-1.3	0.8	-21.2	-3.2	5.7	4.5	4.9
of dollars							
External sector							
Trade balance (goods and services)	-421	-459	-127	73	-16	-37	-60
Net payments of profits and interest	-146	-216	-304	-374	-333	-324	-331
Balance on current account	-554	-658	-407	-274	-330	-342	-371
Balance on capital account	435	749	358	400	377	271	463
Variation in international reserves	-113	33	-65	125	64	-84	-61
Disbursed public external debt	1 463	2 140	2 413	2 961	3 407	3 455	3 584

Source: ECLAC, on the basis of official figures.

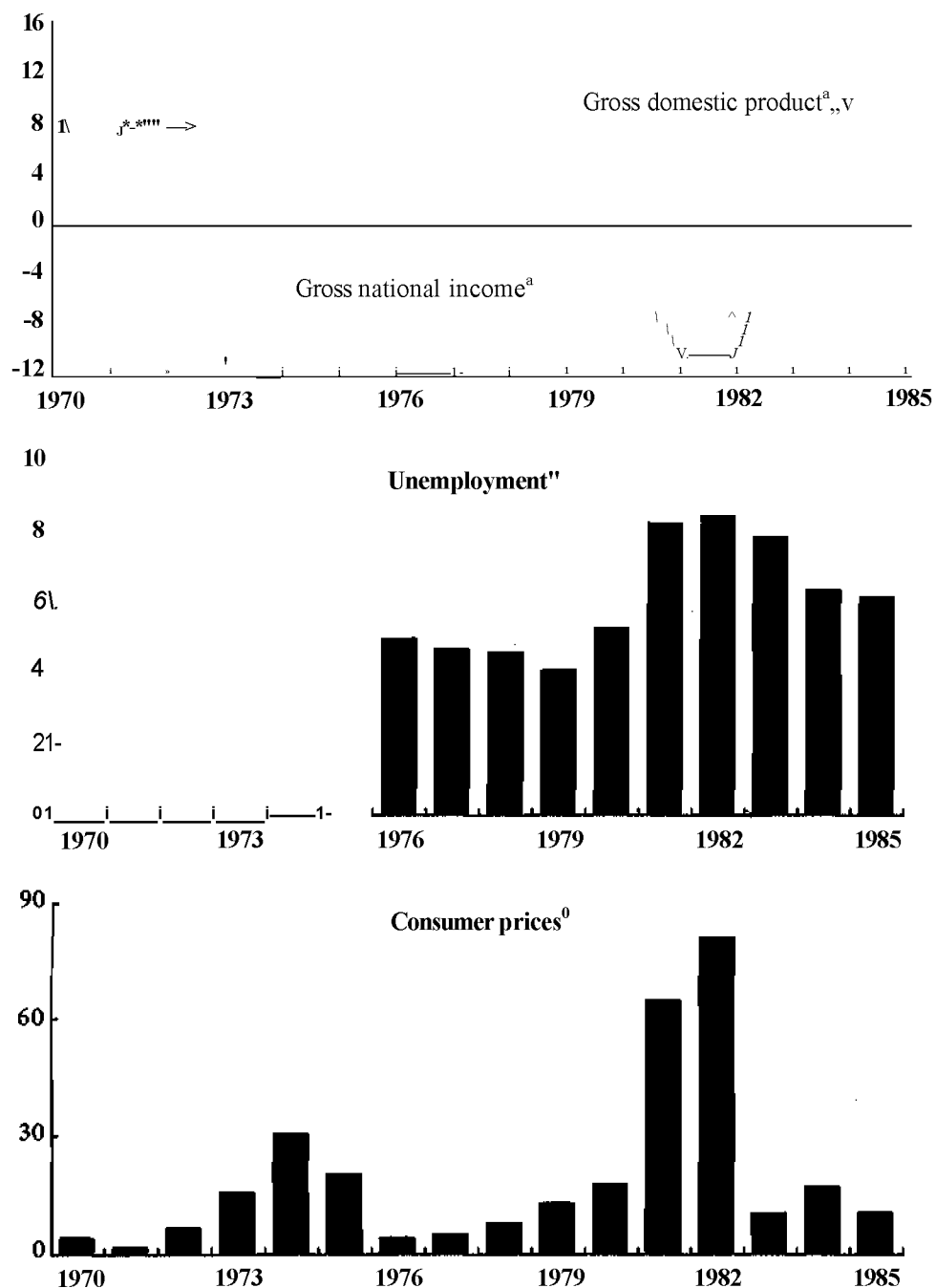
^aPreliminary figures. ^bPercentages. ^cAnnual average of the rates for four-monthly periods obtained from household surveys. ^dEnd-of-year balance. ^eAs of November. ^fIndicates gross reserves.

i) *The agricultural sector.* A marked downturn occurred in this sector's growth (slightly more than 1%) as a result of the decline in crop-farming output (-2%), although considerable increases were recorded in forestry (4%), livestock (8%) and fishing (20%) (see table 4).

In addition to unfavourable climatic conditions, agricultural performance was affected by both domestic and external factors linked to production costs and demand.

Significant support continued to be provided for coffee producers. Plant rust was kept under strict control while progress was made by the programme for the use of improved seeds and the increase of per-hectare yields. In addition, the Coffee Bureau was given the status of an Institute so as to broaden the coverage of its activities and, in particular, to endow it with greater responsibilities with regard to external trade policy on coffee. Nevertheless, the 1985/1986 coffee harvest was down

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

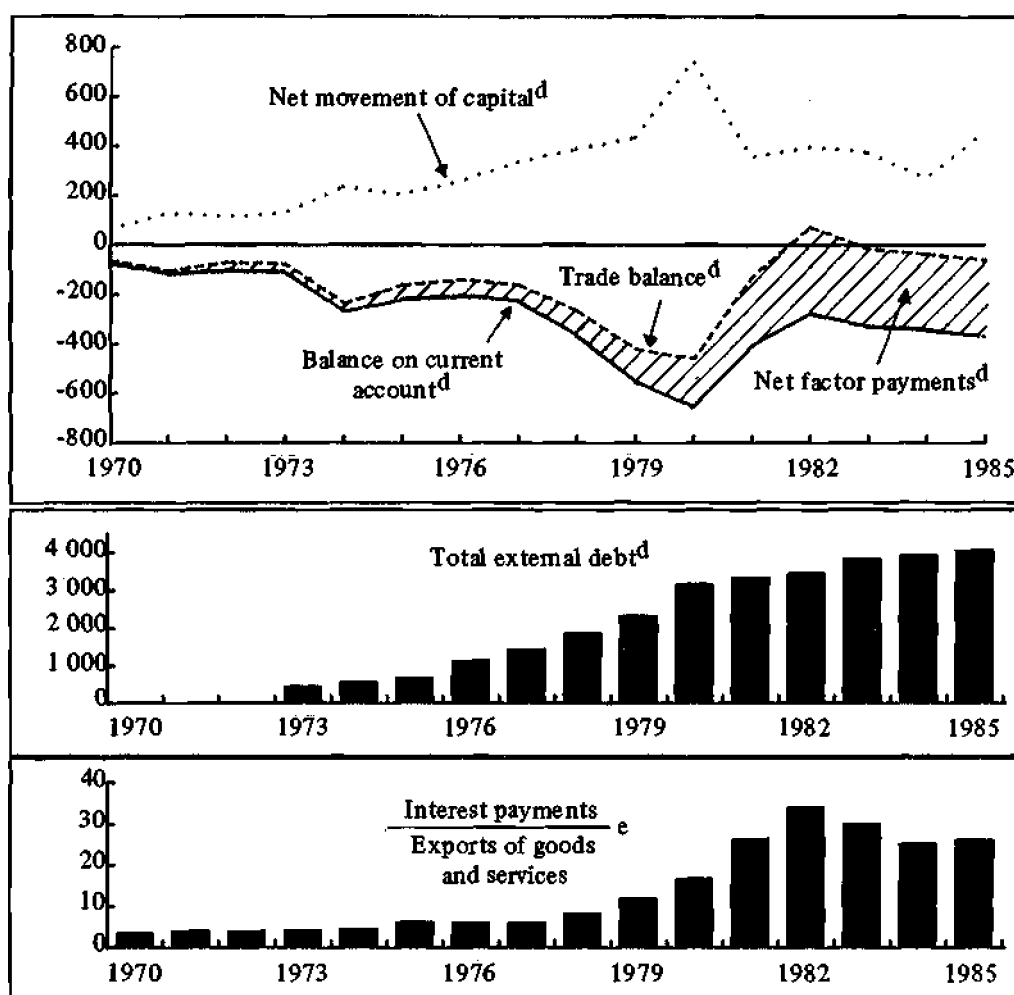
^aAnnual growth rate.

^{''}Average annual rate for country total.

Percentage variation from December to December.

Percentage variation

Figure 1 (concluded)



^dMillions of dollars. Percentages.

16% because drought delayed ripening and lowered yields. The 2% expansion achieved during the calendar year was considerably lower than those of 1983 and 1984 (8% and 10%, respectively).

Banana production fell off sharply (-12%). This was the result of the closure of one of the transnational corporations operating on the South Pacific coast and of the damage caused by a hurricane which swept across plantations on the Atlantic coast in March. These two factors affected a cultivated area of some 4 200 hectares.

At the beginning of the year, following arduous negotiations, the government reached an agreement with the transnational corporation referred to above.¹ Simultaneously it put a development plan into effect in the zone from which the fruit company had withdrawn. This involved the restitution of banana plantations and the application of programmes to produce cocoa, to expand the African palm harvest, to promote stock raising and fishing, to set up a refrigerated transport network and other activities.

A programme which includes a gradual diminution of export taxes on bananas² together with a readjustment in the international price was put into effect with the aim of providing support for

¹ Under this agreement, the country received the company's land holdings and installations, as well as the port and railway infrastructure and other facilities and equipment, altogether valued at approximately 120 million colones. In turn, the company withdrew part of its equipment and obtained compensation amounting to 102 million colones, paid in cash.

² In 1985 this tax was lowered from US\$ 0.70 to US\$ 0.55 per crate of bananas exported, and will fall to US\$ 0.15 in 1989. The reason for the gradual diminution is the considerable importance of this tax in fiscal income.

producers and improving their competitiveness on external markets. At the same time, a further programme of technological assistance was put into operation and an emergency plan was applied to provide assistance for the Atlantic coastal areas affected by the hurricane.

In the case of sugar cane, both production (-8%) and per-hectare yields declined as a result of the rise in the prices of inputs and labour together with the prevailing uncertainty on the international market with regard to quotas and prices for the product. These unfavourable factors were compounded by the scarcity of credit and the increase in interest rates. These affected both the planting of sugar cane and its processing in the sugar mills. Sugar production thus fell by 10%. Only the domestic market provided a stimulus for this activity, as consumption rose and the domestic price also improved. The sugar producers' association and the semi-State support institution continued their efforts to convert sugar into alcohol and to promote its sale abroad.

Cocoa production again rose (17%), as a result of the increase in the surface area under cultivation (16%) and the rehabilitation of 1 700 hectares. Other factors contributing to this achievement were the marked increase in international prices (29%), government efforts to provide technical assistance and the increased use of selected seeds and high yield varieties as well as disease and pest controls. Considerable credit support was also made available and was granted with particularly favourable repayment periods and conditions.

Production of all basic grains increased, particularly sorghum and beans. Moreover, a Rice Bureau was set up, and was given responsibility for acting as an intermediary between producers and processors as well as for controlling domestic supply.

Maize production increased, albeit at a lower rate than in the previous two years, essentially as a result of the expansion of the surface area under cultivation, as land which had previously belonged to the fruit company was turned over to maize. The support policy, which adjusted and unified the prices of white and yellow maize, was also influential. The white maize harvest was larger and part of its surplus was used in the preparation of fodder.

Table 2
COSTA RICA: TOTAL SUPPLY AND DEMAND

	Indexes : 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total supply	86.9	93.5	95.1	134.3	126.3	-9.8	5.0	7.5	1.7
Gross domestic product at market prices	93.0	99.7	101.3	100.0	100.0	-7.3	2.7	7.3	1.6
Imports of goods and services	69.2	75.1	76.8	34.3	26.3	-19.5	15.0	8.4	2.2
Total demand	86.9	93.5	95.1	134.3	126.3	-9.8	5.0	7.5	1.7
Domestic demand	80.1	87.6	90.5	109.5	98.0	-12.4	6.7	9.3	3.3
Gross domestic investment	58.0	67.3	72.3	26.6	19.0	-25.5	24.9	16.0	7.5
Gross fixed investment	56.5	71.1	74.8	23.9	17.7	-27.8	4.2	25.9	5.2
Construction	57.7	69.9	70.2	13.7	9.5	-21.8	-1.9	21.2	0.4
Machinery and equipment	54.9	72.9	81.2	10.2	8.2	-35.9	14.3	32.6	11.4
Changes in stocks				2.7	1.3				
Total consumption	87.2	94.0	96.2	82.9	79.0	-9.6	3.4	7.9	2.3
General government	89.3	91.2	93.2	18.2	16.8	-2.5	-2.9	2.1	2.2
Private	86.6	94.8	97.0	64.7	62.3	-11.7	5.4	9.5	2.3
Exports of goods and services	117.1	119.5	115.7	24.8	28.3	-1.5	0.3	2.1	-3.2

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

°Preliminary figures. Figures for exports of goods and services were obtained from balance-of-payments data expressed in dollars, converted to constant 1980 values using price indexes calculated by ECLAC for the purpose.

Table 3

COSTA RICA: GROSS DOMESTIC PRODUCT BY KING OF
ECONOMIC ACTIVITY AT 1980 MARKET PRICES

	Indexes: 1980 = 100			Percentage breakdown		1	Growth rates		
	1983	1984	1985"	1980	1985"		1983	1984	1985"
Gross domestic product	93.0	99.7	101.3	100.0	100.0	-7.3	2.7	7.3	1.6
Goods	90.8	100.3	101.5	42.6	42.8	10.8	3.1	10.5	1.2
Agriculture	104.2	111.8	112.9	17.8	19.8	-4.7	4.0	7.3	1.0
Mining	}	89.7	100.2	18.6	18.7	11.4	1.8	11.6	1.7
Manufacturing									
Construction									
	55.8	68.4	68.7	6.2	4.2	31.9	4.7	22.5	0.4
Basic services	111.9	114.6	113.4	6.3	7.1	1.0	8.4	2.4	-1.0
Electricity, gas and water	135.1	139.3	132.2	2.1	2.8	4.2	20.3	3.1	-5.1
Transport, storage and communications	100.0	102.0	103.8	4.2	4.3	-0.8	1.5	2.0	1.8
Other services	92.5	97.4	99.6	51.0	50.2	-5.3	1.6	5.3	2.3
Wholesale and retail trade, restaurants and hotels	81.9	90.1	93.0	20.1	18.4	11.7	3.8	9.9	3.3
Financial institutions, insurance, real estate and business services	103.5	109.5	112.5	11.3	12.6	0.9	2.6	5.8	2.7
Ownership of dwellings	103.7	105.5	107.4	6.0	6.4	0.9	1.1	1.7	1.8
Community, social and personal services	96.9	97.9	98.9	19.6	19.2	-3.0	-0.8	1.0	1.1
Government services	97.3	97.8	98.7	15.2	14.8	-2.9	-1.6	0.5	1.0

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

"Preliminary figures.

Includes livestock, forestry and fishing.

Bean production sustained a significant rate of growth (10%) despite the fact that producers faced a discrepancy between the official price and costs. Sorghum also sustained a vigorous rate of growth, as a result of the doubling of the area under cultivation and of the considerable increase (30%) in yield. Also of importance was the greater use made of this product as a substitute for yellow maize in the preparation of animal feed, as well as an encouraging increase in the price paid to producers.

During the course of the year there was a continuing debate over the role which the State regulatory and support institution for basic agricultural products should play. The domestic and external markets were allowed to set the price of rice. In contrast, other products continued to be subject to support prices. As a prerequisite for the provision of external financing, the International Monetary Fund (IMF) and other bilateral agencies stipulated that the regulatory institution's deficit should be reduced so as to lighten the public sector deficit as a whole and that the policy of intervention in the markets for these products should be phased out. The financial readjustment which the institution was obliged to carry out restricted its ability to provide support for the crop-farming sector.

Livestock production rose due to an increase in both domestic production and exports. Nevertheless, stock raising faced critical circumstances as a result of the continuing decline in international prices, the sluggishness of the domestic market and the application of an inadequate and unstable credit policy. This continued to provide a stimulus for the development of dual-purpose (meat and dairy) cattle, which was reflected in the decline in meat production. Viewing this as an emergency situation, the government agreed upon a rescheduling of the sector's debts and announced a reactivation programme for 1986.

Poultry farming was affected by a similar crisis. Slaughtering remained stagnant and egg production declined, with a consequent increase in imports to meet demand. In this context, the price-

reduction policy clearly had quite a different impact upon large enterprises than it had on the medium- and small-scale producers.

The sector's other areas of activity evolved satisfactorily. Lumbering received a stimulus from the growing external demand for furniture. Fishing expanded its capacity thanks to the encouragement received from the government in recent years.

Non-traditional exports such as flowers and ornamental plants experienced particularly dynamic growth. Between 1983 and 1985 the area under cultivation doubled, with a sharp increase in the absorption of labour. This activity has been stimulated by its high level of profitability, the provision of fiscal and other incentives and vigorous external demand.

Table 4

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of agricultural production (1970 = 100)	123.1	134.9	134.6	143.9	146.1	-7.5	4.5	6.9	1.5
Crop farming	122.8	131.5	151.5	157.9	155.2	-3.3	9.2	4.2	-1.7
Livestock	118.5	133.8	121.9	140.2	151.0	-13.8	-2.7	15.0	7.7
Forestry	139.4	142.9	78.8	83.6	87.3	-21.0	-26.5	6.1	4.4
Fishing	197.7	270.2	181.2	235.4	282.5	-12.8	-5.3	29.9	20.0
Production of main crops									
For export									
Coffee	85	106	124	137	140	1.8	7.8	10.4	2.4
Bananas	1 221	1 108	1 155	1 161	1 021	1.1	0.2	0.5	-12.0
Sugar cane	2 324	2 516	2 543	2 936	2 950	-3.0	4.0	15.4	0.5
Cocoa	7	5	2	4		-30.7	-39.0	88.4	
For domestic consumption									
Rice	179	231	247	232	237	-34.3	68.8	-6.1	2.4
Maize	68	75	94	104	109	-0.6	14.4	10.4	4.7
Beans	15	12	14	21	23	328	-12.0	44.7	10.2
Sorghum	20	42	32	39	49	-11.7	15.7	23.0	27.2
Tobacco	3	2	2	2	2	-23.9	46.3	22.8	-19.8
Plantains	67	90	93	90	91	8.9	-5.1	-3.4	2.0
Indicators of livestock production									
Animals slaughtered									
Cattle	128	118	98	125	146	-19.0	-18.2	27.4	16.9
Pigs	10	19	19	23	26	-14.8	5.8	22.3	14.0
Poultry	5	5	5	6	6	-17.6	36.6	21.5	0.5
Other production									
Milk ^c	251	308	327	346	375	-4.0	9.8	5.8	8.5
Eggs ^c	344	430	278	316	228	-25.3	13.3	13.7	-28.0
Indicators of forestry production									
Wood ^c	671	687	379	402	420	-26.6	-26.5	6.1	4.4
Volume of fishery production	14	19	13	17	20	-12.9	-5.3	29.9	20.0

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Thousands of tons.

^cMillions of litres.

Millions of units.

^cThousands of cubic metres.

Table 5

COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Index of value added (1977 = 100)	112.0	99.9	108.3	111.5	-11.4	12	8.4	2.0
Indexes of manufacturing production								
Consumer goods								
Foods, beverages and tobacco	116.3	110.2	120.0	125.5	-9.8	1.8	8.9	3.5
Coffee processing	134.2	155.3	163.2		2.0	6.7	5.1	
Meat	128.2	100.5	127.2		-23.6	-15.8	26.6	
Sugar	104.2	106.0	127.9		-8.8	6.6	20.7	
Other foods	117.0	102.7	110.4		-13.0	3.3	7.5	
Textiles, leather and footwear	105.7	111.9	111.4	110.5	5.4	0.2	-0.4	-0.8
Furniture and wood	118.2	72.5	79.0	86.2	-27.6	-11.9	9.0	9.1
Printing, publishing and related industries	121.6	120.5	129.1	133.9	-19.9	33.5	7.1	3.7
Others	80.7	61.9	68.4	73.5	-14.3	-1.0	10.5	7.4
Intermediate goods								
Paper and paper products	145.0	176.1	170.1	165.2	-3.5	23.8	-3.4	-2.9
Chemicals and rubber	123.8	91.4	100.7	100.8	-27.6	0.6	10.2	0.1
Petroleum refining	210.2	165.8	215.4	216.5	-16.6	-11.2	29.9	0.5
Non-metallic minerals	128.1	102.4	153.3	157.9	-25.6	22.6	49.7	3.0
Metal manufactures and machinery	138.7	72.3	80.8	85.2	-34.6	-5.0	11.8	5.5
Other indicators of manufacturing production								
Industrial consumption of electricity (1970 = 100)	314.7	319.2	352.1	349.6 ⁶	-6.1	28.1	10.3	-0.7 ⁶
Employment (1968 = 100)	187.6	180.5	186.3	187.2	-1.9	3.8	3.2	0.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica and the Institute for Economic Research of the University of Costa Rica, *Encuesta de Coyuntura Industrial*.

"Preliminary figures. Estimates based on the January-October variation.

ii) *The manufacturing sector.* In contrast with 1984, the sector's growth was very moderate (2%) and was, above all, linked to the expansion of the domestic market (see table 5). Expenditures associated with the pre-election campaign³ also had a certain impact on the sector. In 1985 the level of employment in industry remained virtually stable while electricity consumption declined 0.7%.⁴

The increase in output was concentrated in food, beverages and tobacco, which are of considerable importance in the sector's total production. For the second year in a row, there was a marked increase in the production of wood and furniture (9%), due to the satisfactory evolution of domestic demand as well as to increased sales of furniture on outside markets. Metal manufactures and machinery also attained a higher level of growth than that of industry as a whole.

On the other hand, petroleum refining declined —particularly during the first semester— as did textiles, leather, footwear and clothing. In the case of the latter, a determining factor was the shrinkage in Central American demand.

³In accordance with the country's electoral legislation, the Supreme Board of Elections approved the transfer of almost 500 million colones to political parties for the payment of political debts alone. Production and sales of plastic, paper and cardboard products as well as transport services and other types of electoral support activities also increased.

⁴January-October figures compared with the same period of the previous year.

The progressive increase in real wages, particularly in those of the lowest-income sectors, and the gradual decline in the rate of unemployment helped to expand the demand for manufactured goods. Entrepreneurs, for their part, showed a certain ability to adapt to the currency shortage by substituting domestic inputs for imported ones.

iii) *The construction sector.* Following the extraordinary growth recorded in 1984, this sector stagnated (see table 6). This was the result of a lessening of the sector's dynamism and of a cutback in public construction resulting from the programme to control the fiscal deficit.

The total surface area for which construction, extension and remodeling permits were granted shrank by 2%. In a similar trend, the sector's rates of unemployment had risen again as of March.

Apparently, the behaviour of the private sector was due to a significant rise in the costs of inputs and labour, as well as more expensive credit, allied with the decline in the availability of funds which prevailed for some time.

iv) *The electricity sector.* Significantly less electricity was generated than during the 1983-1984 biennium (see table 7). Electricity exports also shrank dramatically (-85%) as a result of the suspension of purchases by Honduras when its own "El Cajón" power station went into production.

v) *Other sectors.* A marked revival occurred in mining after two years of sharp contraction (see table 8). Gold extraction resumed its high rates of growth following the plunge which occurred in 1983-1984. The Central Bank set higher prices than those on the international market with the aim of stimulating production.

Table 6
COSTA RICA. CONSTRUCTION INDICATORS

	1980	1983	1984	1985°	Growth rates			
					1982	1983	1984	1985°
Area constructed (thousands of m ²)								
Total	1 300	1 024	1 222	1 200	-12.1	5.2	19.3	-1.8
Dwellings	1 016	745	960		-10.0	-4.5	28.9	
Cement production'								
Total	431	322	468	478	-42.2	-3.9	45.3	2.1
Sales for domestic consumption	545	351	446		-30.3	-0.8	27.1	
Indexes								
Prices of basic inputs and of labour (1976= 100)								
In housing construction		597.2	673.3	736.5	84.7	14.8	12.7	9.4
In building construction		673.7	767.5	853.7	78.6	17.0	13.9	11.2
Average real wage (1977 = 100)	114.8	91.6	99.6	109.8°	-22.4	20.8	8.7	10.2 ⁷
Rates of unemployment								
Total*								
March	10.5	21.4	18.6	23.3				
July	11.4	20.0						
November	14.4	14.7	19.6					
Open								
March	5.7	14.5	12.3					
July	7.5	14.5						
November	10.3	9.8						

Source: ECLAC, on the basis of figures provided by the Statistics and Census Bureau of Costa Rica, the Ministry of Labour and Social Security, and the Central Bank of Costa Rica.

*Preliminary figures. Based on permits granted for construction, extension and remodeling. °Thousands of tons. Based on the annual average of figures provided by national household, employment and unemployment surveys carried out in the months of March, July and November each year. ^Based on figures as of November, ^Estimated up to November of the year in question. including open unemployment and equivalent unemployment (underemployed population expressed in terms of open unemployment).

Table 7

COSTA RICA: ELECTRICITY GENERATION,
CONSUMPTION AND EXPORTS

	Millions of kWh						Growth rates				
	1981	1982	1983	1984	1985°	Jan.-iOct. 1984 1985°	1981	1982	1983	1984	1985°
Generation	2 305	2 411	2 860	3 011			6.9	4.6	18.6	5.3	
Hydroelectric	2 275	2 377	2 817	2 966	2 758		7.8	4.5	18.5	5.3	-7.0
Thermal	30	34	43	45			-36.3	14.5	26.5	5.4	
Consumption	2 029	2 060	2 203	2 345		1 937 2 039	7.7	1.5	6.9	6.5	5.3
Residential	898	945	1 007	1 053		872 927	6.5	5.2	6.6	4.6	6.3
Industrial	628	532	610	673		558 554	1.7	-15.1	14.5	10.3	-0.7
Public lighting	67	74	74	77		64 68	44.9	9.2	0.5	4.0	6.2
Commercial'	436	509	512	542		444 491	16.0	16.7	0.6	5.6	10.6
Exports	-	108	477	415	60	365 55	-	-	343.4	-13.0	-85.5
Consumption plus exports	2 029	2 168	2 680	2 761		2 301 2 094	7.8	6.8	23.6	3.0	-9.0

Source: ECLAC, on the basis of figures provided by the Costa Rican Institute of Electricity (ICE) and by the Central Bank of Costa Rica.
 'Preliminary figures. ^hBased on the period January-October of each year. ⁱIncluding electricity consumed in ICE construction projects.

Table 8

COSTA RICA: INDICATORS OF MINING PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of mining activity (1982 = 100) ⁱ			92.2	83.1	122.0	72.1	-7.8	-9.9	46.8
Production index of some important minerals (1982 = 100)									
Gold extraction"			78.7	60.4	109.0	97.2	-21.3	-23.3	80.5
Extraction of stone, clay and sand		151.6	185.5	147.6	171.2	153.6	-15.0	47.6	16.0
Salt mining		75.2	88.1	155.8	196.8	215.4	103.3	55.8	26.3

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

ⁱPreliminary figures. ^hBased on the gross value of production, at 1982 prices. ^cBased on direct purchases by the Central Bank of Costa Rica.

As a result of the slump in electricity generation, basic services stagnated. The growth rate of business, financial and insurance services dropped to 3% in the face of the overall sluggishness of economic activity (see table 3).

c) *Employment and unemployment*

The available indicators, which only provide partial coverage, reveal that during the course of the year open and equivalent unemployment continued to decline both in urban and rural areas (see table 9). Nevertheless, it is likely that these figures fail to include the probable consequences of the drawn-out conflict which took place in the banana-producing zone on the South Pacific coast.

Seasonal variations showed a number of changes. Instead of there being a decline in unemployment in the three survey months (March, July and November), a slight increase was recorded in July.

The improvement in employment was linked to a greater use of labour and decreased use of machinery and equipment. However, since the number of employed rose (5.1%) more than the domestic product (2%), the conclusion to be drawn is that average productivity declined over the period.

Higher rates of open unemployment prevailed in urban areas as well as, in all probability, increasing under-employment, which was concentrated within the informal economy. On the other hand, the coefficients of equivalent unemployment were greater in rural areas, mainly due to the effect of crop-farming cycles.

Be this as it may, the gradual decline in unemployment helped ensure social stability and maintain domestic demand as a stimulus to economic activity.

3. The external sector

a) *Introduction*

As has been the case since 1980, the external sector continued to be the determining factor in both economic policy and the production process in spite of the efforts undertaken to attenuate the disequilibria affecting it.

Table 9.

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1982			1983			1984 ¹		1985		
	March	July	No- vem- ber	March	July	No- vem- ber	March	No- vem- ber	March	July ²	No- vem- ber
Thousands of persons											
Labour force	825	838	884	812	844	877	835	884	868	888	925
Employment	746	760	826	739	768	827	770	840	813	829	872
Unemployment	79	79	58	73	76	50	65	44	55	59	53
Unemployment rates ³	21.3	23.8	20.2	20.1	19.9	14.3	16.8	13.3	14.5		
Open	9.5	9.4	6.6	9.0	9.0	5.7	7.8	5.0	6.3	6.6	5.7
Rural	8.7	8.3	4.4	8.2	8.7	4.8	7.6	4.8	5.9	6.1	5.1
Urban	10.4	10.5	8.9	9.9	9.3	6.7	7.9	5.2	6.7	7.1	6.4
Central Valley	10.4	10.6	8.9	9.5	8.7	6.1	7.8	4.3	6.0	6.6	5.7
Metropolitan area	10.7	11.3	9.4	9.7		7.3	7.9	5.2	6.3	7.4	5.9
Equivalent	11.8	14.4	13.6	11.1	10.9	8.6	9.0	8.3	8.2		
Rural	13.5	11.7	14.8	13.6	12.5	9.8	10.7	9.5	9.8		
Urban	10.2	16.8	12.3	8.7	9.1	7.3	7.3	7.1	6.5		
Central Valley	9.4	11.8	12.5	10.7	8.8	7.1	8.0	7.4	6.9		
Metropolitan area	9.1	10.9	11.2	7.9		6.3	6.8	6.5	5.9		
Participation rate ⁴	35.8	36.1	37.8	34.4	35.5	36.6	34.6	36.1	35.1	35.6	48.7
Indexes											
Labour force	141.0	143.2	151.1	138.8	144.2	149.9	142.7	151.6	148.8	151.6	158.1
Employment	137.6	140.1	152.4	136.3	141.5	152.5	142.1	155.0	150.0	153.0	160.8
Unemployment	183.3	182.8	134.8	170.7	177.3	116.8	151.2	102.3	127.9	137.2	123.3

Source: IICLAC, on the basis of figures supplied by the Ministry of Labour and Social Security and by the Statistics and Census Bureau.

²The survey corresponding to July was not carried out. Preliminary figures obtained by a manual count. ³Unemployment as a percentage of the labour force. ⁴Percentage of the labour force represented by the underemployed population expressed in terms of open unemployment.

¹Labour force as a percentage of total population. Based on the May 1973 census.

Table 10

COSTA RICA: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (colones per dolar)		Indexes of effective real exchange rate"	
	Exports	Imports	Exports	Imports
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	147.4	143.2
1982	38.62	39.23	136.1	131.2
1983	42.24	42.16	122.6	114.5
1984	44.53	44.51	129.1	118.5
1985	50.62	50.62	141.5	126.7
1982				
I	36.24	35.04	158.3	156.9
II	36.45	39.77	138.7	133.5
III	40.14	40.30	125.0	117.9
IV	41.64	41.81	122.4	116.4
1983				
I	41.64	41.96	118.8	112.2
II	41.69	41.78	120.4	112.5
III	42.70	42.07	125.9	116.5
IV	42.93	42.84	125.2	116.7
1984				
I	43.40	43.40	125.2	117.1
II	43.53	43.53	127.0	117.8
III	44.23	44.13	129.3	117.4
IV	46.98	46.98	135.0	121.7
1985				
I	48.30	48.30	119.8	116.4
II	49.49	49.49	132.1	122.6
III	51.27	51.27	149.5	129.3
IV	53.42	53.42	164.5	138.5

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

"Average of the indexes of the real exchange rate of the colón in relation to the currencies of the main countries with which Costa Rica trades, weighted by the relative importance of exports to those countries or imports from them as appropriate. Between 1975 and 1979 the weightings correspond to the average for these years and as from 1980, to the average for the period 1980-1983 wholesale price indexes were primarily used in the calculations. For the methodology and sources used, see the technical appendix to the *Economic Survey of Latin America 1981*. 'Exchange rates supplied by the Central Bank of Costa Rica except from 1984 onwards, when data supplied by the IMF was used. Up to September 1980, the official rate is given. As from October 1980, figures correspond to exchange rates weighted on the basis of the real transactions carried out on the different markets.

The trade balance produced a similar result to that of the previous year, but the current account deficit again rose as a result of the increase in factor payments —essentially, interest payments on the external debt— and the stagnation of income from exports.

Factor payments accounted for 90% of the deficit on current account, which in turn was equivalent to 30% of exports of goods and services.

The flow of external funds played an important role, since it made it possible to cover this deficit and even to increase international reserves. Nevertheless, the ability to cover the imbalance increasingly depended upon unrequited official transfer payments, the recurrent renegotiation of debt servicing and the financing which was being provided by multilateral and bilateral agencies on increasingly stringent terms.

b) Trends in the exchange rate

Following the establishment of a single exchange rate in 1983, the readjustment of the colón has been based on guidelines agreed upon with international and bilateral financial agencies, with the fundamental aim of promoting exports. However, the evolution of the exchange rate during 1985 was more closely linked to factors on the exchange market, in particular private-sector decisions, than to variations in the prices or the competitiveness of exports (see table 10).

Consequently, the devaluation which took place in 1985 was more than adequate to ensure satisfactory conditions for exporters. It is also considered to have led to an excessive rise in the cost of imports and to have helped to fuel inflation and distort the cost structure so that it favours other countries rather than national development.

c) Merchandise trade

i) *Exports of goods.* Exports shrank in value (-0.5%) following the marked increase during the previous year (see table 11). This result was due to the considerable decline in trade with the rest of Central America, since exports to the rest of the world increased (7%) (see table 12). The slump affecting exports seemed to be the result of two short-term factors: the discouraging outlook on the Central American market and the limited and erratic growth of non-traditional exports to outside markets.

Prices of coffee exports remained stable throughout most of the period, even though there was a slight improvement in prices on markets not included in the quota. The value of sales was 17% higher thanks to a marked increase in volume. A significant decline occurred in pre-harvest credit during the year.

With regard to bananas, there was a sharp contraction in the volume sold (14%), as a result of which the value of exports declined by 12%. Prices continued to deteriorate, reflecting a medium-term trend mainly caused by the role played by countries such as Ecuador and Colombia in the international market, and by inadequate policy co-ordination within UBEC.

Meat and livestock exports rose by almost 13%, thanks to unusually high sales to Mexico during the first quarter for which the country received slightly higher prices than those on the international market.

Table 11

COSTA RICA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985°
Growth rates						
Exports						
Value	6.2	0.2	-13.3	-1.9	9.4	-0.5
Volume	-8.3	11.4	-8.6	1.5	4.2	-3.4
Unit value	15.9	-10.1	-5.1	-3.3	5.0	3.0
Imports						
Value	9.4	-20.7	-26.2	11.6	10.1	0.8
Volume	-6.1	-24.0	-23.9	18.6	11.8	4.4
Unit value	16.5	4.3	-3.0	-5.9	-1.5	-3.4
Terms of trade	0.2	-14.2	-2.9	2.0	5.0	6.2
Indexes (1980 = 100)						
Purchasing power of exports	100.0	95.6	84.8	87.8	96.0	98.4
Volume of exports	100.0	111.4	101.8	103.3	107.7	103.9
Terms of trade	100.0	85.8	83.3	85.0	89.2	94.7

Source: ECLAC, on the basis of official figures.
°Preliminary figures.

Table 12

COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars						Growth rates			
	1983	1984	1985 ^a	breakdown			1982	1983	1984	1985 ^a
Total	853	933	928	100.0	100.0	100.0	-13.3	-1.9	9.4	-0.5
To the rest of Central America	187	193	135	21.9	20.7	14.5	-29.7	12.0	3.2	-30.1
To the rest of the world	666	740	793	78.1	79.3	85.5	-8.1	-5.3	11.1	7.2
Main agricultural products	527	571	574	67.5	60.0	61.8	-8.2	-1.9	8.3	0.5
Coffee	230	265	309	19.6	26.2	33.3	-1.3	-3.0	15.2	16.6
Bananas	241	229	201	29.2	27.5	21.6	1.5	5.7	-5.0	-12.2
Meat and livestock	31	47	53	7.8	3.5	5.7	-28.5	-41.5	51.6	12.8
Sugar	24	29	10	9.8	2.7	1.1	-60.5	41.2	20.8	-65.5
Cocoa	1	1	1	1.1	0.1	0.1	-11.1	-50.0	-	-
Others	326	362	354	32.5	40.0	38.2	-20.3	-1.9	11.0	-2.2

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica and the Statistics and Census Bureau.

^aPreliminary figures.

The drop in the most recent sugar-cane harvest together with the lower yield from its processing and, above all, the unfavourable conditions prevailing on the external market led to a plunge in sugar exports (65%). The United States' demand, which in 1983-1984 had been 73 000 tons, fell to 39 000 tons, leading to a drop in income from US\$ 21 million to US\$ 9 million. The substitution of corn syrup for sugar in the United States constitutes the main reason for this phenomenon. Moreover, prices fell on both the North American and the free markets.

A considerable amount of the sugar surplus was transformed into alcohol. Earnings from its sale amounted to approximately US\$ 5 million and sales volume totalled almost 15 million litres. Since the price of alcohol is three times higher than that of sugar, major efforts were undertaken to strengthen these exports.

Since 1984, the sale of other non-traditional goods on markets outside Central America has been promoted by means of the creation of institutional mechanisms, including export contracts providing the producer with facilities, support and guarantees.⁵

Moreover, a customs system providing for temporary admission has been brought into operation which complements the facilities established by customs legislation. It is thus possible for those goods, samples, patterns, equipment and other items required to stimulate and facilitate production for export to enter the country tax-free, if the proper customs deposit is made.

Shellfish represented almost 30% of the value of new types of exports, while wood products constituted 9% and flowers and ornamental plants 32%. Sales of the latter items increased by almost 50% over the US\$ 12 million recorded the previous year.

Cross-border subcontracting services represented a significant share of sales of non-traditional products abroad. The country possessed legislation to promote this type of activity since 1972, but it received a further stimulus in 1984 from the liberalization of customs controls. As a result of this,

⁵ In 1985, the National Investment Council was set up and made responsible for approving export programmes and contracts, co-ordinating the application of export policy and granting tax-credit certificates for increases in exports. The contracts stipulate the tax benefits to which enterprises exporting non-traditional goods to outside markets are entitled. In addition, special port rates were granted, administrative formalities were simplified, bank credit was provided at preferential interest rates, accelerated depreciation was allowed and tax credit certificates worth between 7% and 17% of the value of exports were authorized. By December, 171 entrepreneurs had already applied for the contract. Ninety-eight of these requests had been approved and 33 were being processed. Thirty-five per cent of the requests concerned industrial activities (textiles, metal manufactures and machinery, wood and wood products, etc.); 27% related to exports of flowers, decorative foliage and ornamental plants; and 22% regarded agricultural and agro-industrial activities.

slightly more than 100 such enterprises (*maquiladoras*) entered the country; 70% of them were involved in textiles and the remainder in electronics, metal manufactures and machinery, and other activities. However, they had not yet begun full operations.

The promotion of non-traditional exports received support from, *inter alia*, the Coalition of Initiatives for Development (CINDE) and the Private Investment Corporation, both recently set up with funds from external as well as domestic sources.

ii) *Imports of goods*. It is estimated that the level of imports was similar to that of the previous year, with a particularly noteworthy fall (-20%) in purchases from Central America. This stagnation followed two years of vigorous growth. On the one hand, imports of raw materials and intermediate goods declined, as did those of capital goods; on the other hand, purchases of both durable and non-durable consumer goods continued their rapid growth⁶ (see table 13).

The shrinkage in purchases of inputs was influenced by the almost 10% drop in purchases of hydrocarbons (up to August 1985), in spite of increases in purchases of other fuels and lubricants. Imports of construction materials stagnated, again reflecting the sector's sluggishness. As far as capital goods purchases are concerned, only those intended for the agricultural sector increased.

Purchases of basic grains were at a very low level, so the increase in imports of consumer goods was largely accounted for by imports of other types of perishable goods. In addition, the lack of mechanisms for controlling the use of foreign currency favoured the increase in purchases of non-durable consumer goods.

iii) *Trade with Central America*. Trade with the rest of Central America again declined. According to official calculations, exports attained a level of around US\$ 135 million, i.e., only 14.5% of the total. Imports amounted to US\$ 112 million, representing 11% of the total figure.

Table 13
COSTA RICA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates			
	1983	1984	Jan.-March"		1975	1980	1985**	1982	1983	1984	1985***
			1984	1985*							
Total	988	1 094	1 018	1 021	100.0	100.0	100.0	-26.1	10.6	10.7	0.3
Consumer goods	216	244	57	66	20.8	25.5	24.9	-33.7	29.3	13.0	15.8
Non-durable	168	171	41	47	14.1	16.1	17.7	-18.5	25.4	1.8	14.6
Durable	48	73	16	19	6.7	9.4	7.2	-62.5	45.4	52.1	18.8
Raw materials and intermediate goods	615	631	163	144	53.1	51.9	54.3	-20.0	11.6	2.6	-11.7
Agriculture	50	47	10	7	3.0	3.3	2.6	-0.5	13.6	-6.0	-30.0
Industry and mining	428	465	129	108	38.1	37.6	40.8	-25.2	9.5	5.6	-16.3
Building materials	37	36	9	9	5.2	4.7	3.4	-36.8	27.6	-2.7	-
Fuels and lubricants	100	83	15	20	6.8	6.3	7.5	14.7	14.9	-17.0	33.3
Capital goods	152	212	54	54	25.6	21.3	20.4	-35.3	-9.0	39.5	.
Agriculture	16	20	4	5	2.8	1.6	1.9	-29.6	60.0	25.0	25.0
Manufacturing, mining and construction	71	95	22	22	10.8	9.5	8.3	-47.1	39.2	33.8	-
Transport	31	50	13	14	7.5	5.5	5.3	-6.7	-61.7	61.3	7.7
Other	34	47	15	13	4.5	4.7	4.9	-45.2	-24.4	38.2	-13.3
Miscellaneous	5	7	2	1	0.5	1.3	0.4	-15.2	-37.5	40.0	-50.0

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica and the Statistics and Census Bureau.

*Except the totals, which correspond to the figures as of November.

Preliminary figures.

**Based on total imports for January-March.

***Based on figures for January-March, with the exception of the total, which corresponds to the period up to November.

⁶The data used in the analysis of the structure of imports was obtained from the Statistics and Census Bureau covering the period January-March, and from records of import permits provided by the Central Bank of Costa Rica up to July.

As a result of the fall in the significance of intra-regional trade, exports of non-traditional goods to other markets had already been higher than sales to Central America in 1984. The accumulation of balances due among the countries of the region⁷ led to the deliberate diversion of domestic resources, to promote exports to other countries; in addition, a ready and growing supply of external financing has been made available for such exports. Moreover, since the onset of the crisis the countries of Central America have adopted unilateral measures to regulate trade among them in view of the critical shortage of currency. The deepening of the crisis led to a shrinkage in regional demand.

Costa Rica thus was owed some US\$ 350 million by the rest of Central America. This figure represented half of the credit balance existing among Central American countries. Of this sum, 62% corresponded to Nicaragua, 13% to Guatemala, 13% to Honduras and 12% to El Salvador. During the course of 1985 further measures were adopted to attempt to at least stem the growth of these debts.

d) *Trade in services and factor payments*

Trade in services continued to worsen. The net balance fell from US\$ 19 million in the previous year to only US\$ 10 million, one-third of the 1983 level. This reflects the systematic increase in the purchase of services and the steady decline in income from their provision (see table 14).

As far as sales were concerned, the category of transport and insurance remained stable. One item which experienced a weakening was travel services, which had already declined in 1984 after having stagnated in 1982-1983. Expenditure on these two types of services, on the other hand, again increased, as it has since 1982.

The number of tourists fell to 258 000, 6% fewer than in the previous year and 20% fewer than in 1983. Moreover, visitors, who mainly came from Central America, stayed for shorter periods.

Factor services, which had undergone a slight decline in 1984, went back up to their 1983 level. Income from profits increased, but was more than offset by payments of interest to the exterior, which reached the figure of US\$ 350 million (see table 14).

e) *Balance on current account and its financing*

As is characteristic of the Costa Rican economy, the current account of the balance of payments for 1985 showed a deficit. Although the trade balance was insignificant, the current account registered a US\$ 370 million deficit, which was almost wholly due to the country's enormous external factor payments (see table 14).

As capital income was in excess of US\$ 460 million, it was possible not only to finance the current account deficit but also to increase reserves by almost US\$ 70 million.

Long-term capital inflows reached US\$ 245 million, a far higher figure than in 1984 (US\$ 91 million), but barely one-fifth of the 1983 figure, when the first renegotiation of the external debt took place. Official long-term capital disbursements verged on US\$ 600 million in 1985; nevertheless, in spite of further reschedulings, their net contribution only represented US\$ 190 million. Direct foreign investment increased by 10% to US\$ 60 million (see table 14).

Under the terms of the stand-by agreement signed in January, the International Monetary Fund granted the country a loan of 54 million Special Drawing Rights, of which 34 million SDR were received during the year. The remaining 20 SDR were to be made available in 1986.

Moreover, the country obtained only half the US\$ 80 million initially provided for in its structural readjustment agreement with the World Bank, as a number of difficulties arose during the year in the implementation of some of the corresponding measures.

Also in 1985, an agreement was signed with the United States Government Agency for International Development (USAID), which provided the country with financial support in the amount of US\$ 160 million. Of this sum, US\$ 20 million represented a grant to strengthen the balance of payments; the remaining US\$ 140 million was transferred to the Central Bank to constitute a fund in national currency for promoting exports of non-traditional goods and services.

⁷Figures provided by the Secretariat of the Central American Monetary Council indicate that in 1985 the total debt among Central American countries as a result of the non-payment of trade transactions was in the region of US\$ 685 million. Costa Rica has no debt in this respect.

Table 14
COSTA RICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-554	-658	-408	-274	-330	-342	-371
Trade balance	-421	-459	-127	73	-16	-37	-60
Exports of goods and services	1 097	1 198	1 175	1 116	1 133	1 210	1 202
Goods FOB	942	1 001	1 002	869	853	933	928
Real services	156	197	173	248	280	277	274
Transport and insurance	33	48	33	57	59	58	57
Travel	74	85	96	133	133	116	113
Imports of goods and services	1 519	1 657	1 302	1 043	1 149	1 247	1 261
Goods FOB	1 257	1 375	1 091	805	898	989	997
Real services	262	283	213	238	250	258	264
Transport and insurance	155	177	128	130	133	142	145
Travel	63	60	48	44	52	55	58
Factor services	-150	-218	-308	-377	-337	-330	-338
Profits	-17	-16	5	5	7	-18	-17
Interest received	11	16	20	24	34	33	35
Interest paid	-140	-216	-329	-403	-374	-338	-349
Other	-4	-2	-4	-3	-4	-6	-7
Unrequited private transfer payments	17	20	27	30	23	24	27
Balance on capital account	436	749	358	400	377	271	463
Unrequited official transfer payments	-4	-5	-	6	46	109	175
Long-term capital	353	402	215	24	1 197	91	245
Direct investment (net)	42	48	66	26	55	54	60
Portfolio investment (net)	-	122	-2	-2	-3	-3	-
Other long-term capital	311	232	152	-1	1 144	39	185
Official sector ¹	221	83	117	-32	1 196	122	190
Loans received	304	112	169	126	1 362	382	596 ^d
Amortization payments	-79	-23	-45	-146	-180	-246	-406 ^e
Commercial banks ^c	35	9	-18	-20	-15	-19	-
Loans received	63	32	11	6	1	-	-
Amortization payments	-28	-23	-29	-26	-16	-19	-
Other sectors ⁷	55	140	53	52	-37	-64	-5
Loans received	357	267	186	168	64	41	18
Amortization payments	-302	-127	-133	-116	-101	-105	-23
Short-term capital (net)	6	422	45	208	-933	-16	43
Official sector	2	287	48	398	-535	-14	-30
Commercial banks	6	32	5	42	-97	12	- ^e
Other sectors	-2	104	-8	-231	-301	-15	73 ⁷
Net errors and omissions	80	-71	70	163	66	88	-
Global balance ⁸	-119	92	-50	125	47	-71	92
Total variation in reserves (- sign indicates an increase)	113	-33	65	-125	-64	84	-67
Monetary gold	-	-	28	-7	-1	13	-10
Special Drawing Rights	-2	6	-	-	-3	3	-
IMF reserve position	-	10	-	-	-	-	-
Foreign exchange assets	77	-43	14	-95	-170	82	-
Other assets	12	-5	-23	-14	11	22	-
Use of IMF credit	26	-1	46	-10	99	-36	32

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: 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 Including US\$ 75 million of the so-called "resolvent" loan obtained on the basis of the renegotiation of the debt with private banks in 1985, as well as US\$ 28.8 million of liabilities renegotiated with Mexico.

^e The data has been incorporated into the "official sector" entry.

⁷ For 1985, this item has been incorporated into private long-term capital.

⁸ 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 entries: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

Table 15

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985 ^a
Millions of dollars						
Total external debt						
Balances	3 183	3 360	3 497	3 848	3 955	^b
Disbursements ^c	1 217	413	251			
Servicing	477	507	272			
Amortization payments	267	236	114			
Interest payments	210	271	158			
Public external debt						
Balances	2 140	2 413	2 961	3 407	3 455	3 584
Disbursements ^c	755	413	662	620	217	293
Servicing	251	311	237	737	397	495
Amortization payments	78	140	114	174	169	164
Interest payments	173	171	123	563	228	331
Percentages						
Public external debt ratios						
Debt/exports of goods and services	178.6	205.4	265.3	294.5	275.5	298.2
Servicing/exports of goods and services	21.0	26.5	21.2	63.7	31.7	41.2
Interest payments/exports of goods and services	14.4	14.6	11.0	48.7	18.2	27.5
Servicing/disbursements	33.2	75.3	35.8	145.4	182.9	168.9

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

^aPreliminary figures. No figures are available to indicate either the amount or other features of the private debt. At the beginning of 1985, it was estimated to be approximately US\$ 500 million. ^cIncluding capitalization resulting from the renegotiations, particularly since 1983.

In the field of external financing, the country also reached other agreements in its favour during 1985. Debt owed to the banks belonging to the Club of Paris was renegotiated and a new revolving credit of US\$ 75 million was obtained and received from this source during the year. Agreements were reached with other banks and private creditors on the replacement of matured Costa Rican securities by others providing the same guarantees and credit, with longer repayment periods. Under these agreements, 70% of the US\$ 90 million in the hands of these private creditors was renegotiated. Consequently, the agreements reached with the IMF, the World Bank and the United States Agency for International Development provided an inflow of US\$ 320 million. In addition to this sum, around US\$ 140 million was provided by other regular sources of financial support, for a total of approximately US\$ 460 million in support of the policy designed to ensure exchange rate stability and the payment of external debt servicing.

f) *The external debt*

Costa Rica's external debt continued to rise very slowly. It is estimated that total indebtedness was in the region of US\$ 4.1 billion, US\$ 500 million of which corresponded to the private sector and almost US\$ 3.6 billion to the public sector (see table 15).

One of the contributing factors in this trend, which was similar to that of 1984, was the impact of the renegotiations undertaken since 1983, which mainly concern public loans as private loans have remained constant in recent years.⁸

⁸The first rescheduling took place in 1985 and led to the negotiation of new agreements with the International Monetary Fund, the World Bank, private banks and other creditors (including Mexico and Venezuela) the following year. However, the situation with regard to external financing worsened in 1984 and the country was obliged to suspend interest and amortization payments in the amount of approximately US\$ 180 million.

In spite of the systematic renegotiation of maturities, the external debt continued to constitute the most critical economic variable. In the last three years, the accumulated balance has represented more than three times income from exports, and debt servicing has been 70% higher than disbursements made by external creditors, thereby becoming a direct cause of balance-of-payments deficits. Together with the virtual stagnation of exports since the end of the previous decade, these circumstances have compelled the country to request funds from international and bilateral agencies, leading to increasing restrictions on the management of domestic economic policy.

To sum up, the renegotiations carried out during the previous year together with the flow of external capital allowed the country to meet its financial commitments in 1985. Nevertheless, the vulnerability which had marked the external sector in 1984 continued, and was worsened by the shrinkage of exports of goods and services, as capital inflows were mainly channelled towards servicing the debt, rather than towards strengthening productive capacity.

4. Prices and wages

a) *Prices*

The relative price stability which had prevailed since 1983 continued during the year. The inflationary pressure which had marked the second semester of 1984 intensified during the first half of 1985, but diminished in the following months, as illustrated by the December-to-December twelve-month variations. However, the average for the year reflected an increase in inflation, as the cost-of-living index rose by 15%, in comparison with the 12% recorded in 1984 (see table 16 and figure 2). This revival seemed to be connected to the undervaluation of the currency and to policies involving the liberalization of a number of prices or rates and the authorization of increases in others.

In turn, wholesale prices rose as a result of variations in the prices of both domestic and imported products. These changes took place during a period (1983-1985) in which inflationary pressure was less intense than during the previous biennium.

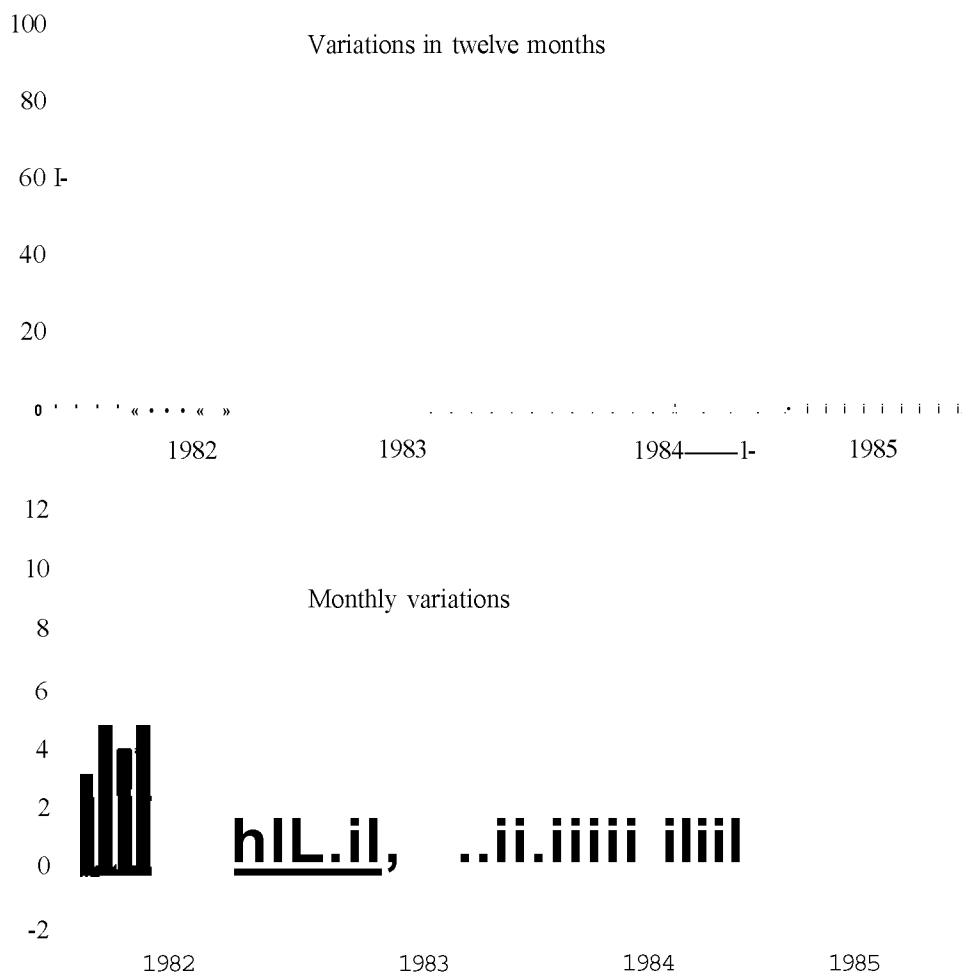
The annual variation in the index of the prices of imported goods (8%) contrasted with the decrease (-1.3%) in the unit price of imports in foreign currency. The rise in the prices of imported goods must therefore be accounted for by increases in costs in national currency. As far as domestic products are concerned, this type of pressure seemed in many cases, to be primarily linked to the variations recorded in financial costs, particularly as a function of the availability of financing and its cost (the interest rate).

Table 16
COSTA RICA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
Variation from December to December						
Consumer price index	17.8	65.1	81.7	10.7	17.4	10.9
Food	18.7	70.4	101.1	8.2	15.7	5.0
Wholesale price index	19.3	117.2	79.1	5.9	12.2	7.6
Imported products	21.8	154.6	66.9	3.0	10.9	4.7
Domestic products	17.3	93.3	89.4	8.1	13.2	9.7
Variation between annual averages						
Consumer price index	18.1	37.0	90.1	32.6	12.0	15.0
Food	21.8	36.7	113.6	32.2	8.8	12.3
Wholesale price index	23.7	65.3	108.3	26.2	7.7	10.4
Imported products	27.6	90.4	109.2	18.0	6.1	8.0
Domestic products	21.5	49.5	107.5	32.7	8.8	12.1

Source: ECLAC, on the basis of figures provided by the Statistics and Census Bureau.

Figure 2
COSTA RICA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official figures.

In sum, prices and costs were affected by two phenomena. The first of these was linked to the increases which were authorized in prices of basic consumer goods and the official readjustments to the prices of a number of basic services, in line with the policy pursued in previous years. The second stemmed from the accelerated rate of the devaluation of the Costa Rican currency in 1985.

b) *Wages*

Real wages grew by almost 9% as a result of the government's policy of continuing to restore their purchasing power, which had been considerably eroded during the worst period of the crisis. As had been decided beforehand, increases were decreed in January and July.⁹ The most significant real

⁹It should be noted that on two occasions during the year price rises were authorized for products in the basic wage market basket, including many staple foods (beans, maize, tortillas, sugar, margarine, eggs, ground meat and liquid milk). Moreover, as part of the agreements reached, some other products were added to this basket.

increase took place in the private sector (8%), in comparison with the 3% increase affecting central government employees. The improvement in minimum wages favoured the lower-income strata. In contrast, the upper levels of the minimum wage showed a slight shrinkage (-4%) in real terms (see table 17).

During the course of the last six years, real minimum wages have increased at an average rate of 2.5% per year. However, the private-sector minimum wage increased by 2.7% while in the public sector it declined by 1.4%. This illustrates the fact that policy was principally aimed at consolidating a real increase for the lower-income strata and that, as a whole, government employees were those whose purchasing power declined most as a result of the present crisis.

The above policy was tied solely to the behaviour of the prices of a basic market basket of goods and services (the wages basket).¹⁰

5. Fiscal and monetary policies

a) *Fiscal policy*

Despite the attempts at readjustment made during the year, the majority of the central government's financial indicators worsened (see table 18).

A stand-by agreement was signed with the International Monetary Fund at the beginning of the year in which a number of targets were established with regard to the reduction of the public-sector deficit as a percentage of the gross domestic product, together with several other features of fiscal policy. At the public-sector level, the principal targets agreed upon with international financial agencies were apparently met. However, the data concerning the central government reveals the resurgence of disequilibria which have led to serious upsets in previous years.

Table 17

COSTA RICA. EVOLUTION OF WAGES AND SALARIES

	Indexes (1970 = 100)				Growth rates				
	1982	1983	1984	1985 ^a	1981	1982	1983	1984	1985 ^a
Average wages and salaries									
Total (nominal)	384.2	565.0	682.1	854.0	20.9	52.6	47.1	20.7	25.2
Public sector	350.5	510.5	600.3	774.4	16.3	44.8	45.6	17.6	29.0
Central government	348.1	481.0	581.8	687.1	8.9	44.0	38.2	21.0	18.1
Autonomous institutions	350.6	528.7	607.6	827.6	21.6	45.3	50.8	14.9	36.2
Private sector	405.9	604.2	734.5	910.0	25.4	60.4	48.9	21.6	23.9
Total (real)	100.0	110.9	119.6	130.2	-11.7	-19.8	10.9	7.8	8.9
Public sector	91.3	100.2	105.3	118.0	-15.2	-23.8	9.8	5.1	12.1
Central government	90.6	94.4	102.0	104.7	-20.5	-24.3	4.2	8.1	2.6
Autonomous institutions	91.3	103.8	106.5	126.1	-11.3	-23.6	13.7	2.6	18.4
Private sector	105.7	118.6	128.8	138.7	-8.5	-15.6	12.2	8.6	7.7
Minimum wage									
Nominal									
Upper level	318.7	459.6	541.0	596.7	21.8	69.0	44.2	17.7	10.3
Lower level	475.4	729.5	858.8	1 061.5	23.9	80.4	53.4	17.7	23.6
Real⁶									
Upper level	83.0	90.2	94.9	90.9	-11.0	-11.1	8.7	5.2	-4.2
Lower level	123.8	143.2	150.6	161.8	-9.6	-5.1	15.7	5.2	7.4

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security.

^aPreliminary figures, on the basis of growth rates up to November of the year in question.

Deflated by the consumer price index for middle- and lower-income consumers in the metropolitan area of San José.

¹⁰This market basket includes goods in respect of which the government has pursued a policy of readjustments designed to benefit the producer and to ensure supply; public services such as electricity, whose prices have been increasing, were also added as part of the agreements signed with international financial bodies.

Table 18

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates			
	1983	1984	Jan.- ^ov.		1982	1983	1984	1985"
			1984	1985°				
1. Current income	21057	27 281	22 675	24 104	73.7	62.2	29.6	6.3
Tax revenue	19 870	24 426	20 479	22 549	77.1	61.8	22.9	10.1
Direct	4 860	4 895	3 954	4 010	93.8	61.2	0.7	14
Indirect	8 264T				58.9	131.3")		
On foreign trade	6 746J	19 531	16 525	18 539	82.3	18.5 J	30.1	12.2
2. Current expenditure	21 514	25 999	19 469	23 045	65.1	64.1	20.8	18.4
Wages and salaries	7 524	9 062	7 664	9 116	47.3	46.6	20.4	18.9
Other current expenditure	13 990	16 937	11 805	13 929	79.1	75.4	21.1	18.0
3. Current saving (1-2)	-457	1 282	3 206	1059				...
4. Capital expenditure	6 142	8 868	7 542	7 897	61.5	92.8	44.4	4.7
Real investment	2 843	4 252	4 004	3 375	20.2	96.9	49.6	-15.7
Debt amortization payments	1 164	2 839	1912	2 283	92.1	44.2	143.9	19.4
Other capital expenditure	2 135	1 777	1626	2 239	165.6	128.3	-16.8	37.7
5. Total expenditure (2 + 4)	27 656	34 867	27 011	30 942	64.4	69.7	26.1	14.6
6. Fiscal deficit (or surplus) (1 - 5)	-6 599	-7 586	-4 336	-6 838	36.2	97.2	15.0	57.7
7. Financing of deficit								
Domestic financing	4 731	5 111			26.8	104.5	8.0	
Central Bank	-836	-				-45.5		
Sale of securities	4 032	4 089			26.3	108.4	1.4	
Others	1 535	1 022				-1.9	-33.4	
External financing	1 868	2 475			52.2	35.5	32.5	
Percentages								
Ratios								
Current saving/capital expenditure	-7.4	14.5	40.1	13.4				
Fiscal deficit/total expenditure	23.9	21.8	17.4	22.1				
Tax revenue/GDP	15.4	15.4	14.1	13.4				
Total expenditure/GDP	21.4	22.0	18.9	18.4				
Fiscal deficit/GDP	5.1	4.8	3.3	4.1				
Domestic financing/deficit	71.7	67.4	50.7					
External financing/deficit	23.8	32.6	49.3					

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

"Preliminary figures.

Tax revenue showed a further weakening, as it grew at a slower rate than productive activity. Consequently, the coefficient of tax revenue/GDP fell from 14.1% to 13.4% according to figures available as of November. Moreover, revenue from indirect taxation grew more rapidly than other tax revenue.

The rate of expansion of total expenditure was slower, in line with the austerity and readjustment efforts linked to the stabilization policy. However, these efforts were seemingly insufficient to permit further progress towards resolving the fiscal imbalance. In spite of the diminution of capital expenditure—in particular the pronounced shrinkage of real investment (-15.7%)—and the control of current expenditure, in November the deficit was 43% higher than that recorded for the same period the previous year.

Current and tax revenues expanded by 6% and 10%, far lower rates than those achieved the previous year (30% and 23%, respectively). Current expenditure increased at the lowest rate since

1983, largely owing to the progressive slowdown in the growth of outlays on wages and of other current expenditure. Nevertheless, it increased more than income, and current saving was therefore only one-third of the figure for the previous year (see table 18).

Capital expenditure declined after three years of sustained growth, principally as a result of the shrinkage in real investment. The available figures reveal that a significant decline (-25%) occurred in the largest item, roadway and port installations, which makes up 88% of the total. Moreover, according to figures available as of October, investment in machinery and equipment declined by 14%. Debt amortization rose by 19%, as against 144% the previous year, thanks to the successive renegotiations.

The financing of the government's fiscal deficit was not dependent upon Central Bank credit; instead, it relied more heavily on contributions from autonomous institutions, the sale of securities and external follow-up financing.

Table 19
COSTA RICA: MONETARY BALANCE AND INDICATORS

	Balance at end of year (billions of colones)				Growth rates			
	1983	1984	Up to November		1982	1983	1984	1985 ^o
			1984	1985				
Money (M ₁)	24 609	28 420	26 828	29 530	67.5	35.9	15.5	10.1
Currency outside banks	6 941	8 587	7 803	9 026	55.3	27.7	23.7	15.7
Demand deposits	17 668	19 833	19 025	20 504	73.3	39.5	12.3	7.8
Factors of expansion	61 781	75 189	72 780	82 547	76.8	103.3	21.7	13.4
Net international reserves	4 578	8 332	5 887	11 168				
Domestic credit	57 203	66 857	66 893	71 379	34.7	77.1	16.9	6.7
Public sector	29 555	34 402	33 963	33 408	30.8	110.7	16.4	-1.6
Central government (net)	8 981	9 968	9 175	7 932	-2.1	40.0	11.0	-13.5
Public institutions	20 574	24 434	24 788	25 476	82.7	170.5	18.8	2.8
Private sector	27 648	32 455	32 930	37 971	37.9	51.3	17.4	15.3
Factors of absorption"	37 172	46 769	45 952	53 017	92.6	202.7	25.8	15.4
Quasi-money (savings and time deposits) ¹	40 124	46 273	45 893	56 727	53.5	27.0	15.3	23.6
Long-term external loans	76 256	89 142	88 927	102 857	21.1	147.3	16.9	15.7
Other items (net)"	-79208	-88 646	-88 868	-106 567	26.4	58.0	11.9	19.9
Other indicators ¹								
Monetary base [^]	10 855	13 101	12 862	16 100				
Money (M ₁)	20 106	25 520	25 256	28 008				
Money plus quasi-money (M ₂)	59 600	69 016	68 499	81 193				
Coefficients ¹								
Monetary multipliers								
M ₁ /monetary base	1.85	1.95	1.96	1.74				
M ₂ /monetary base	5.49	5.27	5.33	5.04				
Velocity of circulation								
GDP/M ₁	6.28	5.94	5.76	6.02				

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

¹Preliminary figures calculated on the basis of the period November 1984-November 1985. ^oAccounts in foreign currency were valued 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, 43.15 colones per dollar in 1984 and 52.62 colones per dollar in 1985. [^]Including bonds. ¹includes adjustments for variations in the rate of exchange. ²Calculated on the basis of annual averages (of end-of-month balances) for the monetary base, of money (M₁) and of money plus quasi-money (M₂). ³The definition of monetary base used here is that of monetary issue plus demand deposits by commercial banks with the Central Bank of Costa Rica.

To sum up, in spite of the efforts undertaken to restrict expenditure, the proportion of current savings *vis-h-vis* capital expenditure declined and became more dependent upon external support, which alone provided one-half of the financing for the deficit. The destabilizing pressures seem to have had their origin, however, in the weakness of tax collections, since the ratio of total expenditure to the product declined in comparison to the three previous years.

b) *Monetary policy*

Monetary variables continued their readjustment, a factor which mitigated their impact upon financial disequilibria. A slowdown occurred in all the monetary components and several of them showed moderate rates of growth in comparison with the huge rates of previous years (see table 19). The gradual devaluation, the restriction of the credit supply and the efforts made to channel credit towards the private productive sector —by means of the application of positive and flexible real interest rates— were the most significant elements of this policy.

Monetary expansion was at its most moderate level of the current decade (10%), as its components (money outside banks and cash deposits) followed a similar trend. Quasi-money expanded faster than money in circulation, a phenomenon which revealed a decline in liquidity preference and a favourable reaction to the efforts made to channel funds towards high-interest accounts and securities.

The growth rate of factors of expansion also tended to diminish. Such dynamism as was shown in 1985 seemed to originate in the increase in net international reserves, expressed in colones, as well as in the significant expansion of credit to the private sector, as public sector credit shrank by almost 2%.

Flexible interest rates, structured in a small number of bands (and from which there were few exceptions), became a major policy instrument. They were gradually readjusted in order to ensure that they would be both real and positive. Success was thereby achieved in channelling increasing amounts of the savings of the private sector and of autonomous State institutions and in stemming capital flight. This climate proved favourable to the rise of the securities market as a mechanism of financial intermediation. Moreover, the country maintained its flow of private external capital, which was attracted by the high interest rates paid on time deposits in comparison with those available in nearby external financial markets. These flows also included some repatriation of savings by enterprises.

Private financial intermediation was also stimulated by the direct support provided by bilateral financial bodies, which required that the funds they supplied should be used by private banks. Consequently, private banks handled a considerable proportion of the financing for imports of inputs from the United States.

On the whole, as in 1984, monetary policy succeeded in imposing restrictions which were consistent with the conditions stipulated by international agencies and with the most important requirements of the private sector.

CUBA

1. Recent economic trends: Introduction and summary

In 1985, the upward trend in the rate of economic growth which had been observed during the previous triennium was interrupted. The global social product—which had increased by 7.3% in 1984—expanded by 4.8%, allowing the per capita product to grow by 3.7% (see table 1).

With this result, the target set in the 1985 Comprehensive Social and Economic Development Plan was attained. This target had been fixed at a lower level than in previous years with a view to improving the trade balance, which has been showing a growing deficit with both the socialist and market economy countries. Contrary to the forecasts, economic growth was again sustained by a marked trade deficit, which exceeded 1.9 billion pesos and was thus 10% higher than in 1984.¹

The considerable increase in the value of exports (10%) and, especially, the financing provided by the countries of the Council for Mutual Economic Assistance (CMEA) also permitted a 10% increase in the volume of imports and thus constituted two of the main factors contributing to economic growth. This financing, which was made available through a number of trade agreements allowing Cuba to re-export fuel to market economy countries, helped to cover the deficit of just over 590 million pesos recorded in the trade balance with these countries and made it possible to obtain a surplus of 67 million pesos on the merchandise account of the balance of payments in freely convertible currency.

Despite this result, the country had to face serious constraints as regards the availability of foreign exchange. The surplus in the merchandise account was offset by the traditionally negative balance in the services account; consequently, the current account in freely convertible currency showed a deficit of 140 million pesos which, even so, was lower than that recorded in 1984. This deficit would have been greater had it not been for two attenuating factors. The first was the fact that its economic agreements with the socialist countries enabled Cuba to receive over 500 million pesos in convertible currency or transferable rubles in 1985, much of it from re-exports of petroleum. The second was the moderate inflow of capital from market economy countries. This inflow, however, was not sufficient to stem the net outflow of resources to these same countries, which was on the order of 80 million pesos.

The increase in imports allowed for an adequate external supply of intermediate and capital goods. At the same time, however, the dependence of domestic production on these supplies increased; thus, the coefficient representing the share of the global social product (GSP) accounted for by imports of intermediate goods continued to grow, despite efforts by the government to reverse this trend.²

The expansion of the global social product in 1985 was also attributable to the greater use of accumulated capital, which made it possible to increase average productivity once again. This was due both to the economic and management reforms which began to be implemented in 1976³ and to campaigns to promote a more effective use of the labour force which have included a detailed review of what are known as "work standards" and the granting of greater material incentives to enterprises and workers.

¹ In order to correct this growing imbalance, the growth targets set for the global social product for 1986 were lower (3% to 3.5%) than the 4.5% to 5% which had been fixed in the 1985 plan. See the Ley del Plan Único de Desarrollo Económico-Social del Estado para 1986 (*Granma*, 30 December 1985).

² This coefficient went from 17% in 1983 to 19% in 1984 and to 20% in 1985. If petroleum re-exports are deducted from the figures on imports of intermediate goods, then the coefficients are 15%, 17% and 18%, respectively.

³ For more details, see the chapters on Cuba in ECLAC, *Economic Survey of Latin America and the Caribbean*, 1983 and 1984.

Overall installed capacity expanded with the addition of 69 industrial plants, 18 of which were of considerable size, as well as another 120 production-oriented structures and dams for irrigation. Finally, the favourable course taken by the economy also reflected the positive influence of supervision by the Central Group,⁴ and by the provincial bodies of the *Poder Popular* (People's Power).

A number of climatic phenomena, however, adversely affected production. The prolonged drought which has afflicted the country since 1983 grew worse in 1985, and in November hurricane Kate caused severe damage as it passed through eight provinces.⁵

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984	1985°
Basic economic indicators								
Global social product (millions of 1981 pesos)"	18 910	19 202	19 109	22 173	23 024	24 153	25 921	27 168
Population (thousands of inhabitants)'	9 644	9 720	9 724	9 724	9 801	9 897	9 994	10 098
Per capita global social product (1981 pesos)	1 960	1 976	1 965	2 280	2 349	2 440	2 594	2 690
Growth rates								
Global social product	7.3	1.5	-0.5	16.0	3.8	4.9	7.3	4.8
Per capita global social product	6.2	0.8	-0.6	16.0	3.0	3.9	6.3	3.7
Current State income			2.8	15.0	-7.5	21.4	-2.3	-0.9
Total State expenditure			5.4	20.0	-12.2	12.2	4.7	-2.4
Budgetary deficit/total State expenditure			2.6	6.7	1.7	-6.4	-0.6	0.9
Budgetary deficit/global social product			1.5	3.5	0.7	-3.0	0.3	-0.4
Average annual wage	2.1	2.6	3.1	14.7	3.8	2.2	3.3	0.7
Current value of exports of goods								
Total	17.9	1.7	13.4	6.5	16.8	12.2	-1.3	9.5
Sugar	22.3	0.9	10.4	14.3	15.4	8.1	0.4	8.0
Current value of imports of goods								
Total	3.2	-0.3	25.5	10.5	8.2	12.4	15.8	9.7
Petroleum and petroleum products	34.3	16.7	20.0	27.6	28.3	24.3	19.4	17.8
Millions of pesos								
External sector								
Trade balance (goods)	-134	-188	-660	-890	-597	-687	-1 745	-1 922
Soviet Union	168	-143	-651	-877	-459	-363	-838	-841
Other socialist countries	-101	-26	-175	-58	-271	-286	-329	-488
Rest of world	-200	-19	166	45	133	-38	-578	-593
Balance on current account	-523	-139	-46	51	297	263	-212	-140
Balance on capital account	484	133	60	-52	-297	-74	106	188
Variation in international reserves°	-39	-6	14	-1	-242	189	-106	48
Disbursed external debt'		3 267	3 227	3 170	2 669	2 790	2 989	3 259

Source: ECLAC, on the basis of data supplied by the State Statistical Committee, the National Bank of Cuba and other international statistics.
 "Preliminary figures. See footnote " of table 4. ' Annual average. Percentages. °In freely convertible currency. Excludes much of the trade with member countries of the Council for Mutual Economic Assistance (CMEA).

⁴The Central Group was established at the end of 1984, for the purpose of adjusting the 1985 Budget and Plan and the programme of corresponding measures in the light of the considerable deficit recorded in 1984 in the balance of payments in freely convertible currency. The Group is composed of all the vice-presidents of the Council of Ministers, all the ministers, heads of departments of the Cuban Communist Party and provincial heads of the *Poder Popular* (People's Power).

⁵The hurricane destroyed crops, damaged agricultural and industrial installations, electric power transmission lines, warehouses, sugar mills and transport routes and destroyed or seriously damaged 80 000 dwellings, chiefly in rural areas.

To sum up, a number of favourable elements contributed to the growth of the global social product, such as the expansion of total installed capacity, the moderate increase in productivity, an adequate supply of imports, more efficient operation of the system of administration and economic management and the continuous monitoring of economic growth by a group of government leaders who were vested with sufficient decision-making power. Adverse factors also had an impact. There were bad weather conditions, restrictions in some external markets and a drop in international prices, mainly for exports of Cuban sugar to the market economy countries.⁶ Furthermore, considerable shortcomings persisted in production management, investment and economic management.

Greater production and the increase in imports expanded the domestic supply of goods. As a result, gross investment rose to 4.1 billion pesos (an amount equivalent to 15% of the global social product), direct personal consumption grew by 5% and indirect consumption, i.e., that involved in the provision of government services, rose by 6%.

The increase in demand at current prices reflected a drop of 1.2% in government spending (excluding its contributions to the productive sectors) and a 4.4% increase in spending by the population. This demand was financed by a 4% increase in the monetary income of the public, a 61 % expansion in personal consumer loans granted by the banking system and the allocation of a larger amount of the funds of productive enterprises to increasing their fixed and working capital, which compensated for the decline of 4% in the budget contributions earmarked for the productive sphere.

As a result of the monetary policy applied in 1985, the increase in the population's liquid assets was equivalent to only 80% of the sum recorded the preceding year. Almost three quarters of this amount was set aside for savings deposits, thanks to the intensive and quite effective campaign mounted by the People's Savings Bank (BPA), which has 467 branches throughout the country.

Employment policy was aimed at enhancing the productivity of the labour force and avoiding duplication of effort in productive activities. Hence, the "work standards", as they are called, were completely revamped and adherence to the employment plan was carefully monitored in order to limit unnecessary labour and to increase profitability.

The main objective of the wage policy was to make remunerations serve as an effective incentive for better performance by workers. The review of "work standards" also contributed to the achievement of this aim, as it made it possible to eliminate those standards which, because they were too low, had given rise to unwarranted performance bonuses.

Finally, fiscal policy was directed first and foremost towards boosting government income. Another aim was, in conjunction with the efforts of the National Bank of Cuba, to increase the profitability of productive enterprises so that they could finance their own fixed and working capital expenditures. The policy also sought to simplify the provisions of the national accounting and auditing systems and to adjust them to the size and characteristics of the entities taxed, as well as those to be followed in formulating cash-flow plans. This represented an attempt to increase the effectiveness of these three instruments, through which the State Finance Committee controls the variables that determine the level of taxes to be paid by enterprises. Furthermore, this Committee began to look into the desirability of allowing the provincial economic authorities to play a greater and more independent role in securing income and as regards budget expenditures. The results of these studies were set forth in a number of measures submitted to the National Assembly of the *Poder Popular* (People's Power).

Fiscal management yielded a surplus equivalent to almost 1 % of total expenditure, despite the fact that income fell by the same percentage. This was possible because of the considerable drop in contributions to the productive sector, the reductions in allocations for housing construction and community services, the contraction in the financing of the various branches of government service and the decline of 7% in national defence spending.

The combination of these decreases in fiscal expenditure allowed for a moderate increase in the allocations for health, education and the cultural and scientific activities of the population. Thus, in 1985, the number of inhabitants per doctor was lowered from 488 to 443, the number of persons per dentist was reduced from 2 133 to 1 864, and the number of hospital beds was increased by 4%. The number of students enrolled in secondary schools reached 1 160 000, while the figure for higher

⁶The share of earnings (from exports of sugar to market economy countries in the total earnings (from exports in freely convertible currencies (fell systematically (from 62% in 1981 to 14% in 1985.

education was 235 000. The number of scholarships awarded to boarding students was almost 600 000, while another 450 000 were given to semi-boarding students.

Finally, the housing law which had been enacted the year before entered into full effect in mid-1985. This law provided for the immediate transfer of housing ownership to the present legal or paying occupants. Under this law, the People's Savings Bank, which for such purposes acts as the representative of the government, issued 212 500 housing ownership deeds during the last six months of 1985.

2. Trends in economic activity

a) *Use of the global social product*

In 1985, intermediate consumption increased by 4% and its share in the global social product fell to 47%, following the trend which had started in 1980 (see table 2). This translated into a savings in inputs equivalent to 69 million pesos with respect to 1984.

Moreover, final consumption increased by 4%, one point less than in 1984. The retrenchment effort implicit in this reduction had no effect on personal consumption, which grew at the same rate as the year before (3%), but it did have an impact on consumption by the agencies which provide services to the population,⁷ and those which meet collective needs.⁸

Despite the growth in personal consumption, the average daily per capita intake of proteins and calories was lower than in 1984. This decrease was due to the fact that, with the exception of meat, fats and vegetables, the amount of agricultural products in the population's diet fell because of the effects of bad weather on agricultural production. Nevertheless average consumption was higher than it had been in all the years prior to 1984 (see table 3).

Table 2

CUBA: USE OF GLOBAL SOCIAL PRODUCT AT 1981 PRICES

(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985°
Global social product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intermediate consumption	48.3	47.1	47.2	47.7	50.2	48.1	47.5	47.2	47.2	46.9
Final consumption	44.8	42.3	41.6	42.6	46.1	42.5	42.0	41.3	40.2	39.7
Consumption of the population	42.6	39.6	38.3	39.0	42.6	38.8	38.3	37.2	35.9	35.4
Personal consumption	39.0	35.9	33.9	34.3	37.3	33.4	33.1	31.9	30.7	30.1
Consumption of organizations serving the population	3.6	3.7	4.4	4.6	5.3	5.4	5.2	5.2	5.3	5.3
Consumption of organizations meeting collective needs	2.2	2.7	3.3	3.6	3.5	3.7	4.2	4.1	4.3	4.3
Net capital formation	13.9	14.0	12.1	10.6	11.7	13.3	10.4	11.5	13.3	12.8
Fixed capital	10.1	10.2	8.1	7.8	8.5	10.1	7.9	9.3	11.1	10.6
Stocks	3.8	3.8	4.0	2.7	3.3	3.2	2.5	2.2	2.2	2.3
Losses	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Exports minus imports	-7.7	-3.3	-0.4	-0.1	-7.6	-3.5	-0.8	-0.1	-1.5	0.2
Statistical discrepancies	0.6	-0.1	-0.7	-0.8	-0.6	-0.7	0.7	-0.1	0.6	-0.1

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

°Preliminary figures. Of productive goods and services.

⁷The reference here is to consumption by the institutions responsible for education, public health, sports, tourism, etc., and includes the depreciation of buildings, equipment and installations of these agencies.

⁸This includes consumption by the institutions responsible for science, government service, finance and other non-productive activities; it also includes the annual depreciation of their basic infrastructure.

Table 3

CUBA: INDICATORS OF PER CAPITA CONSUMPTION

	1975	1980	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
Foodstuffs									
Calories (units/day)	2 622	2 867	2 910	2 963	2 914	-0.4	13	18	-1.7
Proteins (grams/day)	71.4	75.0	77.4	79.8	78.3	-2.3	1.6	3.1	-1.9
Meat	33.1	36.4	40.8	41.1	41.2	3.7	3.8	0.7	0.2
Fish*	13.1	12.3	16.2	16.4	15.3	7.6	3.8	12	-6.7
Milk and dairy products	154.5	157.9	150.7	154.5	151.3	-4.7	-1.4	2.5	-2.1
Eggs (units)	184	233	246	249	243	-4.6	8.8	12	-2.4
Cereals	109.4	108.9	108.7	111.7	110.6	-1.6	2.2	2.8	-1.0
Fats*	15.0	17.3	17.4	17.8	18.0	2.3	-2.8	2.3	1.1
Vegetables	52.8	52.3	53.0	56.7	56.9	-11.2	-10.5	7.0	0.4
Roots and tubers	49.4	80.4	76.4	83.1	74.7	-13.0	4.9	8.8	-10.1
Fruits	48.4	60.7	62.7	56.8	50.5	0.3	0.5	-9.4	-11.1
Beans	11.4	10.7	11.5	12.5	12.4	-4.3	4.5	8.7	-0.8
Sugar	46.4	51.7	54.4	53.8	52.4	4.0	0.7	-1.1	-2.6
Industrial products									
Textiles (m ²)		30.3				-2.4			
Outer clothing (units)	4.2	5.2	4.7	4.8	4.5	-2.1	-	2.1	-6.2
Underclothing (units)	6.6	6.8	6.6	6.8	7.0	10.1	-13.2	3.0	2.9
Footwear (pairs)	3.0	2.3	2.9	2.6	2.6	11.1	-3.3	-10.3	-
Durable goods'									
Television sets	23	53	74	76	79	13.6	10.4	2.7	3.9
Refrigerators	11	29	36	40	44	12.5	-	11.1	10.0
Washing machines	4	24	42	47	51	19.4	13.5	11.9	8.5
Radios	42	108	125	126	134	6.1	2.5	0.8	6.3

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"Preliminary figures.

Kilogrammes.

'Ownership per 100 homes, in units.

The increase of 9% in the industrial production of non-durable consumer goods, especially foodstuffs, beverages, tobacco and textiles, contributed to the expansion of consumption of more highly processed products. The consumption of durable goods also continued to increase, especially television sets, refrigerators, washing machines and radios.

Net capital formation rose by only 1% due solely to the accumulation of stocks.⁹ Fixed capital investment slipped by 1% and the coefficient for its share declined to 10.6%. Total executed investment by the State civilian sector increased by almost 3% to 4.1 billion pesos.

Investment in the productive sphere reached a total of 3.4 billion pesos. Of this, investment in industry rose by 10% and represented 46% of the total; investment in agriculture increased by 3% and represented 27% of the total. On the other hand, except for forestry, capital accumulation declined in the other sectors. Thus, there was a decline in the resources allocated to construction (-15%), transport (-3%), communications (-8%), trade (-9%), and the remaining sectors (-5%).

For its part, investment in the non-productive sphere grew by 1.5% to 690 million pesos and was directed chiefly to the areas of health and education.

While by the end of 1984 total investment then underway had risen to almost 6.8 billion pesos, in 1985 it reached 8.14 billion pesos, as works were completed more slowly in response to the investment policy pursued during the year.

⁹The steady accumulation of stocks which has been observed is not necessarily attributable to the need to build up new and normal working reserves but rather to weaknesses in the planning of supplies and in the organization of their timely delivery to users. See Fidel Castro, "Informe Central al Tercer Congreso del Partido Comunista de Cuba", *Granma*, 5 February 1986.

At the end of 1984, the government set specific guidelines for investment. The plan adopted for 1985 by the People's Power Assembly made the start up of any new works conditional on the carrying out of feasibility studies and established strict priority criteria. Priority was thus given, first of all, to the investments which could most quickly increase production for exports to the free market economy countries or which could be substituted for imports from those countries. Second in order of priority were works which would carry on with the large investments undertaken in collaboration with the Soviet Union and other socialist countries.

The government determined that the weaknesses in capital formation lay in the fact that it was not linked closely enough to a planned criterion of economic development. This meant that, in many cases, the investment initiative was sectoral rather than centralized. Furthermore, evidence was advanced which indicated that a proper balance had not been achieved with respect to complementary

Table 4

CUBA: GLOBAL SOCIAL PRODUCT BY ECONOMIC SECTORS"

	Millions of Cuban pesos at 1981 prices				Percentage breakdown'			Growth rates'			
	1982	1983	1984	1985*	1970^	1980	1985*	1982	1983	1984	1985*
Global social product	23 024	24 153	25 921	27 168	100.0	100.0	100.0	3.8	4.9	7.3	4.8
Material product	15 226	15 838	17 290	18 312	67.8	66.6	67.4	2.2	4.0	9.2	5.9
Agriculture, forestry and fishing	3 703	3 685	3 928	3 970	14.7	17.7	14.6	-2.3	-0.5	6.6	1.1
Agriculture	3 376	3 316	3 518	3 534	13.9	16.2	13.0	-3.5	-1.8	6.1	0.5
Sugar-cane agriculture	1 056	970	1 014	979	6.7	5.1	3.6	-7.7	-8.1	4.5	-3.5
Non-sugar-cane agriculture	899	852	903	965	3.1	3.9	3.5	-0.7	-5.2	6.0	6.9
Stock-raising	1 386	1 461	1 564	1 548	4.1	7.1	5.7	-2.0	5.4	7.0	-1.0
Agriculture services	35	33	37	42	-	0.1	0.2	-	-5.7	12.1	3.3
Forestry	84	108	118	117	0.2	0.4	0.4	5.0	28.6	9.4	-0.7
Fishing	243	261	292	319	0.6	1.1	1.2	14.6	7.4	11.9	9.2
Industrial	9 723	10 161	11 055	11 978	47.9	41.1	44.1	4.5	4.5	8.8	8.3
Electrical energy	488	502	535	524	1.5	2.0	2.0	8.0	2.9	6.6	-2.1
Mining and metallurgy	250	272	266	291	0.8	1.2	1.1	2.0	8.8	-2.2	9.4
Manufacturing	8 985	9 391	10 254	11 163	45.5	37.9	41.0	4.4	4.5	9.2	8.9
Construction	1 801	1 988	2 307	2 364	5.2	7.8	8.7	0.7	10.4	16.0	2.5
Non-material product	7 798	8 315	8 630	8 856	32.2	33.4	32.6	7.0	6.6	3.8	2.6
Transport	1 667	1 725	1 856	1 887	9.4	7.2	6.9	2.7	3.5	7.6	1.6
Communications	188	206	227	240	0.8	0.8	0.9	9.3	9.6	10.2	5.6
Commerce'	5 823	6 243	6 386	6 559	22.0	25.0	24.2	8.0	7.2	2.3	2.7
Other productive activities	120	141	161	170	-	0.4	0.6	20.0	17.5	14.2	5.8

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"The global social product is equivalent to the value of gross production. According to official sources "the basic criterion for recognizing gross production and ascribing 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 1SIC), 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. "Preliminary figures. 'This corresponds to real figures and not rounded-off figures. At 1965 prices.

'Includes 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. 'includes: work on technical projects, mechanical and automatic data processing and other productive activities.

and mutually supportive investments. Some investments of prime importance had not been initiated because other, complementary, ones such as basic services (water and electricity, for example), feeder roads, worker housing and public works had not been completed on time.¹⁰

b) Evolution of the main sectors

The 4.8% growth in the global social product was less than that of the two preceding years. The increase was the result of an almost 6% expansion in material production and a 2.6% rise in non-material production. Industry continued to expand at a high rate (8%) but growth in construction fell from 16% in 1984 to 2.5% in 1985. An even more marked drop was observed in the growth of the agricultural, forestry and fishing sector inasmuch as this rate was only 1% after having reached close to 7% in 1984 (see table 4).

Except for commerce, growth in all the sectors comprising non-material production fell dramatically. The decline was particularly sharp in transport. After several years of vigorous expansion, the strategic sector "other productive activities", composed of investment and production support services, also lost dynamism. These services include, *inter alia*, structural design and computation and information and computerized data services (see table 4).

i) *Agriculture*. In contrast with its 6% expansion in 1984, agricultural activity increased by only 0.5%. Unlike 1984, when there was significant growth in every branch, in 1985 increases were smaller and production of some items declined. The drought which has been affecting the country since 1983 and the ravages of hurricane Kate contributed to this. The drought became particularly serious, since during the rainy season (May-October) the average rainfall was the lowest recorded in the last quarter century and 24% lower than the average for the last 40 years. Furthermore, the hurricane destroyed or damaged large plantations of sugar cane, bananas, tobacco, citrus fruits and other crops as well as many livestock, poultry, storage and agroindustrial facilities.

The harvest of crops other than sugarcane covered an area of 1.6 million hectares, 7% less than in 1984. Of this area, 480 000 hectares were devoted to seasonal crops and 1.1 million to permanent crops. These figures were 15% and 18% less, respectively, than the year before. The State sector accounted for 61% of the seasonal crops and 87% of the permanent crops.

Excepting henequén, kenaf and pasture and fodder, the volume harvested was 3.2 million tons, 6% more than in 1984. Of this volume, the private and co-operative sector accounted for one third (6% more than in 1984); on the other hand, this sector's share in the pasture and fodder harvest was only 2%, while in henequén and kenaf it was null.

Grain production declined by 5% due to the 8% drop in productivity caused by hurricane Kate, which particularly damaged the rice crop. In contrast, due solely to higher productivity, the vegetable harvest was 12% larger than that of the previous year. The 9% increase in the root and tuber harvest compensated for the reduction in the area harvested and production stood at 681 000 tons. Thanks to the control of the plant rust which had damaged the coffee plantations in 1980-1983, coffee production was almost equal to that of the previous year. The 15% expansion in productivity explains the stabilization of tobacco production, given that 57 000 hectares less (-14%) were harvested than in 1984; in addition, a high level of quality was also obtained as regards the wrapping leaves for cigars for export (see table 5).

The fruit harvest reached a record level, passing the 1.3 million ton mark. Except for bananas, whose production fell by 14% because of the excessive damage to the fields caused by hurricane Kate, the production of other fruits increased significantly. Citrus production—an important source of foreign exchange—reached an unprecedented level of 750 000 tons, due partly to the fact that 10 000 hectares sown previously entered into production and partly to the fact that vast groves approached the best yields of their life cycle.

As in previous years, the non-State (private and co-operative) sector made a very significant contribution to some crops. This sector accounted for 73% of the strategic production of tobacco, 91% of peppers, 59% of tomatoes, 38% of coffee, 34% of bananas, and 13% of citrus fruits and of grains.

Sugar-cane production fell by almost 4% despite the fact that an area of 1.3 million hectares, almost equal to the 1983/1984 crop, was reaped. The amount of cane cut to produce sugar (66.8

¹⁰Fidel Castro, "Informe Central ...", *opxtt*.

Table 5
CUBA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985 ^a	Growth rates ^b			
						1982	1983	1984	1985 ^a
Grop production ¹									
Grains									
Rice	447	478	518	555	524	14.4	-0.4	7.2	-5.6
Maize	20	23	30	30	33	-7.2	38.7	-	10.0
Beans	3	9	13	12	11	48.9	4.6	-7.9	-8.3
Vegetables									
Tomatoes	169	207	153	235	273	-27.3	-32.3	53.6	16.2
Onions	9	10	10	14	32	-7.1	-32.9	40.0	128.6
Peppers	20	45	23	27	35	1.4	-33.7	17.4	296
Roots and tubers ¹									
Potatoes	121	239	207	259	307	-5.4	-20.0	29.1	18.5
Boniato	82	228	201	163	173	-11.2	13.3	-18.9	6.1
Malanga	30	161	45	53	48	-54.1	-0.8	17.8	-9.4
Fruits									
Citrus fruit	170	444	631	600	748	12.6	19.1	-4.9	24.3
Oranges	121	298	400	375	408	31.5	18.0	-6.2	8.8
Lemons	12	25	30	48	60	34.2	-26.4	17.1	25.0
Grapefruit	26	84	165	151	237	-11.1	29.2	-8.5	57.0
Bananas	183	233	313	403	345	4.2	15.4	28.8	-14.4
Mangoes	33	59	39	38	85	-8.7	-25.3	-2.6	123.7
Guavas	18	46	50	51	59	-	17.8	2.0	15.7
Tobacco	42	8	30	45	45	-17.7	-32.7	50.0	-
Coffee	20	19	18	23	24	32.5	-35.8	27.8	4.3
Cocoa	1	1	2	2	2	-2.3	16.9	11.1	-
Fibre crops									
Kenaf	22	10	20	20	19	-4.5	26.1	-0.5	-5.0
Henequén	276	206	228	226	233	56.5	9.2	-0.9	3.1
Cultivated pasture, fodder	39	43	38	34	31	0.9	-	-10.5	-8.8
Livestock									
Stocks									
Cattle ¹	5 619	5 059	5 099	5 115	5 020	0.3	-0.3	0.3	-1.9
Dairy cows ¹	399	398	412	408	406	1.7	-1.3	-1.0	-0.5
Swine ¹	600	765	911	1 009	1 038	1.5	6.7	10.8	2.9
Poultry ¹	18	25	26	27	26	-3.9	11.7	3.8	-3.7
Animals slaughtered [*]									
Cattle	240	293	303	302	299	-1.4	0.9	-0.3	-1.0
Swine	43	58	76	86	95	3.7	7.2	13.2	10.5
Poultry	57	91	90	107	113	-26.1	18.4	18.9	5.6
Other production									
Milk [*]	591	889	948	943	929	-0.3	2.1	-0.5	-1.5
Eggs ¹	1 851	2 327	2 493	2 557	2 524	-4.8	11.0	2.6	-1.3
Honey ¹	6	7	10	9	10	13.5	1.0	-10.0	11.1

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

¹Preliminary figures.

Growth rates correspond to real, not rounded figures.

¹Thousands of tons, with the exception of henequén

expressed in millions of bunches, and cultivated pasture and fodder in millions of tons.

In State firms.

^{*}Thousands of

head. ¹Millions of head, final stock.

¹Thousands of tons, live weight.

Millions of units.

¹Tons.

Including the non-

State sector.

million tons) was 15% less than during the preceding season, as a result of the 13% decline in crop yield, which was only 50 tons per hectare.

With the use of more advanced technology in sugar-cane cultivation¹¹ and the shortening by 23% of the sugar-cane harvest season (135 days), the number of workers employed in cutting cane by hand (*macheteros*) fell to 72 000, i.e., 52 000 less than five years before. In 1985, all the sugar-cane enterprises were assigned to sugar mills for crop processing, particularly sowing, cleaning and chopping, and all the technical and economic activities required for sugar production were thus vertically integrated.

Stock raising fell by 1%, in contrast with the favourable results of the preceding biennium. The drought and the hurricane caused severe damage to the sector. The drought caused a decline in births and an increase in deaths in cattle herd, hence, at the end of the year, stocks (slightly more than 5 million head) were 2% lower than those of 1984. Hurricane Kate not only severely damaged dairies, piggeries, and poultry installations, but also killed almost 1 million birds, thus reducing the stock to 25.9 million units.

In order to alleviate the shortage of fodder for cattle that was faced during the year, 400 000 tons of fertilizer were applied to the irrigated forage areas, which was an increase of 20% over 1984. At the same time, despite the lack of moisture and green pasture, the production of fodder for storage in silos increased by 800 000 tons. Furthermore, in order to protect the cattle from the drought, 810 000 head were stabled between November 1984 and March 1985. Milk production fell by 2% and beef production by 1%, however, because fewer animals were slaughtered and because the average yield from the animals slaughtered fell by 10 kilograms. On the other hand, despite the losses caused by the hurricane, poultry meat production continued to rise as a result of greater efficiency; the conversion of feed to meat fell from 2.60 kilograms to 2.49 kilograms. Similarly, because of the improved management of the pig herd, both the stocks and the slaughter and yield of animals grew for the fourth year running (see table 5).

In 1985, 20 000 hectares were incorporated into agricultural co-operatives, bringing the total area in this sector to over one million hectares.¹² As the number of co-operatives declined—through a merger process—the number of members also fell, because retirement and pension schemes covering 4 000 co-operative members came into effect at that time.

Finally, the agricultural sector received loans amounting to 730 million pesos, 13% more than in 1984. The number of workers in agriculture (582 000) remained unchanged and thus fell to 18.3% of the total working population, following the downward trend observed since 1975. The sector's labour productivity increased by 0.7% and was accompanied by a slightly higher increase in the average wage paid (0.8%).

ii) *Fishing*. The total fish and seafood catch was a record high of 220 000 tons; the fish and shellfish catches increased by 9% and 8%, respectively, and that of mollusks and other species by 17%.

This branch of economic activity, which has received considerable encouragement in the past 20 years, had a fleet of 211 ships at the beginning of 1985; this was increased with the construction of 27 ferroconcrete ships, which are the type of vessel on which increases in the fishing fleet have been based since 1980. In 1985, 36 million pesos were invested, bringing the capital accumulated in this branch between 1981 and 1985 to 119 million pesos, an amount which was, however, lower than that recorded during the quinquennium 1975-1979.

The sector's exports increased by 30% and reached 120 million pesos. The sector's contribution to domestic consumption was 150 000 tons of fish and shellfish, 3% more than in 1984.

iii) *Petroleum mining and metallurgy*.^{1*} After declining the year before, the sector's output increased by 9% (see table 4). The main factors contributing to this growth were the 22% increase in the production of ordinary steel bars and the 11% rise in that of corrugated steel rods.

¹¹ Since the 1979/1980 season, cane loading has been completely mechanized, and during the 1984/1985 harvest the number of loaders reached 11 837. The number of combines used in cutting and cleaning the cane during the 1979/1980 season stood at 2 550, whereas in the 1984/1985 season 3 438 were used, which was fewer than those in operation in 1983/1984 because some of the combines had been replaced by others with a larger capacity.

¹² Sugarcane co-operatives accounted for 40%, coffee plantations for 19%, stock raising for 14%, tubers and vegetables for 11% and other agricultural activities for 16%.

* In the terminology used in Cuba, ferrous and non-ferrous mining are grouped together with the metallurgy of both types of minerals.

Crude-oil extraction rose by 13 % to a total of 868 000 tons and that of natural gas—which had fallen from 18 million cubic metres in 1980 to only 3 million in 1984— more than doubled (see table 6). These results were obtained under a prospection programme aimed at increasing proven reserves in order to ensure an extraction rate of 2 million tons by 1990.

Although the volume of processed crude oil decreased by almost 1%, the remodelling of the Níco López refinery in Havana and the construction of the Hermanos Díaz refineries in Santiago and Cienfuegos continued. The refinery in Santiago will have a refining capacity of 1.5 million tons of crude and the refinery in Cienfuegos will have a processing capacity of 3 million tons. Investment in these and other petroleum activities was 268 million pesos, which was similar to the figure for the preceding year.

Investments in ferrous metallurgy grew rapidly (67%) and were channeled primarily to works expanding the processing capacity of the Antillana de Acero steel plant. The 229 million pesos invested in mining and non-ferrous metallurgy (a 29% increase) was allocated mainly to the construction of latérite processing plants for the production of nickel plus cobalt.¹⁴

iv) *Manufacturing*. Manufacturing output increased by about 9% for the second year in a row. Consumer and capital goods production increased by 11%, falling below the growth rates recorded during the previous three years. The production of intermediate goods rose by almost 8% and that of non-durable consumer goods by 9% (see table 7).

Imports of intermediate goods rose by 11 % and provided the sector with an adequate supply of inputs. The installed capacity of the sector, which in 1983 and 1984 had been boosted with the addition of 21 factories, increased further with the partial or total entry into operation of another 18

Table 6
CUBA: PRINCIPAL PETROLEUM, MINING AND
METALLURGICAL PRODUCTION

	Thousands of tons					Growth rates			
	1975	1980	1983	1984	1985"	1982	1983	1984	1985"
Petroleum and petroleum products									
Crude petroleum extraction	226	234	744	770	868	13.7	37.0	3.8	12.7
Crude petroleum refining	5 976	6 236	6 580	6 616	6 582	1.6	0.1	0.3	-0.9
Petroleum fuel	2 822	3 026	3 414	3 437	3 318	2.2	6.8	0.7	3.5
Diesel fuel	1 083	1 099	1 060	1 020	979	-0.1	-5.2	-3.8	-4.0
Natural gas	17	18	8	3	7	-19.5	-22.4	-22.4	133.3
Gasoline	047	807	890	984	953	-14.4	5.1	10.6	-3.2
Ferrous mining and metallurgy									
Refractory chromium	B36	29	34	38	38	33.2	23.1	12.8	-
Ordinary steel	298	304	364	338	413	-8.6	20.8	-7.0	22.2
Textured steel bars	243	260	241	270	301	-26.0	18.4	12.2	11.5
Non-ferrous mining and metallurgy									
Nickel plus cobalt (metal content)	37	38	39	33	33	-6.6	4.4	-15.6	-
Copper concentrate^ (metal content)	2 777	3 305	2 667	2 701	3 100	-9.0	0.8	12	14.8

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"Preliminary figures.

Millions of cubic metres.

Tons.

"One such plant, the Punta Gorda facility, with a capacity of 27 000 tons of nickel plus cobalt sinter, will enter into partial operation in 1986. The other, the CAME 1 plant, with a 30 000 tons capacity, will come on stream in 1990. The first of these plants is being built with the technological and financial support of the Soviet Union and the second with the support of the CMEA member countries. Both plants will pay for their financing by exporting 50% of their annual production to these countries; the remaining 50% may be sold on other markets.

Table 7

CUBA: INDICATORS OF MANUFACTURING PRODUCTION"

	Index of material production (1975 = 100)				Growth rates'			
	1980	1983	1984	1985"	1982	1983	1984	1985"
Total"	110.5	143.5	156.7	170.6	4.4	4.5	9.2	8.9
Non-durable consumer goods industry	104.2	138.6	150.1	163.2	6.6	2.1	8.3	8.8
Foodstuffs (excluding sugar)	115.5	141.1	148.4	155.5	2.4	7.6	5.1	4.8
Sugar and sugar products	112.6	129.6	137.1	140.3	2.3	-3.7	5.8	2.3
Beverages and tobacco	84.0	141.0	160.5	187.4	15.8	0.5	13.5	16.8
Ready-made clothing	115.9	157.3	159.6	171.1	-4.1	15.8	1.5	7.2
Printed matter	128.8	141.5	162.2	182.6	11.3	-12.9	14.6	12.5
Intermediate goods industry	107.1	115.3	122.2	131.6	-5.0	3.5	6.0	7.7
Textiles	115.0	136.4	140.2	174.2	-	5.6	2.8	24.2
Chemicals	109.8	115.9	128.8	145.2	-13.8	9.1	11.1	12.8
Fuels	97.8	106.1	106.9	104.8	3.5	1.0	0.7	-2.5
Construction materials	137.6	120.9	129.0	137.2	-4.2	-2.5	7.4	5.6
Consumer durable and capital goods industry	164.3	258.0	303.3	336.6	11.5	17.5	17.6	11.0
Construction of non-electrical machinery	175.5	281.3	332.3	365.1	15.1	16.0	18.1	9.9
Electrotechnical and electronic goods	148.7	229.7	286.6	320.0	-8.4	28.4	24.8	11.7
Metal products	140.3	206.1	228.4	263.3	11.8	17.5	10.8	15.3
Other manufactures'	127.0	169.1	187.3	204.2	2.1	8.7	10.8	9.0

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"At constant 1981 prices. * Preliminary figures. 'Correspond to total, not rounded, figures. Excluding basic metals.

'Including, *inter alia*, the leather, glass and ceramics, paper and pulp, and timber processing industries.

industrial plants.¹⁵ Investment in the sector increased by 7%. Of the total of 964 million pesos, 30% went to the sugar industry, 12% to non-electric machinery construction and 10% to the construction materials industry. On the whole, there was investment in all branches of industry.

Among durable consumer and capital goods, the largest production increases were those of 17% in refrigerators, 225% in pressure cookers and 25% in gas or kerosene stoves, along with the construction of 27 ferroconcrete ships (three more than in 1984). The most significant increases in the manufacture of intermediate goods were in the production of textiles (19%), sulphuric acid (11%) and the processing of almost 1.6 million tons of fertilizers (9% more than the year before), whereas there was drop of 5% in cement production. Finally, in the manufacture of non-durable consumer goods (excluding sugar) the most significant increases were in canned fruits and vegetables, wheat flour and twisted tobacco (see table 8).

The 1984/1985 harvest yielded slightly over 8 million tons of raw sugar, 2.5% less than in the previous crop cycle. However, the production target was exceeded by 22 600 tons and the output level was one of the four highest in the history of the country.

"These include a plant to produce 900 000 radios and 300 000 television sets; another to manufacture parts and accessories for heavy equipment and for agricultural machinery and equipment; a mechanical nickel combine with an annual capacity for the repair and maintenance of motors and turbines valued at 30 million pesos; two spinning mills, which, together with the improvements made to the Ariguanabo textile plant, added a capacity of 21 100 tons of cotton yarn and 54 million metres of cotton and mixed textiles; an ironworks producing fittings for use in construction and for sanitary appliances; a metallurgical and metals manufacture plant in Cienfuegos to produce reinforced steel, preassembled pipes, 40 tons of steel plate and other forged products; a brewery in Camaguey which will produce 300 000 hectolitres of beer and malt during its first stage; a chemical synthesis plant with the capacity to process 70 tons of pharmaceutical products; and three workshops to manufacture and repair household appliances.

The volume of milled sugar cane (67 million tons) decreased by 15%. Despite the fact that the ratio between the actual number of days of milling to days of harvest was still one of the lowest in the last decade, a new record was set for the second consecutive year, with 646 000 tons of cane being milled per actual day of milling. Moreover, the processing yield for 1985 (11.99%) was the highest since 1976 (see table 9).

Although the drought partially accounted for the decline in the volume of cane cut and for the higher processing yield, the agroindustrial complexes played a major role in increasing the amount of cane milled for each actual day of milling and in augmenting the sugar processing output as they

Table 8
CUBA: MAIN INDUSTRIAL PRODUCTS

	Thousands of tons					Growth rates			
	1975	1980	1983	1984	1985°	1982	1983	1984	1985°
Non-durable consumer goods (excluding sugar)									
Canned meat	26	35	55	62	64	17.6	13.3	12.7	3.2
Wheat flour	176	271	428	422	442	9.0	11.0	-1.4	4.7
Canned fruit and vegetables	98	122	148	162	182	-7.9	12.6	9.5	12.3
Alcoholic beverages	420	402	586	656	619	48.2	2.7	11.9	-5.6
Twisted tobacco	383	167	333	302	366	55.6	-7.1	-9.4	21.2
Fisheries									
Gross catch	143	186	198	200	220	18.7	1.6	1.0	10.0
Total catch unloaded	113	152	165	171	182	21.4	8.0	3.5	6.4
Outer clothing°	47	44	52	51	52	10.7	2.4	-2.3	2.0
Intermediate consumer goods									
Textiles	144	159	170	172	205	-10.8	11.1	-1.1	19.2
Gray cement	2 083	2 831	3 231	3 347	3 182	-3.9	2.1	3.6	-4.9
Paints, enamels and varnishes	241	149	162	236	234	-53.4	140.4	45.8	-0.8
Sulphuric acid 98%	418	402	356	336	374	-19.4	7.0	-5.7	11.3
Sodium hydroxide	4	3	16	18	14	-39.3	46.5	7.3	-22.2
Superphosphate	43	18	9	10	15	-22.8	-60.6	10.6	50.0
Ammonium nitrate	208	312	176	336	328	-42.0	-15.1	91.3	-2.4
Complete fertilizers	749	1 059	1 082	1 036	1 160	-3.8	5.4	-4.2	12.0
Urea	3	16	32	65	81	-43.0	13.8	101.6	24.6
Bottles'	201	176	187	265	263	47.9	-19.5	41.4	-0.8
Unbleached and corrugated cardboard	28	22	21	19	16	4.4	-190	-11.7	-15.8
Consumer durables and capital goods									
Refrigerators'	50	26	16	24	28	-56.5	-11.4	54.1	16.7
Radio-receivers'	113	200	273	253	236	-6.6	14.3	-7.3	-6.7
Television sets'	26	40	91	92	94	-35.2	80.4	0.8	2.2
Sugar-cane combines	-	501	650	631	606	-0.5	8.0	-2.9	-4.0
Buses	1 718	1 846	1 862	2 219	2 393	-3.8	16.2	19.2	7.8
Uninsulated electric wire and cable	1 332	2 547	2 033	2 069	2 800	-41.5	42.8	1.8	35.3
Insulated electric wire and cable*	27	38	42	52	64	-37.4	24.5	24.9	23.1
Sanitary appliances'	160	298	350	336	338	12.8	-7.4	-3.9	0.6

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

*Preliminary figures.

°Thousands of hectolitres.

°Millions of units.

°Millions of square metres.

'Thousands of units.

'Units.

°Thousands of kilometres.

Table 9

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons)		Industrial yield (base 96°) (percentages)	Days		Sugar-cane milled per day (thousands of tons)	
	Sugar-cane milled	Raw sugar (base 95°)		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 953	12.51	103	88	466.3	542.3
1965	56 687	6 156	12.15	130	105	388.4	482.1
1970	79 678	8 538	10.71	217	143	367.4	557.8
1975	50 770	6 314	12.44	123	99	413.7	513.5
1976	51 999	6 156	11.84	130	99	399.1	526.9
1977	56 149	6 485	11.55	142	104	395.8	543.0
1978	67 043	7 351	10.96	168	119	400.1	563.2
1979	73 050	7 992	10.94	182	125	402.3	571.4
1980	61 600	6 665	10.82	149	109	412.7	565.8
1981	66 408	7 359	11.08	136	114	489.1	580.3
1982	73 500	8 210	11.17	152	124	484.6	594.1
1983	68 687	7 109	10.35	160	113	429.6	608.9
1984	78 358	8 207	10.47	166	126	471.1	620.2
1985 ^b	66 756	8 004	11.99	135	103	495.2	646.5

Source: 1960-1970: Central Planning Board, Statistical Bureau, *Boletín Estadístico*, 1970, 1975-1984, *Anuario Estadístico de Cuba*, 1984, and for 1985: 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.

co-ordinated the operation of the sugar mills with the cutting of the cane so that the sugar cane was cut when it was ripest.¹⁶

Since the end of 1982, the access of industrial enterprises to credit has been made more flexible in line with a stricter application of the economic and financial self-management system. Thus, the industrial sector at year end had accumulated loans in the amount of 2 325 million pesos, a level 43 % higher than that recorded at the end of 1984. A substantial part of these loans was allocated to general repairs, maintenance and investments and, to a lesser extent, to inventory financing.

Finally, the employment provided by the industrial sector increased by 2.5 % and average wages rose by 1%. The sector's productivity, including electricity and fisheries, was increased by 6%, as measured by the ratio of the social product to the number of workers.

v) *Construction*. The increase in the sector's product was only 2.5 % compared with 10.5 % and 16% in 1983 and 1984, respectively. This result reflected the concentration of effort in priority investment and the limitation of the start-up of new works.

The main construction projects completed included 15 works for health care; 29 for education; 69 industrial works and 116 other buildings or structures to be used for various economic activities, as well as three barrage and irrigation dams.

Industrial construction increased by 9% as did hydraulic works; hydrological works increased by 11%, while other products marketed by construction enterprises rose by 12%.¹⁷ Maintenance projects, which in the three previous years had recorded vigorous growth, expanded by 9%. On the other hand, all other construction slowed in some cases very markedly (see table 10).

Housing construction surpassed 69 300 units, 5 % less than in 1984. Whereas the State civilian sector increased the number of completed dwellings by 3%, the number of such units constructed by the population in general and the co-operatives fell by 9%. This decrease occurred even though the loans granted to the public for housing construction and repairs increased by 3% and the sale of some construction materials, such as crushed stone, sand, mosaics and clay bricks, grew substantially.

¹⁶In 1985, 144 complexes grouped around 152 sugar mills were in operation.

¹⁷This refers to work carried out by construction firms which does not, in a strict sense, correspond to construction or assembly (see note a of table 4).

Geodesic and exploration activities and soil analysis accounted for an expenditure of 164 million pesos, a figure 11 % higher than that of 1984. The designing of construction projects absorbed 90 million pesos, including projects and designs for construction abroad. At year's end, the balance of State loans to the sector approached 490 million pesos, which represented an increase of 34%.

Finally, Cuban construction enterprises operating abroad carried out works valued at almost US\$ 140 million and completed two highways totalling 540 kilometres, one in the Gongo and the other in Libya. In Angola, they built a convention centre and expanded the port of Luanda, as well as constructing a sawmill and a furniture factory while in Guinea they built a factory to produce prefabricated houses. These enterprises operate in 15 countries in Asia and Africa and employ over 10 000 workers.¹⁸

Table 10

CUBA: INDICATORS OF CONSTRUCTION

	Gross production (thousands of pesos at 1981 prices)			Percentage breakdown		Growth rates			
	1983	1984	1985'	1980	1985°	1982	1983	1984	1985"
Total	1 988	2 307	2 364			0.8	10.4	16.0	2.7
Construction and assembly	1 787	2 077	2 099	100.0	100.0	-0.9	9.4	15.9	1.1
Agriculture	39	42	42	4.5	2.0	-58.5	60.6	7.7	-
Housing and urbanization	154	179	178	8.1	8.5	-9.7	20.4	16.2	-0.6
Education	49	74	53	7.6	2.5	-51.0	23.4	51.0	-28.4
Industry	378	440	477	22.9	22.7	-14.4	20.2	16.4	8.4
Hydraulic works	71	69	75	7.9	3.6	-29.0	-2.2	-2.8	8.7
Highways (excluding railways)	147	182	139	8.0	6.6	-4.9	3.9	23.8	-23.6
Railways	34	40	39	4.4	1.9	-35.7	9.2	17.6	-2.5
Hydrological works	30	35	39	1.9	1.9	-7.7	20.6	16.7	11.4
Maritime facilities	36	45	42	2.1	2.0	0.5	•18.5	25.0	-6.7
Health facilities	38	44	40	2.3	1.9	1.5	•22.2	15.8	-9.1
Electricity networks	19	20	19	1.0	0.9	0.6	15.5	5.3	-5.0
Communication networks	15	13	12	0.4	0.6	-13.3	6.9	-13.3	-7.7
Maintenance	310	381	416	10.4	19.8	24.6	27.0	22.9	9.2
Other buildings	274	292	280	10.3	13.3	48.6	•16.5	6.5	-4.1
Other production marketed	193	221	248	7.6	11.8	21.0	14.9	14.5	12.2
Geological exploration, drilling and geodesic survey	132	148	164			26.5	30.7	12.1	10.8
Design of construction project	69	81	90			12.6	4.5	17.4	11.1
Production of selected building materials									
Corrugated steel bars°	241	270	301			-26.0	18.4	12.0	11.5
Steel bars°	297	271	335			-10.8	16.5	-8.8	23.6
Gray cement°	3 231	3 347	3 182			-3.9	2.1	3.6	-4.9
Prefabricated concrete products	833	905	960			2.3	8.7	8.6	6.1
Clay bricks°	125	128	147			-5.5	12.5	2.4	14.8
Tiles'	58	66	72			-24.8	17.0	13.8	9.1
Sheet glass	345	284	600			122.0	21.9	-17.7	111.3

Source: ECLAC, on the basis of data from the State Statistical Committee, *Anuario estadístico de Cuba. 1984*.

'Preliminary figures. 'Correspond to real, not rounded, figures. 'Thousands of tons. 'Thousands of cubic metres.
'Millions of units. thousands of square metres.

¹⁸Since 1978, these enterprises have belonged to UNECA, a union of Caribbean construction firms which has a permanent staff of 750, including 100 civil engineers and architects and 200 mid-level technicians. They are also supported by another 2 500 professionals and 3 800 mid-level technicians who work in national construction, design, geological prospection and soil analysis enterprises.

Table 11

CUBA: ELECTRICITY INDICATORS

	GWh						Growth rates			
	1970	1975	1980	1983	1984	1985"	1982	1983	1984	1985°
Gross generation	4 888	6 583	9 895	U 531	12 291	12 199	4.8	4.4	6.4	-0.7
Ministry of the Electricity Industry	3 609	5 413	8 679	10 107	10 803	10 739	4.8	4.8	6.9	-0.6
Ministry of the Sugar Industry Enterprises	881	756	954	1 085	1 125	1 131	7.2	3.8	3.7	0.5
producing nickel	237	239	170	270	251	209	3.0	1.5	-7.0	-16.7
Other producers	160	175	92	89	113	120	-8.0	-19.9	27.0	6.2
Consumption'	4 048''	5 404	7 330	8 100	8 691	8 570	9.8	0.7	7.3	-1.4
Industrial	1 829''	2 477	3 003	3 621	3 955	3 785	21.2	-0.5	9.2	-4.3
Agricultural	<i>if</i>	204	312	169	184	184	-30.4	-22.6	9.1	-
Commercial	1 100''	1 277	1 851	1 884	1 942	1 829	1.9	-0.1	3.1	-5.8
Residential	1 019''	1 343	2 087	2 312	2 484	2 671	5.2	5.3	7.4	7.5
Others	63 ^d	103	77	115	126	101	39.0	7.5	9.6	-19.8

Source: ECLAC, on the basis of statistics supplied by the State Statistical Committee.

"Preliminary figures. Correspond to real, not rounded, figures. " Excluding the consumption of the Ministry of the Sugar Industry nickel-producing enterprises and that corresponding to the electricity generated by "other producers". Corresponds to 1971.

vi) *Electricity*. Gross electricity generation reached 12 200 GWh, almost 1 % less than in 1984. Of this total, 88% was generated by public service plants, 9% by those installed in sugar mills and the remaining 3 % by plants operating outside the grid system (in particular those belonging to the nickel plants). The total consumption met by public service enterprises fell 1.5%, in sharp contrast to the growth seen in 1984 (see table 11).

Although residential consumption —which expanded by 70 000 users— increased 7.5%, consumption by the productive sectors dropped: industrial consumption fell by 4%, consumption by commerce 6% and electricity use by other sectors declined by 20% as a result of the vigorous energy conservation campaigns and other efforts made by productive units. In this way, 200 000 tons of petroleum were saved compared with 1984.

During the year, 100 MW were added, raising the generating capacity to 2 609 MW, 4% more than the previous year. Construction work was also continued on a thermoelectric plant in Matanzas. This plant was to begin operating in 1986 and would add 330 MW to the system. Progress was made in the work on the thermoelectric plant in East Havana. This plant was to begin partial operation in 1986 and is to come fully on stream in 1988 and is to add a further 1 200 MW. Installation of the Jaraguá nuclear electricity plant in Cienfuegos continued and this plant is expected to bring a savings of 2.4 million tons of petroleum.

3. The external sector

The contribution made by external savings has become a characteristic feature of the economic growth of the country in recent years, inasmuch as the trade deficit has steadily increased from almost 135 million pesos in 1978 to somewhat more than 1.92 billion pesos in 1985.

Cuba's trade with market economy countries has been encountering serious difficulties for some years now, owing to the fall in the prices of sugar and other export products, increases in import prices and the worsening of the international financial crisis since 1982. Despite efforts to increase exports and reduce purchases abroad, these and other factors have compelled the government to renegotiate debt payments. Although this has brought a measure of relief as far as foreign transactions are concerned, it has also resulted in higher financial costs and a loss of flexibility with regard to

imports, since many of the few new loans have been tied to purchases in specific markets. Furthermore, it has not stopped the transfer of resources to the exterior.

These transfers represent a heavy burden for the country; during the 1982-1984 triennium, the cumulative balance on capital account showed a deficit of 507 million pesos, while the total net interest paid reached 752 million pesos. Thus, the transfer of resources abroad during that period rose to almost 1 260 million pesos. The same trend persisted in 1985, although not as vigorously. The net outflow of resources was only 51 million pesos, but suppliers' credits increased by more than 120 million pesos and were granted on more stringent terms and with very short repayment periods.

According to the government, these and other non-economic circumstances increased the relative importance of trade with the CMEA countries and in particular with the Soviet Union. Cuba receives imports from these countries at preferential prices and in some instances this support even brings convertible currency into the country. Moreover, the prices they pay for Cuban exports, although they do take international prices into account, are actually set by means of periodic agreements. In addition, the agreements governing this trade include compensation mechanisms to indemnify Cuba for any losses caused by a deterioration of the terms of trade.

Tablle 12

CUBA: EXPORTS OF GOODS (FOB)

	Millions of pesos				Percentage breakdown		Growth rates			
	1980	1983	1984	1985*	1980	1985	1982	1983	1984	1985"
Total	3 967	5 535	5 462	5 983	100.0	100.0	16.8	12.2	-1.3	9.5
Soviet Union	2 253	3 882	3 939	4 468	56.8	74.7	39.6	18.0	1.5	13.5
Other socialist countries	534	883	953	842	13.5	11.1	7.2	-	7.9	-11.6
Other countries	1 180	770	571	673	29.7	11.2	-27.3	1.4	-25.9	17.9
Re-exports	96	493	486	507	2.4	8.5	60.7	87.5	-1.4	4.3
Rest of sales	3 871	5 042	4 976	5 476	97.6	91.5	15.0	8.0	-1.3	10.0
Soviet Union	2 157	3 389	3 452	3 975	54.4	66.4	38.0	12.0	1.9	15.2
Other socialist countries	534	883	954	842	13.5	14.1	7.3	-	8.0	-1.4
Other countries	1 180	770	570	659	29.7	10.0	-27.2	1.3	-26.0	15.6
Sugar sales	3 279	4 078	4 093	4 422	82.7	73.9	15.4	8.1	0.4	8.0
Soviet Union	2 026	3 093	3 169	3 649	51.1	61.0	42.7	11.8	2.5	16.6
Other socialist countries	428	714	743	621	10.8	10.4	7.8	1.4	4.1	-16.4
Other countries	825	271	181	152	20.8	2.5	-52.4	-10.0	-33.2	-16.0
Non-sugar sales	592	964	884	1055	14.9	17.6	13.6	7.3	-8.3	19.3
Soviet Union	131	296	384	325	3.3	5.4	2.4	13.8	29.7	-15.4
Other socialist countries	102	169	210	222	2.6	3.7	118.3	-5.6	24.3	5.7
Other countries	359	499	390	508	9.0	8.5	1.3	8.7	-21.8	30.3
Metallic minerals and scrap	191	307	321	330	4.8	5.5	-10.7	-5.8	4.6	2.8
Tobacco	36	103	56	93	0.9	1.6	82.5	-0.9	-45.6	66.1
Citrus fruit	41	120	118	144	1.0	2.4	25.6	22.4	-1.7	22.0
Fishery products	90	105	92	120	2.2	2.0	3.1	6.1	-12.4	30.4
Naphtha	72	70	32	54	1.8	0.9	312.5	6.0	-54.3	68.7
Coffee, cocoa and others	23	47	21	39	0.6	0.7	30.0	20.5	-55.3	85.7
Alcoholic beverages	25	29	35	21	0.6	0.4	62.5	11.5	20.6	-40.0
Others	116	183	209	254	2.9	3.3	3.1	30.7	14.2	21.5

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

*Re-exports of fuel to the Soviet Union in freely convertible currency.

Table 13

CUBA: PRODUCTION, EXPORTS AND EXPORT PRICES OF SUGAR

	Thousands of tons"		US cents per pound		
	Sugar production	Sugar exports	Price paid by the Soviet Union'	Price received by Cuba in freely convertible currency ^d	Price on the world market'
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	7 783	7 017	44.00	6.46	5.18
1985 ^f	7 889	7 209	45.00	3.92	4.05

Source: ICLAC, on the basis of figures from the *A iuritts V.stiidistkn * dy Cuba*; the State Statistical Committee; the statistical yearbooks of the Soviet Union, and other international data.

"Raw sugar, base %" of polarization. Calendar year. ' Price paid for shipment of sugar covered by trade agreements. Does not include sugar sales to the Soviet Union in freely convertible currency at market prices. ' Price of shipments of sugar during the current year, some of which were made under prior agreements at fixed prices. ' Prices of the International Sugar Agreement. Preliminary figures.

a) *Merchandise trade*

i) *Exports of goods*. In 1985, the total value of external sales of merchandise increased by 9.5%. Exports to the socialist countries grew by 18%, in sharp contrast with the 26% contraction observed in 1984. Exports, properly speaking, grew by 10%, given that oil re-exports increased slightly more than 4% (see table 12).

The large share of sugar in the value of external sales —75 % of the total value of exports, and 82% if oil re-exports are subtracted— declined slightly in 1985. Shipments were slightly over 7.2 million tons, 3% more than the year before (see table 13). However, their value (4.4 billion pesos) increased 8% with respect to the previous year owing to a rise in the average price.

The value of sugar exports to the market economy countries declined for the fifth consecutive year. This time it dropped by 16% because the increase of 24% in the actual volume shipped —from 1.4 million to 1.7 million tons— did not compensate for the reduction of 39% in the average price paid by these buyers; this price was a mere US\$ 0.0392 per pound, which was equivalent to less than one-sixth of the price received in 1980.

The value of sugar exports to the socialist countries, on the other hand, increased by 9%, despite the reduction of 2% in the volume shipped (3.7 million tons to the Soviet Union and 1.7 million tons to the other socialist countries), as the average price obtained rose by 9%. The price paid by the Soviet Union increased by 2 % to US\$ 0.45 per pound, equivalent to almost 12 times the price obtained from the market economy countries and on the world market (see table 13). The price obtained from the other socialist countries fell by 7%, when the shipments to those countries with which lower prices had been agreed were changed.

Fluctuations in the price cycles on the international market are frequent and more and more marked. In fact, whereas between the initial and final years of the 1974-1978 quinquennium the sugar

prices included in the International Sugar Agreement fell by 74%, during the period 1980-1985, they sank by 86%. For these and other reasons, the outlook for Cuba on this market is bleak. Firstly, the countries which traditionally imported sugar have now become exporters. Secondly, world stocks now stand well above what is considered a normal level. Thirdly, protection is still being provided to those producers who cannot stand up to the test of comparative advantage. Lastly, there have been no results so far from the negotiations to establish a new international sugar agreement that would manage and regulate demand, supply and prices.

In contrast, the sugar agreements signed with the Soviet Union and with the other CMEA member countries guarantee that there will be no violent fluctuations in sugar prices; in fact, there is a systematic upward trend (see table 13). These agreements specify, over long periods, the amounts that Cuba must sell annually, but these amounts have not always been met.

It is, therefore, understandable that Cuba has sold increasing amounts of sugar to the socialist countries. Thus, in terms of volume, the share of sugar exports sold to the market economy countries has fallen from 36% in 1980 to an average of 22% in 1984-1985, while these countries' share in terms of the value of sales has plummeted from 26% to 3.5% (see table 14). As a result of the fall in the price on the world market, Cuba has redirected large volumes of sugar to the socialist countries, and this has been much to its advantage as regards foreign exchange earnings.¹⁹

Once the supply for domestic consumption had been guaranteed, the sugar export policy in 1985 was geared, first of all, to meeting the delivery quotas agreed with the Soviet Union and, secondly, to obtaining more income in freely convertible currency, even at the price of sacrificing the country's level of strategic or tactical reserves; indeed they were reduced by 31% to around 500 000 tons. This decrease included 149 200 tons lost through the damage to sugar storage facilities caused by hurricane Kate. Shipments to the Soviet Union reached 3.7 million tons. In addition, Cuba bought sugar on the world market worth 106 million pesos in order to meet the quota agreed with the Soviet Union.

Following the 8% slide the year before, non-sugar exports grew by 19% (see table 12). This occurred even though these exports were affected by the drop in international prices, the protectionist policies applied by some countries and the United States boycott of Cuban goods, which in some instances had a negative impact on volumes and sale prices, as in the case of nickel.

Table 14

CUBA: VALUE AND VOLUME OF SUGAR
EXPORTS BY COUNTRIES

(Percentages)

	1978	1979	1980	1981	1982	1983	1984	1985"
Value	100.0	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	82.5
Rest of socialist countries	11.7	14.0	12.7	13.9	18.4	17.5	18.2	14.0
Rest of world	8.6	9.9	25.5	27.4	8.9	6.6	4.4	3.1
Volume	100.0	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	51.4
Rest of socialist countries	17.3	18.8	20.5	20.8	22.3	26.8	27.6	24.2
Rest of world	28.3	28.3	35.3	33.8	20.4	22.7	20.3	24.4

Source: ECLAC, on the basis of figures from the State Statistical Committee.

"Preliminary figures.

¹⁹ For example, due to the price differences between these two markets, for the 1.7 million tons of sugar which Cuba redirected during the 1983-1984 biennium, it received 1 437 million pesos more than it would have if this sugar had been sold on the international market. See ECLAC, *Economic Survey of Latin America and the Caribbean, 1984, op. cit.*

Table 15

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

	Millions of pesos					Growth rates				
	1975	1980	1983	1984	1985 ^o	1981*	1982 ^h	1983	1984	1985
Total exports	2 952	3 967	5 535	5 462	5 983	6.5	16.8	12.2	-1.3	9.5
Soviet Union	1 662	2 253	3 882	3 938	4 468	4.6	39.5	18.0	1.5	13.5
Rest of socialist countries	341	534	883	953	842	53.9	0.1	-	7.9	-11.6
Rest of world	949	1 180	770	571	673	-11.4	27.1	1.4	-25.9	17.9
Total imports	3 113	4 627	6 222	7 207	7 905	10.5	8.2	12.5	15.8	9.7
Soviet Union	1 250	2 904	4 245	4 776	5 310	11.0	15.8	13.4	12.5	11.2
Rest of socialist countries	355	709	1 169	1 282	1 330	24.3	32.3	0.4	9.7	3.7
Rest of world	1 508	1 014	808	1 149	1 265	-1.4	-37.7	29.7	42.2	10.1
Overall balance	-161	-660	-687	-1 745	-1 922					
Soviet Union	412	-651	-363	-838	-841					
Rest of socialist countries	-14	-175	-286	-329	-488					
Rest of world	-573	166	-38	-578	-593					

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)*.

^oPreliminary figures. Annual average.

There were, however, internal factors which also impeded the growth of sales abroad, such as a number of production inefficiencies, which continued to hinder an increase in the supply of manufactures to be sold on foreign markets; bad weather conditions which affected exportable agricultural production; delays in the completion of plants geared to export production; the inadequate assortment of goods in the overall supply (despite the fact that 110 new export items were added in the past quinquennium); and unattractive domestic prices, especially for agricultural products.²⁰

Finally, petroleum re-exports continued to provide a considerable amount of foreign exchange. Under the supply contract signed with the Soviet Union, which is to remain in force until 1990, Cuba is entitled to re-export to the Soviet Union, in freely convertible currency or transferable rubles and at market prices, all the fuel it can save out of the petroleum it acquires from that same country under a previously agreed supply plan. Energy conservation campaigns have proved very successful,²¹ and the value of these re-exports thus rose from 96 million pesos in 1980 to 507 million pesos in 1985 (see table 12). In order to fulfil re-export commitments, in 1985 Cuba purchased petroleum on the world market for 100 million pesos.

ii) *Imports of goods.* External purchases of goods expanded by almost 10%. Those from the market economy countries also grew by 10%, after having increased by 42% the previous year. The imports from the CMEA member countries increased by a similar proportion; those from the Soviet Union rose 11% while those from the rest of these countries were up 4% (see table 15).

Imports of consumer goods grew by 8% whereas those of capital goods declined from 14% in 1984 to 6% in 1985 and those of intermediate goods—which made up almost 70% of total imports—rose by 11% (see table 16).

The share of imports which were paid for in freely convertible currency continued the upturn which had begun in 1984, reaching 16%, a share which was, however, equivalent to barely one-third of that recorded in 1975. Thus, imports from the socialist countries continued to represent

²⁰See National Bank of Cuba, *Informe económico*, March 1986.

²¹They have also led to considerable technological progress, such as the replacement of all liquid fuels by bagasse in the sugar mills.

somewhat more than five-sixths of the total and supplied 84% of imports of intermediate goods and 80% of the capital goods (see table 17).

iii) *The terms of trade.* While the available indicators relating to the prices of exports and imports were incomplete, some trends may be inferred. Trade with the socialist countries, which constituted 86% of the overall total, was conducted under agreements which, although based on international prices, incorporate certain CMEA co-operation and integration criteria and also provide compensation mechanisms in the event of any decline in the terms of trade.²² On the other hand, in its trade with the market economy countries, Cuba could not escape the sharp declining trend in the terms of trade between developing economies and the industrialized countries. The price of Cuban sugar fell by 39% (see table 13), which meant a loss to the country, equivalent to 71 million pesos. In spite of the fact that nickel prices dropped by 18%,²³ Cuba gave concessions on the price of this metal

Table 16
CUBA: IMPORTS OF GOODS (CIF)

	Millions of pesos				Percentage breakdown			Growth rates				
	1980	1983	1984	1985"	1975	1980	1985"	1980	1982	1983	1984	1985"
Total	4 627	6 222	7 207	7 905	100.0	100.0	100.0	25.5	8.2	12.4	15.8	9.7
According to use and economic purpose												
Consumer goods	535	757	788	853	13.3	11.6	10.8	7.9	13.5	-0.8	4.1	8.2
Intermediate goods	2 823	4 077	4 832	5 368	63.1	61.0	67.9	25.4	9.3	16.5	18.5	11.0
Petroleum and petroleum products	898	1 842	2 200	2 592	9.9	19.4	32.8	20.0	28.3	24.3	19.4	17.8
Fertilizers	81	125	127	127	2.9	1.8	1.6	10.1	9.7	11.6	1.6	-
Herbicides and pesticides	60	68	53	64	1.7	1.3	0.8	13.9	5.0	-10.5	-22.1	20.8
Rolled steel	114	178	220	164	3.9	2.5	2.1	3.4	-1.7	27.8	23.6	-25.5
Accessories and spare parts	86	129	524	584	3.0	1.8	7.4	17.8	4.0	22.9	322.6	11.5
Remainder	1 584	1 735	1 708	1 836	41.8	34.2	23.2	30.7	-3.1	9.3	-1.6	7.5
Capital goods	1 269	1 388	1 587	1 684	23.6	27.4	21.3	37.4	2.2	9.6	14.3	6.1
Complete plants	535	589	649	696	6.1	11.6	8.8	27.9	-10.3	10.2	10.2	7.2
Tractors	37	62	89	86	0.4	0.8	1.1	10.8	49.6	-15.0	43.5	-3.4
Buses and lorries	115	158	195	124	2.4	2.5	1.6	64.3	24.8	-1.9	23.4	-36.4
Remainder	582	579	655	779	14.7	12.5	9.8	45.1	6.9	16.5	13.1	18.9
On the basis of ISIC categories												
Food and live animals	746	788	808		19.1	16.1		31.5	5.7	-2.7	2.5	
Beverages and tobacco	16	9	8		-	0.3		648.2	-11.5	-5.3	-11.1	
Inedible raw materials, except fuels	188	197	252		5.9	4.1		20.7	-15.9	6.4	27.9	
Fuels and lubricants, minerals and related products	912	1 857	2 218		10.3	19.7		19.9	28.4	23.9	19.4	
Animal and vegetable oils and fats	57	65	79		1.3	1.2		-	-16.6	36.2	21.5	
Chemicals	289	416	426		7.9	6.3		21.1	14.0	16.2	2.4	
Manufactured goods, classified chiefly by materials	679	763	960		18.4	14.7		20.5	-4.9	6.4	25.8	
Machinery and transport equipment	1 639	1 903	2 196		31.2	35.4		30.1	-0.4	11.1	15.4	
Miscellaneous manufactures articles	101	225	261		5.8	2.2		21.3	74.5	16.6	16.4	

Source: ECLAC, on the basis of figures from the State Statistical Committee.

"Preliminary figures.

"In Cuba's trade with the Soviet Union, compensation is made through an adjustment mechanism applied to a sliding scale of sugar prices.

"The average price of nickel in the Canadian market was US\$ 3.20 per pound in 1982 and 1983, US\$ 2.76 in 1984 and US\$ 2.22 in 1985.

Table 17

CUBA: IMPORTS OF GOODS CIF, BY COUNTRY OF ORIGIN,
USE AND ECONOMIC PURPOSE

	1983				1984				1985°			
	Total	Con- sumer goods	Inter- medi- ate goods	Capital goods	Total	Con- sumer goods	Inter- medi- ate goods	Capital goods	Total	Con- sumer goods	Inter- medi- ate goods	Capital goods
Millions of pesos												
Total	6 222	757	4 077	1 388	7 207	788	4 832	1 587	7 905	853	5 368	1 684
Soviet Union	4 245	348	3 086	811	4 776	343	3 567	866	5 310	403	4 034	873
Other socialist countries	1 169	351	397	421	1 282	362	483	437	1 330	361	489	480
Rest of world	808	58	594	156	1 149	83	782	284	1 265	89	845	331
Growth rates												
Total	12.4	-0.8	16.5	9.6	15.8	4.1	18.5	14.3	9.7	8.2	11.0	6.1
Soviet Union	13.4				12.5	-1.4	15.6	6.8	11.2	17.5	13.1	0.8
Other socialist countries	0.4				9.7	3.1	21.7	3.8	3.7	-0.3	1.2	9.8
Rest of world	29.7				42.2	43.1	31.6	82.0	10.1	7.2	8.1	16.5
Percentages												
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	68.2	46.0	75.7	58.4	66.3	43.5	73.8	54.6	67.2	47.2	75.1	51.8
Other socialist countries	18.8	46.4	9.7	30.3	17.8	45.9	10.0	27.5	16.8	42.3	9.1	28.5
Rest of world	13.0	7.6	14.6	11.2	15.9	10.6	16.2	17.9	16.0	10.5	15.8	19.7

Source: ECLAC, on the basis of figures from the State Statistical Committee.

°Preliminary figures.

when it was in the national interest. In other cases, it redirected nickel exports to the socialist countries, with the resulting loss in convertible currencies. Petroleum prices also fell and this adversely affected petroleum re-exports. Furthermore, during 1985, Cuba had to face rises in the prices of some of its imports from market economy countries.

b) *The balance of payments in freely convertible currency*^{2*}

For the second consecutive year since 1980, the current account showed a deficit, although the amount (140 million pesos) was 34% less than the negative balance recorded in 1984 (see table 18). Exports rose to 1 244 million pesos.²⁵ As Cuban exports to the market economy countries were worth 717 million pesos, the remainder came from the re-exports arranged for by the socialist countries. Since the value of imports was 1 177 million pesos,²⁶ if only the trade with the market economy countries were recorded, thereby excluding re-exports, then the current account deficit of 140 million pesos would rise to 667 million pesos. The difference demonstrates the importance for Cuba of its trade agreements with the socialist countries as regards the financing for the country's transactions with the market economy countries.

The traditional deficit on the services account was less than that of the previous year. Expenditure was very similar to that of 1984, owing to which the increase of 11% in interest

²⁴ In Cuba, the balance of payments in freely convertible currency records transactions of goods and services at current prices and capital transactions with market economy countries and those exports to the CMEA countries for which the latter pay in transferable rubles or freely convertible currency.

²⁵ Of this total, sugar accounted for 171 million pesos, fuel re-exports represented 527 million pesos and the remaining exports brought in 546 million pesos.

²⁶ This total is 7% lower than the figure of 1 265 million pesos appearing in table 15 due to bookkeeping differences occasioned by the time-lag between the actual receipt of merchandise and its financial liquidation and also to triangular clearings.

payments on the debt (268 million pesos) was compensated for by a drop in spending on transport, insurance and other imported services and by reductions in other expenditure abroad. Income increased significantly (31%) because, while earnings from transport and insurance and interest received grew slowly, tourism expanded by 21%, bringing in an income of 97 million pesos, and the other services²⁷ more than doubled (see table 18).

In 1985, there were 240 000 visitors to the country, 16% more than the previous year. Of these, 172 000 were served by INTUR, the national institute for the tourism industry; 23% came from Canada, 11 % from Mexico, 5 % from the rest of Latin America, 30 % from Europe, 15 % from other

Table 18

CUBA: BALANCE OF PAYMENTS IN FREELY CONVERTIBLE CURRENCY"

(Millions of pesos)

	1978	1979	1980	1981	1982	1983	1984	1985
Balance on current account	-523	-139	-46	51	297	263	-212	-140
Merchandise balance	-136	99	367	285	606	441	73	67
Exports FOB	595	680	1 248	1406	1 356	1 234	1 136	1 244
Imports FOB	-731	-581	-881	-1 121	-750	-793	-1 063	-1 177
Services balance	-393	-237	-414	-235	-306	-179	-294	-211
Income	148	227	237	344	267	342	264	346
Transport and insurance	-	72	95	126	121	125	124	129
Tourism	8	6	30	38	42	53	80	97
Interest received	-	17	34	28	23	32	23	29
Other	140	132	78	152	81	132	37	91
Expenditure	-541	-404	-651	-579	-573	-521	-558	-557
Transport and insurance	-101	-122	-173	-181	-184	-190	-190	-172
Interest paid	-143	-176	-263	-339	-341	-248	-241	-268
Other	-297	-166	-219	-59	-48	-83	-127	-117
Other net transfers	6	-1	1	1	-2	1	9	4
Balance on capital account	484	133	60	-52	-539	-74	106	188
Long-term capital ¹	387	86	-16	-116	-136	93	138	66
Loans received	606	187	80	26	29	253	291	294
Amortization payments	-219	-101	-96	-142	-166	-160	-153	-228
Official sector		6	7	-	1	3	1	4
Private banks		179	18	-92	-84	66	-3	94
Other sectors		-99	-42	-24	-54	24	140	-32
Short-term capital ¹	98	47	76	64	-403	-167	-32	122
Loans received	165	173	134	203	119	98	279	346
Amortization payments	-67	-126	-58	-139	-522	-265	-311	-224
Official sector		.	-	69	-50	8	-5	1
Commercial banks		68	-20	47	-408	-68	-134	50
Other sectors		-21	96	-53	56	-106	107	71
Total variation in reserves (- sign indicates and increase)	39		-14	1	242	-189	106	-48

Source: ECLAC, on the basis of figures from the National Bank of Cuba.

"Includes all commercial and financial movements with market economy countries but only some of the movements with socialist countries. * Preliminary figures. ^c These balances also include the net movements of other assets and liabilities in freely convertible currency, as well as adjustments for variations in the exchange rates of the currencies in which they are expressed.

²⁷Consular and trade services, commissions, permanent missions and earnings from the exchange of foreign currency, which increased by 52 million pesos.

Table 19

CUBA: STRUCTURE OF GROSS INTERNATIONAL RESERVES

(Millions of pesos)

	1981	1982	1983	1984	1985"
Total"	403.4	139.2	332.2	262.8	350.0
Gold and precious metals	14.4	15.2	13.5	13.5	14.9
Cash and deposits in freely convertible currency in foreign banks	323.6	80.6	271.4	165.8	212.5
Deposits in transferable rubles in foreign banks	65.4	43.4	47.3	83.5	122.6

Source: ECLAC, on the basis of statistics from the National Bank of Cuba.

"Preliminary figures. End-of-year balance in millions of pesos.

Table 20

CUBA: EXCHANGE RATE

(Pesos per unit of foreign currency)

	US dollars	Pounds	Swiss francs	German marks	Yens"
Averages					
1980	0.7113	1.6432	0.4294	0.3968	0.3113
1981	0.7814	1.6071	0.4001	0.3510	0.3572
1982	0.8333	1.4686	0.4139	0.3443	0.3372
1983	0.8598	1.3167	0.4128	0.3411	0.3609
1984	0.8861	1.1999	0.3820	0.3141	0.3755
1985	0.9138	1.1777	0.3725	0.3096	0.3829
1985					
(Quarters)					
I	0.9307	1.0499	0.3474	0.2907	0.3674
II	0.9246	1.1470	0.3500	0.2942	0.3663
III	0.9058	1.2286	0.3780	0.3126	0.3749
IV	0.8941	1.2854	0.4145	0.3410	0.4232

Source: ECLAC, on the basis of figures from the National Bank of Cuba.

" 100 yen.

market economy countries and 16% from the socialist countries. INTUR earnings (US\$ 100 million) increased by 16%. Visitors from the market economy countries accounted for 87% of this amount.

In order to make provision for the growing demands of tourism, a programme was put into effect to improve service. Under this programme, Spanish technical assistance is to be contracted to improve hotel administration and management and firms from the Federal Republic of Germany are to be engaged to conduct a study with a view to the tourist development of Cayo Largo. The refurbishing of some of the hotels in Havana is also planned and INTUR is to use part of the US\$ 600 million loan granted by the Argentine Republic for contracts with Argentine firms to build eight "turn-key" hotels in Varadero. Cuban firms began construction of this tourist complex in 1985 on their own account.

The surplus in capital transactions increased by 78% to almost 190 million pesos (see table 18). This positive balance reflected the difference between amortization payments of some 450 million pesos and the receipt of external loans in the amount of 640 million pesos, 54% of which were

short-term credits. This capital inflow was sufficient to cover the deficit on current account and to increase the level of international reserves in freely convertible currency by 48 million pesos, thereby raising them to some 230 million pesos. In addition to this sum, deposits of almost 125 million pesos in transferable rubles in foreign banks raised the figure for gross reserves in these currencies by 33 % to 350 million pesos (see table 19).

The Cuban peso experienced a slight devaluation (3%) against the dollar and a less marked devaluation (2 %) in relation to the Japanese yen. On the other hand, it gained 1.4% in relation to the German mark, 1.9% in relation to the pound sterling and 2.5% against the Swiss franc. However, during the second half of the year, the upward trend was reversed and quotations of the peso in these three currencies and the yen declined substantially (see table 20). These four countries are of great importance in Cuba's export markets in freely convertible currency; the country has therefore tried to prevent the prices of its exports from becoming unattractive as a result of inappropriate exchange rates.

c) *External indebtedness in freely convertible currency*

During 1985, external indebtedness in freely convertible currency increased by 9%; this brought it to slightly less than 3 260 million pesos, which was 30 million pesos more than the high

Table 21

CUBA: INDICATORS OF EXTERNAL INDEBTEDNESS
IN FREELY CONVERTIBLE CURRENCY"

(Millions of pesos)

	1980	1981	1982	1983	1984	1985*
Total disbursed debt	3 227	3 170	2669	2 790	2 989	3 259
Bilateral official debt	1 354	1 294	1 276	1333	1 579	1 673
Multilateral official debt	8	15	18	25	17	18
Suppliers	27	33	47	97	229	366
Financial institutions	1 837	1 826	1 327	1 335	1 164	1 202
Medium-term bilateral loans and loans from consortia	563	505	417	495	453	444
Short-term deposits	1 238	1 282	860	789	623	666
Credits for current imports	36	39	50	50	88	92
Other credits	1	1	1	1	-	-
Disbursements ⁰	214	229	148	351	570	639
Service	„»	„»	«»	319	403	515
Interest paid	263	338	341	248	241	268
Amortization payments on medium- and long-term debts				71	162	247
Percentages						
Ratios						
Total disbursed debt/global social product	18.5	14.3	11.6	11.5	11.4	11.9
Debt service/exports of goods and services				20.2	28.8	32.4
Debt service/disbursements				90.9	70.7	80.6
Debt service/global social product				1.3	1.6	1.9

Source: ECLAC, on the basis of data from the National Bank of Cuba.

"Includes commitments falling due one year or less. *Preliminary figures.

"Includes long- and short-term loans received, according to the balance of payments. "Previous surveys included amortization payments on long- and short- term capital, as they appear in the balance of payments in freely convertible currency. This survey includes the more precise figure for actual amortization payments on medium- and long- term debt, which has been available only since 1983.

point recorded five years earlier. This increase reflected the country's policy of strengthening its links with the market economy countries without resorting to excessive indebtedness. Indeed the coefficient representing the debt as a percentage of the global social product, which was 19% in 1980, declined considerably in the following two years and remained below 12% in 1983-1985 (see table 21).

Of the total amount of the debt in convertible currency, 52% was owed to official sources and the remaining 48% represented loans granted by private organizations. In 1980, these proportions had been 42% and 58%, respectively; these figures illustrate the declining role of private international sources of credit in financing the development of the Cuban economy. At the same time, the share of credits from official sources in the industrialized countries has declined while the percentage obtained from some of the developing countries has risen.

The composition of the balance of debt with official bilateral institutions (1 670 million pesos) continued to reflect a shift away from intergovernmental and development assistance loans and towards export insurance credits. Because of the higher financial costs it involved, this change was not the most advantageous course for the country to take, even though it did facilitate external trade.²⁸

Debts owed to private organizations increased by 13%, reaching 1 568 million pesos, of which 68% represented short-term obligations. Suppliers' credits rose by 60% and accounted for 11% of the total debt, a share which was far higher than the 0.8% recorded in 1980. Debts owed to financial institutions increased slightly, thus exceeding 1.2 billion pesos. Of these, short-term deposits by foreign banks in the National Bank of Cuba increased by 7%, but this was not enough to reverse the violent decline of previous years, since the level of 666 million pesos recorded in 1985 was still 48% lower than that of 1981 (see table 21).

As a result of the conditions imposed by official and multilateral financial organizations and of the withdrawal by international banks of medium- and short-term deposits from the National Bank of Cuba, the country was forced to resort to commercial loans, which, notwithstanding their high cost, nonetheless facilitated commercial transactions to some extent.

This situation has had a disquieting effect on Cuba's external economic relations with the market economy countries. Faced with an international situation that limits Cuban exports, in which it has become more difficult to secure new credits, in which excessively high interest rates and banking commissions are still charged, and in which higher prices have made imports more costly, Cuba has had to divert an increasing share of its export earnings to the servicing of its debt in freely convertible currency. The corresponding ratio went from 20% in 1983 to more than 32% in 1985 (see table 21).

In the view of the Cuban authorities, under such circumstances it is difficult to normalize its financial relations with these countries, especially when the problems tend to worsen. Consequently, during the round of debt renegotiations held in 1984, Cuba presented a programme of action to its creditors which would dispense with the prevailing purely financial criterion and would link the debt problem to national economic development.²⁹ In 1985, the authorities reported that these proposals had received no response whatsoever. They indicated, however, that since they regarded them as being just in both economic and practical terms and as in the interest of both parties, they would present them again at the round of external debt renegotiations to be held in 1986, which was expected to be difficult.

4. Employment, wages, prices and productivity

In Cuba's planned economic system, the main instrument for distributing the surplus destined for direct consumption by the population or "the consumption fund" is what is known as the "wage fund"

²⁸ See National Bank of Cuba, *Informe económico*, op. cit.

²⁹ In its statement in addition to specifically requesting access for its exports to the markets of creditor countries Cuba proposed: i) to increase its purchases in the creditor countries to 25% of its total imports; ii) to create an entity in which participation would be on an equal footing with creditor countries for the purpose of carrying out evaluations and feasibility studies of investment projects, with much of the resulting production being exported to international markets which operate in freely convertible currencies; iii) to undertake jointly, whenever possible, the engineering and investment studies corresponding to such projects. See, ECLAC, *Economic Survey of Latin America and the Caribbean, 1984*, op. cit and the National Bank of Cuba, *Informe económico*, February 1985.

and this in turn is determined by total employment and the average wage.⁵⁰ Given, in addition, the programmed level of prices, an adequate equilibrium must be established between the two funds in order to avoid creating liquidity problems for the population. Furthermore, the increase of wages in the enterprises included in the productive sphere must be in line with increases in productivity to prevent an erosion of profitability. Consequently, an attempt is made to maintain the equilibria and the planned interrelationships among average wages, employment, prices, productivity and profitability, on the one hand, and between the monetary income of the population and the consumption fund, on the other, but this has not always been achieved. Thus, in 1985 imbalances arose which, although they were not serious, to some extent impaired the profitability of enterprises and their contribution to the budgetary income of the nation.

a) *Employment*

The rapid growth of State civilian employment (4%) recorded during the preceding biennium slipped to 2% in 1985, bringing the number of persons employed in absolute terms to almost 3.2 million (see table 22).

The productive sphere provided employment for more than 2.2 million persons and its 1.4% increase was equivalent to less than one-half of the growth rate observed during the preceding biennium. This evolution was attributable to a policy which sought to make enterprises more profitable by enhancing labour productivity. In practice, this has led to very strict employment

Table 22

CUBA: AVERAGE NUMBER OF WORKERS"

	Thousands of workers				Percentage breakdown			Growth rates			
	1982	1983	1984	1985 ⁶	1975	1980	1985 ⁶	1982	1983	1984	1985 ⁶
Total	2 882	3 000	3 115	3 176	100.0	100.0	100.0	2.0	4.1	3.8	2.1
Productive sphere	2 037	2 106	2 177	2 208	72.6	72.0	69.5	1.5	3.4	3.4	1.4
Agriculture	616	595	582	582	28.6	22.8	18.3	-0.5	-3.4	-2.2	-
Forestry	21	26	27	30		0.7	1.0	-1.0	25.6	3.5	11.1
Industry	600	631	666	682	19.7	20.0	21.5	4.1	5.2	5.5	2.4
Construction	261	284	309	315	8.7	10.0	10.0	-2.1	8.8	8.8	1.9
Transport	180	185	187	190	6.9	6.3	6.0	-8.0	2.8	1.1	1.6
Communications	24	25	26	26	1.0	0.8	0.8	3.5	4.7	3.7	-
Commerce	324	348	367	366	7.5	11.1	11.5	4.3	7.3	5.6	-0.3
Other activities	13	14	15	17	0.2	0.3	0.5	15.2	7.8	3.6	13.3
Non-productive sphere	845	894	938	968	27.4	28.0	30.5	3.4	5.7	5.0	3.2
Community and personal services	86	97	108	108		3.4	3.4	-5.6	13.1	11.5	-
Science and technology	21	23	26	27		0.7	0.9	4.9	5.6	13.3	3.8
Education culture and art	392	408	418	422		13.2	13.3	3.2	4.1	2.5	1.0
Public health and social welfare, sports and tourism	153	170	185	196		4.6	6.2	11.2	10.5	8.9	5.9
Finance and insurance	13	15	17	19		0.4	0.6	11.8	11.3	14.9	11.8
Administration	152	155	156	166		5.2	5.2	-0.3	2.2	0.8	6.4
Other activities	27	26	28	30		0.5	0.9	16.7	-2.6	5.6	7.1

Source: ECLAC, on the basis of figures from the State Statistical Committee.

⁶Includes only civilian employment in the State sector.

Preliminary figures.

⁵⁰ Wages are the main source of the population's monetary income; however the increase in allowances, retirement funds and other social benefits of a monetary nature has caused the ratio between the total wages earned and the monetary income of the population to fall from 73% in 1975 to 72% in 1980 and to 70% in 1985.

Table 23
CUBA: AVERAGE WAGES"

	Average wages (pesos)				Growth rates			
	1982	1983	1984	1985*	1982	1983	1984	1985*
Total	2 113	2 159	2 230	2 245	3.8	1.8	3.3	0.7
Productive sphere	2 120	2 173	2 252	2 261	3.2	2.5	3.6	0.4
Agriculture	2 000	2 004	2 082	2 100	4.0	0.2	3.9	0.9
Forestry	1 986	1 988	2 097	2 104	4.0	0.2	5.4	0.3
Industry	2 209	2 267	2 330	2 357	3.3	2.6	2.8	1.1
Construction	2 241	2 346	2 468	2 488	-0.1	4.7	5.2	0.8
Transport	2 479	2 551	2 606	2 591	3.2	2.9	2.2	-0.6
Communications	2 021	2 041	2 106	2 159	3.1	1.0	3.2	2.5
Commerce	1 895	1 959	2 033	2 021	4.4	3.4	3.8	-0.6
Other activities	2 380	2 482	2 472	2 412	6.2	4.3	-0.4	-2.4
Non-productive sphere	2 095	2 126	2 177	2 209	10.2	1.5	2.4	1.5
Community and personal services	1 864	1 900	1 966	1 960	2.8	1.9	3.5	-0.3
Science and technology	2 402	2 396	2 416	2 461	6.7	-0.2	0.8	1.9
Education, culture and art	2 102	2 148	2 193	2 230	7.2	2.2	2.1	1.7
Public health and social welfare, sports and tourism	2 216	2 027	2 077	2 126	13.4	-8.5	2.5	2.4
Finance and insurance	2 213	2 209	2 194	2 176	4.5	-0.2	-0.7	-0.8
Administration	2 243	2 261	2 346	2 375	-5.7	0.8	3.7	1.2
Other activities	2 059	2 184	2 260	2 250	-	6.1	3.5	-0.4

Source: ECLAC, on the basis of figures from the State Statistical Committee.

*Includes only civilian employment in the State sector.

*Preliminary figures.

controls. As a result of these controls the elasticity between the global social product and employment went from 1.2 in 1983 to 1.9 in 1984 and to 2.3 in 1985; this last figure was exceeded only in 1981, which was an exceptional year in Cuba's economic history.

On the other hand, the jobs created by the non-productive sphere increased by 3%. The activities of education, culture and art absorbed 43 % of this increase while the sectors of public health, sports, tourism and social welfare accounted for 20%. These high coefficients reflected Cuba's policies of promoting these activities, to which the government has given priority for more than two decades.

Although the economic system appeared to be providing a satisfactory level of employment, the authorities were concerned that it was not being used to full advantage. Indications of this problem were to be seen in the redundancies observed in a number of services such as restaurants, hotels and, even more worrying, in some productive sectors such as trade. Consequently, in 1985, there was a rigorous application of the policy of preventing any absorption of employment which did not strictly correspond to increases in production or investments in productive enterprises.

b) *Wages*

The general fund of wages paid in the State civilian sector showed an increase of 2.6%, which was not only lower than that of the two previous years but also lower than the rate of from 3% to 3-5% provided for in the 1985 Comprehensive Development Plan.

Up to 1984, there was a tendency towards high elasticity between the growth of the wage bill and the increase in the global social product at current prices and an even greater elasticity in respect of national income.³¹ The attempt made in the comprehensive plan for 1985 to reverse this trend was an expression of the effort being made to increase productivity, the profitability of productive enterprises and the efficiency of the non-productive ones.

³¹In Cuban planning terminology, national income is equivalent to the global social product minus productive consumption, i.e., to the value added in the productive sphere.

The average wage in the production sphere increased by 0.4%, which was only one-eighth of the average increase during the previous triennium (see table 23). The average wage fell in some branches of production but the authorities stated that these decreases were mainly attributable to a stricter control of bonus payments to workers who exceeded performance of the work standards. Some of these standards were re-examined and made more complex because they had been very low and were too easy to fulfil. This revision of the standards which has been taking place since 1982, became particularly rigorous in 1984 and 1985.

The absolute values of the average wages in the productive and non-productive spheres continued to be very similar. This was the result of the application of economic reform measures begun in 1976 which have given greater force to the principle of equal pay for equal work in all activities and geographical areas. Thus, whereas in 1978 the difference between the highest average regional wage (in the city of Havana) and the lowest (in Granma province) was 25%, in 1984 and 1985 the gap between the highest average regional wage (in Cienfuegos provinces) and the lowest (in Granma province) was only 16%.

c) *Prices*

No sharp fluctuations were recorded in either wholesale or retail prices. Nevertheless, within the framework of the policy on which price reforms were based in 1981 and 1982, a study was started on the implications for the national economy of both the reductions in the prices of the main export products to free market countries and the increases in the prices of imports from these countries. This study also covered the implications of the continuous changes in exchange markets.

According to information which is still incomplete, retail trade prices increased no more than 3 %. This rise was the outcome of an economic policy which sought to give greater force to the role of the market, to establish more consistency between prices and production costs, in order to further the wholesale and retail price reforms adopted in 1981 and 1982 and in this way to reduce the public's liquidity.

Between 1984 and 1985, the rationed market and the decontrolled market, taken together, reduced their share of total retail sales from 86% to 85%. For its part, the parallel market increased from 13% to almost 15% and the free peasant market share was close to 1%. These changes in market composition were reflected in increases in the price index.³²

In the rationed market increases were observed in the prices of beef (9%), plantains (13%) and bananas (18%), while reductions occurred in the prices of potatoes (-11%), beans (-2%) and onions (-14%). The decreases in parallel market prices were much more pronounced; reductions were observed in the prices of garlic (-15%), onions (-34%) and beans (-7%). In the free peasant market increases were recorded in unpasteurized milk (12%), beans(6%), rice(5%) and plantains (3%) and decreases in garlic (-17%) and onions (-5%).

Finally, the prices of a number of essential mass-consumption products, which are rationed but which also are sold on the parallel market, have remained unchanged since the 1981 reform. Examples of this are, *inter alia*, pasteurized and unpasteurized milk, eggs, rice, butter, sugar, pork lard and bread.

d) *Productivity*

After increasing by almost 5% the year before in real terms, labour productivity increased by 2.3%.³³ Several factors were responsible for this loss of dynamism, including: a) the policy decision adopted in 1984 to put a damper on economic growth (in order to place emphasis on production for export, to give priority to and regulate investment and to reduce imports) which moderated economic

³²Because of the very particular structure of the consumer goods market in Cuba, it is difficult to monitor changes in the consumer prices of specific goods. The same product may be sold at different prices in four different markets: a) the regulated (rationed) market; b) the parallel State market, where rationed goods are also sold, but without any restriction as to quantity or price; c) the decontrolled market, which sells any product without restriction as to quantity or price; and d) the free peasant market, where the individual peasant sells his own products according to the laws of the market.

³³Previous Economic Surveys used the concept of global productivity, measured as a ratio between the global social product (excluding commerce at producer prices) and the number of workers. Beginning with this edition, the concept employed will be the more specific one of labour productivity in the productive sphere, also excluding commerce, measured on the basis of gross production at "enterprise prices", which does not include indirect taxes collected by the producer, and expressed in 1981 prices.

growth but did not cause any worker lay-offs; b) the severe drought which affected agricultural production and reduced the area harvested; and c) hurricane Kate, which affected production during the last two months of the year and made it necessary to mobilize workers for rescue and reconstruction work.

At the sectoral level, notable setbacks were observed in activities where significant progress had been made, such as forestry and transport. Manufacturing, on the other hand, doubled its growth rate as a result of the high industrial yield in sugar production, in non-durable consumer goods and in the manufacture of capital goods.

This higher average productivity is partly explained by the integration of a large number of what are known as "permanent brigades"³⁴ and partly by greater material incentives to workers. The number of persons in jobs subject to work standards increased by 3% and the number of people who received performance bonuses increased by 1%. The amount of such bonuses paid out rose 10%, reaching 81 million pesos, which was equivalent to slightly more than 1% of the total wages paid.

5. Monetary and fiscal policy

a) *Introduction*

In Cuba, monetary policy is mainly used as a tool to facilitate and to quantify, on a uniform basis, economic relationships among production units, enterprises and institutions and to distribute the surplus they generate among the population and the central and municipal governments. The fiscal policy, for its part, fulfills two basic functions: to increase the State's share of national income in order to improve its distribution, and to help control the operation of the national economy so as to ensure maximum efficiency.

On the basis of the economic and social guidelines for the 1981-1985 Plan, important decisions concerning monetary and fiscal policy were adopted. Although geared to achieving specific objectives in each case, the measures were designed with the aim of ensuring that the effects of the monetary and fiscal policies would work together to promote the more efficient achievement of the goals set in the annual development plans. To this end, the National Bank of Cuba and the State Finance Committee, which are the agencies responsible for applying these policies, co-ordinate their actions and use the same basic information and control systems, including the National Accounting System, the National Auditing System and the cash flow programmes. They also act in co-ordination with the State Statistical Committee through the National Statistical System.

Finally, the results of the monetary and fiscal policies are not only subject to an overall quarterly examination by the National Bank of Cuba and the State Finance Committee, but also to review by the organs of the People's Power Assembly at the local, regional, provincial and national levels.

b) *Monetary policy*

The monetary policy implemented in 1985 was directed at controlling the money supply in the hands of the public and at measuring and monitoring the economic results turned in by enterprises and, in particular, their profitability. The financial efficiency of the large investments made by central agencies and by enterprises was also monitored. In order to do this, the National Bank assumed technical and financial control through budget and investment supervision. Loans to the public for production and consumption were made more selectively than in previous years and were brought into line with established priorities.

In this way the factors of monetary expansion³⁵ —that is, the monetary income of the population— increased by about 4%, with an elasticity of 0.8 in relation to the global social product,

³⁴The permanent brigades are groups of workers with which the enterprise enters into contracts under specific terms and conditions for the completion of work of different kinds. The brigade is responsible for its own organization, work schedules and distribution of the value of the contract as payment to its members. For a more detailed explanation of the permanent brigade and its purposes, see Roberto Veiga, "Discurso de Clausura del Encuentro Nacional de la CTC para examinar la labor de las Brigadas Permanentes e Integrales", *Granma*, 30 January 1986.

³⁵In the execution of the Cash Flow Programme which is the statement in financial terms of the production and investment plans of the enterprises, the outflow of money into circulation derives exclusively from: a) payments of wages, bonuses, retirement pensions and annuities; b) payments to private individuals or groups for work contracted for by enterprises and other State agencies; and c) purchases from co-operatives and farm owners. As transactions between enterprises are cleared within the banking system, the items mentioned above, combined with consumer and housing repair loans to the population and social welfare payments, are the only factors of monetary expansion in Cuba.

in sharp contrast with the average elasticity of 1.4 recorded during the period 1981-1984. Although total spending by the public increased a little more than 4%, monetary liquidity grew by 160 million pesos. Of this, almost three quarters went to savings and the rest was retained as cash in the hands of the public (see table 24). These results may be regarded as satisfactory since liquidity represented 0.6% of the global social product, a coefficient which was considerably lower than the 0.8% for the year 1984.

Furthermore, the supervision by both the National Bank and the State Finance Committee resulted in a decrease of 0.3% in the consumption of raw materials per monetary unit of production and a 1.2% decrease in the relative costs of production. Similarly, enterprises' increased share in the surplus that was generated enabled them to raise to almost one-third (31%) the average coefficient representing the portion of their investments financed with their own funds (between 1981 and 1984 these coefficients had been 1%, 13%, 16% and 28%, respectively).

At the end of the year, the balance of credit granted to the State's productive sector was more than 8.1 billion pesos, an amount 10% higher than the figure for the same date in 1984. Financing directed towards industrial activities increased by some 700 million pesos and accounted for 29% of the total. Credit granted to the agricultural and construction sectors increased by 85 million pesos and 132 million pesos, respectively. Credit for commerce declined 275 million pesos, but even so its share of the total was 5.3%. The credit granted to the population increased by more than 60%, reaching 298 million pesos. Of this total, 55% was used to finance the purchase of refrigerators and a further 26% for the purchase of television sets. The interest rates on these credits remained fixed, as they had during the preceding three years, and ranged between a maximum of 10% for the purchase of automobiles and a minimum of 4% for housing repairs.

The People's Savings Bank (BPA) continued to improve its organization as it related both to attracting savings and to providing other services to the population. To this end, it increased the number of its branch banks from 448 to 467¹⁶ and made an effort to expand its qualified staff and its physical and technical facilities. It was thus able to intensify its savings campaign, as a result of which savings increased by 10% (see table 25), thus fulfilling the provisions of the housing law which had been enacted in 1984.

Table 24

CUBA: MONETARY LIQUIDITY

	Millions of pesos				Growth rates			
	1982	1983	1984	1985 ^a	1982	1983	1984	1985 ^a
Expansion factors	8 583	9 155	9 927	10 315	6.6	6.7	8.4	3.9
Workers' income	6 842	7 330	7 928	8 122	7.0	7.1	8.2	2.4
Private-sector income	518	538	574	600	0.4	3.3	7.3	4.5
Other income ^b	1 223	1 287	1 425	1 593	6.8	5.2	11.3	11.8
Contraction factors	8 467	9 076	9 721	10 150	11.3	7.3	7.0	4A
Expenditure on goods and services	8 086	8 654	9 242	9 641	11.3	7.1	6.8	4.3
Other expenditure	381	422	432	509	11.1	13.4	11.1	6.0
Variation in liquidity	116	69	205	164				
Cash	-80	-6	89	44				
Savings deposits	196	75	116	120				

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 cooperatives 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 transfers received. Includes amortization and interest on loans, subscriptions to political, sporting and social organizations, and drafts and transfers.

¹⁶ With the addition of these branches, only four of the 169 municipalities have no banking agencies in their capitals. In 1978, 144 capitals lacked them.

Table 25

CUBA: THE BANKING SYSTEM AND PERSONAL SAVINGS
AND CREDIT OPERATIONS

	1980	1981	1982	1983	1984	1985
Number of banking agencies specialized in service to the public at end of year						
Municipal		192	326	421	448	467
Auxiliary		69	115	143	154	165
Savings banks		63	71	76	77	79
Non-specialized		60	140	185	206	219
			17	11		4
Monetary savings of the population (1974 = 100)	101	120	147	157	172	189
Number of credits to the population (thousands)	178	252	215	268	296	385
Electrical appliances	139	212	166	216	237	324
Motor vehicles	15	12	17	18	15	15
Construction materials and housing repairs	9	11	10	11	18	17
Others	14	17	22	23	26	29
Value of personal credits (millions of pesos)	104	160	146	161	185	298
Electrical appliances	70	117	92	114	137	245
Motor vehicles	17	16	27	22	21	24
Construction materials and housing repairs	9	13	12	10	14	14
Others	8	14	15	35	19	15
Other items (millions of pesos)						
Payments collected	107	115	124	139	156	174
Balances due	176	217	233	249	272	388

Source: ECLAC, on the basis of statistics from the People's Savings Bank.

This law provided, *inter alia*, for: i) the transfer, by 1 July 1985 and through the corresponding payment, of the ownership of dwellings to the persons residing therein either on a payment basis or as the legal occupants; ii) the transfer of ownership to those provided with dwellings constructed by the State; iii) the promotion of the construction, maintenance, remodelling and extension of dwellings by private entities or individuals; iv) the regulation of housing rental; v) a ban on ownership of two or more dwellings, except in special cases involving agricultural workers; vi) the establishment of regulations governing the setting of the value of dwellings and the percentage of this value to be paid by the occupant (i.e., owner); and vii) the designation of the BPA as the representative of the State as regards all rights and obligations relating to the legal and financial aspects connected with the transfer of dwellings as provided for by law.

The intensive activity undertaken by the BPA to comply fully with these provisions was quite successful. On 1 July 1985 there were 574 000 persons residing in dwellings on a payment basis. By 31 December of that year, 95% of them had initiated the necessary proceedings but only 260 000 actually submitted the formal application to secure ownership of the occupied dwelling. By that same date, after the necessary appraisals and actuarial studies had been done, the BPA had issued 211 500 housing ownership titles to their occupants.

c) *Fiscal policy*

The State Finance Committee (CEF) contributed to the achievement of the more general objectives outlined by the government at the end of 1984, which were aimed at improving economic efficiency and reducing the deficit in external trade. This was to be done by controlling the growth of production, consumption and investment as well as by upgrading the profitability and overall efficiency of the economic system and by applying strict priority criteria. In the fiscal field, this took the form of the adoption of a budget for 1985 which froze expenditure and provided for a decrease in

the contributions by enterprises and State agencies to the State's income. Accordingly, the State Finance Committee implemented an energetic savings policy to check the growth of budgetary outlays which succeeded in bringing expenditure down by 2.4% and a fiscal surplus was obtained equivalent to 9% of total expenditure, despite the fact that income declined (see table 26).

In the execution of the budget, the following points were outstanding: i) the decline of 4% in the contribution of the State to the productive sphere, thus continuing the tendency for this sector to assume more and more responsibility in the financing of its investments in fixed and working capital; ii) the drop of 5 % in expenditure for housing and community services, even though the construction of housing units by the State increased by 3%; iii) the decline of 7% in the expenditure of the central administration and the People's Power Assembly, by virtue of the fact that the former exercised strict control over its disbursements and the latter became more fully self-financing and was thus able to expand its activities and assume greater responsibility in providing a number of community services; and iv) the reduction of 7% in expenditure on domestic law and order and on defence (see table 26).

The expenditure by the State on activities connected with health, education, culture and science increased by 2% and represented approximately 37% of the total. In the field of health, this made it possible to achieve the previously mentioned averages of 443 persons per doctor and 1 864 inhabitants per dentist, figures which were 9% and 13% lower than in 1983, and to add 2 250 hospital beds for a total of 54 100 beds or 1 bed for every 5.4 persons.

Table 26

CUBA: BUDGET OF STATE INCOME AND EXPENDITURE

	Programmed (millions of pesos)			Actual execution Millions of pesos							Growth rates	
	1983	1984	1985°	1983	1984	1985°	1982	1983	1984	1985°		
Current income	10496	11 471	11 311	12 128	11 854	11 751	-7.5	21.4	-2.3	0.9		
Contributions from the State sector	10 324.	.	.	.	.	.	.	.	.	.	.	.
Taxes and other contributions from the non-State sector	16.	.	.	.	.	.	.	.	.	.	.	.
Taxes and duties paid by the population	157.	.	.	.	.	.	.	.	.	.	.	.
Total expenditure	10300	11250	11296	11394	11930	11648	12.2	12.2	9.2	-2.4		
Productive sphere	3 558	3 535	3 330	4 592	4 378	4 188	-33.3	20.1	-0.6	-4.3		
Housing and community services	508	731	724	623	773	736	1.3	31.7	24.1	-4.8		
Education and public health	2 158	2 405	2 557	2 210	2 425	2 490	4.5	5.4	9.7	2.7		
Other social cultural and scientific activities	1 524	1 767	1 886	1 683	1 855	1 872	6.6	12.6	10.2	0.9		
"Poder Popular", Central State Government, Tribunals and Public Prosecutor's Office	635	659	648	610	688	637	3.9	-1.6	12.8	-7.4		
Defence and domestic law and order	1 116	1 169	1 471	1 133	1 386	1 289	19.1	2.2	22.3	-7.0		
Other activities	450	527	446	542	426	436	22.3	-0.2	-21.4	2.3		
Reserves	350	457	235	-	-	-	-	-	-	-		
Surplus (or deficit)	196	222	16	735	-76	103	-77.1					

Source: ECLAC, on the basis of figures from the State Statistical Committee, the National Bank of Cuba and the State Finance Committee.
°Preliminary figures.

The expenditure on educational activity made it possible to increase by 1% the number of students enrolled in secondary education, which thus rose to 1.2 million; to increase enrolment in higher education to 235 000 persons (11% more than in 1984); and to provide boarding scholarships to 592 000 students and semi-boarding scholarships to another 449 000 students. In the sphere of culture and art, the number of libraries was increased from 289 to 311 and that of art galleries from 129 to 143.

Although it was unable to completely eliminate its own shortcomings with respect to monitoring taxpayers' profits and securing full adherence to tax regulations, the CEF tried to combat the laxity to be observed in this respect. Thanks to this effort, the taxes paid by enterprises and State agencies into the budget increased by 74%, even after the portions of the surplus which they retain were deducted. These larger contributions resulted from increases in profitability obtained through either the elimination of unnecessary expenditure or improvements in productivity.

In the area of methodology, in order to enhance its inspection and supervision activity, the CEF began, together with the National Bank, to simplify the requirements and procedures to which taxpayers are subject in accordance with the National Accounting System, the National Auditing System and the formulation of the Cash Flow Programme, as well as to make these regulations more flexible and to adapt them to special circumstances.

During the year, the CEF studied important reforms concerning fiscal administration and incorporated them into draft legislation. These reforms are related to the income and expenditure of the provinces and their aim was to ensure that the execution of the expenditures budgeted for the municipalities and provinces would be dependent upon how much of the programmed revenues the municipalities and provinces actually took in, including inputs from the central or provincial budgets for development purposes.

In order to achieve this aim the following measures were envisaged: i) decentralizing the collection of excise taxes on some consumer goods, levying them at the point of consumption; ii) considering the tax on restaurant services as the prerogative of each region; and iii) allowing local budget authorities to withhold a small portion of the contribution that the nationwide enterprises located in their region must make to the national budget. In addition, for purposes of economic and social development, the various regions would receive allocations from the State budget which would be regarded as current income.

CHILE

1. Recent economic trends: Introduction and summary

After a partial recovery in 1984 from its steep fall during the previous two years, the domestic product increased moderately during 1985. This expansion of economic activity was accompanied by an improvement in the employment situation, a slight acceleration in the inflationary process, a further drop in real wages, and a marked reduction in the external imbalance (see table 1 and figure 1).

Fundamentally, these changes were the result of the adjustment policy applied by the economic authorities, although they were also influenced to a substantial extent by the effects of the earthquake which affected the central region of the country early in March, as well as by certain changes which took place in the international economic scene.

Owing to the enormous size of the balance-of-payments current account deficit registered in 1984—equivalent to more than 10% of the gross domestic product—and to the impossibility of continuing to finance so large an imbalance by means of the expedients used in that year, adjustment of the external sector became the first priority of economic policy.

To this end, and with a view to promoting a development process mainly propelled by exports, the authorities raised the rate of exchange (by 9%) towards the end of February and again at the beginning of July, and continued to apply the policy of daily minidevaluations of the peso. As a result, the real effective exchange rate reached its highest level for at least the past fifteen years in the second half of the year. In order to reinforce the favourable effects of the exchange policy on exports, and also in order to neutralize the inflationary consequences of the February and July devaluations, at the same time the general rate of import duty was reduced, and from the middle of the year it was stabilized at 20%.

On the other hand, special protection continued to be given to some agricultural goods and to certain industrial products by the establishment of price bands and the imposition of tariff surcharges and specific duties. Furthermore, in mid-year certain measures were adopted in order to stimulate exports, among which the main one was the reimbursement of 10% of the net return on minor exports, these being understood as products whose external sales in 1984 had had a value of US\$2.5 million or less.

Finally, and likewise with a view to promoting the external adjustment and controlling inflation, the authorities maintained a restrictive public sector wages policy and a policy of free determination of salaries within the private sector, and the government deficit was significantly reduced.

Thanks to these measures, the volume of exports of goods increased very vigorously (13%), although owing to a decrease of almost 8% in their unit value total external sales grew only by a little over 4%. With this increase and the 12% contraction in the value of imports, the merchandise trade surplus came to US\$850 million, or almost three times that of the previous year.

At the same time, the negative balance on non-financial services decreased—largely because of the payment of reinsurance claims corresponding to installations and goods damaged by the March earthquake—and interest payments went down by US\$200 million as a consequence of the fall in international interest rates and the better terms achieved in renegotiating the external debt with international private banks.

As a result of these changes, the current account deficit decreased from somewhat over US\$2 100 million in 1984 to US\$1 340 million in 1985, the latter figure being slightly less than that laid down in the economic programme which the government had agreed with the International Monetary Fund in March.

Most of the current account deficit was covered with new net credits totalling US\$714 million supplied by the international private banking system, with the drawing of the first installment of the

loan granted by the International Monetary Fund for the period 1985-1987, with a US\$17 million loan granted by the same agency to compensate for the effect of the drop in export prices, and with various loans provided by the World Bank and the Inter-American Development Bank.

These new loans did not lead, however, to an equivalent increase in external indebtedness, since from mid-year onwards the authorities began to carry out operations with external debt promissory notes which reduced the total medium- and long-term external indebtedness by almost US\$380 million. Consequently, the nominal increase in the external debt was finally only 2.3%, which was less than the rate of world inflation and therefore meant a reduction in the debt in real terms.

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Indexes 1980 = 100							
Basic economic indicators							
Gross domestic product at market prices	93.2	100.0	105.2	91.5	91.0	96.6	98.9
Gross national income	93.3	100.0	101.5	82.1	82.3	85.9	86.4
Population (millions)	11.0	11.1	11.3	11.5	11.7	11.8	12.0
Per capita gross domestic product	94.6	100.0	103.6	88.6	86.8	90.6	91.4
Growth rates							
Short-run economic indicators							
Gross domestic product	8.0	7.4	5.2	-13.1	-0.5	6.2	2.4
Per capita gross domestic product	6.5	5.8	3.6	-14.4	-2.1	4.4	0.9
Gross national income	7.5	7.3	1.5	-19.2	0.4	4.4	0.6
Rate of unemployment							
Greater Santiago	13.6	11.8	11.1	22.1	22.2	19.3	16.3
Nation-wide	13.6	10.4	11.2	19.6	16.7	15.4	12.9
Consumer prices							
December-December	38.9	31.2	9.5	20.7	23.1	23.0	26.4
Variation between annual average	33.4	35.1	19.7	9.9	27.3	19.9	30.7
Real wages and salaries	8.3	9.0	9.1	-0.4	-10.6	0.3	-4.5
Money	59.1	77.9	2.1	-19.7	21.1	7.1	34.4
Current income of government	55.1	39.2	19.1	4.3	6.1	22.6	39.0
General government expenditure	36.1	38.3	29.1	20.7	8.3	23.2	36.6
Public sector deficit/gross domestic product	-4.8	-5.4	-0.8	34	25	4.2	2.7
Current value of exports of goods and services	57.	29.2	-16.	-7.3	-0.9	-2.3	
Current value of imports of goods and services	44.1	34.6	17.5	-39.2	-21.0	16.0	-14.5
Terms of trade (goods and services)	-1.6	3.4	-10.0	-14.0	3.5	-5.9	-7.8
tuitions of dollars							
External sector							
Trade balance (goods and services)	-598	-1 056	-3 245	-379	635	-108	542
Net payments of profits and interest	675	929	1 463	1 921	1 703	1 955	1 901
Balance on current account	1 205	-2 020	-4 805	-2 373	-1 116	-2 118	-1 342
Balance on capital account	2 261	3 341	4 941	1 032	600	2 210	1 240
Variation in net international reserves'	1 061	1 331	164	-1 112	-652	352	-190
General external debt (gross)	8 484	11 084	15 542	17 153	17 431	18 877	19 318
General external debt (net)	6 170	7 010	11 767	14 575	15 408	16 821	17 451

Source: IXLAC, tin the basis of official data.

"Preliminary figures.

Percentages.

' Excluding variation in reserves due to revaluation of gold

Table 2

CHILE: EVOLUTION OF GROSS NATIONAL INCOME

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1983	1984	1985 ^o	1980	1985 ^o	1982	1983	1984	1985 ^o
Gross national income (a + b - c + d)	82.4	86.2	87.0	96.5	84.9	-19.0	0.5	4.6	0.9
a) Gross domestic product	91.0	96.6	98.9	100.0	100.0	-13.1	-0.5	6.2	2.4
b) Terms-of-trade effect	...	...	...	-	-7.8				
c) Net external factor payments	189.5	210.2	198.4	-3.7	-7.5	31.4	-5.1	10.9	-5.6
d) Net private transfers from the exterior	<u>83.4</u>	<u>67.7</u>	<u>77.9</u>	<u>0.2</u>	<u>0.2</u>	<u>15.1</u>	<u>29.1</u>	<u>-18.8</u>	<u>15.0</u>

Source: ECLAC, on the basis of official data.

^o Preliminary figures.

The advance made in the process of external adjustment was accompanied, however, by a decline in the economic growth rate and an increase in inflation. Thus, the gross domestic product, which had grown by over 6% in 1984, increased in 1985 by only 2.4%, while the variation in consumer prices rose from 23% to 26.4%.

Nevertheless, these global results fail to reflect the very different paths followed by both economic activity and inflation in the course of these two years. Whereas in 1984 the growth in the product was concentrated in the first half of the year and slackened considerably later on, in 1985 the expansion of production was only minimal in the first half of the year but speeded up markedly in the last quarter (see figure 2). The rate of inflation, for its part, after having gone down steadily and substantially in the first eight months of 1984 and then rising again strongly after the increases in the exchange rate and tariffs decreed in September of that year, continued to rise until the third quarter of 1985, but subsequently the intensity of the inflationary process slackened markedly as a result of the change in the expectations of the economic agents, the restrictive policies applied in the public sector and in regard to wages, and the decline in real interest rates.

This evolution of economic activity and inflation exerted an influence, in turn, on the path followed by real wages. Thus, as a result of the virtual stagnation of production in the first half of the year and the simultaneous acceleration of inflation, the purchasing power of wages went down until the middle of the year. In contrast, when the price rises slackened and economic activity recovered, this purchasing power increased slightly in the second half of the year. Nevertheless, this recovery was not sufficient to make up for the drop which had taken place in the first half of the year, so that the average annual level of real wages and salaries was 4.5% lower in 1985 than in the year before and almost 15% lower than before the crisis.

Finally, the uneven performance of productive activity was also reflected in the evolution of unemployment. During most of the year the unemployment rate fluctuated very slightly around 13% for the country as a whole and 17% in Santiago, and it only went down markedly in the last quarter of the year when overall production recovered.

2. Trends in economic activity

a) *The product and income*

Although the recovery in productive activity which began in the third quarter of 1983 continued in 1985, its rate—which had already gone down in the last months of 1984—continued to slacken during most of the year and only began to speed up again substantially in the last quarter (see figure 2). The increase in the gross domestic product at year-end was therefore only 2.4%, which was below both the 6.2% registered in 1984 and the target of 4% which the economic authorities had set at the beginning of the year.

Figure 1
CHILE: MAIN ECONOMIC INDICATORS

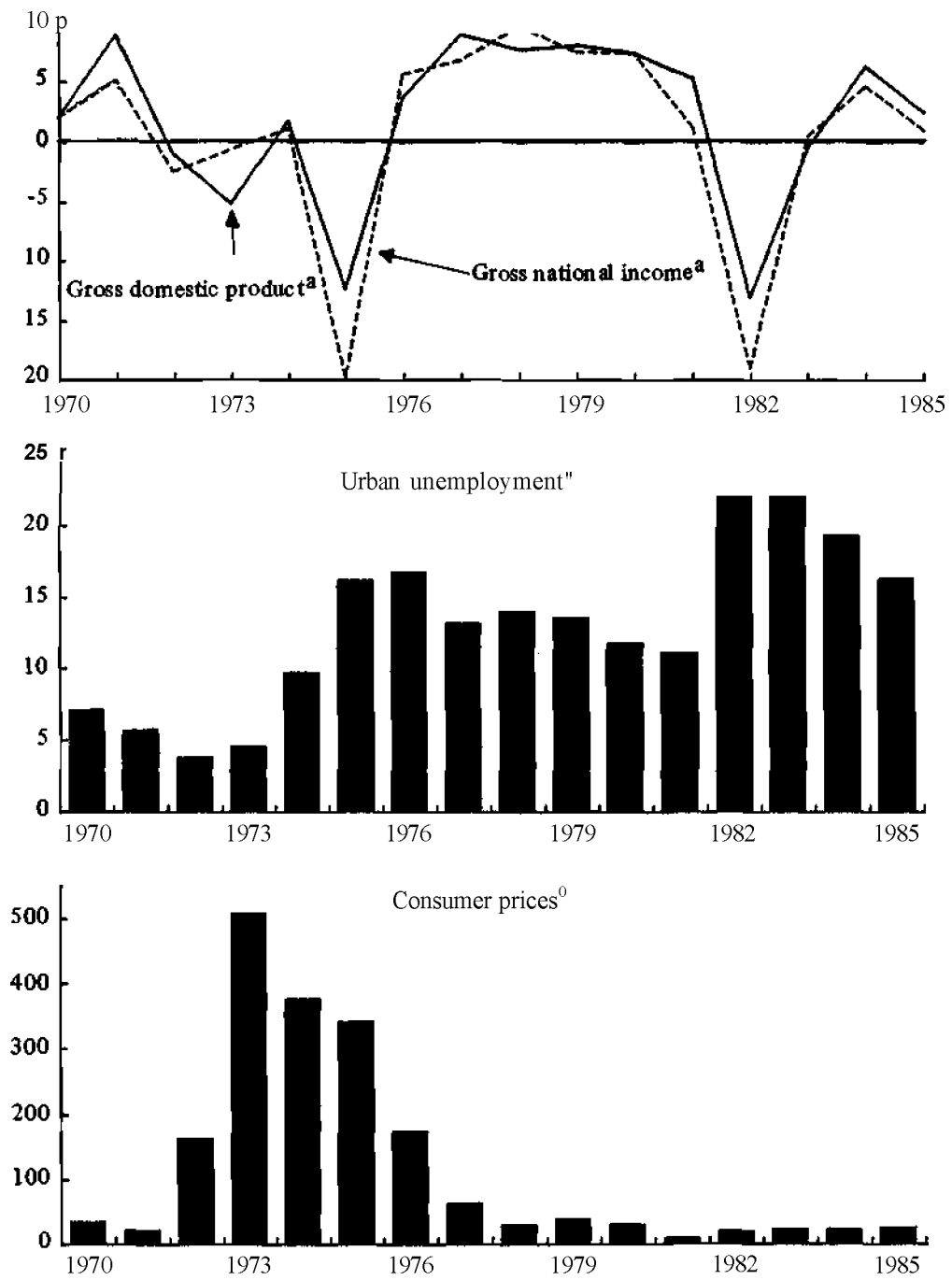
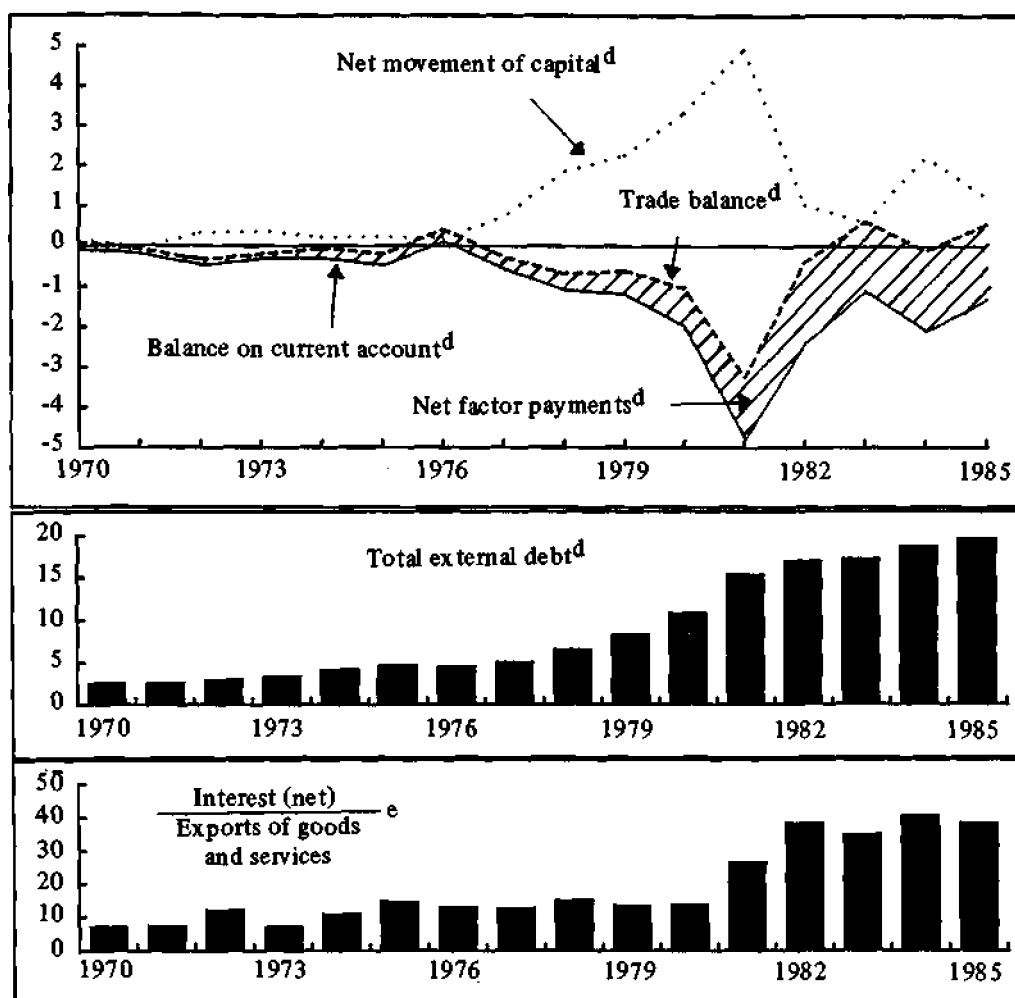


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAnnual average rate for Greater Santiago. ^cPercentage variation from December to December. ^dBillions of dollars. ^ePercentage.

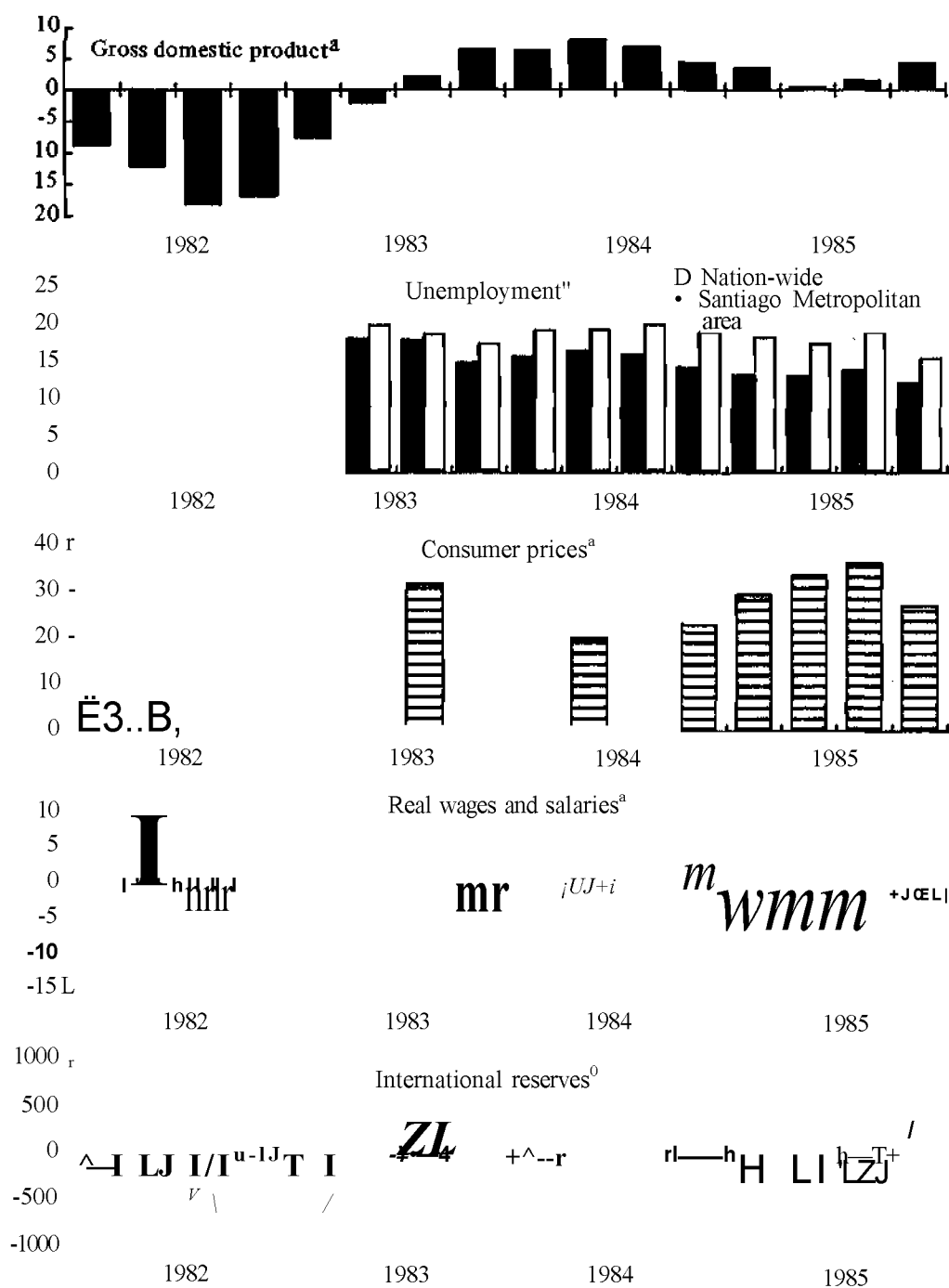
Since at the same time there continued to be a marked deterioration in the terms of trade, the national income grew by less than 1% and actually went down in per capita terms. The magnitude of the negative effects of the almost continual deterioration in the terms of trade and the considerable increase in real payments of interest and profits was reflected in the considerable and growing gap between the domestic product and national income: whereas in 1985 the product almost recovered the level reached in 1980, the national income was 13% lower than in that year (see table 2).

b) *Total supply and demand*

In 1985, the total supply of goods and services went down slightly (see table 3). This was due entirely to the contraction of over 14% in the volume of imports, caused both by the rise in the real effective exchange rate and by the decline in domestic demand. Thus, domestic expenditure—which had increased by almost 9% the year before—went down by 2.5% as a result of a 2% drop in consumption and a decline of around 6.5% in gross domestic investment.

The reduction in total investment was, however, the net result of the radically different changes displayed by the demand for stocks and fixed capital investment. Whereas the first-named of these

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.
⁰Variation, in millions of dollars, with respect to the preceding quarter.

*> Average rate.

—which had gone up very markedly in 1984, especially because of the generalized expectations of rises in tariffs and the exchange rate— went down abruptly, fixed capital investment increased by almost 15% and thus continued the recovery begun the year before. Even so, however, because of the enormous contraction suffered in the period 1982-1983 gross fixed capital investment was still far below that registered in the years before the crisis (see table 4).

Table 3
CHILE: TOTAL SUPPLY AND DEMAND^a

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985 ^c	1980	1985 ^k	1982	1983	1984	1985*
Total supply	84.9	91.0	90.8	125.5	115.3	-18.4	-3.0	7.2	-0.2
Gross domestic product at market prices	91.0	96.6	98.9	100.0	100.0	-13.1	-0.5	6.2	2.4
Imports of goods and services	61.1	69.1	59.2	25.5	15.3	-37.3	-15.2	13.0	-14.3
Total demand	84.9	91.0	90.8	125.5	115.3	-18.4	-3.0	7.2	-0.2
Domestic demand	80.8	87.9	85.7	103.8	90.1	-23.5	-4.4	8.8	-2.5
Gross domestic investment	34.9	61.2	57.2	21.0	12.1	-65.3	-17.6	75.5	-6.6
Gross fixed investment	65.7	71.6	82.2	16.6	13.8	-33.9	-14.9	9.0	14.8
Construction	80.9	84.8	97.5	9.8	9.7	-26.0	-6.4	4.8	15.1
Machinery and equipment	44.0	52.8	60.1	6.9	4.2	-45.2	-31.2	19.9	13.9
Changes in stocks				4.3	-1.7				
Total consumption	92.4	94.7	93.0	82.8	77.9	-11.5	-3.0	2.5	-1.8
Government	95.1	96.5	96.2	12.5	12.1	-1.3	-0.6	1.5	-0.3
Private	91.9	94.3	92.3	70.4	65.8	-13.1	-3.4	2.6	-2.1
Exports of goods and services	104.5	105.7	115.0	21.6	25.2	11.5	2.8	1.1	8.8

Source: ECLAC, on the basis of data supplied by the Central Bank of Chile and the International Monetary Fund.

^aAt constant 1980 prices.

^cPreliminary figures.

^kThe figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using unit price indexes calculated by ECLAC for the purpose.

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	1985 ^b
Gross domestic investment	12.5	14.4	17.2	21.0	24.3	9.7	8.0	13.3	12.1
Construction	7.4	7.8	8.6	9.8	10.8	9.2	8.7	8.6	9.7
Machinery and equipment	5.0	5.7	6.1	6.9	7.6	4.8	3.3	3.8	4.2
Changes in stocks	0.1	0.8	2.5	4.3	5.9	-4.3	-4.0	1.0	-1.7
Gross domestic saving	13.4	10.5	15.2	17.2	15.3	13.7	15.7	18.8	22.1
Net income from factor service	-2.0	-2.6	-2.8	-3.5	-5.3	-8.1	-7.8	-8.1	-7.5
Terms-of-trade effect	2.7	-0.3	-0.7	-	-4.7	-5.2	-5.0	-5.9	-7.8
Gross national saving	8.7	8.2	11.7	13.7	5.3	0.4	2.9	4.8	6.8
External saving	3.8	6.2	5.5	7.3	19.0	9.3	5.1	8.5	5.3

Source: ECLAC, on the basis of data from the Central Bank of Chile.

^aAt market prices, in constant 1980 dollars, at the parity exchange rate.

^bPreliminary figures.

^cIncludes unrequited private transfers.

The recovery in gross fixed capital formation was accompanied by a considerable increase in the saving effort. Thus, in spite of the only modest increase in economic activity, gross domestic saving rose by 20%, so that its share in the product rose for the third year running to reach 22%: the highest figure registered for the last 20 years.

Nevertheless, because of the extremely unfavourable evolution of the external situation, more than two-thirds of this saving went abroad because of the deterioration in the terms of trade and the higher net payments of interest and profits. Consequently, national saving represented less than 7% of the gross domestic product: a proportion which (although much higher than that registered in the previous four years) was considerably lower than that reached before the crisis. Since at the same time there was an abrupt fall in external saving, however, national saving financed more than half of total investment for the first time in the last five years (see table A).

In addition to the faster growth rate of fixed investment and the increase in the domestic saving effort, there was a vigorous expansion in 1985 in the volume of exports, which, after having risen only very feebly in the previous two years, rose by almost 9% so that the export coefficient exceeded 25% and thus registered its highest level since the end of World War II.

c) *Evolution of the main sectors*

The smaller growth of overall economic activity in 1985 was due to the slackening in the growth rates of all the main sectors of the economy except construction. This slackening was particularly marked in manufacturing —where the growth rate dropped from almost 10% in 1984 to a little over 1% in 1985— and it was also substantial, although less pronounced, in mining and in the electricity, gas and water sector (see table 5).

Table 5
CHILE: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT MARKET PRICES"

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Gross domestic product	91.0	96.7	99.0	100.0	100.0	-13.0	-0.5	6.2	2.4
Goods	92.7	99.6	103.6	42.4	44.3	-12.5	-0.1	7.5	4.0
Agriculture	100.1	107.7	113.8	7.2	8.3	-1.1	-2.5	7.6	5.7
Mining	111.6	116.6	119.2	8.6	10.3	5.7	-1.9	4.5	2.2
Manufacturing	83.7	91.9	93.1	21.4	20.1	-20.9	3.1	9.8	1.3
Construction	91.1	94.9	110.3	5.2	5.6	-23.8	5.0	4.2	16.2
Basic services	94.0	100.0	101.9	7.0	7.5	-8.2	0.5	6.4	4.9
Electricity, gas and water	106.8	114.3	118.3	2.1	2.5	0.2	4.4	7.0	3.5
Transport, storage and communications	88.5	93.9	99.2	4.9	4.9	-11.8	-1.4	6.1	5.6
Other services	88.4	91.9		50.2	48.2	-8.7	-7.0	4.0	
Commerce	83.4	87.6	89.2	16.3	14.7	-17.3	-3.4	5.1	1.8
Financial institutions, insurance, real estate and business services	86.6	88.9		17.2		-2.7	-17.1	2.7	1
Ownership of dwellings	103.2	105.9		7.4		1.1	0.6	2.0	
Community, social and personal services	95.1	99.2		16.7		-6.6	1.4	4.3	> 0.3
(iovernment services	97.6	99.2		5.1		-2.8	2.2	1.6	
Adjustment for bank services	51.1	46.5		5.2		-5.3	-57.7	-9.9	-

Source: HCLAC, on the basis of figures supplied by the Central Bank of Chile.

"At constant 1980 prices. Preliminary figures.

Table 6

CHILE: INDICATORS OF TRADITIONAL CROPS

	1980	1982	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
Production									
Value	130.4	122.7	113.8	165.0	181.8	-5.9	-7.3	45.0	10.2
Volume									
Wheat	686.0	650.5	586.0	988.3	1 164.7	-5.2	-9.9	68.7	17.8
Oats	130.7	117.6	146.3	163.0	170.4	-10.0	24.4	11.4	4.5
Barley	91.4	117.9	73.2	73.5	85.0	29.0	-37.9	0.4	15.6
Rye	9.2	6.1	4.5	4.4	11.5	-33.7	-26.2	-2.2	161.9
Rice	99.7	131.2	115.6	165.0	156.6	31.6	-11.9	42.7	-5.1
Maize	518.2	484.1	511.6	721.4	771.8	-6.6	5.7	41.0	7.0
Potatoes	1 007.3	841.6	683.6	1 036.2	908.6	-16.5	-18.8	51.6	-12.3
Beans	138.2	162.5	84.4	94.1	100.7	17.6	-48.1	11.5	7.0
Lentils	17.7	15.8	13.8	16.0	24.7	-10.6	-12.7	15.9	54.1
Peas	11.0	7.4	5.7	6.3	6.3	-32.4	-23.0	10.5	-
Chickpeas	6.4	4.1	3.2	6.9	9.2	-35.9	-22.0	115.6	32.6
Sugar beet	1 460.5	963.0	1 642.8	2 194.0	2 124.4	-34.1	70.6	33.6	-3.3
Rape	26.9	132	2.9	4.1	31.9	-50.8	-78.0	41.4	678.0
Sunflower	7.4	5.4	4.6	7.4	32.5	-27.0	-14.8	60.9	336.4
Area sown^a									
Wheat	1 079	945	871	1 051	1 083	-12.5	-7.8	20.7	3.0
Oats	432	374	359	471	506	-13.5	-4.0	31.2	7.4
Barley	80	68	85	96	85	-15.0	25.0	12.9	-11.5
Rye	46	58	38	33	35	26.1	-34.5	-13.2	6.1
Rice	9	6	5	4	5	-33.3	-16.7	-20.0	25.0
Maize	31	37	30	40	39	19.4	-18.9	33.3	-2.5
Potatoes	126	107	118	138	131	-15.1	KW	16.9	-5.1
Beans	90	77	67	81	63	-14.4	-13.0	20.9	-22.2
Peas	118	122	86	85	83	3.4	-29.5	-1.2	-2.4
Lentils	48	39	23	24	36	-18.8	-41.0	4.3	50.0
Chickpeas	18	12	10	10	6	-33.3	-16.7	-	-40.0
Sugar beet	16	10	8	12	11	-37.5	-20.0	50.0	-8.3
Rape	37	22	36	48	44	-40.5	63.6	33.3	-8.3
Sunflower	24	-10	3	4	19	-58.3	-70.0	33.3	275.0
	5	3	3	5	20	-40.0	-	66.7	300.0
Real prices'									
Wheat	80.8	77.9	94.3	96.0	101.2	-3.6	21.1	18	5.4
Oats	86.0	75.7	67.8	65.6	45.3	-12.0	-10.4	-3.2	-30.9
Barley	84.4	76.5	77.7	93.1	75.8	-9.4	1.6	19.8	-18.6
Rice	78.5	65.5	58.9	68.4	62.0	-16.6	-10.1	16.1	-9.4
Maize	71.2	74.3	88.0	89.2	93.3	4.4	18.4	14	-17.8
Potatoes	113.0	154.1	166.9	100.2	92.6	36.4	8.3	-40.0	-27.5
Beans	281.3	128.7	145.5	177.2	132.3	-54.2	13.3	21.8	-25.3
Lentils	60.2	44.4	56.6	58.8	59.2	-26.2	27.5	3.9	0.7
Chickpeas	29.1	35.7	53.0	47.9	44.6	22.7	48.5	-9.6	-6.9
Sugar beet	106.3	112.5	130.0	131.7	150.5	5.8	15.6	13	14.3
Rape	61.2	43.4	44.6	72.5	80.1	-29.1	2.8	62.6	10.5
Sunflower	98.8	74.6	124.0	111.9	117.6	-24.5	66.2	-9.8	5.1

Source: IICLAC, on the basis of data of the National Statistical Institute (INI).

"Preliminary figures.

Millions of pesos at 1977 prices.

"Thousands of tons.

Thousands of hectares.

'Indexes 1978 = 100.

i) *Agriculture*. In 1985 the agricultural product expanded satisfactorily for the second year running, since after increasing 7.6% the year before it grew by nearly 6%, making agriculture the activity with the highest growth rate in the present decade so far.

As in 1984, the increase in agricultural production was due mainly to the recovery in traditional crops and the sustained expansion of fruit production.

After an unprecedented increase of 45 % in 1984, the real value of the production of traditional crops rose by 10%, so that it exceeded for the first time the record level reached in 1977. Furthermore, thanks to the higher physical yields and changes in the structure of production—which have led to a considerable rise in the value added per hectare—this new production record was obtained from a cultivated area considerably smaller than that used in 1977.

The increase in the production of traditional items was headed by wheat. This is the most important crop, and in 1985 the harvest of this grain increased by a further 18% after having grown by nearly 70% the year before (see table 6). Although wheat production did not recover the level reached in 1977 (after which it went down for six seasons running) and was 15% less than the record harvest of 1971, the yield rose to 2.3 tons per hectare, which is an unprecedented figure for the country and 30% higher than that registered in 1971. Further important factors in the growth of the traditional agricultural sector were the substantial advances achieved in the production of all the other cereals (except rice) and the marked recovery of the harvests of sunflower seeds (336%) and rape (678%) compared with the extremely low levels to which they had fallen the year before.

The favourable evolution of traditional crops was decisively influenced by domestic policy, which, through the fixing of price bands, guided production towards crops such as wheat and oilseeds where there were extensive possibilities of import substitution. This process was also stimulated by the considerable rise in the real effective exchange rate, which more than offset the effect of the tariff reductions and thus tended to improve the competitiveness of the agricultural sector *vis-a-vis* foreign producers and to increase its profitability compared with the domestic sectors producing non-tradeable goods. Finally, a third factor behind the increase in traditional agricultural production was the favourable weather conditions, which particularly benefited the wheat-growing areas.

In 1985 there was also a continuation of the dynamic growth in fruit production. As in previous years, the item where production grew most rapidly was table grapes, the harvest of which—sold mainly on external markets—increased by nearly 27% to over three times the volume registered only five years before (see table 7).

In contrast with the almost generalized progress observed in the harvests of traditional crops and in fruit production, the main items in the livestock sector showed uneven trends. Thus, beef cattle slaughtering dropped by 11%—further accentuating the decline of the year before—and poultry meat production went down for the fourth year running, so that it was equivalent to less than 60% of the record level achieved in 1981. In contrast, pork production increased by 12%, thus continuing the almost uninterrupted expansion registered in the previous eight years. Mutton, milk and egg production also increased appreciably, partly making up for the marked declines suffered in the period 1983-1984 (see table 8).

Finally, in 1985 the forested area continued to expand. New plantations of trees covered a record area of over 95 000 hectares, thanks above all to the vigorous expansion in the area afforested by the private sector, which made up for the lower level of activity of the National Forestry Corporation (see table 9).

ii) *Fisheries*. The product of the fisheries sector—the only one which had grown vigorously during the 1982-1983 recession—grew once again in 1985, although its 5.6% expansion was much less than the exceptionally high levels registered in the previous four years (see table 10).

The total catch increased by nearly 7%, thanks to growth in all its component items (fish, shellfish and seaweed). Particularly vigorous growth was registered in the catch of fish to be consumed fresh, which more than doubled and thus made up for much of the decline registered in the previous three years.

As a result of the slower growth in the catch, the growth rate of fishery production for industrial purposes also went down. The year before it had gone up by one-third, but in 1985 it expanded by only 4%. Furthermore, in contrast with 1984, this increase was due exclusively to the bigger output of fishmeal, which is by far the most important item in this sector. In contrast, production of tinned and frozen fish went down appreciably, thus continuing the fluctuating trend of previous years (see table 10).

Table 7

CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1980	1981	1982	1983	1984	1985°	Growth rates			
							1982	1983	1984	1985*
Production										
Plums	17.0	17.2	19.4	22.7	28.5	32.0	12.8	17.0	25.6	12.3
Apricots	12.6	13.0	132	12.9	133	12.0	15	-2.3	3.1	-9.8
Peaches	78.2	81.0	82.6	83.5	83.0	82.5	2.0	1.1	-0.6	-0.6
Lemons	66.7	70.7	71.6	69.6	58.0	64.0	13	-2.8	-16.7	10.3
Apples	245.0	298.0	345.0	365.0	410.0	415.0	15.8	5.8	12.3	12
Oranges	59.2	58.8	65.4	68.0	72.0	76.0	11.2	4.0	5.9	5.6
Avocados	21.7	25.0	27.7	29.6	31.5	32.0	10.8	6.9	6.4	1.6
Pears	43.1	45.5	50.6	48.0	54.3	59.5	11.2	-5.1	13.1	9.6
Table grapes	85.0	121.7	162.7	196.4	225.0	285.0	33.7	20.7	14.6	26.7
Area planted'										
Total	62.5	67.9	71.3	75.9	81.2	86.8	5.0	6.5	7.0	6.9
Plums	3.7	4.4	5.3	6.1	6.5	6.7	20.5	15.1	7.1	2.3
Apricots	14	13	13	13	13	13	0.8	0.4	1.6	2.3
Peaches	7.2	7.4	7.6	7.8	7.9	8.0	2.8	2.0	2.1	0.6
Lemons	6.0	5.7	5.3	5.2	5.2	5.3	-6.2	-2.8	18	0.6
Apples	15.5	16.9	17.6	18.1	18.6	18.7	4.1	2.8	3.0	0.4
Oranges	5.2	5.4	5.7	5.8	5.8	5.9	6.4	1.1	0.9	1.0
Avocados	6.7	7.2	7.3	7.6	7.7	7.8	2.1	3.8	12	1.7
Pears	3.3	3.6	3.8	4.1	4.5	4.9	5.6	7.9	9.8	6.2
Table grapes	13.5	16.0	17.4	19.9	23.7	28.2	8.8	14.6	19.1	19.0

Source: Ministry of Agriculture, Agricultural Planning Office (ODUPA).

°Preliminary figures. 'Thousands of tons. ' Thousands of hectares.

Table 8

CHILE: LIVESTOCK PRODUCTION

	Thousands of tons						Growth rates				
	1980	1981	1982	1983	1984	1985"	1981	1982	1983	1984	1985"
Beef	162.3	184.6	194.6	208.1	196.8	174.8	13.7	5.4	6.9	-5.4	-11.2
Poultry meat	109.6	127.8	120.1	87.4	74.3	72.6	16.6	-6.0	-27.2	-15.0	-2.3
Pork	49.7	55.8	57.7	59.2	59.1	66.1	12.3	3.4	2.6	-0.2	11.8
Mutton	15.5	15.6	14.9	13.3	11.9	135	0.6	-4.5	-10.7	-10.5	13.4
Milk"	1 080.0	1 200.0	1 056.0	900.0	880.0	1 000.0	11.1	-12.0	-14.8	-2.2	13.6
Eggs'	1 425.0	1 560.0	1 485.0	1 430.0	1 440.0	1 577.0	9.5	-4.8	-3.7	0.7	9.5
Greasy wool	20.6	21.6	21.6	21.6	21.4	20.3	4.9	-	-	-0.9	-5.1

Source: Beef, pork and mutton: National Statistical Institute (INII); other livestock items: Agricultural Planning Office (OI) (IPA).

"Preliminary figures. 'Millions of litres. ' Millions of units.

iii) *Mining*. After having increased by over 4% in 1984, the value added in the mining sector rose by only a little over 2% in 1985 (see table 11).

This slackening occurred in spite of the fact that the growth rate of copper extraction doubled thanks to the very rapid (16%) expansion in the output of the medium and small-scale mining sector, whose share in total copper production exceeded 20% for the first time. Copper production was favoured by the slight rise in the international price of this metal and, above all, by the big increase in the real effective exchange rate.

The faster growth registered in copper mining was more than offset, however, by the further decline in petroleum extraction (which went down for the third year running as a result of the gradual depletion of the oil wells in Tierra del Fuego), the reduction in iron ore output, and the slower growth of nitrates, gold, molybdenum and coal production.

Table 9

CHILE: AREA AFFORESTED

(Thousands of hectares)

	1975	1977	1979	1980	1981	1982	1983	1984	1985"
Total	82.6	93.2	52.0	72.3	93.2	68.6	76.3	93.6	95.2
National Forestry Corporation	44.1	44.6	0.4	0.2	0.1		21.8	40.3	24.2
Private enterprises	38.5	48.6	51.6	72.1	93.1	68.6	54.5	53.3	71.0

Source: National Forestry Corporation (CONAF).

"Preliminary figures.

Table 10

CHILE: INDICATORS OF FISHERY PRODUCTION

	1980	1981	1982	1983	1984	1985"	Growth rates			
							1982	1983	1984	1985"
Fishery product	54.7	64.9	71.1	77.3	86.2	91.0	9.6	8.7	11.5	5.6
Fishing catch^c	2 892	3 503	3 846	4 168	4 674	4 986	9.8	8.4	12.1	6.7
Fish	2 700	3 291	3 577	3 852	4 363	4 660	8.7	7.7	13.3	6.8
Fresh consumption	75	149	64	55	54	123	-57.0	-14.1	18	127.8
Industrial processing	2 625	3 142	3 513	3 797	4 309	4 537	11.8	8.1	13.5	5.3
Shellfish	117	102	96	126	136	144	-5.9	31.3	7.9	5.9
Fresh consumption	54	46	44	48	44	47	-4.3	9.1	-8.3	6.8
Industrial processing	63	56	52	78	92	97	-7.1	50.0	17.9	5.4
Seaweed	75	110	173	190	175	182	57.3	9.8	-7.9	4.0
Output of fishery products	734.6	860.5	1 025.2	978.9	1 307.3	1 360.2	19.1	-4.5	33.5	4.0
Frozen	13.5	15.4	60.8	52.4	51.2	21.7	294.8	-13.8	-2.3	-57.6
Canned	38.0	29.5	23.5	41.7	49.2	44.7	-20.3	77.4	18.0	-9.1
Fishmeal	571.9	688.3	795.8	827.7	1 022.7	1 109.2	15.6	4.0	23.6	8.5
Fish oil	111.0	127.3	145.0	57.0	184.0	184.1	13.9	-60.7	222.8	0.1
Other	0.2	-	0.1	0.1	0.2	0.5	-	-	100.0	150.0

Source: Ministry of the Economy, Development and Reconstruction - National Fisheries Service.

"Preliminary figures.

^cMillions of dollars at 1970 prices.

^eThousands of tons.

Thousands of tons of finished products.

Table 11

CHILE: MINING PRODUCTION

	Production						Growth rates			
	1980	1981	1982	1983	1984	1985°	1982	1983	1984	1985°
Mining sector										
product	1 124	1 214	1 283	1 257	1 311	1 340	5.7	-2.0	4.3	2.2
Copper ⁰	1 068	1 081	1 241	1 257	1 290	1 357	14.8	13	2.6	5.2
Large-scale mining	905	894	1 033	1 012	1 050	1 078	15.5	-2.0	3.7	2.7
Medium-and small-scale mining	163	188	208	245	240	279	10.6	17.8	2.0	16.3
Iron ore'										
Ore	8 835	8 514	6 470	5 974	7 116	6 510	-24.0	-7.7	19.1	-8.5
Pellets	3 179	3 266	3 377	3 072	3 375	3 605	3.4	-9.0	9.9	6.8
Coal	1 024	1 169	997	1 095	1 328	1 382	-14.7	9.8	21.3	4.1
Nitrate"	620	624	517	623	713	770	-7.5	8.0	14.4	8.0
Iodine'	2 601	2 688	2 597	2 793	2 661		-3.4	7.5	-4.7	
Sodium sulphate'	70 100	58 320	47 610	51 300	56 700		-18.4	7.8	10.5	
Petroleum	1 933	2 401	2 484	2 284	2 237	2 074	3.5	-8.1	-2.0	-7.3
Molybdenum'	13 668	15 360	20 048	15 267	16 861	18 389	30.5	-23.8	10.4	9.1
Gold*	6 836	12 456	16 907	17 760	16 829	17 054	35.7	4.8	-5.4	1.4
Silver'	299	361	382	468	491	516	5.8	22.5	4.9	5.1

Source: **Copper:** Chilean Corporation and State Department Mines; **iron ore:** National Statistical Institute; coal: National Coal Corporation; **nitrate, 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.

"Preliminary figures. Millions of dollars at 1970 prices. 'Thousands of urns. Thousands of gross tons.

'Tons. Thousands of cubic metres. "Kilogrammes fine.

Table 12

CHILE: INDICATORS OF MANUFACTURING ACTIVITY

	Indexes (1969 = 100)					Gro*vth rates				
	1980	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
Industrial product	2 323	1 883	1942	2 131	2 159	2.6	-21.0	3.1	9.8	1.3
Industrial output										
INE	110.2	93.8	98.4	108.3	108.4	0.3	-15.1	4.9	10.1	0.1
SOFOFA	129.2	106.6	111.5	120.9	120.2	0.1	-17.6	4.6	8.4	-0.6
Mass consumption goods	120.1	106.3	115.7	126.1	125.6	-0.9	-10.7	8.8	9.0	-0.4
Consumer durables	122.1	59.2	48.2	62.0	51.9	10.4	-56.1	-18.6	28.6	-16.3
Transport equipment	109.7	59.5	42.7	42.0	44.7	-13.8	-37.1	-28.2	-1.6	6.4
Intermediate products for industry	155.2	146.3	154.7	156.5	156.7	-0.8	-5.0	5.7	12	0.1
Intermediate products for construction	145.7	99.4	99.3	115.0	119.4	-2.0	-30.4	-0.1	15.8	3.8
Miscellaneous manufactures	108.0	93.4	102.6	118.4	112.9	12.2	-22.9	9.9	15.4	-4.6
Industrial sales	128.6	109.3	110.9	117.9	121.8	-0.5	-14.5	1.5	6.3	3.3

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.

"Preliminary figures. Millions of dollars at 1970 prices.

iv) *Manufacturing.* In 1985 there was a marked decline in the growth rate of manufacturing. After having recovered by nearly 10% the previous year, the industrial product grew by only a little over 1% and thus continued to be 10% below that registered before the crisis (see table 12).

The slackening in the rate of recovery of manufacturing was due to the pronounced fall in the production of consumer durables (which went down by over 16% after having risen by almost 29% the year before); the slight decline in the output of everyday consumer goods (which had also recovered in the previous two years from the enormous drop suffered in 1982), and the fall of nearly 5% in the production of miscellaneous manufactures. In contrast, the production of transport equipment showed a slight recovery after the enormous contraction suffered in the period 1981-1984, while the production of intermediate goods for construction continued its recovery, although at a much slower rate than the year before.

In contrast with what had happened in the period 1983-1984, however, industrial sales expanded a good deal more than production, especially in the last four months of the year. Thus, after having virtually stagnated up to August, sales recovered vigorously in the last four months, when they were over 8% higher than those registered in the corresponding period of 1984. Due to the running down of stocks, however, this recovery in sales was not reflected in higher manufacturing production, which only showed a significant rise in December (when it was almost 8% higher than the corresponding month of the previous year).

v) *Construction.* Unlike the rest of the economy, the recovery in the construction sector was further intensified in 1985. Thus, the value added in the sector rose by 16%, compared with a little over 4% in 1984. Even so, however, the absolute level of activity in construction—which was the sector most affected by the recession—was still 13% below that registered in 1981 (see table 13).

The main cause of the growth in construction was the considerable expansion in the area constructed, which increased by nearly 19% and thus continued for the third year running its recovery

Table 13

CHILE: CONSTRUCTION INDICATORS

	1980	1981	1982	1983	1984	1985°	Growth rates			
							1982	1983	1984	1985
Construction product*	418	506	386	366	381	443	-23.7	-5.2	4.2	16.2
Building materials										
Deliveries of cement for the domestic market'	35.4	43.5	27.0	29.6	32.9	33.5	-37.9	9.6	11.1	1.8
Deliveries of round bars for construction"	107.6	83.8	40.9	45.6	65.6	66.9	-51.2	11.5	43.9	2.0
Index of real sales of intermediate goods for construction (1969 — 100)	151.2	148.4	107.8	103.8	119.7	134.6	-27.4	-3.7	15.3	12.5
Building										
Total area*	4 297	5 118	2 080	2 412	2 737	3 261	-59.4	15.9	13.5	19.1
Public sector	265	183	139	119	81	87	-24.0	-14.4	-31.9	7.4
Private sector^	4 032	4 935	1 941	2 293	2 656	3 174	-60.7	18.1	15.8	19.5
Residential	3 058	3 705	1 330	1 832	2 122	2 603	-64.1	37.7	15.8	22.7
Non-residential	1 239	1 413	750	580	615	658	-46.9	-22.8	6.0	7.0
Total number of dwellings	43 310	49 802	24 139	34 322	41 676	51 306	-51.5	42.2	21.4	23.1
Public sector	1 589	534	314	845	196	324	-41.2	169.1	-76.8	65.3
Private sector*	41 721	49 268	23 825	33 477	41 480	50 982	-51.6	40.5	23.9	22.9

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).

°Preliminary figures. Millions of dollars at 1970 prices. 'Millions of bags. Thousands of tons. ^Thousands of m². Building starts in 80 communes. *Permits approved.

Table 14

CHILE: RATES OF PARTICIPATION AND UNEMPLOYMENT, BY REGIONS

	1982	1983	1984	1985 ^a	1984				1985			
					I	II	III	IV	I	II	III	IV
Global participation rate												
Whole country	47.8	48.4	48.6	48.6	48.4		48.8		48.9		48.3	
Greater Santiago	51.7	52.2	52.5	52.3	53.1	51.7	53.3	51.9	52.4	50.9	52.1	53.6
Unemployment rate'												
Whole country	21.1	22.3	18.8	16.3	19.1		18.5		16.0		16.6	
Urban	22.7	23.8	20.3	17.5	20.7		19.8		17.6		17.3	
Rural	14.5	15.4	12.5	11.5	12.3		12.6		9.5		13.4	
Greater Santiago	22.1	22.2	19.3	16.3	21.7	18.4	20.9	15.9	18.0	16.2	17.4	13.8
Unemployment rate'												
Whole country	19.6	16.7	15.4	12.9	15.5	16.2	15.7	14.0	13.0	12.9	13.6	11.9
Northern zone												
Regions (I a IV)	18.4	16.7	14.0	12.1	16.1	14.6	13.9	11.5	11.3	12.6	12.6	11.7
Central zone												
Regions (V a VII) ^c	19.4	19.1	16.1	11.7	15.9	18.5	16.7	13.4	11.6	11.9	12.8	10.6
Southern zone												
Regions (VIU a XII)	14.3	13.5	10.5	7.7	10.8	11.6	10.8	8.9	8.2	7.1	7.3	8.1
Greater Santiago	21.9	19.2	19.0	17.2	18.9	18.9	19.6	18.7	18.0	17.1	18.6	15.1
Greater Valparaiso		23.4	22.8	16.0	22.4	26.4	21.4	21.0	18.4	15.4	16.5	13.5
Greater Concepción		14.7	12.3	11.6	12.0	13.9	12.1	11.0	12.1	10.5	9.9	13.7

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Labour force, as a proportion of the population aged 14 or over.

^b According to Department of Economics of the University of Chile, on the basis of surveys carried out for Greater Santiago, March and September of each year.

According to National Statistical Institute: 1981, October-December; 1982, October-November; 1983, average May-July, July-September and October-December; 1984 and 1985, quarterly averages.

^cNot including Santiago Metropolitan Region.

from its extremely sharp drop in 1982. This increase was due, in turn, primarily to the construction of dwellings, the number of which rose by 23% to over 51 000 units. Nevertheless, although this figure was more than 4% higher than that registered in 1981, it was far below the target of 70 000 units announced by the economic authorities at the beginning of the year. Furthermore, the area of dwellings built in 1985 was only 70% that of the housing constructed in 1981, since the average size of dwellings went down between those years from 74 square metres to less than 51 square metres. This change reflected the more important role assumed by the government in the sector through the big increase in the funds assigned to housing programmes for middle and low-income families. These programmes were also stepped-up in 1985 to deal with the enormous damage done by the earthquake in March, which is estimated to have destroyed around 80 000 houses and damaged a further 150 000.

d) *Developments in the employment situation*

After having increased enormously during the 1982-1983 recession, the unemployment rate went down in 1985 for the second year running. For the country as a whole, it declined from an annual average of almost 19% in 1984 to one of a little over 16% in 1985, according to the surveys carried out by the Department of Economics of the University of Chile, and from 15.4% to a little under 13%, according to the estimates made by the National Statistical Institute. This decline was concentrated in the last quarter of the year, when, as already noted, there was a very marked increase in economic activity and the unemployment rate went down to less than 12% for the country as a whole, 15% in Greater Santiago and 13.5% in Valparaiso (see table 14).

At the sectoral level, unemployment went down most markedly in industry and construction: activities where the respective rates were only equal to a little over half of those registered in the period 1982-1983. Nevertheless, in both these sectors the proportion of workers without steady jobs

continued to be very high at 15 % and 28%, respectively. Unemployment also declined in the services sector, although more gradually, so that non-manual workers continued to represent almost a third of the total unemployed: a much higher proportion than was usual before the crisis (see table 15).

As in 1984, the decline in unemployment coincided with a fall in the proportion of the labour force employed in the special employment programmes of the government. The number of participants in these programmes, after having gone down by one third the year before, fell by almost 4% in 1985, so that after having absorbed nearly 14% of the labour force at the end of 1983, they employed only a little over 7% of it in the last quarter of 1985 (see table 16).

At the same time, the relative importance of these programmes continued to be modified in a favourable way. Thus, the entire reduction in the number of persons enrolled in them was accounted for by the reduction in the number of members of the Minimum Employment Plan (PEM), who generally carry out very low-productivity activities and receive a very scanty wage. The participants in the PEM went down by almost 15%, and at the end of 1985 they only amounted to a little over one-third of those employed in this programme two years before. In contrast, the participants in the Action Programme to Reactivate Employment for Heads of Households (POJH), which is both more varied and more productive, and in which the wages paid are a good deal higher than in the PEM, increased by nearly 13%.

Geographically, the reduction in the number of persons enrolled in these special employment programmes was concentrated in the Metropolitan Region, where at the end of the year the PEM did not employ even 1% of the labour force, while the proportion employed in the POJH went down

Table 15

CHILE: UNEMPLOYMENT RATES IN GREATER SANTIAGO

(Percentages)

	Annual averages									
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985°
Total rate of unemployment according to:										
Department of Economics of the University of Chile	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3
National Statistical Institute	17.0	13.9	13.7	13.4	11.8	9.0	20.0	19.2	19.0	17.2
Rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time)										
Total	12.6	9.9	10.5	10.1	8.7	8.5	18.8	18.4	15.7	13.0
Industry	15.5	11.8	11.8	13.1	11.9	11.8	26.7	25.9	19.5	14.9
Construction	34.1	38.7	23.5	24.5	16.5	16.4	49.4	49.0	34.9	27.9
Commerce	9.7	7.4	8.8	8.3	6.4	5.9	14.5	16.0	13.1	11.1
Government and financial services	6.5	6.0	7.5	5.4	5.8	5.9	9.9	11.7	15.8	13.7
Personal and household services	13.7	8.5	10.8	8.9	8.4	7.0	12.9	15.6	12.5	11.5
Community and social services	6.0	6.8	7.0	5.9	5.6	4.8	10.3	10.7	11.0	8.2
Non-manual workers	8.3	6.7	8.0	7.5	5.3	6.3	15.6	17.9	14.3	11.8
Manual workers	20.7	16.3	16.5	16.0	14.5	14.4	28.9	24.9	22.0	18.4
Own-account workers	8.5	5.7	6.0	6.1	4.5	3.1	9.1	10.3	9.3	7.4
Percentage breakdown of unemployed										
Non-manual workers	22.4	25.0	25.9	25.2	25.0	26.7	30.1	34.3	31.2	31.5
Manual workers	65.7	64.8	63.1	63.3	64.9	66.0	61.1	56.3	57.6	57.4
Own-account workers	11.6	10.0	10.9	11.3	9.7	7.1	8.3	8.9	10.7	10.4

Source: Department of Economics of the University of Chile and National Statistical Institute (INE).

° Preliminary figures.

* According to data of the Department of Economics of the University of Chile.

Table 16

CHILE: GOVERNMENT EMPLOYMENT PROGRAMMES

	Number of persons employed (thousands) ¹¹			Number of persons employed, as a percentage of the labour force		
	Whole country	Metropolitan Region	Rest of country	Whole country	Metropolitan Region	Rest of country
Minimum Employment Plan						
1975 ^e	72.7	19.6	53.1	3.8		
1976	157.8	34.9	122.9	5.9	3.2	7.7
1977	177.2	36.4	140.8	5.3	2.5	7.1
1978	132.2	29.0	103.2	3.2	1.7	4.2
1979	120.8	21.8	99.0	4.0	1.7	5.6
1980	178.0	28.1	149.9	5.4	2.0	7.8
1981	171.3	23.2	148.1	4.9	1.6	6.9
1982	225.3	35.6	189.7	8.6	4.1	11.6
1983	341.6	80.9	260.7	7.5	4.3	9.7
1984	167.6	13.0	154.6	4.4	0.5	7.3
1985"	134.3	8.3	126.0	2.9	0.5	4.7
Programme to Reactivate Employment for Heads of Households						
1982'	81.2	30.6	50.6	1.9	1.7	2.1
1983	161.2	110.6	50.6	6.1	10.1	3.3
1984	168.7	117.7	51.0	5.1	7.4	3.5
1985"	190.0	113.7	76.3	4.4	6.5	3.0

Source: ECLAC, on the basis of data from the National Statistical Institute (INE).

^eAnnual averages. ^fFor period October-December of each year, because of lack of complete information on the national-level labour force before the second half of 1983. For 1982, figures correspond to period October-November. Figures for 1985 are an ECLAC estimate because of lack of comparable figures due to change in methodology of INE survey. ^gThe Minimum Employment Plan was set up in March 1975. Consequently, the figures for that year are an average based on the period March-December. ^hPreliminary figures. ⁱThis programme was set up in October 1982. Consequently, the figures for that year are an average based on the last quarter.

Table 17

CHILE: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985"
Growth rates						
Exports						
Value	22.7	-18.5	-3.4	3.3	-4.7	4.2
Volume	1.6	-5.6	16.4	4.1	-0.8	13.1
Unit value	20.8	-13.6	-17.0	-0.8	-5.5	-7.9
Imports						
Value	30.5	19.1	-44.1	-22.7	18.0	-12.0
Volume	10.2	18.7	-40.1	-13.8	17.0	-12.1
Unit value	18.4	0.3	-6.6	-10.3	0.9	0.1
Terms of trade	2.5	-14.4	-11.9	9.9	-6.3	-8.0
Indexes (1980 = 100)						
Purchasing power of exports	100.0	80.8	82.9	94.9	87.9	91.0
Volume of exports	100.0	94.4	109.9	114.4	113.5	128.4
Terms of trade	100.0	86.1	76.5	84.6	78.0	72.0

Source: ECLAC, on the basis of official data.

"Preliminary figures.

slightly. Even so, as may be seen from table 16 and figure 3, this latter programme continued to be of much greater importance in the capital than in the rest of the country.

Because of the decline in unemployment and the reduction in the number of participants in the special employment programmes, "autonomous" employment increased sharply, as had already occurred in 1984. However, the fact that in various sectors the growth rate of employment was markedly higher than that of the product, as well as the decline in the level of real wages, suggests that part of this increase actually represented an expansion in underemployment.

3. The external sector

a) *External trade*

i) *Exports of goods.* After having gone down by nearly 5% in 1984, the value of exports rose by a little over 4%. This increase was due entirely to the sharp expansion in volume (13%), which more than made up the 8% drop in the unit value of external sales (see table 17). This drop in the unit value of exports —the fifth in a row— meant that this value was 38% lower than it had been in 1980. Because of this, even though the volume exported rose by over 28% over that period, total exports were 19% less in 1985 than in 1980, when they reached a record level of US\$4.7 billion.

In contrast with previous years, this new deterioration in the unit value of exports took place even though the average price of copper rose slightly (see table 18). Even with this slight improvement, the price of this metal continued to stand at a level less than two-thirds of that registered in 1980, and in real terms it was the lowest in the last half-century (with the exception of 1984). Consequently, the current value of copper sales went down by 20% between 1980 and 1985, even though the physical shipments of that metal increased by over 23% in that period.

Table 18

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(Percentages)

	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	62.5	281.6	351.0	22.2	17.8
1985	64.3	280.1	347.5	23.0	18.5
First quarter	62.5	280.4		22.3	
Second quarter	67.6	280.7		24.1	
Third quarter	64.3	278.7		23.1	
Fourth quarter	62.7	280.4		22.4	

Source: Central Bank of Chile, International Monetary Fund, and ECLAC estimates.

Table 19

CHILE: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown ₁			Growth rates			
	1982	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total exports of goods	3 110	3 836	3 657	3 796	100.0	100.0	100.0	-5.0	3.4	-4.7	3.8
Traditional products	2 429	2 538	2 297	2 400	74.5	62.4	63.2	1.1	4.5	-9.5	4.5
Copper	1 731	1 836	1 587	1 761	57.4	46.1	46.4	0.9	6.1	-13.6	11.0
Iron ore	158	112	111	91	5.9	3.4	2.4	-2.5	-29.1	-0.9	-17.9
Nitrates and iodine	75	84	74	85	3.5	1.9	2.2	-9.6	12.0	-11.9	14.5
Fishmeal	256	307	276	275	1.9	5.0	7.3	26.7	19.9	-10.1	-0.1
Wood pulp	173	157	196	130	3.7	4.9	3.4	-15.2	-9.2	24.8	-33.8
Paper and paperboard	36	42	53	58	2.1	1.1	1.5	-2.7	16.7	26.2	9.4
Non-traditional products	1 282	1 298	1 362	1 396	25.5	37.6	36.8	-14.7	1.2	4.9	2.5
Mining products	192	265	211	188	0.6	8.0	5.0	-36.4	38.0	-20.4	-10.9
Agricultural and marine products	375	327	429	526	5.5	7.2	13.8	2.7	-12.8	31.1	22.9
Crop farming products	278	254	346	436	3.8	5.2	11.5	3.7	-8.6	36.2	26.2
Livestock products	34	26	29	27	1.1	0.8	0.7	17.2	-23.5	11.5	-7.9
Forestry products	2	2	2	1	0.3	-	-	-	-	-	-
Fishery products	61	45	52	62	0.4	12	1.6	-7.6	-26.2	15.6	19.9
Manufactured products	715	706	722	682	19.3	22.4	18.0	-14.5	-1.3	2.3	-5.5
Food and beverages	123	128	145	143	5.0	3.5	3.8	-12.8	4.1	13.3	-1.4
Wood	122	116	116	112	1.6	6.3	3.0	-25.2	-4.9	-	-3.7
Chemicals and petroleum products	140	110	124	131	3.0	3.5	3.5	-5.4	-21.4	12.7	5.4
Basic metal industries	245	285	244	236	5.7	6.0	6.2	6.5	16.3	-14.4	-3.6
Metal products, machinery, electronic articles, etc.	36	20	20	18	2.7	14	0.5	-18.2	-44.4	-3.9	-8.2
Transport equipment	23	29	42	17	0.5	0.9	0.4	-68.9	26.1	44.8	59.4
Other	26	18	31	25	0.8	0.8	0.6	-27.8	-30.8	72.2	-19.4

Source: Central Bank of Chile.

"Preliminary figures.

Among the traditional export products, in addition to copper sales (which went up by 11 % due mainly to the big expansion in the volume exported), there were also marked increases in sales of nitrates and iodine—which thus partly recovered from their decline in the previous year—and exports of paper and paperboard. In contrast, there were appreciable falls in sales of iron ore and wood pulp, and those of fish meal showed no increase.

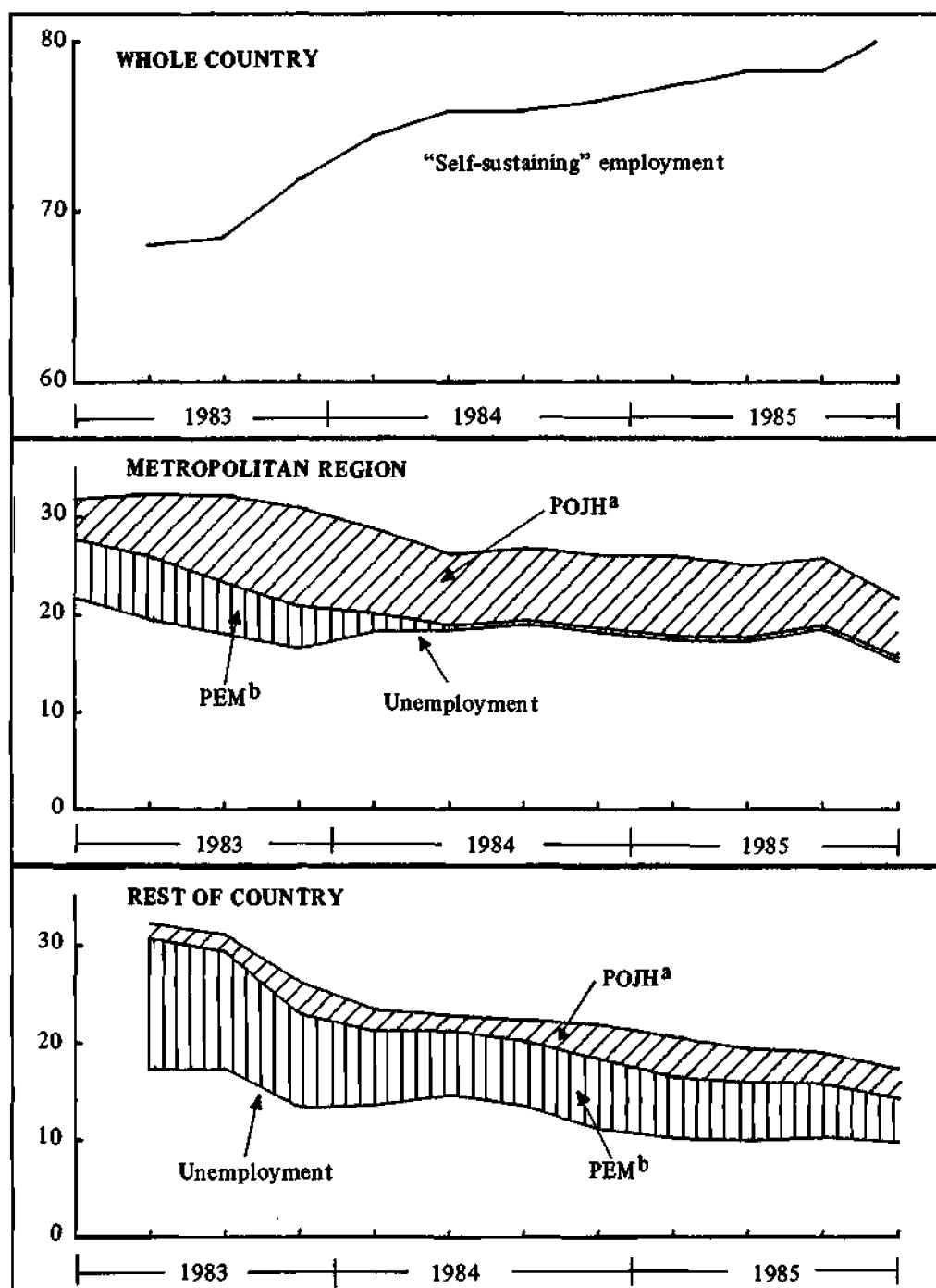
The evolution of non-traditional exports—the total value of which rose by only 2.5%—was also very uneven. While external sales of agricultural products continued to expand vigorously, sales of minerals suffered a further substantial drop, and those of manufactures went down by 5.5% (see table 19).

The unsatisfactory trend in the value of exports (except those of copper and agricultural goods) was due basically to the drop of over 10% suffered in 1984 by the average price of the remaining exports. Nevertheless, the volume of such exports continued to increase, since the effects of the drop in international prices on the profitability of such external sales were more than offset by the decline

Figure 3

CHILE: EMPLOYMENT, UNEMPLOYMENT AND GOVERNMENT
EMPLOYMENT PROGRAMMES

(As percentages of total labour force)



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

^aPOJH : Programme to Reactivate Employment for Heads of Households.
Employment Plan.

^bPEM : Minimum
Employment Plan.

Table 20

CHILE: EVOLUTION OF EXCHANGE RATE

Annual and quarterly averages	Nominal exchange rates"			Real effective exchange rate indexes'			
	Official		Parallel'	Exports		Imports	
	$\frac{P_r}{P_b} \cdot b$ Main	Preferencial		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			104.0	92.8	111.4	99.4
1983	78.84	64.87	92	112.1	110.9	121.3	120.1
1984	98.66	77.73	113	110.9	113.1	119.0	121.2
1985	161.08	/	180	128.3	140.6	138.6	152.0
1982							
I	39.00			92.6	78.1	98.2	82.8
II	40.34			95.8	80.2	102.2	85.5
III	55.01	50.49 ^s		111.4	100.2	120.1	108.1
IV	69.28	55.43	77	116.0	112.5	125.0	121.2
1983							
I	74.96	59.95	99	123.1	117.1	131.8	125.3
II	75.34	62.55	91	112.0	108.8	120.6	117.3
III	79.75	66.19	86	104.9	108.2	114.3	117.8
IV	85.31	70.79	93	108.5	109.6	118.6	119.9
1984							
I	88.05	73.41	97	114.3	111.3	122.8	119.6
II	90.00	75.35	113	109.5	109.7	115.7	115.8
III	95.62	78.38	116	105.1	109.6	112.8	117.3
IV	120.95	83.77	124	114.6	121.6	124.5	132.1
1985							
I	135.82	91.53	139	116.2	124.4	128.0	137.0
II	152.14	98.29	172	121.6	132.2	132.6	144.2
III	175.50	/	200	133.5	149.0	143.8	160.5
IV	180.87		210	141.7	156.9	150.1	166.2

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

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.

"Pesos per dollar. ^aApplicable to all approved operations except those referred to in note ' below. ^cFor the payment of foreign currency commitments contracted prior to 6 August 1982. ^dECLAC estimates. ^eThese indexes correspond to the average of the real peso exchange rate indexes (main official) rij-i-wi 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*. ^fThis exchange rate was eliminated as from 1 July 1985. ^gAverage for August and September.

in real wages, the reduction of the general rate of tariffs from 35 % to 20%, and the considerable rise in the real effective exchange rate (see table 20).

ii) *Imports of goods*. In marked contrast with the evolution of exports—the value of which increased moderately after having gone down in 1984—the value of imports went down by 12% after having risen by 18% the year before. As a result of this decline—due entirely to the contraction in the volume imported—the value of external purchases fell to its lowest level since 1978 and was equal to only 45% of the record level registered in 1981 (see table 17).

The decline was particularly marked in imports of consumer goods, among which purchases of both automobiles and food products went down by over 40%. Imports of intermediate products, for their part, which had recovered vigorously in 1984 in contrast with those of consumer goods, went down by nearly 10%. Purchases of capital goods, however, increased once again, although their growth rate (7%) was far below the exceptionally high rate of 52% registered in 1984 (see table 21).

The reduction in imports was a specific objective of the programme agreed with the International Monetary Fund, and the authorities sought to achieve it by raising the real exchange rate and taking restrictive measures in the areas of fiscal policy and wages. The reduction was also due, however, to the decline in the international price of petroleum and the marked growth in agricultural production, which made it possible to substitute a considerable amount of agricultural imports. Finally, the drop in imports was also due to the reversal of the expectations of the economic agents with regard to exchange and tariff policies. Thus, whereas in 1984 the prevailing expectations were that the peso would be devalued and tariffs would be raised in the second half of the year (with the result that the economic agents decided to bring forward their purchases of imported goods), during 1985 there was a growing consensus that the exchange and tariff policies adopted by the authorities would be kept unchanged. As a result of this, a partial liquidation of the big stocks of imported goods which had been built up the previous year took place. In these circumstances, the shrinkage in external purchases did not have a negative effect on economic activity, which continued to recover, albeit at a slower rate than in 1984.

iii) *Terms of trade and purchasing power of exports.* Because of the further sharp decline in the average price of exports, the terms of trade fell markedly for the fourth time in the last five years, making a total drop of 28% in this period. Consequently, although at the same time the volume exported grew by the same amount, the purchasing power of exports was 9% lower in 1985 than in 1980 (see table 17).

b) *The current account position and capital movements*

Because of the increase in exports and, above all, the sharp contraction in imports, the merchandise trade surplus almost trebled in 1985 to US\$850 million. At the same time, there was a 25% reduction in the trade deficit on real services, partly because of the payments received in respect of reinsurance in connection with the damage caused by the earthquake. There was thus a consider-

Table 21
CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates			
	1982	1983	1984	1985°	1975	1980	1985°	1982	1983	1984	1985"
Total	4 094	3 171	3 739	3 269	100.0	100.0	100.0	-44.1	-22.6	18.0	-12.6
Consumer goods	1 484	1 024	1 044	734	25.6	33.7	22.5	-45.6	-31.0	2.0	-29.7
Non-food	894	493	552	454	5.3	20.7	13.9	-53.0	-44.9	12.0	-17.8
Motor vehicles	124	31	27	16		3.3	0.5	-71.0	-75.0	-12.9	-40.7
Industrial products	770	462	525	438		17.4	13.4	-47.8	-40.0	13.6	-16.6
Food	590	531	492	280	20.3	13.0	8.6	-28.3	-10.0	-7.3	-43.1
Intermediate goods	1 913	1 755	2 097	1 894	58.6	45.6	57.9	-39.2	-8.7	20.0	-9.7
Fuels and lubricants	632	592	594	546	14.2	15.7	16.7	-33.9	-8.3	0.3	-8.1
Raw materials	450	504	608	558	20.4	10.3	17.1	-40.6	12.0	20.6	-8.2
Spare parts and intermediate industrial products	831	659	895	790	24.0	19.6	24.1	-41.9	-20.7	35.8	-11.7
Capital goods	697	392	597	640	15.8	20.7	19.6	-51.8	-43.8	52.3	7.2

Source: Central Bank of Chile.
° Preliminary figures.

Table 22
CHILE: BALANCE OF PAYMENTS
(Millions of dollars)

	1980	1981	1982	1983	1984	1985 ^a
Balance on current account	-2 020	-4 805	-2 373	-1 116	-2 118	-1 342
Trade balance	-1 056	-3 245	-379	635	-108	542
Exports of goods and services	5 968	5 008	4 641	4 601	4 495	4 470
Goods FOB	4 705	3 836	3 706	3 827	3 650	3 804
Real services	1 262	1 172	936	774	845	666
Transport and insurance	433	373	318	269	308	302
Travel	174	200	125	95	129	116
Imports of goods and services	7 023	8 253	5 020	3 966	4 602	3 928
Goods FOB	5 469	6 513	3 643	2 818	3 357	2 955
Real services	1 554	1 740	1 377	1 148	1 245	973
Transport and insurance	872	941	624	511	615	514
Travel	200	221	195	214	327	269
Factor services	-1 028	-1 595	-2 035	-1 800	-2 051	-1 931
Profits	-82	-121	-128	-77	-113	-155
Interest received	305	601	506	187	316	197
Interest paid	-1 152	-1 943	-2 299	-1 813	-2 158	-1 943
Others	-99	-132	-114	-97	-96	-30
Unrequited private transfer payments	64	37	41	49	41	47
Balance on capital account	3 341	4 941	1 032	600	2 210	1 240
Unrequited official transfer payments	49	72	68	43	58	14
Long-term capital	2 243	3 579	1 680	1 210	1 208	1 015
Direct investment (net)	171	362	384	148	67	112
Portfolio investment (net)	-	-	-	-	-	-
Other long-term capital	2 072	3 217	1 296	1 063	1 142	903
Official sector ^b	-193	-496	134	1 149	957	1 210
Loans received	280	154	296	1 300	1 047	1 431
Amortization payments	-472	-641	-162	-151	-90	-221
Commercial banks ^c	-1 438	2 496	327	-9	23	-69
Loans received	1 617	2 730	701	135	90	1 131
Amortization payments	-147	-216	-309	-161	-75	-1 200
Other sectors ^d	826	1 217	836	-78	162	-238
Loans received	1 645	2 205	1 613	511	484	795
Amortization payments	-819	-961	-788	-589	-322	-1 033
Short-term capital (net)	1 000	1 190	-647	-710	844	214
Official sector	100	126	15	112	254	-159
Commercial banks	469	252	68	-422	250	36
Other sectors	431	811	-731	-400	339	337
Errors and omissions (net)	51	100	-70	57	100	-3
Global balance	1 321	136	-1 340	-516	92	-102
Total variation in reserves (- sign indicates an increase)	-1 331	-164	1 112	652	-352	190
Monetary gold	-90	-	-2	46	-62	22
Special Drawing Rights	25	-15	-1	14	-6	11
IMF reserve position	-33	7	-3	78	-	-
Foreign exchange assets	-1 177	-81	1 160	-87	-458	-145
Other assets	-	-	-	-	-	-
Use made of IMF credit	-57	-74	-42	600	175	302

Source: 1979-1981: International Monetary Fund, *Balance of Payments Yearbook*; March 1986; 1985: ECLAC, on the basis of official data.
^aPreliminary figures. Real services also include other official and private transactions, but not factor services. ^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. 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.

able turnaround in the trade balance, which, after having registered a deficit of almost US\$110 million in 1984, generated a surplus of US\$ 540 million in 1985. This surplus was sufficient to finance nearly 30% of the net payments of interest and profits, which, for their part, went down slightly because of the decline in international interest rates and the more favourable terms agreed with the commercial banking system. Thanks to these changes, the current account deficit shrank by almost US\$800 million and was thus the lowest in the last five years, except for 1983 (see table 22).

The current account deficit was covered almost entirely by the net inflow of capital, although this was almost US\$1 billion smaller than the year before. This decline was due partly to the sharp fall in the net inflow of short-term capital (which had risen sharply in 1984) and partly to the considerable increase in amortization payments, especially by the non-financial private sector.

c) *The external debt*

In 1985, the economic policy sought to achieve two main objectives in connection with the external debt: on the one hand, to obtain the necessary financing to facilitate the process of structural adjustment of the economy; on the other, to neutralize the effect of the new loans on the global level of external indebtedness (at least partially) by authorizing the use of external debt promissory notes and securities for the payment of domestic debts and the purchase of assets in the country.

The first of these objectives was achieved through the renegotiation of the commitments with the commercial banking system and the procurement of loans from the International Monetary Fund, the World Bank and the Inter-American Development Bank.

The agreement with the commercial banks —signed in a preliminary form in June and in final form in November— provided for the restructuring of amortization payments totalling US\$5.93 billion corresponding to the period 1985-1987. These payments were reprogrammed for 12 years —with six years' grace— at an interest rate of LIBOR plus 1.38%. In addition, the commercial banks granted new loans for US\$ 1 085 million for the two-year period 1985-1986 (of which US\$714 million were disbursed in 1985) with a term of 12 years, five years' grace and an interest rate equivalent to LIBOR plus 1.63%, with a commission of 0.50%. Of these resources, US\$300 million would be disbursed through a co-financing programme with the World Bank and another US\$150 million would enjoy that institution's guarantee. At the same time, it was agreed to reduce the interest rates on the amortization commitments which had been refinanced and the new credits obtained in the debt renegotiation of 1983, the system of quarterly interest payments was replaced by a twice-yearly system, and the short-term lines of trade credit for a total of US\$1.7 billion were extended to 1987.

The International Monetary Fund, for its part, gave its approval in August to a loan of 750 million Special Drawing Rights units (SDR), to be disbursed in equal quarterly installments during 1985-1987 as the objectives laid down in the macroeconomic programme agreed with the government were fulfilled. As the targets agreed were fulfilled in 1985, at the end of the year the first 125 million SDR units were drawn. At the same time, another 70 million SDR units were disbursed in respect of the financing granted by the Fund to offset the effect of export price falls.

Finally, during the year the World Bank and the Inter-American Development Bank disbursed loans with a net overall value of almost US\$490 million.

The disbursement of the agreed installments of the loans from the commercial banking system and the Fund, together with the credits provided by the multilateral agencies, did not lead, however, to an equivalent increase in external indebtedness, since their effects were partly offset by the debt conversion operations which began to be carried out as from mid-year. These operations —based on the idea of taking advantage of the discount of around 30% at which the Chilean external debt promissory notes were being traded on the secondary markets—, together with operations such as portfolio exchanges and condoning of debts, made it possible to reduce the medium and long-term external commitments by almost US\$380 million in the second half of 1985.

Thus, the total external debt finally only grew by 2.3 %, which was far below the rate of over 8% registered the year before. Moreover, as a result of the reprogramming of part of the amortization commitments falling due in 1985 and the decline in interest payments brought about by the drop in international interest rates and the better terms achieved in the agreement with the commercial banks, the total debt servicing costs were similar to those of the year before (see table 23).

Because of the slight deterioration in the value of exports of goods and services, however, the debt servicing increased marginally as a percentage of total external sales. Moreover, as the reduction in the total loans disbursed was much greater than that in the debt servicing, the latter exceeded the total loans by a larger amount than in the previous three years (except 1983), so that the total annual transfer of financial resources abroad also increased (see table 23).

Table 23

CHILE: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985°
Millions of dollars						
Balances						
I. Total external debt						
(II + III)'''	11 084	15 542	17 153	17 431	18 877	19 318
II. Medium- and long-term external debt	9 413	12 553	13 815	14 832	16 963	17 650
State- guaranteed public and private debt	4 720	4 415	5 157	6 689	10 601	12 161
Private debt	4 693	8 138	8 658	8 143	6 362	5 489
Supplier credits	303	463	413	318	246	162
Lines of credits for importation of capital goods	325	499	457	404	173	155
Financial credits	4 065	7 176	7 788	7 421	5 943	5 171
III. Short-term external debt ' 	1671	2 989	3 338	2 599 ^f	1914 ^f	1668
Public sector	343	1 050	1 503	1 705	1 742	1 564
Private sector	1 328	1 939	1 835	894	172	104
IV. Net international reserves	4 074	3 775	2 578	2 023	2 056	1 867
V. Net total external debt (I - IV)	7 010	11 767	14 575	15 408	16 821	17 451
Total servicing	2 335	3 134	3 041	3 261*	2 330*	2 328*
Principal	1 488	1 792	1 248	1 635*	488*	582*
Interest ^l	847	1 342	1 793	1 626	1 842	1 746
Total disbursements	4 230	6 425	2 943	1948	2 032	1476
Percentages						
Ratios						
Total external debt/exports of goods and services	185.7	310.3	369.6	377.0	420.0	432.2
Servicing/exports of goods and services	39.1	62.6	65.5	70.5	51.8	52.1
Net interest/exports of goods and services	14.2	26.8	38.6	35.2	41.0	39.1
Servicing/disbursements	55.2	48.8	103.3	167.4	114.7	157.7

Source: Central Bank of Chile, *Deuda externa de Chile. 19M, January 1987*.

'''Preliminary figures. Amounts disbursed and pending payment at 31 December of each year. ' excluding short-term credits for external trade operations of the non-financial private sector. Credits entering under articles 14, 15 and 16 of the International exchange Law and credits under Decree-Law 600. 'The drop is due to the conversion of short-term debt to medium- and long-term debt. 'Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. *The servicing is lower because of the renegotiation of the external debt. Before the renegotiation of the external debt, amortization payments came to US\$2 063 million in 1983, US\$1 666 million in 1984, and US\$2 393 million in 1985. 'Interest paid, less interest received, according to the balance of payments current account.

4. Prices and wages

a) Prices

In 1985, there was an increase in the rate of inflation. The December-December increase in consumer prices was 26.4%, which was moderately higher than the rate registered the year before, but, the variation between the annual averages of the index was considerably greater (31%), and in fact was the highest in the last five years. Wholesale prices displayed a similar evolution: they increased by a little over 30% between December 1984 and December 1985 (compared with 36.5% the year before), whereas their increase in terms of annual averages, which was over 43%, was almost double the 1984 figure (see table 24).

These figures, however, do not reflect the sharp interruption which took place in the last quarter of the year in the upward trend that domestic prices had been showing since September 1984. Thus, as may be seen from figure 4, the rate of inflation continued to speed up until September 1985, but subsequently it went down to levels which were only slightly higher than those registered at the beginning of the previous year.

The speeding up of inflation during the first half of 1985 was due essentially to the delayed effects of the sharp devaluation of the peso and the increase in tariffs decided upon in September 1984 and, to a lesser extent, to the further adjustments in the exchange rate carried out in February and July 1984. As a result of these upward movements in the exchange parity, the wholesale price index—made up almost exclusively of internationally tradeable goods and consequently very sensitive to exchange variations—registered considerably greater rises than those in the consumer price index. Furthermore, as was to be expected, the prices of imported products increased much more markedly than those of domestic goods (see figures 4 and 5).

This trend underwent a change in the second half of the year, due mainly to the stability of exchange policy during that period. The decline which ought by rights to have taken place in the rate of inflation, however, was held back by the influence of other factors. On the one hand, the higher profitability of external sales helped to provide grounds for bigger increases in the prices of various groups of domestic products and particularly influenced the prices of agricultural goods, which rose more than the average both at the wholesale and consumer levels (see table 24). Secondly, the adjustments in the prices of various public services (telephones, electricity, water, fuels) which were

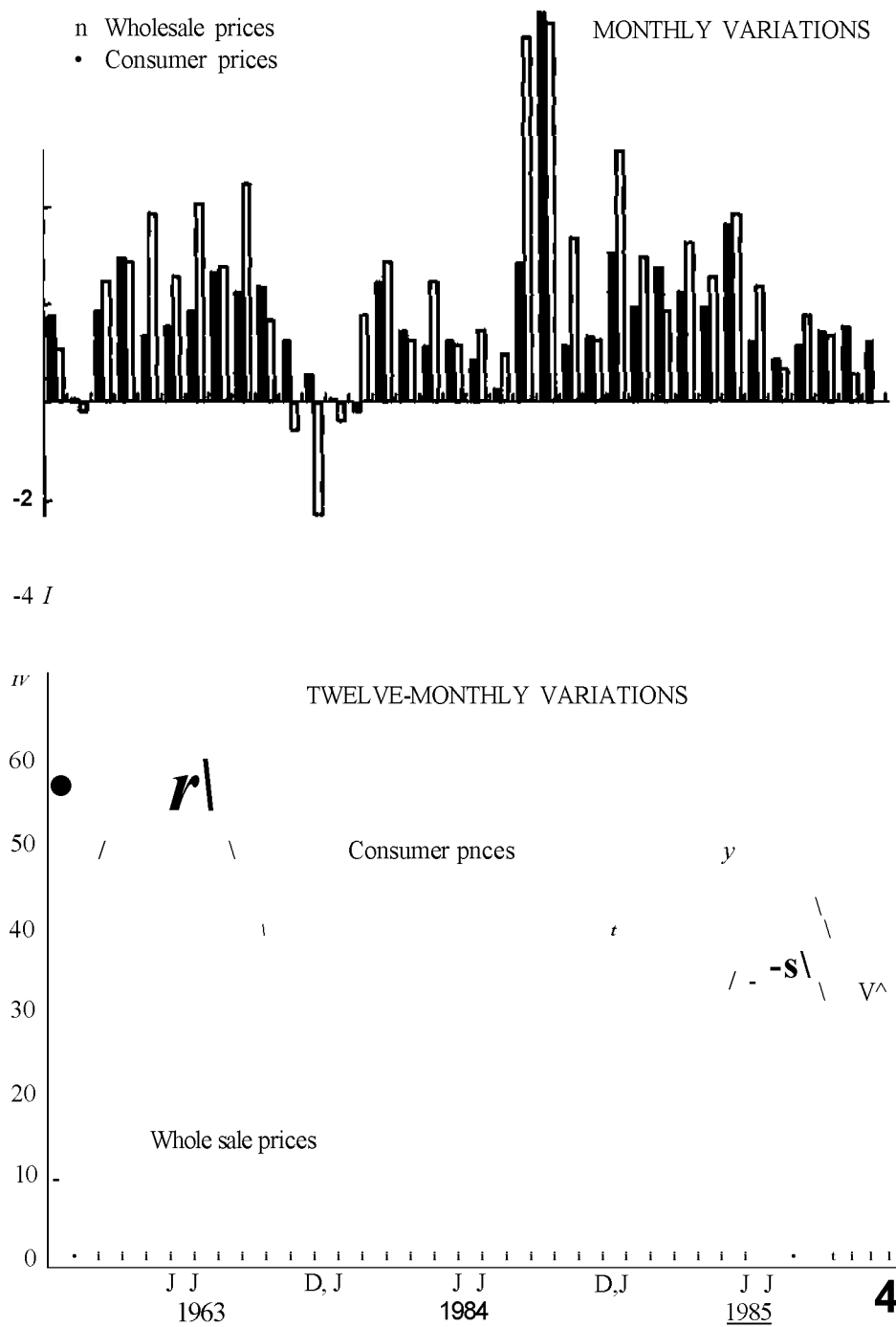
Table 24
CHILE: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Variation from December to December										
Consumer price index	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.1	23.0	26.4
Food	167.4	59.4	25.5	41.9	30.8	0.1	16.3	26.8	19.8	27.5
Corrected consumer price index"	197.9	84.2	37.2							
Wholesale price index	151.5	65.0	38.9	58.3	28.1	-3.9	39.6	25.2	36.5	30.3
Imported products	130.1	79.2	22.2	67.5	12.5	0.5	49.5	33.1	51.3	26.4
Domestic products	157.1	61.7	43.2	56.3	31.9	-4.8	37.5	23.3	32.7	31.4
Agricultural products	148.6	53.0	48.9	52.2	27.7	-14.5	41.7	27.1	19.3	34.8
Mining products	147.7	46.6	40.6	85.6	37.8	12.1	33.9	23.5	48.2	19.6
Manufactures	165.7	70.8	39.6	55.3	33.9	-0.9	35.6	20.9	38.6	31.8
Index of building costs	195.1	78.1	43.7	44.8	31.8	14.5	5.2	10.3	18.9	23.1
Variation between annual averages										
Consumer price index	211.9	92.0	40.1	33.4	35.1	19.7	9.9	27.3	19.9	30.7
Food	212.8	86.2	34.6	31.1	36.1	14.2	3.6	25.8	21.1	28.3
Corrected consumer price index"	232.8	113.8	50.0							
Wholesale price index	221.1	86.0	42.9	49.4	39.6	9.1	7.2	45.5	24.3	43.4
Imported products	201.6	99.8	34.9	41.7	37.7	4.4	10.9	62.6	28.4	54.8
Domestic products	226.1	82.8	45.0	51.3	40.0	10.1	6.4	41.8	23.3	40.4
Agricultural products	245.9	79.3	34.7	51.8	41.4	2.7	0.7	51.3	21.0	33.1
Mining products	191.7	73.2	51.1	70.1	54.0	22.3	7.3	40.0	27.4	48.9
Manufactures	215.5	87.4	52.7	48.3	41.3	13.3	9.9	36.5	24.1	43.5
Index of building costs	233.2	109.0	54.9	42.7	40.7	22.5	5.6	9.7	12.9	25.8

Source: National Statistical Institute; Cámara Chilena de la Construcción; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977", in *Co rre m i a rios 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 CiliPLAN*, No. 1, november 1980.

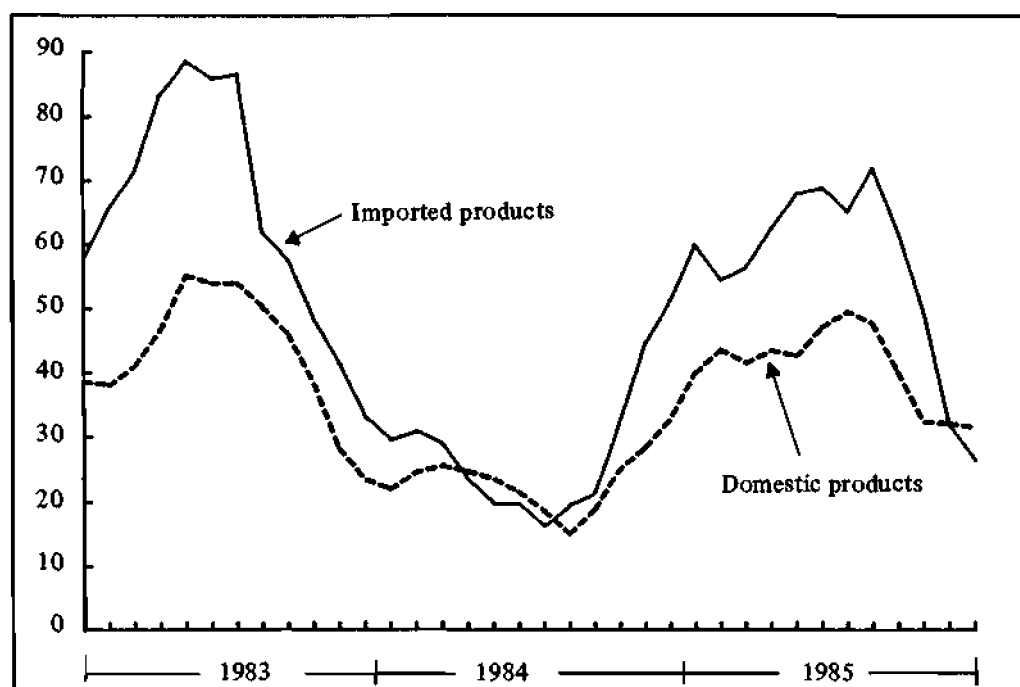
"1975-1978: based on the index of Cortázar and Marshall.

Figure 4
CHILE: EVOLUTION OF DOMESTIC PRICES



Source: ECLAC, on the basis of information from the National Statistical Institute.

Figure 5
CHILE: TWELVE-MONTHLY VARIATIONS IN WHOLESALE PRICES
(Percentages)



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

decided upon with a view to reducing the fiscal imbalance helped to keep up the rate of consumer price increases during the last quarter of the year. These prices rose even more steadily than wholesale prices, thus reversing the trend which had prevailed during the first half of the year.

b) *Wages and salaries*

Average wages went down by 5.4% in 1985 and thus fell to the lowest level in the last six years. The minimum wage, for its part, registered a slightly greater drop, so that as a result of the substantial declines which it had suffered in the previous two years, its real value was more than a third lower than that registered only three years before (see table 25).

These declines were due essentially to the effects of the resurgence of inflation registered as from September 1984, which was not followed by a similar increase in nominal wages. Thus, average real wages contracted sharply in the last quarter of 1984 and stagnated during most of the following year (see figure 6).

Towards the end of 1985, however, the wages policy became less restrictive and various extra allowances and bonuses were granted, while the annual adjustment of the minimum wage and the wages of public employees was brought forward to 1 December. As a result, both average and minimum real wages increased during the last quarter of 1985, although they did not recover the levels reached before the exchange adjustment of September 1984. Furthermore, wages policy was more selective in 1985, favouring a faster recovery by the lowest income groups through the granting of bonuses on a sliding scale for wages below 30 000 pesos. In addition, the allowances paid to those enrolled in the government employment programmes were increased for the first time since October 1982 by a flat amount of 1 000 pesos. This increase meant that only the allowance for workers in the Minimum Employment Programme (PEM) —which was by far the smallest— increased in real terms.

Table 25

CHILE: EVOLUTION OF REAL WAGES AND SALARIES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985"
	Indexes (1980 = 100) ⁴									
Minimum wage	67.5	79.6	100.7	99.8	100.0	115.9	116.6	93.9	80.3	76.1
Average wages	70.5	79.6	84.7	91.8	100.0	109.1	108.7	97.1	97.4	93.0
Mining	79.7	91.0	88.7	97.5	100.0	103.2	94.8	90.0	92.4	91.2
Manufacturing	66.9	75.3	83.3	89.9	100.0	109.6	105.4	94.6	93.8	89.0
Electricity, gas and water	70.6	70.7	79.1	88.8	100.0	114.7	111.6	101.5	101.5	101.4
Community and social services	73.8	83.9	86.6	93.1	100.0	109.0	116.3	100.2	101.1	95.2
Construction	78.0	81.3	84.8	91.9	100.0	105.6	100.2	75.0	73.4	61.4
	Percentage variation									
Minimum wage	10.8	17.9	26.4	-0.8	0.2	15.9	0.7	-19.5	-14.6	-5.1
Average wages	0.5	12.9	6.4	8.3	9.0	9.1	-0.4	-10.6	0.3	-4.5
Mining	4.3	14.1	-2.5	9.9	2.6	3.2	-8.2	-5.1	2.6	-1.3
Manufacturing	8.2	12.5	10.5	7.9	11.2	9.6	-3.8	-10.2	-0.9	-5.1
Electricity, gas and water	0.8	0.1	11.9	12.3	12.6	14.6	-2.7	-9.1	-0.1	-0.1
Community and social services	-12.8	13.7	3.2	7.5	7.4	8.9	6.7	-13.9	0.9	-5.8
Construction	4.8	4.2	4.3	8.4	8.8	5.6	-5.1	-25.2	-2.2	-16.4

Source: ECLAC, on the basis of data from the National Statistical Institute and the Cámara Chilena de la Construcción.

"Preliminary figures.

⁴Deflated on the basis of the consumer price index given in table 24. From 1975 to 1978: average for January, April, July and October. Subsequently, average for 12 months.

⁵Applicable to private sector manual and non-manual workers not subject to special arrangements. ⁶1975-1983: wages in middle-level building activities. 1984 and 1985: average wages.

In contrast, the adjustment granted to those enrolled in the Employment Programme for Heads of Households (POJH) did not even make up for the effects of inflation, so that the wages paid under this plan went down by between 5% and 21% in real terms (see table 26).

Partly as a result of the policy of giving greater support to those earning the lowest wages, the evolution of real wages was relatively uniform for the different occupational groups, in contrast with what had occurred in the previous year. As was to be expected, the biggest declines in wages occurred in the categories requiring the lowest qualifications and offering the easiest access, such as sales employees and personal service workers (-6% and -5%, respectively). Even so, however, the real wages for more highly skilled employment registered declines that were only slightly less than this (-3%).

In contrast, the evolution of real wages was very varied in the different sectors of the economy. Real wages went down by only 1% in mining and scarcely varied at all in public utilities: both sectors in which large enterprises predominate and the workers have greater wage bargaining capacity. In commerce, however, real wages went down substantially (-7%), while they dropped even more markedly in construction (-16%), where they reached their lowest level for the past ten years (see table 25).

Finally, the 18% readjustment granted at the beginning of the year in the wages of public service employees—who make up the majority of those employed in the "community and social services" sector—was not sufficient to offset the effects of inflation, so that these wages continued to deteriorate faster than the average up to September 1985. Thanks to the measures adopted in the last quarter of the year, however (an advance readjustment of 14% and additional bonuses), these wages showed a substantial recovery at the end of the year (see figure 7).

5. Monetary and fiscal policy

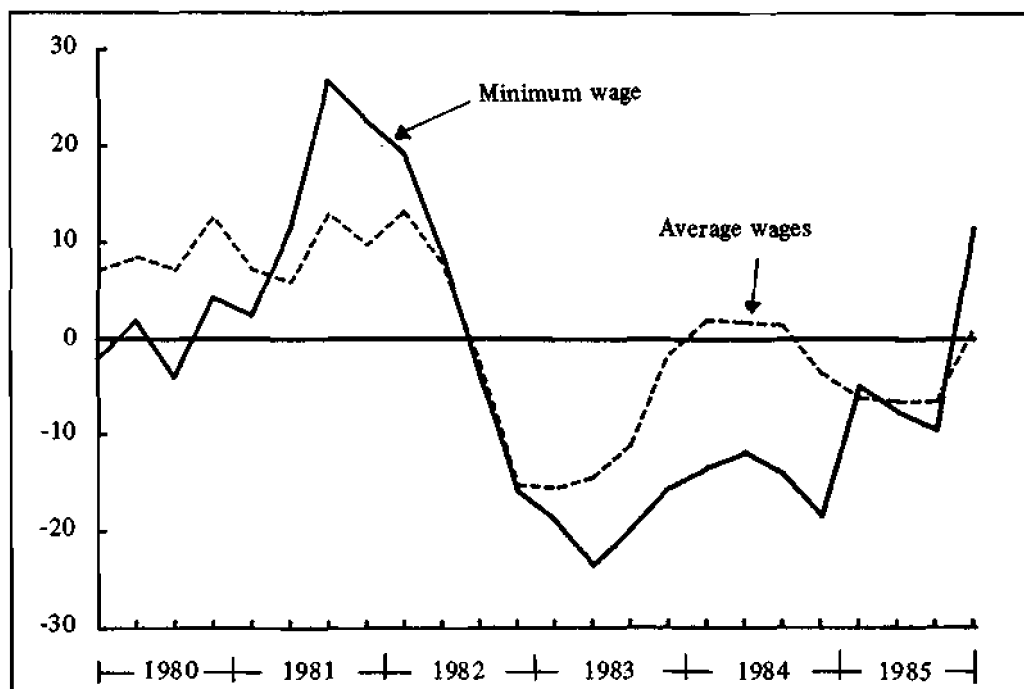
a) *The conditioning factors*

Three factors conditioned monetary and fiscal evolution in 1985: 1) the insufficient availability of foreign exchange, which made it essential to reverse the negative trade balance registered the year before; 2) the need to raise investment from its very low level of the period 1982-1984, which—in view of the decision to reduce the balance-of-payments current account deficit—also called for the raising of domestic saving; and 3) the desire that the private sector should once again begin to play a dynamic role in the economy, which made it necessary to clear up the financial situation of the enterprises with heavy debts and the bulk of the officially intervened financial system.

i) *The agreement with the International Monetary Fund.* As already noted, in 1984 the current account deficit was equivalent to approximately 10.5% of the gross domestic product and was about one-third (or US\$700 million) higher than the amount agreed with the IMF. Consequently, in 1985 the evolution of the economy had to take place in a context of greater shortage of foreign exchange than in the previous year. Specifically, the new agreement signed with the Fund provided for current account deficit financing of US\$1 380 million, equivalent to about 7% of the gross domestic product. Furthermore, as the bulk of the adjustment had been carried out by sharply reducing expenditure and, in particular, investment, it was agreed that the reduction in external saving implicit in the lower current account deficit should be compensated for by an increase in domestic saving. Thus, the contraction in external saving equivalent to around 3.5% of the product would have to be offset by approximately equivalent increases in private and public saving. This, in turn, meant that the public sector deficit must be reduced from approximately 4.2% of the GDP in 1984 to 3% in 1985 (after the earthquake, it was agreed that this proportion could be raised to 3.5%, provided that more external financing were obtained). As it had also been agreed to give the private sector a more dynamic role,

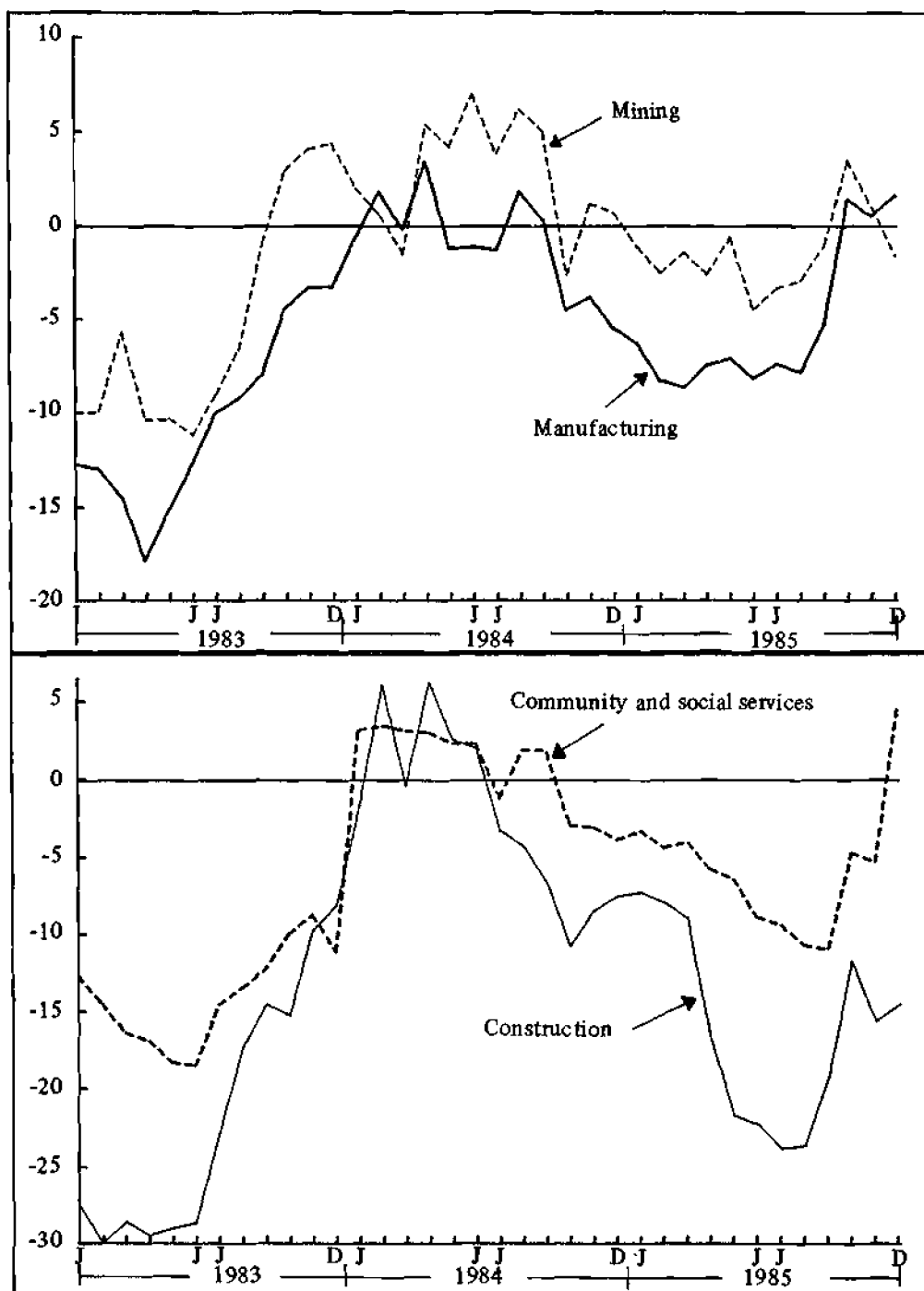
Figure 6

CHILE: TWELVE-MONTHLY VARIATIONS IN REAL WAGES (Percentages)



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

Figure 7
**CHILE: TWELVE-MONTHLY VARIATIONS IN REAL WAGES IN SOME
 SELECTED ECONOMIC SECTORS**
(Percentages)



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

Table 26

**CHILE: MINIMUM WAGE, AND ALLOWANCES PAID
IN GOVERNMENT EMPLOYMENT PROGRAMMES**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985°
Minimum monthly wage										
Nominal*	565	1 279	2 265	2 996	4 056	5 625	6 223	6 378	6 534	8 100
Real ^c	2 073	2 195	2 592	2 511	2 515	2 914	2 933	2 362	2 019	1915
Monthly allowance paid in Minimum Employment Programme										
Nominal	461	704	834	992	1 275	1 300	1 650	2 000	2 000	3 000
Real ^f	1 690	1 209	954	831	791	674	778	741	618	709
Monthly allowance paid in Programme to Reactivate Employment for Heads of Households										
Labourers										
Nominal	-	-	-	-	-	-	4 000	4 000	4 000	5 000
Real ^f	-	-	-	-	-	-	1 690	1 481	1 236	1 182
Foremen										
Nominal	-	-	-	-	-	-	8 000	8 000	8 000	9 000
Real ^l	-	-	-	-	-	-	3 380	2 963	2 472	2 128
Supervisors										
Nominal	-	-	-	-	-	-	-	15 000	15 000	16 000
Real ^c	-	-	-	-	-	-	-	5 456	4 634	3 782
Senior Staff										
Nominal	-	-	-	-	-	-	-	30 000	30 000	31 000
Real ^f	-	-	-	-	-	-	-	10 911	9 269	7 328

Source: feCLAC, on the basis of data from the National Statistical Institute.

*Preliminary figures.

Pesos.

^cPesos of December 1978, on the basis of the corrected consumer price index given in table 21.

Table 27

CHILE: FINANCIAL INDICATORS OF LIMITED COMPANIES"

(Percentages)

	December					
	1980	1981	1982	1983	1984	1985
Indebtedness						
Capital	53.9	63.4	92.0	86.1	90.8	99.9
Profits						
Capital and reserves	6.4	1.1	-12.3	-6.6	1.3	-2.1
Financial costs						
Income from operations	5.0	8.5	15.5	8.5	8.5	6.4

Source: Santiago Stock exchange, *Reseña de Valores 1985* and *Análisis Financiero Sectorial** March 1985.

*It should be noted that the data for the period 1983-1985 are not strictly comparable with those for 1980-1982, since there was a difference in the sample of limited companies used. Nevertheless, they give useful orders of magnitude.

the reduction in the deficit would have to be effected through reductions in public expenditure and not through increased taxation. Finally, in view of the importance assigned to increasing investment, reducing the deficit had to be based on cuts in current expenditure. The terms of the agreement were therefore very severe, since the additional saving effort involved (3.5% of the GDP) was almost equivalent to the maximum increase foreseen for overall economic activity (4%).

In contrast with the fiscal austerity involved in the programme, the monetary goals set were easy to attain. Although the inflation projected for 1985 (25%) was similar to that registered in 1984, the programme provided for a marked recovery in the demand for money. Consequently, it provided for real increases of almost 16% for money issue and 26% for private sector money (M.). It was considered that the exchange and financial crisis of 1982 and 1983 had brought the monetary aggregates below their equilibrium levels, and it was therefore assumed that the lesser uncertainty expected to exist in 1985 would give rise to an increase in the demand for money in spite of the absence of any change in the projected rate of inflation.

ii) *Reorganization of the domestic financial situation.* The agreement with the IMF ensured the availability of the essential external saving and laid down measures for increasing public saving and investment. Whether total investment really did increase or not would depend largely, however, on whether, or not the private sector increased its investment. This not only called for a suitable macroeconomic framework, but also for specific policies to encourage private investment and, in particular, to clarify the financial situation of enterprises. This, in turn, made it necessary to solve the problem of the excess of indebtedness of enterprises: a problem which, in spite of the measures taken by the authorities in previous years, was far from having been solved. In fact, in spite of the previous rescheduling exercises and the drop in financial costs, the debt/capital ratio of enterprises at the end of 1984 was 50% higher than that which existed before the crisis and was similar to that registered in 1982, which was the year when the crisis came to a head (see table 27). Consequently, in early 1985 the economic authorities were faced with the dilemma of finding measures that would make possible sufficient relief of the debt burden on enterprises in order to improve their financial situation and thus encourage private investment, without these measures meaning that the government must involve itself in significant additional losses.

The decision taken in this case —also explicitly set forth in the agreement with the Fund— comprised the following elements: a) gradually reducing the government subsidies called for by the programmes already embarked on; b) putting an end to the global rescheduling processes and starting case-by-case rescheduling (whereby it was hoped to limit the benefits of such rescheduling solely to viable enterprises and furthermore only to the extent that those enterprises required such assistance); and c) regularizing and re-privatizing the government-intervened banking system and capitalizing its debt with the Central Bank.

In order to achieve the first of these objectives, at the end of June the government announced the gradual elimination of the subsidy for the preferential dollar, which would completely disappear after 18 months. This measure was agreed upon at the same time as an 8.4% increase in the exchange rate and a reduction in the general rate of tariffs from 30% to 20%. Thus, the generalized benefits which had been extended so far to all enterprises or persons with debts in dollars was transferred to exporters (who benefited both from the devaluation and the reduction in tariffs). For enterprises producing goods which competed with imports, in contrast, the devaluation was offset by the tariff reduction, so that they would be in a net inferior position (neutral in terms of the compensated devaluation and worse in terms of the elimination of the subsidy for the preferential dollar), while finally it was enterprises producing non-tradeable goods which suffered most, since they lost the subsidy at the same time that they suffered a drop in the prices of goods (compared with the prices of exports). Altogether, however, these measures made it possible to bring private profitability closer to social profitability, thus facilitating the determination of the true viability of enterprises and hence making it possible to channel the public financial support to indebted enterprises more effectively.

At the same time, various measures were adopted to facilitate the case-by-case rescheduling. Among them was the authorization to the banks to convert part of their private sector loans into capital, the granting to the banks of long-term exchange insurance (which made it easier for them to reprogramme the credits granted by them to their debtors to maturities similar to those obtained by the country in the renegotiation of its external debt), and the establishment of a pilot project (with the support of a World Bank loan) to facilitate the financial restructuring of 20 to 30 industrial enterprises producing internationally tradeable goods.

Finally, the re-capitalization and re-privatization of the government-intervened banking system was promoted through the system of "popular capitalism". In essence, this meant converting part of the debt which the commercial banks had with the Central Bank into preference shares which the Central Bank would then place on the market on terms extremely favourable to the buyers. The total amount of the debts thus capitalized must be enough to enable the banks to pay off the balance of their debt with the Central Bank, buy back their portfolio of overdue debts, and pay attractive dividends to the purchasers of the preference shares issued.

b) *Monetary policy*

As already noted, the monetary programme foresaw a substantial recovery in the demand for money and, consequently, in the main monetary aggregates, the real level of which had either fallen or failed to register any significant increase between 1982 and 1984. In 1985 there was indeed an increase in real terms in money issue (6%), M₁ (1.5%), term deposits and M₂ (10%) (see table 28). Nevertheless, the expansion in the monetary aggregates was significantly less than had been programmed, particularly in the case of private sector money, since the expected recovery in the demand for money failed to materialize. This was probably influenced by the acceleration in inflation in the first half of the year and by the uncertainty caused by the steady deterioration in the terms of trade, the two maxi-devaluations carried out in February and June, and the failure to fulfil the trade surplus target set for the first half of the year. Furthermore, the scant improvement in the external accounts during this period obliged the authorities to hold back the expansion of domestic credit between February and July. Thus, it was only in the last four months of the year —when the external situation improved and the gap between the parallel dollar and the official dollar grew smaller— that real money issue again exceeded the levels reached in the last quarter of 1984.

Table 28

CHILE: MONETARY INDICATORS

	December averages for each year (billions of pesos)			Growth rates			
	1983	1984	1985°	1982	1983	1984	1985°
Money issue (E)	70.1	82.5	110.5	-29.3	13.6	17.6	33.9
Total money supply	138.7	148.6	199.7	-19.7	21.1	7.1	34.4
Private sector (M ₁)	95.2	102.4	131.4	-9.1	26.8	7.6	28.3
Public sector (PS)	43.5	46.2	68.3	-34.3	10.3	6.1	47.8
Terms deposits (TD)	262.2	347.8	496.1	11.9	-4.2	32.6	42.6
From 30 to 89 days	128.2	159.9	218.6	7.1	-42.1	24.7	36.7
From 90 to 365 days	80.2	132.4	209.7	127.2	182.4	65.1	58.4
Readjustable	73.6	121.1	201.7	838.5	202.0	64.6	66.6
Non-readjustable	6.6	11.3	8.0	-59.6	-31.1	70.1	-29.2
Over one year	53.8	55.5	67.8	-6.3	127.4	3.1	22.2
Private money + term deposits (M₂ = M₁ + TD)	357.4	450.2	627.5	6.6	9.6	26.0	39.4
Bank quasi-money (D₂)'	339.8	462.3	665.5	9.1	-4.8	36.1	44.0
Term deposits	262.2	347.8	496.1	11.9	20.7	32.6	42.6
Savings deposits	80.1	101.2	142.4	8.6	67.6	26.3	40.7
Loans by the banking system							
National currency	636.4	924.4	1 315.1	7.8	22.5	45.3	42.3
Foreign currency	4 838.1	3 825.0	2 703.2	-18.5	-24.8	-21.0	-29.3

Source: Central Bank of Chile, *Síntesis Monetaria*

° Preliminary figures. * Includes bonds of the Department of Savings and Investments (DAI). ' Includes other deposits for less than 30 days. Millions of dollars.

Table 29

CHILE: BANK INTEREST RATES

	1980	1981	1982	1983	1984	1985	1985; ^a			
							I	II	in	IV
Nominal										
Short-term deposits	37.4	40.8	47.8	27.9	26.1	31.6	32.9	42.4	28.4	23.5
Short-term loans	46.9	51.9	63.1	42.7	37.2	40.4	47.0	50.5	35.7	29.4
Real										
Non-readjustable operations										
Short-term deposits	4.7	28.6	22.4	3.9	2.3	4.1	-2.7	3.9	12.2	3.7
Short-term loans	12.0	38.7	35.1	15.9	11.4	11.4	7.6	9.8	18.5	8.6
Readjustable operations										
Deposits	8.4	13.1	12.0	7.7	8.4	8.2	8.8	9.3	7.7	6.8
Loans	15.4	14.5	16.9	9.8	9.0	9.4	9.5	9.4	9.8	9.1

Source: Central Bank of Chile.

^aAnnual rates projected on the basis of quarterly rates.

Calculated on the basis of the nominal rates published by the Central Bank, the corrected consumer price index given in table 24, and the consumer price index of the National Statistical Institute (period 1979-1982).

Table 30

CHILE: INDICATORS OF THE FINANCIAL SITUATION
OF THE DOMESTIC PRIVATE BANKING SYSTEM

(Billions of pesos)

	December		
	1983	1984	1985
Total loans ^a	794	1 062	1 206
Overdue loans	80	123	50
Loans sold to Central Bank	105	148	465
Capital and reserves	71	87	137
Provisions	39	97	97
Operating results	-34	-69	-2
Overdue loans sold			
Capital, reserves and provisions	17	15	22
Overdue loans sold			
Total loans + overdue loans + overdue loans sold	199?	20%	309?

Source: Santiago Stock Exchange.

^aTotal current loans: i.e., excluding overdue loans and overdue loans sold.

For its part, the real interest rate on loans underwent virtually no change between 1984 and 1985, continuing to fluctuate around 9.5% for readjustable operations and around 11.5% for non-readjustable short-term transactions (see table 29). These rates (which were much lower than those prevailing between 1975 and 1982), together with the rescheduling of debts and the periods of grace granted to enterprises, helped to bring about a reduction in the ratio of financial costs to operating revenues from 15.5% in 1982 to 6.4% in 1985 (see table 27). Nevertheless, interest rates were high not only in comparison with the real level of LIBOR (4%), but also in comparison with the economic growth rate. Partly because of this, the proportion of the total placements of commercial banks represented by the overdue or high-risk portfolio and the portfolio sold to the Central Bank was a good deal higher in 1985 than in the previous two years (see table 30).

Table 31

CHILE: PUBLIC SECTOR INCOME AND EXPENDITURE
(Percentages of gross domestic product)

	1984	1985 ^a
A. General government		
1. Current income	27.7	28.8
2. Current expenditure	30.7	29.8
3. Current surplus (1-2)	-3.0	-1.0
B. State enterprises		
4. Operating surplus	...	14.2
5. Net transfers to general government	...	9.7
6. Current surplus (4-5)	3.6	4.5
C. Public sector		
7. Current surplus (3+6)	0.6	3.5
8. Net capital income	1.6	0.9
9. Gross capital formation (10+11)	6.4	7.1
10. General government	2.7	3.2
11. State enterprises	37	3.9
12. Capital surplus (8-9)	-4.8	-6.2
13. Global surplus (7+12)	-42	-2.7

Source: LCLAC, on the basis of official data.

^a Preliminary figures.

c) *Fiscal developments*

As a result of the reactivation policy applied in 1984, the public sector deficit rose markedly in that year to the equivalent of 4.2% of the gross domestic product: the highest proportion registered since 1974. According to the adjustment programme agreed with the International Monetary Fund, this coefficient should have gone down to 3 % in 1985, both because of the smaller external resources available to the country and because of the need to reduce the pressure exerted by the financing of the public sector imbalance on domestic interest rates. In order to promote private saving and increase investment, the reduction in the public sector deficit was to be achieved through a cut in current spending rather than through an increase in taxation. This latter course was also limited by the coming into force of the tax reform —which provided for a reduction in income tax in order to encourage the reinvestment of business profits and private saving— and by the cuts in the general rate of tariffs decreed in March and July.

In fact, however, current general government income increased in real terms, due basically to the better control exerted over tax evasion and the increase in the revenue from foreign trade taxes due to the considerable rise in the exchange rate. At the same time, current government expenditure went down, mainly as a result of the drop in the real wages of public employees, the real reduction of approximately 5% in purchases of consumer goods and services, and the drop in real expenditure on pensions caused by the postponement of the automatic readjustment which should have been applied to the latter when the accumulated inflation since the last pension increase reached 15%.

As a result of these changes, the current deficit of general government went down from the equivalent of 3% of the gross domestic product in 1984 to only 1% in 1985. At the same time, the surpluses of State enterprises grew by the equivalent of almost 1 % of the product, due mainly to the increases in the prices and scales of charges of the goods and services produced by these enterprises. Thus, the current surplus of the public sector increased almost sixfold to the equivalent of 35 % of the gross domestic product. Hence, even though public investment grew by 15% in real terms, the public sector deficit went down to less than 3% of the gross domestic product (see table 31).

More than half of public investment in 1985 was carried out by the State enterprises, especially those engaged in export activities or the production of goods that could replace imports. General government investment, for its part, was concentrated on public works and housing, particularly in the areas affected by the March 1985 earthquake.

ECUADOR

1. Recent economic trends: Introduction and summary

In 1985 there was a strengthening of the trend towards recovery and growth which could be glimpsed in the Ecuadorian economy during the preceding year. Thus, the crisis experienced in the years 1982 and 1983, caused by natural disasters and a decline in external financial flows, definitely appeared to be receding (see table 1 and figure 1).

The gross domestic product expanded by 4.3%, which not only allowed a full recovery to be made from losses due to the crisis, but also raised the product to record levels. Growth was mainly based on the dynamism of the petroleum (8.5%) and agricultural (4.8%) sectors and was concentrated in the second half of the year. The per capita product, in contrast, was barely higher than in 1978, since it grew slightly over 1%, after having declined by 6% in 1982-1983.

Gross fixed investment continued to recover (4.5 %) for the second year in a row, although due to the great deterioration it had suffered previously (-45%), its level still stood well below that reached at the end of the 1970s. As in 1984, the dynamism of investment mainly stemmed from public works in infrastructure. Investment by the private sector was affected by a shortage of external resources, the tight supply and high cost of domestic credit, the absence of expectations of a sustained improvement in domestic demand, and the rigidity of the productive structure.

Consumer expenditure expanded very little, mainly due to a deceleration in private consumption. In contrast, government expenditure on consumption increased by nearly 4%, following a decline in the two previous years owing to a policy of austerity and of holding down public expenditure.

The rate of inflation tended to slacken. The variation in the consumer price index, measured from December to December, was 24%, i.e., practically the same as in the preceding year, but the variation between annual averages showed a substantial drop (from 31% to 28%). Still more significant was the decline (from 37% to almost 31%) in the rate of variation in food prices; the rate nonetheless remained higher than the overall increase in prices, because the unfavourable effects on supply caused by floods in preceding years continued to be felt and because a new price policy on agricultural products was put into effect. Contributing factors to this slackening in the inflationary process were a strict monetary policy and a decline in pressures associated with domestic demand.

In agriculture, the production of crops for domestic consumption was affected by poor weather conditions, especially in the first half of the year. The sector's exports, however, were favoured by a comprehensive promotion policy and growing international demand. In order to sustain the agricultural recovery and as part of the policy of real prices implemented by the government, the domestic prices of these products were raised while, at the same time, the flow of agricultural credit was increased.

The manufacturing product dropped for the second year in a row, as the sector continued to face difficulties derived from the tightening of credit, structural problems leading to low efficiency, and weak domestic demand.

Construction grew barely 1 % due to a rise in its input prices (cement, steel) and a sustained lack of investment, which were compounded by the contraction in demand and the effects of capital outflows of previous years.

The minimum living wage dropped by 3% in real terms and by nearly 1% if additional gratuities and bonuses are taken into account.

The trade balance showed a surplus for the third year running. Exports increased by 12%, thanks to the vigorous expansion in sales of agricultural and marine products and of petroleum, notwithstanding the persistent deterioration in the international price of the latter, which fell on average from US\$ 27.4 to US\$ 26.00 per barrel. Traditional exports (bananas, coffee and cocoa) exhibited favourable growth rates.

Imports of goods and services continued to recover (6%) due to a certain liberalization of administrative restrictions and to the country's overall economic growth. However, the level of external purchases was still well below that of 1981, because of the severity of the decrease which had taken place during the recession of 1982 and 1983.

After a slight improvement the preceding year, the terms of trade again deteriorated, thus resuming the trend of the 1981-1983 triennium.

The deficit on current account decreased by almost 60%, falling from US\$ 268 million to US\$ 110 million. The main cause of the deficit on current account was Costa Rica's huge interest payments on the external debt, even though they did decline, thanks to a drop in the international interest rate. In any event, the renegotiation of the debt will make it possible to lower amortization payments in the near future.

Table 1

ECUADOR: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
A. Basic economic indicators							
Gross domestic product at market prices (1980 = 100)	96.0	100.0	103.8	104.9	103.7	108.4	113.0
Population (millions of inhabitants)	7 893	8 123	8 361	8 606	8 857	9 115	9 378
Per capita gross domestic product (1980 = 100)	98.8	100.0	100.8	99.0	94.7	96.3	96.1
Growth rates							
B. Short-term economic indicators							
Gross domestic product	5.3	4.2	3.8	1.1	-1.2	4.5	4.3
Per capita gross domestic product	2.3	1.3	0.8	-1.8	-4.0	1.6	1.4
Consumer prices							
December to December	9.0	14.5	17.2	24.4	52.5	25.1	24.4
Variation between annual averages	10.3	13.0	16.0	16.3	48.4	31.2	28.0
Real minimum wage	21.1	71.6	-13.8	-9.7	-8.3	-1.7	-0.5
Money ^c	17.0	28.0	11.7	20.2	30.4	42.2	23.8
Current income of government	20.7	62.3	5.2	15.2	27.3	69.2	90.7
Total expenditure of government	7.8	68.7	24.9	12.0	14.6	44.1	56.5
Fiscal deficit/total expenditure of government"	18.1	20.9	33.8	28.8	18.7	6.4	13.5"
Fiscal deficit/gross domestic product	2.2	3.4	5.8	4.5	2.5	0.8	2.0"
Current value of exports of goods and services	41.5	18.9	1.6	-7.7	-1.7	9.5	11.7
Current value of imports of goods and services	22.4	10.2	6.8	-7.4	-34.1	12.2	6.0
Terms of trade (goods)	25.2	5.6	-0.2	-1.6	-18.1	2.9	-2.4
Terms of trade (goods and services)	22.9	5.1	-0.4	-3.1	-17.0	12	-1.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-242	-58	-210	-203	735	755	966
Net payments of profits and interest	-412	-614	-816	-1 012	-863	-1 023	-1 076
Balance on current account	-654	-672	-1 027	-1 215	-128	-268	-110
Balance on capital account	698	942	656	875	238	187	135
Variation in net international reserves (- sign indicates an increase)	-87	-291	381	328	-127	56	-25
External de	3 554	4 652	5 868	6 186	6 690	6 949	7 440

Source: ECLAC, on the basis of official figures.

"Provisional figures.

Including various gratuities and bonuses.

^cFrom December to December.

Percentages.

^fFiscal surplus.

^gEnd-of-year balances, excluding the debt with the International Monetary Fund.

After protracted discussions, a rescheduling agreement with creditor banks was signed at the end of the year. Under this agreement, the payments on the total external debt which were to fall due during the 1985-1989 quinquennium, amounting to US\$ 4.5 billion, were rescheduled for a term of 12 years, with a three-year grace period. In April, the negotiations with the Club of Paris were concluded. They allowed the renegotiation of about US\$ 400 million which the country was to repay between 1984 and 1987, rescheduling these payments over a term of eight years, with a grace period of three and one-half years. Thus, Ecuador became the first small debtor in the developing world —US\$ 7.4 billion at the end of 1985— to reach a multi-annual rescheduling agreement with its creditor banks and with the Club of Paris, thereby giving the country a certain amount of manoeuvring room.

The exchange system was subject to a gradual change in the course of the year, which was brought about by transferring operations from the official area (66.5 sucres per dollar) to the Central Bank free market, a process which culminated in November with the fixation of a single parity for both markets (95 sucres per dollar). On the parallel free market proper, the price of the dollar followed an erratic path and at the end of the year it was at a slightly higher level than that recorded in January.

In the fiscal area, there was a marked expansion of the general government budget. Traditional income rose 41 % in nominal terms due to an increase in tax revenue on commercial operations, on income and imports, along with better tax control systems. Government income from the petroleum industry expanded by 133% due to substantial increases in returns on export, a phenomenon which was basically due to the rise in the exchange rate. Oil returns account for 60% of the total income of the public sector, which makes the government budget extremely dependent on this variable.

Government expenditure expanded significantly as a consequence of events in the educational and general services sectors and of the servicing of the public debt. For the first time in many years a moderate fiscal surplus was achieved, in accordance with the purposes of the stabilization programme.

The main concern of the monetary authorities was to maintain control of inflation through the restriction of the credit supply. Growth in the banks' portfolio was moderate indeed. The reserve requirement was held in the range of 22% to 24% and the commercial interest rate oscillated around 23%. Thus, credit was scarce during the year. The money supply (Mi) increased by 24%, a comparison of this figure with the annual inflation rate of 24.4% up to December and with the average inflation of 28% recorded for the year as a whole leads to the conclusion that (Mi) remained static in real terms.

The major changes in the policy on interest rates announced at the end of the preceding year entered into force in 1985. Of particular importance was the introduction of floating interest rates for short-term deposits over the amount of one million sucres. This measure was aimed at enabling the banks to attract money in the marketplace and at making them less dependent on Central Bank resources. The securities known as "accumulation policies" increased rapidly over the year and by the end of 1985 they accounted for one-fourth of the money supply (Mi). The funds obtained by banks since the introduction of these securities exceeded the credit granted by the Central Bank.

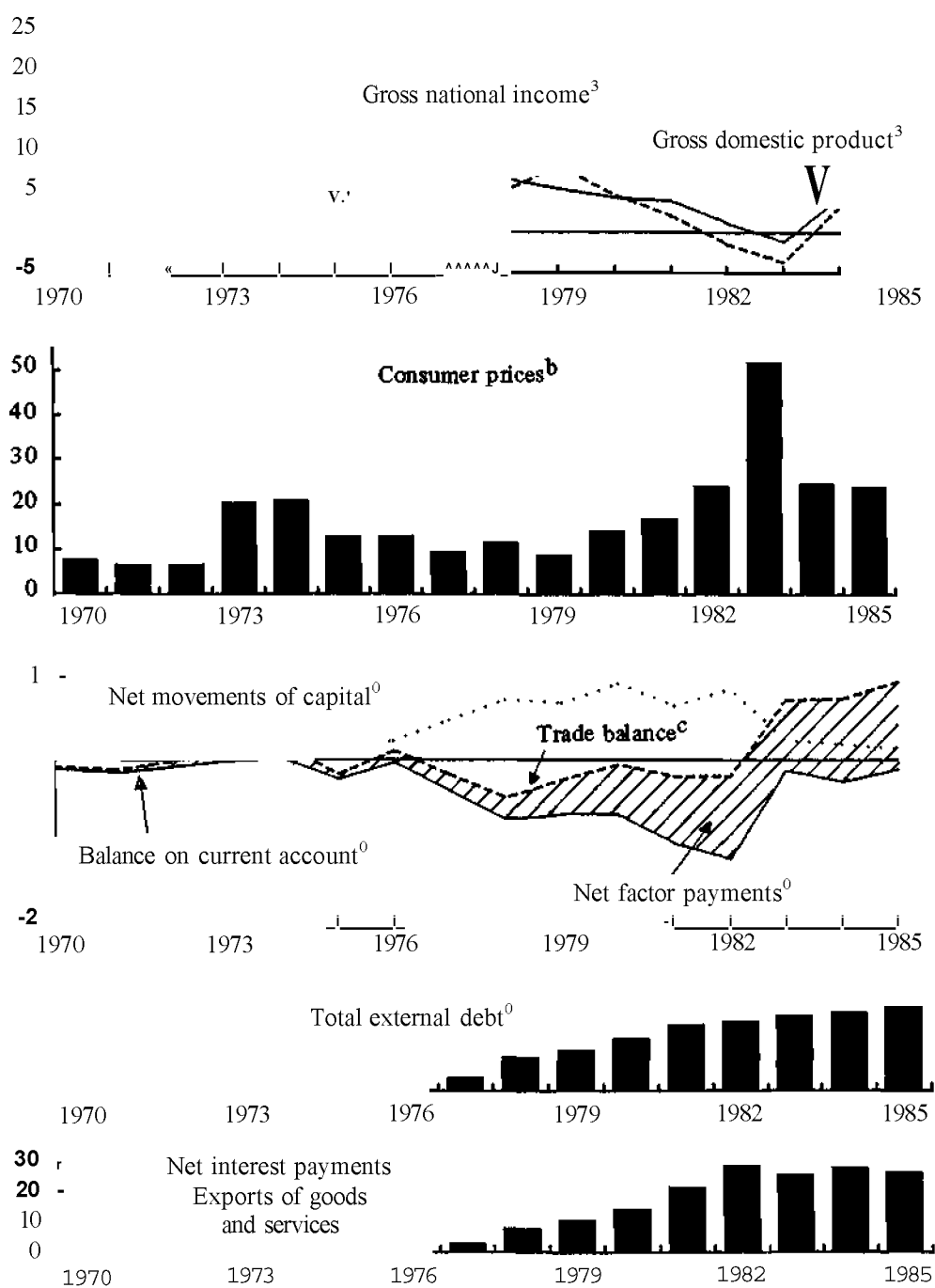
2. Trends in economic activity

a) *Total supply and demand*

All the components of supply and demand improved, thus strengthening the trend towards recovery which had begun in 1984 following the low levels of the two previous years (see table 2). Total supply picked up by nearly 5%, a somewhat lower rate than that of 1984. On the demand side, the quantum of exports increased 14%, thanks to the vigorous expansion in sales of crude oil and agricultural products.

The domestic supply of goods and services rose only slightly because exports absorbed most of the increment in supply. The sluggishness of domestic demand continued to be a limiting factor on growth, which hurt the industrial and services sectors in particular. Gross investment, which increased by about 4%, was affected by the tightening of external credits, the shortage and high cost of domestic credit, and the lack of expectations of a sustained improvement in domestic demand.

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

[^]Percentage variation from December to December.

^cBillions of dollars.

⁰Percentages.

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND"

	Percentage breakdown			Growth rates			
	1975	1980	1985°	1982	1983	1984	1985*
Total supply	122.8	124.9	116.3	-0.1	-8.9	5.7	4.7
Gross domestic product at market prices	100.0	100.0	100.0	1.1	-1.2	4.5	4.3
Imports of goods and services	22.8	24.9	16.3	-5.0	-40.9	14.4	7.2
Total demand	122.8	124.9	116.3	-0.1	-8.9	5.7	4.7
Domestic demand	93.0	100.5	87.3	0.4	-12.4	4.4	1.9
Gross domestic investment	26.1	26.1	16.8	12.6	-31.2	4.6	3.6
Gross fixed investment	22.9	23.6	15.4	0.7	-2.6	1.8	5.1
Construction	13.1	12.6		0.7	-39.7	7.0	
Machinery and equipment	9.8	11.0		0.6	-8.9	-2.5	
Changes in stocks	3.2	2.5	1.4				
Total consumption	66.9	74.4	70.5	-3.0	-6.4	4.4	1.5
General government	13.1	14.5	12.3	0.5	-6.1	-4.6	3.6
Private	53.9	59.9	58.3	-3.7	-6.5	6.5	1.1
Exports of goods and services	29.7	24.4	28.9	-2.3	6.1	10.4	14.3

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

" These series are calculated on the basis of official figures, which were reweighted with the current price structure of 1980. Therefore, the results do not necessarily match those published by countries in their calculations at constant prices. Likewise, the figures for exports and imports of goods and services were obtained from the balance of payments in dollars at current prices of the International Monetary Fund, which were then converted to 1980 constant values by means of unit value indexes calculated by ECLAC for the purpose. Provisional figures.

Consumer expenditure expanded only slightly even though there was an increase in general government expenditure of nearly 4%, as compared with the decreases due to the government's austerity policy in the two preceding years.

b) *Evolution of the main sectors*

The gross domestic product increased significantly for the second consecutive year, thus strengthening the trend which had begun in 1984. The recovery, however, was still far from widespread. It was possible thanks to the upswing in agricultural export production and fishing, as well as to the persistent dynamism of the petroleum industry (see table 3). The manufacturing product, however, declined once again (-3%) and construction remained almost stagnated after its sharp fall in the preceding biennium. Services in general showed little dynamism. Activity under the heading "other services" which alone generates nearly two-fifths of the economy's total product, increased barely 1%, remaining below the level reached in 1982.

i) *Agricultural production.* The sector continued to recover from the violent drop suffered in 1983, but at a much slower rate than in the preceding year. The rate (5 %) was the result of substantial growth (10%) in traditional export products (see table 4).

Among agricultural products for export, the greatest dynamism was shown by bananas, coffee and cocoa.

After an unprecedented harvest in 1980, the banana industry had been beset in the three following years by severe difficulties, including a protracted drought and subsequent floods. An upturn began in 1984 and in the following year Ecuador produced nearly 1.8 million tons, thus becoming the largest world producer. As a result of actions undertaken within the framework of the* National Banana Programme and by the Ministry of Agriculture, plans were implemented to promote farm mechanization, improvements in infrastructure, the introduction of technical controls and the rehabilitation of damaged plantations, and measures aimed at ensuring an adequate credit

supply were taken, all of which led to advances in productivity and in the volume harvested. However, banana yields in Ecuador remained, on the whole, below the Central American average. This is because about 85% of its plantations are small or medium-sized, and have an unsatisfactory level of productivity, mainly as a result of the precariousness of their drainage infrastructure.

The coffee harvest expanded by 29%, following a 20% increase the year before. Poor weather conditions in Brazil helped to balance supply and demand on the international market, and credit and promotion policies were additional incentives for producers.

Cocoa production showed a dramatic upturn of 46%, but was still not up to its 1982 level, from which it had fallen as a result of the sharp declines seen during the two following years.

The sugar-cane harvest reached an unprecedented level, although its growth rate was only 2%, following the extraordinary recovery experienced in 1984. The cotton harvest, which undergoes violent annual fluctuations, increased by 125%, but was substantially smaller than in 1982. The supply of this input remained insufficient to meet the needs of the local textile industry, which has increasingly had to resort to imports. Finally, both soya and African palm production expanded substantially, in keeping with the trend of recent years.

Table 3

ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY"

	Base index 1980 = 100)			Percentage breakdown			Growth rates			
	1983	1984	1985*	1975	1980	1985*	1982	1983	1984	1985*
Gross domestic product	103.7	108.4	113.0	100.0	100.0	100.0	1.1	-1.2	4.5	4.3
Goods	54.0	56.9	59.6	53.2	49.4	52.7	0.4	2.5	5.3	4.8
Agriculture	11.4	12.4	12.9	15.0	12.1	11.5	2.0	-13.9	8.8	4.8
Mining and petroleum industry ^a	24.1	26.4	28.6	21.4	21.0	26.7	-0.6	16.6	9.6	8.5
Manufacturing	10.0	9.7	9.4	8.0	8.8	8.3	0.4	1.5	-3.0	-3.2
Construction	10.8	10.4	59.6	8.7	7.4	6.2	0.6	-7.6	-3.9	0.9
Basic services	9.3	9.8	10.0	7.4	8.7	8.9	2.5	.	5.4	1.8
Electricity, gas and water	1.0	1.3	1.4	0.8	0.8	1.3	11.1	14.9	29.0	4.6
Transport, storage and communications	8.3	8.5	8.6	6.6	7.9	7.6	1.6	-1.6	2.3	1.4
Other services	42.0	42.7	43.0	37.1	40.9	38.0	2.4	-2.5	1.6	0.8
Commerce	13.3	13.9	14.4	13.6	14.6	12.7	2.1	-11.8	5.0	3.4
Financial institutions, insurance, real estate and business services	12.6	12.3	11.8	10.3	11.7	10.4	1.8	2.1	-2.0	-4.3
Ownership of dwellings	5.3	5.3	5.6	5.5	4.8	4.9	3.6	2.8	3.0	2.8
Community, social and personal services	16.1	16.4	16.8	13.3	14.6	14.8	3.1	2.8	1.5	2.4
Government services	9.6	9.8	100.0	8.7	9.1	8.8	1.6	1.9	2.0	2.0
Adjustments:										
Less imputed charges for banking services	3.7	3.3	2.4	1.7	3.0	2.2	5.1	15.9	-9.8	-26.7
Plus import duties	2.1	2.4	2.9	3.9	4.1	2.6	-4.0	-32.9	12.9	23.7

Source: ECLAC estimates on the basis of official figures supplied by the Central Bank of Ecuador.

"These series are calculated on the basis of official figures, which were reweighted with the current price structure of 1980. Therefore, the trend published by the countries in their calculations at constant prices. Provisional figures. ^cOil refining was included in the manufacturing. Refers to real estate and business services.

Table 4

ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985°
jMillions of sucres at 1975 prices								
Agricultural product	23 101	19 891	21645	22 687	2.0	-13.9	8.8	4.8
Crop farming	11 320	8 175	9 233	9 421	-3.3	-27.8	12.9	2.0
Livestock production	8 043	8 043	8 413	8 746	6.1	-	4.6	4.0
Forestry	1739	1 724	1 659	1 688	9.2	-0.9	-3.8	1.7
Fishing and hunting	1999	1949	2 340	2 832	12.7	-2.5	20.1	21.0
Thousands of tons (output)								
Main products								
Bananas	1999	1 642	1678	1 750	-0.5	-17.9	2.2	4.3
Coffee	84	81	97	125	-8.7	-3.6	19.8	28.9
Cocoa	97	55	63	92	14.1	-43.3	14.5	46.0
Sugar-cane	2 461	1 640	3 042	3 113	-31.6	-33.4	85.5	2.3
Cotton	25	5	8	18	-35.9	-80.0	60.0	125.0
Soya	37	14	53	63	5.7	-62.2	278.6	18.9
African palm	309	354	372	476	11.5	14.6	5.1	28.0
Rice	384	274	437	393	-11.5	-28.6	59.5	-10.1
Wheat	39	27	25	19	-4.9	-30.8	-7.4	-24.0
Hard maize	269	185	269	280	3.1	-31.2	45.4	4.1
Soft maize	55	44	57	39	7.8	-20.0	29.5	-31.6
Barley	35	30	25	27	29.6	-14.3	-16.7	8.0
Potatoes	416	345	342	320	29.6	-17.1	-0.5	-6.5
Primary products								
Beef	96	97	99	94	5.2	1.0	2.1	-5.1
Poultry meat	46	30	42	41	9.5	-34.8	40.0	-2.4
Milk (millions of litres)	935	965	1 019	1 233	2.1	3.2	5.6	21.0
Thousands of hectares (area harvested)								
Bananas	65	59	58	59	5.5	-8.8	-1.7	1.7
Coffee	322	339	345	390	0.3	5.3	1.8	13.0
Cocoa	277	270	260	262	2.6	-2.5	-3.7	0.8
Sugar-cane	32	22	36	37	-36.8	-30.4	63.6	2.8
Cotton	17	10	10	15	-22.3	-40.2	-	50.0
Soya	21	10	28	33	-14.8	-52.6	180.0	17.9
African Palm	27	29	29	35	5.5	6.3	-	20.7
Rice	132	99	139	140	1.2	-25.0	40.4	0.7
Wheat	33	26	24	18	8.6	-22.0	-7.7	-25.0
Hard maize	155	145	160	170	-8.0	-6.5	10.3	6.3
Soft maize	61	61	62	37	-6.1	-0.8	1.6	-40.3
Barley	34	30	31	22	18.5	-12.1	3.3	-29.0
Potatoes	35	30	33	29	-12.2	-14.5	10.0	-12.1
Total	1 211	1 130	1 215	1 247	-2.7	-6.7	7.5	2.6

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador, the Ministry of Agriculture and the National Development Council.

"Provisional figures.

The scant dynamism of crop-farming production for domestic consumption stemmed from structural factors. These commodities are mostly farmed by small landowners, who have little access to modern technology, and hence are highly vulnerable to climatic conditions. Supply is therefore not able to react with flexibility to price increases; this was what happened with wheat and maize, whose harvests dropped 24% and 2%, respectively, making it necessary to increase wheat imports. Potato production was affected by both a fall in prices and widespread frosts, which led to a decline of 7%.

The livestock subsector again grew at a rate of about 4%, an increase which was primarily based on the remarkable dynamism of dairy production, since beef output fell 5%. Forestry recorded a modest upturn of under 2%, after a cumulative fall of nearly 5% during the two previous years.

Overall, although the agricultural sector continued to recover from the crisis of the early 1980s, its rate of expansion in recent years has continued to lag behind population growth. This was due, among other factors, to inadequate infrastructure and insufficient irrigation, which can be attributed to the fact that government policies, particularly on prices and taxation, have traditionally tended to discourage development of the sector's potential.

In a departure from this attitude, the authorities showed an interest in the demands of the sector and decreed substantial price increases for crop-farming goods in 1985. They also announced that they were studying other measures to overcome the above-mentioned structural problems.

ii) *Fishing*. Sectoral production again expanded at a rate of about 20%, since the marked fall in the catch and export of shrimp and tunnyfish was more than offset by increases in the fishing of other species and in sales of canned fish and fish meal to the exterior (see table 5).

The shrimp catch dropped 12%, after substantial but declining increases in the three previous years. The fishing of tunnyfish, in its turn, which is known for its sharp fluctuations, fell by 15%, after a dramatic increase the preceding year.

Exports of marine products showed a favourable evolution, thus strengthening the trend towards recovery which had begun after the disaster caused by weather disturbances in 1983. Shrimp sales declined by 7 %, due to problems in the supply of larvae and seed, but sales of fish meal expanded by nearly 136%, reaching a level nearly nine times higher than that of 1983 and doubling the one recorded in 1982. The canned sardines and mackerel industry, which exports about half of its production (mainly to other Latin American countries), achieved a sound growth rate, bordering on 15%.

Table 5
ECUADOR: INDICATORS OF FISHING PRODUCTION

	1982	1983	1984	1985°	Growth rates			
					1982	1983	1984	1985"
	Millions of sucres at 1975 prices							
Gross fishing product	1 999	1 949	2 340	2 832	12.7	-2.5	20.1	21.0
	Thousands of tons							
Catch								
Shrimps	29.5	36.6	39.9	35.0	46.8	24.1	9.0	-12.3
Tunnyfish	22.2	16.0 ^a	35.0	30.0	2.8	-27.9	118.8	-14.3
Other fish"	596.6	230.0	780.2	880.0	-12.6	-61.4	239.2	12.8
Exports								
Shrimps	17.0	21.6	21.3	19.8	40.5	27.0	-	-7.0
Frozen fish	6.5	5.1	7.8	10.7	-35.0	-21.5	52.9	37.2
Canned fish	36.8	13.2	27.7	31.8	1.7	-64.1	109.8	14.8
Fishmeal	102.1	26.6	97.5	229.9	14.2	-74.0	266.5	135.8

Source: CONADE, Department of Fishing.

"Provisional figures.

Including fishing and hunting.

* Estimates.

"including catch for fishmeal.

Although the overall results were positive, primary products and those involving only a small amount of processing increased in importance within the sector. Therefore, the authorities reaffirmed their intention of encouraging marine food production with a greater added value and developed a special credit policy for that purpose.

iii) *The petroleum industry.* Output of crude oil grew 9%, which was a little more than in 1984, thus exceeding the barrier of 100 million barrels. Crude oil exports also reached an unprecedented figure, rising by 15%. These increases were made possible by the incorporation of new oil fields, the development of others and the expansion of pipelines. The output of petroleum products, however, declined (by nearly 4%) and exports of these products remained subject to marked ups and downs, this time falling by over 22% (see table 6).

The increase in crude oil production was largely due to the fact that the Ecuadorian Government decided that this was the most desirable way for the country to deal with the downswing in international demand and the price cuts agreed upon by OPEC. The country's average output in 1984 was around 260 000 barrels daily, a substantially higher figure than the maximum quota fixed in October of that year by the producers' cartel (183 000). In early 1985 Ecuador announced that it would be forced to ignore not only the production ceiling but also the price established by OPEC, in spite of which it would continue to be a member of that entity and to support it.

During the first half of 1985, Ecuador's production of crude oil was about 280 000 barrels daily. The government reaffirmed that it could not afford to voluntarily reduce production. It argued that the Ecuadorian supply —less than 1% of world crude production— had virtually no influence whatsoever on the international price.

Because of a sluggish market, in early 1985 crude oil was sold at a lower price than the official OPEC level, which amounted to US\$ 27.50 per barrel. It was hoped that the loss in income this would occasion would be offset by the larger export volume. In August, the country officially announced its decision to disregard the price established by OPEC for crude. Taking advantage of its position as a marginal exporter, it introduced a maximum of flexibility in its oil transactions with the aim of keeping its clients. Thus, it offered its crude at a floating price which largely depended (75%) on the prevailing quotation for Alaskan North Slope (ANS) oil and only marginally (25%) on the price established by OPEC. Thus, in September the country was selling Oriente crude at US\$ 26.11 per barrel, a figure somewhat lower than the quotation of US\$ 26.15 set by OPEC. The majority of sales contracts were long-term and referred to floating prices.

Daily output was about 294 000 barrels. Given the dramatic drop in prices on the world market after OPEC's change of policy in December, Ecuador's output went up to a figure fluctuating around 300 000 barrels daily, taking full advantage of its installed drilling capacity.

The average price per barrel which the country obtained in 1985 amounted to US\$ 26 (see figure 2).

For its part, domestic consumption of petroleum products decreased by 6%, bringing it to less than 26.9 million barrels, the lowest figure since the beginning of the decade. This was largely the result of a policy of domestic price increases put into effect at the end of the previous year. They were raised 65% in December 1984 and, with few exceptions, were then frozen throughout 1985. The decline in domestic consumption was also due to a drop in contraband sales of petroleum products to neighbouring nations.

The new price policy brought to an end a period of steady and rapid expansion in oil consumption which far outstripped the growth of the economy. Because of this phenomenon, the insufficient foreign investment in this activity and the inability of the State petroleum company (CEPE) to finance large-scale prospective projects, known reserves were plummeting. In order to deal with this situation, the authorities had introduced major amendments to the law on hydrocarbons a few years earlier. Various oil companies reacted by expressing an interest in making investments in Ecuador. Esso-Hispanoil and Occidental Oil Company signed risk contracts with CEPE for the exploration and exploitation of this resource. The authorities expressed their hope that the volume of reserves would increase as these investments materialized, thus allowing exports to be maintained at 1985 levels or even increased.

With respect to the hydroelectric system, the construction works envisaged in the first two phases of the Paute power station were completed. This project uses Paute river waters by means of three reservoirs located in the southern area of the country. In addition, the work corresponding to

Table 6

ECUADOR: INDICATORS OF THE PETROLEUM INDUSTRY

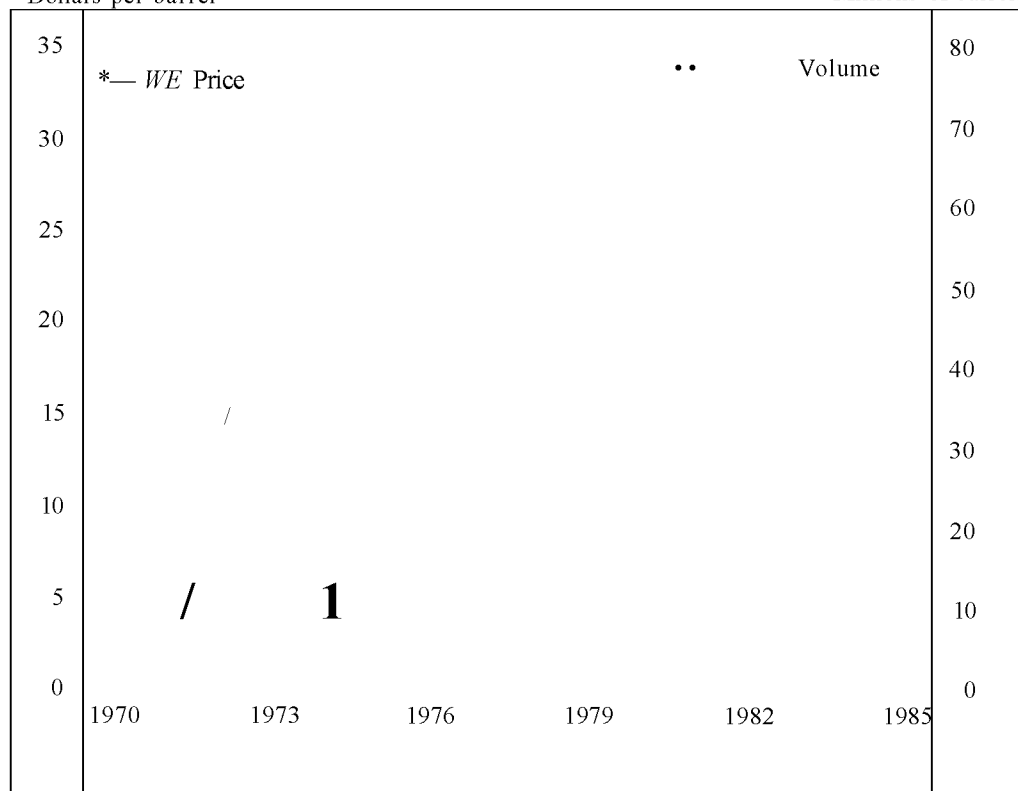
	Thousands of barrels				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Crude oil								
Production	77 090	86 691	93 879	102 534	0.1	12.5	8.3	9.2
Exports	42 595	59 245	61 265	70 578	-5.9	39.1	3.4	15.2
Refined oil								
Production of petroleum products	32 780	27 021	32 225	31 022	13.9	-17.6	19.3	-3.7
Exports of petroleum products	5 341	4 111	6 244	4 844	-8.6	-23.0	51.9	-22.4
Imports of petroleum products	5 570	6 898	4 249	4 855	-0.3	23.8	-38.4	14.2
Domestic sales of petroleum products	29 538	27 877	28 500	26 822	3.1	-5.6	2.2	-5.9

Source: Central Bank of Ecuador.

"Provisional figures.

Figure 2

ECUADOR: EXPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

Dollars per barrel^a Millions of barrels

Source: Central Bank of Ecuador.

^aCrude oil export prices FOB.

Table 7

ECUADOR: GROSS MANUFACTURING PRODUCT

	Millions of sucres at 1975 jprices				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Manufacturing	29 584	29 138	28 646	28 120	1.5	-1.4	-1.8	-1.8
Food	8 805	8 272	8 388	8 158	-0.7	-6.0	1.4	-2.7
Beverages and tobacco	3 510	3 246	3 273	3 064	6.0	-7.5	0.8	-6.4
Textiles, clothing and leather goods	6 536	6 752	6 676	6 770	2.2	3.3	-1.1	1.4
Wood and wood products	1 580	1 614	1 563	1 484	6.1	2.2	-3.2	-5.1
Paper and printed matter	1 877	1 803	1 768	1 799	6.0	-3.9	-1.9	1.8
Chemical and rubber products	1 814	1 970	1 899	1 912	-4.6	8.6	-3.6	0.7
Basic metal and non-metallic products	3 671	3 563	3 171	3 051	3.2	-2.9	-11.0	-3.8
Machinery, equipment and transport material	926	932	803	750	-6.3	0.6	-13.8	-6.6
Other manufacturing	865	1 031	1 105	1 132	-1.9	19.2	7.2	2.4

Source: Centra) Bank of Ecuador (national accounts, 1976-1985).

"Provisional figures.

the third phase was begun in 1985. These works are expected to significantly raise the small contribution that hydroelectric resources make to domestic energy consumption. According to various estimates, these represent about 70% of the total energy resources of Ecuador.

iv) *Manufacturing*. Manufacturing declined about 2%, just as in 1984, with a cumulative drop of 5% during the last triennium (see table 7). Nevertheless, manufacturing continued to be the most important sector in terms of its relative contribution (slightly over 17%) to the GDP.

This continued deterioration stemmed from persistent financial difficulties caused by the sector's large debt and the high cost of credit, as well as from the sluggishness of demand and structural flaws, particularly the shortage of skilled manpower, the insufficiency of physical infrastructure and of credit resources and difficulties in the supply of raw materials.

The import liberalization policy which the government began to implement involved a progressive withdrawal from the decades-old protectionist framework of manufacturing and obviously influenced the sector's performance.

The production of food, beverages and tobacco, which accounts for 40% of industrial added value, declined by nearly 4%, mainly due to the negative trend in items destined for domestic consumption. The industries producing consumer durables and intermediate and capital goods recorded a slight decrease because of structural problems mainly related to their heavy dependence on the exterior for inputs and technology.

v) *Construction*. The output of this sector increased by barely 1%, after a cumulative drop of over 11% in the previous biennium. This slight recovery was made possible thanks to the continuation of public works projects. The building of housing by the private sector remained practically stagnated due to the persistence of the negative factors observed in previous years: insufficient demand, high input costs and a shortage of credit. The impetus provided by the public sector was significantly weaker because the "Plan Techo", a government initiative which envisaged the erection of 120 000 low-cost dwellings in the space of four years, was beset by financial and organizational difficulties.

vi) *Mining*. In keeping with its development strategy for the natural resources present in the country —gold, silver, copper, sulphides— only a very small percentage of which have been exploited, the present government amended the mining code in 1985. Through the granting of tax

concessions it intends to attract a greater flow of private investment, both national and foreign, to this sector.

As a result of this new emphasis, the Ecuadorian State signed about 300 mining contracts during the year, 15 of them with foreign companies.

3. The external sector

a) *Merchandise trade*

Income from exports of goods went up by nearly 10% because the fall in unit value (-4%) was more than offset by the expansion (14%) in quantum (see table 8). This combination was recorded for the third consecutive year; thus, during the triennium the cumulative increase in the physical volume of external sales was about 35% and the deterioration in unit value was over 12%. Imports of goods continued the recovery (10%) begun the year before following the severe contraction (-43%) seen in the 1982-1983 biennium. The physical volume of external purchases once again grew at a faster rate than their value, so the unit value again declined (-1%).

Mainly as a result of the fall in international prices for petroleum and cocoa, the terms of trade deteriorated by slightly over 2%; this marked the reappearance of a trend observed since the beginning of the decade and only interrupted in 1984. The vigorous increase in the quantum of external sales made possible, however, a recovery of the purchasing power of exports.

i) *Exports of goods*. The substantial upswing in exports (nearly 10%) was mainly due to the dynamism of primary products (11%), since sales of manufactures, which had expanded by over 70% the year before, now dropped slightly. Among traditional export products, only shrimp sales declined, a decrease which followed upon that of the preceding year and which was due to the persistence of very unfavourable ecological factors (see tables 9 and 10).

Table 8
ECUADOR: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985°
Growth rates (in percentages)						
Exports of goods						
Value	18.3	-	-7.9	0.9	10.9	9.5
Volume	-2.8	2.2	-2.0	9.4	11.3	14.2
Unit value	21.7	-2.2	-6.0	-7.7	-0.4	-4.1
Imports of goods						
Value	6.9	5.3	-7.6	-35.4	11.3	10.0
Volume	-7.8	8.6	-2.9	-42.9	17.2	11.3
Unit value	15.9	-3.0	-4.9	13.1	-5.0	-1.2
Terms of trade (goods)	5.6	-0.2	-1.6	-18.1	2.9	-2.4
Indexes (1980 = 100)						
Purchasing power of exports of goods	100.0	102.0	98.4	88.2	100.9	112.5
Purchasing power of exports of goods and services	100.0	101.8	96.4	84.9	94.9	107.2
Volume indexes:						
Exports of goods	100.0	102.2	100.2	109.6	122.0	139.3
Imports of goods	100.0	108.6	105.4	60.2	70.5	78.5
Terms of trade (goods)	100.0	100.8	99.6	81.2	85.2	82.7

Source: ECLAC, on the basis of official data.

°Provisional figures.

"Quantum of exports of goods or of goods and services, as appropriate, adjusted by the respective terms-of-trade index.

Table 9

ECUADOR: EXPORTS OF GOODS, FOB

	Millions of dollars FOB			Percentage breakdown			Growth rates		
	1983	1984	1985°	1975	1980	1985°	1983	1984	1985°
Total exports	2 348	2 622	2 870	100.0	100.0	100.0	0.9	11.7	9.5
Primary products	2 149	2 277	2 532	89.6	76.2	88.2	9.6	5.9	11.2
Petroleum	1639	1 678	1 825	60.3	56.1	63.6	18.1	2.4	8.7
Coffee	149	175	184	6.8	5.3	6.4	7.1	17.6	5.6
Shrimps	175	160	154	1.5	2.3	5.4	43.1	-8.7	-3.4
Bananas	153	136	190	14.2	9.6	6.6	-28.3	-11.0	39.6
Cocoa	8	96	140	4.3	12	4.9	-86.7	1047.4	45.8
Others	25	32	39	2.5	1.7	14	-27.4	36.6	21.8
Manufactured products	199	345	338	10.4	23.8	11.8	-45.7	72.9	-2.0
Petroleum products	94	156	101	0.1	6.8	3.5	-22.0	66.7	-35.4
Processed marine products	28	64	95	0.7	3.6	3.3	-66.7	135.9	47.8
Processed cocoa products	26	50	76	3.1	7.3	2.6	-52.8	90.7	50.5
Others	51	75	66	6.5	6.1	2.3	-52.6	41.9	-12.0

Source: Central Bank of Ecuador.
 °Provisional figures.

Table 10

ECUADOR: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons			Growth rates			
	1983	1984	1985°	1982	1983	1984	1985°
Petroleum	59.2	61.3	70.6	5.9	39.0	3.5	15.2
Coffee	75.0	72.0	76.1	32.0	1.6	-4.7	5.7
Bananas	91.0	92.4	107.4	-1.3	-27.8	1.5	15.1
Cocoa	6.0	46.9	71.2	56.3	-86.9	681.7	51.8
Shrimps	21.6	21.3	19.7	46.2	30.9	-1.3	-7.5
Processed cocoa products	27.0	28.5	32.8	-0.6	-43.0	4.4	15.1
Petroleum products	4.1	6.2	4.8	-8.6	-23.0	51.9	-22.4
Processed marine products	40.0	130.3	279.2	2.3	-70.1	225.0	114.4

Source: Central Bank of Ecuador.
 °Provisional figures. Millions of barrels.

Ecuadorian crude oil sales abroad exceeded the figure of 70 million barrels for the first time, thanks to a marked expansion (15%) in the exported quantum, and generated income of slightly over US\$ 1.8 billion. However, the great relative importance of oil as a foreign exchange earner continued to decline: close to 70% in 1983; 64% the following year; slightly over 63% in 1985.

In accordance with the established marketing policy, crude oil continued to be sold through long-term contracts (a policy which has considerably reduced storage risks), although there was no setting of long-term prices. About half the sales went to the American market and a little less than one-third to the Korean market. Exports by CEPE accounted for nearly 60% of the total, compared to about 50% in 1984.

Banana exports grew 40% thanks to an upturn in quantum and, especially, to a 20% rise in the international price. The price was still lower than it had been in 1980, but nonetheless enabled Ecuador to recover its leadership on the world banana market.

For their part, coffee sales went up by 6% because the increase in volume more than offset the slight fall in price. However, unlike the case of bananas, the coffee market became even more concentrated (between 80% and 90%) in the United States.

Exports of cocoa beans jumped 46%, after the meteoric expansion of the previous year, thanks to a new increase in quantum which offset the drop (-4%) in the international quotation.

The scant decrease in manufacturing exports, which consist of derivatives of some natural products in which the country has clear comparative advantages, was in contrast with the vigorous upturn —largely a recovery from previous drops— observed in 1984. This decline took place even though exports of processed marine and cocoa products expanded by about 50%, since sales of petroleum products, which constitute the most important item under this heading, sunk by 35 %. The increases in exports of processed marine and cocoa products were achieved in spite of a fall in their prices (30% and 4%, respectively) and of persistent ecological difficulties affecting the shrimp catch.

The good performance of external sales overall was basically due to a more favourable exchange policy as well as to the credit support provided to potential exporters. During 1985 the government adopted new measures for that purpose, including: the extension of the coverage of tax credit certificates, favouring exports from the fishing, lumber, crop-farming and agro-industrial sectors; the simplification of foreign trade procedures; and the engagement of the services of the Société Générale de Surveillance, S.A. to reduce over-invoicing of imports and under-invoicing of exports, practices which were representing a huge foreign exchange drain on the country.

ii) *Imports of goods.* Imports, which had begun to recover in 1984 after having plummeted (-40%) in 1982-1983, continued their upturn (10%) (see table 11). Contributory factors were the economic recovery and the liberalization of foreign trade, which included the derogation of prohibitions affecting certain items and the lowering of tariffs. The value of imports in 1985 was 21 % lower than in 1982, in contrast with the value of exports, which has regained its pre-crisis level.

Table 11

ECUADOR: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates		
	1983	1984	1985°	1975	1980	1985°	1983	1984	1985°
Total"	1 407.6	1 567.0	1 723.0	100.0	100.0	100.0	-35.5	11.3	10.0
Consumer goods	260.2	306.0	322.9	13.1	18.2	18.7	43.1	17.6	5.5
Non-durable	52.2	76.0	94.4	7.0	4.6	5.5	-39.2	45.6	24.2
Durable	208.0	230.0	228.5	6.1	13.5	13.3	-44.0	10.6	-0.7
Raw materials and intermediate goods	814.2	889.0	935.9	43.8	42.6	54.3	-19.5	9.2	5.3
For agriculture	35.7	54.0	65.6	4.8	2.0	3.8	-19.8	51.3	21.5
For industry	490.0	654.0	667.6	29.6	27.5	38.7	-26.6	33.5	2.1
For construction	32.2	37.0	45.1	7.5	4.2	2.6	-59.4	14.9	21.9
Fuels and lubricants	256.3	144.0	157.6	1.9	8.9	9.1	16.4	-43.8	9.4
Capital goods	333.2	372.0	464.2	42.6	39.2	26.9	-53.3	11.6	24.8
For agriculture	8.6	14.0	27.9	3.6	12	1.6	-69.9	62.8	99.3
For industry	236.8	246.0	308.1	23.9	21.7	17.9	-45.5	3.9	25.2
Transport equipment	87.8	112.0	128.2	15.1	16.3	7.4	-64.9	27.6	14.5

Source: Central Bank of Ecuador.

"Provisional figures.

The new tariff system was designed to foster efficient import substitution and to promote exports requiring foreign inputs. The net result ought to be a sharp decline in the protection which industry has traditionally enjoyed.

Purchases of capital goods abroad grew (25%) more than twice as fast as imports did on average, but this is explained by the fact that during the recession they also contracted more intensely. In turn, purchases abroad of raw materials and intermediate goods, which had been the least affected in 1983, only showed a 5 % upswing. Although these three broad categories did record increases, such imports remained well below their pre-crisis levels.

b) *The deficit on the balance-of-payments current account and its financing*

The trade surplus was almost US\$ 1 billion, an amount 28% higher than that of the preceding year and the highest since the 1970s (see table 12). Combined with the decrease in interest payments on the external debt and in other payments for services, this brought the deficit on current account down almost 60% to US\$ 110 million, the lowest in many years.

The net payment of services shrank mainly because of the US\$ 74 million drop in interest payments on the external debt which, in turn, was the result of a decline in interest rates on the international market. On the other hand, interest received went down by US\$ 51 million and other interest paid on the short-term debt increased by US\$ 10 million.

The capital account recorded a surplus of US\$ 135 million, mainly thanks to the renegotiation of the external debt, which made it possible to defer payments amounting to US\$ 1.1 billion.

The country received fresh financing in the amount of around US\$ 200 million from international private banks; these resources were used to make payments that had been in arrears. In addition, loans from unilateral and bilateral credit agencies were obtained. Provisional estimates indicated that there was an increase of 20% in the flow of foreign investment in 1985, which may have been the result of the policy advocated by the government of opening up specific sectors (such as mining, agro-industry, oil exploration, etc.) to foreign capital.

The overall result was a US\$ 25 million surplus on the balance of payments, after the deficit of about US\$ 80 million recorded the year before.

c) *The externa/ debt*

The external debt increased more than 7%, thus exceeding US\$ 7.4 billion, but its significance in terms of the GDP declined from 73% to 58% (see table 13).

The renegotiation of the external debt—two-thirds of which is owed to private international banks—alleviated the overwhelming burden of debt service in 1985 by deferring the payment of capital maturities amounting to US\$ 1.1 billion. As a result, the significance of debt servicing in terms of total exports of goods and services dropped from 36% to 31%. Interest payments, in their turn, shrank due to a decrease in the international rates.

Even so, the sum of amortization and interest payments (total service) was over US\$ 340 million greater than the net flow of resources (disbursements). For the third consecutive year, Ecuador was therefore a net capital exporter (see table 13).

In late 1984 the Ecuadorian Government had reached an agreement with the Management Committee of Creditor Banks to restructure the country's external debt. Amortization payments corresponding to the period from 31 December 1984 to 31 December 1989, which amounted—including the private-sector debt guaranteed by the Central Bank—to about US\$ 4.5 billion, were rescheduled over a period of 12 years, including three grace years. Amortization payments are to begin in February 1988, the year in which 2.5% of the rescheduled debt falls due. These payments are to increase gradually year by year, reaching their highest level in 1996, when they will represent a little more than one-sixth of the total. With regard to interest rates, the amount refinanced in 1985 (about US\$ 4.5 billion) is to become subject as from 1986 to a floating LIBOR, which is more favourable for Ecuador than the floating prime rate previously in force. Furthermore, the interest spread was reduced from 2-1/8% to 1-3/8%.

After successive delays, the multi-annual refinancing agreement between Ecuador and the international banks was finally signed in December 1985. The country thus became the first small debtor to secure a multi-annual rescheduling agreement with the Committee of Creditor Institutions.

Table 12
ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985 ^a
Balance on current account	-654	-672	-1027	-1 215	-128	-268	-110
Trade balance	-242	-58	-210	-203	735	855	966
Exports of goods and services	2 411	2 866	2 913	2 690	2 643	2 895	3 234
Goods FOB	2 151	2 544	2 544	2 343	2 365	2 622	2 870
Real services	260	322	369	347	278	273	364
Transport and insurance	109	113	151	139	95	95	146
Travel	80	131	131	131	120	120	143
Imports of goods and services	2 653	2 925	3 124	2 893	1908	2 040	2 268
Goods FOB	2 097	2 242	2 362	2 181	1408	1 567	1 723
Real services	556	683	762	712	500	473	545
Transport and insurance	295	328	368	320	238	296	269
Travel	156	228	250	250	152	155	167
Factor services	-412	-614	-816	-1 012	-863	-1 123	-1 076
Profits	-94	-111	-100	-80	-60	-70	-120
Interest received	68	109	87	44	45	77	26
Interest paid	-329	-523	-709	-811	-723	-936	-872
Others	-56	-89	-94	-165	-125	-194	-110
Unrequited private transfer payments	-	-	-	-	-	-	-
Balance on capital account	698	942	656	875	238	187	135
Unrequited official transfer payments	29	30	25	20	24	20	25
Long-term capital	690	763	1077	164	1 372	358	
Direct investment (net)	63	70	60	40	50	50	60
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	626	693	1017	124	1 322	305	
Official sector ^b	344	609	898	-245	2 265	879	
Loans disbursed	952	795	1 283	213	2 641	1 531	
Amortization payments	-601	-176	-378	-442	-363	-643	
Commercial banks ^c	1	5	2	-	-7	-9	
Loans disbursed	2	8	7	8	-	1	
Amortization payments	-1	-1	-1	-1	-1	-1	
Other sectors ^d	281	79	117	369	-936	-562	
Loans disbursed	593	496	462	1 112	150	78	
Amortization payments	-374	-416	-345	-742	-1 085	-639	
Short-term capital (net)	-24	217	-360	919	-1 073	-200	
Official sector	9	-30	1	572	-520	-95	
Commercial banks	-10	-17	-5	50	7	34	
Other sectors	-22	264	-356	297	-560	-139	
Errors and omissions (net)	3	-68	-86	-228	-85	9	
Global balance	44	270	-370	-340	110	417	25
Total variation in reserves (- sign indicates an increase)	-87	-291	381	328	-127	58	-25
Monetary gold	-	-	-	-	-	-	
Special Drawing Rights	-11	1	-9	34	-	-	
IMF reserve position	-2	-15	-1	29	-12	12	
Foreign exchange assets	-73	-277	391	266	-328	21	
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-	-	-	-	213	25	

Source: 1979-1983: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1984-1985: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^a Provisional data.

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

^c In addition to loans

received and amortization payments, this entry includes net loans granted and other assets and liabilities. The global balance is the sum of the balance on current account 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 13
ECUADOR: EXTERNAL DEBT

	1980	1981	1982	1983"	1984"	1985"
Millions of dollars						
A. Balances						
Total external debt'	4 652	5 868	6 186	6 690	6 949	7 440
Public'	3 530	4 416	4 558	6 020	6 772	7 343
Private'	1 122	1 452	1 628	670	177	97
Long- and medium-term	4 157	5 272	5 365	6 690	6 949	7 440
Short-term	495	596	821	26	-	-
B. Total service	1 409	2 139	2 652	2 965	2 144	2 095
Amortization payments	898	1 513	1 885	2 254	1 309	1 333
Refinanced	-	-	667	2 016	1 098	1 101
Effective	898	1 513	1 218	238	211	232
Interest payments	511	626	767	711	835	762
Refinanced	-	-	-	44	16	-
Effective	511	626	767	667	819	762
C. Total disbursements	1 950	2 768	2 245	2 801	1 610	1 753
Percentages						
D. Ratios						
Total external debt/exports of goods and services	162.3	201.4	230.0	253.1	240.0	230.1
Service'/exports of goods and services	49.2	73.4	73.8	34.2	35.6	30.7
Net interest payments/exports of goods and services	14.4	21.4	28.5	25.7	28.0	26.2
Service'/disbursements	72.3	77.3	88.4	32.3	64.0	56.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

"Provisional figures. *End-of-year balances, excluding the debt to the International Monetary Fund. ' As from November 1982 the refinancing of the external debt with foreign banks became the external debt of the Central Bank. As from June 1983 the refinancing of the external debt with the Club of Paris became the external debt of the National Government. Disbursement figures include the amounts refinanced in the respective years. 'Service does not include the amounts refinanced. Relates to the corresponding entry in the balance of payments.

In 1985 Ecuador also renegotiated its debt with the Club of Paris. The agreement, signed in April, allowed it to defer the payment of capital maturities corresponding to the period from June 1984 to the end of 1987, which amounted to a little over US\$ 400 million, and to reschedule them over an eight-year period with 3-1/2 grace years at an interest rate that was to be negotiated with each of the creditor countries.

In August, the government also obtained a credit for US\$ 200 million from a group of foreign private banks. This credit was allocated to meeting outstanding obligations with respect to import payments that were in arrears.

The agreements with the banks were both a prerequisite and a condition for the new stand-by credit, for a one-year period, granted by the International Monetary Fund. This was finally signed in March and gave the country the right to draw US\$ 105.5 million in SDRs.

d) Exchange policy

Up to November, in addition to a free market proper in which exchange offices and private banks operated, the country had an official and a free exchange market, both under the control of the Central Bank. Until early November, the prevailing rates on these last two markets remained at the

levels fixed in September of the preceding year. On that occasion, the monetary authorities had put an end to the policy of mini-devaluations, freezing the official rate at 66.50 sucres and the Central Bank free rate at 95 sucres.

However, in the letter of intent submitted to the International Monetary Fund, the country had committed itself to merging the official and Central Bank exchange rates before 30 April 1985. The adjustment process consisted of a gradual change in the exchange rate, which was brought about by transferring an increasing number of transactions from the official market to the Central Bank free market; this made it possible to gradually increase the exchange rate without resorting to a formal devaluation.

In August, the Monetary Board put aside the official exchange rate, thereby fulfilling, with a four-month delay, its commitment to the IMF. Virtually all transactions at the official parity rate (66.5 sucres per dollar) were transferred to the Central Bank free market (95 sucres per dollar) at the end of that month. The only items temporarily remaining in the former exchange area were: commitments associated with the external debt that had been rescheduled before 28 August; purchases of dollars by oil companies which had accumulated a sucre surplus between April and August; purchases of foreign exchange for remittances to Ecuadorian students and sick persons abroad; and profits taken out of the country by foreign investors. In this way, the system of two official rates in force since March 1983 was put to an end (see table 14 and figure 3).

Finally, the government devalued the currency in mid-November. The official and Central Bank's free rates were both fixed at 95 sucres per dollar. Hence, the adjustment process culminated in the establishment of a single price for both markets.

On the free market, which is basically where operations not authorized through the Central Bank are carried out, the dollar quotation experienced marked fluctuations during the year. After reaching 121 sucres in February, it fell steadily until reaching 106 sucres in August; it then began to rise again until it reached 123 sucres in November. At the end of the year, its quotation verged on a buying rate of 124 sucres and on a selling rate of 126 sucres.

The average exchange rate for exports went up from 68.29 to 89.62 sucres per dollar (31%). This was an incentive for increasing exports. On the other hand, the annual average exchange rate for imports went up from 72.69 to 93.51 sucres per dollar (29%).

The index of the average effective real exchange rate remained at the same level as the preceding year (see table 14).

4. Prices and wages

a) *Evolution of domestic prices*

The variation between annual averages in consumer prices (28%) was somewhat lower than the year before, while the rate of increase measured from December to December remained around 25%. Thus, a moderate rate of inflation seemed to have become established after the sudden inflationary surge of 1983. In any event, rates of variation between annual averages of about 30% are substantially higher than those which the country knew up until the beginning of the present decade (see table 15 and figure 4).

Price increases were larger in the first semester due to decisions taken at the close of 1984 and in early 1985 with regard to exchange rates, interest rates, wages and crop and fuel prices, as well as to the effects which droughts and frosts had on crop production in the Costa and Sierra regions. In the second semester, there was a clear deceleration in the rate of price increases owing to the entry into force of a restrictive monetary and credit policy which reduced the level of liquidity.

Whether the annual average increase or the variation over twelve months (from December to December) are used, food prices increased by about two percentage points more than the total consumer price index, thus continuing the trend seen since 1982.

b) *Wages and employment*

The minimum living wage, which is what the majority of dependent workers in Ecuador earn, had been fixed in January 1984 at 6 600 sucres; it was raised in March 1985 to 8 500 sucres, a level at which it remained frozen during the rest of the year. In nominal terms it was 24% higher on average

Table 14

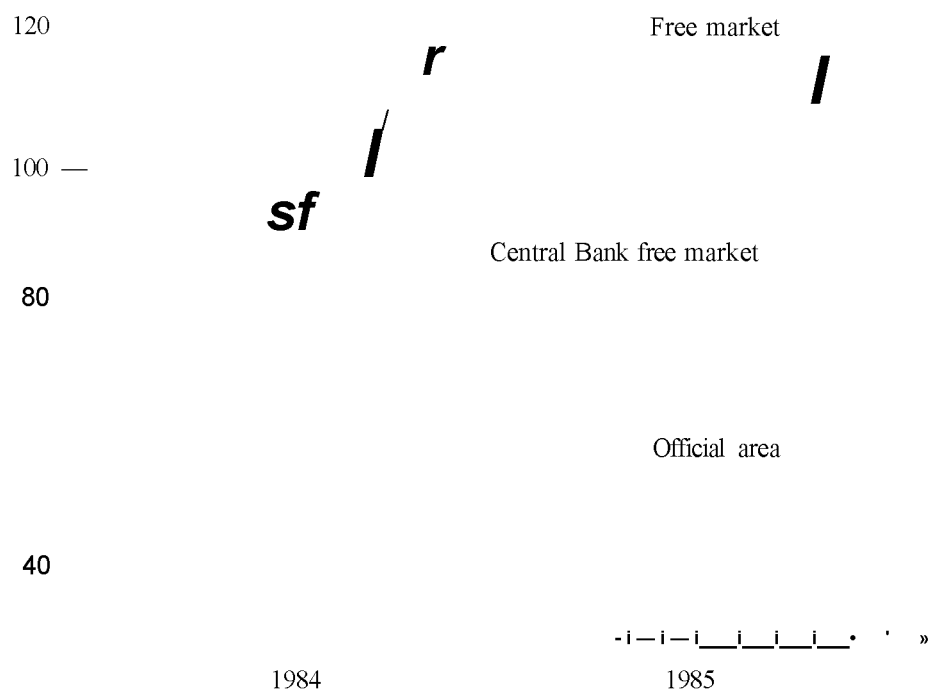
ECUADOR: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates ¹ (sucres per dollar)					Indexes of effective real exchange rate	
	Official	Central Bank free ^c	Free	Exports	Imports	Exports	Imports
1975	25.00		25.40			111.5	109.0
1976	25.00		27.45			105.2	102.4
1977	25.00		27.47			99.0	98.0
1978	25.00		26.60			96.2	98.9
1979	25.00		27.61			99.2	100.2
1980	25.00		27.78			100.0	100.0
1981	25.00		30.76			95.6	92.6
1982	30.03		49.81	30.21	30.53	96.9	96.2
1983	44.12	83.22	83.47	45.38	48.30	102.0	104.4
1984	62.54	92.65	96.09	68.29	72.69	116.0	117.3
1985	69.56	96.50	116.29	89.62	93.51	116.7	117.0
1982							
I	25.00		36.97	25.77	26.50	92.1	91.3
II	28.80		47.64	27.50	29.50	94.4	97.6
III	33.15		58.65	31.94	32.36	103.4	101.0
IV	33.15		60.85	33.0	33.30	97.5	94.8
1983							
I	33.91		72.63	36.40	37.93	98.1	99.1
II	43.47	78.80	86.36	45.13	49.37	105.8	111.5
III	47.25	89.53	94.03	49.87	53.53	101.3	104.1
IV	51.83	85.47	86.14	53.80	56.07	102.9	102.8
1984							
I	56.44	89.23	90.48	59.91	60.29	110.3	106.6
II	60.94	90.00	90.29	65.67	71.51	115.0	120.0
III	65.58	95.00	97.00	71.63	77.85	119.6	123.2
IV	67.18	96.50	116.95	76.66	81.10	119.1	119.3
1985							
I	67.18	96.50	121.65				
II	67.18	96.50	114.69				
III	67.18	96.50	109.03				
IV	76.70	96.50	123.57				

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador, *Información Estadística*; and by the International Monetary Fund, *International Financial Statistics*.

¹Relates 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. ²Corresponds to the average indexes of real exchange rates used in foreign trade operations with respect to the currencies of the main 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. From 1977 to 1979 these weightings correspond to the average in those same years and as from 1980, to the average for the period 1980-1983. The methodology and sources used may be found in the technical appendix to the *Economic Survey of Latin America, 1981*. ³Quotation at which the foreign exchange corresponding to a part of exports and imports has been bought and sold since March 1983.

Figure 3
ECUADOR: EXCHANGE RATES
(Sucre per dollar)



Source: Central Bank of Ecuador.

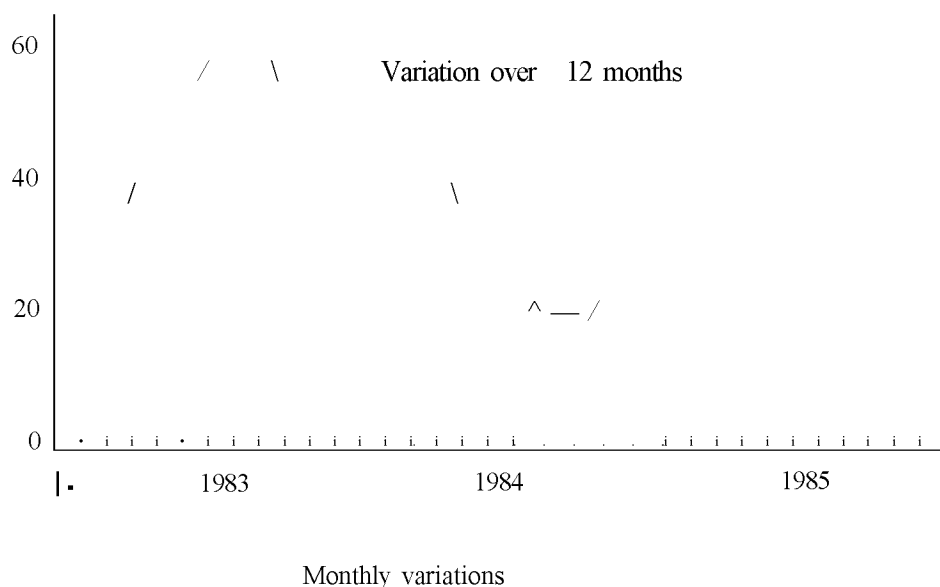
Table 15
ECUADOR: CONSUMER PRICE INDEX"

	1979	1980	1981	1982	1983	1984	1985
Variation from December to December							
Consumer price index	9.0	14.5	17.2	24.4	52.5	25.1	24.4
Food	7.0	12.3	16.8	26.3	86.1	27.1	27.0
Variation between annual averages							
Consumer price index	10.3	13.0	16.0	16.3	48.4	31.2	28.0
Food	10.0	11.0	13.9	17.1	77.9	37.0	30.7

Source: Central Bank of Ecuador.

"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.

Figure 4
ECUADOR: CONSUMER PRICE INDEX
(Percentages)



U

JM

1983

1984

1985

Source: ECLAC, on the basis of official data.

than in 1984; this meant that, given the prevailing rate of inflation, it suffered a real deterioration of 3% (see table 16). However, the bonuses paid to workers in the form of cost-of-living increases and transport and vacation allowances also rose, and if these payments are taken into account, then the real minimum wage decreased less than 1%.

The minimum living wage is actually a set of minimum wages.

Besides the wage given this name, there are several other lower wages with a more limited coverage which apply to agriculture, small industry and domestic service. The real amount of all these wages dropped during 1985, the only exception being the wage earned by workers in the Sierra region.

Given the absence of a wage policy and of indexation mechanisms based on price increases, the purchasing power of wages in general has experienced marked fluctuations during the last 15 years.

The deterioration of the minimum living wage in 1984-1985 fit in with the austerity policy agreed upon with the Fund and meant that the adjustments granted by the government were lower than inflation.

The information available on the evolution of employment is extremely makeshift. However, available data systematically evidence an increase in both unemployment and underemployment. Statistical data supplied by the Ministry of Labour indicate that during 1985 employment grew by 2.7%, while the active population increased by 3.4%. According to some informed estimates, the open unemployment rate would appear to fluctuate at around 10%, while underemployment would appear to be substantially higher.

5. Monetary and fiscal policies

a) *Monetary developments*

Increases in liquidity and credit slowed down significantly as a result of restrictive monetary policies and the rise in the interest rate for new financial operations. Such trends contributed to the drop in inflation and the increase in savings deposits.

Table 16

ECUADOR: EVOLUTION OF MINIMUM MONTHLY WAGES

	Sucre at current and constant 1980 prices"				Growth rates			
	1982	1983	1984	1985	1982	1983	1984	1985
Workers in general								
Nominal	4 100	5 100	6 600	8 183	2.5	24.4	29.4	24.0
Real	3 039	2 547	2 513	2 434	-11.9	-16.2	-1.3	-3.2
Agricultural workers, Sierra region								
Nominal	2 617	3 550	4 400	5 733	4.7	35.7	23.9	30.3
Real	1 940	1 773	1 675	1 705	-10.0	-8.6	-5.5	1.8
Agricultural workers, Coastal region								
Nominal	3 100	4 000	5 000	6 250	3.3	29.0	25.0	25.0
Real	2 298	1 998	1 904	1 859	-11.1	-13.1	-4.7	-2.4
Agricultural workers, Oriente region								
Nominal	2 617	3 550	5 000	6 250	4.7	35.7	40.8	25.0
Real	1 940	1 773	1 904	1 859	-10.0	-8.6	7.4	-2.4
Small-scale industry								
Nominal	3 100	3 750	5 000	6 250	3.3	21.0	33.3	25.0
Real	2 298	1 873	1 904	1 859	-11.1	-18.5	1.7	-2.4
Artisan-type workers								
Nominal	2 900	3 775	4 600	5 767	3.6	30.2	21.9	26.0
Real	2 150	1 886	1 751	1 715	-10.9	-12.3	-7.2	-2.1
Domestic servants								
Nominal	1 617	2 450	3 000	3 750	7.8	51.5	22.4	25.0
Real	1 199	1 224	1 142	1 115	-7.3	2.1	-6.7	-2.4

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

"Average annual figures. 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.

Table 17

ECUADOR: MONETARY INDICATORS

	End-of-year balance (billions of sucres)				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Monetary base	33.9	39.7	57.5	74.3	11.9	17.2	44.7	29.3
Money (M ₁)	60.2	78.5	111.5	138.1	20.2	30.4	42.4	23.8
Quasimoney	54.5	75.7	116.4	162.8	49.3	38.8	53.7	39.9
Money plus quasimoney (M ₂)	114.7	154.1	227.9	300.9	32.5	34.4	47.8	32.0
Domestic credit	130.8	233.3	445.8	633.8	48.3	78.3	91.1	42.2
Central government and local authorities (net)	-25.0	-38.8	-49.6	-93.8	-	-	-	-
Private sector	107.5	171.6	229.0	286.6	25.6	59.6	33.5	25.2
Financial institutions	4.3	15.1	34.9	39.0	60.0	251.5	131.6	11.6
Unclassified net assets	44.0	85.5	231.5	402.0	118.3	94.3	170.9	73.7
Net international reserves	1.7	0.5	1.6	14.8	-86.9	-128.0	231.3	817.9
Coefficients								
Monetary multipliers								
M ₁ /monetary base	1.78	1.98	1.94	1.86				
M ₂ /monetary base	3.38	3.88	3.96	4.04				
Speed of circulation: GDP/M ₁ ¹¹	7.63	8.81	9.44	10.27				

Source: Central Bank of Ecuador.

°Provisional figures. Annual averages.

The monetary base expanded only 29%, well below the rate of increase observed in 1984 (see table 17).

Issues, which represented nearly two-thirds of the monetary base, grew 23%, a rate equivalent to almost half that observed the year before. The moderate creation of money fit in with the authorities' policy directed at reducing the financial system's dependence on the Central Bank. An attempt was made to ensure that this system would attract a larger percentage of financial savings from the private sector.

The money supply, in its strictest sense (M₁), grew 24%, a rate similar to the twelve-month variation in prices from December to December, so its real expansion was nil. Since the product expanded by 4% during the same period, the level of liquidity in the financial system was quite low.

In real terms quasimoney increased by about 15%, since financial savings in the banking system were over 160 billion sucres. The expansion of quasimoney was mainly the result of a policy of more realistic interest rates, which permitted an increase in financial savings. In March a new mechanism consisting of special securities known as "accumulation policies" was established to encourage saving. The minimum initial subscription amounted to one million sucres and the securities were subscribed at floating interest rates freely determined by the market. This was a way of trying to comply with the commitment made by Ecuador to the IMF to introduce flexible interest rates, foster domestic saving and attract money outside the banking system which was exerting inflationary pressures, including the quotation of the dollar on the free market. It was also expected that this mechanism would help to reverse the trend towards capital flight.

The accumulation policies at floating interest rates were a success. According to end-of-year balances, the funds attracted by banks by means of these securities amounted to 34 billion sucres. Eighty per cent of this figure was deposits for terms of less than 269 days. The total amount of funds attracted was equivalent to one-fourth of the existing money supply at the end of the year. It is difficult to determine, however, what percentage corresponded to new savings and how much to resources that were previously in the black market.

The funds obtained by the banks since the introduction of these securities exceeded the flow of credit granted by the Central Bank. The accumulation policies were probably introduced partly in order to lessen the effects of the strict monetary control established by the government. The money channelled into these securities was in turn loaned by the banks, but its value for the business community was perhaps limited, since it largely consisted of short-term loans granted at high interest rates.

Since credit was a key tool for the Central Bank in its stabilization effort, it was expanded at a rate consistent with the GDP growth rate; in this way the authorities avoided exerting excessive pressures on price levels.

The resources made available by the Central Bank to the public sector dropped by 44 billion sucres. This contraction was possible thanks to the surplus obtained by the public sector in its financial operations as a result of the additional income it received from oil royalties and the devaluation of the sucre and its increased tax revenues in general. In contrast, credit to the private sector grew 25% in nominal terms, which was consistent with the overall policy of restricting the availability of funds and the liquidity of the economy. Lastly, credit to financial intermediaries increased moderately, owing to the reduced dependence of this sector on the Central Bank. For the commercial banks, the accumulation policies played an important role as a source of funds.

The crucial reason for the increase in domestic credit during 1985 was the expansion in net unclassified assets, which went up by almost 74% due to exchange rate adjustments and the losses which the Central Bank had to absorb when the external debt of the private sector was "sucretized". It should be recalled that in response to the external debt crisis and the devaluation of the sucre in 1983, the Central Bank took over the private external debt. This had largely been contracted at a parity of 45.5 sucres per dollar. The rate of exchange at the end of 1985 reached 96.5 sucres per dollar, so the conversion of the private debt meant heavy losses for the Central Bank.

The interest rate, which had gone up two percentage points at the end of 1984, remained stable during the year: 20% on deposits and 23% on loans. As inflation receded slightly, the real interest rate was less negative than in the preceding year (see table 18). New operations at the floating rates also progressively increased the real cost of credit, with adverse effects on production and investment.

The interest rate paid for accumulation policies fell three percentage points between April and December, thus evidencing the decline in inflation observed during the same period. At the end of the year the rate was positive in real terms and was around 24.5% for these securities on a term of 150 days, which in a certain sense affected the growth of other financial saving alternatives.

When the Central Bank detected an excess of liquidity in the financial system due to a considerable accumulation of savings in private banks, it proceeded to temporarily increase the bank reserve for demand deposits by two percentage points. However, during 1985 some differences arose over the degree of liquidity prevailing in the economy. Private financial institutions and the entrepreneurial community claimed that it was insufficient, but this allegation was systematically rejected by the Central Bank.

Table 18
ECUADOR: SHORT-TERM BANK INTEREST RATES"

	1981	1982	1983	1984	1985
Nominal					
On loans	12.0	15.0	16.4	20.2	23.0
On deposits	7.6	12.0	13.4	17.2	20.0
Real"					
On loans	-4.4	-7.6	-23.9	-3.9	-1.1
On deposits	-8.2	-10.0	-25.6	-6.3	-3.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.
"Annual averages. "The deflator is the December-to-December CPI.

Table 19

ECUADOR: STATE BUDGET INCOME AND EXPENDITURE

	Millions of sucres				Growth rates		
	1982	1983	1984	1985 ^a	1983	1984	1985 ^a
Current income^b	45 996	60 187	99 872	181 602	30.9	65.9	81.8
Gross current income	47 787	60 850	99 924	182 903	27.3	64.2	83.0
Traditional	25 741	31 864	51 052	71 842	23.8	60.2	40.7
Tax revenue	23 454	30 526	48 111	68 002	30.2	57.6	41.3
Direct	6 007	7 153	9 428	14 221	19.1	31.8	50.8
Indirect	9 037	12 740	21 262	30 457	41.0	66.9	43.2
On foreign trade	8 410	10 633	17 421	23 324	26.4	63.8	33.9
Other income	2 287	1 338	2 942	3 841	-41.5	119.9	30.6
From petroleum	21627	28 950	46 804	109 185	33.9	61.7	133.3
Transfer payments	418	37	2 068	1 876	-	-	-
Total current and capital expenditure	64 579	74 018	106 657	170 825	14.6	44.1	60.2
Deficit/Surplus	-18 583	-13 832	-6 785	10 777	25.6	50.9	258.8
Financing	18 583	13 832	6 785	-10 777			
Net indebtedness	17 587	14 189	9 472	10 078			
Foreign (net)	9 988	-2 250	-4 058	-4 446			
Disbursements	15 332	-	-	-			
Amortization payments	5 344	2 250	4 058	4 446			
Domestic (net)	7 599	16 439	13 530	-5 632			
Use	9 913	20 393	19 778	2 111			
Amortization payments	2 314	3 954	6 248	7 743			
Cash variation	280	-358	-2 687	-699			

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^b Provisional figures.

^a Total net income. Taxes paid with tax certificates and agrarian reform bonds, IERAC bonds, have been deducted.

b) *Government income and expenditure*

The government's budget income and expenditure expanded significantly in 1985 and the balance showed a surplus of over 10 billion sucres, in contrast with the deficit bordering on 7 billion sucres recorded the preceding year.

One of the main aspects of the stabilization programme agreed upon with the International Monetary Fund as part of the rescheduling of the debt was the reduction of the public-sector deficit. The government thus carried on with the effort it had begun in 1981, following an inordinate increment in the public deficit; this process is one which has included the establishment of new taxes and the elimination of subsidies for the majority of exports.

The surplus in 1985 was not so much due to a clampdown on expenditure as to a substantial expansion in income (see table 19).

The government's net current income was 82% higher in nominal terms than in the preceding year. The dramatic increase in the rate of return on oil exports (133%) played a crucial role in this result and was basically due to the rise in the exchange rate and the increase in the quantum of crude oil exports. Foreign exchange earnings from these operations were valued at 95 sucres per dollar, instead of the official exchange rate of 66.5 sucres per dollar.

In this way, petroleum receipts rose from 47% to 60% of the total resources taken in by the public sector. The public sector's dependency on petroleum receipts therefore increased.

With regard to non-petroleum income, tax revenue (which is by far the most important) increased by 41%; this was mainly due to a rise in the tariffs on various imports, whose customs clearance into the country was liberalized, and to a change in tax rates on personal income.

The government's total expenditure increased by 60%, a much higher rate than in preceding years. Although the minimum wage experienced a nominal improvement of only 24%, public-sector expenditure on wages went up by 47%. This gap was probably due to the fact that real wages in the public sector increased more than minimum wages and, to a lesser extent, to an increase in the number of public servants. It should be pointed out that wages accounted for about one-sixth of total expenditure, which approaches the figure of 19% corresponding to interest payments on the public debt. These payments increased by 46%, as a result of the transfer of private credits to the public budget as part of the rescheduling of the debt. The capital expenditure relating to programme, project and public works implementation increased by 143% and represented one-seventh of total expenditure in the budget.

The fiscal surplus was allocated to amortization payments on the external debt (4.5 billion sucres) and to servicing domestic indebtedness (almost 6 billion sucres), with a cash surplus left over.

EL SALVADOR

1. Recent economic trends: Introduction and summary

Economic activity increased slightly (1.4%) in El Salvador in 1985, as it had in 1984 as well, thus curbing the recessionary phase which had begun in 1979. Nonetheless, the country was still far from overcoming its more serious problems. The situation of armed conflict, which was in its sixth year, continued to hamper production, to occasion mounting social costs, and to maintain the country in a tense social and political situation. In addition, a high percentage of production resources remained idle. The gross domestic product for 1985 was 20% lower than it was in 1978, and was only the same as it had been in 1973. As a result, the country just barely managed to maintain real per capita income at a level which it had already surpassed two decades earlier (see table 1 and figure 1).

Within the overall situation created by a state of war, two particularly noteworthy phenomena were observed in 1985. Firstly, the economic agents have gradually been adjusting to the situation, and this has helped to reactivate production, which had been declining for several years. Secondly, the armed conflict has had macroeconomic repercussions and continues to do so. One of its effects has been an acceleration of the urbanization process. This has generated new needs, whose satisfaction—even on a partial basis—has given a boost to some production activities, such as construction.

The economic recovery has been stimulated to a great extent by an extraordinary inflow of external resources. While this inflow is primarily associated with United States aid programmes, it has also been fuelled by remittances from Salvadorians residing abroad. These resources have partly offset the weakness of the export sector and have made it possible to expand the overall supply of goods and services, as well as facilitating the provision of the imported inputs necessary for production. This inflow has also raised domestic demand by increasing the supply of financing and the population's disposable income.

The trend of economic activity during the past two years has also sharpened some macroeconomic imbalances, however. The rate of inflation doubled in 1985 and the deficit on the balance-of-payments current account increased. Even so, there was some improvement in public finances during 1985 inasmuch as the relative size of the fiscal deficit was reduced substantially (see table 1).

In so far as production was concerned, all branches of the economy except agriculture showed an increase in their levels of activity, mainly as a result of the growth in domestic demand for consumer goods and in investment. The expansion of construction, primarily of housing, was particularly rapid. Output of manufactures climbed for the third year in a row. Commerce displayed some degree of dynamism, which was associated with both the levels of consumption by high- and middle-income groups and the expansion of the urban population. Only crop-farming production (both of goods for export and of those for domestic consumption) suffered a marked setback. Agricultural exports were hurt by the depression on international markets as well as by the armed conflict. For their part, basic grain crops suffered as a result of bad weather conditions. In view of the trend in production, the high level of open unemployment seen in El Salvador's economy during recent years probably remained much the same in 1985.

Private investment experienced a major upturn for the third consecutive year. Unlike what had occurred during the two preceding years, when capital formation was mainly based on the replacement of equipment and inventories, in 1985 it received its greatest boost from the construction sector, although industry and agriculture continued to increase their imports of capital goods too. Expenditure on consumption, although it rose less than it had in 1984 as the result of restricted public spending, was encouraged by the higher levels of urban economic activity and continued to reflect the impact of remittances from family members abroad and of outlays associated with security and defence programmes.

Exports remained at virtually the same current value as in 1984, with the main export products showing a further decline. Sales of coffee and sugar outside the quota system were made at "clearance" prices, while the price of cotton remained low, and all that cotton growers were able to do was to increase their sales of the cotton which had been held back the year before. Demand from the Central American Common Market remained weak, and the accumulation of unpaid balances continued to pose an obstacle.

As noted earlier, the increased volume of imports has buttressed economic activity recently. This gave rise to a trade deficit of US\$367 million, however, which was US\$39 million more than in 1984. Despite the size of this deficit (whose effect was compounded by the mounting service on the external debt), the inflow of external resources made it fairly easy to cover the imbalance. The net balance on capital account was US\$30 million greater than the trade deficit, and the country's international reserves rose by the same amount (see table 1).

Mounting external transfer payments (both official and private) have become an extremely important item in El Salvador's balance of payments. The economic support given by the United States, both directly and in the form of financing, in combination with remittances from Salvadorians residing abroad, continued to provide an increasing flow of external resources. This undoubtedly gave the government more manoeuvring room in its efforts to reactivate the economy and was even a

Table 1

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Basic economic indicators							
Gross domestic product at market prices (1980 = 100)	109.9	100.0	91.6	86.4	86.9	88.1	89.3
Gross national income (1980 = 100)	114.9	100.0	89.5	84.6	81.7	88.1	89.3
Population (millions of inhabitants)	4.44	4.53	4.58	4.62	4.67	4.72	4.77
Per capita gross domestic product (1980 = 100)	113.2	100.0	89.0	81.5	79.7	78.5	77.2
Growth rates							
short-run economic indicators							
Gross domestic product	-1.8	-9.0	-8.4	-5.7	0.6	1.4	1.4
Per capita gross domestic product	-4.6	-11.6	-11.0	-8.4	-2.3	-1.5	-1.6
Gross national income	-2.3	-12.9	-10.5	-5.5	-3.4	8.2	0.8
Unemployment rate	6.7	16.1	25.0	30.0	30.0	30.0	30.0
Consumer prices							
December-December	14.8	18.6	11.6	13.4	14.8	9.8	30.8
Variation between annual averages	15.9	17.4	14.7	11.7	13.1	11.7	22.1
Real wages and salaries'		9.0	-0.6	-11.8	-12.9	2.1	-19.4
Money	21.6	7.2	-0.8	4.7	-1.5	17.3	26.9
Current government income	18.3	-14.4	6.4	0.3	13.7	22.5	23.2
Total government expenditure	12.8	17.6	13.3	4.6	50.0	-8.0	14.4
Fiscal deficit/total government expenditure	7.0	32.3	36.4	39.0	53.8	38.5	33.8
Fiscal deficit/gross domestic product	1.1	5.6	7.3	7.9	14.6	8.5	6.9
Current value of exports (goods and services)	37.1	-4.0	-23.9	-11.0	6.2	-1.3	0.5
Current value of imports (goods and services)	3.9	-6.8	-0.8	-10.4	1.9	12.2	3.6
Terms of trade (goods and services)	-5.0	-7.7	-9.0	2.6	-9.8	12.7	-1.3
External sector							
Million of dollars							
Trade balance (goods and services)	10	45	-237	-218	-187	-328	-367
Net payments of profits and interest	-77	-94	-100	-129	-131	-163	-150
Balance on current account	15	-1	272	-271	-256	-313	-341
Balance on capital account	-149	-74	223	242	280	320	388
Variation in net international reserves	-128	-69	-43	-27	39	19	30
Total disbursed external debt	939	1 176	1 471	1 710	1 891	1 949	2 003

Source: LCLAC, on the basis of official data.

"Preliminary figures.

Percentages.

'Real minimum wages for industrial workers in San Salvador.

factor which lessened the need for the services of international financing institutions and for obedience to the demands of economic adjustment agreements.

The external economic assistance referred to above also helped to improve the public finances. Although grants to the government decreased in 1985 as a greater proportion of external aid was shifted to the direct promotion of private activity, they still covered a significant portion of the fiscal imbalance. Efforts to put the public finances on a sounder footing continued nonetheless. On the one hand, in line with its policy on public spending (particularly current expenditure), the government continued with its austerity measures, which included a freeze on employment in the civil service and the rationalization of the consumption of goods and services. Only central government investment expenditure showed any real increase, as part of the economic recovery programme. On the other hand, public revenues were raised considerably by the increased taxes on domestic transactions and foreign trade which went into effect in 1985. Two factors in the expansion of tax revenues from foreign trade were the deferred payment of taxes on coffee exports and a measure setting import prices in accordance with the market on which the foreign exchange used to pay for them had been obtained. As a result, some reduction was achieved in the fiscal deficit, so that in 1985 it represented 33% of total expenditure and 7% of the gross domestic product, in comparison with its 1984 levels of 38.5% and 8.5%, respectively. It is estimated that a similar reduction may have been achieved in the case of public enterprises, mainly because of the completion of main infrastructure projects.

Since military spending was maintained at its 1984 level (absorbing approximately 40% of all public outlays), other items, particularly those directed towards social development, had to bear the brunt of the austerity measures. In this connection it should be pointed out that although a great deal of external assistance has been provided in recent years, internal institutional constraints have restricted the public sector's use of the resources it has received.

The speed-up of inflation was perhaps one of the most serious economic imbalances observed in 1985. The rate of price increases was double what it had been the preceding year, with the annual average rate reaching 22%. This phenomenon was closely associated with the transfer of a significant percentage of imported goods from the official to the parallel exchange rate. This resulted in a devaluation of approximately 26% in the average value of the colón.

Other factors were also at work, however, one of them being speculation in the distribution of goods and in foreign exchange transactions on non-bank markets, especially during the third quarter of the year. The excessive liquidity seen in 1985 and the relatively plentiful supply of foreign exchange outside the banking system also seem to have helped to push prices up.

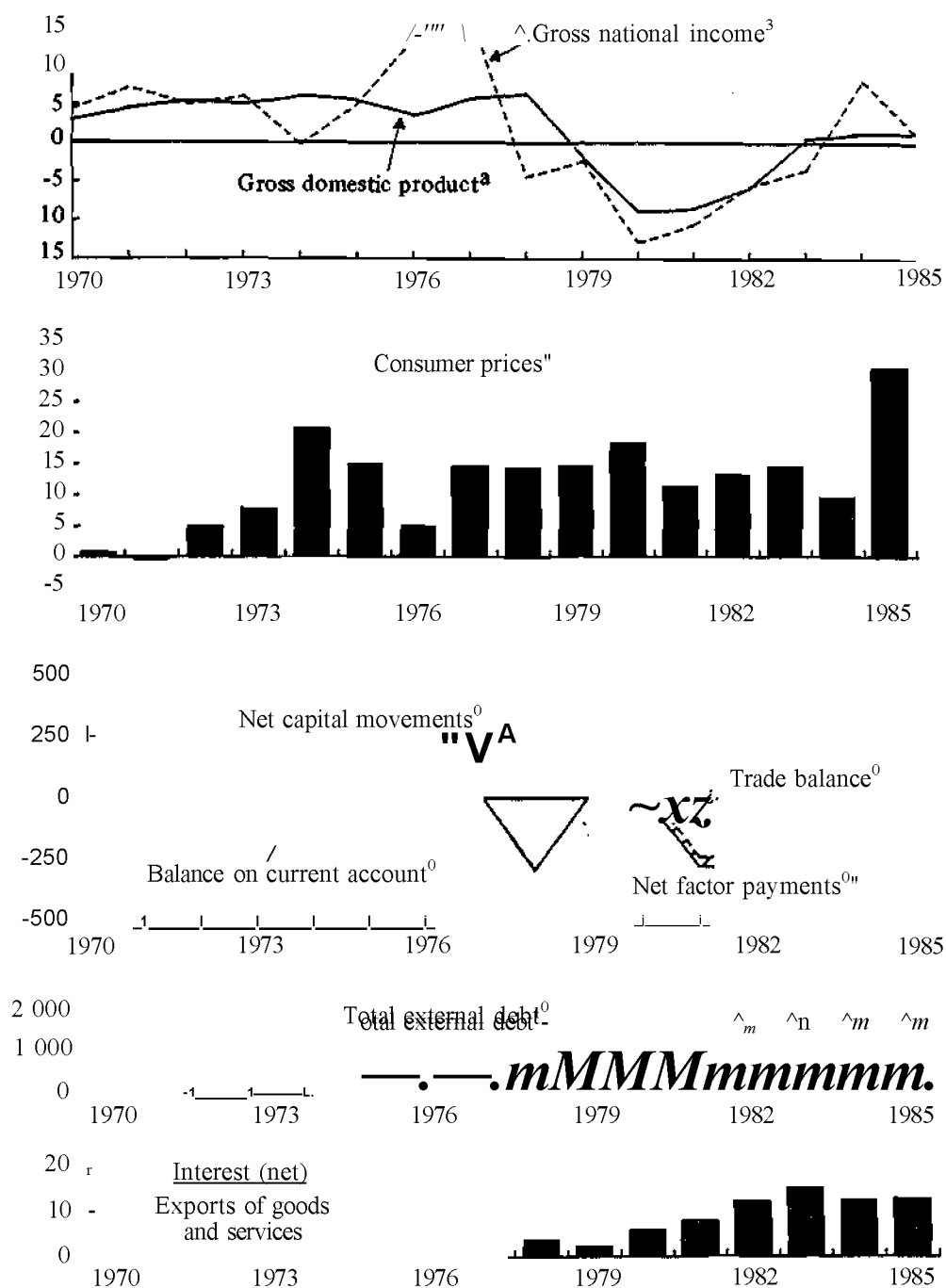
In general, wages and salaries showed virtually no change in nominal terms, which meant that inflation continued to eat away at real wages. The average loss in purchasing power was approximately 23% and was particularly marked in the case of agricultural day labourers (see table 1). Midway through the year strong labour movements directed towards winning wage increases took shape, especially among public-sector employees. The government responded by granting an increase in year-end bonuses and by pledging to review wages and salaries for 1986.

During the past two years economic activity has been stimulated by the banking system's expansionary credit policy. An increasing amount of resources were channelled to agricultural, industrial and service activities in 1985, while steps were also taken to reduce the portfolio of overdue loans which some production sectors had accumulated with the banking system over the past several years. One important measure, which was partly financed by external resources, was the granting of favourable repayment periods and rates as a means of consolidating the debts owed by coffee and cotton growers. Although savings and deposits absorbed a large volume of resources, the amount invested in other financial instruments stagnated, resulting in an excessive increase in the monetary base.

In sum, the factors which have shored up the Salvadorian economy in recent years continued to make their influence felt in 1985. Economic activity expanded, although modestly, for the third year running. Transfer payments from abroad did a great deal to turn the economy towards recovery, but an expansionary monetary policy resulted in an upsurge of inflationary pressures.¹

¹This situation, in combination with the imbalances in the current account of 1:1 Salvador's balance of payments, prompted the authorities to adopt an economic stabilization programme for implementation in 1986. Some of the most significant measures provided for in this programme were the establishment of a single-exchange rate of five colones to the dollar, the raising of the interest rate on bank reserves, the establishment of ceilings on credit to the public sector, various tax amendments designed to raise fiscal revenues, and the banning of imports of luxury items. Minimum wages were also raised substantially, particularly those applying to farm workers.

Figure 1
EL SALVADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate.

^bPercentage variation, December - December.

^cMillions of

dollars. ^dPercentages.

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985°
Total supply	86.9	91.0	93.0	132.8	138.2	-6.8	1.8	4.7	2.2
Gross domestic product at market prices	86.9	88.1	89.3	100.0	100.0	-5.7	0.6	1.4	1.4
Imports of goods and services	86.8	99.6	104.2	32.8	38.2	-10.4	5.7	14.8	4.6
Total demand	86.9	91.0	93.0	132.8	138.2	-6.8	1.8	4.7	2.2
Domestic demand	88.7	97.2	99.2	98.7	109.8	-5.1	-3.3	9.6	2.1
Gross domestic investment	79.0	81.3	84.8	13.3	12.6	-10.2	-8.5	3.0	4.3
Gross fixed investment	74.2	75.9	79.7	13.6	12.1	-10.1	-7.5	2.3	5.0
Construction	79.7	75.8	83.8	7.2	6.7	-2.2	-3.1	-4.9	10.5
Machinery	68.2	76.1	75.2	6.4	5.4	-17.9	-12.6	11.7	-1.2
Public	58.1	52.1	44.3	7.1	3.5	-18.8	-22.6	-10.4	-14.9
Private	92.0	102.3	118.9	6.4	8.6	0.3	7.2	11.2	16.2
Variation in stocks				-0.3	0.5				
Total consumption	90.0	99.5	101.3	85.5	97.0	-4.3	-2.6	10.5	1.8
General government	101.6	104.0	96.9	14.0	15.2	-0.4	-1.5	2.4	-6.8
Private	87.9	98.7	102.3	71.5	81.8	-5.1	-2.8	12.3	3.6
Exports of goods and services	81.8	73.3	75.3	34.1	28.7	-13.3	22.2	-10.4	2.7

Source: UCLAC, on the basis of figures supplied by the Central Bank of El Salvador.

"Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using unit value indexes calculated by UCLAC for this purpose.

2. Trends in economic activity

a) *Total supply and demand*

Total supply and demand showed an increase (2.2%) in 1985 which, although rather modest, further consolidated the containment of the progressive deterioration which had been seen in the Salvadorian economy since 1979. Nonetheless, the level of economic activity was still 20% lower than it had been at the end of the 1970s (see tables 1 and 2).

All the production sectors except crop farming (where production went down) made some progress in 1985. The most important variable in the expansion of supply was probably imports of goods and services, which grew 4.6% in 1985 (14.8% in 1984), with the leading items being intermediate materials, equipment, spare parts and production inputs in general.

As regards total demand, although exports of goods and services rose slightly, the greatest stimulus came from domestic demand. One factor was gross fixed investment, which climbed 5%. This was a reflection of the intense activity taking place in the construction sector, since capital formation in machinery and equipment for industry and agriculture grew more slowly, following a sharp jump in 1983 and 1984. Private capital formation has been responsible for the recovery, inasmuch as public-sector capital formation has continued to decline due to the austerity policy and the completion of major infrastructure projects (see table 2).

The same factors which have hindered capital formation in El Salvador in the past persisted, however. Firstly, there continued to be uncertainty about the course that the armed conflict, tense by then in its sixth year, would take. Agricultural production and the provision of certain basic services have continued to be the object of acts of aggression and sabotage. In addition to reducing the supply of goods and services, this has discouraged the channelling of domestic savings towards the mainte-

nance of production units. The international economic depression has had the same type of effect, since the sluggishness of external demand caused by the depression has helped to reduce incentives for investment in the expansion of production capacity.

Secondly, consumption expenditure has also risen markedly during the past biennium particularly in the case of the private sector. Total consumption grew 1.8% in 1985, even though government consumption did not grow at all and real wages continued to drop. Some contributing factors in this growth were heavy defence spending, the increasing level of remittances from Salvadorians residing abroad and, probably, the effects of redistribution income, which appear to have boosted consumption among the upper strata of the population.

b) *Trends in the main sectors*

i) *Agriculture.* Agricultural production was down substantially in 1985 (-2.4%) (see table 3). This poor showing was due to the continued deterioration of the agricultural export sector which, on this occasion, was compounded by the drop in basic grain crops brought about by bad weather conditions, and, probably, by a decrease in the area under cultivation. Among export products, the most notable decreases were in coffee (3%) and cotton (20%). Sugar-cane output maintained a high rate of growth for the fourth consecutive year, however (see table 4).

The factors which have affected coffee-growing during recent years persisted. International prices remained at relatively low average levels, while the armed conflict continued to affect the production, harvesting, processing and transport of coffee. In addition, coffee-growers continued to be faced with rising costs, mainly in connection with programmes to combat plant disease (rust).

This combination of factors added to the sharp decline in fixed assets and the financially insolvent position of producers *vis-a-vis* the banking system. One of the most important steps taken in 1985 in this respect was the reprogramming of debts on preferential terms as regards repayment

Table 3
EL SALVADOR: GROSS DOMESTIC PRODUCT BY BRANCH
OF ECONOMIC ACTIVITY"

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Gross domestic product	86.9	88.1	89.3	100.0	100.0	-5.7	0.6	1.4	1.4
Goods	85.4	86.0	86.7	46.4	44.9	-5.8	-1.2	0.7	0.8
Agriculture'	86.3	87.4	85.3	27.8	26.6	-4.7	-3.2	12	-2.4
Mining	94.8	97.4	97.4	0.1	0.1	-	-2.6	2.7	-
Manufacturing	83.7	84.8	88.6	15.0	14.9	-8.4	2.0	1.3	4.5
Construction	91.0	85.8	96.1	3.4	3.4	-4.2	2.0	-5.7	12.0
Basic services	92.4	94.9	97.9	5.6	6.2	-4.9	5.6	2.7	3.2
Electricity, gas and water	99.2	101.9	106.0	2.1	2.5	-2.5	5.0	2.7	4.0
Transport, storage and communications	88.3	90.8	93.2	3.5	3.7	-6.5	6.0	2.8	2.7
Other services	87.8	89.6	91.1	48.0	48.9	-5.6	1.7	2.0	1.7
Commerce	77.0	78.5	80.2	22.9	20.5	-12.0	2.8	1.9	2.2
Financial institutions and insurance	102.7	104.0	105.9	7.7	9.1	3.9	1.3	1.3	1.8
Ownership of dwellings	107.7	109.4	111.1	4.3	5.4	2.6	2.0	1.6	1.5
Community, social and personal services	95.4	97.6	98.8	17.4	19.3	-2.6	0.8	2.3	12
Government services	105.3	108.4	108.9	10.3	12.5	3.0	1.0	3.0	0.5

Source: I-CIAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

"At 1980 market prices.

"Preliminary figures.

Includes stock-raising, forestry and fisheries.

Table 4

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of agricultural production (1978 = 100)	95.4	104.6	87.3	88.3*	86.2 ^h	-3.9	-5.6	12*	-2.4*
Crop farming	97.3	107.4	90.5	90.5"	86.5*	-3.5	-5.0	^h	-4.4*
Livestock raising	90.0	88.3	69.3	72.0*	73.5*	-6.4	-9.6	3.8*	2.1*
Production of main crops'									
For export									
Coffee	163	186	154	144	140	-0.8	-9.4	-6.5	-3.0
Cotton	73	61	40	31	25	-8.2	1.8	-22.8	-20.8
Sugar cane	3 166	2 564	3 016	3 402	3 630	4.8	27.2	12.8	6.7
For domestic consumption									
Maize	434	521	437	520	474	-17.8	7.0	19.0	-8.9
Beans	38	39	41	48	35	-0.7	10.4	15.4	-27.9
Milled rice	39	39	26	41	44	-29.3	22.1	54.2	8.9
Sorghum	172	138	122	139	129	-8.5	-0.9	14.1	-6.7
Stock-raising indicators									
Number of animals slaughtered									
Cattle	187	185	147	148		0.7	-1.3	0.7	
Pigs"	115	126	155	140		17.4	9.2	-9.7	
Other products									
Milk'	253	331	208	275		-16.8	-22.1	32.2	
Eggs ⁷	588	818	849	854		-	0.6	0.6	

Source: UCLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

"Preliminary figures. listimated on the basis of variations in value added at constant prices. ' Thousands of tons. Thousands of head. 'Millions of bottles. Millions of units.

periods and interest rates. In addition, credit support continued to be granted, direct subsidies for producers were raised to 220 colones per quintal and, from mid-year onwards, all external sales were transacted at the parallel exchange rate (approximately 4.85 colones to the dollar). Nonetheless, coffee production in 1985 amounted to only 140 000 tons, which compared unfavourably with the output levels of 187 000 tons recorded at the end of the 1970s (see table 4). Since the quota assigned to El Salvador by the International Coffee Organization was virtually the same as it had been for 1983/1984 (2.4 million 60-kg bags), the value of coffee exports remained almost constant at around US\$450 million.

Coffee production may show some improvement as a result of the considerable increase in coffee prices which has occurred in 1986. However, with a view to reducing the surplus liquidity in the economy, the possibility has been raised of deferring export earnings through the sale of bonds.

The conditions affecting cotton production continued to deteriorate in 1985, with the result that output was 20% lower than it had been in 1984 (see table 4). In addition to the effects of the armed conflict, international cotton prices showed another substantial drop. In consequence, cultivation of this crop was given up on approximately one-fifth of the planted area, which went down from 55 000 *manzanas*² in 1984 to 44 000 in 1985.

Official measures to support cotton cultivation were taken in 1985 in an attempt to offset the drop in prices on international markets to some degree. As in the case of coffee, the most important measure was probably the consolidation of the debts accumulated by producers with the banking system on the basis of relatively soft terms as regards repayment periods and rates.

*A *manzana* equals approximately 0.7 hectares.

Sugar cane was once again one of the export crops which turned in a satisfactory performance. Production rose, as it had during the two preceding years •—although more slowly (6%)— due to increases in both the area under cultivation and in yields (see table 5). Despite the decline in international prices, an incentive has been provided by the expansion of the import quota for the United States market, where the price is much higher than it is on the free market. Furthermore, the domestic conditions for production have been made more favourable by a system of production subsidies and by a plan for carrying out export transactions at the parallel exchange rate.

Nevertheless, the outlook is not encouraging, since it was expected that the 75 000-ton quota granted for the United States market in the 1984/1985 agricultural year would be cut by nearly 25 000 tons in 1985/1986. In response to changing conditions on the international market, one promising alternative which is being considered is the industrial processing of sugar cane into ethyl alcohol. The first alcohol plant went into operation in 1985 and during its initial phase, produced 2.5 million gallons.

Crops for domestic consumption were down considerably in 1985, especially basic grains. Abnormal weather conditions reduced harvests substantially, particularly in comparison to 1984, when the timely rains and an increase in the surface area under cultivation (some of which had been shifted away from cotton production) resulted in a much larger harvest.

A drop in yields per hectare led to a decrease in the tonnage of maize (-9%), beans (-28%) and sorghum (-7%) (see table 5). Rice was the only crop for which the harvest was larger (9%) than in 1984, due to an increase in the area planted and to the lesser extent of the damage caused to this crop by the heavy rains. Despite the higher production levels recorded on average during the past three years, however, the harvest was still 10% smaller than it had been in 1979.

Table 5

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of value added (1970= 100)									
Foodstuffs, beverages and tobacco	138.2	140.1	117.2	118.8	124.1	-8.4	2.0	1.3	4.5
Textiles, clothing and leather products	144.0	162.8	142.7	147.5	157.8	-5.3	-	3.4	7.0
Textiles	95.8	80.6	50.9	51.0	53.0	-20.6	-9.1	0.2	3.9
Clothing, footwear and other leather products	64.7	55.4	31.8	30.6		-32.4	5.6	-3.8	
Wood and paper	131.6	108.8	76.2	77.6		-10.5	-17.4	1.8	
Wood and wood products	129.0	169.1	151.7	139.3		-21.4	23.1	-8.2	
Paper and paper products	136.3	196.4	243.5	225.5		-9.0	32.3	-7.4	
Chemicals, petroleum products and rubber products	123.1	151.2	96.8	88.0		-32.4	11.6	-9.1	
Chemicals	126.7	92.1	81.2	80.3	85.1	-3.6	6.3	-1.1	6.0
Petroleum and rubber products	113.2	53.5	56.3	57.9	60.8	3.3	11.0	2.8	5.0
Non-metallic mineral products	148.0	139.4	112.4	108.7	115.8	-6.8	2.9	-3.3	6.5
Metal products and machinery	140.5	144.0	127.6	116.0	127.6	-3.0	5.8	-9.1	10.0
Metal products	158.6	133.7	87.5	90.2		-17.4	8.0	3.1	
Machinery and equipment	175.9	129.5	91.0	104.5	120.2	-16.0	8.7	14.8	15.0
Other manufactures	151.1	136.6	86.3	83.8		-18.3	7.7	-2.9	
	114.9	74.4	46.5	51.5		-15.2	-0.5	10.8	
Other indicators of manufacturing production									
Consumption of electricity by industry	410	557	482	484	497'	-11.0		0.4	27

Source: IICLAC, on the basis of official figures.

°Preliminary figures.

Millions of kWh.

' estimated on the basis of the January-October variation.

Table 6

EL SALVADOR: INDICATORS OF ELECTRICITY
GENERATION AND CONSUMPTION

	Millions of kWh					Growth rates			
	1980	1983	1984	January-October		1982	1983	1984	1985°
				1984	1985"				
Generation	1 540	1 600	1 672	1 386	1474	-1.5	7.5	4.4	6.3
Total consumption	1 338	1 354	1 415	1 166	1 230	-2.6	5.0	4.5	5.5
Residential	307	435	461	384	394	5.0	8.5	5.9	2.6
Commercial	174	191	182	148	160	3.0	11.7	-4.5	8.1
Industrial	557	482	484	402	413	-11.0	-0.4	0.4	2.7
Government and others	220	247	225	232	263	0.9	6.0	17.7	13.4

Source: IICLAC, on the basis of figures supplied by the Bureau of Mining and Inergy Resources.

"Preliminary figures estimated on the basis of the January-October variation.

Other crop-farming products such as tobacco, sisal, fruits and vegetables, and sesame showed an increase of approximately 3% when taken as a whole. The pace of activity with respect to livestock products was slow (from 1% to 2%). The growth of stock-raising, however, was more notable thanks to government production incentives which expanded the supply of milk and meat, although this was still far from reaching the levels of the late 1970s.

ii) *Manufactures*. Manufacturing and construction were the most dynamic sectors of production in 1985. The growth of domestic demand during the last two years has provided a major incentive for manufacturing, which grew by 1.3% and 4.5% in 1984 and 1985, respectively (although external sales—and especially sales to the rest of the Central American subregion—have shown a downward trend) (see table 5). Despite this growth, however, the level of activity remained approximately 20% lower than it had been in 1979, in which there was still a considerable amount of idle installed capacity and reduced levels of employment.

The rise in private-sector consumption in 1984 and 1985 gave a substantial boost to the production of traditional manufactures (foodstuffs and clothing), which accounted for over two-thirds of total output. The chemicals branch, many of the products of which were for personal use, also increased (5%) (see table 5). There was a notable increment in those branches of industry oriented towards intermediate use. Fuels rose 6.5%, non-metallic minerals climbed 10% and metal products were up 15%. The growth seen in these last two branches of manufacturing, in which building materials accounted for a high percentage of output, was closely associated with the vigorous expansion of the construction industry.

Although formal manufacturing activity accounted for a large part of the overall sector's performance in 1985, informal manufacturing activity (micro-industries) has become a significant factor due to the rapid growth of marginal urban areas, especially in San Salvador.

iii) *Construction*. Preliminary estimates indicate that the construction industry was the fastest-growing production sector in 1985. The 12% growth recorded in construction was in sharp contrast to the steady decline which had been occurring in this sector since the late 1970s (see table 3). Even so, construction activity in 1985 was 4% lower than in 1980.

The main impulse for the growth of this sector came from private residential investment, whereas public construction declined. Specifically, the construction of private urban housing for medium- and low-income sectors showed a major upturn in response to mounting demand. Two contributing factors were the availability of credit from the banking system and an interest rate which was negative in real terms. This was reflected in the opening of several urban residential complexes, particularly in San Salvador. In addition, housing construction for low-income sectors (basically self-build projects) in newly-expanding marginal urban zones showed significant growth. It is worth

noting in this connection that a high percentage of the country's half-million displaced persons are to be found within the boundaries of San Salvador.

The lower level of public investment was mainly a reflection of the government's austerity policy, even though this was partly offset by special economic-recovery budgetary allocations. Investment by the autonomous institutions reflected the effects of the termination of major infrastructure construction projects in 1984, especially those of the Energy Commission.

iv) *Services*. The supply of basic and other services reflected the overall growth of the economy, increasing by nearly 2% over 1984 levels. Among basic services, electric power generation expanded 6% as a result of increased commercial and industrial demand (see table 6), despite war damage to some of the generation and distribution systems serving San Salvador, which made it necessary to put emergency generators into operation and to ration electricity during the second half of the year.

Domestic cargo and passenger transport also suffered from interruptions. Traffic shutdowns in some areas of the country, especially in the east, slowed the pace of this activity somewhat (see table 3).

In the branches other than basic services, commerce showed an increase of around 2% due to the reactivation of construction and manufacturing and the increased supply of imported merchandise. There has been a notable expansion in informal-sector commerce during the past two years, particularly in the San Salvador urban area.

c) *Employment and unemployment*

Provisional estimates at a very high level of aggregation appear to indicate that the high level of open unemployment which has become characteristic of El Salvador's economy remained at about 30% of the economically active population for the fourth year running.

Unlike what occurred in 1984, the urban/rural distribution of unemployment in 1985 shifted towards rural areas due to differences in economic trends among the main sectors. Because of the slump in economic activity in the agricultural sector (as regards both export products and goods for domestic consumption), this sector generated fewer jobs than in 1984. In contrast, it appears probable that some branches of manufacturing (primarily those devoted to traditional and intermediate goods) increased their employment levels slightly in response to heavier demand in 1984 and 1985. In terms of employment, the most important quantitative factor was probably the increased rate of activity in the construction industry and in business services, especially retail distribution.

Table 7

EL SALVADOR: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985"
	Growth rates					
Exports						
Value	-5.0	-25.8	-11.8	4.5	-1.3	-0.4
Volume	-14.7	-23.5	-13.6	26.1	-10.4	4.3
Unit value	11.4	-3.0	2.2	-17.2	10.2	-4.5
Imports						
Value	-6.0	0.2	-8.1	0.6	8.9	5.4
Volume	-24.7	-7.1	-6.6	6.5	14.9	7.0
Unit value	24.8	7.8	-1.6	-5.5	-5.2	-1.5
Terms of trade	-9.7	-10.2	3.4	-12.8	14.8	-3.3
	Indexes (1980 = 100)					
Purchasing power of exports	100.0	68.7	61.4	67.5	69.3	69.9
Volume of exports	100.0	76.5	66.1	83.3	74.6	77.8
Terms of trade	100.0	90.0	93.4	81.9	95.2	92.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 8

EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	736	726	723	100.0	100.0	100.0	-11.8	4.5	-1.3	-0.5
To Central America	168	157	129	27.6	27.5	17.9	-15.6	-3.5	-6.3	-17.9
To rest of world	568	569	594	72.4	72.5	82.2	-10.5	7.1	0.2	4.4
Main traditional exports	511	505	518	66.6	71.2	71.6	-10.3	6.2	0.5	2.5
Coffee	402	450	448	33.7	60.9	61.9	-11.0	-	11.9	-0.5
Cotton	55	9	29	14.9	7.9	4.0	-15.7	22.8	-83.7	218.4
Sugar	40	26	23	16.0	12	3.2	7.0	152.4	-35.4	-10.5
Shrimps	14	20	18	2.0	12	2.5	13.5	-24.4	37.3	-11.1
Main non-traditional exports	36	37	25*	6.0	5.9	3.4	-7.8	-6.9	0.8	27.6"
Perfumes, toiletries and cosmetics	9	11	8*	1.6	14	10	-6.0	7.9	20.4	-31.3*
Insecticides, fungicides and disinfectants	5	5	5*	0.9	0.6	0.7	-	-	-8.7	1.6*
Cotton yarn and thread	12	13	9*	0.9	1.0	1.2	19.4	24.7	7.4	-33.3*
Clothing	10	8	3*	2.6	2.9	0.5	-1.4	-53.9	-20.8	-59.7*
Other	189	184	180	27.4	22.9	24.9	-16.5	3.8	-2.6	-4.0*

Source: UCLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

"Preliminary figures. Estimates based on the period January-August.

As regards public-sector employment, the civil service maintained virtually the same number of jobs as before, in line with the austerity policy applying to expenditure in 1985; it seems that the autonomous institutions may have reduced their manpower requirements, however, in response to the slump in physical investment. Another factor whose macro-economic impact must not be ignored is employment in national defence and security, inasmuch as these activities are estimated to have provided jobs for between 50 000 and 60 000 people in 1985.

3. The external sector

a) Introduction

The adverse conditions which have affected El Salvador's external sector in recent years grew worse in 1985. The prices of the country's main export products declined once again, while difficulties were also encountered in disposing of larger volumes of these products on international markets. The current value of sales therefore showed no growth in 1985. However, income on the capital account was enough not only to overcome the constraints on growth stemming from the shortage of foreign exchange but also to permit a major increase in imports to be programmed in both 1984 and 1985, notwithstanding the imbalances this occasioned in the country's current account.

Although El Salvador's terms of trade deteriorated to a significant degree in 1985 (33%), it managed to expand its imports of goods for the second year in a row (see table 7).

The country's mounting inflow of external resources was larger than its 1985 trade deficit and allowed it to build up US\$47million in international reserves. In addition to eliminating the financial pressure on the country to conclude an economic adjustment programme with the International Monetary Fund, this also lessened its needs to contract major debts with the international banking system and allowed it to cover the servicing on its external debt.

This trend in the country's international accounts did not, however, prompt it to delay in adopting exchange measures aimed at balancing its current account. One such measure which was

taken midway through the year was to speed up the transfer of import and export transactions from the official exchange rate (2.5 colones to the dollar) to the parallel market. This step, which amounted to a *de facto* devaluation of 26%, was taken with a view to stimulating exportable production and doing away with the undervaluation of imports.³

b) *Merchandise trade*

i) *Exports.* The value of exports of goods amounted to US\$723 million, which represented no increase over 1984. Since international prices fell an average of 4%, the level of earnings could be maintained only by increasing the volume sold. Sales to the Central American Common Market continued to decline, whereas sales to other countries (which accounted for four-fifths of the total) rose 4% (see table 8).

Traditional exports increased 2%. This was primarily due to deferred sales of cotton, since the other products showed a considerable decrease. Provisional estimates indicate that foreign sales of manufactures fell sharply. Sales of coffee, which is a vital export product, remained at around US\$450 million (i.e., two-thirds of total exports) (see table 8). This was the result of the granting of a similar quota to that of 1984 (2.4 million 60-kg bags) and the fact that prices were slightly lower than the year before. Nonetheless, continued efforts were made to place larger volumes on other markets, where prices were approximately 50% lower than on those covered by the quota.

As already noted, cotton exports jumped from US\$9 million in 1984 to US\$29 million in 1985. This upsurge was due to the sale of inventories that had been held back from the 1983/1984 harvest, in addition to the sale of the 1984/1985 harvest. The downturn in prices persisted during 1985 and this, in combination with the rise in production costs, has depressed supply despite government incentives, such as the measure permitting cotton transactions to be carried out on the parallel exchange market.

Sugar sales totalled US\$23 million in 1985, which was US\$3 million less than in 1984. These figures were the outcome of the United States' maintenance of its purchasing quota at 75 000 short tons, at a price of US\$0.20 per pound, and of some sales on other markets where prices were generally one-third of that paid by the United States.

The outlook for this export item was bleak, as mentioned previously, because of increased marketing difficulties. At the time of writing, a reduction of 25 000 tons in the quota assigned by the United States for 1986 was expected. This would lower earnings, since increased volumes would then have to be channelled to the free market. Furthermore, it is thought that the United States quota may be phased out by the end of the decade.

Shrimp sales, which has previously experienced a considerable upturn, declined substantially in 1985. This was due to the reduced catch resulting from the labour problems faced by the country's largest shrimp producer.

Manufactures sold to the Central American Common Market also showed considerable decreases, especially in the case of chemicals and textiles (see table 8).

ii) *Imports.* In contrast to exports, the trend in imports of goods has been a dynamic one during the past three years. In 1985 the value of foreign purchases rose 5%, after having already grown 4% and 10%, respectively, during the two preceding years. The current value of imports in 1985 (US\$1 029 million) was thus similar to the 1979 level. Preliminary figures indicate that purchases from other countries in the Central American subregion dropped substantially, whereas purchases from the rest of the world increased at a fast pace (see table 9).

As noted earlier, the increase in external purchases stemmed from the positive inflow of resources on the capital account and the granting of credit facilities for the purchase of specific goods. The fastest-growing items were intermediate products, which expanded by 6% to US\$600 million in 1985. An important factor in this regard was the purchase of industrial inputs (furthered by the Industrial Recovery Fund, which was created with resources provided by the Inter-American Development Bank - IDB) for agriculture and construction.

In keeping with the same trend, imports of capital goods grew by 3% in 1985, though this was slower than in 1984 (27%), when a large volume of equipment was replaced, particularly in the

³Early in 1986, the series of partial devaluations culminated in the establishment of a single exchange rate of five colones to the dollar.

Table 9

EL SALVADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	891	977	1 029	100.0	100.0	100.0	-13.0	4.0	9.6	5.2
From Central America	234	255	234	22.9	33.3	22.7	-14.4	-10.4	8.8	-8.4
From rest of world	657	722	795	77.1	66.7	77.3	-12.3	10.4	9.9	10.0
Consumer goods	263	276	292	24.6	31.9	28.4	-13.5	0.6	5.1	5.6
Durables	29	38	38	20.4	3.5	3.7	-0.3	10.8	31.9	0.8
Non-durables	234	239	254	4.2	28.4	24.7	-14.8	-0.6	1.8	6.3
Raw materials and intermediate products	524	569	600	50.7	56.6	58.3	-10.8	3.4	8.5	5.5
Petroleum and fuels	127	130	125	7.7	15.7	12.1	-9.9	-5.7	2.9	-3.9
Construction materials	51	51	54	6.1	5.9	5.3	-23.0	12.3	-1.5	7.1
Other	346	388	421	36.9	35.0	40.9	-9.2	5.9	10.7	8.9
Capital goods	104	132	137	25.7	11.6	13.3	-13.1	4.6	26.9	3.3
Manufacturing	38	43	49	9.3	4.7	4.7	-17.8	17.0	13.0	14.9
Transport	35	53	42	7.8	3.5	4.0	-11.0	-7.3	54.2	-21.9
Agriculture	10	13	20	2.7	0.8	1.9	-11.0	45.3	31.6	53.5
Construction	6	5	5	2.9	1.3	0.5	-2.4	-31.3	-6.5	4.6
Other	16	18	21	2.9	1.4	2.0	-13.6	8.2	10.0	15.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

transport sector. Even so, capital goods imported by the manufacturing and agricultural sectors increased for the second consecutive year (see table 9).

Despite the existence of a system of priorities and controls for the allocation of foreign exchange, this was no obstacle to the expansion of imports of consumer durables such as automobiles and home appliances, which, although representing only a small fraction of total foreign purchases, have grown during the past three years. The increased supply of this type of product gave a boost to domestic commerce serving middle- and high-income groups.

Non-durable consumer goods showed significant growth in 1985 as a result of the drop in the production of basic grains, although it should also be noted that some of these products were purchased in the United States under its economic assistance programme (at subsidized prices and with soft loans) or were received as donations, as in the case of wheat.

iii) *Terms of trade and the purchasing power of exports.* The terms of trade (goods) showed a deterioration of 3-3% in 1985. This was mainly due to the decrease in the average prices brought by exports of goods (-4.5%), inasmuch as import prices rose only 1% (see table 7).

Thus, in 1985 the prices brought by El Salvador's main export products (coffee, sugar and cotton) on international markets remained depressed.

The increase in the volume of goods sold (4%) offset only part of the decline in the terms of trade, and the purchasing power of exports therefore stagnated in 1985 and was 30% less than it had been in 1980.

c) *Services trade and factor payments*

The economic recovery and the relatively adequate availability of foreign exchange during the past two years have also made it possible to finance a larger deficit on the real services account. In 1985, outlays for real imported services were slightly less than they had been in 1984, but even so they

Table 10
EL SALVADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985''
Balance on current account	15	-1	-272	-271	-256	-313	-341
Trade balance	10	45	-237	-218	-187	-328	-367
Exports of goods and services	1 266	1 215	924	822	873	862	866
Goods FOB	1 132	1 075	798	704	735	726	723
Real services	133	140	126	118	138	136	143
Transport and insurance	24	25	20	23	30	30	31
Travel	25	13	14	20	24	26	28
Imports of goods and services	1 255	1 170	1 161	1 041	1 061	1 190	1 233
Goods FOB	955	897	898	826	831	905	954
Real services	301	273	263	215	230	285	279
Transport and insurance	107	84	113	72	81	94	95
Travel	117	106	69	60	74	74	73
Factor services	-40	-63	-74	-105	-121	-116	-120
Profits	-45	-41	-40	-45	-36	-78	-59
Interest received	40	18	13	14	13	20	18
Interest paid	-72	-72	-73	-98	-107	-105	-109
Other	37	31	26	24	10	47	30
Unrequited private transfer payments	45	17	39	52	53	131	146
Balance on capital account	-149	-74	223	242	280	320	388
Unrequited official transfer payments	6	31	21	119	191	196	222
Long-term capital	78	174	231	255	329	69	92
Direct investment (net)	-10	6	-6	-1	28	-	-
Portfolio investment (net)	-6	-1	-	-1	-	-	-
Other long-term capital	94	169	236	257	301	69	92
Official sector ^c	83	167	236	251	296	69	92
Loans received	100	201	310	358	438	265	300
Amortization payments	-16	-29	-69	-87	-141	-196	-208
Commercial banks ^c	-	3	-	-	-	-	-
Loans received	-	4	-	1	-	-	-
Amortization payments	-	-1	-	-1	-1	-	-
Other sectors ^c	11	-1	-	6	6	-	-
Loans received	22	36	28	36	28	-	-
Amortization payments	-11	-37	-28	-30	-22	55	74
Short-term capital (net)	-127	38	76	-36	-215	-	-
Official sector	-15	194	96	-65	-121	-	-
Commercial banks	-2	-67	-11	29	-33	-	-
Other sectors	-110	-89	-10	-	-61	-	-
Errors and omissions (net)	-106	-317	-105	-95	-26	-	-
Global balance	-134	-75	-49	-29	24	7	47
Total variation in reserves (- sign indicates an increase)	128	69	43	27	-39	-19	-30
Monetary gold	-	-	-	-	2	-	-
Special Drawing Rights	-7	17	-	-2	2	-	-
IMF reserve position	-	11	-	-	-	-	-
Foreign exchange assets	135	34	6	-35	-53	-6	-14
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-	7	37	64	11	-13	-17

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.

'' Preliminary figures.

Real services include other official and private transactions, but exclude factor services.

' In addition to loans

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

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 11

EL SALVADOR: EXTERNAL INDEBTEDNESS INDICATORS

	1980	1981	1982	1983	1984	1985'
Millions of dollars						
Total external debt''						
Balances	1 176	1 471	1 710	1 891	1949	2 003
By institutions sector						
Public	1 030	1 252	1 516	1 706	1 764	1 829
Central Reserve Bank of El Salvador	555	599	700	711	678	612
Central government and autonomous institutions	475	653	816	995	1 086	1 217
Private	146	219	193	184	185	174
By term						
Medium- and long-term			1 443	1 733	1 807	1 895
Public	762	1 019	1 309	1 611	1 691	1 784
Private			134	122	116	111
Short-term			267	148	142	108
Public	268'	233'	208	95	72	45
Private			59	63	70	63
Disbursements	304'	392'	35T	625	447	436
Public				607	437	428
Central Reserve Bank of El Salvador				404	308	241
Central government and autonomous institutions	97	193	184	203	129	187
Private				18	10	8
Servicing	139	170	216	576	449	491
Amortization payments	67	97	118	445	344	383
Interest payments	72	73	98	131	105	109
Percentages						
Total external debt/exports of goods and services	96.8	159.2	207.8	216.6	226.1	231.6
Servicing/exports of goods and services	11.4	18.4	26.2	66.0	52.0	56.8
Interest payments/exports of goods and services	5.9	7.9	11.9	15.0	12.1	12.6
Servicing/disbursements	45.7	43.4	60.5	92.2	100.4	112.6

Source: IICI.A.C, on the basis of official figures.

''Preliminary figures.

T=Total balances of disbursed' dcbl.

'=Estimates.

were a good deal greater than the income received under the same headings, leaving a deficit of US\$136 million (see table 10).

In addition to the real services balance, payments to external factors amounted to US\$120 million, of which US\$109 million was accounted for by interest payments on the external debt. Total payments for services therefore amounted to US\$256 million.

d) *The current account position and its financing*

In 1985 El Salvador's balance of payments once again reflected the special conditions governing its relations with other countries. The flow of unrequited financing has given the monetary authorities a certain amount of leeway with respect to financial programming.

The trade balance rose to US\$367 million, which was US\$40 million more than in 1984. For its part, the deficit on current account was somewhat smaller due to the effect of unrequited private transfer payments, but it nevertheless represented nearly 40% of the value of total exports in 1985, as compared to 29% in 1983 and 36% in 1984 (see table 10).

This imbalance, although certainly worrisome, was more than offset by net inflows of capital in the amount of US\$390 million, which made it possible to increase the international reserves held by the Central bank to US\$47 million. During the past four years unrequited official transfer payments have accounted for a large percentage of net capital inflows. In 1985 they came to US\$222 million (57% of such inflows) and helped to avert the need to contract loans with the international banking system or to conclude an economic adjustment agreement with the International Monetary Fund.

Although the public sector raised the supply of net medium- and long-term external credit from US\$92 million in 1984 to US\$131 million in 1985, the level of such credit was still far below what it had been in earlier years. The disbursements were more than enough to pay the service on the external debt and, indeed, the amount of debt amortized by the Central Bank was greater than the amount received.

The private capital balance and the errors and omissions entry are believed to have registered positive flows which, although modest, represented a reversal of the trends observed since the late 1970s (see table 10).

e) *External indebtedness*

Non-traditional financial flows helped to slow down the growth of the country's external indebtedness. The external debt reached a total of US\$2 003 million, which was an increase of only 3% over its 1984 level. The coefficient traditionally used to indicate the magnitude of external indebtedness increased only marginally to 232% (see table 11). As regards the composition of the debt, the net increase of US\$54 million in 1985 corresponded to the growth of the medium- and long-term balances owed by the central government and autonomous institutions, since the levels of indebtedness of the Central Bank and the private sector went down. Following the substantial reduction registered in 1983, short-term indebtedness continued to drop, reaching a level of only US\$108 million (i.e., 5% of the total debt).

The country had no difficulty in paying the service on its debt, as demonstrated by the fact that disbursements were less than payments. New loans amounted to US\$436 million, which payments of interest and principal totalled US\$491 million (representing 57% of the value of total exports); nearly four-fifths of this amount corresponded to payments of principal, with the rest going for interest payments.

4. Prices and wages

a) *Prices*

One of the macroeconomic factors which tended to get out of balance during 1985 was domestic prices. Consumer prices rose by 22%: double the 1984 figure, while the rate of increase of wholesale prices, though slightly lower (18.3%) was still two and one-half times higher than in 1984 (see table 12 and figure 2). The rise in consumer prices was most rapid during the second half of 1985, whereas the increase in wholesale prices was faster during the first half of the year.

The exchange measures adopted since the end of 1984 were probably the main factor which pushed up prices. In mid-1985 a significant part of the transactions corresponding to imports of goods were transferred to the parallel exchange market, which thus became the market used for 60% of merchandise imports in terms of value. Although the exchange rate of 2.5 colones to the dollar was still applied to strategic inputs (agricultural products, fuels and some foodstuffs), the fact that this rate was not applied to other inputs had a strong impact on prices.

Other phenomena which also gave added momentum to inflation were some degree of speculation in the distribution and marketing of merchandise and a sharp increase (especially during the second half of the year) in the value of foreign exchange on non-bank markets providing funds for the imports of the commerce sector. The high level of liquidity (which gave rise to a supply of easily accessible credit) and the fact that the interest rate was negative in real terms were secondary causes of inflation.

Table 12

EL SALVADOR: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
Variation from December to December						
Consumer price index"	18.6	11.6	13.4	14.8	9.8	30.8
Food	22.5	14.4	11.0	17.9	10.6	27.5"
Wholesale price index'	16.7	10.0	9.2	8.0	14.0	18.3'
Imported goods	12.1	7.3	12.7	3.7	14.2	25.1"
Domestic goods	24.0	14.8	7.6	12.2	7.1	7.7*
Variation between annual averages						
Consumer price index	17.4	14.7	11.7	13.1	11.7	22.1
Food	19.7	17.7	10.6	13.4	14.1	17.9'
Wholesale price index	18.3	12.5	8.4	8.0	7.1	18.3"
Imported goods	17.3	8.1	12.0	5.4	5.0	23.5'
Domestic goods	23.5	18.4	7.4	10.5	6.8	8.5'

Source: liQ.AC, on the basis of official figures.

"Base: December 1978 = 100.

"Variation from November to November.

' Base: January 1978 = 100 (does not include coffee).

Table 13

EL SALVADOR: WAGES

	Indexes (1970 = 100)						Growth rates					
	1980	1981	1982	1983	1984	1985	1980	1981	1982	1983	1984	1985
Nominal minimum wages												
Agricultural workers	231.1	231.1	231.1	231.1	231.1	231.1	12.1	-			-	-
Harvesting												
Coffee	527.7	527.7	527.7	527.7	527.7	527.7	393	-	-	-	-	-
Sugar cane	348.5	425.9	425.9	425.9	425.9	425.9	60.1	22.2	-	-	-	-
Cotton	295.3	413.3	413.3	413.3	413.3	413.3	22.9	28.0	-	-	-	-
Seasonal crop-farming industries												
Coffee processing	560.0	560.0	560.0	560.0	560.0	560.0	953	-	-	-	-	-
Sugar refining	320.0	320.0	320.0	320.0	320.0	320.0	29.7	-	-	-	-	-
Cotton processing	320.0	320.0	320.0	320.0	320.0	320.0	251	-	-	-	-	-
Other activities in San Salvador												
Industry and services	309.6	343.8	343.8	343.8	385.3	406.2	34.7	6.5	-		12.1	5.4
Commerce	295.2	314.3	314.3	314.3	352.3	371.4	30.0	6.5	-	-	12.1	5.4
Minimum real wages												
Agricultural workers	79.6	71.3	62.9	54.8	49.9	38.2	-5.6	-10.4	-11.8	-12.9	-8.9	-23.6
Harvesting												
Coffee	181.8	162.9	143.7	125.1	114.0	87.1	17.4	-10.4	-11.8	-12.9	-8.9	-23.6
Sugar cane	120.0	131.5	115.9	101.0	92.0	70.3	34.8	9.6	-11.8	-12.9	-8.9	-23.6
Cotton	101.8	127.6	112.5	98.0	89.3	68.2	5.4	25.3	-11.8	-12.9	-8.9	-23.6
Seasonal crop-farming industries												
Coffee processing	193.0	172.9	152.5	132.8	121.0	92.5	64.7	-10.4	-11.8	-12.9	-8.9	-23.6
Sugar refining	110.3	98.8	87.1	75.9	69.1	52.8	9.3	-10.4	-11.8	-12.9	-8.9	-23.6
Cotton processing	110.3	98.8	87.1	75.9	69.1	52.8	5.4	-10.4	-11.8	-12.9	-8.9	-23.6
Other activities in San Salvador												
Industry and services	106.7	106.1	93.6	81.5	83.2	67.1	9.0	-0.6	-11.8	-12.9	2.1	-19.4
Commerce	101.7	97.0	85.6	74.5	76.1	61.3	9.6	-4.6	-11.8	-12.9	2.1	-19.4

Source: I-CIAC, on the basis of official figures.

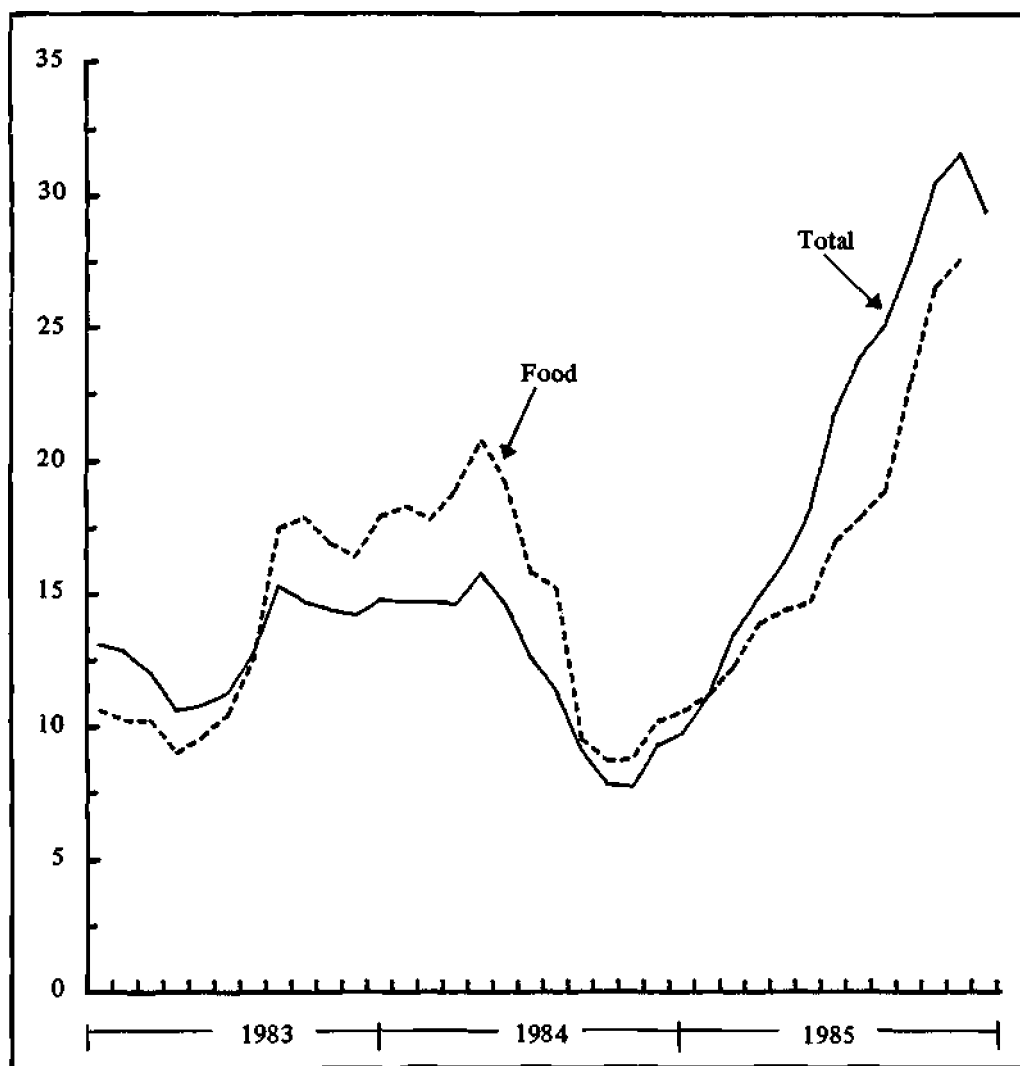
b) *Wages*

Nominal minimum wages remained unchanged in 1985, with the result that real wages, which have been declining since the beginning of the 1980s, continued to deteriorate. Based on trends in the legally-established minimum wages, it is estimated that real wages have probably fallen by as much as 45%-50% over the period between 1980 and 1985. The drop in the purchasing power of earnings from urban employment was smaller due to the wage increases authorized in 1981 and 1984 (see table 13).

During the second half of 1985 this situation gave rise to labour unrest, especially in the public sector, whose main demands were for wage adjustments. Approximately 40% of all public employees participated in strikes, with the result that civil servants were awarded a special increase of 150 colones in December as part of their year-end bonuses and a 17% rise, in nominal terms, beginning in February 1986 for those earning less than 1 500 colones per month.

Figure 2

EL SALVADOR: TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official figures.

These increases were part of a package of wage and salary measures which also included substantial raises for farm workers (74% for men and 54% for women) and for workers in commerce and industry in San Salvador (15%) and in the rest of the country (18%). As part of a policy aimed at restoring the level of wages, the government suggested that the private sector should grant increases of between 10% and 15% for those whose earnings were above the legal minimum wage.

In summary, no change was observed in nominal wages in 1985, in some cases for the fifth year running. This meant that workers' purchasing power dropped approximately 23%.

5. Monetary and fiscal policy

a) *Public finances*

Public finances continued to be governed by a policy aimed at doing away with the imbalances inherited from the past. The notable increase in fiscal revenues achieved in 1985 was greater than the rise in expenditures; as a result, the fiscal deficit decreased for the second year in a row, dropping to 6% of the gross domestic product and 33% of total expenditure, which represented a considerable improvement over the coefficients of 14.6% and 53.8%, respectively, recorded in 1983 (see table 14). These results were, once again, influenced by two opposing phenomena: the cost of the armed conflict and the direct economic assistance received from the United States.

The drive to raise tax receipts which had been begun two years before was continued in 1985. In consequence, current income climbed steadily (23%). Indirect taxes on domestic transactions, with an increase of 24%, yielded the greatest returns. One contributing factor in this was the raising of the stamp tax and its standardization at a rate of 5%. Taxes levied on foreign trade were up 30%, partly due to the deferred tax receipts on coffee sales and to the fact that taxes on imports were set in accordance with the markets on which the relevant foreign exchange had been obtained.

In contrast, the central government's total expenditures decreased in real terms, since the nominal increase was only 14%. These results were possible thanks to the austerity policy, under which the number of jobs in the government service was frozen and the rationalization of other consumption expenditures was promoted. Nonetheless, wages rose 28%, largely as a result of the delayed effect of wage increases that had been granted the year before. The drop in current transfer payments and in interest payments on the debt (as a result of its rescheduling) also helped to curb current spending. As a consequence of all these trends, it was possible to avert any increase in the overall deficit (see table 14).

Central government investment made a marked recovery thanks to the country's economic programme. Public works on the road system and in the areas of health and education were carried out during the year. Although sufficient external resources were available as backing for this type of expenditure, in practice these projects were held back by institutional constraints. Difficulties were also encountered in conducting public works in zones of armed conflict. Furthermore, transfers to public financial institutions engaged in promoting production also rose considerably. In addition to these two items of central government spending, the high level of amortization payments on both the domestic and external debts, although somewhat lower than in 1984, still demanded considerable outlays (see table 14).

As previously mentioned, the central government's current deficit decreased notably in 1985 despite its military spending. In other words, it would appear that the central government's financial imbalance in recent years was due mainly to expenditures associated with the war effort. Moreover, due to the decrease in investment in major public enterprises, it is likely that the recurring deficit of autonomous public institutions also decreased.

The amount of donations from abroad for the purpose of financing the fiscal deficit fell to approximately 100 million colones in 1985, which was substantially less than the 500 million colones received in 1983. As noted earlier, bilateral economic assistance has been re-channelled to provide a direct stimulus to activity in the private sector. The central government has therefore found it necessary to increase its disbursements, to rely more heavily on external sources of credit and to make use of more domestic financing (see table 14).

b) *Monetary policy*

El Salvador was faced with considerable monetary and financial imbalances, the prevailing trend in 1985 being a high level of liquidity which primarily stemmed from the banking system's large-scale expansion of credit. The external sector continued to exert an expansionary effect due to the transfer payments received from abroad. There was a heavy demand for credit throughout the year, partly in response to the signs of economic recovery and partly because of the negative cost of money during some months of the year; demand was also fuelled by the effects of active non-bank trading in foreign exchange. There was a considerable expansion in the means of payment, especially in savings and time deposits, despite the fact that they yielded nil or negative returns in real terms.

Table 14

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates				
	1982	1983	1984	1985"	1981	1982	1983	1984	1985"
1. Current income	1 no	1 262	1 545	1 903	6.4	0.3	13.7	22.5	23.2
Tax revenue	952	1 080	1 351	1 653	0.1	-3.8	13.4	25.1	22.4
Direct	294	306	341	406	-4.8	-1.0	4.0	11.4	18.9
Indirect	658	774	1 010	1 248	2.3	-5.1	17.6	30.5	23.6
On foreign trade	279	279	373	483	-14.0	-13.5	-0.1	33.8	29.5
Non-tax revenue	158	182	194	250	131.1	35.0	15.4	6.9	28.6
2. Current expenditure	1 347	1493	1 797	2 003	14.5	9.2	10.8	20.4	11.4
Wages and salaries	728	789	1 006	1 293	6.4	10.8	8.3	27.5	28.5
Purchase of goods and services	169	227	230	230	12.8	-6.8	35.0	14	0.1
Interest payments	161	182	188	171	148.4	64.1	12.7	3.5	-9.4
Transfers and other payments	289	295	373	309	14.3	-2.9	2.1	26.5	-17.2
3. Current savings (1-2)	-237	-231	-118	-99					
4. Capital expenditure	472	1 238	717	871	-4.3	-6.9	162.3	-42.2	21.7
Real investment	298	366	383	506	0.2	-21.7	22.8	4.6	32.1
Debt amortization	77	607	267	224	157.5	28.7	686.7	-56.1	-15.9
Other capital expenditure	97	265	67	141	-48.3	47.6	173.3	-74.6	112.3
5. Total expenditure (2+4)	1 820	2 731	2 514	2 874	13.3	4.6	50.0	-8.0	14.4
6. Fiscal deficit (1-5)	-710	-1 469	-969	-970	27.6	12.2	106.9	-34.1	0.3
7. Financing of deficit									
Domestic financing	448	641	361	528					
Central Bank	-	25	-6						
Sale of securities	333	-94	421	200					
Other	115	710	-54						
External financing	262	828	608	442					
Percentages									
Ratios									
Current savings/capital expenditure	-50.2	-18.7	-16.5	-11.4					
Fiscal deficit/total expenditure	39.0	53.8	38.5	33.8					
Tax revenue/GDP	10.6	10.7	11.8	11.8					
Total expenditure/GDP	20.3	27.1	22.0	20.5					
Fiscal deficit/GDP	7.9	14.6	8.5	6.9					
Domestic financing/deficit	63.1	43.6	37.3	54.4					
External financing/deficit	36.9	56.4	62.7	45.6					

Source: IICLAC, on the basis of figures provided by the Ministry of Finance and the Central Reserve Bank of HI Salvador.
 "Preliminary figures. Includes donations from abroad.

Table 15

EL SALVADOR: MONETARY INDICATORS

	Year-end balances (millions of colones)				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Monetary base	1 365	1 426	1 629	1 993	6.8	4.5	14.2	22.3
Money (M ₁)	1 470	1 448	1 699	2 156	4.7	-1.5	17.3	26.9
Quasi-money	1 633	2 004	2 497	3 207	16.9	22.7	24.6	28.4
Money plus quasi-money (M ₂)	3 103	3 452	4 196	5 363	10.8	11.2	21.6	27.8
Domestic credit	5 286	5 225	5 858	7 026	14.8	-1.2	12.1	19.9
To the public sector	2 536	2 207	2 536	2 833	15.7	-13.0	14.9	11.7
Central government (net)	1 520	1 375	1 616	1 822	43.5	-9.5	17.5	12.7
Public institutions	1 016	832	920	1 011	-10.3	-18.1	10.6	9.9
To the private sector	2 750	3 018	3 322	4 193	12.9	9.7	10.1	26.2
Coefficients [^]								
Monetary multipliers								
M ₁ /monetary base	1.06	1.01	1.01	1.06				
M ₂ /monetary base	2.39	2.45	2.67	2.88				
Velocity of circulation								
GDP/M ₁	7.19	7.95	8.42	8.18				

Source: IICLAC, on the basis of official figures.

° Preliminary figures. Comprises currency outside banks plus deposits made by commercial and mortgage banks in the Central Reserve Bank.

^ Calculated on the basis of annual averages.

The money supply grew substantially in 1985. Year-end balances were 28% higher than in 1984, a year in which their considerable expansion had been led by savings and time deposits (in 1985 these were more than three times what they had been in 1981) (see table 15). Apparently, this was due to the fact that these deposits were one of the more profitable options for the placement of domestic savings, to the liquidity created by the payment of compensation to landowners affected by agrarian reform, and to the relative shortage of foreign exchange. The amount of money in circulation, for its part, grew more rapidly than did overall economic activity. As regards the financial situation, the most striking aspect in 1985 was the expansion of private credit. The commercial and mortgage banking system followed a credit policy which was, in principle, directed towards furthering the economic recovery. Year-end balances were 26% higher than during the preceding fiscal year as an increasing volume of loans was channelled to production activities (industry, commerce and construction).

The Central Bank provided greater financial support for production, bolstering agricultural and industrial activities both with its own resources and through funds set up with external resources. The amount of credit extended to the public sector also grew, but at a much lower rate (12%), partly as a result of the sterilization of some external transfer payments (see table 15).

The ready availability of credit was not, however, divorced from the problem posed by the portfolios of overdue loans weighing down the financial system. Credit institutions were faced with serious difficulties stemming from the accumulation of overdue debts in such production sectors as coffee and cotton, in that part of the agricultural sector which had undergone agrarian reform and in the construction industry. In 1985 it thus became necessary to consolidate the debts owed by coffee and cotton growers on relatively easy terms, with refinancing periods of 12 years for coffee growers and eight years for cotton growers.

The country made substantial progress as regards its exchange policy in 1985. Partly in response to similar measures adopted by the country's trading partners in the region and partly in response to pressure from external donors, two major changes were made in exchange policy during the year. By mid-1985, only 40% of the value of imports of goods remained subject exclusively to the

official exchange rate. The average exchange rate consequently rose to approximately 4.26 colones to the dollar, which represented a devaluation of 26% with respect to the December 1984 rate. In addition, the exchange rate on the non-bank market, after having risen sharply during the third quarter (when the rate on the parallel foreign exchange market more than doubled), declined substantially towards the end of the year. One contributing factor was that taxes on imports were set in accordance with the market on which the necessary foreign exchange had been obtained.

GUATEMALA

1. Recent economic trends: Introduction and summary

During 1985 Guatemala's economy remained subject to the acute tensions from which it has suffered since the beginning of the decade, both in the productive and in the financial sphere. The gross domestic product fell by 1 % and the main macroeconomic variables showed the same declining trend (see table 1 and figure 1).

In general, according to most of the indicators, the Guatemalan economy was suffering not so much conjunctural effects as the profound and widespread consequences of the already prolonged structural crisis that has left the country with an average income equal to that of 12 years ago.

The complex combination of economic and non-economic factors of domestic or foreign origin was accompanied in 1985 by the effects of an economic policy occasionally contradictory and at other times discontinuous, which increased uncertainty and inhibition among the economic agents.

The external sector was once again a limiting factor for economic development. On the one hand, the demand for the traditional export products fell during the greater part of the year, to which was added a decline in the terms of trade. This meant that the prospects of the productive sectors linked with export activities worsened and the national income fell still further (see table 1). On the other hand, the difficulties experienced in recent years in Central American trade increased owing to defensive measures taken by the importing countries to moderate their external imbalances and to the limitations on exporters due to the accumulation of credit balances in regional trade. This contributed to the contraction of the industrial sector and other activities linked with intra-regional trade and caused a fall in exports of goods and services.

Furthermore, the possibilities of mobilizing foreign resources continued to diminish, and this, together with a marked rise in the servicing of the external debt and the drop in exports, created a permanent shortage of foreign exchange. The consequent difficulties in obtaining imported inputs were largely responsible for sluggishness in production and upsets in the exchange rate.

On the domestic side, most of the variables showed a worsening of the trends already observed in recent years. The private sector weakened again, since after the moderate recovery of the previous year fixed capital formation contracted to levels that might reflect the virtual decapitalization of some industrial and agricultural sectors. Private consumption likewise showed a contraction which, added to the falls in the last five years, reflects the probable return of consumption patterns oriented mainly towards basic products, with a considerable fall in the average living standards of the population. Any readjustments made to wages were small. Thus the continued high prices created tensions in the labour force, whose wage demands became ever more frequent and aggressive.

The upsurge of inflationary pressures led to a rise of 31 % in the consumer price index: a figure without precedent in the modern history of the country. The upswing in inflation, in its turn, caused a further depression in real wages, which had already declined in the two preceding years. In addition, it became once more apparent in 1985 that the productive sector was chronically unable to create sufficient jobs, since the number of employed grew much less than the population of working age. This limitation has in recent years been generating an increase in the informal economy and a growing marginalization of the inhabitants of urban centres.

The public sector also had a depressive influence on total demand. Because of the objective of reducing the fiscal deficit, real investment diminished once again, after the drastic fall observed in the four preceding years. Government consumption went down especially in the items associated with the provision of social services.

Moreover, there was a decline in all the goods-producing sectors. Pre-eminent in this respect was the prolonged depression of the industrial sector as a result of the setbacks in Central American trade, the weakening of domestic demand and the problems in obtaining imported inputs. Similarly, construction continued to decline, although to a lesser extent than in the four preceding years.

The unsatisfactory results of productive activity were largely due to the difficulties in applying a coherent economic policy that would establish stable guidelines and clear rules of the game to restore confidence among the leading economic actors in relation to certain sensitive aspects in both the productive and the financial sphere.

In the first place, it should be borne in mind that 1985 was an election year.¹ Consequently, the private sector played a waiting game as regards most of the decisions on investment and production, while the public administration functioned within a climate of change, deferring decisions on the

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Indexes (1980 = 100)							
Basic economic indicators							
Gross domestic product at market prices	95.4	100.0	100.9	97.5	94.8	95.0	94.1
Gross national income	97.0	100.0	97.9	92.8	90.1	90.4	89.8
Population (thousands of inhabitants)	6 726	6 917	7 113	7 315	7 524	7 740	7 963
Per capita gross domestic product	98.1	100.0	98.2	92.2	87.1	84.9	81.8
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.8	3.9	0.9	-3.4	-2.7	0.2	-1.0
Per capita gross domestic product	1.9	1.9	-1.8	-6.1	-5.5	-2.5	-3.7
Gross national income	3.1	0.2	-2.1	-5.2	-2.9	0.3	-0.6
Terms of trade (goods and services)	-12.7	-1.0	-8.0	-13.2	2.3	3.6	-12.4
Current value of exports of goods and services	13.6	19.4	-16.4	11.6	-8.3	4.7	-3.6
Current value of imports of goods and services	8.5	9.8	3.3	-19.7	-19.2	8.8	-11.2
Consumer prices							
December to December	13.7	9.1	8.7	-2.0	8.4	5.2	31.5
Variation between annual averages	11.5	10.7	11.4	0.2	4.7	3.4	18.5
Money	10.9	2.5	4.1	1.5	5.2	7.4	42.3
Nominal wages and salaries	14.5	10.9	31.2	6.2	-2.9	2.7	7.0
Current income of government	1.0	11.8	-0.8	-1.5	1.5	-10.1	28.1
Total expenditure of government	15.3	29.4	24.3	-15.2	-12.8	3.2	7.3
Fiscal deficit/total expenditure of government'	27.5	37.4	50.0	42.0	32.5	41.2	29.8
Fiscal deficit/gross domestic product'	3.7	5.7	8.6	6.0	3.9	4.9	3.3
Millions of dollars							
External sector							
Trade balance (goods and services)	3.35	-228	-578	-348	-142	-201	-86
Balance on current account	209	-165	-574	-400	-225	-383	-247
Balance on capital account	183	-93	273	361	276	397	316
Variation in gross international reserves	-19	-251	-305	-16	64	30	69
External debt'	637	820	1 203	1 491	2 083	2 453	2 472

Source: HCLAC, on the basis of official figures.

"Preliminary figures. (Gross domestic product plus terms-of-trade effect plus net factor payments to the exterior.

' Percentages.

' Disbursed external public debt plus State-guaranteed private and Central Bank debt for a term of over one year.

The first round of elections for President of the Republic and deputies was held on 3 November, the second on 8 December.

management of the economy. In the second place, the authorities endeavoured to impose an adjustment policy in keeping with the commitments previously assumed with the International Monetary Fund (IMF), in order to restore the agreement suspended at the end of 1984. Finally, for these and other reasons, the government was unable to create a minimum of consensus on the measures that it had proposed and adopted.

At the beginning of the year, with a prospect of reduced public expenditure and lack of international liquidity, the government had a dispute with the Co-ordinating Committee of Agricultural, Mercantile and Financial Associations (CACIF), which comprises the most important productive groups in the country. The reason for this was the Committee's demand for an economic policy which would reduce State intervention in the functioning of the markets. The government's response underscored its intention to intervene in the regulation of prices, which had markedly increased in the preceding weeks, and towards the end of January it enacted a consumer protection law which sought to hold down excessive price increases.

When the parallel market, administered by the banking system, failed to halt the pressure on the quetzal and to stabilize the exchange rate, authorization was given for the opening of money exchange offices, but this permission was later cancelled when it became clear that the existence of these offices, far from helping to stabilize the exchange rate, only increased the pressure on it.

A few days later a foreign exchange auction market was opened, consisting of the auctioning-off to the highest bidder—for previously stipulated import purposes—of the remainder of the foreign exchange market for essential payments, governed by the official exchange rate. Although this mechanism worked well during the year, its existence constituted another element of exchange-market segmentation (official—auction-parallel—non-bank), apart from increasing importers' uncertainty over the final cost of foreign exchange.

In an attempt to strengthen the financial capacity of the public sector for containing the fiscal deficit within manageable limits, for exerting more influence on the determination of total demand and for coming closer to fulfilling the agreements made with the IMF, a set of economic measures was adopted in the second quarter which comprised tax adjustments and exchange-rate regulations. These measures brought the confrontation between the government and the CACIF to its most critical point, giving rise to widespread protests which forced the authorities to repeal the measures taken.

For its part, the government proposed to institute a national dialogue—a momentous event which should be assessed more for its political significance than for its economic achievements—aimed at integrating and reconciling the opposing positions of the different economic agents.

Little by little, the exchange-rate policy began to acquire more importance as the operations of the external sector produced profits or losses, according to the exchange system under which transactions were carried out.

The discrimination between commercial transactions in different goods—both in the case of exports and imports—had inflationary effects on production costs and, in particular, generated a speculative attitude among the agents connected with the external sector. This intensified the pressures on the currency.

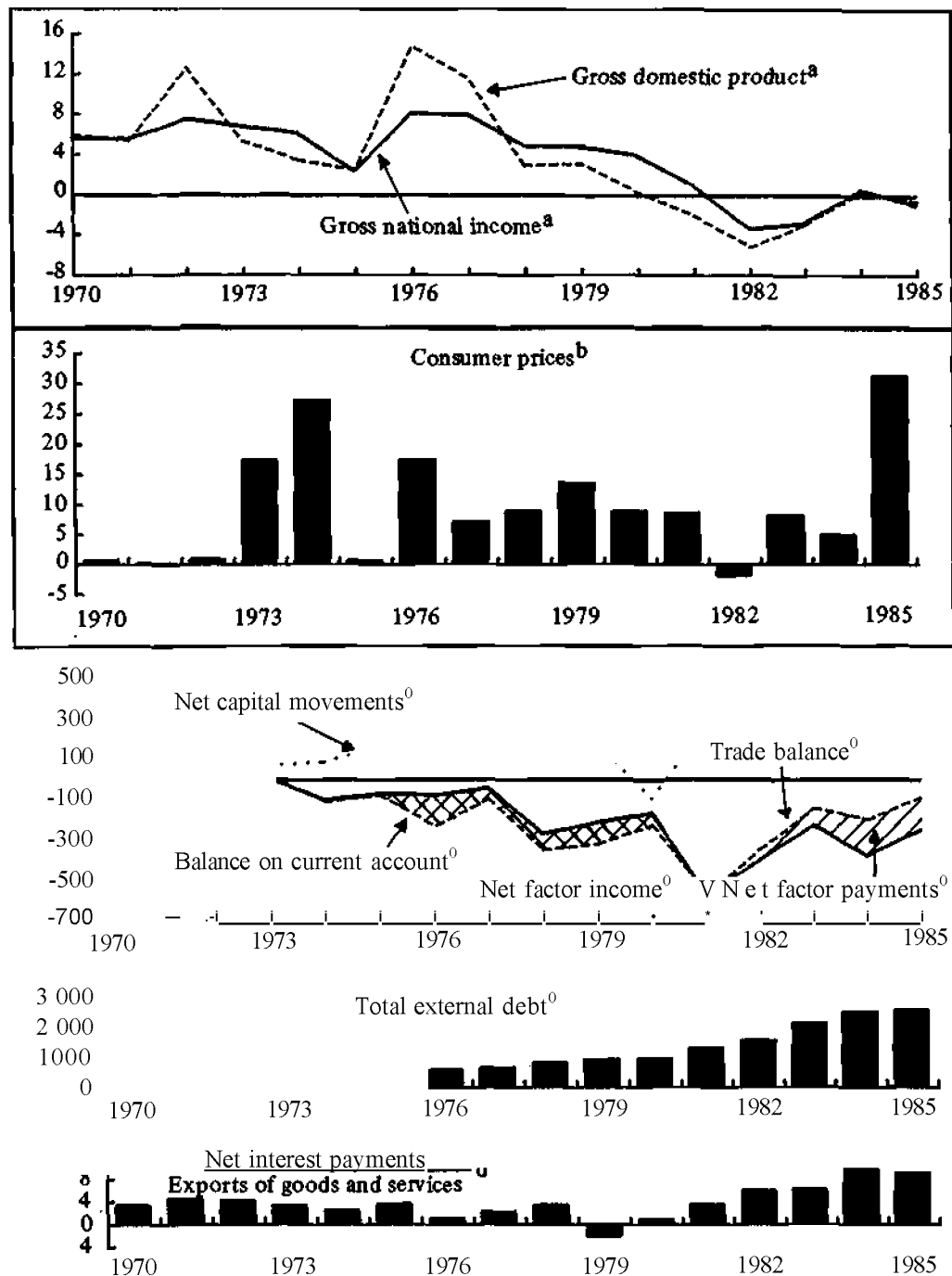
The Central Bank, for its part, had to face rising losses on the exchange rate—especially at the end of the year—stemming from the disequilibrium that was emerging in the staple goods market (between the supply of and demand for foreign exchange at the official exchange rate).²

In sum, most of the indicators reveal that the Guatemalan economy suffered unprecedented imbalances. These transmitted their effects to the productive apparatus, and inflation, unemployment and the fall of real wages caused a marked deterioration in the average level of well-being of the Guatemalan people. Furthermore, the decline in investment suggests that the obstacles which appear to be holding back the country's recovery and its capacity to undertake the indispensable structural changes are being identified, though they are still difficult to measure.

Worthy of note, however, are four positive signs that will influence future prospects: the renewal of a democratic process which will facilitate the formation of a political consensus to make the efforts that must be undertaken in the future; the start-up of a major hydroelectric plant (which will produce significant savings in imported fuel); the rise in the price of coffee, owing to the

² At the end of the year purchases in this market accounted for proportions of between 25% and 75% of the main export products. All the foreign exchange sold was devoted to the import of fuels and medicines and the servicing of the external debt.

Figure 1
GUATEMALA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. ^bPercentage variation from December to December. ^cMillions of dollars. ^dPercentages. ^ePercentages. ^fPercentages.

Table 2
GUATEMALA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown			Growth rates		
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total supply	89.0	90.5	88.2	124.9	117.1	-6.3	-4.8	1.7	-2.5
Gross domestic product at market prices	94.8	95.0	94.1	100.0	100.0	-3.4	-2.7	0.2	-1.0
Imports of goods and services	65.9	72.6	64.9	24.9	17.1	-18.7	-15.0	10.1	-10.6
Total demand	89.0	90.5	88.2	124.9	117.1	-6.3	-4.8	1.7	-2.5
Domestic demand	91.0	93.3	90.3	102.9	98.7	-6.8	-4.7	2.5	-3.2
Gross domestic investment	77.0	79.0	66.1	15.9	11.2	-19.1	-17.5	2.6	-16.3
Gross fixed investment	70.1	61.8	59.8	16.4	10.4	-10.9	-27.0	-11.8	-3.3
Construction	74.7	52.6	52.2	7.5	4.1	-12.0	-26.4	-29.6	-0.8
Machinery and equipment	66.2	69.5	66.1	9.0	6.3	-9.9	-27.6	4.9	-4.9
Public	72.5	46.6	42.8	5.9	2.7	-20.4	-32.2	-35.7	-8.2
Private	68.6	70.4	69.3	10.5	7.7	-3.2	-23.5	2.5	-1.6
Total consumption	93.6	95.8	94.7	87.0	87.6	-4.2	-2.4	2.4	-1.2
General government	104.6	106.1	103.1	8.0	8.7	-1.2	1.4	1.4	-2.8
Private	92.5	94.9	94.0	79.1	78.9	-4.5	-2.9	2.6	-1.0
Exports of goods and services	80.1	78.1	79.0	22.0	18.4	-3.7	-5.0	-2.5	12

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

The figures for exports and imports of goods and services were taken from IMF balance-of-payments figures in current dollars, converted to constant 1980 values by means of unit value indexes calculated by ECLAC for the purpose.

misfortunes suffered by Brazilian coffee production; and the fall in the price of hydrocarbons and in international interest rates. Hence there is some room to manoeuvre, which it is imperative to exploit in a determined effort to renegotiate the external debt and integrate the domestic political agreements.

2. Trends in economic activity

a) *Total supply and demand*

All the variables of total supply and demand reflected the profound and generalized nature of the present economic crisis. Indeed, the rates of decline attained magnitudes of up to two digits, especially in the case of capital formation, while the contraction was also recorded in almost all the macroeconomic variables, which meant that in the last five years—including 1985—the trends in production have been far from satisfactory (see table 2).

After the virtual stagnation registered in the preceding year, 1985 witnessed a further fall (-1.0%) in the gross domestic product, so that its absolute level was around that achieved seven years before. Besides this, the decline in total supply was even more pronounced (-2.5%), owing to the difficulties in obtaining imported goods. The persistence of these difficulties created tensions in the productive apparatus that affected even the structural relationships. Whereas in 1975 imports represented 24.3% of the product and in 1980 the proportion amounted to 24.9%, in 1985 it fell to 17.1%.

Domestic demand contracted even more drastically, particularly owing to the reduced expenditure of the public sector, and in a lesser degree, to the influence of the private sector. As a result of the tightness of public finances, and in an effort to meet the targets set by the International Monetary Fund, the government adopted an austere expenditure budget at the beginning of the year. At the end of the period the actual figures reflected levels even lower than those originally budgeted in several

items, above all in capital formation. Hence, in real terms, public investment again declined (-8.1%) for the fourth year running and the negative effects were probably even greater in reality, since this reduced level of investment included the execution of repairs to a major hydroelectric project. General government consumption, for its part, went down by 2.8%, especially in respect of social services (health and education); this was partially offset by increases in expenditure on general administration, security and defence, along with the servicing of the public debt.

With regard to State investment, what is most significant is not so much the figures for 1985 as the decline observed over the past five years. Whereas in 1980 public investment represented 5.9% of the gross domestic product, in 1985 the proportion was down to 2.7%. Secondly, these diminished amounts of investment continued to be concentrated in a small number of large projects (e.g., the Chixoy hydroelectric plant and the port on the Pacific), so that their effects have been increasingly restricted both from a geographical and a sectoral standpoint. Thirdly, a serious deterioration occurred in the existing infrastructure, both economic (highways, bridges, ports) and social (hospitals, schools), the repair or replacement costs of which will have enormous repercussions in the future. Finally, there was a growing backlog in the satisfaction of the demand for social services and economic infrastructure for a population in a state of permanent and rapid growth.

Private investment also declined, although to a lesser degree (-1.5%), after having begun to show signs of recovery in 1984. This variable had in any case shown a declining trend throughout recent years, its share in the product falling from 12.7% in 1975 to 10.5% in 1980, and to 7.7% in 1985. In the latter year the contraction was linked with the uncertainty typical of an election year, with the mistrust created by exchange-rate disorders, and with the depression of demand in the country itself and in Central America as a whole. Within this far from propitious framework, there was the further problem of reduced State support for the private sector, not only in the provision of economic infrastructure and subsidy programmes, but also in respect of fiscal exemptions and the fall in credit assistance caused by the growing fiscal constraints.

All in all, the prolonged weakening of the effort at accumulation represented an alarming decline in capital stock in some productive sectors—especially industry, agriculture and transport—with repercussions that are likely to be felt in the long and medium term.

Another indicator of economic deterioration was private consumption. In 1985 it declined once again after having shown signs of recovery in 1984. Average per capita consumption has fallen steadily during the last five years: a factor which has altered the composition of final demand, concentrating it on the acquisition of strictly essential goods in the case of the less privileged strata of the population. This, coupled with the drop in real wages, in employment and in the social services provided by the public sector, has meant an impoverishment of living conditions and shows that a large part of the burden of adjustment has fallen on the poorest social groups. Furthermore, during the second half of the year there was a certain scarcity of articles of mass consumption.

Exports of goods and services, though they recovered slightly (1%), were far from regaining the level of previous years. Once again in this case the fall in the preceding years was so pronounced and sustained that the share of external sales in the product dropped from 22% in 1980 to 18.4% in 1985.

Sales to Central America were drastically limited by the insufficient payment capacity of the countries, to such an extent that in 1985 the reduction recorded in this type of trade neutralized the rise in sales to the rest of the world. Hence, it was the traditional agricultural export products which were responsible for the very slight revival recorded during the year.

b) *Trends in the main sectors*

Most of the productive activities displayed negative trends and those which achieved growth did so more moderately than in the previous year. Goods production contracted in all branches, and the decline in this sector as a whole has been continuous since 1982. Basic services increased, however, due to the performance of the electricity sector, and "other services" contracted solely on account of the lower aggregate value of commerce. On the other hand, the dynamic evolution of finance was striking within a depressive macroeconomic framework, owing to the intense financial intermediation activity partly associated with the transactions stimulated by exchange-rate upsets and inflation (see table 3).

Table 3

**GUATEMALA: GROSS DOMESTIC PRODUCT, BY
KIND OF ECONOMIC ACTIVITY"**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985 ⁶	1982	1983	1984	1985 ⁶
Gross domestic product	94.8	95.0	94.1	100.0	100.0	-3.4	-2.7	0.2	-1.0
Goods	92.0	90.9	89.9	50.1	47.5	-4.5	-4.4	-1.2	-1.1
Agriculture'	96.5	98.4	97.6	27.1	25.1	-3.0	-1.7	2.0	-0.8
Mining	63.5	52.7	43.9	0.7	0.3	13.8	-12.1	-17.0	-16.7
Manufacturing	90.1	90.6	89.4	17.6	16.7	-5.2	-1.9	0.5	-1.3
Construction	77.4	54.5	54.1	4.6	2.7	-11.6	-26.4	-29.6	-0.7
Basic services	93.6	96.4	97.7	5.7	5.8	-4.1	-0.7	3.0	1.3
Electricity, gas and water	96.9	101.5	105.9	1.3	1.4	-2.1	-0.6	4.7	4.4
Transport, storage and communications	92.6	95.0	95.2	4.4	4.4	-4.7	-0.7	2.5	0.3
Other services	98.3	99.7	98.5	44.3	46.3	-2.0	-1.2	1.4	-1.2
Commerce, restaurants and hotels	91.1	91.8	88.1	22.5	21.1	-5.6	-4.1	0.8	-4.0
Financial institutions, insurance, real estate and business services	105.4	107.4	110.1	7.7	9.0	2.0	-0.9	1.9	2.5
Ownership of dwellings	108.0	109.9	112.1	4.9	5.8	2.6	2.6	1.8	2.0
Community, social and personal services	105.9	107.9	108.6	14.0	16.2	1.4	2.0	1.9	0.6
Government services	113.6	116.9	118.0	6.4	8.7	3.9	4.7	2.9	1.0

Source: ECLAC, on the basis of official figures.

*At 1980 market prices.

Preliminary figures.

⁶Includes the livestock sector, forestry and fishing.

i) *The agricultural sector.* As a whole, the agricultural sector has displayed a capacity to resist the crisis, since although it suffered systematic declines during the five previous years, these were less profound than those of the total product. During 1985, after the revival of the preceding year, agricultural output contracted once again (-0.8%) owing to a combination of opposing results. Some crops expanded, while others declined; livestock production went down, and poultry-raising and forestry stagnated.

Aside from the structural problems that have long affected the agricultural sector—most of them linked with the agrarian structure, financing and technology—new difficulties arose as a result of the crisis and the adjustment policies, while the existing ones became more acute. Some crops were faced with almost insuperable financial obstacles; others suffered from obsolescent technology; most of the export products encountered unstable markets and rising costs; production for domestic consumption lacked adequate resources, and there was a process of decapitalization.

Against this unpropitious background, the overall results of the agricultural sector could not be described as unsatisfactory. It is estimated that the coffee harvest for the 1986/1987 cycle will probably show a satisfactory growth rate (7%); nonetheless, compared with the calendar year 1985 there was a contraction of 6% through the effect of the particularly poor harvest of the previous cycle (1985/1986). At all events, coffee-growing resisted the adverse effects of unstable prices and persistent cost increases, since the physical volume remained around 3.6 million quintals (see table 4).

The financial problems of coffee-growing caused distortions in the marketing of this crop and the gains or losses on the exchange rate, according to the period in which the external transactions were made and the markets in which they took place. On the one hand, the restrictive monetary policy

limited the financial resources for supporting production and maintaining seasonal stocks. On the other hand, the differential exchange rates rewarded sales on new markets outside the quota area because of payment in foreign currency that could be negotiated in the parallel market, whereas sales within the quota had to be transacted in the commodities market. This stimulated exports to the new markets, although at the expense of failure to comply with the quota and with a consequent reduction of the national average price in dollars.³

Cotton production, which in the 1970s was second in importance to coffee, grew by 7.6% in 1985 owing to an expansion of the area sown rather than to a recovery of the yields. This was one of the activities most affected by the crisis. During the period 1980-1983 the harvests fell appreciably and persistently owing to declines in productivity and especially in the area sown, which dropped from slightly over 184 000 *manzanas** to less than 80 000 in 1983 as a result of low international prices and rises in production costs.⁵

In 1985 the incentive of being able to negotiate on the parallel exchange market some 50% of the foreign currency obtained from the exports of the 1985/1986 crop restored part of the profitability

Table 4
GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Indexes of agricultural production (1975 = 100)	100.0	116.9	112.8	115.1	114.2	-3.0	-1.7	2.0	-0.8
Crop farming	100.0	114.2	106.8	110.9		-3.4	-4.5	3.8	
Stock raising	100.0	118.7	118.8	117.8		-1.3	1.0	-0.8	
Production of the main crops									
For export									
Coffee'	3 570	3 628	3 650	3 840	3 617	-1.7	-1.8	5.2	-5.8
Cotton'	2 277	3 140	1 323	1 378	1 483	-39.9	-28.2	4.1	7.6
Bananas	11 494	16 260	13 492	13 538	16 000	2.8	-20.8	-0.4	18.2
Sugar cane'	92	101	120	121	122	14.3	-11.7	1.1	0.6
For domestic consumption									
Maize'	20 294	20 602	22 004	25 063	24 186	9.2	-6.1	13.9	-3.5
Beans'	3 270	1 319	2 018	2 283	2 485	18.7	-6.4	13.2	8.8
Rice'	1 002	917	995	980	835	48.6	-8.6	-1.5	-14.8
Indicators of stock-raising production									
Stocks									
Cattle"		2 374	2 276	2 356		4.4	-12.8	3.5	
Slaughtering									
Cattle'		323	316	315		-10.1	8.2	-0.4	
Other products									
Milk*		275	243	248		3.9	-17.9	2.1	
Eggs*		71	83	90		-	6.4	8.4	

Source: IICLAC on the basis of official figures.

'Preliminary figures. On the basis of figures at 1978 prices. 'Thousands of quintals. 'Thousands of hands. 'Millions of quintals. 'Thousands of head. "Millions of litres. 'Millions of dozens.

¹ The last two weeks of the year saw a sustained increase in the international price, attributable to coffee-growing problems in Brazil; this had little effect, however, since most of the operations had already been carried out at the old prices.

⁴ A *manzana* equals 0.1 hectares.

⁵ The average yield and profitability have fallen for purely technological reasons, such as genetic aging of the seeds, growing immunity of pests, obsolescence of cultivation, fumigation and harvesting techniques, among others, and price increases of imported inputs in terms of national currency.

Table 5
GUATEMALA: INDICATORS OF MINING PRODUCTION

	Index of Value added (1979 = 100)				Growth rates			
	1980	1983	1984	1985°	1982	1983	1984	1985"
Index of mining production	171.3	109.3	89.0	81.4	12.8	-11.0	-18.6	-16.5
Production of some important minerals								
Petroleum	263.1	378.7	254.9	174.6	39.3	4.0	-32.7	-31.5
Minerals	193.7	43.0	42.8	73.9	6.5	-36.5	-0.5	-20.9
Gravel and sand	116.5	119.1	112.4	100.7	-9.1	2.0	-5.6	-10.4
Salt	88.9	166.6	171.4	190.4	20.0	25.0	2.9	11.1

Source: ECLAC, on the basis of official figures.
° Preliminary figures.

ity and stimulated the expansion of the area cultivated. Nonetheless, the accumulation of losses and unfulfilled financial commitments with the national banking system caused a large group of producers to withdraw from the activity in face of the impossibility of obtaining new credits.

There was an increase —now almost imperceptible— in sugar cane output after the difficulties experienced in 1983. This crop too was in a precarious situation, not only because of the fall in its international price and its poor prospects of recovery, but also owing to the weakness of demand through the competition of substitute products and to the rise in production costs.

Sugar producers received exchange incentives that improved the profitability of the crop. Even so, the quota assigned to Guatemala during the year in question (1.6 million quintals) in the United States market was a drastic reduction (-32%) on that of the previous year. Output responded to the stimuli of domestic consumption and the potential of the free markets, but there remained substantial margins of idle capacity in the refining industry.

As regards products for domestic consumption, the moderate decline in the maize harvest (-3.5%) was noticeable after the recovery of the year before. This was due to the effects of a brief drought, certain problems in the supply of inputs, and the setting of only moderate guaranteed prices by the National Agricultural Marketing Institute (INDECA), because of the previous favourable harvest and the need to avoid inflationary pressures; it was also affected by the expansion of the area sown with cotton at the expense of that of maize. Faced with the prospect of a fall in production, INDECA raised the guaranteed prices, but it did so at a time when decisions on planting could no longer be changed, at least for the first harvest of the year.

The other basic consumption product that declined was rice (-15%), owing to a contraction in the area sown (-10%) and to the lower average yield attributable to pests. The bean crop, on the other hand, increased by 9%, with the inducement of a rise in the support price. Basic-grain production as a whole suffered a slight decline, but this did not cause serious problems of supply.

ii) *Mining and hydrocarbons.* For the third year in a row this activity experienced a fall which affected almost all the branches that compose it (see table 5). In order to encourage the private sector and foreign investors to intensify the exploitation of the country's mining resources, the beginning of the second half of the year saw the unification of mining legislation, which had basically been composed of three different legal instruments.⁶ Although no results have been obtained as yet, the new legal instrument will offer more rights and concessions to the investor and demand less in respect of royalties and commitments to the State. In the case of hydrocarbons, the gradual depletion of the three main wells in exploitation (Rubelsalto, Chinayá Oeste and Caribe) and the lack of interest

⁶ The Mining Code, issued in 1961, the Quarrying Law of 1969, and the Law on the Promotion of Small Enterprises of 1985.

on the part of international companies in making more investments —owing to the high costs of production and the weakening of external markets— caused the 1985 output to fall to less than half (46%) of that achieved in 1983, thus covering approximately 9% of national consumption.

iii) *Manufacturing*. Since 1981 manufacturing has systematically declined, interrupted only by the virtual stagnation registered in 1984 (see table 6).

The depression of domestic demand continued to exert a negative influence on investment and production decisions in the entrepreneurial sector. The consumer protection law established price ceilings for many products, some of which were insufficient to cover production costs and caused some temporary scarcity in several of these items. Moreover, other factors were involved: cost increases in terms of national currency, as the importation of inputs was gradually transferred from the commodities exchange market to the parallel market; problems of supply of intermediate goods —when it was difficult to obtain the necessary foreign exchange—, and speculative price distortions in some periods, linked with the application of exchange or taxation measures. From another angle, the contraction of intra-regional trade had a direct depressive effect on the manufacturing sector, which is the main sector engaged in this trade, and exchange rigidities resulted also in loss of competitiveness outside the region.

The results of the survey of manufacturing enterprises for the first half of 1985 corroborated most of the appraisals given above. Thus, for example, in the great majority of firms in all branches there appeared, as expected, declines in the volume of output compared with the same period the year before and with the preceding six months, with the exception of the paper, glass and metal-products industries. In the same way, it was foreseen that there would be a slight increase in wages, that employment would maintain a similar level to that of the preceding six months, and that installed capacity would operate at levels below 50% (see table 7).

iv) *Construction*. Construction continued to decline, but at a lower relative rate (-0.7%), as a result of a slight recovery in the private sector (0.8%), offset by a new fall in public investment (-1.5%). The increased activity in private construction, measured in terms of building permits, did not appear to represent a general revival throughout the country, and in any case was concentrated in the last part of the year (see table 8).

Table 6

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985°	Growth rates			
					1982	1983	1984	1985°
Index of manufacturing production (1977 = 100)	119.3	107.3	107.7	106.3	5.6	-1.7	0.4	-1.3
Foodstuffs	121.7	104.1	105.0		•8.8	-1.6	0.9	
Textiles	113.6	96.7	95.5		•9.4	1.8	-1.2	
Clothing	109.3	99.7	100.2		•4.5	-3.5	0.5	
Chemical products	117.6	110.5	109.8		•9.3	-0.6	-0.6	
Others	120.9	114.5	115.0		•1.9	-2.0	0.4	
Other indicators of manufacturing production								
Industrial consumption of electricity (kWh)	515 006	362 118	370 228		-20.3	-6.3	2.2	6.6"
Employment (number of persons)	83 066	77 842	69 506		0.2	5.4	-10.7	

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Refers to January-November in relation to the same period in the previous year.

Table 7

**GUATEMALA: RESULTS OF THE SURVEY OF ENTREPRENEURS CONCERNING
INDUSTRIAL ACTIVITY DURING THE FIRST HALF OF 1985**

(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	32.3	30.2	37.5	29.4	27.5	43.1	50.0	50.0	.
Food	34.2	37.0	28.8	30.1	30.2	39.7	53.4	46.6	-
Beverages and tobacco	34.6	19.2	46.2	34.6	19.2	46.2	46.2	53.8	-
Textiles	13.5	44.2	42.3	13.5	32.7	53.8	23.1	76.9	.
Wearing apparel and leather goods	15.0	40.2	44.8	13.8	25.3	60.9	39.1	60.9	-
Wood and furniture	26.4	26.4	47.2	26.4	30.2	43.4	26.4	73.6	-
Paper, printing and publishing	38.5	28.8	32.7	40.4	36.5	23.1	53.8	46.2	-
Rubber and plastics	12.5	42.5	45.0	20.0	40.0	40.0	62.5	37.5	-
Chemicals	31.7	25.4	42.9	20.6	30.2	49.2	57.1	42.9	-
Glass and non-metallic minerals	55.8	14.0	30.2	46.5	18.6	34.9	51.2	48.8	-
Basic metals industries	14.3	33.3	52.4	28.6	19.0	52.4	71.4	28.6	-
Manufacture of metal products	37.5	28.1	34.4	40.6	23.4	36.0	46.9	53.1	-
Other industries	-	30.8	69.2	-	15.4	84.6	69.2	30.8	-

Branch of activity	Employment			Use of installed capacity					
	*"			51- 60	61- 70	71- 80	81- 90	91- 100	
	In- creased	Same	creased						
Manufacturing	13.4	72.3	14.3	33.1	23.3	14.7	16.1	5.5	7.3
Food	11.0	80.8	8.2	23.3	34.3	12.3	23.3	-	6.6
Beverages and tobacco	11.5	65.4	23.1	38.5	19.2	23.1	-	-	19.2
Textiles	9.6	75.0	15.4	36.5	15.4	11.5	13.5	13.5	9.6
Wearing apparel and leather goods	13.8	63.2	23.0	35.6	13.8	18.4	10.4	14.9	6.9
Wood and furniture	22.6	60.4	17.0	28.3	18.9	20.7	9.4	17.0	5.7
Paper, printing and publishing	15.4	69.2	15.4	11.5	32.7	15.4	23.1	11.5	5.8
Rubber and plastics	-	97.5	2.5	22.5	50.0	-	15.0	12.5	-
Chemicals	14.3	71.4	14.3	44.4	12.7	15.9	14.3	7.9	4.8
Glass and non-metallic minerals	20.9	58.2	20.9	48.9	11.6	18.6	11.6	9.3	-
Basic metals industries	9.5	76.2	14.3	57.1	23.8	-	19.1	-	-
Manufacture of metal products	23.4	64.1	12.5	31.5	13.0	11.1	29.6	9.3	5.5
Other industries	15.4	53.8	30.8	46.1	30.8	23.1	-	-	-

Source: IBCXAC, on the basis of information supplied by the Banco de Guatemala.

*Compared with the previous six months.

The increase in cement production, for its part, seemed to be linked with circumstantial factors: on the one hand, the tunnel of the Chixoy hydroelectric station needed repair, which required unusually large quantities of cement to stop leaks, while on the other hand cement was preferred in the repair and improvement of urban roads in view of the difficulties in obtaining certain petroleum by-products.

Finally, it should be mentioned that in housing construction there were obstacles of a financial nature. The rises in costs and interest rates compelled the Assured Mortgage Fund (FHA), to increase its credit restrictions, which reduced the number of applicants who could meet the new requirements.

v) *Other sectors.* The remaining activities achieved positive growth rates, though most of them were lower than in the previous year, except for commerce, which contracted.

In the case of the energy sector, its development was powerfully influenced by the renewal of operations on the Chixoy hydroelectric station, which began to function fully towards the end of the year. Before the repair of the tunnel of this plant was completed, however, the country was faced with problems of energy supply —owing to the difficulties in the supply of fuel to the thermal plants— which even led to temporary rationing in the central zone.

Table 8
GUATEMALA: CONSTRUCTION INDICATORS

	1980	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Area constructed (thousands m ²)								
Total	228	219	228	245	46.2	-0.9	4.1	7.5
Housing	128	126	129	165	69.0	-14.3	-0.4	27.9
Cement production (1972 = 100)	228.4	183.3	157.7	202.6'	-9.6	-10.8	-14.0	28.5'
Employment	27 738	17 817	13 041		14.7	-33.8	-26.8	

Source: HO.AC, on the basis of official figures.

"Preliminary figures. Refers to private building permits issued in the capital. ' Refers to the period January-November.

"Number of persons covered by Social Security.

Table 9
GUATEMALA: EVOLUTION OF EMPLOYMENT"

	1981	1982	1983	1984	1985*	Growth rates			
						1982	1983	1984	1985
Thousands of persons									
Total	591.0	609.1	576.7	594.9	601.2	3.1	-5.3	3.2	1.0
Agriculture	225.7	215.7	199.8	205.5	209.5	-4.4	-7.4	2.9	2.0
Manufacturing and mining	77.1	77.0	81.2	71.7	72.0	-	5.5	-11.7	0.5
Construction	23.4	26.9	17.8	13.0	13.3	15.0	-33.8	-27.0	2.0
Commerce	58.9	61.3	63.4	59.4	58.9	4.1	3.4	-6.3	-0.8
Other services'	205.9	228.2	214.5	245.3	247.5	10.8	-6.0	14.4	1.0
Indexes (:1975 = 100)									
Total	113.5	117.0	110.8	114.2	115.3				
Agriculture	86.8	82.9	76.8	79.0	80.6				
Manufacturing and mining	119.5	119.3	125.8	111.1	111.6				
Construction	112.2	128.9	85.4	62.3	63.5				
Commerce	154.1	160.3	165.9	155.4	154.2				
Other services'	150.3	166.6	156.6	179.1	180.9				

Source: HO.AC, on the basis of official figures.

"Number of persons registered with the Guatemalans»:Kijil Security Institute.

Preliminary figures.

' Induites public administration.

Table 10

GUATEMALA: MAIN INDICATORS OF FOREIGN
TRADE IN GOODS

	1980	1981	1982	1983	1984	1985"
Growth rates						
Exports						
Value	24.4	-15.0	-9.4	-6.7	3.5	-6.1
Volume	8.6	-9.5	-0.9	-3.3	-3.4	0.9
Unit value	14.5	-6.1	-8.5	-3.5	7.2	-7.0
Imports						
Value	5.1	4.6	-16.6	-17.8	12.0	-8.6
Volume	-20.0	-3.2	-14.1	-11.9	14.9	-8.1
Unit value	31.3	8.0	-3.0	-6.6	-2.5	-0.5
Terms of trade	-11.6	-13.2	-6.3	2.7	8.4	-6.7
Indexes (1980 = 100)						
Purchasing power of exports	100.0	78.5	72.9	72.4	75.8	71.4
Volume of exports	100.0	90.5	89.6	86.7	83.7	84.5
Terms of trade	100.0	86.8	81.3	83.6	90.6	84.6

Source: ECLAC, on the basis of official data.

"Preliminary figures.

The transport sector also encountered problems through lack of fuel supplies, while it was the centre of heated protests when, in view of higher operating costs, the government authorized an increase of 50% in urban public transport fares.

c) *Employment*

Only partial information is available on the performance of employment. The overall number of employed went up by only 1% (see table 9), which suggests that there was a contraction in the average productivity of the economy, a growth in the segments of the population engaged in informal or subsistence activities, and a new deterioration in the general employment situation, since growth of the labour force exceeded that figure. Hence the coefficient of open unemployment may well have reached around 12% and that of concealed unemployment around 33% of the country's labour force.⁷

3. The external sector

Most of the external sector variables had a particular impact on the functioning of the economy during the year. The effort to halt the declining trend of exports by increases in volume was neutralized by a drop in prices, which led to a fall in the value of exports. Conversely, the effort to reduce the volume of imports was partly offset by the rise in prices, all of which resulted in a fall in the terms of trade and a weakening of the variables connected with foreign trade (see table 10).

a) *Merchandise trade*

The value of exports of goods went down by 6.1% as a result of the fall in sales to Central America and the very slow growth of sales to the rest of the world (see table 11).

Exports to the subregion declined for the fifth year running, mainly owing to the protectionist measures applied by the countries to bring their external accounts into balance, to the restrictions

⁷ According to the PR13AIC concept, this represents the number of jobs of average productivity needed to absorb concealed unemployment.

imposed by the Guatemalan authorities in face of the impossibility of recovering credit balances, and to the decline of aggregate demand in the region as a whole.

Up to 1984, although the decline in sales to the region had been considerable their volume still signified more than a quarter of total exports and represented a highly important element in the modern industrial sector. In 1985, however, the fall was so drastic that the proportion dropped to less than a fifth.

In the case of the main export products, performance varied. Only two of them increased their value: coffee, basically because of the greater volume exported, and bananas, which evolved favourably both in quantity and price. Revenues from cotton sales remained stagnant, while those from the remaining products fell drastically, owing both to the smaller amount sold and a drop in prices.

As regards coffee, a series of apparently contradictory developments took place. Firstly, output went down, but registered exports increased appreciably (42%). This was because the operations of the last quarter were powerfully influenced by the excellent harvest of the 1985/1986 cycle, and also because in that period sales were transacted on a futures basis in order to obtain the exchange-rate benefits which it was known would end on 31 December. Secondly, there was a fall in the average price (12%), even though the International Coffee Organization price remained practically constant up to November and began to rise in December. In this case the exchange differential that benefited sales in the new markets—in which the price tends to amount to around half that of the quota—caused a shift of exports to these markets (the proportion rose from 10% in 1984 to 34% in 1985), which reduced the average of the prices received.

There was also a notable drop in the sales of "other" non-traditional products, including manufactured goods and some high-value agricultural products which represent a deliberate effort to transform the export structure. These were affected by difficulties in obtaining inputs, as well as by cost increases which reduced the country's competitiveness.

Imports of goods contracted by 8% and most of their components displayed the same trend (see table 12). As the availability of foreign exchange from the Central Bank became progressively more difficult, import items were gradually transferred from the category of essential products to the parallel market, where not only was the exchange rate higher but, at certain periods, the supply of

Table 11

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985°	1975	1980	1985°	1982	1983	1984	1985°
Total	1 092	1 132	1 062	100.0	100.0	100.0	-9.4	-6.7	3.5	-6.1
Exports to Central America	321	291	205	26.4	29.0	19.3	-11.1	-4.9	-9.3	-29.6
Exports to rest of world	771	841	857	73.6	71.0	80.7	-6.2	-10.6	9.1	1.9
Traditional	541	572	654	63.8	50.6	61.6	-9.3	-10.1	5.7	14.3
Green coffee	309	361	450	25.6	30.6	42.4	15.0	-17.6	16.8	24.7
Ginned cotton	67	72	72	11.6	10.7	6.8	-45.5	-29.1	6.8	-
Bananas	54	55	72	5.4	2.9	6.8	42.0	-25.0	3.0	30.9
Meat	16	13	10	2.6	1.9	0.9	-41.4	-7.1	-18.6	-23.1
Sugar	95	71	50	18.6	4.5	4.7	-48.2	118.1	-25.2	-29.6
Non-traditional	230	269	203	9.8	20.4	19.1	-1.9	-12.2	17.0	-24.5
Cardamom	59	100	63	1.6	3.7	5.9	29.4	34.4	69.5	-37.0
Petroleum	60	34	12	-	1.6	1.1	109.1	30.2	-42.8	-64.7
Others	111	135	128	8.2	15.1	12.1	-14.8	-35.5	21.6	-5.2

Source: IICLAC, on the basis of official figures.

°Preliminary figures.

Table 12

GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	1 135	1 278	1 175	100.0	100.0	100.0	-17.1	-18.2	12.6	-8.1
Consumer goods	254	264	234	22.4	21.3	19.9	-12.5	-15.0	3.9	-11.4
Durable	68	55		7.3	7.7		-34.6	-11.2	-19.1	
Non-durable	186	209		15.1	13.6		-1.0	-16.3	12.4	
Intermediate goods	744	863	790	53.6	59.8	67.2	-18.7	-9.5	16.0	-8.5
Petroleum and fuels	250	300	272	14.0	21.2	23.1	-196	-15.7	20.0	-9.3
Building materials	54	56	52	5.1	5.8	4.4	-20.9	-31.1	3.7	-7.1
Others	439	507	466	34.5	32.8	39.7	-17.7	-1.5	15.5	-8.1
Capital goods	127	147	148	23.4	17.9	12.6	-14.5	-50.5	15.7	0.7
For agriculture	7	14		2.6	12		-46.0	-22.7	100.0	
For industry	94	101		13.6	12.1		-5.1	-55.1	7.4	
For transport	26	32		7.2	4.6		-39.2	-31.4	23.1	
Others	10	4	3	0.6	1.0	0.3	-50.0	-6.7	-61.9	-25.0

Source: 1:CLAC on the basis of official figures
 "Preliminary figures.

foreign currency was insufficient to meet importers' demands. The most obvious case was that of the supply of hydrocarbons. From the beginning of the year the reduced international liquidity put difficulties in the way of paying for petroleum. In July a "swap" was negotiated for a fifth of the country's gold reserves (96 000 ounces worth US\$30 million), in order to pay for a petroleum shipment that had arrived a month before and to ensure future supplies.

Imports of capital goods, for their part, reflected the serious weakening of capital formation, since although this did register a slight increase in 1985, capital goods represented only 13% of total purchases, whereas in 1975 the proportion was 23%.

Similarly, purchases from Central America fell by close on US\$100 million, partly because the authorities still failed to guarantee payment by Guatemalan importers in accordance with the compensation mechanism established. At all events, the country maintained its surplus in this trade, despite the lower level of trade with the subregion.

In sum, the trade deficit dropped from US\$201 million to US\$86 million, but the adjustment was recessive, since it did not result from an increase in exports but from a reduction in purchases from abroad induced by economic contraction and the depletion of the foreign exchange market (see table 13).

In formal terms, the traditional exchange parity was maintained, but it was substantially overvalued in real terms (see table 14). In the bulk of external transactions, however, there was a marked average devaluation with appreciable differences in the prices on the different exchange markets (see table 15).

b) *Services trade and factor payments*

The balance on trade in real services,⁸ traditionally negative, showed a substantial improvement, since it recorded a deficit of US\$67 million as against US\$149 million the previous year. This was due largely, of course, to the reduced outlays on transport deriving from the fall in the volumes of foreign trade, but also in part to the decline in expenditure on travel abroad (see table 13).

⁸ Excludes net factor payments.

Table 13

GUATEMALA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-209	-165	-574	-400	-225	-383	-247
Trade balance	-335	-228	-578	-348	-142	-201	-86
Exports of goods and services	1 449	1 730	1446	1 278	1 172	1 228	1 183
Goods FOB	1 221	1 520	1 291	1 170	1 092	1 131	1 062
Real services	228	211	155	107	80	97	121
Transport and insurance	40	43	33	26	18	10	7
Travel	82	62	30	12	7	11	13
Imports of goods and services	1 784	1 958	2 024	1 626	1 314	1 429	1 269
Goods FOB	1 402	1 473	1 540	1 284	1 056	1 183	1 081
Real services	382	486	484	342	257	246	188
Transports and insurance	161	187	188	139	99	112	107
Travel	120	164	133	100	89	61	24
Factor services	3	-45	-86	-114	-113	-209	-180
Profits	-45	-42	-49	-41	-39	-83	-70
Interest received	78	75	55	20	27	30	30
Interest paid	-46	-92	-109	-100	-102	-152	-139
Others	15	14	17	7	-	-4	-1
Unrequited private transfer payments	123	109	89	62	30	28	19
Balance on capital account	183	-93	273	361	276	397	316
Unrequited official transfer payments	3	1	1	1	1	1	-
Long-term capital	258	247	398	339	283	205	139
Direct investment (net)	117	111	127	77	45	38	60
Portfolio investment (net)	5	4	-	1	77	59	-2
Other long-term capital	135	132	270	262	161	109	81
Official sector'	112	106	201	147	167	157	82
Loans received	130	121	228	186	310	283	177
Amortization payments	-18	-18	-27	-37	-143	-126	-95
Commercial banks'	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors'	23	26	69	114	-6	-48	-1
Loans received	60	25	100	124	11	6	89
Amortization payments	-47	-10	-42	-15	-18	-54	-90
Short-term capital (net)	-33	-323	-130	39	29	179	186
Official sector	2	59	54	40	24	-93	
Commercial banks	24	2	-7	14	71	9	
Other sectors	-59	-384	-178	-14	-67	262	
Errors and omissions (net)	-44	-18	4	-18	-37	12	-10
Global balance	-26	-258	-301	-38	51	14	69
Total variation in reserves (- sign indicates an increase)	19	251	305	16	-64	-30	-69
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-9	2	20	3	-1	-1	2
IMF reserves position	-2	-9	18	10	-8	8	-
Foreign exchange assets	56	259	257	25	-89	-72	-29
Other assets	-26	-1	-102	-15	-	25	-8
Use made of IMF credit	-	-	111	-6	35	10	-34

Source: 1979-1981: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.

"Preliminary figures.

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

' In additions to

loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. 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 represent counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 14

GUATEMALA: EVOLUTION OF EXCHANGE RATE

	Nominal exchange rate (quetzals per dollar)	Index of nominal exchange rate ^a	Index of wholesale prices ^b		Index adjusted exchange rate ^b
			Domestic	Of United States	
1980	1.00	100.0	264.3	243.6	92.2
1981	1.00	100.0	295.3	265.8	90.0
1982	1.00	100.0	278.2	271.2	97.5
1983	1.00	100.0	280.7	274.6	97.8
1984	1.00	100.0	296.5	281.1	94.8
1985	1.00	100.0	421.9	292.1	69.2

Source: IICLAC, III the basis of official figures.

^aBase 1970 = 100.

Table 15

GUATEMALA: EVOLUTION OF PRICES OF THE US DOLLAR
IN THE DIFFERENT MARKETS, 1985

	Bank market (parallel) (buyer)	Auction market	Non-bank market ^b
January	1.48		1.50
February	1.57		1.74
March	1.74	1.68	2.16
April	2.38	1.97	2.75
May	2.58	1.84	3.32
June	2.86	2.05	3.25
July	3.12	2.80	3.29
August	3.66	2.46	3.71
September	3.75	2.74	3.85
October	3.74	3.61	3.83
November	3.30		3.00
December	2.93	2.52	2.90

^bUnofficial figures, based on special surveys.

Similarly, there was a decline in net factor payments abroad owing to the fall in remittances of profits to the exterior, although interest payments continued their rising trend, thus worsening the conditions of the external debt. In brief, notwithstanding the fall in the average price of exports, a substantial reduction was achieved in the balance-of-payments current account deficit. Although this reflected a major domestic adjustment effort, it was not the result of a structural rectification of the external accounts but was achieved at the expense of a deterioration in national economic trends, and it was not sufficient to restore external equilibrium, reconstitute payment capacity and stabilize the exchange rate.

c) *The current account position and its financing*

For the second successive year the bulk of the financing for the deficit came from the flow of short-term capital, basically mobilized by the Central Bank. The net inflows of long-term capital

amounted to US\$139 million (US\$66 million less than in the previous year), despite the increase in direct investment, which, even so, was much lower than in the years before the crisis. Net official capital also increased, but was neutralized by the deficits recorded in other items.

In conclusion, the capital flows were sufficient to cover the deficit and generate an increase of US\$69 million in the gross reserves. Nonetheless, it should be borne in mind that this result was obtained primarily by the mobilization of short-term capital, including advance sales of some products and the maintenance of arrears of interest and principal payments, which could not be settled during the year.

d) *The external debt*

It has been pointed out elsewhere that, despite the apparent smallness of Guatemala's external debt—compared with that of other countries of the region— its structure has gradually deteriorated, creating a potential payment problem.⁹ During 1985 the increasing burden of debt servicing on the weakened variables of the external sector began to make itself felt. The amount of this servicing competed for the scarce foreign exchange, drove the country close to the brink of default, and had unfavourable repercussions on the monetary policy.

The total external public debt amounted to US\$2 472 million: only a slight increase over the 1984 figure, attributable to the difficulties encountered in obtaining more support from abroad. Owing to the maturing of a large part of the debt of the Banco de Guatemala—which constitutes over half of the public debt—the servicing rose substantially, to the point of absorbing 46% of exports of goods and services (see table 16). Thus Guatemala became one of the countries with debt problems,

Table 16

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985°
Millions of dollars						
Total external debt						
Balance	972	1 305	1 560	2 130	2 493	2 570
Public	820	1 203	1 491	2 083	2 453	2 472
Private	152	102	69	47	40	98
Disbursements	202	510	419	763	652	434
Servicing	120	286	265	295	440	544
Principal	28	177	164	193	289	357
Interest	92	109	101	102	151	187
External public debt						
Disbursements	201	460	437	767	605	373
Servicing	60	127	221	260	360	531
Principal	18	77	149	175	235	354
Interest	42	50	72	85	125	177
Percentages						
Ratios						
Total external debt/exports of goods and services	56.2	89.8	119.4	181.1	202.4	217.2
Servicing/exports of goods and services	6.9	19.7	20.2	25.1	34.7	46.0
Net interest payments/ ex ports of goods and services	1.0	3.7	6.2	6.4	9.9	12.4
Servicing/disbursements	59.4	56.1	63.2	38.7	67.5	125.3

Source: HCLAC, on the basis of official figures.

° Preliminary figures. All the ratios refer to the total external debt.

⁹ See ECLAC, "Guatemala", *Economic Survey of Latin America and the Caribbean, 1984*, and *Centroamérica: elfmandamiento externo en la evolución económica, 1950-198X* LC/MEX/L.2, March 1985.

Table 17

GUATEMALA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985 ^{""}
Variation December to December						
Consumer price index	9.1	8.7	-2.0	8.4	5.2	31.5
Foodstuffs	8.2	4.8	-2.6	5.5	7.7	28.3
Wholesale price index	12.0	4.0	-4.4	0.4	8.4	37.1
Imported products	6.8	10.8	4.2	-2.8	12.5	36.9
National products	12.4	3.4	-5.3	0.8	8.0	41.9
Building materials	3.5	-3.0	-1.3	0.4	7.2	15.9
Variation between annual averages						
Consumer price index	10.7	11.4	0.2	4.7	3.4	18.5
Foodstuffs	11.2	11.3	-2.8	3.3	2.1	19.8
Wholesale price index	16.0	11.7	-5.8	0.9	5.6	20.7
Imported products	19.0	10.1	3.8	4.9	4.7	17.7
National products	15.7	11.9	-6.7	0.8	5.4	21.5
Buildings materials	12.4	4.7	-5.2	0.1	5.5	6.1

Source: ECLAC, on the basis of official figures.

^{""}Preliminary figures.

With the exception of the total consumer price index, the rest of the components refer to November.

and will soon find itself compelled to seek a renegotiation with the leading creditors. In fact, already in the last quarter of the year, in view of the impossibility of obtaining sufficient foreign exchange, the country fell into arrears of payment of interest and principal amounting to close on US\$90 million. If this amount had been paid the servicing of the external debt would have absorbed 53% of the value of exports of goods and services.

Furthermore, with the increasing imbalance on the exchange market for essential items (to which the official exchange rate is applied), the Central Bank had to obtain foreign currency in the interbank exchange market in order to meet its external obligations. This led to considerable exchange losses and a monetary expansion that increased inflationary tensions.

To sum up, in 1985 the problems of the external debt came to the surface violently. The heavy indebtedness contracted for short terms to support the balance of payments and the exchange rate, on the assumption that the external economic crisis would not last long, meant that its servicing rose to virtually unmanageable proportions. All the foregoing would appear to indicate an imminent need to negotiate new maturities.

4. Prices and wages

Prices rose at a rate rarely seen in the modern history of the country, with a persistent trend towards acceleration. In the case of the consumer price index, the variation between annual averages was 18.4%, while that between the December-December figures was 31.5%, compared with the previous year (see table 17). In all months except February, there was a steady acceleration of inflation. The phenomenon was generalized, covering all the main items of expenditure and apparently affecting all areas of the country. Since this index is based on a sample, it may not have included the rise in some products that trebled in price.¹⁰

The upsurge of inflation was due to the fall in the exchange rate, the excessive monetization of the economy, and the temporary lack of supplies of some products. A rise in prices had begun from the end of 1984, stimulated by the evolution of the parallel exchange market. Seeing that this escalation of prices was speculative, the authorities adopted a Consumer Protection Law which set

¹⁰ Covers the evolution of the prices of 225 goods and services.

ceiling prices for a fair number of products and provided for punishment of the establishments that failed to observe them. This, together with some seasonal factors and a certain stabilization in the exchange rates, succeeded in moderating inflation during the first quarter. From April, however, the destabilization process began anew, partly in response to the application of a set of economic measures, including taxation and exchange provisions, which was later repealed without restoring the precarious equilibrium of the first quarter.

Finally, from May onwards, currency outside banks began to increase, and the considerable rise in liquidity gradually came to be a further element of inflation.

As regards wages, the indicators relating to social security records reveal a slight nominal increase during the year (-see table 18).

In general, economic policy was passive in the wages field, leaving the adjustments to be defined at the reviews of collective bargaining agreements—which cover only a small part of the unionized labour groups— or voluntarily on the part of the entrepreneurial sector. Thus, the last general adjustment of the minimum wage was decreed in 1979-

Comparison between the modest nominal increase in wages and the rise in prices reveals that for the third year running there was a fall in real wages, which brought them below the level reached ten years before. The loss of purchasing power on the part of employees and workers reached exceptional levels, which began to give rise to protests over the unequal distribution of the burden of economic adjustment.

5. Fiscal and monetary policy

a) *Fiscal policy*

Fiscal policy was the subject of heated debate, especially with regard to possible tax reforms.

After four years of decline, current income rose considerably (28%). This was an even bigger increase than had been anticipated in the budgetary estimates, and was basically due to three factors:

Table 18

GUATEMALA: EVOLUTION OF WAGES AND SALARIES

	1980	1981	1982	1983	1984	1985"
A. Average wages and salaries						
Indexes (1975 = 100)						
Wages and salaries						
Nominal	148.5	194.8	206.8	200.8	206.2	220.6
Real	89.4	105.2	111.5	103.4	102.7	92.7
Growth rates						
Wages and salaries						
Nominal	10.9	31.2	6.2	-2.9	2.7	7.0
Real	0.1	17.6	6.0	-7.3	-0.7	-9.7
B. Total wages and salaries bill						
Indexes (1975 = 100)						
Wages and salaries bill						
Nominal	215.4	221.1	242.0	222.4	235.6	254.7
Real	129.7	119.5	130.5	114.6	117.3	107.0
Growth rates						
Wages and salaries bill						
Nominal	10.8	2.6	9.5	-8.1	5.9	8.1
Real		-7.9	9.2	-12.2	2.4	-8.8

Source: I-CIAC, on the basis of information supplied by the Guatemalan SOCÍJL Institute on the number of persons registered and the wages and salaries they received.

"Preliminary figures.

the tax changes introduced in the last quarter of 1984, which had their full effect in 1985; the impact of inflation on the tax burden, and the efforts made to improve the tax collection system and to reduce tax evasion.

With a view to continuing the adjustment policy and restoring the agreement with the International Monetary Fund, interrupted the year before, the government announced a series of economic measures in the second half of 1985 which included new taxes or readjustment of others, coupled with monetary and exchange arrangements.¹¹

After numerous manifestations of protest against the so-called "April package" the government decided to repeal it and to propose the organization of a "national dialogue". After prolonged debates among the different groups represented, recommendations were made on various aspects of national economic policy. On the basis of these recommendations the government issued decree-law 65-85, whereby a 3.5% tax was imposed on international transactions made by banks and money exchange offices; decree-law 68-85, which increased the tax on departures from the country, and decree-law 66-85, which exempted transport operators, as well as universities and municipalities from the value-added tax.

It did not prove possible to make any substantial changes in the weak and regressive tax structure of the country, but collection was increased by 35%. The tax burden, however, barely exceeded 6% of the product, so that it continued to be among the lowest in the world. The rise in fiscal revenues stemmed mainly from indirect taxes, although direct taxes, which generally start from a very modest base, went up more in percentage terms.

During the last five years the government has put into effect a policy of reducing expenditure as part of the economic adjustment effort. From 17% of the domestic product in 1981, public expenditure has continued its declining trend ever since and fell to only 11% in 1985 (see table 19).

Faced with the need to hold down domestic demand in order to restore external equilibrium and to moderate inflationary pressures, the government budgeted for expenditure of approximately 1 280 million quetzals, which represented a nominal reduction of 2.4% compared with the 1984 budget. The items in which the cuts were concentrated were agriculture (5%) and public works (23%). Finally, after several efforts to impose more austerity on the public administration, the budget was effectively reduced by around 5%.

Current expenditure rose to 830 million quetzals, as against the 727 million budgeted, representing an increase of 8% over the previous year. The most outstanding item was the outlay on defence and security, while expenditure on social services (especially health and education) tended to fall slightly.

Capital expenditure (particularly in respect of real investment) also grew slowly (5.5%), whereas payments on the external debt increased more rapidly. As a result of the slower growth of current expenditure compared with income (indeed, this growth even represented a contraction in real terms) the fiscal deficit dropped from 466 million quetzals in 1984 to 362 million in 1985. At all events, the fiscal imbalance remained high in terms of the government's financial capacity, since it was equivalent to 42% of tax revenues; in macroeconomic terms, however, it barely equalled 3.3 % of the product, whereas in 1981 it had come to 8.6%. This meant that the government's financial problem was not so much the fiscal deficit as the weak and inelastic tax structure, which has prevented the adoption of policies giving more room to manoeuvre.

b) *Monetary policy*

As in previous years, the monetary policy continued to adjust itself to the changing economic conditions at home and abroad in an effort to adapt the monetary expansion to the needs of the productive system and, above all, to combat inflationary pressures. Hence a moderate credit policy was applied with respect both to the public and the private sector; interest rates were modified in order to stimulate domestic saving and neutralize in part the competition of the international capital

¹¹ Decree 27-85 established a temporary specific tax on coffee exports to markets outside the quota area, equivalent to 50% of the profits derived from exchange preferences. Decree 28-85 complements that establishing money exchange offices. Decree 29-85 identifies exchange offenses, while under the terms of decree 30-85 a selective consumption tax is imposed on the sale price or value of imports in national currency according to the exchange rate used for the transactions, less 15% for national or Central American products and 50% for the rest; taxes on beverages are increased, income tax is modified, exemptions in respect of poultry-breeding are eliminated, and the laws on stamped paper and revenue stamps and on the value-added tax are modified.

market; open market operations were conducted to take up temporary surpluses of liquidity and, for the same purpose, bank reserve requirements were increased. Nonetheless, most of these efforts were neutralized by the decision to keep the official exchange rate unchanged.

In November 1984 a parallel exchange market (managed by the banking system) was set up. In the event, this reduced the capacity of the Central Bank to manage external transactions, since a growing proportions of these ceased to be conducted in the official market. In February, March, May and October 1985, four modifications were made in the exchange-rate policy regarding the different proportions of income from external sales of ten products (or groups of products) which exporters could negotiate on the free market. With regard to imports, in addition to the market for essential items —on which by the year's end the only transactions made were for the external debt, fuels, agricultural inputs, medicines and wheat— and the parallel market, a market was opened on which foreign exchange was auctioned for the purchase of basic inputs and capital goods. Thus there was a gradual proliferation of rates of exchange, according to the nature of exports, the time of payment, and the market where the transactions could take place. The exchange rate, therefore, was gradually replacing other economic policy instruments in the functions of stimulating production and exports.

Table 19

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzals				Growth rates				
	1982	1983	1984	1985 ^a	1981	1982	1983	1984	1985 ^a
1. Current income	730	741	666	853	-0.8	-1.5	-1.5	-10.1	28.1
Tax revenue	626	573	498	673	-3.9	-3.9	-8.5	-13.1	35.1
Direct	108	134	86	124	9.4	-1.8	24.1	-35.8	44.2
Indirect	518	439	412	549	-6.2	-4.4	-15.3	-6.2	33.3
On foreign trade	125	106	107	88	-34.0	-26.9	-15.2	0.9	-17.8
2. Current expenditure	710	721	767	830	11.9	-6.5	1.5	6.3	8.2
3. Current saving (1-2)	20	20	-101	23	...	•			
4. Capital expenditure	548	376	365	385	40.6	-24.3	-31.4	-2.9	5.5
Real investment	432	316	263	269	41.8	-30.4	-26.9	-16.8	2.3
Debt amortization payments	116	60	102	116	33.8	12.6	-48.3	70.0	13.7
5. Total expenditure (2 + 4)	1 258	1 097	1 132	1 215	24.3	-15.2	-12.8	3.2	7.3
6. Fiscal deficit (or surplus) (1-5)	-528	-356	-466	-362					
7. Financing of deficit	528	356	466	362	66.4	-28.8	-32.6	30.9	-22.3
Domestic financing ^a	416	256	413	281	93.3	-34.4	-38.5	61.3	-32.0
External financing	112	100	53	81	-8.5	3.7	-11.1	-47.0	52.8
Percentages									
Ratios									
Current saving/capital expenditure	3.6	5.3	-27.7	6.0					
Fiscal deficit/total expenditure	42.0	32.5	41.2	29.8					
Tax revenue/gross domestic product	7.2	6.3	5.3	6.1					
Total expenditure/gross domestic product	14.4	12.1	12.0	11.0					
Fiscal deficit/gross domestic product	6.0	3.9	4.9	3.3					
Domestic financing/deficit	78.8	71.9	88.6	77.6					
External financing/deficit	21.2	28.1	11.4	22.4					

Source: LCLAC, on the basis of official figures.

^aPreliminary figures.

Includes other capital expenditure.

Includes other capital income.

Table 20

GUATEMALA. MONETARY INDICATORS

	End-year balance (millions of quetzals)				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Monetary base	802	734	783	1 274	16.7	-8.5	6.7	62.7
Money (M ₁)	749	788	846	1 204	1.5	5.2	7.4	42.3
Quasi-money	1 532	1 540	1 781	2 066	20.7	0.5	15.6	16.0
Money plus quasi-money (M ₂)	2 281	2 328	2 627	3 270	13.7	2.1	12.8	24.5
Domestic credit	2 766	3 107	3 623	4 022	13.1	12.3	16.6	11.0
To the public sector	1 097	1 254	1 568	1 703	36.4	14.3	25.0	8.6
Central government (net)	1 274	1 447	1 740	1 915	51.5	13.6	20.2	10.1
Public institutions	-177	-193	-172	-212	378.4	9.0	-10.9	23.3
To the private sector	1 669	1 853	2 055	2 319	1.7	11.0	10.9	12.8
Coefficients								
Monetary multipliers								
M ₁ /Monetary base'	0.93	1.07	1.08	0.95				
M ₂ /Monetary base	2.84	3.17	3.35	2.57				
Velocity of circulation: GDP/M ₁	8.6	8.7	8.9	10.9				

Source: UCLAC, on the basis of official figures.

"Preliminary figures.

On basis of balances at end of period.

' equivalent to currency outside banks.

As the essential-products market —at the official exchange rate— continued to show an increasing imbalance, the Banco de Guatemala found itself obliged to obtain foreign exchange in the interbank market to assign it at the official parity. Thus increasing losses were incurred on the exchange rate which affected monetary expansion and the liquidity of the economy.

Statistically, the three identifiable exchange rates showed a tendency towards depreciation, interrupted only in the last quarter, when they fell for reasons of a seasonal nature (see table 16). At this time, the supply of dollars exceeded demand owing to the annual fluctuations of imports and exports and to the depletion of the resources that had been used for speculative purposes.

The fluctuations in the exchange rates dominated monetary policy, which had to adapt itself in a rather passive way. Money in circulation increased moderately in the first four months (9.6% on average), but as from May, when exchange rate devaluation speeded up, the rise was 22.9%, reaching 42.3% in December.

The change in expectations gave rise to a marked preference for liquidity in the private sector, which weakened the instruments for attracting savings (quasi-money), and caused them to evolve much more slowly and evenly throughout the period.

Credit policy remained within moderate limits; the year-end balances reflected a net growth of 8.6% for the public sector and 12.8% for the private sector (see table 20). Commercial bank liquidity declined up to August, after which the situation was reversed in view of the expansion of the means of payment. Consequently, the record expansion of the monetary base (62.7%) was mainly due to the evolution of the exchange accounts of the Central Bank.

HAITI

1. Recent economic trends: Introduction and summary

In 1985 the Haitian economy grew at a significant pace. This took place in spite of a general setting of austerity which it was necessary to establish in order to meet the demands of the International Monetary Fund and to renew the agreements with this agency, which had been discontinued in the second half of 1984 due to defaults in the fiscal area.

In addition, the economic agents performed their activities within the framework of an economy with great structural rigidities and a climate of social instability which had begun to develop the preceding year and finally at the beginning of 1986, triggered the fall of a régime which had remained in power for nearly three decades.¹

In 1985, for the first time in five years, the gross domestic product increased by 3-5%, thus reversing the trends towards recession and stagnation recorded between 1981 and 1984. In spite of the foregoing, the product remained very low and was slightly higher than that of 1981 (see table 1 and figure 1).

Although the rate of population growth remained steady, the per capita product also showed a slight upswing (1%), but it amounted to about the same as that of 1984 and continued to remain below the 1976 level.²

Alongside of the rise in the gross domestic product referred to above, the volume of imports expanded by nearly 5%, a fact which besides confirming the trend towards recovery begun in 1983, allowed the total supply to expand by nearly 4%, reaching its highest level since at least 1970.

The significant recovery in 1985 was mainly based on the production of goods. This activity expanded by over 3-5% as a whole, the performance of manufacturing, construction and mining being particularly notable in this connection.

Manufacturing and construction became the main stays of economic growth achieved, increasing by 7% and 12.5%, respectively. The implementation of certain public works programmes (including, in particular, the construction of the Gaillard hydroelectric power plant and various drainage, road and port works) and, to some extent, private building led to an upsurge in construction and certain branches of manufacturing, such as cement and metalworking industries. Likewise, there was an expansion in the mining output (18%), although its relative importance in respect of the gross domestic product was considerably lower. On the other hand, agricultural production, which continued to account for the greatest share of the product (55%), nearly stagnated, due more to structural than to conjunctural problems. As a result, the food shortage persisted, forcing an increase in imports of consumer goods. Other services also expanded (3 %), largely due to commercial activity. Basic services, for their part, decreased by 5%, due to a 6.5% drop in transport and communications.

•The statistical and qualitative information included in this report refers to the period October-September, corresponding to the fiscal year in Haiti rather than to the calendar year, unless otherwise specified. Here, however, reference is made to the political events which occurred after 1985 (early in February 1986) because they mark the conclusion of a period in the country's history. For the same reason certain considerations of a structural nature are covered.

²One of the major reasons for the statistical discrepancies pertaining to Haiti is the existence of two population series. According to the CELADE data used here, Haiti now has 6.6 million inhabitants, and its population grows at an annual rate of 2.5%. According to data obtained in the population census carried out in Haiti in 1982, its population totals 5.3 million and grows at an annual rate of only 1.4%. The difference between these two sets of figures is enormous and affects any interpretation. The national accounts appear to have been prepared on the basis of the latter, rather than the former. On that basis per capita consumption was as low in 1985 as it had been 10 years earlier. If, however, the CELADE population data are taken into account, per capita consumption in the last biennium is the lowest in the 35 years for which information contained in national accounts is available.

In addition to all this, domestic demand increased. The gross investment in fixed capital grew by more than 10.5%, which, when added to the increments in the previous biennium, led to a total increase of over 15% in the period 1983-1985. As a result, the investment coefficient reached its highest figure since 1981 (20%). Total consumption also expanded (2%), public consumption rising by 1% and private consumption by 2%. As for the volume of exports it increased by approximately 4.5%, in confirmation of the recovery begun in 1983, which resulted in a rise of over 12% in the last triennium.

On the other hand, given the strongly dependent nature of the economy, as well as its small size and its high degree of openness, meant that the cumulative effects over the years of an inflationary rate exceeding the international level within the framework of an exchange rate which was fixed in 1919 were negative for the external sector.

Table 1

HAITI: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985°
A. Basic economic indicators							
Gross domestic product at market prices (1980 = 100)	93.4	100.0	97.3	93.9	94.5	94.9	98.2
Population (millions of inhabitants)	5.67	5.81	5.95	6.10	6.26	6.42	6.58
Per capita gross domestic product (1980 = 100)	95.7	100.0	95.0	89.4	87.8	86.0	86.7
Growth rates							
B. Short-term economic indicators							
Gross domestic product	7.6	7.1	-2.7	-3.5	0.6	0.4	3.5
Per capita gross domestic product	5.0	4.6	-5.0	-5.8	-1.8	-2.0	0.9
Consumer prices							
September to September	18.6	9.5	4.7	6.2	12.2	6.1	15.0
Variation between annual averages	9.7	18.1	7.6	9.0	8.8	8.0	8.4
Real wages and salaries	8.9	16.6	-3.7	4.7	-6.7	-7.3	4.8
Money	22.0	11.1	21.3	14.9	-1.8	17.9	11.5
Current income of government	12.0	14.0	-4.4	15.6	10.9	8.0	23.0
Total expenditure of government	14.7	21.5	19.2	34.3	2.1	6.4	1.2
Fiscal deficit/total expenditure of government	42.2	42.5	53.9	58.4	54.8	54.1	44.2
Fiscal deficit/gross domestic product	7.9	7.0	10.5	14.4	12.6	11.8	9.0
Current value of exports of goods and services							
	0.8	43.5	-21.3	12.2	6.9	3.8	14.4
Current value of imports of goods and services							
	6.9	46.5	6.9	-10.1	7.0	1.9	10.9
Terms of trade (goods and services)	-8.7	-1.4	-20.0	1.4	-7.0	13.7	5.5
ns of dollars							
C External sector							
Trade balance (goods and services)	-117	-178	-277	-195	-209	-208	-220
Net payment of profits and interest	13	14	13	14	14	18	20
Balance on current account	-97	-140	-225	-160	-177	-182	-191
Balance on capital account	105	111	168	115	144	154	168
Variation in net international reserves	24	-26	-50	-3	-32	-6	
External debt	248	290	372	410	551	607	599

Source: iCLAC, on the basis of official figures.

°Preliminary figures. Minimum wages in industry.

Percentages.

Disbursed public external debt.

Nevertheless, the current value of exports of goods grew by 12%, making four consecutive years of sustained expansion. This occurred although the volume of coffee exports continued to decline in spite of the higher prices on the international market. In addition, sugar sales abroad were discontinued, and the country even became a net importer of this commodity. On the other hand, the subcontracting industry, despite its fragile bases and its dependence on fluctuations in the American market, showed great dynamism in the last biennium, offsetting the drop in traditional and handicrafts exports. Meanwhile, the value of imports grew by 6%, after slowing down in 1984. Owing to the food shortage, food purchases accounted for 20% of total imports, expanding by over 6.5%.

Although the unit value of exports of goods increased more than that of imports (2.5% and 0.5%, respectively), the terms of trade in goods went up by 2%. This contrasted with a rise of over 20% recorded in 1984. However, since the volume of exports increased, the purchasing power of exports rose to 11.5% as against 9% recorded the previous year.

The terms of trade in goods and services for their part rose by 5.5%, which, coming on top of the great expansion shown the previous year, meant that the increase in the 1984-1985 biennium was one of over 19%. Since the volume of exports also increased, the purchasing power of exports of goods and services grew by over 12% —three times the rate shown in 1984—, making four consecutive years of expansion.

In 1985, as in the previous year, there was a deficit in the trade balance (US\$220 million), which occurred because although the imbalance between exports and imports of goods declined by 3%, there was an increase in the imbalance in respect of trade in real services (20%).

Due to the above and to the fact that factor service payments increased by 11 % owing to greater disbursements stemming from interest paid on the external debt, the increase in private transfers (14%) failed to offset the current account deficit. The latter grew by 5%, and amounted to slightly more than US\$190 million —its highest level since 1982.

As for official donations, they went up by approximately 30%, amounting to enough to cover half the current account deficit. Since capital inflow, in spite of increasing 9%, only amounted to US\$170 million, for the sixth year in a row the country lost reserves, this time in the amount of US\$23 million.

As for the external debt, the total sum disbursed amounted to US\$600 million. External debt servicing increased by over 75%, rising to US\$64 million. This was due solely to an increase in amortization payments, which more than doubled; interest payments, on the other hand, declined by over 10%.

External debt servicing as a percentage of exports of goods and services, accelerated greatly in the past biennium. Thus, although in the first years of the decade it did not exceed 8%, in 1984 it went up to 12 % and a year later it came close to 19%. Something similar happened with the services/disbursements ratio, and in 1985, for the first time, amortization and interest payments far outweighed new credits disbursed (133%).

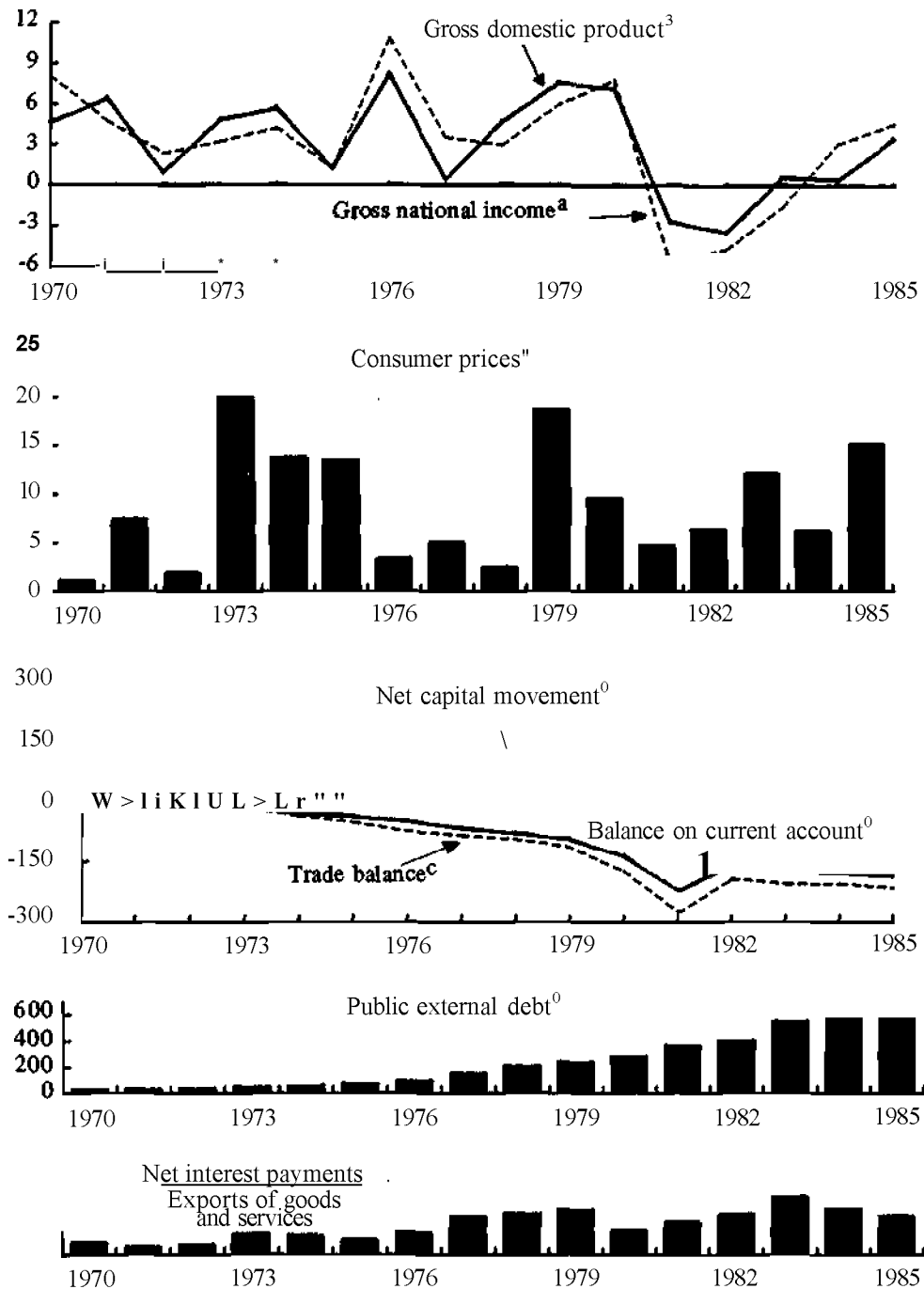
In 1985 the economy experienced a substantial acceleration in the inflation. Although the variation between annual averages resembled that recorded the preceding fiscal year (8%), the 12-month increase was 15%, double that of 1984.

The most significant reasons for price increases include, on the one hand, phenomena connected with the shortage of foreign exchange and the pressures exerted on the value of the dollar on the parallel market, where it was quoted 10% higher than the official price, and on the other hand, the high domestic interest rates and —in particular— the shortage of some commodities such as rice, beans and maize, whose prices went up substantially.

In 1985 the daily minimum wage was adjusted. Thanks to a nominal increase of 14%, it rose to 15 gourdes (3 dollars). Nevertheless, the price increases noted above meant that in real terms the wage increase amounted to less than 5% and did not therefore offset the loss suffered the previous biennium. Even so, private consumption rose by 2%, although its level was still lower than that in 1980. It should also be borne in mind that the wage rise was not distributed equally owing to the structure of income distribution in Haiti, which is perhaps the most disparate in Latin America.³

³According to rough estimates made by the Haitian Institute of Statistics and Information Sciences, in 1976 0.4% of the population accounted for 44% of the national income, while 80% of the population spent less than the equivalent of US\$ 100.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.
of dollars.

^bPercentage variation, September - September.
^cPercentages.

⁰Millions

In 1985 the money supply (M_1) evolved along the same lines as the domestic product at current prices. M_1 expanded by 11.5%, while, since quasi-money remained practically unchanged, the enlarged money supply (M_2) grew by 9.5%. As for the growth rate of domestic credit, it slowed down, amounting to only 8.5%, as against 14% in 1984. This was due to a lightening of the pressures associated with imbalances in the public sector. Thus, the increase in public sector grants was increased by 50% with the increase recorded in 1984 owing to the reduction in the size of the fiscal deficit and of the deficit shown by State enterprises. Although this situation might have freed more resources for the private sector, these showed a slight slowdown. Furthermore, credit was granted to the private sector on a very selective basis in that only applicants with highly viable investment projects received loans. The result was a paradoxical situation in which the banking system incurred excess liquidity, causing it to refuse savings, which were then placed abroad. By the same token, interest rates remained high although the country continued to export capital.

As mentioned above, public finances showed a remarkable improvement in 1985. The central government deficit as a percentage of the product dropped from 12% in 1984 to 9% in 1985. This was made possible by *inter alia* the introduction of tax changes and certain administrative reforms aimed at achieving greater transparency in the management of public income and expenditure programmes. As a consequence income increased by 23% and spending by barely 1% in nominal terms.

With regard to income, due to a rise in the sales tax rate from 7 to 10%, income from indirect taxes increased by 42%, amounting to nearly 60% of all government revenue. This more than made up for the relative stagnation in direct tax and made it possible to reduce taxes on exports of coffee and essential oils used in the perfumery trade. At the same time, the reforms undertaken six years before involving the Tobacco and Matches Monopoly, in which a tax was imposed on the marketing of certain commodities, ended having accomplished their purpose. On the other hand, public enterprises hitherto exempt from the industrial and commercial profits tax were subjected to it, in spite of which some of them showed a satisfactory balance.

On the side of expenditure, current expenditure increased by 1.5% although government salaries and other government expenses went up by 10% and 13.5%, respectively. In contrast, extrabudgetary expenditure—more than half of total expenditure—showed a nominal decrease of 4.5%. For its part, capital expenditure also decreased (-2%).

In short, during 1985 the recommendations of the international financial community for bringing about improvements which were still needed in the field of public finance, on the one hand, and the inflow of external resources, on the other, both resulted in the temporary reactivation of an economy, which is, in many respects, regressive and has strong structural rigidities which rob it of vitality and make economic policy harder to manage.

As the fiscal year ended and during the first months of the following year those events took place which ended in a change in government, serious obstacles to the country's development were present in the Haitian economy. Those obstacles included an impoverished agricultural sector which would be difficult and expensive to revive, a weak and frequently inefficient industrial sector, a financial system excessively dependent on the exterior, a contradictory monetary and exchange policy and a state machinery in need of deep reforms. To this should be added what is perhaps the most important limitation—an undernourished and mostly illiterate population.

2. Trends in economic activity

a) *Total supply and demand*

In 1985 economic activity, after a period of relative stagnation in the two preceding years, recorded a significant upturn. Total supply expanded by close to 4% as a result of the growth of the gross domestic product (3.5%) and of the volume of imports (approximately 5%) (see table 2).

On the other hand, both domestic demand and exports also increased, the increase in domestic demand (3.5%) confirming the trend begun the previous year. However, the levels reached at the end of the 1970s were not recovered and the total cumulative decline between 1981 and 1985 was slightly over 2.5%.

Gross investment in fixed capital expanded dramatically —10.5%—, a rise which added to those of the previous biennium, brought the total increase between 1983 and 1985 to over 15%. Thanks to this, the capital formation index reached its highest level since 1970, if not before.

This reactivation was partially due to investment in construction, which showed greater dynamism than investment in machinery. As for public works, they acquired priority in government policy owing to an effort to raise productivity in some sectors and to meet minimum infrastructure needs. The private sector, for its part, continued to follow through on its building plans, which were advanced by the establishment of the Home Loans Bank. In addition, the Joint Standing Committee for Investment Promotion was set up; both the public and the private sector participate in it, and its activities mainly relate to industry.

Total consumption increased by 2%, a figure which, although lower than that achieved in 1984, also confirmed the trend towards recovery. Nevertheless, the deterioration of over 10% accumulated in the 1982-1983 biennium could not be offset. The growth rate of government consumption slowed down (1%) by contrast with the substantial expansion shown in 1984. Some of this slowdown was related to the requirements established by the international financial agencies. Private consumption, for its part, increased at a rate similar to that recorded the preceding fiscal year (2%); however, the large losses accumulated in the period 1982-1983 (11.5%) were not offset. As a result, the corresponding index stood at about the same level as in 1979. The progress made in 1985 was partially attributable to the fact that more manpower was absorbed as a result of the economy's revival and to the wage increases approved during the year. Finally, the volume of exports expanded by slightly over 3%, making only a partial recovery from the 8% fall in the preceding year.

b) *Trends in the main sectors*

Unlike what had occurred in former years, the positive evolution of the economy in 1985 was due to the dynamism shown by construction and by those branches of manufacturing which supply construction inputs.

Table 2
HAITI: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total supply	94.5	95.4	99.0	133.1	134.2	-5.6	1.7	0.9	3.8
Gross domestic product at market prices	94.5	94.9	98.2	100.0	100.0	-3.5	0.6	0.4	3.5
Import of goods and services	94.6	96.8	101.4	33.1	34.2	-11.8	5.2	2.4	4.7
Total demand	94.5	95.4	99.0	133.1	134.2	-5.6	1.7	0.9	3.8
Domestic demand	90.7	93.5	96.9	112.2	110.7	-8.1	-0.6	3.1	3.6
Gross domestic investment	98.9	103.5	115.4	18.9	22.2	-6.8	5.4	4.7	11.5
Gross fixed investment	102.2	105.5	116.8	16.9	20.1	-14.2	1.4	3.2	10.7
Changes in stocks	70.4	86.3	103.8	1.9	2.1				
Total consumption	89.1	91.5	93.2	93.3	88.6	-8.4	-1.8	2.7	1.9
General government	104.9	111.6	112.7	9.6	11.0	1.8	-1.5	6.4	0.9
Private	87.3	89.2	91.0	83.8	77.6	-9.6	-1.9	2.2	2.0
Exports of goods and services	115.0	105.4	110.0	20.9	23.4	8.5	12.9	-8.3	4.3

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Table 3

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

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Gross domestic product	94.5	94.9	98.2	100.0	100.0	-3.5	0.6	0.4	3.5
Goods	89.9	90.3	93.6	57.4	54.7	-3.5	-2.4	0.5	3.7
Agriculture.	90.9	94.1	94.5	33.4	32.2	-4.2	-3.7	3.5	0.5
Mining	7.0	7.5	8.8	1.3	0.1	23.7	-93.3	6.4	18.0
Manufacturing	90.9	85.6	91.8	17.2	16.1	-1.6	5.4	-5.8	7.2
Construction	99.1	100.9	113.6	5.4	6.3	-9.7	6.0	1.7	12.7
Basic services	109.5	101.0	95.9	2.7	2.6	-2.8	7.3	-7.8	-5.0
Electricity, gas and water	117.3	124.6	122.6	0.7	0.8	5.7	3.7	6.2	-1.6
Transport, storage and communications	106.9	93.0	87.0	2.0	1.8	-5.7	8.7	-13.0	-6.5
Other services	99.7	101.5	104.7	35.6	37.9	-2.6	3.1	1.8	3.1
Commerce ^a	93.9	90.6	95.6	18.3	17.8	-4.3	4.7	-3.5	5.5
Financial establishment, insurance and real estate	106.3	108.2	107.7	4.9	5.4	1.9	2.3	1.8	-0.4
Ownership of dwellings	105.7	107.7	109.9	4.7	5.3	1.8	1.9	1.9	2.0
Community, social and personal services	105.6	115.0	116.9	12.3	14.7	-2.1	1.4	8.9	1.6
Government services	104.9	111.6	112.7	9.5	10.9	1.8	-1.5	6.4	1.0
Adjustment for bank imports and import duties	104.5	98.0	106.7	4.4	4.8	-10.1	16.0	-6.2	8.9

Source: ECLAC, on the basis of figures provided by the Haitian Institute of Statistics and Information Sciences.

^aPreliminary figures.

Includes the livestock sector, forestry and fishing.

^{'''}Includes restaurants and hotels.

Includes business

services.

Thus, the production of goods expanded by nearly 4%, the highest rate since 1980. Although the growth rate of agriculture, one of the country's major activities with 32% of the product, slowed down, the remaining subsectors expanded considerably (see table 3).

Manufacturing (16% of the gross domestic product) increased by over 7%, more than making up for the drop in 1984. However, the output of this sector still remained below the level reached in 1980.

Thanks to an increase of over 12.5%, construction, which accounted for 6% of the gross domestic product, grew for the third year in a row, achieving a total growth of 20.5% between 1983 and 1985. Thus, the index of this sector's output stood at its highest level since 1970. Finally, mining also expanded (18%), although its share in the economy as a whole has always been much lower than that of the other sectors mentioned.

Other services increased by 3% and represented nearly 40% of the product. This growth was basically due to the upturn shown by commercial activity (55%), and to a lesser extent, by the ownership of dwellings and by community services.

Basic services, on the other hand, after the recovery they experienced in 1983, fell for the second consecutive year in 1985 (5%). This brought the total drop in the 1984-1985 biennium to over 15.5%, and the value-added index sank to its lowest level since 1980. The decline can be attributed in particular to the contraction suffered by transport and communications (6.5 %) and, to a lesser extent, to the decline of 1.5% in electricity, gas and water.

i) *Agriculture*. In spite of efforts to expand production, this sector nearly stagnated in 1985, as already noted, which affected both export crops and crops intended for domestic consumption.

The production of coffee, the country's main export representing 22% of external sales, grew by slightly less than 1 %. On the other hand, *cocoa*, whose share in foreign trade is slower exhibited great dynamism (8%) (see table 4).

Foodstuffs for the domestic market showed a little growth, except for sorghum and bananas, whose production expanded by 2% and 3%, respectively.

In order to promote the development of the sector, certain administrative reforms were implemented during the year. These reforms included the upgrading of the former Department of Agriculture, Natural Resources and Rural Development (DARBDR) to the rank of ministry and the establishment of new guidelines for the agrarian policy.⁴ However, such guidelines did not give rise to immediate effects due to their superficiality and to the fact that only a few months remained to apply them. Because of its potential and of the critical situation it is experiencing, this activity still remains the cornerstone of any recovery or development policy.⁵ In 1985 the main factors responsible for the deterioration of Haitian agriculture continued to be present. Thus, deforestation, soil erosion, fragmentation of holdings, absenteeism in large farms —frequently in foreign hands—, lack of irrigation and primitive farming techniques continued to affect the sector's development possibilities. Measures undertaken to introduce improvements continually come up against a great deal of red tape and many of the projects financed by international agencies reduced in scope.

Table 4

HAITI: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1980	1983	1984	1985°	1982	1983	1984	1985°
Production of the main crops								
For export								
Coffee	42.9	36.0	36.6	36.9	-3.0	11.6	1.7	0.8
Cotton	5.9	6.0	6.1		-5.1	11.1	0.8	
Cocoa	3.4	4.6	4.7	5.1	102.3	2.4	2.4	8.5
For domestic consumption								
Rice	124.1	113.4	121.9	123.2	-3.3	-2.1	7.5	1.1
Maize	186.2	170.9	186.0	186.5	-1.9	-2.7	8.8	0.3
Sorghum	125.2	106.6	118.2	121.4	-2.5	-9.5	10.9	2.7
Beans	52.6	46.7	47.2	47.6	-1.0	-7.2	1.1	0.8
Bananas	519.7	509.6	500.4	510.4	-0.5	1.1	-1.8	2.0
Sugar cane	5 640.8	5 674.4	5 700.0	5 727.5	-0.1	4.3	0.5	0.5
Livestock production								
Meat, total	69.4	92.3	41.0	68.8	15.9	30.2	-55.6	67.8
Beef	18.0	19.9			6.5	0.5		
Pork	43.9	-			-16.3	-		
Goat meat	4.1	6.0			53.7	-4.8		
Poultry	3.4	66.4			355.9	328.4		
Production of others commodities								
Eggs	17.6	18.6	18.9		-0.8	5.0	1.9	

Source: IICLAC, on the basis of figures provided by the Ministry of Agriculture, Natural Resources and Rural Development.
°Provisional figures.

⁴See Ministry of Information and Public Relations, "Le message présidentiel du 22 avril 1985 à l'Assemblée Nationale", *Bulletin de nouvelles*, vol. 5, supplément 23, Port-au-Prince, 24 April 1985, pp. 15-18.

⁵This is deduced from assessments carried out by different international agencies, including the World Bank.

Notwithstanding the above, some irrigation works and the distribution of improved seeds proceeded throughout the year, while more land was reclaimed for rice growing in the Artibonite valley.

With regard to stock raising, attempts were made to alleviate, at least in part, the huge losses recorded during the previous year, in which the pig population, affected by outbreaks of swine fever, practically disappeared. Furthermore, the programme to restock the swine herd ran into enormous difficulties. The imported species (approximately 11 000 head) was not as well adapted to the environment as the native pig and in addition required more care and a more expensive diet. The near extinction of the native pig left a significant void in the peasant economy, since it had played a central role in consumption and savings. Besides, it was not very expensive to raise and required little care. Furthermore, poultry and goats were not well enough distributed among the peasant population to offset the sharp decline in meat availability. Although production levels rose substantially in 1985, they were still lower than those in 1980.

ii) *Manufacturing*. Although the increase of over 7% in industrial output more than offset the drop in the previous year, there were trends in the sector which ran counter to this dynamism. Thus, whereas the metal working, non-metallic minerals and food industries recorded significant increases, the others contracted markedly (see table 5).

The upturn in food production (10%) showed a partial recovery from the dramatic fall observed in 1984. The output of certain products, such as sugar and lard, reached high growth rates (approximately 33% in both cases). On the other hand, the output of flour and, especially, that of carbonated beverages declined. Meanwhile, the output of edible oils and beer stagnated for the second consecutive year, reaching levels which were 50% and 60% lower than those recorded in 1983-

It is well known that State enterprises (whose usefulness is now under review) play an important role in these branches of economic activity. Throughout the year some significant changes took place in this connection. SODEXOL, the edible oil company with public and private participation, saw its assets liquidated because of huge cumulative losses. To replace it, ENAOL was established and assumed its liabilities. At the same time, in order to promote consumption and curb inflation, the edible oil retail price was reduced by 9%.

As for cigarettes, the slump in their production and the tax established in respect of their consumption, besides affecting the latter, spurred unregistered trade in this product.

The production of textiles and clothing declined for the second consecutive year, this time by slightly over 2%, owing in part to the lower price and more up-to-date design of garments from abroad, which in many cases also entered the country unregistered.

The production of chemicals as a whole experienced a marked squeeze (-16%), caused by a slump in the manufacture of toilet soap (-64%), industrial soap and essences for the perfumery trade (-15%), a drop which was not offset by the greater dynamism shown in detergents (32%).

Mining production also expanded (16%), which was due, in particular, to the extraction of inputs for construction. Cement production, for its part, expanded by over 12.5%.

There is reason to think that in future mining activity as such will increase, since the country's first gold deposit was discovered in the Milot area, near Cap Haitien. Lignite was also found in Maissada and in the Central Plateau, and its technical and economic feasibility is under study.

Lastly, it should be noted that during 1985 important questions were asked concerning the industrial policy applied so far. These questions related to the State's participation in the basic manufacturing branches and to the "transparency" of their management, to the degree of protection enjoyed by manufacturing companies, and to the inefficiency and lack of competitiveness frequently resulting from the above.

The measures and proposals introduced during the year threaten the survival of several enterprises in the sector and, consequently, the employment level. The situation of the so-called subcontracting industries is less unfavourable. This subsector has been privileged at the international level, as regards manpower costs and labour and fiscal conditions, and has for the most part served as a haven for its 60 000 employees. Moreover, in 1985 it was relieved of the obligation to pay port charges. Subcontracting enterprises dealing with clothing, plastic goods and high fidelity sets expanded remarkably. On the other hand, the assembly of toys, sporting goods, footwear and travel items continued to decrease. Given the transitory nature of this type of activity, the political tensions which emerged during the year led to plans for transferring some of these plants.

iii) *Construction*. After the slowdown recorded by public works in the previous year, in 1985 they gained great momentum as a result of the deliberate government policy to effect material improvements, on the one hand, and to reduce unemployment, on the other.

Several sewage and road works were implemented, both in Port-au-Prince and in other locations; among them, the completion of the Bois-de-Chene canal should be emphasized. With regard to roads, 50 km of feeder roads were constructed—a project including the intensive use of labour—and substantial repairs were made to National Highway No. 1, between Gonaves and Cap Haitien.

Table 5

HAITI: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985°	Growth rates			
					1982	1983	1984	1985°
Indices (1976 = 100)								
Indexes of value added	147	134	126	135	-1.6	5.4	-5.8	7.2
Foodstuffs	135	147	128	141	-13.6	26.3	-12.8	10.1
Beverages	143	150	139	132	1.7	9.9	-7.7	-4.4
Tobacco	152	129	127	105	-7.6	-3.2	-2.4	-16.7
Textiles, clothing and leather products	99	91	89	87	-6.0	4.7	-2.1	-2.3
Chemicals	187	121	98	82	22.4	-3.7	-19.6	-16.0
Non-metallic minerals	110	101	108	125	-14.4	6.7	7.0	16.1
Metal-working products	268	207	202	266	6.7	-15.5	-2.8	31.9
Miscellaneous industries	126	117	125	115	14.9	6.6	6.9	-10.7
Thousands of tons								
Production of some important manufactures								
Flour	85	118	114	112	-26.8	33.9	-3.9	-1.8
Sugar	54	49	43	57	-2.3	-2.8	-12.2	32.6
Lard	3	3	3	4	-9.7	7.1	6.7	33.3
Edible oil	19	13	8	8	-30.2	-25.7	-33.9	-
Carbonated beverages (millions of bottles)	74	73	72	61	-2.2	16.8	-0.7	-15.3
Beer (millions of bottles)	5	6	4	4	-0.4	8.2	-28.2	-
Cigarettes (millions of units)	1 064	932	938	846	13.2	-3.4	0.6	-9.8
Shoes (thousands of pairs)	795	519	528		11.3	-11.7	1.7	
Soap	13	13	14	11	8.5	0.8	9.4	-21.4
Detergents (tons)	579	692	936	1 239	14.2	18.1	35.1	32.4
Toilet soap (tons)	253	469	472	169	45.7	24.7	0.6	-64.2
Essential oils (tons)	242	286	206	175	12.0	22.5	-27.9	-15.0
Cement	243	225	230	259	-14.4	9.0	2.5	12.6
Other indicators of manufacturing production								
Commercial and industrial electricity consumption (millions of kWh)	156	149	162	174	0.3	-2.1	8.4	7.4

Source: IICLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and the Haitian Institute Statistics and Information Sciences.

°Provisional figures.

The building of port facilities gave coasters access to Jérémie, Port-de-Paix and Port-au-Prince, while works were begun in seven other ports. The port in Cap-Haïtien was adapted for deep-draught ships. The airport at Port-au-Prince was enlarged, and major telephone works were also begun in that city.

On the other hand, the private construction of dwellings and residences continued to advance at a good pace, aided this time by the establishment of the Home Loans Bank.

iv) *Electricity*. Although electric-power coverage is scant, this sector had been comparatively dynamic in recent years, and continued to be so in 1985.⁶ Both generation and consumption grew by over 5%. Consumption of electricity by industry showed the most dynamism (7.5%), although many subcontracting companies have their own generating plants (see table 6).

Throughout the year work continued on the extension of existing plants, and the Gaillard hydroelectric power station, which is to supply Jacmel, was inaugurated.

c) *Employment trends*

The revival of sectors using labour intensive techniques is likely to have at least temporarily reduced open unemployment, which was estimated at 12% at the national level. In the urban areas, unemployment might have reached 23%, whereas in the rural areas it was notably lower (7%). The huge amount of underemployment typical of this economy has further aggravated the problem; all in all, it has been estimated that equivalent unemployment might account for 60% of the available labour force.

In 1985 it was the government's policy to reduce social tensions by absorbing manpower with, for the most part, little or no training. On the other hand, the lack of opportunities for highly qualified professionals forced them to seek employment abroad. Remittances from emigrants amounted to nearly US\$50 million, the equivalent of the earnings received from coffee exports, and were exceeded only by the subcontracting companies as a source of foreign exchange.

3. The external sector

a) *Introduction*

In 1985, the features which had characterized the performance of the external sector in recent years persisted. Thus, inadequacies in connection with exports, a deteriorating tourist trade and the permanent need to import inputs and finished goods, together with the usual flight of capital, constituted the most salient features of the external sector during the year.

Exports of goods and services expanded by 14.5%, while imports grew by 11%, while the terms of trade in goods and services expanded by 5.5%, since the unit value of exports went up by 7.5% as against a rise of only 2% in that of imports.

Due to the above and to the increase in the volume of exports, the purchasing power of exports of goods and services increased remarkably (12%). However, this favourable trend in the external sector indicators did not keep deficits from occurring in the trade balance and the balance on current account in amounts similar to those of other years.

Although the official aid received verged on US\$100 million, representing an increment of nearly 30% as against 1984, the total capital inflow failed to offset the imbalances mentioned above, and the country again experienced a loss in reserves.

b) *Merchandise trade and terms of trade*

In 1985 the value of exports of goods rose by over 12%, thus expanding for the fourth consecutive year. As for the volume of exports, it expanded by 9%, nearly offsetting the drop experienced the previous year; on the other hand, the growth rate of the unit value of exports slowed down, since in 1984 it increased 20% while one year later it expanded by less than 3% (see table 7).

⁶ % should be borne in mind that 98% of the electric power generated is consumed in Port-au-Prince and four other major towns.

Imports also went up, although only by 50% in respect of exports. This more than made up for the minimal increase they had experienced the previous year. The volume of imports went up by nearly 6%, thereby completing three years of steady growth. The unit value of imports showed a very slight upturn after a decline of 5% in 1984.

Given the greater increase in the price of exports than in that of imports, the terms of trade grew by 2% as against nearly 22.5% in the preceding year. The improvement in the terms of trade and the rise in the volume of exports meant that the purchasing power of exports grew by 11.5 %, the highest rate in the past three years.

i) *Exports*. Since exports of agricultural products in 1985 accounted for more than half of all external sales, their decline by nearly 5% had special significance (see table 8).

Table 6

HAITI: ELECTRICITY GENERATION AND CONSUMPTION

	Millions of kWh				Growth rates			
	1980	1983	1984	1985°	1982	1983	1984	1985°
Generation	336	393	408	429	6.5	4.0	3.9	5.2
Consumption	256	286	305	323	4.5	4.4	6.6	5.9
Commercial and industrial	156	149	162	174	0.3	-2.1	8.4	7.4
Sugar industry	18	9	9	10	-13.3	35.6	6.2	11.1
Cement industry	21	22	22	22	-12.7	13.0	0.2	-
Others	117	118	131	142	3.5	-6.3	10.0	8.4
Residential	81	110	110	114	10.3	10.9	-0.5	3.6
Street lighting	9	10	8	8	10.1	13.2	-17.0	-
Public and community services	10	17	25	27	11.2	25.4	53.9	8.0

Source: ECLAC, on the basis of figures provided by the Bank of the Republic of Haiti.

°Provisional figures. °°The difference between generation and consumption is due to losses in transmission and to unrecorded consumption.

Table 7

HAITI: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985°
Growth rates						
Exports						
Value	56.3	-30.3	15.5	6.8	7.1	12.2
Volume	41.0	-4.8	12.2	18.4	-10.9	9.3
Unit value	10.9	-26.8	3.0	-9.8	20.1	2.7
Imports						
Value	45.0	12.3	-17.4	9.4	0.3	6.1
Volume	24.0	9.0	-16.8	8.4	5.4	5.8
Unit value	16.9	3.1	-0.7	0.9	-4.9	0.3
Terms of trade	-4.1	-29.6	3.0	-11.0	22.4	2.0
Indexes (1980 = 100)						
Purchasing power of exports	100.0	67.0	77.4	81.6	89.0	99.2
Volume of exports	100.0	95.2	106.8	126.4	112.7	123.2
Terms of trade	100.0	70.4	72.5	64.5	78.9	80.5

Source: ECLAC, on the basis of official figures.

°Provisional figures.

Table 8

HAITI: EXPORTS OF GOODS, FOB

	Milliois of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985°	1975	1980	1985°	1982	1983	1984	1985°
Total	186	215	223	100.0	100.0	100.0	16.0	6.9	15.6	3.7
Agricultural products	103	129	123	51.9	60.1	55.2	22.2	35.2	25.2	-4.7
Coffee	52	46	49	22.8	42.1	22.0	8.5	46.2	-11.5	6.5
Cocoa	5	5	7	6.0	2.1	3.1	-35.3	113.6	-	40.0
Sugar	2	1	-	13.2*	3.0	-	-	-	-70.6	-
Sisal	-	-	-	3.9	0.7	-	273.0	-89.5	-	-
Essencial oils	8	6	4	6.0	2.5	1.8	16.3	35.1	-25.0	-33.3
Meat	1	-	-	-	0.8	-	-58.2	-65.5	-40.0	-
Others	34	71	63	-	8.9	28.3	13.3	23.2	108.8	-11.3
Manufactured articles (free zone)'	47	64	82	22.3	25.3	36.8	-11.9	-2.1	36.2	28.1
Handicraft manufactures	17	22	18	14.7	9.8	8.0	64.5	3.1	29.4	-18.2
Other goods	20	-	-	11.1	4.8	-	37.3	-	-	-
Thousands of tons										
Coffee	23.7	18.7	18.2				8.1	61.2	-21.1	-2.7
Cocoa	3.7	2.4	3.8				-42.3	146.7	-35.1	58.3
Sugar	7.1	5.0	-				-	-	-29.6	-
Sisal	0.3	0.3					177.8	-88.0	-	
Essential oils	0.4	0.2					-	100.0	-50.0	
Meat	0.2	0.2	-				-53.3	-71.4	-	-
Manufactured articles (free zone)	13.6	16.8	17.3				2.9	-2.9	23.5	3.0
Handicraft manufactures	5.2	6.0	4.0				-25.7	-	15.4	-34.5

Source: IICLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

°Provisional figures.

*Including molasses.

' Net values,excluding imports of inputs and parts.

Including cement and bauxite.

Coffee exports increased by 6.5%, partly offsetting the drop of over 11 % in 1984. The decline in the volume of coffee-bean exports (2.5%) more than made up for by a sustained price increase. Cocoa sales also went up (40%), although its relative share in foreign trade as a whole is usually much smaller. Conversely, exports of essential oils for the perfumery trade continued to plummet (-35%), falling to half of those made in 1983- Similarly, agricultural exports in the "others" category, which represent 28% of the total, also decreased by over 11 %, largely due to the refusal by the United States to accept mango shipments due to phytosanitary protection measures.

In contrast, the value of exports from the subcontracting industry grew remarkably for the second consecutive year (28%). As already noted, changes in the composition of the different branches of this industry were observed throughout the year, in that while in some cases there was a sustained expansion, in others the deterioration accelerated. Lastly, exports of handicrafts fell by over 18%, in sharp contrast with the marked expansion shown in the previous triennium.

ii) *Imports.* As already indicated, imports performed positively in most cases (see table 9). Thus, the purchase of foodstuffs which represent approximately one fifth of total imports, rose by over 6.5%, thus showing a total growth rate of over 27% between 1983 and 1985.

Imports of hydrocarbons, manufactured articles and machinery and transport equipment also expanded. After showing a marked increase in 1983, imports of hydrocarbons saw their growth rate slow, and in 1985 it was slightly over 2.5%.

Imports of manufactures grew by slightly over 5.5 %. Although this was higher than the growth rate recorded the previous biennium, it was still not high enough to offset the large drop of over 13.5% shown in 1982.

Finally, purchases of capital goods also slowed down in that after growing by nearly 9% in 1984, their growth rate a year later bordered on 2.5%. Moreover, these growth rates could not offset the sharp drops (32%) recorded between 1982 and 1983. In contrast, purchases of oils and fats and chemicals decreased by 7% and 2%, respectively.

c) *Trade in services and factor payments*

In 1985 the trade deficit was US\$220 million, amounting to an increase of slightly over 5.5% in respect of the previous year (see table 10).

This imbalance was basically due to the evolution of trade in real services, which resulted in a deficit for the country of approximately US\$100 million, that is, one which was 20% higher than in 1984. In contrast, the imbalances resulting from merchandise trade declined by 3%, reducing the negative balance of slightly under US\$130 million in 1984 to a figure somewhat above US\$120 million a year later.

Revenues from transport and insurance expanded by over 14%. However, payments on account of those same items experienced an even higher increase (21%).

As regards tourism, revenues exceeded payments in the amount of US\$50 million, representing an increase of around 20% in respect of 1984. Despite the drop in the number of tourists which visited the country, owing in part to the climate of social unrest which prevailed during the year, the average expenditure per visitor increased, which explains the rise in total revenues of approximately 15%. Expenditure on travel abroad showed a smaller increase (10%), probably due to the levying of taxes on air tickets and passports.

For its part, the negative balance in respect of factor services reached US\$20 million, an increase of 11 % over the deficit shown in 1984. This must have been due to higher interest payments since the profits of foreign companies remained unchanged.

It was also due to some extent to the performance of income from transfers made by emigrants, which although expanding by 14%, only reached the levels recorded in 1982.

Table 9
HAITI: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985°	1982	1983	1984	1985"
Total	411	435	449	100.0	100.0	100.0	-13.6	6.3	5.7	3.2
Foodstuffs, beverages and tobacco	82	89	95	23.1	16.9	21.1	-11.1	12.9	7.9	6.7
Hydrocarbons	71	74	76	9.1	16.7	16.9	-15.5	23.8	4.2	2.7
Oils and fats	31	34	31	5.5	7.0	6.9	-40.2	90.5	7.6	-7.0
Chemicals	40	43	42	8.4	8.4	9.4	2.3	10.9	8.2	-2.3
Manufactured articles	73	74	78	16.3	20.7	17.4	-13.8	13	14	5.6
Machinery and transport equipment	74	81	83	19.8	17.4	18.5	-15.6	-16.7	8.8	2.4
Miscellaneous manufactured articles^	35	38	41	14.0	8.2	9.1	-7.9	-18.1	8.6	7.6
Other ¹	5	2	3	3.8	4.7	0.7				

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

"Preliminary figures. Including manufactures of textiles, leather, rubber, wood, paper and metallic and non-metallic minerals.

¹Including clothing, footwear, travel goods, furniture, professional instruments and sanitary, heading and lighting articles. Including non-edible raw materials and commodities.

Table 10
HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-97	-140	-225	-160	-177	-182	-191
Trade balance	-117	-178	-277	-195	-209	-208	-220
Exports of goods and services	213	306	240	270	288	299	342
Goods FOB	138	216	150	174	186	199	223
Real services	75	90	90	96	103	101	119
Transport and insurance	3	6	7	7	7	7	8
Travel	65	76	75	80	85	81	93
Imports of goods and services	330	484	517	465	497	507	562
Goods FOB	220	319	358	296	324	325	345
Real services	110	165	159	169	173	182	217
Transport and insurance	48	83	89	77	88	94	114
Travel	33	41	31	41	39	39	43
Factor services	-13	-14	-13	-14	-14	-18	-20
Profits	-7	-8	-7	-8	-8	-2	-2
Interest received	-	1	1	1	1	-	-
Interest paid	-7	-6	-6	-6	-7	-16	-18
Unrequited private transfer payments	34	52	64	49	46	43	49
Balance on capital account	105	111	168	115	144	154	168
Unrequited official transfer payments	42	37	74	61	64	75	97
Long-term capital	59	67	93	45	46	62	
Direct investment (net)	12	13	8	7	8	4	5
Portfolio investment (net)							
Other long-term capital	47	54	85	38	37	57	
Official sector ^c	40	52	28	34	32	55	
Loans received	29	47	32	38	35	61	
Amortization payments	-3	-2	-4	-4	-3	-6	
Commercial banks'							
Loans received							
Amortization payments							
Other sectors ⁰	8	3	57	4	6	3	
Loans received	11	10	61	8	12	20	
Amortization payments	-4	-7	-4	-5	-7	-17	
Short-term capital (net)	-1	-1	-6	-8	-6	-8	
Official sector	1	2	-	-	-	-	
Commercial banks	-2	-3	-6	-8	-6	-8	
Other sectors							
Errors and omission (net)	5	8	7	17	40	26	
Global balance"	8	-29	-57	-45	-33	-28	-23
Total variation in reserves							
(- sign indicates an increase)	-24	26	50	3	32	6	
Monetary gold	-5	-4	2	1	-	-	
Special Drawing Rights	-2	4	3	-	-1	1	
IMF reserve position	-3	6	-	-	-	-	
Foreign exchange assets	-11	22	15	-16	10	-5	
Other assets							
Use made of IMF credit	-2	-3	30	18	22	11	

Source: 1979-1981: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: IICLAC, on the basis of official data.

"Provisional figures. Including other non-factor services. 'Includes net loans granted and other assets and liabilities. ⁰equivalent to the total variation in reserves (of opposite sign) plus counterpart items.

d) *The deficit on current account and its financing*

An increase of 5% brought the deficit on current account to slightly over US\$190 million in 1985. This figure was the highest since 1981 and amounted to approximately 9% of the product (see table 10).

Half of this imbalance was financed by means of unrequited official transfer payments, which, thanks to an increase of 30%, totalled approximately US\$100 million.

Nevertheless, it was still necessary to obtain additional funds on the international capital markets. Long-term capital inflows shrank substantially because funds were not so readily available and, more so, because amortization payments were higher. The latter rose considerably when several loans contracted previously fell due.

Some short-term capital outflows could also be detected, although these were smaller than in previous years, since the balance on the error and omissions item was less than that recorded on other occasions.

As a consequence of all the above, the country suffered a foreign exchange loss of around US\$25 million, which when added together with the declines systematically recorded since 1980, totalled a drop of nearly US\$220 million.

e) *External indebtedness*

Unlike what has been the case in other Latin American countries, the Haitian external debt has represented no particular problems in the recent past due to the most-favoured-nation status enjoyed by Haiti which enabled it to obtain credits on concessionary terms more easily.

However, since the beginning of the 1980s the burden of external indebtedness has become more significant, increasing substantially in the period 1984-1985.

In 1985 the disbursed external public debt was approximately US\$600 million —slightly lower than the figure shown the previous year and approximately double that recorded in 1980. As in previous years, most of these funds (75 %) involved commitments assumed by the government while public enterprises were responsible for the remaining amount (see table 11).

On the other hand, in 1985 disbursements slowed down again, continuing the trend begun the previous year. Thus, the US\$150 million disbursed in 1983 went down to US\$80 million a year later and to approximately US\$50 million in the year under review.

Table 11

HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS"

	1980	1981	1982	1983	1984	1985*
Millions of dollars						
Disbursed public external debt						
Balances	290	372	410	551	607	599
Government	223	248	282	402	454	453
Public enterprises	67	124	128	149	153	146
Disbursements	52	93	48	153	83	48
Servicing	15	16	17	23	36	64
Amortization payments	10	11	10	12	27	56
Interest payments	5	5	7	11	9	8
Percentages						
Ratios						
Public external debt/exports of goods and services	94.8	155.0	151.9	191.3	203.0	175.1
Debt servicing/exports of goods and services	4.9	6.7	6.3	8.0	12.0	18.7
Net interest payments/exports of goods and services ^c	2.3	2.5	2.2	2.4	5.4	5.8
Debt servicing/disbursements	29.0	17.2	34.4	15.0	43.3	133.3

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

" Balance of disbursed external debt, for terms of over a year, as of 30 September of each year.
interest payments reflected on the balance of payments.

Preliminary figures.

' Refers to net

In contrast, debt servicing experienced a large increase. Thus, in 1985 amortization and interest payments (US\$64 million) were over twice as high as those made in 1984, when they had been more than 50% higher than in 1983.

In keeping with the pattern followed in previous years, most of the debt servicing was made up of amortization payments, which, having more than doubled in 1984, again rose by the same proportion in 1985, amounting to slightly over US\$55 million. As for interest payments, they slowed down a little, amounting to less than US\$10 million for the second consecutive year.

The performance described above caused the ratio between debt servicing and exports of goods and services to rise from 12% in 1984 to 19% a year later. Such a coefficient was in contrast with that reached as recently as 1983 (8%). Interest payments, in turn, accounted for 5 % of all external sales, and 75 % of the new disbursements made throughout the year were used for amortization and interest payments.

4. Prices and wages

The variation between annual averages in the consumer price index experienced a slight rise in 1985, going up from 8% in 1984 to nearly 8.5% a year later (see table 12).

However, the variation from September to September was much greater. Thus, from September 1984 to September 1985 prices rose at a rate of 15%. This was in sharp contrast with the performance of the preceding year, in which they rose by 6%, a figure which was in itself half that recorded in 1983.

The speed-up of the inflationary process was reflected in particular in the evolution of food prices. After an increase bordering on 6% in 1984, that experienced in 1985 came close to 18%.

The above price increases appear to have stemmed from various causes. There is no doubt that restrictions on the supply of foodstuffs such as maize, rice, sorghum and poultry, encouraged price increases. On top of that, such elements as the surcharge of approximately 10% applied on the dollar in the parallel market during the year, high interest rates and a rise in the sales tax, also contributed to the overall price increases on the cost side.

The inflation experienced at a time when inflation was declining in the United States, Haiti's main trade and financial partner, affected the competitiveness of many goods and services.

As regards wages, the minimum nominal remunerations were increased by almost 14%, rising from 13 to 15 gourdes per day (see table 13). This gave rise to a debate on the impact which this measure might have on the subcontracting industry, since other neighbouring countries, such as the Dominican Republic and, in effect Mexico, had devalued their currency. However, the flare-up of inflationary pressures brought this increase down to only about 5% in real terms —not enough to offset the deterioration experienced during the preceding two years (15%). Hence, the index of real wages stood at one of its lowest levels since 1980.

5. Monetary and fiscal policy

a) *Monetary policy*

In 1985 the evolution of the monetary policy continued to depend on two factors which were very different in nature. On the one hand, there was great financial openness to the exterior and, on the other, the presence in the economy of a vast non-monetized sector persisted.

Although both phenomena restricted the degree of influence of monetary and credit variables on the economy as a whole, throughout 1985 the monetary policy remained relatively free from the strong pressures experienced the previous year, as a result of a decrease in the fiscal deficit.

The monetary base expanded by 5.5 %, in sharp contrast with the 34% recorded in 1984. For its part, money supply (M^1) rose by 11.5%, a figure which was also lower than that shown the previous year. Since the situation with regard to quasi-money remained practically the same, total money supply (M_2) increased by about 9.5% (see table 14).

On the other hand, domestic credit slowed down in respect of the previous year and resources for the private and public sectors rose by a very similar percentage (8.5%).

The slowdown in credits received by the public sector was especially significant. Thus, the expansion noted in 1985 was in contrast with that of the previous year, in which they grew 17%, and with the rise of over 30% in 1983. As in previous years, the majority of the credits received by the public sector went to the central government (95%).

In 1985 there was still a high degree of financial openness, as evidenced by the operation in the country of foreign banks, although they were subject to the regulations of the recently established Central Bank.⁷

Table 12
HAITI: TRENDS IN DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985"
Variation from September to September						
Consumer price index	9.5	4.7	6.2	12.2	6.1	15.0
Food	13.9	6.7	1.6	13.4	5.8	17.7
Variation between annual averages						
Consumer price index	18.1	7.6	9.0	8.8	8.0	8.4
Food	26.7	9.4	4.7	7.2	8.5	7.9

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and the Haitian Institute of Statistics and Information Sciences.

"Preliminary figures.

Table 13
HAITI: TRENDS IN WAGES AND SALARIES

	1981	1982	1983	1984	1985
Gourdes					
Minimum daily wage"	11.40	13.00	13.20	13.20	15.00
Indexes (1980 = 100)					
Wages"					
Nominal	103.6	118.2	120.0	120.0	136.4
Real*	96.3	100.8	94.0	87.1	91.3
Growth rates					
Wages"					
Nominal	3.6	14.1	1.5	.	13.7
Real"	-3.7	4.7	-6.7	-7.3	4.8

Source: UCLAC, on the basis of figures supplied by the Haitian Institute of Statistics and Information Sciences.

"Refers to the minimum daily wage paid in industry. Deflated on the basis of the consumer price index.

⁷It should be noted that the Royal Bank of Canada, the second major bank in Haiti, ceased to operate in the country at the end of 1985.

Table 14

HAITI: MONETARY INDICATORS

	September balances (millions of gourdes)				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Monetary base	1 112	1 018	1 368	1 442	17.9	-8.4	34.3	5.4
Money (M ₁)	949	932	1 099	1 225	14.9	-1.8	17.9	11.5
Quasi-money	1 078	1 166	1 255	1 355	8.0	8.1	7.6	8.0
Money plus quasi-money (M ₂)	2 027	2 098	2 354	2 580	11.1	3.5	12.2	9.6
Domestic credit	2 763	3 214	3 670	3 978	10.5	16.3	14.2	8.4
To the public sector	1 586	2 093	2 448	2 655	20.7	32.0	17.0	8.5
Central government (net)	1 299	1 911	2 263	2 502	198	47.1	18.4	10.6
Public institutions	287	182	185	153	25.2	-36.4	1.4	-17.3
To the private sector	1 177	1 121	1 122	1 323	-0.8	-4.8	9.0	8.3
Coefficients								
Monetary multipliers								
M ₁ /monetary base	0.85	0.92	0.80	0.85				
M ₂ /enlarged monetary base	1.94	2.06	1.72	1.79				
Velocity of circulation								
GDP/M ₁	12.78	11.44	12.10	8.11				

Source: I:CLAC on the basis of figures supplied by the Bank of the Republic of Haiti.

°Provisional figures. licluding interbank operations.

Interest rates remained relatively high. Those on deposits were fixed at a higher rate than those prevailing abroad in an attempt to retain domestic savings. In spite of this, bank deposits barely changed, and deposits by the public have even been refused, leaving the individuals concerned no choice but to place their savings abroad. On the other hand, rates on loans also increased affecting the financial costs of enterprises.

b) *Fiscal policy*

The biggest progress was perhaps achieved in the field of public finances, although there are still serious obstacles to overcome. One of the major problems in the economy in the very recent past was the large fiscal deficit, which had been caused by a number of factors, many of them related to a lack of transparency in the management of public finances and to a regressive tax system, which is based primarily on earnings from foreign trade. This situation was compounded by the existence of a large number of extrabudgetary expenses over which no control whatsoever is exercised and by heavy spending by the civil service and the security forces.

Disbursements of credits granted by the International Monetary Fund were suspended in 1984 due to defaults in the field of public finances, and as a result, the fiscal deficit shrank significantly in 1985. As a percentage of the product it amounted to 9%, as against 12% or more in previous years. That improvement resulted from an increase in income and a marked slowdown in expenditure.

Nominal current income rose by 23% (see table 15). Revenue from indirect taxation increased dramatically (42%), owing in part to an increase from 7% to 10% in the sales tax rate agreed upon at the end of 1984. Additional duties on tobacco and air tickets also helped to increase fiscal income.⁸

⁸In October 1985, a new tax of US\$20 on trips within the Caribbean and US\$30 on those made outside the subregion, was established.

On the other hand, direct taxes grew by 9% although they still accounted for less than 15% of total central government income. In contrast, taxes on foreign trade again declined (-2%), owing in part to a 15% reduction in export tariffs on coffee and a tax reduction agreed upon in the case of essential oils. On the other hand, total expenditure expanded by little more than 1%, representing a significant slowdown as compared with 1984.

Current expenditure increased by slightly more than 1.5%. Payments in salaries and wages went up by almost 10%, while government purchases rose by nearly 14%. The increase in the disbursements made on account of those items was offset by a contraction in extrabudgetary expenditure (-4.5%), which amounted to the equivalent of 57% of all current expenditure. As for capital expenditure, it fell (-2%) for the third consecutive year, declining by almost 10% between 1983 and 1985.

Table 15

HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of gourdes				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
1. Current income	763	846	914	1 124	15.6	10.9	8.0	23.0
Tax revenue	710	831	907	1 104	10.2	17.0	9.1	21.7
Direct	135	128	141	154	16.4	-5.2	10.2	9.2
Indirect	321	354	453	644	28.9	10.3	28.0	42.2
On foreign trade	254	349	313	306	-9.0	37.4	-10.3	-2.2
2. Current expenditure	1 600	1 648	1 775	1 803	40.0	3.0	7.7	1.6
Budgetary expenditure	559	563	697	775	12.0	0.7	23.8	11.2
Wages and salaries	393	399	449	493	18.3	1.5	12.5	9.8
Other current expenditure	166	164	248	282	-0.6	-1.2	51.2	13.7
Extrabudgetary expenditure	1 041	1 085	1 078	1 028	61.6	4.2	-0.6	-4.6
3. Current saving (1-2)	-837	-802	-861	-679				
4. Capital expenditure	232	223	215	210	5.5	-3.9	-3.6	-2.3
5. Total expenditure (2+4)	1 832	1 871	1 990	2 013	34.3	2.1	6.4	1.2
6. Fiscal deficit (1-5)	-1 069	-1 025	-1 076	-889	51.8	-4.1	5.0	-17.4
7. Deficit financing								
Domestic financing	381	277	572	218				
Central Bank	206	106	417	189				
Others	175	171	155	29				
External financing	172	151	159	34				
Donations	516	597	345	637				
Percentages								
Ratios								
Current saving/capital expenditure	(360.8)	(359.6)	(400.5)	(323.3)				
Fiscal deficit/total expenditure	58.4	54.8	54.1	44.2				
Tax revenue/GDP	9.6	10.2	10.0	11.1				
Total expenditure/GDP	24.7	23.0	21.0	20.3				
Fiscal deficit/GDP	14.4	12.6	11.8	9.0				
Domestic financing/deficit	35.6	27.0	53.1	24.5				
External financing/deficit	16.1	14.7	14.8	3.8				
Donations/deficit	48.3	58.3	32.1	71.7				

Source: ECLAC, on the basis of official figures.

°Provisional figures.

In spite of the above, the increase in the amount of external aid made it possible to revive some public works projects which contributed to the development of economic activity and helped to alleviate unemployment at least temporarily.

Finally, after five years of negotiating, the fiscal activities wrongly assigned to the Tobacco and Matches Monopoly were taken over by the General Tax Office. Since early in 1985, the marketing of essential products, such as cement, flour and sugar, which had been handled by the Monopoly has been carried out directly by their producers, without any intermediary whatsoever.

Other administrative changes were the introduction of certain customs reforms and the achievement of greater rationality in the management of various public enterprises, including Minoterie d'Haiti, the flour company, and TELECO, the telephone company, which, by increasing their prices and tariffs slightly, managed to treble their profits. The Port Authority also achieved satisfactory results.

HONDURAS

1. Recent economic trends: Introduction and summary

In 1985, for the second consecutive year, the Honduran economy showed moderate growth of its gross domestic product, which increased by 1.6% with respect to the preceding year. Such an increase was insufficient compared with the rate of population growth (3.4%), however, and this led to a new deterioration in the per capita product, which shrank to the level reached in 1976.¹ The gross national income, for its part, virtually stagnated (see table 1 and figure 1).

Unemployment got worse and became one of the most urgent and crucial problems facing the country. The rate of inflation continued to decrease, yet real wages experienced a new reduction. The financial, fiscal and balance-of-payments imbalances remained at high levels, although the latter showed a slight improvement.

Among the main factors which favourably influenced the evolution of the economy in 1985, mention should be made, in the first place, of the performance of exports of goods and services, whose volume increased by over 8% due largely to bigger sales of bananas and coffee and, to a lesser extent, those of sugar, meat and metals. Secondly, there continued to be a significant flow of long-term external financing on concessionary terms and of unrequited official transfer payments from bilateral sources. The latter came to represent a sum equivalent to 30% of the balance balance-of-payments current account deficit.² Thus, foreign exchange earnings from exports were strengthened and, although factor service payments grew once again, it was possible to finance an increase in imports of goods and services.

Thirdly, on the production side, services showed greater dynamism and agriculture grew once again, although at a lower rate. The entry into operation of the "El Cajón" hydroelectric power station led to an increase in basic electricity services, considerably expanding the country's energy potential by more than trebling the electricity generation capacity.

Agricultural production grew mainly on account of the sustained increase in banana output after the 1983 losses caused by bad weather, the temporary fiscal exemptions granted for export promotion, and the favourable trend in international prices. Although coffee continued to suffer from the effects of pests and diseases, it too registered improved production due to the rehabilitation of some growing areas and the cyclic recovery of harvests.

Fourthly, private investment reversed its trend and showed a slight upturn related to the need to replenish stocks —especially in commerce— and to renew part of the machinery and equipment, particularly in industry.

Fifthly, the State policy of fiscal incentives and of flexibility to import and credit controls encouraged an upturn in investment and reduced the cost of certain export products.

The sixth factor, which served to foster domestic demand during the year, was the increase in central government consumption (4.3%) due to the greater expenditure on education, on electoral activities, and on health, as well as on defence and public security.

On the other hand a series of adverse elements impaired the dynamism of the above favourable factors. In the first place, in the external sector, the terms of trade index again deteriorated, making a cumulative loss since 1977 of almost 30%. This indicator caused a slackening of export production on account of the increase in costs and the reduction in export sales. In addition, the persistence of the

¹ It should be noted that the growth of the Honduran economy was not only greater than that of the rest of the Central American countries but was even higher than the Latin American average, except for Brazil and Cuba.

² In 1985, the total subsidized credits and grants supplied by the United States amounted to US\$282 million, 78% of which was economic aid and the remainder military aid. Disbursed direct balance of payments support came to US\$90 million (24% of the deficit on current account). It should be noted that the degrees of "conditionality" of this aid have tended to increase, affecting not only the economic policy area, but also other domestic activities.

protectionist policies adopted by some developed countries led to a drop in demand, as in the case of sugar. External sales to Central America drastically contracted again, so that they represented less than 4% of total sales in 1985, compared with almost 12% in 1975. This phenomenon was due, on the one hand, to a loss of competitiveness of Honduran products, which was made worse by the appreciation of the lempira in relation to the other Central American currencies; on the other hand, to the problems faced by the region in paying external commitments; and last but not least, to the fall in domestic demand in some Central American trading partners. Likewise, debt servicing continued to impose a heavy burden on the supply of foreign exchange, to such an extent that it came to represent about 50% of the balance-of-payments current account deficit.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^a
Indexes (1980 = 100)							
Basic economic indicators							
Gross domestic product at market prices	94.5	100.0	100.7	100.1	98.9	101.5	103.1
Gross national income	98.8	100.0	96.9	97.9	96.5	100.6	100.7
Population (thousands of inhabitants)	3 564	3 691	3 821	3 955	4 092	4 231	4 372
Per capita gross domestic product	97.8	100.0	97.3	93.4	89.2	88.6	87.0
Growth rates							
Short-run economic indicators							
Gross domestic product	5.8	3.3	0.7	-0.6	-1.2	2.6	1.6
Per capita gross domestic product	5.5	2.2	-2.7	-4.0	-4.5	-0.7	-1.8
Gross national income	1.9	1.2	-3.1	1.0	-1.4	4.3	0.1
Rate of unemployment		8.8	9.0	9.2	9.5	10.7	11.7
Consumer prices							
December to December	22.5	11.5	9.2	8.8	7.8	3.7	4.2
Variation between annual averages	12.1	18.1	9.4	9.0	8.3	4.7	3.4
Real wages and salaries							
Agriculture	34.0	0.7	16.5	3.0	-7.7	-4.5	-3.3
Manufacturing	11.5	-8.3	5.0	-0.5	-7.7	-4.5	-3.3
Money	14.9	10.8	4.4	10.7	14.3	4.1	1.8
Current income of government	16.7	20.1	-2.3	3.9	1.5	22.3	14.8
Total government expenditure	8.3	38.7	0.2	25.5	-0.1	25.5	4.9
Fiscal deficit/total government expenditure*	30.7	40.0	41.4	51.6	50.9	52.2	47.7
Fiscal deficit/gross domestic product	6.4	10.1	9.9	14.8	13.8	16.6	15.0
Current value of exports of goods and services	22.0	12.3	-6.2	-13.2	3.9	9.9	7.1
Current value of imports of goods and services	19.8	21.1	-5.8	-22.4	11.4	10.6	12.4
Terms of trade (goods and services)	-10.1	-5.1	-10.5	3.6	-0.2	5.0	-3.9
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-92	-185	-177	-56	-120	-139	-203
Net payments of profits and interest	120	-154	-153	-202	-149	-184	-188
Balance on current account	205	-331	-321	-249	-260	-311	-378
Balance on capital account	225	253	249	203	213	301	389
Variation in gross international reserves	25	-73	-69	-53	-39	-7	11
External debt ^b	1 008	1 388	1 588	1 748	1 543	2 159	2 392

Source: IICLAC, on the basis of official figures.

^aPreliminary figures. * Percent ages. ^bTotal medium- and long-term external debt.

Secondly, public investment, which was a major source of dynamism during the preceding year, suffered a drastic contraction due to the completion of the "El Cajón" hydroelectric project.³ However, the increase in investment by the central government, mainly on road infrastructure, health and communications, helped to soften the fall in public investment.

Thirdly, domestic production showed a negative trend in the case of manufacturing, construction and basic grains. In industry, a series of factors have interacted to favour a weakening of the sector during the last five years. Among these factors, it is worth mentioning the deterioration in installed capacity, the heavy financial burden sustained by a large number of enterprises —mainly those which received financial support from the National Investment Corporation (CONADI)— and restriction on imports of inputs and capital goods. In 1985, the cumulative effects of the previous problems, were aggravated by the already mentioned contraction in Central American and domestic demand; in the latter case the phenomenon particularly affected the cement industry. Construction shrank as a result of a decrease in public investment and, specifically, of the completion of the "El Cajón" project. As regards the growing of basic grains, the various pre-existing problems in the areas of production and marketing were compounded by poor weather conditions and a lower supply of finance from the main sources of institutional credit during the year, leading to a decline in harvests.

Fourthly, and particularly in 1985, certain domestic and external social and political tensions continued to prevail, the latter in connection with relations with Nicaragua. All these tensions prompted uncertainty among the private agents, with negative effects on investment and domestic savings. The presidential succession also gave rise to tensions within the State,⁴ in addition to which there were demonstrations of social unrest throughout the year, such as strikes by physicians, refinery workers and truckers; land take-overs by peasants before the sowing season; pressures by coffee growers for the alleviation of the situation prevailing in the country's southeast frontier departments, and demands for settling the financial burden of the coffee sector. The military exercises carried out jointly with American forces also caused a certain discontent in the population.

Since the beginning of the 1980s, various economic and non-economic factors have caused serious financial imbalances in the fiscal and external areas. In 1985, these imbalances continued to be substantial. The increasing factor services were once again a burden on the current account balance, raising the deficit on this to an absolute level, unprecedented in the last ten years, of the equivalent of 11 % of the gross domestic product. It was possible to finance this deficit thanks to the large inflow of official transfers, mainly from the United States Government; to disbursements of loans contracted by the Central Bank of Honduras with multilateral financial sources, and to the use of external resources by the banking sector. However, arrears of payments on the service of the external debt with commercial banks continued to increase. By the last quarter of the year, a certain external illiquidity was to be perceived and there continued to be an unofficial parallel foreign exchange market, enlarged by the proceeds of sales to Central America.

The imbalance in the public finances has been one of the main problems of the Honduran economy during the last six years. In 1985, the cutback in capital expenditure by the central government —due to a reduction in transfers to decentralized institutions, mainly the National Electric Energy Corporation— reduced the large fiscal deficit from the 1984 level of 16.6% of the gross domestic product to 15%.

Economic policy during the year was mainly directed towards furthering private enterprise so that it could play a more significant role in the reactivation of the economy in view of the planned reduction in public investment.

Export promotion was essentially based on fiscal measures. Thus during the year Decree No. 37 on the system of temporary importation was put into effect in order to favour the subcontracting industry by removing all taxes on imported inputs for the manufacture of items to be exported to countries outside the Central American region. In addition, the tax rate on banana exports was reduced, and one enterprise was benefited with the temporary deferment of paying export tax.

³ This project, involving total investments of 1.3 billion lempiras, was during the period 1981-1984 a major factor in offsetting the sustained decline in gross domestic private capital formation.

⁴ In April and May a showdown took place between the National Congress and the Executive, which was later settled through the mediation of various sectors, mainly from the labour area; in October, some members of the Congress proposed an amendment to the Constitution allowing the extension of the presidential term, giving rise to vigorous protests by the majority of the opposition sectors.

Figure 1
HONDURAS: MAIN ECONOMIC INDICATORS

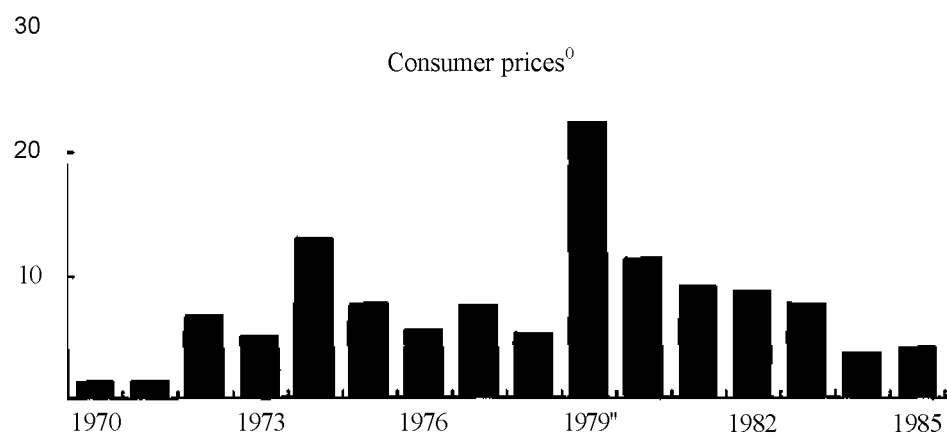
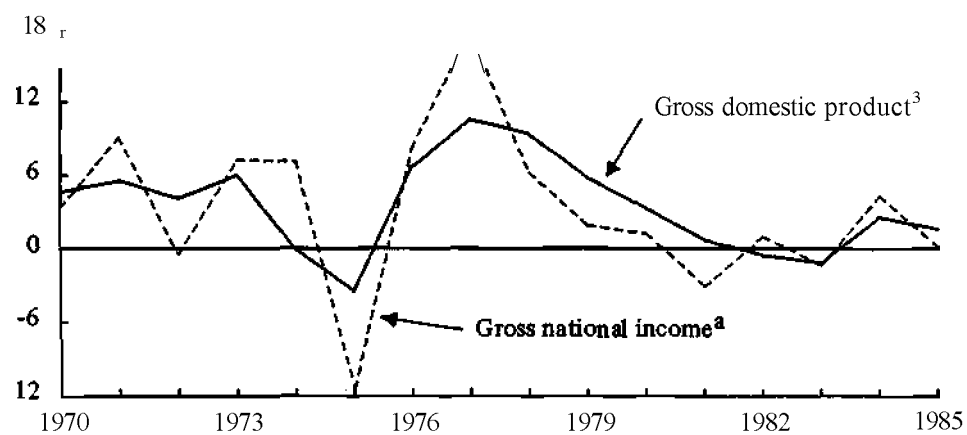
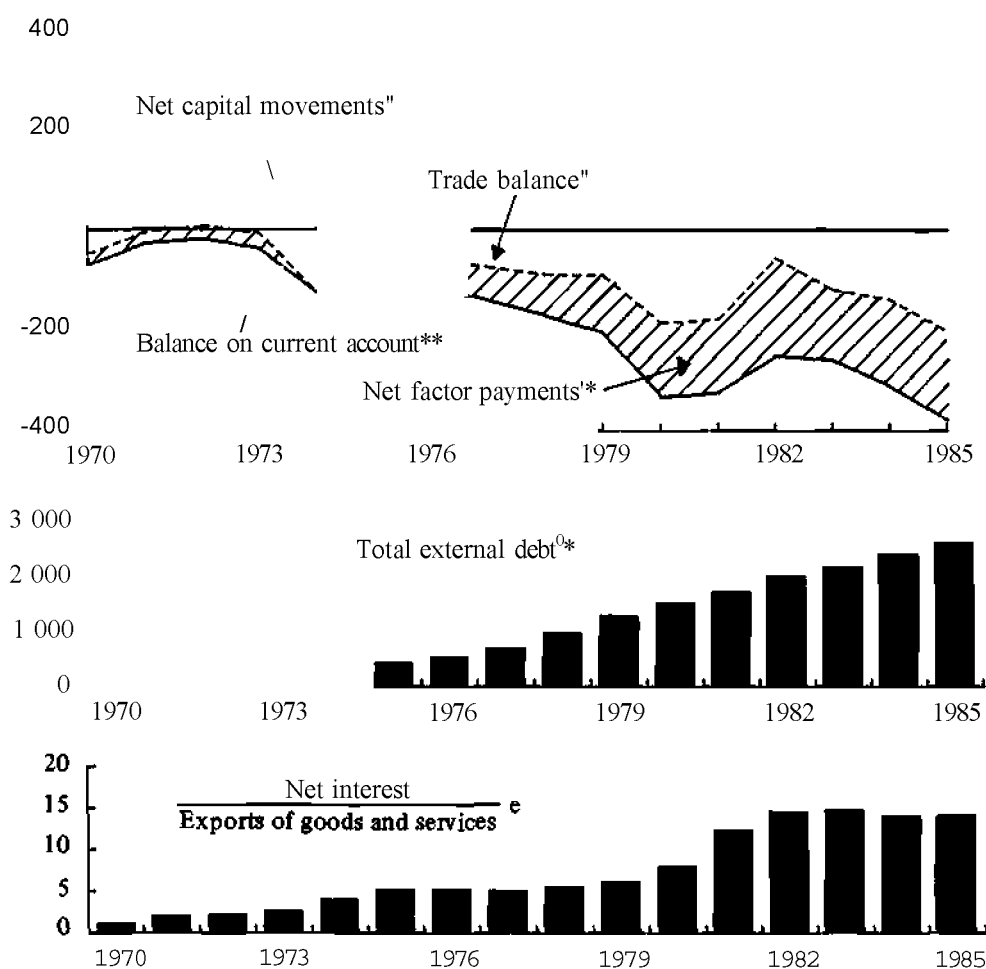


Figure 1 (conclusion)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate.
from December to December.

^bAverage annual rate for whole country.
^cMillions of dollars.

Percentage variation
Percentages.

Furthermore, exemptions were granted in respect of the payment of the general sales tax and of customs duties on imports of machinery and equipment for industry, and towards the end of 1985 the validity of the Industrial Promotion Law and of the Central American Agreement on Fiscal Incentives to Development was extended for another year, because the review of the tariff system had not yet been completed.

Although there were no changes in tax policy during the year, those made in 1984 had significant results for tax revenue in 1985.⁵ Thus, according to official estimates 10% of the total tax revenue was obtained as a result of applying these measures.

One of the items of economic policy in 1985 was the decision to implement a programme of putting into private ownership enterprises and other assets owned by the public sector. To this effect, the National Congress decreed that the National Investment Corporation (CONADI) should carry out a plan to transfer its enterprises and other investments, and it empowered other decentralized institutions such as the Honduran Forestry Development Corporation (COHDEFOR), the Honduran

⁵ See ECLAC, "Honduras", *Economic Survey of Latin America and the Caribbean*, 1984, Santiago, Chile, LC/G. 1398, United Nations publication, Sales No: E.86.II.G.2.

Banana Corporation and the National Bank for Agricultural Development to do the same. Also in October the National Housing Finance Agency was dissolved and replaced by the Housing Fund, managed as a trust fund by the Central Bank of Honduras.

The monetary policy was directed towards reducing the increase in net financing granted by the banking system to the public sector, while increasing the lines of credit granted by the Central Bank to the banking system; the bank reserve requirements were reduced for institutions holding 70% of their portfolios in credits for crop farming and stock raising; the interest rate on rediscounts for basic grains was reduced by one point; and interest rates on loans and deposits were kept at the same level as in the preceding year, giving rise to an increase in real rates.

On the other hand, the policy of domestic borrowing favoured the establishment of a bond market based on the non-financial private sector and aimed at reducing the pressure on the banking system.

In May, the Central Bank decided to implement a more flexible exchange policy and authorized exporters to retain foreign exchange from transactions with other Central American countries in order to pay for their own imports from the region, to sell it to importers, or to change it into lempiras at the free exchange rate.

Finally, no negotiations were held with the International Monetary Fund during the years which might have led to a new agreement in support of the adjustment and reactivation programme furthered by the government. However, the process of renegotiation of the external debt continued and gave rise in June 1985 to the proposal by the creditor banks of a draft refinancing agreement. Although this was not signed, the negotiations gave the country a *de facto* moratorium on its amortization payments on the debt principal which represented relief of US\$150 million for the balance of payments. Moreover, the same terms agreed in the original contracts were maintained, representing savings on interest payments.

In brief, the Honduran economy was marked in 1985 by a moderate improvement in its performance reflected in the growth of the product; in increased exports and imports; in a slight change in the trend of private investment, and in a reduction of the rate of inflation. However, financial imbalances persisted and were only overcome thanks to a significant flow of external capital. In addition, the already high unemployment level increased again; the agricultural and industrial production system showed signs of weakening, and public investment, real income and per capita private consumption also decreased. All this took place against a background of domestic and external political tensions.

2. Trends in economic activity

a) *Total supply and demand*

After the fall recorded in 1982 and 1983, the gross domestic product experienced a recovery in 1984 and 1985. However, growth in 1985 (1.6%) was not widespread among all sectors: that of services increased, but the goods-producing sectors continued to stagnate, and moreover, there was a further reduction in the real per capita product, which brought it down to a level similar to that reached nine years before. The volume of imports of goods and services continued to increase (9%), although somewhat slower than in the preceding year. Notwithstanding its sustained increase in the last three years, however, the volume of imports still failed to recover its 1980 level (see table 2).

As regards total demand, exports of goods and services went up significantly (8.4%) and became the main variable responsible for economic growth, since their share with respect to the product reached almost 38%. This was largely due to an increase in the export volumes of bananas, sugar, meat and, to a lesser extent, coffee. This growth in the volume exported resulted to a large extent from sales of stocks accumulated in past periods.

With regard to external demand, it may be noted that sales to the rest of the Central American countries dropped significantly for the second year in a row, reflecting the payment problems experienced in regional trade and the relative loss of competitiveness of Honduran exports, compounded by variations in the rate of exchange in some countries.

The evolution of domestic demand was relatively moderate (2.3%), being especially affected by the decline in the gross fixed investment of the public sector, which was far from being offset by the slight increase in private investment.

Table 2

HONDURAS: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown			Growth rates		
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	92.0	96.6	100.3	145.3	142.9	-5.6	2.2	5.0	3.8
Gross domestic product at market prices	98.9	101.5	103.1	100.0	100.0	-0.6	-1.2	2.6	1.6
Imports of goods and services	79.9	89.3	97.6	45.3	42.9	-18.6	12.7	11.7	9.3
Total demand	92.0	96.6	100.3	145.3	142.9	-5.6	2.2	5.0	3.8
Domestic demand	94.0	98.5	100.8	107.4	105.2	-3.4	12	4.8	2.3
Gross domestic investment	53.2	72.3	71.7	26.2	18.2	-39.0	5.9	35.8	-0.8
Gross fixed investment	67.1	71.9	67.2	24.8	16.2	-190	2.1	7.1	-6.6
Construction	100.0	104.0	98.4	12.2	11.7	12.5	12	4.0	-5.3
Machinery and equipment	35.4	40.9	36.9	12.6	4.5	-54.7	4.5	15.4	-9.7
Public	102.7	117.9	104.9	9.6	9.8	1.7	6.5	14.8	-11.0
Private	44.9	43.1	43.5	15.2	6.4	-35.9	-3.6	-4.1	1.0
Total consumption	107.3	107.2	110.3	81.2	87.0	6.0	0.5	-0.1	2.9
General government	101.4	103.1	107.5	13.7	14.3	-1.7	0.7	1.7	4.3
Private	108.5	107.9	110.8	67.5	72.7	7.6	0.4	-0.5	2.7
Exports of goods and services	89.6	94.6	102.6	37.8	37.7	-12.1	5.2	5.6	8.4

Source: ECLAC, on the basis of official figures.

"Preliminary figures. 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 1980 values using unit value indexes calculated by ECLAC for that purpose.

In the years that have elapsed so far in the present decade, public investment has played a leading role in the Honduran economy, representing a little over 9% of the gross domestic product, whereas private investment has declined steadily. The main component of public investment during those years was the "El Cajón" hydroelectric power project, with an annual investment amounting to about 250 million lempiras (1.3 billion altogether), whose construction and fitting-out was completed in early 1985. This explains the decline in public investment, as well as the drop in construction and machinery and in total investment. This situation would have deteriorated even further had not other investments been made by the central government and some public enterprises, particularly in the areas of road infrastructure, communications, other energy projects and the health sector. Likewise, as on former occasions, the particularly tense pre-electoral process negatively influenced public sector activity and, in particular, fixed capital formation.

The lack of an integrated investment programme with soundly-based projects and the limitations which may arise in securing financing could restrict the recovery of public investment in the short run.

In the 1981-1984 period, private investment dropped steadily as a result, among other factors, of a loss of confidence among entrepreneurs, due to non-economic domestic and especially external reasons; of the contraction in markets; of the low levels of domestic saving; of difficulties in securing external financing, and of import restrictions. Thus, the private investment coefficient went down from 15% in 1980 to slightly over 6% in 1985. The effects of this trend on the productive capacity may very well not yet have been perceived, and they may have a greater impact in the near future. In 1985, private fixed capital formation reversed its trend and increased slightly, thanks to the larger amount of credit granted by the national banking system for the replacement of fixed assets in certain industries and the financing of new investments.

With regard to variations in stocks, the inventories of certain export products (sugar, coffee cotton and meat) decreased, while those of domestic consumer goods —especially non-durables—, of

construction materials and forestry products increased. The net result was an increase in stocks which partly offset the contraction in fixed investment.

Total consumption increased by almost 3% in 1985. The rise in general government consumption (a little over 4%) was due to greater expenditure on defence and public security; on public education, stemming from wage increases and adjustments to the Law on the national promotion roster for teachers; on the electoral agency and the National Registry Office, and on salary and wage increases for public health professional and paramedical personnel.

Throughout the crisis years, per capita private consumption has shown a declining trend, and this remained unchanged in spite of the growth in absolute terms in 1985. This phenomenon is due to persistent drops in real wages and to an increase in the rates of unemployment and underemployment.

b) *Evolution of the mains sectors*

Unlike the previous year, the growth of the gross domestic product in 1985 (1.6%) was not evenly spread over all sectors. On the one hand, increases were recorded in agriculture, mainly thanks to the banana-growing and, to a lesser extent, the coffee sectors; in electricity, due to the entry into operation of the "El Cajón" hydroelectric plant, and in other services. On the other hand, there was a decline in the manufacturing product and in construction (see table 3).

The above results were obtained within the context of an increasing deterioration of the country's productive base, which was affected by the phenomena, mainly external in nature, that have been present for the last five years, and have even got worse in some cases. Mention may be made, on the one hand, of the fall in the terms of trade, the persistent protectionist behaviour of some major

Table 3

HONDURAS: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT 1980 MARKET PRICES

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Gross domestic product	98.9	101.5	103.1	100.0	100.0	-0.6	-1.2	2.6	1.6
Goods	99.7	102.8	103.1	50.3	50.3	-0.9	0.3	3.1	0.3
Agriculture	105.2	108.3	110.3	25.7	27.5	0.7	2.7	3.0	1.8
Mining	102.6	110.5	114.9	2.0	2.2	8.3	-	7.7	4.0
Manufacturing	90.9	92.9	90.9	17.3	15.3	-5.7	-3.9	2.2	-2.2
Construction	101.3	105.4	103.8	5.4	5.4	4.2	14	4.0	-1.5
Basic services	103.3	106.5	109.8	8.7	9.3	.	-1.8	3.1	3.1
Electricity, gas and water	105.9	108.8	114.7	2.0	2.2	-2.7	-	2.8	5.4
Transport, storage and communications	102.5	105.9	108.4	6.8	7.1	0.8	-2.4	3.3	2.4
Other services	96.8	98.6	101.5	40.9	40.3	-0.4	-2.9	1.9	2.9
Commerce, restaurants and hotels	95.7	98.8	101.8	17.9	17.7	-1.7	-3.5	3.2	3.0
Financial institutions, insurance, real estate and business services	95.7	96.2	99.0	10.8	10.4	-2.4	-1.0	0.6	2.9
Ownership of dwellings	98.6	98.6	101.4	6.0	5.9	-	-0.7	-	2.8
Community, social and personal services	99.7	100.7	103.6	12.2	12.3	3.4	-3.5	1.0	2.9
Government services	108.2	109.3	112.2	4.0	4.3	3.3	-	1.1	2.6

Source: ECLAC, on the basis of official figures.

°Preliminary figures. Including stock-raising, forestry and fishing.

trade partners, and a decrease in regional demand related to payment problems. On the other hand, the non-economic domestic and regional tensions, the loss of competitiveness of exports (because of the relative overvaluation of the exchange rate) and the shortage of foreign exchange (which restricted imports) discouraged savings and private investment and gave rise to a contraction in domestic demand, partially offset by growing public expenditure.⁶

i) *Agriculture*. The growth of this sector (approximately 2%) was the result of a series of factors of opposite sign which affected it during the year. Although banana, coffee and African palm production performed quite well, their effects on the sector as a whole were counteracted by various other elements, outstanding among which were poor weather conditions (drought during the early sowing period and, in some regions, an excess of rainfall after the drought); the cumulative effect of the declining trend in the international prices of some export products (sugar, cotton), and the increases in the cost of inputs for the sector.⁷ Likewise, there was a significant reduction in credit granted by the State agricultural finance agency, as well as financial restrictions on government agencies for agricultural development, which limited marketing support and technical assistance to producers. Thus, food supply continued to exhibit growth rates below those of the population, so that the country's food and nutritional deficit kept increasing. Banana production went up in spite of problems derived from high relative costs and from different investment priorities which apparently existed at the level of the parent companies of the main producing and exporting enterprises. The recovery of production in the areas damaged in 1983⁸ was largely due to the improvement in international prices (which grew by 8% with respect to the previous year), the fiscal incentives approved by the government during the second quarter of the year, and the reduction of Costa Rica's exportable supply. Even so, banana-growing apparently failed to transmit as forcefully as before its dynamic effects over the rest of the economy, and it even showed a trend towards disinvestment (see table 4).

The favourable performance of coffee-growing was associated with the cyclic evolution of the crop and the greater productivity in certain parts of the country, stemming in part from renewal programmes and the planting of new areas.

However, production remained below the record level attained in 1979, and 73% of the total cultivated area continued to be affected by coffee rust (*hemilea vastatrix*). The incidence of other pests such as the coffee berry beetle was also significantly higher than in the preceding year. Moreover, the levels of arrears of payment and illiquidity in the subsector remained high, and the National Agricultural Development Bank (BANADESA) cut back by 60% the credits granted for coffee production. In addition, the tensions experienced on the border with the Republic of Nicaragua have affected the development of this activity in those areas.

Sugar cane cultivation continued to be severely affected by conditions on the international sugar market, which were aggravated during the year by a 15 % cutback in the Honduran export quota to the American market. Along with the reduction in credit granted, this deeply discouraged producers, caused them to reduce the area sown and gave rise to a consequent contraction in production, which had reached a record level in the preceding year.

During the present decade, cotton production has been severely affected by the low international quotations for the crop, and according to official estimates the area sown shrank by 63% between 1977 and 1985. In 1985, the promotion policy in this field and the efforts to extend cotton-growing to new areas were hampered by the weather conditions which affected the country's southern region, causing losses in sown land and a reduction in yields, partly because of pests. In view of this situation, financial problems (arrears of payments and illiquidity) tended to increase. Tobacco cultivation, for its part, continued to be affected by fungus diseases, which limited its growth potential.

Regarding production for domestic consumption, this was affected by a series of negative factors. The contraction in the output of basic grains was due to adverse conditions deriving from

⁶ The overvaluation of the exchange rate was recently aggravated by exchange variations in some other Central American countries.

⁷ See Ministry of Natural Resources, Sectoral Planning Office, *Una aproximación al funcionamiento del mercado de fertilizantes en Honduras*, Tegucigalpa, D.C., May 1984, and *Efectos de los impuestos de importación sobre los precios de los insumos agrícolas*, Tegucigalpa, D.C., September 1985.

⁸ See ECLAC, "Honduras", *Economic Survey of Latin America and the Caribbean*, 1983, Santiago, Chile, L/C/G.I.343, June 1985, United Nations publication, Sales No.: E.85.II.G.2.

heavy rainfall; to a reduction in the credits granted (17%) and disbursed (13%) by BANADESA; to the low profitability of these crops, and to the consequences of marketing problems in recent years.

In spite of the efforts made by the State and the leading role played by peasant co-operatives in developing production, during the last decade this has exhibited lower growth rates than the population, with low levels of productivity and profitability.⁹

The foregoing seems to be the result of problems in the field of production, such as inappropriate production scales, along with the high cost of mainly imported inputs; the use of barely profitable technologies giving low productivity; and farming practices dependent on rainfall, except

Table 4

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
Index of agricultural production* (1970 = 100)	95.7	132.6	139.5	143.6	146.2	0.7	2.7	3.0	1.8
Crop farming	84.1	123.7	128.3	132.9	134.3	-1.0	2.6	3.6	1.0
Stock-raising	122.7	149.3	161.3	164.1	170.8	5.4	2.5	1.7	4.1
Forestry	144.8	187.2	205.2	208.9	205.3	3.8	3.6	1.8	-1.7
Production of the main crops¹⁷									
For export									
Bananas	786		887	1 006	1 098	4.7	-16.7	13.3	9.2
Coffee	51	73	98	83	87	-1.1	34.9	-15.3	5.3
Sugar cane	1 557	2 871	3 194	3 305	2 858	6.0	3.2	3.4	-13.5
Cotton	15	25	13	18	18	-56.1	57.2	39.6	-2.0
Tobacco	5	7	7	8	8	0.6	-	4.3	-2.4
For domestic consumption									
Maize	343	367	428	501	449	-3.5	4.5	17.0	-10.4
Beans	48	45	42	44	33	-3.0	-16.5	5.8	-24.7
Paddy rice	22	29	37	47	37	6.9	5.0	29.2	-22.3
Plantains	83	146	164	166	170	12	6.0	12	2.5
African palm	51	72	173	263	295	31.3	21.8	51.3	12.4
Indicators of stock-raising production									
Stock [^]									
Cattle	2 055	2 318	2 550	2 674		4.7	4.1	4.8	
Pigs	690	703	712	714		0.7	0.4	0.4	
Sheep	26	24	23	23		8.3	-1.3	-1.3	
Poultry	5	6	7	7			4.3	4.3	
Slaughtering ¹⁷									
Cattle	56	61	68	70	73	3.2	3.9	2.6	4.6
Pigs	6	8	9	10	10	12.5	2.7	4.4	4.4
Poultry	6	11	15	16	17	-	3.3	11.0	3.7
Other products									
Milk ¹	207	236	255	262	271	0.7	3.8	2.7	3.5
Eggs ⁷	32	39	45	47	48	2.8	3.7	4.4	1.4

Source: ECLAC, on the basis of official figures from the Central Bank of Honduras

"Preliminary figures. Estimated on the basis of variation in value added.

"Thousands of tons.

ousands of head.

"Millions of litres.

"Million dozen.

⁹ See Ministry of Natural Resources, Sectoral Planning Office, *Lincamientos orientadores para el fomento y desarrollo del subsector de granos básicos para el periodo 1984-1989*, Tegucigalpa, D.C., March 1984. During the 1975-1985 period, the average annual growth rates were 1.5% for maize, -0.6% for beans and 5.1% for rice. In the same period, the population recorded annual growth of 3.5%.

in the case of rice. In the marketing of grains, in spite of the efforts made by the public sector to expand the installed storage capacity, the limited financial capacity of the control agency has led to recurrent falls in prices in periods of good harvests, obviously affecting peasant income and increasing the arrears of payments owed to the national finance system. The above has led, as was confirmed in 1985, to a declining trend in the area sown with basic grains and to a reduction in credit allocated to that purpose.

The cultivation of the African oil palm has reached a stage of full expansion, and in 1985 the productive area of the Valle del Río Aguan and Guaymas projects managed by peasant co-operatives amounted to almost 13 000 hectares, while there were also increases in productivity. This has made the country self-sufficient in the production of edible oils, while also leaving significant surpluses for export.

Lastly, citrus fruit production was stimulated by the demand due to the entry into operation of a concentrated fruit-juice processing plant. Pineapple cultivation turned in a favourable performance in spite of the labour and profitability problems which arose at the end of the preceding year and at the beginning of 1985.

Beef production was boosted by government promotion policy —taking the form of the extension of credit lines and technical assistance— by the support to the producers' organization, and by the renewal of the herds. Even so, the adverse effects of the behaviour of the international meat market as regards export prices and quotas kept the activity well below its possibilities of expansion.

Although milk production was affected by the weather, it evolved satisfactorily. Here, too, it is worth stressing the government promotion measures and projects carried out in favour of this activity some years before. In 1985 the National Milk Commission was established: a joint institution with the participation of representatives from the private and public sectors, aimed at analysing the problems of the milk industry and furthering its development.¹⁰

In 1985, as in previous years, there was peasant unrest in connection with demands for land, and the main worker and peasant organizations demanded the development of integral agrarian and forestry reform.¹¹ In addition, these groups submitted demands for greater government support in order to consolidate production organizations which had already been assigned land but still recorded significant levels of under-utilization for lack of additional resources.

The National Agrarian Institute continued to adopt measures in the field of land allocation, provision of ownership deeds and adjudication.

It should be remembered that the beneficiaries of agrarian reform in Honduras comprise a major sector which includes 50 000 families, that is, 3.8% of the total economically active population and 8% of the peasant population.

As regards the government support policy for the sector, besides the above measures the agricultural promotion law was reviewed by extending import tax exemptions to other agricultural equipment and inputs, and a Decree in support of the banana industry was promulgated.

To sum up, the scant dynamism of the agricultural sector in 1985 was evidence of a serious deterioration of the productive base, affected by the cumulative adverse results registered in the past five years as regards international demand, the increase in the relative costs of production (particularly the costs of imported inputs), restrictions on external financing, and other economic and non-economic disincentives to productive investment.

ii) *Manufacturing*. After its fall in both 1982 and 1983 and the slight recovery registered in 1984, industrial activity declined once again in 1985 (-2%) as a result of a series of factors, most of which had been present since 1982. Mention may be made, in the first place, of the contraction in demand in Central America and in the major markets for manufactures, as well as the drop in the international prices for some products (sugar, meat, oil, wood). Secondly, it is necessary to bear in mind the limitations which arose regarding import capacity, particularly of raw materials, although government policy attempted to reduce such restrictions in the past two years. Thirdly, it is worth mentioning the financial crisis experienced by some of the leading enterprises of the sector as well as

¹⁰ See Technical Secretariat of CONSUPLANE, *Evaluación de los principales programas y proyectos del sector público agrícola durante 1985*, Tegucigalpa, D.C., February 1986.

¹¹ See Honduran Workers' Confederation (CTH), General Workers' Union (CGT), National Peasant Union (CNTC), Federation of Agrarian Reform Co-operatives (FECORAH), and Honduran Peasant Federation (FCH), *Planteamiento del movimiento obrero y campesino a los candidatos presidenciales*. Yojoa, Honduras, 13 October 1985.

by the National Investment Corporation (CONADI), which led to their shut-down or a significant under-utilization of their installed capacity and to a suspension of debt servicing. On top of these problems, there were others which further aggravated the situation during the year, such as, for example, the competition of non-registered imports; the drop in production of some export items (due to the establishment of subsidiaries of Honduran enterprises in other countries); and the reduction in the competitiveness of certain Honduran industrial goods, especially because of exchange-rate variations in other countries of the Central American region (above all Guatemala), which influenced the level of industrial exports and played an even greater part in leading to the partial loss of the domestic market (see table 5).

As far as the food industry is concerned, sugar production increased only slightly, because of the limited possibilities of selling this commodity on the world market. Meat production, for its part, continued to experience the joint effect of a fall in prices and a decline in external demand. During the second half of the year, the situation of the meat industry became so precarious that two of the seven meat-packing firms were shut down indefinitely and the rest closed temporarily.

The manufacture of non-metallic mineral products experienced a sharp decline as a result of the drop in demand for cement when the construction of the "El Cajón" hydroelectric project was completed. Export possibilities were limited, since the high production costs made the product non-competitive in Central America.

Consequently, the installed capacity for cement production recorded a high level of under - utilization.

As for textiles and clothing production, the loss of the Nicaraguan market —due to payment problems—, the reduction in sales to Guatemala, the increase in non-registered cloth imports and difficulties in securing foreign exchange for importing raw materials pushed down production.

Table 5

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates		
						1980-1983"	1984	1985°
Index of manufacturing value added (1978= 100)	81.6	107.0	106.3	108.6	106.2	0.6	2.2	-2.2
Food	73.6	125.2	1					
Beverages	88.1	109.2	> 124.7	127.2	131.5	2.7	2.0	3.4
Tobacco	96.7	127.4	J					
Textiles and clothing	70.1	90.1	73.7	75.3	67.0	-18.2	2.2	-11.0
Leather and footwear	66.3	118.1	77.0			-34.8		
Wood and wooden furniture	80.6	96.7	107.6	110.0	82.5	11.3	2.2	-2.5
Paper and printing	92.4	104.3	95.8			-8.1		
Chemicals	67.6	106.5	1					
Petroleum, rubber and plastics	78.3	117.9	106.1	108.3		-6.4	2.1	
Non-metallic minerals	71.1	110.6	109.6	112.2	78.5	-0.9	2.4	-30.0
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'	241	379	439	462	484	5.0	5.3	4.8

Source: EC LAC, on the basis of official figures.

"Preliminary figures.

The index of manufacturing production refers to the increase over the period, except for consumption of electricity by industry.

'Millions of kWh.

Nonetheless, the garment industry, of long standing in the country, showed potentialities that both private and government agencies sought to stimulate.¹²

The lumber industry remained plunged in an acute crisis during the year. The group of sawmills set up with mixed capital operated well below their installed capacity; some of them, such as the Central de Aserrio Siguatepeque, S.A., stopped working and went out of business, while others remained active, but with serious problems and, in certain cases, with every likelihood of having to shut down (Forestal Industrial Agua Fria, S.A.). As mentioned in the *Economic Survey* for 1984, there were a number of financial, technological and administrative difficulties, as well as, in certain cases, supply problems, which it did not prove possible to settle. After various initiatives aimed at overcoming the above constraints, towards the end of the year the solution appeared to lie in selling those enterprises to the private sector under the terms of Decree 161-85.

In the specific case of the Olancho Forest Industries Corporation, S.A. (CORFINO),¹³ at the end of October 1985 (after the Bonito Oriental sawmill had been operating for two years) the Corporation's losses amounted to 32 million lempiras —46% of the paid-up capital stock—, 22 million of which corresponded to losses in the year under study; chip exports were made at a very low price; investments to proceed with the pulp and paper complex were paralyzed; disbursements from one of the main external financing sources were suspended, and the financial burden was so heavy that it had to be partially covered by the central government. This situation appears to be related to non-economic factors which have led to a high turnover of managerial personnel in the corporation, to a marked lag in the investment programme, to unsettled institutional problems between the Honduran Forestry Development Corporation and CORFINO, and to financial problems which hampered the continuation of the investments needed for the profitable operation of the forest industries complex.

Under the stimulus of increasing agricultural raw material supplies the production of vegetable oils and fats continued to rise during the year, particularly in the agroindustrial peasant co-operatives, although the possibilities of marketing these products were restricted due to low prices on the international market, which on occasions made exports non-profitable.¹⁴

One of the most significant aspects of industrial sector performance was that related to the evolution of the National Investment Corporation (CONADI) and of the group of enterprises financed or backed by it. At the beginning of 1985, CONADI¹⁵ had a loan portfolio of 625 million lempiras and 117 million lempiras in corporate stocks, and it was estimated that 75% of the total portfolio was invested in enterprises whose financial statements showed net losses. By the month of April the Corporation's losses were put at 190 million lempiras. In addition, several enterprises were shutdown or were operating at levels far below their installed capacity. In view of this situation, the government decided to undertake a plan to transfer enterprises from the Corporation's portfolio to the private sector by means of public bidding or direct negotiation, while maintaining the attempts to revive some of them.¹⁶ Even so, the situation of this important group of enterprises (in the areas of hotels, cement, textiles, food and paper) still remained extremely precarious, and instead of being a core of dynamism and development for the industrial sector—as had been the original idea—this group had unfavourable effects on the evolution of the sector.

¹² See Foundation for Entrepreneurial Research and Development (FISE), *Resumen del estudio efectuado a la industria de la confección*, Tegucigalpa, D.C. June 1985.

¹³ In the development strategy of the past ten years, forest industries complexes for pulp and paper production have played a major role. In 1977 the Olancho Forest Industries Corporation was established, with an investment programme which included the installation of two sawmills—of which only that in Bonito Oriental has been constructed—and the entry into operation of a plant which would produce pulp and kraft paper.

¹⁴ The Agricultural Co-operative for the Development and Industrialization of the African Palm raised its oil production by 25%, increasing its yields. The enterprise, made up of peasants benefited by the Aguan Valley settlement process, has 10 200 hectares planted with African palm and its own industrial plants for oil extraction.

¹⁵ The National Investment Corporation (CONADI) was established in July 1974 as an agency for the promotion and financing of the country's industrial development, playing a leading role during the second half of the seventies. At the end of that period its financial situation became increasingly critical, until in 1982 it suspended its credits, its investments in stocks and its role as backer of the private sector, concentrating exclusively on recovering its debts.

¹⁶ National Congress Decree No. 161-85, dated 26 September 1985, taking into consideration: i) the government effort to overcome the present CF is by means of export promotion; ii) the fact that it pertains to the State to set up the bases for furthering the development of private production; and iii) the heavy financial burden which the central government has had to face in effecting payments on behalf of CONADI, decided on the sale of assets to the private sector and the adoption of the necessary measures to clear up the financial situation of enterprises. In addition, article 14 of the above instrument authorizes other major State enterprises (the Honduran Forestry Development Corporation, the Honduran Banana Corporation and the National Bank for Agricultural Development) to arrange for the transfer of their investments in enterprises, equity participation and other assets to the private sector in a similar way to that decreed for CONADI.

With regard to the slump experienced by the manufacturing sector during the year, it is worth noting the efforts made by the State to achieve its recovery: the Industrial Development Fund and the Industrial Recovery Programme increased the amount of credit granted; the Monetary Programme confirmed the measures envisaged in the special system for import payments and self-financing, as a means of expediting the procurement of raw materials from abroad; and fiscal incentives for industrial development continued to be granted through the promulgation in April of a special law —Decree-Law 49-85— which provided for tax exemptions on capital goods imported by firms whose products incorporate at least 40% of domestic added value.

Finally, mention should be made of the growth in loans by the national banking system to manufacturing (25%), which, along with the slight increase in private investment, may be an indication of an incipient process of replenishment of the capital which has been strongly eroded by the crisis affecting the sector.

iii) *Construction*. This subsector experienced a contraction of 1.5% during the year, as a result of the lower performance of public investment (affected in particular by the termination of large investments in the electricity sector) and of the smaller investment in urban dwellings, which was slightly offset by commercial building and, to a lesser extent, by industrial construction. As noted below, this situation led to a fall in employment and in demand in some of the main industries which supply the construction sector (see table 6).

As regards housing, it was found that two-thirds of the population were affected by inadequate housing conditions, and that there was significant potential demand for residential construction. However, this activity had shown a declining trend since 1980 and, together with the industrial sector, had been one of those most affected by the crisis, due to the low effective demand and financing restrictions. The contraction in 1985 may be related to the completion of various projects in urban and rural areas, which had reached their highest levels of investment in the previous year (the Building Programme, Improvement Programme and National Rural Housing Programme of the National Housing Institute), and to the influence of the upcoming elections on public and private investment. In October the National Congress, through Decree 184-85, cancelled the juridical instrument which had established the National Housing Finance Agency and proceeded to set up the Housing Fund, managed in trusteeship by the Central Bank of Honduras, for the purpose of applying the government credit policy, promoting savings and loan systems for housing, furthering investment in the sector, and fostering housing activity in general.¹⁷

Table 6

HONDURAS: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985°
Area constructed (thousands of m ²)									
Total	225	322	198	277	280	27.3	-40.4	39.9	1.1
Residential	130	238	154	195	181	34.6	-42.5	26.6	-7.2
Production of some construction materials									
Cement ^c		7 229	11 422	12 569	8 177	-10.8	75.0	10.0	-34.9
Fibre-cement panels (m ²)		3 030	1 878	2 091	2 562	-8.5	22.1	11.3	22.5
Employment (thousands of persons)	<u>26.3</u>	<u>27.9</u>	<u>29.1</u>	<u>29.7</u>	<u>27.0</u>	14	14	2.0	-9.1

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

"Preliminary figures. "This refers to applications for building permits for private urban constructions in the Central District, San Pedro Sula and La Ceiba, and covers the period from October 1 of the preceding year to September 30 of the year under study. It may differ from the actual building work carried out. ° Thousands of 42.5 kg bags.

¹⁷ The National Housing Finance Agency was established in 1975 to be responsible for the promotion of this activity by channelling financial resources to it, especially for the purchase, extension, repair, remodelling and refinancing of dwellings. After the implementation of various projects, particularly of some designed to meet the demand of the middle-income population, by the beginning of the present decade it was recording losses in its financial statements, leading to an increasing inability to keep up payments and to loss of capital. As this prevented it from performing its duties, the central government had to take over the amortization of the Agency's debts.

Table 7

HONDURAS: ELECTRICITY SUPPLY AND DEMAND

	Millions of kWh					Growth rates				
	1981	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
Total supply	979	1 037	1 125	1 157	1 378	8.9	5.9	8.5	2.8	19.2
Net production	968	1 022	977	985	1 286	9.9	5.6	-4.5	0.9	30.6
Imports	11	15	148	172	92	-40.4	35.8	903.4	15.6	-46.5
Total demand	979	1 037	1 125	1 157	1 378	8.9	5.9	8.5	2.8	19.2
Domestic consumption	841	855	921	978	1 065	9.4	1.7	7.7	6.2	8.9
Residential	239	264	281	291	330	13.4	10.3	6.5	3.3	13.5
Commercial	123	132	137	151	181	5.3	6.7	4.3	10.1	19.4
Industrial	402	400	439	462	484	6.1	-0.4	9.3	5.3	4.8
Public offices	36	30	38	41	43	14.1	-16.2	23.6	8.8	5.4
Street lighting	21	19	25	28	27	10.3	-10.3	28.1	13.4	-3.2
Other'	20	10	1	5	-	112.8	-50.0	-90.0	400.0	-
Exports	18	9	2	6	134	96.7	-50.3	-81.8	243.8	2 338.2
Losses	120	173	202	173	179	-1.2	43.8	16.8	-14.4	3.5

Source: ECLAC, on the basis of official figures provided by the National Electric Energy Corporation (ENEE) and the Central Bank of Honduras.

'Preliminary figures. Net production = gross production - consumption by the power stations themselves. ' Refers to sales to other systems and free consumption. Refers to losses in transformation and distribution.

Finally, in line with the relative dynamism of commerce, commercial construction continued to grow considerably (33%), while public sector construction was directed towards road infrastructure, the health area and the extension of the national telephone system.

iv) *Basic services.* In the evolution of basic services electricity generation had a considerable influence. In March 1985 the "El Cajón" hydroelectric project entered into operation. The completion of this project, which has an installed capacity of 290 MW and can produce 1 240 GWh of electricity, means that future generating capacity will be over three times greater.¹⁸ With the entry into operation of this project, electricity production significantly increased (31%) and energy imports were considerably reduced (-47%), while at the same time energy exports were increased. The bigger output of hydroelectric power meant an important change in the total energy supply of the country, not only in size but also in structure, since thermal generation was reduced, resulting in a substantial saving on fuel imports.

With regard to domestic demand, the above-mentioned change in generation led to a rise in domestic electricity consumption in spite of the sluggish growth of the global product and made possible more reliable supply of the commercial, residential and industrial sectors. In order to be able to honour its financial commitments, the National Electric Energy Corporation raised its tariffs (see table 7).

v) *Other services.* Among these activities, whose growth was almost 3%, the favourable performance of commerce and financial services should be emphasized, the latter within a framework of a relatively high profitability.

c) *Evolution of employment and unemployment*

One of the most crucial problems which the Honduran economy had to face during the year was the growing unemployment. Although the country's indicators do not permit an exact knowledge of the situation, official estimates indicated that open unemployment was close to 12% and equivalent unemployment was around 25%, showing that the evolution of economic activity was still not

¹⁸ See College of Mechanical, Electrical and Chemical Engineers of Honduras, *Revista Técnica de Ingeniería*, No. 2, Tegucigalpa, D.C., December 1985, p. 9. The project is the result of 15 years of studies and research which began in the 1960s and were finally completed in June 1980. The total investment involved was 1 300 million lempiras, and there are plans for a second stage which would expand the installed capacity by a further 300 MW.

sufficient to absorb the increasing labour supply. In fact, employment only grew 2.6%, while the economically active population increased by 3.8% (see table 8).

The growth in unemployment during the year was related to the fall in production in some important sectors: manufacturing and construction. Industrial employment—which in the last five years has been most affected by the crisis—shrank due to the deterioration of production in some branches. The temporary or, in certain cases, permanent shutdown of certain meat packing companies and forest industries resulted in layoffs, and there were also conflicts in the textile industry.

In construction, the majority of workers engaged in the "El Cajón" project, as well as many workers in highway and road construction and repair were left jobless as some projects were completed. In the latter case, layoffs gave rise to labour conflicts.

In mining, the lower profitability—due to a drop in the international prices of the sector's products—prompted a search for solutions aimed at reducing operational costs, and this affected employment, giving rise to tensions between workers and management.

As regards agriculture, the levels of open unemployment and underemployment—structurally high in themselves—seem to have increased still further on account of the slower growth rate, particularly in production for domestic consumption.

Likewise, early in the year problems arose in the pineapple plantations, and the lower cotton and watermelon production in the South of the country seems to have led to a drop in the seasonal demand for manpower.

During the year the central government took some initiatives aimed at reducing the employment problem by implementing a programme to generate more jobs.

The problem of unemployment and of under-utilization of the human factor—with its implications for the levels of income and welfare of the population—was clearly one of the most disturbing features of economic evolution in 1985 and will therefore call for special attention in 1986.

3. The external sector

During 1985, the main external sector variables showed significant dynamism, allowing for greater ease in external purchases of goods and services, although the external imbalance still remained substantial. The balance-of-payments current account deficit continued to be equivalent to 11 % of the gross domestic product.

Table 8

HONDURAS: EVOLUTION OF THE ECONOMICALLY ACTIVE POPULATION AND UNEMPLOYMENT

	1980	1981	1982	1983	1984	1985 ^a
Economically active population						
Thousands of persons	1 069	1 112	1 159	1 210	1 256	1 304
Index	100.0	104.0	108.4	113.4	117.5	122.0
Open unemployment						
Thousands of persons	94.0	100.0	107.0	115.0	134.0	152.0
Index	100.0	106.4	113.8	122.3	142.6	161.7
Rate of unemployment						
Equivalent	15.2	18.3	21.1	22.9	23.9	24.5
Open	8.8	9.0	9.2	9.5	10.7	11.7
Manufacturing	9.4	9.6	9.8	10.2	11.7	15.4
Construction	14.7	15.5	16.3	16.8	17.6	25.9
Participation	...	...	...	45.1	45.1	45.1

Source: ECLAC, on the basis of figures from the Technical Secretariat of CONSUPLANE.

^aPreliminary figures. Percentage of the economically active population in relation to the working-age population (10 years of age and over).

Table 9

HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985°	1982	1983	1984	1985°
Total	699	746	821	100.0	100.0	-13.7	3.2	6.7	10.0
Central America	61	48	30	9.9	3.7	-21.3	22.0	-21.3	-37.5
Rest	638	698	791	90.1	96.3	-6.1	0.6	9.4	13.3
Main traditional exports	532	585	651	73.1	79.3	-7.1	0.5	10.0	11.2
Bananas	211	241	295	26.8	35.9	2.4	-7.0	14.2	22.5
Coffee	157	169	178	24.0	21.7	-11.4	-1.2	7.6	5.1
Wood	42	36	34	4.2	4.1	3.5	-9.6	-14.3	-6.9
Chilled meat	33	23	23	7.2	2.8	-26.5	-7.6	-30.3	1.1
Shrimps and lobsters	38	52	53	2.7	6.5	6.6	28.6	36.8	19
Zinc	17	32	34	1.2	4.2	-2.5	68.9	88.2	7.1
Silver	18	16	15	3.8	1.8	-40.8	88.8	-11.1	-5.8
Cotton	5	8	8	1.5	1.0	-48.0	-35.0	60.0	2.5
Tobacco	11	8	11	1.7	1.3	-19.2	0.3	-22.7	25.7
Non-traditional exports	167	161	170	26.9	20.7	-30.2	5.0	-3.6	5.6
Wood manufactures	10	9	5	1.4	1.3	-17.2	0.1	-12.4	-37.5
Unrefined sugar	29	26	21	5.5	2.6	-53.6	28.9	-7.9	-16.6
Soap	12	6	4	1.5	0.5	-24.8	13.1	-45.5	-33.3
Others	116	120	140	18.5	16.3	-40.6	-0.9	3.4	16.7

Source: ECLAC, on the basis of official figures provided by the Central Bank of Honduras.

"Preliminary figures.

The volume of exports of goods and services grew considerably, so that the value of external sales increased by 7%, although their unit value declined by 1%. Imports, for their part, grew at a relatively dynamic rate, which even allowed the replenishment of some stocks, particularly of consumer goods, although some of the demand for external purchases still remained unsatisfied. The trade deficit increased by 46% with respect to that of the preceding year, while the balance-of-payments current account deficit went up by over 20%, reaching the highest absolute value for the last ten years.

This deficit was covered by the inflow of long-term capital and the increase in official transfers (63%), which more than made up for the decrease in official loans received. Thus, the total balance showed an increase in reserves. However, there remained some outstanding commitments both in respect of imports and of debt servicing which was still being renegotiated.

a) *Merchandise trade*

i) *Exports*. The value of exports of goods increased 10% with respect to 1984, as a result of the larger volume of external sales (see table 9).

The dynamism shown by traditional exports reflected the favourable evolution of sales of bananas (the leading item), coffee, shrimps and lobsters, zinc, tobacco and, to a lesser extent, of meat and cotton, whereas there was a drop in exports of wood and silver. As specified below, in several cases the larger volume was due to the reduction of accumulated stocks, since productive supply shrank as a result of the deterioration in the exportable base.

The evolution of banana sales was spurred by an improvement in international prices, by the sustained recovery of the plantations, and by the favourable effects of the government export

promotion measures.¹⁹ Even so, however, the effects of these positive developments on the economy as a whole appear to have been less than in the past, due to the lower share of foreign exchange purchased by the national banking system in relation to the total export values, the tendency of export companies to reduce their activities in the field of production, and the increasing remittance of profits.

With regard to coffee, the 5% increase in external sales was due to a 5.4% increase in the quantum, along with a slight drop in prices, although these tended to rise in the third quarter of the year because of the losses in the Brazilian plantations and the prospects of a sharp decline in that country's exportable production.

In the case of wood, there were various factors which contributed to the strong contraction in the volume exported: the already mentioned production problems (the most important factor), the contraction in the Caribbean market (monetary restrictions in Trinidad and Tobago, phytosanitary problems and terms of payment and prices in the case of the Dominican Republic and Puerto Rico) and the competition of United States exports²⁰ (see table 10).

Regarding external sales of meat, the growth in the volume of exports (16.6%) was related to sales to Mexico under the trade agreement signed in December of the preceding year and to an increase in the quota for the United States market. However, the effect of this increase in volume was counteracted by a fall in prices, thus leaving the export value almost unchanged in relation to 1984. In addition, live cattle were exported to some Central American countries during the year.

Outstanding among non-traditional exports was the sharp drop in the value of sugar exports, due to a considerable fall in price (-37%) whose effect exceeded the significant increase in volume (almost 33%) which was basically achieved by drawing on stocks (see table 10).

ii) *Imports.* The value of imports of goods continued to grow, although at a slower rate than in the preceding year. This growth was favoured by the relatively greater foreign exchange availability; by the adoption of measures aimed at achieving greater flexibility in the control of external purchases, and by the greater financing granted by the banking system to the private sector (see table 11).

Table 10

HONDURAS: EXPORTS VOLUMES OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Bananas	813	638	779	882	5.9	-21.6	22.1	13.2
Coffee	57	74	68	71	-15.6	29.5	-8.7	5.4
Sugar	87	106	90	119	5.3	21.4	-15.6	32.9
Chilled meat	16	15	10	11	-32.1	-4.5	-38.4	10.0
Zinc	15	23	31	34	-2.4	57.8	34.8	8.4
Shrimps and lobsters	4	4	4	4	-1.4	18.7	-3.3	3.9
Cotton	6	3	5	6	-28.2	-46.4	56.4	22.2
Lead	9	12	14	16	-27.5	34.1	18.9	14.1
Tobacco	3	3	3	3	-29.4	-1.4	-19.8	20.5
Wood ⁶	301	262	238	209	3.8	-13.0	-9.0	-36.4
Silver ¹	1 211	1 629	2 022	2 342	-23.1	34.6	24.1	15.8

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras and the Technical Secretariat of CONSUPLANE.

"Preliminary figures. Thousands of cubic meters. ^Thousands of troy ounces.

¹⁹ The banana export companies have been claiming that costs are high in Honduras and that there has been a loss of competitiveness of the Honduran product in relation to other countries. In order to support banana production and exports, the government has applied a policy aimed at raising productivity. Thus, decree No. 39-85, dated 18 January 1985, temporarily deferred export tax payments by the Standard Fruit Company and on 16 May the National Congress approved decree 44-85, for a period of six years, under which taxes on banana exports are gradually reduced when such exports exceed the level of 40 million 40-pound boxes. In 1985, 48.5 million boxes were exported. See Ministry of Economy and Trade, *Memoria 1985*, Tegucigalpa, D.C., January 1986.

²⁰ See Technical Secretariat of the Supreme Council for Economic Planning, Department of Foreign Trade, *Situación actual y perspectivas para 1986 de la comercialización de los principales productos*, working paper, Tegucigalpa, D.C., November 1985.

Table 11

HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	804	917	959	100.0	100.0	100.0	-25.8	13.0	14.1	4.6
Consumer goods	173	204	257	22.6	23.3	26.9	-33.0	8.7	17.9	26.2
Durable	50	71	76	7.8	8.2	8.0	-28.8	-9.2	42.0	7.6
Non-durable	123	133	181	14.8	15.1	18.9	-35.0	18.2	8.1	36.2
Raw materials and intermediate goods	504	535	528	52.0	50.8	55.0	-13.9	15.9	6.2	-1.4
Fuels and lubricants	166	185	172	1.8	16.4	17.9	4.2	-2.3	11.4	7.2
Materials for agriculture	53	59	61	4.7	4.6	6.4	-14.9	13.7	11.3	3.4
Materials for industry	236	251	249	41.6	24.7	25.9	-22.1	22.9	6.4	-0.8
Materials for construction	49	40	46	3.9	5.1	4.8	-36.3	88.4	-18.4	15.0
Capital goods	125	175	170	25.1	25.7	17.7	-46.7	9.3	38.4	-2.9
For agriculture	10	15	16	3.6	2.2	1.7	-50.4	18.0	50.0	6.7
For industry	96	134	124	15.5	17.5	12.9	-47.2	16.0	37.5	-7.5
For transport	19	26	30	6.0	6.0	3.1	-43.2	-18.0	36.8	15.4
Other products	2	3	4	0.3	0.2	0.4	55.8	-39.4	50.0	33.3

Source: ECLAC, on the basis of figures provided by the Central Bank and the Technical Secretariat of CONSUPLANE

"ECLAC estimates.

Imports of consumer goods, especially non-durables, grew substantially as a result of the replenishment of stocks by the business sector, the slight increase in private consumption, and, to some extent, the replacement of domestic supply in meeting domestic demand. The latter was due to the greater competitiveness of some foreign products compared with those made in Honduras.

With regard to raw materials, external purchases of fuels and lubricants went down mainly because of the lower consumption of bunker and diesel oil (thanks to the substitution of hydroelectric power from the new "El Cajón" project for thermal energy), the drop in oil prices, and the existence of stocks of petroleum and petroleum products at the beginning of 1985. On the other hand, there was a trend towards the replenishment of stocks of construction materials.

The decline in purchases of electrical equipment for the "El Cajón" project, as well as, to a lesser extent, the relatively low demand for capital goods, led to a reduction in imports of this kind of goods.

Two points may be made with respect to the evolution of imports in 1985. Firstly, notwithstanding their growth, their coefficient in relation to the product (28%) remained well below that of 1980, while arrears of payment in respect of some external purchases still persisted. Secondly, the increase registered during the year was basically due to the purchase of consumer goods, whereas there was a contraction in purchases of capital goods and raw materials, with clear implications for the performance of the productive system.

iii) *Regional trade.* According to preliminary estimates, there was a significant contraction in trade with Central America. Exports of goods suffered a marked deterioration (-37%) because of several factors: loss of competitiveness of Honduran products, sharply increased by fluctuations in the effective exchange rate in some countries; payment problems because of a foreign exchange shortage; a drop in demand due to a fall in economic activity in the rest of the Central American countries, and lastly, the measures taken to cope with balance-of-payments problems in some cases.

With regard to imports, estimates calculated on the basis of the first seven months of the year indicate a significant reduction (almost 27%) especially in those from Guatemala, El Salvador and Nicaragua. It should be noted that the inflow of non-registered purchases during the year was apparently significant.

After almost a year of unsettled difficulties in the trade with Guatemala, a new trade agreement entered into effect in March. However, new problems arose due to exchange-rate fluctuations in that country and to an increase in non-registered transactions, which hindered once again the trade relations between the two countries.

In order to tackle the problems of trade with the rest of the region, certain measures in the field of trade and payments were adopted. In May, the Governing Board of the Central Bank of Honduras decided that foreign exchange from exports to Central America could be retained by exporters in order to pay for imports, transferred to other Honduran importers, or changed into lempiras at the free exchange rate. Likewise, a special barter mechanism was established in order to facilitate trade.

Towards the end of July, a trade agreement was signed with Panama, and in August 1985, an extension of the bilateral trade agreement with Costa Rica was negotiated. In addition, trade agreements with Colombia, the Dominican Republic and Venezuela continued to be negotiated.

iv) *The terms of trade.* The trends in the international prices of several of the country's export products continued to be unfavourable, notwithstanding the positive effect of banana prices, and the unit value of exports recorded a 1.5 % decline in 1985. Furthermore, the increase in the unit value of imports led to a new deterioration in the terms of trade, making a cumulative loss of a little over 26% since 1977 (see table 12). Nonetheless, at the end of the year there were quite favourable prospects for 1986 for two of the main export products (coffee and bananas), and in spite of the foregoing the purchasing power of exports rose due to the greater volume of goods exported.

b) *The balance of trade and factor payments*

The performance of real services in the year was favoured by an increase in electricity exports to Nicaragua and Costa Rica, and by the decline in purchases from the latter country due to the greater domestic energy supply.

With respect to factor services, profits payable on direct foreign investment grew by 26%; however, the entry interest paid declined by 3.3%. Factor payments still remained a significant phenomenon in the balance-of-payments current account imbalance, coming to represent 50% of the deficit (see table 13).

Table 12

HONDURAS: MAIN INDICATORS OF EXTERNAL TRADE IN GOODS

	1980	1981	1982	1983	1984	1985"
Growth rates						
Exports						
Value	12.4	-7.8	-13.7	2.6	10.3	7.2
Volume	0.8	-3.4	-11.6	5.2	6.1	8.8
Unit value	11.5	-4.6	-2.4	-2.5	4.0	-1.5
Imports						
Value	21.8	-5.8	-24.2	11.7	11.0	12.0
Volume	1.9	-12.6	-18.8	14.0	14.0	9.3
Unit value	19.5	7.8	-6.8	-2.0	-2.7	2.4
Terms of trade	-6.7	-11.5	4.6	-0.5	6.8	-3.8
Indexes (1980 = 100)						
Purchasing power of exports	100.0	85.4	78.3	81.6	91.6	95.4
Volume of exports	100.0	96.6	85.5	89.9	95.4	103.8
Terms of trade	100.0	88.5	92.6	92.1	98.4	94.7

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Volume of exports of goods, adjusted by the terms of trade index.

Table 13

HONDURAS: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985°
Balance of current account	-205	-331	-321	-249	-260	-311	-378
Trade balance	-92	-183	-177	-56	-120	-139	-203
Exports of goods and services	838	942	884	767	797	875	937
Goods FOB	757	850	784	677	694	766	821
Real services	81	91	100	90	102	109	116
Transport and insurance	30	40	39	37	44	45	50
Travel	21	24	31	25	22	24	25
Imports of goods and services	930	1 126	1 061	823	917	1 014	1 140
Goods FOB	783	954	899	681	761	844	945
Real services	147	172	162	142	156	170	195
Transport and insurance	79	98	90	69	78	74	94
Travel	29	31	27	23	21	22	27
Factor services	-120	-153	-153	-202	-149	-184	-188
Profits	-68	-78	-44	-45	-30	-46	-58
Interest received	20	24	18	15	12	12	15
Interest paid	-72	-100	-127	-172	-131	-150	-145
Unrequited private transfer payments	7	8	9	9	10	12	13
Balance on capital account	225	253	249	203	213	301	389
Unrequited official transfer payments	14	14	19	21	35	68	111
Long-term capital	180	266	209	168	180	245	236
Direct investment (net)	28	6	-4	14	21	7	28
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	152	260	213	155	159	238	208
Official sector ^c	56	53	23	77	52	305	172"
Loans received	79	94	77	125	104	291	248
Amortization payments	-19	-60	-41	-38	-43	-54	-58
Commercial banks ^c	-15	2	5	-2	-2	-2	5
Loans received	9	12	18	3	2	1	7
Amortization payments	-23	-11	-14	-5	-5	-2	-2
Other sectors'	110	205	186	80	109	-65	31
Loans received	205	278	245	142	173	54	113
Amortization payments	-95	-72	-78	-62	-64	-118	-40
Short-term capital (net)	51	12	28	19	-75	16	10
Official sector	-1	-9	49	39	-38	-	32
Commercial banks	43	-8	-35	18	8	-	-
Other sectors	10	29	14	-37	5	16	-22
Errors and omissions (net)	-20	-39	-7	-5	22	-28	32
Global balance'	20	-78	-72	-46	-47	-10	11
Total variation in reserves (- sign indicates an increase)	-25	73	69	53	39	7	-11
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-6	10	-2	-	-	2	-
IMF reserve position	-	8	-	-	-4	4	-
Foreign exchange assets	-19	41	50	-11	3	-	-
Other assets	-	-1	-3	-2	-2	-	-9
Use made of IMF credit	-	15	23	66	43	-11	-2

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official figures.

"Preliminary figures. Real 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. includes the renegotiated private debt which has been converted into direct public debt. '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: monetary gold, allocation of Special Drawing Rights and variations due to revaluation.

c) *The current account position and its financing*

As a result of the above trends, the balance-of-payments current account deficit amounted to US\$378 million, the highest in the last ten years. The deficit was financed through official transfer payments, which covered almost 30% of the total; through the inflow of credit to the official sector, which, in spite of having declined with respect to the previous year (-44%), continued to be substantial; and through financing received by the Central Bank of Honduras, which included loans from multilateral credit agencies (49% of the total), compensatory loans and accounting of the debt for outstanding trade balances with Guatemala and Costa Rica (34% of the total).²¹ As a result, the global balance was positive (an increase in reserves of US\$11 million) for the first time in the past six years. However, commitments amounting to US\$178 million in respect of arrears of service of the external debt and arrears of payment for imports still remained outstanding.²²

Table 14
HONDURAS: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980"	1981"	1982	1983	1984	1985*
Millions of dollars						
Total external debt^c						
Balances	1 387.6	1 567.9	1 985.8	2 162.0	2 391.9"	2 614.8"
Public	970.7	1 616.6	1 551.9	1 765.6	2 041.4 ^d	2 268.1"
Private	416.9	426.3	433.9	396.4	350.5	346.7
Long- and medium- term ^c	1 387.6	1 587.9	1 748.3	1 543.1	2 159.0"	2 392.4"
Short- term ^c	-	-	237.5	607.0	232.9	222.4
Disbursements	379.1	332.8	364.3'	363.2	506.4	472.2
Service	193.4	141.9	371.4'	305.2	334.2	373.0
Principal	113.5	132.5	236.1	187.0	222.2	258.4
Interest	79.9	95.4	135.3	118.2	112.0	114.6
External public debt^c						
Disbursements	210.7	252.0	270.0"	258.3	458.4	422.0
Service	101.9	129.1	231.0	157.5	208.0	297.9
Principal	48.3	61.1	110.0"	71.6	128.3	204.4
Interest	53.6	68.0	121.0"	85.9	79.7	93.5
Percentages						
Ratios*						
Total external debt/exports of goods and services	147.3	179.6	258.9	269.2	278.8	275.0
Debt service/exports of goods and services	20.5	16.1	48.4	38.0	39.0	39.2
Net interest /exports of goods and services	8.1	12.4	14.7	14.8	14.1	14.2
Debt service/disbursements	51.0	42.6	101.9	84.0	66.0	79.0

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

"Includes only medium- and long-term debt. 'Preliminary figures. 'End-of-year balances of debt disbursed "includes adjustment for exchange rate. 'Includes only the total long-term debt and the short-term private sector debt. Includes amortization payments on short-term debt. 'Corresponds to the effective interest paid, excluding interest accrued but not paid; hence the difference with the corresponding item of the balance of payments. *All ratios refer to the total external debt. Refers to the corresponding entry (net) of the balance of payments.

²¹ See Central Bank of Honduras, Department of Economic Studies, *La economía hondureña durante 1985* (provisional analysis), Tegucigalpa, D.C., December 1985.

²² According to an estimate made at the end of 1985, outstanding payment commitments amounted to US\$198 million, of which US\$170 million corresponded to amortization payments and interest on the debt with commercial banks and US\$28 million to arrears of payment on account of imports.

Table 15

HONDURAS: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
Variation December to December						
Consumer price index	11.5	9.2	8.8	7.8	3.7	4.2
Food	12.3	5.2	6.8	3.2	1.7	1.6
Wholesale price index"	11.4	8.4	12.1	6.2	-	-0.1 ^d
Imported products	8.9	16.1	17.9	9.4	-2.0	-1.8*
Domestic products	12.8	4.8	9.3	4.3	1.3	0.6 ^d
Agricultural	13.5	2.4	6.1	4.7	-	1.6 ^e
Manufactured	12.4	6.4	11.4	4.4	1.9	0.2 ^d
Construction materials	16.1	8.5	4.1	3.3	-0.3	-0.3 ^d
Variation between annual averages						
Consumer price index	18.1	9.4	9.0	8.3	4.7	3.4
Food	17.1	7.3	6.4	5.7	0.4	1.5
Wholesale price index	14.5	8.6	10.1	7.8	1.3	0.5 ^c
Imported products	6.9	16.8	15.7	11.1	1.8	-1.4 ^c
Domestic products	18.2	5.1	7.4	6.0	1.2	1.5 ^c
Agricultural	17.7	3.1	2.6	7.5	-1.2	2.0 ^c
Manufactured	18.7	6.4	10.6	5.2	2.5	1.1 ^c
Construction materials	15.5	12.1	3.3	5.5	1.1	-0.3 ^c

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

"Refers to variation between the final quarter of the year in comparison with the final quarter of the previous year.
compared with second quarter 1984.

Second quarter 1985

^cAverage for the first three quarters.

The financing received by the official sector was mainly directed towards the completion of the "El Cajón" hydroelectric project (48%), the extension of the telecommunication network, projects to expand and improve port facilities, and investments in the forestry industry.

It was possible to cope with the balance-of-payments problems in the last four years thanks to the strong financial support —specifically to support the balance of payments— granted by the United States Agency for International Development, the quantitative restrictions on imports, and the suspension of certain external payments. In brief, the position of the country's external sector still remained very weak and it may be assumed that a sustained reactivation process might worsen it.

d) External indebtedness

The total outstanding external debt grew during the last three years at an average rate of 10%. In 1985 it came to US\$2 615 million (78% of the gross domestic product) and was mainly directed towards the granting of medium- and long-term loans (91%) and the public sector portfolio (87%) (see table 14).

At the end of 1985, the total public sector debt, broken down by creditor agencies, was as follows: 54% to multilateral financing agencies and 21% to bilateral official agencies, while the remainder 25% was made up of commercial bank credits (18%) and supplier credits (7%).²³

From the above indicators it may be inferred that although the structure of the external debt has further improved as regards its favourable feature of being concentrated in soft loans, the level it has reached has strongly committed the country's present and future external resources. Thus, the external debt service has continued to increase because the grace period for the amortization of some loans has run out, and this situation is likely to deteriorate further in the coming years. In 1985 the debt service coefficient (including the short-term debt) amounted to 39% of exports of goods and

²³ See Ministry of Finance and Public Credit, *Memoria 1985*, Tegucigalpa, D.C., January 1986.

services, although the average interest rate paid by the country went down during the period 1982-1985. The public debt service has increased considerably because it has had to absorb payments of interest and principal on loans contracted by certain enterprises of the private sector but guaranteed by the State.

With respect to the use made of the public debt—which decreased the year before as a result of the completion of major investments in the electric energy sector—it should be noted that it was increasingly allocated to finance current expenditure.

During the period 1982-1985, the Government of Honduras conducted a process of renegotiation of part of its external debt with foreign private banks (US\$217.5 million). This process came to an end in September 1984, and as a result, in June 1985 the creditor banks proposed a preliminary draft of a refinancing agreement. However, the agreement could not be signed because of the banks' demand that the country must first sign a stand-by credit agreement with the International Monetary Fund. Even so, the negotiation gave the country a *de facto* moratorium on amortization payments, signifying relief for the balance of payments amounting to US\$150 million. Furthermore, the same conditions originally agreed to were maintained, which meant a saving on interest payments.²⁴

Table 16
HONDURAS: EVOLUTION OF WAGES

	1980	1981	1982	1983	1984	1985
Indexes (1978 = 100)						
Official minimum wages"						
Nominal						
Crop-farming and stock-raising	179	228	256	256	256	256
Manufacturing and mining	135	155	168	168	168	168
Handicrafts	140	165	181	181	181	181
Construction	147	168	179	179	179	179
Commerce and services	130	153	169	169	169	169
Real						
Crop-farming and stock-raising	118	138	142	131	125	121
Manufacturing and mining	89	94	93	86	82	79
Handicrafts	92	104	104	96	92	87
Construction	97	101	103	95	91	88
Commerce and services	86	95	96	87	83	80
Growth rates						
Official minimum wages"						
Nominal						
Crop-farming and stock-raising	19.3	28.2	12.4	-	-	-
Manufacturing and mining	8.2	15.1	8.3	-	-	-
Handicrafts	10.8	18.2	9.5	-	-	-
Construction	10.3	14.8	6.5	-	-	-
Commerce and services	8.5	17.8	10.4	-	-	-
Real						
Crop-farming and stock-raising	0.7	16.5	3.0	-7.7	-4.5	-3.3
Manufacturing and mining	-8.3	5.0	-0.5	-7.7	-4.5	-3.3
Handicrafts	-6.2	12.6	0.7	-7.7	-4.5	-3.3
Construction	-6.7	4.5	2.2	-7.7	-4.5	-3.3
Commerce and services	-7.9	7.6	14	-7.7	-4.5	-3.3

Source: IICLAC, on the basis of official figures.

"The minimum wages correspond to the annual averages for the Central District and San Pedro Sula. After May 1971, wages were updated by decree in December 1978, May 1980 and June 1981.

²⁴ See Special Commission for the Negotiation of the External Debt of the Republic of Honduras, *informe de labores*, submitted to the Minister of Finance and Public Credit and to the President of the Central Bank of Honduras, Tegucigalpa, D.C., January 1986.

4. Prices and wages

a) *Prices*

According to the indicators of the Central Bank of Honduras, the moderate trend in the consumer price index persisted during 1985, when the annual average variation came to 3.4%. Within the index as a whole, food prices increased the least, although their growth rate was slightly higher than in 1984 (see table 15). This resulted from a number of factors, among which may be mentioned, on the one hand, the relatively adequate supply of basic grains (partly affected during the second half of the year by production problems) and, on the other, the relaxation of import restrictions and the maintenance of the existing exchange policy (effective appreciation of the lempira in nominal terms). Other factors which had some influence were the occasional non-registered imports of industrial products from other Central American countries; the lower world inflation; the drop in oil prices; the downward trend in international interest rates, and the domestic policies on prices and interest rates, which favoured some kinds of credit.

As from July, however, there was a trend towards an increasing rate of inflation, to such an extent that the December to December variation in food prices rose to 4.2%. This was apparently mainly related to the above-mentioned problem of basic grains supply.

The price control policy was maintained practically unchanged during the year. The period of application of agreement 1017-84, which lowers the prices of basic goods' and some raw materials, was extended, and the maintenance of shipping freight rates was also approved. Finally, there are certain hints which suggest that the present indicators of inflation may not adequately reflect the rise in the basic basket of goods consumed by some social groups.

b) *Wages*

Since the increase decreed in 1982, Honduran official minimum wages had remained unchanged for productive activities as a whole. As a result, in 1985 real minimum wages experienced a cumulative deterioration of some 15.5% (see table 16). Likewise, in the case of civil servants a wage "freezing" policy had been applied since 1982 with the aim of restricting public expenditure and influencing the evolution of the wages of private-sector workers.

Notwithstanding the above, in those activities which have union organizations real wages may have increased thanks to collective bargaining contracts. During the year, for example, one of the most important workers' associations in the banana industry negotiated a new collective contract which included a 37% wage increase.

The cumulative losses in the purchasing power of the various strata of wage-earners gave rise to several labour conflicts during the year. Thus, public sector employees, high-school teachers and physicians exerted pressure on the central government and obtained salary improvements. In addition, the physicians secured the adoption of the Medical Statute, which includes other labour benefits. Actions demanding better wages were also recorded in the Honduran Telecommunications Company.

In the private area, labour tensions similar to those in the banana industry, the petroleum refining company and the mining sector arose.

A major event during the year was the establishment, in May, of the National Council of Worker and Peasant Organizations, which included important labour associations.

5. Fiscal and monetary policy

a) *Fiscal policy*

The imbalances in public finances have been one of the main areas of concern for economic policy in the period 1980-1985. In this respect, a series of measures regarding taxes and public expenditure were adopted in 1984, and these have had favourable effects, especially on current income of the central government, in the last two years²⁵ (see table 17). Thus, in 1985 current income evolved dynamically (15%), particularly in the case of tax revenue, 94% of whose increase was

²⁵ See ECLAC, "Honduras", *Economic Survey of Latin America and the Caribbean*, 1984, *op. cit.*

estimated to have resulted from the above measures, favoured by a slight improvement in economic activity and the advances achieved in tax administration.

With regard to taxes on foreign trade, the higher receipts from import charges were the result of the introduction of a 5% charge for administrative customs services, the payment of outstanding liabilities from previous periods by some enterprises, and the increased imports. Likewise, revenue rose on account of increased exports, especially of coffee and bananas.²⁶ As a result, the tax burden grew to 14.7%. As for current expenditure, although the fiscal policy aimed to maintain it at a low

Table 17

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates				
	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
1. Current income	770	782	953	1093	-2.3	3.9	1.5	21.9	14.8
Tax revenue	715	713	881	986	-0.3	3.0	0.3	23.6	11.9
Direct	206	199	242	249	-21.2	10.7	-3.4	21.7	2.9
Indirect	509	514	639	737	10.4	0.2	1.1	24.3	15.2
On foreign trade	272	279	346	409	12.2	-13.0	2.8	24.0	18.2
Non-tax revenue	55	69	72	107	-25.4	17.4	26.1	3.9	48.8
2. Current expenditure	865	980	1063	1 225	7.8	9.2	13.2	8.5	15.2
Wages and salaries	498	481	511	617	16.3	6.5	-3.5	5.4	21.7
Purchase of non-personal goods and services	165	242	290	287	-15.3	10.1	46.5	19.8	-1.1
Interest	81	127	145	157	18.8	25.3	57.4	14.2	8.1
Transfers	121	130	117	164	8.5	11.0	7.1	-10.0	40.1
3. Current savings (1-2)	-95	-198	-110	-132					
4. Capital expenditure	729	613	937	873	-10.4	52.3	-16.0	53.0	-6.8
Real investment	178	162	170	174	-33.4	33.9	-9.0	4.9	2.5
Debt amortization payments	144	202	312	386	7.3	26.1	40.4	54.7	23.9
External	25	32	44	54	16.4	14.5	26.2	37.1	24.5
Domestic	119	170	268	332	5.3	28.8	43.4	58.0	23.8
Other capital expenditure	407	249	455	313	4.5	76.7	-38.9	82.9	-31.3
5. Total expenditure	1 594	1 593	2000	2 098	0.2	25.5	-0.1	25.5	4.9
6. Fiscal deficit (or surplus) (1-5)	-824	-811	-1047	-1005					
7. Financing of the deficit									
Domestic	422	484	456	588	-1.8	18.8	14.7	-6.0	28.8
External	402	327	591	417	0.3	50.5	-18.7	80.1	-295
	Percentages								
Ratios									
Current saving/capital expenditure	-13.0	-32.3	-11.7	-15.1					
Fiscal deficit/total expenditure	51.6	50.9	52.4	47.9					
Tax revenue/GDP	12.8	12.1	14.0	14.7					
Total expenditure/GDP	28.6	27.0	31.8	31.3					
Fiscal deficit/GDP	14.8	13.8	16.6	15.0					
Domestic financing/deficit	51.2	59.7	43.6	58.5					
External financing/deficit	48.8	40.3	56.4	41.5					

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras.

Note: As from 1983 the official sources partly changed the classification of income and expenditure. As this classification is not available for the years 1981 and 1982, these are not strictly comparable with the period 1983-1985.

° Preliminary figures.

* See Ministry of Finance and Public Credit, *op. cit.*

Table 18

**HONDURAS: INDICATORS OF CENTRAL GOVERNMENT
EXPENDITURE BY INSTITUTIONS**

Institutions	Percentage breakdown			Growth rates			
	1975	1980	1985"	1982	1983	1984	1985°
Total	100.0	100.0	100.0	31.5	19.1	22.6	-6.5
Legislative power	-	0.5	0.8	38.1	-0.3	2.3	6.2
The judiciary	12	1.1	0.7	15.8	12	-11.5	-
Electoral agency	-	0.8	2.2	-61.8	67.9	114.6	36.2
President of the Republic	2.0	3.5	2.7	-5.1	48.4	26.7	24.3
Ministry of the Interior and Justice	2.6	1.4	1.1	-10.9	-10.9	12.2	18.1
Foreign affairs	1.1	1.0	0.9	4.0	18.1	9.1	9.7
Defence and security	10.8	11.8	11.0	10.9	5.5	190	13.0
Economy and commerce	1.4	1.2	1.5	39.6	38.3	-7.2	14.8
Finance and public credit	2.9	5.7	2.0	51.1	-27.3	6.5	-22.1
Attorney General of the Republic	0.1	-	0.1	19.7	72.3	-4.2	44.4
Public education	19.6	16.5	17.0	-	25.5	9.4	15.6
Public health and social welfare	11.5	10.1	7.5	15.1	10.5	-4.3	12
Culture and tourism	0.2	0.9	0.3	-24.2	0.5	-12.8	-1.7
Labour and social security	3.4	2.5	1.3	-2.1	-3.9	4.5	5.1
Communications, public works and transport	19.7	14.2	12.9	99.1	38.8	37.7	-50.6
Natural resources	8.7	10.0	6.1	27.7	16.2	19.4	-23.2
Government institutions	-	-	-	-	-	-	-
External debt	14.3	15.5	28.4	59.0	42.5	39.1	12.8
Centralized services	0.5	3.3	3.5	12	12.2	9.1	2.4

Source: ÜCLAC, on the basis of official figures.

"Preliminary figures.

level, it increased significantly in 1985 (15%). There was strong growth in the wages bill, due to the rise in salaries for teachers and medical and paramedical personnel; the expansion of government participation in secondary education (the 'officialization' of schools) and the increase in expenditure on defence and public security. The growth in current transfers was due to outlays on the electoral process, which took place during the year. Interest payments on the debt continued to rise, and included an increasing share in respect of service for domestic indebtedness. This consequently caused a greater current account deficit and hence accentuated the negative trend exhibited since 1981.

On the other hand, the contraction in transfers and loans, especially to the National Electric Energy Corporation, exceeded the increases in real investment and in amortization payments on the debt, reducing capital expenditure by almost 7%.

Real investment was mainly focused on highway and road construction (52% of the total), and also on buildings in the health sector, urban infrastructure and flood control works. As in the past, investments directly associated with the agricultural sector had only a low share in the total.

Expenditure on debt amortization payments grew considerably to 44% of total capital expenditure, especially noteworthy being the amortization payments related to the process of heavy domestic indebtedness in recent years.

The reduction in capital expenditure allowed a slight improvement in the government financial imbalance in spite of the greater current account deficit. Thus, the global coefficient with respect to the product was 15% as against 16.6% in 1984.

In contrast with the previous year, it was possible to cover the fiscal deficit mainly with domestic resources, leading to a rise in the domestic debt balance to 1 544 million lempiras (close to 27% of the total debt).

One of the most disturbing features of government expenditure in recent years has been the change in its functional structure. Thus, disbursements in respect of the external debt and of defence and public security increased their share to the detriment of spending on social services (education, health, labour and social security) and on the management of natural resources. It may be recalled in this connection that in 1975 external debt servicing represented 14% of the total, but by 1985 this had risen to 28% (see table 18).

Two major elements influenced the evolution of the decentralized institutions in the non-financial public sector: in the first place—in contrast with previous years—such institutions registered a moderate surplus in their global finances, mainly due to a decrease in capital expenditure, caused particularly by the completion of investments in the "El Cajón" project. Secondly, under National Congress Decree 161-85, a policy aimed at transferring to private ownership enterprises held by the National Investment Corporation was implemented, and there was provision for the extension of this measure to other public enterprises.

Table 19

HONDURAS: MONETARY BALANCE AND INDICATORS

	End-year balance in millions of lempiras				Growth rates				
	1982	1983	1984	1985 ^a	1981	1982	1983	1984	1985 ^a
Money (M ₁)	699	799	832	847	4.4	10.7	14.3	4.1	1.8
Currency outside banks	307	355	377	404	10.5	3.4	15.5	6.2	7.2
Demand deposits	392	444	455	443	-0.5	17.3	13.3	2.4	-2.6
Factors of expansion	2 047	2 402	2 639	2 924	4.0	3.1	17.3	9.9	10.8
Net international reserves	-205	-241	-256	-253			-17.6	-6.2	12
Domestic credit	2 252	2 643	2 895	3 177	12.4	11.6	17.3	9.6	9.7
To public sector	514	677	717	745	38.8	12.6	31.7	6.0	3.8
Central government (net)	512	644	717	825	47.1	13.0	25.9	11.4	14.9
Official entities	2	33	-	-80	-33.6	-37.8			
To private sector	1738	1 966	2 178	2 432	6.6	11.3	13.1	10.8	11.7
Factors of absorption	1 348	1603	1 807	2 077	3.8	-0.4	18.9	12.7	14.9
Quasi-money (savings and time deposits)	761	929	1026	1086	15.3	18.9	22.1	10.4	5.8
Bonds	67	75	89	84	-33.9	-1.6	11.9	18.7	-5.6
Long-term foreign borrowings	539	536	590		8.9	2.1	-0.6	10.1	
Other items (net)	-19	63	191	907	-21.0			203.2	374.9
Monetary base	438	466	469	...	6.6	6.4	6.4	0.6	
Other indicators^f									
Monetary base	340	380	427	440 ^e					
Money (M ₁)	601	671	775	772 ^d					
Money plus quasi-money (M ₂)	1 254	1 510	1 765	1 852 ^a					
Coefficients^g									
Monetary multipliers									
M ₁ /Monetary base	1.77	1.77	1.81	1.75					
M ₂ /Monetary base	3.69	3.98	4.13	4.21					
Velocity of circulation GDP/M ₁	9.29	8.78	8.13	8.67					

Source: ECLAC, on the basis of figures provided by the Central Bank of Honduras and the International Monetary Fund.

^aPreliminary figures.

^bThe monetary base is not included in the balance.

^cAnnual averages.

^dAverage up to July.

Table 20

HONDURAS: EVOLUTION OF THE REAL EFFECTIVE EXCHANGE RATE

	Nomi- nal ex- change rate (lempi- ras per dollar)	Nomi- nal ex- change rate index	Wholesale price index				Relative price index with exterior			Real effective exchange rate index		
			Hon- duras	Foreign trading _a			Ex- ports (3/4)	Im- ports (3/5)	Foreign trade (3/6)	Ex- ports (2/7)	Im- ports (2/8)	Foreign trade (2/9)
				Ex- ports	Im- ports	Foreign trade						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(U)	(12)	
1978	2.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979	2.00	100.0	109.7	112.3	109.8	111.2	97.7	99.9	98.6	102.4	100.1	101.4
1980	2.00	100.0	125.6	127.1	125.7	126.4	98.8	99.9	99.4	101.2	100.1	100.6
1981	2.00	100.0	136.4	131.6	136.0	133.8	103.6	100.3	101.9	96.5	99.7	98.1
1982	2.00	100.0	150.3	133.0	137.8	136.2	113.0	1091	110.4	88.5	91.7	90.6
1983	2.00	100.0	161.9	135.2	143.3	140.8	119.7	1130	115.0	83.5	88.5	87.0
1984	2.00	100.0	164.1	138.5	146.4	143.4	118.5	112.1	114.4	84.4	89.2	87.4
1985 ^c	2.00	100.0	164.9	148.7	165.2	158.6	110.9	998	104.0	90.2	100.2	96.2

Source: IXLAC, on the basis of figures supplied by the Central Bank of Honduras and the International Monetary Fund.

^aA "basket" made up of Honduras's main trading partners (17 countries) was used, weighted by the foreign trade structure corresponding to 1978.

Simple average of exports and imports.

^cCorresponds to the first three quarters of the year.

b) *Monetary policy*

In 1985 the monetary policy was directed towards achieving economic stabilization and recovery —without altering the exchange rate of the lempira— by boosting private enterprise.²⁷

In order to attain these goals it was proposed to reduce net financing from the banking system to the public sector, while increasing credit lines from the Central Bank to the banking system; the compulsory bank reserves were reduced for those institutions holding 70% of their credit portfolio in loans to agriculture and stock-raising; the interest rate on rediscounts for basic grains was reduced by one point, and interest rates on loans and deposits were kept at the same level as the previous year, implying an increase in the real rates.

In May, the Governing Board of the Central Bank decided to apply a more flexible exchange policy, authorizing exporters to retain foreign exchange from transactions with other Central American countries, so that they might pay for their own imports from the region, sell such foreign exchange to other importers, or change it for lempiras at the free exchange rate.

Influenced by the above measures, the monetary setting in 1985 was characterized by a lower growth of liquidity. Demand deposits diminished, giving rise to only a slight increase in the money supply, while quasi-money exhibited a growth rate well below that shown in the 1981-1984 period. The evolution of bank deposits seems to have been associated with the greater possibilities for importing, which disincentivated savings, in spite of an increase in the real interest rates on deposits owing to the maintenance of the existing nominal rates and the drop in inflation. By and large, the lower growth in liquidity was basically due to the reduction in the public deficit (see table 19).

Domestic credit increased at a similar rate to that of the previous year (10%), with a rise in the share granted to the private sector, favoured by a drop in the growth rate of credit to the public sector. This lower demand for public credit was the result of a number of favourable elements, among which mention may be made of: an improvement in the government's financial position; the implementation of a policy of selling government bonds in the non-financial private sector; the sharp increase in deposits by decentralized agencies which registered a surplus; and the significant inflow of external resources, mainly from the United States Government.

The greater availability of credit for the private sector made it possible to meet the greater demand caused by the need to replenish stocks and the reduction in import restrictions promoted by

²⁷ Central Bank of Honduras, *Programa monetario 1985*, Tegucigalpa, D.C., July 1985.

Table 21

**HONDURAS: NEW LOANS BY THE BANKING SYSTEM,
ACCORDING TO THEIR ALLOCATION**

(As at December of each year)

	Millions of lempiras			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	1757	1983	2 301	100.0	100.0	100.0	12.6	16.2	12.9	16.0
Agriculture	404	455	491	21.9	20.7	21.4	19.0	25.1	12.7	7.9
Industry	467	466	582	20.6	19.6	25.3	43.0	13.5	-0.3	24.9
Services	225	196	196	12.2	16.7	8.5	3.5	38.0	-12.9	0.2
Real estate	158	151	151	11.7	9.2	6.6	-3.6	15.1	-4.6	0.3
Commerce	414	604	749	28.6	28.0	32.5	-0.2	3.3	46.1	23.8
Consumption	75	88	97	4.6	5.0	4.2	-11.2	19.3	18.1	9.9
Other	14	23	35	0.4	0.8	1.5	13.3	-2.8	60.3	55.8

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

"Including construction, real estate sale and purchase, and liquidation of mortgages.

the Central Bank. Thus, there was a 16% increase in new loans, mainly directed to industry and commerce and, to a lesser extent, to agriculture, spurred by the monetary measures adopted during the year (see tables 20 and 21).

On the other hand, the capital and reserves of the banking system increased as a result of the capitalization of some private banks, undertaken in order to comply with the provisions of the Central Bank. This explains most of the increase in the "other items" entry under "factors of absorption" in the monetary balance.

With regard to the exchange rate, during the period 1981-1984 the lempira experienced an effective appreciation. In 1985, however, it registered a partial effective depreciation caused by the devaluation of the U.S. dollar (see table 20).

Finally, during 1985 no negotiations were conducted with the International Monetary Fund with a view to reaching a new agreement to back up the adjustment and recovery programme promoted by the government.

MEXICO

1. Recent economic trends: Introduction and summary

During 1985, the economic policy of Mexico was torn between two objectives that it was unable to reconcile. One was to reactivate production and employment to meet the unsatisfied economic and social demands of a rapidly increasing population and the other, to continue the adjustment process in order to check the vast imbalances that had created the crisis in 1982. The adverse relationship with the international economy limited the scope for action and so it was not possible to attain either of these objectives.

Thanks to the momentum gathered the previous year when the first objective was given pride of place, 1985 began with substantial revival in most of the branches of the productive apparatus. Nevertheless, the first signs of deterioration of petroleum prices on the international market (petroleum has a considerable influence on public finances and the availability of foreign exchange) and the poor response of non-petroleum exports which had been the mainstay of the reactivation policy, substantially lowered expectations. The economic policy was then reoriented towards the second objective as in 1983. In fact, a rather unsuccessful attempt was made to curb inflation through a series of budgetary reductions beginning in February. Inflation persisted, despite the fact that for months, the inevitable devaluation of the peso had been postponed. At the same time, the downturn in economic activity made it possible to halt the rapid increase in imports. In June it was finally decided to increase the exchange rate sharply and in August, the trade liberalization process was accelerated. These decisions were accompanied by large expenditure cuts. This series of measures marked a critical point in the country's economic policy.

The gross domestic product increased by 2.7% but this rate scarcely exceeded the birth rate. The background information on employment growth is sketchy but suggests that there was some improvement. In any event, the increase in employment must have been slight in view of the fact that there was not enough growth in those sectors of production employing the most labour (agriculture, trade, construction and certain services) to cope with the spectacular increase in the labour force.

With respect to adjustment, the inflation accelerated reaching 64% at the end of the year a figure which far exceeded the fixed target of 35%. At the same time, the public deficit rose to almost 10% of the gross domestic product (in other words far above the 5% initially set) and external accounts the main area of achievement of the stabilization programme during the preceding two years, suddenly made an abrupt reversal when the current account surplus was considerably reduced. This caused a substantial loss of international monetary reserves (see table 1 and figure 1).

Various external phenomena had a marked impact on this situation. Interest rates in the international markets continued to be very high, in spite of the new declines they experienced, so that payments in the amount of US\$10 billion had to be made. The deterioration of the international petroleum market—which affected both the prices and the volume of exported crude—and the suspension of gas purchases by the United States caused a drop in foreign exchange earnings of almost US\$2 billion. The decline in the prices of other exports (which was even more pronounced than that in the price of petroleum) the protectionist measures applied by the industrialized countries and the fact that tourists were discouraged from going to Mexico were contributing factors. External factor payments and the deterioration of the terms of trade affected the gross national income although during the year under review its growth was slightly more than that of the gross domestic product (2.7%).

Although imports were still much lower than those recorded during the boom years, they grew substantially despite the constraints imposed on economic activity from the middle of the year. As a result, the trade surplus was drastically reduced and was barely enough to cover the external factor payments. Medium- and long-term external financing to which the country had access fell to less than

US\$300 million, which made the economy's prospects even gloomier in terms of the availability of foreign exchange. All this affected the country's capacity to pay its external creditors, and in the last quarter, amortization payments in the amount of almost US\$1 billion had to be postponed.

As stated earlier, exchange rate adjustments were postponed in order to combat inflation, but this had an adverse impact on trade flows. Furthermore, because of the atmosphere of uncertainty, there was renewed flight of capital and speculation, which hampered the development of the economy.

The unstable exchange rate and the sudden devaluations in June and November were accompanied by adjustments to domestic interest rates, which were raised considerably in an attempt to retain domestic savings. However, this increase was not enough to halt the decline in bank deposits, which caused another setback in financial intermediation. Furthermore, the strong demand for credit pushed the interest rates on loans up and substantially increased the cost of credit.

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^o
Indexes 1980 = 100							
Basic economic indicators							
Gross domestic product at market prices	41.8	100.0	108.3	108.3	102.7	106.3	108.9
Gross national income	90.1	100.0	108.4	105.1	98.4	102.1	104.7
Population (millions of inhabitants)	67.5	69.4	71.3	73.2	75.1	77.0	79.0
Per capita gross domestic product	94.3	100.0	105.5	102.8	95.1	96.0	96.0
Growth rates							
Short-term economic indicators							
Gross domestic product	9.4	8.9	8.3	—	-5.2	3.5	2.7
Per capita gross domestic product	6.4	6.0	5.5	-2.6	-7.5	1.0	0.2
Gross national income	10.4	11.0	8.4	-3.0	-6.4	3.7	2.8
Unemployment rate ^c	5.7	4.5	4.2	4.2	6.8	6.0	4.7
Consumer prices							
December to December	20.0	29.8	28.7	98.8	80.8	59.2	63.7
Variation between annual averages	18.2	26.3	27.9	58.9	101.9	65.4	57.7
Real wages and salaries	-1.3	-6.7	2.4	-4.3	-23.0	-6.4	-1.6
Money ^d	33.1	33.5	32.8	62.1	41.4	63.0	54.8
Current income of government	35.9	65.6	36.7	63.9	107.6	56.4	58.7
Total expenditure of government	57.0	56.5	62.9	101.7	73.0	47.2	70.4
Fiscal deficit/total government expenditure:*	20.0	16.4	30.3	44.1	30.8	30.0	31.0
Financial deficit of the public sector/GDP	5.4	6.5	14.5	17.6	8.9	8.7	9.9
Current value of exports of goods and services	40.8	55.1	23.1	-9.4	3.9	10.5	-7.9
Current value of imports of goods and services	47.4	53.8	30.6	-40.8	-36.1	27.3	16.4
Terms of trade (goods and services)		19.5	0.5	-20.9	-5.6	1.5	-1.8
Millions of dollars							
External sector							
Trade balance (goods and services)	-1575	-2 225	-4 658	6 302	14 494	13 869	8 852
Net factor payments	4 108	6 209	9 531	12 815	9 466	10 339	8 762
Balance on current account	-5 553	-8 305	-14 074	-6 416	5 151	3 704	298
Balance on capital account	5 868	9 262	15 151	2 843	-3 118	-1 570	-2 722
Variation in international reserves (gross)	356	938	762	-3 469	2 045	2 143	-2 328
Total external debt	39 700	50 700	74 900	87 600	93 800	96 700	97 800

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Percentages.

^cWeighted average for the metropolitan areas of Mexico City, Guadalajara and Monterrey.

^dRefers to minimum wages and annual averages.

^eMoney in circulation, notes and checking accounts.

The increased cost of foreign exchange and financing became the main cause of the resurgence of inflation. The increase in the cost of credit also severely affected the evolution of government finances since internal and external debt servicing accounts for 42% of the total expenditure of the public sector.

Although the public sector budget had been drafted on an austerity basis, in respect both of current expenditure and of investment, when the petroleum market weakened, some cutbacks had to be made. Foremost among these were the suspension of non-priority investment projects, a restriction on purchases and subsidies, a freeze on contracts and the termination of thousands of jobs as whole sectors of the Civil Service were eliminated¹ more State enterprises were liquidated and put on sale but in general and with the exception of a few firms connected with tourism, these enterprises were not purchased. In brief, there was a tendency to reduce the size of the public sector in an attempt to increase its efficiency.

Despite these efforts, expenditure became unavoidable as a result of the seismic disaster in September, which was felt primarily in Mexico City.² Moreover, government income turned out to be lower than forecast because of a decline in the exports of *Petróleos Mexicanos* (PUMEX), a gap between the prices and rates of government goods and services and the rate of inflation, which was higher than had been estimated, and a drop in taxable income due to the economic recession.

These factors, do not however, fully explain the enormous deficit of the public sector, which stood at 4.5 trillion pesos. A substantial part of this deficit was due to the financing mechanisms used rather than to the spending policy as such, which remained austere.³

In view of the limited access to external credit and to direct financing by the Central Bank, the government attracted domestic savings by issuing bonds (the circulation of Treasury Certificates increased threefold during the year) thereby competing actively in the capital market and pushing interest rates up. However, insufficient resources were generated in this way, and the banking system was obliged to transfer additional funds to the government. This reduced the possibilities of financing State enterprises, which in compensation received larger current and capital transfers. On the other hand, the private sector was abundantly financed during the year, and lending did not contract until December.

The widening of the gap between interest rates and loans and those on deposits and the strong demand for credit by individuals gave rise to a large number of extra-banking financial mechanisms, which also attracted public resources. The operation of these mechanisms, together with the greater role played by the floating of government bonds, was one of the causes of the decline in the relative importance of the national bank in the process of financial intermediation.

For the second consecutive year, private investment increased considerably (14%), although it remained at a much lower level than during the period of the petroleum boom. This dynamism was due largely to the fact that fiscal incentives were still being provided for investment in fixed assets which particularly encouraged the purchase of automobiles, computer and office equipment and real estate. This contributed to the upturn in national production and machinery imports which contrasted with the sluggishness experienced by construction. The profit margin recorded in the various branches constituted an incentive to reinvest. In fact, the domestic financial markets were used above all to meet needs for working capital. When this form of financing was restricted at the end of the year, recourse was had to deposits outside the country, which, temporarily at least, alleviated the pressure on the exchange market.

Notwithstanding the financial problems summarized above and in spite of internal structural shortcomings, the initial impetus enabled a number of activities such as manufacturing and electricity, gas and water to achieve favourable expansion rates (6% and 7% respectively). On the other hand, growth in other sectors was less dynamic; this was true of agriculture (2%), construction (2%), communications and transport (3%) and services in general (2%). Declines were recorded only in the oil industry and, where services are concerned, in community, social and personal services, which include the government.

¹ A total savings of 850 billion pesos in budgetary expenditure was made, which represents more than 11% of the planned disbursement.

² See ECLAC, *Disaster led by the Mexican earthquake and ill repercussions upon the country's economy* (LC/L.107), Mexico City, 15 October 1985.

³ The public sector's deficit was almost 2.1 trillion pesos higher than the amount estimated in the budget. Of this, 800 billion pesos was attributable to the fact that the income was lower and the expenditure higher than the amounts estimated, whereas the amount due to the increase in interest rates beyond what was originally estimated exceeded one trillion pesos.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS

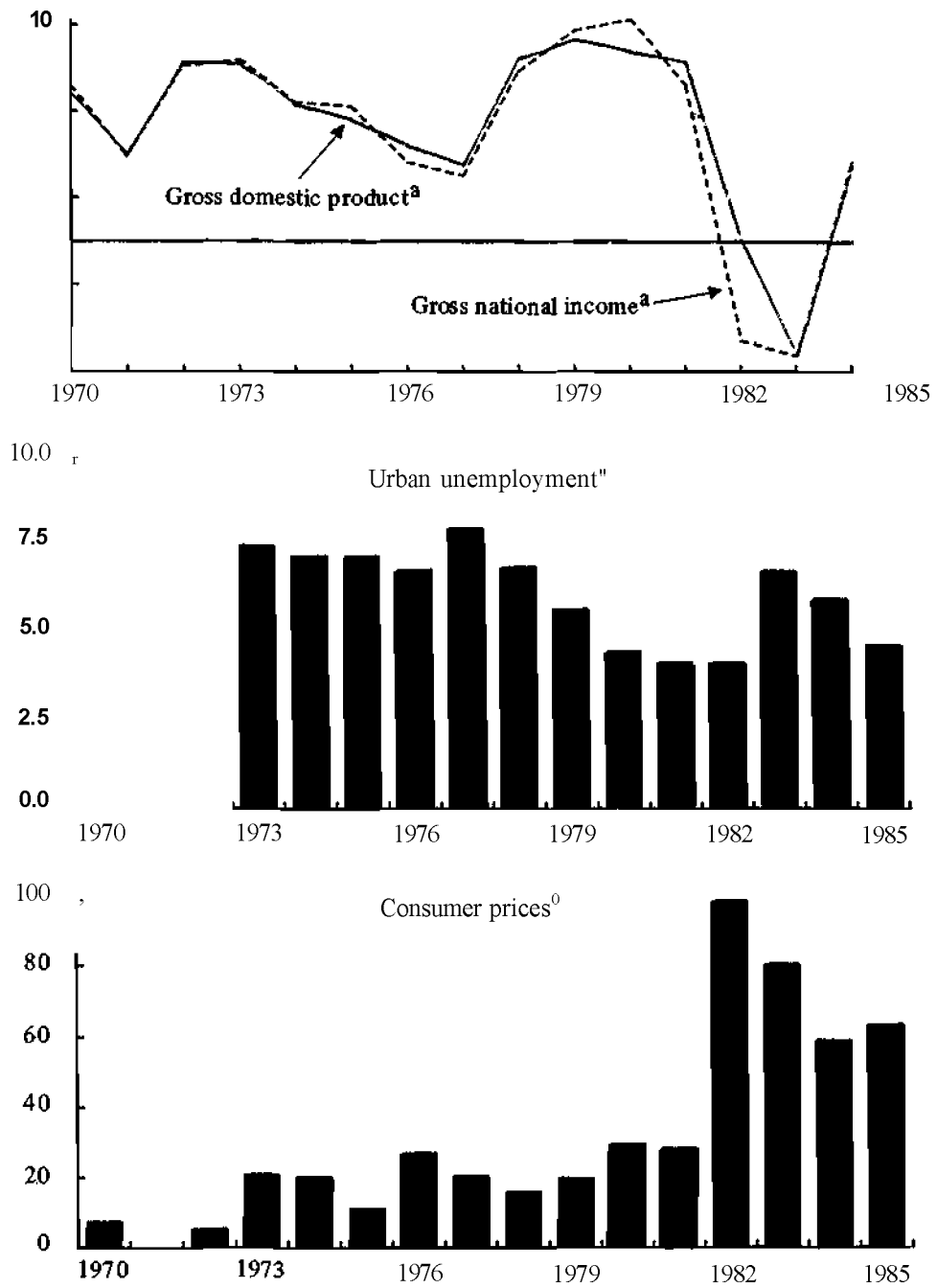
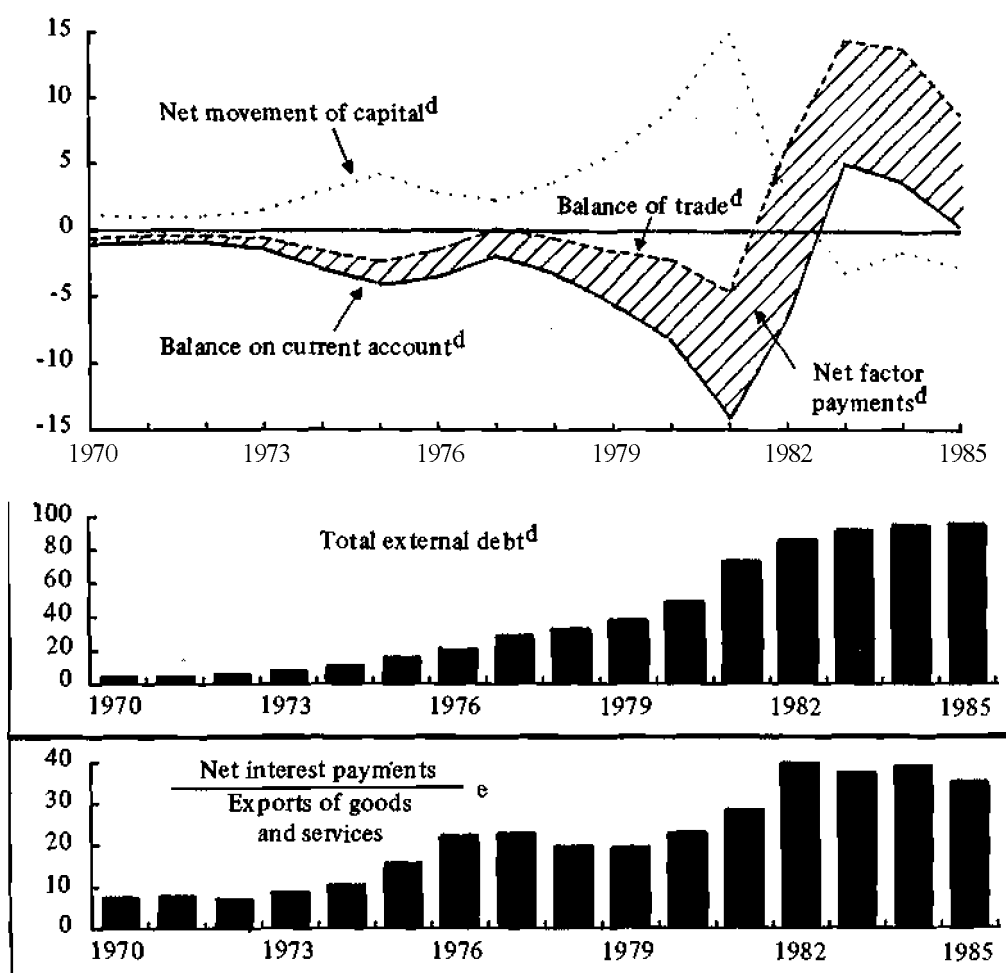


Figure 1 (conclusion)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate.

^bAverage annual rate in metropolitan areas of Mexico City, Guadalajara

and Monterrey.

^cDecember - December percentage variation.

^dBillions of dollars.

^ePercentages.

The differences in the sectoral growth rates were greater than those observed in 1984. Partly responsible for this was the succession of policies and the discriminatory allocation of credit, in which mining and low-cost housing were favoured to the detriment of other sectors.

In general, the sectors oriented towards capital formation and the motor vehicle industry grew more than those geared to meeting most basic consumption needs.

In general the wages policy followed the conservative patterns set over the past few years. Although the intention was to halt the downward trend of real wages, the resurgence of inflation in the final months of the year led to a further decline of 2%, so that the purchasing power of the minimum wage was 39% less than it had been in 1976. Workers' wages represented 27% of the product, a slightly lower proportion than in 1984 and much lower than that which prevailed before the crisis (38%). These indicators reflect the deterioration of the structure of distribution and the weakness of domestic demand.

In short, during 1985, the prevailing uncertainty in the world economy and the difficulties encountered by the country in its external relations aggravated internal distortions and rigidities both in financial circles and in the productive structure, detracting from the effectiveness of the economic

policy. The economy had to grapple with the difficult task of attempting to insert itself in a highly competitive international context which was subject to change and in the throes of reindustrialization. The liberalization of imports and the prospect of Mexico's becoming a member of GATT, put a severe strain on the productive apparatus, which had been designed to meet different needs. However, in the face of the decline of the petroleum market and the need to generate foreign exchange by other means in order to finance imports and to satisfy external creditors, the authorities hastily formulated a strategy in unfavourable financial conditions. On the domestic front, the growing role of external and internal debt servicing in public finances became one of the main sources of the rigidities felt in the financial sector and undermined the effectiveness of the adjustment policy. The truth is that in order to meet the enormous interest payments fully it was necessary to cut back public investment more and more. As a result, the resources required to carry out successful structural changes and to satisfy the social and economic demands of the population were reduced to a minimum.

2. Trends in economic activity

a) *Global supply and demand trends*

Even in the adverse circumstances surrounding the development of the economy, some expansion of the main macroeconomic variables was achieved for the second year running. In fact, the patterns of growth were very similar to those recorded in respect of 1984 although, on the whole, the pace was slower because in the second half of the year several indicators contracted more intensively than they had grown (see table 2).

Total supply showed greater growth than the gross domestic product (3.5% and 2.5%, respectively), because of the notable increase in imports (18%). This dynamism is attributable to the rapid economic growth experienced during the first half of the year and to the high income elasticity

Table 2
MEXICO: TOTAL SUPPLY AND DEMAND

	Indexes (1980= 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	95.7	100.1	103.6	113.8	108.3	-5.8	-7.5	4.6	3.5
Gross domestic product at market prices	102.7	106.3	108.9	100.0	100.0	-	-5.2	3.5	2.7
Imports of goods and services	45.2	55.5	65.4	13.8	8.3	-43.0	-34.3	22.6	18.0
Total demand	95.7	100.1	103.6	113.8	108.3	-5.8	-7.5	4.6	3.5
Domestic demand	90.1	94.2	99.0	101.2	92.0	-7.8	-10.7	4.6	5.1
Gross domestic investment	61.9	66.5	76.3	28.1	19.7	-28.7	-24.9	7.5	14.7
Gross fixed investment	69.5	73.4	77.3	24.2	17.2	-15.9	-27.9	5.5	5.4
Construction	84.6	87.4	89.7	13.7	11.3	-5.1	-19.9	3.3	2.6
Machinery	49.5	54.7	60.9	10.4	5.8	-29.4	-41.2	10.6	11.3
Public	67.1	67.5	65.4	13.3	8.0	-14.2	-32.5	0.6	-3.0
Private	72.5	80.6	91.9	10.9	9.2	-18.1	-21.9	11.1	14.0
Total consumption	100.9	104.9	107.8	73.1	72.3	0.9	-6.5	3.9	2.8
General government	111.3	118.8	120.4	10.8	12.0	2.4	-1.3	6.8	1.3
Private	99.1	102.4	105.5	62.2	60.3	0.6	-7.5	3.3	3.1
Exports of goods and services	141.3	148.3	141.0	12.6	16.3	10.2	13.2	4.9	-4.9

Source: ECLAC on the basis of official figures.

Note: The figures relating to exports and imports of goods and services were taken from the IMF balance-of-payments data expressed in dollars at current prices and converted to constant 1980 values using unit value price indexes calculated by ECLAC for the purpose.

"Preliminary figures.

Table 3

MEXICO: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY"

	Indexes (1980= 100)			Percentage breakdown		Growth rates			
	1983	1984	1985	1980	1985	1982	1983	1984	1985
Gross domestic product	102.7	106.3	108.9	100.0	100.0		-5.2	3.5	2.7
Goods	101.3	105.0	109.0	44.7	44.7	-0.8	-6.1	3.6	3.8
Agriculture ^a	108.5	111.2	113.7	8.4	8.7	-0.6	2.9	2.5	2.2
Mining	122.5	124.7	126.0	6.8	7.9	9.2	-2.7	1.8	1.0
Manufacturing	96.3	100.9	106.8	23.0	22.6	-2.9	-7.3	4.8	5.8
Construction	87.1	90.1	92.3	6.5	5.5	-5.0	-18.0	3.4	2.5
Basic services	103.4	110.2	113.8	7.5	7.8	-2.4	-4.0	6.5	3.3
Electricity, gas and water	116.4	125.0	133.6	1.0	12	6.6	0.7	7.4	6.9
Transport, storage and communications	101.4	107.9	110.8	6.5	6.6	-3.8	-4.8	6.4	2.7
Other services	104.1	107.2	108.3	49.0	48.8	1.1	-4.3	3.0	1.0
Commerce, restaurants and hotels	95.8	98.7	100.4	23.4	21.5	-1.9	-10.0	3.0	1.8
Financial institutions, insurance, real estate and business services	110.5	113.8	116.6	7.9	8.4	2.9	2.1	3.0	2.4
Ownership of dwellings	108.3	111.2	114.4	5.9	6.2	2.9	1.9	2.7	2.8
Community, social and personal services	112.6	116.0	115.6	17.7	18.8	4.4	0.2	3.1	-0.4
Government services	117.3	123.5	121.8	3.3	3.7	4.4	3.0	5.3	-1.4
Adjustments for bank services	118.9	123.9	123.3	1.1	1.3	2.6	4.2	4.2	-0.5

Source: ECLAC, on the basis of official figures.

^aAt constant market prices.

Preliminary figures.

¹ Includes livestock, forestry and fishing.

of external purchases. However, imports of goods and services represented barely 8% of the GDP, close to half the figure recorded in 1981, the peak year in the "petroleum boom".

Exports of goods and services contracted as a result of the decline in petroleum sales and the greater competition encountered in selling petroleum on the international market. Non-oil exports also declined because of the protectionist policies of the industrialized countries, the drop in the real exchange rate during the first half of the year and the reduction of exportable surpluses caused by the reactivation of domestic demand during this period. Lower earnings from tourism and from sales in the border area also contributed to this decline.

After a sharp drop in the 1982-1983 biennium and a partial recovery in 1984, domestic demand increased by 5%. This increase was attributable primarily to the expansion of private spending since public investment declined by 3% for budgetary reasons and current government expenditure increased by only 1%.

With regard to private spending, the dynamism shown by investment, which increased by 13%, was particularly noteworthy. Fiscal incentives in the form of accelerated depreciation (50% as opposed to 75% in 1984), again resulted in higher purchases of fixed assets. Nevertheless, the increase in both the manufacture and importation of machinery demonstrated a greater capitalization effort, which was not matched by the construction of infrastructure works. Still, the investment coefficient continued to be much lower than in the past, and private consumption increased by 3%, a rate that was slightly higher than that of the population increase.

b) Evolution of the main sectors

The gross domestic product evolved very much as it had done in 1984. The goods-producing industries in general maintained the growth rate of the year before (slightly more than 4%) whereas the services industry fell substantially (see table 3). However, in contrast to what had occurred the previous year, when economic activity increased slowly in the first half of the year and rapidly in the second, in 1985, production expanded vigorously in the first half of the year and declined in the second.

i) *Agriculture*. Production in this sector grew by only 3 % although in the economic policy it was regarded as one of the priority areas of activity (see table 4). The decline in public investment, the marked drop in the prices of a number of agricultural products on the international market and even the fall in the domestic consumption of certain livestock products undermined the efforts made to reactivate this sector. On the other hand, the need to cut public expenditure made it necessary to reduce the budget for support services, which had a negative effect on research, training and technical assistance to producers.

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1982	1983	1984	1985°	Growth rates			
					1982	1983	1984	1985°
Index of agricultural production (1970 = 100)								
Agriculture	147.5	151.8	154.8	159.3	-0.6	2.9	2.0	2.9
Livestock	145.3	151.4	156.7	163.6	-2.9	4.2	3.5	4.4
Forestry	146.3	149.1	146.6	147.3	2.7	19	-1.7	0.5
Fishing and hunting	136.1	135.4	137.7	139.5	0.1	-0.5	1.7	1.3
	290.8	276.3	309.5	319.4	6.1	-5.0	12.0	3.2
Production of main crops'								
For exports								
Unginned cotton	196	229	280	216	-41.3	16.4	22.2	-22.9
Coffee	258	258	294	264	5.7	-	14.0	-10.2
Tomatoes	645	1 472	1 574		-40.0	128.4	6.9	
For domestic consumption								
Maize	10 129	13 061	12 932	13 475	-31.4	28.9	-1.0	4.2
Beans	943	1 282	974	913	-35.8	35.9	-24.1	-6.2
Wheat	4 462	3 460	4 506	5 208	39.9	-22.5	30.2	15.6
Sorghum	4 717	4 846	4 974	5 820	-25.1	2.7	2.6	17.0
Sugar cane	34 066	34 109	34 810		-2.4	0.1	2.1	
Soya	648	686	685	823	-9.0	5.9	-0.2	20.2
Lucerne	15 039	15 261	14 036		-6.0	15	-8.0	
Indicators of livestock production								
Slaughter								
Beef cattle	1 201	1 030	963	980	3.2	-14.2	-6.5	1.7
Swine	1 365	1 486	1 455	1 293	4.5	8.8	-2.1	-11.1
Sheep	24	22	21	24	3.0	-5.3	-6.1	14.5
Poultry	482	502	525	589	5.5	4.1	4.4	12.2
Other products								
Milk ^c	7 224	7 057	7 140	7 474	1.0	-2.3	1.2	4.7
Eggs'	10 355	10 729	11 105	12 396	4.0	3.6	3.5	11.6

Source: ECLAC, on the basis of official figures.

°Preliminary figures estimate on the basis of the monthly advance report of the Ministry of Agriculture and Water Resources on 31 March 1986.

Thousands of tons.

'Thousands of litres.

Millions of units.

Agricultural production rose by 4.4%, which was a little higher than the increase shown the previous year, and this was due mainly to the favourable climatic conditions. The volume of water available for irrigation was slightly less than in 1984, but it was enough to cover the needs of the autumn-winter cycle. During the spring-summer cycle, rainfall was abundant and provided a high level of moisture and of water for irrigation during the next cycle. The losses reported because of floods or drought were small.

The policy of giving priority to the production of basic crops was maintained by deliberately increasing the ratio between prices in the primary sector and those in the rest of the economy. Facilities for promoting the export of agricultural products also continued to be provided, but the decline in the international prices of various crops such as cotton and vegetables led many farmers to limit their production.

No restrictions were placed on supplies of inputs for production. Sales of certified grains and the production of fertilizers increased. Increases in the prices of the main inputs did not appear to have affected decisions to sow basic grains, since in many cases the area sown with these crops exceeded what was planned.

The amount of financing earmarked for agriculture was restricted only in the last quarter, and the goals set by the National Rural Credit Bank were fully met. The number of hectares serviced by this institution was more than 30% higher than in the previous year.

Maize production increased by more than 4% because of favourable climatic conditions and incentives in the form of an increase of more than 70% in the guaranteed prices. It was also due to an increase in the amount of land sown even though this increase was small and did not come up to the level expected.

Although a decline in wheat production had been forecast because of delays in planting and the floods, it is estimated that the crop exceeded 5 million tons (16% more than in 1984) due to an increase in the area harvested and to better yields. Sorghum production also improved significantly (17%), because of favourable climatic conditions and high yields.

The larger maize, wheat and sorghum harvests made it possible to reduce the volume of imports of these basic grains; moreover thanks to the decline in international prices, the cost of those purchases declined substantially.

On the other hand, bean production declined for the second consecutive year (-6%). Although the price guarantees were increased substantially (109%), this did not succeed in offsetting the impact of the decline during the previous year, when production fell by 6%. As a consequence, in order to meet the demand for beans, additional imports had to be made, bean imports increasing by 21%.

During the spring-summer cycle an attempt was made to stimulate the production of oilseeds (mainly safflower and sunflower seeds). The guaranteed prices increased by 64% and 72%, respectively, in order to cover the shortfall caused by the decline in production in 1984.

The main export crops experienced an overall decline due mainly to the drop in cotton and coffee production. Cotton production fell by almost 23% because of the drop in international prices, which resulted in a reduction of over 35% in the area under cultivation. Coffee production, for its part, declined by 10% because of the effects of the biological cycle of the crop and the plantation renewal programme.

Vegetable production did not reach the targeted goals because the area from which some of the main crops were harvested had been reduced. The tomato harvest, however, was significantly larger although there had been some delay in planting. On the whole, vegetable exports declined because the importing countries —especially the United States, to which almost 90% is sold— have adopted protectionist measures, imposed tariff barriers and established very rigid phytosanitary controls. In the last months of the year, imports of tropical fruits such as mango, avocado and citrus fruits were restricted.

It is estimated that the prices of the main export crops declined by around 7% and that the volume sold fell by approximately 10%. This occurred despite the size of such crops as coffee and fresh fruits, other than those mentioned above, whose volume and prices evolved positively.

With respect to the livestock sector, cattle showed insignificant growth following the negative evolution of the previous year. Beef and mutton production grew by 2% and 15% respectively, following two years of decline. Pork production fell again (-11%), whereas poultry production continued to expand, increasing by 12%.

The decline in the purchasing power of wages and the gradual change in consumption patterns resulted in a waning of the demand for meat products.⁴ This phenomenon affected producer prices while the cost of inputs continued to rise making this activity less profitable, in particular for medium-sized and small producers. The phenomenon particularly affected pork production because the increase in the prices paid by the final consumers of both fresh pork meat and sausages as compared with that paid for other meat products was such as to cause a sudden decline in demand. Per capita beef consumption also declined. The drop in production and marketing problems made it necessary to increase external purchases by 74% in order to stabilize the domestic supply and to keep prices from soaring.

The fishery sector continued to receive government support both in the areas of organization and marketing and in the promotion of direct consumption of seafood. Furthermore, industrial demand recovered with the result that the fish catch expanded by more than 3%. The tuna, sardine and anchovy catch continued to show dynamic growth, and its relative importance to total production increased. On the contrary, shrimp production continued to decline (-10%), due in part to a decline in international prices.

Table 5
MEXICO: INDICATORS OF MINING PRODUCTION"

	1980	1983	1984	1985 ⁶	Growth rates			
					1982	1983	1984	1985
Index of total mining production (1970 = 100)	148.5	158.2	160.7	161.5	-1.1	-3.4	1.6	0.5
Precious metals	109.6	140.8	146.2	158.2	-6.1	22.5	3.8	8.2
Non-ferrous industrial metals	154.6	174.1	170.1	168.1	3.2	-6.7	-2.3	-1.2
Metals and ores for the iron and steel industry	184.7	185.8	194.6	184.3	-0.5	-4.5	4.7	-5.1
Non-metallic ores	125.3	93.2	106.3	117.6	-17.4	-10.2	14.1	10.6
Production of some important minerals								
Precious metals								
Gold ^c	6 096	6 930	7 058	7 524	-3.4	13.5	1.8	6.6
Silver	1 473	1 911	1 987	2 153	-6.3	23.3	3.9	8.4
Non-ferrous industrial metals								
Lead'	146	167	183	207	-7.3	14.4	9.0	13.1
Copper'	175	206	189	179	4.3	-13.8	-7.8	-5.3
Zinc'	238	257	290	275	9.7	10.8	13.3	-5.2
Bismuth	770	545	433	925	-7.6	-10.1	-20.6	113.6
Cadmium	1 791	1 341	1 136	1 140	0.8	-7.1	-18.0	0.4
Metals and minerals for the iron and steel industry								
Coke'	2 409	2 425	2 175	2 390	1.0	-1.0	-2.0	0.6
Iron ore'	5 087	5 306	5 489	5 161	1.7	-1.4	4.0	-6.0
Manganese'	161	133	189	149	-12.0	-27.3	36.1	-17.7
Non-metallic minerals								
Sulphur'	2 102	1 602	1 826	2 020	-12.6	-11.8	14.0	10.6
Fluorite'	916	557	627	697	-31.8	-11.7	12.6	11.2
Barite'	269	357	426	468	19	10.2	19.3	9.9

Source: ECLAC, on the basis of figures provided by the Ministry of Programming and the Budget.

"Does not cover quarrying or the extraction of sand, gravel or clay.

Preliminary figures.

^c Kilogrammes.

Tons.

'Thousands of

tons.

⁴ Domestic meat prices increased at a rate higher than the average rate of inflation. According to the Planning Division of the Department of Agriculture, in 1981 the daily minimum wage was equal to 1.7 times the price of one kilogramme of beef but in 1983 it was equal to only 1.1 times that price.

Table 6

MEXICO: INDICATORS OF PETROLEUM ACTIVITY

	1980	1983	1984	1985"	Growth rates			
					1981	1982	1983	1984"
Index of extraction of crude oil and natural gas (1970 = 100)	381.8	515.1	514.4	506.4	16.1	-2.7	-0.1	-1.6
Production of main items								
Petroleum	779	1 070	1 077	1 063	17.6	-2.4	0.7	-1.3
Crude and condensate	708	973	983	960	18.8	-3.0	0.7	-2.3
Gas liquids	71	97	94	103	5.5	4.3	-2.9	9.4
Natural gas ^c	36 772	41 897	39 908	37 262	20.0	-6.0	-7.1	-4.2
Refined products	417	467	502	519	10.8	-1.1	7.5	3.4
Gasoline	120	130	133	134	5.8	2.4	2.4	0.7
Diesel oil	89	82	85	90	-3.4	-4.7	4.3	5.1
Fuel oil	113	128	137	145	15.0	-1.5	7.4	5.9
Others	95	127	147	150	25.3	6.7	15.7	2.0
Exports								
Crude oil	302	560	558	525	35.9	2.8	-0.4	-5.9
Natural gas ^c	2 903	2 244	1 534	-	-9.9	-16.4	-31.8	-100.0
Other indicators								
Proven reserves	60 126	72 500	71 750	70 900	-	0.7	1.0	-1.2
Domestic consumption of petroleum	477	510	519	538	3.8	-7.4	2.2	3.7

Source: ECLAC, on the basis of figures supplied by Petróleos Mexicanos.
 preliminary figures. Millions of barrels ^cMillions of cubic metres.

ii) *Mining*. Mining activity (excluding petroleum grew by only 0.5%, marking the fourth consecutive year of sluggishness' (see table 5). This was the result of trends within the sector. The production of precious metals and non-metallic minerals expanded by 8% and 11%, respectively, but the production of non-ferrous industrial metals and of iron and steel declined (-1% and -5%, respectively).

The credit granted by the national banking system and the enactment of a development decree providing for fiscal support for small-scale miners stimulated sectoral production. However, the downturn in external demand created an obstacle of major importance, since it caused the international prices of the majority of the metals covered to fall. Declines were experienced in particular by lead, silver, copper and zinc. In the case of silver and zinc, additional efforts were made to compensate by increasing the volume as prices declined, but there were sizeable decreases in other products. In the case of minerals for the iron and steel industry, the problem of a greatly reduced fixed export quota for the United States market was again encountered. Sulphur exports were an exception to this because it was possible to sell much more abroad and at a better price.

Domestic demand was for the most part depressed except for the demand for non-metallic minerals, whose production continued to recover after a sharp decline during the biennium 1982-1983.

iii) *Petroleum*. The international petroleum market continued to weaken, especially from the middle of the year. For Mexico, that meant that the average petroleum export price fell by more than 5%; in addition considerable losses were suffered because of the lack of opportunities to sell in the traditional markets. Thus, the actual amount sold and exported declined by 6%.

' The difference between the growth of mining production and that of the value added in mining is attributable to the fact that in calculating the former, no account was taken of quarrying or of the extraction of sand, gravel and clay, activities which increased by 77% in 1985.

The consequent decline in foreign exchange earnings had a severe impact on the economy of the country. The real contraction in the petroleum industry for the third consecutive year —this time one of close to 2%— had little impact on the performance of the gross domestic product since petroleum's share in the product is relatively small, despite its enormous importance in exports⁶ (see table 6). On the other hand, the indirect effects were considerable since the decline in fiscal income made it imperative to introduce budgetary cutbacks and adversely affected economic expectations, and this in turn influenced the exchange rate, the interest rates and financial flows in general.

The decline in petroleum activity was less marked than it might have been because of the growth of almost 4% in domestic demand which tended to compensate for the effect of lower exports. As a rather dynamic pace was maintained in industrial activity, the consumption of refined, diesel and fuel oil expanded. On the other hand, gasoline consumption remained stagnant because the price increase caused a decline in individual demand.

Gas extraction was also reduced, largely because of a decline in external demand. All exports to the United States were suspended.

Prospecting and exploration declined, and the proven reserves (70.9 billion barrels) declined in an amount almost equal to the amount extracted during the year. Discoveries were limited to small deposits in the Chiapas-Tabasco area and the Campeche Gulf.

iv) *Manufacturing.* At the beginning of the year the impetus that greater public expenditure, the upturn in private investment and a more favourable credit policy had given to industrial activity during the second half of 1984 was still being felt. However, the effects of the budgetary cutbacks caused this dynamism to wane gradually, until, by the end of the year, production had stagnated. Still, the initial impulse and the dynamism of private investment enabled manufacturing production to increase by almost 6% and this rate was, moreover, higher than that of the previous year (see table 7).

Table 7

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Index of manufacturing production (1970 = 100)	198.8	190.0	200.2	212.1	-3.3	-8.0	5.4	5.9
Food, beverages and tobacco	166.6	181.7	184.6	190.0	4.1	-0.3	1.6	2.9
Textiles and clothing	168.6	156.8	160.0	169.6	-5.7	-7.5	2.0	6.0
Wood	180.0	186.3	193.0	208.5	3.5	-3.8	3.6	8.0
Paper and printed roller	192.2	192.5	206.0	227.1	2.3	-5.5	7.0	10.2
Chemicals, rubber and plastics	242.7	266.6	283.0	293.4	2.0	-0.3	6.2	3.7
Non-metallic mineral products	193.4	158.2	182.4	197.5	-6.8	-18.7	15.3	8.3
Basic metals	202.1	177.3	200.9	198.1	-8.6	-7.1	13.3	-1.4
Metal products and machinery	242.8	175.0	187.8	219.1	-13.9	-24.9	7.3	16.7
Production of some important manufactures								
Beer	187.2	169.6	180.1	199.6	-2.6	-13.3	6.2	10.8
Basic petrochemical products	325.3	538.5	541.7	554.7	12.5	26.2	0.6	2.4
Fertilizers	190.5	291.0	285.0	309.7	28.2	-3.6	-2.1	8.7
Cast iron	227.7	217.5	230.0	214.5	-7.0	-1.4	5.7	-6.7
Motor vehicles	300.3	159.2	198.2	254.8	-26.7	-42.0	24.5	28.5
Other indicators of manufacturing production								
Consumption of electricity by industry	28.7	34.3	37.3	40.1	4.8	3.1	8.6	7.7

Source: ECLAC, on the basis of figures provided by the Ministry of Programming and the Budget and the Banco de México.

"Preliminary figures. Billions of kWh. Does not include pumping of water.

⁶ The extraction of petroleum and gas represents 2.5 % of the gross domestic product. This share increases to 4.1 % if the manufacturing branches of refining and basic petrochemicals, which also evolved very little, are added.

As in 1984, the increase was distributed very unevenly among the different types of goods and manufacturing branches. With regard to goods, the marked increase in capital goods (15%), contrasted with the increase in consumer goods (almost 5%). Non-durable consumer goods evolved more slowly (less than 4%), partly because of weak domestic demand in vast sectors of the population, whereas durables increased by 13% because of the importance among them of automobiles, whose manufacture expanded by 22 %, so that they again constituted one of the mainstays of the economy.

A similar phenomenon occurred where the different branches of the manufacturing sector were concerned. The production of foods, beverages and tobacco increased by less than 3%, only barely exceeding the rate of demographic growth, mainly because of weak domestic demand. The production of textiles and clothing increased by 6% because of the impetus provided by external markets, which greatly compensated for the damage to the infrastructure of this branch in the capital of the country caused by the devastating earthquakes in September. Thanks to the government support programme, the wood industry grew by 8%. As a result of the expansion of the capacity to produce newsprint and the significant progress achieved in the export of books, the paper and newsprint sector increased by 10%. On the other hand, the chemical industry, traditionally a dynamic one, increased by only 4%, partly because of the poor performance of the basic petrochemicals industry and soap. The marked expansion recorded the previous year in the non-metallic minerals branch was repeated with the branch growing this time by over 8%. Much of the cement and glass produced was used to meet the dynamic external demand. On the other hand, the basic metals branch declined by 1% after a significant increase the previous year. The earthquake which damaged several installations, the temporary suspension of the operation of a blast furnace and certain labour problems all contributed to this decline. An even greater contraction was experienced with regard to iron and steel products owing to the reduction of the United States quota. As a result, enough of a surplus was generated to meet the unusually high domestic demand for metal products and machinery, and their manufacture grew dramatically (17%). The aforementioned fiscal incentives relating to the depreciation of fixed assets encouraged greater private investment, which was directed towards these branches. The motor vehicle industry expanded vigorously (29%), thanks to the fiscal incentives provided by accelerated depreciation and the demand generated by people in the high- and middle-income brackets in a very unequitable distributive structure. Furthermore, exports of motor vehicles, engines and parts continued to expand within the framework of the industrial redeployment strategy followed by the large foreign motor companies. These companies moved a substantial part of their productive processes to Mexico (mainly to the northern region), with the result that the motor vehicle industry as a whole earned a favourable external trade balance, which in turn created an appreciable number of highly skilled jobs.

The industrial policy was directed basically to promoting non-petroleum exports and to supporting subcontracting and re-export activities and made significant progress in breaking down protectionist barriers. The possibility that the country might enter GATT made it necessary to introduce changes in the operation of the national enterprises and in the strategies espoused by entrepreneurs, many of whom found it difficult to adjust to the demands of the new situation. In addition, the application of the legal provisions regarding foreign investment continued to be made more flexible. The September earthquakes and considerations of an ecological nature highlighted the urgency of taking more decisive action with respect to industrial decentralization. Moreover, in April a programme for the overall development of small- and medium-sized industry was initiated to provide the many firms in this category with credit and technological support.

v) *Construction.* Performance of this sector during the year was similar to that of manufacturing. After a very dynamic beginning in which the level of growth achieved in 1984 was maintained, the growth rate declined as a result of budget cuts which made it necessary to suspend works regarded as non-priority. Repair and demolition work in Mexico City and other areas affected by the September earthquakes did not succeed in bringing significant and sustained dynamism to the sector. In the end, it recorded growth of less than 3%, lower than the rate achieved the year before (see table 8).

In fact, in 1985, government works were reduced to a minimum, and only essential projects were continued. Greater dynamism was displayed in the private sector because of the construction of low-income housing, which benefited from subsidized interest rates and increasing amounts of

financing. On the other hand, the remainder of the construction sector was severely hurt by the impact of the restrictive financial policy applied up to the end of the year.

In general, the supply of inputs was adequate. Considerable surpluses of cement and glass were generated, and these were geared towards exports (which grew by 17% in both cases); in contrast, the closure of the external market for iron and steel products and the drop in domestic demand induced a decline in their supply.

vi) *Basic services.* This sector grew by a little over 3%, a rate that was lower than that achieved the previous year. Electricity, gas and water production continued to increase at the usual rate of 7% per year, which had been interrupted only in 1983. This performance was due to good rains, which enabled dams to operate at high capacity, and to an increase in the thermal generation of power. The larger supply which resulted made it possible to meet the growth in industrial and household demand (almost 8% and more than 6%, respectively).

On the other hand, transport and communications expanded by slightly less than 3%. Rails also increased by 3% in respect of both operations and freight shipped, while maritime transport showed a slightly higher growth rate (4%). Air transport increased by 16% on national routes and by 9% on international routes. The number of passengers on national routes increased by 15%, but fell by 1 % on international routes. The number of users of the underground in Mexico City increased by 7%.

Although damaged by the earthquake, the telephone system showed an increase of 8% in national calls and 12% in international calls. On the other hand, the mail and telegraph services declined by 10% and 5% respectively, partly because of an increase in rates.

vii) *Other services.* The services in this category displayed the least growth of all (1%) (see table 3). The poor performance of commerce including restaurants and hotels (2%), was largely responsible for this result. Commerce as such grew by almost 4%, aided in part by the increased financing facilities available through credit cards. However, a further decline in tourism from abroad had a negative impact as did the decline in domestic tourism. The decline in hotel and restaurant activity was of the order of 12%. Financial institutions, insurance, real estate activities and business services also expanded slowly chiefly because real estate all but stagnated. Finally, community, social and personal services followed the same trend partly because the growth rate of government services contracted (1%), as a result of the introduction of budgetary austerity.

c) *Employment and unemployment*

As noted above, during the year one pattern of behaviour was succeeded by an opposing pattern. The first half of the year was marked by dynamism, which was concentrated in a few activities, such as manufacturing and construction, which absorbed manpower. The other pattern was recessive in nature and set in when economic activity was checked by budget cuts, which resulted in a freeze on

Table 8

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Index of volume of construction (1970 = 100)	208.2	175.4	182.1	187.8	-5.1	-20.4	3.8	3.1
Production of main inputs								
Cement	228.3	238.8	257.9	289.2	7.0	-11.6	8.0	12.1
Reinforcing rod	262.9	236.9	246.5	217.7	-8.9	-7.9	4.1	-11.7
Structural profiles	262.0	175.3	189.9	180.1	-23.5	-16.9	8.3	-5.2
Seamless steel tubes	129.7	126.4	176.2	157.6	4.6	-11.2	39.4	-10.5
Flat, smooth and worked glass	238.6	172.3	177.6	193.7	-11.5	-21.6	3.1	9.0
Refractory bricks and panels	136.9	100.1	109.5	108.4	-36.2	-7.4	9.4	-1.0

Source: ECLAC, on the basis of figures provided by the Banco de México and the Ministry of Programming and the Budget.

"Preliminary figures.

new contracts and in layoffs in the civil service, State enterprises and the national bank.⁷ Consequently, uneven trends were observed in the different occupational variables. On the one hand, there was a significant increase in the number of members of the Mexican Social Security Institute and in urban rates of unemployment. On the other, the few indicators on employment generation suggest that not enough new jobs had been created to absorb the considerable increase in the economically active population (3.1%) (see table 9).

No official figure is available for the growth rate of paid employment at national level, but the behaviour of the main components of this variable indicates that few new jobs were created. The absorption of labour by the manufacturing industry increased by only 2.3%. Thus, the dynamism of the value added by manufacturing reflected an increase in the number of man-hours worked (3.9%) and in labour productivity. In this same sector, it was in the subcontracting industries that employment expanded the most although the rate (6%) was much lower than that of the previous year.

The weak growth of agriculture, construction and commerce including hotels suggests that, since these sectors have an enormous impact on employment, the overall creation of new jobs must have shown very little growth.

A partial indicator, which relates primarily to the formal sector of the economy and exclusively to the private sector, is the number of members of the Mexican Social Security Institute, who represent almost one third of the active population. Enrollments increased on average by more than 8% due to an increase of 6.5% in the number of permanent members and 19% in that of temporary members. The former consisted largely in employees in the construction industry and the latter, in persons engaged in social and community services, business services and domestic help. In any case, these increases seem to have reflected an extension of social security coverage rather than an increase in the number of jobs created.⁸

Finally, with respect to employment in the major urban centres, the rate of open unemployment improved considerably, especially in Guadalajara and Monterrey —a trend which had already begun the previous year. The average rates of open unemployment were 4.9% in Mexico City, 3.4% in Guadalajara and 5.4% in Monterrey —much lower than those recorded the preceding two years.

3. The external sector

a) *Main features*

After two years in which progress was made in the settlement of the external accounts, the situation deteriorated again in 1985. In addition to the enormous burden imposed by interest payments on the debt (US\$10 billion per year), the terms of trade were disadvantageous, and access to international credit was severely limited. Hence, the external sector remained the main obstacle to development and the mayor source of the difficulties besetting the economy.

This situation was evident in the case of petroleum exports, which fell by almost US\$1 650 000 000 as a result of a drop in prices and in the volume sold. Also noteworthy was the even more marked deterioration in the prices of other raw materials and the contraction in the volume of exports of a number of non-petroleum products. The smaller number of visitors to the country because of unfavourable publicity abroad and the fears raised by the earthquakes occasioned further loss. On the other hand, the demand for imports increased considerably because of the shortfall in many productive branches and their failure to integrate vertically. The result was that the trade surplus was reduced by 35% and was barely large enough to make the interest payments on the debt despite the fact that interest rates on the international markets had dropped considerably. In other words, after two years in which very considerable positive balances were obtained in the current account, the surplus fell to just US\$300 million in 1985. Furthermore, because of restrictions on foreign financing, it was necessary to postpone some of the amortization payments on the external debt and draw on the international reserves, which fell by almost US\$2.4 billion.

⁷ In all, some 20 000 public employees and around 8 500 employees of the nationalized banks were laid off.

⁸ The increased membership of the Social Security Institute includes both volunteers who are not necessarily employed and workers who were previously unemployed.

Table 9
MEXICO: INDICATORS OF EMPLOYMENT

	Thousands of persons				Percentage breakdown				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°	1982	1983	1984	1985°
National total												
Economically active population	23 455	24 183	24 932	25 705	100.0	100.0	100.0	100.0	3.1	3.1	3.1	3.1
Paid employment	19 863	19 572	20 092		84.7	80.9	80.6	• •	-0.9	-1.5	2.7	
Agricultural	5 035	5 245	5 342		21.5	21.7	21.4		-3.9	4.2	1.9	
Mining and petroleum	270	267	271		1.2	1.1	1.1		2.6	-1.3	1.6	
Manufacturing	2 485	2 309	2 361	2 415	10.6	9.5	9.5	9.4	-2.3	-7.1	2.2	2.3
Subcontracting	122	151	200	212	0.5	0.6	0.8	0.8	-5.9	23.2	32.5	6.2
Rest°	2 363	2 158	2 161	2 203	10.1	8.9	8.7	8.6	-2.1	-8.7	0.1	1.9
Construction	1 785	1 420	1 468		7.6	5.9	5.9		-5.1	-20.4	3.3	
Services	10 288	10 331	10 650		43.8	42.7	42.7		12	0.4	3.1	
Difference	3 592	4 611	4 840		15.3	19.1	19.4		32.7	28.4	5.0	
Affiliated to the Mexican Social Security Institute	7 128	6 987	7 330	7 956	30.4	28.9	29.4	31.0	4.9	-2.0	4.9	8.5
Permanent	5 842	5 840	6 174	6 580	24.9	24.1	24.8	25.6	5.4	-	5.7	6.6
Casual	1 286	1 147	1 156	1 376	5.5	4.8	4.6	5.4	2.6	-10.8	0.8	19.0
Urban unemployment¹												
México City					4.0	6.3	5.8	4.9				
First quarter					3.5	6.8	5.4	5.7				
Second quarter					3.9	5.5	5.3	4.3				
Third quarter					4.4	6.4	6.4	5.2				
Fourth quarter					4.1	6.3	6.2	4.4				
Guadalajara					5.0	7.4	6.1	3.4				
First quarter					4.4	6.3	6.9	3.9				
Second quarter					5.2	8.1	5.7	3.5				
Third quarter					5.3	8.6	6.0	3.9				
Fourth quarter					5.1	6.7	5.7	2.4				
Monterrey					4.9	9.8	7.5	5.4				
First quarter					4.3	8.8	8.3	6.9				
Second quarter					4.7	9.8	7.0	5.1				
Third quarter					6.2	11.4	8.5	5.4				
Fourth quarter					4.5	9.1	6.2	4.0				

Source: ECLAC, on the basis of figures provided by the National Institute of Statistics, Geography and Information Sciences of the Ministry of Programming and the Budget.

Note: The figures for the economically active population were recalculated on the basis of the annual growth rate of 3.1% published by the Ministry of Labour instead of that of 2.9% used in previous years.

° Preliminary figures. Estimates rate by the National Institute of Statistics, Geography and Information Sciences and contained in *Sistema de Cuentas Nacionales*. ° Paid employment in manufacturing minus paid employment in subcontracting. Includes open unemployment and unpaid employment. ¹ Rates of open unemployment on the basis of the ongoing surveys of unemployment.

b) *Trade policy*

The country's trade policy was radically changed because it was essential to use non-oil exports to fill the vacuum that had been created by the decline in hydrocarbon sales. Thus, an attempt was made to promote subcontracting activities and exports in general in the short term, and to this end the importation of inputs was facilitated. In the long term, the new policy sought to introduce a structural change which would enhance the country's position in the international economy, to which end the liberation of foreign trade was deemed indispensable.

In order to avoid shortfalls, poor quality and high prices in respect of the country's supply of raw materials, spare parts and components, it was decided to lower import duties. Subsequently, programmes for the purchase abroad of inputs for the production of exports were instituted, and these were complemented by the issuance of Import Duty Certificates in respect of merchandise used in the manufacture of exports.⁹ A measure to replace the license issued prior to importation by a tariff was also accelerated.¹⁰

At the same time changes were made in the tariffs structure in which a common tax rate was provided for products with similar characteristics. The maximum rate was set at 50% and the weighted average rate doubled, rising from 9% to 18%.

Also important to the trade policy was the agreement with the United States aimed at reducing or eliminating the export subsidies granted by Mexico, in exchange for which the United States would refrain from imposing countervailing customs duties. If it is officially established through testing that the subsidized products damage the production and trade of the United States, that country will reimpose those duties.

Finally, after preparatory measures were taken, in November it was decided to submit a formal request for entry into GATT.

c) *Merchandise trade*

Early in 1985, the surplus from merchandise trade began to show a tendency to decline, amounting to just under US\$8.4 billion at the close of the year, as compared with US\$13 billion the preceding two years.

The occurrence of two trends in 1985 made it difficult to maintain the trade balance of the preceding two years. On the one hand, not only did exports stop growing, they declined by about 10%. On the other hand, imports increased by 19%, thus maintaining the dynamism they had demonstrated in 1984 (see table 10).

The unit value of exports fell by 4.5%. The decline in the price of petroleum was on average 5.5%,¹¹ but proved to be less marked than that of the other raw materials, agricultural and mineral, and even of some industrial goods (almost 10%, on average). In addition there was a decline of almost 5% in the volume of exports of both petroleum products and the country's other exports. The protectionist practices of the industrialized countries, the decline in the real exchange rate during the first half of the year and possible under-invoicing by exporters also contributed to the contraction of export incomes. On the other hand, the revival of the domestic demand during the first part of the year absorbed some of the surplus petroleum meant for sale abroad.

The total value of merchandise exports bordered on US\$22 billion, an amount which was 9.5% lower than that achieved the previous year. The decisive element in this contraction was the decline in petroleum sales (-11%), which represented 60% of total sales made. Not only did crude-oil exports decline (by US\$1 650 000 000), but all gas sales to the United States, which had amounted to US\$230 million in 1984, were suspended. In other words, in the hydrocarbon sector, the country earned almost US\$1.9 billion less than the previous year (see table 11).

* Thus, exporters whose products included at least 10% of domestic inputs were entitled to import, with no license or authorization, goods equivalent to 30% of their exports and to have the corresponding import duties refunded.

¹⁰ Out of a total of some 8 100 categories of imports (in the regime under which 10% of the country's imports were carried out), approximately 3 500 were exempt from the input license requirement. To these were added some 3 600 categories accounting for 17% of imports. Still subject to the license requirement were 909 categories (36% of the trade effected), including, *inter alia*, non-essential goods, basic foodstuffs, articles used in the motor vehicle assembly industry, pharmaceutical raw materials and final computation products.

¹¹ The price of Isthmus petroleum gradually fell from US\$29 at the beginning of the year, to US\$26.50 towards the third quarter, the price at the end of the year standing at close to US\$28. The Mayan petroleum fell from US\$25.50 to US\$22.73. (The figures referred to in this footnote are averages for shipments to different destinations.)

Non-petroleum exports declined by 7% because of a reduction in the external sales of traditional products (-10%), whereas external sales of industrial products remained stagnant. In both cases, prices fell substantially, whereas the volumes exported remained constant and even increased in many cases.

Where the major primary products were concerned, coffee, beef and fruit exports were the only ones that earned more foreign exchange. The other items experienced declines, some of them dramatic, as occurred in the case of cotton. With regard to industrial products, sales continued to increase only in the case of motor vehicle parts. Exports of some non-metallic mineral products, such as glass and cement, also showed great dynamism. On the other hand, exports of iron and steel and petrochemical products declined notably.

As for merchandise imports, they maintained the notable dynamism they had begun to display in the middle of 1984 as a result of heightened economic activity at home. As this economic activity weakened during the course of the year, external purchases also declined, totalling around US\$13.5 billion. Unit prices of imported goods fell by almost 3 % whereas their volume increased by 22 %. As a result, the terms of trade in goods declined by more than 2% and by as much as 24% since 1981 (see table 10).

Purchases abroad by the public sector fell by 9% because of sharp budget cuts which affected this sector's investment programmes and current expenditure. On the other hand, private imports increased by 41 % because of high investment rates and, in general, because of the activity in this sector, at least during the first part of the year (see table 12).

The most dynamic growth in imports occurred in consumer goods (27%) whereas intermediate goods grew by 17% and capital goods expanded at the extraordinary rate of 25%. The increase in imports of computer equipment, as well as of textile machinery and measuring apparatus and instruments was particularly marked. Conversely, purchases of both ships and metal working machinery fell sharply.

d) *Trade in services and factor payments*

The surplus obtained by the services sector in previous years was reduced in 1985. This was due mainly to increased expenditure on imports and to a lesser extent to the drop in export incomes. The only exception to the decline in export income occurred in connection with the processing services of subcontracting firms, which brought in US\$1.3 billion, an amount which was 11 % higher than that

Table 10

MEXICO: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985*
Growth rates						
Exports						
Value	72.8	24.1	6.5	5.1	7.7	-9.0
Volume	23.3	18.8	22.5	15.7	4.9	-4.7
Unit value	40.1	4.5	-13.1	-9.1	2.7	-4.6
Imports						
Value	55.8	27.2	-40.0	-40.7	32.0	19.2
Volume	38.1	18.3	-41.6	-36.7	27.6	22.4
Unit value	12.8	7.5	2.9	-6.3	3.4	-2.6
Terms of trade	24.5	-2.9	-15.6	-3.5	-1.3	-2.3
Indexes (1980 = 100)						
Purchasing power of exports	100.0	115.3	119.3	133.2	137.9	128.5
Volume of exports	100.0	118.8	145.5	168.4	176.7	168.4
Terms of trade	100.0	97.1	82.0	79.1	78.1	76.3

Source: ECLAC, on the basis of official figures.

*Preliminary figures.

Table 11

MEXICO: EXPORTS OF GOODS, FOB^a

	Millions of dollars			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985 ⁶	1982	1983	1984	1985 ⁶
Total exports (merchandise, FOB)	22 320	24 196	21 866	100.0	100.0	6.5	5.1	8.4	-9.6
Hidrocarbons	15 881	16 441	14 660	64.1	67.0	13.3	-2.3	3.5	-10.8
Crude petroleum	14 793	14 968	13 309	58.7	60.9	17.4	-5.3	12	-11.1
Petroleum by-products	738	1 244	1 351	2.7	6.1	-67.3	182.7	68.6	8.6
Natural gas	350	229	-	2.8	-	-8.8	-26.8	-34.6	-100.0
Non-petroleum products	6 439	7 755	7 206	35.9	33.0	4.0	12.6	20.4	-7.1
Main traditional exports	2 082	2 238	1999	10.5	9.1	1.0	4.2	7.5	-10.7
Raw coffee beans	385	424	481	2.6	2.2	3.3	11.6	10.1	13.4
Shrimps	380	402	326	2.4	1.5	5.7	3.3	5.7	-18.9
Silver	397	335	262		1.2		34.1	-15.6	-21.8
Tomatoes	112	221	198	1.2	0.9	-22.3	-27.3	97.3	-10.4
Copper	222	184	148	1.0	0.7	-29.0	1.8	-17.2	-19.6
Pulses and fresh vegetables	149	179	146	1.0	0.7	-10.6	-16.3	20.1	-18.4
Beef cattle	166	112	143	0.5	0.7	68.3	54.1	-32.5	27.7
Sulphur	108	93	113	0.7	0.5	-45.2	45.9	-13.9	21.5
Cotton	116	208	93	2.0	0.4	-40.5	-37.0	79.3	-55.3
Fresh fruit	47	80	89	0.6	0.3	-13.4	-33.8	70.2	11.3
Main non-traditional exports	2 700	4 076	4 101	12.7	18.8	1.6	32.5	51.0	0.6
Metal products, machinery and equipment	1 063	2 074	2 336	5.9	10.7	-0.7	19.7	95.1	12.6
Motor-vehicle parts	816	1 157	1 452	1.6	6.6	52.6	118.8	41.8	25.5
Automobiles and trucks	123	148	141	0.8	0.7	-25.7	51.9	20.3	-4.7
Chemical products	628	755	676	2.5	3.1	-3.3	42.1	20.2	-10.5
Food and beverages ¹	344	419	421	2.4	1.9	2.4	2.4	13.4	0.5
Non-metallic mineral products	210	289	315	0.8	1.4	12.0	50.0	37.6	9.0
Iron and steel products	319	378	246	0.4	1.1	75.0	184.8	18.5	-34.9
Petrochemical products	136	161	107	0.7	0.6	12.8	17.2	18.4	-33.5
Rest	1 657	1 441	1 106	12.7	5.1		1.6	-13.0	-23.5

Source: ECLAC, on the basis of official figures.

¹Excluding subcontracting. Preliminary figures. excluding deep-frozen shrimps.

earned in 1984.¹² On the other hand, the country's earnings from tourism fell by 12%. This decline was a result of the over-valuation of the peso during the first half of the year, of foreign advertising campaigns which tended to discourage tourists from coming to Mexico, as well as the fear experienced by potential visitors as a result of the September earthquakes. The earnings from travellers in the border zone (US\$1.2 billion) fell by almost 11%, chiefly because of sudden changes in the exchange rate (see table 13).

Furthermore, outflows on account of travel increased slightly (4%). In fact, the number of Mexican tourists going abroad fell during the second half of the year because of the currency devaluations, which also affected expenditure in border transactions.

Thus, the trade surplus generated in 1985 was barely enough to finance the net amount of external factor payments, despite the fact that interest payments on the debt (almost US\$10 billion)

¹² Subcontracting is one of the country's largest generators of employment and one of those areas in which Mexico's role in the world economy emerges most clearly, owing to its proximity to the United States and the fact that local wages are low (between US\$3 and US\$3.50 per day) by comparison with international standards.

fell by 17%, mainly because of the decline in international interest rates. To this was added the remittance abroad of US\$600 million in profits on foreign investment, which was 35% higher than the amount remitted in 1984. On the other hand, only US\$1.7 billion (60% less than the previous year) left the country in interest payments.

e) *Capital account*

The deficit on the capital account showed a substantial increase, standing at US\$2.7 billion. Indeed, this figure would have been even higher had it not been for the fact that, as a result of the seismic disaster in September, the payment of US\$950 million in amortization payments in respect of the external public debt was postponed. Even so, the amortization payments made were substantial (US\$3.1 billion), exceeding those paid the previous year by a wide margin.

Table 12

MEXICO: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates		
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total imports									
(merchandise FOB)	8 554	11 254	13 460	100.0	100.0	-40.0	-40.7	31.9	19.6
Public sector	4 307	4 790	4 354	43.3	32.3	-38.8	-20.2	11.2	-9.1
Private sector	4 244	6 464	9 106	56.7	67.7	-40.7	-53.0	53.1	40.9
Consumer goods	614	848	1 075	12.8	8.0	-46.0	-59.5	38.1	26.8
Processed foodstuffs	381	286	304	5.0	2.3	-45.4	-21.7	-24.9	6.3
Milk	111	89	108	1.0	0.8	15.1	-23.4	-19.9	21.3
Meat	17	45	96	0.1	0.7	-31.9	-63.8	164.7	113.3
Sugar	188	73	-	3.0	-	-60.9	33.3	-61.2	-100.0
Butane and propane gas	41	227	319	0.8	2.4	-23.8	-62.4	453.5	40.5
Intermediate goods	5 740	7 833	9 162	58.4	68.1	-37.9	-31.8	36.5	17.0
Agricultural products	1 576	1 553	1 170	8.0	8.7	-56.2	103.4	-1.5	-24.7
Soybean seeds	218	403	275	1.6	2.0	-56.1	39.7	84.8	-31.8
Sorghum	434	363	264	0.9	2.0	-54.9	122.6	-16.4	-27.2
Maize	630	367	255	3.1	1.9	-91.5	1 602.7	-41.7	-30.6
Paper, printed roller and publications	250	315	356	2.7	2.6	-35.0	-27.1	26.0	13.0
Petroleum by-products	184	235	331	0.8	2.5	14.7	-28.4	27.7	40.9
Petrochemical products	385	468	691	2.8	5.1	-28.9	-15.0	21.6	47.6
Chemical products	863	1 176	1 351	7.5	10.0	-26.3	-29.1	36.3	14.9
Chemical products for industry	158	202	228	1.2	1.7	-23.4	-23.3	27.8	12.9
Chemical products for pharmaceuticals	77	101	131	0.6	1.0	-24.8	-9.4	31.2	29.7
Fertilizers	62	106	121	0.5	0.9	-17.8	-52.0	71.0	14.2
Iron and steel products	418	738	732	9.4	5.4	-52.3	-59.8	76.6	-0.8
Metal products, machinery and equipment	1 378	2 189	3 011	18.7	22.4	-32.9	-54.4	58.9	37.6
Automobile equipment	357	573	748	7.6	5.6	-42.7	-63.3	60.5	30.5
Capital goods	2 197	2 573	3 223	26.6	23.9	-40.6	-51.2	17.1	25.3
Metal products, machinery and equipment	2 114	2 453	2 966	26.1	22.0	-40.9	-51.8	16.0	20.9
Vessels	309	383	221	1.8	1.6	10.3	-3.8	23.9	-42.3
Machinery for metal working	249	239	185	2.1	1.4	-16.8	-51.1	-4.0	-22.6
Other unclassified goods	3	-	-	2.2	-	...			

Source: ECLAC, on the basis of figures provided by the Banco de México.

°Preliminary figures.

Table 13

MEXICO: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-5 553	-8 305	-14 074	-6 416	5 151	3 704	298
Trade balance	-1 575	-2 225	-4 658	6 302	14 494	13 869	8 852
Exports of goods and services	15 129	23 458	28 884	26 168	27 183	30 025	27 658
Goods, FOB	9 300	16 067	19 938	21 230	22 380	24 042	21 866
Real services	5 829	7 390	8 947	4 938	4 863	5 983	5 792
Transport and insurance	321	446	476	425	467	530	548
Travel	4 185	5 243	6 347	2 639	2 727	3 278	2 900
Imports of goods and services	16 704	25 683	33 542	19 866	12 689	16 155	18 806
Goods, FOB	12 130	18 897	24 038	14 434	8 553	11 287	13 460
Real services	4 573	6 789	9 505	5 431	4 136	4 868	5 346
Transport and insurance	1 121	1 934	2 389	1 730	1 275	1 354	1 380
Travel	2 931	4 174	6 155	2 208	1 581	2 174	2 262
Factor services	-4 108	-6 209	-9 531	-12 815	-9 466	-10 339	-8 762
Profits	-945	-1 387	-1 898	-1 390	-380	-454	-618
Interest received	696	1 022	1 386	1 324	1 280	2 054	1 728
Intérêt paid	-3 709	-5 476	-8 384	-12 373	-10 286	-11 912	-9 917
Others	-150	-368	-635	-377	-80	-27	45
Unrequited private transfer payments	130	132	114	98	123	175	208
Balance on capital account	5 868	9 262	15 151	2 843	-3 118	-1 570	-2 722
Unrequited official transfer payments	94	144	175	198	179	201	243
Long-term capital	5 178	7 776	13 044	10 404	4 730	2 636	295
Direct investment (net)	1 332	2 185	2 537	1 656	460	392	491
Portfolio investment (net)	-393	-75	987	946	-625	-625	-667
Other long-term capital	4 239	5 666	9 521	7 803	4 895	2 870	471
Official sector'	-180	655	618	2 775	4 256	2 849	-9
Loans received	1 752	1 149	1 803	3 158	5 195	2 849	1 997
Amortization payments	-1 933	-494	-1 185	-384	-938	-	-2 006
Commercial banks'	1 247	1 134	2 973	604	1 422	474	480
Loans received	3 454	2 559	4 736	3 819	2 373	1 464	1 570
Amortization payments	-2 206	-1 425	-1 764	-3 215	-951	-991	-1 090
Other sectors'	3 172	3 877	5 929	4 424	-783	-452	-
Loans received	6 124	5 491	7 912	7 979	1 417	907	-
Amortization payments	-2 968	-1 627	-1 624	-3 387	-2 080	-1 366	-
Short-term capital (net)	-58	5 113	10 163	-2 442	-7 050	-4 170	-1 571
Official sector	-	-	-	1 217	-1 216	-	-
Commercial banks	1 077	2 317	6 127	-1 417	340	336	-800
Other sectors	-1 135	2 796	4 036	-2 242	-6 174	-4 506	-771
Net errors and omissions	655	-3 770	-8 235	-5 316	-972	-238	-1 689
Global balance	315	956	1 076	-3 573	2 033	2 134	-2 424
Total variation in reserves (- sign indicates an increase)	-356	-938	-762	3 469	-2 045	-2 143	2 328
Monetary gold	-3	-4	-7	7	-5	125	-
Special Drawing Rights	-144	56	-34	172	-17	20	-
IMF reserve position	-	-128	-60	187	-95	95	-
Foreign exchange assets	-46	-727	-662	2 881	-2 967	-3 488	-
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-163	-136	-	222	1039	1 104	-

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*; March 1986; 1985: ECLAC, on the basis of official figures.

"Preliminary figures.

"Real services also include other official and private transactions but exclude factor services.

' In addition

to loans received and amortization payments on these, this entry includes net loans granted and other assets and liabilities.

The global

balance is the sum of the balances on the capital at current accounts. The difference between the total variation in reserves with opposite sign and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights and variation due to revaluation.

The favourable balance resulting from direct foreign investment transactions reflected a recovery of 25%. This was due to large reinvestments and smaller transfers to parent companies abroad, since new flows were cut in half despite the facilities granted (US\$270 million).

The atmosphere of distrust among the economic agents spurred short-term capital outflows of close to US\$1.6 billion and increased the amount recorded for errors and omissions to almost US\$1.7 billion. Nevertheless, both these items were lower than they had been the previous year.

In these circumstances, the balance of payments, which in the preceding two years had closed with very substantial positive balances, closed with a deficit of US\$2.4 billion in 1985. This caused a 30% contraction in the monetary reserves of the Bank of Mexico, which at the close of the year totalled about US\$5.8 billion —enough to cover somewhat more than three months of imports.

f) *The external debt*

August marked the end of the final round of Mexico's renegotiations of its public external debt with its foreign creditors. In this round, consideration was given to loans for some US\$20 billion reaching maturity between 1985 and 1990, whose servicing was rescheduled up to 1998. These loans had been part of a 48.5-billion-dollar package which had actually been renegotiated in 1984. However, because of the deterioration of the external sector throughout the year, the planned schedule of payments could not be met during the final quarter of the year.

Servicing the external debt siphoned off 47% of the earnings from exports of goods and services and cost three times the amount of the loans disbursed during the year (see table 14).

Table 14

MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985"
Billions of dollars						
External public debt						
Balances outstanding	33.8	53.0	58.9	62.6	69.4	72.1
Medium- and long-term	38.3	42.2	49.6	52.8	69.0	71.6
Short term	1.5	10.8	9.3	9.8	0.4	0.5
Disbursements	4.5	20.4	6.3	4.6	7.8	4.7
Service	4.5	6.6	8.8	8.2	9.6	6.3
Amortization payments	0.5	1.2	0.4	0.9	1.0	2.0
Interest payments	4.0	5.4	8.4	7.3	8.6	4.3
Global external debt						
Balances outstanding	50.7	74.9	87.6	93.8	96.7	97.8
Disbursements	14.5	28.8	17.5	12.5	5.3	4.2
Service	9.0	13.0	19.7	10.2	14.3	13.0
Amortization payments	3.5	4.6	7.0	4.0	2.4	3.1
Interest payments	5.5	8.4	12.4	10.3	11.9	9.9
Percentages						
Ratios						
Total external debt/exports of goods and services	216.1	259.3	334.8	345.1	222.1	353.6
Debt service/exports of goods and services	38.3	22.9	75.3	37.5	59.1	47.0
Net interest payments/exports of goods and services	23.4	29.1	47.4	38.0	39.6	35.8
Debt service/disbursements	62.1	45.1	112.6	81.6	269.8	309.5

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.

"Preliminary figures.

Table 15
MEXICO: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
Variation December to December						
Consumer price index"	29.8	28.7	98.8	80.8	59.2	63.7
Food	29.4	24.7	89.8	77.9	70.6	57.5
Wholesale price index	26.4	27.2	92.6	88.0	63.2	63.4
Producer price index"			93.5	80.2	60.1	61.1
Agricultural goods			45.8	80.5	75.4	74.7
Capital goods			78.6	79.2	58.6	57.1
Building cost index ^c	29.5	31.2	73.7	75.6	56.0	60.6
Variation between annual averages						
Consumer price index"	26.3	27.9	58.9	101.9	65.4	57.7
Food	25.0	26.2	53.5	91.1	74.9	59.8
Wholesale price index	24.5	24.5	56.1	107.4	70.3	53.6
Producer price index"		25.5	57.5	99.3	63.6	55.2
Agricultural goods		37.0	36.3	89.0	77.1	58.1
Capital goods		28.3	56.6	86.9	61.3	52.3
Building cost index ^c	29.1	29.0	54.8	83.9	56.4	55.2

Source: ECLAC, on the basis of figures provided by the Banco de México.

"National.

^bIn México City.

^cLow-income housing, at national level.

As indicated, the amount of the public external debt was substantially reduced. Still, it exceeded US\$72 billion, not so much because of the new loans obtained (US\$390 million) as because of the effect of the recording of liabilities assumed by the government and because of the revaluation in dollar terms of loans expressed in other currencies. The country's total external debt rose to US\$98 billion, which represented an increase by only 1 %. Thus, for the first time in many years the debt was reduced in real terms.

4. Prices and wages

a) Prices

The fight against inflation continued to be one of the focal points of the economic policy. However, the national consumer price index to December went to almost 64%, a rate which was higher than that of the previous year and very far from the rate targeted in the stabilization programme agreed with the International Monetary Fund for the triennium 1983-1985. The annual average inflation rate was, however, brought down from 65.4% to 57.7% (see table 15 and figure 2).

This behaviour was again due to cost pressures, the snow-balling effect of the inflation experienced the previous year and the negative expectations of the agents. Cost pressures included those attributable to the sudden increase in the exchange rate during the second half of the year and the considerable increase in interest rates. The erratic behaviour of the exchange rate in July and November forced sudden devaluations of the peso, which, while considerably exceeding the rate of inflation, did nothing to dispel financial uncertainty. In order to attract domestic savings, interest rates were increased substantially and this pushed up the financial costs of enterprises and proved to be one of the main contributors to the inflation.¹³

Moreover, a policy of reviewing the prices and rates charged for the goods and services provided by the public sector continued to be actively pursued. However, some of the adjustments made

¹³ The average cost of securing resources gradually rose from 479% at the end of 1984 to 66% one year later. This necessarily entailed increases in the rates on loans, which rose disproportionately.

subsequently proved to be inadequate because they were based on the initial inflation estimate. Hence, these prices and rates began to lag further and further behind, and in December an effort was made to correct this situation by decreeing large increases but these had little effect on the annual average.¹⁴

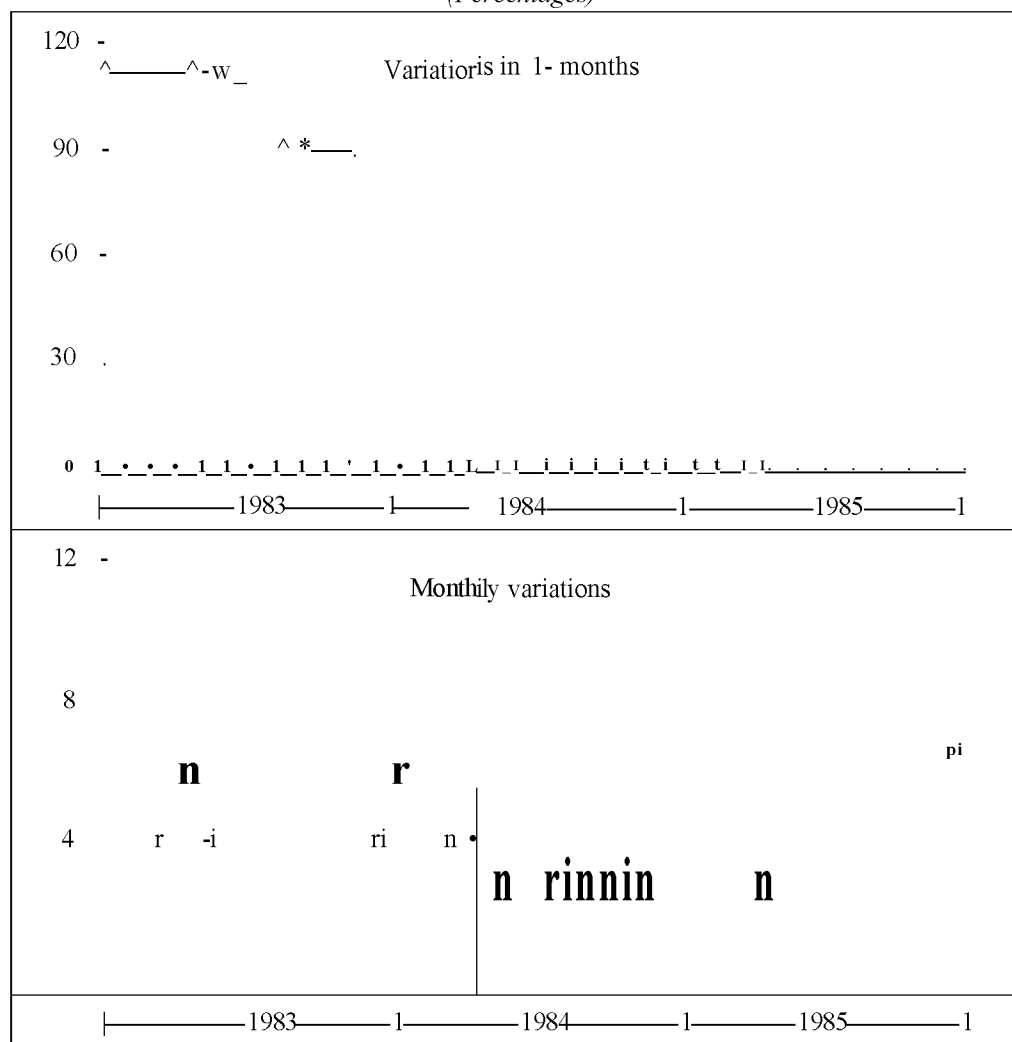
The prices of basic commodities subject to control also continued to be reviewed. The average annual variation in food prices was 60%. Some food prices increased at a rate higher than the overall rate of inflation when they were decontrolled or the subsidies applied to them were removed. This occurred in the case of bread (88%) and corn tortillas (67%).

The variation in the wholesale price index was slightly more moderate than that in consumer prices, and the same occurred in respect of producer prices and the cost of building low-income housing (see table 15).

Figure 2

MEXICO: CONSUMER PRICE INDEX

(Percentages)



Source: ECLAC, on the basis of official data.

"This was the case of gasoline, whose average price rose by 54 9?, with that of high octane gasoline rising by 44 9? and that of diesel oil by 499?. If the prices that obtained in December 1984 are compared with those for the same month in 1985, increases will be observed of 1139?, 949? and 589?, respectively, as against a variation of 649?.

Table 16
MEXICO: EVOLUTION OF WAGES AND SALARIES

	1981	1982 ^a	1983	1984	1985
Indexes (1976 = 100)					
Minimum wages and salaries					
Annual averages					
Nominal	261.2	397.3	617.4	955.5	1 482.0
Real	90.2	86.4	66.5	62.2	61.2
Growth rates					
Minimum wages and salaries					
Annual averages					
Nominal	30.9	52.1	55.4	54.8	55.1
Real	2.4	-4.3	-23.0	-6.4	-1.6

Source: ECLAC, on the basis of figures supplied by the National Minimum Wage Commission and the Banco de Mexico.

^aIn calculating the annual average it was assumed that the recommendation to increase the minimum wage by 30% from 18 February was implemented by 40% of the enterprises and that gradually its implementation became more widespread until it became mandatory on 1 November.

b) *Wages*

After two years of substantial deterioration in real wages, as a part of its stabilization policy, the government decided to protect the purchasing power of workers and even to grant increases for improved productivity.

By readjusting the minimum wage, as decreed in January (30%) and June (18%), an attempt was made to restore to wage-earners the losses sustained because of price rises. However, the resurgence of inflation during the second half of the year further reduced the purchasing power of minimum wages, whose annual average fell by 1.6%.¹⁵ This decline, coming on top of the almost continual drop experienced since 1977 brought the accumulated loss in the purchasing power of the minimum wage in the past nine years close to 40% (see table 16).

Although it is not easy to quantify the deterioration in the real remunerations of the medium-income strata in the last few years, it may have been even greater than that suffered by the minimum wage and in addition may have contributed to the marked decline experienced during this period by the share of wage-earners in the gross domestic product. This share, which had reached 38% before the crisis, was only 27% in 1985.

5. Monetary and fiscal policies

a) *Monetary policy*

The financial sector experienced marked tension. The real exchange rate fluctuated sharply in an atmosphere of widespread uncertainty and flights of capital, and an attempt was made to check the latter by raising interest rates disproportionately and, towards the end of the year, by contracting loans.

It is worth recalling that in 1984, the rate of devaluation of the exchange rate (30%) was notably slower than the price increase (60%). This meant that the peso was considerably less undervalued than it had been at the beginning of 1983 although at the same time it also helped temporarily to alleviate the upward pressures on prices and interest rates. Back in December 1984, the devaluation had increased from 13 to 17 centavos a day and in March 1985 it rose from 17 to 21 centavos. However, in both cases, the annual devaluation rate was still lower than the inflation rate

^a The national consumer price index is used to deflate the minimum wage. The minimum wage is not a wholly representative indicator as it pertains to only a minority share of the labour force and is not always fully paid, especially during crisis periods.

(35% and 38% compared with approximately 60%). Thus, although these movements created uncertainty, they failed to stop the trend towards over-valuation of the currency.

In mid-1985, speculation was rife and this forced the monetary authorities to make significant changes in the exchange policy. These changes resulted in the abandonment of the scheme for the planned devaluation of the two types of exchange —the controlled and the free—, and the currency was allowed to fluctuate according to supply and demand, without any intervention by the Central Bank.¹⁶ Furthermore, the nationalized bank set up its own exchange houses, managing in this way to regulate the market and to close the gap between the buying and the selling rates which had brought tremendously high profits to the private exchange houses.

In November, there was renewed exchange instability; however, it was corrected by measures taken by the Bank of Mexico to prohibit liability transactions in pesos with banks and foreign exchange houses, which in practice meant reducing the peso market abroad. Thus, in December, calm was restored to the exchange market, which even experienced a recovery because some capital was repatriated from abroad to assist firms with cash problems caused by the stringent domestic credit policy. In short, by the end of the year, the free exchange rate had risen by 113% and the controlled rate by 93%.¹⁷ As a matter of fact, during the second half of the year both rates again reflected a considerable degree of under-valuation of the peso, and by the end of 1985, the gap between the two exchange rates had been reduced (see table 17).

These movements of the rate of exchange influenced the evolution of interest rates and the inflation. In order to counteract the climate of uncertainty and to compete with the external financial markets, a policy was pursued of offering high real interest rates on domestic savings. In the case of banking instruments, these rates averaged 13% over the year (see table 18).¹⁸ Furthermore, there were pressures from the public sector, whose financing was for the first time limited by the Bank of Mexico under its New Organic Law. Not only did the public sector ask the national bank for more credit, it competed with the Bank through the increasing issue of bonds with real returns up to six points higher than securities offered by the banking system. The most important government securities were the Treasury Certificates (CETES) whose circulation trebled in value during the year.¹⁹

In spite of the advantageous conditions offered to the savers, bank deposits fell substantially (-12% in real terms), which resulted in a drop in financial intermediation. The spectacular growth (around 30%) of non-banking assets in the hands of the public failed to compensate for the decline in deposits. In all, resources collected from the public contracted by 10% in real terms.

The evolution of the principal monetary aggregates was uneven. Because of the drop in net international assets and the establishment of a restrictive monetary policy, the monetary base shrank by more than 25% in real terms. When the restrictive monetary policy was tightened up at the end of the year, the money supply (M^1) evolved less dynamically than the gross domestic product at current prices, with the result that the monetary multiplier increased slightly. This slackening of the growth of the money supply was due primarily to the real decline in deposits on current account, as depositors transferred their resources to Treasury Certificates or other documents exchangeable for liquid assets in order to increase their earnings. In actual fact, money was issued on a rather restrictive basis and in declining amounts throughout the year (see table 19).

The interest rate policy favoured those instruments which matured more slowly. Thus, quasi-money and short-term deposits declined by about 25% in real terms, whereas deposits maturing in 90 days or longer showed some real growth but not enough to compensate for the reduction in the other variables.

The credit policy was subject to new modalities in so far as the instruments regulating it were concerned in that legal reserve transactions were replaced by open market transactions. The cash

¹⁶ As a result, it was not until July that a devaluation of about 50% occurred. This devaluation made it necessary to devalue the controlled exchange rate and then to accelerate its daily fluctuation to prevent the gap between the controlled and the free exchange rates from widening further.

¹⁷ In view of the annual averages, this means that the free exchange rate must have increased by 68% and the controlled rate by 53%, the latter being slightly lower than the average rate of inflation (58%).

¹⁸ The real interest rates given in table 18 were calculated on the basis of the actual inflation while the nominal rates were based on the projected inflation. The unexpected resurgence of inflation in the final months of the year explains the drop in real interest rates during the last quarter, which did not therefore result from a policy change.

¹⁹ The real rates offered by CETES were higher than 18% (on an annual basis) during the second quarter, while bank promissory notes that could be cashed on reaching maturity (also after three months) offered 13%.

Table 17

MEXICO: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Official exchange rate (pesos per dollar)		Indexes of the effective real exchange rate"			
	Free	Controlled	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		133.2	
1983	150.30	120.09	173.2	136.2	176.9	139.2
1984	185.19	167.83	124.7	112.9	127.3	115.3
1985	310.17	256.87	132.7	110.9	135.1	112.9
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	102.02	214.3	147.0	218.4	149.8
II	148.63	114.20	175.3	134.7	179.1	137.6
III	148.41	126.12	155.3	132.0	159.0	135.1
IV	155.44	138.04	147.6	131.1	150.9	134.0
1984						
I	167.33	149.96	134.8	120.8	137.6	123.3
II	179.16	161.87	125.6	113.5	128.2	115.8
III	191.10	173.73	122.0	110.9	124.5	113.2
IV	203.17	185.74	116.5	106.5	118.9	108.7
1985						
I	217.86	200.57	109.6	100.9	112.0	103.1
II	235.97	218.57	107.2	99.3	109.4	101.3
III	336.20	274.75	142.2	116.2	144.6	118.2
IV	450.63	333.60	171.6	127.1	174.5	129.2

Source: IICLAC, on the basis of data provided by the Banco de Mexico and information contained in *International Financial Statistics*, published by the International Monetary Fund.

Note: A: Calculated on the basis of the free exchange rate.

B: Calculated on the basis of the controlled exchange rate.

"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, to or from these countries. Between 1975 and 1979 these weightings correspond to the average for these years and from 1980, to the average of the same years. Preference has been given to wholesale prices in the calculations. For the methodology and sources used, see the technical appendix in the *Annual Survey of Latin America*, 1981. As from August 1982, a dual exchange rate was adopted known first as the "preferential" and later as the "controlled" rate.

reserve required by law fell from 49% to 10%, in return for which credit institutions were obliged to invest 35% of the surplus resources deposited by the public on government securities negotiable by the institutions among themselves and with the Bank of Mexico, such securities to remain in the custody of the Bank. Banks were also required to assign 3% of their resources to the purchase of bonds issued by development banks.

As a result of all this, internal financing evolved dynamically, expanding by 8% in real terms. Since the public sector virtually had to do without external resources to finance its deficit, it had to rely increasingly on loans from commercial banks. Loans to the government showed the most dynamism

increasing by almost 20% in real terms, in contrast with loans to public enterprises, which fell by 4%. In all, the volume of resources obtained by the public sector increased by 13% in real terms whereas that obtained by individuals declined by 4%. However, up to November, the private sector enjoyed relatively easy access to credit, and it was not until December when contractionist measures were applied that it experienced difficulties, although when they came, those difficulties were severe.

On the whole credit was also easily obtained by enterprises (public and private) and by individuals until December, when loans contracted sharply in real terms. During the year, mining, services and low-income housing were favoured while less importance was attached to industry (especially the construction industry) and commerce (see table 20). In almost all cases the interest rates on loans remained particularly high (25% in real terms during certain periods and over 100% in nominal terms) thus constituting an inflationary factor of major importance when the financial costs of enterprises increased.

Possibly because of the excessive demand for bank credit by enterprises and individuals and especially because of the widening of the gap between the interest rates on deposits and those on loans, a certain amount of importance was acquired by a deposit and loan system operating parallel to the official bank system, at intermediate rates of interest.

National credit companies continued to merge, the number of mergers dropping from 29 to 20. Banks recorded high profit margins. At the same time transactions by stock exchanges and private exchange houses continued to expand not only because more Treasury Certificates were being bought by the public but also because of the vigorous recovery of the stock market whose price index virtually trebled during the year.

Table 18
MEXICO: RATES OF BANK INTEREST

	Average cost of procuring deposits"	3 month promisory notes issued by banks and convertible to liquid assets at maturity		3 month treasury certificates	
		Nominal	Real ¹	Nominal	Real ¹
1982	40.2			45.7	-27.4
I	33.2			35.1	-20.6
II	35.7			44.4	-29.0
III	45.8			52.9	-22.3
IV	45.9			50.6	-37.5
1983	56.7			59.2	0.8
I	53.6			61.6	-3.2
II	58.0			62.9	9.5
III	58.2			58.4	7.8
IV	56.8	57.3	-8.9	54.0	-11.1
1984	50.9	49.9	10	49.3	0.3
I	54.1	51.4	-	49.7	-1.2
II	50.5	50.4	10.0	49.1	8.2
III	50.7	50.4	7.8	50.3	7.8
IV	48.4	47.5	-14.0	48.2	-13.6
1985	56.1	59.5	4.9	62.4	8.5
I	48.0	48.9	9.5	51.3	11.7
II	53.5	56.0	13.0	58.1	18.3
III	59.0	64.2	7.8	70.5	13.9
IV	63.8	68.8	-10.7	69.8	-10.0

Source: IICLAC, on the basis of figures supplied by the Banco de México.

" No real rates are given for the average cost of procuring deposits because of the impossibility of deflating that cost on an adequate time base and because it represents average of interest rates for capital deposited for periods of varying length. Net rates expressed in annual terms. ¹ Yearly rates. In order to deflate these, quarterly consumer price indexes were used.

Table 19
MEXICO: MONETARY INDICATORS

	End-year balance (billions of pesos)				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
1. Monetary base	1 983	3 136	4 834	5 679	90.3	58.1	54.1	17.5
2. Money (M ₁)	993	1 402	2 287	3 540	62.1	41.4	63.0	54.8
Currency outside banks	504	678	1 119	1 771	78.7	34.5	65.0	58.3
Current account deposits	489	725	1 168	1 769	47.9	48.6	61.1	51.5
3. Quasi-money	789	1 241	3 893	4 768	121.0	57.3	213.7	22.5
4. Money plus quasi-money	1 801	2 670	6 214	8 308	78.0	48.3	132.7	33.7
5. Time deposits	1 538	2 670	2 691	4 547	61.4	73.6	0.8	69.0
6. Bank savings instruments (4 + 5)	3 339	5 340	8 904	12 973	69.9	59.9	66.7	45.7
7. Other financial assets ¹	304	605	1 082	1 896	289.7	99.0	78.8	75.2
8. Total savings instruments (6 + 7)	3 643	5 945	9 987	14 870	78.3	63.2	68.0	48.9
9. Domestic credit	6 703	10 229	15 301	27 155		52.6	50.0	77.5
Claims on public sector	4 973	7 605	10 594	19 641		52.9	39.3	85.4
Government	3 727	5 632	7 660	15 001		51.1	36.0	95.8
Public institutions	1 276	1 973	2 934	4 640		54.6	48.7	58.1
Claims on private sectors	1 505	2 251	4 165	6 558		49.6	85.0	57.5
Claims on financial sectors	196	286	418	736		45.4	46.7	76.1
Other claims	30	87	124	220		186.7	45.3	76.0
Coefficients								
Money multipliers								
M ₁ /Monetary base	0.50	0.45	0.47	0.62				
M ₂ /Monetary base	0.91	0.85	1.29	1.46				
Velocity of circulation								
GDP/M ₁	1.330	16.60	18.00	18.20				

Source: IICLAC, on the basis of figures supplied by the Banco de Mexico.

¹Preliminary figures. Three months or more. ²ETL'S, bank certificates of acceptance, commercial documents, petrobonds, etc., held by non-banking sectors. Includes the Federal Government, the state and municipal governments and the Federal District Department.

Table 20
MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES
AND INDIVIDUALS¹

	End-year balances (billions of pesos)				Growth rates		
	1983	1984	1985 ²	1982	1983	1984	1985 ²
Total	4 647	7 778	12 067	71.4	62.8	67.4	55.1
Primary activities	591	1 148	2 016	59.1	53.5	94.2	75.6
Agriculture	427	801	1 267	42.0	37.3	87.6	58.2
Mining and others	164	347	749	221.7	121.6	115.9	115.9
Industry	2 216	3 397	5 351	123.5	51.6	53.3	57.5
Energy sector	880	1 225	1 940	234.6	46.9	39.2	58.4
Processing industries	1 151	1 873	3 026	94.6	53.2	62.7	61.6
Construction	185	299	385	25.8	65.2	61.6	28.8
Low-cost housing	168	374	657	-2.0	250.0	122.6	75.7
Services and other activities	1 201	1 838	2 668	59.0	85.6	53.0	45.2
Commerce	471	1 021	1 375	-0.3	50.5	116.8	34.7

Source: IICLAC, on the basis of figures provided by the Banco de Mexico.

¹Includes public and private enterprises, excludes financing by the Banco de Mexico and development funds.

²Preliminary figures.

Table 21

MEXICO: CONSOLIDATED PUBLIC SECTOR INCOME AND EXPENDITURE

	Billions of pesos				Growth rates				
	1982	1983	1984	1985 ^a	1981	1982	1983	1984	1985 ^a
Total income	2 816	5 895	9 818	14 690	32.5	74.3	109.3	66.5	49.6
Federal government	1 532	3 181	4 975	7 896	36.7	63.9	107.6	56.4	58.7
Bodies and enterprises under government control	1 971	4 434	7 348	10 930	34.4	92.4	125.0	65.7	48.7
PEMEX	968	2 545	3 844	5 464	25.8	115.6	162.9	51.0	42.1
Others	1 003	1 889	3 504	5 466	42.0	74.4	88.3	85.5	56.0
Unbudgeted sector	171	296	529	757	33.7	39.0	73.1	78.7	43.1
Less: compensated operations	859	2 016	3 034	4 894	46.1	84.3	134.7	50.5	61.3
Total expenditure	4 343	7 321	11 925	18 499	59.1	80.1	68.6	62.9	55.1
Federal government	2 703	4 599	7 111	11 478	63.2	102.5	70.1	54.6	61.4
Bodies and enterprises under government control	2 179	4 314	7 133	10 742	53.0	61.3	98.0	65.3	50.6
PEMEX	1 103	2 217	3 340	5 045	59.9	63.9	101.0	50.7	51.0
Others	1 076	2 097	3 793	5 697	46.4	58.7	94.9	80.9	50.2
unbudgeted sector	320	424	714	1 173	43.0	65.8	32.5	68.4	64.3
Less: compensated operations	859	2 016	3 034	4 894	46.1	84.3	134.7	50.5	61.3
Economic deficit	1 527	1 426	2 106	3 809	168.4	91.6	42.6	47.7	80.9
Federal government	1 171	1 418	2 136	3 581	198.5	192.8	21.1	50.6	67.6
Bodies and enterprises under government control	208	-121	-215	-188	170.2	-26.4		77.7	-12.6
PEMEX	135	-328	-504	-419	250.0	-39.7		53.7	-16.9
Others	73	207	289	231	77.6	-20.1	183.6	39.6	-20.1
Unbudgeted sector	149	128	185	416	66.7	112.9	-14.1	44.6	124.9
Financial intermediation ^c	129	95	399	726	60.5	87.0	-26.4	320.0	82.0
Financial deficit	1 655	1 521	2 505	4 535	154.7	91.1	-8.1		81.0
Financing									
Domestic	303	1 000	2 128	4 413					
Banco de México	700	911	1 029	1 854					
Others	603	100	1 099	2 559					
External	352	510	377	122					
Ratios (percentages)									
Total income/GDP	29.9	34.4	34.2	32.2					
Total expenditure/GDP	46.1	42.7	41.5	40.6					
Total expenditure without interest payments/GDP	37.5	30.0	24.9	23.4					
Financial deficit/GDP	17.6	8.9	8.7	9.9					
Domestic financing/deficit	78.7	66.4	85.0	105.4					
External financing/deficit	21.3	33.6	15.0	-5.4					

Source: FXLAC, on the basis of figures provided by the Ministry of Finance and Public Credit and by the Banco de México.

^aPreliminary figures. ^bIncludes the telephone company, the collective transport system, the Federal District Department and, up to the end of 1983, Altos Hornos de México, S.A. ^cDevelopment trust funds and funds operated by development banks to benefit the private social sector.

b) *Fiscal policy*

The performance of public finances was dependent on the extended service agreement signed with the IMF for the three-year period 1983-1985. Again it was felt that the fiscal policy should play a central role in the adjustment process and therefore, it was planned to bring the public sector's financial deficit, which had been equivalent to 8.7 % of the gross domestic product the previous year, down to 5.1% of the product.²⁰

In preparing the budget, consideration was given to the rigidity imposed by the high cost of debt servicing (37% of budgetary expenditure). Hence the goal of reducing the deficit was attained in two ways —an increase in income not effected through higher taxes but through an upward revision of the prices and rates charged for public goods and services; and rationalization of both current and investment expenditure.

If interest payments are excluded, the share of public expenditure in the gross domestic product fell to 23% after having represented 38% in 1982. This expenditure alone represented a financial burden two and a half times as large as the investment programme; however, an effort was made to see that health, education, supply and basic infrastructure were left untouched by the new budgetary cuts.

However, the original scheme was criticized from the beginning of the year, mainly because of the imbalances caused by the decline in petroleum exports, which resulted in a significant drop in the income of both PEMEX and the government. Consequently, during the first half of the year, the original austerity budget was cut again, and even more drastic measures were taken in August. Furthermore, the estimated 35 % inflation rate on which the budget was based turned out to be far too low, as became obvious early in the year. As a result, there were distortions in the volume of income and expenditure and in internal and domestic interest rates. At the same time, the majority of the prices and rates of goods and services provided by the public sector lagged behind the general trend and were not brought up to date until the end of the year. Furthermore, the earthquakes called for extraordinary emergency expenditure which also affected the fiscal deficit. The net result was that the total earnings of the public sector declined by more than 5 % in real terms, whereas expenditure could be reduced by only a little less than 2 %. This meant that in the end the public sector deficit increased by almost 15% in real terms, which was equivalent to 10% of the gross domestic product (see table 21).

There were several reasons for this sudden decline in income. The fiscal policy did not make provision for an increase in the tax burden but was based rather on combating tax evasion. The greater tax receipts expected from an increase in public sector prices and rates did not fully materialize and this, combined with a lower volume of sales, led to a decline in the real incomes of public enterprises (-12%). This loss was attenuated thanks to the fact that those enterprises received 3% more in transfers from the federal government. As for the real increase in PEMEX's internal sales (3%), it failed to offset the decline in its exports (-12%), and therefore the total earnings of this enterprise fell by almost 8%.

The taxes paid by PEMEX played a greater role in the revenue of the federal government because of factors related to the exchange rate and not because of an increase in operations. As regards earnings from the other taxes, they remained stable in real terms. Significant dynamism was noted in the tax receipts from foreign trade (25%), as customs tariffs replaced import licenses. Direct taxes stagnated and indirect taxes contracted (-3%). On the other hand, non-tax earnings recorded a disproportionate increase (11%) as a result of the upward revision of fees and profits. In all, tax earnings were maintained at a level of about 17% of GDP (see table 22).

The real decline of 2 % in public sector expenditure meant that public spending's share in the gross domestic product was smaller; it occurred in spite of an increase in interest payments on the public debt, whose share in total spending was 42 % instead of 37% as forecast at the beginning of the year. Thus other current and capital expenditure must have contracted by more than total expenditure at rates estimated at 3% and 7% respectively.

²⁰ The reduction in the public sector deficit had encountered strong resistance in previous years, and by and large the goals set had been reduced, especially in 1984 (8.7% of the GDP, compared with the 5.59% originally established). When the Immediate Economic Reorganization Programme began in 1985, the goal envisaged for 1985 was 3.59%. However, this figure was subsequently increased to 5.19%.

The total expenditure of the federal government showed a certain amount of dynamism (2 %), despite the fact that cutbacks increased to some 850 billion pesos. In current expenditure (whose level held firm in real terms), the most outstanding development was the decline of 5% in civil service remunerations, attributable to the restrictive wage policy, the freezing of posts and the layoff of some 20 000 public servants.²¹ In marked contrast, interest payments showed real growth of 4%, constituting one of the main causes of the sizeable public deficit.²² Current transfers rose by 2%, and purchases fell by 9%.

Table 22
MEXICO: FEDERAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates				
	1982	1983	1984	1985"	1981	1982	1983	1984	1985°
1. Current income	1 532	3 181	4 975	7 896	36.7	63.9	107.6	56.4	58.7
Income from PEMEX	458	1 170	1 708	2 741	42.7	95.7	155.5	46.0	60.5
Income excluding PEMEX	1 074	2 011	3 267	5 155	34.8	53.2	87.2	62.5	57.8
Tax revenue	967	1 828	3 036	4 750	33.4	49.5	890	66.1	56.5
Direct	464	727	1 204	1 890	37.2	36.9	56.7	65.6	57.0
Indirect	418	1 015	1695	2 580	24.9	73.4	142.8	67.0	52.2
On foreign trade	85	86	137	280	45.7	26.9	12	64.0	96.5
Non-tax revenue	107	183	231	405	54.3	98.1	71.0	26.2	75.3
2. Current expenditure	2 182	3 916	6 226	9 776	54.4	132.9	79.5	59.0	57.0
Wages and salaries	399	580	999	1495	41.5	77.3	45.4	72.2	49.6
Interest payments	891	1 595	2 573	4 231	126.0	412.1	79.0	61.3	64.4
Transfers	504	997	1 319	2 127	28.4	74.4	97.8	32.2	61.3
Other current expenditure	388	744	1 335	1923	70.5	55.8	91.8	79.4	44.0
3. Savings on current account (1-2)	-650	-735	-1 251	-1 880					
4. Capital expenditure	476	680	951	1 759	88.6	24.9	43.2	39.9	85.0
Real investment	145	139	263	429	32.3	61.1	-4.1	89.2	63.1
Capital transfers	253	441	540	1 077	132.4	3.7	74.3	22.4	99.4
Other capital expenditure	77	100	148	253	62.1	63.8	44.2	48.0	70.9
5. Total expenditure (2 + 4)	2 658	4 597	7 177	11 535	62.9	101.7	73.0	47.2	70.4
6. Budget deficit (1-5)	1 126	1415	2 202	3 639	206.4	194.0	25.9	55.6	65.3
7. Accounts not under budgetary control	-44	-3	-66	-58					
8. Total deficit (6 + 7)	1 170	1418	2 136	3 581	146.6	256.7	21.2	50.6	67.6
	Percentages								
Ratios									
Savings on current account/ capital expenditure	-136.6	-108.1	-131.5	-106.9					
Fiscal deficit/total expenditure	44.1	30.8	29.8	31.0					
Tax revenue (with PEMEX)/GDP	15.1	17.5	17.3	17.3					
Tax revenue (excluding PEMEX)/GDP	10.3	10.7	11.4	11.3					
Total expenditure/GDP	28.2	26.9	25.0	25.3					
Fiscal deficit/GDP	12.4	8.3	7.4	7.9					

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit

"Preliminary figures.

²¹ This occurred when 15 divisions and 50 departments at ministerial level were eliminated.

²² The increase of 49% (649% at current prices) appears to be abnormally low and represents the finding of a review of the interest rates paid by the federal government in 1984. Prior to that review, the estimated growth figure was 969% (249% in real terms), which was the figure used on page 23 of the *Informe sobre la situación económica y finanzas públicas: Acciones y resultados del cuarto trimestre de 19H5*, published jointly with the Finance and Public Credit Department and the Programming and Budget Department (page 23). This rate would appear to correspond better to the devaluation rate of the peso vis-a-vis the dollar and to the disproportionate growth of domestic interest rates.

The capital expenditure of the federal government, the most dynamic item in the federal budget, expanded by 17%. The increase of 26% in government transfers to the broader public sector contributed to this. However, this increase was not enough to keep total public investment from falling substantially. The net result was that the federal government's real capital assets grew by over 3%, mainly because maintenance works were continued.

In contrast to government expenditure, expenditure by agencies and firms declined significantly (-5%) and would have dropped further had it not been for the growing number of transfers they received from the federal government. In order to achieve greater efficiency and reduce the size of the State machinery, close to 170 enterprises considered to be non-strategic were put up for sale. However, only a few tourist agencies were sold, while some 55 firms were liquidated and others were transferred to State governments. Altogether the current expenditure of the quasi-public sector was reduced by almost 6%. Within this expenditure, wages and salaries increased by 3% due to the exceptional dynamism that PEMEX still showed in this area (16%), which contrasted with the austerity of the other enterprises. Interest payments, on the other hand, showed a marked decline (-20%), partly because the federal government assumed some of the liabilities of enterprises in the quasi-public sector.

Capital expenditure by public enterprises was the item most affected, dropping by 11 % in real terms, despite the transfers received. With the sharp downturn in the petroleum market, PEMEX suspended its expansion policy and continued its investments (which were reduced by 20%) to maintenance works. The capital formation of the other enterprises was 8% lower than that recorded in 1984.

The deficit accrued by the public sector in its operations rose to almost 3.9 trillion pesos. To this must be added the 0.7 trillion pesos spent by government trust funds and by development banks for financing the private, social sector (financial intermediation). Altogether, the financial deficit of the public sector exceeded 4.5 trillion pesos.

This negative balance was financed with 4.4 trillion pesos from domestic sources, the Central Bank contributing almost 1.9 trillion pesos, 843 billion pesos of which corresponded to direct financing (the ceiling set was not exceeded), and the Treasury account was used for the rest. Some 400 billion pesos was derived from the sale of government securities and approximately 2.2 trillion pesos was secured through loans from commercial and development banks. External financing of the deficit amounted to 122 billion pesos (US\$390 million).

As the public sector turned increasingly to internal financing, which was granted at exceptionally high real interest rates, the domestic debt of the public sector rose to 10.5 trillion pesos, an amount equivalent to 23% of the gross domestic product. This, together with the external debt, was the cause of both the rigidities in public finances and the difficulty in generating greater income and consequently of the cutbacks in public expenditure. It also explains the impossibility of proceeding with the investment projects for meeting the country's social and economic development needs.

NICARAGUA

1. Recent economic trends: introduction and summary

In 1985 the recessive trend of Nicaragua's economy continued; the gross domestic product fell by close on 3 %, which placed the per capita gross domestic product on a level similar to that of a quarter of a century before (see table 1).

The factors which deepened the recession were largely the same as in recent years: elements of an economic and extra-economic nature which mutually reinforced each other's harmful effects. Indeed, in the analysis of Nicaragua's economic crisis, circumstances outside the economic field assume an importance unusual in the analysis of the recession in other countries.

Since the triumph of the revolution of 1979, the government has had to tackle not only the repairing of the damage caused by the civil conflict but also the urgent reconstruction of the State itself on lines different from those of the previous régime. At the same time an expansionist policy has been applied, giving priority to social expenditure and investments to restore and amplify the productive system. Besides this, the evolution of the international economy was markedly unfavourable to Nicaragua. The drastic fall in the terms of trade created enormous gaps, increasingly difficult to cover, in the external accounts. In addition, the armed harassment had a pronounced effect on the allocation of public expenditure, and the supply of labour and imposed high costs, direct and indirect, on business activity.¹ The confrontation with the United States has progressively cut off access to multilateral sources of credit. In May 1985 the embargo decreed by the United States government marked the culmination of the rupture of economic relations between the two countries, so that Nicaragua was excluded from the market which traditionally received a large part of its exports and supplied goods and technology difficult to replace.

The financial imbalances in the economy, both domestic and external, became more acute in 1985, and this was accompanied by a persistent scarcity of supply. The deficit on current account went up by 12 %, amounting to 160% of exports of goods and services. Despite measures to control public expenditure and efforts to improve tax collection, the fiscal deficit continued to represent over 40% of total government expenditure and over 22 % of the gross domestic product. Inflationary pressures, which had shown a too long increase during the preceding two years, became even more severe as a result of a combination of scarcity of goods available and a pronounced expansion in the money supply and an upturn in its rate of circulation. As a result, the increase in consumer prices reached 334% in December (see figure 1).

The decline in manufacturing (-5%) and the virtual standstill in the agricultural sector brought about a fall in supply. The causes of this performance included a drop in labour productivity, which persisted in spite of measures taken during the year² to stimulate it; an acute shortage of foreign exchange, which made it difficult to obtain production inputs and in many cases prevented the purchase of capital goods needed to maintain and replace installed capacity; adverse conditions on the international market, which discouraged the cultivation of some exportable crops; the military mobilization and resettling of the population, which had negative repercussions on the labour market; the continued reluctance of a considerable number of business sectors to invest in the maintenance or expansion of their activities and the direct effects of the armed conflict, which, in addition to causing loss of human life, was responsible for an amount of damage to various production sectors estimated as equal to that of 1984.

As regards exports, the problem of insufficient supplies was combined with a growing restriction on the access of Nicaraguan products to certain markets. The policy of diversification of

¹In this connection see the chapter on Nicaragua in the *Economic Survey of Latin America and the Caribbean, 1984*.

²This drop, observable since 1979, is due to the social transformations effected and, in part, to the insufficiency of wage earnings by comparison with the income that can be obtained in the informal sector of the economy.

destination in foreign trade was stimulated by the closing of the North American market, and the country had to make prodigious efforts to generate its own distribution mechanisms. These efforts were relatively successful, especially in the case of bananas. Nevertheless, as a result of the contraction in volume exported and the fall in unit value, external sales of goods fell by 24%. The value of imports, on the other hand, went up slightly. The shortage of foreign exchange and the characteristics of much of the credit received affected the choice of origin of the products imported, more of which came from the member countries of the Council for Mutual Economic Aid (CMEA) and the European Economic Community (EEC).

In contrast, Central America became less important as the destination of Nicaraguan sales and the origin of its purchases, first because the decline in manufacturing reduced the possibilities of exporting to the Central American Common Market countries and second because Nicaragua

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^a
A. Basic economic indicators							
Gross domestic product at market prices (index 1980 = 100)	95.6	100.0	105.4	104.5	109.1	107.6	104.8
Gross national income	96.2	100.0	103.2	99.2	106.1	108.7	105.9
Population (millions of inhabitants)	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Per capita gross domestic product (index 1980 = 100)	98.5	100.0	102.0	97.9	98.9	94.3	88.7
B. Short-run economic indicators							
Growth rates							
Gross domestic product	-26.5	4.6	5.4	-0.8	4.4	-1.4	-2.6
Per capita gross domestic product	-28.5	1.5	2.0	-4.0	1.0	-4.7	-5.9
Gross national income	-28.7	4.0	3.2	-4.0	7.0	2.4	-2.6
Unemployment rate	22.9	22.4	19.0	22.2	18.9	21.1	22.3
Consumer prices							
December-December	70.3	24.8	21.2	22.2	32.9	50.2	334.3
Variation between annual averages	48.2	35.3	21.9	24.8	31.1	15.4	219.5
Real wages and salaries ^c	-13.6	-15.0	1.4	-12.7	-12.7	0.1	-18.9
Money	28.0	15.0	28.0	22.1	64.7	53.1	189.1
Current income of government	16.7	139.2	21.4	34.6	40.9	54.2	136.4
Total expenditure of government	-9.3	111.4	12.7	32.1	80.8	13.9	133.8
Fiscal deficit/total expenditure of government ^d	36.5	30.3	36.0	34.8	49.1	41.4	40.8
Fiscal deficit/gross domestic product	13.3	9.2	12.4	13.6	30.0	24.8	22.2
Current value of exports of goods and services	-6.7	-26.4	11.8	-19.2	3.6	-8.9	-16.4
Current value of imports of goods and services	-22.3	77.9	14.1	-20.0	11.6	-4.2	-0.7
Terms of trade (goods and services)	-10.0	-3.6	-8.2	-4.4	-4.2	15.2	-0.5
C. External sector							
Millions of dollars							
Trade balance (goods and services)	162	-414	-484	-382	-462	-464	-527
Net payment of profits and interest	-72	-89	-93	-140	-61	-46	-44
Balance on current account	90	-491	-563	-514	-519	-508	-569
Balance on capital account	-93	289	617	416	586	518	592
Variation in net international reserves	9	-235	62	-97	48	10	23
External debt	1 136	1 571	2 163	2 578	3 263	3 901	4 495

^aPreliminary figures. * Percentages. * Received by members of the Nicaraguan Social Security and Welfare Institute.

^dDisbursed medium- and long-term debt. Includes the public debt and the private State-guaranteed debt.

encountered great difficulties in using the payment mechanisms provided for in the Central American Clearing House. If the country had not increasingly resorted to compensated trade and to trade conducted by "buhoneros",³ trade with other Central American countries would have been even more reduced.

External conditions in the financial sphere were also unfavourable to trade. Although the negative balance on current account was covered by the large inflows of capital shown on the books, this was mainly achieved by the non-payment of foreign debt commitments and the procurement of credits tied to the purchase of goods in the creditor countries.

In view of the economic stagnation, in February the government began to apply an adjustment and stabilization policy whose basic objectives were the systematic promotion of priority production (exports and basic consumer goods), the streamlining of businesses, the correction of financial imbalances and of the shortages experienced in the domestic market and the consolidation of the advances made in the equity field.

With a view to countering the expansion of public expenditure, the government proceeded to eliminate commodity subsidies and to reduce transport subsidies; government posts were frozen, and a selective criterion was established for the allocation of investments. Similarly, an attempt was made to increase government income through better administration of the tax reform laws enacted in December 1984.

These measures were accompanied by a rise in the exchange rate, but not enough of a rise to correct the pre-existing overvaluation of the córdoba. Active and passive interest rates were also raised, although they remained negative in real terms. The system of multiple exchange rates was maintained.

To encourage producers, price guarantees were increased appreciably —an increase which was applied to the percentage of export earnings payable in dollars. As for labour, it was granted a substantial wage increase in an attempt to compensate for the losses experienced in purchasing power. As an additional measure, commodity trade began to be restructured with a view to ensuring supply and discouraging speculation.

The application of this programme resulted in a drop in government spending in real terms. Thus, despite the recessive behaviour of the economy, the share of public spending in the gross domestic product declined, which led to a reduction in the fiscal deficit. The main obstacle to more significant progress in this connection was the growing share of defence requirements in the national budget, these items being fairly resistant to reduction owing to the priority given to them by the government.

On the other hand, inflation was higher than had been foreseen, owing to the direct effect of the measures indicated and the expectations raised by the way in which they were applied. Moreover, the expansion of military expenditure, the increased liquid assets available to the government and a persistent shortfall in supply intensified the rate of price increases, so that wages continued to lose their purchasing power. Concurrently, the impossibility of guaranteeing the supply of certain goods weakened the authorities' control over the market and resulted in the growth of speculative trade on an informal level.

The distortions in employment and production persisted. The transfer of wage-earners to informal trade, the growing mobilization for defence and the emigrations caused by the armed conflict resulted in the continuation of the paradoxical situation in which a high percentage of the labour force is underemployed, while the manpower needed to carry out productive work important for the economy is unavoidably making it necessary to recruit volunteers for the coffee harvest.

2. Trends in economic activity

a) *Total supply and demand*

In 1985 there was an intensification of the recessive trends observed the previous year, resulting in a fall of 2.6% in the gross domestic product, bringing it below the levels achieved in 1981,⁴ and in a decline of almost 3% in the volume of imports (see table 2).

³Informal traders who make relatively small transactions.

⁴The Planning and Budget Ministry of Nicaragua revised the figures on economic activity from 1980 on, reducing the GDP figures it had previously used.

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS

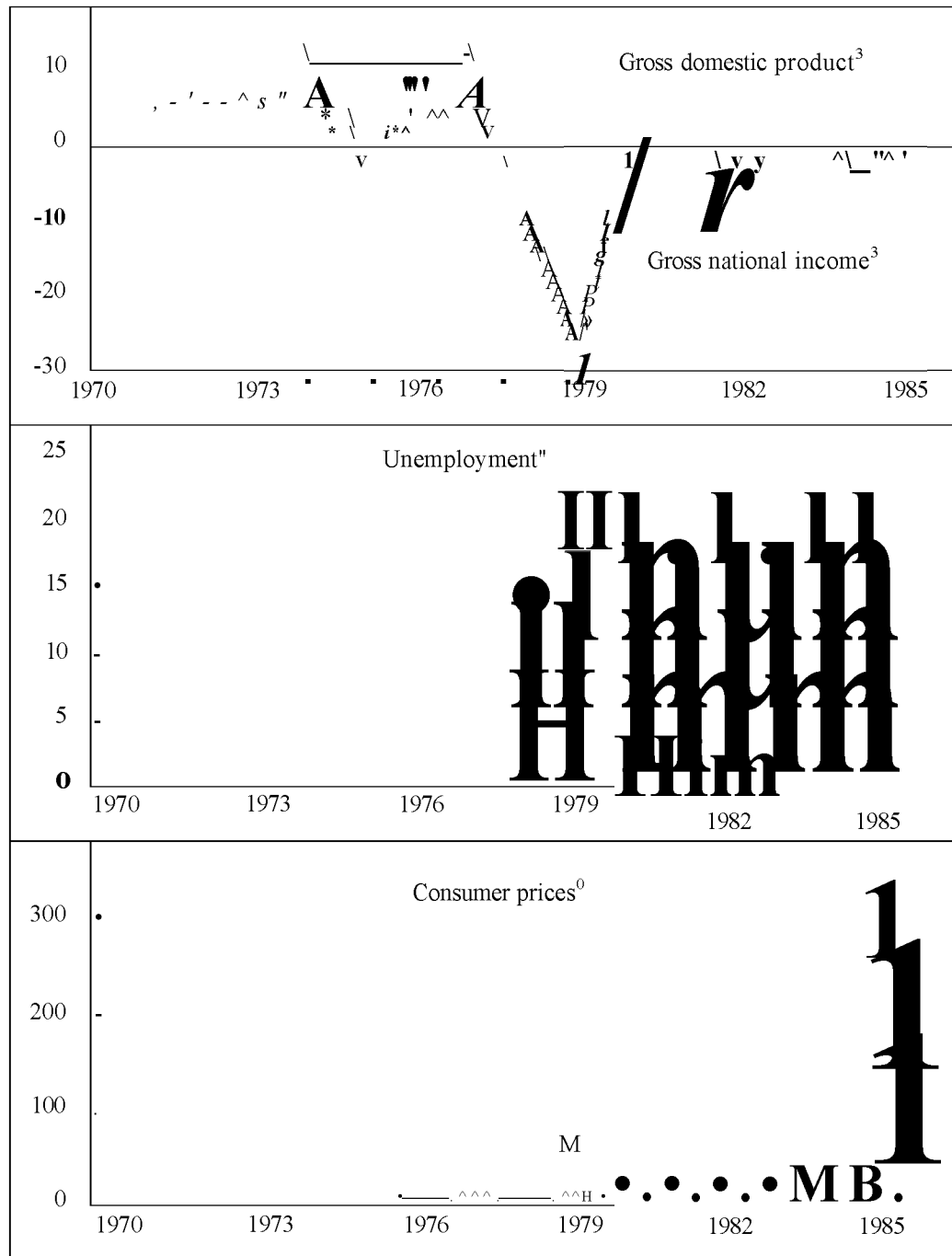
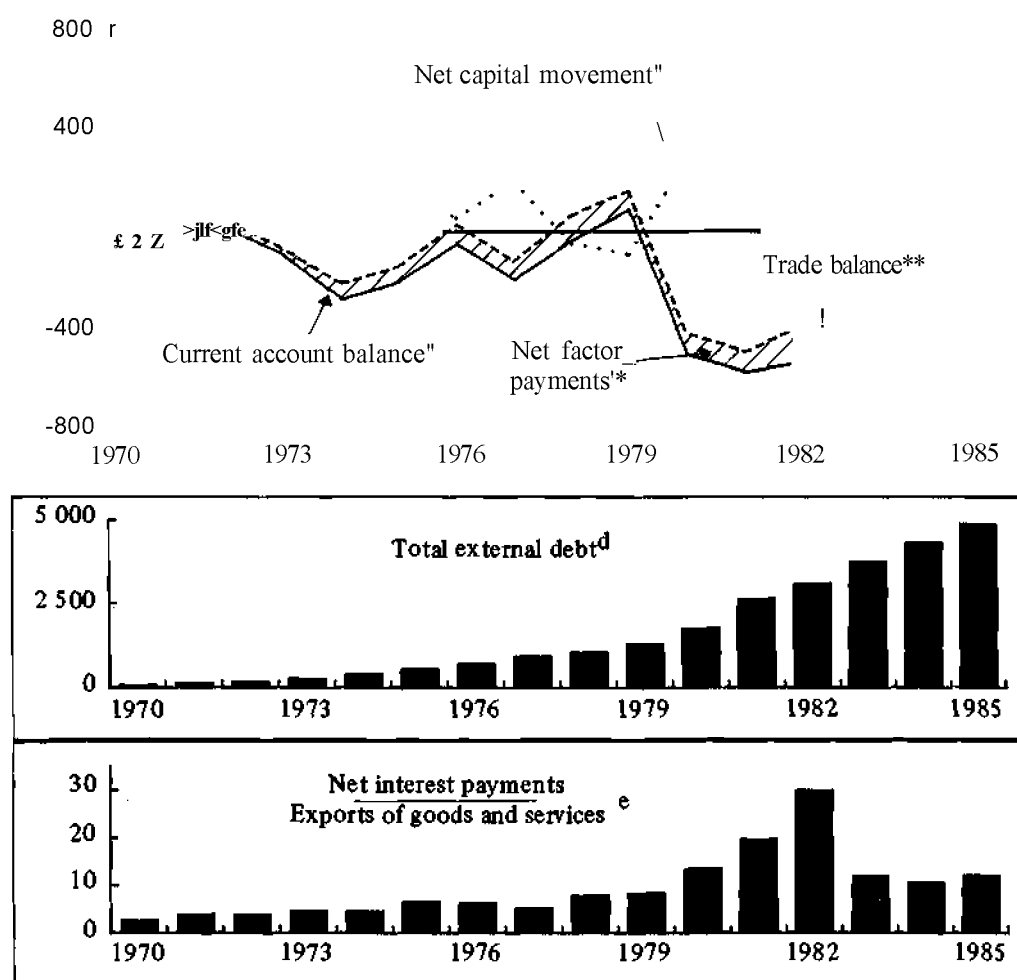


Figure 1 (conclusion)



Source: ECLAC, on the basis of official information.

^aAnnual growth rate. ^bAnnual average rate for the whole country. ^cPercentage variation from December to December. ^dMillions of dollars. ^ePercentages.

The economic and extra-economic factors observed in former years persisted in 1985 and in some cases became more marked. The direct losses caused by the war; the effects of military mobilization and resettlement of population; the scarcity of foreign currency and inadequate supply of inputs and, from May onwards, the embargo imposed by the United States government—all these in combination with internal factors linked with the country's economic structure, resulted in restrictions of supply.

General government consumption and investment in construction were the only components of domestic demand to display a favourable trend. Gross fixed investment went down by 15% owing to a substantial drop in respect of machinery and equipment (-25%). As in 1984, this was partly due to the decision to make a scrupulous selection of investment outlays in accordance with criteria of priority; thus the authorities continued to develop economic projects regarded as important and works destined mainly for defence (especially transport and communications). In contrast, investment in machinery and equipment fell drastically, which is reflected in a failure to replace available capital goods and to maintain them adequately.

General government consumption expanded by 8%, a rate which while much lower than in the five preceding years meant that the variable represented over 40% of the gross domestic product.

Thus public spending continued to be a major support and stimulant of demand, although its increase in 1985 was basically due to the greater demands of defence operations. On the other hand, private consumption continued to fall, since the State was responsible for much of the consumption of those recruited for military service, and many supply problems arose. This caused total consumption to rise by 3%, a rate slightly less than that of population growth (34%). Nevertheless, per capita commodity consumption was relatively satisfactory, whereas serious problems continued in the case of non-basic goods.

Exports of goods and services suffered a further and considerable contraction in volume. The problems that caused its fall the previous year persisted in 1985, and from May onwards, these problems were compounded by the economic blockade imposed by the United States. Attempts to palliate the shortage of goods available for export by offering incentives to producers (raising the exchange rate, establishing price guarantees, etc.) and promoting labour productivity did not achieve the desired results.

b) *Evolution of the main sectors*

The decline of the gross domestic product was reflected differently in the different sectors although very few of them managed to escape the recessive fall exerted by overall economic activity (see table 3). The 5% fall in manufacturing was a decisive factor in the global performance of the economy, both because this sector contributes slightly more than one quarter of the gross domestic product and because agriculture, which also generates around a quarter of the total product, remained stagnant.

On the other hand, construction showed considerable dynamism, growing by nearly 9%. More modest increases occurred in electricity services, ownership of dwellings and government services, while appreciable falls took place in financial and commercial activities, transport, storage, communications and mining.

Table 2
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	106.7	106.1	103.3	143.9	141.9	-6.7	7.4	-0.6	-2.6
Gross domestic product at market prices	1091	107.6	104.8	100.0	100.0	-0.8	4.4	-1.4	-2.6
Imports of goods and services	101.2	102.5	100.0	43.9	41.9	-19.6	15.5	13	-2.5
Total demand	106.7	106.1	103.3	143.9	141.9	-6.7	7.4	-0.6	-2.6
Domestic demand	106.0	108.7	108.6	120.0	124.4	-4.8	6.5	2.6	-0.1
Gross domestic investment	134.0	127.8	109.0	16.8	17.5	-19.4	8.7	-4.6	-14.7
Gross fixed investment	130.7	125.5	106.9	14.6	14.9	-21.7	4.3	-4.0	-14.8
Construction	96.0	104.3	113.3	5.5	5.9	-25.5	16.7	8.7	8.6
Machinery and equipment	151.9	138.3	103.1	9.1	8.9	-20.4	0.3	-8.9	-25.5
Changes in stocks				2.2	2.6				
Total consumption	101.4	105.6	108.6	103.2	107.0	-1.1	6.1	4.2	2.8
General government	181.7	213.2	230.5	19.7	43.4	16.9	37.1	17.3	8.1
Private	82.4	80.3	79.9	83.5	63.6	-6.3	-5.1	-2.6	-0.5
Exports of goods and services	110.7	92.7	76.5	23.9	17.4	-15.0	-12.0	-16.3	-17.5

Source: UGAC, on the basis of figures from the Nicaraguan Ministry of Planning.

Note: The figures for exports and imports of goods and services were obtained from the balance of payments in current IMF dollars converted to constant 1980 values by using unit value indexes calculated by UCLAC for the purpose.

"Preliminary figures.

Table 3

NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY^a

	Indexes 1980 = 100 ^b			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985*	1982	1983	1984	1985*
Gross domestic product	109.1	107.6	104.8	100.0	100.0	-0.8	4.4	-1.4	-2.6
Goods	112.1	109.2	106.7	52.5	53.5	-0.4	5.8	-2.6	-2.2
Agriculture ^c	118.3	110.8	111.1	23.2	24.6	2.8	5.1	-6.4	0.2
Mining	93.4	72.0	54.0	0.7	0.4	-14.8	1.9	-22.9	-25.1
Manufacturing	108.9	109.3	103.6	25.6	25.4	0.1	5.6	0.4	-5.2
Construction	96.0	104.3	113.3	2.9	3.2	-25.5	16.7	8.7	8.6
Basic services	97.8	100.0	91.6	7.9	6.9	-2.0	-0.4	2.2	-8.4
Electricity, gas and water	82.5	90.7	93.8	2.1	1.9	-2.6	-4.8	9.9	3.4
Transport, storage and communications	103.5	103.4	90.7	5.7	5.0	-1.8	0.9	-	-12.3
Other services	107.4	107.1	104.7	39.6	39.6	-1.2	3.5	-0.4	-2.2
Commerce, restaurants and hotels	103.5	98.6	94.0	18.9	17.0	-1.8	0.9	-4.8	-4.6
Financial institutions, insurance, real estate and business services	98.6	103.4	103.3	7.1	7.0	-5.9	-2.5	4.9	-0.1
Ownership of dwellings	99.4	110.9	115.3	3.7	4.1	4.7	-9.3	11.5	4.0
Community, social and personal services	117.5	120.8	120.5	13.6	15.6	2.2	9.9	2.8	-0.3
Government services	126.1	133.9	135.7	8.7	11.3	4.4	14.9	6.2	1.3

Source: IICLAC, on the basis of figures from the Nicaraguan Ministry of Planning.

^aAt 1980 market prices.^bPreliminary figures.^cIncludes the livestock sector, forestry and fishing.

i) *The agricultural sector.* Agriculture grew by barely 0.3% (see table 4). Any positive results which might have been produced by the production incentives adopted (price adjustments, credit at low interest rates, partial payment in dollars for exports) did not succeed in compensating for negative factors such as the prolongation of the dry season; low international prices for a number of exports and for cotton and sugar in particular; the constraints placed on the purchase of inputs, spare parts and machinery by the shortage of foreign exchange and the effects of the armed conflict and the economic embargo imposed by the United States, which, in addition to closing the market for some items, prevented the timely supply of inputs and spare parts.

Thus, the area cultivated contracted by 8.5 %, dropping from 908 000 *manzanas* in the previous growing season to 831 000 in that of 1985/1986.⁵ The most significant losses in terms of area sown occurred in connection with export items such as cotton, for which the number of *manzanas* cultivated dropped from 164 000 to 123 000 *manzanas*, and sesame (from 22 000 to 14 000 *manzanas*). The area dedicated to crops grown for domestic consumption contracted by 6%.

Cotton production went down by 20% as a result of unfavourable weather conditions, the appearance of pests difficult to control and difficulties in supplying inputs, all of which played a part in reducing the yield of the area sown and in the drop in productivity.

The sugar-cane harvest also showed an appreciable decline (-11%), basically attributable to a drop in yield. To cope with the closure of the United States market, an attempt was made to place the sugar crop in Arab and socialist countries and to establish new forms of trade with them. Investments made in recent years began to bear fruit, and projects for the expansion of the productive capacity were continued.

⁵A *manzana* is equal to around 0.7 hectares.

Banana production remained at the levels reached in the two preceding years (127 000 tons). This product was another of those affected by the closure of the United States market, and the government was forced to set up a network to market bananas in European countries.

Coffee was the only export crop whose harvest increased (13%). This was due to favourable rainfall and the recruitment of a substantial number of human resources for the twofold purpose of assisting with the harvest and defending plantations in zones threatened by armed bands. A rise in productivity compensated for the abandonment of 5% of the coffee-growing area.

As regards crops sown for domestic consumption, the maize harvest went down from 213 000 to 197 000 tons, owing to a marked contraction in the area sown and despite the fact that over twice the amount of land was under irrigation (from 9 000 *manzanas* the previous year to 21 000 in 1985). As for the bean, rice and sorghum crops, they increased significantly (13%, 14% and 73%). The rises

Table 4
NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1982	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
Index of agricultural production (1980 = 100)	117.9	113.4	121.9	120.7	121.1	4.7	7.5	-1.0	0.3
Crop farming	125.3	123.4	139.2	136.6	138.0	1.0	12.8	-1.9	1.0
Livestock	110.0	100.7	101.1	103.5	102.5	11.7	0.4	2.4	-1.0
Forestry		137.0	143.0	106.5	98.2	-32.7	4.4	-25.5	-7.8
Production of main crops (thousands of tons)									
For export									
Cotton	118.0	67.1	81.0	85.0	68.4	-6.5	20.7	4.9	-19.5
Cotton seed	189.4	100.8	120.4	129.1	105.7	-5.9	19.5	7.2	-18.1
Coffee (green)	42.4	63.0	64.5	44.9	50.7	9.4	2.4	-30.4	13.0
Sugar cane	2 304.0	2 750.0	2 789.0	2 975.0	2 660.1	9.4	1.4	6.7	-10.6
Bananas	169.5	140.6	128.1	127.9	127.3	-7.8	-8.9	-0.2	-0.5
Havana tobacco	15	13	13	16	15	17.5	5.3	18.5	-6.3
Sesame	3.9	5.0	10.7	11.2	7.0	-30.6	111.5	5.4	-38.0
For domestic consumption									
Maize	189.4	177.7	218.2	212.7	197.1	-10.2	22.8	0.5	-7.3
Rice (green)	58.3	91.2	98.7	84.8	96.5	22.7	8.2	-14.0	13.8
Beans	43.7	49.9	57.2	58.5	66.0	-8.6	14.6	2.3	12.8
Sorghum	60.4	56.6	95.7	112.2	194.3	-31.8	19.0	17.2	73.2
Blonde tobacco	15	14	33	2.7	3.4	-3.2	135.9	-16.6	26.0
Indicators of livestock production									
Variation in stocks									
Beef cattle		65				16.1			
Pigs"		48	47	45		20.0	-2.1	-4.3	
Poultry'		425	449	455		74.9	5.6	13	
Slaughtering									
Beef cattle	325	311	341	340	340	14.1	9.5	12	-
Pigs*	168	279	270	271	276	15.1	-3.4	3.5	-1.1
Poultry'		12.2	12.9	14.4	14.0	19.2	-2.4	11.2	-2.8
Other products									
Milk"	433	315	301	322	328	2.8	-4.7	7.1	1.8
Eggs'		43	42	44	43	33.6	-0.5	3.3	-2.3

Source: UCLAC, on the basis of official figures.

"Preliminary figures.

Thousands of head.

Millions of litres.

'Millions of dozens.

Table 5

NICARAGUA: INDICATORS OF FISHERY PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Indicators of fishery production (1975 = 100)	100.00	57.80	33.00	32.30	36.10	-20.0	-15.2	-2.1	11.9
Catch ⁶									
Fish	10.02	7.41	10.82	10.45	10.45		25.3	-3.4	
Shellfish									
Shrimps	3.42	2.64	0.91	0.95	1.18	-27.2	-43.6	5.0	23.8
Lobsters	0.84	0.74	0.45	0.41	0.45	-18.0	12.5	-10.0	11.1
Exports									
Shrimps, lobsters, fish and others	6.68	3.43	1.27	1.03	1.32	-17.6	-32.7	19.1	6.0

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

°Preliminary figures. Tons.

in the production of beans and rice resulted from the growing use of irrigated areas, while in the case of sorghum, the dominant factor was the expansion of the area cultivated, sometimes through the use of land normally destined for cotton.

In the livestock sector heavy slaughtering of cattle continued, putting the stability of the herd at risk. Pressure on supplies was a decisive factor in decreeing price increases, particularly in the case of milk, which led to a marked preference for this product on farms devoted to both cattle and dairy production, to the detriment of the suckling and raising of calves. In these circumstances, the slaughtering of beef cattle remained high for the third year running, and milk production increased by 2%. Meanwhile, pork and poultry production lost the dynamism achieved in previous years (see table

Because of the location of the timberlands, forestry continued to be one of the activities most affected by the military confrontation, remaining at the low levels recorded in the preceding years.

ii) *Fishing*. Preliminary figures show that fishing grew appreciably owing to an increase in the catch of shrimps and lobsters, the fish catch remaining stagnant. Efforts by the Nicaraguan Fishery Institute (INPESCA) to derive greater benefit from the great potential of the country's coasts met with some success, although economic and other conditions made it difficult to maintain the fleet and actually to engage in fishing as such. All in all, the fishery output measured in constant prices is now the equivalent of around one third of what it was in 1975 and is considerably lower than that recorded in 1980 (see table 5).

iii) *Mining*. Mining production fell for the second year running by around 25%. Thus, its level was less than half that attained in 1980, with the result that the sector's share in the gross domestic product also diminished. The extraction of gold and silver continued to fall faster than mining as a whole, owing to the depletion of some mines, difficulties in replacing obsolete equipment and keeping machinery functioning adequately and the effects of the armed conflict in zones where production centres are located (see table 6).

iv) *Manufacturing*. The gross value of the manufacturing industry declined by 6%, virtually returning to the levels of 1982 (see table 7).

Various factors contributed to the depression of the sector, which in the previous two years had grown at an average annual rate of 3%. Outstanding among these factors were the general scarcity of foreign exchange, which made it difficult to obtain imported raw materials; military enlistment and the movement of workers into the informal sector, which deprived enterprises of skilled labourers; the growing distortion of the price and wage structure and the economic blockade imposed by the United States, which created serious problems for an activity heavily dependent on inputs and capital goods from that country's markets.

The most important branches of manufacturing contracted. The production of foodstuffs, beverages and tobacco, which represents 52 % of the sector's total output, declined by 6%.⁶ The wood and furniture industry declined the most (-28%), mainly because of difficulties encountered by sawmills located in combat areas. Chemical products, which had recovered in the two preceding years, fell again, primarily because of difficulties in obtaining inputs.

Branches which account for a high share of employment (textiles and clothing; footwear and leather) also continued to decline owing to persistent restraints on their raw material supplies.

Table 6

NICARAGUA: INDICATORS OF MINING PRODUCTION

	1975	1980	1983	1984	1985 ^a	Growth rates			
						1982	1983	1984	1985 ^a
Indexes of mining production (1970 = 100)	63.3	56.4	48.3	37.2 ⁶	27.9*	-7.1	-9.3	-22.9 ⁶	-25.1*
Production of some major minerals (thousands of Troy ounces)									
Gold	69	60	47	33	24	-12.4	-13.1	-29.8	-27.3
Silver	142	164	58	48	25	-40.2	-31.8	-17.2	-47.9

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aPreliminary figures.

Estimated on the basis of the variation in aggregate value.

Table 7

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	1981	1982	1983	1984	1985 ^a	Growth rates			
						1982	1983	1984	1985 ^a
Index of manufacturing production (1980 = 100)	103.0	103.1	108.9	109.6	103.3	0.1	5.6	0.7	-5.8
Food, beverages and tobacco	100.1	106.0	108.1	113.0	106.6	5.8	2.0	4.5	-5.7
Textiles and clothing	112.1	104.8	125.1	122.4	111.6	-6.5	19.4	-2.1	-8.8
Footwear and leather	104.1	94.3	86.3	73.7	68.7	-9.4	-8.5	-15.1	-6.2
Wood and furniture	104.1	84.7	89.2	90.8	65.7	-13.8	-0.5	1.8	-27.6
Chemicals and rubber	104.8	94.7	118.3	121.9	103.7	-9.6	24.9	3.1	-14.9
Petroleum products	101.2	98.0	88.8	74.6	79.3	-3.1	-9.4	-16.0	6.3
Non-metallic minerals	94.4	89.4	124.4	131.9	119.1	-5.4	39.2	6.0	-9.7
Metal products	99.7	110.4	133.5	130.0	137.0	10.7	21.0	-2.7	5.4
Machinery and transport equipment	130.7	100.9	131.3	115.6	121.1	-22.8	30.1	-11.9	4.7
Miscellaneous	123.9	112.2	106.8	103.1	104.0	-9.4	-4.8	-3.5	0.8
Other indicators of manufacturing production									
Electricity consumption by industry	258	285	275	311	322	10.5	-3.5	13.1	3.5
Employment ^b		86	90	90	87		4.7		-3.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Millions of kWh.

^bThousands of persons.

⁶Within this branch, foodstuffs fell by 9%, while beverage and tobacco maintained the rising trend initiated in 1983 (each increasing by 5.9%).

Table 8

NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985"
Area constructed (thousands of m ²)									
Total	270	20	47	76	165	-21.1	9.3	61.7	117.1
Housing	171	11	17	52	66	-14.4	-68.5	205.9	26.9
Production of selected building materials									
Structural steel (thousands of tons)		20.8	32.5	31.0	25.1	20.1	24.4	-4.8	-19.0
Cement (thousands of tons)		172	265	263	245	-0.3	44.8	-0.8	-6.8
Paving stones for highways (millions of units)		4.0	8.1	7.9	7.1	58.7	44.2	-3.5	-9.2

Source: ICLAC, on the basis of figures supplied by the Ministry of Planning and the Budget and by the Central Bank of Nicaragua.

"Preliminary figures. Corresponds to permits granted in the city of Managua.

In contrast, there was a notable recovery in the output of petroleum products, stimulated by a relatively dependable supply of inputs.

Electricity consumption by industry increased for the second year in a row, while employment in this sector went down by over 3% (see table 7).

v) *Construction*. The aggregate value of construction grew by 9%, maintaining the favourable trend observed after the abrupt fall in 1982. Much of this increase was due to needs originating directly or indirectly from the war (see table 8).

vi) *Electricity*. Gross generation of electric energy went up by 5%, though still not regaining the level of 1981. Geothermal energy displayed the most dynamic growth (almost 9%), thus increasing its share in the total amount of energy produced. Hydroelectricity expanded by close on 7%, but the amount produced did not amount to half that generated in 1981. The insufficiency of the domestic supply was covered once again by imports of electricity through the Central American electrical grid (see table 9).

vii) *The other sectors*. The transport, storage and communications sector suffered a severe fall (-12.5%), largely owing to the contraction in the production of goods and to the performance of foreign trade. As for the commercial and financial sector, it was affected by the incessant proliferation of informal activities and the deterioration of financial intermediation.

In contrast, government services grew by 1%. Despite the policy of curtailing government spending, this slight increase was necessary in order to meet defence needs.

c) *Employment and unemployment*

Employment is difficult to evaluate quantitatively since it is affected by the circumstances surrounding the Nicaraguan economy. In fact, the official figures show a rising trend in the number of unemployed and their share in the labour force (see table 10), whereas there is a serious shortage of manpower for the performance of certain productive activities.

Military recruitment has absorbed a large number of young men, especially peasants, who have abandoned productive activities, making it necessary to mobilize civil servants and students to harvest export crops, the result being a loss of productivity. Moreover, population shifts separate labourers from their usual work, and it is often difficult to incorporate them into the activities carried out in their new location. Again, the possibility of speculative gains in informal trade induces workers in industry and the services to leave their traditional occupations.

Table 9

NICARAGUA: INDICATOR OF THE ELECTRICITY SECTOR

	1975	1981	1982	1983	1984	1985°	Growth rates			
							1982	1983	1984	1985°
Gross generation of electric power	821	1 Oil	970	853	895	940	-4.1	-12.0	4.9	5.0
Hydroelectric	335	485	412	239	226	241	-15.1	-42.1	-5.4	6.6
Thermal	466	513	544	537	387	393	5.9	-1.2	-27.9	1.6
Geothermal	-	-	-	67	271	295	-	-	304.4	8.9
Diesel and gas	-	13	14	11	11	11	14.2	-26.2	0.9	-
Purchases of electric power*			111	330	265	198		204.5	-19.7	-25.3
Consumption of fuel oil as an input of the sector'		972	1 045	1 020	800	793	7.5	-2.4	-21.6	-0.1
Consumption of electric power	681"	835	881	971	988		5.5	10.2	1.8	
Residential	132	240	251	271	285		4.7	7.9	5.2	
Commercial	61	67	68	73	71		1.5	7.2	-2.8	
Industrial	258	285	275	311	322		-3.6	13.1	3.5	
Government	28	94	110	120	115		16.3	9.2	-4.2	
Public lighting	14	25	24	26	24		-1.2	6.5	-7.7	
Irrigation	41	68	92	108	105		35.3	16.3	-2.8	
Pumping	30	56	60	62	66		7.7	4.2	6.5	

Source: ECLAC, on the basis of figures supplied by the Ministry of Planning and the Budget.

"Preliminary figures. Thousands of MWh. 'Thousands of barrels. 'includes 117 000 MWh distributed by intermediaries with no indication of destination.

Table 10

NICARAGUA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984	1985°
Thousands of persons						
Labour force	872	904	939	973	1 010	1 047
Agriculture	380	386	392	399	406	414
Other activities	492	518	544	574	604	633
Employed	677	732	752	789	797	814
Agriculture	275	296	281	302	304	334
Other activities	402	436	471	487	493	480
Unemployed	195	172	187	184	213	233
Agriculture	105	90	111	97	102	80
Other activities	90	82	76	87	111	153
Indexes						
Labour force	100.0	103.7	107.7	111.6	115.8	120.1
Employed	100.0	108.1	111.1	116.5	117.7	120.2
Unemployed	100.0	88.2	95.9	94.4	109.2	119.5
Rates						
Unemployed	22.4	19.0	19.9	18.9	21.1	22.3
Agriculture	27.6	23.3	28.3	24.3	25.1	19.3
Other activities	18.3	15.8	14.0	15.2	18.4	24.2

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

"Preliminary figures.

Table 11

NICARAGUA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985"
Growth rates						
Exports of goods FOB						
Value	-26.9	12.8	-20.1	5.5	-10.1	-23.9
Volume	-42.4	19.5	-14.3	14.6	-16.1	-19.0
Unit value	27.1	-5.6	-6.8	-8.0	7.2	-6.0
Imports of goods FOB						
Value	106.5	14.9	-21.6	7.6	-2.2	0.3
Volume	50.2	10.4	-20.3	13.2	5.0	-1.7
Unit value	37.5	4.1	-1.6	-5.0	-6.9	2.0
Terms of trade FOB/CIF	-6.9	-9.6	-5.7	-3.5	13.7	-7.9
Indexes (1980= 100)						
Purchasing power of exports	100.0	108.1	87.3	96.6	92.2	68.8
Volume of exports	100.0	119.5	102.4	117.4	98.5	79.7
Terms of trade FOB/CIF	100.0	90.4	85.3	82.3	93.6	86.3

Source: IICLAC, on the basis of official figures.

"Preliminary figures.

3. The external sector

In 1985 the disequilibrium which had been developing in the external sector in the immediate past became more intense. The balance-of-trade and current account deficits increased. At the same time the terms of trade in goods declined by 8%, which largely neutralized the improvement of the previous year (see table 11).

Negotiation of the external debt continued to founder, while servicing arrears went on rising. In many cases new credits did not represent an inflow of foreign exchange, being used instead to finance the purchase of goods in the lending country.

Although the adjustment policy provided for modifications in the exchange rates, the córdoba remained overvalued, which could not fail to have repercussions on the performance of the external sector.

a) *Merchandise trade*

The value of merchandise exports fell by 24% and barely exceeded US\$290 million, representing less than half the amount obtained in 1979. Since prices dropped by 6%, the decline in the volume exported amounted to 19%. The value of imports remained practically unchanged, since the slight fall in volume was offset by an equally small rise in unit value. Thus the terms of trade deteriorated by 8% and the purchasing power of exports continued to decline (see table 11).

The policy of the government to diversify its foreign trade was stimulated by the closing of the North American market in May. The measures previously adopted by the United States government—comprising a drastic reduction in the Nicaraguan sugar import quota and obstacles to the concession of credit by international agencies—were followed in 1985 by the absolute prohibition of trade between the two countries. This compelled the Ministry of Foreign Trade to divert some exports to new markets; in the case of bananas it attempted to place them in Europe through its own marketing channels.⁷ Sugar was sold to Arab and socialist countries, favourable terms being negotiated in some cases.

During 1985, notable change occurred in the origin and destination of Nicaragua's external trade (see table 12). It is estimated that the share of the socialist countries, which was 1% in 1980 and 20% in 1984, may have reached one third of the total. The shares of Western Europe and Japan were

⁷To this end vessels were chartered and a Nicaraguan company was set up in Belgium to assemble freight.

similar to those the previous year (26% and 10%, respectively) while that of the United States contracted enormously. Moreover, trade with Latin America fell to only 9%, largely because of the decline in trade with Central America.

In fact, sales to the neighbouring countries fell by 41%, amounting to little more than US\$22 million (see table 13). Although the rate of growth of some of the Central American economies was positive, the limitations of the Nicaraguan supply prevented that growth from having favourable effects on Nicaraguan sales to the Central American Common Market. The decline in chemicals was of particular significance in the drop in commodities available for export to the subregion. Imports of Central American products also suffered a marked decline. Persistent problems over payment of outstanding accounts induced other countries to require Nicaragua to trade in dollars or on a "one to one" basis,⁸ which to all interests and purposes left the country outside the Central American Clearing House. Given the lack of foreign exchange and the declining supply in Nicaragua, this could not fail to have the effect described above.

Table 12

NICARAGUA: EXPORTS AND IMPORTS OF GOODS BY COUNTRY

	Mill ons of doll irs					Percentage breakdown			
	1977	1982	1983	1984	1985 ^a	1977	1980	1984	1985 ^a
Exports FOB	637	406	429	386	292	100.0	100.0	100.0	100.0
CACM*	134	52	33	37	22	21.0	16.7	9.6	7.5
ALADI'	17	15	9	7	-	2.6	0.1	1.8	-
Argentina	-	-	-	-	-	-	-	-	-
Brazil	-	-	-	-	-	-	-	-	-
Mexico	8	14	9	7	-	12	-	1.8	-
Venezuela	9	-	-	-	-	14	-	-	-
Others	-	-	-	-	-	-	-	-	-
EEC'	181	95	111	113	118	28.4	28.8	29.3	40.4
United States	145	90	75	47	20	22.7	36.0	12.2	6.8
Japan	70	45	66	95	-	11.0	2.8	24.6	-
Canada	3	18	6	12	-	0.4	6.3	3.1	-
CMEA'	6	30	55	24	11	1.0	1.9	6.2	3.8
Others	82	61	74	51	-	12.9	7.4	13.2	-
Imports CIF	762	776	819	826	832	100.0	100.0	100.0	100.0
CACM	164	117	124	74	47	21.6	33.9	9.0	5.6
ALADI	113	212	189	147	-	14.7	20.3	17.8	-
Argentina	1	3	5	-	-	0.1	0.4	-	-
Brazil	5	8	13	-	-	0.7	0.5	-	-
Mexico	15	155	160	-	-	2.0	2.2	-	-
Venezuela	87	40	5	-	-	11.4	16.8	-	-
Others	4	5	6	-	-	0.6	0.3	-	-
EEC	96	109	78	103	-	12.6	7.9	12.5	-
United States	220	147	157	133	-	28.8	27.5	16.1	-
Japan	77	19	19	-	-	10.1	3.3	-	-
Canada	6	13	20	-	-	0.7	1.2	-	-
CMEA	2	89	134	213	-	0.3	0.2	25.8	-
Others	85	71	98	-	-	11.2	5.6	-	-

Source: UCLAC, on the basis of figures supplied by the Ministry of Foreign Trade.

"Preliminary figures.

Central American Common Market.

'Latin American Integration Association.

European

Community.

'Council for Mutual Assistance.

^BExports to Nicaragua were authorized on the basis of the amount of imports coming from that country, without there being any direct link between the transactions.

Table 13

NICARAGUA: FOREIGN TRADE WITH CENTRAL AMERICAN COUNTRIES

	Millions of dollars				Percentage breakdown		
	1977	1980	1984	1985°	1977	1980	1985
Exports FOB	134	75	38	22	100.0	100.0	100.0
Costa Rica	48	37	15	8	36.1	48.6	37.6
El Salvador	34	10	3	3	25.1	13.2	9.9
Guatemala	35	16	16	10	25.9	21.6	43.9
Honduras	18	13	4	2	12.9	16.6	8.6
Imports CIF	165	301	73	47	100.0	100.0	100.0
Costa Rica	58	117	19	13	35.5	38.9	27.8
El Salvador	38	51	12	4	23.3	16.8	9.2
Guatemala	52	103	28	18	31.8	34.2	37.7
Honduras	16	30	14	12	9.4	10.1	25.3
Balance of trade in goods	-31	-225	-35	-25	100.0	100.0	100.0
Costa Rica	-10	-80	-4	-5	33.3	35.4	19.1
El Salvador	-5	-41	-8	-2	13.3	18.1	8.5
Guatemala	-18	-87	-12	-8	56.7	38.5	32.1
Honduras	-2	-18	-11	-10	-3.3	8.0	40.3

Source: ECLAC, on the basis of figures supplied by the Ministry of Foreign Trade of Nicaragua.

°Estimates calculated by ECLAC.

The deterioration would have been even greater but for procedures such as barter and "buhonero" trade. The former, used mainly with Guatemala, was stimulated by the Ministry of Foreign Trade; the latter, which is an informal trade practice, refers to transactions (individually small in amount) whereby handicrafts and small manufactures were shipped to other countries in exchange for goods in short supply on the domestic market.

The main exports include coffee, which recovered its position as the export item producing the most foreign exchange, despite the fact that it remained at the same level as in 1984, when its value had declined by 20% (see table 14). Persistent harvesting problems meant that the yield recovered only slightly, and this was to some extent neutralized by the fall in prices.

The amount of foreign exchange produced by cotton fell by 32% owing to the pronounced fall both in volume exported (-19%) and in prices (-16%). Poor conditions on the international cotton market led to a contraction in the area sown, and difficulties in importing reduced productivity, the two factors combining to create a substantial decrease in output.

Sugar, which was the third export item in importance, suffered an out-and-out collapse, its exports of US\$21 million in 1984 being reduced to US\$7.5 million in 1985. This figure represented barely 15% of the value of Nicaraguan sugar sales on the international market in 1981. The loss of the quota in the United States market, added to the decline in prices on the international market, caused a sudden drop in the average price received (5.47 US cents per pound in 1985 as against 9.43 cents in 1984 and 23.43 cents in 1981), while the volume exported fell at a higher rate than did production.

Meat also performed negatively. Increased domestic demand and difficulties in expanding the herd limited the exportable output of beef. Besides, the United States embargo prevented access to that traditional market, a factor which could not be offset by acquiring new marketing channels.

On the other hand, bananas evolved favourably both in price and in volume exported, so that the foreign exchange they produced went up by 25%, returning to its 1983 level.

Lastly, external sales of manufactures fell from US\$53 million in 1984 to US\$29 million in 1985, largely owing to the decline in output in the sector.

As for imports, their value rose by barely 1% (see table 15). In fact, only the group comprising raw materials and intermediate goods achieved a positive growth rate (8%). Outstanding in that group were petroleum and fuels—which went up by almost 24% under the pressure of strategic

Table 14

NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates			
	1982	1983	1984	1985"	1970	1980	1985"	1982	1983	1984	1985"
Total	406	429	386	292	100.0	100.0	100.0	-20.1	5.7	-10.2	-24.2
Central America	52	34	38	22	25.8	16.8	7.5	-26.5	-35.7	12.5	-41.4
Rest of world	354	395	348	270	74.2	83.2	92.5	-19.0	11.6	-11.9	-22.4
Main exports	357	385	345	277	68.7	86.2	94.9	-17.7	7.8	-10.4	-19.7
Cotton	87	110	134	91	19.1	6.7	31.2	-28.5	25.6	22.2	-32.0
Coffee	124	154	122	123	18.0	36.9	42.1	-9.1	24.0	-20.4	0.2
Sugar	36	34	21	7	5.5	4.4	2.4	-25.3	-5.5	-39.2	-64.6
Meat	34	31	18	12	14.9	13.1	4.1	59.4	-7.1	-43.9	-31.8
Shrimps, lobsters and other fishery products	22	17	13	12	3.4	6.0	4.1	21.2	-22.1	-25.4	-2.4
Gold	15	-	-	-	2.3	7.3	-	-37.0	-	-	-
Sesame	6	6	6	6	-	1.3	2.1	-28.4	-	1.7	-6.8
Bananas	10	15	12	15	0.2	1.8	5.1	-53.1	51.0	-19.6	25.2
Molasses	3	1	3	1	-	1.3	0.4	-46.3	-55.2	100.0	-61.5
Chemicals	20	17	18	10	5.3	7.3	3.4	-32.8	-11.3	2.3	-43.5
Rest	49	44	39	15	31.3	13.8	5.1	-33.8	-10.2	-11.4	-61.5

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.

"Preliminary figures.

Table 15

NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	807	826	832	100.0	100.0	100.0	-22.4	4.0	2.3	0.8
Central America	124	73	47	24.7	33.9	5.6	-44.5	5.7	-41.1	-35.9
Rest of world	683	753	785	75.3	66.1	94.1	-16.6	3.8	10.2	4.2
Consumer goods	173	156	144	23.6	29.1	17.2	-34.0	7.7	-9.7	-8.1
Durable	131	107	88	15.1	24.2	10.6	-40.4	12.3	-18.3	-17.7
Non-durable	42	49	55	8.5	4.8	6.7	-8.9	-4.3	17.2	12.8
Raw materials and intermediate goods	430	456	492	53.3	58.6	59.2	-19.1	-4.1	6.0	8.1
Petroleum and fuels	148	145	179	14.1	19.6	21.5	-9.4	-17.4	-1.8	23.5
Others	282	311	313	39.2	39.0	37.6	-24.6	4.7	10.1	0.8
For agriculture	56	59	90		7.0	10.8	-37.3	59.6	5.9	52.5
For manufacturing	204	229	199		28.0	23.9	-28.3	8.9	12.4	-13.1
For construction	22	22	24	5.4	3.3	2.9	37.8	-53.1	-0.9	10.6
Miscellaneous	1	1	-		0.7	-		-	-	
Capital goods	204	214	196	23.1	12.4	23.6	-16.9	22.4	4.7	-0.8
For agriculture	17	28	42	2.3	2.7	5.0	-16.5	-31.0	66.7	45.6
For manufacturing	147	145	115	16.7	6.9	13.8	-9.9	35.2	-1.2	-20.9
For transport	40	40	40	4.1	2.8	4.8	-34.2	20.2	-0.2	0.8

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget and the Ministry of Foreign Trade.

"Preliminary figures.

needs— and inputs for agriculture, which increased by 52%. Inputs for manufacturing, however, went down by 13% as a result of the acute shortage of foreign currency to import them, and this was partially responsible for the drop in the manufacturing sector.

Imports of consumer goods fell drastically for the second year running owing to another marked fall in external purchases of non-durable goods. As for capital goods, they showed a slight decline, although those imported for agriculture grew.

b) *Services trade and factor payments*

The balance of real services continued in deficit, although less so than in the previous year. As for net payments of factor services, these fell for the third year in a row, thanks to the renegotiation of interest payments on the foreign debt in the amount of US\$123 million and the postponement of payment of another US\$130 million.

c) *The current account position and its financing*

The current account showed an accumulated deficit of close on US\$570 million—an unprecedented amount which exceeded the value of exports of goods and services by 60% (see table 16). Once again the gap was covered by the entry of long-term capital (US\$487 million) to which was added a net inflow of short-term capital amounting to some US\$45 million.

In view of the restriction on credit from private sources and multilateral bodies, the greater part of this inflow was of official origin contracted bilaterally. Of particular importance in this lending was the financing of petroleum imports granted to Nicaragua under the San José Agreement and, in growing proportion, by the Soviet Union.

Unrequited official transfer payments rose to US\$93 million (almost 6%), bringing the total received by Nicaragua since the change of régime in 1979 to nearly US\$560 million. These transfers continued to come from the traditional sources in the market-economy countries and from socialist countries, which made them in kind.

d) *The external debt*

At the end of 1985, the total medium- and long-term external debt stood at slightly over US\$4.9 billion, an amount equivalent to almost 14 times the value of exports of goods and services (see table 17). As has occurred since 1980, though in different degrees each year, much of the increase in the debt (around US\$570 million) was due to the accumulation of arrears in servicing.

Amortization and interest payments were even lower than the year before since the now chronic scarcity of foreign exchange was aggravated by the deterioration in the balance of trade. Total commitments outstanding rose to some US\$900 million. During the year reschedulings were obtained for over US\$200 million.

4. Prices and wages

a) *Prices*

The inflationary trends intensified in 1985, to the point where the December-December variation in the consumer price index (334%) was more than six times that recorded in the previous year (see table 18). The price increases, which had shown a tendency to become more moderate at the end of 1984, flared up again in January, and still more in the course of the next six months, owing to the elimination of the subsidies on commodities, the rise in guaranteed prices to producers, variations in exchange parities and increases in wages and salaries (see figure 2). Despite efforts to reduce the fiscal deficit, obstacles arising from the politico-military situation prevented the achievement of the desired results, so that the imbalance on the public accounts remained one of the principal sources of pressure on prices. The need for food and military supplies created heavy demand and therefore favoured price rises in the market. At the same time, the persistence of shortages and of parallel markets, in which goods were sold at prices much higher than the official ones, created conditions that encouraged speculation.

Once again the food, beverages and tobacco group showed sharp price rises although many of the goods concerned were sold in official markets at legally controlled prices. These were increased several times in the course of the year, until in some cases they were five times as high as they had been 12 months earlier.

Table 16
NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985 ¹
Balance on current account	90	-491	-563	-514	-519	-508	-569
Trade balance	162	-414	-484	-382	-462	-464	-527
Exports of goods and services	672	495	553	447	463	422	353
Goods FOB	616	450	508	406	428	385	293
Real services	56	44	45	41	35	37	60
Transport and insurance	22	13	15	12	10	5	4
Travel	18	22	23	20	5	5	3
Imports of goods and services	511	909	1 037	829	925	886	880
Goods FOB	389	803	922	723	778	761	763
Real services	122	106	114	106	147	125	117
Transport and insurance	31	51	58	49	50	49	51
Travel	48	31	15	20	7	6	3
Factor services	-73	-89	-93	-140	-61	-46	-44
Profits	-13	-21	-	-5	-1	-	-
Interest received	6	19	28	9	7	5	2
Interest paid	-65	-88	-121	-144	-66	-51	-46
Others	-1	-	-	-	-	-	-
Unrequited private transfer payments	1	12	13	8	4	2	2
Balance on capital account	-93	289	617	416	586	518	592
Unrequited official transfer payments	90	112	57	43	76	88	93
Long-term capital	122	343	596	442	557	517	487
Direct investment (net)	3	-	-	-	8	2	-
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	120	343	596	442	549	515	487
Official sector ²	69	321	509	425	552	538	-
Loans disbursed	85	335	566	469	580	554	-
Amortization payments	-17	-14	-57	-44	-28	-16	-12
Commercial banks ³	56	17	82	20	33	8	-
Loans disbursed	56	22	86	29	38	20	-
Amortization payments	-	-4	-4	-8	-4	-12	-13
Other sectors ⁴	-5	4	5	-4	-36	-31	-59
Loans disbursed	1	9	15	17	14	-	-
Amortization payments	-6	-5	-9	-21	-50	-31	-59
Short-term capital (net)	-267	-137	-37	-49	-20	-33	44
Official sector	-	-	-	-	-	-	-
Commercial banks	-	-	-	-	-	-	-
Other sectors	-267	-137	-37	-49	-20	-33	44
Errors and omissions (net)	-39	-28	1	-20	-26	-54	-31
Global balance	-3	-201	54	-98	67	10	23
Total variation in reserves (- sign indicates an increase)	-9	235	-62	97	-48	-10	-23
Monetary gold	-1	-	-	-	-	-	-
Special Drawing Rights	6	-	-	-1	1	1	-
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	-75	120	-47	-59	-86	-	-
Other assets	7	123	9	162	42	-	-
Use made of IMF credit	55	-8	-25	-5	-5	-5	-

Source: 1979-1981: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: IXLAC, on the basis of official data.

¹Preliminary figures.

²Includes other non-factor services.

³Includes net loans /granted and other assets and liabilities.

⁴Equal to the total variation in reserves (opposite sign), plus counterpart items.

Table 17

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985°
Millions of dollars						
Total external debt						
Balance	1 825	2 566	3 139	3 788	4 362	4 936
Public	1 820	2 561	3 134	3 783	4 357	4 931
Private	5	5	5	5	5	5
Long- and medium-term	1 571	2 163	2 578	3 263	3 901	4 495
Short-term*	255	403	561	525	461	440
Disbursements ⁰	281	424	380	374	400	620
Debt servicing	109	192	203	103	79	71
Amortization payments	21	71	59	40	28	25
Interest payments ¹	88	121	144	63	51	46
Percentages						
Ratios						
Total external debt/exports of goods and services	366.0	463.8	702.6	817.6	1 033.0	1 381.0
Debt servicing/ex ports of goods and services	21.9	41.3	45.4	22.2	18.7	19.8
Net interest payments/exports of goods and services	13.8	20.0	30.2	12.1	10.9	12.3
Debt servicing/disbursements	38.9	45.2	53.4	27.5	19.7	11.4

Source: HCLAC, on the basis of figures supplied by the Central Bank of Nicaragua.

° Preliminary figures, including accounting movements.

° End-year balances.

° Disbursements of the debt contracted for the long

term. ° Amortization payments rate on the long-term debt, including reschedulings and changes in payment delays.

° Interest

payments rate, excluding reschedulings and changes in payment delays.

Table 18

NICARAGUA: EVOLUTION OF DOMESTIC PRICES

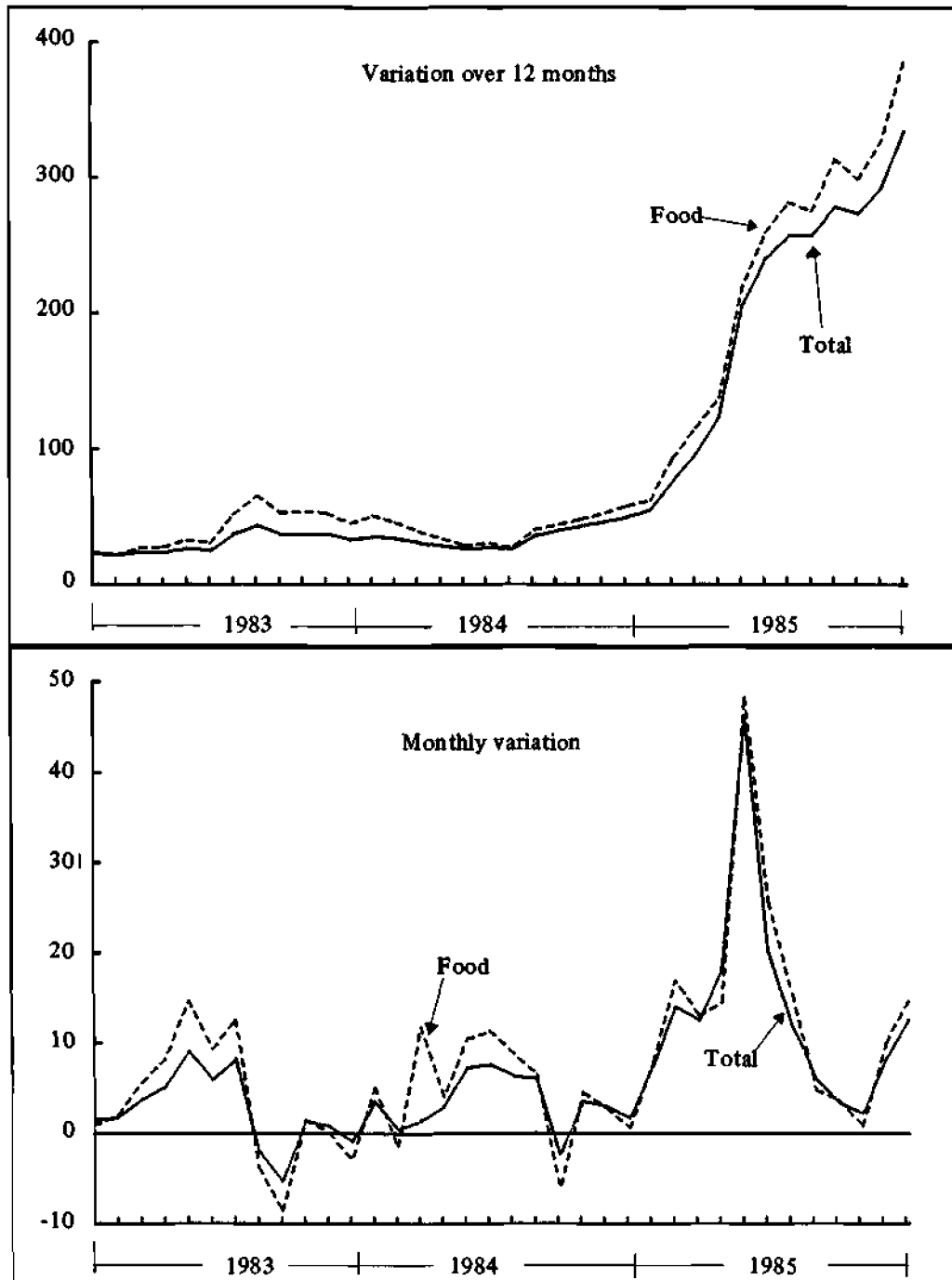
	1980	1981	1982	1983	1984	1985
December-December variation						
Consumer price index"	24.8	33.4	22.2	32.9	50.2	334.3
Per item of expenditure						
Food, beverages and tobacco	36.8	39.6	23.9	45.1	58.6	386.9
Clothing	21.0	34.0	22.5	24.2	64.7	141.5
Housing	9.7	30.2	21.5	14.5	43.1	218.5
Miscellaneous	14.3	21.5	17.9	18.0	24.0	285.0
Per origin of product						
National		30.6	25.0	34.9	62.3	265.2
Imported		34.6	30.2	7.6	24.5	201.3
Variation between annual averages						
Consumer price index"	35.3	23.9	24.8	31.1	35.4	219.5
Per item of expenditure						
Food, beverages and tobacco	49.1	29.0	29.1	41.5	41.5	246.7
Clothing	31.8	21.1	27.3	18.1	45.0	126.4
Housing	13.9	20.6	21.3	16.0	28.6	158.4
Miscellaneous	28.2	15.2'	16.5	17.6	18.3	192.6
Per origin of products						
National	34.9	23.4	26.3	36.8	37.1	206.9
Imported	38.6	22.9	28.5	16.8	16.4	124.5

Source: HCLAC, on the basis of figures provided by the Nicaraguan Institute of Statistics and the Census.

"In the metropolitan area of Managua.

° Products for domestic consumption.

Figure 2
NICARAGUA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official information.

Table 19

NICARAGUA: EVOLUTION OF WAGES

	Indexes (1981 = 100)>				Growth rates			
	1982	1983	1984	1985	1982	1983	1984	1985
Registered with the INSSBI"								
National								
Nominal	108.9	124.6	169.0	392.5"	8.9	14.4	35.6	132.2°
Real	87.3	76.2	76.3	61.9"	-12.7	-12.7	0.1	-18.9'
Agricultural								
Nominal	115.1	125.2	161.4	400.3"	15.1	8.8	28.9	148.0°
Real	92.2	76.5	72.9	63.1"	7.8	-17.0	-4.7	-13.4'
Manufacturing								
Nominal	113.1	136.6	166.0	391.9"	13.1	20.8	21.5	136.1°
Real	90.6	83.5	74.9	61.8"	-9.4	-7.8	-10.3	-17.5°
Construction								
Nominal	118.1	159.3	211.3	500.4"	18.1	34.9	32.6	136.8°
Real	94.6	97.4	95.4	79.0"	-5.4	3.0	-2.1	-17.2'
Commerce								
Nominal	118.9	143.7	168.5	373.8"	18.9	20.9	17.3	121.8°
Real	95.3	87.9	76.1	59.0"	-4.7	7.8	-13.4	-22.5'
Central Government								
Nominal							57.6	166.2'
Real							16.3	-6.9°
Some legal minimum wages								
Managua Department								
Industrial workers								
Nominal	102.9	102.9	156.2	353.9	2.9	-	51.8	126.6
Real	82.5	62.9	70.5	50.0	-17.5	-23.8	12.1	-29.1
Rural workers								
Nominal	100.0	100.0	162.3	451.3	-	-	62.3	178.1
Real	80.1	61.2	73.3	63.8	-19.9	-23.6	19.8	-13.0
Other departmental capitals								
Nominal	100.0	100.0	193.2	437.5			93.2	126.4
Real	80.1	61.2	87.2	61.8	-19.9	-23.6	42.5	-29.1
Rest of country								
Nominal	101.6	101.6	164.9	458.4	1.6		62.3	178.0
Real	81.4	62.1	74.4	64.8	-18.6	-23.7	19.8	-12.9

Source: IFLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

" Nicaragua n Institute of Social Security and Welfare. January-October average.

' Variation between average for 1981 and average for period January-October 1984

The government attempted to solve the problem by creating Workers' Supply Centres under an agreement between the Ministry of Internal Trade (MICOIN) and the Sandinista Workers' Centre (CST). As part of this effort, the number of products whose supply is guaranteed was also increased, and an attempt was made to reduce inflation by eliminating the middleman. The goals established were not, however, attained, and the imbalance between supply and demand persisted.

b) *Wages*

In nominal terms wages rose appreciably in 1985; the minimum wages provided for in the Labour and Wage Scales System were increased from 1 700 córdobas to 2 500 in February, rising to 3 000 córdobas in March and to 4 500 córdobas in May, while wages in the remaining 27 groups also increased substantially. These measures were not, however, enough to prevent the accelerated inflationary process from again severely reducing the purchasing power of workers (see tables 19 and 20). Indeed, the purchasing power of the minimum wages fell by 29% in the main urban centres and by 13% in the rest of the country.

One of the consequences of the application of differential rates to wage brackets was that the ratio between the higher and the lowest remuneration fell from 8.2 to 6.4, continuing the trend towards a narrower spread between the two.

5. Monetary and fiscal policy

a) *Monetary policy*

The process initiated in 1979, coupled with world economic conditions, created pressures on the banking and financial system. The political requirements of constructing the new State led to the formulation of objectives that called for very active fiscal and exchange policies, while the monetary policy responded passively. The extension of the social services, the granting of subsidies to goods for mass consumption and the new investments made by State enterprises created a growing fiscal deficit. As for the measures associated with the exchange rate of the córdoba, they led to increasing losses on the exchange, while the portfolio of overdue loans, many of them irrecoverable, continued to grow.

As a result, between 1978 and 1984 the economy was one in which the money in circulation showed much greater growth than that recorded by prices and production combined with the results that the rate at which the money circulated declined and a process of inflation was set into motion (see table 21).

Although measures had previously been adopted to correct some of these distortions, in 1985 a set of policies was introduced, for the purpose of re-establishing order among and co-ordinating the various areas of the economy. In December 1984 decrees on taxation had been approved and agreements adopted on budgetary austerity, which had their greatest effect in February when subsidies on basic foodstuffs were eliminated and those on transport services reduced in an effort to bring down the fiscal deficit. At the same time, the currency was devalued, although a system of multiple exchange rates was maintained and free exchange was authorized in private money

Table 20

NICARAGUA: LEVEL OF WAGES AND SALARIES^a

(Córdobas)

	1981	1982	1983	1984	1985
Registered with the INSSBI ^b					
National	2 529	2 754	3 152	4 275	9 927'
Agriculture	2 719	3 129	3 404	4 388	10 883'
Mining and quarrying	2 154	2 354	2 773	3 438	8 146'
Manufacturing	2 523	2 854	3 447	4 189	9 887'
Construction	2 123	2 508	3 382	4 485	10 624'
Electricity, gas and water	3 151	3 286	3 786	4 162	8 722'
Transport	2 404	2 403	3 373	4 263	10 355'
Commerce	2 811	3 341	4 039	4 737	10 509'
Finance	3 542	3 782	4 312	5 161	11 866'
Central Government			2 376	3 744	9 968'
Other services	2 400	2 376	3 276	4 020	9 157'
Minimum legal wages					
Managua Department					
Industrial workers	1 088	1 120	1 120	1 700	3 850
Rural workers	770	770	770	1 250	3 475
Other departmental capitals	880	880	880	1 700	3 850
Rest of country	758	770	770	1 250	3 475

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aMonthly averages of wage earners.

^bNicaraguan Institute of Social Security and Welfare.

^cRelates to the monthly average for the

period January-October.

Table 21

NICARAGUA: MONETARY INDICATORS

	End-of-year balances (billions of córdobas)				Growth rates				
	1982	1983	1984	1985"	1981	1982	1983	1984	1985"
Money	6.9	11.4	20.9	60.4	28.0	22.1	64.7	83.1	189.1
Money outside banks	3.1	5.6	11.4	28.4	24.2	27.3	80.1	104.0	149.6
Current account deposits	3.8	6.0	9.5	32.0	31.0	18.3	54.8	60.4	236.3
Expansion factors	21.4	31.2	45.7	91.6	40.0	25.1	46.2	46.3	100.5
Net international reserves	-4.3	-3.9	-3.8	-10.1					
Gross international reserves	2.0	2.2	3.2	9.1	98.0	44.3	11.4	44.7	179.6
Less short-term external loans	-6.3	-6.2	-7.1	-19.2					
Domestic credit	25.7	35.1	49.5	101.3	26.8	25.9	37.0	40.8	104.4
Central Government	6.3	14.3	21.3	43.2	30.3	110.4	128.4	48.1	103.6
Local government and official bodies	0.3	0.3	0.4	1.3	-49.4	-12.2	-8.1	39.6	192.1
State trading firms	14	0.7	1.3	6.8	76.0	-23.2	-47.0	76.2	429.1
Productive sectors	16.7	18.8	25.4	49.1	29.4	17.5	12.4	35.4	93.1
Area de Propiedad del Pueblo	6.7	8.4	14.1	28.2	96.7	42.9	25.8	68.1	99.8
Private sector	10.0	10.4	11.3	20.9	10.9	5.1	3.5	9.1	84.8
Absorption factors	14.4	19.8	24.8	31.2	46.9	26.5	37.3	25.1	25.7
Quasi-money	3.7	5.1	8.0	13.7	26.4	17.2	37.7	55.8	71.8
Savings deposits	1.3	1.8	3.1	6.1	13.8	14.2	37.4	71.8	48.8
Time deposits	2.4	3.4	4.9	7.7	34.7	18.8	37.9	47.3	55.1
Long-term external loans					41.9	-15.2	88.7	24.8	220.1
Other accounts (net)					163.5	88.3	-85.4		

Coefficients'

Velocity of circulation:

GDP/M. 4.50 3.58 2.79 2.84

Source: ECLAC, on the basis of figures provided by the Central Bank of Nicaragua and the Ministry of Planning and the Budget.
 "Preliminary figures. Excluding State trading firms. 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.

exchange offices.⁹ Interest rates were increased, although not so much as to make them positive in real terms.

As a result of these measures, the monetary variables grew faster than in the preceding period, although in most cases their annual variation was lower than the inflation (see table 21). Even though, contrary to what had happened in the three preceding years, sight deposits increased more rapidly than currency outside banks, money again showed a higher growth rate than quasi-money, thus confirming individuals in their growing preference for liquid assets. The basic reasons for that performance were the possibilities for making substantial speculative gains, the negative real interest rates and the prevailing political situation.

With regard to credit, the share of State trading firms in the total volume more than doubled, the growth of the resources obtained being almost four times higher than that of total domestic credit.

⁹The exchange rates fixed were 10 córdobas to the dollar for payment of the foreign debt; 20 córdobas to the dollar for imports of raw materials, essential consumer goods and spare parts; 28 córdobas to the dollar for imports of non-essential consumer goods and for exports; 40 córdobas to the dollar for the purchase of capital goods and 50 córdobas to the dollar for other transactions. The exchange rate applied in the authorized private offices fluctuated between 500 and 700 throughout the year.

Table 22
NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of córdobas				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
1. Current income	7.2	10.2	15.8	37.2	34.6	40.9	54.2	136.4
Tax revenue	5.8	8.5	13.8	31.7	26.0	48.0	62.1	129.4
Direct	1.3	1.8	3.2	7.2	8.7	41.9	74.0	124.3
On income	0.8	1.3	2.4	5.6	25.8	62.4	89.0	130.1
On property	0.3	0.3	0.5	0.7	10.7	-17.5	70.8	48.9
On exports	-	-	-	-	-90.1	-87.8	175.0	127.3
Others	0.2	0.3	0.3	0.9	83.1	76.7	8.7	191.7
Indirect	4.5	6.7	10.6	24.5	32.2	49.7	58.9	130.9
On sales	0.8	1.2	1.9	5.3	10.8	43.0	65.3	172.8
On imports	0.7	0.7	1.1	1.9	4.7	4.1	42.1	84.0
On consumption and production	2.3	3.5	6.0	15.9	23.0	52.2	72.4	164.7
Others	0.6	1.3	1.6	1.3	612.4	100.8	25.8	-16.4
Non-tax revenue	1.5	1.7	1.9	5.5	83.6	13.5	13.9	187.5
2. Current expenditure	9.1	12.7	19.2	51.0	-23.1	39.7	51.4	165.2
Wages and salaries	2.2	2.8	4.0	11.6	15.0	26.7	42.4	193.5
Goods and services	3.9	6.7	10.3	33.0	29.3	72.0	53.7	219.7
Transfers	1.6	2.2	3.8	5.3	32.6	35.1	72.1	41.9
Interest payments	1.4	1.0	1.2	1.1	63.6	-25.6	16.5	-8.9
Domestic debt	0.5	0.8	0.9	0.9	167.9	46.5	17.3	-1.3
External debt	0.9	0.3	0.3	0.2	32.2	-69.6	14.2	-31.9
3. Current savings (1-2)	-1.8	-2.5	-3.5	-13.7	15.0	34.8	39.8	295.9
4. Capital expenditure	2.0	7.4	7.8	11.9	41.6	265.8	3.9	55.2
Real investment	1.1	2.2	3.6	7.9	28.7	95.2	63.4	118.0
Debt amortization payments	0.3	0.4	0.5	0.6	13.1	28.7	23.1	25.1
Domestic debt	0.1	0.2	0.2	0.4	37.0	111.7	-16.6	111.2
External debt	0.2	0.2	0.3	0.2	3.1	-17.6	79.9	-32.2
Others	0.6	4.8	3.6	3.4	112.6	731.0	-25.4	-4.6
5. Total expenditure (2 + 4)	11.1	20.0	26.9	62.9	32.1	80.8	33.9	133.8
6. Fiscal deficit (1-5)	-3.9	-9.9	-11.1	-25.7	27.5	155.5	12.9	130.2
7. Deficit financing								
External financing	1.5	1.7	1.9	1.8	65.1	7.6	14.8	-6.0
Credit	1.2	1.3	1.6	1.0		1.9	24.0	-37.9
Grants	0.3	0.4	0.3	0.8		30.4	-14.1	137.9
Domestic financing	2.3	8.2	9.2	23.9	10.7	253.8	12.6	158.2
Central Bank	3.4	8.2	8.8	23.6	73.4	140.3	6.9	168.1
Other sources	-1.1	-	0.5	0.3				-30.7
Ratios	Percentages							
Current savings/capital expenditure	-91.3	-33.6	-45.3	115.4				
Fiscal deficit/total expenditure	34.8	49.1	41.4	40.8				
Tax revenue/GDP	20.3	26.0	30.7	27.5				
Total expenditure/GDP	39.2	61.1	59.8	54.5				
Fiscal deficit/GDP	13.6	30.0	24.8	22.2				
Domestic financing/deficit	60.1	83.2	82.9	93.0				
External financing/deficit	39.9	16.8	17.1	7.0				

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and the Central Bank of Nicaragua

°Preliminary figures.

Table 23

NICARAGUA: GOVERNMENT EXPENDITURE ON MAIN FUNCTIONS

	Billions of córdobas			b [^] d n			Growth rates		
	1983	1984	1985°	1983	1984	1985°	1983	1984	1985°
Total	20.1	26.9	62.9	100.0	100.0	100.0	80.8	33.9	133.8
Social sector	3.9	5.5	14.8	19.3	20.4	23.6	39.3	41.1	170.1
Education and culture	1.8	2.8	6.9	9.0	10.5	11.0	42.8	56.5	143.5
Health and social welfare	1.6	1.9	5.8	7.9	7.2	9.2	23.9	22.7	198.8
Housing	0.5	0.7	2.1	2.5	2.6	3.4	98.0	43.4	197.5
Infrastructure and production	6.8	5.6	10.2	34.0	20.7	16.3	189.3	-18.5	84.2
Primary activities	4.4	2.5	4.9	22.1	9.3	7.8		-43.7	95.8
Manufacturing	0.4	0.1	0.1	2.1	0.5	0.2		-66.7	
Construction and transport	2.0	2.9	5.0	9.8	10.8	8.1		48.6	73.8
Energy						0.2			
Commerce and tourism	1.5	2.0	1.3	7.4	7.5	2.1	150.9	36.5	-35.8
General administration and defence	6.4	11.9	33.9	32.0	44.4	54.0	85.4	85.7	184.2
General administration	2.8	5.7	10.1	14.0	21.2	16.0	94.7	103.0	77.3
Defence and security	3.6	6.3	23.9	18.0	23.2	38.0	73.6	72.3	282.4
Other	1.5	1.9	2.5	7.3	7.0	4.0	9.4	29.2	34.8
Public debt servicing	1.4	1.7	1.9	7.1	6.2	3.0	-15.8	17.3	12.6
Other		0.2	0.7	0.1	0.8	1.0		639.3	215.0

Source: ECLAC, on the basis of figures supplied by the Ministry of Finance.

°Preliminary figures.

This may well have resulted from the serious efforts made by the government during the year to guarantee the supply of commodities. Loans to the government and the productive sectors grew appreciably in nominal terms but declined in real terms, which was in keeping with the policy of clarifying the price system and the finances of State enterprises.

b) *Fiscal policy*

As already indicated, the political aims of the government and the circumstances in which it assumed power in 1979 made it necessary to have an expansive fiscal policy, in which social services and subsidized supplies played an important part. Moreover, the need to rebuild the productive sector using a mixed-economy approach placed heavy responsibility on the State.

As the armed conflict grew more intense, new demands increased the pressures on public spending, and the fiscal deficit began to be regarded as a major problem. When the 1984 budget was drawn up, an attempt had been made to bring it into better balance by increasing taxes and contracting spending on a selective basis, but the increased requirements of the social sector and of defence prevented the achievement of these goals. When the budget for 1985 was prepared, one of the objectives was to reduce the fiscal deficit, basically by cutting spending on anything that would not affect the priority matter of national defence. It was therefore decided to curb the expansion of public employment as well as of social expenditure; besides this, commodity subsidies were eliminated and transport subsidies, reduced. Investments continued to be rationalized, being limited, except in special cases, to the completion of projects already in process. Measures were also taken to reduce government consumption of goods and services, fees for services provided by State enterprises were raised and tax legislation was reformed.

In December 1984 approval had been given to various tax reforms which came into force in 1985. Chief among these were: a) the Law on the General Value Added Tax, which replaces the

General Sales Tax Law and broadened the base on which the latter indirect tax was imposed;¹⁰ b) the Selective Consumption Tax Law, which set rates of between 10% and 400% for some 400 products, establishing higher taxes on imported and luxury products; c) the Capital Gains Tax Law, which placed a progressive tax, ranging from 1% to 15%, on increases in property values; d) the Presumed Income Law, which authorized the Ministry of Finance to establish a "presumed annual income" for the liberal professions when practised privately, non-regulated trade, rentals paid in dollars, services connected with restaurants and the like, and small businesses; e) the Corporation Law and f) the Stamp Tax Law.

Despite efforts to expand income and to spend more cautiously, the budgetary exercise for 1985 continued to show serious imbalances. Nevertheless, for the second year running the ratio between the fiscal deficit and the GDP was brought down (see table 22). Government expenditure grew at a higher rate than had been expected, both because an increasing share of the amount spent is devoted to defence and security¹¹ and as a result of unprecedented rises in prices and wages (see table 23). The increase in government expenditure occurred despite the decline in physical investment in real terms and the notable dwindling of service payments on the foreign debt.

In relation to the financing of the fiscal deficit, the Central Bank had an outstanding share, which rose from 79% in 1984 to 92% in 1985. For its part, the contribution of foreign credit to the coverage of the deficit fell from 17% to only 7%, while grants increased until they almost equalled the reduced amount of credit (see table 22).

¹⁰A rate of 10% was set on the value of the transfer, import and leasing of goods and the provision of services. Agricultural inputs, basic foodstuffs, books and other printed matter and goods and services for export were exempt, while for certain transactions of goods and services, rates of between 6% and 25% were imposed.

PANAMA

1. Recent economic trends: Introduction and summary

In 1985 there was a partial reversal of the trend towards stagnation experienced by the Panamanian economy in the previous biennium. The gross domestic product grew 3.3%, and although this increase was less than those observed during the boom period (1979-1982), it represented a change from the depressive trends of recent years (see table 1). Even so, the unemployment rate (11.8%) was the highest recorded in the present decade, and in urban areas, where it was mainly concentrated, unemployment reached a level of over 15%. At the same time, average wages and salaries declined, this being due, like the unemployment, to the scant dynamism of the manufacturing sector, which is mainly directed towards the domestic market (see figure 1).

Most of the features of the economy's performance —especially the lesser influence of the public sector on the economic aggregates— was the result of the adjustment policy which has been applied during the last two years, on the basis of commitments agreed upon with the international financial community. During the year a new letter of intent was signed with the International Monetary Fund (IMF), which basically emphasizes the need for an even greater restructuring and contraction of the public sector, as well as measures to render the labour market more flexible, as part of a strategy aimed at promoting exports, transferring some public enterprises to private ownership, and reducing subsidies.

The services sector and external transactions were once again those which gave the biggest boost to the economy. Re-exports, which had declined over the last three years, rose by over US\$250 million (a 17.6% increase). Exports of goods, both of traditional and non-traditional products, also went up significantly, and although in the latter case the pace was lower than in the 1970s this marked a change from the downward trend shown since 1981 by exports of goods. Likewise, income for transit services, external to the economy, grew at a real rate close to 5%, boosting the rest of the economy.

The alternative growth source, which during the 1970s basically depended on the tertiary sector (especially banking and financial services), showed lower expansion rates. According to incomplete data for the last quarter of 1985, however, the decline in deposits in the banking centre was checked and progress has been made towards a more stable situation.

Inflation rates were the lowest in recent years, despite rises in consumer prices of some foodstuffs and basic services. This evidenced the close link which exists between domestic prices and international inflation in an economy as open as that of Panama.

Central government income recovered, increasing by over 17%, and this —in conjunction with a 15% reduction in total expenditure— brought down the fiscal deficit significantly. In fact, the coefficient of the latter with respect to the domestic product declined from 12.7% to 4.1%.

One of the most critical problems which the country has had to face since 1983 has been the growing burden of the external debt on the balance of payments. In October 1985 the renegotiation begun early in the year was completed. Through this mechanism, additional credits for US\$60 million were obtained, their disbursement being conditional on the fulfillment of commitments which have given rise to political resistance. The labour organizations have challenged the proposed reforms to the labour code, and the entrepreneurial sector has moved against tax increases, both of which measures form part of the domestic adjustment package.

In brief, the application of an accelerated adjustment strategy gave rise to social tensions which may be partly responsible for the change in government which took place in September, after the resignation of President Arditto Barletta, who had been elected in 1984. Furthermore, although the gross national product went up owing to the recovery of the tertiary sector and gross national income increased by 4.8% (i.e., somewhat faster than the gross domestic product) due to an improvement in

the terms-of-trade effect which reversed its negative trend, average wages contracted in both nominal and real terms and unemployment rose to unprecedented levels.

The present government is holding negotiations with the international financial community, but these are evolving within a context of rigidity which leaves little room for accommodating domestic political tensions. The progress made in the fiscal area in 1985 could be wiped out if it proves impossible to reactivate the domestic productive sectors (especially manufacturing) or if there are obstacles to the continued expansion of basic services. It is possible that there may be a slackening in the growth of electric power generation achieved as a result of the maturing of investments made some years ago. Likewise, income from the interoceanic traffic might decline due to a possible deterioration in international trade.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
A. Basic economic indicators							
Gross domestic product at market prices (index 1980 = 100)	86.9	100.0	104.0	109.1	109.0	108.6	112.2
Gross national income (index 1980 = 100)	88.6	100.0	104.8	106.6	110.9	113.0	118.2
Population (millions of inhabitants)	1.88	1.96	2.00	2.04	2.09	2.13	2.18
Per capita gross domestic product (index 1980 = 100)	90.5	100.0	101.8	104.5	102.2	99.6	100.7
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.1	15.1	4.0	4.9	-0.1	-0.4	3.3
Per capita gross domestic product	1.8	10.6	1.8	2.7	-2.2	-2.5	1.2
Per capita gross national income	-0.8	8.5	2.6	-0.5	1.8	-0.2	2.4
Open unemployment rate	8.8	8.4		8.4	9.7	9.9	11.8
Consumer prices							
December to December	10.0	14.4	4.8	3.7	2.0	0.9	0.4
Variation between annual averages	6.5	13.8	7.3	4.2	2.1	1.6	1.1
Real wages and salaries'	5.9	2.5	3.3	9.2	4.8	2.3	-2.5
Current income of government	23.4	42.0	13.5	7.3	6.8	1.1	17.4
Total expenditure of government	44.2	14.1	14.3	33.5	-15.7	9.0	-15.0
Fiscal deficit/total expenditure of government	47.5	34.6	35.1	47.8	33.9	38.7	15.3
Fiscal deficit/gross domestic product	15.8	10.4	11.0	18.2	10.6	12.7	4.1
Current value of exports of goods and services	21.3	537.6	12.0	-5.1	-30.6	0.5	15.8
Current value of imports of goods and services	24.7	175.8	10.7	-8.2	-23.7	6.7	5.0
Terms of trade (goods and services)	-6.2	-9.1	-6.1	-6.5	11.3	2.2	0.4
Millions of dollars							
C External sector							
Trade balance (goods and services)	-228	-261	-329	-123	103	-69	139
Net payments of profits and interest	-98	-56	-362	37	110	-85	-268
Balance on current account	-363	-377	-23	-152	143	-227	91
Balance on capital account	335	389	-52	136	-156	141	
Variation in international reserves	-21	17	-68	-9	-3	-70	
Disbursed public external debt	2 008	2 210	2 333	2 820	3 392	3 644	3 642

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Percentages.

' Wages and salaries at national level.

Refers to external public debt.

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS

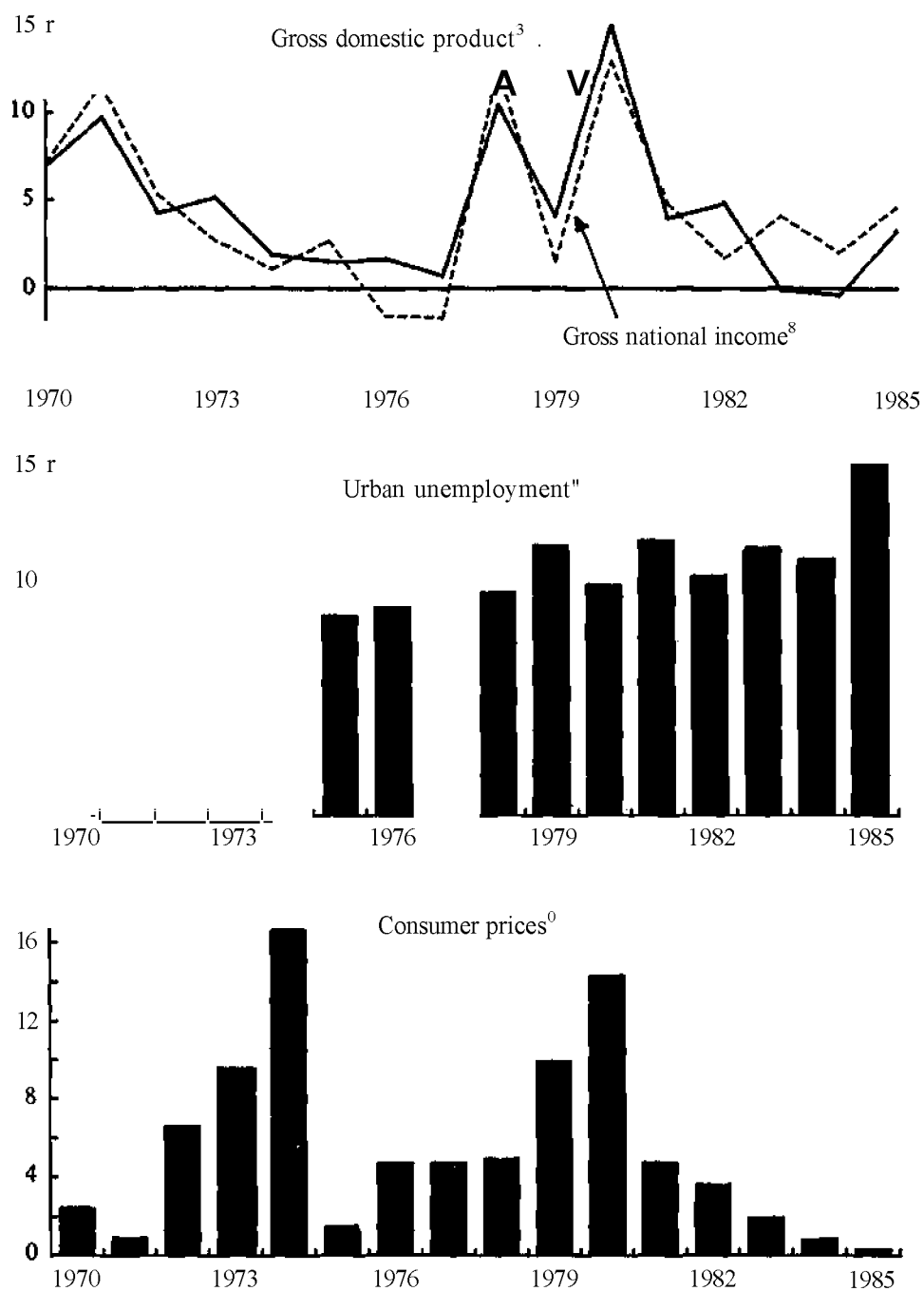
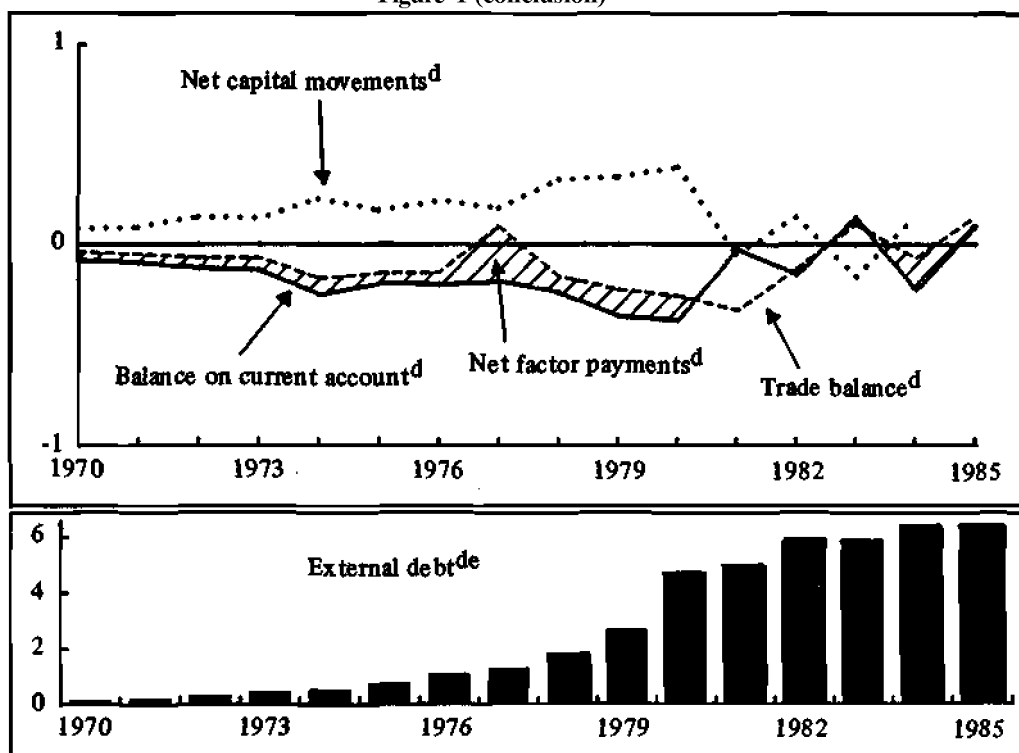


Figure 1 (conclusion)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate.

^tAnnual average national urban rate.

^cPercentage variation from

December to December.

[^]Billions of dollars.

^eUp to 1979 refers to the public debt and since

1980 to the total debt

2. Trends in economic activity

a) Total supply and demand

Total supply increased by 3.1% over the last year, thus maintaining the growth rate begun in 1978, except for the fall registered in 1983. It consequently reached a level 8.1% higher (in 1980 dollars) than that achieved in 1980, giving a sustained average annual growth rate of nearly 2% in the last five years. This was favoured by the 3.3% growth in the gross domestic product, which thus surmounted the stagnation in the 1983-1984 biennium. Imports, for their part, expanded in real terms by 2.7% which represented a marked drop from their 6.7% growth rate achieved in 1984.

On the other hand, according to provisional estimates there was a stagnation in domestic demand, basically due to a contraction in public expenditure, which was partly offset by the more favourable evolution of the private sector (see table 2).

In keeping with the austerity measures resulting from the adjustment policy, public sector expenditure was restricted as regards both government investment and consumption. The 6.2% drop in public capital formation was also due to the conclusion in 1984 of the trans-Isthmian oil pipeline as well as of some major water works. Given their size, these projects influenced the country's macroeconomic variables for several years. Government current expenditure, for its part, declined for the third year in a row.

After a sustained fall in the previous three years, private investment recovered to a certain extent (3.4%) in 1985, basically due to purchases of machinery and equipment, since private construction remained depressed.

Table 2

PANAMA: TOTAL SUPPLY AND DEMAND

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985 ^a	1980	1985 ^a	1982	1983	1984	1985 ^a
Total supply	103.2	104.9	108.1	147.4	142.0	3.8	-3.2	1.6	3.1
Gross domestic product at market prices	109.0	108.6	112.2	100.0	100.0	4.9	-0.1	-0.4	3.3
Imports of goods and services	90.8	96.9	99.5	47.4	42.0	14	-10.2	6.7	2.7
Total demand	103.2	104.9	108.1	147.4	142.0	3.8	-3.2	1.6	3.1
Domestic demand	102.9	108.1	107.9	103.3	99.4	2.2	-4.1	5.1	-0.1
Gross domestic investment	82.8	75.3	79.1	27.7	19.5	-7.1	-20.8	-9.1	5.0
Gross fixed investment	91.2	85.7	85.7	24.3	18.6	0.9	-22.6	-6.0	-
Construction	90.7	80.3	79.3	15.9	11.2	13.9	-28.8	-11.5	-1.3
Machinery and equipment	91.9	95.8	97.7	8.5	7.4	-20.7	-7.7	4.2	2.0
Public	73.7	74.7	70.1	9.9	6.2	28.1	-35.6	1.4	-6.2
Private	103.2	93.2	96.4	14.4	12.4	-11.3	-14.1	-9.6	3.4
Changes in stocks	22.9	0.6	31.4	3.4	0.9				
Total consumption	110.3	120.1	118.5	75.6	79.8	5.9	1.8	8.9	-1.3
General government	120.7	111.1	105.5	19.1	18.0	9.1	-5.9	-8.0	-5.0
Private	106.7	123.2	122.9	56.5	61.9	4.6	5.1	15.4	-0.2
Exports of goods and services	103.8	97.3	108.5	44.0	42.6	8.0	-0.8	-6.3	11.6

Source: ECLAC calculations on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

^a Preliminary figures. 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 1980 values using price indexes calculated by ECLAC for the purpose.

After rising continuously in recent years, private consumption practically stagnated in 1985, reflecting the effects of the adjustment policy, which had a marked influence on the deterioration in real wages and on the increase in the unemployment rate.

Within total demand, exports of goods and services showed the greatest dynamism (almost 12% growth in real terms) as a result of a major recovery in volume, though this was partly neutralized by a drop in international prices. Services also evolved at a dynamic rate, boosted both by the Canal economy and by services in connection with the oil pipeline as from the end of 1984.

b) *Evolution of the main sectors*

The positive evolution in the value added in basic services —transport, storage and communications— resulted from an upturn in the activities of the interoceanic canal and the Colón Free Zone (see table 3). In addition, the reactivation of works begun some years before considerably increased the generation of hydroelectricity and thus gave a supply structure less dependent on non-renewable imported energy products.

On the other hand, the commercial sector continued to stagnate and the financial sector lost dynamism. The Panamanian banking system, which is highly dependent on international operations, suffered the adverse effects of the indebtedness crisis affecting the continent. At the local level, there was some boost from an increase in financial operations for the public sector.

Production of goods grew 1.2%, but performance was uneven: the greatest increment was in the agricultural sector (2.9%) while manufactures only grew by around 1%, after two years of declines, and mining and construction suffered contractions.

i) *Agriculture*. The growth rate of agricultural output, although slightly exceeding that of 1984, was less than in any of the years between 1975 and 1983 (see table 4). The livestock subsector increased more (2.3%) than crop-farming (2.1%), especially in items intended for domestic consumption, since there was a drop in meat and cattle exports. Non-tariff and sanitary restrictions continued to affect the country's export capacity.

Except for coffee, the traditional export products turned in an unfavourable performance. Banana production continued to stagnate, and although according to provisional figures the sugar-cane harvest exceeded that of 1984, its export value continued to decline due to a drop in world prices.

Among the crops included among non-traditional exports —through which it is aimed to take advantage of the access to the United States market opened up by the Caribbean Basin Initiative— some fruits and vegetables when successfully placed on the American market, thus contributing to the overall slight growth of crop farming.

Harvests of crops intended for domestic consumption maintained almost the same levels recorded in the two previous years. Rice production failed to recover the 1983 level, while output of cassava, tobacco and pineapple remained unchanged. This performance was partly due to the lack of production incentives and to the continuing deterioration in the prices received by farmers. Agricultural imports, especially those of basic grains sold in the country at lower prices than those in the market, also helped to discourage domestic production (see table 5). Only the maize harvest managed to recover its 1983 volume and even to exceed past levels, because although the producer price was lower than in 1984, there was increased demand from the livestock subsector, especially for pig and poultry feed. The slight drop in the number of poultry was offset by an increase in that of pigs.

Table 3

PANAMA: GROSS DOMESTIC PRODUCT BY KIND OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Gross domestic product	109.0	108.6	112.2	100.0	100.0	4.9	-0.1	-0.4	3.3
Goods	98.4	95.4	96.6	26.5	22.8	6.0	-9.5	-3.0	1.2
Agriculture ⁶	110.0	110.2	113.4	9.0	9.1	-1.5	3.1	0.2	2.9
Mining	109.7	83.9	80.6	0.2	0.1	7.9	-17.1	-23.5	-3.8
Manufacturing	97.0	96.5	97.4	10.0	8.7	2.2	-1.8	-0.6	1.0
Construction	85.6	75.9	75.1	7.3	4.9	20.5	-31.2	-11.3	-1.1
Basic services	128.4	123.9	130.3	23.4	27.2	11.6	8.9	-3.5	5.2
Electricity, gas and water	121.3	120.9	127.3	3.2	3.6	5.3	9.6	-0.3	5.3
Transport, storage and communications	129.5	124.3	130.7	20.2	23.6	12.6	8.8	-4.0	5.1
Other services	109.6	112.5	115.5	52.0	53.5	3.1	1.0	2.6	2.7
Wholesale and retail commerce, restaurants and hotels	93.4	94.0	94.9	17.4	14.7	-0.8	-4.6	0.6	1.0
Financial establishments, insurance, real estate and business services	116.3	119.6	122.2	14.1	15.4	3.8	4.1	2.9	2.2
Ownership of dwellings	108.9	112.0	115.2	7.0	7.1	3.2	2.8	2.8	2.9
Community, social and personal services	118.7	123.2	128.2	20.5	23.5	5.7	3.4	3.7	4.1
Government services	119.6	123.4	129.7	12.5	14.5	4.1	3.7	3.2	5.1

Source: ECLAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

"Preliminary figures.

Including livestock, forestry and fishing.

Table 4

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984 ^a	1985 ^a	Growth rates			
						1982	1983	1984	1985 ^o
Index of agricultural production (1970 = 100)	125.5	144.0	163.4	166.9	169.1	2.8	3.7	1.6	1.9
Crop-farming	106.7	111.6	120.9	119.0	121.5	-5.0	5.5	-1.6	2.1
Stock-raising	116.5	139.1	167.1	174.1	178.1	3.5	8.6	4.2	2.3
Forestry	101.3	109.2	133.6	137.1	137.9	4.3	21.6	2.6	0.6
Production of main crops									
For export									
Bananas	989	1035	1045	1 056	1 067	-1.1	1.1	1.1	1.0
Sugar cane	1 925	2 048	2 135	1 821		-19.2	2.0	-14.7	
Coffee	5	8	9	11		14.3	12.5	22.2	
For domestic consumption									
Rice	185	170	199	175	176	-9.7	13.1	-12.1	0.6
Maize	65	55	74	71	74	8.8	19.4	-4.1	4.5
Beans	4	3	3	3		-33.3	50.0	-	
Tobacco	1	2	1	1		-50.0	-	-	
Cassava	40	43	45	46	46	13	12	1.1	1.0
Pineapple	7	7	8	8	8	5.8	5.3	-	-
Coconuts	25	23	23	22	22	-0.7	-1.1	-1.1	-
Indicators of stock-raising production									
Stocks ¹									
Cattle	1 348	1 405	1 459	1 452		2.1	0.2	-0.5	
Pigs	166	212	197	195	208	-5.5	-4.4	-1.0	6.7
Poultry	3 704	4 797	5 702	6 005	5 789	-24.3	25.5	5.3	-3.6
Number of animals slaughtered ¹									
Cattle	222	215	277	284	294	15.9	-	2.5	3.5
Pigs	87	121	122	133	138	-1.5	-6.2	9.0	3.8
Poultry	8 708	13 906	17 888	19 402		-14.0	49.6	8.5	
Other products									
Miir	70	91	85	93		-	-5.6	9.4	
Eggs ¹	239	188	214	225		7.0	8.1	5.1	

Source: ECLAC, on the basis of official figures supplied by the Ministry of Agricultural Development and the Controller General of the Republic, Statistics and Census Office.

^aPreliminary figures.

^oThousands of tons.

^oThousand head.

Millions of litres.

¹Millions of units.

In the fishery subsector the catch for export increased. Fishmeal sales recovered their 1980 level and exports of shrimp and shellfish, especially as canned food, also rose, but without reaching the amounts recorded in the early years of the present decade. The government policy aimed at boosting shrimp-raising and promoting fish farms has not yet been reflected in increased output.

ii) *Manufacturing*. After the stagnation registered in manufacturing in 1984, output actually went down markedly in 1985. The most affected subsectors were the chemicals and petroleum products industry, cement and glass, and miscellaneous manufactured goods (see table 6). The performance by branches was uneven: among those with the greatest weight (nearly 50% of the subsector) the food industry grew 4.2%, while among those which account for 30% of the product, chemicals declined by almost 16%. The scant dynamism of the sector was reflected in some indirect indicators of manufacturing activity, such as the industrial consumption of electricity (which has stagnated since 1984) and employment (whose level declined below that of 1980).

The evolution of items of less relative importance, whose cumulative drop more than exceeded the increases in other branches, explains the performance of the sector as a whole. Influencing this phenomenon are the special demand features of each branch and the different roles which domestic and external components play in it. The greatest growth was in final consumer manufactures for the external market: the value of clothing exports increased by over 20%; that of processed shellfish grew by 30%, and drug sales rose by over 73 %. In contrast, the production of alcoholic beverages and tobacco, which have little access to the external market, declined. The production of alcoholic beverages dropped 13% and the value of rum exports declined by 1.3%. As regards the tobacco industry, cigarette production dropped by over 14%, whereas exports of leaf tobacco increased by almost 24% in terms of value.

Exports to the United States market within the framework of the Caribbean Basin Initiative have failed to offset either the contraction in domestic demand or the decline in sales of manufactures to neighbouring countries. Indeed, apart from the possible lack of competitiveness in some branches, the most viable export products are items such as clothing, footwear and rum, which are not included in the above-mentioned Caribbean Basin Initiative.

Despite the existence of a stated government policy aimed at fostering manufacturing and exports, reflected in the proposals to amend the labour code and in the establishment of the Panamanian Institute of Foreign Trade (IDCE), the recessive influence of the adjustment programme could not be fully offset.

Export promotion, participation in trade fairs, training in international marketing, export financing and concerted trade agreements have not yet given their fruits, and there are persistent obstacles in the areas of technology and competitiveness. These initiatives have also been curbed by the effects of the uncertainty caused by possible amendments to the labour code, the debt renegotiation process, and the introduction in August 1985 of a new tariff system. This latter measure, which aims to update the country's tariff nomenclature and to adapt tariff policy to that of the Central American countries, had the effect of increasing the protection given to domestic industry.

Table 5

PANAMA: EX-FARM PRICES

(Balboas)

	1975	1980	1983	1984	1985
Crop-farming					
Bananas"	0.%	1.04	0.94	0.86	0.75
Coffee ⁴	47.99	70.00	74.79	59.25	51.72
Rice ⁴	8.92	10.60	10.75	10.41	9.99
Maize	8.05	9.32	10.01	10.85	9.30
Beans	22.63	19.93	16.72	21.50	19.30
Tobacco	72.33	76.36 ^c	128.46 ^c	161.87 ^e	
Cassava	2.91	2.93	3.46	3.45	5.45
Pineapple"		0.29	0.25	0.31	0.36
Coconuts"	8.32	5.58	6.11	5.14	5.87
Stock-raising					
Poultry (live) ^f	0.70	0.76	0.92	0.99	1.18
Fresh mille	0.17	0.17	0.20	0.22	0.28
Eggs*	0.72	0.77	0.80	0.92	0.96
Cattle hides (dry) ^c		2.01		2.20	
General index (1971 = 100)	142.7	156.8	168.5	172.7	

Source: ECLAC, on the basis of figures; from the *Boletín de Estadística* of the Controller-General of the Republic

"Per 100 units. ^aPer quintal. ^bAt the market. ^cPer unit. ^dPer pound ^ePer bottle. ^fPer dozen.

Table 6

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984	1985 ^a	Growth rates			
						1982	1983	1984	1985 ^a
Index of manufacturing production (1971 = 100)	105.0	130.5	138.0	137.2	132.9	12	-1.3	-0.6	-3.1
Food, beverages and tobacco	119.5	159.8	168.2	166.5	173.4	0.6	0.1	-1.0	4.2
Footwear, clothing and leather products	10.6	139.8	123.0	132.1	147.3	-2.0	-20.3	7.4	11.5
Wood, furniture and fittings	69.1	69.5	75.5	80.6	89.5	1.9	-7.1	6.8	11.0
Paper, printing and publishing	74.2	110.0	138.9	142.6	147.7	4.3	11.2	2.7	3.6
Chemicals and petroleum products	125.7	111.1	126.2	125.0	105.3	5.8	7.9	-1.0	-15.8
Non-metallic minerals	89.8	110.6	110.2	95.6	83.2	-4.2	-9.4	-13.2	-13.0
Basic metal industries	40.0	144.7	77.4	80.2	91.5	-4.2	-26.5	3.6	14.1
Metal products	81.3	101.6	114.8	115.7	113.1	7.5	-3.6	0.8	-2.3
Other manufactures	100.0	100.9	160.7	161.4	139.3	-23.7	38.9	0.4	-13.7
Production of some important manufactures									
Sugar	128.9	174.3	178.0	249.3	253.2	16.4	-9.5	40.1	1.6
Alcoholic beverages ⁰	49.6	76.3	79.3	82.3	71.4	2.0	-0.8	3.8	-13.0
Beer		67.0	70.8	73.4	79.7	2.6	-0.7	3.7	8.5
Rum			6.5	6.5	5.9	-4.8	-6.3	0.1	-9.5
Carbonated beverages ⁰	59.8	83.1	81.2	85.8	110.2	-6.8	5.7	5.7	28.5
Evaporated, condensed and powdered milk	16.3	24.7	18.0	17.8	19.2	-11.7	7.8	-0.9	7.9
Tomato products	7.0	6.4	7.3	7.5	7.5	35.8	35.9	2.2	0.3
Cigarettes	1 045.2	1 083.6	981.0	911.3	779.7	-4.6	-2.0	-7.1	-14.4
Footwear ¹	1 383.7	1 322.5	1 383.2	1 390.4	1 587.5	20.6	-26.3	0.5	14.1
Other indicators of manufacturing activity									
Gas consumption ⁰	79.8	97.4	109.0	118.3	124.8	4.1	3.8	8.5	5.5
Industrial consumption of electricity ¹		162.0	219.0	219.0		15.9	0.5	-	
Employment ⁸	42.9	52.9	36.5			3.8	2.5		

Source: ECLAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

^aEstimated figures. ^bThousands of tons. ^cMillions of litres. ^dMillions of units. ^eThousands of pairs. ^fMillions of kWh. ^gThousands of workers.

iii) *Other sectors.* In 1985, the infrastructure works undertaken as part of an energy policy designed to reduce the country's dependence on oil were completed. The composition of the country's electric power sources has undergone a substantial transformation in recent years. In 1983 more than 60% of this power was supplied by thermal stations, but this share declined in 1984 to slightly over 32%, and in 1985 to 21% (see table 7). At the same time, electricity output was increased by nearly 14%, by using more fully the installed capacity of generating plants.

Construction activity registered a drop despite a substantial increase in the building permits granted, especially in the Colón and Panama districts (see table 8). Furthermore, this decline occurred despite the adoption of promotion measures, which included subsidized interest rates on mortgage loans for the building of dwellings. This situation was partly due to the public sector's withdrawal from direct construction activities. The sector was affected by increasing speculation which caused the current value of constructions to rise —particularly in the cities of Panama and Colón— in spite of supply surpluses both of dwellings for high-income groups and buildings for industrial and commer-

cial use. There was a partial recovery in the production of building materials, encouraged by an increase in the number of permits requested. Thus, the drop in cement production was less marked than in 1984, while structural steel prices recovered from the contraction suffered since 1980, although without reaching that year's level.

iv) *Basic services.* Transport through the Canal, storage, the oil pipeline operation and the Colón Free Zone services grew by over 5% (see table 3).

Table 7

PANAMA: INDICATORS OF ELECTRICITY
PRODUCTION AND CONSUMPTION

	1980	1983	1984	1985 ^a	Growth rates			
					1982	1983	1984	1985 ^a
Production	1 812	2 238	2 211	2 414	10.1	7.2	-1.2	13.8
Hydroelectric	964	866	1491	1907	-19.5	-19.5	72.4	46.8
Thermal	848	1 372	720	507	80.1	35.4	-47.6	-54.8
Capacity of generating plants ^b	527	545	840	***	4.0	54.2	>•	
Total consumption	1 469	1 851	1 817	1 980	7.8	10.5	-1.8	9.0
Residential	444	528	522		5.9	5.0	-1.1	
Commercial	443	568	574		7.0	6.6	1.1	
Industrial	162	219	229		16.0	0.5	4.6	
Public and others	395	536	492		7.1	27.3	-8.2	

Source: ECLAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office, and *Boletines de Estadística Eléctrica*, Institute of Water Resources and Electrification (IRHE).

^aEstimated figures.

Millions of kWh.

^bMegawatts.

Table 8

PANAMA: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1983	1984	1985 ^a	Growth rates			
						1982	1983	1984	1986 ^b
Area constructed ^c (thousands of m ²)	176	401	323	378	...	44.9	-43.7	17.0	...
Dwellings	94	208	175	302		16.9	-42.4	72.6	
Value of constructions (millions of balboas)	48.6	123.5	116.6	119.3	187.3	26.9	-31.6	2.3	57.0
Production of some construction materials									
Structural steel (thousands of tons)	3	22	12	11	14	-5.3	-33.3	-8.3	27.3
Cement (thousands of tons)	348	322	335	304	292	13.6	-4.3	-9.3	-4.0
Bricks (millions)	1		1	1	1		100.0		
Employed population ^c	30 470	30 565	34 820	31 555		...	-9.5	-9.4	

Source: ECLAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

^aEstimated figures.

^bAccording to building permits requested

^cHousehold survey data.

Table 9

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1975	1980	1982	1983	1984	1985°
Thousands of persons ⁶						
Labour force	492.8	537.3	612.6	661.6	681.2	714.2
Employed	461.2	492.4	561.1	597.3	613.6	629.7
Unemployed	33.0	44.9	51.5	64.2	67.6	84.5
Participation ¹⁷	55.0	51.6	53.7	56.1	55.9	56.8
Unemployment rates						
National	6.4	8.4	8.4	9.7	9.9	11.8
Urban		9.9	10.3	11.5	11.0	15.2
Rural		6.2	5.9	7.4	7.4	7.6

Source: ECLAC, on the basis of figures from the 1980 National Population Census; household surveys performed by the Controller-General of the Republic, Statistics and Census Office, and the Ministry of Labour and Social Welfare.

⁶Preliminary figures. ¹⁷Population 15 years and over. [°]economically active population as a percentage of the working-age population (15 years and over).

Government earnings from the Panama Canal—in addition to the annual sum paid by the Canal Commission, which amounts to 10 million balboas— included a similar amount for services rendered on that waterway, as well as tolls for over 53 million balboas, as against 49 million in 1984 and 51 million in 1983. Income from the oil pipeline operation (5 cents per barrel of oil transferred) rose from 9.7 million balboas in 1984 to 11.8 million in 1985, according to data supplied by the Controller-General of the Republic.

The value of government services grew by over 5%, despite the already mentioned decline in central government current expenditure (which remained practically unchanged since it only dropped 0.5%) and the sharp contraction in investment. This was largely due to the fact that decentralized bodies continued to expand their expenditure at a high rate.

c) *Evolution of employment*

In 1985 there was a sharp increase in the national unemployment rate, which rose from 9.9% to 11.8%, while the ratio of the economically active population to the working-age population expanded only slightly. In other words, a greater share of the working-age population actively sought paid employment without finding it (see table 9).

The fact that there was a small increase in rural unemployment, despite the slight upturn in agricultural production, occurred because the more labour-intensive crops (bananas and sugar cane) turned in an unfavourable performance and the expansion of other crops was not enough to absorb the growth in the rural population of working age. Part of the population surplus from rural areas moved to the urban centres, thus leading to the larger coefficients of urban open unemployment.

In the face of growing unemployment, the government decided to alleviate the labour costs of small productive enterprises which use labour-intensive techniques, and it proposed the amendment of various articles of the labour code to this end.

The proposed law considers as small enterprises those having 10 or less permanent or staff workers, in the case of crop-farming, livestock or services; 15 or less in the manufacturing sector; and 20 or less in agroindustrial enterprises.¹ Among the mechanisms proposed for this type of enterprises are the following: to establish in the case of overtime work maximum additional pay of 25 % over the wage paid by agricultural and small manufacturing enterprises engaged in exports; to

¹Previously, the distinction was generally drawn as from five workers.

liberalize the recruitment criteria by not upgrading work carried out in the country for two or more seasons to the category of an indefinite contract; not to consider as a worker anybody who performs a task under an agreement whereby he receives raw materials or objects which he transforms or processes at home without direct supervision of the buyer of the finished product; to establish that the income of piecework workers, together with bonuses, supplementary allowances, commissions and shares in the profits cannot be converted into time-unit wages, and also that periodic changes in income due to fluctuations in production or in sales cannot be transformed into time-unit wage increases.

These proposals have been challenged by labour organizations which refuse to waive acquired rights and to leave unprotected the workers in the lowest strata of the labour force.

3. The external sector

Despite the stagnation in the terms of trade in goods and the sustained pressure of the external debt, the external sector was not a restrictive factor for the Panamanian economy. After the high current-account deficit recorded in the previous year, 1985 witnessed a surplus, mainly connected with the expansion in exports of goods and services (10.2%). It was also possible to curb to a certain extent the increase in imports of goods and services (3.2%). This permitted a slight reduction in the relative weight of the external debt service, which, thanks to the credits received by the official sector, could be covered completely.

In July a new tariff system was put into force which generalized the application of *ad valorem* rates on the CIF rather than the FOB value of merchandise, leading to a considerable rise in duties. Through this tariff system it was possible, on the one hand, to increase fiscal revenue and to standardize duties in terms of value, eliminating unit tariffs, and on the other, to adapt the tariff provisions to those in force in the international environment and to raise the level of effective protection.

Table 10
PANAMA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS"

	1981	1982	1983	1984	1985*
Growth rates					
Exports					
Value	12.0	-5.1	-30.6	0.5	15.8
Volume	9.1	11.4	-30.3	-4.3	18.2
Unit value	2.7	-14.8	-0.5	5.1	-2.0
Imports					
Value	10.7	-8.2	-23.7	6.7	5.0
Volume	-0.4	-3.4	-16.0	6.2	7.3
Unit value	11.1	-4.9	-9.2	0.5	-2.1
Terms of trade	-7.5	-11.4	8.1	2.5	-0.4
Indexes (1980 = 100)					
Purchasing power of exports	100.9	99.6	75.1	73.7	86.8
Volume of exports	109.1	121.5	84.7	81.1	95.8
Terms of trade	92.5	81.9	88.6	90.9	90.5

Source: EC LAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.
*Includes the Canal Zone as from 1980. ^Preliminary figures.

Table 11

PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total ¹¹	1 674	1 683	1 949	-	-	-5.1	-30.6	0.5	15.8
Re-exports from free zones ¹	1 370	1 418	1 668	-	-	-6.0	-33.7	8.5	17.6
Subtotal	304	256	281	100.0	100.0	0.6	-11.9	-15.8	9.8
Main traditional exports	232	179	204	78.6	72.7	-3.8	-2.0	-22.8	13.9
Sugar	41	33	22	18.6	7.9	-53.7	62.0	-19.4	-33.5
Bananas	75	75	77	17.4	22.4	-4.6	13.6	-0.5	3.1
Coffee beans	15	12	24	2.9	8.7	-10.4	25.6	-21.1	102.9
Fresh shrimps	51	49	56	12.4	20.0	23.9	-2.8	-4.3	14.2
Beef	4	2	-	0.9	0.1	84.3	-19.6	-63.4	-92.9
Cattle	3	-	-	0.3	0.1	69.2	54.5	-88.2	-
Fish meal	6	3	6	2.9	2.0	-62.8	243.8	-50.9	107.7
Petroleum products	37	6	19	23.2	6.8	20.4	-48.1	-84.7	237.5
Main non-traditional exports	33	35	38	8.3	13.6	19.4	-17.0	6.0	8.8
Cocoa beans	-	-	1	3.4	0.1	-100.0	100.0	50.0	50.0
Raw cattle hides	1	-	-	0.6	-	300.0	-	-94.5	-
Scrap metal	2	2	1	0.3	0.6	-43.7	66.7	46.7	27.8
Clothing	8	9	11	2.7	4.0	23.6	-56.1	22.4	21.0
Processed shellfish	6	5	7	0.2	2.5	38.6	34.2	-14.6	30.3
Fruit extracts	2	2	1	0.4	0.4	13	82.4	15.6	-60.0
Banana pulp	3	2	3	0.6	1.1	-41.0	42.1	-25.1	24.6
Cocoa butter and paste	2	4	3	0.2	1.1	103.4	-0.3	94.1	-27.7
Rum	3	2	2	1.1	0.7	-33.9	27.4	-22.6	-1.3
Leaf tobacco	2	2	2	0.4	0.7	4.1	-7.1	-12.4	23.9
Drugs	2	2	2	0.4	0.9	40.2	-30.8	-1.1	73.3
Cosmetics	1	1	1	0.3	0.7	-0.6	49.5	-14.3	59.0
Cardboard boxes	1	1	1	0.8	0.5	23.4	-17.8	27.0	0.8
Footwear	1	2	1	0.3	0.4	126.4	-23.8	27.7	-41.1
Others	38	42	38	13.1	13.7	-15.3	-1.8	-1.1	-8.2

Source: ECLAC, on the Basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

°Estimated figures.

1 Taken from the balance of payments.

°Colon Free Zone.

a) *Trade in goods*

The value of exports of goods grew less than the income from Canal services and re-exports. The latter included, besides those made through the Colón Free Zone, exports of petroleum products, which showed a considerable upturn in 1985. In addition, it should be noted that the increase in revenue was due to the efforts aimed at raising the volumes exported, since unit values suffered a 2 % decrease (see table 10).

Exports of traditional products expanded more quickly, although the external sales of some of them, such as sugar, recorded new drops, and those of livestock products declined for the second consecutive year (see table 11). In contrast, exports of fish meal recovered and those of coffee recorded a remarkable upturn, boosting exports of these commodities as a whole (see table 12).

The export diversification effort, added to the decline or stagnation in some traditional items, meant that the new export products accounted for almost 14% of total exports of goods. This indicates a gradual change in the composition of Panamanian foreign trade (see table 11). These products, which have a relatively low degree of processing, were concentrated in the food, clothing and footwear branches.

The weakening of export prices, reflected in a drop in the unit value of exports of goods, together with an almost equal drop in the unit value of imports of goods, meant that there was a stagnation in the terms of trade (see table 10). However, there were major price increases in imports, due in part to an increase in the purchase cost of automobiles and transport equipment, as well as of manufactured imports, mainly from Asia, in which the appreciation of certain currencies with respect to the dollar made them more expensive. The greatest import increases were in the field of foodstuffs and vegetable fats and oils, thereby increasing the country's food dependency (see table 13).

b) *Trade in services*

Sales of services, as already indicated, yielded a surplus on the trade balance and on the current account (see table 14). In particular, income from the oil pipeline operation offset the decrease in transit of tankers through the Canal. However, there appears to be no evidence that there might be sustained rapid growth in the future in such income.

The vulnerability of the Panamanian economy in respect of variations of the world market, over which the country has little control, has led the government to consider several options in order to increase external income. Thus, a number of possible projects envisaged in the treaties signed between President Torrijos and President Carter have been analysed, including the building of an

Table 12
PANAMA: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Sugar	107.0	120.0	82.1	74.4	10.2	12.1	-31.6	-9.4
Bananas	632.7	732.7	736.4	770.3	-1.3	15.8	0.5	4.6
Coffee beans	4.3	5.6	4.3	5.7	-15.7	30.2	-23.2	133.3
Fresh shrimps	7.7	6.9	6.7	7.8	5.5	-10.4	-2.9	15.7
Beef	4.6	2.0	0.7	0.5	100.0	56.5	-67.9	-92.9
Fish meal	4.4	14.8	6.9	23.0	-62.4	236.4	-53.4	333.3
Petroleum products	370.6	193.9	29.1		52.6	-47.7	-85.0	11 050.0
Cocoa beans	-	-	0.2	0.3	-	-	100.0	49.9
Cattle	1.3	3.1	0.5	0.3	62.5	138.5	-83.9	-40.0
Raw cattle hides	1.4	1.7	0.3	-	366.7	21.4	82.4	-100.0
Scrap metal	2.4	2.0	6.9	3.7	-53.8	-16.7	245.0	-46.0
Clothing	0.6	0.3	0.4	0.4	50.0	-50.0	33.3	-
Fish and shellfish	2.3	2.2	2.4	3.6	-8.0	-4.4	9.1	50.0
Fruit extracts	0.9	1.6	1.4	0.4	12.5	77.8	-12.5	-75.0
Banana pulp	5.1	7.8	6.0	7.3	-44.0	52.9	-23.1	20.9
Cocoa butter and paste	0.9	1.0	1.3	0.8	200.0	11.1	30.0	-40.0
Rum	1.7	2.3	1.6	1.6	-39.3	35.3	-30.4	-
Leaf tobacco	0.5	0.9	0.6	0.8	-76.8	80.0	-33.3	33.3
Cardboard boxes	1.8	2.1	1.3	2.3	51.4	16.7	-38.1	77.8
Prepared hides	3.1	2.8	3.2	2.2	416.7	-9.7	14.3	-31.0
Others	77.6	88.0	55.2	69.2	7.0	13.4	37.3	25.4

Source: ECLAC, on the basis of figures provided by the Controller-General of the Republic, Statistics and Census Office.

°Estimated figures.

Table 13

PANAMA: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1983	1984	1985 ^a	1980	1985	1982	1983	1984	1985 ^c
Total*	2 322	2 478	2 603	-	-	-8.2	-23.7	6.7	5.0
Free Zone ^c	1 055	1 210	1 359	-	-	-14.1	-34.2	14.6	12.3
Into the country, according to economic use	1 267	1 268	1 244	100.0	100.0	3.5	-12.1	0.1	-1.9
Consumer goods									
Foodstuffs	197	212		7.5		6.1	2.9	7.4	
Raw materials and intermediate goods									
Crude petroleum	324	282	175	29.9	14.1	7.8	-13.4	-3.7	-38.1
Capital goods	210	177		14.9		7.7	28.1	-15.5	
Into the country, according to tariff sections	1 267	1 268	1244	100.0	100.0	3.5	-12.1	0.1	-1.9
Food products	108	104	111	7.5	9.0	6.1	3.8	-3.7	6.7
Beverages and tobacco	8	8	7	0.6	0.5	8.0	-12.2	2.5	-16.2
Non-edible raw materials, except for fuels	7	7	6	0.6	0.5	-7.6	-11.3	4.2	-15.5
Fuels and lubricants, mineral and allied products	375	341	255	32.1	20.5	-1.9	-8.6	-9.0	-25.1
Oils and fats of vegetable origin, except for edible margarine and lard	15	15	32	1.4	2.6	12.7	-	0.7	112.8
Chemicals	148	160	153	10.2	12.3	1.4	3.8	7.8	-4.5
Manufactured articles, according to material used	205	225	231	18.2	18.5	-1.1	-21.3	9.7	2.4
Machinery and transport equipment	281	264	266	20.1	21.4	13.8	-22.9	-5.8	0.8
Others	120	144	183	9.2	14.7	3.3	-5.4	20.0	26.7

Source: ECLAC, on the basis of figures provided by the Controller-General of the Republic, Statistics and Census Office.

^aPreliminary figures. ^bTaken from the balance of payments. ^cCalculated by subtraction.

alternative canal, the enlargement of the existing one, the construction of a "dry canal" for containers with modern port facilities at each end, or the establishment of industrial free zones for the development of highly specialized activities.

c) *External indebtedness*

Public indebtedness stopped growing for the first time in five years, and its weight as a proportion of exports of goods and services was slightly reduced (see table 15).

Due to the persistent pressure of debt servicing on the economy, the government renegotiated the 1985 and 1986 maturities, amounting to US\$597 million, over a period of 12 years with three-and-a-half years of grace and a spread of 1.375% over LIBOR. At the same time, it obtained short-term credit lines for US\$218 million and a new credit of US\$60 million for a nine-year period, with three years of grace and a spread of 1.625% over LIBOR or 1.25% over prime rate. The renegotiation lasted almost six months, partly because of difficulties in reaching a domestic political consensus on the terms of the letter of intent which the government would have to sign with the International Monetary Fund.

Table 14
PANAMA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980 ^a	1981	1982	1983	1984	1985 [*]
Balance on current account	-363	-377	-23	-152	143	-227	91
Trade balance	-228	-261	-329	-124	103	-69	139
Exports of goods and services	1 138	3 373	3 689	3 580	2 969	2 981	3 286
Goods FOB	356	2 267	2 540	2 411	1 674	1 683	1 949
Real services ^b	782	1 106	1 149	1 169	1 296	1 298	1 336
Transport and insurance	127	563	595	633	730	723	750
Travel	215	171	175	174	172	186	200
Imports of goods and services	1 366	3 631	4 018	3 703	2 866	3 050	3 147
Goods FOB	1 086	2 995	3 315	3 045	2 322	2 478	2 603
Real services ^b	280	640	703	659	545	572	544
Transport and insurance	160	480	527	479	373	403	366
Travel	48	56	65	81	71	67	65
Factor services	-95	-64	354	27	100	-95	5
Profits	-38	-71	-39	-46	-92	-73	-67
Interest received	1435	4 362	6 231	5 826	4 323	3 899	3 085
Interest paid	-1495	-4 347	-5 830	-5 743	-4 122	-3 911	-3 285
Others	3	-8	-8	-10	-10	-10	273
Unrequited private transfer payments	-39	-52	-48	-55	-60	-63	-53
Balance on capital account	335	389	-52	136	-156	141	200
Unrequited official transfer payments	52	67	79	101	104	111	137
Long-term capital	314	-721	570	1 199	179		
Direct investment (net)	50	-47	6	3	56		
Portfolio investment (net)	204	-885	203	352	63		
Other long-term capital	60	211	361	845	60		
Official sector ^c	114	215	84	368	161		
Loans received	225	284	217	553	232		
Amortization payments	-111	-66	-131	-183	-70		
Commercial banks ^d	43	42	134	256	-13		
Loans received	43	42	135	256	4		
Amortization payments	-	-	-	-	-17		
Other sectors ^e	-97	-45	142	221	-87		
Loans received	99	111	303	334	145		
Amortization payments	-196	-159	-166	-114	-235		
Short-term capital (net)	391	380	-459	-1 123	-63		
Official sector	-3	2	2	5	1		
Commercial banks	433	-385	-87	-630	67		
Other sectors	-38	763	-374	-499	-131		
Errors and omissions (net)	-421	663	-242	-40	-376	30	88
Global balance ^f	-27	11	-75	-15	-13	-86	291
Total variation in reserves (- sign indicates an increase)	21	-17	68	9	3	70	
Monetary gold	-	-	-	-	-	-	
Special Drawing Rights	-	4	-2	-1	4	-	
IMF reserve position	2	-7	10	-	-9	9	
Foreign exchange assets	30	5	-11	20	-100	-19	
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-11	-18	71	-10	109	79	

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official figures.
^aAs from 1980 the figures include the Canal Zone. ^bPreliminary figures. ^cIncluding other non-factor services. ^dIncluding net loans granted and other assets and liabilities. ^eEquivalent to the total variation in reserves (of opposite sign) plus counterpart items.

Table 15

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985
Millions of dollars						
External public debt						
Long- and medium-term	2 196	2 297	2 793	3 363	3 632	3 610
Short-term	14	36	27	29	12	32
Disbursements	397	391	334	731	803	625
Servicing	466	493	614	517	613	491
Principal	214	214	282	235	308	192
Interest"	252	279	332	282	305	299
Percentages						
Ratios						
Servicing/disbursements	117.4	126.1	183.8	70.7	76.3	78.6
External public debt/exports of goods and services	65.1	62.3	78.0	113.3	121.8	109.9
Servicing/exports of goods and services	13.8	13.4	17.2	17.4	20.6	14.9

Source: ECLAC, on the basis of figures provided by the Controller-General of the Republic, Statistics and Census Office.

"Refers to "interest paid" item of the balance-of-payments current account.

The debt renegotiation was begun in 1984 in view of the huge burden of public indebtedness, both with respect to the domestic product and to exports. In 1982 the public debt represented approximately 78% of the value of exports of goods and services, and in 1984 it amounted to more than 120% of such exports.

Although the terms of the renegotiation completed in October 1985 were more favourable than previous ones, they will still imply adjustments, and therefore the scanty resources available for investment and the reduced State participation in the economy will make it impossible to increase employment and to reach economic growth rates similar to those registered at the beginning of the decade.

With regard to the external debt renegotiation, a structural adjustment programme was proposed which included the following main elements: a) reorganization of the public sector, with emphasis on the reduction of its size, the gradual elimination of housing, water and electricity subsidies and of early retirement facilities, and the transfer to private ownership of some decentralized enterprises; b) flexibilization of the labour market through changes in the labour legislation; c) promotion of both traditional and non-traditional export activities, and d) reactivation of the private sector as the main generator of investment, employment and exports.

4. Prices and wages

a) *Prices*

Because of the open character of the Panamanian economy, domestic prices follow the movements observed in international prices and, especially, the variations recorded in the United States economy. Consequently, the gap between the Panamanian price indexes and those of the United States has rarely exceeded 20% (see table 16).

In 1985 the general price index remained among the lowest in the continent and followed a downward trend (see table 17). However, some differences persisted between the evolution of the prices of agricultural goods, wholesale prices and consumer prices (see table 5). The decline in

Table 16

PANAMA: EVOLUTION OF THE EXCHANGE RATE

(Index: 1970 = 100)

	Exchange rate (balboas per dollar)	Exchange rate	Domestic wholesale price index	External wholesale price index"	Adjusted real exchange rate index <2>/<4> (4)	Parity rate (3)/(4)
	(1)	(2)	(3)	(4)	(5)	(6)
1970	1 000	100.0	100.0	100.0	100.0	1.00
1980	1 000	100.0	300.7	243.6	81.0	1.23
1981	1 000	100.0	330.9	265.8	80.3	1.24
1982	1 000	100.0	358.2	271.2	75.7	1.32
1983	1 000	100.0	366.7	274.6	74.9	1.34
1984	1 000	100.0	370.4	281.1	75.9	1.32
1985	1 000	100.0	393.4	292.1*	74.3	1.35

Source: ECLAC, on the basis of official figures.

*United States wholesale price index. Preliminary figures.

Table 17

PANAMA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985"
n from December to December						
Consumer price index	14.4	4.8	3.7	2.0	0.9	0.4
Food	15.6	6.5	4.9	1.3	1.3	-0.8
Wholesale price index	13.8	8.9	7.4	1.3	2.1	4.6
Imported products	11.6	13.2	4.0	5.3	0.2	0.1
Domestic products						
Agricultural	16.2	0.8	10.7	4.0	23.2	23.2
Manufactured	14.6	8.4	8.8	-2.3	3.6	0.3
Construction materials						
Variation between annual averages						
Consumer price index	13.8	7.3	4.2	2.1	1.6	1.1
Food	12.6	9.2	5.9	2.3	1.5	0.3
Wholesale price index	15.3	10.0	8.3	2.4	1.0	3.8
Imported products	13.1	13.7	5.7	3.9	2.2	1.0
Domestic products						
Agricultural	12.4	6.8	9.8	4.0	15.7	20.1
Manufactured	17.9	8.5	9.6	0.8	-4.6	-0.3
Construction materials						

Source: ECLAC, on the basis of figures provided by the Controller-General of the Republic, Statistics and Census Office.

*Preliminary figures.

Table 18

PANAMA: EVOLUTION OF WAGES

	Indexes (1980 = 100)					Growth rates				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Average wages and salaries"										
Nominal										
Total	105.1	110.5	116.0			5.1	5.2	4.9		
Non-manual workers	104.3	110.7	114.9	118.7	116.9	4.3	6.2	3.8	3.3	-1.5
Public sector	107.6	109.7	120.0	124.1		7.6	2.0	9.4	3.4	
Private sector	105.9	105.4	112.2			5.9	-0.5	6.5		
Canal Zone	102.2	122.7	123.8	127.7		2.2	20.1	0.9	3.2	
Banking centre	105.9	115.5	127.9	133.1	133.2	55.9	9.0	10.8	4.0	0.1
Real										
Total	98.0	98.8	101.5			-2.0	1.0	2.7		
Non-manual workers	97.2	98.9	100.6	102.3	99.7	-2.8	1.8	1.7	1.7	-2.5
Public sector	100.3	98.1	105.1	107.0		0.3	-2.2	7.1	1.8	
Private sector	98.7	94.3	98.3			-1.3	-4.5	4.2		
Canal Zone	95.3	109.7	108.4	110.1		-4.7	15.1	-1.2	1.6	
Banking centre	98.7	103.2	112.0	114.7	113.7	-1.3	4.6	8.5	2.4	0.9
Minimum wages and salaries										
Nominal										
In general	125.0	125.0	147.5	147.5	147.5	25.0	-	18.0	-	-
Construction sector"	107.5	113.5	121.0	125.0	127.8	7.5	5.6	6.6	3.3	2.2
Domestic service	120.8	120.8	120.8	166.7	166.7	20.8	-	-	37.9	-
Real										
In general	116.5	111.8	129.2	127.2	125.9	16.5	-4.0	15.6	-1.6	-1.0
Construction sector"	100.2	101.5	106.0	107.8	109.0	0.2	1.3	4.4	1.7	1.1
Domestic service	112.6	108.0	105.8	143.7	142.2	12.6	-4.1	-2.0	35.8	-1.0

Source: ECLAC, on the basis of figures provided by the Ministry of Labour and Social Welfare and the Controller-General of the Republic.
 "Average salaries of non-manual workers. Whole country, except Panama City. ° Refers to wages agreed upon by means of collective agreements between the Panamanian Construction Chamber and the Consolidated National Union of Construction Workers (SUNTRACS).

purchases by decentralized enterprises, such as the Agricultural Marketing Institute, was partly responsible for the drop in producer prices, while the rise in intermediation costs influenced wholesale prices. On the other hand, food prices rose only slightly, owing to increased competition from imported foodstuffs, which, given the stagnation in domestic demand, forced retailers to reduce their profit margins (see table 13).

b) *Wages*

The stabilization and adjustment policies implemented since 1984 and the stagnation in various productive branches led to a decline in average wages, both in real and nominal terms (see table 18).

The freezing of minimum wages and salaries since 1983, unemployment and the weak growth of manufacturing caused the labour pressures for rises in wages to lose ground in comparison with other objectives, such as ensuring employment and blocking changes in the labour legislation which the unions considered detrimental to the workers' interests.

Table 19

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM^h

	Year-end balance (millions of balboas)				Growth rates			
	1982	1983	1984	1985*	1982	1983	1984	1985*
Assets	31 207	29 746	26 210	28 293	9.0	-4.7	-11.9	7.9
Liquid	7 085	8 722	6 552	8 482	24.3	23.1	-24.9	29.5
Cash	74	75	81			0.8	8.0	
Other liquid assets								
Domestic	203	1 221	148	1239		502.6	-87.9	737.2
External	6 808	7 426	6 323	7 243	26.8	9.1	-14.9	14.6
Deposits in banks								
Demand deposits	606	432	298	386		-28.7	-31.0	29.5
Time deposits	6 186	6 970	6 013	5 420	21.9	12.7	-13.7	-9.9
Deposits in IMF (SDR)	4	20	4	11		377.3	-80.0	175.0
Other	12	4	8			-66.1	100.0	
Investment	22 524	19 714	18 168	18 349	5.5	-12.5	-7.8	1.0
Credit portfolio	21233	18 367	17 029	17 205	3.8	-13.5	-7.3	1.0
Domestic	3 351	3 533	3 764	3 923	6.5	5.4	6.5	4.2
External	17 882	14 834	13 265	13 282	3.4	-17.0	-10.6	0.1
Securities	1 291	1 347	1 139	1 144	42.8	4.3	-15.4	0.4
Other assets	1 598	1 310	1490	1462	0.5	-18.0	13.7	-1.9
Liabilities and capital ⁱ	30 547	29 746	26 166	27 102	9.0	-2.6	-12.0	3.6
Demand deposits	1 123	1 257	1474	1481	4.8	11.9	17.3	0.5
Private	375	375	332	414	5.9	-	-11.5	24.7
Official entities	222	240	251	223	13.8	8.1	4.6	-11.2
Foreign individuals	257	341	296	323	-9.8	32.7	-13.2	9.1
Foreign banks	269	301	595	521	13.0	11.9	97.7	-12.4
Time and savings deposits	26 485	24 461	20 631	21652	6.3	7.6	-15.7	5.0
Individuals	1 574	2 639	1 785	1 882	13.5	67.7	-32.4	5.4
Foreign individuals	3 846	2 248	4 051	4 871	12.8	-41.5	80.2	20.2
Foreign banks	21 065	19 574	14 795	14 899	4.8	-7.1	-24.4	0.6
Liabilities	736	1 002	1 353	1 070	59.3	36.1	35.0	-20.9
Other liabilities, capital and reserves	2 203	3 026	2 708	2 899	30.0	37.3	-10.5	7.0
International reserves of the banking system	74	79	107	77		3.5	36.1	-28.1
Gold	-	-	-	-		33.3	-50.0	-
Money	74	79	107			5.5	36.2	
U.S. dollars	73	76	100			4.0	30.8	
Other currencies and bills	1	2	7			112.9	225.6	

Source: ECLAC, on the basis of figures supplied by the National Banking Commission and the Controller-General of the Republic, Statistics and Census Office.

^hRefers to the total of 70 banks (17 Panamanian and 53 foreign) which operate under general license in the country. ^hEstimated figures. ⁱExcluding operations among local banks.

Table 20

PANAMA: COMPOSITION OF THE INTERNATIONAL BANKING CENTRE"

	1983	1984	1985
Total number of establishments	124	123	122
Official	2	2	2
Under general license	67	68	67
Under international license	43	41	41
As field offices	12	12	12
Total assets of the Centre (millions of balboas)	42 786	37 988	38 954
Assets of the national banking system (millions of balboas)	29 746	26 210	28 324

Source: National Banking Commission and Banco Nacional de Panama.

"At December of each year.

5. Fiscal and financial policies

a) *Financial activity*

The reduction in the fiscal deficit achieved in 1985 —mainly through an increase in indirect taxes— and the readjustment of various government service tariffs, which raised non-tax income, failed to reduce the financing needs of the public sector. In fact, as the amount of external financing declined (-36%), greater use was made of domestic credits, which rose from 111 to 148 million balboas in the course of the year. At the same time, deposits by official bodies in the banking system dropped 11.2%, so that the monetary and financial policy had a restrictive nature.

The contribution made to the gross domestic product by the Panamanian international banking and financial centre, which includes all banks in the country, remained at the depressed level of the previous year, despite the slight increase in assets and investments recorded in the last quarter.

After the decline in liquid assets in 1984 and the contractions in the external portfolio recorded in 1983 and 1984, there was a slight recovery stemming from domestic operations (in contrast with external operations, which remained depressed) and from demand deposits (in contrast with time deposits, which declined 99%) (see table 19).

The slight expansion in the credit capacity of the banking system —especially towards the end of the year— did not lead to greater resource availability for the private sector, since the central government notably increased its domestic indebtedness in order to make amortization payments for credits received in previous periods.

Since 1983 there has been a reduction in the number of banks and in the volume of their operations. The biggest drops were in the international institutions² (see table 20). The banking system's assets dropped between December 1983 and December 1985 from almost 30 billion balboas to 28 billion balboas, directly reflecting the Latin American financial crisis. Since 1983 the international banking and financial centre began to record an outflow of funds, mainly to the United States, where the parent banks took over the management of the funds of their subsidiaries in Panama.

The credit portfolio of the financial centre deteriorated as a result of the reduction in external operations, since domestic credit continued to grow, mainly because of the financing granted to the government.

² The National Banking Commission grants three types of licences for operating in Panama: a) *general*, for operations both inside and outside the country; b) *international*, for banks which, from an office established in Panama, limit themselves exclusively to transaations which become operative abroad, and c) *representation*, for banks which are constituted according to foreign legislation and which establish field offices in Panama.

b) *Fiscal policy*

The implementation of the adjustment policy made it possible to reduce the deficit from 12.7% to 4.1% of the product between 1984 and 1985. Central government current savings reached 125 million balboas, after having recorded current deficits for several years previously (see table 21). Likewise, current income increased by over 17% through the bigger revenue from indirect taxes and the adjustment made in the tariffs and contributions of public services.

Table 21

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates				
	1982	1983	1984	1985°	1981	1982	1983	1984	1985°
1. Current income	848.0	906.0	916.0	1 075.0	13.5	7.3	6.8	1.1	17.4
Tax revenue	614.6	661.7	634.7	688.7	14.7	5.7	7.7	-4.1	8.5
Direct	331.5	366.9	321.4	362.5	23.5	5.3	10.7	-12.4	12.8
Indirect	283.1	294.8	313.3	326.2	5.8	6.1	4.1	6.3	4.1
On foreign trade	106.0	115.0	121.1	129.7	8.8	7.0	8.5	5.3	7.1
Non-tax income	233.0	244.0	281.0	256.6	8.3	12.0	4.7	15.2	8.7
2. Current expenditure	930.0	929.0	955.0	950.0	14.3	29.6	-11.0	6.0	-0.5
Wages	318.6	355.8	350.6	334.6	0.3	6.9	11.7	1.5	-4.6
Operational and management expenditure	299.4	286.2	296.4	283.4	23.1	41.3	-19.9	10.1	-4.4
Debt interest and expenditure	312.0	287.0	308.0	332.0	22.7	37.4	-8.0	7.3	7.9
3. Current savings (1-2)	-82.0	-23.0	-39.0	12.5	-72.9	331.6	-72.0	69.6	220.5
4. Capital expenditure	695.0	441.0	538.0	319.0	-17.4	55.8	-36.6	22.0	-40.7
Real investment	496.0	240.0	282.0	165.0	-26.4	47.2	-51.6	17.5	-41.5
Amortization payments on debt	199.0	201.0	256.0	154.0	32.9	82.6	1.0	27.4	-39.8
5. Total expenditure (2+4)	1 624.5	1 369.9	1 493.4	1 269.0	14.2	33.5	-15.7	9.0	-15.0
6. Fiscal deficit (or surplus) (1-5)	-777.0	-464.0	-577.0	-194.0	15.7	81.9	-40.3	24.4	66.4
7. Financing of deficit	432.4	154.8	158.0	191.4	-3.6	103.7	-64.2	2.1	21.1
Net domestic financing	41.9	48.5	55.3	58.9	6.4	-38.8	15.8	14.0	6.5
Credit received	92.0	103.0	111.0	148.1	15.5	12.2	12.0	7.8	33.4
Less amortization payments	51.0	58.0	66.0	89.8	87.5	240.0	13.7	13.8	36.0
Bond placements	0.9	3.5	10.3	0.5	-87.5	200.0	288.9	194.3	-95.1
Net external financing	299.7	7.6	2.0	44.0	29.2	8.1	-97.5	73.7	120.0
Credit received	411.0	132.9	165.7	106.4	-29.6	66.0	-67.7	24.7	-35.8
Less amortization payments	111.3	125.3	163.7	62.4	30.5	35.6	12.6	30.6	61.9
Bond placements	-	-	-	-	-	-	-	-	-
Other sources	90.8	98.7	100.7	88.5	19.4	11.1	8.7	2.0	-12.1
Percentages									
Ratios:									
Current saving/capital expenditure	-11.8	-5.2	-7.3	39.2					
Fiscal deficit/total expenditure	47.8	33.9	38.7	15.3					
Tax revenue/GDP	14.4	15.1	14.0	14.5					
Total expenditure/GDP	38.0	31.3	32.9	26.8					
Fiscal deficit/GDP	18.2	10.6	12.7	4.1					
Net domestic financing/deficit	5.4	10.5	9.6	30.8					
Net external financing/deficit	38.6	1.3	0.3	38.5					

Source: ECLAC, on the basis of figures supplied by the Controller-General of the Republic, Statistics and Census Office.

°Estimated figures.

Outstanding among the measures adopted to improve tax revenue were the increase in the annual tax on banks (with general or international licenses) and on local field offices; the 2.5 % tax on the capital of financial bodies, to be paid on 31 December of each year; the 6% increase in the tax on shipping agencies' fees for services rendered to ships within Panamanian territory, with total exclusion of deductions in respect of expenditure, costs and payments to third parties; the introduction of an additional 5 % annual tax on the gross premiums paid to insurance companies, thus raising the annual amount they pay on their total assets; and the increases in the fiscal levy on public document registration, in the price of official stamped paper, and in the taxes in respect of licenses granted to enterprises. A new external tariff system was also established which gave rise to additional revenue, as already noted, and lastly the inheritance tax was eliminated.

On the side of expenditure, there was a slight decrease in the government's current outlays. However, there was no adjustment in the decentralized public sector (which includes around 22 companies, corporations and institutes), since current expenditure increased by over 4%. The decentralized public sector deficit exceeded 198 million balboas, and this negative balance was the main source of the imbalance in public finances and forced the government to resort to greater indebtedness.

Another weakness in the structure of public finance was the drop in capital accumulation through government investment. In fact, the proposals for updating the Canal economy are conditional upon obtaining external financing and passing on to the private sector the costs and risks of the new investments. Even so, the government will have still to cover the investment costs involved in increasing the basic services infrastructure on which the expansion of private activity depends.

PARAGUAY

1. Recent economic trends: Introduction and summary

According to the statistics of the Central Bank of Paraguay, the revival of economic activity gathered strength in 1985 and the gross domestic product rose beyond the level it had reached prior to the onset of the 1982-1983 recession. Simultaneously, according to official figures, the rates of unemployment and inflation fell, although real average wages again declined.

In spite of the sharp adjustment applied to the economy, there was a further heavy loss of international reserves. Consequently, the net external debt continued to expand at an unacceptable rate in spite of the marked downturn in the rate of growth of the gross external debt (see table 1 and figure 1).

Agriculture enjoyed favourable climatic conditions throughout the 1984/1985 agricultural year. In addition to the high prices of agricultural products during the previous season and the compensatory price policies applied during the 1985 harvest, there was a spectacular increase in the production of the country's main crops, despite the very sharp drops in the international prices of those crops as from the second half of 1984. Approximately 50% of the growth in the gross added value of the economy is directly and exclusively attributable to the huge expansion of the cotton and soya bean crops.

In 1985, however, the economy underwent a severe adjustment, accompanied by a rise of over 70% in the market exchange rate, after having considerably increased its absorption of goods and services in 1984. This was due to the marked deterioration in the terms of trade, to a further shrinkage in expenditure by the Itaipú and Yacyretá binational enterprises, and to the sharp fall in the net inflow of external funds and the persistence of a considerable outflow of short-term private capital. Thus, the balance-of-payments trade account deficit had to be brought down to the equivalent of 3.2 % of the gross domestic product in 1985, after having expanded to 8.8% in 1984. Although the volume of exports of non-factor goods and services rose markedly on account of the exceptional cotton and soya bean harvests mentioned above, the narrowing of the gap between gross domestic investment and gross national savings was largely due to the compression of the volume of external purchases.

Nevertheless, the adjustment could have had an even greater impact. The country drew on international reserves of a similar amount to the loss recorded by the balance of payments and by national income on account of the deterioration in the terms of trade, i.e., by the equivalent of approximately 3 % of the gross domestic product. This fresh loss of external assets, together with the further accumulation of arrears of payments, brought down the net holdings of international reserves to a figure equivalent to three months' imports of goods and services. While the growth rate of the gross external debt slowed down considerably on account of the completion of major government investment projects and the difficulties encountered in maintaining the flow of funds from multilateral financial institutions as a result of disagreements over exchange policy, the considerable shrinkage in holdings of external assets led to an increase of almost 18% in nominal terms in the net external debt. As a percentage of the product this debt (valued at the parallel exchange rate) rose to almost 70% in 1985 (compared with 48% in 1984 and only 3% in 1981, before the onset of the recession). This trend was the result both of decisions taken to mitigate the adjustment process and of the sharp changes in relative prices caused by the major upsets which have affected the economy in recent years.

The shrinkage in the volume of external purchases affected domestic consumption. On account of the constant expansion of agriculture, gross domestic investment even revived slightly, after having remained at a low level during the previous three years and in spite of the shrinkage in external financing and the losses in income caused by the drop in export prices.

Table 1

PARAGUAY: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Indexes 1980 = 100							
Basic economic indicators							
Gross domestic product at market prices	90.0	100.0	108.7	108.0	104.7	108.1	112.5
Gross national income	92.5	100.0	110.4	109.0	104.3	109.4	111.3
Population (millions of inhabitants)	3.07	3.17	3.27	3.37	3.47	3.58	3.68
Per capita gross domestic product	92.9	100.0	105.4	101.5	95.6	95.8	96.8
Growth rates							
Short-run economic indicators							
Gross domestic product	11.3	11.2	8.7	-0.7	-3.0	3.3	4.0
Per capita gross domestic product	7.7	7.7	6.4	-3.6	-5.9	0.2	1.1
Gross national income	8.1	7.1	10.4	-1.2	-4.3	4.9	1.7
Unemployment rate ^c	5.9	3.9	2.2	5.6	8.4	7.4	5.2
Consumer prices							
December to December	35.7	8.9	8.1	8.9	14.1	29.8	23.1
Variation between annual averages	28.3	22.4	14.0	6.8	13.5	20.3	25.2
Real wages and salaries	-6.5	0.7	5.3	-2.7	-7.1	-3.5	-2.1
Money	24.5	25.8	0.1	-3.9	26.4	29.6	28.0
Current income of government	27.1	18.3	14.9	15.0	3.8	29.9	29.3
Total expenditure of government	23.6	30.4	14.5	22.2	14.4	-3.5	37.8
Global balance/total expenditure of central government	7.4	-2.6	-25.1	-14.4	-35.2	-10.9	-16.2
Global balance of central government/GDP	0.9	-1.1	-2.6	-1.7	-4.3	-1.0	-1.5
Global balance of financial public sector/GDP	1.8	-1.5	-2.6	-2.4	-7.2	-4.4	-3.2
Current value of exports of goods and services	18.2	10.2	0.1	9.0	-22.9	14.2	-4.6
Current value of imports of goods and services	38.6	15.1	16.2	8.7	-33.3	31.9	-19.4
Terms of trade (goods and services)	13.1	-16.0	6.6	-8.6	0.9	23.4	-18.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	218	-276	-412	-446	-223	-276	-142
Factor services	4	-11	31	53	-21	-55	-58
Balance on current account	210	-283	-378	-391	-252	-329	-171
Balance on capital account	372	434	421	329	255	305	84
Variation in international reserves	165	153	43	-121	-49	-3	-132.
Gross disbursed external debt	733	861	949	1 204	1 469	1 654	1 773
Net disbursed external debt	138	88	131	514	1 029	1 345	1 582

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Percentages.

¹Annual average rate in Greater Asunción.

Real wages of workers in Greater

Asunción.

²Medium- and long-term public and State-guaranteed private debt.

Gross disbursed external debt less holdings of

ner foreign assets.

While the level of external prices continued to fall, domestic inflation fluctuated considerably during 1985, and after having slackened during the first seven months it intensified alarmingly in August. The twelve-monthly variation in the Central Bank's consumer price index fell from almost 30% in December 1984 to 20.5 % in July, but then in August alone the level of consumer prices rose by over 10%. Nevertheless, during the closing months of the year inflation virtually came to a halt, and the above index rose by barely 0.1 % between October and December. In spite of adjustments to the minimum wage which meant that its nominal value increased by an average of approximately 33% over 1984, real wages of workers in Asunción and of agricultural workers declined on average by 2% and by 14-15% respectively.

In view of the falls in the international prices of the main export products and the rise in the parallel rate of exchange, at the beginning of 1985 the official exchange rate for exports was increased by 33% to 320 guaraníes per dollar. However, the official exchange rates of 160 guaraníes for servicing the external public debt and 240 guaraníes for State imports as well as certain imports of private-sector inputs were maintained.

Subsequently, the impact of the continuing decline in the above-mentioned international prices, the rise in the parallel rate of exchange and domestic inflation on the profitability of items exported at the official rate of exchange was offset by lowering the valuations established by the Central Bank for customs purposes. Although these measures helped to achieve an unprecedented harvest, exchange policy continued to unnecessarily increase the cost of the adjustment process. The average official rate of exchange remained excessively low compared with the market rate, and the number of different types of exchange rate increased, as did the gaps between them. Consequently, the system of relative domestic prices departed even further from that which would have existed without the existing exchange rate system. At the same time, the asymmetrical adjustments made in this system, such as that implemented in February, brought about a persistent rise in domestic prices. Consequently, although the exchange policy (together with the utilization of international reserves and the accumulation of arrears of payments) diminished the scale of the adjustment which took place in 1985, the system of domestic prices was subject to constant distortions and, in the final analysis, continued to hamper proper allocation of resources to export-producing and import-substituting sectors.

Moreover, the authorities remained reluctant to introduce any clear increases in taxation and to allow the rates charged by State enterprises to reflect their real production costs. Thus, total non-financial public-sector income again fell in 1985 in relation to the gross domestic product. In contrast, total non-financial public-sector expenditure expanded, although at a rate not exceeding that of inflation. As a result, the non-financial State deficit rose in 1985 to 5.2% of the gross domestic product, in comparison with a budgetary target of 4%. Furthermore, as considerably less external financing was attracted than forecast, the domestic credit created by the deficit was equivalent to approximately 4.3% of the gross domestic product, whereas in 1984 the target had been 1.5% of the product and the actual figure 2.6%. The money issue required to finance State expenditure represented more than 34% of the monetary base at the end of 1985, in contrast with the figure of 17% for the previous year.

The 1985 monetary programme had set out to hold down issue deriving from non-financial public-sector operations to no more than 2.3 % of the monetary base at the end of 1984, in line with a 16% expansion of money (M₁) and a 25% loss in net holdings of external assets. Once most of the harvest had been brought in, the bulk of the adjustment required by the failure to meet the ceilings for the allocation of credit to the public sector fell on the shoulders of the private commercial banks, which were obliged to lower their indebtedness with the Central Bank by 17% between December 1984 and December 1985 by the halting of rediscounting operations.

Even so, the growth of the money supply (M₁) was almost double the target. All in all, the financial performance of the public sector prevented inflation from declining in line with the shrinkage in liquidity which affected the private sector as from May. The considerable expansion of subsidized credits intended for the producers and processors of the main export crops during the first months of the year, which was encouraged by the Central Bank in order to counteract the negative consequences of the exchange system also contributed to the pronounced growth of domestic liquidity during the first part of the year, as well as to the evolution of the parallel exchange rate and the persistence of unusually high inflation. Although the subsequent application of a highly restrictive

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS

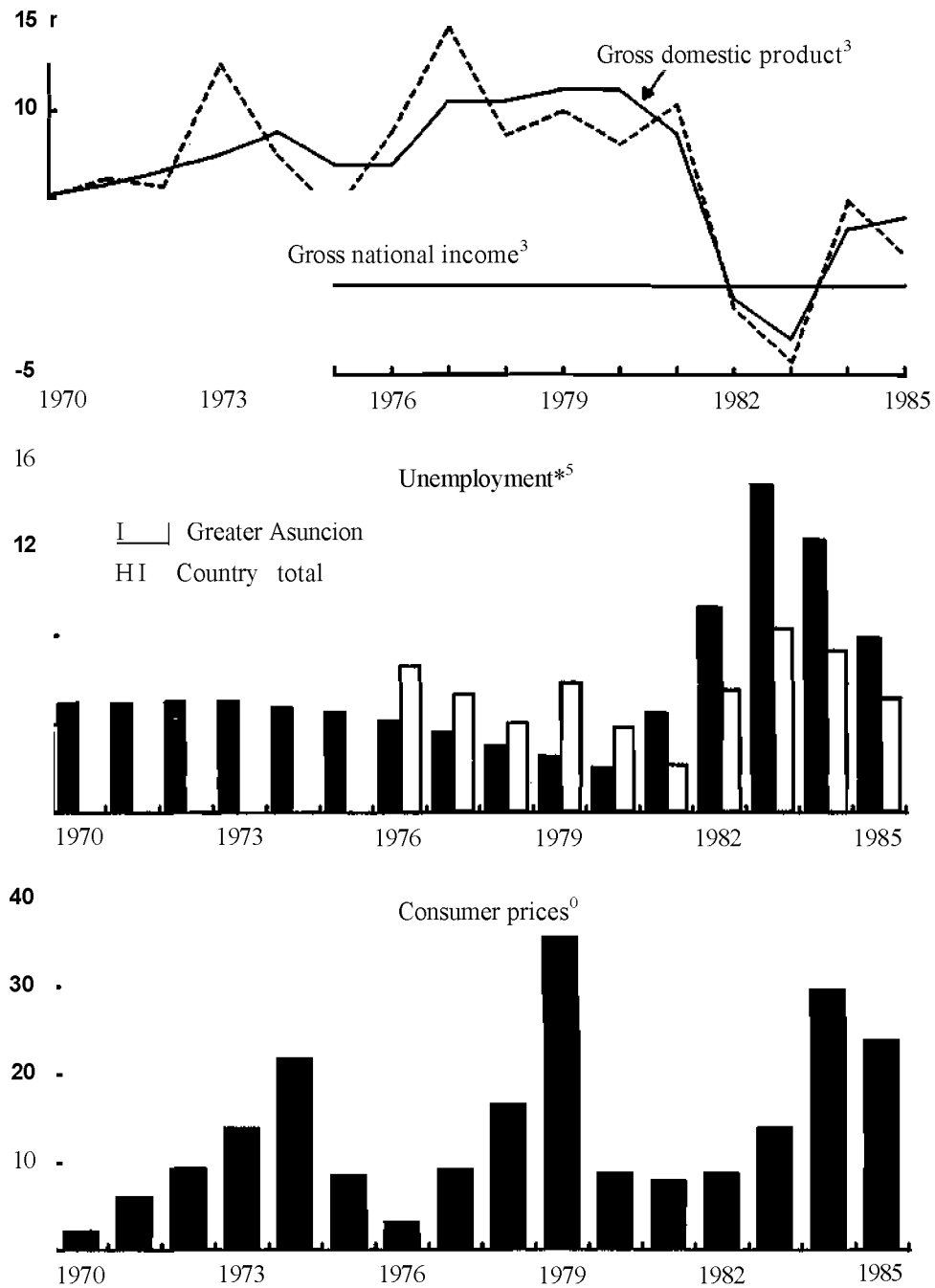
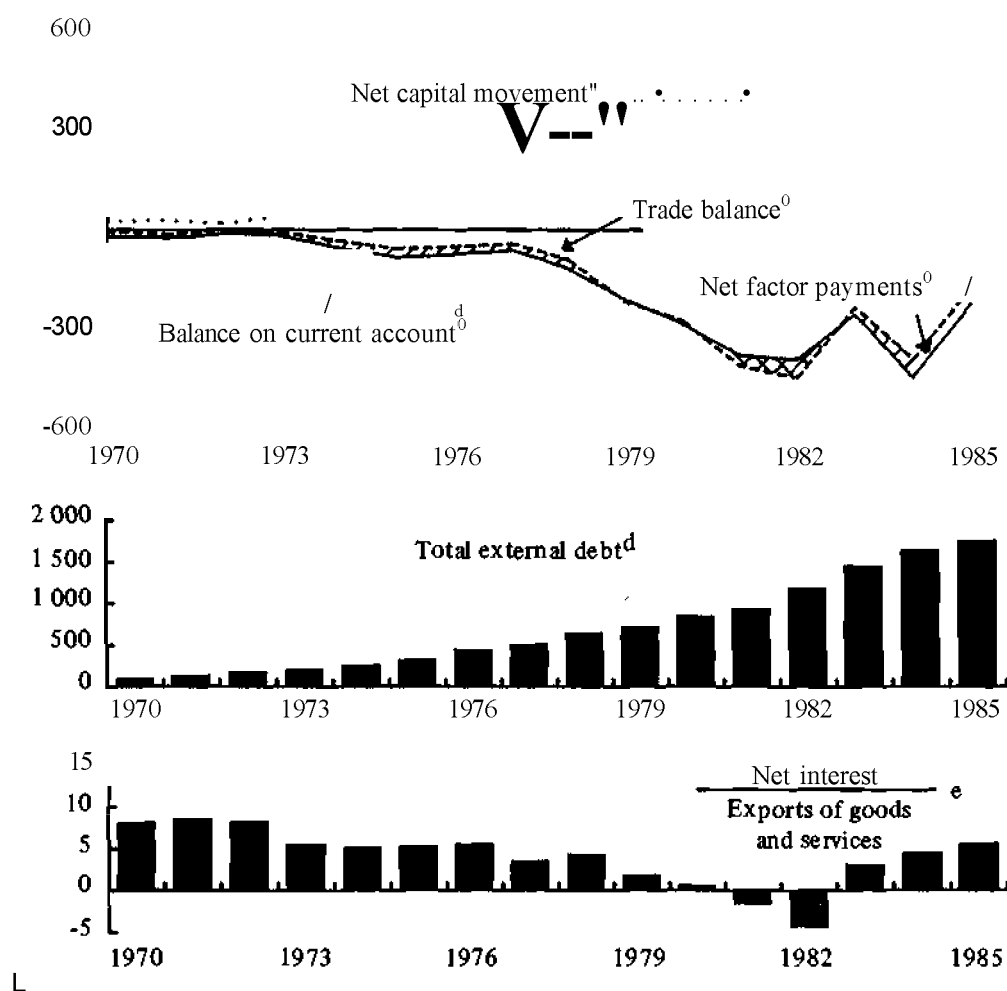


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate. ^cDecember-December percentage.

^dMillions of dollars. ^epercentages.

monetary policy to the private sector brought down the parallel rate of exchange in the closing months of 1985, as well as causing activity to fall off and the rate of inflation to slow down, the tendency (already observed in the two previous years) to pursue too expansionary a monetary policy during the first half of the year and too restrictive a policy during subsequent months became even more pronounced.

Together with the exchange-rate system and fiscal policy, monetary policy tended to render the system of relative domestic prices unstable, to institutionalize inflation and to lessen the efficiency of the economy. However, the impact was not felt in full because of the rapid growth of the external debt, the accumulation of arrears payments and the utilization of the international reserves built up during the 1972-1981 boom.

2. Trends in economic activity

a) *The product and income*

During 1985 the revival of economic activity intensified still further, and according to Central Bank figures the gross domestic product grew by 4%: a figure close to the 4.5 % target which had been set by the government. According to official figures, the gross domestic product succeeded in

surpassing the levels it had attained at the beginning of the decade, i.e., prior to the 1982-1983 recession (see table 2).¹ However, the per capita product remained below that of 1981, while the gap between the levels of potential (trend) and actual activity widened.

The gross national product increased by a similar amount to gross domestic product. The gross national income, on the other hand, rose by only 1.6%, because of the sharp decline in the international prices of the main export products.

b) *Supply and demand*

Domestic demand for goods and services fell by slightly over 1 % despite the sustained recovery of economic activity. This was accounted for by the 18% fall in the volume of imports of non-factor goods and services, as is revealed by an analysis of the official statistics, which, of course, exclude unregistered trade² (see tables 3 and 4). In turn, the sharp shrinkage in external purchases was due mainly to the rise of almost 40% in the market exchange rate. The rationing of foreign exchange by the Central Bank also helped to reduce external purchases.

In contrast, despite the sharp fall in the corresponding international prices, the volume of exports of non-factor goods and services rose by over 18% on account of the huge increases which occurred for the second year running in the cotton and soya bean harvests. As in 1984, these products led the recovery of economic activity. The increases in the harvests were the result of the favourable

Table 2

PARAGUAY: SUMMARY OF FIGURES ON THE PRODUCT, INCOME AND EXPENDITURE

(Millions of dollars at constant 1980 prices)^a

	1981	1982	1983	1984	1985*	Growth rates				
						1981	1982	1983	1984	1985*
Gross domestic product at factor cost	4 534	4 485	4 392	4 559	4 743	8.7	-1.0	-2.1	3.8	4.0
Indirect taxes, less subsidies	295	312	261	245	255	8.8	5.9	-16.4	-6.0	4.0
Gross domestic product at market prices	4 829	4 797	4 653	4 804	4 998	8.7	-0.7	-3.0	3.3	4.0
Net imports of goods and services ^b	437	411	229	424	160	58.1	-5.8	-44.3	85.1	-62.3
Net factor payments from rest of world	33	52	-20	-60	-58					
Terms-of-trade effect	34	-15	-8	109	-5					
Gross domestic expenditure	5 265	5 208	4 882	5 229	5 158	11.6	-1.1	-6.4	7.1	-1.4
Gross national product	4 862	4 849	4 633	4 744	4 940	9.5	-0.3	-4.4	2.4	4.1
Gross national income	4 896	4 834	4 625	4 854	4 935	10.4	-1.3	-4.3	4.9	1.6

Source: ECLAC, on the basis of official data.

^aAt parity exchange rate.

^bPreliminary figures.

^cNot attributable to factory.

Including unrequited private transfers.

¹ It has been calculated that official statistics underestimated the depth of the recession. While the Central Bank of Paraguay estimated that the gross domestic product declined by 1% in 1982 and by 3% in 1983 (at 1982 prices), a different source has calculated that the deterioration amounted to 5.5% and 10% (1977 prices) respectively. (If 1977 prices are adopted, the Central Bank figures indicate shrinkages of 2% in 1982 and 3-7% in 1983.) (See United States Department of Commerce, *Foreign Economic Trends and their Implications for the United States: Paraguay*, Washington D.C., November 1984, pp. 3 and 4.) According to this alternative estimate, the level of activity recorded in 1985 was still much lower than in 1981, i.e., prior to the recession. At [allevents.it](#) should be borne in mind that the national accounts drawn up in respect of the Paraguayan economy suffer from a number of inaccuracies particularly in the case of statistics on the external sector—where underestimations of external trade have been as high as 50%—as well as those relating to demand and its financing. (For an analysis of this phenomenon, see Richard Lynn Ground, "Las cuentas nacionales del Paraguay", *Revista paraguaya de sociología*, year 19, No. 5, September-December 1982, pp. 27 to 50.)

² In contrast with the previous year's trend when there was a considerable increase in the proportion of registered imports within total imports—which themselves rose by 4.4% in real terms according to calculations by the International Monetary Fund—in 1985 registered imports followed a similar trend to that of total external purchases, according to preliminary figures provided by the IMF.

Table 3

PARAGUAY: SUPPLY AND DEMAND

	Indexes (1980=100)					Growth rates				
	1981	1982	1983	1984	1985"	1981	1982	1983	1984	1985"
Total supply	109.4	110.0	101.7	108.6	109.0	9.4	0.5	-7.5	6.8	0.4
Gross domestic product at market prices	108.7	108.0	104.7	108.1	112.5	8.7	-0.7	-3.0	3.3	4.0
Imports of goods and services	113.5	120.8	85.6	111.0	90.8	13.5	6.4	-29.1	29.7	-18.2
Total demand	109.4	111.0	101.7	108.6	109.0	9.4	.5	-7.5	6.8	0.4
Domestic demand	111.6	110.4	106.5	110.8	109.3	11.6	-1.1	-3.5	4.0	-1.4
Gross domestic investment	117.0	97.1	79.5	76.7	79.8	17.0	-17.0	-17.2	-3.5	4.0
Gross fixed investment	118.0	96.3	79.0	75.7	78.1	18.0	-18.4	-18.0	-4.2	3.2
Changes in stocks	99.0	112.5	87.6	93.5	110.0	-1.0	13.6	-22.6	6.7	17.6
Total consumption	109.5	115.3	112.4	123.5	120.3	9.5	5.3	-2.5	9.9	-2.6
General government	119.4	122.1	125.9	137.7	123.3	19.4	2.3	3.1	9.4	-10.5
Private	108.7	114.7	111.2	122.2	120.0	8.7	5.5	-3.1	9.9	-1.8
Exports of goods and services	91.7	107.1	86.9	90.2	106.9	-8.3	16.8	-18.9	3.8	18.5

Source: ECLAC, on the basis of official data.

"Preliminary figures.

"The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values, using price indexes calculated by ECLAC for the purpose.

Table 4

PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND

(As a percentage of the gross domestic product)"

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total supply	121.5	122.4	122.1	119.0	119.8	121.2	115.5	119.5	115.3
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'	21.5	22.4	22.1	19.0	19.8	21.2	15.5	19.5	15.3
Total demand	121.5	122.4	122.1	119.0	119.8	121.2	115.5	119.5	115.3
Domestic demand	108.8	108.9	109.1	106.2	109.0	108.6	104.9	108.9	103.2
Gross domestic investment	22.0	25.4	26.5	28.8	31.0	25.9	21.9	20.4	20.4
Total consumption	86.8	83.5	82.6	77.4	78.0	82.7	83.1	88.5	82.8
General government	6.9	7.2	6.0	6.2	6.8	7.0	7.5	7.9	6.8
Private	80.0	76.3	76.5	71.2	71.2	75.6	75.6	80.5	76.0
Exports of goods and services ⁷	12.7	13.4	13.0	12.7	10.7	12.6	10.6	10.6	12.1
Terms-of-trade effect	6.7	5.0	2.5	-	0.7	-0.3	-0.2	2.3	-0.1

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

"At market prices in constant 1980 dollars, using the parity exchange rate.

Preliminary figures.

"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 1980 values through deflation with price indexes calculated by ECLAC for the purpose.

international prices which had prevailed during the previous season, the exceptionally favourable climatic conditions and the exchange and credit policies, which stimulated the extension of the area sown and harvested.

The drop in domestic demand was exclusively due to a shrinkage in consumption. Gross domestic investment, in contrast, began to recover after having fallen considerably during the previous three years, according to figures provided by the Central Bank of Paraguay.

c) *Investment and savings*

The incipient revival of capital formation was stimulated by a slight reactivation of private investment and a small increase in government investment. Although investment in construction fell for the fourth year in a row, expenditure on machinery and equipment increased in comparison with the previous year's depressed level (see table 5).

Investment revived in spite of the sharp cutback in investment by the Itaipú and Yacyretá binational enterprises.³ The revival of capital formation in the rest of the economy was stimulated by the sustained increase in agricultural production, as well as by the maintenance of preferential interest rates, below the level of inflation, for credit granted to the agricultural, livestock and manufacturing sectors under the Minimum Portfolio System.⁴

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	1985
Gross domestic investment	21.6	22.0	25.4	26.5	28.8	31.0	25.9	21.9	20.4	20.4
Origin										
Private sector	13.9	15.0	18.7	20.9	25.2	27.4	20.2	16.5	15.8	15.9
Public sector ¹	7.7	7.0	6.7	12.3	3.6	3.6	5.7	5.4	4.6	4.5
Composition										
Construction	9.6	9.3	11.6	13.1	16.1	18.8	15.9	16.0	15.2	14.5
Machinery and equipment	10.0	11.8	11.6	11.8	11.1	10.9	8.4	4.5	3.9	4.4
Changes in stocks	2.0	0.9	2.2	1.6	1.5	1.4	1.6	1.3	1.3	1.5
Financing										
Gross domestic saving	17.4	19.1	20.4	20.2	22.6	23.4	18.1	16.4	11.6	17.2
Net factor payments ^c	-1.1	-0.8	-1.1	0.2	-0.2	0.7	1.1	-0.4	-1.2	-1.2
Terms-of-trade effect	3.1	6.7	5.0	2.5	-	0.7	-0.3	-0.2	2.3	-0.1
Gross national saving	19.4	25.0	24.3	22.9	22.4	24.8	18.9	15.8	10.9	13.7
Private sector	16.6	19.6	18.5	15.0	19.6	22.3	16.9	14.9	8.9	11.6
Public sector	2.8	5.4	5.8	7.9	2.8	2.5	2.0	1.3	2.1	2.1
External saving	4.2	2.9	5.0	6.3	6.2	7.6	7.8	5.5	7.8	4.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Technical Planning Office.

^aAt market prices inconstant 1980 dollars at the parity exchange rate.

^bPreliminary figures.

^cIncludes State enterprises, except the Itaipú and Yacyretá Binational Enterprises. Refers to livestock sector only.

^dIncluding private unrequited transfer payments.

* Official statistics do not register the total investment expenditure of the binational enterprises. If these are incorporated into the Paraguayan national accounts on the basis of preliminary figures provided by the International Monetary Fund, total investment appears to have continued to decline in 1985.

⁴Under this system at least 50% of the portfolio of commercial banks has to be in agriculture, manufacturing or exports. The rates of interest charged by commercial banks on the other credits in their portfolio remained higher than inflation.

Table 6

**PARAGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES**

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1983	1984	1985 ^a	1980	1985 ^a	1982	1983	1984	1985 ^a
Gross domestic product	100.0	100.0	100.0	100.0	100.0	-0.7	-3.0	3.3	4.0
Goods	103.7	108.3	112.8	51.5	52.7	-1.6	-3.4	4.5	4.1
Agriculture	107.8	114.2	119.4	29.5	31.4	0.4	-2.4	5.9	4.6
Mining	109.1	110.2	115.7	0.4	0.4	2.3	-7.3	1.0	5.0
Manufacturing	96.2	100.5	105.6	16.5	15.5	-3.7	-4.2	4.5	5.0
Construction	103.4	101.0	100.0	6.1	5.4	-6.0	-5.7	-2.4	-1.0
Basic services	112.0	115.4	121.5	6.6	7.1	9.4	-1.5	3.0	5.3
Electricity, gas and water	126.8	129.5	136.8	2.3	2.8	22.9	-1.9	2.2	5.6
Transport, storage and communications	104.0	107.8	113.3	4.2	4.3	2.0	-1.2	3.6	5.1
Other services	104.9	106.7	110.7	40.9	40.3	-1.0	-2.8	1.7	3.8
Commerce, restaurants and hotels	103.6	105.5	110.6	20.8	20.5	1.4	-3.9	1.8	4.8
Financial institutions, insurance, real estate and business services	99.9	101.1	104.6	7.7	7.2	-9.6	-1.7	1.2	3.5
Ownership of dwellings	99.9	99.9	100.9	2.7	2.4	-2.0	-4.7	-	1.0
Community, social and personal services	110.1	112.2	114.8	12.4	12.6	0.5	-1.5	1.8	2.3
Government services	125.0	128.1	131.9	3.4	4.0	4.0	-2.1	2.4	3.0

Source: ECLAC, on the basis of official figures.

Note: These series are calculated on the basis of official figures, which were reweighted according to the price structure in force in 1980. Consequently, the results obtained do not necessarily coincide with those published by the countries in their calculations at constant prices.

^aPreliminary figures.

^bIncluding livestock, forestry and fishing.

Although the rates of interest granted by the banking system on deposits remained below the level of inflation, and the terms of trade underwent a sharp deterioration, the national accounts recorded a partial recovery in private saving.⁵ Saving by the non-financial public sector, for its part, rose by almost 3% in real terms. Thus, the current account deficit fell considerably (to 4.5% of the gross domestic product) in comparison with the 7.8% recorded the previous year.

d) *Sectoral trends*

The recovery in 1985 was largely due to the excellent performance of the agricultural sector, although production increases took place in all sectors of the economy with the exception of construction (see table 6).

i) *Agriculture.* Agriculture continued its vigorous growth in 1985 as the harvests of the main crops again attained unprecedented levels. Simultaneously, forestry continued to expand, though the livestock subsector was affected by a downturn (see table 7).

The cotton and soya harvests once again expanded spectacularly (44% and 31%, respectively). The increase in the added value of these two items was equivalent to approximately half the growth of the gross domestic product. This was principally due to the significant expansion of the area sown and harvested, although yields also rose considerably. Thus, the area of cotton under cultivation increased

⁵ In contrast, the monetary accounts indicate that private saving in domestic financial assets once again shrank.

by over 30% and that of soya by more than 10%, while the harvest per hectare of the former rose by almost 12% and that of the latter by slightly less than 7% (see table 8).

These results were influenced to some extent by the sharp rises in the prices obtained by producers during the previous two harvests and by the almost ideal climatic conditions which prevailed during the 1984/1985 agricultural year, as well as by the compensatory policies applied to offset the sharp falls in prices on world markets.

Between 1982 and 1984 the real domestic prices paid to cotton and soya producers increased by 92% and 75% respectively, thereby giving a considerable impetus to the expansion of the area devoted to these crops (see table 9). In contrast with the 1984 harvest, when the international price of soya had risen by 29% and that of cotton by 9%, during the first half of 1985 the international price of soya fell by 20% and that of cotton by 21 %. However, both the rise in the official exchange rate from 240 to 320 guaraníes per dollar for exports and the Central Bank's reduction of the valuations used for customs purposes softened the impact of the fall on domestic prices. Nevertheless, in order to maintain the profitability of producing these items, there was a considerable expansion in subsidized credits to finance their harvest, and a preferential exchange rate of 240 guaraníes per dollar remained in force for imports of agricultural inputs.

In the case of certain products such as rice, maize and wheat, production increased considerably in spite of the downturn in prices. However, this factor, together with the very severe drought which occurred in the second half of 1985, is likely to have an extremely adverse effect on production during the 1985/1986 agricultural year.

Table 7

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaraníes at 1982 prices				Growth rates			
	1982	1983	1984	1985°	1982	1983	1984	1985°
Total⁰	190.6	186.0	197.0	206.0	0.4	-2.4	5.9	4.6
Crop farming	114.7	111.4	119.7	126.9	0.6	-2.8	7.5	6.0
Stock raising	56.5	55.5	57.8	58.7	2.0	-1.8	4.1	1.6
Forestry	18.4	18.0	18.5	19.3	-5.7	-1.8	2.8	4.3
Thousands of tons								
Production of the main items								
Cotton	260	228	320	460	-18.0	-12.3	40.2	43.8
Rice	63	35	39	47	28.6	-44.4	8.6	20.5
Sweet potatoes	220	227	205	211	3.3	3.2	-9.7	2.9
Sugar cane	2 216	2 823	2 541	2 330	-3.6	27.4	-10.0	-8.3
Maize	553	36	414	455	33.9	-34.9	15.0	9.9
Cassava	2 401	1 933	1 741	1 758	12.2	-19.5	-9.9	1.0
Beans	43	64	47	51	34.4	48.8	-26.6	8.5
Soya	757	650	748	980	-1.6	-14.1	15.0	31.0
Wheat	84	107	130	140	37.7	27.4	21.5	7.7
Bananas ^c	15	16	17	18	15.4	6.7	6.3	5.9
Coconuts	243	417	430	335	-2.0	71.6	3.1	-22.1
Oranges	1 549	1435	1 363	1 431	-12.5	-7.4	-5.0	5.0
Pineapples	22	23	24	25	4.8	4.5	4.3	4.2
Tung	100	140	147	161	5.3	40.0	5.0	9.5
Cattle ^e	6 552	6 651	6 795	6 956	1.5	1.5	2.2	2.4
Pigs ^e	1 023	1 065	1 109	1 278	2.2	4.1	4.1	15.2
Poultry ^e	11 839	12 413	12 863	13 450	4.2	4.8	3.6	4.6
Round logs	1 754	1 722	1 745		-2.1	-1.8	1.3	
Firewood	2 791	2 744	2 808		-0.3	-1.7	2.3	

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Ministry of Agriculture.

⁰Preliminary figures.

Includes hunting and fishing.

^cThousands of hands.

Thousands of units.

^eThousands of head

Table 8

PARAGUAY: AREA CULTIVATED, AREA HARVESTED
AND YIELDS OF THE MAIN CROPS

	1982	1983	1984	1985	Growth rates			
					1982	1983	1984	1985
Area cultivated"								
Cotton	290	298	302	401	19.4	2.9	1.3	32.8
Rice	32	35	37	40	32.6	8.5	7.5	7.5
Sweet potatoes	12	12	12	13	7.7	3.2	3.1	8.3
Sugar cane				56				
Maize	375	418	448	482	42.6	11.6	7.0	7.6
Peanuts	36	38	39	40	4.5	5.6	2.9	2.0
Cassava	183	186	192	203	2.8	1.8	2.8	5.6
Beans	52	52	55	59	14.8	1.0	5.2	7.6
Soya	533	650	679	747	34.2	21.9	4.5	10.0
Wheat	70	80	125	-	42.5	13.5	56.6	-
Area harvested"								
Cotton	246	263	294	386	0.8	6.7	12.0	31.3
Rice	31	34	36	39		8.0	7.7	6.8
Sweet potatoes	11	12	12	13		3.2	3.0	6.2
Sugar cane	50	52	55	55		3.8	5.4	1.1
Maize	369	399	436	470		8.1	9.1	8.0
Peanuts	35	37	38	39		4.9	3.5	2.9
Cassava	179	181	183	186		0.7	1.5	1.6
Beans	50	52	54	57		3.8	4.3	4.8
Soya	502	568	639	719	27.1	13.1	12.5	12.5
Wheat	70	80	106	134	42.2	14.3	32.6	27.2
Yield ⁴								
Cotton	1 058	958	1 088	1 216	-18.4	-9.5	13.6	11.8
Rice	2 007	2 143	2 187	2 468	-0.9	6.8	2.1	12.8
Sweet potatoes	7 214	7 365	7 532	7 848	12.2	2.1	2.2	4.2
Sugar cane	46 000	46 000	47 000	49 000	-4.2	-	2.2	4.3
Maize	1497	1 552	1 676	1 702	-4.8	3.7	8.0	1.6
Peanuts	1 018	1 104	1 101	1 130	-3.0	8.4	-0.3	2.6
Cassava	13 989	14 441	15 126	15 347	16.4	3.2	4.7	1.5
Beans	845	854	858	807	17.5	1.1	0.5	-5.9
Soya	1 506	1 497	1 527	1 631	-22.6	-0.6	2.0	6.8
Wheat	1 200	1 241	1 316	1 388	-3.6	3.4	6.0	5.5

Source: Ministry of Agriculture.

"Thousands of hectares.

Kilogrammes per hectare.

In spite of the dynamism of agriculture, the real prices of arable land again deteriorated, after the slight revival registered in 1984, and they thus fell to only 70% of their 1980 value. The relative prices of land for livestock also slumped for the second year running, but those of land suitable for forestry rose slightly (see table 10).

During the course of the year the Institute for Rural Welfare awarded over 5 000 properties, a similar figure to 1984 and considerably higher than in the previous two years (see table 11), although the total area of these properties was 40% smaller than in 1984. Nevertheless, both the number of crop-farming properties and their total area (approximately 4 900 and 59 000 hectares, respectively) were similar to the previous year. In contrast, the number of stock-raising properties awarded, all of which were in the Chaco region, fell by almost 58% and their area by 66%. In addition, more than 6 000 title deeds were granted, the highest figure since 1965.

Table 9

**PARAGUAY: NOMINAL AND REAL PRODUCER PRICES
OF THE MAIN CROPS**

(1970 = 100)

	Rice	Cotton	potatoes	Maize	Cassava	Soya	° cane	Coconuts	Tune ₆	Wheat
Nominal prices"										
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"
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
1985	847.0	819.6	734.2	1 263.5	513.0	666.6	532.6	1 017.8		616.1
I	683.3	852.0	853.2	1 027.8	494.0	686.7	518.2	968.5		582.7
II	724.6	852.2	766.7	1 167.0	645.2	676.8	533.0	952.5		
III	470.5		669.0	1 065.0	393.0		550.7	1 042.3		
IV	1 162.3		776.7	1 760.6	533.5		556.1	1 093.1		661.2
Real prices"										
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
1985	118.9	123.3	103.1	177.4	72.0	100.3	74.8	142.9		86.5
I	105.1	131.0	131.2	158.0	76.0	105.6	79.7	148.9		89.6
II	108.6	127.8	114.9	175.0	96.7	101.5	79.9	142.8		
III	64.0		91.0	144.9	53.5		74.9	141.8		
IV	145.8		97.5	221.0	67.0		69.8	137.2		83.0

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture, Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

"The annual averages may not coincide with the quarterly ones owing to differences in the frequency of the observations or errors in rounding. *Two months only. 'Calculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

Table 10

**PARAGUAY: NOMINAL AND REAL PRICES ON
THE RURAL LAND MARKET**

(1970 = 100)

	Nominal prices			Real price"		
	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
1985	2 264.6	2 794.2	1 675.1	317.9	392.3	235.1
I	2 112.3	2 711.5	1 481.4	320.7	411.6	224.9
II	2 415.0	2 877.0	1 868.7	315.4	375.7	244.0

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture, Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

"Calculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

ii) *Manufacturing.* The index of value added by manufacturing activities rose by 4.6%, thereby completing the sector's recovery from the 1982-1983 recession and achieving a degree of actual growth. This advance was headed by the spectacular expansion of textiles (48%), which amounted for almost 57% of the growth of the manufacturing sector's gross domestic product. High rates of growth were also recorded by: Machinery, domestic electrical appliances and transport; Other chemical products; Articles of clothing and Petroleum products. In contrast, the value added by the wood and non-metallic mineral products industries again declined. Production of shoes and leather goods also fell (see table 12).

To an even greater extent than in 1984, the dynamism of the sector sprang from the bountiful cotton harvest, which made it possible to increase production of fibres and cloth by more than 50%. Domestic demand for manufactured products also expanded, while the upturn in expenditure by tourists gave an additional thrust to the sector.

Although manufacturing has recovered and even surpassed its previous high level of production, there does not seem to have been a revival of investment in the sector. For example, the current value of the investment projects approved by the Ministry of Industry and Trade underwent a further marked decline for the sixth year running.

iii) *Construction.* As in the three previous years, the value added in the construction sector fell, mainly on account of the slower rate of work (-50%) on the big hydroelectric projects —Itaipú (the joint Paraguayan-Brazilian venture) and Yacyreta (the Paraguayan-Argentine project). While the construction stage of the Itaipú project was almost completed, civil engineering work on Yacyreta was slower than planned on account of the serious financial restrictions which affected the Argentine

economy. The work was also affected by a disagreement between the Governments of Paraguay and Argentina over the rate of exchange to be adopted for currency brought into Paraguay by the Yaciretá binational enterprise to finance its expenditure in the country.

During the second half of the year, construction activity slowed down on account of a 58% fall in domestic production of cement. Since at the same time the volume of cement imported increased by 45%, the domestic supply of this item fell by 13% in 1985.

iv) *Basic services.* The total product of the basic services sector rose by rather more than 5%, with similar rises taking place in the subsectors of drinking water and sanitation services and transport and communications, while electricity grew by slightly less than 6%.

For the second year in a row, domestic production of electricity increased considerably (this time by over 19%) on account of an increase of some 120% in the energy produced by Itaipú. This made it possible to satisfy the whole of domestic consumption, which rose by over 10%, and at the same time to renew exports of electricity, which had been interrupted since 1982 (see table 13). Thus, in 1985 Paraguay began to sell electricity from Itaipú to Brazil, but it has not yet been possible to reach an agreement over the royalties due on these sales, as a result of which, the country has not actually received the corresponding income. By the end of the year, the share of domestic electricity production provided by Itaipú came to 28%, in contrast with the 1984 figure of 15%.

v) *Non-basic services.* The value added in the non-basic services sector, which in 1985 contributed more than 40% of the gross domestic product, grew by almost 4%, mainly on account of the expansion of commerce and finance (see table 6 above).

Table 11

PARAGUAY: AGRARIAN REFORM INDICATORS

	1956-1985	1978	1979	1980	1981	1982	1983	1984	1985
Total awards									
Number of lots	106 970	2 837	2 506	3 931	4 316	3 036	2 604	5 026	4 966
Area (thousands of hectares)	9 704	176	422	717	473	598	302	816	310
Average (hectares)	91	62	168	182	110	197	116	162	63
Crop-farming awards									
Number of lots		2 727	2 313	3 720	4 163	2 898	2 505	4 817	4 877
Area (thousands of hectares)		51	38	51	49	39	28	62	59
Average (hectares)		19	16	14	12	13	11	13	12
Stock-raising awards									
Number of lots		110	193	211	153	138	99	209	89
Area (thousands of hectares)		125	385	666	424	560	273	755	251
Average (hectares)		1 128	1 994	3 155	2 773	4 058	2 756	3 612	2 822
Final title deeds									
Number	105 507	3 500	3 814	3 836	4 054	4 224	4 093	5 090	6 068
Area (thousands of hectares)	7 196	177	284	719	729	460	410	500	437
Average	68	50	74	187	180	109	100	98	72
Communal fields									
Number	133				8	7	2	6	12
Area (thousands of hectares)	63				16	5	a	2	13
Nationalized and expropriated lands (thousands of hectares)	1 504	...	...			19	25		
Nationalized	579	-	-	-	-	-	-	-	
Expropriated	403	10	1	7	4	-	13	-	
Occupied	521					19	12		

Source: ECLAC, on the basis of data from the reports of the Institute for Rural Welfare, (several years), Juan Manuel Frutos, *Co» el hombre y la tierra hacia el bienestar rural*. Cuadernos Republicanos, Asunción, 1982, and the Institute for Rural Welfare, Department for Land and Colonies and Department of Planning.

*339 hectares.

Table 12

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Total	100.0	95.8	101.1	104.7	-3.7	-4.2	4.5	4.6
Foodstuffs	100.0	103.6	109.2	111.0	4.4	3.6	5.4	1.6
Beverages	100.0	98.6	110.2	112.5	12.2	-1.4	11.8	2.1
Tobacco	100.0	121.8	119.2	121.4	0.5	21.8	-2.1	1.8
Textiles	100.0	83.4	106.1	157.0	-16.0	-16.6	27.2	48.0
Articles of clothing	100.0	95.9	112.4	128.6	3.1	-4.1	17.2	14.4
Footwear	100.0	103.0	106.1	100.8	3.0	3.0	3.0	-5.0
Wood, except furniture	100.0	94.0	92.0	83.1	-0.3	-6.0	-2.1	-9.7
Furniture	100.0	121.4	125.8	128.4	5.5	21.4	3.6	2.1
Paper and paper products	100.0	91.4	94.3	98.1	8.3	-8.6	3.2	4.0
Printing and publishing	100.0	60.6	69.2	70.4	7.6	-39.4	14.2	1.7
Leather and skins, except footwear	100.0	103.7	78.9	70.8	0.1	3.7	23.9	-10.3
Chemical industry	100.0	118.6	134.0	149.1	125.2	18.6	130	11.3
Other chemical products	100.0	95.9	127.5	153.9	-9.8	-4.1	33.0	20.7
Petroleum and petroleum products	100.0	96.1	74.5	84.8	-42.8	-3.9	-22.5	13.8
Plastic products	100.0	97.5	116.2	117.5	3.1	-2.5	19.2	1.1
Non-metallic mineral products	100.0	107.7	100.6	88.4	-10.2	7.7	-6.6	-12.1
Basic metal industry	100.0	99.8	116.4	123.3	3.7	-4.2	16.6	5.9
Metallic products excluding machinery	100.0	97.8	113.1	128.4	-3.5	-2.2	15.6	13.5
Machinery, electrical domestic appliances, and transport equipment	100.0	99.1	139.1	204.9	3.3	-0.9	40.4	47.3
Others	100.0	101.1	124.6	139.7	3.0	1.1	23.2	12.1
Handicrafts	100.0	80.2	88.0	92.0	5.0	-19.8	9.7	4.5
Production of some of the main manufactures								
(thousands of tons)								
Cotton textiles	9.2	5.8	6.1	9.2	-42.1	-37.0	5.2	50.8
Cotton fibres	90.8	77.2	105.3	160.0	-14.3	-15.0	36.4	51.9
Tannin	10.7	12.9	11.2	10.9	-18.9	-20.6	-13.2	-2.7
Husked coconuts	6.5	4.5	8.2	4.7	41.3	-30.8	82.2	-42.7
Tung	12.8	17.0	9.0	9.4	5.8	32.8	-47.1	4.4
Cement	111.2	153.0	109.0	45.6	-28.8	37.6	-28.8	-58.2
Cigarettes ^c	37.9	46.6	43.9	41.7	0.3	23.0	-5.8	-5.0
Carbonated beverages	160.3	122.1	137.3	138.7	10.0	-23.8	12.4	1.0
Wheat flour	96.8	100.2	89.9	99.5	-3.9	3.5	10.3	10.7
Sugar	81.1	98.2	85.2	73.1	6.0	21.1	-13.2	-14.2
Leather	9.5	11.0	8.3	7.7	-	15.8	-24.6	-7.2
Absolute alcohol ^f	12.6	9.3	11.0	15.0	133.3	-26.2	18.3	36.3

Source: HCLAC, on the basis of data supplied by the Central Bank of Paraguay.

"Preliminary figures.

Thousands of metres.

"Thousands of packets.

Thousands of litres.

'Millions of litres.

e) *Trends in employment and unemployment*

According to Central Bank figures, the national rate of open unemployment fell slightly in 1985. The rate of open unemployment in Asunción and the surrounding area, for its part, fell from 7.4% in August-October 1984 to 5.2% in November-December 1985, according to the household survey carried out by the Department of Statistics and Censuses (see table 14).

Table 13

**PARAGUAY: INDICATORS OF ELECTRIC ENERGY CAPACITY,
GENERATION AND CONSUMPTION**

	1970	1978	1979	1980	1981	1982	1983	1984	1985"
Installed potential	123.7	270.7	272.1	272.5	274.1	274.1	274.1	274.4	274.4
Hidroelectricity	90.0	190.0	190.0	190.0	190.0	190.0	190.0	190.0	190.0
Thermal plants	33.7	80.7	82.1	82.5	84.1	84.1	84.1	84.4	84.4
Electric energy generation ⁰									
Gross	159.2	491.1	618.2	697.4	720.4	916.0	793.0	1 056.0	1 259.2
Net	154.2	482.9	611.4	692.1	716.8	912.7	790.5	1 053.5	1 256.5
Net imports of electric energy ¹⁷ⁿ		-15.1	-25.6	5.4	103.0	-40.0	202.0	34.3	-47.8
Domestic electric energy supply ⁰									
Gross	159.2	476.8	592.9	703.1	824.0	876.0	995.0	1 090.4	1 211.4
Net	154.2	467.8	585.8	697.5	819.8	872.6	992.5	1 087.7	1 208.8
Domestic electricity consumption ⁰	129.8	438.3	544.8	658.0	751.7	800.6	827.2	907.3	999.9
Residential ¹	76.4	237.6	273.9	344.3	390.7	473.9	492.2	540.7	565.7
Industrial	33.8	156.0	224.9	263.3	300.1	253.3	260.1	286.1	343.4
Other»	14.6	35.7	38.9	44.8	56.7	70.0	72.4	80.5	86.6
Percentage of population receiving electric energy service	10.9	24.2	26.6	29.0	31.5	37.7	39.5	41.2	42.8

Source: National Electricity Administration (ANDE), *Compilación Kitadlitica. 1960/1981*, Asunción, 1982, and other statistics also supplied by ANDE.

⁰Preliminary figures. ¹Thousands of kW. ²Millions of kWh. ³Excluding sales of Paraguayan energy from Itaipú to Brazil.

⁴Includes commercial consumption (new category provided for in scale of charges No. 4 of 1/8/1984). ⁵Includes "undefined", (new category provided for in scale of charges No. 4 of 1/8/1984). ⁶Includes government and municipal consumption, electricity for tramways, public lighting, and, as of 1985, "rural" consumption, (new category provided for in scale of charges No. 4 of 1/8/1984).

Table 14

PARAGUAY: OPEN UNEMPLOYMENT RATES

(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985 ⁰
Whole country ^b	4.2	3.7	3.1	2.6	2.1	4.6	9.4	13.9	8.3	8.0
Asunción ⁰	6.7	5.4	4.1	5.9	3.9	12*	5.6	8.4'		5.2»

Source: Based on data supplied by the Central Bank of Paraguay and the Ministry of Finance, Department of Statistics and Censuses, *Encuesta de hogares* (several issues), and information supplied to ECLAG.

⁰Preliminary figures. ¹Estimates of the Central Bank of Paraguay. ²In addition to Asunción, includes Fernando de la Mora, Lamba ré and the urban areas of Luque and San Lorenzo. First half of year. ³Average for the months of September, October and November. ⁴Average for the months of August, September and October. ⁵* Average for the months of November and December.

3. The external sector

a) *Introduction*

Notwithstanding the huge expansion in the volume of exports of goods and the marked shrinkage in imports of non-factor goods and services, the pronounced deterioration in the terms of trade together with a sharp drop in the capital account surplus meant that for the fourth consecutive year the Central Bank suffered a loss of international reserves (see table 15). Furthermore, in 1985 the loss incurred in softening the impact of the adjustment on the economy was particularly pronounced, and representing 2.9% of the gross domestic product, even though a substantial increase once again occurred in arrears of payments, for the third year running. While gross holdings of international reserves remained high in 1985 in comparison with the low level depression to which imports of non-factor goods and services had been (i.e., equivalent to almost 10 months of these external purchases), net holdings of external assets (less arrears of payments) fell to a figure equal to 3.4 months of 1985 imports. The corresponding figure, for 1981 had been ten months of imports, even though the cost of external purchases was 48% higher in that year.

On the other hand, the gap between gross national savings and gross domestic investment at current prices fell to its lowest level since the end of the previous decade, according to official statistics. As a percentage of the gross domestic product, the current account deficit fell to 4.5%, which was the lowest level for many years (see table 15).

A further and considerable change was made in the exchange system in February 1985, when the rate of exchange for exports was raised from 240 to 320 guaraníes per dollar on the basis of the values (*aforos*) established by the Central Bank for the entry of the foreign currency earned by external sales (see table 16). This 33% adjustment was accompanied by a 9% increase on average between 1984 and 1985 in the real effective exchange rate (at the valuations established for customs purposes (*aforos*)). However, after having improved by almost 17% between the first and second quarters, the real effective exchange rate fell in the last quarter of 1985 to a level only 1.3% above that of the first quarter (see table 17).

In contrast, the preferential exchange rates at which the Central Bank sold its external assets remained unchanged. As a result of the asymmetrical adjustment of the exchange system, which essentially reflected the imbalance of government finances, the Central Bank's losses on exchange operations increased considerably. Thus, the exchange subsidies granted by the Central Bank to the State in the form of a preferential exchange rate on the servicing of its external debt rose from 9.5 billion guaraníes in 1984 to 27.8 billion in 1985, equal to 0.9% and 2% of the gross domestic product, respectively. In 1985 the liquidity created thereby was equivalent to 147% of the increase in the monetary base. The effects of this were seen both in the persistence of unusually high inflation (as a result of which the change in exchange policy took away with one hand that given by the other) and in the escalation of the parallel rate of exchange, which rose a good deal more than was usual for the season. From slightly less than 400 guaraníes at the end of 1984, it rose to 1 100 in August, before falling to approximately 700 guaraníes per dollar during the last quarter, following the adoption of a highly restrictive credit policy towards commercial banks. Under these circumstances, the maintenance of official exchange rates of 160 guaraníes for servicing the external public debt, of 240 guaraníes for State and certain private-sector imports, and 320 guaraníes for exports widened the gap between the structure of relative domestic prices and that which would have existed in the absence of subsidies for these transactions and of the implicit taxes on external sales, all of which reduced the competitiveness of the economy and encouraged the squandering of scarce resources.

However, in view of the unfavourable trend followed by the international prices of the main export products and the rise in the parallel exchange rate, the Central Bank improved the official exchange rates for exporters of the products concerned, by introducing compensatory cuts in the valuations adopted for customs purposes (*aforos*). The Central Bank thus managed to mitigate the unfavourable impact of its exchange policy on the items concerned, although its foreign exchange income fell at a time when it had already ceased to fully satisfy the demand therefor. Although the policy of using administrative measures to restrict access to the Central Bank's international reserves so as to support untenable exchange rates may have somewhat mitigated the rate of reserve loss, the backlog of arrears of payments also had a negative impact on the flow of external funds. This

Table 15
PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1978	1979	1980	1981	1982	1983	1984	1985°
1970 = 100"								
Volume of exports of goods and services'	173.2	186.9	203.2	186.3	217.6	176.6	183.4	217.2
Purchasing power of exports of goods and services'	208.6	195.5	178.6	174.6	186.4	152.7	195.7	182.8
Net factor payments	104.1	*	20.4	'	'	53.9	165.2	159.9
Purchasing power of net imports of capital	482.1	481.7	464.0	437.5	275.0	219.8	535.7	109.6
Total import capacity	271.1	261.0	243.8	234.7	206.6	168.0	274.3	208.4
Volume of imports of goods and services'	229.9	252.7	241.1	273.6	291.3	206.4	307.4	251.9
Gross international reserves Index [^]	1 113.1	1 436.6	1 181.1	1 219.7	1 014.9	1 056.9	1 187.0	896.4
In months of imports*	7.4	10.1	10.9	9.9	7.8	11.4	9.8	9.8
Gross external debt (disbursed)	188.3	163.5	159.3	217.6	213.2	276.5	351.3	353.9
Growth rates								
Volume of exports of goods and services'	17.1	7.9	8.7	-8.3	16.8	-18.8	3.9	18.4
Purchasing power of exports of goods and services'	5.0	-6.3	-8.6	-2.2	6.8	-18.1	28.2	-6.6
Purchasing power of net imports of capital	63.8	-0.1	-3.7	-5.7	-37.1	-20.1	143.7	-79.5
Total import capacity	22.9	-3.7	-6.6	-3.7	-12.0	-18.7	63.3	-24.0
Volume of imports of goods and services'	15.1	9.9	-4.6	13.5	6.5	-29.1	48.9	-18.1
Gross international reserves	57.8	29.1	-17.8	3.3	-16.8	4.1	12.3	-24.5
Gross external debt (disbursed)	21.8	-13.2	-2.6	36.6	-2.0	29.7	27.1	0.7
Gross domestic product = <i>IOC</i> ^r								
Volume of exports of goods and services'	13.4	13.0	12.7	10.7	12.6	10.6	10.6	12.1
Terms-of-trade effect	5.0	2.5	-	0.7	-0.3	-0.2	2.3	-0.1
Net factor payments	-1.1	0.2	-0.2	0.7	1.1	-0.4	-1.2	-1.2
Purchasing power of net imports of capital	12.6	11.3	9.8	8.5	5.4	4.4	10.5	5.1
Total import capacity	31.0	26.8	22.5	20.0	17.7	14.8	23.5	17.1
Volume of imports of goods and services'	22.4	22.1	19.0	19.8	21.2	15.5	19.5	15.3
Trade balance ¹	-8.9	-9.1	-6.2	-9.0	-8.6	-4.9	-8.8	-3.2
Current account balance	-5.0	-6.3	-6.2	-7.6	-7.8	-5.5	-7.8	-4.5
Global balance	7.6	4.9	3.4	0.9	-1.3	0.1	-0.1	-3.1
Gross international reserves	19.0	18.5	17.3	13.6	14.6	14.7	16.0	12.5
Gross external debt (disbursed/	29.4	23.5	20.7	20.5	33.5	57.6	59.0	81.0

Source: ECLAC, on the basis of official data.

¹Preliminary figures.

1980 prices.

^cNon-factor.

Including private unrequited transfers.

^rCredit balances.

Deflated by price index for imports of non-factor goods and services.

^sGross international reserves and imports

of goods and services for each year. At market prices in 1970 dollars, at the parity exchange rate.

^tExcluding the terms-of-trade

effect. ^uAt the parallel exchange rate.

Table 16

PARAGUAY: OFFICIAL EXCHANGE RATES

(Guaranies per dollar at the end of each period)

	1982	1983	1984				1985			
			I	II	III	IV	I	II	III	IV
Exports of traditional goods"	144	156	180	227	240	240	288	320	320	320
Wood	143	178*	208	240	240	240	288	320	320	320
Oils	143	178'	208	240	240	240	288	320	320	320
Livestock products	160	178	208	240	240	240	288	320	320	320
Others	143	143	208	240	240	240	288	320	320	320
Non-traditional										
Cotton fibre	143	180"	208	240	240	240	288	320	320	320
Soya beans'	143	177	208	240	240	240	288	320	320	320
Fruit and vegetables	160	160	208	240	240	240	288	320	320	320
Others	143	143	208	240	240	240	288	320	320	320
Imports of goods	141	147	146	198	306	328	304	353	443	447
Public sector	132	144				170				241
Private sector	140	147				313				515
Consumer goods										
Basic										
Wheat	126	143	143	240	240	240	240	240	240	240
Others	160	342	368	406	410	382	420	561	743	648
Non-basic	160	342	368	406	410	382	420	561	743	648
Intermediate goods										
Petroleum and petroleum products	126	143	143	160	160	160	240	240	240	240
For agriculture and industry	126	160	160	240^	240^	240	240	240	240	240
Capital goods	126	342	368	406	410	382	420	561	743	648
Non-factor services										
Private sector										
Travel	239	342	368	406	410	382	420	561	743	648
Others	160	342	368	406	410	382	420	561	743	648
Public sector	126	160	160	240	240	240	240	240	240	240
Factor services										
Public sector	126	126	126	160	160	160	160	160	160	160
Private sector										
Registered*	160	160	160	240	240	240	240	240	240	240
Non-registered	239	342	358	406	410	382	420	561	743	648
Capital										
Public sector	126	126	126	160	160	160	160	160	160	160
Private sector										
Registered	160	160	160	240	240	240	240	240	240	240
Non-registered	239	342	368	406	410	382	420	561	743	648
Transactions of the binational entities	126	143	143	160	160	160	240	240	240	240
Parallel markets	239	342	368	406	410	382	420	561	743	648

Source: ECLAC, on the basis of official statistics.

"The exchange rates apply to the customs values set by the Central Bank, which may differ from actual international prices. "Only for peroba wood; 143.0 for the rest. 'Tung oil only; also applies to silkworm cocoons. Also applies to cotton waste (including rags), uncarded and uncombed. 'Including derivates and subproducts of soya. Including only agricultural imports and industrial inputs for enterprises which process national raw material and imports of the public sector appearing in the General Budget of the Nation.

*Including 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. Including 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 EXCHANGE RATES

Annual and quarterly averages	Exchange rates (guaranies per dollar)			Indexes of the real effective exchange rate			
	Official		Parallel	Official'		Parallel/'	
	Exports"	Imports		Exports	Imports	Exports	Imports
1975	126	126	143	92.6	87.6	110.1	108.7
1976	126	126	136	99.0	96.3	107.6	115.5
1977	126	126	133	97.5	93.6	105.0	109.2
1978	126	126	142	102.2	94.3	112.0	115.0
1979	126	126	138	95.0	89.3	97.6	98.9
1980	126	126	135	100.0	100.0	100.0	100.0
1981	126	126	153	84.6	88.5	99.7	107.7
1982	142	137	205	88.1	87.7	127.0	135.9
1983	158	146	321	74.7	69.7	153.1	152.7
1984	222	245	382	83.8	89.7	143.8	150.5
1985	312	387	613	91.4	112.8	182.5	185.7
1982							
I	134	126	161	78.1	75.8	92.0	98.1
II	144	136	169	91.8	88.4	104.9	113.6
III	147	145	227	93.2	95.9	147.1	157.8
IV	144	141	263	89.2	90.5	164.1	174.2
1983							
I	149	146	244	83.0	82.0	139.8	137.9
II	165	144	288	79.3	69.2	144.2	138.5
III	161	146	395	69.4	63.6	173.7	175.0
IV	156	147	355	67.1	64.0	154.6	159.2
1984							
I	180	146	339	78.2	64.6	150.4	154.2
II	227	198	373	93.8	82.8	155.0	160.2
III	240	306	421	88.0	111.6	150.9	160.0
IV	240	328	394	75.1	100.0	119.0	127.4
1985							
I	288	304	426	85.5	90.3	125.7	135.8
II	320	353	569	99.8	110.1	180.1	184.3
III	320	443	780	93.7	129.7	234.8	234.7
IV	320	447	675	86.6	121.0	189.3	188.0

Source: ECLAC, on the basis of data provided by the Central Bank of Paraguay and International Monetary Fund, *International Financial Statistics*.

"From 1982 to 1985 the average exchange rate was used. From 1982 to 1985 the average exchange rate was used. However, these figures refer to those imports handled through the Central Bank, that is, they do not represent the real average rate. 'Corresponds to the average of the indexes of the real exchange rate of the guarani against the currencies of Paraguay's main trading partners, weighted by the relative importance of the trade recorded, either to or from these countries. From 1975 to 1979 these weightings correspond to the average for the years in question and as from 1980 to the average for the 1980-1983 period. In the calculations, official exchange rates and preferably wholesale price indexes were used. For the methodology and sources employed, see the technical appendix in *Economic Survey of Latin America and the Caribbean, 1981*.

These indexes correspond to a weighted average of the indexes for the real exchange rate in respect of Argentina, Brazil, Federal Republic of Germany, France, Italy, Japan and the United States, in accordance with the relative share of the unrecorded trade between Paraguay and these countries. To calculate these indexes the parallel market exchange rate was used.

Table 18
PARAGUAY: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985*	1975	1985*	1982	1983	1984	1985*
Total	330	269	335	304	100.0	100.0	11.6	-18.4	24.3	-9.1
Main traditional exports	96	83	89	54	73.0	17.8	-3.5	-13.9	5.7	-38.3
Livestock products	9	13	12	7	19.5	2.2	32.2	40.5	-6.7	-42.4
Timber	44	20	22	10	15.8	3.2	20.5	-53.5	9.1	-55.3
Oils	22	21	22	19	11.6	6.4	-23.4	-4.4	4.0	-12.7
Tobacco	6	10	15	6	6.8	2.0	-7.9	71.0	50.0	-60.8
Quebracho extract	5	5	6	4	14	13	-10.7	8.1	4.9	-28.6
Other exports	10	14	12	8	17.9	2.8	-35.5	25.8	-18.7	-22.2
Main non-traditional exports	234	186	246	250	27.0	82.2	19.3	-20.2	32.6	12
Cotton fibre	122	85	131	142	11.4	46.7	-5.3	-30.5	54.1	8.1
Soya beans	90	84	99	101	9.9	33.1	88.5	-5.8	17.6	12
Feed-cake and expellers	13	14	12	6	2.5	2.1	-11.6	9.7	-10.5	-48.4
Fruit and vegetables	9	3	4	1	3.2	0.3	96.1	-68.5	40.9	-73.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aIncludes only exports appearing in the exchange records.

Preliminary figures.

hampered the normal course of the country's international trade and restricted the options open to Paraguay in the international capital market, as well as increasing the operating costs of firms.

Moreover, the economic policy pursued during recent years has contributed to explosive growth of the country's net external debt, and in 1985 this continued to grow at a rate considerably in excess of the potential growth rate of the product or of exports.

In contrast with these shortcomings, the new Law No. 1075 on Customs Tariffs came into force, doing away with the various explicit export taxes and reducing the average level and dispersion of the tariff structure, the maximum rate of which was set at 30%. Nevertheless, both this law and the complementary Law No. 7804 maintained the practice of prohibiting certain imports if it was considered that the goods concerned could be produced efficiently within the country.

b) Trade

i) *Exports.* The current value of registered external sales fell by 9%, according to preliminary figures from the Central Bank (see table 18).⁶ This fall reflected the sharp decline in all traditional exports and particularly those of tobacco, wood and livestock products. Despite the striking increases in the harvests of the main non-traditional exports —cotton and soya beans— and the even greater increases in the exports through official channels —48% and 77% respectively— the value of registered exports of soya beans remained stagnant, while that of cotton fibre sales increased by only 8%.

This anomaly was partly due to the slumps in the average international prices of cotton (-20%) and soya (-23%) between 1984 and 1985 (see table 19). It also reflected the compensatory cuts made by the Central Bank in the valuations it adopted for customs purposes (*aforos*). These valuations

⁶ The statistics exclude what are known as unrecorded exports and Paraguayan sales to the Itaipú and Yacyretá binational enterprises. However, the latter are registered in the balance of payments which is given in table 23. According to calculations made by the International Monetary Fund, which are based on the statistics of countries with which Paraguay trades, unrecorded exports represented some US\$372 million in 1981, US\$234 million in 1982, US\$221 million in 1983, US\$195 million in 1984 and approximately US\$ 183 million in 1985, i.e., 126%, 71%, 82%, 58% and 60%, respectively, of registered exports. In contrast with previous years, in 1985 the evolution of the value of exports as a whole (excluding the operations of the binational enterprises), was similar to that of those recorded by the Central Bank, according to the above statistics.

establish the amount of foreign exchange which exporters have to hand over to the Central Bank. In the case of soya beans these valuations were cut by almost 32%, and by 39% in the case of cotton fibre, thereby freeing a greater proportion of the lower foreign currency earnings of exporters. Through these measures, on the one hand, the Central Bank offset the negative impact of the falls in international prices and of the rises in domestic production costs on the profitability of these products, and on the other hand it brought to a halt the widening of the gap between the official rate of exchange for exports and the market exchange rate, as of the second quarter. This discouraged any increase in unrecorded exports of these products and consequently (bearing in mind the huge increase in the harvests), it tended to keep registered earnings of foreign currency at the same level, without it being necessary to again increase the rate of exchange. Had this occurred, it might have been necessary to increase exchange subsidies with all the ensuing consequences, or to raise the preferential rates of exchange in force for public-sector imports and for external debt servicing, with concomitant increases in government expenditure and tariffs, and all that such increases entail.

However, the policy chosen multiplied even further the number of exchange rates in force and widened the gap between the different exchange rates applied in practice to export products, while at the same time it accentuated the disequilibrium between income and expenditure in the Central Bank's foreign currency budget.

Table 19

PARAGUAY: EVOLUTION OF THE EXTERNAL PRICES
OF THE MAIN EXPORT PRODUCTS

(1970 = 100)

	Soya beans ^a		Soya oil ^c		Cotton		Wood ^c	
	Nominal	Real*	Nominal	Real*	Nominal	Real*	Nominal	Real*
1975	181.8	85.4	196.9	92.5	182.3	85.7	192.1	89.8
1976	190.9	88.0	153.1	70.6	258.3	119.0	201.2	92.9
1977	231.4	98.0	201.0	85.1	240.8	101.9	234.1	99.2
1978	221.5	85.3	212.2	81.7	237.7	91.6	264.3	101.7
1979	244.3	78.7	231.4	74.5	252.3	81.2	338.1	110.1
1980	244.6	66.5	209.1	56.9	307.0	83.5	396.8	107.9
1981	238.0	65.4	177.2	48.7	279.0	76.6	367.5	101.0
1982	202.5	57.7	156.3	44.6	237.3	67.7	364.4	98.8
1983	233.1	70.3	184.3	55.6	276.4	83.4	329.7	99.4
I	197.2	57.7	138.2	40.4	242.2	70.8	322.2	94.2
II	206.1	62.3	150.7	45.5	272.5	82.4	337.7	102.1
III	262.3	80.5	217.2	66.7	297.3	91.2	332.5	102.1
IV	265.6	81.0	230.4	70.3	293.4	89.5	327.0	99.7
1984	235.0	72.2	253.2	77.8	261.7	80.4	312.3	96.2
I	253.3	76.9	242.8	73.7	283.1	85.9	331.0	100.5
II	266.6	80.4	294.8	88.9	280.3	84.5	324.2	97.8
III	215.8	67.2	241.3	75.1	245.4	76.4	302.8	94.2
IV	204.4	64.8	234.0	74.2	238.2	75.5	291.4	92.4
1985	187.8	58.7	200.1	62.6	201.2	62.9	308.3	96.4
I	200.9	66.9	228.7	76.1	224.2	74.6	279.8	93.1
II	194.9	62.4	230.2	73.8	221.0	70.8	308.6	98.9
III	180.4	55.6	181.2	55.8	192.5	59.3	319.3	98.4
IV	174.4	51.1	160.3	47.0	167.3	49.0	325.8	95.5

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.

The nominal prices were deflated by world export prices, with the exception of 1985, which was deflated by the export prices of the industrialized countries.

^cAll origins, raw oil, FOB, ex-works, Netherlands.

Mexican medium grade, CIF, North Europe.

^dTropical, wholesale price, United Kingdom.

Table 20

PARAGUAY: IMPORTS OF GOODS, FOB¹

	Millions of dollars				breakdown		Growth rates			
	1982	1983	1984	1985	1975	1985	1982	1983	1984	1985
Total	581	478	513	442	100.0	100.0	14.9	-17.7	7.3	-13.8
Consumer goods	158	119	113	118	33.1	26.7	1.4	-24.4	-4.6	0.9
Non-durable	118	90	82	97	25.8	21.9	-2.2	-23.0	-8.4	18.3
Foodstuffs	24	41	14	20	5.1	4.5	-26.7	30.8	-54.2	42.9
Beverages and tobacco	38	15	25	25	10.1	5.7	2.6	-59.2	63.7	-
Others*	56	44	43	52	10.6	11.7	10.1	-21.3	-1.3	20.9
Durable ⁰	40	29	31	21	7.3	4.8	13.4	-28.5	7.3	-45.2
Automobiles	12	7	16	10	2.8	2.3	-25.7	-44.7	127.7	-62.5
Electrical appliances	28	22	15	11	4.5	2.5	48.9	-21.2	-31.0	-26.7
Intermediate goods	228	187	175	153	27.5	34.6	57.8	-18.3	-6.0	-12.6
Fuels and lubricants	154	120	138	115	17.4	26.0	63.1	-22.2	14.6	-16.7
Others ¹	74	67	37	38	10.1	8.6	47.9	-10.2	-43.2	2.7
Capital goods	157	144	198	171	39.4	38.7	-9.7	-8.7	37.6	-11.6
Machinery, equipment and motors	105	108	92	102	20.8	23.1	-2.2	2.3	-14.5	10.9
Transport equipment and accessories ²	35	22	87	21	9.6	4.8	-27.8	-35.9	285.7	-75.9
Others ³	17	14	19	16	3.9	3.6	-5.6	-20.7	39.2	-15.8
Unclassified	38	28	27	32	5.1	7.2	21.1	-24.5	-8.9	18.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

⁰Only includes imports which appear in the exchange records, plus imports with deferred payments and those carried out with long-term external loans.

¹Includes paper, cardboard and cardboard products, pharmaceutical and chemical products, and textiles and textile manufacture.

²Includes jeeps and pickups.

³Includes iron and iron manufactures (with the exception of hardware), base metals and their manufactures, stones, earth and manufactures thereof, cement, asphalt and wood and manufactures thereof.

⁴Excludes automobiles, jeeps and pickups, v. ⁵Includes agricultural implements and accessories, hardware and live cattle.

ii) *Imports of goods.* The current value of external purchases of goods shrank by almost 14% in 1985 (see table 20).⁷ This shrinkage essentially reflected the 76% fall which affected imports of transport equipment and accessories, following the 286% increase recorded the previous year. A marked fall also occurred in external purchases of durables, especially automobiles. The current value of imports of fuels and lubricants fell by nearly 17%, mainly on account of the drop in volume, but also as a result of the fall in the international price of hydrocarbons.

In contrast, imports of capital goods, such as machinery rose by almost 11%, while those of agricultural implements, hardware, animals on the hoof and "others" recovered by 19%.

iii) *Services.* Although the number of tourists fell by 10% in 1985 after having doubled the previous year, their expenditure rose by 9%, and was for the first time in excess of US\$100 million (see table 21). Since expenditure on travel abroad barely rose, the surplus on this account rose to US\$58 million: the highest figure so far recorded. Exports and imports of other non-factor services declined, the former by rather less than 3% and the latter by 15%.

iv) *The terms of trade.* On account of the sharp falls in the international prices of the main export products, and despite a further drop in the price levels of imports of non-factor goods and services, the terms of trade deteriorated by over 18% and led to a loss of income equivalent to 2.4% of

⁷ These figures do not show unregistered imports of goods or that half of the imports of the binational enterprises which are attributable to the Paraguayan accounts. Nor do they include imports financed by external loans, unrequited official transfers and direct foreign investment. However, the latter are included in the balance-of-payments statistics shown in table 23. According to calculations by the International Monetary Fund, unrecorded imports of goods came to approximately US\$266 million in 1981, US\$125 million in 1982, US\$159 million in 1983, US\$90 million in 1984, and an estimated US\$69 million in 1985, equivalent to 53%, 22%, 33%, 18% and 16%, respectively, of recorded imports.

the gross domestic product (see table 22 and table 15). Nevertheless, the terms of trade in 1985 were still no lower than in 1980: an exceptional state of affairs in the region and a pointer to why the evolution of the Paraguayan economy has been one of the least disappointing during this period of crisis.

c) *The current account position*

In view of the rapid declines in the international prices of the major export products, the shrinkage in the flow of long-term capital and the marked rise in domestic demand for external assets, the economy underwent a vigorous adjustment in 1985. According to official data, the current account deficit fell from the US\$329 million recorded in 1984 to US\$192 million (see table 23). The gap between gross domestic investment and gross national savings (as a percentage of the gross national product) fell from 7.8% to 4.5%, the smallest figure recorded since 1977 (see table 15). As for the trade deficit this was almost halved, and as a percentage of the gross domestic product it fell from 8.8% to 3.2% (excluding the impact of the variation in the terms of trade), which was in turn the lowest figure recorded since the 1960s, according to Central Bank balance-of-payments data.

If the income earned by the country from the operations of the binational enterprises is excluded, it is apparent that the adjustment effort was even greater, for sales of goods and services to Itaipú and in particular Yacretá again shrank considerably (see table 24).

d) *The capital account and the global balance of payments*

Notwithstanding the considerable reduction in the current account deficit, the monetary authorities lost more than US\$130 million worth of their international reserves, i.e., almost 20% of those they possessed at the end of 1984. Even so, a further US\$30 million of arrears of payments built up. While the Central Bank's gross holdings of external assets (US\$539 million) still represented

Table 21

PARAGUAY: INDICATORS OF TOURISM

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Number of tourists (thousands)	176.9	201.9	301.9	302.1	267.1	178.4	147.8	292.0	262.7
From Argentina	68.1	86.8	132.2	132.6	122.5	56.9	47.1	141.3	107.2
From Brazil	65.3	68.2	106.9	104.8	92.1	93.8	70.3	97.6	93.4
From United States	3.2	4.4	3.6	3.3	4.3	3.9	3.5	7.5	6.2
From Japan	4.2	4.0	5.1	3.9	2.5	1.0	1.9	2.7	2.8
From Uruguay	3.7	4.6	3.6	3.9	7.5	5.4	3.1	10.2	4.6
From other countries	36.1	33.9	50.5	53.6	38.2	17.9	22.1	32.7	40.9
Average stay (days)	3.0	3.0	3.3	3.3	3.3	3.3	3.3	3.0	3.0
Average expenditure (dollars)	200	200	230	300	300	330	332	330	399 ^c
Total expenditure (millions of dollars)	35.4	40.4	69.5	90.7	80.2	59.0	49.0	96.3	105.0 ^c
Supply of rooms (number)	2 279	2 442	2 326	2 750	2 769	3 076	3 177	3 280	3 302
Supply of beds (number)	5 314	5 691	5 434	6 329	6 243	6 806	6 985	6 938	7 075
Average rate of occupation									
Of rooms (percentage)	63.8	68.0	117.3	99.3	87.2	52.4	42.1	73.2 ^c	65.4
Of beds (percentage)	27.4	29.1	50.2	43.2	38.7	23.7	19.1	34.6 ^c	30.5

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. The 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. ^bPreliminary figures. ^cRefers to hotels, motels, hostels and boarding houses regarded by the Department of Tourism as "of tourist level".

Table 22

PARAGUAY: ANNUAL GROWTH OF TRADE IN GOODS AND SERVICES*(Percentages)*

	1980	1981	1982	1983	1984	1985"
Exports of goods FOB						
Value	4.1	-0.4	-0.6	-17.7	10.7	-5.5
Volume	10.3	-7.2	14.2	-9.7	-12.2	33.2
Unit value	-5.6	7.3	-13.0	8.9	26.1	-29.1
Exports of services						
Value	28.3	14	31.6	-32.3	21.3	-2.7
Volume	5.1	-10.9	23.2	-40.2	60.7	-8.2
Unit value	22.0	13.8	6.8	13.3	-24.5	4.8
Exports of goods and services						
Value	10.2	0.1	9.0	-22.9	14.2	-4.6
Volume	8.7	-8.3	16.8	-18.8	3.8	18.5
Unit value	13	9.2	-6.7	-5.1	9.9	-19.5
Imports of goods FOB						
Value	17.0	14.4	-7.9	-22.5	17.8	-20.5
Volume	-5.3	13.6	-6.6	-17.6	44.6	-16.7
Unit value	23.6	0.6	-1.4	-6.0	-18.5	-4.6
Imports of services						
Value	8.1	23.4	71.1	-55.3	81.7	-22.0
Volume	-1.7	12.8	60.0	-56.7	0.3	-18.7
Unit value	9.9	9.3	7.0	3.3	4.8	4.2
Imports of goods and services						
Value	15.1	16.2	8.7	-33.3	31.9	-19.4
Volume	-4.6	13.5	6.5	-29.1	29.6	-18.2
Unit value	20.7	2.4	2.1	-5.9	-10.9	-1.5
Terms of trade (goods)						
FOB/CIF	-22.3	5.6	-12.3	-3.5	49.3	-26.0
Terms of trade (goods and services)	-16.0	6.6	-8.6	0.9	23.4	-18.3
Purchasing power of exports of goods and services	-8.7	-2.2	6.7	-18.1	28.2	-6.6

Source: ECLAC, on the basis of official data.

"Preliminary figures. Non-factor.

approximately ten months' imports of non-factor goods and services (at the depressed level recorded in 1985) the net holdings of external assets, less payments in arrears (US\$190 million) fell to 3.4 months of imports in 1985: the lowest level since the construction of Itaipú began.

The dwindling of the net capital inflow, by more than 72% in comparison with the 1984 flow was mainly the result of the turnaround recorded in the short-term capital account. This reflected a pronounced rise in the demand for external assets. Simultaneously, long-term external financing declined by over 30% on account of the sharp shrinkage in the inflow of currency on the part of the binational enterprises, as well as of the diminution in inflows through the commercial banks and the fall in disbursements for loans to the non-financial public sector (see tables 23 and 24).

Both the decline in the inflow of capital in connection with Itaipú and Yacyretá and the lower rate of use of the loans already contracted for by the public sector partly reflected disagreements over the rates of exchange adopted by the government for these transactions. In this respect, the inflow from the Yacyretá binational enterprise came to only 30% of the amount forecast. Simultaneously, amortization payments rose as the periods of grace granted in respect of debts taken out at the beginning of the 1980s began to mature.

Table 23
PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-210	-283	-378	-391	-252	-329	-192
Trade balance	-218	-276	-416	-446	-233	-276	-142
Exports of goods and services	514	566	566	617	476	543	5181
Goods FOB	384	400	399	396	326	361	341
Real services	129	166	168	221	150	182	177
Transport and insurance	3	4	5	2	2		
Travel	69	91	80	59	49		
Imports of goods and services	731	842	978	1 063	709	819	660
Goods FOB	577	675	772	711	551	649	516
Real services	154	167	206	352	157	170	144
Transport and insurance	93	104	118	106	75	98	72
Travel	31	35	38	42	44	44	47
Factor services	4	-11	31	53	-21	-55	-58
Profits	-18	-54	-38	-13	-39	-49	-50
Interest received	45	77	102	122	63	70	79
Interest paid	-55	-81	-93	-95	-78	-95	-108
Others	33	48	60	39	33	19	21
Unrequited private transfer payments	3	3	2	2	1	2	8
Balance on capital account	372	434	421	329	255	305	84
Unrequited official transfer payments	4	2	3	4	5	7	6
Long-term capital	136	192	168	266	289	215	163
Direct investment (net)	50	32	32	37	5	5	11
Portfolio investment (net)	-	-	7	8	3	-	8
Other long-term capital	85	160	129	221	281	210	144
Official sector*	10	85	39	60	139	127	109
Loans received	21	98	60	83	162	150	137
Amortization payments	-12	-20	-22	-23	-23	-28	
Commercial banks'	3	1	11	11	7	32~	
Loans received	9	7	17	16	10	40	
Amortization payments	-6	-6	-6	-6	-3	-9	
Other sectors*	72	74	79	150	135	51	35
Loans received	113	135	141	217	168	109	
Amortization payments	-41	-60	-61	-52	-33	-58	
Short-term capital (net)	223	261	263	74	-50	67	-65
Official sector	15	3	12	10	22	93	
Commercial banks	-9	-14	-13	1	1	-5	
Other sectors	218	271	264	62	-73	-21	
Errors and omissions (net)	9	-20	-13	-14	11	16	
Global balance	162	151	44	-63	3	-24	-108
Total variation in reserves (- sign indicates an increase)	-165	-153	-43	121	49	3	132
Monetary gold	-4	-	-	-	-		
Special Drawing Rights	-4	-2	-3	-9	-6		
IMF reserve position	-2	-8	-10	-1	-3		
Foreign exchange assets	-154	-143	-20	133	60		
Other assets	-1	-	-	-2	-3		
Use made of IMF credit	-	-	-	-	-		

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.
Preliminary figures. Includes other non-factor services. *Includes net loans granted and other assets and liabilities.
Equal to total variation in reserves (of opposite sign) plus counterpart items.

Table 24

PARAGUAY: EFFECTS OF THE ITAIPU AND YACYRETA BINATIONAL ENTITIES ON THE BALANCE OF PAYMENTS"

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984	1985"
Current account								
Total	-118	-210	-284	-378	-391	-252	-329	-192
Binational entities	126	148	178	150	158	144	85	44
Itaipú	115	116	121	139	126	99	61	37
Yacyretá	12	32	57	73	24	17	24	7
Remainder	-244	-358	-462	-589	-541	-396	-414	-236
Capital account								
Total	297	372	434	421	329	255	305	84
Binational entities	126	149	217	237	184	116	94	70
Itaipú	115	116	146	159	159	99	70	55
Yacyretá	12	33	71	78	25	17	25	15
Remainder	170	223	218	184	145	139	211	14
Global balance								
Total	178	162	151	44	-63	3	-24	-108
Binational entities	252	297	395	449	338	260	179	114
Itaipú	229	231	267	298	289	226	130	92
Yacyretá	23	65	129	151	48	34	49	22
Remainder	-74	-135	-244	-405	-400	-257	-203	-222
International reserves'								
Total	448	613	767	811	689	675	671	539
Binational entities	525	822	1 217	1 666	2 003	2 263	2 442	2 556
Itaipú	488	720	986	1 284	1 573	1 799	1 929	2 021
Yacyretá	37	102	231	382	430	464	513	535
Remainder	-77	-209	-450	-855	-1 314	-1 588	-1 771	-2 017

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

"Does 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 Itaipú binational entity in Paraguay. Similarly, it does not include the capital flows which finance those imports (which are also imputable to the balance of payments). Consequently, the accounting system used for this table is the same as that used for table 23, on the balance of payments, the original source of which is the Central Bank of Paraguay. Preliminary figures. ^c Gross reserves minus gold. Shows the accumulated effects on the balance of payments.

In addition, if the operations of the binational enterprises are excluded the capital account surplus fell to barely US\$14 million, as against US\$211 million the previous year. Consequently, the overall balance-of-payments deficit of the remainder of the economy rose by some US\$20 million in 1985, notwithstanding the enormous adjustment made in the current account (see table 24).

e) *The external debt*

The current value of the gross external debt in dollars rose by rather more than 7% in 1985, a rate which was not only considerably below the growth rate recorded since the end of the boom in 1981 (since between that year and 1984 external indebtedness expanded by over 74%) but which also represented the smallest relative increase since 1963.⁸

However, the net external debt increased by almost 18%; a rate which, although considerably lower than those recorded between 1980 and 1984 (when it mushroomed by 925%), was nonetheless incompatible with satisfactory economic performance over the medium and long term (see table 25).

⁸ The figures on the external debt given in table 25 do not include the external private debt without official guarantee, as indicated in one of the footnotes to the table. According to calculations by the International Monetary Fund, the external private debt without State guarantee came to US\$436 million in 1981, US\$419 million in 1982, US\$400 million in 1983, US\$386 million in 1984 and US\$373 million in 1985.

The slower rate of growth of the gross external debt partly reflected the fact that the major projects carried out by State enterprises in the areas of steel and cement were nearing completion. This led to a diminution in the disbursement of external credits largely intended to finance the execution of these projects. In addition, the periods of grace on the loans in question expired. Moreover, the persistence and even increase of arrears of payments, together with the disagreements over exchange policy between the government and a number of creditor institutions such as the World Bank, had an impact on the procurement of further loans and the disbursement of those already agreed upon. The excessive increase in the net external debt, for its part, mainly reflected the huge loss of international reserves, although for the third consecutive year the payment of external commitments fell behind, and the amount of arrears rose from US\$230 to US\$260 million, according to the International Monetary Fund.⁹

Furthermore, there was a deterioration in the structure of the external debt, mainly on account of two factors: a) the lack of interest of multilateral financial agencies in granting credit to finance major capital-intensive projects whose social profitability was debatable; and b) their increasing reluctance to grant fresh credit for any purpose whatsoever as long as the existing economic policies were pursued. At the same time, the willingness of a number of commercial banks, suppliers and

Table 25

PARAGUAY: AMOUNTS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1978	1979	1980	1981	1982	1983	1984	1985 ^a
External debt contracted	952	1 299	1 323	1 641	1 939	2 272	2 339	2 508
Public sector	842	1 139	1 152	1 490	1 766	2 101	2 187	2 363
Private sector	109	160	170	151	173	171	151	145
Gross external debt disbursed	669	733	861	949	1 204	1 469	1 654	1 773
Public sector	562	574	691	798	1 031	1 299	1 503	1 628
Non-financial	461	468	574	671	868	1 168	1 291	1 396
Central government	210	203	277	317	369	502	621	749
State enterprises	252	265	297	353	499	614	670	647
Financial	100	107	117	127	162	182	212	231
Private sector	107	159	170	151	173	171	151	145
Net foreign assets	435	587	764	818	690	644	309	191
Public sector ^b	439	593	749	770	650	429 ^c	292 ^c	188 ^c
Private sector	-	12	24	48	40	12	17	3
Net external debt	230	138	88	131	514	1 029	1 345	1 582
Public sector	123	-19	-58	28	341	870	1 211	1 440
Private sector	107	147	146	103	133	159	134	142
Gross external debt service	79	113	160	180	175	149	176	203
Principal	42	58	79	87	80	71	81	95
Interest	37	55	81	93	95	78	95	108
Net external debt service	61	68	83	78	53	86	106	124

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aPreliminary figures.

Medium- and long-term public and State-guaranteed private debt; end-year balance.

^cNet foreign assets of

the Central Bank and the Banco Nacional de Fomento.

Foreign assets less short-term foreign liabilities of the private commercial

banks. ^eAdjusted for overdue payments.

Interest and principal paid less interest received.

⁹ The term "excessive" has been adopted in view of the fact that the rate of expansion of the net external debt was far beyond both its own rate of growth during the postwar period and the economy's potential growth rate. Moreover, while it is undeniable that an increase in the net external debt would normally constitute a component of an efficient adjustment policy to deal with the shocks affecting an economy, the magnitude of such an increase would have to be insistent with an adjustment effort designed to bring the economy to a sustainable ratio between gross domestic investment and gross national saving, without any unnecessary losses of production. However, the Paraguayan economy seems to be in a position which is far from stable. Its slow and uneven adjustment tends to increase the costs which the economy will have to bear when it can no longer postpone its adjustment.

Table 26

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1977	1978	1979	1980	1981	1982	1983	1984	1985 ¹
Indexes (1970 = 100)²									
Disbursed gross external debt ³									
At current prices	340.0	438.8	480.7	564.9	622.4	790.0	963.9	1 085.3	1 163.4
Deflated by export prices	115.3	156.5	156.3	181.3	183.0	248.9	430.0	327.7	436.6
Deflated by import prices	154.6	188.3	163.5	159.3	217.6	213.2	276.5	345.3	375.7
Disbursed net external debt									
At current prices	172.2	151.2	90.7	57.9	99.1	388.8	676.5	883.6	1 040.7
Deflated by export prices	58.4	53.9	29.5	18.6	29.1	122.5	224.6	307.0	448.7
Deflated by import prices	78.3	64.9	30.9	16.3	27.3	104.9	194.1	327.3	391.0
As a percentage of GDP									
Disbursed gross external debt									
At official exchange rate	24.8	26.1	21.4	19.4	16.9	22.8	27.3	36.1	44.5
At parallel exchange rate ⁴	26.1	29.4	23.5	20.7	20.5	33.5	57.6	59.0	78.0
Disbursed net external debt									
At official exchange rate	12.5	11.0	4.0	2.0	2.3	9.7	19.1	22.5	39.7
At parallel exchange rate ⁴	13.2	10.1	4.4	2.1	2.9	14.3	40.3	48.0	69.6
As a percentage of exports									
Gross external debt service	15.4	18.2	22.0	28.3	31.2	27.9	31.3	33.5	42.2
Principal	8.7	9.7	11.3	14.0	15.4	13.0	14.9	15.4	19.7
Intérêt	6.7	8.5	10.7	14.3	15.9	14.9	16.4	18.1	22.4
Net external debt service*	12.3	14.0	16.2	14.7	13.2	8.1	18.1	20.2	25.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

¹Preliminary figures. ²The weightings adopted for price indexes are for 1980. ³Medium- and long-term State-guaranteed public and private debt: end-of-year balances. ⁴Average rate for exports and imports recorded by the Central Bank. (See table 17). ⁵See table 17. ⁶Non-factor goods and services. ⁷Interest and principal paid, less interest received.

bilateral sources to finance the projects which the government had proposed to carry out led to an increase in their share of the external debt. Thus, of the US\$266 million of loans procured in 1985, more than 84% were from commercial sources generally with shorter repayment periods and harsher conditions. In 1984 approximately 60% of the balance of the gross external public debt was owed to commercial sources, whereas in 1980, before the onset of the recession, their share had been only 40%.

If the gross external debt is deflated by the variation in the price index of imports of non-factor goods and services, the rate of growth of the debt turns out to be nearly 9%. If this is in turn deflated by the price index for exports, the rate of growth rises to over 33%, on account of the pronounced fall in export prices. The corresponding percentages for the net external debt were 19.5% and 46%, respectively. As a percentage of the gross domestic product, and if valued at the average official rate of exchange for exports and imports, the gross external public debt and the private debt guaranteed by the State rose from 36% in 1984 to 44.5% in 1985, after having been only 17% in 1981. At the parallel rate of exchange it rose between 1984 and 1985 from 58% to 78%, whereas during the last year of the boom the figure had been 20.5%.¹⁰ In net terms, and as a percentage of the value of gross domestic production at the official rate of exchange, the debt rose from 22.5% in 1984 to almost 40%

¹⁰ In turn, the gross private debt without State guarantee increased, as a percentage of the gross domestic product at the official rate of exchange, from 7.8% in 1981 to 7.9% in 1982 and from 7.4% in 1983 to 8.4% in 1984 and 9.4% in 1985. At the parallel rate of exchange, the figures were 9.4%, 11.7%, 15.7%, 13.8% and 16.4% respectively.

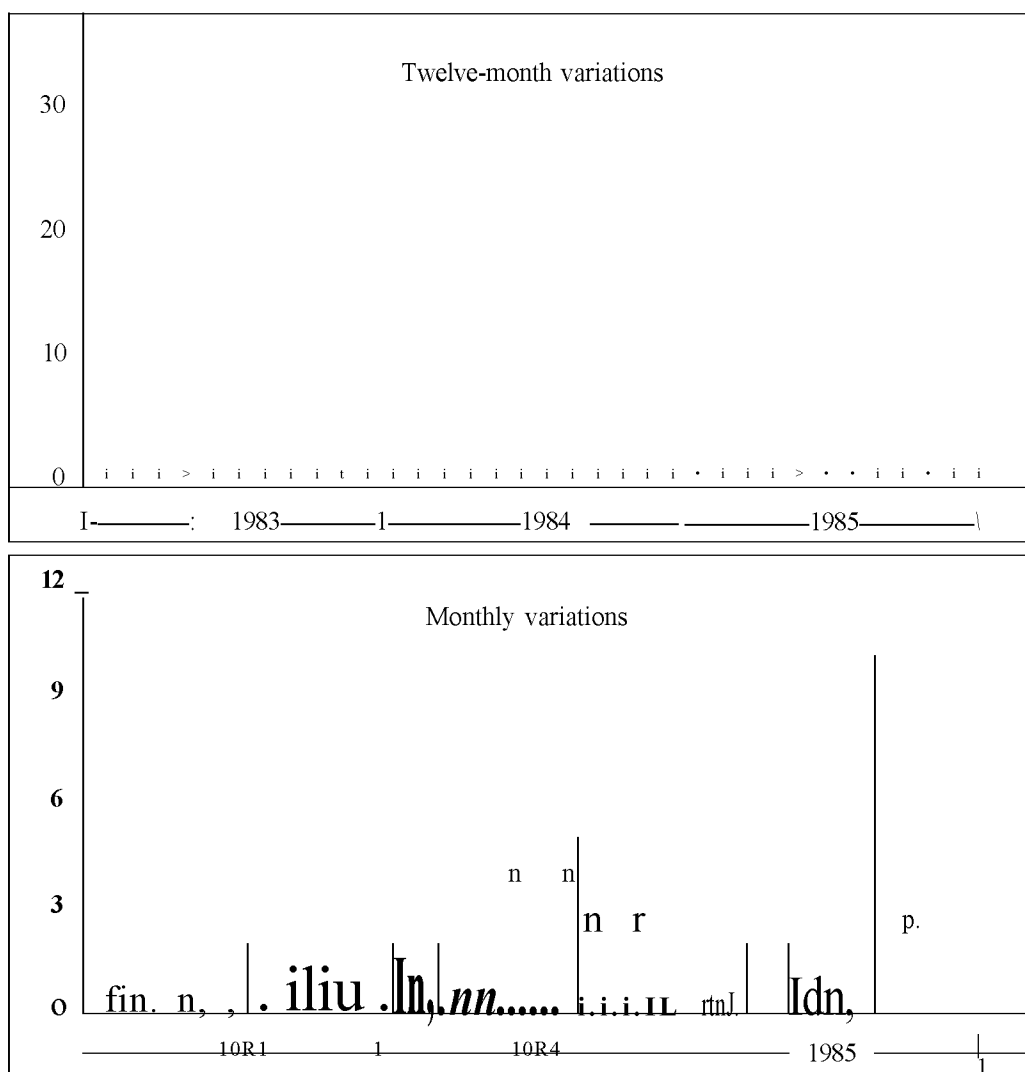
in 1985, while if the parallel rate of exchange is used it rose to almost 70% in 1985, in contrast with 48% for the previous year. In 1981, the corresponding percentages had been only 2.3% and 2.9%, respectively (see table 26).

Servicing of the external debt also increased notably in 1985. As far as the officially guaranteed public and private debt is concerned, service represented rather more than 42% of the value of exports of goods and services, as against the figure of 33.5% recorded in 1984.¹¹ In the case of net debt servicing the figure was almost 26% of exports in 1985, in contrast with 20% in 1984. In 1981 it had been only 13%.

Figure 2

PARAGUAY: CONSUMER PRICE INDEX

(Percentages)



Source: ECLAC, on the basis of official figures.

¹¹ If unregistered exports are taken into account, the gross ratio of the external debt service was 19.2% in 1981, 20.6% in 1982, 21.4% in 1983, 23.8% in 1984 and 29.0% in 1985. If the gross service on the external private debt without government guarantee is also taken into account, total gross servicing coefficients of 29.9%, 30.8%, 34.6%, 34.3% and 39.4%, respectively, were recorded.

Table 27

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982	1983	1984	1985
variation between annual averages									
Consumer price index"	9.3	10.6	28.3	22.4	14.0	6.8	13.5	20.3	25.2
Food	11.2	12.9	29.6	18.9	10.4	3.5	17.1	28.9	27.6
Housing	7.9	6.4	22.3	22.7	20.2	8.4	3.6	7.0	17.4
Clothing	7.5	11.7	23.1	21.2	11.6	6.0	20.8	26.7	32.8
Miscellaneous expenses	6.8	7.6	31.1	32.1	13.4	9.4	17.2	20.0	26.3
Wholesale price index	8.0	12.8	26.3	7.8	12.2	3.5	32.9	28.3	23.4
Agricultural products	8.3	21.5	38.4	2.7	13.7	3.5	39.7	18.6	12.8
Index of implicit prices of the gross domestic product ¹	11.1	10.0	19.8	16.8	16.1	5.2	14.4	23.1	25.2
Variation from December to December									
Consumer price index"	9.4	16.8	35.7	8.9	8.1	8.9	14.1	29.8	23.1
Food	9.9	22.7	38.4	-2.8	6.9	5.4	19.4	42.5	22.3
Housing	8.3	14.7	20.1	21.1	12.3	6.4	2.7	15.9	13.0
Clothing	10.0	12.0	30.4	14.8	5.0	15.5	20.9	32.2	34.9
Miscellaneous expenses	8.6	5.9	43.2	30.7	4.4	14.0	17.0	25.4	28.5
Wholesale price index	6.9	23.7	33.0	-1.9	19.6	-6.8	32.9	43.8	16.3
Agricultural products	6.4	44.4	43.0	-10.6	30.9	-15.7	39.7	39.1	9.5

Source: Central Bank of Paraguay.

"Base year: 1980.

"Base year: 1972.

'At market prices. Base year: 1982.

4. The evolution of prices and wages

a) Prices

The rate of inflation slowed down appreciably during the first half of 1985, after having followed an almost uninterrupted upward trend since the middle of 1982. Between the end of 1984 and July 1985, the 12-month variation in the Central Bank's consumer price index fell from nearly 30% to less than 21%. At the same time, the average level of prices rose by only 5 %, as against the figure of 13% for the first half of the previous year.

However, in August inflation took off sharply, and the level of consumer prices rose by over 10%: more than double the rise recorded in the previous seven months. In September, the resurgence of inflation slackened somewhat, but the almost 4% rise in that month brought the cumulative 12-month variation in prices to almost 29%: close to the level recorded in December 1984 (see figure 2). During subsequent months, however, the inflationary trend was again reversed, and the level of prices fell slightly in November and remained stable in December. Consequently the year ended with inflation of 23%, which was considerably lower than in 1984. The slackening of inflation was even more noteworthy in the case of wholesale prices, which rose by only 16% as against the figure of 39% the previous year (see table 27).¹²

The immediate cause of the sharp revival in inflation in August was to be found in the sudden rises in the parallel rate of exchange. Although the rate had begun to rise as from the beginning of 1985, it soared in July and August by up to 25% in a single day.

The roots of Paraguayan inflation lie in domestic economic policy, for the level of import prices has fallen progressively since 1983 (-5.9% in 1983, -10.9% in 1984 and -1.5% in 1985) and moreover,

¹² It should be noted, however, that the wholesale price index is based on a limited basket of goods and services whose prices are generally rather unstable. Moreover, the cost of living index for a bank employee's family, such as that adopted by the Federation of Bank Employees (FETRABAN), which assigns greater importance to tradeable goods and services, in fact reflected a resurgence of inflation in 1985. Thus, in December 1985 the index showed a twelve-month variation of 43%, as against the 32% variation recorded in December 1984.

Table 28

PARAGUAY: SHORT-TERM EVOLUTION OF SELECTED MONETARY AGGREGATES,
PRICES AND NET INTERNATIONAL RESERVES

(Growth rates)

	Net domestic credit ^a		Monetary base		Money (M ₁)		Quasi-money ^f		Consumer prices		Net international	
	Twelve-month-ly	Monthly	Twelve-month-ly	Monthly	Twelve-month-ly	Monthly	Twelve-month-ly	Monthly	Twelve-month-ly	Monthly	Twelve-month-ly	Monthly
1982												
December	42.5	-9.1	-3.2	3.9	-3.9	4.2	9.9	1.0	8.9	0.9	-5.5	-3.7
1983												
January	52.7	-3.7	-1.9	-4.9	-1.4	-5.5	9.8	12	10.5	2.4	-14.6	-2.5
February	52.9	9.5	1.8	3.2	1.1	4.3	8.1	-0.1	10.8	0.7	-12.0	-
March	78.0	14.5	11.4	8.3	9.0	8.9	8.7	2.7	10.1	0.5	-10.8	2.0
April	97.6	7.3	14.4	4.0	8.7	3.4	14.2	4.2	10.0	-0.3	-13.6	1.8
May	79.1	12	10.7	1.1	4.8	-1.9	13.2	14	10.6	0.5	-13.6	0.6
June	76.6	4.0	8.3	-1.1	6.7	-1.0	5.5	-2.3	13.3	2.4	-15.5	-3.5
July	91.8	5.9	11.0	2.9	4.9	-2.8	6.0	0.6	14.3	2.1	-21.6	-4.2
August	93.7	9.0	11.2	-1.4	6.6	2.3	5.2	-1.3	17.4	2.4	-15.1	-3.0
September	118.9	15.1	14.7	3.3	8.6	0.4	8.6	3.8	18.8	1.5	-16.1	-2.7
October	143.9	8.3	21.4	5.6	12.7	4.9	12.6	2.1	15.9	0.9	-15.6	2.1
November	180.6	2.1	31.7	3.6	18.8	0.9	18.7	4.8	15.4	.3	-9.7	2.2
December	108.7	4.1	27.7	0.8	26.4	10.8	13.0	-3.9	14.1	-0.3	-5.5	0.7
1984												
January	123.1	2.9	31.6	-1.9	25.2	-6.2	14.5	2.5	13.2	1.6	-8.9	-5.0
February	113.7	4.9	27.2	-0.3	25.6	4.6	15.3	0.6	13.8	1.3	-13.0	9.6
March	106.1	10.3	35.6	15.5	39.6	21.0	15.2	2.2	15.7	2.2	-10.6	4.8
April	91.9	-0.1	28.1	5.9	39.9	3.7	13.2	2.4	17.0	0.8	-8.1	4.6
May	92.4	1.5	39.8	2.3	50.2	5.3	11.1	-0.5	17.3	0.8	-7.6	1.2
June	88.2	1.7	37.7	2.6	49.1	-1.7	14.2	-	19.1	4.0	-7.5	-3.6
July	71.7	-3.4	26.9	-5.2	48.9	-2.9	7.0	-5.7	18.7	1.8	-10.9	-7.8
August	58.7	0.7	29.3	0.6	44.4	-0.8	11.2	2.5	20.6	4.1	-10.7	-2.9
September	45.3	5.5	22.1	-2.6	38.2	-3.9	7.0	-0.2	22.0	2.7	-15.6	-8.1
October	39.9	4.3	27.7	1.5	31.2	-0.4	7.3	2.4	25.2	3.6	-14.4	3.6
November	36.4	-0.5	23.4	-	31.4	1.1	4.1	1.7	28.4	2.9	-18.0	-2.1
December	40.8	7.4	25.3	11.4	29.6	9.2	9.8	1.3	29.8	0.7	-15.8	3.5
1985												
January	32.9	-2.9	14.1	-10.7	21.8	-11.9	7.4	0.3	27.4	-0.3	-24.1	-14.4
February	37.1	8.3	11.6	-2.5	17.4	0.8	3.0	3.5	26.4	0.5	-29.5	-10.0
March	42.9	15.1	12.9	16.9	10.2	13.6	12.0	22.6	25.3	1.3	-24.1	11.0
April	47.0	2.8	25.0	17.2	14.3	13.9	20.1	9.9	24.6	0.2	-15.7	16.3
May	39.9	-3.4	27.5	4.3	18.7	3.2	25.0	3.6	25.3	1.4	-15.6	1.3
June	27.1	-7.6	25.4	-2.3	19.0	-1.5	28.9	3.1	22.1	1.1	-12.4	-
July	9.3	-11.3	27.3	-5.6	21.6	-0.8	29.4	-5.4	20.5	0.6	-7.9	-3.0
August	19.3	3.5	28.3	1.4	34.6	9.8	13.6	-10.0	27.6	10.2	-11.4	-5.4
September	7.6	-4.9	26.1	-4.3	23.4	-8.3	18.8	4.3	28.9	3.8	-6.3	2.7
October	3.3	0.1	21.3	-2.3	27.4	-1.2	13.8	-1.9	27.6	2.6	-9.5	-
November	17.4	13.1	25.7	3.7	29.1	3.6	13.8	1.6	24.0	-0.1	-16.4	-9.5
December	15.0	5.3	17.1	3.8	28.0	7.2	12.8	0.5	23.1	-	-12.5	6.1

Source: Central Bank of Paraguay.

^aFrom the Central Bank.
foreign currency deposits.

The Breakdown of the monetary base is slightly different from that which appears in table 34.
Including arrears of payments. The growth rates were calculated on the basis of the values in dollars.

^fIncluding

in contrast with the experience of the other countries of Latin America, during this period Paraguay's terms of trade improved slightly (see table 22). It is quite true that the rate of exchange came under external pressure as a result of the dwindling of financial flows; nevertheless, an adjustment in the system of relative prices on account of an external shock, even if it is a permanent one, does not in itself lead to a sustained rise in the level of prices.

Net domestic credit from the Central Bank had expanded at a rapid rate as for 1981, when the non-financial public sector ceased to be a creditor and became a debtor, and during 1983 there was a pronounced acceleration in the growth of all the main domestic monetary aggregates. Thus, for example, the 12-month variation in the monetary base went from -3% in December 1982 to 8% in June 1983 and 28% in December of the same year. During the first two-thirds of 1984 the Central Bank again considerably increased liquidity. As from the last four months of 1984 and during the following nine months, the Central Bank lowered the underlying rate of expansion of means of payment of domestic origin, but this still remained considerably higher than a "normal" growth of demand for real monetary balances. Both the losses of international reserves and the rate of price rises intensified. As of 1985, inflation rose well above the rate of expansion of money (M₁). On the other hand, during this same month the rate of price rises began to slacken (see table 28).

As in the previous two years, a violent expansion of the means of payment of domestic origin took place in the three-month period February-April, and the Central Bank's stock of net domestic credit rose by 28% during this brief period. Subsequently, between the end of April and the end of July, the Central Bank carried out a drastic cutback (-21%) of its stock of domestic assets. Nonetheless, in July and August sharp rises were recorded in the parallel rate of exchange, and in the second of these two months the level of prices rose by almost 11%, following rises of approximately 1% during previous months.

Although in September and October inflation dropped to its pre-August rate, liquidity fell sharply in real terms.

It would appear that the sharp shrinkage of the means of payment not only brought about a considerable downturn in inflation, but also a drop in the rate of economic activity.

The rapid expansion in the rate of domestic creation of money as of 1983 corresponds to the increase in the allocation of credit to both the private and public sector, although the rise in the absorption of banking funds on the part of the State was far greater than that of the private sector. Between December 1982 and April 1985 —when the Central Bank of Paraguay's stock of domestic credit reached its highest level— the allocation of net Central Bank credit to the remainder of the State grew by 528%, whereas the value of its loans to the private sector expanded by only 176%. Thus, the proportion of the Central Bank's stock of net domestic credit absorbed by the State rose from 25% to 44% during the period, and in July 1985 it went up to 56%, as a result of an extremely sharp cutback in credits to commercial banks.

Nevertheless, these figures do not adequately reflect the real significance of the State's financial operations in this expansion of liquidity. The public sector has received huge subsidies through a preferential rate of exchange for servicing its external debt, and these have expanded the monetary base. These exchange subsidies, together with the expansion of the Central Bank's net domestic credit to the State, represented 96% of the expansion of the monetary base in 1983, 79% in 1984 and 207% in 1985.¹³

The expansion in the demand for bank finance and subsidies for the public sector reflected the more or less uninterrupted lightening of the tax burden which had begun at the end of the previous decade and, in more recent years, the extent to which the scales of charges of State enterprises have fallen behind their production costs. In 1985 there was also a pronounced shrinkage in the net inflow of external funds to the public sector.

Consequently, the central government's current income, expressed as a percentage of the gross domestic product, fell to 7.9% in 1985, whereas in 1979 it had represented 10.2%. In the absence of precise statistics on the loss of income deriving from the failure to raise the prices of public services, it may be noted that a considerable proportion of the exchange subsidies —which represented more than 37 billion guaraníes in 1984 and 1985— were transferred to consumers of State goods and

¹³ These subsidies originate from the gap between the exchange rate of 160 guaraníes to the dollar paid by the non-financial public sector to the Central Bank for servicing its debt, and the rate of 320 guaraníes to the dollar paid by the Central Bank to purchase dollars from exporters.

Table 29

PARAGUAY: EVOLUTION OF WAGES

	Indexes (1970 = 100)					Growth rates				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Nominal										
Wages of workers in Asunción"										
General	341.7	354.7	374.0	433.9	531.8	20.1	3.8	5.4	16.0	22.6
Manufacturing	341.4	348.3	364.6	435.9	527.7	20.3	2.0	4.7	19.6	21.0
Construction	379.7	381.5	383.2	472.1	616.0	19.4	0.5	0.4	23.2	30.5
Electricity, gas and water	310.8	333.8	375.9	420.2	572.4	20.0	7.4	12.6	11.8	36.2
Transport, storage and communications	343.4	377.6	401.1	421.3	504.7	19.4	10.5	6.2	5.0	19.8
Commerce	374.2	380.7	404.4	492.6	607.4	24.5	1.7	6.2	21.8	23.3
Other services	360.9	361.1	387.6	509.5	686.4	21.6	0.1	7.3	31.5	34.7
Average agricultural daily wages										
With meals	522.9	547.2	675.3	676.2	731.6	13.5	4.6	23.4	0.1	8.2
Without meals	487.3	521.7	597.1	581.5	618.7	11.8	7.1	14.5	-2.6	6.4
Minimum legal wages										
Asunción and Puerto Stroessner	370.4	387.4	406.8	488.2	648.7	18.0	4.6	5.0	20.0	32.9
Other cities	368.8	385.6	404.9	487.8	646.6	17.7	4.6	5.0	20.5	32.6
Agriculture	370.6	387.6	407.0	487.5	646.3	17.8	4.6	5.0	19.8	32.6
Real"										
Wages of workers in Asunción										
General	87.5	85.1	79.1	76.3	74.7	5.3	-2.7	-7.1	-3.5	-2.1
Manufacturing	87.4	83.6	77.1	76.6	74.1	5.4	-4.3	-7.8	-0.6	-3.3
Construction	97.3	91.5	81.0	83.0	86.5	4.7	-6.0	-11.5	2.5	4.2
Electricity, gas and water	79.6	80.1	79.5	73.9	80.4	5.3	0.6	-0.7	-7.0	8.8
Transport, storage and communications	88.0	90.6	84.8	74.1	70.9	4.9	3.0	-6.4	-12.6	-4.3
Commerce	70.2	91.3	85.5	86.6	85.3	-20.9	30.1	-6.7	1.3	-1.6
Other services	92.4	86.6	82.0	89.6	96.4	6.6	-6.3	-5.3	9.3	7.6
Average agricultural daily wages										
With meals	133.9	131.3	142.8	118.9	102.7	-0.4	-1.9	8.8	-16.7	-13.6
Without meals	124.8	125.2	126.3	102.2	86.9	-1.9	0.3	0.9	-19.1	-15.0
Minimum legal wages										
Asunción and Puerto Stroessner	94.9	92.9	86.0	85.8	91.1	3.6	-2.0	-7.5	-0.2	6.2
Other cities	94.5	92.5	85.6	85.8	90.8	3.3	-2.1	-7.5	0.2	5.8
Agriculture	94.9	93.0	86.0	85.7	90.7	3.3	-2.0	-7.5	-0.3	5.8

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay Department of Economic Studies; Ministry of Agriculture, Department of Agriculture Marketing and Economics; and Ministry of Justice and Labour, Department of Human Resources.

"Average for June and December.

The nominal values were deflated by the consumer price index.

services, such as petroleum products. At the same time, the size of the current account surplus of State enterprises fell to 0.8% of the gross domestic product in 1985, compared with 1.1% in 1984 and 1.5% in 1983. Altogether, the income of the non-financial public sector went down from approximately 21.8% to only 12.5% of the gross domestic product between 1982 and 1985. Although total State expenditure declined by the equivalent of 1.6% of the gross domestic product during the same period, the net amount of external financing received also followed a downward trend, falling between 1984 and 1985 from 2.6% to 0.8% of the gross domestic product. Moreover, if all subsidies are taken into account, including those which the public sector receives for its imports and the credit it obtains from the Central Bank, total public-sector expenditure in fact rose as a proportion of the gross domestic product.

As its actual income did not rise sufficiently to finance the growth of its expenditure, the State resorted to the "inflation tax". By means of this it was able to cover approximately 16% of its deficit in 1982, 38% in 1983, 36% in 1984 and 50% in 1985.

Furthermore, in recent years another phenomenon has helped to intensify inflation, especially through the pressures to which the parallel rate of exchange has been subjected. Thus, sharp rises have taken place in the allocation of subsidized credits to the private sector during the harvest season, under the impetus of the Central Bank which has practised a liberal discount policy on the funds invested under the Minimum Portfolio System in order to help offset the negative impact of the exchange policy on the profitability of the main crops.

b) *Wages*

The minimum wage was raised by 10% in February and by 20% in October. These rises, which more than offset the increases in the Central Bank's consumer price index, caused the average minimum wage to grow by almost 33% in 1985 compared with 1984 (see table 29).

In real terms, minimum wages improved by approximately 6%, after having fallen in the previous three years, according to the annual average variation of the above consumer price index.¹⁴ However, there was a deterioration in 1985 in the purchasing power of the wages of both workers in Asunción and of agricultural labourers.¹⁵ The real wages of workers in Asunción fell for the fourth year running, this time by an average of 2%, while agricultural wages declined by between 14% and 15%. In some branches of activity, such as construction and electricity, gas and water, the real wages of workers in Asunción rose.

In 1985, the wages of public employees were also raised by 15%, for the first time since 1982, but they once again worsened in real terms.

As real national income in 1985 was only 1% lower than in 1981, the increase in unemployment and the deterioration in real wages suggest that the cost of the adjustment has been essentially borne by wage-earners.

5. Fiscal and monetary policy

a) *Fiscal policy*

In the global national budget for 1985 it was intended to implement a more restrictive policy. Thus, a target of 335 billion guaraníes was set for the overall public-sector deficit, which would have represented a shrinkage of 28% in comparison with the previous year. As a percentage of the projected value of the gross domestic product this target represented 2.5%, in comparison with the actual figure of 4.4% recorded in 1984 (see tables 30 and 31). However, the budgeted deficit for the non-financial public sector, adjusted by the projected amount of exchange subsidies received from the Central Bank for servicing that sector's external debt in 1985 would have amounted to 4% of the forecast gross domestic product, in comparison with 5.2% the previous year (see table 32). Since it

^M In contrast with this, the real value of the minimum wage seems to have continued to decline throughout 1985, according to the cost of living index of the Federation of Bank Employees (FETRABAN). The variation between the annual averages of this index reached 439%, reflecting a 7% drop in the real minimum wage.

[^] In this respect, it should be remembered that the readjustment is applied to all wages, but only affects that part thereof which is equivalent to the minimum wage.

Table 30

PARAGUAY: SUMMARY OF THE FINANCIAL OPERATIONS OF THE PUBLIC SECTOR

	Billions of guaraníes					Growth rates				
	1982	1983	1984	1985		1982	1983	1984	1985	
				Budg- eted	Ac- tual"				Budg- eted	Ac- tual"
Central Government										
Current income	68.2	65.6	85.2	94.0	110.2	15.0	-3.8	29.9	10.3	29.3
Current expenditure	65.1	75.1	78.3	87.8	97.6	20.7	15.4	4.3	12.1	24.6
Transfers to the public sector	4.3	4.9	4.5	5.4	6.8	10.2	14.0	-8.2	20.0	51.1
Saving	3.1	-9.5	6.9	6.2	12.7	-41.5			-10.1	84.1
Capital income	-	0.1	0.3	-	0.6			200.0		100.0
Capital expenditure	21.9	24.4	17.7	26.0	34.7	26.6	11.4	-27.5	46.9	96.0
Transfers to the public sector	6.6	5.1	7.3	19	10.7	407.7	-22.7	43.1	-74.0	46.6
Net loans	-6.3	2.1	-	-	-					
Global balance	-12.5	-35.0	-10.5	-19.7	-21.4	-31.3	180.0	-70.0	87.6	103.8
Net domestic financing	5.8	19.1	-8.6	7.1	10.7	-56.1				
Net external financing	6.6	16.8	19.0	12.7	10.7	32.0				
Social Security										
Current income	11.8	14.7	13.2	15.0	16.0	10.3	24.6	-10.2	13.6	21.2
Transfers from the public sector	0.1	0.1	-	-	0.1	-	-			
Current expenditure	8.0	9.3	11.2	13.4	13.8	27.0	16.3	20.4	19.6	23.2
Saving	3.7	5.4	2.0	1.6	2.2	-15.9	45.9	-63.0	-27.3	10.0
Capital income	0.3	0.3	0.6	-	-	50.0	-	100.0		
Capital expenditure	2.2	2.3	1.4	1.6	1.9	22.2	4.5	-39.1	14.3	35.7
Net loans	0.5	0.7	0.2	-	0.4	-16.7	40.0	-71.4		100.0
Global balance	13	2.7	0.9	0.1	0.1	-40.9	107.7	-66.7	-88.9	-88.9
Net domestic financing	-	-	-0.9	-0.1	-0.1					
Net external financing	13	2.7								
Other decentralized bodies										
	3.8	4.3	4.7	11.1	5.5	8.6	13.2	9.3	136.2	17.0
Transfers from the public sector	2.9	3.3	3.2	4.5	4.1	7.4	13.8	-3.0	40.6	28.1
Current expenditure	3.3	4.2	4.5	7.8	4.4	17.9	27.3	7.1	73.3	-2.2
Saving	0.5	-	0.2	3.3	1.1	-28.6			^b	450.0
Capital income	0.1	0.7	0.1	0.3	0.1	50.0	600.0	-85.7	200.0	-
Transfers from the public sector	0.1	0.1	0.1	0.2	0.1	-	-	-	100.0	-
Capital expenditure	0.3	0.2	0.1	3.9	0.1	-57.1	-33.3	-50.0	^c	300.0
Net loans	-0.1	0.5	0.3	-	0.6	-	-	-40.0	-100.0	100.0
Global balance	0.5	0.1	-	-0.3	0.1	66.7	-80.0			
Net domestic financing	-0.4	-0.2	-	-0.3	-0.2					
Net external financing	-	0.1	0.1	0.6	0.1					
Municipalities										
Current income	4.0	4.7	5.2	6.0	5.6	17.6	17.5	10.6	15.4	7.7
Transfers from the public sector	0.2	0.3	0.3	0.1	0.1	100.0	50.0		-66.7	-66.7
Current expenditure	2.7	3.2	3.3	3.6	3.7	17.4	18.5	3.1	9.1	12.1
Saving	1.3	1.6	1.9	2.4	1.8	30.0	23.1	18.8	26.3	-5.3
Capital income	0.4	0.5	0.5	1.0	0.6	100.0	25.0		100.0	20.0
Capital expenditure	2.1	2.1	2.7	3.7	3.0	16.7	-	28.6	37.0	11.1
Net loans	-0.3	-1.0	-0.2	-	0.2		-66.7	100.0		
Global balance	-0.2	0.1	-	-0.3	0.4	-60.0				
Net domestic financing	0.1	-0.1	-	0.2	-0.4					
Net external financing	0.1	-	-	0.1	-					

(Table 30 concluded)

	Billions of guaraníes					Growth rates				
	1982	1983	1984	1985		1982	1983	1984	1985	
				Budg- eted	Ac- tuai"				Budg- eted	Ac- tual"
State Enterprises										
Current income	75.3	79.2	104.7	126.0	126.0	108.6	5.2	32.2	20.3	20.3
Transfers from the public sector	0.8	1.0	0.8	0.8	0.8	-11.1	25.0	-20.0		
Current expenditure	64.7	67.0	93.0	109.7	114.2	142.3	3.6	55.0	17.9	22.8
Saving	10.6	12.2	11.7	16.2	11.8	12.8	15.1	-4.1	38.5	0.9
Capital income	7.8	6.9	9.8	2.3	1.0	400.0	-11.5	42.0	-76.5	-89.8
Transfers from the public sector	6.5	4.9	7.2	2.0	0.7	500.0	-24.6	46.9	-72.2	-90.3
Capital expenditure	35.0	30.8	58.3	31.9	35.3	177.8	-12.0	89.3	-45.3	-39.5
Net loans		12								
Global balance	-6.5	-23.2	-36.9	-13.3	-22.5	242.0	-36.1	59.1	-64.0	-39.0
Net domestic financing	-1.2	15.0	9.5	-10.6	21.9					
Net external financing	17.7	8.2	27.4	23.9	0.6					
Consolidated non-financial public sector										
Current income	158.2	163.6	208.6	246.7	256.5	44.9	3.4	27.5	18.3	22.9
Current expenditure	139.5	153.9	185.8	216.7	226.9	119.4	10.3	20.7	16.6	22.1
Saving	19.2	10.4	22.8	30.0	29.6	-8.1	-49.0	119.2	31.6	29.8
Capital income	2.0	3.5	3.9	1.7	1.6	233.3	75.0	11.4	-59.0	-56.4
Capital expenditure	44.9	69.8	72.8	65.2	74.5	67.4	-0.4	4.3	-10.4	2.3
Net loans	-6.3	3.3	0.4	-	0.9				100.0	125.0
Global balance	-17.4	-59.2	-46.6	-33.5	-44.6	-3.9	240.2	-21.3	-28.1	-4.3
As ai percentage of the global balance										
Net domestic financing	-7.0	27.3	17.9	-3.3	33.2	40.2	-46.1	-38.4	9.9	-74.4
Central Bank	3.3	21.5	9.1	6.8	16.9	-19.0	-36.3	-19.5	-20.3	-37.9
Others	-10.3	5.8	8.8	-10.1	16.3	-21.2	-9.8	-18.9	30.1	-36.5
Net external financing	24.4	31.8	28.7	36.8	11.4	-140.2	-53.7	-61.4	-109.9	-25.6
Disbursements	29.1	36.7	36.9		26.0	-167.2	-62.0	-62.0		-58.3
Amortization payments	-4.7	-4.9	-8.2		-14.7	-27.0	8.3	8.3		33.0
Memo items:										
Exchange subsidies ⁶	1.6	2.7	9.5	19.6	27.7					
Adjusted global balance*	-19.0	-61.9	-56.1	-53.1	-72.4					
Adjusted net-domestic financing*	-5.4	30.0	27.4	16.0	60.6					

Source: Ministry of Finance of Paraguay. Technical Secretariat and Budget Department, Central Bank of Paraguay and International Monetary Fund.

^aPreliminary figures. ^b15 500.0%. ^c38 000.0%. ^dAs from 1982 includes the operations of PETROPAR, the new State body responsible for importing, refining and distributing petroleum products. ^eIncludes only exchange subsidies identified in the Central Bank's monetary programme and which measure the gap between the exchange rate paid by the Central Bank to acquire foreign currency and the exchange rate at which it sells to the public sector to service its external debt. ^fEstimates. ^gIncludes the exchange subsidies mentioned in ^e.

was expected that the external financial flow would be of the order of 37 billion guaraníes in 1985, the potential monetary impact of the adjusted deficit would have been 16.3 billion guaraníes (1.2% of the forecast gross domestic product), i.e., approximately 13 % of the monetary base existing at the end of 1984. However, the monetary programme budgeted for approximately 27 billion guaraníes (including exchange subsidies) of financing for the State in 1985, i.e., a similar figure to the total net domestic financing used by the State in 1984.

As a consequence of the completion of major construction projects in the steel and cement sectors, the 1985 budget provided for a fall of over 10% in the public sector's unadjusted capital expenditure, while a rise of approximately 20% was forecast in the deflator of the gross domestic

Table 31

PARAGUAY: SUMMARY OF THE FINANCIAL OPERATIONS
OF THE PUBLIC SECTOR

(As a percentage of gross domestic product) "

	1980	1981	1982	1983	1984	1985	
						Budgeted	Actual
Central Government							
Current income	9.2	8.4	9.3	8.0	8.0	8.8	7.9
Current expenditure	7.6	7.6	8.8	9.2	7.3	6.3	7.0
Transfers to the public sector	0.5	0.6	0.6	0.6	0.4	0.4	0.5
Saving	1.6	0.7	0.4	-1.2	0.6	0.4	0.9
Capital income							
Capital expenditure	2.4	2.4	3.0	3.0	1.6	1.9	2.5
Transfers to the public sector	0.2	0.2	0.9	0.6	0.7	0.1	0.8
Net loans	0.3	0.9	-0.9	0.3	-	-	-
Global balance	-1.1	-2.6	-1.7	-4.3	-1.0	-1.4	-1.5
Net domestic financing	-0.8	1.9	0.8	2.3	-0.8	0.5	0.8
Net external financing	1.9	0.7	0.9	2.1	1.8	0.9	0.8
Social security							
Current income	1.5	1.5	1.6	1.8	1.2	1.1	1.1
Transfers from the central government							
Current expenditure	1.1	0.9	1.1	1.1	1.0	1.0	1.0
Saving	0.4	0.6	0.5	0.7	0.2	0.1	0.2
Capital income							
Capital expenditure	-	0.3	0.3	0.3	0.1	0.1	0.1
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	0.8	0.4
Transfers from the central government	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Current expenditure	0.4	0.4	0.4	0.5	0.4	0.6	0.3
Saving	0.1	0.1	-	-	-	0.2	0.1
Capital income				0.1			
Transfers from the central government							
Capital expenditure	0.1	0.1				0.3	
Net loans							
Global balance							
Net domestic financing							
Net external financing							
Municipalities							
Current income	0.5	0.5	0.5	0.6	0.5	0.4	0.4
Transfers from the central government							
Current expenditure	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Saving	0.2	0.1	0.2	0.2	0.2	0.2	0.1
Capital income	-	-	-	-	-	0.1	-
Capital expenditure	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Net loans	-	-	-	-0.1	-	-	-
Global balance							
Net domestic financing							
Net external financing							

(Table 31 concluded)

	1980	1981	1982	1983	1984	1985	
						Budgeted	Actual
States Enterprises							
Current income	5.6	5.1	10.2	9.7	9.8	9.0	9.0
Transfers from the central government	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current expenditure	4.2	3.8	8.8	8.2	8.7	7.9	8.2
Saving	1.3	1.3	1.4	1.5	1.1	1.2	0.8
Capital income	0.2	0.2	1.1	0.8	0.9	0.2	0.1
Transfers from the central government	0.2	0.2	0.9	0.6	0.7	0.1	—
Capital expenditure	2.1	1.8	4.7	3.8	5.4	2.3	2.5
Net loans	-	-	-	0.1	-	-	-
Global balance	-0.6	-0.3	-2.3	-1.3	-3.4	-1.0	-1.6
Net domestic financing	0.1	-0.7	-0.2	-0.5	0.9	-0.8	1.6
Net external financing	0.5	0.9	2.4	1.7	2.6	1.7	-
Consolidated non-financial public sector							
Current income	16.9	15.4	21.5	20.0	19.5	17.7	18.4
Current expenditure	13.2	12.4	18.9	18.8	17.4	15.5	16.3
Saving	3.7	2.9	2.6	1.2	2.1	2.2	2.1
Capital income	-	-	0.3	0.4	0.4	0.1	0.1
Capital expenditure	4.9	4.6	7.4	6.7	6.8	4.7	5.3
Net loans	0.4	1.0	-0.9	0.3	-	-	0.1
Global balance	-1.5	-2.6	-2.4	-7.2	-4.4	-2.4	-3.2
Net domestic financing	-0.9	0.9	0.9	-3.3	1.7	-0.3	2.4
Central Bank	0.3	1.8	0.4	2.6	0.9	0.5	1.5
Others	-1.2	-0.9	-1.3	0.7	0.8	-0.8	1.2
Net external financing	2.4	1.6	3.3	3.8	2.7	2.6	0.8
Disbursements	3.3	2.3	3.9	4.4	3.4		1.9
Amortization payments	-0.9	-0.6	-0.6	-0.6	-0.7		-1.1
Exchange subsidies ¹	-	.	0.2	0.3	0.9	1.5	2.0
Adjusted global balance ¹	-0.9	-2.6	-2.6	-7.6	-5.2	-4.0	-5.2
Adjusted net-domestic financing	-0.9	0.9	-0.7	3.7	2.6	1.5	4.3

Source: IMF and Central Bank of Paraguay.

¹Current market prices. As from 1982 includes the operations of PETROPAR, the new State body responsible for importing, refining and distributing petroleum products. ²Includes only exchange subsidies identified in the Central Banks monetary programme and which measure the gap between the exchange rate paid by the Central Bank to acquire foreign currency, and the exchange rate at which it sells to the public sector to service its external debt. Includes the exchange subsidies mentioned in \

product. In 1984 capital expenditure had risen by rather more than 4%, in comparison with a rate of inflation of 23% (in accordance with the deflation of the gross domestic product). The State was expected to have to cover 46% of its unadjusted capital expenditure with savings: a target which would have signified a considerable improvement over the results achieved in recent years. It was also assumed that saving would increase in spite of the 15% rise in the wages of public employees, and that budgeted current income and expenditure (excluding the above-mentioned subsidies) would grow at lower rates than the forecast inflation.

The desired reduction in the non-financial State deficit would reflect a cut of two-thirds in the swollen deficit of State enterprises (3-4% of the product in 1984, excluding subsidies), on account of a sharp cutback in capital expenditure by the National Cement Company (INC) and by Aceros del Paraguay (ACEPAR). On the other hand, it was planned to almost double the central government deficit in order to partially offset the impact of these cutbacks on the level of activity.

According to preliminary figures, the year actually closed with an unadjusted global deficit of 44.6 billion guaraníes, i.e., 3.2% of the value of the gross domestic product, as against 4.4% in 1984.¹⁶ The adjusted deficit, however, rose to almost 72.4 billion guaraníes, i.e., 5.2% of the product, compared with 56.1 billion (5.2% of the product) in 1984 (see tables 30 and 31).¹⁷

At the same time, the net inflow of external funds came to less than one-third of the forecast figure. Consequently, total net domestic financing absorbed by the State rose to 60.6 billion guaraníes in 1985, i.e., equivalent to 4.3% of the gross domestic product, which, when compared with the target of 1.5% of the gross domestic product, represented an actual figure of 2.6% of the latter in 1984. Money issue (including exchange subsidies) deriving from the non-financial public sector's operations exceeded the forecast figure by 67% and the actual 1984 amount by 141%.

Unadjusted savings were just a little below the amount budgeted, i.e., 2.1% of the gross domestic product. On the other hand, capital expenditure was 14% higher than planned, attaining 5.3% of the product.

Table 32

PARAGUAY: SUBSIDIES TO THE PUBLIC SECTOR"

	Millions of guaraníes			Growth rates			AS a percentage of GDP		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Exchange subsidy									
1. For servicing the external public debt'	2 725	9 511	27 801'	68.0	149.0	192.3'	0.3	0.9	2.0'
2. For imports by public institutions	4 117	16 791	15 592	50.9	307.8	-7.1	0.5	1.6	1.1
3. Total (1+2)	6 842	26 302	43 393	57.3	299.6	54.9	0.8	2.5	3.1
Credit subsidy									
4. At the rate of interest of the minimum portfolio'	1 476	2 777	4 159	500.3	88.1	49.8	0.2	0.3	0.3
5. At the rate of inflation	1 476	4 998	8 196	2 380.7	238.6	64.0	0.2	0.5	0.6
Total subsidy									
(3 + 4)	8 318	29 079	47 552	74.3	249.6	63.5	1.0	2.7	3.4
(3 + 5)	8 318	31 300	51 589	87.3	276.3	64.8	1.0	2.9	3.7

Source: On the basis of data provided by the Central Bank of Paraguay.

"Provisional figures subject to review. Includes only the exchange subsidies identified in the Central Bank's monetary programme and which originate in the gap between the exchange rate paid by the Central Bank to acquire foreign currency, and the exchange rate at which it sells to the public sector for servicing its external debt. ' Estimated figures. Equals the gap between the rate of exchange paid by the Central Bank for foreign currency and the average rate of exchange at which it sells to the public sector for its imports. 'Equals the gap between the rate of interest paid by the non-financial public sector for net Central Bank credit, and that paid by the non-financial private sector for credit with a term of less than 2-10 days under the minimum portfolio system. Equals the gap between the rate of interest paid by the non-financial public sector for net Central Bank credit, and the rate of inflation.

¹⁶ This figure was just over 30% higher than the 1984 figure, compared with the target of 25%. The gap reflects higher inflation than forecast.

¹⁷ In calculating the exchange subsidies received by the State in respect of its external debt servicing, originating in the gap between the 160 guaraníes exchange rate and an average exchange rate derived from the 320 guaraníes rate which applies to exports and the market rate of exchange, it may be noted that these amounted to the equivalent of 3.1 % of the gross domestic product in 1985 (1.2% in 1984). According to this calculation, the adjusted non-financial public-sector deficit apparently rose to 6.3% in 1985 (5.5% in 1984). Moreover, the non-financial State sector benefits from a preferential exchange rate (240 guaraníes to the dollar) for its imports of goods and pays an exceptionally low rate of interest (5%) on Central Bank credits. If these further subsidies are taken into account, the former on the basis of the official exchange rate of 320 guaraníes adopted for exports and the latter on the basis of the rate of interest, which is also preferential, on the minimum portfolio (for credits with a term of less than 240 days), the non-financial public-sector deficit came to 6.6% of the gross domestic product in 1985 (6.4% in 1984). In this calculation the exchange subsidies enjoyed for servicing the external debt were also valued on the basis of the official rate of exchange of 320 guaraníes adopted for exports (see table 32).

Table 33
PARAGUAY: CENTRAL GOVERNMENT FINANCIAL OPERATIONS

	Billions of guaraníes					Growth rates				
	1982	1983	1984 ^a	1985 ^b		1982	1983	1984	1985 ^b	
				Esti- mated	Ac- tual				Esti- mated	Ac- tual
Current income	68.2	65.6	85.2	94.0	110.2	15.0	-3.8	29.9	10.3	29.3
Tax revenue	60.9	53.1	71.8	78.0	94.4	13.2	-12.8	35.2	8.6	31.5
Direct taxes	20.5	18.8	21.0	27.5	29.6	15.8	-8.3	11.7	31.7	41.0
On personal income	-	-	-	-	-					
On corporate earnings	13.2	10.7	11.0	11.7	15.8	12.8	-18.9	2.8	6.4	43.6
On wealth	7.3	8.1	10.0		13.8	21.7	11.0	23.5		38.0
Indirect taxes	35.2	33.8	50.8	50.5	64.8	3.9	-14.6	50.3	-0.6	27.6
On external trade	12.5	9.8	12.3	14.8	14.0	-18.3	-21.6	25.5	20.3	13.8
Imports	8.9	7.4	8.9		11.0	-20.5	-16.6	20.3		23.6
Exports	0.4	0.3	0.7		-	33.3	-25.6	133.3		-
On exchange transactions	3.2	2.1	2.7		3.0	-15.8	-34.4	28.6		11.1
On domestic trade	18.3	15.1	25.9	35.7	34.6	53.8	-17.5	71.5	37.8	33.6
On the payroll	0.9	0.8	0.8		1.0	12.5	-11.1	-		25.0
Others	8.8	8.9	11.8		16.2	10.0	1.1	32.6		37.3
Non-tax income	7.3	12.5	13.5	16.0	15.9	32.7	71.2	8.0	18.5	17.8
Current expenditure	65.1	74.4	78.3	87.8	97.6	20.8	14.3	5.2	12.1	24.6
Consumption	38.7	43.5	44.8	57.3	60.3	19.4	12.4	3.0	27.9	34.6
Wages and salaries	28.3	32.9	33.5	40.9	40.8	25.8	16.3	1.8	22.1	21.8
Goods and non-personal services	10.4	10.6	11.3	15.8	14.8	5.1	1.9	6.6	39.8	31.0
Interest payments	2.5	2.7	4.9	7.0	6.7	19.0	8.0	81.5	42.9	36.7
Transfers	19.7	22.6	22.4	23.5	30.5	85.8	17.8	-0.9	4.9	36.2
To the private sector	15.4	17.4	17.8	18.2	23.7	129.9	14.7	2.3	2.2	33.1
To the public sector	4.3	5.1	4.6	5.4	6.8	10.3	14.0	-9.8	17.4	47.8
Others	4.2	5.6	6.2	0.6	3.1	-52.3	33.3	-7.1	-90.3	-50.1
Saving	3.1	-8.8	6.9	6.2	12.7	-42.6			10.1	84.1
Capital income	-	0.1	0.3	.	0.6					
Capital expenditure	21.9	28.0	17.7	26.0	34.7	26.6	27.9	-36.8	46.9	96.0
Capital formation	14.5	17.8	10.2	23.7	29.7	-1.4	22.3	-42.7	132.3	191.0
Purchase of assets	-	-	-	0.4	4.2	-	-			
Transfers	7.4	10.1	7.5	1.9	0.8	208.3	36.5	-25.7	-74.7	-89.3
To the public sector	6.9	10.1	7.5	1.9	0.8	213.6	46.4	-25.7	-74.7	-89.3
Others	0.5	1.1	-	-	-	66.6	120.0			
Total expenditure	77.6	80.7	96.1	113.8	132.8		4.0	19.1	18.4	37.7
Net loans	-6.3	2.1	-	-	-			-	-100.0	-
Global balance	-12.5	-35.8	-10.5	-19.7	-21.4	-31.3	186.4	-70.7	87.6	103.8
As a percentage of the global balance										
Financing (net)	12.5	38.8	10.5	19.7	21.4	-100.0	-108.4	-100.0	-100.0	-100.0
Domestic (net)	5.8	22.0	-8.6	7.1	10.7	-46.4	-61.4	81.9	-36.0	-50.0
Banks	3.2	17.3	4.4	-2.1	7.7	-25.6	-48.3	-41.9	10.7	-36.0
Central Bank	3.2	17.1	7.3	-2.1	7.7	-25.6	-47.8	-69.5	10.7	-36.0
Rest of banking system	-	0.2	-2.9	-	-	-	-0.6	27.6	-	-
Others*	-6.2	-2.3	9.8	9.6	17.3	49.6	6.4	-93.3	48.7	80.8
Variation in money stock	-3.6	2.3	-22.8	-0.4	-14.3	28.8	-6.4	217.1	2.0	66.8
External (net)	6.6	16.8	19.0	12.7	10.7	-52.8	-46.9	-181.0	-64.5	-50.0
Disbursements	9.2	19.7	23.3	18.9	16.1	-73.6	-55.0	-221.9	-95.9	-75.2
Amortization payments	-2.6	-2.9	-4.3	-6.2	-5.4	20.8	8.1	41.0	31.5	25.2

Source: Ministry of Finance of Paraguay, Technical Secretariat and Budget Department, and the IMF.

^aPreliminary figures.^bIncludes supplier credits, issue and amortization of bonds and amortization of commitments carried over from previous years.

Table 34
PARAGUAY: MONETARY PROGRAMME

	End-of-year balance in billions of guaraníes				Growth rates			
	1983	1985			1983	1985		
		1984	Pro- grammed <i>a</i>	Actual		1984	Pro- grammed	Actual
Monetary base	106.9	130.4	136.9	149.3	31.1	22.0	16.0	14.5
Sources								
Net external assets	84.0	80.7	60.5	71.2	-4.2	-3.8	-15.9	-11.8
International reserves ⁷	99.0	96.5	71.1	75.7	-1.9	-2.5	-20.8	-21.5
Net IMF position	8.5	8.6	8.8	10.6	15.4	1.0	2.0	23.4
Revaluation of international reserves	-12.1		-		1.5		-100.0	
Reserves in respect of outstanding accounts	-2.0		-1.3		-29.3		45.1	
International liabilities ⁷	-9.4	-24.4	-18.0	-15.1	60.4	159.2	-16.0	-38.1
Net domestic assets	22.9	49.6	76.4	78.1	^e	116.5	66.1	57.4
Exchange adjustment	4.3	13.9	34.5	41.7*	168.0	218.8	131.5	200.6*
Net domestic credit	52.3	74.3	87.0	85.8	116.9	42.2	19.0	15.4
Non-financial public sector	28.1	37.2	44.0	54.1	326.7	32.2	19.7	45.4
Central government	15.9	20.4	23.9	24.3	^e	28.7	19.9	18.7
Credit	21.4	29.5	35.7	33.4	507.2	37.9	20.4	13.2
Deposits	-5.5	-9.0	-11.9	-9.1	-12.2	64.6	21.5	0.8
Autonomous institutions and State enterprises	12.3	16.8	20.1	29.8	31.6	40.8	19.6	78.0
Banking sector	24.1	37.1	43.1	31.7	37.9	53.9	18.3	-14.7
Banco Nacional de Fomento	10.9	12.9	17.2	11.5	8.7	18.3	33.3	-11.1
Private commercial banks	13.2	24.2	25.9	20.2	77.4	83.4	10.0	-16.6
Other net domestic assets	-33.7	-38.6	-45.1	-49.3	6.0	14.4	7.4	27.9
Uses								
Currency in circulation	41.8	53.7	56.2	69.6	15.8	28.3	15.0	29.5
Outside banks	38.5	48.6	51.3	62.6	16.0	26.3	14.1	28.8
Banks reserves ¹	65.0	76.6	80.7	79.7	43.2	17.9	16.8	4.0
Liquidity								
Money (M ₁)	76.1	98.6	110.5	126.3	26.4	29.6	15.9	28.0
Quasi-money	113.9	125.0		141.0	13.0	9.8		12.8
National currency ¹	101.6	112.7		132.5	20.7	10.9		17.6
Foreign currency	12.2	12.3		8.5	-26.1	0.5		-30.8
Money (M ₂)	189.9	223.6		267.3	18.0	17.7		19.5

Source: Based on data provided by the Central Bank of Paraguay.

^aAt the exchange rate of 320 guaraníes to the dollar. ^bVariation compared with the preliminary figures for 1984 which were used in preparing the 1985 monetary programme. ^cCalculated at the exchange rate of 160 guaraníes to the dollar since 1982. ^dCalculated at the exchange rate of 126 guaraníes to the dollar up to July 1985 and subsequently at 160.

^eWent from a negative to a positive figure. ^fRepresents the difference between the rate of exchange paid by the Central Bank to purchase foreign currency and the rate of exchange at which it sells to the public sector to service its external debt, in accordance with the Central Bank's monetary programme.

*Estimates. ¹Includes the Livestock Fund. ²Excluding currency in banks. ³As defined by the Central Bank of Paraguay.

Table 35

**PARAGUAY: CEILINGS ON THE EXPANSION OF NET CENTRAL
BANK DOMESTIC CREDIT", 1985**

(Balances at the end of each period)

	Ceilings				Actual			
	March	June	September	December	March	June	September	December
End-of-month balances in billions of guaraníes								
Net domestic credit				87.0	90.3	82.7	71.6	85.7
Non-financial public sector (net)	34.0	37.1	37.9	43.4	41.6	43.0	48.7	54.1
Central government	18.4	20.4	20.7	23.9	23.0	24.0	24.8	24.3
Credit	28.5	41.5	33.6	35.7	30.6	33.0	33.7	33.4
Deposits	-10.1	-11.2	-12.9	-11.9	-7.7	-9.0	-8.9	-9.1
Autonomous institutions and State enterprises	15.5	16.7	17.3	20.1	18.7	20.0	23.9	29.8
Banking sector				43.1	48.7	38.7	22.9	31.7
Banco Nacional de Fomento				17.2	14.6	13.2	3.3	11.5
Private commercial banks				25.9	34.1	25.5	19.6	20.2
Growth rates								
Net domestic credit				19.0 ^C	44.2	27.7	7.7	15.4
Non-financial public sector (net)	32.4	34.9	52.9	19.7 ^C	32.4	34.9	52.7	45.4
Central government	-1.7	10.2	19.6	19.8 ^C	23.0	29.5	43.6	18.7
Credit	20.4	20.4	20.4	20.4 ^C	29.4	25.8	20.9	13.2
Deposits	102.9	45.0	21.5	21.5 ^C	53.4	17.0	-16.0	0.8
Autonomous institutions and State enterprises	21.7	19.0	18.0	19.6 ^C	46.2	42.1	63.4	78.0
Banking sector				18.3 ^C	56.0	20.4	-33.7	-14.7
Banco Nacional de Fomento				33.3 ^C	8.0	49.0	-55.6	-11.1
Private commercial banks				7.4 ^C	92.5	9.5	-27.7	-16.6

Source: ECLAC, on the basis of data provided by the Central Bank of Paraguay.

^aAt the exchange rate of 320 guaraníes to the dollar.

^cIn twelve months.

Variation compared with the preliminary figures for 1984

which were used in preparing the 1985 monetary programme.

Both the current income and expenditure of the non-financial public sector rose more than planned, mainly on account of the underestimation of inflation. The whole of the additional expansion of current income was due to the growth of central government tax revenue. Altogether, the central government's current income rose by more than 29%, i.e., by 3-3% in real terms. As a percentage of the gross domestic product, however, it fell once again, this time to barely 7.9%. Current expenditure, for its part, increased slightly less than inflation, although it nevertheless rose twice as fast as planned (see table 33).

Both central government saving and capital expenditure almost doubled. The global capital expenditure deficit also increased by approximately 100%, thus exceeding the budgeted target by 1.7 billion guaraníes and representing, once the accounts had been consolidated, one-third of the global (unadjusted) non-financial public-sector deficit.

The current income of State enterprises lagged behind inflation, while their current expenditure rose more than planned. Consequently, their (unadjusted) savings were considerably below the target. This fact, together with higher capital expenditure than planned (although this was nonetheless only 60% of the previous year's level), led to a global (unadjusted) deficit of some 22.5 billion

guaraníes, according to preliminary figures, i.e., some 9 billion guaraníes more than targeted and 29% less than in 1984. After consolidation, this deficit accounted for more than 55% of the global unadjusted non-financial public-sector deficit. The remainder of this deficit was accounted for by the operations of decentralized bodies (excluding the Social Security Institute) (see table 30).

b) *Monetary policy*

The final targets of the monetary programme prepared by the Central Bank for 1985 involved bringing down the rate of loss of its net holdings of external assets from 3% to 2.4% of the gross domestic product, increasing the rate of growth of economic activity from 3% to 4.5%-5.5%, and averting an acceleration of inflation. In order to meet these targets it was necessary to carry out a considerable exchange adjustment, together with a sharp slowdown in the creation of domestic assets by the monetary authorities. The Central Bank therefore put forward three alternatives for improving the rate of exchange applicable to exports: the first was of 300 guaraníes to the dollar, signifying a 25% increase; the second was of 320, involving a 33% increase, and the third was of 350, i.e., a 46% rise. Each alternative assumed a different operational monetary target, since no provision was made for an adjustment of the rates of exchange in force for imports and for the servicing of the State's external debt. It was assumed that the first of these options would signify an expansion of almost 61% in the Central Bank's stocks of net domestic assets; the second, an expansion of 66%, and the third a growth of slightly less than 75%.¹⁸ In 1984 this variable had expanded by 116.5%. Finally, the second alternative was chosen and the new rate of exchange came into force in February, at the beginning of the harvest.

With the purpose of checking part of the monetary impact of the asymmetrical adjustment on the exchange system and of considerably slowing down the rate of issue, the monetary programme provided for a considerable slowdown in the increase of Central Bank credit to the commercial banks, as well as a sharp cutback in the direct creation of means of payment to finance the operations of the non-financial public sector. Thus, it was proposed to bring down the rate of expansion of loans to

Table 36

PARAGUAY: MONETARY COEFFICIENTS

(At the close of each period)

	1981	1982	1983	1984	1985 Programme	Actual
Currency outside banks/ demand deposits	0.99	1.23	1.02	0.97	...	0.98
Currency outside banks/ total deposits	0.25	0.21	0.25	0.28	...	0.31
Bank reserves/ demand deposits	1.73	1.79	1.82	1.63	...	1.36
Bank reserves/ total deposits	0.44	0.39	0.45	0.47	...	0.42
Monetary multipliers						
M ₁ /Monetary base	0.73	0.74	0.72	0.76	0.81	0.85
M ₂ /Monetary base	1.80	1.97	1.78	1.88	...	1.79
Velocity of circulation						
GDP/M ₁	11.31	12.24	10.76	10.85	12.11	11.04
GDP/M ₂	4.59	4.57	4.22	4.78	...	5.21

Source: On the basis of data provided by the Central Bank of Paraguay.

¹⁸ These variations were calculated on the basis of the figures available for 1984, when the Central Bank drew up its monetary programme.

Table 37
PARAGUAY: INTEREST RATES

	Nominal rates ^a										Real rates							
	1983		1984		1985		1983		1984		1985							
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
On loans																		
Central Bank																		
Rediscounting rates																		
Minimum portfolio	8		8		8		8		8		-5.3		-9.3		-16.8		-11.4	
Special development fund	5	13	5	13	5	13	5	13	5	13	-8.0	-1.0	-11.8	-5.1	-19.1	-12.9	-13.9	-14.7
To the public sector																		
Central government	5		5		5		5		5		-8.0		-11.8		-19.1		-13.9	
Banco Nacional de Fomento'	6		6		6		6		6		-7.1		-11.0		-18.3		-13.0	
Other public bodies	8		8		8		8		8		-5.3		-9.3		-16.8		-11.4	
Banco Nacional de Fomento																		
Agriculture	15.6	18	15.6	18	15.6	18	15.6	18	15.6	18	1.3	3.4	-2.9	-0.9	-10.9	-9.1	-5.2	-3.2
Commerce	20.2	24	20.2	24	20.2	24	20.2	24	20.2	24	5.3	8.7	0.9	4.1	-7.4	-4.5	-1.4	1.7
Commercial banks																		
Minimum portfolio	13.5	14.5	13.5	14.5	13.5	14.5	13.5	14.5	17		-0.5	0.4	-4.7	-3.9	-12.6	-11.8	-6.9	-6.1
Special development fund	14.5	19.5	14.5	19.5	14.5	19.5	14.5	19.5	14.5	19.5	0.4	4.7	-3.9	0.3	-11.8	-7.9	-6.1	-2.0
Commercial portfolio	18	30	24		24		24		24		3.4	13.9	4.1		-4.5		0.7	0.7
Saving and loan associations	12	18	12	18	12	18	12	18	12	18	3.4		-0.9		-9.1		-8.1	-3.2
Financial	33		33		33		33		33		16.6		1.7		2.5		9.1	8.0
On deposits																		
Commercial banks																		
Saving (demand deposits)	6	11	6	11	6	11	6	11	6	11	-7.1	-2.7	-11.0	-6.8	-18.3	-14.5	-13.0	-8.9
Fixed-term deposits	13	15	13	15	13	15	13	15	13	15	-1.0	0.8	-5.1	-3.4	-12.9	-11.4	-7.3	-5.7
Saving and loan associations																		
Demand deposits	11		11		11		11		11		-2.7		-6.8		-11.4		-8.9	
Fixed term deposits	13	15	13	15	13	15	11	15	11	15	-1.0	0.8	-5.1	-3.4	-12.9	-11.4	-8.9	-5.9
Financial	13	25	13	25	13	25	13	25	13	25	-1.0	-9.6	-5.1	5.0	-12.9	-3.7	-7.3	2.5

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 rates of interest, commissions and premiums of the financial system.

At the current inflation rate (twelve months).

^cWheat programme.

private banks from 83% in 1984 to 10% in 1985, while a ceiling of 20% was set on the increase in the direct allocation of non-financial credit to the State. Taking into account the exchange subsidies, however, the net domestic credit obtained as a result of the budgetary operations of the central government, the non-financial State enterprises and the autonomous agencies would signify a 54% increase over the end-1984 balance: i.e., barely less than that of the previous year (57%). Furthermore, the Banco Nacional de Fomento was to increase its use of Central Bank credit by 33 %, whereas in 1984 this figure had been 18% (see tables 34 and 35).

It was envisaged that the growth of private saving in domestic financial assets would not absorb the whole of the expansion of the banking system's domestic assets. As a result of the further loss in respect of net external assets, the monetary base would grow by 16%, which would be only a fraction of the amount by which the Central Bank's net domestic assets expanded, and would also be less than in the previous year (22%). Since the monetary multiplier was expected to remain virtually stable, the means of payment (M_1) would increase by a similar amount. In view of the inflation forecast and the economic growth target, the target set for M_1 would signify a real shrinkage in the money stock and a considerable increase in its velocity of circulation (see table 36).

At the end of 1985 the Central Bank's stock of net domestic assets was barely 2% higher than the target, in spite of the far greater increase than planned in exchange subsidies and in the direct allocation of credit to non-financial State enterprises and autonomous entities (see table 34).

On account of the more intensive use of credit made by the non-financial public sector, most of the burden of the adjustment fell on the commercial banks, particularly affecting the allocation of credit to the private sector. Indeed, the commercial banks were obliged to reduce their indebtedness with the Central Bank by almost 17% between the end of 1984 and the end of 1985, by suspending their discount operations after May, i.e., once the harvest had been brought in. The Banco Nacional de Fomento also had to reduce its commitments with the Central Bank. In contrast, however, direct credit to the non-financial public sector, excluding the central government, increased by 78%, and the subsidies received by the State for its external debt servicing trebled. Total creation of credit, both direct and indirect (exchange subsidies), intended to finance the operations of the public sector thus expanded by almost 88% in 1985, although the central government increased its net use of direct credit by a smaller amount than had been planned.

As the reduction in the stock of net external assets was smaller than planned, the monetary base was more than 9% higher than programmed; however, its growth rate was somewhat less than targeted. The gap between these two amounts represented the above-mentioned underestimation of the size of the stock of domestic assets at the close of 1984.

Table 38

PARAGUAY: INDICATORS OF THE PORTFOLIO OF THE COMMERCIAL BANKS¹

	End-of-year balances, in billions of guaraníes					Growth rates				
	1981	1982	1983	1984	1985	1981	1982	1983	1984	1985
Total portfolio	111.5	120.3	130.0	155.5	123.7	8.9	7.9	8.1	19.6	-20.5
Portfolio of overdue debts	11.0	18.0	26.2	26.4	16.0	74.6	63.6	45.6	0.8	-39.4
Capital and reserves	28.0	36.1	38.7	36.4	30.3	28.4	28.9	7.2	-5.9	-16.8
Contingency funds	2.5	3.2	4.4	5.7	2.8	47.1	28.0	37.5	29.6	-50.9
Percentages										
Overdue debts/total portfolio	9.9	15.0	20.1	16.9	12.9					
Overdue debts/capital and reserves	39.4	50.0	67.6	72.4	52.8					
Capital and reserves/total portfolio	25.1	30.0	29.8	23.4	24.5					
Contingency fund*/overdue debts	23.2	17.6	16.8	21.4	12.0					

Source: Superintendent of Banks.

¹Includes the Banco Nacional de Fomento.

*Includes the additional contingency funds required by the Superintendent of Banks.

Table 39

**PARAGUAY: DESTINATION OF CREDIT GRANTED TO THE PRIVATE
SECTOR BY KIND OF ECONOMIC ACTIVITY**

	End-of-year balances in millions of guaraníes				Growth rates			
	1983	1984	1985		1983	1984	1985	
			Pro-grammed	Actual			Pro-grammed"	Actual
Commercial banks								
Total	92 541	109 237	115 425	117 533	2.4	18.0	6.4	7.6
Agriculture	10 073	13 316	12 963	18 786	28.0	32.2	7.0	41.1
Crop farming	4 677	6 412	7 089	11 968	35.7	37.1	8.4	86.7
Stock raising	5 396	6 904	5 874	6 818	22.1	27.9	5.2	-1.2
Industry	29 311	34 228	42 421	34 823	17.4	16.8	12.2	1.7
Manufacturing	28 202	34 184	42 421	34 765	18.7	21.2	13.2	1.7
Construction	1 109	44	-	58	-7.3	-96.0	-100.0	31.8
Commerce (domestic)	33 471	41 980	37 427	43 913	-14.9	25.4	1.3	4.6
Exports	15 082	15 205	19 140	15 093	22.9	0.8	5.5	-0.7
Others	4 604	4 509	3 474	4 917	-22.5	-2.1	-0.1	9.0
Banco Nacional de Fomento								
Total	33 484	41 737	42 587	46 359	9.9	24.6	14.4	11.1
Agriculture	24 069	32 382	30 595	35 661	15.4	34.5	12.3	10.1
Crop farming	22 619	31 031	29 119	34 347	16.6	37.2	12.0	10.7
Stock raising	1 450	1 351	1 476	1 314	-1.5	-6.8	20.1	-2.7
Industry	7 129	6 873	9 276	7 962	2.4	-3.6	21.5	15.8
Manufacturing	7 129	6 873	9 276	7 962	2.4	-3.6	21.5	15.8
Construction	-	-	-	-	-	-	-	-
Commerce (domestic)	1 773	1 758	1 743	2 094	-18.0	-0.8	20.1	19.1
Exports	171	323	523	330	21.3	88.9	20.2	2.2
Others	342	401	450	312			-3.2	-22.2
Total								
Total*	139 265	163 849	158 012'	178 729	4.4	17.6	10.3	9.1
Agriculture*	47 376	58 567	43 558'	69 284	14.7	41.9	10.7	18.4
Crop farming	27 426	37 567	36 208'	46 315	19.4	37.0	11.3	23.4
Stock raising	19 950	21 000	7 350	22 969	9.0	5.3	7.9	9.4
Industry	36 440	41 101	51 697	42 785	14.1	12.8	13.7	4.1
Manufacturing	35 331	41 057	51 697	42 727	15.8	19.7	14.6	4.1
Construction	1 123	58		58	-7.3	-94.8	-100.0	-
Commerce (domestic)	35 266	43 758	39 170	46 007	-15.0	24.5	2.0	5.0
Exports	15 253	15 528	19 663	15 423	22.8	1.8	5.8	-0.6
Others	4 930	4 895	3 924	5 229	-21.4	-0.7	-0.4	6.8

Source: On the basis of data provided by the Central Bank of Paraguay

"Variation compared with the preliminary figures for 1984 which were used in preparing the 1985 monetary programme.

'includes the

The expansion of the means of payment ($M()$), for its part, was over 14% greater than targeted. The rate of expansion was double that planned and was similar to that recorded the previous year. The unexpected rise in the monetary multiplier reflected a considerable drop in the ratio of reserves to demand deposits in the commercial banks (see table 36).

Notwithstanding the considerable expansion of M_1 , demand for real monetary balances again fell. If a broader concept of money (M_2) is adopted, the increase in the velocity of circulation was in fact extremely pronounced, rising from 4.78% to 5.21 %. The further shrinkage in real private sector saving in domestic financial assets was due to the Central Bank's policy of keeping nominal interest rates well below inflation and, for a considerable part of the year, to the expectations of rises in the exchange rates (see table 37). Nevertheless, the banking system's liabilities with the private sector shrank considerably less than might have been expected in view of the rate of expansion of credit to the non-financial public sector.

The freezing of discount operations raised the rate of interest paid by commercial banks to 24%. This fact, together with the maintenance of the same structure of rates on loans by the commercial banks —whose highest rate was 24%— and the inability of the banks to oblige their clients to pay off their credits at the same rate as the maturity of the banks' commitments with the Central Bank, brought about a pronounced deterioration in the banking system's profitability. However, in the final months of the year discounting operations were renewed in order to provide sufficient financing for sowing, and the rate of interest which banks were authorized to charge under the Minimum Portfolio System was increased to 17% (see table 37). Moreover, the improvement which took place in economic activity on account of the plentiful cotton and soya harvests strengthened the banks' portfolio (see table 38).

For the second year running, the allocation of credit to the private sector increased by 9% between the end of 1984 and the end of 1985: a similar proportion to that planned, but considerably below both inflation and this sector's demand for credit (see table 39). At the same time, the supply of credit to the private sector remained unusually stable throughout the year on account of the efforts made by the Central Bank to offset the negative impact of the exchange policy and as a result of the rapid expansion of demand for domestic credit by the public sector.

The tendency to pursue an excessively expansionary monetary policy became extremely pronounced during the first half of the year and was followed by an excessively restrictive policy in subsequent months. On account of this the system of relative prices also became more vulnerable, inflation tended to become institutionalized and the overall efficiency of the economy was undermined.

PERU

1. Recent economic trends: Introduction and summary

Two central features marked the evolution of the Peruvian economy during 1985. These are on the one hand, the persistence of the serious crisis into which the country has been plunged since 1982; on the other the appointment of a new democratic government with a markedly different approach towards economic and financial disequilibria from that of its predecessor. This was clearly reflected in the alteration of the trajectory of certain key economic variables, such as the exchange rate, the rate of interest, wages and the general level of prices.

The gross domestic product rose by only 2%. As for the per capita product, after a slight revival in 1984, it shrank again and failed to rise above its 1964 level. Moreover, as a result of the severe deterioration in the terms of trade, gross national income rose by less than 1%, as a result of which the accumulated growth rate for the biennium was barely 4%, following upon a drop of more than 15% in 1982-1983 (see table 1 and figure 1).

As far as unemployment is concerned, it rose to 10% of the economically active population; for the first time, the proportion of the economically active population who were adequately employed fell below 50%. The real value of wages and salaries shrank for the third year in a row, down to 40% less than its 1982 level. However, this situation improved during the second half of the year.

The increase in consumer prices reached the unprecedented figure of 158% in December. Nevertheless, as a result of the new economic policy, the average monthly rise in prices fell sharply, from 11% in the January-August period to 3% in the last four months of the year.

Monetary aggregates evolved very differently than in the previous year as they were heavily influenced by policies designed to disassociate the financial system from the dollar. Thus, the monetary base expanded rapidly as a result of the huge conversion of deposits in foreign currency into deposits in national currency. This policy also gave rise to a marked increase in the demand for money; however, measures designed to avert the inflationary impact of these two events brought about a shrinkage in real total liquidity through a fall in quasi-money, attributable to the extremely high cash reserves which banks had to maintain in the Central Bank.

Fiscal accounts improved as a result of the fall of the public-sector deficit to less than 4% of gross domestic product, the lowest figure since 1979. The origin of this change lay in the reduction of the deficits recorded by central government and public enterprise accounts, as well as in the generation of a slight surplus in the remainder of the public sector. The reasons behind the improved central government position were the significant real growth of its income and a sharp fall in its investment expenditure.

When the new government took office, the economy was facing a severe crisis and was plunged in what the new authorities described as a vicious circle of inflation and recession. Consequently, economic policy underwent a major turnaround from the stands taken by the previous administration. On the one hand, an onslaught was to be led against the external and internal imbalances affecting the economy by reactivating the productive system with the aim of narrowing the gap between overall supply and demand through an increase in the former, rather than a shrinkage in the latter. Moreover, priorities with regard to the external adjustment and domestic stabilization were to be reversed, with the latter becoming the central policy element. In other words, an attempt was made to replace the vicious circle of inflation and recession by a process of expansionary adjustment.

To achieve this end, the new government outlined an economic policy in three successive stages, consisting first in the stabilization and reorganization of costs and control over inflationary expectations, second in the reactivation of the national productive system, in which an increase in real salaries and wages was to galvanize domestic demand, and third in the application of the structural economic and social reforms necessary for the future development of the Peruvian economy.

During 1985 the government passed two comprehensive sets of measures in connection with the first two stages desirable above. The first of these, which was announced when the government had only just taken office (the end of July and the beginning of August), stressed control over inflation and also provided for the first steps to be taken to stimulate the recovery of agriculture, to which considerable priority has been given. In the second set of measures, announced in October, emphasis was laid on efforts to revive the economy and consolidate the progress achieved in the struggle against inflation.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985°
A. Basic economic indicators							
Gross domestic product at market prices (indexes 1980 = 100)	95.5	100.0	104.0	104.1	91.7	95.5	97.0
Gross national income (indexes 1980 = 100)	91.8	100.0	100.6	98.6	85.8	88.6	89.3
Population (millions of inhabitants)	16.85	17.30	17.76	18.23	18.71	19.20	19.70
Per capita gross domestic product (indexes 1980 = 100)	97.0	100.0	101.3	98.8	84.8	86.0	85.2
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.6	4.7	4.0	0.1	-11.9	4.1	1.6
Per capita gross domestic product	1.9	2.0	1.3	-2.5	-14.2	1.5	-1.0
Gross national income	6.7	9.0	0.6	-2.1	-12.9	3.3	0.7
Rate of unemployment	11.2	10.9	10.4	10.6	9.2	10.9	11.8
Consumer prices							
December - December	66.7	60.8	72.7	72.9	125.1	111.5	158.3
Variation between annual averages	67.7	59.2	75.4	64.5	111.1	110.2	163.4
Real remunerations							
Salaries		10.3	1.5	9.2	-14.4	-8.0	-8.4
Wages		12.4	-1.8	2.2	-16.7	-15.3	-15.7
Money (M.)	78.7	71.3	48.3	36.9	91.7	128.0	235.2
Current government income	109.1	84.6	49.5	63.7	49.6	146.9	192.0
Total government expenditure	68.2	97.6	67.1	57.0	99.4	105.4	156.0
Fiscal deficit/total government expenditure*	6.0	12.2	21.4	18.1	3&7	23.2	12.4
Public sector deficit/gross domestic product	1.1	4.7	8.3	9.2	12.1	7.4	3.8
Current value of exports of goods and services	70.1	13.8	-13.6	14	-8.6	2.5	-5.3
Current value of imports of goods and services	21.3	54.8	25.8	-1.4	-23.5	-17.8	-12.1
Term of trade (goods and services)	23.5	8.3	-12.0	-7.0	1.3	-2.6	-7.8
Millions of dollars							
External sector							
Trade balance (goods and services)	1 573	763	-869	-743	39	787	949
Net payment of profits and interest	-966	-835	-1 020	-1 034	-1 132	-1 199	-1 010
Balance on current account	606	-72	-1 889	-1 776	-1 091	-412	-61
Balance on capital account	479	725	1 222	1 605	1 006	662	379
Variation in net international reserves	1 066	607	-611	-150	-53	290	
Total external debt	9 334	9 594	9 638	11 097	12 442	13 389	13 794

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Percentages.

*Non-agricultural sector

The first steps in the quest for stability, were to restructure and stabilize basic costs and then to freeze prices. To achieve the former, the exchange rate was raised by 12% and considerable increases were allowed in the level of public service rates and wages. These measures, which were introduced almost as soon as the new government took office, were followed by a freeze, which was extended until the end of the year in the case of the exchange rate. In addition, between August and October three successive reductions in the interest rate were ordered, bringing it down from an effective nominal annual level of 280% at the end of July to barely 45% three months later. The authorities hoped that this reduction would allow enterprises to face the rises in the exchange rate and in salaries and wages. As for the restructuring of costs, it was also considered to be necessary in order to control the inflation in the longer term. With regard to the price freeze, which was also announced almost immediately after the government took office and was retroactive to the day before it came into power, it was general. The few exceptions were reflected in the initial rise and later freeze of the prices of fuels, the drop in the prices of certain staple consumer goods and the establishment of a special system for perishable agricultural produce (whose prices were set for fortnightly periods).

Simultaneously, the government adopted a series of measures designed to lower the extremely high rate at which monetary assets were being converted into US dollars. By these measures it was endeavoured to eliminate the practice of making high profits from speculative activities as well as to prevent the negative impact had by such activities upon production and the level of prices. In addition to putting a stop to daily devaluations, the government decided to declare foreign currency bank certificates and all deposits in foreign currency inconvertible. Deposits could be withdrawn only in intis, the new national currency, equivalent to one thousand units of the old currency, the sol. Moreover, the rate of interest paid on these deposits was lowered. As a result, approximately US\$600 million were converted into national currency. In order to avert the inflationary impact of the enormous expansion of the monetary base resulting from this, an attempt was made to ensure that the majority of the new intis should remain in the Central Bank as part of its reserves. This, however, caused domestic credit to shrink even more than it had already been doing; hence, in October measures were adopted to free funds for lending to the private sector.

The second important area of economic policy for the new government was the recovery of productive activity. It was necessary to promote a revival in the agricultural sector and to stimulate selective growth of industrial production. Three types of reactivating measures were adopted. First there were those which sought to bring about an expansion of domestic demand by effecting increases in the real income of the population; the second set of measures aimed at protecting domestic production from the effects of importing; while the third was made up of specific measures, such as the opening-up of credit lines and the freeing of prices in the case of some inputs which were not produced domestically.

The set of measures adopted at the beginning of August contained major wage readjustments together with other measures designed to encourage the revival of agriculture. As for the package announced in October, in addition to providing for further wage increases, it included specific measures designed to promote industrial reactivation. Moreover, both sets provided for actions designed to restrict imports.

During an initial period of about two months, industrial output declined heavily, as a result of the liquidation of the enormous inventories which firms had accumulated as a hedge against inflation. After that, however, the sector's level of activity tended to recover. As is well known, agricultural production reacts rather more slowly, and at the end of the year, it was still too early to assess the impact of the measures taken in previous months.

As has been pointed out, on the external front the policy of the previous government was thoroughly overhauled once the prime target of government activity, external affairs were relegated to second place, falling behind measures to control the inflation and reactivate the productive apparatus. Prior to its election, the new government had interpreted the effectiveness of the instruments traditionally associated with the management of external accounts in a manner which differed radically from the views held by the former government. The new position was that far from constituting the most suitable means of promoting exports and reducing the demand for imports, exchange rate devaluations have in the recent past been the principal driving force behind inflation. Consequently, in order to bring inflation down it was considered necessary to exert control over

Figure 1
PERU: MAIN ECONOMIC INDICATORS

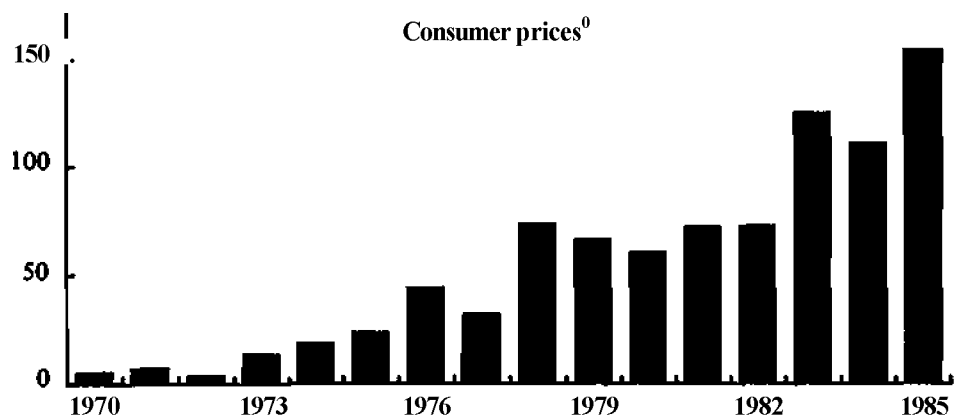
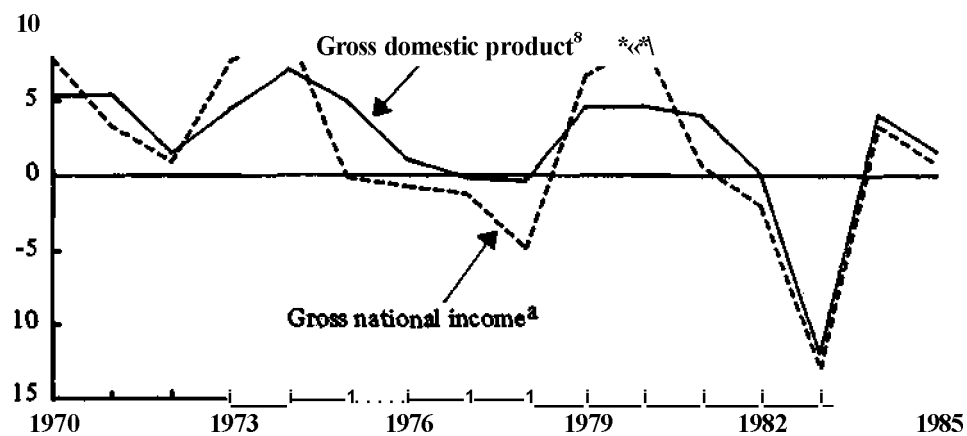
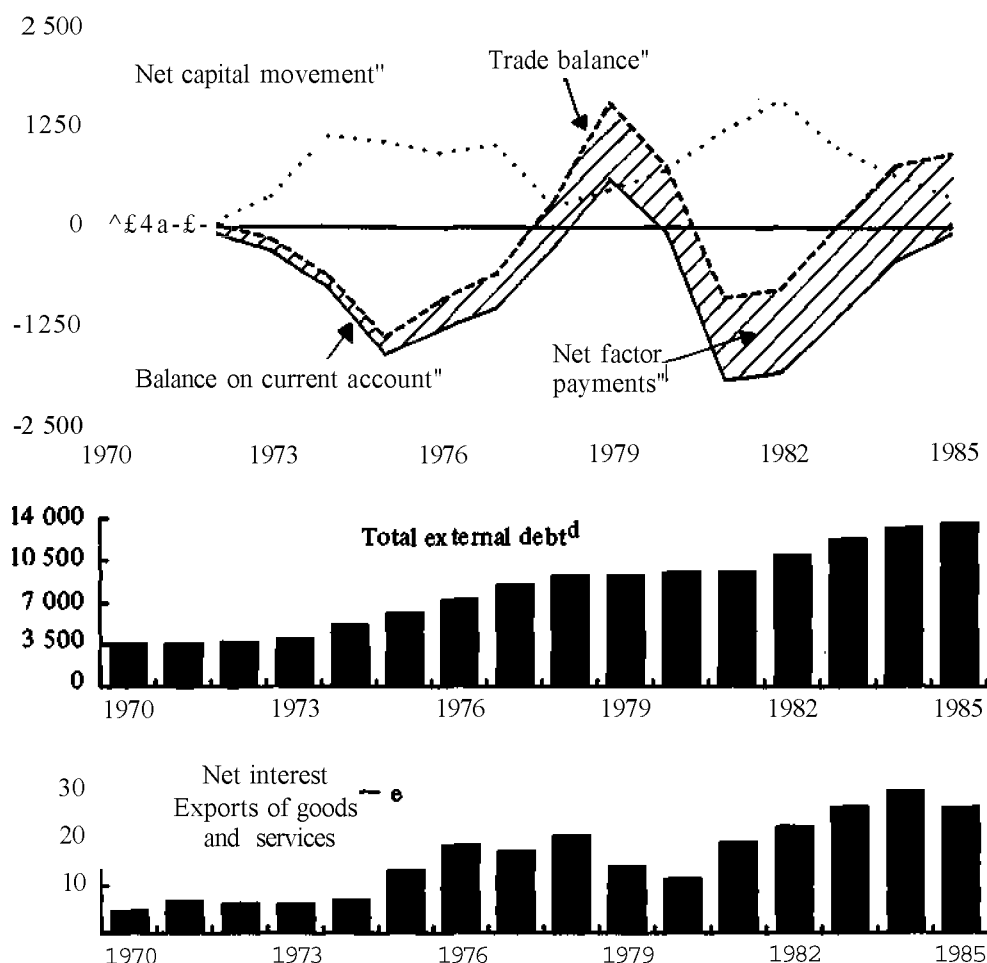


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate. ^cDecember-December percentage variation. ^dMillions of dollars. ^ePercentages.

devaluations. Simultaneously, it was maintained that export promotion and import substitution are better served by other instruments, such as administrative measures (export subsidies, tariffs and import prohibitions) or by concealed devaluations.¹

The change of attitude towards the external debt was also important. The new official approach was based on the view that the efforts at adjustment carried out so far in order to generate the funds to service the external debt and improve the country's financial standing had not allowed it to obtain the necessary flow of external funds but had in fact led both to a deep recession and to a diversion abroad of funds which could be used to overcome it. Consequently, in the face of what seemed to be a *defacto* reduction or withdrawal of available fresh external funds, the new government decided that debt servicing, and particularly servicing of the debt with international commercial banks, should be severely restricted. The amounts saved as a result of this measure were to be used to support the reactivation of the productive apparatus.

¹ In Peru there are two legal exchange markets—the official and the parallel. Hidden devaluations operate through the granting of permits authorizing exporters to change a higher percentage of their earnings on the parallel market, on which the exchange rate is higher.

2. Trends in economic activity

a) Trends in overall supply and demand

Total supply remained virtually stagnant for the second year in a row following its sharp decline (-14%) in 1983. The increase of about 2% in the gross domestic product barely offset the further decline (-10%) in imports, whose value represented 69% of their 1980 figure (see table 2).

As far as overall demand is concerned, domestic demand again shrank (-1.4%), in line with the trend which had begun in 1982. The deterioration in gross investment remained far more pronounced (-22%), and its level was barely half that recorded in 1980. In contrast, total consumption continued to recover, under the stimulus of personal consumption, since government consumption continued to decline. Finally, exports of goods and services rose by 5%, thereby completing their recovery from the slump they experienced in 1983, breaking all previous records and becoming the most dynamic component in overall demand (see table 2).

b) Evolution of the main sectors

In 1985 the most dynamic sectors of the economy were mining and manufacturing, each of which expanded by 4%. With regard to construction, the sharp drop it experienced (-11%) put a sharp brake on overall economic activity (see table 3).

i) *Agriculture*. This sector's vigorous growth decelerated sharply and the product grew by only 3%, equivalent to one quarter of the previous year's growth. Livestock raising recovered and there was a slight increase in crop production (see table 4). With regard to the latter, the dynamic growth in the production of cotton (43%) was particularly noteworthy. This result was to a large extent attributable to instances where cotton was cultivated instead of rice and flint maize, whose harvests

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Total supply	91.8	92.3	92.3	120.0	114.2	0.3	-14.2	0.6	.
Gross domestic product at market prices	91.7	95.5	97.0	100.0	100.0	0.1	-11.9	4.1	1.6
Imports of goods and services	92.3	76.4	68.8	20.0	14.2	12	-23.8	-17.2	-10.0
Total demand	91.8	92.3	92.3	120.0	114.2	0.3	-14.2	0.6	.
Domestic demand	91.2	90.5	89.3	96.0	88.3	-2.2	-15.1	-0.8	-1.4
Gross domestic investment	67.4	61.8	47.8	18.3	9.0	-7.2	-39.7	-8.3	-22.6
Gross fixed investment	80.7	75.5	67.6	18.3	12.8	-2.0	-29.0	-6.5	-10.4
Construction	93.4	94.6	84.3	8.8	7.7	2.4	-19.1	12	-10.9
Machinery	68.9	57.7	52.1	9.5	5.1	-5.9	-38.5	-16.3	-9.7
Changes in stocks				-	-3.7				
Total consumption	96.8	97.2	99.0	77.8	79.3	-0.9	-9.1	0.4	1.8
General government	101.7	94.6	94.2	13.6	13.2	13.3	-8.8	-7.0	-0.4
Private	95.8	97.8	100.0	64.2	66.1	-3.6	-9.1	2.1	2.3
Exports of goods and services	94.1	99.6	104.6	24.0	25.9	12.0	-10.1	5.9	5.0

Source: ECLAC, on the basis of official figures.

°Preliminary figures. The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in current IMF dollars, which were converted to constant 1980 values, using an index of unit value calculated by ECLAC for that purpose.

Table 3

PERU: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY, AT 1980 MARKET PRICES

	Indexes (1980 = 100)			Percentage breakdown			Growth rates		
	1983	1984	1985°	1980	1985°	1982	1983	1984	1985°
Gross domestic product	91.7	95.5	97.0	100.0	100.0	0.1	-11.9	4.1	1.6
Goods	86.8	93.3	95.9	51.0	50.4	0.4	-15.0	7.4	2.8
Agriculture	100.2	112.0	115.1	8.5	10.1	3.0	-10.8	11.8	2.8
Mining	88.5	94.5	98.4	11.7	11.9	1.2	-9.8	6.8	4.1
Manufacturing	81.8	87.4	90.5	28.0	26.1	-1.0	-17.9	6.8	3.6
Construction	89.8	90.7	81.5	2.9	2.4	2.0	-20.8	0.9	-10.1
Basic services	97.6	95.5	96.8	6.8	6.8	-0.2	-8.3	-2.1	1.3
Electricity, gas and water	97.5	88.3	90.9	0.9	-0.8	8.2	-16.0	-9.5	3.0
Transport, storage and communications	97.6	96.6	97.7	5.9	5.9	-1.5	-7.1	-1.0	1.1
Other services	99.3	100.9	102.4	41.6	43.9	0.2	-5.6	1.5	1.6
Commerce, restaurants and hotels	91.5	89.7	91.0	18.4	17.2	-	-13.2	-2.0	1.4
Financial establishments, insurance, real estate and business services	101.9	105.8	109.0	6.9	7.8	-0.2	-4.7	3.9	3.0
Ownership of dwellings	105.2	106.3	109.5	1.6	1.8	1.7	1.1	1.0	3.0
Community, social and personal services	107.0	111.4	112.5	16.3	18.9	0.5	2.7	4.1	1.0
Government services	110.5	116.8	118.7	8.5	10.4	0.8	6.7	5.7	1.7

Source: ECLAC, on the basis of figures provided by the National Institute of Statistics

°Preliminary figures.

Including livestock, forestry and fishing

declined by 16% and 13% respectively. The decision to replace these crops by cotton was taken because the international price of cotton was higher and also because less irrigated land is available on the northern coast and cotton requires less water.

Within the livestock subsector, the only rises were in milk production (4%) and in poultry: eggs (20%) and poultry meat (11%). The increase in the production of poultry meat in particular was encouraged by exports of chickens to the Soviet Union—in part payment for the external debt owed to that country—and by the rise in domestic demand during the last half of the year as a result of the rise in wages and salaries and the establishment of price controls. In contrast, production of other meats continued to be affected by the compulsory slaughtering carried out in 1983.

Agriculture was declared a priority sector by the new government and it was consequently the object of a major set of policy measures announced in August. First of all, the Fund for the Improvement of Agricultural Prices was set up, under the aegis of the National Public Enterprise for Marketing Inputs (ENCI), for the purpose of offering guaranteed prices to producers of wheat, soft maize, barley and quinoa. This Fund was to receive its income from an additional 1% tariff on imports of agricultural products, levied as from January 1986, as well as from a Treasury credit worth 100 million intis. Through ENCI, the State also assumed sole responsibility for marketing wheat and dairy inputs so that prices which would stimulate producers could be set. Measures were also taken to consolidate agricultural debts, on the basis of a criterion of concertation by virtue of which entrepreneurs undertook to meet certain targets with regard to production and productivity in exchange for refunding of their debt commitments. In addition, it was decided that agricultural credits would no longer be granted for industrial crops, an arrangement which placed tight operational restrictions on producers; instead they would be granted for whole farms or small holdings. In addition, the National

Seed Enterprise was set up and made responsible for producing wheat-, soft-maize-, barley- and quinoa-seed. Finally, the board of the Banco Agrario was reorganized in order to allow peasant organizations to participate.

In October, further measures were adopted. One of them involved the establishment of preferential interest rates (nought to 19%) or loans from the Agrarian Bank, and priority was given to peasant communities in the country's interior. The Bank was also enabled to loan capital to such communities or to individuals in them to acquire title deed. Moreover, the Bank received 50 million intis as counterpart funds for external credits. Finally, imports of machinery and equipment for agricultural use were exempted from tariffs and taxes provided they did not compete with domestic production, and higher import tariffs were applied to a range of agricultural produce.

ii) *Fishing*. The volume of the catch increased only slightly in 1985, following the remarkable growth achieved the previous year (see table 5). Sea fishing —by far the most important— increased by 9%, thanks to the return of the anchoveta, catches of which, after having been negligible during the previous two years, reached a similar average level in 1985 to that of the 1979-1981 period. This made it possible to re-open four plants of the Pescaperú public enterprise, bringing the number of plants in operation at the end of the year to nine (in 1977 there were 100). Fishing for direct human consumption was affected by major strikes and the reduction in the supply contract with the Soviet Union as well as by the climatological factors which caused sardines to move away from the coast.

Table 4

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985"
Indexes of agricultural production* (1977 = 100)								
Total	108.9	98.5	109.3	112.5	2.9	-9.6	10.9	2.9
Crop farming	107.8	93.9	111.0	113.3	1.8	-13.8	18.2	2.0
Stock-raising	111.0	112.8	107.2	112.9	4.8	1.6	-5.0	5.3
Thousands of tons								
Production of the main crops								
Raw cotton	256	105	203	291	-10.4	-59.0	92.8	43.4
Rice	776	798	1 156	964	8.9	2.8	44.9	-16.6
Coffee	90	91	91	93	-5.3	1.1	0.1	2.0
Sugar cane	6 509	6 381	6 988	7 425	26.9	-2.0	9.5	6.2
Beans	43	35	45	46	-0.7	-18.6	28.4	2.2
Soft maize	233	173	205	212	18.3	-25.8	18.5	3.5
Hard maize	398	412	571	496	2.2	3.5	38.7	-13.2
Potatoes	1 800	1 200	1 463	1 590	5.5	-33.3	21.9	8.7
Sorghum	38	12	44	23	-13.5	-68.4	272.6	-50.0
Soya	8	2	2	2	-41.4	-75.0	-19.0	23.5
Wheat	101	76	84	92	-15.0	-24.8	10.2	10.4
Production of the main livestock products								
Poultry meat	205	206	182	201	12.2	0.5	-12.0	10.7
Mutton	20	21	19	17	8.5	5.0	-10.4	-9.0
Pork	59	58	55	54	-0.8	-1.7	-5.4	-1.8
Beef	91	111	103	101	1.3	22.0	-6.9	-2.3
Eggs	65	68	65	78	1.3	4.6	-4.3	19.7
Fresh milk	805	752	780	809	2.6	-6.7	3.7	3.6

Source: Ministry of Agriculture.

"Preliminary figures. Calculated on the basis of values at 1979 prices.

Table 5

PERU: INDICATORS OF FISHERY PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985'
Index of fishery production* (1977 = 100)	119.6	74.9	128.6	130.4	-7.9	-37.4	71.7	1.4
Thousands of tons								
Deep-sea fishing	3 452	1453	3 288	3 572	27.8	-57.9	126.3	8.6
For direct human consumption	585	354	547	455	-31.3	-39.5	54.5	-16.8
Fresh fish	155	138	186	185	5.4	-11.0	34.9	-0.5
For freezing	49	79	181	139	-53.8	61.2	129.1	-23.2
For canning	352	115	148	101	-37.8	-67.3	28.8	-31.7
For drying and salting	29	22	32	30	-9.4	-24.1	45.5	-6.3
For fishmeal and oil	2 867	1099	2 741	3 117	55.0	-61.7	149.4	13.7
Anchoveta	1 726	118	23	1 071	40.9	-93.2	-80.5	4 556.5
Other species	1 141	981	2 718	2 046	82.6	-14.0	177.0	-24.7
Inland fishing	12	24	30	23	-25.0	100.0	25.0	-23.3
Fresh fish ^c	6	13	15	11	-14.3	116.7	15.4	26.7
For drying and salting	6	11	15	12	-33.3	83.3	36.4	-20.0

Source: Ministry of Fisheries.

"Preliminary figures.

Calculated on the basis of values at 1979 prices.

'Including river shrimps.

The Peruvian fishing industry made use of barely one fifth of its production potential as a result of the obsolescence and unsuitability of its fleet;² its excessive installed capacity on land; its extremely deficient marine research establishment as well as its inadequate domestic and external marketing systems; overfishing of marine species and the instability of the legal framework relating to fishing.

In order to revitalize this sector, the government decided to strengthen the Publish Fishing Services Enterprise (EPSEP). The Banco de la Nación opened a credit line worth US\$4.9 million, 70% of which was provided by the Ministry of the Economics and Finance as capital for the firm. These funds will be used for repairs, purchases and equipment for Peruvian fishing vessels as well as for the purchase of vehicles for distribution. In addition, EPSEP was granted 4 million intis credit for the direct purchase of raw material from small-scale fishermen and a further credit of 6 million intis to finance the implementation of an agreement with the private sector to produce low-cost canned fish. Finally, in October, fishing was exempted from payment of tariffs and taxes on the import of machinery and equipment.

iii) *Mining.* Mining production grew for the second year in a row by more than 4%, thereby completing its recovery from the decline it had undergone in 1983 (see table 6). In contrast with the previous year, when growth basically relied on an increase of nearly 8% in the production of hydrocarbons, in 1985 the lead was taken by metallic minerals, whose production rose by 7%. This growth was essentially attributable to greater output by entrepreneurs, who thereby aimed to offset the decline in international prices; to the new mining projects which came on line (such as the Tintaya copper mine) and to a decline in the number of strikes. More precisely, the pronounced increase in iron production—which made for an accumulated 1984-1985 increase of around 75%—was largely the consequence of the revival in demand from clients in the Far East while an important factor behind the increase in silver production was the programme launched by Central Reserve Bank to accumulate the metal, as part of its policy to increase international reserves.

⁵ While the useful life of a fishing vessel is theoretically between 10 and 11 years, the average age of Peruvian vessels is 16 years.

Although the problems resulting from the 1983 floods had finally been overcome in 1983, petroleum production grew by scarcely 2%. This was mainly due to the stagnation in production in the country's eastern area, which may in turn be accounted for by the problems arising from the cancellation of petroleum contracts in the final quarter. Average daily output declined from 191 800 barrels during January-September to only 178 500 barrels during the final quarter.

On 28 August the new government cancelled operational contracts with the three foreign companies present in Perú, which together produced two thirds of Peruvian petroleum.³ The main reason for this move was that only a very small part of the generous tax credits granted by the previous government to encourage exploration had in fact been used for this purpose.

Simultaneously, the government entered negotiations with foreign companies over the new conditions under which they were to operate in the country. During this period—which continued until the end of the year—the companies were obliged to hand over all of their petroleum to the State company, Petroperú, at a price which covered only their operating costs. Nevertheless, in November Petroperú fell behind with its payments, as a result of which production declined towards the end of the year.

Finally, Occidental Petroleum accepted the government's new terms and undertook to invest US\$567 million in exchange for access to a new concession in the eastern region. For its part, Belco Petroleum, which had so far produced approximately 15% of Peruvian crude, rejected the conditions offered by the government and as a result its operations were taken over by Petroperú. The government will compensate Belco, by paying the difference between the valuation of its assets and

Table 6

PERU: INDICATORS OF MINING PRODUCTION

	1982	1983	1984	1985"	Growth rates			
					1982	1983	1984	1985°
Index of mining production⁶ (1977 = 100)								
Total	123.7	114.0	119.2	124.4	7.0	-7.8	4.6	4.4
Mining of metals	112.6	110.0	111.0	119.1	8.5	-2.3	0.9	7.3
Hydrocarbons	214.9	189.0	203.4	207.7	1.1	-12.1	7.6	2.1
Thousands of tons								
Main metal-mining products								
Copper	369	336	375	397	8.0	-8.9	11.7	5.9
Iron ore	5 672	2 762	3 916	4 807	-6.0	-51.3	41.8	22.8
Silver ^c	1 660	1 738	1 758	1 879	12.9	4.7	12	6.8
Lead	212	213	205	210	9.9	0.5	-3.4	2.2
Zinc	556	577	558	589	11.4	3.8	-3.1	5.4
Millions of barrels								
Hydrocarbons								
Petroleum	71	63	67	69	1.1	-12.1	7.6	2.1
By producer zones:								
Coast	16	11	12	14	2.5	-33.2	20.3	7.9
Continental shelf	10	9	10	10	3.3	-11.7	10.0	2.6
Eastern region	45	43	45	45	0.1	-4.8	4.0	0.4

Source: Ministry of Energy and Mines.

^aPreliminary figures.

Calculated on the basis of values at 1979 prices.

^cKilograms.

³ In addition to the three foreign companies extracting petrol, two others were engaged in exploration; these were unaffected by the cancelling of contracts.

Table 7

PERU: INDICATORS OF MANUFACTURING PRODUCTION"

(1979 = 100)

	1982	1983	1984	ms ⁴	Growth rates			
					1982	1983	1984	1985 ^M
Total manufacturing production	103.2	84.7	89.4	92.7	-5.2	-17.9	5.5	6.6
Fish meal	96.6	31.8	71.4	87.1	39.2	-67.1	124.5	38.5
Food, beverages and tobacco	104.3	95.3	97.7	97.3	-2.3	-8.6	2.5	3.2
Food	101.4	87.9	96.6	96.4	-1.4	-13.3	9.9	4.1
Beverages	107.8	110.6	-101.1	106.1	-5.5	2.6	-8.6	8.2
Tobacco	117.0	101.9	102.5	86.7	1.0	-12.9	0.6	-12.2
Textiles and clothing	106.8	89.0	95.6	103.0	4.1	-16.7	7.4	20.5
Textiles	108.0	90.1	98.4	108.2	7.1	-16.6	9.2	24.7
Leather and footwear	81.9	59.4	58.3	55.7	-21.8	-27.5	-1.9	-4.3
Paper, printing and publishing	102.8	93.5	93.2	89.9	-14.8	-9.0	-0.3	-6.2
Paper and paper products	78.1	70.8	70.0	67.2	-27.9	-9.3	-1.1	-5.8
Chemical products	108.5	91.7	93.9	94.9	-5.5	-15.5	2.4	1.0
Industrial chemicals	107.3	82.2	101.5	96.9	-5.0	-23.4	23.5	-5.3
Other chemicals	103.3	93.6	75.5	80.0	-9.7	-9.4	-19.3	4.6
Petroleum refining	112.2	104.9	116.0	116.8	0.7	-6.5	10.6	0.7
Rubber products	102.5	92.3	99.8	100.7	-11.5	-10.0	8.1	1.3
Plastic products	124.0	89.9	93.1	97.9	-0.3	-27.5	3.6	9.3
Non-metallic mineral products	109.0	88.8	79.5	75.1	-5.6	-18.5	-10.5	-1.7
Pottery and china	116.5	87.0			13	-25.3		
Glass and glass products	124.7	85.2	89.0	80.3	20.6	-31.7	4.5	-11.4
Non-metallic mineral items	102.4	90.2	77.9	74.1	-14.5	-11.9	-13.6	-3.9
Basic metal products	89.0	78.3	87.6	93.3	-3.1	-12.0	11.9	6.0
Iron and steel	67.6	56.2	66.2	71.4	-16.7	-16.9	17.8	11.6
Non-ferrous metals	94.6	84.1	93.1	98.9	0.1	-11.1	10.7	5.0
Machinery and metal products	115.2	70.0	70.3	75.2	-21.8	-39.2	0.4	10.6
Plain metal products	99.4	68.1	70.6	70.7	-18.3	-31.5	3.7	3.2
Non-electrical machinery	105.9	66.3	50.9	55.5	-23.8	-37.4	-23.2	11.7
Electrical machinery	116.5	81.5	85.1	90.8	-15.7	-30.0	4.4	9.0
Transport equipment	143.8	53.7	56.6	67.7	-31.3	-62.7	6.0	27.7

Source: Ministry of Industry, Commerce, Tourism and Integration.

^aIndex of physical volume; annual averages.^bPreliminary figures.^cJanuary-November average.

January-November 1985

with respect to the same period in 1984.

the taxes it is considered to owe. Finally, the consortium formed by Occidental Petroleum and the Argentine company Bidas will remain in the country, but under the terms of its previous contract, which means that the rate at which it is taxed will increase from 41.1% to 68.5%.

iv) *Manufacturing*. Manufacturing production continued the recovery begun the previous year. However, on account of the sharp drop it experienced in 1982 and 1983, its level was still far below that at which it had stood at the beginning of the decade (see table 7). During the year manufacturing evolved in two clearly distinct phases. Until July, it grew at an average monthly rate of somewhat less than 1%, although with pronounced ups and downs. This was essentially due to the continued application of the policy measures brought into force in 1984, which called for increasing protection for national producers against imports and payment of the external debt to the Soviet Union in kind.

The new government which took power in August cast the manufacturing sector in the role of the main driving force for short-term recovery. To this end, it endeavoured to establish the conditions for an increase in domestic demand so as to bring about selective reactivation of manufacturing production. First of all, the effort was centered on those branches in which there was considerable idle capacity and were consequently in an excellent position to respond in the short term. Among those branches, moreover, it was decided to promote the production of those which could generate or save the most foreign currency, and within this group, encouragement was to be given to those devoted to the production of goods satisfying the basic needs of the population.

Various types of action were taken in order to expand domestic demand. Major wage readjustments were introduced, with the result that for the first time in several years, a rise in real salaries and wages took place. The increase in the population's purchasing power was essentially to the advantage of the producers of basic industrial goods, such as food, clothing and footwear.⁴ Moreover, protection against competition from imported articles was increased; this measure included a greater number of import prohibitions and the introduction of a prior permit for all external purchases. Thirdly, it was decided that the State should give preference in its own purchases to domestically produced articles. Exports of manufactures to the Soviet Union as a means of servicing the debt owed to that country also continued. Finally, a number of separate measures were taken to encourage the hiring of labour so as to ensure a more elastic response by industrial enterprises in the short term. To this end, the Employment Tax Refund Certificate (CERTEM) —which lowers the cost of hiring additional labour— was introduced, and authorization was also given to hire workers to work extra shifts. In order to overcome the reluctance shown by firms to increase their staff, it was decided that the legislation relating to job security would not be applied to labourers hired in order to increase the number of shifts. The initial impact of the policy did not live up to expectations, although problems tended to diminish during the last quarter of the year. While during August and September industrial production shrank by 11% and 7%, respectively, it recovered by 15% in October and by 4% in November.

The downturn which marked the first months was the result of several factors, noteworthy among which was the problem of inventories. Firms had built up considerable inventories as they constitute the best means of defence against spiralling inflation. However, once the new economic policy got underway, the situation was reversed; thus, firms began to use up their accumulated stocks, of both inputs and sales items. This process continued until the level of inventories reached the new desired level. A further complication in this situation was the drop in the rate of interest and the price freeze, which together made selling on credit less profitable.

v) *Construction.* The slump which had been affecting the construction sector since 1982 became even deeper in 1985, when the sector's product dropped by 11 % (see table 8). Both public and private activity experienced considerable shrinkages. In the case of the latter, this was due to such factors as high prices of building materials, lack of suitable mortgage arrangements and the acute liquidity problems facing building firms (to a large extent caused by arrears in payments by the public sector). In fact practically all construction firms were operating at less than half their installed capacity. Public works experienced cutbacks resulting from the need to control the public deficit. After the new government took office, there was a change in emphasis, with priority being given to small works —water supply and drainage, road repairs, footpaths, construction and repair of terraces for agricultural use, etc.— rather than major irrigation, housing and road projects, which had been given preference by the previous government.

c) *Employment*

During 1985 the employment situation worsened considerably. The rate of open unemployment rose by only one percentage point (from 11% to 12%), but underemployment grew significantly, finally accounting for almost 43 % of the economically active population; thus for the first time adequately employed workers constituted less than half of the total labour force (see table 9).

⁴ A considerable proportion of the increase in demand for these products was directed towards firms operating within the informal sector, whose output is not recorded by official statistics.

Table 8

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1982	1983	1984	1985"		Growth rates			
					1982	1983	1984	1985	
Gross domestic products of construction (index 1977 = 100)	126.6	100.0	100.6	89.6	2.3	-21.0	0.6	-10.9	
Sales of construction materials									
Index of volume (first quarter 1977 = 100)	106.9	79.9	81.6	77.9	-1.0	-25.3	2.1	-1.8	
Sales of some construction materials									
Cement	2 448	1 959	1 935	1 754	1.1	-20.0	-1.2	-9.4	
Steel rods for building	148	115	126	110	-29.2	-22.1	9.2	-12.6	
Index of construction material prices (1982 = 100)	100.0	209.3	439.9	1 183.4	97.9	109.3	110.2	1690	

Source: National Institute of Statistics.

"Preliminary figures.

Table 9

PERU: TRENDS IN EMPLOYMENT"

(Percentages)

	1980*	1981 ^c	1982 ^b	1983 ^e	1984 ^f	1985"
Total	100.0	100.0	100.0	100.0	100.0	100.0
Unemployment	7.1	6.8	6.6	9.0	8.9	10.1
Underemployment	26.0	26.8	28.0	33.3	36.8	42.5
By income	24.2	21.4	24.0	29.5	33.9	
Low	10.6	12.5	11.6	14.1	16.0	
Medium	6.5	5.6	7.4	7.6	10.5	
High	7.1	3.3	5.0	7.8	7.4	
By time	14	3.0	4.0	3.8	2.9	
Underemployment n.s	0.4	2.4	-	-	-	
Adequately employed	66.9	66.4	65.4	57.7	54.3	47.4

Source: Ministry of Labour and Social Security.

"Excluding domestic employees.

April.

^cJune.^bJuly.^dDecember.

August.

^ePreliminary figures.

In order to alleviate the dramatic employment situation, the new government took measures designed to stimulate the hiring of labour by the private sector and redefined the role of the State in the economy.

Support for the private sector took three main forms. First of all, productive sectors were reactivated by such means as increased protection and the lowering of the interest rate. Moreover, in November the measure referred to above, authorizing the hiring of casual labour for additional shifts,

was adopted on the understanding that the personnel in question would not be covered by the regulations governing job security. Thirdly, as mentioned above, the government also set up the Employment Tax Refund Certificate, to benefit companies which created new jobs to make use of their idle capacity.⁵

The authorities also declared that henceforth public-sector activity in this field would centre on the creation of small construction works providing employment for a large number of workers, preferably located close to their place of residence. To this end, the Support Programme for Temporary Income (PAIT), financed through the Banco de la Nación and administered by *Coope-ración Popular* was set up.

The number of strikes fell for the third year in a row (see table 10). The number of man-days lost shrunk by 11% (particularly during the second half of the year, when only 38% of the year's total number of man-days lost were recorded) and the number of workers affected fell by two thirds. However, these two factors meant that the average duration of each worker's participation in a strike increased considerably, rising from 19 hours in 1984 to 51 hours in 1985 (i.e., slightly more than a working week).

Table 10

PERU: EVOLUTION OF LABOUR DISPUTES"

	1983		1984		1985*		Growth rates ^c	
	Work- ers affect- ed	Man- hours lost	Work- ers affect- ed	Man- hours lost	Work- ers affect- ed	Man- hours lost	1984	1985*
Total	786	20 300	709	13 816	238	12 228	-31.9	-11.5
By economic activity:								
Agriculture and fishing	34	885	2	101	14	2 443	-88.6	2 313.0
Mining	84	7 853	101	4 469	31	2 482	-43.1	-44.5
Manufacturing	63	2 602	33	1 795	43	2 769	-31.0	54.3
Construction	32	1 514	13	681	10	496	-55.0	-27.2
Transport, storage and communications	60	1 407	37	1 173	36	1 589	-16.6	35.5
Commerce and banks	69	1 350	55	1 088	48	1 130	-19.4	3.9
Others	444	4 689	468	4 509	182	1 319	-3.8	-70.7
By causes:								
Remunerations	161	11 280	108	6 036	107	5 383	-46.5	-10.7
Reinstatement to work	27	468	10	550	13	941	17.4	71.2
Economic and financial policy of the enterprise	63	1 004	8	195	15	2 097	-80.6	976.6
Non-fulfilment of collective agreements	63	2 500	56	1 981	26	1 533	-20.8	-22.6
Solidarity	12	474	8	175	42	976	-63.0	456.9
Rise in the cost of living	380	3 036	393	3 143	6	138	3.5	2 174.8
Regional or local reasons	33	542	105	959	4	237	76.9	-75.3
Others	47	996	21	777	25	923	-22.0	18.8

Source: Ministry of Labour and Social Security.

"All values are expressed in thousands.

Preliminary figures.

* Of man-hours lost.

> The ceiling established for this subsidy was 20% of a firm's tax commitments or 40% of the cost of the additional payroll.

Table 11
PERU: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	606	-72	-1889	-1 776	-1091	-412	-61
Trade balance	1 573	763	-869	-743	39	787	949
Exports of goods and services	4 084	4 650	4 019	4 077	3 728	3 820	3 616
Goods FOB	3 490	3 899	3 250	3 294	3 017	3 149	2 966
Real services	595	751	770	783	711	671	650
Transport and insurance	255	284	286	293	262	206	195
Travel	189	292	263	252	209	209	200
Imports of goods and services	2 511	3 887	4 889	4 820	3 689	3 033	2 667
Goods FOB	1 951	3 062	3 803	3 721	2 723	2 141	1 869
Real services	560	825	1 087	1 097	966	892	798
Transport and insurance	326	433	559	525	447	379	330
Travel	44	107	175	205	191	181	160
Factor services	-966	-835	-1 020	-1034	-1 132	-1 199	-1 010
Profits	-393	-292	-252	-118	-137	-53	
Interest received	58	201	204	109	115	158	
Interest paid	-633	-743	-970	-1 025	-1 110	-1 303	
Unrequited private transfer payments	-	-	-	-	-	-	-
Balance on capital account	479	725	1 222	1605	1 006	662	379
Unrequited official transfer payments	122	134	166	166	220	159	127
Long-term capital	539	273	438	1 143	1 237	1 231	
Direct investment (net)	70	27	125	48	38	-88	
Portfolio investment (net)	-	-	-	-	-	-	
Other long-term capital	469	246	313	1 095	1 199	1 319	
Official sector ^c	502	182	179	937	1 284	1 433	
Loans disbursed	1 632	1 581	1 621	2 043	2 577	2 681	
Amortization payments	-1 106	-1 391	-1439	-1 106	-1 292	-1 624	
Commercial banks ⁱ	-	-	-	-	-	-	
Loans disbursed	-	-	-	-	-	-	252
Amortization payments	-	-	-	-	-	-	
Other sectors ⁱ	-32	64	134	158	-85	-114	
Loans disbursed	89	181	294	378	131	100	
Amortization payments	-119	-117	-160	-221	-217	-214	
Short-term capital (net)	-294	501	38	-140	-26	-170	
Official sector	-300	90	7	-263	61	-	
Commercial banks	-53	13	32	-	-22	-	
Other sectors	58	398	-2	123	-66	-170	
Errors and omissions (net)	113	-186	579	438	-425	-557	
Global balance"	1 085	653	-667	-171	-85	250	318
Total variation in reserves							
(- sign indicates an increase)	-1066	-607	611	150	53	-290	
Monetary gold	-64	-173	-118	-	-	-	
Special Drawing Rights	-100	94	1	-22	32	-22	
IMF reserve position	-	-	-	-	-	-	
Foreign exchange assets	-1 030	-553	769	-119	-48	-246	
Other assets	-29	43	46	29	21	-	
Use made of IMF credit	158	-17	-87	262	48	-22	

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, match 1986; 1985: ECLAC, on the basis of official data.

"Preliminary figures.

ⁱReal services also include other official and private transactions, but not factor services. ^cIn addition to loans disbursed and amortization payments made, this entry includes net loans granted and other assets and liabilities.

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 is equivalent to the value of counterpart items —monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

3. The external sector

a) *Main trends and exchange policy*

The deficit on the balance-of-payments current account (US\$60 million) was the smallest since 1980 (see table 11). This result was attributable to an increase in the trade surplus (as the value of imported goods shrank by more than that of exports of goods) and to a slight decline in the net payment of financial and non-financial services. As for the surplus on the capital account, it declined again: but by a smaller amount than that represented by the deficit on the current account, and, consequently, net international reserves increased by more than US\$300 million.

The change in the economic policy approach during 1985 was clearly reflected in the exchange field. At first, the old policy, which remained in force until July and was aimed at defending the

Table 12
PERU: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (intis per dollar)	Effective real exchange rate indexes			
		Exports		Imports	
		A	B	A	B
1975	0.04	76.6	67.2	76.1	66.8
1976	0.06	80.7	73.7	81.5	74.5
1977	0.08	90.4	85.0	90.3	84.9
1978	0.16	113.1	113.0	112.8	112.7
1979	0.23	106.9	108.9	107.3	109.3
1980	0.29	100.0	100.0	100.0	100.0
1981	0.42	86.5	86.8	85.5	85.8
1982	0.70	88.8	85.3	88.1	84.6
1983	1.63	93.7	93.8	92.1	92.2
1984	3.47	88.9	94.7	87.6	93.4
1985	10.97	103.0*	113.7	101.4*	112.0
1983					
I	1.10	95.0	90.4	93.5	89.0
II	1.43	95.7	92.4	93.7	90.4
III	1.85	94.0	96.1	92.5	94.5
IV	2.12	90.2	96.2	88.7	94.6
1984					
I	2.45	85.9	90.7	84.5	89.2
II	3.02	89.0	93.8	87.7	92.4
III	3.71	87.6	95.0	86.5	93.8
IV	4.68	93.2	99.4	91.9	98.1
1985					
I	7.00	100.8	109.3	99.6	108.0
II	9.70	103.1	113.0	101.4	111.2
III	13.26	104.3	117.5	102.7	115.7
IV	13.94	103.8*	115.0	102.0*	113.2

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

Note: A: the national products sub-index of the wholesale price index was used.

B: the consumer price index was used.

*Corresponds to the average real exchange rate indexes for the *intit lis-â-tis* the currencies of Peru's main trading partners, wighted according to the relative size of exports or imports, as the case may be, to or from those 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. In the calculations preference has been given to wholesale price indexes. For the methodology and sources used see the Statistical Appendix of the *liconomic Survey of Latin America*.
1981. Preliminary estimate.

Table 13

PERU: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985
Growth rates						
Exports						
Value	11.7	-16.6	13	-8.4	4.4	-5.8
Volume	-10.7	-5.4	14.0	-11.4	8.1	3.8
Unit value	25.2	-11.9	-11.1	3.3	-3.5	-9.2
Imports						
Value	56.9	24.2	-2.1	-26.8	-21.4	-12.7
Volume	35.7	194	3.0	-25.8	-18.0	-8.8
Unit value	15.7	4.0	-5.0	-1.4	-4.0	-4.3
Terms of trade	8.8	-15.6	-7.0	4.5	-0.5	-5.5
Indexes (1980 = 100)						
Purchasing power of exports	100.0	79.8	84.6	78.4	84.3	82.7
Volume of exports	100.0	94.6	107.9	95.6	103.4	107.3
Terms of trade	100.0	84.4	78.5	82.0	88.6	86.5

Source*. IICLAC, on the basis of official figures.

country's competitiveness by means of a better parity exchange rate was pursued and intensified. Consequently, during the first half of the year the realeffective exchange rate for exports (deflated by the consumer price index) increased by 14% (see table 12).

As from August, however, a different view was taken of the role of the exchange rate, which began to be regarded as essentially an instrument for combating inflation. Thus, the external accounts were balanced by other means such as by restricting debt servicing putting administrative constraints on imports and taking a more determined approach to the promotion of non-traditional exports. Thus, after having devalued the inti at the end of July, the government froze the official exchange rate until the end of the year. Primarily because of the success of the anti-inflation programme, however, the real effective exchange rate did not decline during the second half of the year, but actually rose by 2%. This brought its total increase in 1985 to 19%, the highest figure during the present decade.

In addition to the official exchange rate, a parallel market was allowed to exist, on which parity remained around 25 % above the official rate. This market was regulated by the Central Reserve Bank through its purchases of currency, which fluctuated between US\$3 and US\$5 million a day.

The parallel market was in fact used as a means of carrying out hidden devaluations designed to improve the profitability of export activities. In simple terms, the mechanism allowed exporters to exchange an increasingly large proportion of their income in foreign currency on the parallel market; at the end of the year, the attainable tax was 20% for non-traditional exports and 5% for traditional exports.

b) External trade

The trade surplus increased by more than 20%, reaching the amount of approximately US\$950 million, while barely four years previously the trade account had closed with a deficit on the order of US\$870 million (see table 11). Nevertheless, the trade surplus was equivalent to only three fifths of the 1979 figure. As in the preceding two years, the 1985 surplus was achieved thanks to another marked shrinkage (-12%) in imports of goods and services, which were 55% under their 1981 level. As for exports they stood at their lowest level since 1978.

i) *Exports.* The value of exports of goods shrank by 6%, and fell below US\$3 billion for the first time since 1979 (see tables 13 and 14).

Sales of traditional products abroad fell by 7%, despite the fact that the volume of exports of six of the ten most important items increased. This was true, in particular of cotton (1 to 6%) and fishmeal (25%). However, the average price of seven of these products shrank, while that of copper remained practically the same; thus, the only prices which increased significantly were those of coffee and iron (see table 15). Had prices remained at their 1984 level, the value of traditional exports would have been some US\$230 million higher than they actually were.

As far as the value of non-traditional exports is concerned, it shrank by 1 %, after having grown by 30% in 1984. This took place despite the increase in external sales of some of these products, which were used as payment in kind for the external debt owed to certain countries, and not withstanding the extension of the Exports Tax Return Certificate (CERTEX) to new products (pears, apples, olive oil) and of its increase in the case of others (clothing, for example).

In view of the shortage of external funding, forms of trade such as barter, countertrade, switch trading, etc., acquired increasing importance. To this end, the 1985 Budget Act provided for the establishment of the Committee on Countertrade and authorized the Ministry of Economics and Finance to contract a debt totalling 1.26 billion intis with the Central Reserve Bank in order to cover payments to exporters who exported goods as debt servicing.

Table 14

PERU: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1982	1983	1984	1985"	1980	1985°	1983	1984	1985°
Total	3 293	3 015	3 147	2966	100.0	100.0	-8.4	4.3	-5.8
Traditional products	2 531	2 460	2 421	2 247	78.7	75.8	-2.8	-1.6	-7.2
Fish meal	202	79	137	117	4.9	3.9	-60.9	73.4	-14.6
Crop-farming products	218	196	198	228	5.8	7.7	-10.1	1.0	15.2
Cotton	85	44	23	52	1.8	1.8	-48.2	-47.7	126.1
Sugar	20	35	49	25	0.3	0.8	75.0	40.0	-49.0
Coffee	113	117	126	151	3.6	5.1	3.5	7.7	19.8
Mining products	1 257	1 509	1 301	1 145	44.9	38.6	20.0	-13.8	-12.0
Copper	460	443	442	464	19.3	15.6	-3.7	-0.2	5.0
Iron	108	75	58	73	2.4	2.5	-30.6	-22.7	25.9
Refined silver	205	391	227	139	8.0	4.7	90.7	-41.9	-38.8
Lead	216	293	233	200	9.8	6.7	35.6	-20.5	-14.2
Zinc	268	307	341	269	5.4	9.1	14.6	11.1	-21.1
Petroleum and petroleum products	719	544	618	646	20.3	21.8	T24.3	13.6	4.5
Other'	135	132	167	111	2.7	3.7	-2.2	26.5	-33.5
Non-traditional products	762	555	726	719	21.3	24.2	-27.2	30.8	-1.0
Agricultural	70	56	74	94	1.8	3.2	-20.0	32.1	27.0
Textiles	281	186	258	242	5.9	8.2	-33.8	38.7	-6.2
Fisheries	98	80	167	127	3.1	4.3	-18.4	108.8	-24.0
Metal products and machinery	50	43	47	31	1.4	1.0	-14.0	9.3	-34.0
Chemicals	65	45	44	46	2.2	1.6	-30.8	-2.2	4.5
Iron and steel products	71	55	59	87	2.1	2.9	-22.5	7.3	47.5
Non-metallic minerals	34	17	17	17	1.5	0.6	-50.0	-	-
Other"	93	73	60	75	3.5	2.5	-21.5	-17.8	25.0

Source: Central Reserve Bank of Peru.

"Preliminary figures.

"Includes silver content.

'Includes mainly gold and minor metals.

Includes leading gold and

silver jewellery items, wax and paper, hides and skins and handicraft items.

Table 15

PERU: VALUE, VOLUME AND PRICES OF
MAIN EXPORT PRODUCTS"

	1980	1981	1982	1983	1984	1985*
Fish meal						
Value	192	141	202	79	137	117
Volume	416	285	616	205	401	499
Price ¹	460.6	494.7	328.8	386.7	342.4	233.7
Cotton						
Value	72	64	85	44	23	52
Volume	701	685	1 287	670	246	633
Price ¹	102.1	92.8	66.1	66.4	92.5	82.4
Sugar						
Value	13	-	20	35	49	25
Volume	53	-	60	89	116	65
Price ¹	11.4	-	15.2	17.9	19.4	17.5
Coffee						
Value	141	106	113	117	126	151
Volume	44	46	44	56	51	60
Price ¹	147.0	107.4	119.6	96.8	112.7	115.9
Copper						
Value	752	529	460	443	442	464
Volume	350	322	335	292	337	354
Price ⁷	97.4	74.7	62.3	68.8	59.4	59.5
Iron ore						
Value	95	93	108	75	58	73
Volume*	5.7	5.3	5.7	4.3	4.1	4.9
Price	16.5	17.7	19.1	17.5	14.1	15.0
Refined silver						
Value	312	312	205	391	227	139
Volume ¹	15.9	28.0	26.0	32.7	26.8	22.4
Price ⁷	19.6	11.1	7.9	11.9	8.5	6.2
Lead						
Value	383	219	216	293	233	200
Volume	154	146	177	191	180	171
Price	112.8	68.0	55.2	69.6	58.7	53.0
Zinc						
Value	210	272	268	307	341	269
Volume	438	499	491	522	512	461
Price ⁷	21.8	24.7	24.8	26.7	30.2	26.4
Petroleum and derivatives						
Value	792	692	719	544	618	646
Volume	22.4	19.9	22.7	20.5	23.5	27.0
Price	35.3	34.7	31.6	26.6	26.3	23.9

Source: Central Reserve Bank of Peru.

"Values in millions of dollars and volumes in thousands of tons, unless otherwise indicated; prices as indicated. Preliminary figures. 'Dollars per ton. 'Thousands of quintals. 'Dollars per quintal. U.S. cents per pound. 'Millions of long tons. Dollars per long ton. 'Millions of troy ounces. 'Dollars per troy ounce. Millions of barrels. Dollars per barrel.

ii) *Imports*. After having fallen by more than 20% both in 1983 and in 1984, imports declined in value by 13% in 1985. Thus, over the 3-year period 1983-1985, imports fell by almost one half, as a result of the process of external adjustment (see table 13). Most of the enormous effort represented in this result fell on the shoulders of the private sector, whose imports were equivalent to 47% of their 1982 level; while in the case of the public sector, this figure was 55%. During this period, the shrinkage in imports of consumer goods was particularly pronounced (-66%), while the decline in purchases of capital goods (-54%) was considerably greater than that affecting inputs (-37%) (see table 16).

The appointment of the new government brought about a reinforcement of policy designed to achieve greater use of installed capacity in local industry with a view to import substitution. Thus, as part of the set of measures announced in August, a prior permit was required for all imports, with the sole exceptions of those representing gifts, presents and personal property. In October a total of 216 products became subject to the import ban as they were considered to compete with national production, and the various departments of the public sector, including all those firms in which the State held a majority of the shares, either directly or indirectly, were given the obligation of purchasing national products whenever these were competitive in quality, availability and price.

Table 16
PERU: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1982	1983	1984	1985"	1980	1985"	1983	1984	1985°
Total	3 721	2 722	2 140	1 869	100.0	100.0	-26.8	-21.4	-12.7
Public sector	1 421	1 343	857	788	43.8	42.2	-5.5	-36.2	-8.1
Private sector	2 300	1 379	1 283	1 081	56.2	57.8	-40.0	-7.0	-15.7
Consumer goods	464	349	255	156	12.5	8.3	-24.8	-26.9	-38.8
Public sector	48	97	38	54	4.0	2.9	102.1	-60.8	42.1
Private sector	416	252	217	102	8.5	5.5	-39.4	-13.9	-53.0
Intermediate goods	1 321	1 026	949	837	37.9	44.8	-22.3	-7.5	-11.8
Public sector	395	442	324	296	13.6	15.8	11.9	-26.7	-8.6
Private sector	926	584	625	541	24.3	29.0	-36.9	7.0	-13.4
Capital goods	1411	900	771	645	35.2	34.5	-36.2	-14.3	-16.3
Public sector	518	457	400	261	13.8	14.0	-11.8	-12.5	-34.8
Private sector	893	443	371	384	21.4	20.5	-50.4	-16.3	3.5
Miscellaneous items and adjustment	525	447	165	231	14.4	12.4	-14.9	-63.1	40.0
Public sector	460	347	95	176	12.4	9.4	-24.6	-72.6	85.3
Private sector	65	100	70	55	2.0	2.9	53.8	-30.0	-21.4
Imports of the principal foods°	359	422	289	191	13.3	10.2	17.5	-31.5	-33.9
Wheat	155	152	141	104	4.6	5.6	-1.9	-7.2	-26.2
Maize and sorghum	56	61	18	32	2.1	1.7	8.9	-70.5	77.8
Dairy products	60	39	30	22	1.4	1.2	-35.0	-23.1	-26.7
Soya oil	28	46	34	19	0.7	1.0	64.3	-26.1	-44.1
Meats	43	21	21	14	0.4	0.7	-51.2	-	-33.3
Others"	17	103	45	-	4.0	-	505.9	-56.3	

Source: Central Reserve Bank of Peru.

"Preliminary figures. "Defence equipment, non-monetary gold and other imports.
applicable. °Rice and sugar.

' Included in consumer or intermediate goods, as

Table 17

PERU: EVOLUTION OF INTERNATIONAL RESERVES

(Millions of dollars at end of period)

Year and quarter	Intennational assets				Interna-tional liabil-ities	Net interna-tional reserves	Net international reserves as a percentage of imports of goods and services
	Gold"	SDR*	Assets foreign currency ^c	Total			
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							
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	36.4
1985							
I	332	46	1 709	2 087	1 104	983	
II	332	46	1 570	1 948	975	973	
III	332	49	1 667	2 048	1 020	1 028	
IV	451	51	1 970	2 472	1 062	1 410	52.9

Source: Central Reserve Bank of Peru.

"Gold held by banks, either in vault or in custody abroad, and the country's gold contribution to the International Monetary Fund (IMF). ^Special Drawing Rights.

^Demand 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. On average, the latter represented 1/7 of the amounts record in this column during 1982 and 1981. Mainly liabilities with the International Monetary Fund, short-term liabilities with foreign banks and balances with ALADI.

^Preliminary figures.

Simultaneously, however, imports of machinery and equipment for use in agriculture and fishing were liberalized, provided they did not compete with national production.

c) *Trade in services and factor payments*

As in the preceding two years, exports of real services declined (-3%), falling to a level of US\$650 million. Imports of services also fell (-11 %), thereby continuing the decline observed since 1981. Since imports fell by more than exports, the deficit relating to trade in real services dropped from US\$220 to US\$150 million.

Net payments for services fell (-16%) for the first time since 1980, amounting to slightly more than US\$ 1 billion. This behaviour was a response both to the new policy on interest payments on the external debt, adopted by the government in August, and to the reduced transfers of profits by mining and petroleum companies.

d) *The capital account and international reserves*

In 1985 the surplus in the balance-of-payments capital account again declined substantially, falling to only one quarter of its 1982 level. However, in contrast with the preceding two years, in 1985 a considerable shrinkage was recorded in long-term capital. This was to a large extent the result of a considerable outflow of private sector capital (US\$178 million).

Nevertheless, international reserves rose for the second consecutive year, as the reduction in the capital account surplus did not offset the improvement in the trade balance. Thus, reserves grew by somewhat more than US\$300 million and amounted to more than US\$1.4 billion at the end of the year. This was the highest figure recorded in recent years and represented six months of imports of goods and services (see table 17).

The growth of reserves throughout the year was not, however, even. After declining during the first six months, they experienced vigorous growth during the second half of the year. This up-turn was the result of the new economic policy approaches taken as from August. Specifically, servicing of the public debt was cut back even further; an effort was made to separate the financial system from the dollar, necessitating an enormous purchase of dollars by the Central Bank; transfers of profits abroad shrank considerably and the Central Bank accumulated gold and silver with the express purpose of increasing its reserves.

e) *The external debt*

The total external debt expanded by 3%, which may be entirely accounted for by the 8% increase in the external public debt. On the other hand, the remainder of the long-term debt shrank by 7%, and the short-term debt fell by 16% (see table 18).

As mentioned above, one of the first economic policy measures taken by the new government involved a unilateral restriction on debt servicing. The authorities declared emphatically that the country was not turning its back on its debt, but was intent on abandoning the strategy of continuing to shrink the national economy in order to generate funds to service the debt, while the other actors involved (governments of industrialized countries, creditor banks) continued to shirk the responsibility they bore for the emergence of the problem. In line with this attitude, payment of liabilities was to be temporarily restricted, and the funds thereby liberated would be used to reactivate the economy. Once the economy got underway, normal servicing of the liabilities incurred could be resumed.

At the beginning of the year, it was already clear that the country was incapable of servicing its external debt. The Treasury estimated that during 1985 it could acquire a maximum of US\$400 million from the Central Reserve Bank for this purpose; however, the interest payments due on the external public debt alone come to more than US\$700 million (see table 18).⁶

Consequently, the new government had barely taken office when it announced that during the next 12 months servicing of the external debt would not exceed 10% of the value of exports, at the same time declaring a further unilateral moratorium, of another six months, on the payment of the principal of the medium- and long-term debt with international commercial banks. Priorities to be observed in debt servicing were also defined. First of all, commitments to international organizations which lend on soft terms would be met (the World Bank, the Inter-American Development Bank); secondly, the debt owed to governments which ensure a positive flow of funds towards the country would be paid and finally, the debt owed to international banks would be attended to.

Subsequently, the government explained that the ceiling of 10% of the value of exports applied only to the medium- and long-term external public debt. It did not affect payment of the commitments of private firms and those of public enterprises which had not been guaranteed by the State, nor did it affect servicing of short-term liabilities, nor payment in kind on the debt owed to the Soviet Union and other countries.⁷

The accumulated arrears grew from US\$1330 000 000 at the end of 1984 to almost US\$2 600 000 000 at the end of 1985. Of this, US\$894 million corresponded to interest payments and the remainder to amortization.

At the end of 1985, unpaid interest owed to international banks was in excess of US\$340 million, 70% more than one year previously. The reason for this rapid increase is that it became evident that the payment of US\$51 million made in January had not induced banks to normalize their short-term commercial credit lines. Consequently, during the months which followed, the govern-

⁶ It should be noted that in table 18 the figures relating to debt servicing concern commitments in accordance with the original repayment schedules; i.e., they include unfulfilled servicing commitments.

⁷ At the end of March, an agreement was reached with the Soviet Union providing for the payment in kind of debts totalling US\$200 million, including US\$66 million in arrears from previous years.

Table 18

PERU: EVOLUTION OF EXTERNAL INDEBTEDNESS

(Millions of dollars at end of period)

	1980	1981	1982	1983	1984	1985 ^a
Total external debt	9 594	9 688	11 340	12 442	13 389	13 794
Medium-long-term	8 125	8 172	9 279	11 006	12 059	12 677
Public sector ^f	6 043	6 210	6 908	8 339	9 731	10 510
Central Reserve Bank	710	455	707	1 088	862	825
Private sector	1 372	1 507	1 664	1 579	1 466	1 342
Short-term	1 469	1 516	2 061	1 436	1 330	1 117
Public and private enterprises	902	920	1 635	1 050	946	782
Banking system	567	596	426	386	384	335
Central Reserve Bank	25	24	39	23	66	63
Banco de la Nación	450	457	178	255	212	135
Other banks	92	115	209	108	106	137
Medium-long-term external public debt ^f						
Debt, by financial sources						
Public agencies and government	1 847	1 344	1 194	1 321	1 508	1 772
Disbursements	257	149	138	321	369	208
Amortization payments ^g	201	199	167	194	181	129
International agencies	610	784	949	1 106	1 305	1 418
Disbursements	177	186	237	201	267	198
Amortization payments ^g	30	38	38	44	88	76
Socialist countries	985	930	925	1 076	1 070	1 025
Disbursements	191	156	180	365	244	241
Amortization payments ^g	122	144	179	214	230	375
Suppliers	1 065	1 545	1 771	2 347	2 793	3 102
Disbursements	307	314	650	934	1 005	207
Amortization payments ^g	220	236	324	358	533	461
International banks	1 536	1 607	2 069	2 489	3 055	3 193
Disbursements	648	895	838	755	1 178	5
Amortization payments ^g	630	694	340	335	615	288
Other debts ^h				22	368	1 249
Debt servicing ⁱ						
Total	2 459	2 651	2 352	2 618	3 236	2 759
Amortization payments	1 604	1 680	1 327	1 509	1 968	1 671
Interest payments	855	971	1 025	1 109	1 268	1 088
Public sector (medium- and long-term)	1 695	1 836	1 600	1 791	2 275	2 067
Amortization payments	1 203	1 311	1 048	1 145	1 441	1 329
Interest payments	492	525	552	646	834	738
Coefficients*						
ED/GDP	0.51	0.51	0.59	0.71	0.79	0.96
ED/X	2.07	2.41	2.78	3.34	3.51	4.08
i/X	0.29	0.37	0.38	0.47	0.60	0.54
Servicing of ED/X	0.54	0.66	0.57	0.70	0.92	0.81
Servicing EDP/X	0.37	0.46	0.39	0.48	0.65	0.61

Source: Central Reserve Bank of Peru.

^aPreliminary figures. Up to 1982, includes adjustment due to variation in the exchange rates of foreign currencies. ^cComprises central government and public enterprises. ^dWith or without the guarantee of the banking system. ^eThe Government records debt servicing in accordance with the original repayment schedules. Rescheduling, roll-over and unpaid debt appear as new loans. ^fAccumulated arrears in respect of servicing the external public debt. ^gED = total external debt; GDP = gross domestic product; EPD = external public debt; X = exports of goods and services; i = net interest.

ment limited itself to making *"bona fide"* payments", for which some US\$15 million per month were allocated, in order to keep the Peruvian debt from being classified as "value impaired" by the United States banking authorities. The latter confined themselves to declaring it substandard in the hope that a change of government would be imminent. However, the new government then suspended all interest payments to banks, as a result of which, in November, the United States Interagency Committee declared the Peruvian debt to be "value impaired". This classification affected a total of US\$1 050 000 000 and did not apply to loans for working capital or to commercial lines of credits which were being serviced normally.

As a result of the above, the flow of external funds channeled through short-term lines of credit fell for the third consecutive year. Commercial lines credit, in particular, declined enormously as a result of the reprisal taken by the international banks against the failure to service the medium- and long-term debt. In order to ward off greater problems for the country, in June the Central Reserve Bank of Perú transferred its currency deposits in United States banks to the Bank for International Settlements in Switzerland and in September advised private financial institutions to do the same.

4. Prices and remunerations

a) Prices

The variation in the general level of prices from December 1984 to December 1985 was 158%, the highest figure ever recorded in the country (see table 19 and figure 2). However, as a result of the priority which the new government gave to the struggle against inflation, the average monthly variation in prices, which had been 1.1% in the period January-August, fell to 3% during the final four months.

Table 19
PERU: EVOLUTION OF DOMESTIC PRICES"

	1979	1980	1981	1982	1983	1984	1985'
Variation December to December							
Consumer price index	66.7	60.8	72.7	72.9	125.1	111.5	158.3
Food'	75.1	38.1	68.2	72.1	135.8	102.0	153.7
Wholesale price index	60.9	53.0	66.1	64.2	136.5	115.6	179.5"
Imported products	49.0	41.7	48.2	63.5	83.6	140.6	180.6"
Agricultural commodities		56.7	42.3	47.7	300.3	105.7	
Manufactures		41.1	48.5	64.2	75.7	143.5	
Domestic products	66.4	57.7	72.7	64.5	153.2	109.9	175.0 ^a
Agricultural commodities	79.7	89.4	58.4	54.0	135.1	104.1	
Manufactures	60.4	41.5	82.2	70.8	163.6	112.7	
Variation between annual averages							
Consumer price index	67.7	59.2	75.4	64.5	111.1	110.2	163.4
Food'	74.2	58.8	76.4	52.9	125.7	106.3	149.7
Wholesale price index	70.4	53.1	68.1	56.3	113.1	120.1-	174.9'
Imported products	73.9	45.4	47.5	54.2	82.5	114.4	174.0'
Agricultural commodities	73.2	69.4	47.4	31.0	212.6	133.4	
Manufactures	72.0	44.6	47.6	55.2	77.8	113.2	
Domestic products	69.6	56.3	76.1	57.0	122.9	121.6	178.2'
Agricultural commodities	75.7	78.7	78.4	48.3	109.3	108.6	
Manufactures	66.7	45.3	74.6	62.2	130.7	128.5	

Source: National Institute of Statistics.

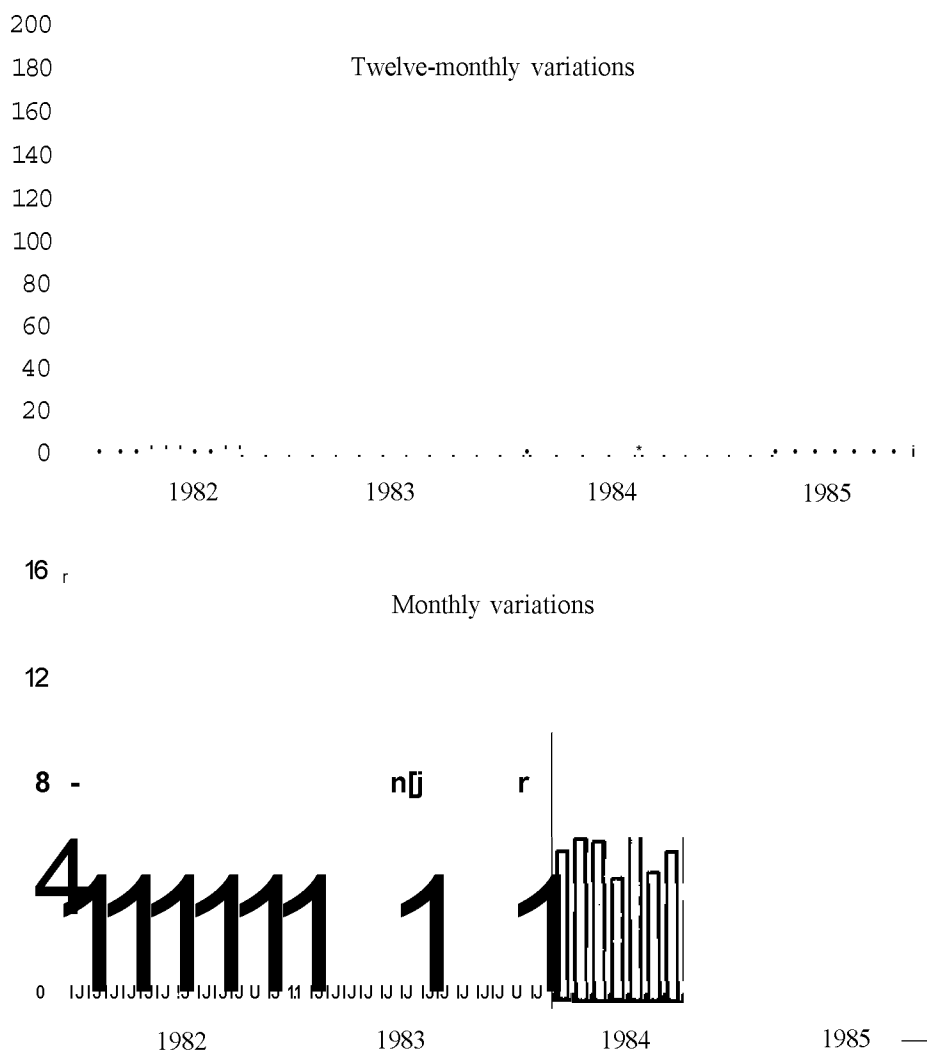
"Metropolitan Lima. Preliminary figures.

'Includes food, beverages and tobacco.

"November 1984-November 1985-

'Average variation between January-November 1985 and the same period the previous year.

Figure 2

PERU: CONSUMER PRICE INDEX*(Percentages)*

Source: ECLAC, on the basis of official data.

The new government's policy proved successful in controlling expectations of rising prices and the inertia factor in inflation were brought under control by the new government's policy. This was done by freezing interest rates and public service rates, which can determine expectations, after they had risen markedly. A price freeze was also declared on all goods, with a few exceptions, such as perishables, whose prices were subject to fortnightly readjustments. These measures were consolidated by a major effort to reduce the role of the dollar in the economy (which reinforced the anti-inflationary impact of the freeze on the exchange rate), the elimination of automatic wage readjustment clauses in collective agreements and the fall in the prices of some mass consumption goods.

b) *Wages*

The new government attached great importance to increasing real wages, both in order to raise the purchasing power of the people, which had undergone a persistent decline in recent years, and to stimulate an increase in domestic demand and, in that way help to reactivate national production.

In line with these aims, in August the minimum basic wage was increased by 50%, which brought it up to 540 intis; the wages of public workers were increased by 15% and those of teachers, by 22 %; as far as private-sector workers not covered by collective bargaining are concerned, they were granted a readjustment of 165 intis per month. Simultaneously, however, as part of the struggle against inflation, automatic readjustment clauses were eliminated from collective agreements.

In October further measures were taken in the same direction. Thus, a general 4% wage increase was granted, financed by the elimination of the tax to which wages were subject and of which the employer and the employee each paid a part. Similarly, all public servants—including members of the armed forces and police—and casual workers were granted a loan of 1 000 intis, to be paid in two equal quotas in October and November and reimbursed in 15 monthly quotas as from January 1986, with no interest or commission obligations. The prime objective of this measure was to expand purchasing power in order to provide support for the reactivation of national production; thus, with the payment of the traditional Christmas bonuses in December, public employees enjoyed higher income during the final quarter.

All of these measures were reflected in real increases in wages during the second half of the year. They did not, however, keep the net result for 1985 from being a further, and this time a major decline in the purchasing power of workers in both the private and the public sectors. The accumulated decline in real wages paid in the private sector over the 3-year period ending in 1985 was 42%, while in the case of the public sector, it reached 57% for the 5-year period 1981-1985 (see table 20).

Table 20

PERU: EVOLUTION OF REAL AVERAGE REMUNERATIONS

	1980	1981	1982	1983	1984	1985°
Remunerations (indexes 1979 = 100)						
Private sector						
Metropolitan Lima						
Salaries'	110.3	112.0	122.3	104.6	96.3	88.2
Wages'	112.4	110.4	112.8	94.0	79.6	67.1
Minimum wage	127.8	106.6	98.5	100.9	78.1	68.3
Collective bargaining'						
Salaries	93.0	87.1	84.6	65.6	54.7	
Wages	103.2	103.7	105.2	83.8	70.0	
Central government	136.4	127.5	111.3	82.7	72.3	58.3
Growth rates						
Private sector						
Metropolitan Lima						
Salaries	10.3	1.5	9.2	-14.4	-8.0	-8.4
Wages	12.4	-1.8	2.2	-16.7	-15.3	-15.7
Minimum wage	27.8	-16.6	-7.6	2.4	-22.6	-12.5
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 government	36.4	-10.2	-9.1	-25.7	-12.5	-19.4

Source: Ministry of Labour.

°Preliminary figures.

Survey of establishments with 10 workers or more.

' Intis per month.

Intis per day.

°Excluding unilateral increases by the employer.

Table 21

PERU: MONETARY INDICATORS

	End-of-year balances (millions of intis)				Real growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Monetary base ^c	924	1 819	3 504	22 093	-32.3	-12.5	-8.9	144.1
Money (M ₁)	1039	1992	4 541	15 220	-20.8	-14.8	7.8	29.8
Quasi-money	3 192	6 079	14 520	26 907	13.4	-15.4	12.9	-28.3
In foreign currency	1499	3 313	9 430	12 784	31.8	-1.8	34.6	-47.5
In national currency	1 693	2 766	5 090	11 400	0.9	-27.4	-13.0	-13.3
Money plus quasi-money (M ₂)	4 231	8 071	19 061	42 127	2.5	-15.2	11.7	-14.4
Total domestic credit	5 081	10 371	18 439	29 350	1.3	-9.3	-15.9	-38.4
To the public sector	1 364	3 172	2 529	-2 782	-19.0	3.3	-62.3	
In foreign currency	508	-89	-2 155	-3 311	4.9			
In national currency	856	3 261	4 684	529	-28.6	69.0	-32.0	-95.8
To the private sector	3 717	7 199	15 910	32 132	11.6	-14.0	4.5	-21.8
In foreign currency	1 167	2 539	6 044	12 171	48.1	-3.3	12.4	-21.9
In national currency	2 550	4 660	9 866	19 961	0.2	-18.9	0.1	-21.8
Coefficients								
Coefficient of dollarization	0.35	0.41	0.49	0.30				
Monetary multipliers:								
M ₁ /Monetary base	1.12	1.10	1.30	0.69				
M ₂ /Monetary base	4.58	4.44	5.44	1.91				
Circulation velocity: GDP/M ₁	17.22	16.39	16.01	12.56				

Source: Central Reserve Bank of Peru.

"Preliminary figures. Deflated by the consumer price index.

"Or "primary issue", in accordance with the terminology employed in Peru.

** Equivalent to the share of M₁ of quasi-money in foreign currency.

5. Monetary and fiscal policy

a) *Monetary policy*

During 1985 the evolution of money aggregates clearly reflected the turnaround in economic policy linked to the change of government. Although the monetary base expanded by 14% in real terms in 1985, between January and June it shrank by 22% and then expanded by more than 200% in the last six months (see table 21). As for the real increase of 30% in money (M₁) it was the result of a 33% shrinkage in the first semester and a 92% increase between July and December. For its part, quasi-money shrank over the year as a whole, although this was exclusively due to events during the first half of the year, since during the second half it remained stagnant. All this accounts for the fact that during the first three quarters, real liquidity shrank by 24% in real terms, before expanding by 12% between October and December.

Two main lines of action may be identified in the monetary area. These are, first of all the measures designed to wean the financial system away from the dollar and those taken along with them to keep them from having an inflationary impact, and secondly, measures concerning the rate of interest.

The objectives pursued by the government through the process of de-dollarization were to do away with speculative activities, which were clearly to the detriment of productive activities, and to reduce the capacity of the financial system to propagate the inflationary effects of variations in the exchange rate. The policy applied consisted in inverting the relative profitability of deposits in dollars and in intis, which in recent years had clearly been in favour of the former. For this purpose the exchange rate —whose variation constituted the most significant factor in the profitability of

deposits in foreign currency— was frozen; it was decreed that deposits in foreign currency could be withdrawn only in intis, at the official rate of exchange plus 3%, and the rate earned by these deposits was set below the LIBOR. These measures met with notable success. The share of liquidity in foreign currency within total liquidity, which had risen practically uninterruptedly, from 0.4% in 1976 to 57% in the first half of 1985, fell to 30% towards the end of that year.

A move of this magnitude to convert foreign currency into intis would have resulted in enormous inflationary pressure had it been taken in the absence of protective measures. While the monetary base did indeed expand tremendously, as indicated above, total liquidity shrank by 14% (see table 21). The measures taken consisted in rendering most of the new intis unproductive in that they were placed in the Central Bank as cash reserves of the banks. In order to achieve this end, a heavy increase in the legal marginal reserve ratio for deposits in national currency was decreed (from 50% to 75%), and an effective interest rate of 72% per year was set in respect of funds deposited with the Central Bank. Since the maximum rate at which banks could lend to their clients was 75%, naturally they preferred to maintain their funds in cash reserves. During the six-and-a-half-month period which ended on 15 July, the surplus of total cash reserves over required reserves was equivalent to less than 3% of the latter, whereas between 22 August and 15 October, it was 26% higher.

Thus, the policy of de-dollarization had a significant secondary impact upon the shortage of funds available in the commercial banks for credit. Because of this policy and also because of the sluggishness which the private sector's demand for funds continued to demonstrate, total credit was the only financial variable which shrank in both the first and the second half of the year (-28% and -14%, respectively). To deal with this, in October, when interest rates were reduced for the third time, an even greater reduction was declared in respect of the rate paid by the Central Bank on cash deposits. Thus, in the last two months of the year the surplus of cash reserves over required reserves fell to only 6% of the latter. As for the interest rate, in keeping with the anti-inflationary orientation of economic policy, it was reduced substantially (see table 22). The effective rate on deposits, which

Table 22

PERU: EVOLUTION OF INTEREST RATES"

	1980	1981	1982	1983	1984	1985			
						I	II	III	IV
Nominal rates									
Loans									
Rate	32.5	48.3	47.5	51.7	60.0	67.8	72.0	88.9	45.0
Commission ^c	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.7	-
Tax	17.0	11.3	-	-	5.5	8.0	8.0	2.7	-
Deposits ¹	33.0	51.4	55.0	56.7	60.5	69.9	72.0	95.4	50.0
Effective rates									
Loans									
For banks	43.5	71.2	69.6	78.0	96.8	110.2	126.7	173.3	61.2
For users*	73.6	86.7	69.6	78.0	105.0	137.5	150.3	185.6	61.2
Deposits	37.3	62.2	67.4	69.9	75.4	90.5	93.9	135.3	60.2
Real effective rates									
Loans									
For banks	-10.8	-0.8	-1.9	-20.9	-7.0	-43.9	-49.1	-1.4	14.4
For users	7.9	8.1	-1.9	-20.9	-3.1	-38.5	-44.2	1.8	14.4
Deposits	-14.6	-6.1	-3.2	-24.5	-17.1	-49.1	-55.4	-15.1	13.7

Source: Central Reserve Bank of Peru.

^aFor operations in national currency.

Corresponds to the weighted average, for the period, of the discount on a 90-day promissory note.

Minimum weighted commission for the period.

Weighted tax for the period.

^cCorresponds to the weighted average for the period

of the maximum rate on deposits.

Loan rate plus commission.

^dLoan rate plus commission and tax.

Corresponds to a

quarterly capitalization of the nominal rate

Table 23

**PERU: DEFICIT AND FINANCING OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR**

	Millions of intis				Percentage breakdown			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Economic deficit	•1 315	-3 187	-4 384	•6 010	100.0	100.0	100.0	100.0
Central government	-557	-2 343	-2 917	-3 999	42.4	73.5	66.5	66.5
Public enterprises	-723	-724	-1424	-2 375	55.0	22.7	32.5	39.5
Rest of public sector	-35	-120	-43	364	2.6	3.8	1.0	-6.0
Net financing	1315	3 187	4 384	6 010	100.0	100.0	100.0	100.0
Medium- and long-term external financing	671	2 313	3 707	7 777	51.0	72.6	84.6	129.4
Short-term external financing	362	-505	-400	-392	27.5	-15.9	-9.2	-6.5
Domestic financing	282	1 379	1 077	-1 375	21.5	43.3	24.6	-22.9
Financial system	44	2 538	1 300	-4 289				
Deposits frozen in the Central Reserve Bank	14	-1 492	-833	1 696				
Bonds'	-27	163	182	787				
Other and discrepancies	251	170	428	431				
Deficit/GDP coefficient'								
Total deficit	-9.2	-12.1	-7.4	-3.8				
Central government	-3.9	-8.9	-4.9	-2.5				
Public enterprises	-5.1	-2.7	-2.4	-1.5				
Rest of public sector	-0.3	-0.5	-0.1	0.2				

Source: Central Reserve Bank of Peru.

"Preliminary figures.

'Bonds placed with the rest of the financial system and with the private sector.

'Percentages.

was about 280% towards the end of July (including taxes and commission) fell to 110% at the beginning of August, 75% at the end of that month and 45% at the beginning of October. The measure responsible for this reduction also provided for the suppression of the 8% tax on credit operations and the prohibition on the charging of any type of commission by banks. As a result, the margin earned by banks on their financial operations fell from around 110 points in July, first to 40 points, then to 21 points and finally to between 12 and 14 points.

b) Fiscal policy

As a result of shrinking by more than one eighth in real terms, the public-sector deficit measured as a percentage of the gross domestic product fell to its lowest level since 1979 (3.8%). The deficit declined considerably both at the level of the central government and at that of public enterprises, while the remainder of the public sector earned a surplus. The public deficit was more than covered by medium- and long-term external funds; a substantial part of which consisted in unpaid interest on the external public debt (see table 23).

The improvement in the situation was the result of both a higher real level of income and a reduction of expenditure. In the case of the central government, its income increased by 11% in real terms; in particular, tax revenue expanded by almost one fifth, thereby raising the tax burden from 13.5% to 15.6% of the product in 1985. This result was primarily attributable to the increase in the tax on fuels, which represented one third of total tax revenue (see table 24). State enterprises also recorded a higher level of income as a result of rises in the rates of public services.

Table 24

PERU: CENTRAL GOVERNMENT OPERATIONS

	Millions of intis			Real growth rates		Percentage of GDP	
	1984	1985		1984	1985°	1984	1985°
	Actual	Budgeted	Actual"				
A. Total income	9 646	20 589	28 165	22.5	11.1	16.4	17.9
1. Current income	9 554	20 589	27 893	21.3	10.9	16.2	17.7
a) Tax revenue	7 957	18 767	24 618	12.4	17.5	13.5	15.6
Income tax	1 422	3 030	3 410	4.0	-8.8	2.4	2.2
Property tax	281	486	665	-1.2	-10.0	0.5	0.4
Tax on external trade	1 860	4 194	6 241	8.7	27.4	3.2	4.0
Taxes on production and consumption	4 518	11 736	15 330	10.9	28.8	7.7	9.7
(Fuels)	(1 780)	(6 458)	(8 088)	25.0	72.5	3.0	5.1
Other tax revenue	536	571	1 091	115.4	-22.7	0.9	0.6
Credit documents	-660	-1 250	-2 119	9.5	22.1	-1.2	-1.3
b) Non-tax revenue	1 597	1 822	3 275	100.0	-22.0	2.7	2.1
2. Capital income	92	-	272	1 350	12.4	0.2	0.2
B. Total expenditure	12 563	24 901	32 164	-2.0	-2.7	21.3	20.4
1. Current expenditure	10 203	20 816	27 064	-4.4	0.9	17.3	17.2
Remunerations	2 907	4 741	7 412	1.8	-3.0	4.9	4.7
Goods and services	569	974	1 726	12.1	15.3	1.0	1.1
Transfers	1 714	2 089	3 475	14.0	-22.9	2.9	2.2
Interest	2 957	7 034	8 140	-0.5	4.7	5.0	5.2
Domestic debt	724	507	2 255	-30.2	18.4	12	14
External debt	2 233	6 527	5 885	15.4	0.2	3.8	3.8
Defence	2 056	5 258	6 311	-27.4	16.7	3.5	4.0
2. Capital expenditure	2 360	4 085	5 100	10.0	-17.8	4.0	3.2
Gross capital formation	2 075	3 795	4 540	9.3	-16.8	3.5	2.9
Transfers	279	227	530	25.0	-28.8	0.5	0.3
Other	6	63	30	-75.8	87.5	-	-
Savings on current account (A.I. - B.I.)	-649	-227	829	-76.6	148.3	-1.1	0.5
Economic deficit (A-B)	-2 917	-4 312	-3 999	-40.9	-47.9	-4.9	-2.5

Source: Central Reserve Bank of Peru.

°Preliminary figures.

"Mainly tax reimbursements for non-traditional exports, tax capitalization and tax payment promissory notes.

°Mainly property income, fines and deductions from pensions.

The shrinkage of public expenditure was essentially due to a cutback in investment. Central government investment fell by 18% and represented only 3.2 % of the gross domestic product. This cutback was complemented by austerity measures decreed by the new government in the field of current expenditure; these included a freeze on public-sector hiring and a reduction in expenditure on Peruvian representation abroad. Nevertheless, current expenditure recorded a marginal increase, after having shrunk during the preceding two years.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

The economy of the Dominican Republic declined by 2 % in 1985 after having stagnated the previous year. This meant a drop of over 4% in the per capita product, which had already fallen by 2% in 1984 (see table 1 and figure 1).

Among the factors contributing to this adverse evolution of the economy were the decline in the prices of the main export products, the more rigorous application of the adjustment programme agreed with the International Monetary Fund (IMF), a devastating drought, which affected production both for the domestic market and for export and the uncertainty typical of an election year. The recovery of public investment failed to reverse the combined effect of these unfavourable factors.

The contraction in export prices was reflected in a further deterioration of the terms of trade. Thus, during the four-year period 1982-1985, the purchasing power of exports has fallen by an average of 11%, while the actual volume of exports has gone down by less than 2%.

The further decline in the terms of trade and the increase in net external factor payments were only partially offset by the increase in net private transfers from abroad. This meant that the gross national income went down by 4.5 %, i.e., twice as much as the gross domestic product. The transfer of income abroad thus soared from US\$70 million in 1984 to US\$103 million in 1985.

As a result of the sharp reduction in the inflow of direct investments (-60%), the amount of long- and short- term capital entering the country fell by 4%. However, this situation was alleviated by a significant increase (90%) in United States grants to the country in support of the adjustment and stabilization agreement signed with the IMF. The inflow of capital from abroad thus increased by 12%, making it possible to cover the current account deficit and increase the international reserves by US\$13 million. Furthermore, the external debt owed to the Paris Club and to commercial banks was renegotiated on favourable terms. Pressure on the balance of payments was thus lightened, since the original amount of debt service would have committed more than 100% of the income obtained in 1985 from the exports of goods and services.

In addition to the restrictions deriving from the external sector, there were others caused by the IMF adjustment programme. Early in 1983, the government had signed an expanded agreement with the Fund for 371 million SDR and had undertaken to adopt an economic adjustment programme during the period 1983-1985. This entailed making substantial changes in public sector and external debt financing and readjusting the exchange rate, interest rates and the prices of a number of government-subsidized products. During the first year, the terms of the programme were only partially fulfilled, so that in the second year it had to be applied even more rigorously. In 1985, the government decided to cancel the expanded agreement and to implement a programme within the framework of an agreement giving the right to draw 78.5 million SDR over a period of one year. This agreement was a prerequisite for renegotiation of the debt. By so doing, the country ensured that it would be able to obtain credits and take advantage of the Caribbean Basin Initiative.

The adjustment programme for 1985 provided for the adoption of restrictive monetary and fiscal measures, a unified exchange rate, higher interest rates, and an increase in electricity rates and in the prices of energy and the basic foods controlled by the National Price Stabilization Institute (INESPRE), whose scope of action was also to be limited.

At the end of January, the exchange markets were unified and price of foreign exchange was left to the free play of supply and demand. During the first three months of the year, the exchange rate increased by 8%, rising from 3.09 pesos per dollar in December 1984 to 3.34 pesos in March 1985. In April, however, it began to decline and during the second half of the year it stabilized at around 3 pesos per dollar. The average devaluation was thus 10%.

In order for the government to draw off some of the profits which the devaluation process brought to exporters, a surtax of 36% was imposed on traditional exports and 5 % on non-traditional exports. The funds thus obtained, which at year end stood at 548 million pesos, were allocated to cover the deficit of the Dominican Electricity Corporation (CDE) and the Central Bank's foreign exchange losses and to pay the external public debt.

In order to contain demand, global credit was severely restricted. Thus, credit to the public sector contracted by 1 % while credit to the private sector increased at a rate (around 25 %) which was substantially lower than the increase in the product at current prices (34%).

Finally, in order to encourage domestic saving and to exercise greater control over the increased liquidity, the interest rates on financial certificates were increased and their denominations reduced.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^c
Indexes (1980= 100)							
Basic economic indicators							
Gross domestic product at market prices	94.6	100.0	104.0	105.4	110.0	110.5	108.1
Gross national income	93.7	100.0	103.4	100.0	104.8	105.6	100.8
Population (millions of inhabitants)	5.43	5.56	5.69	5.83	5.96	6.10	6.24
Per capita gross domestic product	96.9	100.0	101.5	100.4	102.3	100.4	96.0
Growth rates							
Short-term economic indicators							
Gross domestic product	4.5	5.7	4.0	1.4	4.4	0.5	-2.2
Per capita gross domestic product	2.0	3.2	1.5	-1.0	1.9	-1.9	-4.4
Gross national income	2.8	6.8	3.4	-3.3	4.8	0.8	-4.5
Unemployment rate							
Consumer prices							
December-to-december	25.6	4.6	7.3	7.2	7.7	38.1	28.4
Variation between annual averages	9.2	16.8	7.6	7.6	7.0	24.4	37.5
Real wages and salaries		-4.8	-7.0	-7.1	-6.5	1.5	-2.2
Money	30.7	-3.1	13.3	10.9	6.7	48.5	16.8
Current income of government	16.5	28.9	4.5	-18.0	21.6	30.7	39.3
Total expenditure of government	48.7	7.5	1.4	-1.4	15.5	9.3	48.7
Fiscal deficit/total expenditure of government	32.9	17.5	15.0	24.7	20.7	5.1	11.2
Fiscal deficit/gross domestic product	5.6	2.8	2.2	3.1	2.8	0.6	1.4
Current value of exports of goods and services	37.1	12.0	19.0	-24.5	8.8	10.2	-3.7
Current value of imports of goods and services	28.6	29.3	-5.2	-15.6	3.0	-1.6	2.2
Terms of trade (goods and services)	-5.6	5.9	2.7	-25.4	5.7	-1.3	-9.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-349	-647	-306	-393	-339	-187	-273
Net payments of profits and interest	188	210	293	254	297	241	286
Balance on current account	-360	-674	-416	-457	-441	-223	-317
Balance on capital account	358	708	454	311	303	321	342
Variation in net international reserves	8	44	54	-160	-150	84	13
Total external debt ^c	633	2 059	2 286	3 076	3 237	3 447	3 701

^aPreliminary figures.

Percentages.

^cDisbursed external public and private debt.

The measures included in the programme only partially fulfilled its targets. The containment of credit did achieve the objective of financing the fiscal deficit exclusively from external resources. However, the impact it had on demand was not reflected in prices, which on the contrary experienced vigorous growth (37%), influenced by the substantial increases in some of the goods and services produced by public enterprises and the increase in the exchange rate. The impact was not felt on imports either, since the evolution of the latter was due to the slump in economic activity.

In the fiscal sphere, tax revenue increased by 43%, but as public expenditure increased by nearly 50% the central government deficit more than trebled, although in terms of the product it continued to be quite moderate (1.4%). The imbalance was more serious, however, if the whole public sector is considered. In this case, further losses by the Dominican Electricity Corporation and the State Sugar Council (CEA) widened the imbalance by nearly 50%, raising it from 4.1% to 4.6% as a proportion of the product.

Furthermore, although in respect of domestic financing the stated goals were more than satisfactorily met, the sharp and indiscriminate reduction in the credit flow adversely affected the entire economy, regardless of the economic or social importance of the activities and programmes involved.

Even though as from July the minimum wage was increased from 175 to 250 pesos, the price hike completely wiped out this adjustment and real wages fell by 2%, so that they stood at barely 80% of the 1980 level. This affected family consumption and accentuated the unequal income distribution.

The election campaign in 1985 also affected the country's economy. The conflicts between political groups as well as inside the official party were reflected in the decisions taken by Congress. At the beginning of the year, the Senate turned down a series of tax measures, with the result that in order to finance the budget, the government had to raise electricity rates and energy prices above the planned level, thereby forcing prices up. Furthermore, approval of the external credits that had already been negotiated was delayed.

With the backing of external lenders and the Caribbean Basin Initiative, emphasis continued to be placed on the policy of promoting non-traditional exports and the subcontracting industry as the fundamental elements of development. In contrast, scant attention was paid to traditional exports and to manufacturing for the domestic market.

To sum up, in 1985 the recessionary effects caused by the external sector and the adjustment programme had a negative impact on almost all the major economic variables. This was further compounded by the effects of the running-down of the growth model, the main reflection of which was the lower efficiency of investment, especially in industry. The economic recession was accompanied by a resurgence of inflation —although this slackened somewhat during the second half of the year— and a continued decline in real wages. Social tensions, however, did not explode with the serious consequences of the year before, as the population's attention was focused on the electoral process.

2. Trends in economic activity

a) *Total supply and demand*

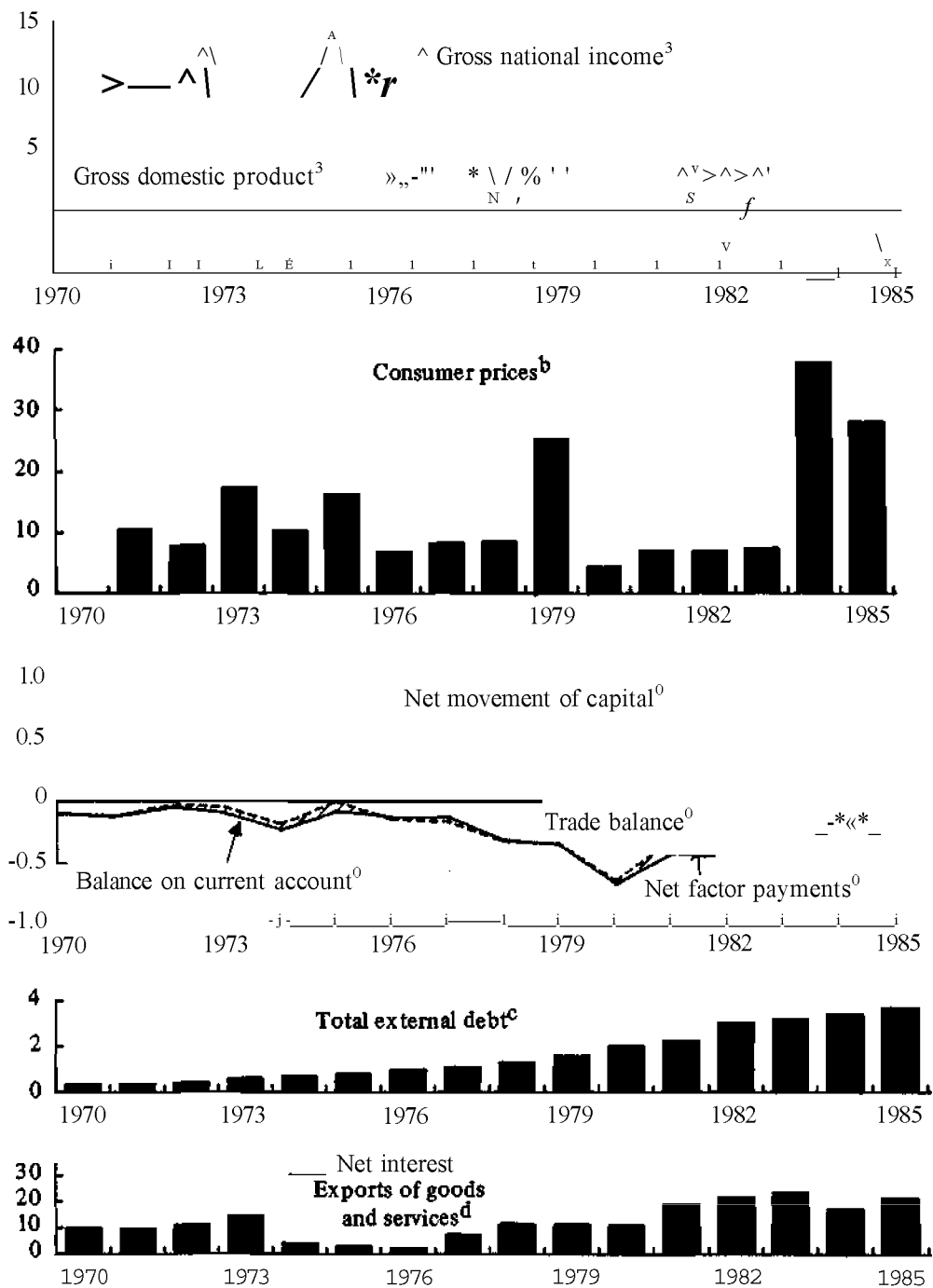
Total supply, which had stagnated the year before, fell by 1.5%. This trend was due to the 2.2% decline in output, since imports of goods and services showed a slight recovery (1.6%) after having declined by 3% the previous year (see table 2).

On the demand side, the variables were negative except for the volume of exports of goods and services, which increased by 6%, and public investment, which also expanded.

Further reinforcing the trend of the previous year, gross fixed investment declined by 2% and would have fallen even more, had it not been for the recovery of public sector investment (39%), since private sector investment fell by 9%. The significant upturn in public investment did not, however, compensate for its considerable decreases in previous years, which were reflected in the considerable drop in public investment, as a percentage of the product, from 8.7% in 1975 to 5.2% in 1980 and 3.4% in 1985.

Capital accumulation in machinery and equipment rose by more than 24%, after four years of steady deterioration. For its part, investment in construction, which had already shown a dwindling growth rate, declined by 10%.

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bJanuary-December percentage variation.

^cBillions of dollars.

^dPercentages.

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985"
Total supply	102.3	102.7	101.1	128.9	120.6	-2.5	4.3	-0.1	-1.5
Gross domestic product at market prices	110.0	110.5	108.1	100.0	100.0	1.4	4.4	0.5	-2.2
Imports of goods and services	78.0	75.8	77.0	28.9	20.6	-17.7	4.2	-2.8	1.6
Total demand	102.8	102.7	101.1	128.9	120.6	-2.5	4.3	-0.1	-1.5
Domestic demand	100.8	98.7	95.5	109.8	97.0	-2.7	4.4	-2.1	3.2
Gross domestic investment	84.7	85.4	80.5	24.9	18.5	-7.2	2.4	0.9	-5.7
Gross fixed investment	85.5	84.9	83.0	23.6	18.1	-11.2	5.3	-0.7	-2.2
Construction	102.6	105.2	94.3	14.6	12.8	-4.8	9.6	2.5	-10.4
Machinery and equipment	57.7	51.9	64.6	9.0	5.4	-24.0	-5.3	-10.0	24.5
Public	85.1	50.4	70.2	5.2	3.4	-19.0	17.2	-40.8	39.2
Private	85.6	94.7	86.7	18.4	14.8	-9.0	2.4	10.6	-8.5
Changes in stocks	68.1	95.0	32.7	12	0.4				
Total consumption	105.5	102.5	99.9	84.9	78.4	-1.6	4.9	-2.9	-2.6
General government	136.6	130.3	134.1	7.6	9.4	6.0	2.7	-4.6	2.9
Private	102.5	99.8	96.5	77.3	69.0	-2.5	5.1	-2.6	-3.3
Exports of goods and services	114.2	125.9	133.3	19.2	23.6	-1.3	4.2	10.3	5.9

Source: ECLAC, on the basis of official figures.

Note: The figures for exports and imports of goods and services were taken from IMF balance-of-payments data at current dollars prices, converted to constant 1980 values by means of unit value indexes calculated by ECLAC for this purpose.

"Preliminary figures.

The contraction in economic activity, the decline in real wages and the increase in unemployment levels accentuated the drop in private consumption, which went down by 3%, representing a fall of 6% in per capita terms.

Government consumption expanded by 3% because of the increase in personnel employed and in materials and supplies consumed. Public expenditure thus came to represent around 10% of the product.

b) *Evolution of the main sectors of production*

The contraction of the economy was the result of a decline that affected virtually all branches of activity. The production of goods declined by nearly 5%, as a consequence of the 11% cutback in construction, of less sharp reductions in agriculture and manufacturing (-3% and -4%), and of the stagnation of mining activity (see table 3).

Basic services fell by almost 2%. This was due to the reductions in transport, storage and communications, since electricity, gas and water services expanded by 5%, primarily because of the restructuring of electrical energy tariffs.

The product of the rest of the services sector remained stagnant. Commerce, which is the activity of greatest importance, contracted by 4% on account of the drop in private consumption, while government services and real estate showed feeble growth (1%). One exception was financial activity, which increased by 3% when it capitalized on some of the distorting effects of the crisis.

i) *The agricultural sector.* After having stagnated in 1984, agricultural production fell by 3%. This was due to a drop in agricultural output for export (-8%) and in livestock output (-3%) and also to the stagnation of production for domestic consumption, which in previous years had spurred growth (see table 4).

Prominent among the factors which adversely affected the sector's performance were those connected with the economic adjustment process (cost increases, contraction in demand and insufficient credit); the unfavourable external market situation for several of the chief export products, and adverse climatic conditions.

Production for the external market was severely affected by the decline in the sugar crop for the third consecutive year (-20%). The persistent slide of international sugar prices, compounded by the sharp increase in production costs, made sugar production increasingly untenable. In the face of this situation, sugar continued to be replaced by short-cycle crops (maize, yucca, sweet potato, taro) and fruits.² In 1985, some 12 500 hectares owned by the State Sugar Council (CEA) were converted from sugar production in this way.

Coffee and cocoa production continued to stagnate: these crops were damaged by a drought which affected their blossoming and by the delay in carrying out replacement and rehabilitation work on the plantations, because of lack of credit. Consequently, there was a drop of between 10% and 25 % in productivity per hectare.

Tobacco was the only crop where output increased (12 %). The area under cultivation expanded by 27%, prompted by the higher prices on the external markets at sowing time. However, the credit squeeze, the persistent rise in costs and the decline in prices from mid-year diminished the final return.

Table 3

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES

	Indexes (1980 == 100)			Percentage breakdown		Growth rates			
	1983	1984	1985"	1980	1985"	1982	1983	1984	1985°
Gross domestic product	110.0	110.5	108.1	100.0	100.0	1.4	4.4	0.5	-2.2
Goods	109.0	109.2	104.5	48.0	46.4	-1.0	5.8	0.2	-4.4
Agriculture	113.6	113.4	109.6	20.2	20.4	4.6	3.0	-0.2	-3.3
Mining	100.0	108.4	108.3	5.3	5.3	-30.8	32.8	8.4	-0.1
Manufacturing	107.7	104.5	100.2	15.3	14.2	3.6	12	-3.0	-4.1
Construction	105.4	108.4	96.2	7.2	6.4	-4.0	10.3	2.9	-11.2
Basic services	111.8	111.8	109.7	5.9	6.0	4.7	1.2	-0.1	-1.8
Electricity, gas and water	102.7	115.5	121.2	0.5	0.5	-9.4	3.9	12.5	4.9
Transport, storage and communications	112.6	111.5	108.8	5.5	5.5	5.9	1.0	-1.0	-2.4
Other services	110.8	111.6	111.7	46.1	47.6	3.4	3.3	0.8	0.1
Commerce, restaurants and hotels	110.4	108.6	104.7	15.8	15.3	5.1	0.5	-1.6	-3.6
Financial establishments, insurance, real estate and business services	106.9	109.5	112.5	12.0	12.5	0.7	4.6	2.4	2.8
Ownership of dwellings	104.4	106.0	107.1	8.4	8.3	-0.9	5.0	15	1.0
Community, social and personal services	113.7	115.7	117.2	18.3	19.8	3.7	5.0	1.7	1.3
Government services	114.3	118.1	119.6	8.3	9.2	3.9	2.8	3.3	1.2

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes the livestock, forestry and fisheries sectors.

¹ Credit from the Banco Agrícola increased by only 69% and loans from the commercial banks to the agricultural sector by 23%?, which in real values meant reductions of 23%? and 119%, respectively.

² Private investors set up the firm Frutas Dominicanas, while United Brands of New York, which has promoted pineapple growing, will shortly begin to export juices and concentrates. United Brands is also involved in promoting melon growing. Some Israeli firms are investing in watermelon and cotton production.

Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1981	1982	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of agricultural production (1970 = 100)	152.6	160.0	165.9	164.4	158.5	4.8	3.8	-0.9	-3.6
Crop farming	139.6	144.9	149.0	146.9	141.2	3.8	2.8	-1.4	-3.9
For export	130.8	132.7	131.8	123.4	113.0	1.5	-0.7	-6.4	-8.4
For domestic consumption	154.6	165.5	178.1	186.6	185.9	7.1	7.6	4.8	-0.4
Stock-raising	174.5	185.4	194.3	193.7	187.7	6.2	4.8	0.3	-3.1
Production of main crops									
For export									
Sugar cane	10 275	11 805	11 520	10 271	8 218	14.9	-2.4	-10.9	-20.0
Cocoa	32	35	33	35	35	9.8	-5.8	6.2	-0.1
Coffee	110	127	136	144	144	15.8	7.2	5.9	-0.2
Tobacco	56	34	34	28	31	-38.8	-	-17.8	12.5
For domestic consumption									
Rice	400	447	501	507	494	11.6	12.2	1.1	-2.5
Beans	52	59	61	67	48	12.0	3.4	9.7	-28.6
Maize	63	46	55	84	115	-26.5	19.6	50.0	37.2
Plantains'	1 256	1 213	1 101	1 124	1 180	-3.4	-9.2	2.1	5.0
Taro	50	56	49	51	54	11.2	-12.5	4.1	6.8
Yuca	126	109	112	124	135	-13.0	2.8	10.7	9.4
Indicators of stock-raising production									
Slaughtering									
Beef	55	60	63	66	74	8.5	5.0	4.8	12.3
Pork	1	2	2	7	7	145.1	-	236.4	-1.3
Poultry	73	78	83	84	81	7.9	6.4	12	-3.6
Milk production	444	452	463	414	368	1.9	2.3	-9.7	-12.0

Source: ECLAC, on the basis of figures from the Central Bank of the Dominican Republic.

°Preliminary figures. 'Thousands of tons, °Thousands of hands. °Thousands of litres.

The poorer harvests of beans (-29%) and rice (-3%) were decisive factors in the stagnation of production for domestic consumption, since the remaining products in general performed satisfactorily.

Rice production—which represents over 40% of the production for domestic consumption—was hurt by the shortage of liquidity in the National Prices Institute (INESPRE), which forced cuts in the financing given to farmers and resulted in a reduction of the area under cultivation.³ To make matters worse, the drought which damaged approximately two-thirds of the crops planted in the spring caused a contraction of between 5% and 31% in productivity. The drop in national rice production for the second year in a row made it necessary once again to resort to imports to satisfy domestic consumption needs, whereas in 1983 the country had attained the goal of self-sufficiency.

* INESPRE has been experiencing financial problems, for some time, and these got worse with the application of the adjustment programme. This government agency was set up in 1969 to regulate the prices of agricultural products and to protect the consumption of low-income groups. To that end, it sets prices at the different stages of the marketing process and buys and sells products on the national and international markets. In the case of rice, it controls virtually all of the supply.

Thanks to a relative equilibrium between buying and selling prices, INESPRE succeeded in showing a surplus up to 1979. Since then, however, it has begun to show a growing deficit, because with the contraction in real wages it was necessary to subsidize an increasingly high percentage of the price of goods in order to safeguard the consumption of the urban population. The imbalance in question was due to an inadequate readjustment of producer prices and the lack of financial resources, which caused delays in payments to rice processors, who, finding themselves without these resources, reduced in turn the supply of credit to the small and medium-sized producers from whom they bought their harvests. This situation, combined with higher costs, has led to a reduction in the area under cultivation in the last two years.

The bean crops, located largely in non-irrigated areas, were the most severely hurt by the drought. Production decreased by 29%, after expanding over the last three years at an average annual rate of close to 9%.

The increases in the maize (37%) and peanut (23%) harvests were worthy of note. Maize was given preferential support by both the public and private sectors, as part of the efforts to reduce imports, since maize is a basic input in poultry and livestock rearing. For their part, peanuts were given the incentive of better support prices because of their importance as a raw material for the edible oil industry, which is mainly supplied from external markets.

The other crops produced for domestic consumption evolved favourably, either because they were less severely affected by the drought or because they were grown in irrigated areas.⁴

Livestock production fell by 3%, after having stagnated in 1984. The rise in the prices of imported inputs, whose weight in the production process is considerable, pushed costs up,⁵ while at the same time demand contracted. Furthermore, as in the case of crop farming, credit resources were inadequate. On the other hand, favourable developments were the greater supply of animal feed, thanks to the increase in national maize and sorghum output, and the greater use made of the molasses derived from sugar manufacture in livestock feeding.

Cattle slaughtering grew by 12% —a threefold increase over the previous year's rate— encouraged by the reopening of the United States market, which pays much higher prices than local markets.

Pork production slipped by 1%, after its spectacular climb the year before (236%). The big increases experienced in this item in previous years were the result of the replacement programme started in 1981 to alleviate the impact of the outbreak of swine fever early in the seventies, which almost wiped out the herds. In 1985, however, progress in the programme was impeded by rising costs and the contraction in credit availability.

Poultry, egg and milk production were hurt not only by the shortages mentioned above, but also by a drop in demand. All of this conspired to produce a shutdown of some farms and a drop in production, since no resources were available to replace low-yield animals.

In the milk industry, there was a trend among farmers, to convert to the processing of dairy products and to the production of meat, which, as already noted, can be sold in the United States.

ii) *Mining.* Mining production stagnated after having grown by 33% in 1983 and 8% in 1984. Production in this branch of activity which is geared to external markets, is unstable and shows a downward tendency: bauxite production ceased three years ago when the United States company that exploited the deposits departed; the reserves of the gold and silver mine are being exhausted and it is forecast that by the end of the decade they can no longer be mined; ferronickel, the only product which has contributed to growth in the sector, is subject to the violent ups and downs of the international market price quotations (see table 5).

In 1985, gold production decreased by 3%, while silver production rose by 31%. This type of performance is typical of declining mines, where silver tends to account for an increasing proportion of the metal extracted. The State enterprise that owns the mines had originally planned for lower production, having regard to the drop in international prices; however, the target was raised because the government needed more resources to finance a salary increase for public employees. With the aim of extending the useful life of the mine for another 25 years, a feasibility study was carried out to determine whether it was profitable to process the gold and silver residues, using the oxidation system. Such a system, moreover, requires not only considerable investment but also the appropriate metallurgical technology.

There was an upturn of 5% in the production of ferronickel, thus continuing the recovery initiated following the nine-month interruption of extraction in 1982 because of the accumulated losses due to the drop in prices on the international market. Production was boosted by the higher international quotations at the beginning of the year. Prices began to fall again, however, during the second half of the year, occasioning further losses. The foreign company, which holds the mining

⁴ A wide range of these products is being sold in foreign markets, and although the volume is still not large they have been gaining in importance in total exports.

⁵ The following increases in production costs were recorded: pork, 33.49? per kilo, chicken, 60.37? per pound; milk, 51.19? per half litre, and eggs, 60.9? each.

Table 5

DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
Index of mining production (1970 = 100)	536.3	548.1	548.9	594.0	593.5	-30.8	32.8	8.2	-0.1
Production of the main minerals									
Bauxite*	772	510	-	-	-	-62.4	-	-	-
Ferronictel ^c	71	43	52	64	67	-71.2	263.7	22.4	4.5
Gold"	180	370	354	338	328	-5.3	-8.4	-4.4	-3.0
Silver	89	1 623	1 329	1 207	1 581	8.1	-39.5	-9.2	31.3

Source: ECLAC, on the basis of figures from the Central Bank of the Dominican Republic.

*Preliminary figures.

"Based 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.

Thousands of troy ounces.

concession, which had hoped to reap profits after six years of losses, therefore suffered a deficit of nine million pesos.

The company which had the bauxite mining concession returned this to the Dominican Republic two years ago but continued to exploit the limestone deposits until March 1985. On 31 August it terminated its operations in the country and transferred its plant and equipment to the government. The government signed a contract with another company, financed with United States capital, which will be responsible for exploiting and selling bauxite as from 1986.

iii) *Manufacturing*. Industrial production again declined, this time by 3.5%, similar to the previous year. The foodstuffs, beverages and tobacco branches, which represented almost 70% of the total, declined by about 2% and the rest of the industry fell by 8% (see table 6).

The performance of manufacturing was hampered by the slackening in external demand, the smaller supply of domestic raw materials, the contraction in some activities for which industry supplies inputs, and the decline in demand. However, changes in consumption patterns deriving from the deterioration of real incomes led to the substitution of some goods for others, thus stimulating growth in some branches.

The structure of manufacturing is very vulnerable to changes in external demand because of the considerable importance of sugar in it. The systematic deterioration of international sugar prices, combined with the cutback in the United States sugar quota in 1985, pushed average prices down to a level below the production cost. The State Sugar Board (CEA) —the agency which processes almost two-thirds of sugar production— therefore decided that seven of its sugar mills should end the harvest one month earlier than programmed, while national private enterprise closed two of the three mills which it owns. Consequently, output of sugar and its by-products dropped by 21% after having fallen at an annual rate of 6% in 1983 and 1984.

The importance of traditional manufactures in economic activity continued to decline as part of a longer-term trend, due both to the crisis and to structural shortcomings. During the year no significant measure was taken to foster them except for maintaining the ban on importing some manufactures in an attempt to protect the development of local industry.

Agroindustry and the subcontracting industry, in contrast, were given a boost by both national agents and foreign investors. With respect to agroindustry, its closeness to the United States market gives it advantages in many products such as roasted coffee beans, processed pineapple and coconut by-products, and therefore its promotion constitutes a priority element in economic policy. Furthermore, it has become a recipient of foreign credits and a very attractive area for foreign investment. However, in order to make production competitive with that of other countries in the area, packaging costs and transport shortcomings must be reduced.

The rapid growth of the subcontracting industry continued with the installation of 21 new enterprises which created more than 5 000 new jobs. The government has fostered the extension and construction of industrial parks to accommodate these enterprises, for which it has received financial

backing from the United States Agency for International Development (US-AID). In 1985, the second stage of the industrial park at Puerto Plata was begun, while progress was made in the construction of a park in Itabo and in projects to extend the installations in San Pedro de Macoris, La Romana, Santiago and Bani and the construction of the third stage of the Puerto Plata park.

The loans granted by the commercial banks to manufacturing increased by 25%: a rate which was higher than the global rate (17%). This increase was primarily due to the vigorous expansion of the loans granted by the Investment Fund for Economic Development (FIDE), which increased sixfold so that their share of the total went up from 3% to 17%. This Fund is backed by loans from the Inter-American Development Bank (IDB), the World Bank and US-AID, which are channelled primarily into agroindustry.

iv) *Construction.* Construction activity, which had already been showing signs of instability in previous years, declined by 11% in 1985. The area constructed, for its part, fell by 16%, thus worsening the decline of the previous year (see table 7).

The increases in the prices of cement (78%) and steel rods (69%) was a decisive factor in the 66% increase in building costs. This increase had particularly severe repercussions on the housing demand of the middle-income groups, whose incomes grew more slowly, and it helped to worsen the decline of private investment and its tendency to be oriented increasingly towards the purchase of machinery and equipment.

Finally, whereas investment by the public sector jumped by 68% at current prices, the increase in the amount set aside for construction was only 27%, which in real terms meant a decrease of the order of 23%.

Table 6

DOMINICAN REPUBLIC: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984		1982	1983	1984	1985°
Index of manufacturing production (1970 = 100)	162.8	205.1	224.6	217.9	210.3	5.3	1.3	-3.0	-3.5
Foodstuffs, beverages and tobacco	137.0	180.5	199.0	194.3	191.3	8.5	-1.1	-2.4	-1.5
Foodstuffs	134.1	188.7	184.7	176.5	171.7	-2.5	-2.3	-4.4	-2.7
Sugar and sugar products	115.1	113.0	123.3	115.6	91.6	12.9	-5.9	-6.2	-20.7
Other foodstuffs	147.8	243.4	229.1	220.6	229.7	-7.6	-0.8	-3.7	4.1
Beverages	148.9	158.1	285.5	306.1	305.2	71.4	2.5	7.2	-0.3
Tobacco	141.4	147.8	168.8	148.8	158.4	11.5	-0.2	-11.8	6.5
Other manufacturing industries	243.1	281.2	304.2	291.0	269.0	-1.0	6.5	-4.3	-7.6
Production of some major manufactures									
Raw sugar	1 059	911	1 097	1 022	808	6.0	-6.6	-6.8	-20.9
Refined sugar	77	102	112	108	89	-3.5	-5.4	-3.6	-17.6
Hulled coffee	51	60	68	72	72	21.2	7.9	5.9	-
Beer ^c	34	78	100	95	104	2.4	16.3	-5.0	9.5
Cigarettes	190	209	187	184	196	-0.9	-5.4	-1.6	6.5
Cement ^f	14	24	26	27	23	-4.4	18.2	3.8	-14.8
Wheat flour/	2 656	3 346	3 875	3 737	4 664	24.8	-3.0	-3.6	24.8
Other indicators of manufacturing production									
Consumption of electricity by industry*	4 30	719	719	662	629	-11.2	6.8	-7.9	-5.0

Source: ECLAC, on the basis of data supplied by the Central Bank of Dominican Republic

*Preliminary figures.

Millions of tons.

^cMillions of litres.

Millions of packets.

Millions of 42.5 kg sacks.

^fThousands of quintals.

^gMillions of kWh.

Table 7

DOMINICAN REPUBLIC: CONSTRUCTION INDICATORS

	1975	1980	1983	1984	1985 ^a	Growth rates			
						1982	1983	1984	1985 ^b
Area constructed									
(thousands of m ²)	1 181	1 179	1 176	1 004	843	11.4	21.4	-14.6	-16.0
Housing		879	780						
Production of some building materials									
Structural steel ^c	50	51	76	79	70	9.2	38.8	3.9	-11.4
Cement ^c	577	1 015	1 104	1 140	997	-16.8	16.4	3.3	-12.0
Bricks	2 985	2 678	2 661	1 975		-11.1	14.9	-25.8	
Paint ^d	1 620	2 993	2 340	2 180	2 616	-0.5	8.0	-6.8	20.0

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.^bBuilding permits granted.^cThousands of tons.^dThousands of units.^eThousands of gallons.

The scantiness of domestic resources has led to the virtual paralysation of public investment projects which are self-financed, while those carried out with external financing are experiencing delays because of the lack of counterpart funds. During the year, the main projects (low-cost housing, transport, energy and irrigation) continued slowly, and very few works were completed.⁶

v) *Electric energy.* The product of the electricity sector rose by 5%, contrasting with the sluggishness of the productive sectors (see table 8). A contributory factor in this was the increase in invoicing due to the extension of the measures taken the previous year by the Dominican Electricity Corporation (CDE) with the aim of reducing the losses caused by illegal connections and the free supply of energy for public enterprises, government offices and street lighting. This enabled the ratio between losses and production to continue falling from 37% in 1983 and 31 % in 1984 to 29% in 1985 (see table 8). The effects of these measures were reflected in the structure of consumption. Thus sales to the government and for public lighting and residential consumption increased substantially (14%, 12% and 8%, respectively). In the case of industry, the 5% decline was attributable both to the falling-off of activity and to the reclassification of a number of public enterprises, whose consumption was now included under government consumption.

The production of electricity increased by only 1% and was insufficient to cover demand, resulting in prolonged power cuts. As the Itabo I thermoelectrical plant which came on stream in 1984 began to function at full capacity, this modified the production profile, with the share of thermal energy increasing from 69% to 78% and that of the more costly energy from gas going down from 16% to 8%. The share of hydroelectricity, for its part, declined slightly —from 15 % to 14%— due to the severe drought which hit the country.

3. The external sector

The current account deficit increased by 42% to US\$317 million, representing 24% of the exports of goods and services. This situation contrasts with that of the previous year, when the external imbalance declined sharply and its ratio to foreign sales came to only 16%.

The resurgence of the balance-of-payments deficit was due to a 15 % decline in exports of goods which represented a loss of income of US\$130 million. This decline was compounded by an increase of 19% in factor service payments and a slight increase in imports (2%). The negative repercussions of the movement of these variables was mitigated by a significant increase in sales of services (16%), an expansion in tourism and a sizeable increase (18%), in unrequited private transfers.

⁶ Some of the works completed were connected with the "Yaque del Norte" irrigation project and the second stage of the Puerto Plata Industrial Park.

Table 8

**DOMINICAN REPUBLIC: ELECTRIC POWER GENERATION,
AVAILABILITY AND CONSUMPTION**

	Millions of kWh					Growth rates			
	1976	1980	1983	1984	1985	1982	1983	1984	1985
1. Power generated"	1 460	2 300	2 825	2 932	3 081	-0.2	27.0	3.8	5.1
Hydroelectric	77	48	326	436	429	23.7	593.6	33.7	-1.6
Thermal	1 069	1993	2 209	2 020	2 395	-1.1	17.0	-8.6	18.6
Diesel	17	11	11	10	12	-	83.3	-9.1	20.0
Gas	297	248	279	466	245	2.5	-1.8	67.0	-47.4
2. Intermediate consumption	67	113	146	145	178	3.6	27.0	-0.7	22.8
3. Net energy generated (1-2)	1 393	2 187	2 679	2 787	2 903	-0.4	27.0	4.0	4.2
4. Purchases from other enterprises	247	443	456	415	344	10.5	-38.3	-9.0	-17.1
5. Production (3 + 4)	1 640	2 630	3 135	3 202	3 247	2.2	10.0	2.1	1.4
6. Losses	431	716	1 172	992	928	36.3	22.3	-15.4	-6.5
7. Consumption (5 - 6)	1 208	1 914	1 963	2 210	2 319	-9.3	3.8	12.6	4.9
By industry	461	720	719	662	629	-11.2	6.8	-7.9	-5.0
By commerce	151	231	223	245	255	-10.9	-2.2	9.9	4.1
By households	460	724	738	840	909	-10.4	0.7	13.8	8.2
By government	120	215	254	380	433	1.8	10.0	49.6	13.9
For public lighting	16	24	29	83	93	-	11.5	186.2	12.0
8. Losses/production*	26.3	27.2	37.4	31.0	28.6				

Source: ECLAC, on the basis of data supplied by the Dominican Electricity Corporation.

"Power generated by the Dominican Electricity Corporation.

Includes losses because of poor condition of lines, illegal connections and free supply. *Percentages.

Table 9

**DOMINICAN REPUBLIC: MAIN FOREIGN TRADE
INDICATORS (GOODS)**

	1980	1981	1982	1983	1984	1985"
Growth rates						
Exports						
Value	10.7	23.5	-35.4	2.3	10.5	-14.9
Volume	-11.2	15.0	-7.7	-4.3	2.2	2.6
Unit value	24.7	7.4	-30.0	6.9	8.2	-17.0
Imports						
Value	33.6	-4.5	-13.4	2.0	-2.0	2.3
Volume	14.5	-7.3	-15.0	4.4	-1.3	2.1
Unit value	16.7	3.0	1.9	-2.3	-0.7	0.2
Terms of trade	7.7	3.7	-31.5	8.9	7.6	-17.3
Indexes (1980 = 100)						
Purchasing power of exports	100.0	119.2	75.4	78.5	86.3	73.2
Volume of exports	100.0	115.0	106.1	101.5	103.7	106.4
Terms of trade	100.0	103.7	71.0	77.3	83.2	68.8

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

"Preliminary figures.

Table 10

DOMINICAN REPUBLIC: EVOLUTION OF THE EXCHANGE RATE

	Exchange rate ^a	Exchange rate index	Price index		Ratio (3/4)	Parity exchange rate ^b (1.15 x 5)	Index of under- or over-valua- tion of the exchange rate (6/1)
			Domestic	External			
	(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
1985	3.12	271.3	589.8	277.3	212.7	2.45	78.5

Source: IICLAC, on the basis of data provided by the Central Bank of the Dominican Republic and the International Monetary Fund.

^aPesos per dollar.^bBase 1970 = 100.

The capital inflow went down by slightly more than 4%. On the other hand, grants almost doubled, enabling the deficit on current account to be covered and reserves to be increased by US\$13 million.

The value of exports fell because of a 17% contraction in the unit value, which was only slightly offset by an increase of almost 3% in volume. Of the eight main export products, only the prices of coffee and ferronickel improved (by 4% and 2%, respectively).

With regard to merchandise imports, the slight recovery (2%) was attributable mainly to an increase in volume, since the unit value remained virtually unchanged.

The severe drop in the unit value of exports was reflected in a considerable deterioration (-17%) in the terms of trade. The cumulative loss since 1981 thus rose to 34%.

As the volume of sales abroad increased by only 4%, the deterioration of the terms of trade was reflected in a reduction of 15% in the purchasing power of exports (see table 9).

a) *Evolution of the exchange rate*

Up to the beginning of 1985, an official rate on par with the dollar, a preferential rate for oil imports for electrical power generation, and a parallel market rate coexisted side by side on the foreign exchange market. In order to unify the exchange rate, it was decreed in January that all foreign exchange operations and payments in foreign currency would be carried out by the Central Bank, at a dollar rate equivalent to the average of the buying and selling rates that had obtained on the free exchange market during the five working days preceding the operation. It was also decreed that the foreign exchange generated by exports of goods and services, except those deriving from tourism, would be exchanged solely at the Central Bank.

During the three months following the restructuring of the foreign exchange market, the dollar quotation increased by 8% over the December 1984 quotation and by 18% over the average for that year, pushed upward essentially by the pressure of speculative forces, since because of the sharp devaluation of the peso the previous year, it was now undervalued by 35% (see table 10).

In mid-April the price of the dollar in the free market began to drop; from an average of 3.34 pesos per dollar in March it fell to 3 pesos in June and remained more or less at that level until December. This development was the result of the receipt of large grants from the United States to support the International Monetary Fund programme; the credits granted by some foreign banks to purchase imported inputs; the good performance of tourism, which is the main supplier of the free market; the slump in economic activity, which meant less demand for imports, and the renegotiation of the debt.

Although the increase in domestic prices during the year (37.5%) far exceeded the rise in external prices (3.6%), the peso continued to be undervalued, although the degree of distortion shrank to a figure of the order of 20%.

b) *Merchandise trade*

i) *Exports*. Exports of goods declined by 15%, after having increased by 11 % the previous year. Among traditional products, only ferronickel evolved positively. The sugar sector in general (raw sugar, furfural and molasses) registered a 40% decline which, combined with the falls in coffee, tobacco, cocoa, gold and silver, led to a contraction of 21% in traditional exports. Non-traditional exports increased by 19% due to the favourable performance of agricultural exports, whose share in the total came to 21% (see table 11).

The value of raw sugar exports plummeted (-42%) due to the decline in both the unit value (-26%) and the volume exported (-21 %). The sharp downward trend in exports of this product in the four previous years meant that the 1985 exports were only about 70% of those in 1981.

In addition to the chronic deterioration of sugar prices on the world market, there was a cutback of more than 88 000 short tons in the United States sugar import quota. Furthermore, as the period of

Table 11

DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars			° breakdown			Growth rates			
	1983	1984	1985"	1975	1980	1985"	1982	1983	1984	1985"
Total	785	868	739	100.0	100.0	100.0	-35.4	2.3	10.5	-14.9
Main traditional exports	699	735	581	91.2	85.8	78.6	-37.2	6.0	5.2	-20.9
Raw sugar	264	272	158	62.8	30.2	21.4	-48.3	-0.7	3.2	-41.7
Furfural	22	20	16	1.9	2.2	2.2	-18.4	3.7	-11.6	-17.1
Molasses	12	14	10	1.6	1.6	1.3	4.8	-40.3	21.4	-26.7
Coffee	76	95	86	3.9	5.4	11.6	45.7	-15.8	24.6	-9.4
Cocoa	55	70	58	2.8	5.3	7.9	18.1	4.9	26.3	-17.1
Tobacco	22	24	18	3.8	3.6	2.4	-67.4	1.9	11.0	-27.3
Gold and silver	165	132	114	3.0	27.0	15.4	-21.3	0.6	-19.9	-13.8
Ferronickel	83	108	121	11.4	10.5	16.4	-78.1	245.0	29.9	11.2
Main non-traditional export	86	133	158	8.8	14.2	21.4	-21.9	-20.7	54.7	18.9
Chemical fertilizer	16		5	-	2.0	0.7	-40.8	83.3	335.7	-16.4
Beef	6	1	13	0.5	0.3	1.8	3.5	-26.1	-86.2	
Coconut emulsion	6	7	5	-	0.6	0.7	5.2	-19.8	4.6	-32.3
Tinned pigeon peas	7	7	6	0.3	0.5	0.8	2.4	53.5	10.6	-23.3
Fresh okra	3	4	6	0.1	0.1	0.8	76.2	-10.8	24.2	53.7
Taro	4	5	6	0.2	0.3	0.8		-9.3	33.3	11.5
Leather handbags	6	5	3	0.3	0.6	0.4	-1.6	-8.3	-7.3	-39.2
Others	53	98	114	7.4	9.8	15.4	-29.4	-19.4	86.6	17.4

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

"Preliminary figures.

that quota was extended by two more months,⁷ there was a further loss of 60 000 tons. Hence the relative share of sugar sales to the United States fell from 70% in 1984 to less than 60% in 1985.

The value of coffee exports diminished by 9%, solely because of a 13% decrease in the volume, since the unit value increased by 4%. Contributory factors in this decline were the complete failure to increase production and the reduction of more than 1 000 tons in the quota allocated by the International Coffee Organization for the period 1984-1985.

The drop in cocoa prices and the stagnation of output were reflected in a marked decline (-17 %) in the export value. Cocoa sales have been showing a downward trend on international markets because of the very large volume of stocks accumulated during the past year.

Although tobacco production grew satisfactorily, exports fell by 27% because of a reduction in both the volume (-14%) and the unit value (-15%). This was the result of the reduction of demand from Spain, the main buyer, which also induced a decline in prices.

External sales of minerals fell by 2%. Although the increase in gold and silver sales was vigorous (16%), it was not enough to offset the considerable price decline and therefore the export value went down by 14%. This reduction could not be compensated by the expansion of 11% in ferronickel exports, a much lower rate than that of the previous two years.

Non-traditional exports showed the greatest growth rate (19%), even though this represented a considerable decline from previous years. Sales of agricultural products abroad were the factor that stimulated growth, since there was a decline in sales of manufactures and semi-manufactures.

The potential of these non-traditional exports lies in the country's proximity to the East Coast of the United States, where there is a large Hispanic population that generates an increasing demand for products such as taro, sweet potatoes, and yucca. In addition, fresh fruits and vegetables can be supplied to the East Coast and the Midwest during the winter.

With the decline in the external markets for traditional exports, non-traditional exports have become the key element in the policy designed to reduce the trade deficit. Because of this they have received both foreign investments under the Caribbean Basin Initiative and fiscal and domestic credit incentives, at the expense of traditional products.

Of the packet of measures adopted in connection with the exchange rate unification, the establishment of an exchange rate surcharge of 36% for traditional exports and 5% for non-traditional exports had a marked impact on the external sector. This surcharge is levied when the foreign exchange received from external sales, which forms the basis of the Exchange Rate Stabilization Fund, is changed by the Central Bank. The Fund's resources are used to cover the financial imbalances of the public sector stemming from the exchange rate unification.⁸

Some firms reacted to this measure, which was announced as being only temporary, by withholding exports in the hope that the measure would be revoked or by under-invoicing, in an attempt to avoid the surrender of foreign exchange with the attendant surcharge. While the effects of these practices cannot be quantified, it is clear that they have contributed to the deterioration of the external accounts.

ii) *Imports.* Imports recovered from the slight drop experienced the year before, registering growth of 2%. However, if the value of the oil bill is discounted, the increase stands at 14%. This expansion was concentrated in the last three months of the year, because up to September purchases had declined by 2.3%.

The figures up to September indicate that imports of consumer goods increased by 28%, because of the extraordinary increase in the prices of consumer durables (63%). The remaining imports, consisting mostly of foodstuffs, increased by only 1%. A similar trend is indicated by the external purchases of INESPREE, which primarily acquires inputs and final goods to supplement the consumption of staple items. These purchases fell by nearly 25% despite the fact that national production of some of the articles supervised by that agency had been reduced (see table 12).

Purchases of raw materials and inputs fell by 13%, while purchases of petroleum and petroleum products declined by somewhat more than this figure, due to equal drops in the volume

⁷ Usually quotas are established for the fiscal year, which runs from September to August. In the case of the 1984-1983 quota, however, the period covered was 14 months, from September 1984 to October 1985.

⁸ The distribution of resources is as follows: 30.4% for the central government, 33.5% for the Dominican Electricity Corporation (CDE) and 36.1% for the Central Bank. The aim is to pay off the public debt, purchase the oil refinery and the CDE, and cover the exchange losses of the Central Bank.

imported and the unit values. This was linked to the contraction of domestic demand for energy products due to the slump in economic activity. A further factor was the increase in domestic prices at the beginning of the year.

The remaining inputs declined by 12% after having stagnated during the previous year. The chronic deterioration of industry, for which the majority of these purchases are destined, has meant that their weighting in total external purchases has gone down from 33% in 1977 to 28% in 1985.

During the period 1981-1984, external purchases of capital goods declined, so that in 1984 they represented only 60% of the purchases made in 1980. In 1985 they increased by 28%, due to the dynamic growth of agroindustry, which was one of the few activities not affected by the recession.

During 1985, the policy of curtailing imports, which had been started some years previously, continued and the ban on importing a long list of products was maintained.

In order to overcome the problem of the lack of information on payments made with foreign exchange purchased on the free market—which made it impossible to draw up policies to use foreign exchange in a rational manner—the measures taken in January included one making approval by the Central Bank mandatory for all payments of imports of goods and services.

c) *Real services and factor payments*

As a result of an increase of 18% in earnings and a 7% reduction in expenditure, the favourable balance on travel services increased by 27% to a little over US\$350 million.

Although the average increase in the dollar exchange rate (10.3%) was considerably exceeded by the increase in domestic prices (37.5%), tourism services continued to be cheap, especially for travellers from the developed countries, whose number increased.⁹ With regard to expenditure, fewer nationals travelled abroad and they also spent less. This was the result of both the devaluation, which increased the cost of passages and stays abroad, and the economic recession, which cut the incomes of the middle classes, who constitute the potential demand for this type of service.

The inflow of foreign exchange from tourism was of the order of US\$440 million or one-third of the total earnings from exports of goods and services. This figure was almost five times that of 1978 and highlights the sustained growth of this activity since the end of the last decade.

Table 12

DOMINICAN REPUBLIC: IMPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown			Growth rates			
	1983	1984	1985 ^a	January-Sept. 1984 ^a	1985 ^a	1977	1980	1985 ^a	1982	1983	1984	1985 ⁰⁰
Total ⁰	1 279	1 257	1 286	944	922	100.0	100.0	100.0	-13.3	1.8	-1.7	-2.3
Consumer goods	268	217		145	185	26.9	22.6	20.1	-23.6	7.6	-19.0	27.6
Durables	98	88		62	101	9.9	8.0	11.0	-9.8	6.5	-10.2	62.9
Others	170	129		83	84	17.0	14.6	9.1	-29.9	8.3	-24.1	12
Raw materials and intermediate goods	858	899		695	604	54.7	61.3	65.5	-7.2	3.5	4.8	-13.1
Petroleum and fuels	461	505	427	400	345	22.2	30.0	37.4	-9.0	2.0	9.5	-13.8
Others	397	394		295	259	32.5	31.3	28.1	-5.3	5.3	-0.8	-12.2
Capital goods	153	141	...	104	133	18.4	16.1	14.4	-21.8	-14.5	-7.8	27.9

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic

^aPreliminary figures. Variation January-September with respect to the same period of the preceding year.

⁹ The total number of tourists increased by 5 C? to 690 000. The travellers using cruise services, who spent US\$23.50 during their entire stay, fell by 119f. Entries by Dominicans residing abroad, whose average expenditure is US\$650, increased y 89?. The number of tourists entering the country by air (64C? of the total), whose stay and expenditure are variable, rose by 7/t.

The government, the international banks and national and foreigner investors have supported the development of the tourism industry, with the result that the hotel capacity has increased in recent years. However, as demand has expanded even more rapidly than supply, shortages are now being observed, especially during the high season. Another factor limiting the growth of tourism has been inadequate air transport.

In 1985, 1 016 hotel rooms were added (616 in Puerto Plata and 400 in Higüey). This brought the supply to 8 543 rooms, of which 62% were located in beach areas and the rest in the capital.¹⁰

Furthermore, the Department for the Development of Tourism Infrastructure (INFRATUR) secured a loan of US\$37 million from the Inter-American Development Bank, to be used basically for giving financial support to hotel projects. However, this loan could not be used in 1985, as Congress delayed its approval.

Net factor payments climbed by 19%, after having declined the previous year. Their ratio to exports of goods and services increased from 18% to 22%.

As has been occurring since 1976, unrequited private transfers—which are made up mainly of remittances sent by Dominicans residing abroad—increased once again, this time by 18%, and exceeded US\$240 million, which is equivalent to 18% of exports of goods and services.

d) *The current account imbalance and its financing*

The current account deficit, which was of the order of US\$320 million was 42% greater than that of the previous year, and as a proportion of the value of exports of goods and services it rose from 16% to 24% (see table 13).

The net capital inflow excluding errors and omissions, increased by 23% to US\$395 million. This increase stemmed from the official unrequited transfers (grants), which almost doubled, since the net short- and long-term external financing declined by 4%.¹¹ As already indicated, the United States supported the application of the IMF programme through special grants and compensated for the decline in the net flow of external financing.

Foreign direct investment fell by 60%. This decline was due to the delay in determining how the law on foreign investment would be applied after the exchange rate had been unified. In fact, only in July were the rules on repatriation of profits laid down. In that month, the mandatory registration of capital inflows with the Central Bank was reiterated and enterprises were authorized to transfer annually abroad up to 25% of the investment recorded, to be charged against the declared dividends paid to investors. The net capital inflow exceeded the balance-of-payments current account deficit by a narrow margin and enabled a slight increase in international reserves, though this was not even one-ninth of the increase recorded the previous year.

e) *External indebtedness*

By the end of 1984, the total external debt stood at US\$2 790 million.¹² Total indebtedness including the short-term assets of the Central Bank and other foreign currency commitments approached US\$3.45 billion (see table 14).

With respect to the sources of financing, 35% was received under bilateral agreements, 25% came from commercial banks and 21% from multilateral agencies. Of the total, 43% had repayment periods of over eight years, 39% was repayable in one to eight years, and 18% was short-term financing.

The debt renegotiation with the commercial banks at the end of 1983 made it possible to postpone the payment of approximately US\$500 million for five years, including the grace year which ended in January 1985. The bilateral debt owed to the Paris Club could not be renegotiated in 1983 and 1984 as no conditionality agreement had been reached with the IMF. That agreement was signed only in December 1984.

¹⁰ Santo Domingo is a port with no beaches, which reduces its attractiveness for tourists.

¹¹ During 1985, the United States Government gave the country five grants through US-AID: two for US\$95 million as economic support for the adjustment programme signed with the IMF; one for US\$2.5 million to support agroindustrial projects; another for US\$6 million to promote exports and foreign investment, and one for US\$430 000 for a water supply programme in rural areas.

¹² The way the foreign debt is calculated has been changed, and it now includes all foreign commitments, whatever their origin or characteristics. Liabilities in the form of deposits and arrears in the exchange of foreign currency in the Central Bank were added, as well as advance payments received for future exports.

Table 13

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	-360	-674	-416	-457	-441	-223	-317
Trade balance	-349	-647	-306	-393	-339	-187	-273
Exports of goods and services	1 135	1271	1 513	1 142	1242	1369	1 318
Goods FOB	869	962	1 188	768	785	868	739
Real services	266	309	325	374	457	501	579
Transport and insurance	22	26	31	21	27	29	36
Travel	124	173	206	266	320	371	439
Imports of goods and services	1 484	1919	1 818	1 535	1 581	1 556	1 591
Goods FOB	1 137	1 520	1 452	1 257	1 282	1 257	1 286
Real services	347	399	367	277	299	299	305
Transport and insurance	132	175	154	138	150	127	145
Travel	158	166	128	87	88	89	83
Factor services	-188	-210	-293	-254	-297	-241	-286
Profits	57	-65	-	-	-	-	-
Interest received	32	42	12	4	7	6	-
Interest paid	-163	-187	-305	-258	-304	-247	-
Others	-	-	-	-	-	-	-
Unrequited private transfer payments	177	183	183	190	195	205	242
Balance on capital account	358	708	454	311	303	321	342
Unrequited official transfer payments	29	5	10	15	20	60	114
Long-term capital	160	423	231	262	506	294	281 ^e
Direct investment (net)	17	93	80	-1	48	69	27
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	143	330	151	264	458	225	254
Official sector	165	268	226	290	542	237	-
Loans disbursed	314	305	286	393	734	237	-
Amortization payments	-142	-37	-60	-103	-192	-36	-
Commercial banks	7	-	-7	-1	9	-2	-
Loans disbursed	8	-	-	-	11	-	-
Amortization payments	-1	-	-7	-1	-1	-2	-
Other sectors	-29	62	-68	-25	-94	-10	-
Loans disbursed	53	163	29	26	17	20	-
Amortization payments	-82	-101	-97	-51	-111	-30	-
Short-term capital (net)	241	250	198	34	-241	-64	-
Official sector	101	88	9	162	-131	-115	-
Commercial banks	-16	92	193	-45	-235	-22	-
Other sectors	156	71	-4	-83	124	73	-
Errors and omissions (net)	-73	30	15	-1	18	31	-53
Global balance'	-2	34	-38	-146	-139	98	25
Total variation in reserves (- sign indicates an increase)	-8	-44	-54	160	150	-84	-13
Monetary gold	-	-5	-5	16	16	23	-2
Special Drawing Rights	-3	9	-2	1	-	-	-31
IMF reserve position	-	-	-	-	-8	8	-
Foreign exchange assets	-81	27	-21	95	-34	-90	-56
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	77	-76	-25	48	176	-25	76

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March, 1986; 1985: ECLAC, on the basis of official data.
 "Preliminary figures. 'includes Other non-factor services. 'Includes Net loans granted and Other assets and liabilities. Equals
 Total variation in reserves (of opposite sign) plus Counterpart items.

Table 14

DOMINICAN REPUBLIC: INDICATORS OF EXTERNAL INDEBTEDNESS

	1983	1984	1985 ^a
Millions of dollars			
Total external debt	3 237	3 447	3 701
Multilateral		722	
Bilateral		1 217	
Commercial banks		852	
Others		656	
Interest [^]	304	247	281
Percentages			
Total external debt/exports of goods and services	260.6	251.8	280.8
Net interest payments /exports of goods and services	23.9	17.6	21.7

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aEstimates. [^]Disbursed external public and private debt. Corresponds to the "interest paid" item of the balance-of-payments current account. Corresponds to the net item of the balance of payments.

The debt service projections for the triennium 1985-1987, including the accumulated arrears, indicated that the ratio of such service to total exports of goods and services would reach 111 %, 51 % and 36% in those years, respectively. As these amounts were seen to be unmanageable, a further renegotiation of the external debt was necessary.

At the end of 1984, the debt owed to the commercial banks was of the order of US\$790 million. This amount represented the public and State-guaranteed private debt with a term of over one year. Formal negotiations began in March and ended in May with an agreement extending the total period to 13 years, with a grace period of three years and a semi-grace period of two years. The agreed interest rate was 1-3/8 over LIBOR, without commissions or advance payments.

The outstanding debt owed to the Paris Club was US\$290 million, of which US\$172 million represented the arrears of capital and interest payments up to December 1984 and US\$118 million was scheduled to fall due between January 1985 and April 1986. It was agreed that 75 % of the arrears would be paid off in four successive annual payments, the first being in December 1987. Of the remaining 25%, 13.5% was to be paid in December 1985 and 11.5% in December 1986. As far the rest of the debt was concerned, it was agreed to pay off a part of it in ten equal semi-annual successive payments, beginning in February 1991. The other part (19%) would be paid in four equal annual payments, the first due on 30 June 1986.¹³

The interest rate charged for these financial arrangements will be agreed bilaterally between representatives of the Government of the Dominican Republic and those of the lending countries, on the basis of the most appropriate market rate.

The renegotiations —of which that with the Paris Club was not as favourable as that with the commercial banks— will reduce the pressure on the external accounts. The debt service payments that would have had to be made between 1985 and 1989 came to US\$3 852 million, whereas after the restructuring the figure was reduced by some US\$3 billion. Moreover, the grace periods and the extension of the payment period made it possible to place the external sector gradually on a sounder footing. Finally, lower interest rates than those applied in the 1983 renegotiations were obtained.

According to a first estimate, the total external debt increased by 7 % in 1985. As a result of this and of the decline in exports, the ratio between the debt and exports of goods and services went up from 250% to 280%.

^a The outstanding debts were owed principally to the United States and Spain and to a lesser extent to Canada Japan, Brazil, France and Germany.

During the year, the Inter-American Development Bank (IDB) approved loans of US\$28 million for the Haina Breakwater Project; US\$72.5 million to finance the global agroindustrial programme of the Investment Fund for Economic Development (FIDE), and US\$55 million for the second stage of the Industrial Reactivation Programme, which is also being executed by FIDE.

The World Bank, for its part, granted a loan of US\$5.8 million for manpower training and another of US\$35.8 million for the third highway project.

In addition to the grants from US-AID, a new agreement for US\$38 million was signed with this agency, pursuant to Law 480, to finance staple food imports by INESPREE. A loan was also obtained to assist in developing agroindustry.

However, there was considerable delay in receiving several external loans, and in some cases this even caused them to be lost, because of the obstacles that Congress put in the way of their approval. It was only at the end of the year that this situation began to return to normal.

The IMF approved an SDR agreement which authorized the Dominican Republic to make purchases abroad of up to 78.5 million SDRs for 12 months, in support of the government's economic and social programmes. Furthermore, in view of the inadequacy of export earnings, a loan of 15.5 million SDR was granted under the Compensatory Financing Facility.

4. Prices and wages

In 1985, inflation got worse, reaching a level unprecedented in recent decades. The national consumer price index showed a variation between annual averages of 37.5%: i.e., a good deal higher than that of the year before (24%), which was 3.5 times that of 1983. During the second half of the year, however, inflation slowed down significantly once the increase in prices and rates caused by the adjustment policy had been absorbed. Consequently the December-to-December variation (28%) was lower than both the average and the 38% variation registered in 1984, when the reverse trend was observed (see table 15 and figure 2).

These price movements were due to the rise in the cost of external purchases resulting from the higher exchange rate; the increase in the rates charged for the services supplied by public enterprises; certain fiscal policy measures, and to a lesser extent the increase in wages.

The food, beverage and tobacco group —with a 52% weighting in the total index— rose by 43%, a rate which was higher than the average, due essentially to the big increases in the prices of staple foods (rice, beans, plantains, sugar and vegetables).

Table 15

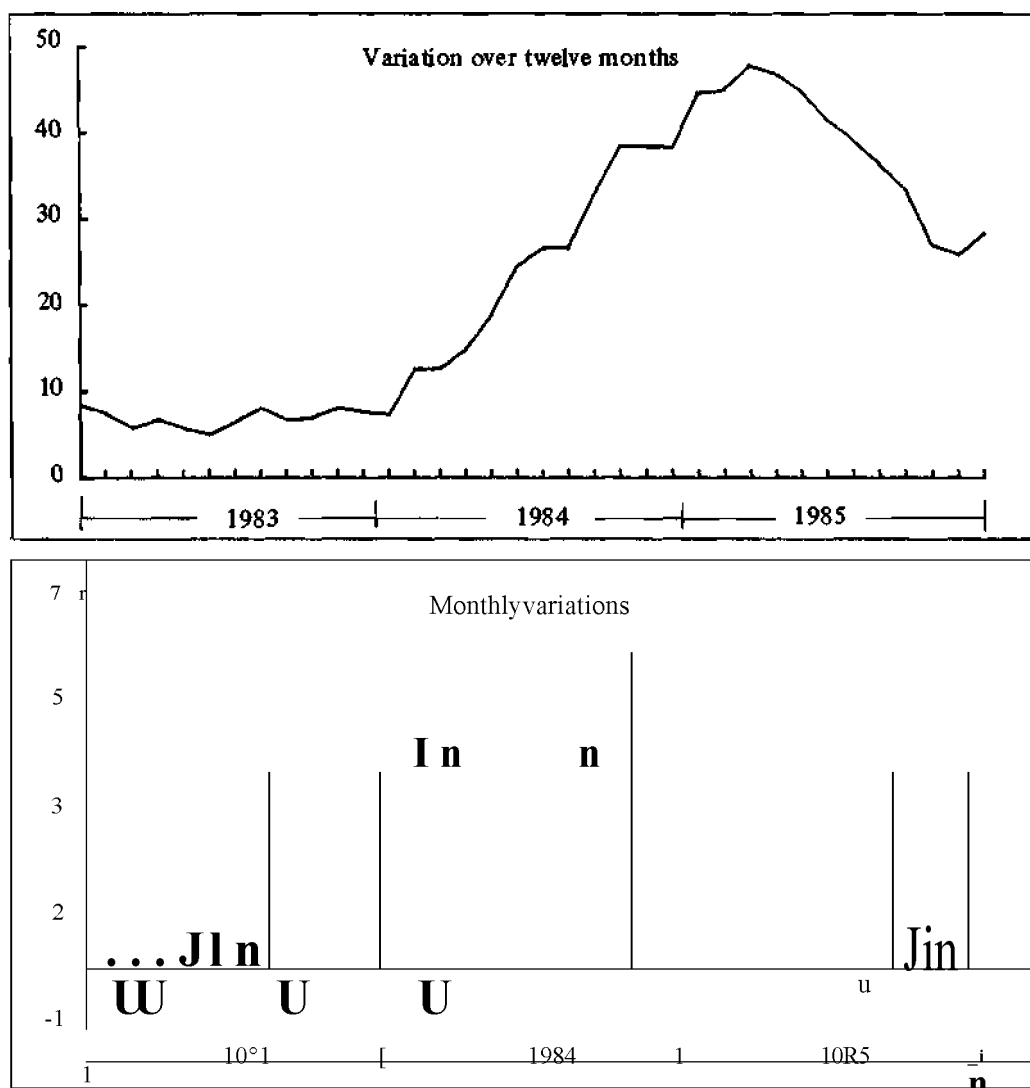
DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985
Variation December to December						
Consumer price index		7.3	7.2	7.7	38.1	28.4
Food, beverages and tobacco		3.1	9.5	4.0	38.0	36.2
Housing		18.6	4.7	12.3	25.0	17.2
Wearing apparel and footwear		5.9	11.6	20.6	68.9	38.1
Other		5.1	2.9	7.2	46.1	18.4
Variation between annual averages						
Consumer price index	16.8	7.6	7.6	7.0	24.4	37.5
Food, beverages and tobacco	15.3	0.4	7.9	6.5	22.0	43.5
Housing	10.0	22.1	9.4	8.2	21.6	21.2
Wearing apparel and footwear	20.4	8.2	9.6	14.4	46.8	57.3
Other	29.2	10.0	3.9	4.1	27.5	36.7

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

*Base 1 May 1976 - 30 April 1977 = 100.

Figure 2

DOMINICAN REPUBLIC: CONSUMER PRICE INDEX*(Percentages)*

Source: ECLAC, on the basis of official figures.

The prices of clothing and footwear, which because of their high imported content are more vulnerable to the strengthening of the dollar, rose by 57%, which was well above the average. On the other hand, rents, which cannot be altered immediately in all cases, rose by only 21%.

At the beginning of the year, the prices of petroleum products were raised by 64%. The electricity rates for large consumers also rose, by 33% and a 2% graduated increase was instituted for consumers of more than 300 kWh per month. All this raised the cost of manufactured goods, transport and energy products for family consumption. The increase in the price of gasoline, and hence of transport, was reflected in the 37% rise in the "Other" section of the index.

Poor families bore the brunt of the price increases. For the family income bracket of 50 to 100 pesos, the increase was 40%, for the 100 to 200 peso bracket, 38%, for the 200 to 300 bracket, 36% and for the 300 to 600 bracket, 34%.

The minimum wage, which had been readjusted by 40% in nominal terms in May of the previous year, was raised from 175 to 250 pesos in July. Wages between 240 and 550 pesos were placed in the same category as the latter figure and the minimum wage for agricultural workers, which was between 28 and 40 pesos for an eight-hour day, was increased to 56 pesos.

The adjustment in minimum wages meant a 34% increase in nominal wages, but as the increase in prices was still greater, this meant that real wages fell by 2% (see table 16).

5. Fiscal and monetary policies

a) *Fiscal policy*

In 1985, the adjustment policy was reflected fundamentally in the 39% increase in fiscal income and in the way the fiscal deficit was financed. Total expenditure, which had grown slowly the previous year, increased by 49%, so that the fiscal deficit, more than trebled and its ratio to the product (1.4%) was more than double the 0.6% recorded in 1984 (see table 17).

Tax revenues increased by 43% —a rate which was higher than the growth of the product at current values (34%)— thanks to the expansion of indirect taxes (39%) and, within them, the 61% increase in taxes on foreign trade. Direct tax receipts grew at a slower rate (28%).

The rise in indirect taxes —which represented almost 40% of total tax receipts— was mainly due to the 50% rise in the differentials between the cost and the domestic price of petroleum and petroleum-products when the latter were increased in January. Also contributing to this rise in tax receipts was the substantial (68%) increase in the tax revenue from transfers of manufactured goods (ITBI), the tax base of which expanded both because of the influence of higher inflation and also because trade and other services were included. The taxes on cigarettes and alcoholic beverages only rose by 10%.

The substantial increase in the revenue from taxes on foreign trade (61 %) came from the 58% increase in import taxes, which amounted in absolute terms to approximately 187 million pesos. Basically, this increase was produced by the unification of the exchange rate, which pushed up the amount of the assessable income. Taxes on exports virtually doubled, but even so they represented only 29 million pesos. It should be noted that the exchange rate surcharge of 36% on traditional exports and of 5% on non-traditional ones was not included in this item, as it is collected and administered by the Central Bank.

Direct taxes —which provide almost a quarter of the total tax receipts— registered an increase (28%) which was less than that of the product (35%), pointing to the inelasticity of these taxes. Evasion of this tax continued to decrease as a result of the imposition of the pay as you earn system for fees charged by professionals and thanks also to the tighter control caused by the operation of the tax on the transfers of manufactured goods.

Table 16

DOMINICAN REPUBLIC: EVOLUTION OF THE MINIMUM WAGE

	1980	1981	1982	1983	1984	1985
Pesos						
Monthly minimum wage	125	125	125	125	158	212 ^a
Indexes (1980 = 100)						
Nominal	100.0	100.0	100.0	100.0	126.4	169.6
Real	100.0	93.0	86.4	80.8	82.0	80.2
Growth rates						
Nominal	-	-	-	-	26.4	34.2
Real	-4.8	-7.0	-7.1	-6.5	1.5	-2.2

Source: HCLAC, on the basis of official figures.

^aRaised to 250 pesos as from July.

Table 17

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
1. Current income	745	906	1 184	1 649	-18.0	21.6	30.7	39.3
Tax revenue	661	782	1 085	1 549	-10.1	18.3	38.8	42.8
Direct	206	224	289	371	-1.9	8.7	29.0	28.4
Indirect	253	296	428	596	6.3	17.0	44.6	39.2
On foreign trade	185	243	343	551	-32.0	31.4	41.2	60.6
Other	17	19	25	31	6.2	11.8	31.6	24.0
Non-tax revenue	84	124	100	100	-51.4	47.6	-19.4	-
2. Current expenditure	792	878	1004	1415	2.1	10.9	14.4	40.9
Wages and salaries	430	444	499	613	6.4	3.3	12.4	22.8
Current transfers	161	188	224		1.9	16.8	19.2	
Other expenditures	201	246	281		-6.1	22.4	14.2	
3. Current saving (1-2)	-47	28	180	234			542.9	30.0
4. Capital expenditure	197	264	244	441	-32.5	34.0	-7.6	80.7
Real investment	98	116	78	131	-190	18.4	-32.8	68.0
Capital transfers	83	118	116		-48.1	42.2	-1.7	
Other capital expenditure	16	30	50		45.5	87.5	66.7	
5. Total expenditure (2 + 4)	989	1 142	1248	1856	-7.4	15.5	9.3	48.7
6. Fiscal deficit (1-5)	•244	-236	-64	-207				
Financing of deficit								
Net domestic financing	175	150	-	-				
Loans disbursed	172	150	-	-				
Less amortization payments								
Sale of securities	3	-	-	-				
Net external financing	47	38	92	229				
Loans disbursed	91	96	125	269				
Less amortization payments	44	58	33	40				
Other sources	22	48	-28	-22				
Percentages								
Ratios								
Current saving/capital expenditure		10.6	73.7	53.1				
Fiscal deficit/total expenditure	24.7	20.7	5.1	11.2				
Tax revenue/GDP	8.3	9.1	10.1	10.8				
Total expenditure/GDP	12.5	13.3	11.6	12.9				
Fiscal deficit/GDP	3.1	2.8	0.6	1.4				
Domestic financing/deficit	71.7	63.6	-	-				
External financing/deficit	19.3	16.1	143.8	110.6				

Source: ECLAC, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic.

"Preliminary figures.

Non-tax revenue stagnated. The contribution from the State mining company Rosario Dominicana—which accounts for over 50% of the total—was similar to that of 1984, since the drop in international prices offset the increase in the volume of gold and silver exported.

Current expenditure rose at a similar rate to revenue (40%), while current savings increased by 30%. The adjustment of the salaries of civil servants, the 1 % increase in the staff employed and the rise in prices and supplies led to an expansion of operating costs. Interest payments on the internal and external debt also increased, although not as much (7%). Current transfers, which increased by 90%, were mainly responsible for the rise in costs. This expansion arose from the need to subsidize staple food and electricity consumption, because the price increases, though considerable, were not enough to absorb the higher costs.

Capital expenditure, which had declined the previous year by 8%, made an unusually vigorous recovery (81 %). Capital transfers more than doubled, mainly because of the transfer of funds from the central government to the Dominican Electricity Corporation (CDE), the National Institute for Water Resources (INDRHI) and the Special Fund for Development (FEDA), to provide them with the necessary matching funds to draw on external loans.

Public investment increased by 68%, following a contraction of 33% the previous year. Within this item, construction increased by 27%, but given the increase in costs (66%), this actually represented a decline of approximately 23%.

The share of domestic resources in financing the fiscal deficit had grown steadily in the course of this decade, rising from 51 % in 1980 to 84% in 1983, but this situation was drastically changed by the adjustment programme in 1984 and 1985, when the entire fiscal deficit was covered with external financing.

Since the mid-1970s, tax revenue has been showing a declining trend. The tax ratio began to fall systematically from 16.4% in 1975 to 8.3% in 1982. During the following three years, the ratio improved slightly (9.1%, 10.1% and 10.8%, respectively), but this was achieved by increasing indirect taxation and made the system more regressive.

The tax ratio has been influenced by the inelasticity of many taxes and the erosion of the tax base. The use of specific taxes instead of *advalorem* taxes and the many exemptions that were allowed were some of the factors that encouraged this process.

In order to rectify these shortcomings, the Executive repeatedly submitted a set of measures to Congress seeking to tax the higher income groups and render the system more efficient by imposing regulations of a general character. Only some of these measures were ratified, however, and this has reduced the chances of changing the system.¹⁴

b) *Monetary policy*

The monetary and financial policy strictly adhered to the IMF adjustment programme. Thus, in order to contain the growth of demand, credit expansion was restricted; and in order to encourage saving and investment, the interest and exchange rates were changed and the terms for securities were improved.

Early in the year, when a single exchange rate was established, a wide range of measures to check the expansion of domestic liquidity was imposed. Increases in the demand, time and saving deposits in the commercial banks over the 1984 levels were made subject to a legal reserve of 100%. In addition, the Reserve Bank, a State entity which up to the year before had been exempt from the reserve requirements, was given a timetable, for gradually closing the gap, until a situation similar to that of the other commercial banks was reached.

Furthermore, the rediscount operations of the Central Bank were frozen at the end-1984 level and reductions of 10% for the commercial banks and 5% for finance institutions were laid down after the first renewal of the rediscount lines. The rediscount rates, which had been fluctuating between 6.5% and 9%, were also raised to 12%. The interest rate which the Investment Fund for Development (FIDE) charged the financial intermediaries was also set at 12%.

During the year, bank loans to the public sector were suspended altogether, in order to boost the Central Bank's foreign exchange reserves and provide the private sector with a larger credit flow.

¹⁴ Among the measures which were not approved were: the imposition of a tax on urban real estate, the increase of the tax on imported luxury consumer goods from 15% to 18%, and a levy on profits from real estate sales.

Table 18

DOMINICAN REPUBLIC: MONETARY BALANCE

	End-year balance (millions of pesos)				Growth rates			
	1982	1983	1984	1985 ^a	1982	1983	1984	1985 ^a
Money (M.)	732	781	1 160	1 355	10.9	6.7	48.5	16.8
Currency outside banks	358	415	593	677	10.5	15.9	42.9	14.2
Demand deposits	374	366	567	678	11.3	-2.1	54.9	196
Factors of expansion	2 283	2 926	3 243	3 232	13.2	28.2	10.8	-0.3
Net international reserves	-490	-308	-259	-398				
Domestic credit	2 773	3 234	3 502	3 844	19.6	16.6	8.3	9.8
Public sector	1 512	1 871	1 998	1 971	30.2	23.7	6.8	-1.4
Central government	1 093	1 377	1 471	1 396	29.4	26.0	6.8	-5.1
Local government	16	17	16	17	-5.9	6.2	-5.9	6.2
Agricultural Bank	257	273	279	297	3.6	6.2	2.2	6.4
Other public institutions	146	204	232	261	186.3	39.7	13.7	12.5
Private sector	1 261	1 363	1 504	1 873	8.9	8.1	10.3	24.5
Factors of absorption	1 551	2 145	2 083	1 877	14.4	38.3	-2.9	-9.9
Quasi-money	804	895	1 010	1 235	18.8	11.3	12.8	22.3
Long-term foreign borrowing	501	975	1 070	3 340	40.7	94.6	9.7	212.2
Other items (net)	246	275	3	-2 698	-23.8	11.8	-	

Source: HG.AC on the basis of data supplied by Central Bank of the Dominican Republic

^aPreliminary figures. Saving and time deposits.

To encourage domestic saving, interest rates on financial certificates, which had been fluctuating between 10% and 14%, were raised to levels between 9.5% and 18%. Securities were also made more accessible to savers, by reducing the minimum amount to 10 000 pesos and the term to six months.¹⁵

Finally, in order to gain greater control over liquidity, the Central Bank put 100 million pesos worth of Stabilization Bonds on the market.

The application of these measures was clearly reflected in the monetary and financial variables. Despite the devaluation of the peso and the resurgence of inflation, both the cash in circulation and the deposits on current account increased more slowly than in the previous year, so that money increased by only 17%, a rate 50% lower than that of the gross domestic product, measured in current values. The velocity of money circulation thus went from 9.2% to 10.6% (see table 18).

Domestic credit increased by 10%: a rate 24 points less than that of the product. Financing for the public sector declined by 1 % and that for the central government, by 5 %. Local government, the Agricultural Bank and the State enterprises (the latter are included in the item "others") showed very moderate rates of increase. In contrast, the private sector, which from the end of the 1970s until 1983 had absorbed a smaller proportion of financing, increased its share from 43 % in 1984 to almost 50% in 1985.

The distribution of the loans granted by the commercial banks was marked by the expansion (152%) of financing from the Investment Fund for Development, which is fed primarily from foreign loans mostly earmarked for agroindustry and export crops. Some 75 % of the increase in the credit flow to the agricultural and manufacturing sectors (23% and 25%, respectively) was provided by this fund (see table 19).

Savings and time deposits increased by 22%, which was faster than the previous year (13%). The increase in the interest rate on deposits and the fact that the procurement instruments were made more flexible may have been factors in this acceleration.

^a Previously, these certificates had a value of 100 000 pesos and maturity periods of one to three years.

Long-term external loans almost trebled, but this was mainly the result of the change in the way foreign currency assets and liabilities were assessed. Up to December 1984, the official exchange rate of one peso per dollar was used for these purposes, whereas after a single exchange rate was established, the market rate of approximately three pesos per dollar began to be used.

Despite the economic downturn, financial services expanded faster than in the last three years; six private commercial banks were established, while those already in existence opened new branches. The financial institutions, mortgage banks and savings and loan associations increased their activities too, and the number of staff employed increased by a little over 6%.

One factor in this advance, was the extension and diversification of the operations carried out by the private financial institutions, which were authorized to make short-term loans and which were also able to expand their deposit operations when the terms of the financial bonds were improved. Furthermore, given that the Central Bank's financing of the commercial banks remained stagnant after falling by 17% in 1984, the banks had to strive to secure a larger portion of domestic saving, either by competing among themselves or by preventing the flow of resources to the exterior.

The lack of credit in recent years has fostered excessive growth of the informal market, over which no control is exercised. The interest rates on loans and the yield on savings that obtain in this market far exceed those of the institutions in the regulated market.¹⁶ At the same time, the resources obtained are often channelled to non-priority activities, creating pressures on foreign exchange demand and the balance of payments through the increase in imports.

In order to determine the real importance of this market and to control its expansion the monetary authorities have laid down the conditions to be adhered to by these institutions. The results obtained in 1985 were only slight, however, since in addition to punitive action, it is necessary to change the formal market and to have an adequate credit flow which would prevent users from having to resort to the informal market.

Table 19
DOMINICAN REPUBLIC: LOANS GRANTED BY THE
COMMERCIAL BANKS

	End-year balances (millions of pesos)			Percentage breakdown			Growth rates	
	1983	1984	1985°	1980	1984	1985°	1984	1985°
Total	1 746	1907	2 230	100.0	100.0	100.0	9.2	16.9
Agriculture	138	160	197	7.3	8.4	8.8	15.9	23.1
Sugar industry	29	41	47	2.4	2.1	2.1	41.4	14.6
Manufacturing	427	472	589	30.7	24.8	26.4	10.5	24.8
Construction	68	79	84	5.9	4.1	3.8	16.2	6.3
Commerce	217	217	249	14.1	11.4	11.2	-	14.8
Public sector	570	596	684	19.2	31.3	30.7	4.6	14.8
Imports	70	73	72	6.7	3.8	3.2	4.3	-1.4
Exports	100	132	145	4.2	6.9	6.5	32.0	9.8
Others	127	137	163	9.5	7.2	7.3	7.9	19.0

Source: IICLAC, on the basis of data provided by the Central Bank of the Dominican Republic.
°Preliminary figures.

¹⁶ The interest rates on loans are set by the monetary authorities, but the banks and financial institutions may also charge commissions, which range from 10% to 21%. This considerably increases the profits from this activity.

URUGUAY

1. Recent economic trends

a) *Introduction and summary*

The new democratic government in Uruguay took office on 1 March 1985 after the country had been ruled for 11 years by a *de facto* régime. The new authorities implemented an economic policy based on gradual action against inflation, emphasizing stability in financial and balance-of-payments matters whilst combining adjustments in domestic demand with an incomes policy aimed at recovering the past levels of real wages. In this way, backed up by the restructuring of external commitments and the refinancing of the domestic debt, it was hoped that the economy would first be reactivated and would then tend to grow steadily. The export sector was to constitute the pivot of their revitalization process.

However, this plan was fully implemented only towards the end of the year. For this reason what occurred during 1985 is only a partial indication of the success of the policy initiated within an 18-month financial programme that the government entered into with the International Monetary Fund, which gave rise to a contingency credit agreement with the Fund and also facilitated the renegotiation of the external debt with international private bankers.

In this context, fiscal adjustments were carried out in 1985, pressures on the exchange market decreased, the level of activity stopped falling and the real wage rose markedly. However, the inflation accelerated, and exports did not perform as dynamically as had been forecast.

The gross domestic product grew by 0.6% following falls in three consecutive years, which brought them back to the level reached back in 1977. As the increase in production was very similar to that in population, production per inhabitant remained almost constant (see figure 1). Economic activity varied between the two halves of the year, in that while the downward trend which had started in 1982 continued during the first six months, during the second half of the year, the net domestic product increased by almost 3%.

At the same time, adjustments in the public sector were carried out swiftly. In fact, the deficit in the public accounts when the government changed, which was equivalent to 40% of the product, was reduced to 6% in the second half of the year. This positive trend was due mainly to the increase in tax revenue of the central government, the stability achieved by the bulk of public enterprises (in which the increase in the prices of petroleum derivatives played an important part) and the reduction of international interest rates (which reduced the gross domestic product by nearly one point by decreasing official and semi-official expenditure in interest payments).

The real wage increased by 14% over the average for the previous year, thus bringing to an abrupt halt the downward trend which in 1984 had meant that real salaries and wages amounted to half barely of those recorded 10 years earlier. The average family income, however, showed an increase of 6% due to the smaller relative increase in real income of non-wage-earners (pensioners and persons employed on their own account). On the other hand, the rate of unemployment decreased markedly, falling below 11% for the first time since 1981.

The implementation of the financial programme rapidly decreased pressures on the exchange market with the result that during the second half of the year, the dollar exchange rate remained within the range estimated by the government. Nonetheless, the inflation continued to accelerate. Thus, the consumer price index increased by 83% by comparison with the rise of 66% experienced in 1984 (see table 1). All in all, towards the end of the year, the inflation was believed to be lowering in the neighbourhood of -10%, a rate which, although substantially lower than that of the inflation experienced when the new government took over, was still above the targets set in the programme (60% for the period July 1985/July 1986 and 45% for the year 1986).

The adjustments made in the external sector continued to follow the recessive pattern set in previous years. The trade balance again showed a surplus (US\$220 million), but exports and imports were lower than those recorded the previous year. This, as well as the heavy interest payments made to cover the external debt were contributing factors to the current account's closing with a negative balance of US\$125 million. Net capital income was US\$96 million, resulting in a decrease of about US\$22 million in the international reserves of the Central Bank and the Banco de la República.

Gross domestic investment decreased again (-10%) with the result that the investment coefficient fell to 8%, the lowest figure recorded since statistics began to be kept. One of the implications of this is that the country did not succeed in replacing assets which depreciate annually and are estimated to account for the equivalent of about 10% of the gross domestic product. This drop

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985 ^o
A. Basic economic indicators							
Gross domestic product at market prices (index 1980 = 100)	94.6	100.0	101.4	91.2	85.7	83.9	84.4
Gross national income	94.0	100.0	102.1	89.1	80.1	77.5	77.0
Population (millions of inhabitants)	2.89	2.91	2.93	2.95	2.97	2.99	3.01
Per capita gross domestic product (index 1980 = 100)	95.1	100.0	100.8	90.0	84.0	81.6	81.5
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.2	5.8	1.4	-10.1	-6.0	-2.1	0.6
Per capita gross domestic product	5.6	5.2	0.8	-10.7	-6.7	-2.8	-0.2
Gross national income	6.1	6.3	2.1	-12.7	-10.0	-3.3	-0.6
Rate of unemployment	8.4	7.4	6.7	11.9	15.5	14.3	13.0
Consumer prices							
December-december	83.1	42.8	29.4	20.5	51.5	66.1	83.0
Variation between annual averages	66.8	63.5	34.0	19.0	49.2	55.3	72.2
Real wages and salaries	52.6	64.4	43.6	18.3	18.3	41.0	99.3
Money	87.1	50.0	10.3	19.8	11.3	56.2	101.5
Current government income	93.7	77.5	42.2	-8.0	50.8	35.0	92.9
Total government expenditure	74.7	79.3	43.7	113.9	19.9	50.3	64.8
Fiscal deficit/total government expenditure*	1Y	oy	-0.5	-36.4	-20.1	-28.3	-16.0
Current value of exports of goods and services	30.8	27.8	11.4	-9.6	-8.2	-8.6	-3.0
Current value of imports of goods and services	55.0	42.6	-2.1	-24.4	-24.7	-11.1	-2.9
Terms of trade (goods and services)	-4.5	5.5	2.1	-9.2	-14.7	-1.3	-6.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-309	-618	-397	-48	217	227	220
Net payment of profits and interest	-58	-100	-74	-197	-288	-362	-356
Balance on current account	-363	-716	-468	-235	-60	-124	-125
Balance on capital account	448	811	494	-182	-11	39	96
Variation in international reserves (net) ⁸	4	112	51	-497	-71	-70	-22
External debt	1 682	2 138	3 112	4 238	4 572	4 671	4 900

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bGross domestic product plus terms-of-trade effect (goods and services). ^cAverage annual rate in Montevideo. ^dNominal average wage variation between annual averages. ^ePercentages. ^fSurplus. ^g{+} indicates an increase.

in investment was due, on the one hand, to reduced public investment and, on the other, to a lack of dynamism in the private sector caused by excessive internal indebtedness and by the rather unclear outlook at the start of the year concerning the way in which domestic and external demand would evolve.

However, the favourable change in the outlook for the public at large which became evident halfway through the year helped bring about an increase in the demand for money, which coincided with a gradual inflow of capital which was invested in government securities and deposited in banks. Thus, the central government was well able to cover its deficit by selling securities for foreign currency and by so doing to relieve its need to issue more national currency. However, the issue of new currency showed an increase greater than that which had been planned, in that whereas the monetary authorities had envisaged an increase of 51 % for the M_2 aggregate, this in fact increased by 91 % in 1985 and at a rate equivalent to 86% a year in the last six months.

b) *The economic and financial scenario when the new government took office*

After increasing at an annual average rate of 4.5 % during the period 1974-1980, the Uruguayan economy began to show significant signs of deterioration in the middle of 1981. During that year the growth rate barely reached 1.4%, and in the following year the economy entered the most severe recession since the Great Depression of the 1930s.

Towards the end of 1982, the authorities introduced a process of adjustment essentially designed to stabilize domestic prices and the balance of payments.

Over the two-year period 1983-1984, the economy showed negative trends. Although the deficit in the trade balance was sharply reduced, this was mainly due to a marked decrease in imports and occurred in the context of a grave recession. Thus, the product fell by 10% in 1982 and by 8% in the following two years, while imports of goods fell by 35% in 1982 and by 29% in 1983. At the same time, the rate of inflation rose from 21 % in 1982 to 52% in 1983 and to 66% in 1984 (see figure 1).

As in other countries in Latin America, the foreign debt reached an exceptionally high level in the early 1980s, amounting for the equivalent of about three and a half times the value of exports of goods and services and to 90% of the gross domestic product. In addition, the sudden increase in the rate of exchange combined with the high degree of dollarization of the Uruguayan economy, brought about a major imbalance in the financial situation of firms and were responsible for excessive domestic indebtedness which, in turn, had repercussions on the balances of banks and financial institutions.

The decline in activity resulted in substantial open unemployment which reached a maximum rate of 16% in the middle of 1983 thereby introducing another negative element as far as the distribution of income was concerned. The situation with regard to income distribution was also adversely affected by a fall in real wages of about 30% during the two-year period 1983-1984.

Thus, the economic and financial situation recorded towards the end of 1984 and at the start of 1985 was characterized by critical aspects, the most important of which were the prolongation of the recession from the third consecutive year, the strong likelihood of inflation, a considerable fiscal deficit and marked monetary imbalance, excessive domestic indebtedness, a high public external debt and a major fall in the share of wage-earner in the national income.

In fact, the level of economic activity recorded in 1984 was 17% lower than in 1981 with the result that per capita product that year was even lower than that achieved back in 1975. This was responsible for a substantial reduction in the degree to which the installed production capacity was used. At the same time, the rate of unemployment in the work force jumped from 6% in 1981 to 14% in 1984.

Moreover, the rapid progress of the inflation and its acceleration in 1984 represented an impediment to the formulation of a programme designed to rapidly increase economic activity. Furthermore, throughout the last months the former government was in office and the first months of the new administration (whose economic authorities did not make their economic policy explicit until mid-April), the growth rate of domestic prices continued to increase, and the inflation showed stronger signs of accelerating.

These signs of impending inflation come from quantitative and qualitative evaluations made by economic agents. From the quantitative point of view, the acceleration of the inflationary process in Argentina was extrapolated for Uruguay, within the framework of a possible general "liquefaction"

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS

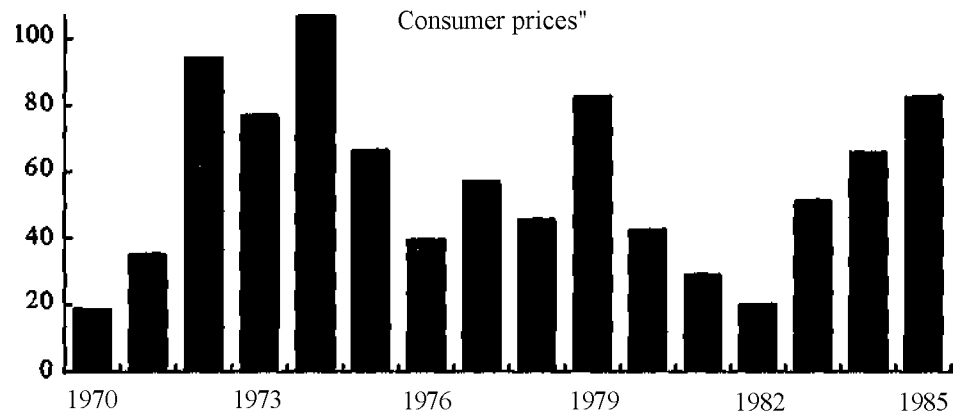
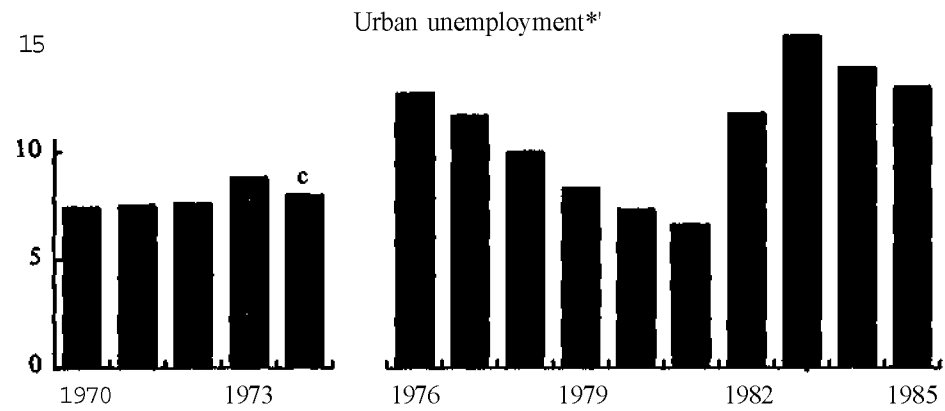
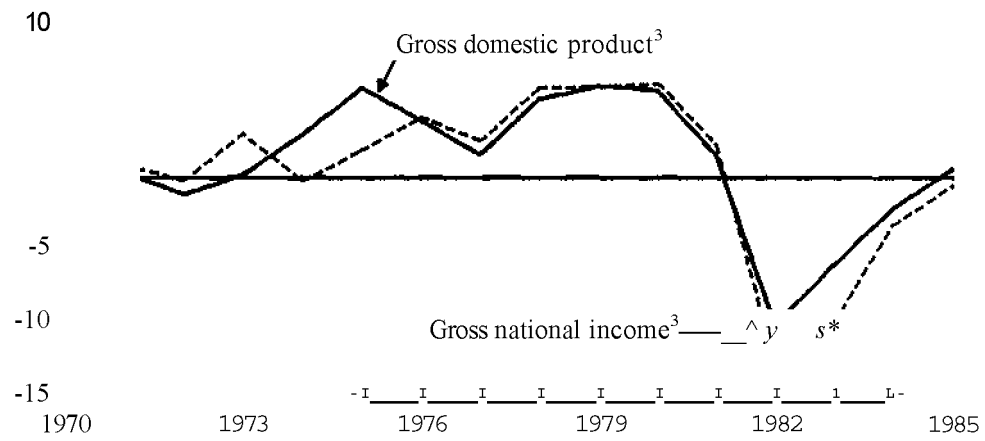
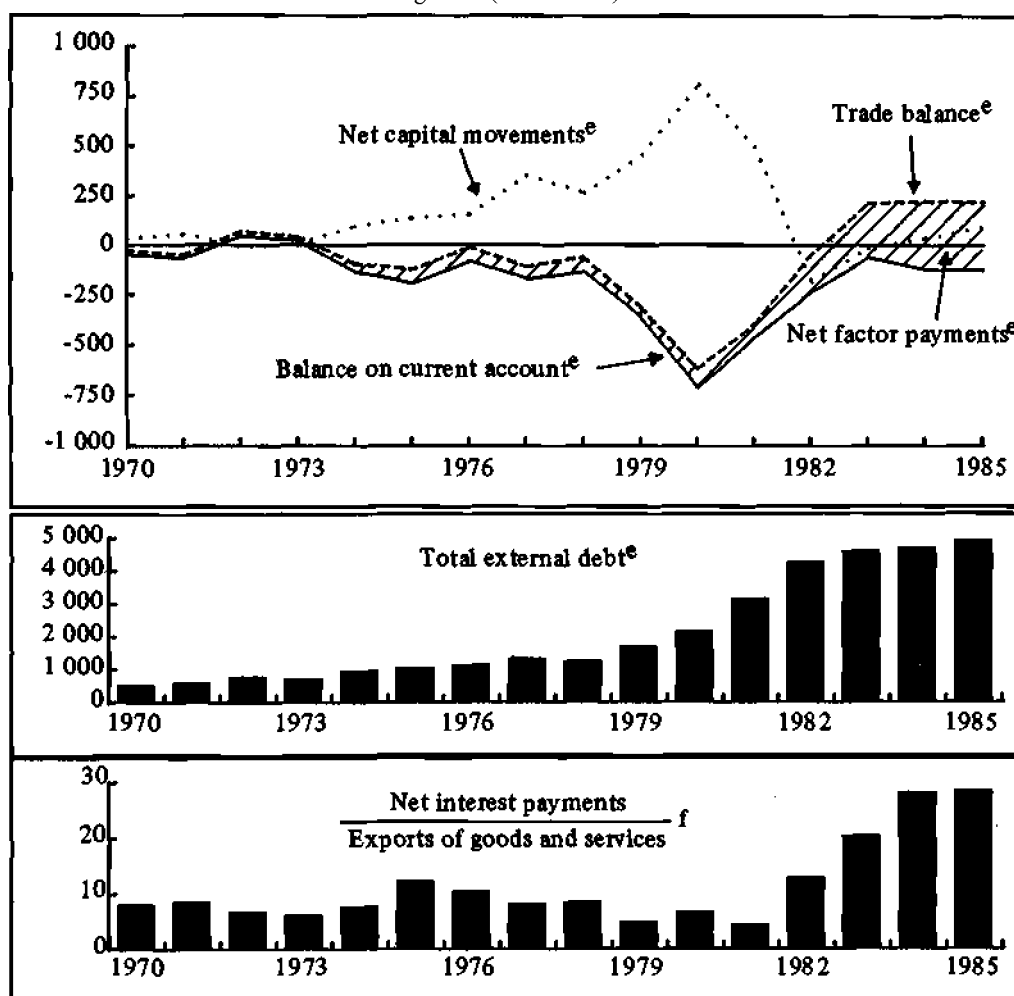


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAverage annual rate in Montevideo. ^cAugust 1974 — February 1975. ^dPercentage variation from December to December. ^eMillions of dollars.

^fPercentages.

of debts which it was supposed would solve the problem of the excessive domestic debt of the debtor countries. These evaluations also had some quantitative foundation, which lay in the pattern shown by the creation of money; the rate of exchange and the price index for the period embracing the elections and the month of April. Between November 1986 and March 1985, the issue of money by the Central Bank increased by 43% (that is, an annual increase of 194%); the rate of exchange increased by 51 % (at an annual rate of 170%) and consumer prices increased by 30% (or to an annual rate of 88%) and in April alone showed an increase of 10%.

The tremendous fiscal deficit was another major restriction facing the new authorities. At the end of 1983, it amounted to the equivalent of about 4% of the gross domestic product, and by the end of 1984 had grown even greater as a result of the delay in fixing the tariffs of the main public firms. Since the so-called para-fiscal deficit of the Banco Central also amounted to the equivalent of about 4% of the product, the overall deficit of the public sector at the time the new government came to power was as large as about 10% of the gross domestic product.

The size of this deficit also fuelled the highly inflationary mentality of the general public since it tended to create a very significant monetary imbalance. Since at the start of 1985, the monetary base barely amounted to the equivalent of 5 % of the product, if the total deficit of the public sector were to

be expressed monetarily, the monetary base would increase threefold as a result of the inflationary impact this would produce. In the end, the reduction of the financial deficit of the public sector was a necessary requirement of the programme to be implemented. In addition, so as not to postpone progress towards the stabilization of domestic prices indefinitely the financial deficit would have to be covered through a combination of monetization, the incurring of external and domestic debts and loss of reserves.

This combination of instruments (which made it advisable to choose a gradual stabilization policy, instead of shock tactics), had major limitations of its own. On the one hand, it was unadvisable to substantially increase the already high level of external indebtedness or to continue the practice followed in 1984 which consisted in financing the deficit of the public sector through the compulsory floating of debt securities in the private financial system. On the other hand, the possibility of losing international reserves had obvious drawbacks. Excessive domestic indebtedness constituted another salient feature of the economic-financial scenario at the start of 1985. When the new government came into office, the domestic debt of the private sector amounted to about US\$3 billion —a figure equivalent to 60% of the gross domestic product. Since it is estimated that 20% of this debt is generated in the public sector, the private debt was the equivalent of three quarters of the gross domestic product. This situation had caused the servicing of the domestic debt to shrink visibly since the debtors expected the authorities to put forward a solution which would make it possible to stabilize the financial flows of firms and to bring their holdings into line with those flows.

The high level of external indebtedness also considerably restricted the policy of economic revival. At the end of 1984, the gross external debt verged on US\$4 700 000 000, of which US\$3 160 000 000 were owed by the public sector. As this sector had also borrowed foreign currency from residents, the total debt of the public sector in foreign currency at this date was US\$4.2 billion, equivalent to 80% of the gross domestic product and three and a half times the value of exports of goods and services. The high figure attained by the debt together with the high real interest payments to which credit was subject (in terms of the prices of exports), created an external bottleneck which considerably restricted any attempt at economic revival.

Although a certain equilibrium had been attained in the balance of payments in 1983 and in 1984, it had been achieved at the expense of a sharp shrinkage of imports and a major rise in indebtedness.

Finally, between 1975 and 1984 wages had lost almost half their purchasing power while there had been a marked rise in unemployment, which in 1984 attained 14%. As a result of these changes, the share of income received by wage-earners slumped while the share of interest payments on financial capital increased. Thus, while towards the middle of the previous decade, wage-earners had been receiving approximately 38% of the income, in 1984 they received only 30%. Within this context, the re-establishment of democracy brought with it the opportunity to make demands based on the worsening of the situation as regards income distribution, so that when the new government took power, there were clear signs of unrest where distribution was concerned.

c) *The central aims of economic policy*

Within the context of the restrictions mentioned above, towards the middle of 1985 the new economic authorities defined their main objectives. Thus, in the Memorandum of Understanding presented to the International Monetary Fund, requesting standby credit and outlining an 18-month programme to be carried out between 1 July 1985 and 31 December 1986, it was established that the main objective pursued by the government was sustained reactivation of the economy by policies designed to bring down inflation, reduce the public sector deficit and strengthen the balance of payments. In practice, during the first year of government, economic policy endeavoured to advance on four basic fronts —bringing down inflation, redistributing income, increasing exports and raising production. Within these four major lines of action, the main points to which attention was addressed were the following: reduction of the public-sector deficit; a monetary programme designed with the aim of gradually bringing down inflation; refunding the external and domestic debt; increasing real wages without jeopardizing employment; maintaining a real rate of exchange in keeping with the aim of increasing exports and compatible both with lowering pressure on the exchange market and gradually reducing the nominal rate of interest in local currency; an aggressive external trade policy; financial support for selected activities and the pursuit of social harmony through consensus.

Table 2
URUGUAY: TOTAL SUPPLY AND DEMAND

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985'	1980	1985"	1982	1983	1984	1985'
Total supply	80.3	78.0	78.2	121.3	112.4	-12.7	-8.8	-2.9	0.2
Gross domestic product at market prices	85.7	83.9	84.4	100.0	100.0		-6.0	-2.1	0.6
Imports of goods and services	54.8	50.2	48.9	21.3	12.4		25.1	-8.4	-2.6
Total demand	80.3	78.0	78.2	121.3	112.4		-8.8	-2.9	0.2
Domestic demand	75.3	73.4	73.6	106.1	91.8		11.7	-2.5	-1.1
Gross domestic investment	47.2	43.2	38.7	17.3	8.0		36.6	-8.6	-10.3
Gross fixed investment	55.5	43.0	38.0	16.7	7.5		32.8	-22.5	-11.6
Construction	61.7	49.7	43.8	11.4	5.9		33.3	-19.5	-11.9
Machinery and equipment	42.1	28.6	25.7	5.3	1.6		31.2	-32.0	-10.4
Variation in stocks				0.6	0.4				
Total consumption	80.9	79.4	79.7	88.8	83.9		-7.5	-1.8	0.3
General government	101.9	102.1	101.7	12.5	15.0		-2.9	0.2	-0.4
Private	77.4	75.7	76.0	76.3	68.9		-8.5	-2.2	0.5
Exports of goods and services	115.1	109.7	114.2	<u>15.2</u>	<u>20.5</u>		7.1	-4.7	6.4

Source: ECLAC, on the basis of data from the Central Bank of Uruguay.

"Preliminary figures. 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 1980 values by using price indexes calculated for the purpose by ECLAC and expressed as indexes.

2. Trends in economic activity

a) *Total supply and demand*

After having declined for three years running, total supply rose by 0.2% in 1985. Nevertheless, it barely attained its 1976 level (see table 2). The slight recovery in total supply was exclusively due to the 0.6% increase in the gross domestic product, since the volume of imports of goods and services shrank by 2.5%. Consequently, the import coefficient again declined, barely exceeding 12%, the lowest level recorded since 1972. Since, on the other hand, the volume of exports of goods and services increased by more than 6%, the gap between the export and import coefficients again widened and represented the equivalent of 8% of the product. The fact that this figure had been -4.0% in the period 1979-1981, is clear evidence of the scale of the external adjustment effort carried out by the economy over the three intervening years (see table 3).

As far as domestic demand is concerned, it declined by 1% as a result of a significant slump in fixed capital formation. Fixed capital formation—which had fallen off significantly in the previous three years—dropped by almost 12% in 1985 owing to a further and pronounced shrinkage in construction and a decline, for the fifth year, running, in investment in machinery and equipment. Thus, fixed capital formation was 60% lower in 1985 than in 1981, and the investment coefficient fell to 8%, the lowest percentage ever recorded. This drop, for its part, indicated that the economy had failed to replace the capital exhausted in 1985, as it is estimated that annual depreciation represents approximately 10% of the gross domestic product.

The main features of the funding of the gross domestic investment were the same as in the previous year, in that 78% was financed by domestic savings and 22% by external savings. In 1985 an enormous transfer of resources abroad was again recorded in the form of payment of interests and profits to foreign capital. It was equivalent to 64% of the year's gross investment and, as a result of the deterioration in the terms of trade to 46% of investment. It was therefore necessary for gross

domestic savings to be 88% higher than the investment made, which is a clear indication of the significant adjustment effort made by the economy in order to cope with the external bottleneck resulting from its deep indebtedness and from the fall in the international prices of its main export products (see table 4).

As far as private consumption is concerned, it rose slightly on account of the rise in the real wage. Nevertheless, as a result of the continual declines it had undergone in the preceding three years, it was still 25% lower than in the period 1980-1981. As a result of the fiscal adjustment, public consumption dropped by 0.4%, which was in particular mirrored in the fall in purchases of non-personal goods and services.

Table 3
URUGUAY: COEFFICIENT OF OPENNESS OF THE ECONOMY
(As a percentage of GDP)

Year	Exports	Imports	(X+M)	(X-M)
1975	12.6	13.5	26.1	-0.9
1976	14.5	13.1	27.6	1.4
1977	15.3	16.4	31.7	-1.1
1978	15.1	16.0	31.1	-0.9
1979	15.4	18.4	33.8	-3.0
1980	15.2	21.3	36.5	-6.1
1981	16.4	20.6	37.0	-4.2
1982	17.9	17.1	35.0	0.8
1983	20.4	13.6	34.0	6.8
1984	19.8	12.7	32.5	7.1
1985	20.5	12.4	32.9	8.1

Source: ECLAC, based on figures provided by the Central Bank of Uruguay.

Table 4
URUGUAY: FINANCING OF GROSS DOMESTIC INVESTMENT

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985"
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 savings	83.9	73.2	76.1	69.0	59.9	66.0	57.8	76.1	80.8	78.2
Gross domestic savings	88.8	87.7	85.5	72.0	67.7	69.6	72.2	132.8	167.9	187.7
Net external factor										
payments	-13.1	-9.6	-9.4	-4.6	-6.0	-4.9	-16.1	-40.3	-56.9	-63.9
Terms-of-trade effect	8.2	-4.9	-	1.6	-1.8	1.3	1.7	-16.4	-30.2	-45.6
External savings	16.1	26.8	23.9	31.0	40.1	34.0	42.2	23.9	19.2	21.8
Percentage of gross domestic product										
Gross domestic investment	12.7	14.8	16.0	18.7	18.5	16.6	15.0	10.1	9.5	8.4
Gross national savings	10.6	10.8	12.2	12.9	11.1	11.0	8.7	7.7	7.7	6.6
Gross domestic savings	11.3	12.9	13.7	13.5	12.6	11.6	10.8	13.4	16.0	15.8
Net external factor										
payments	-1.7	-1.4	-1.5	-0.9	-1.1	-0.8	-2.4	-4.1	-5.4	-5.4
Terms-of-trade effect	1.0	-0.7	-	0.3	-0.4	0.2	0.3	-1.6	-2.9	-3.8
External savings	2.1	4.0	5.8	5.8	7.4	5.6	6.3	2.4	1.8	1.8

Source: ECLAC, on the basis of official data.

"Preliminary figures.

Table 5

URUGUAY: EVOLUTION OF ECONOMIC ACTIVITY*(Index 1978 = 100)*

	Values (seasonal effects discounted)							
	1984				1985			
	I	II	III	IV	I	II	III	IV
Gross domestic product	95.3	95.4	95.4	95.1	95.3	93.2	95.9	98.6
Manufacturing	81.8	83.1	80.7	87.2	79.7	78.9	83.9	85.0

Source: ECLAC, on the basis of figures provided by the Central Bank of Uruguay.

Table 6

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

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1983	1984	1985*	1980	1985°	1982	1983	1984	1985 ⁶
Gross domestic product	85.9	84.1	84.6	100.0	100.0	-10.0	-6.0	-2.1	0.6
Goods	78.7	77.1	76.9	45.7	41.5	-13.0	-8.3	-2.1	-0.3
Agriculture'	100.0	93.3	98.1	10.6	12.3	-7.3	2.2	-6.7	5.1
Mining	61.7			14	26.4	-20.9	-20.6	1	
Manufacturing	73.8	75.9	74.7	28.7		-16.9	-7.0	>	2.8
Construction	66.5	53.9	48.5	5.0	2.9	-3.0	-33.5	-19.0	-10.0
Basic services	89.1	88.8	88.7	7.2	7.6	-8.5	-3.1	-0.4	-0.1
Electricity, gas and water	108.9	108.7	111.6	14	19	12	2.1	-0.2	2.7
Transport, storage and communications	84.2	83.8	82.9	5.8	5.7	-11.0	-4.7	-0.5	-1.1
Other services	92.2	90.1	91.5	47.1	50.9	-7.5	-4.4	-2.3	1.5
Commerce, restaurants and hotels	72.8	69.5	70.2	20.2	16.8	-20.1	-10.8	-4.5	1.0
Financial institutions, insurance, real estate and business services	110.5	107.9	110.1	11.7	15.2	4.0	-0.6	-2.4	2.1
Ownership of dwellings	99.7	100.4	102.1	6.9	8.3	14	-2.9	0.7	1.7
Community, social and personal services	104.4	104.2	105.7	15.2	19.0	-	-0.9	-0.1	14
Government services	104.2	104.5		9.2		0.3	-2.9	0.3	

Source: ECLAC, on the basis of official data.

°At 1980 market prices.

*Preliminary figures.

° Includes livestock, forestry and fishing.

b) Evolution of the main sectors

During the year economic activity fell into two clearly distinct periods. While during the first half of the year the gross domestic product fell by 1% in comparison with its average level of the previous year, during the second six months it underwent a marked recovery. During this period, the level of overall economic activity was almost 3% higher than during the previous six months, while during the final quarter the product was 5.3% higher than during the second quarter, when the product had fallen to its lowest level in the last five years. Manufacturing also experienced considerable growth (6% during the second half of the year) after having fallen during the first six months (see table 5). Thus, while the annual growth of the product was extremely low (0.6%), after the middle of the year the recessive trend which economic activity had shown since 1982 was reversed.

Table 7

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1977	1978	1979	1980	1981	1982	1983	1984	1985 ^e
Index of agricultural production (1978 = 100)	...	100.0	99.7	117.0	117.6	110.3	109.0	105.6	111.2
Crop-farming	117.8	100.0	97.4	122.5	118.2	114.7	103.9	109.4	104.0
Stock-raising	103.6	100.0	101.2	113.8	117.3'	107.7	111.9	103.5	115.0
Production of the main crops ^{be}									
Wheat	504.9	173.2	174.3	429.5	306.6	387.8	363.0	419.0	349.0
Rice	228.3	225.6	248.0	287.6	330.3	418.9	323.0	340.0	
Linseed	46.4	39.8	31.2	65.1	21.4	11.0	5.0	7.0	8.0
Sunflower	34.4	71.6	51.4	47.6	45.0	46.2	19.0	26.0	31.0
Maize	121.0	171.7	70.9	119.3	180.8	97.3	104.0	112.0	108.0
Sugar beet	596.9	375.9	356.7	504.0	345.7	366.8	394.0	271.0	177.0
Indicators of livestock production									
Beef cattle production ^{1*}	681.7	657.2	698.3	720.6	728.9	790.1	628.9	654.8	669.0
Wool production	58.3	62.5	67.3	71.1	74.5	82.6	81.7	71.0	90.0
Milk production'	708.0	730.0	760.0	795.0	805.0	818.0	840.0	836.0	894.0
Slaughtering									
Beef cattle	664.3	609.5	506.9	648.3	756.4	790.1	861.4	602.2	655.0
Pigs	31.0	31.0	31.0	27.7	28.3	26.6	25.8		
Sheep	100.0	99.0	75.0	74.4	125.7	131.1	102.6	100.7	
Other products									
Poultry ^c	16.1	15.8	20.1	24.2	28.8	26.8	20.4	21.5	21.9
Eggs'	315.0	332.9	327.2	381.8	389.8	370.8	463.2	419.7	481.0
Growth rates									
Index of agricultural production (1978 = 100)			-0.3	17.3	0.5	-6.2			
Crop-farming	-6.0	-15.1	-2.6	25.8	-3.5	-3.0	-9.4	5.3	-4.9
Stock-raising	6.5	-3.5	12	12.5	3.1	-8.2	3.9	-7.5	11.5
Fisheries and maritime hunting	38.7	49.9	44.4	13.7	18.0	-14.7	-16.8	20.4	19.0
Production of the main crops ^c									
Wheat	10.8	-65.7	0.6	146.4	-28.6	26.5	-6.4	15.4	-16.0
Rice	5.5	-1.2	9.9	16.0	14.8	26.8	-22.9	5.3	
Linseed	-24.8	-14.2	-21.6	108.7	-67.1	-48.6	-54.5	40.0	14.0
Sunflower	-55.4	108.1	-28.2	-7.4	-5.5	2.7	-58.7	36.8	19.1
Maize	42.5	41.9	-58.7	68.3	51.6	-46.2	7.2	7.7	-3.1
Sugar beet	-28.4	-37.0	-5.1	41.3	-31.4	6.1	7.4	-31.2	-34.1
Indicators of livestock production									
Beef cattle ^{ff}	13.3	-3.6	6.3	3.2	12	8.4	-20.4	4.1	2.1
Wool	-6.3	7.2	7.7	5.6	4.8	10.8	-1.1	-13.1	26.7
Milk'	-4.6	3.1	4.1	4.6	13	1.6	2.7	-0.5	6.9
Slaughtering									
Beef cattle	-15.2	-8.2	-16.8	27.9	16.7	4.5	9.0	-30.1	8.8
Pigs	-4.6	-	-	-10.6	2.2	-6.0	-3.0		
Sheep	5.3	-1.0	-24.2	-0.8	69.0	4.3	-21.7	-1.9	
Other products									
Poultry [^]	20.1	-1.9	27.2	20.4	19.0	-6.9	-23.9	5.4	1.9
Eggs ⁷	1.6	5.7	-1.7	16.7	2.1	-3.0	-4.9	24.9	14.9

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

'Preliminary figures.

Agricultural year.

'Thousands of tons.

Thousands of tons on the hoof.

'Millions of litres.

Millions of units.

i) *Agriculture*. The agricultural product rose by 5% in 1985 thanks to a sharp increase in livestock production (11.5%), which more than offset the 5% decline in crop production (see table 6).

The increase in wool production was the main factor in the satisfactory evolution of stock raising. A mild winter favoured the development of sheep, in contrast with the high rate of mortality experienced the previous year; it also stimulated the growth of their wool with the result that a high yield per animal was obtained. Thus, the 1985/1986 yield was 28% higher than that of the previous year. Milk production, which grew by almost 7%, also benefited from the mild winter, reaching an unprecedented level in 1985. Since both the domestic and the external demand for milk are keen, this has become one of the country's most dynamic activities. The production of beef cattle also evolved favourably (6%), the growth phase of the productive cycle having been reached, although growth remained considerably lower than that recorded at the beginning of the decade. Finally, while the production of poultry meat fell slightly in 1985, that of eggs rose by 15%, the largest increase ever recorded (see table 7).

On the other hand, the product due to crop raising fell by 5% as a result of declines in the harvests of almost all the main crops. Rice production, however, recorded a 25% increase, which brought it back to its maximum level attained in 1982. The sharp drop in the international grain prices which occurred during the second half of the year led to a decline in domestic prices. As the price of inputs rose, the value added in current figures fell more than is indicated in estimates at constant prices.

Finally, fishing showed little growth (1.5%), and it proved impossible to attain the maximum level of catch recorded in 1983. One of the major causes of the poor performance in this sector was the labour conflict which brought offshore fishing to a halt for almost a month.

ii) *Manufacturing*. In 1985 the manufacturing output declined by 1.6%. Nevertheless, this decline was restricted to the first half of the year, while during the second half manufacturing production rose 6.6% above the average for the previous period (see table 5). This recovery was also apparent in the employment indicators. Thus, both the number of hours worked per worker and that of persons employed rose slightly during the year. While the former rose by almost 1% with regard to the average for the previous year, the number of persons employed rose by 1.7%.

The decline in industrial activity over the year as a whole reflected the slackness of both domestic and external demand, as well as the expectant approach adopted by entrepreneurs towards the search for solutions to the problem of excessive domestic indebtedness. This brought about the already mentioned shrinkage in investment as well as a slow response by production to the increase in domestic demand which occurred during the second half of the year as the consequence of the increase in the purchasing power of urban wage-earners. The shrinkage of gross capital formation was also largely attributable to the unsatisfactory evolution of the construction sector, which is a major source of demand for industrial goods and has a considerable impact upon economic activity as a whole.

Production of food, beverages and tobacco grew by almost 5% during the year, under the impetus of the increase in domestic demand (which was stimulated both by the rise in real wages and by the relatively lower price of beef) and in the number of beef and dairy cattle (see table 8). The manufacture of industrial chemicals, fertilizers, pesticides and paints also increased thanks to the higher domestic demand on the part of families and the automobile industry and to the increase in exports to neighbouring countries. Production of glass and glass products rose sharply, although its level remained considerably below the installed production capacity. As far as metal products, machinery and equipment are concerned, their manufacture rose by almost 4%, mainly as a result of the rise in domestic demand.

In contrast, the manufacture of textiles and footwear, paper, non-metallic minerals and basic metals fell off in 1985. The decline in textile and footwear production (-7%), despite the improved supply of raw material for the industry resulting from the marked increase in wool production, was due to the fall in exports and the sluggishness of domestic demand. According to entrepreneurs, the decline in textile and footwear manufacture was also attributable to labour conflicts and problems of electricity supply. As for the 8% shrinkage in the manufacture of non-metallic minerals, it was caused by the drop in construction and the difficulty experienced in selling these minerals in neighbouring countries, in particular Brazil. The basic metal industries also reduced their production by 6.5% due to falls in domestic and external demand.

Finally, analysis of manufacturing production is on the basis of its sales, shows that the activity of that group of branches which manufacture all their products for the domestic market declined by 0.5%, while that of the remaining branches, which sell on both domestic and external markets, shrank by 3.8%. Within this latter group, however, those which are more export-oriented (exporting more than 75% of their sales) grew by 26%.

iii) *Construction*. In 1985 the construction product fell by 10%. As a result of this drop and of the even greater shrinkages experienced during the preceding two years, activity in this sector was less than half that recorded in the period 1980-1981. The main reasons for this further drop were the shrinkage in public investment (as a result of the fiscal adjustment), the shortage of domestic financing, the high level of real interest rates and the large number of dwellings available on the housing market which had remained unsold since the end of the housing boom in 1978-1981. Nevertheless, towards the end of the year, some dynamism was observable in private construction as reflected in the erection of new buildings or in the completion of buildings on which work had been halted since 1982. Although there was a highly seasonal factor in this revival, it may also have been linked to the drop in the international interest rate and to the inflow of capital from abroad recorded during the second half of the year.

Table 8

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

(Index 1982 = 100)

	1984				1985			
	I	II	III	IV	I	II	III	IV
Index of manufacturing production	90.3	98.5	94.8	99.6	88.0	93.5	98.6	97.0
Food	83.7	91.6	79.2	73.1	85.9	91.4	80.8	97.7
Other food industries	80.1	93.8	95.3	87.6	79.2	83.8	92.5	90.0
Beverages	84.3	64.1	64.6	95.3	86.4	63.8	69.9	99.4
Tobacco	101.4	75.1	78.3	87.3	83.5	78.9	80.6	83.6
Textiles	130.3	146.2	138.0	126.6	92.5	157.7	144.4	136.6
Clothing	96.4	126.1	157.7	127.2	90.4	126.7	142.1	109.2
Leather	108.6	106.6	104.1	83.3	80.5	91.6	85.3	83.3
Footwear	91.2	139.1	133.6	124.3	55.5	92.9	95.2	114.4
Paper	105.2	119.9	148.0	140.2	119.0	77.7	144.8	128.6
Printing and publishing	93.5	92.3	95.8	112.8	105.9	96.7	104.4	91.3
Industrial chemicals	67.7	81.4	99.6	96.8	75.5	115.6	106.0	112.4
Other chemicals	80.4	96.0	109.2	100.2	93.8	82.2	96.3	96.4
Petroleum refining	94.4	89.1	54.4	95.3	94.4	65.4	90.9	62.1
Rubber	92.3	147.3	147.4	131.9	98.2	139.5	130.8	128.3
Plastics	84.8	99.0	104.2	98.1	72.2	121.5	111.7	119.0
Pottery and earthenware	153.9	178.2	177.2	174.1	89.4	110.1	130.6	122.0
Glass	57.8	47.9	64.3	104.4	76.9	86.5	144.1	124.8
Other non-metallic mineral products	63.2	56.9	61.9	63.9	49.6	56.8	43.6	49.1
Basic ferrous metals	104.3	94.4	112.2	103.0	96.6	104.1	79.1	99.9
Basic non-ferrous metals	103.5	132.3	145.6	148.5	124.5	131.3	133.7	125.8
Metal products	69.9	95.4	98.3	91.3	87.9	94.0	89.9	93.7
Electrical machinery, equipment and supplies	61.1	89.8	97.9	94.6	66.0	89.9	85.8	100.1
Transport equipment	62.5	84.3	94.7	106.4	92.8	78.5	100.4	104.3
Professional, scientific and other equipment	89.7	149.7	140.4	138.3	68.3	67.8	83.6	82.1
Other manufacturing industries	<u>112.5</u>	<u>106.5</u>	<u>118.1</u>	<u>150.8</u>	<u>122.6</u>	<u>98.4</u>	<u>99.4</u>	<u>109.0</u>

Source: Central Bank of Uruguay.

Table 9

URUGUAY: EVOLUTION OF UNEMPLOYMENT

Mobile quarter centred on	Rate of unemployment						Rate of em- ployment
	Total	Relationship with head of household		Kind of activity			
		Head of household	Other household member	Manu- facturing industry	Con- struction	Trade	
1984							
January	14.9	3.0	11.9	14.2	12.0	12.6	49.6
February	14.6	3.3	11.3	13.8	17.6	12.8	48.9
March	14.0	3.3	10.7	13.8	16.4	11.7	49.0
April	14.2	3.3	10.9	14.1	14.8	13.3	49.2
May	14.1	2.8	11.3	14.3	16.7	11.4	49.6
June	14.3	2.7	11.6	13.4	23.9	11.3	49.4
July	14.7	2.7	12.0	13.8	25.7	9.6	49.4
August	14.7	3.1	11.6	13.1	25.6	11.2	49.9
September	14.0	2.7	11.3	13.7	16.4	10.4	50.7
October	13.4	2.6	10.8	12.5	16.4	11.6	50.4
November	12.7	2.1	10.6	12.0	10.1	9.9	51.0
December	13.2	2.1	11.1	12.7	14.1	9.5	50.5
1985							
January	13.3	2.4	10.9	14.1	12.1	9.0	50.5
February	13.7	2.8	10.8	13.5	15.4	10.2	49.7
March	13.4	2.9	10.5	12.8	14.4	10.8	50.4
April	13.2	2.7	10.5	11.0	16.5	11.5	50.6
May	13.2	2.6	10.6	12.3	16.4	13.4	51.4
June	13.7	2.8	10.9	12.8	18.3	13.4	51.0
July	13.3	2.6	10.8	12.9	18.7	13.1	51.0
August	13.6	2.8	10.8	12.6	21.7	11.5	50.7
September	13.0	2.6	10.4	11.4	24.3	10.4	50.7
October	12.7	2.5	10.2	11.0	18.4	9.2	51.1
November	12.0	2.6	9.4	10.9	16.6	9.1	51.5
December	10.8	2.2	8.6	9.1	14.1	9.7	51.5

Source: Department of Statistics and Censuses, Uruguay.

c) *Employment*

The revival which took place in domestic activity as from the middle of the year had a favourable impact on the level of employment in the last quarter. The rate of unemployment, which had remained at around 13.5% during the first nine months, underwent a continual decline as from September and fell to 10.8% in the quarter centred on December (see table 9). Thus, the rate of unemployment fell below 11% for the first time since the beginning of 1982, although even this represented double the minimum level of 5.8% recorded at the beginning of 1981, before the onset of the crisis.

The fall in unemployment which took place during the closing months of the year was generalized throughout the various branches of activity. The highest unemployment index continued to be recorded in construction, while it was lowest in transport and communications.

At the same time, the rate of employment increased, rising to over 51 %, a rate which had not been achieved since 1981. This rise was reflected in both male and female employment, although the employment coefficient for males (68%) is considerably higher than that for females (38%).

The fall in unemployment benefited young people and people over 25 as well as heads of households and other members of the labour force. Nevertheless, the rate of unemployment of heads of households was far lower at the end of the year (2.2%) than that of other household members (8.6%).

Table 10

URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985 ^a
Balance on current account	-363	-716	-468	-235	-60	-124	-125
Trade balance	-309	-618	-397	-48	217	227	220
Exports of goods and services	1 194	1 526	1 701	1 537	1 411	1 289	1 251
Goods FOB	788	1 059	1 230	1 256	1 156	925	854
Real services	406	468	471	281	255	365	397
Transport and insurance	72	89	92	81	71	69	68
Travel	268	298	283	106	90	210	235
Imports of goods and services	1 504	2 144	2 098	1 585	1 194	1 062	1 031
Goods FOB	1 166	1 668	1 592	1 038	740	733	697
Real services	337	476	506	547	455	329	334
Transport and insurance	124	161	174	116	85	74	68
Travel	136	203	203	304	259	154	162
Factor services	-55	-100	-74	-197	-288	-362	-356
Profits							
Interest received	50	68	146	147	63	87	72
Interest paid	-108	-168	-220	-344	-350	-449	-428
Others	3						
Unrequited private transfer payments	2	2	3	10	11	10	11
Balance on capital account	448	811	494	-182	-11	39	96
Unrequited official transfer payments	6	7	7	-	-	-	-
Long-term capital	359	404	345	515	643	30 ^b	
Direct investment (net)	216	289	49	-14	6	3	
Portfolio investment (net)	-31	-7	3	-7	-16	7	
Other long-term capital	174	122	294	536	653	20	
Official sector ^c	154	108	110	423	329	46	
Loans received	163	181	140	456	531	90	
Amortization payments	-18	-66	-27	-29	-198	-43	
Commercial banks ^d	-3	5	-3	-5	37	-1	
Loans received	-	7	-	1	43		96
Amortization payments	-2	-2	-2	-2	-9	-1	
Other sectors ^e	23	9	187	118	287	-25	
Loans received	41	26	201	182	346	62	
Amortization payments	-18	-17	-14	-64	-58	-87	
Short-term capital (net)	94	311	303	567	-359	158	
Official sector	9	-23	-5	83	41	47	
Commercial banks	128	307	87	240	-67	67	
Other sectors	-42	26	221	244	-333	43	
Net errors and omissions	-11	90	-161	-1 264	-295	-149	
Global balance	85	95	26	-417	-70	-85	-29
Total variation in reserves							
(- sign indicates an increase)	-4	-112	-51	497	71	70	22
Monetary gold	-25	-22	4	85	52	-8	
Special Drawing Rights	-20	1	-10	41	-2	-1	-10
IMF reserve position	-	-13	1	33	-10	10	-
Foreign exchange assets	49	-50	-37	240	-122	65	-30
Other assets	-9	-29	-9	3	12	12	
Use made of IMF credit	-	-	-	96	142	-8	128

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC on the basis of official data.

^aPreliminary figures. ^bReal services also include other official and private transactions, but exclude factor services. ^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities. The global balance is the sum of the balance on current account and the balance on capital account. The difference between the total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

3. The external sector

In 1985 the economy continued to be deeply affected by external restrictions. Even though a number of encouraging events occurred in the financial sphere, the behaviour of external trade remained as it had been since the beginning of the decade. Thus, the rollover agreement on the external debt reached with commercial banks (which provided for more satisfactory terms than those obtained previously as regards both repayment periods and rates of interest) helped to reduce pressure on the balance of payments while the considerable reduction in international interest rates led to a reduction in public-sector expenditure equal to almost one point of the gross domestic product.

On the other hand, in spite of the efforts made to open up new markets for exports with a view to limiting the adverse impact of the external adjustment, which in the period 1982-1984 had been based primarily on a sharp contraction of imports, no significant changes took place in trade relations in spite of the authorities' efforts to increase trade relations with neighbouring countries by making the existing bilateral agreements with Argentina (CAUCE) and Brazil (PEC) more comprehensive and although countertrade, mainly involving the exchange of agricultural products (meat, milk, rice) for petroleum, was conducted with a number of countries.

The surplus obtained from trade in goods declined by 18% and amounted to less than US\$160 million. This reduction occurred because the drop in the value of exports was even greater than that in the value of imports (-8% and -5% respectively). On the other hand, the surplus on the services account rose by 75 % thanks, above all, to increased income from tourism. Earnings by this sector rose by 12%, reaching US\$235 million. Although this was lower than the income recorded in the period 1979-1981, it was equal to 28% of total exports of goods and to 80% of sales of non-traditional products.

As a result of these changes and of the fall of approximately 5 % in interest rates brought about by the drop in international interest rates, the current-account balance barely changed, showing a deficit of US\$125 million (see table 10).

The capital account (including net errors and omissions) showed an income of US\$96 million, over twice as large as that of the preceding year. This was mainly the result of an increased inflow of private capital, which was in turn reflected in the high sales of government securities (approximately US\$200 million) and in the increase in deposits in the banking system. Thus, the balance of payments closed with a deficit of rather less than US\$30 million, considerably lower than that recorded in the preceding three years.

Although the net inflow of capital increased, it was again very much lower than interest payments. Consequently, for the fourth year running, the country transferred a considerable amount of resources abroad. The amount transferred during the period 1982-1985 came close to US\$1.3 billion and was equal to 23% of exports of goods and services (see table 11).

a) *External trade*

i) *Exports.* Although the volume of merchandise exported increased slightly, their value fell by around 8% as a result of the pronounced decline (-9%) in the average selling prices (see table 12).

The main cause of this further decline in exports of goods was the unfavourable performance of traditional items, the value of which fell by 13%. The 22% drop in meat sales and the 62% drop in those of other traditional items resulted in a shrinkage of US\$50 million, equal to 70% of the total decline in the value of exports of goods. Sales of non-traditional products also fell, but to a lesser extent (4.5 %). They thus made up two thirds of total exports, the highest proportion since 1979. This behaviour was the net result of adverse changes in a number of items, noteworthy among which was the 37% fall in exports of cow and horse hides, and of considerable increases in sales of rice (40%) and fish (10%) (see table 13).

There were no significant changes in the destination of exports by geographical region. The ALADI countries received 28% of the sales; the European Economic Community, 20%; the United States, 15% and the Middle East, 11%.

ii) *Imports.* In 1985 external purchases of goods fell for the fifth year running. As a result, they were 5% lower than in 1984 and almost 60% lower than in the 1980-1981 biennium. The shrinkage was particularly marked in purchases of capital goods, whose value fell by 20% and was equal to slightly more than one fifth of that recorded in the biennium prior to the crisis. The decline in

petroleum purchases also continued as a result of lower demand for petroleum by-products, on the part both of families and of enterprises, and of the gradual but continual changeover to the use of hydroelectric energy and wood. As for imports of consumer goods, raw materials and intermediate goods with the exception of petroleum, they remained at the same levels as in the previous years (see table 14).

As in the case of exports, the country's main import trading partners were the members of ALADI who provided one third of total imports, the European Economic Community (14%), the United States (7%) and the Middle East (25%).

iii) *Terms of trade.* The terms of trade in merchandise declined by almost 7%, more than offsetting the slight increase of the previous year and thereby accumulating a 17% drop in the three-year period 1983-1985 (see table 12). This behaviour was the result of a decline of nearly 9% in the average prices of merchandise exports and 2.5% in the prices of imports.

b) *External indebtedness*

As already mentioned, the tight stranglehold exerted by the country's deep external indebtedness loosened somewhat in 1985 as a result of the renegotiation of payments for the period 1985-1989. By virtue of the agreement reached with private international banks, these amortization payments will be made over a 12-year period (with three years of grace) at the LIBOR rate plus a margin of $1\frac{3}{8}\%$.

Table 11

URUGUAY: NET EXTERNAL FINANCING (Millions of dollars)

Year	Net capital movement	Net factor payments	Net external transfers of funds
1979	453	55	398
1980	811	100	711
1981	494	74	420
1982	-182	197	-379
1983	-10	288	-298
1984	37	362	-325
1985	97	356	-259

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 12

URUGUAY: MAIN FOREIGN TRADE INDICATORS

	1979	1980	1981	1982	1983	1984	1985
Growth rates							
Exports of goods							
Value	14.9	34.3	16.2	2.2	-8.0	-20.1	-7.6
Volume	-6.0	18.5	18.5	9.4	-0.8	-20.4	1.5
Unit value	22.2	13.4	-2.0	-6.6	-7.2	0.5	-9.0
Imports of goods							
Value	64.3	43.0	-4.6	-34.8	-28.8	-0.9	-4.9
Volume	23.0	21.8	-1.4	-33.1	-26.9	-2.3	-2.5
Unit value	33.6	17.5	-3.2	-2.6	-2.5	-3.1	-2.5
Terms of trade (goods)	-7.4	-2.9	0.5	-4.3	-4.9	3.3	-6.9

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 13
URUGUAY: EXPORTS FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985	1980	1985	1982	1983	1984	1985
Total	1022.8	1045.1	924.6	853.6	100.0	100.0	-15.8	2.2	-11.5	-7.7
Traditional	435.4	469.8	338.8	293.3	39.3	34.4	-15.1	7.9	-27.9	-13.4
Non-traditional	587.5	575.3	585.8	560.3	60.7	65.6	-16.3	-2.1	1.8	-4.4
Principal sections										
Live animals and animal products	290.3	365.0	228.7	202.3	24.9	23.7	-19.8	25.7	-37.3	-11.5
Beef	170.3	222.8	135.9	110.5	14.7	12.9	-20.3	30.8	-39.0	-18.7
Mutton	21.0	15.1	7.1	6.8	1.4	0.8	-17.0	-28.1	-53.0	-4.2
Others	98.9	127.0	85.7	85.0	8.9	10.0	-19.6	28.4	-32.5	-0.8
Vegetable products	152.5	139.3	129.1	141.4	10.2	16.6	-17.8	-8.7	-7.3	9.5
Rice	92.4	76.6	57.8	81.0	6.1	9.5	-15.5	-17.1	-24.5	40.1
Others	60.1	62.7	71.3	60.4	4.1	7.1	-21.3	4.3	13.7	-15.3
Fats and oils	5.5	8.7	6.9	5.1	1.8	0.6	-31.2	58.2	-20.7	-26.1
Food, beverages and tobacco	18.2	30.2	27.6	23.2	3.1	2.7	-42.3	65.9	-8.6	-15.9
Mineral products	4.1	1.7	4.1	1.0	1.2	0.1	-79.2	-58.5	141.2	-75.6
Plastics and rubber manufactures	18.9	12.2	10.3	13.5	2.0	1.6	-27.6	-35.4	-15.6	31.1
Hides, skins and leather products	139.5	139.2	146.5	114.0	13.6	13.4	0.9	-0.2	5.2	-22.2
Skins and leathers	72.8	75.4	91.6	61.3	3.8	7.2	43.6	3.6	21.5	-33.1
Processed hides	38.1	39.3	30.5	27.2	4.9	3.2	-14.8	3.1	-22.4	-10.8
Furs and fur products	28.7	24.5	24.4	25.5	4.9	3.0	-32.9	-14.6	-0.4	4.5
Textiles and textile manufactures	292.5	266.6	281.7	261.6	29.0	30.6	-11.7	-8.9	5.7	-7.1
Unwashed wool	112.9	74.2	57.8	52.5	9.7	6.2	-2.5	-34.3	-22.1	-9.2
Washed wool	15.0	27.4	16.6	17.0	2.2	2.0	-31.5	82.7	-39.4	2.4
Tops	77.2	66.9	90.1	94.4	8.2	11.1	-21.5	-13.3	34.7	4.8
Others	87.5	98.0	117.2	97.7	8.9	11.4	-8.0	12.0	19.6	-16.6
Footwear, etc.	10.0	9.2	10.1	7.6	1.9	0.9	-26.5	-8.0	9.8	-24.8
Others	91.3	73.0	79.6	84.0	12.4	9.8	-8.1	-20.0	9.0	5.5

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

In 1985 the total external debt expanded at a rate of almost 5%, more than double the growth recorded the previous year. This growth sprang from the considerable expansion (12%) of public sector indebtedness, which amounted to US\$3 550 000 000 at the end of the year (see table 15). The private sector, on the other hand, reduced its external debt by 10%, bringing it down to around US\$1 350 000 000 at the end of 1985. This drop was brought about by a sharp decrease in the credit balance of suppliers, which was related to the shrinkage in imports mentioned above, and by the fall in the liabilities of commercial banks.¹

As for the net external debt, it shrank by 4%. This shrinkage was the consequence of the sharp decline which affected the net debt of the private sector, which dropped from US\$1 130 000 000 at the end of 1984 to rather less than US\$850 million at the close of 1985, more than offsetting the increase of almost US\$160 million in net public-sector indebtedness (see table 16).

¹ This fall in liabilities resulted from a deliberate policy on the part of the financial sector, which increased some of its domestic liabilities in order to reduce its external accounts, thereby also effecting an increase in its net international reserves.

Table 14

URUGUAY: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1982	1983	1984	1985	1980	1985	1982	1983	1984	1985
Total	1 110.0	787.5	775.7	715.0	100.0	100.0	-32.4	-29.2	-1.5	-7.8
Consumer goods	102.4	46.4	50.8	51.2	10.8	7.2	-60.2	-54.7	9.5	0.8
Raw materials and intermediate goods	853.4	638.2	655.1	608.7	74.3	85.1	-25.2	-25.2	2.7	-7.1
Petroleum and fuels	419.6	273.1	270.5	223.5	27.5	31.2	-16.6	-34.9	-1.0	-17.4
Others	433.8	425.1	384.6	385.2	46.8	53.9	-32.0	-2.0	-9.5	0.2
Capital goods	154.2	102.9	69.8	55.1	14.9	7.7	-36.4	-33.3	-32.2	-21.1

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 15

URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Millions of dollars										
Total external debt	1 135	1 320	1 240	1 682	2 138	3 112	4 238	4 572	4 671	4 900
Public debt	962	1 028	910	1 012	1 165	1 447	2 688	3 180	3 163	3 551
Financial sector	328	336	165	177	186	267	1 088	1 565	1 497	1 629
Non-financial sector	634	692	745	835	996	1 197	1 617	1 632	1 683	1 922
Private debt without government security	173	292	330	670	974	1 665	1 550	1 392	1 508	1 349
Debt servicing	229	168	343	165	270	279	512	536	545	598
Amortization payments	150	93	248	58	105	59	168	186	96	170
Interest payments	79	75	95	106	165	220	344	350	449	428
Percentages										
Debt servicing/exports of goods and services	33	21	38	14	18	16	33	38	43	48
Public-sector external debt/exports of goods and services	138	127	100	85	77	86	176	227	241	284
Total external debt/exports of goods and services	163	163	136	141	141	184	277	325	364	392

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 16

URUGUAY: EXTERNAL DEBT BY SECTOR"

(Millions of dollars)

	1980	1981	1982	1983	1984	1985
Net private-sector external debt	161	1 073	1 026	956	1 129	848
Net public-sector external debt	-1 703	-689	874	1 678	1 951	2 108
Total	-916	384	1900	2 634	3 081	2 956

Source: Central Bank of Uruguay.

"Adjusted by variations in "other banking-sector assets"

Table 17

URUGUAY: PUBLIC-SECTOR COMMITMENTS
IN FOREIGN CURRENCY*(Millions of dollars)*

	1979	1980	1981	1982	1983	1984	1985
Gross external debt of the public sector	1 012	1 165	1447	2 688	3 180	3 163	3 551
Foreign currency commitments to the resident private sector	143	200	417	561	759	1036	1 199
Central Bank	28	37	92	167	423	514	553
To private banks	28	37	92	167	423	514	553
To the non-banking private sector							
Banco de la República	99	143	245	208	199	263	400
To private banks	1	2	1	2	1	-	-
To the non-banking private sector	98	141	244	206	198	263	400
Banco Hipotecario	-	.	56	139	66	99	130
To private banks	-	-	50	72	-	-	-
To the non-banking private sector	-	-	6	67	66	99	130
Non-financial public sector	16	20	24	48	71	160	117
Total public-sector commitments in foreign currency	1 155	1 365	1864	3 249	3 939	4 199	4 750

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Moreover, in 1985 a considerable rise occurred in the debt in foreign currency owed by official banks to residents of Uruguay, as a result of which total public-sector indebtedness in foreign currency grew by US\$550 million, i.e., by an amount which was more than 13% higher than the gross balance as it stood in December 1984 (see table 17).

As a result of the increase in the external debt and the drop in exports of goods and services, the weight of debt servicing increased again in 1985. The ratio between it and the total value of exports rose from 43 % in 1984 to 48% in 1985, a figure three times as high as that recorded prior to the crisis. Nevertheless, this rise was wholly accounted for by an increase in amortization payments, which rose from US\$96 million in 1984 to US\$170 million in 1985, while interest payments declined by US\$20 million as a consequence of the drop in international interest rates. As for the ratio between the debt and exports of goods and services, it rose markedly, to close to 400%.

4. Prices and wages

a) Prices

In 1985 the growth rate of domestic prices increased for the third year running. The consumer price index rose by 83% in comparison with 66% in 1984, while as an annual average it rose by 72% as against 55% the previous year (see table 18). These figures were within the parameters projected in the agreement with IMF in that the programme envisaged that the growth rate of domestic prices would begin to fall more rapidly in the first half of 1986.

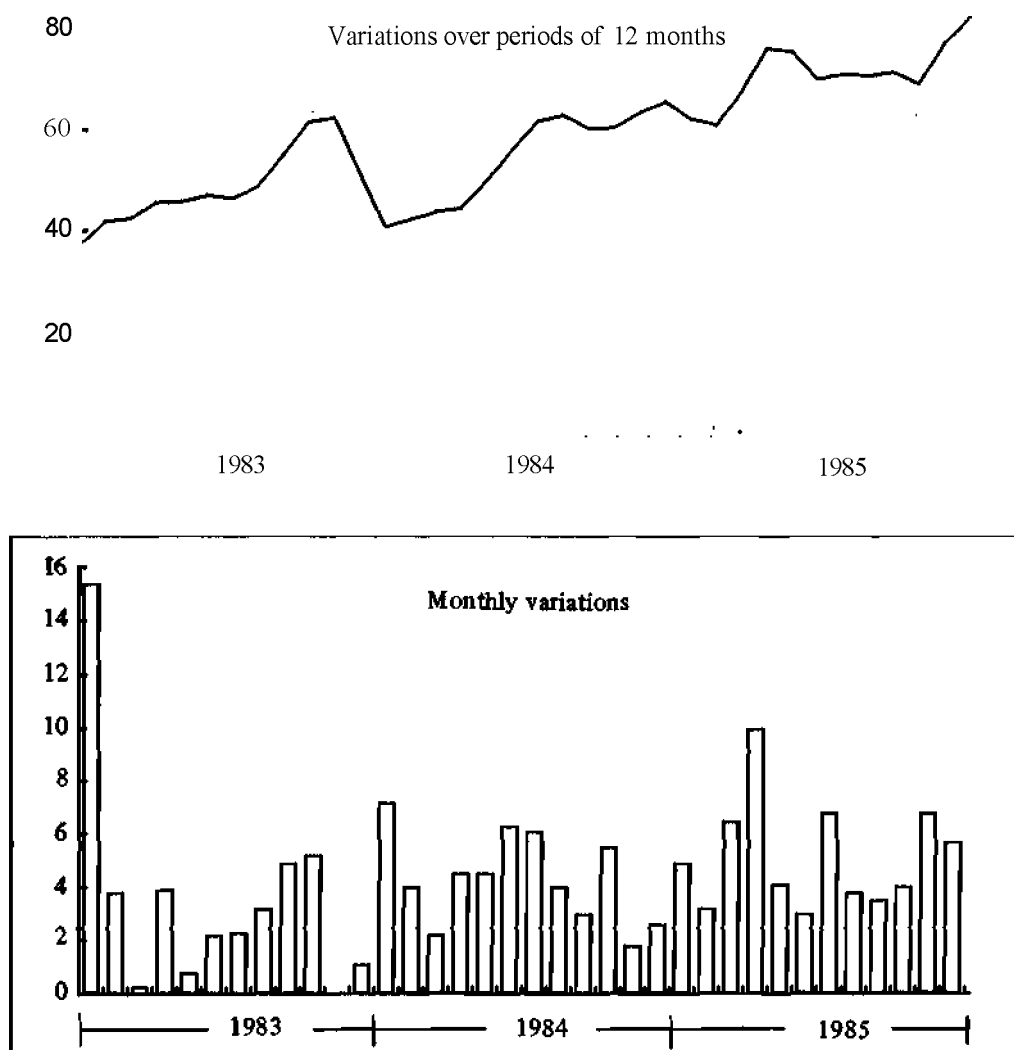
As already mentioned, the inflation evolved unevenly throughout 1985. During the first four months, the behaviour of prices was influenced by highly inflationary expectations, originating both in domestic factors (the rate of devaluation, the change of government, the fiscal deficit) and external phenomena (inflation in Argentina). During this period, the price index rose rapidly, accumulating a real increase of 27% during the first four months of the year —equal to an annual rate of 105%—, and inflationary expectations intensified. However, public expectations were rapidly altered by the clarification of the financial programme for the period July 1985-December 1986, which included a target of 60% inflation for the year between July 1985 and June 1986, and in particular by a sharp turnaround in the price of the dollar, which, after having risen by 31 % during the first four months, remained stable until the end of June. As a result, during the remainder of the year the average monthly rate of increase in consumer prices was 4.7%, equal to an annual rate of inflation of 73 % (see figure 2).

Table 18
URUGUAY: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Variation between annual averages										
Consumer price index	50.6	58.2	44.5	66.8	63.5	34.0	19.0	49.2	55.3	72.2
Food	47.7	64.0	44.5	70.9	57.9	25.6	11.7	54.1	68.8	63.0
Clothing	47.7	46.8	39.6	72.5	52.3	23.3	9.8	50.7	65.2	100.2
Housing	56.8	59.3	54.7	58.9	77.8	57.9	30.9	34.3	31.2	61.5
Miscellaneous	52.0	52.4	37.6	64.5	65.6	35.9	21.3	59.4	56.5	87.8
Wholesale price index (domestic)	50.6	50.3	48.6	80.4	41.8	23.4	12.9	73.5	77.4	76.6
Agricultural products	37.8	52.1	78.0	102.6	18.7	9.8	7.6	89.2	90.2	53.9
Crop-farming products	24.7	35.5	81.5	58.8	49.9	14.0	12.4	84.9	65.4	60.2
Livestock products	51.2	65.9	75.7	133.5	3.8	6.9	4.1	92.5	109.1	50.1
Manufactured goods	54.6	49.8	40.2	72.4	51.6	28.0	14.4	69.3	71.6	84.1
December to December variation										
Consumer price index	39.9	57.2	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0
Food	38.5	59.5	48.4	86.0	33.5	25.2	13.3	59.7	77.5	72.2
Clothing	36.4	46.6	39.5	95.2	27.7	18.8	8.0	64.7	89.6	92.0
Housing	43.6	66.5	45.6	78.8	63.7	42.9	28.8	30.9	38.9	77.1
Miscellaneous	41.1	50.1	44.9	76.9	47.9	26.3	27.9	59.8	68.1	102.8
Wholesale price index (domestic)	45.1	44.8	59.6	77.1	28.6	14.9	33.5	73.8	84.0	74.2
Agricultural products	45.3	55.8	92.0	63.4	16.7	5.2	17.9	118.6	90.3	41.1
Crop-farming products	10.8	51.0	86.2	39.3	68.3	14.2	-5.5	111.1	70.5	71.9
Livestock products	84.1	59.1	95.6	78.0	-7.9	-2.7	41.9	123.8	103.0	24.4
Manufactured goods	45.0	41.7	49.3	82.7	32.9	18.1	37.9	62.9	82.0	85.5

Source: Central Bank of Uruguay and Department of Statistics and Censuses.

Figure 2
URUGUAY: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data,

On the other hand, the wholesale price index rose less (74%) than during the previous year (84%). This was a consequence of the considerably lower rise (24%) in cattle prices. It also accounts for the slower increase of food prices in the consumer price index (it was in the food group that prices rose the least during the period) (see table 18). The change in the price of beef, which rose by only 20% during the year, was the key factor in this performance. This low growth in the price of meat in 1985 was mainly the result of the drop in external demand together with the fall in the international price of meat.

In contrast, the miscellaneous items group in the consumer price index rose intensively (103%). This rise was related to the growth of the rates and prices of public-sector goods and services, which increased by over 100% as a result of the policy designed to bring down the deficit of the

non-financial public sector.² However, the rates were not raised evenly, since an attempt was also being made to affect the allocation of energy resources in the light of their availability and impact on the balance of payments. Thus, while the price of gasoline rose by 124%, that of electricity increased by 91%.

b) *Wages and salaries*

The general wage index rose by 99% in 1985. Thus, real wages rose on average by 14%, the increases in both the public and the private sectors being very similar. This represented a reversal of the downward trend in the growth of the real pay of wage-earners, which had shrunk by half in the 10 preceding years and by 28% in the period 1983-1984 alone (see table 19). Real wages rose by more than the 5 % target set by the new government when it took office.

The marked improvement in real wages was primarily due to three factors. On the one hand, the slow growth of the price of meat brought about a major transfer of income, via prices, from the livestock sector to the remainder of the economy, as a result of which the purchasing power of urban wage-earners rose considerably in respect of the basic shopping basket used to measure the evolution of consumer prices, in which food products of agricultural origin figure largely.

Simultaneously, the suspension of payments on their domestic debt by enterprises (a *defacto* moratorium during the first three months of the year and subsequently a *de jure* moratorium to run from the time the suspension went into effect until a new mechanism for refunding was defined) provided them with the necessary financial resources to meet the increases in nominal wages agreed upon by entrepreneurs and workers.

Finally, the evolution of the exchange rate closely followed that forecast for the year covered by the programme, as the price of the dollar rose at an annual rate of 65 % between May and December, a fact of considerable importance in the formation of domestic prices.

Tripartite wage councils, on which entrepreneurs, wage-earners and the government were represented, were re-established to regulate wage adjustments in the private sector. Through these councils, the government set in motion a mechanism which established overall guidelines for wage increases every four months. These were maximum increases for purposes of their transfer to prices but did not restrict agreements reached by the parties concerned. In addition, the mechanism laid down a procedure whereby the adjustments had to be made in the light of previous inflation, although this was corrected by a coefficient of less than unity, since declining inflation was projected. However, the final results revealed that most sectoral agreements exceeded the guidelines laid down, as a result of which the increase in wages was considerably higher than that in domestic prices.

Table 19
URUGUAY: EVOLUTION OF REAL WAGES^a

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Indexes 1980 = 100										
Real wages	128.4	113.3	109.2	100.4	100.0	107.5	107.2	85.0	77.4	88.3
Public sector	117.5	104.7	101.6	94.4	100.0	107.1	107.0	83.9	73.1	83.4
Private sector	140.3	122.3	117.3	106.7	100.0	107.9	107.1	86.0	81.7	93.9
Growth rates										
Real wages	-5.8	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.0	14.1
Public sector	-3.7	-10.9	-3.0	-7.1	5.9	7.1	0.1	-21.6	-12.9	14.1
Private sector	-7.4	-12.8	-4.1	-9.0	-6.3	7.9	-0.7	-19.7	-5.0	14.9

Source: Department of Statistics and Censuses, Uruguay.

^aCalculated on the basis of the minimum increases decreed by the government up to October 1980 and of the wages actually paid thereafter.

² This policy involved using public enterprises as a major factor in the fiscal adjustment. The Memorandum of Agreement with IMF stated that the overall result of public enterprises should improve from a deficit equal to 0.5% of the gross domestic product in 1984 to a surplus of the same size in 1985.

Average family income as measured by the household survey increased considerably less (6%) in real terms than real wages. This was due in part to the 6% fall in the purchasing power of the average pensioner, as well as to the fact that the real income of own-account workers probably increased more slowly than that of wage-earners.

5. Monetary and fiscal trends

The financial programme agreed upon with the IMF, which came into force at the middle of the year, provided for two clearly distinct periods in the fiscal and monetary spheres during 1985. The new government took office on 1 March and already by the middle of April all the authorities responsible for the economic and financial sphere had been appointed (Ministry of the Economy, Office of Planning and the Budget, Central Bank and Bank of the Republic). A number of isolated measures were taken in May and June, most of them aimed at reducing the fiscal deficit, but government action of a more global impact did not take shape until the standby credit programme agreed upon with the Fund was put into effect.

a) *Monetary policy*

As mentioned above, monetary policy was designed to make it possible to bring inflation down gradually to a rate of 60% a year in the period July 1985-June 1986 and to one of 45 % during the year 1986 as a whole. To this end, a 51 % increase in M_2 during the period from July 1985 to June 1986 and a 45% increase for 1986 were set as monetary objectives.

However, the extent to which the programme targets was met was to be assessed upon the basis of the evolution of the net domestic assets of the Central Bank rather than on the basis of the broad concept of money. Consequently, ceilings were set on the maximum variation of the net domestic credit of the Central Bank and of its international reserves, and thus limitations were also set on the expansion of the monetary base.

Refinancing the external debt and obtaining further loans ("fresh money") were decisive factors in meeting the programme's target and were linked to the "transfer problem" caused by servicing the public sector's external debt.

This problem constitutes one of the basic restrictions on the economy of Uruguay and is in some ways similar to the problem encountered by Germany following the First World War as a consequence of its payment of reparations.

At the beginning of the year it was estimated that payment of interest alone on the foreign currency debt of the public sector (including the Central Bank) was equal to 8% of the gross domestic product. Since the target for the total deficit was 6%, it was necessary to earn a fiscal surplus before paying interest. This need constituted what was known as the "budgetary problem". However, it was also necessary to change the funds earned in local currency into foreign currency, in order to make the interest payments. Herein lies the "transfer problem", which is directly linked to monetary policy. An attempt to issue enough currency to purchase the foreign exchange needed to pay all the interest owed on the external debt, would result in a monetary expansion equal to 8% of the gross domestic product, and, as the monetary base was equal to barely 5% of the product, such a move would have an inflationary impact considerably in excess of 100%. This explains the need to obtain external loans in order to reduce the size of the "transfer problem" while at the same time making the fiscal adjustment required to reduce the "budgetary problem" as far as possible.

The increased demand for national currency together with a change in the cash reserves of private banks, which led to an increase in the banking multiplier, caused the money supply to increase more rapidly than had been announced by the new financial authorities when they took office. Moreover, the considerable amount of Banco de la República funds which were rendered unproductive represented a significant absorption factor.

The highly inflationary expectations harboured by economic agents during the first months of the year had been reflected in an increase in the velocity of circulation, thereby reinforcing the tendency to accelerate which had been observed since exchange regulations had been altered at the end of 1982. However, these expectations were reversed as a result of the announcement of the financial programme for 1985/1986 (which, as indicated above, set a target of 60% inflation for the period July 1985-June 1986 while at the same time calling for an immediate fiscal adjustment and for

the monitoring of purchases of foreign currency by the Central Bank and the Banco de la República as well as for measures to take such currency out of circulation) and of the example set by the application of the Austral Plan in Argentina. Thus, towards the middle of the year forecasts of price rises had fallen considerably and were extremely close to official targets. Consequently, two things happened simultaneously. First of all, dollar deposits, which had grown from November to April but had subsequently shown some tendency to decline, appeared to be clearly on the rise after July. At the same time, the decline which had been observed in deposits in national currency since 1982 ended, and, by the end of the year, such deposits had risen by 4% in real terms. This, together with the real increase in money outside banks, led to an increase in the monetization of the economy; thus, between 1984 and 1985 the M_1 /GDP coefficient rose from 6.8% to 7.9% while that of M_2 /GDP increased from 18% to 20% (see table 20).

Moreover, in the middle of August, the rules applied to private banks in respect of cash reserves were simplified, a change which led to a net 4% reduction in cash reserves held against deposits in local currency. This, for its part, allowed private commercial banks to create more bank money. The results were not quickly observable as the Banco de la República continued to increase its deposits in the Central Bank (these rose by 11.2 billion new pesos during the year, or by 143 %) while the amount issued outside the Central Bank rose by 12.7 billion new pesos over the same period. These figures clearly indicate the impact of the measure carried out by the Banco de la República to render money barren in accordance with the policy agreed upon with the Central Bank and aimed at lessening the impact of monetary expansion on domestic inflation.

In this context, the money supply expanded rapidly, exceeding the targets which had been announced by the monetary authorities. During the year, M_1 expanded by 102%, M_2 grew by 91 % and the amount of money issued rose by 75% (see table 21). The main factor in the expansion of the amount of money issued was the need to purchase the foreign currency required for meeting interest payments (which are responsible for most of the para-fiscal deficit). The amount of money issued for this purpose increased by the equivalent of 121 % of the issue recorded at the end of the previous year. Public-sector credit, for its part, accounted for an increase of 69% in the amount issued despite the satisfactory sales of government securities during the year. Noteworthy among absorption factors were the barren money held by the Banco de la República and the loss of net international reserves (see table 22).

Within the banking system as a whole, there was an increase in deposits by the public in both domestic and foreign currency, while the amount of credit granted remained at levels similar to those of the previous year. Although, interest rates on deposits in local currency and the domestic price

Table 20

URUGUAY: MAIN MONETARY RATIOS

(Percentages of gross domestic product)"

Year	Money outside banks	Money M_1	Time deposits d/c	M_2	Deposits f/c	Percentage of M_1	
						Time deposits d/c	Deposits f/c
1976	5.2	8.7	5.2	13.9	5.2	27.1	27.1
1977	4.8	7.8	5.5	13.3	9.0	24.7	40.4
1978	4.7	7.9	7.6	15.5	11.8	27.8	43.2
1979	4.3	7.7	9.7	17.4	11.0	34.1	38.7
1980	4.5	7.9	12.3	20.2	11.1	39.3	35.5
1981	4.6	7.5	13.6	21.1	15.1	37.7	41.6
1982	5.4	8.2	15.1	23.3	32.6	27.1	58.3
1983	4.4	6.5	12.0	18.5	33.8	23.0	64.6
1984	4.1	6.8	11.4	18.2	35.9	21.0	66.4
1985*	4.6	7.9	12.1	20.0	40.0	20.2	66.7

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

"Based on annual averages calculated from end-of-years data. *Preliminary.

Table 21

URUGUAY: MAIN MONETARY VARIABLES

(In billions of new pesos)

End of	Money outside banks (1)	Current account deposits (2)	Money M, (3)=(1)+(2)	Time deposits d/c. (4)	Subtotal M ₂ (5)=(3)+(4)	Deposits f/c (6)	Total M, (7)=(5)+(6)
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	7.9	20.0	33.7	53.6	106.0	159.6
1985	23.4	16.9	40.3	62.3	102.6	205.4	307.9

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 22

URUGUAY: FACTORS GOVERNING THE EXPANSION
AND ABSORPTION OF RONGY*(As a percentage of the currency issued on 31 december 1984)*

	Percentage
Issue	75.2
Expansion	206.5
Credit to the public-sector	69.0
Credit to the financial-sector	16.3
Para-fiscal deficit and others	121.2
Absorption	-131.3
Net monetary reserves	-38.9
Credit to the private sector	-11.3
Sight deposits in Banco de la República	-66.2
Sight deposits in private banks	-13.1
Others	-1.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

index evolved in a way that the real interest rate paid by the system was negative except during the second quarter (see table 23), deposits in national currency increased by approximately 4% in constant terms. Simultaneously, the payment of interest in foreign currency at internationally competitive rates and the renewal of public confidence helped bring about a 15 % increase in deposits in foreign currency. Nevertheless, this expansion in the funds available to the banking system, was not matched by an increase in private-sector credit, which remained at the same level as during the previous year (see table 24). Thus, commercial banks increased their international reserves by approximately US\$200 million.

Several factors accounted for the behaviour of private-sector credit. On the one hand, demand for credit was slack as a result of the high level of domestic indebtedness as well as of the stagnation in

Table 23

URUGUAY: RATE OF INTEREST ON DEPOSITS
(In domestic currency)

	1984				1985			
	I	II	III	IV	I	II	III	IV
Nominal rate	64.4	68.4	68.0	75.2	89.2	86.2	77.0	74.4
Price variations"	82.2	67.1	47.6	76.8	93.7	73.4	89.0	77.2
Real rate	-9.8	0.8	13.8	-0.9	-2.3	7.4	-6.3	-1.6

Source: ECLAC, on the basis of data provided by the Central Bank and the Department of Statistics and Censuses.

"Variation shown by the consumer price index in the following quarter (annual rate).

Table 24

URUGUAY: CREDIT PROVIDED BY THE BANKING SYSTEM
TO THE PRIVATE SECTOR

At end of	Billions of new pesos						Percentages"		
	Current prices		Constam: prices				Credit as a percent- age of product	Credit as a percentage: of total	
	Domestic currency	Foreign currency	Domestic currency	Foreign currency	Total	Index		Domestic currency	Foreign currency
1978	4.7	4.1	4.7	4.1	8.8	100.0	22.3	53.9	46.1
1979	10.5	8.6	5.7	7.1	12.8	145.5	24.2	54.9	45.1
1980	18.6	15.6	7.1	11.0	18.1	205.7	28.9	45.6	54.4
1981	24.7	22.9	7.3	13.9	21.2	240.9	33.4	51.9	48.1
1982	26.2	73.6	6.4	18.2	24.6	279.5	57.3	26.3	73.7
1983	30.4	82.5	4.9	13.5	18.4	209.1	56.5	26.9	73.1
1984	43.3	127.1	4.2	12.3	16.5	187.5	48.0	25.4	74.6
1985	65.0	225.8	3.5	12.6	16.1	183.0	45.0	22.4	77.6

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

"Excluding the Banco Hipotecario del Uruguay.

Table 25

URUGUAY: CENTRAL GOVERNMENT INCOME, EXPENDITURE AND DEFICIT

Year	Millions of new pesos			As a percentage of GDP			Deficit as a per- centage of expenditure
	Income	Expenditure	Balance	Income	Expenditure	Balance	
1976	1 722	2 047	-325	13.6	16.2	-2.6	15.9
1977	2 938	3 178	-240	14.8	16.0	-1.2	7.6
1978	4 350	4 751	-401	14.1	15.4	-1.3	8.4
1979	8 424	8 301	123	14.5	14.4	0.1	-
1980	14 955	14 880	75	16.1	16.1	-	-
1981	21 260	21 377	-117	17.4	17.5	-0.1	0.5
1982	19 552	30 761	-11 209	15.2	23.9	-8.7	36.4
1983	29 486	36 897	-7 411	15.6	19.6	-4.0	20.1
1984	39 797	55 473	-15 676	13.5	18.8	-5.3	28.3
1985	76 787	91 425	-14 638	14.9	17.8	-2.9	16.0

Source: Central Bank of Uruguay and National Audit Office.

Table 26

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of new peso:				Growth rates			
	1982	1983	1984	1985	1983	1984	1985	1985°
Current income	19 552	29 486	39 797	76 787	50.8	35.0	92.9	12.0
Internal taxes	13 487	18 214	28 187	58 402	35.0	54.8	107.2	20.3
On production and transactions	12 758	16 753	27 259	54 179	31.3	62.7	98.8	15.4
Value added	7 970	9 718	15 942	30 218	21.9	64.0	89.5	10.0
Fuels	1997	3 609	5 908	12 125	80.7	63.7	105.2	19.2
Tobacco	1 535	2 046	2 672	4 897	33.2	30.6	83.3	6.4
Other indirect taxes	1 256	1 380	2 737	6 937	9.9	98.3	153.5	47.2
On income	2 028	3 147	2 942	4 764	55.2	-6.5	61.9	-6.0
On wealth	1293	2 074	1935	4 369	60.4	-6.7	125.8	31.1
Others	134	113	169	538	-15.7	49.6	218.3	84.8
Less: documents received	-2 414	-2 964	-4 021	-5 448	22.8	35.7	35.5	-21.3
Taxes on external trade	2 669	4 582	5 917	10 227	71.6	29.1	72.8	0.3
On imports	2 281	2 357	4 337	8 348	3.3	84.0	92.5	11.8
On exports	-	1951	1 066	960	-	-45.4	-10.1	-47.7
Customs and other duties	388	274	515	919	-29.4	88.0	78.4	3.6
Other income	3 396	6 690	5 693	8 158	97.0	-14.9	43.3	-16.8
Current expenditure	27 503	33 159	50 560	83 612	20.6	52.5	65.4	-3.9
Remunerations	1 21573	24 522	31420	53 837	13.7	28.1	71.3	-0.5
Social security contributions and assistance								
Purchase of goods and services	3 526	4 112	6 944	11 185	16.6	68.9	61.1	-6.4
Interest on public debt	810	2 236	5 285	10 510	176.0	136.4	98.9	15.5
Others	1 594	2 289	6 911	7 787	43.6	201.9	12.7	-34.5
Current saving	-7 951	-3 673	-10 263	-6 825				
Investment	3 258	3 738	4 913	7 813	14.7	31.4	59.0	-7.7
Total expenditure	30 761	36 897	55 473	91 425	19.9	50.3	64.8	-4.3
Total deficit (-) or surplus (+)	-11 210	-7 411	-15 676	-14 638				
Financing	11 210	7 411	15 676	14 638				
Net Central Bank/								
BROU credit	8 915	5 765	7 470	1405				
Net sale of bills	1 680	1 557	9 413	16 053				
Others	815	532	-271	-760				
External loans	-201	-444	-936	-2 060				

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay and the Ministry of Economy and Finance.

°Real growth rate.

production and the positive real rates of interest charged by banks. On the other hand, commercial banks showed no desire to grant credit to over-indebted firms with a poor record of meeting their financial commitments. Finally, the global refinancing scheme was not defined until the end of the year. Thus the interest rate set by the Central Bank in respect of loans remained at a level of 95 % a year throughout most of the year and was not made more liberal until the end of December in fulfillment of the commitment made to IMF. However, this had no marked consequences as the slack demand for credit and downward trend in rates on deposits made it possible even to slightly reduce the nominal rates charged by banks.

b) *Fiscal policy*

i) *The overall deficit.* Fiscal adjustment was a priority in the new government's programme. The pronounced public-sector deficit when the new government took office³ and the danger of inflation it represented in a situation marked by highly inflationary expectations and by a monetary base which had constantly shrunk until it represented barely 5% of the gross domestic product persuaded the authorities to immediately tackle the problem of reducing the deficit of the non-financial public sector.

An attempt was made to bring about adjustment by rapidly increasing fiscal pressure and raising the rates of public enterprises, while endeavouring not to increase expenditure in real terms.

The final results reveal that the objectives pursued were to a large extent achieved. Thus, the deficit of the central government shrank so rapidly that by the end of 1985 it amounted to the equivalent of 2.9% of the product and 16% of expenditure, while these proportions had been 5.3% and 28.3%, respectively, in 1984 (see table 25). Moreover, it is estimated that public enterprises ended the financial year with balanced budgets. Finally, the fall in international interest rates lowered the Central Bank's para-fiscal deficit by an amount equal to 0.8% of the product, the Bank's debt being equivalent to approximately 40% of the product and interest rates having declined by approximately 2%.

Thus, the overall public-sector deficit in 1985 would appear to have been equivalent to rather more than 7% of the gross domestic product and to have been attributable to a non-financial public-sector deficit equal to 3% of product and to the deficits of the Banco Hipotecario del Uruguay (1%) and the Central Bank (3.2%).

ii) *The central government.* The pronounced shrinkage in the fiscal deficit was the result of growth of almost 1.5% in income and of a decline of 1% in expenditure. Thus, while an end was put to the downward trend which had characterized income since 1981, the share of government expenditure in the domestic economy continued to decline gradually (see table 25).

Total current income grew by 12% in real terms during 1985. Although income tax returns fell by 6%, revenue from all other taxes on domestic activity increased considerably (20%) at constant values. The taxes mainly accountable for this increase in revenue were fuel taxes, inheritance taxes and taxes on the sale of foreign currency. In contrast, taxes on external trade remained at virtually the same level as during the previous year (see table 26).

Table 27

URUGUAY: STRUCTURE OF CENTRAL GOVERNMENT EXPENDITURE

(Percentages)

	1978	1979	1980	1981	1982	1983	1984	1985
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Remunerations"	55.0	53.0	63.5	63.9	30.7	30.0	26.4	29.9
Contributions and social security transfers					39.4	36.5	30.2	29.0
Public sector transfers	7.2	12.7	5.3	4.1	4.8	5.8	12.2	8.5
Non-personal expenditure	16.1	16.8	16.6	17.6	11.5	11.1	12.5	12.2
Interest payments	5.5	4.3	2.2	1.9	2.6	6.1	9.5	11.5
Capital expenditure	14.9	12.5	12.1	12.0	10.6	10.1	8.9	8.5
Other	1.3	0.7	0.3	0.5	0.4	0.4	0.3	0.4

Source: Up to 1981, Office of the Accountant-General. As from 1982, combined figures prepared by the National Treasury and the Office of the Accountant-General.

"Up to 1981, remunerations includes contributions and social security transfers.

Includes advances, subsidies, grants and National Housing Fund.

* If the para-fiscal deficit of the Central Bank is included, this deficit represented the equivalent of 10% of the gross domestic product.

Table 28

URUGUAY: BREAKDOWN OF EXPENDITURE BY FUNCTION*(Percentages)*

	1978	1979	1980	1981	1982	1983	1984	1985
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General public services	14.9	17.9	15.9	14.6	11.5	12.9	11.2	12.8
Defence	13.1	15.5	14.9	18.2	14.8	14.8	11.8	11.4
Education	11.7	13.4	12.1	11.0	9.8	8.4	7.5	8.5
Health	7.2	6.2	6.7	5.4	5.3	5.4	6.0	6.6
Social security	20.7	14.5	30.2	31.3	39.5	37.9	31.6	31.4
Housing and community services	2.8	2.4	2.2	2.0	1.2	1.0	1.1	1.4
Economic services	23.0	25.5	15.8	14.5	12.9	12.8	11.5	12.2
Other services	6.6	4.7	2.2	3.0	5.0	6.8	19.3	15.7

Source: Ministry of Economics and Finance.

Total expenditure fell by slightly more than 4% in real terms, as a consequence of the significant reduction in purchases of goods and services (-6.5%), in transfers to decentralized bodies (-34.5%) and in investment (almost -8%). On the other hand, expenditure on interest due on the public debt increased by 15.5 % and represented 11.5 % of total expenditure, one third higher than the figure for investment expenditure. Remunerations also rose in real terms thereby increasing their share of total expenditure (see table 27). As social security transfers declined, the total figure for remunerations and contributions and transfers to social security—which represent 60% of total expenditure—shrank by 0.5% at constant values.

The structure of Central Government and Social Security expenditure by function also revealed a number of changes during 1985, such as increases in the share of expenditure on general public services, economic services, education and health, and shrinkages in expenditure on defence and in miscellaneous expenditure. Thus, the major items of expenditure in 1985 were social security (31%),⁴ interest and other payments (16%), general public services (13%) and economic services (12%) (see table 28).

As a consequence of the increase in expenditure and the shrinkage in outlays, the deficit was considerably reduced, falling from 28% of expenditure in 1984 to 16% in 1985. Moreover, the operating deficit of the central government before payment of interest was the equivalent of barely 4.5% of total expenditure and 0.8% of the gross domestic product.

The way in which the deficit was financed also helped to lower inflationary pressure. The successful sale of government securities considerably reduced the need for financial assistance from the Central Bank, although on the other hand, it led to an increase in the amount paid in interest.

The sale of dollar securities both short term (Treasury Bills) and long term (Treasury Bonds) was even higher than the deficit, by 10%. Factors contributing to this result included the recovery of public confidence in securities issued by the State, the offer of competitive interest rates, the total fluidity and liquidity of these securities on the secondary market and the decline in international interest rates. Thus, during the year, bonds worth US\$95 million and treasury bills worth US\$105 million were sold.

The government therefore made little use of the credit available from the Central Bank and the Banco de la República (which financed barely 10% of the deficit) and reduced its external indebtedness as well as other commitments by an amount equal to 19% of the deficit (see table 26).

⁴ Social security expenditure includes only the financial assistance granted to the system; i.e., it does not account for the total amount of allowances paid but only for the operating deficit covered.

VENEZUELA

1. Recent economic trends: Introduction and summary

For the economy of Venezuela, the year 1985 represented the continuation of the adjustment which had been started two years previously to restore external and internal macro-equilibria. The policy pursued —renegotiation of the external debt and exchange rate devaluation, on the one hand, and stabilization of public finances through strict monetary and fiscal control, on the other, yielded very positive results in the external sector. Thus, the balance-of-payments equilibrium was very quickly restored and considerable increases were even obtained in the net international reserves. Likewise, in 1985 the difficult international conditions were overcome and considerable surpluses were maintained in external operations. Consequently, despite the significant decline in sales of petroleum—which account for 90% of Venezuela's exports—the trade surplus was maintained above the level of US\$6 billion (see table 1 and figure 1). The increase in net payments of interest on the external debt led to a reduction of the current account surplus but was almost completely offset by the decline in the capital account deficit. As a result, the net international reserves increased by about US\$1.7 billion for the second consecutive year.

At the domestic level, on the other hand, results were much less favourable. The level of activity decreased for the sixth consecutive year, and although this decline was relatively modest in size (-1 %), the real value of the gross domestic product was only slightly more than that of 10 years before (see table 1 and figure 1). This result was due largely to the very low level of domestic demand, which in turn was due to the cautious monetary and fiscal policies that were maintained. However, monetary management was more expansionary than during the previous year, promoting an increase in the monetary base and a decline in interest rates. Fiscal expenditure for its part, increased rather moderately, although it included a special investment programme designed to reactivate the domestic economy. Nevertheless, because of the delay in implementing these measures and the bleak international outlook for petroleum, economic activity only showed an upturn in certain specific sectors, such as agriculture and mining. Hence, open unemployment remained high although it declined slightly towards the end of the year. Furthermore, despite the spectacular drop in inflation the systematic deterioration of real incomes which had begun in 1980 continued. The real per capita product sank to the lowest level in the last 10 years, so that it was 28% lower than that of 1976 (see table 1 and figure 1).

2. Trends in economic activity

a) *Total supply and demand*

The decline of the gross domestic product (-1.2%) combined with a further decline in the terms of trade to bring about a considerable reduction (-4%) in the gross national income, which fell to its lowest level since 1980 (see table 2). The downturn in domestic activity was made worse by the sharp contraction (-13%) in imports of goods and services. Consequently, total supply slipped by 3% (see table 3). This decline, however, affected exports—which shrank by 7%—more severely than domestic demand, which declined by 2%.

b) *Evolution of the main sectors*

The decline in economic activity was not widespread. The greatest decline (-17%) was observed in construction, where the product fell for the sixth year in a row and did not even attain half of the level recorded in 1980 (see table A). Petroleum and gas extraction also showed a marked decline (-7%). The other goods-producing sectors (mining, agriculture and manufacturing) increased their

level of activity but were unable to compensate for the decreases in the areas mentioned above. Thus, the total production of goods fell by 1 %, bringing the cumulative decline in the last five years to 12 % (see table 4).

The total output of services, for its part, remained stagnant, even though commerce and transport declined by 4% and 2% respectively (see table 4).

i) *Agriculture*. Agriculture was the activity which showed the greatest dynamism, growing by 7%, the highest rate recorded by the sector since 1977 (see table 5). This strong growth was attributable largely to the effect of the incentives given since 1984, foremost among which were the

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981	1982	1983	1984	1985°
A. Basic economic indicators								
Gross domestic product at market prices (index, 1980 = 100)	100.8	103.2	100.0	99.0	97.8	92.3	91.4	90.3
Population (millions of inhabitants)	14.07	14.55	15.02	15.49	15.94	16.39	16.85	17.32
Per capita gross domestic product (index, 1980 = 100)	107.6	106.5	100.0	96.1	92.2	84.6	81.5	78.4
Growth rates								
Short-run economic indicators								
Gross domestic product	1.7	2.4	-3.1	-1.0	-1.3	-5.6	-1.0	-1.2
Per capita gross domestic product	-1.8	-1.0	-6.1	-3.9	-4.1	-8.2	-3.7	-3.8
Urban unemployment rate	5.2	5.8	6.6	6.8	7.8	10.5	14.3	14.3
Consumer prices'								
December - December	7.0	20.5	19.6	11.0	7.3	7.0	18.3	5.7
Variation between annual averages	7.1	12.3	21.6	16.0	9.7	6.3	12.2	12.0
Real wages and salaries	8.9	2.6	-6.6	-5.7	-4.5	-0.5	-10.9	-5.8
Money	21.0	6.7	13.7	7.1	-8.4	31.2	7.5	12.5
Current government income	-6.2	24.8	25.4	47.8	-15.6	-8.2	38.2	8.8
Total government expenditure	2.0	3.5	43.0	31.9	-6.3	-9.1	18.6	12.9
Fiscal deficit/total government expenditure	7.5	20.1'	0.8	6.1'	4.4	3.5	12.4'	8.3'
Fiscal deficit/gross domestic product	1.9	6.1'	0.2	1.9°	12	0.9	3.2'	2.2'
Current value of exports of goods and services	-3.6	52.6	33.5	4.9	-16.1	-9.9	5.5	-9.7
Current value of imports of goods and services	15.4	-6.4	6.5	13.1	14.8	-53.8	15.3	-13.4
Terms of trade (goods)	-13.2	30.0	34.0	9.0	-4.8	-5.0	4.8	-1.4
Millions of dollars								
C. External sector								
Trade balance (goods and services)	-5 366	760	4 839	3 835	-2 077	6 745	6 223	6 019
Net payments of profits and interest	-38	3	-328	-574	1 530	2 107	1 072	1 950
Balance on current account	-5 699	370	4 749	4 026	-4 222	4 451	5 001	3 950
Balance on capital account	4 635	3 729	-985	-4 047	-3 944	-4 116	-3 433	-2 279
Variation in net international reserves	-1 324	4 121	4 184	1 100	-7 635	283	1 797	1 671
External debt	16 383	23 673	29 608	33 411	35 061	35 997	34 853	33 900

Source: ECLAC, on the basis of official data.

'Preliminary figures.

Percentages.

°In the Caracas metropolitan area.

Average income per employed person in urban

areas, deflated by the variation in consumer prices in the Caracas metropolitan area.

'Fiscal surplus.

Including public debt plus

State-guaranteed short- and long-term debt owed to financial institutions reporting to the Bank for International Settlements.

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS

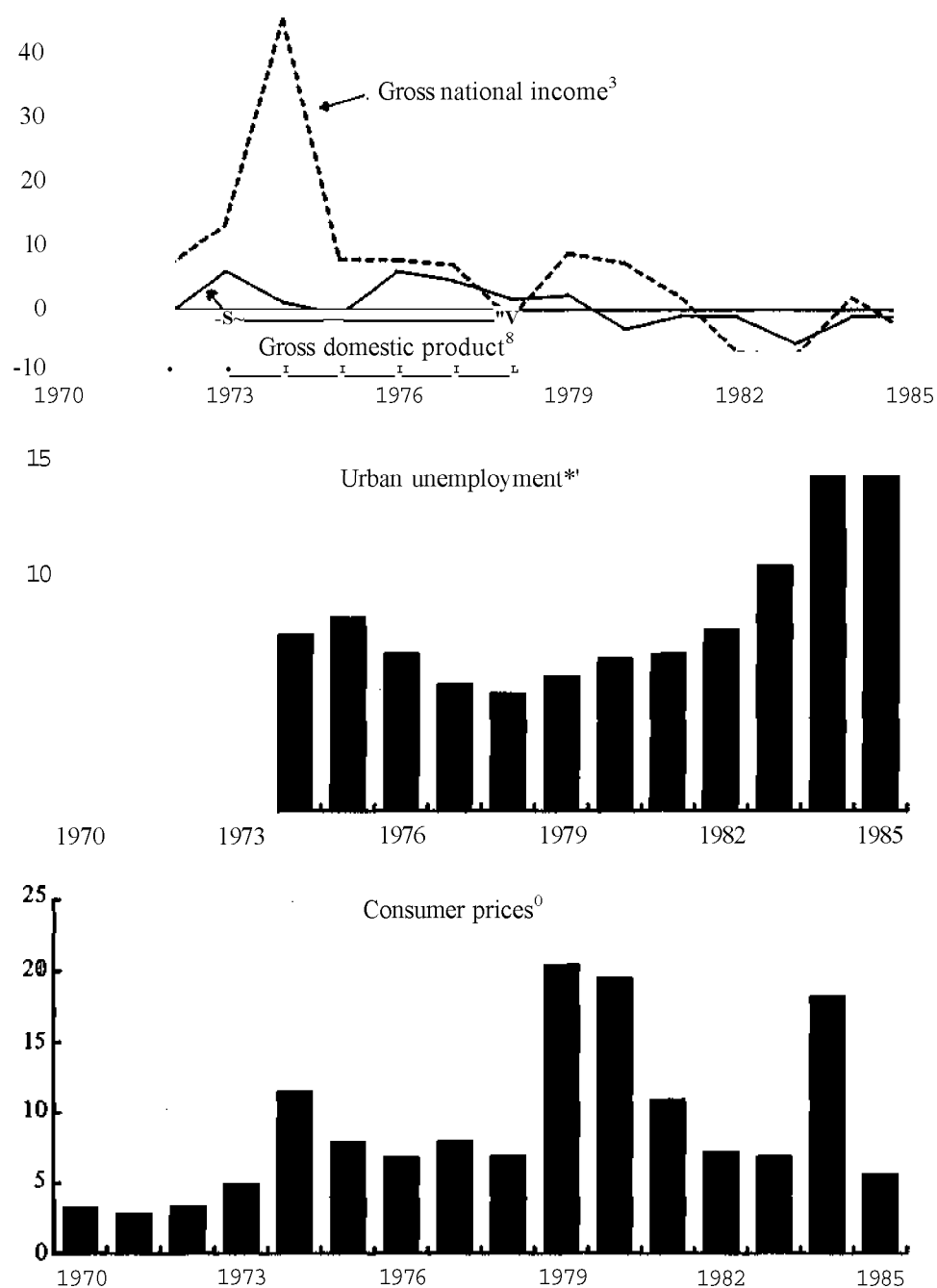
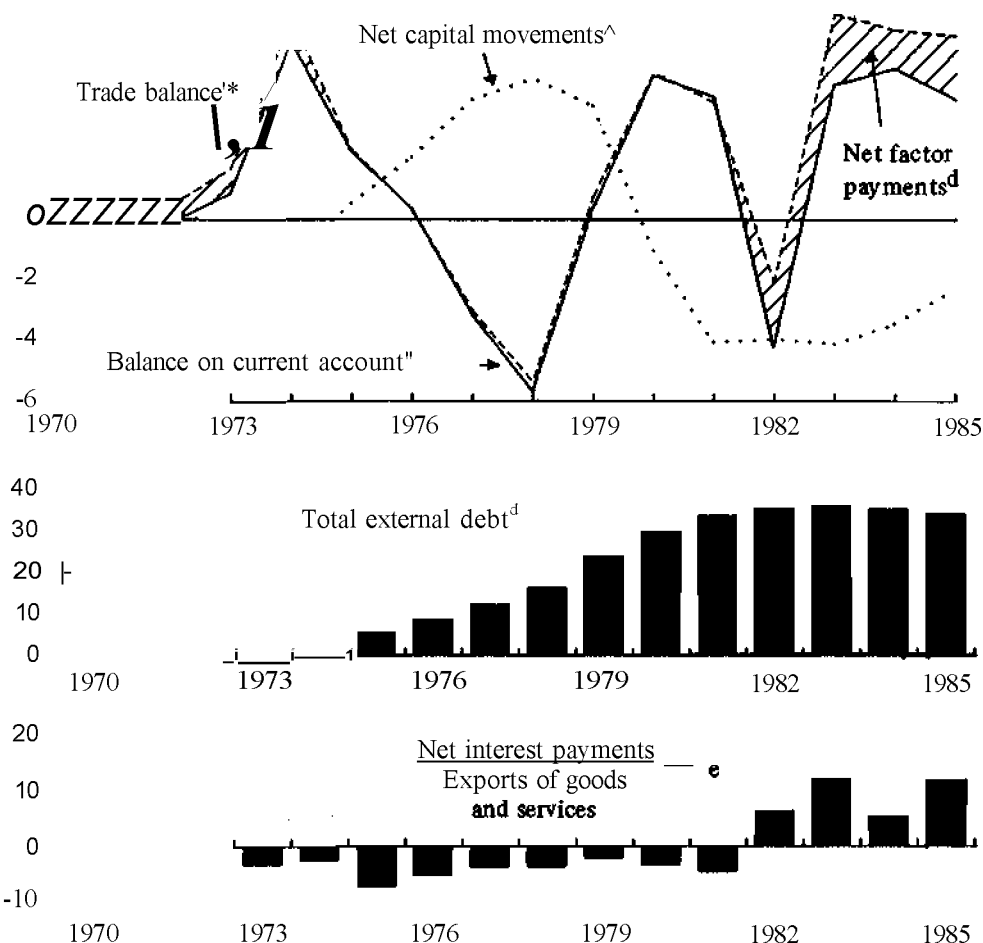


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate for the whole country (urban area

Percentage variation, December-December.

^cBillions of dollars.

Percentages.

readjustments of producer prices and the granting of greater credit facilities.¹ This policy was given a further boost in 1985, particularly through the substantial increase (32%) in the loans granted at special rates, the reduction in fertilizer prices and the gradual elimination of the preferential exchange rate for imports of agricultural products. Several infrastructural works were also undertaken with a view to increasing the area cultivated and expanding the storage and drying capacity for several products.

The vigorous growth in agricultural output (11 %) was based on the increased harvests of goods for domestic consumption. The harvests of pulses and grains—which include the most traditional items in the Venezuelan diet—registered substantial increases of 49% and 27%, respectively. The sharp increases in maize production (59%), black beans (81%) and rice (16%) reflected a sustained

¹ Since 1984, agriculture has occupied a privileged place in the adjustment policy. The first incentive given the sector was producer price readjustments for several selected items (milk, meat, grain, etc.), which reached an average of 20% that year. These increases were supplemented by the provision of more credit facilities, through refinancing of the agricultural debt, reduction in the interest rates for this sector (set at a maximum of 8.5%), a larger supply of subsidized loans and the compulsory requirement that banks should allocate no less than 17% of their credit portfolios to the sector.

Table 2

VENEZUELA: GROSS NATIONAL INCOME

	Percentage structure				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Real gross national income (a + b- c + d)	96.6	94.6	97.3	94.8	-7.1	-7.5	18	-3.7
a) Gross domestic product	100.0	100.0	100.0	100.0	-1.3	-5.6	-1.0	-1.2
b) Terms-of-trade effect	0.2	-1.2	-0.4	-1.3				
c) Less: net external factor payments	2.6	3.8	2.0	3.7		40.3	-48.5	82.2
d) Net private transfers received from the exterior	-1.0	-0.4	-0.3	-0.2	60.4	-70.0	-19.6	-19.8

Source: HCLAC, on the basis of official figures.

"Preliminary figures.

Table 3

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Percentage breakdown			Growth rates			
	1975	1980	1985"	1982	1983	1984	1985"
Total supply	120.3	125.5	117.0	2.3	-17.3	1.5	-3.2
Gross domestic product at market prices	100.0	100.0	100.0	-1.3	-5.6	-1.0	-1.2
Imports of goods and services	20.3	25.5	17.0	14.7	-52.9	16.7	-13.3
Total demand	120.3	125.5	117.0	2.3	-17.3	1.5	-3.2
Domestic demand	78.4	91.8	87.4	6.7	-21.2	0.7	-1.9
Gross domestic investment	28.6	24.7		10.3	-57.7	36.1	
Gross fixed investment	24.0	25.2		-3.7	-26.3	-18.9	
Construction	13.6	15.0		-8.3	-17.7	-31.1	
Machinery	10.4	10.2		2.0	-36.2	-1.0	
Public	1.8	2.7		9.6	-19.5	-41.5	
Private	22.2	22.6		-5.7	-27.5	-14.5	
Changes in stocks	4.6	-0.5					
Total consumption	49.8	67.1		5.5	-8.0	-5.2	
General government	12.2	13.8		-1.0	-2.7	0.9	
Private	37.6	53.3		7.1	-9.3	-6.8	
Exports of goods and services	41.9	33.7	29.6	-10.9	-3.5	3.8	-6.6

Source: ECLAC, on the basis of data provided by the Central Bank of Venezuela.

"Preliminary figures.

import substitution process. There was also a considerable expansion in the cotton (87%) and sugarcane (19%) harvests, with a concomitant decline in imports of those products (see table 5).

Fruit production, for its part, increased moderately (2%), while the harvests of vegetables and tubers declined (-5% and -9%), partly because of changes in the consumption pattern of the population, whose demand was directed more towards cheaper staple foods, due to the decline in real family incomes.

With regard to the main export products, coffee and cocoa output continued to be rather modest. In fact, despite the 6% increase in coffee production, this product only recovered the level of 10 years before, whereas cocoa production grew by only 3% and continued to be severely affected by the extensive contraband trade.

The livestock sector's growth rate was also modest (2%). The products which showed the greatest growth were milk (6%) and eggs (5%), this being attributable to the readjustments in producer prices that were decreed at the end of 1984. Meat production, for its part, increased very little, mainly because of the weak domestic demand (see table 5).

Fishery activity displayed notable growth (13%), due largely to the extension of credit facilities and to the incentives granted to exports. Indeed, an ever-increasing percentage of the fishery catch was sold on the external market.

ii) *The petroleum sector.* The international petroleum market experienced a sharp decline with the disappearance of the exceptional factors that had given it stability the previous year.² Despite the reactivation of the industrialized economies, world consumption fell by 1% as a result of the energy saving and substitution programmes that had been implemented since 1974. OPEC reacted by reducing its daily crude oil production from 17.2 to 15.8 million barrels: a figure only half that recorded 10 years before. Nevertheless, the decline in OPEC's production was more than offset by the increased activity of the remaining producers. Consequently, OPEC's share of the world petroleum

Table 4

VENEZUELA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY¹

	Index at constant prices (1980 = 100)			Percentage breakdown			Growth rates			
	1983	1984	1985	1975	1980	1985	1982	1983	1984	1985
Gross domestic product	92.5	91.6	90.6	100.0	100.0	100.0	-1.2	-5.5	-1.0	-1.1
Goods	96.6	94.1	93.5	54.4	52.0	50.4	-4.0	-4.6	-0.7	-1.1
Agriculture	102.2	103.1	110.3	5.7	5.7	6.9	3.6	0.5	0.8	7.0
Petroleum and natural gas extraction	83.5	84.0	78.1	28.9	24.0	21.1	-9.5	-5.2	0.6	-7.0
Mining	68.7	79.4	91.2	0.7	0.5	0.4	-16.5	-16.6	15.6	14.9
Manufacturing ²	99.9	104.5	107.9	14.1	16.2	19.3	4.1	-1.7	4.6	3.3
Construction	77.8	51.1	42.2	5.1	5.7	2.7	-8.4	-13.2	-34.4	-17.4
Basic services	96.6	94.1	93.5	9.5	10.9	11.3	4.4	-11.6	-2.6	-0.7
Electricity, gas and water	135.3	135.3	142.2	0.9	1.0	1.6	12.3	4.1	-	5.1
Transport, storage and communications	92.8	90.0	88.5	8.7	9.9	9.7	3.5	-13.5	-3.0	-1.6
Other services	100.5	102.3	102.2	37.9	39.7	44.8	-1.4	-0.8	1.8	-0.1
Commerce, restaurants and hotels										-3.7
Financial institutions, insurance, real estate and business services	104.2	111.7	112.9	14.0	14.9	18.6	-3.1	-0.3	7.2	1.0
Ownership of dwellings	107.1	108.3	108.1	9.4	9.3	11.2	3.7	0.3	1.1	-0.2
Community, social and personal services	96.4	96.6	97.1	14.2	16.6	17.8	-1.6	-2.6	0.2	0.5
Government services	99.2	98.8	99.4	9.9	11.8	13.0	0.1	-1.8	-0.4	0.6
Less: Imputed commission for bank services	102.7	118.1	125.2	4.0	5.2	7.1	-13.8	-0.1	15.0	6.0
Plus: Import duties	34.0	25.4	23.6	2.0	2.5	0.7	12	-62.3	-25.1	-7.4

Source: IICLAC, calculations on the basis of official figures supplied by the Central Bank of Venezuela.

¹At constant 1980 market prices.

Including the livestock, forestry and fishing sectors.

²Including petroleum refining.

⁴ These factors included the coal miners' strike in Great Britain and the exceptionally severe winter in the northern hemisphere, which produced a slight increase (3%) in petroleum demand, in contrast with the repeated decreases which had occurred since 1979.

Table 5

VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985"
1. Index of agricultural production									
Crop farming	89.3	100.0	101.6	102.9	109.6	3.3	-0.3	1.3	6.6
Stock raising	88.9	100.0	93.8	94.2	104.4	2.6	-3.0	0.5	10.8
Forestry	82.7	100.0	110.1	111.7	114.3	4.2	2.8	1.5	2.4
Fisheries	212.8	100.0	97.4	87.2	79.3	-	-2.6	-10.5	-9.1
	79.8	100.0	92.2	104.7	117.9	7.1	-1.7	13.4	12.6
2. Production of the main crops^c									
For export									
Cocoa	20	15	14	11	11	-10.6	5.3	-24.2	3.4
Coffee	65	58	59	61	64	-2.1	1.4	3.4	5.8
For domestic consumption									
Cereals	1 087	1 547	1 302	1 428	1 822	0.5	-12.5	9.7	27.6
Pulses	42	39	36	30	44	-5.8	0.7	-17.5	49.1
Textiles and oilseeds	343	280	267	258	299	-1.5	9.7	-3.5	15.9
Rood crops and tubers	561	602	655	668	610	4.9	5.4	2.0	-8.8
Fruit	1 803	2 034	2 141	2 168	2 221	-0.7	1.9	1.3	2.4
Vegetables	231	365	344	331	313	11.5	-4.0	-3.9	-5.2
Other	5 583	5 041	4 872	4 816	5 744	18.2	-10.3	-1.2	193
3. Indicators of stock-raising production									
Slaughtering									
Cattle ¹	1 382	1 663	1 726	1 677	1 719	0.2	0.5	-2.8	2.5
Pigs ¹	1 253	1 776	1 909	2 212	2 252	9.9	2.4	15.9	1.8
Sheep	79	125	108	122	127	-15.5	16.0	13.3	4.0
Poultry ⁷	110	159	183	209	204	14.8	-12.5	13.9	-2.1
Other products									
Milk ¹	1 187	1 311	1 464	1 452	1 532	2.3	2.7	-0.9	5.5
Eggs, for consumption	1 604	2 034	2 253	2 146	2 245	10.6	-7.5	-4.7	4.6
4. Volume of fishery products	153	177	217	254	269	22.1	1.5	17.3	5.8

Source: IICLAC, on the basis of statistics supplied by the Ministry of Agriculture and the Central Bank of Venezuela.

"Preliminary figures. ¹Index at constant prices, 1980 = 100; as different sources were used, these figures do not correspond exactly to those given in table i. ⁷Thousands of tons. ⁴Thousands of head. ⁵Includes changes in number of livestock. Millions of head. ⁶Millions of litres. Millions of units.

market declined to 29% (from 31% in 1984 and around 50% ten years before), while international prices faced strong downward pressures. Consequently, OPEC had to lower its reference prices on two occasions —at the end of January and at the beginning of July. Despite this, the persistent differences of opinion among the OPEC member countries prevented a firm and definite position from being adopted,³ with the result that the market gradually became more unstable and competitive.

As was to be expected, this situation had a very negative impact on the Venezuelan petroleum industry. Although extraction activities were the least affected, crude oil production was reduced by 7%, in keeping with the reduction of the Venezuelan quota agreed by OPEC in November 1984.

¹ Indeed, only in December was a partial agreement reached, providing for market protection and the termination of the reference price scheme. The Organization, however, did not specify the volume of production agreed on, nor were the respective member countries' quotas specified.

External sales of crude, for their part, shrank by almost 20%, so that their volume fell to the lowest level in the last 15 years (see table 6 and figure 2). The closure of the two refineries installed in the nearby Netherlands Antilles, which had traditionally absorbed around one-third of the sales of Venezuelan crude, contributed to this result.⁴ It was the policy of maintaining prices within OPECs reference scheme against a background of diminishing demand and a sharp decline in the price on the spot market that had the greatest impact, however. Thus, Venezuelan oil exports fell to extremely low levels between April and June 1985, although they later recovered because of the lower prices agreed on by OPEC in July.

Partly in order to compensate for this decline, it was decided to raise the share of light petroleum in total exports of crude at the expense of sales of heavy and extra-heavy petroleum, since light petroleum has a relatively higher international price. The result was that the average price of Venezuelan exports of crude only declined by a little less than 3%, although even so they sank to a level below that recorded in 1980 (see table 7).

The average price of exports of petroleum products declined even more markedly (-5 %), due to the substantial deterioration in the demand for heating fuel. However, the policy followed with regard to the prices of the products and the refining pattern of the Venezuelan oil industry allowed for greater flexibility⁵ and permitted a sizeable increase (8%) in the volume of external sales of

Table 6
VENEZUELA: MAIN PHYSICAL INDICATORS OF
PETROLEUM PRODUCTION

	Millions of barrels						Growth rates				
	1970	1975	1980	1983	1984	1985°	1982	1983	1984	1985°	
Crude oil											
Production	1 353.4	856.4	793.5	655.4	658.4	612.9	-10.2	-5.1	0.4	-6.9	
Exports	888.6	537.3	469.6	359.5	368.6	299.0	-16.2	-7.3	2.5	-18.9	
Refined product											
Production	470.9	317.0	326.8	303.7	300.5	327.7	1.8	-2.0	-1.1	9.1	
Exports	377.8	224.1	212.6	188.0	186.7	201.3	-	4.7	-0.7	7.8	
Domestic consumption	73.1	90.2	140.7	145.9	135.9		-	-2.4	-6.8		
Capacity											
Production potencial			908.5	931.1	940.6	940.6	3.1	-0.5	1.0	-	
Refining capacity		567.7	538.5	516.5	485.1	480.3	-2.4	-	-6.1	-1.0	
Reserves											
Proven°	14.0	18.4	19.7	25.8	28.0	29.3	22.0	5.3	8.3	4.6	
Theoretical life	10.4	21.5	24.8	39.6	42.4	48.0	35.5	11.5	7.1	13.2	
Gas*											
Gross production	48.4	38.0	35.5	31.8	32.6	33.1	-4.1	-4.4	2.5	1.7	
Domestic consumption		9.3	14.4	15.3	16.7	16.3	6.3	0.7	9.2	-2.4	

Source: ECLAC, on the basis of statistics provided by the Ministry of Energy and Mines and Petróleos de Venezuela, S.A.

°Preliminary figures.

Covers domestic and industrial use, including that of the petroleum industry.

°Billions of barrels.

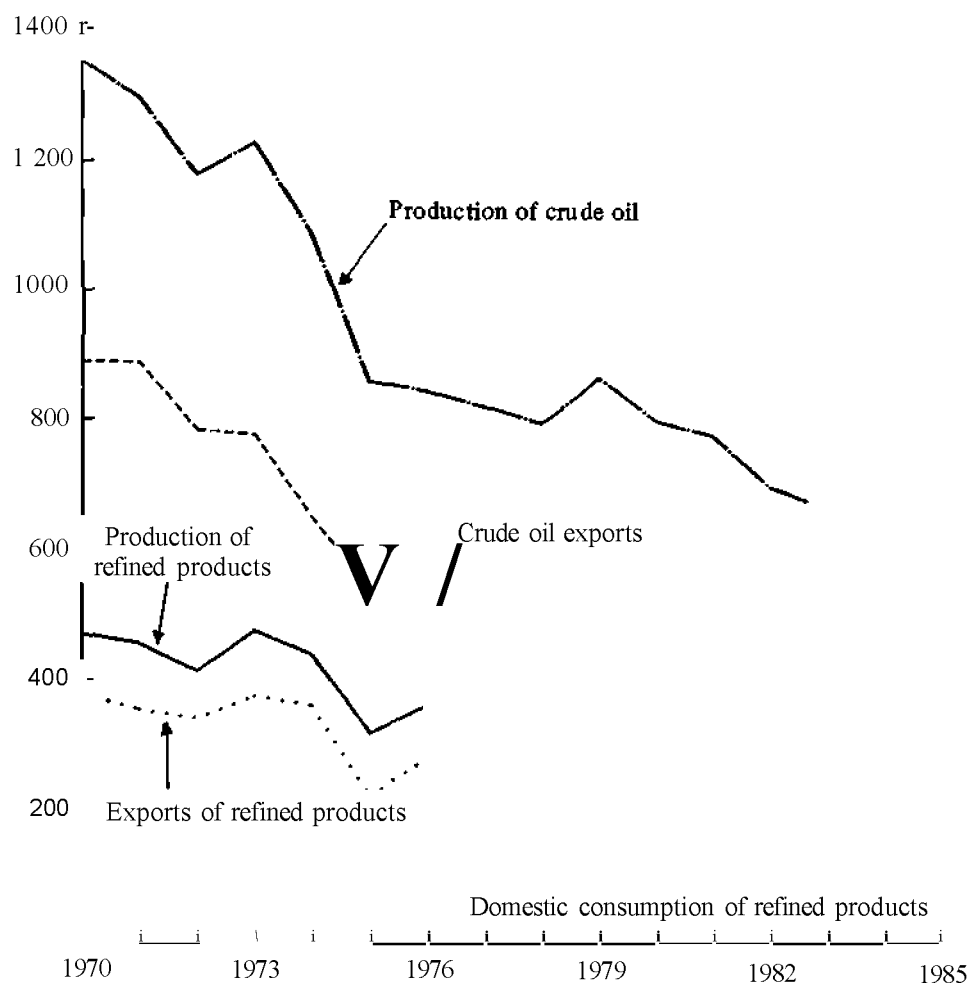
In years. Calculated by dividing total reserves by crude oil production in the corresponding year.

°Billions of cubic metres.

⁴ The Exxon refinery in Aruba closed down for good in February, while the Curacao refinery was sold to the island's government by the Shell company and remained idle from May to November. In that month an agreement was reached whereby Petróleos de Venezuela would lease the refinery and the adjoining port from the Government of Curacao, thus ensuring the processing of 190 000 barrels per day.

⁵ The prices of the products are not included in OPECs reference scheme and were changed according to market trends, often jointly with Mexico, which is Venezuela's chief competitor in the United States market. In addition, since 1983 Petróleos de Venezuela has been making investments to render the production structure of its refineries more flexible, so that it will be more adaptable to changes in the demand for the different products.

Figure 2

VENEZUELA: INDICATORS OF THE PETROLEUM INDUSTRY*(Millions of barrels)*

Source: ECLAC, on the basis of official figures.

petroleum products (see table 6). Even so, the total foreign exchange earnings of *Petróleos de Venezuela* contracted by more than US\$1 billion, while the net profits of the enterprise fell by more than 20% (see table 7).

The enterprise nevertheless maintained an investment level of over 12 billion bolívars, chiefly in projects designed to increase market stability and future income. Of particular importance were a number of internationalization programmes under which *Petróleos de Venezuela* will purchase equity in refining and distribution facilities located in the actual consumer markets.⁶ With respect to

⁶On such investment had already been made in 1983 with the VebaOel company, from the Federal Republic of Germany. In 1985, it was agreed to extend that participation and carry out similar projects with companies from Sweden and the United States. It was also decided to lease and restart the Cutacao refinery, which has been a traditional market for Venezuelan crude. In this way, it was sought to ensure a market for a large volume of hydrocarbons in the consumption centres and thus make exports more stable.

the domestic market, Petróleos de Venezuela sought to diversify its operations by promoting its extraction and conversion of natural gas,⁷ while also considering plans for investment in coal mining.

iii) *Mining*. Mining showed very satisfactory results, as its level of activity climbed by 15% for the second year in a row (see table 8). As in 1984, the increase in output was due largely to the streamlining of the management of the mining enterprises, which are mostly State-owned. Even so, however, these good results failed to offset the reduction experienced during the three years 1981-1983, and consequently mining production still remained lower than that registered in 1980.

The increase in activity essentially-reflects the increases in the production of iron ore (14%) and gold (30%): rates which, though satisfactory, were lower than those recorded the previous year. The evolution of iron ore production was due primarily to the maturity of a number of previous investments⁸ and enabled external sales to expand to the same extent.

The vigorous increase in gold production, for its part, was the result not only of greater mining activity but also of the progress made in the control and supervision of gold exploitation.

In contrast, production of the other minerals fell quite sharply, although it had no impact on the sector's overall output because of the slight significance of these other products (only 15 % of the total for the sector) (see table 8). In the case of diamonds, the gradual exhaustion of the mines, meant that production declined for the sixth consecutive year and was equal to only one-fifth of the level recorded 10 years before. The 21 % drop in the case of coal, on the other hand, was due rather to a decline in domestic demand (-15%). In spite of this, the State coal enterprise was able to double its net profits by improving its management and by readjusting domestic coal prices in February. Several other mining enterprises, such as those producing limestone, phosphorus and salt, which are all State-owned, also improved their financial situation considerably.

iv) *Manufacturing*. The growth rate of manufacturing fell from 5% to 3% (see table 9). This slackening of growth was primarily the result of a decline in domestic demand. In contrast, the branches of industrial activity with access to external markets showed significant growth, especially

Table 7

VENEZUELA: MAIN FINANCIAL INDICATORS RELATING
TO THE PETROLEUM INDUSTRY

	1976	1980	1983	1984	1985"	Growth rates				
						1981	1982	1983	1984	1985°
Prices (dollars per barrel)										
Average	11.25	26.44	25.31	26.70	25.88	12.4	-7.5	-7.9	5.5	-3.1
Crude oil		25.63	23.72	25.36	24.67	14.8	-9.0	-11.4	6.9	-2.7
Petroleum products		28.21	28.35	29.34	27.75	8.0	-4.8	-2.3	3.5	-5.4
Millions of bolívares										
Proceeds from sales	38 991	80 780	64 019	95 422	88 167	4.5	-16.2	-9.5	49.1	-7.6
External	37 320	78 328	59 948	86 456	77 613	4.3	-17.9	-10.6	44.2	-10.2
Domestic	1 671	2 452	4 071	8 966	10 554	8.6	36.7	11.8	120.2	17.7
Corporate profits	3 761	14 813	7 582	14 828	11 773	-3.9	-23.4	-30.4	95.6	-20.6
Gross fixed investment	1391	9 761	13 298	11634	12 285	38.5	26.0	-21.9	-12.5	5.6

Source: ECLAC, on the basis of data provided by the Central Bank of Venezuela and Petróleos de Venezuela, S.A.

"Preliminary figures. After payment of the corresponding taxes.

⁷ The efforts in this direction are aimed at increasing the volumes of liquid hydrocarbons available for export, either directly (through conversion of natural gas into liquefied petroleum gas) or indirectly (by reorienting domestic consumption to natural gas). In 1985, progress was made in both these directions. On the one hand, a new liquefied petroleum gas plant began operations. On the other hand, work was begun on a large infrastructure project for transporting natural gas within the country, in order to link the large gas deposits in the eastern region with the country's main urban centres (Nurgas project).

⁸ In May, exploitation of the San Isidro deposit was started and yielded almost one-sixth of the total annual production.

Table 8

VENEZUELA: INDICATORS OF MINING PRODUCTION

	1975	1980	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
1. Indexes of mining production (1980 = 100)	129.3	100.0	68.5	79.2	91.0	-16.6	-16.6	15.6	14.9
2. Production of some important minerals									
Iron ^c									
Production	24.8	16.0	9.4	13.1	14.9	-24.8	-19.1	38.2	14.1
Exports	19.4	11.7	6.3	7.9	9.0	-46.8	-5.3	26.2	14.1
Gold"	570	430	1 084	1 741	2 268	4.3	20.2	60.6	30.3
Diamonds'	1 060	666	279	273	198	-11.2	-35.9	-2.2	-27.3
Coal ⁷	60	39	39	51	40	2.9	-15.7	29.8	-20.8

Source: ECLAC, on the basis of statistics provided by the Ministry of Energy and Mines and the Central Bank of Venezuela.

"Preliminary figures. ^f Value of the sector's production at 1968 prices. As a different base was used, these figures do not correspond exactly to those given in table 4. ^c Millions of tons. Kilograms. Thousands of metric carats. Thousands of tons.

in the case of basic metals (8% increase in steel production and 5% in that of aluminium). In both cases an appreciable part of production (40% and 60%, respectively) was sold on the external markets.

The sectors most geared to the domestic market showed only slight increases, or even declines (see table 9). The petrochemical industry managed to increase its fertilizer production significantly (8%), reflecting the dynamism of national agricultural activity, but as production of other petrochemical substances such as urea and ammonia fell, the overall results was a decline of 10%. The other branches producing intermediate goods were negatively affected by the further contraction in construction and public investment.

On the whole, the sectors producing consumer durables showed rather negative evolution, and there was virtual stagnation in the motor vehicle industry, where production reached a level only 80% of that recorded five years before. It is estimated that in the capital goods industry more than 30% of the installed capacity remained idle. On the other hand, the production of the remaining consumer goods increased slightly, although in most cases considerable volumes of stocks were accumulated (see table 9).

v) *Construction*. The product of this sector fell for the fifth year in a row, this time by 17%, so that the level of activity was only half that recorded 10 years before (see table 10). This decline seemed to have been halted at the end of the year through the implementation of part of the additional investment programme established to reduce unemployment and stimulate domestic activity.⁹ This was demonstrated in the slight upturn in employment in the sector for the first time since 1982. Similarly, the number of dwellings constructed with public financing increased by more than 25%, following two years of substantial decline (see table 10).

The direct support measures, supplemented by a certain degree of greater flexibility in the housing subsidy policy, were only applied in a slow and limited manner, however, and this militated against the overall recovery of the sector. The low level of domestic demand also had a negative impact. Thus, housing construction by the private sector declined for the third year in a row, while the other available indicators of activity (domestic sales of building materials and loans granted) showed notable decreases (see table 10). At the same time, it is estimated that the number of houses offered for sale remained high (41 000 units), a figure which is almost the same as the total of new

⁹ In view of the slackening domestic demand, the authorities decided to launch an additional investment programme in the amount of 6.5 billion bolívares, in order to boost production and employment levels and hence also private investment. Of that total, 3.4 billion bolívares were included in the central government's budget for 1985. See the section on fiscal policy below.

constructions for the year, with the attendant freezing of resources and worsening of prospects within the sector.

vi) *Services*. The items most closely linked to the production of goods, such as commerce and transport, reduced their level of activity by 4% and 2% respectively (see tables 4 and 11). In both cases the slight recovery in domestic activity failed to offset the effect of the decline in imports. In contrast, the output of basic services rose by 5 %, due primarily to the considerable (43 %) increase in electricity generation (see table 11). The output of other services remained stagnant. Notwithstanding this, the employment level in those activities rose steadily, the only exception being the decline of 3% in the number of public employees. This suggests that underemployment rose considerably.

Table 9

VENEZUELA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1980	1983	1984	1985"	Growth rates			
						1982	1983	1984	1985"
1. Index of manufacturing production	72	100	101	106	109	4.3	-1.6	5.1	3.0
Consumer goods									
Foodstuffs	80	100	110	112	115	4.7	8.1	1.6	2.6
Beverages	56	100	118	114	92	6.7	-0.2	-3.3	-19.1
Tobacco products	76	100	66	52	50	-15.1	-13.3	-21.1	-2.9
Textiles	138	100	93	112	113	-9.2	1.2	20.7	1.0
Clothing	130	100	95	112	99	1.8	9.9	18.0	-11.6
Footwear	89	100	114	121	119	14.4	-10.1	6.1	-1.7
Furniture	47	100	74	76	86	3.0	-2.9	2.0	13.7
Printing	103	100	101	107	127	4.9	-5.2	6.0	18.3
Intermediate goods									
Industrial chemicals	50	100	95	126	127	4.3	12	33.2	1.1
Other chemical products	60	100	88	99	102	4.4	-3.1	12.2	3.0
Rubber products	79	100	93	82	93	-3.0	-5.8	-11.7	13.4
Plastic products	%	100	101	107	99	3.4	7.8	5.4	-6.9
Glass	80	100	97	130	138	0.5	-0.5	33.9	6.4
Paper	84	100	123	146	136	4.8	5.8	19.0	-6.7
Basic iron and steel	26	100	143	156		64.1	-3.9	9.1	
Non-ferrous metals	-	100	78	99	244	-35.5	54.2	27.3	146.6
Capital goods									
Machinery	104	100	96	110	109	9.2	-14.7	13.6	-1.2
Electrical machinery	78	100	87	87	66	1.5	-12.3	1.0	-24.5
Transport equipment	84	100	75	71		-2.6	-22.5	-5.6	
2. Output of some industrial products'									
Sugar	469	323	348	390	395	20.1	-4.6	12.1	12
Steel	919	1 784	2 146	2 511	2 710	9.5	7.8	17.0	8.0
Aluminium	52	156	334	376	396	-12.9	22.2	12.7	5.3
Ammonia	180	439	462	572	490	6.2	-13.6	23.8	-14.3
Sulphuric acid	117	114	139	158	157	43.0	23.0	13.7	-0.6
Urea	27	276	390	360	318	18.1	4.8	17.9	-11.7
Fertilizers	160	441	576	759		29.9	-8.6	31.8	8.0
Cement	3 455	4 842	4 151	3 878	3 928	10.4	-23.6	-6.6	12
Vehicles tyres	2 669	3 483	3 385	2 985	3 029	-2.5	-5.7	-11.8	15
Passenger vehicles	92	94	80	75	77	10.4	-23.6	-6.6	2.3
3. Employment'		752	728	744	791	-0.1	-5.4	2.3	6.2

Source: ECLAC, on the basis of statistics supplied by the Central Bank of Venezuela and various industrial enterprises.

"Preliminary figures. At constant 1980 prices. 1985: average January-September. "Thousands of tons. "Thousands of units. "Thousands of persons.

Table 10

VENEZUELA: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985°
1. Index of sectoral GOP* ¹	79.4	100.0	77.7	51.0	42.1	-8.4	•13.3	-34.4	-17.4
2. Housing construction									
Total area'		4 662	2 359	2 167	1 896	22.5	-49.3	-8.2	-12.5
Number of dwellings									
Total	61.4	77.1	63.1	43.8	46.1	7.9	-34.1	-30.6	5.2
Public sector'	35.4	40.0	30.1	19.3	24.5	12.6	-38.0	-36.0	27.5
Private sector	26.0	37.1	33.0	24.6	21.6	3.4	-30.1	-25.7	-12.3
3. Indicators of activity									
Domestic sales of steel	469	449	285	327	217	-6.8	-36.9	14.7	-3.3.6
Domestic sales of cement	3 436	5 065	4 163	3 633	3 588	4.2	-26.6	-12.7	-1.2
Domestic sales of hardware and building materials*		100.0	84.6	76.9	54.7	-8.6	6.4	-9.1	-3.3.6
Loans granted		12 148	12 254	12 129	10 390	12.3	-4.7	-1.0	-14.3
4. Employment (thousands of persons)		434	393	345	350	4.5	-16.2	-12.3	1.6

Source: LCLAC, on the basis of information provided by the Ministry of Urban Development, the Construction Fund and the Central Bank of Venezuela.

"Preliminary figures. Index at constant prices, 1980 = 100. As different bases were used, these figures do not correspond exactly to those given in table t. 'Housing construction permits granted. Thousands of square meters. 'Thousands of units. 'In addition to dwellings, this includes popular building plots for gradual urban development. Thousands of tons. "In the Caracas metropolitan area. Index in real terms, 1980 = 100. 198V January to September. Loans to builders and purchasers. Millions of bolívares.

Table 11

VENEZUELA. INDICATORS OF SERVICE ACTIVITIES

	1975	1980	1983	1984	1985°	Growth rates			
						1982	1983	1984	1985"
1. Electrical energy									
Installed capacity	4.7	7.7	9.8	11.6	13.2	15.1	1.7	18.3	13.7
Generation'	21.2	32.4	38.3	39.6	43.3	3.6	9.3	3.4	9.3
Total consumption^	19.5	27.7	31.3	33.2	37.6	0.7	7.2	6.0	13.2
2. Transport									
Freight moved									
By air		113.0	41.5	49.6	54.7	-15.9	-56.7	19.3	10.1
By sea		7.9	6.1	7.4	7.9	-1.7	-27.8	20.7	6.6
3. Commerce									
Index of commercial sales'	103.7	100.0	78.3	75.7	74.9	-2.6	-20.4	-3.4	-1.0
4. Emplomenr									
Total services sector		2 704	2 981	2 984	3 074	3.0	2.6	0.1	3.0
Commerce		1 062	1 165	1 178	1 260	3.4	0.9	12	6.9
Public administration		297		349	329*				-3.1
Personal services		308"		386	441*				12.0

Source: ECLAC, on the basis of information provided by the Central Statistics and Information Office (OEI) and the statistical annex of the message of the President to Congress, 1986.

"Preliminary figures. Millions of kWh. 'Billions of kWh. Thousands of ton. "In the Caracas metropolitan area. Index in real terms, 1980 = 100. 'Thousands of persons. ^Second half of the year only. First half of the year only.

c) Employment and unemployment

In 1985 unemployment continued to show the same high levels as the previous year (14% in the cities and 8% in rural areas). Construction was once again the sector with the highest rate of unemployment (30%), followed by manufacturing (13%) and commerce (11%). During the second half of the year, however, the upward trend which had begun in 1982 was reversed and the percentage of unemployed fell slightly, both in urban and rural areas (see table 12 and figure 3)- Even so, the unemployment level at the end of the year was much higher than that recorded two years before.

Table 12

VENEZUELA: EMPLOYMENT AND UNEMPLOYMENT

	1981	1982	1983	1984	1985 ^a	Percentage breakdown		Growth rates		
						1980	1985	1983	1984	1985 ^a
Labour force										
(thousands of persons)	5 120	5 305	5 486	5 673	5 873					
Net participation rate (percentage)	54.7	54.4	54.2	55.3	56.1					
Thousands of persons										
Employment	4 803	4 928	4 937	4 942	5 106	100.0	100.0	0.2	0.1	3.3
Primary sector	760	781	830	866	895	16.2	17.5	6.4	4.4	3.3
Agricultural activities	694	710	757	792	826	14.7	16.2	6.6	4.6	4.3
Hydrocarbons, mines and quarries	66	71	73	74	69	1.5	1.3	4.1	1.5	-7.5
Secondary sector	1 276	1 302	1 189	1 156	1 204	26.7	23.5	-8.7	-2.8	4.2
Manufacturing	770	769	728	744	790	16.2	15.5	-5.4	2.3	6.2
Construction	449	469	393	345	350	9.3	6.8	-16.2	-12.3	1.6
Electricity, gas, water and sanitary services	57	64	69	67	63	1.2	1.2	7.4	-2.8	-4.6
Tertiary sector	2 763	2 846	2 913	2 917	3 011	57.0	59.0	2.3	0.2	3.2
Commerce ^c	1 117	1 155	1 165	1 178	1 260	22.9	24.7	0.9	1.2	6.9
Transport, storage and communications	366	375	374	348	343	7.4	6.7	-0.3	-7.0	-1.2
Other services	1 280	1 316	1 374	1 391	1 408	26.7	27.6	4.4	1.2	1.2
Percentages										
Open unemployment										
Nationwide total	6.2	7.1	10.0	12.9	13.1					
Previously employed	5.3	6.0	8.5	11.0	11.5					
Seeking work for the first time	0.9	1.1	1.5	1.9	1.6					
Rural areas	4.0	4.8	5.7	7.6	8.0					
Urban areas	6.8	7.8	10.5	14.3	14.3					
Caracas metropolitan area	5.7	7.0	10.5	11.0 ^m	13.2 ^{ff}					
Unemployment by economic sector										
Manufacturing	5.3	6.0	8.5	11.0	11.5					
Construction	7.3	8.8	11.7	13.0	13.2					
Commerce ^c	11.7	13.3	21.4	29.3	30.2					
Other services	4.4	5.2	7.8	10.3	10.7					
	3.6	3.9	5.5	8.2	8.8					

Source: ECLAC, on the basis of data obtained from household surveys conducted by the Central Statistics and Information Office (OCEI).

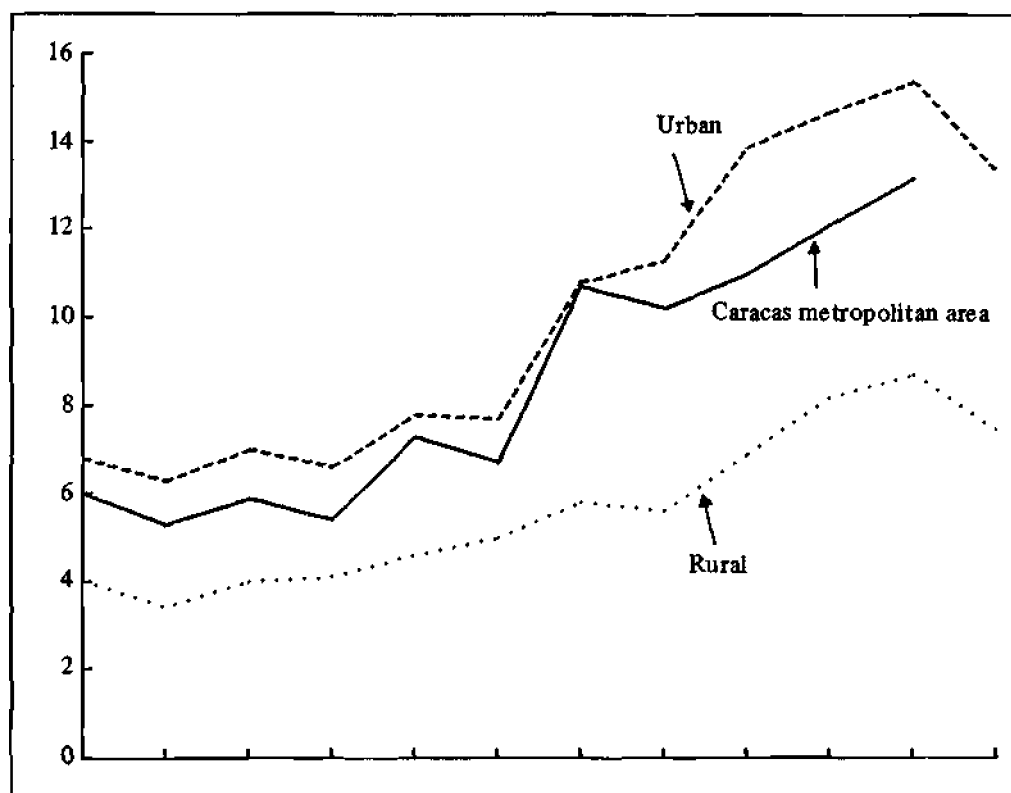
^aPreliminary figures.

^mLabour force as a percentage of the population aged 15 years and over.

^fIncludes financial institutions.

^{ff}First half of the year only.

Figure 3

VENEZUELA: OPEN UNEMPLOYMENT*(Percentages)*

Source: ECLAC, on the basis of official data.

This decline in unemployment was of particular importance because it coincided with a further increase in the coefficient of net participation, which reached a record high. However, this was more than offset by the marked increase (3%) in the employment level, following two years of absolute stagnation (see table 12). The growth of employment in agriculture (4%) reflected the dynamism of this activity during the year, whereas the higher employment levels in manufacturing (6%) and construction (2%) were attributable partly to the effects of government reactivation programmes. The considerable rise (7%) in the number of persons employed in commerce was a result of the increase in underemployment in that sector and, more globally, of the expansion of the informal sector in the country. Indeed, between the second half of 1984 and the same period of 1985 the weight of employment in these activities increased from 44% to 46% of total employment.

3- The external sector

Despite the unfavourable international conditions, Venezuela was able to maintain substantial external account surpluses, which brought its international reserves up to US\$1.6 billion for the second consecutive year.

a) *Exchange policy*

In accordance with what had been announced at the beginning of 1984,¹⁰ further progress was made towards the gradual unification of the different exchange rates. During 1985, there was a gradual transfer of the imports which were considered "essential" and which enjoyed a special preferential rate of 4.3 bolívars per dollar to the commercial rate of 7.5 bolívars per dollar. Transactions at the preferential rate thus came to represent only 5 % of the total, whereas those at the commercial rate jumped from 24% to 38% of the total (see table 13).

The Central Bank's operations on the free market continued to represent about US\$1.4 billion. As in 1984, their main objective was to avoid speculation and to maintain a relatively stable quotation for the bolivar on the free market. Because of the unfavourable expectations aroused by the decline of the international petroleum market, the Central Bank had to intervene vigorously on two occasions—in June and November—to halt the increase in the dollar rate on the free market. Despite this, the rate obtaining at the end of the year—almost 15 bolívars to the dollar—meant a decline of 19% compared with the same period the year before (see table 14).

Because of the free market's small share in overall exchange transactions, however, the average exchange rate increased much more slowly (9%). As this amount was a good deal lower than the difference between the increase in the wholesale price index and external inflation, the effective exchange rate fell by 10% after having risen during the two previous years, thus reverting to its 1981 level (see table 14).

Table 13

VENEZUELA: FOREIGN EXCHANGE MOVEMENTS IN THE
CENTRAL BANK, BY TYPE OF EXCHANGE RATE

	Total	Exchange rate <i>vis- a-vis</i> the dollars			
		4.30	6.00	7.50	Free
Millions of dollars					
1983					
Income	17 841	16 531	364	-	946
Expenditure	16 731	12 977	935		2 819
1984					
Income	17 281	2 423	13 274	962	622
Expenditure	15 971	4 966	2 420	7 104	1 481
1985°					
Income	15 579	35	13 529	1 285	730
Expenditure	14 347	1 569	1 353	9 998	1 427
Percentage breakdown					
1983	100.0	85.3	3.8		10.9
1984	100.0	22.2	47.2	24.3	6.3
1985°	100.0	5.4	49.7	37.7	7.2

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

°Preliminary figures. For the total of foreign exchange operations.

¹⁰ When the trade exchange rate was raised by 25% from 6 to 7.50 bolívars per dollar and the petroleum exchange rate by 45% from 4.30 to 6 bolívars per dollar in February 1984, the government introduced a four-level system of multiple exchange rates (preferential, petroleum, trade and free), but cautioned that its intention was to unify the exchange rates gradually. During the course of 1985, the programme for the gradual removal of the preferential exchange rate was completed, except for a number of external debt service payments. The date for combining the trade and petroleum exchange rates at 7.50 bolívars to the dollar had been set at 1 January 1986. Similarly, the determination to maintain the free exchange rate for some time more was reasserted. This rate is used for non-traditional exports, non-authorized imports and financial operations, but there a warning was given that the Central Bank would intervene regularly to stabilize it.

Table 14

VENEZUELA: EVOLUTION OF EXCHANGE RATE

Annual and quarterly averages	Nominal exchange rates (bolívars per dollar)			Indexes of real effective exchange rate ^h	
	Trade	Free	Average"	Exports	Imports
1975	4.29		4.29	117.1	112.0
1976	4.29	-	4.29	114.5	107.6
1977	4.29	-	4.29	107.0	103.0
1978	4.29	-	4.29	106.7	106.9
1979	4.29	-	4.29	107.8	108.8
1980	4.29		4.29	100.0	100.0
1981	4.29	-	4.29	91.4	93.1
1982	4.29	-	4.29	85.1	84.2
1983		10.59	5.01	91.9	91.5
1984		13.51	6.49	102.4	102.1
1985 ^e	7.50	13.97	7.05	92.1	91.9
1982					
I	4.29	-	4.29	86.7	86.1
II	4.29	-	4.29	85.6	84.9
III	4.29	-	4.29	84.1	83.1
IV	4.29	-	4.29	84.0	83.0
1983					
I	4.86	5.60	4.35	83.3	82.9
II	6.00	10.20	5.13	94.8	94.6
III	6.00	13.90	5.70	102.6	102.1
IV	6.00	12.75	4.87	86.9	86.4
1984					
I	7.00	13.65	5.45	94.5	94.1
II	7.50	15.30	6.94	114.7	114.5
III	7.50	12.57	6.77	103.8	103.5
IV	7.50	12.52	6.79	96.5	96.1
1985 ^e					
I	7.50	13.28	6.93	93.2	92.8
II	7.50	13.36	6.99	91.4	91.3
III	7.50	14.39	7.11	92.0	91.8
IV	7.50	14.85	7.17	91.8	91.7

Source: ECLAC, on the basis of information provided by the International Monetary Fund, *International Financial Statistics*, and the Central Bank of Venezuela.

"Weighted average based on the foreign exchange movements recorded by the Central Bank of Venezuela. Corresponds to the average of the indexes relating to the real exchange rate for the bolivar 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 were made primarily on the basis of wholesale price indexes¹, in the case of Venezuela, the "national products" sub-index of that index were used. Furthermore, due to the introduction of a multiple exchange rate system, from February 1983 the base used was the average exchange rate for the entire economy, weighted by the foreign currency movements recorded by the Central Bank. For information on the methodology and sources used, see the Technical Appendix to the *Economic Survey of Latin America, 1984*. ^h Preliminary figures.

b) *Foreign trade*

Despite the further deterioration of the international petroleum market, merchandise trade again showed a substantial surplus of US\$7.6 billion, only slightly below that recorded in 1984. This was attributable to the considerable drop in the value and volume of imports of goods (-16% and -15%, respectively), the levels of which were only slightly higher than those of 1983 (see table 15). This decline was due, in turn, to the further expansion of the import substitution process, combined with the relative stagnation of a number of domestic activities. Also contributing to this to a certain extent was the ending of the phase of replenishment of stocks which had taken place in 1984.

A particularly noticeable feature was the contraction in external food purchases (-27% during the first nine months of the year), which mirrored the dynamism of the national agricultural sector. Consequently, the share of foodstuffs in overall imports reached its lowest level in 10 years (7%, compared with more than 14% in 1976). A sharp reduction was also recorded in external purchases of chemicals (-21 %), which also reflected the upturn in the domestic production of those goods. All in all, imports of raw materials and intermediate products shrank by almost one-fifth during the first three quarters of the year (see table 16). On the other hand, imports of construction materials, consumer durables and capital goods increased steadily (26%, 25% and 18%, respectively), although they did not cancel out the drastic decline of previous years. As a result, the share of the industrialized countries in Venezuelan imports increased considerably, even surpassing the levels attained in 1980 (see table 17). In contrast, Latin America's share in Venezuela's trade declined. Particularly striking was the drop in Venezuela's external sales to the region, which highlighted the decline in Latin America's purchasing power because of the present crisis (see table 17).

The other factor which helped to sustain the trade surplus was the dynamism shown by non-petroleum exports, which mitigated the impact of the drop in external sales of hydrocarbon (see table 18). Petroleum sales, which shrank by almost 14%, reached their lowest level since 1978, whereas the remaining exports, both traditional and non-traditional increased significantly, due

Table 15

VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1979	1980	1981	1982	1983	1984	1985"
Growth rates							
Exports of goods							
Value	55.9	34.5	4.8	-18.2	-10.8	8.8	-10.4
Volume	8.2	-11.1	-4.6	-12.1	-3.5	4.8	-7.0
Unit value	44.0	51.3	9.9	-6.9	-7.5	3.8	-3.7
Imports of goods							
Value	-11.0	8.7	11.5	12.0	-52.8	22.9	-16.3
Volume	-19.6	-4.2	11.3	15.2	-51.2	25.7	-14.6
Unit value	10.7	13.5	0.1	-2.7	-3.4	-2.2	-2.0
Terms of trade (goods)	30.0	34.0	9.0	-4.8	-5.0	4.8	-1.4
Indexes (1980 = 100)							
Terms of trade (goods)	74.6	100.0	109.0	103.8	98.5	103.3	101.8
Purchasing power of exports of goods	83.9	100.0	104.0	86.9	79.7	87.5	80.2
Purchasing power of exports of goods and services	84.4	100.0	102.0	85.5	78.5	83.8	75.9
Indexes of volume							
Exports of goods	112.4	100.0	95.4	83.8	80.8	84.9	78.8
Imports of goods	104.4	100.0	111.3	128.2	62.6	78.8	67.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

^Volume of exports of goods or of goods and services, as appropriate, adjusted by the corresponding terms-of-trade index.

Table 16

VENEZUELA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985°	1976	1980	1985°	1982	1983	1984	1985*
Total^c	5 786	7 007	5 289	100.0	100.0	100.0	-1.2	-50.3	21.1	-4.7
Consumer goods	1 290	1 469	1 078	15.9	23.8	20.4	-2.5	-53.3	13.9	-8.0
Foodstuffs and beverages	559	655	384	14.2	8.2	7.3	-16.2	-40.8	17.2	-27.0
Other consumer goods	731	814	694	1.7	15.6	13.1	6.5	-59.8	11.4	7.4
Durables	287	276	283	0.8	7.8	5.4	12	-65.0	-3.8	24.7
Non-durables	444	538	411	0.9	7.8	7.8	11.3	-55.5	21.2	-1.9
Raw materials and intermediate goods	2 368	3 118	2 115	73.7	34.5	40.0	2.1	-40.9	31.7	-18.7
Raw materials	1 970	2 771	1 852	56.6	28.4	35.0	-12.1	-27.9	40.7	-20.3
For industry	1 808	2 541	1 686	52.5	26.3	31.9	-10.7	-28.9	40.5	-20.7
For agriculture	162	230	166	4.1	2.7	3.1	-27.3	-14.3	42.0	-16.2
Fuels and lubricants	152	181	105	2.8	1.6	2.0	-28.7	126.9	19.1	-30.9
Building materials	246	167	158	14.3	4.5	3.0	67.2	-79.6	-32.1	26.4
Capital goods	2 128	2 420	2 096	10.4	41.4	39.6	-3.0	-56.4	13.7	17.8
Machinery and tools	1 259	1 475	1 338	5.0	26.7	25.3	4.1	-60.1	17.2	27.4
Transport equipment	870	945	758	5.4	14.6	14.3	-13.9	-49.6	8.7	3.8

Source: UCLAC, on the basis of data provided by the Central Statistics and Information Office (OCEI).

° January-September. January-September in comparison to the same period of the preceding year. * As different sources were used, these figures do not correspond exactly to those given in tables 18 and 19.

primarily to the incentive of exchange rate differential.¹¹ The measures taken to improve the management of State enterprises, for their part, led to an improvement in output and quality. Thus, there were marked increases in exports of iron ore (100%), steel and iron and steel products (67%) and aluminium (see table 18).

Because of the high share of total exports that external oil sales still represented, however, these promising results nevertheless failed to prevent total export income from dropping by more than 10%. Since there was also a deterioration in the terms of trade, the purchasing power of exports was even lower than that of 1979 (see table 15).

c) The balance of payments

The deficit on trade in real services stayed at the same level as in previous years, with the result that the trade balance on goods and services showed a surplus of US\$6 billion, as in 1984 (see table 19). However, the deficit on factor service payments increased, partly as a result of the rise in interest payments, which was caused, in turn, by the payments arrangement agreed on during the renegotiation of the external debt. In fact, disbursements for external private debt interest payments almost doubled, since the arrears in those payments declined substantially (see table 20). The lower income received from interest also contributed to this result and reflected the drop in both international interest rates and frozen external assets. Hence the current account surplus shrank by more than US\$1 billion, although it still remained sizeable (close to US\$4 billion).

This reduction referred to above was almost completely offset, however, by the substantial decline (from US\$3.4 billion to US\$2.3 billion) in the negative balance on the capital account. This

¹¹ Authorized imports of raw materials and intermediate goods were made at the trade exchange rate of 7.50 bolívars to the dollar, whereas the income from non-petroleum exports enjoyed the benefit of the free market exchange rate, whose average value during the year was 14 bolívars to the dollar (see table 14). A foreign exchange differential of this size represents a considerable indirect subsidy to non-traditional exports, to which were added the expansion and diversification of a series of credit and administrative incentives.

was due, *inter alia*, to the slight rise in direct investment, the relative decline in private capital outflows and, finally, the procurement of new bilateral and multilateral loans. As a result, the balance of payments showed a surplus very similar to that of 1984 (see table 19) and the international reserves again increased by more than US\$1.6 billion. The Central Bank's foreign exchange assets also increased by almost US\$1.2 billion, to a total of almost US\$9 billion, which is equivalent to more than 16 months of imports (see table 21).

d) *External indebtedness*

The total external debt went down for the second consecutive year and at year-end it stood at US\$34 billion —an amount lower than that recorded in 1982. However, due to the simultaneous reduction in exports of goods and services, the debt/exports coefficient rose from 210% to 225 %, the highest level in recent times (see table 22).

Table 17
VENEZUELA: ORIGIN/DESTINATION OF IMPORTS/
EXPORTS OF GOODS

	Millions of dollars (FOB value)			Percentage breakdown			Growth rates		
	1983	1984	1985"	1975	1980	1985"	1983	1984	1985"
Imports									
Total"	5 783	7 005	6 593	100.0	100.0	100.0	-50.3	21.1	-5.9
Origin:									
OECD	4 725	5 683		90.0	85.5		-51.8	20.3	
United States	2 648	3 338	3 355	47.6	47.8	50.0	-50.0	26.1	0.5
EEC	1 190	1 405	1 463	25.8	19.8	21.8	-46.4	18.1	4.1
Japan	328	337	364	8.0	8.0	5.4	-72.4	2.7	8.0
Latin America	869	1 114	939	7.7	11.1	14.0	-41.9	28.2	-15.7
Brazil	345	366	295	2.1	2.1	4.4	-26.4	6.1	-19.4
Colombia	91	113	110	1.5	1.6	1.6	-61.9	24.2	-2.7
Central America	92	183		1.0	2.7		-69.1	98.9	
Netherlands Antilles	109	112	116	0.4	0.7	1.7	230.3	2.8	3.6
Others	189	208	...	2.3	3.4	...	-44.4	10.1	
Exports									
Total"	14 984	16 084	14 265	100.0	100.0	100.0	-11.3	7.3	-11.3
Destination:									
OECD	9 119	9 741	8 551	58.0	53.3	59.9	-11.7	6.8	-12.2
United States	4 475	6 134	5 213	33.9	24.6	36.5	-5.9	37.1	-15.0
EEC	2 819	1 941	2 484	9.3	12.4	17.4	17.9	-31.1	28.0
Japan	343	390	422	0.3	3.6	3.0	-40.0	13.7	8.2
Latin America	5 327	5 844	3 090	40.0	41.1	21.7	-13.3	9.7	-47.1
Brazil	532	514	251	1.1	3.5	1.8	-41.7	-3.4	-51.2
Colombia	317	322	194	0.3	1.4	1.4	-9.9	1.6	-39.8
Central America		1 782	1 738	3.1	2.5	12.2			-2.5
Netherlands Antilles	3 226	2 858	790	20.6	23.9	5.5	-95	-11.4	-72.4
Others	538	499	2 624	2.0	5.6	18.4	32.5	-7.2	• *

Source: BCLAC, on the basis of statistics provided by the Central Bank of Venezuela and the International Monetary Fund.

"Preliminary figures. "As different sources were used, these figures do not correspond exactly to those given in tables 18 and 19.

Table 18
VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1983	1984	1985 ^a	1975	1980	1985 ^a	1982	1983	1984	1985 ^a
Total	14 570	15 851	14 197	100.0	100.0	100.0	-18.2	-10.8	8.8	-10.4
Main traditional exports	13 581	14 909	12 979	98.0	95.9	91.4	-18.3	-12.6	9.8	-12.9
Petroleum	13 478	14 798	12 773	94.6	94.9	90.0	-18.0	-12.7	9.8	-13.7
Iron ore	80	84	168	3.1	0.8	12	-50.9	-3.6	5.0	100.0
Main non-traditional exports	989	942	1 218	2.0	4.1	8.6	-15.7	30.8	-4.8	29.3
Public sector	647	527	681	0.2	2.7	4.8	-21.2	22.5	-18.5	29.2
Aluminium	439	308			2.1		-22.5	38.5	-29.8	
Steel	149	134			0.6		-28.3	25.2	-10.1	
Other	59	85		0.2	-		-3.2	-35.9	44.1	
Private sector	342	415	537	1.8	1.4	3.8	0.4	50.0	21.3	29.4

Source: ECLAC, on the basis of data provided by the Central of Venezuela and the International Monetary Fund.

^aPreliminary figures. Also includes coffee and cocoa.

The decline in the total external debt was due largely to the amortization payments made on that part of the public debt owed to official creditors which was not subject to renegotiation. The more expeditious relations established between the Central Bank and private sector debtors also contributed to this since they made it possible to drastically reduce the delays in payment of interest on the private debt, thus diminishing the short-term debt. At the same time, however, this meant that the weight of the total debt *vis-a-vis* exports increased from 24% to 29% (see table 22).

The most important event in respect of external financing, however, was the signing of two new credit agreements.¹² Although only quite small, these loans were the first fruits of the new external financing policy, which provides for increased utilization of the lines of credit offered by bilateral or multilateral official agencies.

In the short term, the renegotiation of the public debt owed to private creditors continued to be the main pivot of the external financing policy. At the request of the Venezuelan government, "a contingency clause" was included in the agreement in principle¹³ which empowers the parties to reopen negotiations if adverse changes occur in the international economic situation. Although no definite agreement was reached, at the end of the year the negotiations seemed to be close to a conclusion.

With regard to the private debt, the government undertook to supply foreign exchange at a preferential exchange rate of 4.30 bolívars to the dollar for amortization payments on US\$7 billion of registered debt. The Central Bank began to sign exchange agreements with the debtor companies, which provide for the delivery of foreign exchange to cover those payments over a five-year period, beginning April 1986.

¹² The first of these was for a commercial loan of US\$ 170 million to extend the Caracas underground railway. The second, granted by the Inter-American Development Bank, was for loans of US\$30 million for agriculture, US\$35 million for forestry development and US\$550 million for various industrial projects.

¹³ Signed in September 1984, after 20 months of negotiation. For further details see *Economic Survey of Latin America and the Caribbean, 1984: Venezuela*.

Table 19
VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985"
Balance on current account	370	4 749	4 026	-4 222	4 451	5 001	3 950
Trade balance	760	4 839	3 835	-2 077	6 745	6 223	6 019
Exports of goods and services	14 959	19 968	20 938	17 557	15 825	16 696	15 089
Goods FOB	14 159	19 050	19 963	16 332	14 570	15 851	14 197
Real services	800	918	975	1 225	1 254	845	887
Transport and insurance	473	513	595	664	673	440	488
Travel	178	243	187	309	310	358	245
Imports of goods and services	14 199	15 129	17 104	19 634	9 080	10 474	9 065
Goods FOB	10 004	10 877	12 123	13 584	6 409	7 877	6 593
Real services	4 195	4 252	4 980	6 050	2 671	2 597	2 472
Transport and insurance	1454	1 449	1 567	1 524	930	1 116	970
Travel	1 738	1999	2 372	2 925	1073	1 075	830
Factor services	-3	328	574	-1 530	-2 107	-1 072	-1 950
Profits	-313	-321	-350	-401	-188	-152	-155
Interest received	1 346	2 263	3 581	2 565	1 500	2 169	1 720
Interest paid	-1 036	-1613	-2 657	-3 694	-3 425	-3 029	-3 515
Unrequited private transfers	-388	-418	-383	-615	-187	-149	-119
Balance on capital account	3 729	-985	-4 047	-3 944	-4 116	-3 433	-2 279
Unrequited official transfers	-19	-21	-26	-24	-24	-29	-23
Long-term capital	1443	2 060	810	3 155	239	-318	
Direct investment (net)	88	55	184	253	86	58	
Portfolio investment (net)	-74	1 311	83	1 582	201	-130	
Other long-term capital	1429	695	544	1 320	-47	-246	
Official sector ¹	1 026	-290	-262	1 317	332	-308	
Loans received	1 857	787	781	2 741	1259	434	
Amortization payments	-776	-855	-891	-1 492	-827	-752	
Commercial banks ¹	-655	220	555	-	-	-	-1 353
Loans received	-	-	-	-	-	-	
Amortization payments	-	-	-	-	-	-	
Other sectors ^c	1 058	765	250	3	-379	62	
Loans received	2066	1942	1615	1 284	505	28	
Amortization payments	-860	-1 007	-1 090	-1 068	-702	-269	
Short-term capital (net)	1 809	-1 896	-2 692	-4 914	-4 338	-3 189	
Official sector	-3	103	33	-57	-17	24	
Commercial banks	-65	-27	35	916	-827	-197	
Other sectors	1 876	-1 972	-2 760	-5 773	-3 493	-3 016	
Errors and omissions (net)	497	-1 128	-2 139	-2 161	7	104	-903
Global balance	4 098	3 764	-21	-8 165	336	1 568	1671
Total variation in reserves (- sign indicates an increase)	-4 121	-4 184	-1 100	7 635	-283	-1797	-1671
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-135	9	-101	5	87	-22	-121
IMF reserve position	229	-87	-14	-113	-166	106	-7
Foreign exchange assets	-1 379	795	-1 446	1695	-960	-1 392	-1 153
Other assets	-2 835	-4 900	461	6 048	756	-489	-390
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1979-1984: International Monetary Fund, *Balance of Payments Yearbook*, March 1986; 1985: ECLAC, on the basis of official data.

¹Preliminary figures. ²Real services also include other official and private transactions, but exclude factor services. ³In addition to

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

Table 20

VENEZUELA: CENTRAL BANK FOREIGN EXCHANGE
RECEIPTS AND OUTLAYS

(Millions of dollars)

	Receipts			Outlays					Balance	Foreign exchange position of the Central Bank of Venezuela	Total inter- nation- al re- serves
	Petro- leum	Others"	Total	Imports of goods and services ^{ft}	External debt		Others'	Total			
					Public	Private					
1980	12 641	6 625	19 266	10 877	2 125	1 007	6 062	20 071	-845	5 599	7 025
1981	18 961	6 148	25 109	12 123	2 284	1 463	9 414	25 584	1 525	7 035	8 619
1982	18 984	6 919	25 903	13 584	2 923	1 839	9 075	27 421	-1 518	5 355'	10 039'
1985	14 161	3 680	17 841	8 019	4 770	625	3 317	16 731	1 110	6 346	11 149
1984	15 227	2 054	17 281	8 249	5 218	382	2 122	15 971	1 310	7 692	12 469
1985 ⁷	13 105	2 474	15 579	7 154	4 291	728	2 174	14 347	1 232	8 845	13 750
1984											
I	3 526	361	3 887	2 257	1 160	26	577	3 980	-93	6 268	11 071
II	5 931	507	4 438	1 679	1 314	61	586	3 640	798	7 071	11 874
III	3 602	605	4 207	2 190	1 192	126	324	3 832	375	7 440	12 244
IV	4 168	581	4 749	2 163	1 552	169	635	4 519	230	7 692	12 469
1985 ⁷											
I	3 420	566	3 986	1 473	1 173	183	603	3 432	554	8 250	13 027
II	3 338	593	3 931	1 771	1 110	185	430	3 496	435	8 688	13 465
III	2 497	995	3 492	1 933	983	211	565	3 692	-200	8 509	13 286
IV	3 850	320	4 170	1 977	1 025	149	576	3 727	443	8 845	13 750

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela.

"Includes receipts from the Venezuelan Investment Fund (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. Includes foreign exchange expenditure by Petróleos de Venezuela, information services and agreements. Excludes imports at the free exchange rate. Includes Central Bank sales of foreign exchange on the free market. Position at the end of the period, including adjustments for changes in exchange rate for Special Drawing Rights and reserve currencies with respect to the US dollar. Includes the effect of the centralization of the foreign-exchange assets of the petroleum industry. Preliminary figures.

Table 21

VENEZUELA: TOTAL INTERNATIONAL RESERVES

(Millions of dollars)

	Central Bank"				Venezuelan Investment Fund	Commercial banks	Total
	Total	Foreign exchange"	Gold	Others			
At the end of:							
1976	8 570	6 874	472	1 224	641	74	9 285
1977	8 145	6 506	475	1 164	916	68	9 129
1978	6 438	5 007	481	950	873	288	7 599
1979	7 740	6 398	484	858	729	350	8 819
1980	7 025	5 599	484	942	1 483	377	8 885
1981	8 619	7 035	484	1 100	2 452	388	11 409
1982	10 039	5 355	3 439	1 245	1 521	64	11 624
1983	11 149	6 346	3 439	1 364	689	343	12 181
1984	12 469	7 692	3 439	1 338	1 252	582	14 303
1985*	13 750	8 845	3 439	1 466	1 426	890	16 066

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela and the International Monetary Fund.

"Includes that part of the reserves of the Venezuelan Investment Fund which is administered by the Central Bank. Preliminary figures.

4. Prices and wages

a) *Prices*

The rate of inflation declined sharply in 1985. The December to December variation in the consumer price index was only 6%: one-third of the level recorded in the previous period, and the lowest in the last 12 years. The decline in the rate of variation of wholesale prices (24% to 13%) was not as sharp but was nonetheless appreciable (see table 23 and figure 4).

Factors in bringing down inflation were the persistence of a restrictive fiscal policy and a depressed level of domestic demand, as well as the relative stability of the exchange rate policy. On the other hand, while selective price readjustments were continued in order to promote domestic activity,¹⁴ the policy pursued in this area became more gradual. Consequently, the inflationary effect of these readjustments was spread over the year, thus avoiding the sharp increases which had been recorded in 1984 (see figure 4).

Table 22
VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1975	1980	1981	1982	1983	1984	1985 ^o
Millions of dollars							
Total external debt							
Balances	5 700	29 608	33 411	35 061	35 997	34 853	33 900
Medium- and long-term	2 257	13 631	15 765	17 665	20 043	19 803	19 590
Short-term	3 450	15 977	17 646	17 396	15 954	15 050	14 310
Service payments							
Interest ^c		1613	2 657	3 694	3 425	3 089	3 515
External public debt							
Balances		17 700	18 926	29 140	29 337	27 653	26 400
Medium- and long-term	411	9 672	9 531	12 279	13 731	13 503	13 290
Short-term		8 020	9 385	16 861	15 606	14 150	13 110
Service payments	295	2 126	2 285	2 924	2 011	2 528	2 592
Principal	240	1 171	942	1 607	846	958	831
Interest	55	955	1 343	1 317	1 165	1 570	1 761
Percentages							
Ratios:							
Total external debt/ exports of goods and services	60.9	148.3	159.6	199.7	227.5	208.8	224.7
Service on total external debt/ exports of goods and services ^d	3.2	13.9	17.2	30.2	27.0	24.2	28.8
Net interest payment// exports of goods and services	-7.3	-3.3	-4.4	6.4	12.2	5.5	11.9

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela and international financial agencies.

^oPreliminary figures. ^aECLAC, 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. ^bECLAC estimates based on the relevant balance-of-payments entries. ^cAccording to the Law on PublicCredit. This includes the direct debt (i.e. the debt deriving from loan contracts entered into by the State and from bonds sold on behalf of the State) and the indirect debt 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. ^dThe debt-servicing costs used in calculating this coefficient consist of public-debt amortization payments (as prescribed in the Law on PublicCredit) and interest payments on the total debt. ^eThe minus sign indicates that the net balance between interest received and interest paid is positive.

¹⁴ This policy, which was started the year before, included some liberalization of the price control system through readjustments in producer prices in the sectors which are regarded as having priority, especially the agricultural sector. This was supplemented by the gradual removal of the exchange rate subsidy which had been granted in respect of a number of "essential" imports since 1983. Thus, by the end of the year the effective exchange rate for the imports which required government authorization (prior license system) had been unified at 7.50 bolívares to the dollar.

Table 23

VENEZUELA: DOMESTIC PRICE TRENDS

	1979	1980	1981	1982	1983	1984	1985°
Year-to-December variation							
Consumer price index	20.5	19.6	11.0	7.3	7.0	18.3	5.7
Food	34.4	22.2	12.9	6.9	10.6	31.1	9.4
Wholesale price index	15.5	10.8	1X4	6.2	10.8	23.8	12.9
By origin:							
Imported products	11.2	9.4	14.2	5.6	10.8	21.9	10.2
Domestic products	18.4	11.6	19.4	6.6	10.9	24.9	14.6
By sector:							
Agricultural products	30.3	17.2	13.9	4.1	20.6	20.2	24.7
Manufactures	11.4	16.2	10.1	6.2	8.9	24.0	9.8
Building materials	11.0	17.5	6.1	12.6	10.5	35.7	8.1 ^f
Percent variation between annual averages							
Consumer price index	12.3	21.6	16.0	9.7	6.3	12.2	12.0
Food	16.6	33.1	18.5	9.7	7.8	17.2	20.8
Wholesale price index	9.2	20.1	13.8	8.1	7.0	17.5	18.2
By origin:							
Imported products	7.6	15.6	11.9	7.3	6.0	17.8	15.3
Domestic products	10.4	22.9	15.0	8.6	7.5	17.3	19.9
By sector:							
Agricultural products	12.6	27.4	19.8	5.3	14.2	16.3	21.6
Manufactures	8.1	17.4	11.9	8.4	5.4	17.7	16.8
Building materials	10.3	11.9	10.9	12.8	4.1	29.4	19.7

Source: Central Bank of Venezuela.

^aPreliminary figures.

Consumer price index for the Caracas metropolitan area.

^cCorresponds to the variation between November1984 and November 1985. ^dCorresponds to the variation between the averages for the periods January-November 1984 and January-November 1985.

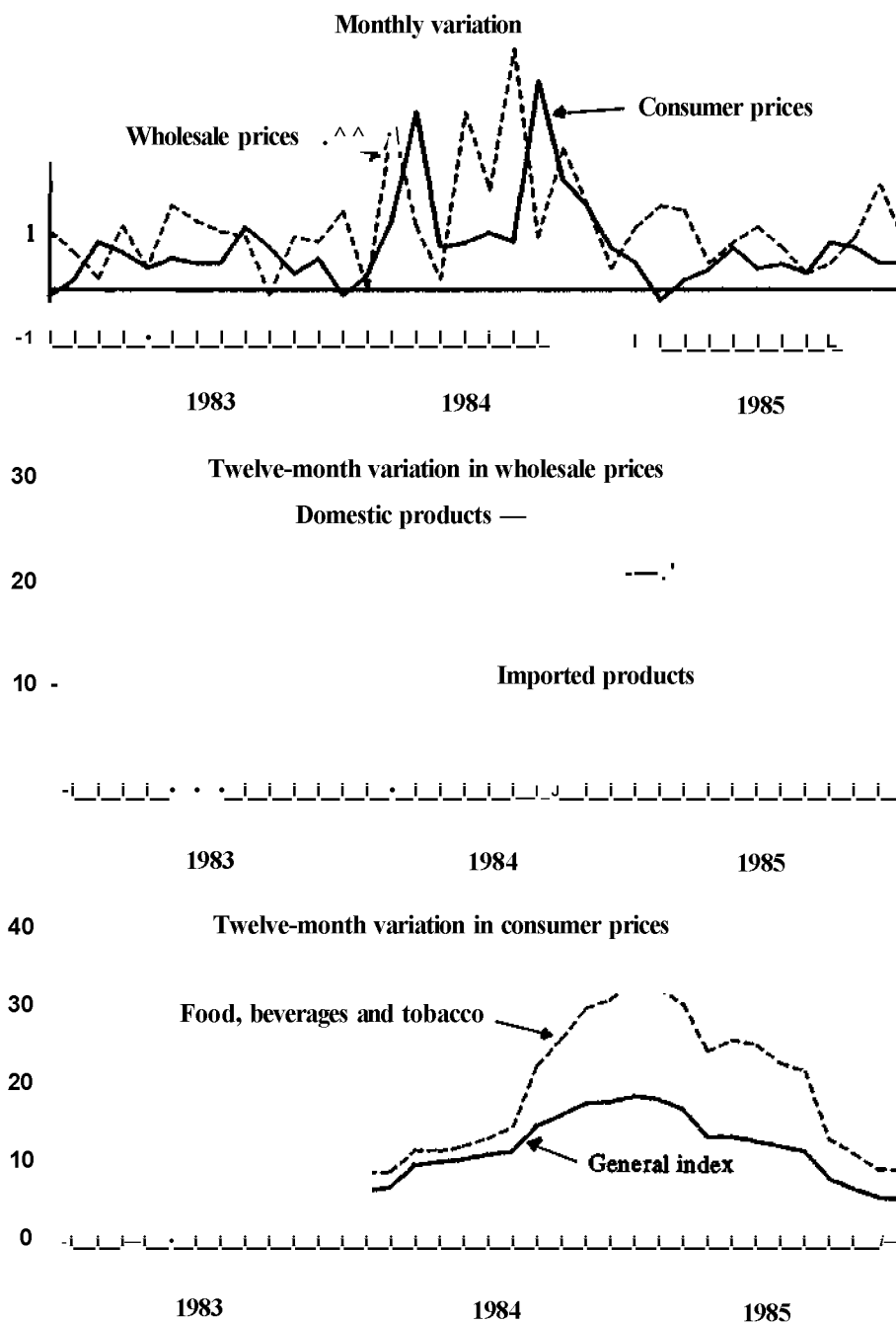
As was to be expected in these circumstances, the prices of domestic products rose more than those of imported goods (see table 23 and figure 4). The highest increases were observed in agricultural goods, the producer prices of which continued to register substantial readjustments. The removal of the foreign exchange subsidy previously given in respect of imports of 12 staple foodstuffs forming part of the basic "shopping basket" also contributed to this result. Thus, agricultural wholesale prices rose by 25% between December 1984 and December 1985: the highest figure recorded in the last six years (see table 23). Medical services, housing and public utilities also showed higher than average increases, although these were less than in 1984.

b) *Income and wages*

The wages policy was less restrictive, thus continuing the trend which began to take shape at the end of the previous year, when the minimum agricultural wage moved up from 750 to 1 200 bolívares per month. This increase—the first since 1980—was followed in March 1985 by a similar rise in the urban minimum wage, which went up from 900 to 1 500 bolívares per month. As a result, minimum wages increased substantially in real terms, although without recovering the levels reached in 1980 (see table 24).

Average incomes, however, continued to decline in real terms. In contrast with 1984, the decline was less pronounced in the cities, partly because of the faster growth of urban employment.

Figure 4
VENEZUELA: DOMESTIC PRICE TRENDS
(Percentages)



Source: ECLAC, on the basis of official figures.

Table 24

VENEZUELA: TRENDS IN INCOME

	1981	1982	1983	1984	1985°	Growth rates				
						1981	1982	1983	1984	1985"
In bolívares at current prices										
Minimum wage										
Urban areas	900	900	900	900	1 375					52.8
Rural areas	750	750	750	825	1 200	-	-	-	10.0	45.5
Average income per employed person ^c										
Urban areas	2 451	2 559	2 712	2 639	2 868	10.7	4.4	6.0	-2.7	8.7
Rural areas	1 441	1 430	1 473	1 508	1 521	21.2	-0.8	3.0	2.4	0.9
Average wages										
Construction	2 128	2 033	2 212	1 780		4.7	-4.5	8.8	-19.5	
Public administration	3 753	4 110	4 120	4 237	4 534	4.2	9.5	0.2	2.8	7.0
In bolívares at 1980 prices'										
Minimum wage										
Urban areas	753	684	639	556	723	-16.3	-9.2	-6.6	-13.0	30.0
Rural areas	628	570	533	510	631	-16.3	-9.2	-6.6	-4.3	23.7
Average income per employed person ^f										
Urban areas	2 186	2 087	2 077	1 851	1 743	-5.7	-4.5	-0.5	-10.9	-5.8
Rural areas	1 285	1 166	1 128	1 058	925	3.2	-9.3	-3.3	-6.2	-12.6
Average wages										
Construction	1 846	1 628	1 661	1 187		-9.2	-11.8	2.0	-28.5	
Public administration	3 255	3 291	3 093	2 827	2 725	-9.6	-1.1	-6.0	-8.6	-4.0

Source: IICLAC, on the basis of information provided by the Central Bank of Venezuela, the Ministry of Labour and the Central Statistics and Information Office (OCEI).

"Preliminary figures. Annual averages. ° First half of each year. Deflated, in the case of the minimum wage, by the consumer price index for the Caracas Metropolitan area corresponding to the quartile of households with the lowest income, and in the case of other incomes, by the revised general consumer price index for the Caracas metropolitan area.

For the country as a whole, however, the average real per capita income was more than 25% lower than in 1980 (see table 24).

Although no precise data are available on the evolution of wages in the various sectors of activity, there are grounds for assuming that there was a deterioration in real terms in all of them. Thus, the salaries of public employees —the only sector for which information is available for 1985— decreased in real terms (-4%) for the fifth consecutive year, although much less sharply than the year before. It is also likely that real wages in the goods-producing sectors —especially in construction— have deteriorated, because they were hard hit by underemployment and the recession.

5. Fiscal and monetary policy

a) Fiscal policy

After a year of rigorous austerity, in 1985 the fiscal policy was relaxed slightly, with the inclusion of a part of the additional investment programme —3.4 billion bolívares out of a total of 6.5 billion bolívares— intended to stimulate domestic demand and employment. The central government's capital expenditure thus increased substantially (25 %), although in nominal terms it was kept at a level which was still below that of 1982 (see table 25).

Table 25
VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolivares				Growth rates			
	1982	1983	1984	1985 ^a	1982	1983	1984	1985 ^a
1. Current income	78.3	71.8	99.2	107.9	-15.6	-8.2	38.2	8.8
Oil revenue	49.2	40.5	60.6	62.1	-30.6	-17.6	49.4	2.5
Income tax	42.6	34.1	51.5	53.3	-32.7	-20.0	51.0	3.5
Royalties	6.6	6.5	9.1	8.8	-12.9	-2.4	40.6	-3.4
Other tax revenue	190	26.0	32.2	34.4	11.5	36.7	24.2	6.6
Direct	9.5	8.7	10.3	12.8	-4.7	-8.3	18.3	23.8
Indirect	9.5	17.2	21.9	21.6	34.4	81.8	27.1	-1.5
Customs	5.2	2.5	2.8	4.0	30.5	-52.0	11.4	43.1
Exchange profits	-	10.1	14.3	11.1			42.0	-22.5
Other	4.2	4.6	4.8	6.5	39.7	9.3	3.4	34.9
Other non-tax income	10.0	5.3	6.4	11.5	111.5	-47.1	21.1	78.7
2. Current expenditure	54.4	54.0	63.8	75.2	-0.3	-0.7	27.3	9.3
Remunerations	19.2	19.2	20.4	20.2	-2.1	0.9	5.3	-0.9
Financial subsidies	1.8	1.2	1.6	1.1	-50.9	-31.1	28.2	-29.4
Interest payments	6.1	6.8	10.8	12.0	6.7	11.4	58.2	10.6
On external debt	5.0	4.0	7.5	7.9		-21.5	89.7	5.3
On domestic debt	1.1	2.9	3.3	4.1		162.6	15.3	22.5
Current transfers	22.2	23.0	31.2	36.0	3.3	3.5	35.7	15.5
Other current expenditure	5.1	3.6	4.8	5.9	25.0	-29.1	32.8	22.6
3. Current savings (1-2)	23.8	17.8	30.4	32.7	-37.4	-25.3	71.2	7.5
4. Capital expenditure	27.4	20.4	19.5	24.4	-16.2	-25.7	-4.6	25.4
Real investment	6.2	4.6	4.0	3.6	42.0	-25.1	-12.8	-9.8
Other capital expenditure	21.3	15.8	15.4	20.8	-25.2	-25.8	-2.2	34.7
5. Total expenditure (2 + 4)	81.9	74.4	88.3	99.6	-6.3	-9.1	18.6	12.9
6. Fiscal deficit (or surplus) (1-5)	-3.6	-2.6	11.0	8.3				
Percentage breakdown								
7. Financing of deficit (or use of surplus)	3.6	2.6	-11.0	-8.3	100.0	100.0	100.0	100.0
Domestic	5.8	5.7	-5.2	-3.3	161.7	218.9	47.8	40.0
Central Bank	-	7.0	-	6.0	-	268.3	-	-72.1
Sale of securities	0.4	1.3	3.6	4.1	11.6	48.7	-32.4	-49.2
Amortization	-1.4	-2.2	-5.7	-5.9	-39.3	-83.8	57.9	71.3
Variation in reserves (- sign means an increase)	6.8	-0.4	-3.1	-7.5	189.4	-14.3	28.2	90.0
External financing	-2.2	-3.1	-5.7	-5.0	-61.7	-118.9	52.2	60.0
Disbursements	3.4	0.4	-	-	94.5	15.5		-
Amortization	-5.6	-3.5	-5.7	-5.0	156.2	-134.4	52.2	60.0
Coefficients (percentages)								
	1970	1975	1980	1981	1982	1983	1984	1985 ^a
Oil revenue/current income	60.1	77.4	72.3	76.5	62.9	56.4	61.0	57.5
Customs revenue/indirect tax revenue	41.9	35.3	53.2	56.9	55.2	14.6	12.8	18.6
Interest payments/current expenditure	2.3	1.6	10.4	10.6	11.3	12.7	15.7	15.9
Current savings/capital expenditure	79.0	104.2	97.7	116.2	86.8	87.2	156.5	134.1
Fiscal deficit (or surplus)/ total expenditure	6.1	2.2'	0.8	6.1'	4.4	3.5	12.4'	8.3'
Oil revenues/GDP	11.0	26.8	17.8	24.9	16.9	14.0	17.4	16.5
Total expenditure/GDP	19.4	33.9	24.9	30.6	28.1	25.6	25.4	26.5
Fiscal deficit (or surplus)/GDP	1.2	0.7''	0.2	1.9'	1.2	0.9	3.2''	2.2'

Source: IÎCLAC, on the basis of data supplied by the Central Bank of Venezuela, the Ministry of Finance and the Central Budget Office (OCEPRE).

'Preliminary figures. ''Includes technology tax. 'Fiscal surplus.

Table 26

**VENEZUELA: CONSOLIDATED NON-FINANCIAL
PUBLIC SECTOR INCOME AND EXPENDITURE"**

	Billions of bolívares			Growth rates		
	1983	1984	1985*	1983	1984	1985*
Total income	106.2	148.2	145.1	-13.9	39.6	-2.1
Current	98.3	141.5	143.9	-14.7	43.9	1.7
Capital (except credit)	7.9	6.7	1.1	-2.4	-14.8	-83.2
Total expenditure	114.2	126.5	126.8	-5.7	10.7	0.3
Current	67.4	81.7	84.0	-1.5	21.3	2.8
a) Consumption	42.5	44.4	35.3	-1.4	4.3	-20.5
b) Transfers to private sector	13.1	19.0	32.4	-9.1	45.6	70.5
c) Interest	11.8	18.4	16.4	2.8	55.1	-11.0
Capital	46.8	44.7	42.8	-14.5	-4.4	-4.4
a) Real investment	41.4	37.6	31.5	-15.6	-9.2	-16.3
b) Financial investment	5.3	7.0	2.6	13.3	32.0	-63.2
c) Transfers	-	0.1	8.7	-52.8		
Deficit (or surplus)	-8.0	21.7	18.3			
As a percentage of GDP	2.8	6.3	4.8			
Financing of deficit (use of surplus)	8.0	-21.7	-18.3			
Domestic	8.1	-19.2	-10.0			
External	-0.1	-2.6	-8.2			

Source: ECLAC, on the basis of figures supplied by the Central Bank of Venezuela and the Central Budget Office (OCEPRE).

*Includes the central government, the Venezuelan Investment Fund, the Foreign Exchange Clearing Fund, Petróleos de Venezuela and the other non-financial public enterprises. Preliminary figures.

Notwithstanding this increase, for the second consecutive year the fiscal accounts showed a substantial surplus of 8.3 billion bolívares, equivalent to more than 2% of the gross domestic product. This was due to the adoption of tax reforms¹⁵ which permitted an increase of almost 9% in current income, despite the stagnation of petroleum income, which is by far the main source of tax receipts. Direct non-petroleum tax receipts grew by almost 25% despite the relative stagnation of domestic activity. For their part, the increases in the customs revenue (43%) and earnings from other indirect taxes (55%) virtually cancelled out the 23% decline in profits from foreign exchange operations as a result of the exchange rate unification.

Current expenditure expanded very moderately (9%), so that the current saving of the government reached the highest level since 1981 and more than covered the above-mentioned increase in capital expenditure (see table 25). The decline in international interest rates also played a substantial part in this result. The lower interest rates halted the striking growth observed in 1984 not only in the central government's interest payments but also in the current transfers made by it in order to allow the public enterprises and decentralized bodies to service their external debt properly. Another contributory factor was the maintenance of a rather restrictive social policy, as evidenced in the further decline in payments of wages and allowances (see table 25).

As in 1984, this large surplus was used primarily to finance the net amortization of both the external and internal public debt. With respect to the internal public debt, however, the issue of refinancing bonds continued and this made it possible to ensure a repayment mechanism for the

¹⁵ With a view to streamlining the tax collection system and cutting down tax evasion and arrears of payment, the "national control plan" was introduced and very soon gave favourable results. At the same time, the rates of certain indirect (excise) taxes (for example on alcohol and cigarettes) were raised.

obligations previously assumed by the decentralized public sector. Similarly, in order to finance the additional investment programme, Treasury bills were issued in the amount of 5 billion bolívares. In this way, the Treasury's reserves were increased for the third year running, this time by the unusually large amount of US\$7.5 billion, which is equivalent to more than 4% of the gross domestic product.

In addition, during 1985 efforts continued to be made to render the management of public enterprises more efficient and rational. As a result, the consumption expenditure of the non-financial public sector fell by more than one-fifth, while real investment decreased by 16% (see table 26). These decreases, however, were offset by the increase in both current and capital transfers to the private sector. Total public sector income, for its part, shrank slightly. Nevertheless, however, for the second consecutive year the public administration showed a sizeable surplus of the order of 18 billion bolívares, equivalent to almost 5% of the gross domestic product (see table 26).

b) *Monetary policy*

Continuing the trend which had begun to take shape at the end of 1984, the monetary policy was moderately expansive and aimed on the one hand to promote a revival of domestic activity and on the other, to ease the shortage of liquidity of several financial institutions. Consequently, during the first quarter the Central Bank continued to increase both its discount operations and advance payments to the banking sector, as well as its purchases of public and private bonds. In this way, the Central Bank promoted the expansion of the monetary base with the aim of making good the 4% decline recorded in 1984 (see table 27). During that quarter, however, credit activity stagnated and this led to a sharp increase (15%) in banking reserves and consequently to poor growth (7%) of total liquidity.

In order to achieve a more vigorous increase in liquidity, the Central Bank began to give priority to interest rate management and at the same time reduced its intervention in the securities market. Thus, at the end of March it was decided to lower the basic rediscount rate and also to establish differential maximum limits for bank deposit rates. These rates were again reduced at the end of May and in the middle of October, and in nominal terms they thus reached their lowest level in the last seven years. However, because of the decline in inflation which took place at the same time, real interest rates remained positive throughout the year, contrary to what occurred in 1984 (see table 28).

One of the aims of the policy of having differential interest rates was to increase the intake of a number of subsystems which were passing through a very difficult situation, particularly that of the mortgage institutions, which were benefitted with higher lending rates (see table 28). This, however,

Table 27
VENEZUELA: MONETARY INDICATORS

	Year- end balances (billions of bolívares)				Growth rates			
	1982	1983	1984	1985"	1982	1983	1984	1985"
Monetary base	28.4	39.6	38.1	46.5	-10.3	39.5	-3.7	22.1
Money (M ₁)	49.0	64.3	69.1	77.8	-8.4	31.2	7.5	12.5
Quasi-money	80.1	99.0	108.5	115.3	12.5	23.5	9.6	6.3
Money plus quasi-money (M ₂)	129.1	163.3	177.6	193.0	3.6	26.4	8.8	8.7
Domestic credit	113.7	136.7	129.0	133.6*	4.5	20.3	-5.6	12.9 ^c
To the government	-20.5	-24.1	-51.1	-49.5*	7.1	-17.6	-111.8	5.2 ^c
To private sector	132.7	157.8	177.9	186.1*	4.6	19.0	12.7	10.7 ^c
Inter-bank adjustment	1.5	3.0	2.2	-3.0"				
Coefficients								
Monetary multipliers								
M ₁ /Monetary base	1.79	1.64	1.77	1.65				
M ₂ /Monetary base	4.64	4.36	4.82	4.35				
Velocity of circulation:								
GDP/M₁	6.05	5.36	5.68	5.45				

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

"Preliminary figures.

*As at 31 October 1985.

"Variation with respect to the same period in the preceding year.

Annual averages.

Table 28

VENEZUELA: DOMESTIC INTEREST RATES

	1981	1982	1983	1984	1985°	1985			
						I	III	IV	
Nominal									
Short-term bank rates:									
Deposits ¹	14.4	15.1	13.7	12.6	10.5	12.8	10.4	9.9	9.2
Loans	18.8	16.3	16.3	15.1	13.9	14.6	14.1	13.7	13.1
Mortgage rates									
Deposits ¹	13.8	15.0	14.1	13.2	13.3	13.2	11.4	10.9	10.1
Loans ²	14.3	17.2	16.7	14.3	13.9	14.6	14.3	13.7	13.2
Yield of other major financial securities									
Promissory notes	14.0	15.6	14.6	12.7	11.4	13.5	12.0	11.4	10.6
Treasury bonds	7.1	9.7	13.0	11.5	12.0	12.0	12.0	12.0	12.0
Private securities*	16.9	17.7	18.0	18.0	17.3	18.0	17.0	17.0	17.0
Deposits in foreign currency	16.9	13.7	10.9	12.2	9.4	10.4	9.3	8.9	9.0
Real³									
Short-term bank rates:									
Deposits ¹	3.1	7.3	6.3	-4.8	4.5	10.6	3.6	2.7	1.7
Loans	7.0	8.4	8.7	-2.7	7.8	12.4	7.0	6.3	5.3
Mortgage rates:									
Deposits ¹	2.5	7.2	6.6	-4.3	7.2	11.0	4.5	3.6	2.5
Loans	3.0	9.2	9.1	-3.4	7.8	12.4	7.2	6.3	5.4
Yield of other major financial securities									
Promissory rates	2.7	7.7	7.1	-4.7	5.4	11.3	5.1	4.1	3.0
Treasury bonds	-3.5	2.2	5.6	-5.7	6.0	9.8	5.1	4.7	4.3
Private securities	5.3	9.7	10.3	-0.3	11.0	15.7	9.8	9.3	8.9
Deposits in foreign currency	5.3	6.0	3.6	-5.2	3.5	8.2	2.5	1.8	1.5

Source: ICLAC, on the basis of information provided by the Central Bank of Venezuela.

¹ Preliminary figures. Annual rates, quarterly averages. Preliminary figures. ² On term deposits in commercial banks. ³ On loans and discounts of commercial banks. ⁴ On saving certificates in denomination of 5 000 bolívars or more and terms of 30 to 180 days in a mortgage bank. ⁵ Loans for housing purchases. ⁶ Average yield of the 15-year bonds of Electricidad de Caracas. ⁷ Deflated by the variation in the consumer price index of the Caracas metropolitan area.

was not sufficient to relieve the difficult situation of some financial institutions,¹⁶ to which the Central Bank had to continue providing support through rediscount operations, advance payments, bond purchases and even special assistance programmes.¹⁷ Thus, the monetary base continued its steady growth and by the end of the year had reached a level 22% higher than that recorded in December 1984 (see table 27). Monetary liquidity, for its part, increased at a much slower rate (9%, similar to the previous year). This result was attributable fundamentally to the sharp increase (13%) in money in circulation (M₁), which grew at twice the rate recorded in 1984. This greater preference for liquidity stemmed from the above-mentioned cut-back in the interest rates and the unfavourable expectations caused by the gloomy outlook for petroleum. This in turn helped to bring about a further

¹⁶ The government had to suspend the operations of the Banco del Comercio and the Banco Hipotecario Centro-Occidental during the year, bringing to seven the number of financial institutions in which official intervention had been necessary since the outbreak of the crisis.

¹⁷ In March, the Deposit Guarantee and Bank Protection Fund (FOGADE) was established with a loan from the Central Bank of 8.7 billion bolívars. The main purpose of the Fund is to guarantee the deposits of the public in the banking system and provide financial support for institutions experiencing a temporary shortage of liquidity. According to its Statutes, the Fund will in future be financed by contributions from the banking system itself, which will be used to reimburse the initial loan. As from July, financial institutions began to pay into the Fund an amount equivalent to 0.06% of the deposits received by them.

decline in the growth rate of quasi-money which increased by only 6% (see table 27). The result of this was that the monetary multipliers declined considerably to levels close to those recorded in 1983.

The decline in interest rates fostered a slight upturn in credit activity. Thus, domestic credit increased by 13%, more than making up for the 6% decrease of the previous year (see table 27). However, during the same period the surplus reserves of the commercial banks more than doubled. Furthermore, the greater volume of loans was concentrated on interbank operations and short-term credits, thus dashing any hopes of an upturn in productive activity.



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