



UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL



GENERAL

E/CN.12/825/Add.1

7 March 1969

ENGLISH

ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA

Thirteenth session

Lima, Peru, 14-23 April 1969

ECONOMIC SURVEY OF LATIN AMERICA, 1968

Part Two

ECONOMIC TRENDS IN 1968

THE UNIVERSITY OF CHICAGO
LIBRARY
540 EAST 58TH STREET
CHICAGO, ILL. 60637
TEL. 773-936-5000
FAX 773-936-5001
WWW.CHICAGO.EDU

ALGEBRA

12/1/99
12/1/99
12/1/99
12/1/99



12/1/99

12/1/99
12/1/99
12/1/99
12/1/99

12/1/99

12/1/99

12/1/99

TABLE OF CONTENTS

Part Two

ECONOMIC TRENDS IN 1968

	<u>Page</u>
Chapter I. RECENT ECONOMIC TRENDS	1
1. An over-all appraisal	1
2. Supply and demand: growth rate and changes	9
3. Major sectors of economic activity	17
4. The external sector	47
Chapter II. ECONOMIC TRENDS BY COUNTRIES	88
Argentina	88
Recent economic trends	88
Major production sectors	91
Prices, wages and employment	93
Public sector	96
The external sector	98
Bolivia	102
Recent economic trends	102
Trends in selected production sectors	105
The public sector	106
The external sector	107
Brazil	111
General characteristics	111
Major sectors of activity	115
Economic policy aspects	117
The external sector	123
Colombia	127
Over-all trends	127
The major sectors of production	130
The external sector	130
Some features of short-term economic policy	131

/Costa Rica

	<u>Page</u>
Costa Rica	135
General features	135
Agricultural and industrial production	140
Chile	143
Main economic trends in 1968	143
Major sectors of production	145
Total supply and demand	147
Domestic prices	149
The external sector	149
Ecuador	154
General characteristics of economic trends in 1968	154
The trend of the product	154
Public revenue and expenditure	157
The external sector	157
El Salvador	161
Recent over-all trends	161
Major sectors of production of goods ..	163
Staple export products	167
Guatemala	169
Recent economic trends	169
The major goods producing sectors	174
Export products	175
Haiti	177
Honduras	183
Recent economic trends	183
Major production sectors	186
The public sector	189
Mexico	191
Recent economic trends	191
Foreign trade and the balance of payments	196
Major goods producing sectors	199
Nicaragua	206
General trends	206
Major economic sectors	210
Fiscal and credit policy	211

	<u>Page</u>
Panama	214
General features	214
Trends in the sectors of production ...	214
Economic policy measures	219
The external sector	219
Paraguay	223
General trends	223
Major sectors of production	227
The external sector	228
Peru	230
Recent economic trends	230
Evolution of the product, by sectors ..	231
The public sector	236
Some objectives of economic policy	238
The external sector	240
Dominican Republic	246
Over-all trends	246
Sectoral production trends	249
The external sector	250
Uruguay	254
Recent economic trends	254
Major sectors of activity	256
Principal economic policy measures	258
The external sector	261
Venezuela	264
General features	264
Major sectors of economic activity	264
Fiscal situation	267
Composition of total demand	267
The external sector	269

Part Two

ECONOMIC TRENDS IN 1968 ^{1/}

Chapter I

RECENT ECONOMIC TRENDS

1. An over-all appraisal

In 1968, the economic development of Latin America was much more satisfactory than in 1967. The gross domestic product of the region as a whole grew at a rate of 5.4 per cent, compared with 4.5 per cent in 1967 and an average of 4.6 per cent over the period 1960-66. Including the past year's results, the average annual increase in the total product for the period 1960-68 is 4.7 per cent, and that of the per capita product is a little over 1.7 per cent.

The general trend in 1968 is attributable, in particular, to Brazil, Costa Rica, Honduras and Mexico, which raised their economic growth rates above the regional average, and to the faster rates of growth - although lower than the regional average - recorded by Argentina, Colombia, Guatemala, Nicaragua and Uruguay. Chile, El Salvador and Haiti maintained their rates, which were also below the regional average, at levels similar to those of 1967. The relatively high growth rates of Bolivia and Venezuela declined slightly and, at somewhat lower levels, the Dominican Republic, Ecuador, Panama, Paraguay and Peru recorded smaller increments in the gross product than in 1967 (see table II-1).

^{1/} In the totals for the region, and also in the section on countries, the Cuban economy is not included for want of statistical information. Neither does this preliminary version include figures and data for Barbados, Guyana, Jamaica, and Trinidad and Tobago, which will be incorporated in the printed version of the Survey.

Table II-1

LATIN AMERICA: ANNUAL GROWTH RATE OF THE TOTAL PRODUCT, 1960-1966, 1967 AND 1968

Country	1960-66	1967	1968 ^{a/}
Argentina	2.9	1.9	4.5
Bolivia	5.1	5.6	5.3
Brazil	4.1	5.0	6.0
Chile	5.4	2.0	2.1
Colombia	4.6	3.9	5.3
Costa Rica	6.4	7.7	8.1
Dominican Republic	2.8	3.5	2.3
Ecuador	4.3	5.5	4.3
El Salvador	6.5	3.9	3.7
Guatemala	5.2	4.0	5.1
Haiti	1.3	1.4	1.3
Honduras	5.5	5.3	6.4
Mexico	6.3	6.5	6.8
Nicaragua	7.6	4.1	4.5
Panama	8.4	8.1	4.5
Paraguay	3.6	5.4	4.2
Peru	6.4	4.6	3.5
Uruguay	1.1	-5.8	1.0
Venezuela	5.1	6.0	5.5
<u>Total Latin America</u>	<u>4.6</u>	<u>4.5</u>	<u>5.4</u>

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.

/This progress

This progress was achieved despite the fact that in many countries the performance of the agricultural sector was relatively poor owing to adverse climatic conditions in large areas of Latin America, particularly Argentina, Brazil, Chile and Ecuador. In contrast, manufacturing industry grew very rapidly, increasing by over 8 per cent in the region as a whole. There was a marked recovery in this sector in Brazil, which increased its volume of production by 12 per cent, and fairly high rates of growth were recorded in Argentina, Bolivia, Colombia, Mexico, Peru and the Central American countries as a whole. In several countries - especially Argentina, Bolivia, Brazil, Colombia, the Dominican Republic, Honduras and Venezuela - there was a very pronounced upturn in construction and public works activities. Thus the trends in 1968 were the exact opposite of what they had been in 1967, when agricultural growth far outpaced industrial growth.

Another outstanding feature of economic development in 1968 was the growth of exports and, in particular, the marked rise in the value of imports. Exports, measured in terms of the current value of external sales of goods and services, reached the unprecedented figure of 13,720 million dollars, an increase of 5.6 per cent over 1967, while imports of goods and services totalled 13,380 million dollars, an increase of 7.3 per cent.

These trends meant that in 1968 several countries recorded higher trade figures than ever before. Particularly striking in this respect were imports by Brazil (over 2,300 million dollars), Chile (1,050 million), Mexico (2,600 million), Bolivia, Costa Rica, Guatemala, Honduras and Panama. There were some important exceptions, however: the current value of imports of goods and services declined sharply in Peru and to a lesser extent in Argentina, Nicaragua and Uruguay.

The changes in the evolution of imports and exports meant that in the region as a whole there was an increase in the supply of goods and services for internal use which exceeded the growth of the product. This favoured the expansion of consumption and, in particular, of investment; the former rose by 5.5 per cent over 1967 and the latter by 6.5 per cent (or even more if changes in stocks are excluded and only gross fixed

/investment is

investment is considered). Brazil, Chile and Colombia followed this general trend, while quite the opposite occurred in countries like El Salvador, Nicaragua, Peru and Uruguay, because of a slower growth of the capacity to import or of measures to restrict imports.

Thanks to the higher levels of internal production and the additional contribution of imports the efforts to curb inflationary pressures were more effective, the progress made in this respect being another important feature of the economic trends in 1968. This conclusion emerges clearly from a rapid review of the situation in the individual countries, particularly those where prices have risen appreciably in the last few years.

In Argentina, prices rose much less; taking the annual averages, wholesale prices rose 20.6 per cent from 1966 to 1967 and only 4 per cent from 1967 to 1968; the rates for the cost-of-living index were 27.4 and 9.6 per cent, respectively. In Bolivia, the consumer price index in La Paz had risen 3.4 per cent up to November 1968 in relation to December 1967, which meant that prices rose appreciably less than in 1966 and 1967, when the annual averages were 6.9 per cent and 7.6 per cent respectively. In Brazil, despite the vigorous expansion of the money supply and of credit to the private sector - 40 and 60 per cent respectively - the rise in prices was much the same as the previous year (about 24 per cent). The same is true of Colombia; from January to September, the increases in the cost of living were 5.8 per cent for employees and 5.4 per cent for workers, compared with 6 and 5 per cent respectively for the same period in 1967 and increases of some 14 per cent in 1966. In Mexico, where heavier pressures on prices were anticipated, wholesale prices went up only 2 per cent in the first ten months of the year. Even more striking is the progress made in Peru, where the consumer price index had soared in the last few months of 1967 as a result of devaluation; the rate of increase, which was 20.7 per cent from December 1966 to December 1967, fell to 9.8 per cent in the following year. In Uruguay, acute inflation continued in the first half of 1968, domestic prices rising on the average by 60 per cent; but the process was curbed in the second half of the year, and by the end of 1968 the increase was 66 per cent over December 1967,

/compared with

compared with 135 per cent the previous year. In Chile, contrary to the trend in other countries there was a new burst of inflation in 1968, despite the efforts made to halt it; at the end of the year the consumer price index was 27.9 per cent higher than in December 1967, compared with an increase of 21.9 per cent the year before.

There were other significant developments in the external sector, besides the above-mentioned increases in exports, and particularly in imports. The difference in the scale of the changes in exports and imports resulted in a substantial reduction of the trade surplus, which, added to the higher payments of interest on foreign loans and remittances of profits on direct external investment, produced a larger deficit on current account. Even so, the region as a whole, and most of the individual countries, showed an improvement in the net position of the monetary authorities' international reserves. All this entailed a considerable increase in gross - and also in net - capital inflows, accentuating the change noted in 1967 and reversing the trend of previous years, when the contribution of net external financing was declining.

The recent external sector trends bring into focus several important issues which call for careful appraisal. First, the importance of foreign trade transactions may be evaluated differently according to whether they are viewed from the angle of Latin America's position in world trade or simply from that of the relationship between the absolute increase in its trade and internal growth.

In the first case, it should be borne in mind that the recent advances noted have taken place in the context of an exceptional world trade boom and that in spite of the higher absolute value of its sales abroad, Latin America has been unable to reverse the trend towards a declining share in total world exports. Especially worthy of note among the data given in earlier sections is the fact that in 1968 total world exports grew by approximately 10 per cent, and at a higher rate in the industrialized countries, while Latin America's exports grew by only 5 per cent.

/On the

On the other hand, there is no doubt that in many countries of the region there is now a much more comfortable relationship between the external sector and the growth of the domestic product. In other words, the traditional obstacle to growth deriving from the highly inflexible nature of the external sector has in several cases had little or no influence on recent development. Even looking at the situation over a longer time-span, by comparing, for example, imports in 1960 and 1968 at constant prices, increases of over 100 per cent are found in Bolivia, the Dominican Republic, Honduras and Nicaragua, and of over 50 per cent in Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Mexico, Panama and Peru; only Argentina, Haiti and Uruguay recorded a decline in the volume of imports between these two years.

Even so, there is concern still about the possibility that this process may continue, since Latin America's foreign trade has traditionally been highly unstable and there have been no radical changes either in the policy of the industrialized countries or in Latin America's ability to change the structure of its exports which might be considered sufficient to safeguard it from this instability and ensure that the recent upward trends will continue.

Another aspect relating to the external sector that would seem to justify further examination is the question of capital flows. As indicated above, the larger increases in the last few years is attributable to imports, while the evolution of exports has been much less favourable, which has resulted in a considerable rise in the gross inflow of external capital. Although this has certainly had some beneficial results, they must be considered in relation to the future effects of this increase in respect of both loans and direct foreign investment, in view of the fact that foreign capital servicing - including amortization, interest, and remittances of profits on direct investment - has come to represent a very high proportion of the total value of exports of goods and services: not less than 35 per cent for the region as a whole, and well over 40 per cent in several countries, including Brazil, Chile and Mexico.

Compared with the recent increase in both commercial and financial external transactions, the progress achieved during 1968 to promote the economic integration of Latin America was relatively slight. In the case
/of LAFTA,

of LAFTA, this is partly due to the fact that efforts focused in the main on problems relating to the items to be included in the Common Schedule and to the body of regulations for trade in agricultural products after 1973.

The results of the work done and meetings held during the first half of 1968 with a view to finding solutions to these problems were submitted to a special session of the LAFTA Conference which began in July 1968. However, after lengthy and difficult negotiations, the session closed in November without unanimous agreement having been reached on the Common Schedule or on regulations for the marketing of agricultural products.

In addition, the fact that virtually all its time was taken up with these questions was the main reason why the Standing Executive Committee was unable to continue the work assigned to it by the Council of Ministers of Foreign Affairs regarding measures to accelerate the process of the conversion of LAFTA into a common market, in accordance with the decisions adopted in the Declaration of the Presidents of America.

The difficulties encountered in fulfilling the minimum provisions of the Montevideo Treaty, which impeded progress in implementing the decisions adopted by the Presidents, led to a proposal that in May 1969 the organs of LAFTA should undertake an evaluation of the integration process and decide upon future action to promote it.

The LAFTA/CACM Co-ordinating Committee held its first meeting in 1968 and began consideration of matters relating to the convergence of LAFTA and the Central American Common Market to form a Latin American common market. At this meeting, the Committee adopted its rules of procedure and a programme for the economic and legal studies which were considered necessary before it could come to any further decisions. The complex nature of the problems implicit in the process of convergence, and the current situation within LAFTA, were substantial obstacles to progress.

The Joint Commission of the signatories of the Declaration of Bogotá held several meetings and some progress was made towards the formulation of a subregional agreement. However, political circumstances and some

/differences of

differences of opinion regarding economic and institutional matters delayed the final formulation of the agreement, and discussion of the matters outstanding was postponed until 1969.

A new round of negotiations was held during the eighth regular session of the LAFTA Conference, at which new concessions were granted for 524 products on the respective National Schedules, further reductions being granted on 211 products which had already been included in the liberalization programme. Most of the concessions were granted by Argentina, Brazil and Mexico in their reciprocal negotiations. Margins of preference which had been modified as a result of unilateral action by several countries were restored for 102 products, while further concessions not open to third parties were granted on 153 products, most of which benefited Uruguay. Further reductions were granted on 39 products which had already been included in the special schedules and margins of preference were restored for 7 products.

The existing machinery for the formulation of complementarity agreements was used more intensively and three new protocols were signed, bringing the total to seven. The protocols covered chemical products - the first protocol to be signed by all to the Contracting Parties; petrochemical products, signed by Bolivia, Chile, Colombia and Peru; and products of the household goods industry, signed by Argentina and Uruguay.

The organs of LAFTA continued with their work programmes on the harmonization of policies and economic instruments. Some joint instruments and arrangements were approved for trade policy and customs legislation, and progress was made in the consideration of others. The operation of the financial and monetary system has been improved and expanded, and Bolivia and Venezuela have become participants. With regard to the industrial sector, studies were undertaken with a view to developing the basis for an international agreement on trade marks and patents and adopting a centralized system of records and data. In the field of transport, a draft convention on road transport was prepared and progress

/was made

was made in developing regulations for the existing convention on water transport, and on studies to simplify and standardize shipping documents and consular formalities.

2. Supply and demand: growth rate and changes

(a) Regional trends

In Latin America as a whole, the most noteworthy change that took place in aggregate supply in 1968 was the fact that imports of goods and services grew more rapidly than the product, at the rate of 7.1 per cent compared with 5.4 per cent ^{2/} (see table II-2). Although the difference in tempo had little effect on the over-all growth rate of supply, which was 5.5 per cent, it changed the proportion of imports in the total considerably. For the first time in the past six years, the regional import coefficient was over 10 per cent; it thus regained the level it had achieved in the early nineteen-sixties, despite the slackening off in Argentina's and Venezuela's imports. If these countries, which strongly influence the regional total, are excluded, it will be seen that the import coefficient made a really vigorous comeback from only 8.9 per cent to 10 per cent in 1968.

Important changes also took place in the structure of aggregate demand. The decline in the share of exports of goods and services explains why the growth of consumption outstripped that of the product (5.5 per cent) and why investment increased yet more rapidly (over 9 per cent in the case of gross fixed investment).

^{2/} The magnitudes and ratios given in this section have been measured in terms of dollars at constant 1960 prices, and therefore differ from the corresponding figures in other chapters, where some items have been calculated in terms of current value.

Table II-2

LATIN AMERICA: RECENT TRENDS OF AGGREGATE SUPPLY AND DEMAND, 1967-68

(Millions of dollars at 1960 prices)

	1967	1968
<u>Aggregate supply</u>	<u>129 928</u>	<u>137 095</u>
Gross domestic product	118 266	124 606
Imports of goods and services	11 662	12 489
<u>Aggregate demand</u>	<u>129 928</u>	<u>137 095</u>
Exports of goods and services	12 709	13 275
Total investment	20 624	21 957
Fixed investment	19 009	20 755
Construction	8 588	9 465
Machinery and equipment	10 421	11 290
Total consumption	96 595	101 863
General government	10 517	11 004
Private	86 078	90 859

Source: ECLA, on the basis of official statistics.

/The upswing

The upswing of investment represents the consolidation of a slow but persistent upward trend in the coefficient, which has crept back to much the same level as at the beginning of the decade. In 1960-61, gross fixed investment constituted about 17 per cent of the total domestic product, but thereafter dwindled each year until by 1965 it had reached its nadir at 14.8 per cent. From then on, it improved and by 1968 it accounted for 16.7 per cent. Although these changes in over-all ratios may seem insignificant, they are important because the coefficients are relatively small and a large and virtually constant proportion has to be earmarked for capital depreciation. Consequently, they cover sharp variations in the net investment coefficients.^{3/}

The recovery of investment is marked by two important developments. First, public investment expanded more than private investment, and, secondly, investment in construction made brisker progress than investment in machinery and equipment. The outcome of these changes is that in 1968 public investment and construction accounted for more than 35 and over 45 per cent of total gross capital formation respectively, of course, with variations between individual countries that were occasionally very pronounced.

The trend of consumption in 1968 was unlike that of investment in that the private component increased most rapidly (5.6 as against 4.6 per cent). It appears therefore that the contribution of the public sector to the over-all economy changed very little, since the increase in its share of the expansion in investment was offset by a reduction in its share of the consumption increment.

(b) Country trends

Without prejudice to the country sections that form part of the following chapter, it has been thought useful at this juncture to give the major data on the growth rates and trends of aggregate supply and demand in each country in order to round off the picture and point up the extent to which some of them depart from the broad trends outlined.

^{3/} To give a simple example, if the product-capital ratio is assumed to be 0.4 and the average life of existing capital is taken to be thirty years, a gross investment coefficient of 14.8 per cent would imply a net investment coefficient of 6.5 per cent, while a gross coefficient of 16.7 per cent would give a net coefficient of 8.3 per cent.

In Argentina, the growth rate of the product was about 4.5 per cent. This was the outcome of a 5 per cent reduction in agricultural production and an appreciable increase in urban activities (8 per cent for manufacturing and 23 per cent for construction). Total consumption climbed by 4.2 per cent, and fixed investment by approximately 10 per cent, under the stimulus of the funds obtained and utilized by the public sector. The over-all investment coefficient rose from 18.5 per cent in 1967 to 20 per cent in 1968, but the import coefficient dropped slightly, as imports remained at almost the same level as in the previous year (9.2 per cent as against 9.8 per cent in 1967).

In Bolivia, the product expanded at the rate of 5.3 per cent, thus continuing the trend of the last few years. Manufacturing and construction were particularly positive, while agriculture recovered somewhat from its decline in 1967 by expanding 3.5 per cent. Mining increased by 2.6 per cent and petroleum output by 5 per cent, after an extraordinary leap of 73 per cent the year before. Exports and imports grew relatively little, thus slowing down the upward thrust of the last few years, and there was no appreciable change in the investment coefficient (about 17 per cent) or in the relatively high level of the import coefficient (32 per cent).

The economy of Brazil expanded by 6 per cent, agricultural stagnation being offset by an increase of nearly 12 per cent in industrial activities. The external sector played a highly dynamic part, with imports showing a particularly marked increase (over 23 per cent at constant prices). This raised consumption appreciably (6.4 per cent) and had an even more powerful effect on investment, which climbed nearly 20 per cent. Hence the significant increases recorded for the investment and import coefficients: the former rose from 12.7 per cent in 1967 to 14.3 per cent in 1968, and the latter from 5.8 to 6.7 per cent over the same two-year period.

The over-all growth rate in Colombia was 5.3 per cent, with matching increases in agriculture, industry and services. As in Brazil, a sharp rise in imports in real terms (16.3 per cent) outweighed the expansion of exports (7.5 per cent), with the result that the domestic supply of goods and services increased more than the over-all product. Both total consumption and total investment enjoyed high growth rates of nearly 12 and 8 per cent

/respectively, with

respectively, with the accent on private consumption and construction, and the investment and import coefficients rose from 15.9 to 16.3 per cent and from 11.5 to 12.7 per cent respectively between 1967 and 1968.

In 1968, the economy of Costa Rica kept up its rapid rate of growth (almost 8 per cent), and made particularly good progress in agriculture and manufacturing although the level of construction tended to remain stationary owing to a cut in public investment. Private investment rose by 9.3 per cent but public investment fell by 14 per cent, so there was no significant change in the over-all coefficient. This also applies to the import coefficient, since purchases of goods and services expanded by a little under 9 per cent, on a par with the total product.

In Chile, the extensive drought dealt a severe blow to the economy, and was reflected in an increase of only 2 per cent for the total product. However, an unprecedented rise of nearly 18 per cent in the value of imports at constant prices paved the way for a moderate rise of 4.3 per cent in consumption and a substantial expansion of almost 10 per cent in investment. Greater facilities for importing capital goods and the continuation of the programmes for the development of the copper industry were also favourable to investment. The investment coefficient accordingly climbed from 5.1 to 16.3 per cent between 1967 and 1968, while the import coefficient rose from 15.8 to 18.2 per cent.

The economy of Ecuador grew at a moderate pace of just over 4 per cent. It was affected by a drought which damaged agricultural production, the devitalization of industrial growth and the increasing difficulty of keeping up the rate of public investment. The result of the latter was a slight reduction in the investment coefficient, which had already dropped to the relatively low level of about 11 per cent. Thus, the appreciable increase of over 17 per cent in imports, which raised the import coefficient from 19.1 to 21.5 per cent over the last two years, was largely used to keep consumption growing at a fairly high rate (nearly 8 per cent in 1968).

The economy of El Salvador showed a modest rate of growth for the second year running, a 3.7 per cent increase in the gross domestic product being combined with a decrease in the volume of imports. Consequently investment had to be cut to keep the growth rate of consumption on a par

/with that

with that of the over-all product. Private investment dropped nearly 2 per cent in real terms for the first time in many years, and public investment was further reduced (9 per cent) although less severely than in 1967. In keeping with these changes, there were decreases in both the investment coefficient (from 14.8 to 13.8 per cent) and the import coefficient (from 26 to 24.3 per cent).

Guatemala's economic product increased by 5.1 per cent, which represents a higher rate than in 1967 (4 per cent). Its acceleration was partly due to the recovery of export agriculture, since the growth rate of the industrial sector was a good deal slower than in the previous year. The sharp upswing of exports (more than 16 per cent) was matched, on a smaller scale, by an increase in imports, with the result that the different components of domestic demand made less progress than in 1967. Consumption rose just over 4 per cent while over-all investment remained at the previous year's level. This implies a further decrease in the relatively low coefficient of investment (from 12.2 to 11.6 per cent).

In Haiti the gross product expanded by 1.3 per cent and exports by 7.2 per cent, while imports fell nearly 4 per cent. Aggregate demand thus remained stationary, and its structure also remained the same with no increases in over-all consumption or investment, although private consumption expanded moderately to some extent and government consumption was cut by more than 20 per cent.

The economy of Honduras expanded at the rate of 6.4 per cent in 1968. This was higher than the average for 1963-66 and also than the 1967 rate. The rise in exports was a little over 8 per cent and in imports nearly 12 per cent. There was thus an appreciable increase in the domestic supply of goods and services, which favoured consumption more than investment. In both, however, the public sector accounted for the largest share; public investment went up more than 11 per cent and private investment less than 3 per cent, while the increase in private consumption was close to 7 per cent but in government consumption more than 15 per cent.

In Mexico, the increase in the domestic product amounted to 6.9 per cent and the aggregate supply of goods and services rose by 7.4 per cent under the stimulus of a 12 per cent addition to imports. Within aggregate demand, exports expanded by 6.7 per cent, gross fixed investment by 6.9 per cent (with

/public investment

public investment setting the pace) and total consumption by 7.6 per cent. This signified the maintenance of the investment coefficient at roughly 17.5 per cent and a slight increase in the import coefficient (from 11.6 to 12.1 per cent).

The growth rate for Nicaragua's domestic product was 4.5 per cent. This is a higher rate than in the two preceding years but is still well below that of 1963-65, which was over 8 per cent. The value of imports of goods and services measured at constant prices diminished about 8 per cent while exports showed a slight improvement. As the external sector has a powerful influence on the economy as a whole, these changes led to a turn for the worse in the components of domestic demand. Over-all investment remained virtually static, while public investment was slashed, and both private and general government consumption fell off. The investment and import coefficients, both of which were among the highest in the region, dropped too, the former from 22.3 to 21.4 per cent and the latter from 49.2 to 43.4 per cent between 1967 and 1968.

The economy of Panama which, during 1960-67, had expanded at an average annual rate of 8.2 per cent, slowed down to about 4.5 per cent in 1968. There were also sharp reductions in the growth rates of exports and imports. The weakening in the growth rate of the domestic supply of goods and services mainly affected investment, which declined in absolute terms, since total consumption - and public consumption in particular - increased more than the product. The investment and import coefficients also fell from relatively high levels: the former from 19.3 to 18.1 per cent and the latter slightly less from 39.4 to 38.1 per cent.

The economy of Paraguay expanded by 4.2 per cent, but in contrast to 1967 its main impulse in 1968 came from the agricultural sector where production rose by 6 per cent, while industrial output remained at the same level. The aggregate supply grew less than the product owing to the relative stabilization of imports. On the side of demand, the most substantial increment was in consumption, particularly by the Central Government, but the high rate of investment achieved in 1967 slowed down.

In Peru, the signs of flagging development, which were already noticeable in 1967, showed even more clearly in 1968. The domestic product expanded about 3.5 per cent, and the strong policy measures taken to stave off greater budget and balance-of-payments deficits inevitably had repercussions on domestic demand. This explains why, although exports rose appreciably (by nearly 13 per cent in /real terms),

real terms), the volume of imports contracted by more than 20 per cent, cutting down the domestic supply of goods and services and thus reducing investment and consumption by more than 10 and nearly 4 per cent respectively. As a result, between 1967 and 1968, the investment coefficient decreased from 22.1 to 18.9 per cent and the import coefficient dropped from 35.2 to 27.1 per cent.

The 2.3 per cent growth in the economy of the Dominican Republic was due to a 20 per cent rise in construction, and a lesser increase in agriculture, since manufacturing declined. Imports expanded more than exports in real terms, thus adding to the domestic supply of goods and services as well as producing an appreciable increase in capital formation, particularly in construction, and a smaller increment in consumption. Consequently, both investment and import coefficients improved somewhat between 1967 and 1968: the first from 19.2 to 21.1 per cent and the second from 27.1 to 28.7 per cent.

In 1968, the economy of Uruguay recovered to some extent after the previous year's recession, with an increase of about 1 per cent in the gross domestic product. Exports and imports followed separate trends; measured in constant prices, exports increased by nearly 5 per cent in values whereas imports decreased by a little over 4 per cent. Consequently, the economic recovery did not extend to the domestic supply of goods and services. Its failure to do so particularly affected investment further and reduced the investment and import coefficients, which were already at fairly low levels. The former dropped from 12.2 per cent in 1967 to 11.9 per cent in 1968 while the latter fell from 14.6 to 13.8 per cent over the same period.

Venezuela maintained a growth rate of 5.5 per cent, despite flagging exports. Its economic expansion was inspired by advances in agricultural and industrial production (6 and 6.5 per cent respectively), and by increases in building activities and the supply of energy and services. The petroleum sector, on the other hand, grew at the rate of 2 per cent, which is less than in previous years. A moderate increase in imports combined with stagnation in export trade led to an increase in the supply of goods and services for domestic consumption which outweighed that of the total gross product. Within the over-all increment, consumption rose 8.4 per cent and investment 7.6 per cent. The changes were, however, too slight for any appreciable modification to take place in the investment and import coefficients, which remained at 16 and nearly 15 per cent respectively.

3. Major sectors of economic activity

(a) General trends

As noted earlier, manufacturing and construction were the two sectors which contributed most to economic growth in 1968, increasing their respective products by 8.1 and 10.8 per cent. The volume of agricultural production, on the other hand, grew by barely 1.3 per cent, while the services sectors kept pace with the increase in the total product (see table II-3).

The marked rise in the level of industrial activity is partly attributable to a recovery from less favourable trends in earlier years. This is particularly true of Brazil, whose increase of 12 per cent carries considerable weight in the regional average, and to a lesser extent of Argentina where, after its setback in 1967, manufacturing production grew by 8 per cent. Even so, however, many countries recorded relatively high industrial growth rates, following the upward trend that has been in evidence for some years.

The low average growth rate of agriculture in the region is less representative, owing to a greater diversity in the position of agriculture from country to country. The results achieved by some countries, mainly those affected by bad weather, were highly unfavourable. For example, absolute levels of production fell in Argentina and Chile, while in Brazil the level remained virtually stationary. In contrast, substantial increases in production (close to 6 per cent or more) were attained in Colombia, Costa Rica, Guatemala, Panama, Paraguay and Venezuela.

The picture was similar with construction activities, which expanded exceptionally rapidly in a number of countries; so rapidly in fact that in three of them - Argentina, Brazil and the Dominican Republic - the increase was some 20 per cent over the level for 1967. On the other hand, three other countries - Chile, El Salvador and Peru - recorded substantial decreases, partly attributable to the need to restrain public spending in certain sectors in order to reduce budget deficits.

Table II-3

LATIN AMERICA: TRENDS OF THE MAJOR ECONOMIC SECTORS, 1968

(Percentage variations over 1967)

Country	Agriculture	Mining	Manufacturing	Construction	Basic services	Other services
Argentina	-5.5	9.8	8.0	23.6	4.8	3.5
Bolivia	3.5		7.3	14.7	4.4	5.4
Brazil	6.5	18.2	12.0	19.6	8.3	5.3
Chile	-4.0	-	3.0	-3.5	2.4	3.7
Colombia	5.5	-5.0	6.5	9.0	3.9	5.4
Costa Rica	14.0	... a/	11.3	-	2.9	4.5
Dominican Republic	3.1	3.1	-2.1	20.6	1.3	0.8
Ecuador	1.5	-1.5	3.3	...	6.9	7.0
El Salvador	3.1	-	6.8	-14.0	5.4	4.4
Guatemala	5.5	-	5.4	0.8	7.8	4.7
Haiti	1.2	... a/	1.2	2.6	1.0	1.3
Honduras	4.2	2.1	10.7	10.5	9.4	4.9
Mexico	3.7	6.3	7.9	9.2	5.7	7.2
Nicaragua	4.5	-	6.0	1.9	5.9	4.1
Panama	6.4	-	6.5	-	6.3	3.2
Paraguay	6.0	-65.0	0.3	4.7	5.9	4.3
Peru	2.6	6.0	6.0	-7.9	4.6	3.3
Uruguay	2.0	... b/	2.0	3.0	0.9	0.1
Venezuela	6.0	1.6	6.5	10.0	7.6	6.4
<u>Total</u>	<u>1.3</u>	<u>3.7</u>		<u>10.8</u>	<u>5.9</u>	<u>5.4</u>

Source: ECLA, on the basis of official statistics.

a/ Included in construction.

b/ Included in manufacturing.

/The sections

The sections that follow give a brief description of some of the most significant events in 1968 in the major sectors of economic activity, which will help towards a broader understanding of the significance of these changes.

(b) The agricultural sector

The very small increase in agricultural production in the region during 1968 is partly due - apart from long-term structural factors - to bad weather with different effects in different countries.

In Chile, where the drought affected a large area of the country extending from the central area to the north, crop and livestock losses are estimated at some 87 million dollars. Moreover, it is anticipated that, owing to the drop in the water level of lakes and reservoirs, the effects of the drought will continue to affect agricultural production in 1969. As a result of the emergency, the Government allocated funds for the tapping of water resources - especially for drilling deep wells - and for increasing imports of foodstuffs.

In the north of Peru, 120,000 hectares were affected by the drought, which caused substantial losses in cotton, sugar (162,000 tons), maize (10,000 tons), rice (122,000 tons) and bean (18,000 tons) crops, with a consequent fall in the output of Peru's main agricultural products for both export and domestic consumption. In view of the situation, an emergency law was passed which made funds available for irrigation and roads works in the afflicted areas.

In Ecuador, some coastal and inter-Andean provinces suffered substantial losses, estimated at 1,000 million sucres, the equivalent of 12 per cent of the value added by the agricultural sector, as a result of losses in maize, coffee and cotton harvests and cattle slaughtering.

The situation was different in the countries on the eastern seaboard of South America (Brazil, Uruguay and Argentina). The bad weather of 1967 continued into the early months of 1968, but this was followed by exceptionally good weather, with mild temperatures and timely rains. This meant that spring crops, or those harvested in

/late 1967

late 1967 and the summer of 1968, were affected by the sharp cutback in the area sown and in yields, while winter crops were favoured by the rains. In Brazil, the main export crops affected by the drought were coffee and cocoa, production of which dropped by 20 per cent compared with 1967. As to crops for domestic consumption, bean production fell sharply, while there was a slight decrease in rice and maize. In Argentina and Uruguay, the drought affected cereals - except for wheat - oilseeds and industrial products. In Argentina the maize production fell by 23 per cent, flax by 33 per cent, oilseeds by 17 per cent and industrial crops by 18 per cent. In contrast, wheat harvests in both countries benefited from the rain and, owing to an increase in the area sown to wheat, were almost four times the size of the 1967 harvest in Uruguay and 15 per cent higher than 1967 in Argentina. In both countries, there was an increase in the number of beef cattle slaughtered, owing to a recovery in production as a result of the change in the weather in June 1968. The drought at the end of 1967 had obliged farmers to sell stock at the beginning of 1968 which they had held back in the hope that prices would rise.

In contrast, agricultural production in Colombia was favoured by good weather, which together with the increase in agricultural credit, led to appreciable increases in rice, cotton, coffee, banana and sugar production and a rise of 6 per cent in the slaughtering rate for livestock. Venezuela also had good weather and the agricultural sector grew by 6 per cent over the year.

Agriculture in Central America grew at a satisfactory rate, particularly in Costa Rica, where production increased at the exceptional rate of 14 per cent. Coffee production reached high levels, especially in El Salvador, Costa Rica and Honduras; cotton production increased appreciably, especially in Guatemala; and banana production climbed steeply in Guatemala and Costa Rica, and also in Honduras, where it grew by 8.7 per cent. In all these countries the increases were attributable to an increase in the area under cultivation, and to public financing, particularly in Costa Rica. All the Central American countries substantially increased their production for domestic consumption.

/In some

In some countries, the problem of the accumulation of stocks of certain agricultural commodities whose production has been stimulated through support prices, development credit and, especially, the importation of fertilizers with the help of external credit, is becoming increasingly acute. The difficulty lies in the fact that the high prices of such products, owing to the high cost of inputs and the relative inefficiency of farming methods, make it impossible to sell exportable surpluses on the world market. During 1968, Panama, Colombia and Central America had the same kind of problem with rice.

(c) Mining production

Mining output - excluding that of petroleum, which is covered in a separate section - grew at a moderate rate during 1968.

This was attributable, inter alia, to the relative stagnation of mining in Chile - which accounts for approximately one-quarter of regional production, excluding petroleum production in Bolivia, Mexico and Venezuela - owing to the shortage of water, which curtailed production at El Teniente, one of the major copper mines; the other copper mines increased their output. Iron production in Chile rose by 10 per cent, and coal production by 7 per cent, while nitrate production declined by 25 per cent.

Added to the stagnation of mining production in Chile, there was a fall in mining production in Venezuela and a 2.6 per cent increase in production in Bolivia, despite the fact that tin production is estimated to have increased by some 10 per cent. Tin production continues to be affected by the current low prices, as a result of which the International Tin Council established production quotas.

In Mexico, another country with a substantial share of regional mining production, the marked increase in the production of iron and copper and the output of quarry products - in great demand because of the construction boom - was largely cancelled out by the decline in the production of sulphur, of which Mexico accounts for 90 per cent of the regional total.

In Brazil, mining production grew exceptionally rapidly by 18 per cent, attributable in particular to increased production of manganese - which grew by 60 per cent in the region as a whole - and, to a lesser
/extent, of

extent, of iron, of which Brazil is a major producer. Peru, which accounts for 15 per cent of mining production in the region, increased its output by 6 per cent, including a substantial rise in petroleum production.

Together with these production trends, it is worth looking at a number of events which relate mainly to the expansion of productive capacity and efforts to give exportable mining products more processing.

With regard to tin and zinc, the Bolivian Mining Corporation (Corporación Minera de Bolivia) and National Smelting Company (Empresa Nacional de Fundiciones) are engaged in efforts to increase yields from tin ore, and construction has begun on a processing plant for low-grade ore and a refinery at Oruro with an initial capacity of 7,500 tons of electrolytic tin and 800 tons of alloy, to be raised subsequently to 20,000 tons. The exploration and development of the Kellguan mine, which has estimated reserves of 2.5 million tons of cassiterite, is continuing to discover whether the mine can be worked economically. Work is also continuing at the Matilde mine, as a result of which zinc production should increase to 55,000 tons (more than triple the figure for the country in 1967). In addition, studies have been completed for the installation of a zinc smelting plant with an annual capacity of 40,000 tons, at a cost of 20 million dollars.

In Peru, in addition to the plans to raise zinc output to 380,000 tons by 1970 and 580,000 tons by 1975, it is planned to construct an electrolytic zinc refinery with a capacity of 40,000 tons, to be complemented by a sulphuric acid and superphosphates plant.

With regard to copper, plans are going ahead in Chile to double copper production by 1972. By the end of 1968 some 225 million dollars had been invested for this purpose; a plant was opened at Chuquibambilla which will increase annual electrolytic copper capacity by 180,000 tons; work continued at the Río Blanco mine, which will produce 60,000 tons of copper concentrates; and a study is being made on the installation of a new smelting plant at Antofagasta, with a capacity of 30,000 to 36,000 tons, to smelt copper from medium-sized and small producers in the area. A copper goods industry has been established at Antofagasta,

/mainly producing

mainly producing various types of electrical and telephone conductors for the domestic market and for export, which is to achieve full-scale production in 1970. In Peru, it is planned to increase copper production by 40,000 tons by working a number of ore deposits (Cuaajone, Cerro Verde, Michiquillay, Cobriza and Quellaveco). Large copper ore deposits have been found in Argentina, the Dominican Republic and Panama.

Venezuela has begun construction of a plant to produce a million tons of bricks with a high iron content (86.5 per cent) and is completing studies for the installation of a plant which will process a million tons of iron pellets. In addition, a study is under way on the feasibility of profitably mining the Cerro San Isidro deposits, which have reserves estimated at 350 million tons with an iron content of some 64 per cent; annual production is expected to amount to 4.5 million tons, 2.5 million of which would be processed into pellets. Chile is planning the construction of an iron ore concentration plant to process ore from Algarrobo and El Romeral, and studies have begun on expanding the production capacity of the Santa Clara mine to 2.5 million tons; this mine has estimated reserves of 50 million tons of ore with an iron content of more than 60 per cent and 50 million tons with an iron content of 40 per cent. Brazil is installing a pelletizing plant with an annual capacity of 2 million tons, and in Peru the capacity of the Marcona Mining Company was expanded to 10.5 million tons.

Another important development in mining relates to alumina production in Jamaica. In 1969 an alumina plant will begin operation at Port Kaiser with a capacity of 950,000 tons, while construction will begin on a new plant at Clarendon with an initial capacity of 440,000 tons, which could be doubled subsequently, processing a lower grade of bauxite than currently used. Brazil will soon start up a plant which will produce 25,000 tons of aluminium ingots. Venezuela has constructed an aluminium plant with an annual capacity of 10,000 tons and Argentina is to install an electrolytic plant with an annual capacity of 50,000 tons, which will cost 68 million dollars, plus 25 million dollars for the electric energy supply system that will be required. This plant is expected to begin operation in 1970 and will process imported raw materials.

/(d) Petroleum

(d) Petroleum

At the end of 1968, world output of petroleum amounted to over 38 million barrels daily, or about 10 per cent more than in 1967. Latin America's share in this total was just over 13 per cent, a proportion which, in comparison with the 1958 figure of 18.3 per cent, shows that the region is losing ground as a producer of crude. In fact, during the past ten years, while its traditional competitors trebled their production and the relative importance of Africa increased year by year, Latin America did not even succeed in doubling its output, which between 1958 and 1968 expanded at an average annual rate of 4.3 per cent, whereas the world average was 7.8 per cent over the same period.

In 1968, Latin America's production of crude petroleum rose by 3.3 per cent, which was a much smaller increase than had been shown in 1967 (6.9 per cent). However, with the exclusion of Venezuela, whose output was 1.8 per cent bigger than in 1967, after an exceptional upswing of 5.1 per cent as a result of the critical situation in the Middle East, the net production increment achieved by the other countries was about 7 per cent. According to incomplete data, the region's largest increase (28 per cent) was recorded in Peru, mainly because the Belco Petroleum Corporation stepped up the development of its new offshore oilfields, which yielded more than 20,000 barrels daily. In Chile, production was expanded by 10.7 per cent (after slight setbacks during the previous three years), mainly by virtue of more intensive development and exploration of the Magallanes deposits, and the resulting discovery of larger reserves than those formerly proven. Over the past two years Argentina, Bolivia, Brazil, Mexico and Trinidad and Tobago have managed to keep up a steady growth rate of production.

For the second year in succession, production in Colombia and Ecuador declined, owing to the reduction of the flow potential in their oilfields. But the new deposits found in the Putumayo-Napó basin, covering part of the south of Colombia and the north of Ecuador, open up new short- and medium-term prospects for both countries. Twenty-five wells have been drilled to date in the Colombian part of the oilfield and six in the part belonging to Ecuador, with respective potentials of

/50,000 and

50,000 and 10,000 barrels a day, i.e., yields per well of 2,000 and 1,667 barrels daily. An oil pipeline 327 kilometres long and 20 inches in diameter is being carried from Campo de Orito to the Pacific-coast port of Tumaco, and is scheduled for completion early in 1969. When it is ready, Colombia's Putumayo wells will go into production at an estimated initial rate of 70,000 barrels daily, thus increasing the country's output of petroleum by about 50 per cent. Ecuador, on the other hand, will not be able to bring its part of the oilfield into operation until the TEXACO and Gulf Companies have carried out their decision to construct an oil pipeline from the oilfields in the north-east of the country to the port of San Lorenzo on the Pacific coast.

Drilling operations are among the determinants of the levels of production and reserves. Except in Bolivia, Brazil and Peru, they declined almost everywhere in 1962-67, at an average annual rate of 9 per cent. For a variety of reasons - including legal proceedings relating to contracts for the development of production (Argentina), and suspension of new concessions to private companies (Venezuela) - the rates of decrease were as high as 16 per cent in Argentina and Colombia, and reached 8 per cent in Chile and 7 per cent in Venezuela.

Complete data on the wells drilled during 1968 are available for only a few countries. Among these, Chile deserves mention for its appreciable effort to improve upon the level of activities in the two preceding years.

Between 1958 and 1968, the average annual growth rate of refining capacity in the Latin American countries was 6.1 per cent, while over the same period the volume of crude refined expanded at an average annual rate of 6.6 per cent. By 1968, refining capacity had reached approximately 3.8 million barrels daily, or a little over one-tenth of total world capacity, and the volume of crude refined was about 192.2 million cubic metres, which implied an increase of 5 per cent in relation to 1967.

Within this over-all picture, Brazil, Chile, Colombia, Mexico and Peru made noteworthy progress in the refining of crude, through the expansion of existing plants and the installation of new ones. In the

case of Brazil, an additional 90,000 barrels of crude were processed daily, thanks to the entry into operation of the Gabriel Passos and Alberto Pasqualini refineries, in April 1968 and August 1968 respectively.

A few countries - for example, Argentina, Brazil, Chile, Jamaica and some of the Central American countries - which used to satisfy their requirements largely with imports, are now almost entirely self-sufficient in respect of petroleum products. There are a few exceptions to the rule - aviation spirit and liquid gas in Brazil, liquid gas in Argentina and fuel oil in Chile - but the quantities involved are relatively small.

During the first nine months of 1968, the Latin American countries' purchases of crude petroleum and petroleum products from Venezuela, Aruba and Curaçao - the region's leading suppliers - rose by 14.1 per cent (9.2 per cent in the case of crude oil and 27.8 per cent in that of derivatives).

On the other hand, certain measures adopted by the municipal authorities in some United States cities to prevent air pollution related to fuel oil, whose sulphur content, under regulations established in July 1968, was not to exceed 1.5 per cent. This affected exports of petroleum products (in particular, fuel oil itself) from Venezuela, Aruba and Curaçao to the United States market, and the figure for the first nine months of 1968 showed a decrease of 0.4 per cent, whereas sales of crude rose by 5.3 per cent.

Other significant developments which took place in various countries in the course of 1968 are briefly reviewed below.

In Argentina, work began on the expansion of the La Plata refinery, with the addition of a new fresh stock atmospheric distillation unit with a daily capacity of 75,000 barrels, and a vacuum unit with a capacity of 38,000 barrels daily. The contract for enlarging the capacity of the Luján de Cuyo refinery in Mendoza from 41,000 to 85,000 barrels daily, at a cost of 30 million dollars, was awarded to the firm of Lummus Española. A start was also made on the construction of a multipurpose pipeline from Luján de Cuyo to Montecristo, 664 kilometres long and 356 millimetres in diameter. This stretch constitutes the first stage of the projected 1,250-kilometre multipurpose pipeline from Mendoza to

/Buenos Aires.

Buenos Aires. In addition, over a period of eight years a sum total of 30.4 million dollars is to be spent on exploratory operations in the Golfo de San Jorge by four companies (Sinclair, TENECO, Phillips and ENI of Italy) which have obtained permission to prospect on the continental shelf.

At Porto Alegre, in Brazil, the construction of the Alberto Pasqualini refinery was completed. Although it has a daily capacity of 45,000 barrels, susceptible of expansion to 100,000 barrels per day, for the time being this refinery will process between 20,000 and 25,000 barrels daily. In the month of March, PETROBRAS opened a fourth refinery (Gabriel Passos) at Belo Horizonte, with a daily capacity of 45,000 barrels, and upon completion of the relevant studies it decided to construct a refinery with a capacity of 120,000 barrels per day, at a cost of 78.5 million dollars, in the neighbourhood of Campinas, near São Paulo.

In Bolivia, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and the Bolivian Gulf Oil Company signed an agreement with representatives of an Argentine public enterprise (Gas del Estado), under the terms of which Argentina will purchase the following quantities of gas with a calorific value of not less than 9,300 calories, at the price of 8 dollars per thousand cubic metres: 4 million cubic metres of natural gas per day during the first seven years to which the agreement relates, and 4.5 million during the following thirteen years.

The twenty-year period covered by the agreement will be reckoned from the date of completion of a gas pipeline 600 kilometres in length and 24 inches in diameter, with a daily capacity of 200 million cubic feet, which is to be constructed in Bolivian territory, at a cost of 40 million dollars, and connected at the frontier with the Argentine pipeline.

Furthermore, YPFB successfully continued its work on the development of the Monteagudo (Chuquisaca) oilfield, which holds out good prospects.

In Chile, the State enterprise (Empresa Nacional del Petróleo - ENAP) has a project for expanding the present capacity of the Concepción refinery from 36,000 barrels to 63,000 barrels daily.

/By a

By a decree passed in January 1968, the Government of Ecuador set up the Ecuadorian State Petroleum Corporation (Corporación Estatal Petrolera Ecuatoriana), an autonomous agency which will be responsible for the exploration, development, refining and marketing of the country's petroleum resources, either directly or in association with private companies. As the Ecuadorian Government objected to the proposal that the initial output of the three oilfields recently discovered in north-east Ecuador (Lago Agrio, Bermejo and Charapa) should be transported via the Colombian pipeline from Orito to Tumaco, the TEXACO and Gulf Companies decided to construct, at an estimated cost of just over 50 million dollars, an oil pipeline from the River Aguarico area to the port of San Lorenzo, scaling the Andes to a height of over 4,000 metres. A contract for exploring 2.4 million hectares of dense tropical jungle in the north-east of Ecuador, 200 kilometres from the oilfields discovered by the TEXACO-Gulf consortium, was awarded to five foreign companies which may invest a total sum of 60 million dollars; and another for exploring the continental shelf in the Gulf of Guayaquil has been given to seven other companies, headed by Ada Oil of Houston.

On the continental shelf in the Gulf of Mexico, near Tuxpán, the Mexican State enterprise Petróleos Mexicanos (PEMEX) found a new oilfield (Atún) whose potential, according to estimates, will exceed that of any other deposit so far discovered.

The Panama refinery at Colón is pursuing its aim of expanding its daily capacity from 55,000 to 70,000 barrels of crude.

In the course of the protracted dispute between Peru and the International Petroleum Company, Ltd., the Government of Peru took possession, on 9 October 1968, of the Brea and Pariñas oilfields and the Talara refinery. A project is also afoot for constructing a refinery with an initial capacity of 25,000 barrels per day at the port of Mollendo, 1,200 kilometres south of Lima. Its design will be such that it can refine crudes with different characteristics. On the Providencia concession, in the north of Peru, an undersea deposit has been discovered, with a well flow of 480 barrels per day, and on the Humboldt concession, off the coast to the north-east of Talara, another well with good commercial production prospects is in process of evaluation.

/The Dominican

The Dominican Republic's first refinery, which will have a capacity of 15,000 barrels per day, and is being constructed by Midland Co-operatives, will go into operation at the end of 1969. In addition, the Antilles Petroleum company, formed by private capital in Puerto Rico, is seeking permission from the Dominican Government to build a refinery with a capacity of 25,000 barrels per day near Azua, 80 kilometres from Santo Domingo.

Off the coast to the south-east of Trinidad, the Pan-American Oil Company (a subsidiary of Standard Oil of Indiana) has discovered a large natural gas deposit, where the only exploration wells drilled so far show an initial production of over 8,400 million cubic metres daily.

The Government of Uruguay invited tenders for hydrocarbon prospecting and development on the continental shelf and substratum in waters within Uruguay's jurisdiction, on the basis of contracts with the State agency known as the Administración Nacional de Combustibles, Alcohol y Portland (ANCAP).

In Venezuela, the Creole Petroleum Company constructed a new propane and butane plant at its Amuay refinery. The capacity of the Morín refinery, belonging to the State petroleum agency (Corporación Venezolana de Petróleo - CVP), was enlarged from 2,300 to 16,000 barrels per day, at a cost of 40 million dollars; work on this project was completed in January 1968, but the first service contracts could not be awarded until March 1969, after approval by the National Congress. The Creole Petroleum Company and the Shell Company of Venezuela each decided to construct a desulphurizing unit, the former at the Amuay and the latter at the Cazdón refinery, at respective costs of 60 and 37.5 million dollars. A gas pipeline scheduled for construction early in 1969 will be 240 kilometres long and 40 centimetres in diameter, and is designed to supply the desulphurizing plant at Amuay with 1.4 million cubic metres of natural gas from Tía Juana.

New deposits were discovered by CVP and the Creole Petroleum Company in the Mata-Auma area under the jurisdiction of Maturín and at the Elías Yopoles, Caro and Mata oilfields in the eastern sedimentary basin. In addition, CVP is planning to construct a refinery with a daily capacity

of 100,000 barrels of crude in the Lake Maracaibo area, and the Creole Petroleum Company has a project for a 240-kilometre gas pipeline from the middle of Lake Maracaibo to the island of Aruba, to carry the gas that would be used for desulphurizing, at a rate of 75,000 barrels per day; the Creole crude which is refined by Lago Oil and Transport at the Aruba plant.

(c) Manufacturing industry

The trend of industry was particularly favourable in 1968 and raised the gross industrial product to 8 per cent over the previous year's level.

The data available are not complete enough to indicate the extent to which each branch of industry contributed to the over-all progress. According to general information on Argentina, Brazil and Mexico, which together account for more than 75 per cent of the region's industrial output, production of most current consumer goods grew relatively little, while other lines, responding to a different kind of demand, made much faster progress. As construction and public works made particularly good headway, there was such a boom in demand for building materials that some countries even had to import cement. Industries producing certain intermediate goods and consumer durables also achieved fairly high growth rates.

Some data are given below on the three branches of industry which have developed with special vigour in recent years.

(i) The steel industry. Output of ingot steel in Latin America rose about 12.5 per cent in 1968, thus more than doubling its 1967 growth rate. The biggest contributions to this increase came from Argentina (17 per cent), Brazil (17.6 per cent), Mexico (7.6 per cent) and Venezuela (26 per cent). The four together account for 90 per cent of steel production in the region.

Peru was the only other producer country to show a substantial increase (11 per cent). Chile's ingot steel output decreased by nearly 10 per cent, and Colombia's by almost 4 per cent, Uruguay's modest production was cut by a third.

The strong upswing in Argentina's production corresponded to the rise in demand for materials for construction and public works. It should

/be mentioned

be mentioned in this connexion that the Somisa blast furnace at San Nicolás was reconditioned in mid-1968. The plant which turns out semi-manufactured products, had found that its capacity was too small to meet the requirements of the rolling-mills, and large amounts of billet had to be imported in 1968 to close the gap and satisfy the demand for finished steel products.

Other firms also added to their capacity. Dalmine-Siderca purchased continuous casting machinery, and the Santa Rosa metallurgical plant put its third electric blast furnace into operation. This is part of the second phase of its plan of expansion, which will ultimately enable it to produce about 180,000 tons of ingot steel a year.

Brazil's steel production, which had declined in 1967, revived in 1968, helped by the general upsurge of industry, and, in particular, of the branches that use a large amount of steel products (e.g., shipbuilding, and production of motor vehicles, machinery and electrical equipment). Building under the government housing policy also expanded. Steel output in 1968 amounted to 4.3 million tons. To produce this volume, installed capacity was used to the maximum, and at the same time the first stage of a plan to raise production by 1.4 million tons was put into effect. This stage is scheduled for completion in 1971.

In Mexico, production of ingot steel increased by 7.6 per cent. Although less than in 1967, this expansion nevertheless indicates that the industry continues to make steady progress. It was mainly due to the fact that the third blast furnace in the Fundidora de Hierro y Acero de Monterrey S.A. was put into full production. Siderúrgica Nacional also brought a unit for producing special steels into operation. As part of its plans for expansion, Altos Hornos de México intends to raise its capacity by 2 million tons in 1970-71 through the addition of a fourth blast furnace, which is already under construction. The Compañía Fundidora de Monterrey also plans to increase the output of its third blast furnace in 1969, when the Guadalajara steel mill is to be opened. All in all, these expansions will raise production to 5 million tons by 1971.

The noteworthy expansion in Venezuela's steel production was achieved through fuller use of installed capacity. About 280,000 tons of finished

/steel products

steel products are exported. The Orinoco steel plant (SIDOR) plans to raise its capacity to 1.2 million tons by 1970 and in the meantime has begun to manufacture roughly 300,000 tons of cast-iron pipes a year.

In Chile, the Compañía de Acero del Pacífico (CAP) is implementing a plan for expansion based on a second blast furnace, which is already in operation. During the first stage, steel production will be 800,000 tons and will eventually reach the million mark. An electrolytic tinplating plant, which has an initial capacity of 65,000 tons of tinplate and will eventually produce as much as 140,000 tons, is scheduled to go into operation in the first half of 1969.

Aceros Andes S.A. began production early in 1968, and will soon be in a position to manufacture tyres and railway axles, and forged parts and castings for the mining sector and motor-vehicle industry in particular.

Colombia's steel mills (Acerías Paz de Río and the Siderúrgica del Pacífico, S.A.) and the Sociedad Siderúrgica de Chimbote in Peru also have plans for expanding production.

(ii) The chemical industry. The partial indicators available for some of the Latin American countries indicate that the chemical industry made excellent progress in 1968, owing to the rapid growth of manufacturing industry, and also of construction, which is using an increasingly large amount of chemical inputs.

It is provisionally estimated that chemical output in Argentina increased about 20 per cent. An upward trend was observed for all basic chemical products, except sulphuric acid, which showed an increment of just over 4 per cent. The upswing was partly due to the expansion of capacity for a number of basic chemical products, including ammonia, urea and ammonium sulphate for fertilizers, and vinyl polychloride.

In Mexico, the data for eleven months show that output of chemical fibres was stepped up 18.4 per cent, sulphuric acid, 12.6 per cent, caustic soda, 17.7 per cent, urea, 18.3 per cent and ammonium sulphate, 41.5 per cent. Production of ammonia dropped by 7.5 per cent, however, while that of ammonium nitrate rose just over 3 per cent. In the petrochemicals industry, production of benzene and toluene increased by 71 and 11 per cent respectively, while that of dodecylbenzene declined slightly.

/Current plans

Currents plans for expanding the chemical industry include the establishment of a petrochemical complex by the Dow Chemical Company between 1969 and 1971 in Argentina, near Bahía Blanca, for a capital cost of 114 million dollars. Another enterprise (Carboclor) inaugurated the first stage of a petrochemical plant in the province of Buenos Aires. By 1970 this will be producing 16,000 tons a year. In addition, Empresas Petroquímicas Argentinas will be setting up a plant in 1971-72 to produce about 180,000 tons of ethylene a year.

In Brazil, Petroquímica União plans to build a big petrochemical complex at São Paulo. Work is scheduled to begin on this in 1970. It will have a capacity of 600,000 tons (including 181,000 tons of ethylene and 97,000 tons of propane), and the final cost is estimated at 450 million dollars. Other projects include a phosphate plant at Jucupiranga (São Paulo) with a capacity of 200,000 tons, a fertilizer complex (nitrogenous compounds urea and ammonia) for the Companhia Química de Minas Gerais, and additions to a caustic soda plant owned by Carbocloro Industrias Químicas at Cubatão (São Paulo), which will raise production to 140,000 tons a year. The Government of Brazil plans to spend a total of 687 million new cruzeiros on its three-year plan for the petrochemical industry.

In Chile, Petroclow (a branch of the Dow Chemical Company) will be installing an ethylene complex at Talcahuano, consisting of a 20,000 ton polyethylene plant and a plant for producing vinyl chloride with an initial capacity of 18,200 tons.

Petróleos Mexicanos (PEMEX) has opened an ammonia plant with a daily capacity of 1,200 tons at Minatitlán (Veracruz). This State-owned company, in association with private capital, is establishing forty petrochemical plants for a total investment of 1,356 million pesos.

(iii) The motor-vehicle industry. This industry continued to develop well in 1968, at an estimated rate of about 12 per cent.

Argentina, the second most important manufacturer of motor vehicles in the region, showed a growth rate of 2.7 per cent, which means that the industry recovered its 1966 level. During the first half of 1968, production had continued to decline as market demand was covered by carry-over stocks from the previous year, but, in the third quarter,

/output of

output of utility vehicles and lorries began to increase in view of the encouraging prospects for agriculture, and by the end of the year production of passenger cars was also expanding with the appearance of the new models on the market.

Output in Brazil is estimated to have gone up by 20 per cent and probably totals 280,000 units. The manufacture of lorries and motor buses made particularly big strides (a 50 per cent increment) and so did that of tractors (62 per cent), while production of passenger cars increased by about 18 per cent and that of lorries and utility vehicles a little less.

In Mexico, which, with Argentina and Brazil, represents 90 per cent of all motor-vehicle manufacture in the region, production is believed to have risen by 17.6 per cent, divided into 20 per cent for passenger cars and 8.5 per cent for lorries.

All the producing countries have projects for expanding production capacity. The most important are those of IKA-Renault in Argentina, Chrysler and Mercedes Benz in Brasil and Fiat and Ford in Chile. Investment in production is being supplemented by investment in the manufacture of parts and pieces, for which there are highly encouraging trade prospects in the Latin American Free-Trade Area.

(f) Electric energy

In 1968 total electric energy generation in Latin America amounted to about 125,000 GWh, or 9.5 per cent more than in 1967. The growth rates in 1966 and 1967 were 7.5 and 7.3 per cent respectively. In accordance with the distribution of installed capacity, the highest proportion was generated by the public sector (81 per cent), and 60 per cent of this was produced by hydroelectric plants.

Preliminary figures indicate proportionally larger increases in Brazil, Mexico and some of the Central American and Caribbean countries. Chile and Uruguay are among the countries where output increased slowly. In Chile, a severe drought devastated the central region, affecting hydroelectric energy generation mainly of the plants located north of the Bío-Bío river, including the recently opened Rapel plant which, to all intents and purposes, could not be used. The lack of rainfall and snow also affected the mountain region of Argentina, causing a considerable

/shortage in

shortage in that country also. In Chile, it is hoped that with the construction of the Bocamina thermoelectric plant in the coal-mining district, and of the El Toro hydroelectric plant, which, with its huge 4,000 cubic hectometres reservoir, will be practically independent of hydrological conditions, the system will be safeguarded against hydrological phenomena of this kind. In Uruguay, the slow growth must be ascribed to the fact that its capacity is over-loaded and has not been expanded for some years.

The figures for installed capacity and generation show that utilization of capacity during the year amounted to 4,500 hours for the public service.

In 1968 a great many public service power plants were put into operation or were at an advanced stage of construction, which considerably increased installed capacity. Hydroelectric plants on which intensive work has been done in the last few years are responsible for a high proportion of this increase. The plants constructed account for over 2,500 MW, of which approximately 2,000 MW are additions to the group of hydroelectric plants. This alters the balance that has existed for twenty years between hydro and thermal installed capacity, a gap which will continue to widen in favour of hydroelectric plants as the proposed projects are completed.

Installed capacity in self-generating plants did not alter much with the continued development of the public service, which now adequately covers demand for electric energy in nearly all areas supplied by its main enterprises. Thus, the self-generating sector is lagging still further behind the public utilities, its share in total installed capacity shrinking from 23 per cent in 1967 to 21 per cent in 1968.

With the new additions mentioned above, the public service power stations have raised their total installed capacity to 25,700 MW, of which 54 per cent is in hydroelectric plants. In contrast, the installed capacity of self-generating plants has remained constant at around 7,000 MW, with only 14 per cent in hydroelectric plants.

At present, a large-scale construction plan is under way in the public electric supply service, which will effectively help Latin America to emerge from the backward stage of its electric energy generation compared

/with world

with world levels. The capacity of the power stations under construction, which will begin operating before 1980, will exceed 21,000 MW, so that by that date installed capacity will be more than double that existing at the end of 1968. Of the total projects under construction not more than 2,500 MW are thermal plants.

Some of these hydroelectric plants stand out as the most important of their kind in Latin America and even in the world. Brazil, for example is building the Ilha Solteira, Jupia and Estreito plants, with capacities of 3,200, 1,200 and 1,050 MW respectively. The programme for Ilha Solteira is to install a total of 2,560 MW by 1980, and the rest at a later date. Venezuela is constructing the Guri power station, with a final capacity of 6,000 MW, of which 3,000 MW will be incorporated before 1980. Mexico is building the 1,080 MW Malpaso plant, and Peru the Mantaro plant, with a total capacity of 2,650 MW, of which 1,100 MW are to be installed before 1980. In Argentina, the Chocón-Cerros Colorados power station is to have a total capacity of 1,650 MW by 1978.

The Atucha plant now under construction will be Latin America's first nuclear power station. It is near Buenos Aires and will have a capacity of 319 MW, which may be doubled later.

The following is a brief account of the stage of construction reached during the past year by the large hydroelectric power stations mentioned above.

At the Jupia plant, the reservoir was closed in November and will be filled within a month or two. This power station is expected to begin operating in 1969, with three units of 100 MW each. Similar capacities will be incorporated in 1970, 1971 and 1972.

The first stage of the Guri plant - which is to have three 175 MW units - is well advanced, and the installation of the first unit was practically completed by the end of 1968.

Two 180 MW units were opened at the big Malpaso plant, which was then put into operation; when finished it will include an additional four units of the same capacity two of which are to be installed in 1969.

In the Mantaro plant, work is going ahead on the construction of the surge tank, the valve chamber and the power house. Tunnel No 1 (1,218 metres

/long) has

long) has been completed. Water from the Mantaro river will go through the tunnels into the surge tank, and on to the valve chamber; it will then drop 900 metres to the power house, where 342 MW will be installed as a first stage.

Financing was obtained for the Chocón-Cerros Colorados power station. Housing is being erected for the staff who are to operate the plant, and the civil engineering contracts for delivery of energy in 1973 have been awarded. Bids were opened for the supply of turbines and generators and the relevant decision will be taken in February 1969.

Interconexión Eléctrica S.A. (ISA) was established in 1968 to undertake the interconnexion of the main systems of public electricity supply in Colombia. The cost of the interconnexion is estimated at some 44 million dollars and it should be practically completed in 1972. This interconnexion is facilitated by the fact that the enterprises concerned have a standard frequency of 60 cycles. ISA will own the whole network and all future additions to installed capacity except the Canoas-El Colegio (Bogotá) and Guatapé (Medellín) power plants, and the Calina-Humbo, San Francisco and Alto Anchicayá expansion (CUC-Chicral).

The Government has also given priority to electrical development on the Atlantic seaboard, where a number of small isolated enterprises, in general, provide a somewhat inefficient service. It is planned to set up a public corporation embracing the following departments: Atlántico, Bolívar, Córdoba, Magdalena, César, Sucre and Guajira; in addition to controlling all the supply systems in that area, it will group them in a single interconnected system which, in turn, can be linked up with systems of neighbouring regions in the country or outside it. With these projects, Colombia will join the ranks of countries with large interconnected systems.

Mexico, having already resolved to establish the standard frequency of 60 cycles per second for the whole country, decided in 1968 that this standardization will be effected by stages, the first of which (conversion of the peripheral area of Mexico City) should be completed in 1971, and the rest in 1974. The total cost of this frequency change, which will affect some 1,500 MW, is estimated at about 130 million dollars.

/Meanwhile, the

Meanwhile, the Federal Electricity Commission has continued its work on interconnexions, thanks to which it will be possible to link up the Flacon-Monterrey and Torreón-Chihuahua systems in 1969, and the Colotlipa-Acapulco and Central systems in 1972.

In Brazil, the preparatory work for switching to a frequency of 60 cycles in the States of Guanabara and Espírito Santo, which was put in hand in 1967, continued in 1968. In the south, the Companhia Estadual de Energia Eléctrica do Rio Grande do Sul is planning its new power stations so that they can operate with frequencies of 50 and 60 cycles, in view of the change-over to 60 cycles and their subsequent interconnexion with other regions.

In Venezuela, Cambio de Frecuencia C.A. has made great progress in changing to 60 cycles in the area supplied by Electricidad de Caracas, and energy of that frequency will soon be received from Guai.

With the advances made and decisions adopted in regard to frequency changes in Brazil, Mexico and Venezuela, in the continent itself only the five southernmost countries - Argentina, Bolivia, Chile, Paraguay and Uruguay - will continue with a frequency of 50 cycles, while the rest will operate with 60 cycles.

As regards international interconnexions, the entry into operation of the power station on the Acaray river will make it possible to transmit energy from Paraguay to the Argentine border area. IDB is to grant a 5 million dollar loan to Electricidad de Misiones for the construction of the necessary high tension line. The interconnexion should be completed in 1971.

A general study was begun on interconnexion possibilities between the six countries of Central America, and a regional agreement was being studied with a view to the exchange of electric energy and the joint planning and construction of interconnexion projects. It is expected that the agreement will materialize, and the general study be completed, in the course of 1969.

A small interconnexion will be established in the border area of Colombia and Venezuela, with the installation of a 15 MW gas turbine at Zulia and a 115 KV transmission line which will link this plant with the La Fría system in Venezuela.

/An electrical

An electrical interconnexion was put into operation between the city of Salto (Uruguay) and Concordia (Argentina). Its purpose is to make good the shortage of energy in that part of Uruguay, where installed capacity amounts to only one-third of existing requirements. The transmission line will have an initial capacity of 6 MW, which may be raised to 100 MW in the future.

The interconnexion that has existed for some years between the border areas of Uruguay and Brazil continued operating as usual.

(g) Transport

(i) Shipping. In 1968 little headway was made towards a more integrated development of the Latin American fleets; on the other hand, some countries improved the position of their merchant fleets in the transportation of their foreign trade. This is reflected both in the planned increases in the volume of freight and in the search for preferential markets.

The LAFTA Water Transport Agreement, signed on 30 September 1966,^{4/} has so far been ratified only by Chile and Mexico, and it cannot be put into effect until at least five countries have adhered to it. Since then, there have been negotiations with a view to preparing a set of regulations which will make the agreement operative. A Special Commission met in October 1968 and adopted a set of regulations without the approval of Argentina, Brazil and Uruguay; the main point of disagreement was on whether existing bilateral privileges should be maintained or abolished.

Concurrently, there has been a tendency to conclude agreements between small groups of countries. Thus, at the end of September 1968 an agreement was signed between Argentina and Brazil, under which all maritime trade between the two countries should be carried in their own bottoms. In addition, some countries, notably Brazil, have made great strides in ensuring that more of their foreign trade should be carried by their own merchant fleets. Other examples of this trend are the agreements

^{4/} See ECLA, Economic Survey of Latin America, 1966 (United Nations publication, Sales N°: E.68.II.G.1), p. 296, and "Economic survey of Latin America, 1967" (E/CN.12/808 and Add.1), mimeographed, Part Two, p. 293.

which Brazil has concluded or is negotiating with the United States and certain European countries. Thus, the aim is to expand the national merchant fleets so that they can carry a larger share of extra-regional trade. Furthermore, the number of scheduled shipping lines with Latin American vessels serving the regional traffic has increased, and today most of the Latin American countries have lines connecting them with other countries of the region.

The total tonnage of the Latin American merchant fleet increased from 5,026,000 to 5,118,000 between 1 January 1967 and 1 January 1968, or by 1.8 per cent. As regards the quality of the fleets, the average age of the vessels dropped slightly, from 15.1 to 14.7 years, and the proportion of dry cargo carriers increased in relation to tankers. This situation may change radically in the future, in view of the number and tonnage of the vessels under construction and contracted for as at 1 January 1968: 931,000 gross registered tons. Countries in this position are Brazil, with 590,000 gross registered tons - or 54.3 per cent of its present fleet - in this category, followed by Mexico and Peru. Thanks to the execution of such large-scale programmes, these countries will be able, not only to carry out their naval policy, but also to operate the shipyards on a large enough scale not to run at a loss.

(ii) Highways and road transport. In 1968 particular attention was paid to road integration projects in the southern countries of Latin America. The Inter-American Development Bank granted Argentina a loan of 34 million dollars to improve the integration of highways with Bolivia, Brazil, Chile and Paraguay. This project involves the construction, reconstruction, extension and paving of 554 kilometres between Buenos Aires and Bolivia, and of 148 kilometres of the highway from Mendoza to the Chilean frontier, and improvements on the Argentine side of the international tunnel. Chile was granted a loan of 15 million dollars in 1966 to build the section from Valparaíso to the border tunnel. Another loan is to be used to build a bridge 1,670 metres long over the Paraná river, between the cities of Corrientes and Barranqueras; this will link up the road under construction from Corrientes to Puerto Iguazú with that between Resistencia (Argentine Chaco) and Salta and Bolivia, and with Buenos Aires-Asunción road.

/As regards

As regards national highways, Argentina finished repaving and widening 150 kilometres of highway between Campana and San Nicolás, and in 1969 expects to complete the 2,400-metre Paraná-Santa Fe under-river tunnel, which will be the first direct land connexion between Mesopotamia and the rest of the country. Further, bids were called for the works on the Zárate-Brazo Largo highway network which is to link the south of Entre Ríos with the north of Buenos Aires Province by means of the road-railway bridges over the Paraná de las Palmas and Paraná-Guazú rivers.

Brazil received 61 million dollars' worth of international financing 35 million from IDB and 26 million from IBRD. The first loan will help to complete the network of arterial highways in the Brazilian Nordeste - 780 kilometres in length - and the construction of a bridge over the San Francisco river. The IBRD loan will be used for the construction and improvement of six highways, totalling 429 kilometres, in the states of Rio Grande do Sul, Minas Gerais, Paraná and Santa Catalina. Moreover, an agreement was signed with Paraguay for the construction of a 60-metre international bridge over the Apa river; Paraguay, for its part, will build 74 kilometres of roads which will link this bridge with the Concepción-Puerto Caballero highway.

Colombia obtained a loan of 12.7 million dollars from IDB to build and improve 288 kilometres of the Caribbean transversal highway which stretches from La Fe to Paraquachón on the frontier with Venezuela. With IBRD aid, a start will also be made on the construction of certain stretches of trunk roads (totalling 510 kilometres in length) including a bridge over the river Cauca. Colombia also accepted the proposal made by the Permanent Executive Committee of the Pan American Highway Congresses that it should change the course of the Pan American highway over its territory; the new road, which would shorten the distance considerably, would start from Palo de las Letras on the border with Panama and would go as far as the neighbourhood of Guapol on the north-south route to the Ecuadorian frontier.

Chile was given an 11.6-million-dollar loan by IBRD to buy equipment for road maintenance, build workshops and engage consultants on the co-ordination of transport and planning of investment in social overheads. Progress has been made with the international road linking Osorno with the Argentine town of Bariloche.

/In 1968

In 1968, the Ministry of Public Works of Mexico invested nearly 3,000 million pesos in the construction of Federal highways and bridges and of local approach roads to the arterial network. Work on the national network and secondary roads consists of fifty-six projects covering 6,693 kilometres. Improvements are also being made to 800 local roads.

Peru made headway with the construction of 17 kilometres of the Carretera Marginal de la Selva between Satipo and Mazamari in eastern Peru.

In Uruguay's road plans, priority was given to the transversal roads linking up with international highways, and IDB gave a loan of 14.8 million dollars for work on the roads linking Tacuarembó in the centre to Melo and the Brazilian border, and to the southern transversal highway, which begins at Montevideo and follows the coast to Chuy on the frontier with Brazil.

El Salvador was given a 2.8-million-dollar loan from IBRD and another of 4.75 million dollars from the Central American Economic Integration Bank for the development of its road infrastructure.

The fifth meeting of the LAFTA Transport Advisory Committee was held between 12 and 16 August 1968 to study the bases for a multilateral international road transport agreement to remove the existing barriers to international road transport.

(iii) Railways. Incomplete data on five countries show that the main events in rail development have been as follows:

In Argentina, where rail traffic trends have been irregular and confused in the last few years, the net volume of freight carried in terms of ton/kilometres increased 8.2 per cent during the first half of 1968, while traffic in passenger/kilometres was 3.8 per cent more than in the first six months of 1967. These increases helped to offset the reductions that took place in the 1967 levels of freight and passenger traffic compared with those of 1966 (15.7 and 3.4 per cent respectively).

The number of ton/kilometres of freight carried by the Federal rail network in Brazil rose by 12.6 per cent during the first half of 1968, while income increased 25.6 per cent during the first five months over the same period in 1967.

/In Chile,

In Chile, rail freight traffic declined by 9.1 per cent in 1967 after a vigorous comeback between 1961 and 1966. However, incomplete data for the northern and southern networks (Pueblo Hundido to Puerto Montt) of the State Railways show an improvement of 6.2 per cent during the first eleven months of 1968 compared with the same period in the previous year.

After an increase of over 50 per cent in 1961-66, the volume of Colombian rail freight traffic dropped by 9.7 per cent in 1967. In 1968, however, net ton/kilometres carried, including the railways' own traffic, expanded by 10 per cent. Passenger traffic has been dropping steeply since 1961. It fell by nearly a third between 1961 and 1967, and underwent a further reduction of 10.7 per cent during the first nine months of 1968.

In Mexico, where rail freight traffic has risen in the last few years (by 45.6 per cent in terms of net ton/kilometres between 1961 and 1967), showed a slight decrease of 1.3 per cent in the first five months of 1968 compared with the same period in 1967.

The Latin American Railways Association (ALAF) has done much to improve collaboration between the regional railways. In March it concluded an agreement with the Pan American Committee on Technical Standards in order to prepare and publish recommendations for uniform technical standards to be applied to rolling-stock in the countries of the region, and to determine the specifications of the most suitable types of containers. In the same month, it also signed an agreement with the Spanish National Railway Network, under which the Spanish company is to give technical assistance to ALAF and the Latin American railways through a branch set up for that purpose. The first practical result of the agreement was the collaboration between ALAF and ECLA in the organization of the Seminar on Railway Cost Accounting, which was held at Santiago, Chile, in September 1968. The object of the meeting was to help the railway companies to improve, rationalize and modernize their systems of information; adopt a manual of basic statistics for use by all railways throughout the region; update working papers for publication in the form of a report on systems of railway information to serve the companies as a basic work of reference; and lay the bases for continuing co-operation

/between the

between the railway companies and bodies in the region with a view to improving their information systems. The conclusions and recommendations adopted by the Seminar included a recommendation to ALAF that it should set up a standing committee on railway statistics, costs and accounting, and invite its own member companies, and other railway companies and departments in the region to be represented on this committee. ECLA would also be requested to give assistance to the committee on a permanent basis.

In July, ALAF held an area meeting at Paso de los Libres and Uruguayana to discuss matters relating to rail exchange between Argentina, Brazil and Uruguay. On that occasion an international traffic agreement was concluded between the Brazilian Federal Railways and the Argentine Railway Company. Under this agreement, an initial quota of 20,000 tons of wheat has been dispatched from Argentina to Brazil since September, and as much as 100,000 tons are to be sent in 1969.

(iv) Air transport.^{5/} New international air routes were opened in 1968 between South America and points on the western side of the Pacific to which it had previously been linked by relatively few air services. Chile's national airline (LAN Chile) inaugurated flights between Santiago and Tahiti via Easter Island, thus providing direct connexions across the South Pacific to Australia and the Far East. Varig extended its Rio de Janeiro-Mexico City-Los Angeles service over the North Pacific to Honolulu and Tokyo. This year also saw closer co-operation among airlines of the Central American region, two of which, for instance, TAN of Honduras and LANICA of Nicaragua, combined routes that they had been serving separately into a single international service Managua-San Salvador-San Pedro Sula-Belize-Miami. In the field of airline fares, an important development was the agreement reached among IATA airlines early in 1968, following a conference held at Viña del Mar at the end of 1967, concerning fares on long-haul routes between North and South America; this agreement resulted in the establishment of an integrated fare pattern for international air routes in the whole Latin American region.

^{5/} The information on which this section is based was supplied by the International Civil Aviation Organization (ICAO).

The total demand for air transport in Latin America was of the order of 1,550 million ton/kilometres in 1968, which represented an increase of 8.4 per cent over 1967. This estimate includes all traffic (passenger, cargo and mail; international and domestic) carried on scheduled services of the airlines registered in the region. If it is compared to the world total of 37,450 million ton/kilometres for 1968 (excluding the USSR and the People's Republic of China), the traffic of Latin American airlines represents only about 4.1 per cent of that figure, which constitutes a further decline from the share it held in world air transport in previous years (5.6 per cent in 1964; 5.2 per cent in 1965; 4.6 per cent in 1966 and 4.3 per cent in 1967). This situation, which has been analysed in detail in a recent ICAO study on the development of international air passenger travel in Latin America, (Circular 90-AT/16, July 1968) results mainly from the relatively slow growth of domestic operations. These increased by 6.3 per cent in 1968, for instance, while the world increase for domestic services during the same year was 16.4 per cent. In contrast international traffic on Latin American airlines increased by 10.2 per cent, which is closer to the world figure of 12.5 per cent.

These comparisons apply to the region as a whole, and in percentage variations from 1967 to 1968 there are substantial differences between the airlines of one country and those of another. To mention only the largest variations for countries with significant air transport operations, international traffic expanded nearly 35 per cent in the case of Argentina, while it fell almost 20 per cent in that of Peru; domestic traffic increased approximately 12 per cent in Brazil and decreased about 4 per cent in Venezuela.

The over-all weight load factor for all traffic passenger, freight and mail; international and domestic - on the Latin American airlines remained higher than the world average in 1968: 55.7 per cent against 48.4 per cent. This disparity, which was not so marked in previous years, is due chiefly to the great increase in total world airline capacity

available in 1968, while the capacity offered by the airlines of Latin America continued to grow at about the same rate as before. Actually the total number of aircraft registered in the region was less than in 1967, owing to the elimination of many obsolete piston-engined aircraft, but the entry into service of some thirty-five new turbine-engined aircraft, with a much greater productive capacity has largely offset this reduction in the fleet and resulted in an expansion of the total number of seat-kilometres available on Latin American airlines.

(v) External loans to the transport sector. The loans granted to the transport sector in 1968 by international credit agencies amounted to a total of 262.3 million dollars. This sum represents a significant increase in relation to the preceding year, and doubles the figure for 1966. There were considerable differences between the purposes for which the loans were granted in 1968 and 1967, since the relative importance of credits for air transport declined, and those allocated to road and rail transport showed an exceptionally large increase. The explanation lies in the noteworthy expansion of the funds earmarked for highway projects by the International Bank for Reconstruction and Development, which rose from 11.4 million dollars in 1967 to 82.3 million in 1968, mainly owing to the substantial loans granted to Brazil and Mexico. On the other hand, Export and Import Bank loans for the purchase of commercial aircraft decreased sharply in 1968, reverting to their 1966 level after the vigorous upswing that had taken place in 1967, while special emphasis was placed by EXIMBANK on credits for the railways.

In institutional terms, a salient feature was the magnitude of IERD operations, attributable to the channelling of much larger funds into highway projects, and the reduction of the loans accorded to the transport sector by the United States Agency for International Development.

4. The external sector

(a) Recent over-all trends

Latin America's external sector developed much more rapidly in 1968 than the internal economy, but not fast enough to prevent the continued deterioration of the region's relative position in world trade as a whole.

Its dynamism was reflected both in exports and imports of goods and in movements of capital. As stated earlier, the value of exports of goods and services reached the unprecedented sum of 13,720 million dollars, while imports of goods and services totalled 13,380 million dollars. Both figures imply increases in relation to the 1967 levels, of 5.6 and 7.3 per cent respectively (see table II-4).

Most of the countries of the region shared in this expansion, in varying proportions. On the export side, the sole exception was Argentina, where a slight decrease in the current value of external sales determined the maintenance of imports at much the same levels as in 1967. Peru was the only country whose imports contracted substantially, but those of El Salvador, Haiti, Honduras, Nicaragua and Uruguay also declined to a lesser extent. In all these cases, however, the current value of exports increased.

Since the growth rate of imports exceeded that of exports, the balance-of-trade surplus was once again reduced, this time to only about 330 million dollars. What is more, if Venezuela is excluded, the other countries showed in the aggregate an excess of imports over exports which rose from some 250 million dollars in 1967 to nearly 400 million in 1968 (see table II-5). This negative trade balance is mainly imputable to the transactions effected by Brazil and Mexico, although smaller shares in the responsibility for the deficit must also be assigned to Bolivia, Chile, Colombia, the Dominican Republic, Ecuador, Haiti, Panama, Paraguay and the five Central American countries. Thus, apart from Venezuela, only Argentina, Peru and Uruguay exported more goods and services than they imported.

/Table II-4

Table II-4

LATIN AMERICA: RECENT EXPORT AND IMPORT TRENDS

(Millions of dollars at current prices)

Country	Exports of goods and services		Imports of goods and services	
	1967	1968	1967	1968
Argentina	1 693.0	1 600.0	1 390.0	1 383.0
Bolivia	169.0	172.8	193.0	199.6
Brazil	1 821.0	2 060.0	1 880.0	2 305.0
Chile	993.0	1 037.0	906.0	1 052.0
Colombia	704.1	767.5	688.2	795.2
Ecuador	218.2	231.1	234.9	273.2
Mexico	2 156.0	2 360.0	2 328.0	2 603.0
Paraguay	61.9	62.9	80.9	81.9
Peru	883.0	982.0	1 021.0	827.0
Uruguay	222.7	241.0	200.9	195.5
Venezuela	2 582.0	2 586.0	1 814.0	1 867.0
Haiti	41.1	44.6	56.0	54.1
Dominican Republic	181.6	196.5	229.3	247.5
Panama	273.8	284.3	288.1	296.0
Costa Rica	177.3	212.2	213.7	229.8
El Salvador	228.5	231.7	254.9	248.6
Guatemala	232.7	270.4	281.3	306.7
Honduras	170.7	186.2	182.4	189.7
Nicaragua	182.5	189.8	233.7	218.5
<u>Total</u>	<u>12 992.1</u>	<u>13 716.0</u>	<u>12 476.3</u>	<u>13 373.3</u>

Table II-5

LATIN AMERICA: BALANCE-OF-PAYMENTS TRANSACTIONS AND POSITIONS ON CURRENT ACCOUNT

(Millions of dollars)

Country	Balance-of-payments position on current account			Current transactions 1967				Current transactions 1968					
	Average 1958-62	Average 1963-65	1966	Exports of goods and services	Imports of goods and services	Net investment income	Net private transfer payments	Balance on current transfer payments account	Exports of goods and services	Imports of goods and services	Net investment income	Net private transfer payments	Balance on current transfer payments account
Argentina	-262.8	+161.6	+257.0	1 693.0	1 390.0	-119.0	0.0	+184.0	1 600.0	1 383.0	-150.0	0.0	+67.0
Bolivia	-35.3	-38.2	-31.7	169.0	193.0	-16.7	+1.0	-39.7	172.8	199.6	-16.5	+1.0	-42.3
Brazil	-383.6	+31.0	-67.0	1 821.0	1 880.0	-295.0	+50.0	-304.0	2 060.0	2 305.0	-325.0	+60.0	-510.0
Colombia	-54.9	-98.3	-290.4	704.1	688.2	-105.3	0.0	-89.4	767.5	795.2	-104.0	0.0	-131.7
Chile	-161.4	-126.7	-68.0	993.0	906.0	-214.0	+5.0	-122.0	1 037.0	1 052.0	-234.0	+3.0	-246.0
Ecuador	-13.7	-20.3	-20.6	218.2	234.9	-26.2	+5.1	-37.8	231.1	273.2	-28.2	+3.1	-67.2
Mexico	-240.5	-345.0	-367.0	2 156.0	2 328.0	-469.0	+1.0	-640.0	2 360.0	2 603.0	-535.0	+1.0	-777.0
Paraguay	-10.6	-9.1	-16.6	61.9	80.9	-5.5	+2.2	-22.3	62.9	81.9	-6.9	+2.5	-23.4
Peru	-34.3	-77.3	-165.0	883.0	1 021.0	-140.0	+8.0	-270.0	982.0	827.0	-137.0	+8.0	+26.0
Uruguay	-41.5	+19.4	+49.6	222.7	200.9	-21.7	+0.1	+0.2	241.0	195.5	-19.7	+0.1	+25.9
Venezuela	+194.7	+213.0	-45.0	2 582.0	1 814.0	-695.0	-105.0	-32.0	2 586.0	1 867.0	-709.0	-111.0	-101.0
Haiti	-10.3	-11.6	-10.3	41.1	56.0	-2.9	+13.2	-4.6	44.6	54.1	-3.7	+10.0	-3.2
Panamá	-35.5	-33.9	-45.5	273.8	288.1	-12.9	-7.8	-35.0	284.3	296.0	-18.2	-8.0	-37.9
Dominican Republic	+6.7	-43.0	-67.6	181.6	229.3	-22.2	+6.0	-63.9	196.5	247.5	-24.0	+6.0	-69.0
Costa Rica	-17.9	-42.2	-47.9	177.3	213.7	-18.3	+4.0	-50.7	212.2	229.8	-19.7	+4.0	-33.3
El Salvador	-5.8	-19.1	-44.2	228.5	254.9	-8.6	+7.6	-27.4	231.7	248.6	-9.8	+7.5	-19.2
Guatemala	-32.3	-32.7	-17.1	232.7	281.3	-20.8	+7.4	-62.0	270.4	306.7	-23.1	+8.0	-51.4
Honduras	-2.6	-14.1	-22.8	170.7	182.4	-21.2	+0.5	-32.4	186.2	199.7	-23.7	+0.5	-36.7
Nicaragua	-7.8	-15.5	-53.9	182.5	233.7	-18.7	+2.7	-67.2	189.8	218.5	-20.8	+2.5	-47.0
Latin America (excl. Cuba)	-1 149.4	-502.0	-1 074.0	12 992.1	12 476.3	-2 233.0	+1.0	-1 716.2	13 716.0	13 383.3	-2 408.3	-1.8	-2 077.4
Latin America (excluding Cuba and Venezuela)	-1 344.1	-715.0	-1 029.0	10 410.1	10 662.3	-1 538.0	+106.0	-1 684.2	11 130.0	11 516.3	-1 699.3	+109.2	-1 976.4

Sources: For 1958-67, IMF, Balance of Payments Yearbook, vols. 15, 18, 19 and 20. For 1968, ECLA estimates based on fragmentary country data.

/Net payments

Net payments under the head of income from foreign capital - interest and profits on direct investment - again increased in 1968, rising above 2,400 million dollars (almost 1,700 million with the exclusion of Venezuela). The biggest of these increases, in both absolute and relative terms, were shown by Argentina, Brazil and Mexico.

The cumulative impact of the balance-of-trade deficit and the rise in net external factor payments was reflected (after deduction of private transfer payments amounting to about 100 million dollars) in a balance-of-payments deficit on current account of nearly 2,080 million dollars. This development reaffirmed the reversal of the trend that had been so marked in the first half of the nineteen-sixties. The deficit had averaged over 1,100 million dollars per annum in 1958-62, and had dropped to an average of only 500 million dollars in 1963-65. But it subsequently climbed to 1,070 million dollars in 1966, a little over 1,700 million in 1967, and the above-mentioned peak of more than 2,000 million in 1968.

Only three countries - Argentina, Peru and Uruguay - made no contribution to this position, as their export surpluses more than sufficed to cover net payments of income from foreign capital. In contrast, the unfavourable balances were particularly large in Mexico (about 800 million dollars), Brazil (over 500 million), Chile (246 million) and Colombia (130 million), and in all these cases implied a considerable aggravation of the deficits recorded in 1967.

Viewed from another angle, the size of the balance-of-payments deficit on current account represents the net sum total of external financing. Moreover, as most countries had balance-of-payments surpluses prior to compensation, the net movement of non-compensatory capital must have considerably exceeded the figure mentioned. Provisional estimates place it above 2,500 million dollars.

This last is one of the most salient features of the evolution of the external sector, since it implies an increase of more than 700 million dollars over the 1967 figure, i.e., an increment of approximately 40 per cent at an all-time peak level (see table II-6).

Table II-6

OF BALANCE-OF-PAYMENTS DEFICIT ON CURRENT ACCOUNT

(Millions of dollars)

1966					1967					1968				
Net movement of non-compensatory capital (-Increase)	Net movement of compensatory capital (-Increase)	Total	Net movement of non-compensatory capital (-Increase)	Net movement of compensatory capital (-Increase)	Total	Net movement of non-compensatory capital (-Increase)	Net movement of compensatory capital (-Increase)	Total	Net movement of non-compensatory capital (-Increase)	Net movement of compensatory capital (-Increase)	Total	Net movement of non-compensatory capital (-Increase)	Net movement of compensatory capital (-Increase)	Total
-139.0	-38.0	-80.0	-257.0	-7.0	-439.0	+262.0	-184.0	83.0	-150.0	+67.0	-131.7	-246.0	-67.2	-777.0
+38.3	-4.8	-1.8	+31.7	+33.9	+8.0	-2.2	+39.7	37.7	4.6	-42.3	+276.5	-60.7	-23.4	-23.4
+206.0	-120.0	-19.0	+67.0	+165.0	+166.0	-27.0	+304.0	597.0	-87.0	+26.0	+276.5	-60.7	-23.4	-23.4
+276.5	+43.7	-29.8	+290.4	+176.1	+47.7	-39.0	+89.4	192.4	-60.7	+26.0	+276.5	-60.7	-23.4	-23.4
+127.0	-71.0	+12.0	+68.0	+124.0	+27.0	-29.0	+122.0	366.0	-120.0	-246.0	+127.0	-71.0	-67.2	-777.0
+37.3	-11.3	-5.4	+20.6	+47.4	-9.6	...	+37.8	64.8	2.4	-67.2	+37.3	-11.3	-67.2	-777.0
+531.0	+18.0	-182.0	+367.0	+620.0	-81.0	+101.0	+640.0	782.0	-5.0	-777.0	+531.0	+18.0	-67.2	-777.0
+23.6	-1.3	-5.7	+16.6	+27.8	+0.2	-5.7	+22.3	21.5	1.9	-23.4	+23.6	-1.3	-67.2	-777.0
+176.0	+22.0	-33.0	+165.0	+208.0	+47.0	+15.0	+270.0	-20.0	-6.0	+26.0	+176.0	+22.0	-67.2	-777.0
+7.8	-19.6	-37.8	+49.6	+5.4	-11.3	+5.7	-0.2	-0.4	-25.5	+25.9	+7.8	-19.6	-67.2	-777.0
+91.0	+22.0	-68.0	+45.0	+115.0	-114.0	+31.0	+32.0	144.0	-43.0	-101.0	+91.0	+22.0	-67.2	-777.0
+2.1	-0.4	+8.6	+10.3	+1.6	+1.9	+1.1	+4.6	5.8	-2.6	-3.2	+2.1	-0.4	-67.2	-777.0
+41.1	-	+4.4	+45.5	+39.1	-	-4.1	+35.0	37.9	-	-37.9	+41.1	-	-67.2	-777.0
+35.0	+30.7	+1.9	+67.6	+39.2	+5.2	+19.5	+63.9	80.0	-11.0	-69.0	+35.0	+30.7	-67.2	-777.0
+43.3	+5.2	-0.6	+47.9	+61.1	-14.6	+4.2	+50.7	41.5	8.2	-33.3	+43.3	+5.2	-67.2	-777.0
+30.5	+12.2	+1.5	+44.2	+30.1	+1.1	-3.8	+27.4	21.9	-2.7	-19.2	+30.5	+12.2	-67.2	-777.0
+11.4	+6.7	-1.3	+17.1	+48.9	+2.6	+10.5	+62.0	51.9	-0.5	-51.4	+11.4	+6.7	-67.2	-777.0
+20.3	-4.0	+6.5	+22.8	+27.6	-1.4	+6.2	+32.4	41.6	-4.9	-36.7	+20.3	-4.0	-67.2	-777.0
+51.2	-1.9	+4.6	+53.9	+44.0	+16.6	+6.6	+67.2	37.3	9.7	-47.0	+51.2	-1.9	-67.2	-777.0
+1 610.4	-112.8	+424.6	+1 074.0	+1 807.2	-443.0	+352.0	+1 716.2	2 585.9	-508.5	-2 077.4	+1 610.4	-112.8	-508.5	-2 077.4
+1 519.4	-133.8	+356.6	+1 029.0	+1 692.2	-329.0	+321.0	+1 684.2	2 441.9	-465.5	-1 976.4	+1 519.4	-133.8	-465.5	-1 976.4

3, ECLA estimates based on fragmentary country data.

The biggest increases occurred in Brazil (where the net contribution rose from 165 million dollars in 1967 to 597 million in 1968), Chile (from 124 to 366 million), and Mexico (from 620 to 782 million). In Argentina, the position improved from a slight deficit in 1967 to a surplus of a little over 80 million dollars in 1968, and there were also moderate increments in Colombia, the Dominican Republic and Venezuela, among other countries. In Peru, on the other hand, this situation was reversed; in 1967 a net contribution of about 210 million dollars was recorded, whereas in 1968 a negative balance amounting to 20 million dollars was shown.^{6/}

In various sections of the present Survey some of the effects of these recent external-sector trends are analysed, including their contribution to the expansion of aggregate supply and demand and the changes they caused in the composition of these variables. In addition, the background information contained in Part One of this Survey help to place these short-term trends in a broader perspective. In the following sections, therefore, more careful consideration will be given to only two aspects of the problem: first, the framework of the world economy in which these changes took place; the situation with respect to external demand for the region's staple exports, and the significance of the trends described for Latin America's position in world trade flows; and secondly, some of the most significant developments to which the exceptionally rapid growth of movements of foreign capital is linked.

^{6/} The figures given for 1967 and 1968 are not strictly comparable, since no independent estimate of the item "Errors and omissions" is available for the latter year.

(b) The world economy and the demand for exports in Latin America

The rapid growth of most of the Latin American external sector during 1968 reflects the much more positive performance of the world economy and world trade during the year.

According to data which are as yet incomplete, the growth rate of industry in the developed countries was close to 6 per cent, substantially higher than in 1967, while their exports rose by some 13 per cent. In both cases, the larger part of the increase came in the second half of the year and in most of the industrialized areas and countries.

The United States emerged from the relative stagnation of industrial growth and external trade which characterized 1967. This, together with an increase of 9 per cent in exports, and the placing of government controls on investment abroad, led to very substantial changes in its balance-of-payments position. Despite a huge growth in imports (approximately 24 per cent, on the basis of the figures for the first nine months), the United States is estimated to have closed the last quarter of 1968 with a surplus on its balance-of-payments, in contrast to the deficit of some 3,500 million dollars recorded in 1967.

The member countries of the European Economic Community increased their imports by slightly more than 10 per cent ^{7/} and their international reserves grew considerably. A significant proportion of increases was attributable to the Federal Republic of Germany, which expanded its imports by some 16 per cent while at the same time achieving a surplus on its trade balance, added to which speculators converted other currencies into German marks in anticipation of a possible revaluation.^{8/}

This speculation particularly affected France, whose economy was so weakened as a result of the social disturbances of May and June, industrial production plummeted below its 1963 levels. Despite a loss of

^{7/} Mostly provisional estimates based on the figures for the first nine months of 1968.

^{8/} In actual fact, the mark was not revalued; instead, taxes on exports were raised by 4 per cent, while taxes on imports were reduced by the same percentage at the same time, controls were imposed on transfers of foreign exchange, and foreign currency on deposit in German banks was frozen to prevent further speculative buying of German marks.

international monetary reserves estimated at some 3,000 million dollars, it was decided not to devalue the franc and an austerity programme was instituted, comprising a reduction in public spending, an increase in taxation, exchange and monetary controls, and wage and price controls. Even so, there was a moderate increase in France's imports.

Industry in the United Kingdom, on the other hand, recovered from its stagnation of the previous year, although policies to establish equilibrium in external commercial and financial transactions encountered serious difficulties. Over the first nine months of 1968 imports rose by 7 per cent compared with the same period in 1967, while exports remained stationary. As a result, it was expected that the trade balance for the year would show a deficit of some 700 million pounds sterling (1,700 million dollars), the highest figure since 1961, with a significant decline in the country's international monetary reserves. Accordingly, in November 1968 further restrictions were imposed on imports, and taxes on certain consumer goods were increased.

Japan's economy continued its rapid expansion, imports over the first nine months of the year being more than 12 per cent higher than in the corresponding period in 1967. Canada's imports increased too by some 10 per cent.

As a result of the above trends, there was a marked increase over the year in the volume of world exports, which grew by some 10 per cent, virtually twice the rate achieved in 1967 (see table II-7). The largest proportion of the increase was attributable to the developed countries, whose exports grew on the average by 13 per cent, with rates of 9 per cent for the United States and 11.6 per cent for western Europe. In Europe the growth of exports was particularly marked in all the EEC countries, reflecting the recovery of exports by France (a growth rate of 11.2 per cent) and Belgium (15.8 per cent), and the continuation of the high rates of growth of Italy (17.7 per cent), the Netherlands (15.2 per cent) and the Federal Republic of Germany (13.7 per cent). Exports from the member countries of the European Free Trade Association (EFTA) grew by 8.3 per cent, as compared with 2.4 per cent in 1967.

Table II-7

VARIATIONS IN CURRENT VALUE OF WORLD EXPORTS, 1962-68

(Cumulative annual rates)

	1962	1963	1964	1965	1966	1967	First half 1967	First half 1968	First half 1967	1968 a/
World	5.6	8.6	12.6	8.3	9.2	5.2	7.1	7.0	7.0	10.0
Developed countries	5.1	9.1	13.7	9.3	10.4	5.6	8.5	7.4	7.4	13.0
Developing countries	4.7	7.8	11.1	5.3	6.8	2.4	2.3	6.8	6.8	...
Countries with centrally planned economies b/	10.4	7.4	8.6	7.2	6.4	7.3	...	...	...	...
United States	3.0	7.5	14.4	3.5	10.3	4.2	6.9	6.0	6.0	9.0
Latin America	5.7	4.8	10.4	4.3	5.2	0.6	0.8	1.8	1.8	5.0
Western Europe	5.6	9.2	12.5	11.0	9.2	5.3	8.1	7.5	7.5	11.6
European Economic Community c/	5.8	9.8	13.3	12.6	9.8	6.7	8.1	8.7	8.7	14.3
European Free Trade Area d/	4.9	8.6	10.6	8.6	7.2	2.4	7.7	1.5	1.5	8.3
Other countries of Western Europe	7.5	6.5	15.4	9.4	13.4	6.3	9.6	2.1	2.1	2.9
Japan	16.0	10.8	22.4	26.7	15.7	6.7	8.8	19.9	19.9	24.3
Eastern Europe	11.7	7.4	8.6	7.1	6.1	9.1	...	...	...	...

Source: United Nations, Monthly Bulletin of Statistics (June 1964, 1966 and 1968 and December 1967 and 1968).a/ Taken from International Monetary Fund, International Financial Statistics (February 1969).

b/ The Soviet Union and other Eastern European countries, mainland China, Mongolia, North Korea and North Vietnam.

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

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

/The growth

The growth of the developed countries exports was not matched by corresponding growth in the exports of the developing countries. Although the former significantly increased imports, this increase was largely accounted for by trade between the developed countries themselves, and hence the exports of the developing countries especially those of Latin America, did not grow so fast.

As a result, there were further changes in the share of the various regions in world exports, with the developed countries once again strengthening their position in both absolute and relative terms.

Figures for the first half of the year indicate that Latin America's share of world trade fell to 5.8 per cent, compared with 6.1 per cent for the same period in 1967 (see table II-8).

One of the most marked declines was again the contraction of its share in the United States market, which fell to only 13.2 per cent, intensifying a gradual downward trend that has been apparent since 1962, when its share was 21.2 per cent. Latin America's share of EEC and EFTA trade also declined, while its share of Canadian and Japanese trade increased slightly.

This further decline is even more significant in view of the fact that during 1968 prices for the staple Latin American exports improved slightly. The price index showing the mean variation of prices for thirteen products - excluding petroleum and derivatives but including the four major ores and several temperate-zone and tropical-zone agricultural products - stood at 103.8 for 1968, taking 1963 as the base year, compared with 101.9 in 1967. The prices of cocoa, cotton, copper and lead rose sufficiently to offset the discriminatory treatment of sugar (on the free market), Santos type coffee, wheat, wool, tin and zinc (see table II-9).

Table II-8

LATIN AMERICA: SHARE IN WORLD TRADE FLOWS, 1962 AND 1965-68

(Percentages)

Country	1962	1965	1966	1967	January-June	
					1967	1968
<u>Share of world total</u>	<u>6.5</u>	<u>6.0</u>	<u>5.7</u>	<u>5.5</u>	<u>6.1</u>	<u>5.8</u>
<u>Share in trade of:</u>						
United States	21.2	16.7	15.8	14.7	15.2	13.2
Canada	3.2	4.1	3.2	3.0	2.8	3.4
Japan	7.5	7.4	6.6	6.1	6.3	6.4
Western Europe	5.0	4.3	4.2	4.2	4.5	4.0
European Economic Community ^{a/}	5.5	4.7	4.5	4.6	5.0	4.4
European Free Trade Area ^{b/}	4.5	3.8	3.6	3.5	3.6	3.3
Other countries of Western Europe	3.9	4.2	4.3	4.3	4.9	4.6
Latin America	7.7	12.3	11.1	11.0	11.1	10.6
Rest of world	3.6	3.6	3.2	2.9	4.0	4.2

Source: United Nations, Monthly Bulletin of Statistics (June 1963, 1966 and 1968, and December 1968).

^{a/} Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

^{b/} Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Table II-9

LATIN AMERICA: PRICES OF STAPLE EXPORT PRODUCTS, 1964-68

(Index: 1963 = 100)

Product	1964	1965	1966	1967	Average for nine months 1968
<u>Food, beverages and tobacco</u>	<u>107.4</u>	<u>99.3</u>	<u>96.2</u>	<u>91.7</u>	<u>92.1</u>
<u>Tropical-zone products</u>	<u>107.0</u>	<u>96.6</u>	<u>93.3</u>	<u>88.5</u>	<u>89.4</u>
Sugar (free market)	69.3	24.9	21.9	24.4	23.0
(United States market)	84.4	82.5	85.4	89.1	91.8
Bananas	90.2	96.4	92.0	93.2	96.3 a/
Cocoa (Bahia)	87.2	69.8	86.8	99.2	110.9
Coffee (Santos 4)	137.0	131.1	119.6	110.9	109.7
(Manizales)	123.2	122.5	119.7	106.1	107.5
<u>Temperate-zone products</u>	<u>109.6</u>	<u>114.9</u>	<u>112.3</u>	<u>109.2</u>	<u>107.0</u>
Beef	118.8	130.4	122.1	118.1	119.1
Wheat (Argentina)	103.1 b/	96.5	100.0 b/	103.4 b/	99.0 c/
<u>Agricultural raw materials</u>	<u>105.5</u>	<u>100.7</u>	<u>102.2</u>	<u>95.3</u>	<u>95.7</u>
Cotton (Matamoros SMI)	100.7	98.3	96.2 b/	104.8	103.3
Wool (Montevideo Super O'S)	111.8	83.6	94.5	83.6	71.8
(Buenos Aires 40/36)	109.9	90.1	84.0	55.6	53.1
<u>Metals</u>	<u>116.7</u>	<u>128.6</u>	<u>151.7</u>	<u>141.5</u>	<u>149.6</u>
Copper (Chilean) d/	117.8	136.0	185.6	169.9	186.3
Tin	135.9	155.2	142.7	134.4	123.3 e/
Lead	159.3	181.5	150.2	132.2	136.1 e/
Zinc	153.5	147.1	132.8	131.0	123.7 e/
<u>Petroleum and petroleum products</u>	<u>94.2</u>	<u>91.6</u>	<u>90.9</u>	<u>90.4 d/</u>	
<u>Sub-total, excluding petroleum and petroleum products</u>	<u>108.8</u>	<u>105.1</u>	<u>108.0</u>	<u>101.9</u>	<u>103.8</u>
<u>Total</u>	<u>103.9</u>	<u>100.8</u>	<u>101.3</u>	<u>97.1</u>	...

Source: ECLA, Statistical Bulletin for Latin America, various issues.

a/ Estimate.

b/ Average for less than twelve months.

c/ Prices have been adjusted to take account of the devaluation of sterling.

d/ After May 1968, the figures correspond to the spot price on the London Metal Exchange.

/The prospects

The prospects for prices in 1969 are somewhat uncertain, although some provisional estimates are available on world production trends for certain products from which prices may be deduced. For example, it is anticipated that world sugar production will rise to nearly 68 million tons, i.e., two million tons more than in 1968, which is less than the expected increase in consumption. This would create a deficit of some 3 million tons which might help to alleviate the serious problem of accumulated stocks and bolster the new minimum price for sugar fixed in the International Sugar Agreement. The coffee market also is likely to remain stable in 1969, since a contraction in supply is expected (some Brazilian exports estimated at some 6 million bags), despite the fact that stocks are sufficient for to cover world consumption for one year. International prices for cocoa may rise even higher than in 1968, owing to the decline in the volume of the Ghana harvest, which is expected to amount to 300,000 tons, 100,000 tons less than in 1967. Wheat prices are expected to follow their 1967 trend since the major exporting countries have considerably increased their stocks. The wool market seems to have recovered during the last quarter of 1968 and, since the pace of demand is expected to outstrip that of production, world wool prices may be expected to show an upward trend during 1969.

The following sections give a more detailed account of the main events in world trade in relation to each of the major Latin American exports.

(i) Sugar. During the first three quarters of 1968, free market prices for sugar dropped again owing to over-production in the world as a whole. On the United States market, however, prices continued to move upward (see table II-10).

Table II-10

SUGAR: WORLD PRICE TRENDS, 1963-68

(Dollar cents per pound and index: 1963 = 100)

	1963	1964	1965	1966	1967	1968			
						I	II	III	Average I to III
<u>Free market</u>									
Price	8.50	5.89	2.12	1.86	2.08	2.20	1.96	1.71	1.96
Index	100.00	69.30	24.90	21.90	24.40	25.90	23.10	20.10	23.00
<u>United States</u>									
Price	8.18	6.90	6.75	6.99	7.29	7.40	7.51	7.62	7.51
Index	100.00	84.40	82.50	85.40	89.10	90.40	91.80	93.20	91.80

Source: United Nations, Monthly Bulletin of Statistics, various issues.

The UNCTAD Sugar Conference aimed at steadying prices on the free market, on which just under half total sugar exports are sold and prices have fluctuated wildly since the stabilizing mechanism established by the international agreement of 1961 was abandoned. From then on quotations have fluctuated round 4.2 dollar cents per pound, but have also risen as high as 12.3 and fallen as low as 1.13 dollar cents. Moreover, for the last three years prices have been lower than the production costs of the most efficient sugar producers. The new agreement, signed in October 1968, comes into force at the beginning of 1969. Under the regulatory machinery it contains, the export quotas of the signatory States would be reduced by 10 per cent when prices fall below 3.5 dollar cents per pound, and by 5 per cent, subject to the Sugar Council's approval, if they drop as low as 3.25 cents. The ceiling price has been fixed at 5.25 dollar cents. For their part, the importing countries have undertaken not to buy sugar from non-signatory countries at less than the floor price. It should be noted that neither the United States nor the European Economic Community countries have signed the agreement. This is not particularly significant in the case of the United States, which does not buy sugar on the free market, but it may have important repercussions in the case of EEC, which will be exporting more than a million tons in the near future.

As regards immediate prospects, it is hoped that the new agreement will stabilize prices at a higher level than in the last few years. They have already risen since it was signed.

(ii) Coffee. Coffee prices remained fairly steady during the first nine months of 1968, after dropping consistently since 1964 (see table II-11). They were probably influenced by the rise in demand in importing countries as a result of the expectations aroused by the renewal of the International Coffee Agreement.

In 1967/68, world production of coffee for export amounted to 51.3 million bags, or 6.8 million more than in the previous crop year, thus equalling the annual average for the first five years of the present decade. It is estimated that export production in 1968/69 will be 45.6 million bags, that is, 5.7 million less.

Table II-11

COFFEE: WORLD PRICE TRENDS, 1963-68

(Dollar cents per pound and index: 1963 = 100)

	1963	1964	1965	1966	1967	1968			Average I to III
						I	II	III	
				<u>Price</u>					
Santos 4	34.1	46.7	44.7	40.8	37.8	37.3	37.5	37.4 a/	37.4
Manizales	39.6	48.8	48.5	47.4	42.0	52.1	42.6	43.0 e/	42.6
				<u>Index</u>					
Santos 4	100.0	137.0	131.1	119.6	110.9	109.4	110.0	109.7 a/	109.7
Manizales	100.0	123.2	122.5	119.7	106.1	106.3	107.5	108.6 a/	107.5

Source: ECLA, on the basis of the United Nations, Monthly Bulletin of Statistics, various issues.

a/ Average in two months.

/During the

During the first nine months of 1968, world exports of green coffee were 41.7 million bags. This is 9 per cent higher than during the same period in 1967. In Brazil in particular, although the volume of production decreased, exports actually rose by 13 per cent thanks to drawings on stocks. At the same time, Brazil attempted to solve the problem of its non-exportable surpluses by processing coffee. In 1968, nearly 800,000 bags of green coffee were used to produce soluble coffee, and it is hoped to raise this figure to 2.2 million in 1969.

The European countries are taking an increasing share of world imports of green coffee. In 1967 they bought 23.3 million bags, thus exceeding the United States total for the first time since 1914.^{2/}

The principal subjects dealt with by the International Coffee Council were the difference in the prices of Brazilian and African coffee and the extension of the International Coffee Agreement. At its meeting in August 1968, the difference in price between unwashed Brazilian arabica and African robusta was reduced to 0.75 dollar cents per pound (the floor price for the former being compared with the ceiling price for the latter) from 3 dollar cents in 1966/67 and 1 dollar cent in 1967/68. It seems unlikely, however, that this reduction in the price margin will produce a significant expansion in sales of unwashed arabica varieties, since growers of robusta benefited from four automatic increases in their export quota in 1968.

After a year of negotiation, the sixty-six signatories of the International Coffee Agreement agreed to extend it for a further five years from 1 October 1968 to 1 October 1973, thanks to the settlement of the conflict over soluble coffee. The United States had pressed Brazil to tax its exports of soluble coffee in the same way as green coffee, so that they would not undercut its own soluble coffee on the United States market. Brazil, for its part, claimed that it had to develop an industry that was vital for its economy and insisted on placing the conflict before the International Coffee Council, thus preventing unilateral action by the buyer country. Both Governments

^{2/} G.G. Paton and Co., Complete Coffee Coverage (3 and 29 May 1968).

negotiated directly with each another, with the co-operation of a Council mission, and the agreement they came to was included in the new Coffee Agreement. It prohibited discriminatory treatment by the exporter countries in favour of processed coffee and against green coffee, thus compelling Brazil to levy the same charges on both. The new Agreement also provides for arbitration by the Council itself to settle any disputes that may arise, and unilateral action is permitted only if arbitration has failed and then only to neutralize the effects of the discriminatory treatment. In the meantime, the United States coffee industry met the challenge of Brazilian coffee by making a technical improvement which consisted in freezing the crystallized and evaporated coffee before processing. This preserves the flavour of the soluble coffee better than when it is dried at a high temperature.

The new Agreement aims at organizing the coffee market by stabilizing prices and distributing export quotas on a semi-automatic basis. An improvement is looked for in the system of control, since export quotas in 1967/68 were overstepped by more than a million bags. It is also hoped to bring coffee production into line with world demand by establishing the concept of approved production targets as a complement to export quotas. In order to assist the producer countries to reach their targets, a Diversification Fund was set up to be financed by a contribution of 60 dollar cents from the producer countries for each bag of coffee exported to the specified markets that exceeds the cut-off line of 100,000 bags a year. The consumer countries can make voluntary contributions (the United States, for instance, has already provided 15 million dollars). If the subscriptions, which will range from 30 to 35 million dollars a year, begin in 1969, the capital that can be built up during the life-span of the Agreement will amount to between 150 and 175 million dollars.

(iii) Cocoa. In 1968 the price of cocoa rose considerably. During the first three quarters of the year it averaged 11 per cent more than in 1963, and by the end of September had struck a record for the last ten years

(see table II-12). Its upturn was largely due to the fact that demand outstripped production in the last three crop years, and stocks began to dwindle. If the 1968/69 crop is smaller than in the previous year, as the provisional estimates indicate, market prices may shoot up uncontrollably.

In 1967/68 Latin American production was 278,000 long tons, or 30,000 tons less than in the previous year. Output in Colombia, Mexico and Venezuela was essentially the same as in 1966/67, and rose by some 7,000 tons in Ecuador. The decline was therefore due to the drop in Brazilian output.

After five years of study and negotiation, it has not yet proved possible to conclude an international cocoa agreement, although the problems that loomed largest in October 1967 have now been solved.^{10/} The idea of creating a buffer stock, which would buy or sell cocoa in accordance with price levels has been accepted. In addition, if surpluses exceed 250,000 tons, export quotas are to be introduced, which will drop gradually as prices fall to a minimum of 187 pounds sterling per ton. The conference between producer and consumer countries held at Geneva in September 1968 tried to settle the differences of opinion by a five-point negotiation package. The attempt broke down, however, mainly because France and the Ivory Coast refused to accept the automatic suspension of the export quotas if the price remains above the minimum for two weeks in succession. Both countries believe that as the price in question is an average, it should be possible to suspend the quotas even if the price drops below the minimum at the end of the fortnight. Moreover, the disputes continue between Brazil and the African countries regarding the abolition of the preferences that have been granted by the European Economic Community to imports from the African Associated territories.

^{10/} "Economic Survey of Latin America, 1967", *op. cit.*, p. I-153.

Table II-12
COCOA BEANS; NEW YORK PRICES FOR BAHIA, 1963-68

Year	Dollar cents per pound	Index: 1963 = 100
1963	26.5	100.0
1964	23.1	87.2
1965	16.9	63.8
1966	23.0	86.8
1967	26.4	99.2
1968 (I - III)	29.4	110.9
Quarter		
1967 I	26.1	98.4
II	25.5	96.2
III	26.0	98.1
IV	27.8	104.9
1968 I	28.5	107.5
II	28.1	106.0
III	31.6	119.2

Source: United Nations, Monthly Bulletin of Statistics, various issues.

/(iv) Wheat

(iv) Wheat. World output of wheat in 1967/68 was about 272 million tons, or 10 million less than the year before. Crops increased in the main importing areas - the Soviet Union and the European countries - which particularly affected Canadian exports, but not the other major exporters - the United States, Australia, Argentina and France - to the same degree. The 1967/68 harvest raised unsold stocks and surpluses of the five principal exporting countries by about 300 million bushels, and they thus reached 1,500 million bushels by 1 July 1968, the unit prices being 15 to 20 dollar cents below the minimum price stipulated in the new International Wheat Agreement.^{11/}

This agreement was ratified by the United States in June 1968, and later by the United Kingdom, the EEC countries and the Soviet Union. Thus it came into force on 1 July 1968, but the drop in prices owing to the increase in unsold stocks may well create serious difficulties in its implementation.

The 1967/68 harvest in Argentina is estimated to have been 7.3 million tons, or nearly 1 million tons more than the year before. Quotations on the London market in 1968 fell below the levels reached in the two previous years, mainly because of the accumulation of stocks in the major producer countries, particularly Canada.

(v) Meat. World beef prices improved slightly in the first three quarters of 1968, following the decline in the two preceding years.

One of the most significant developments in 1968 was the entry into operation on 1 July of the common market for beef in the European Economic Community. The new system consists in: (a) the elimination of trade barriers between member countries, except on health grounds; (b) the establishment of common EEC market prices, guide prices and import prices, and of a common variable levy on imports from third countries; (c) special measures covering imports of livestock for fattening; (d) new rules covering imports of frozen meat for processing and export; (e) the

^{11/} See "Economic Survey of Latin America, 1967", op. cit., Part One, p. 161.

introduction of export subsidies to make good the difference between EEC and world market prices. From the point of view of the Latin American countries, the common market for beef imposes heavy taxes on its meat exports, which could otherwise enter the market at much lower prices than those of the EEC local production. However, there is still a shortfall of some 150,000 tons annually in the Community, 90 per cent of which consists of various types of frozen meat for processing, the importation of which is governed by special regulations; according to these rules, certain quantities of frozen meat are periodically imported for processing free of all charges except the normal customs duty of 20 per cent ad valorem.

As regards other markets, the United States imposed restrictions on imports of meat affected by the use of chemical fertilizers on pastures; neither Canada nor Japan holds out any prospects of a rapid increase in demand.

The United Kingdom suspended imports of Argentine beef from October 1967 to April 1968 because of the outbreak of foot-and-mouth disease in the United Kingdom. During that period, only frozen and canned meat was sold to some supermarkets. Subsequently, Argentina insisted on fixed prices on the basis of contracts with supermarkets and chains of restaurants, in place of the old system based on constantly fluctuating market prices. It is also endeavouring to sell more cuts and prime meat at higher prices instead of whole animals. Moreover, Argentina has continued its campaign against foot-and-mouth disease by applying strict controls and penalties in order to enforce compulsory inoculation.

(vi) Cotton. In the first three quarters of 1968, world cotton prices (Matamoros SMI) reached their highest level since 1963, exceeding the average for the previous year by 1.7 cents per pound owing mainly to the contraction of the world harvest (see table II-13). Stocks also declined at the end of the 1967/68 harvest, largely because of the diversification policy followed by the United States.

Table II-13

COTTON (MATAMOROS SMI): RECENT PRICE TRENDS, 1963-68

(Dollar cents per pound and index: 1963 = 100)

Year	Price	Index
1963	29.3	100.0
1964	29.5	100.7
1965	28.8	98.3
1966	28.2	96.2
1967	30.7	104.8
1968 I	32.3	110.2
II	32.1	109.6
III	30.7	105.1
Average I - III	31.7	108.3

Source: United Nations, Monthly Bulletin of Statistics, various issues.

/The increase

The increase in cotton consumption in 1967/68 (about 600,000 bales) was observable in the developing and socialist countries, since competition from man-made fibres continued in the United States and Western Europe. This problem was considered at the plenary meeting of the International Cotton Advisory Committee, which was held at Athens early in June 1968, when measures were studied for promoting the consumption of cotton.

An increase is expected in the 1968/69 crop, with the stimulus of better prices and an expansion of the area under cultivation in the United States. In Latin America, the 1967/68 cotton crop was somewhat larger than the year before, but was still one million bales below the 1965/66 harvest. The largest increase was in Brazil, where output came close to the record figures for 1965/66, while in Mexico it dropped to the lowest level in the past six years. Furthermore, the relatively high level of exports caused stocks to decline.

(vii) Wool. World prices of wool underwent a further decline in the first three quarters of 1968, owing mainly to the continued contraction of world demand (see table II-14). The seven principal consumers recorded a total consumption of 687,700 tons in 1967, a reduction of 12 per cent with respect to the previous year. In contrast, world output from the 1967/68 wool clip was exceptionally high and stocks rose sharply.

The persistent decline in consumption was mainly due to competition from man-made fibres, as is clearly observable in the United States market; the share of man-made fibres in the United States' total consumption of textile fibres climbed from 29 to 47 per cent, whereas that of cotton shrank from 65 to 49 per cent, and that of wool from 6.4 to 3.5 per cent. This situation affected Latin America's exports to its most important market, particularly for fine wool. Thus, sales of wool for clothing to the United States dropped by one-third in 1967, the countries mainly affected being Argentina and Uruguay; in addition exports of Argentine wool for carpet manufacture declined by 23 per cent.

Table II-14

WOOL: BOSTON MARKET PRICES, 1963-68

(Dollar cents per pound of wool, clean basis; index: 1963 = 100)

	1963	1964	1965	1966	1967	1968			
						I	II	III	Average I-III
<u>Montevideo Super O's</u>									
Price	110.0	123.0	92.0	104.0	92.0	79.0	79.0	79.0	79.0
Index	100.0	111.8	83.6	94.5	83.6	71.8	71.8	71.8	71.8
<u>Buenos Aires 40/36's</u>									
Price	81.0	89.0	73.0	68.0	45.0	42.0	42.0	45.0	43.0
Index	100.0	109.9	90.1	84.0	55.6	51.9	51.9	55.6	53.1

Source: United Nations, Monthly Bulletin of Statistics, various issues.

/Preliminary estimates

Preliminary estimates indicate that world output in 1968/69 will be 5,950 million pounds of virgin wool, i.e., 1 per cent more than the preceding year. Among the major producers, production increases are expected in Australia, New Zealand and the Soviet Union, which will more than offset possible decreases in Argentina and Uruguay.^{12/} World market prospects for 1968/69 seem to be improving, although the possible recovery of consumption may be counterbalanced by the high level of stocks in producer countries.

(viii) Copper. (Quotations for Chilean copper rose nearly 14 per cent, if the average for the first three quarters of 1968 is compared with that for the same period in 1967; virtually the whole increase was recorded in the first quarter of 1968, as a declining trend set in later. These price trends were closely linked to the world market position, which in turn depended heavily on the United States market. In this respect, the outstanding development was the copper strike in the United States, which lasted eight months - up to April 1968 - and caused production losses of about 1.35 million tons; the result was a substantial increase in imports (which have doubled in volume since 1967, and trebled since 1966).

When the United States strike ended, the declining trend in prices was partly offset by the need to build up stocks in both Europe and the United States. The future stability and firmness of the market, however, continued to depend mainly on demand, so that both the import restriction policy of the major consumer countries and the end of hostilities in south-east Asia could have important repercussions. (The proportion of copper used in the United States for military purposes is estimated at 22 per cent of the average consumption of refined copper.)

Copper production in Chile was affected by the water shortage, which reduced activities at the El Teniente mine. Moreover, the return to normal operations on the London copper market and the more normal relation between spot prices and prices for futures enabled Chile to use

^{12/} See Wool Intelligence and Fiber Supplement, September 1968.

the spot quotation as a reference price in its sales of copper as from 31 May 1968. This system was adopted by the major copper producers and made it possible in some degree to eliminate prior speculation, which consisted in buying copper futures and later reselling at very much higher spot prices.

(ix) Other metals. World tin and zinc prices dropped sharply in the first three quarters of 1968, thereby pursuing the declining trend recorded in the two previous years. In contrast, world lead prices rose slightly compared with the year before (see table II-15).

After the gold market was regulated by the Central Banks of the major industrial countries, there was less speculation in basic metals, and tin prices declined. Although total consumption of tin seems to equal or slightly exceed the free market supply, the International Tin Council repeatedly had to adopt measures to maintain prices; thus, purchases for the buffer stock, mainly on the London Metal Exchange, raised the Council's stocks to nearly 10,000 tons. Further, in September 1968, the Council reduced the export quotas allocated to the major world producers - Malasia, Thailand and Bolivia - in order to stabilize prices. The reason for the latent market instability is the possible sale of part of the United States strategic stockpile, which amounts to 60,000 tons.

Lead prices soared in the third quarter of 1968, owing to the ten-week strike affecting the Broken Hill mines in Australia.

Table II-15.

TIN, LEAD AND ZINC: RECENT PRICE TRENDS, 1964-68

(At 1968 prices; index: 1963 = 100)

Year		Tin	Lead	Zinc
1964		135.9	159.3	153.5
1965		155.2	181.5	147.1
1966		142.7	150.2	132.8
1967		134.4	132.2	131.0
<u>Quarters</u>				
1967	I	131.9	127.9	132.4
	II	132.0	130.3	129.4
	III	131.9	131.9	126.0
	IV	139.7	138.8	135.7
1968	I	124.2	130.0	123.0
	II	123.3	135.6	122.8
	III	122.4	142.7	125.4
Average I - III		123.3	136.1	123.7

Source: United Nations, Monthly Bulletin of Statistics, various issues.

(c) The increased inflow of capital in 1968

It has been repeatedly stated that one of the characteristics of the Latin American economy in 1968 was a considerable increase in net external financing. The net inflow of foreign non-compensatory capital was some 2,550 million dollars, the highest figure in the current decade, which helped to cover a considerable deficit in the balance of payments on current account and to improve the international reserves position of the monetary authorities.

Unfortunately, sufficiently detailed and comprehensive information is not yet available on the basis of which a proper idea of the nature and significance of this further expansion of external financing could be evaluated. It may be useful, however, to look at some provisional data on certain aspects of the question.

(i) Main components. As was pointed out in the first section of this chapter, in 1968 virtually all the main components of the net inflow of non-compensatory capital attained levels which were appreciably higher than in 1967. The only exception was "official transfer payments", which probably fell from 121 million dollars in 1967 to some 100 million in 1968.

In the provisional estimates, net long-term loans show the highest increase, in both absolute and relative terms, rising from 1,085 million in 1967 to 1,460 million dollars in 1968. Short-term liabilities rose from 324 million dollars to 410 million over the same period.

The component which is generally most difficult to estimate independently is direct investment. Initial figures show an increase in net direct investment, from 474 million dollars in 1967 to 580 million in 1968. Some fragmentary data suggest, however, that the latter figure probably considerably under-estimates the actual flow of investment, and when all the figures are in it may well be that this component will show the largest relative increase.^{13/}

^{13/} One of the factors which make it especially difficult to work out more precise provisional estimates is the relatively high figure shown in the regional balance of payments under "Errors and omissions" (more than 350 million dollars in 1967).

(ii) Origin of capital. One of the most striking facts is that the increase in the net inflow of foreign capital comes at a time when capital outflows from the United States have been somewhat restricted. The capital markets based in Washington to which Latin America has traditionally addressed itself for resources to finance development projects have restricted their supply of capital appreciably over the past two years, while at the same time raising interest and amortization rates.^{14/}

The net disbursements of the international agencies based in the United States fell sharply during 1967, and their 1968 recovery brought them to a figure only 10 million dollars higher than the figure recorded in 1966 (see table II-16). A determining factor here was first the decline and then the stagnation of net disbursements by the International Bank, since the Inter-American Development Bank has steadily increased the volume of its transactions.

The information available shows a further decline in, credit disbursements by United States Government agencies which fell by 44 million dollars, reducing the total in 1968 to only 348 million dollars. Moreover, the downward trend in United States official transfer payments to Latin America continued, probably amounting to less than 90 million dollars in 1968.

The very incomplete information available on long-term Latin American liabilities to private banks and the capital market in the United States indicates a continuing decline, which seems to be in line with the general difficulty of obtaining capital on the United States market and the apparent crisis of liquidity which the United States banking system experienced beginning in February 1968.^{15/} This crisis probably also helped to make it more difficult for Latin America to obtain short-term credit from United States banks.

^{14/} In this respect, see Economic Survey of Latin America, 1967, op. cit.

^{15/} See The Chase Manhattan Bank, N.A. Business in Brief (New York, December 1968).

Table II-16

MAIN SOURCES OF NET INFLOW OF LONG-TERM LOANS TO LATIN AMERICA
(PROVISIONAL ESTIMATES) 1966-68

(Millions of dollars)

	1966	1967	1968
International institutions comprising	381.6	352.5	388.7
IBRD group	206.2	159.8	159.8
IDB	175.4	192.7	229.7
United States Government	427.9	392.5	348.0
<u>Total from official sources</u>	<u>809.5</u>	<u>745.0</u>	<u>736.7</u>
(Private United States banks)	(150.0)	(120.0)	(105.0)
(Other sources) a/	(-90.0)	(220.0)	(618.0)
<u>Total long-term loans</u>	<u>869.7</u>	<u>1 085.1</u>	<u>1 460.0</u>

Sources: IBRD group: 1966-67, Statement of Loans; 1968, estimates based on information in International Monetary Fund, International Financial Statistics.

IDB: 1966-68, Statement of Approved Loans. Includes funds administered by IDB for various Government.

United States Government: 1966-67, EXIMBANK, Statement of Loans and Authorized Credits, and AID, Status of Loan Agreements and (for credits under United States Public Law 480) Operations Reports. The data for 1968 is based on information covering part of the year contained in these documents.

Private United States banks: Information on underwritings and credits taken from the international Press and statistical tables of the International Monetary Fund, Balance of Payments Yearbook. This information is considered a preliminary estimate.

a/ Calculated residually.

/The restrictions

The restrictions imposed on exports of capital by the United States in 1968 were extended to the capital flows of private United States investment. However, the picture is rather more complicated, since the restrictions are not incompatible with an increase in United States investment in Latin America, provided it is financed by transfers from other capital markets, mainly by means of the Euro-dollar.

In any event, this all indicates that there has been a substantial increase in the inflow of capital from non-traditional sources, and consequently an increasing tendency in Latin American external financing to look away from the United States and towards Western Europe and, to a lesser extent, the COMECON countries.

The significance of these changes will be more readily appreciated in the sections that follow, which examine each of the main components of the flow of foreign non-compensatory capital.

(iii) Direct investment. During the current decade, direct investment which comprises both the new capital invested in enterprises in Latin America and the capital reinvested by existing enterprises, has declined as compared with the nineteen-fifties. During the period 1960-66, for example, annual average direct investment amounted to some 390 million dollars, ranging from a low of 221 million dollars in 1962 to a high of 580 million in 1966. It fell to 474 million dollars in 1967 but then recovered in 1968, amounting, according to preliminary estimates, to at least 580 million dollars, although this figure is probably an under-estimate, since, owing to the difficulty of obtaining complete information at the present stage, it is necessary to use indicators covering only a part of the region, and the much higher increase to which calculations on this basis would give rise cannot be taken for granted.

Whatever the actual figures, it is patently obvious that direct investment increased substantially during 1968. Viewed from Latin America, this is attributable to new investment in mining in Chile,

/the sustained

the sustained growth rate of Mexico, the economic recovery in Argentina, Brazil and Colombia and, no less important, the expansion in Latin America of the world-wide practice of international investors purchasing established enterprises in developing countries.^{16/}

With regard to sources of financing, the investment of United States enterprises operating in Latin America increased by some 20 per cent during 1968, according to estimates based on information on five hundred such enterprises supplied to the United States Department of Commerce in June 1968 covering anticipated expenditure on plant and equipment during that year.^{17/} The main increases probably came in mining (approximately 38 per cent), including both the extraction and the refining of minerals, and, because of the diversification of their assets,^{18/} the metal-transforming industries. Although to a slightly lesser extent, petroleum enterprises probably increased their investment also, owing to the rate at which operations are proceeding in Colombia and Ecuador and their growing share in the establishment of the petrochemicals industry in Latin America. Investments by manufacturing enterprises grew comparatively little, by some 10 per cent, while the rate of investment was even lower in agricultural enterprises, public services and, among "miscellaneous services", hotels.

In early 1968, the United States Government instructed United States enterprises operating internationally to limit their investment in Latin America - among other developing areas - to no more than 10 per cent of

^{16/} Until recently, there were regulations hampering or prohibiting the purchase of established enterprises only in the industrialized countries, noteworthy being the regulations adopted by Japan (of a general nature) and Sweden (prohibiting foreigners from acquiring an interest in banking institutions). More recently, a number of developing countries have adopted similar regulations, including some Latin American countries in 1968.

^{17/} See United States Department of Commerce, Survey of Current Business (Washington, September 1968), p. 17 et seq.

^{18/} The enterprises are classified by the United States Department of Commerce according to their principal activity in the United States. Foreign subsidiaries operating in other fields of activity are listed under the activity of the parent enterprise.

the total for the period 1964-66. Since such investment had increased substantially in 1967, it was expected that in 1968 the result would be a reduction in the flow of direct United States investment rather than an increase. As can be seen, industrial enterprises and most of the non-classified enterprises seem to have complied with the instructions.

This was not the case, however, with enterprises operating in different continents. They were authorized to offer loans abroad but were obliged to repatriate almost two-thirds of the resulting profits. These enterprises made ample use of facilities for offering loans abroad, since it is clear that their operations formed the major part of the growth of the international Euro-dollar market in 1968.^{19/} It is doubtful whether these credits created capital flows to Latin America, but this may not be true of remittances of profits.

The Euro-dollar or Euro-bond market is a genuinely international market since it is not controlled by the monetary authorities of the developed countries. The Euro-dollar consists of dollar assets held by natural or legal persons not resident in the United States, which includes subsidiaries, affiliates or agencies of United States enterprises abroad. If these entities retain their assets outside the United States by, for example, transferring profits to Latin America, the assets continue to be Euro-dollars. On the other hand, if they are returned to the United States they become United States dollars. While the currencies of the industrialized countries are fully convertible, the debts being contracted in Euro-dollars by enterprises are substantial. Transfers between subsidiaries would be a precautionary measure, since it must not be forgotten that the United States, France and the United Kingdom have been forced to establish regulations restricting the movement of private capital and, hence, its convertibility.

^{19/} According to statements by the Director, Office of Foreign Direct Investment, United States Department of Commerce, published in the International Herald Tribune (Paris, 10 December 1968), the amount owed to United States enterprises totalled 2.5 thousand million dollars.

There is therefore, a probability that a part of the profits that should have been returned to the United States helped to finance direct United States investment in Latin America in 1968. This conclusion seems to be borne out by the amendments introduced into the regulations by the United States Department of Commerce in November 1968, which were mainly designed to prevent United States enterprises, particularly the petroleum companies in the Middle East, from engaging in accounting practices with respect to certain components of their profits which had unfavourable effects on the United States balance of payments. The new system of calculation will mean that the figure for direct investment abroad will rise from 2,650 million dollars in 1968 to 2,900 million in 1969; however, as stated by one of the Under Secretaries of the Department of Commerce,^{20/} the difference between the two figures would represent the larger inflow in respect of remittances of profits to the United States.

It was not only United States enterprises that helped to increase direct investment in Latin America in 1968, however European, Canadian and Japanese capital also made a substantial contribution. All that the available data show, however, is that the flow of direct investment increased appreciably during the year and that it was channelled mainly into manufacturing.

In the case of Western Europe, the two most obvious factors underlying these increases are the movements of capital out of the area in 1968 and the expanding trend of German and Italian companies. As regards the first factor, the United States balance of payments showed a surplus in 1968, largely owing to the purchase of shares in United States enterprises by private European investors, to a value that has trebled since 1967. Up to November 1968 these purchases amounted to

^{20/} This information is taken from the International Herald Tribune (Paris, 15 and 17 November 1968). The Under Secretary concerned was Mr. J. W. Bartlett.

1,980 million dollars, and they were probably over 2,200 million dollars by the end of the year. These movements show that there is a large stock of private European capital ready to leave Europe.^{21/}

The second factor, i.e., the expanding trend of European enterprises, was intensified in 1968, for reasons connected with the balances of payments of the Western European countries.

The growth of the Western European economies and their grouping in multinational markets have made it possible to remodel enterprises or establish new ones whose scale of operations goes far beyond the limits of each country.^{22/} On the other hand, these companies' prospects of extending their operations to other industrialized countries are blocked by economic factors or by institutional restrictions on the entry of capital, as in the case of Japan^{23/} and the COMECON countries. This situation has also given rise in recent years to a larger flow of investment into Latin America, as may be seen from the number of subsidiaries of European companies established in various countries of the region.

This trend was intensified in 1968, partly as a result of the incentives for private investment abroad, provided by the Governments of the Netherlands, Italy and the Federal Republic of Germany, whose currency was considered to be under-valued in relation to the international monetary system. These incentives included official credit and guarantees for companies investing abroad, and the establishment of special

^{21/} For example, foreign investment in Japanese securities has been exceptionally high since March 1968, standing at an estimated 500 million dollars.

^{22/} The establishment of "conglomerates" is encouraged by the governments of industrialized countries, usually as a means of resisting the trend towards foreign take-overs of existing companies and of enabling them to expand on an international scale.

^{23/} Since 1967, however, the Government of Japan has permitted foreign investment in a limited number of industries, in line with OECD resolutions. Present restrictions in the case of the manufacture of vehicles, electronic computer systems and equipment for the petrochemical industry will remain in force until 1972.

institutions to support direct investment in other countries. The first of these institutions is the Netherlands company for financing projects in developing countries, which, according to the bill submitted to Parliament by the Netherlands Government, is to be a semi-public enterprise for the promotion of Netherlands private investment in developing countries. Naturally, these measures have so far had only a limited influence in promoting direct investment in Latin America, but presumably the effects will be felt more strongly in the near future.^{24/}

(iv) Long-term loans. During the nineteen-sixties, the main form of external financing in Latin America has been through long-term autonomous credit. This situation persisted in 1968 since, despite the increase recorded in direct investment, the net value of this capital amounted to 1,460 million dollars. This is the peak figure for the decade and represents a steep rise in relation to the 1967 figure of 1,085 million dollars.

Part of the information available is in net figures, but it can be said that in 1968 there was no change in the characteristics of the disbursements and amortization of those loans compared with previous years. Disbursements pursued an upward trend, following an annual pattern of expansion and sharp contractions. In contrast, amortization payments rose steadily, although there was some irregularity resulting from refinancing operations, when they were partially transferred to the compensatory capital account. In 1968, refinancing operations amounted to a relatively small figure compared with previous years; consequently, the net figure mentioned above was the result of substantial increases in both disbursements and amortization payments in respect of long-term autonomous loans, which has an important bearing on operations in the near future.

Since in most of the Latin American countries the private sector cannot contract external debts unless they are guaranteed by the public sector, the foregoing means that there has been a fresh increase in the

^{24/} In the case of Asia, the Private Investment Company for Asia (PICA) has been set up with the participation of 120 important companies in the United States, Japan, Europe, Canada and Australia.

region's guaranteed public external debt. Moreover, the available indicators point to a reduction in the maturity period, as financing has been drawn less and less from the official sources of capital that have predominated in recent years and more and more from other sources which impose shorter maturity periods.

The United States Agency for International Development, the World Bank Group and the Inter-American Development Bank, which are the main sources of the first type, have in fact contributed less than the European, Canadian and Japanese institutions that supply export credit. The latter, as part of an active policy of stepping up exports, have improved their credit terms for Latin America, but this improvement seems to have affected interest rates and grace periods rather than the average maturity period, which is regulated by agreements to which only the industrialized market economies are parties.

There has been no such improvement in the terms granted by the first group of sources, however AID has maintained the higher interest rates imposed in 1967, while the World Bank Group and IDB have had to raise their interest rates and commissions in order to secure long-term resources from private capital markets. There is a marked contrast between these sources and the institutions encouraging the expansion of exports - including the United States Export-Import Bank - which have reduced their interest rates and commissions.

The World Bank Group and IDB have not received the same preferential treatment in securing their resources as the institutions granting export credit; they therefore have had to charge higher rates of interest on loans to Latin America than those payable on export credit or bilateral development loans.

Lastly, it should be noted that thanks to the high liquidity of world capital markets and the satisfactory credit which several Latin American countries have succeeded in establishing, has been possible for Latin American governments to continue to sell their bonds on those markets. If the long-term operations with banking consortia carried out by the Mexican Petroleum Enterprise (Petróleos Mexicanos - PEMEX) are included, and some of the loans which in practice constitute refinancing are excluded, bond sales stood at over 180 million dollars

/in 1968.

in 1968. It should not be overlooked, moreover, that some of those bonds were sold on the Euro-dollar market, to which the Latin American countries are having considerable recourse for the first time.

Loans from the World Bank Group. Disbursements of loans for projects, such as those granted by the World Bank Group, are mainly subject to the loan agreements concluded during the last four years. In this respect, the loans authorized in 1968 have had little influence on the flow of capital from the Group to Latin America, which has followed the conservative lines characterizing the Group's disbursements since 1963. Amortization payments, on the other hand, have continued to rise steadily; consequently, on the basis of incomplete data, it is estimated that the Group's net contribution of capital to Latin America has declined for the third year in succession.

IDB loans. For an institution which only began operating in the present decade, IDB has a considerable volume of authorized credit which the Bank has not yet been able to disburse, as it is earmarked for specific development projects. Its disbursements are therefore pursuing the fairly rapid upward trend which they have been following since their decline in 1965. In 1968 they totalled 292 million dollars, which represented a rise of 22 per cent over 1967 and 50 per cent over the year before the decline. On the other hand, Latin America's amortization payments have climbed to 63 million dollars, or 35 per cent higher than in 1967 and 7.4 times higher than in 1964. The net movement of capital has accordingly been 37 million dollars more than in 1967, a sum that will probably be insufficient to offset the rise in interest which the Latin American countries are charged by IDB, i.e., a total of 39 million dollars in 1967. In actual fact, if amortization and interest are taken into account, IDB's net capital contribution has remained constant since 1964.

United States Government loans. A dual situation arises in connexion with United States remittances of capital to Latin America. The annual law on foreign aid takes into account only part of the

United States assets and liabilities vis-à-vis the developing economies. Eximbank operations, which have reflected negative balances for Latin America since 1964, are not officially covered by this law. This dual situation distorts, at the level of the region and, in particular, of the individual countries, the conception of "aid" that is given to the credit granted by the Agency for International Development, since several countries' balance sheets of assets and liabilities with respect to the two institutions show net outflows of capital.

This situation persisted in 1968, since the preliminary data available show that several countries still have negative balances with Eximbank, resulting in a negative balance for the region as a whole similar to that recorded in 1967. AID disbursements, most of which are against loans for projects, are affected by the cut-back in the funds requested by AID from the United States Congress for loans under the programme of the Alliance for Progress. Although AID requested a larger sum for the 1968 financial year than for the year before (533 as against 455.3 million dollars respectively), the continued contraction of the budget estimates for foreign aid since 1964 (the amount requested in that financial year was 550 million dollars) has had its effect on the loans contracted and the relevant disbursements. The latter dropped from 425.3 million dollars in 1964 to 321.6 million in 1967 and, judging from the figures up to September 1968, this decline has continued. The value of net disbursements for the past year will probably be a little over 300 million dollars, since Latin America's amortization payments to AID, although still small, are continuing to rise.

If credit sales of agricultural surpluses are included, the gross and net figures for United States Government long-term loans to the Latin American countries declined in 1968. It might be added that dollar transfer payments also decreased, in line with the slash in the Federal budget estimates for this purpose.

/Long-term loans

Long-term loans from Western Europe. In 1968 the industrialized economies of Western Europe redoubled their efforts to increase exports. To this end, they adopted measures to encourage the outflow of capital, and they improved their export credit terms for developing countries to enable them to purchase more than their current import capacity could sustain. It would take too long to list all the incentives provided for this purpose. Suffice it to say that interest rates on export credit have been reduced or kept below the rates for national and intra-European credit. In many cases the capital of institutions granting such credit has been increased, and tax incentives for investment calculated to step up exports have sometimes been offered. These advantages continued to be extended even by countries whose balance of payments has been under considerable pressure, as shown by the fact that France increased its foreign aid in 1968.

This group of measures must have had a highly favourable effect on capital flows to Latin America, although there are no precise data available to assess their volume.

Chapter II

ECONOMIC TRENDS BY COUNTRIES

ARGENTINA

Recent economic trends

In 1968 Argentina's gross domestic product increased by about 4.5 per cent, thus emerging from the stagnation in 1966 and exceeding the 2 per cent growth in 1967.

Several features clearly distinguish the economic trends in 1968 from those in the previous two years. For instance, while the sluggish growth in 1967 was characterized by an increase in agricultural production and a decline in industrial activity, the position was reversed in 1968: the agricultural product dropped by 5 per cent and urban activities expanded significantly, with an increase of 8 per cent in manufacturing and more than 20 per cent in construction (see table II-17).

Since private consumption expanded relatively little and government consumption, in real terms, remained fairly stable, the increase in total consumption was a little over 4.2 per cent. On the other hand, fixed investment went up by more than 10 per cent, most of the increment being accounted for by construction (11 per cent in private construction) and in particular by the expansion of public works (nearly 40 per cent). Investment in equipment rose 8 per cent, largely as a result of government purchases under the public investment plan, notably of imported equipment, which increased by 12 per cent. In this process of rising investment over the past two years, it will be noted that the principal channel for the re-allocation of resources has been the public sector (see table II-18).

During the year, further progress was made with price stabilization, there being increases of only 4 per cent in wholesale prices and 9.6 per cent in the cost-of-living index. Unemployment also declined. On the other hand, there was a slight deterioration in real wages.

Table II-17

ARGENTINA: ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT,
BY SECTOR OF ECONOMIC ACTIVITY 1960-66 TO 1967-68

(Percentages)

Sector	1960-66	1966-67	1967-68
Agriculture	2.0	5.8	-5.5
Mining	8.3	10.2	9.8
Manufacturing	4.2	-0.4	8.0
Construction	-0.5	8.6	23.6
<u>Goods</u>	<u>3.3</u>	<u>2.3</u>	<u>5.0</u>
Electricity, gas and water	11.0	7.2	7.6
Transport and communications	2.7	1.8	4.0
<u>Basic services</u>	<u>4.1</u>	<u>2.9</u>	<u>4.8</u>
Commerce and finance	2.5	0.9	4.6
Government	0.7	0.0	6.7
Miscellaneous services	1.4	2.9	3.3
<u>Other services</u>	<u>1.9</u>	<u>1.3</u>	<u>3.5</u>
<u>Growth rate of the total products</u>	<u>2.9</u>	<u>2.0</u>	<u>4.5</u>

Source: 1960-67: Central Bank of Argentina.

In the public sector, current income and expenditure remained at the same level in real terms. Government investment rose sharply, favoured by a reduction in the deficits of public enterprises and in the advances to them, which meant that the volume of real current saving effected by public institutions as a whole could be increased.

Table II-18

ARGENTINA: TOTAL SUPPLY AND DEMAND, 1960 AND 1966-68

(Thousands of millions of pesos at 1960 prices)

	1960	1966	1967	1968	Percentage annual growth rates		
					1960- 66	1966- 67	1967- 68
Total supply	1 075.3	1 250.0	1 273.8	1 324.2	2.5	1.9	4.0
Gross domestic product	961.2	1 138.1	1 160.2	1 212.4	2.9	1.9	4.5
Imports of goods and services	114.1	111.9	113.6	111.8	-0.3	1.5	-1.6
Total demand	1 075.3	1 250.0	1 273.8	1 324.2	2.5	1.9	4.0
Exports of goods and services	102.5	144.0	142.4	132.0	5.8	-1.1	-7.3
Total investment	218.3	197.4	207.9	230.0	-1.7	5.3	10.6
Gross fixed investment	208.6	201.1	215.0	242.0	-0.6	6.9	12.6
Construction	87.3	85.7	91.9	109.2	-0.3	7.2	18.8
Public	34.1	22.4	24.7	34.4	-6.8	10.3	39.3
Private	53.2	63.3	67.2	74.8	2.9	6.2	11.3
Machinery and equipment	121.3	115.3	123.1	132.8	-0.8	6.3	7.9
Total consumption	754.5	908.6	923.5	962.2	3.1	-1.6	4.2
General government	86.3	85.5	85.8	86.0	-0.2	0.4	0.2
Private	668.2	823.1	837.7	876.2	3.5	1.8	4.6

Source: 1960-67: Central Bank of Argentina.

/External sector

External sector trends show that the value of exports declined and imports remained at roughly the same level, which helped to reduce the surplus on current account considerably. The continued inflow of non-compensatory capital, including the proceeds from the sale of 100 million dollars' worth of government securities abroad, enabled Argentina to improve the net position of its monetary reserves for the fourth year in succession.

Major production sectors

Agricultural production declined, mainly on account of the weather conditions, which affected most of the crops (see table II-19). It is estimated that the output of cereals and linseed together fell by about 2 per cent, since the maize and linseed harvests shrank by 23 and 33 per cent respectively. The increase in the rest of the crops (15 per cent in wheat, 20 per cent in feed grains and 37 per cent in sorghum) failed to compensate for these contractions. The production of oilseeds dropped 17 per cent and that of industrial crops 18 per cent, while the whole fruit harvest increased 8 per cent.

Preliminary estimates indicate that cattle slaughtering rose 2 per cent. Livestock inventories also increased and domestic prices averaged 7 per cent more than the previous year. Sheep sales fell off slightly, but domestic prices also went up 7 per cent. Wool exports for 1967/68 were 22 per cent higher than the previous year, even though the wool clip was 4 per cent lower. Pig slaughtering declined appreciably both for want of an export market and because of competition from beef. Thus, the volume marketed was 30 per cent smaller than in 1967 and prices were 50 per cent higher.

Industry expanded by 8 per cent, thanks to the boost given by public construction to sectors related to factory industry, as was the case in output of stone, glass and ceramic products. The essentially slow-growth industries producing for mass consumption, such as the food industry, showed a smaller increase. Good progress was made in exports of hides, and in the output of petrochemical products and sulphuric acid and articles for the construction industry (cement, non-flat rolled products, kitchen stoves and refrigerators). Production of Portland cement probably exceeded 4 million tons, and even so it failed to satisfy demand; consequently, some imports were encouraged and projects were authorized for expanding existing plants. Steel production also rose substantially, causing an increase in imports of billets.

Table II-19

ARGENTINA: PRODUCTION OF MAJOR AGRICULTURAL COMMODITIES, 1953-68

(Thousands of tons)

Year	Wheat	Maize	Oats, barley and rye	Linseed	Sunflower seed
1953-62	6 130	4 103	2 747	571	583
1963	5 700	4 360	995	839	462
1964	8 940	5 350	2 464	771	460
1965	11 260	5 140	2 282	815	757
1966	5 400	7 040	1 129	570	782
1967	6 380	8 510	1 248	577	1 120
1968	7 320	6 560	1 630	385	940

Source: Ministry of Agriculture.

/Construction expanded

Construction expanded by about 23 per cent, thus becoming one of the main dynamic elements of the economy in 1968. Investment in public construction rose nearly 40 per cent and in private building by 11 per cent. The latter was affected by the difficulty of selling houses and other buildings owing to a contraction in demand. The insufficient output of industries producing construction inputs sent construction costs up in the second half of the year, but the increase over the whole year was only one-quarter of that recorded in 1967.

Petroleum output was close to 20 million tons, or 9.4 per cent more than the year before, an increase which is attributable to the State enterprise. The volume of processed petroleum increased by 5 per cent, with a progressive reduction in petroleum imports; in 1966 these represented 20 per cent of the total oil processed; this proportion dropped to 14 per cent in 1967 and 11 per cent in 1968. Gasoline output was the same as the year before, but the production of gas oil expanded. The volume of injected gas increased by about 11 per cent, thus pursuing its rapidly rising trend.

Other increases were noted in the production of run-of-mine coal (17 per cent) and marketable coal (16 per cent), while sales rose by less than 2 per cent because of marketing problems.

The public utility power plants generated 8 per cent more electricity than in 1967.

Prices, wages and employment

Progress in price stabilization, which began to be achieved at the end of 1967, was consolidated in 1968. Thus wholesale prices in general rose only 4 per cent over the whole year, which meant that the average increase from 1967 to 1968 was 9.3 per cent compared with 25.8 per cent from 1966 to 1967. Generally speaking, the ups and downs in wholesale price stabilization have been linked to price variations in agriculture, since the increases in industrial prices levelled off. The average prices of the articles composing the market basket on the basis of which the cost of living is measured went up by 9.6 per cent in 1968, most of this increase being concentrated in the last three months owing to seasonal fluctuations in the prices of these products (see table II-20).

Table II-20

ARGENTINA: WHOLESALE PRICES INDEXES AND COST-OF-LIVING INDEXES
IN BUENOS AIRES, 1966-68

Wholesale prices						
Period	General	Agricultural	Total supply	Non-agricultural		Cost of living
				Domestic supply	Imports	
<u>Index: 1964 = 100</u>						
December 1966	378.4	379.3	378.0	382.1	319.0	447.5
December 1967	456.3	425.0	456.7	459.3	418.3	569.9
December 1968	474.5	464.5	478.4	481.1	439.2	624.4
Average 1966	340.8	333.5	343.7	348.2	277.9	374.3
Average 1967	428.6	419.6	431.4	434.3	398.7	483.7
Average 1968	468.3	457.8	472.6	475.9	424.4	562.1
<u>Percentage variation between the beginning and end of each period</u>						
1967 1	4.3	-3.7	7.5	6.8	19.2	0.5
2	8.9	14.1	7.1	6.8	10.4	6.6
3	5.9	10.7	4.0	4.3	9.3	5.8
4	0.3	-1.4	0.9	1.0	-0.5	13.4
12 months	20.6	20.0	20.8	20.2	31.2	27.4
1968 1	0.8	-3.1	2.4	2.6	-0.5	-3.1
2	2.1	5.6	0.7	0.7	0.8	-
3	1.7	2.1	1.5	1.4	3.1	1.5
4	-0.6	-2.3	-	-0.1	1.6	11.4
12 months	4.0	2.1	4.8	4.7	5.0	9.6
<u>Percentage variation between the averages</u>						
1966/1965	19.9	21.3	19.5	19.5	19.5	31.9
1967/1966	25.8	25.8	25.7	24.7	43.5	29.2
1968/1967	9.3	9.1	9.4	9.6	6.4	16.2

Source: National Statistics and Census Office.

/This time

This time the stabilization programme was carried out with a plentiful supply of credit instead of with the usual stringency in this kind of attempt to curb real demand. Fiscal policy was brought into line with credit policy by abandoning the practice of increasing the means of payment through monetary expansion - which is necessary when a large proportion of the fiscal deficit is financed in this way - and adopting that of lowering the floor for cash reserves, which makes it possible to increase the supply of credit without altering the monetary base. In this way, reductions in the fiscal deficit for the purpose of arresting inflation have become at least temporarily independent of the management of the money supply, which is allowed to expand according to the system's requirements.

Nominal wages, which had been frozen since April-May 1967, rose in January 1968 as a result of the reduction in personal contributions to the social security system, which represented 6.7 per cent of the total nominal wage. Altogether, the 1968 averages were nearly 11 per cent higher than in 1967. In real terms, however, wages seem to have deteriorated by 2.6 per cent from December 1967 to December 1968, owing to the rise in the cost of living. If the averages for the two years are analysed, the deterioration is even greater: 4.6 per cent for industrial workers, 2 per cent for construction workers and 4.8 per cent for business employees. Subsequently, an increase of 8 per cent of the basic wages stipulated in the agreements governing private and public activities was authorized as from 1 January 1969.

The rate of unemployment in the metropolitan area dropped from 5.4 per cent in April 1968 to 4.8 per cent in June and October. Although employment figures are subject to seasonal variations, this represents a higher average rate than in 1965 and a 3.5 per cent increase in employment over 1967. It would appear, therefore, that the increased activity in the urban sectors was reflected in the level of employment.

Public sector

The evolution of the fiscal sector in 1968 indicates that the current income and expenditure budget was frozen, in real terms, and that investment rose. In addition, there was a change in the source of funds thanks to which the monetary financing of the fiscal deficit could be reduced.

Both current income and current expenditure rose proportionally to the general level of prices, thereby maintaining the same real values as in 1967. There was, however, a drop of 42 per cent in the deficits of public enterprises and in the advances to them, (an item accounted for almost entirely by the State railways); this made for a real increase in the current saving of government bodies as a whole, which had already reflected a positive balance in 1967. Since on the other hand the social security system failed to show a surplus - whereas in 1967 it had contributed 10 per cent of its income to public financing - the government current account was stabilized (see table II-21).

The real value of fiscal revenue was maintained thanks to the increase in taxes earmarked for specific purposes - notably the National Energy Fund (Fondo Nacional de la Energía) - since the total revenue obtained by the Treasury fell, in real terms, by about 2 per cent. The setbacks occurred in direct and foreign trade taxes, while indirect taxes showed a real increase of over 20 per cent. This trend indicates a considerable change in the tax structure, partly reversing the process which took place in 1967, when the significant increase in the tax burden was obtained through heavier direct taxation and the introduction of new export taxes. In 1968 the revenue from import taxes and charges declined, added to which the real estate tax - which had been levied on a temporary basis - was abolished, and the duties on agricultural export reduced.

Table II-21

ARGENTINA: PUBLIC SECTOR ACCOUNT, 1964-68

(Thousands of millions of pesos at 1960 prices)

	1964	1965	1966	1967	1968
A. <u>Current income and expenditure</u>					
I. General government					
1. Current income	91.2	117.0	127.9	156.3	158.1
2. Current expenditure	92.7	101.3	112.8	123.0	125.1
3. Subsidies to public enterprises	10.9	17.8	19.0	13.0	7.5
4. Current saving	-12.4	-2.1	-3.8	20.3	25.5
II. National social security system					
1. Income from social security contributions	43.8	47.7	47.2	63.9	64.5
2. Benefits	38.4	43.7	49.1	58.3	64.5
3. Saving	5.4	4.0	-1.9	5.9	-
B. <u>Capital expenditure</u>	43.5	47.6	48.1	62.0	73.0
I. General government	19.7	23.0	20.2	32.3	38.3
1. Grants to provinces and municipalities	4.7	5.7	5.5	4.2	3.0
2. Public works programme	11.1	11.1	11.0	17.2	
3. Other capital investment and transfers	3.9	6.2	3.7	10.9	35.3
II. Public enterprises	23.8	24.6	27.9	29.7	34.7
C. <u>Investment financing</u>	43.5	47.6	48.1	62.0	73.0
I. Current saving	-7.0	1.9	-5.8	26.2	25.5
II. Financial accounts	-26.1	0.1	1.7	6.4	...
1. Other public sources	1.0	9.1	4.3	8.1	3.0
2. Other net financial assets and liabilities a/	-27.1	-9.0	-2.6	-1.7	...
III. Investment resources of enterprises	14.0	17.2	16.9	20.6	24.8
IV. Investment deficit	62.6	28.4	35.3	8.8	19.7
1. Net credit	26.6	10.9	7.4	-5.3	13.7
- Gross investment financing	29.9	12.7	11.9	2.4	22.8
- Amortization of public debt	3.3	1.8	4.5	7.7	9.1
2. Monetary resources	36.0	17.5	27.9	14.1	6.0

Source: ECLA, on the basis of official statistics.

a/ Includes statistical discrepancies.

/Total public

Total public investment rose by about 20 per cent in real terms and the shortfall in investment remaining to be financed, which in 1967 had amounted to 14 per cent of total public investment, reached 27 per cent of that total in 1968. Recourse was had to two means of financing to cover this deficit. First, 100 million dollars' worth of long-term securities were sold abroad and nearly as much on the domestic capital market. Secondly, a compulsory channelling of resources was effected by making more use of deferred payment orders for debts and bills outstanding. By tapping the resources of the external and private sectors in this way it was possible not only to cover the larger investment deficit and the heavier debt amortization payments, but also to reduce monetary financing in the form of advances from the Central Bank to less than half its previous volume.

The external sector

The surplus on current external transactions, which had reached the figure of 257 million dollars in 1966, dropped to 184 million in 1967 and to 67 million in 1968 (see table II-22). The 1968 trend is attributable to a 15 per cent decrease in the surplus on the merchandise account (which even so was 434 million dollars) - caused by a decline of 100 million dollars in the value of exports - and to the increase in the negative balance for invisibles, which reached its highest level in the last five years.

The decline in exports was the result of a contraction in nearly all the traditional items, which was only partly offset by increases in wool and more highly processed articles. In spite of the recovery in prices on certain markets, the value of meat exports fell 22 per cent, owing partly to the embargo placed on them by the United Kingdom at the end of 1967 on account of the outbreak of foot-and-mouth disease in Argentina; the Argentine Government therefore decided to export frozen meat only on the basis of firm f.o.b. prices

Table II-22

ARGENTINA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	1 234.4	1 656.0	1 783.0	1 693.0	1 600.0
Goods	1 079.2	1 493.0	1 593.0	1 464.0	1 361.0
Services	159.2	163.0	190.0	229.0	239.0
Imports of goods and services	1 379.3	1 379.0	1 372.0	1 390.0	1 389.0
Goods	1 099.4	1 043.0	978.0	953.0	927.0
Services	279.9	336.0	394.0	437.0	456.0
Net investment income	-57.0	-53.0	-151.0	-119.0	-150.0
Net private transfer payments	-7.0	-4.0	-3.0	0.0	0.0
Balance on current account	-204.9	+220.0	+257.0	+184.0	+67.0
<u>Capital account</u>					
Net external financing	+204.9	-220.0	-257.0	-184.0	-67.0
Net external non-compensatory capital	+564.9	-244.0	-73.0	-42.0	
Direct investment	+332.0	+43.0	+40.0	+9.0	
Non-compensatory loans	+215.7	-275.0	-35.0	-9.0	
Short-term liabilities	-16.6	-14.0	-74.0	-39.0	
Official transfer payments	+0.6	+2.0	-4.0	-3.0	+83.0
Net domestic non-compensatory capital or assets	-8.3	+20.0	-66.0	+35.0	
Errors and omissions	-176.5	+97.0	-80.0	+262.0	
Compensatory movements	-175.2	-93.0	-38.0	-439.0	
Net external compensatory capital	+131.2	-22.0	-50.0	+50.0	
Balance-of-payments loans and deferred import payments	+94.1	+24.0	-5.0	+95.0	-150.0
Other liabilities of the monetary authorities	-11.4	-2.0	+1.0	+3.0	
International Monetary Fund position	+48.5	-44.0	-46.0	-48.0	
Movements of gold and foreign exchange (increase -)	-306.4	-71.0	+12.0	-489.0	

Source: Up to 1967: International Monetary Fund, Balance of Payments Yearbook, Vol. 17 and 20; for 1968: ECLA estimates.

/A decline

A decline was also observable in exports to the European Economic Community, which continued its policy of replacing frozen meat imports by live animals, and raised its variable levies on imports (prélevements). Agricultural exports - including vegetable oils and other by-products - fell by 17 per cent, or 100 million dollars. The sharpest reduction was in cereals, both wheat and maize. Conversely, food exports (including meat preparations) and exports of mining products and chemicals rose, the largest increases being in sales of wool - despite an appreciable deterioration in wool prices - and industrial products, which went up from 82 million dollars in 1967 to 100 million in 1968.

Movements on capital account were very moderate in 1968 and represent no great change in relation to 1967. The flow of non-compensatory capital continued, (with a positive sign), although on a much reduced scale, and included the sale of 100 million dollars' worth of government securities abroad. This was counterbalanced by the necessity of cancelling compensatory loans which had been renegotiated in previous years, and also the loans obtained by virtue of the exchange policy launched in 1967. The two capital flows were practically equal, and part of the small surplus obtained on current transactions was used for the fourth consecutive year to increase Argentina's gold and foreign exchange reserves.

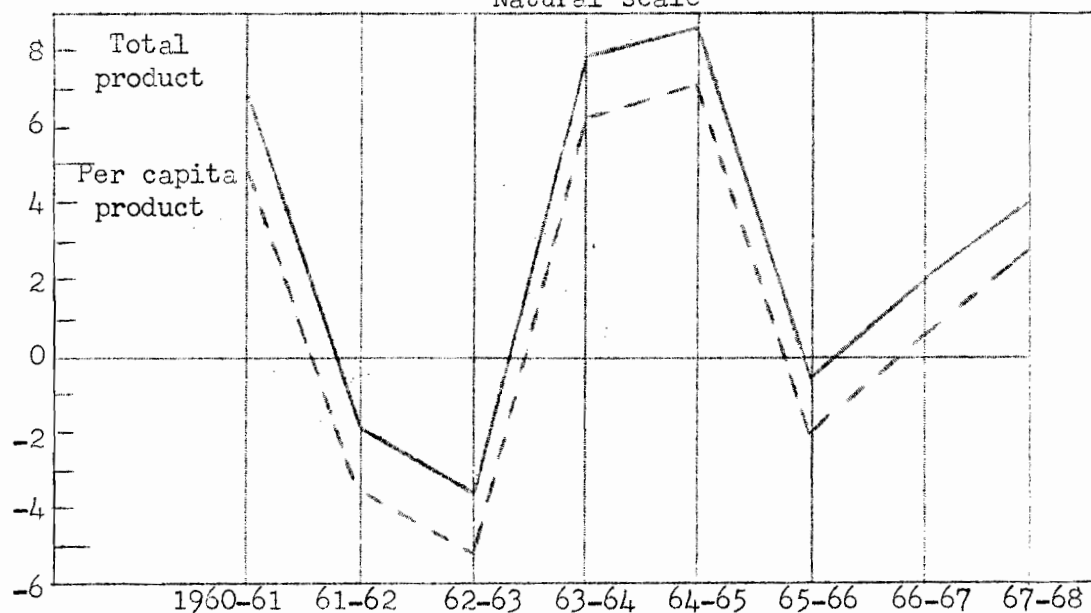
All this helped to buttress the external value of Argentina's currency and make it fully convertible in 1968. Thus Argentina entered the category of countries referred to in article VIII of the IMF Articles of Agreement.

/Figure II-1

ARGENTINA: RATE OF GROWTH ON THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

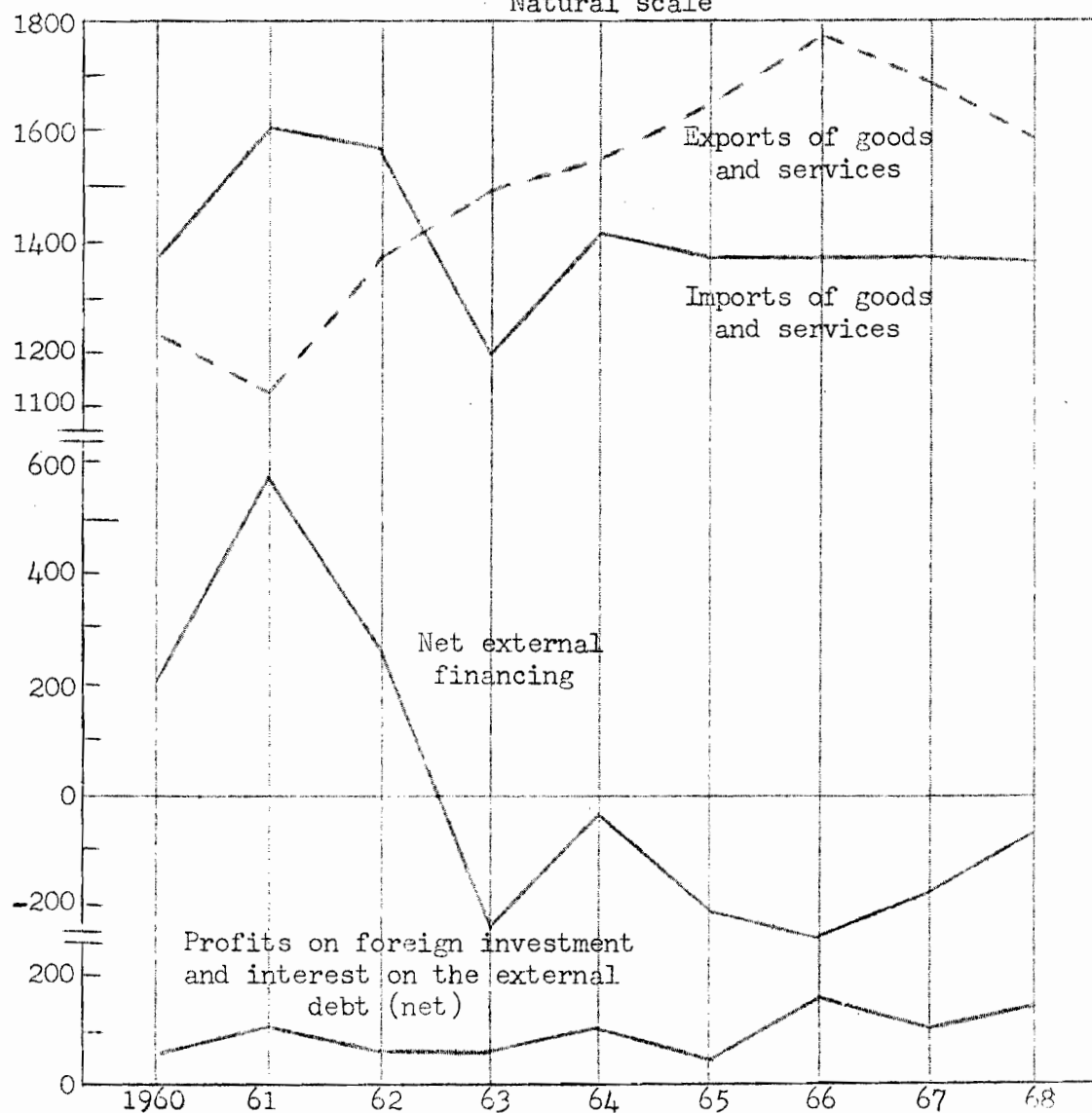
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



BOLIVIA

Recent economic trends

In recent years, the product of the Bolivian economy has grown at a steady average annual rate of 5.2 per cent over the period 1960-67 and a rate of 5.3 per cent in 1968. The sectors contributing most to the economy's growth were manufacturing industry (which since 1960 has grown at an average annual rate of over 7 per cent), construction (which tripled its value added over the same period) and petroleum production (which began to boom in 1966). These three sectors again made rapid progress during 1968 (see table II-23).

Exports and imports grew relatively little during 1968, as the pronounced upward trend of earlier years slowed down: between 1960 and 1967 exports almost tripled their dollar value, and this, together with external aid and capital inflows meant that imports more than doubled.

This rapid rise in production and imports meant that the domestic supply of goods and services increased by almost 5 per cent, totalling 60 per cent more in 1968 than in 1960 (see table II-24). This led to a 55 per cent rise in consumer expenditure and a 79 per cent rise in capital expenditure. Following the unusually high level of investment in 1967, investment again increased in 1968 (by slightly more than 5 per cent), bringing the average annual growth rate of fixed capital formation over the period 1960-68 to 7.8 per cent, with marked differences in the rates for individual years attributable to the implementation of large-scale projects in the fields of petroleum, energy, mining and highway construction. Over the same period private consumption grew annually at an average rate of 5.5 per cent.

The public sector had a very dynamic influence on the growth of both consumption and investment. General government expenditure grew by more than 10 per cent in 1968, compensating for its relative stagnation during 1967, and bringing the average annual growth rate over the period 1960-68 to 7 per cent. Public investment grew very rapidly between 1960 and 1966 (8.6 per cent annually) but then appeared to lose headway (4.4 per cent in 1967 and 2.1 per cent in 1968). Much of the expansion of the public sector was based on contributions from external sources and on large fiscal deficits which in recent years - particularly in 1968 - have tended to shrink.

Table II-23

BOLIVIA: GROWTH RATE OF THE GROSS PRODUCT
BY SECTORS, 1960-66 AND 1966-68
(Percentages)

Sector	Annual growth rates		
	1960- 1966	1966- 1967 ^{a/}	1967- 1968 ^{b/}
Agriculture	2.6	-6.4	3.5
Petroleum	9.3	72.9	5.3
Mining	6.2	4.3	2.6
Manufacturing	7.4	6.8	7.3
Construction	9.6	23.4	14.7
<u>Goods</u>	<u>5.1</u>	<u>7.6</u>	<u>5.4</u>
Electricity, gas and water	7.1	2.6	4.1
Transport and communications	4.4	5.1	4.4
<u>Basic services</u>	<u>4.7</u>	<u>4.8</u>	<u>4.4</u>
Commerce and finance	3.9	2.8	5.3
Government	8.7	1.8	3.0
Miscellaneous services	4.7	2.5	6.9
<u>Other services</u>	<u>5.3</u>	<u>2.4</u>	<u>5.4</u>
<u>Growth rate of the total product</u>	<u>5.1</u>	<u>5.6</u>	<u>5.3</u>

Sources: ECLA, on the basis of data supplied by the Planning and Co-ordination Office and the National Accounts Department of the Statistics and Census Office.

^{a/} Provisional figures.

^{b/} Estimates.

Table II-24

BOLIVIA: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

	Millions of pesos at 1960 prices			
	1960	1966	1967 a/	1968 b/
<u>Aggregate supply</u>	<u>5 551</u>	<u>7 945</u>	<u>8 482</u>	<u>8 901</u>
Gross domestic product	4 479	6 050	6 387	6 724
Imports of goods and services	1 072	1 895	2 095	2 177
<u>Aggregate demand</u>	<u>5 551</u>	<u>7 945</u>	<u>8 482</u>	<u>8 901</u>
Exports of goods and services	726	982	1 231	1 265
Total investment	675	1 171	1 178	1 214
Fixed investment	637	864	1 101	1 160
Public	275	450	470	480
Private	362	414	631	680
Total consumption	4 150	5 792	6 073	6 422
General government	387	599	601	664
Private	3 763	5 193	5 472	5 758

Sources: ECLA, on the basis of data supplied by the Planning and Co-ordination Office and the Department of National Accounts of the Statistics and Census Office.

a/ Provisional figures.

b/ Estimates.

Trends in selected production sectors

Agricultural production made a partial recovery in 1968 after its decline in 1967 and grew by some 3.5 per cent. Increases in production in 1968 came in the main crops: wheat production rose; rice production was sufficient to cover domestic consumption; potato production increased (by 20,000 tons, which led to a drop in prices); citrus fruit and banana production also rose, as did coffee production, which grew by 16 per cent, over and above its rise of 73 per cent in 1967, and resulted in an exportable surplus. Activities to promote land settlement and to bring new farmland under cultivation continued. A pilot project is being undertaken in the Abapó-Izozog area under which 725,000 hectares of farmland suitable for crops and livestock will be brought under cultivation. Under the land settlement programmes 4,500 families were to be settled in the Alto Bení, Chimoré and Yapacani areas by mid-1968, while 2,000 families are to be settled in San Julián over a four-year period; 47,000 families have already been settled in other areas.

Mining production, which grew at an average annual rate of almost 6 per cent during the period 1960-67, increased by only 2.6 per cent in 1968. This was due to the decline in tin and zinc production as a result of the drop in prices, and to the establishment of production quotas for tin. At the same time, work proceeded on increasing mineral yields in national refineries. The Bolivian Mining Corporation (Corporación Minera de Bolivia - COMIBOL) intends to use the industrial complex it is building in Vinto (Oro) for this purpose, especially for low-grade minerals, and in 1970 the National Smelting Company (Empresa Nacional de Fundición) will begin to produce 7,500 tons of electrolytic tin and 800 tons of alloy annually at a plant near Oruro. Large investments have been made in private mining enterprises producing sulphur, asbestos, zinc and wolfram and this has been reflected in increased exports.

Petroleum production rose by slightly more than 5 per cent in 1968, following the 1967 boom (73 per cent). The production of the State Petroleum Corporation (Yacimientos Petrolíferos Fiscales Bolivianos - YPFB) which amounts to 19 per cent of total production, rose by 12 per cent and that of the Gulf Oil Corporation by 3 per cent. The two corporations

/have agreed

have agreed to prospect a large area of the Bolivian altiplano jointly. There is also a project to construct a petroleum refinery at Santa Cruz and another to expand the YPFB refinery at Cochabamba. A YPFB liquid gas plant at Camiri will soon go into operation with an initial capacity of 40 tons per day, capable of being raised to 100 tons. In July 1968, YPFB and the Bolivian Gulf Oil Corporation signed an agreement with the State Gas Enterprise (Gas del Estado) of Argentina under which the latter is to purchase natural gas over a twenty-year period to a total value of some 300 million dollars. Under the agreement the State Gas Enterprise of Argentina will purchase 4 million cubic metres of gas per day for the first seven years, and 4.5 million cubic metres per day for the remaining thirteen years. A price of 8 dollars per thousand cubic metres of gas with a calorific value of not less than 9,300 calories was established. The agreement will run from the date of completion of a 600 kilometre gas pipeline, to be built by YPFB and the Bolivian Gulf Oil Corporation at a cost of 40 million dollars, which will be connected with the Argentine gas pipeline.

Continuing the trends of earlier years, industry grew by 7 per cent during 1968. In recent years, the rate of growth of the traditional industries (foodstuffs, beverages, tobacco, textiles, clothing and footwear), which are responsible for more than 80 per cent of the value added in industry, has been quite rapid, increasing by over 40 per cent between 1963 and 1967. The increment was greater in petroleum refining and the production of electrical equipment although these industries share of the total is still small.

The public sector

As a result of the financial management of the decentralized bodies, whose expenditure is double that of the Central Government, the fiscal deficit has fallen in recent years. However, the deficit of the public sector as a whole in 1967 amounted to 290 million pesos, of which 215 million was attributable to the Central Government, and this led to the introduction of a policy of curbing expenditure and increasing income as a result of which the Central Government's deficit fell in 1968 to

/107 million

107 million pesos. During 1968, expenditure dropped by 1.2 per cent while income rose by 12.6 per cent, mainly owing to the royalty payments made by the oil companies (65.4 million pesos from the Gulf Oil Corporation and 12 million from YPF), and to the 8 per cent increase in internal taxation. The deficit was financed by the Central Bank and by an external loan of 54 million pesos.

In mid-1968, the total external debt amounted to 341 million dollars, i.e., 23 million dollars more than at the end of 1967. During 1967 it had risen by 27 million dollars (41 million dollars in new loans less 14 million dollars for debt servicing), and a breakdown at the end of the year showed that 71 per cent was attributable to the Central Government, 20 per cent to public enterprises, 5.8 per cent to banking institutions and the remainder to the private sector. Servicing this debt accounted for slightly over 5 per cent of total public expenditure and was equal to one-third of the external credit received by the public sector.

The external sector

The current value of exports rose slightly in 1968, despite the steady drop in tin prices since 1965; in 1968, this was offset by an increase in the volume of sales (25 per cent for tin and a little less for petroleum). The relative stagnation of exports in 1968 must be set against their remarkably rapid growth and increased diversification over the whole decade, since they have more than trebled in current value since 1960 (see table II-25). Up to 1965, their growth was due to higher prices for tin; once the effect of this wore off, an expansion took place in the volume of tin exports, while sales of petroleum soared from 0.7 million dollars in 1965 to 6.5 million in 1966, nearly 23 million in 1967 and 24 million in 1968. The other products, which together account for almost 30 per cent of mining exports, more than trebled their value between 1962 and 1968. Exports of zinc, for instance, climbed from 0.9 million dollars in 1962 to 5 million in 1965 and 3.5 million in 1968, while copper sales, increased from 1.5 to 8 million and exports of silver and wolfram from 3.9 to 11.6 million and from 1.7 to 10 million respectively. Exports of agricultural commodities rose from 10 to 20 million dollars in value between 1965 and 1968.

Table II-25

BOLIVIA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968 a/
Current account					
Exports of goods and services	57.8	125.8	142.0	169.0	172.8
Exports	54.4	115.5	133.1	155.2	161.0
Services	3.4	10.3	8.9	13.8	11.8
Imports of goods and services	89.7	161.7	174.2	193.0	199.6
Goods	68.2	126.6	138.8	151.8	159.9
Services	21.5	35.1	35.4	41.2	39.7
Net investment income	+1.2	-3.6	-0.8	-16.7	-16.5
Net private transfer payments	+0.2	+1.1	+1.3	+1.0	+1.0
Balance on current account	-30.5	-38.4	-31.7	-39.7	-42.3
Capital account					
Net external financing	+30.5	+38.4	+31.7	+39.7	+42.3
Net external non-compensatory capital	+32.7	+53.2	+36.2	+35.8	
Direct investment	+16.5	+12.5	+2.0	+0.5	
Non-compensatory loans	+1.4	+15.9	+10.3	+25.2	
Short-term liabilities	+2.0	+9.9	+3.9	-1.8	
Official transfer payments	+12.8	+14.9	+20.0	+11.9	+37.7
Net non-compensatory domestic capital or assets	-1.8	-2.2	+2.1	-1.9	
Errors and omissions	-3.1	+1.3	-1.8	-2.2	
Compensatory movements	+2.7	-13.9	-4.8	+8.0	
Net compensatory external capital	-2.6	-0.9	-5.8	+4.7	
Balance-of-payments loans and deferred import payments	-0.7	-	-	-	4.6
Other liabilities of the monetary authorities	-0.5	+0.1	-0.2	+4.7	
International Monetary Fund position	-1.4	-1.0	-5.6	-	
Movements of gold and foreign exchange (increase -)	+5.3	-13.0	+1.0	+3.3	

Source: International Monetary Fund, Balance of Payments Yearbook, vols. 17 and 20.

a/ Estimates.

/Imports, which

Imports, which, in 1967, were 66 per cent higher than in 1962, increased less vigorously. In 1968, they rose by about 4.2 per cent, owing to a new system of customs valuation based on minimum prices, higher duties on some non-essential goods and a ban on the import of a large number of others. Although their growth rate slowed down, they continued to outstrip exports in value.

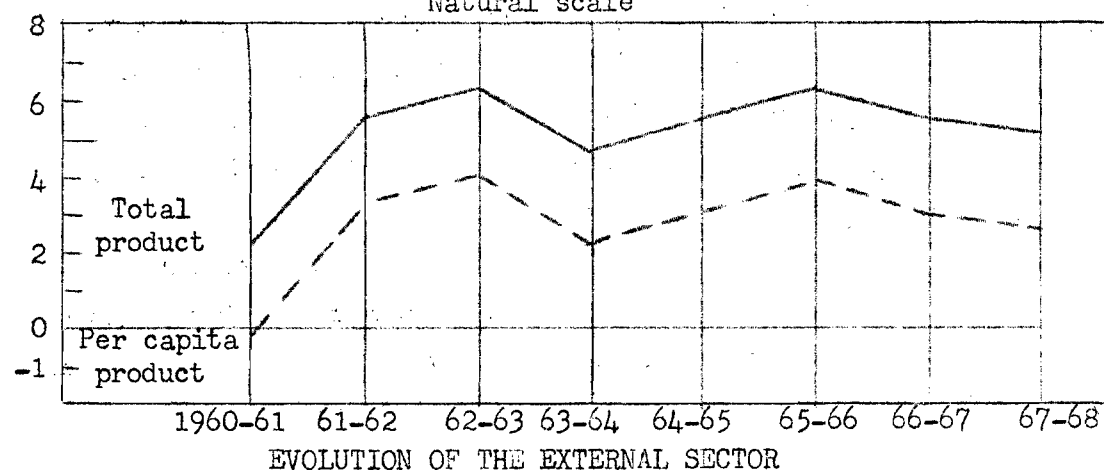
From 1960 to 1966, income from goods and services, including private transfer payments, totalled 669 million dollars compared with outgoings of 923 million dollars. The resulting cumulative net deficit of 254 million dollars on current account might have exerted heavy pressure on the balance of payments had it not been for large-scale foreign aid in the form of official transfer payments, which averaged 143 million dollars (20 million a year). During the same period, external loans to the value of 197 million dollars were obtained, while 60 million dollars entered in the form of direct investment and a further 30 million in short-term capital. As expenditure, which mainly consisted of amortization payments, amounted to 120 million dollars, the net inflow of capital totalled 310 million. For errors and omissions there was a debit balance of 20 million dollars for the seven years in question. The balance of payments before compensatory financing thus showed a surplus of 36 million dollars, which improved the net monetary position of the Central Bank by 13 million and added 23 million to the country's international reserves.

In 1967, in spite of a better trade balance, there was a debit balance of 40 million dollars on current account owing to remittances of 17 million dollars under the head of profits and interest on foreign loans. This balance-of-payments item had been negligible in earlier years. Although direct investment decreased on a par with official transfer payments, which totalled only 12 million dollars, the net total for long- and medium-term loans rose to 25 million dollars from 10 million in 1966. However, this was not enough to offset the debit balance on current account and other capital movements, and the balance of payments closed with a deficit of 8 million dollars. In 1968, remittances of profits and interest were as high as in the previous year, and the net movements of non-compensatory capital, added to the balance for errors and omissions, amounted to about 46 million dollars. The balance of payments therefore closed with a small deficit, which worsened the net monetary position of the Central Bank.

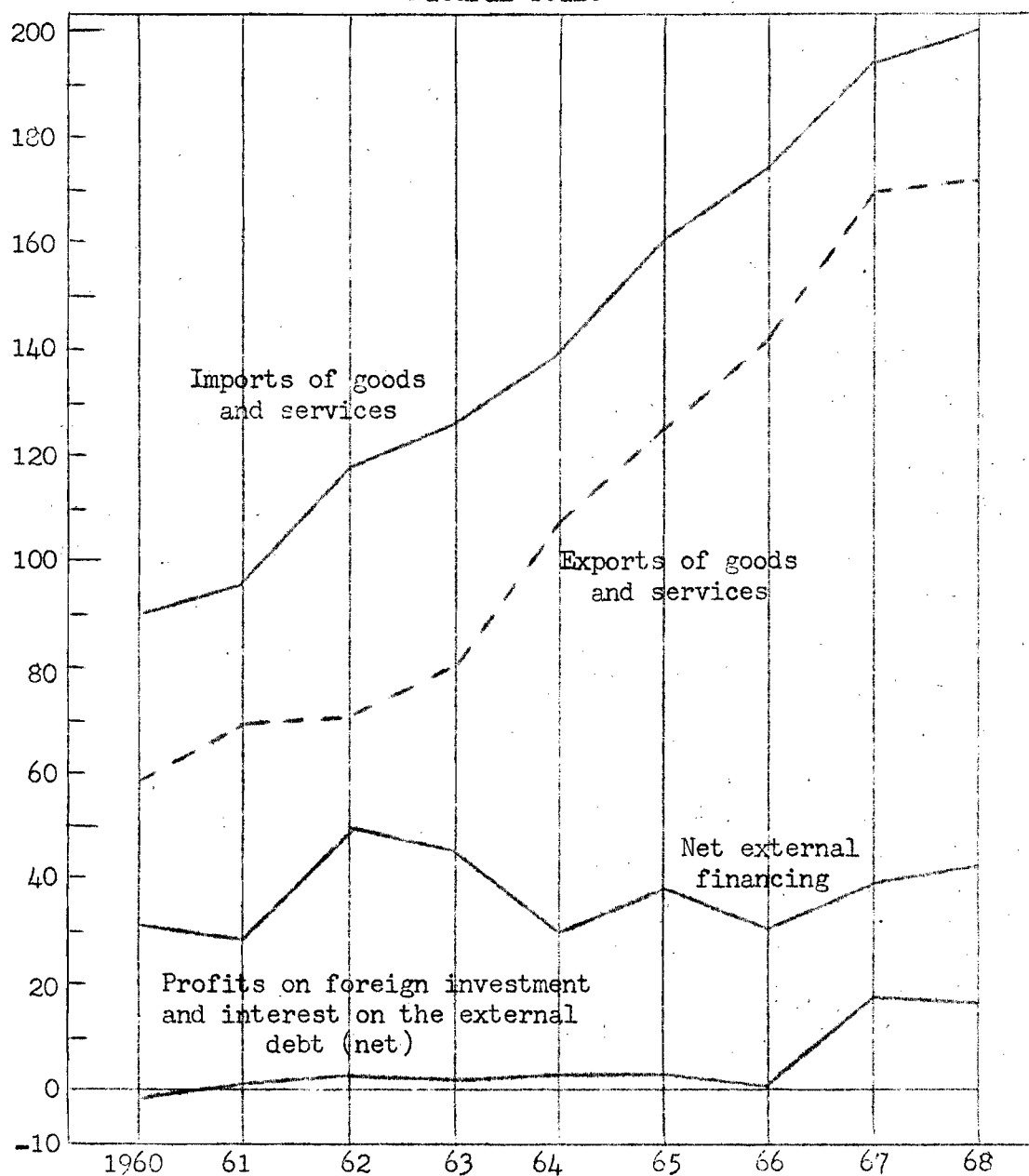
Figure II-2

BOLIVIA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR
(Millions of dollars at current prices)
Natural scale



BRAZIL

General characteristics

In 1968 the over-all growth rate of the Brazilian economy was 6 per cent. This is the first time since 1962 that a similar rate to that prevailing in the nineteen-fifties has been regained. Various characteristics distinguish the recent economic trend.

First, agricultural production as a whole departed from its trend in 1967 by remaining relatively static. However, this situation was counterbalanced by the dramatic revival of industry, which achieved a growth rate of 12 per cent (see table II-26). These trends were strongly influenced by the economic activity in the São Paulo area, which, since 1962, has been contributing a disproportionately small amount to the modest over-all growth rate and investing it with much of its own instability. Early estimates indicate that there has been an expansion of about 8.7 per cent in the São Paulo economy, with a decline in agricultural output offset by a 16 per cent increase in manufacturing production.

The external sector played a very dynamic part. The value of exports of goods and services reached the unprecedented figure of 2,060 million dollars, while that of imports exceeded 2,300 million. This is a 25 per cent increase on 1967 levels. The total deficit in current transactions amounted to some 500 million dollars and was counterbalanced by a larger net inflow of non-compensatory capital, which pushed up the country's international reserves.

Table II-26

BRAZIL: SECTORAL GROWTH RATE OF GROSS PRODUCT, 1960-66 TO 1966-68

(Percentages)

Sector	Annual growth rates		
	1960-66	1966-67	1967-68 ^{a/}
Agriculture	3.8	7.1	0.5
Mining	12.7	5.6	18.2
Manufacturing	5.1	2.4	12.0
Construction	-1.4	9.2	19.6
<u>Goods</u>	<u>4.2</u>	<u>5.1</u>	<u>6.1</u>
Electricity, gas and water	6.9	4.8	12.3
Transport and communications	5.4	7.7	7.3
<u>Basic services</u>	<u>5.7</u>	<u>7.1</u>	<u>8.3</u>
Commerce and finance	4.2	6.3	10.9
Government	2.4	2.4	2.4
Miscellaneous services	3.3	2.6	0.7
<u>Other services</u>	<u>3.5</u>	<u>4.1</u>	<u>5.3</u>
<u>Growth rate of total product</u>	<u>4.1</u>	<u>4.9</u>	<u>6.0</u>

Source: 1960-67: ECLA, on the basis of data from the Getulio Vargas Foundation, the Brazilian Institute of Economics, National Accounts Centre.

^{a/} Estimates.

/The main

The main aim of economic policy, was to stimulate development and this was vigorously pursued during the year through more expansionist tax and monetary measures than in the past. Government revenue increased considerably, and the real deficit was reduced below the previous year's level in both absolute and relative terms. Public expenditure was stepped up considerably, particularly transfer payments, and transfers of capital to decentralized agencies increase although direct investment by the Central Government fell off. Thus, more capital was invested in basic infrastructural works (175 kilometres of new road were built and a further 2,150 kilometres paved, and electric energy generating capacity was enlarged by 1 million kW). Monetary expansion, which had originally been visualized at 15 per cent, totalled 40 per cent by the end of the year, in response less to public sector pressure as to the provision of about 60 per cent more credit to the private sector.

Despite these conditions, the rise in prices was on much the same scale as in 1967, i.e., about 24 per cent.

Changes were made in wage policy with a view to maintaining real urban wages. The wage adjustments made in the course of the year were generally kept on a par with the increase in the cost of living, in which food prices rose less than the over-all index. In addition, there was a sizable expansion in employment (about 8 per cent in industry and construction).

Production increased more rapidly than employment, in many cases owing to more intensive use of available capacity and a supply of inputs whose relative prices had to be kept steady, thereby adding considerably to enterprises' profits. These developments, combined with easier credit facilities, led to a marked increase in the volume of investment and particularly in the flow of private capital (see table II-27).

Table II-27

BRAZIL: AGGREGATE SUPPLY AND DEMAND, 1960 TO 1966-68

(Millions of new cruzeiros at 1960 prices and percentages)

	1960	1966	1967	1968 ^{a/}	Annual growth rates		
					1960-66	1966-67	1967-68
<u>Aggregate supply</u>	<u>2 621.6</u>	<u>3 248.7</u>	<u>3 417.7</u>	<u>3 655.1</u>	<u>3.6</u>	<u>5.0</u>	<u>6.9</u>
Gross domestic product	2 418.8	3 076.1	3 230.0	3 424.0	4.1	5.0	6.0
Imports of goods and services	202.8	172.6	187.7	231.1	-2.7	8.7	23.1
<u>Aggregate demand</u>	<u>2 621.6</u>	<u>3 248.7</u>	<u>3 417.7</u>	<u>3 665.1</u>	<u>3.6</u>	<u>5.2</u>	<u>6.9</u>
Exports of goods and services	166.8	223.0	220.3	246.3	5.0	-1.2	11.8
Total investment	418.5	490.0	510.0	560.0	2.7	4.1	9.8
Fixed investment	399.7	390.0	410.0	490.0	-0.4	5.1	19.5
Total consumption	2 036.3	2 525.7	2 687.4	2 858.8	3.7	6.0	6.4
General government	370.7	355.6	363.0	374.0	-0.7	2.1	3.0
Private	1 665.6	2 180.1	2 324.4	2 484.8	4.6	6.6	6.9

Source: 1960-67: ECLA, on the basis of data from the Getulio Vargas Foundation, Brazilian Institute of Economics, National Accounts Centre.

^{a/} Estimates.

/Major sectors

Major sectors of activity

The progress of agriculture was handicapped by bad weather conditions which seriously affected export crops (coffee and cocoa), reducing them 20 per cent below their 1967 levels. Among commodities for domestic consumption, the bean harvest was a good deal smaller and the major crops (rice and maize) were also reduced to some extent, although absolute levels of output outstripped domestic demand and left an appreciable margin for export. Agricultural production as a whole was 1.4 per cent less than in 1967, but this decline was counterbalanced by moderate increases in output of livestock, fisheries and forest products. The sectoral total thus went up by less than 1 per cent (see table II-28).

Manufacturing industry continued to recover from the low level it had dropped to in March 1967. Most of the principal branches were more buoyant (except tobacco, rubber products, clothing and machine-tools), and the dynamic industries made particularly striking progress with growth rates of over 20 per cent in the following: transport equipment, and the motor-vehicle industry in particular, which achieved an annual output of 280,000 vehicles; the chemical industry, especially plastics and perfumes; electrical equipment, including apparatus and household appliances; and metallurgy, especially the steel industry, which was once again able to use its surplus capacity. The metal-transforming industry also made great strides despite the competition of imported capital goods, which benefited from a cut of nearly 50 per cent in the protective tariffs established for national industry in 1965-66. Between January and July 1968 the São Paulo metal-transforming industry raised output more than 16 per cent over its level during the same period of 1967. The impact of this expansion was felt most strongly by the branches producing heavy capital goods, loading equipment, agricultural machinery and textile equipment, whose growth rates exceeded 20 per cent. The only sub-sector which declined was machine-tools, apparently because its production structure was not flexible enough to adjust to changes in demand. The traditional industries also recovered, and textiles in particular achieved fairly high growth rates for both production and employment, without, however, regaining its 1962 levels.

Table II-28

BRAZIL: TREND OF THE AGRICULTURAL PRODUCT, 1967-68

(Thousands of tons and percentages)

Commodity	Volume ^{a/}		1968 1967 Percentages
	1967	1968	
Cotton seed	1 543.0	1 846.0	+19.6
Groundnuts (unhulled)	611.0	556.0	-9.0
Rice (unhulled)	5 677.3	5 620.2	-1.0
Potatoes	1 270.0	1 212.5	-4.5
Cocoa	173.0	138.0	-20.2
Coffee	1 402.0	1 092.0	-22.1
Sugar cane	77 034.0	81 034.0	+5.2
Onions	157.0	263.4	+33.7
Beans	2 286.1	1 881.0	-17.7
Jute	32.7	52.0	+59.0
Maize	12 505.2	12 183.8	-2.6
Sisal	273.0	245.9	-9.9
Soya beans	679.0	700.5	+3.2
Other ^{b/}	-	-	+6.7
<u>Total</u>	-	-	<u>-1.4</u>

Sources: Brazilian Institute of Geography and Economics (IBGE), Anuario Estatístico 1968, Ministry of Agriculture Crop Forecast Service; Brazilian Coffee Institute; Sugar Institute.

a/ Production estimates were obtained from publications issued by the Ministry of Agriculture Crop Forecast Service (ETEA). 1967: Ministry of Agriculture, Estimativas para o ano agrícola 1967/68, Nº 27 (1968). 1968: National survey undertaken between 15 July and 5 August 1968.

b/ Including the following commodities: pineapples, oats, bananas, yams, rye, barley, coconut, tobacco, oranges, castor oil, manioc, tomatoes, wheat and grapes. The estimates of growth correspond in this case to the geometric rate of growth for the value of production at 1961 prices during 1961-67 for a sample of the composed of the following: bananas, tobacco, oranges, manioc, tomatoes and wheat.

/Mining, construction

Mining, construction and electric energy are thought to have made even greater progress than manufacturing industry. Construction increased more than 19 per cent, thus strengthening the trend which began with the inauguration of a financing scheme based on the substantial resources allocated to the National Housing Bank (Banco Nacional de Habitação)^{1/} and the development of an expanding private financed market for housing bonds. The rate had already been high the year before (nearly 10 per cent), and in 1968 the Bank, with the sizable addition of the Wage Fund (Fundo de Salarios), which was put at its disposal, built 170,000 low-cost housing units and helped to finance the private construction industry. The cement industry was unable to keep pace with the rising tide of demand and nearly 500,000 tons of cement had to be imported.

In the mining sector, the two major products responsible for the high average rate of growth (18 per cent) were petroleum, with an increment of 12.3 per cent, and manganese, mainly for export, output of which expanded by over 20 per cent. Imports of crude petroleum and petroleum products nevertheless rose sharply, and the import coefficient does not seem to have dropped in relation to total expenditure, since the daily output of 200,000 barrels of petroleum was too little to cover even half the domestic requirements,

The electric power industry raised its annual output at the same rate as industry in general, as a result of the extension of the distribution network and in particular, the expansion of capacity in the State concern, ELETROBRAS.

Economic policy aspects

(a) Fiscal

The execution of the general government budget in 1968 was more favourable than in the previous year. Total income rose more than 23 per cent in real terms, mainly because of a substantial increase in the revenue from taxes on industrial goods and imports, which stemmed, in its turn, from the expansion of the economic base (see table II-29).

^{1/} The proportion was 1.2 per cent of the total salaries and wages bill for the country as a whole.

Table II-29

BRAZIL: NATIONAL EXCHEQUER - REVENUE, 1967-68

(Millions of new cruzeiros and percentages)

Item	Current value		Constant value (January 1967 = 100)		$\Delta\%$ $\frac{1968}{1967}$	Percentage share	
	1967	1968	1967	1968 b/		1967	1968
Taxes	<u>5 152.6</u>	<u>8 491.0</u>	<u>4 654.6</u>	<u>6 181.0</u>	+22.8	<u>85.6</u>	<u>92.3</u>
Processed goods	2 271.2	4 324.9	2 050.0	3 147.4	+53.5	37.7	47.0
Income	1 889.6	1 869.3	1 256.1	1 359.4	+8.2	23.1	20.3
Imports	403.8	736.6	364.3	535.7	+47.0	6.7	8.0
Flat rate on electricity	103.7	133.5	92.4	93.8	+1.5	1.7	1.4
Minerals	29.0	33.0	27.2	26.8	-1.5	0.5	0.4
Flat rate on fuels and lubricants	955.3	1 393.7	864.6	1 027.9	+17.7	15.9	15.2
Other c/	<u>867.9</u>	<u>704.2</u>	<u>783.0</u>	<u>515.6</u>	-34.2	<u>14.4</u>	<u>7.7</u>
Total	<u>6 020.5</u>	<u>9 195.2</u>	<u>5 437.6</u>	<u>6 696.6</u>	+23.2	<u>100.0</u>	<u>100.0</u>

Source: Central Bank.

a/ January-November each year.

b/ Provisional indexes.

c/ Including unclassified revenue.

/Expenditure increased

Expenditure increased less, and its structure changed considerably: outlays on consumption were cut by nearly 30 per cent and direct general government investment by more than 6 per cent, while current transfer payments expanded by 90 per cent and capital payments by 10.6 per cent (see table II-30). Under current transfer payments, the State and Municipal Participation Fund (Fundo de Participação dos Estados e Municípios), made up of 20 per cent of the revenue from the two chief Federal taxes (on industrial goods and income), plays a fairly important role. The Fund gives a disproportionate amount of aid to the under-developed areas of the Nordeste; in 1968 such payments represented nearly half the total transfers made and exceeded the cash deficit of the National Exchequer. At the end of the year a presidential decree was promulgated, which restricting the share of these areas to 12 per cent.

The Exchequer's cash deficit was brought down some 1,200 million new cruzeiros, which was about 40 per cent less than in 1967 and represented 1.6 per cent of the product.

(b) Monetary and financial

Although the government deficit weighed less on the monetary expansion than in past years, the pressure exerted by the private sector increased appreciably. Consequently, the 15 per cent expansion of the means of payment, which was allowed for in the monetary budget, was transformed into 40 per cent by the end of the year.

The forms and machinery of financing have recently included a considerable expansion in the private institutions that provide the major industrial and commercial firms with working capital, and directly or indirectly finance the sale of durable consumer goods. The loans and financing thus made available, which at the end of 1964, constituted less than 7 per cent of the total resources of the financial system tied up in working capital for the private sector, have now climbed to 20 per cent of the total, which is virtually equal to the short and medium-term loans given by the Banco do Brasil (a government concern) and nearly 40 per cent of all financing by commercial banks.

Table II-30

BRAZIL: NATIONAL EXCHEQUER - EXPENDITURE, 1967-68 ^{a/}

(Millions of new cruzeiros and percentages)

Item	Current values		Constant values (January 1967 = 100)		Δ % <u>1968</u> <u>1967</u>	Percentage share	
	1967	1968	1967	1968 ^{b/}		1967	1968
<u>Current expenditure</u>	<u>4 604.8</u>	<u>6 465.6</u>	<u>4 177.4</u>	<u>4 733.6</u>	<u>13.3</u>	<u>61.9</u>	<u>63.4</u>
Purchases of goods and services	2 955.3	2 530.6	2 665.7	1 851.6	-30.5	32.5	24.8
Transfer payments	1 669.5	3 935.0	1 511.7	2 882.0	90.6	22.4	38.6
<u>Capital expenditure</u>	<u>2 834.0</u>	<u>3 729.4</u>	<u>2 571.2</u>	<u>2 732.6</u>	<u>6.3</u>	<u>38.1</u>	<u>36.6</u>
Investment	708.5	816.2	641.1	597.3	-5.8	9.5	8.0
Transfer payments	2 125.5	2 913.2	1 930.1	2 135.3	10.6	28.6	28.6
<u>Total</u>	<u>7 438.8</u>	<u>10 195.0</u>	<u>6 748.7</u>	<u>7 466.2</u>	<u>10.6</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank.

a/ January-November each year.

b/ Provisional indexes.

/The Government

The Government refrained from placing a large number of public bonds on the market during the year, so as not to compete with private financing agencies or to drive up the rate of interest paid by the firms that make use of such resources in the form of working capital. A number of fiscal measures were taken to improve the financial situation of financing enterprises and of the stock market. They consisted mainly in authorizing the revaluation of working capital and the capitalization of reserves without payment of taxes. Income tax payable on bearer bond dividends was also reduced and these returns ceased to be taken into account for supplementary cascade tax.

Public banks, such as the National Economic Development Bank (Banco Nacional do Desenvolvimento Econômico - BNDE), the National Housing Bank, the Banco do Brasil and the Bancô do Nordeste - the main financial agencies - continued to be primarily responsible for providing the private sector with long-term capital. The expansion of these operations was due to the inauguration of the National Housing Bank, with its network of agents dealing in housing bonds backed by the Bank, and to Fund in the Financing of Medium-scale Industry (Fundo de Financiamento a la Mediana Industria - FINAME) and other funds specially established for financing small and medium-scale industry. These funds were originally associated with BNDE, which is still the major source of capital for investing in private industry, as well as the depository of public funds for top-priority investments in infrastructure and basic industries.

(c) Prices policy

Although direct anti-inflationary measures loomed, less large in economic policy, the rise in domestic prices was no greater than in 1967 (24 per cent). This was partly due to a favourable financial year, but the main reason was the growth of the economy, which enabled it to absorb excess liquidity.

The policy of minimum agricultural prices was maintained without any increase in real terms, and rents were adjusted at rates equivalent to the rise in the cost of living or in the minimum legal wage, while electricity the cost of and the prices of steel produced by the State

/companies also

companies also increased, but only to a limited extent. At the end of December, the Government announced its intention of freezing the prices of food, beverages and medicaments for three months and of revising its rent policy in order to improve the living conditions of the poorer urban groups. Measures to be enforced by the Ministry of Finance in the following year included the scaling down of the Federal budget deficit by rechanneling some of the resources that would otherwise be allocated to Participation Fund for states and municipalities.

(b) Foreign trade policy

The year 1968 saw the continuation of ~~export promotion~~ drive launched in 1964 through special bank credit lines set up to aid the production of manufactures for export, the implementation of export credit insurance, and reductions in the tax on processed goods for export, which increase from 50 to 100 per cent as the volume of exports expands.

In matters of exchange policy, after August 1968 the length of time between adjustments was shortened to such an extent that the net result was the establishment of a flexible exchange rate. The rate of devaluation over the year was 20 per cent, which was less than the rise in domestic prices. In addition, the trend towards lower tariff levels begun in 1964 was continued.

In external financing, it was recognized that international financing agencies should plan their co-operation for several years at a time, in order to offer some degree of security and continuity in the work of domestic programming. The Ministry of Planning was entrusted with the co-ordination of external credits, and no Federal union guarantee could be obtained without its express authorization.

(e) The strategic development programme

In mid-year the Government published its plan of action for 1968-70. The plan laid down the terms and operational methods for longer term planning and stipulated that the public sector should participate in capital formation and the sectoral allocation of resources.

The plan underlines the need to diversify the dynamic sources of development through long-term strategy aimed at expanding the domestic /market in

market in order to open the way for continuous and self-sustained growth. Two phases are envisaged: the first, up to 1970, will be transitional, and economic growth will be based on the revival of activity, mainly through utilization of idle production capacity and thus involving little investment; during the second stage, growth will be more directly dependent on an increase in the saving-investment rate.

During the first stage, the rate of inflation will have to be gradually slowed down as development is reactivated, and public investment should be guided towards the key economic and social sectors so that growth can be placed on a sounder footing during the second stage. Government policy for increasing the amount of income available and stimulating demand for non-durable consumer goods will be focused on wage policy, so as to recover over the medium term the loss in real wages that took place between 1965 and 1967, and on reducing the marginal tax burden and the real costs of public services. On the supply side, the competitive capacity of domestic industry would be strengthened and a long-term policy adopted for the restriction and reduction of the costs of basic inputs, the promotion of scientific and technological development, research into mineral resources and the rationalization and diversification of traditional industries.

The external sector

In 1968 foreign trade reached unprecedented heights. The value of exports of goods and services rose to 2,060 million dollars while imports exceeded 2,300 million (see table II-31). The items that ranked foremost in the expansion of exports were coffee, with an increase of over 13 per cent in volume and a slight improvement in prices; cotton; iron ore, sugar and pinewood, with an average rise of 30 per cent in value, and maize and meat, which, in expanding by the exceptional amount of approximately 200 per cent, became two of the major export items. Iron and sugar were mainly aided by the rise in world market prices, since the volume of ore exported increased very little, while that of sugar contracted. The only significant reductions were in manufactures, cocoa, hides and skins, soluble coffee and wool.

Table II-31

BRAZIL: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Milliones of current dollars)

	1960	1965	1966	1967	1968
Current account					
Exports of goods and services	1 459.0	1 747.0	1 875.0	1 821.0	2 060.0
Goods	1 270.0	1 596.0	1 741.0	1 654.0	870.0
Services	189.0	151.0	134.0	167.0	190.0
Imports of goods and services	1 786.0	1 280.0	1 703.0	1 380.0	2 305.0
Goods	1 293.0	541.0	1 303.0	1 441.0	1 822.0
Services	493.0	339.0	400.0	439.0	483.0
Net investment income	-194.0	-259.0	-284.0	-295.0	-325.0
Net private transfer payments	-13.0	+39.0	+15.0	+50.0	+60.0
Balance on current account	-534.0	+247.0	-67.0	-304.0	-510.0
Capital account					
Net external financing	+534.0	-247.0	+67.0	+304.0	510.0
Net external non-compensatory capital	+233.0	+131.0	+250.0	+202.0	597.0
Direct investment	+138.0	+154.0	+159.0	+115.0	
Non-compensatory loans	-19.0	-9.0	+77.0	+110.0	
Short-term liabilities	+97.0	-50.0	-22.0	-58.0	
Official transfer payments	+17.0	+36.0	+54.0	+27.0	
Net non-compensatory domestic capital or assets	-38.0	-8.0	-44.0	-37.0	-87.0
Errors and omissions	+10.0	-31.0	-19.0	-27.0	
Compensatory movements	+329.0	-339.0	-120.0	+166.0	
Net compensatory external financing	+320.0	-117.0	-153.0	-112.0	
Balance-of-payments loans and deferred import payments	+211.0	-131.0	-78.0	-63.0	
Other liabilities of the monetary authorities	+94.0	-6.0	-18.0	-16.0	-87.0
IMF position	+15.0	+20.0	-57.0	-33.0	
Movements of gold and foreign exchange (increase -)	+9.0	+222.0	+33.0	+278.0	

Sources: 1960-67: IMF, Balance of Payments Yearbook, vols. 17 and 20; 1968: ECLA estimates.

/In imports,

In imports, the items which increased the most (in every case by nearly 40 per cent) were raw materials - except petroleum and wheat - and capital goods, an increase responding to the needs of arising from the high rate of industrial growth and the vigorous expansion of investment. Imports of machinery and equipment in general and allied parts and pieces for the metal-transforming, transport and electrical equipment industries amounted to some 700 million dollars. Although the margins of tariff protection were lowered, the increase in imports of food and beverages was fairly moderate (less than 6 per cent).

The balance for services is still very much on the debit side. Payments of dividends on foreign capital were over 300 million dollars, of which less than 100 million represented remittances of profits. Non-financial services, freight, insurance, etc., showed a deficit of about 290 million dollars, which was greater than in the previous year.

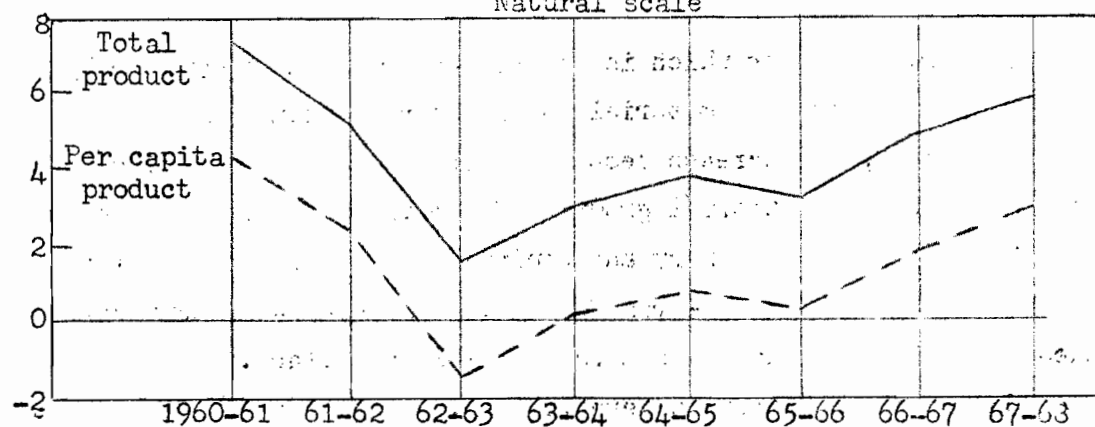
The deficit of over 500 million dollars on current transactions, was more than offset by a much bigger inflow of non-compensatory capital. The balance of payments therefore closed with a surplus of over 80 million dollars, which improved the net monetary position of the Central Bank. Short-term credits seem to have been the principal item in this inflow, and are still governed by Instruction 289 of the former monetary and credit agency (Superintendencia da Moeda e Crédito - SUMOC) and resolution 63 of the Central Bank. In fact, during the first half of the year alone, more than 250 million dollars entered the country in the form of non-compensatory capital.

Figure II-3

BRAZIL: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

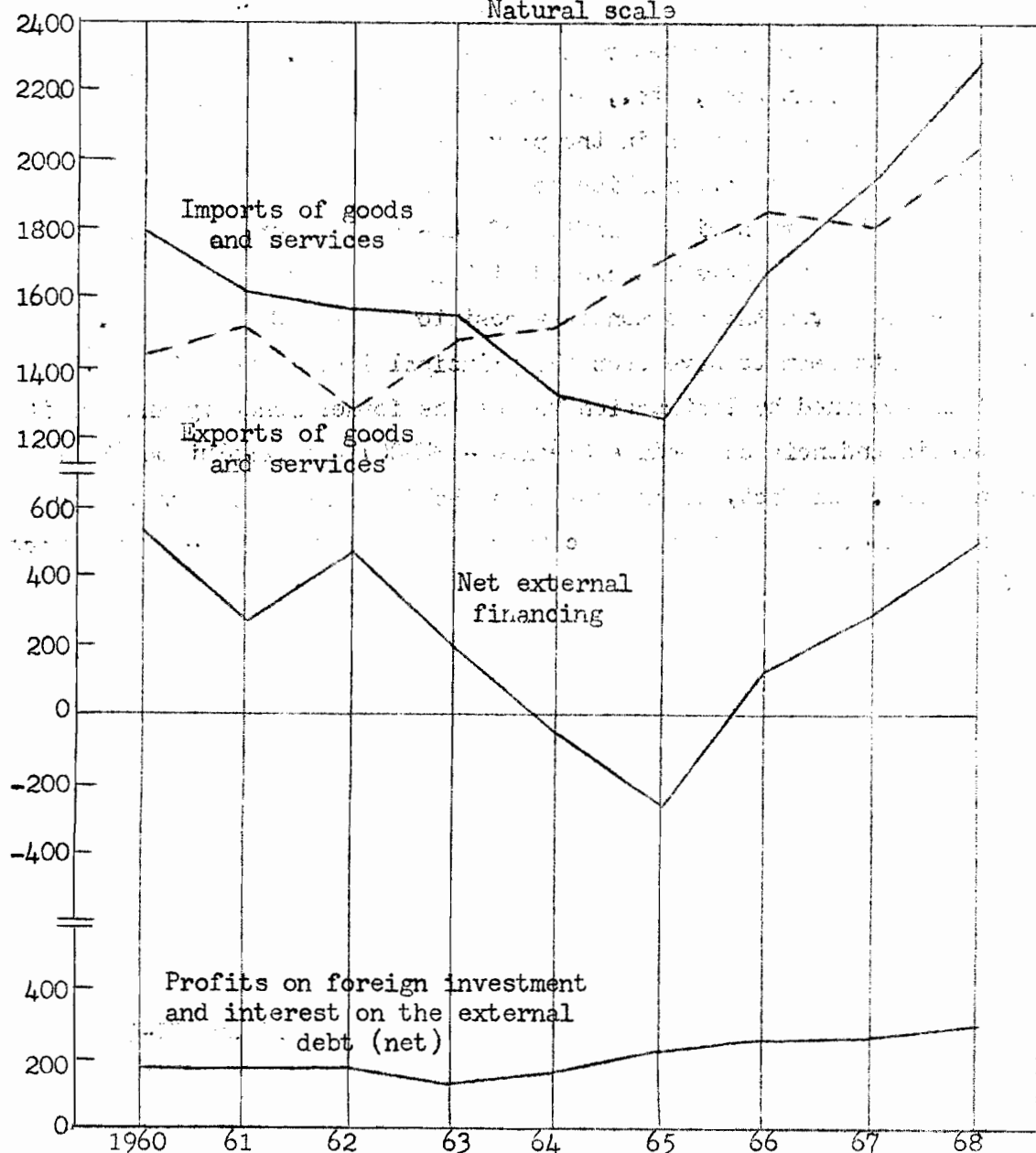
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



COLOMBIA

Over-all trends

According to provisional estimates, based on data for the first half of 1968, the growth rate of the Colombian economy for 1968 will probably be above 5 per cent. This would be a considerable improvement over the rate for 1967 (3.9 per cent), particularly when compared with the average annual rate of growth over the period 1960-66 (2.9 per cent).

Virtually all the major sectors of economic activity grew at a faster pace than in 1967, with the exception of mining, which continued to decline (see table II-32).

A very pronounced rise in imports and a smaller, but substantial, rise in exports meant that the domestic supply of goods and services increased at a faster pace than the total product. As a result, there were substantial increases in both consumption and investment (slightly over 5 per cent in total investment and almost 8 per cent in fixed capital investment); moreover, the increase in consumption was mainly attributable to private consumption, while under investment the expansion of construction was the most striking feature (see table II-33).

The expansion of total supply helped to hold domestic price increases within reasonable limits, an objective at which the principal instruments of economic policy continued to be largely directed. Between January and September, cost-of-living indexes rose by 5.8 per cent for employees and 5.4 per cent for workers, compared to rates of 6 and 5 per cent respectively for the same period in 1967 and a rise of some 14 per cent in 1966.

Despite the increased deficit in the balance of payments on current account, the country's international monetary reserves grew for the second year in succession, as a result of a larger inflow of non-compensatory capital in 1968.

Table II-32

COLOMBIA: GROWTH OF THE GROSS PRODUCT BY SECTORS
OF ECONOMIC ACTIVITY 1960-66 TO 1967-68

Sectors	Annual growth rates (percentages)		
	1960- 1966	1966- 1967	1967- 1968 <u>a/</u>
Agriculture	2.9	3.9	5.5
Mining	2.7	-1.7	-5.0
Manufacturing	5.7	4.3	6.5
Construction	4.6	6.5	9.0
<u>Subtotal for goods</u>	<u>3.8</u>	<u>3.8</u>	<u>5.4</u>
Electricity, gas and water	8.2	6.4	10.0
Transport and communications	5.5	2.2	2.8
<u>Subtotal for basic services</u>	<u>5.9</u>	<u>2.8</u>	<u>3.9</u>
Commerce and finance	5.6	3.1	4.8
Government	5.8	3.5	5.0
Miscellaneous services	5.2	5.8	6.3
<u>Subtotal for other services</u>	<u>5.5</u>	<u>4.1</u>	<u>5.4</u>
<u>Total product</u>	<u>4.6</u>	<u>2.9</u>	<u>5.3</u>

Source: Banco de la República, Departamento de Investigaciones Económicas.

a/ Preliminary estimates prepared by ECIA on the basis of incomplete statistics.

/Table II-33

Table II-33

COLOMBIA: TOTAL SUPPLY AND DEMAND, 1960-68

	Millions of pesos at 1960 prices				Annual growth rates (percentages)		
	1960	1966	1967	1968 _{a/}	1960- 1966	1966- 1967	1967- 1968
<u>Total supply</u>	<u>30.579</u>	<u>40.091</u>	<u>40.145</u>	<u>42.729</u>	<u>4.6</u>	<u>0.1</u>	<u>6.4</u>
Gross domestic product	26.418	34.647	35.998	37.906	4.6	3.9	5.3
Imports of goods and services	4.161	5.444	4.147	4.823	4.6	-23.8	16.3
<u>Total demand</u>	<u>30.579</u>	<u>40.091</u>	<u>40.145</u>	<u>42.729</u>	<u>4.6</u>	<u>0.1</u>	<u>6.4</u>
Exports of goods and services	4.164	4.622	5.095	5.477	1.8	10.2	7.5
Total investment	5.477	7.094	7.225 _{a/}	7.600	4.4	1.8	5.2
Fixed investment	4.827	5.472	5.725 _{a/}	6.170	2.1	4.6	7.8
Machinery and equipment	2.130	2.153	2.190 _{a/}	2.320	0.2	1.7	5.9
Construction	2.697	3.319	3.535 _{a/}	3.850	3.5	6.5	8.9
Total consumption	20.938	28.375	27.825	29.652	5.2	-1.9	6.6
General government	1.659	2.257	2.336 _{a/}	2.450	5.3	3.5	4.9
Private	19.279	26.118	25.489	27.202	5.2	-2.4	6.7

Source: ECLA, on the basis of data prepared by the Banco de la República, Departamento de Investigaciones Económicas.

a/ Provisional estimates prepared by ECLA on the basis of incomplete indicators.

/The major

The major sectors of production

According to preliminary estimates, the agricultural sector grew during 1968 at a rate of some 5.5 per cent, with large increments in rice, cotton, banana and sugar production; livestock production rose by almost 6 per cent and there was a substantial expansion of fisheries production. A factor promoting this growth was the increased amount of credit granted by the Colombian Land Reform Institute (Instituto Colombiano de la Reforma Agraria - INCORA), the Livestock Bank (Banco Ganadero) and the Agricultural Credit Bank (Caja de Crédito Agropecuario).

Mining production again declined, at a much faster pace than in 1967, particularly the production of petroleum, gold and silver (at least during the first half of the year, compared with the same period in 1967, the decline was more than 8 per cent for petroleum, 4.3 per cent for gold and 9.3 per cent for silver).

The growth of industry (about 6.5 per cent) was fostered by the expansion of specific credit programmes. Estimates covering the first half of 1968 indicate significant increases in cement, sugar, caustic soda and gasoline production, which reflect the dynamism not only of the activities producing such manufactures but also of the activities using them as inputs. Production of electrical energy and liquid gas also rose (9.8 and 19.5 per cent respectively during the first half of the year) and there were similar rises in construction, judging from the increase in the consumption of cement and the number of building permits issued.

The external sector

Initial estimates of the balance of payments for 1968 show an increase of 9 per cent in the current value of exports of goods and services and 16 per cent for imports. This raised the deficit on current account to 132 million dollars in 1968, compared to 89 million in 1967.

The rise in exports for the second year in succession was a very positive factor, particularly since the average annual rate of growth of exports so far in the sixties has been about 3 per cent, with marked differences from year to year. This improvement was due in large measure to the rise in coffee exports - 500,000 more sacks were exported than in 1967 - while increased sales of other less important exports totalled some

/160 million

160 million dollars, with marked increases in some new industrial products (made-up textile goods, textiles, paper, paper-board, chemical and pharmaceutical products), and in agricultural products such as cotton and livestock. There was also a slight recovery in world prices for Colombian coffee.

The marked upswing in imports followed the severe 25 per cent drop in 1967 as a result of direct controls and exchange control, and thus in absolute terms still remained below the high level achieved in 1966 (see table II-34). The increment largely consisted of intermediate and capital goods, while imports of consumer goods declined.

These changes in import and export levels increased the deficit in the balance of payments on current account, although the increased inflow of foreign non-compensatory capital meant that, before compensatory financing, the balance of payments showed a surplus similar to that of 1967, thus indicating the monetary authorities' policy of strengthening the country's net gold and foreign exchange position.

Some features of short-term economic policy

Monetary policy led to a 16 per cent increase in the means of payment, lower than the 22 per cent increase in 1967. This helped to control possible inflationary pressures arising from the monetary situation in 1967 and from any possible surplus linked to the rise in net international reserves during 1968. For this purpose, at the beginning of the year bank cash reserves covering demand and thirty-day liabilities, were increased which curbed the growth of current account deposits. In addition, it was decided to reduce the amount of reserves payable on demand as from July 1968 and gradually to eliminate the machinery under which part of bank cash reserves could be held in government scrip. At the same time, attempts were made to guarantee short-term financing for the main productive activities through the Fund for Agricultural Financing (Fondo Financiero Agrario) and the Fund for Industrial Financing (Fondo Financiero Industrial).

Table II-34

COLOMBIA: BALANCE-OF-PAYMENTS ESTIMATES, 1960-1968

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968 a/
<u>Current account</u>					
Exports of goods and services	589.1	708.5	662.0	704.1	767.5
Goods	495.3	591.0	533.9	558.3	605.5
Services	93.8	117.5	128.1	145.8	162.0
Imports of goods and services	634.4	653.3	866.1	688.2	795.2
Goods	496.4	430.4	638.9	464.3	559.2
Services	138.0	222.9	227.2	223.9	236.0
Net investment income	-39.6	-79.2	-86.1	-105.3	-104.0
Net private transfer payments	+0.4	+4.2	-0.2	0.0	0.0
Balance on current account	-84.5	-19.8	-290.4	-69.4	-131.7
<u>Capital account</u>					
Net external financing	+84.5	+19.8	+290.4	+89.4	+131.7
Net non-compensatory foreign capital	+30.5	+12.5	+250.6	+176.6	
Direct investment	+2.5	+10.4	+40.0	+40.1	
Non-compensatory loans	+8.5	+76.7	+104.1	+52.2	
Short-term assets	+14.2	-82.3	+96.3	+47.3	+192.4
Official transfer payments	+5.3	+7.7	+10.2	+22.0	
Net non-compensatory domestic capital or assets	+14.1	-16.5	+25.9	-0.5	
Errors and omissions	+44.0	+67.2	-29.8	-39.0	
Net movements of compensatory capital	-4.1	-43.4	+43.7	-47.7	
Net compensatory foreign capital	-66.3	-44.9	+35.2	-41.9	
Balance-of-payments loans and trade arrears	-43.8	-23.2	+36.4	-76.3	-60.7
Other official monetary liabilities	-1.3	+2.3	+0.8	+0.5	
International Monetary Fund position	-21.2	-24.0	-2.0	+33.9	
Movement of gold and foreign exchange (increase -)	+62.2	+1.5	+8.5	-5.8	

Source: 1960-67: International Monetary Fund, Balance of Payments Yearbook, Vol. 16 and 19.

a/ Provisional estimate.

/Credit policy

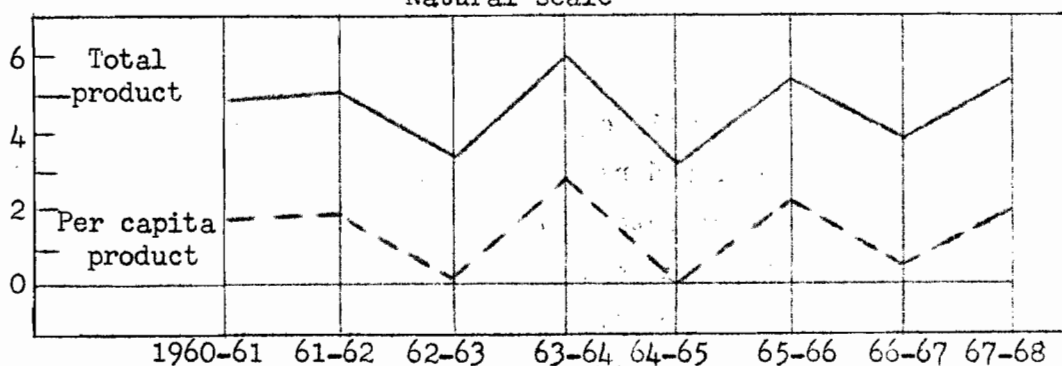
Credit policy was closely linked to the measures adopted with respect to bank cash reserves and reserve liquidity. Generally speaking, bank credit expanded at a lower rate - 2.5 per cent - during the first half of 1968 than during the same period in 1967, when the rate was 9.7 per cent. Bank credit for construction and transport increased over 1967 while for mining and industry it decreased and for agriculture it remained constant. In addition, special credit institutions considerably increased loans to industry and agriculture, partly through the channelling of external credit.

Both the income and the expenditure of the Central Government rose by more than 20 per cent at current prices. Under government expenditure, the relative share of each item fell within the ranges set in 1967. There was also an increase in the burden of taxation, through tax credit certificates, higher income taxes and import duties; but the product of duties on exchange transactions declined.

Exchange policy continued to be regulated by the exchange law of March 1967, which established two types of market: one for capital, at a fixed rate of 16.30 pesos to the dollar, and another for exchange certificates, at a fluctuating rate, fixed initially at 13.50 pesos to the dollar. Since March 1967, the rate for exchange certificates has risen slowly but steadily and at the beginning of June 1968 rates in the two markets were at parity. Accordingly, the Monetary Council (Junta Monetaria) decided to transfer all the exchange transactions handled on the capital market to the exchange-certificates market; this brought the exchange rate more into line with the supply of and demand for foreign exchange and also helped to eliminate speculation.

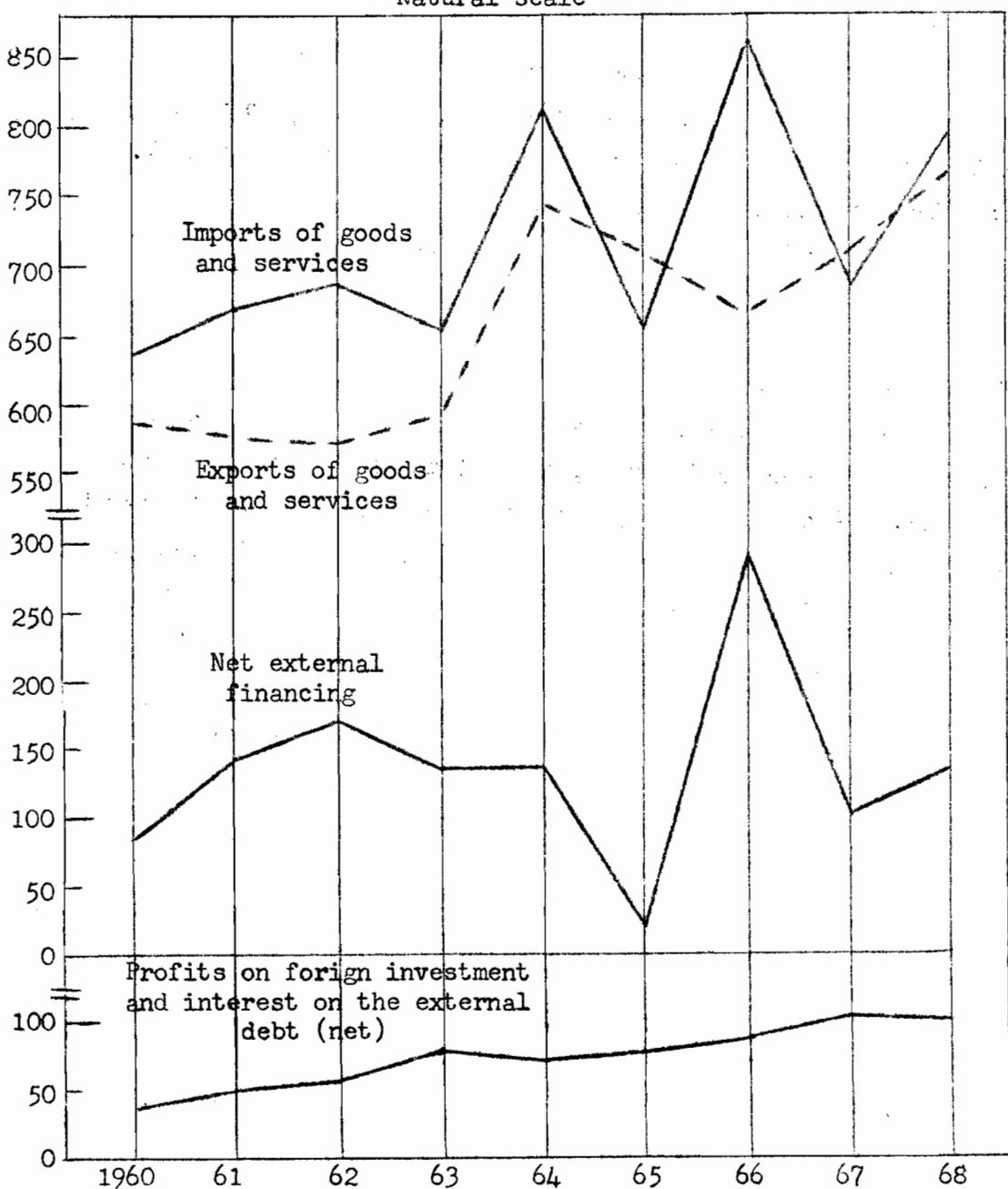
COLOMBIA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)
Natural scale



COSTA RICA

General features

In 1968 the economy of Costa Rica kept up the high growth rate which has been characteristic of it in recent years. According to provisional estimates, the rate of increase of the gross domestic product was about 8 per cent, which implies a 4.5 per cent increment in per capita income (see table II-35).

Agricultural production achieved a noteworthy expansion of 14 per cent, largely because the banana-growing area had been enlarged in previous years and because weather conditions were favourable to rice, maize and sugar, which are the most important of the crops grown for domestic consumption. Activity in the manufacturing sector, under the stimulus of the expansion of income and of regional demand, also showed an appreciable increase (11 per cent). Construction trends, however, flattened out, as a result of the reduction of public investment.

As in previous years, the mainspring of economic activity was the external sector, whose development made for an improvement in income and employment levels. There was a much bigger increase than in 1967 in exports of goods, the value of which soared to more than 170 million dollars. This upswing is attributable mainly to the expansion of the volume of sales of bananas and, on a smaller scale, of coffee and livestock, since export prices were inclined to weaken. The growth rate of exports of manufactures to the Central American market remained rapid, with the resultant strengthening of industrial activities.

External market and regional demand prospects continued to provide incentives to private investment, which rose 10 per cent above its 1967 level, and was primarily channelled into the manufacturing sector and into banana production in the Atlantic zone. Implementation of the programme aimed at trebling the banana-growing area - which was launched in 1967 and is scheduled for completion in 1970 - continued without interruption.

Table II-35

COSTA RICA: ANNUAL GROWTH RATE OF THE PRODUCT, BY SECTOR, 1960-66, 1967 AND 1968

	1960-66	1967	1968 ^{a/}
Agriculture	3.8	6.4	14.0
Manufacturing	9.9	11.0	11.3
Construction ^{b/}	4.5	7.0 ^{a/}	- ^{a/}
<u>Goods</u>	<u>5.4</u>	<u>7.8</u>	<u>12.4</u>
<u>Basic services</u> ^{c/}	<u>6.8</u>	<u>7.3</u>	<u>2.9</u>
<u>Other services</u>	<u>7.3</u>	<u>7.7</u>	<u>4.5</u>
<u>Growth rate of the total product</u>	<u>6.4</u>	<u>7.7</u>	<u>8.1</u>

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.

^{b/} Including mining.

^{c/} Including electricity, gas and water, and transport and communications.

/The components

The components of domestic demand played a less active role in 1968. This is largely attributable to the stabilization measures adopted by the Government to curb the growth of consumption and thus improve the balance-of-payments position. The sales tax and the exchange and credit restrictions applied in 1967 seem to have pegged the increase in private consumption down to 4.6 per cent in 1968, whereas it had been 6.6 per cent in the preceding year (see table II-36). Cuts in its administrative expenditure and other current outlays enabled the Central Government to reduce its rate of expansion to 5.6 per cent, as against 9.7 per cent in 1967. At the same time tax revenue was boosted by 16 per cent, thanks to new sales taxes and temporary income and land tax surcharges. This halted the rapidly rising trend shown by the budget deficit in the preceding five-year period. For the first time in three years the Central Government had a margin of savings at its disposal for the financing of investment. Its value in absolute terms, however (21 million colones), was barely one-third of what it had been in 1962, and it was enough to finance only 10 per cent of the total public investment projected for 1968 (216 million colones).

The inadequacy of domestic saving and, up to a point, handicaps of a technical nature reduced public investment by 14 per cent in relation to 1967. It was for this reason that the construction work for the new port of Limón and the building of the highway to link it up with the capital were temporarily shelved.

The measures designed to check the expansion of domestic demand helped to bring down the growth rate of imports to a little under 8 per cent, which may be regarded as moderate in relation to the steep rise in export earnings. Hence it was possible to reduce the deficit on current account (see table II-37). Although net inflows of capital were smaller than in 1967, they sufficed to cover the deficit and enable gold and foreign exchange reserves to be considerably increased.

Table II-36

COSTA RICA: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of colones at 1960 prices)

	1960	1966	1967	1968 a/
<u>Aggregate supply</u>	<u>3 562.0</u>	<u>5 259.9</u>	<u>5 641.8</u>	<u>6 088.7</u>
Gross domestic product	2 811.0	4 072.0	4 386.0	4 740.0
Imports of goods and services	751.0	1 187.9	1 255.8	1 346.7
<u>Aggregate demand</u>	<u>3 562.0</u>	<u>5 259.9</u>	<u>5 641.8</u>	<u>6 088.7</u>
Exports of goods and services	583.0	915.2	1 010.2	1 233.5
Gross fixed investment	479.0	689.0	742.0	777.0
Public	95.0	150.1	155.8	142.2
Private	384.0	538.9	577.2	634.8
Total consumption	2 500.0	3 655.7	3 888.6	4 078.2
General government	328.0	511.6	535.6	569.9
Private	2 172.0	3 144.1	3 353.0	3 508.3

Source: ECLA, on the basis of official statistics.

a/ Estimates.

Table II-37

COSTA RICA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	104.5	140.0	163.7	177.3	212.2
Goods	87.0	111.9	136.0	145.5	177.2
Services	17.5	28.1	27.7	31.8	35.0
Imports of goods and services	120.9	199.6	200.5	213.7	229.8
Goods	98.9	160.5	162.2	171.4	184.0
Services	22.0	39.1	38.3	42.3	45.8
Net investment income	-3.7	-13.7	-15.4	-18.3	-19.7
Net private transfer payments	+0.8	+2.4	+4.3	+4.0	+4.0
Balance on current account	-19.3	-70.9	-47.9	-50.7	-33.3
<u>Capital account</u>					
Net external financing	+19.3	+70.9	+47.9	+50.7	+33.3
Net external non-compensatory financing	+10.9	+55.6	+50.2	+66.1	+41.5
Direct investment	+2.4	+0.1	+14.6	+10.0	
Non-compensatory loans	+0.7	+33.5	+25.4	+36.5	
Short-term liabilities	+4.5	+18.5	+6.7	+15.0	
Official transfer payments	+3.3	+3.5	+3.5	+4.6	
Net non-compensatory domestic capital or assets	-1.7	-7.5	-6.9	-5.0	-8.2
Errors and omissions	-1.1	+15.5	-0.6	+4.2	
Compensatory movements	+11.2	+7.3	+5.2	-14.6	
Net compensatory external financing	+9.9	+8.6	+3.2	-12.5	
Balance-of-payments loans and deferred import payments	+10.0	+1.5	+2.7	-12.5	
Other liabilities of the monetary authorities	-	-	-	-	
IMF position	-0.1	+7.1	+0.5	-	
Movements of gold and foreign exchange (increase -)	+1.3	-1.3	+2.0	-2.1	

Source: 1960-67: IMF, Balance of Payments Yearbook, vols. 17 and 20; 1968, ECLA estimates.

/Agricultural and

Agricultural and industrial production

Thanks to a combination of favourable circumstances, agricultural production boomed in 1968/69. Weather conditions, plus the impact of credit policy and the technical assistance given to farming for domestic consumption, generated increases of 20 per cent in production for export and 9 per cent in production for the home market. Livestock production also expanded, although on a smaller scale.

So vigorous an upswing in production for export was primarily due to a bumper banana crop of 682,800 tons (or 39.5 per cent more than in 1967/68), which was big enough to permit of a substantial increase in external sales. These results were due to the extension of the banana-growing area in recent years, which in turn had been made possible through the credits granted by the official banks and the guarantees to purchase accorded by the banana companies to independent procedures.

Coffee production in the current crop year is estimated at 82,900 tons, or 7.2 per cent more than in 1967/68. The quota of 939,902 bags assigned to Costa Rica by the International Coffee Council for the two-year period 1968-69 will thus be filled, and, as in previous years, exportable surpluses will be left over for new markets. Cocoa production fell a little short of its 1967/68 level, despite the fact that world market prices for cocoa rose during 1967 and 1968.

Sugar production, which has gained momentum in the last few years with the increase in Costa Rica's quota for export to the United States and the expansion of domestic demand, is estimated at 142,600 tons for the current crop year, and should thus exceed the 1967/68 volume by 10.7 per cent. This larger output was sufficient to cover a further increase in sugar exports, which had already risen by 20 per cent in the preceding year.

Owing to the policy of support prices and the official backing given to agriculture for domestic consumption (which showed a marked acceleration of its rate of growth), production of maize and rice increased by 4.2 and 8.6 per cent, respectively, in relation to the previous crop year. Livestock production expanded by 4.7 per cent. This was a good deal smaller than the production increment achieved in the preceding farm

/year, but

year, but exports from this sector rose by 25 per cent in 1968, largely because the Government was driven by force of circumstances to modify its export restriction policy in view of the possibility that the eruption of the Arenal volcano might cause losses of cattle in the area affected.

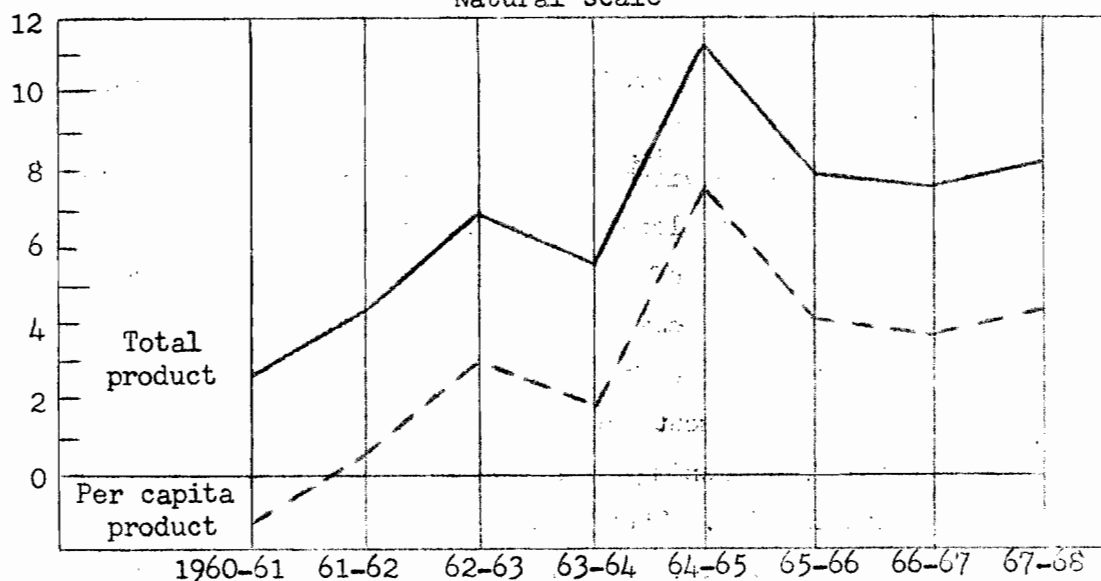
In response to the stimulus of domestic demand and the incentives provided by the Central American common market, manufacturing output kept up the high growth rate of the last few years, expanding by 11.3 per cent, and attaining a gross value of about 956 million colones.

The trend towards strengthening production of intermediate as against consumer goods sharpened in 1968. Thus, although their relative importance within the industrial sector is still slight, the most rapid growth rates were recorded for rubber products (37.9 per cent), chemical products (13.4 per cent), and petroleum derivatives, production of which began in mid-1967. Attention should also be drawn to the increase in the rate of expansion of the industries manufacturing machinery and electrical appliances, which raised their aggregate output for the year by 12 per cent.

According to estimates, 65 projects for the installation of new industrial plants or the expansion of others already in existence were put into execution in the course of 1968. Of these, thirty-seven were completed and twenty-eight are under way. Among the most important were the plants for the manufacture of textiles, papain, batteries and plates for machinery, fats, oils and lubricants, and transport material, as well as a sawmill and a factory making wood products. Of particularly far-reaching scope is the project for producing alumina on the basis of bauxite at San Isidro de El General, which represents a total investment of 60 million dollars. This plant will produce for external markets.

The 1969 Operational Plan for Industry was approved in 1968, and draft legislation was submitted on amendments to the Industrial Protection and Development Act. These two measures, together with the establishment of a Centre for Export and Investment Promotion as a semi-autonomous agency, may be regarded as the most salient features of the policy pursued in 1968 with a view to strengthening the manufacturing sector.

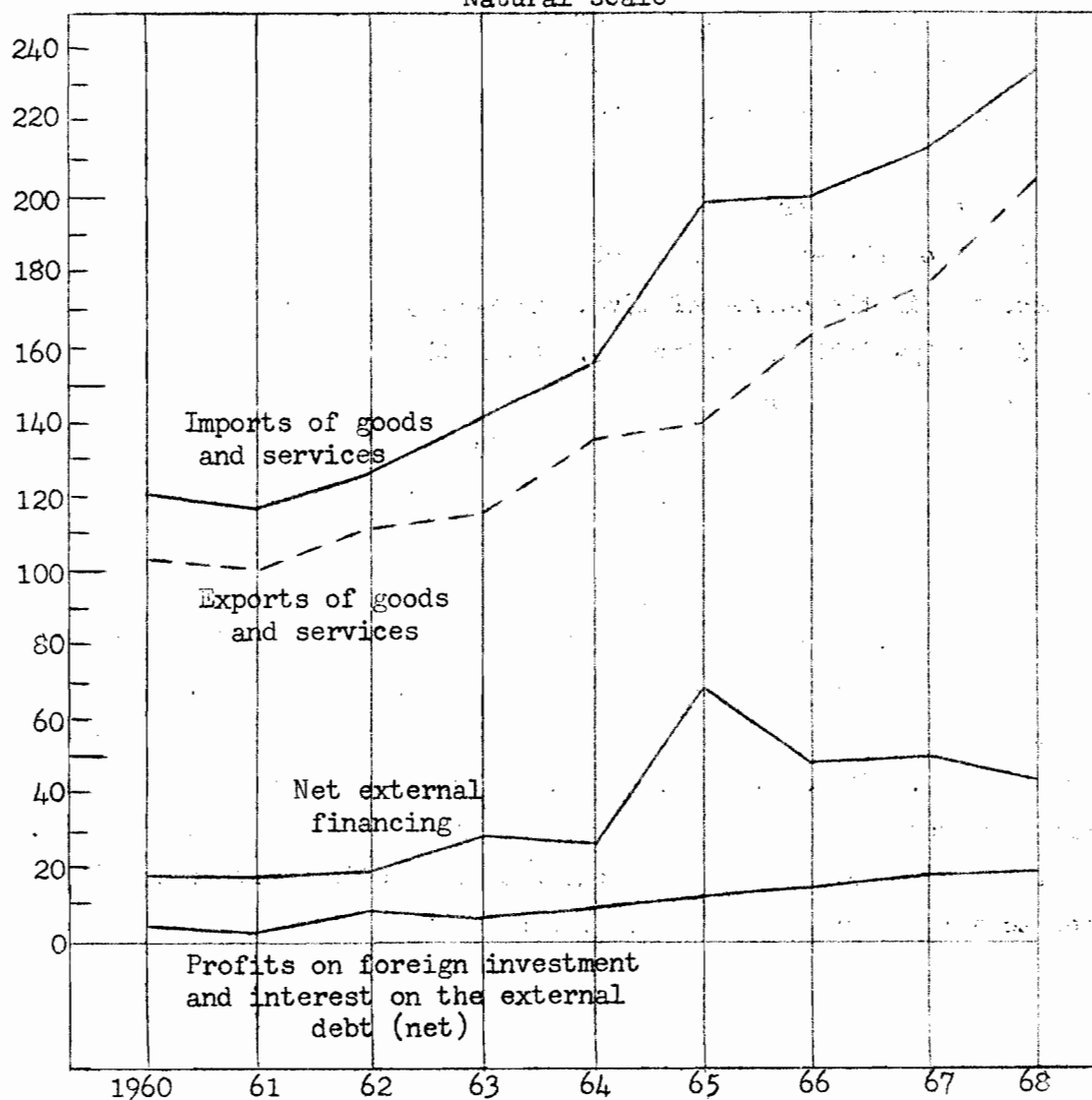
Figure II-5

COSTA RICA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68(Annual growth rates)
Natural scale

EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



CHILE

Main economic trends in 1968

The drought that affected most of the country in 1968 had serious direct and indirect effects which partly explain the recent economic trends and further obstructed the efforts to curb inflation.

Preliminary estimates indicate that the total product increased by a little over 2 per cent. This mainly reflects a decrease in agricultural production and in construction, and only a slightly higher growth rate for industry (see table II-38). Consumer prices rose by 27.9 per cent from December 1967 to December 1968, compared with 21.9 per cent the previous year.

In contrast with the slow growth of the total product, fixed capital investment increased by some 10 per cent over 1967, and consumption by just under 4 per cent. Investment was boosted by the greater facilities for importing capital goods, the increase being largely the result of programmes for the expansion of the copper industry.

The external sector continued to grow. The value of exports, which has now reached a higher level than ever before, increased relatively little, while imports rose substantially and for the first time exceeded 1,000 million dollars. Even so, the sharp upturn in the inflow of capital resulted in a surplus on the balance of payments before compensatory financing and an increment in Chile's gold and foreign exchange reserves.

Table II-38

CHILE: ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT
BY SECTORS OF ECONOMIC ACTIVITY, 1960-66 AND 1966-68

(Percentages)

Sectors	Percentage annual growth rates		
	1960-1966	1966-1967	1967-1968 ^{a/}
Agriculture	2.9	3.9	-4.0
Mining	5.7	-0.6	-
Manufacturing	7.5	2.5	3.0
Construction	5.2	-6.2	-3.5
<u>Sub-total for goods</u>	<u>5.9</u>	<u>1.4</u>	<u>0.4</u>
Electricity, gas, water, etc.	7.8	10.7	2.0
Transport and communications	12.0	-0.1	2.5
<u>Sub-total for basic services</u>	<u>11.4</u>	<u>1.1</u>	<u>2.4</u>
Commerce and finance	4.6	6.2	2.9
Government	3.2	2.2	1.7
Miscellaneous services	3.7	-1.7	5.4
<u>Sub-total for other services</u>	<u>4.0</u>	<u>2.5</u>	<u>3.7</u>
<u>Total product</u>	<u>5.4</u>	<u>2.0</u>	<u>2.1</u>

Source: ECLA, on the basis of data supplied by ODEPLAN in Cuentas Nacionales de Chile 1960-1967.

^{a/} Preliminary ECLA estimates based on national indicators.

/Major sectors

Major sectors of production

Agricultural production was affected by a drought in the central and northern areas which lasted throughout the year and caused a drop of about 10 per cent in livestock production, while crop farming increased by only 2 per cent. This growth is attributable to a significant increase in agricultural export items (garlic, beans, lentils and onions), favoured as they were by a rise in prices; on the other hand, agricultural production for the home market followed a less favourable trend. Fisheries showed a sharp increase of some 30 per cent. Altogether, according to preliminary estimates, the agricultural product declined by about 4 per cent.^{2/}

The mining sector proceeded with its medium- and long-term expansion programmes backed by heavy investment; thus, the Copper Corporation (Corporación del Cobre) reports that of a total programmed investment of 627 million dollars, 225 million had already been invested by the end of the third quarter of 1968. As regards present activities, however, all mining production remained at a standstill, with a 3 per cent drop in large-scale copper mining and an increment in small- and medium-scale mining. Output of large-scale mining was 519,000 tons, compared with 536,000 in 1967. This reduction was largely due to water shortage, which interfered with the supply of power and the ore-processing operations at El Teniente mine, whose production declined from 181,000 to 154,000 tons. An analysis of the trends followed by other branches of mining reveals widely differing results; thus the substantial increases recorded in the production of iron (11.3 per cent), petroleum (10.7 per cent) and coal (7.3 per cent) contrast with the reduction of about 25 per cent in nitrate. Petroleum output was 2,177,000 cubic metres as

^{2/} These preliminary estimates may have to be corrected when more accurate data become available. For instance, it might be more proper to treat the losses in live weight and number of the cattle population as "changes in stocks", in which case it would be necessary to consider the effect of these losses on future production rather than to take them into account in the measurement of the 1968 agricultural product. This would naturally affect the estimates of the increase in the total domestic product also.

against 1,966,000 in 1967. The Concón and Concepción plants refined 4,203,000 cubic metres of oil, or 7.8 per cent more than the previous year; 54 per cent of the oil came from Magallanes province and the rest from Venezuela.

Industry showed a relatively sluggish growth (about 3 per cent), which was influenced, inter alia, by the evolution of domestic demand and the restrictions placed on the supply of electric power as a result of the drought. Sales dropped by an average of 0.5 per cent in the first ten months of 1968 compared with the same period in 1967, with a consequent increase in stocks. Preliminary estimates indicate reductions of 2 to 19 per cent in sales of beverages, tobacco, textiles and footwear, and a slight increase - less than 2 per cent - in sales of foodstuffs. On the other hand, the first nine months of the year marked an increase of 5 to 12 per cent in industries manufacturing electrical equipment, petroleum products and transport material, while the decline in construction had adverse repercussions on the basic metal-transforming industries.

There was a decrease of 3 to 4 per cent in construction, which reflected opposite trends in public and private sector activities: provisional data for the first nine months of 1968 indicate an average increase of nearly 8 per cent in public building and a drop of more than 11 per cent in private activities.^{3/}

The tempo of activity in the goods producing sectors had a corresponding impact on services, whose growth is estimated at 2.4 per cent for basic services and 3.7 per cent for other services.

^{3/} Here again, the estimates are provisional and will probably have to be revised. Other preliminary and incomplete data would seem to indicate that construction activity finally levelled off at much the same figure as in 1967.

Total supply and demand

From the standpoint of the actual availability of goods and services, the slow growth of the product was offset in 1968 by the considerable expansion of imports, so that total supply rose by 4.2 per cent (see table II-39). As at the same time the value of exports of goods and services was practically stabilized, appreciable changes took place in the composition of total demand, while the growth rates of both consumption and investment were higher than that of the domestic product.

Fixed capital investment rose by about 10 per cent, despite the further decline in construction. In particular, imports of machinery and equipment increased by about 25 per cent,^{4/} including those effected under the expansion programmes for the copper industry.

There was a 3.9 per cent increase in total consumption, which is mainly accounted for by private consumption (4.3 per cent), since public consumption grew at a much slower rate. Government accounts, however, did not follow the same trends; on the contrary, public incomes and expenditure continued to soar, but the major current expenditures were mainly in the form of transfers to the private sector and the decentralized public sector. According to preliminary estimates supplied by the Budget Office, fiscal revenue appears to have risen by 9.8 per cent in real terms, the largest increments being obtained from indirect taxation, particularly the sales tax, taxes on services, and customs duties. Public expenditure rose by 9 per cent in real terms, which kept the deficit at the same level as the previous year (7 per cent of expenditure). Seventy per cent of the deficit was covered with domestic resources (especially contributions from the Central Bank and forced loans from the private sector), and the external contribution was obtained mainly under the agreement on agricultural surpluses and from the United States Agency for International Development.

^{4/} Items classified as capital goods by the Central Bank. The growth figure derived from the official national accounts data, which are not yet available, may be lower because a different criterion is used for classifying these imports.

Table II-39

CHILE: TOTAL SUPPLY AND DEMAND, 1960-68

	Millions of escudos at 1960 prices				Percentage annual growth rates		
	1960	1966	1967	1968 ^{a/}	1960-1966	1966-1967	1967-1968
<u>Total supply</u>	<u>4 857</u>	<u>6 586</u>	<u>6 717</u>	<u>7 001</u>	<u>5.2</u>	<u>2.0</u>	<u>4.2</u>
Gross domestic product	4 160	5 687	5 803	5 925	5.4	2.0	2.1
Imports of goods and services	697	899	914	1 076	4.3	1.7	17.7
<u>Total demand</u>	<u>4 857</u>	<u>6 586</u>	<u>6 717</u>	<u>7 001</u>	<u>5.2</u>	<u>2.0</u>	<u>4.2</u>
Exports of goods and services	574	790	783	785	5.5	-0.9	0.3
Total investment	722	1 035	995	1 085	6.2	-3.9	9.0
Gross fixed investment	641	868	879	(965)	5.2	1.3	9.8
Construction	377	494	461	445	4.6	-6.7	-3.5
Machinery and equipment	264	374	418	(520)	6.0	11.8	24.4
Changes in stocks	81	167	116	120	12.8	-30.5	3.4
Total consumption	3 561	4 761	4 939	5 131	5.0	3.7	3.9
General government	447	590	588	593	4.7	-0.3	0.9
Private	3 114	4 171	4 351	4 538	5.0	4.3	4.3

Source: ECIA, on the basis of data supplied by ODEPLAN; Cuentas Nacionales de Chile 1960-1967.

^{a/} Preliminary ECIA estimates based on national indicators.

Domestic prices

Domestic prices

Inflation continued to be one of the main sources of concern in the management of short-term economic policy, and the Government was unable to prevent it from rising above the level of the previous year.

The consumer price index rose by 27.9 per cent from December 1967 to December 1968, and, of its components, food increased 27 per cent, housing 27.3 per cent, clothing 25 per cent, and miscellaneous items 35.8 per cent. The wholesale price index went up 32.6 per cent over the same period, with increases of 26 per cent for agricultural products, 19.7 per cent for mining products, 34.7 per cent for manufactured goods, and 39.5 per cent for imports.

The cost of construction rose by 34.4 per cent from December 1967 to October 1968. The general context in which this price increase occurred seems to indicate that it was mainly due to increases in building costs and to the inflexible nature of supply, as distinct from what happened in 1965-66 when the major pressure came from factors on the demand side.

The external sector

Although, compared with 1967, they followed a very different pattern in 1968, the values of exports and imports of goods and services reached unprecedented levels, in both cases exceeding 1,000 million dollars.

The increase in exports was relatively small, notwithstanding the persistently favourable prices of the major export items; in fact, there was a slight reduction in the total volume of exports, which was more than offset by a 5 per cent increase in average unit prices.

As mentioned before, the unfavourable evolution of the volume of exports may be ascribed mainly to mining products. The value of agricultural exports (30.7 million dollars) was practically the same as in 1967. The largest increase was in the volume and value of fruit, while other items declined in importance. Exports of manufactures climbed 20 per cent, owing to the larger volume of fish meal exports, the marked increase in exports of copper manufactures, and the progress made in placing pulp on external markets.

/Imports rose

Imports rose 17.3 per cent in value (from 904 to 1,060 million dollars) between 1967 and 1968. The bulk of this increment is accounted for by imports of capital goods and spare parts (to a great extent for the replacement of equipment in large-scale copper mining) whose share in total imports rose from 34 to 41.2 per cent between 1967 and 1968, or to 308 and 435 million dollars respectively. On the other hand, the growth of other import items slackened; thus imports of agricultural and industrial consumer goods increased by 8.3 and 10.2 per cent respectively, and those of industrial raw materials by 7.5 per cent. Fuel imports, for their part, declined in absolute terms as a result of the substantial domestic output.

These changes in exports and imports aggravated the balance-of-payments deficit on current account (see table II-40), which rose to over 240 million dollars; however, a heavy increase in the inflow of foreign capital resulted in a surplus on the balance of payments before compensatory financing.

The gross inflow of compensatory and non-compensatory funds reached an exceptionally high figure, i.e., over 640 million dollars.^{5/} Although amortization and service payments increased to 250 million dollars, and remittances of profits on direct foreign investment and interest on foreign loans rose to 234 million dollars, for the first time since 1964, the net contribution of foreign funds to the financing of imports reflected a positive balance (see table II-41). This surplus - some 157 million dollars - not only reinforced the capacity to import but also enabled Chile to increase its gold and foreign exchange reserves considerably.

^{5/} Including a stand-by agreement with the International Monetary Fund for 46 million dollars, drawings on which up to November, amounted to 37 million dollars. At the same time payments totalling 25 million dollars were made to the International Monetary Fund.

Table II-40

CHILE: BALANCE-OF-PAYMENTS, 1961 AND 1965-68

(Millions of dollars)

	1961	1965	1966	1967 <u>a/</u>	1968 <u>a/</u>
Current account					
Exports of goods and services	521.1	788.0	982.0	993.0	1 037.0
Goods	444.1	688.0	865.0	870.0	911.0
Services	77.0	100.0	117.0	123.0	126.0
Imports of goods and services	-741.3	-716.0	-883.0	-906.0	-1 052.0
Goods	-570.1	-569.0	-709.0	-721.0	-840.0
Services	-171.2	-147.0	-174.0	-185.0	-212.0
Net investment income	-81.7	-121.0	-172.0	-214.0	-234.0
Profits	-53.3	-55.0	-100.0	-139.0	-149.0
Interest	-28.4	-66.0	-72.0	-75.0	-85.0
Net private transfer payments	+6.8	+10.0	+5.0	+5.0	+3.0
Balance on current account	-295.1	-39.0	-68.0	-122.0	-246.0
Capital account					
Net external financing	295.1	39.0	68.0	122.0	246.0
Net external non-compensatory capital	197.2	100.0	153.0	196.0	376.0
Net direct investment	51.9	-38.0	-30.0	2.0	
Net autonomous or non-compensatory loans	86.0	113.0	137.0	102.0	
Net short-term liabilities	42.5	26.0	36.0	86.0	
Net official transfer payments	16.8	-1.0	10.0	6.0	
Net domestic non-compensatory capital or assets	9.4	-36.0	-26.0	-72.0	
Errors and omissions	-22.9	34.0	12.0	-29.0	
Net compensatory movements	111.4	-59.0	-71.0	27.0	-130.0
Net external compensatory capital	72.0	-10.0	-29.0	-17.0	
Net balance-of-payments loans and deferred import payments	34.4	-5.0	-32.0	+4.0	-66.0
Other liabilities of the monetary authorities	-18.5	-4.0	18.0	-6.0	
Net IMF position	53.1	-1.0	-15.0	-15.0	18.0
Movement of gold and foreign exchange reserves (increase -)	39.4	-49.0	-42.0	+44.0	-82.0

Source: IMF, Balance of Payments Yearbook, vols. 18 and 19.

a/ Preliminary estimates.

Table II-41

CHILE: NET EXTERNAL CONTRIBUTION TO THE FINANCING OF IMPORTS, 1960-68

(Millions of dollars)

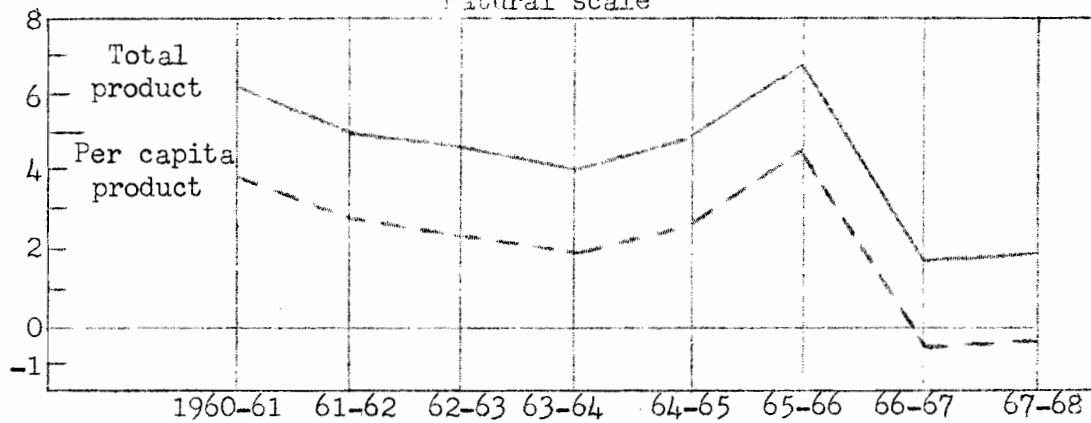
Year	Gross inflow of external compensatory and non- compensatory funds	Service payments on external capital			Net contribution to the financing of imports
		Amortization and service payments	Prefits on direct external investment and interest on foreign loans	Total service payments	
	A	B	C	D=B+C	E=A-D
1960	189.3	78.2	64.6	142.8	46.5
1961	406.5	131.1	81.7	212.8	193.7
1962	488.0	140.0	93.0	233.0	255.0
1963	451.0	272.0	90.0	362.0	89.0
1964	440.0	276.0	106.0	382.0	58.0
1965	374.0	284.0	121.0	405.0	-31.0
1966	382.0	258.0	172.0	430.0	-48.0
1967	398.0	219.0	214.0	433.0	-35.0
1968	641.0	250.0	234.0	484.0	157.0

Sources: Up to 1967: official statistics; 1968: ECLA estimates.

CHILE: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

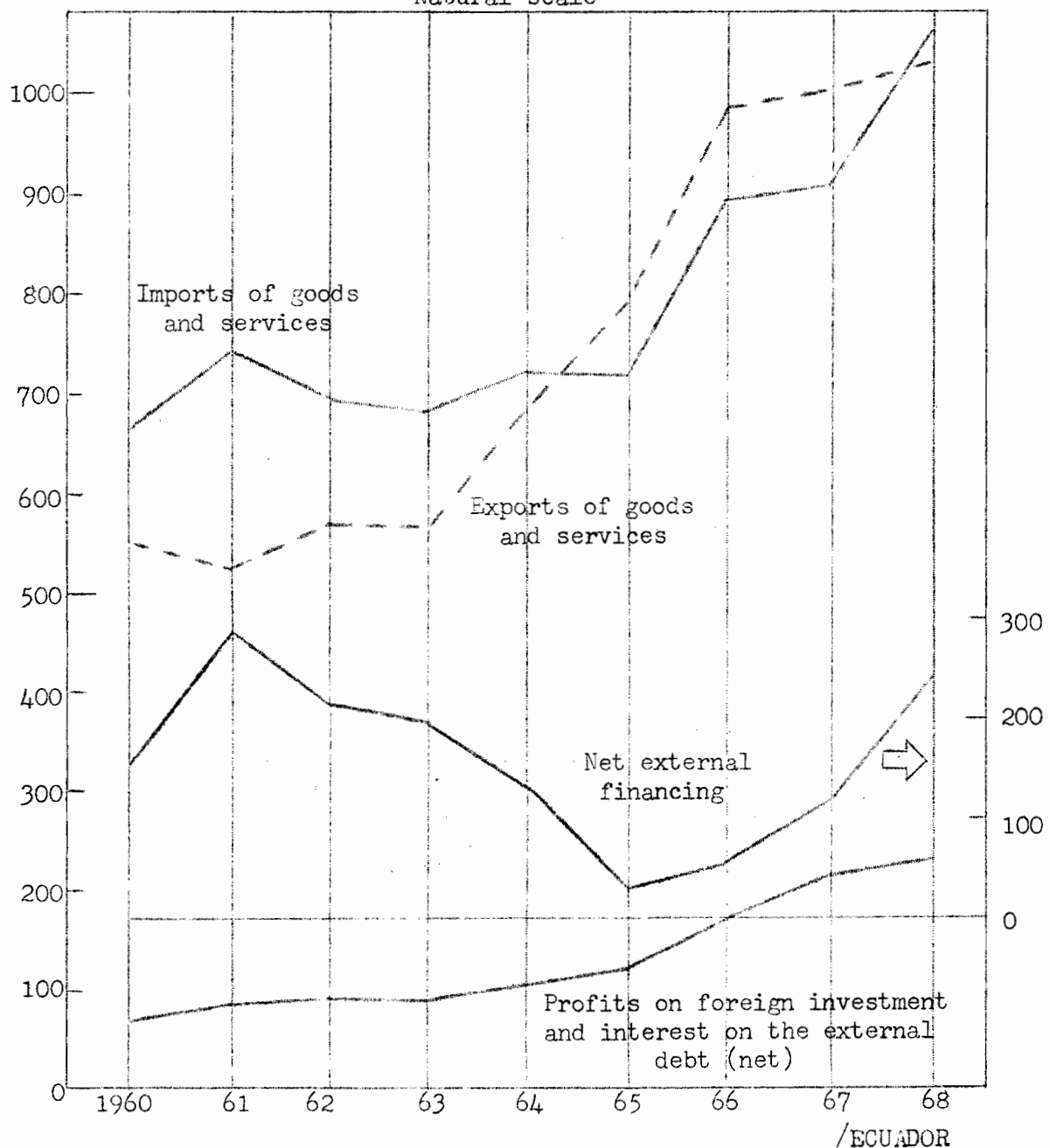
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



EQUADOR

General characteristics of economic trends in 1968

A drought which affected agricultural production, a weaker growth rate in industry and a greater struggle to keep up the rate of public investment are the main reasons why the Ecuadorian economy failed to expand in 1968 as rapidly as in previous years. Even in these circumstances, the total product increased by slightly over 4 per cent, largely because of the growth of the services sectors.

The financing of public expenditure continued to be one of the chief concerns of economic policy. The means of payment increased as much as 15.3 per cent over the first ten months of the year, in comparison with only 8.9 per cent during the same period in 1967. The free exchange market quotation for sugar in Quito and Guayaquil rose from an average of 19.92 sucres per dollar between July and mid-November 1967 to an average of 22.53 sucres per dollar over the same period in 1968; this represents a devaluation of 13.1 per cent. In spite of these adverse factors, prices remained relatively stable. Between January and October, the consumer price index rose 4 per cent above the 1967 average in Quito and 1.9 per cent above the average in Guayaquil, and wholesale prices from January to September 1968 showed an increment of just over 1 per cent in relation to the average 1967 level.

In the external sector, imports rose appreciably and exports also increased, but to a lesser extent. This led to a net decrease in international reserves.

The trend of the product

The provisional data available indicate that the product expanded by 4.3 per cent in 1968, thus falling short of the 5.6 per cent rate it achieved in 1967. The sectors producing goods increased by 2 per cent and the services sectors by 7 per cent (see table II-42).

Table II-42

ECUADOR: SECTORAL GROWTH RATE OF THE GROSS PRODUCT, 1960-66 TO 1966-68

(Percentages)

Sector	Annual growth rates		
	1960-66	1966-67	1967-68 ^{a/}
Agriculture	3.3	2.2	1.5
Mining	1.2	-1.2	-1.5
Manufacturing	5.9	5.6	3.3
Construction	5.2	...	...
<u>Total for goods</u>	<u>4.0</u>	<u>3.3</u>	<u>2.0</u>
Electricity, gas and water	8.4	7.3	5.7
Transport and communications	3.6	6.3	7.4
<u>Total for basic services</u>	<u>4.8</u>	<u>6.6</u>	<u>6.9</u>
Commerce and finance	4.9	15.1	8.3
Miscellaneous services	4.9	5.9	6.0
<u>Total for other services</u>	<u>4.9</u>	<u>9.5</u>	<u>7.0</u>
<u>Total product</u>	<u>4.4</u>	<u>5.6</u>	<u>4.3</u>

Source: 1960-67: Memoria del Banco Central.

^{a/} ECLA estimates, on the basis of partial indicators.

/These changes

These changes indicate that the trend of the product is characterized, for the second consecutive year, by an expansion in the share of services, and of commerce and finance in particular. To a certain extent, this involves a shift of income from other sectors of the economy.^{6/}

The growth rate of the agricultural product was just under 1.5 per cent, owing to the protracted drought in some provinces on the coast and in the inter-Andean area which affected commodities for home consumption and export markets alike. To judge by the preliminary estimates, the losses in the maize, rice, coffee and cotton crops and the impact on the rate of cattle slaughtering totalled 1,000 million sucres. This is equivalent to 12 per cent of the value added in the agricultural sector.

In the industrial sector, the growth rate dropped to 3.3 per cent from 5.6 per cent in the previous year. This slackening in the tempo of growth was partly due to the repercussions of the scant progress made by agriculture, and the competition of important industrial goods entering the country as a result of the relaxation of foreign trade controls. Another adverse factor was the contraction in the mining sector, where output dropped by 1.5 per cent following a reduction of 1.2 per cent in 1967. Basic services as a whole - electricity, transport and communications - achieved a slightly higher growth rate (6.9 as against 6.6 per cent).

^{6/} Unlike the methods of calculation normally used for other Latin American countries, in Ecuador the sectoral trend of the product measured at constant prices is not based on the calculation of changes in the volume of the relevant items of production, but on the deflation of the product at current values by the over-all price index. Hence, the figures do not always reflect the real contribution of each sector to the total product, but rather show real income (or purchasing power) generated by the factors of production in the sectors concerned. Thus, in 1967, the rate of growth of the agricultural product fell far short of the increase in the volume of agricultural output, whereas the product for commerce and finance expanded by more than 15 per cent although this figure has no bearing on the increase in the real volume of domestic and imported goods brought into the economy.

Public revenue and expenditure

Up to October 1968, the real income of the Central Government was a little under two-thirds of the budget estimates, while current expenditure amounted to 72 per cent. Consequently, capital expenditure amounted to only 42 per cent of the investment target, and the Central Government accounts showed a substantial deficit.

It is estimated that, for the year as a whole, this deficit may represent about 26 per cent of expenditure, thereby accentuating an existing trend. During the five-year period from 1963 to 1967, the gap between income and expenditure ranged from 5 to 22 per cent of total expenditure. The failure of income to increase at an adequate pace has mainly affected public investment, which has ceased to play a dynamic role and has even declined in absolute terms during the nineteen-sixties (see table II-43).

The external sector

Estimates based on the permits granted up to 15 November 1968 indicate that the current value of exports of goods and services increased by nearly 6 per cent (see table II-44). Bananas, cocoa and coffee accounted for 84 per cent of the total increase, but showed very different trends: bananas made some progress, despite a slight fall in prices, while cocoa climbed by almost 50 per cent under the stimulus of the price increases recorded since 1966, and coffee declined by 21.1 per cent. As regards the items of secondary importance, balsa wood progressed, while sugar and seafood products fell off.

Imports of goods and services improved upon their 1967 level by about 16 per cent, partly because of the incentive provided by the relaxation of the controls enforced in 1966. The value of the permits used between 1 January and 15 November 1968 amounted to 170.5 million dollars, or 27.2 million more than over the same period in 1967.

The difference in the trends of exports and imports, coupled with the increase in net remittances abroad added to the negative balance on the balance of payments, which had already been in disequilibrium in 1967, with the result that the net deficit on current account rose to record heights. This increase in the current imbalance was juxtaposed with a substantial expansion in the inflow of foreign non-compensatory capital. Consequently, the balance of payments before compensatory financing closed with a deficit which, although small, led to a deterioration in the country's net monetary position.

Table II-43

ECUADOR: TOTAL SUPPLY AND DEMAND, 1960 TO 1966-68

(Millions of sucres at 1960 prices and percentages)

	1960	1966 ^{a/}	1967 ^{a/}	1968 ^{b/}
<u>Total supply</u>	<u>16 616</u>	<u>21 303</u>	<u>22 848</u>	<u>24 329</u>
Gross domestic product	14 140	18 185	19 191	20 020
Imports of goods and services	2 476	3 118	3 657	4 309
<u>Total demand</u>	<u>16 616</u>	<u>21 303</u>	<u>22 848</u>	<u>24 329</u>
Exports of goods and services	2 530	3 236	3 389	3 533
Total investment	2 151	2 387	2 433	2 460
Fixed investment	1 897	2 065	2 123	2 160
Public	882	725	713 ^{b/}	...
Private	1 015	1 340	1 410 ^{b/}	...
Total consumption	11 935	15 680	17 026	18 336
General government	1 813	2 488	2 612	2 800
Private	10 122	13 192	14 414	15 536

Source: Up to 1967: Memorias del Banco Central.

^{a/} Provisional figures.

^{b/} ECLA estimates, based on partial indicators.

Table II-14

ECUADOR: BALANCE OF PAYMENTS, 1960-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968 a/
<u>Current account</u>					
Exports of goods and services	154.9	198.7	204.1	218.2	231.1
Goods	146.3	180.7	186.5	200.4	212.3
Services	8.6	18.0	17.6	17.8	18.8
Imports of goods and services	152.3	201.0	200.4	234.9	273.2
Goods	109.8	155.2	152.7	177.0	210.0
Services	42.5	45.8	47.7	57.9	63.2
Net investment income	-22.8	-25.0	-28.5	-26.2	-28.2
Net private transfer payments	+1.4	+2.2	+4.2	+5.1	+3.1
Balance on current account	-18.8	-25.1	-20.6	-37.8	-67.2
<u>Capital account</u>					
Net external financing	+18.8	+25.1	+20.6	+37.8	+67.2
Net non-compensatory foreign capital	+28.0	+30.1	+39.2	+46.9	+64.8
Direct investment	+8.0	+7.5	+8.0	+16.0	
Non-compensatory loans	+15.2	+13.2	+19.4	+23.0	
Short-term liabilities	-1.0	+2.7	+5.6	+0.7	
Official transfer payments	+5.8	+6.7	+6.2	+7.2	
Net non-compensatory domestic capital or assets	-10.5	-1.7	-1.9	+0.5	+2.4
Errors and omissions	-2.3	-15.8	-5.4	...	
Compensatory movements of capital	+3.6	+12.5	-11.3	-9.6	
Net compensatory external capital	+0.8	+9.8	+3.9	-1.6	
Balance-of-payments loans and deferred import payments	-	-0.2	-0.2	-0.2	
Other liabilities of the monetary authorities	+0.8	+1.0	-0.9	-0.6	+2.4
IMF position	-	+9.0	+5.0	-0.8	
Movements of gold and foreign exchange (increase -)	+2.8	+2.7	-15.2	-8.0	

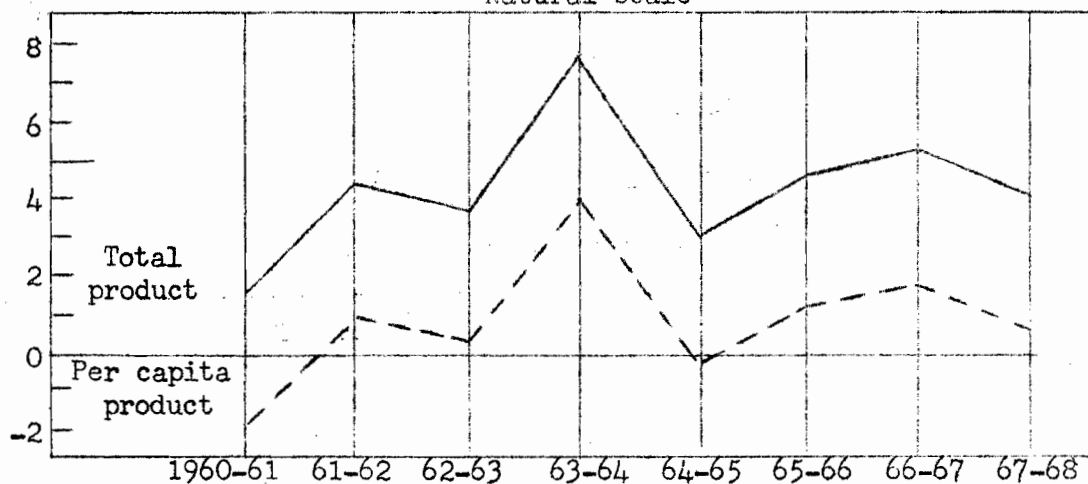
Source: IMF, Balance of Payments Yearbook, vols. 17 and 19.

a/ Provisional figures.

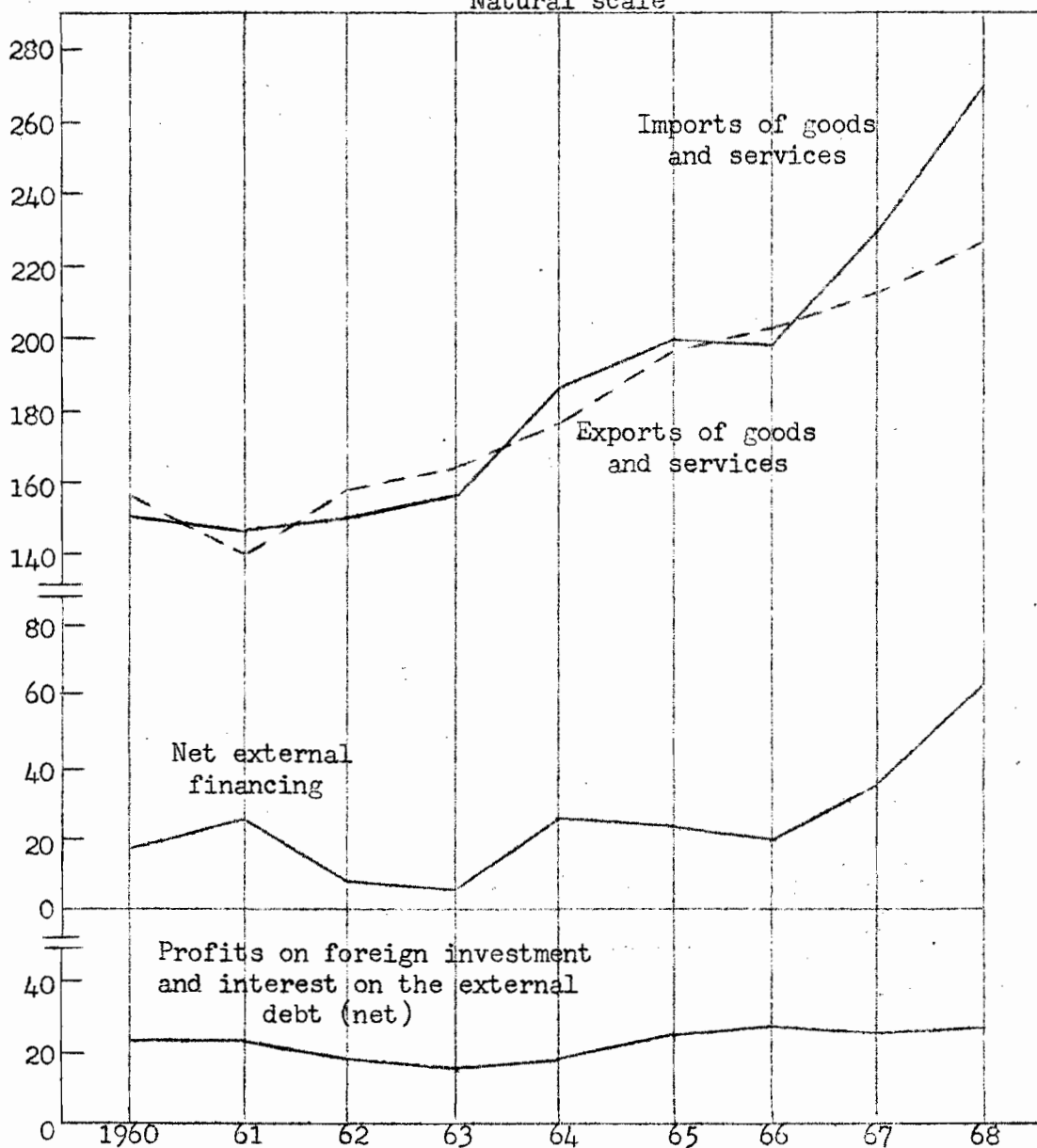
Figure II-7

ECUADOR: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR
(Millions of dollars at current prices)
Natural scale



EL SALVADOR

Recent over-all trends

In 1968, the economy of El Salvador developed at only a modest rate for the second year in succession. Available data show that the gross domestic product increased by 3.7 per cent, or rather less than in 1967 (see table II-45).

The value of exports stood at much the same level as in the preceding year. Traditional exports were limited by a reduction in the coffee supply and, for the third year running, a contraction in the volume of cotton sales, attributable on this occasion to the poor 1967/68 crop. At the same time, exports to the Central American common market - especially sales of manufactures - failed to expand as much as in previous years.

For the first time in several years, private investment decreased in real terms by a little over 1 per cent. Residential building was the sector most seriously affected, to judge from the partial data to hand. Investment in industry also seems to have lost the impetus by which it had previously been characterized, despite the firm financial support accorded by the Government through the activities of the Salvadorian Institute of Industrial Development (Instituto Salvadoreño de Fomento Industrial - INSAFI) and the Development Fund.

Public investment continued to decline, although the decrease (9 per cent) was smaller than in 1967. This was partly because the Government obtained less external financing, and public-sector saving was inadequate. Tax revenue, which had been stationary since 1965, was raised by about 5 per cent in 1968 through the application of a surcharge on the property tax (for road services), but this increase in income was outstripped by the expansion of the Central Government's current expenditure, mainly on account of the stepping-up of social service benefits for public officials and the subsidizing of autonomous enterprises. Consequently, the savings available for the financing of public investment were once again reduced, for the third consecutive year, falling to about 38.3 million colones (15.3 million dollars).

Table II-45

EL SALVADOR: ANNUAL GROWTH RATE OF PRODUCT,
BY SECTORS, 1960-66 TO 1968

(Percentages)

Sector	1960-66	1967	1968 ^{a/}
Agriculture	4.5	1.0	3.1
Mining	-6.8	0.0	0.0
Manufacturing	9.7	8.4	6.8
Construction	10.7	-4.5	-14.0
<u>Goods</u>	<u>6.6</u>	<u>2.9</u>	<u>2.9</u>
Electricity, gas and water	11.4	8.4	8.3
Transport and communications	3.8	3.9	4.3
<u>Basic services</u>	<u>5.5</u>	<u>5.2</u>	<u>5.4</u>
Commerce and finance	6.8	4.3	4.7
General government	3.9	4.1	3.0
Miscellaneous services	5.9	6.4	4.7
<u>Other services</u>	<u>6.0</u>	<u>4.9</u>	<u>4.4</u>
<u>Growth rate of the total product</u>	<u>6.5</u>	<u>3.9</u>	<u>3.7</u>

Source: ECLA, on the basis of official data.

^{a/} Estimates.

/The depressive

The depressive effects on economic activity produced by the decrease in investment were strengthened by measures to restrict the expansion of the money supply and imports. All these factors, in combination with the slow growth of income, kept the rate of increase of private consumption down to less than 4 per cent (see table II-46).

The slight rise in exports was accompanied by a drop of 2.4 per cent in the total value of imports of goods and services. The balance-of-payments deficit on current account, which had reached a peak figure in 1966, was thus reduced. Net inflows of capital sufficed to cover it, and even, in addition, allowed the monetary authorities to augment the country's gold and foreign exchange reserves (see table II-47).

Major sectors of production of goods

There was a falling-off in construction activities in 1968 which amounted to 14 per cent in real terms, as a result of the reduction in public investment and private residential building.

Industrial development received a powerful stimulus through the contracting of a million-dollar loan from the Inter-American Development Bank for pre-investment studies relating to industrial and agricultural projects. Plans are also afoot for expanding the functions of the National Commission on Foreign Trade (Comisión Nacional de Comercio Exterior) and placing it on a permanent footing, by giving it the status of a technical department responsible for co-ordinating those aspects of the new development plan which relate to industry.

Production in the agricultural sector, after recessions in two successive years and a growth rate of barely 1 per cent in 1967, expanded by about 3 per cent in 1968, largely by virtue of a bumper coffee harvest in 1967/68 (135 000 tons). On the assumption that the 1968/69 crop will be closer to the normal yield, coffee output will not exceed the 120 000 tons required to cover the quota assigned to El Salvador under the International Coffee Agreement. In order to get rid of several years' carry-over stocks, recourse was had to new markets at the end of 1967 and the beginning of 1968, and sales were made at prices lower than those established in the Agreement.

Table II-46

EL SALVADOR: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of colones at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>1 773.8</u>	<u>2 629.1</u>	<u>2 712.1</u>	<u>2 775.9</u>
Gross domestic product	1 420.0	2 071.2	2 152.4	2 233.1
Imports of goods and services	353.8	557.9	559.7	542.8
<u>Aggregate demand</u>	<u>1 773.8</u>	<u>2 629.1</u>	<u>2 712.1</u>	<u>2 775.9</u>
Exports of goods and services	289.4	476.8	539.2	543.2
Gross fixed investment	204.4	317.1	318.1	308.8
Public	40.6	90.7	68.1	62.1
Private	163.8	226.4	250.0	246.7
Total consumption	1 280.0	1 835.2	1 854.8	1 923.9
General government	143.1	181.1	189.3	197.2
Private	1 136.9	1 654.1	1 665.5	1 726.7

Source: ECLA, on the basis of data supplied by the Central Bank of El Salvador.

a/ Estimates.

Table II-47

EL SALVADOR: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	116.9	212.8	209.4	228.5	231.7
Goods	102.6	190.0	189.5	207.8	210.0
Services	14.3	22.8	19.9	20.7	21.7
Imports of goods and services	141.6	230.9	252.6	254.9	248.6
Goods	113.4	187.3	201.5	205.1	198.9
Services	28.2	43.6	51.1	49.8	49.7
Net external investment income	-3.9	-7.8	-7.5	-8.6	-9.8
Net private transfer payments	+0.2	+9.7	+6.5	+7.6	+7.5
Balance on current account	-28.4	-16.2	-44.2	-27.4	-19.2
<u>Capital account</u>					
Net external financing	+28.4	+16.2	+44.2	+27.4	+19.2
Net external non-compensatory financing	+16.3	+25.3	+30.0	+31.3	+21.9
Direct investment	+4.5	+7.6	+8.8	+9.9	
Non-compensatory loans	+0.2	+15.5	+24.6	+16.6	
Short-term liabilities	+10.7	-1.4	-6.6	+0.6	
Official transfer payments	+0.9	+3.6	+3.2	+4.2	
Net domestic non-compensatory capital and assets	+1.5	-4.3	+0.5	-1.2	-2.7
Errors and omissions	-2.5	-3.2	+1.5	-3.8	
Compensatory movements	+13.1	-1.6	+12.2	+1.1	-2.7
Net external compensatory financing	+8.5	+1.2	+17.8	-0.9	
Balance-of-payments loans and deferred import payments	+3.0	+1.1	-0.7	-0.9	
Other liabilities of the monetary authorities	-0.2	+0.1	-0.3	-	
International Monetary Fund position	+5.7	-	+18.8	-	
Movements of gold and foreign exchange (increase -)	+4.6	-2.8	-5.6	+2.0	

Source: For 1960-67, Balance of Payments Yearbook, Vols. 17 and 20; for 1968, ECLA estimates.

/Since its

Since its sharp downturn in 1965/66, cotton production has not recovered its leading export position. Pests and droughts have in the meantime reduced yields, pushed up costs and led to a decrease in the cotton-growing area. According to estimates, the 1968/69 crop year will witness the termination of this downward trend, thanks to favourable weather conditions coinciding with the implementation of a cotton production development plan designed to promote the enlargement of the area ~~sown~~ to cotton and the introduction of more efficient techniques. Although cotton credit facilities have undergone no change, it is hoped that the improvement in world prices will act as an incentive to the private saving required to finance production. The current crop year's harvest may well show an increase of 14 per cent, thus amounting to about 40 200 tons ~~which would mean that~~ exports would also expand appreciably in 1969.

Agricultural production for domestic consumption is progressively tending to serve the regional market. A production boom was made possible by favourable weather conditions in 1968/69, and was also furthered by the price support policy of the Institute for the Regulation of Supplies (Instituto Regulador de Abastos) and by the technical assistance institutions. The recovery in grain production was the decisive factor in the expansion of agriculture for domestic consumption (23.5 per cent). The maize crop, in particular, not only made up the previous year's leeway but reached the record level of 276 000 tons. In the case of rice the production increment was on a similar scale (31 per cent), thanks to the inducement offered by high prices on the Central American market, since the 1968/69 harvest, estimated at 66 700 tons, may leave a margin for exportable surpluses. Sorghum production remained, as usual, stationary, as is natural in view of the family type of stock farming with which it is associated.

/Staple export

Staple export products

The low growth rate of exports of goods was imputable to a deterioration in sales of traditional export commodities for the third year in succession.

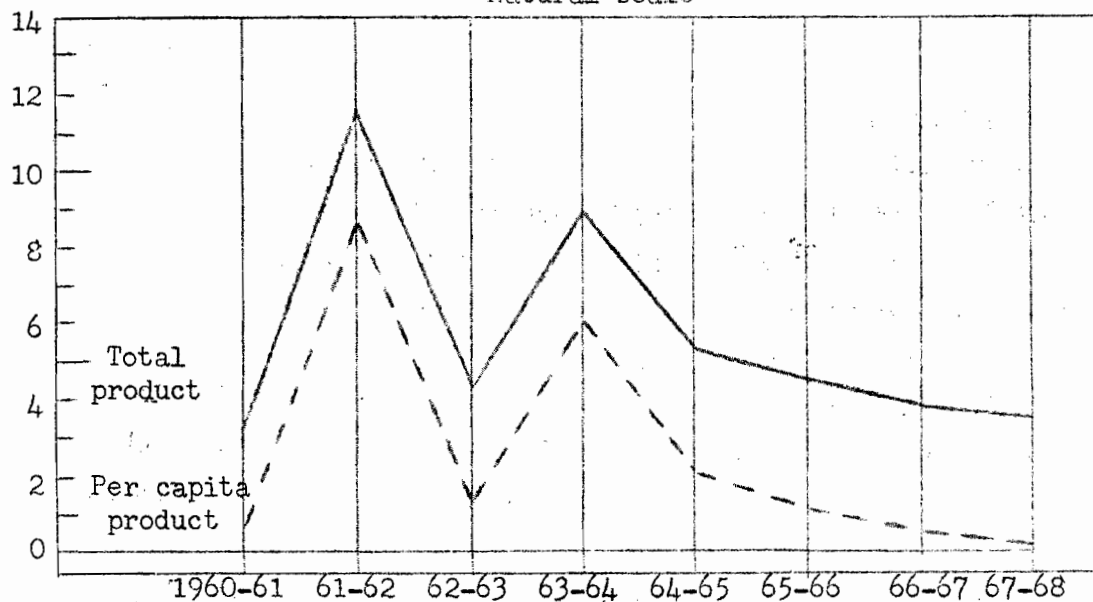
As on previous occasions, the chief cause of this stagnation is to be found in the contraction in cotton production in 1967/68, which reduced supply to less than half its 1965 volume (73 000 tons). Output was 6 per cent below its 1967 level, although prices rose for the second year running. This accounts for the fact that the value of cotton sales was 16 million dollars less than in 1967.

Average coffee export prices decreased a little (by 0.5 per cent) because surpluses had to be sold on free markets, over and above the ICA quota, although to a much smaller extent than in 1967. During that year carry-over stocks from several earlier harvests were disposed of, with the result that there was a sharp upswing of 25 per cent in the volume of exports, which totalled 1.7 million bags, with a value of 97 million dollars. This sum was not more than 9 per cent above the 1966 figure, because of the drop in unit values. In 1968 the exportable surplus was a little smaller (by 0.6 per cent), and this circumstance, in conjunction with the price decline, brought down the total value of coffee exports by nearly one million dollars.

The current value of sugar exports rose by almost 12 per cent, and accounted for nearly 5 million dollars within the trend towards recovery. The impetus was provided entirely by the volume of exports, since their unit value remained the same.

Page II-168 EL SALVADOR: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

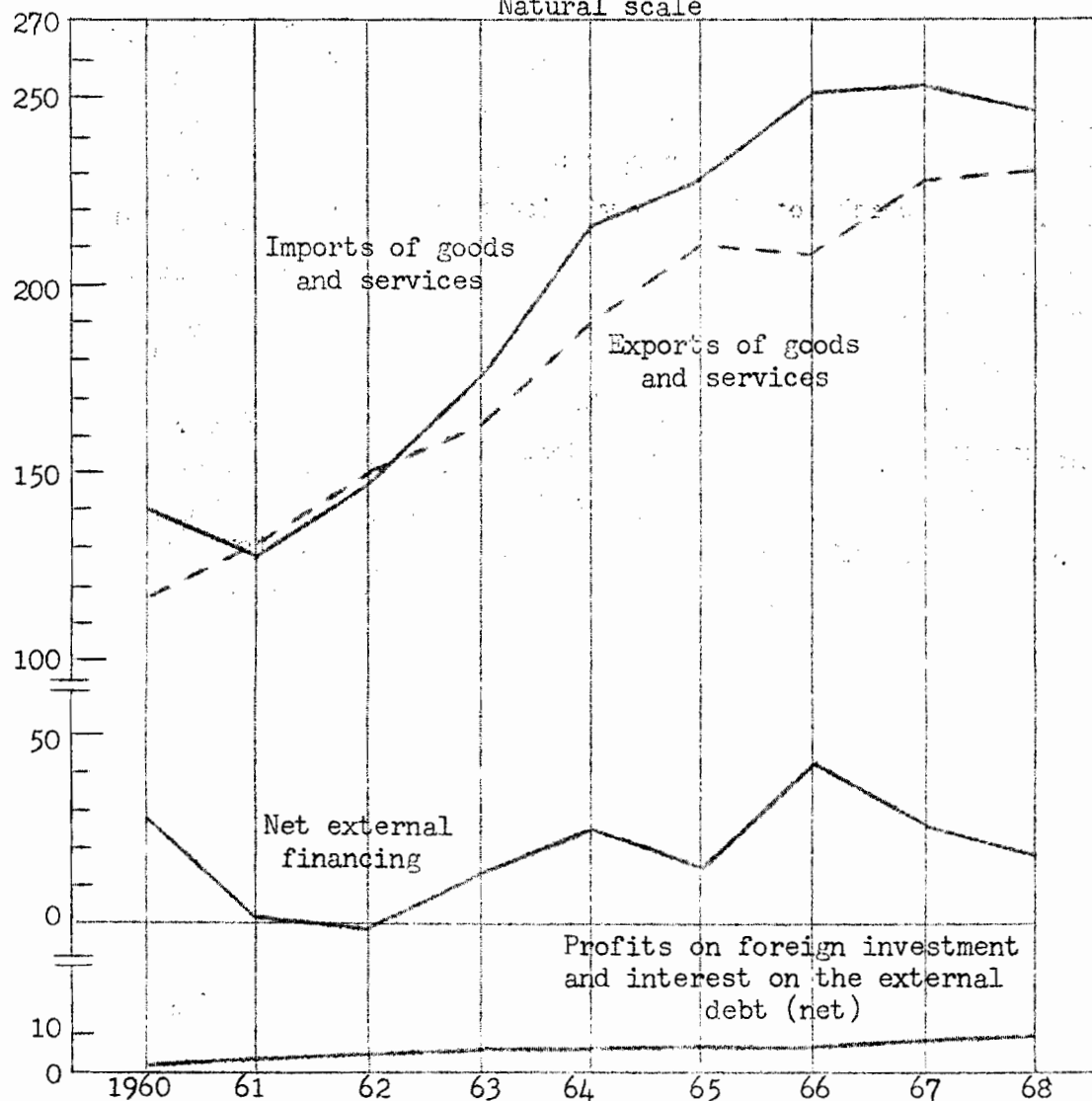
(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



GUATEMALA

Recent economic trends

In 1968, the product of the Guatemalan economy grew at a rate of 5.1 per cent, which was appreciably higher than the rate in 1967 (4 per cent). This was due in the main to the recovery of agricultural exports, for which increased harvests of bananas and cotton were largely responsible. The industrial sector, however, grew at an appreciably slower pace than in 1967, reflecting the sluggishness of domestic demand and regional trade, although some branches of manufacturing increased their exports to the Central American market. The construction industry remained virtually stationary, while some services sectors grew very rapidly as a result of the expansion of external trade and the success of agriculture (see table II-48).

The increase in agricultural production, attributable to favourable climatic conditions and satisfactory prices for several important products, led to a very pronounced rise in the value of exports, which had dropped sharply in 1967 owing to a decline in production and unfavourable world markets for some products. In addition to the good harvests, the marked rise in exports was due to the disposal of substantial stocks of such products as coffee and sugar which had been built up in earlier years.

In contrast to the rapid growth of exports, the various components of domestic demand grew less rapidly than in 1967 (see table II-49). Consumption increased by slightly more than 4 per cent, while total investment remained stationary.

The financial situation of the public sector, moreover, was such that government expenditure did nothing to offset these trends but rather increased the effect of the contraction of private investment. For some years current government expenditure has grown substantially, while revenue from taxation - despite the measures taken to increase it - has grown at a much slower pace, owing to the limitations of the existing taxation system, and is seriously hampering the capacity to generate enough savings to meet the needs of public investment. With a view to improving the Government's financial position, the growth of current spending was limited in 1968 and according to preliminary estimates totalled 123 million quetzals, only 4 per cent higher than in 1967.

Table II-48

GUATEMALA: AVERAGE ANNUAL GROWTH RATES OF THE GROSS DOMESTIC
PRODUCT, BY SECTORS, 1960-66 TO 1968

(Percentages)

Sector	1960-66	1967	1968 ^{a/}
Agriculture	4.4	0.1	5.5
Mining	-0.9	-	-
Manufacturing	7.3	8.1	5.4
Construction	3.7	3.3	0.8
<u>Goods</u>	<u>5.1</u>	<u>2.5</u>	<u>5.3</u>
Electricity, gas and water	13.7	5.6	8.6
Transport and communications	7.0	7.7	7.6
<u>Basic services</u>	<u>8.1</u>	<u>7.3</u>	<u>7.8</u>
Commerce and finance	7.9	4.5	5.6
Government	-0.6	8.8	2.8
Miscellaneous services	5.7	3.6	3.0
<u>Other services</u>	<u>6.3</u>	<u>4.6</u>	<u>4.7</u>
<u>Growth rate of the total product</u>	<u>5.2</u>	<u>4.0</u>	<u>5.1</u>

Source: ECLA, on the basis of official data.

^{a/} Preliminary estimates.

Table II-49

GUATEMALA: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of quetzals at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>1 195.3</u>	<u>1 641.6</u>	<u>1 715.2</u>	<u>1 812.4</u>
Gross domestic product	1 043.6	1 415.9	1 473.2	1 548.4
Imports of goods and services	151.7	225.7	242.0	264.0
<u>Aggregate demand</u>	<u>1 195.3</u>	<u>1 641.6</u>	<u>1 715.2</u>	<u>1 812.4</u>
Exports of goods and services	131.9	296.0	277.3	322.3
Total fixed investment	102.1	161.4	179.5	179.7
Public	26.6	34.7	38.9	38.7
Private	75.5	126.7	140.6	141.0
Total consumption	961.3	1 184.2	1 258.4	1 310.4
General government	79.9	88.9	95.5	98.2
Private	881.4	1 095.3	1 162.9	1 212.2

Source: ECLA, on the basis of official data.

^{a/} Preliminary estimates.

/In 1967

In 1967 the monetary authorities had endeavoured - without being entirely successful - to offset the effect of the sharp drop in exports, but in 1968 had to deal with a situation in which liquidity rose sharply as a result of the very varied performance of the external sector and also as a result of measures to restrict the outflow of short-term funds. The figures available for the first nine months of the year show that private demand deposits at the end of September were 23 per cent higher than at the same point in 1967, while non-monetary deposits (particularly savings and fixed-term deposits) were 18 per cent higher. This influx of resources into the banking system led to a substantial expansion of credit, particularly government credit - despite the fact that measures had been taken to restrict the lending capacity of banks - which was 46 per cent higher (3.2 million quetzals on 30 September 1968) than on the same date in 1967. It may be assumed, however, that over the year as a whole bank financing of the public sector grew much less owing to the stabilization policy initiated by the Government.

Without further restrictions, the increase in money income during 1968 would have exerted strong pressure on the balance of payments through increased demand for imports; however, as a result of controls on imports from outside the Central American area, total imports grew only slightly while regional imports rose by 15 per cent, and there was a rise in prices of some significance, as shown in the figures available for the first ten months of the year, because of the relative scarcity of domestic consumer goods combined with an expansion of the money supply.

The trend in the external sector was for a substantial increase in the volume of exports and a slight improvement in unit prices. Although imports grew at a slower pace, they did reach their highest level in the nineteen-sixties. Nevertheless, the deficit on current account was some 10 million dollars less than in 1967, although still relatively high (see table II-50). An influx of capital roughly equal to the 1967 level was used to finance the deficit and improved the net position of the monetary authorities.

Table II-50

GUATEMALA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	131.5	226.1	257.9	232.7	270.4
Goods	115.9	192.1	228.7	203.9	240.0
Services	15.6	34.0	29.2	28.8	30.4
Imports of goods and services	152.1	256.7	262.6	281.3	306.7
Goods	124.8	206.1	201.8	226.5	247.0
Services	27.3	50.6	60.8	54.8	59.7
Net investment income	-5.0	-11.2	-18.6	-20.8	-23.1
Net private transfer payments	+0.1	+3.5	+6.2	+7.4	+8.0
Balance on current account	-25.5	-38.3	-17.1	-62.0	-51.4
<u>Capital account</u>					
Net external financing	+25.5	+38.3	+17.1	+62.0	+51.4
Net external non-compensatory capital	+40.2	+63.0	+9.7	+48.5	+51.9
Direct investment	+16.8	+14.1	+14.5	+18.2	
Non-compensatory loans	+4.1	+25.0	+13.4	+27.5	
Short-term liabilities	+4.8	+19.9	-21.4	+0.8	
Official transfer payments	+14.5	+4.0	+3.2	+2.0	
Net domestic non-compensatory capital or assets	-0.8	-0.3	+1.7	+0.4	-0.5
Errors and omissions	-6.2	-21.4	-1.0	+10.5	
Compensatory movements	-7.7	-3.0	-6.7	+2.6	
Net external compensatory capital	+2.3	+9.4	-0.4	+9.7	
Balance-of-payments loans and deferred import payments	+2.3	+5.6	-5.7	-0.3	
Other liabilities of the monetary authorities	-	-	-	-	-0.5
IMF position	-	+3.8	+5.3	+10.0	
Movements of gold and foreign exchanges reserves (increase -)	-10.0	-12.4	+7.1	-7.1	

Source: 1960-67: IMF, Balance of Payments Yearbook, vols. 17 and 20; for 1968, ECLA estimates.

/The major

The major goods producing sectors

The major production sectors varied greatly in their performance during 1968. While the growth rate of the agricultural sector was a substantial improvement over 1967, manufacturing - which grew at a very similar pace - declined in comparison with its 1967 position. The construction sector, on the other hand, remained relatively stationary.

During the crop-year 1968/69, agricultural exports continued to grow rapidly, owing to increases in production of almost all crops. Banana production had the highest growth rate, increasing by 50 per cent over 1968, which was attributable to climatic factors and to the entry into production of 900 hectares of banana plantations under a programme to grow certain crops in more suitable areas. The programme will cover a total of 10,000 hectares and one-quarter of it is expected to be completed by 1969.

Cotton production rose by 10 per cent during the crop-year 1968/69, continuing its strong recovery of the previous year. Although prices were pushed up by the heavy costs of disease and pest control, favourable conditions on the world market led to an expansion of cotton production, which benefited from exceptionally good climatic conditions and yields were substantially increased.

Coffee production, which had risen substantially during the previous crop-year, lost some of its momentum owing both to biological factors affecting the plantations and to the policy of maintaining the area under cultivation at a fixed level, a policy prompted by the existence of large surpluses, some of which had to be disposed of on the free market at very low prices.

Since less credit and technical assistance were available for crops for domestic consumption, it was not possible to derive the maximum possible benefit from favourable climatic conditions. Although maize production rose by 5 per cent, it was only just higher than the level achieved in the crop-year 1966/67. Sugar cane and wheat production, on the other hand, remained stationary. Rice production was affected by the floods in the Izabal area and also remained virtually stationary. The Government has initiated development programmes and promoted the expansion of irrigation for rice production, as for vegetables and some fruits.

/Livestock production

Livestock production was also encouraged and 260,000 hectares of pastureland was opened up in the south. However, in contrast to 1967, the external market for livestock was not very encouraging in 1968, while domestic consumption grew by less than 2 per cent.

It is estimated that manufacturing grew by slightly more than 5 per cent during 1968, in contrast, to the high rates of earlier years. This is attributable both to inadequate stimulation of domestic demand and to a decline in the purchasing power of the regional market.

Export products

During 1968, the volume of the main traditional exports grew very significantly, while prices improved for several products.

Among the major exports, coffee recovered from the serious setback of 1967 without, however, reaching the high level attained in 1966. This was due both to the results of the 1967/68 harvest and to the disposal of surplus stocks however, a considerable proportion of the export in excess of the country's coffee quota were sold at prices 25 per cent below the internationally agreed price, thus lowering the average income of producers.

The rise in cotton production, which led to an increase of 16 per cent in the volume of exports, was accompanied by an improvement in prices and meant that the value of cotton exports rose by 29 per cent in 1968. Banana exports, more than 50 per cent higher in volume than in 1967, grew at an exceptional pace, and there was also a slight improvement in unit prices, while the unit value of fresh meat exports improved by 5.8 per cent.

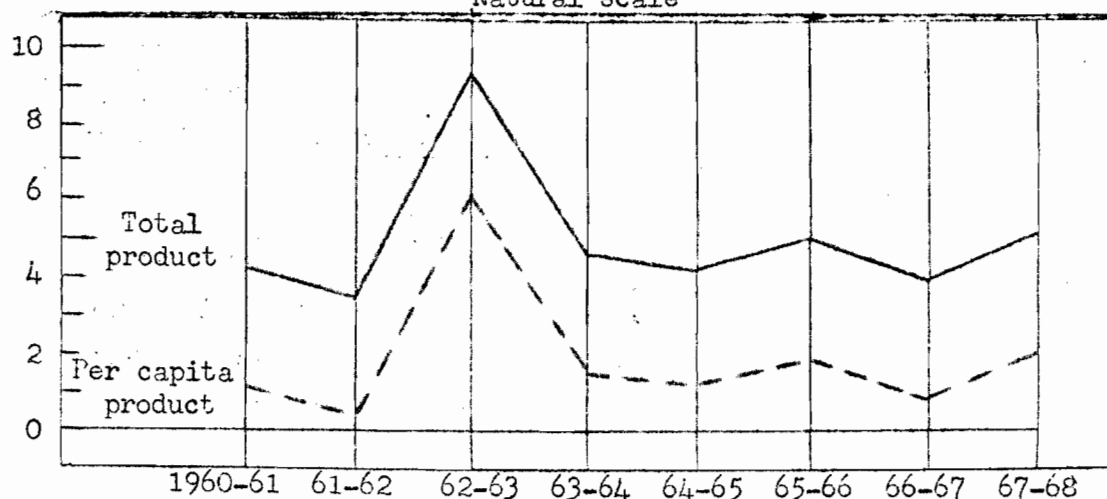
In contrast to 1967, sugar prices fell by 6 per cent during 1968 and since the volume exported was not increased sufficiently to offset this trend - although surplus production was exported - the value of sugar exports declined slightly (by a little more than 1 per cent).

It is estimated that exports to the Central American Common Market grew by 16 per cent - slightly more than in 1967. This was mainly accounted for by agricultural products and to some extent by exports of new manufactures of textile goods, foodstuffs, chemical products, paper and building materials, and by the recovery of exports of rubber products, particularly automobile tyres.

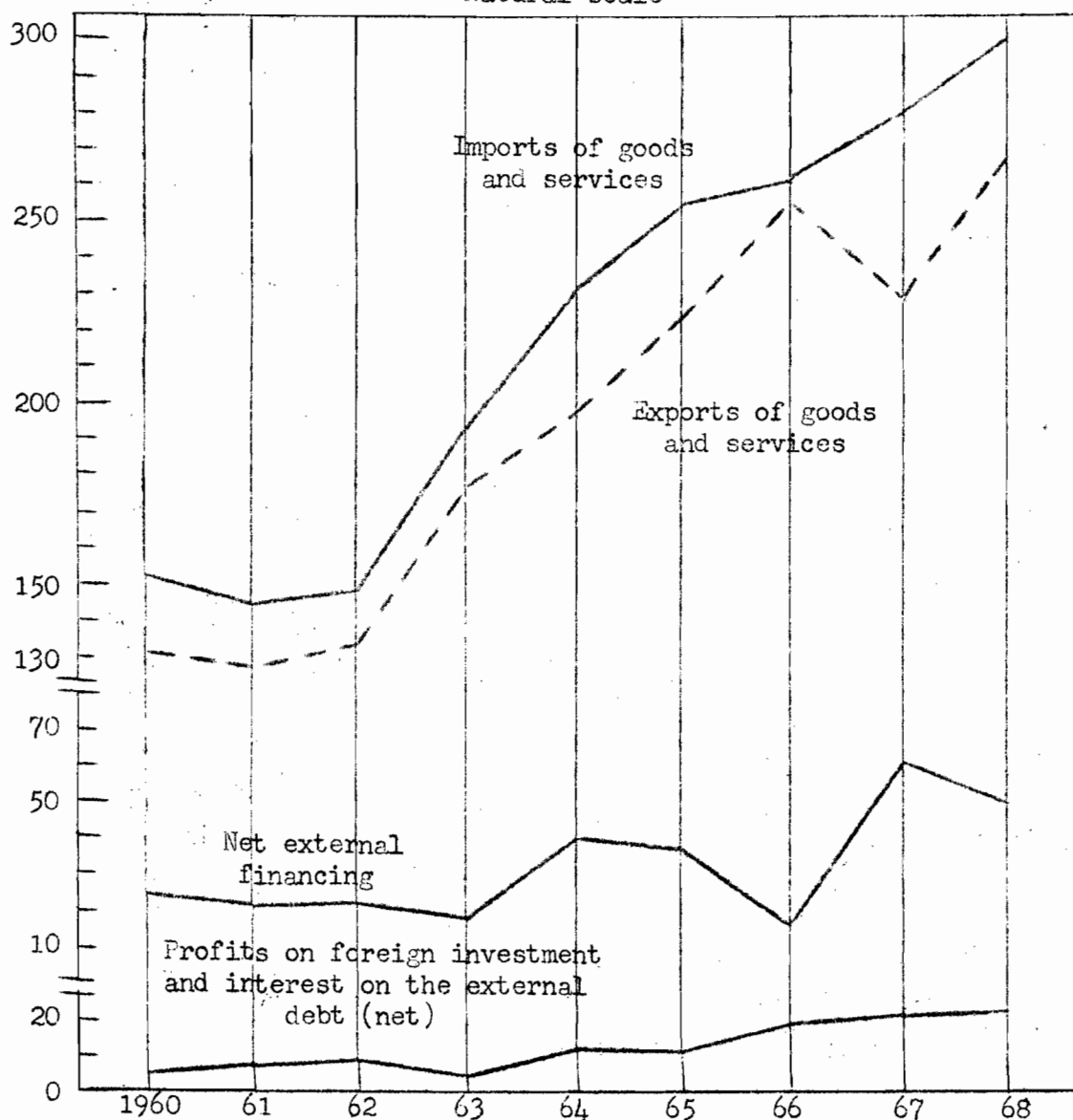
Figure II-9

GUATEMALA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR
(Millions of dollars at current prices)
Natural scale



HAITI

In 1968 the Haitian economy continued to develop at its characteristically slow rate. The increase in the gross domestic product was 1.3 per cent, i.e., virtually identical with the preceding year's figure and with the average for 1960-66 (see table II-51). Since the annual growth rate of the population is approximately 2.3 per cent, so small an increase in the product implied a deterioration in per capita income levels.

The evolution of the product by sectors shows a slightly steeper rise in agricultural production and a recovery of levels of activity in basic services, whereas manufacturing output expanded less than in previous years. Within the agricultural sector, coffee production increased significantly, while that of sugar remained at the same levels as before and that of sisal decreased. Economic infrastructure projects relating to the provision of basic services included a contract signed with an Italian firm for the installation of electric power generating equipment at the Peligre dam, and Canadian companies are expanding the Port-au-Prince water supply and the telephone service throughout the country. Furthermore, an airport with take-off and landing capacity for jets has been in operation since 1967.

Other general features of recent development trends are the persistence of the external deficit and the difficulty of augmenting public-sector income.

The latter contracted by approximately 20 per cent in relation to 1967, with the result that government expenditure was also considerably reduced.

Table II-51

HAITI: SECTORAL GROWTH RATES OF GROSS PRODUCT, 1960-66 TO 1967-68

Sector	1960-66	1966-67 ^{a/}	1967-68 ^{a/}
Agriculture	0.4	0.8	1.2
Mining ^{b/}	7.1	2.0	2.6
Manufacturing	2.8	3.7	1.2
Construction ^{c/}	...	...	...
<u>Total for goods</u>	<u>1.2</u>	<u>1.5</u>	<u>1.3</u>
Electricity, gas and water	5.3	-1.0	-1.6
Transport and communications	-0.5	-4.3	2.1
<u>Total for basic services</u>	<u>1.0</u>	<u>-3.3</u>	<u>1.0</u>
Commerce and finance	-0.6	0.6	1.1
General government	1.1	0.0	0.6
Miscellaneous services	3.1	3.0	1.7
<u>Total for other services</u>	<u>1.4</u>	<u>1.6</u>	<u>1.3</u>
<u>Total gross product</u>	<u>1.3</u>	<u>1.4</u>	<u>1.3</u>

Source: ECLA, on the basis of data supplied by the Haitian Institute of Statistics.

^{a/} ECLA estimates.

^{b/} Including construction.

^{c/} Included under minings.

/The rigidity

The rigidity of the domestic supply situation continued to exert a decisive influence on external sector trends. Exports of goods have tended to remain stationary in the last four years, at levels even lower than in 1960. In addition, the slump in income from tourism has sharpened the over-all decline in export earnings. Since 1965, alongside the trends in question there has also been a downward movement in the value of imports. They are still in excess of exports, however, giving rise to a structural deficit which has not hitherto been reflected in very severe pressures on the country's external balance-of-payments position because of the income received in the shape of private transfers (see table II-52).

The balance-of-payments deficit on current account was on much the same scale in 1968 as in 1967, owing to the combination of a slight expansion of exports with a reduction of imports and a somewhat smaller inflow of private transfer. At the same time, receipts of capital more than sufficed to finance this unfavourable balance on current account, so that in the upshot the Central Bank of Haiti was able to improve its position in respect of gold and foreign exchange reserves.

The foregoing trends are clearly reflected in the evolution of aggregate supply and demand (see table II-53). The decline in imports has meant that since 1960 the rate of increase of available supplies of goods and services has been slower than that of the product. On the demand side, as is natural in a relatively static economy, the growth rate of private consumption at least approximates to that of the population. Hence the components of demand most seriously affected have been public consumption and, above all, investment.

Table II-52

HAITI: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968 ^{a/}
<u>Current account</u>					
Exports of goods and services	54.4	44.9	42.4	41.1	44.6
Goods	38.1	37.8	34.7	32.3	34.8
Services	16.3	7.1	7.7	8.8	9.8
Imports of goods and services	58.1	62.2	61.9	56.0	54.1
Goods	43.4	42.6	43.7	40.3	38.0
Services	14.7	19.6	18.2	15.7	16.1
Net foreign investment income	-4.1	-5.2	-3.7	-2.9	-3.7
Net private transfer payments	+2.6	+4.7	+12.9	+13.2	+10.0
Balance on current account	-5.2	-17.8	-10.3	-4.6	-3.2
<u>Capital account</u>					
Net external financing	+5.2	+17.8	+10.3	+4.6	+3.2
Net external non-compensatory financing	+8.2	+8.1	+4.8	+4.3	+5.8
Direct investment	+0.1	+1.0	+1.0	+1.0	
Non-compensatory loans	+1.2	+1.6	-0.5	-1.1	
Short-term liabilities	+0.3	+1.5	+0.2	+0.4	
Official transfer payments	+6.6	+4.0	+4.1	+4.0	
Net domestic non-compensatory capital	-2.2	+3.4	-2.7	-2.7	-2.6
Errors and omissions	+2.1	+5.2	+8.6	+1.1	
Compensatory movements ^{b/}	-2.9	+1.1	-0.4	+1.9	
Net external compensatory financing	-2.0	+0.3	-0.7	+1.6	
Balance-of-payments loans and deferred import payments	-	-	-	-	
Other liabilities of the monetary authorities	-0.7	+0.3	-1.6	-	-2.6
International Monetary Fund position	-1.3	-	+0.9	1.6	
Movements of gold and foreign exchange	-0.9	+0.8	+0.3	+0.3	

Source: International Monetary Fund (IMF), Balance-of-Payments Yearbook, Vols. 19 and 20.

a/ ECLA estimates.

b/ Minus sign (-) indicates increase.

Table II-53

HAITI: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of gourdes at 1960 prices)

	1960	1966 ^{a/}	1967 ^{a/}	1968 ^{a/}
<u>Aggregate supply</u>	<u>1 920</u>	<u>2 046</u>	<u>2 042</u>	<u>2 355</u>
Gross domestic product ^{b/}	1 629	1 757	1 781	1 804
Imports of goods and services ^{c/}	291	289	261	251
<u>Aggregate demand</u>	<u>1 920</u>	<u>2 046</u>	<u>2 042</u>	<u>2 055</u>
Exports of goods and services ^{c/}	272	205	207	222
Total investment	87	83	82	82
Total consumption	1 561	1 758	1 753	1 751
General government	125	140	151	117
Private	1 436	1 618	1 602	1 634

Source: ECLA, on the basis of data supplied by the Haitian Institute of Statistics.

^{a/} ECLA estimates.

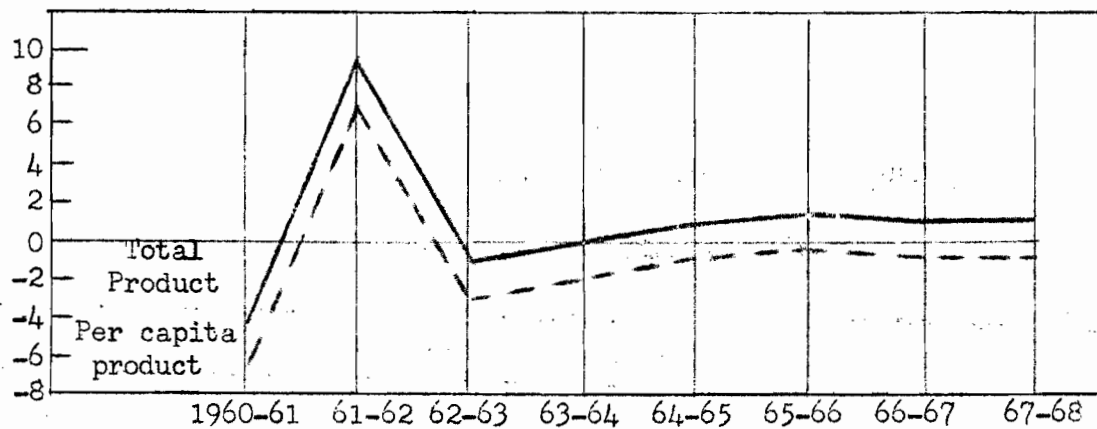
^{b/} At market prices (ECLA estimates).

^{c/} ECLA estimates, based on data from International Monetary Fund (IMF), Balance-of-Payments Yearbook.

HAITI: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

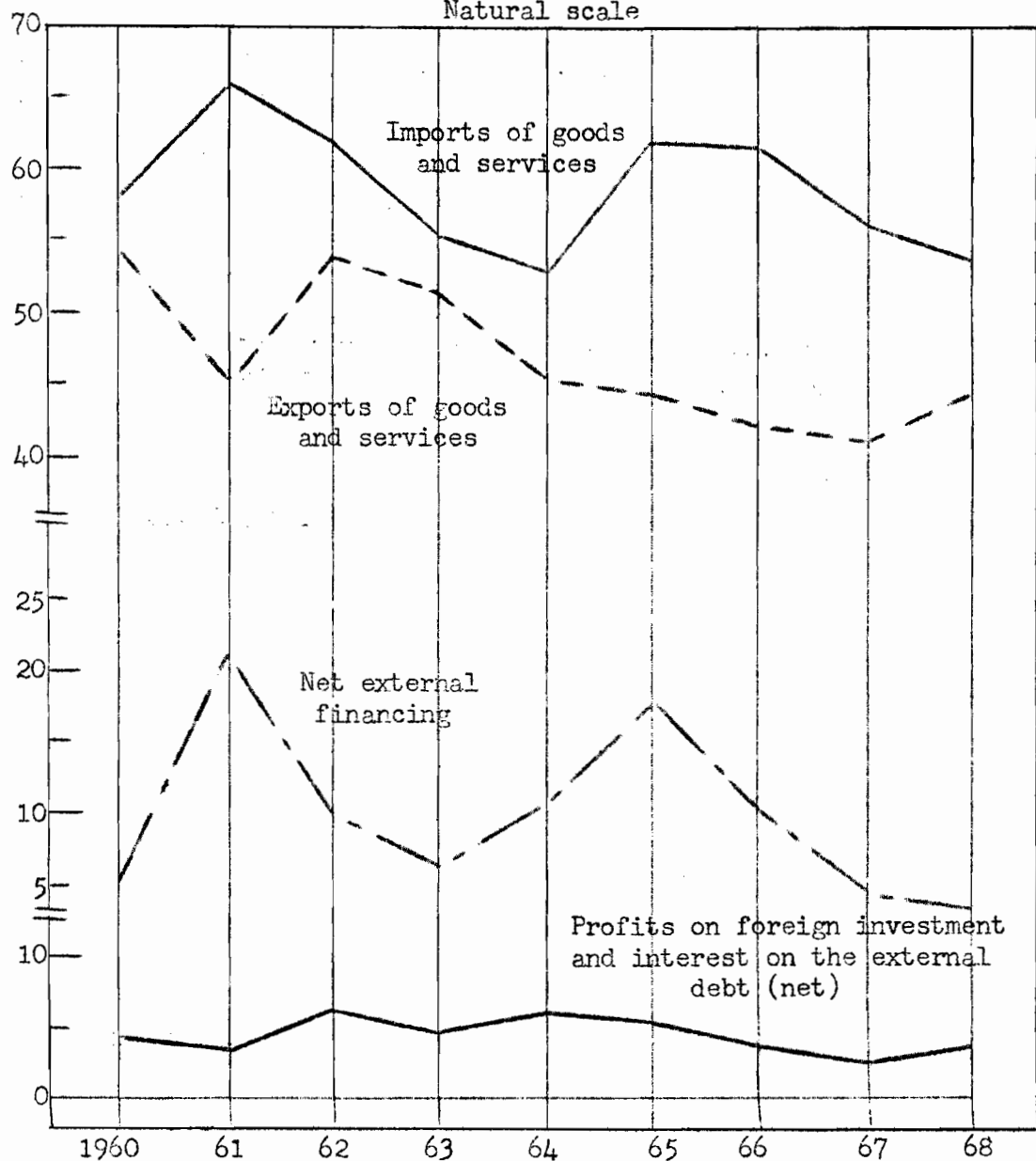
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



/HONDURAS

HONDURAS

Recent economic trends

The Honduran economy expanded in 1968 at an estimated rate of 6.4 per cent, which is higher than the average for the period 1963-66 and the rate for 1967 (see table II-54). Per capita income therefore rose by about 3 per cent in the past year.

A particularly dynamic factor of the recent evolution was expenditure on capital formation. While in 1963-66 investment grew fairly slowly (by an average of 3.5 per cent annually), the position changed radically in the last two years, the annual increase climbing to about 13 per cent (see table II-55). Public investment, in particular, reached a very high level in 1968, representing a 34 per cent increase over 1967, without creating inflationary pressures thanks to more public saving and greater use of external credit.

The other components of domestic expenditure followed widely differing trends. Private consumption rose at the same rate as the year before (5 per cent) as a result of credit restrictions, which channelled resources mainly into the production sectors. Private investment increased more slowly (4.4 per cent).

Current expenditure by the Government rose at a fairly accelerated rate (6.4 per cent), particularly if compared with the previous year. It is still insufficient, however, to exert a decisive influence on domestic demand.

The greater stimulus to demand had its counterpart in the supply of goods and services, whose trend was determined mainly by the relative recovery of agriculture. Industrial production, encouraged by the increased economic activity and by regional demand, also continued to expand, but at a slightly lower rate than in 1967 (10.7 per cent). Electricity, gas, water and other services attained higher growth rates (about 10 per cent), thus pursuing the upward trend noted in recent years.

Table II-54

HONDURAS: ANNUAL GROWTH RATE OF THE PRODUCT, BY SECTOR, 1960-66, 1967 AND 1968

	1960-66	1967	1968 <u>a/</u>
Agriculture	4.7	0.9	4.2
Mining	17.2	6.6	2.1
Manufacturing	8.2	11.5	10.7
Construction	6.3	18.2	10.5
<u>Goods</u>	<u>5.8</u>	<u>4.5</u>	<u>6.1</u>
Electricity, gas and water	11.0	10.0	13.6
Transport and communications	6.9	8.8	8.9
<u>Basic services</u>	<u>7.3</u>	<u>8.9</u>	<u>9.4</u>
Commerce and finance	5.5	5.1	6.7
Government	-2.1	-1.4	2.2
Miscellaneous services	1.4	5.7	3.3
<u>Other services</u>	<u>2.9</u>	<u>4.7</u>	<u>4.9</u>
<u>Growth rate of the total product</u>	<u>5.5</u>	<u>5.3</u>	<u>6.4</u>

Source: ECLA, on the basis of official statistics.

a/ Estimates.

Table II-55
HONDURAS: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of lempiras at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>909.0</u>	<u>1 357.8</u>	<u>1 447.1</u>	<u>1 549.5</u>
Gross domestic product	756.0	1 043.1	1 098.9	1 168.8
Imports of goods and services	153.0	314.7	348.2	380.7
<u>Aggregate demand</u>	<u>909.0</u>	<u>1 357.8</u>	<u>1 447.1</u>	<u>1 549.5</u>
Exports of goods and services	136.0	260.2	283.6	311.2
Gross fixed investment	95.8	138.7	159.1	177.9
Public	20.2	29.8	40.0	53.6
Private	75.6	108.9	119.1	124.3
Total consumption	677.2	958.9	1 004.4	1 060.4
General government	73.0	103.1	107.2	114.1
Private	604.2	855.8	897.2	946.3

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.

The loss of international reserves in 1967 prompted the Government to change the tenor of monetary and credit policy in 1968. Thus, the Central Bank concluded a stand-by agreement with IMF for 11 million dollars to safeguard the stability of the exchange rate, restricted credit for imports of luxury goods and continued its policy of channelling a larger proportion of loans to the production sectors.

The current value of both exports and imports increased by about 10 per cent over 1967. Thus the sizable deficit on current account was maintained. However, the net inflow of autonomous capital enabled Honduras to improve the position of its international reserves for the fourth consecutive year (see table II-56).

Major production sectors

The recovery of agriculture extended to both export commodities, which continue to be of decisive importance in the structure agriculture, and production for the home market.

The two principal banana companies in Honduras have almost completed the programme for improving production and expanding the area under cultivation. Output in 1968 is estimated at 3 million stems, which means an increase of 8.7 per cent over 1967. This increment is attributable to favourable weather conditions, which made it possible to obtain high yields during the year, since world prices were little or no incentive to production.

Coffee production, also favoured by rainfall, rose from 30,300 to 40,600 tons between the last two crop years. World market prospects indicate, however, that the present harvest may give rise to a problem of surpluses,^{7/} which would compel Honduras to seek new markets for this commodity.

The factors which for two years have caused a reduction in the cotton-growing area (basically pests and lack of financing) persisted in 1968. Although, to judge from the estimates for 1968/69, an increase of about 17 per cent may be expected in the volume of production, this would still fall short of the peak figure of 11,300 tons recorded for the 1964/65 crop.

^{7/} The 1967/68 harvest had already produced a small surplus of 77,000 bags, part of which is beginning to be exported against the quota for the 1968/69 crop year.

Table II-56

HONDURAS: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Export of goods and services	71.9	137.7	156.6	170.7	186.2
Goods	64.4	128.2	144.5	155.9	170.2
Services	7.5	9.5	12.1	14.8	16.1
Imports of goods and services	77.9	134.9	164.3	182.4	199.7
Goods	65.4	113.2	138.0	152.4	168.0
Services	12.5	21.7	26.3	30.0	31.7
Net investment income	+9.1	-13.1	-15.5	-21.2	-23.7
Net private transfer payments	-0.6	+0.4	+0.4	+0.5	+0.5
Balance on current account	+2.5	-9.9	-22.8	-32.4	-36.7
<u>Capital account</u>					
Net external financing	-2.5	+9.9	+22.8	-32.4	+36.7
Net external non-compensatory capital	+0.1	+21.9	+21.2	+35.0	
Direct investment	-7.6	+6.3	+8.3	+3.7	
Non-compensatory loans	+3.6	+5.3	+3.4	+8.6	
Short-term liabilities	+0.9	+6.1	+5.7	+13.5	
Official transfer payments	+3.2	+4.2	+3.8	+4.2	+41.6
Net domestic non-compensatory capital or assets	-1.6	-1.3	-0.9	-7.4	
Errors and omissions	-0.7	-5.2	+6.5	+6.2	
Compensatory movements	-0.3	-5.5	-4.0	-1.4	
Net external compensatory capital	+0.6	-1.8	0.0	-6.0	
Balance-of-payments loans and deferred import payments	-	-	-	-	4.9
Other liabilities of the monetary authorities	+0.1	+0.7	+1.0	-1.0	
International Monetary Fund position	+0.5	-2.5	-1.0	-5.0	
Movements of gold and foreign exchange reserves (increase -)	-0.9	-3.7	-4.0	-4.6	

Sources: 1960-67: International Monetary Fund, Balance of Payments Yearbook, Vols. 17 and 20;
1968: ECLA estimates.

The Banco Nacional de Fomento proceeded in 1968 with its programme of technical and financial aid to promote the production of basic grains. Noteworthy in this respect are the project for the use of improved seeds, the recently approved programme for the construction of silos which in a few years' time will increase the storage capacity of the price regulating agency from 271,100 to 793,820 quintals, and the credit programme to finance inputs for the small farmer cultivating basic grains, which the Bank is to launch in 1969 in co-operation with the Rural Development Co-operative Service (Servicio Cooperativo de Desarrollo Rural).

Available data on the industrial sector indicate a growth of 10.7 per cent in 1968. Industrial policy underwent little changes during the year. Some developments, however, represent progress in laying the bases for broader industrial development. Thus for example, a study has been completed with a view to establishing an industrial estate at San Pedro Sula, and other studies have been carried out to determine whether it is feasible to set up other industrial estates at Tegucigalpa and in the south, on the Gulf of Fonseca.

The two most important industrial projects undertaken in 1968 are a petroleum refinery and a sugar mill. Other projects include two shrimp and meat packing plants at San Pedro Sula, a plant producing plastic spectacle frames and another manufacturing motor-car silencers, a cotton-seed and sesame-seed oil mill, and a vulcanizing plant. In addition, the existing cement plants, iron and steel foundries, and plants producing food concentrates were expanded.

A venture holding out excellent prospects is the proposed establishment of a pulp and kraft paper mill; an enterprises has been set up to undertake the preliminary negotiations and the engineering studies. The project would be initiated in 1969 for completion in two years, at a cost of 77 million dollars. Another project of regional scope which would have a decisive influence on industrial growth is the steel plant which Honduras is planning to establish at Agalteca. It would produce 100,000 tons annually of carbon steel billet, utilizing the country's supplies of iron ore, limestone and coal.

Lastly, the entry into effect of the Protocol on Fiscal Incentives in 1969 should strengthen Honduras' efforts to develop its manufacturing industry in the next few years.

/The public

The public sector

Public sector trends in 1968, which were similar to those noted in 1967, are reflected in the figures for government income and expenditure. The importance which the public sector has gradually assumed has influenced the total volume of public expenditure; this increased to 246 million lempiras in 1968 from 117 million two years before, thus raising the ratio of public expenditure to the product from 15.9 to 19.3 per cent. The biggest increase was in capital expenditure, which preliminary estimates put at approximately 113 million lempiras, or 75 per cent more than in 1966 and 10 per cent more than in 1967. Consumption expenditure, on the other hand, rose by a little more than 18 per cent over 1966, and only 5 per cent over 1967.

The vigorous growth of public investment is the result of more energetic government action to step up the construction of economic and social infrastructure works. Nevertheless, the public investment coefficient is still low, and projects have been completed in relation to those programmed.^{8/}

Current general government income in 1968 continued the rapidly rising trend of the last few years, with the exception of 1967. The expansion of foreign trade, the measures to raise tax revenue and the improvement in economic activity in general resulted in a 23.3 per cent increase in income. The proceeds from direct and indirect taxes rose by nearly 14 per cent, reaching 41.7 and 95.8 million lempiras respectively. The larger volume of exports pushed up income from export taxes **and charges** from 4.4 million lempiras in 1967 to 7.6 million in 1968, while revenue from import duties also went up by 16 per cent.

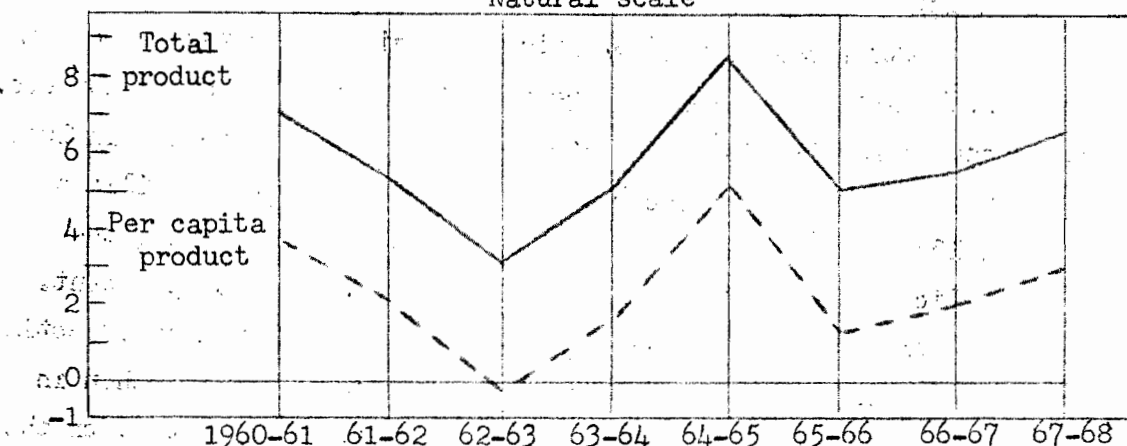
As a result of the evolution of income and expenditure, the surplus on the public sector current account may be estimated at a little over 40 million lempiras for 1968, which means that the rising trend of the last few years was maintained. Accordingly, the Government was able to dispense with financing from the banking system, although it made considerable use of external resources.

^{8/} Estimates of the Planning Council show that at the end of 1967 the public sector had a balance in hand of 76 million dollars obtained from international financing agencies, and new loans totalling 25 million dollars had been contracted for 1968.

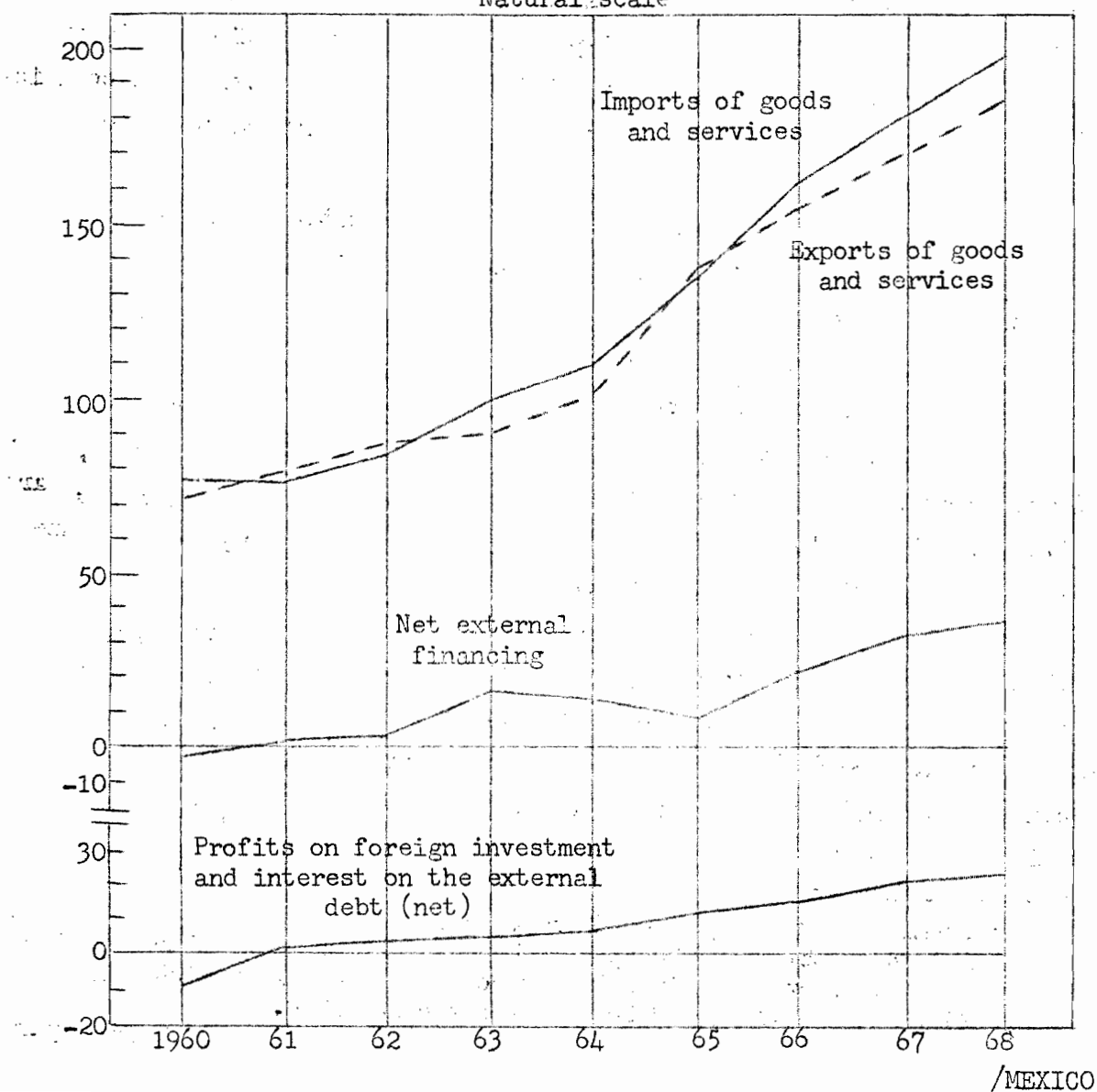
Figure II-11

HONDURAS: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR
(Millions of dollars at current prices)
Natural scale



MEXICO

Recent economic trends

During 1968, the Mexican economy followed very similar trends to those of the mid-nineteen-fifties. From the partial data available, the growth of the product can be estimated at 6.8 per cent, which is slightly higher than in 1967 (see table II-57).

The expansion of the product mainly reflects the progress made by the agricultural sector, which increased by 3.7 per cent after its decline in 1967. Crop farming, especially for export, made particularly good recovery, and the livestock industry also showed signs of greater vitality. Mining expanded considerably, achieving a record level for the decade, and so did the services sector. The growth rate of industry, on the other hand, was slightly less than in 1967, and showed divergent trends, with the output of capital goods advancing much faster than that of consumer goods.

An ample supply of agricultural commodities thanks to good weather conditions and abundant water for irrigation brought exports up to their 1966 level. They were also helped by better world market prices for cotton, sugar, livestock products and some minerals, mainly sulphur and copper. Net returns from tourism increased by 15 per cent, which is a higher rate than in 1967, owing to the influx of foreign visitors to the Olympic Games.

Domestic demand was more buoyant than external demand, having increased over the year at the rate of 7.3 per cent, mainly owing to the expansion in public investment (see table II-58). The improvement in the situation of agriculture and the adjustment in minimum wage levels for 1968-69, which represented increases of 15 and 16 per cent for urban and rural areas respectively, also did much to raise domestic consumption.

Total gross investment is estimated to have been 59,300 million pesos at current prices, that is, 12 per cent more than in 1967. The increase was greater in public investment and, although less than in the previous year, was a sufficient stimulus to produce an expansion of just over 9 per cent in construction activities. Its effect was most powerful in the first half of the year and gradually weakened as the various building projects for the Olympic Games and tourism were completed.

Table II-57

MEXICO: ANNUAL GROWTH RATES OF THE SECTORAL PRODUCT, 1960-66, 1967 AND 1968

	1960-66	1967	1968 ^{a/}
Agriculture	3.9	2.3	3.7
Mining	0.5	1.0	4.6
Petroleum	5.9	11.4	7.1
Manufacturing	8.5	8.2	7.9
Construction	7.6	11.3	9.2
<u>Goods</u>	<u>6.4</u>	<u>6.6</u>	<u>6.6</u>
Electricity, gas and water	10.0	10.2	7.2
Transport and communications	3.4	5.0	5.1
<u>Basic services</u>	<u>4.9</u>	<u>6.4</u>	<u>5.7</u>
Commerce	6.4	6.4	7.0
Government	6.5	5.0	6.3
Miscellaneous services ^{b/}	6.2	7.4	7.7
<u>Other services</u>	<u>6.4</u>	<u>6.7</u>	<u>7.2</u>
<u>Growth rate of the total product</u>	<u>6.3</u>	<u>6.5</u>	<u>6.8</u>

Source: Banco de México, S.A.

^{a/} Preliminary estimates.

^{b/} Including finance.

Table II-58

MEXICO: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of pesos at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Total supply</u>	<u>174 214</u>	<u>250 243</u>	<u>267 248</u>	<u>286 747</u>
Gross domestic product	155 889	224 798	239 410	255 690
Imports of goods and services	18 325	25 445	27 838	31 057
<u>Total demand</u>	<u>174 214</u>	<u>250 243</u>	<u>267 248</u>	<u>286 747</u>
Exports of goods and services	16 599	23 309	23 242	25 188
Gross fixed investment	23 226	37 461	42 100	44 723
Public	10 071	12 700	16 600	18 500
Private	13 155	24 761	25 500	26 223
Total consumption	134 389	189 473	201 906	216 836
General government	7 669	12 168	12 885	14 855
Private	126 720	177 305	189 021	201 981

Source: ECLA, on the basis of official figures.

^{a/} Preliminary estimates.

/The partial

The partial data available indicate that stronger fiscal measures were taken in 1968 to increase domestic savings. The income tax system was modified, as were the tax systems for production, turnover, corporation income and foreign trade. As a result, the current revenue of the Federal Government was raised by as much as 17 per cent. At the same time, the expansion of current expenditure was kept within the specific limit of 13 per cent, so that over 1,300 million pesos became available for investment purposes.

In monetary matters, the tendency of the money supply to grow more slowly than the product at current prices has been reducing over-all liquidity for some years. In 1968, the money supply increased on an average more rapidly than in 1967, but the demand for greater liquidity as a result of the upsurge of economic activity at a time when the money supply was growing more slowly has no doubt been met by an increase in the speed of money circulation.

The bank system granted additional financing to the value of some 22,000 million pesos, which represents a growth rate of 18 per cent, or more than in the previous year. The bulk of the increase - 64 per cent - was made up of bigger loans to the private sector, mainly industry. In terms of growth, however, the funds distributed to the public sector far outweighed those destined for firms and private persons, since the former increased by more than 23 per cent and the latter by 16 per cent. This changed the structure of financing, as the Government's share of loan funds, mainly consisting of Government bonds sold to banks rose from 25 to 36 per cent between 1967 and 1968.

The higher level of domestic economic activity and the credit expansion in 1968 led to a 12 per cent increase in imports of goods (more than 1,900 million dollars), with durable consumer goods accounting for the major portion. This explains why, the deficit on current account was approximately 20 per cent more than in 1967, despite the reactivation of export trade. Moreover, revenue on current account was sufficient to wipe out the deficit, and the level of reserves was hardly affected at all (see table II-59).

Table II-59

MEXICO: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	1 340.0	1 972.0	2 132.0	2 156.0	2 360.0
Goods	764.0	1 146.0	1 228.0	1 152.0	1 235.0
Services	576.0	826.0	904.0	1 004.0	1 125.0
Imports of goods and services	1 481.9	2 024.0	2 121.0	2 328.0	2 603.0
Goods	1 150.2	1 522.0	1 563.0	1 706.0	1 905.0
Services	331.7	502.0	558.0	622.0	698.0
Net investment income	-190.5	-339.0	-373.0	-469.0	-535.0
Net private transfer payments	-6.9	-6.0	-5.0	+1.0	
Balance on current account	-339.3	-397.0	-367.0	-640.0	-777.0
<u>Capital account</u>					
Net external financing	+339.3	+397.0	+367.0	+640.0	+777.0
Net non-compensatory external capital	+189.6	+239.0	+460.0	+711.0	+782.0
Direct investment	-38.1	+214.0	+186.0	+109.0	
Non-compensatory loans	+173.7	+3.0	+159.0	+379.0	
Short-term liabilities	+52.2	+22.0	+117.0	+227.0	
Official transfer payments	+1.8	-	-2.0	-4.0	
Net non-compensatory domestic capital or assets	-2.1	-94.0	+71.0	-91.0	-5.0
Errors and omissions	+131.5	+191.0	-182.0	+101.0	
Compensatory movements	+20.3	+61.0	+18.0	-81.0	
Net compensatory external capital	+4.8	-10.0	-12.0	-13.0	-5.0
Balance-of-payments loans and deferred payments	-	-	-	-	
Other liabilities of the monetary authorities	+4.8	-	+20.0	-4.0	
IMF position	-	-10.0	-32.0	-9.0	
Movements of gold and foreign exchange (increase -)	+15.5	+71.0	+30.0	-68.0	

Source: 1960-67: IMF, Balance of Payments Yearbook, vols. 17 and 20; 1968: ECLA estimates.

/Although factors

Although factors on the demand side were expected to push up prices in 1968, the increase in the supply of goods combined with prudent management of fiscal and monetary policies prevented them from climbing unduly. The indexes for ten months show that there was an increase of 2.03 per cent in wholesale prices between December 1967 and October 1968. If average values are compared for January to October in both years, the increase will be seen to be just under 2 per cent. Over the same period, prices of food rose slightly more than those of other consumer goods, while the rise in the cost-of-living index for manual workers was a little higher than in December 1966 to October 1967, but even so was only 1.8 per cent.

Foreign trade and the balance of payments

In 1968, production for export made good progress, several commodities commanded higher prices. Export crops, which had dropped nearly 2 per cent in 1967, expanded at a rate of nearly 6 per cent in 1968, thanks to good weather conditions and an abundant supply of water for irrigation.

The increase in the volume of cotton output, as a result of the extension in the cotton-growing area and higher yields, combined with better world market prices to raise the value of exports to 158 million dollars. Nevertheless, cotton has not fully recovered from its decline in 1967, since the depressive effects of the cotton cycle that began in that year persisted into 1968. The partial recovery in the value of sales is attributable to a bigger harvest in 1968/69, the impact of which will probably be felt even more strongly in 1969.

Exports of coffee earned an additional 11 million dollars as the average sales price was maintained at the previous year's level, with the result that the volume of supply was increased slightly. The actual export quota was 86,500 tons for October 1967 to September 1968 as against only 81,300 tons the year before. The 4 per cent increase in the 1968/69 quota, which had been approved by the International Coffee Council in February, was helpful to exports in the last quarter of the year.

/Sales of

Sales of maize and wheat, which, in 1967, had largely compensated for the drop in cotton and coffee exports, played a very different part in 1968: virtually no wheat was sold abroad while the value of maize exports fell by nearly 40 per cent. In the last few years an attempt has been made to bring their output into line with domestic demand, as in the case of wheat. As maize production increased appreciably in 1968, stocks have undoubtedly gone up.

Sugar exports achieved the remarkably high value of 86 million dollars (28 per cent more than in 1967), owing to a larger volume of sales and an increase of over 8 per cent in the average price. In 1968, about 6.5 million tons were exported (16 per cent more than in the previous year),^{9/} 85 per cent of which went to the United States mainly because of the increase in Mexico's sugar quota following a redistribution of the quotas.

Sales of cattle and beef, which had been limited in 1967 by the failure of output to keep pace with domestic requirements, increased appreciably in 1968 owing to the upsurge of activity in the livestock industry. Exports were 32 per cent higher than in 1967 and average prices rose too, particularly for cattle on the hoof. They amounted to 80 million dollars in value; this figure topped the previous year's level by 37 per cent and was higher than at any other time in 1964-67.

Shrimp sales, on the other hand, dropped 12 per cent in value to their 1966 level, owing to a reduction in supply due to the shrimp's reproductive cycle and to hurricanes which coincide with the fishing season.

Lead, zinc and copper exports showed a moderate improvement in both value and volume (copper was also influenced by an increase of about 13 per cent in the average export price). These improvements reflect a higher rate for ore mining than in 1967. The value of sulphur exports also went up by 23 per cent to 59 million dollars despite the reduction

^{9/} Including some 100,000 tons taken from carry-over stocks from the previous year.

in the amount extracted, thanks to soaring market prices. In addition, there was an appreciable increment in silver exports, which totalled 82 million dollars, thereby doubling their 1967 figure. This was partly due to an expansion of the volume exported, but more particularly to the rise in international market prices.

Exports of manufactures remained at virtually the same level as in the last two years, except for textiles, the sales of which fell off, probably because of the contraction in production and problems that limited the possibilities of placing them on the United States market.

Under the stimulus of domestic demand and an improvement in national purchasing power, imports continued to rise in 1968. They amounted to more than 1,900 million dollars in value, which is 12 per cent higher than in 1967. This increase was basically due to private purchases, since public sector purchases were reduced slightly.

From the partial data available, it can be seen that imports of consumer goods, particularly durables, expanded by about 20 per cent after remaining constant in 1967. The expansion was mainly due to bigger purchases of motor vehicles and of radio and television parts.

Imports of capital goods and raw materials increased by 13 and 18 per cent respectively, representing 30.4 and 45.6 per cent of the total. The bulk went to industry, but a sizable amount was also earmarked for the transport sector. The increase in their share of the total was due to purchases of telephonic and telegraphic apparatus, airplanes and the necessary spare parts, chassis for motor vehicles and motors for driving machinery.

Purchases of building materials, which accounted for 48 per cent of the total, expanded by 17 per cent, while those of fuels and lubricants fell off slightly.

Exports of goods were outstripped by those of services. The Olympic Games did much to swell income from tourism to an estimated net value of 231 million dollars, i.e., 15 per cent more than in 1967, and the sale of television rights abroad represented an additional source of revenue. Border trade expanded from 595 to 649 million dollars, at the same rate as in the previous year.

/Despite these

Despite these improvements, and the recovery of exports of goods after their stagnation in 1967, the increased inflow of imports coupled with higher factor payments abroad (particularly interest) resulted in very large deficit on current account.

Much of the deficit was covered by the net inflow of long-term capital, in spite of the increase in amortization payments. Capital movements mainly consisted of greater direct investment and external financing for the public sector, but short-term capital movements were also quite appreciable.

Major goods producing sectors

Industrial production expanded somewhat more slowly than in 1967, as a result of the slower development of manufacturing (7.9 per cent, compared with 8.2 per cent in 1968) and of other branches of the sector, particularly petroleum and electric power. Mining and quarrying, on the other hand, attained the highest rate in the decade: 4.6 per cent (see table II-60).

In the manufacturing sector, the production of capital goods grew at a faster pace (9.8 per cent) than that of consumer goods (6.4 per cent), in line with the dynamic trend shown by investment during the year (see table II-61). The production and assembly of motor vehicles regained the growth rate attained in previous years, following a tapering off in 1967, and sales rose from 61,229 to 75,602 units. A larger proportion of installed capacity was therefore utilized, although there is still a fairly considerable amount of idle capacity. Output of electrical articles responded to the stimulus of increased demand, with a 23 per cent expansion in volume between January and September.

The production of textiles was affected by the trade union dispute in the textile industry, and in some degree by the difficulties that arose over exports to the United States. As a result, the manufacture of cotton yarn and fabrics decreased by about 7.5 per cent, and wool yarn and fabrics by 1.5 per cent. Only the production of artificial fibres exceeded the 1967 levels.

Table II-60

MEXICO: INDUSTRIAL PRODUCTION INDEXES, 1960-68

(1950 = 100)

Year	General	Mining	Petroleum and coke	Manufac- turing	Construc- tion	Electric power
1960	197.4	132.6	207.8	202.9	201.6	242.6
1961	204.7	127.0	231.4	210.1	203.6	265.6
1962	215.1	128.6	235.8	223.6	205.8	282.8
1963	235.0	133.1	250.4	244.2	238.1	309.9
1964	266.0	134.3	273.2	278.8	277.2	356.0
1965	280.9	133.2	284.7	298.7	272.5	390.0
1966	309.9	136.7	293.8	331.9	313.4	430.1
1967	336.5	138.1	327.3	359.1	348.8	474.0
January-June						
1967	344.6	139.8	318.7	373.3	340.4	468.2
1968 ^{a/}	372.8	142.6	344.7	403.8	379.0	500.1

Source: Banco de México, S.A.

^{a/} Preliminary estimates.

Table II-61

MEXICO: INDEX OF MANUFACTURING OUTPUT AND VOLUME OF PRODUCTION OF
SELECTED PRODUCTS, 1964-68

(1950 = 100)

	1964	1965	1966	1967	1968 ^{a/}
Index of manufacturing output (1950 = 100)	278.8	298.7	331.9	359.1	387.5
<u>Volume of production ^{b/}</u>					
Pig iron and sponge iron	1 130	1 159	1 402	1 611	2 064
Ingot steel	2 326	2 455	2 787	3 040	3 341
Cement	4 339	4 199	4 828	5 544	6 098
Sheet glass (thousands of square metres)	11 462	10 759	12 496	13 148	16 343
Sulphuric acid	454	515	581	639	702
Caustic soda	95	104	110	121	139
Rolled products	1 830	1 953	2 199	2 348	2 620
Pulp and groundwood	281	338	353	378	402
Paper and paperboard	529	591	633	685	740
Artificial fibres	33	38	42	47	55
Tyres (thousands of units)	2 908	3 077	3 642	3 818	4 311
Cotton textiles	120	126	134	137	144
Beer (millions of litres)	1 016	1 098	1 163	1 227	1 238
Vegetable oils	321	335	350	402	430
Sugar	1 815	1 983	2 011	2 327	2 264

Sources: Banco de México, S.A. and Nacional Financiera, S.A.

^{a/} Preliminary estimates.

^{b/} Thousands of tons unless otherwise stated.

The food, beverage and tobacco industries recorded a smaller increase than in 1967. The highest rate was attained in the production of canned meat, followed by that of dairy products and noodles, but on a lesser scale. Moreover, the output of canned fish, ground and roasted coffee, and sugar declined, that of sugar because of the poor crop in the previous agricultural year.

Iron and steel making expanded considerably; this was not wholly reflected in the growth of production (13.5 per cent in 1968 as against 10 per cent in 1967), but is clearly apparent in investment in this branch of activity, stimulated by the industrial policy aimed at self-supply in steel products. Thanks to the expansion of installed capacity, it was possible to process a volume of 1.9 million tons of primary iron, compared with 1.6 million tons in 1967. The new plants and facilities, some of which are expected to begin operating in 1969, will boost capacity to 5.1 million tons of ingot steel by 1971.

Steel output maintained its 1967 growth rate, amounting to 3.3 million tons of ingot steel. The incomplete data available show that the production of rolled products rose 11.6 per cent in 1968 and covered practically all domestic requirements, while exports also increased.

The rate of increase in petroleum output was 7.1 per cent, which, as stated above, is lower than the 1967 rate of 11.4 per cent. On the other hand, 834,000 tons of basic petrochemical products were obtained, a start being made on the production of acetaldehyde, and the capacity for producing ammonia being quadrupled. Forty petrochemical plants are at present under construction at a total cost of 1,356 million pesos, 57 per cent of which is being contributed by Petróleos Mexicanos and the rest by private firms, with or without government participation.

To meet the growing demand for fertilizers, the process of consolidating several manufacturing firms under Guanos y Fertilizantes de México, S.A. was completed, and plants were adapted in order to keep supply in line with the requirements of the programme for introducing technical improvements in agriculture. Production in terms of nutrients has reached 183,000 tons of nitrogen and 107,000 tons of phosphorus.

/In mining,

In mining, except for the production of sulphur and zinc, which declined by 5.6 and 2.9 per cent in relation to 1967, the production of mining products for export was stimulated by external demand, with increase in silver, copper and lead. In contrast, manganese output continued to shrink, reaching its lowest level in 1968 - 16,000 tons - mainly because of the depletion of the deposits being exploited in the state of Jalisco. The growth of demand from the steel industry favoured the production of iron ore, which expanded by 18.7 per cent to a volume of 1.9 million tons. The result of all these developments was a marked expansion in mining output which led to a 9 per cent increase in exports of mining products.

Weather conditions for agriculture in 1968 were satisfactory, with abundant rainfall. As a result of the previous year's rains, water in the reservoirs reached a very high level. Consequently, both irrigated and non-irrigated crops developed without difficulty, giving rise to a substantial increase in the volume of agricultural production compared with the previous year.

A study of agricultural trends over the present decade shows that production for export has been influenced more by the improvement in yields than by the expansion of the area under cultivation. In effect, the respective cumulative annual rates indicate an increase of 4.2 per cent in yields over the past five years and an expansion of less than 1 per cent in the area under cultivation.

Besides the production for export referred to above, agricultural production for domestic consumption also followed a more satisfactory trend than in the preceding crop year. In particular, the larger maize crop was favoured by sowings in an additional area of over 200,000 hectares, especially in the dry farming regions, and also by an improvement in yields per hectare. In line with the policy followed in fixing support prices, there was a further reduction in the area earmarked for wheat (45,000 hectares), which caused a drop in output. The restrictions placed on maize and wheat in irrigated districts favoured other crops including sorghum, production of which has climbed steadily in recent years, helped by credit programmes and the establishment of support prices.

/Production of

Production of oilseeds has been increasing significantly, as a result of the policy to promote the manufacture of oils and fats by utilizing the land freed by other crops. Over the past year there have been appreciable increments in such crops as safflower, sesame and soya, while the excellent cotton crop sent up supplies of cottonseed for industrial use by 14 per cent.

Although a smaller area was devoted to sugar-cane, harvest results indicate a somewhat larger output than in the crop year 1967/68. Mexico's sugar production considerably exceeds domestic demand (1.6 million tons), and the external market usually absorbs a substantial part of the surplus.

Mexico's agricultural policy has been aimed emphatically at improving production techniques, and in 1968 this objective was given high priority in government programmes. Accordingly, there were significant increases in the budget appropriations for agricultural research and training, livestock development, improved seeds, and the promotion of fruit farming. The sums allocated to irrigation projects were also increased considerably, thanks to which work could proceed on important projects under the National Small-Scale Irrigation Plan (Plan Nacional de Pequeña Irrigación), which is intended to benefit 306,000 hectares over a period of ten years ^{10/} and is now in its second year of execution. Six large reservoirs and fourteen smaller ones were completed, thus expanding the irrigated area by 75,000 hectares, besides introducing improvements in a further 24,000.

^{10/} The sum of 380.6 million pesos were allocated to this Plan in 1968 (compared with 102.2 million in 1967). If investment by the executing bodies and state contributions are taken into account, the resources earmarked for this undertaking total to 416.4 million pesos.

Figure II-12

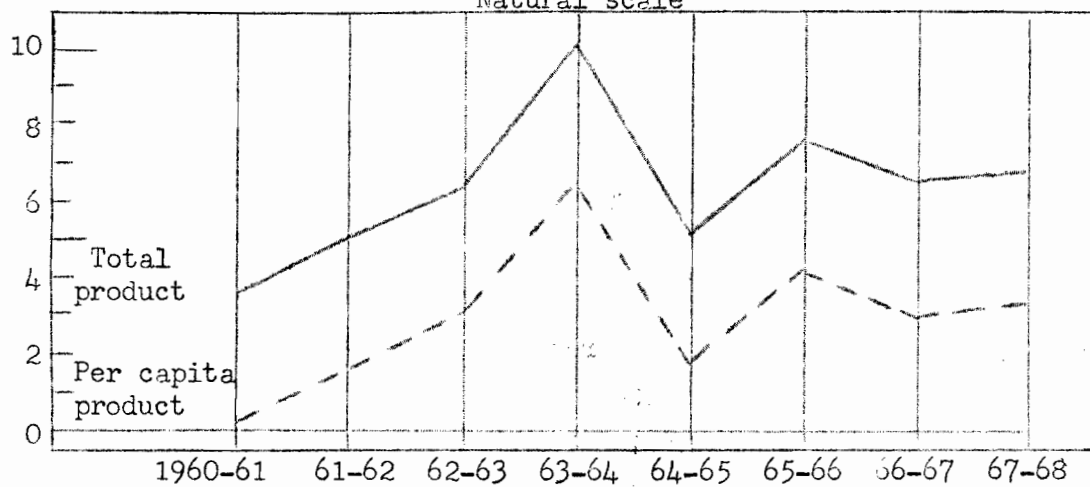
MEXICO: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

E/CN.12/825

Page II-205

(Annual growth rates)

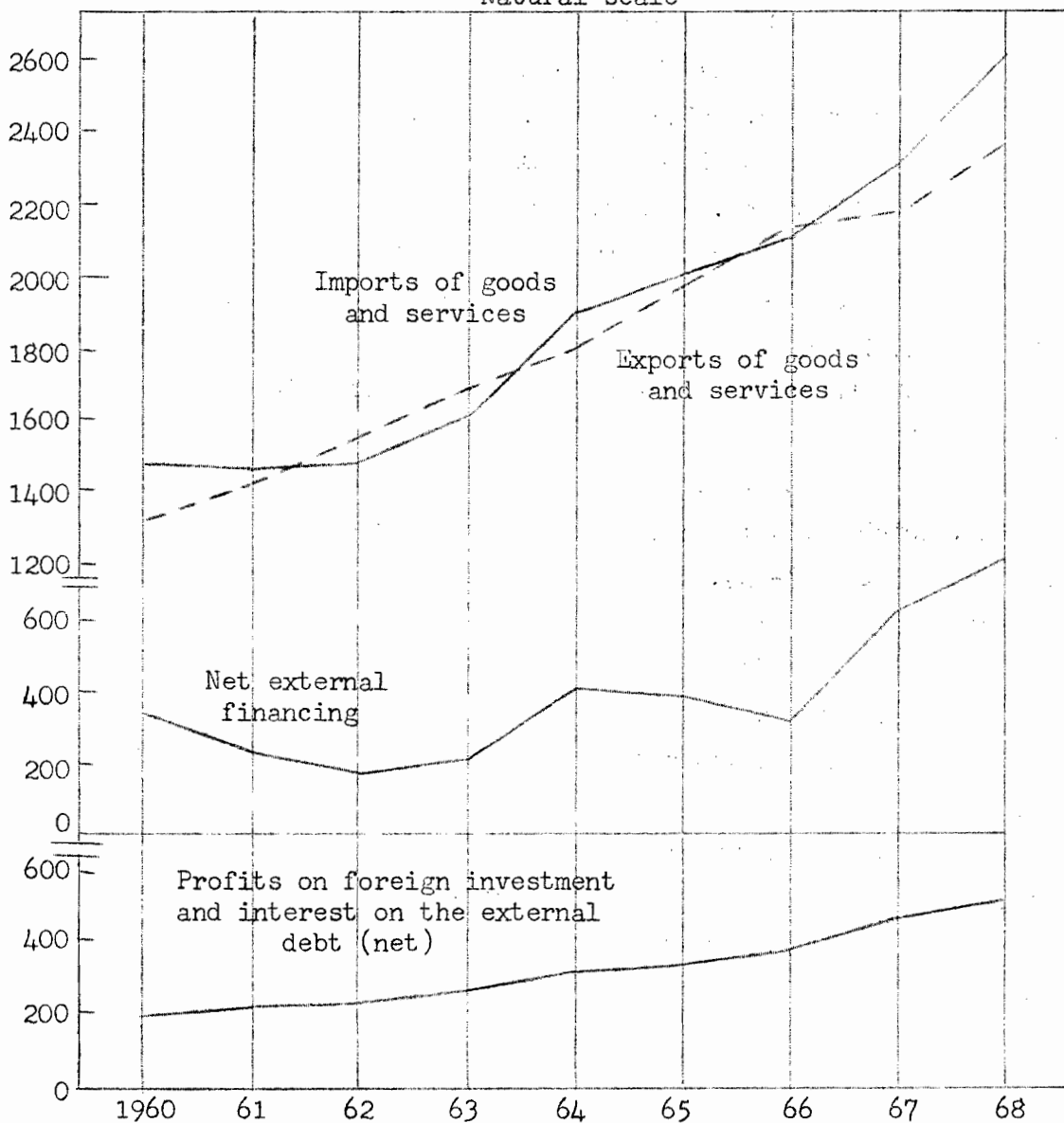
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



NICARAGUA

General trends

The domestic product expanded by approximately 4.5 per cent in 1968. This is an improvement on the growth rates in 1965 and 1966, which were 3.9 and 4.1 per cent respectively, but is still much lower than in 1963-65, when it was over 8 per cent (see table II-62).

The weakening of the economy in the last few years is closely related to the loss of momentum in the external sector and the increasing difficulty of keeping up the growth of public expenditure. Both exports and imports had soared in the first half of the nineteen-sixties, but from 1965 onwards, exports tended to remain static, while the maintenance of even a more moderate growth rate for imports tipped the balance of payments far into disequilibrium on current account. Central government expenditure exceeded current income in 1966, when direct government investment was at its maximum, and the deficit became a good deal larger in the following year, despite a retrenchment in capital expenditure.

This explains why the main concerns of economic policy in 1968 were to clamp down on public expenditure and to restrict imports. The former led to a sharp cut in total central government outgoings, and particularly public investment, which was virtually confined to the completion of works already in hand (see table II-63). The current value of imports of goods and services decreased by about 10 per cent, although purchases from Central America expanded, albeit at a slower rate.

The contraction in imports, coupled with the slight increase in exports, reduced the deficit on current account, but even so it stood at nearly 50 million dollars (see table II-64). At the same time, the inflow of non-compensatory capital slackened off and, although reserves rose, the utilization of stand-by loans from the International Monetary Fund worsened the net position of the monetary authorities for the second year running.

Table II-62

NICARAGUA: ANNUAL GROWTH RATE OF THE PRODUCT BY SECTOR, 1960-66 TO 1968

Sector	1960-1966	1967	1968 ^{a/}
Agriculture	3.9	3.6	4.5
Mining	4.5	-4.7	0.0
Manufacturing	8.8	7.0	6.0
Construction	3.0	-13.3	1.9
<u>Goods</u>	5.0	3.4	4.6
Electricity, gas and water	15.6	16.3	7.7
Transport and communications	6.3	4.6	5.0
<u>Basic services</u>	8.6	8.2	5.9
Commerce	9.4	4.1	5.6
Government	8.6	6.7	-1.6
Miscellaneous services	12.3	3.1	4.7
<u>Other services</u>	10.2	4.1	4.1
<u>Growth rate of the total product</u>	7.6	4.1	4.5

Source: ECLA, on the basis of official statistics.

^{a/} Preliminary estimates.

Table II-63

NICARAGUA: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of córdobas at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>3 075.8</u>	<u>5 525.8</u>	<u>5 842.1</u>	<u>5 864.6</u>
Gross domestic product	2 426.2	3 759.7	3 915.5	4 089.8
Imports of goods and services	649.6	1 766.1	1 926.6	1 774.8
<u>Aggregate demand</u>	<u>3 075.8</u>	<u>5 525.8</u>	<u>5 842.1</u>	<u>5 864.6</u>
Exports of goods and services	525.0	1 277.3	1 351.3	1 385.1
Gross fixed investment	314.3	838.0	873.8	874.5
Public	74.2	154.9	146.0	121.4
Private	240.1	683.1	727.8	753.1
Total consumption	2 236.5	3 410.5	3 617.0	3 605.0
General government	210.0	305.4	329.0	323.6
Private	2 026.5	3 105.1	3 288.0	3 281.4

Source: ECLA, on the basis of official statistics.

^{a/} Preliminary estimates.

NICARAGUA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	79.2	171.8	172.0	182.5	189.8
Goods	63.9	149.2	143.0	148.0	153.5
Services	15.3	22.6	29.0	34.5	36.3
Imports of goods and services	87.7	188.7	212.6	233.7	218.5
Goods	56.4	133.9	151.8	172.2	157.0
Services	31.3	54.8	60.8	61.5	61.5
Net investment income	-2.8	-12.8	-15.7	-18.7	-20.8
Net private transfer payments	+0.2	+2.3	+2.4	+2.7	+2.5
Balance on current account	-11.1	-27.4	-53.9	-67.2	-47.0
<u>Capital account</u>					
Net external financing	+11.1	+27.4	+53.9	+67.2	+47.0
Net non-compensatory external capital	+7.7	+51.6	+57.2	+38.7	
Direct investment	+1.7	+8.2	+12.2	+14.5	
Non-compensatory loans	-0.6	+10.6	+21.5	+16.9	
Short-term liabilities	+3.9	+28.6	+18.8	+4.2	
Official transfer payments	+2.7	+4.2	+4.7	+3.1	+37.3
Net non-compensatory domestic capital or assets	-0.9	+2.2	-6.0	+5.3	
Errors and omissions	-0.2	-6.9	+4.6	+6.6	
Compensatory movements	+4.1	-19.5	-1.9	+16.6	
Net compensatory external capital	+4.0	-1.3	-1.2	-14.1	
Balance-of-payments loans and deferred import payments	+4.0	-1.6	-1.6	-0.8	
Other liabilities of the monetary authorities	-	+0.3	+1.3	-1.0	+9.7
IMF position	-	-	-0.9	-12.3	
Movements of gold and foreign exchange (increase -)	+0.1	-18.2	-0.7	+30.7	

Source: 1960-67: IMF, Balance-of-Payments Yearbook, vols. 17 and 20. 1968: ECLA estimates.

/During the

During the first half of 1968, conditions were extremely favourable for agriculture, and promised a substantial improvement in the production of traditional export commodities. Unlike those for the two previous crop years, forecasts were for exceptional growth owing to timely rains and more effective pest control, particularly for cotton. However, in the second half of the year, the volcano Cerro Negro erupted, covering a wide stretch of cotton-growing land with a dense layer of ash.

Traditional exports as a whole contracted, but this was offset by bigger sales to the Central American regional market, in which Nicaragua has shown a considerable deficit.

Major economic sectors

The favourable conditions for agriculture and the progress made by the livestock industry raised the agricultural product by 4.5 per cent; this is an accentuation, though still restrained, of the upward trend which began in 1967.

The encouraging prospects for the 1968/69 crop year were determined by rainfall and the agricultural development policy launched two years ago with the aim of increasing cotton, rice and coffee-growing by the provision of credit, the widespread adoption of more efficient methods of cultivation, and aid in improving the system of distribution.

The livestock industry was affected by the adverse state of the United States meat market, which set up import quotas based on each country's sales in past years and the total supply available. This was particularly unfortunate for Nicaragua's meat industry, which had just started on an ambitious plan of expansion.

Bananas also had difficulty in finding a market, as did Havana tobacco, whose production was developing well. Thanks to the improvements introduced in coffee-growing, which include the renovation of the plantations, coffee production has been in full swing, although the area sown has remained the same. In the 1968/69 crop year, output is expected to increase by 9 per cent without creating any stockpiling problems, since the quota assigned to Nicaragua is large enough for the whole crop to be sold.^{11/}

^{11/} The actual quota, which was 396 296 bags in 1967/68, was raised to 469 951 bags for 1968/69.

Industrial activities expanded by 6 per cent, which was less than in previous year. However, the addition of some large industrial units has considerably strengthened the country's manufacturing capacity, although it was too early for their effects to be felt in 1968. One unit for which 1968 was the first year of operation was a plant for processing chlorinated insecticides. This was put into production at the end of 1967, but has not yet begun to operate at full capacity. A textile mill with a capacity of 7 million yards annually was also brought into operation, and a polyvinyl plant, a dairy products plant and another textile mill, with an annual capacity of 3 million yards, are all under construction. In addition, industrial projects for making wood pulp and fish meal are being studied.

Construction activities in 1968 reflected the decline in the growth rate of investment, which had also been a characteristic of 1967. In comparative terms, however, the year was one of recovery, since, although the increase in construction was barely 2 per cent, it followed upon a contraction of more than 13 per cent in the previous year.

In general, the services sector followed a downward trend, in keeping with the economy as a whole. Commerce and transport expanded by about 5 per cent, but a decrease of nearly 2 per cent took place in the government sector as a result of the policy of austerity applied during the year by the public sector. The only activity to achieve a fairly high rate (8.6 per cent) was banking.

Fiscal and credit policy

In 1968, revenue from direct taxes levied by the Central Government declined by 6 per cent, and income from import duties, which are still the main source of revenue, dropped by 12 per cent, owing to controls on imports and their replacement by regional tax-free goods since 1963. Nevertheless, current income fell only 4 per cent, thanks to the introduction of new consumption taxes under the terms of the San José Protocol, and the increase in revenue following the establishment of the capital tax on services.

/The reduction

The reduction of 14 per cent in total central government expenditure was partly obtained through a drastic cut of 43 per cent in capital expenditure, which was used almost entirely to finish works already in execution. Another determinant was the reduction in expenditure on wage and salaries under the policy of overhauling the organization of the public administration, which was introduced in 1967 and involved staff changes.

While public expenditure was being slashed, credit policy was restricting economic activity, in certain areas in particular. The figures at hand indicate that by the end of September, the volume of bank credit was 13 per cent higher than in 1967. This represents an increment of 126 million córdobas, of which 28 million were for official bodies and 90 million for the private sector. The main source of the expansion of Central Bank credit was the increase of 76.5 million córdobas in international liabilities. The credit was distributed selectively to official bodies in the form of ordinary loans for a value of 26 million, and to the commercial banking system in the same fashion for a total of 44 million. The commercial banks adopted the same fund-raising practices as the Central Bank, since they drew extensively on external financing (92 million córdobas), particularly long-term (60 million), in order to increase the floatation of loans to the private sector, mainly for agricultural activities. The Banco Nacional continued to play a major part in managing agricultural credit, by virtue not only of the volume of credit granted by it but also of its system of tying financial aid to increases in productivity.

Figure II-13

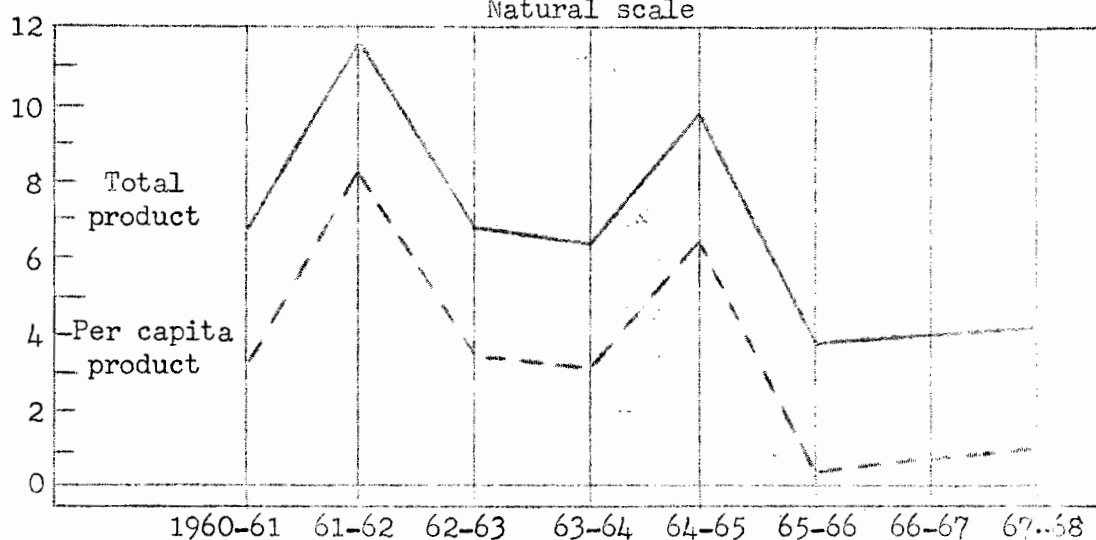
E/CN.12/825

Page II-213

NICARAGUA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

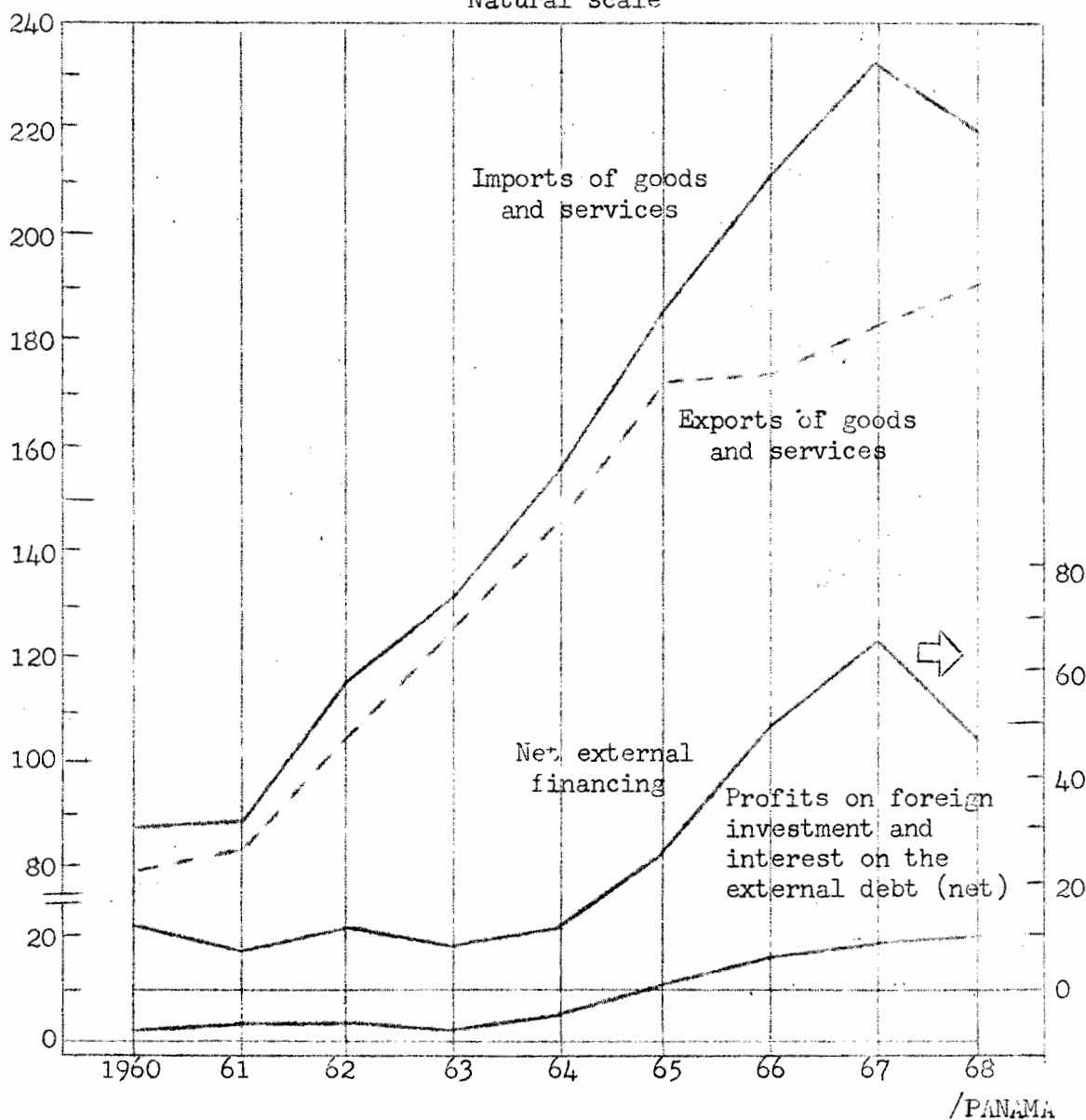
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



/PANAMA

PANAMA

General features

The Panamanian economy, which expanded at an average annual rate of over 8 per cent in 1960-67, grew by only 4.5 per cent in 1968. This relative weakening was apparent in most of the production sectors and particularly affected commerce and other services, whose growth rate was less than 4 per cent (see table II-65).

It was due partly to the effect of political developments on some dynamic factors which had stimulated growth in recent years. Both the public and private investment declined, bank credit expanded more slowly, tourism fell off, and spending in Panama by residents in the Canal Zone decreased.

In contrast with the decline in such major factors of growth for Panama's economy, agricultural production improved, showing a 6.4 per cent increase in the product. In the external sector, the smaller increase in exports of services was offset by larger sales of goods, and imports grew less rapidly than in previous years (see table II-66).

Trends in the sectors of production

Agricultural production rose by 6.4 per cent, which compares favourably with the 5.8 increase recorded in 1967 (see table II-67). The fastest growth rates were recorded in export crops and livestock (10.1 and 8.9 per cent respectively). Banana activities continued to expand; export production reached 16.5 million stems, or 9.8 per cent more than the total of 15 million stems exported in 1967. On the other hand, a decline is estimated to have taken place in banana output for domestic consumption - which represents nearly 45 per cent of total production - because of the larger volume exported and the increasing participation of independent producers in supplies for export. Another export commodity which seems to have enjoyed a favourable trend is cocoa; the domestic supply of this product was limited in the last five years when world prices declined and it became uneconomic to grow; thus, only 396 tons of cocoa beans were gathered in 1967, compared with 1 103 tons in 1962. In 1968 production rose to over 500 tons under the stimulus of an improvement in world prices.

Table II-65

PANAMA: ANNUAL GROWTH RATE OF THE PRODUCT, BY SECTOR, 1960-66, 1967 AND 1968

	1960-66	1967	1968 <u>a/</u>
Agriculture	6.4	6.0	6.4
Mining	9.5	5.3	-
Manufacturing	12.4	11.2	6.5
Construction	8.6	5.9	-
<u>Goods</u>	<u>8.6</u>	<u>7.8</u>	<u>5.5</u>
<u>Basic services</u>	<u>13.1</u>	<u>11.1</u>	<u>6.3</u>
Commerce and finance	11.0	10.4	3.4
Government	7.3	11.5	11.9
Miscellaneous services	6.2	6.2	2.3
<u>Other services</u>	<u>7.6</u>	<u>7.7</u>	<u>3.2</u>
<u>Growth rate of the total product</u>	<u>8.4</u>	<u>8.1</u>	<u>4.5</u>

Source: ECLA, on the basis of official statistics.

a/ Estimates.

Table II-66

PANAMA: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of balboas at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>567.1</u>	<u>951.3</u>	<u>1 023.6</u>	<u>1 059.5</u>
Gross domestic product	418.0	679.0	734.2	767.2
Imports of goods and services	149.1	272.3	289.4	292.3
<u>Aggregate demand</u>	<u>567.1</u>	<u>951.3</u>	<u>1 023.6</u>	<u>1 059.5</u>
Exports of goods and services	127.3	266.3	284.4	294.3
Total investment	67.8	146.1	156.0	152.0
Gross fixed investment	61.4	133.0	142.0	139.0
Public	12.0	18.8	27.0	25.0
Private	49.4	114.2	115.0	114.0
Total consumption	372.0	538.9	583.2	613.2
General government	46.9	74.5	84.5	99.7
Private	325.1	464.4	498.7	513.5

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.

Table II-67

PANAMA: AGRICULTURAL PRODUCTION, 1962/63 TO 1968/69

Production	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 ^{a/}
<u>Growth rates</u>							
Agricultural production	-0.5	6.2	5.4	10.8	10.0	5.8	6.4
Total crop production	-3.6	6.7	10.1	8.1	4.3	6.5	6.2
For export	-12.5	14.8	21.9	26.8	12.8	7.8	10.1
For domestic consumption	-0.5	4.1	6.2	1.0	0.2	5.7	4.1
Livestock production	3.0	8.0	-8.3	7.0	9.2	5.2	8.9
<u>Thousands of tons</u>							
For export							
Bananas ^{b/}	6 680	7 791	9 581	12 281	13 955	15 074	16 577
Cocoa	1.1	0.9	0.8	0.6	0.4	0.4	0.5
For domestic consumption							
Unkilled rice	111	113	130	154	142	153	161
Maize	73	78	83	86	86	90	91
Beans	7	5	4	7	7	6	7
Green coffee	4	5	4	4	5	5	6
Tobacco	1	1	1	1	1	1	1
Sugar cane	644	854	1 211	1 007	970	975	1 007
Tomatoes	8	8	9	10	7	10	13
Bananas ^{b/}	9 970	9 296	6 594	8 013	9 104	12 844	11 873
<u>Thousands of head</u>							
Livestock production							
Beef	118	122	124	134	144	148	152
Pork	66	65	51	57	64	65	66

Source: ECLA, on the basis of official statistics.

^{a/} Estimates.^{b/} Thousands of stems.

/In crop

In crop farming for home consumption, rice and tomato crops present an encouraging picture, in contrast with the slow growth of sugar-cane and maize. Rice, for which there is a heavy domestic demand, has responded favourably to development programmes, and Panama now produces almost enough to be self-sufficient. The increase was mainly due to an increase in productivity per hectare, since only 1.2 per cent more land was brought under cultivation in the last few years whereas output rose by 5.6 per cent.

The increase in livestock production is accounted for by the larger output of milk and dairy products, eggs and beef. On the other hand, cattle and pig slaughtering rose by only 2.7 and 1.8 per cent respectively.

An important development in the mining sector, was the discovery of potential copper deposits in the province of Colón and the Azuero peninsula.

Industry grew at a rate of 6.5 per cent, following an average expansion of some 12 per cent annually from 1960 to 1967. This slackening off seems to have been due to fortuitous circumstances on the one hand and to a more far-reaching factor on the other. First, the adoption of a more cautious attitude by the private sector resulted in a decline in investment, the effects of which were accentuated by the introduction of a more restrictive credit policy by the banking system. The second factor relates to the absolute level of production and the relative importance of new projects: as the structure of industry has gradually broadened, the establishment of a new industry tends to have less of an impact on the product than, for example, when the oil refinery was set up. High growth rates were recorded in 1968 for foodstuffs, textiles, metals and machinery, while the oil refinery expanded its capacity.

With regard to electric energy, the Canal Zone Company recently added two floating power stations, as a temporary measure, to the power network. One is a 10 MW nuclear plant which was installed in October, and the other a 20 MW diesel gas plant which began operation in November. In 1968 the amount of electric energy generated totalled 643 GWh (an increase of 16.1 per cent) in Panama and 636 GWh (6.4 per cent more than in 1967) in the Canal Zone. Even with these increases, however, 57 per cent of the population of Panama (excluding the Canal Zone) has no electricity. At the end of 1968 a 40 MW thermoelectric power station

/was under

was under construction at Las Minas and is expected to begin operation in early 1969. It will supply the central power network and is under state ownership. Bids have been requested for the construction of a 40 MW thermoelectric steam power station, which is expected to begin operation in October 1970. Financing for the El Bayano project (a 150 MW power station) is currently being negotiated with the International Bank for Reconstruction and Development.

In the transport sector 3 million dollars were invested in the construction of a 200 kilometres of highway, the total cost of which will amount to 7 million dollars. External funds are being used to finance 53 per cent of this construction programme.

Economic policy measures

In recent years, Panama's economic policy has been characterized by a continual expansion of bank credit, a balanced budget and price stability. In 1968, however, for the second year in succession, the extraordinarily high rate of expansion of bank credit (44 per cent in 1966 and 22 per cent in 1967) slowed down. At the end of September 1968, the balance for loans was 256.6 million balboas, 9.2 per cent more than at the same point in 1967. Commercial credit declined by 5 per cent, although it still represented slightly more than half of the total. In May 1968, owing to the decline in the liquidity of the Banco Nacional and the Caja de Ahorros, a stand-by agreement was signed with the International Monetary Fund for 3 million dollars, and a further agreement for 3.2 million dollars was concluded in November.

With regard to the fiscal situation, the current expenditures budget totalled 127 million balboas, with a deficit of close to 5 million. This was due in the main to the fact that expenditure grew by 12 per cent, while revenue grew by only 10 per cent.

The cost-of-living index rose by 1.8 per cent in Panama City and 0.9 per cent in the city of Colón.

The external sector

The external sector has traditionally been one of the principal factors of growth in the economy of Panama. During 1960-67, exports of goods and services measured in current prices grew at an average annual rate of 12.2 per cent, while imports did so by 10.4 per cent. In 1968,

/however, this

however, this rapid and sustained expansion lost momentum, with exports expanding by 3.8 per cent and imports by 2.7 per cent (see table II-68). The main reason for this was the decline in revenue from tourism, which includes all the expenditures made in Panama by the residents of the Canal Zone, offset to some extent by increased sales of goods and higher incomes for Panamanians working in the Zone. While exports of goods increased by 6.4 per cent - basically as a result of the rise in banana exports - exports of services climbed by 2 per cent. This situation also influenced imports, the value of which increased by 2.7 per cent. Consequently, the deficit in the balance of payments on current account slightly increased (from 35 million dollars in 1967 to 37.9 million in 1968), and was financed with the help of an increased inflow of capital.

Table II-68

PANAMA: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	122.2	228.6	256.3	273.8	284.3
Goods	39.0	92.5	103.3	112.8	120.0
Services	83.2	136.1	153.0	161.0	164.3
Imports of goods and services	144.2	241.9	271.5	288.1	296.0
Goods	108.7	192.4	217.7	232.4	238.0
Services	35.5	49.5	53.8	55.7	58.0
Net investment income	-10.4	-20.4	-24.2	-12.9	-18.2
Net private transfer payments	-5.3	-5.8	-6.1	-7.8	-8.0
Balance on current account	-37.7	-39.5	-45.5	-35.0	-37.9
<u>Capital account</u>					
Net external financing	+37.7	+39.5	+45.5	+35.0	+37.9
Net external non-compensatory capital	+30.0	+54.2	+82.8	+22.7	+37.9
Direct investment	+17.3	+10.9	+8.7	+10.0	
Non-compensatory loans	+5.3	+13.7	+18.7	+19.1	
Short-term liabilities	+1.3	+19.9	+47.4	-14.7	
Official transfer payments	+6.1	+9.7	+8.0	+8.3	
Net domestic non-compensatory capital or assets	+5.4	+18.6	-41.7	+16.4	+37.9
Errors and omissions	+2.3	+3.9	+4.4	-4.1	
Compensatory movements	-	-	-	-	
Net external compensatory capital					
Balance-of-payments loans and deferred import payments					
Other liabilities of the monetary authorities					
IMF position					
Movements of gold and foreign exchange reserves (increase -)					

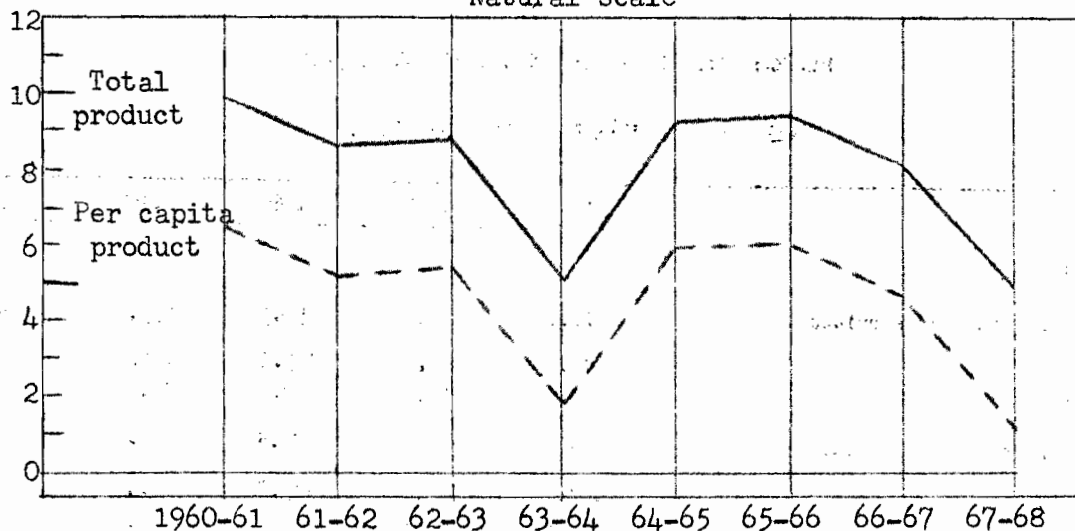
Sources: 1960-67: Balance of Payments Yearbook, vols. 17 and 20; 1968: ECLA estimates.

Figure II-14

PANAMA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

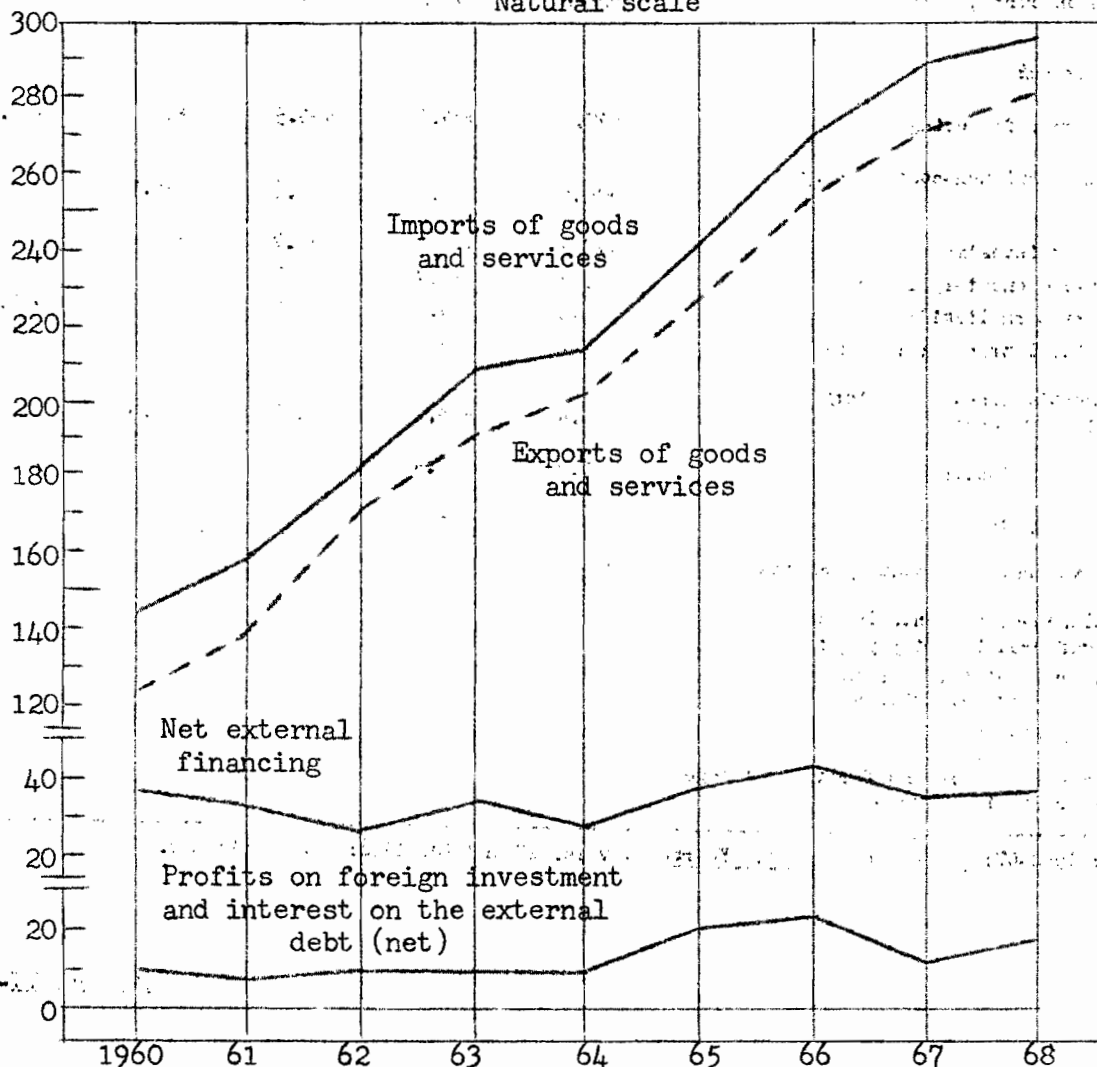
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



PARAGUAY

General trends

The growth rate of the Paraguayan economy continued to be moderate in 1968. Provisional estimates indicate that the gross domestic product increased by 4.2 per cent, which is a similar rate to that of 1960-66 and a little lower than that of 1967 (see table II-69). However, the driving force of the economy in 1968, unlike 1967, was the agricultural sector where production expanded by 6 per cent, while industrial output remained at more or less the same level.

To judge by fiscal budget figures for the first ten months of the year, there was an increase of 5.6 per cent in revenue and of 8.4 per cent in expenditure, which raised the deficit well above its 1967 level. Economic policy measures included an appreciable rise in bank loans. Between January and November 1968, the Banco del Paraguay opened new credit lines of 4,000 million guaraníes for the public sector and of 18,000 million for the private sector, which represent increases of 18 and 14 per cent respectively over the same period in 1967. The over-all price index relating to the structure of consumption among workers' families in Asunción climbed by 2.7 per cent between the closing months of 1967 and 1968, but this figure drops to 0.6 per cent if the annual averages are compared.

Total supply expanded less than the product because imports were fairly stable. On the demand side, there was a greater increase in consumption, and rapid pace of investment achieved in 1967 slackened off (see table II-70).

In the external sector, exports of goods dropped slightly for the third consecutive year, owing to a reduction in the volume of sales, since meat, cotton and quebracho extract commanded better prices on the world market. Their decline was offset by an increase in exports of services, and, in particular, by more revenue from tourism. Imports of goods remained at much the same level as in the previous year, which indicates that the deficit on current account was comparable in size. In 1968, however, the net inflow of non-compensatory capital was too small to wipe out the deficit altogether, and the net monetary position of the Central Bank therefore deteriorated (see table II-71).

Table II-69

PARAGUAY: ANNUAL GROWTH RATE OF THE PRODUCT, BY SECTOR, 1960-66, 1967 AND 1968

Sector	1960-66	1967	1968 ^{a/}
Agriculture	3.1	3.4	6.0
Mining	20.8	-16.8	-65.0
Manufacturing	4.3	3.7	0.3
Construction	6.1	17.1	4.7
<u>Goods</u>	<u>3.6</u>	<u>4.0</u>	<u>3.9</u>
Electricity, gas and water	3.2	18.0	1.6
Transport and communications	3.8	7.5	6.8
<u>Basic services</u>	<u>3.7</u>	<u>9.2</u>	<u>5.9</u>
Commerce	5.0	5.4	3.5
Government	5.3	9.5	8.0
Miscellaneous services	5.4	8.1	4.2
<u>Other services</u>	<u>5.2</u>	<u>6.9</u>	<u>4.3</u>
<u>Growth rate of the total product</u>	<u>4.2</u>	<u>5.4</u>	<u>4.2</u>

Source: ECLA, on the basis of data from the Central Bank.

a/ Estimates.

/Table II-70

Table II-70

PARAGUAY: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of guaranies at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>41 491</u>	<u>52 103</u>	<u>54 686</u>	<u>56 529</u>
Gross domestic product	34 523	42 581	44 880	46 765
Imports of goods and services	6 968	9 522	9 806	9 764
<u>Aggregate demand</u>	<u>41 491</u>	<u>52 103</u>	<u>54 686</u>	<u>56 529</u>
Exports of goods and services	5 494	6 975	6 774	6 515
Total investment	5 840	8 044	9 177	9 500
Public	1 400	2 164	3 451	...
Private	4 440	5 880	5 726	...
Total consumption	30 157	37 084	38 735	40 514
General government	2 629	3 552	3 737	4 000
Private	27 528	33 532	34 998	36 514

Source: ECLA, on the basis of data from the Central Bank.

^{a/} Estimates.

Table II-71

PARAGUAY: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	43.6	66.4	64.0	61.9	62.9
Goods	37.3	60.8	53.6	50.3	49.5
Services	6.3	5.6	10.4	11.6	13.4
Imports of goods and services	55.3	72.4	77.9	80.9	81.9
Goods	44.7	53.0	59.6	61.5	61.5
Services	10.6	19.4	18.3	19.4	20.4
Net investment income	-1.5	-3.0	-4.1	-5.5	-6.9
Net private transfer payments	+0.8	+1.1	+1.4	+2.2	+2.5
Balance on current account	-12.4	-7.9	-16.6	-22.3	-23.4
<u>Capital account</u>					
Net external financing	+12.4	+7.9	+16.6	+22.3	+23.4
Net non-compensatory external capital	+10.4	+17.3	+24.1	+28.4	+21.5
Direct investment	+2.4	+3.3	+2.1	+1.9	
Non-compensatory loans	+3.9	+7.6	+16.3	+21.9	
Short-term liabilities	+1.4	+3.3	+2.6	+1.8	
Official transfer payments	+2.7	+3.1	+3.1	+2.8	
Net non-compensatory domestic capital or assets	-0.6	-0.9	-0.5	-0.6	+1.9
Errors and omissions	-0.2	-0.7	-5.7	-5.7	
Compensatory movements	+2.8	-7.8	-1.3	+0.2	
Net compensatory external capital	-0.1	-2.8	-1.7	+0.5	
Balance-of-Payments loans and deferred import payments	-	-1.7	-0.8	-0.2	
Other liabilities of the monetary authorities	+0.1	-0.6	-	+0.7	-0.3
IMF position	-0.2	-0.5	-0.9	-	
Movements of gold and foreign exchange (increase -)	+2.9	-5.0	+0.4	-0.3	

Sources: 1960-67: IMF, Balance-of-Payments Yearbook, vols. 17 and 20. 1968: ECLA estimates.

/Major sectors

Major sectors of production

After its absolute decline in 1966 and subsequent recovery, agriculture expanded by 6 per cent in 1968. The crop farming product alone grew by 8.4 per cent, with substantial increments in output of tung, tobacco, wheat and tartago while manioc and maize, which account for nearly a third of gross agricultural output, expanded at lower rates (1.6 and 3.7 per cent). Cotton production, which is highly erratic because of its vulnerability to changes in weather, fell by 7 per cent in 1967, but is thought to have increased by over 12 per cent in 1968. Tobacco is in a similar situation, since its output also varies with changes in weather conditions and export possibilities. For instance, after a poor harvest in 1967 and a better crop in 1968, the tobacco-growing area was enlarged in 1968 under the stimulus of a rise in world market prices and output was nearly 50 per cent higher than in the previous year. Coffee production, which had been at a standstill in the two preceding years, grew in 1968 at the rate of 3 per cent. At the beginning of the year, the International Coffee Council assigned a quota of 70,000 bags to Paraguay and resolved to raise it each year by 4,000 bags to 98,000 in all. In order to become self-sufficient in wheat, the wheat-growing area was expanded from 8,000 hectares in 1967 to as much as 21,000 in 1968, and market guarantees and minimum prices were established to encourage production. Other crops, such as rice, vegetables and fruit, made little progress owing to the drought in the first quarter of the year.

The cattle population increased over the last ten years at an annual rate of 1 per cent, and by 1968 totalled 5.6 million head. The number slaughtered in that year is estimated to have been 700,000. This total covers a sharp cut of 26 per cent in the volume of slaughtering for export, since the stockfarmers regarded the prices paid internally by the meat-packing plants as too low, and kept back their animals. An investment programme is now being carried out, with financial aid from the Agency for International Development, to provide wire fencing, water, drainage, roads and other facilities for about 700 big cattle ranches possessing 40 per cent of the herds.

/The adoption

The adoption of a long-term export policy in forestry is changing the structure of production. Accordingly, in 1967 it was agreed to reduce log exports by 20 per cent each year until they had been eliminated completely by 1973, when only processed wood was to be sold abroad. In 1968, the increase of 3.4 per cent in forest production reflected the growth of log and fuelwood output, mainly for industry in particular, and of roundwood for tannin, but the volume of roundwood for industry fell off.

Manufacturing was stagnant in 1968, owing to a recession in the major branch of industry - meat canning - which was caused, in its turn by a drop in the rate of cattle slaughtering for export. Output of quebracho extract (tannin) recovered from its setback in 1967 under the spur of greater external demand. In addition, a number of industrial plants have been set up and others enlarged in the last few years.

The external sector

The slight weakening in exports of goods was mainly due to a reduction in livestock sales, which were virtually limited to canned meat, but was aggravated by a drop in sales of cotton fibres and tung. On the other hand, exports of tobacco, coffee and coconuts increased by over 30 per cent, the first-named owing to greater buoyancy in world demand. Sales of wood grew by only 4 per cent, since the country is still replacing logs by processed wood.

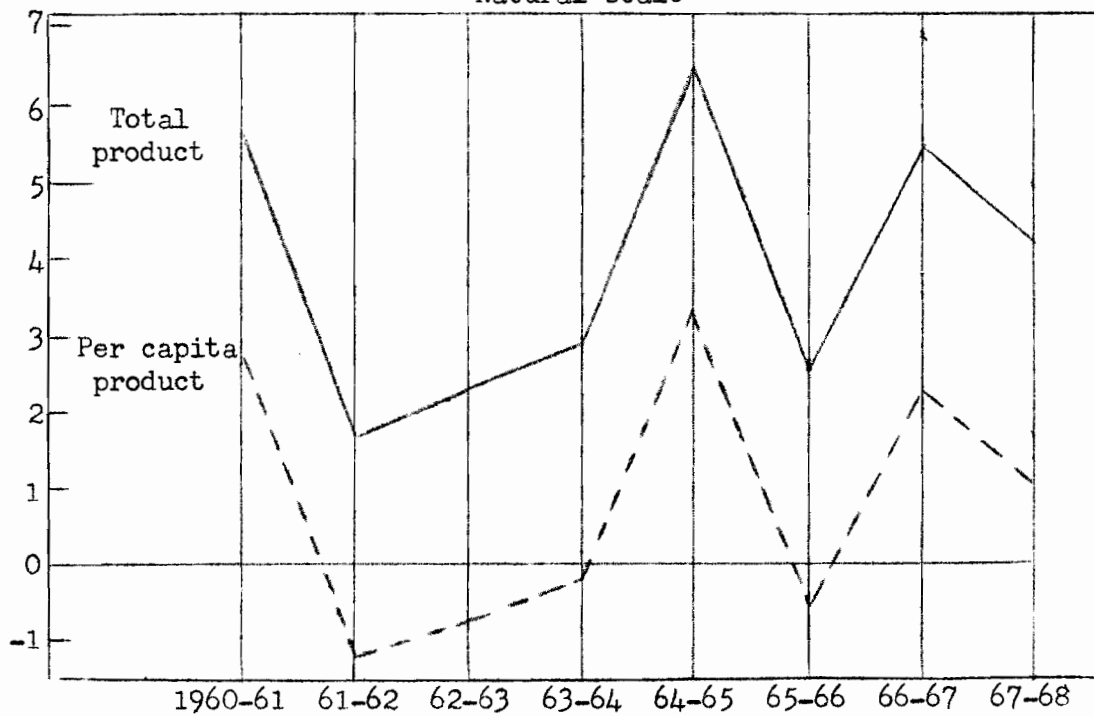
These changes in the commodity structure of trade were matched by variations in the geography of trade flows. The tendency for the United States to replace Argentina as Paraguay's principal buyer, which began in 1967, seems to have continued in 1968. Although the over-all value of imports changed very little, there were some shifts in its internal make-up. Purchases of food, intermediate goods and agricultural machinery increased in particular, while imports of iron, and other metals and machinery were reduced.

The Central Government made use of 6.8 million dollars' worth of external financing, mainly to finance road-building. In addition, the Banco Nacional de Fomento received 8.5 million for crop and livestock projects and for the wood processing industry.

PARAGUAY: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)

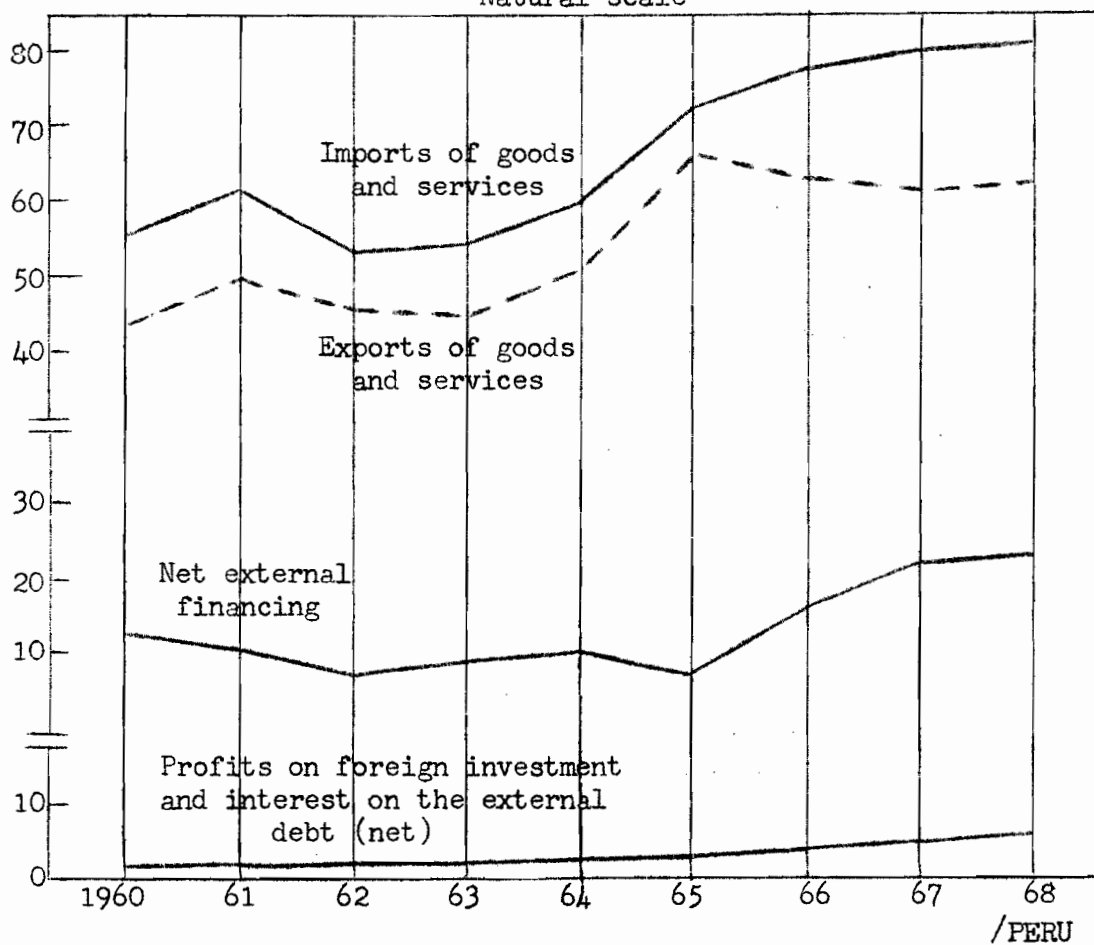
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



PERU

Recent economic trends

The slackening that was apparent in Peru's economic development in 1967 was accentuated in 1968. Preliminary figures indicate that the product increased 3.5 per cent, compared with 4.6 per cent in 1967 and at an average annual rate of 6.4 per cent over the period 1960-66.

This loss of momentum seems to be due to the very nature of Peru's previous economic growth. The main factors contributing to that growth had been a rapid expansion of public sector activities, particularly investment expenditure; a sharp and sustained increase in imports, supported by a considerable rise in exports but also by increasing external borrowing; and the very rapid growth of manufacturing industry, stimulated by the opportunities for import substitution and the steady expansion of domestic demand. In contrast, agricultural production developed slowly and fell far short of domestic requirements.

Inasmuch as the expansion of public expenditure was not accompanied by substantive reforms in the fiscal revenue system, the existing budget disequilibrium was intensified and recourse was had to sources other than taxation to cover the resulting deficits. Similarly, the steady rise in imports was increasingly slowed up as foreign debt servicing reduced the real capacity to import, which gave rise to balance-of-payments disequilibria despite the sustained growth of exports. The currency devaluation in 1967 and the inflexible nature of agricultural supply - which even resulted in an appreciable increase in food imports - exerted pressure on domestic prices and prompted the adoption of some measures to restrict demand. This helped to curb the expansion of manufacturing, which, in addition, was exhausting its import substitution possibilities in respect of many consumer goods whose manufacture required little capital and fairly simple techniques, and it was therefore necessary to turn to other production lines in which these requirements are heavier.

/These developments

These developments help to explain some of the outstanding features of Peru's economic growth in 1968 and the new guiding principles of economic policy that have been adopted. In particular, public expenditure was drastically reduced and the value of imports of goods and services fell off sharply. The new Government which assumed power in October took immediate measures, and announced others over the longer term, to deal with these problems, which included refinancing the external debt and reactivating the agrarian and tax reform programmes, in addition to expropriating the Brea and Pariñas oilfields and the industrial complex of Talara, and "Peruvianizing" the commercial banks.

Evolution of the product, by sectors ^{12/}

The various sectors of economic activity contributed, to a widely differing degree, to the growth of the total product in 1968, which is provisionally estimated at 3.5 per cent (see table II-72).

Agricultural output increased only 1 per cent, as a result of the most serious drought for fifty years in the north, which affected 120 000 hectares of crops and caused losses estimated at 250 000 quintals of cotton, 122 000 tons of rice, 70 000 tons of maize, 162 000 tons of sugar and 8 000 tons of beans. With a view to palliating some of the results of the drought, an emergency law was enacted by virtue of which special funds were earmarked for irrigation works and roads in the area concerned.

^{12/} The official figures available up to 1967 were used in this section; the 1968 figures are provisional ECLA estimates. This time they were based on the gross national product series applied by the Banco Central de Reserva, which has been officially entrusted with the calculation of the national accounts. The gross domestic product is no longer calculated by the National Planning Institute, whose figures were used in previous ECLA surveys.

Table II-72

PERU: AVERAGE ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT, BY SECTOR
OF ECONOMIC ACTIVITY, 1960-68

(Percentages)

Sector	1960-1966	1967	1968 ^{a/}
Agriculture	2.6	2.1	2.6
Mining	2.4	6.0	6.0
Manufacturing	9.1	5.1	6.0
Construction	7.9	5.1	-7.9
<u>Goods</u>	<u>5.3</u>	<u>4.4</u>	<u>3.6</u>
Energy	10.9	10.3	6.0
Transport and communications	8.1	4.5	4.3
<u>Basic services</u>	<u>8.5</u>	<u>5.5</u>	<u>4.6</u>
Commerce and finance	8.1	4.5	4.3
Government	7.5	6.1	0.1
Miscellaneous services	7.1	4.2	3.7
<u>Other services</u>	<u>7.5</u>	<u>4.7</u>	<u>3.3</u>
<u>Growth rate of the total product</u>	<u>6.4</u>	<u>4.6</u>	<u>3.5</u>

Sources: ECLA, on the basis of data supplied by the National Accounts Department of the Banco Central de Reserva del Peru.

^{a/} Preliminary estimates.

/These unfavourable

These unfavourable results over the past year have aggravated the relative stagnation of agricultural production that characterized the period 1960-68, since the growth rate for the whole period averaged less than 2 per cent annually, and in the relatively brief span between 1960 and 1967 the share of agriculture declined from nearly 21 per cent to less than 16 per cent of the total product. This trend is observable both for exports and for commodities sold on the home market. The volume of agricultural exports dropped 6 per cent from 1960 to 1967, mainly because of reductions in output of cotton, since there were appreciable increases in that of other commodities, such as coffee. As a result of the shortfall in domestic supply of such commodities as wheat, rice, fats and meat, Peru increased its imports from 58 million dollars in 1960 to 145 million in 1968.

The implementation of agrarian reform programmes, which are designed to eliminate some of the underlying causes of the above trend, has been slow and costly. Up to October 1968, 600 000 hectares had been expropriated and arrangements were being made to expropriate 300 000 more; subsequently, 247 000 hectares owned by the Cerro Pasco Corporation were expropriated and taken over by the Ministry of Agriculture. As regards agricultural infrastructure, in addition to the emergency programme to alleviate the effects of the drought, work proceeded on irrigation projects, and a loan was recently obtained from the Federal Republic of Germany to complete the Tinajones dam, which will regulate the irrigation of 96 000 hectares in the departments of Lambayeque and La Libertad.

Fisheries output showed a further substantial increase of 16 per cent. Already in 1967 a maximum catch of 9.8 million tons had been recorded for only 170 working days, and fish meal exports had totalled 1 592 000 tons. Up to November 1968 production had reached 1 756 000 tons. and exports 1 862 000 tons.

Mining production maintained its relatively high rate of growth in 1968 (6 per cent, as against 6.8 per cent in 1967 but an average of only 3.4 per cent for the period 1960-68). Early in the year, the

Mining Code was modified to empower the Government to enter into investment contracts with mining enterprises; in addition, taxes on profits were reduced and mining companies were guaranteed the necessary foreign exchange for remittances of profits and service payments. As regards the short term, the expansion of iron ore production at Marcona brought total output to 10.5 million tons; on the other hand, no action has yet been taken to invest the proposed sum of over 400 million dollars over the period 1968-72 with the purpose of stepping up Peru's copper production by some 200,000 tons., while consideration is being given to the construction of a zinc refinery, which would also produce sulphuric acid and superphosphates, at a cost of 43 million dollars.

There have been a number of significant developments in petroleum and petroleum products. The La Pampilla refinery was opened at the end of 1967, with an initial capacity of 20 000 barrels daily and a potential capacity of 30 000; its construction cost 20.6 million dollars. Its operation has been entrusted to the State Petroleum Enterprise (Empresa Petrolera Fiscal), which in 1968 refined 5.5 million barrels of crude (about one-quarter of the total amount refined), one-third being obtained from Peruvian oilfields and the rest imported.

In the second half of 1968 the Government reached an agreement with the International Petroleum Company, which was developing the Brea and Pariñas oilfields, by virtue of which this company was to hand over the oilfields and facilities, which would in future be exploited by the State Petroleum Enterprise. In return, the International Petroleum Company was given the concession for refining and selling the output of petroleum for eighty years. After a series of disputes arising out of this agreement, the new Government which assumed power in October expropriated the oilfields in question and the refinery at Talara, whose operation was put in the hands of the State enterprise.

/The State

The State Petroleum Enterprise began drilling in the border area of Puno (Pirin), whose output may eventually supply the refinery it is proposed to construct at Matarani (Arequipa). Apparently an alternative to the Matarani project is to establish the Refinería del Sur at Mollendo, with a production capacity of 15 000 barrels daily, which would operate on the basis of crude petroleum imported from Bolivia and Colombia. Furthermore, an airport was built in the Marañón area to receive the drilling equipment which is already being used in the joint operations of three foreign companies. In October the Belco Petroleum Company announced its intention of increasing its present investment of 40 million dollars by an additional 15 million; the Gulf Oil Corporation has a contract with the State Petroleum Enterprise for the construction of service stations and the sale of certain products of the State enterprise.

Lastly, in the goods producing sector, it is estimated that manufacturing expanded by about 6 per cent in 1968, which is comparable to the rate attained in 1967 but falls short of the very high rate recorded in 1960-66. Various factors have influenced these trends. Since the end of the nineteen-fifties, industry has been given a strong impetus in the form of tariff and tax exemptions and credit from commercial banks and the Banco Industrial. Imports of capital goods, raw materials and intermediate products for this sector, favoured by an exchange rate which remained stable for a considerable period, rose from 204 to 481 million dollars between 1960 and 1967, accounting for as much as 58 per cent of total imports of goods in 1967. Devaluation in the last quarter of 1967 meant an increase in the cost of imported inputs and capital goods, added to which there was a contraction in credit and a shrinkage of demand. The motor-vehicle industry was particularly affected by these developments, and by September production had dropped 48 per cent in relation to the same period in 1967.

/Other outstanding

Other outstanding events which took place during the year include the construction of fishing vessels and tankers and the signing of the Agreement of the Petrochemical Industry with the countries belonging to the Andean sub-regional market. In this connexion, Bayer Industrial S.A. announced that it was planning to invest 19 million dollars in the manufacture of acrylic fibre in the Lima area.

The Cañón del Pato power plant increased its generating capacity by 50 000 kW to supply the industrial estate that is being established at Trujillo; this adds to the capacity already installed at Arequipa and Tacna. Moreover, the International Bank for Reconstruction and Development granted Peru a loan of 17 million dollars to help finance the 40 million dollar hydroelectric power plant at Matucana, which should be completed in 1971.

The public sector

Since the beginning of the nineteen-sixties, the public sector has been playing a very dynamic role in the development of the Peruvian economy (see table II-73). Between 1960 and 1967, general government consumption more than doubled in real terms, while public investment increased by four and a half times, accounting for one-third of total fixed investment in 1967 as compared with only 13 per cent in 1960 (private investment grew by 58 per cent over the same period). Public capital expenditure made a particularly large contribution to the expansion of the economic infrastructure of the country and to housing construction.

Since public income did not grow at the same pace, the imbalances in public finances gradually became more marked and it became increasingly necessary to cover the deficit with loans from the Central Bank and the Banco de la Nación and with external credit. The situation was especially critical in early 1968, since the financial year ending in March showed a deficit of 6 690 million soles, which was covered from traditional sources of financing.

Table II-73

PERU: AGGREGATE SUPPLY AND DEMAND, 1960-68

(Millions of soles at 1960 prices)

	1960	1966	1967	1968
<u>Aggregate supply</u>	<u>68 939</u>	<u>108 486</u>	<u>114 041</u>	<u>110 892</u>
Gross domestic product	55 518	80 615	84 319	87 270
Imports of goods and services	13 421	27 871	29 722	23 622
<u>Aggregate demand</u>	<u>68 939</u>	<u>108 486</u>	<u>114 041</u>	<u>110 892</u>
Exports of goods and services	13 466	17 144	17 937	20 240
Total investment	12 292	21 342	22 643	20 087
Fixed investment	9 541	17 605	18 664	16 471
Construction	4 250	6 759	7 102	6 541
Machinery and equipment	5 291	10 846	11 562	9 930
Total consumption	43 181	70 000	73 461	70 565
General government	4 776	7 480	9 937	9 799
Private	38 405	62 520	63 524	60 766

Source: IEA, on the basis of data supplied by the National Accounts Department of the Banco Central de Reserva of Peru.

a/ Preliminary estimates.

/In view

In view of the situation, the Government prepared what it termed an "economic recovery plan" in May providing for a sharp cut-back in public spending and improved methods of tax collection. The plan also aimed at strengthening the country's international reserves and balance-of-payments position by restricting imports (a policy that had been initiated in 1967) and reducing commitments abroad, and included measures to develop the major production sectors.

Subsequently, the executive branch was given extraordinary powers to implement the three aspects of the recovery plan. The main measures included raising the rates of taxation and the introduction of new taxes (including a single progressive income tax); the reduction of public spending by 1 000 million soles; a ban on over 250 import items; a 10-per-cent surcharge on non-essential imports; and refinancing of the public debt.

The new Government, which came into power in October, placed special emphasis on measures to reduce the public sector deficit. By December 1968, the cash deficit amounted to 1 620 million soles (without counting some outstanding payments), and it was expected that it would not increase appreciably over the last quarter of the fiscal year because of increased income from taxation and budgetary savings.

The cut-back in public spending led to a decline of 1.4 per cent in general government consumption expenditure during 1968; public investment very probably declined as well (adequate information is not yet available on this), since total fixed investment fell by 11.8 per cent. The product of the construction sector, which is closely related to public work, fell by almost 8 per cent.

Some objectives of economic policy

Other important objectives of recent economic policy were: reduction of the fiscal deficit, curbing of inflation, control of imports and refinancing of the external debt.

/The devaluation

The devaluation of the exchange rate in 1967 led to a strong upward movement in domestic costs and prices. For example, the consumer price index, which had risen by some 80 per cent between 1960 and August 1967, rose by 12.8 per cent between August and December 1967.^{13/} These pressures were reduced by subsequent efforts, and domestic prices rose by only 9.7 per cent in 1968.

The external public debt has grown rapidly, soaring from 187 million dollars in 1962 to 742 million in 1968. The income from government and government-guaranteed investment amounted in 1968 to 156 million dollars, while expenditure for debt servicing totalled 141 million: i.e., the net inflow was only 15 million dollars and debt servicing represented roughly 16 per cent of the value of exports. This explains the Government's efforts to find ways of refinancing the external debt, and at the end of the year 48.5 million dollars had been obtained to refinance the external debt with Europe.

Several statements have been made on the basic principles of the new Government's economic and social development policy. Two of the early decisions taken by the Government are particularly noteworthy. The first relates to the expropriation of the Brea and Pariñas oilfields and the industrial complex at Talara, which were placed under the administration of the State Petroleum Enterprise.

The second decision, adopted on 31 December 1968, related to the "Peruvianization" of the commercial banks. It was decided that the shares of any commercial banks established in the future would have to be owned exclusively by Peruvian natural or legal persons; and that those commercial banks which were already established would be considered to be national banks when 75 per cent or more of their capital was owned by Peruvians. It was also provided that

^{13/} This figure was estimated by comparing the old and the new indexes prepared by the National Statistics and Census Office.

credits granted to subsidiaries of foreign enterprises could not exceed a certain percentage of the capital actually invested by such enterprises. in Peru; and that any commercial bank whose investments in national currency amounted to more than 10 per cent of the total investments of all commercial banks would have to allocate 50 per cent of the surplus to loans to particular branches of activity as determined by the Banco Central de Reserva. Another decree of the same date provided that banks which did not have their head offices in Lima or Callao must limit their operations to the areas in which they were authorized to operate; in addition, such banks were obliged to raise their capital to a minimum of 20 million soles.

The external sector

The main trend in the external sector in 1968 was a further substantial increase in the value of exports of goods and services, which rose to some 1 000 million dollars, and a sharp contraction in the value of imports, which dropped from 1 020 million dollars in 1967 to slightly below 830 million in 1968 (see table II-74).

The significance of these changes will be seen more readily if they are compared with the trends for earlier years. Between 1960 and 1967 the value of exports of goods (excluding services) rose from 433 million dollars to 757 million, while the value of imports of goods rose from 375 million dollars to 819 million. The greater relative rise in imports, together with the growing outflow of capital in respect of external debt servicing and remittances abroad of the profits of direct foreign investment, led to strong pressure on the balance of payments and a decline in the gold and foreign exchange reserves of the Central Bank in 1966, a trend which gathered momentum in 1967. As a result the exchange rate was devalued by 45 per cent in 1967 and further measures were taken to restrict spending abroad, the effects of which are reflected in the 1968 figures.

Table II-74

PERU: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	494.1	772.0	895.0	883.0	982.0
Goods	444.4	685.0	789.0	765.0	870.0
Services	49.7	87.0	106.0	118.0	112.0
Imports of goods and services	426.5	845.0	949.0	1 021.0	827.0
Goods	326.6	653.0	747.0	802.0	634.0
Services	99.9	192.0	202.0	219.0	193.0
Net investment income	-54.9	-91.0	-118.0	-140.0	-137.0
Net private transfer payments	+2.5	+5.0	+7.0	+8.0	+8.0
Balance on current account	+15.2	-159.0	-165.0	-270.0	+26.0
<u>Capital account</u>					
Net external financing	-15.2	+159.0	+165.0	+270.0	-26.0
Net external non-compensatory capital	+12.2	+220.0	+220.0	+181.0	-20.0
Direct investment	+11.1	+36.0	+30.0	+30.0	
Non-compensatory loans	-6.5	+144.0	+153.0	+108.0	
Short-term liabilities	+3.9	+29.0	+15.0	+23.0	
Official transfer payments	+3.7	+11.0	+22.0	+20.0	
Net domestic non-compensatory capital or assets	+0.9	-39.0	-44.0	+27.0	-6.0
Errors and omissions	+4.4	-40.0	-33.0	+15.0	
Compensatory movements	-32.7	+18.0	+22.0	+47.0	
Net external compensatory capital	-16.1	+33.0	+5.0	+29.0	-6.0
Balance-of-payments loans and deferred import payments	-15.5	+33.0	-	+17.0	
Other liabilities of the monetary authorities	-	-	+7.0	-	
International Monetary Fund position	-0.6	-	-2.0	+12.0	
Movements of gold and foreign exchange reserves (increase -)	-16.6	-15.0	+17.0	+18.0	

Sources: 1960-67: International Monetary Fund, Balance of Payments Yearbook, Vols. 17 and 19;
1968: ECLA estimates.

/In 1968

In 1968 fish meal exports totalled 2 083 000 tons, 28 per cent higher than the high figure for 1967. At the average price prevailing up to September this was equivalent to a value of 204 million dollars, 28 million more than in 1967. The value of fish oil exports is estimated at some 24 million dollars, owing to a substantial increase in volume (73 per cent) although prices were much lower than in 1967.

Total exports of mining products rose by slightly more than 2 per cent, while prices rose by 11 per cent. Total exports of copper are estimated at 200 000 tons., or a value of some 230 million dollars, since prices rose, partly as a result of the United States copper strike which continued until March 1968. Exports of iron were expected to be slightly higher than the 5.4 million tons exported in 1967 (valued at some 64 million dollars). The price of silver rose by approximately 48 per cent, which, added to an increase in volume of 6 per cent, raised the value of silver exports to some 68 million dollars (57 per cent higher than in 1967). The value of lead exports, however, fell by 1.5 million dollars owing to a fall in prices; while the value of zinc exports fell slightly compared with 1967 since the increase in the volume of exports was more than cancelled out by the fall in prices.

The value of exports of the three main agricultural products is estimated to have risen by 15 per cent in 1968, attributable to both an increase in volume (6.7 per cent) and a rise in prices (7.8 per cent). The volume of cotton exports fell slightly during the year and thus it was not possible to take full advantage of the high price for cotton - the highest recorded during the nineteen-sixties. The value of sugar exports probably attained some 64 million dollars (53 million in 1967), since sugar prices rose by 20 per cent over 1967 and also because virtually all sugar exports went to the United States market where sugar prices are higher than on the world

/market. The

market. The figures for the first nine months of the year indicate that the volume of coffee exports rose by 30 per cent, which would mean a rise of 26 per cent in value owing to the decline in coffee prices which began in 1964. Total exports of goods increased by 14.4 per cent over 1967 to a value of 870 million dollars.

Since the beginning of the nineteen-sixties imports have risen at an even faster pace than exports. The c.i.f. value of imports of goods (excluding services) rose from 375 million dollars in 1960 to 819 million in 1967. In 1968 the measures taken to bring the balance of payments back into equilibrium led to a sharp decline in the value of imports, which fell to 630 million dollars.

Over the period 1960-66 as a whole, total exports of goods and services amounted to 4 742 million dollars, while the value of imports was 4 677 million, added to which there was a net outflow of 539 million dollars in respect of profits and interest and an inflow of 39 million dollars in respect of net private transfer payments. This resulted in a deficit of 435 million dollars on current account over the seven-year period (see table II-74).

During this same period, however, the net inflow of autonomous capital amounted to 682 million dollars - 481 million in the form of loans, 105 million in the form of direct investment and 50 million in the form of official transfer payments. This produced a surplus of 193 million dollars which, less 84 million dollars in respect of errors and omissions, amounted to 109 million. Of this surplus, 13.5 million was used to reduce the liabilities of the international monetary authorities, while the remainder (95.5 million) was added to gross international reserves.

Looking at the movement of capital from another vantage point, one finds that over the period 1960-66 the gross inflow of foreign capital amounted to 1 267 million dollars, while gross disbursements, mainly for repayments and other capital outflows, amounted to 451 million dollars. If net payments in respect of profits and interest - considered above under current account - are added in, the net inflow

/of foreign

of foreign capital totalled 270 million dollars over the seven-year period. Moreover, the total cost of servicing foreign capital over the period represented 20.7 per cent of the value of exports of goods and services.

These trends have tended to change in recent years. As early as 1965 and 1966 there was a deficit on the balance of payments before compensatory financing of some 20 million dollars, a figure that was doubled in 1967, when the decline in exports, the increase in imports and a substantial outflow in respect of profits and interest combined to create a deficit of 270 million dollars on current account.

During 1967, direct investment remained at the 1966 level, while net long-term loans declined by 30 per cent. As a result, the international assets of the Central Bank fell by 18 million dollars and contingency loans from the International Monetary Fund were sought for a value of 12 million dollars, while a further 17 million was obtained by contracting other obligations.

These trends explain why efforts were made in 1968 to change the situation by means of a sharp increase in exports and a considerable contraction of imports. Some very provisional estimates show a surplus on merchandise account for the year of close to 240 million dollars which, after deductions other net payments in respect of financial and non-financial services, created a small surplus on current account.

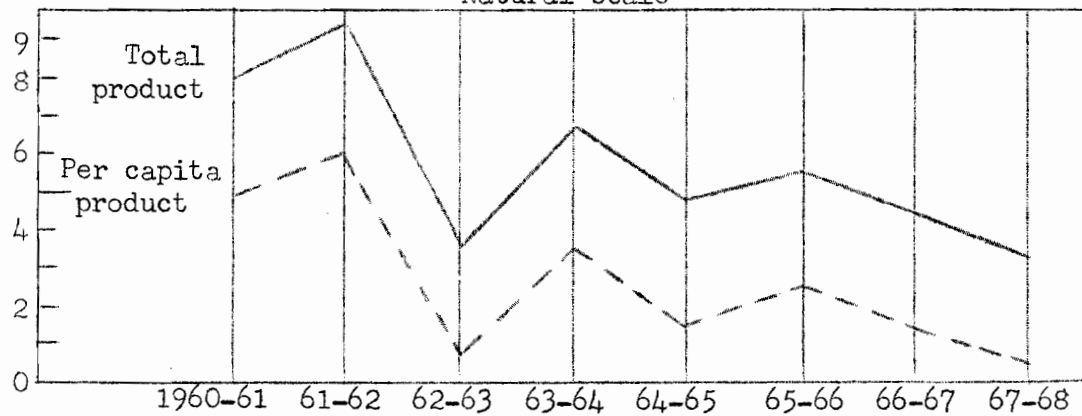
In mid-November 1968, the gross international reserves of the Central Bank amounted to 113 million dollars, 10 million dollars higher than at the same point in 1967. During 1968 contingency loans from IMF amounted to 46 million dollars, although liabilities to IMF fell by 42 million dollars, with 50 million dollars still outstanding of the stand-by loan of 75 million dollars granted at the beginning of November. United States commercial banks also granted 65 million dollars, worth of additional credits to form a reserve fund for three years, and 25 million dollars were obtained from European banks for the same purpose.

Figure II-16

PERU: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

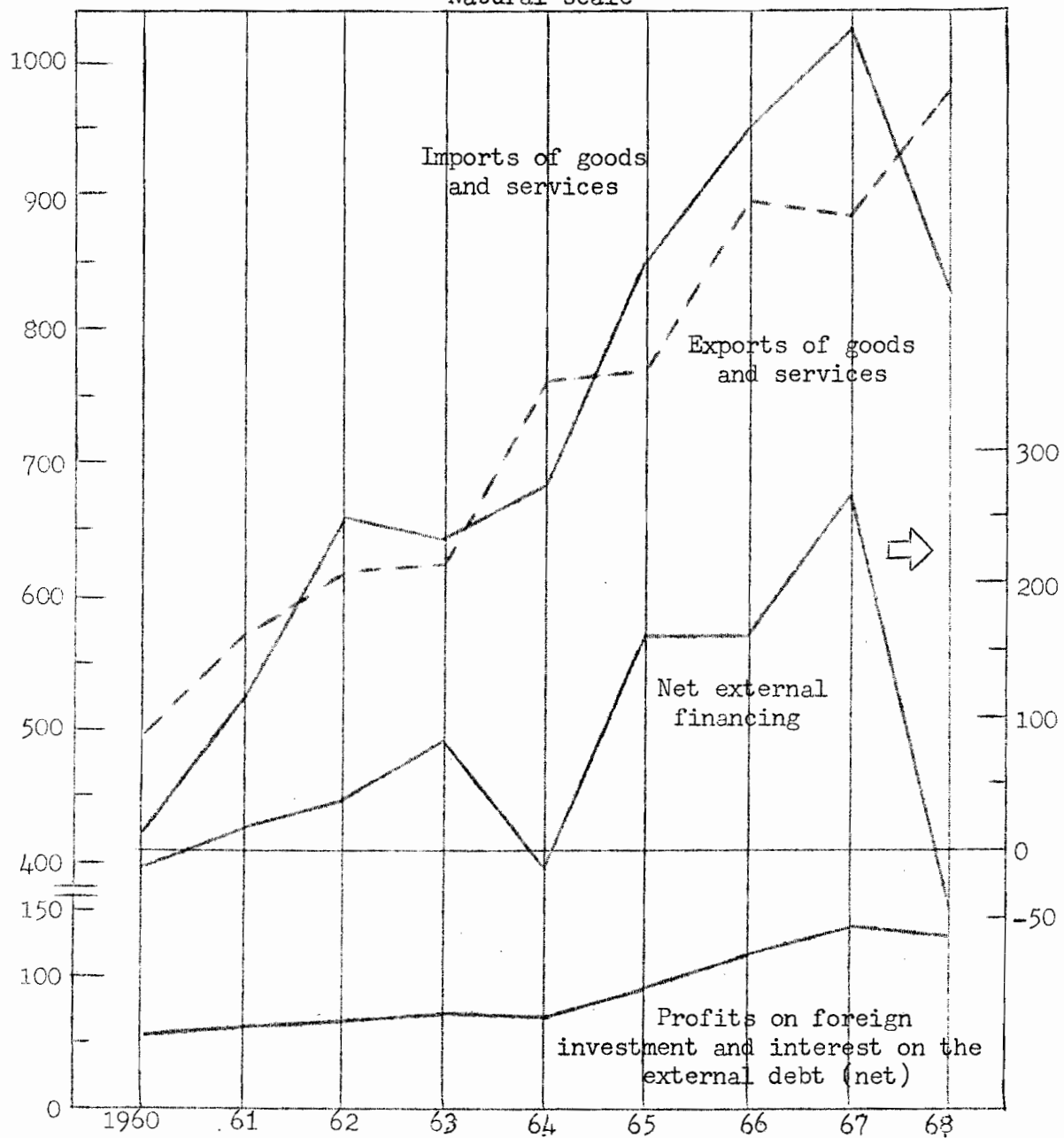
E/CN.12/825
Page II-245

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)
Natural scale



DOMINICAN REPUBLIC

Over-all trends

Economic development trends in the Dominican Republic in 1968 resulted in an increase of about 2.3 per cent in the gross domestic product, as against 3.5 per cent in the preceding year. This time both the dynamic and the retarding factors were different from those operating in 1967, when the impetus had come from the manufacturing sector, whereas in 1968 construction and to a lesser extent agriculture were responsible for the expansion achieved. The product of industry, in contrast, declined in absolute terms (see table II-75).

From the standpoint of the supplies of goods and services available for domestic use, the smallness of the increase in the product was to some extent offset by the fact that imports expanded more than exports in real terms. The additional flow of imports was largely channelled into capital formation and, in particular, construction. Private consumption, on the other hand, increased much less, and the level of general government consumption expenditure remained virtually the same as before (see table II-76).

This last circumstance was attributable to the maintenance of the policy of restricting the public sector's current expenditure and stepping up its investment, with the resultant stabilization of the trend that had begun in 1966. The Central Government's current income regained the 1964 level, but its current expenditure decreased by about 10 per cent in relation to that year, owing to the continued implementation of the "austerity programme". Its savings on current account thus rose from 13 million Dominican pesos in 1964 to 30 million in 1968. In line with the trend observable in previous years, 40 per cent of public investment was placed in the transport and energy sectors. Investment in health services exceeded 20 per cent of the total, which implied a significant increase.

The cost-of-living index remained stabilized at much the same levels as in 1967. If 1963 is taken as the base year, the index figures for the first and second quarters of 1968 were 108 and 109, respectively, while the annual average for 1966 and 1967 had been 108.

Table II-75

DOMINICAN REPUBLIC: AVERAGE ANNUAL GROWTH RATE OF GROSS PRODUCT,
SECTORS, 1960-66 TO 1967-68

Sector	1960-66	1966-67	1967-68 ^{a/}
Agriculture	0.0	-1.5	3.1
Mining	-0.2	29.7	3.1
Manufacturing	1.6	4.4	-2.1
Construction	9.8	20.4	20.6
<u>Goods</u>	<u>1.2</u>	<u>3.4</u>	<u>3.7</u>
<u>Basic services</u>	<u>8.4</u>	<u>6.4</u>	<u>1.3</u>
<u>Other services</u>			
Commerce and finance	3.8	4.7	2.0
General government	2.3	0.7	-1.3
Miscellaneous services	4.0	3.1	1.0
<u>Other services</u>	<u>3.5</u>	<u>3.1</u>	<u>0.8</u>
<u>Growth rate of the total product</u>	<u>2.8</u>	<u>3.5</u>	<u>2.3</u>

Source: ECLA, on the basis of national accounts data supplied by the Central Bank of the Dominican Republic.

^{a/} Provisional figures based on partial indicators.

Table II-76

DOMINICAN REPUBLIC: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-68

(Millions of Dominican pesos at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>839.8</u>	<u>1 075.5</u>	<u>1 119.6</u>	<u>1 159.2</u>
Gross domestic product	722.9	851.0	880.8	901.0
Imports of goods and services	116.9	224.5	238.8	258.2
<u>Aggregate demand</u>	<u>839.8</u>	<u>1 075.5</u>	<u>1 119.6</u>	<u>1 159.2</u>
Exports of goods and services	172.1	130.3	144.7	153.0
Gross fixed investment	75.2	149.2	169.3	190.0
Construction	44.0	77.1	92.7	111.8
Machinery and equipment	31.2	72.1	76.6	78.2
Total consumption	592.5	796.0	805.6	816.2
General government	92.2	101.9	106.5	106.5
Private	500.3	694.1	699.1	709.7

Source: ECLA, on the basis of national accounts data supplied by the Central Bank of the Dominican Republic.

^{a/} Provisional figures based on partial indicators.

/Sectoral production

Sectoral production trends

Activity in the agricultural sector had fallen off slightly in 1967 (by 1.5 per cent), in consequence of a drought which had lasted into the early months of 1968 and had also delayed sowings of certain crops in the latter year. Nevertheless, an expansion of approximately 3 per cent was achieved in 1968, mainly because output of rice, maize, potatoes, beans and manioc increased, while among export items production increments were recorded for coffee and cocoa. The most significant progress was made in rice production, which sufficed to meet domestic demand, thanks to the expansion of the rice-growing area, to the use of new varieties and the application of fertilizers, and to the firmness of prices. On the other hand, production of sugar-cane dropped from 7.7 million tons to about 6 million, and that of tobacco from 19 million tons to approximately 16 million. The rate of slaughter of cattle and pigs also declined, and so did milk production.

Manufacturing output fell by about 2 per cent, in contrast to the more dynamic trend it had followed since the 1965 depression. On this occasion the setback was due to a contraction of more than 15 per cent in the sugar industry, caused in its turn by the decrease in production of sugar-cane. Apart from this situation, which can be ascribed to temporary causes, the policy of encouraging industry was maintained, and some fairly important projects were completed or are in process of execution. In April 1968, for example, a new industrial incentives and protection Act was passed, granting tax exemptions to certain branches of industry which have a direct impact on the balance of payments (import substitution activities or industries manufacturing export products). The Economic Development Investment Fund (Fondo de Inversiones para Desarrollo Económico) also continued to discharge its function of channelling into industrial projects resources provided by the Inter-American Development Bank (IDB) the United States Agency for International Development (USAID) and the Central Bank of the Dominican Republic. As regards new projects, four new industries entered production in the Herrera area, and construction work proceeded on thirty others.

/In 1967,

In 1967, industries other than sugar processing employed 11.5 per cent of the labour force, paid 19 per cent of total wages and accounted for 22 per cent of sales.^{14/}

The construction sector was the mainspring of progress in 1968, showing an expansion of over 20 per cent in relation to the preceding year, when its growth rate had already reached 20.4 per cent. The increase in activity was mainly attributable to public and private house-building and to road works undertaken by the public sector (in particular, the building of 174 kilometres of highways and 75 kilometres of approach roads, representing an investment of 50 million Dominican pesos).

With respect to infrastructure projects, financing was obtained for the construction of the dam for a hydroelectric power station at Tavera, and the preparatory work on approach facilities was started. In addition, the installed capacity of the Hayna thermoelectric power station was enlarged, and the installation of the transmission line between Santo Domingo and Puerto Plata was completed.

The external sector

In 1968 a further increase in the value of exports of goods and services took place on an appreciable scale. In combination with the increments achieved in the three preceding years, this meant that 1962 levels were regained for the first time. The decrease in domestic sugar production was offset by the growth of sales to the United States, where prices - much higher than those quoted on the world market - rose slightly. There was also an increase in the quota assigned to the Dominican Republic under the International Coffee Agreement. In the case of cocoa and tobacco, while prices went up, the volume of sales decreased.

^{14/} See Inter-American Committee on the Alliance for Progress (CIAP), Domestic effort and the need for external financing for the development of the Dominican Republic (November 1968).

In terms of current values, imports increased in much the same proportion as exports (see table II-77). This was partly because, despite the import restriction policy in force, external purchases of food products had to be stepped up in cases where supplies had been affected by the drought.

The outcome of all these variations was that the deficit on current account was about 70 million dollars, differing little from the imbalances recorded in the two preceding years. At the same time, by virtue of a greater inflow of non-compensatory capital a pre-compensation surplus was obtained, after four successive years of unfavourable balances, and the monetary authorities were enabled partly to reconstitute the country's gold and foreign exchange reserves.

/Table II-77

Table II-77

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS, 1960 AND 1965-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	172.1	143.1	160.4	181.6	196.5
Goods	157.4	125.5	138.0	156.6	170.0
Services	14.7	17.6	22.4	25.0	26.5
Imports of goods and services	116.9	163.9	214.5	229.3	247.5
Goods	90.3	120.7	160.5	174.2	186.0
Services	26.6	43.2	54.0	55.1	61.5
Net external investment income	-9.6	-12.0	-20.0	-22.2	-24.0
Net private transfer payments	-3.0	+12.4	+6.5	+6.0	+6.0
Balance on current account	+42.6	-20.4	-67.6	-63.9	-69.0
<u>Capital account</u>					
Net external financing	-42.6	+20.4	+67.6	+63.9	+69.0
Net external non-compensatory financing	-18.2	+45.8	+34.3	+39.6	+80.0
Direct investment	+1.0	+6.0	...	...
Non-compensatory loans	-0.5	+13.5	+33.9	+39.9	
Short-term liabilities	-18.6	-38.9	-10.0	-0.3	
Official transfer payments	-0.1	+65.2	+10.4	...	
Net domestic non-compensatory capital or assets	+3.3	-3.5	+0.7	-0.4	-11.0
Errors and omissions	-28.1	-24.3	+1.9	+19.5	
Compensatory movements	+0.4	+2.4	+30.7	+5.2	
Net external compensatory financing	-11.7	+0.6	+13.0	+4.0	-11.0
Balance-of-payments loans and deferred import payments	-20.7	-4.4	+6.7	+7.4	
Other liabilities of the monetary authorities	-	-	-	-	
I.M.F. position	+9.0	+5.0	+6.3	-3.4	
Movements of gold and foreign exchange ^{a/}	+12.1	+1.8	+17.7	+1.2	

Source: For 1960-67, I.M.F., Balance of Payments Yearbook, vols. 19 and 20; for 1968, ECLA estimates.

^{a/} Minus sign (-) indicates increase.

Figure II-17

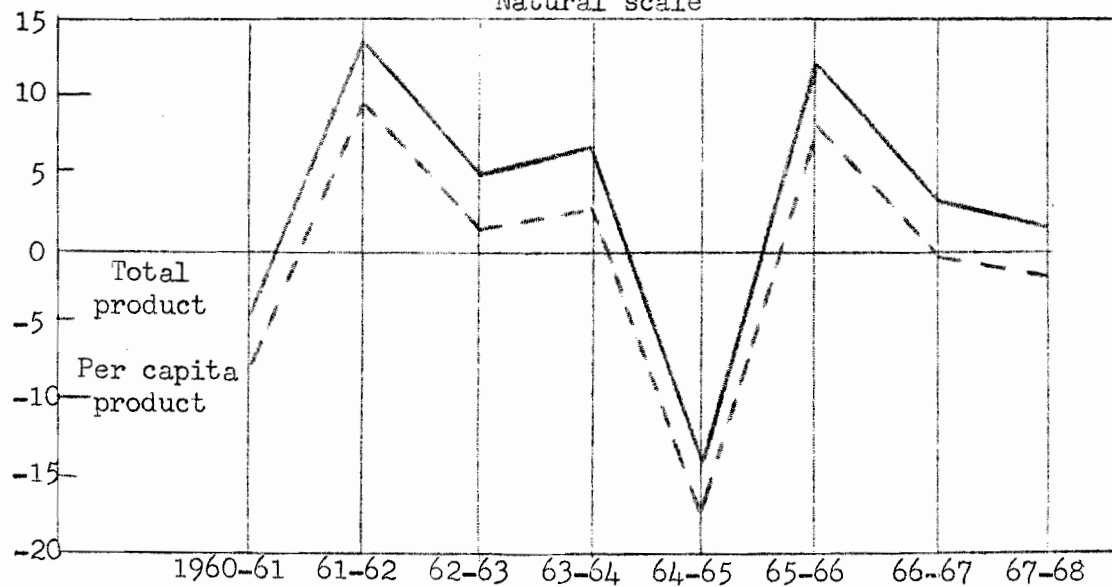
E/CN.12/825

DOMINICAN REPUBLIC: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

Page II-253

(Annual growth rates)

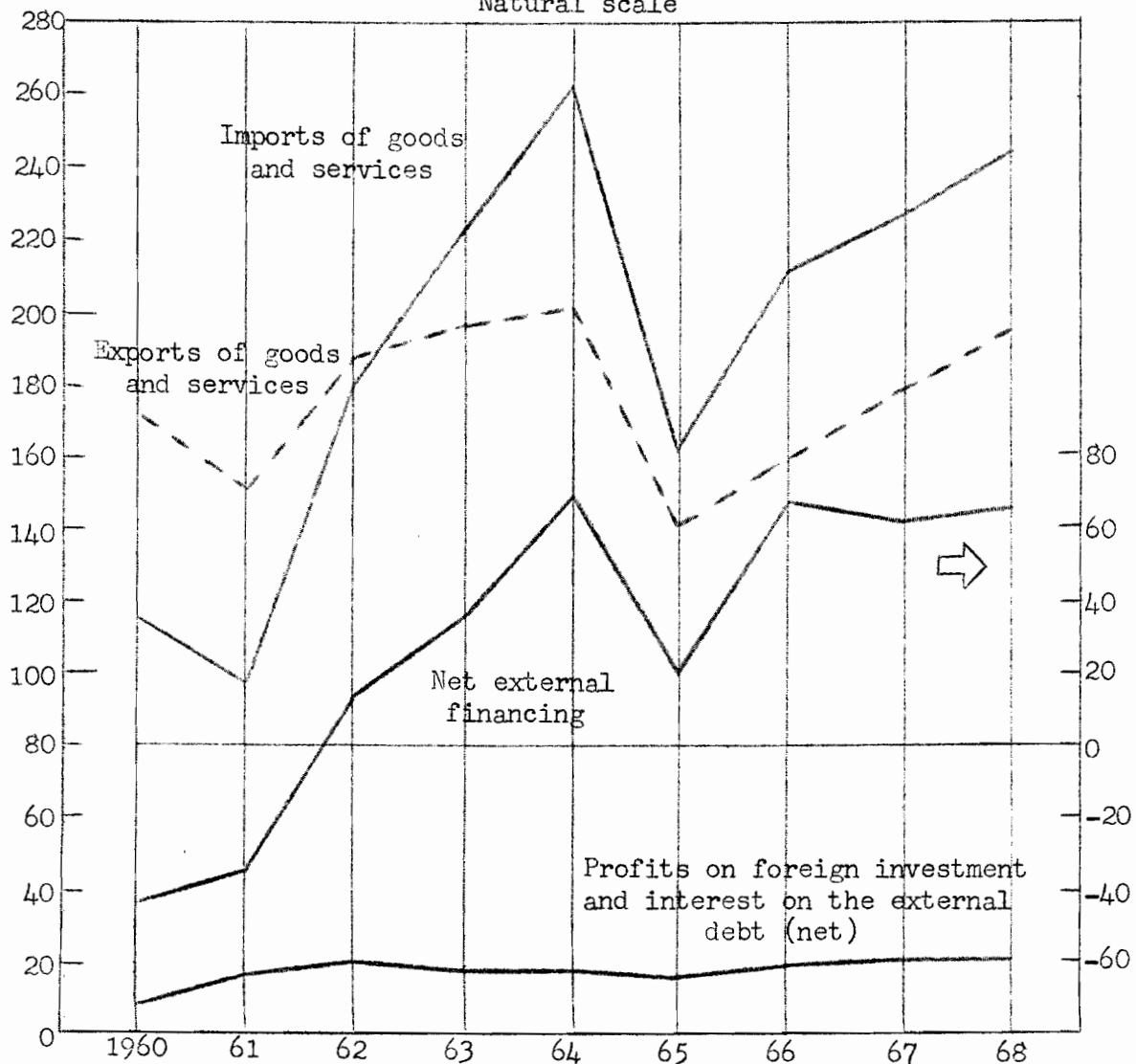
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)

Natural scale



/URUGUAY

URUGUAY

Recent economic trends

Uruguay's levels of economic activity recovered slightly in 1968 after the setback experienced in 1967. The goods producing sectors increased by a little over 2 per cent, which, combined with a smaller increment in services, resulted in a rise of approximately 1 per cent in the product (see table II-78).

Nevertheless, the factors making for instability continued to be the main features of Uruguay's recent economic development and the prime concern of short-term economic policy. These factors include accelerated inflation, disequilibrium in the public finances and pressures on the balance of payments. Accordingly, from the beginning of the year action was taken to implement a programme of investment and development promotion, and economic and financial measures to reinforce the existing policy governing the balance of payments, public income and expenditure, and prices and wages.

In April, parity was adjusted to 250 pesos to the dollar in order to bring it into line with the rise in domestic prices since the previous devaluation (in November 1967 the official exchange rate had risen from 99 to 200 pesos to the dollar). Domestic prices rose sharply in the first half of the year: more than 60 per cent, following an increase of 135 per cent in 1967. Since then they have been virtually stabilized and the increase for the whole year was about 66 per cent.

In the face of this price increase, real wages and salaries seem to have followed different trends in the public sector and in the private sector. In the former, the fiscal situation was the paramount consideration, and this led to a further substantial deterioration in the real remuneration of employees, particularly during the first half of the year. The private sector granted periodic adjustments in the course of the year, which ultimately seem to have restored part of the loss in real income sustained the year before. If the index of industrial wages is compared with the price index, in both cases taking 1961 as the base year, the real wage

Table II-78

URUGUAY: AVERAGE ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT, BY SECTOR OF
ECONOMIC ACTIVITY, 1960-66 TO 1968

(Percentages)

Sector	1960-66	1967	1968 ^{a/}
1. Agriculture	3.8	-16.8	2.0
2. Manufacturing ^{b/}	0.8	-5.9	2.0
3. Construction	-5.5	-6.9	3.0
<u>Goods</u>	<u>1.6</u>	<u>-11.2</u>	<u>2.1</u>
<u>Basic services ^{c/}</u>	<u>1.3</u>	<u>-3.6</u>	<u>0.9</u>
<u>Other services</u>	<u>0.5</u>	<u>-0.3</u>	<u>0.1</u>
<u>Growth rate of the</u> <u>total product</u>	<u>1.1</u>	<u>-5.8</u>	<u>1.0</u>

Source: ECLA, on the basis of data supplied by the Banco de la República
Oriental del Uruguay.

^{a/} Estimates.

^{b/} Includes mining.

^{c/} Electricity, gas and water, and transport and communications.

/index is

index is seen to have reached its lowest level in December 1967 (scarcely more than 80) and to have recovered up to November 1968, although still more than 10 per cent below the average for 1961.^{15/}

Exports increased significantly and imports remained at virtually the same level as in 1967, which resulted in a bigger surplus on current account. In terms of constant prices, exports rose about 5 per cent and imports declined by a little over 4 per cent. The result was that the increase in the supply of goods and services for domestic use was a smaller than the slight increase in the product. This affected both private consumption and fixed investment, and the increased activity in construction was not enough to counterbalance the pronounced drop in investment in machinery and equipment (see table II-79).

Major sectors of activity

In agriculture, the adverse weather conditions in 1967 continued in the first four months of 1968, with a persistent drought in the central and southern areas. Ideal weather conditions followed, with moderate temperatures and timely rainfall. These two phases had a direct impact on production, resulting in an increase of about 2 per cent in the product.

During the first four months of the year, cattle and sheep suffered the consequence of the drought. With the subsequent recovery, cattle slaughtering increased by 50 per cent over the previous year. The wool clip improved in both quantity and quality, stimulated by the difference in world prices for the various finenesses. Another favourable sign was the recovery in dairy cattle, which was reflected in the increased daily production of milk, which rose from 350,000 to 900,000 litres in the Montevideo dairy basin between June and November 1968. This left a considerable surplus for processing. Further, 330,000 hectares were converted into pasture land during the year by the Honorary Commission for the Agricultural Plan (Comisión Honoraria del Plan Agropecuario).

^{15/} The respective indexes for prices and wages (with 1961 as the base year) would be 697.0 and 680.7 in December 1966, 1,577.1 and 1,271.8 in December 1967, and 2,481.3 and 2,195.5 in November 1968.

Table II-79

URUGUAY: AGGREGATE SUPPLY AND DEMAND, 1960 AND 1966-1968

(Millions of pesos at 1960 prices)

	1960	1966	1967	1968 ^{a/}
<u>Aggregate supply</u>	<u>16 299</u>	<u>16 190</u>	<u>15 624</u>	<u>15 678</u>
Gross domestic product	13 583	14 464	13 639	13 775
Imports of goods and services	2 716	1 726	1 985	1 903
<u>Aggregate demand</u>	<u>16 299</u>	<u>16 190</u>	<u>15 624</u>	<u>15 678</u>
Exports of goods and services	1 952	2 658	2 771	2 905
Total investment	2 392	1 594	1 602	1 640
Fixed investment	2 045	1 465	1 664	1 640
Construction	1 371	989	921	950
Machinery and equipment	674	476	743	690
Total consumption	11 955	11 938	11 251	11 133
General government	1 228	1 389	1 327	1 330
Private	10 727	10 549	9 924	9 803

Source: ECLA, on the basis of data supplied by the Banco de la República Oriental del Uruguay.

^{a/} Estimates.

/Two opposing

Two opposing phases are noted in crop farming. The winter crops harvested at the end of 1967 and the summer crops harvested at the beginning of 1968 - with the exception of rice - showed marked decreases both in yield and in area sown, especially in the case of cereals, oilseeds, roots and tubers. On the other hand, the 1968 winter crops were highly successful. An area of 520,000 hectares was sown to wheat and some 550,000 tons were harvested, which is almost four times the previous crop and 40 per cent more than the average over the last five years. There were also increases in the areas sown to linseed (36 per cent), oats (56 per cent) and malt barley (33 per cent). Production of roots and tubers recovered somewhat while the output of vegetables more than satisfied domestic requirements. There was an increase in the area sown to summer crops - mainly rice and sunflower.

Manufacturing grew by about 2 per cent in 1968. The largest increments were in export items and products for the construction industry, e.g., meat, woollen fabrics, cement and sheet glass. Enterprises producing only for the home market were affected by a decline in demand due to the contraction in demand of the final consumer, and by the cessation of the process of accumulating stocks. The decree freezing prizes and wages, which was promulgated on 29 June, further weakened domestic demand in the third quarter of the year, but the last quarter marked a gradual recovery owing to the change of season (which particularly affected textiles, made-up textile goods and beverages), the exceptional year-end expenditure, and tourism.

The firm recovery in construction following a setback in June brought the growth rate for the whole year to approximately 3 per cent compared with 1967.

Principal economic policy measures

The investment and development promotion programme included both the allocation of public investment and the encouragement of private investment, with a view to maintaining the level of economic activity and reducing unemployment. Government investment was financed with resources from the National Investment Fund (Fondo Nacional de Inversiones), which draws its funds from taxation, the sale of Government bonds and

/external sources.

external sources. The funds obtained under United States Public Law 480 during 1968 amounted to the equivalent of approximately 3,600 million pesos. Efforts in private investment were directed in the main towards achieving the necessary stability for planning on a large scale and facilitating the repatriation of national capital. First priority for the limited resources of the monetary programme went to the agricultural sector, while industry was encouraged mainly through the provision of incentives for construction.

The monetary programme established limits for the expansion of domestic credit and endeavoured to channel it towards priority activities. In August 1967 the minimum level of cash reserves was changed and subsequently a system of direct control (ceilings on holdings) was applied, with exceptions for some important sectors which it was wished to reactivate immediately, in particular investments to finance export activities and to build up livestock inventories. In 1967 too, interest rates were raised on bank deposits in order to prevent savings being channelled into speculative transactions on the market on which financial agencies exercising certain banking functions carry on their operations.

Net domestic credit expanded less than had been expected owing to the limiting influence of the public sector. Private banking, however, exceeded the maximum targets established, mainly because the Central Bank authorized the granting of special credit to encourage production and maintain employment levels. In addition, the rise in the international reserves of the Central Bank and the Banco de la República led to an expansion of some 7,600 million pesos in domestic credit.

Balance-of-payments policy was aimed at reducing the strong pressure exerted by the short-term external debt, maintaining a unified exchange rate which would reflect the movements of domestic prices, curbing speculation and preventing the stockpiling of imported goods and the retention of exportable surpluses. This policy was implemented through the 1967 devaluation, which raised the official exchange rate from 99 to 200 pesos to the dollar, and through a further adjustment on 29 April 1968, which established a rate of 250 pesos to the dollar. The devaluation of November 1967 was reflected in a rapid rise in international reserves,

/but it

but it could not prevent the run on reserves which began in April 1968, a trend which was reversed by the adjustment of 29 April 1968. At the end of 1968 there was no pressure on the exchange rate owing to the methods of regulating the exchange market, the ceilings imposed on bank holdings, the refinancing of the external debt and the stability of domestic prices from June onwards. In addition, as a result of the refinancing of the external debt, the supply of international means of payment immediately rose (except for gold), part of the gold backing for the currency was released, and liabilities in foreign currency decreased. With regard to foreign trade, imports were liberalized - remaining subject only to surcharges and brokerage fees - and prior deposits were eliminated, while the system for authorizing imports of capital goods was maintained.

One of the main goals of fiscal policy was to reduce the fiscal deficit to a maximum of 7 per cent of Central Government expenditure, as opposed to 23 per cent in 1967. Steps were taken to increase real fiscal income and to cut back current expenditure while direct subsidies to consumption and to public enterprises in deficit were not reinstituted. The results obtained indicate that the cash deficit did not exceed the limits set and that income from taxation was greater than expected. The main fiscal measures adopted included the establishment of committees on income and expenditure within the Ministry of Finance, a reduction in the sums withheld in respect of traditional exports and a decision not to use the official bank credit of 3,000 million pesos provided for in the monetary budget.

Owing to the sharp upward turn in prices during the first half of 1968, a decree was adopted, under the provisions authorizing immediate measures to safe guard the economy, freezing wages and prices at current levels.

In the public sector there was a trend to eliminate subsidies to public enterprises and to restrict wage increases in line with the funds available in the public treasury. In the private sector, wages began to rise after 1 December 1968 in accordance with a scale based on the date of the most recent wage increase received. For example, persons whose

/wages were

wages were increased in January, February and March 1968 received increases of 25, 12 and 6 per cent respectively. At the same time a bill was submitted to Congress proposing the establishment of a council on productivity, prices and income.

The external sector

Preliminary estimates of the balance of payments show an increase of 9 per cent in the current value of exports of goods and services and a decline of 2 per cent in that of imports (see table II-80).

The increase in exports was attributable almost exclusively to a rise in meat exports, owing to a considerable increase in volume and a significant recovery of prices. The volume of wool and leather exports - the other major components of Uruguayan exports - was roughly the same as in 1967, but the value declined owing to a substantial dual in wool and leather prices on the world market.

As a result of these movements in exports and imports there was a surplus on current account of approximately 26 million dollars which induced a corresponding improvement in the net cash position of the Central Bank.

Table II-80

URUGUAY: BALANCE OF PAYMENTS, 1960 AND 1965-68

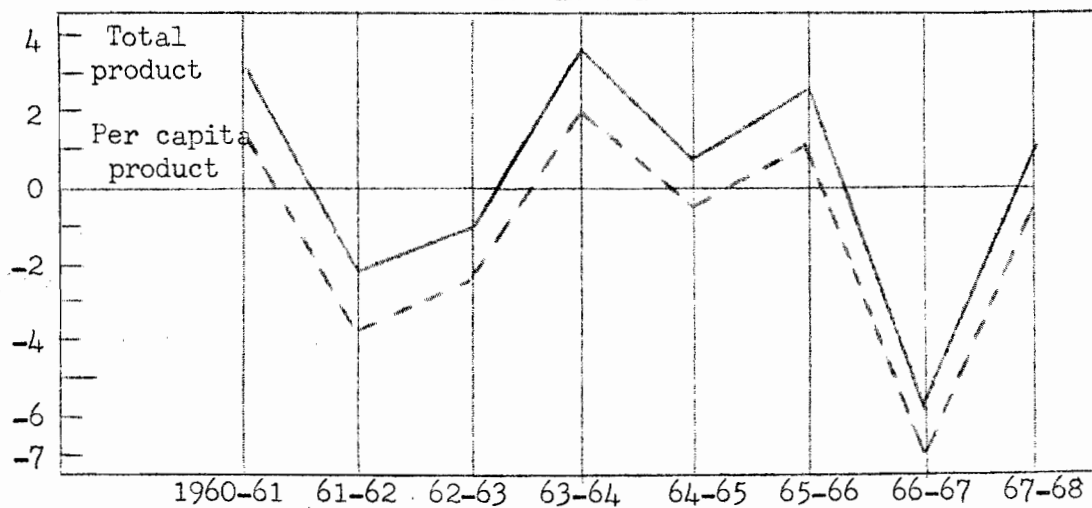
(Millions of dollars at current prices)

	1960	1965	1966	1967	1968
<u>Current account</u>					
Exports of goods and services	171.2	252.5	248.0	222.7	241.0
Goods	129.4	196.3	190.3	158.7	175.0
Services	41.8	56.2	57.7	64.0	66.0
Imports of goods and services	239.8	168.3	179.2	200.9	195.5
Goods	187.9	123.1	132.2	153.4	145.6
Services	51.9	45.2	47.0	47.5	49.9
Net investment income	-6.6	-15.4	-19.2	-21.7	-19.7
Net private transfer payments	-0.3	-0.6	0.0	+0.1	+0.1
Balance on current account	-75.5	+68.2	+49.6	+0.2	+25.9
<u>Capital account</u>					
Net external financing	+75.5	-68.2	-49.6	-0.2	-25.9
Net external non-compensatory capital	+25.7	-1.5	+9.1	+4.5	-0.4
Direct investment	+5.8	...	...	...
Non-compensatory loans	+6.4	-12.3	+1.2	+0.8	
Short-term liabilities	+12.4	+7.0	-1.8	-1.1	
Official transfer payments	+1.1	+3.8	+9.7	+4.8	
Net domestic non-compensatory capital or assets	+10.4	-0.5	-1.3	+0.9	-25.4
Errors and omissions	+11.5	-80.4	-37.8	+5.7	
Compensatory movements	+27.9	+14.2	-19.6	-11.3	
Net external compensatory capital	+27.9	+10.5	-12.5	-32.3	
Balance-of-payments loans and deferred imports payments	-	+58.0	-12.0	-25.6	
Other liabilities of the monetary authorities	+31.6	-47.5	+0.5	+2.3	-25.4
IMF position	-3.7	-	-1.0	-9.0	
Movements of gold and foreign exchange reserves (increase -)	-	+3.7	-7.1	+21.0	

Source: 1960-67: IMF, Balance of Payments Yearbook, Vols. 17 and 19; for 1968: ECLA estimates.

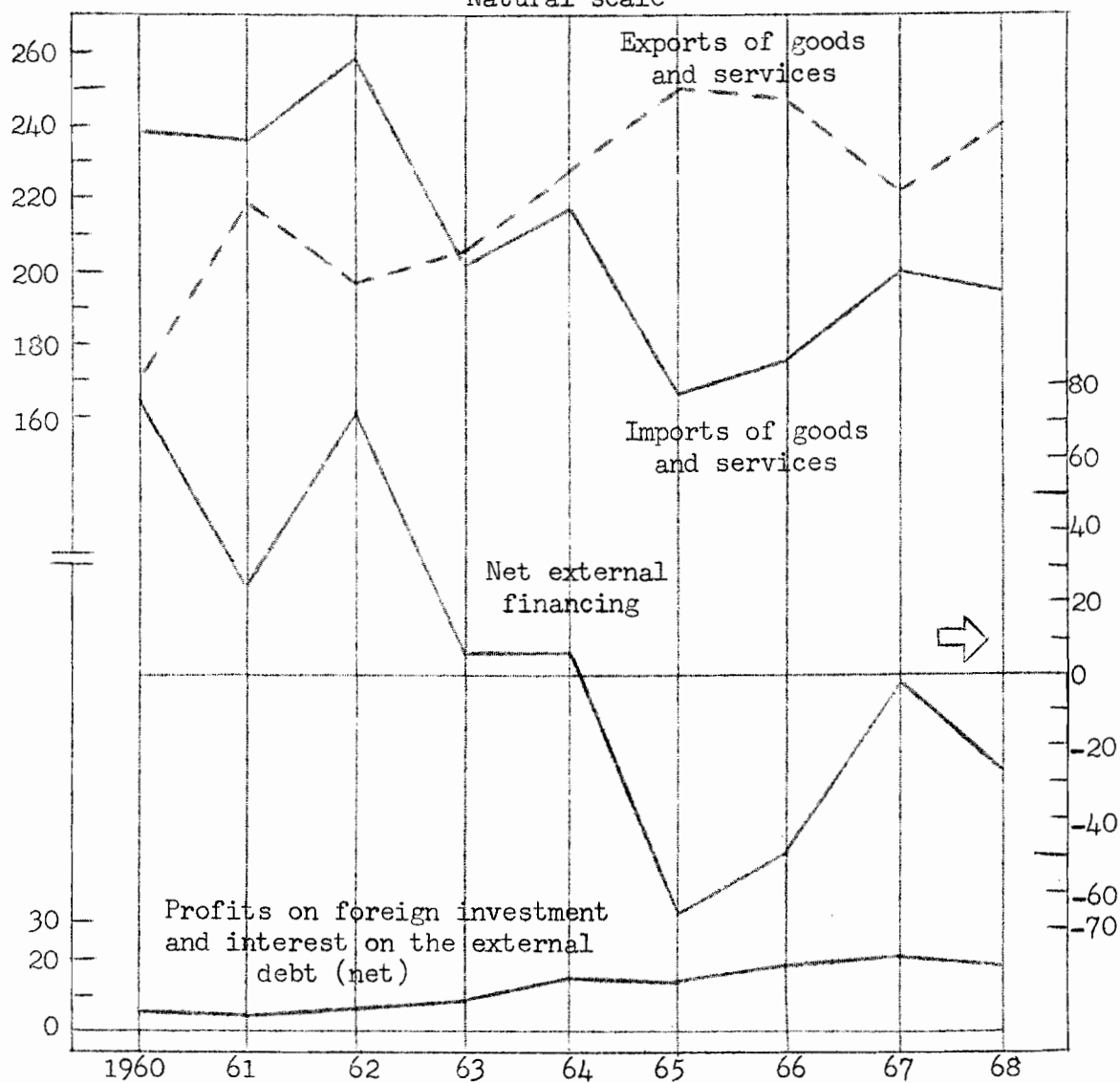
URUGUAY: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)
Natural scale



VENEZUELA

General features

In 1968, the Venezuelan economy maintained a relatively high growth rate of 5.5 per cent, compared with 6 per cent in the previous year, despite its flagging export trade. Contributory factors were the steady expansion in agricultural and industrial production, and the increase in construction activities and in the provision of energy and other services, which offset the reduced tempo of growth in the petroleum industry compared with the rate in 1967 (see table II-81).

Economic trends in 1968 were also distinguished by the advances made in the programmes for the agricultural infrastructure, continuing on new investment in the petroleum sector, including the construction of a desulphurizing plant, and an appreciable rise in public expenditure, for which special revenue had to be sought. The stability of domestic prices was maintained, and the rise in the cost of living in the metropolitan area of Caracas was only 1 per cent over the 1967 average, i.e., slightly less than the annual average rate of 1.2 per cent recorded for 1962-67.

Major sectors of economic activity

Agricultural production increased by 6 per cent, at a similar rate to that of the previous year. Its sustained growth reflects the efforts that have been made to improve the sector's institutional framework and strengthen its infrastructure. The National Agrarian Institute (Instituto Agrario Nacional), the body mainly responsible for land reform, continued to implement programmes under which 3.8 million hectares were handed over to 145,000 families between 1959 and 1967, and 924 million bolívares invested. The Venezuelan Guayana Corporation (Corporación Venezolana de Guayana) has provided flood protection for 900,000 hectares in the Orinoco delta, 300,000 of which are suitable arable and grazing land. Other agricultural projects under way include the CORPOANDES project for the high western plateau, which covers 3.5 million hectares of land on the eastern flank of the Andes and part of the plains, and the irrigation plan for the Medio Yacuy, under the auspices of the development agency for that area (Fundación para el Desarrollo de la Región Centrooccidental - FUDECO), which ranges from the preparation of background studies to the resettlement of labour and the marketing of the products.

Table II-81

VENEZUELA: SECTORAL GROWTH RATE OF THE GROSS PRODUCT, 1960-66 TO 1967-68

(Annual percentage rates)

Sector	1960- 1966	1966- 1967 ^{a/}	1967- 1968 ^{b/}
1. Agriculture	5.7	6.8	6.0
2. Mining	2.5	4.6	1.6
3. Manufacturing	8.2	6.7	6.5
4. Construction	5.0	3.2	10.0
Total goods	4.6	5.4	4.3
5. Electricity, gas and water	12.1	10.3	12.0
6. Transport and communications	6.6	6.0	5.4
Total basic services	8.2	7.4	7.6
7. Commerce and finance	5.5	7.2	5.6
8. Government	4.1	6.0	6.0
9. Miscellaneous services	5.5	6.2	7.1
Total other services	5.2	6.4	6.4
<u>Total product</u>	<u>5.1</u>	<u>6.0</u>	<u>5.5</u>

Source: ECLA, on the basis of figures supplied by the Central Office for
Planning and Co-ordination (CORDIPLAN).

^{a/} Provisional figures.

^{b/} Preliminary estimates.

/The petroleum

The petroleum industry has experienced some changes of fortune in recent years owing to fluctuations in international demand rather than to internal production possibilities. An absolute fall of 3 per cent in 1966 was followed by a 5 per cent increase in the following year as a result of supply difficulties on the world market caused by the hostilities in the Middle East. Once this extra incentive was removed, the rate of growth fell back to 2 per cent in 1968. Other milestones in its recent development have been the discovery of a new oil field in the Mata Acema area on the eastern seaboard, the entry into production of the additions to the refinery of the Venezuelan Petroleum Corporation (Corporación Venezolana de Petróleo) whose capacity has expanded from 2,300 to 16,000 barrels a day and the start of work on the construction of a gas pipeline 240 kilometres long with a capacity of 150,000 cubic feet a day and of a desulphurizing plant at a cost of 528 million bolívares, to be finished in two years' time.

Industry continued to expand at a rate of 6.5 per cent, thereby maintaining the upward trend of the last two years although less strongly than in 1960-65, when the rate was about 9.5 per cent annually. Some branches were particularly dynamic; for instance, during the first nine months of the year 656,000 tons of steel were produced, or 36 per cent more than during the same period in 1967. The motor-vehicle industry used a bigger proportion of domestically manufactured parts, which was fixed at 36 per cent for the first six months and 38.5 per cent for the second. Major projects launched during the year include the start of work on the El Tablazo petrochemical complex in the state of Zulia at an initial capital cost of 600 to 700 million bolívares. This complex will consist of two parts: one is to be the property of the Government and will process basic products (ethylene, propylene, chlorine and soda) and provide water, steam and port services, while the other, which will be managed by mixed enterprises, will produce urea, ammonia, polyethylene, synthetic rubber, vinyl and polyvinyl chloride, benzene, toluene, xylene and derivatives.

The electric energy supply increased considerably in the course of the year. In addition, the first part of the hydroelectric Guri power station, with a generating capacity of 1,750,000 kW, was put into operation.

Fiscal situation

According to the data available for the first ten months of the year, fiscal activity in 1968 was notable for a much greater increase in current outgoings than in revenue. The former were 9.2 per cent higher than over the same period in 1967, while the latter increased by 4.8 per cent. The surplus on current account was thus converted into a deficit, which was met by a bigger influx of special revenue than in the year before, obtained largely by issuing about 500 million bolívares worth of government bonds.

It is estimated that rather more than two-thirds of the Central Government's current income must have come from the petroleum and mining sector in 1968. In the interests of future policy, the nature of public financing is expected to change considerably, since, if the tax base continues to grow less rapidly than the economy as a whole, income tax will have to provide a larger share of public revenue.^{16/}

Composition of total demand

Owing to the growth of imports and stagnation of exports, the supply of goods and services for the domestic market increased more than the total gross product (see table II-82). This increase was equally favourable for consumption and for investment. The former expanded by 6.8 per cent, with the major portion contributed by private rather than general government consumption (7 as against 5.9 per cent). Fixed investment in which used to be a good deal more sluggish made great progress. Construction was particularly dynamic, far outstripping the growth of investment in machinery and equipment.

^{16/} See the report of the CIAP subcommittee for Venezuela (August 1968). It is estimated in this report that the petroleum and mining sector will provide just over 57 per cent of the Central Government's current revenue in 1973 and that the share of income tax will go up from 14.5 to approximately 23 per cent.

Table II-82

VENEZUELA: TOTAL SUPPLY AND DEMAND, 1960 TO 1967-68

	Millions of dollars at 1960 prices				Annual growth rates (percentages)		
	1960	1966	1967	1968 ^{a/}	1960- 1966	1966- 1967	1967- 1968
<u>Total supply</u>	<u>30 502</u>	<u>39 579</u>	<u>41 925</u>	<u>44 073</u>	<u>4.4</u>	<u>5.9</u>	<u>5.1</u>
Gross domestic product	25 620	34 450	36 521	38 525	5.1	6.0	5.5
Imports of goods and services	4 882	5 129	5 404	5 548	0.8	5.4	2.7
<u>Total demand</u>	<u>30 502</u>	<u>39 579</u>	<u>41 925</u>	<u>44 073</u>	<u>4.4</u>	<u>5.9</u>	<u>5.1</u>
Exports of goods and services	8 096	9 374	9 936	9 947	2.5	6.0	0.1
Total investment	4 510	6 064	6 385	6 782	5.1	5.3	6.2
Fixed investment	4 607	5 780	5 932	6 382	3.9	2.6	7.6
Machinery and equipment	1 520	2 415	2 348	2 440	8.0	-2.8	3.9
Construction	3 087	3 365	3 584	3 942	1.5	6.5	10.0
Total consumption	17 896	24 141	25 604	27 344	5.1	6.1	6.8
General government	3 544	4 946	5 222	5 530	5.7	5.6	5.9
Private	14 352	19 195	20 382	21 814	5.0	6.2	7.0

Sources: ECLA, on the basis of data from Banco Central de Venezuela, Cuentas Nacionales and CORDIPAN.

^{a/} Preliminary estimates.

/The external

The external sector

The outstanding factor in the external transactions of the Venezuelan economy in 1968 was the stagnation of exports (see table II-83). This was, to some extent, symptomatic of the inelasticity of world demand for Venezuelan petroleum. As petroleum prices were virtually the same as in the previous year, both the quantum and the current value of exports remained static.

Although the latest figures for exports of goods and services denote an improvement over 1966 levels, their order of magnitude is much the same as in 1960. This means that the relative importance of the external sector for Venezuela has declined over the sixties as a whole, and its ratio to the domestic product is now one of the lowest in Latin America.

Imports of goods and services again rose somewhat, and payments abroad under the head of external factor income and other remittances also went up. The inflow of capital was smaller than in 1967, but even so there was a surplus on the balance of payments of about 40 million dollars, which, as in 1967, helped to improve the net position of the monetary authorities.

Table II-83

VENEZUELA: BALANCE OF PAYMENTS, 1960-68

(Millions of dollars at current prices)

	1960	1965	1966	1967	1968 <u>a/</u>
<u>Current account</u>					
Exports of goods and services	2 509.2	2 532.0	2 441.0	2 582.0	2 586.0
Goods	2 383.9	2 436.0	2 342.0	2 462.0	2 462.0
Services	125.3	96.0	99.0	120.0	124.0
Imports of goods and services	1 505.0	1 764.0	1 715.0	1 814.0	1 867.0
Goods	1 145.4	1 341.0	1 297.0	1 337.0	1 372.0
Services	359.6	423.0	418.0	477.0	495.0
Net investment income	-522.0	-706.0	-682.0	-695.0	-709.0
Net private transfer payments	-87.6	-91.0	-89.0	-105.0	-111.0
Balance on current account	+394.6	-29.0	-45.0	-32.0	-101.0
<u>Capital account</u>					
Net external financing	-394.6	+29.0	+45.0	+32.0	+101.0
Net autonomous foreign capital	-333.2	+134.0	+201.0	+178.0	
Direct investment	-126.0	+3.0	+75.0	+78.0	
Non-compensatory loans	-195.3	+86.0	+85.0	+83.0	
Short-term liabilities	-12.0	+46.0	+40.0	+21.0	+144.0
Official transfer payments	+0.1	-1.0	+1.0	-4.0	
Net autonomous national capital or assets	-18.1	-52.0	-110.0	-63.0	
Errors and omissions	-353.9	-59.0	-68.0	+31.0	
Compensatory movements of capital	+310.6	+6.0	+22.0	-114.0	
Net compensatory foreign capital	+161.7	+17.0	-70.0	-28.0	
Balance-of-payments loans and deferred					
import payments	+200.6	-15.0	-15.0	-15.0	-43.0
Other liabilities of the monetary authorities	-5.1	+32.0	-30.0	-3.0	
IMF position	-33.8	-	-25.0	-10.0	
Movements of gold and foreign exchange (increase -)	+148.9	-11.0	+92.0	-86.0	

Source: IMF, Balance of Payments Yearbook, vol. 17 and 20.

a/ Preliminary estimates.

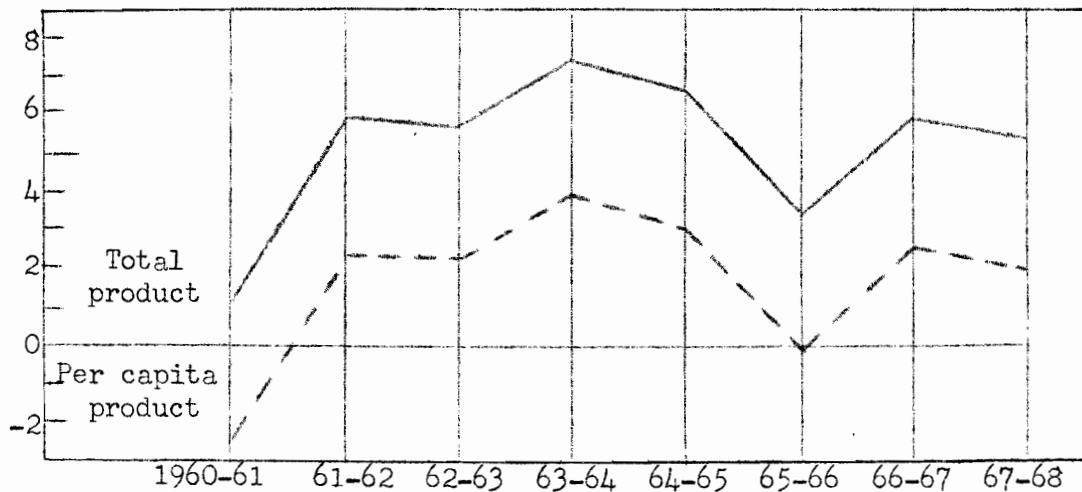
Figure II-19

E/CN.12/825

VENEZUELA: RATE OF GROWTH OF THE TOTAL AND PER CAPITA
GROSS DOMESTIC PRODUCT, 1960-68

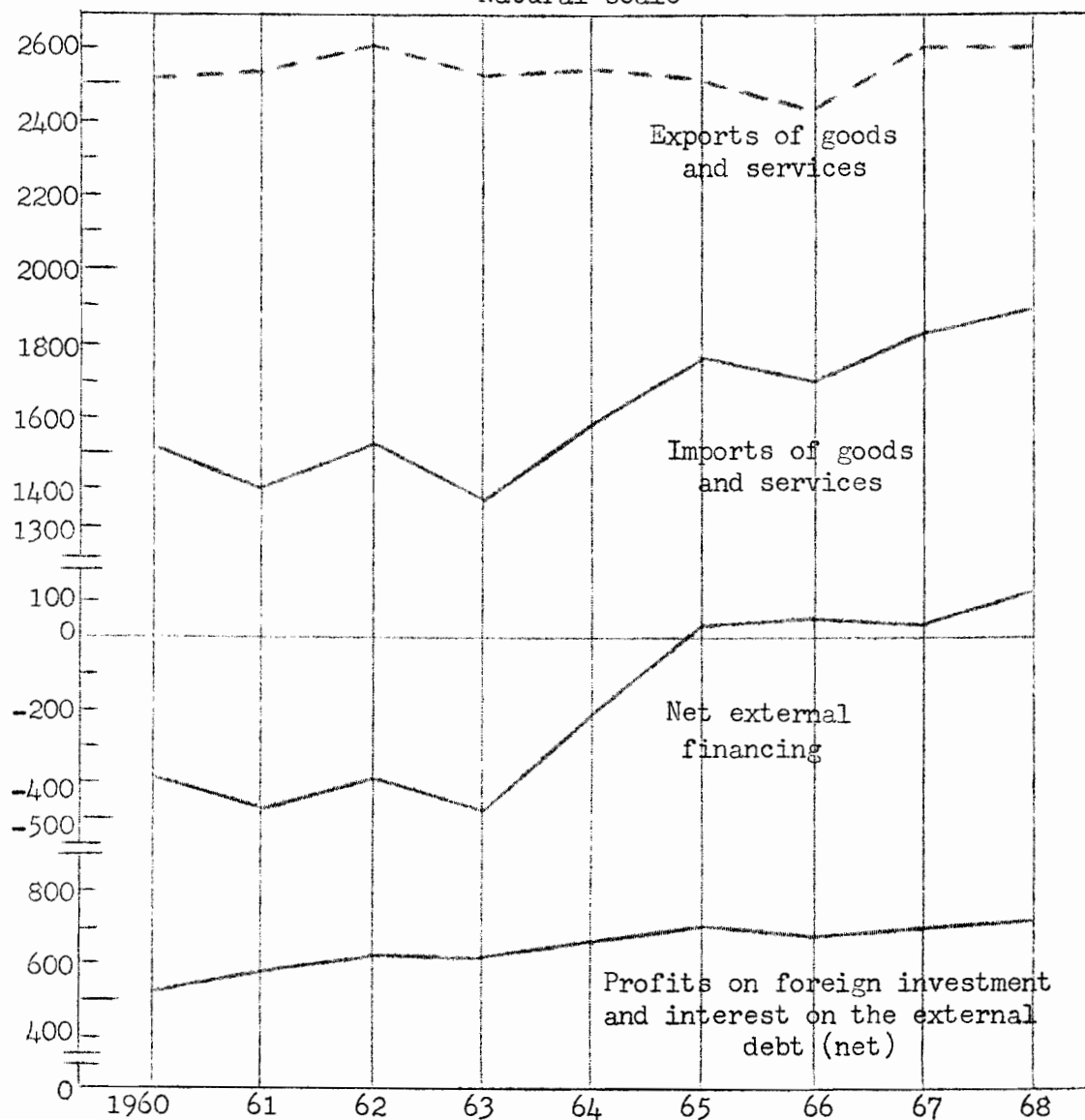
Page II-271

(Annual growth rates)
Natural scale



EVOLUTION OF THE EXTERNAL SECTOR

(Millions of dollars at current prices)
Natural scale



1

2

